

FY2021 Annual Stewardship Activity Report Summary

The following is the summary of FY2021 Annual Stewardship Activity Report of the Pension Fund Association for Local Government Officials (the "Association").

1. Overview of the Association's stewardship activity

The Association established the "Corporate Governance Principles of Pension Fund Association for Local Government Officials" and the "Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities)" in 2004 and the "Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities)" in 2016. The Association requires asset managers to conduct stewardship activities based on them. For each fiscal year, the Association has been monitoring the stewardship activities of managers entrusted with asset management. For fiscal year 2021, the Association held interviews with asset managers of equities to verify the particulars of stewardship efforts.

In addition, in February 2022, the Association revised these principles and guidelines in light of the revisions of the Japan's Corporate Governance Code in June 2021 in order to better clarify the standard of desirable corporate governance practices.

2. Overview of stewardship activities by asset managers entrusted with stock investment

Stewardship activity conducted by the Association's asset managers shows continuous improvement, and the Association has confirmed the improved effectiveness of stewardship activity as some asset managers have begun to engage in new, excellent initiatives.

(1) Exercise of voting rights

It was confirmed that all asset managers exercise voting rights in compliance with the matters which the Association considers important.

○ Compliance with the Association's guidelines

It was learned that all asset managers conduct verification as to whether the guidelines are followed before or after the exercise of voting rights. The Association also observed some cases in which asset managers enhanced the objectivity of verification by introducing external audits by third-party organizations (domestic and foreign equities).

- Exercise of voting rights suited to the circumstances of companies

It was learned that all asset managers have developed the processes for exercising voting rights in accordance with companies' respective circumstances. It was also learned that voting rights were exercised in light of the results of dialogue with companies, instead of mechanically applying the guidelines (domestic and foreign equities).

- Exercise of voting rights and engagement in an integrated manner

It was learned that all asset managers implement the exercise of voting rights and engagement in an integrated manner (domestic and foreign equities).

The Association observed some cases in which asset managers granted a grace period to suspend the application of the criteria for exercise of voting rights related to diversity of the members of board of directors in light of the market and regional characteristics and applied the criteria after sufficient engagement (foreign equities).

- Others

An asset manager prescribed the requirements for shifting to a monitoring board system and encouraged companies to shift to a monitoring board system by relaxing some of the criteria for exercise of voting rights in favor of companies that meet the requirements (domestic equities).

(2) Engagement

It was confirmed that most of the asset managers implement engagement activities in compliance with the matters which the Association considers important.

- Engagement aimed at enhancing corporate value and sustainable growth

It was learned that all asset managers are conducting engagement activities aimed at enhancing corporate value and sustainable growth of investee companies (domestic and foreign equities).

- Effectiveness of processes (e.g., PDCA cycle)

It was learned that most of the asset managers are conducting progress management and effect measurement of engagement in a systematic way (domestic and foreign equities).

Some asset managers were conducting an initiative aimed at a quantitative measurement as to how much engagement contributed to an increase in corporate value (domestic equities), and yet others were conducting an

initiative leveraging tracking tools for engagement activity in order to maintain centralized management of data and to implement progress management and effect measurement (foreign equities).

- Others

The Association observed efforts exercised by asset managers to enhance the effectiveness of engagement processes, including verifying the effectiveness of ESG-related dialogue by analyzing the relationship between the ESG score and corporate value, applying foreign asset owners' advanced practices to their own engagement activity, cooperating with a university in gaining in-depth scientific knowledge regarding climate change, and using the knowledge for engagement (domestic and foreign equities).