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# FY2023 Annual Stewardship Activity Report

March 2024



地方公務員共済組合連合会  
Pension Fund Association for Local Government Officials

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## 1 Overview of the Association's stewardship activity

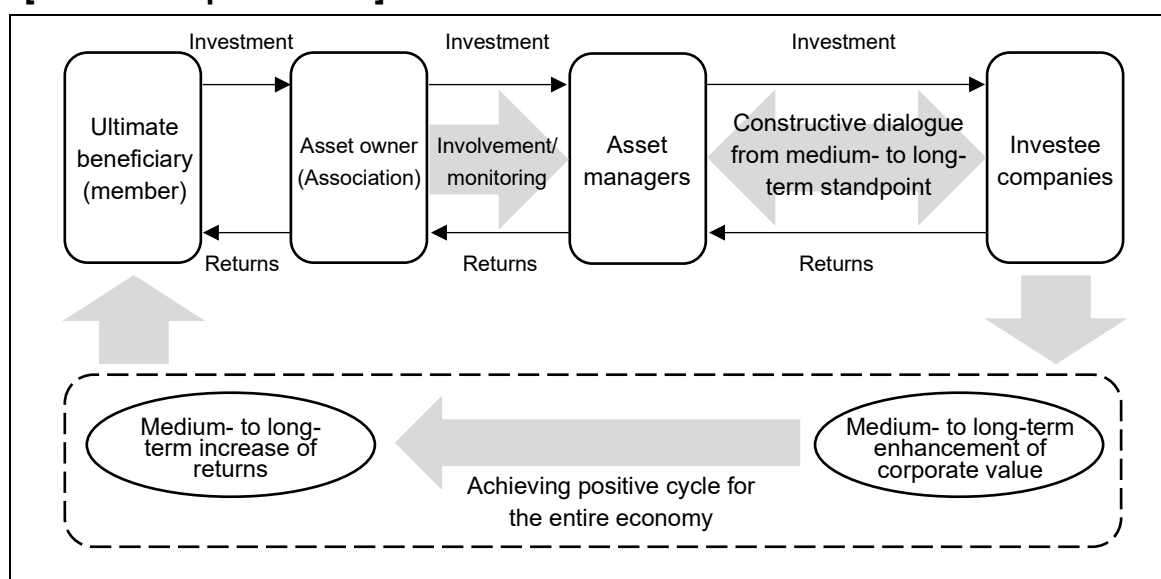
"Stewardship activities" refers to the activities of institutional investors to increase medium- to long-term investment returns for their clients and beneficiaries by encouraging improvements in corporate value and sustainable growth of investee companies through means such as the exercise of shareholders' 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 members 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 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.

Therefore, the Association requires asset managers to conduct stewardship activity in accordance with the "Corporate Governance Principles of Pension Fund Association for Local Government Officials" (hereinafter referred to as the "Corporate Governance Principles") and other guidelines set by the Association and strives to keep track of the status of stewardship activity and enhance the effectiveness by monitoring individual asset managers' efforts.

### [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)

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● Formulation of policies concerning stewardship activity

With regard to policies concerning stewardship activity, the Association established the 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.

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.

The Association clearly indicates these policies to asset managers when concluding contracts with them and requires them to conduct stewardship activity in compliance with these policies.

● Expansion of the scope of assets covered by stewardship activities

In light of the revision of Japan's Stewardship Code in March 2020, the Association signed up to the revised Japan's Stewardship Code in September of the same year, and expressed an intention to "consider the principles that can be applied to assets other than listed domestic equities" and to "implement necessary initiatives to the extent possible" in its revised Signup to Japan's Stewardship Code. The Association has already been monitoring stewardship activity related to foreign equities since FY2017, and in FY2023, it started monitoring stewardship activity related to bonds as well.

● Participation in initiatives

In June 2021, the Association announced support for the Task Force on Climate-related Financial Disclosures (TCFD).

The Association also plans to sign the Principles for Responsible Investment (PRI) by the end of FY2024.

\* Stewardship responsibility: The responsibility for increasing medium- and long-term investment returns for beneficiaries by promoting a rise in the corporate value of investee companies and their sustainable growth through constructive and "purposeful dialogue" (engagement) based on the deep understanding of the companies and their business environments and the considerations for sustainability (medium- to long-term sustainability including ESG factors) that are made in accordance with investment strategy.

\* TCFD: Established by the Financial Stability Board (FSB) upon a request from the G20 finance ministers and central bank governors. In June 2017, the TCFD published non-binding recommendations that encourage information disclosure with respect to the financial impacts of climate change-related risks and opportunities in order to enable investors to make appropriate investment decisions. The task force was dissolved in October 2023, with its function of monitoring the progress made in implementing the recommendations transferred to the IFRS Foundation (a private-sector, non-profit organization responsible for developing international financial reporting standards).

\* PRI: International principles that require institutional investors to give consideration to ESG (environmental, social, and governance) challenges in their investment activities.



### (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.

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## 2 Monitoring of asset managers

For each fiscal year, the Association has been monitoring the stewardship activities of the asset managers by receiving reports concerning stewardship activity and holding interviews so as to ensure compliance with the Association's policies.

In its monitoring activity, while the Association does look at such formal aspects as asset managers' frameworks for conducting stewardship activities, it focuses on the "quality" of those activities. That is, the Association examines asset managers' approaches to stewardship activity and their specific activities in order to check whether the activities are based on the deep understanding of investee companies and their business environments and the considerations for sustainability (medium- to long-term sustainability including ESG factors) that are made in accordance with investment strategy.

In FY2023, the Association started monitoring asset managers' stewardship activities related to bonds as well.

[Activities in FY2023]

In May 2023, the Association held briefing meetings on the direction of the Association's stewardship activity for asset managers in FY2023 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 FY2022 individually to asset managers entrusted with equity investment ("equity managers") that requested it.

In July, the Association requested equity managers (14 companies for domestic equities and 15 companies for foreign equities) to submit reports on their initiatives to be evaluated by the Association in FY2023 with respect to their stewardship activities (i.e., policies, structures, processes for and results of stewardship activities). The Association also requested asset managers entrusted with bond investment ("bond managers") (11 companies for domestic bonds and 13 companies for foreign bonds) to submit reports on their initiatives (i.e., policies, structures and processes for stewardship activities).

Based on the reports submitted, the Association held interviews with the equity managers from around October to November focused on the matters which the Association considers important in relation to stewardship activities.

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



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**[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】**

In the Signup to Japan's Stewardship Code, the Association stipulates as follows: "as the means to seek medium- to long-term enhancement of corporate value and sustainable growth of investee companies, the Association is required to proactively commit to effective stewardship activities, including engagement based on in-depth knowledge of investee companies and their business environment and consideration of their sustainability (sustainability for the medium to long term including ESG factors) consistent with the investment management strategy, exercise of voting rights and ESG investment" so as to fulfill its fiduciary duty and social responsibility as a public pension fund. In addition, with respect to the consideration for sustainability challenges, it provides: "the Association will require investment management institutions to clearly specify how they take the issues of sustainability into consideration in their policy, consistent with the investment management strategies of the respective institutions."

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.

As part of their governance systems, some asset managers ensure the management of conflicts of interest by a third-party committee or an independent internal division/department, while others exercise 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.

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### 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**

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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 also requires asset managers to "consciously conduct engagement that is consistent with the investment management strategies of the respective institutions and that serves the abovementioned purposes."

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.

The Association also confirmed that in accordance with their policies and investment strategies, some asset managers were conducting engagement related to sustainability issues faced by investee companies in a way connected with those 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 conducting high-quality engagement—that is, conducting engagement based on the deep understanding of investee companies and their business environments and the considerations for sustainability (medium- to long-term sustainability including ESG factors) that are made in accordance with investment strategy—leads to an increase in corporate value and sustainable growth.

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

### 【Excellent practices】

- (i) Asset Manager A, in cooperation with a research institution, developed an analysis model concerning investee companies' capital cost (\*). When conducting engagement, the asset manager identifies and makes visible the challenges that investee companies should address as priority challenges by indicating the factors that affect the capital cost. At the same time, the asset manager quantitatively indicates the impact of possible improvement efforts on the value of the companies' stocks, thereby enhancing their understanding and their motivation for improvement.
- (ii) Asset Manager B determines priority themes of engagement based on its ESG investment policy and identifies industry-by-industry priority challenges. In light of the results of screening using ESG data and analysts' opinions, the asset manager selects high-priority companies and strives to conduct engagement in ways suited to the companies' circumstances by identifying priority dialogue themes for the companies.
- (iii) When conducting engagement with investee companies, Asset Manager C shows its investment approach while making clear priority matters for dialogue by providing research papers summarizing its own stewardship activities and the results of corporate analysis. The asset manager also strives to enhance the effectiveness of dialogue by explaining best practices, including other companies' examples.

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

\* Capital cost refers to the cost associated with funds procured by companies for implementing business operations. It is comprised of cost of equity, which corresponds to dividend payments to shareholders, among other cost items, and cost of debt, which corresponds mainly to interest payments.

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

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As engagement is a "purposeful dialogue," the Association believes that it is necessary to enhance the effectiveness of engagement by managing implementation under clearly defined objectives of engagement and developing processes for measuring the effects of achievement of the objectives.

The Association confirmed that most 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 keeps records of each activity conducted by companies to resolve their challenges and analyzes the effects of companies' activities on stock prices during the period before and after the date of dialogue. In that way, the asset manager examines whether its engagement activity leads to changes in companies' behavior and an increase in their corporate value.
- (ii) Asset Manager B calculates the corporate value of investee companies on its own and examines the effects of engagement by monitoring changes in the value after engagement.
- (iii) Asset Manager C has developed a platform for managing the status of engagement and relevant information on a company-wide basis and conducts efficient management of business processes by integrating processes such as the formulation of engagement plans, progress management and measurement of the effects, while striving to enhance the effectiveness of engagement based on an organization-wide approach.
- (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

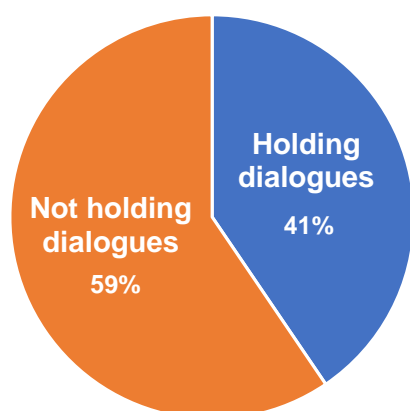
##### 【Domestic equities】

The results of engagement activity by asset managers differed from product to product, but regarding active investment, asset managers acting on behalf of the Association held dialogue with 57 companies per product, with a total of 361 rounds of dialogue held. Regarding passive investment, they held dialogue with 398 companies per product, with a total of 1,910 rounds of dialogue held.

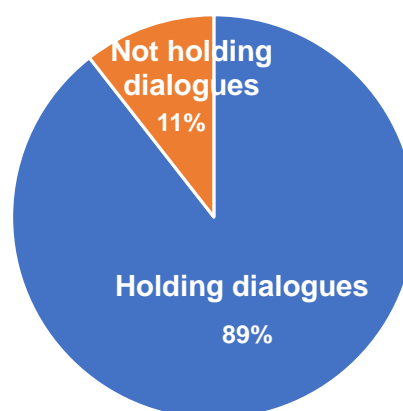
During the period from July 2022 to June 2023, the Association conducted engagement with around 41% of the companies whose shares it owned as of the end of June 2023, and the combined market capitalization of the 41% accounted for around 89% of the total market capitalization of the companies whose shares it owned.

##### Status of Engagement by Equity Managers (July 2022 to June 2023)

[Number of companies that held dialogues]



[Ratio of companies that held dialogues (on a market capitalization basis)]



##### 【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 44 companies per product, with a total of 172 rounds of dialogue held. Regarding passive investment, they held dialogue with 176 companies per product, with a total of 466 rounds of dialogue held.

\* The number of companies with which the Association conducted engagement and the number of dialogue sessions per product include cases where new products were adopted or where contracts for existing products were cancelled during the data period (from July 2022 to June 2023).

Cases of engagement		
(A)	Dialogue subject	<b>[Dialogue concerning corporate governance ("G" of ESG)]</b> The asset manager recommended that Company A, which has achieved remarkable growth but whose governance system is inadequate, should develop an appropriate governance system at an early time in order to ensure sustainable growth.
	Result	Company A announced that it would establish a nominating committee chaired by an outside director.
(B)	Dialogue subject	<b>[Dialogue concerning management strategy]</b> The asset manager pointed out problems related to the allocation of business resources to various businesses to an investee company whose business portfolio includes a low-profit business operating brick-and-mortar stores and high-profit businesses, such as intellectual property (IP) business. Citing examples of competitor companies, the asset manager proposed improvement measures.
	Result	The company announced the scaling-back of the low-profit business and developed a system to allocate business resources to growth businesses from a medium- to long-term perspective.
(C)	Dialogue subject	<b>[Dialogue concerning capital policy]</b> The asset manager held dialogue with an investee company which owns a large amount of financial assets, including policy-based shareholdings,* whose capital efficiency is at a worrisome level, and called on the company to take the following steps: (1) set a capital efficiency target and explain growth/financial strategies for achieving the target; (2) consider setting executive remuneration at a level that ensures the management team's commitment to achieving the target; (3) set a clear policy for using financial assets, including policy-based shareholdings.
	Result	The company set medium-term targets regarding the abovementioned three points.
(D)	Dialogue subject	<b>[Dialogue concerning environmental ("E" of ESG) issues]</b> As concern over maritime pollution risk from discarded plastic bottles was emerging as an international problem, the asset manager held dialogue with a beverage maker, conveyed its concern over the future of plastic bottled beverages and called for the reduction of waste.
	Result	The company announced a medium-term goal of increasing the percentage of plastic bottles made of environment-friendly materials to 100%.
(E)	Dialogue subject	<b>[Dialogue concerning social ("S" of ESG) issues]</b> The asset manager called on an investee company to identify human rights risks (e.g., forced labor, and child labor) related to the procurement of raw materials, to make efforts to contain and mitigate the risks, and provide explanations and disclose information with respect to the effectiveness of the efforts and ways of addressing the risks.
	Result	The company made efforts such as onsite audit of its group's business establishments.
(F)	Dialogue subject	<b>[Dialogue concerning collaborative engagement]</b> The asset manager, a domestic investment management company, conducted engagement with a foreign investee company in collaboration with an international initiative. While the asset manager appreciated the company's efforts to strengthen supply chain management under the goal of reducing forest destruction to zero, it asked for further explanations about the progress in those efforts.
	Result	After explaining the status of progress, the company developed and announced an action plan for achieving the goal.

\* Policy-based shareholding refers to the holding of shares not purely for investment purposes but for strategic purposes, such as maintaining relationships with business partners and defending against acquisition. This is a practice unique to Japan and it started to spread around the 1960s. Most policy-based shareholdings take the form of cross-shareholding, which refers to mutual holding of shares between companies.

**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.**

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**(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 all 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 establishing a verification process by third-party organizations regarding proposals subject to the exercise of voting rights.

On the other hand, the Association learned of cases in which asset managers did not exercise voting rights in ways that complied with the Guidelines (a total of three asset managers did not exercise voting rights with respect to a total of 21 proposals), despite the prior review of proposed voting decisions, because the review function did not sufficiently work. Therefore, the Association called for asset managers to develop recurrence prevention measures and ensure their implementation.

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 most 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.



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

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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 that have been identified through dialogue with the companies. It was also confirmed that some asset managers made decisions that were not consistent with the Guidelines and that in those cases, decisions were made in light of the companies' circumstances based on a sufficient understanding of the purpose of the Guidelines.

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	
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	The asset manager 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 female and, therefore, the proposal was expected to contribute to the diversification of the board of directors. (Domestic equities)

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

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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.

To that end, the Association believes that it is necessary not only to exercise voting rights unilaterally but also to conduct engagement before and after the exercise of voting rights and strive to improve the effectiveness of stewardship activity by sharing perspectives on the challenges with investee companies and by conveying their approaches to the exercise of voting rights.

It was learned that all asset managers entrusted 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 holds dialogue with investee companies before general shareholders' meetings and encourages the companies to address their challenges, and it uses information obtained through dialogue for making voting decisions that contribute to an increase in corporate value. The asset manager also encourages the companies to continuously address the challenges by giving them feedback after exercising voting rights.
- (ii) At the time of revision of the criteria for exercising voting rights, Asset Manager B applies the revised criteria after explaining the specifics of the revision and the background to the past votes against proposals.

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)	After introducing new criteria for exercising voting rights with respect to policy-based shareholdings, Asset Manager A not merely voted against companies that violated the criteria but made decisions after checking through engagement how they responded. As a result, the asset manager voted for those companies' proposals if they had developed and announced quantitative targets for reducing the volume of policy-based shareholdings within a specified period. Even so, the asset manager called for the companies to further reduce policy-based shareholdings as their volume of such shareholdings remained at a high level.
(B)	Asset Manager B conducted engagement with an investee company that had failed to elect at least one female director in violation of the criteria for exercising voting rights before general shareholders' meetings. The asset manager recommended the election of a female director in consideration of the importance of incorporating diverse viewpoints and values, and as a result, the company proposed the election of a female director. As the asset manager judged that the company would be able to meet the criteria for exercising voting rights, it voted for that proposal.
(C)	Asset Manager C repeatedly informed a company whose proposal for introducing takeover defense measures had been adopted in the past despite the asset manager's "no" vote of the reason for its "no" vote and the likelihood of voting against the measures when they would be up for renewal next time. As a result, the company refrained from submitting the proposal to the general shareholders meeting that was held when the measures were up for renewal, so they were abolished.

#### (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 domestic equity managers (a total of 31 funds) at a general meeting of shareholders of a total of 14,214 companies held between July 2022 and June 2023. The number of proposals for which voting rights were exercised was 48,504.

Of the 48,504 proposals, 11,467 (including 2,403 shareholder proposals) were voted against, translating into a vote-against rate of 23.6%. The vote-against rate concerning company proposals was 19.8%.

The vote-against rate came to 35.2% concerning proposals related to the board of directors/directors, 14.7% concerning proposals related to the board of auditors/auditors and 18.3% concerning proposals related to director remuneration, etc.

#### Voting activity

(The figures are based on the proposals submitted to general meetings of shareholders held between July 2022 and June 2023.)

##### ● Employees' Pension Insurance Benefit Adjustment Fund

Number of proposals by type of proposer	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Company proposal	36,770	80.2%	9,064	19.8%	0	0.0%	45,834
Shareholder proposal	267	10.0%	2,403	90.0%	0	0.0%	2,670
Total	37,037	76.4%	11,467	23.6%	0	0.0%	48,504

Number of proposals by type of proposal	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Board of directors/directors	12,289	64.8%	6,667	35.2%	0	0.0%	18,956
Board of auditors/auditors	6,721	85.3%	1,161	14.7%	0	0.0%	7,882
Director remuneration, etc.	3,011	81.7%	674	18.3%	0	0.0%	3,685
Appropriation of surplus	9,087	95.7%	411	4.3%	0	0.0%	9,498
Capital structure	244	29.4%	585	70.6%	0	0.0%	829
Takeover defense measures	23	5.3%	413	94.7%	0	0.0%	436
Capital increase or reduction	62	100.0%	0	0.0%	0	0.0%	62
Third party allotment of shares	26	81.3%	6	18.8%	0	0.0%	32
Acquisition of own shares	33	16.7%	165	83.3%	0	0.0%	198
Business restructure	197	100.0%	0	0.0%	0	0.0%	197
Incentives improvement for executives	1,018	85.6%	171	14.4%	0	0.0%	1,189
Other proposals	4,470	71.3%	1,798	28.7%	0	0.0%	6,268
Total	37,037	76.4%	11,467	23.6%	0	0.0%	48,504
Climate-related proposals	55	28.9%	135	71.1%	0	0.0%	190

## ● Transitional Long-term Benefit Adjustment Fund

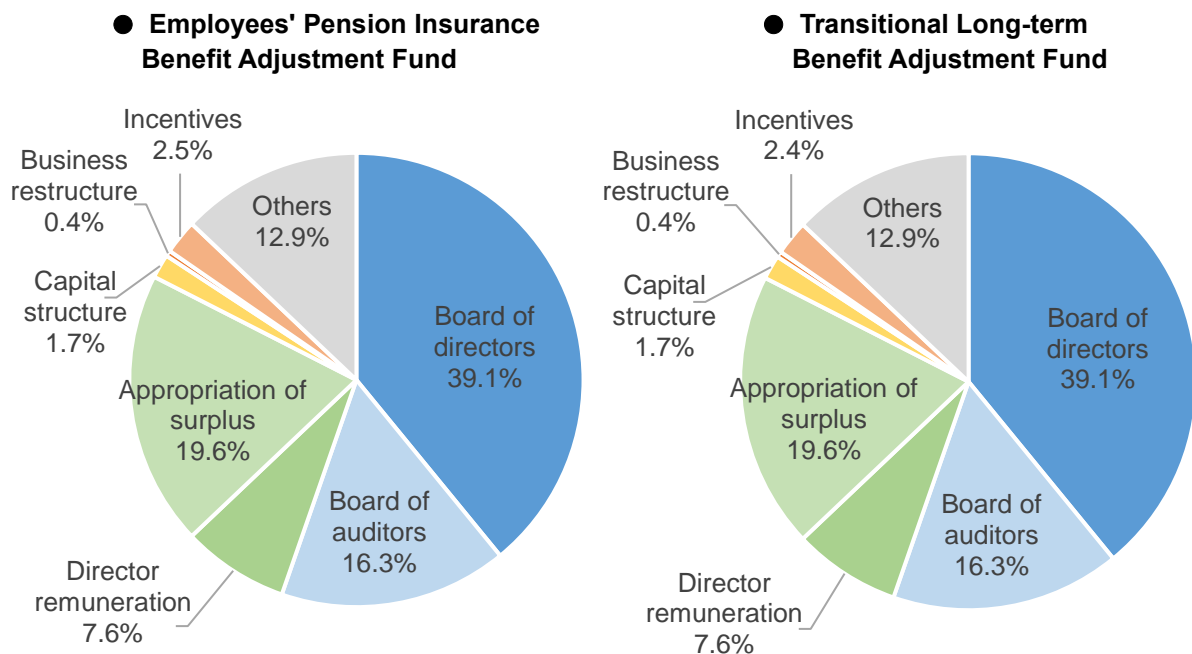
Number of proposals by type of proposer	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Company proposal	36,767	80.2%	9,064	19.8%	0	0.0%	45,831
Shareholder proposal	267	10.0%	2,403	90.0%	0	0.0%	2,670
Total	37,034	76.4%	11,467	23.6%	0	0.0%	48,501

Number of proposals by type of proposal	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Board of directors/directors	12,288	64.8%	6,667	35.2%	0	0.0%	18,955
Board of auditors/auditors	6,721	85.3%	1,161	14.7%	0	0.0%	7,882
Director remuneration, etc.	3,011	81.7%	674	18.3%	0	0.0%	3,685
Appropriation of surplus	9,086	95.7%	411	4.3%	0	0.0%	9,497
Capital structure	244	29.4%	585	70.6%	0	0.0%	829
Takeover defense measures	23	5.3%	413	94.7%	0	0.0%	436
Capital increase or reduction	62	100.0%	0	0.0%	0	0.0%	62
Third party allotment of shares	26	81.3%	6	18.8%	0	0.0%	32
Acquisition of own shares	33	16.7%	165	83.3%	0	0.0%	198
Business restructure	197	100.0%	0	0.0%	0	0.0%	197
Incentives improvement for executives	1,017	85.6%	171	14.4%	0	0.0%	1,188
Other proposals	4,470	71.3%	1,798	28.7%	0	0.0%	6,268
Total	37,034	76.4%	11,467	23.6%	0	0.0%	48,501
Climate-related proposals	55	28.9%	135	71.1%	0	0.0%	190

## Share by proposal subject

(The figures are based on the proposals submitted to general meetings of shareholders held between July 2022 and June 2023.)



### (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 15 foreign equity managers (a total of 23 funds) at a general meeting of shareholders of a total of 9,798 companies held between July 2022 and June 2023. The number of proposals for which voting rights were exercised was 96,110.

Of the 96,110 proposals, 14,218 (including 2,890 shareholder proposals) were voted against, translating into a vote-against rate of 14.8%. The vote-against rate concerning company proposals was 12.6%.

The vote-against rate came to 12.7% concerning proposals related to the election of directors, etc. and 12.0% concerning proposals related to director remuneration, etc.

#### Voting activity

(The figures are based on the proposals submitted to general meetings of shareholders held between July 2022 and June 2023.)

#### ● Employees' Pension Insurance Benefit Adjustment Fund

Number of proposals by type of proposer	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Company proposal	78,443	87.3%	11,328	12.6%	132	0.1%	89,903
Shareholder proposal	3,263	52.6%	2,890	46.6%	54	0.9%	6,207
Total	81,706	85.0%	14,218	14.8%	186	0.2%	96,110

Number of proposals by type of proposal	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Proposal for election of directors, etc.	15,201	87.0%	2,212	12.7%	53	0.3%	17,466
Director remuneration, etc.	11,202	87.8%	1,531	12.0%	28	0.2%	12,761
Appropriation of surplus	4,302	99.4%	19	0.4%	6	0.1%	4,327
Capital structure	13,565	88.4%	1,770	11.5%	13	0.1%	15,348
Takeover defense measures	471	95.0%	24	4.8%	1	0.2%	496
Capital increase or reduction	5,370	83.4%	1,055	16.4%	12	0.2%	6,437
Third party allotment of shares	1,787	95.8%	79	4.2%	0	0.0%	1,866
Acquisition of own shares	2,795	98.2%	52	1.8%	0	0.0%	2,847
Business restructure	3,675	79.3%	959	20.7%	0	0.0%	4,634
Incentives improvement for executives	1,971	62.3%	1,187	37.5%	8	0.3%	3,166
Other proposals	31,790	82.8%	6,540	17.0%	78	0.2%	38,408
Total	81,706	85.0%	14,218	14.8%	186	0.2%	96,110
Climate-related proposals	259	38.0%	409	60.1%	13	1.9%	681

\* From the viewpoints of constraints related to the exercise of voting rights and additional cost burden, the exercise of voting rights is limited to 17 countries and regions (the United States, Canada, the United Kingdom, Ireland, Australia, New Zealand, Singapore, Hong Kong, the Czech Republic, Indonesia, Mexico, the Philippines, South Africa, Taiwan, Thailand, Pakistan and China A Stock).

\* As of November 2022, the number of countries to which the exercise of voting rights is applicable was changed from 18 countries and regions to 17 countries and regions due to the exclusion of Chile.

## ● Transitional Long-term Benefit Adjustment Fund

Number of proposals by type of proposer	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Company proposal	79,308	87.1%	11,653	12.8%	132	0.1%	91,093
Shareholder proposal	3,291	52.7%	2,894	46.4%	54	0.9%	6,239
<b>Total</b>	<b>82,599</b>	<b>84.9%</b>	<b>14,547</b>	<b>14.9%</b>	<b>186</b>	<b>0.2%</b>	<b>97,332</b>

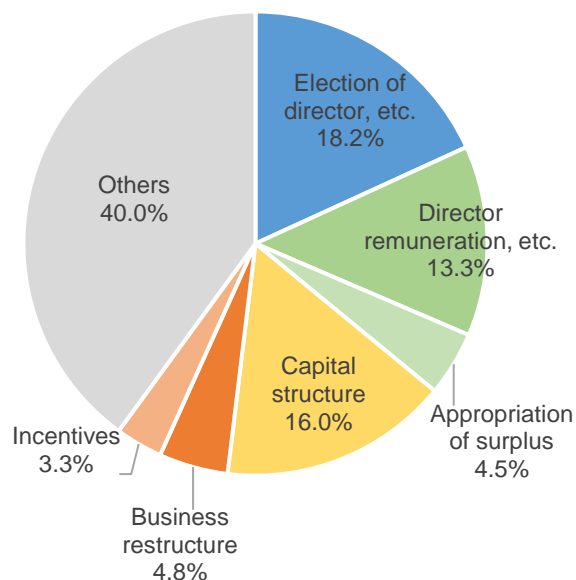
  

Number of proposals by type of proposal	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Proposal for election of directors, etc.	15,272	87.1%	2,217	12.6%	53	0.3%	17,542
Director remuneration, etc.	11,235	87.8%	1,533	12.0%	28	0.2%	12,796
Appropriation of surplus	4,361	99.4%	22	0.5%	6	0.1%	4,389
Capital structure	13,694	88.4%	1,784	11.5%	13	0.1%	15,491
Takeover defense measures	471	95.0%	24	4.8%	1	0.2%	496
Capital increase or reduction	5,368	83.4%	1,055	16.4%	12	0.2%	6,435
Third party allotment of shares	1,787	95.8%	79	4.2%	0	0.0%	1,866
Acquisition of own shares	2,801	98.2%	52	1.8%	0	0.0%	2,853
Business restructure	3,783	77.9%	1,074	22.1%	0	0.0%	4,857
Incentives improvement for executives	1,974	61.9%	1,208	37.9%	8	0.3%	3,190
Other proposals	32,280	82.6%	6,709	17.2%	78	0.2%	39,067
<b>Total</b>	<b>82,599</b>	<b>84.9%</b>	<b>14,547</b>	<b>14.9%</b>	<b>186</b>	<b>0.2%</b>	<b>97,332</b>
Climate-related proposals	259	38.0%	409	60.1%	13	1.9%	681

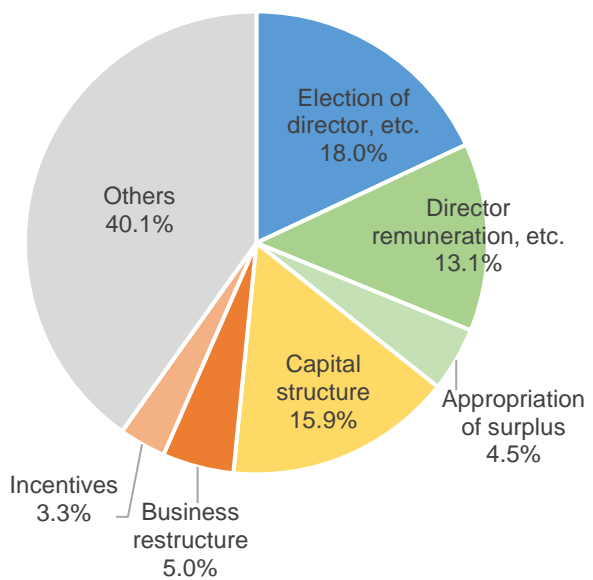
## Share by proposal subject

(The figures are based on the proposals submitted to general meetings of shareholders held between July 2022 and June 2023)

### ● Employees' Pension Insurance Benefit Adjustment Fund



### ● Transitional Long-term Benefit Adjustment Fund



**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) Asset Manager A established a dedicated department responsible for overseeing stewardship activity across asset classes and developed a system to take advantage of foreign expertise for the purpose of stewardship activity by maintaining close collaboration with foreign offices.
- (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.



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## 7 Initiatives focusing on noteworthy themes in recent years

### (1) Capital policy

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In March 2023, the Tokyo Stock Exchange called on all companies listed on the Prime and Standard Markets to take actions toward realizing management that is conscious of capital cost and stock prices(\*). Against that backdrop, companies' capital policy is attracting attention.

The Association held interviews with domestic equity managers about their capital policy initiatives conducted as part of stewardship activity.

Indeed, many asset managers have the sense that more and more companies are indicating readiness to implement capital policy measures, such as increasing dividend payment and purchasing own shares. In consideration of that change in companies' behavior, some asset managers are engaging in proactive engagement—that is, they have pointed out the need to develop measures to achieve medium- to long-term growth, rather than merely implementing short-term capital policy measures, such as increasing dividend payment and purchasing own shares, and to continue implementing those measures, for example.

Through the interviews, the Association confirmed that domestic companies' interest in capital policy is growing.

#### 【Examples of initiatives】

- (i) As a step to prepare for the revision of the criteria for exercising voting rights, Asset Manager A published its approach to the exercise of voting rights and the specifics of its capital policy initiative.
- (ii) In the belief that improving governance is essential for increasing the capital efficiency of investee companies, Asset Manager B held ESG seminars for management executives of investee companies, with its analysts serving as instructors, in order to help develop skills in which those executives are lacking.
- (iii) When conducting engagement with investee companies, Asset Manager C cites other companies' moves and best practice cases and calls on them to develop plans for appropriate allocation of business resources and shift their mindset to management focused on capital cost, which will lead to a sustainable improvement in capital efficiency, rather than merely implementing temporary measures to increase shareholder returns, such as increasing dividend payments and purchasing own shares.

\* The Tokyo Stock Exchange has published "Action to Implement Management that is Conscious of Cost of Capital and Stock Price," which calls on listed companies not only to be conscious of sales and profit levels indicated in profit and loss statements but also to give consideration to capital cost and the return on capital and achieve sustainable growth and increase corporate value in the medium to long-term through appropriate allocation of business resources.

## **(2) Climate change**

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The Association requires asset managers to engage in stewardship activity that gives consideration to sustainability-related challenges in accordance with their investment strategy.

The Association observed the following cases of climate change-related initiatives conducted as part of stewardship activity by asset managers.

The Association confirmed that all equity managers have expressed support for the TCFD.

### **【Examples of initiatives】**

- (i) When conducting engagement, Asset Manager A proposed the implementation of scenario analysis incorporating climate change as a means to identify business risks because climate change may cause an increase in the cost of procuring raw materials. As a result, investee companies expressed support for the TCFD recommendations and disclosed information related to the effects of various climate change events.
- (ii) Under the criteria for exercising voting rights, Asset Manager B has introduced an "escalation clause" stating that it considers voting against investee companies' proposed election of directors in cases where the companies failed, for no particular reason, to make improvements with respect to the response to climate change and other challenges that should be addressed despite engagement.
- (iii) Asset Manager C asks to conduct engagement with investee companies whose information disclosure related to climate change is inadequate before general shareholders' meetings and make voting decisions after examining the companies' approaches to information disclosure.

## 8 Asset managers' recognition of challenges

The Association identified the challenges recognized and initiatives conducted by asset managers in order to fulfill stewardship responsibilities.

Amid the rapid changes in the environment surrounding companies, the Association will continue to call on asset managers to conduct effective stewardship activity by addressing their respective challenges from the viewpoint of increasing investee companies' corporate value and realizing sustainable growth, which are the primary goals.

### 【Recognition of major challenges】

Category	Challenges
Systems for implementation	Strengthening systems to respond to increases in engagement themes, in shareholders' proposals, and in the need for dialogue with companies and introducing efficient tools (→(i))
	Strengthening cooperation between officials responsible for stewardship and investment
	Securing systems for implementation in consideration of individual countries' economic and social environments (→(ii))
	Enhancing the dissemination of information and expanding the scope of reporting
Response to ESG/sustainability challenges	Improving the methods of evaluating and analyzing ESG factors (e.g., improving ratings and developing datasets)
	Responding to new factors of consideration, such as biodiversity (→(i))
Engagement	Progress and improvement of a method for measuring/examining the effectiveness of engagement
	Selecting engagement partners in an effective way (e.g., prioritization and escalation)
Exercise of voting rights	Revising the criteria for exercising voting rights in an appropriate manner (e.g., making revisions in response to the increase in and diversification of shareholders' proposals)
	Enhancing the transparency of the exercise of voting rights (disclosure of voting results and explanation of the factors behind decisions)

### 【Examples of initiatives】

- (i) Regarding new themes that should be considered in stewardship activity, such as biodiversity, Asset Manager A holds seminars for analysts and portfolio managers with respect to pioneering companies' initiatives and cases of disclosure and overseas trends in order to identify companies' response to new themes and the impact of initiatives on corporate value.
- (ii) Asset Manager B is making efforts to expand stewardship teams assigned to regions and is conducting an engagement initiative targeting particular industries and countries because identifying country-specific circumstances and market trends is a challenge for global investment.

## 1 Overview

In March 2020, Japan's Stewardship Code was revised so as to make the code applicable to assets other than listed Japanese equities. Therefore, in September 2020, the Association signed up to the revised Japan's Stewardship Code and expressed an intention to "consider the principles that can be applied to assets other than listed domestic equities" and "implement necessary initiatives to the extent possible" in its revised Signup to Japan's Stewardship Code.

The Association had already been monitoring and evaluating stewardship activity related to foreign equities since FY2017, and in FY2023, it started monitoring and evaluating stewardship activity by bond managers(\*).

In FY2023, the Association conducted monitoring and evaluation from the viewpoint of whether asset managers had developed policies, systems and processes for conducting stewardship activity related to bonds. The Association found that all of the asset managers monitored and evaluated were conducting stewardship activity related to bonds. Some asset managers were conducting such activity not only for the same purposes as the ones in the case of equity investment, such as increasing corporate value and returns for investors but also from viewpoints peculiar to bond investors, such as understanding events that could create credit risk.

Regarding the challenges for stewardship activity related to bonds, most asset managers cited the need to improve the effectiveness of activity because the opportunities for dialogue and the influence that asset managers can exercise are limited compared with the case of equity investment. In addition, some asset managers recognized as a challenge a lack of academic research regarding how to take into consideration ESG factors when making bond investment.

## 2 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.

\* The scope of monitoring and evaluation covers 22 asset managers handling investment funds whose investment targets include corporate bonds and which are actually investing in corporate bonds (a total of 26 funds).

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### **3 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 fulfill their stewardship responsibilities. It was also confirmed that some asset managers entrust monitoring and auditing to third-party organizations, while others have an internal compliance department/division or similar organization responsible for monitoring.

### **4 Principle 4 of Japan's Stewardship Code**

#### **【Principle 4: Engagement】**

The Association confirmed that all asset managers have developed engagement policies and processes related to bonds. Most asset managers have credit analysts and other personnel identify events that may affect issuers' creditworthiness and cash flow creating capacity and hold dialogue in order to call for information disclosure and corrective measures with respect to the events.

Domestic bond managers were found to be engaging in the following initiatives in order to improve the effectiveness of stewardship activity related to bonds.

#### **【Examples of initiatives】**

Promoting decarbonization is a challenge that individual companies should address on their own, but it is also a challenge that should be addressed on an industry-wide basis and on a supply chain-wide basis. Japanese companies tend to pay close attention to the moves of other companies in the same industry. With that in mind, when conducting engagement with investee companies in Japan, some asset managers strive to facilitate changes in investee companies' behavior and an increase in their corporate value by conducting engagement with the leading companies in the same industry at the same time as a way to promote the decarbonization initiative on an industry-wide basis.

**5 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 have developed systems to conduct stewardship activity through an investment division or a dedicated department/division. Most asset managers have established a dedicated department/division with centralized responsibility for ESG research, engagement and the exercise of voting rights, while only a few entrust stewardship activity to outside companies.

Most asset managers recognize as a challenge how to improve the effectiveness of stewardship activity because the opportunities for dialogue and the influence that asset managers may exercise as part of stewardship activity related to bonds are limited compared with the case of stewardship activity related to equities. To address this problem, asset managers have taken measures such as creating opportunities for the bond investment division to approach the top management in cooperation with the equity investment division.

Some asset managers avoid the risk of an engagement activity related to a certain class of assets undermining the value of other classes of assets by developing a policy of not demanding corporate actions such as increasing the capital amount or returning profits to shareholders from a short-term perspective.

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**1 ESG Investment****(1) Basic approach to ESG investment**

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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**

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- 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 equity managers to take sustainability (medium- to long-term sustainability including 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.



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- Investment in ESG products as part of equity investment

The Association has started investing in ESG funds 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, and in FY2022, as part of active investment in foreign equities.

The Association has adopted seven ESG products concerning domestic equities as of the end of FY2022 (five products for active investment and two products for passive investment), with a total value (market value) of 963.5 billion yen (approximately 13.1% of the outstanding balance of domestic stocks in the Association's portfolio), and two ESG products concerning foreign equities (two products for active investment), with a total value (market value) of 108.3 billion yen (approximately 1.5% of the outstanding balance of foreign stocks in the Association's portfolio).

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 FY2022, the total value (book value) is 16.6 billion yen (1.5 billion yen for local government bonds and 15.1 billion yen for bonds issued by institutions funded by a fiscal investment and loan program).

## 2 Publication of activities through reports of investment results

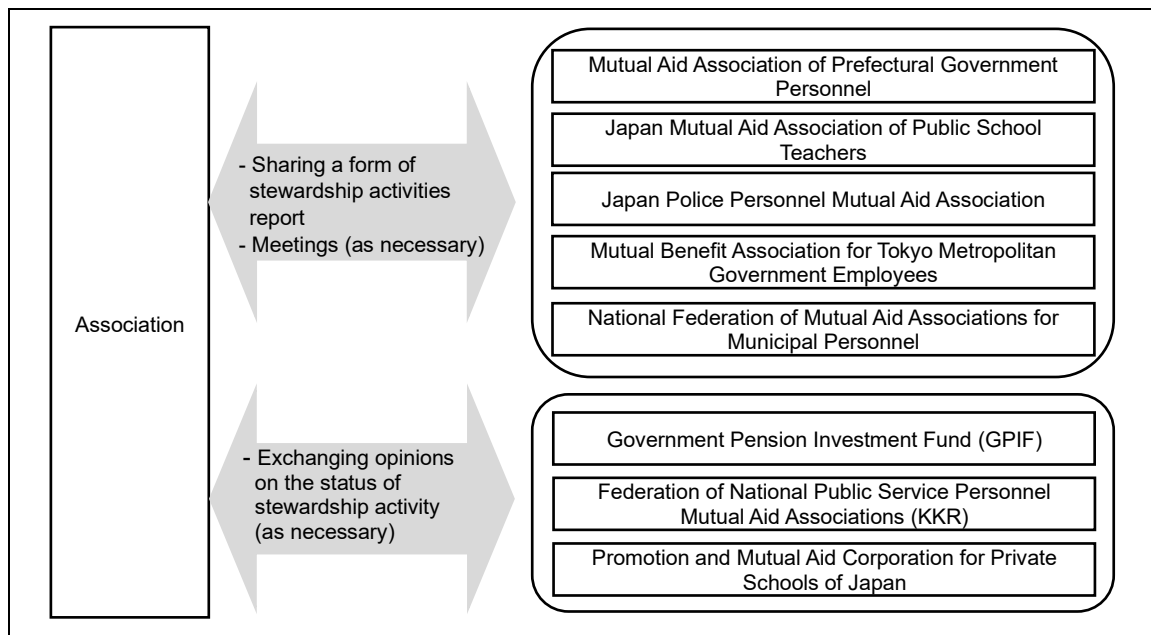
The Association is obligated to publish an annual report of investment results describing activities concerning the exercise of voting rights relating to stocks based on the Local Public Officers, etc. Mutual Aid Association Act, and, therefore, information on its stewardship activity is indicated in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



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.

The Association will also accumulate knowledge concerning stewardship activity through such means as monitoring of and dialogue with asset managers in order to improve assessment and monitoring methods.

(3) Promotion of dialogue and 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 equity managers take sustainability into consideration when monitoring their stewardship activities.

As the Association agrees with the purpose of the PRIs, which is consistent with the abovementioned policies, it plans to sign the PRIs by the end of FY2024.

(4) 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.

(5) 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/20211227_unnyouhoushin/kihon_kounen.pdf)  
[https://www.chikyoren.or.jp/Portals/0/2\\_sikinunyo/english/9\\_Basic\\_Policy\\_Employees\\_Pension\\_Insurance.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/housin/housin_kihon2.pdf)  
[https://www.chikyoren.or.jp/Portals/0/2\\_sikinunyo/english/5\\_kihonhoushin\\_tainen.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/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 of Pension Fund Association for Local Government Officials  
(Last revised on February 15, 2022)  
[https://www.chikyoren.or.jp/Portals/0/2\\_sikinunyo/stewardship/CorporateGovernancePrinciple.pdf](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](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](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](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/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)

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## 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"> <li>• Requested the establishment of the outside director post.</li> <li>• Specified the definition of antisocial acts.</li> <li>• Established the takeover defensive measure item.</li> </ul>
2007	March	Revised the "Guidelines for Exercising Shareholders' Voting Rights." <ul style="list-style-type: none"> <li>• Tolerated non-exercise of voting rights related to companies' own shares and shares of parent companies with the risk of conflict of interest.</li> </ul>
2008	March	Revised the "Guidelines for Exercising Shareholders' Voting Rights." <ul style="list-style-type: none"> <li>• Added appropriation of surplus to the scope of factors that should be considered in relation to proposals for the election of directors.</li> </ul>
2009	March	Revised the "Guidelines for Exercising Shareholders' Voting Rights." <ul style="list-style-type: none"> <li>• Incorporated the viewpoint of undervalued dividends into appropriation of surplus.</li> <li>• Requested that shareholders' proposals be as closely examined as companies' proposals are.</li> <li>• Clarified the criteria for antisocial acts.</li> </ul> Revised the "Pension Fund Association for Local Government Officials' Approach to Proposals on Takeover Defense Measures." <ul style="list-style-type: none"> <li>• Added non-support for indefinite extension of the period of consideration by takeover targets.</li> </ul>
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"> <li>• Made an explicit reference to the independence of third-party committees.</li> </ul>
2011	March	Revised the "Corporate Governance Principles of Pension Fund Association for Local Government Officials." <ul style="list-style-type: none"> <li>• Unified wordings and clarified the contents.</li> </ul> Revised the "Guidelines for Exercising Shareholders' Voting Rights." <ul style="list-style-type: none"> <li>• Shifted to case-by-case judgment concerning proposals for the election of special directors.</li> <li>• Adopted case-by-case judgment concerning stock options whose exercise price is lower than the market price.</li> </ul> Revised the "Pension Fund Association for Local Government Officials' Approach to Proposals on Takeover Defense Measures." <ul style="list-style-type: none"> <li>• 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.</li> </ul>

	Time	Initiatives
2013	March	Revised the "Guidelines for Exercising Shareholders' Voting Rights." <ul style="list-style-type: none"> <li>Requested that consideration be given to the attendance rate, etc. in the re-election of outside directors and outside auditors.</li> </ul>
2014	May	Signed up to the "Japan's Stewardship Code." Revised the "Guidelines for Exercising Shareholders' Voting Rights." <ul style="list-style-type: none"> <li>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.</li> </ul> Newly added one product to ESG product concerning domestic equities (active investment).
2015	March	Revised the "Corporate Governance Principles of Pension Fund Association for Local Government Officials." <ul style="list-style-type: none"> <li>Added descriptions concerning the use of independent outside directors and directors who are not executive directors.</li> <li>Added descriptions concerning requests for corporate management teams to disclose information, including non-financial information.</li> <li>Added descriptions concerning requests for corporate management teams to conduct active dialogue with investors.</li> </ul> Revised the "Guidelines for Exercising Shareholders' Voting Rights." <ul style="list-style-type: none"> <li>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.</li> <li>Decided that negative judgment be made concerning takeover defense measures in principle.</li> </ul> Started the publication of Annual Stewardship Activity Report.
	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"> <li>Specified measures to fulfill the stewardship responsibilities.</li> </ul>
	December	Newly added two products to ESG product concerning domestic equities (active investment).
2016	March	Revised the "Guidelines for Exercising Shareholders' Voting Rights." <ul style="list-style-type: none"> <li>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)."</li> </ul>
	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"> <li>Added some items to the scope of the roles and functions of the board of directors.</li> <li>Added a provision concerning the required number of independent outside directors.</li> <li>Created a new section called "Establishment of advisory committees."</li> <li>Cited gender and international experience as specific examples of diversity.</li> <li>Cited specific examples of the appropriate qualifications of auditors.</li> </ul> Revised the "Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities and Foreign Equities)." <ul style="list-style-type: none"> <li>Prescribed the requirement for an exercise of voting rights in accordance with the circumstances of companies.</li> <li>Prescribed the requirement for an integrated implementation of the exercise of voting rights and engagement.</li> <li>Prescribed the requirement for a PDCA cycle of the exercise of voting rights.</li> </ul>

	Time	Initiatives
2019	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"> <li>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.</li> </ul>
	September	Signed up to Japan's Stewardship Code (Second revised version).
	December	Newly added five products to ESG product concerning domestic equities (three products for active investment and two products for passive investment).
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).
2023	April	Started monitoring stewardship activity related to bonds.