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# Impact investing for public pensions as asset owners
# A trial report on the GPIF “Impact Report”

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## [Abstract]

The purpose of public pension fund management is to finance the benefits of pension members after they reach a certain age. Particularly in Japan, where the birthrate is declining and the population is ageing rapidly, pension benefits are not only financed solely by the contributions of the working-age population, but also by holding a certain amount of reserve funds and utilising the investment return generated by their management for pension benefits. Government Pension Investment Fund (GPIF), the leading public pension fund, has a reserve balance of JPY 196.6 trillion, or $1.8 trillion at the end of FY2021 (the end of March, 2022), making it the largest pension fund in the world.

GPIF's investment period is very long, so if the GPIF recognises that the risk of 'negative externalities' of companies on the environment and society threatening the achievement of economic returns is material, it will require portfolio management in three dimensions, including impact in addition to return and risk, in order to support the livelihoods of future pension members. In addition, the impact needs to be taken into account in terms of providing diversification benefits and return enhancement opportunities against systemic risk, and also in terms of complying with new regulations in response to worsening environmental problems. There is a survey which shows three quarters of the public, the most important beneficiaries (excluding "don't know", which accounts for 40% of the responses), are in favour of impact investing in the sense of "considering solutions to environmental and social problems with public pension funds if they ensure investment returns".

Therefore, this paper assumes that the external environment is in place for the GPIF to start impact investing, and considers the nature of the impact analysis in the 'GPIF Impact Report' (hypothetical title) that will be published at that time. First, the relationship between impact investing and ESG investing is summarised, and the reasons why public pension funds should consider impact investing were then discussed. The Impact Investing Institute's Impact Investing Principles for Pensions is then introduced, and the thinking behind public pensions starting to invest in impact is outlined. Then it is considered future issues regarding ESG investments that overlap with the impact investments currently being made by the GPIF, and what kind of impact assessment should be analysed and disclosed, with reference to overseas examples if impact reports were to be published.


*The parts of the text relating to opinions or evaluations are the author's personal views and not those of his institution.

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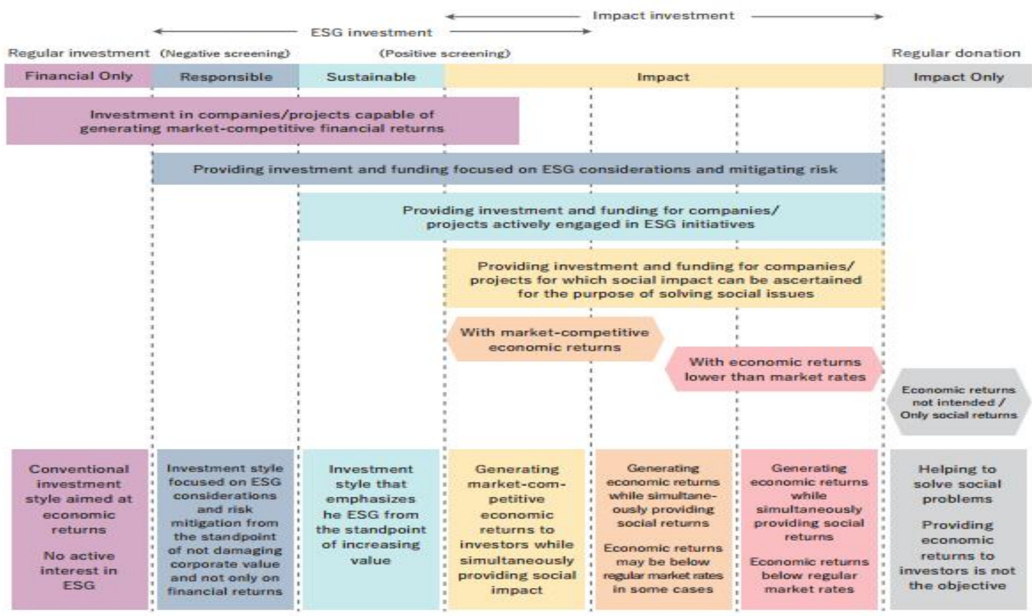
## 1. Overlap between impact investing and ESG investing

The GSG (Global Steering Group for Impact Investment) National Advisory Committee, established to promote ESG investment, classifies ESG investment and impact investment as shown in Figure 1. The key point is that impact investment aims to achieve both social outcomes and economic returns as an investment that also pays attention to social issues. The difference between ESG investment and impact investment is that while the ultimate objective of ESG investment is to maximise economic returns, impact investment evaluates social returns, or impact, quantitatively and qualitatively. However, a closer look at Figure 1 shows that ESG investment and impact investment overlap in some areas. In other words, some ESG investments generate market-competitive economic returns while simultaneously providing environmental and social returns, which are sustainability impact investments.

Chart 1




Source: *Position Paper on Expanding Impact Investing 2019* (GSG-NAB Japan)

Source: the GSG Domestic Advisory Committee, 'Recommendations for Expanding Impact Investment 2019'[1]

Impact investing is "investment intended to simultaneously generate positive and measurable social and environmental impact alongside economic returns. Investment decisions are based on a three-dimensional assessment of risk, return and impact."
Four elements of impact investment:.
(i) Intentionality
(ii)Financial Returns
(iii) Range of asset classes
(iv) Impact Measurement (social impact assessment)[2]

ESG investments aim to reduce long-term risk and maximise returns, whereas impact investing has the explicit intention of aiming to solve specific social issues. ESG investment is not aimed at solving social issues. ESG investment is a framework that aims to improve economic returns through a 'risk-return quadratic' approach. The logic is that investments in companies that take environmental, social and governance concerns into account will generate higher returns in the long term, rather than investing in order to have an impact on society. The difference is that impact investment is a three-dimensional framework with a clear intention to solve specific social problems.

## 2. The need for public pension funds to consider impact in addition to return and risk

As an asset owner positioned at the top of the investment chain, it is natural that public pension funds have a fiduciary responsibility to seek economic returns at a certain level of risk. However, they are now also required to contribute to the transition to a sustainable economy by resolving SDG issues through the companies in their investment portfolios. Why should public pension funds also consider their impact in solving environmental and social challenges? Let us consider the reasons for this using GPIF as an example.

### 2-1 Protecting the livelihoods of future pension members

GPIF's pension members are all citizens, so to speak, and it is a pension scheme that is

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[1] Recommendations for expanding impact investment 2019 http://impactinvestment.jp/2020/04/proposal2019.html

[2] SIIF Fumi Sugeno, CFA Japan webinar "Introduction to Impact Investment - Latest Global and Domestic Trends" (Nov 5th 2020)

responsible to all the Japanese. GPIF's investments are large and it is a widely diversified investor in the entire global capital markets and calls itself a 'universal owner'. GPIF manages pension reserves to reduce the future contribution burden of the working population, as it states that "the investment return and principal of pension reserves are used to supplement the pension benefits of future generations within a financial plan for approximately 100 years[3].

GPIF is thus a 'universal owner' and an 'investor for future generations'. In order for the GPIF to earn stable returns over its ultra-long investment period and during that time, it is important not only that the value of individual companies in which it invests grows over the long term, but also that the capital markets as a whole grow in a sustainable and stable manner. Until now, in investing from such an ultra-long-term perspective and in protecting the interests of pension plan members, it has been assumed that the concept of 'fulfilling fiduciary responsibility by making economic returns' in the two dimensions of risk and return would be sufficient by GPIF.

So far, the GPIF has promoted investments that take ESG factors into account not only in equities but also in all assets, including bonds, and has stated that "ESG investments will consequently contribute significantly to the achievement of the SDGs. The achievement of the SDGs and a sustainable economic society will lead to a higher long-term return for the GPIF on all of its assets under management[4]."

In other words, GPIF is concerned about environmental issues (E), such as rising temperatures due to damage to the environment caused by companies not paying their costs, social issues (S), such as human rights abuses in the supply chains of manufacturers that outsource their production, as well as the failure of the governance issues (G), such as a dysfunctional board of directors that overlooks CEO malfeasance and inflicts significant losses on shareholders. GPIF assumes they can generate long-term economic returns by evaluating the company through these ESG lens, saying ESG investment will result in a significant contribution to the achievement of the SDGs. However, it is disappointing for the public that GPIF's "ESG Activity Report 2021[5]" does not confirm that this has really been achieved.

As an investor, GPIF is stating that "investments with the objective of 'contributing to the

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[3] GPIF website: 'Pension reserves are money for future generations' https://www.gpif.go.jp/gpif/pension-finance.html

[4] Ibid.

[5] https://www.gpif.go.jp/esg-stw/GPIF_ESGReport_FY2021_J_01.pdf

resolution of social issues' per se are not made under the current laws and regulations and the 'objectives' of the investment actions conducted by GPIF[6]." Accordingly, there is no investment with the 'intention' of contributing to the resolution of environmental or social problems, and the results of the investment are not scientifically analysed and disclosed to the public as outcomes of the resolution of these issues.

There seems to be an assumption that the perception of 'negative externalities' will remain unchanged semi-permanently. The environmental and social problems in the societies in which future generations of working people will live tend to become more serious, to the extent that this premise forces a reconsideration of whether the interests of future pensioners are being protected. By considering impact investing, which considers impact in addition to return and risk, pensioners for the first time can see not only the positive impact that GPIF has on people and the planet through its portfolio of holdings, but also what negative impact it would have. This will help the public pension system to better ensure the benefits to its members and at the same time verify whether it is really making a significant contribution to the achievement of the SDGs. This also allows the PDCA cycle to turn to see whether the investment policy is suitable for a sustainable economy, and to review and revise the long-term investment policy to avoid negative impacts.

Even in today's scientifically advanced world, where there are still unknown systemic risks, corporate managers need to be prepared for the transition to a sustainable economy, and GPIF, as an asset owner, needs to be prepared not only for the traditional two dimensions of risk and return, but also to ensure that the market value of its portfolio does not plummet due to financial risks suddenly materializing negative impact. In other words, we are now in an era in which the livelihoods of future pension members must be protected only through the simultaneous realisation of economic return and positive impact.

## 2-2 To increase opportunities for diversification and return enhancement against systemic risk

GPIF is increasingly susceptible to systemic risks that threaten the stability of pension finances. Systemic risks such as carbon dioxide emissions, loss of biodiversity, poor governance and inequality, for example, could cause GPIF, as a universal owner, to damage its investment portfolio by causing the share prices of companies it owns to fall. However, such systemic risks are likely to increase over a longer time horizon as GPIF is investing for

[6] GPIF Website：「ESG Investment」 https://www.gpif.go.jp/esg-stw/esginvestments/

future generations.

Impact of corporate behaviour causing 'negative externalities'... Changes to environmental, social and governance (ESG) factors... is becoming more important in the management of GPIF's investment portfolio, but it must also be decisive in seizing opportunities to achieve asset appreciation by explicitly responding to internationally agreed targets for the transition to a sustainable economy. For example, GPIF already invests in ESG-themed investments that have a positive impact on the environment, such as environmental index investments in listed equities, gender diversity index investments and investments in “Corona Bonds”. Such 'investments linked to ESG indices' by GPIF, amounting to JPY 12.1 trillion (end of March 2022), provide opportunities for better risk diversification and higher returns, but as mentioned earlier, GPIF currently does not invest for the purpose of 'contributing to solving social problems' itself. However, as mentioned earlier, it does not currently make investments for the purpose of 'contributing to solving social problems', and therefore does not conduct scientific evaluation and analysis or disclosure to the public on the “impact outcomes” generated by these ESG investments. The public is very interested not only in verifying whether the results are linked to economic returns, but also whether they are linked to the achievement of the SDGs, as stated by GPIF. Therefore, the public needs GPIF to increase its accountability as an asset manager of public pensions by disclosing to the public the “impact outcomes” of the 12 trillion yen balance it has invested in ESG investments, which could be regarded as an impact investment once GPIF had an intention and evaluation of result to be disclosed.

## 2-3 Complying with new regulations and guidance

The UK's revised 2020 Stewardship Code requires investors to report on their stewardship activities and results, including how they have considered material ESG factors. In addition, there are moves at national level to 'mandate' companies to disclose information in accordance with TCFD (The Task Force on Climate-related Financial Disclosures) by 2025.

In terms of corporate management, the time has come for companies that fail to address the new emerging business risks and opportunities associated with the transition to a sustainability economy to be penalised, either by new regulations set by governments or by investors selling their shares. However, there is disagreement as to whether current share prices adequately factor in those systemic risks such as climate change. In many cases, companies are not sufficiently prepared for the new regulations and guides for systemic risks such as climate change that are looming over their operations. Therefore, by considering impact as an axis of public pension management, companies will inevitably respond to new regulations and guides.

## 2-4 Reflecting the voice of pension members

Public pension members are becoming more actively engaged in the sustainability of their investments and want to understand how they are invested. An example is the 'Make My Money Matter' campaign[7] launched in the UK in 2020. 'Make My Money Matter is a people-powered campaign fighting for a world where we all know where our pensions are going and can demand that they are invested to build a better future.' The campaign is a proactive pensioners' movement to ensure that the voice of pensioners is reflected in the campaign. 'Make My Money Matter aims to unleash the power of our money, unlock trillions of pounds of pension money and help build the fair and sustainable future we all want for our retirement. Our pension investments can help achieve this through the funding of 'Global Goals'. After all, what is good for people and the planet is also good for our savings." As Millennials and Generation Z are becoming the core of pensioners in Japan, they are more acutely aware of the climate change risks that will manifest themselves much further into the future than their parents' generation. It is also extremely important to reflect the views of pension members when considering investment in public pensions, so that the traditional investment policy of public pensions can be reviewed if necessary.

According to the results of an internet survey[8] conducted in June 2022 by Research Institute for Policies on Pension Ageing (RIPPA) the combined percentage of respondents who "positively" or "somewhat positively " want the resolution of environmental and social issues to be taken into account in the public pension fund is 17.0%. Conversely, the sum of 'somewhat don't want them to' and 'don't want them to at all' was 14.4%, with the positive group outnumbering the negative group by around 2.6%. However, when the number of respondents who "want public pensions to make impact investments if they can secure investment returns" (29.9%) is added, the total of positive voice is 46.9%. This means that just under half of the respondents are in favour of impact investment to solve environmental and social problems, provided that the returns are not sacrificed. Excluding the 38.6% of respondents of "don't know" about using public pension funds to address environmental and social issues, three out of four respondents would be in favour of impact investing in the sense

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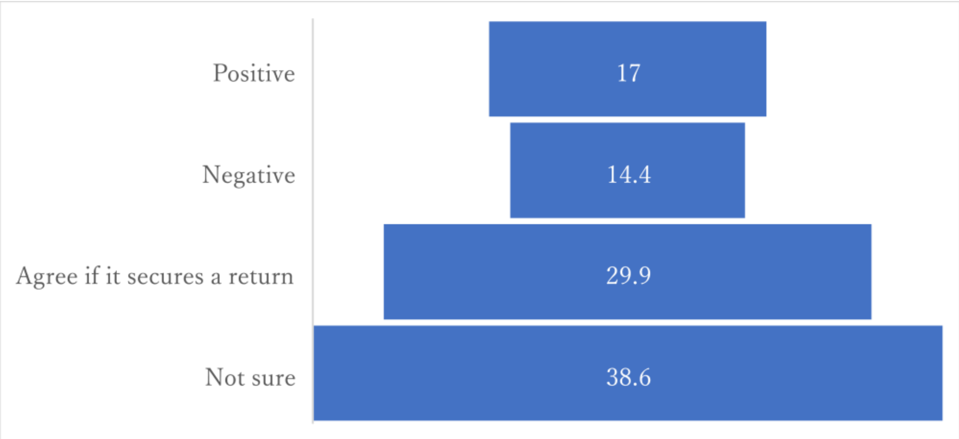
[7] https://makemymoneymatter.co.uk/about-us/

[8] RIPPA 'Results of a survey on attitudes towards pensions and investments' published (25 Aug. 2022) only in Japanese https://www.nensoken.or.jp/wp-content/uploads/20220825pressrelease.pdf

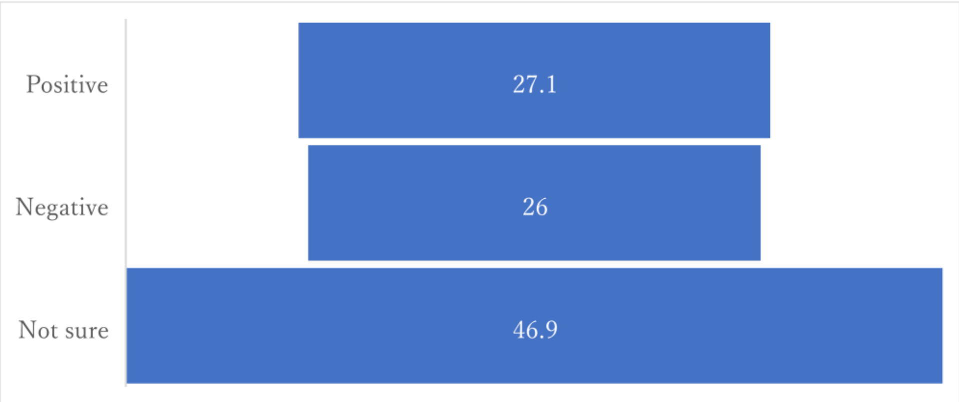
of using public pension funds to address environmental and social issues, on the condition that the investment returns would not be sacrificed.

On the other hand, concerning ESG investment, 27.1% of the respondents said they would like to see such ESG investment by public pensions ('Yes' plus ‘would like it to be more or less’), while 26.0% answered 'No' or 'Not at all', showing that those in favour of ESG investment were only 1.1% more than those in the negative. The proportion of respondents who answered "don't know" was 46.9%. The share of the positive group excluding the "don't know" group was 51.0%, as 46.9% of the respondents were "don't know". However, it should be noted that ESG investment does not include a question asking respondents whether they would like ESG investment if they could secure a return on their investment, so it is not possible to directly compare impact investment and ESG investment to see which has more support.

Consideration of solutions to environmental and social problems through public pension funding Chart 2




ESG Investment by Public Pension Fund Chart 3



An implication of this survey in reflecting the views of pension members is the fact that three-quarters of the respondents who expressed some willingness, with the exception of 'don't know', to 'consider solving environmental and social problems with public pension funds if they ensure investment returns' were in favour of this.

## 2-5 International debate on impact investing and fiduciary responsibility

As discussed in my paper[9], ESG investment does not have the resolution of social issues as its investment objective, but is a framework that does not have sociality as its primary objective, but aims to improve economic returns with a 'two-dimensional risk-return' approach. In other words, the logic is not to invest for social impact, but to invest in companies that are environmentally, socially and governance-conscious, which will generate higher returns in the long term. In contrast, impact investing aims to solve specific social issues The difference is that impact investment is a three-dimensional framework with a clear intention to solve specific social problems.

There is an active international debate on impact investment and fiduciary responsibility. The PRI, for example, argues two types of 'investing for sustainability impact' (IFSI), or 'investment approaches that seek to intentionally influence the behaviour of portfolio companies or third parties in a measurable way' ('IFSI'). The Freshfields Report distinguishes between two types of IFSIs[10]:

-Instrumental IFSIs: where the achievement of sustainability impact targets is a means to an investment return objective.

-Ultimate ends IFSIs: where the creation of sustainability impact is an end in itself, irrespective of the operational return target.

The report concludes that "in the former case of instrumental IFSI, the achievement of a specific impact target is a means to achieve an operational return, and conversely, institutional investors are more likely to be allowed to pursue impact because they pursue impact in order to achieve operational returns". What the Freshfields Report presented in 2021 is that "if it is

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9 "Impact Investment and Fiduciary Duty: The legal environment for GPIF to engage in impact investment (PDF)" https://www.arx.cfa/~/media/36A3845C13D3415CB9A42D840A558891.ashx

10 Freshfields Bruckhaus Deringer LLP（2005）" A legal framework for the integration of environmental, social and governance issues into institutional investment"

effective in achieving investment returns, then in addition to considering ESG factors, impact should also be pursued". In other words, the argument for allowing public pensions such as GPIF to engage in impact investing as institutional investors was legally clarified.

## 3. 'Impact investing principles for pensions'

Let's look at how overseas pensions are tackling impact investing. This section introduces the Impact Investing Principles by the Impact Investing Institute, established in the UK by Pensions for Purposes, which was founded in 2017 and led by the Pensions for Purposes

***Principle 1:***
***Set impactful objectives***
*Establish and incorporate 'impact objectives' as part of your pension scheme's statement of investment principles (SIPs) or policies, which can be explained to your members and are designed to serve the scheme's purpose Set impact targets*

This 'impact objective' is not about pursuing short-term investment returns. While it is impossible for pensions to vaguely predict the future, it is possible to predict outcomes that align with the investment themes set and to model these scenarios to define impact investment themes and investment behaviour. The idea of transitioning to a sustainable economy is to build into the model the identification of risks (e.g. new regulations by regulators) and opportunities (e.g. investment opportunities in relevant companies due to subsidies for renewable energy) posed by changes in specific assets or sectors, e.g. the transition to a net zero carbon economy, and it is possible to reach out to companies in engagements. It is also acceptable for pension boards to consider positive impact investing while seeking returns in risk-controlled investment opportunities when financially material impact factors arise that threaten the investment objectives they have set. Furthermore, pension plan members often prefer investments that have a positive impact on people and the planet, so it is useful to create opportunities to explain to them that they are making impact investments. Importantly, such impact investing has a diversifying effect on traditional asset allocation. It is therefore essential that a pension plan's firm beliefs on sustainability, encompassing both ESG and impact investing, are clearly stated in its basic investment policy (SIP).

***Principle 2:***
***Appoint investment consultants and managers with impact integrity***
*Identify and appoint investment consultants who are aligned with your investment beliefs and objectives, and investment managers who can achieve your scheme's impact objectives*

*through their investment and stewardship activities*

When appointing investment consultants and investment managers, the selection criteria should include an assessment of their track record in impact investing, alignment with the impact beliefs of the pensions they manage and their ability to deliver the impact objectives of the pensions (including investment philosophy, investment strategy, investment model, quality of personnel and investment products). The investment consultants and investment managers should have a good understanding of the preferred investment approach for the pension's impact beliefs and be familiar with the investment strategies to be employed to achieve the pension's impact objectives. Pensions must engage in an ongoing dialogue with their investment consultants and management contractors about their policies and objectives as a pension. Progress and possible need for change should also be considered through regular reviews in areas such as impact assessment, monitoring and reporting. It must also be ensured that investment consultants and investment managers have systems in place to measure and report on portfolio impacts in compliance with relevant regulations.

***Principle 3:***
***Use your voice to make change***
*Progress your impact objectives by formulating stewardship guidelines for your, or your investment manager's, voting and engagement activities*

Through engagement, investors can improve a company's performance on ESG issues. to improve the performance of companies on ESG issues. This extends impact investing beyond providing financing for beneficial products and services to improving corporate behaviour and achieving impact goals. Stewardship includes voting on key resolutions and strong engagement with companies on impact goals, which have the potential to manage risks and create opportunities related to a company's business model, operations and future prospects. As an asset owner, select an investment manager that has signed the Stewardship Code and is a signatory to this stewardship code.

***Principle 4:***
***Manage and review your impact***
*Monitor progress against your impact objectives by identifying relevant indicators and benchmarks, assisted by your investment managers*

Seek appropriate and robust reporting which includes performance in relation to the pension's impact beliefs and impact investment objectives, and indicators and benchmarks that help to monitor the cost-effectiveness of that performance, and are relevant and robust enough to understand the extent to which investment objectives are being met and to make decisions accordingly. Enlist the help of investment consultants and investment managers to establish consistent quantitative and qualitative assessment tools so that they can measure the impact on financial reports that can be reviewed. At the moment there is no global reporting standard for impact yet, but market infrastructures and practices are developing rapidly, so reporting is required to meet the requirements under TCFD, EU Non-Financial Reporting Directive (NFRD) and EU Sustainable Finance Disclosure Regulation (SFDR).

## 4. Overseas examples as reference for impact assessment analysis and disclosure in outsourced public pension fund management

### 4-1 Bonds... Corona bonds

According to GPIF's ESG Activity Report 2020[11], it has invested in green, social and sustainability bonds, which increased to approximately ¥1.1 trillion ($0.9 trillion) as at the end of March 2022 (author's note: approximately ¥1.6 trillion ($1.3 trillion) as at March 2022), including Corona bonds. The largest investment of these is the "Fight COVID-19" social bond, a corona bond issued by the African Development Bank (AfDB). The proceeds from the bond are used to finance projects aimed at promoting coronavirus antibody testing and supporting small and medium-sized enterprises (SMEs). GPIF is also a partner of the International Finance Corporation (IFC), the European Investment Bank (EIB) and the Islamic Development Bank (IsDB). Similarly, many pensions abroad also buy Corona bonds. Let's look at how the Threadneedle UK Social Bond Fund, famous for its Big Issue[12], has similarly purchased pandemic bonds, including Corona bonds, and how it has conducted its impact assessment analysis and disclosure to stakeholders.

#### 4-1-1 International case study #1... Columbia Threadneedle 'UK Social Bond Fund'

According to the fund's 2021 annual report, the fund was launched in 2014 and is the first bond fund to offer both retail and institutional investors the opportunity to make financial returns while their savings and investments benefit society. The fund's strategic impact objective is to support more inclusive and sustainable development, primarily in the UK, and over seven years it has achieved its goal of steadily growing balances and generating positive

[11] ESG REPORT 2020
https://www.gpif.go.jp/en/investment/GPIF_ESGREPORT_FY2020.pdf
[12] The Big Issue is a street newspaper founded by John Bird and Gordon Roddick in September 1991 (Wiki)

social and financial returns. The fund has invested £14 million in Corona bonds to support COVID-19 response and recovery. The Social Performance Highlights as an opening summary of the annual report discloses its achievements under the following headings:.

(i) Social performance (see below for details)

83% achieved against the social performance rating target (66% for high and medium ratings).

(ii) Social outcomes

Diversified investment portfolio covering 8 outcomes in line with the SDGs; £350m (approx. £50bn), 121 issuers, 225 bonds purchased

(iii) 2021 highlights.

The fund continues to focus on incorporating impact management standards such as the Impact Management Project (IMP) into its analysis to measure the fund's impact and disclose it to stakeholders.

### 4-1-2 Structure of the Fund’s annual report

The annual report is structured as follows：

I. Overview of the fund's impact objectives and eight outcomes.

II.Analysis of the Fund's performance in line with SDGs, social performance ratings, outcome areas and regions.

III. More in-depth analysis of social performance per outcome area. Case studies included.

IV. Future prospects in relation to the following three areas.

### 4-1-3 References to corona bonds

The following statement is made in response to COVID-19:

“Highlights the importance of considering environmental impacts. The fund's £14 million in Corona bonds reflects the growing S in ESG. In other words, it reflects the growth of bonds focused on healthcare and social recovery within ESG." Examples of health areas related to Corona bonds within the eight outcome areas covered by the fund:

Chart 4

| Social outcome areas | Key SDGs | Key outcomes | Typical bond issuer |
|---|---|---|---|
| Health and social welfare | SDGs 3 | Improve quality and access to health and social care facilities and services | Large scale providers of health and care services |

| | | | |
|---|---|---|---|
| | | and facilitate financing of health services through insurance products | and related services |

IMP cut-off impact analysis assessment on vaccination through Corona bonds.

IMP Dimensions:

| | |
|---|---|
| What | $750 million Social Bond for immediate funding to Gavi[13] to support routine immunisation in lower-income countries, reaching nearly half the world's children. The proceeds will be allocated between routine immunisations and COVAX AMC scheme. |
| Who | Gavi supports children in 57 countries based on a Gross National Income per capita below or equal to $1,630 on average over the past three years. The COVAX AMC scheme targets 92 lower income countries. |
| How much | A study covering the 73 Gavi-supported countries shows that, for every $1 spent on immunisation in the 2021– 2030 period, $21 are saved in health care costs, lost wages and lost productivity due to illness and deaths. |
| Contribution | The IFFIm[14] contributions have enabled Gavi to immunise more children at a fast rate. IFFIm estimate that the additional funding has saved 2.9 million children of the 14 million saved overall by Gavi (as of |

[13] Gavi（Global Alliance for Vaccines and Immunisations）

[14] IFFIm（INTERN▲TIONAL FINANCE FACILITY FOR IMMUNISATION

| | |
|---|---|
| | December 2019) and that every $1 million investment can save more than 1,000 lives. |
| Risk | Stakeholder participation risk - Resistance to vaccinations may reduce the effectiveness of immunisation programmes with disinformation being a well-documented risk area. Without investment in education and building trust in communities towards healthcare workers. Execution risk - There is a risk that the vaccines are diverted to non-target groups within countries or be used in exploitative transactions, particularly with COVID-19 vaccines, associated with higher risk of theft and diversion than traditional Gavi-supported vaccines. |

Source: Columbia Threadneedle 'UK Social Bond Fund 2021 Annual Impact Report

### 4-1-4 Social impact performance analysis methodology as a cut-off point for impact evaluation

Columbia Threadneedle's Responsible Investment (RI) team conducts social due diligence on all target bonds prior to investment and provides an overall social performance rating (high, medium or low). Its social performance rating was developed in collaboration with its social partner Big Issue, which consists of the following five dimensions:

i. Social Outcome: analysis is made of both the primary outcome area e.g. provision of transport infrastructure, and the secondary outcome (e.g. job creation). A higher rating is given to bonds that have clear intentionality to create positive impact and have specified defined and measurable output and outcome metrics.

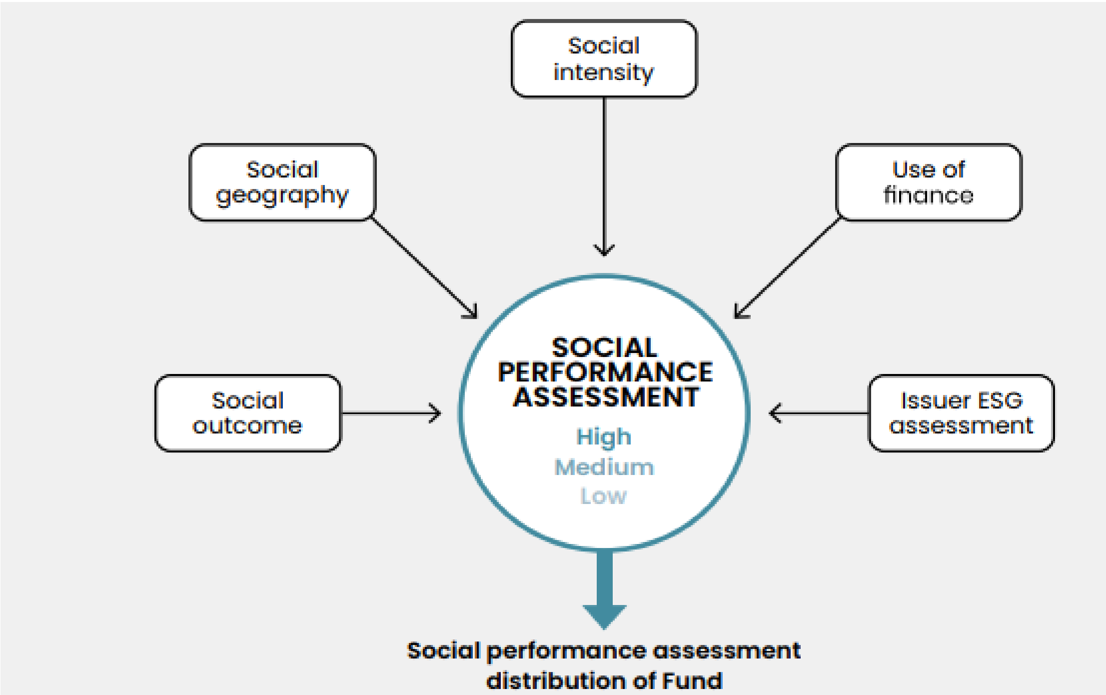
ii. Social Geography: the extent to which the project or activities financed by the bond has a geographical footprint that benefits disadvantaged communities and the UK's poorer regions.

iii. Social Intensity: the extent to which the bond directly targets people and communities most in social need. A higher rating is given to bonds which benefit specific disadvantaged groups, for example, low-income households or people with disabilities.

iv. Use of Proceeds: the Fund favours “specific use-ofproceeds”, which means the financing is exclusively channelled to pre-identified projects with social or environmental outcomes, rather than bonds issued for general corporate purposes. The Fund also favours new bond issues where it can contribute to growing a new or under-supplied capital market, such as for charities.

v. ESG Rating of the Issuer: the bond should have an Issuer with a good Environmental, Social and Governance (ESG) rating. The Columbia Threadneedle Responsible Investment team carries out this assessment using its own well developed ESG methodology and approach. The overall social performance rating for each bond is based on a combination of scores against five different evaluation criteria. The fund's portfolio contains a mix of bonds with social performance ratings of 'high', 'medium' and 'low'. The overall social performance target for the fund is for bonds with a social performance rating of 'high' or 'medium' to make up at least two-thirds of the portfolio.

Chart5




Source: Columbia Threadneedle 'UK Social Bond Fund 2021 Annual Impact Report

In addition to this overall impact assessment methodology, the Fund uses a more detailed methodology in a number of outcome areas to assess the impact of its investments. In the area of education, learning and skills, the Fund uses university league tables and other data to assess the performance of higher education institutions in contributing to social inclusion, liquidity, retention rates and graduate prospects.

## 4-2 Listed equities ... climate change index

In GPIF's '2020 ESG Activity Report', 'Composition and focus of climate-related financial disclosure and analysis' includes an analysis of domestic and foreign equities focusing on corporate greenhouse gas emissions across GPIF's domestic and foreign equity portfolio. 'TCFD Disclosure' section of the report expands the scope of analysis to the entire supply chain when measuring the portfolio's greenhouse gas emissions (carbon footprint), etc., and the assets to be analysed are also newly expanded to some alternative assets (domestic real estate). The focus is on the Climate Value-at-Risk (CVaR) indicator, which measures not only the 'risk' of climate change to the value of a company, but also the 'risk' of climate change to the value of the company. The emphasis is on how much economic return can be expected by analysing not only the 'risk' but also the 'opportunity' of climate change.

### 4-2-1 International case study #2... EQ Investors (hereafter EQ) Positive Impact Report 2021[15]

EQ Investors is an award-winning discretionary fund manager with a focus on sustainable impact, specialising in sustainable and impact investing.
EQ is owned by its employees as shareholders; to qualify as a B Corporation, the company must undergo the highest standards of verification for social and environmental performance, transparency and accountability, which is consistent with the company's sustainable investment approach.

The EQ Positive Impact strategy has always been to demonstrate that investors can make a positive impact through their investments while at the same time earning attractive financial returns. EQ's 2021 Impact Report outlines the environmental and social benefits in the report. In addition, the report details EQ's progress against its engagement agenda over the last year, its approach to sustainability and its future goals.

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[15] https://www.pensionsforpurpose.com/knowledge-centre/thought-leadership/2021/11/01/Positive-Impact-Report- 2021-EQ-Investors/

### 4-2-2 Impact highlights

Analysis and disclosure of increased impact per million pounds invested:

- 75 tonnes of waste recycled: equivalent to 76 households per year.
- 266 MWH of renewable energy generated: equivalent to the usage of 81 households.
- 52 million litres of wastewater purification: equivalent to the wastewater used by 402 households.
- 623 hours of schooling, further education and adult education.

· 157 patients treated.

In line with the SDGs, EQ has also developed its own impact assessment indicators and explained for the first time the Theory of Change framework it uses to assess the impact of each investment. This relates the company's activities and outcomes to a set of achievements and progress towards the UN Sustainable Development Goals.

### 4-2-3 Investing in a low-carbon society

Rapid decarbonisation of the economy is needed to limit the worst impacts of climate change. EQ measures carbon emissions across the equity investment value chain; companies in the EQ Positive Impact portfolio have a significantly smaller contribution to climate change and are more carbon efficient. EQ also uses 'stress testing' to show how a positive impact investment approach has the potential to gain investment value from climate change policy policing.

### 4-2-4 Commitment to change

EQ is constantly looking for opportunities to improve the net positive impact associated with its investments through ongoing dialogue with fund managers, policy makers and portfolio companies. This report highlights three case studies of how EQ is making a difference through engagement: setting climate change targets, human rights in supply chain change and tackling obesity through nutrition.

## 4-3 Listed equities - Gender diversity index

GPIF "FY2020 ESG Activity Report" contains the following statement confirming the status of gender diversity in Japanese companies (the "FY2021 ESG Activity Report" is almost the same).

“WIN Index assesses the five items required to be disclosed by the Law for the Promotion of Female Success in the Workplace and other items for the 700 Japanese companies which is the universe of the Index (500 companies before 2019). The median percentage of women at each level is in the 20% range for (1) new hires and (2) employees, less than 10% for (4) managers and 10% for (5) the board of directors (excluding the 0% value). In terms of gender diversity, the proportion of men is high at all levels and women are still in the minority. On the other hand, looking at changes over the past five years, (i) the proportion of women among new recruits and (ii) the difference in average years of employment between men and women have remained almost unchanged, while (iii) the proportion of women among employees, (iv) managers and (v) the board of directors has tended to improve over the past five years[16].

The logic required when considering this as an impact investment is to consider how the gender diversity status of the companies selected from the 700 Japanese companies eligible for inclusion in the index has been excellent and how this has been linked to points of improvement in corporate value, and the resulting equity investment strategy as a result of it. The information that supports this is: how investments focusing on gender diversity are expected to lead to economic returns in the long term. It is desirable to describe the main outcomes for each social outcome area by (1) What, (2) Who, (3) How much, (4) Contribution and (5) Risk in relation to the SDGs.

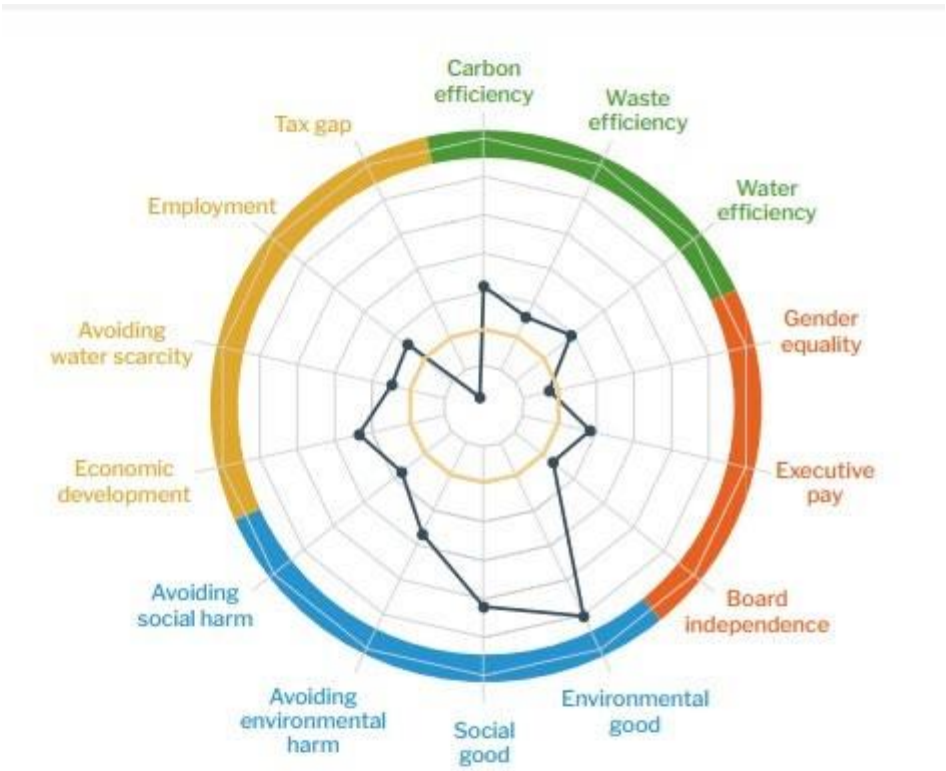
### 4-3-1 Overseas case #3... Montanaro ”Better World Fund” Annual Report 2021[17]

The fund's performance is reviewed after defining the 'impact investment theme (goal)' and comparing it to SDGs. It then explains how ESG and impact are analysed as part of the investment process. The impact measurement includes the following 14 sustainability indicators, as shown in Chart 6 below.
The impact measurement compares the Global Small and Mid Cap Index with the Better World Fund across 14 sustainability measures, as shown in Figure 6 below.

[16] GPIF "FY2020 ESG Activity Report" p47

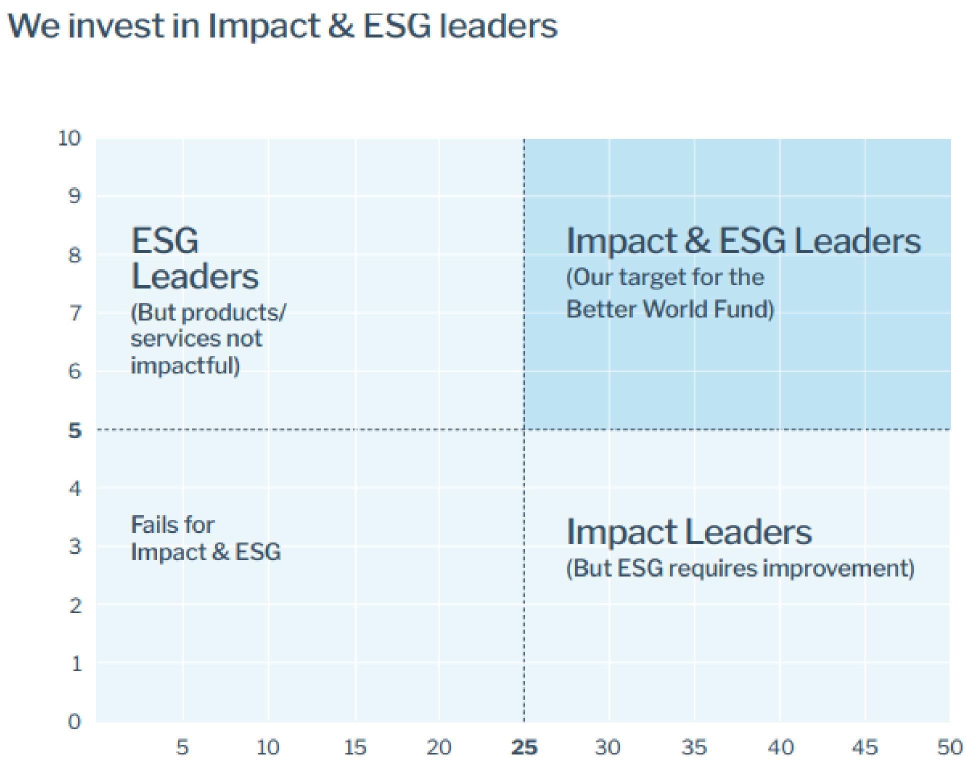
[17] https://montanaro.co.uk/wp-content/uploads/2022-Impact-Report-Montanaro-Better-Word-Fund.pdf

Figure 6




Montanaro declares that "We invest in Impact & ESG leaders", as shown in Figure 7.

Figure 7



## 5. Future tasks

The GPIF discloses the SDG positive impact of the GPIF's entire domestic and foreign equity portfolio in its 'Analysis of profit opportunities through contributions to the SDGs' in its '2020 ESG Activity Report'[18]. However, GPIF also includes domestic and foreign equity indices focusing on corporate greenhouse gas emissions in relation to SDG Goal 13 "Take concrete action on climate change", as well as the MSCI's Japan Equity Women's Activity Index (WIN) and Morningstar's Gender Diversity Index in developed countries (excluding Japan), which overlap with SDG Goal 5 "Achieve gender equality".

Also, as it is an ESG investment, GPIF does not externally commit to, for example, setting a target to reduce GHG emissions by X% by 2025 with regard to climate change, or to move to a carbon-neutral investment portfolio by 2050. Nor does GPIF disclose the annual GHG reduction contribution as a positive impact of its investments.

However, '2021 ESG Activity Report' issued in August 2022 is notable for its description of the 'monetary impact of corporate activities on each of the SDG targets'[19], where GPIF, which does not make impact investments, refers to impact and introduces its attempts to calculate the monetary impact of each of the 17 SDG targets. This is described as a column on a page that until last year was titled 'Analysis of revenue opportunities through contributions to SDGs', which has been renamed 'Assessment of alignment with SDGs'. The fact that GPIF has dared to add a section that does not need to mention contribution to or alignment with SDGs in an 'ESG activity report' may be interpreted as a preliminary study to prepare for the coming era of impact investing, even within GPIF.

According to Pensions for Purposes, the work of scientifically analysing and evaluating the outcomes of impact investments made with intention and disclosing them in a way that is easy for stakeholders to understand is still in its infancy. In this report, GPIF introduced several examples of how it analyses the impact outcomes of Corona bonds, which are also purchased by GPIF, and how overseas asset managers are analysing, evaluating and disclosing impact outcomes in the same way for listed equities with ESG-themed indices. If more and more data is accumulated to show that impact investing is supported by the public, GPIF itself, which has a network of overseas asset owners, will be required to refine its methods of analysing, evaluating and disclosing impact as a research theme, drawing on

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[18] GPIF "FY2020 ESG Activity Report" p69

[19] GPIF "FY2020 ESG Activity Report" p80

the wisdom of the private sector.

Assuming that the preconditions for impact investing have been put in place, such as the revision of the Basic Policy for Reserves (BPR) after sorting out the relationship between impact investing and fiduciary responsibility, and confirming the will of the public, then if GPIF has the 'intention' to make impact investments, a national debate would be needed on how to utilise the ESG investments already made to 'analyse, evaluate and disclose impact', and what would be included in the GPIF Impact Report.

[Reference]

Ryujiro Miki [2022], "Impact investing and fiduciary responsibility"
https://www.arx.cfa/-/media/regional/arx/post-pdf/2022/05/31/impact-investment--fiduciary-duty.pdf?sc_lang=en&hash=42272FA4B66265A9C23DE82934CC6CEC