

**Pension Fund Association for
Local Government Officials**

Fiscal Year 2021

Review of Operations

**Employees' Pension Insurance Benefit
Adjustment Fund**



地方公務員共済組合連合会
Pension Fund Association for Local Government Officials

[DISCLAIMER] When there are any discrepancies between the original Japanese version and the English translation version, the original Japanese version shall prevail.

[Abbreviations]

Local Public Service Mutual Aid Associations: Collectively means the Mutual Aid Association of Prefectural Government Personnel, the Japan Mutual Aid Association of Public School Teachers, the Japan Police Personnel Mutual Aid Association, the Mutual Benefit Association for Tokyo Metropolitan Government Employees, the National Federation of Mutual Aid Associations for Municipal Personnel and the Pension Fund Association for Local Government Officials.

Member associations: Collectively means the Mutual Aid Association of Prefectural Government Personnel, the Japan Mutual Aid Association of Public School Teachers, the Japan Police Personnel Mutual Aid Association, the Mutual Benefit Association for Tokyo Metropolitan Government Employees and the National Federation of Mutual Aid Associations for Municipal Personnel.

National Federation: National Federation of Mutual Aid Associations for Municipal Personnel

Association: Pension Fund Association for Local Government Officials

KKR: Federation of National Public Service Personnel Mutual Aid Associations

PMAC: Promotion and Mutual Aid Corporation for Private Schools of Japan

GPIF: Government Pension Investment Fund

EPI Act: Employees' Pension Insurance Act (Act No. 115 of 1954)

Local Public Officers, etc. Mutual Aid Association Act: Local Public Officers, etc. Mutual Aid Association Act (Act No. 152 of 1962)

Order for Enforcement of Local Public Officers, etc. Mutual Aid Association Act: Order for Enforcement of Local Public Officers, etc. Mutual Aid Association Act (Cabinet Order No. 352 of 1962)

Regulation for Enforcement of Local Public Officers, etc. Mutual Aid Association Act: Regulation for Enforcement of Local Public Officers, etc. Mutual Aid Association Act (Ministerial Order of Ministry of Home Affairs No. 20 of 1962)

Implementation Procedures for Local Public Officers, etc. Mutual Aid Association Act: Implementation Procedures for Local Public Officers, etc. Mutual Aid Association Act (Ministerial Order of Prime Minister's Office, Ministry of Education, Science and Culture and Ministry of Home Affairs No. 1 of 1962)

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Fiscal Year 2021 Investment Results (Overview)



Investment return:

5.19%

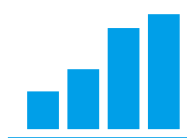
(Modified total return before the deduction of fees, etc.)



Investment income:

¥695.6 billion

(Investment income before the deduction of fees, etc.)



Value of investment assets:

(As of the end of March 2022)

¥13,787.2 billion

(Market value)

As pension investment funds are intended for long-term investment, the investment status must be judged from the long-term perspective.

As investment income is based on the market value as of the end of FY2021, it should be kept in mind that it includes valuation gains/losses, which means it may change depending on market movements.

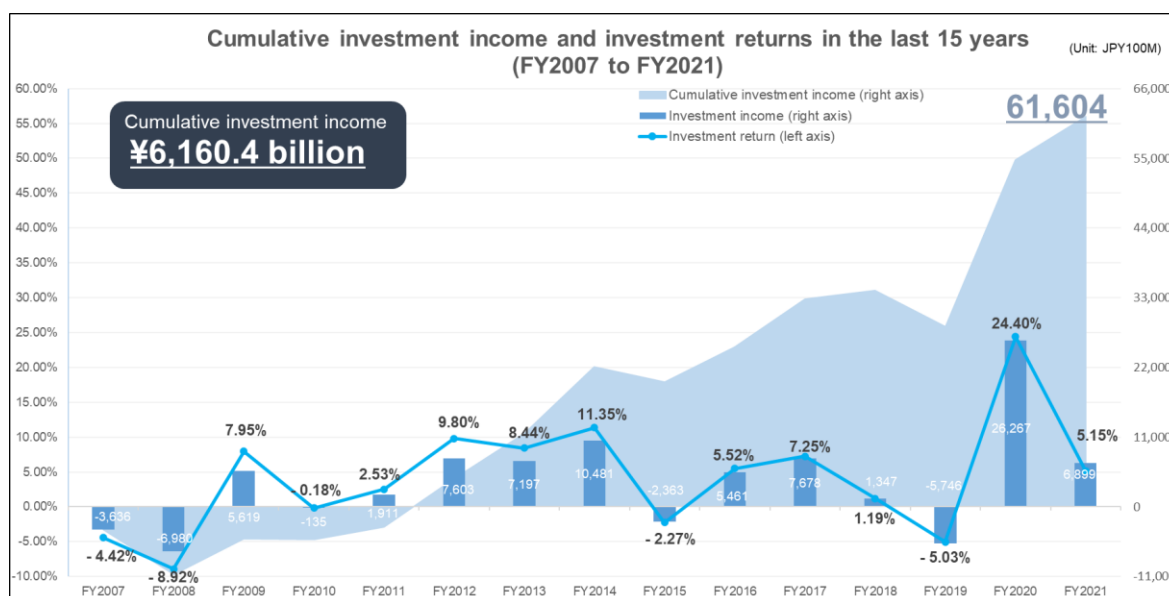
◆Long-term status of investments (last 15 years)

- Cumulative investment income (after deduction of fees, etc.):

¥6,160.4 billion

- The average investment return (after deduction of fees, etc.):

3.89%



<Changes in the real investment return concerning funds>

	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	Average of 15 years
Nominal investment return	-4.42%	-8.92%	7.95%	-0.18%	2.53%	9.80%	8.44%	11.35%	-2.27%	5.52%	7.25%	1.19%	-5.03%	24.40%	5.15%	3.89%
Nominal wage growth	-0.07%	-0.26%	-4.06%	0.68%	-0.21%	0.21%	0.13%	0.99%	0.50%	0.03%	0.41%	0.95%	0.70%	-0.51%	1.26%	0.04%
Real investment return	-4.36%	-8.68%	12.52%	-0.85%	2.74%	9.57%	8.30%	10.26%	-2.75%	5.49%	6.81%	0.24%	-5.69%	25.04%	3.84%	3.85%

(Note 1) The figures for income in and before the first half of fiscal year 2015 are estimates calculated by multiplying the value of income of the Long-term Benefit Fund in each fiscal year by the proportion of Employees' Pension Insurance Benefit Adjustment Fund at the time of the final allocation.

(Note 2) The nominal investment return for the whole of fiscal year 2015 cannot be calculated because the integration of employee pension plans was implemented during the year (October 2015), so it was mechanically estimated, as a reference figure, based on the nominal investment returns in the first half (Long-term Benefit Fund) and in the second half (Employees' Pension Insurance Benefit Adjustment Fund).

(Note 3) The figures for the nominal wage growth rate in and before fiscal year 2014 were cited from the Report on Investment of Investment Funds in FY2014 (September 2015, Ministry of Health, Labour and Welfare).

(Note 4) The figures for the nominal wage growth rate in fiscal year 2015 and later are those provided by the Ministry of Health, Labour and Welfare for Type 1 insured persons under employees' pension insurance as defined under the EPI Act after the revision made through Act No. 63 of 2012.

1 Investment results

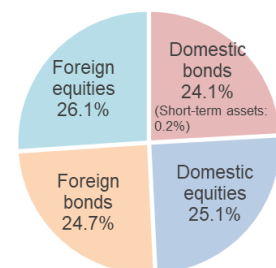
(1) Asset mix

The asset mix changed as follows as a result of market value fluctuations and rebalancing, among other factors.

(Unit: %)

	End of FY2020	Fiscal Year 2021				Benchmark portfolio
		End of Q1	End of Q2	End of Q3	End of FY	
Domestic bonds	24.3	24.5	24.6	24.3	24.1	25.0
Short-term assets	(0.3)	(0.0)	(0.0)	(0.1)	(0.2)	
Domestic equities	25.0	24.5	25.8	24.6	25.1	25.0
Foreign bonds	25.1	25.1	24.7	24.7	24.7	25.0
Foreign equities	25.6	25.8	24.8	26.3	26.1	25.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Composition by Investment Asset Class
(as of end of FY2021)



(Note 1) Deviation tolerances from the benchmark portfolio are $\pm 10\%$ for domestic bonds, $\pm 12\%$ for domestic equities, $\pm 9\%$ for foreign bonds and $\pm 11\%$ for foreign equities.

(Note 2) Due to rounding, the total sum of individual figures may not necessarily add up to 100%.

(Note 3) At the end of FY2021, the ratio of alternative assets to the total amount of funds is 1.4% (the upper limit is 5%).

(2) Investment return

The modified total returns came to 5.19% due to factors such as rises of foreign equities.

(Unit: %)

	Fiscal Year 2021				
	Q1	Q2	Q3	Q4	FY Total
Modified total returns	2.51	0.91	2.85	-1.04	5.19

(Unit: %)

	Fiscal Year 2021				
	Q1	Q2	Q3	Q4	FY Total
Time-weighted return	2.52	0.91	2.87	-1.06	5.30
Domestic bonds	0.42	0.09	-0.05	-1.30	-0.85
Short-term assets	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Domestic equities	-0.25	5.25	-1.55	-1.53	1.78
Foreign bonds	1.65	-0.82	2.59	-1.02	2.37
Foreign equities	8.32	-0.86	10.67	-0.48	18.26

(Unit: %)

	Fiscal Year 2021				
	Q1	Q2	Q3	Q4	FY Total
Realized return (book value basis)	1.76	1.47	1.33	1.16	5.71

(Note 1) The return in each quarter is the period rate.

(Note 2) The modified total return and time-weighted return represent the figures before the deduction of fees, etc.

(Note 3) The realized return (book value basis) represents the figure after the deduction of fees, etc.

(3) Excess return

The return (market value basis) for overall assets was 5.30% and the composite benchmark return for overall assets was 5.48%. The excess return over the composite benchmark was -0.18%.

	Overall assets
Return (market value)	5.30%
Composite benchmark return	5.48%
Excess return	-0.18%

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Return (market value)	-0.85%	1.78%	2.37%	18.26%
Benchmark return	-1.22%	1.99%	1.89%	19.38%
Excess return	0.36%	-0.21%	0.49%	-1.12%

(Note 1) Unless otherwise specified, the return (market value basis) refers to the time-weighted return. (The same shall apply hereinafter.)

(Note 2) The composite benchmark return for overall assets is calculated by weight-averaging the benchmark returns for individual asset classes based on the shares in the asset mix of the benchmark portfolio.

By factor, the excess return of -0.18% can be broken down as follows: asset allocation factor: -0.08%; individual asset factor: -0.08%; other factors: -0.02%.

	Asset allocation factor ①	Individual asset factor ②	Other factor ③ (including errors)	①+②+③
Domestic bonds	-0.01%	0.09%	-0.00%	0.07%
Domestic equities	-0.05%	-0.05%	0.00%	-0.11%
Foreign bonds	-0.01%	0.12%	-0.00%	0.11%
Foreign equities	-0.01%	-0.23%	-0.01%	-0.25%
Total	-0.08%	-0.08%	-0.02%	-0.18%

(i) Asset allocation factor: A factor that is attributable to the difference in terms of the asset mix between the benchmark portfolio, which is the standard for the calculation of the composite benchmark return, and the actual portfolio.

(ii) Individual asset factor: A factor that is attributable to the difference between the actual and benchmark returns concerning each asset class, which may arise depending on the level of investment expertise.

(iii) Other factor (including errors): A factor combining elements of the asset allocation and individual asset factors and calculation errors.

(4) Investment income

Investment income (market value basis) was ¥695.6 billion.

(Unit: JPY100M)

	Fiscal Year 2021				
	Q1	Q2	Q3	Q4	FY Total
Investment income (market value basis)	3,312	1,226	3,874	-1,456	6,956
Domestic bonds	134	31	-18	-440	-293
Short-term assets	(0)	(0)	(0)	(0)	(0)
Domestic equities	-84	1,754	-550	-492	629
Foreign bonds	548	-276	866	-353	785
Foreign equities	2,713	-283	3,576	-172	5,835

(Unit: JPY100M)

	Fiscal Year 2021				
	Q1	Q2	Q3	Q4	FY Total
Realized income (book value basis)	1,898	1,603	1,460	1,299	6,260

(Note 1) The investment income (market value basis) represents the income before the deduction of fees, etc.

(Note 2) The investment income (market value basis) represents the realized income (book value basis) adjusted for the effects of changes in valuation gains/losses based on market value.

(Note 3) Realized income (book value basis) represents the sum of trading profits/losses and interest and dividend income, etc. after the deduction of fees, etc.

(Note 4) Due to rounding, the total sum of individual figures may not necessarily add up to the FY total.

(5) Value of assets

Value of investment assets (market value basis) was ¥13,787.2 billion.

(Unit: JPY100M)

	End of FY2020			Fiscal Year 2021											
				End of Q1			End of Q2			End of Q3			End of FY		
	Book value	Market value	Valuation gains/losses	Book value	Market value	Valuation gains/losses	Book value	Market value	Valuation gains/losses	Book value	Market value	Valuation gains/losses	Book value	Market value	Valuation gains/losses
Domestic bonds	31,801	32,059	258	32,569	32,968	399	32,952	33,305	353	33,451	33,767	316	33,393	33,240	-153
Short-term assets	(353)	(353)	(0)	(31)	(31)	(0)	(65)	(65)	(0)	(113)	(113)	(0)	(277)	(277)	(0)
Domestic equities	24,275	32,978	8,703	24,622	32,905	8,282	25,198	34,981	9,783	25,591	34,176	8,586	27,141	34,626	7,485
Foreign bonds	31,909	33,087	1,178	32,084	33,749	1,665	32,315	33,498	1,183	32,580	34,297	1,717	33,108	34,079	971
Foreign equities	19,515	33,698	14,184	19,000	34,679	15,679	19,039	33,596	14,558	19,116	36,555	17,439	19,269	35,927	16,658
Total	107,500	131,822	24,322	108,276	134,301	26,025	109,504	135,380	25,876	110,737	138,796	28,059	112,911	137,872	24,961

Allocation changes of each asset class as a result of rebalancing

(Unit: JPY100M)

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Amount of funds allocated/withdrawn	1,481	1,039	214	-3,583

(Note) The amount of funds allocated or withdrawn is the amount of cash balance (cash-in and cash-out) other than investment income.

(6) Fees

The amount of fees totaled ¥5.7 billion. The fee rate relative to the value of investment assets came to 0.04%.

Regarding entrusted investments, the Association has introduced a fee rate table in which the fee rate declines in proportion to the value of investment assets, and an incentive fee system (the upper limit is set on fee rate) for active investment.

(Unit: JPY100M, %)

	Fiscal Year 2021	
	Fee	Fee rate
Domestic bonds	7	0.02
Domestic equities	19	0.06
Foreign bonds	6	0.02
Foreign equities	22	0.06
Alternative assets	4	0.29
Overall assets	57	0.04

(Note 1) Fees include management fees and custodian fees related to entrusted investment.

(Note 2) Fee rate = fee amount/month-end market value average balance

2 Risk management

(1) Approach to risk management

Generally speaking, "risk" refers to the "possibility of an incident that could have a negative impact on an organization's goals and objectives." In the field of asset investment, "risk" refers to the range of fluctuations of expected return on investment. Risk in this sense includes not only the possibility of failing to secure the required yield but also the range of fluctuations of return on investment due to various risks, such as interest rate risk, price fluctuation risk, credit risk, and liquidity risk.

Therefore, for asset investment, it is important to consider various risks commensurate with investment from a long-term perspective.

The Association appropriately implements risk management concerning investment in accordance with the implementation policy for risk management concerning investment of the Employees' Pension Insurance Benefit Adjustment Fund in consideration of the following points: that investment of funds should be made safely and efficiently from a long-term perspective; that diversified investments should be maintained in principle; and that the relationship between all Local Public Service Mutual Aid Associations' liabilities and the funds in the future should be taken into consideration.

Implementation policy for risk management concerning investment of the Employees' Pension Insurance Benefit Adjustment Fund (excerpt)

1 Basic approach concerning risk management

The Pension Fund Association for Local Government Officials ("Association") appropriately conducts risk management related to the investment of adjustment funds in light of the following matters.

- (1) Manage adjustment funds safely and efficiently from a long-term perspective.
- (2) Develop a benchmark portfolio based on the principle of managing adjustment funds through appropriate diversification across multiple asset classes with different risk/return profiles and other characteristics (hereinafter referred to as "diversified investment") and manage the funds based thereon.
- (3) Manage adjustment funds in consideration of the relationship between all Local Public Service Mutual Aid Associations' liabilities related to employees' pension insurance operations and the funds in the future.

(2) Risk management efforts

■Management of the deviation of the asset mix

Investment based on the benchmark portfolio requires the management of various risk factors. Therefore, in order to secure profits in line with the benchmark portfolio from the long-term perspective, it is important, in particular, to manage the degree of deviation of the asset mix of the actual portfolio from that of the benchmark portfolio.

Specifically, as the asset mix constantly changes due to asset price fluctuations, the Association keeps track of the status of the deviation of the asset mix of its actual portfolio from that of the benchmark portfolio and manages the actual portfolio so as to keep the degree of deviation within a certain range (deviation tolerance) for overall assets. In this way, the Association checks whether or not there are problems such as a deviation from the benchmark portfolio in excess of the deviation tolerance. In addition, flexible investment is made within the deviation tolerance in line with an investment policy established through deliberation at the Fund Management Committee of Pension Fund Association for Local Government Officials. In this regard, the Association confirms that the existing deviation is in line with the investment policy.

■Monitoring of market risk, etc.

The Association monitors downside risks by using the value at risk approach, which measures the maximum probable amount of losses, and stress tests, which conduct simulations assuming the application of certain shocks to markets.

As it also uses active investment in its investment of funds, the Association seeks to earn an excess return over the benchmark by diversifying investment strategies and investment issues within each asset class.

Therefore, the Association monitors the status of market risk (price volatility risk, etc. in each asset market), credit risk (default risk), etc. with respect to each asset class, mainly from the viewpoint of difference from the benchmark for each asset class.

■Management of entrusted investment management institutions, etc.

The Association manages liquidity risk (risk that purchasing and selling assets will become difficult due to a decline in trading volume) from the viewpoint of revising asset allocations (rebalancing) and smooth conversion of assets into cash. In addition, as the Association entrusts the operation of some investment-related activities to external institutions, it monitors the status of management (status of risk management and asset administration) of the institutions to which it entrusts asset management or asset administration (entrusted investment management institutions and asset administration institutions), from the viewpoint of smooth operation by individual institutions.

■Reporting on the status of risk management and improvement measures implemented

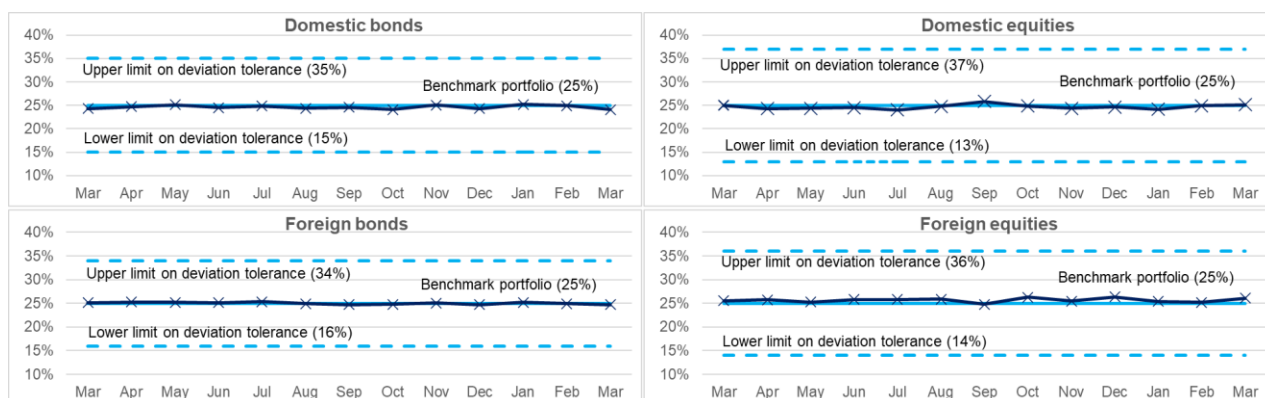
The Association reports on the status of risk management and improvement measures implemented to the Investment Risk Management Committee, the Fund Management Committee of Pension Fund Association for Local Government Officials and the Governing Council.

(3) Status of risk management (overall assets)

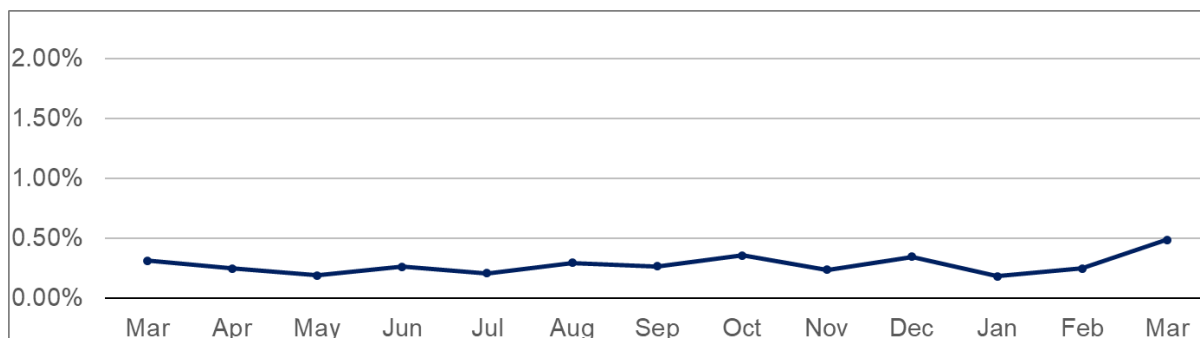
The shares in the asset mix concerning all asset classes—domestic bonds, domestic equities, foreign bonds and foreign equities—stayed within the deviation tolerance.

The estimated tracking error concerning overall assets stayed stable throughout the fiscal year as the asset mix remained stable.

【Changes in the asset mix】



【Changes in the estimated tracking error concerning overall assets】



(Note) The estimated tracking error concerning overall assets represents the tracking error concerning the benchmark portfolio (composite benchmark).

3 Contribution analysis of excess return by asset

(1) Domestic bonds

■ Contribution analysis of the excess return

By factor, the excess return of 0.36% on domestic bonds can be broken down as follows: fund factor: 0.39%; benchmark factor: 0.01%; other factors: -0.04%.

Regarding the fund factor, against the backdrop of a rise in interest rates, mandatory investments with short durations made positive contributions. In addition, investments in corporate bonds under NOMURA-BPI Overall (Active) and domestic real estate investments, etc. made positive contributions.

As a result, the excess return from domestic bonds was positive.

Return (market value) ①	Benchmark ②	Excess Return ①-②	Fund factor	Benchmark factor	Other factor
- 0.85%	- 1.22%	0.36%	0.39%	0.01%	- 0.04%

【Contribution analysis of the excess return by the manager benchmark, etc.】

	Mandatory investment, etc.	Inflation-indexed bonds	Nomura BPI Overall (Passive)	Nomura BPI Overall (Active)	Nomura BPI Overall (Enhanced)	Non-benchmark	NOMURA-BPI CaRD Index	Domestic real estate, etc.
Fund factor	0.30%	0.02%	0.00%	0.03%	0.02%	- 0.04%	- 0.00%	0.05%
Benchmark factor			0.00%	0.00%	0.00%		0.01%	

	Short-term assets	Total
Fund factor	0.00%	0.39%
Benchmark factor		0.01%

(Note 1) The fund factor is a factor attributable to the difference between the return for an individual fund and the return for the manager benchmark.

The percentage ratio is calculated in consideration of the average total market value of an individual fund.

Concerning mandatory investments, etc. and non-benchmark funds, a factor attributable to the difference between the return for an individual fund and the return for the policy benchmark is calculated as the fund factor for reference because the manager benchmark has not been set.

(Note 2) The benchmark factor is a factor attributable to the difference between the return for the manager benchmark and the return for the policy benchmark (NOMURA-BPI Overall).

The percentage ratio is calculated in consideration of the average total market value of an individual fund.

(Note 3) "Other factors" are factors attributable to calculation errors, in-kind asset transfer, etc.

(2) Domestic equities

■ Contribution analysis of the excess return

By factor, the excess return of -0.21% on domestic equities can be broken down as follows: fund factor: -0.07%; benchmark factor: 0.03%; other factors: -0.17%.

Regarding the fund factor, TOPIX (Active) and other funds with a growth feature made negative contributions.

Regarding the benchmark factor, the MSCI Japan ESG Select Leaders Index, adopted in a passive investment ESG fund, made positive contributions, while Russell/Nomura Small, which invests in small- and mid-cap stocks, made negative contributions.

As a result, the excess return from domestic equities was negative.

Return (market value) ①	Benchmark ②	Excess Return ①-②	Fund factor	Benchmark factor	Other factor
1.78%	1.99%	- 0.21%	- 0.07%	0.03%	- 0.17%

【Contribution analysis of the excess return by the manager benchmark, etc.】

	TOPIX (Passive)	JPX-Nikkei 400 (Passive)	Russell/Nomura Prime (Passive)	MSCI JAPAN ESG Select Leaders Index (Passive)	S&P Carbon Efficient (Passive)	TOPIX (Active)	TOPIX Mid400 (Active)
Fund factor	0.05%	0.00%	0.00%	- 0.00%	0.00%	- 0.09%	- 0.02%
Benchmark factor	0.00%	0.00%	- 0.00%	0.08%	0.00%	0.00%	- 0.03%

	FTSE RAFI Japan 350 QSR (Active)	MSCI Japan Minimum Volatility (Active)	Russell/Nomura Small (Active)	SOMPO Sustainability Index (Active)	Japan Minimum Volatility (Active)	Non-benchmark	Domestic PE	Total
Fund factor	- 0.00%	0.00%	- 0.01%	- 0.01%	0.00%	- 0.00%	0.01%	- 0.07%
Benchmark factor	0.03%	- 0.01%	- 0.08%	0.05%	- 0.01%			0.03%

(Note 1) The fund factor is a factor attributable to the difference between the return for an individual fund and the return for the manager benchmark.

The percentage ratio is calculated in consideration of the average total market value of an individual fund.

Concerning non-benchmark funds, a factor attributable to the difference between the return for an individual fund and the return for the policy benchmark was calculated as the fund factor for reference because the manager benchmark has not been set.

(Note 2) The benchmark factor is a factor attributable to the difference between the return for the manager benchmark and the return for the policy benchmark (TOPIX (with dividends)).

The percentage ratio is calculated in consideration of the average total market value of an individual fund.

(Note 3) "Other factors" are factors attributable to calculation errors, in-kind asset transfer, etc.

(3) Foreign bonds

■ Contribution analysis of the excess return

By factor, the excess return of 0.49% on foreign bonds can be broken down as follows: fund factor: 0.46%; benchmark factor: 0.05%; other factors: -0.02%.

Regarding the fund factor, amid rising interest rates around the world, funds with short durations under the FTSE World Government Bond Index (Active) and the Bloomberg Global Aggregate Index (Active), which was successful in class-by-class allocation of credit assets and in bond selection, and foreign real estate funds made positive contributions.

As for the benchmark factor, the Bloomberg Global Aggregate Index, which invests in corporate bonds, made positive contributions.

As a result, the excess return from foreign bonds was positive.

Return (market value) ①	Benchmark ②	Excess Return ①-②	Fund factor	Benchmark factor	Other factor
2.37%	1.89%	0.49%	0.46%	0.05%	- 0.02%

【Contribution analysis of the excess return by the manager benchmark, etc.】

	FTSE World Government Bond Index (Passive)	FTSE World Government Bond Index (Active)	Bloomberg Global Aggregate Index (Active)	Nomura RAFI (Active)	Foreign real estate, etc.	Total
Fund factor	0.07%	0.02%	0.02%	0.00%	0.34%	0.46%
Benchmark factor	0.00%	0.01%	0.05%	- 0.01%		0.05%

(Note 1) The fund factor is a factor attributable to the difference between the return for an individual fund and the return for the manager benchmark.

The percentage ratio is calculated in consideration of the average total market value of an individual fund.

(Note 2) The benchmark factor is a factor attributable to the difference between the return for the manager benchmark and the return for the policy benchmark (the FTSE Global Government Bond Index (excluding Japanese and Chinese government bonds; without hedging; on a yen basis); however, the FTSE Global Government Bond Index (excluding Japanese government bonds; without hedging; on a yen basis) in April to December 2021).

The percentage ratio is calculated in consideration of the average total market value of an individual fund.

(Note 3) "Other factors" are factors attributable to calculation errors, in-kind asset transfer, etc.

(4) Foreign equities

■ Contribution analysis of the excess return

By factor, the excess return of -1.12% on foreign equities can be broken down as follows: fund factor: -0.77%; benchmark factor: -0.10%; other factors: -0.25%.

Regarding the fund factor, funds under MSCI-ACWI (Active), which has a growth feature, made negative contributions.

Regarding the benchmark factor, MSCI-Emerging, which invests in emerging-country stock markets, made negative contributions.

As a result, the excess return from foreign equities was negative.

Return (market value) ①	Benchmark ②	Excess Return ①-②	Fund factor	Benchmark factor	Other factor
18.26%	19.38%	- 1.12%	- 0.77%	- 0.10%	- 0.25%

【Contribution analysis of the excess return by the manager benchmark, etc.】

	MSCI-ACWI (Passive)	MSCI-North America (Passive)	MSCI-Europe and Middle East (Passive)	MSCI-Pacific (Passive)	MSCI-Emerging (Passive)	MSCI-ACWI (Active)	MSCI-KOKUSAI (Active)	MSCI-Europe (Active)
Fund factor	- 0.00%	- 0.00%	- 0.00%	- 0.00%	0.00%	- 0.60%	- 0.22%	- 0.02%
Benchmark factor	0.00%	0.39%	- 0.01%	- 0.02%	- 0.48%	0.00%	0.13%	- 0.08%

	MSCI-Europe Value (Active)	MSCI-KOKUSAI Small (Active)	Russell 1000-Value (Active)	Russell 1000-Growth (Active)	S&P 500 (Active)	MSCI-Emerging (Active)	Foreign PE	Total
Fund factor	- 0.05%	- 0.01%	0.04%	- 0.03%	- 0.00%	0.01%	0.13%	- 0.77%
Benchmark factor	- 0.03%	- 0.09%	0.04%	0.06%	0.12%	- 0.13%		- 0.10%

(Note 1) The fund factor is a factor attributable to the difference between the return for an individual fund and the return for the manager benchmark.

The percentage ratio is calculated in consideration of the average total market value of an individual fund.

(Note 2) The benchmark factor is a factor attributable to the difference between the return for the manager benchmark and the return for the policy benchmark (MSCI-ACWI).

The percentage ratio is calculated in consideration of the average total market value of an individual fund.

(Note 3) "Other factors" are factors attributable to calculation errors, in-kind asset transfer, etc.

4 Alternative assets

(1) What are alternative assets?

Alternative assets are assets whose risk and return characteristics are different from those of traditional assets, such as equities and bonds. As of the end of fiscal year 2021, the types of alternative assets in which the Association invests are real estate, infrastructure, private equity (hereinafter referred to as "PE"), private debt (hereinafter referred to as "PD"), and bank loans (hereinafter referred to as "BL").

The profile of risk and return of alternative assets is diverse. Therefore, when selecting funds, the Association holds interviews with respect to each fund and makes investment decisions while taking into consideration the risks specific to the funds, the suitability with the selection criteria regarding entrusted investment management institutions and investment strategy, etc.

After making investment, the Association continues monitoring by periodically receiving reports on the status of performance of funds and investment assets from entrusted investment management institutions.

The Association holds down risks related to alternative assets by setting up its investment to a cap of 5% of the total portfolio.

(2) Objectives of investment

■Improving investment efficiency through diversified investment

There are differences between traditional and alternative assets in the risk-return profile. Among alternative assets, the risk-return profile varies by asset class, such as real estate and PE, and within the same class, it varies by investment strategy and by region and sector of investment.

Therefore, with respect to alternative investment, the Association raises investment efficiency through diversified investment by allocating assets in such a way that they are not concentrated in specific asset classes, regions or sectors.

■Earning liquidity premiums

Generally speaking, while the liquidity (cashability) of investment stakes in alternative assets is low, a premium that compensate for the low liquidity is added to the return.

The Association is relatively free from liquidity-related constraints because of its long-term investment period. Therefore, by investing in alternative assets, the Association earns premium returns in exchange for sacrificing liquidity with respect to some portions of its investment assets.

■Measures taken to respond to inflation and interest rate rises

Generally speaking, bond prices drop when interest rates rise. However, in the case of real estate and infrastructure, income for investment assets also changes in tandem with an interest rate rise. Therefore, asset prices do not necessarily decline as a result of an interest rate rise.

For some foreign infrastructure assets, facility usage fees, which correspond to sales, are linked to inflation, which means that sales increase if inflation rises.

Therefore, some alternative assets help curb interest rate rise risk and inflation risk (the decline in asset price due to rising interest rate or inflation).

(3) Fund Selection and post-investment management

■ Introduction of an asset manager registration system and expansion of scope of investment targets

The Association has introduced an Asset Manager Registration System that accepts entries from entrusted investment management institutions on an ongoing basis in order to select funds for alternative investments.

In July 2015, the Association started soliciting entries with respect to funds investing in real estate and infrastructure under the Asset Manager Registration System. Subsequently, the scope of investment target assets was expanded to include PE, PD and BL.

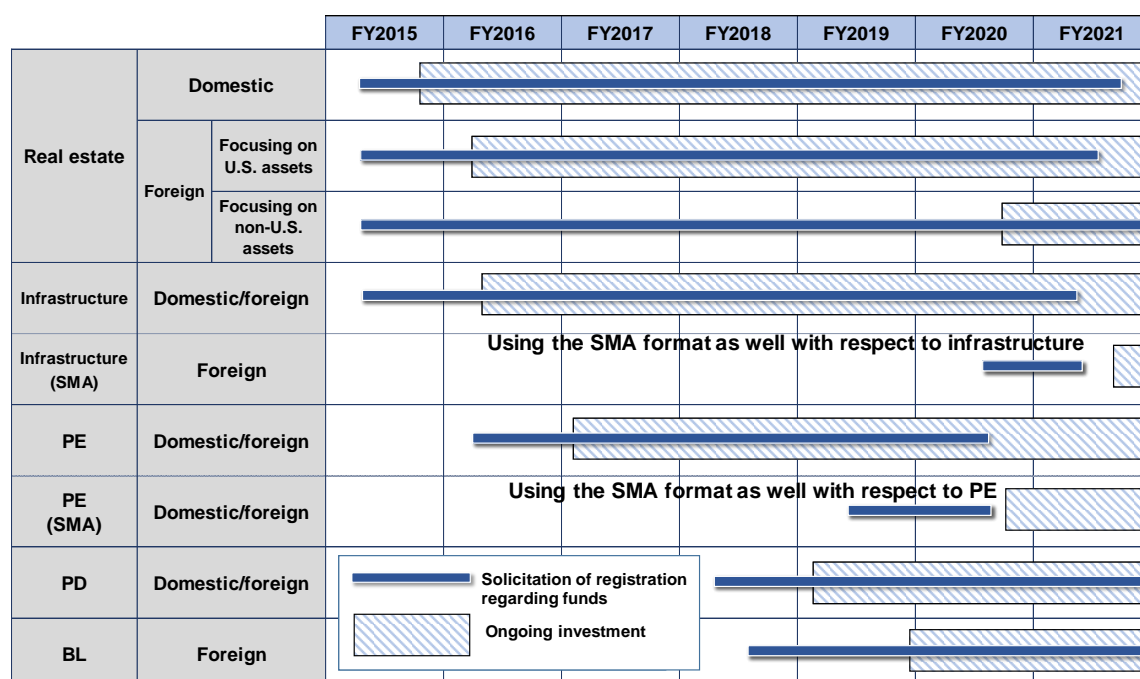
■ Diversification of investment schemes

Under the Asset Manager Registration System, the Association started soliciting registrations with respect to funds investing in domestic and foreign PE in August 2019 and with respect to foreign infrastructure in November 2020 through the SMA (Separately Managed Account) format. SMA refers to a dedicated account under which the gatekeeper manages multiple funds as a whole based on the investor's own investment policy.

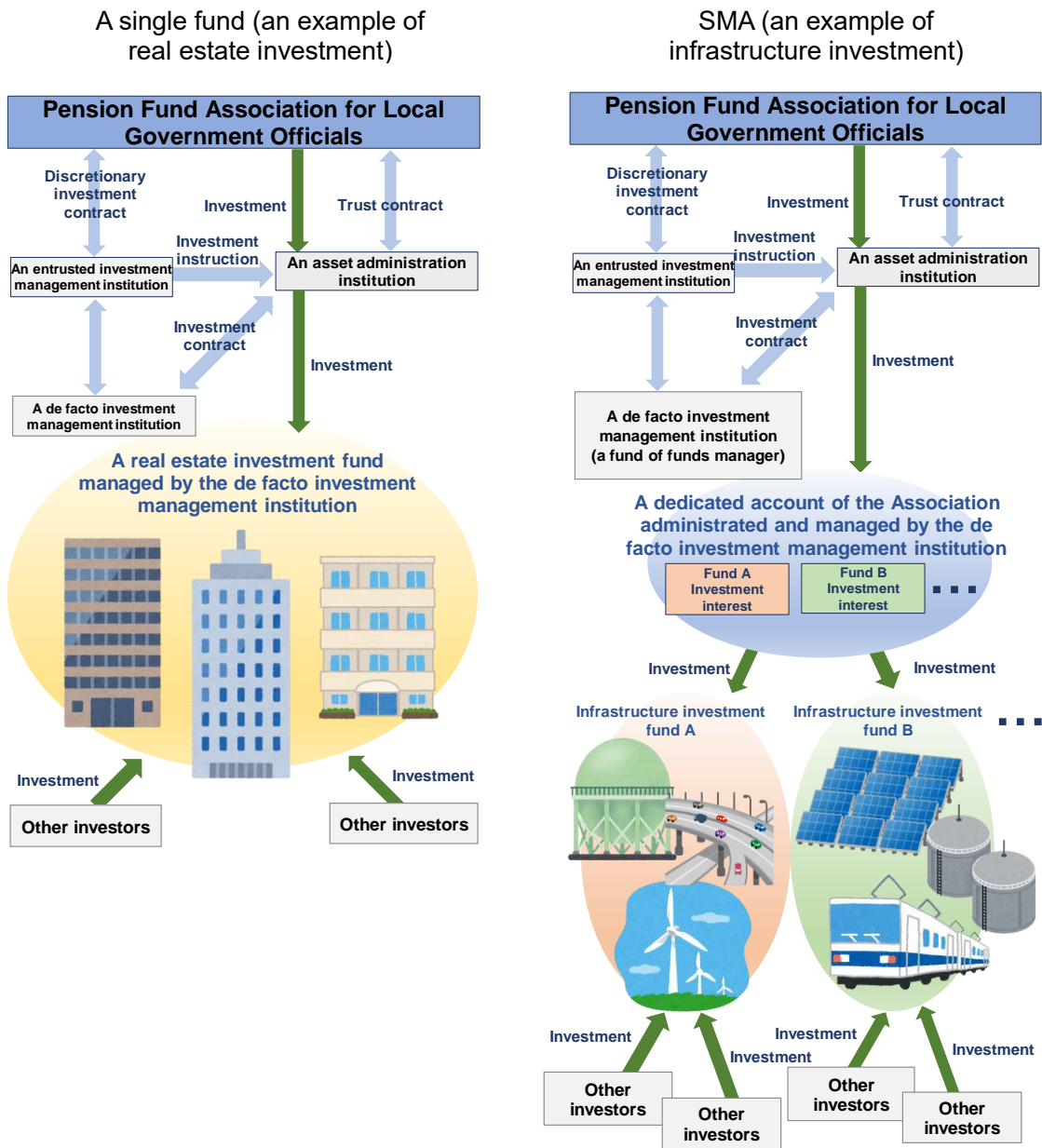
As the use of the SMA format enables timely access to superior funds through the fund of funds manager, it is expected that investment opportunities will increase and that advanced diversification will be achieved with respect to regions, sectors and investment timings.

As of the end of fiscal year 2021, the Association uses the SMA format as well with respect to funds investing in PE and infrastructure.

【Solicitation of registration regarding asset classes, etc.】



【Investment schemes】 (diagram)

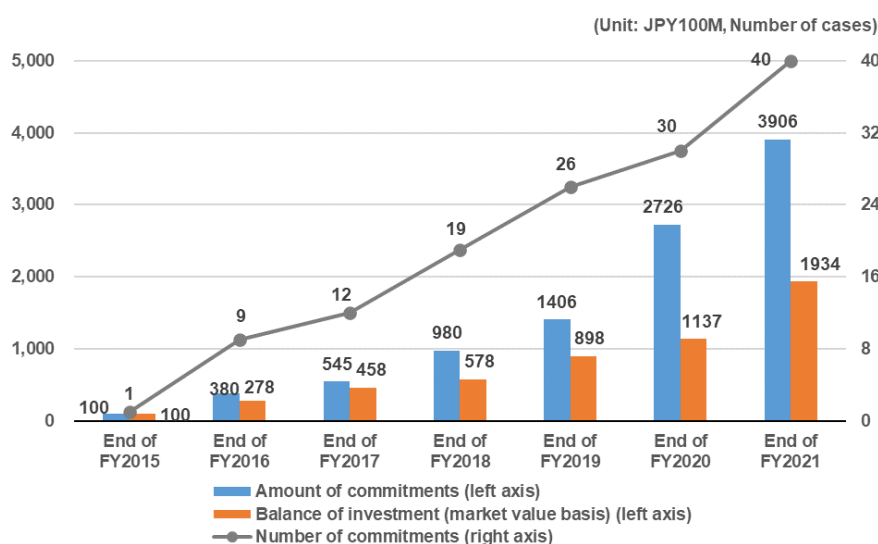


■ Selection of investment funds and the number of funds adopted

Among the investment funds registered, the Association carefully selected investment funds that were expected to deliver long-term returns and provide the diversified investment effect and conforming to the investment policies and selection criteria related to the investment strategy based on a comprehensive evaluation from both quantitative and qualitative aspects. The Association invests mainly in funds adopting the most risk-restrictive investment strategy in each asset class. As of the end of fiscal year 2021, the Association decided to adopt a total of 40 funds and started investment with respect to 37 of the total.

The Association will continue to evaluate the funds entered and make selection in the future so as to seize opportunities for investing in superior funds likely to contribute to diversified investment.

【Changes in the cumulative amount of investment】

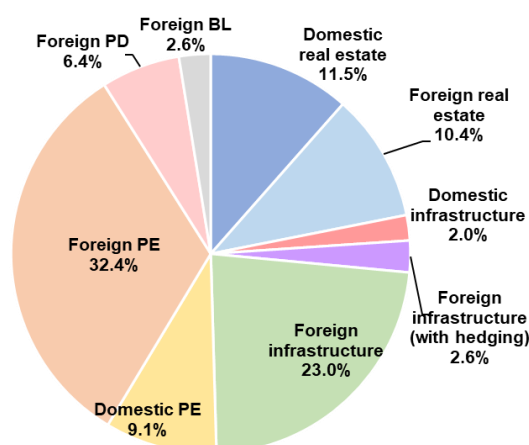


【Number of funds adopted】

Investment fund	Number of funds adopted
Domestic real estate	6
Foreign real estate	7
Domestic infrastructure	2
Foreign infrastructure	7
Domestic PE	7
Foreign PE	5
Foreign PD	5
Foreign BL	1
Total	40

*The number of funds with respect to which contracts had been concluded by the end of FY2021 is indicated.

【Asset mix】



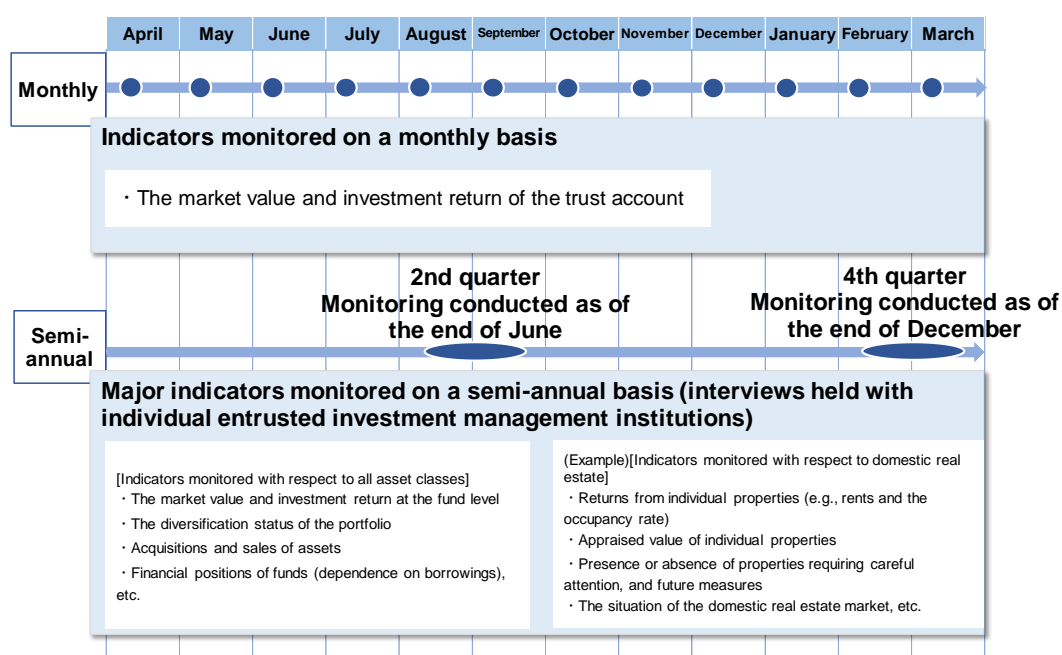
*Commitment basis as of the end of FY2021

Fund monitoring

Generally speaking, in the case of alternative assets, it is difficult to quantitatively conduct risk management with respect to funds after the start of investment in light of price volatility-based indicators (e.g., standard deviation and tracking error) alone because price formation does not occur on a daily basis, unlike in the case of listed assets. The Association therefore conducts risk management not only quantitatively but also qualitatively, but the qualitative indicators that should be monitored vary across asset classes.

The Association selects the indicators that should be monitored by asset class and checks each fund's investment results and status of investment assets through periodic interviews and also holds interviews with entrusted investment management institutions when incidents that may affect fund management have occurred. If unusual signs have been detected, it checks with entrusted investment management institutions on the cause and planned countermeasures and requests them to make improvements as necessary.

【Monitoring cycle】 (diagram)



5 Stewardship activities

(1) Overview of the Association's stewardship activity

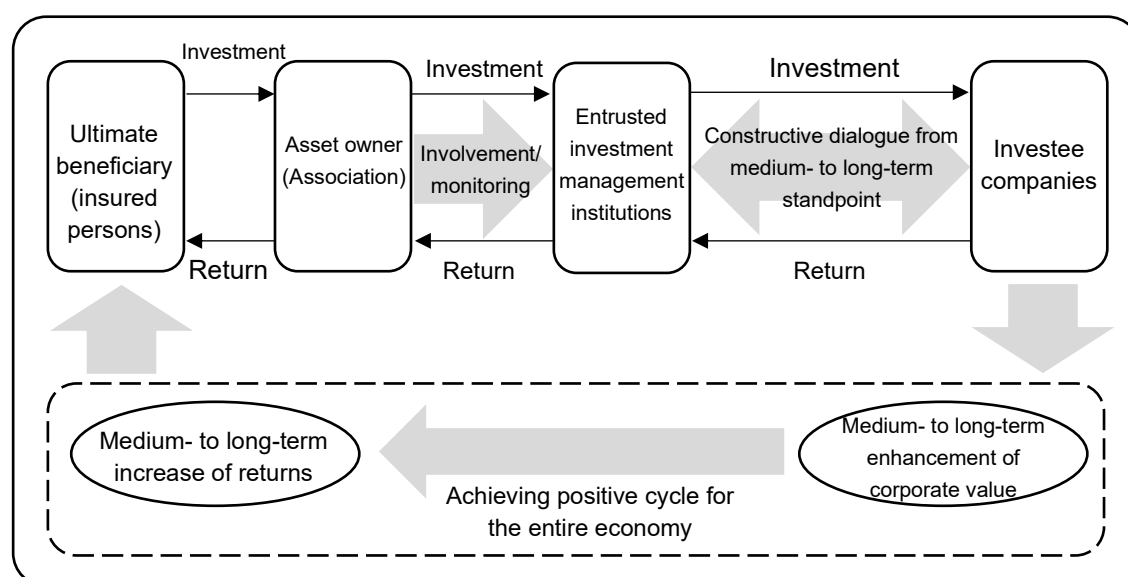
"Stewardship activities" refers to the activities of institutional investors to increase medium- to long-term investment returns for their clients and beneficiaries by encouraging improvements in corporate value and sustainable growth of investee companies through means such as engagement (i.e. constructive "purposeful dialogue" based on a deep understanding concerning the investee companies, their business environment, and other factors as well as consideration for their sustainability according to the investment strategy).

Stewardship activities include the exercise of shareholders' voting rights and engagement.

The Association is required to fulfill its fiduciary responsibility of increasing the value of its assets for the insured persons over the long term and social responsibility as a public pension fund. In this connection, the Association has been proactively committed to effective stewardship activities.

In addition, the Association entrusts investment management institutions to make stock investments in companies. The Association believes that conducting the stewardship activities through these entrusted investment management institutions is effective for fulfilling the stewardship responsibility as they have more opportunities to access investee companies and have in-depth insight on corporate management.

[Stewardship Activities]



Prepared based on the documents distributed at the 1st meeting (Jan. 2017) of the Council of Experts on the Stewardship Code (Financial Services Agency)

Based on this idea, the Association established the Corporate Governance Principles of Pension Fund Association for Local Government Officials (hereinafter referred to as "Corporate Governance Principles") and the Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities) (hereinafter referred to as "Guidelines on Domestic Equities") in 2004 and the Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities) (hereinafter referred to as "Guidelines on Foreign Equities") in 2016. These guidelines and principles specify that the Association should conduct stewardship activity based on them when it has concluded contracts with entrusted investment management institutions. In addition, the Basic Policy for Employees' Pension Insurance Benefit Adjustment Fund specifies how the Association should fulfill its stewardship responsibilities.

Moreover, in May 2014, the Association signed up to Japan's Stewardship Code and clarified its approach to stewardship activities.

In fiscal year 2021, the Association announced its support for the Task Force on Climate-Related Financial Disclosures (TCFD)*, which was established by the Financial Stability Board (FSB). In addition, the Association revised the Corporate Governance Principles, the Guidelines on Domestic Equities and the Guidelines on Foreign Equities in February 2022 in light of the revisions of the Japan's Corporate Governance Code in June 2021 in order to better clarify the standard of desirable corporate governance practices.

[Chronology of the Association's stewardship activity]

Year	Activities
2002	- Instructed trust banks to exercise voting rights based on specified comprehensive trust contracts.
2003	- Revised the Guidelines so as to require entrusted investment institutions to exercise voting rights based on discretionary investment contracts.
2004	- Established the "Corporate Governance Principles of Pension Fund Association for Local Government Officials." - Established the "Guidelines for Exercising Shareholders' Voting Rights." Instructed entrusted investment management institutions to exercise voting rights in line with the Guidelines.
2014	- Signed up to Japan's Stewardship Code.
2015	- Established the policies including the "Administration and Investment Policy for the Managed Reserve Fund for Employees' Pension Insurance Schemes" and the Basic Policies in association with the unification of pension systems. Specified measures to fulfill the stewardship responsibilities.
2016	- Established the "Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities)." Instructed entrusted investment management institutions to exercise voting rights in line with the Guidelines.
2017	- Signed up to Japan's Stewardship Code (revised version).
2020	- Signed up to Japan's Stewardship Code (second revised version).
2022	- Revised the "Corporate Governance Principles of Pension Fund Association for Local Government Officials," the "Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities)" and the "Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities)."

* The TCFD was established by the FSB upon the request of the G20 Finance Ministers and Central Bank Governors.

In June 2017, the TCFD published voluntary recommendations intended to encourage information disclosure regarding the financial impacts of climate-related risks and opportunities in order to enable investors to make appropriate investment decisions. By now, many organizations around the world, including pension funds and other asset owners, asset managers, financial institutions such as banks, non-financial companies, and governments, have announced their support for the TCFD's recommendations.

(2) Monitoring of entrusted investment management institutions

For each fiscal year, the Association has been monitoring the stewardship activities of the investment management institutions entrusted with equity investment so as to ensure the compliance with the Association's abovementioned policies, while focusing on the "quality" of stewardship efforts. The Association receives reports concerning stewardship activity from and holds interviews with the entrusted investment management institution.

In May 2021, the Association held briefing meetings on the direction of the Association's stewardship activity for investment management institutions entrusted with domestic and foreign stock investment (23 companies in total) in fiscal year 2021 and explained the matters which the Association considers important in relation to stewardship activities.

In July, the Association requested all investment management institutions entrusted with stock investment to submit reports on policies, structures, processes for and results of stewardship activities of fiscal year 2020. Based on the reports submitted, the Association held interviews from around October to November focused on the matters which the Association considers important in relation to stewardship activities.

From June to July, the Association provided feedback regarding the evaluation of stewardship activities in fiscal year 2020 individually to entrusted investment management institutions that requested it.

Matters which the Association considers important in relation to stewardship activities

[Exercise of voting rights]

- (i) Compliance with the Association's guidelines for exercising shareholders' voting rights**
- (ii) Exercise of voting rights suited to the circumstances of companies**
- (iii) Exercise of voting rights and engagement in an integrated manner**

[Engagement]

- (i) Engagement aimed at enhancing the corporate value and sustainable growth of companies**
- (ii) Quality of engagement**
- (iii) Effectiveness of processes (e.g., PDCA cycle)**

(3) Results of the exercise of voting rights (domestic equities)

Regarding the Employees' Pension Insurance Benefit Adjustment Fund, the Association exercised voting rights through 15 investment management institutions entrusted with domestic stock investment (35 funds in total), with respect to a total of 14,259 companies which settled accounts between April 2020 and March 2021. The number of proposals for which voting rights were exercised was 47,567.

Of the 47,567 proposals, 10,241 (including 1,107 shareholder proposals) were voted against, translating into a vote-against rate of 21.5%. The vote-against rate concerning company proposals was 19.7%.

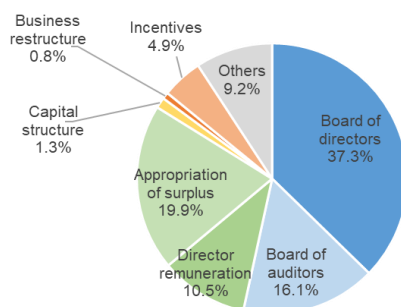
The vote-against rate came to 35.9% concerning proposals related to the board of directors/directors, 14.3% concerning proposals related to the board of auditors/auditors and 19.7% concerning proposals related to director remuneration, etc.

Voting activity (Companies with accounting settlement between April 2020 and March 2021)

Number of proposals by type of proposer	Vote for	Rate	Vote against	Rate	Abstentions	Rate	Total
Company proposal	37,240	80.3%	9,134	19.7%	0	0.0%	46,374
Shareholder proposal	86	7.2%	1,107	92.8%	0	0.0%	1,193
Total	37,326	78.5%	10,241	21.5%	0	0.0%	47,567

Number of proposals by type of proposal	Vote for	Rate	Vote against	Rate	Abstentions	Rate	Total
Board of directors/directors	11,369	64.1%	6,370	35.9%	0	0.0%	17,739
Board of auditors/auditors	6,582	85.7%	1,096	14.3%	0	0.0%	7,678
Director remuneration, etc.	4,011	80.3%	983	19.7%	0	0.0%	4,994
Appropriation of surplus	9,283	98.0%	188	2.0%	0	0.0%	9,471
Capital structure	285	46.8%	324	53.2%	0	0.0%	609
Takeover defense measures	11	3.7%	286	96.3%	0	0.0%	297
Capital increase or reduction	101	100%	0	0.0%	0	0.0%	101
Third party allotment of shares	44	95.7%	2	4.3%	0	0.0%	46
Acquisition of own shares	1	3.3%	29	96.7%	0	0.0%	30
Business restructure	374	100.0%	0	0.0%	0	0.0%	374
Incentives improvement for executives	1,969	85.0%	347	15.0%	0	0.0%	2,316
Other proposals	3,453	78.7%	933	21.3%	0	0.0%	4,386
Total	37,326	78.5%	10,241	21.5%	0	0.0%	47,567
Climate-related proposals	21	37.5%	35	62.5%	0	0.0%	56

Share by proposal subject



(4) Results of the exercise of voting rights (foreign equities)

Regarding the Employees' Pension Insurance Benefit Adjustment Fund, the Association exercised voting rights through 16 investment management institutions entrusted with foreign stock investment (24 funds in total), with respect to a total of 10,091 companies which settled accounts between April 2020 and March 2021. The number of proposals for which voting rights were exercised was 98,578.

Of the 98,578 proposals, 12,629 (including 1,405 shareholder proposals) were voted against, translating into a vote-against rate of 12.8%. The vote-against rate concerning company proposals was 12.0%.

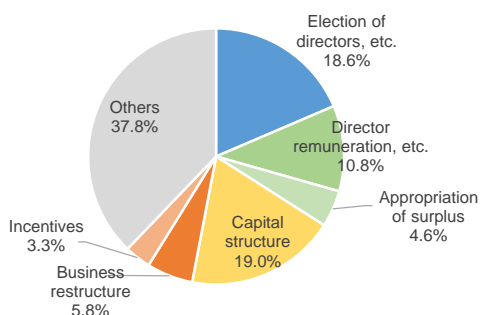
The vote-against rate came to 14.3% concerning proposals related to the election of directors, etc. and 15.1% concerning proposals related to director remuneration, etc.

Voting activity (Companies with accounting settlement between April 2020 and March 2021)

Number of proposals by type of proposer	Vote for	Rate	Vote against	Rate	Abstentions	Rate	Total
c.f. Company proposal	82,470	87.9%	11,224	12.0%	81	0.1%	93,775
c.f. Shareholder proposal	3,379	70.4%	1,405	29.3%	19	0.4%	4,803
Total	85,849	87.1%	12,629	12.8%	100	0.1%	98,578

Number of proposals by type of proposal	Vote for	Rate	Vote against	Rate	Abstentions	Rate	Total
Proposal for election of directors, etc.	15,657	85.5%	2,618	14.3%	31	0.2%	18,306
Director remuneration, etc.	9,023	84.6%	1,614	15.1%	31	0.3%	10,668
Appropriation of surplus	4,542	99.4%	22	0.5%	4	0.1%	4,568
Capital structure	16,483	88.1%	2,225	11.9%	2	0.0%	18,710
Takeover defense measures	482	94.9%	26	5.1%	0	0.0%	508
Capital increase or reduction	6,331	82.8%	1,317	17.2%	1	0.0%	7,649
Third party allotment of shares	2,577	94.3%	157	5.7%	0	0.0%	2,734
Acquisition of own shares	2,862	96.3%	109	3.7%	0	0.0%	2,971
Business restructure	4,982	86.5%	775	13.5%	3	0.1%	5,760
Incentives improvement for executives	2,005	61.2%	1,264	38.6%	5	0.2%	3,274
Other proposals	33,157	88.9%	4,111	11.0%	24	0.1%	37,292
Total	85,849	87.1%	12,629	12.8%	100	0.1%	98,578
Climate-related proposals	172	64.7%	92	34.6%	2	0.8%	266

Share by proposal subject

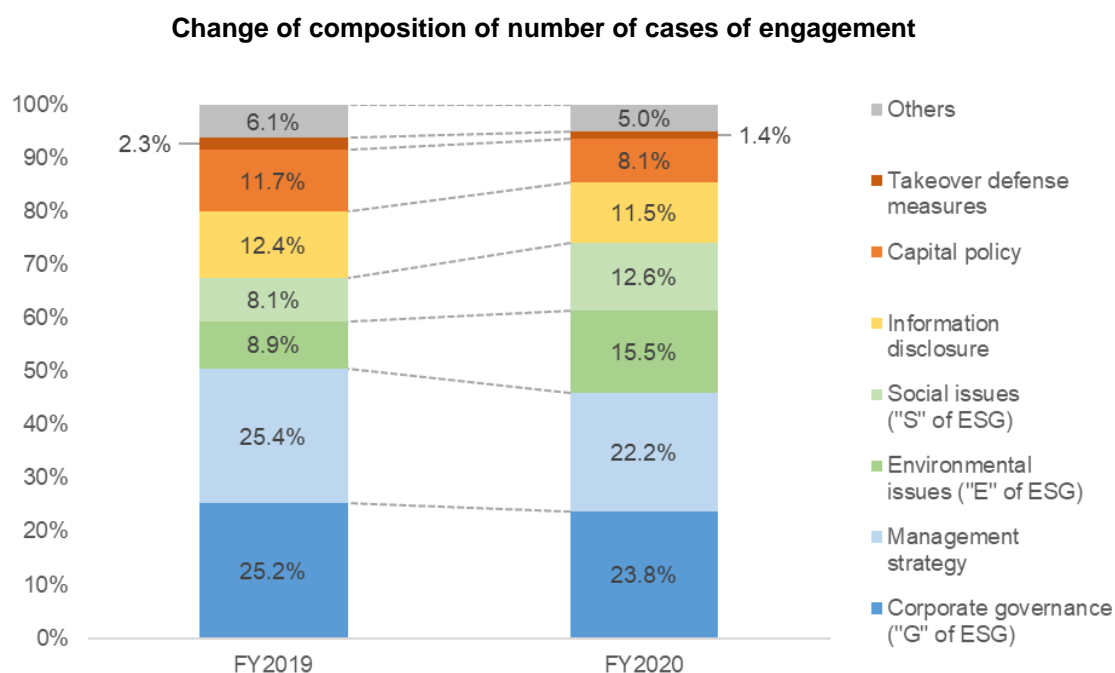


* From the viewpoints of constraints related to the exercise of voting rights and additional cost burden, the exercise of voting rights is limited to 18 countries and regions (the United States, Canada, the United Kingdom, Ireland, Australia, New Zealand, Singapore, Hong Kong, Chile, the Czech Republic, Indonesia, Mexico, the Philippines, South Africa, Taiwan, Thailand, Pakistan and China A Stock).

(5) Number of engagement cases (domestic equities)

Regarding the Employees' Pension Insurance Benefit Adjustment Fund, in fiscal year 2020, the Association implemented engagement with a total of 4,311 companies through 15 investment management institutions entrusted with domestic stock investment (35 funds in total). The number of cases of engagement was 17,828. Meanwhile, the number of cases of climate change-related dialogue was 2,017.

Against the backdrop of growing ESG awareness among companies and enhancement of ESG-related dialogue held by entrusted investment management institutions, the percentages of dialogue cases related to environmental issues (representing "E" of ESG) and social issues (representing "S" of ESG) rose from the previous year.

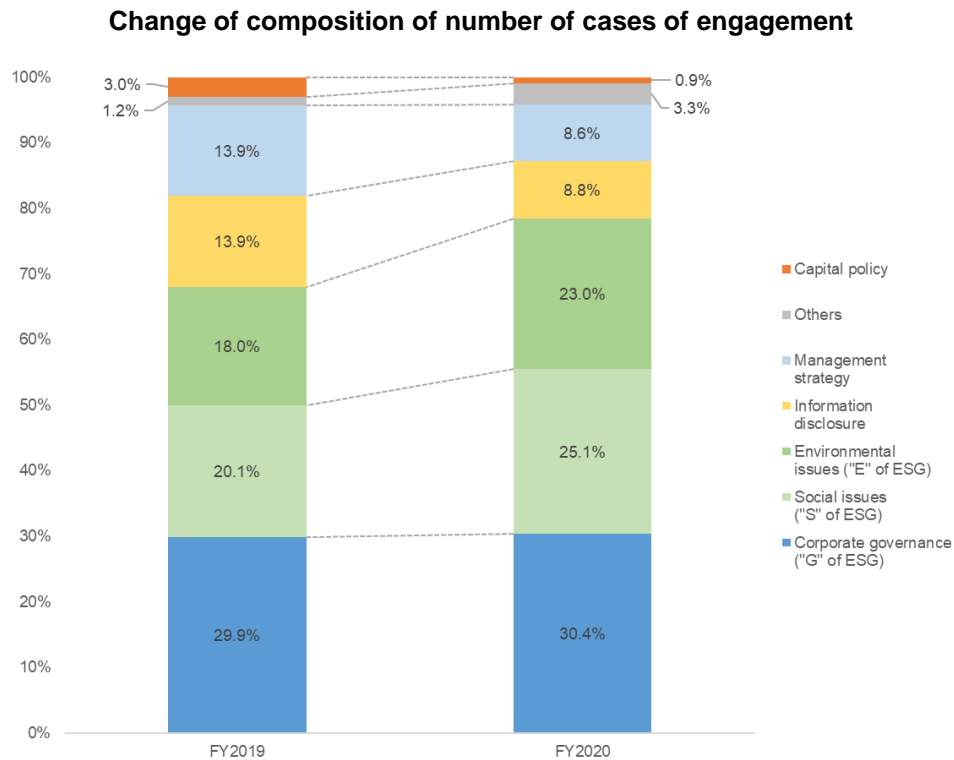


* The standards for counting the number of cases of engagement vary among entrusted investment management institutions.

(6) Number of engagement cases (foreign equities)

Regarding the Employees' Pension Insurance Benefit Adjustment Fund, in fiscal year 2020, the Association implemented engagement with a total of 1,762 companies through 16 investment management institutions entrusted with foreign stock investment (24 funds in total). The number of cases of dialogue was 4,614. Meanwhile, the number of cases of climate change-related dialogue was 644.

Against the backdrop of growing ESG awareness among companies and launching of engagement campaigns concerning environmental and social issues by some entrusted investment management institutions, the percentages of dialogue cases related to environmental issues (representing "E" of ESG) and social issues (representing "S" of ESG) rose from the previous year.

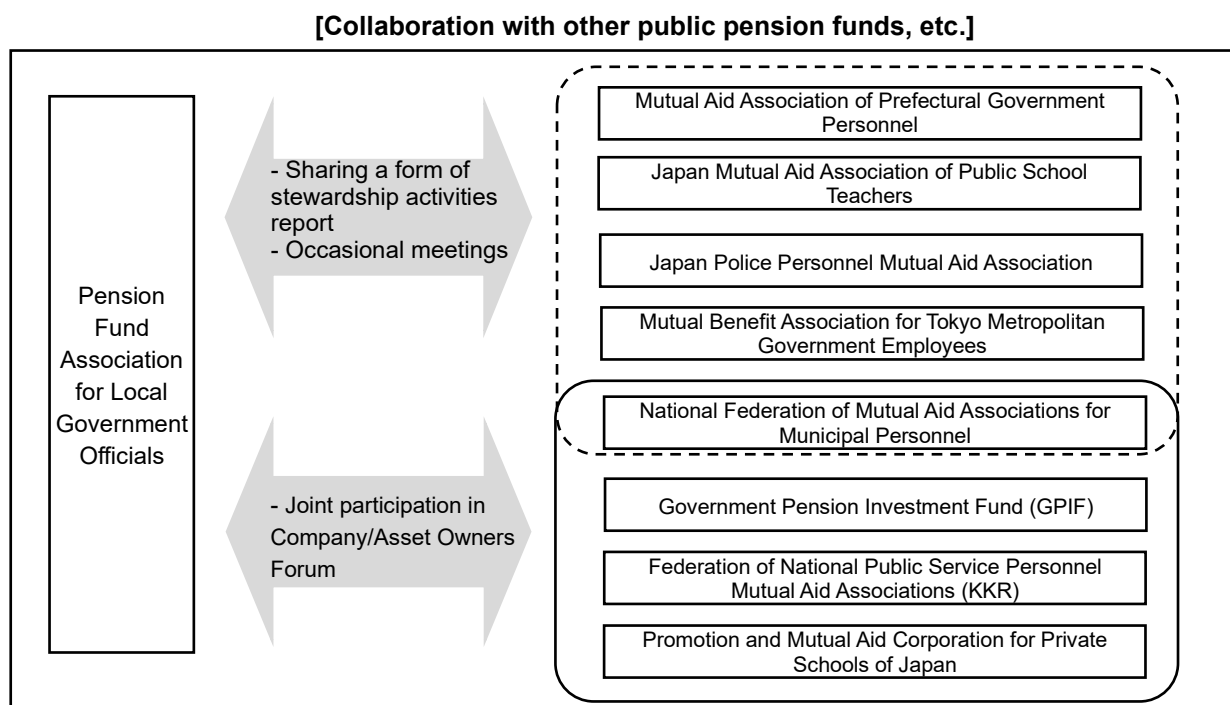


* The standards for counting the number of cases of engagement vary among entrusted investment management institutions.

(7) Collaboration with other public pension funds, etc.

In order to enhance the effectiveness and efficiency of stewardship activity, the Association holds meetings on stewardship activity with member associations and uses common forms of reports concerning stewardship activity to be submitted by entrusted investment management institutions.

In addition, the Association is engaged in collaboration with other public pension funds, by such means as participating in a Business/Asset Owners Forum (this forum is held in order to let participating companies exchange opinions about constructive dialogue with entrusted investment management institutions and to allow GPIF and other asset owners to use the results as a reference for stewardship activity).



* In light of preventing the spread of COVID-19, the forum for fiscal year 2021 was canceled.

(8) Future initiatives

The Association will continue to actively conduct stewardship activity.

■Implementation of effective monitoring of entrusted investment management institutions

The Association will continue to make sure that entrusted investment management institutions' stewardship activity is consistent with the Association's policy and will conduct monitoring with emphasis placed on the "quality" of initiatives.

■Dialogue with entrusted investment management institutions and accumulation of knowledge within the Association

From the viewpoint of continuously enhancing the effectiveness of stewardship activity, the Association will conduct dialogue with entrusted investment management institutions about matters of priority and accumulate knowledge concerning stewardship activity.

■Consideration of expansion of the scope of assets covered by stewardship activities

From the standpoint of fulfilling its stewardship responsibility, the Association has been considering expanding the scope of assets covered by stewardship activities by such way as grasping the status of entrusted investment management institutions conducting stewardship activities relating to assets other than equities and will implement necessary measures to the extent possible.

■Promotion of investment taking into consideration non-financial factors

From the viewpoint of securing long-term profit for the sake of insured persons' interests, the Association will also continue to conduct necessary activities after considering promoting investment taking into consideration non-financial factors, including ESG factors, in addition to financial factors. In addition, the Association will continue to check whether the activities of investment management institutions entrusted with equity investment take sustainability into consideration when monitoring their stewardship activities.

■Revision of the Corporate Governance Principles, etc.

The Association will revise the Corporate Governance Principles, the Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities/Foreign Equities) as necessary while taking into consideration revisions of laws, regulations and codes and changes in the social situation.

■Collaboration with other public pension funds, etc.

As part of its efforts to enhance the effectiveness and efficiency of stewardship activity, the Association will also exchange opinions with its member associations and other public pension funds, among other activities.

6 Other major efforts

(1) ESG Investment

■ Basic approach to ESG investment

As the Association invests pension funds over the long term, the Association considers it rational to aim to maximize the long-term return by paying attention not only to short-term business performance when making investment but also to factors related to sustainability, including ESG.

With respect to ESG investment, the Association revised its policies including the Basic Policy for Employees' Pension Insurance Benefit Adjustment Fund in line with the Basic Policy for Funds (public notice issued by four ministries) revised in 2020. The Association's basic policy provides: the necessary initiatives shall be implemented, based on a case-by-case analysis, with a view to promoting investment considering non-financial elements including ESG (Environmental, Social, and Governance) in addition to financial elements based on the approach that the sustainable growth of investee companies and the entire market is necessary for the increase of return on investment portfolio over long time so as to secure long-term return for the benefit of insured persons.

The Association had taken necessary measures for ESG investment based on case-by-case analysis, even before the present basic policies were revised to incorporate provisions concerning investment considering non-financial factors.

■ Initiatives concerning ESG Investment

• Consideration of the ESG factors for funds managed by entrusted institutions

The Association evaluates the status of consideration of the ESG factors in the processes of annual comprehensive evaluation of funds managed by entrusted institutions and selection of new funds. It also requests investment management institutions entrusted with equity investment to take sustainability (medium- to long-term sustainability, including regarding the ESG factors) into consideration when exercising voting rights or conducting engagement activity as part of stewardship activity and checks the status of those activities.

• Investment in ESG funds as part of equity investment

The Association has started investing in ESG funds in 2010 with respect to active investment in domestic equities. Subsequently, the Association gradually increased the number of adopted funds and the amount of investment.

In light of such factors as growing interest in ESG investment globally and the revision of provisions concerning ESG investment in the Basic Policies, the Association adopted three ESG funds for active investment and two ESG funds for passive investment in December 2020.

The Association has adopted seven ESG funds as of the end of fiscal year 2021 (five funds for active investment and two funds for passive investment), with a total value (market value) of 464.2 billion yen (approximately 13.4% of the balance of domestic stocks in the Association's portfolio).

Regarding ESG funds for active investment, the Association expects to earn an excess return while fully taking into consideration the ESG factors in the investment process. In addition, with respect to ESG funds for passive investment, the Association expects that its investments in ESG funds (ESG indexes) will attract increased attention to ESG indexes and encourage a broad range of companies

to correct ESG problems in pursuit of higher corporate value, thereby increasing the value of the entire domestic stock market.

In fiscal year 2021, the Association selected ESG funds for active investment with respect to foreign equities (investment starting in fiscal year 2022).

• Investment in ESG bonds as part of bond investment

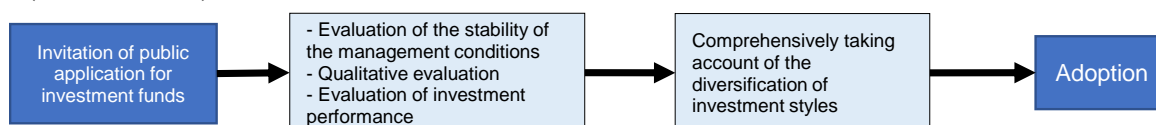
The Association started investing in products considering ESG factors as part of in-house investment in domestic bonds in fiscal year 2019. For the time being, the Association intends to make investment mainly in ESG bonds issued by local governments and institutions funded by a fiscal investment and loan program. As of the end of fiscal year 2021, the total value (book value) is 4.2 billion yen (0.1 billion yen for local government bonds and 4.1 billion yen for bonds issued by institutions funded by a fiscal investment and loan program).

(2) Selection and management of entrusted investment management institutions, etc. (traditional assets)

■ Approach to selection

In accordance with the criteria prescribed by policies including the Basic Policy for Employees' Pension Insurance Benefit Adjustment Fund, the Association makes the selection by comprehensively taking account of the diversification of investment styles across its entire portfolio and other factors based on the benchmark portfolio, after conducting the evaluation of the stability of the applicant institutions' management conditions (capital amount, financial position, number of employees, customer base, etc.) and the qualitative evaluation of the applicant institutions' investment philosophy, investment methodology, investment structure, compliance system, consideration of ESG factors, etc.

In light of the purpose of the selection, the Association also conducts the evaluation as to whether or not the applicant institutions have achieved good investment performance over a period of time longer than the prescribed duration and the evaluation as to whether the proposed investment funds meet the needs and whether a good return can be expected based on comparison of investment methodologies and analysis of the risk profiles, levels and trends using long-term risk data concerning the portfolio (various factors).



■ Asset Manager Registration System

The Association introduced the Asset Manager Registration System, which started in fiscal year 2015 with respect to alternative investments, also with respect to traditional assets in fiscal year 2016, and has started accepting registrations with respect to all asset classes.

■ Selection of entrusted investment management institutions

In fiscal year 2021, the Association selected new entrusted investment management institutions with respect to foreign bonds through the Asset Manager Registration System and revised the management structure (composition of investment management institutions).

■Administration and evaluation of entrusted investment management institutions

The Association seeks monthly reports on the investment status and quarterly reports on the overview of investment results, future investment policy and other matters from entrusted investment management institutions. After reviewing these reports, the Association conducts detailed interviews annually concerning the overview of investment results, future investment policy and other matters and interviews through visits to entrusted investment management institutions.

Furthermore, the Association annually conducts a comprehensive evaluation combining quantitative and qualitative evaluation by asset and by investment category (e.g., domestic equity market type and foreign equity growth type).

Qualitative evaluation is intended to evaluate the current and future status of the fulfilling of the expected role from a long-term perspective and to examine "whether the fund is expected to deliver a higher return than the target in a stable manner" and "whether the investment process which represents the advantage of the fund in earning an excess return has been sufficiently functioning in light of the market environment" and "whether the process will continue to function in the future." The focus of attention in the analysis includes investment structure (investment experience, staffing strength and stability of the employee turnover), the investment process (whether the process is functioning as proclaimed and presence or absence of reproductivity, reasonableness and flexibility), and investment considering ESG elements.

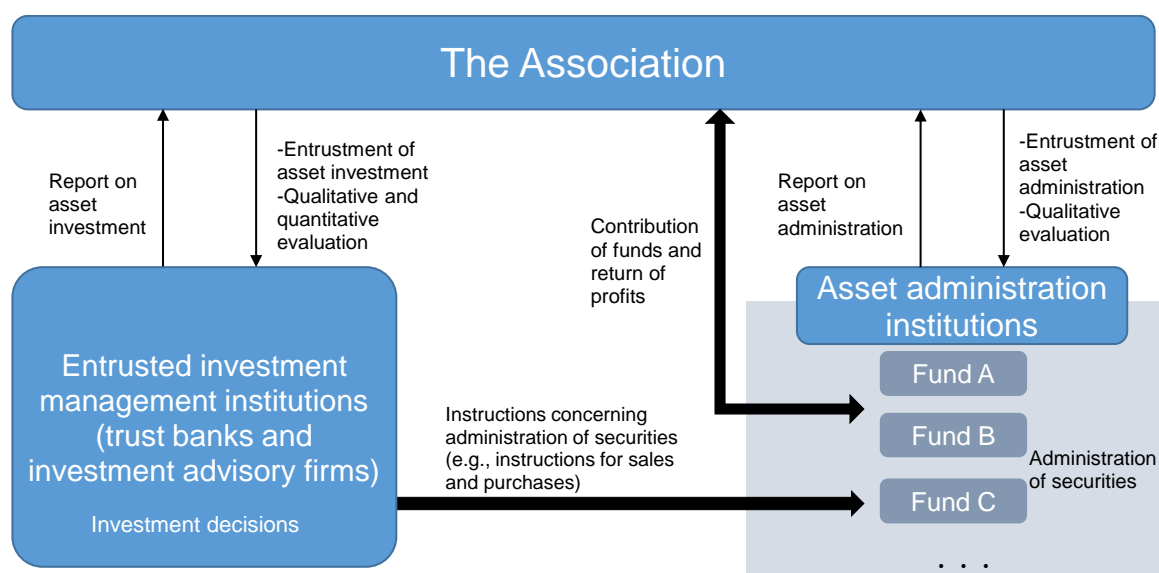
Quantitative evaluation assesses such factors as the excess return, the information ratio (the tracking error in the case of passive investment), and the cost performance (the excess return earned relative to fees).

The Association allocates funds in a consistent manner across the entire portfolio in consideration of not only the results of comprehensive evaluation but also the balance of strategy categories in each asset class and the balance of funds in each category.

■Administration and evaluation of asset administration institutions

The Association provides an incentive or gives a reminder for asset administration institutions as appropriate by providing feedback on the results of qualitative evaluation of their asset administration status and by transferring funds from one institution to another depending on the results in order to ensure appropriate administration by asset administration institutions.

【Relationships with entrusted investment management institutions and asset administration institutions】



Businesses and Fund Management of Association

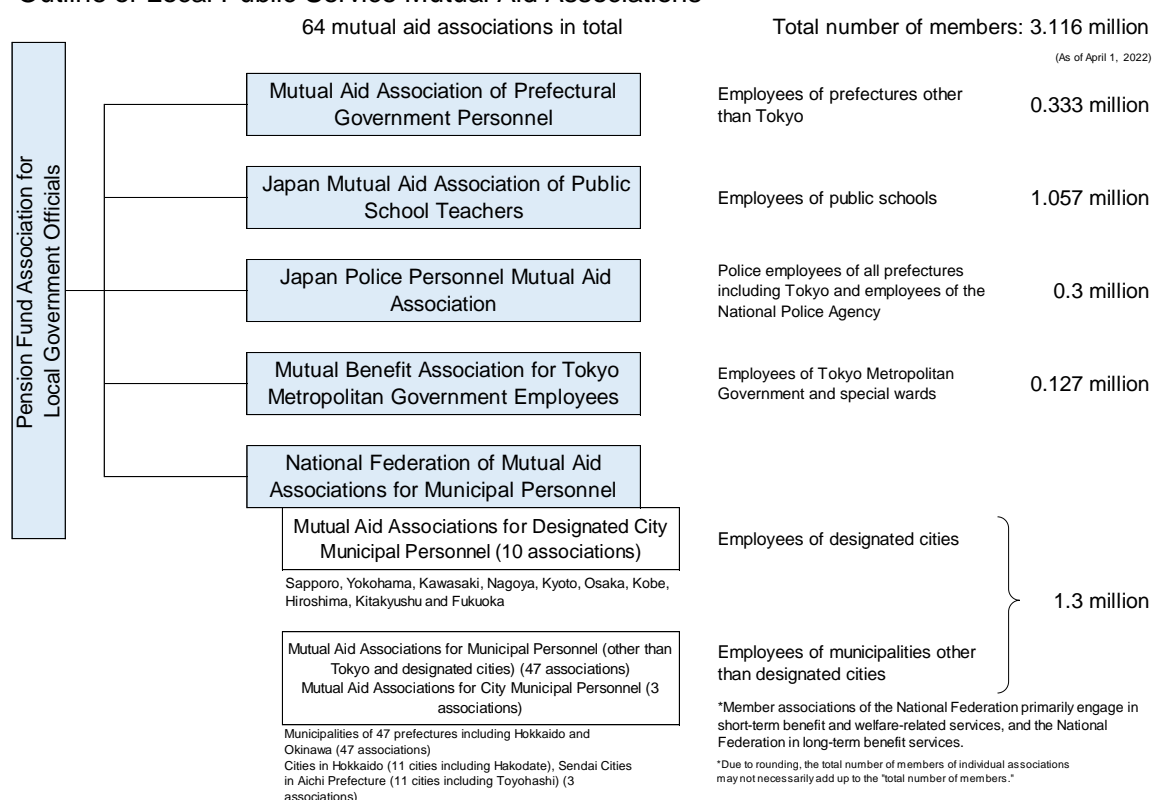
1 Establishment

Article 43 of the Local Public Service Act provides "A mutual aid system shall be implemented in order to provide appropriate benefits in cases of employees' illness, injury, childbirth, involuntary leave, calamity, retirement, disability or death, or their dependents' illness, injury, child birth, death or calamity." Based on this provision, the Local Public Officers, etc. Mutual Aid Association Act has been enacted.

The pension fund system for local government officials was established in December 1962 as a system to comprehensively manage the long-term benefits program, short-term benefits program and welfare services program for local government employees and their families, for the purpose of providing mutual aid for local government employees.

The Pension Fund Association for Local Government Officials was established on April 1, 1984, in order to stabilize the foundation of pension finance by integrating the pension funding units and to ensure appropriate and smooth management of operations related to long-term benefits of member associations so that sound management of the pension system can be maintained. The Japan Mutual Aid Association of Public School Teachers and the Japan Police Personnel Mutual Aid Association became members in April 1990, and the Association has become a federation comprising all member associations.

Outline of Local Public Service Mutual Aid Associations



2 Major operations

The Association conducts the following operations in order to maintain sound management of pension systems related to local government officials.

- Administration and investment of funds
- Investment of surplus funds entrusted by member associations
- Provision of technical and professional knowledge and reference materials related to operations concerning long-term benefits of member associations
- Exchange of information and communication and coordination with the implementing organizations prescribed under the EPI Act
- Matters concerning contributions and grants related to employees' pension insurance. Payment of National Pension contributions.
- Calculation of the following items related to retirement and other pension benefits: the entitlement rate, the standard interest rate, the present value rates of lifetime pensions and fixed-term pensions, and the ratio of the standard monthly remuneration to premiums and the ratio of the standard term-end allowances, etc. to premiums
- Handling of matters related to payment to and receipt from the KKR of fiscal adjustment contributions
- Exchange of information related to special levies of nursing care insurance premiums, etc. from pension benefits
- Businesses related to sharing of pension information under the "My Number" system
- Operations intended to achieve other objectives (e.g., administrative works related to the aggregation of pension coverage periods in Japan and other countries)

3 Organization

(1) Governing Council

Pursuant to the provisions of the Local Public Officers, etc. Mutual Aid Association Act, the Association is required to establish a Governing Council. The Minister for Internal Affairs and Communications must appoint members from among individuals who possess broad knowledge concerning matters pertaining to the operations of the Local Public Service Mutual Aid Associations. In this case, half of all members must be representatives of members of individual mutual aid associations.

Revision of the articles of incorporation, the formulation and revision of the rules of operations, annual business plans, budgets and account settlement, disposal of important assets and assumption of significant debt are subject to deliberation by the Governing Council.

Meanwhile, the Governing Council is empowered to investigate and deliberate important matters pertaining to the operations of the Association upon request from the President and to present proposals to the President with respect to the matters for which the need to do so is recognized.

(2) Fund Management Committee of Pension Fund Association for Local Government Officials

■ Outline of Fund Management Committee of Pension Fund Association for Local Government Officials

To study expert matters pertaining to the administration and investment of adjustment funds based on the Basic Policy for Employees' Pension Insurance Benefit Adjustment Fund, the Association has established the Fund Management Committee of Pension Fund Association for Local Government Officials, which is comprised of individuals who possess academic knowledge or practical experience in areas such as economics, finance, and fund management (the "Fund Management Committee").

The Fund Management Committee can discuss and receive reports concerning expert matters related to the administration and investment of each adjustment fund and also can express its opinions on important matters upon request from the President.

■ Matters for deliberation and report by the Fund Management Committee

Deliberation matters	Reporting matters
<ul style="list-style-type: none"> • Matters concerning establishment and revision of the basic policy • Matters concerning establishment and revision of risk management implementation policy • Matters concerning establishment and revision of investment policy for new investment instruments • Matters concerning establishment and revision of flexible investment policies • Matters concerning establishment and revision of the selection criteria for entrusted investment management institutions, etc. • Matters concerning the revision, etc. of the Corporate Governance Principles and the Guidelines for Exercising Shareholders' Voting Right • Other expert matters concerning the administration and investment of each adjustment fund 	<ul style="list-style-type: none"> • Investment performance • Status of risk management • Investment status of new investment instruments • Status of selection of entrusted investment management institutions, etc. • Status of stewardship activities • Status of training and nurturing of expert personnel • Other matters required by the Fund Management Committee concerning the administration and investment of each adjustment fund

■ List of Fund Management Committee Members (As of April 1, 2022)

Hidetaka Kawakita	Kyoto University, Professor Emeritus
Konosuke Kita	Russell Investments Japan Co., Ltd. Executive Consultant/Director, Consulting
Hisae Sato	Trustee, International Christian University
Yoshiko Takayama	J-Eurus IR Co., Ltd. Managing Director
Hitoshi Takehara	Professor, Waseda Business School (Graduate School of Business and Finance)
Katsuyuki Tokushima	NLI Research Institute Director, Member of the Board Head of Pension Research, CMA Financial Research Department
Chairperson Takaaki Wakasugi	The University of Tokyo, Professor Emeritus Chairman, Japan Corporate Governance Research Institute

■ Past Meetings of the Fund Management Committee

Meeting number	Meeting date	Main theme
37th Meeting	July 13, 2021	<ul style="list-style-type: none"> Review of Operations reports concerning administration and investment of individual funds in FY2020 (Association) Status of risk management of individual funds in FY2020 (Association) Examination of the benchmark portfolio of the Annuity Retirement Benefit Adjustment Fund Support for the TCFD Implementation of the asset manager registration system regarding foreign bonds Status of asset allocation in FY2021 (April-May)
38th Meeting	November 22, 2021	<ul style="list-style-type: none"> Response to inclusion of Chinese government bonds in the FTSE World Government Bond Index Revision of the Basic Policy for Employees' Pension Insurance Benefit Adjustment Fund Basic Policy for the Transitional Long-Term Benefits (TLTB) Adjustment Fund Status of selection of active products regarding foreign bonds, etc. Start of selection of active products regarding foreign equities Status of investment of individual funds in the second quarter of FY2021 (Association) Status of risk management of individual funds in the first quarter of FY2021 (Association) Status of asset allocation in FY2021 (April-September)
39th Meeting	February 2, 2022	<ul style="list-style-type: none"> Revision of the Corporate Governance Principles, Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities) and Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities) of the Association Status of investment in alternative assets
40th Meeting	March 29, 2022	<ul style="list-style-type: none"> Status of investment of individual funds in the third quarter of FY2021 (Association) Status of risk management of individual funds in the third quarter of FY2021 (Association) Examination of the benchmark portfolio of the Employees' Pension Insurance Benefit Adjustment Fund Examination of the benchmark portfolio of the Transitional Long-term Benefit Adjustment Fund Annual Stewardship Activity Report FY2021 Review of investments in FY2021, and investment policy in FY2022

(3) Executives and Secretariat

■ Executives

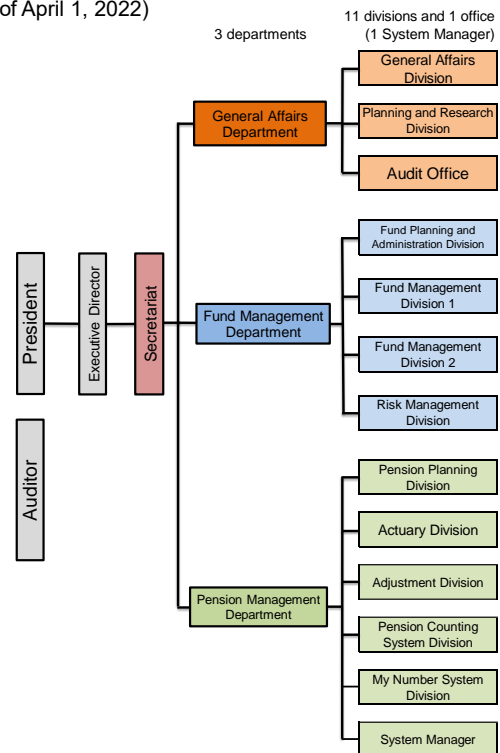
The Association is required to appoint the President, eight executive directors and three auditors. The President, two of the executive directors, and one of the auditors must serve on a full-time basis.

■ Secretariat

The Association's Secretariat is comprised of three departments, 11 divisions (there is also a system manager outside the divisions), and one office.

As of April 1, 2022, the prescribed number of employees at the Secretariat is 80.

(As of April 1, 2022)



(4) Meetings

■ Asset Management Committee

The Association has established the Asset Management Committee, which is chaired by a full-time executive director responsible for fund management, in order to conduct preliminary deliberation when the President makes important decisions concerning the management of status of investment of funds of member associations as well as the management and investment of funds by the Association.

In principle, the Committee shall hold a monthly meeting and shall also meet as necessary.

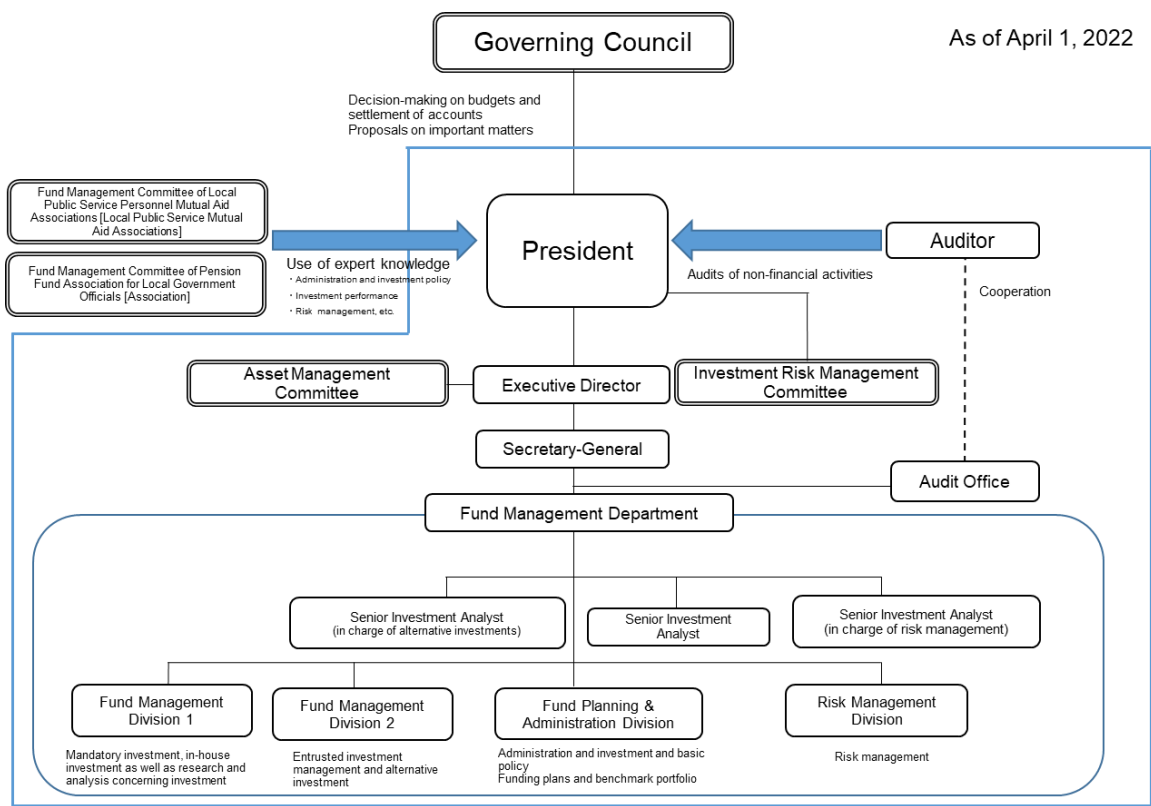
The chairperson shall promptly report to the President on the status of discussions at the Committee.

■ Investment Risk Management Committee

The Association has established the Investment Risk Management Committee, which is chaired by the President, in order to deliberate matters pertaining to the risk management of investment of funds so that the risk management can be appropriately conducted.

Unlike the Asset Management Committee, this committee is under the direct control of the President in order to ensure mutual checks and balances between the risk management side and the investment side. In principle, the Investment Risk Management Committee shall hold a regular quarterly meeting and shall also meet as necessary.

(5) Governance structure



4 Investment of funds

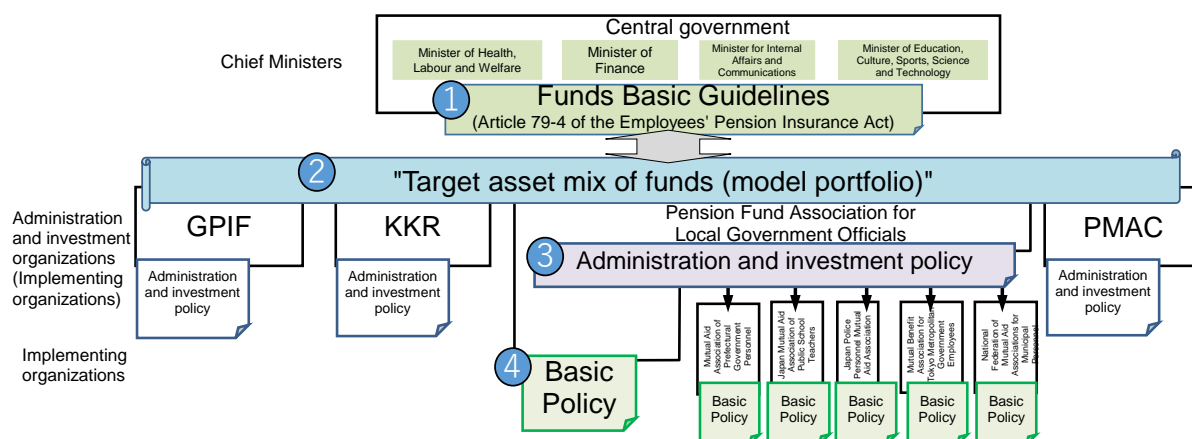
(1) Mechanisms

First, the chief ministers, namely the Minister of Health, Labour and Welfare, the Minister of Finance, the Minister for Internal Affairs and Communications, and the Minister of Education, Culture, Sports, Science and Technology, jointly establish the Basic Guidelines for Ensuring Safe and Efficient Administration and Investment of Funds from a Long-Term Perspective (hereinafter referred to as the "Funds Basic Guidelines") as an overall framework. (①)

Next, the administration and investment organizations (the GPIF, the KKR, the Association, and the PMAC) jointly establish the target asset mix of funds (model portfolio) based on the Funds Basic Guidelines. (②)

The Association establishes the administration and investment policy subject to approval from the Minister for Internal Affairs and Communications (③) and individual implementing organizations establish basic policies on funds in accordance with the administration and investment policy. (④)

【Mechanism of fund investment after the integration】



(2) Basic approach to investment

■ Basic policy

Investment shall be made for the purpose of contributing to the stable management of the Employees' Pension Insurance operations into the future by investing safely and efficiently from a long-term perspective for the benefits of individuals covered by Employees' Pension Insurance.

In the management of funds, investments shall be made in a way that ensures appropriate diversification across multiple assets with different risk/return profiles and other characteristics.

To ensure the required real return on investments of the funds (meaning the investment return less the nominal wage increase) at the minimum risk, a benchmark portfolio shall be established and appropriately managed and efforts shall be made to secure the benchmark return for overall assets and each asset class in each fiscal year as well as over the long term.