

Basic Policy for Employees' Pension Insurance Benefit Adjustment Fund

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In accordance with Article 112-4, Paragraph (1) of the Local Public Service Mutual Aid Association Act (Act No. 152 of 1962; the "Act"), for the appropriate administration and investment of the employees' pension insurance ("EPI") benefit adjustment fund (meaning funds set aside as implementing organization reserve funds (meaning implementing organization reserve funds stipulated in Article 79-2 of the Employees' Pension Insurance Act (Act No. 115 of 1954; the "EPI Act"); the same applies hereinafter) at the Pension Fund Association for Local Government Officials (the "Association") under Article 38-8, Paragraph (1), of the Act; the same applies hereinafter) in compliance with the Fund Basic Guidelines stipulated in Article 79-4, Paragraph (1), of the EPI Act as well as the administration and investment policy established by the Association under the provisions of Article 79-6, Paragraph (1), of the EPI Act and Article 112-3, Paragraph (3), of the Act ("Administration and Investment Policy, etc."), the basic policy on the administration and investment of the EPI benefit adjustment fund (the "Basic Policy") is set forth as follows.

I Basic policy on the administration and investment of the EPI benefit adjustment fund

1 Basic policy

Especially keeping in mind that the EPI benefit adjustment fund is part of insurance premiums collected from insured persons of the EPI and valuable resources for funding future pension benefits, the reserve funds shall be managed 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 Act under Article 79-3, Paragraph (3), of the EPI Act) the interests of insured persons of the EPI from the long-term perspective.

Accordingly, the EPI benefit adjustment fund is administered and invested with an asset mix established from the long-term perspective (the "Benchmark Portfolio") based on diversifying investments in multiple assets that differ in terms of risk/return and other characteristics ("Diversified Investment").

2 Investment target

Investment of the EPI benefit adjustment fund shall be managed appropriately, in consideration of the current status and outlook of public finances stipulated in Article 2-4, Paragraph (1), of the EPI Act and Article 4-3, Paragraph (1), of the National Pension Act

(Act No. 141 of 1959), in order to generate necessary real investment returns for the reserve funds (meaning investment returns less nominal wage increases) with the lowest risk while maintaining necessary liquidity for providing insurance benefits, etc. by establishing the Benchmark Portfolio.

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

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

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

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

4 Fund management plan

(1) Annual fund management plan

An annual fund management plan for the management of the EPI benefit adjustment fund shall be created before the beginning of every fiscal year.

The annual fund management plan shall include the following:

A Outlook for profit/loss and the EPI benefit adjustment fund

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

B Outlook for cash flows

- (A) Closing balance
- (B) Expected revenues
 - a Paid-in money from associations
 - b Bond principal and interest
 - c Financial adjustment contributions received
 - d Other revenues
- (C) Expected expenditures
 - a Employees' pension insurance contributions
 - b Financial adjustment contributions
 - c Grants to associations

- d Money transferred to the administration accounting
 - e Mandatory investment
 - f Voluntary investment (in-house investment)
 - g Voluntary investment (entrusted investment)
 - h Other expenditures
- (D) Balance brought forward or closing balance

C Investment plan

(A) Mandatory investment

Acquisition of municipal bonds or bonds issued by the Japan Finance Organization for Municipalities

(B) Voluntary investment

- a In-house investment
- b Entrusted investment

- (a) Specified money trust, specified comprehensive trust, individually operated designated money trust and individually operated designated comprehensive trust
- (b) Group pure endowment insurance

(2) Quarterly fund management plan

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

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

5 Risk Management

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

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

(1) Overall assets

In order to appropriately manage the Benchmark Portfolio, check the asset mix of the

EPI benefit adjustment fund for any deviations from the Benchmark Portfolio at least monthly, and take necessary actions. In addition, check the EPI benefit adjustment fund's asset mix for any deviations from the Benchmark Portfolio of the Managed Reserve Fund (including implementing organization reserve funds of associations (local public service mutual aid associations stipulated in Article 3, Paragraph (1), of the Act excluding 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, for which the investment status is managed by the Association; the same applies hereinafter) at least monthly.

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

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

(2) Asset class

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

(3) Entrusted investment management institutions

Understand and appropriately manage the investment and risk-taking status of each entrusted investment management institution by presenting an investment guideline to each entrusted investment management institution (the "Investment Guideline"). Also, exercise caution for any changes to investment structures.

(4) Asset management institutions

Present a guideline on asset management to each asset management institution (the "Asset Management Guideline"), understand the asset management status of each institution, and manage it appropriately.

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

(5) Life insurance companies

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

(6) Mandatory and in-house investments

Establish a guideline on investment (the "In-house Investment Guideline"), and manage risks appropriately by checking the investment and risk-taking status.

6 Investment methods

(1) Basic approach

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

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

(2) Specific investment methods

A Mandatory investment

In accordance with Article 11-10-3 of the Regulation for Enforcement of the Local Public Service Mutual Aid Association Act (Order of the Ministry of Home Affairs No. 20 of 1962), the entrustment of asset management in the case of management by acquisition of municipal bonds or bonds issued by the Japan Finance Organization for Municipalities shall be conducted as follows:

(A) The management of mandatory investment assets may be entrusted to asset management institutions. The asset management institutions are required to observe the following items and the Asset Management Guideline:

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

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

B In-house investment

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

(A) Types

- a Long-term investment
 - (a) Basic approach

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

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

(b) Investment assets

Investment assets shall be the following yen-denominated securities.

- (i) Government bonds
- (ii) Municipal bonds
- (iii) Bonds issued by corporations under special laws (limited to those with a government guarantee)
- (iv) Bonds rated A or above by any of the rating agencies stipulated in the Appended Table (the "Rating Agencies"). With respect to unrated bonds, bonds of an issuer rated A or above by any of the Rating Agencies may be included in investment assets.

(c) Administration and management considerations

(i) Diversified Investment

In the case of acquiring bonds other than government bonds, municipal bonds, and bonds issued by corporations under special laws (limited to those with a government guarantee), the amount of investments in bonds issued by a single issuer shall not exceed 10% of the in-house investment assets.

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

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

(iii) Structured bonds

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

b Short-term investment

(a) Basic approach

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

(b) Investment assets

Investment assets shall include short-term government bonds, treasury discount bills, deposits, negotiable certificates of deposits and commercial

papers (including repurchase agreements) rated A or above by any of the Rating Agencies and the MMF.

c Lending to other accounting

Lending to other accounting shall be made in accordance with what is provided for separately by the Association. However, no lending shall be made to the retirement pension benefits adjustment accounting and the transitional long-term benefits adjustment accounting.

(B) Financial institutions

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

(C) Entrustment of asset management

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

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

C Entrustment of investment management in the form of trust

The items below shall be observed for entrusted investments in specified money trusts and specified comprehensive trusts under discretionary investment management contracts with investment advisory firms, as well as individually operated designated money trusts and individually operated designated comprehensive trusts by banks engaged in trust services. The Association shall have entrusted investment management institutions and asset management institutions administer and invest funds in accordance with this Policy.

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

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

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

(B) Matters to be observed in investment management

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

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

a General matters

(a) Standards Asset Mix

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

(b) Registration of investment style

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

(c) Thorough risk management

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

(d) Establishment of legal compliance frameworks

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

(e) Investment considerations

Entrusted investment management institutions must consider the following points when making investments.

(i) In addition to investing upon sufficient research and analysis, diversify investments appropriately. With respect to assets denominated in foreign currencies, select countries and currencies, giving full consideration to political and economic stability, as well as characteristics of the market, such as settlement systems, trading regulations and tax systems.

(ii) When putting individual blocks of issues in the portfolio, liquidity must be fully considered.

(iii) When acquiring domestic stocks, domestic bonds (excluding government bonds, municipal bonds, and bonds issued by corporations under special laws (limited to those with a government guarantee), foreign stocks and foreign bonds (excluding government bonds of Manager Benchmark constituent countries), investments in a single issuer must be capped at 10% of the market value of the asset class. However, this shall not apply to cases in which the market value weighting of individual stocks in Manager Benchmarks has exceeded the cap; the excess is due to the characteristics of investment methods; or there are other rational reasons that make it difficult to observe the aforementioned limits. If the cap is exceeded as such, it must be reported to the Association.

(iv) Pay utmost attention to market impacts and other similar factors when trading, making best efforts to avoid incurring unnecessary costs.

- (v) When placing an order with the parent company, or the parent group's or its own group's securities firms and their overseas subsidiaries, they must be reported.
 - (vi) When selecting securities firms and other trading partners, pay sufficient consideration to their creditworthiness, among other factors, and report their transaction track record.
- (f) Derivatives transactions
- With respect to the handling of securities, currency and interest rate futures, forward exchange contracts, index futures or options, or currency or interest rate swaps ("Derivatives Transactions"), entrusted investment management institutions must pay attention to the following points:
- (i) Derivatives Transactions are conducted with the aim of temporary hedging price fluctuation risk in underlying assets, such as stocks, bonds and foreign exchange rates ("Sell Hedging") and temporary substituting underlying assets ("Buy Hedging"). Hedging should not be used for speculative purposes. However, Derivatives Transactions may be conducted for purposes other than Sell Hedging or Buy Hedging in accordance with the provisions of the Investment Guideline presented by the Association.
 - (ii) With respect to notional principals of Derivatives Transactions for the purposes of Sell Hedging or Buying Hedging, they should be, in the case of net Sell Hedging, within the underlying assets that are currently held or to be held in the future for certain and, in the case of net Buy Hedging, within the surplus fund currently held or to be held in the future for certain.
- b Domestic bonds
- (a) Investment assets shall be the following yen-denominated bonds.
- (i) Government bonds
 - (ii) Municipal bonds
 - (iii) Bonds issued by corporations under special laws (limited to those with a government guarantee)
 - (iv) Corporate bonds rated BBB or above by any of the Rating Agencies
 - (v) Securities or certificates issued by foreign governments or foreign corporations and rated BBB or above by any of the Rating Agencies
 - (vi) Of specified bonds provided for in Article 2, Paragraph (7), of the Act of Securitization of Assets (Act No. 105 of 1998), those rated BBB or above by any of the Rating Agencies
 - (vii) Of investment corporation bonds provided for in Article 2, Paragraph (19), of the Act on Investment Trust and Investment Corporation (Act No. 198 of 1951), those rated BBB or above by any of the Rating Agencies
 - (viii) Of bonds issued by corporations under special laws (excluding those listed in (iii), (vi) and (vii)), those rated BBB or above. Also, pursuant

to the Investment Guideline presented by the Association, unrated bonds may be included in investment assets if the issuer or guarantee institution of the bonds is rated BBB or above by any of the Rating Agencies

- (b) Except for bonds listed in (i) through (iii) of (a) above, bonds whose ratings by all the Rating Agencies fall below the ratings stipulated in (iv) through (viii) of (a) above after acquisition, necessary measures, such as selling, shall be taken with full consideration given to credit risk of the issuer and other factors.
- c Domestic stocks
Investment assets shall be stocks listed on domestic securities exchanges (including REIT securities).
- d Foreign bonds
 - (a) Investment assets shall be bonds denominated in foreign currencies that meet the following conditions (i) and (ii).
 - (i) Bonds denominated by currencies that are constituents of Manager Benchmarks. Also, pursuant to the provisions of the Investment Guidelines presented by the Association, investments may be made in bonds denominated in currencies that are not constituents of Manager Benchmarks.
 - (ii) Bonds rated BBB or above by any of the Rating Agencies (including unrated bonds whose issuer or guarantee institution is rated BBB or above by any of the Rating Agencies). However, investments may be made in bonds below this rating in accordance with the provisions of the Investment Guideline presented by the Association if a reasonable ground exists, with full consideration given to the credit risk of the issuer and other factors.
 - (b) For bonds which satisfy the conditions set forth in (a)-(i) and the first sentence of (a)-(ii) above, if the ratings by all the Rating Agencies fall below the ratings stipulated in the first sentence of (a)-(ii) above after acquisition, necessary actions, such as selling, shall be taken with full consideration given to the credit risk of the issuer and other factors. However, bonds below this rating made be held in accordance with the provisions of the Investment Guideline presented by the Association if a reasonable ground exists, with full consideration given to the credit risk of the issuer and other factors.
- e Foreign stocks
Of listed issues on foreign securities exchanges or the OTC market, investment assets shall be constituent stock issues (including REIT securities) of Manager Benchmarks or stocks issued by companies of Manager Benchmark constituent countries (including REIT securities), and shall be denominated in currencies of Manager Benchmark constituent countries. Also, in accordance with the provisions of the Investment Guideline

presented by the Association, investments may be made in other issues, depositary receipts and the like.

f Bonds with new share acquisition rights

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

g Hedged assets denominated in foreign currencies

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

h Nontraditional assets (alternative assets)

Nontraditional assets (alternative assets), such as infrastructure, private equity and real estate, shall not be treated as an independent asset class, and shall be categorized into domestic bonds, domestic stocks, foreign bonds or foreign stocks according to the risk/return and other characteristics. Also, investments shall be made after determining that they are appropriate as investment assets based on the results of examination in section 7 below.

(C) Asset management considerations

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

(D) Reporting on investment status

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

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

(E) Other reports

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

D Investment in group pure endowment insurance

(A) Life insurer selection criteria

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

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

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

(C) Insurance policy cancellation

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

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

A Selection of entrusted investment management institutions

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

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

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

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

B Selection of asset management institutions

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

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

(B) Asset management status is favorable.

(C) A structure for complying with laws and regulations is in place.

C Evaluation of entrusted investment management institutions

Entrusted investment management institutions shall be evaluated comprehensively through both qualitative and quantitative assessments.

(A) Quantitative assessment

In addition to their excess return against Manager Benchmarks and indicators that incorporate the magnitude of risks taken to achieve the excess return, entrusted investment management institutions are assessed by other methods appropriate for their investment styles.

(B) Qualitative assessment

In addition to the investment quality of their portfolios and communication skills, entrusted investment management institutions shall be assessed by other methods appropriate for their investment styles.

D Evaluation of asset management institutions

Asset management institutions shall be evaluated in a timely manner through

qualitative assessment with respect to their asset administration status and structures for complying with laws and regulations, and their competence shall be determined.

E Addition and reduction of entrusted amount

Any addition to the entrusted amount or reduction of the amount, including contract cancellation, shall be made in the following cases.

(A) The addition or reduction is based on the evaluation results in C.

(B) Adjusting the asset composition of the Association as a whole due to a significant deviation from the Benchmark Portfolio

(C) Making adjustments upon considering the diversification of investment styles or other similar aspects

If any entrusted investment management institution is found to have violated laws and regulations, contracts, the Investment Guideline, or the like or any significant investment issue occurs, timely actions shall be taken upon considering such options as reducing the entrusted amount (including cancellation of the contract with the entrusted investment management institution) and revising the Investment Guideline.

7 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 Committee—for example, through deliberation on the investment policy at the Committee in advance and timely reporting on the implementation status and other matters requested by the Committee—on the assumption that Diversified Investment benefits are found; sufficient grounds are obtained to back expectations for generating excess returns; 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 only 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.

8 Flexible investment

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

and investment is made by stipulating the investment policy in advance based on the outlook.

When establishing the aforementioned investment policy, it shall be deliberated at the Committee and the implementation status shall be reported in a timely manner to the Committee.

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

9 Investment considering non-financial elements

With respect to the investment of the EPI benefit adjustment fund, the necessary initiatives shall be implemented, based on a case-by-case analysis, with a view to promoting investment considering non-financial elements including ESG (Environmental, Social, and Governance) in addition to financial elements based on the approach that the sustainable growth of investee companies and the entire market is necessary for the increase of return on investment portfolio over long time so as to secure long-term return for the benefit of insured persons.

10 Pooled investment

Part of the EPI benefit adjustment fund may be deposited to the employee pension insurance deposit accounting for investment.

II Matters to be observed in administering and investing the EPI benefit adjustment fund

1 Ensuring fiduciary responsibility

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

2 Consideration to impact on the market and private sector activities

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

3 Actions to fulfill stewardship responsibility

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

If the Association individually directs exercise of voting rights, it shall give instructions so that entrusted institutions will exercise them in accordance with the direction. In the

case of not individually directing exercise of voting rights, the Association shall have entrusted institutions exercise voting rights in accordance with the Guidelines for Exercising Shareholders' Voting Rights established by the Association in line with the intent of the Corporate Governance Principles established by the Association. Also, the Association shall request entrusted institutions to report on, among other things, the status of exercising voting rights.

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

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

Furthermore, in order to assist appropriate decision-making in association with dialogues with investee companies and stewardship activities, the Association shall consider exchanging opinions with other implementing organizations, other administration and investment organizations (the Government Pension Investment Fund, the Federation of National Public Service Personnel Mutual Aid Associations and the Promotion and Mutual Aid Corporation for Private Schools of Japan) and the like as well as having a forum for that as necessary.

4 Securing liquidity for expenditures

Based on the outlook of pension financing and the profit and loss status, the Association shall secure liquidity (e.g., cash) necessary for employees' pension contributions, fiscal adjustment contributions, grants to associations, and the like, and conduct cash management efficiently.

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

5 Coordination with other 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 gained.

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

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

1 Basic approach to the Benchmark Portfolio

The Benchmark Portfolio, which shall meet the Administration and Investment Policy, etc. and have an asset mix and deviation tolerance in line with the investment targets, shall be established from the long-term perspective in consideration of generally accepted expert knowledge on asset administration and investment as well as economic trends in and outside Japan, based on forward-looking risk analyses.

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

2 Benchmark Portfolio

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

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

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

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

Alternative assets are classified into domestic bonds, domestic stocks, foreign bonds and foreign stocks according to the risk/return and other characteristics, and capped at 5% of the overall assets.

3 Benchmarks

Benchmarks for the respective asset classes are as follows.

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

4 Review of the Benchmark Portfolio

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

IV Other necessary matters concerning appropriate administration and investment of the EPI benefit adjustment fund

1 Enhancing transparency

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

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

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

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

2 Retaining and leveraging highly skilled and specialized talents

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

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

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

3 Strengthening risk management

Necessary risk management systems shall be established.

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

4 Enhancing research and study operations

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

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

(Appended Table) Rating Agencies

- 1 Rating and Investment Information, Inc.
- 2 Japan Credit Rating Agency, Ltd.
- 3 S&P Global Ratings
- 4 Fitch Ratings Ltd.
- 5 Moody's Investors Service, Inc.

Supplementary Provisions

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

Supplementary Provisions

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

Supplementary Provisions

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

Supplementary Provisions

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

Supplementary Provisions

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

[DISCLAIMER]

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