



For Sustainable Investment Chain ~GPIF's Challenge~

November 7, 2018

Hiro Mizuno
Executive Managing Director &
Chief Investment Officer

Government Pension Investment Fund,
Japan





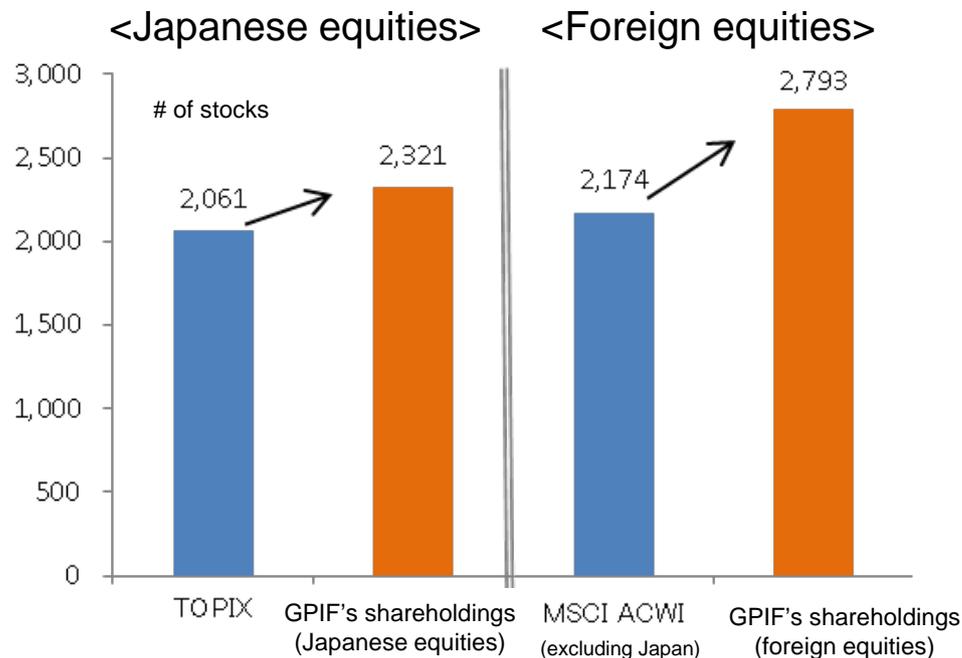
“Universal Owner” and “Cross-generational Investor”

As a “universal owner” (an investor with a very large fund size and widely diversified portfolio) and “cross-generational investor” (designed as a part of 100 years sustainable pension scheme), GPIF is committed to promote the sustainable development of the whole capital market, by minimizing negative externalities (environmental and social issues).

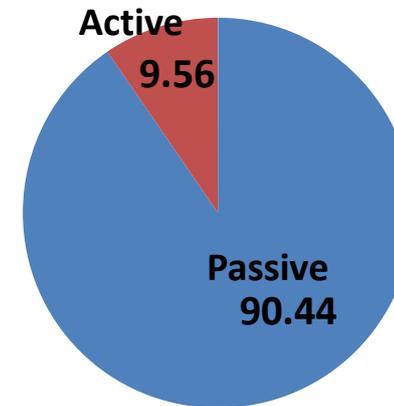
【GPIF’s shareholdings (as of the end of March 2018)】

Number of major indices’ constituents, and that of GPIF’s shareholdings

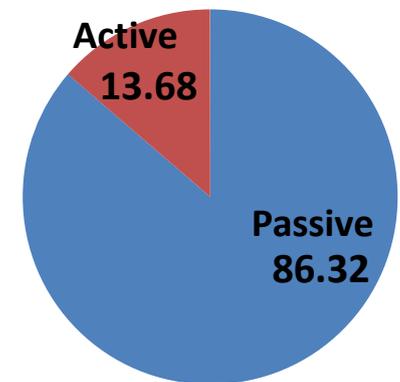
Passive / Active in GPIF’s stock management



<Japanese equities>



<Foreign equities>

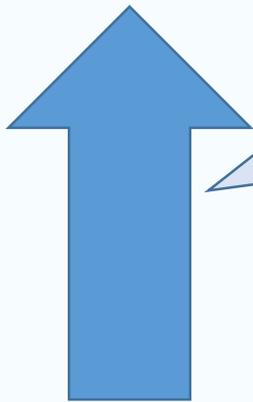


source: GPIF annual report (2017)

GPIF's Goal and Commitment

Our goal

Making the global capital market more sustainable



Performance-based Fee

Utilization of AI

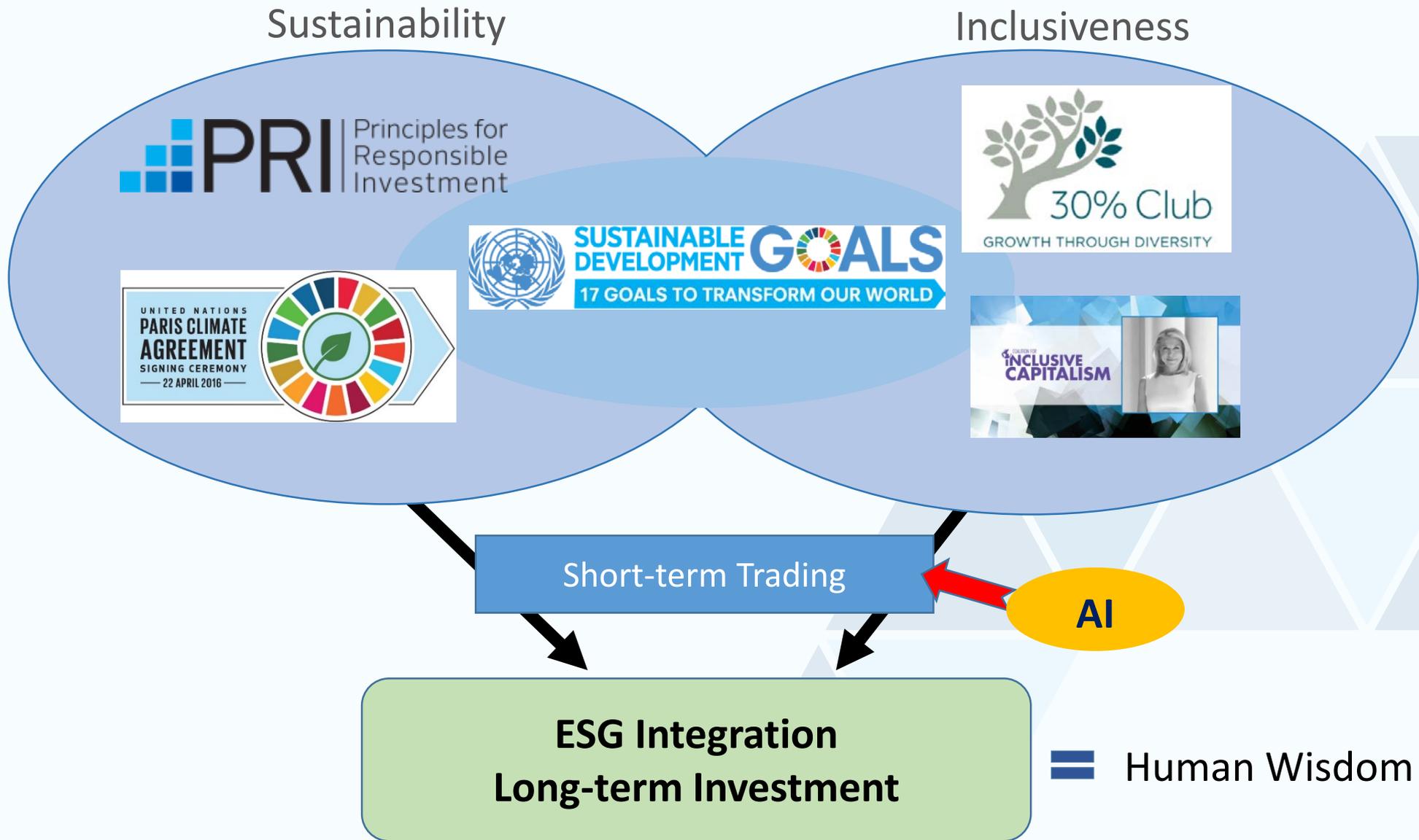
ESG Integration

Joint Engagement for Asset Managers/Index Providers

Our commitment

Getting rid of short-termism from investment chain

Trend in the Investment Industry



source: PRI, UN, 30% Club, Coalition for Inclusive Capitalism



GPIF Principles~ESG Consideration

【Investment Principles】

By fulfilling our stewardship responsibilities (including ESG (Environmental, Social, and Governance) factors), we shall continue to maximize medium- to long-term investment returns for the benefit of pension recipients.

【Stewardship Principles】

(4) ESG Integration into the Investment Process

- GPIF believes that it is vital to integrate ESG factors into the investment process to promote sustainable growth of corporate value and better medium- to long-term risk adjusted return for GPIF. Asset managers should consider the materiality of ESG issues in relevant sectors and circumstance of individual investee companies and deal with those issues accordingly.
- Asset managers should proactively engage with investee companies on critical ESG issues.
- Asset managers should become a signatory of the PRI.

【Proxy Voting Principles】

<On exercising voting rights>

- Asset managers should give careful consideration to ESG issues when exercising voting rights, with the objective of enhancing investee companies' corporate value over the medium- to long-term.

Note: Excerpts from GPIF principles (relevant to ESG)



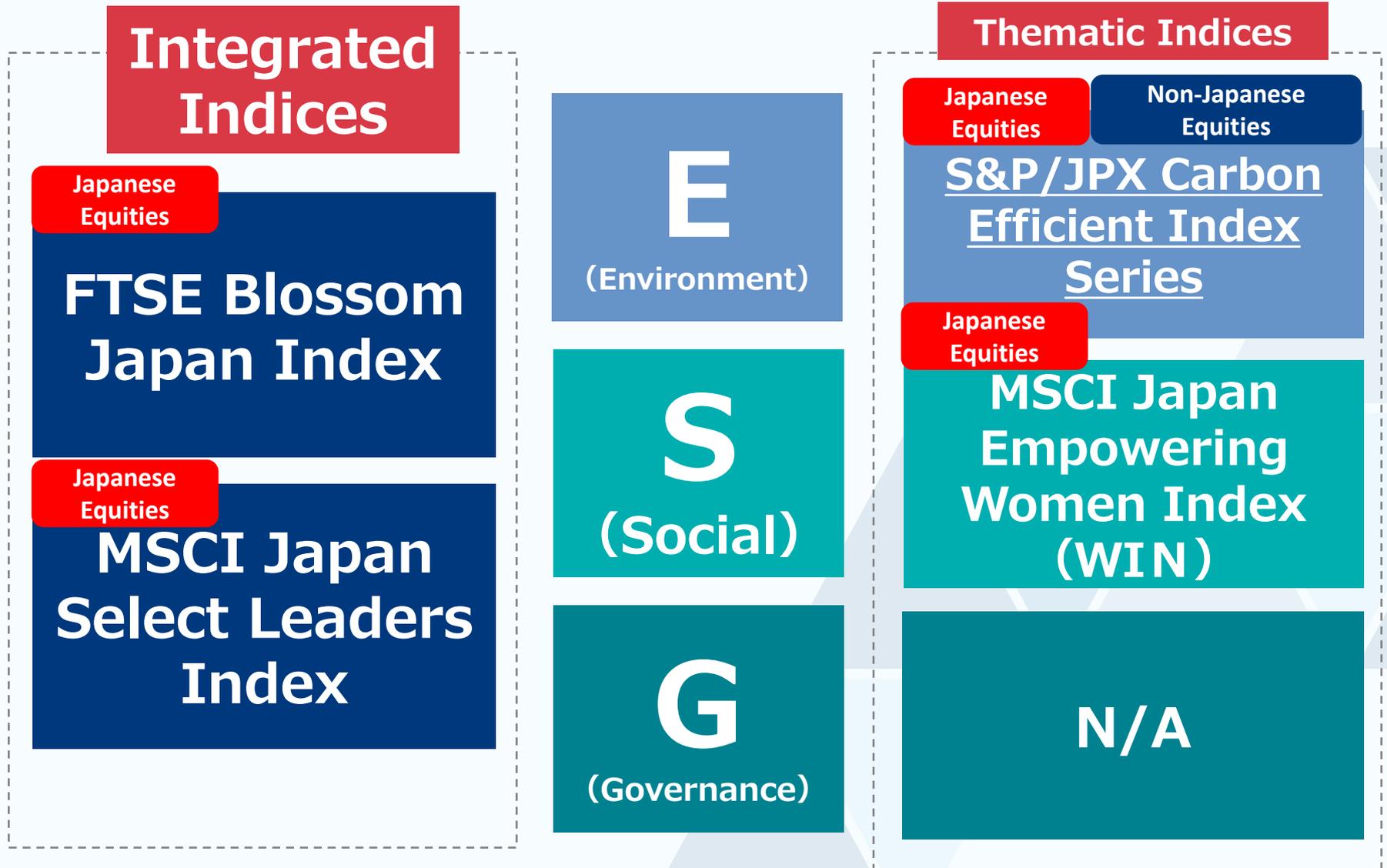
Key Findings from a Joint Research Project with the World Bank Group

- ESG factors are material credit risk for fixed income investors.
- ESG investing is increasingly becoming a part of the mainstream investment process for fixed income: Not only purchasing green/social bonds, but also setting up ESG funds, following ESG indices, hiring ESG active managers, incorporating ESG across the whole investment process.
- Yet, there are still many challenges: no standard definition of ESG; data is still wanting; how to pursue engagement with issuers; the green bond markets need more sophistication.



WORLD BANK GROUP

ESG Indices in GPIF investment



Outline of Global Environmental Index

- GPIF commenced passive investment tracking environmental indices both for Japanese equities and non-Japanese equities, with about 10 billion dollars.
- Through the investment concerning climate change, we encourage portfolio companies to improve and disclose their “carbon efficiency”.

	S&P/JPX Carbon Efficient Index 	S&P Global Ex-Japan Large MidCap Carbon Efficient Index 
Index Concept	Designed to increase index weights of the companies which have low Carbon to Revenue Footprints (annual greenhouse gas (GHG) emissions divided by annual revenues) and actively disclose information of carbon emissions.	
Subject of the Investment	Domestic Equity	Foreign Equity
Universe # of Constituents	TOPIX (2103 stocks) 1694	S&P Global ex-Japan LargeMid Index (2584 stocks) 2162



TCFD

(Task Force on Climate-related Financial Disclosure)

- Established in December 4, 2015. Launched by FSB, responding G20's demand in April 2015.
Will develop voluntary, consistent, climate-related financial risk disclosure for use by companies in providing information to investors, lenders, insurers, and other stakeholders.
~For strategies of the scenario where climate-related risks and opportunities are disclosed.
- In June 29, 2017, released final recommendations report based on the public consultation on the final report draft (announced in December 2016).

<https://www.fsb-tcfd.org/>

Recommendation

- Recognize climate-related risks and opportunities
- Seven Principles for effective disclosure
- Meaning of financial analysis of climate-related risks and opportunities
- Core elements of proposal
<For all sectors>
 1. Governance: The organization's governance around climate-related risks and opportunities.
 2. Strategy: The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning
 3. Risk Management: The processes used by the organization to identify, assesses, and manage climate-related risks
 4. Metrics and Targets: The metrics and targets used to assess and manage relevant climate-related risks and opportunities
- Location of Disclosure and Materiality
- Scenario Analysis

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

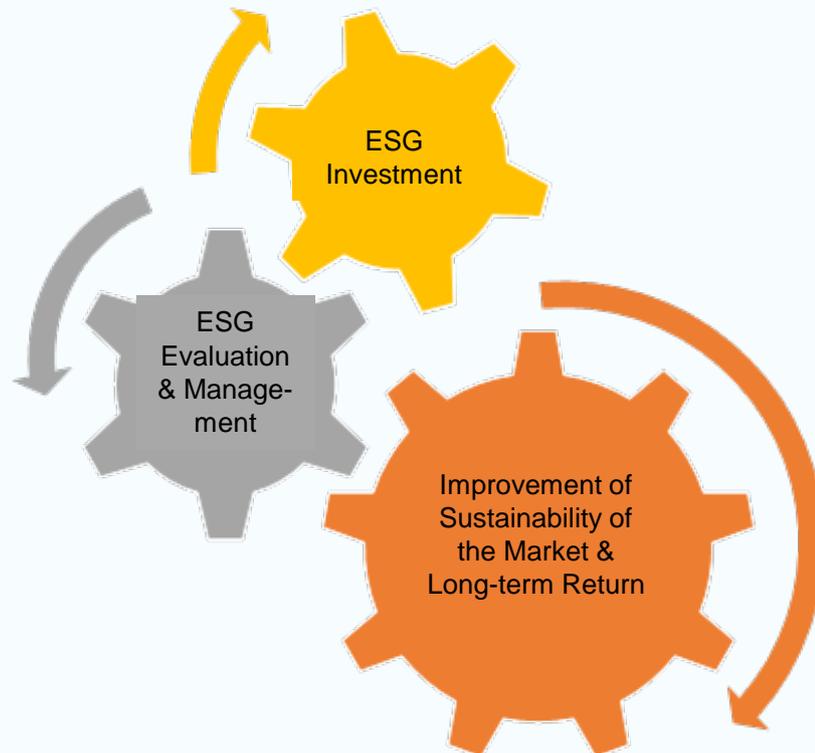
Supporters

- 513 organizations from 44 countries have expressed their support as of September 26, 2018, with 7.9 trillion USD AUM(892 trillion JPY). 287 companies are financial institutions, managing 100 trillion USD in total.
- While supporters were only about 100 companies as of June 2017 (released the final recommendations report), the number has been growing over five times.

<Supporters from Japan: 25 companies> Dai-ich Life Holdings, Inc., Daiwa House Industry Co., Ltd., Daiwa Securities Group, Development Bank of Japan, Hitach, Ltd., JTEKT CORPORATION, Kokusai Kogyo Co., Ltd., Konika Minolta, Inc., Mitsubishi Corporation, Mitsubishi UFJ Financial Group, Inc., Mizuho Financial Group, MS&AD Insurance Group Holdings, Inc., NEC Corporation, Nikko Asset Management, Nomura Holdings, Inc., Nomura Research Institutes, Ltd. Ricoh Company, Ltd., Sekisui House, Ltd., Sojitsu Corporation, SOMPO Holdings, Inc, Sumitomo Chemical, Sumitomo Forestry Co., Ltd., Sumitomo Mitsui Financial Group, Sumitomo Mitsui Trust Holdings, Inc., THE SHIGA BANK, LTD., Tokio Marine

Publication of “ESG REPORT 2017”

- GPIF is committed to ESG activities for all asset classes, including bonds and alternative assets.
- ESG investment makes an effect in the long run, but it is aimed at improving the sustainability of the entire capital market.
- This summer, GPIF has just published “ESG REPORT 2017” to measure how our ESG promotion activities improve the sustainability of the market, as well as risk-adjusted returns.



“ESG REPORT 2017” Contents

Chapter1. GPIF’s ESG Activities so far

- Revision of the Investment Principles
- Joint Research with the World Bank Group to incorporate ESG in fixed income portfolio
- GPIF’s engagement on ESG
- Column: Global Trends on ESG

Chapter2. Measurements of ESG promotion

- Approach on measurement of ESG promotion
- Measurement of ESG promotion (ESG evaluation for the portfolio, the amount of greenhouse gases emission, etc.)
- Column: Integration of ESG evaluation and AI
- Conclusion: Next Tasks on ESG evaluation

https://www.gpif.go.jp/investment/esg/pdf/0813_esg_katudohoukoku.pdf

Engagement with Asset Managers

Critical ESG issues for Passive Managers (for Japanese Equities)

Climate change

Diversity

Corporate misconduct

Capital efficiency

Supply chain

Disclosure

Protection of minority shareholders
(e.g. policy shareholders)

Note: These are issues that 5/6 respondents mentioned. All respondents mentioned issues written in red letter. Managers for both passive/active are counted as “passive”.

Critical ESG Issues for Active Managers (for Japanese Equities)

Capital efficiency

Protection of minority shareholders
(e.g. policy shareholdings)

Corporate governance

Board organization/Board effectiveness

Note: These are issues that 8/10 respondents mentioned. All respondents mentioned issues written in red letter.

Climate Action 100+



• Five-year initiative led by investors, established in September 2017. 296 investors with USD\$31 trillion (3,472 trillion JPY) assets under management have signed. Have engaged companies that emit significant greenhouse gas to improve governance on climate change, curb emissions, and strengthen climate-related financial disclosure. First set out in the One Planet Summit in Paris, December 12, 2017.

• Organized and supported by the following four institutional investors and PRI, who ask companies to tackle climate change:

AIGCC (Asia Investor Group on Climate Change)

Ceres (managing INCR (Investor Network on Climate Risk))

IGCC (Investors Group on Climate Change)

IIGCC (Institutional Investors Group on Climate Change)

PRI (Principles for Responsible Investment)

<http://www.climateaction100.org/>



Principles for Responsible Investment

Purpose

Investors engage companies that emit significant greenhouse gas in terms of following:

1. Implement a strong governance framework which clearly articulates the board's accountability and oversight of climate change risks and opportunities;
2. Take action to reduce greenhouse gas emissions across the value chain, consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2 degrees Celsius above pre-industrial level;
3. Provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and, when applicable, sector-specific Global Investor Coalition on Climate Change Investor Expectations on Climate Change to enable investors to assess the robustness of companies' business plans against a range of climate scenarios, including well below 2-degrees Celsius, and improve investment decision-making.

Consideration with Meeting on a Long-Term Strategy under the Paris Agreement as Growth Strategy

Meeting on a Long-Term Strategy under the Paris Agreement as Growth Strategy [Cabinet Secretariat]

(August 2018~)



As the G20 presidency of 2019, to realize a **virtuous cycle between the environment and economic growth** and to lead **global energy transition and decarbonisation**, an expert panel is established for setting out a **long-term low greenhouse gas emission development strategy** under the Paris Agreement.

< Direction of Consideration >

※Prime minister's instruction overview at the Meeting of the Council on Investments for the Future on June 2018

- ① **Stimulate active green finance**, not by adhering to existing forms of regulations, but **by advancing the disclosure of information and transparency**.
- ② Promote measures on a global scale, including developing countries, by shifting from support centered on public funding to **private financing led by businesses**.
- ③ Combine the wisdom of not only the public and private sectors but also the world, setting ambitious goals towards **fostering revolutionary innovation**.



establishment of the long-term strategy as growth strategy

Government's consideration to establish Japan's Long-Term Strategy under the Paris Agreement until now

<Measures against Global Warming > Long-term Climate Change Policy Platform [METI]

(April 2017)

- Contribution of global emission reduction by "International Contribution", "Global Value Chain" and "Innovation" is the core of the long-term strategy.

Central Environment Council [MOE]

(March 2018)

- Lead global decarbonisation while economic growth by innovation of economic and social system, technology and lifestyle.

<Energy policy > 5th Strategic Energy Plan [Cabinet Decision]

(July 2018)

- Efforts for Energy Transitions and Decarbonization towards 2050.

- Possibility and uncertainty
Ambitious multiple track scenario
Pursue every option

- 「3E+S」 ⇒ 「Sophisticated 3E+S」

- Safety +Safety innovation by technology/governance reform
- Energy security +Raise technical self-sufficiency rate and ensure diversity of choice
- Environment +Work towards decarbonisation
- Economic efficiency+Enhance domestic industrial competitiveness

<Industry policy > Meeting for the New Era of Automobiles [METI]

(August 2018)

- 80% reduction of GHG emissions per vehicle
- Passenger Vehicles:90% reduction, 100% xEV
- Contribute to challenge the goal of "Well-to-Wheel Zero Emission"

<Green finance > TCFD Study Group [METI]

(August 2018~)

- Climate-related disclosure corresponding to recommendation of TCFD is important.

High Level Meeting on ESG Finance [MOE]

(July 2018)

- Financial sector's leadership in shifting toward ESG finance is important to realize a sustainable economic society.