

Fiscal Year 2018

Review of Operations

Employees' Pension Insurance 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)

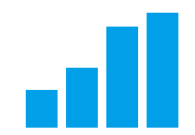
Fiscal Year 2018 Investment Results (Overview)



Investment return: **+1.27%**



Investment income: **+¥269.6 billion**



Value of investment assets:

(As of the end of March 2019)

¥21,280.7 billion

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.

Administration and Investment of Funds in FY2018

1 Investment results

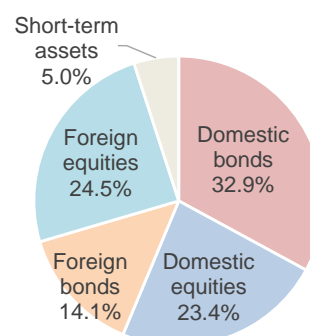
(1) Asset mix

The asset mix changed as follows as a result of market value fluctuations and rebalancing, among other factors.

	End of FY2017	FY2018				Benchmark Portfolio
		End of Q1	End of Q2	End of Q3	End of FY	
Domestic bonds	34.3	34.1	32.0	35.3	32.9	35.0
Domestic equities	25.2	25.3	25.4	23.3	23.4	25.0
Foreign bonds	13.6	14.0	13.6	14.7	14.1	15.0
Foreign equities	21.4	23.8	24.4	23.2	24.5	25.0
Short-term assets	5.5	2.8	4.5	3.5	5.0	-
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) Deviation tolerances from the benchmark portfolio are $\pm 15\%$ for domestic bonds, $\pm 14\%$ for domestic equities, $\pm 6\%$ for foreign bonds and $\pm 12\%$ for domestic equities.

(Note 2) Due to rounding, the total sum of individual figures may not necessarily add up to 100%.

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

(Note 4) The ratio of alternative assets to the total amount of funds is 0.3% (the upper limit is 5%).

(2) Investment return

The return (market value basis) came to 1.27% due to such factors as a rise in foreign equity prices.

(Unit: %)

	FY2018				
	Q1	Q2	Q3	Q4	FY total
Return (market value basis)	1.54	3.10	-8.49	5.74	1.27
Domestic bonds	0.20	-0.72	1.08	1.09	1.62
Domestic equities	0.82	5.83	-17.84	7.64	-5.54
Foreign bonds	0.78	1.52	-2.50	2.86	2.60
Foreign equities	5.14	7.01	-15.76	13.83	7.72
Short-term assets	0.00	0.00	-0.00	0.00	-0.00

(Unit: %)

	FY2018				
	Q1	Q2	Q3	Q4	FY total
Realized return (book value basis)	1.02	0.82	0.50	0.70	3.03

(Note 1) Unless otherwise specified, the return (market value basis) refers to the modified total return after the deduction of fees.

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

(Note 3) The realized return (book value basis) represents the figure after the deduction of fees.

(3) Excess return

The return (market value basis) for overall assets was 1.27%, while the excess return over the benchmark was -0.85%.

Regarding the asset allocation factor, positive contributions came from underweighting in domestic equities, for which the benchmark return was negative compared with the benchmark return for overall assets. However, the excess return due to the asset allocation factor was -0.14% because of the negative

effects of underweighting in foreign equities, for which the benchmark return was positive compared with the benchmark return for overall assets, and holding of short-term assets.

The excess return due to the individual asset factor was -0.35%, mainly because the returns (market value basis) on domestic bonds and domestic and foreign equities were lower than the benchmark returns.

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities	Overall assets
Return (market value basis)	1.62%	-5.54%	2.60%	7.72%	1.27%
Benchmark return	1.89%	-5.04%	2.46%	8.33%	2.12%
Excess return	-0.27%	-0.50%	0.14%	-0.61%	-0.85%

* 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	0.00%	-0.10%	-0.12%	-0.21%
Domestic equities	0.03%	-0.12%	-0.09%	-0.19%
Foreign bonds	-0.00%	0.02%	-0.05%	-0.04%
Foreign equities	-0.08%	-0.15%	-0.08%	-0.31%
Short-term assets	-0.08%	0.00%	-0.01%	-0.10%
Total	-0.14%	-0.35%	-0.36%	-0.85%

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

(4) Investment income

Investment income (market value basis) was ¥269.6 billion.

(Unit: JPY100M)

	FY2018				
	Q1	Q2	Q3	Q4	FY total
Investment income (market value basis)	3,222	6,582	-18,631	11,524	2,696
Domestic bonds	145	-515	760	762	1,152
Domestic equities	439	3,103	-10,068	3,544	-2,982
Foreign bonds	226	449	-753	840	762
Foreign equities	2,411	3,545	-8,570	6,378	3,765
Short-term assets	0	0	-0	0	-0

(Unit: JPY100M)

	FY2018				
	Q1	Q2	Q3	Q4	FY total
Realized income (book value basis)	1,862	1,506	931	1,315	5,614

(Note 1) The investment income (market value basis) represents the income after the deduction of fees.

(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. after the deduction of fees.

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

(5) Value of assets

Value of investment assets (market value basis) was ¥21,280.7 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	70,482	73,161	2,680	68,692	71,381	2,689	68,698	70,659	1,961	67,542	70,116	2,574	67,165	70,055	2,890
Domestic equities	41,852	53,724	11,872	41,541	53,062	11,521	41,829	56,174	14,345	42,477	46,213	3,736	43,052	49,758	6,707
Foreign bonds	29,511	29,075	-436	29,425	29,308	-117	29,822	30,012	190	29,979	29,259	-720	30,310	30,111	-200
Foreign equities	33,510	45,811	12,301	35,715	49,930	14,214	36,751	53,967	17,215	37,781	45,988	8,207	38,119	52,221	14,102
Short-term assets	11,806	11,806	-0	5,953	5,953	-0	10,020	10,020	0	6,986	6,986	-0	10,662	10,662	-0
Total	187,161	213,577	26,416	181,326	209,633	28,307	187,121	220,832	33,711	184,764	198,561	13,797	189,308	212,807	23,499

Allocation changes of each asset class as a result of rebalancing

(Unit: JPY100M)

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Amount of funds allocated/withdrawn	-4,257	-983	272	2,646

(Note) The amount of funds allocated or withdrawn is the amount of cash balance (cash-in and cash-out) other than investment income.

(6) Fees

The amount of fees totaled ¥11.9 billion. The fee rate relative to the value of investment assets came to 0.06%.

(Unit: JPY100M, %)

	FY2018	
	Fee	Fee rate
Domestic bonds	23	0.03
Domestic equities	42	0.08
Foreign bonds	16	0.05
Foreign equities	39	0.08
Overall assets	119	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.

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.

The Pension Fund Association for Local Government Officials, in accordance with the

implementation policy for risk management concerning investment of managed fund as an administration and investment organization, and the Local Public Service Mutual Aid Associations (the "Associations"), in accordance with the implementation policy for risk management concerning investment of the Employees' Pension Insurance Benefit Fund as implementing organizations, appropriately implement risk management concerning investment in consideration of the following points: that investment of funds should be made safely and efficiently from a long-term perspective; and that diversified investments should be maintained in principle.

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.
- (ii) A benchmark portfolio should be developed and investment of funds should be made on the principle of managing funds through appropriate diversification across multiple asset classes with different risk/return profiles and other characteristics (hereinafter referred to as "diversified investment").

2. Risk management implementing entities and subjects of management

(1) Employees' Pension Insurance Scheme Managed Fund

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

(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. As the asset mix constantly changes due to asset price fluctuations, the Associations keep track of the

status of the deviation of the asset mix of the actual portfolio from that of the benchmark portfolio and manage the actual portfolio so as to keep the degree of deviation within a certain range (deviation tolerance). In this way, the Associations check whether or not there are problems such as a deviation from the benchmark portfolio in excess of the deviation tolerance.

■ Monitoring of market risk, etc.

The Associations monitor 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 they also use active investment in their investment of funds, the Associations seek to earn an excess rate of return over the benchmark

by diversifying investment strategies and investment issues within each asset class.

Therefore, the Associations monitor the status of market risk (price volatility risk, etc. in each asset market), credit risk (default risk), etc. with respect to each asset class, mainly from the viewpoint of difference from the benchmark for each asset class.

■ Management of entrusted investment management institutions, etc.

The Associations manage liquidity risk (risk that purchasing and selling assets will become difficult due to a decline in trading volume) from the viewpoint of revising asset allocations (rebalancing) and smooth conversion of assets into cash. In addition, as the member associations entrust the operation of some investment-related activities to external institutions under their asset investment

systems, the Associations manage the status of management (status of risk management and asset administration) of the institutions to which they entrust asset management or asset administration (entrusted investment management institutions and asset administration institutions), from the viewpoint of smooth operation by individual institutions.

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

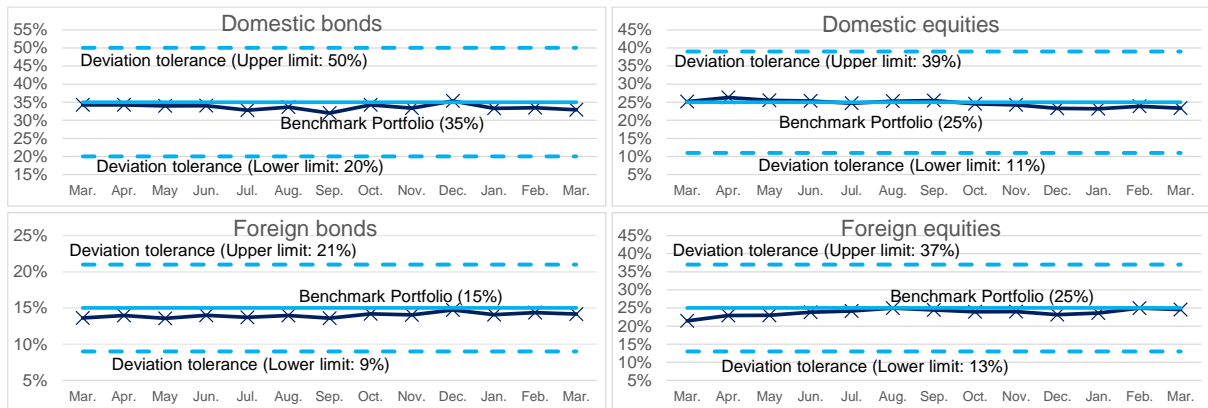
The status of risk management and improvement measures implemented are reported to the committee of specialists and the Governing Council.

(3) Status of risk management

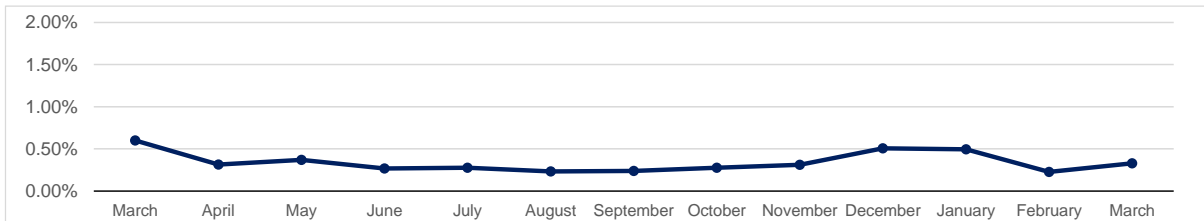
The shares in the asset mix concerning all asset classes—domestic bonds, domestic equities, foreign bonds and foreign equities—stayed within the deviation tolerance.

The estimated tracking error concerning overall assets did not show significant movements and remained stable.

【Changes in the asset mix】



【Changes in the estimated tracking error concerning overall assets】



(Note) The estimated tracking error concerning overall assets represents the tracking error concerning the benchmark portfolio (composite benchmark).

3 Alternative assets

■ Introduction of an Asset Manager Registration System

An Asset Manager Registration System is a system to accept entries from entrusted investment management institutions for investment funds on an ongoing basis for the purpose of selecting investment funds and concluding contracts and evaluates and selects investment funds on an ongoing basis. In July 2015, the Pension Fund Association for Local Government Officials introduced an Asset Manager Registration System for Alternative Investments and started receiving entries with respect to investment funds investing in real estate and infrastructure assets.

Subsequently, the Pension Fund Association for Local Government Officials added PE in

June 2016 and PD and bank loans in July 2018 to the scope of eligible investment instruments.

In July 2017, the National Federation started receiving entries with respect to investment products using domestic and foreign real estate assets as investment vehicles. In April 2018, domestic and foreign private equities and infrastructure assets were added to the scope of eligible investment instruments.

The Japan Mutual Aid Association of Public School Teachers has adopted a public invitation system instead of an Asset Manager Registration System. In fiscal year 2018, it made a public invitation with respect to privately-placed domestic REIT.

■ Selection of investment funds

Among the investment funds registered, the Associations carefully selected investment funds that were expected to deliver long-term returns and provide the diversified investment effect and conforming to the investment policies and selection criteria related to the investment strategy, based on a comprehensive evaluation from both quantitative and qualitative aspects. As of the end of fiscal year 2018, the Pension Fund Association for Local Government

Officials, the National Federation and the Japan Mutual Aid Association of Public School Teachers decided to adopt a total of 23 funds, and started the investment in 18 funds.

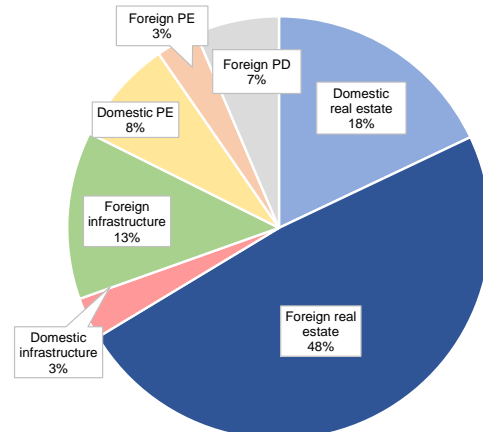
In the future, to seize opportunities for investing in superior investment funds likely to contribute to diversified investment, the Associations will continue to evaluate the investment funds and make selection.

【Number of funds adopted】

Investment fund	Number of funds adopted
Domestic real estate	5
Foreign real estate	6
Domestic infrastructure	1
Foreign infrastructure	4
Domestic PE	4
Foreign PE	1
Foreign PD	2
Total	23

*As of the end of FY2018

【Asset mix】



*Commitment basis as of the end of FY2018

4 Stewardship activities

(1) Stewardship responsibilities

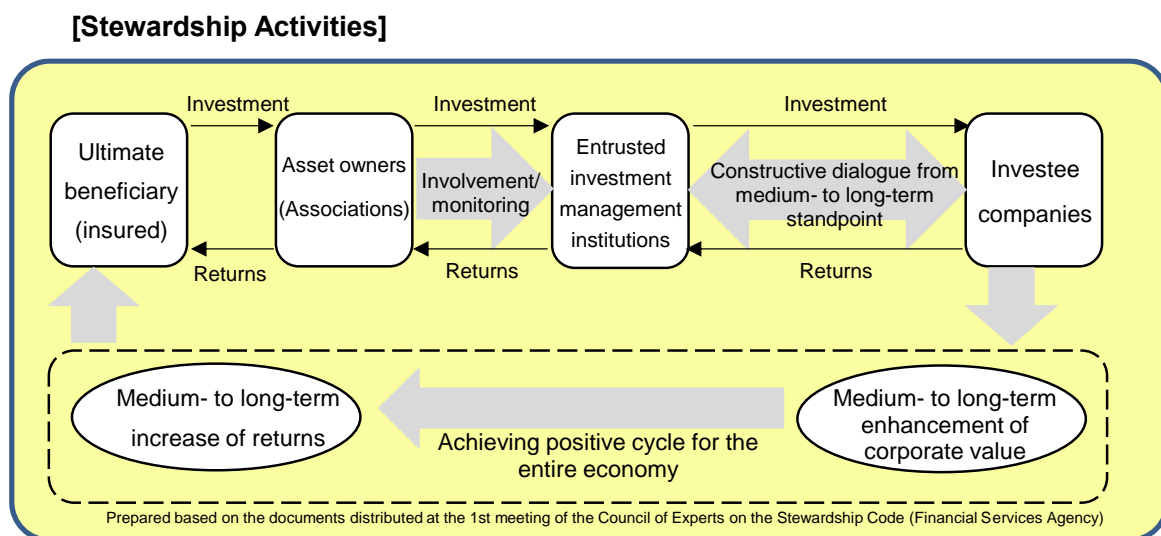
"Stewardship activities" refers to the activities of institutional investors to increase medium to long-term investment returns for their clients and beneficiaries by encouraging improvements in corporate value and sustainable growth of investee companies through means such as engagement (i.e. constructive "purposeful dialogue" based on a deep understanding concerning the investee companies, their business environment, and other factors).

Stewardship activities include the exercise of shareholders' voting rights, engagement, and ESG investment.

The Associations are required to fulfill their fiduciary responsibility of increasing the value

of their assets for the insured over the long term and social responsibility as public pension funds. In this connection, as the means to seek medium- to long-term enhancement of corporate value and sustainable growth of investee companies, the Associations have been proactively committed to effective stewardship activities.

The Associations instruct entrusted investment management institutions to exercise shareholders' voting rights after making appropriate judgment suited to the conditions of the investee companies because it is difficult for the Associations to make judgment concerning the details of companies' management decisions.



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

The Associations agree with the purpose of the Principles for Responsible Institutional

Investors <<Japan's Stewardship Code>>, established by the Financial Services Agency in February 2014, and announced their acceptance of the Code. In addition, following the revision of the Code, the Associations further clarified their approach to stewardship activities in November 2017.

The Pension Fund Association for Local Government Officials, the Japan Mutual Aid Association of Public School Teachers, the Japan Police Personnel Mutual Aid Association, and the National Federation started investing in ESG funds, and at present, they are entrusting investment in 10 domestic equity funds as ESG funds.

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

Regarding the Employees' Pension Insurance Benefit Fund, the Associations exercised voting rights through the 27 investment management institutions entrusted with domestic stock investment, with respect to a total of 36,847 companies which settled accounts between April 2017 and March 31, 2018. The number of proposals for which voting rights were exercised was 124,080.

Of the 124,080 proposals, 29,483 (including 3,475 shareholder proposals) were voted

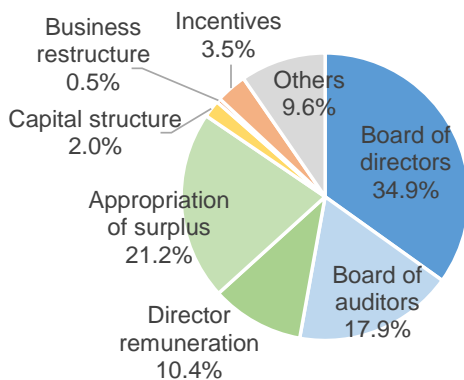
against, translating into a vote-against rate of 23.8% (up 1.0 point from the previous year).

The vote-against rate came to 39.1% (up 0.9 points) concerning proposals related to the board of directors/directors, 16.0% (up 3.3 points) concerning proposals related to the board of auditors/auditors and 20.5% (up 6.0 points) concerning proposals related to director remuneration, etc.

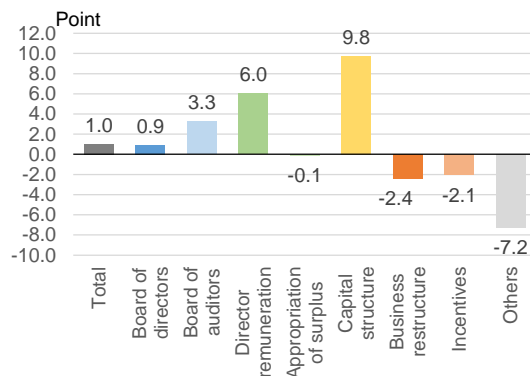
Voting activity (Companies with accounting settlement between April 2017 and March 2018)

Proposal Subject	Total	Composition	Vote for		Vote against		Vote-against rate in the previous year
				Rate		Rate	
Total	124,080	100%	94,597	76.2%	29,483	23.8%	22.7%
c.f. Shareholder Proposal	3,852	3.1%	377	9.8%	3,475	90.2%	93.7%
By Subject	124,080	100%	94,597	76.2%	29,483	23.8%	22.7%
Board of Directors/Directors	43,289	34.9%	26,362	60.9%	16,927	39.1%	38.2%
Board of Auditors/Auditors	22,263	17.9%	18,708	84.0%	3,555	16.0%	12.7%
Director Remuneration, etc.	12,954	10.4%	10,295	79.5%	2,659	20.5%	14.5%
Appropriation of Surplus	26,358	21.2%	25,019	94.9%	1,339	5.1%	5.2%
Capital Structure	2,434	2.0%	1,527	62.7%	907	37.3%	27.5%
Takeover Defense Measures	938	0.8%	72	7.7%	866	92.3%	82.8%
Capital Increase or Reduction	86	0.1%	83	96.5%	3	3.5%	0.0%
Third Party Allotment of Shares	60	0.0%	45	75.0%	15	25.0%	27.8%
Acquisition of Own Shares	24	0.0%	12	50.0%	12	50.0%	85.7%
Business Restructure	570	0.5%	552	96.8%	18	3.2%	5.5%
Incentives Improvement for Executives	4,293	3.5%	3,419	79.6%	874	20.4%	22.4%
Other proposals	11,919	9.6%	8,715	73.1%	3,204	26.9%	34.1%

Share by proposal subject



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



(3) Results of engagement activities (domestic equities)

Regarding the Employees' Pension Insurance Benefit Fund, in FY2017, the Associations implemented engagement with a total of 14,807 companies through 27 investment management institutions to which domestic stock investment was entrusted. The number of cases of dialogue was 36,531.

Regarding major subjects of engagement, the number of cases of dialogue concerning

management strategy issues, including management challenges, came to 11,535, or 31.6% of the total, followed by dialogue concerning corporate governance issues, including the composition of the board of directors with 8,857 cases (24.2%) and capital policy issues, including the shareholder return with 4,889 cases (13.4%).

Dialogue subject	Number of cases	Dialogues with top managers		
		Composition	Dialogues with top managers	Rate
Total	36,531	100.0%	8,181	22.4%
Dialogues concerning management strategy	11,535	31.6%	3,297	28.6%
Dialogues concerning corporate governance	8,857	24.2%	1,764	19.9%
Dialogues concerning capital policy	4,889	13.4%	1,230	25.2%
Dialogues concerning social issues	3,509	9.6%	716	20.4%
Dialogues concerning environmental issues	3,057	8.4%	368	12.0%
Other	2,829	7.7%	437	15.4%
Dialogues concerning information disclosure	1,855	5.1%	369	19.9%

Share by dialogue item



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

Regarding the Employees' Pension Insurance Benefit Fund, the Associations exercised voting rights through the 23 investment management institutions entrusted with foreign stock investment, with respect to a total of 17,082 companies which settled accounts between April 2017 and March 31, 2018. The number of proposals for which voting rights were exercised was 131,889.

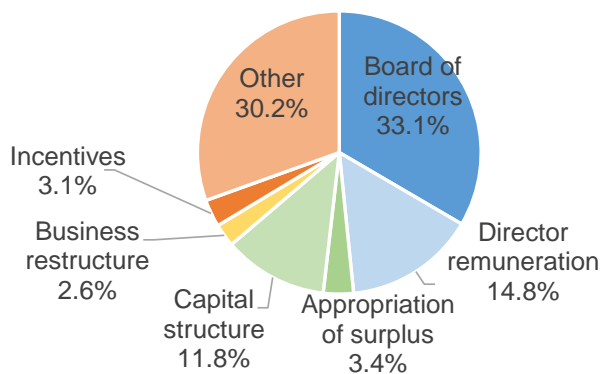
Of the 131,889 proposals, 14,352 (including 3,955 shareholder proposals) were voted against, translating into a vote-against rate of 10.9% (up 0.7 points from the previous year).

The vote-against rate came to 8.1% (up 0.7 points) concerning proposals related to the board of directors/directors and 10.4% (up 0.9 points) concerning proposals related to director remuneration.

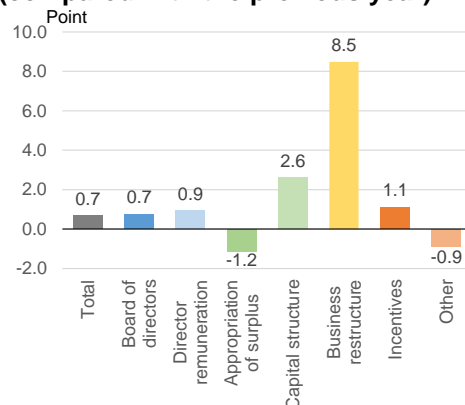
Voting activity (Companies with accounting settlement between April 2017 and March 2018)

Proposal Subject	Total	Composition	Vote for		Vote against		Vote-against rate in the previous year
				Rate		Rate	
Total	131,889	100%	117,537	89.1%	14,352	10.9%	10.2%
c.f. Shareholder Proposal	8,964	6.8%	5,009	55.9%	3,955	44.1%	49.6%
By Subject	131,889	100%	117,537	89.1%	14,352	10.9%	10.2%
Board of Directors/Directors	43,646	33.1%	40,091	91.9%	3,555	8.1%	7.4%
Board of Auditors/Auditors	1,177	0.9%	1,140	96.9%	37	3.1%	-
Director Remuneration, etc.	19,554	14.8%	17,515	89.6%	2,039	10.4%	9.5%
Appropriation of Surplus	4,546	3.4%	4,517	99.4%	29	0.6%	1.8%
Capital Structure	15,595	11.8%	13,099	84.0%	2,496	16.0%	13.4%
Takeover Defense Measures	821	0.6%	766	93.3%	55	6.7%	8.8%
Capital Increase or Reduction	6,749	5.1%	5,170	76.6%	1,579	23.4%	18.1%
Third Party Allotment of Shares	1,692	1.3%	1,515	89.5%	177	10.5%	0.8%
Acquisition of Own Shares	3,445	2.6%	3,258	94.6%	187	5.4%	2.7%
Business Restructure	3,454	2.6%	2,985	86.4%	469	13.6%	5.1%
Incentives Improvement for Executives	4,111	3.1%	3,239	78.8%	872	21.2%	20.1%
Other proposals	39,806	30.2%	34,951	87.8%	4,855	12.2%	13.1%

Share by proposal subject



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



* From the viewpoints of constraints related to the exercise of voting rights and additional cost burden, the exercise of voting rights is limited to 18 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, Thailand, Pakistan and China A Stock). (The underlined country and stock were newly added in April 2018 to the scope of foreign investments for which voting rights may be exercised.)

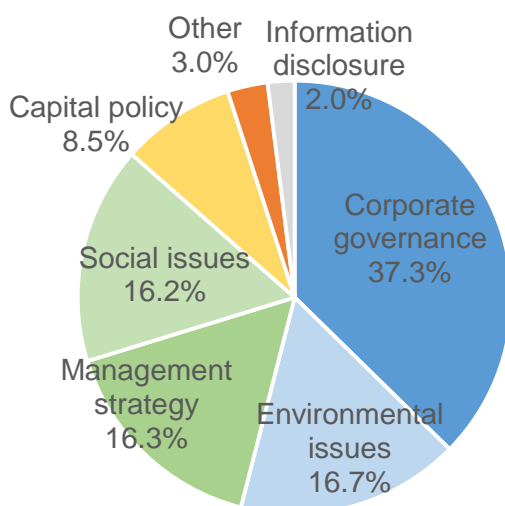
(5) Results of engagement activities (foreign equities)

Regarding the Employees' Pension Insurance Benefit Fund, in FY2017, the Associations implemented engagement with a total of 1,326 companies through 15 investment management institutions to which foreign stock investment was entrusted. The number of cases of dialogue was 10,192.

Regarding major subjects of engagement, the number of cases of dialogue concerning corporate governance came to 3,806, or 37.3% of the total, followed by dialogue concerning environmental issues with 1,697 cases (16.7%) and management strategy with 1,657 cases (16.3%).

Dialogue subject	Number of cases	Dialogues with top managers		
		Composition		Rate
Total	10,192	100.0%	1,481	14.5%
Dialogues concerning corporate governance	3,806	37.3%	242	6.4%
Dialogues concerning environmental issues	1,697	16.7%	119	7.0%
Dialogues concerning management strategy	1,657	16.3%	320	19.3%
Dialogues concerning social issues	1,654	16.2%	152	9.2%
Dialogues concerning capital policy	868	8.5%	308	35.5%
Other	306	3.0%	238	77.8%
Dialogues concerning information disclosure	204	2.0%	102	50.0%

Share by dialogue item



(6) ESG investment

■ESG investment initiative

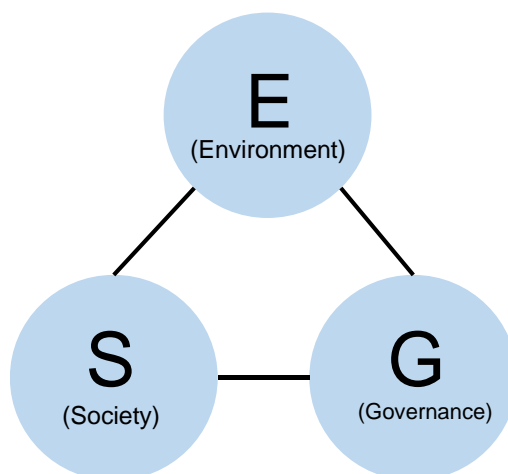
As the Associations invest pension funds over the long term, it is rational to aim to maximize the long-term return by paying attention not only to short-term business performance when making investment but also to factors related to sustainability, including ESG.

The Associations believe that they can simultaneously fulfill the fiduciary responsibility of increasing the value of stocks

for the insured persons over the long term and the social responsibility as public pension funds 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.

【ESG investment (as of the end of FY2018)】

Name	Start of investment	Number of funds	Total market value
Japan Mutual Aid Association of Public School Teachers	December 2014	3	25.2 billion yen
Japan Police Personnel Mutual Aid Association	April 2017	1	5.4 billion yen
National Federation of Mutual Aid Associations for Municipal Personnel	August 2012	2	5.5 billion yen
Pension Fund Association for Local Government Officials	February 2010	4	50.9 billion yen
Total		10	87 billion yen



(7) Future initiatives

The Associations will continue to actively conduct stewardship activity in order to simultaneously fulfill the fiduciary and social responsibilities.

■ Implementation of effective monitoring of entrusted investment management institutions

The Associations will continue to make sure that entrusted investment management institutions' stewardship activity is consistent with the Associations' policies 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 effective corporate governance.

■ Revision of the Corporate Governance Principles, etc.

The Associations will revise the Corporate Governance Principles, 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 Associations will make appropriate judgment on matters related to dialogue with investee companies and stewardship activity. As part of their efforts to enhance the effectiveness and efficiency of stewardship activity, the Associations will also exchange opinions with other public pension funds, among other activities.

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

5

Selection and management of entrusted investment management institutions, etc. (traditional assets)

■ Approach to selection

The Associations offer public invitations and invite entries under an asset manager registration system. In the selection process, the Associations closely examine investment policies for funds, investment processes and other factors and select investment management

institutions based on a comprehensive evaluation from both quantitative and qualitative aspects while also taking into consideration opinions expressed at a meeting of outside experts.

■ Administration and evaluation of entrusted investment management institutions

The Associations require entrusted investment management institutions 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 Associations conduct a detailed interview on a regular basis concerning the overview of investment results, future investment policy and other matters.

Furthermore, the Associations annually conduct a comprehensive evaluation combining quantitative and qualitative evaluation by asset and by investment category in principle. Comprehensive evaluation is intended to conduct evaluation from the long-term perspective and from the viewpoint of the role that each fund is expected to play. Quantitative evaluation mainly assesses the actual excess return after deduction of compensation, the information ratio (the tracking error in the case

of passive investment), and the cost performance. Qualitative evaluation assesses the quality of the portfolio investment that cannot be captured by quantitative evaluation and the communications capabilities, investment process and philosophy, portfolio structuring and monitoring, execution of transactions, business management, etc. of entrusted investment management institutions. The Associations allocate funds in a consistent manner across the entire portfolio in consideration of not only the results of comprehensive evaluation but also the balance of strategy categories in each asset class and the balance of funds in each category.

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

■ Administration and evaluation of asset administration institutions

The Associations provide an incentive or give a reminder for asset administration institutions as appropriate by providing feedback on the results of qualitative evaluation of their asset administration status and by transferring funds

from one institution to another depending on the results in order to ensure appropriate administration by asset administration institutions.

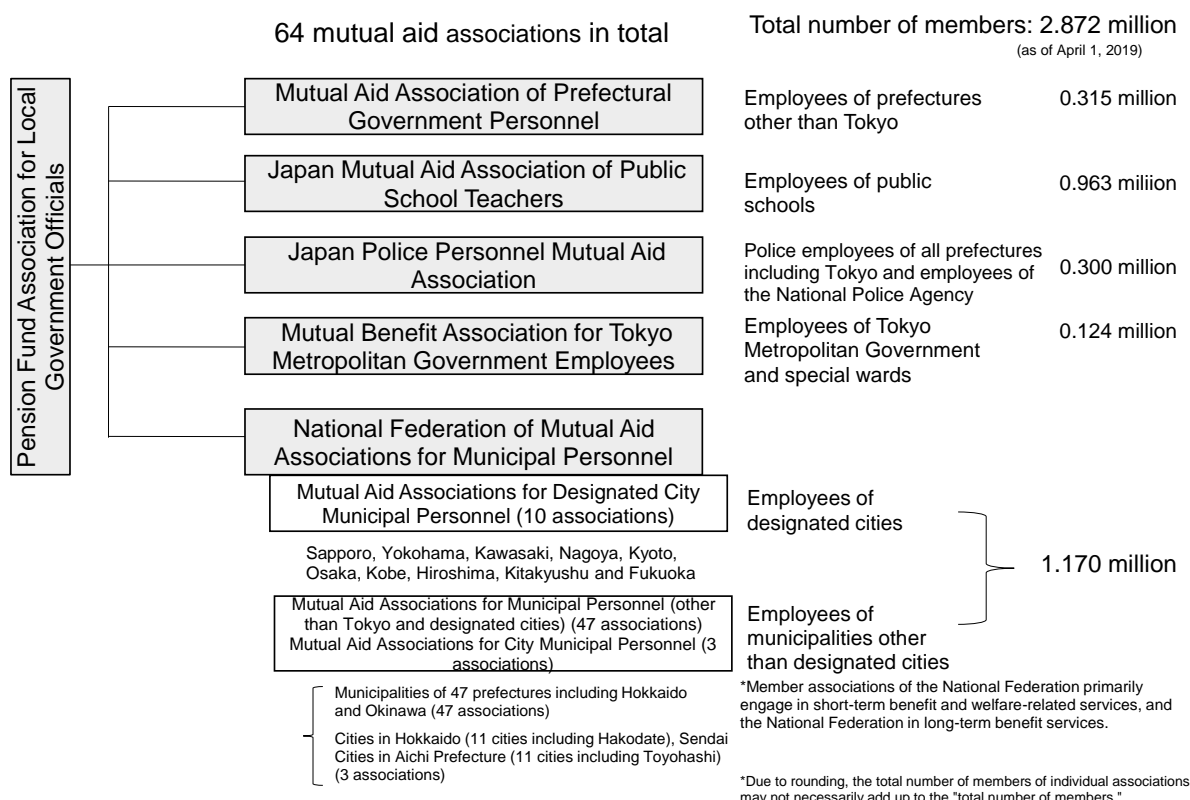
Governance and Fund Management of Local Public Service Mutual Aid Associations

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

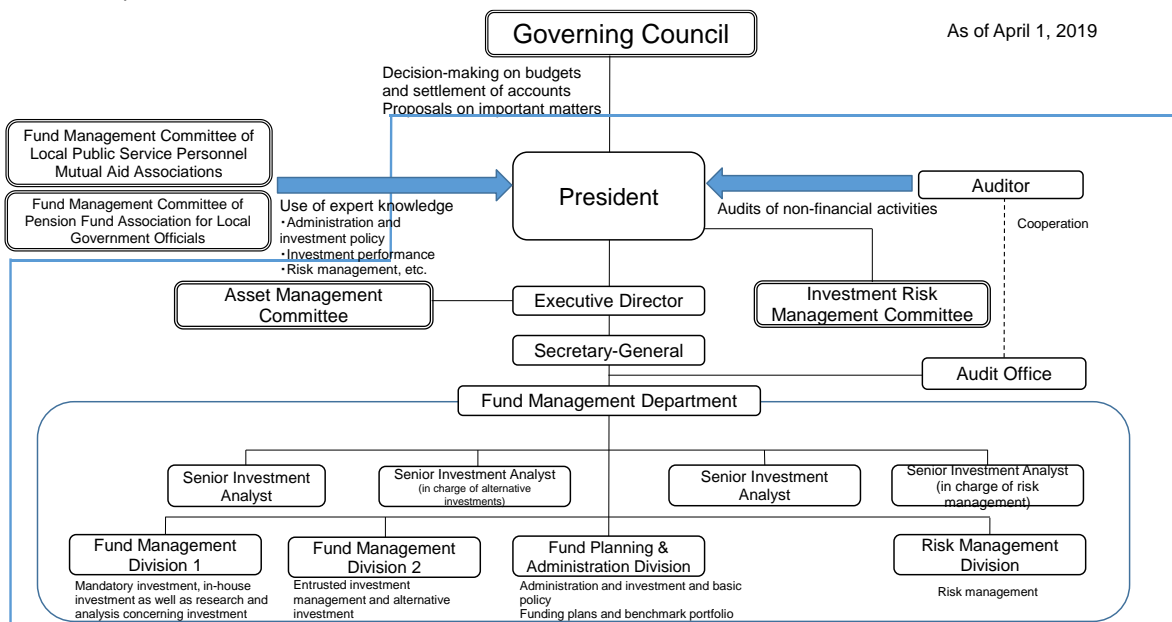
To amend the articles of incorporation and operating rules, and study and discuss the business plans, budgets, and settlement of accounts for each business year and other important operating matters, governing councils and other committees have been established at

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
- 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 Managed Fund Related to Employees' Pension Insurance Services, 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

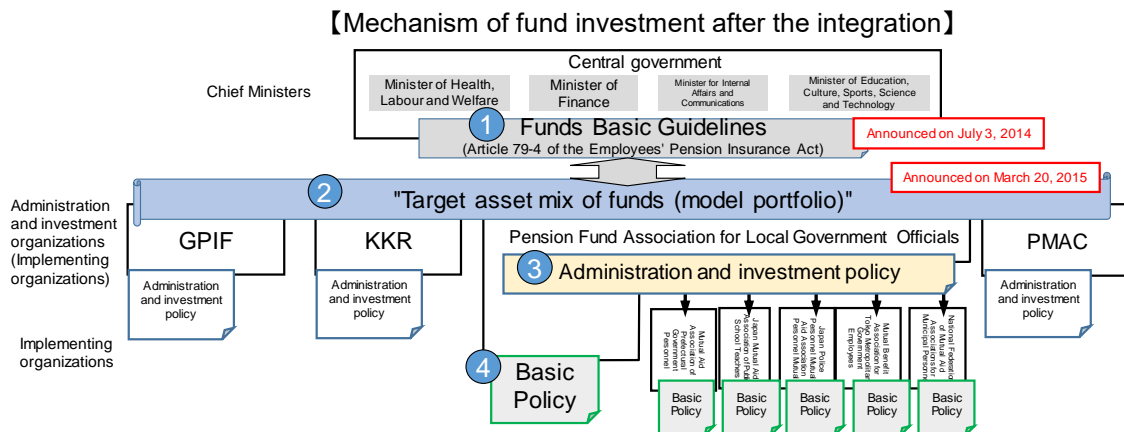
(1) Mechanisms

First, the chief ministers, namely the Minister of Health, Labour and Welfare, the Minister of Finance, the Minister for Internal Affairs and Communications, and the Minister of Education, Culture, Sports, Science and Technology, jointly formulate the Basic Guidelines for Ensuring Safe and Efficient Administration and Investment of Funds from a Long-Term Perspective (hereinafter referred to as the "Funds Basic Guidelines") as an overall framework. (①)

Next, the administration and investment organizations (the GPIF, the KKR, the Pension

Fund Association for Local Government Officials, and the PMAC) jointly formulate the target asset mix of funds (model portfolio) based on the Funds Basic Guidelines. (②)

The Pension Fund Association for Local Government Officials formulates the administration and investment policy subject to approval from the Minister of Internal Affairs and Communications (③) and individual implementing organizations formulate basic policies in accordance with the administration and investment policy. (④)



(2) Basic approach to investment

■ 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.

