

(Reference Translation)

The Third Index Advisory Panel
Meeting Summary

1. Date and time: Tuesday, June 27, 2023, 3:30 p.m. to 5:15 p.m.

2. Location: KABUTO ONE, 4th floor

3. Attendees (company names in Japanese alphabetical order)

Asset Management One Co., Ltd. Head of Index Solution Group Investment Div.	Koji Fujita
Daiwa Asset Management Co. Ltd. Managing Director Beta Management & investment Solution Department Chief Manager	Jun Matsumoto
Tokio Marine Asset Management Co., Ltd. Group Leader, Quantitative Investment Group Investment Solution Department	Yasuhiro Ohneda
Nikko Asset Management Co., Ltd. ETF Center Senior Adviser	Koei Imai
Nissay Asset Management Corporation General Manager Head of Quantitative Investment Department	Motoi Umino
Government Pension Investment Fund Managing Director ESG & Stewardship Department	Kenji Shiomura
Norinchukin Zenkyoren Asset Management Co., Ltd. Executive Officer Co-Chief Investment Officer	Junichi Hasebe
Nomura Asset Management Co., Ltd. Senior Investment Officer Investment Dept.	Isao Uesaki
BlackRock Japan Co., Ltd. Head of Index Equity, Managing Director	Naoto Furukawa
Sumitomo Mitsui DS Asset Management General Manager Investment Planning Department	Akitoshi Fujiwara
Sumitomo Mitsui Trust Asset Management General Manager	Kenichiro Ono

Stewardship Development Department	
Mitsubishi UFJ Kokusai Asset Management Co., Ltd.	
Deputy General Manager & Chief Fund Manager Equity Investment Group Index Investment Division	Hiroaki Minaka
Mitsubishi UFJ Trust and Banking Corporation	
Deputy General Manager Asset Management Division	Naoki Takebe
Resona Asset Management Co., Ltd.	
General Manager Index Investment Division	Nobuyuki Satoh

4. Agenda

- (1) Index management, including index consultation, etc.
- (2) JPX Prime 150 Index
- (3) ESG indices and ESG data
- (4) Expectations of JPXI as an index provider and its relationship with the asset management industry
- (5) Index promotion

5. Outline of comments from the panel

- (1) Index management, including index consultation, etc.
 - JPX Market Innovation & Research, Inc. (JPXI) places importance on governance and business continuity, with a focus on information management related to stock selection for co-brand indices in which it is involved.
- (2) JPX Prime 150 Index
 - It would be good to explain why the number of constituents of this index is 150 and why equity spreads and P/B ratios are used in the selection process.
 - We are interested to know if there are any plans to list index futures.
 - We agree with the purpose of this index. Domestic investors prefer a more expansive universe, while overseas investors prefer a narrower universe. For this reason, this index needs to be better promoted to overseas investors.
 - The risk-return characteristics of this index are those of large-cap, quality, and growth stocks and it is difficult to distinguish this index from similar ones in the short term. However, there is potential for this index to be recognized as a collection of “leading Japanese companies presumed to be focused on value creation,” and this index is a good tool for promoting consideration towards value creation and equity spread.

- For asset management companies, when selling this index, it is also essential to use words that capture the interest of investors and express the characteristics of the companies in a straightforward manner. We highly approve of the concept of this index, but it needs to be designed with a focus on appealing to such investors.
- We have high expectations and believe that this index can enhance shareholder value given the equity spread and P/B ratios criteria. It is essential to articulate the concept clearly.
- The financial quality of stocks in this index is like that of representative European and U.S. indices; however, this index's performance is entirely different from those indices.

(3) ESG indices and ESG data

- When using ESG indices, asset management companies are required to disclose data regarding ESG investment trusts to comply with the revision of the “Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc.,” so we would like them to prepare relevant data such as ESG scores of the constituent stocks and universes. In addition, when ESG indices are provided, it would be helpful if futures and market-making systems were also included.
- New calculations of ESG indices are welcome. However, as that would be complicated to manage and time-consuming, appropriate governance management systems are required.
- ESG data imposes a heavy burden on listed companies to disclose information and on investors to collect that information. As JPX is working to develop a corporate disclosure platform, we hope to see other such systems established.

(4) Expectations of JPXI as an index provider and its relationship with the asset management industry

- It would be helpful if the roles of the listing system and the selection criteria for constituent stocks were well-known.
- It is essential to consider the target of each index. Indices such as TOPIX, which are already used for investment purposes, are invested in with the expectation that they fulfill their role. For example, it must be carefully considered whether narrowing the number of TOPIX companies to 200 would lead to an ideal outcome in terms of competition. Existing indices should be managed with the interests of users and beneficiaries foremost in mind, and the idea of reviewing indices to stimulate listed companies is contrary to fiduciary principles.
- TOPIX is referred to by various parties, including active funds, and in considering how to make the index more investable, it is essential to raise the market level.
- To raise the overall level of listed companies, the listing system and other rules should be further refined within a strict framework rather than using index rules to select only the best stocks.
- One of JPXI's characteristics and strengths is its close connection with market operations. We hope that a virtuous cycle will be realized in which components such as the listing system and index

design are linked, making investments more attractive while enhancing the discipline of listed companies.

- There is a limit to what index providers can do independently, which is why it is important to cooperate in the investment chain, including the index, listing system, and authorities. TSE's requests for listed companies in "Action to Implement Management that is Conscious of Cost of Capital and Stock Price," JPXI's announcement of the JPX Prime 150 Index, and the FSA's release of its "Action Program for Accelerating Corporate Governance Reform" were all made around the same time in the spring of this year, which could be seen as a sign of a new beginning. The interlocking of these related institutions has been a powerful driving force for improving corporate value, and we look forward to more such developments in the future.
- While it is important for asset management companies to make efforts to improve the corporate value of listed companies, it is also important to enhance the investment targets' attractiveness themselves. In this sense, it is expected that developing indices will serve as an incentive for listed companies.
- JPX has the roles of market operator and index provider, and the indices should be managed to be the best for investors. We hope that JPX will be very conscious of the index concept for each index.
- Since TOPIX is a pure index that represents the market, we hope that the new indices, including JPX Prime 150 Index, will contribute to improving the attractiveness of the Japanese stock market and the governance of listed companies.
- More than 100 companies have a market capitalization of less than 2 billion JPY in the Prime, Standard, and Growth markets. We hope indices will help to achieve the objective of increasing corporate value. There should be an index that excludes stocks with small market capitalization.

(5) Index promotion

- In addition to promoting the index by itself, it is necessary to advertise it while using a narrative that describes both the market and the reform efforts of the listed companies. Background information on the development of the index and the analysis of the performance phase of the index would also make it easier to understand. It would also be helpful for index users to be provided with such information not only at the start of calculating a new index but on an ongoing basis. Enhancing such explanations will also help index providers fulfill their responsibility in explaining indices.
- Given that the TSE market is mainly used by overseas investors, it is essential to collaborate with securities firms and other entities with strengths in relationship management for overseas investors, and train and retain human resources at JPXI. In addition, it would be helpful to participate in domestic and international conferences to actively increase exposure.
- In Japan, ESG passive funds and ESG index ETFs are not included in NISA's reserve portfolio. This

may be due to their short track record. However, it is essential to expand the scope of passive products by encouraging the relevant authorities to allow the use of back-testing data.

- We hope JPXI will consider publishing a research paper targeting retail and institutional investors.
- Since individual investors are becoming more interested in the new NISA, it would be good to have materials that are easy to access and a website that is easy to understand for these interested investors.
- As mentioned in the “Progress Report 2023 for Enhancing Asset Management Business in Japan,” one idea would be to make a dividend index that represents economic returns the default.
- The expansion of the new index would require cooperation with index providers. We want to explore collaborations for marketing custom indices and other products to investors.
- Overseas investors are unfamiliar with Japanese equity indices and ETFs, and as a result, they have been more drawn to European and U.S. indices. Domestic ETFs are more advantageous for investing in Japanese equities in terms of liquidity and taxation, and there should be a better framework for promoting them as such.

(This summary has been provided by the Index Business Department of JPXI.)