Opinion Statement for the 2nd Meeting of the Council of Experts on the Stewardship Code

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November 8, 2019

1. Our fund's action for the Stewardship Code

Our fund is conducting the following activities for the Stewardship Code (hereafter, "the Code"). Disclosures of examples of actions by funds with respect to the Code are still few and far between, and we are still finding our feet regarding questions such as how much detail we should pursue, what disclosures we should make to beneficiaries, enrollees, etc. and to what level, what level of scrutiny is appropriate when monitoring asset managers, and so on. During the past two years, we have reduced the number of asset managers that invest in domestic shares for us to four, and we spend about one hour with each of them to go through a report covering their stewardship related activities. The timing of these meetings is in September to October, which is after most companies have held their AGMs and a period when the asset managers tend to be less busy. Using the details in the reports, we compile information about how they have voted, and at the end of October we publish information about our monitoring on the "Fund Newsletter" section of the fund's website, which is only accessible to beneficiaries, enrollees, etc.

Regarding Principle 4 of the Code, namely "engagement with investee companies," we do not expect to receive reports of all dialogue conducted, but sometimes we receive specific reports that include the names of individual companies and cover such matters as the nature of the engagement and the reactions of the companies. In other cases, we also receive updates about companies on the content and progress of dialogue without their names specified.

Unfortunately, given the in-house background of the director and manager of our corporate pension fund, they have little specialist insight or knowledge, meaning that there is a huge gulf between their knowledge level and that of portfolio managers and analysts, so the reality is that they don't have enough knowledge to rate the content of dialogue. However, I believe that we can fulfill the role of "responsible investment" as asset owner of funds by asking questions about how criteria such as shareholder return standards, internal reserves standards, targets and standards such as ROE and EPS are determined, what direction the top management of companies that are missing their targets are moving in, and what sort of negotiations have taken place during dialog, as well as by asking, for example, about the reasons for holding shares in the companies concerned.

I believe that the mission of pension funds is to achieve a good balance between following two things. The first is responsibility to earn target return as a results of investment, and the second is to invest with a sense of responsibility, as a presence that makes society better.

For example, we received an annual report from an equity fund managed by a European institutional investor, which is themed around water related investments, and in the report the companies that the fund invests in were rated as positive, negative, or neutral in terms of the degree to which they are contributing to the 17 SDGs. And as a result of weighting by sales ratio, it was stated that contribution was 72%. I believe that this sort of responsible investment aiming at establishing a sustainable society will also become more widespread in Japan going forward, and that there will therefore be an expansion in ESG investment.

2. Investment management by private pension funds that are small or medium sized in terms of assets

The management of pension assets is generally managed by three types of entity: trust banks, life insurance companies, and investment advisory firms. Small- and medium-sized corporate pension funds like us are not regarded as having the know-how to select individual names such as shares and bonds. Funds with large assets are able to invest by themselves (in-house management), but to do so they need to assign specialist personnel. I hear that a limited number of funds in Japan perform in-house management, and almost all small- and medium-sized funds, of which there are a huge number, rely on these three types of external entity. Most investment by trust banks is managed through joint accounts, while in the case of investment advisory, investment decisions are entrusted to the undertaking company via discretionary investment contracts. I believe that more than 95% of the total assets invested by individual funds that make joint investments of one billion or 500 million yen goes to fund managers that invest large amounts. Our fund invests entirely through joint accounts. We don’t ask about investment decisions in advance. Later, when the investment report is issued every quarter, we receive a report of new purchases, sales, additional purchases, issues that holdings of which were completely extinguished, and so on, as well as the factors and reasons behind these decisions. So we receive ex post facto reports about the results of investment and their attribution analysis.

Principle 3 of the Code clearly mentions that institutional investors should monitor investee companies, however what corporate pension funds expect to do in practice is just asking asset managers to monitor investee companies. While Principle 4 of the Code requires institutional investors to work to solve problems, I believe, it’s difficult for the individuals involved with investment at corporate pension funds to imagine themselves proactively lobbying asset managers. So I think an issue going forward will be that funds have no more than a monitoring stance, and that their role and scope of involvement with regard to promoting increases in corporate value through “dialogue with companies” is not adequately understood.

3. Stepping-up for the future

Regarding “proxy voting rules,” for example, if each fund can eventually possess some sort of voting criteria of its own, I think that this will give them a clearer image of such matters as the role of asset owners and how to approach asset managers. At overseas pension funds and Japanese public pension funds, personnel with a high degree of financial literacy are often involved in investment execution. However, in Japan, it seems that with the exception of funds operated by trading and financial companies, small- and medium-sized private pension funds have not yet reached that stage. Going forward, it is going to be important for personnel with a high degree of financial literacy to be assigned to pension-fund investment execution if the Code is to achieve penetration.