Formulated on May 22, 2014
Revised on July 2, 2020

# Pension Fund Association: Stewardship Responsibilities Policy

## 1. Basic Concept

Pension Fund Association ("PFA") is an institutional investor that invests its pension assets in domestic equities, among other assets. PFA has two capacities—as an institutional investor holding assets ("asset owner") that entrusts investment in domestic equities to investment managers, and as an institutional investor managing assets ("investment manager") that conducts in-house investment in domestic equities.
As a trustee of pension assets, PFA has a responsibility to manage and invest pension assets efficiently for the sole purpose of increasing the benefits of beneficiaries such as early seceders from employees' pension funds ("end beneficiaries").
Recognizing its stewardship responsibilities as one aspect of its fiduciary responsibility, PFA has declared its acceptance of the Japan's Stewardship Code, the Principles for Responsible Institutional Investors (the "Japan's Stewardship Code" or the "Code") and herein establishes policies for the fulfilment of its stewardship responsibilities.

## 2. Policy on Individual Principles of the Code

(Principle 1)

Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.

As an "asset owner," PFA shall require the external investment managers to which it has outsourced investment in domestic equities to accept the Japan's Stewardship Code and to contribute to the sustainable growth and medium- to long-term enhancement of corporate value of investee companies in accordance with various principles of the Code, thereby increasing medium- to long-term return on investments. In addition, PFA shall require its investment managers to formulate and announce clearly defined policies for the fulfillment of their own stewardship responsibilities. In this process, PFA shall also require investment managers to deliberate on how they take issues regarding sustainability (medium-to long-term sustainability including ESG factors) into consideration based on the investment strategies and to indicate such considerations clearly in their policies. PFA shall take into consideration the status of the efforts made by its external investment managers toward the various principles of the Japan's Stewardship Code as one factor in its qualitative evaluation of those investment managers.
In its capacity as an "investment manager," PFA shall accept the "Japan's Stewardship Code" and shall formulate and announce its clearly defined policies for the fulfillment of its own stewardship responsibilities in accordance with the various principles of the Code.
PFA shall require its investee companies to specify and disclose material issues (materiality) regarding business model sustainability, including ESG factors. In this way, PFA shall encourage the sustainable growth and medium- to long-term enhancement of corporate value

of investee companies, thereby increasing medium- to long-term return on investments.

(Principle 2)

Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.

As an “asset owner,” PFA shall require its investment managers to formulate and announce clearly defined policies on conflicts of interests to be managed for the fulfillment of their stewardship responsibilities.
PFA is a corporation authorized under the Employees’ Pension Insurance Act* and has no capital relationship, etc. with any other corporation. In its capacities as an “asset owner” and an “investment manager,” PFA shall faithfully execute its duties solely for the interest of the beneficiaries, etc. in the management and investment of PFA’s pension assets from the viewpoint of fiduciary responsibility.

*The Employees’ Pension Insurance Act prior to its revision provided for in Article 3, Item (i) of the Supplementary Provisions of the Act for Partial Amendment of the Employees’ Pension Insurance Act, etc. to Ensure the Soundness and Reliability of the Public Pension System (Act No. 63 of 2013)

(Principle 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.

As an “asset owner,” PFA shall require external investment managers to identify the status of investee companies correctly and continuously, to appropriately fulfill their stewardship responsibilities for the sustainable growth of said investee companies. In doing so, investment managers should endeavor to identify matters that may harm the corporate value of investee companies at an early stage.
PFA has adopted passive investment in domestic equities for its in-house investments and enjoys the benefits of low management fees. Accordingly, so as not to impede such low-cost benefits, in its capacity as an “investment manager,” PFA shall implement this principle efficiently through the means such as the use of external professional organizations from the perspective of cost effectiveness.

(Principle 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.

As an “asset owner,” PFA shall require external investment managers, through constructive and “purposeful dialogue” with investee companies, to endeavor to share their views with those companies and to make efforts to mitigate any problems, including issues concerning sustainability. In doing so, it is preferable that investment managers explain to investee companies the status of their shareholdings and hold dialogue with independent outside directors or corporate auditors.
As an “investment manager,” PFA shall implement this principle while striving to reduce costs

through the means such as the use of external professional organizations, so as not to impede the benefits of low-cost management as described above. In holding constructive and "purposeful dialogue" with investee companies, PFA shall retain its awareness of sustainability-related issues. In addition, PFA shall engage in collaborative engagement in the belief that it is efficient and beneficial to work with other institutional investors to hold constructive and "purposeful dialogue" collaboratively with investee companies.

| (Principle 5) |
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| 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. |

As an "asset owner," PFA shall require external investment managers to formulate clearly defined policies for the exercise of voting rights and disclosure of the results thereof and to exercise the voting rights of their shareholdings as part of their investment operations.
PFA shall leave the specific exercise of shareholder voting rights to the discretion of individual external investment managers. However, PFA shall require them to do so with the objective of enhancing the interests of PFA and, ultimately, of PFA's end beneficiaries, and to disclose the results of such exercise in a manner consistent with the intent of the Code.
As an "investment manager," PFA shall exercise its shareholder voting rights in accordance with the "Guidelines for the Exercise of Shareholder Voting Rights" as separately established. From the perspective of increasing return on investment, PFA shall implement securities lending of certain stocks that it holds for in-house investment. PFA shall decide whether or not to terminate the lending of the stocks in question and exercise the shareholder voting rights in each case, after taking into consideration the level of lending fee revenue.
In its capacities as "asset owner" and "investment manager," PFA shall make the result of the exercise of shareholder voting rights public on PFA's website every fiscal year. The number of votes exercised for and against proposals by investment managers (externally managed investment) and by PFA (in-house investment) shall be made public for each individual type of proposals. PFA shall also disclose the number of votes exercised by PFA (in-house investment) by investee company and by proposal separately, along with its reasons.

| (Principle 6) |
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| Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries. |

As an "asset owner," PFA shall require its external investment managers to make the following reports:
(1) Submission of policies, etc. concerning the Japan's Stewardship Code
Investment managers shall submit to PFA their policies, etc. concerning the Japan's Stewardship Code as described below. If any changes are made to these policies, etc., the investment manager shall notify PFA of it without delay.

1) Policy for the fulfillment of stewardship responsibilities
2) Organizational structure for the fulfillment of stewardship responsibilities
This includes internal organizational structure, decision-making processes for the exercise

of voting rights, status of use of proxy advisory firms, etc.

3) Policies for managing conflict of interests for the fulfillment of stewardship responsibilities

4) Policies for the exercise of shareholder voting rights (voting guidelines)

5) Policies for conducting “purposeful dialogue (engagement)” with investee companies

(2) Report on implementation of the Japan’s Stewardship Code

Investment managers shall report to PFA on the following matters each fiscal year:

1) Status of exercise of shareholder voting rights

Status of exercise of shareholder voting rights in investee companies whose financial results were reported during the previous fiscal year (the portion held by PFA)

2) Status of understanding of situation at investee companies

3) Status of “purposeful dialogue (engagement)” with investee companies

4) Results of self-evaluation of implementation of stewardship activities

If an investment manager to which PFA has outsourced investment also applies the Japan’s Stewardship Code to investments in assets other than domestic equities, PFA may require such investment manager to report the above 2) to 4) of (2) above to PFA.

In its capacities as “asset owner” and an “investment manager,” PFA shall make the status of implementation of its stewardship activities public on PFA’s website.

(Principle 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.

As an “asset owner,” PFA shall require external investment managers to have the ability to hold appropriate dialogue with the investee companies, and to make decisions related to stewardship activities.

In its capacity as an “investment manager,” upon the allocation of personnel capable of appropriately implementing stewardship activities, PFA shall strive to make its stewardship activities more appropriate by utilizing the insight of external expert organizations, so as not to impede the benefits of low-cost management set out in the policy for Principle 3, and by exchanging views with other investors through collaborative engagement.

(Principle 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.

This principle does not apply to PFA as it is either an “asset manager” or an “investment manager.”