

Fiscal Year 2018

Review of Operations

Annuity Retirement Benefit Fund

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

[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.

National Federation: 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

PMAC: Promotion and Mutual Aid Corporation for Private Schools of Japan

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)

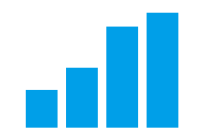
Fiscal Year 2018 Investment Results (Overview)



Investment return: **+0.48%**



Investment income: **+¥3.9 billion**



Value of investment assets:
(As of the end of March 2019)

¥963.9 billion

As pension investment funds are intended for long-term investment, the investment status must be judged from the long-term perspective.

Administration and Investment of Funds in FY2018

1 Investment results

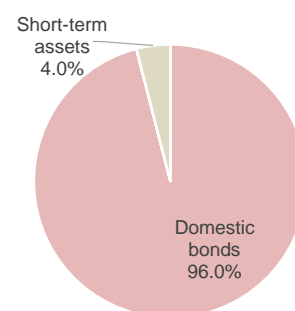
(1) Asset mix

The shares in the asset mix were as follows:

	End of FY2017	FY2018				Benchmark Portfolio
		End of Q1	End of Q2	End of Q3	End of FY	
Domestic bonds	95.8	92.6	95.3	93.1	96.0	100.0
Short-term assets	4.2	7.4	4.7	6.9	4.0	-
Total	100.0	100.0	100.0	100.0	100.0	100.0

(Unit: %)

Composition by Investment Asset Class
(as of end of FY2018)



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

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

(Note 3) Real estate, loan, etc. are included in domestic bonds.

(2) Investment return

The realized return came to 0.48%.

Domestic bonds held by the Annuity Retirement Benefit Fund were evaluated based on book value on the premise of continued holding until maturity.

	FY2018				
	Q1	Q2	Q3	Q4	FY total
Realized return (book value basis)	0.12	0.12	0.12	0.12	0.48
Domestic bonds	0.13	0.12	0.13	0.13	0.51
Short-term assets	0.00	0.00	0.00	0.00	0.00

(Unit: %)

(Reference)

(Unit: %)

	FY2018				
	Q1	Q2	Q3	Q4	FY total
Return (market value basis)	0.35	-0.99	1.65	1.56	2.82

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

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

(Note 3) The return (market value basis) represents the realized return (book value basis) adjusted for the effects of changes in valuation profits/losses that would arise if the assets are evaluated based on market value.

(Note 4) The realized return (book value basis) and return (market value basis) represent the figures after the deduction of fees.

(3) Investment income

The realized income (book value basis) was 3.9 billion yen.

(Unit: JPY100M)

	FY2018				
	Q1	Q2	Q3	Q4	FY total
Realized income (book value basis)	9	9	11	11	39
Domestic bonds	9	9	11	11	39
Short-term assets	0	0	0	0	0

(Reference)

(Unit: JPY100M)

	FY2018				
	Q1	Q2	Q3	Q4	FY total
Investment income (market value basis)	25	-79	139	146	231

(Note 1) Realized income (book value basis) represents the sum of trading profits/losses and interest and dividend income, etc.

(Note 2) The realized return (book value basis) and return (market value basis) represent the figures after the deduction of fees.

(Note 3) 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 4) Due to rounding, the total sum of individual figures may not necessarily add up to the FY total.

(4) Value of assets

The value of investment assets (book value basis) was ¥963.9 billion.

(Unit: JPY100M)

	End of FY2017			FY2018											
				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	6,581	6,602	20	6,929	6,976	47	7,767	7,721	-46	8,278	8,368	90	9,253	9,466	212
Short-term assets	290	290	0	553	553	0	387	387	0	617	617	0	386	386	0
Total	6,872	6,892	20	7,483	7,529	47	8,154	8,108	-46	8,894	8,985	90	9,639	9,852	212

(5) Fees

There are no fees related to investment because the full amount of funds of the Annuity Retirement Benefit Fund is invested in domestic bonds through in-house investment, etc.

2 Risk management

(1) 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.

Risk management for investment has been appropriately implemented in consideration of the following points: that investment of funds should be made safely and efficiently from a long-term perspective and the characteristics of a cash balance-type pension plan that links the benefit level to the government bond yield or other benchmarks.

Implementation policy for risk management concerning investment of the fund (excerpt)

1. Basic approach concerning risk management

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

(i) Investment of funds should be made safely and efficiently from a long-term point of perspective.

2. Risk management implementing entities and subjects of management

(1) Omitted

(2) Annuity Retirement Benefit Fund

(i) The Association conducts risk management for investment of the Annuity Retirement Benefit Adjustment Fund and the Annuity Retirement Benefit Association Reserve Fund (hereinafter referred to as "Annuity Retirement Benefit Fund").

(ii) The member associations conduct risk management for investment of the Annuity Retirement Benefit Association Reserve Fund (in the case of the Association, the Annuity Retirement Benefit Adjustment Fund).

(2) Risk management efforts

■ 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, for their assets as a whole, the Local Public Service Mutual Aid Associations (the "Associations") keep track of and manages the status of the deviation of the actual portfolio from the benchmark portfolio in terms of the asset mix.

■ Management of entrusted investment management institutions, etc.

The Associations require asset administration institutions to improve systems to fulfill the fiduciary responsibilities and ensure compliance and appropriately manage them by keeping track of their status of asset administration.

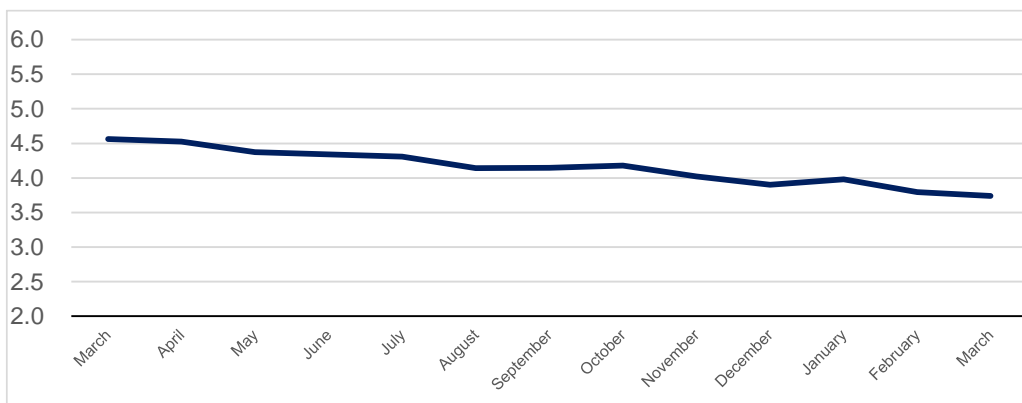
■ Reporting on the status of risk management and improvement measures implemented

The Associations report 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.

(3) Status of risk management

The full amount of funds of the Annuity Retirement Benefit Fund is invested in domestic bonds. The duration deviation from NOMURA-BPI Overall ranged from 3.7 years to 4.6 years.

【Change in deviation of domestic bonds durations against NOMURA-BPI Overall】



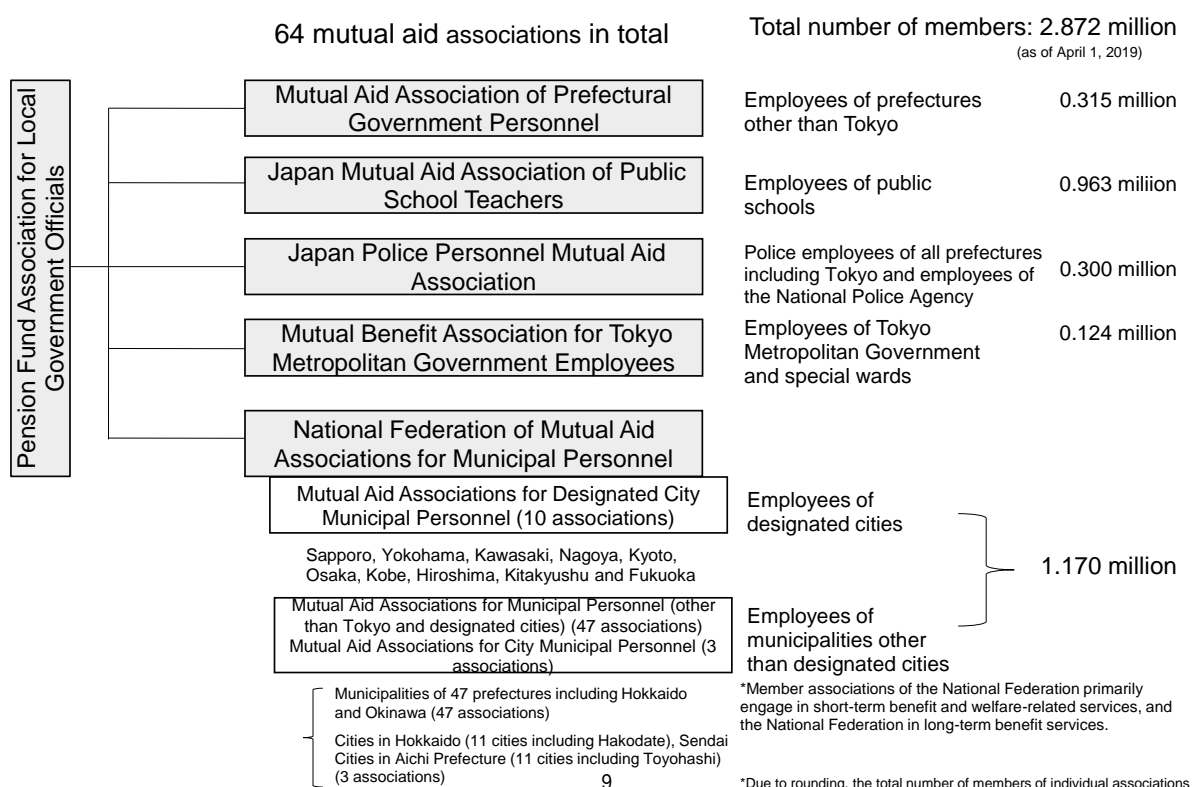
Governance and Fund Management of Local Public Service Mutual Aid Associations

1 Establishment

Article 43 of the Local Public Service Act provides "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." Based on this provision, the Local Public Officers, etc. Mutual Aid Association Act has been enacted.

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.

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. The Japan Mutual Aid Association of Public School Teachers and the Japan Police Personnel Mutual Aid Association became members in April 1990, and the Pension Fund Association for Local Government Officials has become a federation comprising all local public service mutual aid associations (64 associations as of April 1, 2019) and the National Federation of Mutual Aid Associations for Municipal Personnel.



2 Organization

(1) Governing Council

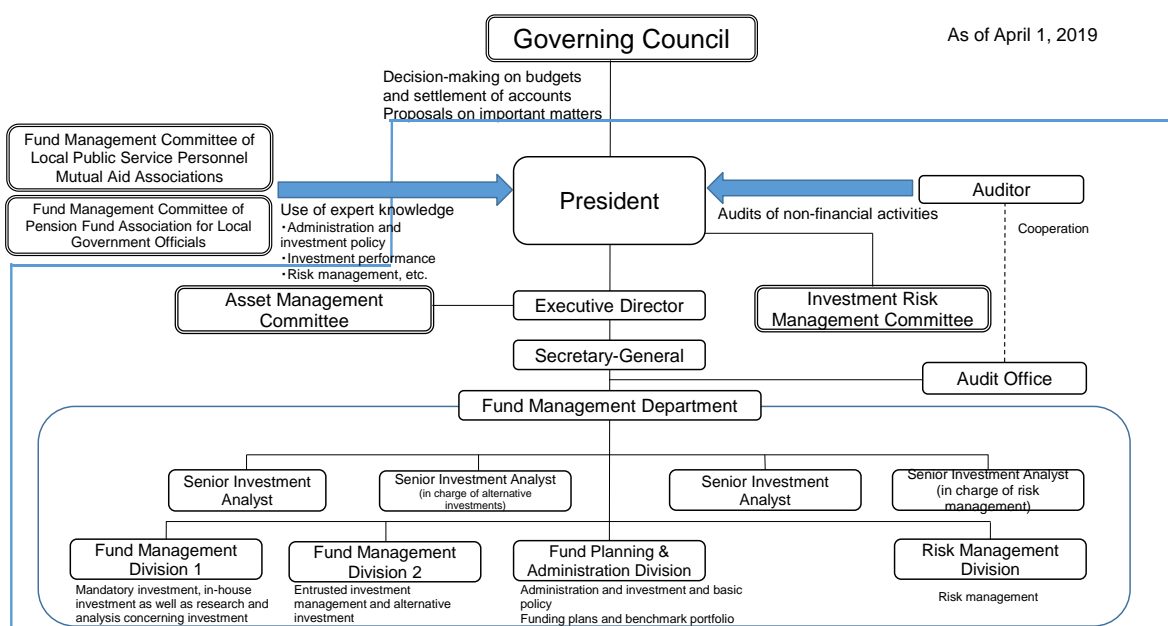
To amend the articles of incorporation and operating rules, and study and discuss the business plans, budgets, and settlement of accounts for each business year and other important operating matters, governing councils and other committees have been established at

the Associations. These matters are to be decided through deliberations by the governing councils, etc.

The designations, etc. of the governing councils and other committees at the Associations are as follows.

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

■(Reference) Governance structure for Pension Fund Association for Local Government Officials)



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

■Outline of Fund Management Committee of Local Public Service Personnel Mutual Aid Associations

To study expert matters pertaining to the administration and investment of funds based on the Basic Policy for Management and Investment of Annuity Retirement Benefit Adjustment Fund, the Fund Management Committee of Local Public Service Personnel Mutual Aid Associations has been established, which is comprised of individuals who possess academic knowledge or practical experience in areas such as economics, finance, and fund management (the "Fund Management Committee").

The committee can express its opinions on important matters upon request from the President concerning expert matters related to the administration and investment of each fund.

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

■List of Fund Management Committee Members (As of April 2019)

Hidetaka Kawakita	Kyoto University, Professor Emeritus
Konosuke Kita	Russell Investments Japan Co., Ltd. Executive Consultant/Director, Consulting
Hisae Sato	Chief Investment Officer, NISSAN MOTOR, LTD.
Toshio Serita	Professor, Department of Economics, Aoyama Gakuin University
Yoshiko Takayama	J-Eurus IR Co., Ltd. Managing Director
Hitoshi Takehara	Professor, Waseda Business School (Graduate School of Business and Finance)
Katsuyuki Tokushima	NLI Research Institute, Financial Research Department, Chief Fixed Income Analyst
Kazuya Nagasawa	Head of North Asia, Managing Director MSCI, Inc.
Kazuyo Hachisuka	Executive Senior Vice President, Japan Economic Research Institute Inc.
Masahiro Morimoto	All-Japan Prefectural and Municipal Workers Union General Manager, Central Executive Committee Bureau of Labor
Chairperson Takaaki Wakasugi	Executive Director, Michigan University-Mitsui Life Financial Research Center

■ Matters for deliberation and report by the Fund Management Committee

Deliberation matters	Reporting matters
<ul style="list-style-type: none"> - Matters concerning formulation and revision of the model portfolio - Matters concerning formulation and revision of administration and investment policy - Matters concerning formulation and revision of risk management implementation policy - Matters concerning formulation and revision of investment policy for new investment instruments - Other expert matters concerning the administration and investment of each fund 	<ul style="list-style-type: none"> - Investment performance - Status of risk management - Investment status of new investment instruments - Status of training and nurturing of expert personnel - Other matters required by the committee concerning the administration and investment of each fund

■ Past Meetings of the Fund Management Committee

Meeting number	Meeting date	Main theme
21st Meeting	June 19, 2018	<ul style="list-style-type: none"> • Changes in the administration and investment policy, etc. • Review of Operations reports concerning administration and investment of individual funds in FY2017 • Status of risk management of individual funds in FY2017 • Examination of the benchmark portfolio of the Annuity Retirement Benefit Fund • Alternative investment concerning the Transitional Long-term Benefit Adjustment Fund
22nd Meeting	November 9, 2018	<ul style="list-style-type: none"> • Status of investment of individual funds in the first and second quarters of FY2018 • Status of risk management of individual funds in the first and second quarters of FY2018 • Actuarial valuation concerning the Annuity Retirement Benefit Fund
23rd Meeting	February 25, 2019	<ul style="list-style-type: none"> • Study on the revision of the benchmark portfolio of the Annuity Retirement Benefit Fund • Status of investment of individual funds in the third quarter of FY2018 • Status of risk management of individual funds in the third quarter of FY2018
24th Meeting	March 20, 2019	<ul style="list-style-type: none"> • Examination of the benchmark portfolio of the Employees' Pension Insurance Benefit Fund • Examination of the benchmark portfolio of the Transitional Long-term Benefit Fund

(3) Committee of specialists

For expert matters pertaining to the administration and investment of implementing organization funds, including the formulation and revision of basic policy, the Associations utilize committees of experts comprised of

individuals who possess academic knowledge or practical experience in areas such as economics, finance and fund investments.

The names of the committees of specialists of the Associations are as follows:

Names of associations	Names of committees
Mutual Aid Association of Prefectural Government Personnel	Pension Asset Management Committee
Japan Mutual Aid Association of Public School Teachers	Asset Management Committee
Japan Police Personnel Mutual Aid Association	Study Group on Fund Management Issues, Japan Police Personnel Mutual Aid Association Headquarters
Mutual Benefit Association for Tokyo Metropolitan Government Employees	Study Group on Fund Management
National Federation of Mutual Aid Associations for Municipal Personnel	Fund Management Committee
Pension Fund Association for Local Government Officials	Fund Management Committee of Pension Fund Association for Local Government Officials

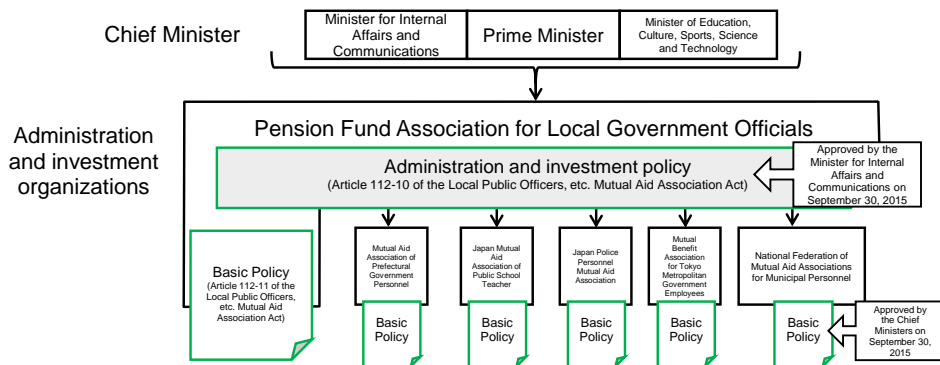
3 Investment of funds

(1) Mechanisms

The Pension Fund Association for Local Government Officials formulates Administration and Investment Policy (including the portfolio at Local Public Service Mutual Aid Associations), which serves as the common policy for the Local Public Service Personnel Mutual Aid Associations, etc. (the implementing organizations). (Article 112-10 of the Local Public Officers, etc. Mutual Aid Association Act).

A Basic Policy (including the benchmark portfolio) pertaining to administration and investment of funds is formulated at Local Public Service Personnel Mutual Aid Associations, etc. so as to conform to the Administration and Investment Policy set by the Pension Fund Association for Local Government Officials. (Article 112-11 of the Local Public Officers, etc. Mutual Aid Association Act)

【Mechanism of fund investment after the integration】



(2) Basic approach to investment

■ Basic policy

As a basic policy, funds shall be invested for the purpose of contributing to the stable management of annuity retirement pension benefits operations in light of the characteristics of a cash balance-type pension program, whose benefit level is linked to the government bond yield or other benchmarks.

The benchmark portfolio shall be determined

and appropriately managed so as to secure the necessary investment return (meaning the assumed return (the assumed return as stipulated in Article 28, Paragraph (5) of the Ordinance for Enforcement of Local Public Officers, etc. Mutual Aid Association Act)) at the minimum risk.

