

# **Basic Policy for the Transitional Long-Term Benefits (TLTB) Adjustment Fund**

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In accordance with Article 112-11, Paragraph (1), of the Local Public Service Mutual Aid Association Act (Act No. 152 of 1962; the “Act”) as applied mutatis mutandis under Article 75-3, Supplementary Provisions of the Act to Partially Amend the Employees’ Pension Insurance Act and Related Acts for Unifying Employees’ Pension Systems (Act No. 63 of 2012; the “Unification Act”), the basic policy for administering and investing the transitional long-term benefits (TLTB) adjustment fund (the “Basic Policy”) is established for appropriate administration and investment of the TLTB adjustment fund as follows.

## **I Basic policy on the administration and investment of the TLTB adjustment fund**

### **1 Basic policy**

The Association shall manage the TLTB adjustment fund with the objective of contributing to the stability of the TLTB plan operations based on the characteristics of a closed-end pension fund that will have no new contribution income, especially paying attention to downside risks, with constant awareness of the relationship between future liabilities and the reserve fund.

Accordingly, on the basis of appropriately diversifying investments in multiple assets that differ in terms of risk/return and other characteristics (“Diversified Investment”), the Association shall administer and invest the TLTB adjustment fund by establishing an asset mix from the long-term perspective (the “Benchmark Portfolio”).

### **2 Investment target**

The investment of the TLTB reserve funds, which have the characteristics of a closed pension plan, shall be managed appropriately by establishing the Benchmark Portfolio in order to generate investment returns needed for the reserve fund with the minimum risk, while fully paying attention to the relationship between future liabilities and the reserve fund.

In so doing, the Association shall pay attention not to distort, among other things, price formation in the market and private sector investment activities.

In addition, the Association shall strive to earn the benchmark returns for overall assets and each asset class for each fiscal year, as well as to generate the benchmark returns for overall assets and each asset class over the long term.

### **3 Use of the Fund Management Committee of Pension Fund Association for Local Government Officials**

The Association shall leverage the expert knowledge of the Fund Management Committee of Pension Fund Association for Local Government Officials that consists of academic experts and practical experts in such fields as economy, finance, and fund management (the “Committee”) when examining technical matters concerning the administration and investment of the TLTB adjustment fund including the development and revision of the Basic Policy.

#### **4 Fund management plan**

##### **(1) Annual fund management plan**

An annual fund management plan for the management of the TLTB adjustment fund shall be created before the beginning of every fiscal year. The annual fund management plan shall include the following.

##### **A Outlook for profit/loss and the TLTB adjustment fund**

- (A) Beginning balance of the TLTB adjustment fund
- (B) Total revenues
- (C) Total expenditures
- (D) Profit for the term
- (E) Closing balance of the TLTB adjustment fund
- (F) Investment return

##### **B Outlook for cash flows**

- (A) Closing balance
- (B) Expected revenues
  - a Bond principal and interest
  - b Other revenues
- (C) Expected expenditures
  - a Contributions stipulated in Article 76, Paragraph (1), Supplementary Provisions of the Unification Act
  - b Grants to associations
  - c Money transferred to the administration accounting
  - d Mandatory investment
  - e Voluntary investment (in-house investment)
  - f Voluntary investment (entrusted investment)
  - g Other expenditures
- (D) Balance brought forward or closing balance

##### **C Investment plan**

- (A) Mandatory investment
  - Acquisition of municipal bonds or bonds issued by the Japan Finance Organization for Municipalities
- (B) Voluntary investment
  - a In-house investment
  - b Entrusted investment
    - (a) Specified money trust, specified comprehensive trust, individually operated designated money trust, and individually operated designated

- comprehensive trust
- (b) Group pure endowment insurance

## **(2) Quarterly fund management plan**

A quarterly fund management plan for the management of TLTB adjustment fund shall be created before the beginning of every quarter.

Matters to be described in the quarterly fund management plan shall be the same as those of the annual investment management plan.

## **5 Risk management**

Based on conducting Diversified Investment, various risks associated with the administration and investment of the TLTB adjustment fund shall be appropriately managed.

Also, while the TLTB adjustment fund is administered and invested by entrustment to investment management institutions and asset management institutions, group pure endowment insurance of life insurance companies, and mandatory and in-house investments; risk management shall be conducted based on reporting from the entrusted investment management institutions, asset management institutions and life insurance companies for overall assets, each asset class, each entrusted investment management institution, asset management institution and life insurance company, and for mandatory and voluntary investments, by the methods below. The implementation policy of this risk management shall be reported to the Governing Council upon deliberation at the Committee, and timely reports on the risk management status shall be made to the Governing Council and the Committee.

### **(1) Overall assets**

In order to appropriately manage the Benchmark Portfolio, check the asset mix of the TLTB adjustment fund for any deviations from the Benchmark Portfolio at least monthly, and take necessary actions. In addition, check the TLTB adjustment fund's asset mix for any deviations from the Benchmark Portfolio of the TLTB reserve funds at least monthly.

Also, enhance necessary functions for understanding and analyzing market trends in order to conduct appropriate and smooth rebalancing.

Furthermore, check the risks of overall assets and conduct the analysis and assessment of the degree of risk-taking, analysis of factors for deviations from the composite benchmark return (meaning benchmark return of each asset class weighted by portfolio; the same applies hereinafter) of each fiscal year and the like.

### **(2) Asset class**

Manage risks associated with each asset class, including market risk, liquidity risk and credit risk. For foreign assets, closely watch country risk as well.

### **(3) Entrusted investment management institutions**

Understand and appropriately manage the investment and risk-taking status of each entrusted investment management institution by presenting investment guidelines to

each entrusted investment management institution (the “Investment Guidelines”). Also, exercise caution for any changes to investment structures.

#### **(4) Asset management institutions**

Present guidelines on asset management to each asset management institution (the “Asset Management Guidelines”), understand the asset management status of each institution, and manage it appropriately.

In addition, manage the credit risk of each institution and pay attention to any changes to asset management structures.

#### **(5) Life insurance companies**

Understand the business management status and asset management status of each insurer and manage them appropriately.

#### **(6) Mandatory and in-house investments**

Establish a guideline on investment (the “In-house Investment Guidelines”), and manage risks appropriately by, for example, checking the investment and risk-taking status.

### **6 Investment methods**

#### **(1) Basic approach**

In principle, both passive and active investment approaches shall be employed. Based on this, active investment management shall be conducted with the aim of generating excess returns. However, active investment shall be conducted upon deliberation at the Committee on fund selection standards on the assumption that risk selection is reasonable with sufficient grounds to back the expectations for excess returns, also taking into consideration the past investment performance. In addition, its transparency shall be ensured under appropriate monitoring by the Committee by, for example, timely reporting on matters requested by the Committee.

With respect to benchmarks, not only traditional capitalization weighted indexes but also use of new benchmarks from the perspective of improving investment returns shall be examined.

#### **(2) Specific investment methods**

##### **A Mandatory investment**

In accordance with Article 11-10-3 of the Regulation for Enforcement of the Local Public Service Mutual Aid Association Act (Order of the Ministry of Home Affairs No. 20 of 1962) as applied mutatis mutandis under Article 4-2, Paragraph (3), Supplementary Provisions of the same Regulation, the entrustment of asset management in the case of investment by acquiring municipal bonds or bonds issued by the Japan Finance Organization for Municipalities shall be conducted as follows.

(A) The management of mandatory investment assets may be entrusted to asset

management institutions. The asset management institutions are required to observe the following items and the Asset Management Guidelines.

- a Strictly administer and take custody of the Association's assets, separating them from other trust assets.
- b Pay utmost care in securities delivery and settlement.
- c Give sufficient consideration to credit risk, administrative capability, costs and the like when re-entrusting custody services.
- d Submit data regarding the status of asset administration at the end of every month and, on an as-needed basis, provide necessary data and explanations.
- e Observe laws, regulations, contracts and the like, establishing structures to ensure the observance.

(B) If an asset management institution has engaged in any act that violates laws and regulations, contracts, and the Asset Management Guidelines and the like, prompt reporting shall be requested and instructions shall be given as necessary.

#### B In-house investment

In order to contribute to the safe and efficient investment management of the TLTB adjustment fund, part of the fund shall be administered and invested in accordance with the following long-term and short-term investment rules as well as the In-house Investment Guidelines.

##### (A) Types

###### a Long-term investment

###### (a) Basic approach

Strive to make favorable investments over the long term, taking into account the following points.

- (i) Creditworthiness of issuers and market liquidity
- (ii) Coupon rate, acquisition price, and current maturity
- (iii) Interest outlook

###### (b) Investment assets

Investment assets shall be the following yen-denominated securities.

- (i) Government bonds
- (ii) Municipal bonds
- (iii) Bonds issued by corporations under special laws (limited to those with a government guarantee)
- (iv) Bonds rated A or above by any of the rating agencies stipulated in the Appended Table (the "Rating Agencies").

With respect to unrated bonds, bonds of an issuer rated A or above by any of the Rating Agencies may be included in investment assets.

###### (c) Administration and management considerations

###### (i) Diversified Investment

In the case of acquiring bonds other than government bonds, municipal bonds, and bonds issued by corporations under special laws (limited to those with a government guarantee), the amount of

investments in bonds issued by a single issuer shall not exceed 10% of the in-house investment assets.

(ii) Response to a credit rate cut of acquired bonds

If the ratings by all Rating Agencies of bonds other than government bonds, municipal bonds and bonds issued by corporations under special laws (limited to those with a government guarantee) fall below A after acquisition, necessary actions, such as selling, shall be taken with full consideration given to the credit risk of issuers.

(iii) Structured bonds

Structured bonds shall be included in investment assets if the structure of the bonds does not give rise to principal risk, and the total amount of structured bonds of similar structure shall not exceed 10% of the in-house investment assets.

b Short-term investment

(a) Basic approach

Short-term investments shall be limited to the minimum amount, and made for the purpose of facilitating efficient allocation of assets for the TLTB adjustment accounting. Efforts shall be made to make favorable investments in consideration of safety and liquidity, the investable period, and short-term interest trends.

(b) Investment assets

Investment assets shall include short-term government bonds, treasury discount bills, deposits, negotiable certificates of deposits, commercial papers (including repurchase agreements) rated A or above by any of the Rating Agencies and the MMF.

c Lending to other accounting

Lending to other accounting shall be made in accordance with what is provided for separately by the Association. However, no lending shall be made to the Employees' Pension Insurance benefits adjustment accounting and the retirement pension benefits adjustment accounting.

(B) Financial institutions

The standards stipulated by the In-house Investment Guidelines shall be observed in selecting partner financial institutions.

(C) Entrustment of asset management

a The Association may entrust the management of in-house investment assets to asset management institutions.

b The provisions of A-(A) and A-(B) apply mutatis mutandis to the entrustment of in-house investment assets to asset management institutions. In such case, the provisions apply with the term "mandatory investment assets" being replaced by "in-house investment assets."

C Entrustment of investment management in the form of trust

The items below shall be observed for entrusted investments in specified money trusts and specified comprehensive trusts under discretionary investment

management contracts with investment advisory firms, as well as individually operated designated money trusts and individually operated designated comprehensive trusts by banks engaged in trust services.

The Association shall have entrusted investment management institutions and asset management institutions administer and invest funds in accordance with this Policy.

(A) Instructions on the asset mix that serves as standards for the entrusted investment management institutions (the "Standard Asset Mix")

Provide instructions on the Standard Asset Mix according to the characteristics and evaluation of the entrusted investment management institution, taking into consideration the asset structure and the diversification of investment style based on the Benchmark Portfolio.

If it is considered appropriate to change the Standards Asset Mix, instructions on the change shall be given promptly.

(B) Matters to be observed in investment management

Present investment assets, investment methods, numerical investment targets, and risk management indicators proposed by the entrusted investment management institution and agreed by the Association, as well as benchmarks designated by the Association ("Manager Benchmarks") and the Investment Guidelines regarding the following items; and manage the observance of these and give necessary instructions.

The Association shall not give instructions on the selection of individual issues to any entrusted investment management institution in the case of entrusted investment in the form of a trust.

a General matters

(a) Standards Asset Mix

Entrusted investment management institutions must observe the Standards Asset Mix instructed by the Association.

(b) Registration of investment style

Entrusted investment management institutions must clarify investment philosophy by asset class as well as investment style and processes based on it, register them with the Association, and observe the registered matters. Any change to these must be consulted with the Association.

(c) Thorough risk management

Entrusted investment management institutions must vigorously manage risks, complying with the Investment Guidelines presented by the Association.

(d) Establishment of legal compliance frameworks

Entrusted investment management institutions must observe laws and regulations, contracts, the Investment Guidelines, and the like and establish frameworks to ensure the observance.

(e) Investment considerations

Entrusted investment management institutions must consider the

following points when making investments.

- (i) In addition to investing upon sufficient research and analysis, diversify investments appropriately. With respect to assets denominated in foreign currencies, select countries and currencies, giving full consideration to political and economic stability, as well as the characteristics of the market, such as settlement systems, trading regulations, and tax systems.
  - (ii) When putting individual blocks of issues in the portfolio, liquidity must be fully considered.
  - (iii) When acquiring domestic stocks, domestic bonds (excluding government bonds, municipal bonds, and bonds issued by corporations under special laws (limited to those with a government guarantee)), foreign stocks and foreign bonds (excluding government bonds of Manager Benchmark constituent countries), investments in a single issuer must be capped at 10% of the market value of the asset class. However, this shall not apply to cases in which the market value weighting of individual stocks in Manager Benchmarks has exceeded the cap; the excess is due to the characteristics of investment methods; or there are other rational reasons that make it difficult to observe the aforementioned limits. If the cap is exceeded as such, it must be reported to the Association.
  - (iv) Pay utmost attention to market impacts and other similar factors when trading, making best efforts to avoid incurring unnecessary costs.
  - (v) When placing an order with the parent company, or the parent group's or its own group's securities firms and their overseas subsidiaries, they must be reported.
  - (vi) When selecting securities firms and other trading partners, pay sufficient consideration to their creditworthiness, among other factors, and report their transaction track record.
- (f) Derivatives transactions
- With respect to the handling of securities, currencies and interest rate futures, forward exchange contracts, index futures or options, or currency or interest rate swaps ("Derivatives Transactions"), entrusted investment management institutions must pay attention to the following points.
- (i) Derivatives Transactions are conducted with the aim of temporary hedging price fluctuation risk in underlying assets, such as stocks, bonds, and foreign exchange rates ("Sell Hedging") or temporary substituting underlying assets ("Buy Hedging"). Hedging should not be used for speculative purposes. However, Derivatives Transactions may be conducted for purposes other than Sell Hedging or Buy Hedging in accordance with the provisions of the Investment Guidelines presented by the Association.



- (ii) With respect to notional principals of Derivatives Transactions for the purposes of Sell Hedging or Buying Hedging, they should be, in the case of net Sell Hedging, within the underlying assets that are currently held or to be held in the future for certain and, in the case of net Buy Hedging, within the surplus fund currently held or to be held in the future for certain.
- b Domestic bonds
  - (a) Investment assets shall be the following yen-denominated bonds.
    - (i) Government bonds
    - (ii) Municipal bonds
    - (iii) Bonds issued by corporations under special laws (limited to those with a government guarantee)
    - (iv) Corporate bonds rated BBB or above by any of the Rating Agencies
    - (v) Securities or certificates issued by foreign governments or foreign corporations and rated BBB or above by any of the Rating Agencies.
    - (vi) Of specified bonds provided for in Article 2, Paragraph (7), of the Act of Securitization of Assets (Act No.105 of 1998), those rated BBB or above by any of the Rating Agencies
    - (vii) Of investment corporation bonds provided for in Article 2, Paragraph (19), of the Act on Investment Trust and Investment Corporation (Act No. 198 of 1951), those rated BBB or above by any of the Rating Agencies.
    - (viii) Of bonds issued by corporations under special laws (excluding those listed in (iii), (vi), and (vii)), those rated BBB or above. Also, pursuant to the Investment Guidelines presented by the Association, unrated bonds may be included in investment assets if the issuer or guarantee institution of the bonds is rated BBB or above by any of the Rating Agencies.
  - (b) Except for bonds listed in (i) through (iii) of (a) above, bonds whose ratings by all the Rating Agencies fall below the ratings stipulated in (iv) through (viii) of (a) above after acquisition, necessary measures, such as selling, shall be taken with full consideration given to credit risk of the issuer and other factors.
- c Domestic stocks
 

Investment assets shall be stocks listed on domestic securities exchanges (including REIT securities).
- d Foreign bonds
  - (a) Investment assets shall be bonds denominated in foreign currencies that meet the following conditions (i) and (ii).
    - (i) Bonds denominated by currencies that are constituents of Manager Benchmarks. Also, pursuant to the provisions of the Investment Guidelines presented by the Association, investments may be made in bonds denominated in currencies that are not constituents of

Manager Benchmarks.

- (ii) Bonds rated BBB or above by any of the Rating Agencies (including unrated bonds whose issuer or guarantee institution is rated BBB or above by any of the Rating Agencies). However, investments may be made in bonds below this rating in accordance with the provisions of the Investment Guidelines presented by the Association if a reasonable ground exists, with full consideration given to the credit risk of the issuer and other factors.

- (b) For bonds which satisfy the conditions set forth in (a)-(i) and the first sentence of (a)-(ii) above, if the ratings by all the Rating Agencies fall below the ratings stipulated in the first sentence of (a)-(ii) above after acquisition, necessary actions, such as selling, shall be taken with full consideration given to the credit risk of the issuer and other factors. However, bonds below this rating made be held in accordance with the provisions of the Investment Guidelines presented by the Association if a reasonable ground exists, with full consideration given to the credit risk of the issuer and other factors.

e Foreign stocks

Of listed issues on foreign securities exchanges or the OTC market, investment assets shall be constituent stock issues (including REIT securities) of Manager Benchmarks or stocks issued by companies of Manager Benchmark constituent countries (including REIT securities), and shall be denominated in currencies of Manager Benchmark constituent countries. Also, in accordance with the provisions of the Investment Guidelines presented by the Association, investments may be made in other issues, depositary receipts and the like.

f Bonds with new share acquisition rights

Bonds with new share acquisition rights shall be treated as substitute assets of domestic stocks or domestic bonds, and shall not be treated as an independent asset class.

g Hedged assets denominated in foreign currencies

Hedged assets denominated in foreign currencies shall be handled by categorization into domestic bonds, domestic stocks, foreign bonds or foreign stocks according to the risk/return and other characteristics.

(C) Asset management considerations

The provisions of A-(A) apply mutatis mutandis to cases in which the management of assets is entrusted to asset management institutions in the form of trust. In such case, the term “mandatory investment assets” shall be replaced by “assets under entrusted investment management in the form of trust.”

(D) Reporting on investment status

The Association shall have the entrusted investment management institutions submit data quarterly in accordance with the form stipulated separately, conduct regular interviews on investment performance summary and investment policy,

and, if necessary, give investment instructions.

In addition, the Association shall have entrusted investment management institutions submit monthly data in accordance with the form stipulated separately, and request them to explain on the investment status and investment operations, and the like on an as-needed basis.

(E) Other reports

If any entrusted investment management institution or asset management institution has violated laws and regulations, contracts, the Investment Guidelines, the Asset Management Guideline, and the like, the Association shall request it to report such violation promptly, and give instructions as necessary.

D Investment in group pure endowment insurance

(A) Life insurer selection criteria

Life insurers shall be selected from those with total assets of one trillion yen or more, taking into consideration their financial standing and the special dividends, and the like, in accordance with the selection criteria separately established for partner financial institutions.

(B) Setting up group pure endowment insurance and additional funding

In the case of investing in pure endowment insurance, individual agreements shall be concluded with life insurance companies selected in accordance with the criteria stipulated in (A), and the investment amount and additional funding shall be determined in consideration of their individual total assets, financial position, and special dividends, and the like.

(C) Insurance policy cancellation

In the event of any significant change to the assumed return, financial position of insurance companies or other investment environments, the whole or part of pure endowment insurance policies may be cancelled, in accordance with the procedures set forth in the insurance policy.

**(3) Selection and evaluation of entrusted investment management institutions, etc.**

A Selection of entrusted investment management institutions

Entrusted investment management institutions shall be selected based on the Benchmark Portfolio upon conducting interviews on the points below and other details, with consideration given to the diversification of investment styles of the Association as a whole in a comprehensive manner.

(A) Business standing (e.g., capital, financial position, number of employees, customers) is found to be stable.

(B) Investment philosophy, investment method, investment structure, legal compliance structure, and other qualitative evaluation results are favorable.

(C) Investment performance is favorable for at least a certain period of time.

B Selection of asset management institutions

Asset management institutions shall be selected from financial institutions that are engaged in trust services and meet the following criteria.

(A) Business standing (e.g., capital, financial position, number of employees,

- customers) is found to be stable.
- (B) Asset management status is favorable.
- (C) A structure for complying with laws and regulations is in place.
- C Evaluation of entrusted investment management institutions
  - Entrusted investment management institutions shall be evaluated comprehensively through both qualitative and quantitative assessments.
  - (A) Quantitative assessment
    - In addition to their excess return against Manager Benchmarks and indicators that incorporate the magnitude of risks taken to achieve the excess return, entrusted investment management institutions shall be assessed by other methods appropriate for their investment styles.
  - (B) Qualitative assessment
    - In addition to the investment quality of their portfolios and communication skills, entrusted investment management institutions shall be assessed by other methods appropriate for their investment styles.
- D Evaluation of asset management institutions
  - Asset management institutions shall be evaluated in a timely manner through qualitative assessment with respect to their asset administration status and structures for complying with laws and regulations, and their competence shall be determined.
- E Addition and reduction of entrusted amount
  - Any addition to the entrusted amount or reduction of the amount, including contract cancellation, shall be made in the following cases.
  - (A) The addition or reduction is based on the evaluation results in C.
  - (B) Adjusting the asset composition of the Association as a whole due to a significant deviation from the Benchmark Portfolio
  - (C) Making adjustments upon considering the diversification of investment styles or other similar aspects
  - If any entrusted investment management institution is found to have violated laws and regulations, contracts, and the Investment Guidelines, and the like or any significant investment issue occurs, timely actions shall be taken upon considering such options as reducing the entrusted amount (including cancellation of the contract with the entrusted investment management institution) and revising the Investment Guidelines.

## **7 Flexible Investment**

Based on changes in the economic and market environment, the asset mix may be determined flexibly within the deviation tolerance ("Flexible Investment") instead of making it closer to that of the Benchmark Portfolio. In such case, the assumption shall be that an outlook on the market environment is provided with a high degree of accuracy and investment is made by stipulating the investment policy in advance based on the outlook.

When establishing the aforementioned investment policy, it shall be deliberated at the

Committee and the implementation status shall be reported in a timely manner to the Committee.

In the case of Flexible Investments, the details shall be stipulated in the annual fund management plan in 4-(1).

## **8 Investment considering non-financial elements**

With respect to the investment of the TLTB adjustment fund, 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 members.

## **9 Pooled investment**

Part of the TLTB adjustment fund may be deposited with the transitional long-term deposit accounting for investing.

## **II Matters to be observed in administering and investing the TLTB adjustment fund**

### **1 Ensuring fiduciary responsibility**

Thorough observance of the duty of care and loyalty of a prudent expert shall be ensured for all persons involved in the investment of the TLTB adjustment fund. This shall be stipulated in contracts, etc. with respect to contracts with entrusted investment management institutions, asset management institutions, and life insurers, etc.

### **2 Consideration to impact on the market and private sector activities**

In managing the TLTB benefit adjustment fund, the Association shall, in light of the market size, strive not to be excessively impacted by the market and not to distort, among other things, price formation in the market and private sector investment activities, especially by avoiding concentration in specific time periods for investing and exiting funds.

### **3 Actions to fulfill stewardship responsibility**

Shareholder voting rights shall be exercised so that corporations manage business operations in ways that will maximize the interests of shareholders over the long term.

If the Association individually directs the exercise of voting rights, it shall give instructions so that entrusted institutions will exercise them in accordance with the directions. In the case of not individually directing the exercise of voting rights, the Association shall have entrusted institutions exercise voting rights in accordance with the intent of the Guidelines for Exercising Shareholders' Voting Rights established by the Association in line with the intent of the Corporate Governance Principles established by the Association. Also, the Association shall request entrusted institutions to report on, among other things, the status of exercising voting rights.

In doing so, based on the Principles for Responsible Institutional Investors «Japan's Stewardship Code» (February 26, 2014, by the Council of Experts Concerning the Japanese Version of the Stewardship Code) and Japan's Corporate Governance Code (June 1, 2015, by Tokyo Stock Exchange, Inc.), the Association shall review its Corporate Governance Principles, the Guidelines for Exercising Shareholders' Voting Rights, as necessary, and take action in line with the basic principles for performing stewardship responsibilities (meaning the responsibilities of institutional investors to enhance the mid- and long-term investment return for their clients and beneficiaries by enhancing and fostering Japanese investee companies' corporate value and sustainable growth through constructive engagement or other means based on in-depth knowledge of the companies, and their business environment).

Any review of the Corporate Governance Principles and the Guidelines for Exercising Shareholders' Voting Rights shall be deliberated at the Committee and the status of stewardship activities shall be reported to the Committee in a timely manner.

Furthermore, in order to assist appropriate decision-making in association with dialogues with investee companies and stewardship activities, the Association shall consider exchanging opinions with other administration and investment institutions, as well as having a forum for that as necessary.

#### **4 Securing liquidity for expenditures**

Based on the outlook of pension financing and the profit and loss status, the Association shall secure liquidity (e.g., cash) necessary for contributions stipulated in Article 76, Paragraph (1), Supplementary Provisions of the Unification Act, grants to associations, and the like, and conduct cash management efficiently.

In doing so, necessary functions, such as for understanding and analyzing market trends shall be enhanced so that funds will be secured without shortfalls by, for example, smoothly selling assets, taking into consideration price formation in the market.

#### **5 Coordination with other administration and investment institutions**

The Association shall provide other administration and investment institutions with technical and expert knowledge and materials on the administration and investment of reserve funds, gain understanding on research and study and other efforts made by other administration and investment institutions, and conduct information exchange and communication/coordination with other administration and investment institutions by, for example, providing information in response to the information gained.

In addition, the Association and other administration and investment institutions shall cooperate by coordinating with each other with respect to investment operations of TLTB association reserve funds by, for example, providing necessary information.

### **III Matters concerning asset mix from the long-term perspective in administering and investing the TLTB adjustment fund**

#### **1 Basic approach to the Benchmark Portfolio**

The Benchmark Portfolio, which shall have an asset mix and deviation tolerance in line

with the investment targets, shall be established from the long-term perspective in consideration of generally accepted expert knowledge on asset administration and investment as well as economic trends in and outside Japan, based on forward-looking risk analyses.

The Association shall report on the establishment of the Benchmark Portfolio to the Governing Council upon deliberation at the Committee.

## **2 Benchmark Portfolio**

Asset classes that make up the Benchmark Portfolio shall be domestic bonds, domestic stocks, foreign bonds and foreign stocks, and the asset mix and deviation tolerance are set forth as below.

Exceeding the deviation tolerance shall be allowed during the period up to the transition to the following Benchmark Portfolio.

	Domestic bonds	Domestic stocks	Foreign bonds	Foreign stocks
Asset mix	25%	25%	25%	25%
Deviation tolerance	±10%	±12%	±9%	±11%

(Note) Short-term assets are classified into domestic bonds.

## **3 Benchmarks**

Benchmarks for respective asset classes are as follows.

- (1) Domestic bonds  
NOMURA Bond Performance Index (Overall)
- (2) Domestic stocks  
TOPIX (dividend-inclusive)
- (3) Foreign bonds  
FTSE World Government Bond Index (ex-Japan, ex-China, no hedge, in yen)
- (4) Foreign stocks  
MSCI ACWI ex. Japan (in yen, dividend-inclusive)

## **4 Review of the Benchmark Portfolio**

The Association shall appropriately manage risks based on market trends, annually verify the Benchmark Portfolio and, if it is considered necessary in specific cases, such as that the investment environment assumed at the time of establishing the Benchmark Portfolio deviates from reality, examine the Benchmark Portfolio and revise it as necessary. Any change to the Benchmark Portfolio shall be reported to the Governing Council upon deliberation at the Committee. If the Association finds it necessary in consideration of market impact and other factors, it shall establish a transition portfolio (meaning a transitional asset mix up until the realization of the Benchmark Portfolio) in order to smoothly transition to the revised Benchmark Portfolio.

## **IV Other necessary matters concerning appropriate administration and investment of the TLTB adjustment fund**

## **1 Enhancing transparency**

Regarding the administration and investment of the TLTB adjustment fund, the Association shall devise ways to make disclosure documents easier to understand by promptly publishing the status of administration and investment performance, such as investment returns and risks for each fiscal year by leveraging its website, etc. on an annual basis (on a quarterly basis for the quarterly status of administration and investment performance [including the status of investment portfolio as a whole and individual portfolio assets]). Also, the Association shall examine ideal ways of information disclosure and publicity activities for the public, responding to the diversification, sophistication and internationalization of investment, and make enhancement accordingly.

Such publication shall be reported in a timely manner to the Governing Council and the Committee.

Transparency in selecting entrusted investment management institutions shall be ensured under appropriate monitoring by the Committee by, for example, making the selection criteria subject to deliberation at the Committee and timely reporting on the implementation status and other matters requested by the Committee.

When making such publication, attention shall be paid to market impacts.

## **2 Retaining and leveraging highly skilled and specialized talents**

The Association shall, if necessary, examine in detail the operations that require advanced and specialized skills as well as the expertise required for such operations, and strive to retain highly skilled and specialized talents who have such expertise.

In addition, training shall be conducted by leveraging highly skilled and specialized talents with the aim of enhancing the performance of its staff.

The enhancement and development of specialized talents shall be promoted actively, with reporting on the status made to the Committee as necessary and their opinions taken into consideration

## **3 Strengthening risk management**

Necessary risk management systems shall be established. In addition, also in light of various factors such as Flexible Investment, the Association shall strive to enhance risk management by, for example, strengthening forward-looking risk analysis functions, establishing risk management analysis tools, and enhancing information collection and investigation functions as necessary.

## **4 Enhancing research and study operations**

When conducting research and study operations, besides commissioning the work to think-tanks and other similar institutions, engaging staff including highly skilled and specialized talents in the work shall be considered so that know-how on the administration and investment of the TLTB adjustment fund will be accumulated within the Association. If highly skilled and specialized talents are employed, the establishment of a structure for expanding internal research and study activities by leveraging the



talents shall be considered to accumulate know-how obtained from the research and conduct the administration and investment of the TLTB adjustment fund safely and efficiently in the future.

In the case of commissioning the research, measures to prevent information leak shall be taken thoroughly.

(Appended Table) Rating Agencies

1 Rating and Investment Information, Inc.

2 Japan Credit Rating Agency, Ltd.

3 S&P Global Ratings

4 Fitch Ratings Ltd.

5 Moody's Investors Service, Inc.

Supplementary Provisions

This Basic Policy comes into force from October 1, 2015.

Supplementary Provisions

This Basic Policy comes into force from July 1, 2017.

Supplementary Provisions

This Basic Policy comes into force from July 19, 2018.

Supplementary Provisions

This Basic Policy comes into force from April 1, 2020.

Supplementary Provisions

This Basic Policy comes into force from January 1, 2022.

**[DISCLAIMER]**

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