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AUSTRALIAN GOVERNMENT FIXED INCOME FORUM – 2023

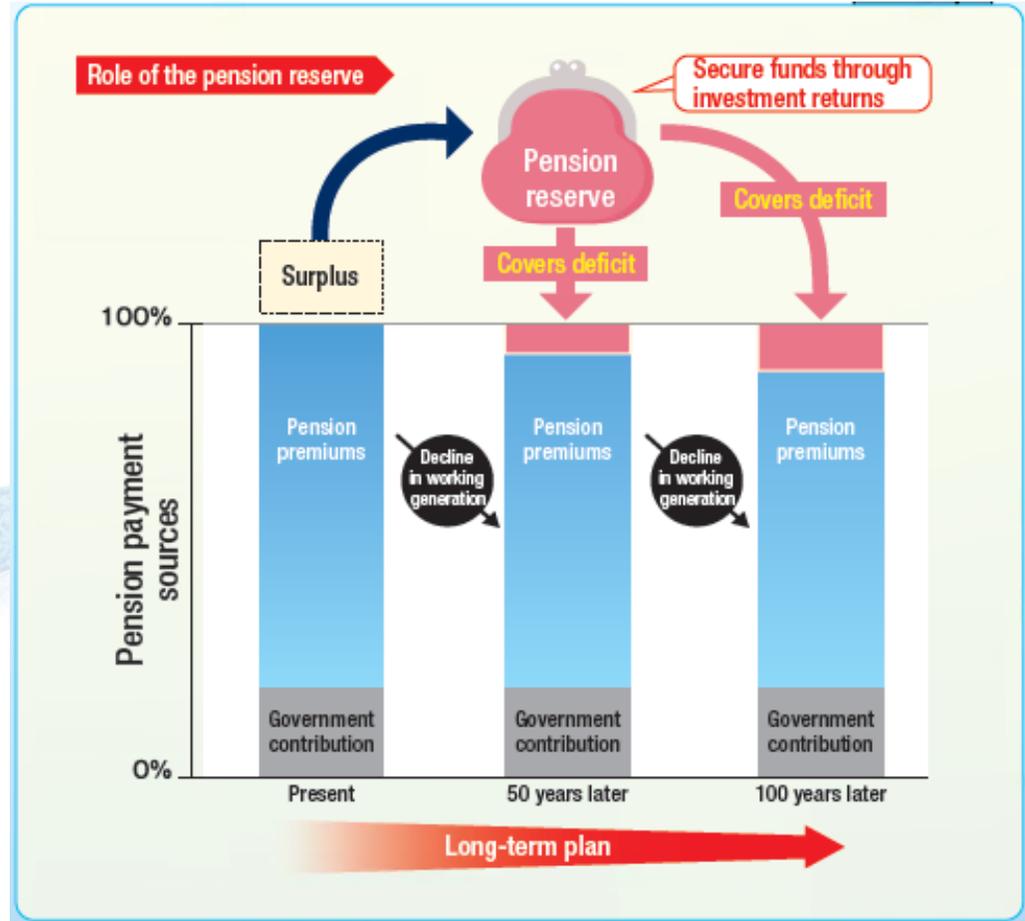
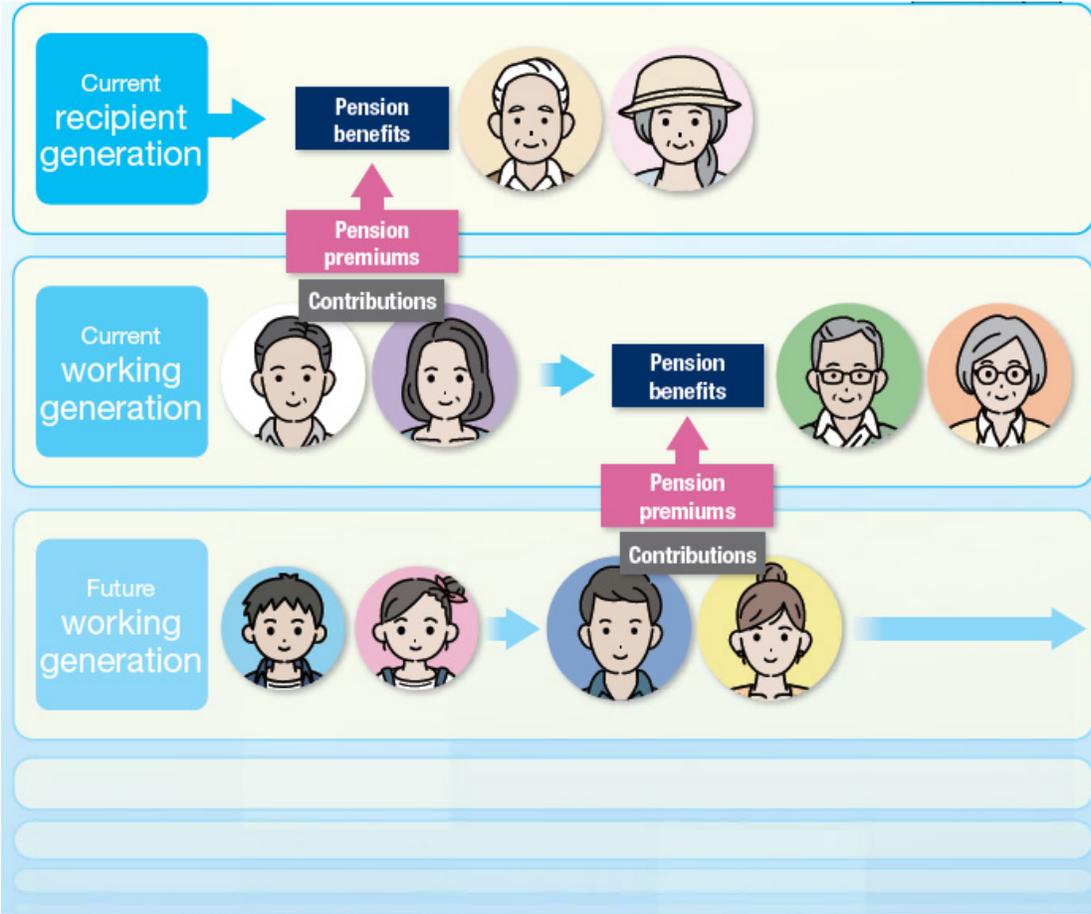
GPIF's ESG Investment and Stewardship Activities

May 24, 2023

**Government Pension Investment Fund (GPIF)
Kenji Shiomura**



Japan's Pension System and GPIF

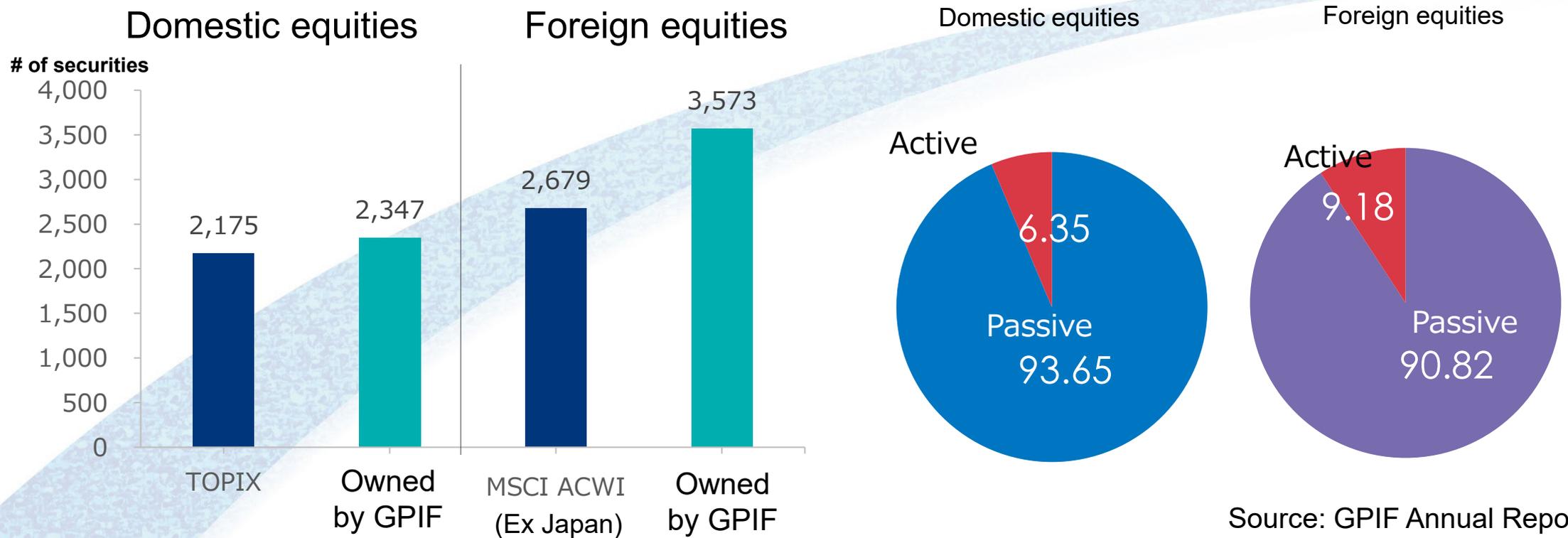


GPIF contributes to the pension finance, by managing the pension reserves and paying the income to the national treasury.

“Universal Owner” and “Cross-generational Investor”

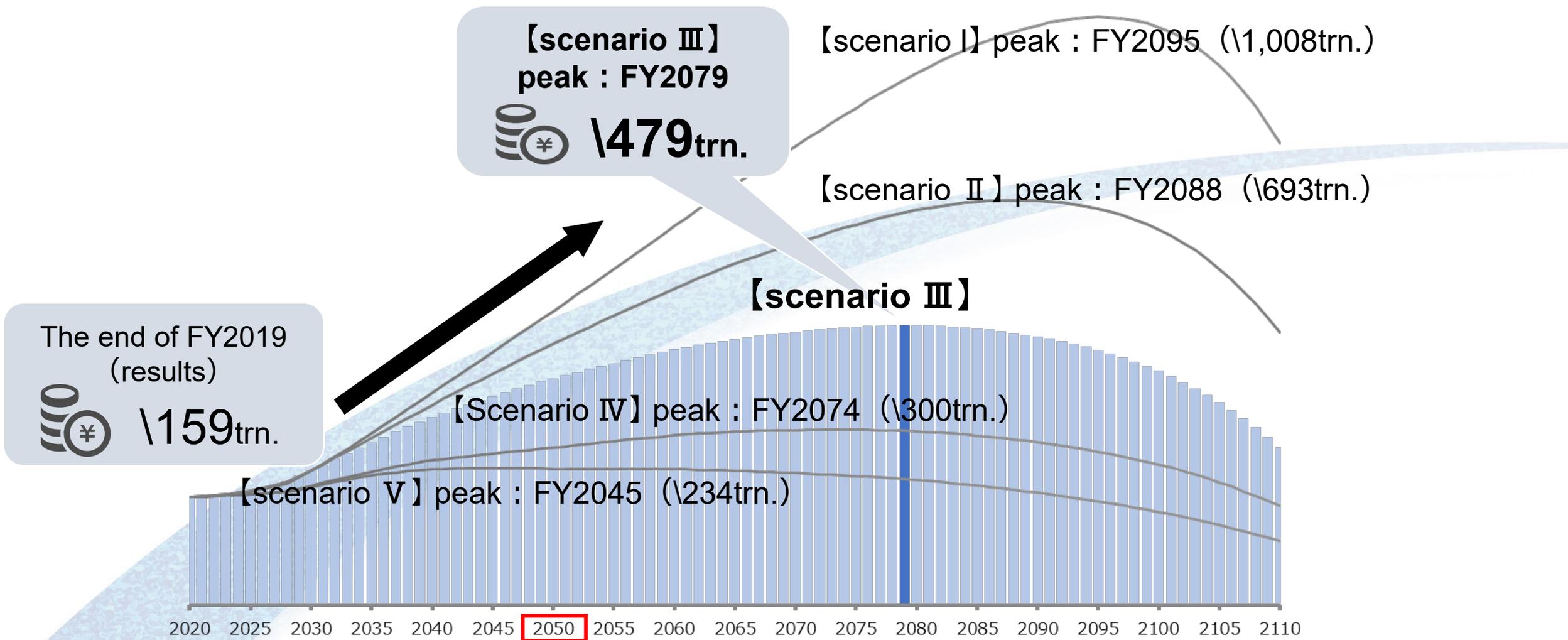
- **Universal Owner** (Very large fund size and widely diversified portfolio)
- **Cross-generational investor** (investment horizon as long as 100 years)

【GPIF shareholding (at the end of March 2022)】



Pension Reserve Outlook of 100 years

The Financial Verification in 2019 shows the 100 years outlook of pension reserve by case. Although each case has different size and trends of pension reserve, the outlook indicates that reserve will amount for a long term.



1. Our overarching goal is to contribute to the stability of the national pension system by securing the investment returns that it requires with minimal risk and from a long-term perspective, to the sole benefit of pension recipients.
2. Our primary investment strategy is diversification by asset class, region, and timeframe. While market prices fluctuate in the short term, GPIF will take full advantage of our long-term investment horizon to achieve investment returns in a more stable and efficient manner, while simultaneously ensuring sufficient liquidity to pay pension benefits.
3. We formulate our overall policy asset mix and manage risks at the portfolio, asset class, and investment manager level. We utilize both passive and active management in order to achieve benchmark returns (i.e., average market returns) and seek untapped profitable investment opportunities.
- 4. We believe that sustainable growth of investee companies and the capital market as a whole are vital in enhancing long-term investment returns. In order to secure such returns for pension beneficiaries, therefore, we promote the incorporation of non-financial environmental, social, and governance (ESG) factors into the investment process in addition to financial factors.**
5. In order to enhance long-term investment returns and fulfill our stewardship responsibilities, we shall advance various initiatives (including the consideration of ESG factors) that promote long-termism and the sustainable growth of investee companies and the capital market as a whole.

ESG Consideration in the Public Pension Fund Management under the Legal Restriction

【Not allowed to consider issues **except for those that benefit the pension beneficiaries**】

The **pension reserve**, a part of the premiums collected from the pension beneficiaries, is a valuable source of funding for future pension benefits and...**the purpose of the fund is to contribute to the future stability of management of the Employees' Pension Insurance through stable and efficient management from a long-term perspective solely for the pension beneficiaries of the Employees' Pension Insurance.**

(Article 79-2 of the Employees' Pension Insurance Act, Article 75 of the National Pension Act)

⇒**A mechanism that prohibits investing the pension reserves for any policy achievement, except for those that have (economic) benefit for pension beneficiaries**

~~Investing for Policy Achievement~~

~~Impact Investing~~

【Discretionary Investment】

Investments entrusted to external asset managers must be conducted **based on a discretionary investment management agreement**. (Article 21 and others of the Act on the Government Pension Investment Fund)

⇒**A mechanism that prohibits GPIF to select individual stocks, in order not to have direct impact on the financial market and business management.**

~~Inhouse-investing in equities~~

~~Give orders on exercising voting rights~~

~~Divestment~~

ESG Indexes adopted by GPIF

Comprehensive indexes

**FTSE Blossom
Japan Index**

**FTSE Blossom
Japan Sector Relative Index**

**MSCI Japan
ESG Select
Leaders Index**

**MSCI ACWI
ESG Universal Index**

E
(Environmental)

S
(Social)

G
(Governance)

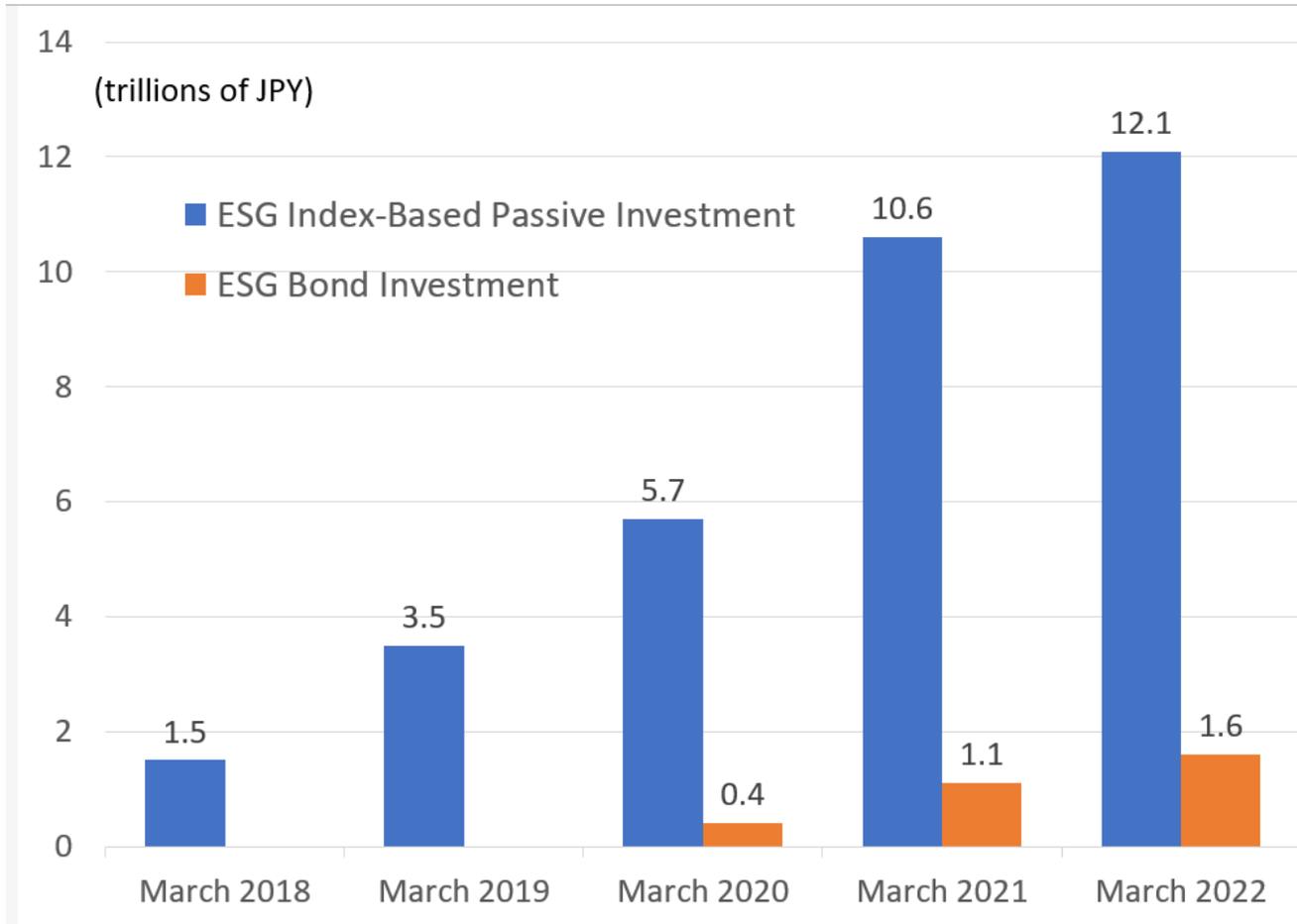
Thematic indexes

**S&P/JPX
Carbon Efficient
Index Series**

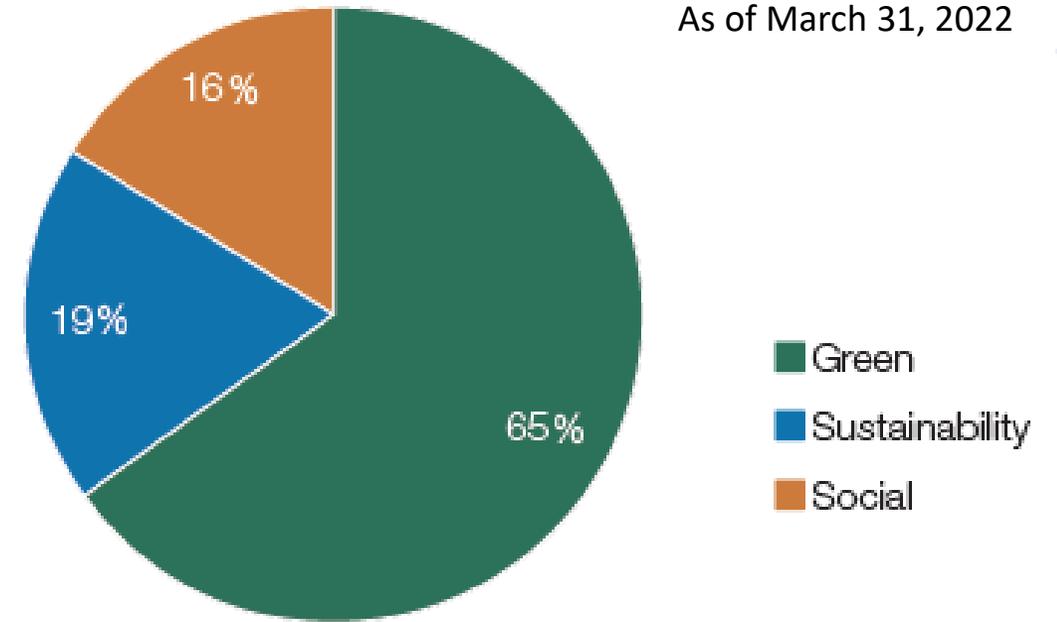
**MSCI Japan Empowering
Women Index (WIN)**

**Morningstar Gender
Diversity Index
(GenDi)**

Trends of ESG Index-Based Passive /ESG Bond Investment

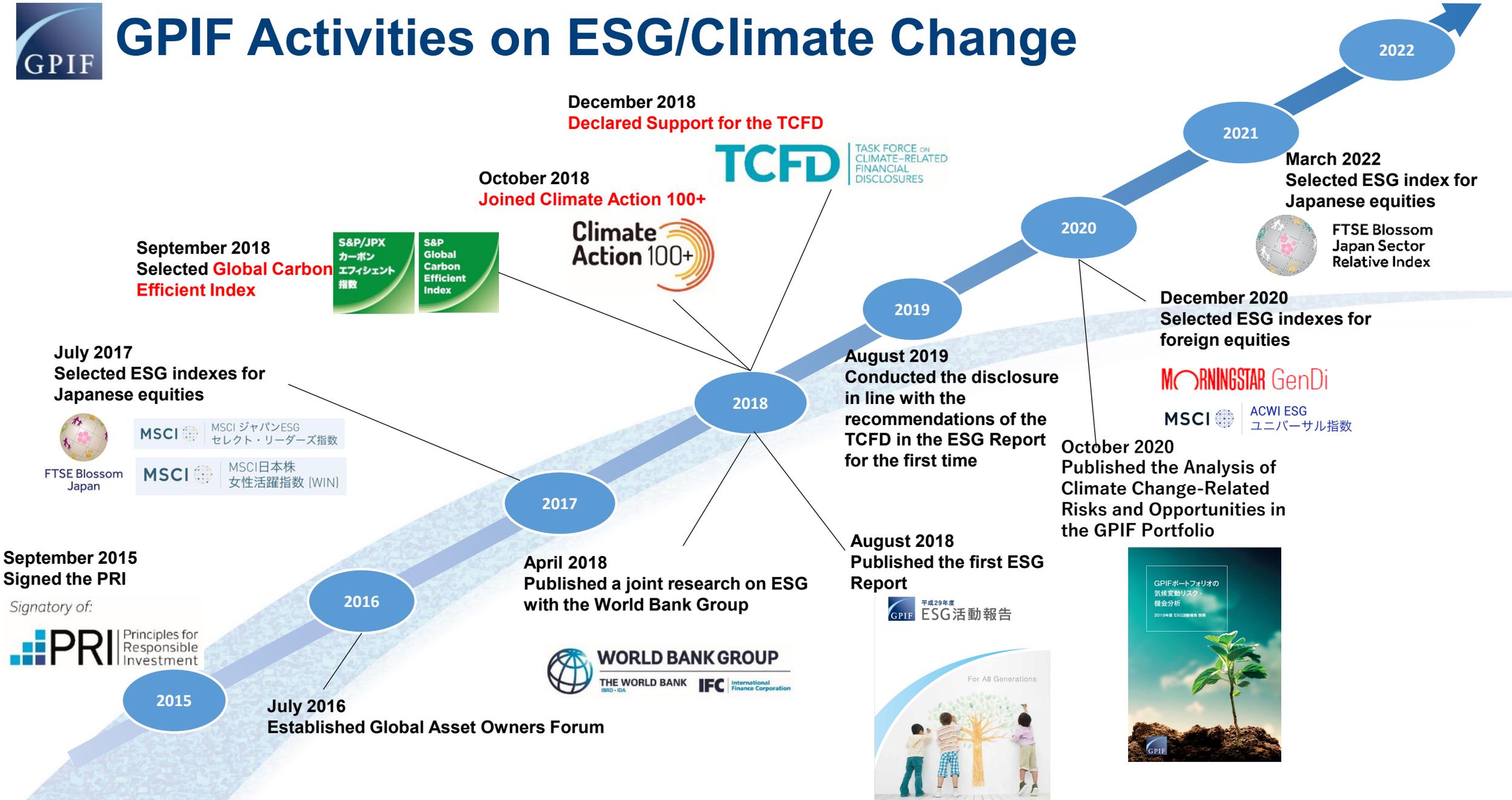


Breakdown of GPIF's ESG Bond Portfolio

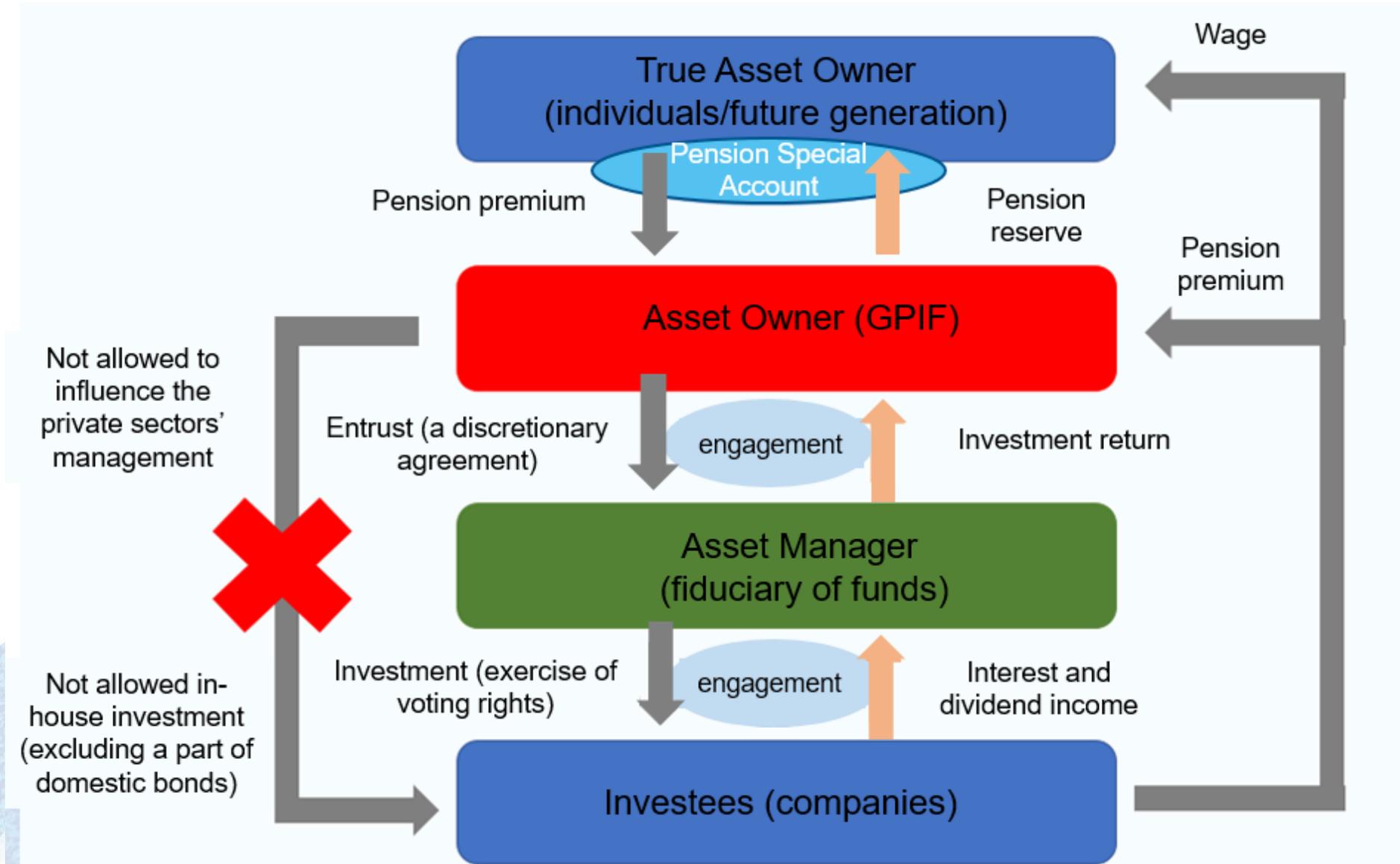


Source: GPIF

GPIF Activities on ESG/Climate Change

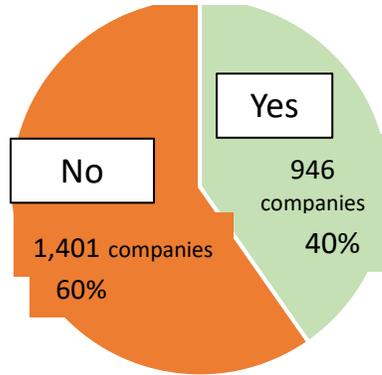


GPIF in the Investment Chain

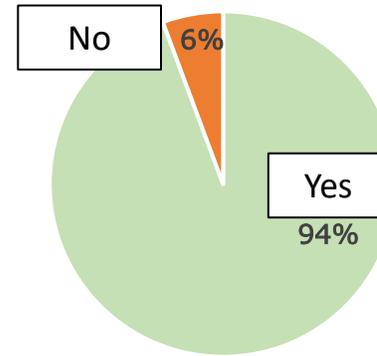


Engagement between GPIF's Asset Managers and Investees

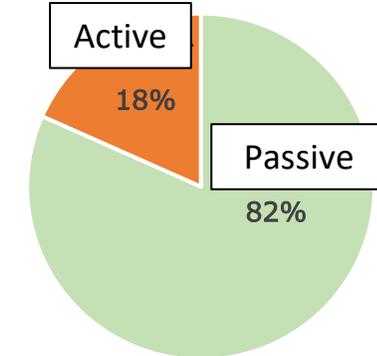
Have you engaged with investees?



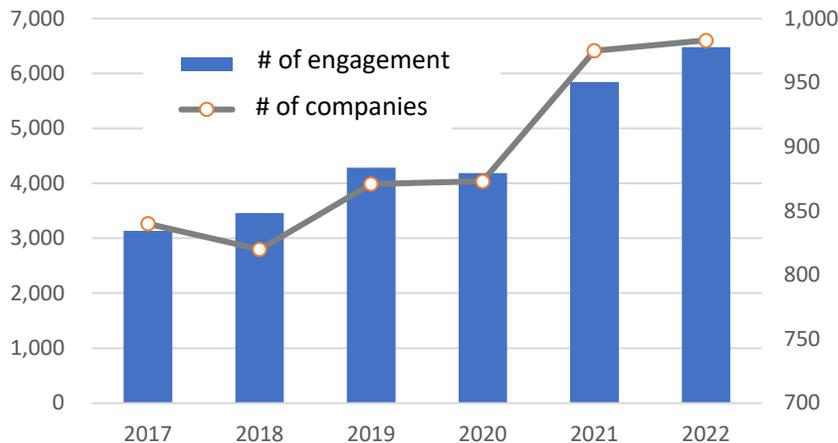
Have you engaged with investees?
(based on market cap)



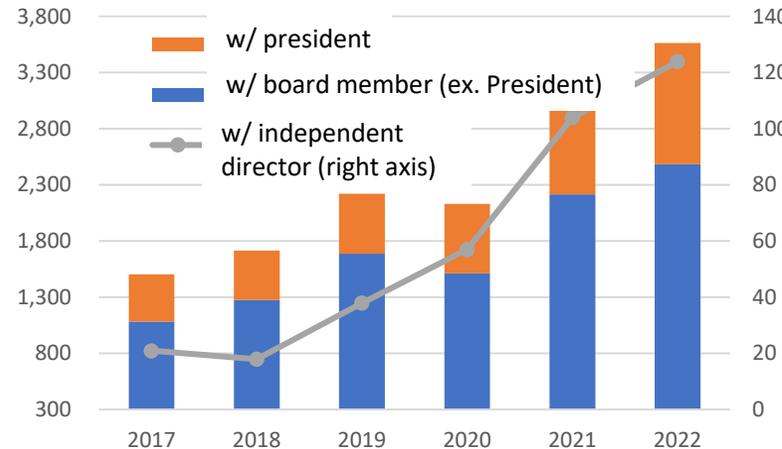
Have you engaged with investees?
(based on style)



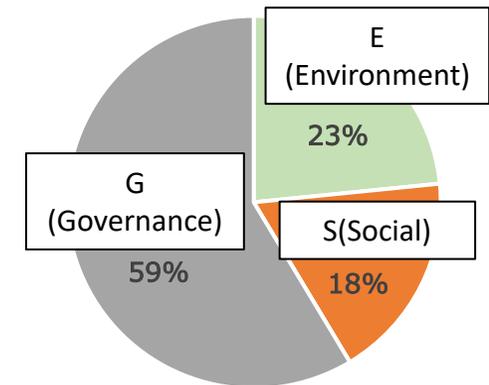
of engagement



of engagement w/board members & corporate officers



of engagement based on theme



Engagement-Enhanced Passive Investment

Asset Management One Co., Ltd. since 2018)

- Experienced analysts and fund managers from the responsible investment group engage with companies on ESG themes.

FIL Investments (Japan) Limited (since 2018)

- The insights of active investment analysts aim efficiently enhancing beta by promoting change in large corporations with a significant impact on the equity index.

Sumitomo Mitsui Trust Asset Management Co., Ltd. (since 2021)

- Engagement is promoted through the commitment and active participation of their top management.

Resona Asset Management Co., Ltd. (since 2021)

- Use of in-house AI analyzes the state of investee companies' integrated reports.



“Excellent Integrated Reports”, “Most-improved Integrated Reports”, and “Excellent TCFD Disclosure” selected by GPIF’s asset managers

○“Excellent Integrated Reports”

GPIF requested asset managers entrusted with domestic equity investment to nominate up to 10 “excellent integrated reports” and 10 “most-improved integrated reports”, and they selected 67 companies. The following companies were highly evaluated by four or more respondents as published of “excellent integrated reports”.

- | | | | |
|----------------------|------------|-------------------------------|------------|
| ◇ ITOCHU Corporation | 7 managers | ◇ RICHU COMPANY, LTD. | 6 managers |
| ◇ Hitachi, Ltd. | 6 managers | ◇ Tokio Marine Holdings, Inc. | 5 managers |
| ◇ OMRON Corporation | 6 managers | ◇ Ajinomoto Co., Inc. | 4 managers |

○“Most-improved Integrated Reports”

GPIF requested asset managers entrusted with domestic equities to nominate “the most-improved integrated reports”, and they selected 95 companies. There were no companies nominated by four or more respondents.

○“Excellent TCFD Disclosure (Japanese companies)”

GPIF requested asset managers entrusted with domestic equities to nominate “excellent TCFD disclosure”, and they selected 28 companies. The following companies were highly evaluated by four or more respondents.

- | | | | | | |
|-----------------------------------|-------------|-----------------|------------|-----------------------|------------|
| ◇ Kirin Holdings Company, Limited | 10 managers | ◇ Hitachi, Ltd. | 7 managers | ◇ RICHU COMPANY, LTD. | 5 managers |
| ◇ ITOCHU Corporation | 4 managers | | | | |

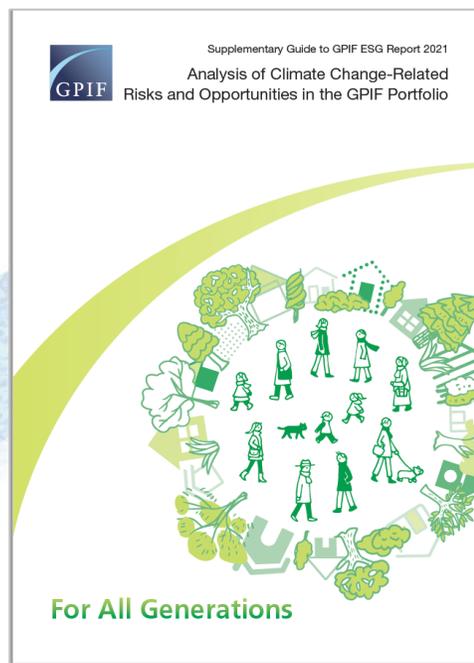
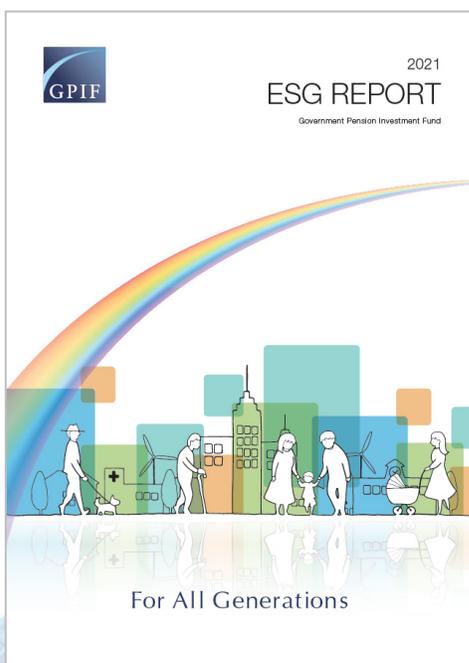
○ Excellent TCFD Disclosure (Japanese companies)

GPIF requested asset managers entrusted with domestic equities to nominate “excellent TCFD disclosure”, and they selected 60 companies. The following companies were highly evaluated by three or more respondents.

- | | | | | | |
|-----------------------|------------|------------------|------------|-----------------|------------|
| ◇ BHP GROUP LTD | 4 managers | ◇ MICROSOFT CORP | 4 managers | ◇ CITIGROUP INC | 3 managers |
| ◇ JPMORGAN CHASE & CO | 3 managers | | | | |

“ESG Report 2021”

- For appropriate PDCA cycle (plan-do-check-action) of ESG investing, it is important to evaluate whether improvement of ESG rating, and whether improvement of ESG rating and responses to ESG issues by companies is leading to the improvement of sustainability of the financial market as well as risk-adjusted returns.
- GPIF analyzed how ESG investing leads to the improvement of ESG evaluation as well as responses to ESG issues by companies, and disclosed in the “ESG Report” every year. Since 2018, we started disclosure of climate risks and opportunities in line with TCFD Recommendations.



< How ESG Investing shows positive effects >



Analysis of Portfolio using Climate-Value-at-Risk

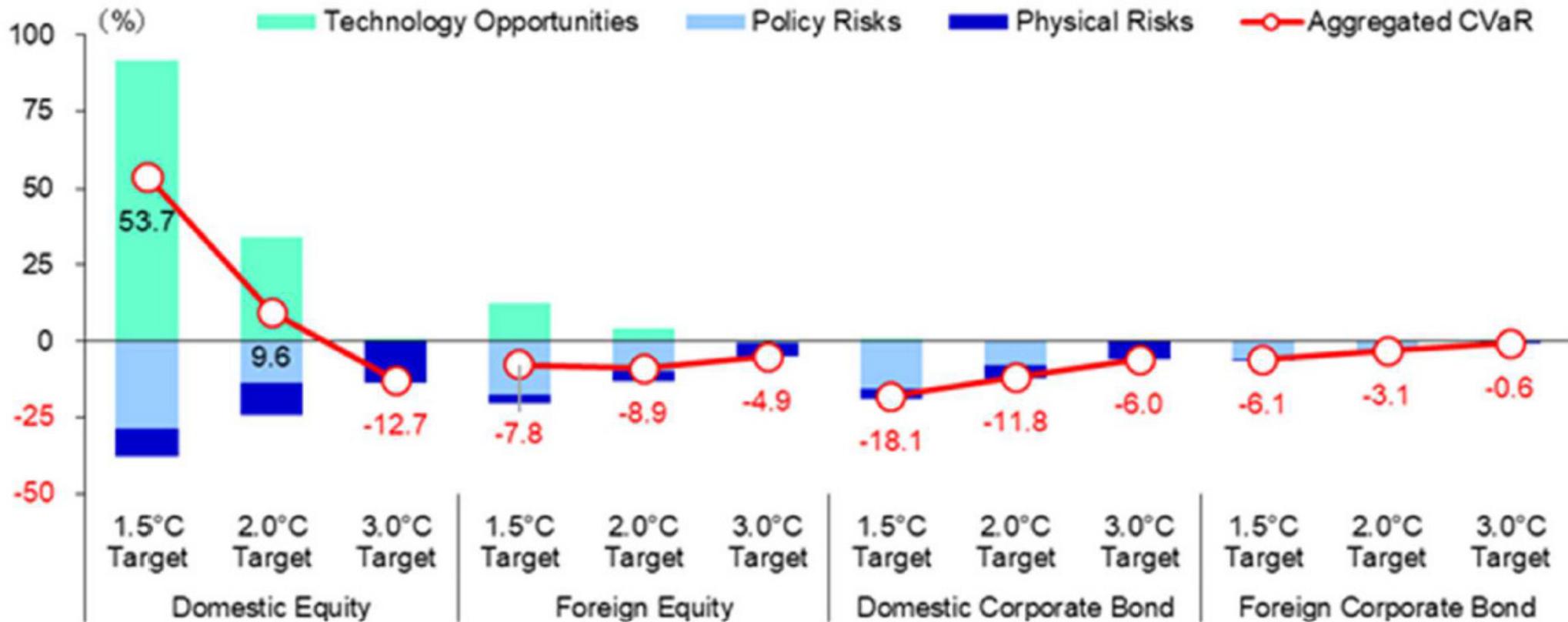
【Composition of Aggregated CVaR and Scenario Analysis Assumptions】



Source: Reproduced by permission of MECI ESG Research LLC@2021

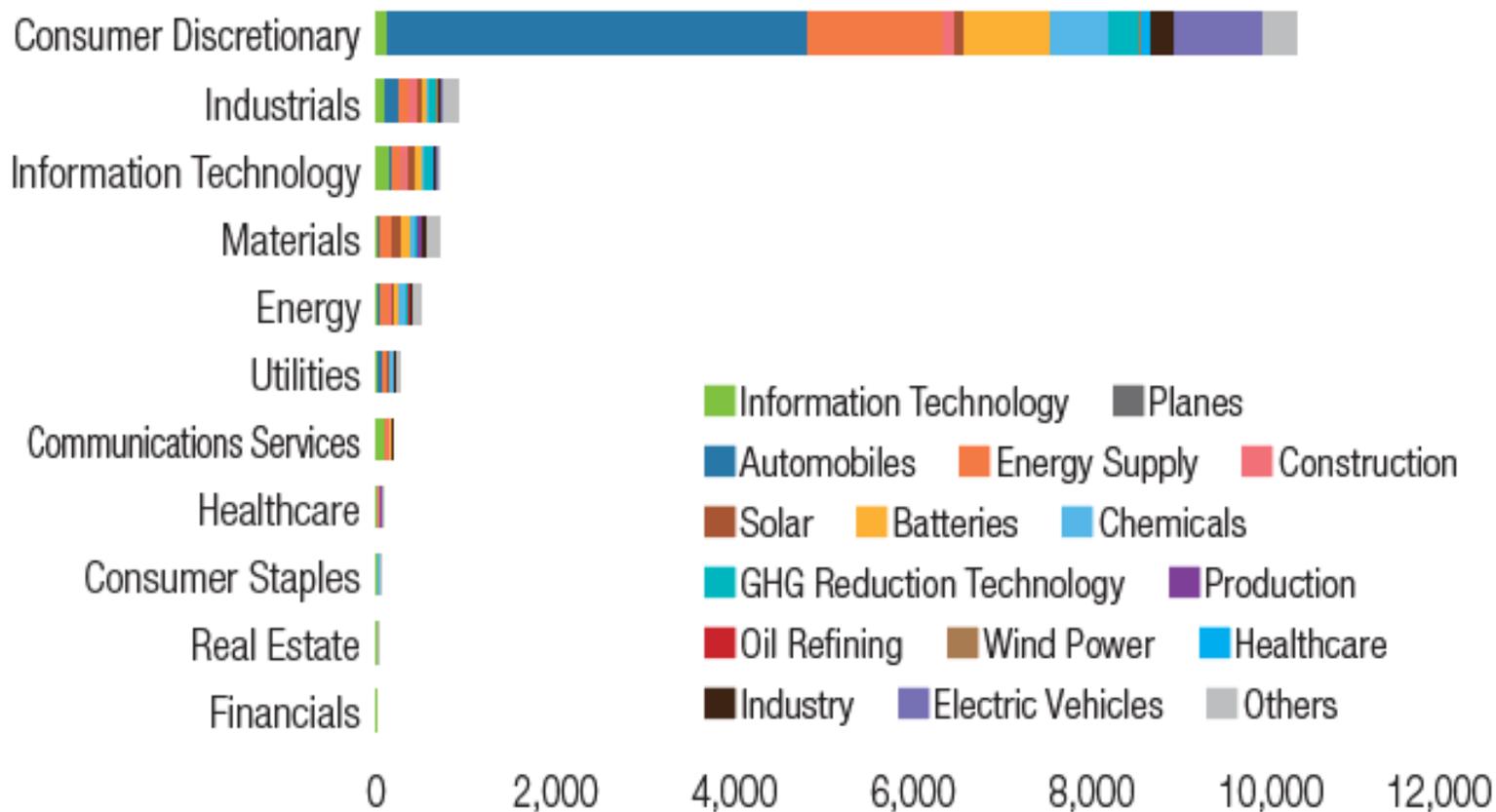
Asset value of Domestic Equities Improved under Severe Environmental Regulations

【GPIF Portfolio Climate Target】



Low-Carbon Technology Patent in Japan : High Scores in Automotive Sectors

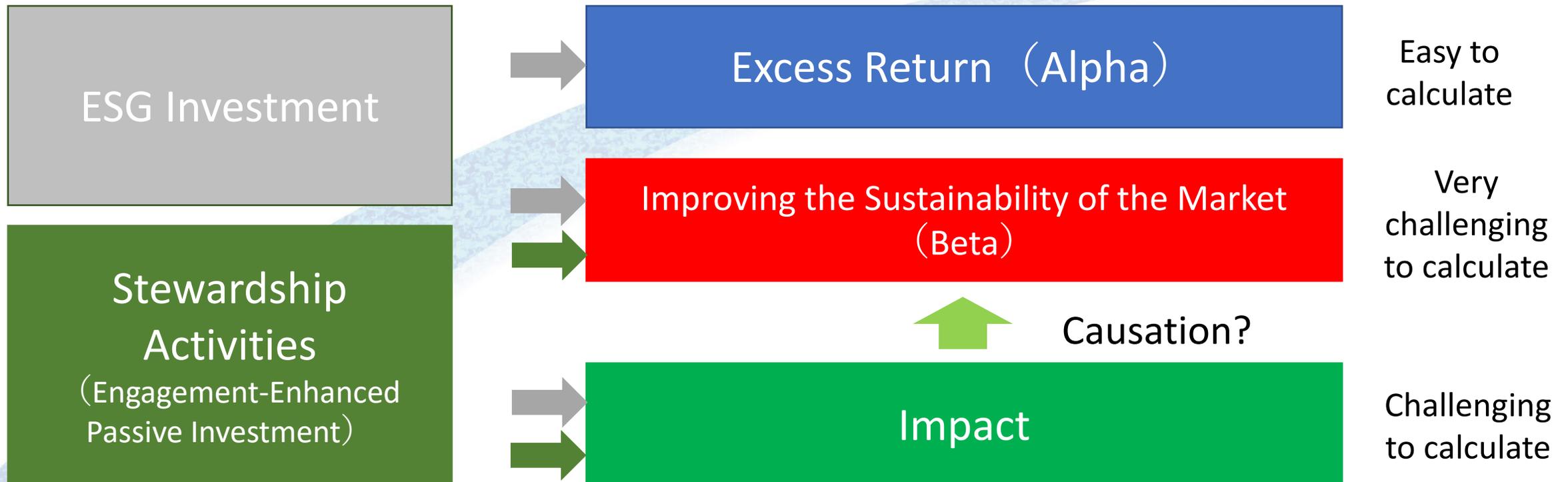
【Technology Opportunities: Domestic Equity Portfolio】



(Weighted Average Patent Score)

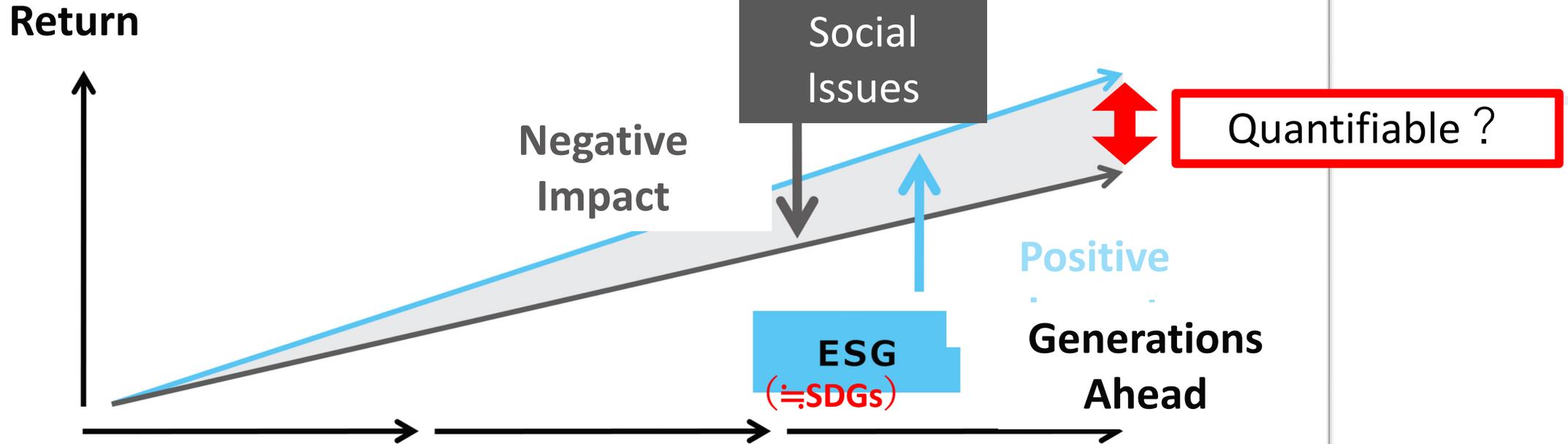
GPIF Verification of the effects of enhancing sustainability

- If the objective of ESG investment is just to generate alpha, it can be easily calculated by comparing the returns of benchmark and the fund.
- GPIF's index-based passive investment not only aim for returns, but also put emphasis on improving the sustainability of the market as a whole. Therefore different performance metrics are required.
- Measuring impact can be considered as a first step to verify the effects of enhancing sustainability, but in-depth analysis of causation between the two is necessary.
- GPIF will conduct a project to verify the effects of ESG-passive investing and engagement.



Verifying the Effectiveness of ESG/Stewardship Activities

**Sustainable Development of Economy
will Generate a source of Future Pension Benefit**



GPIF promotes ESG Investments in order to reduce negative externalities such as environmental and social issues, and to improve the sustainable return of the whole asset.