

Fiscal Year 2016

Employees' Pension Insurance Benefit

Adjustment Fund

Review of Operations

(Pension Fund Association for Local Government Officials)



地方公務員共済組合連合会

Pension Fund Association for Local Government Officials

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

Fiscal Year 2016 Investment Results (Overview)

Investment return: **+5.60%** *Return (market value basis)
(FY2016) **(+1.80%** *Realized return (book value basis))

Investment income: **+¥546.1 billion** *Investment income
(FY2016) **(market value basis)**
(+¥164.8 billion *Realized income (book value basis))

Value of investment assets: ¥10,461.3 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 time-weighted 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.

Section 1 Administration and Investment of Funds in FY2016

Fiscal Year 2016 Market Environment ① (Domestic Bonds)

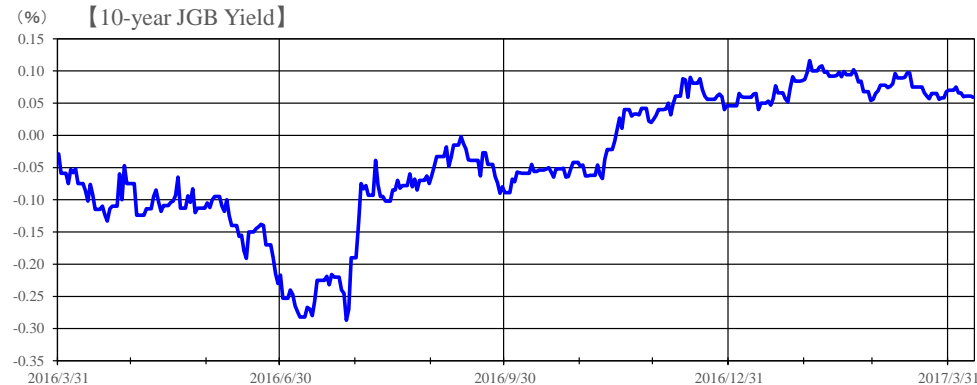
① Domestic Bond Market

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.



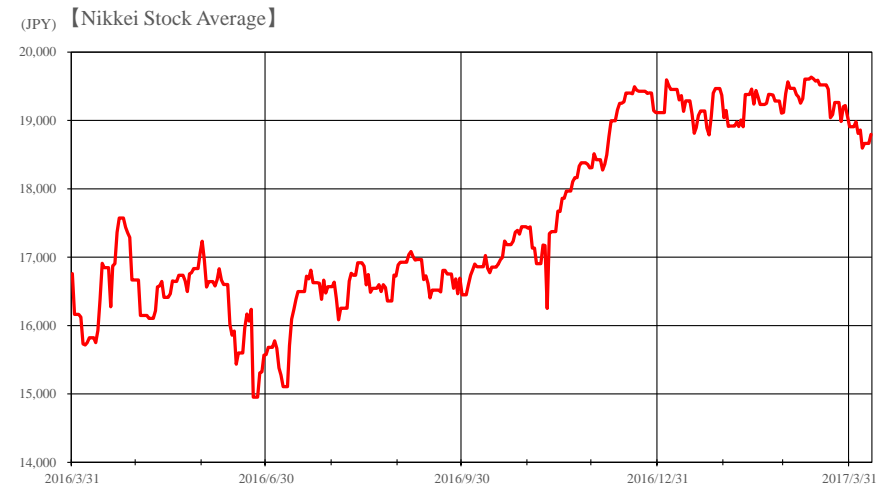
Fiscal Year 2016 Market Environment ② (Domestic Equities)

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.

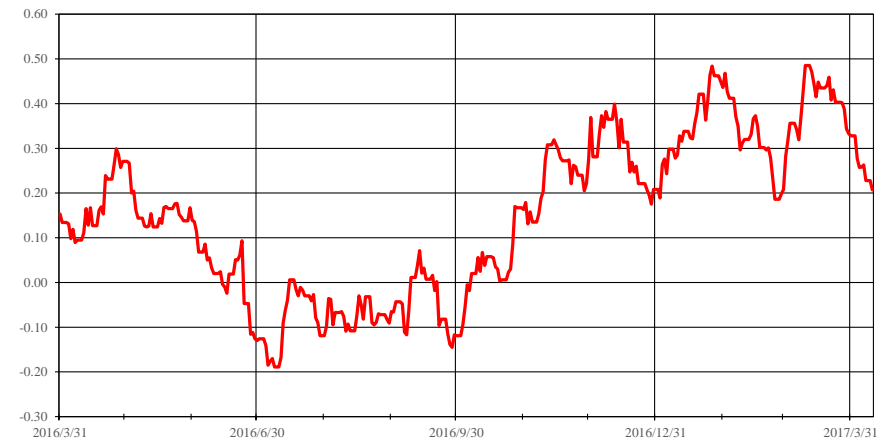
As for European bonds (German government bonds) as well, the yield declined (bond price rose) as risk aversion grew in relation to the U.K. referendum on Brexit in June. The yield temporarily rebounded in July and then remained directionless due to such factors as uncertainty over the political situation 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】



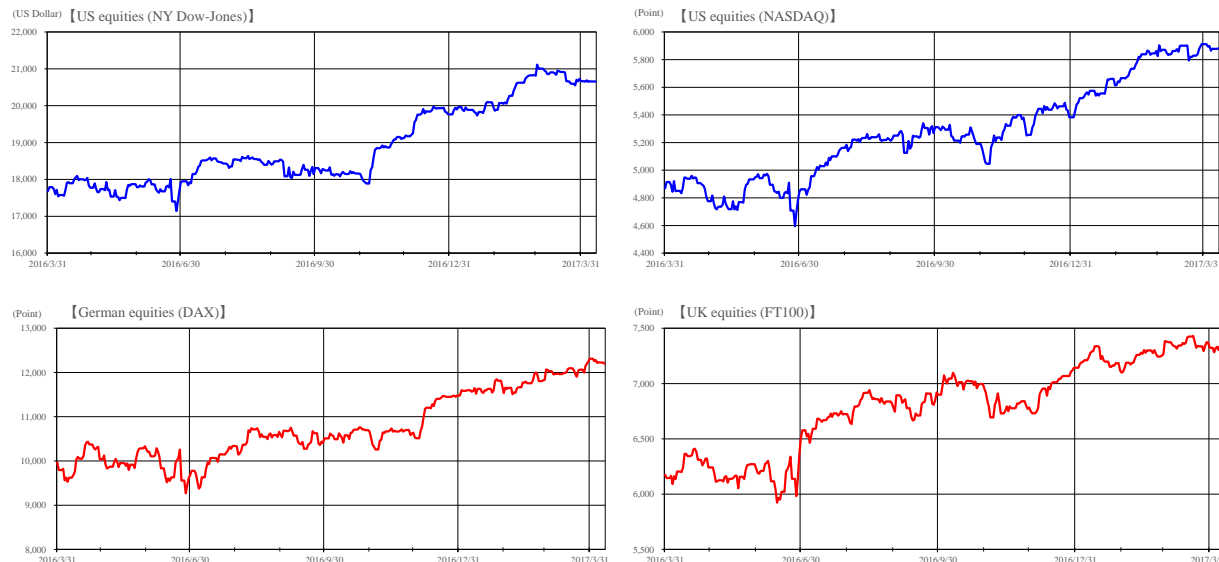
Fiscal Year 2016 Market Environment ④ (Foreign Equities)

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.



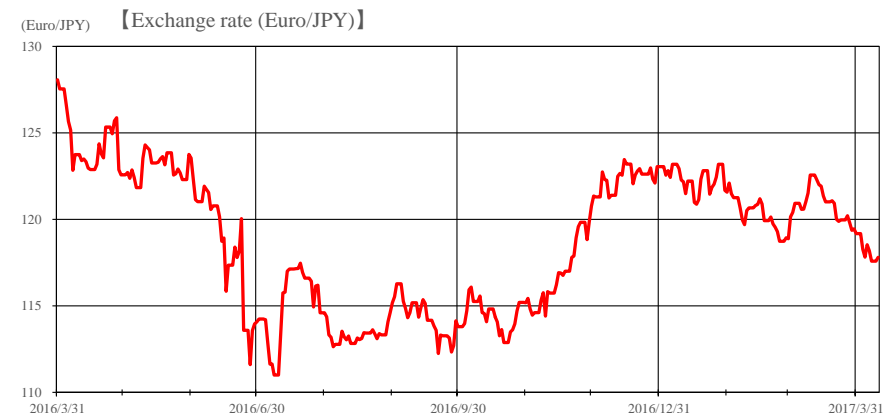
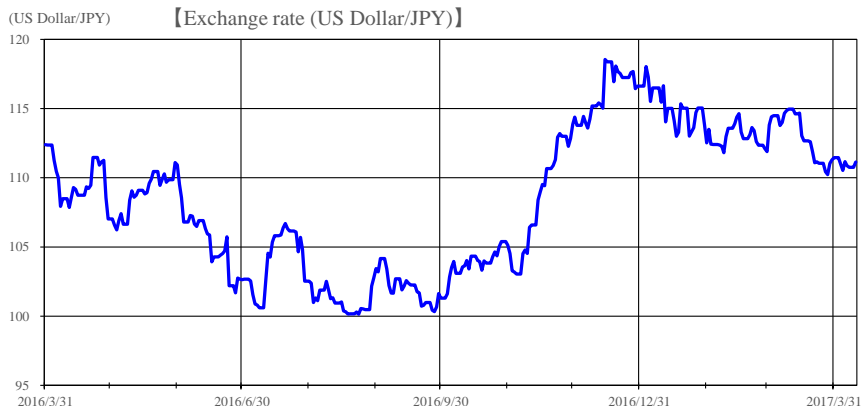
Fiscal Year 2016 Market Environment ⑤ (Foreign Exchange)

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.

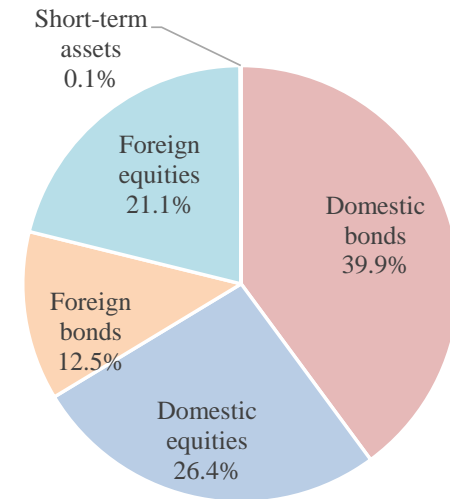


Fiscal Year 2016 Asset Mix

(Unit: %)

	FY2015	FY2016			
	End of FY	End of Q1	End of Q2	End of Q3	End of FY
Domestic bonds	43.6	46.2	44.9	40.9	39.9
Domestic equities	22.3	23.6	24.8	26.3	26.4
Foreign bonds	12.0	12.0	11.8	12.4	12.5
Foreign equities	17.5	18.1	18.5	20.3	21.1
Short-term assets	4.5	0.1	0.1	0.0	0.1
Total	100.0	100.0	100.0	100.0	100.0

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



(Note 1) Due to rounding, the total sum of individual figures may not necessarily add up to 100%.

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

(Note 3) The ratio of alternative assets to the total amount of funds is 0.3% (the upper limit is 5%).

○ Asset mix

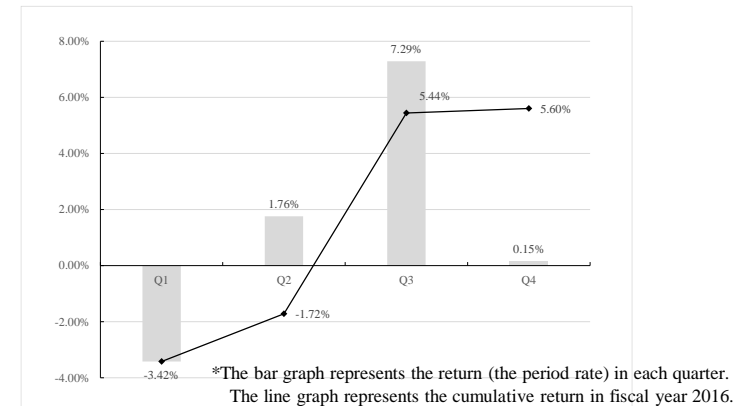
	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Asset mix	35%	25%	15%	25%
Deviation tolerance	±15%	±14%	±6%	±12%

Fiscal Year 2016 Investment Return

- The return (market value basis) in fiscal year 2016 came to 5.60% due to such factors as a rise in domestic and foreign equity prices. The realized return (book value basis) was 1.80%.
- By asset class, the return (market value basis) was -0.63% for domestic bonds, 14.66% for domestic equities, -5.29% for foreign bonds and 14.43% for foreign equities.

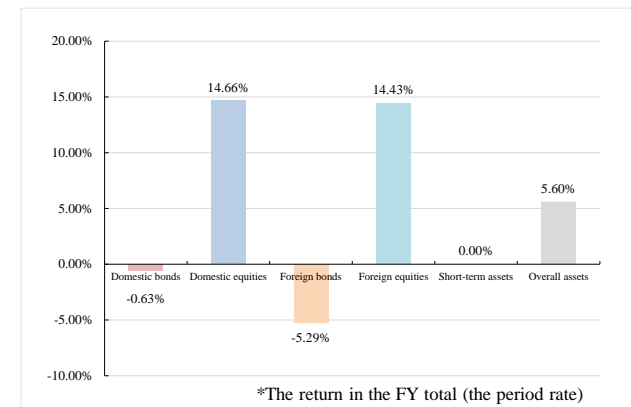
(Unit: %)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Return (market value basis)	-3.42	1.76	7.29	0.15	5.60
Domestic bonds	1.34	-0.93	-0.77	-0.25	-0.63
Domestic equities	-6.98	6.59	14.82	0.72	14.66
Foreign bonds	-8.26	-0.48	7.59	-3.58	-5.29
Foreign equities	-7.85	3.81	16.70	2.51	14.43
Short-term assets	0.00	0.00	0.00	0.00	0.00



(Unit: %)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Realized return (book value basis)	0.14	0.24	0.57	0.85	1.80



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

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

Contribution Analysis of the Excess Return by Asset Class ①

○ The return (market value basis) for overall assets was 5.60%, while the excess return was -0.54%.

The excess return due to the asset allocation factor was negative (-0.52%) 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 foreign equities compared with the benchmark portfolio.

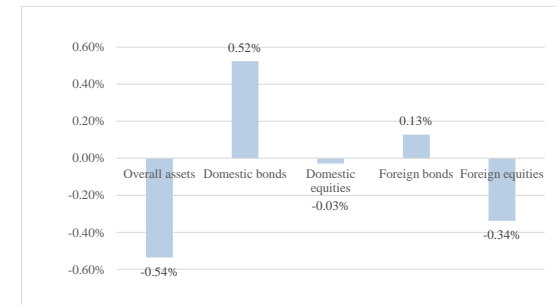
The excess return due to the individual asset factor was positive (0.11%) mainly because the return on domestic bonds exceeded the benchmark return.

FY2016 (April 2016 through March 2017)

	Overall assets	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Return (market value basis)	5.60%	-0.63%	14.66%	-5.29%	14.43%
Benchmark return ※	6.14%	-1.15%	14.69%	-5.41%	14.77%
Excess return	-0.54%	0.52%	-0.03%	0.13%	-0.34%

*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	-0.45%	0.18%	-0.05%	-0.32%
Domestic equities	0.03%	-0.02%	-0.04%	-0.03%
Foreign bonds	0.34%	0.02%	-0.02%	0.34%
Foreign equities	-0.42%	-0.07%	-0.01%	-0.50%
Short-term assets	-0.03%	0.00%	-0.00%	-0.03%
Total	-0.52%	0.11%	-0.12%	-0.54%

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

	Pension Fund Association for Local Government Officials	Benchmark Portfolio	Deviation
Domestic bonds	39.9%	35.0%	4.9%
Domestic equities	26.4%	25.0%	1.4%
Foreign bonds	12.5%	15.0%	-2.5%
Foreign equities	21.1%	25.0%	-3.9%
Short-term assets	0.1%		0.1%
Total	100.0%	100.0%	0.0%

- (i) Asset allocation factor: A factor that is attributable to the difference in terms of the asset mix 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

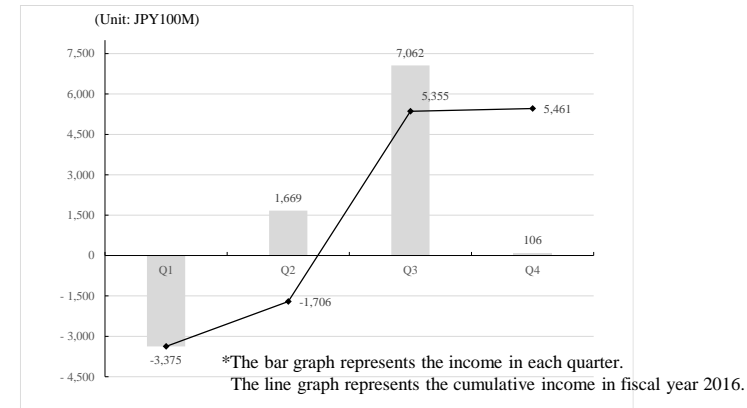
- Overall assets: The return (market value basis) for overall assets was 5.60%, while the excess return was -0.54%.
The excess return due to the individual asset factor was positive mainly because the return on domestic bonds exceeded the benchmark return. Meanwhile, the actual portfolio was overweight in domestic bonds and underweight in 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 the previous fiscal year. 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 foreign 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 -0.63%, while the excess return was 0.52%.
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 the performance of products comprising corporate bonds and currency-hedged foreign bonds was robust.
- Domestic equities: The return (market value basis) was 14.66%, while the excess return was -0.03%.
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 robust performance of value-oriented products was offset by the poor performance of growth-oriented products. As a result of all these factors, the return was in line with the benchmark.
- Foreign bonds: The return (market value basis) was -5.29%, while the excess return was 0.13%.
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 14.43%, while the excess return was -0.34%.
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 market-based 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 ¥546.1 billion. Realized income (book value basis) was ¥164.8 billion.
- By asset class, investment income (market value) was -¥24.5 billion for domestic bonds, ¥359.0 billion for domestic equities, -¥66.6 billion for foreign bonds and ¥278.2 billion for foreign equities.

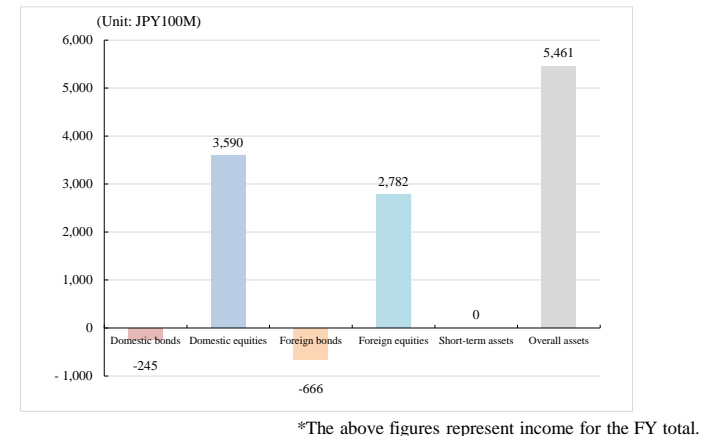
(Unit: JPY100M)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Investment income (market value basis)	-3,375	1,669	7,062	106	5,461
Domestic bonds	606	-411	-326	-114	-245
Domestic equities	-1,617	1,479	3,547	181	3,590
Foreign bonds	-993	-55	862	-479	-666
Foreign equities	-1,371	655	2,979	518	2,782
Short-term assets	0	0	0	0	0



(Unit: JPY100M)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Realized income (book value basis)	131	214	517	787	1,648



- (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 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	41,209	43,979	2,770	41,217	43,365	2,148	41,093	42,845	1,752	40,286	41,737	1,451
Domestic equities	22,388	22,457	69	22,343	23,936	1,594	22,738	27,483	4,745	23,221	27,664	4,443
Foreign bonds	12,103	11,392	-711	12,003	11,368	-636	12,816	13,029	213	13,478	13,090	-388
Foreign equities	15,072	17,228	2,156	15,143	17,883	2,740	15,687	21,263	5,575	16,177	22,040	5,863
Short-term assets	91	91	0	91	91	0	48	48	0	81	81	0
Total	90,862	95,147	4,284	90,797	96,643	5,845	92,383	104,668	12,286	93,242	104,613	11,370

(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.

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	-5,737	2,000	1,840	1,910

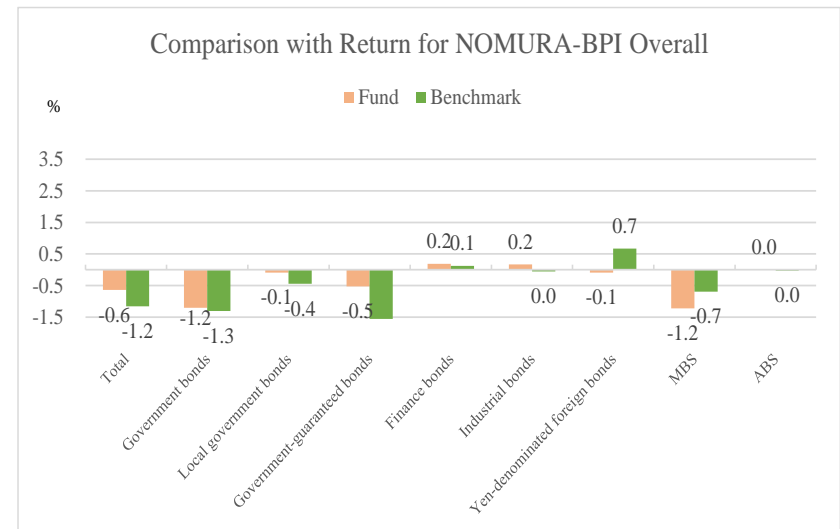
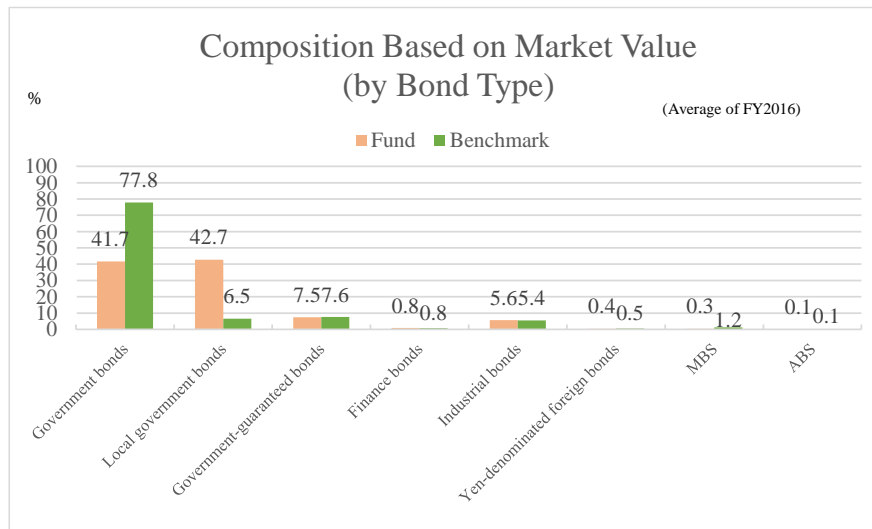
(Note 1) The above figures represent the total amount of fund flows related to the allocation and withdrawal of funds (rebalancing) conducted for the purpose of changing the asset mix, and cashing out.

(Note 2) As a result of the final classification of funds related to the integration of employee pension plans, funds totaling ¥129.4 billion were transferred from the Transitional Long-term Benefit Adjustment Fund in December 2016.

Bond Investment (Domestic Bonds) ① Excess Return

The excess return on domestic bonds compared with the benchmark was 0.52%. This was due to the positive contributions from the interest rate selection effect, which are attributable to a shorter duration of domestic bonds held as part of the mandatory investment, etc. compared with the benchmark, which reduced the rate of price drop due to an interest rate rise relative to the benchmark. Positive contributions also came from the bond type selection effect, which is due to the overweighting in municipal bonds.

【Composition based on market value and the return concerning active investment】



Bond Investment (Domestic Bonds) ② Contribution Analysis of the Excess Return

By factor, the excess return of 0.52% on domestic bonds can be broken down as follows: fund factor: 0.57%; benchmark factor: 0.00%; other factors: -0.05%.

The fund factor made positive contributions mainly because the return for mandatory investment funds, etc. exceeded the manager benchmark return.

Return (market value basis) ①	Benchmark ②	Excess Return ①-②	Fund factor	Benchmark factor	Other factor
-0.63%	-1.15%	0.52%	0.57%	0.00%	-0.05%

【Contribution analysis of the excess return by the manager benchmark, etc.】

	Mandatory investment, etc.	Inflation-indexed government bond	Nomura BPI Overall (Passive)	Nomura BPI Overall (Enhanced)	Nomura BPI Overall (Active)	Non-benchmark	Domestic real property	Total
Fund factor	0.49%	0.02%	0.02%	0.02%	0.02%	0.00%	0.00%	0.57%
Benchmark factor			0.00%	0.00%	0.00%			0.00%

(Note 1) The fund factor is a factor attributable to the difference between the return for an individual fund and the return for the manager benchmark. The percentage ratio is calculated in consideration of the average total market value of an individual fund.

Concerning mandatory investments, etc. and non-benchmark funds, a factor attributable to the difference between the return for an individual fund and the return for the policy benchmark is calculated as the fund factor for reference because the manager benchmark has not been set.

(Note 2) The benchmark factor is a factor attributable to the difference between the return for the manager benchmark and the return for the benchmark (NOMURA-BPI Overall).

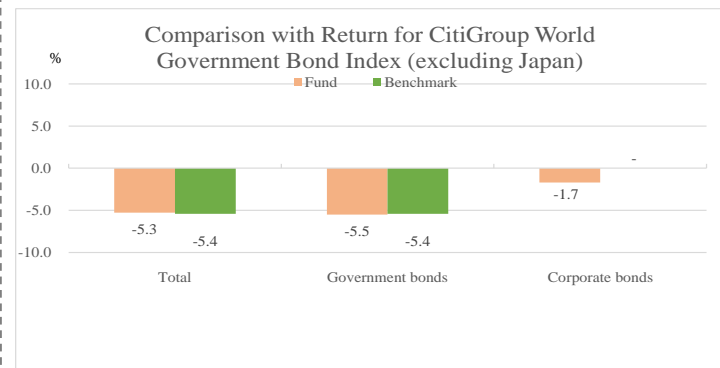
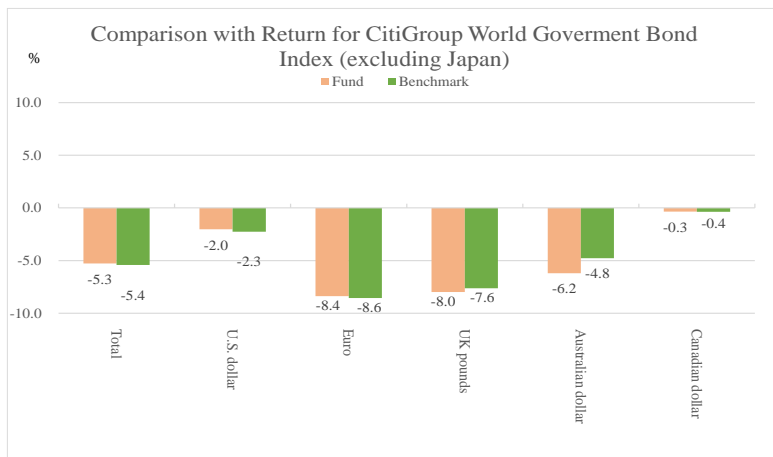
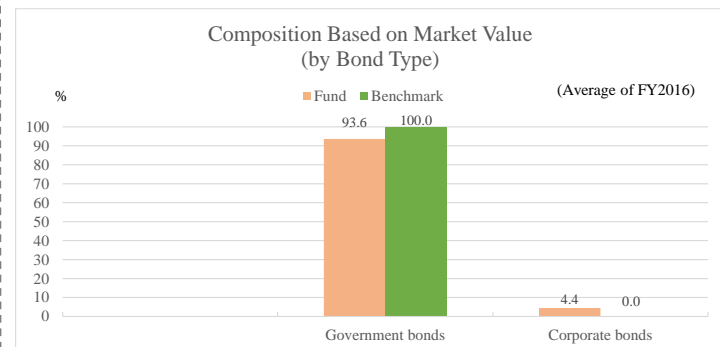
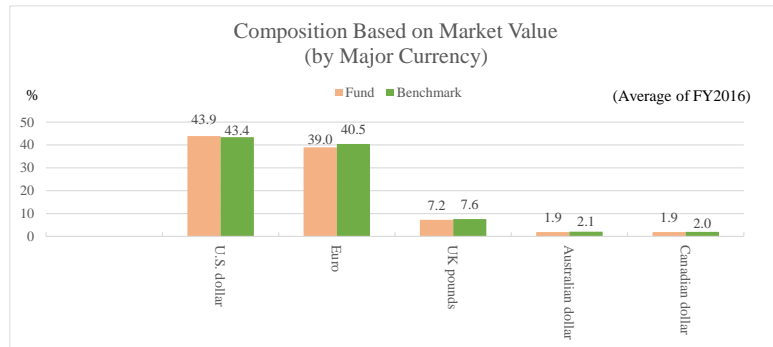
The percentage ratio is calculated in consideration of the average total market value of an individual fund.

(Note 3) "Other factors" are factors attributable to calculation errors, etc.

Bond Investment (Foreign Bonds) ① Excess Return

The excess return on foreign bonds compared with the benchmark was 0.13%. Concerning active investment, country-by-country returns were generally in line with the benchmark. However, due to the overweighting in corporate bonds, the bond type selection effect made positive contributions. The interest rate selection effect also made positive contributions due to a successful duration strategy adapted to an interest rate change during the period.

【Composition based on market value and the return concerning active investment】



Bond Investment (Foreign Bonds) ② Contribution Analysis of the Excess Return

By factor, the excess return of 0.13% on foreign bonds can be broken down as follows: fund factor: 0.05%; benchmark factor: 0.18%; other factors: -0.11%.

The benchmark factor made positive contributions mainly because the return for the Barclays Global Aggregate Index exceeded the policy benchmark return.

Return (market value basis) ①	Benchmark ②	Excess Return ①-②	Fund factor	Benchmark factor	Other factor
-5.29%	-5.41%	0.13%	0.05%	0.18%	-0.11%

【Contribution analysis by investment style】

	Citi Group World Government Bond Index (Passive)	Citi Group World Government Bond Index (Enhanced)	Citi Group World Government Bond Index (Active)	Barclays aggregate (Active)	Nomura RAFI (Active)	Overseas real properties (NFL-ODCE fund index)	Overseas infrastructure	Total
Fund factor	0.00%	-0.10%	0.06%	0.02%	0.00%	0.01%	0.06%	0.05%
Benchmark factor	0.00%	0.00%	0.00%	0.14%	0.01%	0.03%		0.18%

(Note 1) The fund factor is a factor attributable to the difference between the return for an individual fund and the return for the manager benchmark. The percentage ratio is calculated in consideration of the average total market value of an individual fund.

(Note 2) The benchmark factor is a factor attributable to the difference between the return for the manager benchmark and the return for the policy benchmark (City World Government Bond Index (excluding Japan; without currency hedging, yen-based)).

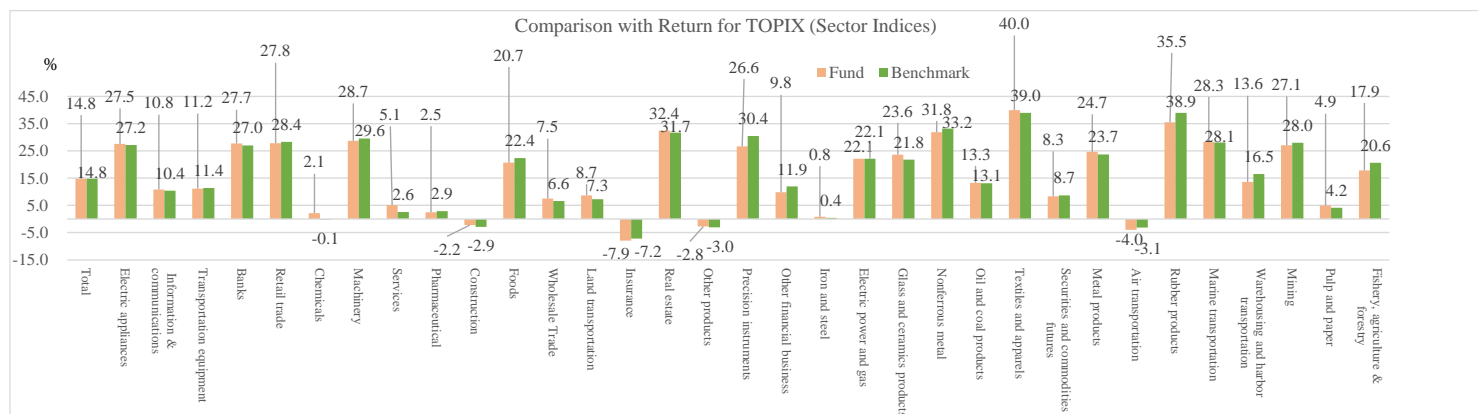
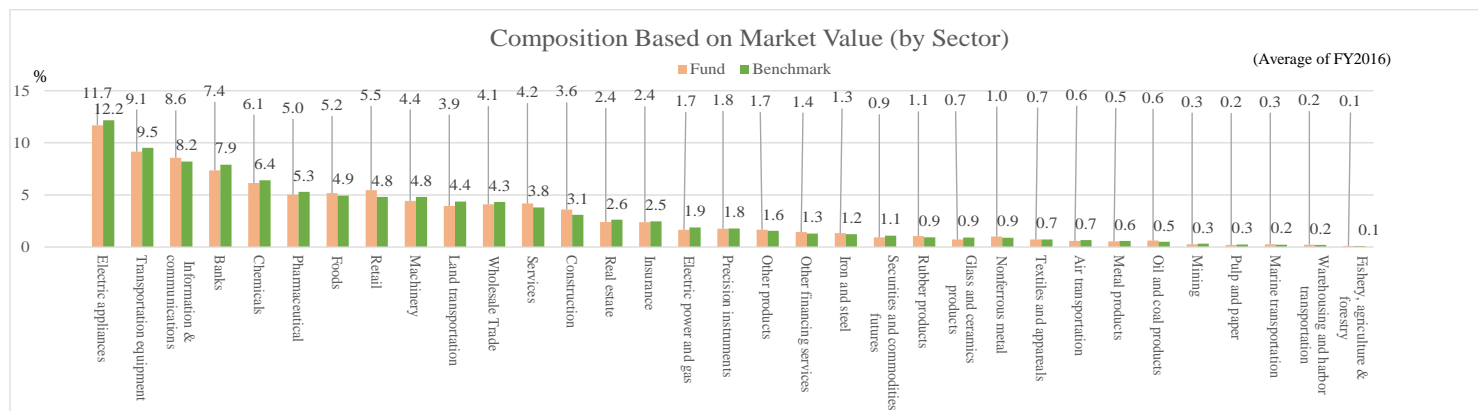
The percentage ratio is calculated in consideration of the average total market value of an individual fund.

(Note 3) "Other factors" are factors attributable to calculation errors, etc.

Equity Investment (Domestic Equities) ① Excess Return

The return on domestic equities compared with the benchmark was -0.03%. Concerning active investment, the sector selection effect was negative as the overweighting in domestic demand-related issues and the underweighting in the banking and electric appliance sectors made negative contributions after the election of Donald Trump as U.S. president, while the issue selection effect made positive contributions.

【Composition based on market value and the return concerning active investment】



Equity Investment (Domestic Equities) ② Contribution Analysis of the Excess Return

By factor, the excess return of -0.03% on domestic equities can be broken down as follows: fund factor: 0.15%; benchmark factor: -0.09%; other factors: -0.09%.

The fund factor made positive contributions mainly because the return for the TOPIX (active investment) fund exceeded the return for the manager benchmark, while the benchmark factor made negative contributions mainly because the return for the MSCI Japan Minimum Volatility Index and other funds fell short of the return for the policy benchmark.

Return (market value basis) ①	Benchmark ②	Excess Return ①-②	Fund factor	Benchmark factor	Other factor
14.66%	14.69%	-0.03%	0.15%	-0.09%	-0.09%

【Contribution analysis of the excess return by the manager benchmark, etc.】

	TOPIX (Passive)	JPX400 (Passive)	MSCI JAPAN (Passive)	Russell/Nomura Prime (Passive)	TOPIX (Active)	TOPIX Mid400 (Active)	FTSE GWA Japan (Active)	FTSE RAFI Japan 350 QSR (Active)
Fund factor	0.06%	0.00%	0.00%	0.00%	0.20%	-0.01%	-0.00%	-0.00%
Benchmark factor	0.00%	-0.03%	-0.01%	-0.00%	0.00%	-0.01%	0.02%	0.03%

	MSCI Japan Minimum Volatility Index (Active)	Russell/Nomura Small (Active)	S&P Japan Small Cap Index (Active)	SNAM Sustainability Index (Active)	Japan Minimum Volatility Index (Active)	Non-benchmark	Total
Fund factor	0.00%	-0.04%	-0.02%	-0.00%	0.00%	-0.04%	0.15%
Benchmark factor	-0.07%	0.02%	0.01%	0.03%	-0.07%		-0.09%

(Note 1) The fund factor is a factor attributable to the difference between the return for an individual fund and the return for the manager benchmark. The percentage ratio is calculated in consideration of the average total market value of an individual fund.

Concerning non-benchmark funds, a factor attributable to the difference between the returns for an individual fund and the return for the policy benchmark was calculated as the fund factor for reference because the manager benchmark has not been set.

(Note 2) The benchmark factor is a factor attributable to the difference between the return for the manager benchmark and the return for the policy benchmark (TOPIX (with dividends)).

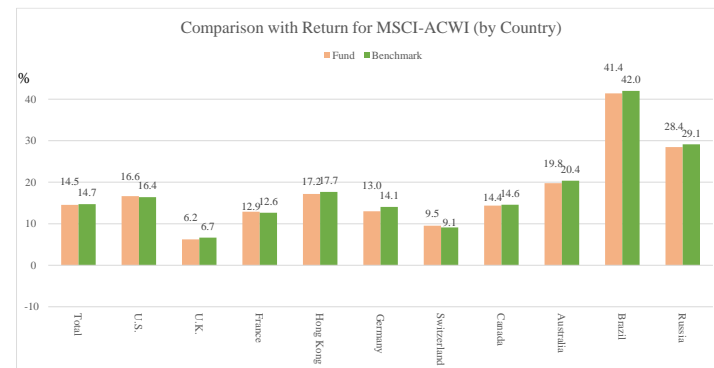
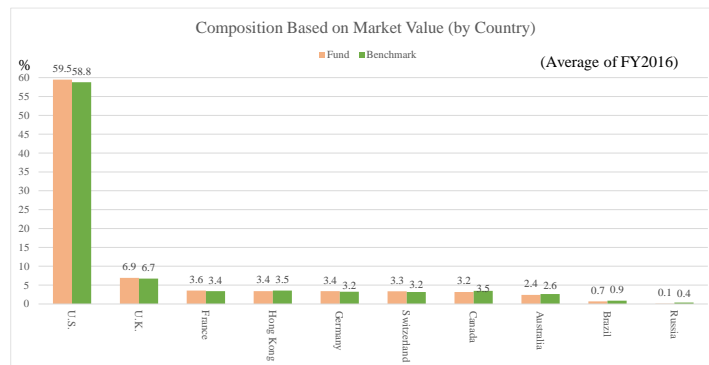
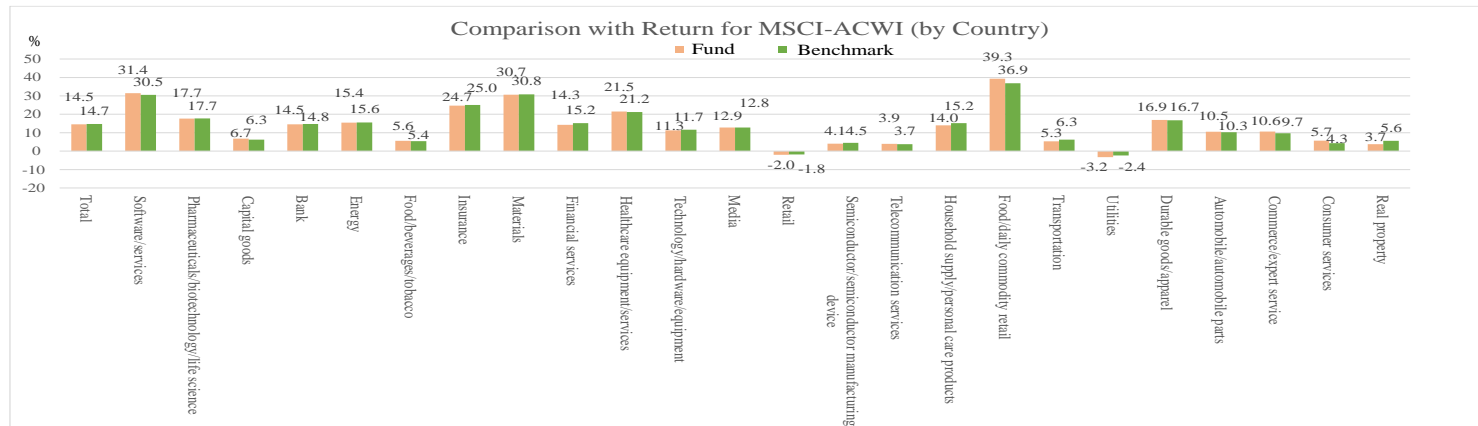
The percentage ratio is calculated in consideration of the average total market value of an individual fund.

(Note 3) "Other factors" are factors attributable to calculation errors, etc.

Equity Investment (Foreign Equities) ① Excess Return

The excess return on foreign equities compared with the benchmark was -0.34%. Concerning active investment, sector-by-sector returns were generally in line with the benchmark. However, the country selection effect made negative contributions due to the underweighting in resource-producing countries whose equities rose steeply due to a recovery of commodities markets, such as Brazil and Russia.

【Composition based on market value and the return concerning active investment】



Equity Investment (Foreign Equities) ② Contribution Analysis of the Excess Return

By factor, the excess return of -0.34% on foreign equities can be broken down as follows: fund factor: -0.21%; benchmark factor: -0.01%; other factors: -0.12%.

The fund factor made negative contributions mainly because the return for the MSCI-ACWI funds (passive and active investment) fell short of the return for the manager benchmark.

Return (market value basis) ①	Benchmark ②	Excess Return ①-②	Fund factor	Benchmark factor	Other factor
14.43%	14.77%	-0.34%	-0.21%	-0.01%	-0.12%

【Contribution analysis by investment style】

	MSCI-ACWI (Passive)	MSCI-ACWI (Active)	MSCI-KOKUSAI (Active)	MSCI-Emerging (Active)	Total
Fund factor	-0.12%	-0.16%	0.06%	0.01%	-0.21%
Benchmark factor	0.00%	0.00%	-0.02%	0.01%	-0.01%

(Note 1) The fund factor is a factor attributable to the difference between the return for an individual fund and the return for the manager benchmark. The percentage ratio is calculated in consideration of the average total market value of an individual fund.

(Note 2) The benchmark factor is a factor attributable to the difference between the return for the manager benchmark and the return for the policy benchmark (MSCI-ACWI). The percentage ratio is calculated in consideration of the average total market value of an individual fund.

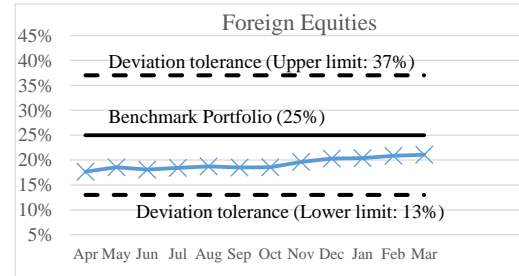
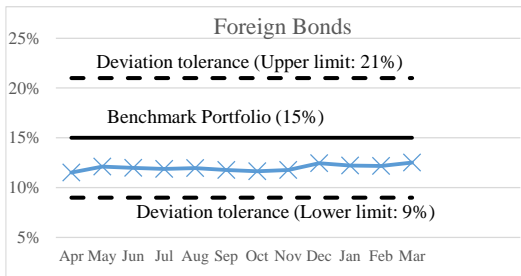
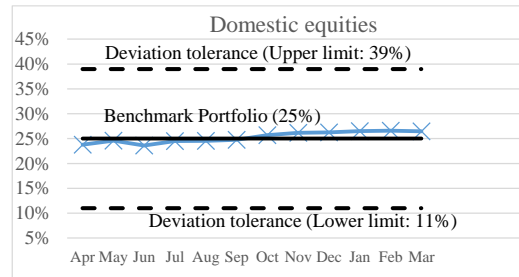
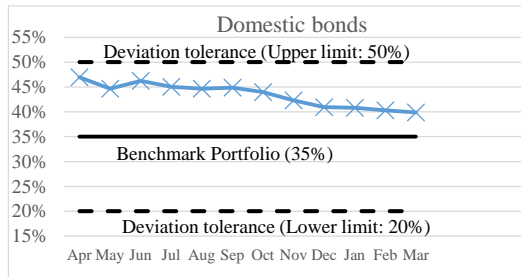
(Note 3) "Other factors" are factors attributable to calculation errors, etc.

Status of Risk Management (Overall Assets)

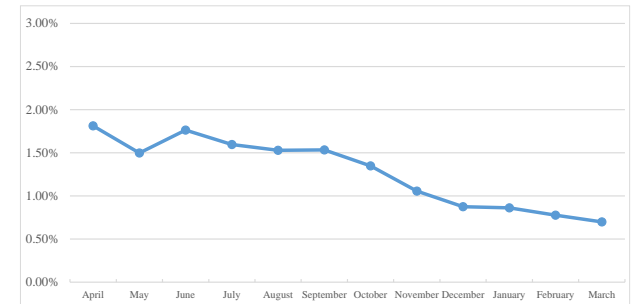
In fiscal year 2016, the shares in the asset mix concerning all asset classes—domestic bonds, domestic equities, foreign bonds and foreign equities—stayed within the deviation tolerance.

The estimated tracking error concerning overall assets declined mainly because of a reduction of the deviation concerning foreign equities.

【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.

Fiscal Year 2016 Fees

- The amount of fees totaled ¥4.8 billion in fiscal year 2016.
The fee rate relative to the value of investment assets came to 0.05%.

(Unit: JPY100M, %)

	FY2016	
	Fee	Fee rate
Domestic bonds	6	0.01
Domestic equities	17	0.07
Foreign bonds	9	0.07
Foreign equities	16	0.08
Overall assets	48	0.05

(Note 1) Fees include management fees and custodian fees related to entrusted investment.

(Note 2) Fee rate = fee amount/month-end market value average balance

(Note 3) The month-end market value average balance includes short-term assets.

Section 2 Systems and Activities Concerning Administration and Investment of Funds

Basic Approach to Investment

- As a basic policy, investment shall be made for the purpose of contributing to the stable management of the Employees' Pension Insurance operations into the future by investing safely and efficiently from a long-term perspective for the benefits of individuals covered by Employees' Pension Insurance.
- In the management of funds, investments shall be made in a way that ensures appropriate diversification across multiple assets with different risk/return profiles and other characteristics.
- To ensure the required real return on investments of the funds (meaning the investment return less the nominal wage increase) at the minimum risk, a benchmark portfolio shall be established and appropriately managed and efforts shall be made to secure the benchmark return for each asset class, including over the long term.

Basic Policy for Employees' Pension Insurance Benefit Adjustment Fund (Extract)

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 it 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 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 return for each asset class for each fiscal year, as well as generating benchmark returns for each asset class over the long term.

Concerning Long-term Investment and Diversified Investment

<Concerning Long-term Investment>

The Association seeks to secure the necessary investment return at the minimum risk by making investments in a safe and efficient manner from the long-term perspective for the benefit of insured persons under the Employees' Pension Insurance plan. (For details, please see the previous page.)

Even though the market may show highly volatile movements in the short term due to temporary factors, the volatility risk tends to decrease over the long term. Therefore, the Association makes stable investments so as to curb the risk (the degree of volatility) by purchasing and selling assets on the premise of long-term investment.

As funds entrusted to the Association do not need to be immediately expended, the Association acts appropriately to ensure safe and efficient investment of pension funds from the long-term perspective by calmly implementing necessary measures without being distracted by short-term market volatility while keeping close watch on trends in interest rates, stock prices and exchange rates.

<Diversified investment>

As described in the "Basic Approach to Investment" in the previous page, the Association seeks to secure the necessary investment return at the minimum risk in the investment of funds. However, most financial products do not guarantee a pre-determined investment return but involve risk (volatility) due to price volatility, among other factors. Investment products from which a high investment return can be expected involve relatively high risk. In contrast, if funds are invested in investment products with low risk, for which volatility is low, losses may be avoided but a high investment return cannot be expected.

Investment of pension assets aims to achieve the necessary investment return within the limits of tolerable risks. Therefore, it is essential to make investments in a highly efficient manner so that the maximum possible profits can be earned at the minimum risk. To do so, diversified investment is important.

Diversified investment makes it possible to pursue highly efficient investment by reducing risks through the diversification of various investment factors, such as investing in multiple asset classes and issues with different risk-return profiles and other characteristics and adopting various investment styles, timings and periods.

The Association is implementing the following risk diversification measures:

- (i) Securing profits by purchasing (investing in) multiple classes of assets with different expected rates of return and different risk levels (different degrees of volatility) in a well-balanced manner (asset diversification).
- (ii) Adopting products based on various strategies concerning each asset class (strategy diversification)
- (iii) Diversifying the investment timing (the timing of product origination in the case of alternative investment) (timing diversification)

Stewardship Responsibilities ①

Stewardship Responsibilities

○Stewardship Responsibilities

Stewardship responsibilities refers to the responsibilities of institutional investors to increase medium to long-term investment returns for their clients and beneficiaries by encouraging improvements in enterprise value and sustainable growth of investee companies through means such as constructive "purposeful dialogue" (engagement) based on a deep understanding concerning the companies, their business environment, and other factors. Activities conducted by institutional investors to fulfill their stewardship responsibilities include engagement, the exercise of shareholders' voting rights, and ESG investment.

○Efforts by the Association

Based on the idea that it must conduct stewardship activities proactively in order to fulfill its "fiduciary responsibilities for the Association's memberships" and its "social responsibilities as a public pension fund," the Association established the Corporate Governance Principles of Pension Fund Association for Local Government Officials and the Guidelines for Exercising Shareholders' Voting Rights in April 2004. Through entrusted investment management institutions, the Association has exercised shareholder voting rights concerning domestic equities. In addition, since February 2010, it has also been making investments in ESG funds.

The Association agrees with the purpose of the Principles for Responsible Institutional Investors <<Japan's Stewardship Code>> established by the Financial Services Agency in February 2014, and it announced its acceptance of the Code in May 2014.

Following the review of challenges related to the exercise of voting rights concerning foreign equities in April 2016, the Association implemented measures such as establishing the Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities) in order to extend the scope of the exercise of voting rights, which was previously limited to domestic equities, to foreign equities.

In addition, in order to enhance transparency over its stewardship activities, since fiscal year 2014, the Association has published the Annual Stewardship Activity Report, which describes the Association's stewardship activities, including engagement and the exercise of voting rights conducted through investment management institutions.

Stewardship Responsibilities ②

Exercise of Voting Rights

○ Exercise of voting rights concerning domestic equities

With regard to the exercise of shareholders' voting rights, the Association instructs investment management institutions entrusted with domestic equity investment to exercise voting rights after making appropriate judgment suited to the conditions of the investee companies because it is difficult for the Association to make judgment concerning the details of companies' management decisions.

The Association has formulated the Corporate Governance Principles of Pension Fund Association for Local Government Officials, the Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities), and the Pension Fund Association for Local Government Official's Approach to Proposals on Takeover Defense Measures in order to clarify its thinking concerning the exercise of shareholders' voting rights. The Association also requires entrusted investment management institutions to exercise voting rights in accordance with the Principles, etc. In addition, the Association checks the status of the exercise of voting rights by entrusted investment management institutions and the status of engagement and other activities through periodic hearings.

○ Results of the exercise of voting rights concerning domestic equities

The Association exercised voting rights, through the 24 investment management institutions entrusted with domestic equity investment, with respect to a total of 14,639 companies which settled accounts between April 2015 and March 2016 (for 57,617 proposals in total). For the details, see the following page.

The matters learned through the monitoring are as follows:

- At investment management institutions entrusted with investment by the Association, the Association's Guidelines for Exercising Shareholders' Voting Rights are applied to their guidelines as a priority.
- Concerning investment management institutions whose understanding of the Association's guidelines had been insufficient in the exercise of voting rights in the previous year, their understanding deepened.
- Concerning proposals for which the Association entrusted decision-making to investment management institutions, appropriate decisions were made.
- The decision concerning the exercise of voting rights concerning the same proposal differed between investment management institutions in some cases because of differences in the judgment criteria of individual investment management institutions.

The Association's views are as follows:

- Although the decline in the vote-against rate in the results of the exercise of voting rights in the current year from the previous year indicates that investee companies' corporate governance is moving closer to the desirable image of companies as shown in the Association's Corporate Governance Principles, 22.0% of the proposals were voted against. Therefore, further improvement efforts are required.
- In particular, concerning proposals related to the board of directors and directors, the vote-against ratio remained high (40.4%), so the Association believes that there is ample room for improvement.
- Concerning proposals related to takeover defense measures, although the Association's guidelines stipulate that such proposals should be voted against in principle, the rate of "for" votes based on the escape clause remained high (35.1%). Therefore, it is necessary to call for investment management institutions to understand the Association's guidelines.

○ Exercise of voting rights concerning foreign equities

The Association established the Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities), effective April 1, 2016, and has exercised voting rights through entrusted investment management institutions at general shareholders' meetings held since July 1, 2016. The results of the exercise of voting rights concerning foreign equities are scheduled to be disclosed in the Annual Stewardship Activity Report FY2017.

Stewardship Responsibilities ③

○ The results of the exercise of voting rights

Between July 2015 and June 2016, regarding the Employees' Pension Insurance Benefit Adjustment Fund, the Association exercised voting rights, through the 24 investment management institutions entrusted with domestic equity investment, with respect to a total of 14,639 companies which settled accounts between April 2015 and March 2016. The number of proposals concerning which voting rights were exercised was 57,617.

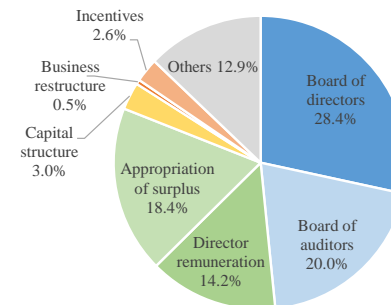
The Association voted against 12,677 of the 57,617 proposals (among which 1,577 were shareholder proposals), which translates into a vote-against rate of 22.0% (down 1.9 points from the previous year).

The vote-against rate came to 40.4% (down 7.9 points from the previous year) concerning proposals related to the board of directors/directors, 18.7% (up 0.6 points) concerning proposals related to the board of auditors/auditors, 11.0% (down 5.7 points) concerning proposals related to director remuneration, etc. and 4.3% (down 0.3 points) concerning proposals related to appropriation of surplus.

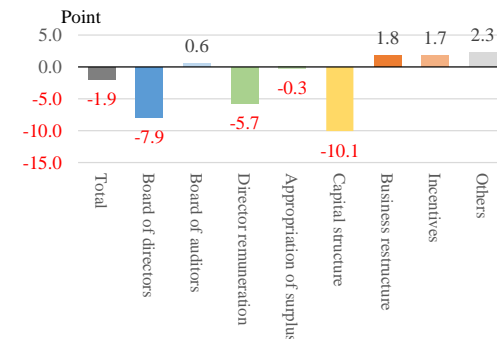
Voting activity (Employees' Pension Insurance Benefit Adjustment Fund) Companies with accounting settlement between April 2015 and March 2016

Items on agenda	Total	Composition	Vote for		Vote against		Vote-against rate in the previous year
				Rate		Rate	
Total	57,617	100%	44,940	78.0%	12,677	22.0%	23.9%
Shareholder proposal	1,634	2.8%	57	3.5%	1,577	96.5%	97.9%
By subject	57,617	100%	44,940	78.0%	12,677	22.0%	23.9%
Board of directors/directors	16,362	28.4%	9,748	59.6%	6,614	40.4%	48.3%
Board of auditors/auditors	11,526	20.0%	9,368	81.3%	2,158	18.7%	18.2%
Director remuneration, etc.	8,179	14.2%	7,282	89.0%	897	11.0%	16.6%
Appropriation of Surplus	10,602	18.4%	10,146	95.7%	456	4.3%	4.6%
Agenda concerning capital structure	1,740	3.0%	1,142	65.6%	598	34.4%	44.4%
Takeover Defense Measures	875	1.5%	307	35.1%	568	64.9%	62.4%
Capital increase or reduction	76	0.1%	73	96.1%	3	3.9%	3.3%
Third Party Allotment of Shares	20	0.0%	15	75.0%	5	25.0%	0.0%
Stock Buyback	47	0.1%	28	59.6%	19	40.4%	46.2%
Business Restructure	288	0.5%	282	97.9%	6	2.1%	0.3%
Incentives Improvement for Executives and Employees	1,508	2.6%	1,108	73.5%	400	26.5%	24.8%
Other	7,412	12.9%	5,864	79.1%	1,548	20.9%	18.6%

Share by proposal subject



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



*The above figures include the results of the exercise of voting rights before October 2015, when the pension plans were integrated into the Employees' Pension Insurance plan.

Stewardship Responsibilities ④

Engagement

○ Engagement initiatives

The Association requires entrusted investment management institutions to conduct engagement and holds interviews concerning the status of engagement in order to increase pension assets in the medium to long term by promoting improvements in enterprise value and sustainable growth through constructive, "purposeful dialogue" (engagement) based on deep understanding of investee companies, their operational environment and other factors.

In fiscal year 2015, the Association implemented engagement with a total of 3,548 companies through the 24 investment management institutions entrusted with domestic equity investment.

For the details, see the next page.

The matters learned through the monitoring are as follows:

- All investment management institutions entrusted with domestic equity investment by the Association implemented dialogue with investee companies. In addition, engagement was implemented in the case of both active and passive investments.
- Many investment management institutions positioned engagement as an "important means to promote an increase in enterprise value."
- In some cases, investment management institutions entrusted with investment in multiple products changed the subjects and method of dialogue, the target period, etc. concerning products with different characteristics such as active and passive investment products.
- While some investment management institutions granted significant authority over implementation processes to investment management officers and analysts, others had company-wide systems based on the stewardship division.
- There were differences concerning the number of officials in charge of engagement between investment management institutions, reflecting differences in organization size, investment style, etc.
- There was wide variance between investment management institutions in the number of companies with which engagement was conducted, reflecting differences in the number of entrusted products, the investment style and the definition of engagement.

The Association's views are as follows:

- The Association believes that investment management institutions are using various resourceful ideas and initiatives concerning their policy for engagement, the method of dialogue, etc., reflecting their respective investment philosophies and investment styles.
- On the other hand, the Association also believes that there are issues concerning which the policy should be reviewed from the viewpoint of enhancing the effectiveness of engagement, such as investment management institutions' definitions of and systems for engagement activity and the activity's relationship with the investment process.

Stewardship Responsibilities ⑤

○ Number of cases of engagement

In fiscal year 2015, regarding the Employees' Pension Insurance Benefits Adjustment Fund, the Association implemented engagement with a total of 3,548 companies through the 24 investment management institutions entrusted with domestic equity investment. The number of cases of engagement was 9,837 in total. The number of cases of direct dialogue with top managers of companies was 2,873, or 29.2% of the total.

Regarding major subjects of engagement, the number of cases of dialogue concerning management strategy issues, including management challenges, came to 5,228, or 53.1% of the total, followed by dialogue concerning corporate governance issues, including the composition of the board of directors with 1,534 cases (15.6%) and capital policy issues, including the shareholder return with 1,534 cases (15.6%).

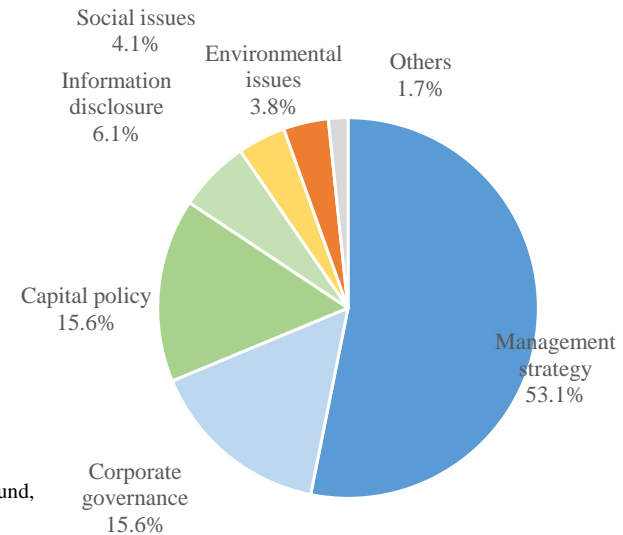
Number of cases of engagement in FY 2015 (including overlaps)

Dialogues	Number of cases		Dialogues with top managers	
		Composition		Rate
Total	9,837	100.0%	2,873	29.2%
Dialogues concerning management strategy	5,228	53.1%	1,741	33.3%
Dialogue concerning corporate governance	1,534	15.6%	372	24.3%
Dialogues concerning capital policy	1,534	15.6%	497	32.4%
Dialogues concerning information disclosure	600	6.1%	175	29.2%
Dialogues concerning social issues	402	4.1%	36	9.0%
Dialogues concerning environmental issues	376	3.8%	12	3.2%
Other	163	1.7%	40	24.5%

*Including the results before October 2015, when the pension plans were integrated into the Employees' Pension Insurance plan.

*The number of cases of activity was the same with respect to the Transitional Long-term Benefits Adjustment Fund, which adopts the same products.

Share by dialogue item



Stewardship Responsibilities ⑥

Engagement

○ Results of engagement

As an engagement result, the Association seeks to fulfill its stewardship responsibilities while obtaining medium- to long-term returns. However, as share prices of investee companies fluctuate due to various factors such as global economic and monetary policy trends, it is difficult to quantitatively measure the contribution of engagement to the return. Therefore, the Association requires entrusted investment management institutions to make improvements with respect to engagement activity's objectives, contents, PDCA cycle, continuity and management procedures in order to encourage the growth of enterprise value through enhancement of corporate governance and other measures.

<Example cases of engagement that led to some results>

- As a result of continuous dialogue concerning enhancement of competitiveness, measures to improve business performance through structural reform and an increase in research and development investment were announced.
- As a result of the presentation of proposals for governance improvement to companies, measures were implemented to enhance the transparency of the board of directors and improve the management of the board.
- As a result of dialogue calling for improvement in the return on equity (ROE), measures were implemented to enhance shareholder return, including an increase in dividends and stock buyback.
- As a result of calling for a company to restore the trust lost due to an inappropriate incident, the decision was made to introduce measures to strengthen internal control systems and prevent recurrence.

ESG investment

○ ESG investment effort

As the Association invests pension funds over the long term, it is rational to aim to maximize the long-term return by paying attention not only to short-term business performance when making investment but also to factors related to sustainability, including ESG.

The Association believes that it can simultaneously fulfill "the fiduciary duty of increasing the value of stocks for members over the long term" and "the social responsibility as a public pension fund" by seeking to increase the investment return through the sustainable growth of investee companies and the enhancement of shareholder value and by encouraging efforts to resolve social challenges, such as environmental, human rights and employment issues.

As of the end of fiscal year 2016, the Association was entrusting the management of four products with a total market value of ¥91 billion as ESG funds.

Stewardship Responsibilities ⑦

Future Efforts

○ Future Efforts

The Association intends to actively conduct stewardship activity, mainly the exercise of voting rights, engagement and ESG investment, in order to simultaneously fulfill the fiduciary and social responsibilities.

The Association believes that the stewardship responsibilities can be more effectively fulfilled on the whole by continuing to appropriately develop its policy for stewardship activity, including the Guidelines for Exercising Shareholders' Voting Rights, and indicating its approach and policy and then by conducting stewardship activity through investment management institutions with in-depth knowledge concerning corporate management and appropriately monitoring their activity from the viewpoint of enhancing the activity's effectiveness.

Specifically, the Association is considering the following efforts.

▪ Implementation of effective monitoring of entrusted investment management institutions

In consideration of the purpose of the revision of Japan's Stewardship Code, from the viewpoint of enhancing the effectiveness of stewardship activity, the Association will continue to make sure that entrusted investment management institutions' stewardship activity is consistent with the Association's policy and implement effective monitoring placing emphasis on the quality of initiatives, including measures to promote effective activities by investment management institutions.

▪ Collaboration with other public pension funds, etc.

As part of its support for appropriate decision making related to dialogue with investee companies and stewardship activity, the Association will conduct initiatives such as exchanging opinions with its member associations and other public pension funds as necessary.

▪ Exercise of voting rights concerning foreign equities

From the viewpoint of more actively fulfilling the stewardship responsibilities, the Association will exercise voting rights concerning equities of foreign companies holding a general meeting of shareholders on or after July 1, 2016, in addition to the conventional exercise of voting rights concerning domestic equities, through investment management institutions. It will also appropriately publish and report the results and status of the exercise of voting rights.

▪ Revision of the Corporate Governance Principles, etc.

The Association will revise the "Corporate Governance Principles of Pension Fund Association for Local Government Officials," the "Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities)" and the "Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities)" as necessary while taking into consideration revisions of laws, regulations and codes and changes in the social situation. The association will also consider formulating a policy concerning engagement.

Diversification of eligible investment instruments (investment in alternative assets) ①

To pursue diversified investment of adjustment funds for the purpose of investing funds of the Employees' Pension Insurance Benefit Adjustment Fund safely and efficiently from a long-term perspective, alternative investment was started in fiscal year 2015 in consideration of the opinion expressed by a panel of outside experts.

Judgment concerning the selection of investment products is made comprehensively, by taking into consideration quantitative and qualitative evaluation of factors such as the investment policy and investment process.

Investment policy pertaining to diversification of eligible investment instruments (investment in alternative assets) (Excerpt)

1. Definition of diversification of eligible investment instruments

① Definition of diversification of eligible investment instruments

"Diversification of eligible investment instruments" means making investments in assets whose characteristics, such as the risk/return profiles, are different from those of traditional assets such as equities and bonds ("alternative assets").

② Scope of alternative assets

Alternative assets are assets such as real estate, infrastructure and private equities, and negotiable securities, trust beneficiary rights and other assets backed by those assets.

2. Purpose of diversification of eligible investment instruments

Diversification is used to promote diversified investment of managed funds for the purpose of investing the funds safely and efficiently from a long-term perspective.

3. Classification of alternative assets in the benchmark portfolio, etc.

(1) Classification of alternative assets in the benchmark portfolio

Alternative assets are classified into domestic bonds, domestic equities, foreign bonds or foreign equities according to their risk/return profiles and other characteristics.

(2) Share of alternative assets in the asset mix of the portfolio

The share of alternative assets in the asset mix is limited to a maximum of 5% of overall managed funds and the total assets of each implementing organization's funds.

Diversification of eligible investment instruments (investment in alternative assets) ②

Investment policy pertaining to diversification of eligible investment instruments (investment in alternative assets) (Excerpt)

4. Matters to note when diversifying eligible investment instruments

The Pension Fund Association for Local Government Officials (hereinafter referred to as the "Association") takes note of the following matters when diversifying eligible investment instruments.

- ① In principle, investment is diversified between traditional assets, such as equities and bonds, and alternative assets and across different types of alternative assets.
- ② Diversification is made after the effects of diversified investment have been recognized and sufficient evidence to support the expectation that an excess return can be obtained has been obtained.
- ③ Because alternative assets are different from traditional assets in many points, such as marketability, profitability, individuality, transaction cost, and information disclosure status, the Association conducts a study with due consideration of the development of the market environment, including the steady improvement of the earning capacity of each asset and the development of the secondary market.
- ④ The Association identifies in advance the expected return concerning an investment strategy to be adopted and the risks and costs that could ensue.
- ⑤ The Association makes alternative investment after developing the investment and risk management systems necessary for the investment (including hiring personnel with advanced expert skills).
- ⑥ The Association uses the expert knowledge of the Fund Management Committee of Pension Fund Association for Local Government Officials.

< Specific measures >

(1) Introduction of an Asset Manager Registration System

On July 31, 2015, the Association introduced an Asset Manager Registration System for Alternative Investments and started receiving entries from investment management institutions with respect to investment products using domestic and foreign real estate and infrastructure as investment instruments.

Subsequently, private equities were added to the scope of eligible investment instruments on June 30, 2016.

An Asset Manager Registration System is a system whereby the Association accepts entries from investment management institutions for investment products on an ongoing basis and evaluates and selects investment products.

(2) Selection of investment products

From among the investment products entered, the Association carefully selected investment products that are expected to bring long-term income gains and provide the diversification investment effect. As of the end of fiscal year 2016, based on a comprehensive evaluation from both quantitative and qualitative aspects, the Association decided to adopt a total of nine alternative asset products, including three products investing in domestic real estate, two products investing in foreign real estate, three products investing in foreign infrastructure and one product investing in domestic private equities.

In the future, to seize opportunities for investing in superior investment products likely to contribute to diversified investment of the adjustment funds, the Association will continue to evaluate the investment products entered and make selection.

Diversification of eligible investment instruments (investment in alternative assets) ③

(3) Status of investment in alternative assets

○ Investment in domestic real estate (classified into domestic bonds)

Investment management institution	Outline of the investment product	Commitment value	Start of investment	Return
Resona Bank	Investment in domestic real estate	JPY10 billion	January 2016	0.34%
Nomura Asset Management	Investment in domestic real estate	JPY3 billion	April 2016	2.64%
Daiwa Fund Consulting	Making diversified investment in compact rental houses for single persons for which there is steady demand, mainly in the Tokyo area.	JPY5 billion	September 2016	0.51%

○ Investment in foreign real estate (classified into foreign bonds)

Investment management institution	Outline of the investment product	Commitment value	Start of investment	Return
UBS Asset Management	Making diversified investment in a broad range of real estate assets, including rental houses, commercial facilities, offices, industrial facilities and hotels, in major U.S. markets.	JPY3 billion	June 2016	12.37%

(Note 1) The commitment values indicated above are figures converted into yen terms.

(Note 2) The returns indicated above are not returns for investment products but the time-weighted returns for discretionary investment accounts that include short-term assets. As the covered period is from the start of investment (except for the case of Resona Bank, for which the period is from April 2016) to the end of March 2017, dividends for the covered period are not reflected in the income of discretionary investment accounts for investment products with an investment track record of less than one year in some cases due to time lags. As a result, the returns indicated above are lower than the actual returns. Meanwhile, the returns for foreign investment products may be affected by changes in market value due to exchange rate fluctuations.

(Note 3) Only the data for which agreement on disclosure has been obtained from entrusted investment management institutions are indicated above.

Diversification of eligible investment instruments (investment in alternative assets) ④

(3) Status of investment in alternative assets

○ Investment in foreign infrastructure (classified into foreign bonds)

Investment management institution	Outline of the investment product	Commitment value	Start of investment	Return
Mitsubishi UFJ Trust and Banking Corporation	Currently investing in global infrastructure assets, mainly in Europe. Maintaining a portfolio comprised mainly of regulated and contracted assets, including energy, water and transportation infrastructure, but partly of assets linked to the economic cycle.	JPY3 billion	June 2016	9.85%
JP Morgan Asset Management	Investing in energy, water and transportation infrastructure assets in OECD countries. Maintaining a portfolio comprised mainly of regulated assets and contracted assets with emphasis placed on stability.	JPY3 billion	July 2016	6.17%

(Note 1) The commitment values indicated above are figures converted into yen terms.

(Note 2) The returns indicated above are not returns for investment products but the time-weighted returns for discretionary investment accounts that include short-term assets. As the covered period is from the start of investment to the end of March 2017, dividends for the covered period are not reflected in the income of discretionary investment accounts for investment products with an investment track record of less than one year in some cases due to time lags. As a result, the returns indicated above are lower than the actual returns. Meanwhile, the returns may be affected by changes in market value due to exchange rate fluctuations.

(Note 3) Only the data for which agreement on disclosure has been obtained from entrusted investment management institutions are indicated above.

Selection of Entrusted Investment Management Institutions

<Approach to selection>

The Association makes the selection by comprehensively taking account of the diversification of investment styles across its entire portfolio and other factors based on the benchmark portfolio after conducting the following evaluation in accordance with the criteria prescribed by the Basic Policy for Employees' Pension Insurance Benefit Adjustment Fund, etc.

- Qualitative evaluation of the applicant institutions' investment philosophy, investment methodology, investment structure, compliance system, etc.
- Evaluation of the stability of the applicant institutions' management conditions (capital amount, financial position, number of employees, customer base, etc.)

In light of the purpose of the selection, the Association also conducts the following evaluation:

- Evaluation as to whether or not the applicant institutions have achieved good investment performance over a period of time longer than the prescribed duration
- Evaluation as to whether the proposed investment products meet the needs and whether a good return can be expected based on comparison of investment methodologies and analysis of the risk profiles, levels and trends using long-term risk data concerning the portfolio (risk data concerning various factors)

<Introduction of an Asset Manager Registration System>

With the aim of collecting information on products attracting attention in the market and flexibly inviting product entries, the Association has introduced an asset manager registration system whereby it accepts entries from various investment management institutions for investment products on an ongoing basis and implements evaluation and selection as necessary.

On July 31, 2015, the Association introduced an Asset Manager Registration System for Alternative Investments and started accepting entries from investment management institutions for investment products using domestic and foreign real estate and infrastructure as investment instruments. On June 30, 2016, private equities were added to the scope of eligible investment instruments. In addition, on December 16, 2016, an Asset Manager Registration System for Domestic Bonds was introduced, and the acceptance of entries started with respect to investment products adapted to low interest rates.

○ Selection of investment products

- (1) Concerning alternative investment, the adoption of a total of nine products has been determined as is mentioned in "Diversification of eligible investment instruments (investment in alternative assets) ②: P38."
- (2) Concerning domestic bonds, the selection process is ongoing with respect to investment products whose income sources are diversified to an extent that does not involve excessive risks and which are adapted to low interest rates among the 89 products entered (by 31 companies).

Administration and Evaluation of Entrusted Investment Management Institutions and Asset Administration Institutions

(1) Entrusted investment management institutions

Entrusted investment management institutions are required to submit monthly reports on the investment status and quarterly reports on the overview of investment results, future investment policy and other matters. In addition, the Association conducts a detailed interview semiannually concerning the overview of investment results, future investment policy and other matters.

Furthermore, the Association conducts a comprehensive evaluation combining quantitative and qualitative evaluation by asset and by investment category. Comprehensive evaluation is intended to conduct evaluation from the long-term perspective and from the viewpoint of the role that each fund is expected to play in the Association's portfolio. Quantitative evaluation mainly assesses the actual excess return after deduction of compensation, the information ratio (the tracking error in the case of passive investment), and the cost performance. Qualitative evaluation assesses the quality of the portfolio investment that cannot be captured by quantitative evaluation and the communications capabilities of investment management institutions.

The Association allocates funds in a consistent manner across the entire portfolio in consideration of not only the results of comprehensive evaluation but also the balance of strategy categories in each asset class and the balance of funds in each category.

Based on the comprehensive evaluation for fiscal year 2016, the Association has increased or decreased the amounts invested in domestic equities, foreign bonds, and foreign equities.

(2) Asset administration institutions

The Association provides an incentive or gives a reminder for asset administration institutions as appropriate by providing feedback on the results of qualitative evaluation of their asset administration status and by transferring funds from one institution to another depending on the results in order to ensure appropriate administration by asset administration institutions.

Measures taken to respond to low and negative interest rates

- In recent years, in order to achieve the “price stability target” of 2% at an early time, the Bank of Japan (BOJ) has introduced monetary policy measures such as the Quantitative and Qualitative Monetary Easing with a Negative Interest Rate (announced on January 29, 2016) and the Quantitative and Qualitative Monetary Easing with Yield Curve Control (announced on September 21, 2016). Consequently, investors have shifted funds from short-term assets, to which negative interest rates are applied, to Japanese government bonds (JGBs). Some investors have purchased JGBs in order to earn profits by selling them later to the BOJ, which is conducting JGBs purchase operations. As a result, the yield on JGBs declined and has stayed negative at around zero.
- In this market environment, the following points can be cited as challenges for fund managers.
 - In the portfolio. Income gains may decline due to the redemption of bonds purchased when interest rates were high.
 - If investment in ultra-long-term bonds is made actively in order to avoid purchasing bonds with a negative yield, an interest rate rise in the future may cause valuation losses on bond holdings to increase and reduce the average yield due to the presence of low-coupon bonds.

<Measures so far taken to respond to low and negative interest rates>

- Concerning domestic bonds, the following measures have been taken.
 - Avoiding purchases of bonds with a negative yield
 - Investing in 20-year bonds as well in order to earn income gains in consideration of the risk of a future interest rate rise
 - Purchasing investment-grade corporate bonds
 - Allocating more funds to currency-hedged foreign bonds (foreign currency-denominated bonds hedged against exchange risk)
- Concerning other assets, the following measures have been taken.
 - Investing in real estate and infrastructure as alternative investment
 - Reducing holdings of short-term assets (surplus funds within funds) to which negative interest rates are applied
 - Opening ordinary accounts to which negative interest rates are not applied

Governance ①

(1) Organization

As of April 1, 2017, the Association had 12 executives, consisting of the president, eight Executive Directors (one full-time executive responsible for administration and fund investment and another responsible for pensions, and six part-time directors), and three auditors (one full-time auditor and two part-time auditors), as well as 70 employees.

The organization consists of the General Affairs Department (General Affairs Division, Planning and Research Division, Audit Office), the Fund Management Department (Fund Planning and Administration Division, Fund Management Division 1, Fund Management Division 2, Risk Management Division), and the Pension Management Department (Pension Division, Actuarial Division, Adjustment Division, Information Systems Division, Information Management Division).

The Auditing Office conducts audits of non-financial activities in cooperation with the auditors.

(2) Governing Council

Members of the Governing Council are appointed by the Minister of Internal Affairs and Communications from among association members. The Minister of Internal Affairs and Communications must appoint members from among individuals who possess broad knowledge concerning matters pertaining to the operations of individual mutual aid associations, the National Federation of Mutual Aid Associations for Municipal Personnel and the Pension Fund Association for Local Government Officials. In this case, half of all members must be representatives of members of individual mutual aid associations.

Revision of the articles of incorporation, the formulation and revision of the rules of operations, annual business plans, budgets and account settlement, disposal of important assets and assumption of significant debt are subject to deliberation by the Governing Council.

Meanwhile, the Governing Council is empowered to investigate and deliberate important matters pertaining to the operations of the Association upon request from the President and to present proposals to the President with respect to the matters for which the need to do so is recognized.

(3) Fund Management Committee of Pension Fund Association for Local Government Officials

To study expert matters pertaining to the administration and investment of each adjustment fund based on the Basic Policy for Employees' Pension Insurance Benefit Adjustment Fund (established on October 1, 2015), etc., the Association has established the Fund Management Committee of Pension Fund Association for Local Government Officials, which is comprised of individuals who possess academic knowledge or practical experience in areas such as economics, finance, and fund management.

Governance ②

(4) Asset Management Committee

The Association has established the Asset Management Committee, which is chaired by a full-time director responsible for fund management, in order to conduct preliminary deliberation when the President makes important decisions concerning management of the investment status of the Employees' Pension Insurance Benefit Fund, the Annuity Retirement Benefit Fund and the Transitional Long-term Benefit Fund and the administration and investment of the Employees' Pension Insurance Benefit Adjustment Fund, the Annuity Retirement Benefit Adjustment Fund and the Transitional Long-term Benefit Adjustment Fund.

In principle, the Committee shall hold a regular weekly meeting and shall also meet as necessary. The chairperson shall promptly report to the President on the status of discussions at the Committee.

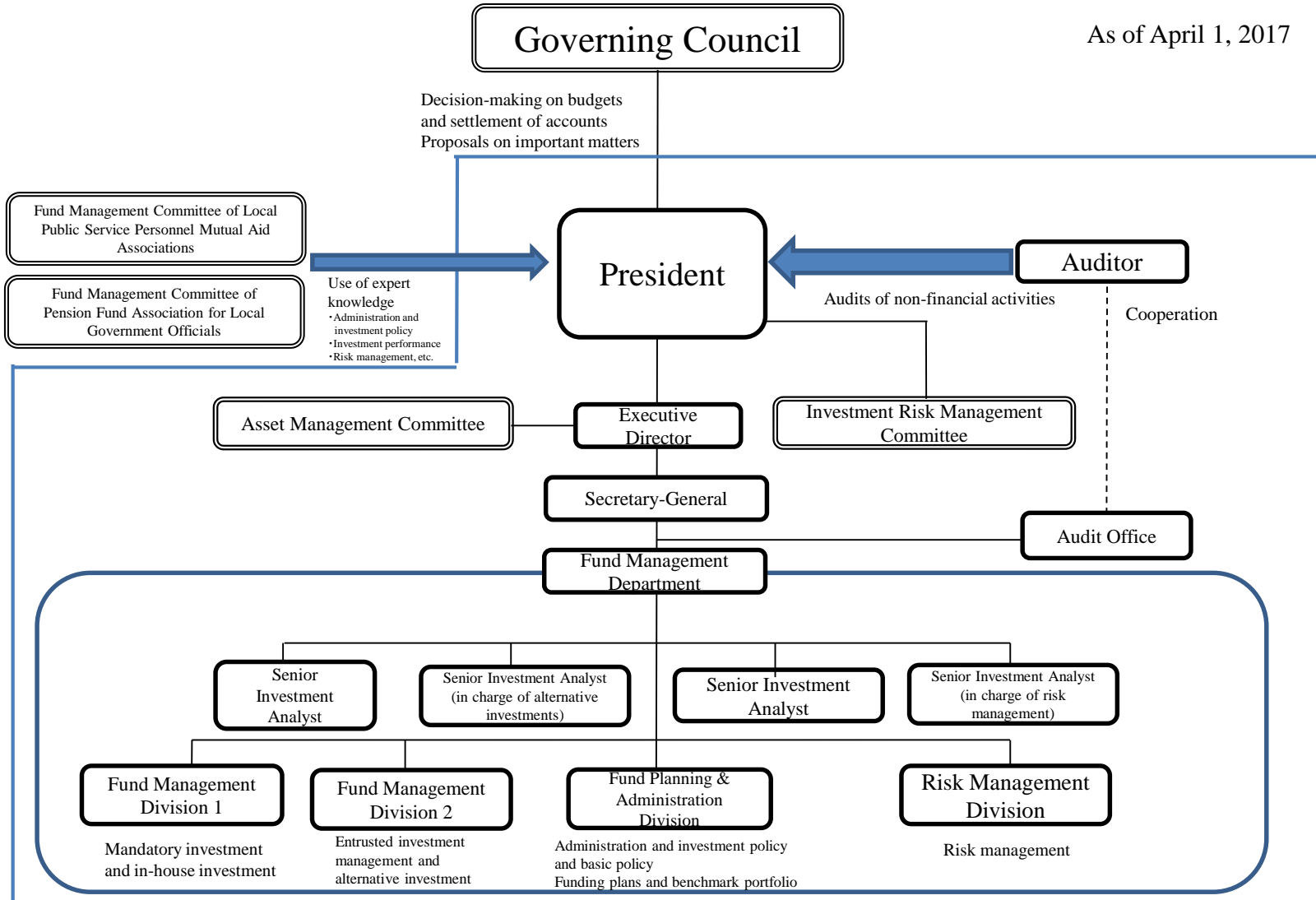
(5) Investment Risk Management Committee

The Association has established the Investment Risk Management Committee, which is chaired by the President, in order to deliberate matters pertaining to the risk management of investment of the Employees' Pension Insurance Benefit Fund, the Annuity Retirement Benefit Fund and the Transitional Long-term Benefit Fund and the risk management of investments of the Employees' Pension Insurance Benefit Adjustment Fund, the Annuity Retirement Benefit Adjustment Fund and the Transitional Long-term Benefit Adjustment Fund so that the risk management can be appropriately conducted.

Unlike the Asset Management Committee, this committee is under the direct control of the President in order to ensure mutual checks and balances between the risk management side and the investment side. In principle, the Investment Risk Management Committee shall hold a regular quarterly meeting and shall also meet as necessary.

Governance ③

As of April 1, 2017



Governance ④ (Fund Management Committee of Pension Fund Association for Local Government Officials)

○ Fund Management Committee of Pension Fund Association for Local Government Officials

To study expert matters pertaining to the administration and investment of each adjustment fund based on the Basic Policy for Employees' Pension Insurance Benefit Adjustment Fund (established on October 1, 2015), the Basic Policy for Annuity Retirement Benefit Adjustment Fund (established on October 1, 2015) and the Basic Policy for Long-term Benefit Adjustment Fund (established on October 1, 2015), the Association has established the Fund Management Committee of Pension Fund Association for Local Government Officials, which is comprised of individuals who possess academic knowledge or practical experience in areas such as economics, finance, and fund management.

List of Committee Members (As of April 2017)

Chairperson	
Takaaki Wakasugi	Executive Director, Michigan University-Mitsui Life Financial Research Center
Hidetaka Kawakita	Kyoto University, Professor Emeritus
Konosuke Kita	Russell Investments Japan Co., Ltd. Executive Consultant/Director, Consulting
Yoshiko Takayama	J-Eurus IR Co., Ltd. Managing Director
Hitoshi Takehara	Professor, Waseda Business School (Graduate School of Business and Finance)
Kazuyo Hachisuka	Managing Director, Japan Economic Research Institute Inc.
Kumi Fujisawa	President, Think Tank SophiaBank

- Committee deliberation matters
 - ① Matters concerning formulation and revision of the basic policy
 - ② Matters concerning formulation and revision of risk management implementation policy
 - ③ Matters concerning formulation and revision of investment policy for new investment instruments
 - ④ Matters concerning formulation and revision of flexible investment policies
 - ⑤ Matters concerning formulation and revision of the selection criteria for entrusted investment management institutions, etc.
 - ⑥ Matters concerning the revision, etc. of the Corporate Governance Principles and the Guidelines for Exercising Shareholders' Voting Rights Matters
 - ⑦ Other expert matters concerning the administration and investment of each adjustment fund
- Committee reporting matters
 - ① Investment performance
 - ② Status of risk management
 - ③ Investment status of new investment instruments
 - ④ Status of selections of entrusted investment management institutions, etc.
 - ⑤ Status of stewardship activities
 - ⑥ Status of training and nurturing of expert personnel
 - ⑦ Other matters required by the committee concerning the administration and investment of each adjustment fund
- The committee can express its opinions on important matters upon request from the President concerning expert matters related to the administration and investment of each adjustment fund.

Governance ⑤ (Approach to Risk Management)

- Generally speaking, "risk" refers to the possibility of an incident that could have a negative impact on an organization's goals and objectives. In the field of asset investment, interest rate risk, price fluctuation risk, credit risk, liquidity risk and other factors are viewed as "risks" in some cases, while the possibility that the required yield cannot be ensured may be viewed as a "risk" in other cases. Therefore, for asset investment, it is important to consider various risks commensurate with investment from a long-term perspective.
- The Association appropriately implements risk management concerning investment in accordance with the implementation policy for risk management concerning investment of the Employees' Pension Insurance Benefit Adjustment Fund in consideration of the following points: that investment of funds should be made safely and efficiently from a long-term perspective; that diversified investments should be maintained in principle; and that the relationship between all Local Public Service Personnel Mutual Aid Associations' liabilities and the funds in the future should be taken into consideration.

Implementation policy for risk management concerning investment of the Employees' Pension Insurance Benefit Adjustment Fund (excerpt)

1 Basic approach concerning risk management

The Association appropriately conducts risk management related to the investment of adjustment funds in light of the following matters.

- ① Manage adjustment funds safely and efficiently from a long-term perspective.
- ② Develop a benchmark portfolio based on the principle of managing adjustment funds through appropriate diversification across multiple asset classes with different risk/return profiles and other characteristics (hereinafter referred to as "diversified investment") and manage the funds based thereon.
- ③ Manage adjustment funds in consideration of the relationship between all Local Public Service Mutual Aid Associations' liabilities related to employees' pension insurance operations and the funds in the future.

Governance ⑥ (Approach to Risk Management)

Management of the deviation of the asset mix

- Investment based on the benchmark portfolio requires the management of various risk factors. Therefore, in order to secure profits in line with the benchmark portfolio from the long-term perspective, it is important, in particular, to manage the degree of deviation of the asset mix of the actual portfolio from that of the benchmark portfolio.
- Specifically, as the asset mix constantly changes due to asset price fluctuations, the Association keeps track of the status of the deviation of the asset mix of its actual portfolio from that of the benchmark portfolio and manages the actual portfolio so as to keep the degree of deviation within a certain range (deviation tolerance). In this way, the Association checks whether or not there are problems such as a deviation from the benchmark portfolio in excess of the deviation tolerance.
- In addition, flexible investment is made within the deviation tolerance in line with an investment policy formulated through deliberation at a meeting of experts. In this regard, the Association confirms that the existing deviation is in line with the investment policy.

Monitoring of market risk, etc.

- The Association curbs downside risks by using the value at risk approach, which measures the maximum foreseeable amount of losses, and stress tests, which conduct simulations assuming the application of certain shocks to markets. As it also uses active investment in its investment of funds, the Association seeks to earn an excess return over the benchmark by diversifying investment strategies and investment issues within each asset class.
- Therefore, the Association monitors the status of market risk (price volatility risk, etc. in each asset market), credit risk (default risk), etc. with respect to each asset class, mainly from the viewpoint of difference from the benchmark for each asset class.

Management of entrusted investment institutions, etc.

- The Association manages liquidity risk (risk that purchasing and selling assets will become difficult due to a decline in trading volume) from the viewpoint of revising asset allocations (rebalancing) and smooth conversion of assets into cash. In addition, as the Association entrusts the operation of some investment-related activities to external institutions under its asset investment system, it manages the status of management (status of risk management and asset administration) of the institutions to which it entrusts asset management or asset administration (entrusted investment institutions and asset administration institutions), from the viewpoint of smooth operation by individual institutions.

Verification of the benchmark portfolio

- It is necessary to periodically verify the benchmark portfolio, which is formulated in consideration of long-term economic forecasts, by checking its assumptions, for example. In the verification, the Association also checks whether the existing benchmark portfolio is appropriate from the viewpoint of ensuring safe and efficient investment over the long term, so it gives consideration to the viewpoint of comparison between the target investment return and the return that would be achieved if all funds were invested in domestic bonds.

Reporting on the status of risk management and improvement measures implemented

- The Association reports on the status of risk management and improvement measures implemented to the Investment Risk Management Committee, the Fund Management Committee of Pension Fund Association for Local Government Officials and the Governing Council.

Section 3 Reference Data

Pension Fund System for Local Government Officials

○Pension Fund System for Local Government Officials

The pension fund system for local government officials was established in December 1962 as a system to comprehensively manage the long-term benefits program, short-term benefits program and welfare services program for local government employees and their families, for the purpose of providing mutual aid for local government employees.

•Article 43 of the Local Public Service Act

"A mutual aid system shall be implemented in order to provide appropriate benefits in cases of employees' illness, injury, childbirth, involuntary leave, calamity, retirement, disability or death, or their dependents' illness, injury, child birth, death or calamity."

•Article 1 of the Local Public Officers, etc. Mutual Aid Association Act

"This act is intended to contribute to the improvement of the stability of lives and welfare of local public officers and bereaved families and also to efficient management of the performance of public duties by establishing a mutual aid system to provide appropriate benefits in cases of illness, injury, childbirth, involuntary leave, calamity, retirement, disability or death of local public officers, or illness, injury, childbirth, death or calamity of their dependents and by prescribing necessary matters concerning these benefits and welfare services to be provided under the system. In addition, the act prescribes matters concerning the pension system etc. for employees of local government-related entities."

○Establishment of the Pension Fund Association for Local Government Officials

The Pension Fund Association for Local Government Officials was established on April 1, 1984, in order to stabilize the foundation of pension finance by integrating the pension funding units and to ensure appropriate and smooth management of operations related to long-term benefits of mutual aid associations so that sound management of the pension system can be maintained. It is a federation comprising all local public service mutual aid associations (64 associations and the National Federation of Mutual Aid Associations for Municipal Personnel as of March 31, 2016).

Changes in the investment return, etc. (last 10 years)

(1) Investment return

	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	Latest five years (FY2012-2016)	Latest ten years (FY2007-2016)
Realized return (book value basis)	4.03%	1.30%	1.47%	1.29%	1.14%	0.74%	3.11%	4.23%	4.11%	1.80%	2.79%	2.32%
Return (market value basis)	-4.42%	-8.92%	7.95%	-0.18%	2.53%	9.80%	8.44%	11.35%	-2.19%	5.60%	6.49%	2.79%
Domestic bonds	3.43%	1.21%	2.58%	1.72%	2.46%	2.79%	0.55%	2.04%	3.50%	-0.63%	1.64%	1.96%
Domestic equities	-27.89%	-39.02%	34.17%	-7.20%	1.72%	22.08%	18.81%	30.88%	-10.02%	14.66%	14.39%	0.87%
Foreign bonds	0.43%	-6.61%	0.53%	-6.49%	5.11%	17.94%	14.79%	12.75%	-3.21%	-5.29%	6.95%	2.63%
Foreign equities	-13.65%	-43.74%	46.61%	5.04%	2.48%	27.05%	32.02%	22.67%	-8.15%	14.43%	16.68%	5.19%

(2) Value of investment income

	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	Latest five years (FY2012-2016)	Latest ten years (FY2007-2016)
Realized income (book value basis)	6,278	2,105	2,401	2,123	1,901	1,252	5,288	7,400	7,369	3,471	24,779	39,588
(Income gain)	(3,037)	(3,511)	(2,692)	(2,758)	(2,846)	(2,893)	(3,014)	(3,247)	(3,232)	(3,497)	(15,883)	(30,727)
Investment income (market value basis)	-7,435	-14,274	11,491	-276	3,908	15,549	14,718	21,435	-5,159	11,367	57,911	51,325
Domestic bonds	3,605	1,299	2,660	1,713	2,366	2,774	609	2,192	3,070	-375	8,269	19,913
Domestic equities	-8,071	-7,779	4,804	-1,632	402	5,169	4,926	10,500	-4,743	7,382	23,234	10,958
Foreign bonds	59	-1,001	77	-1,041	774	2,845	2,785	2,812	-833	-1,357	6,251	5,119
Foreign equities	-2,927	-6,714	4,017	768	454	4,841	6,456	6,068	-2,680	5,718	20,402	16,000
Short-term assets	-100	-79	-67	-84	-88	-79	-57	-137	28	0	-246	-664

(Note 1) The figures for the period before fiscal year 2014 are for the Long-term Benefit Fund.

(Note 2) The returns (market value basis) for the period from fiscal year 2007 to 2015 represent the modified total returns.

(Note 3) The investment returns for fiscal year 2015 are estimates based on the investment returns in the first half (Long-term Benefit Fund) and in the second half (Employees' Pension Insurance Benefit Adjustment Fund).
The value of investment income represents the sum of the figures for the first half (Long-term Benefit Fund) and the second half (the Employees' Pension Insurance Benefit Adjustment Fund, the Annuity Retirement Benefit Adjustment Fund and the Transitional Long-term Benefit Adjustment Fund).

(Note 4) The investment returns for fiscal year 2016 are those for the Employees' Pension Insurance Benefit Adjustment Fund.

Meanwhile, the value of investment income represents the sum of the value of investment income for the three accounts (the Employees' Pension Insurance Benefit Adjustment Fund, the Annuity Retirement Benefit Adjustment Fund and the Transitional Long-term Benefit Adjustment Fund).

(Note 5) Income gains comprise interest and dividend income.

Changes in the value of investment assets and the asset mix (last 10 years)

- The value of investment assets as of the end of fiscal year 2016 was ¥21,450.4 billion, representing the sum of the figures for the Employees' Pension Insurance Benefit Adjustment Fund, the Annuity Retirement Benefit Adjustment Fund and the Transitional Long-term Benefit Adjustment Fund.
- Concerning the asset mix, the share of domestic bonds in the mix declined, while the shares of other asset classes increased.

Changes in the value of investment assets and the asset mix (last 10 years)

	FY2007 (End of March 2008)		FY2008 (End of March 2009)		FY2009 (End of March 2010)		FY2010 (End of March 2011)		FY2011 (End of March 2012)	
	Value of investment assets (Unit: JPY100M)	Share	Value of investment assets (Unit: JPY100M)	Share	Value of investment assets (Unit: JPY100M)	Share	Value of investment assets (Unit: JPY100M)	Share	Value of investment assets (Unit: JPY100M)	Share
Domestic bonds	106,920	66.8%	103,437	71.4%	100,974	65.0%	97,282	62.9%	96,603	60.9%
Domestic equities	19,790	12.4%	12,785	8.8%	20,663	13.3%	21,934	14.2%	24,398	15.4%
Foreign bonds	14,289	8.9%	14,008	9.7%	15,517	10.0%	15,147	9.8%	16,078	10.1%
Foreign equities	15,012	9.4%	8,424	5.8%	12,962	8.3%	16,522	10.7%	19,235	12.1%
Short-term assets	4,139	2.6%	6,278	4.3%	5,283	3.4%	3,804	2.5%	2,231	1.4%
Total	160,151	100.0%	144,932	100.0%	155,401	100.0%	154,689	100.0%	158,545	100.0%

	FY2012 (End of March 2013)		FY2013 (End of March 2014)		FY2014 (End of March 2015)		FY2015 (End of March 2016)		FY2016 (End of March 2017)	
	Value of investment assets (Unit: JPY100M)	Share	Value of investment assets (Unit: JPY100M)	Share	Value of investment assets (Unit: JPY100M)	Share	Value of investment assets (Unit: JPY100M)	Share	Value of investment assets (Unit: JPY100M)	Share
Domestic bonds	105,637	60.5%	108,390	57.3%	106,492	50.5%	90,472	44.0%	86,288	40.2%
Domestic equities	26,295	15.1%	30,524	16.1%	45,441	21.6%	45,512	22.1%	56,894	26.5%
Foreign bonds	18,502	10.6%	21,101	11.1%	23,986	11.4%	24,497	11.9%	26,310	12.3%
Foreign equities	20,442	11.7%	25,890	13.7%	31,899	15.1%	35,778	17.4%	44,915	20.9%
Short-term assets	3,638	2.1%	3,378	1.8%	2,867	1.4%	9,338	4.5%	97	0.0%
Total	174,515	100.0%	189,284	100.0%	210,685	100.0%	205,596	100.0%	214,504	100.0%

(Note 1) The figures for the period from fiscal 2015 represent the sum of the figures for the Employees' Pension Insurance Benefit Adjustment Fund, the Annuity Retirement Benefit Adjustment Fund and the Transitional Long-term Benefit Adjustment Fund.

Changes in shares by asset class and by investment methodology

Changes in shares by asset class and by investment methodology

			End of FY2012	End of FY2013	End of FY2014	End of FY2015	End of FY2016
Domestic bonds	Passive		28.83%	30.51%	32.00%	37.42%	36.62%
	Active	Entrusted investment	9.61%	9.81%	10.30%	12.22%	13.42%
		Others	61.57%	59.68%	57.70%	50.35%	49.96%
Domestic equities	Passive		64.16%	60.82%	58.37%	59.59%	63.02%
	Active		35.84%	39.18%	41.63%	40.41%	36.98%
Foreign bonds	Passive		66.03%	64.40%	64.24%	51.58%	57.75%
	Active		33.97%	35.60%	35.76%	48.42%	42.25%
Foreign equities	Passive		84.52%	82.82%	79.42%	79.37%	81.55%
	Active		15.48%	17.18%	20.58%	20.63%	18.45%

(Note 1) The figures for the period from the end of fiscal year 2012 to the end of fiscal 2014 represent shares by asset class and by methodology for the Long-term Benefit Fund.

(Note 2) The figures for the period from the end of fiscal year 2015 represent shares by asset class and by methodology for the Employees' Pension Insurance Benefit Adjustment Fund.

(Note 3) The results of mandatory investment and in-house investment of domestic bonds are included in "Active" — "Others." However, in the case of Fund 2, they are included in "Passive."

(Note 4) "Passive" refers to an investment methodology intended to achieve investment performance linked to the benchmark.

(Note 5) "Active" refers to investment methodologies other than "passive."

Changes in the number of passive and active funds (entrusted investment) by asset class

Changes in the number of passive and active funds (entrusted investment) by asset class

		FY2012			FY2013			FY2014			FY2015			FY2016		
		Cancellation, etc.	New	End of FY	Cancellation, etc.	New	End of FY	Cancellation, etc.	New	End of FY	Cancellation, etc.	New	End of FY	Cancellation, etc.	New	End of FY
Domestic bonds	Passive			3			3			3			3			3
	Active			7			7			7			11			11
Domestic equities	Passive			4			4		4			8			8	
	Active			14			14		18		32		-3	7	36	
Foreign bonds	Passive		1	5			5				5		2	7	7	
	Active			6			6				6		11	17	17	
Foreign equities	Passive			4			4				4			4	4	
	Active			5		2	7		-1	10		16		16	16	
Alternative												1		1	5	6
Total		0	1	48	0	2	50	-1	32	81	-5	27	103	0	5	108
Asset administration institutions				5			5				5		-1	4	4	

(Note 1) Funds which are effectively managed in the same way as other accounts (e.g. funds temporarily established for the purpose of smooth transfer of assets) are not included.

(Note 2) Newly adopted funds are classified by fiscal year to which the date of effective start of investment belongs.

Issues Held

The tables below show the top 10 bond issues held through mandatory and in-house investment and the top 10 bond and equity issues indirectly held through entrusted investment as of the end of March 2017, with bond issues classified by issuer name and equity issues by issue name (For information concerning bond and equity issues ranked 11th or lower, see the website of the Association.)

Meanwhile, the Association manages investment and makes investment decisions concerning domestic bonds, while entrusted investment management institutions manage investment and make investment decisions concerning some domestic bonds, domestic equities, foreign bonds and foreign equities.

○Domestic bond issues held

(by issuer, in order of total market value)

No.	Names of issuers	Total market value (Unit: JPY100M)
1	Government of Japan	18,819
2	Japan Finance Organization for Municipalities	15,792
3	Japan Expressway Holding and Debt Repayment Agency	639
4	Osaka Prefectural Government	572
5	Joint LGB	354
6	The Norinchukin Bank	288
7	Japan Housing Finance Agency	210
8	Tokyo Metropolitan Government	181
9	Shinkin Central Bank	143
10	Hyogo Prefectural Government	96
Total	291 issuers	40,276

○Foreign bond issues held

(by issuer, in order of total market value)

No.	Names of issuers	Total market value (Unit: JPY100M)
1	UNITED STATES OF AMERICA	4,898
2	REPUBLIC OF ITALY	1,308
3	FRENCH REPUBLIC	979
4	UNITED KINGDOM	831
5	FEDERAL REPUBLIC OF GERMANY	828
6	KINGDOM OF SPAIN	718
7	COMMONWEALTH OF AUSTRALIA	290
8	KINGDOM OF BELGIUM	290
9	CANADA	246
10	MEXICO (UNITED MEXICAN STATES)	223
Total	442 issuers	13,155

○Domestic equity issues held

(in order of total market value)

No.	Names of issuers	No. of shares	Total market value (Unit: JPY100M)
1	Toyota Motor Corporation	12,288,600	755
2	Mitsubishi UFJ Financial Group	95,128,000	674
3	Nippon Telegraph and Telephone Corporation	9,845,300	474
4	SoftBank Group	5,826,300	459
5	Sumitomo Mitsui Financial Group	10,383,200	428
6	Honda Motor Co., Ltd.	11,482,800	388
7	KDDI Corporation	11,578,700	344
8	Mizuho Financial Group	157,626,700	327
9	Sony Corporation	7,934,800	300
10	Mitsubishi Corporation	11,894,700	291
Total	2,050 issues		27,538

○Foreign equity issues held

(in order of total market value)

No.	Names of issuer	No. of shares	Total market value (Unit: JPY100M)
1	APPLE INC	2,657,422	425
2	MICROSOFT CORPORATION	4,033,310	296
3	AMAZON.COM INC	212,470	210
4	FACEBOOK INC	1,251,090	198
5	JOHNSON & JOHNSON	1,345,336	187
6	EXXON MOBIL CORPORATION	1,897,059	173
7	JPMORGAN CHASE & CO	1,739,765	170
8	ALPHABET INC-CL C	176,583	163
9	WELLS FARGO & CO	2,531,416	157
10	ALPHABET INC-CL A	162,536	154
Total	2562 issues		21,872

(Note 1) The names of bond issuers and equity issues are those provided by the T-STAR/GX system of the Nomura Research Institute and the BARRA ONE system of MSCI and by Bloomberg as of May 2017.

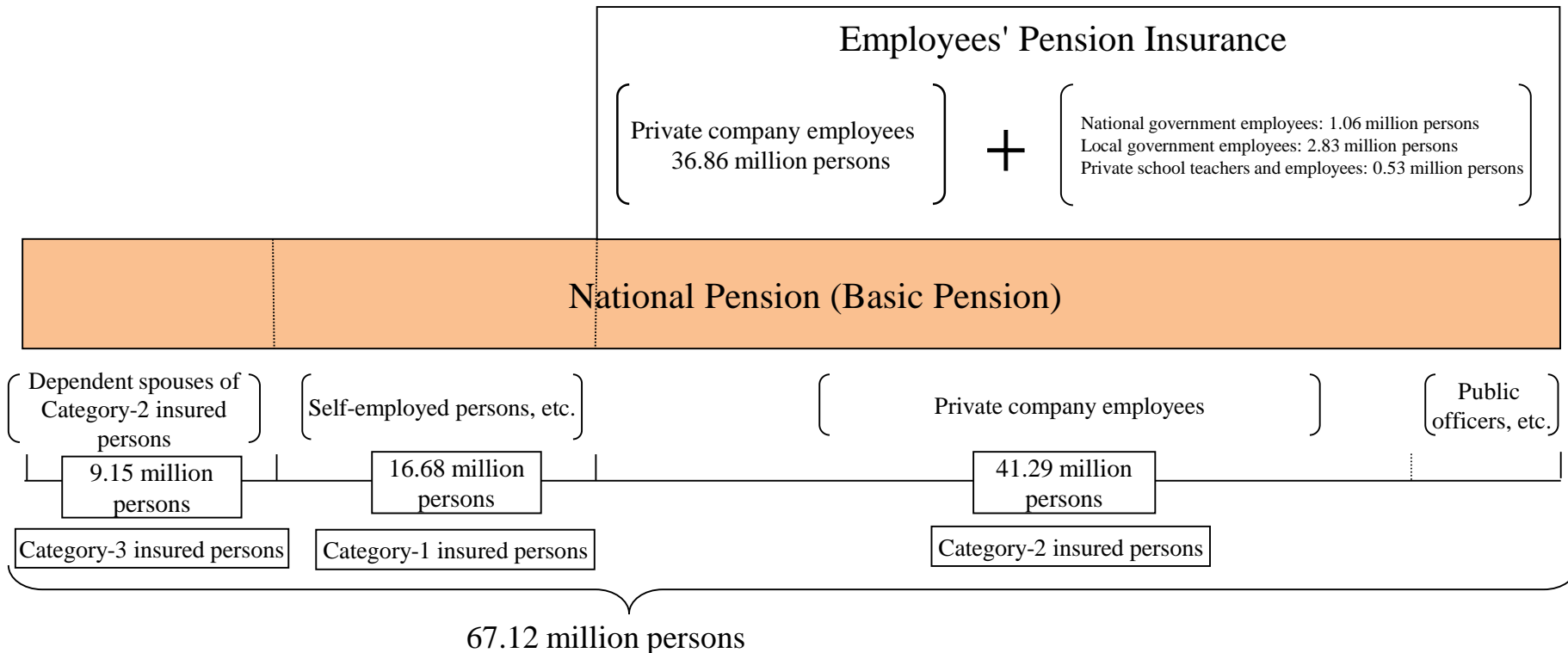
(Note 2) The total market value of bonds is an aggregated figure calculated for each issuer by the Association based on data registered in the T-STAR/GX system of the Nomura Research Institute.

Integration of Employee Pension Plans

As a result of the integration of employee pension plans, mutual aid pensions were abolished and integrated into the Employees' Pension Insurance plan.

Local government officials and private school teachers and employees joined the Employees' Pension Insurance plan, resulting in the realization of universal insurance premiums and benefits (elimination of differences across different systems).

(The figures are as of the end of March 2016)



(Note) The number of people who are members of corporate pension plans among those who are members of the Employees' Pension Insurance plan is 15.97 million.

(Breakdown: Employees' Pension Fund : 2.54 million people; defined-benefit corporate pension plans: 7.95 million people; defined-contribution pension plans (corporate type): 5.48 million people)
Meanwhile, the number of members of defined-contribution pension plans (individual-type) is 260,000 people and the number of members of the National Pension Fund is 430,000 people.

Investment of Funds after the Integration of Employee Pension Plans ①

○Investment of funds after the integration of employee pension plans

In order to ensure efficient administrative processing after the integration of employee pension plans, mutual aid associations continue to be responsible for management of pension records of association members, determination and revision of standard compensation, collection of insurance premiums, determination of pension benefits and provision of pension benefits.

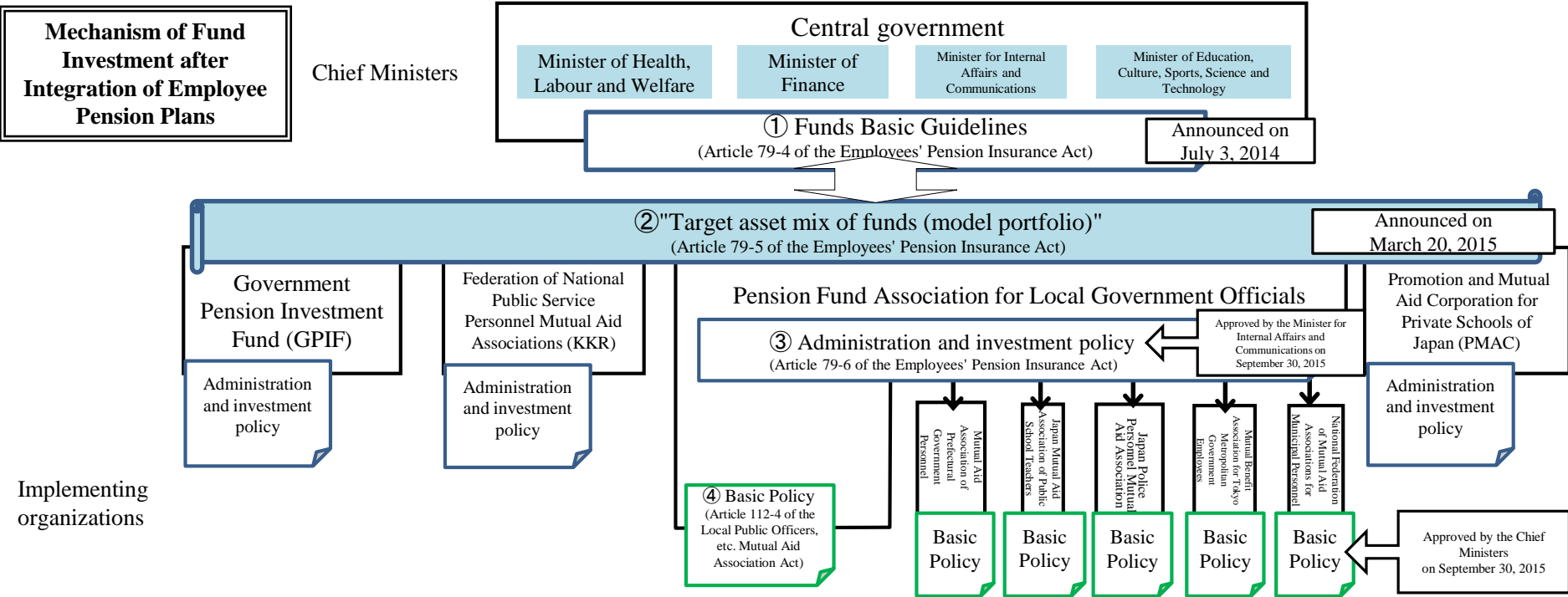
Mutual aid associations also continue to be responsible for administration and investment of funds.

As a result of the integration of employee pension plans, the Long-term Benefit Fund, which has until now been the only funding source for long-term benefits, has been replaced by the following three funds: the Employees' Pension Insurance Benefit Adjustment Fund, the Annuity Retirement Benefit Adjustment Fund, and the Transitional Long-term Benefit Adjustment Fund, since October 2015.

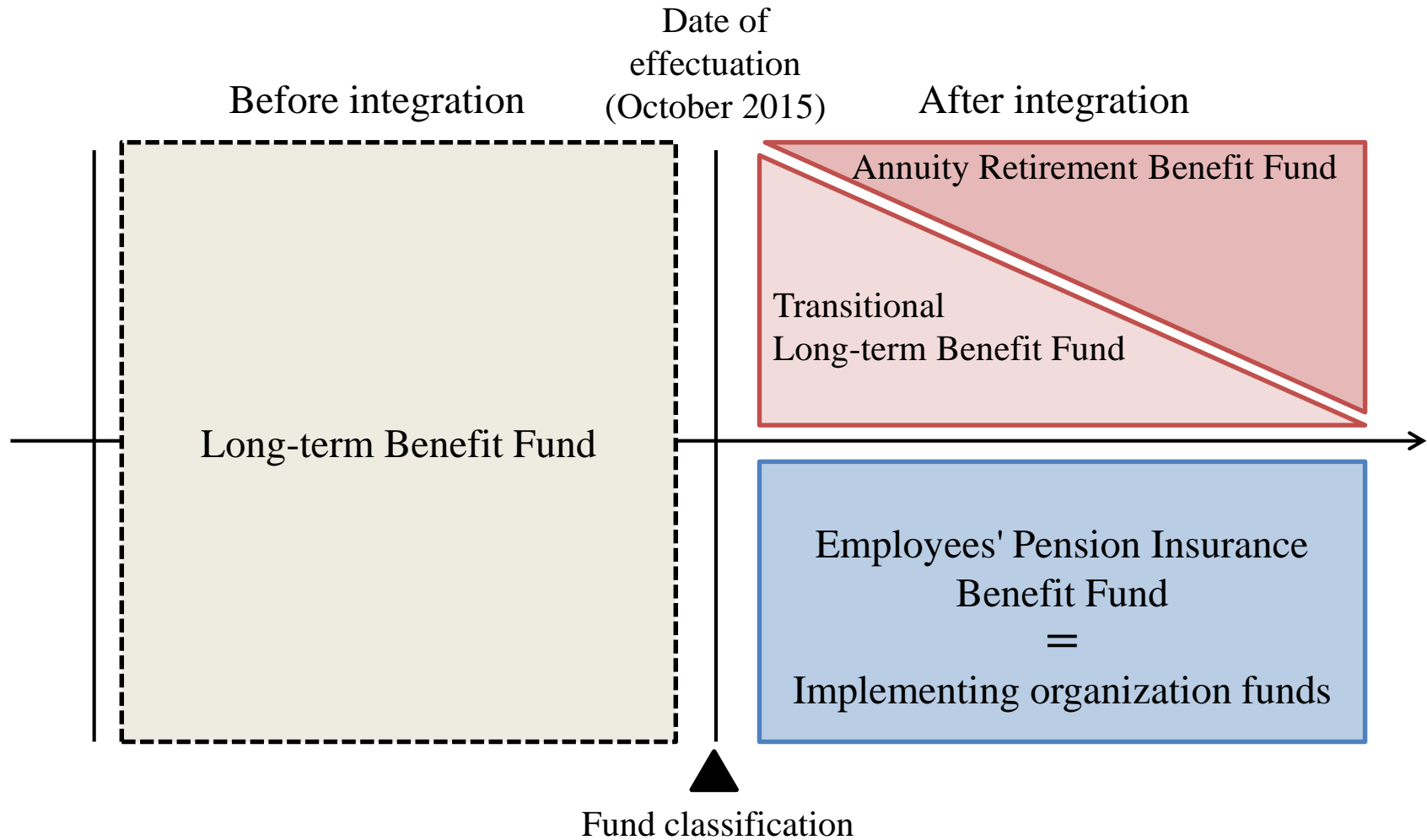
○Decisions concerning Funds Basic Guidelines, target asset mix (model portfolio) and the benchmark portfolio

- ① The chief Ministers (Minister of Health, Labour and Welfare, Minister of Finance, Minister for Internal Affairs and Communications, and Minister of Education, Culture, Sports, Science and Technology) jointly formulate the Funds Basic Guidelines (Article 79-4 of the Employees' Pension Insurance Act).
- ② The four administration and investment entities (the Government Pension Investment Fund, the Federation of National Public Service Personnel Mutual Aid Associations, the Pension Fund Association for Local Government Officials, and the Promotion and Mutual Aid Corporation for Private Schools of Japan) jointly formulate the target asset mix of funds (model portfolio) based on the Funds Basic Guidelines (Article 79-5 of the Employees' Pension Insurance Act Article 79-5).
- ③ The Association formulates the administration and investment policy (including the portfolio at local public service mutual aid associations), which serves as the common policy for organizations such as local public service personnel mutual aid associations (the implementing organizations) in accordance with the target asset mix (model portfolio) (Article 79-6 of the Employees' Pension Insurance Act).
- ④ A basic policy (including the benchmark portfolio) concerning fund administration and investment is formulated by local public service personnel mutual aid associations and other organization so as to conform to the administration and investment policy set by the Association (Article 112-4 of the Local Public Officers, etc. Mutual Aid Association Act).

Investment of Funds after the Integration of Employee Pension Plans ②



Investment of Funds after the Integration of Employee Pension Plans ③



Comparison of Characteristics of Benefits after Integration of Employee Pension Plans

	Employees' Pension Insurance Benefits	Transitional Long-term Benefits	Annuity Retirement Benefits
Pension characteristics	Employee Pension Insurance as public pension insurance [Part of the social security system]	Benefits retained against the backdrop of expected rights concerning parts of mutual aid pensions as public pensions	Part of retirement benefits [Corresponds to private-sector corporate pensions]
	Benefit amount linked to inflation		Benefit amount not linked to inflation
	Macroeconomic adjustment applied		—
	Actuarial valuation every 5 years	Preparation of the current funding status and forecast every 5 years	Actuarial valuation every 5 years
Funding system	Pay-as-you-go system	Closed pension plan	Advanced funding method
Benefits design	Defined benefit type (scheme that sets the benefit level as a percentage of the compensation during the active service period)		Cash balance-type (scheme that links the benefit level to the government bond yield, among other factors)
Premium rate	Has been increased in stages. Will remain fixed at 18.3% for public officials from 2018 onwards. (Will remain fixed at 18.3% for the Employee Pension Insurance from 2017 onwards.)	No new contributions will be made because this is a closed pension plan.	To be set in consideration of factors such as the entitlement rate, with the maximum insurance premium rate set at 1.5%.

Glossary

○ Administration and investment organizations

The four management and investment entities are the Government Pension Investment Fund, the Federation of National Public Service Personnel Mutual Aid Associations, the Pension Fund Association for Local Government Officials, and the Promotion and Mutual Aid Corporation for Private Schools of Japan.

○ Transitional Long-term Benefit Adjustment Fund

This is a pension fund which is administered and managed by the Association and which was established at the time of the integration of employee pension plans as a fund representing the former occupational portion of the plans. When an individual mutual aid association faces a shortage of financial resources to cover transitional long-term benefit payments, this fund provides the necessary amount.

○ Employees' Pension Insurance Benefit Adjustment Fund

This is a pension fund administered and managed by the Association. It was established to represent the employee pension portion of employee pensions plans after the integration of the plans. When an individual mutual aid association faces a shortage of financial resources to cover employees' pension insurance benefits payments, this fund provides the necessary amount.

○ Annuity Retirement Benefit Adjustment Fund

This is a pension fund administered and managed by the Association. It was established to represent private-sector corporate pensions that were newly created at the time of the integration of employee pension plans. Its benefits form part of retirement benefits. When an individual mutual aid association faces a shortage of financial resources to cover retirement, etc. benefits payments, this fund provides the necessary amount.

○ Long-term Benefit Fund

This is a pension fund which was administered and managed by the Association before the integration of employee pension plans. Through it, funds were set aside to prepare for possible shortage of funds to cover pension benefit payments by mutual aid associations.