

Fiscal Year 2017

Review of Operations (Abridged Version)

(Pension Fund Association for Local Government Officials)



地方公務員共済組合連合会

Pension Fund Association for Local Government Officials

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[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.

Employees' Pension Insurance Benefit Adjustment Fund

Fiscal Year 2017 Investment Results (Overview)

Investment return: **+7.44%** *Return (market value basis)
(FY2017) **(+4.44%** *Realized return (book value basis))

Investment income: **+¥767.8 billion** *Investment income
(FY2017) **(market value basis)**
(+¥419.7 billion *Realized income (book value basis))

Value of investment assets: **¥11,224.6 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 time-weighted return. (The same shall apply hereinafter.)

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

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

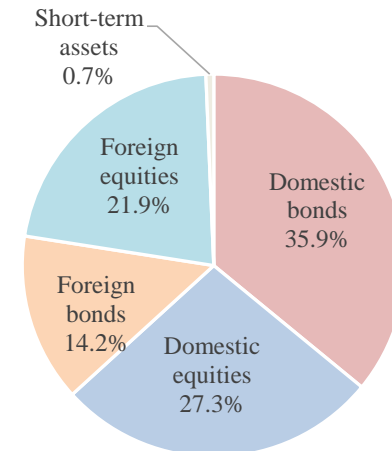
Fiscal Year 2017 Asset Mix

○ 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 39.9% to 35.9%, while the share of domestic equities increased from 26.4% to 27.3%; the share of foreign bonds rose from 12.5% to 14.2% and the share of foreign equities edged up from 21.1% to 21.9%; and the share of short-term assets increased from 0.1% to 0.7%.

(Unit: %)

	FY2016	FY2017			
	End of FY	End of Q1	End of Q2	End of Q3	End of FY
Domestic bonds	39.9	37.7	36.4	34.9	35.9
Domestic equities	26.4	27.4	26.9	27.8	27.3
Foreign bonds	12.5	13.3	14.4	14.5	14.2
Foreign equities	21.1	21.5	22.1	22.5	21.9
Short-term assets	0.1	0.1	0.2	0.3	0.7
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 funds is 0.4% (the upper limit is 5%).

○ 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

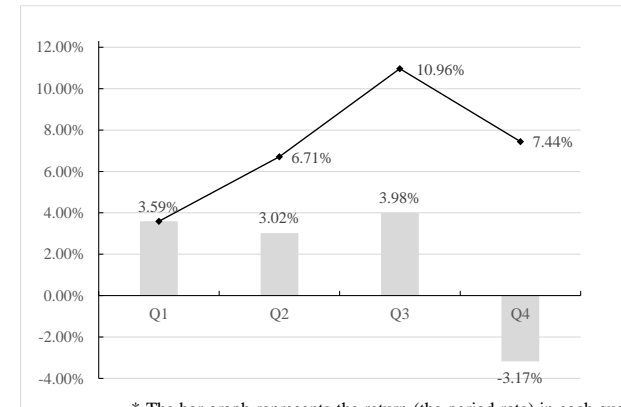
○The return (market value basis) in fiscal year 2017 came to 7.44% due to such factors as a rise in domestic and foreign equity prices.

The realized return (book value basis) was 4.44%.

○By asset class, the return (market value basis) came to 0.72% for domestic bonds because of an interest rate drop and to 17.27% for domestic equities due to a stock price rise. The return came to 4.25% for foreign bonds due to such factors as the yen's depreciation against the euro and to 10.10% for foreign equities because of a stock price rise.

(Unit: %)

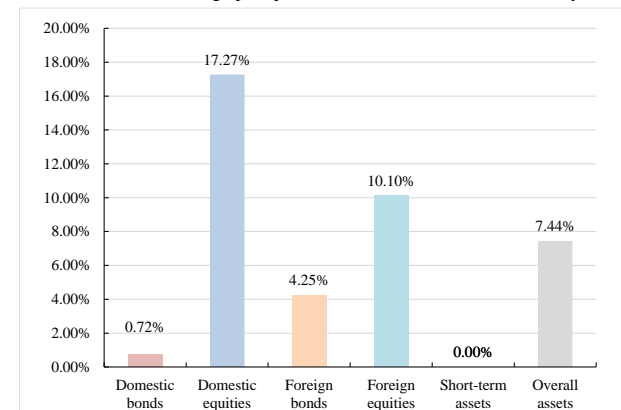
	FY2017				
	Q1	Q2	Q3	Q4	FY total
Return (market value basis)	3.59	3.02	3.98	-3.17	7.44
Domestic bonds	0.01	0.16	0.30	0.25	0.72
Domestic equities	6.86	5.22	9.13	-4.43	17.27
Foreign bonds	4.79	2.47	1.31	-4.17	4.25
Foreign equities	5.41	5.64	5.59	-6.36	10.10
Short-term assets	0.00	0.00	0.00	0.00	0.00



* The bar graph represents the return (the period rate) in each quarter.
The line graph represents the cumulative return in fiscal year 2017.

(Unit: %)

	FY2017				
	Q1	Q2	Q3	Q4	FY total
Realized return (book value basis)	0.88	1.30	1.11	1.15	4.44



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

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

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

(Reference) Fiscal Year 2016 Investment Return

(Unit: %)

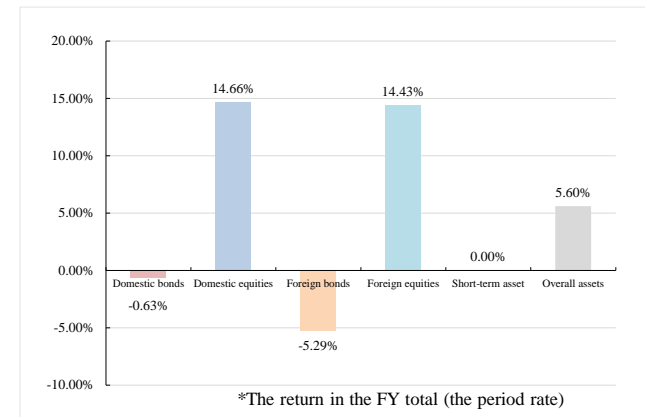
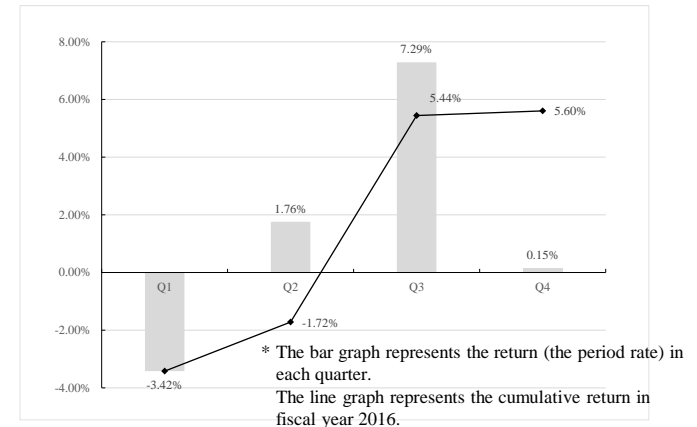
	FY2016				
	Q1	Q2	Q3	Q4	FY total
Return (market value basis)	-3.42	1.76	7.29	0.15	5.60
Domestic bonds	1.34	-0.93	-0.77	-0.25	-0.63
Domestic equities	-6.98	6.59	14.82	0.72	14.66
Foreign bonds	-8.26	-0.48	7.59	-3.58	-5.29
Foreign equities	-7.85	3.81	16.70	2.51	14.43
Short-term assets	0.00	0.00	0.00	0.00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

(Unit: %)

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

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

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



Contribution Analysis of the Excess Return by Asset Class ①

○ The return (market value basis) for overall assets was 7.44%, while the excess return over the benchmark was 0.10%.

The excess return due to the asset allocation factor was negative (-0.08%) as the positive contribution by overweighting in domestic equities 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 (0.31%) mainly because the returns on domestic and foreign equities (market value basis) exceeded the benchmark return.

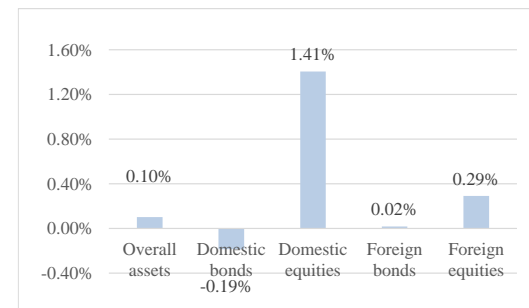
FY2017 (April 2017 through March 2018)

	Overall assets	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Return (market value basis)	7.44%	0.72%	17.27%	4.25%	10.10%
Benchmark return *	7.34%	0.90%	15.87%	4.23%	9.81%
Excess return	0.10%	-0.19%	1.41%	0.02%	0.29%

* 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	-0.17%	-0.07%	-0.06%	-0.29%
Domestic equities	0.18%	0.30%	-0.01%	0.48%
Foreign bonds	0.01%	0.00%	-0.02%	-0.01%
Foreign equities	-0.09%	0.07%	-0.04%	-0.06%
Short-term assets	-0.02%	0.00%	-0.00%	-0.02%
Total	-0.08%	0.31%	-0.12%	0.10%

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	36.8%	35.0%	1.8%	±15%
Domestic equities	27.4%	25.0%	2.4%	±14%
Foreign bonds	13.7%	15.0%	-1.3%	±6%
Foreign equities	21.9%	25.0%	-3.1%	±12%
Short-term assets	0.2%		0.2%	
Total	100.0%	100.0%	0.0%	

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

Contribution Analysis of the Excess Return by Asset Class ②

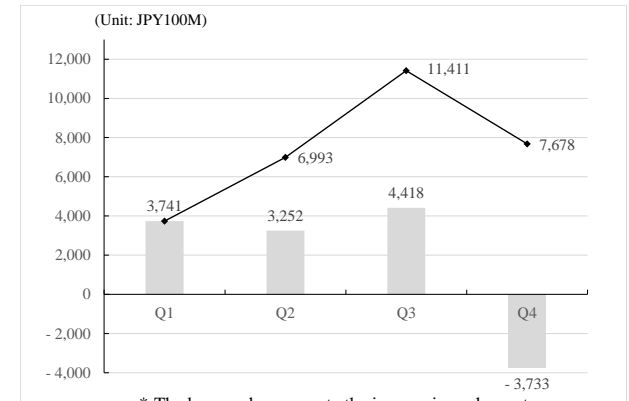
- Overall assets: The return (market value basis) for overall assets was 7.44%, while the excess return over the benchmark was 0.10%. There were negative contributions from the overweighting in domestic bonds, for which the benchmark return was lower than the benchmark return for overall assets (hereinafter referred to as the “composite benchmark”) and the underweighting in foreign equities, for which the benchmark return was higher than the composite benchmark. However, the excess return was positive mainly because of the positive contribution from the individual asset factor due to the higher returns on domestic and foreign equities (market value basis) than the benchmark returns.
- Domestic bonds: The return (market value basis) was 0.72%, while the excess return was -0.19%. In entrusted investment management, there was a positive contribution from the issue selection effect concerning MBS generated by products intended to earn an excess return based on the credit strategy, while there was a negative contribution from the bond type selection effect due to the sluggish performance of products investing in currency-hedged foreign bonds amid a rise in foreign interest rates. In addition, as the duration of domestic bonds held as part of mandatory investment was shorter than the duration for the benchmark, the rate of price increase due to an interest rate drop was small compared with the benchmark, and this made a negative contribution, resulting in a negative excess return for overall domestic bonds.
- Domestic equities: The return (market value basis) was 17.27%, while the excess return was 1.41%. There was a positive contribution from the successful issue selection regarding growth-oriented products, small- and medium-cap-oriented products, and focused-investment products and the robust performance of products with the characteristics of growth-oriented products and small- and medium-cap-oriented products against the backdrop of the favorable effects of the continued low interest rate environment on the earnings of domestic demand-dependent companies. On the other hand, smart beta-type and other products with the characteristics of value-type products made negative contributions, but the excess return for overall domestic equities was positive.
- Foreign bonds: The return (market value basis) was 4.25%, while the excess return was 0.02%.
The interest rate selection effect made a positive contribution because the duration was kept relatively short amid an interest rate rise, mainly in the United States. On the other hand, the currency selection effect made a negative contribution amid the euro’s appreciation in the exchange market because of the underweighting in the euro. In addition, general-type products benchmarked against the Barclays aggregate, in which the proportion of euro-denominated bonds is small, showed weak performance. As a result, the return for overall foreign bonds was similar to the benchmark (market value basis).
- Foreign equities: The return (market value basis) was 10.10%, while the excess return was 0.29%. There were positive contributions from the successful issue selection regarding growth-oriented products and the robust performance of products investing in emerging countries against the backdrop of the economic growth and the U.S. dollar’s depreciation. On the other hand, the weak performance of value-type products made a negative contribution. However, the excess return for overall foreign equities was positive.

Fiscal Year 2017 Investment Income

- Investment income (market value basis) in fiscal year 2017 was ¥767.8 billion. Realized income (book value basis) was ¥419.7 billion.
- By asset class, investment income (market value basis) was ¥28.5 billion for domestic bonds, ¥467.4 billion for domestic equities, ¥51.5 billion for foreign bonds and ¥220.5 billion for foreign equities.

(Unit: JPY100M)

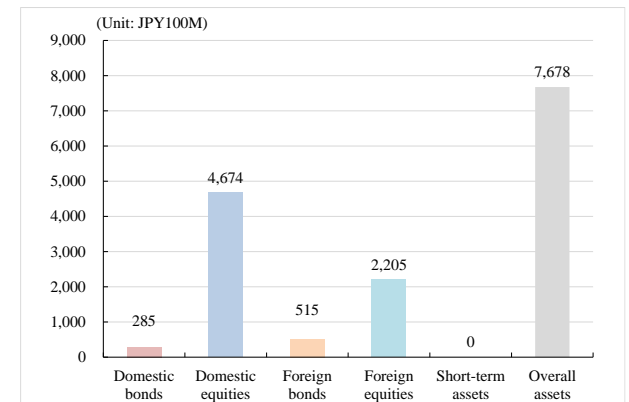
	FY2017				
	Q1	Q2	Q3	Q4	FY total
Investment income (market value basis)	3,741	3,252	4,418	-3,733	7,678
Domestic bonds	7	63	119	96	285
Domestic equities	1,897	1,514	2,719	-1,457	4,674
Foreign bonds	644	366	210	-704	515
Foreign equities	1,193	1,309	1,371	-1,668	2,205
Short-term assets	0	0	0	0	0



* The bar graph represents the income in each quarter.
The line graph represents the cumulative income in fiscal year 2017.

(Unit: JPY100M)

	FY2017				
	Q1	Q2	Q3	Q4	FY total
Realized income (book value basis)	820	1,220	1,052	1,105	4,197



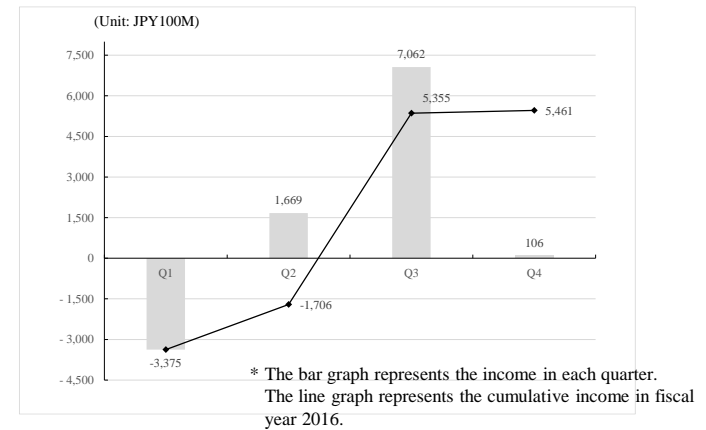
*The above figures represent income for the FY total.

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

(Reference) Fiscal Year 2016 Investment Income

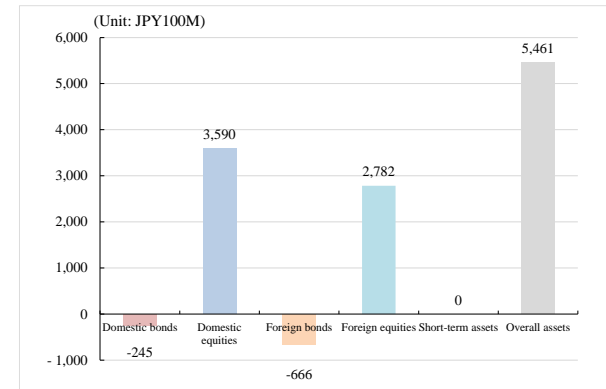
(Unit: JPY100M)

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



(Unit: JPY100M)

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



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

(Note 2) The investment income (market value basis) represents the realized income (book value basis) adjusted for the effects of changes in valuation gains/losses based on market value.

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

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

*The above figures represent income for the FY total.

Fiscal Year 2017 Value of Assets

(Unit: JPY 100M)

	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	40,286	41,737	1,451	39,310	40,725	1,414	39,118	40,441	1,323	38,925	40,325	1,400	39,207	40,342	1,135
Domestic equities	23,221	27,664	4,443	23,461	29,564	6,103	22,819	29,879	7,060	23,145	32,099	8,953	23,721	30,642	6,921
Foreign bonds	13,478	13,090	-388	14,083	14,334	251	15,467	15,970	503	16,105	16,680	574	16,247	15,976	-271
Foreign equities	16,177	22,040	5,863	16,462	23,233	6,771	16,703	24,542	7,839	16,894	25,913	9,019	17,480	24,545	7,065
Short-term assets	81	81	0	109	109	0	210	210	0	377	377	0	740	740	0
Total	93,242	104,613	11,370	93,424	107,964	14,540	94,317	111,042	16,725	95,447	115,393	19,947	97,394	112,246	14,851

(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.

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	-1,680	-1,696	2,371	300

(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.

(Reference) Fiscal Year 2016 Value of Assets

(Unit: JPY100M)

	FY2016											
	End of Q1			End of Q2			End of Q3			End of FY		
	Book value	Market value	Valuation gains/losses	Book value	Market value	Valuation gains/losses	Book value	Market value	Valuation gains/losses	Book value	Market value	Valuation gains/losses
Domestic bonds	41,209	43,979	2,770	41,217	43,365	2,148	41,093	42,845	1,752	40,286	41,737	1,451
Domestic equities	22,388	22,457	69	22,343	23,936	1,594	22,738	27,483	4,745	23,221	27,664	4,443
Foreign bonds	12,103	11,392	-711	12,003	11,368	-636	12,816	13,029	213	13,478	13,090	-388
Foreign equities	15,072	17,228	2,156	15,143	17,883	2,740	15,687	21,263	5,575	16,177	22,040	5,863
Short-term assets	91	91	0	91	91	0	48	48	0	81	81	0
Total	90,862	95,147	4,284	90,797	96,643	5,845	92,383	104,668	12,286	93,242	104,613	11,370

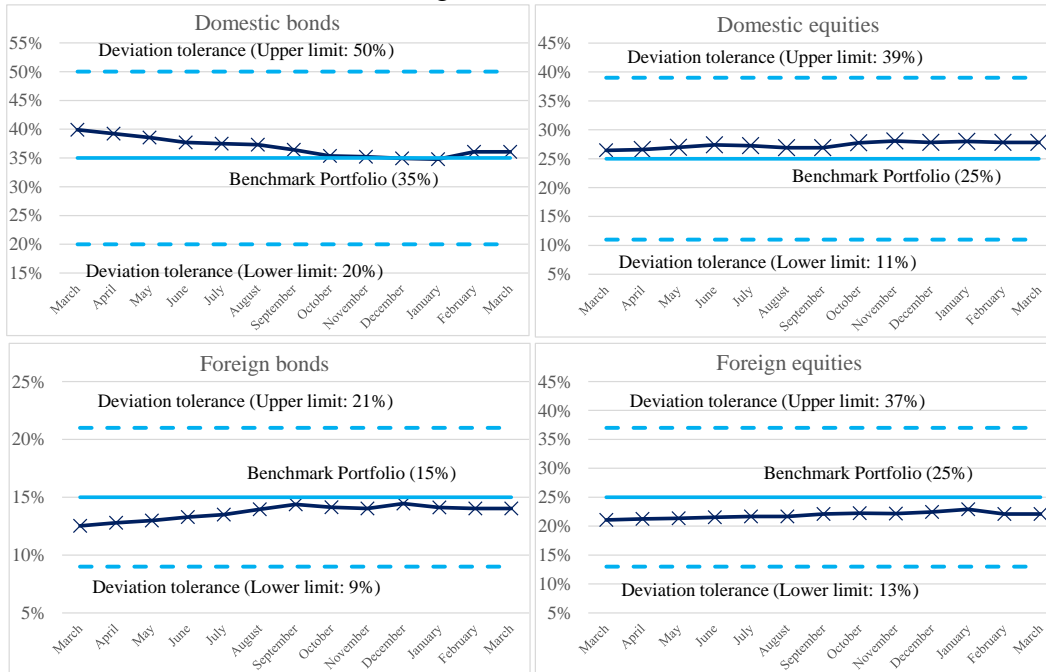
(Note 1) Due to rounding, the total sum of individual figures may not necessarily add up to the Total.

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

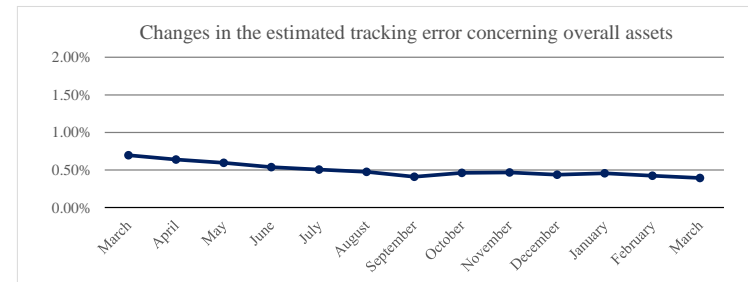
Status of Risk Management (Overall Assets)

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).

Transitional Long-term Benefit Adjustment Fund

Fiscal Year 2017 Investment Results (Overview)

Investment return: (FY2017)	+7.27% *Return (market value basis) (+4.35% *Realized return (book value basis))
Investment income: (FY2017)	+¥791 billion *Investment income (market value basis) (+¥431.4 billion *Realized income (book value basis))
Value of investment assets: (End of FY2017)	¥11,691.9 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 time-weighted return. (The same shall apply hereinafter.)

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

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

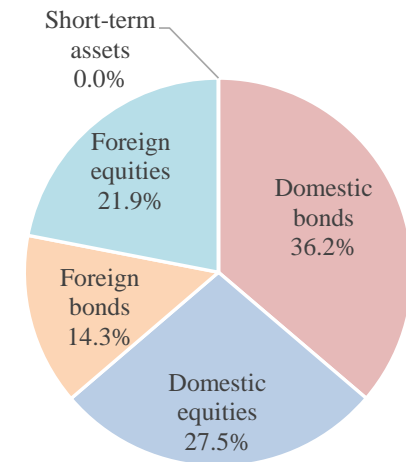
Fiscal Year 2017 Asset Mix

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 40.4% to 36.2%, while the share of domestic equities increased from 26.6% to 27.5%; the share of foreign bonds rose from 12.1% to 14.3% and the share of foreign equities edged up from 20.9% to 21.9%; and the share of short-term assets was 0.0%.

(Unit: %)

	FY2016	FY2017			
	End of FY	End of Q1	End of Q2	End of Q3	End of FY
Domestic bonds	40.4	38.2	37.1	35.4	36.2
Domestic equities	26.6	27.5	27.0	27.9	27.5
Foreign bonds	12.1	13.1	14.1	14.5	14.3
Foreign equities	20.9	21.2	21.8	22.3	21.9
Short-term assets	0.0	0.0	0.0	0.0	0.0
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) Group pure endowment insurance is included in domestic bonds.

○ Benchmark portfolio

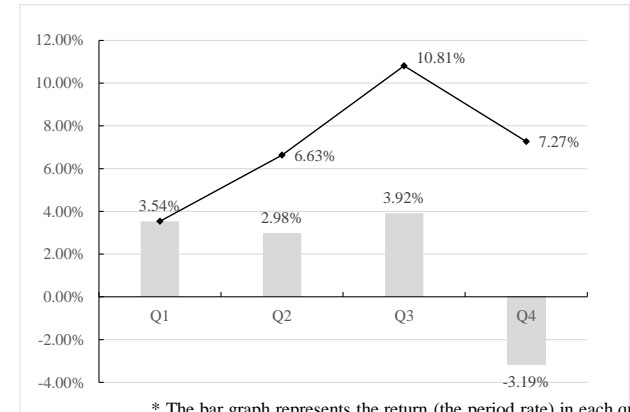
	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Asset mix	35%	25%	15%	25%
Deviation tolerance	±15%	±14%	±6%	±12%

Fiscal Year 2017 Investment Return

- The return (market value basis) in fiscal year 2017 came to 7.27% due to such factors as a rise in domestic and foreign equity prices. The realized return (book value basis) was 4.35%.
- By asset class, the return (market value basis) came to 0.43% for domestic bonds because of an interest rate drop and to 17.21% for domestic equities due to a stock price rise. The return came to 4.25% for foreign bonds due to such factors as the yen's depreciation against the euro and to 10.07% for foreign equities because of a stock price rise.

(Unit: %)

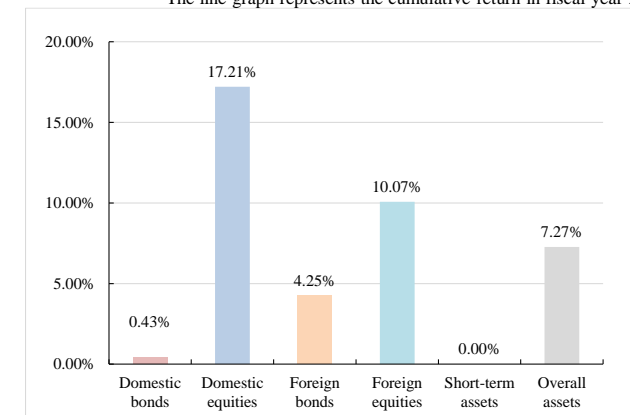
	FY2017				
	Q1	Q2	Q3	Q4	FY total
Return (market value basis)	3.54	2.98	3.92	-3.19	7.27
Domestic bonds	-0.05	0.13	0.18	0.17	0.43
Domestic equities	6.86	5.19	9.11	-4.44	17.21
Foreign bonds	4.81	2.47	1.29	-4.17	4.25
Foreign equities	5.41	5.63	5.59	-6.38	10.07
Short-term assets	0.00	0.00	0.00	0.00	0.00



* The bar graph represents the return (the period rate) in each quarter.
The line graph represents the cumulative return in fiscal year 2017.

(Unit: %)

	FY2017				
	Q1	Q2	Q3	Q4	FY total
Realized return (book value basis)	0.91	1.27	1.21	0.97	4.35



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

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

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

(Reference) Fiscal Year 2016 Investment Return

(Unit: %)

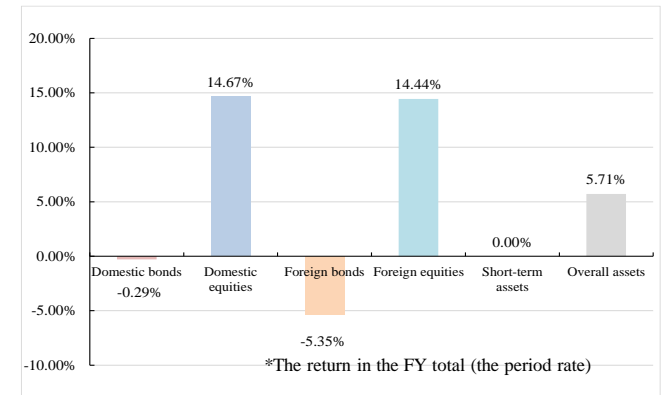
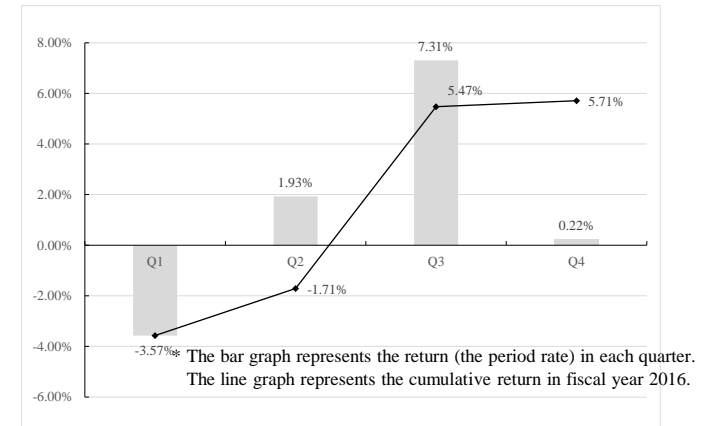
	FY2016				
	Q1	Q2	Q3	Q4	FY total
Return (market value basis)	-3.57	1.93	7.31	0.22	5.71
Domestic bonds	0.85	-0.45	-0.58	-0.11	-0.29
Domestic equities	-7.00	6.62	14.83	0.72	14.67
Foreign bonds	-8.25	-0.48	7.51	-3.58	-5.35
Foreign equities	-7.85	3.81	16.70	2.50	14.44
Short-term assets	0.00	0.00	0.00	0.00	0.00

(Unit: %)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Realized return (book value basis)	0.16	0.23	0.63	0.85	1.86

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

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



Contribution Analysis of the Excess Return by Asset Class ①

○ The return (market value basis) for overall assets was 7.27%, while the excess return over the benchmark was -0.07%.

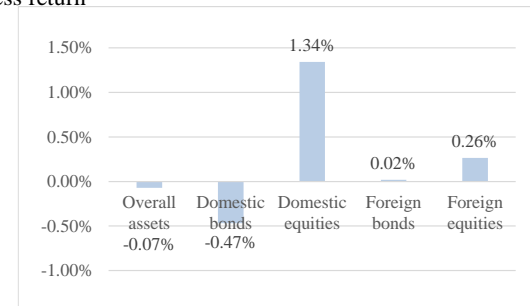
The excess return due to the asset allocation factor was negative (-0.12%) as the positive contribution by overweighting in domestic equities compared with the benchmark portfolio was offset by the negative contribution by overweighting in domestic bonds and underweighting in foreign equities.

The excess return due to the individual asset factor was positive (0.19%) mainly because the returns on domestic and foreign 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)	7.27%	0.43%	17.21%	4.25%	10.07%
Benchmark return *	7.34%	0.90%	15.87%	4.23%	9.81%
Excess return	-0.07%	-0.47%	1.34%	0.02%	0.26%

Excess return



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

	Asset allocation factor ①	Individual asset factor ②	Other factor (including errors) ③	①+②+③
Domestic bonds	-0.22%	-0.16%	-0.07%	-0.46%
Domestic equities	0.19%	0.29%	-0.01%	0.47%
Foreign bonds	0.01%	0.00%	-0.02%	-0.01%
Foreign equities	-0.10%	0.06%	-0.04%	-0.08%
Short-term assets	-0.00%	0.00%	-0.00%	-0.00%
Total	-0.12%	0.19%	-0.14%	-0.07%

(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	37.4%	35.0%	2.4%	±15%
Domestic equities	27.4%	25.0%	2.4%	±14%
Foreign bonds	13.5%	15.0%	-1.5%	±6%
Foreign equities	21.6%	25.0%	-3.4%	±12%
Short-term assets	0.0%		0.0%	
Total	100.0%	100.0%	0.0%	

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

Contribution Analysis of the Excess Return by Asset Class ②

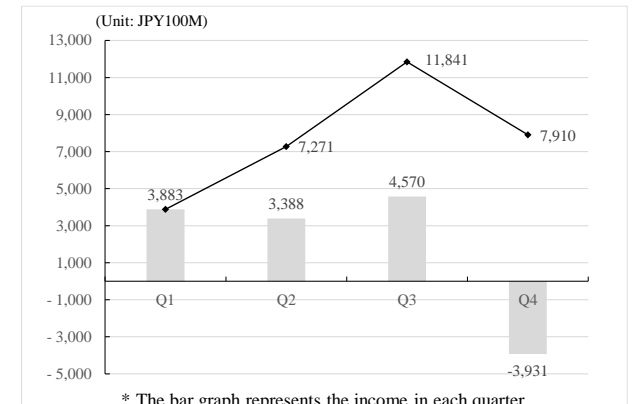
- Overall assets: The return (market value basis) was 7.27%, while the excess return was -0.07%. The individual asset factor made a positive contribution mainly because the returns (market value basis) on domestic and foreign equities exceeded the benchmark returns. However, the asset allocation factor made a negative contribution because of the overweighting in domestic bonds, for which the benchmark return was lower than the return for overall assets (hereinafter referred to as the “composite benchmark”), and the underweighting in foreign equities, for which the benchmark return was higher than the composite benchmark. As a result, the excess return was negative.
- Domestic bonds: The return (market value basis) was 0.43%, while the excess return was -0.47%. In entrusted investment management, there was a positive contribution from the issue selection effect concerning MBS generated by products intended to earn an excess return based on the credit strategy, while there was a negative contribution from the bond type selection effect due to the sluggish performance of products investing in currency-hedged foreign bonds amid a rise in foreign interest rates. In addition, as the duration of domestic bonds held as part of mandatory investment was shorter than the duration for the benchmark, the rate of price increase due to an interest rate drop was small compared with the benchmark, and this made a negative contribution, resulting in a negative excess return for overall domestic bonds.
- Domestic equities: The return (market value basis) was 17.21%, while the excess return was 1.34%. There was a positive contribution from the successful issue selection regarding growth-oriented products, small- and medium-cap-oriented products, and focused-investment products and the robust performance of products with the characteristics of growth-oriented products and small- and medium-cap-oriented products against the backdrop of the favorable effects of the continued low interest rate environment on the earnings of domestic demand-dependent companies. On the other hand, smart beta-type and other products with the characteristics of value-type products made negative contributions, but the excess return for overall domestic equities was positive.
- Foreign bonds: The return (market value basis) was 4.25%, while the excess return was 0.02%. The interest rate selection effect made a positive contribution because the duration was kept relatively short amid an interest rate rise, mainly in the United States. On the other hand, the currency selection effect made a negative contribution amid the euro’s appreciation in the exchange market because of the underweighting in the euro. In addition, general-type products benchmarked against the Barclays aggregate, in which the proportion of euro-denominated bonds is small, showed weak performance. As a result, the return for overall foreign bonds was similar to the benchmark (market value basis).
- Foreign equities: The return (market value basis) was 10.07%, while the excess return was 0.26%. There were positive contributions from the successful issue selection regarding growth-oriented products and the robust performance of products investing in emerging countries against the backdrop of the economic growth and the U.S. dollar’s depreciation. On the other hand, the weak performance of value-type products made a negative contribution. However, the excess return for overall foreign equities was positive.

Fiscal Year 2017 Investment Income

- Investment income (market value basis) in fiscal year 2017 was ¥791 billion. Realized income (book value basis) was ¥431.4 billion.
- By asset class, investment income (market value basis) was ¥18.4 billion for domestic bonds, ¥492.2 billion for domestic equities, ¥51.8 billion for foreign bonds and ¥228.5 billion for foreign equities.

(Unit: JPY100M)

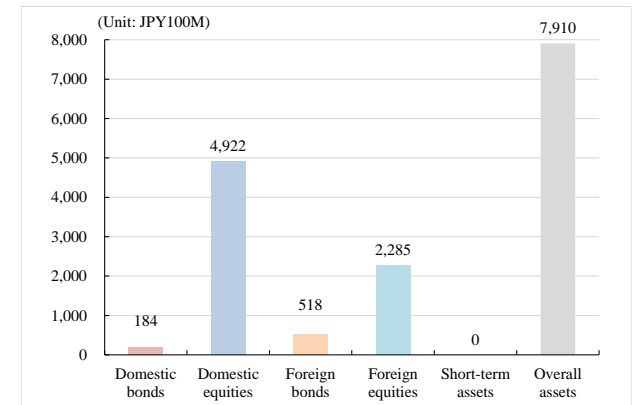
	FY2017				
	Q1	Q2	Q3	Q4	FY total
Investment income (market value basis)	3,883	3,388	4,570	-3,931	7,910
Domestic bonds	-18	58	76	68	184
Domestic equities	2,003	1,595	2,854	-1,530	4,922
Foreign bonds	660	378	217	-737	518
Foreign equities	1,237	1,357	1,423	-1,733	2,285
Short-term assets	0	0	0	0	0



* The bar graph represents the income in each quarter.
The line graph represents the cumulative income in fiscal year 2017.

(Unit: JPY100M)

	FY2017				
	Q1	Q2	Q3	Q4	FY total
Realized income (book value basis)	885	1,252	1,201	977	4,314



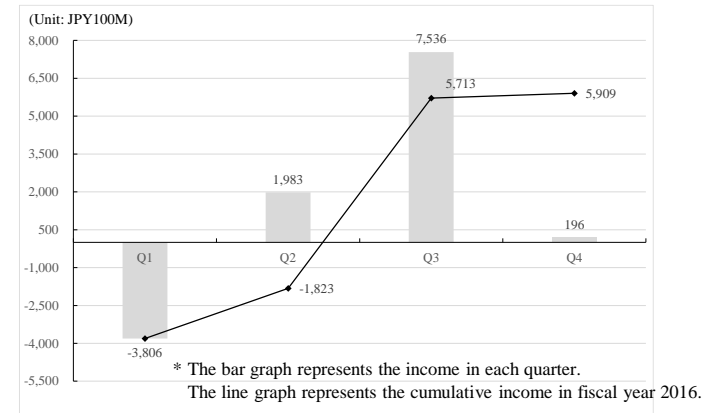
*The above figures represent income for the FY total.

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

(Reference) Fiscal Year 2016 Investment Income

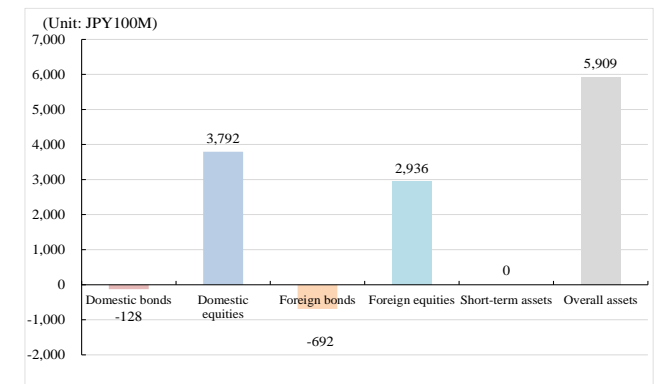
(Unit: JPY100M)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Investment income (market value basis)	-3,806	1,983	7,536	196	5,909
Domestic bonds	427	-221	-278	-56	-128
Domestic equities	-1,717	1,569	3,750	190	3,792
Foreign bonds	-1,062	-58	905	-476	-692
Foreign equities	-1,454	693	3,159	538	2,936
Short-term assets	0	0	0	0	0



(Unit: JPY100M)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Realized income (book value basis)	155	225	619	823	1,822



- (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 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	43,079	44,362	1,283	42,145	43,340	1,195	42,310	43,395	1,085	41,674	42,801	1,127	41,388	42,364	976
Domestic equities	24,402	29,229	4,827	24,644	31,233	6,589	24,008	31,627	7,619	24,174	33,681	9,506	24,768	32,151	7,383
Foreign bonds	13,573	13,220	-353	14,584	14,880	296	15,899	16,458	558	16,844	17,475	631	16,993	16,738	-255
Foreign equities	16,597	22,875	6,278	16,892	24,112	7,220	17,143	25,469	8,326	17,338	26,892	9,554	18,134	25,660	7,526
Short-term assets	8	8	0	12	12	0	15	15	0	1	1	0	6	6	0
Total	97,660	109,695	12,035	98,276	113,576	15,300	99,375	116,964	17,589	100,031	120,850	20,818	101,288	116,919	15,630

(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	-2,183	-2,000	3,000	500

(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.

(Reference) Fiscal Year 2016 Value of Assets

(Unit: JPY100M)

	FY2016											
	End of Q1			End of Q2			End of Q3			End of FY		
	Book value	Market value	Valuation gains/losses	Book value	Market value	Valuation gains/losses	Book value	Market value	Valuation gains/losses	Book value	Market value	Valuation gains/losses
Domestic bonds	46,342	48,754	2,412	46,573	48,530	1,958	43,872	45,421	1,550	43,079	44,362	1,283
Domestic equities	23,527	23,721	194	23,485	25,290	1,805	23,902	29,039	5,138	24,402	29,229	4,827
Foreign bonds	12,826	12,109	-717	12,680	12,051	-629	12,702	12,956	254	13,573	13,220	-353
Foreign equities	15,867	18,225	2,358	15,946	18,918	2,972	16,096	22,077	5,981	16,597	22,875	6,278
Short-term assets	8	8	0	11	11	0	5	5	0	8	8	0
Total	98,570	102,817	4,247	98,695	104,800	6,105	96,576	109,499	12,922	97,660	109,695	12,035

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

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

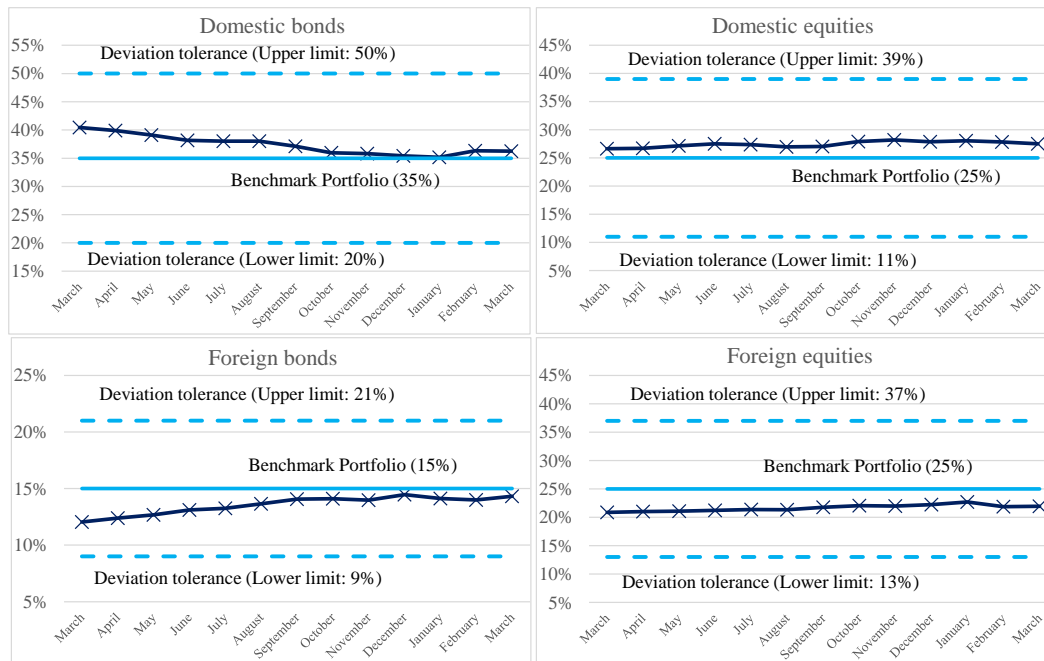
(Note 3) Group pure endowment insurance is included in domestic bonds.

Status of Risk Management (Overall Assets)

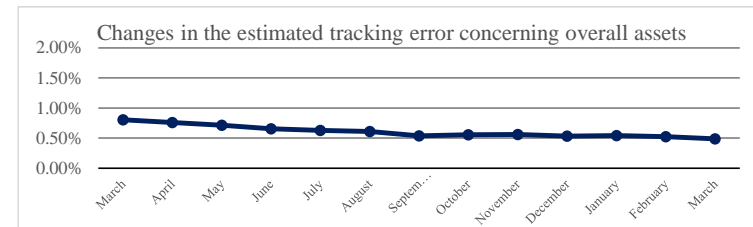
In fiscal year 2017, the shares in the asset mix concerning all asset classes—domestic bonds, domestic equities, foreign bonds and foreign equities—stayed within the deviation tolerance.

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).

Annuity Retirement Benefit Adjustment Fund

Fiscal Year 2017 Investment Results (Overview)

Investment return: +0.36% *Realized return (book value basis)
(FY2017)

Investment income: +¥88 million *Realized income
(FY2017) (book value basis)

Value of investment assets: ¥33.6 billion *Book 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.

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

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

Fiscal Year 2017 Asset Mix

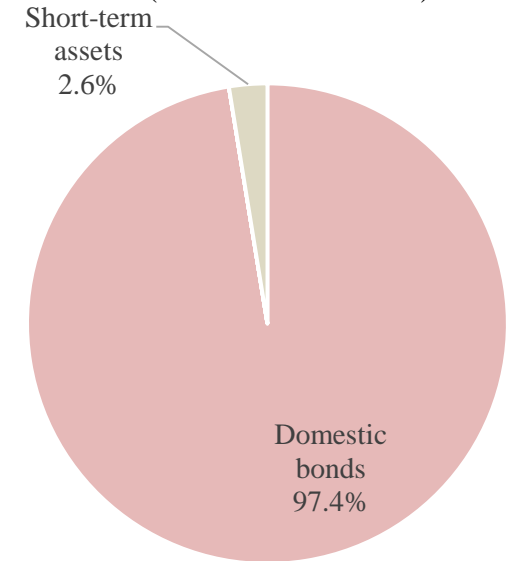
(Unit: %)

	FY2016	FY2017			
	End of FY	End of Q1	End of Q2	End of Q3	End of FY
Domestic bonds	96.1	99.6	99.8	99.8	97.4
Short-term assets	3.9	0.4	0.2	0.2	2.6
Total	100.0	100.0	100.0	100.0	100.0

(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.

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



○ Benchmark portfolio

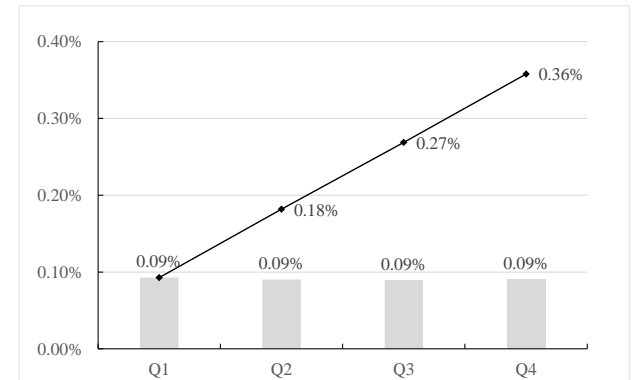
	Domestic bonds
Asset mix	100%

Fiscal Year 2017 Investment Return

- The realized return (book value basis) for fiscal year 2017 was 0.36%.
- Domestic bonds held by the Annuity Retirement Benefit Adjustment Fund were evaluated based on book value on the premise of continued holding until maturity.

(Unit: %)

	FY2017				
	Q1	Q2	Q3	Q4	FY total
Realized return (book value basis)	0.09	0.09	0.09	0.09	0.36
Domestic bonds	0.09	0.09	0.09	0.09	0.37
Short-term assets	0.00	0.00	0.00	0.00	0.00

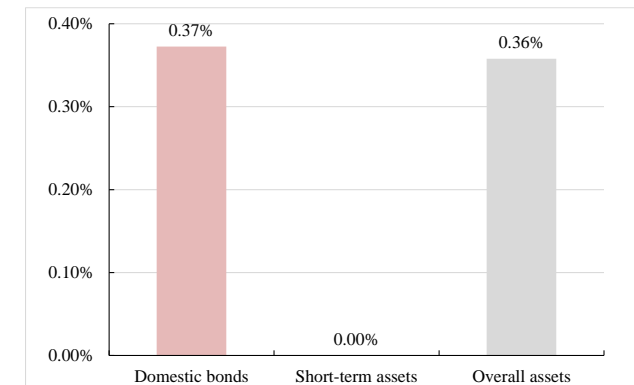


* The bar graph represents the return (the period rate) in each quarter.
The line graph represents the cumulative return in fiscal year 2017.

(Reference)

(Unit: %)

	FY2017				
	Q1	Q2	Q3	Q4	FY total
Return (market value basis)	0.43	0.39	0.27	0.47	1.55



*The return in FY2017 (the period rate)

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

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

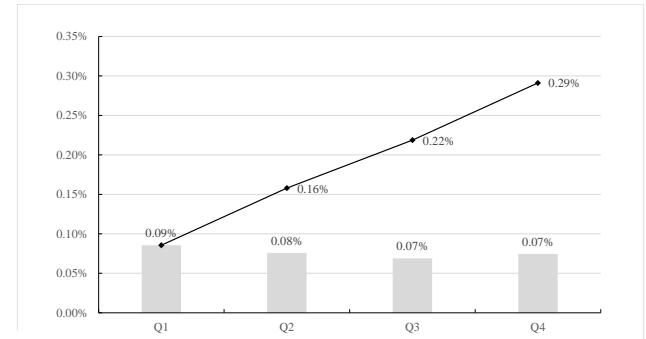
(Note 3) The return represent figures after the deduction of fees, etc. settled within the relevant period.

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

(Reference) Fiscal Year 2016 Investment Return

(Unit: %)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Realized return (book value basis)	0.09	0.08	0.07	0.07	0.29
Domestic bonds	0.09	0.08	0.08	0.08	0.32
Short-term assets	0.00	0.00	0.00	0.00	0.00

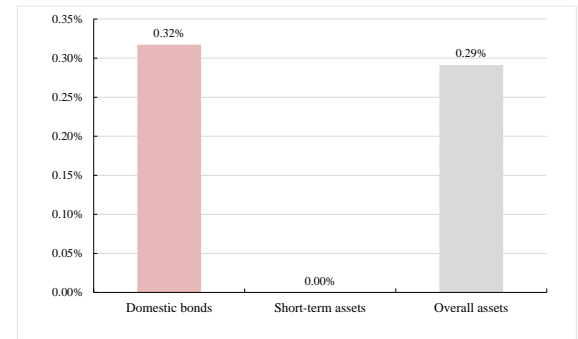


* The bar graph represents the return (the period rate) in each quarter.
The line graph represents the cumulative return in fiscal year 2016.

(Reference)

(Unit: %)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Return (market value basis)	3.98	-1.98	-2.03	-0.43	-2.01



*The return in FY2016 (the period rate)

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

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

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

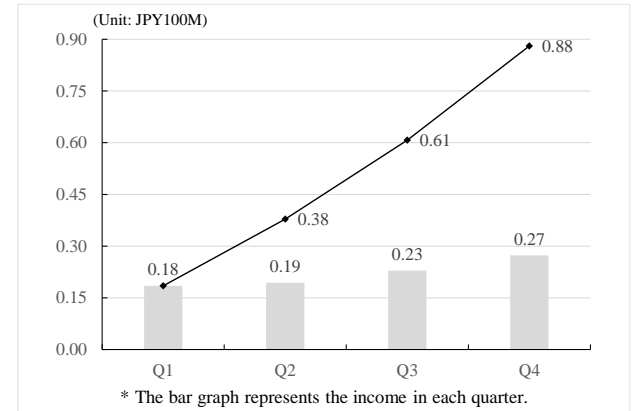
(Note 4) The return (market value basis) represents the realized return (book value basis) adjusted for the effects of changes in valuation profits/losses that would arise if the assets are evaluated based on market value.

Fiscal Year 2017 Investment Income

- The realized income (book value basis) for fiscal year 2017 was ¥88 million.
- Domestic bonds held by the Annuity Retirement Benefit Adjustment Fund were evaluated based on book value on the premise of continued holding until maturity.

(Unit: JPY100M)

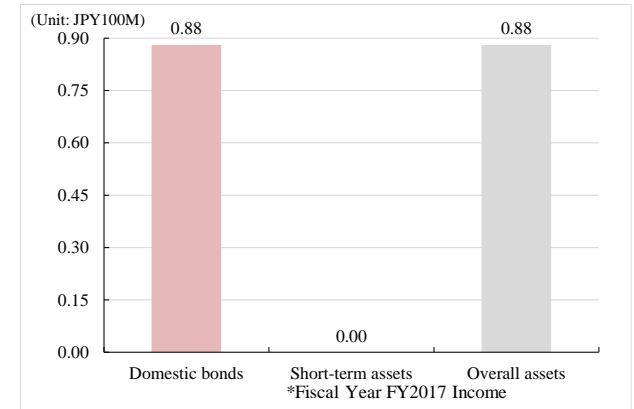
	FY2017				
	Q1	Q2	Q3	Q4	FY total
Realized income (book value basis)	0.18	0.19	0.23	0.27	0.88
Domestic bonds	0.18	0.19	0.23	0.27	0.88
Short-term assets	0.00	0.00	0.00	0.00	0.00



(Reference)

(Unit: JPY100M)

	FY2017				
	Q1	Q2	Q3	Q4	FY total
Investment income (market value basis)	0.84	0.84	0.69	1.41	3.77



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

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

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

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

(Reference) Fiscal Year 2016 Investment Income

(Unit: JPY100M)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Realized income (book value basis)	0.06	0.06	0.08	0.12	0.32
Domestic bonds	0.06	0.06	0.08	0.12	0.32
Short-term assets	0.00	0.00	0.00	0.00	0.00

(Reference)

(Unit: JPY100M)

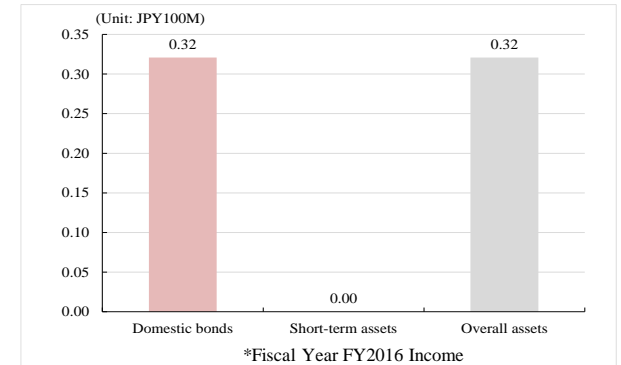
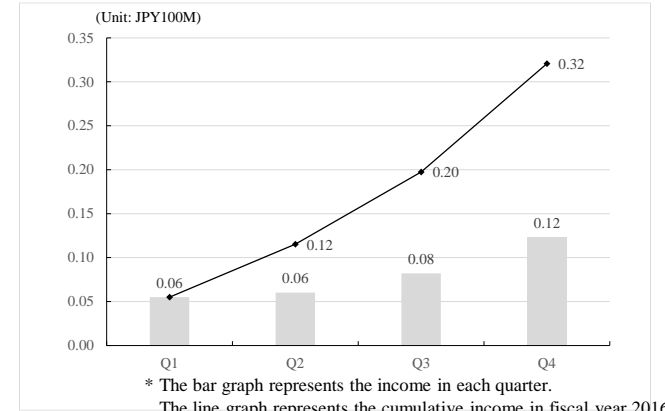
	FY2016				
	Q1	Q2	Q3	Q4	FY total
Investment income (market value basis)	2.55	-1.62	-2.44	-0.70	-2.21

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

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

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

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



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	191	189	-3	198	197	-2	220	218	-1	267	267	-1	327	327	0
Short-term assets	8	8	0	1	1	0	1	1	0	0	0	0	9	9	0
Total	199	196	-3	199	197	-2	220	219	-1	268	267	-1	336	336	0

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

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

(Note 3) Short-term assets held by each fund were classified into relevant asset classes in principle.

(Reference) Fiscal Year 2016 Value of Assets

(Unit: JPY100M)

	FY2016											
	End of Q1			End of Q2			End of Q3			End of FY		
	Book value	Market value	Valuation gains/losses	Book value	Market value	Valuation gains/losses	Book value	Market value	Valuation gains/losses	Book value	Market value	Valuation gains/losses
Domestic bonds	62	64	2	85	85	1	132	130	-2	191	189	-3
Short-term assets	2	2	0	0	0	0	0	0	0	8	8	0
Total	64	67	2	85	85	1	132	130	-2	199	196	-3

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

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

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