

Administration and Investment Policy for the Annuity Retirement Benefits (ARB) Adjustment Fund

(Established on October 1, 2015)

(Last revised on March 31, 2020)

In accordance with Article 112-10, Paragraph (1), of the Local Public Service Mutual Aid Association Act (Act No. 152 of 1962; the “Act”), the Pension Fund Association for Local Government Officials (the “Association”) sets forth the administration and investment policy for the safe and efficient administration and investment of the annuity retirement benefits (ARB) adjustment fund from the long-term perspective (including managing the investment status of the ARB association reserve funds of the local public service mutual aid associations (“Mutual Aid Associations”; excluding constituent member associations stipulated in Article 27, Paragraph (2) of the Act; the same applies hereinafter) and the National Federation of Mutual Aid Associations for Municipal Personnel; the same applies hereinafter)(the “Administration and Investment Policy”), as follows.

I Basic policy for the administration and investment of the ARB adjustment fund

1. Basic policy for the ARB adjustment fund and the ARB association reserve funds

The Association shall safely and efficiently administer and invest the ARB adjustment fund from the long-term perspective as follows.

(1) Basic policy

The Association shall manage the ARB adjustment fund and the ARB association reserve funds (collectively, the “ARB Funds”) with the objective of contributing to the stability of the ARB plan operations based on the characteristics of a cash-balance pension plan whose benefit level is linked to government bond yields.

Accordingly, the Association shall administer and invest the ARB adjustment fund by establishing an asset mix from the long-term perspective (the “Benchmark Portfolio”).

(2) Investment target, risk management, etc.

(i) Investment target

The investment of the ARB Funds, which have the characteristics of a cash-balance pension plan, shall be managed appropriately by establishing the Benchmark Portfolio so that investment returns needed for the reserve fund (i.e., assumed return (meaning the assumed return stipulated in Article 28, Paragraph (5) of the Order for Enforcement of the Local Public Service Mutual Aid Association Act (Cabinet Order No. 352 of 1962); the same applies hereinafter)) will be generated with the minimum risk.

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

(ii) Use of the Fund Management Committee of Local Public Service Personnel Mutual Aid Associations

The Association establishes the Fund Management Committee of Local Public Service Personnel Mutual Aid Associations that consists of academic experts and practical experts in such fields as economy, finance, and fund management (the "Fund Management Committee").

The Association shall leverage the expert knowledge of the Fund Management Committee when examining technical matters concerning the administration and investment of the ARB adjustment fund including the development and revision of the Administration and Investment Policy.

(iii) Risk management in administering and investing the ARB adjustment fund

Based on reports from the Administration and Investment Institutions (Mutual Aid Associations, the National Federation of Mutual Aid Associations for Municipal Personnel and the Association; the same applies hereinafter) excluding the Association, the Association shall appropriately administer and invest the ARB adjustment fund and conduct risk management on the investment status of the overall assets, the Administration and Investment Institutions and each asset class in accordance with the methods below. In conducting the risk management, the Association shall report its risk management implementation policy to the Governing Council upon deliberation at the Fund Management Committee, and timely report the risk management status to the Governing Council and the Fund Management Committee.

A Overall assets

In order to appropriately manage the Benchmark Portfolio, the Association shall check deviations of the asset mix of the ARB Funds from the Benchmark Portfolio at least monthly.

Also, the Association shall enhance necessary functions, such as for understanding and analyzing market trends.

Furthermore, the Association shall confirm risks of overall assets, analyze and assess the degree of risk-taking, and conduct, among other things, analysis of factors for deviations from the return needed for the reserve fund.

B Administration and Investment Institutions

The Association shall confirm deviations of asset mixes of other Administration and Investment Institutions from their respective Benchmark Portfolios at least monthly.

Furthermore, the Association shall confirm other Administration and Investment Institutions' risks, analyze and assess the degree of risk-taking, and conduct, among other things, analysis of factors for deviations from the return needed for the reserve funds.

C Asset class

The Association shall manage market risk, liquidity risk, and credit risk of each asset class.

2. Basic policy for the ARB Association Reserve Funds

The Association shall administer and invest the ARB adjustment fund as follows.

In addition, the Association sets forth the following for managing the status of investment of the ARB association reserve funds by the Administration and Investment Institutions (excluding the Association) as follows.

(1) Basic policy

The Administration and Investment Institutions shall manage ARB association reserve funds or the ARB adjustment fund (collectively, the “ARB Association Reserve Funds”) with the objective of contributing to the stable operation of the ARB plan, based on the characteristics of a cash balance pension plan whose benefit level is linked to government bond yields.

To this end, the Administration and Investment Institutions shall set forth Benchmark Portfolios and administer and invest the ARB Association Reserve Funds.

In order to appropriately administer and invest the ARB Association Reserve Funds, the Administration and Investment Institutions shall establish and publish a basic policy for administering and investing the ARB Association Reserve Funds (the “Basic Policy”) which describes, among other matters, the asset mix of the ARB Association Reserve Funds, and the Administration and Investment Institutions (excluding the Association) shall send their Basic Policy to the Association. In addition, if the Administration and Investment Policy is revised or otherwise review is considered necessary, the Administration and Investment Institutions shall review and, if necessary, revise and publish their Basic Policy, and the Administration and Investment Institutions (excluding the Association) shall send it to the Association.

The Administration and Investment Institutions shall create specific fund management plans for each fiscal year, and conduct investments based on the plans. Also, the Administration and Investment Institutions (excluding the Association) shall send the plans to the Association.

The Association shall receive investment reports (meaning “investment reports” stipulated in Article 112-13, Paragraph (1) of the Act) from other Administration and Investment Institutions, and the Association may also request other Administration and Investment Institutions to report on the administration and investment status of their ARB association reserve funds.

In addition, if the Association finds that another Administration and Investment Institution’s status of administering and investing its ARB association reserve fund does not meet the Administration and Investment Policy, the Association shall request the Institution to take necessary measures so that the status will meet the Administration and Investment Policy.

(2) Investment target, risk management, investment methods, etc.

(i) Investment target

Each Administration and Investment Institution shall establish the Benchmark Portfolio and appropriately manage the investment of ARB Association Reserve Funds, which have the characteristics of a cash-balance pension plan, in order to generate investment returns needed for the reserve fund (assumed return) with the minimum risk.

In doing so, attention shall be paid so that price formation in the market and private sector investment activities will not be distorted.

(ii) Use of Administration and Investment Institution's Expert Meeting

The Administration and Investment Institutions shall leverage the expert knowledge of the expert meeting that consists of academic experts and practical experts in such fields as economy, finance, and fund management (the "Expert Meeting") when examining technical matters concerning the administration and investment of ARB Association Reserve Funds, including the development and revision of the Basic Policy.

(iii) Risk management in administering and investing ARB Association Reserve Funds

The Administration and Investment Institutions shall appropriately manage various types of risks associated with the administration and investment of the ARB Association Reserve Funds.

Also, the Administration and Investment Institutions shall administer and invest the ARB Association Reserve Funds by conducting in-house investment and entrusting to asset management institutions, and manage risks by the methods below based on reports from asset management institutions for overall assets, each asset class, in-house investment and each asset management institution. The Administration and Investment Institutions shall report their implementation policy to the Governing Council upon deliberation at the Expert Meeting, and timely report the risk management status to the Governing Council and the Expert Meeting.

A Overall assets

With the aim of appropriately managing the Benchmark Portfolio, the Administration and Investment Institutions shall identify deviations of the asset mix of the ARB Association Reserve Funds from their respective Benchmark Portfolios at least monthly and take necessary actions.

Also, the Administration and Investment Institutions shall enhance necessary functions, such as for understanding and analyzing market trends.

Furthermore, the Administration and Investment Institutions shall confirm risks of overall assets, analyze and assess the degree of risk-taking, and conduct, among other things, analysis of factors for deviations from the

return needed for the reserve funds.

B Asset class

The Administration and Investment Institutions shall manage market risk, liquidity risk, and credit risk of each asset class.

C In-house investment

The Administration and Investment Institutions shall establish their respective investment guidelines and manage investment appropriately by checking the status of investment, and risk-taking.

D Asset management institutions

The Administration and Investment Institutions shall present asset management guidelines to each asset management institution, understand the asset management status of the institution, and manage them appropriately.

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

(iv) Investment methods

The Administration and Investment Institutions shall in principle invest the full amount, excluding short-term assets necessary for benefit payments, in domestic bonds and hold them until maturity (however, this excludes cases in which holding until maturity is not possible due to benefit payments or other reasons). In doing so, the Administration and Investment Institutions shall strive to increase the return upon controlling risks by appropriately selecting the types and maturities of domestic bonds.

In such cases, in-house investment shall be conducted in principle in light of investment cost reductions.

(v) Investment considering non-financial elements

With respect to the investment of the ARB Association Reserve Funds, Administration and Investment Institutions shall implement the necessary initiatives, 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.

(vi) Pooled investment

Administration and Investment Institutions may deposit ARB Association

Reserve Funds with the Association for investment management.

If Administration and Investment Institutions deposit ARB Association Reserve Funds with the Association, the Association shall appropriately administer and invest them in accordance with the policy for the administration and investment of deposited money separately established by the Association.

II Matters to be observed in administrating and investing the ARB adjustment fund

1. Fiduciary responsibility

The Association and other Administration and Investment Institutions shall ensure thorough observance of the duty of care and loyalty of a prudent expert.

2. Consideration to impact on the market and private sector activities

In managing the ARB Association Reserve Funds, the Association and other Administration and Investment Institutions shall, in light of the market size, strive not to be excessively impacted by the market, and also pay attention 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. Securing liquidity for pension benefits

Based on the outlook of pension financing and the profit and loss status, the Association and other Administration and Investment Institutions shall secure liquidity (e.g., cash) necessary for pension benefits 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.

4. Coordination between the Association and the Federation of National Public Service Personnel Mutual Aid Associations

The Association shall strive to cooperate with the Federation of National Public Service Personnel Mutual Aid Associations by coordinating with each other, such as by providing necessary information to the Federation.

5. Coordination between the Association and 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 obtained.

The Association shall also gather information relating to investment considering non-financial elements including ESG (Environmental, Social, and Governance) and provide such information to other Administration and Investment Institutions.

In addition, the Association and other Administration and Investment Institutions shall cooperate by coordinating with each other with respect to investment operations of ARB Association Reserve Funds by, for example, providing necessary information.

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

1. Basic Principle of the Benchmark Portfolio

The Benchmark Portfolio shall be established from the long-term perspective with an asset mix and deviation tolerance that are in line with the investment target, 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 Fund Management Committee.

2. Benchmark Portfolio

The asset mix of the Benchmark Portfolio shall be as follows

	Domestic bonds
Asset mix	100%

(Note) Short-term assets may be held to the extent necessary for benefit payments.

Short-term assets, real estate and loan receivables are classified into domestic bonds.

3. Review of the Benchmark Portfolio

The Association shall appropriately manage risks based on market trends, regularly verify the Benchmark Portfolio and, if it is considered necessary in 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 Fund Management 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 Standards to be observed by Administration and Investment Institutions in establishing the asset mix for their respective ARB Association Reserve Funds from the long-term perspective

In establishing the asset mix and deviation tolerance for the Benchmark Portfolio to be stipulated in the Basic Policy of Administration and Investment Institutions, the

following shall be observed.

- (i) Each Administration and Investment Institution shall establish the asset mix of the Benchmark Portfolio in its Basic Policy in accordance with the asset mix of the Benchmark Portfolio stipulated in III-2. This shall be reported to the Governing Council upon deliberation at the Expert Meeting.
- (ii) The Administration and Investment Institutions shall appropriately manage risks based on market trends, regularly verify the Benchmark Portfolio and, if it is considered necessary in cases, such as that the investment environment assumed at the time of establishing the Benchmark Portfolio deviates from reality, examine and, if necessary, revise the Benchmark Portfolio upon reviewing the Benchmark Portfolio stipulated in III-2. Any change to the Benchmark Portfolio shall be reported to the Governing Council upon deliberation at the Expert Meeting. If it is found necessary in consideration of market impact and other factors, a transition portfolio (meaning a transitional asset mix up until the realization of the Benchmark Portfolio) may be established in order to smoothly transition to the revised Benchmark Portfolio.

V Other necessary matters concerning administration and investment of the ARB adjustment fund

1. Enhancing transparency

(1) Association

Regarding the administration and investment of the ARB 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 (including the status of the investment portfolio as a whole, the status of individual portfolio assets, and investment methods of Administration and Investment Institutions) on an annual basis (on a quarterly basis for the quarterly status of administration and investment performance (including the status of the investment portfolio as a whole and the status of individual portfolio assets)) by leveraging its website.

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

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

(2) Administration and Investment Institutions

Regarding the ARB Association Reserve Funds, the Administration and Investment Institutions 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 on an annual basis (on a quarterly basis for the quarterly status of administration and investment performance) by leveraging their website.

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

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

2. Retaining and leveraging highly skilled and specialized talents

The Association and other Administration and Investment Institutions 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 their staff.

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

3. Strengthening risk management

(1) Association

The Association shall establish a risk management system for the overall portfolio. In addition, 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.

(2) Administration and Investment Institutions

Each Administration and Investment Institution shall establish necessary risk management systems.

In addition, each Administration and Investment Institution shall enhance risk management as necessary by, for example, strengthening forward-looking risk analysis functions, establishing risk management analysis tools, and enhancing information collection and investigation functions.

4. Enhancing research and study operations

If the Association and other Administration and Investment Institutions conduct research and study operations, in addition to commissioning the work to think-tanks and other similar institutions, engaging staff including highly skilled and specialized personnel of the Association and other Administration and Investment Institutions in the work shall be considered in order to accumulate know-how on the administration and investment of reserve funds in the Association and other Administration and Investment Institutions. If highly skilled and specialized talents are employed, establishing 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 reserve funds safely and efficiently in the future.

In the case of commissioning the research, measures to prevent information leak

shall be taken thoroughly.

Supplementary Provisions

This Administration and Investment Policy comes into force from October 1, 2015.

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This Administration and Investment Policy comes into force from April 1, 2020.

[DISCLAIMER]

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