GPIF and its ESG investing

Government Pension Investment Fund, JAPAN
Masataka Miyazono

15th April. 2022
Japanese Pension System

Pay-as-you-go system

Japan adopts a system where working generations support the lives of the elderly generations.

Role of the pension reserve

Secure funds through investment returns

(Note) The above diagram is for illustrative purposes; for details on the public pension system, refer to the Ministry of Health, Labour and Welfare website.
Financial Verification (Outlook of 100 years)

■ Scenario III
Peak: FY2079 (¥479trn.)

■ Scenario II
Peak: FY2088 (¥693trn.)

■ Scenario III

■ Scenario IV
Peak: FY2074 (¥300trn.)

■ Scenario V
Peak: FY2045 (¥234trn.)

The end of FY2019 (results)
(¥159trn.)

(Source: GPIF, based on the 2019 Financial Verification by Ministry of Health, Labour and Welfare)
GPIF Asset Allocation Policy

GPIF establishes the policy asset mix formed by the target allocation to each asset class, and manages portfolio within deviation limits. GPIF has implemented this new policy asset mix from April 2020.
Employees’ Pension Insurance Act and our Investment Principles

【Article 79–2 of the Employees’ Pension Insurance Act (the same philosophy is stipulated in Article 75 of the National Pension Act)】

“... 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.”

【GPIF’s Investment Principles】

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 may 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.
GPIF’s Investment Results for 3Q FY2021

Total assets: $1.7 trn.
Cumulative Returns: $0.9 trn.
ESG investing
GPIF as 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 2021）】

- **Domestic equities**
  - TOPIX: 2,187
  - MSCI ACWI (ex Japan): 2,207
  - Total: 4,394

- **Foreign equities**
  - TOPIX: 2,417
  - MSCI ACWI (ex Japan): 3,285
  - Total: 5,702

- **Passive**
  - Domestic: 92.97%
  - Foreign: 87.99%

- **Active**
  - Domestic: 7.03%
  - Foreign: 12.01%

Source: GPIF Annual Report FY2020
GPIF’s ESG Activities

2015

Sept. 2015
Signed PRI

2016

Apr. 2018
Published the report “Incorporating Environmental, Social and Governance Factors into Fixed Income Investment “ with the World Bank Group

July 2016
Established “Business and Asset Owners’s Forum” and “Global Asset Owners’ Forum”

2017

Sept. 2017
Selected ESG indices for domestic equities

FTSE Blossom Japan

MSCI Japan

July 2017
Selected ESG indices for domestic equities

2018

Sept. 2018
Selected “carbon efficient” equity indices

GPIF Global Carbon Efficient Index

SP/S&P カーボン エフィシェント 指数

Dec. 2018
Supported TCFD

Task Force on Climate-Related Financial Disclosures

Supported TCFD

Aug. 2019
Disclosed information in accordance with TCFD recommendations

Oct. 2018
Joined Climate Action 100+

Oct. 2018
Published the report "Incorporating Environmental, Social and Governance Factors into Fixed Income Investment “ with the World Bank Group

2019

Dec. 2020
Selected ESG indices for foreign equities

MSCI ACWI ESG

MSCI

Aug. 2019
Supported TCFD

Dec. 2020
Disclosed information in accordance with TCFD recommendations

Oct. 2020
Published "Analysis of Climate Change-Related Risks and Opportunities in the GPIF Portfolio"

2020

Aug. 2018
Published the first “ESG Report”

WORLD BANK Group

2021

2022

Mar. 2022
Selected ESG index for Japanese equities

2021

July. 2017
Established “Business and Asset Owners’s Forum” and “Global Asset Owners’ Forum”

July 2017
Selected ESG indices for domestic equities

### GPIF’s ESG Activities

- **2015**
  - Sept. 2015: Signed PRI

- **2016**
  - Apr. 2018: Published the report “Incorporating Environmental, Social and Governance Factors into Fixed Income Investment “ with the World Bank Group
  - July 2016: Established “Business and Asset Owners’s Forum” and “Global Asset Owners’ Forum”

- **2017**
  - Sept. 2017: Selected ESG indices for domestic equities

- **2018**
  - Sept. 2018: Selected “carbon efficient” equity indices
  - Dec. 2018: Supported TCFD
  - Aug. 2019: Disclosed information in accordance with TCFD recommendations

- **2019**
  - Oct. 2018: Joined Climate Action 100+

- **2020**
  - Dec. 2020: Selected ESG indices for foreign equities

- **2021**
  - Oct. 2020: Published "Analysis of Climate Change-Related Risks and Opportunities in the GPIF Portfolio"

- **2022**
  - Mar. 2022: Selected ESG index for Japanese equities

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年金積立金管理運用独立行政法人
Government Pension Investment Fund

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In order to appropriately implement the PDCA cycle of our ESG investments, we publish “ESG Report” annually since 2018.

- We mainly analyze whether ESG investments have contributed to improving ESG evaluations of companies and strengthening ESG responses by companies.
- Since 2019, we enhance our disclosure of information in line with TCFD in our “ESG report”.

Overview of our latest TCFD disclosure

Figure 1. Analysis of Major Climate Change-Related Risks and Opportunities Conducted for This Report

<table>
<thead>
<tr>
<th>Contents of Analysis</th>
<th>Asset Class</th>
<th>Analysis Performed by</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carbon footprint analysis</td>
<td>Equities • Corporate Bonds</td>
<td>Trucost</td>
</tr>
<tr>
<td>Carbon intensity analysis</td>
<td>Equities • Corporate Bonds • Government Bonds</td>
<td>Trucost</td>
</tr>
<tr>
<td>Climate Value-at-Risk (CVaR)-based analysis*</td>
<td>Equities • Corporate Bonds • Government Bonds • Real Estate</td>
<td>MSCI</td>
</tr>
<tr>
<td>Warming potential analysis</td>
<td>Equities • Corporate Bonds • Real Estate</td>
<td>MSCI</td>
</tr>
<tr>
<td>Analysis of inter-industry transfer of transition risks and opportunities</td>
<td>Industries</td>
<td>Astamuse</td>
</tr>
<tr>
<td>Total patent asset analysis of decarbonization technologies by country/region</td>
<td>Industries • Countries</td>
<td>Astamuse</td>
</tr>
<tr>
<td>SDGs positive impact / additionality analysis**</td>
<td>Equities</td>
<td>Trucost</td>
</tr>
</tbody>
</table>

(Note 1) * In the CVaR analysis of government bonds, impact on GDP, not the price of government bonds, was analyzed.
(Note 2) ** In the SDGs-related analysis, all opportunities arising from the resolution of the social issues identified in the SDGs were analyzed, not only climate change-related opportunities.

Source: Prepared by GPIF based on various materials

Figure 2. Greenhouse Gas Emissions by Scope

(Note) The above figure indicates the major sectors included in each scope. (Source) Prepared by GPIF based on the GHG Protocol, etc.
<table>
<thead>
<tr>
<th>Classification</th>
<th>General ESG</th>
<th>General ESG</th>
<th>General ESG</th>
<th>General ESG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Target</td>
<td>Japanese equities</td>
<td>Japanese equities</td>
<td>Japanese equities</td>
<td>Foreign Equities</td>
</tr>
</tbody>
</table>
| Index Concepts/Characteristics | - The index is FTSE Russell’s ESG-Index series, which has one of the longest track records globally. The index is evaluated using FTSE4Good Japan Index's ESG rating scheme.  
- The index is a general ESG index that selects stocks with high absolute ESG ratings and adjusts industry weights to neutral.  
- The index is comprised of stocks with relatively high ESG scores in each industry. | - Assessments are performed based on FTSE Russell’s ESG rating which FTSE Blossom Japan Index also uses. For the companies with high carbon intensity (greenhouse gas emissions/sales), management attitude toward climate-change risks/opportunities is also assessed.  
- The index selects stocks with relatively high ESG ratings within each industry and adjusts industry weights to neutral. | - The MSCI Japan ESG Select Leaders Index is a broad ESG index that integrates various ESG risks into today’s portfolio. The index is based on MSCI ESG Research used globally by more than 1,000 clients.  
- The index is comprised of stocks with relatively high ESG scores in each industry. | - One of MSCI’s flagship ESG indexes, this index adjusts the weight of constituents based on each issuer’s current ESG rating and rating trend to elevate the ESG metrics of the index overall.  
- The index was developed for large investors seeking to enhance ESG integration while achieving the same level of investment opportunity and risk exposure as the parent index. |
| Index Construction | Selection (best-in-class) | Selection (best-in-class) | Selection (best-in-class) | Tilted |
| Number of Index Constituents | 230 | 494 | 222 | 2,150 |

(Note) Data as of February 15, 2022  
(Source) Prepared by GPIF from various materials.
## List of ESG indices adopted by GPIF (2)

<table>
<thead>
<tr>
<th>Classification</th>
<th>Investment Target</th>
<th>Index Concepts/Characteristics</th>
<th>Index Construction</th>
<th>Constituent Universe (Parent index)</th>
<th>Number of Index Constituents</th>
</tr>
</thead>
<tbody>
<tr>
<td>E (climate change)</td>
<td>Japanese equities</td>
<td>• Constructed by S&amp;P Dow Jones Indices based on carbon data provided by Trucost, a pioneer in environmental assessment. • This index is designed to overweight companies that have lower carbon footprints (annual greenhouse gas emissions divided by annual revenues) and that actively disclose their carbon emission information.</td>
<td>Tilted</td>
<td>TOPIX [2,178 stocks]</td>
<td>1,825</td>
</tr>
<tr>
<td>E (climate change)</td>
<td>Foreign Equities</td>
<td>• Constructed by S&amp;P Dow Jones Indices based on carbon data provided by Trucost, a pioneer in environmental assessment. • This index is designed to overweight companies that have lower carbon footprints (annual greenhouse gas emissions divided by annual revenues) and that actively disclose their carbon emission information.</td>
<td>Tilted</td>
<td>S&amp;P Global LargeMid Cap Carbon Efficient Index (ex JP)[3095 stocks]</td>
<td>2,163</td>
</tr>
<tr>
<td>S (women's empowerment)</td>
<td>Japanese equities</td>
<td>• MSCI calculates the gender-diversity scores based on information disclosed under “the Act on Promotion of Women’s Participation and Advancement in the Workplace” and selects companies with higher gender diversity scores from each sector. • The first index designed to cover a broad range of factors related to gender diversity.</td>
<td>Selection (best-in-class)</td>
<td>MSCI Japan Empowering Women Index (“WIN”) [699 stocks]</td>
<td>352</td>
</tr>
<tr>
<td>S (women's empowerment)</td>
<td>Foreign Equities</td>
<td>• Determines investment weighting based on assessment of companies’ commitment to gender equality, using the Equileap Gender Equality Scorecard. • Ratings are conducted in four categories: (1) Gender balance in leadership and workforce; (2) equal compensation and work-life balance; (3) policies promoting gender equality; and (4) commitment, transparency, and accountability.</td>
<td>Tilted</td>
<td>Morningstar® Developed Markets Ex-Japan Gender Diversity IndexSM (GenDi) [ex JP] Large-Mid[2,175 stocks]</td>
<td>2,158</td>
</tr>
</tbody>
</table>

(Note) Data as of February 15, 2022
(Source) Prepared by GPIF from various materials.
Stewardship Activities via Asset Managers
Material ESG Issues Recognized by GPIF’s External Asset Managers

(to GPIF’s external asset managers)

Q. What is your material ESG issues?

Material ESG Issues that every asset managers pointed out

<table>
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<tr>
<th></th>
<th>Passive</th>
<th>Active</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic equities</td>
<td>Climate change, Misconduct, Disclosure, Supply Chain, Diversity, Corporate Governance</td>
<td>Board Structure/Self-evaluation, Minority Shareholder Rights, Disclosure</td>
</tr>
<tr>
<td>Foreign equities</td>
<td>Climate Change, Diversity, Disclosure, Supply Chain</td>
<td>Climate Change</td>
</tr>
</tbody>
</table>
Investing in green bonds

Investment Framework in Green, Social and Sustainability Bonds

Multilateral Development Banks and Governmental Financial Institutions in Partnership with GPIF