
FY2024 Annual Stewardship Activity Report

March 2025



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

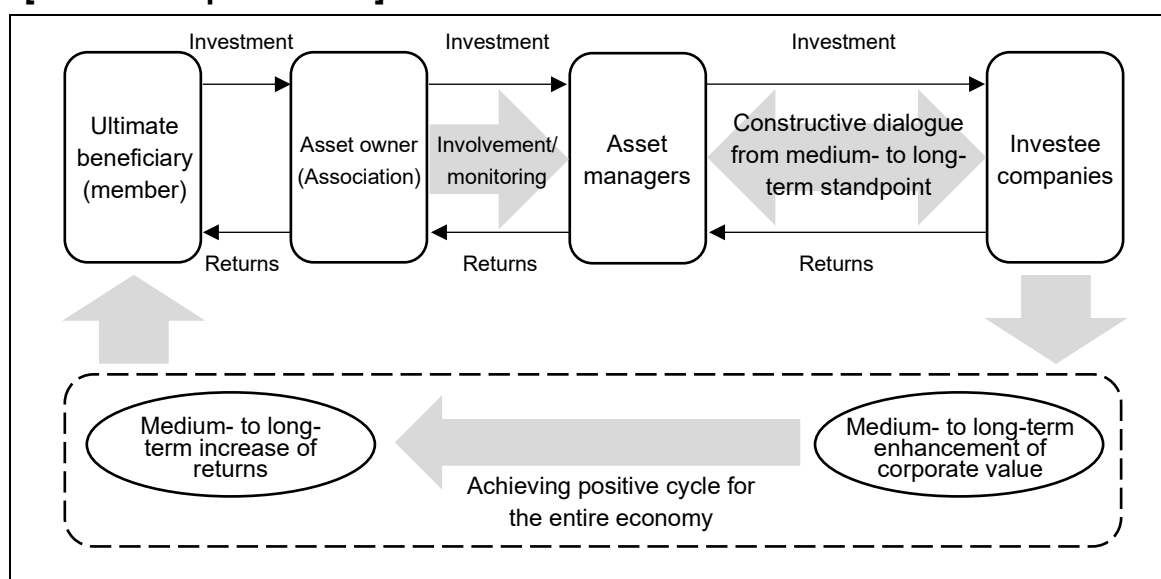
"Stewardship activities" refers to the activities of institutional investors to increase medium- to long-term investment returns for their clients and beneficiaries by encouraging improvements in corporate value and sustainable growth of investee companies through means such as the exercise of shareholders'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

The Pension Fund Association for Local Government Officials ("Association") has been proactively committed to stewardship activities with a view to fulfilling its fiduciary responsibility of increasing the value of its assets for members, etc. over the long term, while recognizing its social responsibility as a public pension fund.

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)

- Formulation of basic policies for fulfilling stewardship responsibilities

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.

In addition to publicizing these policies on its website, 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 started monitoring stewardship activity related to foreign equities since FY2017, and bonds since FY2023.

- Participation in initiatives

In June 2021, the Association announced support for the Task Force on Climate-related Financial Disclosures (TCFD¹).

The Association also signed up to the Principles for Responsible Investment (PRI²) in May, 2024.

¹ 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).

² 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.

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 from the standpoint of whether the activities are based on the deep understanding of investee companies and their business environments and the considerations for sustainability that are made in accordance with investment strategy.

[Activities in FY2024]

- April: Provided an explanation in the form of a document on the direction of the Association's stewardship activity for asset managers in FY2024 to ensure their understanding of the matters that the Association considers important in relation to stewardship activities.
- May: Provided feedback regarding its evaluation of stewardship activities in FY2023 individually to asset managers entrusted with equity investment ("equity managers") that requested it.
- July: Held briefing meetings for asset managers (14 companies for domestic equities, 14 companies for foreign equities, 11 companies for domestic bonds and 14 companies for foreign bonds) and required them to submit reports on their stewardship activities. Also presented examples of incorrect reporting made by asset managers in FY2023 to draw their attention.
- October to November: Held interviews with the equity managers.
- Considering the results of a review of the reports and interviews, the Association conducted the evaluation of stewardship activities of the 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】

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 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.

(Column) Asset Managers' Stewardship Activity System

The stewardship activity system varies from asset manager to asset manager depending on the investment strategy and organizational system. The Association recognizes that asset managers have respective systems that enable appropriate and effective exercise of voting rights and engagement based on a deep understanding of investee companies.

As the purpose of stewardship activity is to increase long-term investment returns for beneficiaries, the Association believes that it is important to conduct activity in light of the opinions of officials responsible for investment and analysts and to share the results of activity with officials in charge of investment and analysts. The Association confirmed that even when officials responsible for investment and analysts at asset managers are not directly involved in stewardship activity, collaboration is promoted through measures such as using an original platform intended for company-wide information sharing and establishing a conference body comprising officials responsible for investment and analysts.

Types of activity system

- Officials responsible for investment and analysts directly conduct engagement and exercise voting rights. In cases where a division/department dedicated to stewardship activity is in place, the division/department provides support for the formulation of company-wide policies and expert investigations and analyses related to ESG.
- Officials responsible for investment, analysts and the division/department dedicated to stewardship activity conduct stewardship activity under the division of roles. Specifically, analysts take charge of issues designated for coverage by analysts, while the division/department dedicated to stewardship activity takes charge of engagement related to company-wide, priority ESG themes, for example.
- The division/department dedicated to stewardship activity centrally conducts engagement and exercises voting rights and shares information with officials responsible for investment and analysts. In the case of matters that require deep knowledge concerning the situation of companies and industry trends, such as proposals that are difficult to judge, the division/department collaborates with officials responsible for investment and analysts.

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, in order to fulfill its stewardship responsibility to increase long-term investment returns for beneficiaries, 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.

As a result of interviews with asset managers about their attitude toward engagement, broadly speaking, the Association recognized the following approaches.

- Conducting engagement mainly for the purpose of investigation intended to facilitate investment decisions by accurately identifying the management situations and business performances of investee companies and their status of initiatives related to ESG factors.
- Conducting engagement intended to resolve factors that could undermine corporate value in the future, such as concerns related to ESG factors regarding investee companies.
- Conducting active in-depth engagement related to the specifics of investee companies' businesses.

As all the above approaches are intended to increase long-term investment returns for beneficiaries, the Association will continue requiring asset managers to conduct engagement aimed at enhancing corporate value and achieving sustainable growth in accordance with their investment strategies.

(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 that are made in accordance with investment strategy—leads to an increase in corporate value and sustainable growth.

With respect to the improvement of quality of engagement, the Association conducted a review of the specific efforts of asset managers from the following viewpoints:

(i) Review of engagement themes

Amid rapid changes in the environment surrounding companies, most asset managers conduct, as appropriate, reviews of materiality maps and priority themes, including close examination of new themes.

For example, regarding biodiversity, which is a new theme, the Association observed a case in which an asset manager selected companies subject to engagement based on more clear-cut criteria by dividing this theme into four categories, that is, forest destruction, environmental pollution, water resources, and species diversity.

(ii) Use of quantitative data for enhancing effectiveness

Some asset managers use quantitative data when conducting engagement so as to give investee companies a sense of satisfaction and enhance the effectiveness of engagement.

For example, the Association observed a case in which an asset manager strove to make engagement more effective by presenting the corporate value and SDGs³ score (which quantifies the degree of contribution made by companies to SDGs) calculated independently from a medium- to long-term perspective and by explaining how those figures may change because of the resolution of the challenges faced by the companies.

The Association will continue requiring asset managers to conduct initiatives to enhance the quality of corporate value.

³ SDGs (Sustainable Development Goals): The 17 international goals set for achievement by 2030 in order to realize a sustainable, diverse, and inclusive society. It was adopted unanimously at the United Nations summit in September 2015.

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

As engagement is a "purposeful dialogue," the Association believes that it is important 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.

With respect to making the engagement process more efficient, the Association conducted the review of the specific efforts of asset managers from the following viewpoints:

(i) Refinement of the progress management method

Most asset managers conduct various initiatives to ensure effective progress management.

For example, the Association observed cases in which asset managers introduced milestone and stage management in order to quantitatively identify progress, developed an original platform to enable company-wide sharing of the specifics of engagement by making the progress visible, or conducted a questionnaire survey to receive feedback from companies with which they held dialogue.

(ii) Measurement of the effects (revision of the engagement process based on the results of progress management)

Some asset managers conduct initiatives to ensure the appropriate function of the PDCA cycle, such as revising the engagement process or policy in light of the results of progress management.

For example, the Association observed a case in which an asset manager revised the engagement process in ways that encourage investee companies to give priority to addressing social challenges when setting challenges at the beginning of a business term in light of the fact that, in the case of engagement regarding environmental challenges and governance challenges, progress is faster compared with the case of engagement regarding social challenges.

(iii) Measurement of the effects (examination of relationships with stock prices and financial indicators)

Some asset managers measure the effects of engagement on stock prices and financial indicators.

For example, the Association observed a case in which the asset manager calculated theoretical stock prices and corporate value independently under certain assumptions and measured how those figures changed because of engagement and change in corporate behavior.

(iv) Joint research with universities and other research institutes

Some asset managers conduct joint research with universities and other research institutes 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

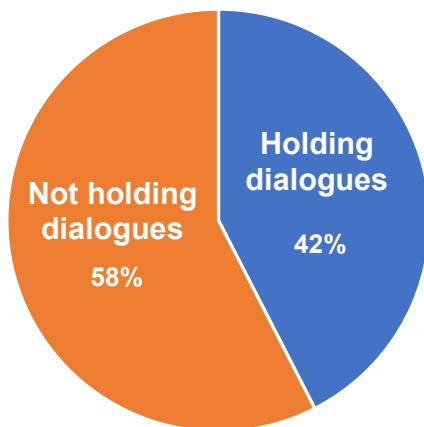
【Domestic equities】

With respect to the overall results of the engagement activity of the Association, during the period from July 2023 to June 2024, the Association conducted engagement with around 42% of the companies whose shares it owned as of the end of June 2024, and the combined market capitalization of the 42% accounted for around 92% of the total market capitalization of the companies whose shares it owned.

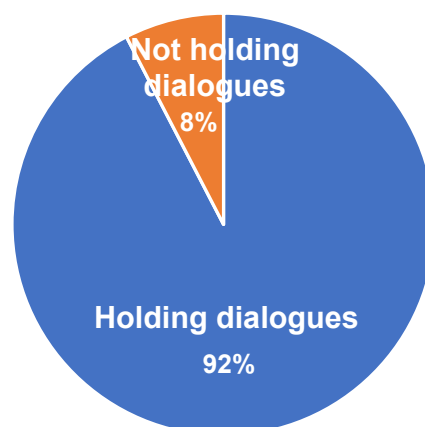
Status of Engagement by Equity Managers (July 2023 to June 2024)

* In cases where there were products newly created or cancelled during the data period (from July 2023 to June 2024), the data include dialogue held regarding those products (30 products).

[Number of companies that held dialogues]



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



Regarding engagement activity by product⁴, a total of 2,380 sessions of engagement⁵ were held with 461 companies per product in the case of passive investment. Of the total number of companies whose shares are held by the Association, engagement was conducted with around 40% on average. Around 21% of the companies with which engagement was conducted were those with which engagement started for the first time.

Regarding active investment, a total of 333 engagement sessions were conducted with 59 companies per product. Of the total number of companies whose shares were held by the association, engagement was conducted with around 68%. Around 33% of the companies with which engagement was conducted were those with which engagement started for the first time.

⁴ Regarding engagement activity by product, the data covers products for which contracts had existed since before the end of June 2023 and remained in effect as of the end of June 2024 (domestic equities: 27 products; foreign equities: 21 products). The number of engagement sessions covers all engagement activities conducted during the data period (from July 2023 to June 2024). The ratio is against the number of companies whose shares were included in the portfolio of each product as of the end of June 2024.

⁵ In cases where multiple themes were addressed in a single session of dialogue, one session was counted for each of those themes (the same is true with active investment and foreign equity investment).

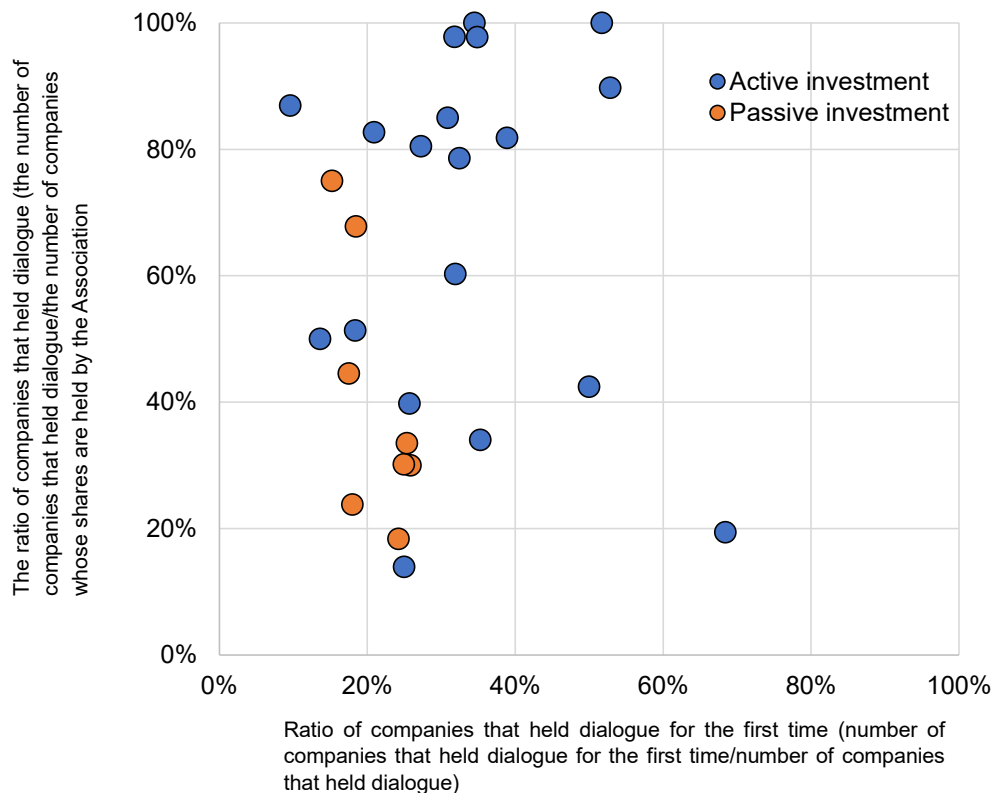
As for the situation by product, regarding passive investment, while the ratio of companies that held dialogue varied from product to product, it tended to be higher in the case of products comprised of a relatively small number of issues comprising benchmarks. The ratio of companies that held dialogue for the first time was similar across all products. Regarding all products, the ratio of companies that held dialogue tended to be higher in the case of larger-cap issues.

On the other hand, regarding active investment, both the ratio of companies that held dialogue and the ratio of companies that held dialogue for the first time varied across products. In interviews, the Association observed differences in the attitude toward engagement. In the future, the Association will examine in detail the relationship between those differences and investment strategy.

The ratio of companies that held dialogue and the ratio of companies that held the dialogue for the first time by product

Coverage: Products entrusted as of the end of June 2024

* The data covers companies whose shares were held by the Association as of the end of June 2024 with respect to each product.



【Foreign equities】

As in the case of domestic equities, the results differed from product to product. Regarding passive investment, asset managers acting on behalf of the Association held dialogue with 175 companies per product, with a total of 424 rounds of dialogue held. Regarding active investment, they held dialogue with 47 companies per product, with a total of 166 rounds of dialogue held.

Cases of engagement		
(A)	Dialogue subject	【Dialogue concerning corporate governance ("G" of ESG)】 The asset manager urged the safety committee under the board of directors of a company where a serious operational incident occurred to perform its role of ensuring transparency regarding short-, medium-, and long-term measures implemented to resolve the risks revealed by the incident.
	Result	The company appointed a new chairman of the safety committee, added to the committee two outside directors whose important responsibility is to strengthen supervision regarding sustainability, including safety, and increased the frequency of safety committee meetings.
(B)	Dialogue subject	【Dialogue concerning management strategy】 The asset manager held dialogue with an investee company on the restructuring of its basic business. The asset manager presented recommendations regarding the review of the overall business portfolio because accelerating the shift to green operations and restructuring of the existing business was necessary for responding to the deterioration of the business environment.
	Result	The company promoted activities to strengthen competitive products and reduce the environmental impact.
(C)	Dialogue subject	【Dialogue concerning capital policy】 The asset manager informed a company whose return on capital was feared to deteriorate due to the accumulation of net cash that in order to give the market reassurances about its return on capital, it is important to announce a medium- to long-term capital allocation plan in addition to clarifying the amount of necessary cash on hand and conducting a one-off stock repurchase.
	Result	The company announced the reduction of the current net cash and made clear that the redundant funds would be used for existing investment programs, stable dividend payments, mergers and acquisitions, and stock repurchases, prioritized in that order.
(D)	Dialogue subject	【Dialogue concerning environmental ("E" of ESG) issues】 The asset manager informed a liquor-producing company that strengthening activities to reduce risks associated with climate change and water resources and mitigating expected effects were the challenges for the company and called for the submission of reports to the CDP ⁶ because climate change affects the liquor production business, which uses agricultural products and water as the main ingredients.
	Result	The company strengthened the response to climate change, including measures to mitigate the water disaster risks, including river floods, for its business facilities.

⁶ CDP (Carbon Disclosure Project): A non-governmental organization managed by a charity in the United Kingdom that operates a global disclosure platform available for investors, businesses, nations, regions, and cities for managing their environmental impacts and engages in activity to promote environmental disclosure by businesses.

Cases of engagement		
(E)	Dialogue subject	【Dialogue regarding climate change】 The asset manager held dialogue with an environmentally advanced company that was striving to reduce the environmental impact of its products but which had not set a benchmark for the enhancement of corporate value that corresponds to the contribution to the reduction of CO2 emission volume. The asset manager pointed to the need to set a sales target for products making environmental contributions that indicates a link between environmental strategy and business strategy in order to raise expectations for sustainable growth.
	Result	The company announced a target for contribution to the reduction of CO2 emission volume as an ESG goal for resolving social challenges through business activity. In addition, under a medium-term plan for businesses that resolve social challenges, the company announced a sales target that contributes to the realization of a decarbonized and circular society.
(F)	Dialogue subject	【Dialogue concerning social ("S" of ESG) issues】 The asset manager held dialogue with a financial institution facing the challenge of developing a human rights due diligence system (evaluation of and response to human rights risks) that involves customers and borrowers and investee companies. The asset manager called for not only the revision of human rights policy but also the evaluation of human rights risks and information disclosure regarding the PDCA cycle, including the introduction of activities to appropriately address the evaluation results.
	Result	The company issued its first human rights report and announced the status of risk evaluation and response.
(G)	Dialogue subject	【Dialogue regarding human capital】 The asset manager held dialogue with a major retail company. Under its medium- to long-term business strategy, the company indicated changes in its business portfolio and business model, but on the other hand, it did not present a human resource strategy for adapting to those changes. Therefore, the asset manager pointed out the need to explain human resource strategy from a medium- to long-term perspective.
	Result	The company disclosed activities to enhance employee engagement and promote D&I ⁷ as human resource measures linked with its business strategy. The company also announced that it had shifted to a CHRO ⁸ system in order to embed its corporate philosophy and accelerate the formulation and implementation of a human rights strategy linked to the business strategy.

⁷ D&I (Diversity and Inclusion): D stands for "diversity," which refers to values that respect differences between people in terms of various attributes, such as gender, age, and nationality, and I stands for "inclusion," which refers to values that institutionally accept and harness diversity. In short, D&I refers to values that aim to realize a society in which individual persons exercise their individuality and make successful contributions.

⁸ CHRO (Chief Human Resource Officer): CHRO refers to the chief human resource officer granted with overall authority over personnel management affairs. In order to realize human capital management, which has recently attracted attention, a CHRO who can lead human resource strategy from a management perspective is necessary.

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 Corporate Governance Principles and Guidelines (domestic and foreign equities) and explicitly requires asset managers to exercise voting rights based on them.

The Association confirmed that either when asset managers internally prepared draft voting plans, or when they received draft voting plans from proxy advisors, they conducted advance verification as to whether the draft plans complied with the Guidelines. Meanwhile, regarding proposals that are difficult to judge, most asset managers conducted activities to enhance the objectivity of verification, such as establishing a process of verification of draft voting plans by a committee that includes third-party persons.

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.

(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 provided the Guidelines. The Association believes that when exercising voting rights in specific cases, it is important to make appropriate judgment suited to the circumstances of individual companies, rather than applying uniform criteria. Therefore, the Association requires asset managers to exercise voting rights in accordance with the circumstances of companies that have been identified through dialogue with them.

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.

In addition, the Association's Guidelines should be revised as necessary in accordance with the actual circumstances, so the Association has received recommendations from asset managers on the occasions of monitoring and other activities. In light of the recommendations received, the Association considers making revisions as necessary while bearing in mind that the Guidelines apply universally to all asset managers and investee companies.

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	The asset manager voted for proposals to increase the number of internal directors as it judged the proposals to be reasonable after checking the reasons for electing the proposed additional candidates (the reasons included that the candidates are female, are responsible for international affairs, are adept in advanced technology, or are considered to be a possible future leader and that the election of the candidates would be necessary for capital and business alliances or for the rejuvenation of the board of directors) and the composition of the board of directors. (Domestic equities)
(B)	Provisions of Guidelines	As independent outside directors, audit and supervisory committee members and auditors as well as parties outside the company are expected to play a supervisory role over the execution of business management, we generally vote against the adoption of a performance-linked remuneration scheme for these persons.
	Response of asset managers	The role of outside directors is not limited to conventional monitoring but has expanded to include advisory activity, including presenting recommendations regarding strategies that companies should execute, so outside directors are required to provide advice and point out issues from the viewpoint of investors. Based on that idea, the asset manager voted for proposals for a performance-linked remuneration system exclusively with respect to outside directors who are not members of audit and other committees (many of whom are qualified professionals) as it judged that stock remuneration is well suited to those positions. (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 investee companies, through stewardship activity, to conduct the activities needed for enhancing shareholder value.

To that end, the Association believes that it is necessary for asset managers 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 specific practices from the following viewpoints in order to improve the effectiveness of stewardship activity.

(i) Engagement that contributes to the appropriate exercise of voting rights

Most asset managers conduct engagement before general shareholders' meetings in order to appropriately reflect the results of engagement in judgment on the exercise of voting rights.

The Association observed cases in which the guidelines for the exercise of voting rights clearly prescribed the process of conducting engagement before general shareholders' meetings in the case of companies that meet certain criteria, such as companies where a case of misconduct was recognized and companies that violated the sustainability standard.

(ii) Promotion of change in behavior under an integrated approach

Some asset managers promote change in the behavior of investee companies by effectively integrating the exercise of voting rights and 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>Through engagement, Asset Manager A repeatedly pointed out to a company the need to strengthen the monitoring function by increasing outside directors. However, as the company made no improvement, the asset manager voted against the proposal to reelect directors.</p> <p>Later, the asset manager gave the company feedback, including the reason for voting against the proposal, and continued encouraging the company to make improvements. As a result, eventually, the company made some improvements.</p>
(B)	<p>Asset Manager B conducted engagement with a company that did not meet the criteria for exercising voting rights with respect to policy-based shareholdings about the need to continue efforts to reduce such shareholdings under the supervision of the board of directors.</p> <p>As a result of engagement, it was confirmed that the company was making efforts to reduce policy-based shareholdings under the supervision of a board of directors in which outside directors formed the majority. Therefore, the asset manager voted for the proposal for the election of directors.</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 domestic equity managers (a total of 30 funds) at a general meeting of shareholders of a total of 14,111 companies held between July 2023 and June 2024. The number of proposals for which voting rights were exercised was 47,404.

Of all proposals, 11,615 (including 2,126 shareholder proposals) were voted against, translating into a vote-against rate of 24.5%. The vote-against rate concerning company proposals was 21.1%.

The vote-against rate came to 36.5% concerning proposals for the election of directors, 13.9% concerning proposals for the election of auditors and 16.8% 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 2023 and June 2024.)

• Employees' Pension Insurance Benefit Adjustment Fund

Number of proposals by type of proposer	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Company proposal	35,542	78.9%	9,489	21.1%	0	0.0%	45,031
Shareholder proposal	247	10.4%	2,126	89.6%	0	0.0%	2,373
Total	35,789	75.5%	11,615	24.5%	0	0.0%	47,404

Number of proposals by type of proposal	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Proposal for election of directors	12,455	63.5%	7,173	36.5%	0	0.0%	19,628
Proposal for election of auditors	6,123	86.1%	986	13.9%	0	0.0%	7,109
Director remuneration, etc.	3,739	83.2%	754	16.8%	0	0.0%	4,493
Appropriation of surplus	8,877	94.0%	569	6.0%	0	0.0%	9,446
Capital structure	190	33.6%	375	66.4%	0	0.0%	565
Takeover defense measures	5	2.2%	219	97.8%	0	0.0%	224
Capital increase or reduction	43	100.0%	0	0.0%	0	0.0%	43
Third party allotment of shares	18	62.1%	11	37.9%	0	0.0%	29
Acquisition of own shares	31	18.9%	133	81.1%	0	0.0%	164
Business restructure	132	100.0%	0	0.0%	0	0.0%	132
Incentives improvement for executives	1,245	86.3%	198	13.7%	0	0.0%	1,443
Other proposals	3,028	66.0%	1,560	34.0%	0	0.0%	4,588
Total	35,789	75.5%	11,615	24.5%	0	0.0%	47,404
Climate-related proposals	41	17.7%	191	82.3%	0	0.0%	232

• Transitional Long-term Benefit Adjustment Fund

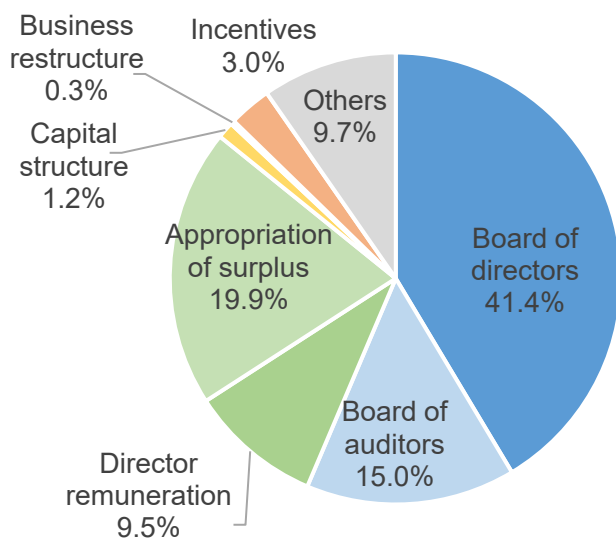
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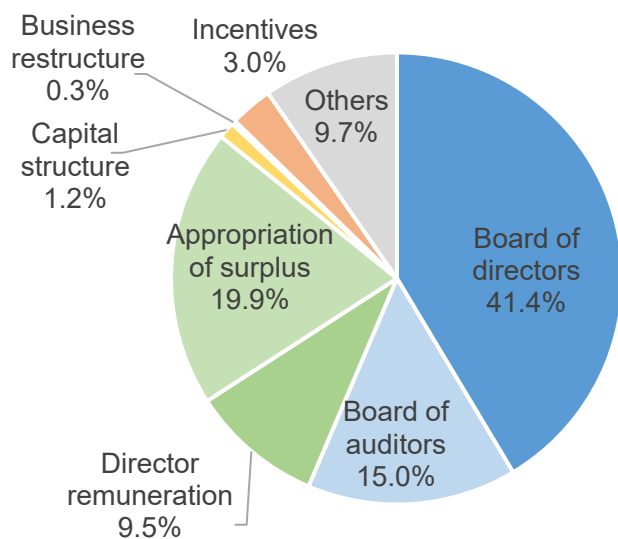
Share by proposal subject

(The figures are based on the proposals submitted to general meetings of shareholders held between July 2023 and June 2024.)

● Employees' Pension Insurance Benefit Adjustment Fund



● Transitional Long-term Benefit Adjustment Fund



(5) Results of the exercise of voting rights (foreign equities)⁹

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 foreign equity managers (a total of 25 funds) at a general meeting of shareholders of a total of 9,527 companies held between July 2023 and June 2024. The number of proposals for which voting rights were exercised was 90,167.

Of all proposals, 14,702 (including 2,913 shareholder proposals) were voted against, translating into a vote-against rate of 16.3%. The vote-against rate concerning company proposals was 14.0%.

The vote-against rate came to 11.2% concerning proposals related to the election of directors, etc. and 11.9% 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 2023 and June 2024.)

• Employees' Pension Insurance Benefit Adjustment Fund

Number of proposals by type of proposal	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Company proposal	72,104	85.9%	11,789	14.0%	37	0.0%	83,930
Shareholder proposal	3,319	53.2%	2,913	46.7%	5	0.1%	6,237
Total	75,423	83.6%	14,702	16.3%	42	0.0%	90,167

Number of proposals by type of proposal	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Proposal for election of directors, etc.	14,506	88.8%	1,826	11.2%	7	0.0%	16,339
Director remuneration, etc.	9,510	88.0%	1,289	11.9%	7	0.1%	10,806
Appropriation of surplus	4,482	99.5%	19	0.4%	2	0.0%	4,503
Capital structure	10,268	87.7%	1,436	12.3%	0	0.0%	11,704
Takeover defense measures	413	94.9%	22	5.1%	0	0.0%	435
Capital increase or reduction	3,410	79.7%	871	20.3%	0	0.0%	4,281
Third party allotment of shares	906	89.6%	105	10.4%	0	0.0%	1,011
Acquisition of own shares	3,206	99.2%	27	0.8%	0	0.0%	3,233
Business restructure	3,150	82.0%	691	18.0%	0	0.0%	3,841
Incentives improvement for executives	1,660	61.8%	1,023	38.1%	1	0.0%	2,684
Other proposals	31,847	79.0%	8,418	20.9%	25	0.1%	40,290
Total	75,423	83.6%	14,702	16.3%	42	0.0%	90,167
Climate-related proposals	207	31.9%	440	67.8%	2	0.3%	649

⁹ 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).

• Transitional Long-term Benefit Adjustment Fund

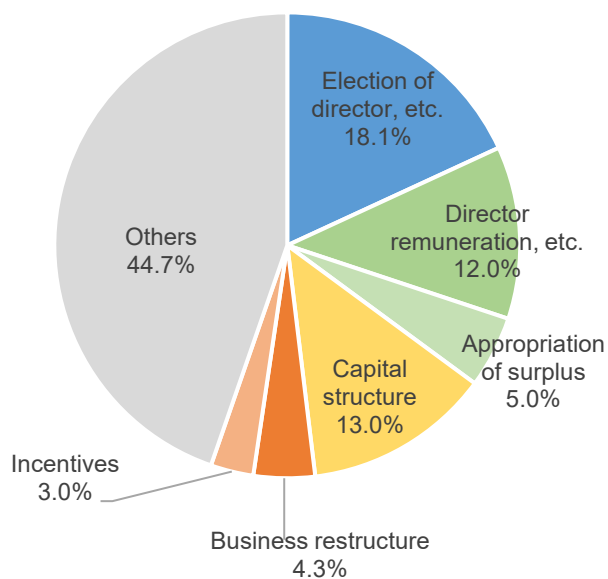
Number of proposals by type of proposal	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Company proposal	72,521	85.9%	11,901	14.1%	37	0.0%	84,459
Shareholder proposal	3,345	53.4%	2,916	46.5%	5	0.1%	6,266
Total	75,866	83.6%	14,817	16.3%	42	0.0%	90,725

Number of proposals by type of proposal	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Proposal for election of directors, etc.	14,535	88.8%	1,831	11.2%	7	0.0%	16,373
Director remuneration, etc.	9,525	88.0%	1,290	11.9%	7	0.1%	10,822
Appropriation of surplus	4,506	99.5%	19	0.4%	2	0.0%	4,527
Capital structure	10,342	87.8%	1,436	12.2%	0	0.0%	11,778
Takeover defense measures	413	94.9%	22	5.1%	0	0.0%	435
Capital increase or reduction	3,410	79.7%	871	20.3%	0	0.0%	4,281
Third party allotment of shares	906	89.6%	105	10.4%	0	0.0%	1,011
Acquisition of own shares	3,225	99.2%	27	0.8%	0	0.0%	3,252
Business restructure	3,243	82.4%	695	17.6%	0	0.0%	3,938
Incentives improvement for executives	1,674	61.6%	1,044	38.4%	1	0.0%	2,719
Other proposals	32,041	79.0%	8,502	21.0%	25	0.1%	40,568
Total	75,866	83.6%	14,817	16.3%	42	0.0%	90,725
Climate-related proposals	207	31.9%	440	67.8%	2	0.3%	649

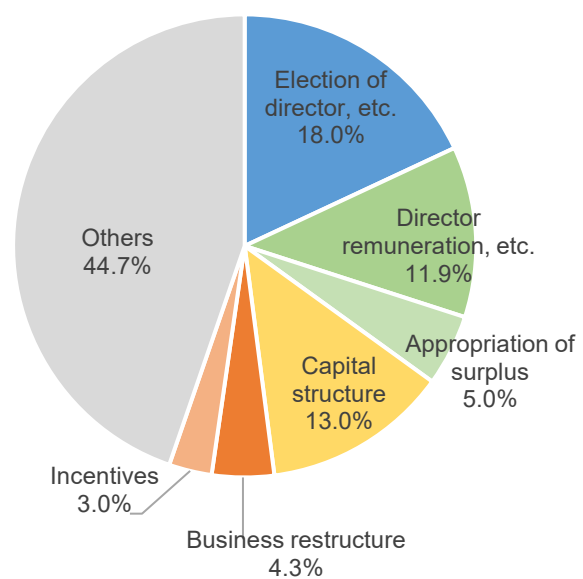
Share by proposal subject

(The figures are based on the proposals submitted to general meetings of shareholders held between July 2023 and June 2024)

● 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 annually 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.

The Association observed cases in which asset managers were engaging in specific practices in order to strengthen the organizational system and develop human resources.

(i) Strengthening of the organizational system

The Association confirmed that most asset managers were striving to strengthen their internal organizational systems and enhance collaboration between sections and between regional business establishments.

For example, the Association observed cases in which an asset manager was striving to make engagement and research more effective by integrating the research team on the investment side with the stewardship activity team, or in which an asset manager realized information sharing concerning new European regulations at an early time through collaboration between business establishments in Europe, Asia, and Japan.

(ii) Human resource development

In order to improve the skills of officials in charge of stewardship activity, some asset managers have developed a training program in cooperation with universities and companies and are using knowledge acquired through training for stewardship activity.

For example, the Association observed cases in which an asset manager promoted information sharing concerning the actual situation of global stewardship activity and best practices or provided practical training using role-playing simulations regarding engagement.

7 Initiatives focusing on noteworthy themes in recent years

(1) Effectiveness of the Board of Directors

The Association has long been devoting efforts to improving governance, for example by developing the Corporate Governance Principles of Pension Fund Association for Local Government Officials in 2004.

The Association believes that, for the interests of its members, it is important to invest in companies whose value is expected to increase in the long term and to call for business management that contributes to an increase in long-term shareholder value. The Association also believes that it is necessary for the board of directors to function appropriately as a mechanism to impose discipline so as to promote such management.

Meanwhile, in April 2023, the Financial Services Agency (FSA) formulated the Action Program for Accelerating Corporate Governance Reform (hereinafter the "Action Program"). The Action Program indicated that in order to ensure companies' sustainable growth and increase corporate value in the medium to long term, the FSA will promote the implementation of corporate governance reform in terms of substance through a self-motivated change of mindset on the part of both companies and investors, rather than encouraging reform for the sake of form merely through the development of organizational systems. The importance of this approach has come to be widely recognized.

The Action Program cited improving the effectiveness of the board of directors as a challenge. We believe that recently, attention has been focusing on the composition of the board of directors and the evaluation of outside directors, among other matters.

In view of this situation, in FY2024, the Association held interviews with domestic equity managers about initiatives related to the effectiveness of the board of directors.

(i) Composition of the board of directors

The Association has found that most asset managers believe that it is desirable for outside directors to form the majority in the board of directors in order for the board to perform its role as a monitoring board¹⁰ responsible for supervising the management team from the standpoint as an independent entity.

On the other hand, in light of the fact that at many Japanese companies, the board of directors acts as a management board¹¹ and that there is a shortage of personnel suited to serve in the outside director position (the shortage is covered through measures such as tapping into the ranks of qualified professionals and employing persons already serving on other companies' boards of directors), many asset managers expressed the opinion that the criteria for exercising voting rights should not require companies to be quick to

¹⁰ Monitoring board: The type of board of directors which is composed mainly of outside directors and whose main role and responsibility is to supervise the management team in place of general shareholders.

¹¹ Management board: The type of board of directors that is composed mainly of internal directors and whose main role and responsibility is to make management decisions.

have the majority of the board of directors made up of outside directors.

Under those circumstances, the Association confirmed that asset managers are engaging in activities such as holding dialogue with investee companies about a more desirable composition of the board of directors as part of their engagement activity while setting the minimum threshold for the ratio of outside directors at less than half—one-third of all board members, for example—under the criteria for exercising voting rights.

(ii) Evaluation of outside directors

As outside directors have come to account for one-third or more of the board of directors at more and more companies, many asset managers recognize that they are moving on to a stage where they should closely examine the effectiveness of the board of directors not only in terms of form, exemplified by the ratio of outside directors in the board of directors, but also in substance, as exemplified by the evaluation of specific comments by and behavior of individual outside directors.

The Association confirmed that asset managers are striving to closely examine the effectiveness of outside directors, in terms of both form and substance, through various means.

Examples of initiatives conducted by asset managers regarding the evaluation of outside directors	
Form	○ Check whether the ratio of outside directors is one third or more.
	○ Check whether independence is ensured.
	○ Check the rate of attendance in board of directors' meetings and the number of concurrent posts held.
Substance	○ Check interview and dialogue articles carried in integrated reports and other publications.
	○ Conduct a questionnaire survey regarding dialogue between outside directors and investors in order to check the attitude toward dialogue.
	○ Send to officers, including outside directors, letters pointing out the challenges faced by their companies.
	○ Participate in briefing sessions and meetings attended by outside directors in order to listen to what they have to say and ask questions.
	○ Check comments regarding important themes, such as M&As.
	○ Convey the perspective on challenges to outside directors as a way of engagement escalation.
	○ Hold direct dialogue with outside directors and discuss matters such as the perspective on challenges and the evaluation of the management team.

(2) Capital policy

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 prices¹². Against that backdrop, companies' capital policy is attracting attention.

In August 2024, the Tokyo Stock Exchange published "Future Initiatives," which looked back on the one-year period following the exchange's call for reform and observed that although companies made progress in their initiatives, "reforms have only just begun." As pointed out there, the initiatives regarding capital policy have been only halfway through, and we believe that this is a theme that continues to demand attention.

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

The Association confirmed that in engagement with companies whose PBR is below 1.0, most asset managers are shifting the emphasis in stewardship activity to initiatives to encourage investee companies to create value that more than offsets capital cost by making effective use of capital under appropriate risk management with a view to enhancing corporate value and achieving sustainable growth in the medium to long term and by developing business portfolios, in addition to continuing to require them to increase dividend payments to shareholders and conduct share repurchases.

The Association also confirmed that most asset managers have formulated criteria for exercising voting rights concerning PBR, ROE, dividend payments, appropriation of surplus, and policy-based shareholdings. In addition, the Association also confirmed that some asset managers make voting decisions after engaging with investee companies that do not conform to the criteria in order to understand their capital policies before shareholders' meetings, instead of mechanically applying the criteria.

(i) Engagement regarding capital policy seen from a medium- to long-term perspective

Some asset managers conduct engagement after prioritizing themes from a medium- to long-term perspective. For example, the Association observed a case in which an asset manager regarded shareholder returns as being at the bottom of priority and gave precedence in engagement to dialogue regarding capital allocations that lead to medium- to long-term growth, rather than merely calling for strengthening measures to increase shareholder returns, such as share repurchase.

(ii) Use of quantitative data to improve effectiveness

Some asset managers strive to improve the effectiveness of engagement by using simulations concerning stock prices and financial indicators when conducting engagement regarding capital policy.

¹² 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.

For example, the Association observed a case in which an asset manager strives to deepen the understanding of investee companies by forecasting business performance as divided into a profit and loss statement and balance sheet for the next 10 years and making visible how the performance may change as a result of increasing shareholder returns and other measures.

(Column) Improvement of the PBR at companies whose shares are held by the Association

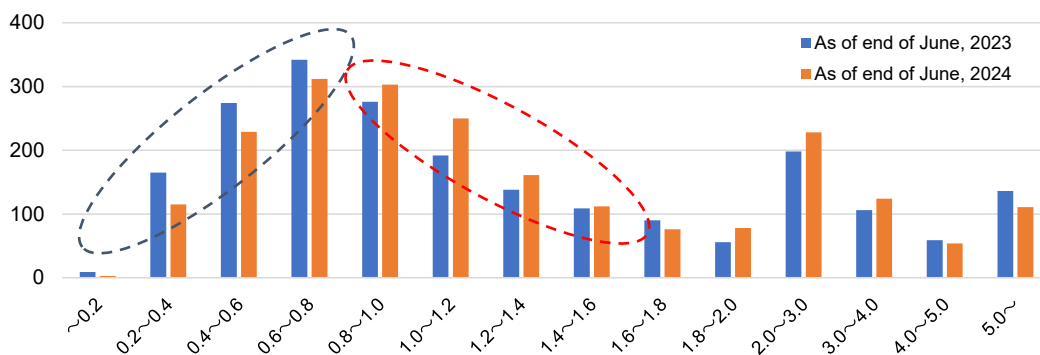
Looking at changes in the PBR of companies whose shares are held by the Association in the most recent one-year period, we see that, against the backdrop of the Tokyo Stock Exchange's call for reform, the number of companies whose PBR was between 0.8 and 1.4 increased in the period from the end of June 2023 to the end of June 2024, while the number of companies whose PBR was lower than 0.8 decreased. (See Figure (i) below)

According to comparison between investee companies with which an engagement session was held at least once and investee companies with which no engagement session was held, asset managers tended to give priority to engagement with companies with a low PBR and the companies with a low PBR tended to show an improvement in their PBR after engagement. (Figure (ii) below)

As asset managers other than those entrusted with investment by the Association are also presumed to conduct engagement with companies, it is difficult to discuss the effects on corporate behavior based exclusively on the results of engagement activity by asset managers entrusted by the Association. However, as awareness about capital policy appears to have been growing recently on the part of companies as well, engagement conducted by asset managers on this theme is presumably affecting corporate behavior to some degree.

(i) Change in the PBR of companies whose shares are held by the Association

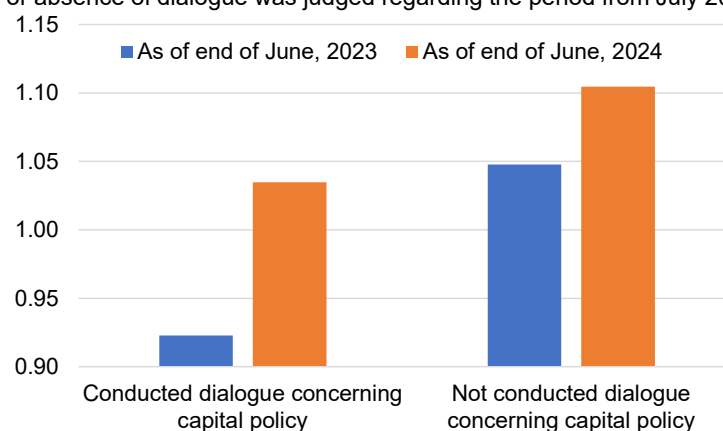
Coverage: Companies whose shares were held by the Association as of the end of 2024.



(ii) Change in the median value of the PBR of companies whose shares were held by the Association

Coverage: Companies whose shares were held by the Association as of the end of June 2024.

* The presence or absence of dialogue was judged regarding the period from July 2023 to June 2024.



Source: Both Figures (i) and (ii) were prepared by Nomura Fiduciary Research & Consulting Co., Ltd. on commission from the Association.

(3) Human capital

Human capital refers to value-added created by companies, such as traits (e.g., ethics, teamwork spirit, and leadership) and abilities (e.g., knowledge, techniques, and skills) possessed by individuals as members who constitute a company.

Investment in human capital by domestic companies is considered to reduce profitability and capital efficiency in the short term from the viewpoint of the cost-benefit balance, so such investment tended to be curbed and postponed in order to secure immediate profits.

As it has recently become difficult to secure workers against the backdrop of changes in industrial structures and in the attitude toward the way of working, and the aging of society with a low birthrate, attention is focusing more and more on human capital-oriented management.

Following the publication of the first international standard for information disclosure guidelines concerning human capital by the International Organization for Standardization in December 2018, information disclosure regarding human capital became mandatory for all listed companies in the United States in 2020.

In Japan, the revised version of the Corporate Governance Code, published in June 2021, indicated that information disclosure regarding human capital should be enhanced, and in FY2022, information disclosure regarding human capital in securities reports became mandatory.

In the current fiscal year, the Association held interviews with domestic equity managers about human capital-related initiatives conducted as part of stewardship activity.

Most asset managers regard human capital as something that constitutes the core of corporate management and that is important for executing management and business strategies from a medium- to long-term viewpoint. The Association observed engagement cases in which asset managers, while considering human capital to be an important judgment factor for investors, required information disclosure regarding human capital and the enhancement of disclosure based on the recognition that information disclosure by companies is not yet fully sufficient.

Examples of initiatives conducted by asset managers regarding human capital

- | | |
|-----|---|
| (A) | Based on the recognition that many domestic companies give little consideration to the relationship of human capital with labor productivity, corporate value, and competitive advantage when making disclosure, representing a significant difference from the mindset of investors, the asset manager shares this mindset gap with companies when conducting engagement and requires them to draw up paths as to under what timeframes the growth of their human capital may contribute to sustainable value creation, and to make qualitative and quantitative disclosures regarding those paths. |
| (B) | When analyzing information disclosed by companies, the asset manager pays close attention to whether human capital-related initiatives are aligned with the medium- and long-term management goals of the companies while giving consideration to the companies' situations and industry attributes, among other factors. When conducting engagement, the asset manager calls for appropriate disclosure regarding companies' current situations and human capital initiatives in order to ensure that attention does not focus only on numerical data as a principle of information disclosure to investors. |

(4) Climate change

The Association requires asset managers to engage in stewardship activity that gives consideration to sustainability-related challenges in accordance with their investment strategy and hold interviews about initiatives related to climate change in usual years.

Regarding climate change-related engagement, asset managers mainly called for information disclosure in the case of domestic equities as companies gradually address climate change in accordance with their circumstances. On the other hand, in the case of foreign equities, discussions focused mainly on more specific matters, such as the appropriateness of emission reduction goals and the progress toward the goals. Thus, the Association confirmed once again that there were differences in the stage of response to climate change between Japan and foreign countries.

(i) Portfolio analysis

Some asset managers conduct analysis on a portfolio-wide basis as they believe climate change and the transition to net-zero emissions are important for all investee companies.

For example, the Association observed a case in which an asset manager was monitoring the carbon footprint¹³ of the portfolio against the benchmark and analyzed the respective effects of various climate change-related scenarios on the portfolio return.

(ii) Analysis of initiatives by companies using original analysis tools

Some asset managers develop analysis tools in order to improve the effectiveness of climate change-related engagement activity.

For example, the Association observed a case in which an asset manager analyzed consistency between the activity and the goals under the Paris Agreement in 2015 by using the combination of quantitative and qualitative information obtained from internal and external information sources with respect to companies' commitments, the goals set, actual emission volumes, climate change-related disclosures, decarbonization strategy and capital allocations.

(iii) Engagement that gives consideration to the entire market

Most asset managers conduct engagement that gives consideration to the potential impacts on the entire market.

For example, the Association observed a case in which an asset manager encouraged a major Japanese company whose GHG¹⁴ emission volume is large to acquire SBT certification, which is a quantitative certification concerning carbon neutrality, based on the belief that if the company engaged in a carbon neutral initiative, that would contribute to promoting the achievement of carbon neutrality across the whole of Japan. As a result, the company eventually acquired SBT certification¹⁵ despite its initial reluctance to do so, as the asset manager recommended the acquisition in light of the movements of competitors.

¹³ Carbon footprint: The carbon footprint refers to the volume of greenhouse gases emitted directly or indirectly by an individual, an organization, or a company, or the volume of greenhouse gases emitted over the whole lifecycle of a product or a service in terms of CO₂ emission.

¹⁴ GHG (greenhouse gas) emission volume: The emission volume of greenhouse gases that affects climate change.

¹⁵ SBT (science-based targets): Targets set by companies for the reduction of greenhouse gas emissions that are consistent with the levels required under the Paris Agreement. In order to acquire SBT certification, it is essential to set an emission reduction target and formulate a specific action plan.

(5) Natural capital

Natural capital refers to capital comprised of natural elements, including forests, soil, water, atmosphere, and biological resources. It is a concept that treats nature as a sort of capital that constitutes a socioeconomic foundation. All social and corporate activities use ecological services¹⁶ provided by natural capital. In recent years, natural capital has been attracting attention as something that is important and indispensable for social and corporate activities.

In order to develop frameworks for risk management and information disclosure regarding natural capital, in June 2021, the Taskforce on Nature-related Financial Disclosures (TNDF)¹⁷ was established. Since the publication of the framework for disclosure in September 2023, many Japanese companies have expressed their commitment to disclosure (the number of companies supporting the TNDF recommendations was 134 as of December 2024).

The Association held interviews with asset managers about initiatives related to natural capital conducted as part of stewardship activity.

The Association confirmed that around half of all asset managers had announced the application of the TNDF recommendations and that most asset managers were conducting initiatives related to natural capital.

As stewardship activity is intended to increase medium- and long-term investment returns for the interests of association members, the Association held interviews about asset managers' views concerning the relationship between natural capital and investment returns. Although it is very difficult to quantitatively express the relationship, some asset managers indicated concerns about the medium and long-term effects on corporate activity, including the negative effects of the depletion of natural resources on the procurement of raw materials, while others expressed the view that it is necessary to pay close attention to the possibility that corporate activity may be restrained by new regulations introduced by the policy authorities and changes in society-wide perceptions.

Examples of initiatives conducted by asset managers regarding natural capital	
(A)	The asset manager held dialogue with an investee company about an initiative for sustainable procurement of natural rubber and called for information disclosure related to natural capital by citing a comparison with domestic and foreign competitors and cases of advanced practices in different industries as a reference. As a result, the company announced medium- and long-term goals regarding an initiative to prevent forest destruction.
(B)	The asset manager conducted an analysis focusing on beef, lumber, soybeans, and palm oil, which are regarded as major risk products concerning forest destruction, divided companies into three categories ((i) producers and processors, (ii) companies that are highly likely to be involved in forest destruction through supply chains, and (iii) companies exposed to other risks) based on the impacts on the natural environment and the size of shareholdings, and is using the categorization for their selection of companies subject to engagement and for their approach to engagement.

¹⁶ Biological services: Functions derived from living organisms and ecosystems that are beneficial for mankind. Specifically, ecological services include a great variety of services such as the supply of food, water, and lumber, purification of the atmosphere and water, climate regulation, control of natural disasters, and the provision of cultural value, including recreation and tourism.

¹⁷ TNFD (Taskforce on Nature-related Financial Disclosures): An international initiative to develop frameworks for evaluating and disclosing risks and opportunities related to natural capital and biodiversity.

ESG factors and themes important for investment performance

The Association conducted a questionnaire survey with asset managers about ESG factors and themes that they considered to be important for investment performance for the next five-year and 10-year periods.

Among domestic equity managers, more managers selected, in particular, items related to capital policy, corporate governance and ESG-related information disclosure as priority themes for the next five-year period than for the next 10-year period. Presumably, the factors behind this result include the market reform being promoted by the Tokyo Stock Exchange and the corporate governance reform being promoted by the government. In addition, the result presumably reflects asset managers' perception regarding the progress made by domestic companies with respect to ESG-related initiatives.

Meanwhile, many asset managers cited capital efficiency, corporate governance, and climate change as important themes for both the next five-year and 10-year periods.

On the other hand, among foreign equity managers, there were few differences between the themes cited as important for the two periods. Among the themes cited as important by many are climate change, corporate governance, human rights and local communities, and biodiversity.

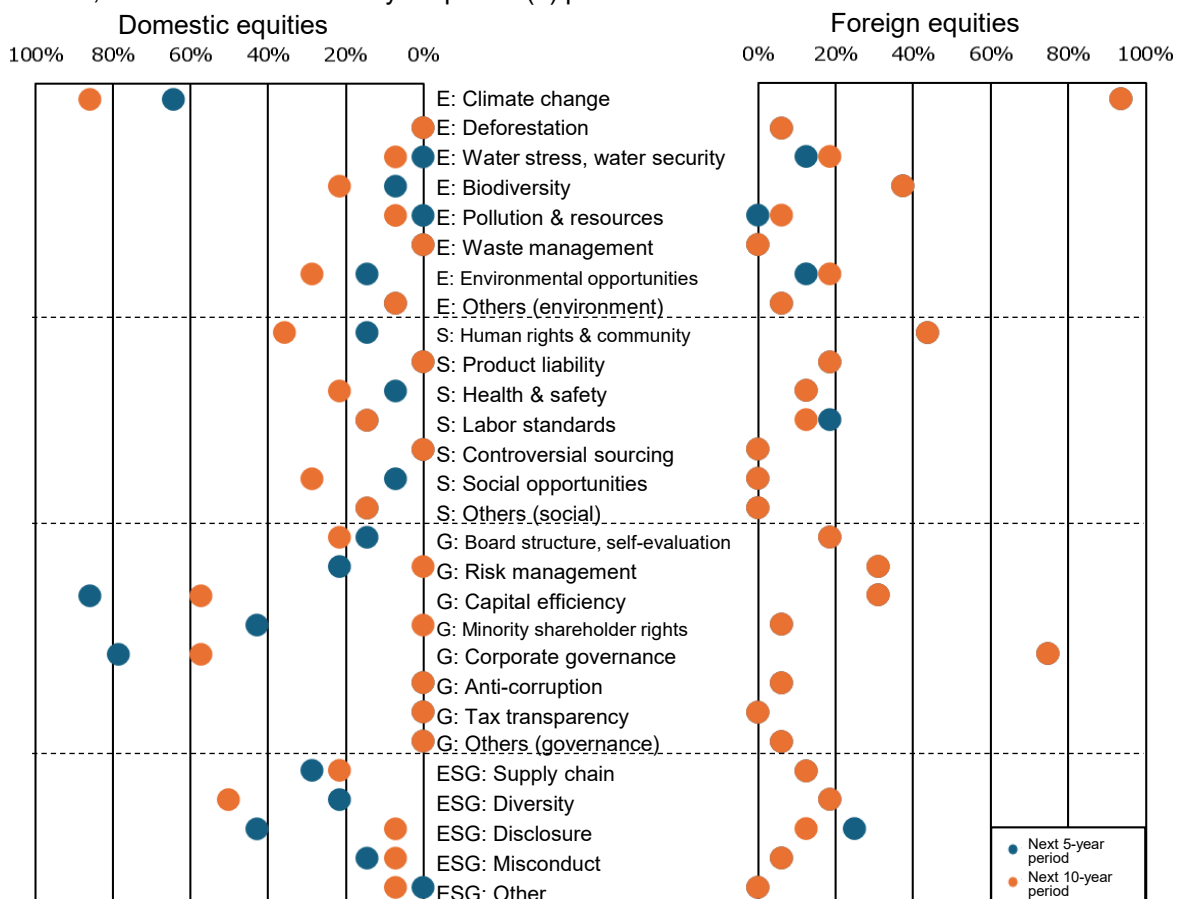
ESG factors and themes regarded as important for investment performance for the next five-year period and the next 10-year period

Coverage: Asset managers employed as equity managers as of June 2024.

* The five themes most frequently cited as important for each of the next five-year period and the next 10-year period

* The horizontal axis represents the percentages of asset managers that cited the specific factors and themes as "important for performance" among domestic equity managers and among foreign equity managers.

* If the response rate for the next five-year period (●) and the next 10-year period (●) is the same, the rate for the next 10-year period (●) prevails.





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 as well by bond managers.¹⁸

In FY2024, as it did 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 significance of stewardship activity related to bonds, the Association learned asset managers' respective views. Some asset managers considered stewardship activity to be useful for information gathering and investment decisions, while others regarded it as a means of reducing risks through dialogue, examining society-wide impact, or gaining access to unlisted companies.

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.

¹⁸ The scope of monitoring and evaluation covers 23 asset managers handling investment funds whose investment targets include corporate bonds and which are actually investing in corporate bonds (a total of 25 funds).

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. In some cases, asset managers assigned original ESG-ratings, promoted the issuance of ESG bonds, or checked how funds are used.

Cases of engagement	
(A)	【Dialogue concerning finance risk】 Regarding the ESG bonds held, the asset manager monitors the disclosure of fund usage with respect to bonds for which a certain period of time has passed since the issuance and holds dialogue with issuer companies with respect to worrisome bonds in order to reduce refinance risk for the ESG bonds.
(B)	【Dialogue concerning corporate bond issuance】 The asset manager was concerned that the supply-demand balance might deteriorate because of the issuance of corporate bonds by an investee company that gave little consideration to the interests of existing investors because there was no need to seek approval for fund-raising through corporate bond issuance at general shareholders' meetings. The asset manager conveyed the concern to the company and provided various sorts of information related to diverse fund-raising methods and market trends.

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 a bond division or a dedicated department/division for stewardship activity.

Most asset managers have established a dedicated department/division with centralized responsibility for ESG research and engagement, while only a few entrust stewardship activity to outside companies.

At most asset managers, the bond investment division actively engages in collaboration with the equity investment division in the form of information sharing via a dedicated department/division and simultaneous attendance in engagement sessions based on the idea that the risk of conflicts of interest is low in resolving medium- and long-term challenges. Some asset managers hold company-wide dialogue across the boundaries of bond and equity investments.

However, the Association observed cases in which asset managers have taken actions such as making investment decisions independently, refraining from requiring short-term corporate actions, and formulating evaluation sheets and judgment criteria in advance, in light of the possibility of conflicts of interest regarding capital policy and the relationship with megabanks.

In addition, some asset managers assign original ESG scores to issuer organizations and examine the relationship between bond performance and ESG score. The Association expects that bond-related stewardship activity will develop further through those initiatives.

1 ESG Investment

(1) Basic approach to ESG investment

As the Association invests pension funds over the long term, we believe that 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.

Therefore, the Basic Policies prescribes as follows: 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 the long term so as to secure a long-term return for the benefit of association members, etc.

(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. In the case of real estate and infrastructure investment managers, the Association recommends the acquisition of the GRESB¹⁹ 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.

● Investment in ESG products as part of equity investment

The Association started investing in ESG funds in FY2009 with respect to active investment in domestic equities and has 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 six ESG products concerning domestic equities as of the end of FY2023 (four products for active investment and two products for passive investment), with a total value (market value) of 1,333 billion yen

¹⁹ 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.

(approximately 15.0% 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 153.1 billion yen (approximately 1.7% 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 FY2023, the total value (book value) is 19.9 billion yen (4.8 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 uses 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.

Under those circumstances, in FY2024, the Association is participating in the Keidanren-GPIF Asset Owners Roundtable as part of its activity to promote constructive dialogue between companies and investors and is deepening mutual understanding regarding what stewardship activity should be like.

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.

The Association will also use frameworks, such as Keidanren-GPIF Asset Owners Roundtable, to promote mutual understanding with asset managers and investee companies.

(3) Promotion of dialogue and investment taking into consideration non-financial factors

From the viewpoint of securing long-term profit for the sake of interests of members, etc., the Association will also continue to conduct necessary activities after considering promoting investment taking into consideration non-financial factors, including ESG factors as well as social and environmental impacts, 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.

(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.

In addition, the Association will strive to identify the most recent trends related to ESG investment and develop relationships with domestic and foreign asset owners and asset managers while using the network of the PRI, which newly became a signatory organization in FY2024.

1 Policy concerning stewardship activity

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

> Guidelines/Investment Information/Stewardship Activity > Guidelines
(<https://www.chikyoren.or.jp/english/guidelines.html>)

- Basic Policy for Employees' Pension Insurance Benefit Adjustment Fund
(Last revised on December 24, 2021)
- Basic Policy for the Annuity Retirement Benefits (ARB) Adjustment Fund
(Last revised on March 31, 2020)
- Basic Policy for the Transitional Long-Term Benefits (TLTB) Adjustment Fund
(Last revised on December 24, 2021)
- Policies concerning Efforts to Strengthen Investment Capabilities
(Established on September 4, 2024)
- Signup to Asset Owner Principles (Established on September 4, 2024)

> Guidelines/Investment Information/Stewardship Activity > Stewardship Activity
(<https://www.chikyoren.or.jp/english/guidelines.html>)

- Corporate Governance Principles of Pension Fund Association for Local Government Officials
(Last revised on February 15, 2022)
- Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities)
(Last revised on February 15, 2022)
- Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities)
(Last revised on February 15, 2022)
- Signup to Japan's Stewardship Code (Last revised on September 25, 2020)

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).
2010 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.
2011 March	Revised the "Corporate Governance Principles of Pension Fund Association for Local Government Officials." <ul style="list-style-type: none"> • Unified wordings and clarified the contents. Revised the "Guidelines for Exercising Shareholders' Voting Rights." <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. Revised the "Pension Fund Association for Local Government Officials' Approach to Proposals on Takeover Defense Measures." <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.

	Time	Initiatives
2013	March	Revised the "Guidelines for Exercising Shareholders' Voting Rights." <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	Signed up to the "Japan's Stewardship Code." Revised the "Guidelines for Exercising Shareholders' Voting Rights." <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. 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"> 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. Revised the "Guidelines for Exercising Shareholders' Voting Rights." <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. 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"> Specified measures to fulfill the stewardship responsibilities.
	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"> 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.

	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"> 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 (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.
2024	May	Signed up to the PRI (Principles for Responsible Investment).
	September	Publicized the Policy on Efforts to Strengthen Investment Capabilities. Signed up to the Asset Owner Principles.
	October	Participated in the Keidanren-GPIF Asset Owners Roundtable.