
FY2022 Annual Stewardship Activity Report

March 2023

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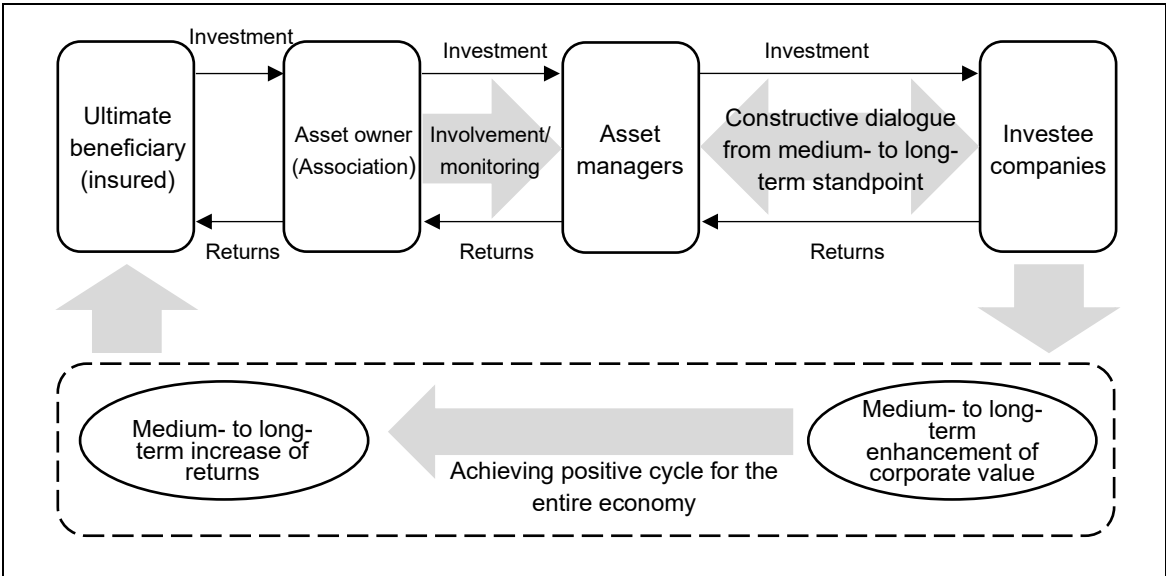
1 Overview of the Association's stewardship activity

"Stewardship activities" refers to the activities of institutional investors to increase medium- to long-term investment returns for their clients and beneficiaries by encouraging improvements in corporate value and sustainable growth of investee companies through means such as the exercise of shareholders' voting rights and engagement (i.e. constructive "purposeful dialogue" based on a deep understanding concerning the investee companies, their business environment, and other factors as well as consideration for their sustainability according to the investment strategy).

The Pension Fund Association for Local Government Officials ("Association") is required to fulfill its fiduciary responsibility of increasing the value of its assets for the insureds over the long term and social responsibility as a public pension fund. In this connection, the Association has been proactively committed to effective stewardship activities.

In addition, the Association entrusts investment management institutions ("asset managers") to make stock investments in companies. The Association believes that conducting the stewardship activities through these asset managers is effective for fulfilling the stewardship responsibility as they have more opportunities to access investee companies and have in-depth insight on corporate management.

[Stewardship Activities]



Prepared based on the documents distributed at the 1st meeting (January, 2017) of the Council of Experts on the Stewardship Code (Financial Services Agency)

Based on this idea, the Association established the "Corporate Governance Principles of Pension Fund Association for Local Government Officials" (hereinafter referred to as "Corporate Governance Principles") and the "Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities)" (hereinafter referred to as "Guidelines on Domestic Equities") in April 2004 and the "Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities)" (hereinafter referred to as "Guidelines on Foreign Equities") in April 2016. These guidelines and principles specify that the Association should conduct stewardship activity based on them when it has concluded contracts with asset managers. In addition, the basic policies including the "Basic Policy for Employees' Pension Insurance Benefit Adjustment Fund" (hereinafter collectively referred to as "Basic Policies") specify how the Association should fulfill its stewardship responsibilities.

Moreover, in May 2014, the Association signed up to Japan's Stewardship Code and clarified its approach to stewardship activities.

[Chronology of the Association's stewardship activity]

	Major efforts
2002	<ul style="list-style-type: none"> Instructed trust banks to exercise voting rights based on specified comprehensive trust contracts.
2003	<ul style="list-style-type: none"> Revised the Guidelines so as to require asset managers to exercise voting rights based on discretionary investment contracts.
2004	<ul style="list-style-type: none"> Established the "Corporate Governance Principles of Pension Fund Association for Local Government Officials." Established the "Guidelines for Exercising Shareholders' Voting Rights." Instructed asset managers to exercise voting rights in line with the Guidelines.
2014	<ul style="list-style-type: none"> Signed up to Japan's Stewardship Code.
2015	<ul style="list-style-type: none"> Established the policies including the "Administration and Investment Policy for the Managed Reserve Fund for Employees' Pension Insurance Schemes" and the Basic Policies in association with the unification of pension systems. Specified measures to fulfill the stewardship responsibilities.
2016	<ul style="list-style-type: none"> Established the "Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities)." Instructed asset managers to exercise voting rights in line with the Guidelines.
2017	<ul style="list-style-type: none"> Signed up to Japan's Stewardship Code (Revised version).
2020	<ul style="list-style-type: none"> Signed up to Japan's Stewardship Code (Second revised version).
2022	<ul style="list-style-type: none"> Revised the "Corporate Governance Principles of Pension Fund Association for Local Government Officials," the "Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities)" and the "Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities)."

*See pages 30 through 33 for details.

(Reference)**Japan's Stewardship Code**

The Council of Experts on the Stewardship Code
Formulated on February 26, 2014
Final revision: March 24, 2020

1. Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.
2. Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.
3. Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies.
4. Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.
5. Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies.
6. Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.
7. To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.
8. Service providers for institutional investors should endeavor to contribute to the enhancement of the functions of the entire investment chain by appropriately providing services for institutional investors to fulfill their stewardship responsibilities.

2 Monitoring of asset managers

For each fiscal year, the Association has been monitoring the stewardship activities of the asset managers of equities so as to ensure the compliance with the Association's abovementioned policies, while focusing on the "quality" of stewardship efforts. The Association receives reports concerning stewardship activity from and holds interviews with the asset manager.

In May 2022, the Association held briefing meetings on the direction of the Association's stewardship activity for asset managers entrusted with domestic and foreign stock investment in FY2022 and explained the matters which the Association considers important in relation to stewardship activities.

From May to July, the Association provided feedback regarding its evaluation of stewardship activities in FY2021 individually to asset managers that requested it.

In July, the Association requested all asset managers entrusted with stock investment (14 companies for domestic equities and 16 companies for foreign equities) to submit reports on their initiatives to be evaluated by the Association in FY2022 with respect to their stewardship activities (i.e., policies, structures, processes for and results of stewardship activities). Based on the reports submitted, the Association held interviews from around October to November focused on the matters which the Association considers important in relation to stewardship activities.

Considering the results of review of the reports and hearing, the Association conducted the evaluation of stewardship activities of asset managers.

[Matters which the Association considers important in relation to stewardship activities]

[Engagement]

- (i) Engagement aimed at enhancing the corporate value and sustainable growth of companies
- (ii) Quality of engagement
- (iii) Effectiveness of processes (e.g., PDCA cycle)

[Exercise of voting rights]

- (i) Compliance with the Association's guidelines for exercising shareholders' voting rights
- (ii) Exercise of voting rights suited to the circumstances of companies
- (iii) Exercise of voting rights and engagement in an integrated manner

1 Principle 1 of Japan's Stewardship Code

【Principle 1: Formulation and disclosure of a policy for stewardship activity】

The Association confirmed that all asset managers have formulated and disclosed a clear policy for how they fulfill their stewardship responsibilities. It was also confirmed that under the policy, they have made clear how they take into consideration sustainability-related challenges in accordance with their investment strategy.

2 Principle 2 of Japan's Stewardship Code

【Principle 2: Formulation and disclosure of a policy for managing conflicts of interest】

The Association confirmed that all asset managers have formulated a clear policy for managing conflicts of interest that should be managed in order to perform their stewardship responsibilities. It was also confirmed that most asset managers have disclosed the policy.

In addition, it was confirmed that all asset managers have developed a governance system to ensure the interests of customers and beneficiaries and prevent conflicts of interest, and that they have disclosed information on the system.

【Examples】

- (1) Management of conflicts of interest by a third-party committee or an independent internal division/department
- (2) Exercise of voting rights in accordance with advice from proxy advisors with respect to proposals for which voting rights were to be exercised and over which there was the risk of conflict of interest

The Association will continue requiring asset managers to promote activities related to the management of conflicts of interest, such as disclosing a policy for managing them.

3 Principles 3 and 4 of Japan's Stewardship Code

【Principle 3: Appropriate monitoring of the situation of investee companies】

【Principle 4: Engagement】

(1) Engagement aimed at enhancing corporate value and sustainable growth

In the Signup to Japan's Stewardship Code, the Association stipulates as follows: "The Association will continue requiring the asset managers to share the awareness of problems with the investees and make efforts for the solution through effective engagement aimed at the medium- to long-term enhancement of corporate values and sustainable growth of investee companies."

The Association confirmed that all asset managers are conducting engagement activities aimed at enhancing corporate value and sustainable growth after formulating their policies for implementing engagement and understanding the situations of the respective investees, and that they are conducting engagement concerning sustainability issues in a way connected to these purposes.

The Association will continue requiring asset managers to conduct engagement activities aimed at enhancing corporate value and sustainable growth.

(2) Quality of engagement

The Association believes that the most important factor that influences the effectiveness of engagement is the quality of engagement and that it is necessary to improve quality so as to increase corporate value.

Some asset managers are implementing the following excellent practices in order to improve the quality of engagement.

【Excellent practices】

- (i) Asset Manager A developed an AI-based model for quantitative assessment of integrated reports and gave scores to integrated reports compiled by around 550 companies. The asset manager held more in-depth discussions on management strategy as part of engagement activity by presenting to investee companies the assessment scores given to their integrated reports when holding dialogue with them. Also, the asset manager is striving to hold more in-depth discussions by sharing shareholders' perspectives with investee companies.
- (ii) Asset Manager B engaged in a campaign to implement intensive engagement focused on challenges related to the environment ("E" of ESG) and social issues ("S" of ESG), after setting common global response policies and dialogue goals. The asset manager is striving to promote the resolution of challenges by presenting a list of best practices implemented by investee companies compiled based on information collected through those engagement activities to other investee companies.

The Association will continue requiring asset managers to conduct engagement activities aimed at enhancing corporate value.

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

As engagement is a "purposeful dialogue," the Association believes that it is necessary to enhance the effectiveness of engagement by establishing and utilizing a PDCA cycle including the examination of whether or not the objective has been achieved through engagement.

The Association confirmed that all asset managers are conducting progress management and effect measurement of engagement in a systematic way.

The Association also observed cases of excellent practice conducted by some asset managers to improve the effectiveness of engagement, such as the following:

【Excellent practices】

- (i) Asset Manager A classified the progress status of efforts to resolve challenges after engagement into "Unresolved," "Moving toward resolution," and "Resolved," and verified that its engagement activity leads to a rise in companies' corporate value through the resolution of challenges by ascertaining that the post-engagement investment return tended to be higher in the case of companies that had made greater progress in resolving challenges compared with other companies within the same industry.
- (ii) Asset Manager B verified the effects of engagement by ascertaining, in light of changes in governance and financial indicators, that engagement with investee companies facing governance-related challenges improved their governance and that continuous engagement led to the improvement of their financial situations as well.
- (iii) Asset Manager C verified the effects of engagement by monitoring the improvement of the scores of investee companies after engagement by using original ESG scoring based on quantitative data.
- (iv) Asset Manager D conducted joint research with universities on how to measure the effects of engagement and how to improve the effectiveness of engagement.

The Association will continue requiring asset managers to enhance the effectiveness of engagement processes in a systematic way.

(4) Results of engagement activity

The Association implements engagement activity through asset managers entrusted with investment.

【Domestic equities】

The results of activity differed from product to product, but regarding active investment, asset managers acting on behalf of the Association held dialogue with 54 companies per product on average, with a total of 342 rounds of dialogue held. Regarding passive investment, they held dialogue with 375 companies per product on average, with a total of 1,772 rounds of dialogue held.

【Foreign equities】

As in the case of domestic equities, the results differed from product to product. Regarding active investment, asset managers acting on behalf of the Association held dialogue with 53 companies per product on average, with a total of 156 rounds of dialogue held. Regarding passive investment, they held dialogue with 161 companies per product on average, with a total of 426 rounds of dialogue held.

Cases of engagement		
(A)	Dialogue subject	[Dialogue concerning corporate governance ("G" of ESG)] Regarding the improvement of governance, including an increase in the number of independent outside directors, Asset Manager A, which had already informed Company A that the majority of the board of directors should desirably be comprised of independent outside directors, notified the company of its decision to include that majority requirement in the criteria for exercising voting rights and continuously asked the company to increase the number of independent outside directors.
	Result	After increasing the number of outside directors to the majority of the board of directors, Company A became a company with a nominating committee, etc.
(B)	Dialogue subject	[Dialogue concerning management strategy] Regarding Company B, which proposed to acquire a business division of another company in the same industry, Asset Manager B judged, in light of realistic, objective financial forecasts, that the proposed acquisition would not lead to a rise in the expected return for investors after taking into consideration that the acquisition, if realized, would steeply increase borrowings because the acquisition price was equivalent to half of the company's corporate value, and therefore, the asset manager informed the company that it would vote against the proposal.
	Result	On the day after the dialogue, Company B announced an intention to effectively terminate the acquisition negotiations.
(C)	Dialogue subject	[Dialogue concerning capital policy] Regarding Company C, which was ready to invoke a takeover defense measure without obtaining shareholders' consent, Asset Manager C first explained to all of the company's outside directors and CEO that the decline in the support rate for the CEO election proposal to the 60 to 70% range reflected the effects of the presence of the takeover defense measure and then recommended that the company should abolish the measure or revise it in a way that makes its invocation subject to a resolution at a general shareholders' meeting.
	Result	The takeover defense measure was abolished.
(D)	Dialogue subject	[Dialogue concerning environmental ("E" of ESG) issues] Asset Manager D recommended that Company D should enhance the disclosure of quantitative information because the company was failing to demonstrate the high level of contribution made by its products to addressing climate change-related problems.
	Result	Information disclosure was enhanced, and the stock market's evaluation of Company D improved to a certain degree.
(E)	Dialogue subject	[Dialogue concerning social ("S" of ESG) issues] Although a survey conducted by an external organization showed that there was a gender gap in terms of the share of employees receiving stock remuneration at Company E, the company did not include stock remuneration in the calculation of employee remuneration in its disclosure documents. As a way to encourage Company E to conduct business management in a way that puts emphasis on human capital, Asset Manager E asked the company to enhance information disclosure by accurately identifying and disclosing the gender wage gap.
	Result	One year later, Company E started to disclose information on employee remuneration, including stock remuneration.

4 Principle 5 of Japan's Stewardship Code

【Principle 5: Exercise of Voting Rights】

(1) Compliance with the Association's Guidelines for Exercising Shareholders' Voting Rights, etc.

(A) Compliance with the Association's Guidelines for Exercising Shareholders' Voting Rights

The Association has developed the Corporate Governance Principles and the Guidelines (domestic and foreign equities) and explicitly requires asset managers to exercise voting rights based on the Principles and Guidelines.

The Association confirmed that most asset managers conduct advance verification as to whether the Guidelines are followed in respect of proposed voting decisions. The Association observed some excellent practice cases in which asset managers enhanced the objectivity of verification by introducing external audits by third-party organizations.

On the other hand, the Association learned of cases in which asset managers exercised voting rights in ways that violated the Guidelines despite the prior review of proposed voting decisions because the review function did not sufficiently work, and it, therefore, asked for improvement.

The Association will continue to seek asset managers' exercise of voting rights in compliance with the Guidelines.

(B) Development and disclosure of the criteria for exercising voting rights

The Association confirmed that all asset managers had developed and disclosed the criteria for exercising voting rights and revised them as necessary. Some asset managers established a committee on the exercise of voting rights or a similar conference body responsible for holding discussions on the revision of the criteria for exercising voting rights and verifying the validity of the exercise of voting rights.

(2) Exercise of voting rights suited to the circumstances of companies

In order to ensure appropriate judgment suited to the circumstances of companies, the Association has indicated the Guidelines and entrusts asset managers to make specific judgment on exercising voting rights.

It was confirmed that all asset managers have developed processes for exercising voting rights in accordance with companies' respective circumstances. It was also confirmed that voting rights were exercised based on a sufficient understanding of the purpose of the Guidelines in light of the results of dialogue with companies.

The Association will continue requiring asset managers to exercise voting rights based on appropriate judgement suited to the circumstances of companies after sufficiently understanding the purpose of the Guidelines, instead of mechanically applying the Guidelines to the exercise of voting rights.

Cases of exercise of voting rights in accordance with companies' circumstances		
(A)	Provisions of Guidelines	With respect to directors excluding independent outside directors, we make positive decisions for a reduction in the number of directors, but vote against an increase in the number of directors in principle unless clear and rational explanations are provided for the increase.
	Response of asset managers	Asset Manager A voted for Company A's proposal to increase the number of internal directors as it judged the proposal to be reasonable because the proposed additional candidate was a foreign national and, therefore, the proposal was expected to contribute to the diversification of the board of directors and the enhancement of the global system of supervision. (Domestic equities)
(B)	Provisions of Guidelines	We make negative decisions about electing internal directors of a board of directors that does not have two or more independent outside directors, unless a sufficient explanation is provided to the effect that it is not appropriate to have two or more independent outside directors. However, for a company that is required to secure enhanced independence of its board of directors, (omitted) we make negative decisions as to the election of an internal director in cases where independent outside directors do not constitute at least one-third of all members of the board of directors.
	Response of asset managers	At Company B, the share of independent outside directors at the time of the forthcoming general shareholders' meeting was expected to be less than the appropriate threshold of a third of all board members due to a vacancy on the board created by the abrupt death of an outside independent director. However, Asset Manager B voted for the company's proposal to elect an internal director because, under the circumstances, it was apparently difficult to find an outside independent candidate in time for the general shareholders' meeting. (Domestic equities)

(3) Exercise of voting rights and engagement in an integrated manner

The Association expects investee companies to be managed in a way that contributes to long-term shareholder value and believes that it is necessary to call for management needed for enhancing shareholder value. In doing so, the Association believes that instead of unilaterally exercising voting rights, asset managers should share the recognition of problems and other issues with the investee companies through various means, including explaining the views underlying their judgement on the exercise of voting rights.

It was learned that all asset managers entrusted with domestic stock investment by the Association implement the exercise of voting rights and engagement in an integrated manner, for example, conducting engagement prior to the general meeting of shareholders and providing feedback after the exercise of voting rights. In addition, some asset managers are implementing the following excellent practices.

【Excellent practices】

- (i) Asset Manager A implemented engagement with each company and each proposing party when exercising voting rights with regard to shareholders' proposals and used the results as inputs for making judgements that contribute to an increase in corporate value.
- (ii) Asset Manager B explicitly stated in the criteria for exercising voting rights the policy for handling cases where companies did not respond to engagement.
- (iii) When the criteria for exercising voting rights were revised, Asset Manager C applied the revised criteria after explaining in advance the purpose of the revision through engagement.

The Association will continue requiring asset managers to conduct the exercise of voting rights and engagement in an integrated manner.

Cases of exercise of voting rights and engagement in an integrated manner	
(A)	<p>Asset Manager A held a meeting with an independent outside director of Company A whose total tenure including as an outside corporate auditor totaled more than 10 years and whose reelection was proposed. Under its criteria for exercising voting rights, Asset Manager A should oppose the reelection of an outside officer whose total tenure has exceeded 10 years from the viewpoint of securing independence.</p> <p>At the meeting, Asset Manager A exchanged opinions with the independent outside director about his involvement with the management team and problems and judged that the director was making more than necessary contributions, including involvement in the management team's succession planning, to the board of directors. As a result, the asset manager voted for the proposal to reelection the director. The asset manager plans to continuously hold dialogue with Company A about how to secure the independence of independent outside directors. (Domestic equities)</p>
(B)	<p>Asset Manager B informed Company B, which had introduced a takeover defense measure, of its principle of voting against a proposal to maintain a takeover defense measure except when there is an immediate threat that could undermine shareholder value. As a result, the company did not present such a proposal to a general shareholders' meeting, and the takeover defense measure was abolished. (Domestic equities)</p>
(C)	<p>Asset Manager C held dialogue with Company C, which had received a shareholder proposal requesting the formulation of a concrete action plan for improving the diversity of the board of directors and information disclosure on the plan. Through the dialogue, Asset Manager C ascertained that the diversity of the company's board of directors was not inferior to the diversity at other companies in the same industry and that the board of directors' governance policy prescribes that the board's diversity be taken into consideration in the process of electing candidates. As a result, Asset Manager C judged that it was unnecessary for the company to take any further measure at the moment and voted against the shareholder proposal. (Foreign equities)</p>

(4) Results of the exercise of voting rights (domestic equities)

The Association confirmed that all asset managers disclosed the results of the exercise of voting rights with regard to each investee company and each proposal. It also confirmed that regarding proposals that were judged to be important from the viewpoint of contribution to engagement with investee companies, all asset managers disclosed the reasons for their votes, regardless of whether they are "for" or "against" votes.

Regarding the Employees' Pension Insurance Benefit Adjustment Fund, the Association exercised voting rights through 14 asset managers entrusted with domestic stock investment (a total of 29 funds) at a general meeting of shareholders of a total of 14,230 companies held between July 2021 and June 2022. The number of proposals for which voting rights were exercised was 58,777.

Of the 58,777 proposals, 11,153 (including 1,839 shareholder proposals) were voted against, translating into a vote-against rate of 19.0%. The vote-against rate concerning company proposals was 16.4%.

The vote-against rate came to 35.5% concerning proposals related to the board of directors/directors, 13.8% concerning proposals related to the board of auditors/auditors and 16.3% concerning proposals related to director remuneration, etc.

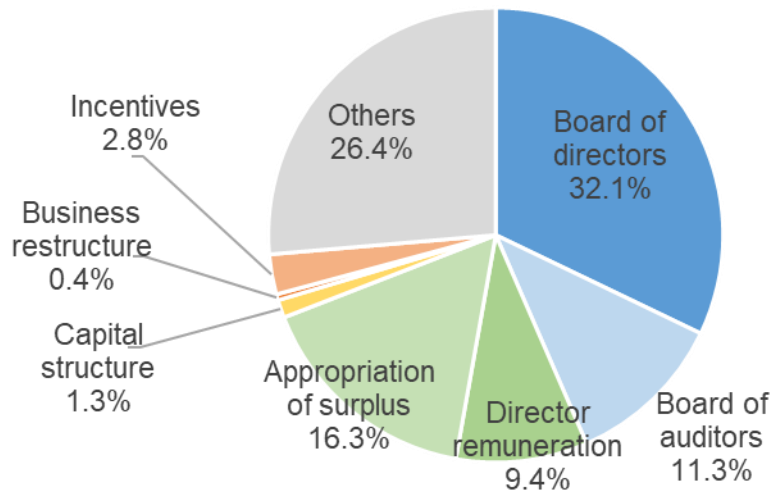
Voting activity (Employees' Pension Insurance Benefit Adjustment Fund)

(The figures are based on the proposals submitted to general meetings of shareholders held between July 2021 and June 2022.)

Number of proposals by type of proposer	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Company proposal	47,466	83.6%	9,314	16.4%	0	0.0%	56,780
Shareholder proposal	158	7.9%	1,839	92.1%	0	0.0%	1,997
Total	47,624	81.0%	11,153	19.0%	0	0.0%	58,777
Number of proposals by type of proposal	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Board of directors/directors	12,169	64.5%	6,711	35.5%	0	0.0%	18,880
Board of auditors/auditors	5,743	86.2%	923	13.8%	0	0.0%	6,666
Director remuneration, etc.	4,602	83.7%	898	16.3%	0	0.0%	5,500
Appropriation of surplus	9,192	96.1%	375	3.9%	0	0.0%	9,567
Capital structure	294	39.2%	456	60.8%	0	0.0%	750
Takeover defense measures	12	3.6%	322	96.4%	0	0.0%	334
Capital increase or reduction	114	100.0%	0	0.0%	0	0.0%	114
Third party allotment of shares	29	63.0%	17	37.0%	0	0.0%	46
Acquisition of own shares	13	10.8%	107	89.2%	0	0.0%	120
Business restructure	236	94.8%	13	5.2%	0	0.0%	249
Incentives improvement for executives	1,436	85.7%	239	14.3%	0	0.0%	1,675
Other proposals	13,952	90.1%	1,538	9.9%	0	0.0%	15,490
Total	47,624	81.0%	11,153	19.0%	0	0.0%	58,777
Climate-related proposals	51	31.9%	109	68.1%	0	0.0%	160

Share by proposal subject (Employees' Pension Insurance Benefit Adjustment Fund)

(The figures are based on the proposals submitted to general meetings of shareholders held between July 2021 and June 2022.)



* Regarding stock investment, the Association applies the same product mix to the Employees' Pension Insurance Benefit Adjustment Fund and the Transitional Long-term Benefit Adjustment Fund. While the above figures concern the Employees' Pension Insurance Benefit Adjustment Fund, the results of the exercise of voting rights are the same in the case of the Transitional Long-term Benefit Adjustment Fund.

(5) Results of the exercise of voting rights (foreign equities)

The Association confirmed that most asset managers disclosed the results of the exercise of voting rights with regard to each investee company and each proposal. It also confirmed that regarding proposals that were judged to be important from the viewpoint of contribution to engagement with investee companies, many asset managers disclosed the reasons for their votes, regardless of whether they are "for" or "against" votes.

Regarding the Employees' Pension Insurance Benefit Adjustment Fund, the Association exercised voting rights through 16 asset managers entrusted with foreign stock investment (a total of 23 funds) at a general meeting of shareholders of a total of 10,268 companies held between July 2021 and June 2022. The number of proposals for which voting rights were exercised was 98,704.

Of the 98,704 proposals, 15,742 (including 2,159 shareholder proposals) were voted against, translating into a vote-against rate of 15.9%. The vote-against rate concerning company proposals was 14.6%.

The vote-against rate came to 14.6% concerning proposals related to the election of directors, etc. and 13.7% concerning proposals related to director remuneration, etc.

Voting activity (Employees' Pension Insurance Benefit Adjustment Fund)

(The figures are based on the proposals submitted to general meetings of shareholders held between July 2021 and June 2022)

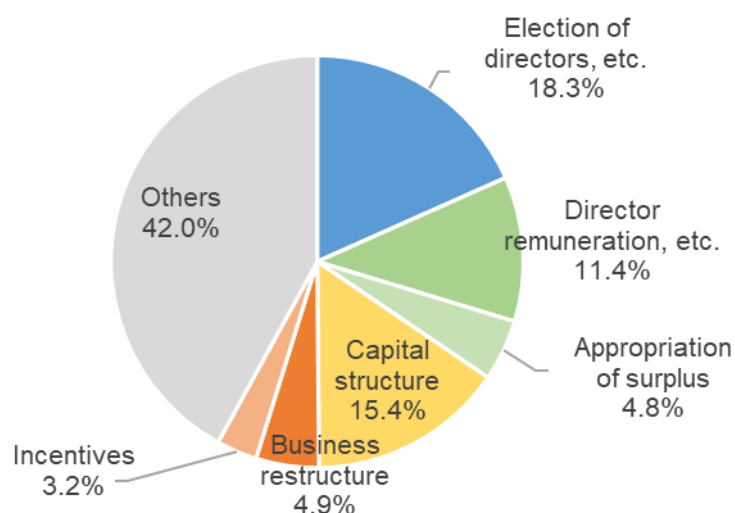
Number of proposals by type of proposer	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Company proposal	79,371	85.3%	13,583	14.6%	127	0.1%	93,081
Shareholder proposal	3,426	60.9%	2,159	38.4%	38	0.7%	5,623
Total	82,797	83.9%	15,742	15.9%	165	0.2%	98,704

Number of proposals by type of proposal	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Proposal for election of directors, etc.	15,409	85.1%	2,646	14.6%	42	0.2%	18,097
Director remuneration, etc.	9,639	86.0%	1,533	13.7%	34	0.3%	11,206
Appropriation of surplus	4,707	99.3%	33	0.7%	1	0.0%	4,741
Capital structure	13,077	86.2%	2,089	13.8%	9	0.1%	15,175
Takeover defense measures	458	96.8%	15	3.2%	0	0.0%	473
Capital increase or reduction	4,807	79.6%	1,226	20.3%	8	0.1%	6,041
Third party allotment of shares	1,517	92.3%	127	7.7%	0	0.0%	1,644
Acquisition of own shares	3,305	96.7%	112	3.3%	1	0.0%	3,418
Business restructure	3,660	75.1%	1,206	24.8%	6	0.1%	4,872
Incentives improvement for executives	1,923	60.9%	1,233	39.0%	4	0.1%	3,160
Other proposals	34,382	82.9%	7,002	16.9%	69	0.2%	41,453
Total	82,797	83.9%	15,742	15.9%	165	0.2%	98,704
Climate-related proposals	320	54.3%	260	44.1%	9	1.5%	589

*From the viewpoints of constraints related to the exercise of voting rights and additional cost burden, the exercise of voting rights is limited to 18 countries and regions (the United States, Canada, the United Kingdom, Ireland, Australia, New Zealand, Singapore, Hong Kong, Chile, the Czech Republic, Indonesia, Mexico, the Philippines, South Africa, Taiwan, Thailand, Pakistan and China A Stock).

Share by proposal subject (Employees' Pension Insurance Benefit Adjustment Fund)

(The figures are based on the proposals submitted to general meetings of shareholders held between July 2021 and June 2022)



* Regarding stock investment, the Association applies the same product mix to the Employees' Pension Insurance Benefit Adjustment Fund and the Transitional Long-term Benefit Adjustment Fund. While the above figures concern the Employees' Pension Insurance Benefit Adjustment Fund, the results of the exercise of voting rights are the same in the case of the Transitional Long-term Benefit Adjustment Fund.

(Column) Asset managers' climate change-related initiatives

The Association examines climate change-related initiatives conducted by asset managers as part of their stewardship activities (engagement and the exercise of voting rights).

Described below are cases of such initiatives observed in the current fiscal year. (Some cases are described in Page 12 as well).

- During engagement with Investee Company A, Asset Manager A proposed that the company should disclose a medium-term management plan under which the response to climate change and business portfolio strategy are linked with each other and also that the company should promote the decarbonization of the entire supply chain. The company disclosed a management strategy consistent with its environmental vision and goals and a plan for the reduction of GHG emissions, including affiliated companies' emissions.
- Asset Manager B's criteria for exercising voting rights prescribe that the asset manager should vote against director election proposals presented by companies that have been judged not to meet the minimum requirements, including the disclosure of a climate change policy, after considering whether or not the companies belong to an industry most prone to the impact of climate change and the urgency for them to respond to climate change.
- Asset Manager C held discussion with an energy-sector company that had received a shareholder proposal related to climate change on the enhancement of information disclosure regarding the goal for the reduction of GHG emissions and other matters. As a result, Asset Manager C voted for the shareholder proposal because it was judged to be able to contribute to shareholders' interests.

5 Principle 6 of Japan's Stewardship Code**【Principle 6: Reporting on stewardship activity】**

All asset managers periodically report to the Association on their stewardship activity. Most asset managers periodically disclose information about their stewardship activity on their websites or through other means.

6 Principle 7 of Japan's Stewardship Code**【Principle 7: Acquisition of skills and resources necessary for appropriately conducting stewardship activity】**

The Association confirmed that all asset managers had developed an organizational system to acquire the skills and resources necessary for appropriately engaging with companies and making proper judgements in conducting stewardship activity, for example by establishing a conference body responsible for overseeing stewardship activity and a section/department in charge of promoting stewardship activity.

Some asset managers are implementing the following excellent practices in order to strengthen the organizational system and develop human resources.

【Excellent practices】

- (i) In order to monitor the situations of investee companies from a greater variety of aspects, Asset Manager A first changed the organizational system in a way that categorizes by industrial sector companies covered by officials in charge of stewardship activity and then strengthened those officials' collaboration with company research analysts handling relevant sectors so that the analysts' opinions can be reflected in stewardship activity.
- (ii) In order to improve the skills of officials in charge of stewardship activity, Asset Manager B has developed a training program in cooperation with a university and uses knowledge acquired through training for stewardship activity.

7 Asset managers' recognition of challenges

The Association confirmed that asset managers were recognizing the following challenges in the process of the fulfillment of the stewardship responsibilities.

The Association will continue requiring asset managers to conduct effective stewardship activity by continuing to address the following challenges.

[Recognition of challenges by asset managers (domestic equities)]

Category	Challenges
Engagement/ Exercise of voting rights	Strengthen systems (e.g., improvement of specialized skills, and invitation of outside experts)
	Express opinions through participation in various initiatives
	Improve reports concerning stewardship activity
Engagement	Improve the quality of engagement
	Progress and improvement of a method for measuring/examining the effectiveness of engagement
	Expand the scopes of engagement themes and companies covered by engagement
Exercise of voting rights	Give consideration to ESG-related challenges in the exercise of voting rights
	Appropriately revise the criteria for exercising voting rights

[Recognition of challenges by asset managers (foreign equities)]

Category	Challenges
Engagement/ Exercise of voting rights	Strengthen systems (e.g., human resource development and improvement of specialized skills)
	Use AI and other technology to identify challenges faced by investee companies
	Raise awareness, internally and externally, about the policy for stewardship activity
	Consider participating in various initiatives and express opinions through participation
	Develop a database related to sustainability
Engagement	Improve the effectiveness of engagement through integrated implementation with the exercise of voting rights
	Progress and improvement of a method for measuring/examining the effectiveness of engagement
	Expand the scope of companies covered by engagement, etc.
Exercise of voting rights	Give consideration to ESG-related challenges in the exercise of voting rights
	Appropriately revise the criteria for exercising voting rights

1 ESG Investment

(1) Basic approach to ESG investment

As the Association invests pension funds over the long term, it is rational to aim to maximize the long-term return by paying attention not only to short-term business performance when making investment but also to factors related to sustainability, including ESG.

With respect to ESG investment, the Association revised its Basic Policies in line with the revised Basic Policy for Funds (public notice issued by four ministries). The Association's basic policy revised in FY2020 provides: the necessary initiatives shall be implemented, based on a case-by-case analysis, with a view to promoting investment considering non-financial elements including ESG (Environmental, Social, and Governance) in addition to financial elements based on the approach that the sustainable growth of investee companies and the entire market is necessary for the increase of return on investment portfolio over long time so as to secure long-term return for the benefit of insured persons.

The Association had taken necessary measures for ESG investment based on case-by-case analysis, even before the Basic Policies were revised to incorporate provisions concerning investment considering non-financial factors.

(2) Initiatives concerning ESG investment

- Consideration of the ESG factors for products managed by entrusted institutions

The Association evaluates the status of consideration of the ESG factors in the processes of annual comprehensive evaluation of products managed by entrusted institutions and selection of new products. That also applies to alternative investments. In particular, in the case of asset managers entrusted with real estate and infrastructure investments, the Association recommends the acquisition of the GRESB(*) certification and conducts checks on the status of relevant activities.

It also requests asset managers entrusted with equity investment to take sustainability (medium- to long-term sustainability, including regarding the ESG factors) into consideration when conducting engagement activity or exercising voting rights as part of stewardship activity and checks the status of those activities.

* GRESB (Global Real Estate Sustainability Benchmark) is a global benchmark for the evaluation of the status of ESG-related activities conducted by companies and funds owning and managing real estate and infrastructure assets. GRESB gives ratings based on evaluation using two sets of metrics—the "management" metrics, which look at the status of development of organizational systems and policies related to ESG, and the "performance" metrics, which look at the volume of energy usage regarding specific assets and the status of acquisition of environmental certification.

- Investment in ESG products as part of equity investment

The Association has started investing in ESG products in FY2009 with respect to active investment in domestic equities. Subsequently, the Association gradually increased the number of adopted products and the amount of investment.

In FY2020, the Association started investing in ESG products as part of passive investment in domestic equities.

The Association has adopted seven ESG products concerning domestic equities as of the end of FY2021 (five products for active investment and two products for passive investment), with a total value (market value) of 928.5 billion yen (approximately 13.1% of the outstanding balance of domestic stocks in the Association's portfolio).

In addition, in FY2022, the Association started investing in ESG products (two products) as part of active investment in foreign equities.

By adopting ESG products for active investment, the Association seeks to earn an excess return while fully taking into consideration ESG factors in the investment process. Regarding the ESG products for passive investment, the Association expects that its investment in ESG products (ESG indexes) will attract attention to ESG indexes and encourage a wide range of companies to conduct activities to correct ESG-related problems with the aim of increasing corporate value, thereby boosting the overall value of the whole of the domestic stock market.

- Investment in ESG bonds as part of bond investment

The Association started investing in products considering ESG factors as part of in-house investment in domestic bonds in FY2019. For the time being, the Association intends to make investment mainly in ESG bonds issued by local governments and institutions funded by a fiscal investment and loan program. As of the end of FY2021, the total value (book value) is 14.3 billion yen (1.0 billion yen for local government bonds and 13.3 billion yen for bonds issued by institutions funded by a fiscal investment and loan program).

2 Publication of activities through reports of investment results

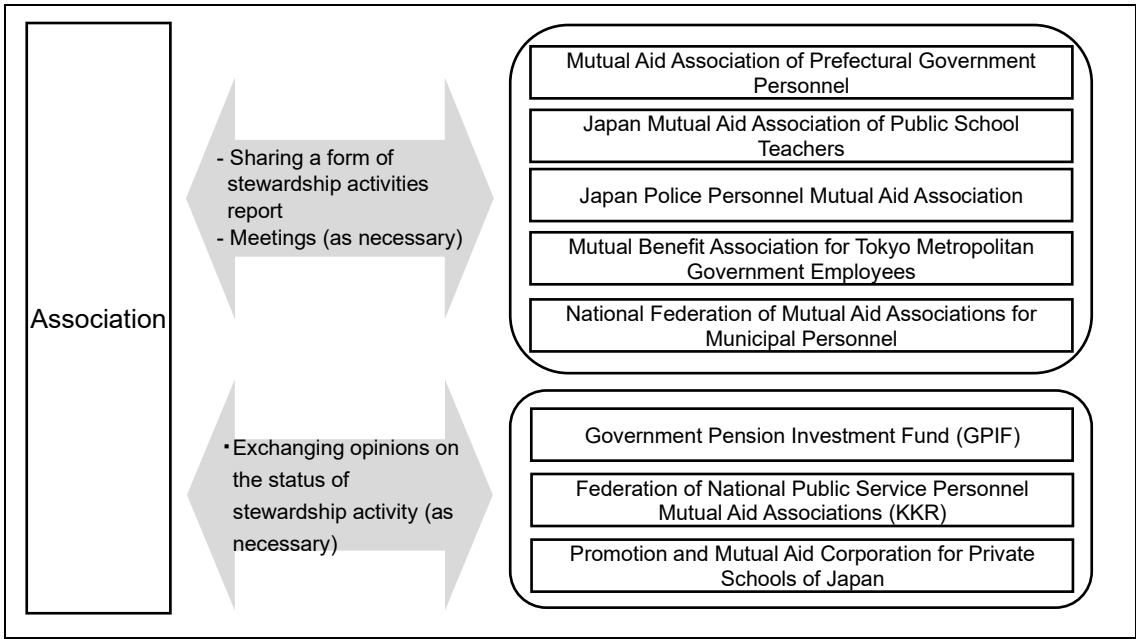
The Association is obligated to publish an annual report of investment results describing activities concerning the exercise of voting rights relating to stocks based on the Local Public Officers, etc. Mutual Aid Association Act, and, therefore, information on its stewardship activity is indicated in the Review of Operations report.

3 Collaboration with other public pension funds, etc.

In order to enhance the effectiveness and efficiency of stewardship activity, the Association holds meetings on stewardship activity on an as-needed basis with the Local Public Service Mutual Aid Associations (the Mutual Aid Association of Prefectural Government Personnel, the Japan Mutual Aid Association of Public School Teachers, the Japan Police Personnel Mutual Aid Association, the Mutual Benefit Association for Tokyo Metropolitan Government Employees, and the National Federation of Mutual Aid Associations for Municipal Personnel) and use common forms of reports concerning stewardship activity to be submitted by asset managers.

In addition, the Association is cooperating with other public pension funds, such as GPIF, as necessary, while exchanging opinions on the ideal ways of stewardship activity and other matters.

[Collaboration with other public pension funds, etc.]



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The Association will continue to actively conduct stewardship activity in order to simultaneously fulfill the fiduciary and social responsibilities.

(1) Implementation of effective monitoring of asset managers

The Association will continue to make sure that asset managers' stewardship activity is consistent with the Association's policy and will conduct monitoring with emphasis placed on the "quality" of initiatives.

(2) Dialogue with asset managers and accumulation of knowledge within the Association

From the viewpoint of continuously enhancing the effectiveness of stewardship activity, the Association will conduct dialogue with asset managers about matters of priority and accumulate knowledge concerning stewardship activity.

(3) Consideration of expansion of the scope of assets covered by stewardship activities

From the standpoint of fulfilling its stewardship responsibility, the Association has been considering expanding the scope of assets covered by stewardship activities by such way as grasping the status of asset managers conducting stewardship activities relating to assets other than equities and will implement necessary measures to the extent possible.

In FY2023, the Association plans to start monitoring the stewardship activities of asset managers entrusted with bond investment.

(4) Promotion of investment taking into consideration non-financial factors

From the viewpoint of securing long-term profit for the sake of insured persons' interests, the Association will also continue to conduct necessary activities after considering promoting investment taking into consideration non-financial factors, including ESG factors, in addition to financial factors. In addition, the Association will continue to check whether the activities of asset managers entrusted with equity investment take sustainability into consideration when monitoring their stewardship activities.

(5) Revision of the Corporate Governance Principles, etc.

The Association will revise the Corporate Governance Principles, the "Guidelines for Exercising Shareholders' Voting Rights" (Domestic Equities/Foreign Equities) and the "Signup to Japan's Stewardship Code" as necessary while taking into consideration revisions of laws, regulations and codes and changes in the social situation.

(6) Collaboration with other public pension funds, etc.

As part of its efforts to enhance the effectiveness and efficiency of stewardship activity, the Association will also exchange opinions with its member associations and other public pension funds, among other activities.

1 Policy concerning stewardship activity

The Association's policies and guidelines applicable to stewardship activity can be accessed from the following URLs:

- Basic Policy for Employees' Pension Insurance Benefit Adjustment Fund
(Last revised on December 24, 2021)
https://www.chikyoren.or.jp/Portals/0/2_sikinunyo/20211227_unnyouhoushin/kihon_kounen.pdf
https://www.chikyoren.or.jp/Portals/0/2_sikinunyo/english/9_Basic_Policy_Employees_Pension_Insurance.pdf
- Basic Policy for the Annuity Retirement Benefits (ARB) Adjustment Fund
(Last revised on March 31, 2020)
https://www.chikyoren.or.jp/Portals/0/2_sikinunyo/housin/housin_kihon2.pdf
https://www.chikyoren.or.jp/Portals/0/2_sikinunyo/english/5_kihonhoushin_tainen.pdf
- Basic Policy for the Transitional Long-Term Benefits (TLTB) Adjustment Fund
(Last revised on December 24, 2021)
https://www.chikyoren.or.jp/Portals/0/2_sikinunyo/20211227_unnyouhoushin/kihon_keika.pdf
[https://www.chikyoren.or.jp/Portals/0/2_sikinunyo/english/10_Basic_Policy_Transitional_Long-Term_Benefits\(TLTB\).pdf](https://www.chikyoren.or.jp/Portals/0/2_sikinunyo/english/10_Basic_Policy_Transitional_Long-Term_Benefits(TLTB).pdf)
- Corporate Governance Principles (Last revised on February 15, 2022)
https://www.chikyoren.or.jp/Portals/0/2_sikinunyo/stewardship/CorporateGovernancePrinciple.pdf
https://www.chikyoren.or.jp/english/Corporate_Governance_Principles_of_Pension_Fund_Association_for_Local_Government_Officials.pdf
- Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities)
(Last revised on February 15, 2022)
[https://www.chikyoren.or.jp/Portals/0/2_sikinunyo/stewardship/ProxyVotingGuideline\(Domestic\).pdf](https://www.chikyoren.or.jp/Portals/0/2_sikinunyo/stewardship/ProxyVotingGuideline(Domestic).pdf)
https://www.chikyoren.or.jp/english/Guidelines_for_Exercising_Shareholders_Voting_Rights_Domestic_Equities.pdf
- Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities)
(Last revised on February 15, 2022)
[https://www.chikyoren.or.jp/Portals/0/2_sikinunyo/stewardship/ProxyVotingGuideline\(Foreign\).pdf](https://www.chikyoren.or.jp/Portals/0/2_sikinunyo/stewardship/ProxyVotingGuideline(Foreign).pdf)
https://www.chikyoren.or.jp/english/Guidelines_for_Exercising_Shareholders_Voting_Rights_Foreign_Equities.pdf
- Signup to Japan's Stewardship Code (Last revised on September 25, 2020)
https://www.chikyoren.or.jp/Portals/0/2_sikinunyo/stewardship/signup_stewardshipcode_2020.pdf
[https://www.chikyoren.or.jp/Portals/0/2_sikinunyo/stewardship/stewardship_code_2020\(eng\).pdf](https://www.chikyoren.or.jp/Portals/0/2_sikinunyo/stewardship/stewardship_code_2020(eng).pdf)

2 Chronology of the Association's stewardship activity

Time		Initiatives
2002	May	Instructed trust banks to exercise voting rights based on specified comprehensive trust contracts.
2003	June	Made revisions so as to require asset managers to exercise voting rights based on discretionary investment contracts.
2004	April	Established the "Corporate Governance Principles of Pension Fund Association for Local Government Officials." Established the "Guidelines for Exercising Shareholders' Voting Rights." Instructed asset managers to exercise voting rights in line with the Guidelines.
2005	June	Announced the "Pension Fund Association for Local Government Officials' Approach to Proposals on Takeover Defense Measures."
2006	March	Revised the "Guidelines for Exercising Shareholders' Voting Rights." <ul style="list-style-type: none"> • Requested the establishment of the outside director post • Specified the definition of antisocial acts • Established the takeover defensive measure item
2007	March	Revised the "Guidelines for Exercising Shareholders' Voting Rights." <ul style="list-style-type: none"> • Tolerated non-exercise of voting rights related to companies' own shares and shares of parent companies with the risk of conflict of interest.
2008	March	Revised the "Guidelines for Exercising Shareholders' Voting Rights." <ul style="list-style-type: none"> • Added appropriation of surplus to the scope of factors that should be considered in relation to proposals for the election of directors.
2009	March	Revised the "Guidelines for Exercising Shareholders' Voting Rights." <ul style="list-style-type: none"> • Incorporated the viewpoint of undervalued dividends into appropriation of surplus. • Requested that shareholders' proposals be as closely examined as companies' proposals are. • Clarified the criteria for antisocial acts. Revised the "Pension Fund Association for Local Government Officials' Approach to Proposals on Takeover Defense Measures." <ul style="list-style-type: none"> • Added non-support for indefinite extension of the period of consideration by takeover targets.
2010	February	Started entrusted investment in ESG products concerning domestic equities (one product for active investment)
	March	Revised the "Pension Fund Association for Local Government Officials' Approach to Proposals on Takeover Defense Measures." <ul style="list-style-type: none"> • Made an explicit reference to the independence of third-party committees.



Reference Materials

Time		Initiatives
2011	March	<p>Revised the "Corporate Governance Principles of Pension Fund Association for Local Government Officials."</p> <ul style="list-style-type: none"> • Unified wordings and clarified the contents. <p>Revised the "Guidelines for Exercising Shareholders' Voting Rights."</p> <ul style="list-style-type: none"> • Shifted to case-by-case judgment concerning proposals for the election of special directors. • Adopted case-by-case judgment concerning stock options whose exercise price is lower than the market price. <p>Revised the "Pension Fund Association for Local Government Officials' Approach to Proposals on Takeover Defense Measures."</p> <ul style="list-style-type: none"> • Decided that when the requirements for the initiation of takeover defense measures are clear and leave no room for discretion, the measures may be voted for even if importance is not attached to the judgment of independent outside persons.
2013	March	<p>Revised the "Guidelines for Exercising Shareholders' Voting Rights."</p> <ul style="list-style-type: none"> • Requested that consideration be given to the attendance rate, etc. in the re-election of outside directors and outside auditors.
2014	May	<p>Signed up to Japan's Stewardship Code.</p> <p>Revised the "Guidelines for Exercising Shareholders' Voting Rights."</p> <ul style="list-style-type: none"> • Added descriptions corresponding to the footnotes to Principle 2 (prevention of conflicts of interest) and Principle 5 (voting rights related to stock lending) of Japan's Stewardship Code. <p>Newly added one product to ESG product concerning domestic equities (active investment).</p>
2015	March	<p>Revised the "Corporate Governance Principles of Pension Fund Association for Local Government Officials."</p> <ul style="list-style-type: none"> • Added descriptions concerning the use of independent outside directors and directors who are not executive directors. • Added descriptions concerning requests for corporate management teams to disclose information, including non-financial information. • Added descriptions concerning requests for corporate management teams to conduct active dialogue with investors. <p>Revised the "Guidelines for Exercising Shareholders' Voting Rights."</p> <ul style="list-style-type: none"> • Requested that consideration be given to the situation of concurrent assumption of executive posts at other companies at the time of re-election of outside directors and outside auditors. • Decided that negative judgment be made concerning takeover defense measures in principle. <p>Started the publication of Annual Stewardship Activity Report.</p>
	October	<p>Established the "Administration and Investment Policy" and the "Basic Policy" in association with the unification of pension systems.</p> <ul style="list-style-type: none"> • Specified measures to fulfill the stewardship responsibilities.

Time		Initiatives
2015	October	Established the "Administration and Investment Policy" and the "Basic Policy" in association with the unification of pension systems. <ul style="list-style-type: none"> • Specified measures to fulfill the stewardship responsibilities.
2016	March	Revised the "Guidelines for Exercising Shareholders' Voting Rights." <ul style="list-style-type: none"> • Changed the name to the "Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities)" and unified wordings in association with the establishment of the "Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities)."
	April	Established the "Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities)." Instructed asset managers to exercise voting rights in line with the Guidelines.
2017	November	Signed up to Japan's Stewardship Code (Revised Version)
2019	March	Revised the "Corporate Governance Principles of Pension Fund Association for Local Government Officials." <ul style="list-style-type: none"> • Added some items to the scope of the roles and functions of the board of directors. • Added a provision concerning the required number of independent outside directors. • Created a new section called "Establishment of advisory committees." • Cited gender and international experience as specific examples of diversity. • Cited specific examples of the appropriate qualifications of auditors. Revised the "Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities and Foreign Equities)." <ul style="list-style-type: none"> • Prescribed the requirement for an exercise of voting rights in accordance with the circumstances of companies. • Prescribed the requirement for an integrated implementation of the exercise of voting rights and engagement. • Prescribed the requirement for a PDCA cycle of the exercise of voting rights.
	September	Started investing in ESG bonds as part of in-house investment in domestic bonds.
2020	March	Revised the administration and investment policies, including the "Administration and Investment Policy for the Managed Reserve Fund for Employees' Pension Insurance Schemes" as well as the Basic Policies. <ul style="list-style-type: none"> • Added a provision concerning the promotion of investment considering non-financial factors including ESG in addition to financial factors based on a case-by-case analysis and the implementation of necessary initiatives.
	September	Signed up to Japan's Stewardship Code (Second revised version).
	December	Newly added five products to ESG product concerning domestic equities (3 products for active investment and 2 products for passive investment).



Reference Materials

Time		Initiatives
2021	June	Announced support for the Task Force on Climate-Related Financial Disclosures.
2022	February	Revised the "Corporate Governance Principles of Pension Fund Association for Local Government Officials" and the "Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities/Foreign Equities)." Abolished the "Pension Fund Association for Local Government Officials' Approach to Proposals on Takeover Defense Measures."
	July	Started entrusted investment in ESG products concerning foreign equities (two products for active investment)