

Fiscal Year 2017

**Transitional Long-term 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: +6.80% *Return (market value basis)
(FY2017) (+4.45% *Realized return (book value basis))

Investment income: +¥1,431.8 billion *Investment income
(FY2017) (market value basis)
(+¥831.6 billion *Realized income (book value basis))

Value of investment assets: ¥21,788.8 billion *Market value basis
(End of FY2017)

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

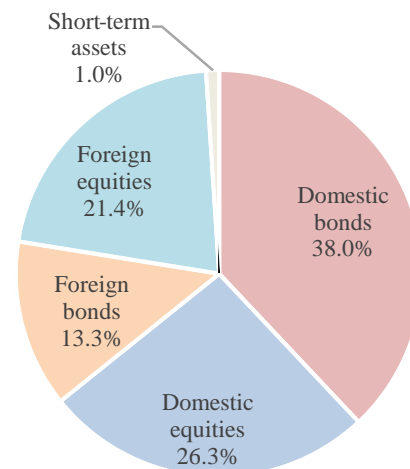
Fiscal Year 2017 Asset Mix

○ 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 42.7% to 38.0%, while the share of domestic equities increased from 24.0% to 26.3%; the share of foreign bonds rose from 11.9% to 13.3% and the share of foreign equities edged up from 19.9% to 21.4%; and the share of short-term assets declined from 1.6% to 1.0%.

(Unit: %)

	FY2016	FY2017			
	End of FY	End of Q1	End of Q2	End of Q3	End of FY
Domestic bonds	42.7	40.6	39.1	37.2	38.0
Domestic equities	24.0	25.3	25.3	26.6	26.3
Foreign bonds	11.9	12.6	13.2	13.3	13.3
Foreign equities	19.9	20.7	21.3	21.8	21.4
Short-term assets	1.6	0.9	1.1	1.1	1.0
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) Real estate, loan, etc. are included in domestic bonds.

○ Benchmark portfolio

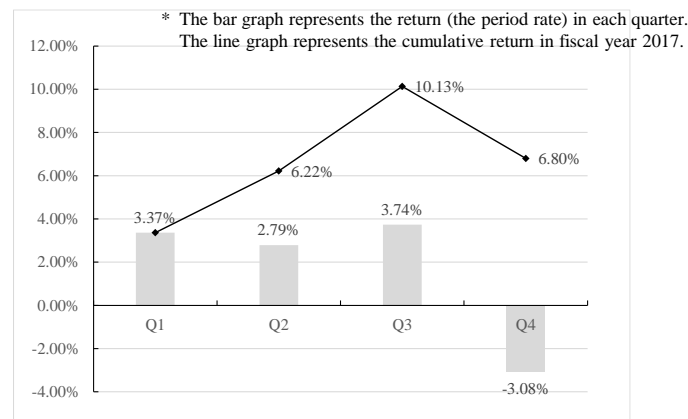
	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Asset mix	35%	25%	15%	25%
Deviation tolerance	±15%	±14%	±6%	±12%

Fiscal Year 2017 Investment Return

- The return (market value basis) in fiscal year 2017 came to 6.80% due to such factors as a rise in domestic and foreign equity prices. The realized return (book value basis) was 4.45%.
- By asset class, the return (market value basis) came to 0.60% for domestic bonds because of an interest rate drop and to 16.63% for domestic equities due to a stock price rise. The return came to 3.71% for foreign bonds due to such factors as the yen's depreciation against the euro and to 9.81% for foreign equities because of a stock price rise.

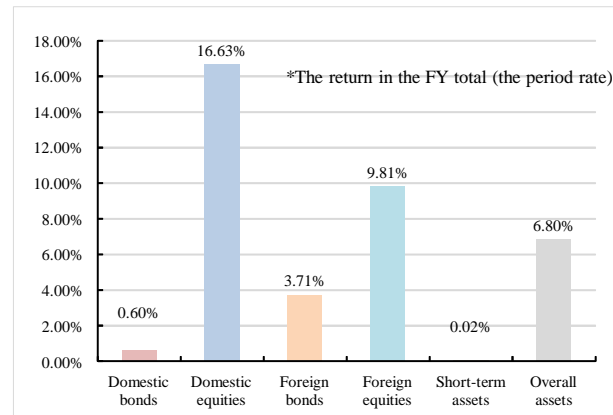
(Unit: %)

	FY2017				
	Q1	Q2	Q3	Q4	FY total
Return (market value basis)	3.37	2.79	3.74	-3.08	6.80
Domestic bonds	0.06	0.09	0.23	0.22	0.60
Domestic equities	6.83	5.10	8.94	-4.48	16.63
Foreign bonds	4.82	2.45	1.29	-4.23	3.71
Foreign equities	5.49	5.55	5.54	-6.39	9.81
Short-term assets	0.01	0.01	0.00	0.00	0.02



(Unit: %)

	FY2017				
	Q1	Q2	Q3	Q4	FY total
Realized return (book value basis)	0.96	1.09	1.17	1.23	4.45



(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 6.80%, while the excess return over the benchmark was -0.54%.

The excess return due to the asset allocation factor was negative (-0.34%) 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 foreign equities.

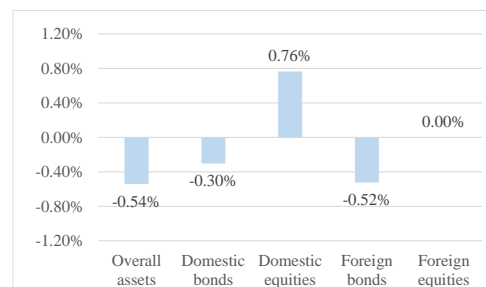
The excess return due to the individual asset factor was positive (0.01%) mainly because the returns on domestic equities (market value basis) exceeded the benchmark return.

FY2017 (April 2017 through March 2018)

	Overall assets	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Return (market value basis)	6.80%	0.60%	16.63%	3.71%	9.81%
Benchmark return *	7.34%	0.90%	15.87%	4.23%	9.81%
Excess return	-0.54%	-0.30%	0.76%	-0.52%	0.00%

* 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	-0.28%	-0.11%	-0.10%	-0.48%
Domestic equities	0.05%	0.19%	-0.05%	0.19%
Foreign bonds	0.07%	-0.08%	-0.02%	-0.03%
Foreign equities	-0.10%	0.00%	-0.04%	-0.14%
Short-term assets	-0.08%	0.00%	-0.00%	-0.08%
Total	-0.34%	0.01%	-0.21%	-0.54%

(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	39.4%	35.0%	4.4%	±15%
Domestic equities	25.6%	25.0%	0.6%	±14%
Foreign bonds	12.8%	15.0%	-2.2%	±6%
Foreign equities	21.1%	25.0%	-3.9%	±12%
Short-term assets	1.1%		1.1%	
Total	100.0%	100.0%	0.0%	

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

Fiscal Year 2017 Investment Income

- Investment income (market value basis) in fiscal year 2017 was ¥1,431.8 billion. Realized income (book value basis) was ¥831.6 billion.
- By asset class, investment income (market value basis) was ¥51.9 billion for domestic bonds, ¥856.8 billion for domestic equities, ¥100.4 billion for foreign bonds and ¥422.7 billion for foreign equities.

(Unit: JPY100M)

	FY2017				
	Q1	Q2	Q3	Q4	FY total
Investment income (market value basis)	7,081	5,996	8,228	-6,986	14,318
Domestic bonds	55	79	199	186	519
Domestic equities	3,475	2,759	5,043	-2,709	8,568
Foreign bonds	1,225	679	381	-1,281	1,004
Foreign equities	2,326	2,479	2,605	-3,182	4,227
Short-term assets	0	0	0	0	0

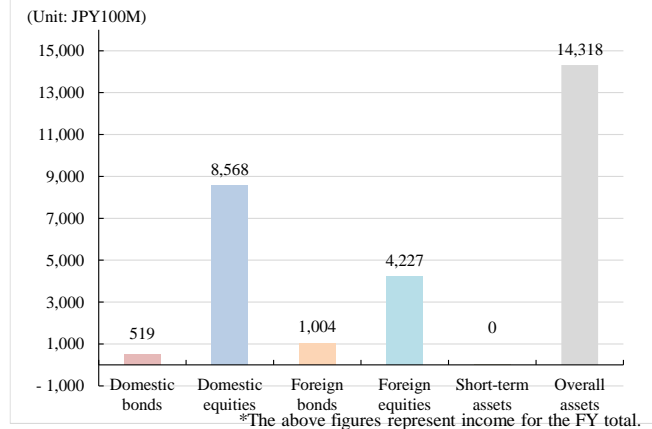
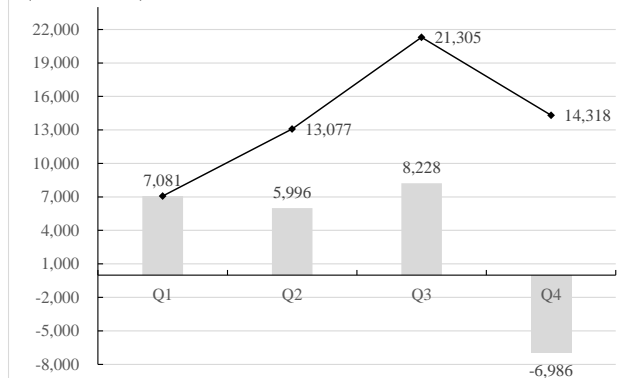
(Unit: JPY100M)

	FY2017				
	Q1	Q2	Q3	Q4	FY total
Realized income (book value basis)	1,791	2,035	2,184	2,307	8,316

- (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.

* The bar graph represents the income in each quarter.

The line graph represents the cumulative income in fiscal year 2017.



*The above figures represent income for 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	85,762	90,257	4,495	82,898	87,125	4,226	82,122	86,141	4,018	80,117	84,119	4,002	79,124	82,767	3,643
Domestic equities	42,129	50,757	8,627	42,809	54,231	11,422	42,410	55,802	13,393	43,398	60,250	16,852	44,136	57,197	13,061
Foreign bonds	25,527	25,073	-454	26,409	27,096	686	27,954	29,108	1,154	28,830	30,114	1,284	29,270	28,984	-286
Foreign equities	31,296	42,095	10,799	31,860	44,420	12,560	32,329	46,902	14,573	32,639	49,415	16,776	33,667	46,719	13,052
Short-term assets	3,290	3,289	-1	1,832	1,833	0	2,436	2,436	0	2,491	2,491	0	2,221	2,221	0
Total	188,004	211,471	23,466	185,810	214,703	28,894	187,250	220,389	33,138	187,475	226,388	38,914	188,419	217,888	29,469

(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) Real estate, loan, etc. are 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	-7,846	-2,128	2,907	397

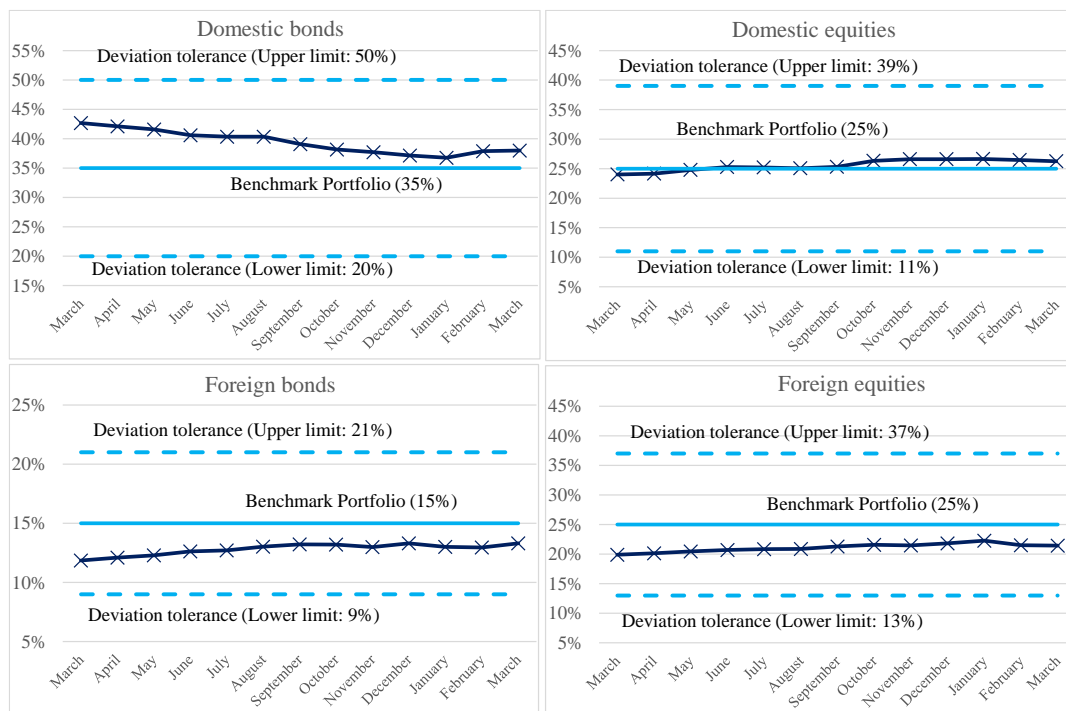
(Note) The above figures represent the total amount of fund flows related to the allocation and withdrawal of funds (rebalancing) conducted for the purpose of changing the asset mix, and cashing out.

Status of Risk Management (Overall Assets)

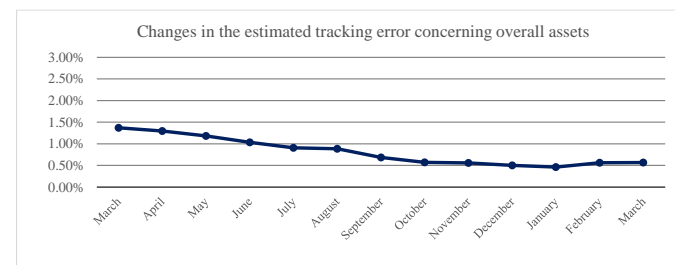
In fiscal year 2017, the shares in the asset mix concerning all asset classes—domestic bonds, domestic equities, foreign bonds and foreign equities—stayed within the deviation tolerance.

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 ¥13.1 billion in fiscal year 2017.
The fee rate relative to the value of investment assets came to 0.06%.

(Unit: JPY100M, %)

	FY2017	
	Fee	Fee rate
Domestic bonds	13	0.02
Domestic equities	57	0.10
Foreign bonds	17	0.06
Foreign equities	44	0.10
Overall assets	131	0.06

(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 transitional long-term benefit scheme operations. In the investment management, particular attention shall be paid to downside risks and constant consideration shall be given to the relationship between future liabilities and the funds in light of the characteristics of a closed pension plan, which receives no new contribution income.
- Furthermore, for the investment of the Transitional Long-term Benefit Adjustment Fund and the Transitional Long-term Benefit Association Reserve Fund, which, as closed pension plans, receive no new contribution income, the benchmark portfolio shall be determined and appropriately managed so as to secure the required real return on investment of the funds at the minimum risk, in due consideration of the relationship between future liabilities and the funds. In addition, efforts shall be made to secure the benchmark return for each asset class, including over the long term.

Administration and Investment Policy for Transitional Long-Term Benefit Adjustment Fund (excerpt)

(1) Basic Policy

The Association shall manage the TLTB adjustment fund and the TLTB association reserve funds (collectively, the “TLTB Funds”) with the objective of contributing to the stability of the TLTB plan operations based on the characteristics of a closed pension plan that will have no new contribution income, especially paying attention to downside risks, with constant awareness of the relationship between future liabilities and the reserve funds.

Accordingly, on the basis of appropriately diversifying investments in multiple assets that differ in risk/return and other characteristics (“Diversified Investment”), the Association shall administer and invest the TLTB adjustment fund by establishing an asset mix from the long-term perspective (the “Benchmark Portfolio”).

(2) Investment target, risk management, etc.

① Investment target

The investment of the TLTB Funds, which have the characteristics of a closed pension plan, shall be managed appropriately by establishing the Benchmark Portfolio so that investment returns needed for the reserve funds will be generated with the minimum risk, while fully paying attention to the relationship between future liabilities and the reserve funds

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

In addition, the Association shall strive to earn the benchmark rate of return for each asset class for each fiscal year, as well as generating it 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 Transitional Long-term Benefit Fund, the Local Public Service Mutual Aid Associations exercised voting rights, through the 27 investment management institutions entrusted with domestic equity investment, with respect to a total of 35,975 companies which settled accounts between April 2016 and March 2017. The number of proposals concerning which voting rights were exercised was 128,799.

The Local Public Service Mutual Aid Associations voted against 29,091 of the 128,799 proposals (among which 5,467 were shareholder proposals), which translates into a vote-against rate of 22.6% (up 1.7 points from the previous year).

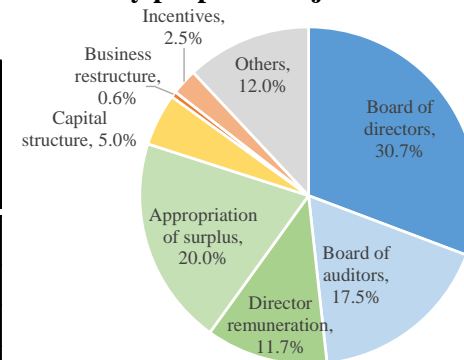
The vote-against rate came to 37.4% (up 0.2 points from the previous year) concerning proposals related to the board of directors/directors, 13.0% (down 5.1 points) concerning proposals related to the board of auditors/auditors, 15.3% (up 4.6 points) concerning proposals related to director remuneration, etc. and 4.9% (up 0.9 points) concerning proposals related to appropriation of surplus.

Voting activity (Transitional Long-term Benefit Fund)

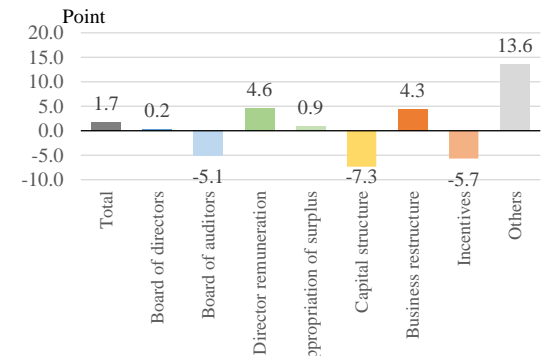
Companies with accounting settlement between April 2016 and March 2017

Proposal Subject	Total	Composition	Vote for		Vote against		Vote-against rate in the previous year
				Rate		Rate	
Total	128,799	100%	99,708	77.4%	29,091	22.6%	20.9%
c.f. Shareholder Proposal	5,807	4.5%	340	5.9%	5,467	94.1%	96.9%
By Subject	128,799	100%	99,708	77.4%	29,091	22.6%	20.9%
Board of Directors/Directors	39,582	30.7%	24,775	62.6%	14,807	37.4%	37.2%
Board of Auditors/Auditors	22,564	17.5%	19,638	87.0%	2,926	13.0%	18.1%
Director Remuneration, etc.	15,057	11.7%	12,754	84.7%	2,303	15.3%	10.7%
Appropriation of Surplus	25,781	20.0%	24,525	95.1%	1,256	4.9%	4.0%
Capital Structure	6,459	5.0%	4,698	72.7%	1,761	27.3%	34.6%
Takeover Defense Measures	2,084	1.6%	361	17.3%	1,723	82.7%	63.7%
Capital Increase or Reduction	93	0.1%	93	100.0%	0	0.0%	4.4%
Third Party Allotment of Shares	52	0.0%	38	73.1%	14	26.9%	21.8%
Acquisition of Own Shares	13	0.0%	2	15.4%	11	84.6%	42.1%
Business Restructure	724	0.6%	682	94.2%	42	5.8%	1.5%
Incentives Improvement for Executives	3,217	2.5%	2,489	77.4%	728	22.6%	28.3%
Other proposals	15,415	12.0%	10,147	65.8%	5,268	34.2%	20.6%

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

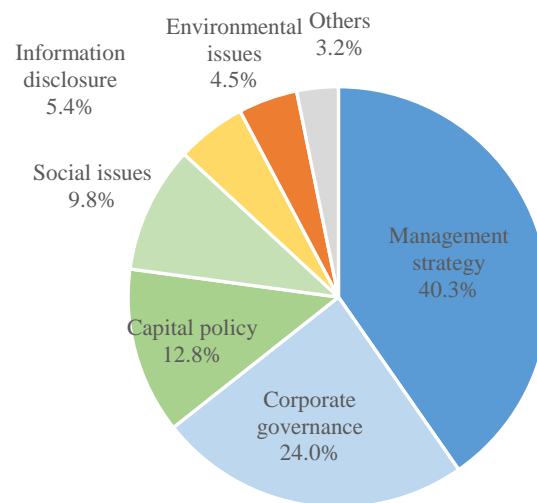
In fiscal year 2016, regarding the Transitional Long-term Benefit Fund, the Local Public Service Mutual Aid Associations implemented engagement with a total of 10,648 companies through the 28 investment management institutions entrusted with domestic equity investment. The number of cases of engagement was 24,176 in total. The number of cases of direct dialogue with top managers of companies was 6,816, or 28.2% of the total.

Regarding major subjects of engagement, the number of cases of dialogue concerning management strategy issues, including management challenges, came to 9,746, or 40.3% of the total, followed by dialogue concerning corporate governance issues, including the composition of the board of directors with 5,813 cases (24.0%) and capital policy issues, including the shareholder return with 3,089 cases (12.8%).

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

Dialogue subject	Number of cases		Dialogues with top managers	
	Number of cases	Composition	Number of cases	Rate
Total	24,176	100.0%	6,816	28.2%
Dialogues concerning management strategy	9,746	40.3%	3,359	34.5%
Dialogues concerning corporate governance	5,813	24.0%	1,437	24.7%
Dialogues concerning capital policy	3,089	12.8%	864	28.0%
Dialogues concerning social issues	2,359	9.8%	464	19.7%
Dialogues concerning information disclosure	1,297	5.4%	345	26.6%
Dialogues concerning environmental issues	1,100	4.5%	159	14.5%
Other	772	3.2%	188	24.4%

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. Electric Appliances	Dialogue	Proposed the appointment of multiple outside directors in order to improve corporate governance as there was only one outside director.
		Result	Announced the appointment of a second outside director later.
	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.

Dialogue subject	Company	Specifics	
Dialogues concerning capital policy	1st sec. of the Tokyo Stock Exch. Information & Communication	Dialogue	Pointed out the possibility that the timing of the achievement of the ROE target of 8% under a medium-term plan would be delayed significantly because of the possession of excessive amounts of cash and deposits.
		Result	Announced a substantial increase in dividends later and also expressed an intention not to build up surplus funds more than is necessary.
	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 ¥95.1 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	(111.0 billion yen)
Japan Mutual Aid Association of Public School Teachers	FY2014	3 (6)	27.6 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)	6.4 billion yen	(12.1 billion yen)
Total		10 (20)	95.1 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 Transitional Long-term 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 17,714 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 144,153.

The Local Public Service Mutual Aid Associations voted against 14,687 of the 144,153 proposals (among which 4,491 were shareholder proposals), which translates into a vote-against rate of 10.2%. The vote-against rate concerning shareholder proposals was 49.5%.

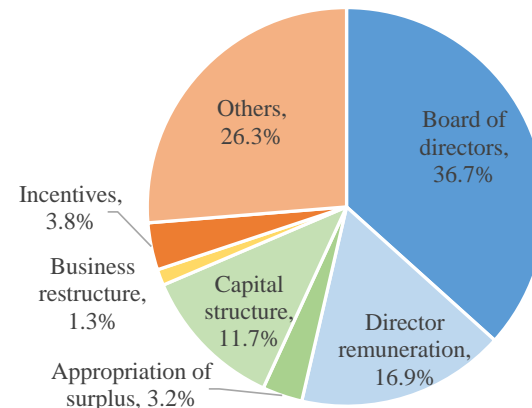
The vote-against rate came to 7.4% concerning proposals related to the board of directors/directors, 9.5% concerning proposals related to director remuneration, etc. and 1.8% concerning proposals related to appropriation of surplus.

Voting activity (Transitional Long-term Benefit Fund)

Companies with accounting settlement between April 2016 and March 2017

Proposal Subject	Total		Vote for		Vote against	
		Composition		Rate		Rate
Total	144,153	100%	129,466	89.8%	14,687	10.2%
c.f. Shareholder Proposal	9,075	6.3%	4,584	50.5%	4,491	49.5%
By Subject	144,153	100%	129,466	89.8%	14,687	10.2%
Board of Directors/Directors	52,853	36.7%	48,944	92.6%	3,909	7.4%
Director Remuneration, etc.	24,432	16.9%	22,106	90.5%	2,326	9.5%
Appropriation of Surplus	4,681	3.2%	4,598	98.2%	83	1.8%
Capital Structure	16,905	11.7%	14,693	86.9%	2,212	13.1%
Takeover Defense Measures	1,188	0.8%	1,084	91.2%	104	8.8%
Capital Increase or Reduction	5,005	3.5%	4,170	83.3%	835	16.7%
Third Party Allotment of Shares	733	0.5%	727	99.2%	6	0.8%
Acquisition of Own Shares	3,478	2.4%	3,387	97.4%	91	2.6%
Business Restructure	1,884	1.3%	1,790	95.0%	94	5.0%
Incentives Improvement for Executives	5,520	3.8%	4,399	79.7%	1,121	20.3%
Other proposals	37,878	26.3%	32,936	87.0%	4,942	13.0%

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)

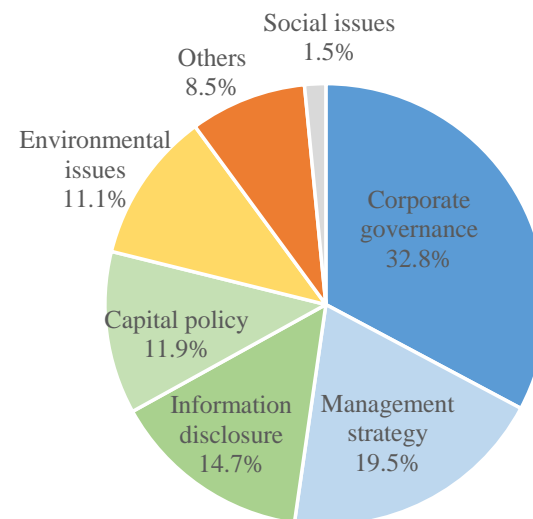
In fiscal year 2016, regarding the Transitional Long-term Benefit Fund, the Local Public Service Mutual Aid Associations implemented engagement with a total of 1,725 companies through 17 of the 24 investment management institutions entrusted with foreign equity investment. The number of cases of engagement was 4,325 in total. The number of cases of direct dialogue with top managers of companies was 1,224, 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 32.8% of the total, followed by dialogue concerning management strategy with 843 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	Dialogues with top managers	Rate
Total	4,325	100.0%	1,224	28.3%
Dialogues concerning corporate governance	1,418	32.8%	226	15.9%
Dialogues concerning management strategy	843	19.5%	355	42.1%
Dialogues concerning information disclosure	635	14.7%	35	5.5%
Dialogues concerning capital policy	515	11.9%	307	59.6%
Dialogues concerning environmental issues	478	11.1%	50	10.5%
Other	369	8.5%	238	64.5%
Dialogues concerning social issues	67	1.5%	13	19.4%

Share by dialogue item



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

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_reporth29.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.

Review of Manager Structure

As part of efforts to encourage entrusted investment management institutions to deliver better results, raise the investment performance of the Transitional Long-term 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
 - Purchasing investment-grade corporate bonds
 - 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 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.
 - 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.

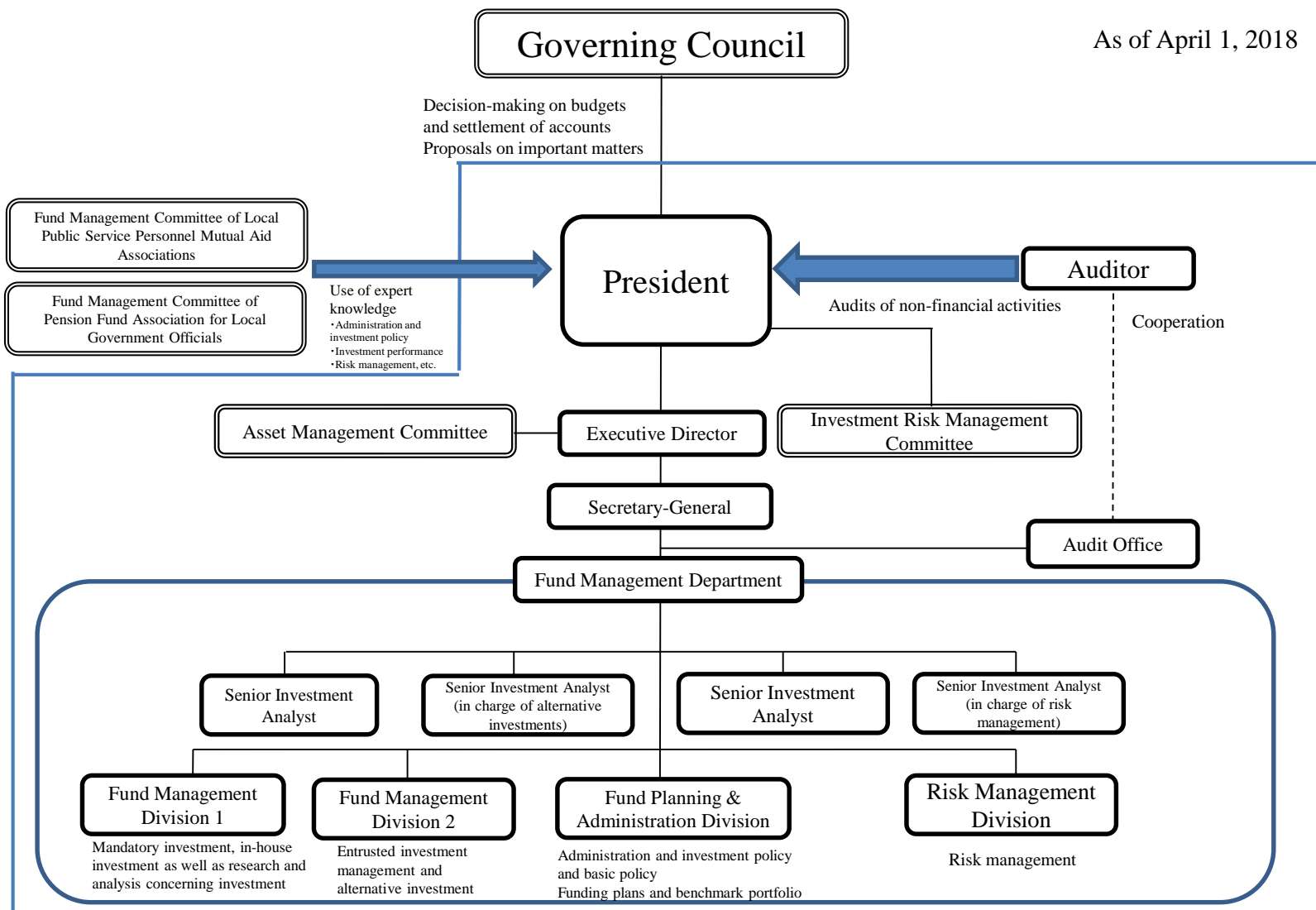
- Governing Council (Articles 38-4 and 38-5 of the Local Public Officers, etc. Mutual Aid Association Act)
Pension Fund Association for Local Government Officials
- Governing Council (Articles 6, 7, and 8 of the Local Public Officers, etc. Mutual Aid Association Act)
Prefectural Mutual Aid Secretary 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 associations, etc.)), 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 Transitional Long-term 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 particular attention shall be paid to downside risks and constant consideration shall be given to the relationship between future liabilities of all Local Public Service Mutual Aid Associations and the funds in light of the characteristics of a closed pension plan, which receives no new contribution income.

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

(3) Transitional Long-term Benefit Fund

- ① The Pension Fund Association for Local Government Officials conducts risk management for investment of the Transitional Long-term Benefit Adjustment Fund and the Transitional Long-term Benefit Association Reserve Fund (hereinafter referred to as "Transitional Long-term Benefit Fund").
- ② The Associations, etc. conduct risk management for investment of the Transitional Long-term Benefit Association Reserve Fund (in the case of the Pension Fund Association for Local Government Officials, the Transitional Long-term Benefit Adjustment Fund).

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 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 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

Change in Number of Passive/Active Funds by Assets (Entrusted)

		FY2015 (After integration)			FY2016			FY2017		
		Cancellation	New	End of FY	Cancellation	New	End of FY	Cancellation	New	End of FY
Domestic bonds	Passive	1	0	10	3	0	7	1	0	6
	Active	4	6	25	0	3	28	3	6	32
	Others	0	0	2	1	0	1	0	0	0
Domestic equities	Passive	1	0	18	1	0	17	0	0	17
	Active	2	24	75	2	1	74	5	6	75
Foreign bonds	Passive	1	2	14	1	0	13	0	0	13
	Active	1	11	24	0	7	31	0	0	31
Foreign equities	Passive	3	1	13	1	0	12	0	0	12
	Active	2	7	34	0	1	35	2	1	34
Total		15	51	215	9	12	218	11	13	220
Asset administration institutions		0	0	19	0	0	19	1	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	12	0.01	12	0.01	13	0.02
Domestic equities	17	0.04	34	0.07	57	0.10
Foreign bonds	7	0.03	17	0.07	17	0.06
Foreign equities	14	0.05	36	0.10	44	0.10
Overall assets	50	0.02	98	0.05	131	0.06

(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	Japan Finance Organization for Municipalities	21,392
2	Government of Japan	21,088
3	Joint LGB	8,946
4	Japan Expressway Holding and Debt Repayment Agency	1,933
5	Tokyo Metropolitan Government	1,823
6	Aichi Prefectural Government	1,143
7	Kanagawa Prefectural Government	1,035
8	Hokkaido Prefectural Government	916
9	Hyogo Prefectural Government	757
10	Osaka City Government	729
Total	842 Issuers	74,962

○ Foreign bond

No.	Names of issuer	Total market value (Unit: JPY100M)
1	UNITED STATES OF AMERICA	11,226
2	REPUBBLICA ITALIANA	3,047
3	REPUBLIQUE FRANCAISE	2,755
4	BUNDESREPUBLIK DEUTSCHLAND	2,395
5	UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND	2,006
6	SPAIN, KINGDOM OF	1,794
7	AUSTRALIA, COMMONWEALTH OF	786
8	ROYAUME DE BELGIQUE	630
9	CANADA	607
10	NETHERLANDS, KINGDOM OF	470
Total	743 Issuers	30,405

○ Domestic equity

No.	Names of issuer	No. of shares	Total market value (Unit: JPY100M)
1	Toyota Motor Corporation	22,876,900	1,587
2	Mitsubishi UFJ Financial Group	162,291,700	1,146
3	Sumitomo Mitsui Financial Group	19,177,500	870
4	Nippon Telegraph and Telephone Corporation	16,114,400	802
5	Softbank Group	9,513,700	758
6	Sony Corporation	14,237,800	734
7	Honda Motor Co.,Ltd.	19,142,500	705
8	Keyence Corporation	1,057,100	699
9	KDDI Corporation	20,728,200	572
10	Nintendo Co., Ltd.	1,209,500	571
Total	2,239 Issues		56,894

○ Foreign equity

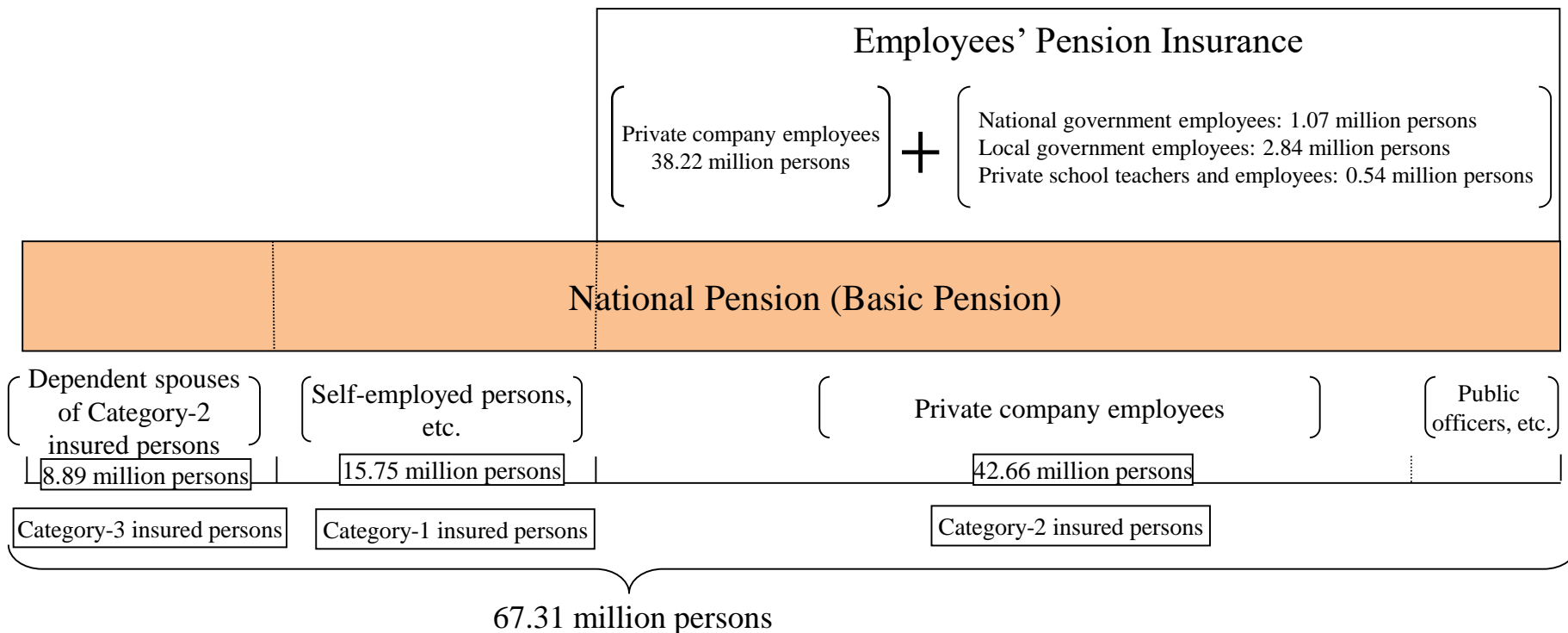
No.	Names of issuer	No. of shares	Total market value (Unit: JPY100M)
1	APPLE INC	4,952,269	884
2	MICROSOFT CORPORATION	7,331,190	712
3	AMAZON COM INC	425,724	655
4	FACEBOOK INC-A	2,520,029	428
5	JPMORGAN CHASE & CO	3,375,998	395
6	ALPHABET INC-CL C	342,089	375
7	JOHNSON AND JOHNSON	2,662,463	363
8	ALPHABET INC-CL A	325,028	359
9	BANK OF AMERICA CORP	9,838,710	315
10	EXXON MOBIL CORPORATION	3,818,955	303
Total	3,067 Issues		46,371

(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 Local Public Service Mutual Aid Associations 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).



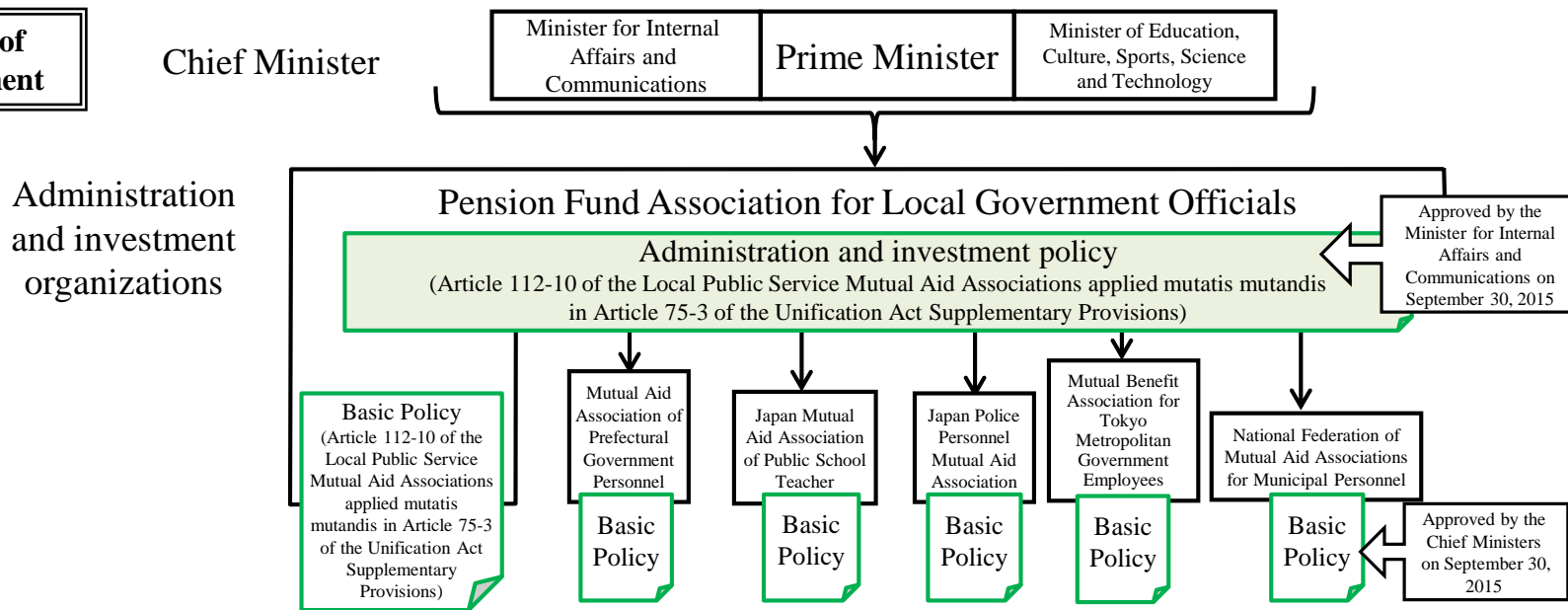
(Note) The number of people who are members of corporate pension plans among those who are members of the Employees' Pension Insurance plan is 15.48 million.
(Breakdown: Employees' Pension Fund: 1.39 million people; defined-benefit corporate pension plans: 8.18 million people; defined-contribution pension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

○ Administration and investment policy and basic policy

- ① The Pension Fund Association for Local Government Officials formulates 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). (Article 112-10 of the Local Public Service Mutual Aid Associations applied mutatis mutandis in Article 75-3 of the Unification Act Supplementary Provisions)
- ② A Basic Policy (Including the benchmark portfolio) pertaining to administration and investment of funds is formulated at Local Public Service Personnel Mutual Aid Associations, etc. so as to conform to the Administration and Investment Policy set by the Pension Fund Association for Local Government Officials. (Article 112-11 of the Local Public Service Mutual Aid Associations Act applied mutatis mutandis in Article 75-3 of the Unification Act Supplementary Provisions)

Mechanism of Fund Investment



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.