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# The dynamic innovation of GPIF

## ~Introduction of our recent stewardship & ESG activities

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GPIF Homepage



GPIF youtube channel



GPIF Twitter



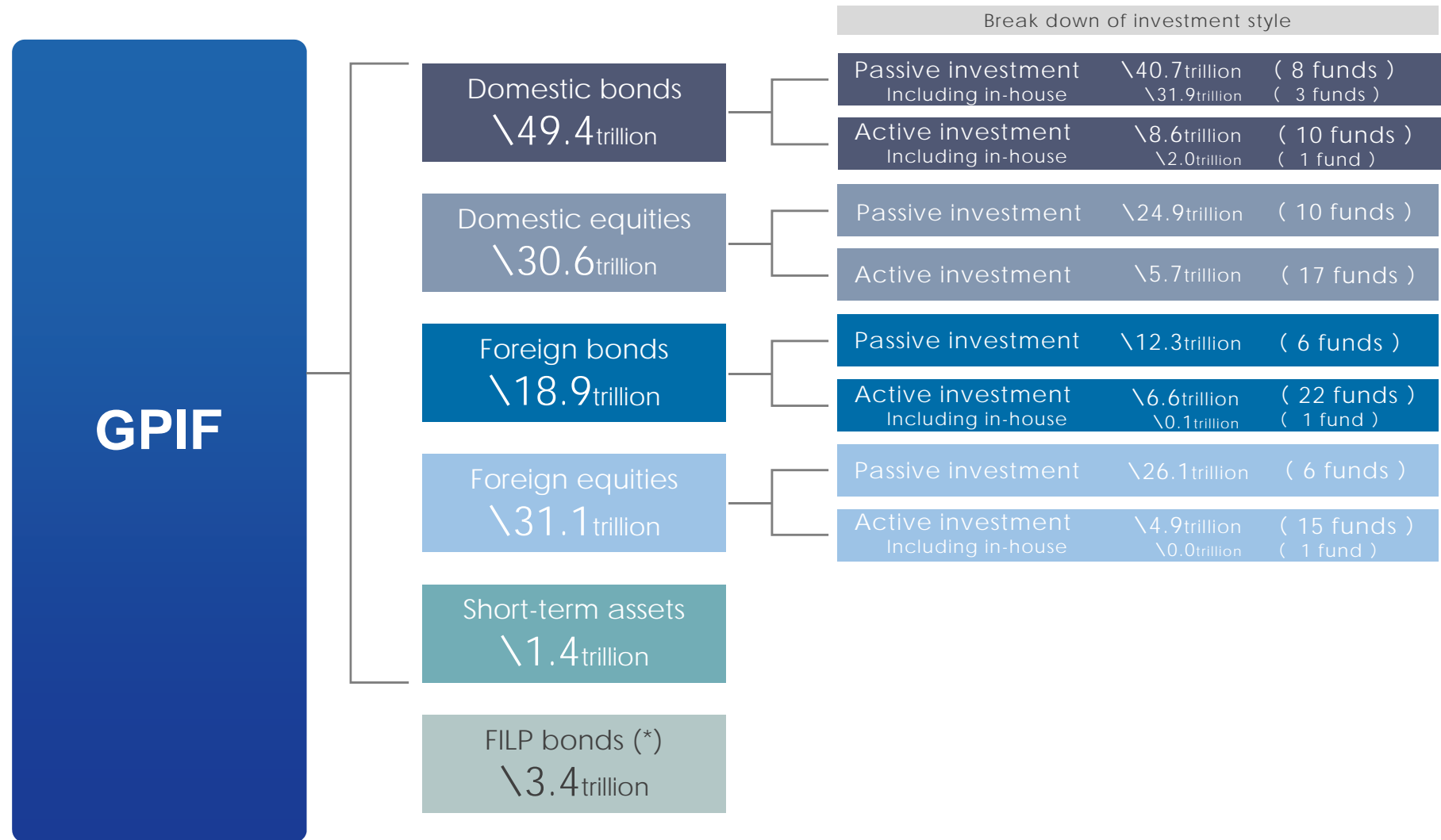
The top of the slide features a complex background graphic. It includes a blue diagonal bar on the left, a world map, a line graph, and a bar chart. Overlaid on this is a dark blue rectangle containing the GPIF logo and its full name.

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# GPIF at a glance

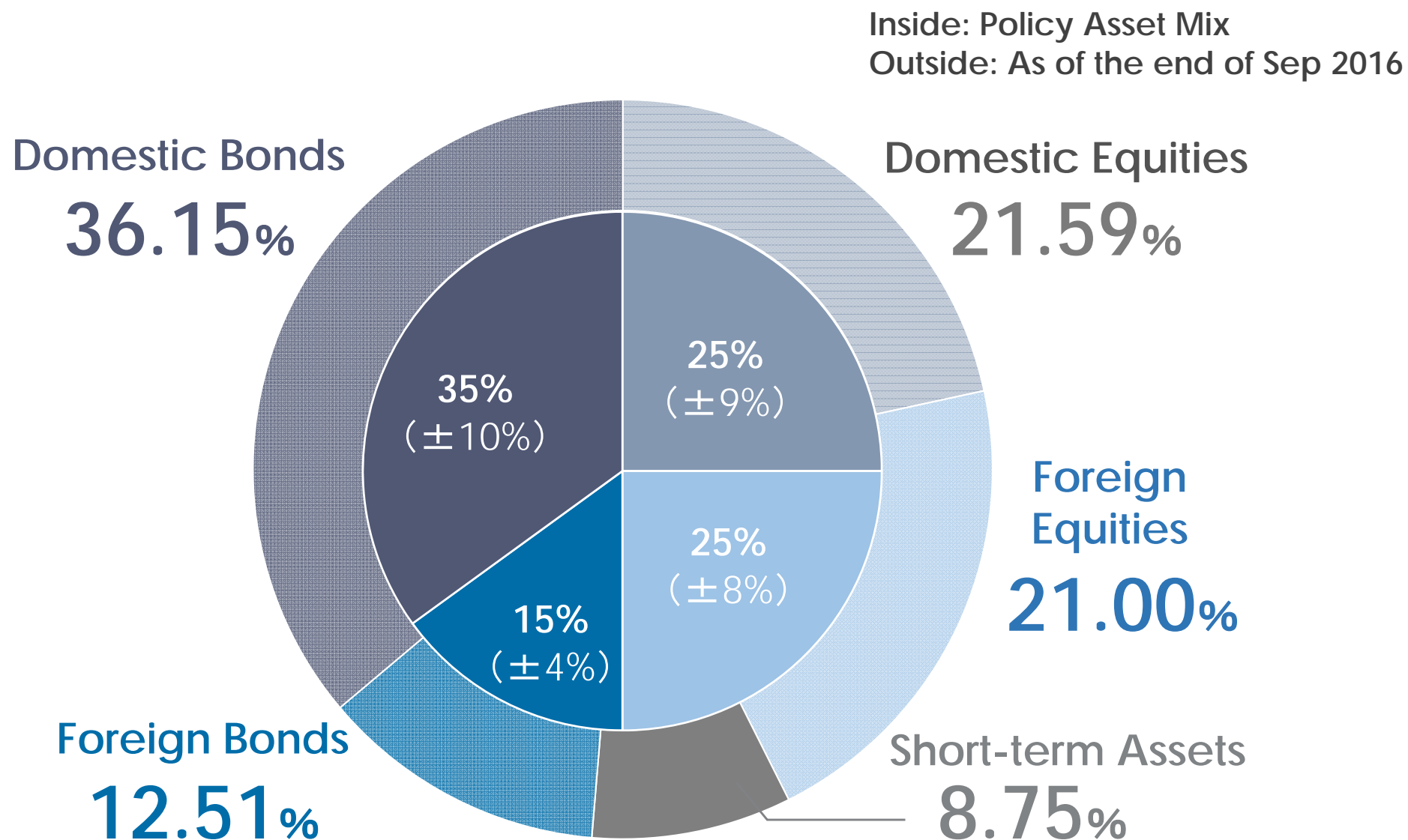
# Asset size of each investment style



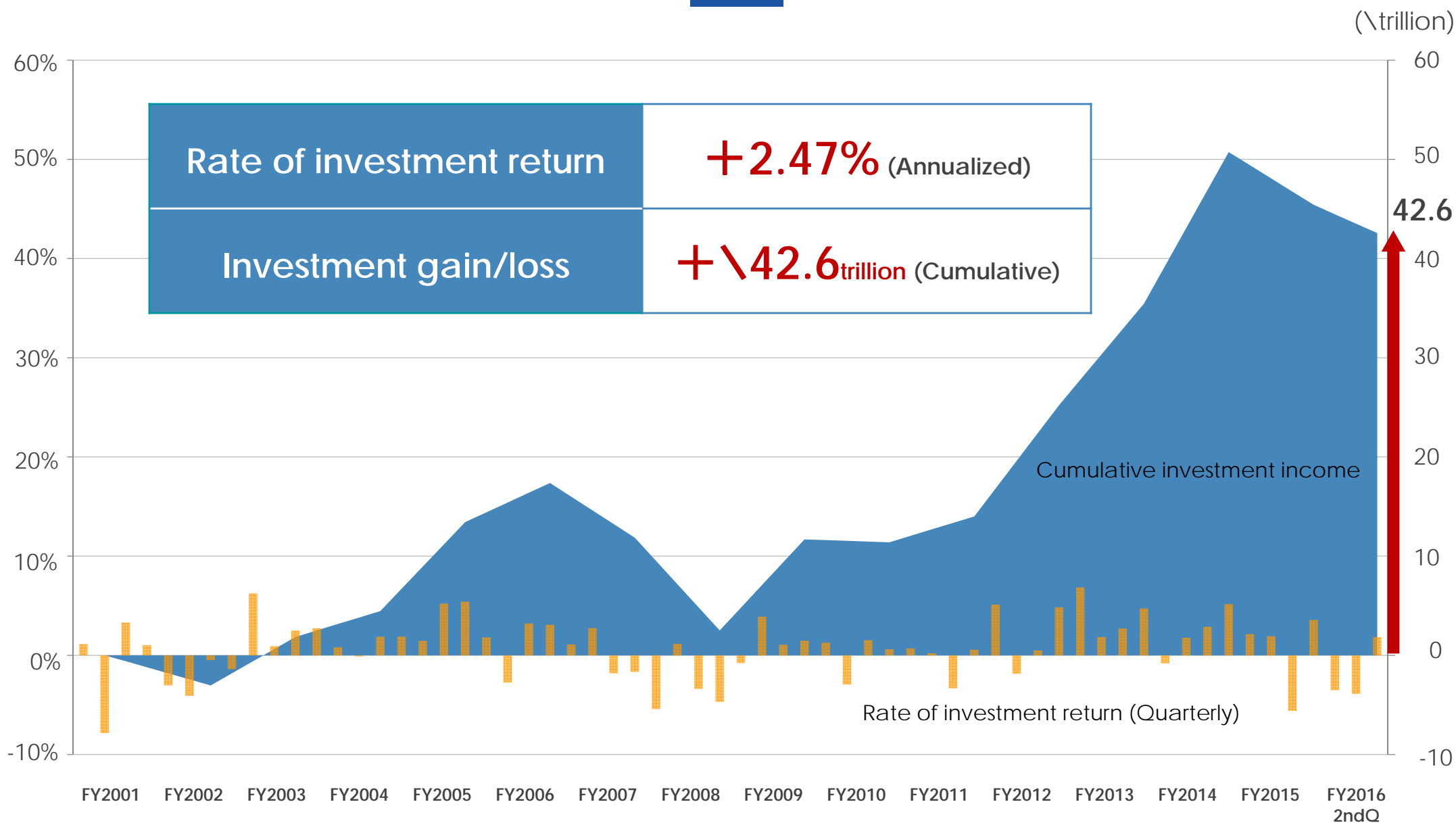
Total ¥134.7trillion (As of end-March 2016)

(\*) FILP bonds are government bonds issue to finance "Fiscal Investment and Loan Program"

## Asset Allocation at the end of September 2016



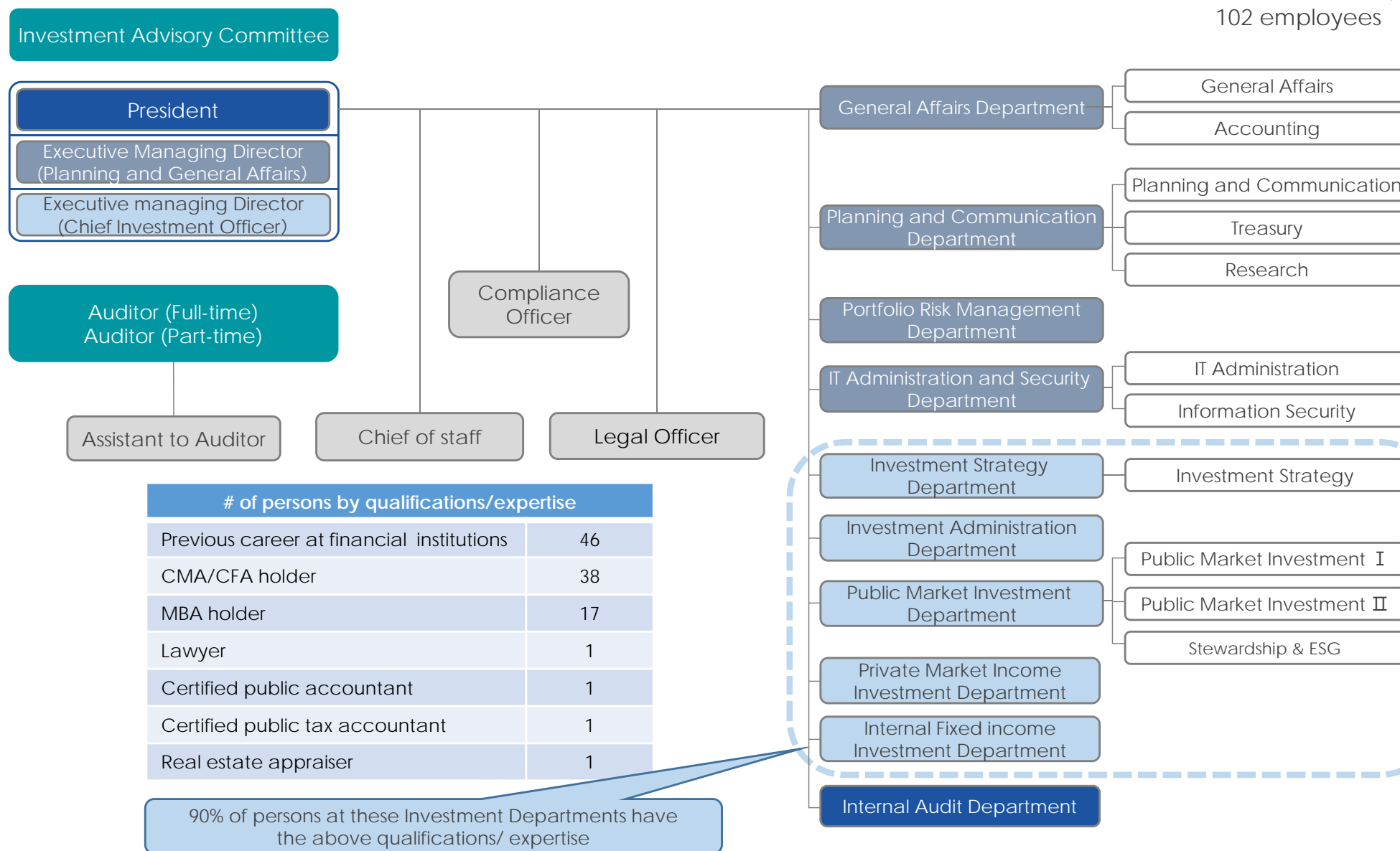
# Cumulative Investment Income (FY2001-16\_2ndQ)





# Organization Chart

As of October 1, 2016  
102 employees



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Recent initiative on manager selection

# Revision of external managers evaluation criteria

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## ■ More emphasis on external managers' stewardship activities in evaluation

Increase the weighting of efforts related to stewardship responsibility in the qualitative evaluation of external asset managers entrusted with passive management of Japanese equities.

### (Background)

In passive investments, each external manager is expected to carry out engagement activities to enhance investee companies' corporate value and promote their sustainable growth in a medium to long-term. Improving the efficiency of the Japanese stock market as a whole will enhance returns on the entire stock investments. Therefore, GPIF highly evaluates external asset managers which fulfill their stewardship responsibility. In order to reflect this philosophy in the asset allocation, GPIF increases the weighting of external managers' efforts on stewardship responsibility in the qualitative evaluation.

## ■ Confirmed that stewardship responsibilities include ESG

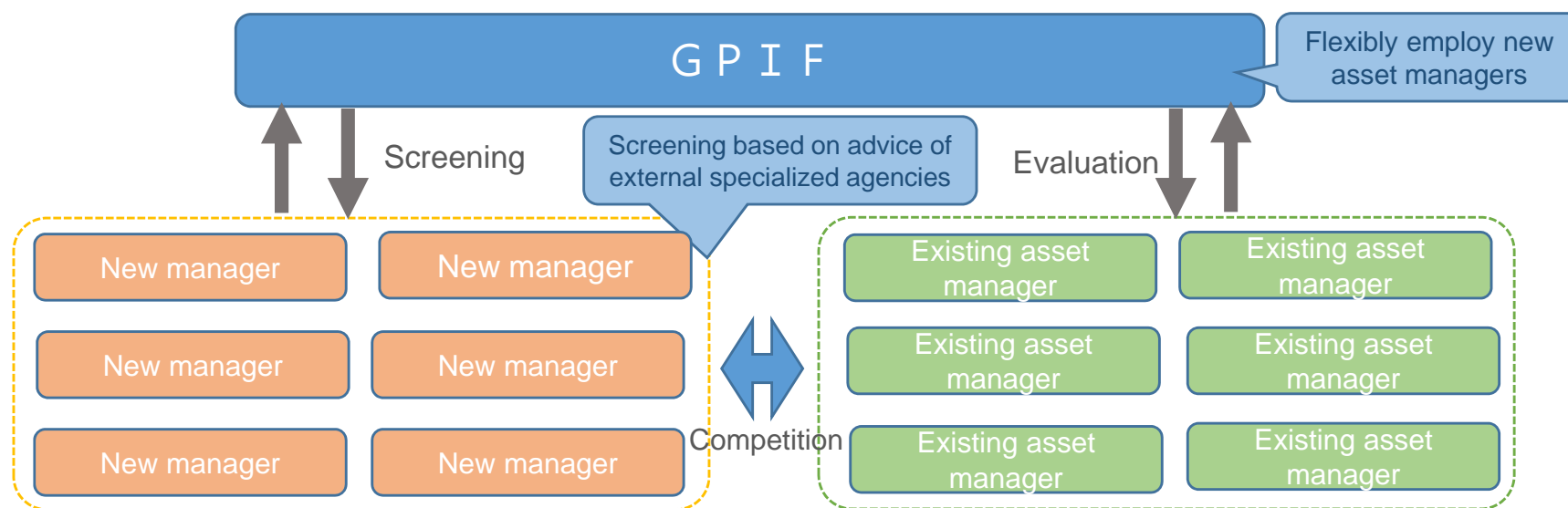
As a signatory to the United Nations' Principles for Responsible Investment (UN-PRI), GPIF has confirmed that stewardship responsibilities include ESG consideration, and will evaluate external asset managers based upon their proactive efforts on ESG.



# Introduction of Asset Manager Registration System

## ■ Objectives of introducing the Asset Manager Registration System

- Every four years we have revised our structure of each asset class managers, based upon the investment performance of the preceding three years (we also conduct annual assessment of external managers in a qualitative and quantitative way).
- Under this approach, new managers had to wait for maximum four years to be adopted in our portfolio. We recognized potential opportunity losses and decided to introduce the Asset Manager Registration System.
- In April 2016, we have introduced the system and requested a proposal on non-Japanese equity managers.
- With the monthly performance data submitted by external managers, as well as the third-party evaluation, we conduct screening and select managers. In this way, healthy completion between existing and new managers will be further promoted. In addition we introduced “information only” category to encourage registration from asset managers not meeting GPIF's Entry qualification.

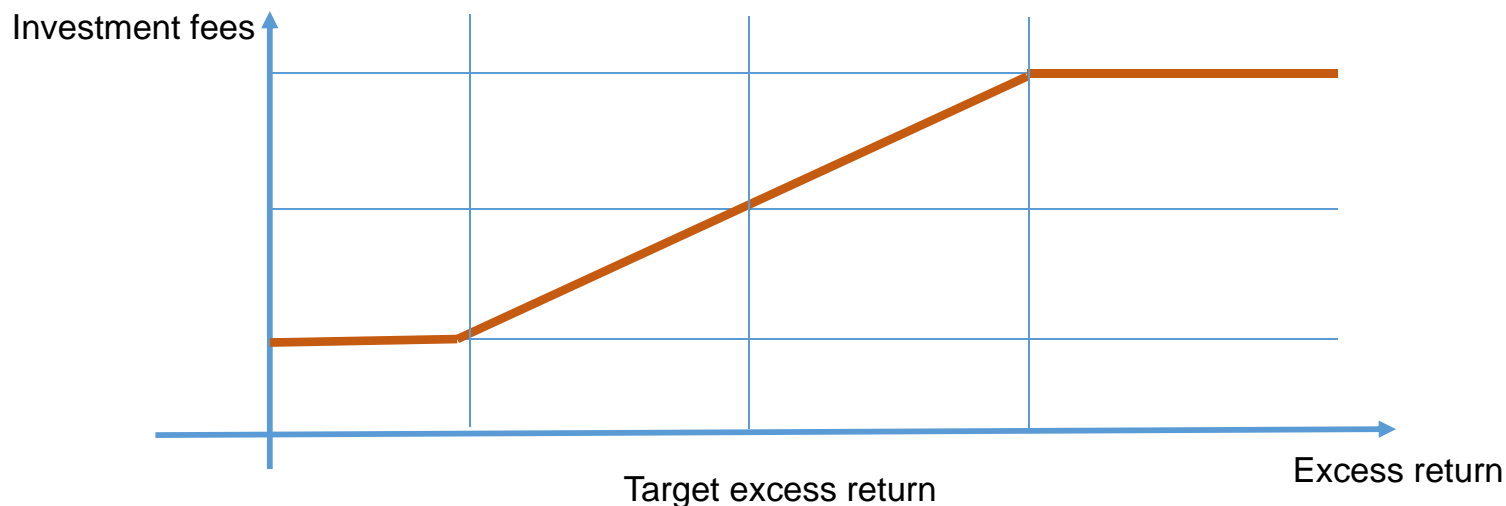


# Expanding performance-based fees

## ■ Enhancing alignment of interest between asset owner and asset manager

- Fee for external managers was mostly fixed. In order to motivate them for better performance and enhance alignment of interest, GPIF has encouraged external managers to adopt performance-based fee system.
- Performance-based fees was adopted for non-Japanese equities in 2013, for domestic equities in 2014, and for foreign bonds in 2015.
- Structure of performance-based fees is " Bull vertical spread " which is linked based upon three years excess return.

### Structure of performance based fees



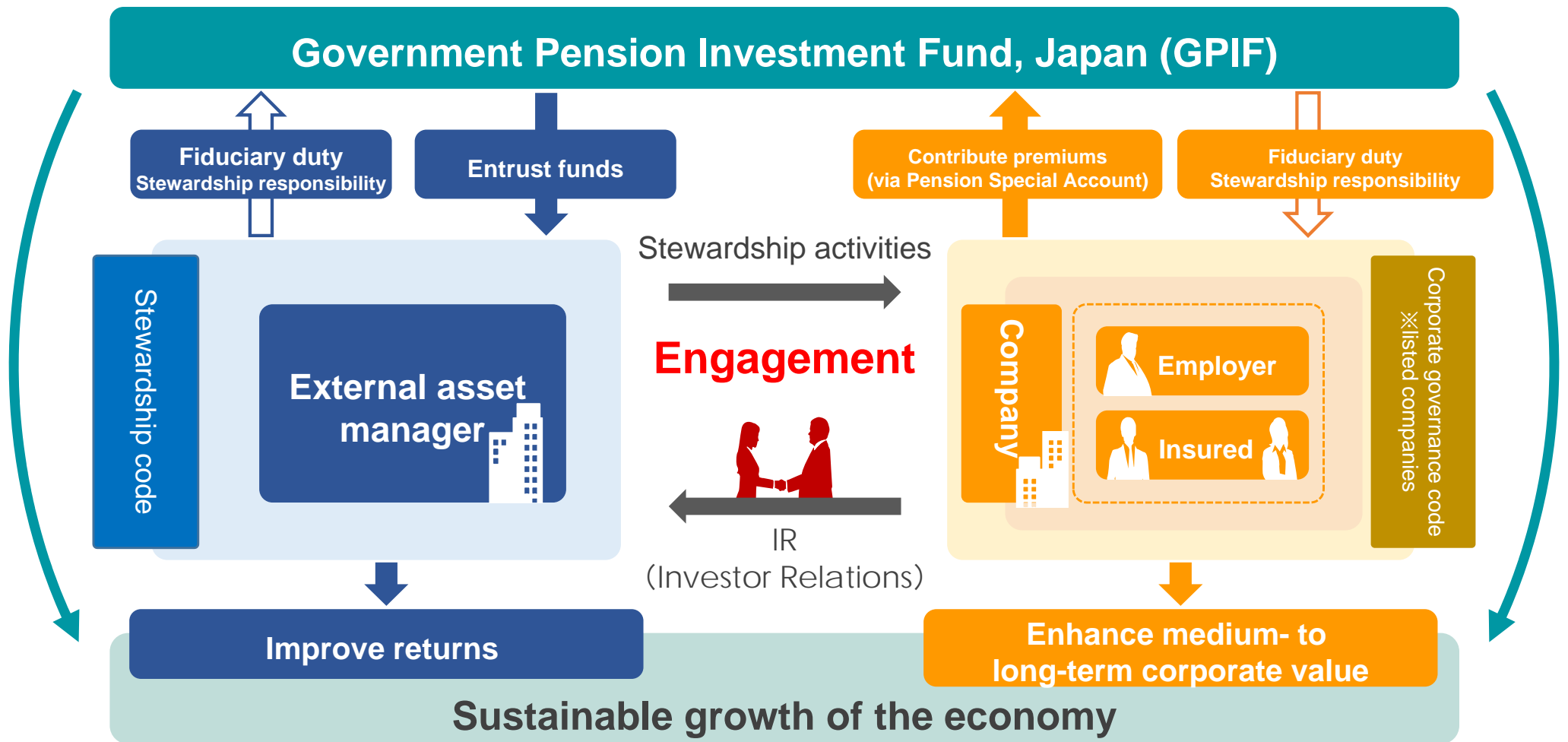
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# Stewardship & ESG activities

# Promoting “Win-Win Relationship” in the investment value chain



**Promoting “ engagement “ between companies and external managers for sustainable economic growth and improved investment return.**

# GPIF's priority on stewardship responsibilities

## Objectives

**Long-term investment returns should be increased by enhancing  
“Sustainable Corporate Value” and “Capital Market Efficiency”**

### Priority on stewardship responsibilities

**Build a win-win  
environment for investment  
chain**

**Encourage external  
managers to fulfill  
stewardship  
responsibilities**

**Consider environmental,  
social and governance  
(ESG) in investment**



### Recent initiatives

- Conduct a questionnaire survey on companies whose stocks were selected for the JPX-Nikkei Index 400
- Hold the Business and Asset Owners' Forum
- Hold the Global Asset Owners' Forum
- Revise the external managers evaluation criteria (e.g., passive managers will receive high score when they conduct stewardship activities in an appropriate way)
- Encourage external managers to improve their governance in order to prevent conflicts of interest
- Collaborate with PRI (Principles for Responsible Investment) and international associations
- Publicly request for proposal on ESG indices of Japanese stocks



# Request for proposal of ESG indices of Japanese stocks

## ■ Objective of ESG indices of Japanese stocks

- Universal owners such as GPIF need to maximize long-term returns from a portfolio by minimizing negative externalities including environmental and social problems.
- ESG consideration is expected to reduce investment risk and to enhance risk-adjusted returns. From this point, it is appropriate for GPIF to consider ESG factors when investing.
- Based upon the above-mentioned understanding, GPIF publicly requested for proposal on the ESG indices of Japanese stock in the passive investment, and aims to lower risks and/or achieve excess returns from a medium-to long-term.

## Reference: Overseas public pension plans' initiatives on ESG index investing

Index name	Index outline	Principal pension funds of which investment performance has been identified
S&P Long-Term Value Creation (LTVC) Global Index	An index designed in a manner that measures the performance of stocks that are highly ranked in global equity markets, according to unique criteria on both sustainability and financial quality, while using an investment universe comprising stocks of such markets.	<ul style="list-style-type: none"><li>• Canada Pension Plan Investment Board (CPPIB)</li><li>• Government of Singapore Investment Corporation (GIC)</li></ul>
SSGA Gender Diversity Index(SHE)	An index composed of stocks of companies that are, in a given sector, advanced in gender diversity endeavors by board of directors and senior management. This index's investment universe consists of U.S. large capitalization stocks.	<ul style="list-style-type: none"><li>• California State Teachers' Retirement System (CalSTRS)</li></ul>
MSCI Global Low Carbon Leaders index	An index that, using MSCI ACWI as its parent index, achieves a carbon footprint that is lower by 50% or more by excluding companies whose carbon dioxide emission rate is high and those whose carbon reserves are high relative to stock market capitalization.	<ul style="list-style-type: none"><li>• The Fourth Swedish National Pension Fund (AP4)</li><li>• The French Pension Reserve Fund (Fonds de Réserve pour les Retraites /FRR)</li></ul>
MSCI ACWI Low Carbon Target Index	An index that, using MSCI ACWI as its parent index, is formed with constituent stocks that minimize carbon dioxide emissions with a tracking error rate of up to 0.3%.	<ul style="list-style-type: none"><li>• California State Teachers' Retirement System (CalSTRS)</li></ul>

Source: Prepared by GPIF based on various pieces of data

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# The Japanese Economy

# All policies are driving the economy

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## ■ Monetary Policy ~ Yield Curve Control

- The BOJ keeps injecting money into JGB, ETF and REITs markets.
- Policy rate is at -0.1% and 10-year JGB is controlled at 0%, which helps yield curve to steep.

## ■ Fiscal Policy ~ Stimulus package

- Mr. Abe canceled the second consumption tax hike.
- JPY 4.5 trillion, about GDP 1%, fiscal package implemented in FY2016 as supplementary budget.

## ■ Growth Policy ~ Labor reform, Productivity improvement, De-regulation, More tourists

- Liquidate the workforce/ Reform the seniority system/ The same jobs the same wages
- Taxi fee will be reduced to JPY 410 from 720/ Minimum wages are raised
- More than 20 million tourists are visiting Japan, which was less than 10 million before Abenomics.