

# **Fiscal Year 2016**

## **Review of Operations (Abridged Version)**

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### **(Pension Fund Association for Local Government Officials)**



**地方公務員共済組合連合会**

Pension Fund Association for Local Government Officials

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

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# Market Environment

## Fiscal Year 2016 Market Environment ① (Domestic Bonds)

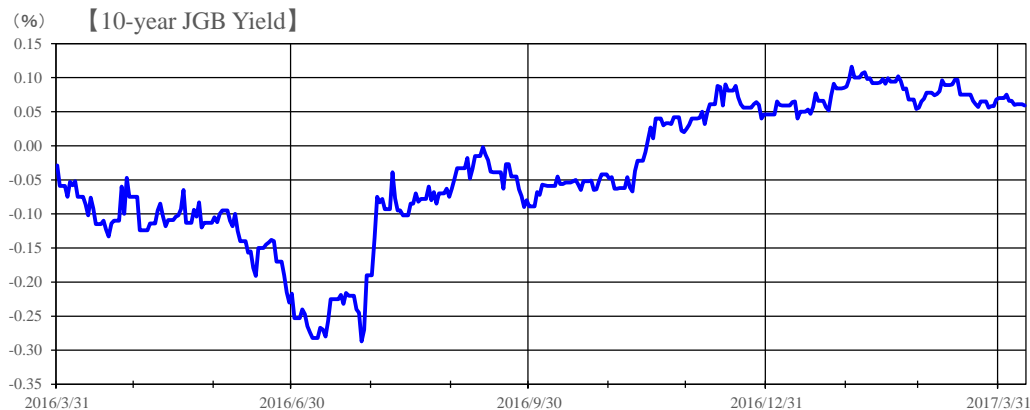
### ① Domestic Bond Market

The yield on the 10-year government bond stayed at around -0.10% from the beginning of fiscal year 2016 because of the effects of the Quantitative and Qualitative Monetary Easing with a Negative Interest Rate, which was announced by the Bank of Japan (BOJ) on January 29, 2016 (applied from February 16 of the year), but it declined to around -0.30% in July amid expectations for additional monetary easing by the BOJ. However, following the BOJ's announcement of a plan to conduct a comprehensive assessment of the economic conditions in late July, the yield rose as uncertainty grew over the future course of the monetary policy, and afterwards, it mostly stayed range-bound between -0.10% and 0.00%.

In September, the yield rose before falling back as various speculations over the possibility of additional monetary easing circulated ahead of a Monetary Policy Meeting. After a new framework of monetary policy (Quantitative and Qualitative Monetary Easing with Yield Curve Control) was announced, the yield rose temporarily but stayed at around -0.05% thereafter as the effects of the BOJ's policy change filtered through the market.

After the U.S. presidential election in November, the Japanese yield went up in line with a rise in U.S. interest rates and stayed close to 0.05% around the turn of the year. After the beginning of 2017, the yield declined at times due to concerns over European political risks related to the announcement of the United Kingdom's decision to go ahead with withdrawal from the EU (Brexit) and the French presidential election. However, the yield remained range-bound as the yield decline was moderated by concerns about possible reduction of government bond purchases by the BOJ.

On a fiscal year basis, the yield on the 10-year government bond rose (the bond price dropped) from -0.03% at the end of the previous fiscal year to 0.07% at the end of the current fiscal year.



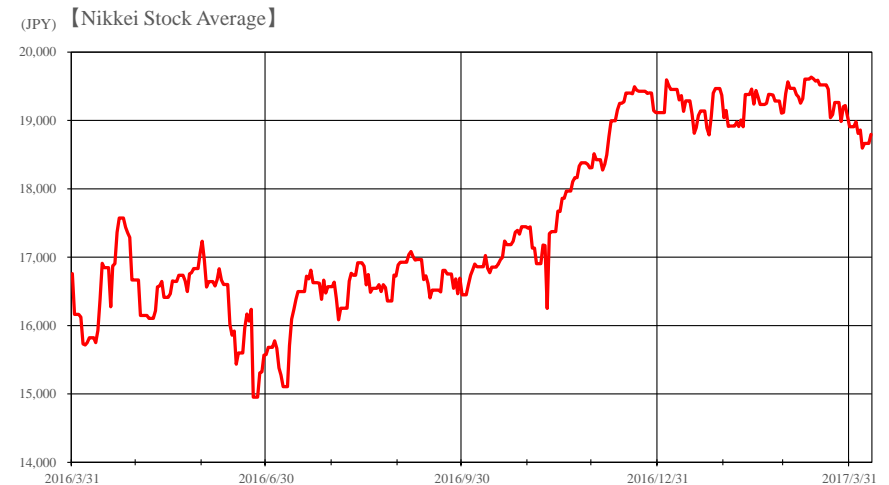
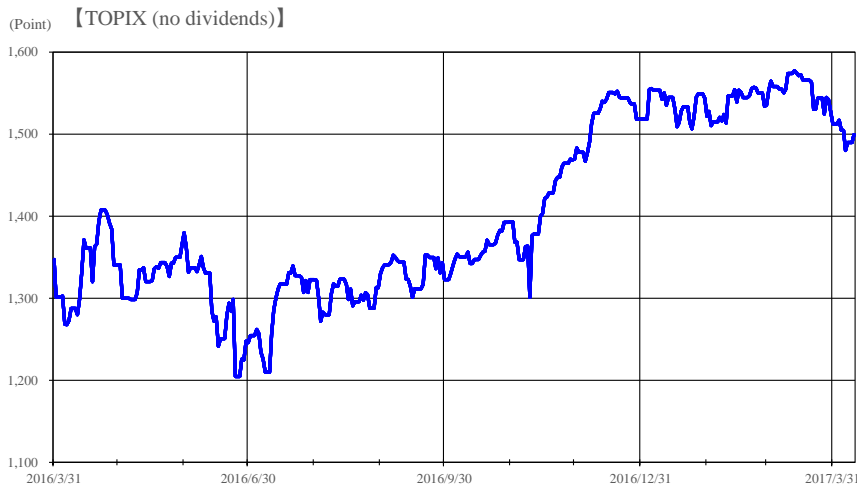
## Fiscal Year 2016 Market Environment ② (Domestic Equities)

### ② Domestic Equity Market

Domestic equity prices rose early in the fiscal year amid expectations for additional monetary easing by the BOJ but dropped steeply after the BOJ decided in late April to keep its policy unchanged. The domestic equity market stayed weak in May and later as the yen appreciated, and it declined steeply in response to the outcome of the U.K. referendum on Brexit in June, sending the TOPIX equity index (TOPIX without dividends) down to around 1,200 points at one time. Afterwards, domestic equity prices rebounded and remained mostly range-bound in the summer and later. Although equity prices plunged temporarily after Donald Trump was elected in the U.S. presidential election in November, the market staged a sharp rebound as the yen depreciated rapidly against the dollar.

After the beginning of 2017, domestic equity prices rose at times due to such factors as expectations for the economic policies promoted by the Trump administration, the strong performance of U.S. and European economic indicators and equity price rises in the United States and Europe. However, toward the end of the fiscal year, domestic equity prices declined slightly as expectations for the Trump administration's economic policies receded and concerns over European political risks grew.

On a fiscal year basis, the TOPIX equity index (TOPIX without dividends) went up from 1,347.20 points at the end of the previous fiscal year to 1,512.60 points at the end of the current fiscal year.



## Fiscal Year 2016 Market Environment ③ (Foreign Bonds)

### ③ Foreign Bond Market

The yield on the 10-year U.S. Treasury bond mostly stayed flat from the beginning of the fiscal year, but in response to the outcome of the U.K. referendum on Brexit in June, it declined steeply, falling to as low as 1.4% temporarily, as risk aversion grew. Later, the yield rose moderately in response to the strong performance of U.S. economic indicators. After the election of Donald Trump in the U.S. presidential election in November, the yield surpassed 2.6% in mid-December as the view prevailed that inflation would accelerate. After the beginning of 2017, the yield stayed directionless due to a mix of various factors, including expectations for the economic policies promoted by the Trump administration, expectations for an early interest rate hike by the Federal Reserve Board and uncertainty over the political situation in Europe.

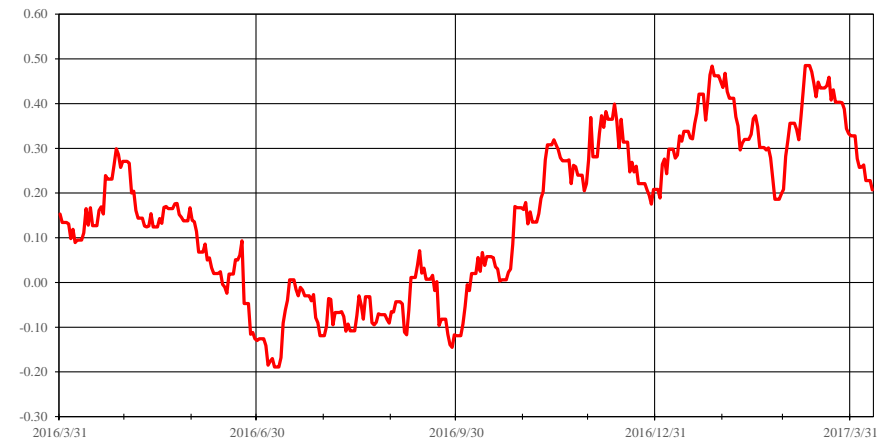
As for European bonds (German government bonds) as well, the yield declined (bond price rose) as risk aversion grew in relation to the U.K. referendum on Brexit in June. The yield temporarily rebounded in July and then remained directionless due to such factors as uncertainty over the political situation in Europe and speculation over the possible rollback of the European Central Bank's (ECB's) quantitative monetary easing.

On a fiscal year basis, the yield on the 10-year U.S. Treasury bond rose (bond price dropped) from 1.77% at the end of the previous year to 2.39% at the end of the current year. The yield on the 10-year German government bond increased (the bond price dropped) from 0.15% at the end of the previous fiscal year to 0.33% at the end of the current fiscal year.

【10-year US Treasury Bond Yield】



【10-year German Government Bond Yield】



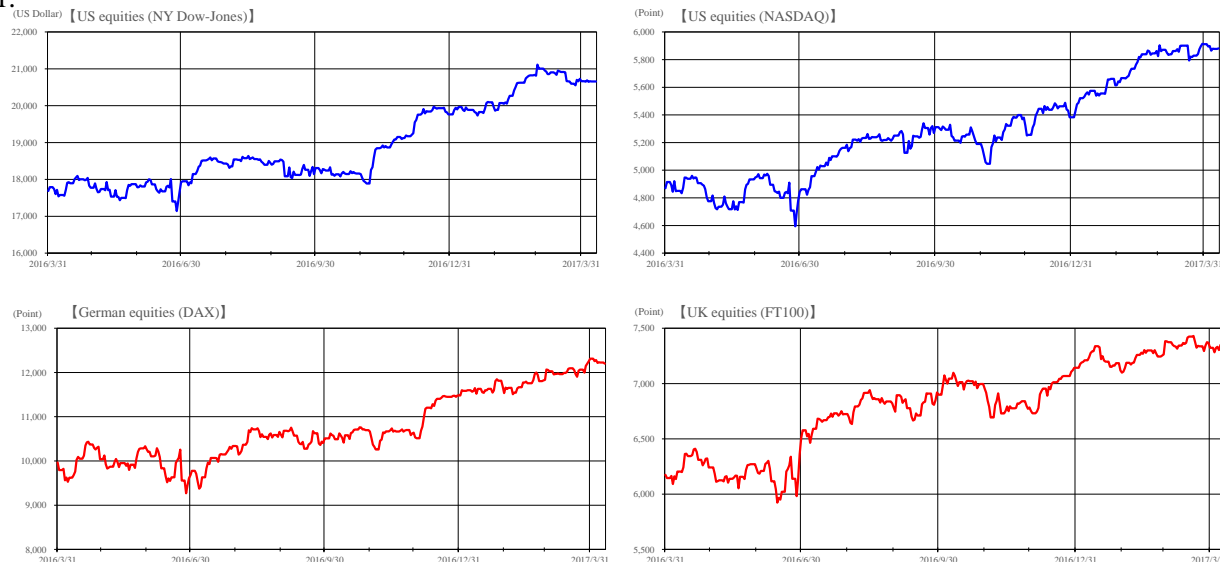
## Fiscal Year 2016 Market Environment ④ (Foreign Equities)

### ④ Foreign Equity Market

The U.S. equity market mostly stayed flat from the beginning of the fiscal year, but in response to the outcome of the U.K. referendum on Brexit in June, it fell steeply. Later, New York's Dow average (the Dow Jones industrial average) soon rebounded as the market welcomed an improvement in the employment situation, but it mostly stayed range-bound between 18,000 and 18,500. After the U.S. presidential election in November, equity prices surged amid expectations for the incoming administration's economic policies, including tax reduction and infrastructure investment. Afterwards, the equity price upsurge subsided, with the Dow average remaining mixed at around 20,000. After the beginning of 2017, equity prices got back on an uptrend due to the strong performance of U.S. economic indicators and expectations for the economic policies promoted by the Trump administration, among other factors.

The German DAX index fell below 9,300 points as uncertainty over the political situation in Europe grew in response to the outcome of the U.K. referendum on Brexit in June. After temporarily rebounding, the DAX index remained directionless for a while. However, after the U.S. presidential election in November, it rose amid expectations for the incoming U.S. administration's economic policies. After the beginning of 2017, the DAX index went up in tandem with a rise in U.S. equity prices as the extreme uncertainty over the political situation in Europe receded because of a victory won by the ruling party in the Dutch election to the lower house of parliament.

On a fiscal year basis, New York's Dow average rose from 17,685.09 at the end of the previous fiscal year to 20,663.22 at the end of the current fiscal year. The German DAX index increased from 9,965.51 points at the end of the previous fiscal year to 12,312.87 points at the end of the current fiscal year.





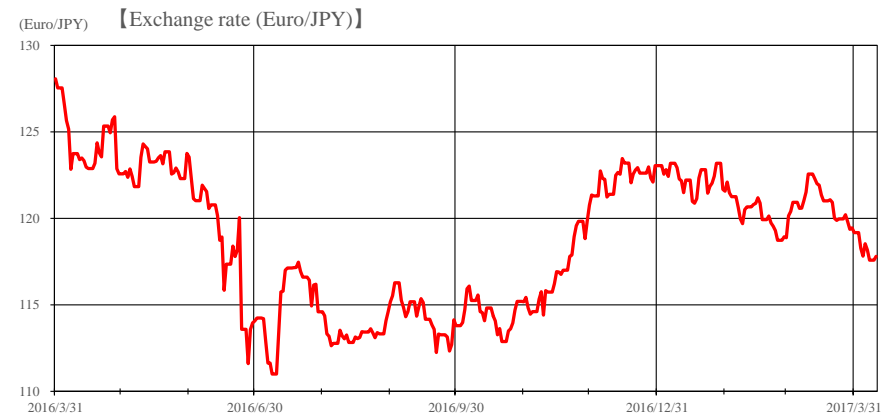
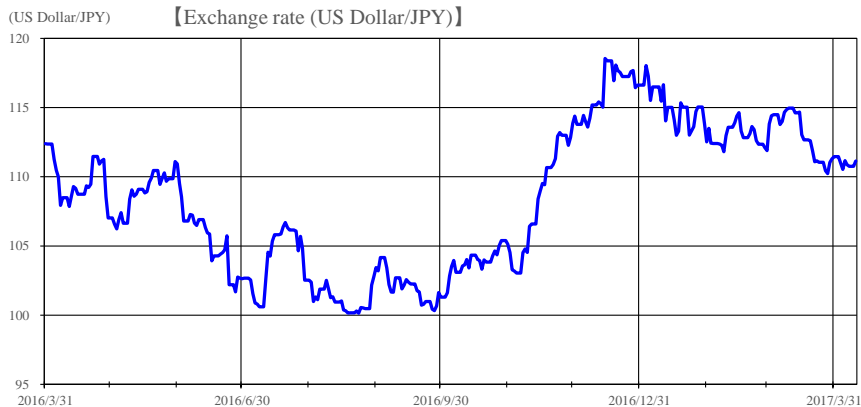
## Fiscal Year 2016 Market Environment ⑤ (Foreign Exchange)

### ⑤ Foreign Exchange Market

In dollar/yen exchange trading, the yen stayed strong against the dollar due to disappointment at the BOJ's decision in late April not to introduce an additional monetary easing measure, among other factors. The yen appreciated further in response to the outcome of the U.K. referendum on Brexit in June. Later, the yen depreciated temporarily as speculation over the possibility of an additional interest rate hike in the United States grew, but the exchange rate mostly stayed range-bound between 100 yen and 105 yen per dollar. After the long-term U.S. interest rate rose steeply following the U.S. presidential election in November, the yen depreciated rapidly against the dollar, with the dollar rising to the 118-yen range toward the end of the year. After the beginning of 2017, the yen appreciated against the dollar through the end of the current fiscal year against the backdrop of a protectionist stance indicated by President Trump, warnings issued by him against a strong dollar, and uncertainty over the political situation in Europe related to the French presidential election.

As for the euro/yen exchange rate, the yen stayed strong against the euro from the beginning of the fiscal year due to the BOJ's decision in late April not to introduce an additional monetary easing measure and uncertainty over Brexit. In response to the outcome of the U.K. referendum on Brexit in June, the yen significantly appreciated against the euro. Afterwards, the exchange rate remained mixed at around 115 yen per euro. However, after the U.S. presidential election in November, the yen depreciated against the euro as interest rates rose more moderately in Japan than in Europe. After the beginning of 2017, the yen appreciated against the euro due to increased uncertainty over the political situation in Europe related to the French presidential election and speculation over the possible rollback of the ECB's quantitative monetary easing.

On a fiscal year basis, the dollar-yen exchange rate came to 111.46 yen per dollar at the end of the current fiscal year compared with 112.39 yen per dollar at the end of the previous fiscal year. The euro-yen exchange rate stood at 119.18 yen per euro at the end of the current fiscal year compared with 128.07 yen per euro at the end of the previous fiscal year.



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# Employees' Pension Insurance Benefit Adjustment Fund

## Fiscal Year 2016 Investment Results (Overview)

Investment return: +5.60% \*Return (market value basis)  
(FY2016) (+1.80% \*Realized return (book value basis))

Investment income: +¥546.1 billion \*Investment income  
(FY2016) (market value basis)  
(+¥164.8 billion \*Realized income (book value basis))

Value of investment assets: ¥10,461.3 billion  
(End of FY2016)

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 each term, it should be kept in mind that it includes valuation gains/losses, which means it may change depending on market movements.

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

(Note 2) The return and income represent figures after the deduction of fees, etc. settled within the relevant period.

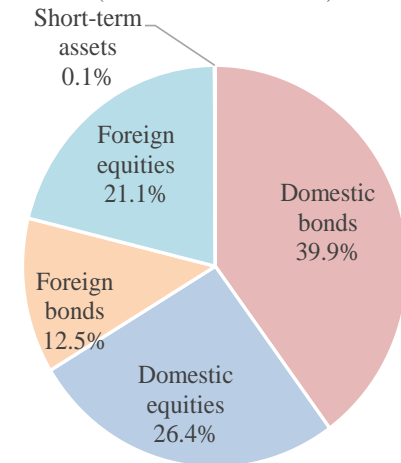
(Note 3) Realized income represents the sum of trading profits/losses and interest and dividend income, etc.

## Fiscal Year 2016 Asset Mix

(Unit: %)

	FY2015	FY2016			
	End of FY	End of Q1	End of Q2	End of Q3	End of FY
Domestic bonds	43.6	46.2	44.9	40.9	39.9
Domestic equities	22.3	23.6	24.8	26.3	26.4
Foreign bonds	12.0	12.0	11.8	12.4	12.5
Foreign equities	17.5	18.1	18.5	20.3	21.1
Short-term assets	4.5	0.1	0.1	0.0	0.1
Total	100.0	100.0	100.0	100.0	100.0

Composition by Investment Asset Class  
(as of end of FY2016)



(Note 1) Concerning the benchmark portfolio, the share in the mix is 35% for domestic bonds ( $\pm 15\%$ ), 25% for domestic equities ( $\pm 14\%$ ), 15% for foreign bonds ( $\pm 6\%$ ) and 25% for foreign equities ( $\pm 12\%$ ) (The figures in the parentheses represent deviation tolerances).

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

(Note 3) Starting in fiscal year 2016, short-term assets held by each fund were classified into relevant asset classes in principle.

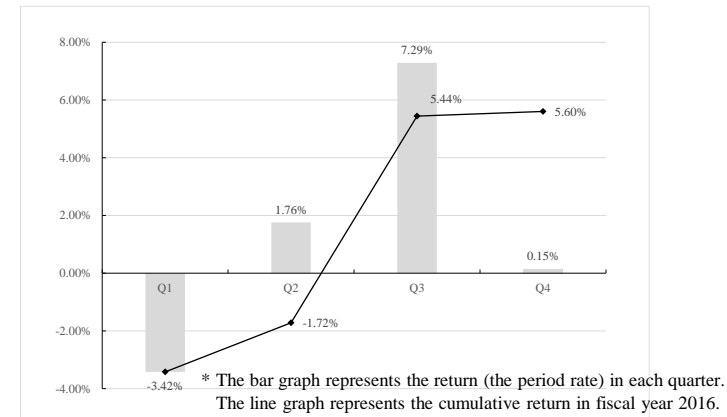
(Note 4) The ratio of alternative assets to the total amount of funds is 0.3% (the upper limit is 5%).

## Fiscal Year 2016 Investment Return

- The return (market value basis) in fiscal year 2016 came to 5.60% due to such factors as a rise in domestic and foreign equity prices. The realized return (book value basis) was 1.80%.
- By asset class, the return (market value basis) was -0.63% for domestic bonds, 14.66% for domestic equities, -5.29% for foreign bonds and 14.43% for foreign equities.

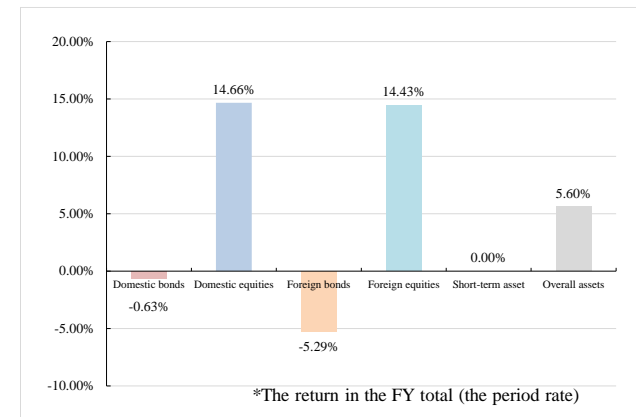
(Unit: %)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Return (market value basis)	-3.42	1.76	7.29	0.15	5.60
Domestic bonds	1.34	-0.93	-0.77	-0.25	-0.63
Domestic equities	-6.98	6.59	14.82	0.72	14.66
Foreign bonds	-8.26	-0.48	7.59	-3.58	-5.29
Foreign equities	-7.85	3.81	16.70	2.51	14.43
Short-term assets	0.00	0.00	0.00	0.00	0.00



(Unit: %)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Realized return (book value basis)	0.14	0.24	0.57	0.85	1.80



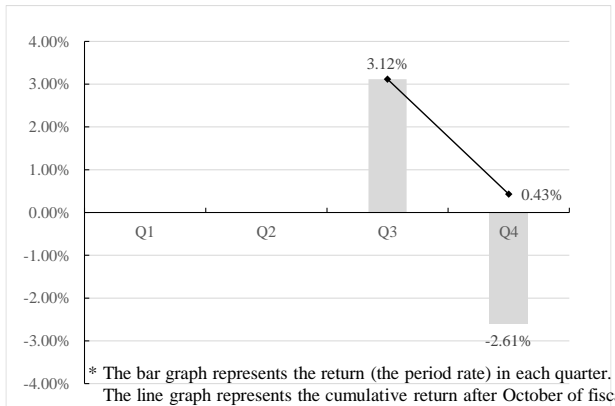
(Note 1) The return (market value basis) in each quarter is the period rate.

(Note 2) The return (market value basis) represent figures after the deduction of fees, etc. settled within the relevant period.

## (Reference) Fiscal Year 2015 Investment Return

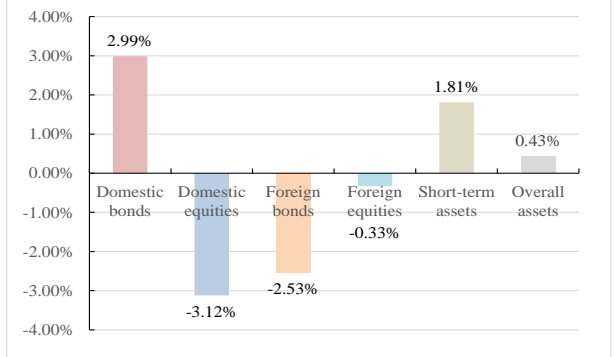
(Unit: %)

	FY2015				
	Q1	Q2	Q3	Q4	FY total
Return (market value basis)	/	/	3.12	-2.61	0.43
Domestic bonds	/	/	0.65	2.40	2.99
Domestic equities	/	/	9.60	-11.14	-3.12
Foreign bonds	/	/	-1.20	-1.34	-2.53
Foreign equities	/	/	5.52	-5.25	-0.33
Short-term assets	/	/	5.54	-1.25	1.81



(Unit: %)

	FY2015				
	Q1	Q2	Q3	Q4	FY total
Realized return (book value basis)	/	/	0.92	0.76	1.68



(Note 1) The above figures represent the returns since October 2015, when the pensions systems were integrated into the Employees' Pension Insurance System.

(Note 2) The figures for the "3Q" and "4Q" represent the period rates. The figures for "FY total" represent the period rates in the second half of fiscal year 2015.

(Note 3) The return represent figures after the deduction of fees, etc. settled within the relevant period.

(Note 4) The return (market value basis) represents the realized return (book value basis) adjusted for the effects of changes in valuation gains/losses based on market value.

## Contribution Analysis of the Excess Return by Asset Class ①

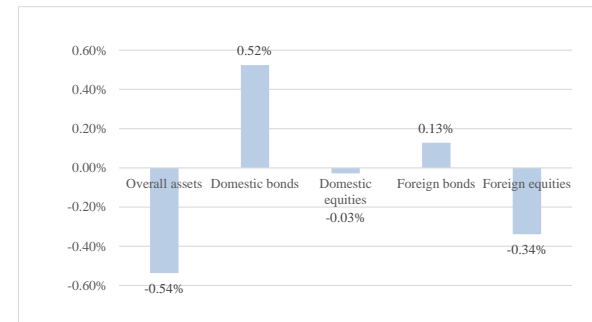
- The return (market value basis) for overall assets was 5.60%, while the excess return was -0.54%.  
The excess return due to the asset allocation factor was negative (-0.52%) against the backdrop of a fall in domestic bond prices and a rise in equity prices because the actual portfolio was overweight in domestic bonds and underweight in foreign equities compared with the benchmark portfolio.  
The excess return due to the individual asset factor was positive (0.11%) mainly because the return on domestic bonds exceeded the benchmark return.

FY2016 (April 2016 through March 2017)

	Overall assets	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Return (market value basis)	5.60%	-0.63%	14.66%	-5.29%	14.43%
Benchmark return *	6.14%	-1.15%	14.69%	-5.41%	14.77%
Excess return	-0.54%	0.52%	-0.03%	0.13%	-0.34%

\* The 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.

Excess return



	Asset allocation factor ①	Individual asset factor ②	Other factor (including errors) ③	①+②+③
Domestic bonds	-0.45%	0.18%	-0.05%	-0.32%
Domestic equities	0.03%	-0.02%	-0.04%	-0.03%
Foreign bonds	0.34%	0.02%	-0.02%	0.34%
Foreign equities	-0.42%	-0.07%	-0.01%	-0.50%
Short-term assets	-0.03%	0.00%	-0.00%	-0.03%
Total	-0.52%	0.11%	-0.12%	-0.54%

(Reference) Deviation of the actual portfolio from the benchmark portfolio in terms of the asset mix (as of the end of FY2016)

	Pension Fund Association for Local Government Officials	Benchmark Portfolio	Deviation
Domestic bonds	39.9%	35.0%	4.9%
Domestic equities	26.4%	25.0%	1.4%
Foreign bonds	12.5%	15.0%	-2.5%
Foreign equities	21.1%	25.0%	-3.9%
Short-term assets	0.1%		0.1%
Total	100.0%	100.0%	0.0%

- (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, 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.

## Contribution Analysis of the Excess Return by Asset Class ②

- Overall assets: The return (market value basis) for overall assets was 5.60%, while the excess return was -0.54%.  
The excess return due to the individual asset factor was positive mainly because the return on domestic bonds exceeded the benchmark return. Meanwhile, the actual portfolio was overweight in domestic bonds and underweight in foreign equities compared with the benchmark portfolio although the deviation of the actual portfolio from the benchmark portfolio was reduced compared to the end of the previous fiscal year. Against the backdrop of a rise in U.S. interest rates after the U.S. presidential election in the second half of the year, domestic bond prices declined and foreign equity prices rose, and as a result, the excess return was negative mainly because of the negative contributions from the asset allocation factor.
- Domestic bonds: The return (market value basis) was -0.63%, while the excess return was 0.52%.  
The excess return was positive because the duration of domestic bonds held as part of the mandatory investment was shorter than the duration for the benchmark, which kept the rate of price drop due to an interest rate rise lower compared with the benchmark, and also because the performance of products comprising corporate bonds and currency-hedged foreign bonds was robust.
- Domestic equities: The return (market value basis) was 14.66%, while the excess return was -0.03%.  
The sector selection effect was negative as the overweighting in domestic demand-related sectors and underweighting in the banking and electric appliance sectors made negative contributions after Donald Trump was elected in the U.S. presidential election, while the issue selection effect was positive. Meanwhile, the robust performance of value-oriented products was offset by the poor performance of growth-oriented products. As a result of all these factors, the return was in line with the benchmark.
- Foreign bonds: The return (market value basis) was -5.29%, while the excess return was 0.13%.  
The bond type selection effect was positive because of the overweighting in corporate bonds, among other factors, and the interest rate selection factor was also positive because of a successful duration strategy adapted to an interest rate change in the relevant period. In addition, general type products comprising relatively large proportions of corporate bonds performed strongly. As a result of all these factors, the excess return was positive.
- Foreign equities: The return (market value basis) was 14.43%, while the excess return was -0.34%.  
The country selection effect was negative due to the underweighting in resource-producing countries whose equities rose steeply due to a recovery of commodities markets, such as Brazil and Russia. Meanwhile, value-oriented and market-based products performed poorly. As a result of all these factors, the excess return was negative.

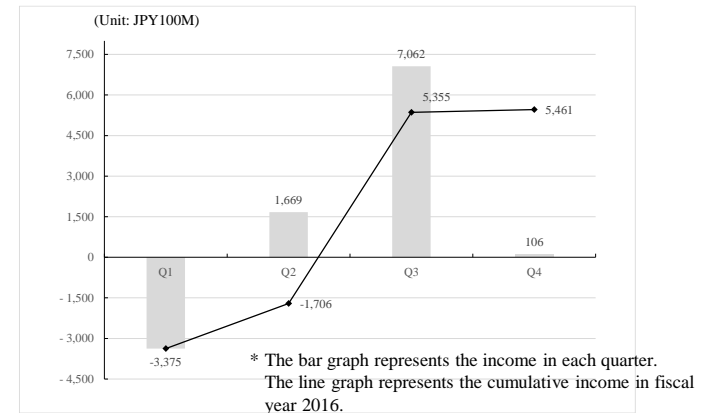


## Fiscal Year 2016 Investment Income

- Investment income (market value basis) in fiscal year 2016 was ¥546.1 billion. Realized income (book value basis) was ¥164.8 billion.
- By asset class, investment income (market value basis) was -¥24.5 billion for domestic bonds, ¥359.0 billion for domestic equities, -¥66.6 billion for foreign bonds and ¥278.2 billion for foreign equities.

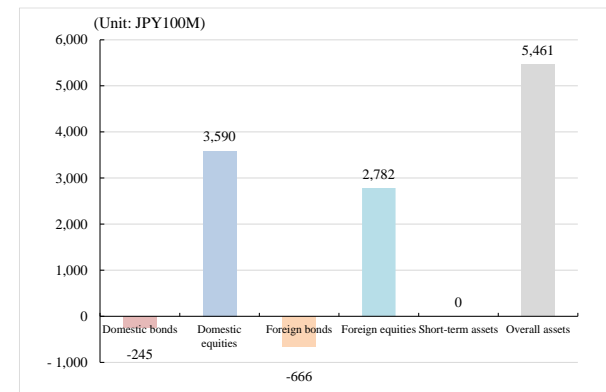
(Unit: JPY100M)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Investment income (market value basis)	-3,375	1,669	7,062	106	5,461
Domestic bonds	606	-411	-326	-114	-245
Domestic equities	-1,617	1,479	3,547	181	3,590
Foreign bonds	-993	-55	862	-479	-666
Foreign equities	-1,371	655	2,979	518	2,782
Short-term assets	0	0	0	0	0



(Unit: JPY100M)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Realized income (book value basis)	131	214	517	787	1,648



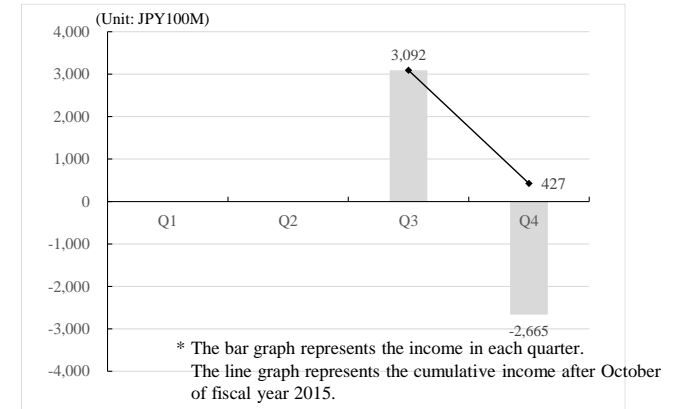
- (Note 1) The income represent figures after the deduction of fees, etc. settled within the relevant period.
- (Note 2) The investment income (market value basis) represents the realized income (book value basis) adjusted for the effects of changes in valuation gains/losses based on market value.
- (Note 3) Realized income (book value basis) represents the sum of trading profits/losses and interest and dividend income, etc.
- (Note 4) Due to rounding, the total sum of individual figures may not necessarily add up to the FY total.

\*The above figures represent income for the FY total.

## (Reference) Fiscal Year 2015 Investment Income

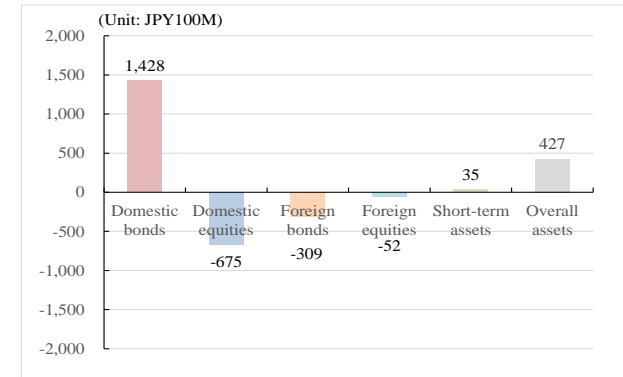
(Unit: JPY100M)

	FY2015				
	Q1	Q2	Q3	Q4	FY total
Investment income (market value basis)	/	/	3,092	-2,665	427
Domestic bonds	/	/	321	1,107	1,428
Domestic equities	/	/	2,006	-2,681	-675
Foreign bonds	/	/	-147	-162	-309
Foreign equities	/	/	844	-896	-52
Short-term assets	/	/	67	-32	35



(Unit: JPY100M)

	FY2015				
	Q1	Q2	Q3	Q4	FY total
Realized income (book value basis)	/	/	835	690	1,525



(Note 1) The above figures represent the income since October 2015, when the pensions systems were integrated into the Employees' Pension Insurance System.

(Note 2) The figures for the "FY total" represent income in the second half of fiscal year 2015.

(Note 3) The income represent figures after the deduction of fees, etc. settled within the relevant period.

(Note 4) 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 5) Realized income (book value basis) represents the sum of trading profits/losses and interest and dividend income, etc.

(Note 6) Due to rounding, the total sum of individual figures may not necessarily add up to the FY total.

\*The above figures represent income for the FY total.

## Fiscal Year 2016 Value of Assets

(Unit: JPY100M)

	FY2016											
	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
Domestic bonds	41,209	43,979	2,770	41,217	43,365	2,148	41,093	42,845	1,752	40,286	41,737	1,451
Domestic equities	22,388	22,457	69	22,343	23,936	1,594	22,738	27,483	4,745	23,221	27,664	4,443
Foreign bonds	12,103	11,392	-711	12,003	11,368	-636	12,816	13,029	213	13,478	13,090	-388
Foreign equities	15,072	17,228	2,156	15,143	17,883	2,740	15,687	21,263	5,575	16,177	22,040	5,863
Short-term assets	91	91	0	91	91	0	48	48	0	81	81	0
Total	90,862	95,147	4,284	90,797	96,643	5,845	92,383	104,668	12,286	93,242	104,613	11,370

(Note 1) Due to rounding, the total sum of individual figures may not necessarily add up to the Total.

(Note 2) Starting in fiscal year 2016, short-term assets held by each fund were classified into relevant asset classes in principle.

### The amount of funds allocated and withdrawn by asset class (for FY2016)

(Unit: JPY100M)

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Amount of funds allocated and withdrawn	-5,737	2,000	1,840	1,910

(Note 1) The above figures represent the total amount of fund flows related to the allocation and withdrawal of funds (rebalancing) conducted for the purpose of changing the asset mix, and cashing out.

(Note 2) As a result of the final classification of funds related to the integration of employee pension plans, funds totaling ¥129.4 billion were transferred from the Transitional Long-term Benefit Adjustment Fund in December 2016.

## (Reference) Fiscal Year 2015 Value of Assets

(Unit: JPY100M)

	FY2015											
	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
Domestic bonds							46,596	48,466	1,870	40,906	43,171	2,265
Domestic equities							18,933	23,365	4,431	20,467	22,074	1,608
Foreign bonds							11,836	12,168	332	11,750	11,826	76
Foreign equities							11,680	16,221	4,541	13,740	17,349	3,609
Short-term assets							1,675	1,676	1	4,488	4,488	0
Total							90,720	101,895	11,175	91,351	98,908	7,557

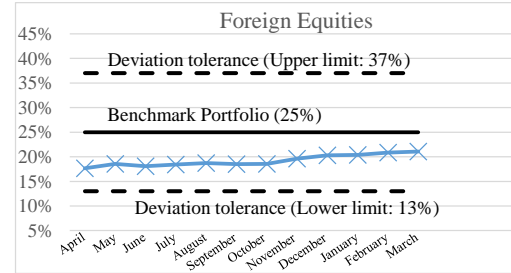
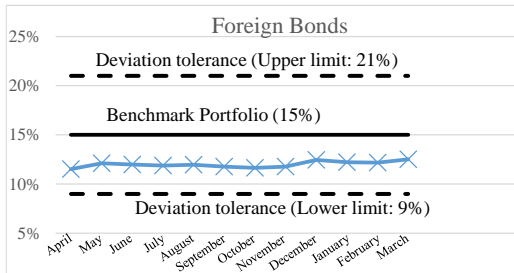
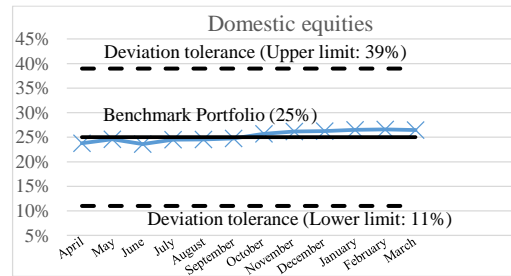
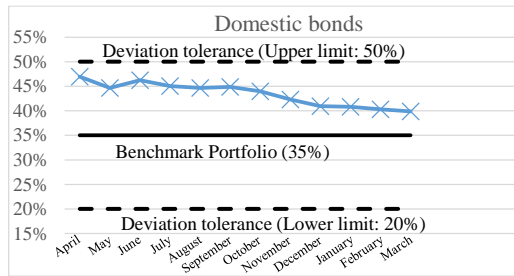
(Note 1) The above figures represent the value of assets since October 2015, when the pensions systems were integrated into the Employees' Pension Insurance System.

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

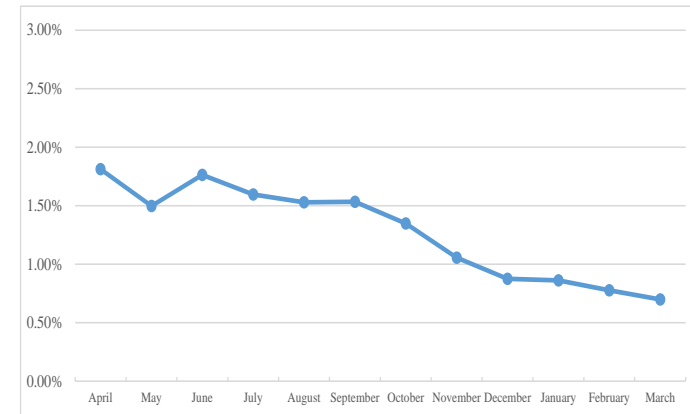
## Status of Risk Management (Overall Assets)

In fiscal year 2016, 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 declined mainly because of a reduction of the deviation concerning foreign equities.

【Changes in the asset mix】



【Changes in the estimated tracking error】



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

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# Transitional Long-term Benefit Adjustment Fund

## Fiscal Year 2016 Investment Results (Overview)

Investment return: +5.71% \*Return (market value basis)  
(FY2016) (+1.86% \*Realized return (book value basis))

Investment income: +¥590.9 billion \*Investment income  
(FY2016) (market value basis)  
(+¥182.2 billion \*Realized income (book value basis))

Value of investment assets: ¥10,969.5 billion  
(End of FY2016)

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 each term, it should be kept in mind that it includes valuation gains/losses, which means it may change depending on market movements.

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

(Note 2) The return and income represent figures after the deduction of fees, etc. settled within the relevant period.

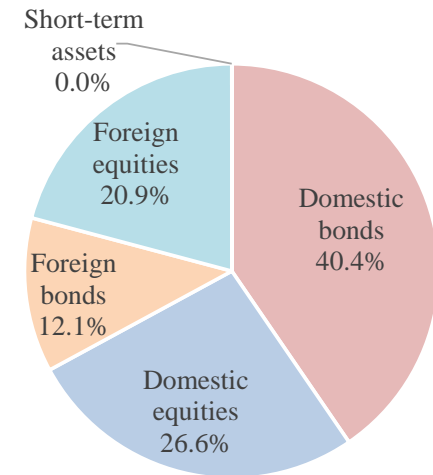
(Note 3) Realized income represents the sum of trading profits/losses and interest and dividend income, etc.

## Fiscal Year 2016 Asset Mix

(Unit: %)

	FY2015	FY2016			
	End of FY	End of Q1	End of Q2	End of Q3	End of FY
Domestic bonds	44.3	47.4	46.3	41.5	40.4
Domestic equities	22.0	23.1	24.1	26.5	26.6
Foreign bonds	11.9	11.8	11.5	11.8	12.1
Foreign equities	17.3	17.7	18.1	20.2	20.9
Short-term assets	4.5	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0

Composition by Investment Asset Class  
(as of end of FY2016)



(Note 1) Concerning the benchmark portfolio, the share in the mix is 35% for domestic bonds ( $\pm 15\%$ ), 25% for domestic equities ( $\pm 14\%$ ), 15% for foreign bonds ( $\pm 6\%$ ) and 25% for foreign equities ( $\pm 12\%$ ) (The figures in the parentheses represent deviation tolerances).

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

(Note 3) Starting in fiscal year 2016, short-term assets held by each fund were classified into relevant asset classes in principle.

(Note 4) Group pure endowment insurance is included in domestic bonds.

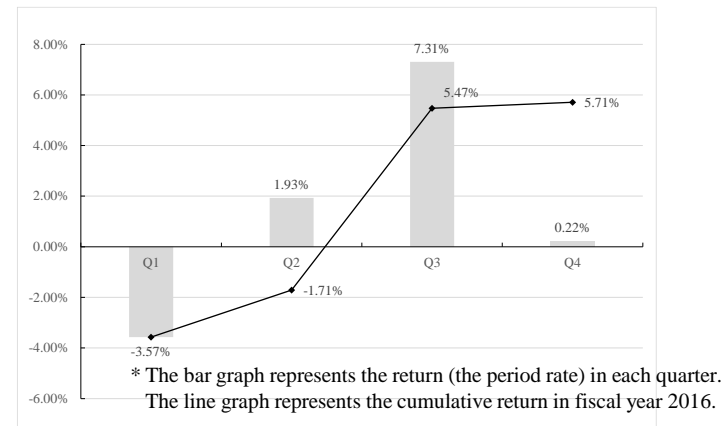


## Fiscal Year 2016 Investment Return

- The return (market value basis) in fiscal year 2016 came to 5.71% due to such factors as a rise in domestic and foreign equity prices. The realized return (book value basis) was 1.86%.
- By asset class, the return (market value basis) was -0.29% for domestic bonds, 14.67% for domestic equities, -5.35% for foreign bonds and 14.44% for foreign equities.

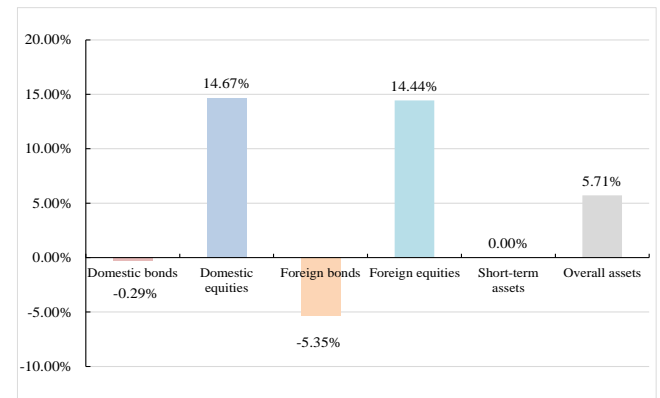
(Unit: %)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Return (market value basis)	-3.57	1.93	7.31	0.22	5.71
Domestic bonds	0.85	-0.45	-0.58	-0.11	-0.29
Domestic equities	-7.00	6.62	14.83	0.72	14.67
Foreign bonds	-8.25	-0.48	7.51	-3.58	-5.35
Foreign equities	-7.85	3.81	16.70	2.50	14.44
Short-term assets	0.00	0.00	0.00	0.00	0.00



(Unit: %)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Realized return (book value basis)	0.16	0.23	0.63	0.85	1.86



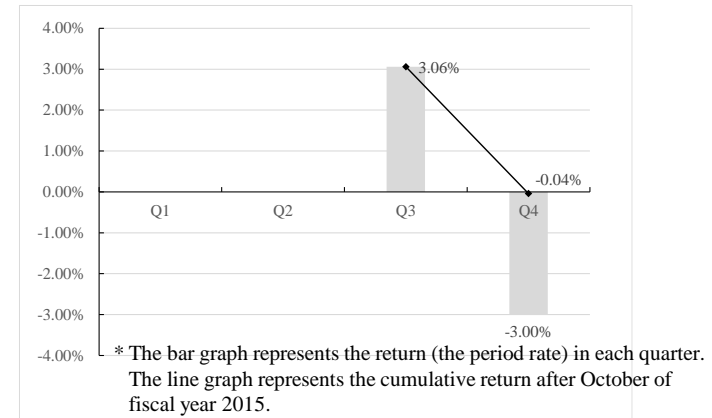
(Note 1) The return (market value basis) in each quarter is the period rate.

(Note 2) The return (market value basis) represent figures after the deduction of fees, etc. settled within the relevant period.

## (Reference) Fiscal Year 2015 Investment Return

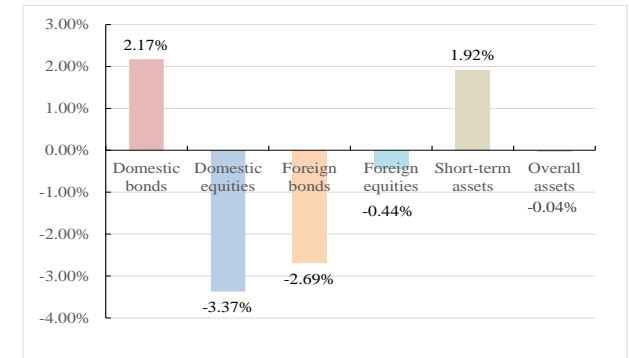
(Unit: %)

	FY2015				
	Q1	Q2	Q3	Q4	FY total
Return (market value basis)			3.06	-3.00	-0.04
Domestic bonds			0.59	1.60	2.17
Domestic equities			9.53	-11.34	-3.37
Foreign bonds			-1.21	-1.50	-2.69
Foreign equities			5.53	-5.39	-0.44
Short-term assets			4.67	-0.76	1.92



(Unit: %)

	FY2015				
	Q1	Q2	Q3	Q4	FY total
Realized return (book value basis)			0.92	0.56	1.48



(Note 1) The above figures represent the returns since October 2015, when the pensions systems were integrated into the Employees' Pension Insurance System.

(Note 2) The figures for the "Q3" and "Q4" represent the period rates. The figures for "FY total" represent the period rates in the second half of fiscal year 2015.

(Note 3) The return represent figures after the deduction of fees, etc. settled within the relevant period.

(Note 4) The return (market value basis) represents the realized return (book value basis) adjusted for the effects of changes in valuation gains/losses based on market value.

## Contribution Analysis of the Excess Return by Asset Class ①

- The return (market value basis) for overall assets was 5.71%, while the excess return was -0.43%. The excess return due to the asset allocation factor was negative (-0.57%) against the backdrop of a fall in domestic bond prices and a rise in equity prices because the actual portfolio was overweight in domestic bonds and underweight in foreign equities compared with the benchmark portfolio. The excess return due to the individual asset factor was positive (0.22%) mainly because the return on domestic bonds exceeded the benchmark return.

FY2016 (April 2016 through March 2017)

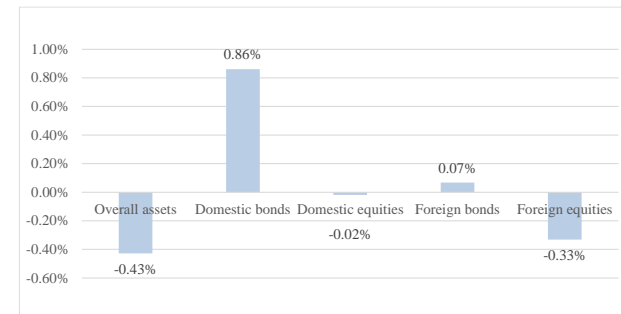
	Overall assets	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Return (market value basis)	5.71%	-0.29%	14.67%	-5.35%	14.44%
Benchmark return *	6.14%	-1.15%	14.69%	-5.41%	14.77%
Excess return	-0.43%	0.86%	-0.02%	0.07%	-0.33%

\* The 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.

	Asset allocation factor ①	Individual asset factor ②	Other factor (including errors) ③	①+②+③
Domestic bonds	-0.51%	0.29%	-0.02%	-0.24%
Domestic equities	-0.01%	-0.02%	-0.03%	-0.05%
Foreign bonds	0.38%	0.01%	-0.02%	0.37%
Foreign equities	-0.43%	-0.07%	-0.01%	-0.51%
Short-term assets	-0.00%	0.00%	-0.00%	-0.00%
Total	-0.57%	0.22%	-0.08%	-0.43%

- (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, 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.

Excess return



(Reference) Deviation of the actual portfolio from the benchmark portfolio in terms of the asset mix (as of the end of FY2016)

	Pension Fund Association for Local Government Officials	Benchmark Portfolio	Deviation
Domestic bonds	40.4%	35.0%	5.4%
Domestic equities	26.6%	25.0%	1.6%
Foreign bonds	12.1%	15.0%	-2.9%
Foreign equities	20.9%	25.0%	-4.1%
Short-term assets	0.0%		0.0%
Total	100.0%	100.0%	0.0%

## Contribution Analysis of the Excess Return by Asset Class ②

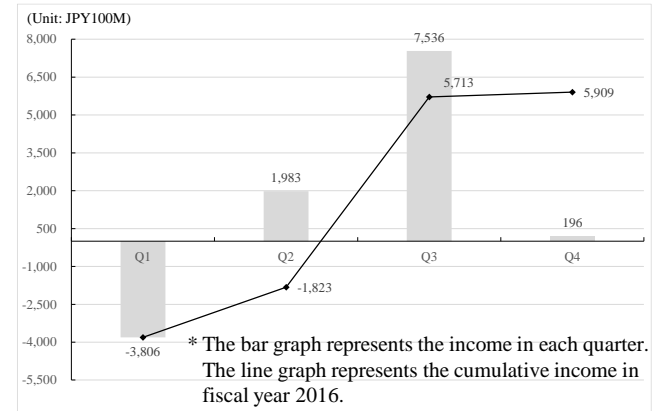
- Overall assets: The return (market value basis) for overall assets was 5.71%, while the excess return was -0.43%.  
The excess return due to the individual asset factor was positive mainly because the return on domestic bonds exceeded the benchmark return. Meanwhile, the actual portfolio was overweight in domestic bonds and underweight in foreign equities compared with the benchmark portfolio although the deviation of the actual portfolio from the benchmark portfolio was reduced compared to the end of the previous fiscal year. Against the backdrop of a rise in U.S. interest rates after the U.S. presidential election in the second half of the year, domestic bond prices declined and foreign equity prices rose, and as a result, the excess return was negative mainly because of the negative contributions from the asset allocation factor.
- Domestic bonds: The return (market value basis) was -0.29%, while the excess return was 0.86%.  
The excess return was positive because the duration of domestic bonds held as part of the mandatory investment was shorter than the duration for the benchmark, which kept the rate of price drop due to an interest rate rise lower compared with the benchmark, and also because the performance of products comprising corporate bonds and currency-hedged foreign bonds was robust.
- Domestic equities: The return (market value basis) was 14.67%, while the excess return was -0.02%.  
The sector selection effect was negative as the overweighting in domestic demand-related sectors and underweighting in the banking and electric appliance sectors made negative contributions after Donald Trump was elected in the U.S. presidential election, while the issue selection effect was positive. Meanwhile, the robust performance of value-oriented products was offset by the poor performance of growth-oriented products. As a result of all these factors, the return was in line with the benchmark.
- Foreign bonds: The return (market value basis) was -5.35%, while the excess return was 0.07%.  
The bond type selection effect was positive because of the overweighting in corporate bonds, among other factors, and the interest rate selection factor was also positive because of a successful duration strategy adapted to an interest rate change in the relevant period. In addition, general type products comprising relatively large proportions of corporate bonds performed strongly. As a result of all these factors, the excess return was positive.
- Foreign equities: The return (market value basis) was 14.44%, while the excess return was -0.33%.  
The country selection effect was negative due to the underweighting in resource-producing countries whose equities rose steeply due to a recovery of commodities markets, such as Brazil and Russia. Meanwhile, value-oriented and market-based products performed poorly. As a result of all these factors, the excess return was negative.

## Fiscal Year 2016 Investment Income

- Investment income (market value basis) in fiscal year 2016 was ¥590.9 billion. Realized income (book value basis) was ¥182.2 billion.
- By asset class, investment income (market value basis) was -¥12.8 billion for domestic bonds, ¥379.2 billion for domestic equities, -¥69.2 billion for foreign bonds and ¥293.6 billion for foreign equities.

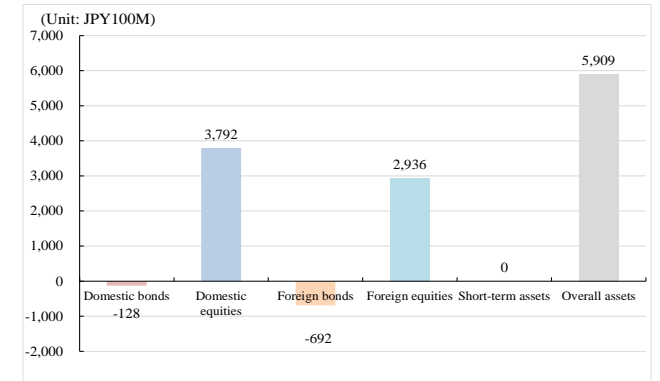
(Unit: JPY100M)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Investment income (market value basis)	-3,806	1,983	7,536	196	5,909
Domestic bonds	427	-221	-278	-56	-128
Domestic equities	-1,717	1,569	3,750	190	3,792
Foreign bonds	-1,062	-58	905	-476	-692
Foreign equities	-1,454	693	3,159	538	2,936
Short-term assets	0	0	0	0	0



(Unit: JPY100M)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Realized income (book value basis)	155	225	619	823	1,822



(Note 1) The income represent figures after the deduction of fees, etc. settled within the relevant period.

(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.

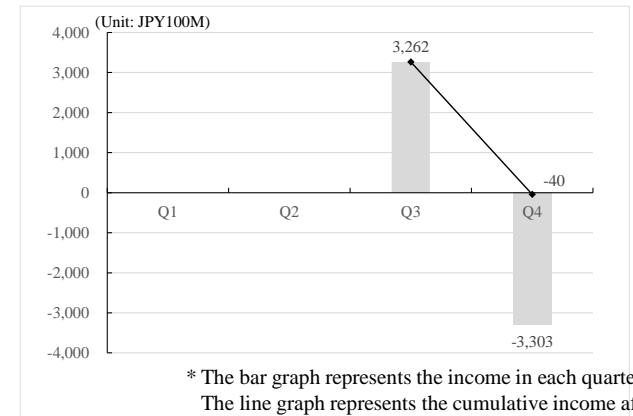
(Note 4) Due to rounding, the total sum of individual figures may not necessarily add up to the FY total.

\*The above figures represent income for the FY total.

## (Reference) Fiscal Year 2015 Investment Income

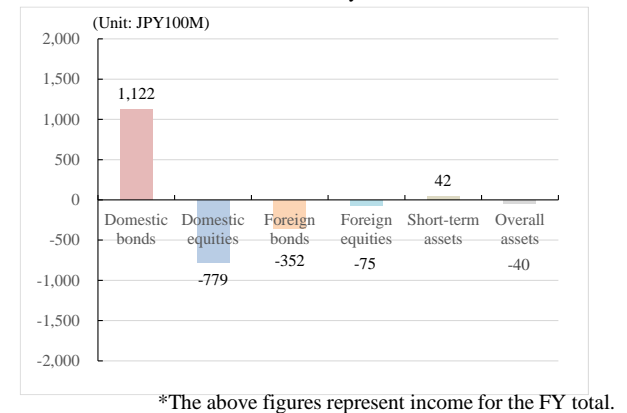
(Unit: JPY100M)

	FY2015				
	Q1	Q2	Q3	Q4	FY total
Investment income (market value basis)			3,262	-3,303	-40
Domestic bonds			317	805	1,122
Domestic equities			2,132	-2,910	-779
Foreign bonds			-158	-194	-352
Foreign equities			907	-981	-75
Short-term assets			64	-22	42



(Unit: JPY100M)

	FY2015				
	Q1	Q2	Q3	Q4	FY total
Realized income (book value basis)			895	547	1,441



(Note 1) The above figures represent the income since October 2015, when the pensions systems were integrated into the Employees' Pension Insurance System.

(Note 2) The figures for the "FY total" represent income in the second half of fiscal year 2015.

(Note 3) The income represent figures after the deduction of fees, etc. settled within the relevant period.

(Note 4) 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 5) Realized income (book value basis) represents the sum of trading profits/losses and interest and dividend income, etc.

(Note 6) Due to rounding, the total sum of individual figures may not necessarily add up to the FY total.

## Fiscal Year 2016 Value of Assets

(Unit: JPY100M)

	FY2016											
	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
Domestic bonds	46,342	48,754	2,412	46,573	48,530	1,958	43,872	45,421	1,550	43,079	44,362	1,283
Domestic equities	23,527	23,721	194	23,485	25,290	1,805	23,902	29,039	5,138	24,402	29,229	4,827
Foreign bonds	12,826	12,109	-717	12,680	12,051	-629	12,702	12,956	254	13,573	13,220	-353
Foreign equities	15,867	18,225	2,358	15,946	18,918	2,972	16,096	22,077	5,981	16,597	22,875	6,278
Short-term assets	8	8	0	11	11	0	5	5	0	8	8	0
Total	98,570	102,817	4,247	98,695	104,800	6,105	96,576	109,499	12,922	97,660	109,695	12,035

(Note 1) Due to rounding, the total sum of individual figures may not necessarily add up to the Total.

(Note 2) Starting in fiscal year 2016, short-term assets held by each fund were classified into relevant asset classes in principle.

(Note 3) Group pure endowment insurance is included in domestic bonds.

### The amount of funds allocated and withdrawn by asset class (for FY2016)

(Unit: JPY100M)

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Amount of funds allocated and withdrawn	-7,582	2,000	1,240	1,510

(Note 1) The above figures represent the total amount of fund flows related to the allocation and withdrawal of funds (rebalancing) conducted for the purpose of changing the asset mix, and cashing out.

(Note 2) As a result of the final classification of funds related to the integration of employee pension plans, funds totaling ¥129.4 billion were transferred to the Employees' Pension Insurance Benefit Adjustment Fund in December 2016.

## (Reference) Fiscal Year 2015 Value of Assets

(Unit: JPY100M)

	FY2015											
	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
Domestic bonds							50,863	52,748	1,886	45,165	47,245	2,080
Domestic equities							20,091	24,958	4,868	21,607	23,438	1,831
Foreign bonds							12,596	13,019	424	12,537	12,671	135
Foreign equities							12,455	17,369	4,914	14,526	18,429	3,904
Short-term assets							1,604	1,605	1	4,841	4,841	0
Total							97,608	109,700	12,092	98,676	106,624	7,948

(Note 1) The above figures represent the value of assets since October 2015, when the pensions systems were integrated into the Employees' Pension Insurance System.

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

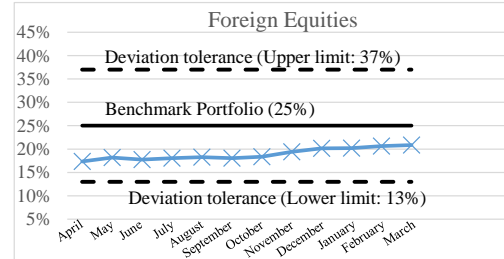
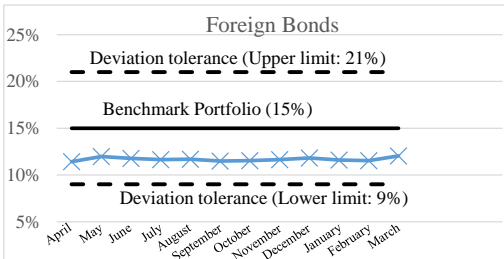
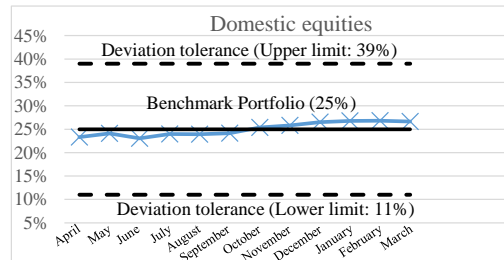
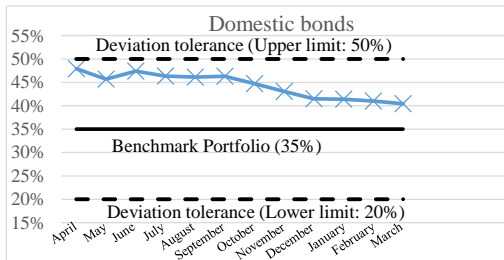
(Note 3) Group pure endowment insurance is included in domestic bonds.



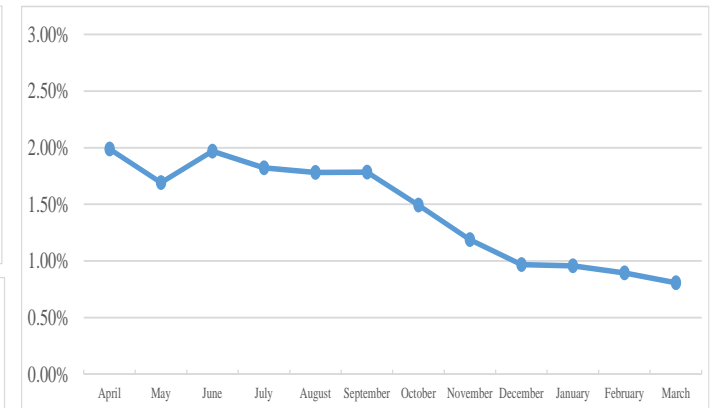
## Status of Risk Management (Overall Assets)

In fiscal year 2016, 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 declined mainly because of a reduction of the deviation concerning foreign equities.

【Changes in the asset mix】



【Changes in the estimated tracking error】



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

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# Annuity Retirement Benefit Adjustment Fund

## Fiscal Year 2016 Investment Results (Overview)

Investment return: +0.29% \*Realized return (book value basis)  
(FY2016)

Investment income: +¥32 million \*Realized income  
(FY2016) (book value basis)

Value of investment assets: ¥19.9 billion  
(End of FY2016)

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

(Note 1) The return and income represent figures after the deduction of fees, etc. settled within the relevant period.

(Note 2) Realized income represents the sum of trading profits/losses and interest and dividend income, etc.

## Fiscal Year 2016 Asset Mix

(Unit: %)

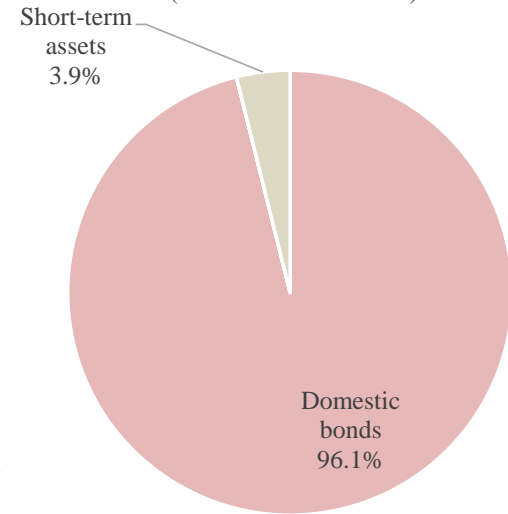
	FY2015	FY2016			
	End of FY	End of Q1	End of Q2	End of Q3	End of FY
Domestic bonds	86.8	96.2	100.0	100.0	96.1
Short-term assets	13.2	3.8	0.0	0.0	3.9
Total	100.0	100.0	100.0	100.0	100.0

(Note 1) Concerning the benchmark portfolio, the share in the mix is 100% for domestic bonds.

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

(Note 3) Starting in fiscal year 2016, short-term assets held by each fund were classified into relevant asset classes in principle.

Composition by Investment Asset Class  
(as of end of FY2016)

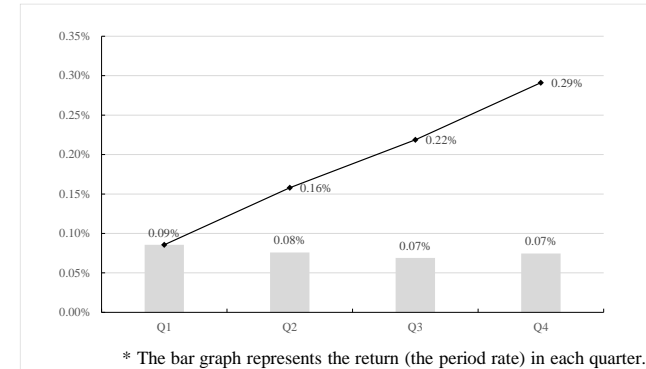


## Fiscal Year 2016 Investment Return

- The realized return (book value basis) for FY2016 was 0.29%.
- Domestic bonds held by the Annuity Retirement Benefit Adjustment Fund were evaluated based on book value on the premise of continued holding until maturity.

(Unit: %)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Realized return (book value basis)	0.09	0.08	0.07	0.07	0.29
Domestic bonds	0.09	0.08	0.08	0.08	0.32
Short-term assets	0.00	0.00	0.00	0.00	0.00

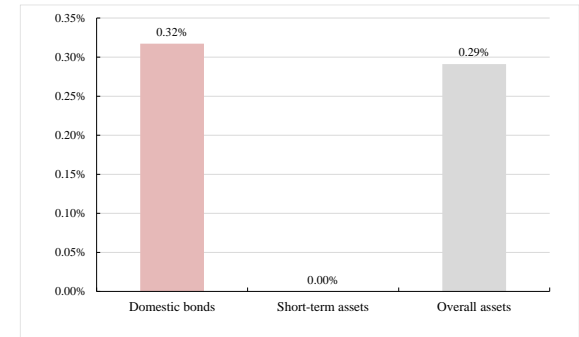


\* The bar graph represents the return (the period rate) in each quarter.  
The line graph represents the cumulative return in fiscal year 2016.

(Reference)

(Unit: %)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Return (market value basis)	3.98	-1.98	-2.03	-0.43	-2.01



\*The return in FY2016 (the period rate)

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

(Note 2) The return in each quarter is the period rate.

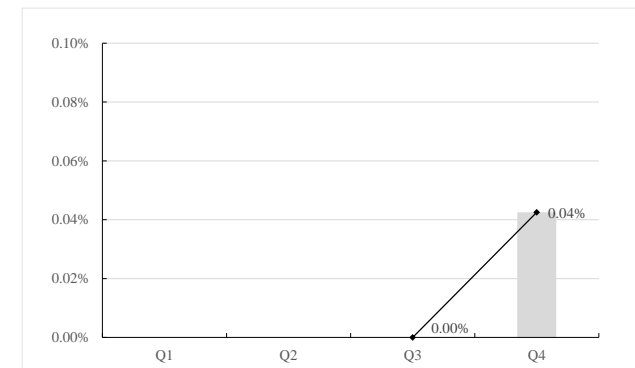
(Note 3) The return represent figures after the deduction of fees, etc. settled within the relevant period.

(Note 4) The return (market value basis) represents the realized return (book value basis) adjusted for the effects of changes in valuation profits/losses that would arise if the assets are evaluated based on market value.

# (Reference) Fiscal Year 2015 Investment Return

(Unit: %)

	FY2015				
	Q1	Q2	Q3	Q4	FY total
Realized return (book value basis)	/	/	0.00	0.04	0.04
Domestic bonds	/	/	0.00	0.07	0.07
Short-term assets	/	/	0.00	0.00	0.00

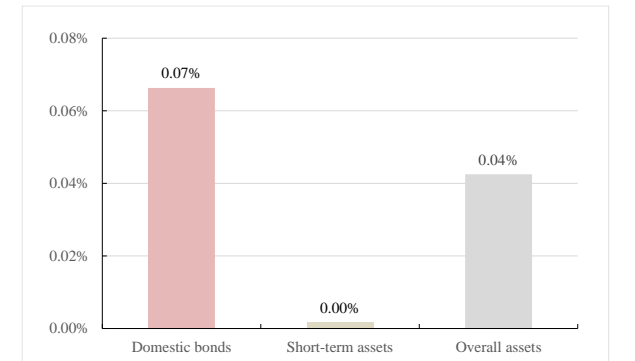


\* The bar graph represents the return (the period rate) in each quarter. The line graph represents the cumulative return after October of fiscal year 2015.

(Reference)

(Unit: %)

	FY2015				
	Q1	Q2	Q3	Q4	FY total
Return (market value basis)	/	/	0.00	-0.39	-0.39



\*The return in the FY total (the period rate)

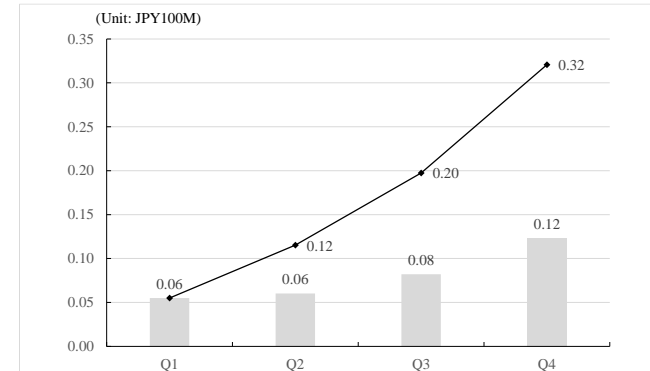
- (Note 1) The above figures represent the returns since October 2015, when the pensions systems were integrated into the Employees' Pension Insurance System.
- (Note 2) The figures for the "Q3" and "Q4" represent the period rates. The figures for "FY total" represent the period rates in the second half of fiscal year 2015.
- (Note 3) The return represent figures after the deduction of fees, etc. settled within the relevant period.
- (Note 4) The return (market value basis) represents the realized return (book value basis) adjusted for the effects of changes in valuation profits/losses that would arise if the assets are evaluated based on market value.

## Fiscal Year 2016 Investment Income

- The realized income (book value basis) for FY2016 was ¥32 million.
- Domestic bonds held by the Annuity Retirement Benefit Adjustment Fund were evaluated based on book value on the premise of continued holding until maturity.

(Unit: JPY100M)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Realized income (book value basis)	0.06	0.06	0.08	0.12	0.32
Domestic bonds	0.06	0.06	0.08	0.12	0.32
Short-term assets	0.00	0.00	0.00	0.00	0.00

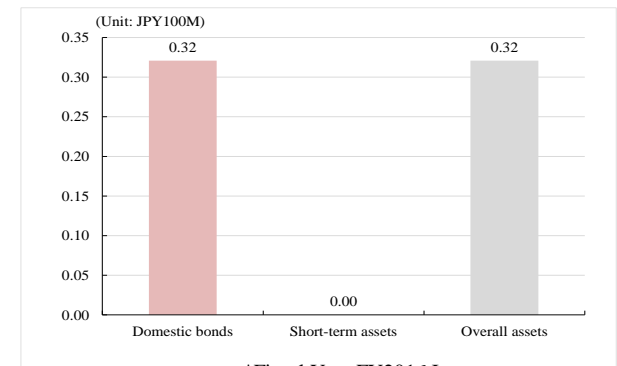


\* The bar graph represents the income in each quarter.  
The line graph represents the cumulative income in fiscal year 2016.

(Reference)

(Unit: JPY100M)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Investment income (market value basis)	2.55	-1.62	-2.44	-0.70	-2.21



\*Fiscal Year FY2016 Income

(Note 1) The income represent figures after the deduction of fees, etc. settled within the relevant period.

(Note 2) Realized income (book value basis) represents the sum of trading profits/losses and interest and dividend income, etc.

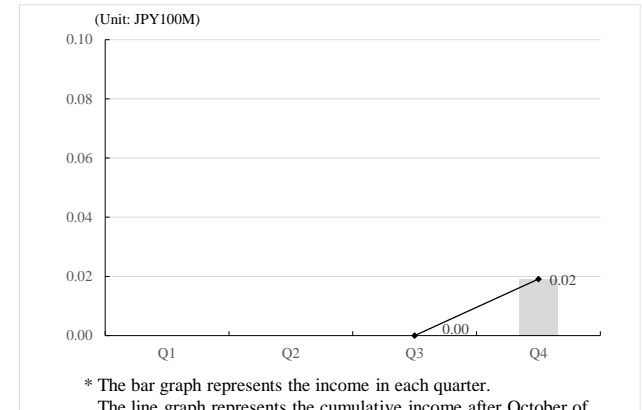
(Note 3) The investment income (market value basis) represents the realized income (market value basis) adjusted for the effects of changes in valuation gains/losses based on market value.

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

## (Reference) Fiscal Year 2015 Investment Income

(Unit: JPY100M)

	FY2015				
	Q1	Q2	Q3	Q4	FY total
Realized income (book value basis)			0.00	0.02	0.02
Domestic bonds			0.00	0.02	0.02
Short-term assets			0.00	0.00	0.00

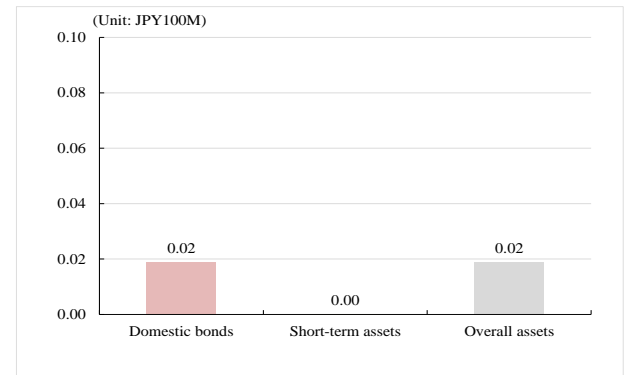


\* The bar graph represents the income in each quarter.  
The line graph represents the cumulative income after October of fiscal year 2015.

(Reference)

(Unit: JPY100M)

	FY2015				
	Q1	Q2	Q3	Q4	FY total
Investment income (market value basis)			0.00	-0.18	-0.18



\*The above figures represent income for the FY total.

(Note 1) The above figures represent the income since October 2015, when the pensions systems were integrated into the Employees' Pension Insurance System.

(Note 2) The figures for the "FY total" represent income in the second half of fiscal year 2015.

(Note 3) The income represent figures after the deduction of fees, etc. settled within the relevant period.

(Note 4) Realized income (book value basis) represents the sum of trading profits/losses and interest and dividend income, etc.

(Note 5) 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 6) Due to rounding, the total sum of individual figures may not necessarily add up to the FY total.



## Fiscal Year 2016 Value of Assets

(Unit: JPY100M)

	FY2016											
	End of Q1			End of Q2			End of Q3			End of FY		
	Book value	Market value	Valuations gains/losses	Book value	Market value	Valuations gains/losses	Book value	Market value	Valuations gains/losses	Book value	Market value	Valuations gains/losses
Domestic bonds	62	64	2	85	85	1	132	130	-2	191	189	-3
Short-term assets	2	2	0	0	0	0	0	0	0	8	8	0
Total	64	67	2	85	85	1	132	130	-2	199	196	-3

(Note 1) Due to rounding, the total sum of individual figures may not necessarily add up to the Total.

(Note 2) The market value and valuation gains/losses are indicated here for reference. The valuation gains/losses were tentatively calculated based on the market value.

(Note 3) Starting in fiscal year 2016, short-term assets held by each fund were classified into relevant asset classes in principle.

## (Reference) Fiscal Year 2015 Value of Assets

(Unit: JPY100M)

	FY2015											
	End of Q1			End of Q2			End of Q3			End of FY		
	Book value	Market value	Valuations gains/losses	Book value	Market value	Valuations gains/losses	Book value	Market value	Valuations gains/losses	Book value	Market value	Valuations gains/losses
Domestic bonds	/	/	/	/	/	/	0	0	0	56	56	-0
Short-term assets	/	/	/	/	/	/	0	0	0	9	9	0
Total	/	/	/	/	/	/	0	0	0	64	64	-0

(Note 1) The above figures represent the value of assets since October 2015, when the pensions systems were integrated into the Employees' Pension Insurance System.

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

(Note 3) The market value and valuation gains/losses are indicated here for reference. The valuation gains/losses were tentatively calculated based on the market value.