

Fiscal Year 2017

**Employees' Pension Insurance Benefit Fund
Review of Operations**

(Local Public Service Mutual Aid Associations)



地方公務員共済組合連合会

Pension Fund Association for Local Government Officials

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[Abbreviations]

Local Public Service Mutual Aid Associations: Collectively means the Mutual Aid Association of Prefectural Government Personnel, the Japan Mutual Aid Association of Public School Teachers, the Japan Police Personnel Mutual Aid Association, the Mutual Benefit Association for Tokyo Metropolitan Government Employees, the National Federation of Mutual Aid Associations for Municipal Personnel and the Pension Fund Association for Local Government Officials.

Member associations: Collectively means the Mutual Aid Association of Prefectural Government Personnel, the Japan Mutual Aid Association of Public School Teachers, the Japan Police Personnel Mutual Aid Association, the Mutual Benefit Association for Tokyo Metropolitan Government Employees and the National Federation of Mutual Aid Associations for Municipal Personnel.

KKR: Federation of National Public Service Personnel Mutual Aid Associations

GPIF: Government Pension Investment Fund

EPI Act: Employees' Pension Insurance Act (Act No. 115 of 1954)

Local Public Officers, etc. Mutual Aid Association Act: Local Public Officers, etc. Mutual Aid Association Act (Act No. 152 of 1962)

Order for Enforcement of Local Public Officers, etc. Mutual Aid Association Act: Order for Enforcement of Local Public Officers, etc. Mutual Aid Association Act (Cabinet Order No. 352 of 1962)

Regulation for Enforcement of Local Public Officers, etc. Mutual Aid Association Act: Regulation for Enforcement of Local Public Officers, etc. Mutual Aid Association Act (Ministerial Order of Ministry of Home Affairs No. 20 of 1962)

Implementation Procedures for Local Public Officers, etc. Mutual Aid Association Act:

Implementation Procedures for Local Public Officers, etc. Mutual Aid Association Act (Ministerial Order of Prime Minister's Office, Ministry of Education, Science and Culture and Ministry of Home Affairs No. 1 of 1962)

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

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

Fiscal Year 2017 Investment Results (Overview)

Investment return: (FY2017)	+6.83% *Return (market value basis) (+4.42% *Realized return (book value basis))
Investment income: (FY2017)	+¥1,374.4 billion *Investment income (market value basis) (+¥798.8 billion *Realized income (book value basis))
Value of investment assets: (End of FY2017)	¥21,357.7 billion *Market value basis

As pension investment funds are intended for long-term investment, the investment status must be judged from the long-term perspective. As investment income is based on the market value as of the end of each term, it should be kept in mind that it includes valuation gains/losses, which means it may change depending on market movements.

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

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

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

Section 1 Administration and Investment of Funds in FY2017

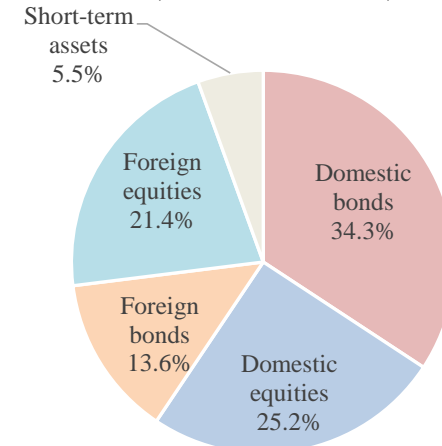
Fiscal Year 2017 Asset Mix

○ The asset mix in fiscal year 2017 changed as follows as a result of market value fluctuations and rebalancing, among other factors: the share of domestic bonds declined from 39.2% to 34.3%, while the share of domestic equities increased from 23.1% to 25.2%; the share of foreign bonds rose from 12.5% to 13.6% and the share of foreign equities edged up from 20.2% to 21.4%; and the share of short-term assets increased from 5.1% to 5.5%.

(Unit: %)

	FY2016	FY2017			
	End of FY	End of Q1	End of Q2	End of Q3	End of FY
Domestic bonds	39.2	37.1	34.6	33.6	34.3
Domestic equities	23.1	24.7	24.3	25.9	25.2
Foreign bonds	12.5	13.4	13.8	14.0	13.6
Foreign equities	20.2	21.3	21.5	22.3	21.4
Short-term assets	5.1	3.4	5.8	4.2	5.5
Total	100.0	100.0	100.0	100.0	100.0

Composition by Investment Asset Class
(as of end of FY2017)



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

(Note 2) 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 pension funds is 0.2% (the upper limit for the benchmark portfolio is 5%).

(Note 4) Group pure endowment insurance is included in domestic bonds.

○ Benchmark portfolio

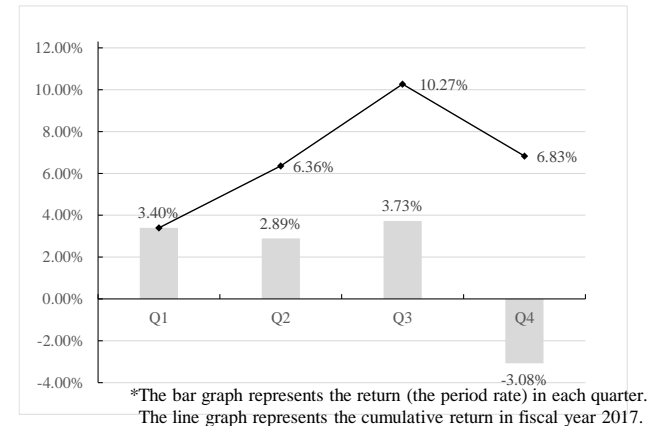
	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Asset mix	35%	25%	15%	25%
Deviation tolerance	±15%	±14%	±6%	±12%

Fiscal Year 2017 Investment Return

- The return (market value basis) in fiscal year 2017 came to 6.83% due to such factors as a rise in domestic and foreign equity prices. The realized return (book value basis) was 4.42%.
- By asset class, the return (market value basis) came to 1.01% for domestic bonds because of an interest rate drop and to 16.57% for domestic equities due to a stock price rise. The return came to 3.64% for foreign bonds due to such factors as the yen's depreciation against the euro and to 9.74% for foreign equities because of a stock price rise.

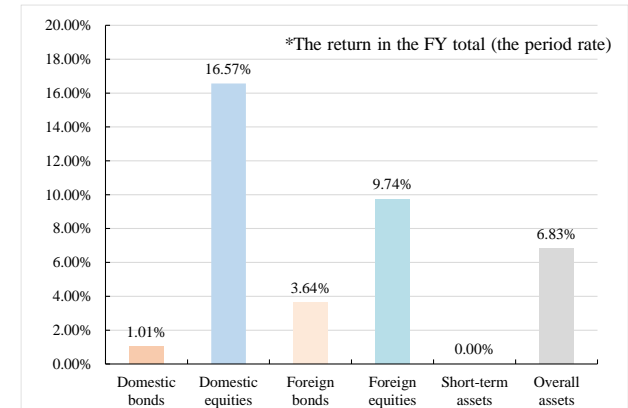
(Unit: %)

	FY2017				
	Q1	Q2	Q3	Q4	FY total
Return (market value basis)	3.40	2.89	3.73	-3.08	6.83
Domestic bonds	0.08	0.35	0.35	0.25	1.01
Domestic equities	6.86	5.13	8.97	-4.49	16.57
Foreign bonds	4.80	2.45	1.31	-4.25	3.64
Foreign equities	5.51	5.56	5.54	-6.39	9.74
Short-term assets	0.00	0.00	0.00	-0.00	0.00



(Unit: %)

	FY2017				
	Q1	Q2	Q3	Q4	FY total
Realized return (book value basis)	0.92	1.23	1.03	1.24	4.42



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

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

Contribution Analysis of the Excess Return by Asset Class

○ The return (market value basis) for overall assets was 6.83%, while the excess return over the benchmark was -0.51%.

The excess return due to the asset allocation factor was negative (-0.43%) as the positive contribution by underweighting in foreign bonds compared with the benchmark portfolio was offset by the negative contribution by overweighting in domestic bonds and underweighting in domestic and foreign equities.

The excess return due to the individual asset factor was positive (0.11%) mainly because the returns on domestic equities (market value basis) exceeded the benchmark return.

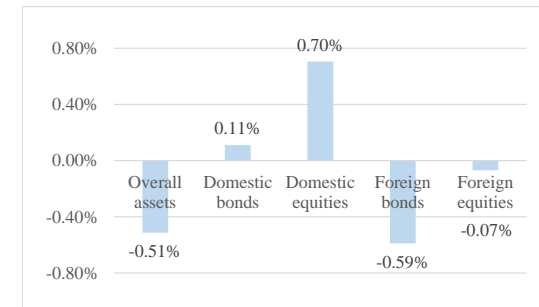
FY2017 (April 2017 through March 2018)

	Overall assets	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Return (market value basis)	6.83%	1.01%	16.57%	3.64%	9.74%
Benchmark return *	7.34%	0.90%	15.87%	4.23%	9.81%
Excess return	-0.51%	0.11%	0.70%	-0.59%	-0.07%

* The benchmark return for overall assets is calculated by weight-averaging the benchmark returns for individual asset classes based on the shares in the asset mix of the benchmark portfolio.

	Asset allocation factor ①	Individual asset factor ②	Other factor (including errors) ③	①+②+③
Domestic bonds	-0.03%	0.04%	-0.07%	-0.07%
Domestic equities	-0.02%	0.18%	-0.05%	0.11%
Foreign bonds	0.05%	-0.09%	-0.02%	-0.06%
Foreign equities	-0.09%	-0.02%	-0.04%	-0.14%
Short-term assets	-0.34%	0.00%	-0.01%	-0.35%
Total	-0.43%	0.11%	-0.19%	-0.51%

Excess return



(Reference) Deviation of the actual portfolio from the benchmark portfolio in terms of the asset mix (market value average balance) (as of the end of FY2017)

	Actual Portfolio	Benchmark Portfolio	Deviation	Deviation tolerance
Domestic bonds	35.5%	35.0%	0.5%	±15%
Domestic equities	24.8%	25.0%	-0.2%	±14%
Foreign bonds	13.5%	15.0%	-1.5%	±6%
Foreign equities	21.5%	25.0%	-3.5%	±12%
Short-term assets	4.7%		4.7%	
Total	100.0%	100.0%	0.0%	

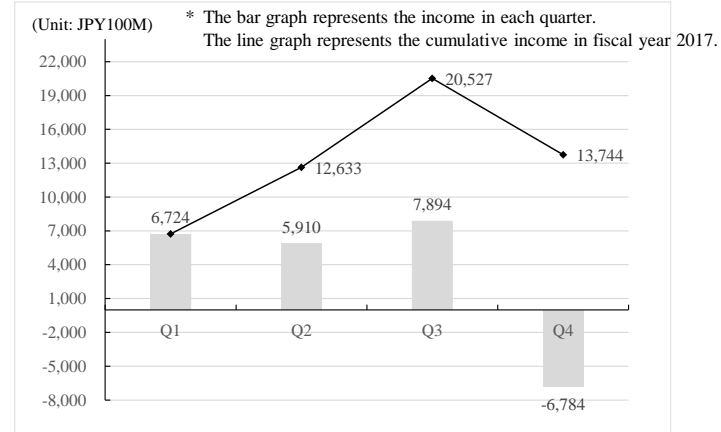
- (i) Asset allocation factor: A factor that is attributable to the difference in terms of the asset allocation between the benchmark portfolio, which is the standard for the calculation of the composite benchmark, and the actual portfolio.
- (ii) Individual asset factor: A factor that is attributable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

Fiscal Year 2017 Investment Income

- Investment income (market value basis) in fiscal year 2017 was ¥1,374.4 billion. Realized income (book value basis) was ¥798.8 billion.
- By asset class, investment income (market value basis) was ¥75.6 billion for domestic bonds, ¥791 billion for domestic equities, ¥99 billion for foreign bonds and ¥408.8 billion for foreign equities.

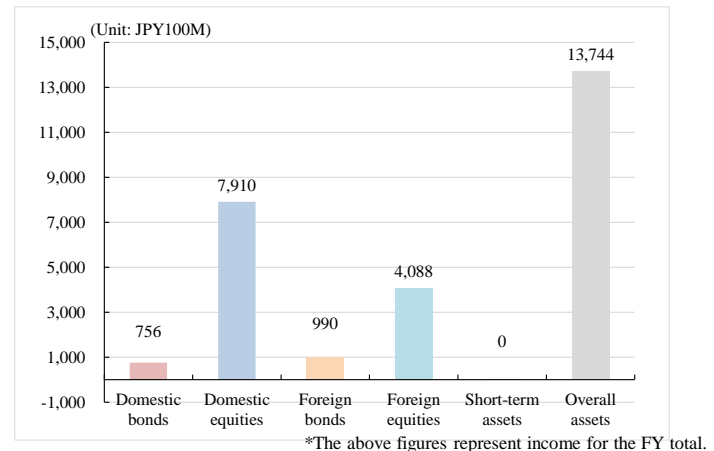
(Unit: JPY100M)

	FY2017				
	Q1	Q2	Q3	Q4	FY total
Investment income (market value basis)	6,724	5,910	7,894	-6,784	13,744
Domestic bonds	62	257	253	184	756
Domestic equities	3,193	2,560	4,704	-2,547	7,910
Foreign bonds	1,220	681	388	-1,299	990
Foreign equities	2,248	2,412	2,549	-3,122	4,088
Short-term assets	0	0	0	-0	0



(Unit: JPY100M)

	FY2017				
	Q1	Q2	Q3	Q4	FY total
Realized income (book value basis)	1,625	2,201	1,880	2,282	7,988



- (Note 1) The income represent figures after the deduction of fees, etc. settled within the relevant period.
 (Note 2) The investment income (market value basis) represents the realized income (book value basis) adjusted for the effects of changes in valuation gains/losses based on market value.
 (Note 3) Realized income (book value basis) represents the sum of trading profits/losses and interest and dividend income, etc.
 (Note 4) Due to rounding, the total sum of individual figures may not necessarily add up to the FY total.

Fiscal Year 2017 Value of Assets

(Unit: JPY100M)

	FY2016			FY2017											
	End of FY			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	Book value	Market value	Valuation gains/losses
Domestic bonds	75,066	78,505	3,440	71,703	74,930	3,227	70,590	73,570	2,981	69,942	73,029	3,087	70,482	73,161	2,680
Domestic equities	38,532	46,244	7,712	39,551	49,831	10,280	39,516	51,612	12,097	40,809	56,245	15,435	41,852	53,724	11,872
Foreign bonds	25,660	25,049	-611	26,517	27,060	543	28,215	29,226	1,011	29,312	30,459	1,147	29,511	29,075	-436
Foreign equities	30,347	40,467	10,120	31,176	43,004	11,828	31,946	45,729	13,783	32,553	48,507	15,954	33,510	45,811	12,301
Short-term assets	10,212	10,212	-0	6,953	6,953	0	12,233	12,233	0	9,035	9,035	0	11,806	11,806	-0
Total	179,817	200,478	20,661	175,899	201,778	25,878	182,498	212,370	29,872	181,651	217,275	35,624	187,161	213,577	26,416

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

(Note 2) Short-term assets held by each fund were classified into relevant asset classes in principle.

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

The amount of funds allocated and withdrawn by asset class (for FY2017)

(Unit: JPY100M)

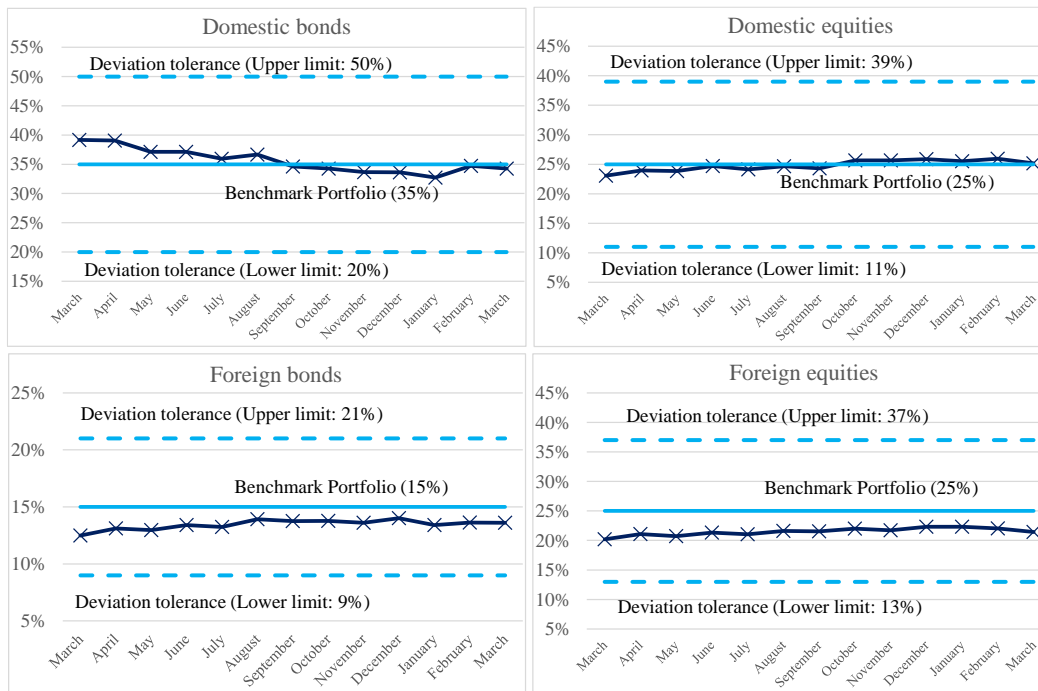
	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Amount of funds allocated and withdrawn	-5,836	-469	3,036	1,256

(Note) 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.

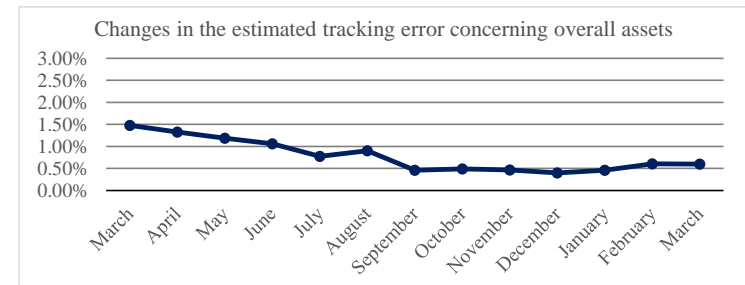
Status of Risk Management (Overall Assets)

In fiscal year 2017, 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 domestic bonds and 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 (composite benchmark).

Fiscal Year 2017 Fees

- The amount of fees totaled ¥13.7 billion in fiscal year 2017.
The fee rate relative to the value of investment assets came to 0.07%.

(Unit: JPY100M, %)

	FY2017	
	Fee	Fee rate
Domestic bonds	21	0.03
Domestic equities	55	0.11
Foreign bonds	18	0.06
Foreign equities	44	0.10
Overall assets	137	0.07

(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.

Administration and Investment Policy for Managed Fund of Employees' Pension Insurance Schemes (Extract)

1. Basic policy concerning the Managed Reserve Fund

(1) Basic Policy

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

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

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

(2) Investment target, risk management, etc.

① Investment target

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

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

In addition, the Association strives to earn the benchmark returns for each asset class for each fiscal year, as well as generating benchmark returns for each asset class over the long term.

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

Stewardship Responsibilities

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 Local Public Service Mutual Aid Associations

In order to fulfill "the fiduciary duty of increasing the value of its assets for the insured over the long term" and "the social responsibility as a public pension fund," the Local Public Service Mutual Aid Associations believe that they must conduct stewardship activity proactively.

The Local Public Service Mutual Aid Associations instruct 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 Associations to make judgment concerning the details of companies' management decisions.

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

In addition, the Pension Fund Association for Local Government Officials, the Japan Mutual Aid Association of Public School Teachers, the Japan Police Personnel Mutual Aid Association and the National Federation of Mutual Aid Associations for Municipal Personnel have also been making investments in ESG funds.

The Local Public Service Mutual Aid Associations agree with the purpose of the Principles for Responsible Institutional Investors <<Japan's Stewardship Code>>, established by the Financial Services Agency in February 2014, and announced their acceptance of the Code. In addition, following the revision of the Code, the Local Public Service Mutual Aid Associations further clarified their approach to stewardship activities in November 2017.

The Local Public Service Mutual Aid Associations receive reports concerning stewardship activity from and holds interviews with entrusted investment management institutions in order to monitor the appropriateness of their stewardship activity and gather information. (*)

In addition, in order to enhance transparency over its stewardship activities, since fiscal year 2014, the Local Public Service Mutual Aid Associations have published the Annual Stewardship Activity Report, which describes their stewardship activities, including engagement and the exercise of voting rights conducted through entrusted investment management institutions. (*)

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

Stewardship Responsibilities (Domestic Equities) ①

○The results of the exercise of voting rights

Between July 2016 and June 2017, regarding the Employees' Pension Insurance Benefit Fund, the Local Public Service Mutual Aid Associations exercised voting rights, through the 26 investment management institutions entrusted with domestic equity investment, with respect to a total of 28,656 companies which settled accounts between April 2016 and March 2017. The number of proposals concerning which voting rights were exercised was 129,978.

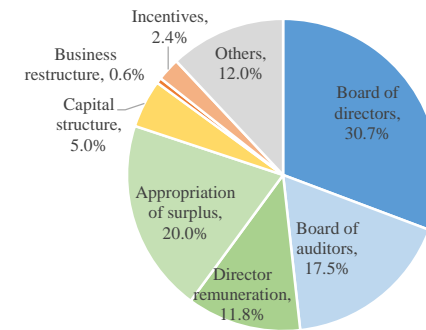
The Local Public Service Mutual Aid Associations voted against 29,532 of the 129,978 proposals (among which 5,498 were shareholder proposals), which translates into a vote-against rate of 22.7% (up 1.8 points from the previous year).

The vote-against rate came to 38.1% (up 0.7 points from the previous year) concerning proposals related to the board of directors/directors, 12.7% (down 5.4 points) concerning proposals related to the board of auditors/auditors, 14.5% (up 3.6 points) concerning proposals related to director remuneration, etc. and 5.2% (up 1.0 points) concerning proposals related to appropriation of surplus.

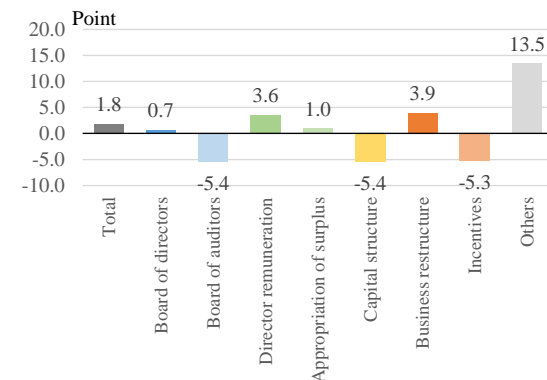
Voting activity (Employees' Pension Insurance Benefit Fund) Companies with accounting settlement between April 2016 and March 2017

Proposal Subject	Total	Composition	Vote for		Vote against		Vote-against rate in the previous year
				Rate		Rate	
Total	129,978	100%	100,446	77.3%	29,532	22.7%	20.9%
c.f. Shareholder Proposal	5,863	4.5%	365	6.2%	5,498	93.8%	96.8%
By Subject	129,978	100%	100,446	77.3%	29,532	22.7%	20.9%
Board of Directors/Directors	39,929	30.7%	24,703	61.9%	15,226	38.1%	37.4%
Board of Auditors/Auditors	22,781	17.5%	19,890	87.3%	2,891	12.7%	18.1%
Director Remuneration, etc.	15,382	11.8%	13,150	85.5%	2,232	14.5%	10.9%
Appropriation of Surplus	25,996	20.0%	24,652	94.8%	1,344	5.2%	4.2%
Capital Structure	6,473	5.0%	4,692	72.5%	1,781	27.5%	32.9%
Takeover Defense Measures	2,101	1.6%	361	17.2%	1,740	82.8%	60.3%
Capital Increase or Reduction	103	0.1%	103	100.0%	0	0.0%	4.9%
Third Party Allotment of Shares	54	0.0%	39	72.2%	15	27.8%	21.8%
Acquisition of Own Shares	14	0.0%	2	14.3%	12	85.7%	42.4%
Business Restructure	742	0.6%	701	94.5%	41	5.5%	1.6%
Incentives Improvement for Executives	3,079	2.4%	2,391	77.7%	688	22.3%	27.6%
Other proposals	15,596	12.0%	10,267	65.8%	5,329	34.2%	20.7%

Share by proposal subject



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



Stewardship Responsibilities (Domestic Equities) ②

○ Number of cases of engagement

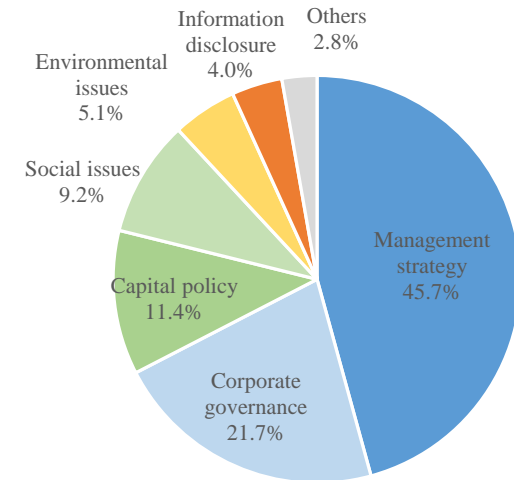
In fiscal year 2016, regarding the Employees' Pension Insurance Benefits Fund, the Local Public Service Mutual Aid Associations implemented engagement with a total of 9,133 companies through the 26 investment management institutions entrusted with domestic equity investment. The number of cases of engagement was 27,786 in total. The number of cases of direct dialogue with top managers of companies was 8,207, or 29.5% of the total.

Regarding major subjects of engagement, the number of cases of dialogue concerning management strategy issues, including management challenges, came to 12,707, or 45.7% of the total, followed by dialogue concerning corporate governance issues, including the composition of the board of directors with 6,027 cases (21.7%) and capital policy issues, including the shareholder return with 3,179 cases (11.4%).

Number of cases of engagement in FY 2016 (including overlaps)

Dialogue subject	Number of cases		Dialogues with top managers	
	Composition			Rate
Total	27,786	100.0%	8,207	29.5%
Dialogues concerning management strategy	12,707	45.7%	4,880	38.4%
Dialogues concerning corporate governance	6,027	21.7%	1,431	23.7%
Dialogues concerning capital policy	3,179	11.4%	820	25.8%
Dialogues concerning social issues	2,564	9.2%	441	17.2%
Dialogues concerning environmental issues	1,422	5.1%	162	11.4%
Dialogues concerning information disclosure	1,117	4.0%	288	25.8%
Other	770	2.8%	185	24.0%

Share by dialogue item



Stewardship Responsibilities (Domestic Equities) ③

○ Example cases of engagement that led to some results (Domestic Equities)

Dialogue subject	Company	Specifics	
Dialogues concerning management strategy	1st sec. of the Tokyo Stock Exch. Electric Appliances	Dialogue	Heavily dependent on a specific business for earnings. Discussed measures to improve the management efficiency of the whole group in order to expand other businesses.
		Result	Announced a business integration with a subsidiary. Indicated the policy of aiming to expand other businesses by enhancing business partnerships.
	1st sec. of the Tokyo Stock Exch. Foods	Dialogue	Requested the review of cross shareholding and non-core businesses as a measure to improve the financial conditions.
		Result	Announced the sale of shares held under the cross-shareholding arrangement.
Dialogues concerning corporate governance	1st sec. of the Tokyo Stock Exch. Chemicals	Dialogue	Proposed a study on a remuneration system intended to ensure awareness of the return on capital among rank-and-file employees.
		Result	Decided to introduce an employee stock ownership trust. Also studying an incentive-based remuneration system (stock price-linked type) for next-generation senior managers.
	1st sec. of the Tokyo Stock Exch. Banks	Dialogue	Exchanged opinions on the governance system. Regarding the composition of the personnel committee and the remuneration committee, pointed out that the checks-and-balances function is not functioning because a majority of the committees' members are insiders.
		Result	Announced the reorganization of these two committees, with a majority of each committee, including the chairmen, to be appointed from among outsiders.
Dialogues concerning capital policy	1st sec. of the Tokyo Stock Exch. Non-ferrous Metals	Dialogue	Proposed that profits should be returned to shareholders in consideration of the sustainability of business based on the cash flow projection, with stable income used as the fund source of dividends and one-time profits used as the fund source of share repurchases.
		Result	Announced the policy of raising the total return ratio to 50% and implementing share repurchases with cash flow from the sale of assets as the fund source.
Dialogues concerning capital policy	1st sec. of the Tokyo Stock Exch. Information & Communication	Dialogue	Held discussions on the appropriateness of the continuation of takeover defense measures and on the proposition that efforts by the current management team to increase enterprise value will represent the most effective takeover defense measure.
		Result	Replied that discussions were ongoing with a view to discontinuing takeover defense measures at this time. Announced the discontinuation of takeover defense measures later.
	1st sec. of the Tokyo Stock Exch. Construction	Dialogue	Recommended that profits should be actively returned to shareholders in view of the improvement in the financial conditions following many years of no dividend payment.
		Result	Made clear the numerical target for the dividend payout ratio for the first time under a medium-term business plan.
Dialogues concerning social issues	1st sec. of the Tokyo Stock Exch. Services	Dialogue	Held dialogue about the occurrence of a problem with overworking. Discussed the corporate culture and requested well-balanced management.
		Result	Formulated a plan for improvement of the working environment and improved the organizational system and set clear goals in order to implement the plan
Dialogues concerning environmental issues	1st sec. of the Tokyo Stock Exch. Machinery	Dialogue	Proposed expanding ESG activities (reduction of overall CO2 emissions, CSR procurement, diversity, etc.), which had been mainly conducted on a non-consolidated basis, to include activities on a consolidated basis and prescribing unified written guidelines on CSR, adapting to and utilizing SDGs and promoting advanced ESG activities.
		Result	Indicated a target for the mitigation of the environmental impact in 2020 on a consolidated basis under a medium-term business plan. Explicitly prescribed the materiality of CSR issues related to 12 SDGs, in addition to establishing the basic policy for CSR.
Dialogues concerning information disclosure	1st sec. of the Tokyo Stock Exch. Non-ferrous Metals	Dialogue	Pointed out problems related to the approach to investor relations. Proposed active implementation of information disclosure, particularly with respect to trends in foreign markets where the business conditions are difficult to grasp.
		Result	The attitude toward information disclosure improved. Information disclosure was enhanced, particularly with respect to trends in foreign markets.

Stewardship Responsibilities (ESG Investment)

OESG investment initiative

As the Local Public Service Mutual Aid Associations invest pension funds over the long term, it is rational to aim to maximize the long-term return by paying attention not only to short-term business performance when making investment but also to factors related to sustainability, including ESG.

The Local Public Service Mutual Aid Associations believe that they can simultaneously fulfill “the fiduciary duty of increasing the value of stocks for the insured persons 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.

In light of the above, the Pension Fund Association for Local Government Officials, the Japan Mutual Aid Association of Public School Teachers, the Japan Police Personnel Mutual Aid Association, and the National Federation of Mutual Aid Associations for Municipal Personnel are investing in a total of 10 ESG funds with a total market value of ¥93.8 billion.

Name	Start of investment	Number of funds (as of the end of FY2017)	Total market value (as of the end of FY2017)	
Pension Fund Association for Local Government Officials	FY2010	4 (8)	55.5 billion yen	(111 billion yen)
Japan Mutual Aid Association of Public School Teachers	FY2014	3 (6)	27 billion yen	(54.6 billion yen)
Japan Police Personnel Mutual Aid Association	FY2017	1 (2)	5.6 billion yen	(11.2 billion yen)
National Federation of Mutual Aid Associations for Municipal Personnel	FY2015	2 (4)	5.7 billion yen	(12.1 billion yen)
Total		10 (20)	93.8 billion yen	(188.9 billion yen)

*Figures in parentheses indicate the total for the Employees' Pension Insurance Benefit Fund and the Transitional Long-term Benefit Fund.

Stewardship Responsibilities (Foreign Equities) ①

○ Results of the exercise of voting rights (Foreign Equities)

Regarding the Employees' Pension Insurance Benefit Fund, the Local Public Service Mutual Aid Associations exercised voting rights, through the 24 investment management institutions entrusted with foreign equity investment, with respect to a total of 17,840 companies which settled accounts between April 2016 and March 2017 and which held general shareholders' meetings on or later than July 1, 2016. The number of proposals concerning which voting rights were exercised was 145,713.

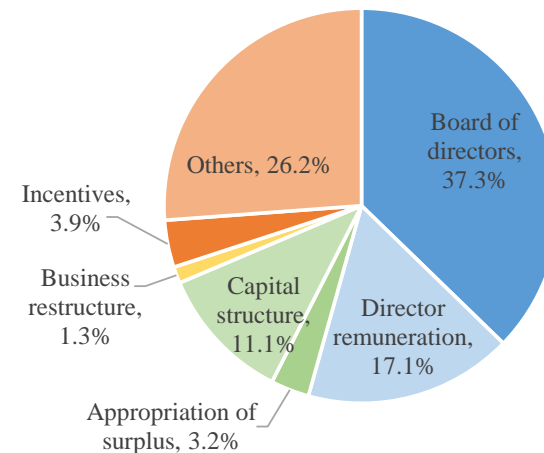
The Local Public Service Mutual Aid Associations voted against 14,902 of the 145,713 proposals (among which 4,655 were shareholder proposals), which translates into a vote-against rate of 10.2%. The vote-against rate concerning shareholder proposals was 49.6%.

The vote-against rate came to 7.4% concerning proposals related to the board of directors/directors, 9.5% concerning proposals related to director remuneration, etc. and 1.8% concerning proposals related to appropriation of surplus.

Voting activity (Employees' Pension Insurance Benefit Fund) Companies with accounting settlement between April 2016 and March 2017

Proposal Subject	Total	Composition	Vote for		Vote against	
				Rate		Rate
Total	145,713	100%	130,811	89.8%	14,902	10.2%
c.f. Shareholder Proposal	9,383	6.4%	4,728	50.4%	4,655	49.6%
By Subject	145,713	100%	130,811	89.8%	14,902	10.2%
Board of Directors/Directors	54,291	37.3%	50,254	92.6%	4,037	7.4%
Director Remuneration, etc.	24,890	17.1%	22,528	90.5%	2,362	9.5%
Appropriation of Surplus	4,592	3.2%	4,509	98.2%	83	1.8%
Capital Structure	16,213	11.1%	14,037	86.6%	2,176	13.4%
Takeover Defense Measures	1,025	0.7%	935	91.2%	90	8.8%
Capital Increase or Reduction	4,472	3.1%	3,661	81.9%	811	18.1%
Third Party Allotment of Shares	767	0.5%	761	99.2%	6	0.8%
Acquisition of Own Shares	3,366	2.3%	3,275	97.3%	91	2.7%
Business Restructure	1,967	1.3%	1,867	94.9%	100	5.1%
Incentives Improvement for Executives	5,625	3.9%	4,492	79.9%	1,133	20.1%
Other proposals	38,135	26.2%	33,124	86.9%	5,011	13.1%

Share by proposal subject



*From the viewpoints of constraints related to the exercise of voting rights and additional cost burden, the exercise of voting rights is limited to 16 countries (the United States, Canada, the United Kingdom, Ireland, Australia, New Zealand, Singapore, Hong Kong, Chile, the Czech Republic, Indonesia, Mexico, the Philippines, South Africa, Taiwan and Thailand).

Stewardship Responsibilities (Foreign Equities) ②

○ Number of cases of engagement (Foreign Equities)

In fiscal year 2016, regarding the Employees' Pension Insurance Benefits Fund, the Local Public Service Mutual Aid Associations implemented engagement with a total of 1,672 companies through 19 of the 24 investment management institutions entrusted with foreign equity investment. The number of cases of engagement was 4,330 in total. The number of cases of direct dialogue with top managers of companies was 1,225, or 28.3% of the total.

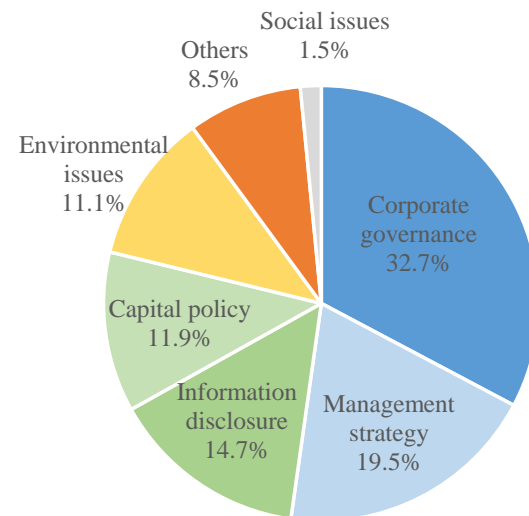
Regarding major subjects of engagement, the number of cases of dialogue concerning corporate governance came to 1,418, or 32.7% of the total, followed by dialogue concerning management strategy with 844 cases (19.5%) and information disclosure with 635 cases (14.7%).

Number of cases of engagement in FY 2016 (including overlaps)

Dialogue subject	Number of cases		Dialogues with top managers	
	Composition	Rate	Number of cases	Rate
Total	4,330	100.0%	1,225	28.3%
Dialogues concerning corporate governance	1,418	32.7%	226	15.9%
Dialogues concerning management strategy	844	19.5%	356	42.2%
Dialogues concerning information disclosure	635	14.7%	35	5.5%
Dialogues concerning capital policy	515	11.9%	307	59.6%
Dialogues concerning environmental issues	482	11.1%	50	10.4%
Other	369	8.5%	238	64.5%
Dialogues concerning social issues	67	1.5%	13	19.4%

*The standard for the tabulation of engagement data varies from fund to fund.

Share by dialogue item



Stewardship Responsibilities (Foreign Equities) ③

○ Example cases of engagement that led to some results (Foreign Equities)

Dialogue subject	Specifics	
Dialogue concerning corporate governance	Dialogue	Proposed an increase in the proportion of stock grants in CEO remuneration because the proportion of cash was too large.
	Result	Adopted a more formulaic short-term incentive system based on free cash flow or per-share earnings. Introduced once-in-three-year performance-linked, stock-based remuneration in place of biennial cash remuneration.
Dialogue concerning management strategy	Dialogue	Proposed a spinoff or sale of a noncore business because its presence was considered to be a factor behind the stock price discount.
	Result	Announced a spinoff of the business.
Dialogue concerning environmental issues	Dialogue	Conducted fact-checking concerning the company's suspected involvement in water pollution at a plantation owned by a subsidiary and engaged in dialogue about efforts to improve the situation.
	Result	Conducted environmental assessment as a step toward correcting the problem and agreed with local residents about future policy

Dialogue subject	Specifics	
Dialogue concerning capital policy	Dialogue	Engaged in dialogue about the levels of capital and investment because an excessive leverage was a cause for concern.
	Result	Continuously lowered the leverage.
Dialogue concerning social issues	Dialogue	Engaged in dialogue about awareness of diversity-related issues and the status of improvement efforts because there was no female director.
	Result	Received the company's reply that it recognized diversity as an important issue and that it would make efforts to prepare for the election of a female director at the subsequent general shareholders' meeting.
Dialogue concerning information disclosure	Dialogue	Requested improvement of the disclosure level because disclosure data concerning the performance of human capital was lacking.
	Result	Started disclosing significant data concerning human capital, including the employee turnover rate, the level of employee satisfaction, and wage inequality by gender.

Stewardship Responsibilities (Compliance with Revised Version of Code) ①

○ Compliance with the revised version of Japan's Stewardship Code

Japan's Stewardship Code was established in February 2014, and the Local Public Service Mutual Aid Associations signed up to the code. Since then, there has been no change in the Associations' approach to stewardship activity. However, to make the approach clearer, the Local Public Service Mutual Aid Associations conducted a review following the announcement of the revised code on May, 2017 and signed up to the revised code.

* Although the Mutual Aid Association of Prefectural Government Personnel currently has no domestic equities, it has signed up the Japan's Stewardship Code to prepare for the future holding of domestic equities.

The Local Public Service Mutual Aid Associations comply with the principles of Japan's Stewardship Code.

The Associations' stance toward individual principles is as follows:

Principle 1

- ✓ Significance of the Associations' implementation of stewardship activity (fiduciary duty and social responsibility)
- ✓ It is necessary to promote sustainable and stable growth of the entire market so as to ensure a necessary return in the long term.
- ✓ Entrusted investment management institutions actually implement stewardship activity, and the Associations can effectively fulfill the stewardship responsibilities by monitoring the implementation.
- ✓ The Associations have established the guidelines, etc. under which entrusted investment management institutions are expressly bound to implement stewardship activity.
- ✓ The Associations conduct monitoring focusing on the "quality" of stewardship efforts.

Principle 2

- ✓ The Associations exercise voting rights through entrusted investment management institutions instead of doing so directly.
- ✓ The Associations monitor entrusted investment management institutions to ensure that proper governance structures are in place and conflicts of interest are avoided.

Principle 3

- ✓ The Associations require entrusted investment management institutions to grasp the business conditions of investees as a prerequisite for engagement.

Principle 4

- ✓ The Associations monitor entrusted investment management institutions' engagement with investee companies to check whether the engagement is effective.
- ✓ The Associations require entrusted investment management institutions to share the awareness of problems with investee companies and make improvement efforts.

Stewardship Responsibilities (Compliance with Revised Version of Code) ②

Principle 5

- ✓ The Associations require investment management institution to disclose the results of the exercise of voting rights for each investee and proposal and also require investment management institution that do not make disclosures to explain the reasons for the non-disclosures.

Principle 6

- ✓ The Associations make reports on its stewardship activities in the Review of Operations report and public relations magazines and publish annual reports on stewardship activities.

Principle 7

- ✓ The Associations periodically review the implementation of the principles set out in the Stewardship Code.
- ✓ The Associations develop the structures and human resources for stewardship activities and requires investment management institution to develop their abilities for appropriate decision-making in relation to stewardship activities.

* The contents of the announcement may differ between the associations.

ODisclosure of the results of the exercise of voting rights for each investee company and proposal

As stipulated in Principle 5 of the Signup to Japan's Stewardship Code, the Local Public Service Mutual Aid Associations asked all investment management institutions entrusted with domestic stock investment to disclose the results of the exercise of voting rights for each investee and proposal, and all replied that they will disclose the results.

The Associations checked the disclosure status and made inquiries to entrusted investment management institutions that had not made disclosures in order to make sure once again that they will make disclosures.

The websites where the results disclosed by entrusted investment management institutions of the Pension Fund Association for Local Government Officials, the Japan Mutual Aid Association of Public School Teachers, the Japan Police Personnel Mutual Aid Association and the National Federation of Mutual Aid Associations for Municipal Personnel and the disclosure schedule of entrusted investment management institutions that have not yet made disclosures are available as indicated in the following section of the website of the Local Public Service Mutual Aid Associations.

- Pension Fund Association for Local Government Officials <http://www.chikyoren.or.jp/sikin/kobetukaiji.html>
- Japan Mutual Aid Association of Public School Teachers https://www.kouritu.or.jp/content/files/about/disclosure/sisanunyo/stewardship_reporh29.pdf
- Japan Police Personnel Mutual Aid Association http://www.keikyo.jp/others/aboutkeikyo/pdf/s_stewardship_h29.pdf
- National Federation of Mutual Aid Associations for Municipal Personnel <https://ssl.shichousonren.or.jp/pdf/fund/stewardship/180125.pdf>

* The Mutual Benefit Association for Tokyo Metropolitan Government Employees also ascertained that all entrusted investment management institutions have announced the results of the exercise of voting rights concerning individual investee companies and proposals.

Stewardship Responsibilities (Future Initiatives)

Future Initiatives

○Future Initiatives

Local Public Service Mutual Aid Associations intend 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.

Local Public Service Mutual Aid Associations believe that the stewardship responsibilities can be more effectively fulfilled on the whole by continuing to appropriately develop their 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 activity conducted by investment management institution from the viewpoint of enhancing the activity's effectiveness.

Specifically, Local Public Service Mutual Aid Associations are considering the following efforts.

▪ Implementation of effective monitoring of entrusted investment management institutions

The Local Public Service Mutual Aid Associations will continue to make sure that entrusted investment management institutions' stewardship activity is consistent with the Associations' policy and will conduct monitoring with emphasis placed on the "quality" of initiatives.

▪ Revision of the Corporate Governance Principles, etc.

The Local Public Service Mutual Aid Associations will revise the "Corporate Governance Principles" and the "Guidelines for Exercising Shareholders' Voting Rights" as necessary while taking into consideration revisions of laws, regulations and codes and changes in the social situation.

▪ Collaboration with other public pension funds, etc.

The Local Public Service Mutual Aid Associations will make appropriate judgment on matters related to dialogue with investee companies and stewardship activity. As part of its efforts to enhance the effectiveness and efficiency of stewardship activity, the Associations will also exchange opinions with its member associations and other public pension funds, among other activities.

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

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

To pursue diversified investment of Managed Fund for the purpose of investing Managed Fund of employees' pension insurance service 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.

In addition, some member associations have also been discussing implementing alternative investment, and the National Federation of Mutual Aid Associations for Municipal Personnel plans to introduce an asset manager registration system for alternative investment starting from fiscal year 2017.

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”) and implementing organizations (excluding the Association) take 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 returns 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 and implementing organizations conduct 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 and implementing organizations make alternative investment after developing the investment and risk management systems necessary for the investment (including hiring personnel with advanced expert skills).
- ⑤ The Association and implementing organizations use the expert knowledge of the Fund Management Committee of Local Public Service Mutual Aid Associations and the committee of specialist of implementing organizations.

< Specific measures >

○Introduction of an Asset Manager Registration System

On July 31, 2015, the Local Public Service Mutual Aid Associations 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.

In addition, since FY2017, the National Federation of Mutual Aid Associations for Municipal Personnel started receiving entries with respect to investment products using domestic and foreign real estate as investment instruments.

An Asset Manager Registration System is a system whereby the Local Public Service Mutual Aid Associations accept entries from investment management institutions for investment products on an ongoing basis and evaluates and selects investment products.

○Selection of investment products

From among the investment products entered, the Local Public Service Mutual Aid Associations carefully selected investment products that were expected to deliver long-term returns and provide the diversified investment effect. As of the end of fiscal year 2017, based on a comprehensive evaluation from both quantitative and qualitative aspects, the Associations decided to adopt a total of 12 products, including three products investing in domestic real estate, two products investing in foreign real estate, one product investing in domestic infrastructure, four products investing in foreign infrastructure, and two products investing in domestic private equities. Investment in 11 of the 12 products has started.

In the future, to seize opportunities for investing in superior investment products likely to contribute to diversified investment of the funds, the Local Public Service Mutual Aid Associations will continue to evaluate the investment products entered and make selection.

Review of Manager Structure

As part of efforts to encourage entrusted investment management institutions to deliver better results, raise the investment performance of the Employees' Pension Insurance Benefit Fund and revise the manager structure, the Local Public Service Mutual Aid Associations offered public invitations and invited entries under an asset manager registration system in fiscal year 2017 as follows. In the selection process, Local Public Service Mutual Aid Associations closely examine investment policies for products, investment processes and other factors and select investment management institutions based on a comprehensive evaluation from both quantitative and qualitative aspects while also taking into consideration opinions expressed at a meeting of outside experts.

<Specific Efforts>

○Pension Fund Association for Local Government Officials

- Domestic bonds

Adopted three products for which currency-hedged bonds and corporate bonds serve as the source of the excess return as a way to adapt to the negative interest rate.

○Japan Mutual Aid Association of Public School Teachers

- Domestic equities

Adopted one value-type product for which conscientious engagement is conducted in research activity.

- Foreign equities

Adopted one product that makes investment based on an index that is not market capitalization-weighted.

○Japan Police Personnel Mutual Aid Association

- Domestic bonds

Adopted two products adapted to the negative interest rate.

○Mutual Benefit Association for Tokyo Metropolitan Government Employees

- Domestic bonds

Adopted two currency-hedged products as a way to adapt to the negative interest rate.

- Domestic equities

Revised the manager structure drastically and adopted two products.

○National Federation of Mutual Aid Associations for Municipal Personnel

- Domestic bonds

Adopted four currency-hedged products as a way to adapt to the negative interest rate.

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

○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 Local Public Service Mutual Aid Associations conduct a detailed interview on a regular basis concerning the overview of investment results, future investment policy and other matters.

Furthermore, the Local Public Service Mutual Aid Associations annually conduct a comprehensive evaluation combining quantitative and qualitative evaluation by asset and by investment category in principle. Comprehensive evaluation is intended to conduct evaluation from the long-term perspective and from the viewpoint of the role that each fund is expected to play. Quantitative evaluation mainly assesses the actual excess return after deduction of compensation, the information ratio (the tracking error in the case of passive investment), and the cost performance. Qualitative evaluation assesses the quality of the portfolio investment that cannot be captured by quantitative evaluation and the communications capabilities, investment process and philosophy, portfolio structuring and monitoring, execution of transactions, business management, etc. of investment management institutions. The Local Public Service Mutual Aid Associations allocate funds in a consistent manner across the entire portfolio in consideration of not only the results of comprehensive evaluation but also the balance of strategy categories in each asset class and the balance of funds in each category.

If, as a result of comprehensive evaluation, it is judged that there is no prospect for obtaining an excess return, necessary measures are taken such as termination in part.

○Asset administration institutions

The Local Public Service Mutual Aid Associations provide an incentive or give a reminder for asset administration institutions as appropriate by providing feedback on the results of qualitative evaluation of their asset administration status and by transferring funds from one institution to another depending on the results in order to ensure appropriate administration by asset administration institutions.

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 managers.
 - 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 in the portfolio.

<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
 - Allocating more funds to currency-hedged foreign bonds (foreign currency-denominated bonds hedged against exchange risk)
 - Expanding the source of returns by revising constraints on investment, including easing the restriction concerning credit ratings.
 - Revising the mix of domestic bond funds (reducing passive funds whose investment returns are being eroded by declining interest rates and promoting active investment as a measure to increase returns)
- 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
 - Instructing entrusted investment management institutions to make full investments to the possible extent

Governance ①

1. Local Public Service Mutual Aid Associations

(1) Organization

The Pension Fund Association for Local Government Officials is comprised of the Mutual Aid Association of Prefectural Government Personnel, the Japan Mutual Aid Association of Public School Teachers, the Japan Police Personnel Mutual Aid Association, the Mutual Benefit Association for Tokyo Metropolitan Government Employees, and the National Federation of Mutual Aid Associations for Municipal Personnel.

The Pension Fund Association for Local Government Officials provides the member associations with technical and expert knowledge, and reference materials related to the administration and investment of funds. In addition, it keeps track of the activities of the member associations, including surveys and research, and exchanges information with and acts as a liaison and coordinator for them.

In addition, the Pension Fund Association for Local Government Officials and the member associations are engaging in such cooperation activities as mutually providing necessary information concerning the implementation of activities related to investment of the implementing organizations' funds.

In order to facilitate operations related to fund investment, the Pension Fund Association for Local Government Officials provides opportunities for information sharing among officials of member associations responsible for practical affairs as necessary. In addition, on a monthly basis, the Pension Fund Association for Local Government Officials holds information-sharing sessions concerning the prospects for domestic and foreign economies and markets.

In order to help to enhance the effectiveness and efficiency of stewardship activities, the Pension Fund Association for Local Government Officials, in cooperation with member associations, has adopted common forms of report on stewardship activity to be submitted from entrusted investment management institutions.

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

To study expert matters pertaining to the administration and investment of funds (meaning administration and investment of the Managed Fund, administration and investment of Annuity Retirement Benefit Adjustment Fund (including administration of the investment status of Annuity Retirement Benefit Association Reserve Fund of the member associations) and the administration and investment of Transitional Long-term Benefit Adjustment Fund (including administration of the investment status of Transitional Long-term Benefit Association Reserve Fund of the member associations), the Fund Management Committee of Local Public Service Personnel Mutual Aid Associations (hereinafter referred to as the "Committee") has been established, which is comprised of individuals who possess academic knowledge or practical experience in areas such as economics, finance and fund management.

Secretaries general of member associations attend meetings of the committee as observers. In addition, a working group of practitioners from member associations established under the committee deliberates matters to be studied by the committee.

Governance ②

2. Implementing Organizations

(1) Governing Council

To amend the articles of incorporation and operating rules, and study and discuss the business plans, budgets, and settlement of accounts for each business year and other important operating matters, governing councils and other committees have been established at the Local Public Service Mutual Aid Associations. These matters are to be decided through deliberations by the governing councils, etc.

The designations, etc. of the governing councils and other committees at Local Public Service Mutual Aid Associations are as follows.

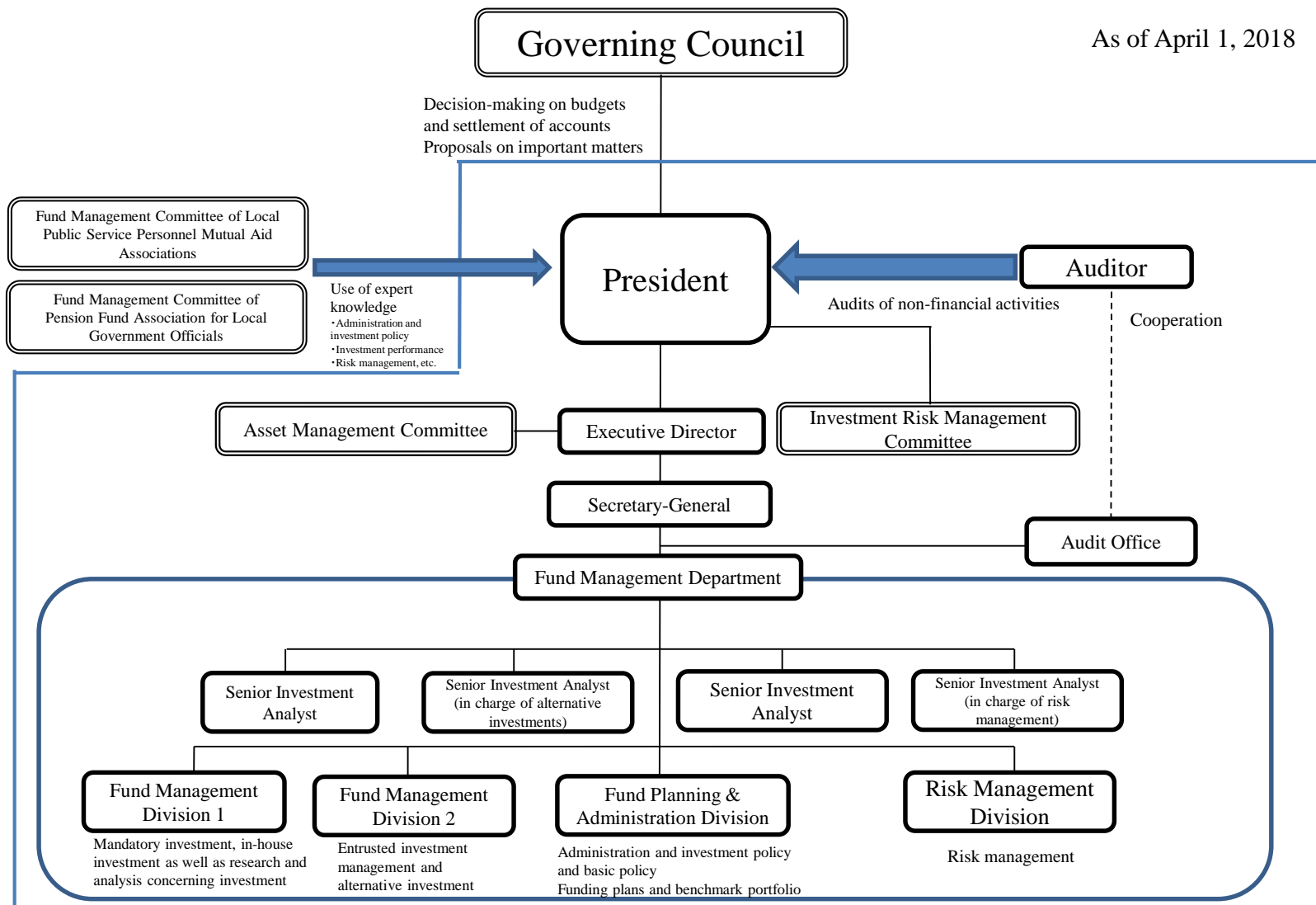
- Governing Council (Articles 38-4 and 38-5 of the Local Public Officers, etc. Mutual Aid Association Act)
Pension Fund Association for Local Government Officials
- Governing Council (Articles 6, 7, and 8 of the Local Public Officers, etc. Mutual Aid Association Act)
Prefectural Mutual Aid Secretary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

(2) Utilization of a committee of specialists

For expert matters pertaining to the administration and investment of implementing organization funds, including the formulation and revision of basic policy, Local Public Service Mutual Aid Associations utilize committees of experts comprised of individuals who possess academic knowledge or practical experience in areas such as economics, finance and fund investments.

Governance ③ (Reference: Governance Structure for Pension Fund Association for Local Government Officials)

As of April 1, 2018



Governance ④ (Fund Management Committee of Local Public Service Personnel Mutual Aid Associations)

○ Fund Management Committee of Local Public Service Personnel Mutual Aid Associations

To study expert matters pertaining to the administration and investment of each fund (meaning the administration and investment of managed fund, the administration and investment of the Annuity Retirement Benefit Adjustment Fund (including administration of investment status of Annuity Retirement Benefit Association Reserve Fund of the Mutual Aid Association of Prefectural Government Personnel, the Japan Mutual Aid Association of Public School Teachers, the Japan Police Personnel Mutual Aid Association, Mutual Benefit Association for Tokyo Metropolitan Government Employees, and National Federation of Mutual Aid Associations for Municipal Personnel) and administration and investment of the Transitional Long-term Benefit Adjustment Fund (including administration of the investment status of Transitional Long-term Benefit Association Reserve Fund of the member associations)), based on the Administration and Investment Policy for the Managed Fund for Employees' Pension Insurance Schemes, the Administration and Investment Policy for the Annuity Retirement Benefit Adjustment Fund and the Administration and Investment Policy for Transitional Long-Term Benefit Adjustment Fund, the Fund Management Committee of Local Public Service Personnel Mutual Aid Associations has been established, which is comprised of individuals who possess academic knowledge or practical experience in areas such as economics, finance, and fund management.

List of Committee Members (As of April 2018)

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
Hisae Sato	Chief Investment Officer, NISSAN MOTOR, LTD.
Toshio Serita	Professor, Department of Economics, Aoyama Gakuin University
Yoshiko Takayama	J-Eurus IR Co., Ltd. Managing Director
Hitoshi Takehara	Professor, Waseda Business School (Graduate School of Business and Finance)
Katsuyuki Tokushima	NLI Research Institute, Financial Research Department, Chief Fixed Income Analyst
Kazuya Nagasawa	Head of Japan, Managing Director MSCI, Inc.
Kazuyo Hachisuka	Executive Senior Vice President, Japan Economic Research Institute Inc.
Masahiro Morimoto	All-Japan Prefectural and Municipal Workers Union General Manager, Central Executive Committee Bureau of Labor

• Deliberation Matters

- ① Matters concerning formulation and revision of the model portfolio
 - ② Matters concerning formulation and revision of administration and investment policy
 - ③ Matters concerning formulation and revision of risk management implementation policy
 - ④ Matters concerning formulation and revision of investment policy for new investment instruments
 - ⑤ Other expert matters concerning the administration and investment of each fund
- ##### • Reporting matters
- ① Investment performance
 - ② Status of risk management
 - ③ Investment status of new investment instruments
 - ④ Status of training and nurturing of expert personnel
 - ⑤ Other matters required by the committee concerning the administration and investment of each 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 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 Pension Fund Association for Local Government Officials, in accordance with the implementation policy for risk management concerning investment of managed fund as an administration and investment organization, and the Local Public Service Mutual Aid Associations, in accordance with the implementation policy for risk management concerning investment of the Employees' Pension Insurance Benefit Fund as an implementing organization, appropriately implement risk management concerning investment in consideration of the following points: that investment of funds should be made safely and efficiently from a long-term perspective; 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 fund (excerpt)

1. Basic approach concerning risk management

The Mutual Aid Association of Prefectural Government Personnel, the Japan Mutual Aid Association of Public School Teachers, the Japan Police Personnel Mutual Aid Association, Mutual Benefit Association for Tokyo Metropolitan Government Employees, the National Federation of Mutual Aid Associations for Municipal Personnel, and the Pension Fund Association for Local Government Officials appropriately conduct risk management related to the investment of their funds in light of the following matters.

- ① Investment of funds should be made safely and efficiently from a long-term point of perspective.
- ② A benchmark portfolio should be developed and investment of funds should be made on the principle of managing funds through appropriate diversification across multiple asset classes with different risk/return profiles and other characteristics (hereinafter referred to as "diversified investment") and manage the funds based thereon.

2. Risk management implementing entities and subjects of management

(1) Employees' Pension Insurance Scheme Managed Fund

- ① The Pension Fund Association for Local Government Officials conducts risk management for investment of the Managed Fund as the administrative and investment entity.
- ② As implementing organizations, associations, etc. (meaning the Mutual Aid Association of Prefectural Government Personnel, the Japan Mutual Aid Association of Public School Teachers, the Japan Police Personnel Mutual Aid Association, the Mutual Benefit Association for Tokyo Metropolitan Government Employees, the National Federation of Mutual Aid Associations for Municipal Personnel, and the Pension Fund Association for Local Government Officials; the same shall apply hereinafter) conduct risk management for investments of the implementing organizations' funds.

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.
- As the asset mix constantly changes due to asset price fluctuations, the Local Public Service Mutual Aid Associations keep 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 Local Public Service Mutual Aid Associations check whether or not there are problems such as a deviation from the benchmark portfolio in excess of the deviation tolerance.

○Monitoring of market risk, etc.

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

○Management of entrusted investment management institutions, etc.

- The Local Public Service Mutual Aid Associations manage liquidity risk (risk that purchasing and selling assets will become difficult due to a decline in trading volume) from the viewpoint of revising asset allocations (rebalancing) and smooth conversion of assets into cash. In addition, as the associations entrust the operation of some investment-related activities to external institutions under its asset investment system, the Local Public Service Mutual Aid Associations manage 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 management institutions and asset administration institutions), from the viewpoint of smooth operation by individual institutions.

○Reporting on the status of risk management and improvement measures implemented

- The status of risk management and improvement measures implemented are reported to the committee of specialists 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 as of March 31, 2018) and the National Federation of Mutual Aid Associations for Municipal Personnel.

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

		FY2015 (After integration)			FY2016			FY2017		
		Cancellation	New	End of FY	Cancellation	New	End of FY	Cancellation	New	End of FY
Domestic bonds	Passive	0	0	13	7	2	8	0	0	8
	Active	0	14	33	1	3	35	2	9	44
	Others	0	0	2	0	0	2	0	0	0
Domestic equities	Passive	1	0	18	1	0	17	0	0	17
	Active	1	26	75	1	1	75	4	6	77
Foreign bonds	Passive	1	2	14	1	0	13	0	0	13
	Active	1	13	26	0	7	33	1	0	32
Foreign equities	Passive	3	1	13	1	0	12	0	0	12
	Active	1	8	37	1	1	37	2	1	36
Alternative		0	1	1	0	5	6	0	5	11
Total		8	65	232	13	19	238	9	21	250
Asset administration institutions		0	0	19	1	0	18	0	0	18

(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.

(Note 3) Funds included in "Others" until fiscal year 2016 are included in "Active" of domestic equities from fiscal year 2017.

Change in fees (since the integration of employee pension plans)

(Unit: JPY100M, %)

	FY2015 (second half)		FY2016		FY2017	
	Fee	Fee rate	Fee	Fee rate	Fee	Fee rate
Domestic bonds	14	0.01	17	0.02	21	0.03
Domestic equities	17	0.05	32	0.08	55	0.11
Foreign bonds	7	0.03	17	0.07	18	0.06
Foreign equities	15	0.05	35	0.10	44	0.10
Overall assets	53	0.03	102	0.05	137	0.07

(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 concerning overall assets includes short-term assets.

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 2018, 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 Pension Fund Association for Local Government Officials.)

Meanwhile, some associations of the Local Public Service Mutual Aid Associations manage 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

No.	Names of issuer	Total market value (Unit: JPY100M)
1	Government of Japan	32,289
2	Japan Finance Organization for Municipalities	17,001
3	Japan Expressway Holding and Debt Repayment Agency	1,228
4	Joint LGB	996
5	Osaka Prefectural Government	847
6	Tokyo Metropolitan Government	701
7	International Finance Corporation	588
8	Japan Housing Finance Agency	538
9	Aichi Prefectural Government	418
10	Kanagawa Prefectural Government	409
Total	434 Issuers	69,837

○Foreign bond

No.	Names of issuer	Total market value (Unit: JPY100M)
1	UNITED STATES OF AMERICA	11,299
2	REPUBBLICA ITALIANA	3,202
3	REPUBLIQUE FRANCAISE	2,917
4	BUNDESREPUBLIK DEUTSCHLAND	2,403
5	UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND	2,030
6	SPAIN, KINGDOM OF	1,830
7	AUSTRALIA, COMMONWEALTH OF	845
8	CANADA	682
9	ROYAUME DE BELGIQUE	622
10	NETHERLANDS, KINGDOM OF	465
Total	839 Issuers	32,088

○Domestic equity

No.	Names of issuer	No. of shares	Total market value (Unit: JPY100M)
1	Toyota Motor Corporation	21,305,200	1,478
2	Mitsubishi UFJ Financial Group	151,431,500	1,069
3	Sumitomo Mitsui Financial Group	17,971,200	816
4	Nippon Telegraph and Telephone Corporation	14,949,800	744
5	Softbank Group	8,881,000	708
6	Sony Corporation	13,367,100	690
7	Honda Motor Co.,Ltd.	17,804,200	656
8	Keyence Corporation	989,200	654
9	Nintendo Co., Ltd.	1,136,200	537
10	KDDI Corporation	19,328,300	534
Total	2,237 Issues		53,445

○Foreign equity

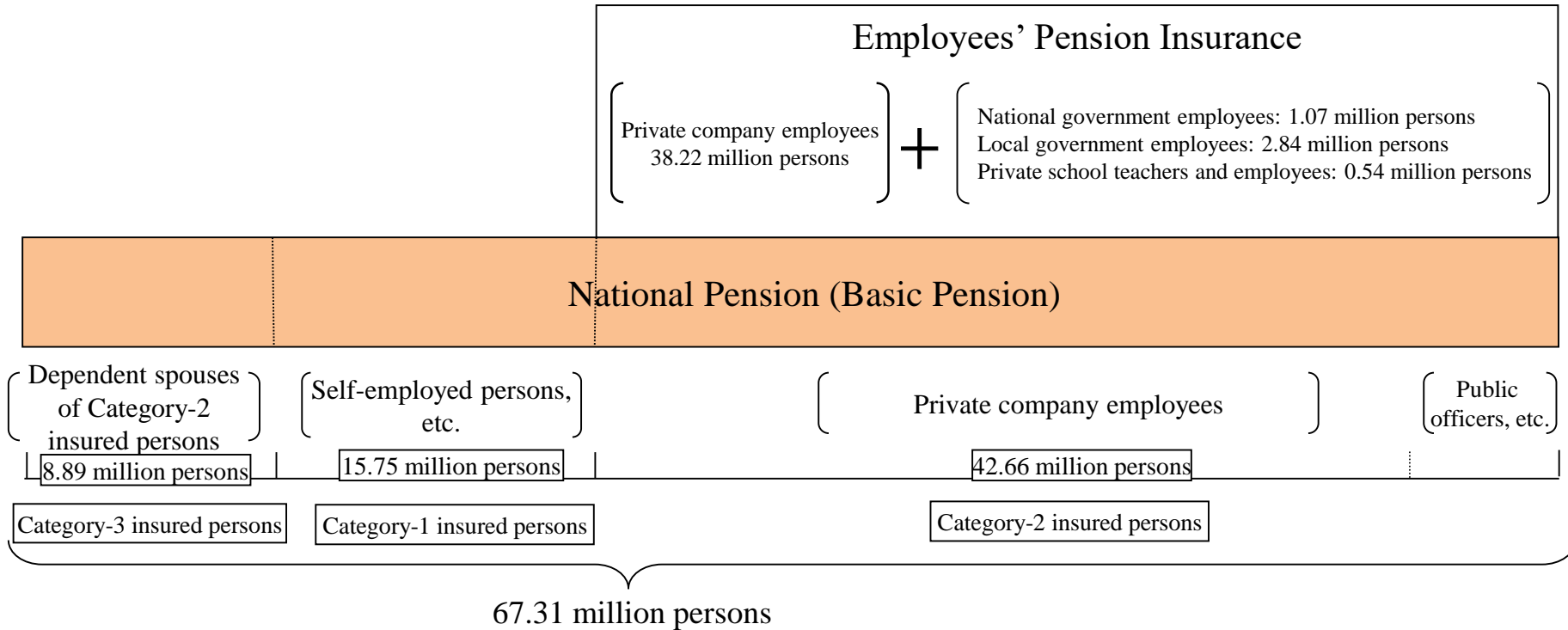
No.	Names of issuer	No. of shares	Total market value (Unit: JPY100M)
1	APPLE INC	4,852,644	866
2	MICROSOFT CORPORATION	7,181,141	697
3	AMAZON COM INC	421,595	649
4	FACEBOOK INC-A	2,490,563	423
5	JPMORGAN CHASE & CO	3,252,227	380
6	ALPHABET INC-CL C	340,495	374
7	JOHNSON AND JOHNSON	2,585,438	352
8	ALPHABET INC-CL A	318,860	352
9	BANK OF AMERICA CORP	9,591,151	307
10	EXXON MOBIL CORPORATION	3,717,904	295
Total	3,109 Issues		45,470

(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 2018.

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

Employee Pension Plans

(The figures are as of the end of March 2017).

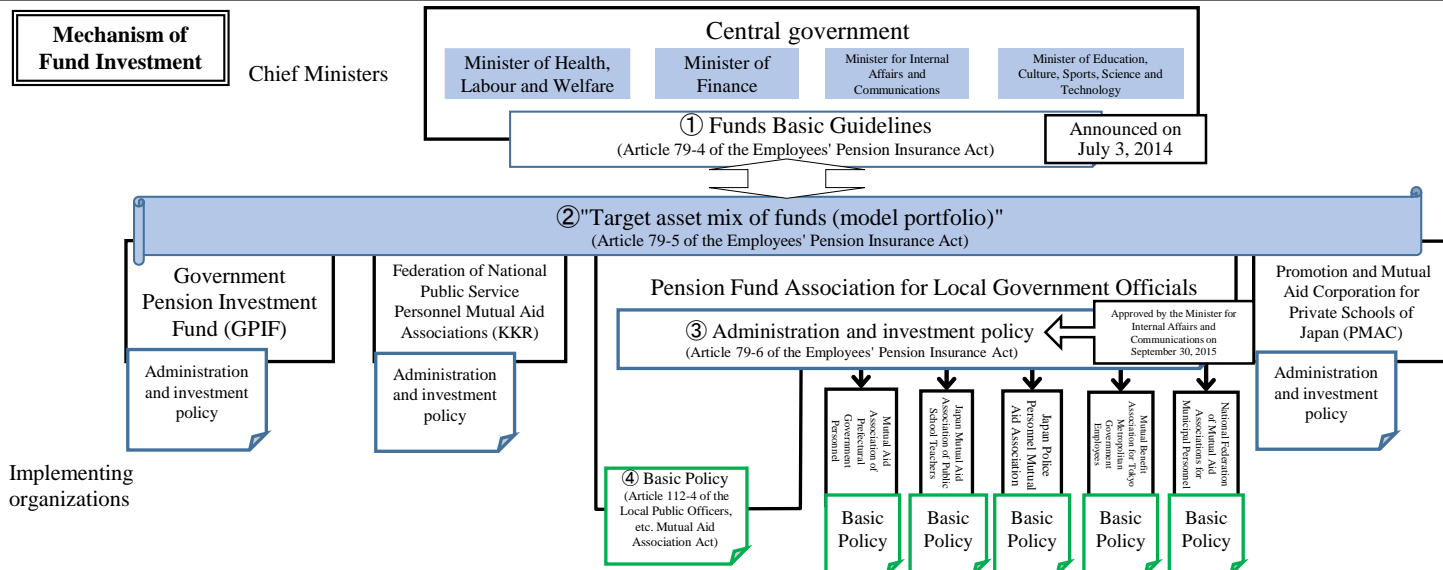


(Note) The number of people who are members of corporate pension plans among those who are members of the Employees' Pension Insurance plan is 15.48 million.
(Breakdown: Employees' Pension Fund : 1.39 million people; defined-benefit corporate pension plans: 8.18 million people; defined-contribution pension plans (corporate type): 5.91 million people)
Meanwhile, the number of members of individual-type defined-contribution pension plans (iDeCo) is 430,000 people.

Investment of Funds

○ 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 GPIF, the KKR, 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).
- ③ The Pension Fund Association for Local Government Officials 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 Pension Fund Association for Local Government Officials (Article 112-4 of the Local Public Officers, etc. Mutual Aid Association Act).



Comparison of Characteristics of Benefits

	Employees' Pension Insurance Benefits (first and second tiers)	Transitional Long-term Benefits (former third tier)	Annuity Retirement Benefits (new third tier)
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 GPIF, the KKR, the Pension Fund Association for Local Government Officials, and the Promotion and Mutual Aid Corporation for Private Schools of Japan.

○ Transitional Long-term Benefit Fund

Fund comprising the following funds: (i) the Transitional Long-term Benefit Association Reserve Fund administered and invested by individual member associations after the integration of employee pension plans for the payment of benefit pertaining to the former occupational portion of the plans (transitional long-term benefit), and (ii) the Transitional Long-term Benefit Adjustment Fund set aside by the Pension Fund Association for Local Government Officials for the payment of the necessary amount in case of a shortage of fund for transitional long-term benefit of individual member associations.

○ Employees' Pension Insurance Benefit Fund

Fund comprising the following funds: (i) the Employees' Pension Insurance Benefit Association Reserve Fund administered and invested by individual member associations after the integration of employee pension plans for the payment of employee's pension insurance benefit, and (ii) the Employees' Pension Insurance Benefit Adjustment Fund set aside by the Pension Fund Association for Local Government Officials for the payment of the necessary amount in case of a shortage of financial resources to cover liabilities concerning contributions of employees' pension and basic pension of individual member associations.

○ Annuity Retirement Benefit Fund

Fund comprising the following funds: (i) the Annuity Retirement Benefit Association Reserve Fund set aside, administered and invested by individual member associations for the payment of retirement pension benefit after the integration of employee pension plans, and (ii) the Annuity Retirement Benefit Adjustment Fund which is set aside by the Pension Fund Association for Local Government Officials for the payment of the necessary amount in case of a shortage of fund for pension benefit of individual mutual aid associations, etc.