

Fiscal Year 2019

Review of Operations

**Employees' Pension Insurance Benefit
Adjustment Fund**



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

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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.

[Abbreviations]

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

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

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

Association: Pension Fund Association for Local Government Officials

KKR: Federation of National Public Service Personnel Mutual Aid Associations

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

GPIF: Government Pension Investment Fund

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

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

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

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

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

Fiscal Year 2019 Investment Results (Overview)



Investment return:

-4.98%

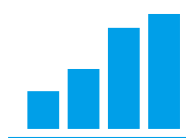
(Modified total return before the deduction of fees)



Investment income:

-¥568.9 billion

(Investment income before the deduction of fees)



Value of investment assets:

(As of the end of March 2020)

¥10,671.2 billion

(Market value)

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

As investment income is based on the market value as of the end of FY2019, it should be kept in mind that it includes valuation gains/losses, which means it may change depending on market movements.

◆ Long-Term Status of Investments (last 15 years)

- Cumulative investment income*:

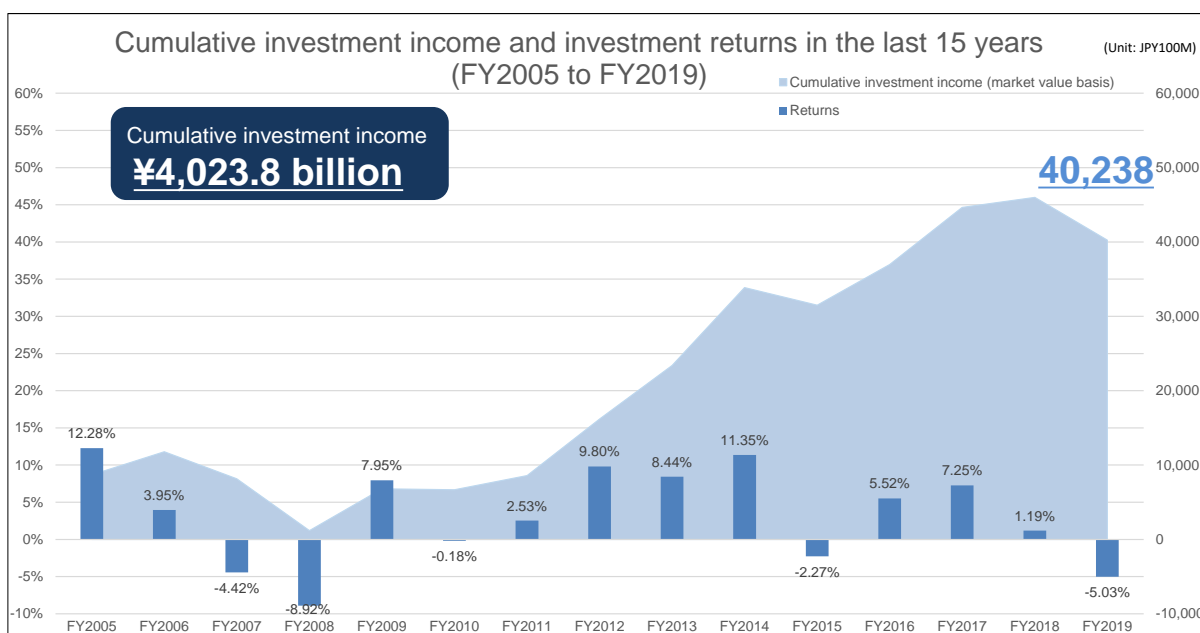
¥4,023.8 billion (Note 1)

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

3.10% (Note 2)

The real investment return **exceeded the investment return required from the perspective of pension finance.**

(See ① and ② in the table below.)



<Changes in the real investment return concerning funds>

		FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	Average of 15 years
Results	Nominal investment return	12.28%	3.95%	-4.42%	-8.92%	7.95%	-0.18%	2.53%	9.80%	8.44%	11.35%	-2.27%	5.52%	7.25%	1.19%	-5.03%	3.10%
	Nominal wage growth rate (Note 3)	-0.17%	0.01%	-0.07%	-0.26%	-4.06%	0.68%	-0.21%	0.21%	0.13%	0.99%	0.50%	0.03%	0.41%	0.95%	0.70%	-0.02%
	Real investment return ①	12.47%	3.94%	-4.36%	-8.68%	12.52%	-0.85%	2.74%	9.57%	8.30%	10.26%	-2.75%	5.49%	6.81%	0.24%	-5.69%	3.12%
Assumptions for actuarial calculation	Nominal investment return	1.81%	2.21%	2.51%	3.00%	1.47%	1.78%	1.92%	2.03%	2.23%	1.34%	1.88%	2.17%	2.57%	3.08%	1.70%	2.11%
	Nominal wage growth rate	1.30%	2.00%	2.30%	2.70%	0.05%	3.41%	2.66%	2.81%	2.60%	1.00%	2.47%	2.52%	3.56%	3.73%	1.10%	2.28%
	Real investment return ② (Note 4)	0.50%	0.21%	0.21%	0.29%	1.42%	-1.58%	-0.72%	-0.76%	-0.36%	0.34%	-0.59%	-0.35%	-0.99%	-0.65%	0.60%	-0.16%
①-②		11.97%	3.73%	-4.56%	-8.98%	11.10%	0.72%	3.46%	10.33%	8.66%	9.92%	-2.16%	5.84%	7.80%	0.89%	-6.29%	3.28%

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

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

(Note 3) The figures for the nominal wage growth rate were cited from the Report on Investment of Investment Funds in FY2014 (September 2015, Ministry of Health, Labour and Welfare). The figures for fiscal year 2015 and later are those provided by the Ministry of Health, Labour and Welfare for Type 1 insured persons under employees' pension insurance as defined under the EPI Act after the revision made through Act No. 63 of 2012.

(Note 4) The figures for the real investment return used for actuarial calculations were cited from the Report on Investment of Investment Funds in FY2014. The figures for fiscal years 2015 through 2018 were cited from the 2014 Actuarial Valuation (June 2014, Ministry of Health, Labour and Welfare). The figure for fiscal year 2019 was cited from the 2019 Actuarial Valuation (August 2019, Ministry of Health, Labour and Welfare).

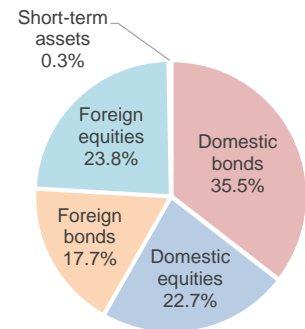
1 Investment results

(1) Asset mix

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

	End of FY2018	FY2019				Benchmark Portfolio
		End of Q1	End of Q2	End of Q3	End of FY	
Domestic bonds	34.5	35.3	35.1	34.0	35.5	35.0
Domestic equities	24.8	24.3	24.9	24.9	22.7	25.0
Foreign bonds	14.7	15.2	15.3	14.8	17.7	15.0
Foreign equities	25.7	25.1	24.7	26.2	23.8	25.0
Short-term assets	0.3	0.1	0.0	0.0	0.3	-
Total	100.0	100.0	100.0	100.0	100.0	100.0

Composition by Investment Asset Class
(as of end of FY2019)



(Note 1) Deviation tolerances from the benchmark portfolio are $\pm 15\%$ for domestic bonds, $\pm 14\%$ for domestic equities, $\pm 6\%$ for foreign bonds and $\pm 12\%$ for domestic equities.

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

(Note 3) 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 0.8% (the upper limit is 5%).

(2) Investment return

The modified total returns came to -4.98% due to a decline in domestic and foreign equity markets, among other factors.

	FY2019				
	Q1	Q2	Q3	Q4	FY total
Modified total returns	0.05	1.15	4.39	-10.15	-4.98

	FY2019				
	Q1	Q2	Q3	Q4	FY total
Time-weighted return	0.06	1.15	4.43	-10.19	-5.07
Domestic bonds	0.70	0.31	-0.69	-0.42	-0.11
Domestic equities	-2.42	3.46	8.71	-18.02	-10.03
Foreign bonds	0.68	1.32	0.71	1.37	4.14
Foreign equities	1.19	0.00	9.70	-22.17	-13.60
Short-term assets	0.00	0.00	0.00	0.00	0.00

	FY2019				
	Q1	Q2	Q3	Q4	FY total
Realized return (book value basis)	0.80	0.75	1.33	0.43	3.30

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

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

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

(3) Excess return

The return (market value basis) for overall assets was -5.07% and the benchmark return for overall assets was -4.83%. The excess return over the benchmark was -0.24%.

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities	Overall assets
Return (market value)	-0.11%	-10.03%	4.14%	-13.60%	-5.07%
Benchmark return	-0.18%	-9.50%	4.37%	-13.31%	-4.83%
Excess Return	0.07%	-0.53%	-0.23%	-0.29%	-0.24%

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

(Note 2) 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.

By factor, the excess return of -0.24% can be broken down as follows: asset allocation factor: -0.53%; individual asset factor: -0.25%; other factors: 0.54%.

	Asset allocation factor ①	Individual asset factor ②	Other factor ③ (including errors)	①+②+③
Domestic bonds	-0.08%	0.02%	0.19%	0.13%
Domestic equities	-0.12%	-0.15%	0.14%	-0.13%
Foreign bonds	0.04%	-0.03%	0.09%	0.09%
Foreign equities	-0.37%	-0.09%	0.12%	-0.34%
Short-term assets	-0.00%	0.00%	0.00%	-0.00%
Total	-0.53%	-0.25%	0.54%	-0.24%

(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.

(4) Investment income

Investment income (market value basis) was ¥568.9 billion.

(Unit: JPY100M)

	FY2019				
	Q1	Q2	Q3	Q4	FY total
Investment income (market value basis)	62	1,297	5,037	-12,086	-5,689
Domestic bonds	279	125	-276	-164	-36
Domestic equities	-681	948	2,415	-5,338	-2,655
Foreign bonds	114	227	123	243	707
Foreign equities	350	-3	2,775	-6,827	-3,704
Short-term assets	0	0	0	0	0

(Unit: JPY100M)

	FY2019				
	Q1	Q2	Q3	Q4	FY total
Realized income (book value basis)	796	754	1,351	436	3,336

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

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

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

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

(5) Value of assets

Value of investment assets (market value basis) was ¥10,671.2 billion.

(Unit: JPY100M)

	End of FY2018			FY2019											
				End of Q1			End of Q2			End of Q3			End of FY		
	Book value	Market value	Valuation gains/losses	Book value	Market value	Valuation gains/losses	Book value	Market value	Valuation gains/losses	Book value	Market value	Valuation gains/losses	Book value	Market value	Valuation gains/losses
Domestic bonds	37,831	39,062	1,231	38,334	39,785	1,450	38,658	40,033	1,375	39,418	40,424	1,006	37,216	37,871	654
Domestic equities	24,285	28,109	3,824	24,256	27,444	3,188	24,339	28,402	4,063	23,883	29,623	5,740	24,060	24,270	211
Foreign bonds	16,796	16,664	-132	17,153	17,194	41	17,252	17,451	198	17,351	17,583	232	18,577	18,874	297
Foreign equities	20,883	29,067	8,185	20,355	28,317	7,963	20,379	28,131	7,752	21,235	31,113	9,878	22,513	25,377	2,864
Short-term assets	294	294	0	86	86	0	32	32	0	58	58	0	320	320	0
Total	100,089	113,197	13,108	100,184	112,826	12,641	100,660	114,048	13,388	101,945	118,801	16,856	102,686	106,712	4,026

Allocation changes of each asset class as a result of rebalancing

(Unit: JPY100M)

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Amount of funds allocated/withdrawn	-1,146	-1,165	1,511	35

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

(6) Fees

The amount of fees totaled ¥5.7 billion. The fee rate relative to the value of investment assets came to 0.05%.

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

(Unit: JPY100M, %)

	FY2019	
	Fee	Fee rate
Domestic bonds	9	0.02
Domestic equities	19	0.07
Foreign bonds	7	0.04
Foreign equities	21	0.07
Alternative assets	1	0.20
Overall assets	57	0.05

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

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

(Note 3) The month-end market value average balance for the overall assets includes short-term assets.

2 Risk management

(1) Approach to risk management

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

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

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

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

1 Basic approach concerning risk management

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

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

(2) Risk management efforts

■ Management of the deviation of the asset mix

Investment based on the benchmark portfolio requires the management of various risk factors. Therefore, in order to secure profits in line with the benchmark portfolio from the long-term

perspective, it is important, in particular, to manage the degree of deviation of the asset mix of the actual portfolio from that of the benchmark portfolio.

Specifically, as the asset mix constantly changes due to asset price fluctuations, the Association keeps track of the status of the deviation of the asset mix of its actual portfolio from that of the benchmark portfolio and manages the actual portfolio so as to keep the degree of deviation within a certain range (deviation tolerance) for overall assets. In this way, the Association checks whether or not

there are problems such as a deviation from the benchmark portfolio in excess of the deviation tolerance. In addition, flexible investment is made within the deviation tolerance in line with an investment policy formulated through deliberation at a meeting of experts. In this regard, the Association confirms that the existing deviation is in line with the investment policy.

■Monitoring of market risk, etc.

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

As it also uses active investment in its investment of funds, the Association seeks to earn an excess return over the benchmark by

diversifying investment strategies and investment issues within each asset class.

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

■Management of entrusted investment management institutions, etc.

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

monitors the status of management (status of risk management and asset administration) of the institutions to which it entrusts asset management or asset administration (entrusted investment management institutions and asset administration institutions), from the viewpoint of smooth operation by individual institutions.

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

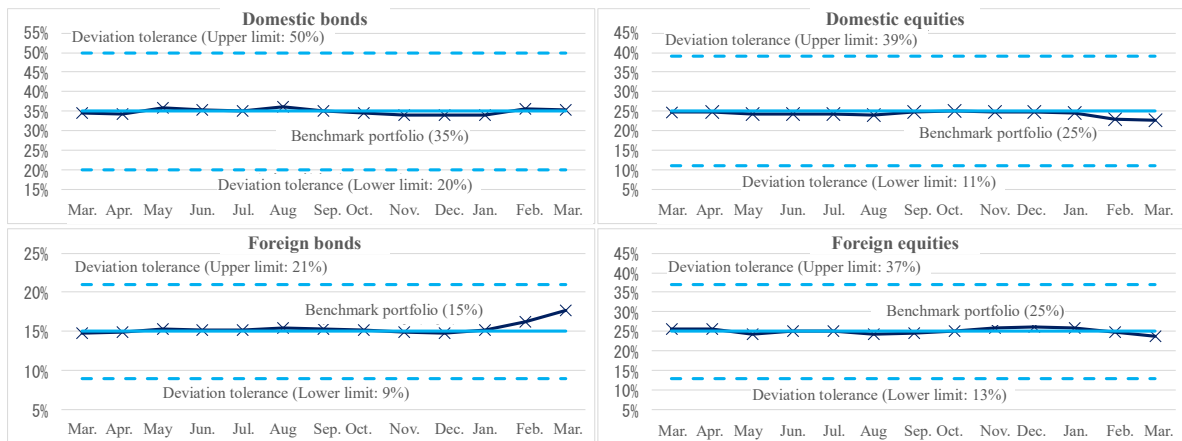
The Association reports on the status of risk management and improvement measures implemented to the Investment Risk Management Committee, the Fund Management Committee of Pension Fund Association for Local Government Officials and the Governing Council.

(3) Status of risk management (overall assets)

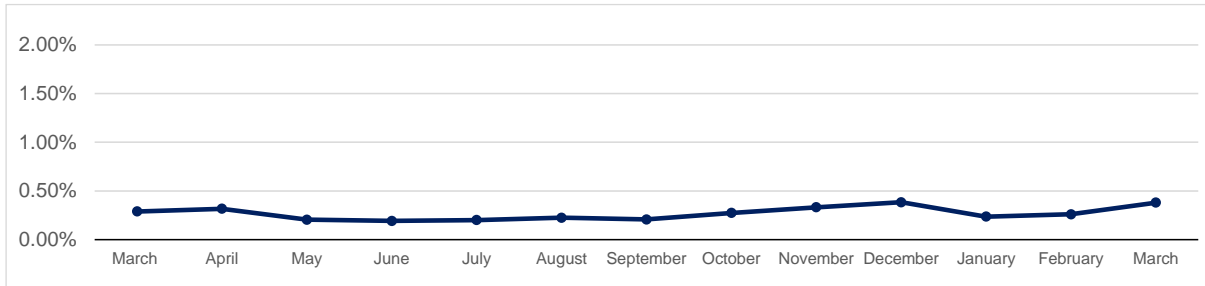
The shares in the asset mix concerning all asset classes—domestic bonds, domestic equities, foreign bonds and foreign equities—stayed within the deviation tolerance.

The estimated tracking error concerning overall assets did not show significant movements and remained stable.

【Changes in the asset mix】



【Changes in the estimated tracking error concerning overall assets】



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

3 Contribution analysis of excess return by asset

(1) Domestic bonds

■ Contribution analysis of the excess return

By factor, the excess return of 0.07% on domestic bonds can be broken down as follows: fund factor: 0.09%; benchmark factor: -0.01%; other factors: -0.01%.

Regarding the fund factor, inflation-indexed government bonds were negatively affected by a rise in real interest rates due to a drop in the

expected inflation rate.

On the other hand, mandatory investments and investment in government bonds (including currency-hedged foreign bonds) included in NOMURA-BPI Overall (Active) made positive contributions. As a result, the excess return from domestic bonds was positive.

Return (market value) ①	Benchmark ②	Excess Return ①-②	Fund factor	Benchmark factor	Other factor
- 0.11%	- 0.18%	0.07%	0.09%	- 0.01%	- 0.01%

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

	Mandatory investment, etc.	Inflation-indexed government bond	Nomura BPI Overall (Passive)	Nomura BPI Overall (Active)	Nomura BPI Overall (Enhanced)	Non-benchmark (Active)	BPI-CaRD	Domestic real property, etc.	Total
Fund factor	0.09%	- 0.09%	0.01%	0.03%	0.01%	0.01%	- 0.00%	0.03%	0.09%
Benchmark factor			0.00%	0.00%	0.00%		- 0.01%		- 0.01%

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

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

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

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

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

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

(2) Domestic equities

■ Contribution analysis of the excess return

By factor, the excess return of -0.53% on domestic equities can be broken down as follows: fund factor: -0.32%; benchmark factor: -0.09%; other factors: -0.11%.

Regarding the fund factor, the risk aversion trend strengthened due to concerns over a global economic slowdown, causing undervalued stocks to weaken. As a result, valuation-focused

value funds included in TOPIX (Active) had a negative impact.

Regarding the benchmark factor, the performances of Russell/Nomura Small, which comprises small-cap stocks, and FTSE RAFI Japan 350 QSR, which is overweight in undervalued stocks compared with TOPIX had negative impacts. As a result, the excess return from domestic equities was negative.

Return (market value) ①	Benchmark ②	Excess Return ①-②	Fund factor	Benchmark factor	Other factor
- 10.03%	- 9.50%	- 0.53%	- 0.32%	- 0.09%	- 0.11%

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

	TOPIX (Passive)	JPX400 (Passive)	MSCI JAPAN (Passive)	Russell/Nomura Prime (Passive)	TOPIX (Active)	TOPIX Mid400 (Active)	FTSE GWA Japan (Active)	FTSE RAFI Japan 350 QSR (Active)
Fund factor	0.08%	0.00%	0.00%	0.00%	- 0.43%	- 0.02%	0.00%	0.00%
Benchmark factor	0.00%	0.02%	0.01%	0.00%	0.00%	- 0.02%	- 0.00%	- 0.04%

	MSCI Japan Minimum Volatility (Active)	Russell/Nomura Small (Active)	S&P Japan Small Cap Index (Active)	SNAM Sustainability Index (Active)	Japan Minimum Volatility Index (Active)	Non-benchmark (Active)	Domestic PE	Total
Fund factor	0.00%	0.04%	0.01%	0.00%	0.00%	0.00%	0.00%	- 0.32%
Benchmark factor	0.01%	- 0.05%	- 0.00%	- 0.01%	- 0.02%			- 0.09%

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

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

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

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

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

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

(3) Foreign bonds

■ Contribution analysis of the excess return

By factor, the excess return of -0.23% on foreign bonds can be broken down as follows: fund factor: -0.00%; benchmark factor: -0.17%; other factors: -0.05%.

Regarding the fund factor, the FTSE World Government Bond Index (Passive) made positive income contributions due to lending and the assessed and market price difference factor (Note 4).

On the other hand, regarding the FTSE World Government Bond Index (Active), investments made mainly in the United States, emerging countries and resource-rich countries made negative contributions.

Regarding the benchmark factor, Barclays Aggregate (Active) was negatively affected by investments in corporate bonds. As a result, the excess return from foreign bonds was negative.

Return (market value) ①	Benchmark ②	Excess Return ①-②	Fund factor	Benchmark factor	Other factor
4.14%	4.37%	- 0.23%	- 0.00%	- 0.17%	- 0.05%

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

	FTSE World Government Bond Index (Passive)	FTSE World Government Bond Index (Active)	Barclays aggregate (Active)	Nomura RAFI (Active)	Overseas real properties (NFI-ODCE fund index)	Overseas infrastructure	Total
Fund factor	0.19%	- 0.19%	0.03%	0.00%	- 0.05%	0.01%	- 0.00%
Benchmark factor	0.00%	0.00%	- 0.11%	- 0.05%	- 0.01%		- 0.17%

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

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

(Note 2) The benchmark factor is a factor attributable to the difference between the return for the manager benchmark and the return for the policy benchmark (FTSE World Government Bond Index (excluding Japan; without currency hedging, yen-based)).

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

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

(Note 4) This is a factor attributable to performance differences due to differences between market prices used by funds and benchmarks. Several companies provide market price information, and the market prices used by a fund are not necessarily the same as those used by the benchmark.

(4) Foreign equities

■ Contribution analysis of the excess return

By factor, the excess return of -0.29% on foreign equities can be broken down as follows: fund factor: -0.16%; benchmark factor: -0.13%; other factors: -0.01%.

Regarding the fund factor, stocks with good fundamentals were favored irrespective of valuation amid concerns over a global recession, so funds under MSCI-KOKUSAI (Active) that

made investments through valuation-based selection of stocks had a negative impact.

Regarding the benchmark factor, MSCI-Europe Value and Russell 1000 Value, comprised of value stocks, had a negative impact. As a result, the excess return from foreign equities was negative.

Return (market value) ①	Benchmark ②	Excess Return ①-②	Fund factor	Benchmark factor	Other factor
- 13.60%	- 13.31%	- 0.29%	- 0.16%	- 0.13%	- 0.01%

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

	MSCI-ACWI (Passive)	MSCI-NorthAmerica (Passive)	MSCI-Europe and Middle East (Passive)	MSCI-Pacific (Passive)	MSCI-Emerging (Passive)	MSCI-ACWI (Active)	MSCI-KOKUSAI (Active)	MSCI-Europe (Active)
Fund factor	- 0.02%	- 0.00%	0.00%	0.00%	- 0.00%	0.06%	- 0.17%	- 0.04%
Benchmark factor	0.00%	0.02%	- 0.00%	- 0.02%	0.02%	0.00%	0.06%	- 0.04%

	MSCI-Europe Value (Active)	MSCI-KOKUSAI Small (Active)	Russell 1000-Value (Active)	Russell 1000-Growth (Active)	S&P 500 (Active)	MSCI-Emerging (Active)	Foreign PE	Total
Fund factor	- 0.03%	0.06%	- 0.02%	0.01%	- 0.01%	- 0.00%	0.01%	- 0.16%
Benchmark factor	- 0.06%	- 0.06%	- 0.05%	0.05%	0.03%	- 0.05%		- 0.13%

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

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

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

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

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

4 Alternative assets

(1) Objectives of investment

■ Improving investment efficiency through diversified investment

There are differences between traditional and alternative assets in the risk-return profile. Among alternative assets, the profile varies across asset classes and across individual assets within the same asset class. For example, the sources of return of real estate and PE are different, and among real estate assets, the

return varies across individual assets depending on usage and region, among other factors.

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

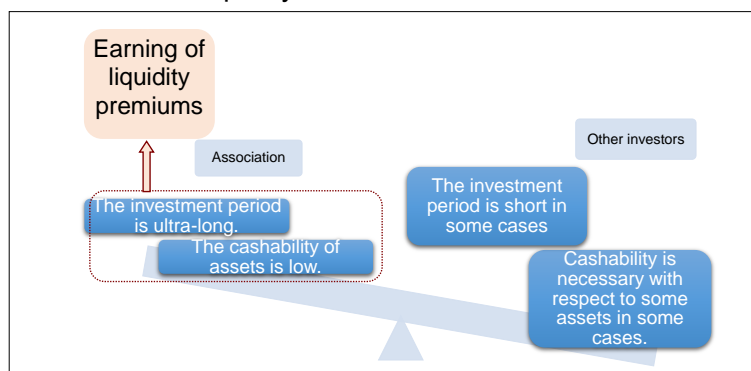
■ Earning liquidity premiums

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

Generally, investors other than public pension funds may need to secure a certain degree of liquidity for their investment assets because of

reasons such as a short period of investment. However, the Association is relatively free from the liquidity-related constraint because of its ultra-long-term investment period. Therefore, by investing in alternative assets, the Association can earn premiums in exchange for accepting low liquidity.

【Liquidity-related constraint】



■ Measures taken to respond to inflation and interest rate rises

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

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

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

(3) Fund selection

■ Introduction of an Asset Manager Registration System

The Association has introduced an Asset Manager Registration System for selecting funds for alternative investments

An Asset Manager Registration System is a system whereby the Association accepts entries from entrusted investment management institutions for investment funds on an ongoing basis.

In July 2015, the Association introduced an Asset Manager Registration System and started

receiving entries with respect to investment funds investing in real estate and infrastructure assets. Subsequently, the Association added PE in June 2016 and PD in July 2018 and bank loan in October 2018 to the scope of eligible investment instruments.

In August 2019, the Association started soliciting applications for a funds of funds-type separately managed accounts (SMA) regarding PE investment.

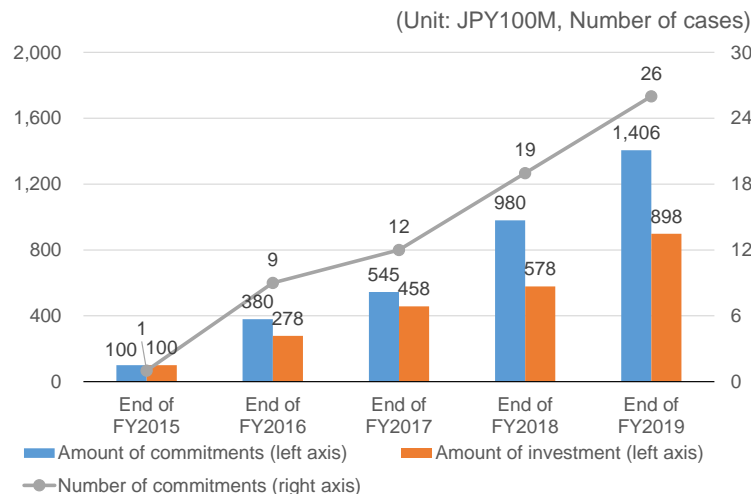
■ Selection of investment funds

Among the investment funds registered, the Association carefully selected investment funds that were expected to deliver long-term returns and provide the diversified investment effect and conforming to the investment policies and selection criteria related to the investment strategy based on a comprehensive evaluation from both quantitative and qualitative aspects.

As of the end of fiscal year 2019, the Association decided to adopt a total of 26 funds, and started the investment in 21 funds.

In the future, to seize opportunities for investing in superior investment funds likely to contribute to diversified investment of the funds, the Association will continue to evaluate the funds entered and make selection.

【Changes in the cumulative amount of alternative investment】

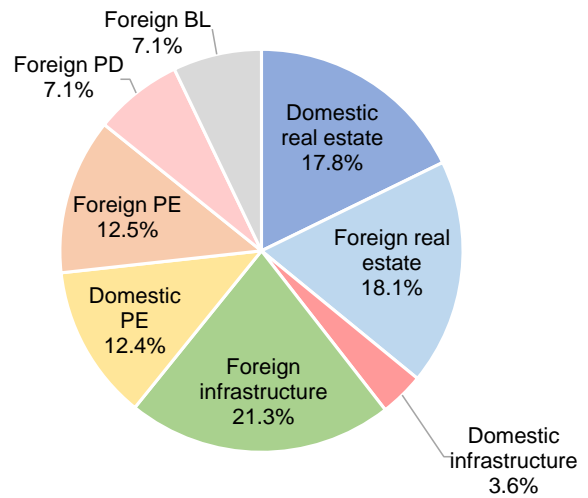


【Number of funds adopted】

Investment fund	Number of funds adopted
Domestic real estate	4
Foreign real estate	4
Domestic infrastructure	1
Foreign infrastructure	5
Domestic PE	5
Foreign PE	4
Foreign PD	2
Foreign BL	1
Total	26

*As of the end of FY2019

【Asset mix】



*Commitment basis as of the end of FY2019

■Fund monitoring

Generally speaking, with regard to alternative assets, it is difficult to manage risks related to funds after investment only in light of indicators based on price changes (e.g., standard deviation and tracking error) since price formation does not occur on a daily basis, unlike in the case of listed assets.

Therefore, the monitoring of real estate and infrastructure assets is conducted mainly through the evaluation of returns and market value of assets based on reports from entrusted

investment management institutions. The monitoring of PE assets is conducted mainly with respect to the business management conditions and the progress of measures to increase corporate value by investee companies. The Association conducts periodic monitoring on a fund-by-fund basis. If unusual signs are detected, it checks with entrusted investment management institutions on the cause and planned countermeasures and requests them to make improvements as necessary.

【Example of risk management】

【Real estate and infrastructure】

- Status of diversification regarding trading of assets and holding of assets
- Trend in income for assets (e.g., operation rate)
- Trend in evaluated market value
- Changes in the leverage level (dependence on borrowings)

【PE】

- Status of progress in investment
- Status of diversification of investment instruments
- Status of investment candidate assets
- Management status of investee companies
- Progress in implementation of measures to increase investee companies' corporate value

5 Stewardship activities

(1) Overview of the Association's stewardship activity

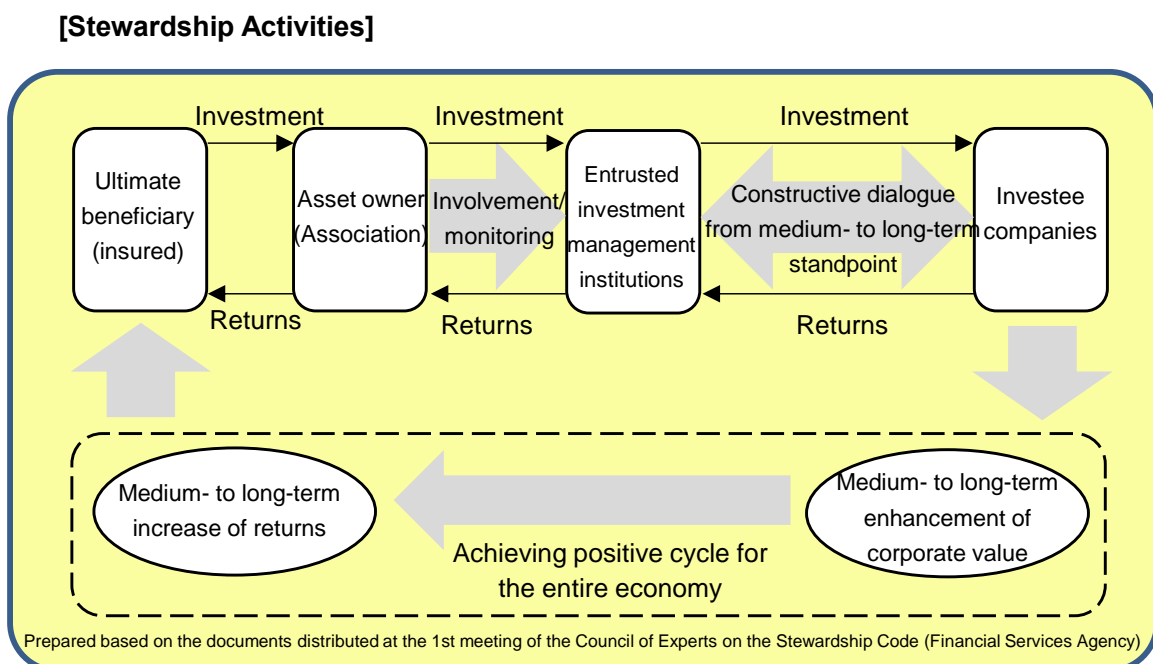
"Stewardship activities" refers to the activities of institutional investors to increase medium to long-term investment returns for their clients and beneficiaries by encouraging improvements in corporate value and sustainable growth of investee companies through means such as engagement (i.e. constructive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

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

The Association is required to fulfill its fiduciary responsibility of increasing the value

of its assets for the insured over the long term and social responsibility as a public pension fund. In this connection, the Association has been proactively committed to effective stewardship activities.

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



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

Moreover, in May 2014, the Association signed up to Japan's Stewardship Code, and in November 2017, the Association made its approach to stewardship activity clearer than before following the revision of the Stewardship Code.

The Association has started investing in ESG fund (funds adopted with the aim of earning excess return from the viewpoints of ESG) in February 2010, and has entrusted investment in four ESG funds concerning domestic stocks. In addition, in September 2019, the Association started investing in ESG bonds as part of in-house investment in domestic bonds.

[Chronology of the Association's stewardship activity]

Year	Activities
FY2004	- Established the Corporate Governance Principles of Pension Fund Association for Local Government Officials. - Established the Guidelines for Exercising Shareholders' Voting Rights. Instructed entrusted investment management institutions to exercise voting rights in line with the Guidelines.
FY2009	- Newly adopted one ESG Fund concerning domestic stocks.
FY2014	- Signed up to Japan's Stewardship Code. - Newly added another ESG fund concerning domestic stocks.
FY2015	- Established the Administration and Investment Policy and the Basic Policy in association with the unification of pension systems. Specified measures to fulfill the stewardship responsibilities. - Newly added two ESG funds concerning domestic stocks.
FY2016	- Established the Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities). Instructed entrusted investment management institutions to exercise voting rights in line with the Guidelines.
FY2017	- Signed up to Japan's Stewardship Code (Revised Version).
FY2019	- Started investing in ESG bonds as part of in-house investment in domestic bonds.

(2) Monitoring of entrusted investment management institutions

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

In May 2019, the Association held briefing meetings on the direction of the Association's stewardship activity for investment management institutions entrusted with domestic and foreign stock investment in FY2019 and explained the matters which the Association considers

important in relation to stewardship activities (see below).

In May to July, the Association provided feedback regarding the evaluation of stewardship activities in FY2018 individually to entrusted investment management institutions that requested it.

In July, the Association requested 22 investment management institutions entrusted with domestic stock investment and 15 investment management institutions entrusted with foreign stock investment to submit reports on the policy, structure, process and results of stewardship activities of FY2018. In October, based on the reports submitted, the Association held interviews focused on the matters which the Association considers important in relation to stewardship activities.

Matters which the Association considers important in relation to stewardship activities

[Exercise of voting rights]

- (i) Compliance with the Association's guidelines for exercising shareholders' voting rights
- (ii) Exercise of voting rights suited to the circumstances of companies

[Exercise of voting rights/engagement]

- Exercise of voting rights and engagement in an integrated manner

[Engagement]

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

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

Regarding the Employees' Pension Insurance Benefit Adjustment Fund, the Association exercised voting rights through 22 investment management institutions entrusted with domestic stock investment (43 funds in total), with respect to a total of 15,820 companies which settled accounts between April 2018 and March 2019. The number of proposals for which voting rights were exercised was 55,148.

Of the 55,148 proposals, 13,631 (including 1,507 shareholder proposals) were voted

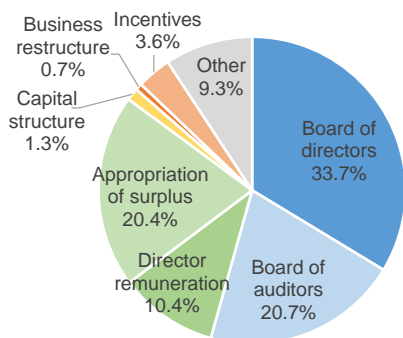
against, translating into a vote-against rate of 24.7% (up 0.8 point from the previous year). The vote-against rate concerning company proposals was 22.6% (up 1.0 point).

The vote-against rate came to 39.2% (down 1.1 points) concerning proposals related to the board of directors/directors, 21.1% (up 6.1 points) concerning proposals related to the board of auditors/auditors and 23.2% (up 3.8 points) concerning proposals related to director remuneration, etc.

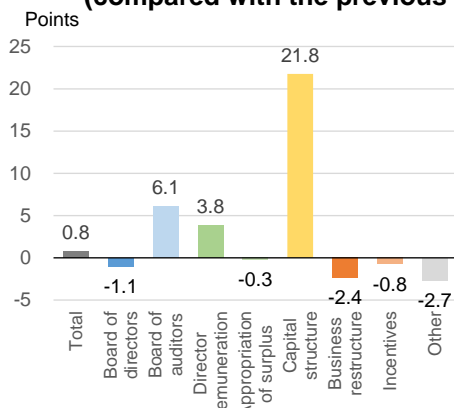
Voting activity (Companies with accounting settlement between April 2018 and March 2019)

Proposal Subject	Total	Composition	Vote for		Vote against		Vote-against rate in the previous year
				Rate		Rate	
Total	55,148	100%	41,517	75.3%	13,631	24.7%	23.9%
c.f. Company Proposal	53,534	97.1%	41,410	77.4%	12,124	22.6%	21.6%
c.f. Shareholder Proposal	1,614	2.9%	107	6.6%	1,507	93.4%	91.6%
By Subject	55,148	100%	41,517	75.3%	13,631	24.7%	23.9%
Board of Directors/Directors	18,568	33.7%	11,291	60.8%	7,277	39.2%	40.2%
Board of Auditors/Auditors	11,402	20.7%	9,001	78.9%	2,401	21.1%	15.0%
Director Remuneration, etc.	5,734	10.4%	4,402	76.8%	1,332	23.2%	19.4%
Appropriation of Surplus	11,230	20.4%	10,717	95.4%	513	4.6%	4.8%
Capital Structure	721	1.3%	297	41.2%	424	58.8%	37.0%
Takeover Defense Measures	473	0.9%	78	16.5%	395	83.5%	93.7%
Capital Increase or Reduction	39	0.1%	39	100%	0	0.0%	3.1%
Third Party Allotment of Shares	40	0.1%	37	92.5%	3	7.5%	16.7%
Acquisition of Own Shares	23	0.0%	1	4.3%	22	95.7%	44.4%
Business Restructure	396	0.7%	396	100.0%	0	0.0%	2.4%
Incentives Improvement for Executives	1,991	3.6%	1,592	80.0%	399	20.0%	20.8%
Other proposals	5,106	9.3%	3,821	74.8%	1,285	25.2%	27.8%

Share by proposal subject



Changes in the vote-against rate (compared with the previous year)

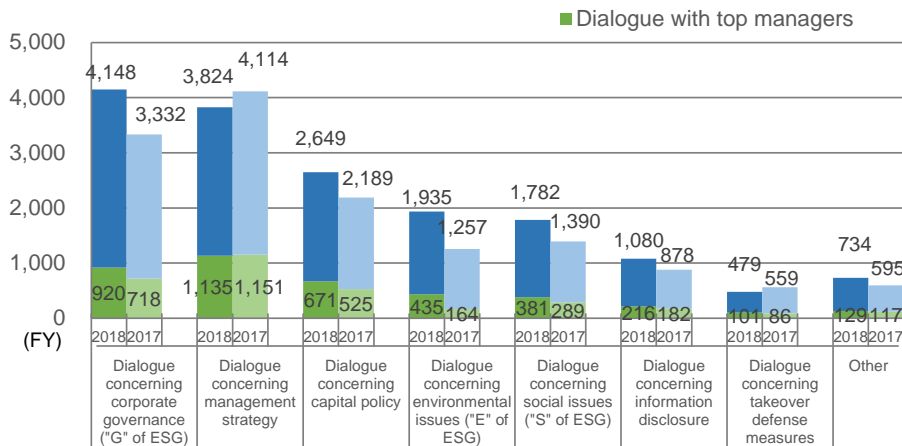


(4) Results of engagement activities (domestic equities)

Regarding the Employees' Pension Insurance Benefit Adjustment Fund, in FY2018, the Association implemented engagement with a total of 4,868 companies through 22 investment management institutions entrusted with domestic stock investment (a total of 43 funds). The number of cases of dialogue was 16,631 (up 16.2% from the previous year).

While some entrusted investment management institutions increased engagement staff, others focused on engagement related to environmental issues, social issues and corporate governance. As a result, the number of cases of engagement increased.

**Total number of cases of engagement
From April 2018 to March 2019**



Share by dialogue item



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

Regarding the Employees' Pension Insurance Benefit Adjustment Fund, the Association exercised voting rights through 15 investment management institutions entrusted with foreign stock investment (18 funds in total), with respect to a total of 8,190 companies which settled accounts between April 2018 and March 2019. The number of proposals for which voting rights were exercised was 65,525.

Of the 65,525 proposals, 8,080 (including

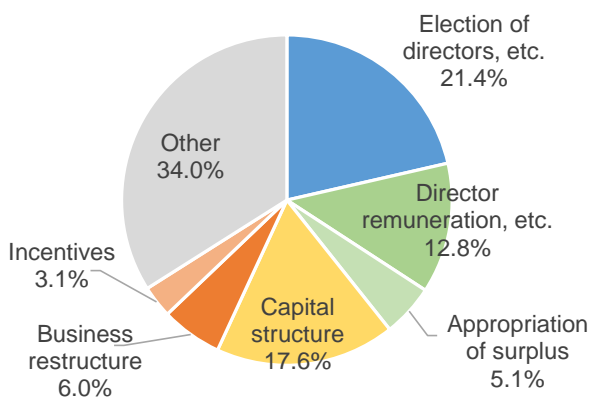
1,277 shareholder proposals) were voted against, translating into a vote-against rate of 12.3% (up 1.1 points from the previous year). The vote-against rate concerning company proposals was 11.0% (up 1.9 point).

The vote-against rate came to 13.0% (up 1.6 points) concerning proposals related to the election of directors, etc. and 12.5% (up 2.6 points) concerning proposals related to director remuneration, etc.

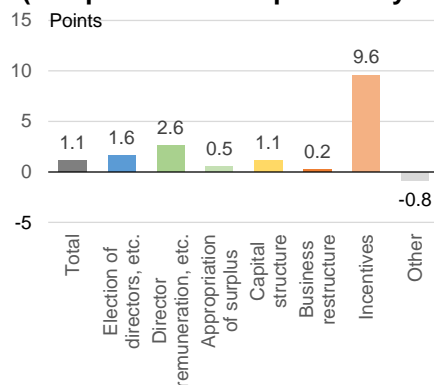
Voting activity (Companies with accounting settlement between April 2018 and March 2019)

Proposal Subject	Total	Vote for		Vote against		Vote-against rate in the previous year	
		Composition	Rate	Rate	Rate		
Total	65,525	100%	57,445	87.7%	8,080	12.3%	11.2%
c.f. Company Proposal	62,084	94.7%	55,281	89.0%	6,803	11.0%	9.1%
c.f. Shareholder Proposal	3,441	5.3%	2,164	62.9%	1,277	37.1%	43.6%
By Subject	65,525	100%	57,445	87.7%	8,080	12.3%	11.2%
Proposal for election of directors, etc.	14,028	21.4%	12,203	87.0%	1,825	13.0%	11.4%
Director Remuneration, etc.	8,371	12.8%	7,325	87.5%	1,046	12.5%	9.9%
Appropriation of Surplus	3,359	5.1%	3,311	98.6%	48	1.4%	0.9%
Capital Structure	11,522	17.6%	9,672	83.9%	1,850	16.1%	15.0%
Takeover Defense Measures	490	0.7%	466	95.1%	24	4.9%	5.5%
Capital Increase or Reduction	3,950	6.0%	2,805	71%	1,145	29.0%	20.0%
Third Party Allotment of Shares	1,525	2.3%	1,447	94.9%	78	5.1%	11.0%
Acquisition of Own Shares	2,540	3.9%	2,409	94.8%	131	5.2%	6.2%
Business Restructure	3,919	6.0%	3,398	86.7%	521	13.3%	13.1%
Incentives Improvement for Executives	2,062	3.1%	1,447	70.2%	615	29.8%	20.2%
Other proposals	22,264	34.0%	20,089	90.2%	2,175	9.8%	10.6%

Share by proposal subject



Changes in the vote-against rate (compared with the previous year)



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

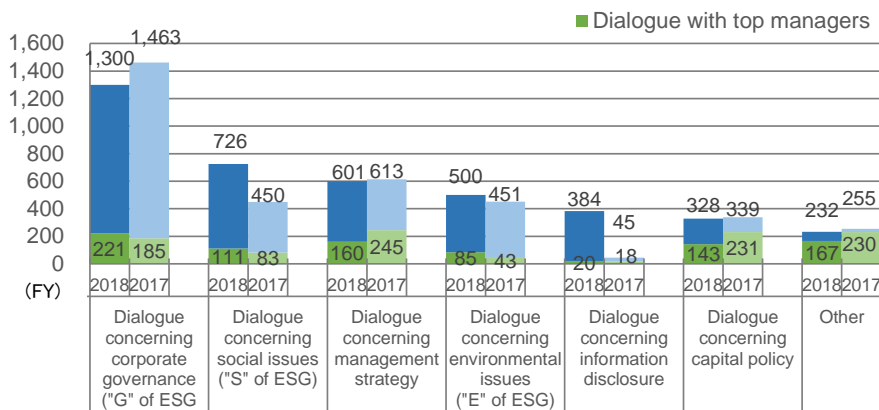
(6) Results of engagement activities (foreign equities)

Regarding the Employees' Pension Insurance Benefit Adjustment Fund, in FY2018, the Association implemented engagement with a total of 1,560 companies through 15 investment management institutions entrusted with foreign stock investment (a total of 18 funds). The

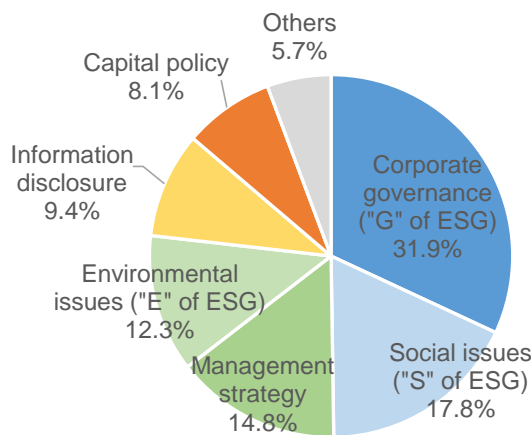
number of cases of dialogue was 4,071 (up 12.6% from the previous year).

Some entrusted investment management institutions increased engagement staff or strengthened engagement related to environmental and social issues. As a result, the number of cases of engagement increased.

**Total number of cases of engagement
From April 2018 to March 2019**



Share by dialogue item



(7) ESG investment

■ ESG investment initiative

A. Domestic equities

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

The Association believes that it can simultaneously fulfill the fiduciary responsibility of increasing the value of stocks for the insured persons over the long term and the social responsibility as a public pension fund by seeking to increase the investment return through the sustainable growth of investee companies and the enhancement of shareholder value and by encouraging efforts to resolve social challenges, such as environmental, human rights and employment issues.

Most of the active funds adopted by the Association take into consideration ESG elements in the investment process. The Association started investing in ESG funds adopted with the aim of earning excess return from the viewpoints of ESG in 2010. Subsequently, the Association gradually increased the number of adopted funds and the amount of investments. As of the end of March 2020, the Association was entrusting ESG investment through four funds with a combined market capitalization of 65.6 billion yen (approximately 3% of the outstanding balance of domestic stocks in the Association's portfolio). Under the Asset Manager Registration System concerning domestic equities, which started in January 2020, the Association has indicated its interest in ESG-focused strategy and is asking entrusted investment management institutions to be registered.

B. Domestic bonds

In 2019, the Association started investing in ESG bonds as part of in-house investment.

■ Approach to ESG investment (domestic equities)

With respect to the approach to the ESG-related four funds, three fall into the ESG integration category and one falls into the engagement category.

ESG integration refers to an investment approach that gives consideration to the ESG elements in the process of selecting stocks from the investment universe for possible inclusion in the portfolio. The examples of specific approaches to ESG investment are as follows:

- An entrusted investment management institution uses an external organization to select stocks relatively highly evaluated in terms of ESG within each industry as components of the investment universe. Fund managers select stocks from the universe based on evaluation conducted from two viewpoints—the stock price level and whether the companies' ESG initiatives are likely to lead to earnings growth. The portfolio is comprised mainly of stocks highly evaluated by fund managers in terms of ESG.

- Analysts evaluate stocks under research in terms of their fundamentals and ESG performance. The ESG evaluation is a combination of basic evaluation based on third-party information obtained from external ESG evaluation organizations and analysts' evaluation based on qualitative information obtained through dialogue. A score table is prepared with scores given with respect to detailed items concerning the ESG elements. Fund managers integrate the fundamentals evaluation and the ESG evaluation and select stocks in such a way that the deviation value of each of the items concerning the ESG elements in the whole portfolio is higher than 50.
- An entrusted investment management institution has adopted a smart beta strategy under which its funds track an index internally developed based on the combination of the ESG evaluation and the stock price evaluation. The entrusted investment management institution uses an external organization to recognize companies whose ESG performance exceed a certain level as components of the index. Asset weight allocation is determined by adding to the basic weight (a uniform weight for all stocks: 60% of the overall weight) a weight calculated on the basis of an ESG adjusted stock price (40%), which is a stock price multiplied by a co-efficient reflecting the ESG evaluation.

Engagement refers to objective-oriented constructive dialogue based on in-depth understanding of investee companies and their operating environment. The examples of specific approaches to ESG investment are as follows:

- After picking stocks with high quality in terms of ROIC (return on invested capital), an entrusted investment management institution makes stock selection from among them in light of factors such as the room for improvement of competitiveness and the viability of the dialogue effect, aiming to increase corporate value through cooperative engagement from the view point of ESG.

The approach to ESG varies from fund to fund. However, through interviews with entrusted investment management institutions, the Association learned that they make efforts to identify the ESG elements concerning individual funds and use ESG as a reference for stock selection. In this way, they are reducing the risk of corporate value being undermined and are promoting investment in companies whose corporate value is expected to increase in the medium to long term.

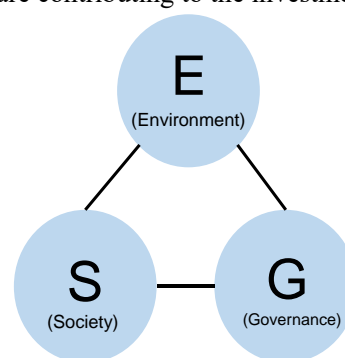
■ Performance of ESG investment (domestic equities)

Entrusted investment management institutions are making investments through various approaches based not only on ESG evaluation but also on stock price evaluation with respect to individual ESG funds. The earning of excess return over the policy benchmark (the TOPIX index including dividends) differs from fund to fund and from year to year.

There is not yet an established consensus on whether the ESG approach leads to an excess return. The method of analyzing the relationship

of ESG evaluation and engagement with investment performance varies across entrusted investment management institutions with respect to ESG funds adopted by the Association.

The Association plans to continue ESG initiatives such as evaluating the effectiveness and usefulness of ESG investment by cooperating with entrusted investment management institutions in checking how the ESG elements are contributing to the investment performance.



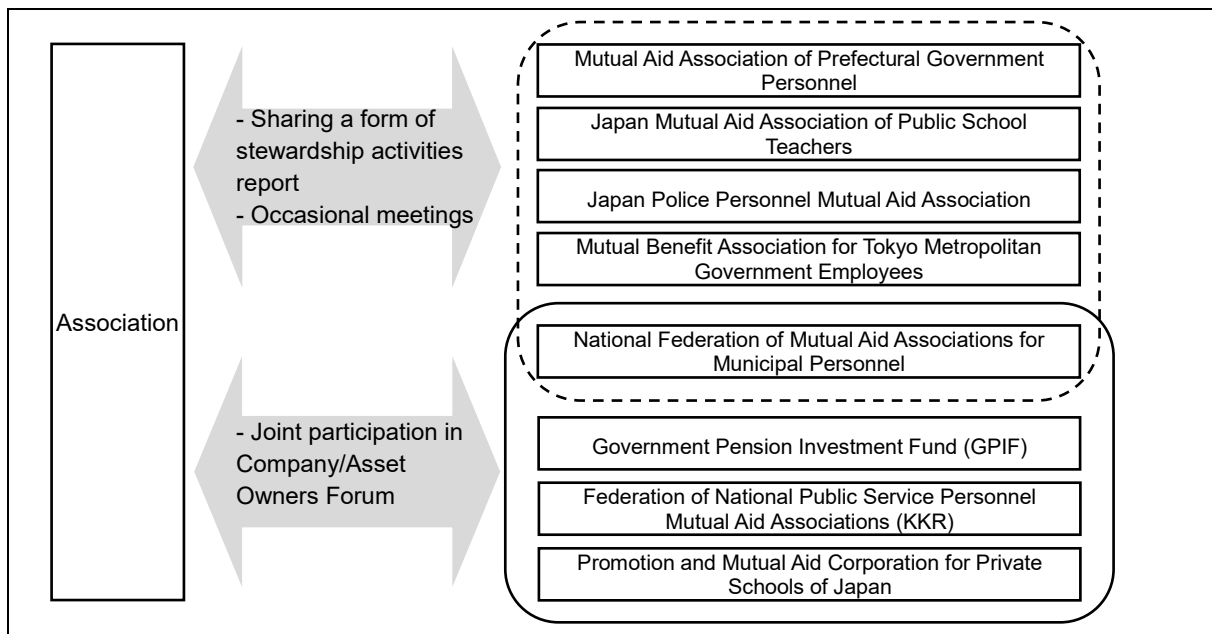
(8) Collaboration with other public pension funds, etc.

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

In addition, the Association is engaged in

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

[Collaboration with other public pension funds, etc.]



(9) Future initiatives

The Association will continue to actively conduct stewardship activity in order to simultaneously fulfill the fiduciary and social responsibilities.

■ Implementation of effective monitoring of entrusted investment management institutions

The Association will continue to make sure that entrusted investment management institutions' stewardship activity is consistent with the Association's policy and will conduct monitoring with emphasis placed on the "quality" of initiatives in terms of whether entrusted investment management institutions are implementing engagement with investee companies and are exercising voting rights in an effective manner and whether they are encouraging the companies to ensure effective corporate governance.

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

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

■ Consideration of expansion of the scope of assets covered by stewardship activities and promotion of investment taking into consideration non-financial factors

From the viewpoint of fulfilling the stewardship responsibilities, the Association will consider expanding the scope of assets covered by stewardship activities in light of factors such as governmental actions. From the viewpoint of securing long-term profit for the sake of insured persons' interests, the Association will also conduct necessary activities after considering promoting investment taking into consideration non-financial factors, including ESG elements, in addition to financial factors.

■ Revision of the corporate governance principles, etc.

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

■ Collaboration with other public pension funds, etc.

The Association will make appropriate judgment on matters related to dialogue with investee companies and stewardship activity. As part of its efforts to enhance the effectiveness and efficiency of stewardship activity, the Association will also exchange opinions with member associations and other public pension funds, among other activities.

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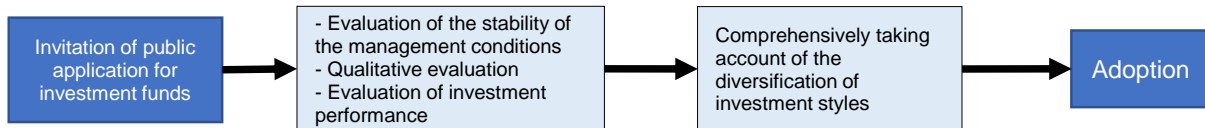
Selection and management of entrusted investment management institutions, etc. (traditional assets)

■ Approach to selection

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

methodology, investment structure, compliance system, etc.

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



■ Asset Manager Registration System

An Asset Manager Registration System, which started in fiscal year 2015 with respect to alternative investments, has also been introduced with respect to traditional assets. The

Association started accepting entries with respect to domestic bonds in 2016, with respect to foreign equities in 2018 and with respect to domestic equities in 2019.

■ Selection of entrusted investment management institutions

The Association selected new entrusted investment management institutions with respect to domestic bonds and foreign equities through the Asset Manager Registration System.

Regarding foreign equities in particular, the Association took new steps, such as adopting region-focused entrusted investment management institutions.

■ Administration and evaluation of entrusted investment management institutions

The Association receives monthly reports on the investment status and quarterly reports on the overview of investment results, future investment policy and other matters from entrusted investment management institutions. In addition, the Association conducts a detailed interview annually concerning the overview of investment results, future investment policy and other matters and also implements monitoring through visits to entrusted investment management institutions.

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

Qualitative evaluation is intended to evaluate the current and future status of the fulfilling of the expected role from a long-term perspective and to examine “whether the fund is expected to deliver a higher return than the target in a stable manner” and “whether the investment process which represents the advantage of the fund in

earning an excess return has been sufficiently functioning in light of the market environment” and “whether the process will continue to function in the future.” The focus of attention in the analysis is on investment teams’ skills (investment experience, staffing strength and stability of the employee turnover) and the effectiveness of the investment process (whether the process is functioning as proclaimed and presence or absence of reproductivity, reasonableness and flexibility).

Quantitative evaluation mainly assesses the actual excess return compared with the target excess return, the information ratio (the tracking error in the case of passive investment), and the cost performance (the excess return earned relative to fees).

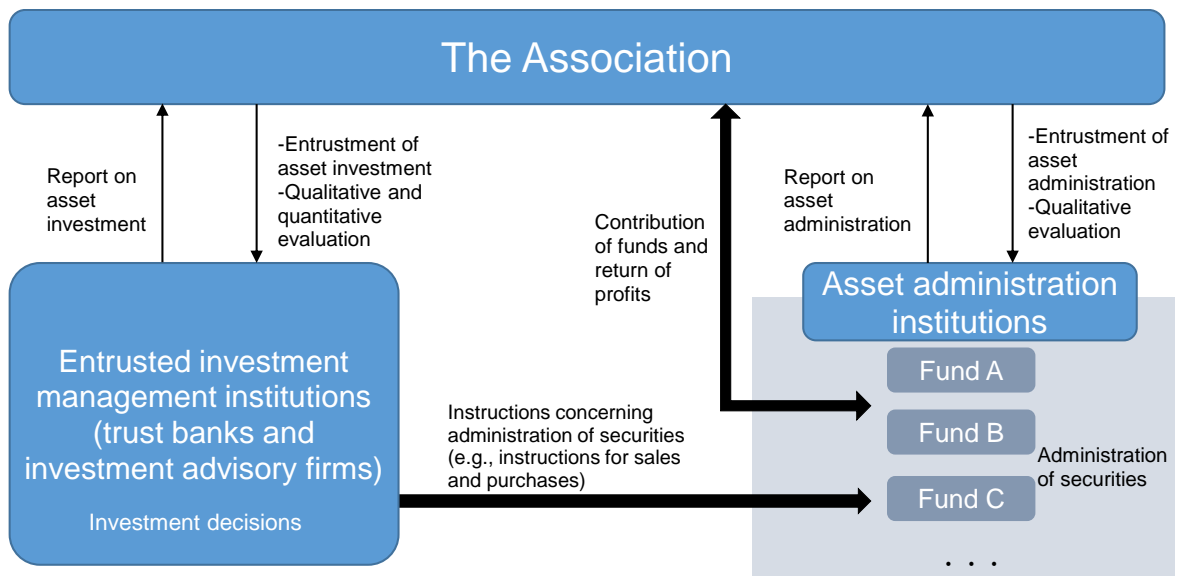
The Association allocates funds in a consistent manner across the entire portfolio in consideration of not only the results of comprehensive evaluation but also the balance of strategy categories in each asset class and the balance of funds in each category.

■ Administration and evaluation of asset administration institutions

The Association provides an incentive or gives a reminder for asset administration institutions as appropriate by providing feedback on the results of qualitative evaluation of their asset administration status and by

transferring funds from one institution to another depending on the results in order to ensure appropriate administration by asset administration institutions.

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



1 Establishment

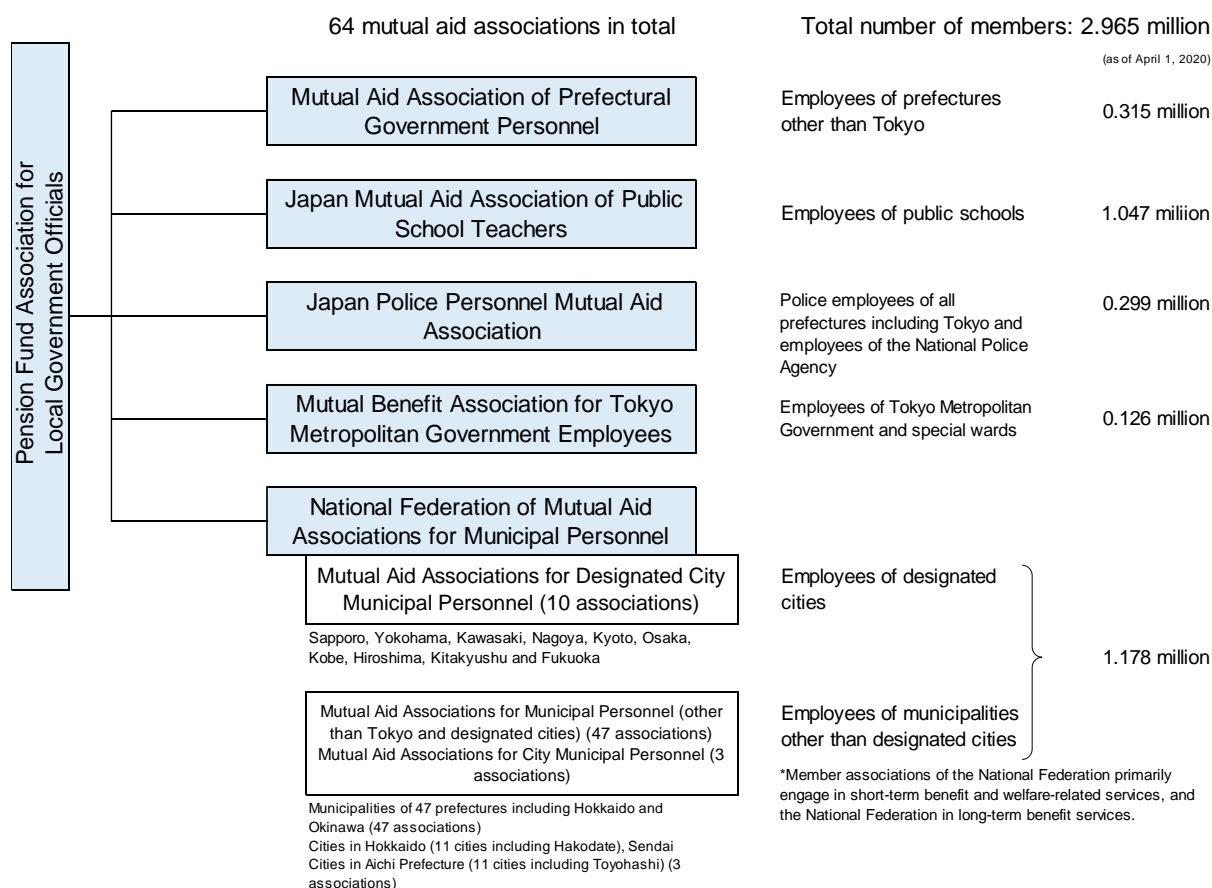
Article 43 of the Local Public Service Act provides "A mutual aid system shall be implemented in order to provide appropriate benefits in cases of employees' illness, injury, childbirth, involuntary leave, calamity, retirement, disability or death, or their dependents' illness, injury, child birth, death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

The pension fund system for local government officials was established in December 1962 as a system to comprehensively manage the long-term benefits program, short-term benefits program and welfare services program for local government employees and

their families, for the purpose of providing mutual aid for local government employees.

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

Outline of Local Public Service Mutual Aid Associations



2 Major operations

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

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

3 Organization

(1) Governing Council

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

Revision of the articles of incorporation, the

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

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

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

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

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

areas such as economics, finance, and fund management (the "Fund Management Committee").

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

■List of Fund Management Committee Members (As of April 1, 2020)

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

■Matters for deliberation and report by the Fund Management Committee

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

■ Past Meetings of the Fund Management Committee

Meeting number	Meeting date	Main theme
31st Meeting	July 2, 2019	<ul style="list-style-type: none"> • Review of Operations reports concerning administration and investment of individual adjustment funds in FY2018 • Status of risk management of individual adjustment funds in FY2018 • Status of asset allocation in FY2019 (April-May) • Examination of the benchmark portfolio of the Annuity Retirement Benefit Adjustment Fund • Status of the Actuarial Valuation of FY2019
32nd Meeting	October 1, 2019	<ul style="list-style-type: none"> • Results of selecting foreign equity and domestic bond products (active investment) • Status of investment of individual adjustment funds in the first quarter of FY2019 (Association) • Status of risk management of individual adjustment funds in the first quarter of FY2019 (Association) • Review of the benchmark portfolio • Status of asset allocation in FY2019 (April-August)
33rd Meeting	January 28, 2020	<ul style="list-style-type: none"> • Status of investment of individual adjustment funds in the second quarter of FY2019 (Association) • Status of risk management of individual adjustment funds in the second quarter of FY2019 (Association) • Review of the benchmark portfolio (proposal) • Implementation of the Asset Manager Registration System for domestic equities • Status of asset allocation in FY2019 (April-December)
34th Meeting	March 5, 2020	<ul style="list-style-type: none"> • Status of investment of individual adjustment funds in the third quarter of FY2019 (Association) • Status of risk management of individual adjustment funds in the third quarter of FY2019 (Association) • Deviation tolerance in the benchmark portfolio • Proposed revision to the Basic Policy • Annual Stewardship Activity Report FY2019 • Status of investment in alternative assets • Investment policy for FY2020

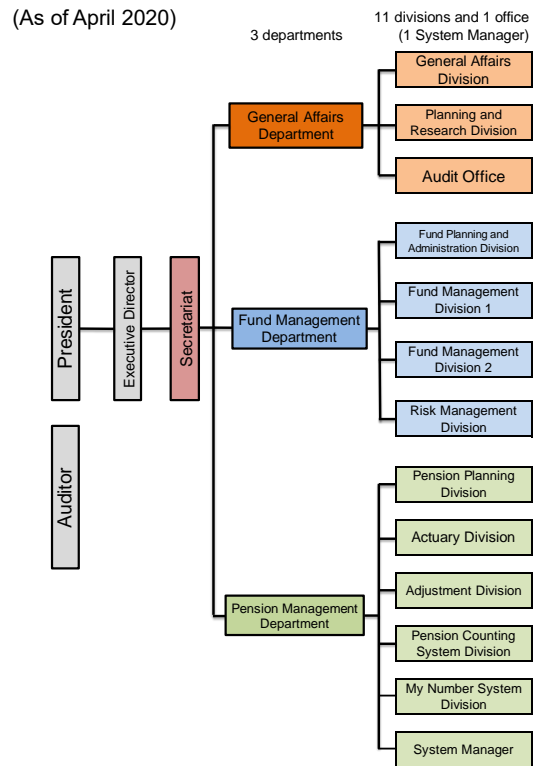
(3) Executives and Secretariat

■ Executives

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

■ Secretariat

The Association's Secretariat is comprised of three departments, 11 divisions (there is also a system manager outside the divisions), and one office, as is shown in the figure on the right. As of April 1, 2020, the prescribed number of employees at the Secretariat is 81.



(4) Meetings

■ Asset Management Committee

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

investment of funds by the Association.

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

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

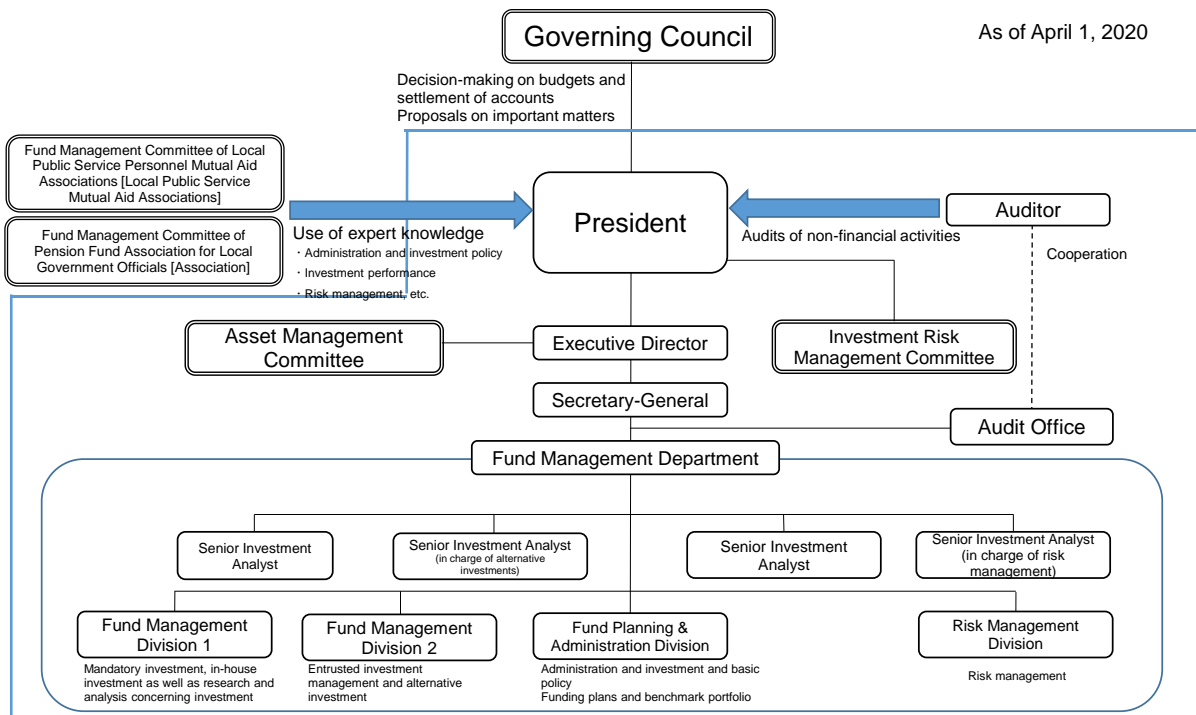
■ Investment Risk Management Committee

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

Unlike the Asset Management Committee,

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

(5) Governance structure



4 Investment of funds

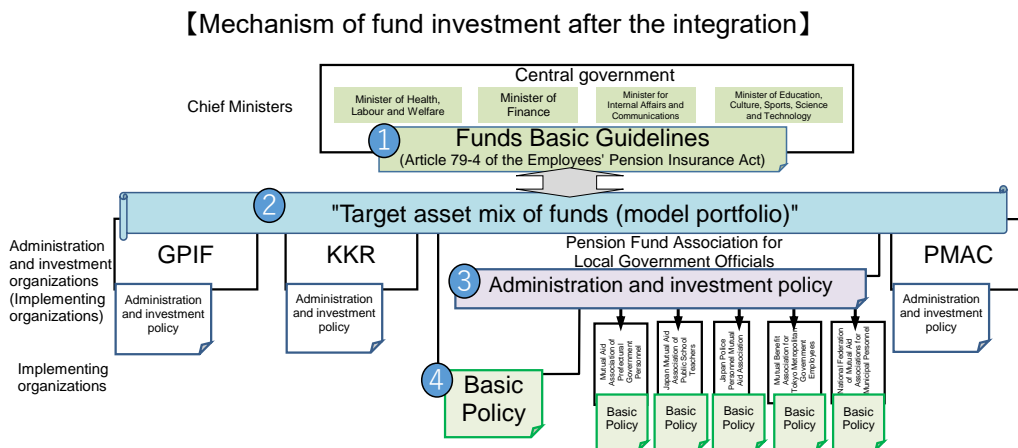
(1) Mechanisms

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

Next, the administration and investment

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

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



(2) Basic approach to investment

■ Basic policy

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

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

characteristics.

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

