

Fiscal Year 2016

Review of Operations Abridged Version

(Local Public Service Mutual Aid Associations)



地方公務員共済組合連合会

Pension Fund Association for Local Government Officials

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* Review of Operation is an overview of the administration and investment of the Local Public Service Mutual Aid Associations.

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

Market Environment

Fiscal Year 2016 Market Environment ① (Domestic Bonds)

① Domestic Bond Market

The yield on the 10-year government bond stayed at around -0.10% from the beginning of fiscal year 2016 because of the effects of the Quantitative and Qualitative Monetary Easing with a Negative Interest Rate, which was announced by the Bank of Japan (BOJ) on January 29, 2016 (applied from February 16 of the year), but it declined to around -0.30% in July amid expectations for additional monetary easing by the BOJ. However, following the BOJ's announcement of a plan to conduct a comprehensive assessment of the economic conditions in late July, the yield rose as uncertainty grew over the future course of the monetary policy, and afterwards, it mostly stayed range-bound between -0.10% and 0.00%.

In September, the yield rose before falling back as various speculations over the possibility of additional monetary easing circulated ahead of a Monetary Policy Meeting. After a new framework of monetary policy (Quantitative and Qualitative Monetary Easing with Yield Curve Control) was announced, the yield rose temporarily but stayed at around -0.05% thereafter as the effects of the BOJ's policy change filtered through the market.

After the U.S. presidential election in November, the Japanese yield went up in line with a rise in U.S. interest rates and stayed close to 0.05% around the turn of the year. After the beginning of 2017, the yield declined at times due to concerns over European political risks related to the announcement of the United Kingdom's decision to go ahead with withdrawal from the EU (Brexit) and the French presidential election. However, the yield remained range-bound as the yield decline was moderated by concerns about possible reduction of government bond purchases by the BOJ.

On a fiscal year basis, the yield on the 10-year government bond rose (the bond price dropped) from -0.03% at the end of the previous fiscal year to 0.07% at the end of the current fiscal year.



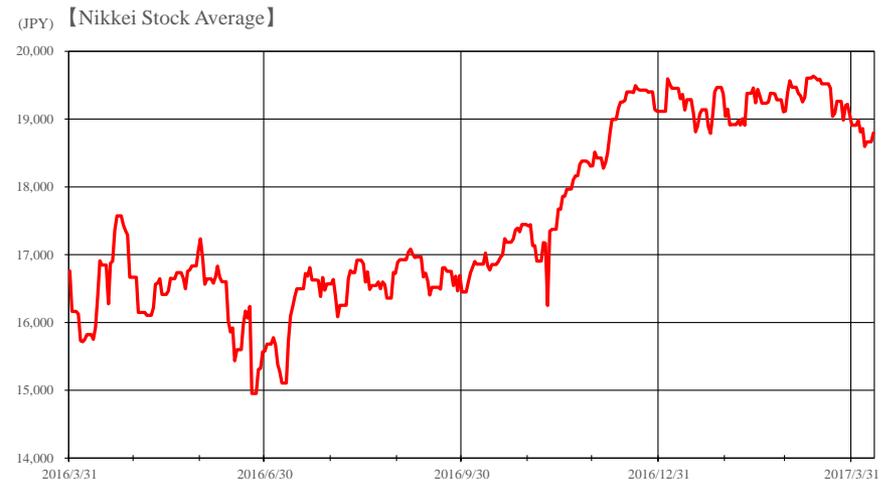
Fiscal Year 2016 Market Environment ② (Domestic Equities)

② Domestic Equity Market

Domestic equity prices rose early in the fiscal year amid expectations for additional monetary easing by the BOJ but dropped steeply after the BOJ decided in late April to keep its policy unchanged. The domestic equity market stayed weak in May and later as the yen appreciated, and it declined steeply in response to the outcome of the U.K. referendum on Brexit in June, sending the TOPIX equity index (TOPIX without dividends) down to around 1,200 points at one time. Afterwards, domestic equity prices rebounded and remained mostly range-bound in the summer and later. Although equity prices plunged temporarily after Donald Trump was elected in the U.S. presidential election in November, the market staged a sharp rebound as the yen depreciated rapidly against the dollar.

After the beginning of 2017, domestic equity prices rose at times due to such factors as expectations for the economic policies promoted by the Trump administration, the strong performance of U.S. and European economic indicators and equity price rises in the United States and Europe. However, toward the end of the fiscal year, domestic equity prices declined slightly as expectations for the Trump administration's economic policies receded and concerns over European political risks grew.

On a fiscal year basis, the TOPIX equity index (TOPIX without dividends) went up from 1,347.20 points at the end of the previous fiscal year to 1,512.60 points at the end of the current fiscal year.



Fiscal Year 2016 Market Environment ③ (Foreign Bonds)

③ Foreign Bond Market

The yield on the 10-year U.S. Treasury bond mostly stayed flat from the beginning of the fiscal year, but in response to the outcome of the U.K. referendum on Brexit in June, it declined steeply, falling to as low as 1.4% temporarily, as risk aversion grew. Later, the yield rose moderately in response to the strong performance of U.S. economic indicators. After the election of Donald Trump in the U.S. presidential election in November, the yield surpassed 2.6% in mid-December as the view prevailed that inflation would accelerate. After the beginning of 2017, the yield stayed directionless due to a mix of various factors, including expectations for the economic policies promoted by the Trump administration, expectations for an early interest rate hike by the Federal Reserve Board and uncertainty over the political situation in Europe.

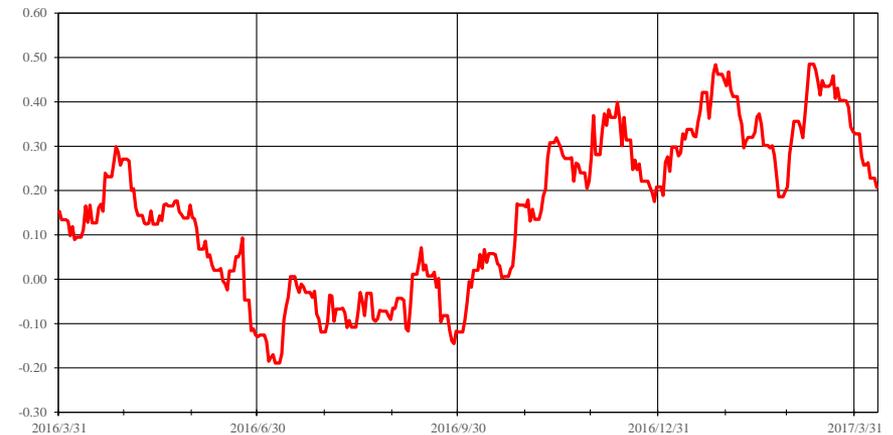
As for European bonds (German government bonds) as well, the yield declined (bond price rose) as risk aversion grew in relation to the U.K. referendum on Brexit in June. The yield temporarily rebounded in July and then remained directionless due to such factors as uncertainty over the political situation in Europe and speculation over the possible rollback of the European Central Bank's (ECB's) quantitative monetary easing.

On a fiscal year basis, the yield on the 10-year U.S. Treasury bond rose (bond price dropped) from 1.77% at the end of the previous year to 2.39% at the end of the current year. The yield on the 10-year German government bond increased (the bond price dropped) from 0.15% at the end of the previous fiscal year to 0.33% at the end of the current fiscal year.

【10-year US Treasury Bond Yield】



【10-year German Government Bond Yield】



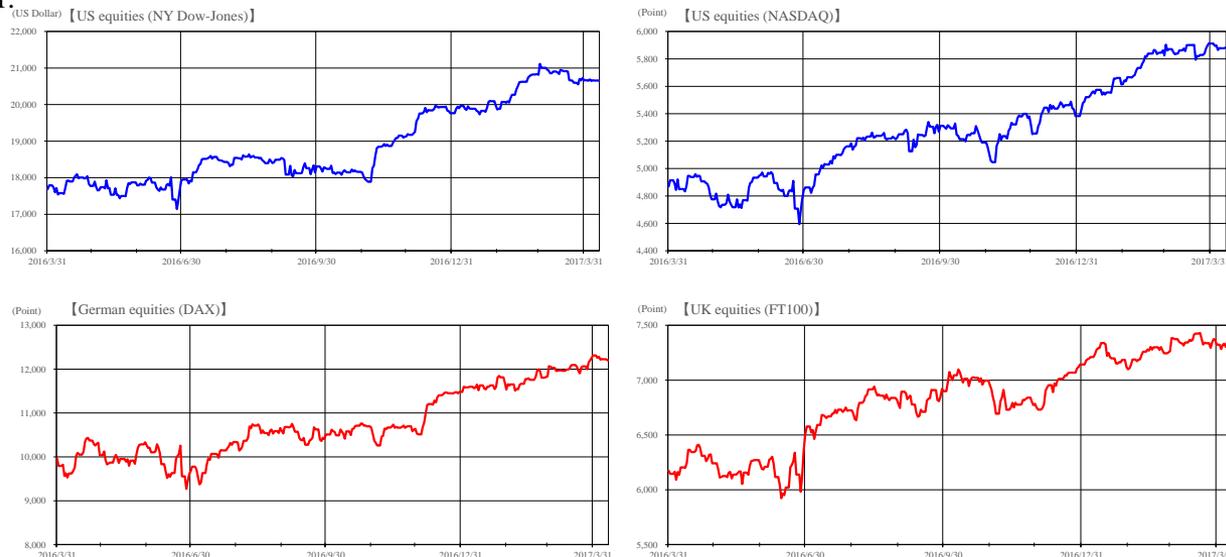
Fiscal Year 2016 Market Environment ④ (Foreign Equities)

④ Foreign Equity Market

The U.S. equity market mostly stayed flat from the beginning of the fiscal year, but in response to the outcome of the U.K. referendum on Brexit in June, it fell steeply. Later, New York's Dow average (the Dow Jones industrial average) soon rebounded as the market welcomed an improvement in the employment situation, but it mostly stayed range-bound between 18,000 and 18,500. After the U.S. presidential election in November, equity prices surged amid expectations for the incoming administration's economic policies, including tax reduction and infrastructure investment. Afterwards, the equity price upsurge subsided, with the Dow average remaining mixed at around 20,000. After the beginning of 2017, equity prices got back on an uptrend due to the strong performance of U.S. economic indicators and expectations for the economic policies promoted by the Trump administration, among other factors.

The German DAX index fell below 9,300 points as uncertainty over the political situation in Europe grew in response to the outcome of the U.K. referendum on Brexit in June. After temporarily rebounding, the DAX index remained directionless for a while. However, after the U.S. presidential election in November, it rose amid expectations for the incoming U.S. administration's economic policies. After the beginning of 2017, the DAX index went up in tandem with a rise in U.S. equity prices as the extreme uncertainty over the political situation in Europe receded because of a victory won by the ruling party in the Dutch election to the lower house of parliament.

On a fiscal year basis, New York's Dow average rose from 17,685.09 at the end of the previous fiscal year to 20,663.22 at the end of the current fiscal year. The German DAX index increased from 9,965.51 points at the end of the previous fiscal year to 12,312.87 points at the end of the current fiscal year.



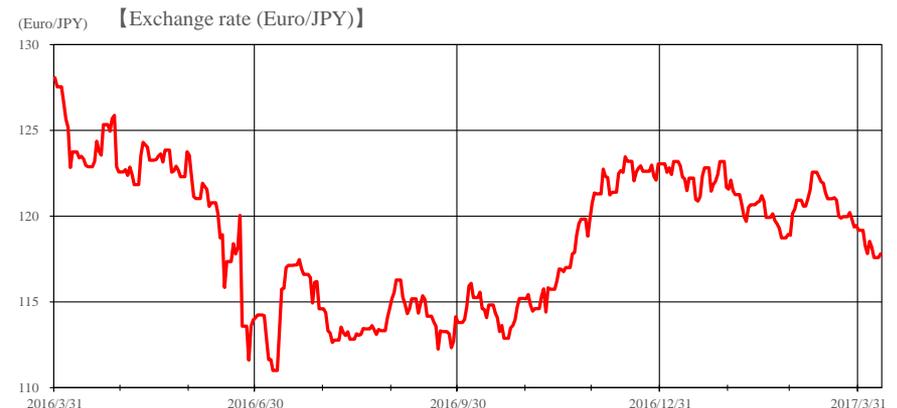
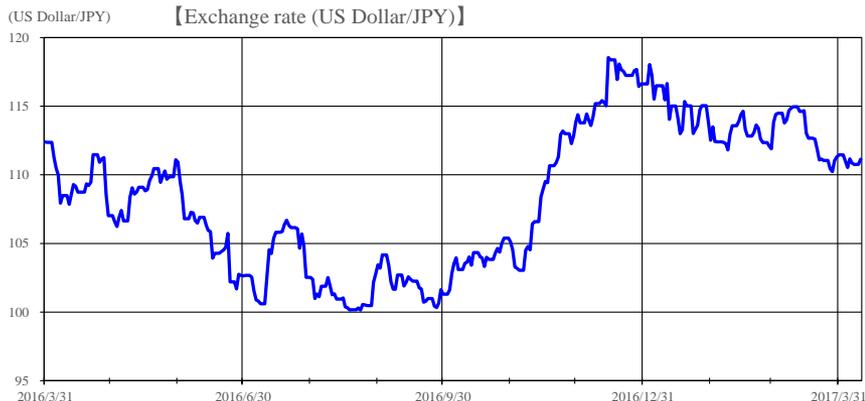
Fiscal Year 2016 Market Environment ⑤ (Foreign Exchange)

⑤ Foreign Exchange Market

In dollar/yen exchange trading, the yen stayed strong against the dollar due to disappointment at the BOJ's decision in late April not to introduce an additional monetary easing measure, among other factors. The yen appreciated further in response to the outcome of the U.K. referendum on Brexit in June. Later, the yen depreciated temporarily as speculation over the possibility of an additional interest rate hike in the United States grew, but the exchange rate mostly stayed range-bound between 100 yen and 105 yen per dollar. After the long-term U.S. interest rate rose steeply following the U.S. presidential election in November, the yen depreciated rapidly against the dollar, with the dollar rising to the 118-yen range toward the end of the year. After the beginning of 2017, the yen appreciated against the dollar through the end of the current fiscal year against the backdrop of a protectionist stance indicated by President Trump, warnings issued by him against a strong dollar, and uncertainty over the political situation in Europe related to the French presidential election.

As for the euro/yen exchange rate, the yen stayed strong against the euro from the beginning of the fiscal year due to the BOJ's decision in late April not to introduce an additional monetary easing measure and uncertainty over Brexit. In response to the outcome of the U.K. referendum on Brexit in June, the yen significantly appreciated against the euro. Afterwards, the exchange rate remained mixed at around 115 yen per euro. However, after the U.S. presidential election in November, the yen depreciated against the euro as interest rates rose more moderately in Japan than in Europe. After the beginning of 2017, the yen appreciated against the euro due to increased uncertainty over the political situation in Europe related to the French presidential election and speculation over the possible rollback of the ECB's quantitative monetary easing.

On a fiscal year basis, the dollar-yen exchange rate came to 111.46 yen per dollar at the end of the current fiscal year compared with 112.39 yen per dollar at the end of the previous fiscal year. The euro-yen exchange rate stood at 119.18 yen per euro at the end of the current fiscal year compared with 128.07 yen per euro at the end of the previous fiscal year.



Employees' Pension Insurance Benefit Fund

Fiscal Year 2016 Investment Results (Overview)

Investment return: +4.75% *Return (market value basis)
(FY2016) (+2.24% *Realized return (book value basis))

Investment income: +¥910.2 billion *Investment income
(FY2016) (market value basis)
(+¥394.5 billion *Realized income (book value basis))

Value of investment assets: ¥20,047.8 billion
(End of FY2016)

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 each term, it should be kept in mind that it includes valuation gains/losses, which means it may change depending on market movements.

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

(Note 2) The return and income represent figures after the deduction of fees, etc. settled within the relevant period.

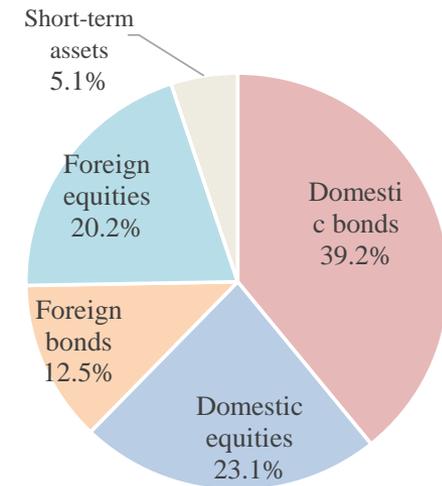
(Note 3) Realized income represents the sum of trading profits/losses and interest and dividend income, etc.

Fiscal Year 2016 Asset Mix

(Unit: %)

	FY2015	FY2016			
	End of FY	End of Q1	End of Q2	End of Q3	End of FY
Domestic bonds	45.2	46.8	44.0	40.4	39.2
Domestic equities	19.2	20.4	21.1	23.0	23.1
Foreign bonds	11.9	12.1	11.7	12.6	12.5
Foreign equities	16.4	17.1	17.3	19.5	20.2
Short-term assets	7.3	3.7	6.0	4.4	5.1
Total	100.0	100.0	100.0	100.0	100.0

Composition by Investment Asset Class (as of end of FY2016)



(Note 1) Concerning the benchmark portfolio, the share in the mix is 35% for domestic bonds ($\pm 15\%$), 25% for domestic equities ($\pm 14\%$), 15% for foreign bonds ($\pm 6\%$) and 25% for foreign equities ($\pm 12\%$) (The figures in the parentheses represent deviation tolerances).

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

(Note 3) Starting in fiscal year 2016, 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 pension funds is 0.1% (the upper limit for the benchmark portfolio is 5%).

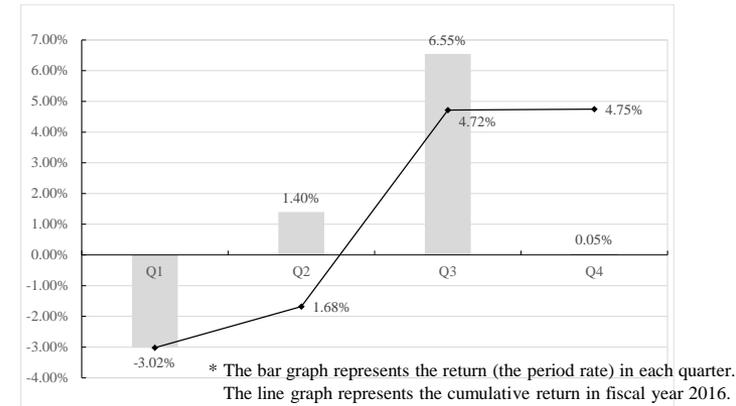
(Note 5) Group pure endowment insurance is included in domestic bonds.

Fiscal Year 2016 Investment Return

- The return (market value basis) in fiscal year 2016 came to 4.75% due to such factors as a rise in domestic and foreign equity prices. The realized return (book value basis) was 2.24%.
- By asset class, the return (market value basis) was -0.67% for domestic bonds, 14.79% for domestic equities, -5.29% for foreign bonds and 14.66% for foreign equities.

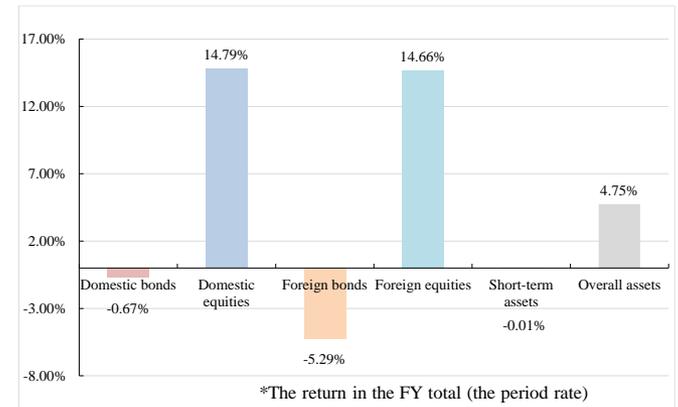
(Unit: %)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Return (market value basis)	-3.02	1.40	6.55	0.05	4.75
Domestic bonds	1.61	-1.16	-0.93	-0.32	-0.67
Domestic equities	-7.01	6.70	14.63	0.67	14.79
Foreign bonds	-8.21	-0.51	7.50	-3.59	-5.29
Foreign equities	-7.71	3.79	16.60	2.42	14.66
Short-term assets	-0.02	0.00	0.00	0.00	-0.01



(Unit: %)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Realized return (book value basis)	0.62	0.28	0.62	0.72	2.24



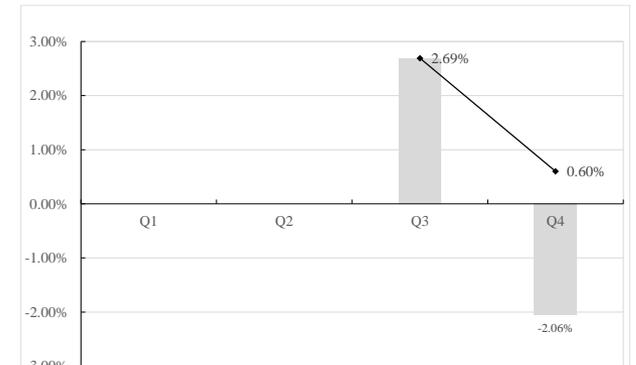
(Note 1) The return in each quarter is the period rate.

(Note 2) The return represent figures after the deduction of fees, etc. settled within the relevant period.

(Reference) Fiscal Year 2015 Investment Return

(Unit: %)

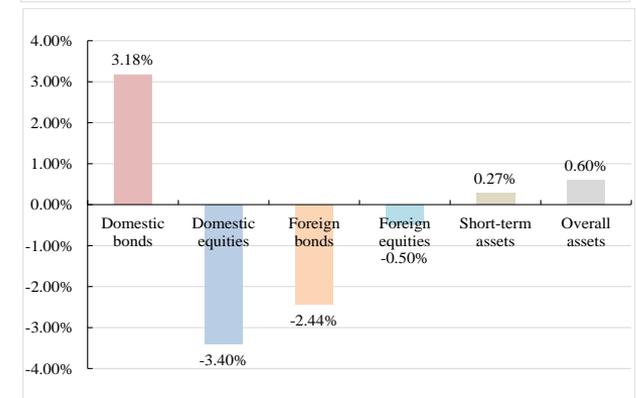
	FY2015				
	Q1	Q2	Q3	Q4	FY total
Return (market value basis)			2.69	-2.06	0.60
Domestic bonds			0.69	2.55	3.18
Domestic equities			9.60	-11.38	-3.40
Foreign bonds			-1.33	-1.13	-2.44
Foreign equities			5.26	-4.97	-0.50
Short-term assets			0.55	-0.27	0.27



* The bar graph represents the return (the period rate) in each quarter.
The line graph represents the cumulative return after October of fiscal year 2015.

(Unit: %)

	FY2015				
	Q1	Q2	Q3	Q4	FY total
Realized return (book value basis)			1.03	0.64	1.67



*The return in the FY total (the period rate)

(Note 1) The above figures represent the returns since October 2015, when the pensions systems were integrated into the Employees' Pension Insurance System.

(Note 2) The figures for the Q3 and Q4 represent the period rates. The figures for "FY total" represent the period rates in the second half of fiscal year 2015.

(Note 3) The return represent figures after the deduction of fees, etc. settled within the relevant period.

(Note 4) The return (market value basis) represents the realized return (book value basis) adjusted for the effects of changes in valuation gains/losses based on market value.

Contribution Analysis of the Excess Return by Asset Class ①

○ The return (market value basis) for overall assets was 4.75%, while the excess return was -1.39%.

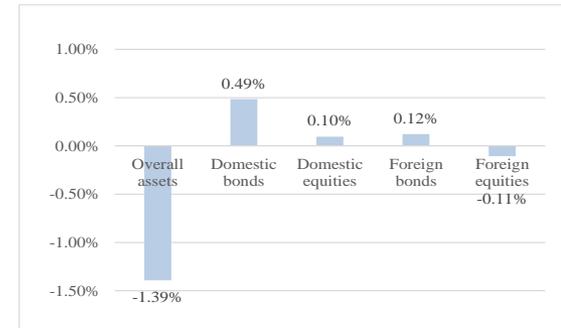
The excess return due to the asset allocation factor was negative (-1.43%) against the backdrop of a fall in domestic bond prices and a rise in equity prices because the actual portfolio was overweight in domestic bonds and underweight in domestic and foreign equities compared with the benchmark portfolio. The excess return due to the individual asset factor was positive (0.19%) mainly because the excess return on domestic bonds exceeded the benchmark return.

FY2016 (April 2016 through March 2017)

	Overall assets	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Return (market value basis)	4.75%	-0.67%	14.79%	-5.29%	14.66%
Benchmark return *	6.14%	-1.15%	14.69%	-5.41%	14.77%
Excess return	-1.39%	0.49%	0.10%	0.12%	-0.11%

* 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.

Excess return



	Asset allocation factor ①	Individual asset factor ②	Other factor (including errors) ③	①+②+③
Domestic bonds	-0.62%	0.17%	-0.04%	-0.49%
Domestic equities	-0.28%	0.02%	-0.04%	-0.30%
Foreign bonds	0.34%	0.02%	-0.03%	0.33%
Foreign equities	-0.59%	-0.03%	-0.03%	-0.64%
Short-term assets	-0.28%	0.00%	-0.01%	-0.28%
Total	-1.43%	0.19%	-0.14%	-1.39%

(Reference) Deviation of the actual portfolio from the benchmark portfolio in terms of the asset mix (as of the end of FY2016)

	Local Public Service Mutual Aid Associations	Benchmark Portfolio	Deviation
Domestic bonds	39.2%	35.0%	4.2%
Domestic equities	23.1%	25.0%	-1.9%
Foreign bonds	12.5%	15.0%	-2.5%
Foreign equities	20.2%	25.0%	-4.8%
Short-term assets	5.1%		5.1%
Total	100.0%	100.0%	0.0%

- (i) Asset allocation factor: A factor that is attributable to the difference in terms of the asset allocation between the benchmark portfolio, which is the standard for the calculation of the composite benchmark, and the actual portfolio.
- (ii) Individual asset factor: A factor that is attributable to the difference between the actual and benchmark returns concerning each asset class, which may arise depending on the level of investment expertise.
- (iii) Other factor (including errors): A factor combining elements of the asset allocation and individual asset factors and calculation errors.

Contribution Analysis of the Excess Return by Asset Class ②

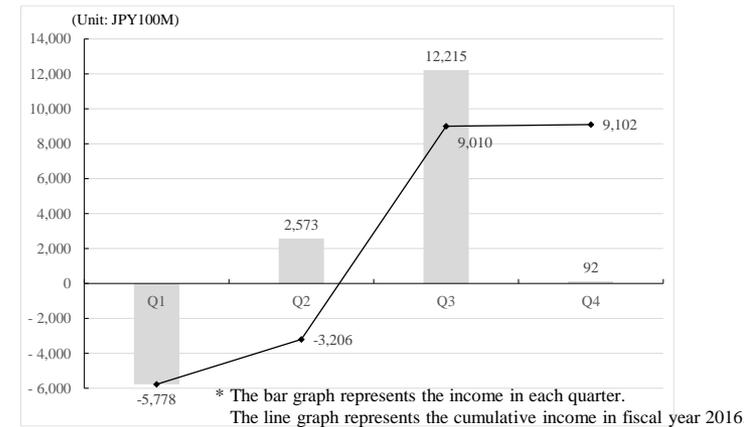
- Overall assets: The return (market value basis) for overall assets was 4.75%, while the excess return was -1.39%.
The excess return due to the individual asset factor was positive mainly because the excess return on domestic bonds exceeded the benchmark return. Meanwhile, the actual portfolio was overweight in domestic bonds and underweight in domestic and foreign equities compared with the benchmark portfolio although the deviation of the actual portfolio from the benchmark portfolio was reduced compared to the end of FY2015. Against the backdrop of a rise in U.S. interest rates after the U.S. presidential election in the second half of the year, domestic bond prices declined and equity prices rose, and as a result, the excess return was negative mainly because of the negative contributions from the asset allocation factor.
- Domestic bonds: The return (market value basis) was -0.67%, while the excess return was 0.49%.
The excess return was positive because the duration of domestic bonds held as part of the mandatory investment was shorter than the duration for the benchmark, which kept the rate of price drop due to an interest rate rise lower compared with the benchmark, and also because of the overweight in municipal bonds for which a percentage change exceeded the benchmark and the performance of products comprising corporate bonds and currency-hedged foreign bonds was robust.
- Domestic equities: The return (market value basis) was 14.79%, while the excess return was 0.10%.
The sector selection effect was negative as the overweighting in domestic demand-related sectors and underweighting in the banking and electric appliance sectors made negative contributions after Donald Trump was elected in the U.S. presidential election, while the issue selection effect was positive. Meanwhile, the performance of value-oriented products was robust. As a result of all these factors, the excess return was positive.
- Foreign bonds: The return (market value basis) was -5.29%, while the excess return was 0.12%.
The bond type selection effect was positive because of the overweighting in corporate bonds, among other factors, and the interest rate selection factor was also positive because of a successful duration strategy adapted to an interest rate change in the relevant period. In addition, general type products comprising relatively large proportions of corporate bonds performed strongly. As a result of all these factors, the excess return was positive.
- Foreign equities: The return (market value basis) was 14.66%, while the excess return was -0.11%.
The country selection effect was negative due to the underweighting in resource-producing countries whose equities rose steeply due to a recovery of commodities markets, such as Brazil and Russia. Meanwhile, value-oriented and judgmental products performed poorly. As a result of all these factors, the excess return was negative.

Fiscal Year 2016 Investment Income

- Investment income (market value basis) in fiscal year 2016 was ¥910.2 billion. Realized income (book value basis) was ¥394.5 billion.
- By asset class, investment income (market value) was -¥56.6 billion for domestic bonds, ¥591.1 billion for domestic equities, -¥128 billion for foreign bonds and ¥503.8 billion for foreign equities.

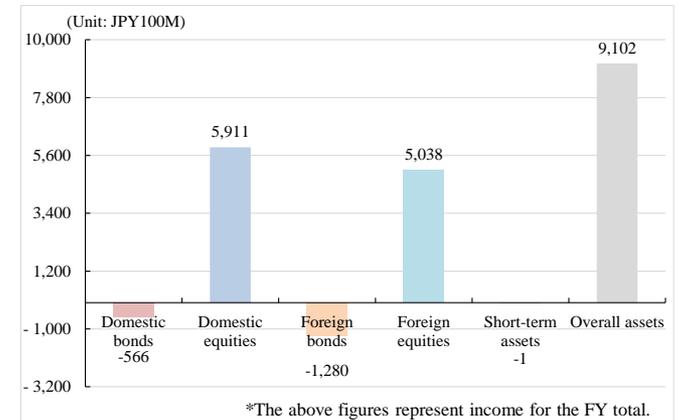
(Unit: JPY100M)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Investment income (market value basis)	-5,778	2,573	12,215	92	9,102
Domestic bonds	1,431	-982	-761	-254	-566
Domestic equities	-2,724	2,484	5,843	308	5,911
Foreign bonds	-1,932	-111	1,676	-914	-1,280
Foreign equities	-2,552	1,182	5,456	952	5,038
Short-term assets	-1	0	0	0	-1



(Unit: JPY100M)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Realized income (book value basis)	1,093	498	1,081	1,273	3,945



(Note 1) The income represent figures after the deduction of fees, etc. settled within the relevant period.

(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.

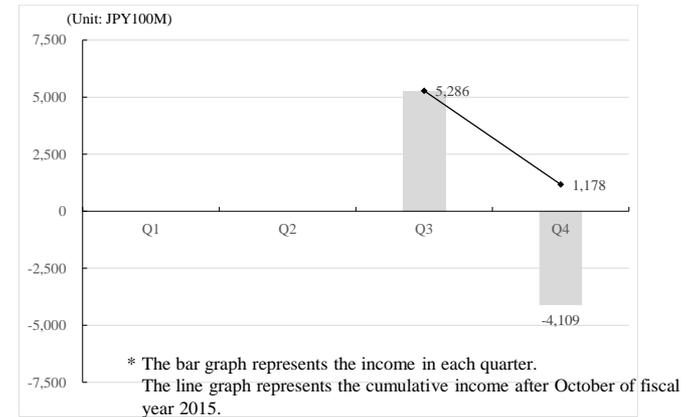
(Note 3) Realized income (book value basis) represents the sum of trading profits/losses and interest and dividend income, etc.

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

(Reference) Fiscal Year 2015 Investment Income

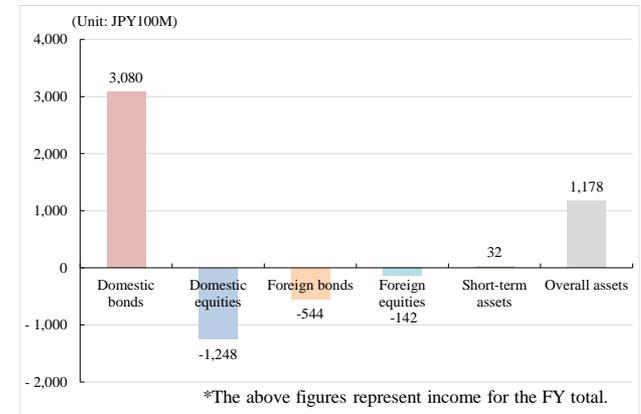
(Unit: JPY100M)

	FY2015				
	Q1	Q2	Q3	Q4	FY total
Investment income (market value basis)			5,286	-4,109	1,178
Domestic bonds			695	2,385	3,080
Domestic equities			3,400	-4,648	-1,248
Foreign bonds			-287	-258	-544
Foreign equities			1,417	-1,558	-142
Short-term assets			62	-30	32



(Unit: JPY100M)

	FY2015				
	Q1	Q2	Q3	Q4	FY total
Realized income (book value basis)			1,842	1,139	2,981



(Note 1) The above figures represent the income since October 2015, when the pensions systems were integrated into the Employees' Pension Insurance System.

(Note 2) The figures for the "FY total" represent income in the second half of fiscal year 2015.

(Note 3) The income represent figures after the deduction of fees, etc. settled within the relevant period.

(Note 4) 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 5) Realized income (book value basis) represents the sum of trading profits/losses and interest and dividend income, etc.

(Note 6) Due to rounding, the total sum of individual figures may not necessarily add up to the FY total.

Fiscal Year 2016 Value of Assets

(Unit: JPY100M)

	FY2016											
	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	78,652	85,069	6,417	77,898	82,862	4,964	76,140	80,136	3,996	75,066	78,505	3,440
Domestic equities	36,617	36,987	370	36,808	39,673	2,865	37,538	45,587	8,048	38,532	46,244	7,712
Foreign bonds	23,234	21,988	-1,246	23,150	21,998	-1,152	24,493	24,984	490	25,660	25,049	-611
Foreign equities	27,679	31,005	3,326	28,159	32,530	4,371	29,189	38,731	9,543	30,347	40,467	10,120
Short-term assets	6,697	6,696	-1	11,352	11,352	-0	8,689	8,689	0	10,212	10,212	-0
Total	172,878	181,744	8,866	177,367	188,414	11,048	176,049	198,127	22,078	179,817	200,478	20,661

(Note 1) Due to rounding, the total sum of individual figures may not necessarily add up to the Total.

(Note 2) Starting in fiscal year 2016, short-term assets held by each fund were classified into relevant asset classes in principle.

(Note 3) Group pure endowment insurance is included in domestic bonds.

The amount of funds allocated and withdrawn by asset class (for FY2016)

(Unit: JPY100M)

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Amount of funds allocated and withdrawn	-14,897	2,600	2,865	3,078

(Note 1) The above figures represent the total amount of fund flows related to the allocation and withdrawal of funds (rebalancing) conducted for the purpose of changing the asset mix, and cashing out.

(Note 2) As a result of the final classification of funds related to the integration of employee pension plans, funds totaling ¥261.4 billion (total for the Local Public Service Mutual Aid Associations) were transferred from the Transitional Long-term Benefit Fund in December 2016.

(Reference) Fiscal Year 2015 Value of Assets

(Unit: JPY100M)

	FY2015											
	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							92,914	97,590	4,676	82,684	88,456	5,772
Domestic equities							31,783	39,734	7,951	34,392	37,538	3,146
Foreign bonds							21,205	22,151	945	22,816	23,330	514
Foreign equities							21,645	29,475	7,830	26,101	32,176	6,074
Short-term assets							9,181	9,180	-0	14,199	14,197	-2
Total							176,727	198,129	21,402	180,193	195,697	15,504

(Note 1) The above figures represent the value of assets since October 2015, when the pensions systems were integrated into the Employees' Pension Insurance System.

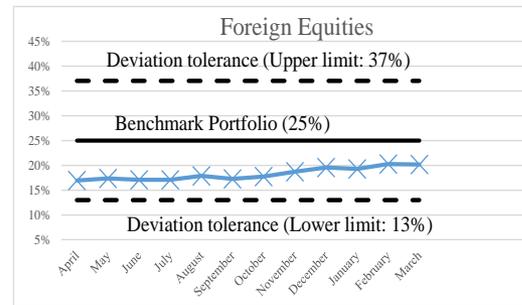
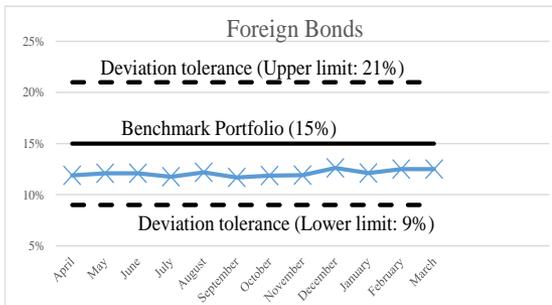
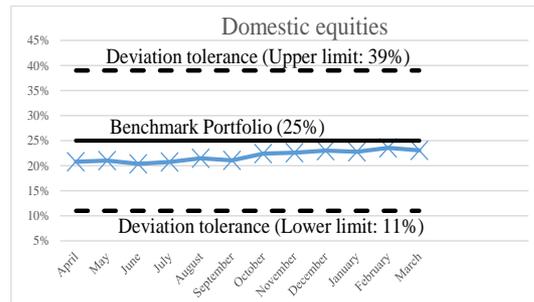
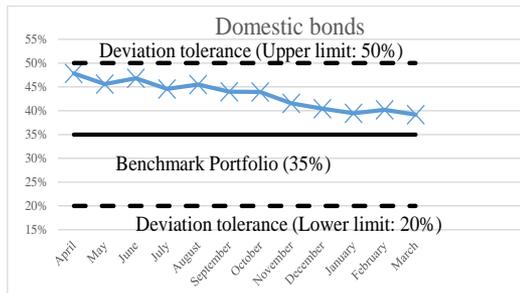
(Note 2) Due to rounding, the total sum of individual figures may not necessarily add up to the Total.

(Note 3) Group pure endowment insurance is included in domestic bonds.

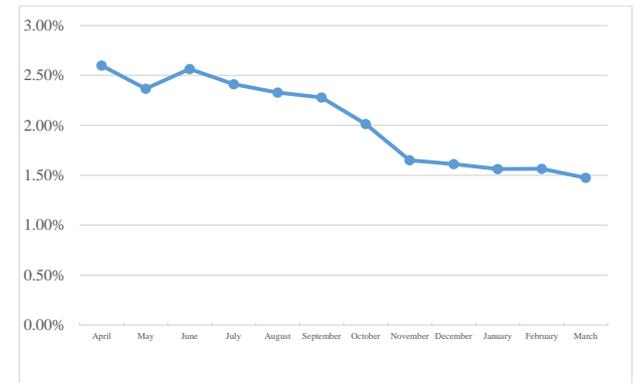
Status of Risk Management (Overall Assets)

In fiscal year 2016, 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 is on the decline because of a reduction of the deviation concerning domestic and foreign equities and other factors.

【Changes in the asset mix】



【Changes in the estimated tracking error】



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

Transitional Long-term Benefit Fund

Fiscal Year 2016 Investment Results (Overview)

Investment return: +4.93% *Return (market value basis)
(FY2016) (+2.09% *Realized return (book value basis))

Investment income: +¥1,022.1 billion *Investment income
(FY2016) (market value basis)
(+¥397.6 billion *Realized income (book value basis))

Value of investment assets: ¥21,147.1 billion
(End of FY2016)

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 each term, it should be kept in mind that it includes valuation gains/losses, which means it may change depending on market movements.

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

(Note 2) The return and income represent figures after the deduction of fees, etc. settled within the relevant period.

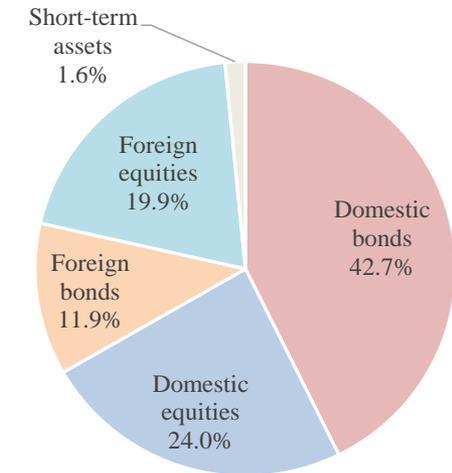
(Note 3) Realized income represents the sum of trading profits/losses and interest and dividend income, etc.

Fiscal Year 2016 Asset Mix

(Unit: %)

	FY2015	FY2016			
	End of FY	End of Q1	End of Q2	End of Q3	End of FY
Domestic bonds	46.7	49.2	47.4	43.5	42.7
Domestic equities	19.8	20.1	21.5	23.8	24.0
Foreign bonds	11.8	11.5	11.3	11.7	11.9
Foreign equities	16.6	16.6	17.1	19.3	19.9
Short-term assets	5.3	2.6	2.8	1.8	1.6
Total	100.0	100.0	100.0	100.0	100.0

Composition by Investment Asset Class
(as of end of FY2016)



(Note 1) Concerning the benchmark portfolio, the share in the mix is 35% for domestic bonds ($\pm 15\%$), 25% for domestic equities ($\pm 14\%$), 15% for foreign bonds ($\pm 6\%$) and 25% for foreign equities ($\pm 12\%$) (The figures in the parentheses represent deviation tolerances).

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

(Note 3) Starting in fiscal year 2016, short-term assets held by each fund were classified into relevant asset classes in principle.

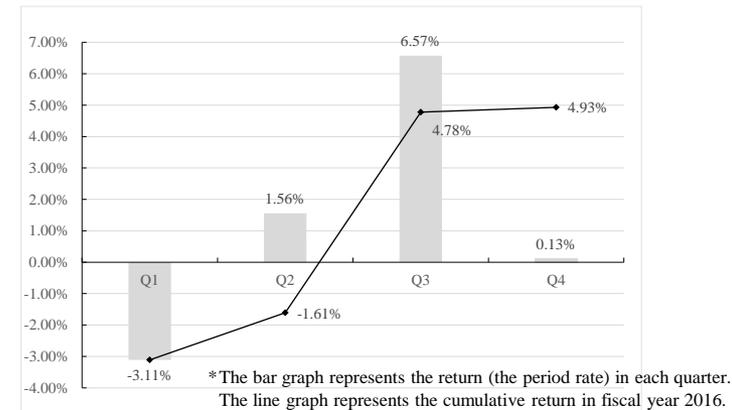
(Note 4) Real estate, loan, etc. are included in domestic bonds.

Fiscal Year 2016 Investment Return

- The return (market value basis) in fiscal year 2016 came to 4.93% due to such factors as a rise in domestic and foreign equity prices. The realized return (book value basis) was 2.09%.
- By asset class, the return (market value basis) was -0.37% for domestic bonds, 14.84% for domestic equities, -5.31% for foreign bonds and 14.63% for foreign equities.

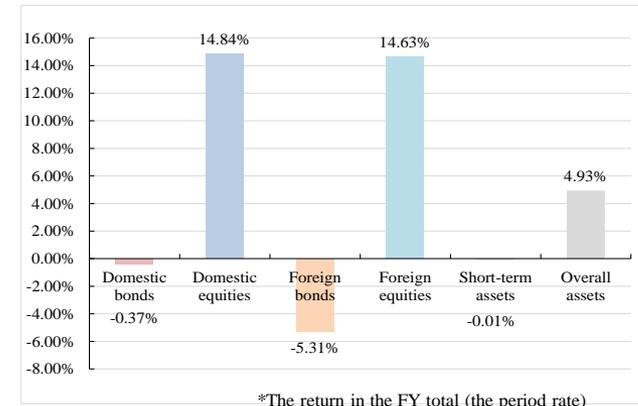
(Unit: %)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Return (market value basis)	-3.11	1.56	6.57	0.13	4.93
Domestic bonds	1.30	-0.76	-0.80	-0.16	-0.37
Domestic equities	-7.06	6.72	14.66	0.67	14.84
Foreign bonds	-8.21	-0.51	7.52	-3.59	-5.31
Foreign equities	-7.71	3.77	16.69	2.40	14.63
Short-term assets	-0.02	0.00	0.01	0.00	-0.01



(Unit: %)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Realized return (book value basis)	0.35	0.31	0.66	0.78	2.09



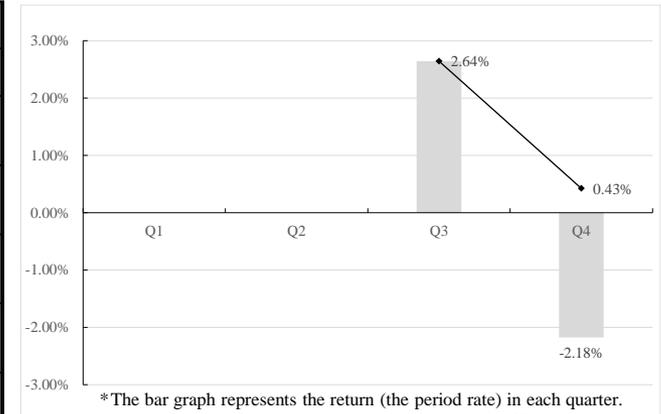
(Note 1) The return in each quarter is the period rate.

(Note 2) The return represent figures after the deduction of fees, etc. settled within the relevant period.

(Reference) Fiscal Year 2015 Investment Return

(Unit: %)

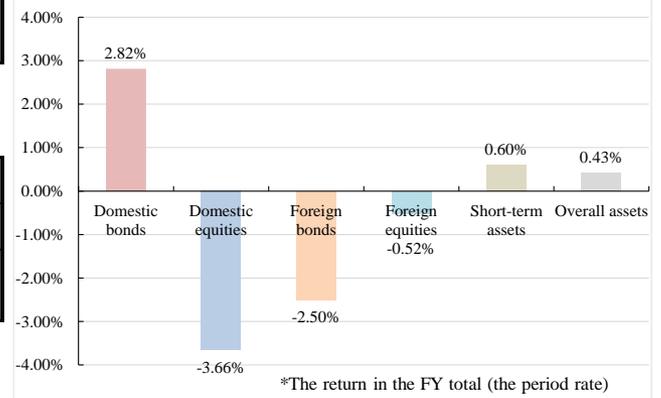
	FY2015				
	Q1	Q2	Q3	Q4	FY total
Return (market value basis)			2.64	-2.18	0.43
Domestic bonds			0.68	2.20	2.82
Domestic equities			9.50	-11.34	-3.66
Foreign bonds			-1.30	-1.23	-2.50
Foreign equities			5.18	-4.91	-0.52
Short-term assets			0.77	-0.11	0.60



*The bar graph represents the return (the period rate) in each quarter.
The line graph represents the cumulative return after October of fiscal year 2015.

(Unit: %)

	FY2015				
	Q1	Q2	Q3	Q4	FY total
Realized return (book value basis)			0.93	1.18	2.11



*The return in the FY total (the period rate)

(Note 1) The above figures represent the returns since October 2015, when the pensions systems were integrated into the Employees' Pension Insurance System.

(Note 2) The figures for the Q3 and Q4 represent the period rates. The figures for "FY total" represent the period rates in the second half of fiscal year 2015.

(Note 3) The return represent figures after the deduction of fees, etc. settled within the relevant period.

(Note 4) The return (market value basis) represents the realized return (book value basis) adjusted for the effects of changes in valuation gains/losses based on market value.

Contribution Analysis of the Excess Return by Asset Class ①

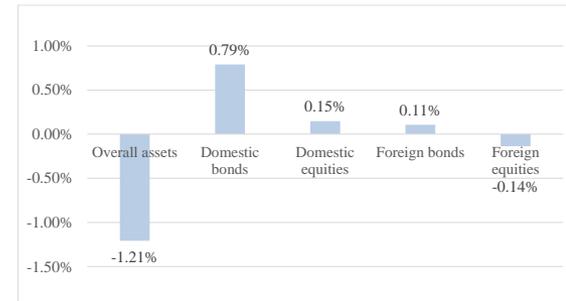
○ The return (market value basis) for overall assets was 4.93%, while the excess return was -1.21%.

The excess return due to the asset allocation factor was negative (-1.42%) against the backdrop of a fall in domestic bond prices and a rise in equity prices because the actual portfolio was overweight in domestic bonds and underweight in domestic and foreign equities compared with the benchmark portfolio. The excess return due to the individual asset factor was positive (0.29%) mainly because the excess return on domestic bonds exceeded the benchmark return.

FY2016 (April 2016 through March 2017)

	Overall assets	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Return (market value basis)	4.93%	-0.37%	14.84%	-5.31%	14.63%
Benchmark return *	6.14%	-1.15%	14.69%	-5.41%	14.77%
Excess return	-1.21%	0.79%	0.15%	0.11%	-0.14%

Excess return



* 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.

	Asset allocation factor ①	Individual asset factor ②	Other factor (including errors) ③	①+②+③
Domestic bonds	-0.82%	0.28%	0.01%	-0.53%
Domestic equities	-0.25%	0.04%	-0.04%	-0.25%
Foreign bonds	0.40%	0.02%	-0.02%	0.40%
Foreign equities	-0.62%	-0.03%	-0.02%	-0.67%
Short-term assets	-0.14%	0.00%	-0.00%	-0.15%
Total	-1.42%	0.29%	-0.08%	-1.21%

(Reference) Deviation of the actual portfolio from the benchmark portfolio in terms of the asset mix

	Local Public Service Mutual Aid Associations	Benchmark Portfolio	Deviation
Domestic bonds	42.7%	35.0%	7.7%
Domestic equities	24.0%	25.0%	-1.0%
Foreign bonds	11.9%	15.0%	-3.1%
Foreign equities	19.9%	25.0%	-5.1%
Short-term assets	1.6%		1.6%
Total	100.0%	100.0%	0.0%

- (i) Asset allocation factor: A factor that is attributable to the difference in terms of the asset allocation between the benchmark portfolio, which is the standard for the calculation of the composite benchmark, and the actual portfolio.
- (ii) Individual asset factor: A factor that is attributable to the difference between the actual and benchmark returns concerning each asset class, which may arise depending on the level of investment expertise.
- (iii) Other factor (including errors): A factor combining elements of the asset allocation and individual asset factors and calculation errors.

Contribution Analysis of the Excess Return by Asset Class ②

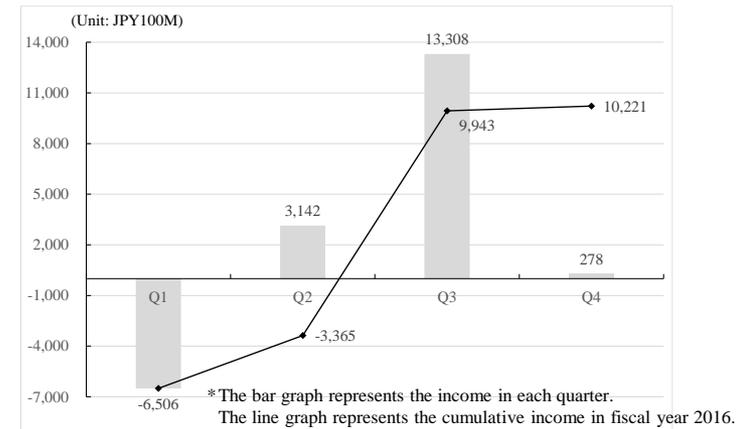
- Overall assets: The return (market value basis) for overall assets was 4.93%, while the excess return was -1.21%.
The excess return due to the individual asset factor was positive mainly because the excess return on domestic bonds exceeded the benchmark return. Meanwhile, the actual portfolio was overweight in domestic bonds and underweight in domestic and foreign equities compared with the benchmark portfolio although the deviation of the actual portfolio from the benchmark portfolio was reduced compared to the end of FY2015. Against the backdrop of a rise in U.S. interest rates after the U.S. presidential election in the second half of the year, domestic bond prices declined and equity prices rose, and as a result, the excess return was negative mainly because of the negative contributions from the asset allocation factor.
- Domestic bonds: The return (market value basis) was -0.37%, while the excess return was 0.79%.
The excess return was positive because the duration of domestic bonds held as part of the mandatory investment was shorter than the duration for the benchmark, which kept the rate of price drop due to an interest rate rise lower compared with the benchmark, and also because of the overweight in municipal bonds for which a percentage change exceeded the benchmark and the performance of products comprising corporate bonds and currency-hedged foreign bonds was robust.
- Domestic equities: The return (market value basis) was 14.84%, while the excess return was 0.15%.
The sector selection effect was negative as the overweighting in domestic demand-related sectors and underweighting in the banking and electric appliance sectors made negative contributions after Donald Trump was elected in the U.S. presidential election, while the issue selection effect was positive. Meanwhile, the performance of value-oriented products was robust. As a result of all these factors, the excess return was positive.
- Foreign bonds: The return (market value basis) was -5.31%, while the excess return was 0.11%.
The bond type selection effect was positive because of the overweighting in corporate bonds, among other factors, and the interest rate selection factor was also positive because of a successful duration strategy adapted to an interest rate change in the relevant period. In addition, general type products comprising relatively large proportions of corporate bonds performed strongly. As a result of all these factors, the excess return was positive.
- Foreign equities: The return (market value basis) was 14.63%, while the excess return was -0.14%.
The country selection effect was negative due to the underweighting in resource-producing countries whose equities rose steeply due to a recovery of commodities markets, such as Brazil and Russia. Meanwhile, value-oriented and judgmental products performed poorly. As a result of all these factors, the excess return was negative.

Fiscal Year 2016 Investment Income

- Investment income (market value basis) in fiscal year 2016 was ¥1,022.1 billion. Realized income (book value basis) was ¥397.6 billion.
- By asset class, investment income (market value) was -¥35.3 billion for domestic bonds, ¥654.1 billion for domestic equities, -¥132.9 billion for foreign bonds and ¥536.3 billion for foreign equities.

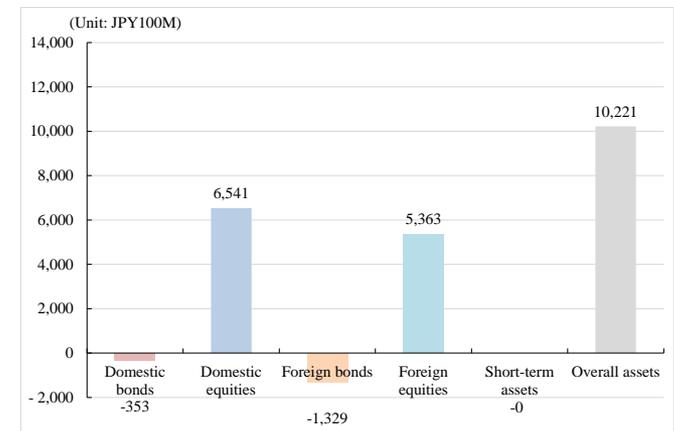
(Unit: JPY100M)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Investment income (market value basis)	-6,506	3,142	13,308	278	10,221
Domestic bonds	1,307	-753	-763	-144	-353
Domestic equities	-3,022	2,744	6,476	342	6,541
Foreign bonds	-2,040	-117	1,736	-908	-1,329
Foreign equities	-2,751	1,267	5,859	988	5,363
Short-term assets	-1	0	0	0	-0



(Unit: JPY100M)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Realized income (book value basis)	668	594	1,248	1,465	3,976



*The above figures represent income for the FY total.

(Note 1) The income represent figures after the deduction of fees, etc. settled within the relevant period.

(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.

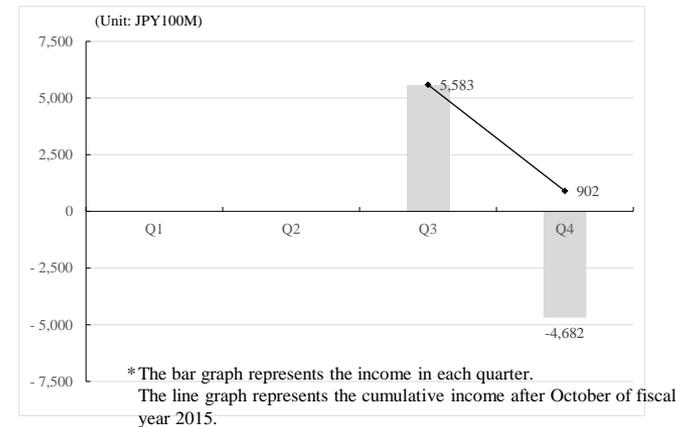
(Note 3) Realized income (book value basis) represents the sum of trading profits/losses and interest and dividend income, etc.

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

(Reference) Fiscal Year 2015 Investment Income

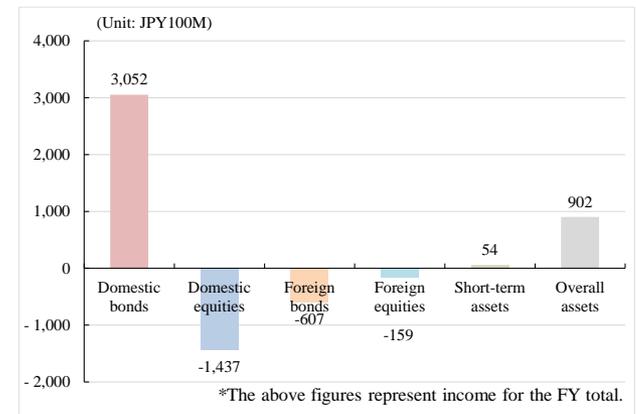
(Unit: JPY100M)

	FY2015				
	Q1	Q2	Q3	Q4	FY total
Investment income (market value basis)	/	/	5,583	-4,682	902
Domestic bonds	/	/	773	2,278	3,052
Domestic equities	/	/	3,560	-4,997	-1,437
Foreign bonds	/	/	-306	-301	-607
Foreign equities	/	/	1,491	-1,651	-159
Short-term assets	/	/	64	-11	54



(Unit: JPY100M)

	FY2015				
	Q1	Q2	Q3	Q4	FY total
Realized income (book value basis)	/	/	1,768	2,262	4,031



(Note 1) The above figures represent the income since October 2015, when the pensions systems were integrated into the Employees' Pension Insurance System.

(Note 2) The figures for the "FY total" represent income in the second half of fiscal year 2015.

(Note 3) The income represent figures after the deduction of fees, etc. settled within the relevant period.

(Note 4) 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 5) Realized income (book value basis) represents the sum of trading profits/losses and interest and dividend income, etc.

(Note 6) Due to rounding, the total sum of individual figures may not necessarily add up to the FY total.

Fiscal Year 2016 Value of Assets

(Unit: JPY100M)

	FY2016											
	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	91,921	99,270	7,349	90,775	96,846	6,070	87,138	92,211	5,073	85,762	90,257	4,495
Domestic equities	40,129	40,609	480	40,700	43,928	3,228	41,420	50,399	8,979	42,129	50,757	8,627
Foreign bonds	24,239	23,141	-1,098	24,063	23,036	-1,026	24,242	24,906	664	25,527	25,073	-454
Foreign equities	29,788	33,387	3,599	30,264	34,976	4,713	30,610	40,848	10,239	31,296	42,095	10,799
Short-term assets	5,299	5,298	-1	5,648	5,648	0	3,788	3,788	0	3,290	3,289	-1
Total	191,376	201,705	10,329	191,450	204,434	12,985	187,197	212,152	24,955	188,004	211,471	23,466

(Note 1) Due to rounding, the total sum of individual figures may not necessarily add up to the Total.

(Note 2) Starting in fiscal year 2016, short-term assets held by each fund were classified into relevant asset classes in principle.

(Note 3) Real estate, loan, etc. are included in domestic bonds.

The amount of funds allocated and withdrawn by asset class (for FY2016)

(Unit: JPY100M)

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Amount of funds allocated and withdrawn	-11,524	2,565	1,700	1,800

(Note 1) The above figures represent the total amount of fund flows related to the allocation and withdrawal of funds (rebalancing) conducted for the purpose of changing the asset mix, and cashing out.

(Note 2) As a result of the final classification of funds related to the integration of employee pension plans, funds totaling ¥261.4 billion (total for the Local Public Service Mutual Aid Associations) were transferred to the Employees' Pension Insurance Benefit Fund in December 2016.

(Reference) Fiscal Year 2015 Value of Assets

(Unit: JPY100M)

	FY2015											
	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							104,670	110,174	5,504	91,579	97,886	6,307
Domestic equities							33,773	42,516	8,744	37,867	41,436	3,570
Foreign bonds							22,417	23,696	1,279	23,883	24,664	781
Foreign equities							22,862	31,310	8,448	28,177	34,744	6,567
Short-term assets							7,702	7,702	-1	11,039	11,037	-3
Total							191,424	215,398	23,974	192,545	209,767	17,222

(Note 1) The above figures represent the value of assets since October 2015, when the pensions systems were integrated into the Employees' Pension Insurance System.

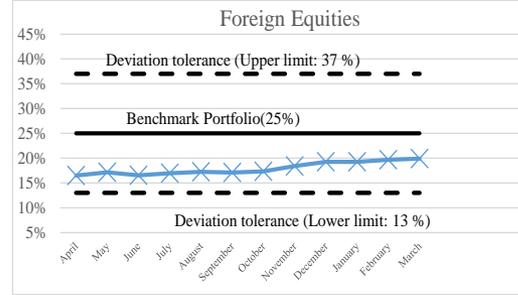
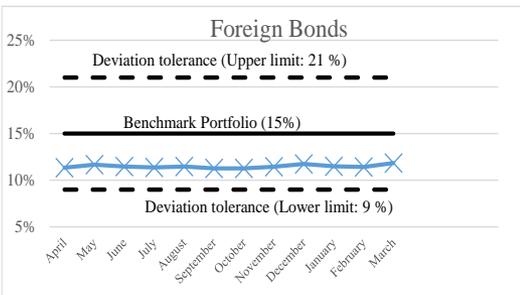
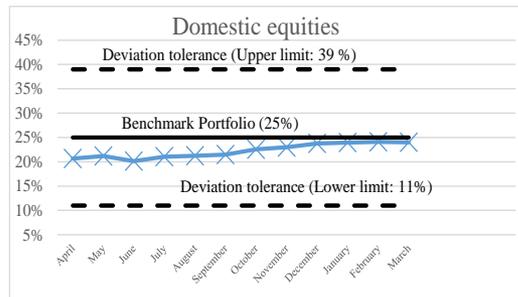
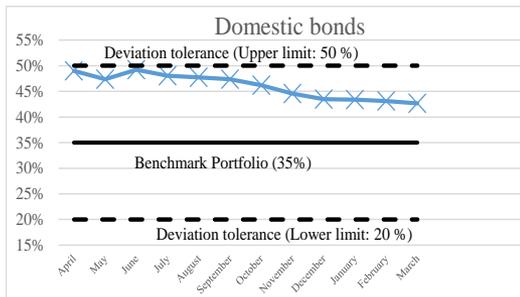
(Note 2) Due to rounding, the total sum of individual figures may not necessarily add up to the Total.

(Note 3) Real estate, loan, etc. are included in domestic bonds.

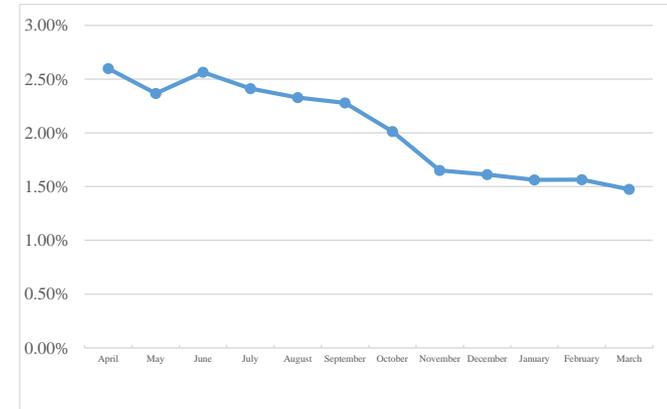
Status of Risk Management (Overall Assets)

In fiscal year 2016, 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 is on the decline because of a reduction of the deviation concerning domestic and foreign equities and other factors.

【Changes in the asset mix】



【Changes in the estimated tracking error】



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

Annuity Retirement Benefit Fund

Fiscal Year 2016 Investment Results (Overview)

Investment return: +0.55% *Realized return (book value basis)
(FY2016)

Investment income: +¥1.5 billion *Realized income
(FY2016) (book value basis)

Value of investment assets: ¥411 billion
(End of FY2016)

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

(Note 1) The return and income represent figures after the deduction of fees, etc. settled within the relevant period.

(Note 2) Realized income represents the sum of trading profits/losses and interest and dividend income, etc.

Fiscal Year 2016 Asset Mix

(Unit: %)

	FY2015	FY2016			
	End of FY	End of Q1	End of Q2	End of Q3	End of FY
Domestic bonds	80.5	85.5	94.3	91.1	94.3
Short-term asset	19.5	14.5	5.7	8.9	5.7
Total	100.0	100.0	100.0	100.0	100.0

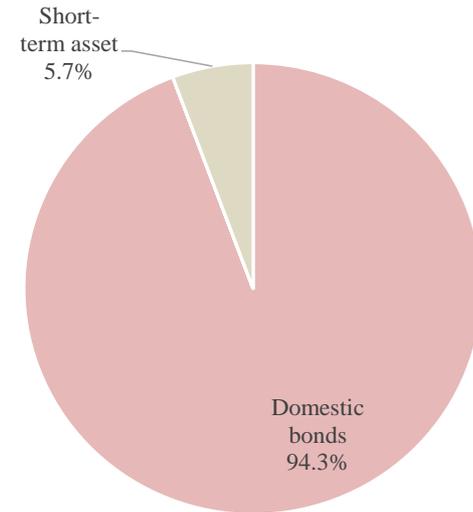
(Note 1) Concerning the benchmark portfolio, the share in the mix is 100% for domestic bonds.

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

(Note 3) Starting in fiscal year 2016, short-term assets held by each fund were classified into relevant asset classes in principle.

(Note 4) Loan, etc. are included in domestic bonds.

Composition by Investment Asset Class
(as of end of FY2016)

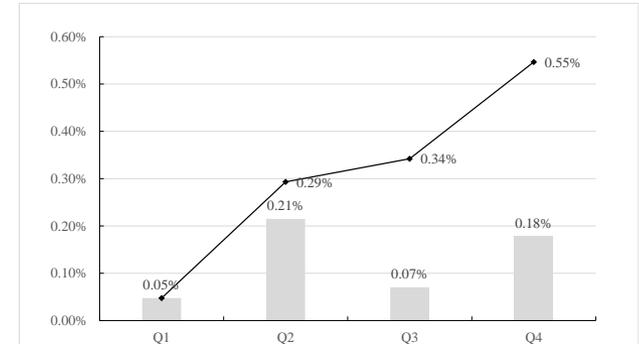


Fiscal Year 2016 Investment Return

- The realized return (book value basis) for FY2016 was 0.55%.
- Domestic bonds held by the Annuity Retirement Benefit Fund were evaluated based on book value on the premise of continued holding until maturity.

(Unit: %)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Realized return (book value basis)	0.05	0.21	0.07	0.18	0.55
Domestic bonds	0.05	0.24	0.08	0.19	0.59
Short-term assets	0.00	0.00	0.00	0.00	0.00

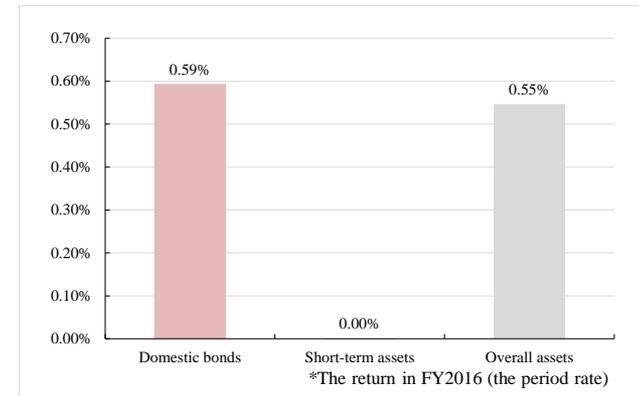


* The bar graph represents the return (the period rate) in each quarter.
The line graph represents the cumulative return in fiscal year 2016.

(Reference)

(Unit: %)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Return (market value basis)	3.34	-2.03	-1.72	-0.38	-2.23



*The return in FY2016 (the period rate)

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

(Note 2) The return in each quarter is the period rate.

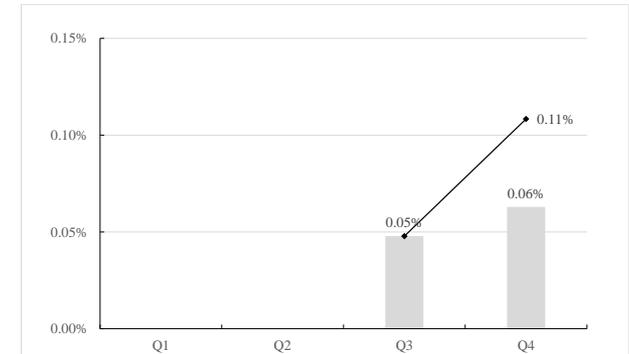
(Note 3) The return represent figures after the deduction of fees, etc. settled within the relevant period.

(Note 4) The return (market value basis) represents the realized return (book value basis) adjusted for the effects of changes in valuation profits/losses that would arise if the assets are evaluated based on market value.

(Reference) Fiscal Year 2015 Investment Return

(Unit: %)

	FY2015				
	Q1	Q2	Q3	Q4	FY total
Realized return (book value basis)			0.05	0.06	0.11
Domestic bonds			0.12	0.08	0.15
Short-term assets			0.00	0.01	0.01

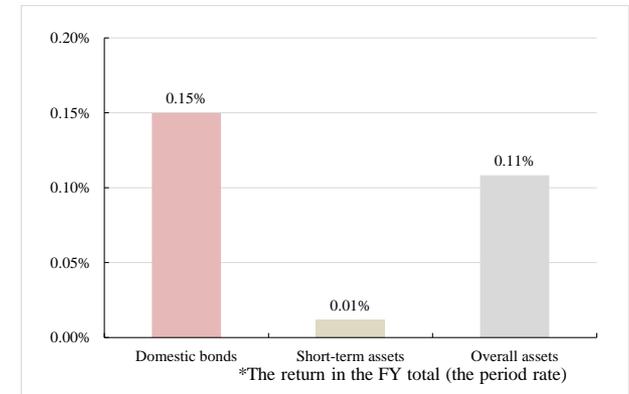


* The bar graph represents the return (the period rate) in each quarter.
The line graph represents the cumulative return after October of fiscal year 2015.

(Reference)

(Unit: %)

	FY2015				
	Q1	Q2	Q3	Q4	FY total
Return (market value basis)			0.31	3.45	4.86



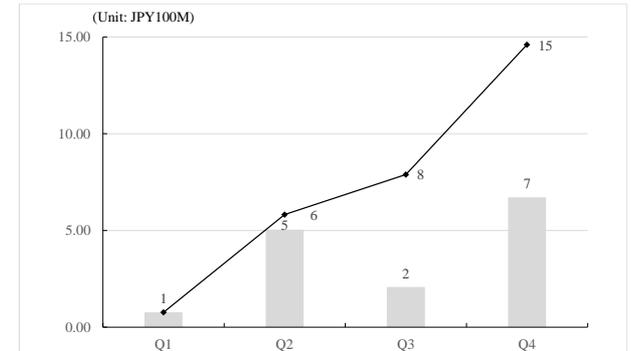
- (Note 1) The above figures represent the returns since October 2015, when the pensions systems were integrated into the Employees' Pension Insurance System.
- (Note 2) The figures for the Q3 and Q4 represent the period rates. The figures for "FY total" represent the period rates in the second half of fiscal year 2015.
- (Note 3) The return represent figures after the deduction of fees, etc. settled within the relevant period.
- (Note 4) The return (market value basis) represents the realized return adjusted for the effects of changes in valuation profits/losses that would arise if the assets are evaluated based on market value.

Fiscal Year 2016 Investment Income

- The realized income for FY2016 was ¥1.5 billion.
- Domestic bonds held by the Annuity Retirement Benefit Fund were evaluated based on book value on the premise of continued holding until maturity.

(Unit: JPY100M)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Realized income (book value basis)	1	5	2	7	15
Domestic bonds	1	5	2	7	15
Short-term assets	0	0	0	0	0

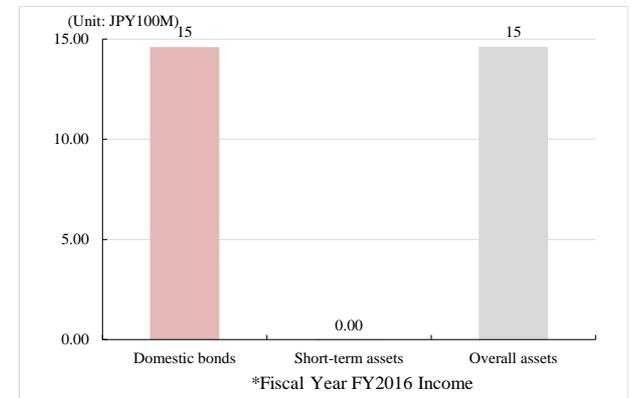


* The bar graph represents the income in each quarter.
The line graph represents the cumulative income in fiscal year 2016.

(Reference)

(Unit: JPY100M)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Investment income (market value basis)	55	-50	-52	-14	-60



*Fiscal Year FY2016 Income

(Note 1) The income represent figures after the deduction of fees, etc. settled within the relevant period.

(Note 2) Realized income represents the sum of trading profits/losses and interest and dividend income, etc.

(Note 3) The investment income represents the realized income adjusted for the effects of changes in valuation gains/losses based on market value.

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

(Reference) Fiscal Year 2015 Investment Income

(Unit: JPY100M)

	FY2015				
	Q1	Q2	Q3	Q4	FY total
Realized income (book value basis)	/	/	0.17	0.65	0.82
Domestic bonds	/	/	0.16	0.63	0.79
Short-term assets	/	/	0.00	0.02	0.03

(Reference)

(Unit: JPY100M)

	FY2015				
	Q1	Q2	Q3	Q4	FY total
Investment income (market value basis)	/	/	1.08	35.56	36.64

(Note 1) The above figures represent the income since October 2015, when the pensions systems were integrated into the Employees' Pension Insurance System.

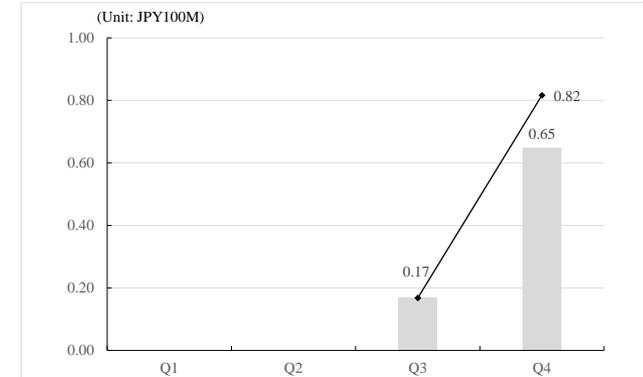
(Note 2) The figures for the "FY total" represent income in the second half of fiscal year 2015.

(Note 3) The income represent figures after the deduction of fees, etc. settled within the relevant period.

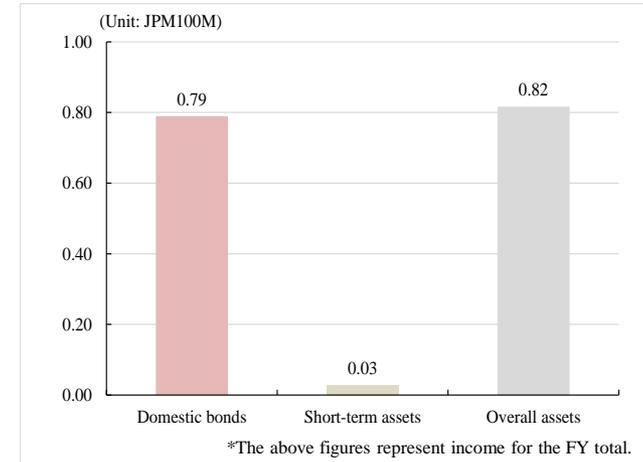
(Note 4) Realized income represents the sum of trading profits/losses and interest and dividend income, etc.

(Note 4) The investment income represents the realized income adjusted for the effects of changes in valuation gains/losses tentatively calculated based on the market value.

(Note 5) Due to rounding, the total sum of individual figures may not necessarily add up to the FY total.



* The bar graph represents the income in each quarter.
The line graph represents the cumulative income after October of fiscal year 2015.



*The above figures represent income for the FY total.

Fiscal Year 2016 Value of Assets

(Unit: JPY100M)

	FY2016											
	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	1,692	1,783	91	2,490	2,528	37	3,076	3,062	-14	3876	3836	-39
Short-term assets	288	288	0	151	151	0	299	299	0	234	234	0
Total	1,980	2,071	91	2,641	2,678	37	3,375	3,361	-14	4110	4071	-39

(Note 1) Due to rounding, the total sum of individual figures may not necessarily add up to the Total.

(Note 2) The market value and valuation profits/losses are indicated here for reference. The valuation profits/losses were tentatively calculated based on the market value.

(Note 3) Starting in fiscal year 2016, short-term assets held by each fund were classified into relevant asset classes in principle.

(Note 4) Loan, etc. are included in domestic bonds.

(Reference) Fiscal Year 2015 Value of Assets

(Unit: JPY100M)

	FY2015											
	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							287	288	1	1,104	1,140	36
Short-term assets							367	367	0	268	268	0
Total							654	655	1	1,372	1,408	36

(Note 1) The above figures represent the value of assets since October 2015, when the pensions systems were integrated into the Employees' Pension Insurance System.

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

(Note 3) The market value and valuation profits/losses are indicated here for reference. The valuation profits/losses were tentatively calculated based on the market value.

(Note 4) Loan, etc. are included in domestic bonds.