

## **Administration and Investment Policy for the Managed Reserve Fund for Employees' Pension Insurance Schemes**

(Established on October 1, 2015)  
(Revised on July 13, 2018)  
(Revised on March 31, 2020)  
(Last revised on December 24, 2021)

In accordance with Article 79-6, Paragraph (1), of the Employees' Pension Insurance Act (Act No. 115 of 1954; the "Act"), this Administration and Investment Policy is established with the aim of appropriately administering and investing (including the management of investment status of) the Managed Reserve Fund (including implementing organization reserve funds (meaning the implementing organization reserve funds stipulated in Article 79-2, of the Act; the same applies hereinafter) of the local public service mutual aid associations ("Mutual Aid Associations") stipulated in Article 3, Paragraph (1), of the Local Public Service Mutual Aid Association Act (Act No. 152 of 1962; the "Mutual Aid Association Act"), excluding constituent member associations stipulated in Article 27, Paragraph (2), of the Mutual Aid Association Act; the same applies hereinafter) and the National Federation of Mutual Aid Associations for Municipal Personnel (the "Municipality Association"), for which the investment status is managed by the Pension Fund Association for Local Government Officials (the "Association"); the same applies hereinafter), as well as serving as standards to be observed by the Implementing Organizations (meaning Mutual Aid Associations, the Municipality Association, and the Association; the same applies hereinafter) in deciding the asset mix of their respective implementing organization reserve funds from the long-term perspective under Article 112-3, Paragraph (3), of the Mutual Aid Association Act in order to meet the fund basic guidelines stipulated in Article 79-4, Paragraph (1), of the Act and in line with the asset mix target for funds (the "Model Portfolio") stipulated in Article 79-5, Paragraph (1), of the Act as follows.

### **I Basic policy for administering and investing the Managed Reserve Fund**

#### **1. Basic policy concerning the Managed Reserve Fund**

##### **(1) Basic policy**

Especially keeping in mind that the Managed Reserve Fund is part of insurance premiums collected from insured persons of the Employees' Pension Insurance ("EPI") and valuable resources for funding future pension benefits, the Association shall invest the Managed Reserve Fund with the objective of contributing to the stable operation of EPI schemes in the future by investing it safely and efficiently "solely for" ("for" in the case of investing in line with the objectives of the Mutual Aid Association Act under Article 79-3, Paragraph (3), of the Act) the interests of insured persons of the EPI from the long-term perspective.

In addition, the Association administers and manages the Managed Reserve Fund in accordance with the Basic Guidelines for the Safe and Efficient Administration and Investment of the Reserve Funds from the Long-Term Perspective (July 2014 Notification No. 1 of the Ministry of Internal Affairs and Communications (MIC), Ministry of Finance (MOF), Ministry of Education, Culture, Sports, Science and Technology (MEXT) and the Ministry of Health, Labour and Welfare (MHLW); the “Fund Basic Guidelines”).

Accordingly, on the basis of diversifying investments in multiple assets that differ in risk/return and other characteristics (“Diversified Investment”), the Administration and Investment Organizations (meaning the Government Pension Investment Fund (GPIF), the Federation of National Public Service Personnel Mutual Aid Associations, the Association, and the Promotion and Mutual Aid Corporation for Private Schools of Japan; the same applies hereinafter) jointly establish the Model Portfolio, and, in reference to the Model Portfolio, the Association administers and invests the Managed Reserve Fund by establishing an asset mix from the long-term perspective (the “Benchmark Portfolio”).

(2) Investment target, risk management, etc.

(i) Investment target

In consideration of the current status and outlook of public finances stipulated in Article 2-4, Paragraph (1), of the Act and Article 4-3, Paragraph (1), of the National Pension Act (Act No. 141 of 1959), the Association shall manage the investment of the Managed Reserve Fund appropriately by establishing the Benchmark Portfolio in order to generate necessary real investment returns for reserve funds (meaning investment returns less nominal wage increases) with the lowest risk, while maintaining necessary liquidity for providing insurance benefits, etc.

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

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

Appropriate market indicators shall be used for benchmarks, considering, among other factors, whether their structure reflects the market; whether they consist of investable securities, and whether details of the indicators are disclosed.

(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 Managed Reserve Fund including the development and revision of the Administration and Investment Policy.

(iii) Risk management in administering and investing the Managed Reserve Fund

Based on reports from the Implementing Organizations (excluding the Association), the Association shall administer and invest the Managed Reserve Fund and conduct risk management on the investment status of the overall assets, Implementing Organizations, 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 Managed Reserve Fund from the Benchmark Portfolio at least monthly.

Also, the Association shall enhance necessary functions such as for understanding and analyzing market trends in order to conduct appropriate and smooth rebalancing.

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 composite benchmark return (meaning benchmark return of each asset class weighted by portfolio; the same applies hereinafter) of each fiscal year.

B Implementing Organizations

The Association shall confirm deviations of other Implementing Organizations’ asset mix from their respective Benchmark Portfolio and from the Benchmark Portfolio of the Managed Reserve Fund at least monthly.

Furthermore, the Association shall confirm other Implementing Organizations’ risks, analyze and assess the degree of risk-taking, and conduct, among other things, analysis of factors for deviations from the composite benchmark return of each fiscal year.

C Asset class

The Association shall manage market risk, liquidity risk, credit risk and the like of each asset class. For foreign assets, country risk shall be closely watched as well.

(iv) Diversification of investments

In order to facilitate Diversified Investment, alternative investment and other diversification efforts shall be made.

Investment in new assets shall be examined based on generally accepted expert knowledge on fund management with appropriate monitoring by the Fund Management Committee—for example, through deliberation of the investment policy at the Fund Management Committee in advance and timely reporting on the implementation status and other matters requested by the Fund Management Committee—on the assumption that the benefits of diversified investment are found; sufficient grounds are obtained to back expectations for generating excessive income; and investment risk management structures are in place for making such investment.

In doing so, steady improvement in the assets' ability to generate returns, the existence of the secondary market and other market environment factors shall be fully taken into consideration, given that nontraditional assets have many differences compared with traditional assets in terms of risks and other aspects based on their marketability, ability to generate returns, individuality, transaction costs, information disclosure status and the like, which cannot be managed simply by enhancing investor side capabilities.

## **2. Basic policy for implementing organization reserve funds**

In order to appropriately administer and invest the Managed Reserve Fund, Implementing Organizations shall appropriately administer and invest their respective implementing organization reserve funds as below.

(1) Basic policy

Especially keeping in mind that implementing organization reserve funds are part of insurance premiums collected from insured persons of EPI and valuable resources for funding future pension benefits, Implementing Organizations shall invest the reserve funds with the objective of contributing to the stable operation of EPI schemes in the future by investing them safely and efficiently “solely for” (“for” in the case of investing in line with the objectives of the Mutual Aid Association Act under Article 79-3, Paragraph (3), of the Act) the interests of insured persons of the EPI from the long-term perspective.

To this end, each Implementing Organization shall set forth Benchmark Portfolios based on Diversified Investment and administer and invest implementing organization reserve funds.

In order to appropriately administer and invest implementing organization reserve funds, Implementing Organizations shall establish a basic policy for administering and investing implementing organization reserve funds (“Basic Policy”) that describes, among other matters, the asset mix of the reserve funds in accordance with the Fund Basic Guideline and the Administration and Investment Policy

(collectively the “Administration and Investment Policy, etc.”) and publicly announce it, and Implementing Organizations (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, Implementing Organizations shall review and, if necessary, revise their Basic Policy, and Implementing Organizations (excluding the Association) shall send it to the Association.

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

The Association shall receive investment reports (meaning “investment reports” stipulated in Article 112-6, Paragraph (1), of the Mutual Aid Association Act) from other Implementing Organizations, and the Association may also request other Implementing Organizations to report on the administration and investment status of their implementing organization reserve funds.

In addition, if the Association finds that another Implementing Organization’s status of administering and investing its implementing organization reserve funds does not meet the Administration and Investment Policy, etc., the Association shall request the Implementing Organization to take necessary measures so that the status will meet the Administration and Investment Policy, etc.

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

(i) Investment target

In order to generate investment returns targeted for the Managed Reserve Fund, each Implementing Organization shall establish the Benchmark Portfolio and appropriately manage investment of its implementing organization reserve funds.

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

In addition, Implementing Organizations shall strive to earn the benchmark returns for overall assets and each asset class for each fiscal year, as well as to generate the benchmark returns for overall assets and each asset class over the long term, by, among other means, appropriately selecting, managing, and evaluating entrusted investment management institutions.

Appropriate market indicators shall be used for benchmarks, taking into consideration whether their structure reflects the market, whether they consist of investable securities, whether details of the indicators are disclosed, and whether they are consistent with benchmarks of the Managed Reserve Fund.

(ii) Use of Implementing Organization’s Expert Meeting

Implementing Organizations 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

implementing organization reserve funds, including the development and revision of the Basic Policy.

(iii) Risk management in administering and investing implementing organization reserve funds

Implementing Organizations shall manage various types of risks associated with the administration and investment of implementing organization reserve funds by conducting Diversified Investment as the basis of risk management.

Also, Implementing Organizations shall administer and invest implementing organization reserve funds by entrusting them to investment management institutions and asset management institutions, investing in group pure endowment policies of life insurance companies, and conducting in-house investment. Based on, among other things, reports from such entrusted investment management institutions, asset management institutions and life insurance companies, Implementing Organizations shall conduct risk management by the methods listed below for overall assets, each asset class, each entrusted investment management institution, asset management institution and life insurance company, and in-house investment. Regarding this risk management, Implementing Organizations 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, Implementing Organizations shall identify deviations of the asset mix of implementing organization reserve funds from their respective Benchmark Portfolio at least monthly and take necessary actions. In addition, Implementing Organizations shall identify deviations of the asset mix of implementation organization reserve funds from the Benchmark Portfolio of the Managed Reserve Fund at least monthly.

Also, Implementing Organizations shall enhance necessary functions such as for understanding and analyzing market trends in order to conduct appropriate and smooth rebalancing.

Furthermore, Implementing Organizations 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 composite benchmark return of each fiscal year.

B Asset class

Implementing Organizations shall manage market risk, liquidity risk, credit risk and the like of each asset class. For foreign assets, country risk shall be closely watched as well.

- C Entrusted investment management institutions  
Implementing Organizations shall present investment guidelines and benchmarks to each entrusted investment management institution, understand the investment and risk-taking status of the institution, and manage them appropriately.  
Also, caution shall be exercised for any changes to investment structures.
- D Asset management institutions  
Implementing Organizations shall present asset management guidelines to each asset management institution, understand the asset management status of the institution, and manage them appropriately.  
In addition, Implementing Organizations shall manage the credit risk of each organization and pay attention to any changes to its asset management structures.
- E Life insurance companies  
Implementing Organizations shall understand the business management status and asset management status of each insurer and manage it appropriately.
- F In-house investment  
Implementing Organizations shall establish their respective investment guidelines, and manage appropriately by checking the investment status, risk-taking status, and the like.
- (iv) Investment methods  
Implementing Organizations, in principle, shall employ both passive and active investment approaches, except for cases such as cashing out, and based on this, aim to generate excess returns through active investment. However, active investment shall be conducted upon deliberation at the Expert Meeting on fund selection standards on the assumption that risk selection is reasonable with sufficient grounds to back the expectations for excess returns, also taking into consideration the past investment performance. In addition, its transparency shall be ensured under appropriate monitoring by the Expert Meeting by, for example, timely reporting on matters requested by the Expert Meeting.  
With respect to benchmarks, not only traditional capitalization weighted indexes but also use of new benchmarks from the perspective of improving investment returns shall be examined.  
Also, Implementing Organizations shall strive to enhance the selection and management of entrusted investment management institutions by reviewing investment methods for generating returns and improving investment efficiency with the use of more appropriate benchmarks and conducting proper

performance management. Implementing Organizations shall also evaluate investment performance on a regular basis and review entrusted investment management institutions in a timely manner, covering fund allocations.

In addition to leveraging the competent knowhow of entrusted investment management institutions, the use of in-house investment to the extent permissible under the laws shall be examined in consideration of investment cost reductions and accumulation of investment knowledge, experience, and the like.

(v) Diversification of investments

In order to facilitate Diversified Investment, Implementing Organizations shall consider making alternative investment and other diversification efforts.

Investment in new assets shall be examined based on generally accepted expert knowledge on fund management with appropriate monitoring by the Expert Meeting--for example, through deliberation on the investment policy at the Expert Meeting in advance and timely reporting on the implementation status and other matters requested by the Expert Meeting--on the assumption that Diversified Investment benefits are found; sufficient grounds are obtained to back expectations for generating excessive income; and investment risk management structures are in place for making such investment.

In doing so, steady improvement in the assets' ability to generate returns, the existence of a secondary market, and other market environment factors shall be fully taken into consideration, given that nontraditional assets have many differences compared with traditional assets in terms of risks and other aspects based on their marketability, ability to generate returns, individuality, transaction costs, information disclosure status, and the like, which cannot be managed simply by enhancing investor side capabilities.

In addition, in evaluating nontraditional assets, evaluation methods shall be clarified based on generally accepted expert knowledge on asset administration and investment.

(vi) Flexible investment

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

When conducting the Flexible Investment, its investment policy shall be deliberated at the Expert Meeting and the implementation status shall be reported in a timely manner to the Expert Meeting.

(vii) Investment considering non-financial elements



With respect to the investment of implementing organization reserve funds, Implementing Organizations 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 insured persons.

(viii) Pooled investment

Implementing Organizations may deposit implementing organization reserve funds with the Association for investment management.

If any Implementing Organization deposits its implementing organization reserve funds with the Association, the Association shall appropriately administer and invest the funds 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 Managed Reserve Fund**

### **1. Fiduciary responsibility**

The Association and other Implementing Organizations 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 Managed Reserve Fund and implementing organization reserve funds, in light of market size, the Association and other Implementing Organizations shall strive not to be excessively impacted by the market and 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.

Also, Implementing Organizations shall pay attention to the following points so as not to impact the business management of private sector companies.

- (i) Establish limits on holdings of securities issued by a single company for each entrusted investment management institution (including in-house investment).
- (ii) In consideration of the impact on corporate management, do not select individual issues in equity investment.

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

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

term.

If Implementing Organizations individually direct the exercise of voting rights, they shall give instructions so that entrusted institutions will exercise them in accordance with the direction. In the case of not individually directing the exercise of voting rights, Implementing Organizations shall have entrusted institutions exercise voting rights in accordance with the guideline on exercising shareholder voting rights established by each Implementing Organization in line with the intent of the corporate governance principles established by the Implementing Organization. Also, Implementing Organizations shall request entrusted institutions to report on, among other things, the status of exercising voting rights.

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

Furthermore, each Implementing Organization shall consider exchanging opinions with other Implementing Organizations, other Administration and Investment Organizations, and the like, as well as having a forum for that as necessary in order to assist appropriate decision-making in association with dialogues with investee companies and stewardship activities. In such case, the Association shall conduct necessary coordination to promote the opinion exchanges.

#### **4. Securing liquidity for pension benefits**

Based on the outlook of pension financing and the profit and loss status, the Association and other Implementing Organizations 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.

#### **5. Coordination between the Association and other Administration and Investment Organizations**

The Association shall strive to cooperate by coordinating with each other, such as by providing necessary information to other Administration and Investment Organizations.

## **6. Coordination between the Association and other Implementing Organizations**

The Association shall provide other Implementing Organizations 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 Implementing Organizations and conduct information exchange and communication/coordination with other Implementing Organizations 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 Implementing Organizations.

In addition, the Association and other Implementing Organizations shall cooperate by coordinating with each other with respect to investment operations of organization reserve funds by, for example, providing necessary information.

## **III Matters concerning asset mix from the long-term perspective in administering and investing the Managed Reserve Fund**

### **1. Establishing the Model Portfolio**

The Association shall establish the Model Portfolio jointly with other Administration and Investment Organizations. The Model Portfolio shall be an asset mix that is in line with the investment target, and established from the long-term perspective, taking into consideration generally accepted expert knowledge on asset administration and investment, as well as economic trends in and outside Japan, based on forward-looking risk analyses (forward-looking by relying not only on past data but also future economic outlooks [e.g., interest rates, inflation]). The establishment of the Model Portfolio shall be reported to the Governing Council upon deliberation at the Fund Management Committee, and its relationships with Benchmark Portfolios established by other Administration and Investment Organizations in reference to the Model Portfolio shall be examined.

### **2. Reviewing the Model Portfolio**

If the Association finds it necessary in cases where the current status and outlook of public finances are developed by the government or where the investment environment assumed at the time of establishing the Model Portfolio deviates from reality, the Association shall review the Model Portfolio jointly with other Administration and Investment Organizations and change it as necessary. Any change to the Model Portfolio shall be reported to the Governing Council upon deliberation at the Fund Management Committee. Verifications on such matters as whether the investment environment assumed at the time of establishing the Model Portfolio deviates from reality or not shall be conducted at least when it is considered necessary in regular verification of the Benchmark Portfolio.

### **3. Basic Principle of the Benchmark Portfolio**

The Benchmark Portfolio shall be established from the long-term perspective in consideration of generally accepted expert knowledge on asset administration and investment as well as economic trends inside and outside Japan, based on forward-looking risk analyses. The Benchmark Portfolio shall demonstrate independence and ingenuity, having an asset mix and deviation tolerance in line with the investment target while ensuring the unity of EPI operations based on the Model Portfolio.

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

#### 4. Benchmark Portfolio

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

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

	Domestic bonds	Domestic stocks	Foreign bonds	Foreign stocks
Asset mix	25 %	25 %	25 %	25 %
Deviation tolerance	± 20%	± 12 %	± 9 %	± 11 %

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

Alternative assets (nontraditional assets such as infrastructure, private equity and real estate; the same applies hereinafter) are classified into domestic bonds, domestic stocks, foreign bonds and foreign stocks according to risk/return and other characteristics, and capped at 5% of the overall assets.

#### 5. Benchmarks

Benchmarks for respective asset classes are as follows.

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

#### 6. 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 where 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 in establishing the asset mix for implementing organization 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, the following shall be observed.

- (i) The Benchmark Portfolio shall be established from the long-term perspective in consideration of generally accepted expert knowledge on asset administration and investment as well as economic trends in and outside Japan, based on forward-looking risk analyses, in compliance with the Administration and Investment Policy, having an asset mix and deviation tolerance in line with the investment targets. Implementing Organizations shall report the establishment of the Benchmark Portfolio to the Governing Council upon deliberation at the Expert Meeting.
- (ii) Implementing Organizations shall establish the asset mix and deviation tolerance of the Benchmark Portfolio in the Basic Policy within the asset mix and deviation tolerance of the Benchmark Portfolio of the Managed Reserve Fund stipulated in III-4.
- (iii) Alternative assets shall be managed by classifying them into domestic bonds, domestic stocks, foreign bonds, and foreign stocks according to risk/return and other characteristics and capped at 5% of the overall assets.
- (iv) Exceeding the deviation tolerance is allowed during the period up to the transition to the Benchmark Portfolio established.
- (v) Implementing Organizations may conduct Flexible Investment. In such case, the assumption shall be that an outlook on the market environment is provided with a high degree of accuracy and investment is made based on the outlook.
- (vi) Implementing Organizations shall appropriately manage risks based on market trends, regularly verify the Benchmark Portfolio and, if it is considered necessary in cases where 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 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.

- (vii) If an Implementing Organization has difficulty in earning investment returns set as investment targets and maintaining investment within the asset mix and deviation tolerance of the Benchmark Portfolio due to reasons such as providing benefits, the Implementing Organization may be subject to different treatment regardless of I-2-(2)-(i) and above (ii) upon individual consultation with the Association. In such case, the reasons shall be clarified in the Basic Policy of the Implementing Organization.

## **V Other necessary matters concerning appropriate administration and investment of the Managed Reserve Fund**

### **1. Enhancing transparency**

#### **(1) Administration and Investment Organizations**

Regarding the administration and investment of the Managed Reserve 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 the status of entrusted investment management institutions at Implementing Organizations, as well as fund investment methods, including newly adding investment assets at Implementing Organizations, administration and investment entrustment fees, process/result of selecting entrusted investment management 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. Also, the Association shall examine ideal ways of information disclosure and publicity activities for the public, responding to the diversification, sophistication, and internationalization of investment, and enhance them accordingly.

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) Implementing Organizations**

Regarding the administration and investment of implementing organization reserve funds, Implementing Organizations 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. Also,

Implementing Organizations shall examine ideal ways of information disclosure and publicity activities for the public, responding to the diversification, sophistication, and internationalization of investment, and enhance them accordingly.

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

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

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

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

The Association and other Implementing Organizations 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) Administration and Investment Organizations**

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) Implementing Organizations**

Each Implementing Organization shall establish necessary risk management systems.

In addition, in light of conducting Flexible Investment, among other things, each Implementing Organization 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 Implementing Organizations 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 Implementing Organizations 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 Implementing Organizations. 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.

Supplementary Provisions

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

Supplementary Provisions

This Administration and Investment Policy comes into force from July 13, 2018.

Supplementary Provisions

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

Supplementary Provisions

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

**[DISCLAIMER]**

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