

Fiscal Year 2019

Review of Operations

Employees' Pension Insurance Benefit Fund

Table of Contents

<u>Fiscal Year 2019 Investment Results (Overview)</u>	3
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Section 1 Administration and Investment of Funds in FY2019

1. Investment results	
(1) Asset mix	4
(2) Investment return	4
(3) Excess return	5
(4) Investment income	5
(5) Value of assets	6
(6) Fees	6
2. Risk management	
(1) Approach to risk management	7
(2) Risk management efforts	8
(3) Status of risk management	9
3. Alternative assets	10
4. Stewardship activities	11
5. Selection and management of entrusted investment management institutions, etc. (traditional assets)	18

Section 2 Governance and Fund Management of Local Public Service Mutual Aid Associations

1. Establishment	19
2. Organization	20
3. Investment of funds	
(1) Mechanisms	23
(2) Basic approach to investment	23

[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:

-4.81%

(Modified total return after the deduction of fees)



Investment income: **¥1,013.8 billion**

(Investment income after the deduction of fees)



Value of investment assets:

(As of the end of March 2020)

¥19,873.9 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.

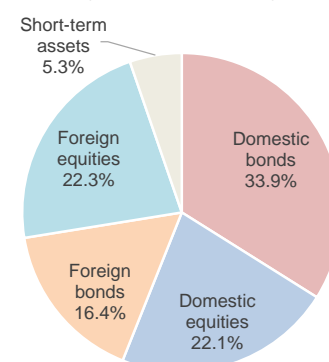
1 Investment results

(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	32.9	34.2	33.0	32.4	33.9	35.0
Domestic equities	23.4	23.5	23.6	24.6	22.1	25.0
Foreign bonds	14.1	14.8	14.5	14.2	16.4	15.0
Foreign equities	24.5	24.7	23.8	25.6	22.3	25.0
Short-term assets	5.0	2.8	5.1	3.3	5.3	-
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 0.7% (the upper limit is 5%).

(2) Investment return

The return (market value) came to -4.81% due to a decline in domestic and foreign equity markets, among other factors.

	FY2019				
	Q1	Q2	Q3	Q4	FY total
Return (market value basis)	0.11	1.12	4.26	-9.88	-4.81
Domestic bonds	0.83	0.33	-0.74	-0.47	-0.05
Domestic equities	-2.41	3.50	8.68	-17.94	-9.60
Foreign bonds	0.68	1.33	0.71	1.22	4.01
Foreign equities	1.24	0.01	9.68	-21.73	-12.60
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)	0.84	0.74	1.04	0.47	3.08

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

(Note 2) Unless otherwise specified, the return (market value basis) refers to the modified total return after 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 -4.81% and the benchmark return for overall assets was -4.83%. The excess return over the benchmark was 0.01%.

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities	Overall assets
Return (market value)	-0.05%	-9.60%	4.01%	-12.60%	-4.81%
Benchmark return	-0.18%	-9.50%	4.37%	-13.31%	-4.83%
Excess Return	0.13%	-0.10%	-0.36%	0.70%	0.01%

* 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.

(4) Investment income

Investment income (market value basis) was ¥1,013.8 billion.

(Unit: JPY100M)

	FY2019				
	Q1	Q2	Q3	Q4	FY total
Investment income (market value basis)	236	2,346	9,022	-21,741	-10,138
Domestic bonds	582	232	-522	-327	-34
Domestic equities	-1,191	1,701	4,357	-9,637	-4,770
Foreign bonds	206	406	219	386	1,217
Foreign equities	639	7	4,967	-12,163	-6,550
Short-term assets	0	0	-0	0	0

(Unit: JPY100M)

	FY2019				
	Q1	Q2	Q3	Q4	FY total
Realized income (book value basis)	1,556	1,374	1,947	895	5,772

(Note 1) The investment income (market value basis) represents the income after 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 ¥19,873.9 billion.

(Unit: JPY100M)

	End of FY2018			FY2019											
	Book value	Market value	Valuation gains/losses	End of Q1			End of Q2			End of Q3			End of FY		
				Book value	Market value	Valuation gains/losses	Book value	Market value	Valuation gains/losses	Book value	Market value	Valuation gains/losses	Book value	Market value	Valuation gains/losses
Domestic bonds	67,165	70,055	2,890	67,093	70,377	3,284	67,172	70,279	3,107	68,005	70,464	2,459	65,628	67,432	1,804
Domestic equities	43,052	49,758	6,707	42,798	48,379	5,581	43,113	50,291	7,178	43,202	53,589	10,387	43,569	43,955	386
Foreign bonds	30,310	30,111	-200	30,339	30,452	113	30,389	30,795	406	30,443	30,906	463	32,068	32,586	518
Foreign equities	38,119	52,221	14,102	37,148	50,863	13,715	37,348	50,690	13,342	38,267	55,674	17,408	39,394	44,276	4,881
Short-term assets	10,662	10,662	-0	5,859	5,859	0	10,903	10,903	0	7,083	7,083	0	10,490	10,489	-0
Total	189,308	212,807	23,499	183,237	205,930	22,693	188,925	212,957	24,033	187,000	217,717	30,717	191,149	198,739	7,590

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	-2,589	-1,033	1,259	-1,395

(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 ¥12.5 billion. The fee rate relative to the value of investment assets came to 0.06%.

(Unit: JPY100M, %)

	FY2019	
	Fee	Fee rate
Domestic bonds	24	0.03
Domestic equities	39	0.08
Foreign bonds	17	0.06
Foreign equities	43	0.08
Alternative assets	2	0.16
Overall assets	125	0.06

(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 Local Public Service Mutual Aid Associations (the "Associations"), in accordance with the implementation policy for risk management concerning investment of the fund, appropriately implement risk management concerning investment in consideration of the following points: that investment of funds should be made safely and efficiently from a long-term perspective; and that diversified investments should be maintained in principle.

Implementation policy for risk management concerning investment of the fund (excerpt)

1. Basic approach concerning risk management

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 (the "Association") appropriately conduct risk management related to the investment of their funds in light of the following matters.

- (i) Investment of funds should be made safely and efficiently from a long-term point of perspective.
- (ii) A benchmark portfolio should be developed and investment of funds should be made on the principle of managing funds through appropriate diversification across multiple asset classes with different risk/return profiles and other characteristics (hereinafter referred to as "diversified investment").

2. Risk management implementing entities and subjects of management

(1) Employees' Pension Insurance Scheme Managed Fund

- (i) The Association conducts risk management for investment of the Managed Fund as the administrative and investment entity.
- (ii) As implementing organizations, member associations (meaning 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 Association; the same shall apply hereinafter) conduct risk management for investments of the implementing organizations' funds.

(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.

As the asset mix constantly changes due to asset price fluctuations, the Associations keep

track of the status of the deviation of the asset mix of the actual portfolio from that of the benchmark portfolio and manage the actual portfolio so as to keep the degree of deviation within a certain range (deviation tolerance). In this way, the Associations check whether or not there are problems such as a deviation from the benchmark portfolio in excess of the deviation tolerance.

■ Monitoring of market risk, etc.

The Associations monitor 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 they also use active investment in their investment of funds, the Associations seek to earn an excess rate of return over the benchmark

by diversifying investment strategies and investment issues within each asset class.

Therefore, the Associations monitor 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 Associations manage 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 member associations entrust the operation of some investment-related activities to external institutions under their asset investment

systems, the Associations monitor the status of management (status of risk management and asset administration) of the institutions to which they entrust 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

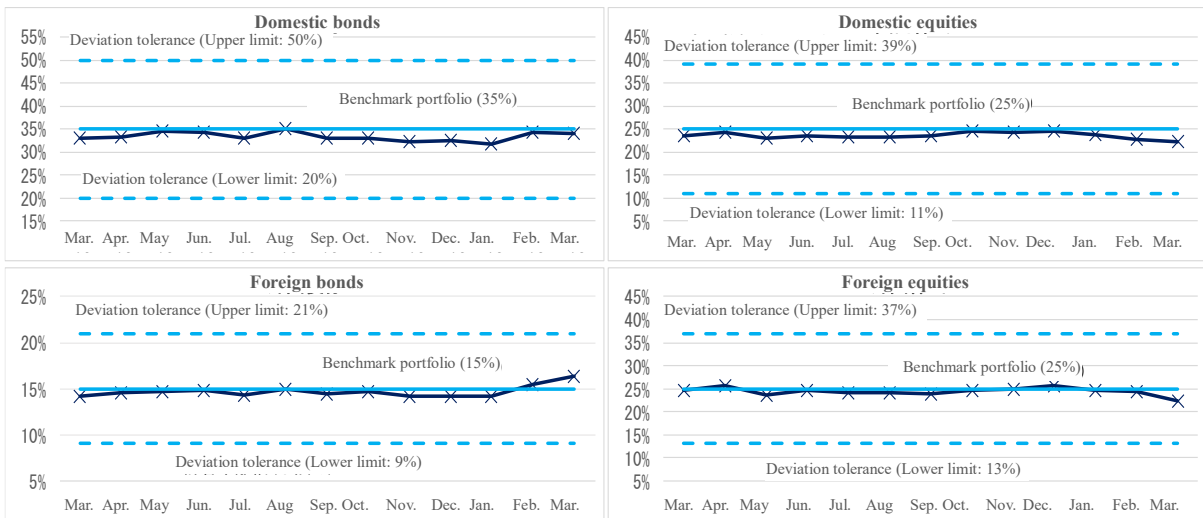
The status of risk management and improvement measures implemented are reported to the committees of specialists and the Governing Council.

(3) Status of risk management

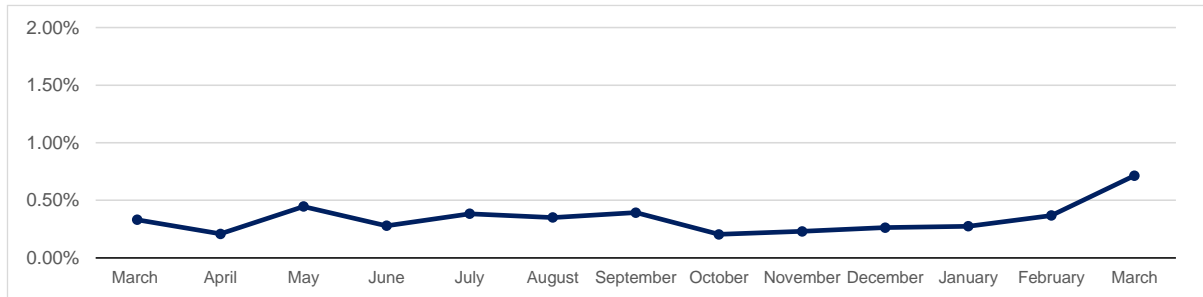
The shares in the asset mix concerning all asset classes—domestic bonds, domestic equities, foreign bonds and foreign equities—stayed within the deviation tolerance.

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 Alternative assets

■ Introduction of an Asset Manager Registration System

An Asset Manager Registration System is a system to accept entries from entrusted investment management institutions for funds on an ongoing basis for the purpose of selecting funds and concluding contracts.

In July 2015, the Pension Fund Association for Local Government Officials introduced an Asset Manager Registration System and started receiving entries with respect to investment funds investing in real estate and infrastructure assets. Subsequently, the Pension Fund Association for Local Government Officials 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 Pension Fund Association for Local Government Officials started soliciting applications for a funds of funds-type separately managed accounts (SMA) regarding PE investment.

In July 2017, the National Federation started receiving entries with respect to funds using domestic and foreign real estate assets as investment vehicles. In April 2018, domestic and foreign private equities and infrastructure assets were added to the scope of eligible investment instruments.

■ Selection of funds

Among the funds registered, the Associations 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 Japan Mutual Aid Association of Public School

Teachers, the National Federation and the Pension Fund Association for Local Government Officials decided to adopt a total of 32 funds, and started the investment in 25 funds.

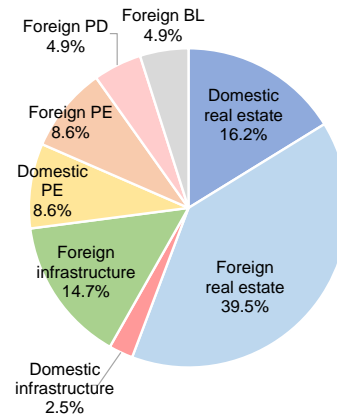
In the future, to seize opportunities for investing in superior funds likely to contribute to diversified investment, the Associations will continue to evaluate the funds and make selection.

【Number of funds adopted】

Investment fund	Number of funds adopted
Domestic real estate	6
Foreign real estate	6
Domestic infrastructure	1
Foreign infrastructure	7
Domestic PE	5
Foreign PE	4
Foreign PD	2
Foreign BL	1
Total	32

*As of the end of FY2019

【Asset mix】



*Commitment basis as of the end of FY2019

4 Stewardship activities

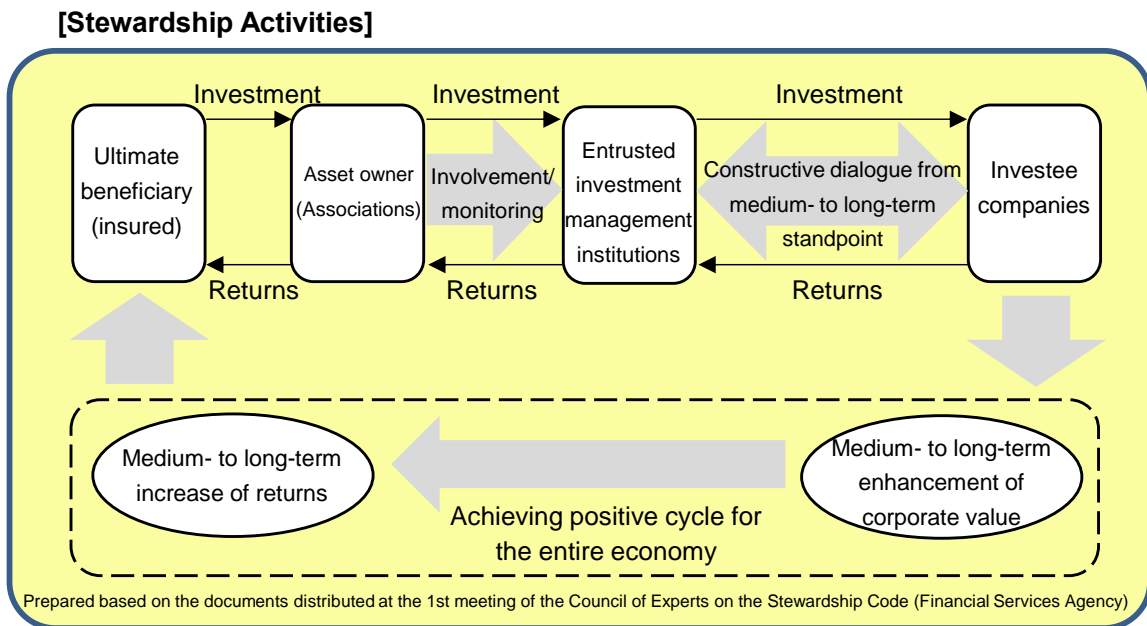
(1) Overview of the Associations' stewardship activity

"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 Associations are required to fulfill their fiduciary responsibility of increasing the value of their assets for the insured over the long term and social responsibility as public pension funds. In this connection, the Associations have been proactively committed to effective stewardship activities.

The Associations instruct entrusted investment management institutions to exercise shareholders' voting rights after making appropriate judgment suited to the conditions of the investee companies because it is difficult for the Associations to make judgment concerning the details of companies' management decisions.



The Associations have formulated the Corporate Governance Principles and the Guidelines for Exercising Shareholders' Voting Rights, and have made clear the approach to exercise shareholders' voting rights. The Associations require entrusted investment management institutions to exercise voting rights in accordance with these principles and guidelines. In addition, the Associations have made clear their activities to fulfill the stewardship responsibilities in their basic policies concerning fund administration and investment.

The Associations agree with the purpose of the Principles for Responsible Institutional Investors <<Japan's Stewardship Code>>,

established by the Financial Services Agency in February 2014, and announced their acceptance of the Code. In addition, following the revision of the Code, the Associations further clarified their approach to stewardship activities in November 2017.

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 and the Pension Fund Association for Local Government Officials started investing in ESG funds, and at present, they are entrusting investment in 12 domestic equity funds as ESG funds.

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

Regarding the Employees' Pension Insurance Benefit Fund, the Associations exercised voting rights through the 26 investment management institutions entrusted with domestic stock investment, with respect to a total of 38,399 companies which settled accounts between April 2018 and March 31, 2019. The number of proposals for which voting rights were exercised was 133,362.

Of the 133,362 proposals, 32,591 (including 3,342 shareholder proposals) were voted

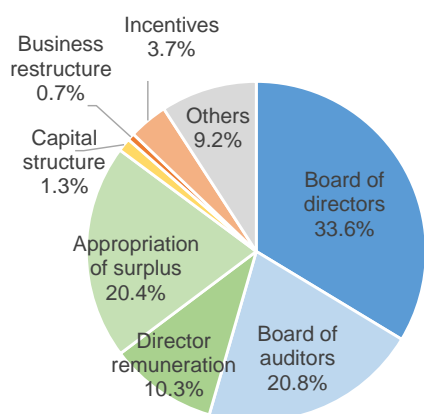
against, translating into a vote-against rate of 24.4% (up 0.7 point from the previous year).

The vote-against rate came to 38.0% (down 1.1 points) concerning proposals related to the board of directors/directors, 21.3% (up 5.3 points) concerning proposals related to the board of auditors/auditors and 25.7% (up 5.1 points) concerning proposals related to director remuneration, etc.

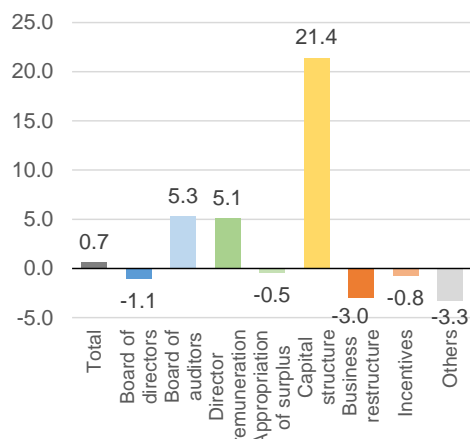
Voting activity (Companies with accounting settlement between April 2018 and March 2019)

Proposal Subject	Total		Vote for		Vote against		Vote-against rate in the previous year
		Composition		Rate		Rate	
Total	133,362	100%	100,771	75.6%	32,591	24.4%	23.8%
c.f. Company Proposal	129,755	97.3%	100,506	77.5%	29,249	22.5%	21.6%
c.f. Shareholder Proposal	3,607	2.7%	265	7.3%	3,342	92.7%	90.2%
By Subject	133,362	100%	100,771	75.6%	32,591	24.4%	23.8%
Board of Directors/Directors	44,875	33.6%	27,803	62.0%	17,072	38.0%	39.1%
Board of Auditors/Auditors	27,767	20.8%	21,850	78.7%	5,917	21.3%	16.0%
Director Remuneration, etc.	13,710	10.3%	10,190	74.3%	3,520	25.7%	20.5%
Appropriation of Surplus	27,227	20.4%	25,984	95.4%	1,243	4.6%	5.1%
Capital Structure	1,689	1.3%	698	41.3%	991	58.7%	37.3%
Takeover Defense Measures	1,158	0.9%	236	20.4%	922	79.6%	92.3%
Capital Increase or Reduction	104	0.1%	104	100.0%	0	0.0%	3.5%
Third Party Allotment of Shares	99	0.1%	89	89.9%	10	10.1%	25.0%
Acquisition of Own Shares	56	0.0%	4	7.1%	52	92.9%	50.0%
Business Restructure	919	0.7%	918	99.9%	1	0.1%	3.2%
Incentives Improvement for Executives	4,960	3.7%	3,990	80.4%	970	19.6%	20.4%
Other proposals	12,215	9.2%	9,338	76.4%	2,877	23.6%	26.9%

Share by proposal subject



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

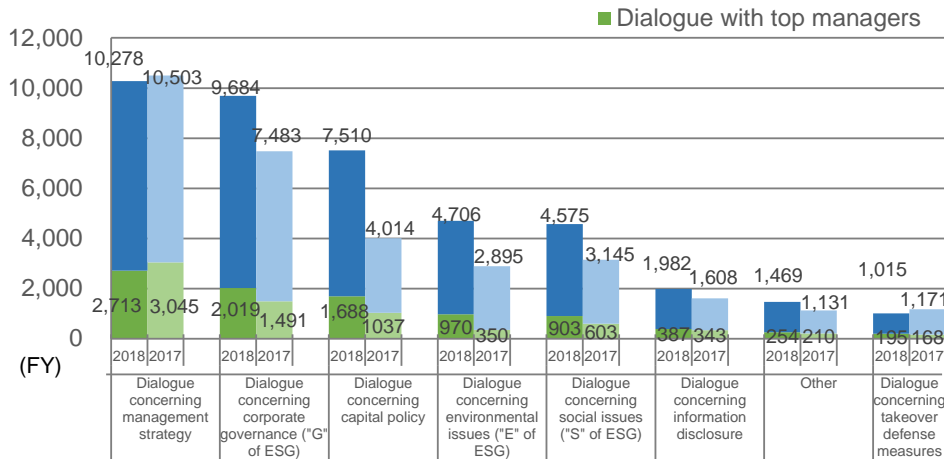


(3) Results of engagement activities (domestic equities)

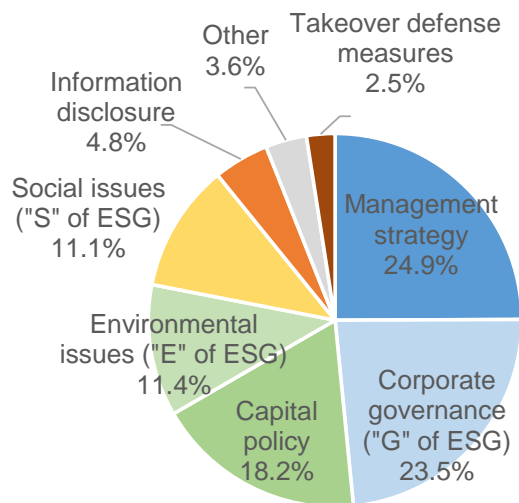
Regarding the Employees' Pension Insurance Benefit Fund, in FY2018, the Associations implemented engagement with a total of 12,490 companies through 26 investment management institutions to which domestic stock investment was entrusted. The number of cases of dialogue was 41,219.

Regarding major subjects of engagement, the number of cases of dialogue concerning management strategy issues came to 10,278, or 24.9% of the total, followed by dialogue concerning corporate governance issues with 9,684 cases (23.5%) and capital policy issues with 7,510 cases (18.2%).

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



Share by dialogue item



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

Regarding the Employees' Pension Insurance Benefit Fund, the Associations exercised voting rights through the 21 investment management institutions entrusted with foreign stock investment, with respect to a total of 18,464 companies which settled accounts between April 2018 and March 31, 2019. The number of proposals for which voting rights were exercised was 159,381.

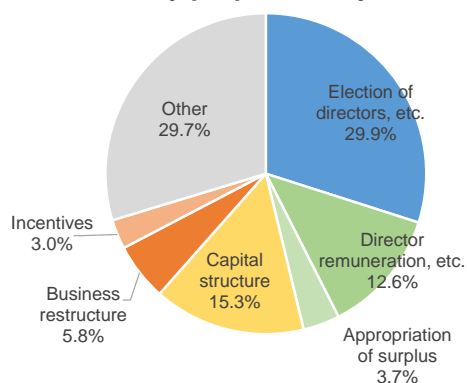
Of the 159,381 proposals, 17,930 (including 3,488 shareholder proposals) were voted against, translating into a vote-against rate of 11.2% (up 0.4 points from the previous year).

The vote-against rate came to 9.1% (up 1.1 points) concerning proposals for election of directors and 13.4% (up 3.0 points) concerning proposals related to director remuneration, etc.

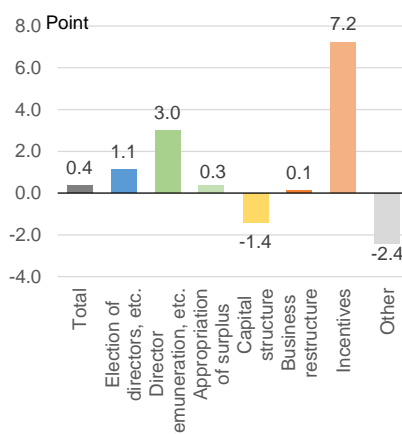
Voting activity (Companies with accounting settlement between April 2018 and March 2019)

Proposal Subject	Total	Composition	Vote for		Vote against		Vote-against rate in the previous year
				Rate		Rate	
Total	159,381	100%	141,451	88.8%	17,930	11.2%	10.9%
c.f. Company Proposal	150,091	94.2%	135,649	90.4%	14,442	9.6%	8.5%
c.f. Shareholder Proposal	9,290	5.8%	5,802	62.5%	3,488	37.5%	44.1%
By Subject	159,381	100%	141,451	88.8%	17,930	11.2%	10.9%
Proposal for election of directors, etc.	47,698	29.9%	43,335	90.9%	4,363	9.1%	8.0%
Director Remuneration, etc.	20,068	12.6%	17,375	86.6%	2,693	13.4%	10.4%
Appropriation of Surplus	5,897	3.7%	5,839	99.0%	58	1.0%	0.6%
Capital Structure	24,408	15.3%	20,847	85.4%	3,561	14.6%	16.0%
Takeover Defense Measures	1,062	0.7%	996	93.8%	66	6.2%	6.7%
Capital Increase or Reduction	8,292	5.2%	5,884	71.0%	2,408	29.0%	23.4%
Third Party Allotment of Shares	3,896	2.4%	3,710	95.2%	186	4.8%	10.5%
Acquisition of Own Shares	5,210	3.3%	4,997	95.9%	213	4.1%	5.4%
Business Restructure	9,254	5.8%	7,985	86.3%	1,269	13.7%	13.6%
Incentives Improvement for Executives	4,737	3.0%	3,390	71.6%	1,347	28.4%	21.2%
Other proposals	47,319	29.7%	42,680	90.2%	4,639	9.8%	12.2%

Share by proposal subject



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



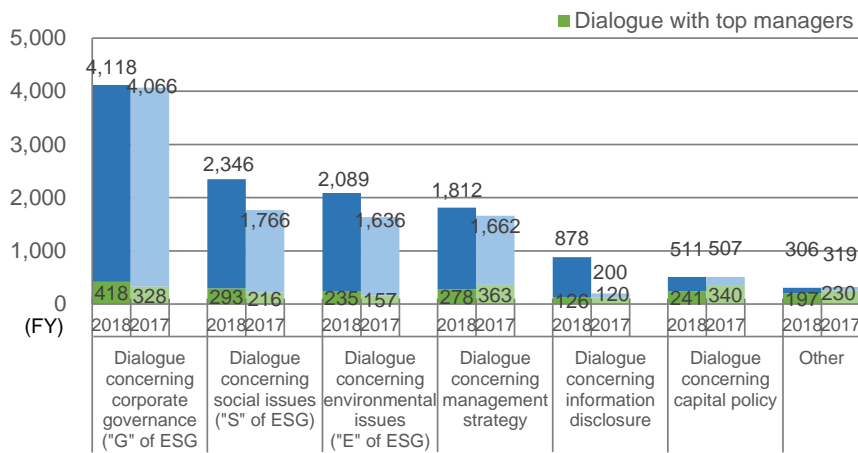
* From the viewpoints of constraints related to the exercise of voting rights and additional cost burden, the exercise of voting rights is limited to 18 countries (the United States, Canada, the United Kingdom, Ireland, Australia, New Zealand, Singapore, Hong Kong, Chile, the Czech Republic, Indonesia,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

(5) Results of engagement activities (foreign equities)

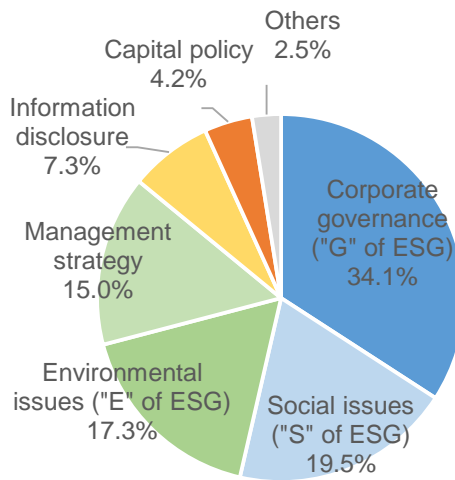
Regarding the Employees' Pension Insurance Benefit Fund, in FY2018, the Associations implemented engagement with a total of 4,921 companies through 18 investment management institutions to which foreign stock investment was entrusted. The number of cases of dialogue was 12,060.

Regarding major subjects of engagement, the number of cases of dialogue concerning corporate governance came to 4,118, or 34.1% of the total, followed by dialogue concerning social issues with 2,346 cases (19.5%) and environmental issues with 2,089 cases (17.3%).

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



Share by dialogue item



(6) ESG investment

■ ESG investment initiative

As the Associations invest 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 Associations believe that they 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 public pension funds 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.

(7) Future initiatives

The Associations 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 Associations will continue to make sure that entrusted investment management institutions' stewardship activity is consistent with the Associations' policies 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.

■ Revision of the Corporate Governance Principles, etc.

The Associations will revise the Corporate Governance Principles, 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 Associations will make appropriate judgment on matters related to dialogue with investee companies and stewardship activity. As part of their efforts to enhance the effectiveness and efficiency of stewardship activity, the Associations will also exchange opinions with other public pension funds, among other activities.

* Excluding the Mutual Aid Association of Prefectural Government Personnel which does not hold equities.

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

■ Approach to selection

The Associations offer public invitations and invite entries under an asset manager registration system. In the selection process, the Associations closely examine investment policies for funds, investment processes and other factors and select investment management

institutions based on a comprehensive evaluation from both quantitative and qualitative aspects while also taking into consideration opinions expressed at a meeting of outside experts.

■ Administration and evaluation of entrusted investment management institutions

The Associations receive 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 Associations conduct a detailed interview concerning the overview of investment results, future investment policy and other matters and also implement monitoring through visits to entrusted investment management institutions.

Furthermore, the Associations annually conduct 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).

Comprehensive evaluation is intended to conduct evaluation from the long-term perspective and from the viewpoint of the role

that each fund is expected to play. Quantitative evaluation mainly assesses the actual excess return after deduction of compensation, the information ratio (the tracking error in the case of passive investment), and the cost performance. Qualitative evaluation assesses the quality of the portfolio investment that cannot be captured by quantitative evaluation and the communications capabilities, investment process and philosophy, portfolio structuring and monitoring, execution of transactions, business management, etc. of entrusted investment management institutions.

The Associations allocate 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 Associations provide an incentive or give 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.

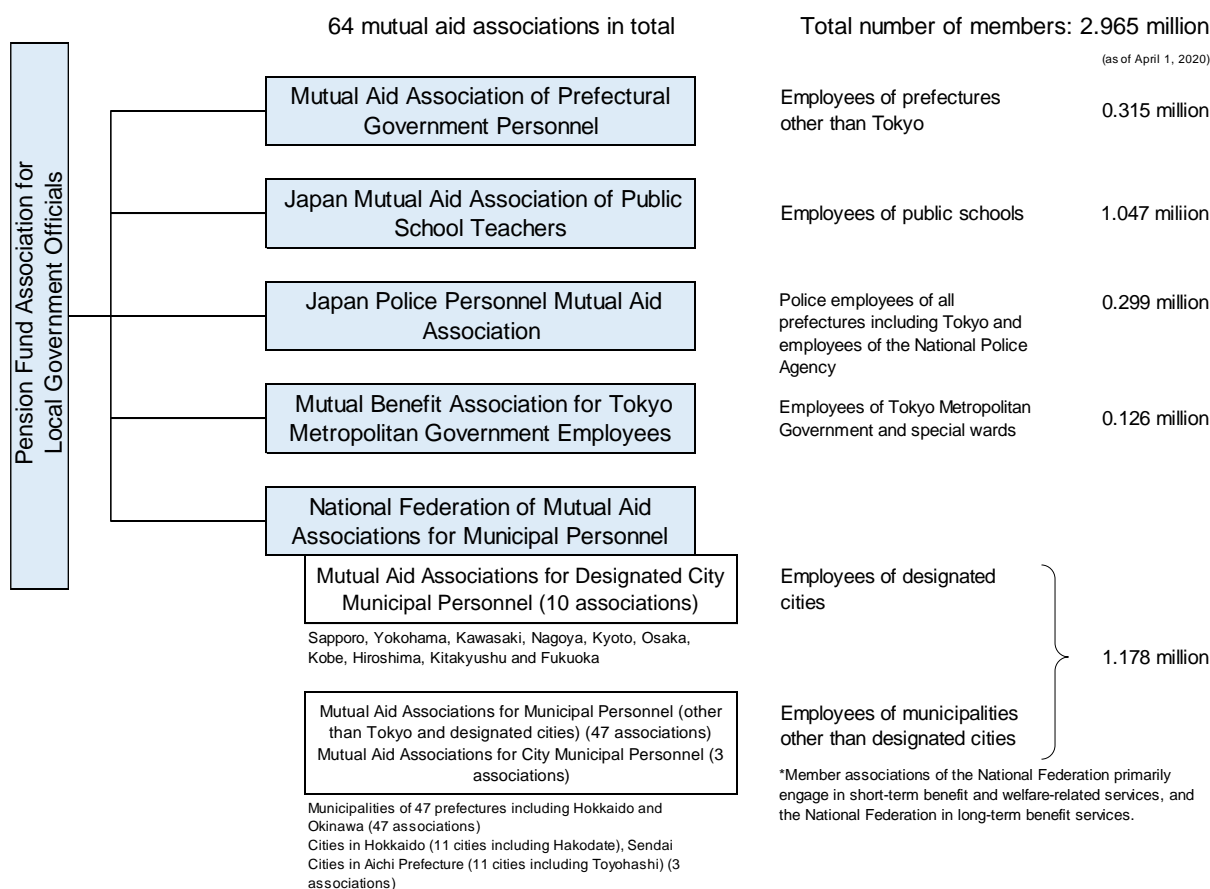
Governance and Fund Management of Local Public Service Mutual Aid Associations

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.

Outline of Local Public Service Mutual Aid Associations



2 Organization

(1) Governing Council

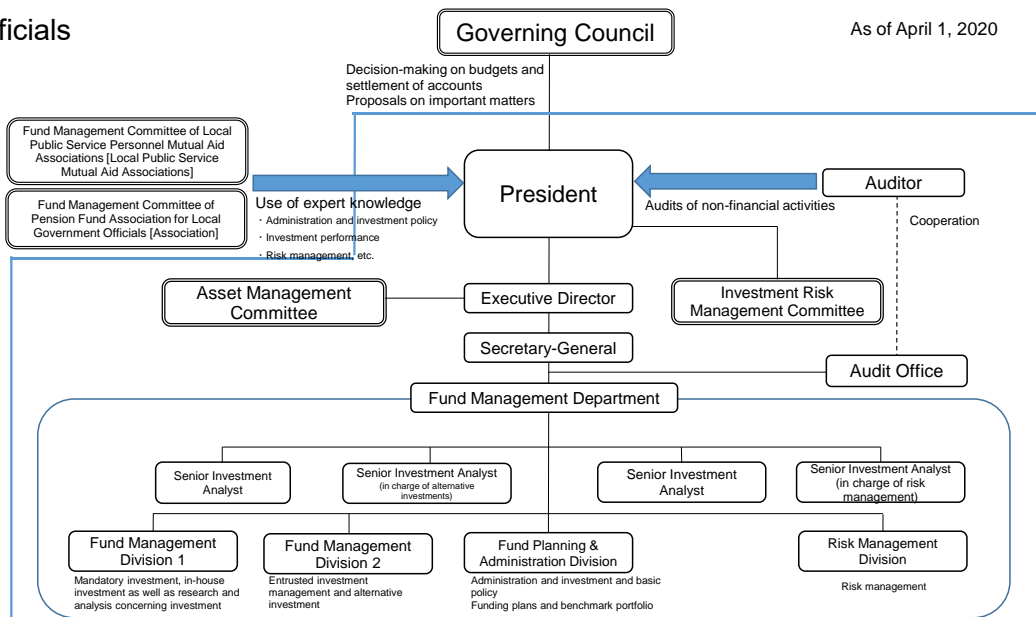
Pursuant to the provisions of the Local Public Officers, etc. Mutual Aid Association Act, the Associations are required to establish a Governing Council. Revision of the articles of incorporation, the formulation and revision of the rules of operations, annual business plans, budgets and account settlement, disposal of

important assets and assumption of significant debt are subject to deliberation by the Governing Council.

The designations, etc. of the governing councils and other committees at the Associations are as follows.

- Governing Council (Articles 6, 7, and 8 of the Local Public Officers, etc. Mutual Aid Association Act)
 - Mutual Aid Association of Prefectural Government Personnel (Prefectural Mutual Aid Secretary Office), Japan Mutual Aid Association of Public School Teachers, Japan Police Personnel Mutual Aid Association
- Governing Council (Articles 38-4 and 38-5 of the Local Public Officers, etc. Mutual Aid Association Act)
 - Pension Fund Association for Local Government Officials
- Associations Committee (Articles 6, 9 and 10 of the Local Public Officers, etc. Mutual Aid Association Act)
 - Mutual Benefit Association for Tokyo Metropolitan Government Employees, Mutual Aid Associations for Designated City Municipal Personnel, Mutual Aid Associations for Municipal Personnel (other than Tokyo and designated cities), Mutual Aid Associations for City Municipal Personnel
- General Committee (Articles 30, 31 and 32 of the Local Public Officers, etc. Mutual Aid Association Act)
 - National Federation
- Management Board of Trustees (Articles 144-5, 144-6 and Article 144-7 of the Local Public Officers, etc. Mutual Aid Association Act)
 - Group Mutual Aid Department of Prefectural Mutual Aid Association

■ (Reference) Governance structure for Pension Fund Association for Local Government Officials



(2) Fund Management Committee of Local Public Service Personnel Mutual Aid Associations

■Outline of Fund Management Committee of Local Public Service Personnel Mutual Aid Associations

To study expert matters pertaining to the administration and investment of funds based on the Basic Policy for Management and Investment of Managed Fund Related to Employees' Pension Insurance Services, the Fund Management Committee of Local Public Service Personnel Mutual Aid Associations has been established, 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 committee can express its opinions on important matters upon request from the

President of the Pension Fund Association for Local Government Officials concerning expert matters related to the administration and investment of each fund.

Secretaries general of the Local Public Service Mutual Aid Associations attend meetings of the committee as observers. In addition, a working group of practitioners from the Local Public Service Mutual Aid Associations established under the committee deliberates matters to be studied by the committee and reports the results to the Fund Management Committee.

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

Hidetaka Kawakita	Kyoto University, Professor Emeritus
Konosuke Kita	Russell Investments Japan Co., Ltd. Executive Consultant/Director, Consulting
Hisae Sato	Trustee, International Christian University
Toshio Serita	Professor, Department of Economics, Aoyama Gakuin 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
Kazuya Nagasawa	Head of North Asia, Managing Director MSCI, Inc.
Masahiro Morimoto	All-Japan Prefectural and Municipal Workers Union General Manager, Central Executive Committee Bureau of Labor
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 model portfolio - Matters concerning formulation and revision of administration and investment policy - Matters concerning formulation and revision of risk management implementation policy - Matters concerning formulation and revision of investment policy for new investment instruments - Other expert Matters concerning the administration and investment of each fund 	<ul style="list-style-type: none"> - Investment performance - Status of risk management - Investment status of new investment instruments - Status of training and nurturing of expert personnel - Other matters required by the Fund Management Committee concerning the administration and investment of each fund

■ Past Meetings of the Fund Management Committee

Meeting number	Meeting date	Main theme
25th Meeting	July 2, 2019	<ul style="list-style-type: none"> • Review of Operations reports concerning administration and investment of individual funds in FY2018 • Status of risk management of individual funds in FY2018 • Examination of the benchmark portfolio of the Annuity Retirement Benefit Fund • Status of the Actuarial Valuation of FY2019
26th Meeting	October 1, 2019	<ul style="list-style-type: none"> • Status of investment of individual funds in the first quarter of FY2019 (Local Public Service Mutual Aid Associations) • Status of risk management of individual funds in the first quarter of FY2019 (Local Public Service Mutual Aid Associations) • Review of the benchmark portfolio
27th Meeting	January 28, 2020	<ul style="list-style-type: none"> • Status of investment of individual funds in the second quarter of FY2019 (Local Public Service Mutual Aid Associations) • Status of risk management of individual funds in the second quarter of FY2019 (Local Public Service Mutual Aid Associations) • Proposed change to the target asset mix of funds (model portfolio) • Review of the benchmark portfolio (proposal)
28th Meeting	March 5, 2020	<ul style="list-style-type: none"> • Status of investment of individual funds in the third quarter of FY2019 (Local Public Service Mutual Aid Associations) • Status of risk management of individual funds in the third quarter of FY2019 (Local Public Service Mutual Aid Associations) • Scope of center value related to the proposed change to the target asset mix of funds (model portfolio) • Deviation tolerance in the benchmark portfolio • Revision to the Management and Investment Policy

(3) Committee of specialists

For expert matters pertaining to the administration and investment of implementing organization funds, including the formulation and revision of basic policy, the Associations utilize and consider expert knowledge of committees of experts comprised of individuals

who possess academic knowledge or practical experience in areas such as economics, finance and fund investments.

The names of the committees of specialists of the Associations are as follows:

Names of associations	Names of committees
Mutual Aid Association of Prefectural Government Personnel	Pension Asset Management Committee
Japan Mutual Aid Association of Public School Teachers	Asset Management Committee
Japan Police Personnel Mutual Aid Association	Study Group on Fund Management Issues, Japan Police Personnel Mutual Aid Association Headquarters
Mutual Benefit Association for Tokyo Metropolitan Government Employees	Study Group on Fund Management
National Federation of Mutual Aid Associations for Municipal Personnel	Fund Management Committee
Pension Fund Association for Local Government Officials	Fund Management Committee of Pension Fund Association for Local Government Officials

3 Investment of funds

(1) Mechanisms

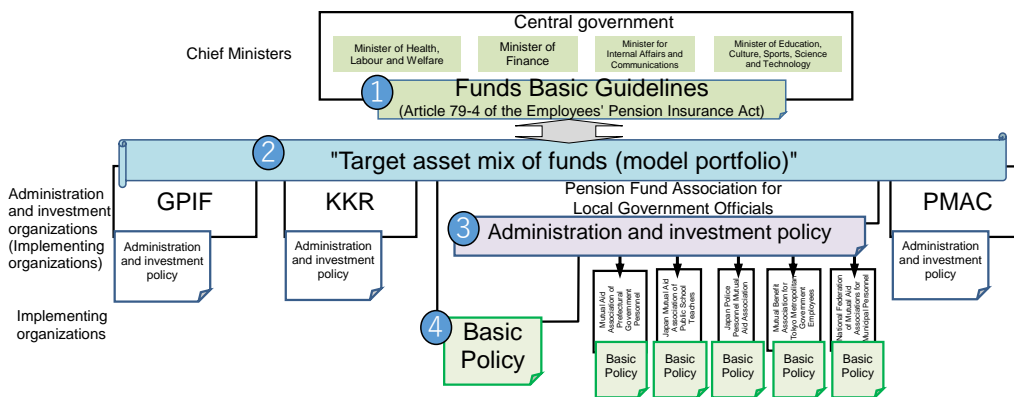
First, the chief ministers, namely the Minister of Health, Labour and Welfare, the Minister of Finance, the Minister for Internal Affairs and Communications, and the Minister of Education, Culture, Sports, Science and Technology, jointly formulate the Basic Guidelines for Ensuring Safe and Efficient 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 Pension Fund Association for Local Government Officials 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 relating to funds in accordance with the administration and investment policy. (④)

【Mechanism of fund investment after the integration】



(2) Basic approach to investment

■Basic policy

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

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

characteristics.

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

