

Fiscal Year 2017

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

(Pension Fund Association for Local Government Officials)



地方公務員共済組合連合会

Pension Fund Association for Local Government Officials

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[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.

Association: Pension Fund Association for Local Government Officials

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.

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.

Section 1 Administration and Investment of Funds in FY2017

Fiscal Year 2017 Asset Mix

○ The asset mix in fiscal year 2017 changed as follows as a result of market value fluctuations and rebalancing, among other factors: the share of domestic bonds declined from 39.9% 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: %)

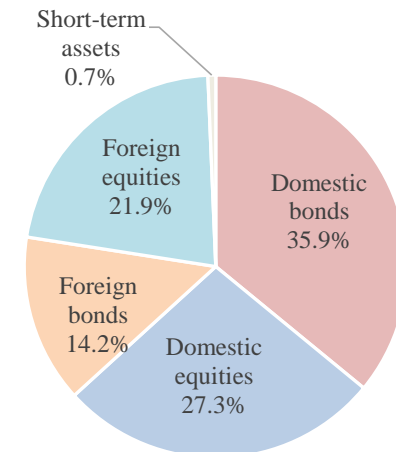
	FY2016 End of FY	FY2017			
		End of Q1	End of Q2	End of Q3	End of FY
Domestic bonds	39.9	37.7	36.4	34.9	35.9
Domestic equities	26.4	27.4	26.9	27.8	27.3
Foreign bonds	12.5	13.3	14.4	14.5	14.2
Foreign equities	21.1	21.5	22.1	22.5	21.9
Short-term assets	0.1	0.1	0.2	0.3	0.7
Total	100.0	100.0	100.0	100.0	100.0

(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%).

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



○ Benchmark portfolio

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

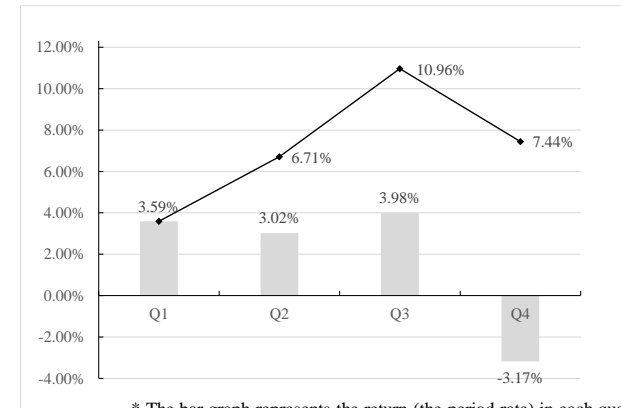
Fiscal Year 2017 Investment Return

○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: %)

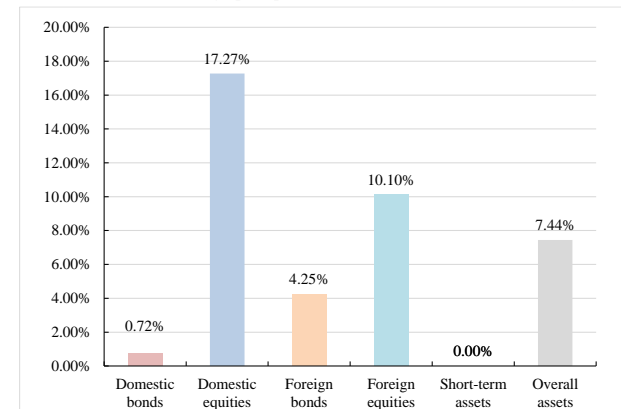
	FY2017				
	Q1	Q2	Q3	Q4	FY total
Return (market value basis)	3.59	3.02	3.98	-3.17	7.44
Domestic bonds	0.01	0.16	0.30	0.25	0.72
Domestic equities	6.86	5.22	9.13	-4.43	17.27
Foreign bonds	4.79	2.47	1.31	-4.17	4.25
Foreign equities	5.41	5.64	5.59	-6.36	10.10
Short-term assets	0.00	0.00	0.00	0.00	0.00



* 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.

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.

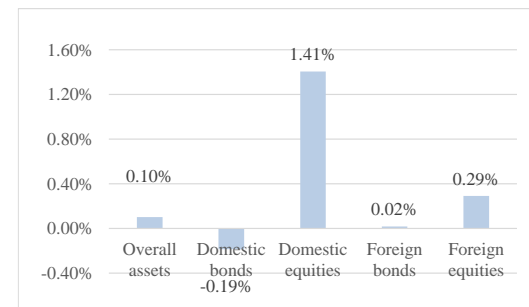
FY2017 (April 2017 through March 2018)

	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.

Contribution Analysis of the Excess Return (Domestic Bonds)

By factor, the excess return of -0.19% on domestic bonds can be broken down as follows: fund factor: -0.18%; benchmark factor: 0.00%; other factors: -0.01%.

Regarding the fund factor, the returns (market value basis) for NOMURA-BPI Overall (Active) and domestic real estate funds, etc. made positive contributions while the low returns (market value basis) for mandatory funds, etc. made negative contributions.

Return (market value) ①	Benchmark ②	Excess Return ①-②	Fund factor	Benchmark factor	Other factor
0.72%	0.90%	- 0.19%	- 0.18%	0.00%	- 0.01%

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

	Mandatory investment, etc.	Inflation-indexed government bond	Nomura BPI Overall (Passive)	Nomura BPI Overall (Active)	Nomura BPI Overall (Enhanced)	Non-benchmark	Domestic real property, etc.	Total
Fund factor	- 0.28%	0.02%	- 0.00%	0.04%	0.01%	- 0.00%	0.03%	- 0.18%
Benchmark factor			0.00%	0.00%	0.00%			0.00%

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

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

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

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

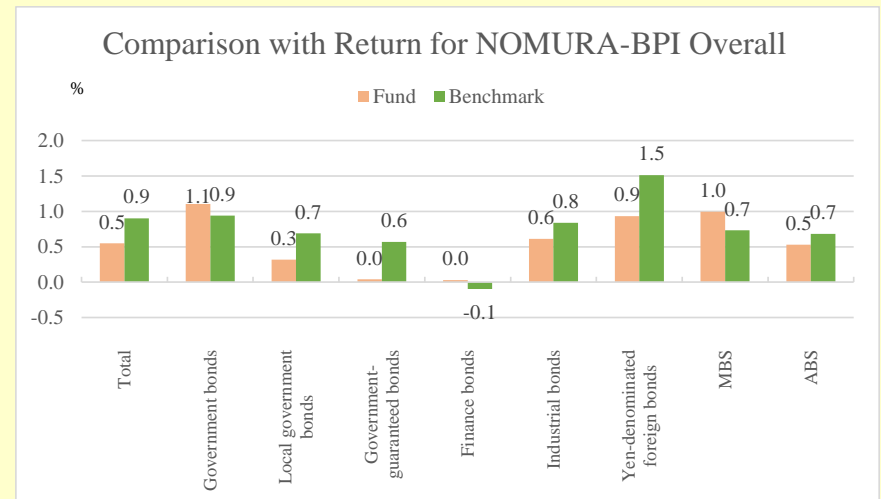
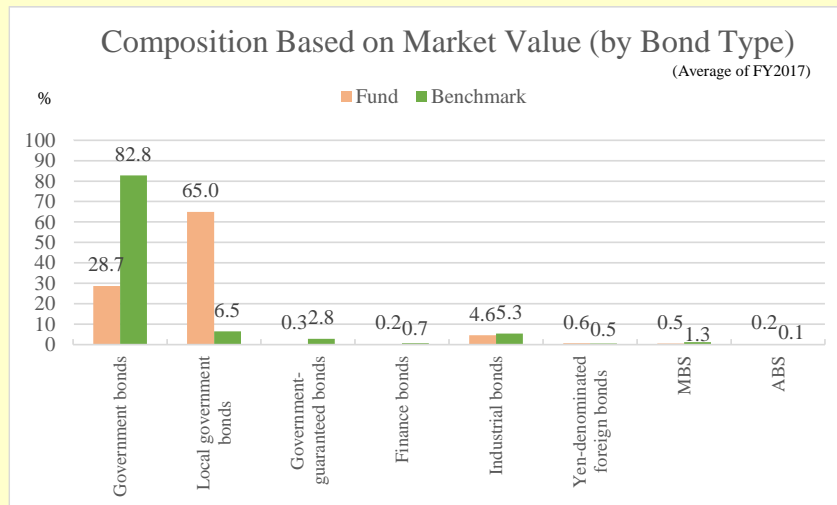
(Note 3) "Other factors" are factors attributable to calculation errors, asset transfer, etc.

Funds totaling ¥470 billion were transferred from the Nomura BPI Overall (Passive) to Nomura BPI Overall (Enhanced) on February 1, 2018.

Column: Characteristics of domestic bonds and active investment

The Association holds a large amount of municipal bonds compared with the benchmark. In addition, the duration of municipal bonds held by the Association is shorter than the duration of the benchmark, and as a result, the rate of price rise remains low when interest rates are falling.

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



Contribution Analysis of the Excess Return (Domestic Equities)

By factor, the excess return of 1.41% on domestic equities can be broken down as follows: fund factor: 1.50%; benchmark factor: -0.01%; other factors: -0.08%.

Regarding the benchmark factor, JPX400, etc. made negative contributions. However, regarding the fund factor, the high returns (market value basis) for TOPIX (Active) and non-benchmark funds, etc. made positive contributions.

Return (market value) ①	Benchmark ②	Excess Return ①-②	Fund factor	Benchmark factor	Other factor
17.27%	15.87%	1.41%	1.50%	- 0.01%	- 0.08%

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

	TOPIX (Passive)	JPX400 (Passive)	MSCI JAPAN (Passive)	Russell/Nomura Prime (Passive)	TOPIX (Active)	TOPIX Mid400 (Active)	FTSE GWA Japan (Active)	FTSE RAFI Japan 350 QSR (Active)
Fund factor	0.04%	0.00%	0.00%	0.00%	1.04%	0.10%	0.00%	- 0.00%
Benchmark factor	0.00%	- 0.04%	- 0.02%	- 0.00%	0.00%	0.00%	- 0.02%	- 0.02%

	MSCI Japan Minimum Volatility (Active)	Russell/Nomura Small (Active)	S&P Japan Small Cap Index (Active)	SNAM Sustainability Index (Active)	Japan Minimum Volatility Index (Active)	Non-benchmark	Domestic PE	Total
Fund factor	0.00%	0.15%	0.01%	- 0.00%	- 0.00%	0.16%	- 0.00%	1.50%
Benchmark factor	- 0.03%	0.07%	0.03%	- 0.00%	0.03%			- 0.01%

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

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

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

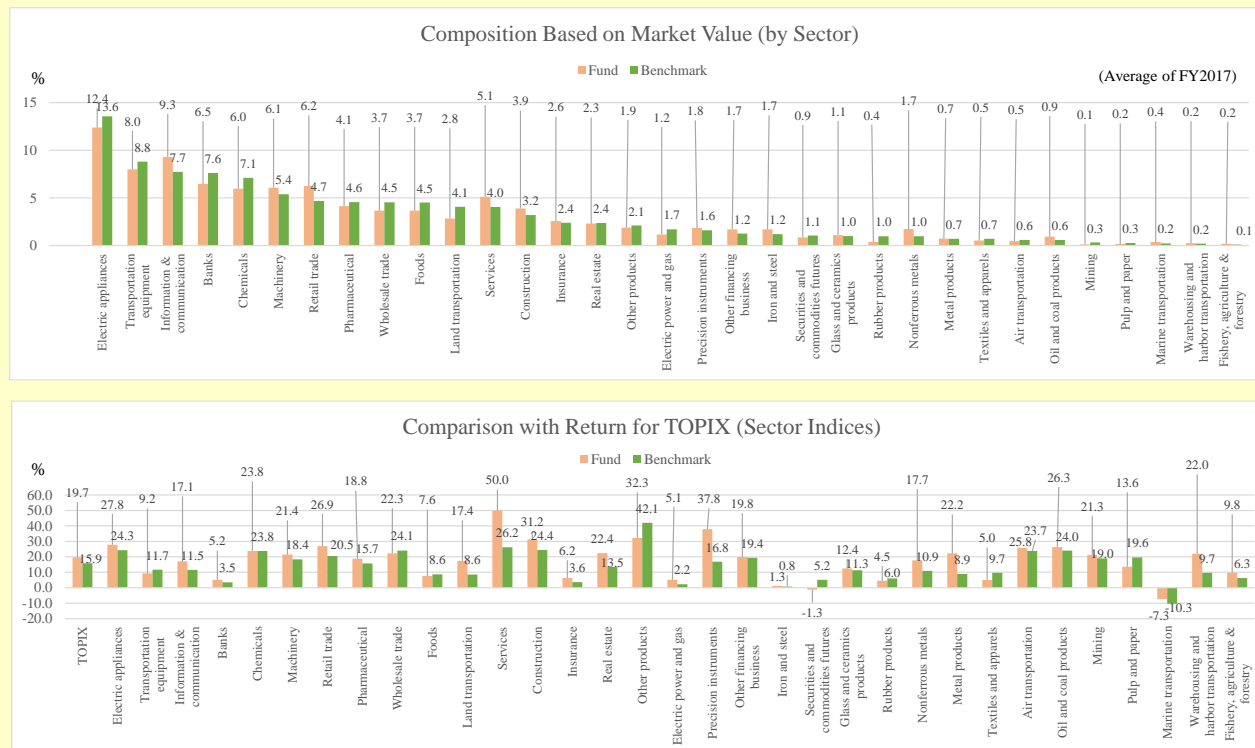
The percentage ratio is calculated in consideration of the average total market value of an individual fund.

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

Column: Sector and issue selection by active managers entrusted with domestic equity investment

As a result of active managers' sector selection, the portfolio included many construction-sector issues with a higher return than the benchmark return for overall domestic equities, while it included few banking-sector issues with a lower return than the benchmark return. Regarding issue selection in the services, information & communications, and electric appliance sectors, issues with a higher return than the benchmark were selected.

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



Contribution Analysis of the Excess Return (Foreign Bonds)

By factor, the excess return of 0.02% on foreign bonds can be broken down as follows: fund factor: 0.10%; benchmark factor: -0.09%; other factors: 0.01%.

Regarding the benchmark factor, the Barclays Global Aggregate Index (Active) made negative contributions. However, regarding the fund factor, the high returns (market value basis) for the FTSE Global Government Bond Index (Active), etc. made positive contributions.

Return (market value) ①	Benchmark ②	Excess Return ①-②	Fund factor	Benchmark factor	Other factor
4.25%	4.23%	0.02%	0.10%	- 0.09%	0.01%

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

	FTSE World Government Bond Index (Passive)	Citi Group World Government Bond Index (Enhanced)	Citi Group World Government Bond Index (Active)	Barclays aggregate (Active)	Nomura RAFI (Active)	Overseas real properties (NFI-ODCE fund index)	Overseas infrastructure	Total
Fund factor	0.02%	0.01%	0.05%	0.03%	0.00%	- 0.02%	0.01%	0.10%
Benchmark factor	0.00%	0.00%	0.00%	- 0.09%	0.01%	- 0.00%		- 0.09%

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

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

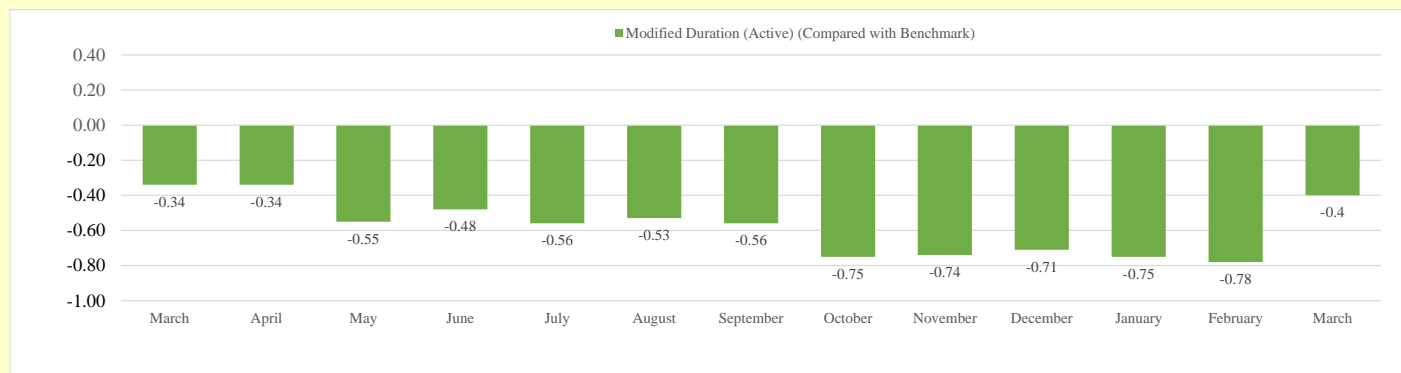
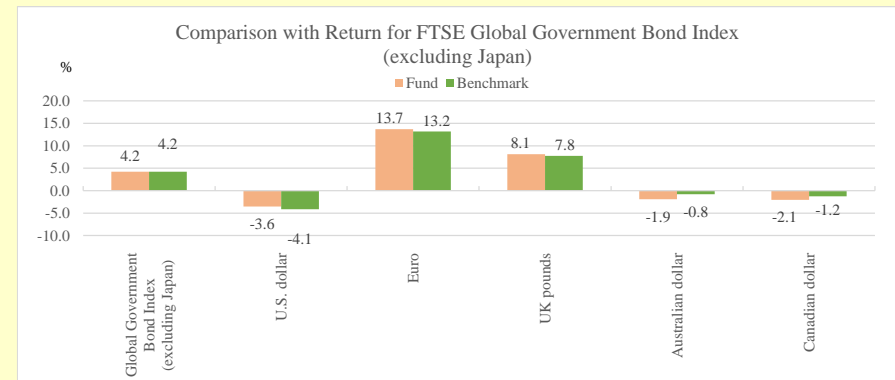
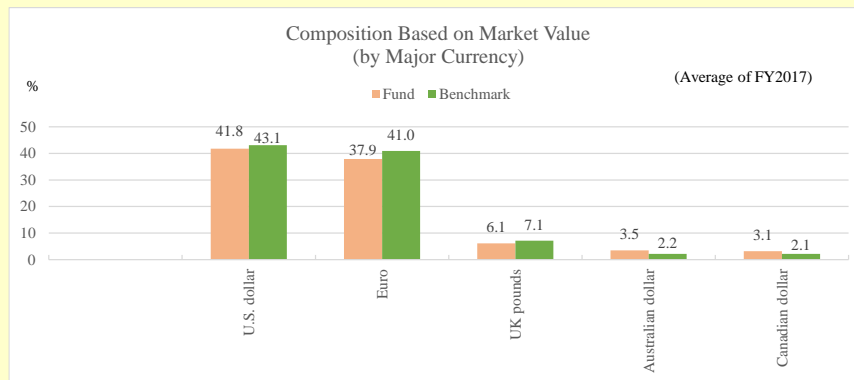
The percentage ratio is calculated in consideration of the average total market value of an individual fund.

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

Column: Currency selection by active managers entrusted with foreign bond investment, and duration

As a result of active managers' currency selection, the portfolio included fewer assets denominated in the euro, which appreciated against the yen, compared with the benchmark. Meanwhile, interest rate selection generated positive effects due to the reduction of the duration compared with the benchmark amid an interest rate rise.

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



Contribution Analysis of the Excess Return (Foreign Equities)

By factor, the excess return of 0.29% on foreign equities can be broken down as follows: fund factor: 0.34%; benchmark factor: -0.04%; other factors: -0.01%.

Regarding the benchmark factor, the MSCI-KOKUSAI (Active) made negative contributions. However, regarding the fund factor, the high returns (market value basis) for active funds concerning the MSCI-ACWI and MSCI-KOKUSAI, etc. made positive contributions.

Return (market value) ①	Benchmark ②	Excess Return ①-②	Fund factor	Benchmark factor	Other factor
10.10%	9.81%	0.29%	0.34%	- 0.04%	- 0.01%

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

	MSCI-KOKUSAI (Active)	MSCI-ACWI (Passive)	MSCI-ACWI (Active)	MSCI-Emerging (Active)	Total
Fund factor	0.19%	- 0.05%	0.22%	- 0.02%	0.34%
Benchmark factor	- 0.12%	0.00%	0.00%	0.08%	- 0.04%

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

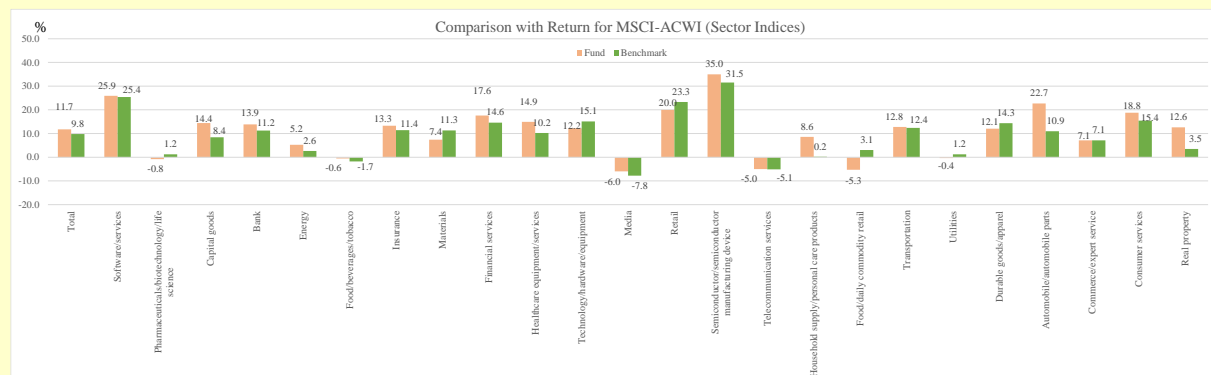
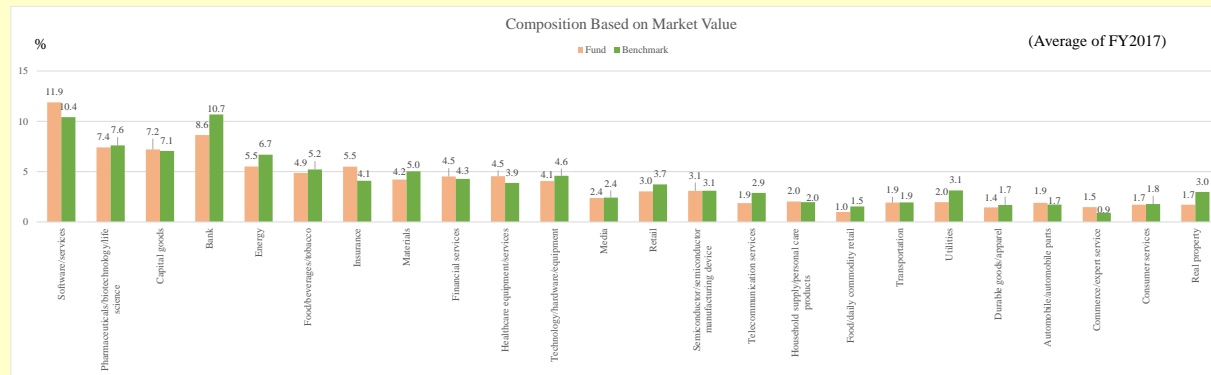
(Note 2) The benchmark factor is a factor attributable to the difference between the return for the manager benchmark and the return for the policy benchmark (MSCI-ACWI). The percentage ratio is calculated in consideration of the average total market value of an individual fund.

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

Column: Sector and issue selection by active managers entrusted with foreign equity investment

As a result of active managers' sector selection, the portfolio included many software/service sector issues with a higher return than the benchmark return for overall foreign equities, while it included few telecommunication services sector issues with a lower return than the benchmark return. Regarding issue selection in the capital goods, healthcare equipment/service, banking, and automobile/automobile parts sectors, issues with a higher return than the benchmark were selected.

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

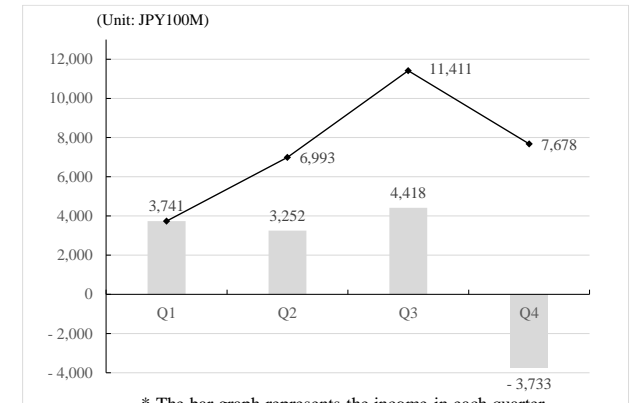


Fiscal Year 2017 Investment Income

- 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)

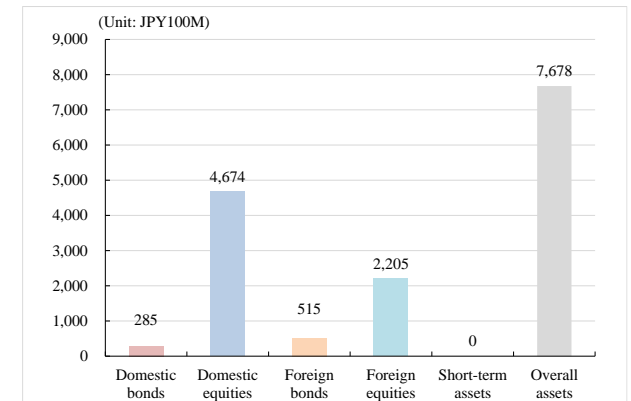
	FY2017				
	Q1	Q2	Q3	Q4	FY total
Investment income (market value basis)	3,741	3,252	4,418	-3,733	7,678
Domestic bonds	7	63	119	96	285
Domestic equities	1,897	1,514	2,719	-1,457	4,674
Foreign bonds	644	366	210	-704	515
Foreign equities	1,193	1,309	1,371	-1,668	2,205
Short-term assets	0	0	0	0	0



* 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.

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	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

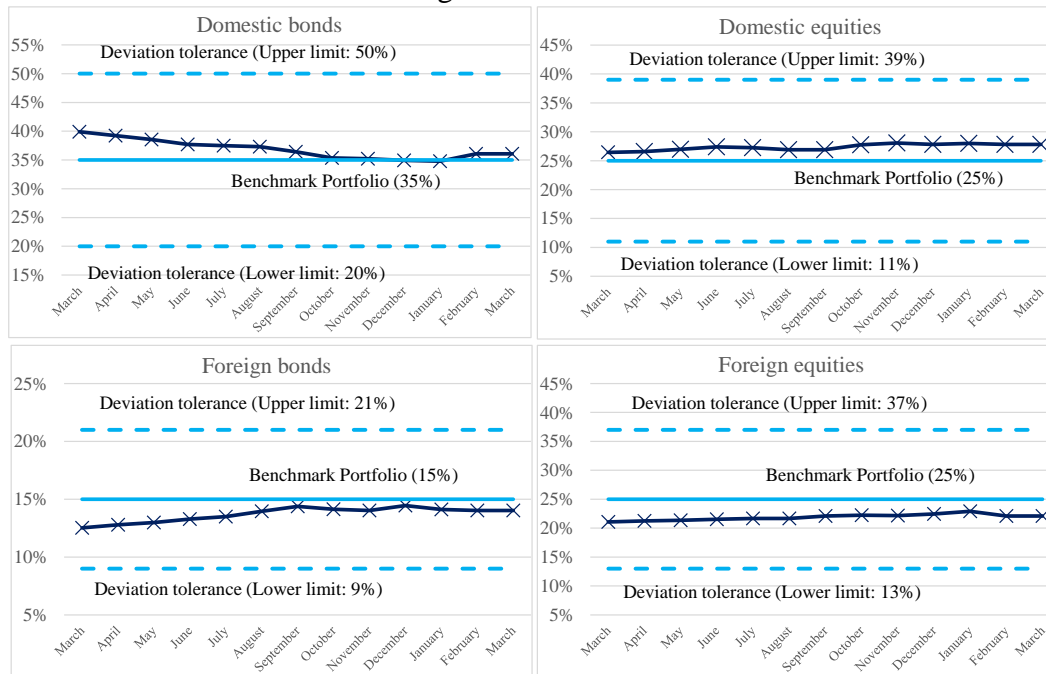
(Note) The above figures represent the total amount of fund flows related to the allocation and withdrawal of funds (rebalancing) conducted for the purpose of changing the asset mix, and cashing out.

Status of Risk Management (Overall Assets)

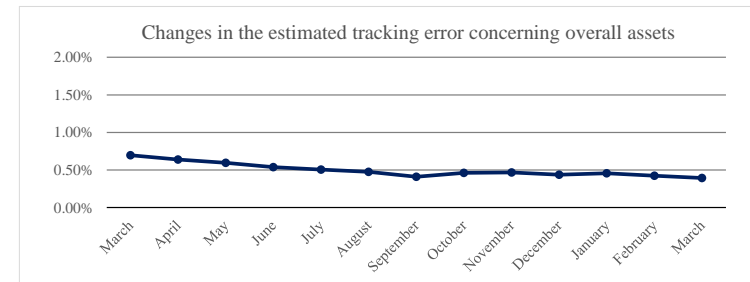
In fiscal year 2017, the shares in the asset mix concerning all asset classes—domestic bonds, domestic equities, foreign bonds and foreign equities—stayed within the deviation tolerance.

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 ¥7.1 billion in fiscal year 2017. The fee rate relative to the value of investment assets came to 0.06%.
Regarding entrusted investments, the Association has introduced a fee rate table in which the fee rate declines in proportion to the value of investment assets, and an incentive fee system (the upper limit is set on fees) for active investment.

(Unit: JPY100M, %)

	FY2017	
	Fee	Fee rate
Domestic bonds	7	0.02
Domestic equities	34	0.11
Foreign bonds	8	0.05
Foreign equities	22	0.09
Overall assets	71	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 Employees' Pension Insurance operations into the future by investing safely and efficiently from a long-term perspective for the benefits of individuals covered by Employees' Pension Insurance.
- In the management of funds, investments shall be made in a way that ensures appropriate diversification across multiple assets with different risk/return profiles and other characteristics.
- To ensure the required real return on investments of the funds (meaning the investment return less the nominal wage increase) at the minimum risk, a benchmark portfolio shall be established and appropriately managed and efforts shall be made to secure the benchmark return for each asset class, including over the long term.

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

1 Basic Policy

Especially keeping in mind that the EPI benefit adjustment fund is part of insurance premiums collected from insured persons of the EPI and valuable resources for funding future pension benefits, the reserve funds shall be managed with the objective of contributing to the stable operation of EPI schemes in the future by investing it safely and efficiently "solely for" ("for" in the case of investing in line with the objectives of the Act under Article 79-3, Paragraph (3), of the EPI Act) the interests of insured persons of the EPI from the long-term perspective.

Accordingly, the EPI benefit adjustment fund is administered and invested with an asset mix established from the long-term perspective (the "Benchmark Portfolio") based on diversifying investments in multiple assets that differ in risk/return and other characteristics ("Diversified Investment").

2 Investment target

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

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

In addition, efforts shall be made to earn the benchmark return for each asset class for each fiscal year, as well as generating benchmark returns for each asset class over the long term.

Stewardship Responsibilities (Efforts by Association) ①

Stewardship Responsibilities

○Stewardship Responsibilities

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

○Efforts by the Association

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 Association believes that it must conduct stewardship activity proactively.

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

The Association has formulated the Corporate Governance Principles of Pension Fund Association for Local Government Officials, the Guidelines for Exercising Shareholders’ Voting Rights (Domestic Equities), the Guidelines for Exercising Shareholders’ Voting Rights (Foreign Equities), and the Pension Fund Association for Local Government Officials’ Approach to Proposals on Takeover Defense Measures, and has made clear its approach to exercise shareholders’ voting rights. The Association requires entrusted investment management institutions to exercise voting rights in accordance with the Principles, etc. In addition, the Association has made clear its activities to fulfill the stewardship responsibilities in the Basic Policy for Employees’ Pension Insurance Benefit Adjustment Fund.

In addition, since February 2010, the Association has also been making investments in ESG funds.

The Association agrees with the purpose of the Principles for Responsible Institutional Investors <<Japan’s Stewardship Code>>, established by the Financial Services Agency in February 2014, and it announced its acceptance of the Code in May 2014. In addition, following the revision of the Code, the Association further clarified its approach to stewardship activities in November 2017.

Stewardship Responsibilities (Efforts by Association) ②

Stewardship Responsibilities

○Efforts by the Association (continued)

The Association receives reports concerning stewardship activity from and holds interviews with entrusted investment management institutions of domestic equities every year in order to monitor the appropriateness of their stewardship activity and gather information. In addition, following the start of the exercise of voting rights concerning foreign equities, the Association has received reports on stewardship activity concerning foreign equities since FY2017.

The major viewpoints of the monitoring of entrusted investment management institutions in FY2017 are as follows:

Exercise of shareholders' voting rights

- Make sure that the exercise of voting rights is in line with the Guidelines for Exercising Shareholders' Voting Rights.
- Check whether or not the Association's guidelines are mechanically applied to the exercise of voting rights without close examination of individual proposals.
- Check the status of improvement in governance at investee companies through the exercise of voting rights.

Engagement

- Make sure that an effective engagement is implemented in order to increase investee companies' corporate value and promote their sustainable growth value in the medium to long term.
- Make sure that sustained efforts are made to review the effects of engagement and improve the quality of engagement.

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

Stewardship Responsibilities (Domestic Equities) ①

○ The results of the exercise of voting rights (Domestic Equities)

Between July 2016 and June 2017, regarding the Employees' Pension Insurance Benefit Adjustment Fund, the Association exercised voting rights, through the 23 entrusted investment management institutions entrusted with domestic equity investment, with respect to a total of 15,636 companies which settled accounts between April 2016 and March 2017. The number of proposals concerning which voting rights were exercised was 56,079.

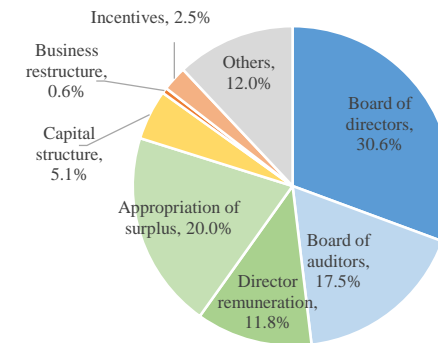
Of the 56,079 proposals, 13,403 (including 2,478 shareholder proposals) were voted against, translating into a vote-against rate of 23.9% (up 2.1 points from the previous year). The vote-against rate concerning company proposals was 20.4% (up 0.8 points).

The vote-against rate came to 40.9% (up 1.1 points from the previous year) concerning proposals related to the board of directors/directors, 13.3% (down 5.1 points) concerning proposals related to the board of auditors/auditors, 15.3% (up 4.5 points) concerning proposals related to director remuneration, etc. and 4.7% (up 0.3 points) concerning proposals related to appropriation of surplus.

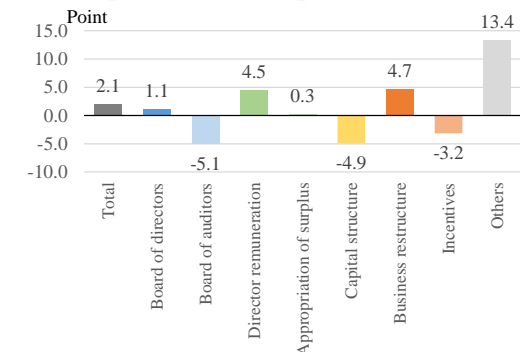
Voting activity (Employees' Pension Insurance Benefit Adjustment Fund) Companies with accounting settlement between April 2016 and March 2017

Proposal Subject	Total	Composition	Vote for	Rate	Vote against	Rate	Vote-against rate in the previous year
Total	56,079	100%	42,676	76.1%	13,403	23.9%	21.8%
c.f. Company Proposal	53,449	95.3%	42,524	79.6%	10,925	20.4%	19.6%
c.f. Shareholder Proposal	2,630	4.7%	152	5.8%	2,478	94.2%	96.7%
By Subject	56,079	100%	42,676	76.1%	13,403	23.9%	21.8%
Board of Directors/Directors	17,172	30.6%	10,155	59.1%	7,017	40.9%	39.7%
Board of Auditors/Auditors	9,803	17.5%	8,496	86.7%	1,307	13.3%	18.4%
Director Remuneration, etc.	6,594	11.8%	5,583	84.7%	1,011	15.3%	10.8%
Appropriation of Surplus	11,203	20.0%	10,679	95.3%	524	4.7%	4.3%
Capital Structure	2,843	5.1%	2,032	71.5%	811	28.5%	33.4%
Takeover Defense Measures	898	1.6%	103	11.5%	795	88.5%	63.2%
Capital Increase or Reduction	46	0.1%	46	100%	0	0.0%	3.7%
Third Party Allotment of Shares	26	0.0%	21	80.8%	5	19.2%	19.2%
Acquisition of Own Shares	5	0.0%	0	0.0%	5	100%	37.3%
Business Restructure	320	0.6%	299	93.4%	21	6.6%	1.9%
Incentives Improvement for Executives	1,406	2.5%	1,084	77.1%	322	22.9%	26.1%
Other proposals	6,738	12.0%	4,348	64.5%	2,390	35.5%	22.1%

Share by proposal subject



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



Stewardship Responsibilities (Domestic Equities) ②

Exercise of Voting Rights (Domestic Equities)

○Results of the exercise of voting rights (domestic equities)

The matters learned through the monitoring are as follows:

- It was learned that at all investment management institutions entrusted with domestic stock investment by the Association, the Association's Guidelines for Exercising Shareholders' Voting Rights are applied to their criteria as a priority.
- It was learned that concerning entrusted investment management institutions whose understanding of the Association's guidelines had been insufficient in the exercise of voting rights in the previous year, their understanding deepened and voting rights were exercised thoroughly in line with the guidelines. Concerning proposals related to takeover defense measures, the rate of “for” votes based on the escape clause declined steeply.
- Concerning proposals related to the election of directors and takeover defense measures, it was learned that many entrusted investment management institutions have reviewed and revised their criteria for exercising voting rights and are calling for companies to establish a higher level of corporate governance.
- The Association has established the “Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities),” thereby indicating its policy for exercising voting rights, and it has entrusted the exercise of voting rights concerning individual proposals to entrusted investment management institutions. Therefore, in some cases, the judgment on the exercise of voting rights concerning the same proposal varied across entrusted investment management institutions because of differences in their respective judgment criteria.
- Concerning proposals for which the Association entrusted decision-making to entrusted investment management institutions, such as performance criteria related to the election of directors and independence related to the election of outside directors, it was learned that individual investment management institutions have established the judgement criteria and made judgments in accordance with them.

The Association's views are as follows:

- With respect to the lack of change in the vote-against rate concerning company proposals in the current fiscal year compared with the previous year, the Association believes that this is a result of the progress made in companies' corporate governance toward the desired state of companies as shown in the Association's Corporate Governance Principles in response to entrusted investment management institutions' call for them to establish a higher level of corporate governance. However, as 20.4% of company proposals were voted against, further efforts should be made.
- Regarding proposals related to the board of directors and directors in particular, the vote-against rate remained high (40.9%) for reasons such as that the number of internal directors was increased without clear and rational explanations, so the Association believes that there is large room for improvement.
- It was learned that some entrusted investment management institutions have not sufficiently incorporated the Association's guidelines into their detailed criteria for exercising voting rights, so the Association believes that it is necessary to continue to seek their full understanding concerning its guidelines.
- While the Association's guidelines stipulate that an increase in the number of directors other than outside directors should be voted against in principle unless clear and rational explanation is provided, some entrusted investment management institutions uniformly voted against proposals that would lead to an increase without conducting close examination on a case-by-case basis. It is desirable that entrusted investment management institutions exercise voting rights based on appropriate judgement suited to the circumstances of companies after sufficiently understanding the purpose of the guidelines, instead of mechanically applying the guidelines to the exercise of voting rights.

Stewardship Responsibilities (Domestic Equities) ③

○Number of cases of engagement (domestic equities)

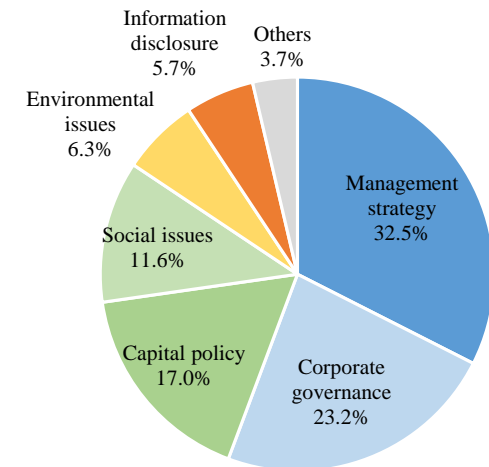
In FY2016, regarding the Employees' Pension Insurance Benefits Adjustment Fund, the Association implemented engagement with a total of 5,134 companies through the 23 investment management institutions entrusted with domestic stock investment. The number of cases of engagement was 10,732 in total (down 3,275 from the previous year). The number of cases of direct dialogue with top managers of companies was 2,822, or 26.3% of the total.

Regarding major subjects of engagement, the number of cases of dialogue concerning management strategy issues came to 3,485 (down 4,402 from the previous year), or 32.5% of the total, followed by dialogue concerning corporate governance issues with 2,493 (up 454 from the previous year), or 23.2% of the total, and 1,827 cases related to capital policy issues (down 67 from the previous year), or 17.0% of the total.

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

Dialogue subject	Number of cases	Dialogues with top managers		Number of cases in the previous year
		Composition	Rate	
Total	10,732	100.0%	2,822	14,007
Dialogues concerning management strategy	3,485	32.5%	1,263	7,887
Dialogues concerning corporate governance	2,493	23.2%	578	2,039
Dialogues concerning capital policy	1,827	17.0%	445	1,894
Dialogues concerning social issues	1,249	11.6%	202	669
Dialogues concerning environmental issues	678	6.3%	82	419
Dialogues concerning information disclosure	607	5.7%	161	790
Other	393	3.7%	91	309

Share by dialogue item



*1 The standard for counting the number of cases of engagement varies from fund to fund: some funds count one interview covering several items multiple times, including it in the counting of cases concerning each item, while others count it only once.

*2 The number of cases of engagement declined from the previous year mainly because dialogue concerning management strategy conducted by a certain entrusted investment management institution decreased significantly as the shifted institution emphasis to engagement focusing on substance and quality in FY2016 after conducting broad dialogue concerning management strategy in FY2015 as the first step of engagement.

Stewardship Responsibilities (Domestic Equities) ④

Engagement (Domestic Equities)

○Efforts of engagement

The matters learned through the monitoring are as follows:

- The Association confirmed the following matters in relation to engagement concerning many funds.
 - ✓ Engagement is generally defined as “constructive dialogue conducted with investee companies in order to increase the corporate value of investee companies in the medium to long term and promote the companies’ sustainable growth,” for example.
On the other hand, it was learned that some entrusted investment management institutions define engagement as “part of research activity.”
 - ✓ It was learned that entrusted investment management institutions generally implement engagement in order to promote the companies’ “sustainable growth” and “increase the corporate value of investee companies.”
On the other hand, it was learned that some entrusted investment management institutions implement engagement in order to “share perspectives,” while others do so in order to help to “make investment decisions instead of aiming primarily to change corporate behavior.”
 - ✓ It was learned that in order to increase corporate value, some entrusted investment management institutions select dialogue partner companies on the basis of whether the companies are facing problems and whether it is possible to contribute to their sustainable growth.
 - ✓ It was learned that some entrusted investment management institutions select dialogue items and methods from the viewpoints of an increase in corporate value and risks (problems).
- It was learned that entrusted investment management institutions conducting excellent initiatives set qualitative or quantitative targets related to engagement, with the effects of engagement examined by a council or a relevant division. Concerning the method of examining the effects of engagement, many entrusted investment management institutions reported that they measured the effects in terms of the progress in dialogue.
On the other hand, some entrusted investment management institutions do not have a system to examine the effects of engagement, while others do not judge the success or failure of engagement.
- The Association learned that the entrusted investment management institutions are implementing the initiatives to improve the quality of engagement.
The Association observed the following cases as excellent initiatives to enhance the quality of engagement:
 - ✓ Resourceful measures to manage progress in engagement
 - ✓ Enhancement of organizational systems, including the establishment of a division responsible for overseeing engagement activity
 - ✓ Initiatives to promote a change of the mindset on the part of companies and to increase influence through dialogue.
 - ✓ Acquisition and accumulation of knowhow through partnership with external organizations

The Association’s views are as follows:

- In the Signup to Japan’s Stewardship Code, the Association stipulates as follows: “The Association will continue requiring the entrusted investment management institutions to share the awareness of problems with the investees and make efforts for the solution through effective engagement aimed at the medium- to long-term enhancement of enterprise values and sustainable growth of investee companies.” The Association believes that it learned through interviews that initiatives conducted by entrusted investment management institutions are generally in line with its views. The Association believes that it is necessary to continue to seek further understanding on its views concerning the definition of engagement, and engagement initiatives.

Stewardship Responsibilities (Domestic Equities) ⑤

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

Dialogue subject	Company	Specifics		Dialogue subject	Company	Specifics	
Dialogue concerning management strategy	1st sec. of the Tokyo Stock Exch. Electric equipment	Dialogue	Conducted dialogue on possible options concerning measures to raise the management efficiency of the overall group, including the revision of capital relationship with a listed subsidiary.	Dialogue concerning capital policy	1st sec. of the Tokyo Stock Exch. Other products	Dialogue	Proposed the formulation of a medium-term business plan and an ROE target, the clarification of a capital policy and holding of briefings on financial results.
		Result	Announced a business integration with the listed subsidiary.			Result	Announced plans to formulate a medium-term business plan, set an ROE target, enhance the shareholder return, holding briefings on financial results and strengthen the IR system.
	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.	Dialogue concerning social issues	1st sec. of the Tokyo Stock Exch. Information & Communication	Dialogue	Conducted dialogue on the progress in the action plan concerning the empowerment of women and information disclosure concerning diversity.
		Result	Announced the sale of shares held under the cross-shareholding arrangement.			Result	Made improvements concerning the empowerment of women, including increasing the proportion of women in new recruits, in accordance with the action plan. Made significant improvements concerning information disclosure, including disclosure of the status of disclosure efforts and numerical data.
Dialogue concerning corporate governance	1st sec. of the Tokyo Stock Exch. Chemicals	Dialogue	Proposed a study on a remuneration system intended to ensure awareness of the return on capital among rank-and-file employees.	Dialogue 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	Decided to introduce an employee stock ownership trust. Also studying an incentive-based remuneration system (stock price-linked type) for next-generation senior managers.			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.
	1st sec. of the Tokyo Stock Exch. Banks	Dialogue	Pointed out issues related to the composition of the personnel committee and the remuneration committee and proposed the establishment of a system under which outsiders sufficiently exercise the checks-and-balances function.	Dialogue concerning information disclosure	1st sec. of the Tokyo Stock Exch. Construction	Dialogue	Proposed the announcement of a medium-term business plan, including numerical targets, in reference to exemplary cases observed among other companies in the same industry.
		Result	Announced the reorganization of these two committees, with a majority of each committee, including the chairman, to be appointed from among outsiders.			Result	Publicly announced a medium-term business plan. Also announced numerical targets for the operating profit margin and the payout ratio.
Dialogue concerning capital policy	1st sec. of the Tokyo Stock Exch. Construction	Dialogue	Proposed the adoption of the ratio of dividends to shareholders' equity as an indicator of the shareholder return and the retirement of surplus own shares acquired through share repurchases in order to ease concerns in the stock market over possible release of those shares.		1st sec. of the Tokyo Stock Exch. Non-ferrous Metals	Dialogue	Proposed active implementation of information disclosure (particularly with respect to trends in foreign markets where the business conditions are difficult to grasp) because there were problems with the company's approach to IR.
		Result	Announced the adoption of the ratio of dividends to shareholders' equity as an indicator of the shareholder return and replied that the retirement of repurchased own shares will continue to be studied internally.			Result	Enhanced information disclosure related to overseas businesses by disclosing for the first time the company's assumptions for the forecast of financial results in reference documents distributed at briefings on annual financial results.

Stewardship Responsibilities (ESG Investment) ①

○ESG investment initiative

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

The Association believes that it can simultaneously fulfill “the fiduciary duty of increasing the value of stocks for 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.

The Association started investing in ESG funds in 2010. Subsequently, the Association gradually increased the number of adopted products and the amount of investments. As of the end of March 31 2018, the Association was entrusting ESG investment through four domestic stock products with a combined market capitalization of 55.5 billion yen (approximately 2% of the outstanding balance of domestic stocks in the Association’s portfolio). As around 90% of existing active funds claim to give consideration to ESG elements in the investment process, the Association uses ESG mainly as a supplemental judgement factor for stock selection.

○Approach to ESG investment

Of the ESG-related four products adopted by the Association, three fall into the ESG integration category and one falls into the engagement category.

ESG integration refers to an investment approach that gives consideration to the ESG elements in the process of selecting stocks from the investment universe for possible inclusion in the portfolio. Engagement refers to objective-oriented constructive dialogue based on in-depth understanding of investee companies and their operating environment.

Specifically, with respect to the products adopted by the Association, investment is made through the following methods:

Category	Entrusted investment management institution	Approach
Integration	A	Entrusted Investment Management Institution A uses an external organization to select stocks relatively highly evaluated in terms of ESG within each industry as components of the investment universe. Fund managers select stocks from the universe based on evaluation conducted from two viewpoints—the stock price level and whether the companies’ ESG initiatives are likely to lead to earnings growth. The portfolio is comprised mainly of stocks highly evaluated by fund managers in terms of ESG.
	B	Analysts evaluate stocks under research in terms of their fundamentals and ESG performance. The ESG evaluation is a combination of basic evaluation based on third-party information obtained from external ESG evaluation organizations and analysts’ evaluation based on qualitative information obtained through dialogue. A score table is prepared with scores given with respect to detailed items concerning the ESG elements. Fund managers integrate the fundamentals evaluation and the ESG evaluation and select stocks in such a way that the deviation value of each of the items concerning the ESG elements in the whole portfolio is higher than 50.
	C	Entrusted Investment Managing Institution C has adopted a smart beta strategy under which its funds track an index internally developed based on the combination of the ESG evaluation and the stock price evaluation. The investment management institution uses an external organization to recognize companies whose ESG performance exceed a certain level as components of the index. Asset weight allocation is determined by adding to the basic weight (a uniform weight for all stocks: 60% of the overall weight) a weight calculated on the basis of an ESG-adjusted stock price (40%), which is a stock price multiplied by a co-efficient reflecting the ESG evaluation.
Engagement	D	After picking stocks with high quality in terms of ROIC (return on invested capital), Entrusted Investment Management Institution D makes stock selection from among them in light of factors such as the room for improvement of competitiveness and the viability of the dialogue effect, aiming to increase corporate value through cooperative engagement from the viewpoint of ESG.

The approach to ESG varies from product to product. However, through interviews with entrusted investment management institutions, the Association learned that they make efforts to identify the ESG elements concerning individual products and use ESG as a reference for stock selection. In this way, they are reducing the risk of corporate value being undermined and are promoting investment in companies whose corporate value is expected to increase in the medium to long term.

Stewardship Responsibilities (ESG Investment) ②

○Performance of ESG investment

Entrusted investment management institutions are making ESG investment through various approaches based not only on the ESG evaluation but also on the stock price evaluation with respect to individual products. However, many products adopted by the Association are delivering an excess return over the policy benchmark (TOPIX index including dividends).

There is not yet an established consensus whether the ESG approach leads to an excess return, and the method of analyzing the relationship of the ESG evaluation and engagement with investment performance varies across investment management institutions. Specifically, the following methods are used.

<Integration>

Entrusted investment management institution	Analysis method
A	Entrusted Investment Management Institution A indicates each stock's total contributions concerning the ESG elements based on a six-quadrant classification (high ESG and medium ESG) x (discount, neutral and premium), including the evaluation of stock price premium and discount. In terms of the total return over the past five years, the investment management institution gained an excess return from stocks highly evaluated in terms of ESG, so its ESG evaluation is considered to be functioning to a certain degree from the long-term perspective. (Image: Figure 1)
B	Entrusted Investment Management Institution B indicates each stock's total contributions based on whether the stock is highly or poorly rated in the ESG and fundamentals evaluations. Regarding the group of stocks highly rated in the ESG evaluation, tracking error (TE) is limited in the medium to long term, so the ESG approach is effective in improving the information ratio (IR), rather than in increasing the excess return. (Image: Figure 2)
C	As overweighting in medium-cap stocks and underweighting in large- and small-cap stocks tend to continue, Entrusted Investment Management Institution C calculates the ESG stock selection and allocation effect that excludes size impact. Although this effect includes an element of stock price evaluation, it tends to make positive contribution. (Image: Figure 3)

<Engagement>

Entrusted investment management institution	Analysis method
D	Entrusted Investment Management Institution D measures the engagement effect by multiplying the difference between the expected return including the dialogue/engagement effect and the expected return excluding the effect by the engagement success probability for the sake of convenience. Engagement makes positive contribution, accounting for a certain portion of the excess return. (Image: Figure 4)

The return from each product change from year to year, and the measurement period is less than three years for many products. Therefore, the Association plans to continue ESG initiatives, including evaluating the effectiveness and usefulness of ESG investment according to the investment horizon by cooperating with entrusted investment management institutions in how the ESG elements are contributing to the investment performance.

(Figure 1)

	...	FY2017	Past 5 years
Excess return	...	○%	○%
Contribution of evaluated stocks	...	○%	○%
High ESG	...	○%	○%
Discount	...	○%	○%
Neutral	...	○%	○%
Premium	...	○%	○%
Medium ESG	...	○%	○%
Discount	...	○%	○%

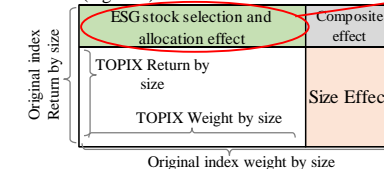
Positive contribution

(Figure 2)

Past _ years	High ESG		Poor ESG		Total
	Fundamentals Highly rated	Fundamentals Poorly rated	Fundamentals Highly rated	Fundamentals Poorly rated	
Excess return	○%	○%	○%	○%	○%
TE (Annual rate)	○%	○%	○%	○%	○%
IR (Annual rate)	○	○	○	○	○

High investment efficiency

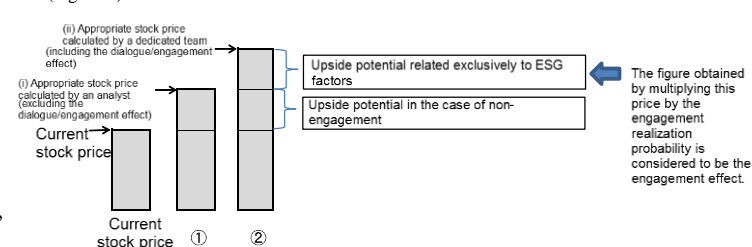
(Figure 3)



Positive contribution

Large-cap stocks
× Medium-cap stocks
Small-cap stocks → Overall effect

(Figure 4)



Stewardship Responsibilities (Foreign Equities) ①

○ Results of the exercise of voting rights (foreign equities)

Through all of the 16 entrusted investment management institutions entrusted with foreign stock investment, the Employees' Pension Insurance Benefit Adjustment Fund exercised voting rights with respect to a total of 7,771 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 for which voting rights were exercised was 55,546.

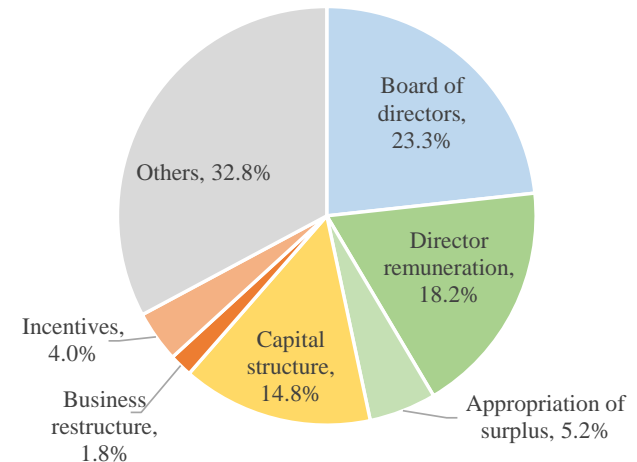
Of the 55,546 proposals, 5,868 (including 1,590 shareholder proposals) were voted against, translating into a vote-against rate of 10.6%. The vote-against rate concerning company proposals was 8.2%.

The vote-against rate came to 11.2% concerning proposals related to the board of directors/directors, 7.7% concerning proposals related to director remuneration, etc. and 2.5% concerning proposals related to appropriation of surplus.

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

Proposal Subject	Total	Composition	Vote for		Vote against	
				Rate		Rate
Total	55,546	100%	49,678	89.4%	5,868	10.6%
c.f. Company Proposal	52,345	94.2%	48,067	91.8%	4,278	8.2%
c.f. Shareholder Proposal	3,201	5.8%	1,611	50.3%	1,590	49.7%
By Subject	55,546	100%	49,678	89.4%	5,868	10.6%
Board of Directors/Directors	12,924	23.3%	11,475	88.8%	1,449	11.2%
Director Remuneration, etc.	10,112	18.2%	9,330	92.3%	782	7.7%
Appropriation of Surplus	2,884	5.2%	2,813	97.5%	71	2.5%
Capital Structure	8,198	14.8%	7,207	87.9%	991	12.1%
Takeover Defense Measures	444	0.8%	404	91.0%	40	9.0%
Capital Increase or Reduction	2,426	4.4%	2,034	83.8%	392	16.2%
Third Party Allotment of Shares	488	0.9%	482	98.8%	6	1.2%
Acquisition of Own Shares	1,759	3.2%	1,697	96.5%	62	3.5%
Business Restructure	988	1.8%	932	94.3%	56	5.7%
Incentives Improvement for Executives	2,206	4.0%	1,686	76.4%	520	23.6%
Other proposals	18,234	32.8%	16,235	89.0%	1,999	11.0%

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

Exercise of Voting Rights (Foreign Equities)

○ Results of the exercise of voting rights (foreign equities)

The matters learned through the reports are as follows:

- The Association ascertained that foreign equity funds entrusted with investment by it gave precedence in application to its guidelines for exercising voting rights over their guidelines and that the voting rights were generally exercised with respect to the countries to which the exercise is applicable.
- The Association has established the “Guidelines for Exercising Shareholders’ Voting Rights (Foreign Equities)” as in the case of domestic equities, thereby indicating its policy for exercising voting rights. Concerning response to individual proposals, the Association’s policy is to leave judgement on the exercise of voting rights to entrusted investment management institutions. Therefore, in some cases, judgement on the exercise of voting rights concerning the same proposal across investment management institutions differs due to differences in the institutions’ judgment criteria.
- It was learned that unlike domestic stock funds entrusted with investment by the Association, all foreign equity funds entrusted with investment by the Association were using proxy advisors. One factor behind this is the need to receive expert advice concerning the approaches to proposals presented by relevant companies in various countries due to the wide differences in the corporate governance standards across regions around the world.
- Possible reasons for the low vote-against rate for the exercise of voting rights concerning foreign equities compared with the rate for domestic equities are as follows:
 - ✓ In other countries, the vote-against rate concerning proposals related to the board of directors and directors is low for reasons such that in many cases, independent directors account for a majority of the board of directors.
 - ✓ In other countries, the vote-against rate concerning proposals related to takeover defense measures is low because in many cases, independent directors account for a majority of the board of directors, which means that takeover defense measures are presumed to have been introduced after sufficient measures to protect shareholder value have been implemented.

Stewardship Responsibilities (Foreign Equities) ③

○ Number of cases of engagement (foreign equities)

Employees' Pension Insurance Benefit Adjustment Fund implemented engagement with a total of 1,137 companies in FY2016 through 13 of the 16 investment management institutions entrusted with foreign stock investment. Two of the companies with which engagement was implemented were not included in the data tabulation. The number of cases of engagement was 3,051 in total. The number of cases of direct dialogue with top managers of companies was 967, or 31.7% of the total.

As for the main themes of engagement, the number of cases of dialogue concerning corporate governance came to 952, accounting for 31.2% of the total, followed by dialogue concerning management strategy with 691 cases (22.6%) and dialogue concerning environmental issues with 404 cases (13.2%).

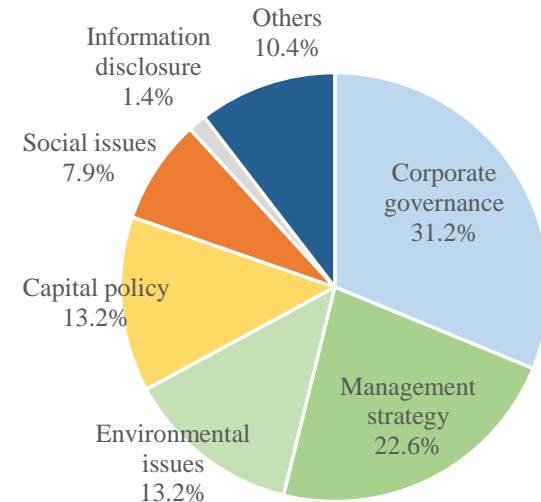
One reason for the large share of dialogue concerning corporate governance or environmental issues compared with the case of domestic equities is that some entrusted investment management institutions frequently conducted dialogue about corporate governance based on their emphasis on governance, while others appointed a dedicated ESG staff or implemented engagement in cooperation with external organizations with ESG expertise.

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

Dialogues	Number of cases		Dialogues with top managers	
		Composition		Rate
Total	3,051	100.0%	967	31.7%
Dialogues concerning corporate governance	952	31.2%	157	16.5%
Dialogues concerning management strategy	691	22.6%	278	40.2%
Dialogues concerning environmental issues	404	13.2%	29	7.2%
Dialogues concerning capital policy	403	13.2%	236	58.6%
Dialogues concerning social issues	241	7.9%	44	18.3%
Dialogues concerning information disclosure	42	1.4%	9	21.4%
Other	318	10.4%	214	67.3%

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

Share by dialogue item



Stewardship Responsibilities (Foreign Equities) ④

Engagement (Foreign Equities)

○Efforts of engagement

The matters learned through the monitoring are as follows:

- The Association learned of the following matters with respect to many funds implementing engagement.
 - ✓ Many funds are implementing engagement defined as “constructive dialogue with investee companies conducted in order to promote their sustainable growth and increase their corporate value in the medium to long term” or “sustainable dialogue concerning ESG issues with investee companies,” for example.
Meanwhile, it was also learned that some funds define engagement as “communication with companies.”
 - ✓ Many funds are implementing engagement in order to promote “companies’ sustainable growth” and “an increase in corporate value.”
In some cases, the objective of engagement is “sharing the recognition of issues” or “clarifying business prospects.”
 - ✓ Many funds select dialogue partner companies on the basis of whether the companies are “facing problems” and “the status of ESG initiatives”
 - ✓ Many funds select dialogue items and methods from the viewpoints of “companies’ profitability improvement” and “risks (problems and other issues).”
- The Association learned that some funds are not implementing engagement.
- The Association learned that the entrusted investment management institutions are implementing the initiatives to improve the quality of engagement.

The Association’s views are as follows:

- The Association’s policy is to continue requiring entrusted investment management institutions to share the recognition of problems and other issues with investees and make improvement efforts through effective engagement aimed at a medium- to long-term increase in corporate value and sustainable growth of investee companies. Based on reports, the Association believes that initiatives conducted by many entrusted investment management institutions are generally in line with its views. The Association believes that it is necessary to continue to seek further understanding on its views concerning the definition of engagement, and engagement initiatives.

Stewardship Responsibilities (Foreign Equities) ⑤

○ 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 Association signed up to the code on May 30, 2014. Since then, there has been no change in the Association's approach to stewardship activity. However, to make the approach clearer, the Association conducted a review following the announcement of the revised code on May 29, 2017 and signed up to the revised code.

The Association complies with the principles of Japan's Stewardship Code.

The Association's stance toward individual principles is as follows:

Principle 1

- ✓ Significance of the Association's 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 Association can effectively fulfill the stewardship responsibilities by monitoring the implementation.
- ✓ The Association has established the guidelines, etc. under which entrusted investment management institutions are expressly bound to implement stewardship activity.
- ✓ The Association conducts monitoring focusing on the "quality" of stewardship efforts.

Principle 2

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

Principle 3

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

Principle 4

- ✓ The Association monitors entrusted investment management institutions' engagement with investee companies to check whether the engagement is effective.
- ✓ The Association requires 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 Association requires entrusted investment management institutions to disclose the results of the exercise of voting rights for each investee and proposal and also requires entrusted investment management institutions that do not make disclosures to explain the reasons for the non-disclosures.

Principle 6

- ✓ The Association makes reports on its stewardship activities in the Review of Operations report and public relations magazines and publishes annual reports on stewardship activities.

Principle 7

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

○Disclosure 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 Association asked all entrusted 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 Association 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 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 Association's website.

<http://www.chikyoren.or.jp/sikin/kobetukaiji.html>

Stewardship Responsibilities (Future Initiatives)

Future Initiatives

○Future Initiatives

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

The Association believes that it can more effectively fulfill the stewardship responsibilities as a whole through the following activities: indicating the Association's approach and policy for the exercise of voting rights by continuing to appropriately develop the Guidelines for Exercising Shareholders' Voting Rights, etc.; conducting stewardship activity through entrusted investment management institutions with in-depth knowledge concerning corporate management; and appropriately monitoring stewardship activity conducted by entrusted investment management institutions from the viewpoint of the enhancing effectiveness of the activity.

Specifically, the Association is considering the following initiatives.

- Implementation of effective monitoring of entrusted investment management institutions

The Association will continue to make sure that entrusted investment management institutions' stewardship activity is consistent with the Association's policy and will conduct monitoring with emphasis placed on the "quality" of initiatives in terms of whether entrusted investment management institutions are implementing engagement with investee companies and are exercising voting rights in an effective manner and whether they are encouraging the companies to ensure substantive corporate governance.

- Review of the approach to engagement

The Association will review its basic approach to engagement from the viewpoint of enhancing the effectiveness and sustainability of engagement activity by entrusted investment management institutions.

- Revision of the Corporate Governance Principles, etc.

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

- Collaboration with other public pension funds, etc.

The Association 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 Association will also exchange opinions with its member associations and other public pension funds, among other activities.

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

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

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

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

1. Definition of diversification of eligible investment instruments

① Definition of diversification of eligible investment instruments

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

② Scope of alternative assets

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

2. Purpose of diversification of eligible investment instruments

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

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

(1) Classification of alternative assets in the benchmark portfolio

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

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

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

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

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

4. Matters to note when diversifying eligible investment instruments

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

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

< Specific measures >

○Introduction of an Asset Manager Registration System

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

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

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

○Selection of investment products

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

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

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

Status of investment in alternative assets

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

Entrusted investment management institution	Outline of the investment product	Total market value	Start of investment	Return (market value)
Resona Bank	Investment in domestic real estate	JPY10.5 billion	January 2016	9.06%
Nomura Asset Management	Investment in domestic real estate	JPY3 billion	April 2016	6.23%
Daiwa Fund Consulting	Making diversified investment in compact rental houses for single persons, for which there is steady demand, mainly in the Tokyo area.	JPY5 billion	September 2016	3.51%

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

Entrusted investment management institution	Outline of the investment product	Total market value	Start of investment	Return (market value)
UBS Asset Management	Making diversified investment in a broad range of real estate assets, including rental houses, commercial facilities, offices, industrial facilities and hotels, in major U.S. markets.	JPY3.4 billion	June 2016	0.45%
Invesco Asset Management	Making diversified investment in condominiums, retail and industrial facilities, office buildings, etc. in major U.S. cities.	JPY5.3 billion	July 2017	-3.31%

(Note 1) As the covered period is from April 2017 to the end of March 2018, dividends for the covered period are not reflected in the income of discretionary investment accounts for investment products with an investment track record of less than one year in some cases due to time lags. As a result, the returns indicated above are lower than the actual returns. Meanwhile, the returns for foreign investment products may be affected by changes in market value due to exchange rate fluctuations.

(Note 2) Only the data for which agreement on disclosure has been obtained from entrusted investment management institutions are indicated above.

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

Status of investment in alternative assets

○Investment in foreign infrastructure (classified into foreign bonds, etc.)

Entrusted investment management institution	Outline of the investment product	Total market value	Start of investment	Return (market value)
Mitsubishi UFJ Trust and Banking Corporation	Investing in infrastructure assets, mainly in Europe. Maintaining a portfolio comprised mainly of regulated assets and contracted assets but partly of assets linked to the economic cycle.	JPY3.4 billion	June 2016	4.96%
JP Morgan Asset Management	Investing in infrastructure assets in OECD countries. Maintaining a portfolio comprised mainly of regulated assets and contracted assets with emphasis placed on stability.	JPY3.5 billion	July 2016	10.27%
Mizuho Global Alternative Investments	Investing in infrastructure assets in Asia, North America and Europe in the form of senior debts. Aiming to earn stable returns through interest income as the investment assets generate income based on long-term contracts.	JPY9.9 billion	July 2017	0.77%
Tokio Marine Asset Management	Investing in infrastructure assets, mainly in Australia. Maintaining a portfolio intended to secure a stable cash flow through diversified investment in regulated assets and long-term contract assets, including transportation and utility infrastructure.	JPY1.5 billion	July 2017	-1.42%

(Note 1) As the covered period is from April 2017 to the end of March 2018, dividends for the covered period are not reflected in the income of discretionary investment accounts for investment products with an investment track record of less than one year in some cases due to time lags. As a result, the returns indicated above are lower than the actual returns. Meanwhile, the returns for foreign investment products may be affected by changes in market value due to exchange rate fluctuations.

(Note 2) Investment products managed by Mizuho Global Alternative Investments as an entrusted investment management institution are currency-hedged, so they are classified into domestic bonds.

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

Diversification of eligible investment instruments (investment in alternative assets) ⑤

Status of investment in alternative assets

○ Investment in domestic private equities (classified into domestic equities)

Entrusted investment management institution	Outline of the investment product	Total market value	Start of investment	Return (market value)
Mitsubishi UFJ Trust and Banking Corporation	Investing in middle-ranked Japanese companies. Notable for formulating improvement processes through pre-investment corporate surveys. Actively involved in investee companies' management as a controlling shareholder.	JPY0.2 billion	May 2017	-34.76%
Sumitomo Mitsui Trust Bank	Investing in middle-ranked Japanese companies. Notable for identifying companies with high growth potential and winning contracts under favorable terms by making use of investment institutions' proprietary-account funds. Stationing team members at investee companies for a while on a permanent basis and providing management guidance.	JPY0.1 billion	September 2017	-13.99%

(Note 1) As the covered period is from April 2017 to the end of March 2018, dividends for the covered period are not reflected in the income of discretionary investment accounts for investment products with an investment track record of less than one year in some cases due to time lags. As a result, the returns indicated above are lower than the actual returns. Meanwhile, the returns for foreign investment products may be affected by changes in market value due to exchange rate fluctuations.

(Note 2) Fee payment regarding private equity investment is made immediately after the start of investment, while income is not recorded until investee companies' enterprise value improves. As a result, the negative return in the first year was in line with the initial projection.

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

Selection of Entrusted Investment Management Institutions

<Approach to selection>

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

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

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

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

<Introduction of an Asset Manager Registration System>

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

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

○ Selection of investment products

1. Concerning alternative investment, the adoption of a total of five products was determined in fiscal year 2017.
2. Concerning domestic bonds, a total of three products (including a product comprising currency-hedged foreign bonds and a product for which corporate bonds are the main source of the excess return) were adopted in fiscal year 2017 from among investment products whose income sources are diversified to an extent that does not involve excessive risks and which are adapted to low interest rates. Investment has already started.

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 Association conducts a detailed interview annually concerning the overview of investment results, future investment policy and other matters and also implements monitoring through visits to investment management institutions.

Furthermore, the Association annually conducts a comprehensive evaluation combining quantitative and qualitative evaluation by asset and by investment category (e.g., domestic equity market type and foreign equity growth type). Comprehensive evaluation is intended to evaluate the degree to which each product is likely to fulfill the role that it is expected to play in the future.

Qualitative evaluation is intended to evaluate the current and future status of the fulfilling of the expected role from a long-term perspective and to examine “whether the product is expected to deliver a higher return than the target in a stable manner” and “whether the investment process which represents the advantage of the product in earning an excess return has been sufficiently functioning in light of the market environment” and “whether the process will continue to function in the future.” The focus of attention in the analysis is on investment teams’ skills (investment experience, staffing strength and stability of the employee turnover) and the effectiveness of the investment process (whether the process is functioning as proclaimed and presence or absence of reproductivity, reasonableness and flexibility).

Quantitative evaluation mainly assesses the actual excess return compared with the target excess return, the information ratio (the tracking error in the case of passive investment), and the cost performance (the excess return earned relative to fees).

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

Based on the comprehensive evaluation for fiscal year 2017, the Association has increased or decreased the amounts invested in domestic equities, foreign bonds, and foreign equities.

○ Asset administration institutions

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

Measures taken to respond to low and negative interest rates

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

<Adaptation measures concerning low-interest rate and negative interest rate>

- 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 passive funds whose investment returns are being eroded by declining interest rates).
- Concerning other assets, the following measures have been taken.
 - Investing in real estate and infrastructure as alternative investment
 - Reducing holdings of short-term assets (surplus funds within funds) to which negative interest rates are applied
 - Opening ordinary accounts to which negative interest rates are not applied

Governance ①

(1) Organization

As of April 1, 2018, the Association had 12 executives, consisting of the president, eight Executive Directors (one full-time executive responsible for administration and fund investment and another responsible for pensions, and six part-time directors), and three auditors (one full-time auditor and two part-time auditors), as well as 72 employees.

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

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

(2) Governing Council

Members of the Governing Council are appointed by the Minister of Internal Affairs and Communications from among association members. The Minister of Internal Affairs and Communications must appoint members from among individuals who possess broad knowledge concerning matters pertaining to the operations of the Local Public Service Mutual Aid Associations. In this case, half of all members must be representatives of members of individual mutual aid associations.

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

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

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

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

Governance ②

(4) Asset Management Committee

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

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

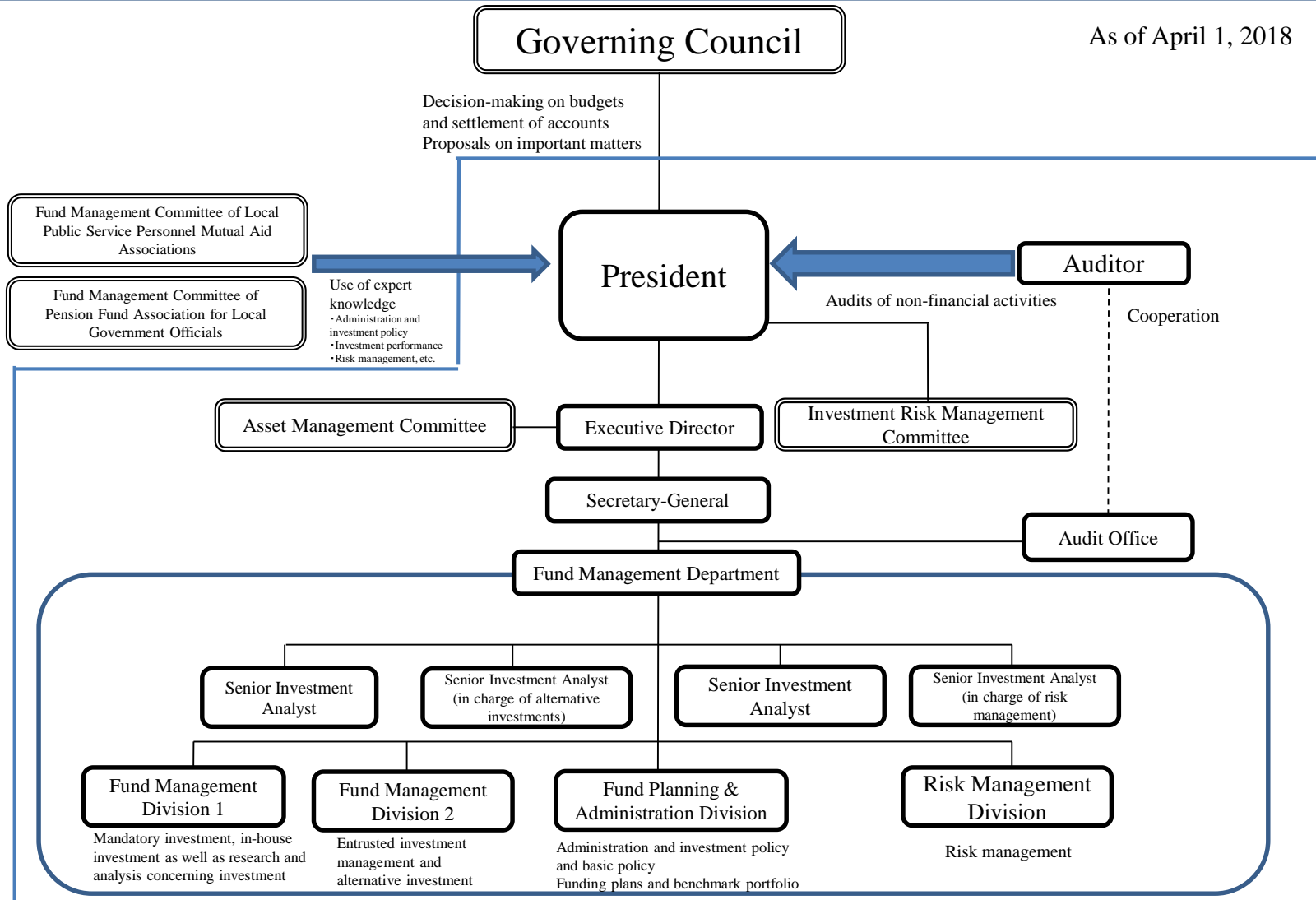
(5) Investment Risk Management Committee

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

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

Governance ③

As of April 1, 2018



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

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

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

List of Committee Members (As of April 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.
Yoshiko Takayama	J-Eurus IR Co., Ltd. Managing Director
Hitoshi Takehara	Professor, Waseda Business School (Graduate School of Business and Finance)
Kazuyo Hachisuka	Executive Senior Vice President, Japan Economic Research Institute Inc.

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

Governance ⑤ (Approach to Risk Management)

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

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

1 Basic approach concerning risk management

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

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

Governance ⑥ (Approach to Risk Management)

○Management of the deviation of the asset mix

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

○Monitoring of market risk, etc.

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

○Management of entrusted investment institutions, etc.

- In addition, as the Association entrusts the operation of some investment-related activities to external institutions, it monitors 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 Association reports on the status of risk management and improvement measures implemented to the Investment Risk Management Committee, the Fund Management Committee of Pension Fund Association for Local Government Officials and the Governing Council.

Section 3 Reference Data

Pension Fund System for Local Government Officials

○ Pension Fund System for Local Government Officials

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

• Article 43 of the Local Public Service Act

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

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

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

○ Establishment of the Pension Fund Association for Local Government Officials

The Pension Fund Association for Local Government Officials was established on April 1, 1984, in order to stabilize the foundation of pension finance by integrating the pension funding units and to ensure appropriate and smooth management of operations related to long-term benefits of mutual aid associations so that sound management of the pension system can be maintained. It is a federation comprising all local public service mutual aid associations (64 associations and the National Federation of Mutual Aid Associations for Municipal Personnel as of March 31, 2018).

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

○ Investment return

(Note 1) (Note 3) (Note 4)

	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	Latest five years (FY2013-2017)	Latest ten years (FY2008-2017)
Realized return (book value basis)	1.30%	1.47%	1.29%	1.14%	0.74%	3.11%	4.23%	4.11%	1.80%	4.44%	3.53%	2.36%

	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	Latest five years (FY2013-2017)	Latest ten years (FY2008-2017)
Return (market value basis)	-8.92%	7.95%	-0.18%	2.53%	9.80%	8.44%	11.35%	-2.27%	5.60%	7.44%	6.01%	3.99%
Domestic bonds	1.21%	2.58%	1.72%	2.46%	2.79%	0.55%	2.04%	3.38%	-0.63%	0.72%	1.20%	1.68%
Domestic equities	-39.02%	34.17%	-7.20%	1.72%	22.08%	18.81%	30.88%	-9.99%	14.66%	17.27%	13.48%	5.90%
Foreign bonds	-6.61%	0.53%	-6.49%	5.11%	17.94%	14.79%	12.75%	-3.28%	-5.29%	4.25%	4.33%	3.01%
Foreign equities	-43.74%	46.61%	5.04%	2.48%	27.05%	32.02%	22.67%	-8.28%	14.43%	10.10%	13.35%	7.76%

○ Value of investment income

(Note 1) (Note 3) (Note 4) (Unit: JPY100M)

	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	Latest five years (FY2013-2017)	Latest ten years (FY2008-2017)
Realized income (book value basis)	2,105	2,401	2,123	1,901	1,252	5,288	7,400	7,369	3,471	8,512	32,040	41,822
(Income gain)	(3,511)	(2,692)	(2,758)	(2,846)	(2,893)	(3,014)	(3,247)	(3,232)	(3,497)	(3,855)	(16,845)	(31,545)

	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	Latest five years (FY2013-2017)	Latest ten years (FY2008-2017)
Investment income (market value basis)	-14,274	11,491	-276	3,908	15,549	14,718	21,435	-5,156	11,367	15,592	57,956	74,355
Domestic bonds	1,299	2,660	1,713	2,366	2,774	609	2,192	3,070	-375	473	5,968	16,780
Domestic equities	-7,779	4,804	-1,632	402	5,169	4,926	10,500	-4,741	7,382	9,596	27,662	28,626
Foreign bonds	-1,001	77	-1,041	774	2,845	2,785	2,812	-834	-1,357	1,033	4,439	6,093
Foreign equities	-6,714	4,017	768	454	4,841	6,456	6,068	-2,679	5,718	4,490	20,053	23,419
Short-term assets	-79	-67	-84	-88	-79	-57	-137	28	0	0	-166	-563

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

(Note 2) The returns (market value basis) for the period from fiscal year 2008 to 2015 represent the modified total returns.

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

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

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

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

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

- The value of investment assets as of the end of fiscal year 2017 was ¥22,950 billion, representing the sum of the figures for the Employees' Pension Insurance Benefit Adjustment Fund, the Annuity Retirement Benefit Adjustment Fund and the Transitional Long-term Benefit Adjustment Fund.
- Concerning the asset mix, the share of domestic bonds in the mix declined, while the shares of other asset classes increased.

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

	End of FY2008		End of FY2009		End of FY2010		End of FY2011		End of FY2012	
	Value of investment assets (Unit: JPY100M)	Share	Value of investment assets (Unit: JPY100M)	Share	Value of investment assets (Unit: JPY100M)	Share	Value of investment assets (Unit: JPY100M)	Share	Value of investment assets (Unit: JPY100M)	Share
Domestic bonds	103,437	71.4%	100,974	65.0%	97,282	62.9%	96,603	60.9%	105,637	60.5%
Domestic equities	12,785	8.8%	20,663	13.3%	21,934	14.2%	24,398	15.4%	26,295	15.1%
Foreign bonds	14,008	9.7%	15,517	10.0%	15,147	9.8%	16,078	10.1%	18,502	10.6%
Foreign equities	8,424	5.8%	12,962	8.3%	16,522	10.7%	19,235	12.1%	20,442	11.7%
Short-term assets	6,278	4.3%	5,283	3.4%	3,804	2.5%	2,231	1.4%	3,638	2.1%
Total	144,932	100.0%	155,401	100.0%	154,689	100.0%	158,545	100.0%	174,515	100.0%

	End of FY2013		End of FY2014		End of FY2015		End of FY2016		End of FY2017	
	Value of investment assets (Unit: JPY100M)	Share	Value of investment assets (Unit: JPY100M)	Share	Value of investment assets (Unit: JPY100M)	Share	Value of investment assets (Unit: JPY100M)	Share	Value of investment assets (Unit: JPY100M)	Share
Domestic bonds	108,390	57.3%	106,492	50.5%	90,472	44.0%	86,288	40.2%	83,033	36.2%
Domestic equities	30,524	16.1%	45,441	21.6%	45,512	22.1%	56,894	26.5%	62,794	27.4%
Foreign bonds	21,101	11.1%	23,986	11.4%	24,497	11.9%	26,310	12.3%	32,714	14.3%
Foreign equities	25,890	13.7%	31,899	15.1%	35,778	17.4%	44,915	20.9%	50,205	21.9%
Short-term assets	3,378	1.8%	2,867	1.4%	9,338	4.5%	97	0.0%	755	0.3%
Total	189,284	100.0%	210,685	100.0%	205,596	100.0%	214,504	100.0%	229,500	100.0%

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

Changes in shares by asset class and by investment methodology

Changes in shares by asset class and by investment methodology

			End of FY2013	End of FY2014	End of FY2015	End of FY2016	End of FY2017
Domestic bonds	Passive		30.51%	32.00%	37.42%	36.62%	41.52%
	Active	Entrusted investment	9.81%	10.30%	12.22%	13.42%	16.29%
		Others	59.68%	57.70%	50.35%	49.96%	42.19%
Domestic equities	Passive		60.82%	58.37%	59.59%	63.02%	60.13%
	Active		39.18%	41.63%	40.41%	36.98%	39.87%
Foreign bonds	Passive		64.40%	64.24%	51.58%	57.75%	63.53%
	Active		35.60%	35.76%	48.42%	42.25%	36.47%
Foreign equities	Passive		82.82%	79.42%	79.37%	81.55%	82.15%
	Active		17.18%	20.58%	20.63%	18.45%	17.85%

(Note 1) The figures for the period from the end of fiscal year 2013 to the end of fiscal 2014 represent shares by asset class and by methodology for the Long-term Benefit Fund.

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

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

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

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

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

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

		FY2013			FY2014			FY2015			FY2016			FY2017		
		Cancellation, etc.	New	End of FY	Cancellation, etc.	New	End of FY	Cancellation, etc.	New	End of FY	Cancellation, etc.	New	End of FY	Cancellation, etc.	New	End of FY
Domestic bonds	Passive	0	0	3	0	0	3	0	0	3	0	0	3	0	0	3
	Active	0	0	7	0	0	7	-2	6	11	0	0	11	0	3	14
Domestic equities	Passive	0	0	4	0	4	8	0	0	8	0	0	8	0	0	8
	Active	0	0	14	0	18	32	-3	7	36	0	0	36	-1	0	35
Foreign bonds	Passive	0	0	5	0	0	5	0	2	7	0	0	7	0	0	7
	Active	0	0	6	0	0	6	0	11	17	0	0	17	0	0	17
Foreign equities	Passive	0	0	4	0	0	4	0	0	4	0	0	4	0	0	4
	Active	0	2	7	-1	10	16	0	0	16	0	0	16	-1	0	15
Alternative		0	0	0	0	0	0	0	1	1	0	5	6	0	5	11
Total		0	2	50	-1	32	81	-5	27	103	0	5	108	-2	8	114
Asset administration institutions		0	0	5	0	0	5	-1	0	4	0	0	4	0	0	4

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

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

Issues Held

The tables below show the top 10 bond issues held through mandatory and in-house investment and the top 10 bond and equity issues indirectly held through entrusted investment as of the end of March 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 Association.)

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

○Domestic bond

No.	Names of issuer	Total market value (Unit: JPY100M)
1	Government of Japan	17,948
2	Japan Finance Organization for Municipalities	15,904
3	Osaka Prefectural Government	425
4	Japan Expressway Holding and Debt Repayment Agency	425
5	Joint LGB	341
6	The Norinchukin Bank	253
7	Japan Housing Finance Agency	247
8	Shinkin Central Bank	223
9	Tokyo Metropolitan Government	157
10	Central Nippon Expressway	111
Total	296 issuers	39,546

○Foreign bond

No.	Names of issuer	Total market value (Unit: JPY100M)
1	UNITED STATES OF AMERICA	5,862
2	REPUBBLICA ITALIANA	1,709
3	REPUBLIQUE FRANCAISE	1,393
4	BUNDESREPUBLIK DEUTSCHLAND	1,357
5	UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND	1,064
6	SPAIN, KINGDOM OF	995
7	AUSTRALIA, COMMONWEALTH OF	473
8	CANADA	338
9	ROYAUME DE BELGIQUE	325
10	NETHERLANDS, KINGDOM OF	226
Total	449 issuers	16,585

○Domestic equity

No.	Names of issuer	No. of shares	Total market value (Unit: JPY100M)
1	Toyota Motor Corporation	11,882,900	824
2	Mitsubishi UFJ Financial Group	88,529,900	625
3	Sumitomo Mitsui Financial Group	10,521,000	477
4	Nippon Telegraph and Telephone Corporation	8,787,600	437
5	Softbank Group	5,244,700	418
6	Sony Corporation	7,684,600	396
7	Honda Motor Co.,Ltd.	10,597,500	390
8	Keyence Corporation	538,000	356
9	KDDI Corporation	11,468,800	317
10	Mitsubishi Corporation	9,987,000	291
Total	2,132 Issues		30,482

○Foreign equity

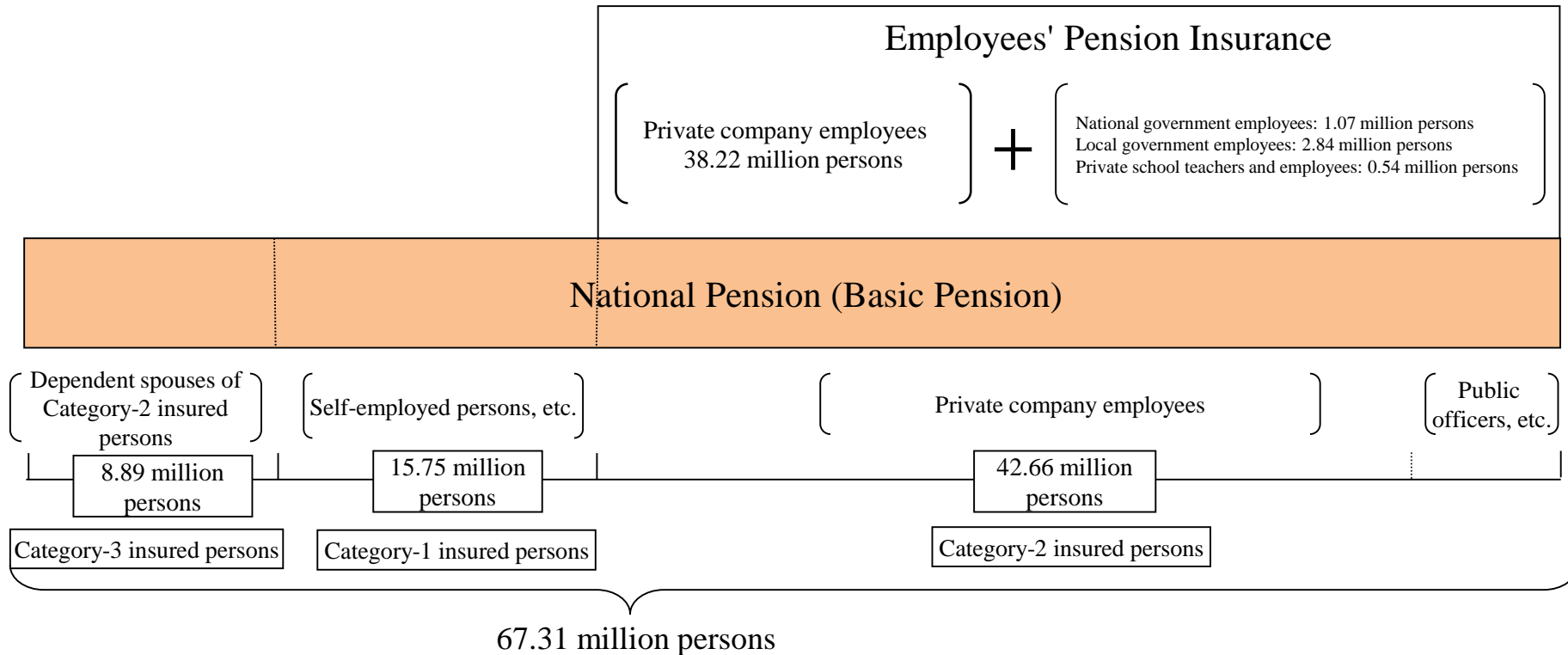
No.	Names of issuer	No. of shares	Total market value (Unit: JPY100M)
1	APPLE INC	2,676,925	478
2	MICROSOFT CORPORATION	3,992,918	388
3	AMAZON COM INC	221,022	340
4	FACEBOOK INC-A	1,280,686	218
5	JPMORGAN CHASE & CO	1,734,693	203
6	ALPHABET INC-CL C	182,500	200
7	JOHNSON AND JOHNSON	1,347,929	184
8	ALPHABET INC-CL A	162,467	179
9	BANK OF AMERICA CORP	5,153,142	165
10	EXXON MOBIL CORPORATION	2,006,966	159
Total	2,544 Issues		24,355

(Note 1) The names of bond issuers and equity issues are those provided by the T-STAR/GX system of the Nomura Research Institute, the BARRA ONE system of MSCI or by Bloomberg as of May 2018.

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

Employee Pension Plans

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

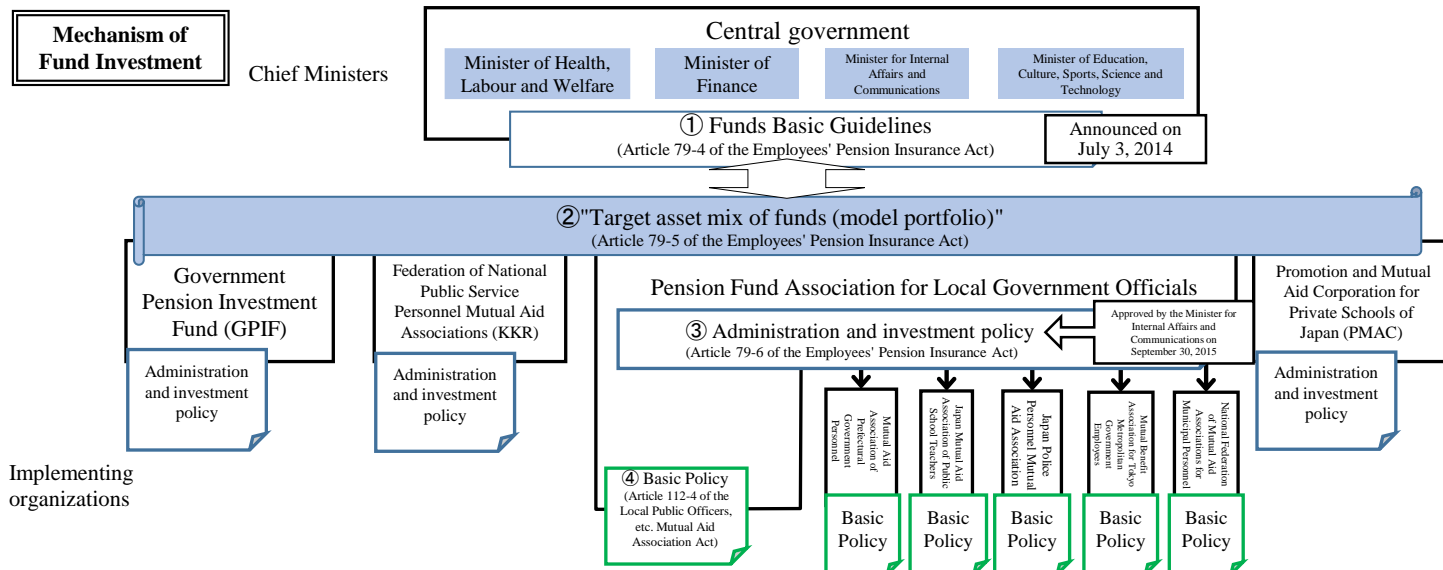


(Note) The number of people who are members of corporate pension plans among those who are members of the Employees' Pension Insurance plan is 15.48 million.
(Breakdown: Employees' Pension Fund : 1.39 million people; defined-benefit corporate pension plans: 8.18 million people; defined-contribution pension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

Investment of Funds

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

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



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%.

Chronology of the Association's stewardship activity

2002	May	Instructed trust banks to exercise voting rights based on specified comprehensive trust contracts.
2003	June	Made revisions so as to require entrusted investment management institutions to exercise voting rights based on discretionary investment contracts.
2004	April	Established the "Corporate Governance Principles of Pension Fund Association for Local Government Officials." Established the "Guidelines for Exercising Shareholders' Voting Rights." Instructed entrusted investment management institutions to exercise voting rights in line with the Guidelines.
2005	June	Announced the "Pension Fund Association for Local Government Officials' Approach to Proposals on Takeover Defense Measures."
2006	March	Revised the "Guidelines for Exercising Shareholders' Voting Rights." • Requested the establishment of the outside director post • Specified the definition of antisocial acts • Established the takeover defensive measure item
2007	March	Revised the "Guidelines for Exercising Shareholders' Voting Rights." • Tolerated non-exercise of voting rights related to companies' own shares and shares of parent companies with the risk of conflict of interest.
2008	March	Revised the "Guidelines for Exercising Shareholders' Voting Rights." • Added appropriation of surplus to the scope of factors that should be considered in relation to proposals for the election of directors.
2009	March	Revised the "Guidelines for Exercising Shareholders' Voting Rights." • Incorporated the viewpoint of undervalued dividends into appropriation of surplus. • Requested that shareholders' proposals be as closely examined as companies' proposals are. • Clarified the criteria for antisocial acts. Revised the "Pension Fund Association for Local Government Officials' Approach to Proposals on Takeover Defense Measures." • Added non-support for indefinite extension of the period of consideration by takeover targets.
2010	February	Started entrusted investment in SRI funds concerning domestic stocks.
	March	Revised the "Pension Fund Association for Local Government Officials' Approach to Proposals on Takeover Defense Measures." • Made an explicit reference to the independence of third-party committees.
2011	March	Revised the "Corporate Governance Principles of Pension Fund Association for Local Government Officials." • Unified wordings and clarified the contents. Revised the "Guidelines for Exercising Shareholders' Voting Rights." • Shifted to case-by-case judgment concerning proposals for the election of special directors. • Adopted case-by-case judgment concerning stock options whose exercise price is lower than the market price. Revised the "Pension Fund Association for Local Government Officials' Approach to Proposals on Takeover Defense Measures." • Decided that when the requirements for the initiation of takeover defense measures are clear and leave no room for discretion, the measures may be voted for even if importance is not attached to the judgment of independent outside persons.
2013	March	Revised the "Guidelines for Exercising Shareholders' Voting Rights." • Requested that consideration be given to the attendance rate, etc. in the re-election of outside directors and outside auditors.
2014	May	Signed up to Japan's Stewardship Code. Revised the "Guidelines for Exercising Shareholders' Voting Rights." • Added descriptions corresponding to the footnotes to Principle 2 (prevention of conflicts of interest) and Principle 5 (voting rights related to stock lending) of Japan's Stewardship Code. Newly adopted ESG funds concerning domestic stocks.
2015	March	Revised the "Corporate Governance Principles of Pension Fund Association for Local Government Officials." • Added descriptions concerning the use of independent outside directors and directors who are not executive directors. • Added descriptions concerning requests for corporate management teams to disclose information, including non-financial information. • Added descriptions concerning requests for corporate management teams to conduct active dialogue with investors. Revised the "Guidelines for Exercising Shareholders' Voting Rights." • Requested that consideration be given to the situation of concurrent assumption of executive posts at other companies at the time of re-election of outside directors and outside auditors. • Decided that negative judgment be made concerning takeover defense measures in principle
	October	Established the "Administration and Investment Policy" and the "Basic Policy" in association with the unification of pension systems.
	December	• Specified measures to fulfill the stewardship responsibilities. Newly adopted two ESG funds concerning domestic stocks
2016	March	Revised the "Guidelines for Exercising Shareholders' Voting Rights." • Changed the name to the Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities) and unified wordings in association with the establishment of Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities).
	April	Established the Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities). Instructed entrusted investment management institutions to exercise voting rights in line with the Guidelines.
2017	November	Signed up to Japan's Stewardship Code (Revised Version)

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 Adjustment Fund

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

○ Employees' Pension Insurance Benefit Adjustment Fund

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

○ Annuity Retirement Benefit Adjustment Fund

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