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GPIF

# The Purpose of ESG Investment by GPIF and Our Activities

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Chief Strategist & Head of ESG Team

Kenji SHIOMURA

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



# GPIF: “Universal Owner” and “Cross-generational Investor”

## Universal owner and a Cross-generational investor

GPIF is a “universal owner” that holds a wide range of shares and bonds of a majority of listed companies in Japan and of major overseas companies.

Asset size **¥196.6 trillion**

Number of GPIF-owned issues

Equities **5,920 stocks**

Investment time horizon **100 years**

Bonds **15,033 bonds**

## ESG Investment

GPIF promotes ESG integration throughout all of our investment processes.

ESG integration (all assets) **¥196.6 trillion**

Assets under management biding ESG indices **Approx. ¥12.1 trillion**

Investments in green bonds, etc. **Approx. ¥1.6 trillion**

## Long-term Investment Performance

GPIF's long-term investment performance exceeds nominal wage growth of +1.7%.

Cumulative returns (FY2001 - FY2021) **¥105.4 trillion**

Excess rate of return (FY2001 - FY2021) **3.69%**

## External Ratings

GPIF's initiatives in ESG investment are highly rated by external agencies.

Rating by FR I (strategy and governance) (as of March 31, 2022)

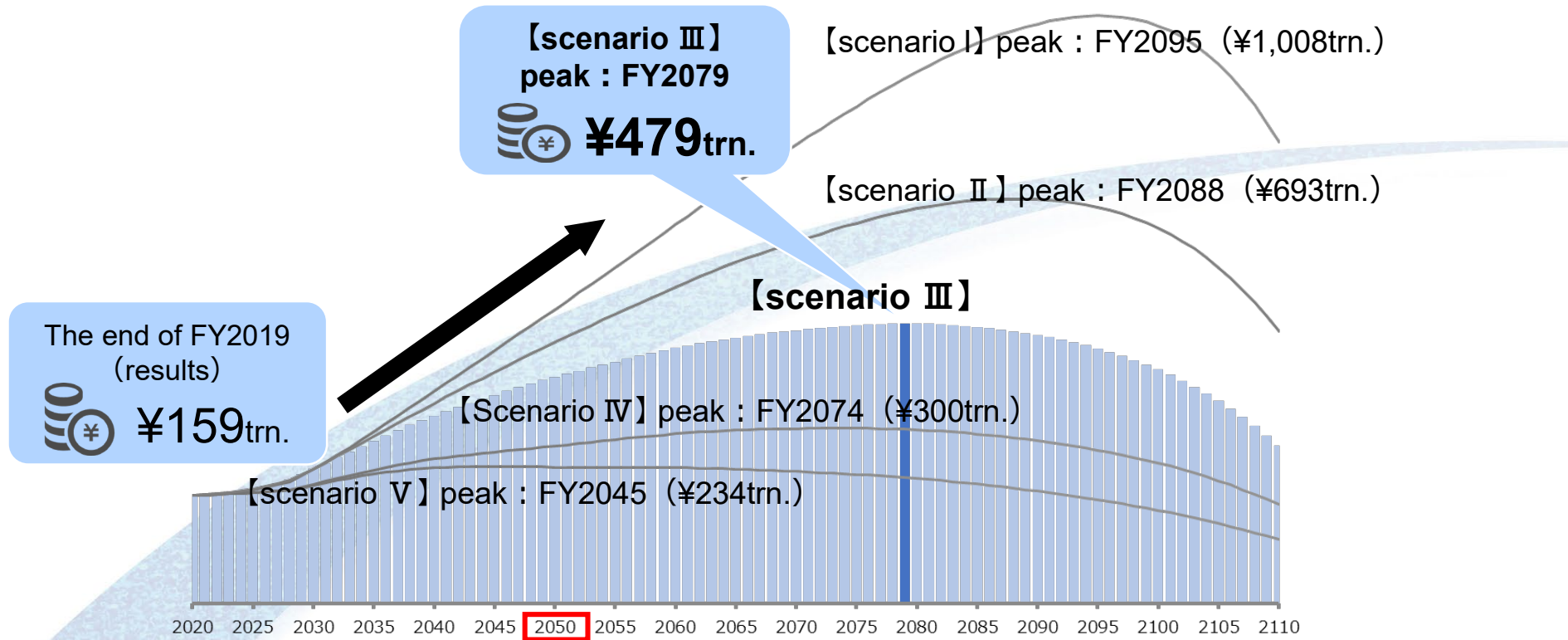
**A+**

Responsible Asset Allocator Initiative (RAAI) ranking

**Leaders**

# 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.



# 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 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 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

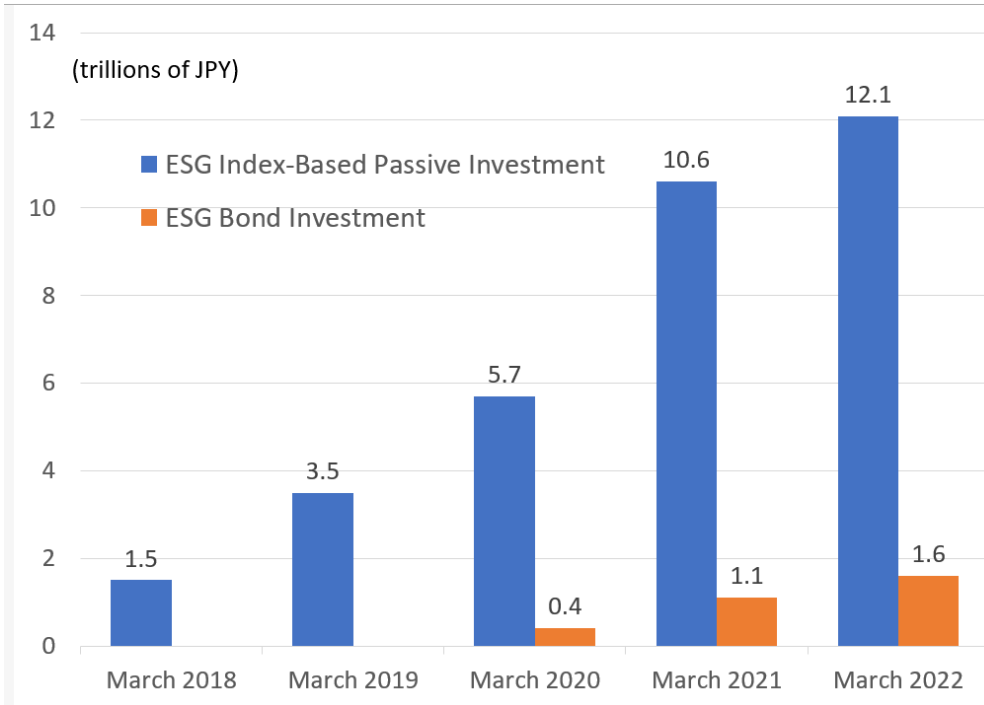
S&P/JPX  
Carbon Efficient  
Index Series

MSCI Japan Empowering  
Women Index (WIN)

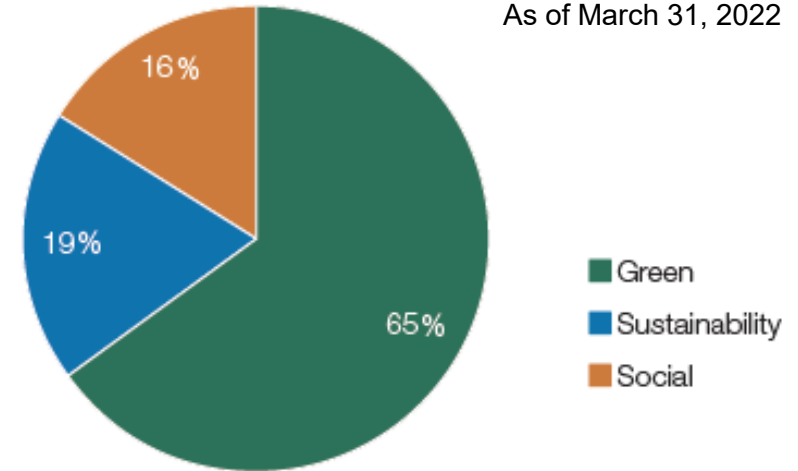
Morningstar Gender  
Diversity Index  
(GenDi)

# Trends of ESG Investment by GPIF

## Trends of ESG Index-Based Passive /ESG Bond Investment

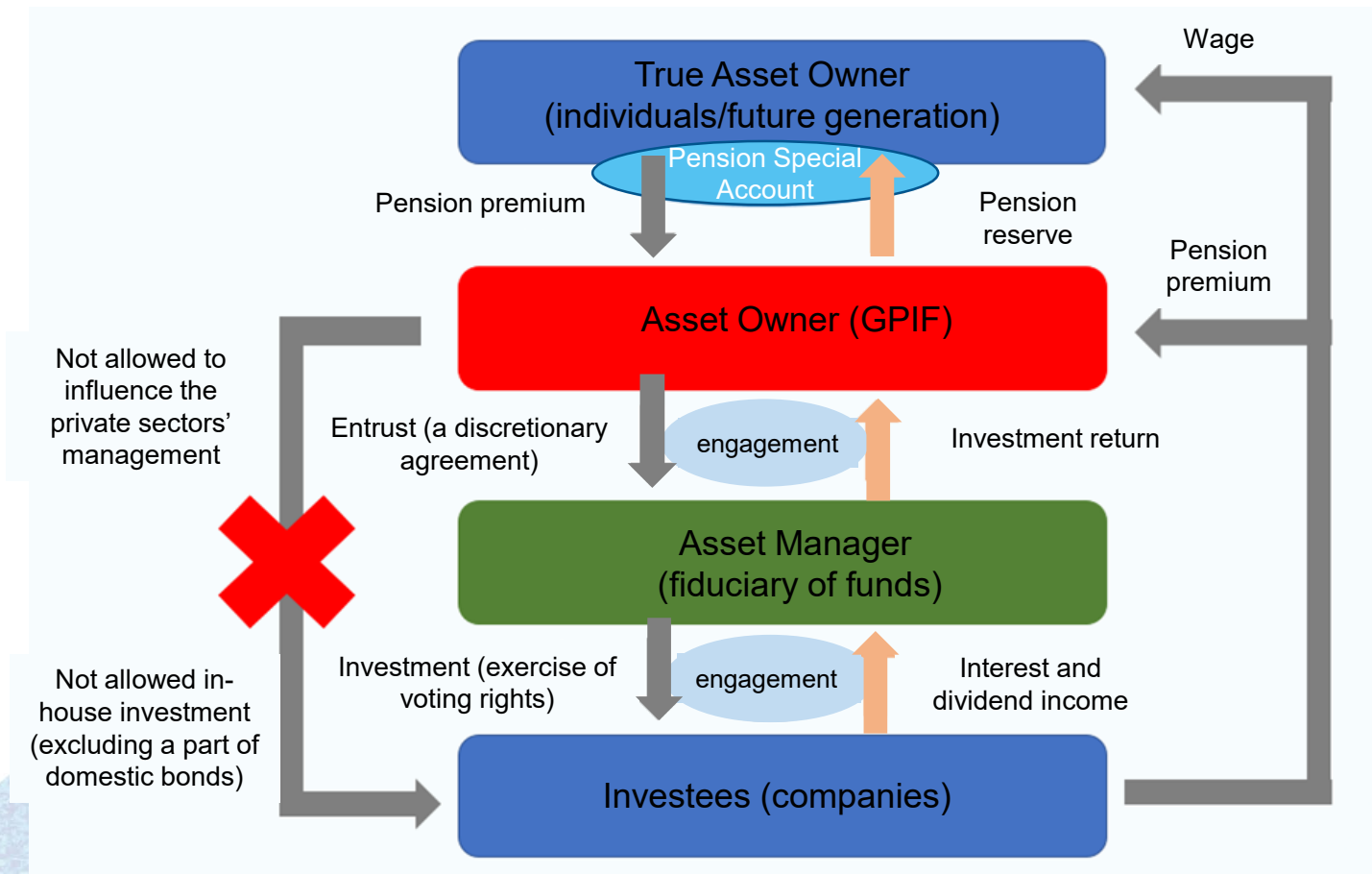


## Breakdown of GPIF's ESG Bond Portfolio



Source: GPIF

# GPIF in the Investment Chain







# 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)

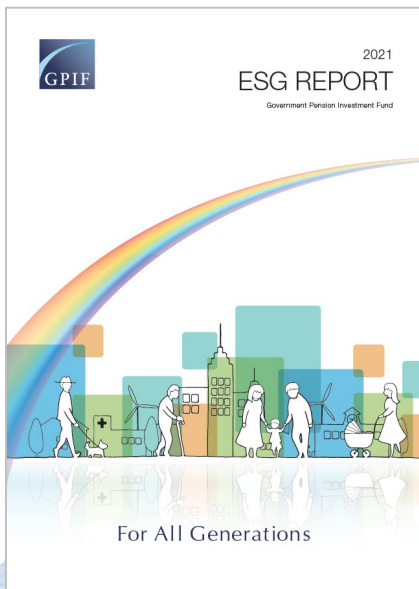
- Engagement is promoted through the commitment and active participation of their top management.

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

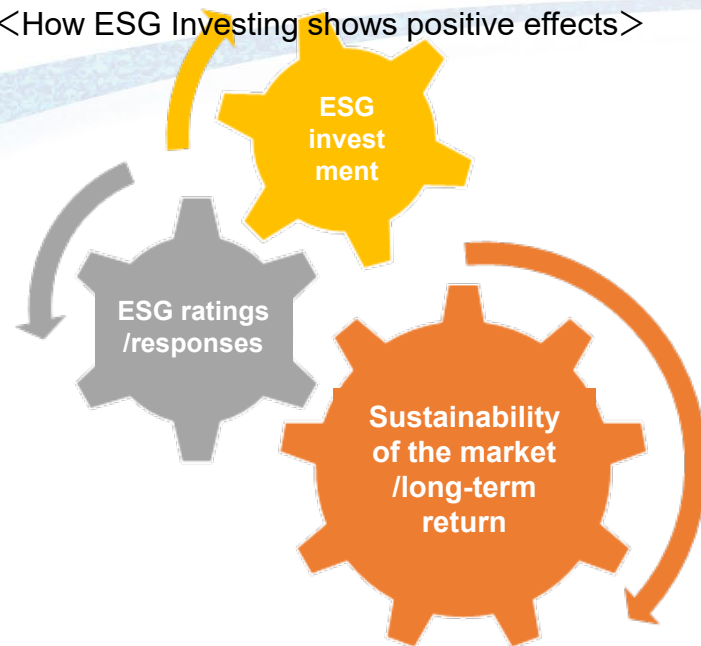
- Use of in-house AI analyzes the state of investee companies' integrated reports.

# “ESG Report” for Driving PDCA Cycle of ESG Investing

- For appropriately driving PDCA cycle of ESG investing, it is important to evaluate whether the enhancement of ESG ratings and companies’ responses to ESG issues are leading to the improvement of sustainability of the market as well as risk-adjusted returns.
- GPIF analyzes how ESG investing leads to the improvement of ESG ratings as well as responses to ESG issues by companies, and discloses the results in the “ESG Report” every year. Since 2018, we started disclosure of climate risks and opportunities in line with TCFD Recommendations.

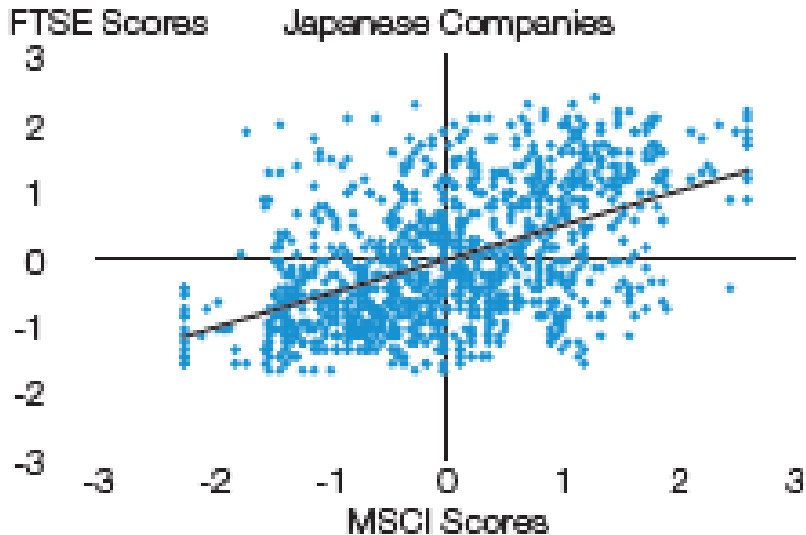


<How ESG Investing shows positive effects>



# Challenge① : ESG Information Disclosure and Evaluation Methods

**FTSE and MSCI ESG Score Correlation Chart  
(Japanese Equities as of March 31, 2022)**



(Note) Normalized (mean 0, variance 1) and plotted ESG rating data from FTSE and MSCI

(Note) Prepared by GPIF based on data from FTSE and MSCI.

## ① Insufficient ESG Disclosure

- Disclosed ESG information is insufficient to compare across companies.
- Increase in incentives for disclosure and regulators introducing mandatory reporting (e.g. TCFD recommendations) etc. had positive effects on the current situation.

## ② Lack of Consistent Metrics

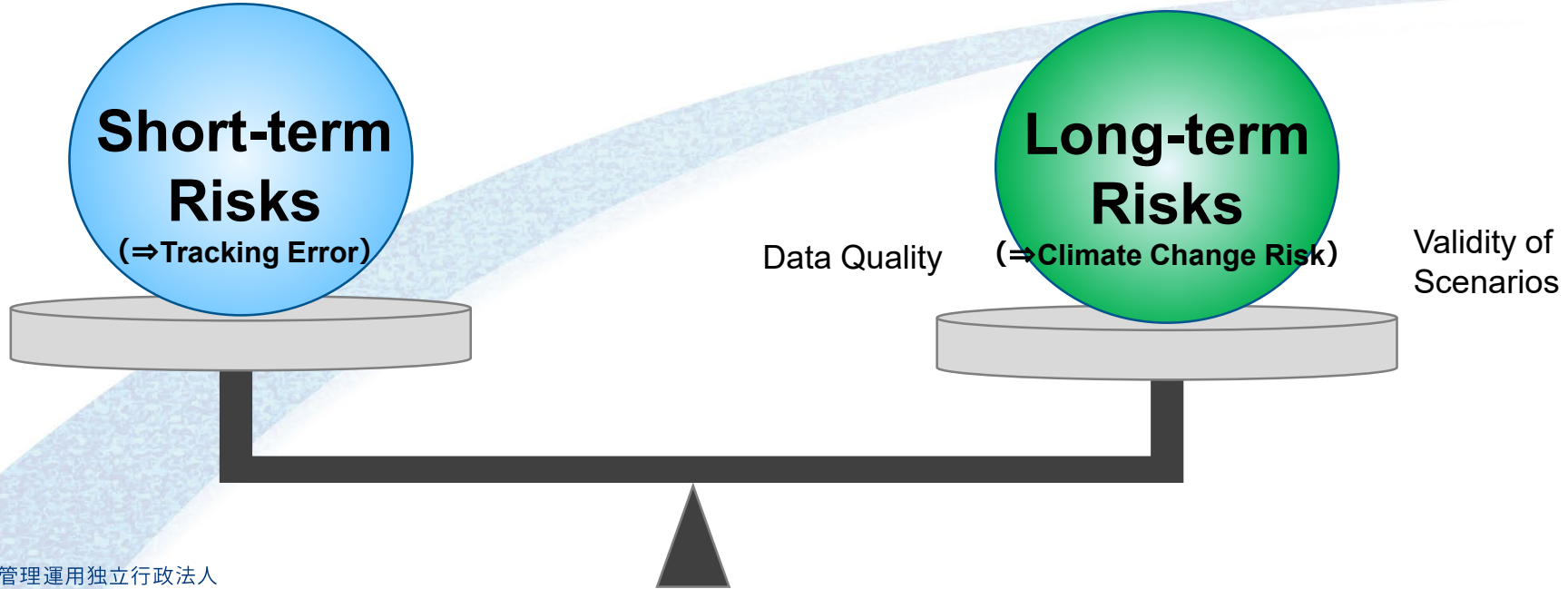
- Disclosures using different metrics are not comparable.
- High expectations for moves towards developing a global baseline of sustainability disclosure standards such as ISSB established under the IFRS Foundation.

## ③ Low Accuracy of ESG Evaluation Methods

- Short history compared to financial analysis.
- Mainstreaming of ESG investment is improving the accuracy of evaluation methods.
- Investors' objectives and investment horizon are different. At the end of the day, it is unlikely that evaluations will be unified.

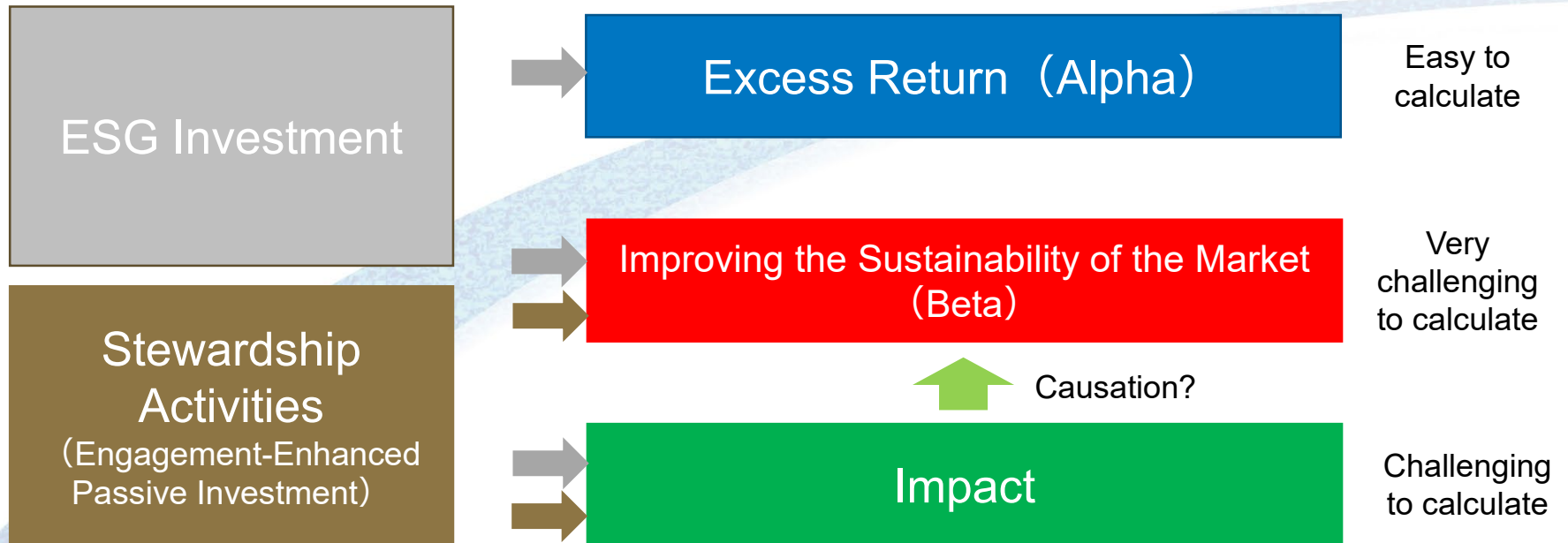
## Challenge② : Tradeoff between Short-term Risks and Long-term Risks

- In depth understanding of tradeoff between short-term risks and long-term risks is necessary.
- Although there is high possibility that climate change risks will materialize in the future, it is extremely difficult to predict the impacts of climate change (transition risks  $\leq$  physical risks).  
⇒ Possibility of prioritizing short-term risk management over actions to climate change.
- Improvement in validity of models and scenarios, as well as data quality is crucial for integrating climate change risks in investment decisions.



## Challenge③ : 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.



# Reference: Returns of Eight ESG Indexes Selected by GPIF

	April 2017 to March 2022 (past 5 years, annualized)				
	Return Rates			Excess Return	
	(a)	(b)	(c)	(a-b)	(a-c)
	ESG Index	Parent Index	TOPIX	Parent Index	TOPIX
(1) MSCI ESG Select Leaders	9.00%	8.03%	7.62%	0.96%	1.38%
(2) MSCI WIN	8.03%	8.03%		-0.01%	0.41%
(3) FTSE Blossom	8.86%	8.03%		0.83%	1.24%
(4) FTSE BlossomSR	8.80%	7.85%		0.95%	1.18%
(5) S&P/JPX Carbon	7.75%	7.62%		0.13%	0.13%
	ESG Index	Parent Index	MSCI ACWI ex Japan	Parent Index	MSCI ACWI ex Japan
(6) S&P Global Carbon	14.58%	14.53%	14.55%	0.05%	0.03%
(7) MSCI ESG Universal	15.04%	14.45%		0.59%	0.48%
(8) Morningstar GenDi	15.51%	15.40%		0.10%	0.95%

