

Fiscal Year 2020

Review of Operations

**Employees' Pension Insurance Benefit
Adjustment Fund**



地方公務員共済組合連合会
Pension Fund Association for Local Government Officials

[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)

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Fiscal Year 2020 Investment Results (Overview)



Investment return:

24.47%

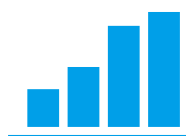
(Modified total return before the deduction of fees, etc.)



Investment income:

¥2,634 billion

(Investment income before the deduction of fees, etc.)



Value of investment assets:

(As of the end of March 2021)

¥13,182.2 billion

(Market value)

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 FY2020, it should be kept in mind that it includes valuation gains/losses, which means it may change depending on market movements.

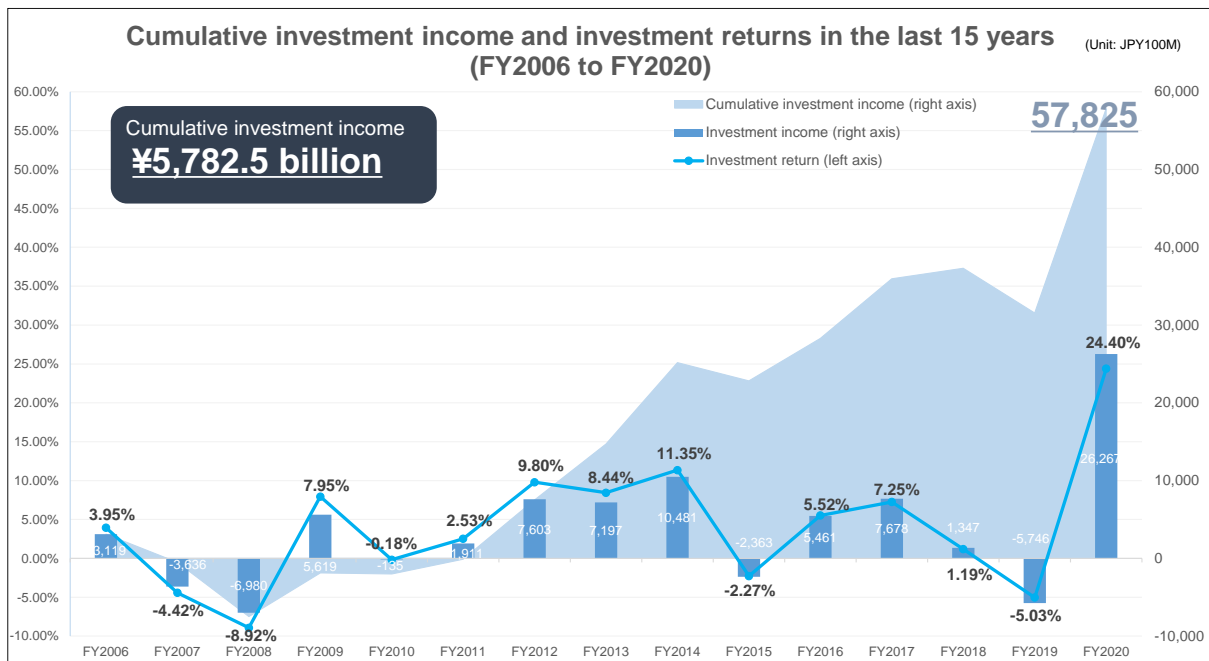
◆ Long-term status of investments (last 15 years)

- Cumulative investment income (after deduction of fees, etc.):

¥5,782.5 billion

- The average investment return (after deduction of fees, etc.):

3.81%



<Changes in the real investment return concerning funds>

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	Average of 15 years
Nominal investment return	3.95%	-4.42%	-8.92%	7.95%	-0.18%	2.53%	9.80%	8.44%	11.35%	-2.27%	5.52%	7.25%	1.19%	-5.03%	24.40%	3.81%
Nominal wage growth	0.01%	-0.07%	-0.26%	-4.06%	0.68%	-0.21%	0.21%	0.13%	0.99%	0.50%	0.03%	0.41%	0.95%	0.70%	-0.51%	-0.04%
Real investment return	3.94%	-4.36%	-8.68%	12.52%	-0.85%	2.74%	9.57%	8.30%	10.26%	-2.75%	5.49%	6.81%	0.24%	-5.69%	25.04%	3.85%

(Note 1) The figures for income in and before the first half of fiscal year 2015 are estimates calculated by multiplying the value of income of the Long-term Benefit Fund in each fiscal year by the proportion of Employees' Pension Insurance Benefit Adjustment Fund at the time of the final allocation.

(Note 2) The nominal investment return for the whole of fiscal year 2015 cannot be calculated because the integration of employee pension plans was implemented during the year (October 2015), so it was mechanically estimated, as a reference figure, based on the nominal investment returns in the first half (Long-term Benefit Fund) and in the second half (Employees' Pension Insurance Benefit Adjustment Fund).

(Note 3) The figures for the nominal wage growth rate in and before fiscal year 2014 were cited from the Report on Investment of Investment Funds in FY2014 (September 2015, Ministry of Health, Labour and Welfare).

(Note 4) The figures for the nominal wage growth rate in fiscal year 2015 and later are those provided by the Ministry of Health, Labour and Welfare for Type 1 insured persons under employees' pension insurance as defined under the EPI Act after the revision made through Act No. 63 of 2012.

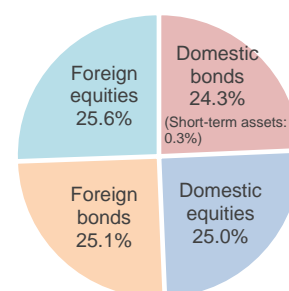
1 Investment results

(1) Asset mix

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

	End of FY2019	Fiscal Year 2020				Benchmark portfolio
		End of Q1	End of Q2	End of Q3	End of FY	
Domestic bonds	35.8	32.1	29.3	25.5	24.3	25.0
Short-term assets	(0.3)	(0.0)	(0.1)	(0.0)	(0.3)	
Domestic equities	22.7	23.7	24.3	25.5	25.0	25.0
Foreign bonds	17.7	18.0	20.0	22.9	25.1	25.0
Foreign equities	23.8	26.2	26.5	26.1	25.6	25.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Composition by Investment Asset Class
(as of end of FY2020)



(Note 1) Deviation tolerances from the benchmark portfolio are $\pm 10\%$ for domestic bonds, $\pm 12\%$ for domestic equities, $\pm 9\%$ for foreign bonds and $\pm 11\%$ for foreign equities.

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

(Note 3) At the end of FY2020, the ratio of alternative assets to the total amount of funds is 0.9% (the upper limit is 5%).

(2) Investment return

The modified total returns came to 24.47% due to factors such as rises of domestic and foreign equities.

	Fiscal Year 2020				
	Q1	Q2	Q3	Q4	FY Total
Modified total returns	7.98	2.98	6.10	5.72	24.47

	Fiscal Year 2020				
	Q1	Q2	Q3	Q4	FY Total
Time-weighted return	7.94	2.99	6.15	5.79	24.83
Domestic bonds	-0.25	0.20	0.08	-0.36	-0.33
Short-term assets	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Domestic equities	11.92	5.19	11.50	9.35	43.53
Foreign bonds	2.66	0.83	0.79	1.41	5.81
Foreign equities	20.29	5.90	12.31	12.50	60.96

	Fiscal Year 2020				
	Q1	Q2	Q3	Q4	FY Total
Realized return (book value basis)	0.27	1.17	1.55	2.74	5.76

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

(Note 2) The modified total return and time-weighted return represent the figures before the deduction of fees, etc.

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

(3) Excess return

The return (market value basis) for overall assets was 24.83% and the composite benchmark return for overall assets was 24.83%. The excess return over the composite benchmark was 0.00%.

	Overall assets	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Return (market value)	24.83%	-0.33%	43.53%	5.81%	60.96%
Composite benchmark return	24.83%	-0.70%	42.13%	5.43%	60.21%
Excess return	0.00%	0.37%	1.40%	0.38%	0.75%

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

(Note 2) The composite 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.

By factor, the excess return of 0.00% can be broken down as follows: asset allocation factor: -0.64%; individual asset factor: 0.53%; other factors: 0.12%.

	Asset allocation factor ①	Individual asset factor ②	Other factor ③ (including errors)	①+②+③
Domestic bonds	-1.20%	0.09%	0.05%	-1.06%
Domestic equities	-0.23%	0.23%	0.02%	0.03%
Foreign bonds	0.78%	0.09%	0.02%	0.89%
Foreign equities	0.00%	0.12%	0.03%	0.15%
Total	-0.64%	0.53%	0.12%	0.00%

(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 return, 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 ¥2,634.0 billion.

(Unit: JPY100M)

	Fiscal Year 2020				
	Q1	Q2	Q3	Q4	FY Total
Investment income (market value basis)	8,470	3,425	7,231	7,215	26,340
Domestic bonds	-95	70	26	-114	-112
Short-term assets	(0)	(0)	(0)	(0)	(0)
Domestic equities	2,892	1,409	3,286	2,929	10,516
Foreign bonds	517	165	212	472	1,365
Foreign equities	5,156	1,781	3,706	3,928	14,570

(Unit: JPY100M)

	Fiscal Year 2020				
	Q1	Q2	Q3	Q4	FY Total
Realized income (book value basis)	272	1,197	1,604	2,898	5,970

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

(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, etc.

(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 ¥13,182.2 billion.

(Unit: JPY100M)

	End of FY2019			Fiscal Year 2020											
	Book value	Market value	Valuation gains/losses	End of Q1			End of Q2			End of Q3			End of FY		
				Book value	Market value	Valuation gains/losses	Book value	Market value	Valuation gains/losses	Book value	Market value	Valuation gains/losses	Book value	Market value	Valuation gains/losses
Domestic bonds	37,536	38,190	654	36,234	36,734	500	34,047	34,514	467	31,358	31,805	447	31,801	32,059	258
Short-term assets	(320)	(320)	(0)	(18)	(18)	(0)	(98)	(98)	(0)	(27)	(27)	(0)	(353)	(353)	(0)
Domestic equities	24,060	24,270	211	23,961	27,167	3,206	24,186	28,589	4,402	24,809	31,870	7,061	24,275	32,978	8,703
Foreign bonds	18,577	18,874	297	19,845	20,675	830	22,660	23,537	878	27,513	28,515	1,002	31,909	33,087	1,178
Foreign equities	22,513	25,377	2,864	22,102	30,034	7,932	22,099	31,220	9,120	20,759	32,576	11,817	19,515	33,698	14,184
Total	102,686	106,712	4,026	102,142	114,611	12,468	102,992	117,859	14,867	104,439	124,767	20,328	107,500	131,822	24,322

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	-6,012	-1,782	12,858	-6,220

(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 ¥7.3 billion. 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 fee rate) for active investment.

(Unit: JPY100M, %)

	Fiscal Year 2020	
	Fee	Fee rate
Domestic bonds	7	0.02
Domestic equities	26	0.09
Foreign bonds	10	0.04
Foreign equities	28	0.09
Alternative assets	3	0.27
Overall assets	73	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

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, "risk" refers to the range of fluctuations of expected return on investment. Risk in this sense includes not only the possibility of failing to secure the required yield but also the range of fluctuations of return on investment due to various risks, such as interest rate risk, price fluctuation risk, credit risk, and liquidity risk.

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 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 Pension Fund Association for Local Government Officials ("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.

(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, 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) for overall assets. 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 established 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 monitors downside risks by using the value at risk approach, which measures the maximum probable 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 management institutions, etc.

The Association manages 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 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 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

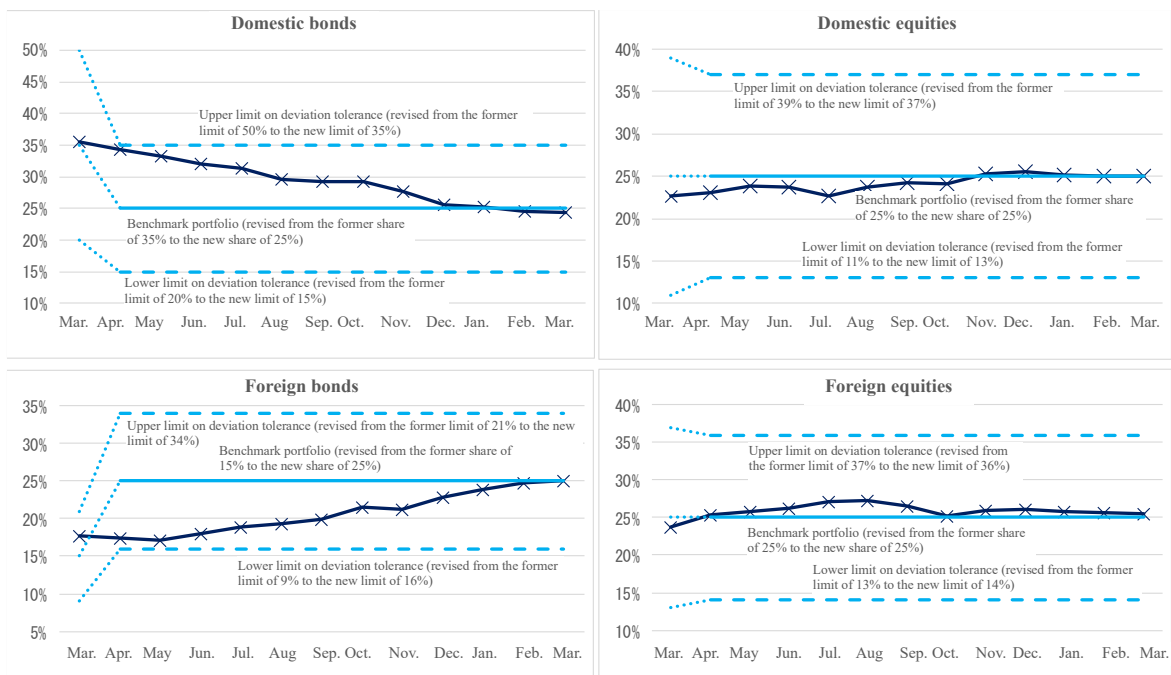
The Association reports on the status of risk management and improvement measures implemented to the Investment Risk Management Committee, the Fund Management Committee of Pension Fund Association for Local Government Officials and the Governing Council.

(3) Status of risk management (overall assets)

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

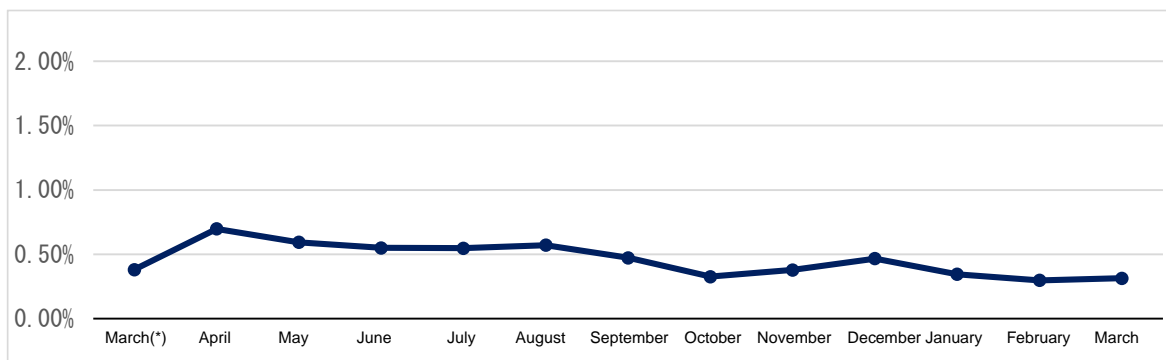
The estimated tracking error for assets as a whole rose due to the increase in deviations of domestic and foreign bonds resulting from the revision of the benchmark portfolio in April 2020. However, as the disparity between the benchmark portfolio and the actual asset mix gradually narrowed, the estimated tracking error declined over the fiscal year.

【Changes in the asset mix】



(Note) The median value of the share in the total assets and the deviation tolerance for each asset have been revised. The "former" figures are those based on the pre-revision benchmark portfolio and the "new" figures are those based on the revised benchmark portfolio.

【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). The figure for March 2020 (*) represents the measurement results concerning the pre-revision benchmark portfolio. The figures for April 2020 and later represent the measurement results concerning the revised benchmark portfolio.

3 Contribution analysis of excess return by asset

(1) Domestic bonds

■ Contribution analysis of the excess return

By factor, the excess return of 0.37% on domestic bonds can be broken down as follows: fund factor: 0.39%; benchmark factor: 0.01%; other factors: -0.03%.

Regarding the fund factor, against the backdrop of a rise in interest rates, mandatory investments with short durations compared with

the benchmark made positive contributions. In addition, investments in corporate bonds, etc. included in NOMURA-BPI Overall (Active) and domestic real estate investments, etc., made positive contributions.

As a result, the excess return from domestic bonds was positive.

Return (market value) ①	Benchmark ②	Excess Return ①-②	Fund factor	Benchmark factor	Other factor
- 0.33%	- 0.70%	0.37%	0.39%	0.01%	- 0.03%

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

	Mandatory investment, etc.	Inflation-indexed bonds	Nomura BPI Overall (Passive)	Nomura BPI Overall (Active)	Nomura BPI Overall (Enhanced)	Non-benchmark	NOMURA-BPI CaRDIndex	Domestic real estate, etc.
Fund factor	0.23%	0.01%	0.01%	0.07%	0.03%	- 0.01%	- 0.00%	0.04%
Benchmark factor			0.00%	0.00%	0.00%		0.01%	

	Short-term assets	Total
Fund factor	0.00%	0.39%
Benchmark factor		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 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 policy 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.

(2) Domestic equities

■ Contribution analysis of the excess return

By factor, the excess return of 1.40% on domestic equities can be broken down as follows: fund factor: 2.41%; benchmark factor: -0.49%; other factors: -0.52%.

Regarding the fund factor, as growth stocks came to be favored amid rising stock prices worldwide, TOPIX (Active) and other funds with the growth feature made positive contributions.

Regarding the benchmark factor, amid rising stock prices, MSCI Japan Minimum Volatility and the Japan Minimum Volatility Index, which invest in low-volatility issues, produced negative effects.

As a result, the excess return from domestic equities was positive.

Return (market value) ①	Benchmark ②	Excess Return ①-②	Fund factor	Benchmark factor	Other factor
43.53%	42.13%	1.40%	2.41%	- 0.49%	- 0.52%

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

	TOPIX (Passive)	JPX400 (Passive)	Russell/Nomura Prime (Passive)	MSCI JAPAN (Passive)	MSCI Japan ESG Leaders Index (Passive)	S&P Carbon Efficient Index (Passive)	TOPIX (Active)	TOPIX Mid400 (Active)
Fund factor	0.05%	0.00%	0.00%	- 0.02%	- 0.00%	0.00%	2.18%	- 0.04%
Benchmark factor	0.00%	0.03%	0.02%	0.02%	- 0.02%	- 0.01%	0.00%	0.01%

	FTSE RAFI Japan 350 GSR (Active)	MSCI Japan Minimum Volatility (Active)	Russell/Nomura Small (Active)	SNAM Sustainability Index (Active)	Japan Minimum Volatility Index (Active)	Non-benchmark	Domestic PE	Total
Fund factor	0.00%	0.00%	0.15%	- 0.03%	- 0.00%	0.19%	- 0.08%	2.41%
Benchmark factor	0.02%	- 0.29%	- 0.04%	0.03%	- 0.28%			- 0.49%

(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 return 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.

(3) Foreign bonds

■ Contribution analysis of the excess return

By factor, the excess return of 0.38% on foreign bonds can be broken down as follows: fund factor: 0.27%; benchmark factor: 0.12%; other factors: -0.01%.

Regarding the fund factor, the FTSE World Government Bond Index (Passive) produced negative effects due to the assessed market price difference factor. On the other hand, in response to the strengthening of global investors' risk

appetite, investments in corporate bonds under the FTSE World Government Bond Index (Active) and currency allocation made positive contributions.

Regarding the benchmark factor, Barclays Capital Aggregate, which invests in corporate bonds, made positive contributions.

As a result, the excess return from foreign bonds was positive.

Return (market value) ①	Benchmark ②	Excess Return ①-②	Fund factor	Benchmark factor	Other factor
5.81%	5.43%	0.38%	0.27%	0.12%	- 0.01%

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

	FTSE World Government Bond Index (Passive)	FTSE World Government Bond Index (Active)	Barclays Capital Aggregate (Active)	Nomura RAFI (Active)	Overseas real properties (NFI-ODCE fund index)	Foreign infrastructure, etc.	Total
Fund factor	- 0.13%	0.29%	0.08%	- 0.00%	- 0.05%	0.07%	0.27%
Benchmark factor	0.00%	0.00%	0.08%	0.03%	0.00%		0.12%

(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, unhedged/JPY base).

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.

(Note 4) The assessed market price difference factor arises from the difference in performance due to the difference between the market prices used by the fund and by the benchmark.

As most issues are traded in negotiated transactions in the bond market, a temporary disparity may arise between the market prices used by the fund and by the benchmark in some cases.

(4) Foreign equities

■ Contribution analysis of the excess return

By factor, the excess return of 0.75% on foreign equities can be broken down as follows: fund factor: 0.38%; benchmark factor: 0.25%; other factors: 0.12%.

Regarding the fund factor, MSCI-ACWI (Active), which made successful stock selections amid rising stock prices worldwide, made positive contributions.

Regarding the benchmark factor, MSCI-Kokusai Small and other funds which invest in small and mid-cap stocks made positive contributions.

As a result, the excess return from foreign equities was positive.

Return (market value) ①	Benchmark ②	Excess Return ①-②	Fund factor	Benchmark factor	Other factor
60.96%	60.21%	0.75%	0.38%	0.25%	0.12%

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

	MSCI-ACWI (Passive)	MSCI-North America (Passive)	MSCI-Europe and Middle East (Passive)	MSCI-Pacific (Passive)	MSCI-Emerging (Passive)	MSCI-ACWI (Active)	MSCI-KOKUSAI (Active)	MSCI-Europe (Active)
Fund factor	- 0.12%	0.00%	- 0.00%	- 0.00%	- 0.00%	0.62%	- 0.34%	0.08%
Benchmark factor	0.00%	0.14%	- 0.02%	- 0.01%	0.05%	0.00%	- 0.03%	- 0.14%

	MSCI-Europe Value (Active)	MSCI-KOKUSAI Small (Active)	Russell 1000-Value (Active)	Russell 1000-Growth (Active)	S&P 500 (Active)	MSCI-Emerging (Active)	Foreign PE	Total
Fund factor	0.11%	0.02%	0.10%	- 0.03%	- 0.00%	- 0.02%	- 0.03%	0.38%
Benchmark factor	- 0.05%	0.27%	- 0.00%	0.04%	- 0.00%	0.02%		0.25%

(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.

4 Alternative assets

(1) What are alternative assets?

Alternative assets are assets whose risk and return characteristics are different from those of traditional assets, such as equities and bonds. The types of alternative assets in which the Association invests are real estate, infrastructure, private equity (hereinafter referred to as "PE"), private debt (hereinafter referred to as "PD"), and bank loans (hereinafter referred to as "BL").

The profile of risk and return of alternative assets is diverse. Therefore, when selecting funds, the Association holds interviews with respect to each fund and makes investment

decisions while taking into consideration the risks specific to the funds, the suitability with the selection criteria regarding entrusted investment management institutions and investment strategy, etc.

After making investment, the Association continues monitoring by periodically receiving reports on the asset status from entrusted investment management institutions.

The Association holds down risks related to alternative assets by setting up its investment to a cap of 5% of the total portfolio.

(2) Objectives of investment

■ Improving investment efficiency through diversified investment

There are differences between traditional and alternative assets in the risk-return profile. Among alternative assets, the profile varies across asset classes and across individual assets within the same asset class. For example, the sources of return of real estate and PE are different, and among real estate assets, the

return varies across individual assets depending on usage and region, among other factors.

Therefore, with respect to alternative investment, the Association raises investment efficiency through diversified investment by allocating assets in such a way that they are not concentrated in specific asset classes, regions or sectors.

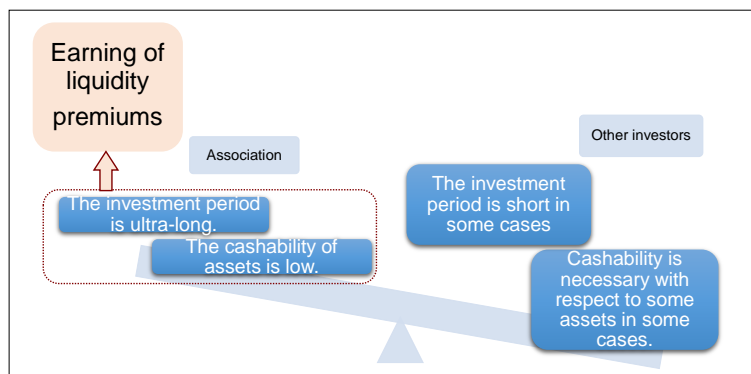
■Earning liquidity premiums

Generally speaking, while the liquidity (cashability) of investment stakes in alternative assets is low, a premium that compensate for the low liquidity is added to the return.

Generally, investors other than public pension funds may need to secure a certain degree of liquidity for their investment assets because of

reasons such as a short period of investment. However, the Association is relatively free from the liquidity-related constraint because of its ultra-long-term investment period. Therefore, by investing in alternative assets, the Association can earn premiums in exchange for accepting low liquidity.

【Liquidity-related constraint】



■Measures taken to respond to inflation and interest rate rises

Generally speaking, bond prices drop when interest rates rise. However, in the case of real estate and infrastructure, income for investment assets also changes in tandem with an interest rate rise. Therefore, asset prices do not necessarily decline as a result of an interest rate rise.

For some overseas infrastructure assets, facility usage fees, which correspond to sales, are linked to inflation, which means that sales increase if inflation rises.

Therefore, some alternative assets help curb interest rate rise risk and inflation risk (the decline in asset price due to rising interest rate or inflation).

(3) Fund selection

■ Introduction of an asset manager registration system and expansion of scope of investment targets

The Association has introduced an Asset Manager Registration System that accepts entries from entrusted investment management institutions on an ongoing basis in order to select funds for alternative investments.

In July 2015, the Association started soliciting entries with respect to funds investing in real estate and infrastructure under the Asset Manager Registration System. Subsequently, the scope of investment target assets was expanded to include PE, PD and BL.

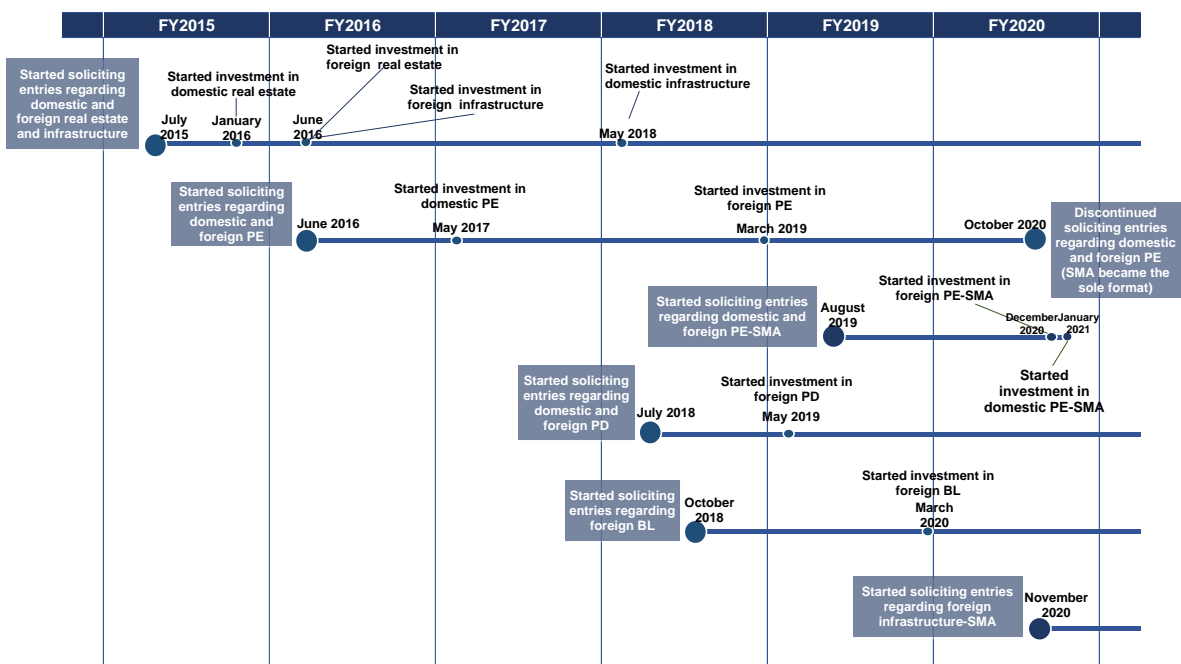
In August 2019, under the Asset Manager Registration System, the Association solicited entries with respect to funds investing in domestic and foreign PE under the SMA (Separately Managed Account) format. The

SMA refers to an account under which the gatekeeper manages multiple funds as a whole based on investors' own investment policies and guidelines.

As the use of the SMA format enables timely access to superior funds through the gatekeeper, it is expected that investment opportunities will increase and that advanced diversification will be achieved with respect to regions, sectors and investment timings.

The Association has decided to select only funds using the SMA format when adopting new funds regarding PE. In the future, the Association plans to make investments mainly through the SMA format.

【Expansion of investment targets regarding alternative investment】



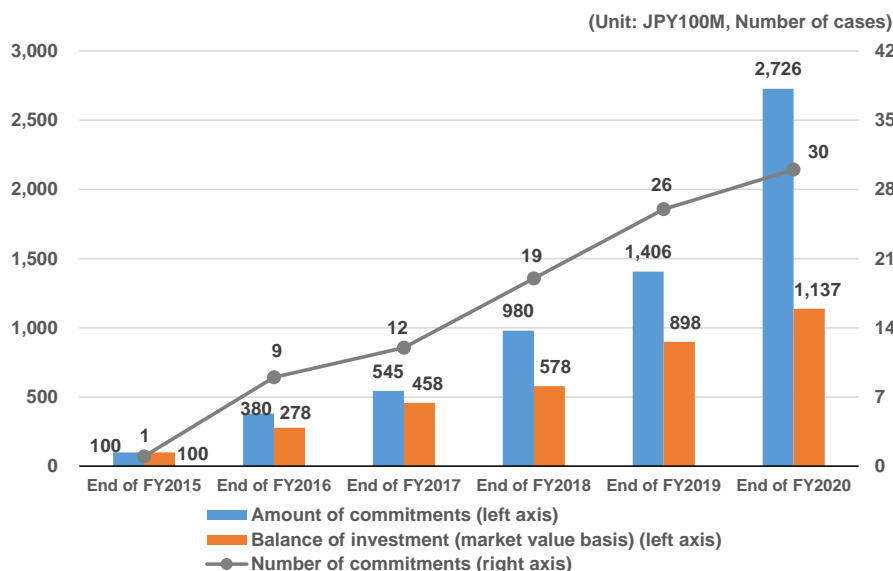
■ Selection of investment funds

Among the investment funds registered, the Association 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 2020, the Association decided to adopt a total of 30 funds, and started the investment in 27 funds.

The Association will continue to evaluate the funds entered and make selection in the future so as to seize opportunities for investing in superior funds likely to contribute to diversified investment.

【Changes in the cumulative amount of alternative investment】

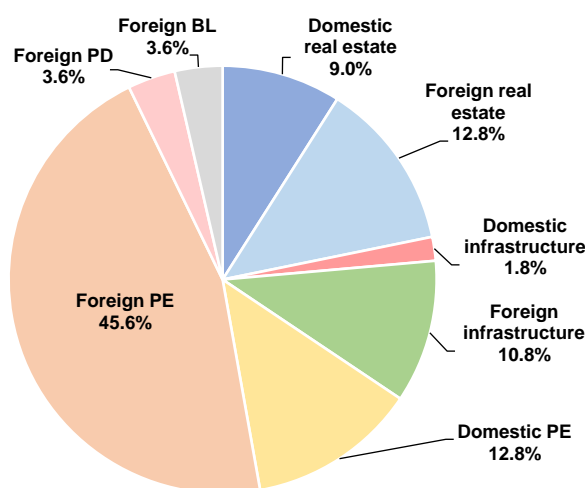


【Number of funds adopted】

Investment fund	Number of funds adopted
Domestic real estate	3
Foreign real estate	6
Domestic infrastructure	1
Foreign infrastructure	5
Domestic PE	7
Foreign PE	5
Foreign PD	2
Foreign BL	1
Total	30

*The number of funds with respect to which contracts had been concluded by the end of FY2020 is indicated.

【Asset mix】



*Commitment basis as of the end of FY2020

■ Fund monitoring

Generally speaking, with regard to alternative assets, it is difficult to manage risks related to funds after investment only in light of indicators based on price changes (e.g., standard deviation and tracking error) since price formation does not occur on a daily basis, unlike in the case of listed assets.

Therefore, the monitoring of real estate and infrastructure assets is conducted mainly through the evaluation of returns and market value of assets based on reports from entrusted

investment management institutions. The monitoring of PE assets is conducted mainly with respect to the business management conditions and the progress of measures to increase corporate value by investee companies. The Association conducts periodic monitoring on a fund-by-fund basis. If unusual signs are detected, it checks with entrusted investment management institutions on the cause and planned countermeasures and requests them to make improvements as necessary.

【Example of risk management】

【Real estate and infrastructure】

- Status of diversification regarding trading of assets and holding of assets
- Trend in income for assets (e.g., operation rate)
- Trend in evaluated market value
- Changes in the leverage level (dependence on borrowings)

【PE】

- Status of progress in investment
- Status of diversification of investment instruments
- Status of investment candidate assets
- Management status of investee companies
- Progress in implementation of measures to increase investee companies' corporate value

5 Stewardship activities

(1) Overview of the Association's stewardship activity

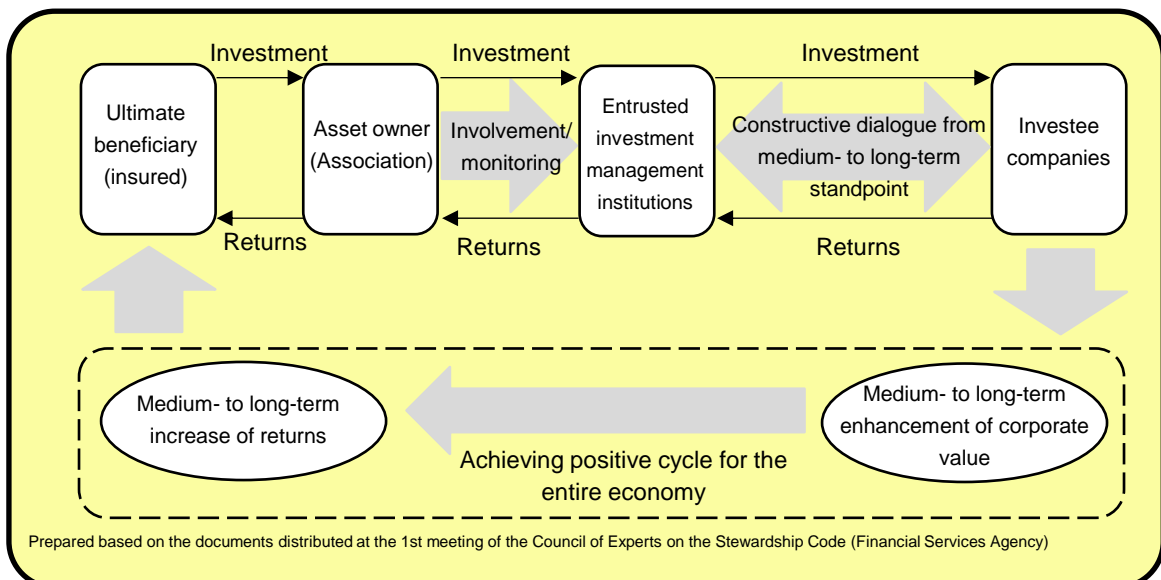
"Stewardship activities" refers to the activities of institutional investors to increase medium- to long-term investment returns for their clients and beneficiaries by encouraging improvements in corporate value and sustainable growth of investee companies through means such as engagement (i.e. constructive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

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

The Association is required to fulfill its fiduciary responsibility of increasing the value of its assets for the insured over the long term and social responsibility as a public pension fund. In this connection, the Association has been proactively committed to effective stewardship activities.

In addition, the Association entrusts investment management institutions to make stock investments in companies. The Association believes that conducting the stewardship activities through these entrusted investment management institutions is effective for fulfilling the stewardship responsibility as they have more opportunities to access investee companies and have in-depth insight on corporate management.

[Stewardship Activities]



Based on this idea, the Association established the Corporate Governance Principles of Pension Fund Association for Local Government Officials and the Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities) in 2004 and the Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities) in 2016. These guidelines and principles specify that the Association should conduct stewardship activity based on them when it has concluded contracts with entrusted investment management institutions. In addition, the Basic Policy for Employees' Pension Insurance Benefit Adjustment Fund specifies how the Association should fulfill its stewardship responsibilities.

Moreover, in May 2014, the Association signed up to Japan's Stewardship Code, and in November 2017, the Association made its approach to stewardship activity clearer than before, revising its Signup to Japan's Stewardship Code according to the first revision of the code. Further, in connection with the announcement of the second revision of the code in March 2020, the Association revised its Signup to Japan's Stewardship Code in September of the same year.

The Association has started investing in ESG products in February 2010, and has entrusted ESG investment through seven domestic stock products. In addition, in September 2019, the Association started investing in ESG bonds as part of in-house investment in domestic bonds.

[Chronology of the Association's stewardship activity]

Year	Activities
2004	- 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.
2010	- Newly adopted one ESG product concerning domestic equities.
2014	- Signed up to Japan's Stewardship Code. - Newly added another product to ESG products concerning domestic equities.
2015	- Established the Administration and Investment Policy and the Basic Policy in association with the unification of pension systems. Specified measures to fulfill the stewardship responsibilities. - Newly added two products to ESG products concerning domestic equities.
2016	- 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	- Signed up to Japan's Stewardship Code (revised version).
2019	- Started investing in ESG bonds as part of in-house investment in domestic bonds.
2020	- Signed up to Japan's Stewardship Code (second revised version). - Newly added five products to ESG products concerning domestic equities.

(2) Monitoring of entrusted investment management institutions

For each fiscal year, the Association has been monitoring the stewardship activities of the investment management institutions entrusted with equity investment so as to ensure the compliance with the Association's abovementioned policies, while focusing on the "quality" of stewardship efforts. The Association receives reports concerning stewardship activity from and holds interviews with the entrusted investment management institution.

In relation to fiscal year 2020, in May 2020, the Association held briefing meetings (by means of document, in light of the prevention of spread of COVID-19) on the direction of the Association's stewardship activity for investment management institutions entrusted with domestic and foreign stock investment in FY2020 and explained the matters which the

Association considers important in relation to stewardship activities.

In July, the Association requested 19 investment management institutions entrusted with domestic stock investment and 17 investment management institutions entrusted with foreign stock investment to submit reports on the policies, structures, processes for and results of stewardship activities of FY2019. In October, based on the reports submitted, the Association held interviews focused on the matters which the Association considers important in relation to stewardship activities.

In June, the Association provided feedback regarding the evaluation of stewardship activities in FY2019 individually to entrusted investment management institutions that requested it.

Matters which the Association considers important in relation to stewardship activities

[Exercise of voting rights]

- (i) Compliance with the Association's guidelines for exercising shareholders' voting rights
- (ii) Exercise of voting rights suited to the circumstances of companies
- (iii) Exercise of voting rights and engagement in an integrated manner

[Engagement]

- (i) Engagement aimed at enhancing the corporate value and sustainable growth of companies
- (ii) Quality of engagement
- (iii) Effectiveness of processes (e.g., PDCA cycle)

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

Regarding the Employees' Pension Insurance Benefit Adjustment Fund, the Association exercised voting rights through 19 investment management institutions entrusted with domestic stock investment (35 funds in total), with respect to a total of 13,504 companies which settled accounts between April 2019 and March 2020. The number of proposals for which voting rights were exercised was 46,058.

Of the 46,058 proposals, 10,887 (including 1,465 shareholder proposals) were voted against, translating into a vote-against rate of

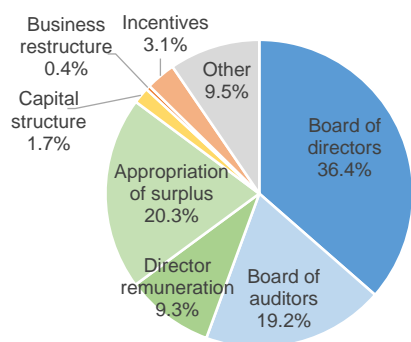
23.6% (down 1.3 points from the previous year). The vote-against rate concerning company proposals was 21.2% (down 1.8 points).

The vote-against rate came to 37.0% (down 2.6 points) concerning proposals related to the board of directors/directors, 18.6% (down 3.0 points) concerning proposals related to the board of auditors/auditors and 20.8% (down 3.4 points) concerning proposals related to director remuneration, etc.

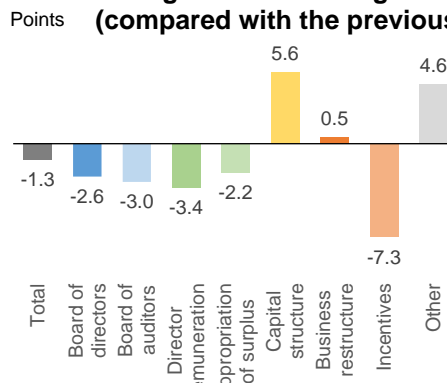
Voting activity (Companies with accounting settlement between April 2019 and March 2020)

Proposal subject	Total	Composition	Vote for		Vote against		Vote-against rate in the previous year
				Rate		Rate	
Total	46,058	100%	35,169	76.4%	10,887	23.6%	24.9%
c.f. Company proposal	44,486	96.6%	35,062	78.8%	9,422	21.2%	23.0%
c.f. Shareholder proposal	1,572	3.4%	107	6.8%	1,465	93.2%	93.6%
By subject	46,058	100%	35,169	76.4%	10,887	23.6%	24.9%
Board of directors/directors	16,781	36.4%	10,572	63.0%	6,209	37.0%	39.6%
Board of auditors/auditors	8,825	19.2%	7,182	81.4%	1,643	18.6%	21.6%
Director remuneration, etc.	4,288	9.3%	3,397	79.2%	890	20.8%	24.2%
Appropriation of surplus	9,336	20.3%	9,130	97.8%	205	2.2%	4.4%
Capital structure	786	1.7%	276	35.1%	510	64.9%	59.3%
Takeover defense measures	509	1.1%	44	8.6%	465	91.4%	83.3%
Capital increase or reduction	28	0.1%	28	100.0%	0	0.0%	0.0%
Third party allotment of shares	91	0.2%	85	93.4%	6	6.6%	5.7%
Acquisition of own shares	52	0.1%	14	26.9%	38	73.1%	100.0%
Business restructure	207	0.4%	206	99.5%	1	0.5%	0.0%
Incentives improvement for executives	1,440	3.1%	1,259	87.4%	181	12.6%	19.9%
Other proposals	4,395	9.5%	3,147	71.6%	1,248	28.4%	23.8%

Share by proposal subject



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



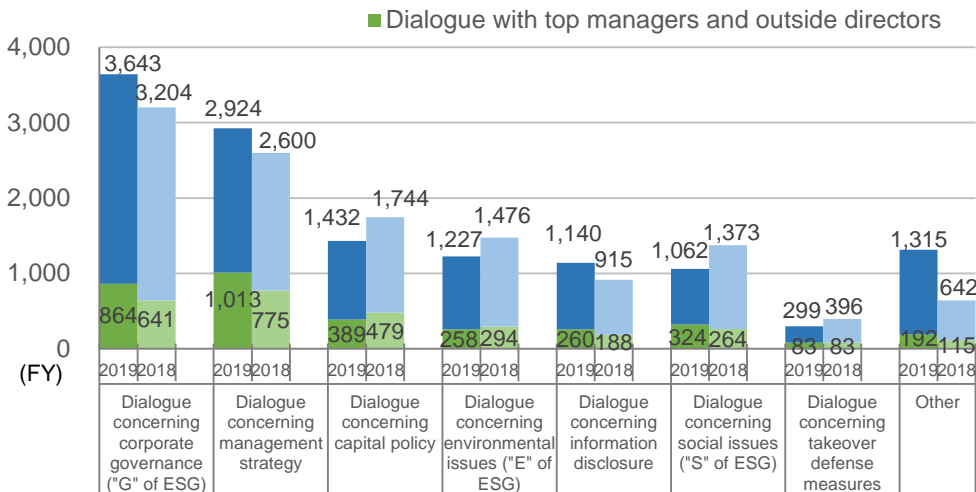
(Note) The total figures shown in the columns of proposal on director remuneration and the proposal on appropriation of surplus include the number of abstained votes, respectively.

(4) Results of engagement activities (domestic equities)

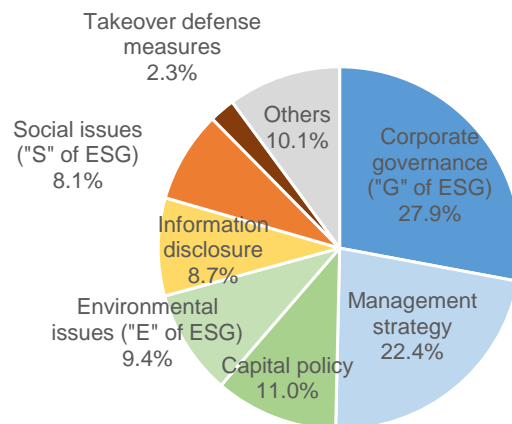
Regarding the Employees' Pension Insurance Benefit Adjustment Fund, in FY2019, the Association implemented engagement with a total of 3,878 companies through 19 investment management institutions entrusted with domestic stock investment (35 funds in total). The number of cases of engagement was 13,042 (up 5.6% from the previous year).

The number of cases of engagement increased due to the presence of entrusted investment management institutions increasing engagement staff, discussing several subjects in one occasion of engagement, and focusing on engagement concerning non-financial information including ESG factors.

Total number of cases of engagement (From April 2019 to March 2020)



Share by dialogue item



(Note 1) The standards for counting the number of cases of engagement vary among entrusted investment management institutions.

(Note 2) "Other" includes dialogue concerning issues relating to ESG generally.

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

Regarding the Employees' Pension Insurance Benefit Adjustment Fund, the Association exercised voting rights through 17 investment management institutions entrusted with foreign stock investment (25 funds in total), with respect to a total of 9,597 companies which settled accounts between April 2019 and March 2020. The number of proposals for which voting rights were exercised was 86,792.

Of the 86,792 proposals, 11,259 (including

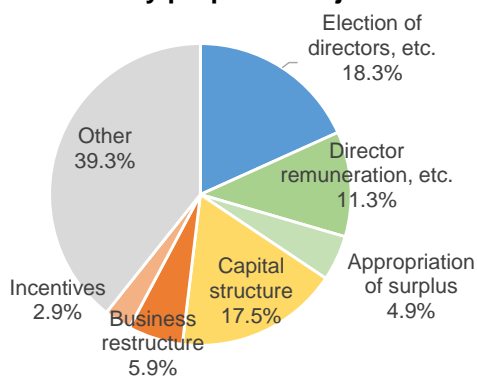
1,577 shareholder proposals) were voted against, translating into a vote-against rate of 13.0% (up 0.9 points from the previous year). The vote-against rate concerning company proposals was 11.8% (up 1.0 points).

The vote-against rate came to 12.9% (down 0.1 points) concerning proposals related to the election of directors, etc. and 12.7% (down 0.1 points) concerning proposals related to director remuneration, etc.

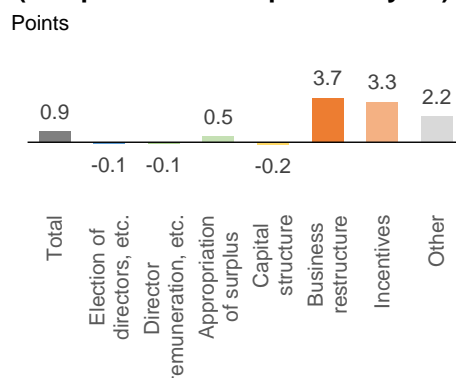
Voting activity (Companies with accounting settlement between April 2019 and March 2020)

Proposal subject	Total	Composition	Vote for		Vote against		Vote-against rate in the previous year
				Rate		Rate	
Total	86,792	100%	75,533	87.0%	11,259	13.0%	12.1%
c.f. Company proposal	81,988	94.5%	72,306	88.2%	9,682	11.8%	10.8%
c.f. Shareholder proposal	4,804	5.5%	3,227	67.2%	1,577	32.8%	35.0%
By subject	86,792	100%	75,533	87.0%	11,259	13.0%	12.1%
Proposal for election of directors, etc.	15,846	18.3%	13,806	87.1%	2,040	12.9%	13.0%
Director remuneration, etc.	9,771	11.3%	8,534	87.3%	1,237	12.7%	12.8%
Appropriation of surplus	4,219	4.9%	4,165	98.7%	54	1.3%	0.8%
Capital structure	15,219	17.5%	12,868	84.6%	2,351	15.4%	15.7%
Takeover defense measures	442	0.5%	429	97.1%	13	2.9%	5.9%
Capital increase or reduction	5,655	6.5%	4,363	77%	1,292	22.8%	27.5%
Third party allotment of shares	2,235	2.6%	2,063	92.3%	172	7.7%	5.9%
Acquisition of own shares	2,694	3.1%	2,623	97.4%	71	2.6%	5.1%
Business restructure	5,107	5.9%	4,228	82.8%	879	17.2%	13.5%
Incentives improvement for executives	2,531	2.9%	1,642	64.9%	889	35.1%	31.8%
Other proposals	34,099	39.3%	30,290	88.8%	3,809	11.2%	9.0%

Share by proposal subject



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



(Note) 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 and regions (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).

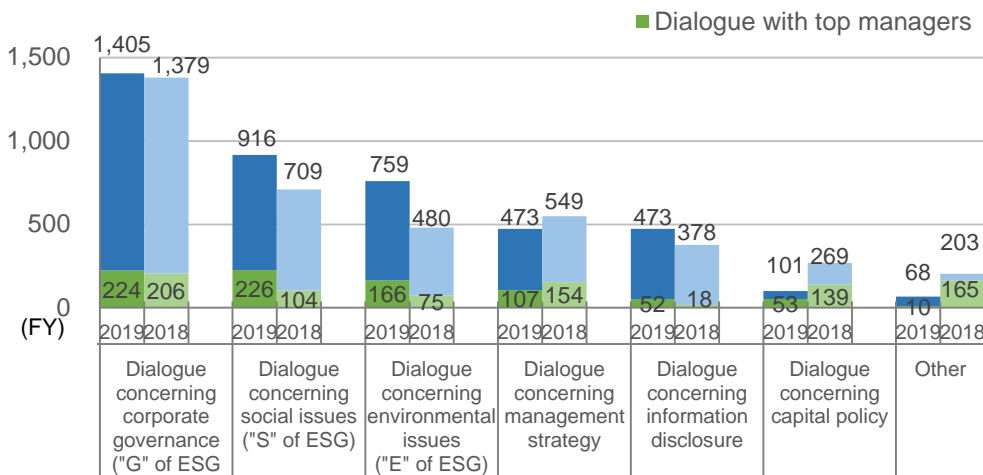
(6) Results of engagement activities (foreign equities)

Regarding the Employees' Pension Insurance Benefit Adjustment Fund, in FY2019, the Association implemented engagement with a total of 1,997 companies through 17 investment management institutions entrusted with foreign stock investment (25 funds in total). The number of cases of dialogue was 4,195 (up 5.7% from the previous year).

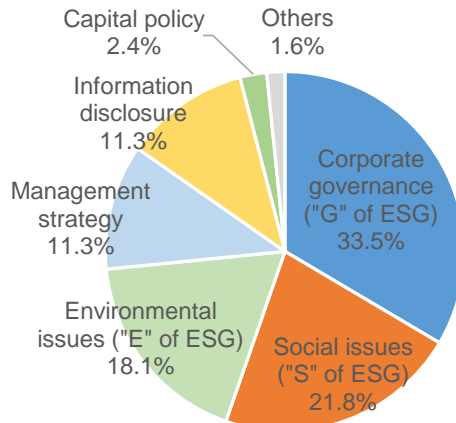
While with respect to some entrusted investment management institutions the number

of cases of engagement significantly declined by such reasons as reduction of the number of engagement staff and change of the method for tabulation, the total number of cases of engagement increased due to such reasons as the presence of entrusted investment management institutions strengthening engagement activity focused on ESG issues.

Total number of cases of engagement (From April 2019 to March 2020)



Share by dialogue item



(Note) The standards for counting the number of cases of engagement vary among entrusted investment management institutions.

(7) ESG Investment

■ Basic approach to ESG investment

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

responsibility of increasing the value of assets 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 corporate value and by encouraging efforts to resolve social challenges, such as environmental, human rights and employment issues.

■ ESG investment initiative

With respect to ESG investment, the Association revised its policies including the Basic Policy for Employees' Pension Insurance Benefit Adjustment Fund in line with the Basic Policy for Funds (public notice issued by four ministries) revised in 2020. The Association's basic policy provides: the necessary initiatives shall be implemented, based on a case-by-case analysis, with a view to promoting investment considering non-financial elements including ESG (Environmental, Social, and Governance) in addition to financial elements based on the approach that the sustainable growth of investee companies and the entire market is necessary for

the increase of return on investment portfolio over long time so as to secure long-term return for the benefit of insured persons.

The Association had taken necessary measures for ESG investment based on case-by-case analysis, even before the present basic policy was revised to incorporate provisions concerning investment considering non-financial factors.

As a result of the survey of entrusted investment management institutions, it was confirmed that most of the products adopted by the Association take into consideration ESG factors in the investment process.

■ Details of ESG investment initiative for each category of asset

(a) Domestic equities

The Association has started investing in ESG products in 2010 with respect to active investment in domestic equities. Subsequently, the Association gradually increased the number of adopted products and the amount of investment.

In light of such factors as growing interest in ESG investment globally, the revision of provisions concerning ESG investment in the Association's policies including the Basic Policy for Employees' Pension Insurance Benefit Adjustment Fund, and the Japanese government's goal to achieve net-zero emission of greenhouse effect gas by 2050 and to realize carbon-free society, the Association adopted three ESG products for

active investment and two ESG products for passive investment in December 2020.

The Association has adopted seven ESG products as of the end of March 2021 (five products for active investment and two products for passive investment), with market capitalization totaling 455.9 billion yen (approximately 14% of the outstanding balance of domestic equities in the Association's portfolio).

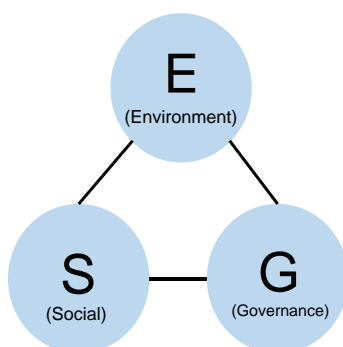
By adopting ESG products (active investment), the Association seeks to earn an excess return; whereas through ESG products (passive investment), it expects to promote sustainable growth of investees and the entire market while curbing the risk of deviation from a policy benchmark to a certain extent.

(b) Domestic bonds

The Association makes investment in ESG bonds as part of in-house investment in domestic bonds.

As a "responsible investor," in order to support the resolution of challenges, such as environmental issues and social challenges facing the community, the Association started

investing in ESG bonds as part of in-house investment in FY2019. For the time being, the Association intends to make investment mainly in ESG bonds issued by local governments and institutions funded by a fiscal investment and loan program.



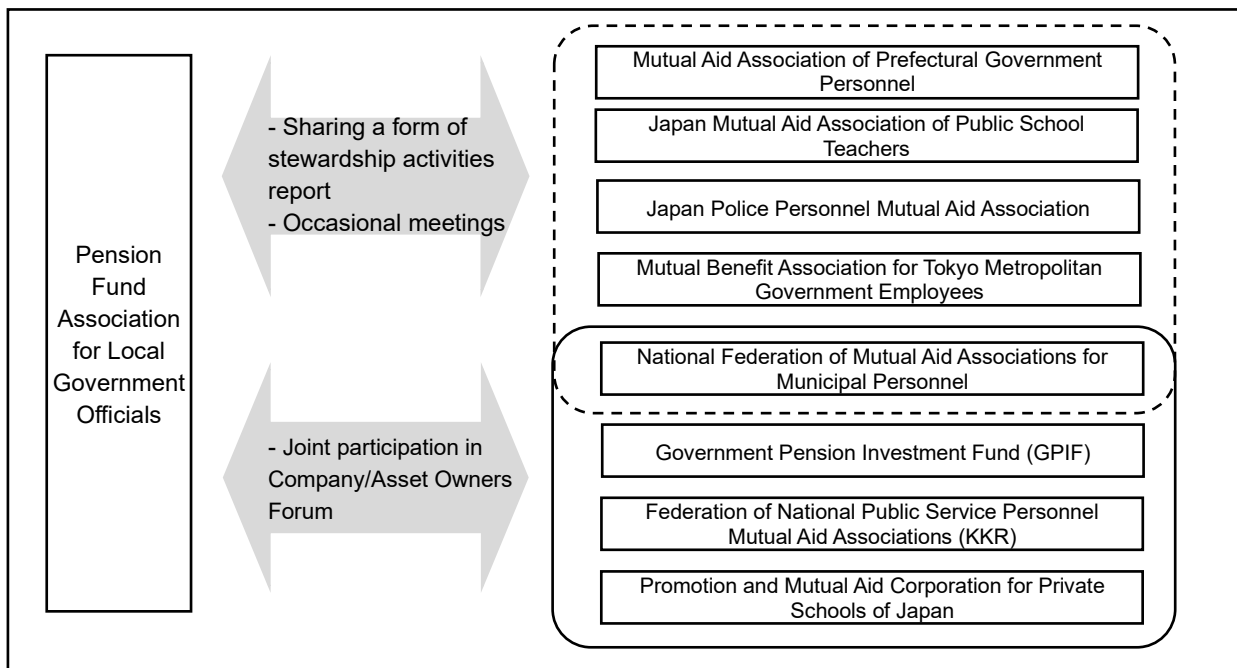
(8) Collaboration with other public pension funds, etc.

In order to enhance the effectiveness and efficiency of stewardship activity, the Association holds meetings on stewardship activity with member associations and uses common forms of reports concerning stewardship activity to be submitted by entrusted investment management institutions.

In addition, the Association is engaged in collaboration with other public pension funds,

by such means as participating in a Business/Asset Owners Forum (this forum is held in order to let participating companies exchange opinions about constructive dialogue with entrusted investment management institutions and to allow GPIF and other asset owners to use the results as a reference for stewardship activity).

[Collaboration with other public pension funds, etc.]



※ In light of preventing the spread of COVID-19, the forum for fiscal year 2020 was canceled.

(9) Future initiatives

The Association 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 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.

■ Dialogue with entrusted investment management institutions and accumulation of knowledge within the Association

From the viewpoint of continuously enhancing the effectiveness of stewardship activity, the Association will conduct dialogue with entrusted investment management institutions about matters of priority and accumulate knowledge concerning stewardship activity.

■ Consideration of expansion of the scope of assets covered by stewardship activities

From the standpoint of fulfilling its stewardship responsibility, the Association has been considering expanding the scope of assets covered by stewardship activities by such way as grasping the status of entrusted investment management institutions conducting stewardship activities relating to assets other than equities and will implement necessary measures to the extent possible.

■ Promotion of investment taking into consideration non-financial factors

From the viewpoint of securing long-term profit for the sake of insured persons' interests, the Association will also continue to conduct necessary activities after considering promoting investment taking into consideration non-financial factors, including ESG factors, in addition to financial factors. Further, the Association will consider supporting the Task Force on Climate-related Financial Disclosures (TCFD).

■ Revision of the Corporate Governance Principles, etc.

The Association will revise the Corporate Governance Principles, the Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities/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.

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.

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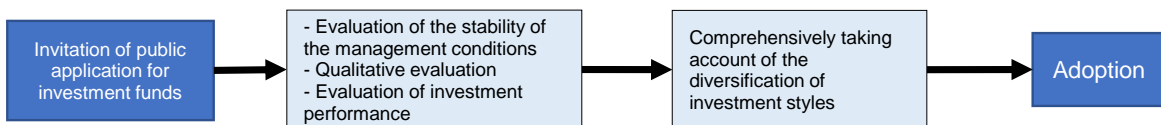
Selection and management of entrusted investment management institutions, etc. (traditional assets)

■ Approach to selection

In accordance with the criteria prescribed by policies including the Basic Policy for Employees' Pension Insurance Benefit Adjustment Fund, 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 evaluation of the stability of the applicant institutions' management conditions (capital amount, financial position, number of employees, customer base, etc.) and the qualitative evaluation of the applicant institutions' investment philosophy, investment

methodology, investment structure, compliance system, etc.

In light of the purpose of the selection, the Association also conducts the evaluation as to whether or not the applicant institutions have achieved good investment performance over a period of time longer than the prescribed duration and the evaluation as to whether the proposed investment funds 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 (various factors).



■ Asset Manager Registration System

The Association introduced an Asset Manager Registration System, which started in fiscal year 2015 with respect to alternative investments,

also with respect to traditional assets, and has started accepting entries with respect to all asset classes.

■ Selection of entrusted investment management institutions

The Association selected new entrusted investment management institutions adopting ESG-focused strategies with respect to domestic equities through the Asset Manager Registration System. The Association took new steps, such

as adopting passive funds which are increasing the weights of companies with high carbon efficiency.

■ Administration and evaluation of entrusted investment management institutions

The Association seeks monthly reports on the investment status and quarterly reports on the overview of investment results, future investment policy and other matters from entrusted investment management institutions. After reviewing these reports, the Association conducts detailed interviews annually concerning the overview of investment results, future investment policy and other matters and interviews through visits to entrusted 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).

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 fund 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 fund 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 includes investment structure (investment experience, staffing strength and stability of the employee turnover), the investment process (whether the process is functioning as proclaimed and presence or absence of reproductivity, reasonableness and flexibility), and investment considering ESG elements.

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).

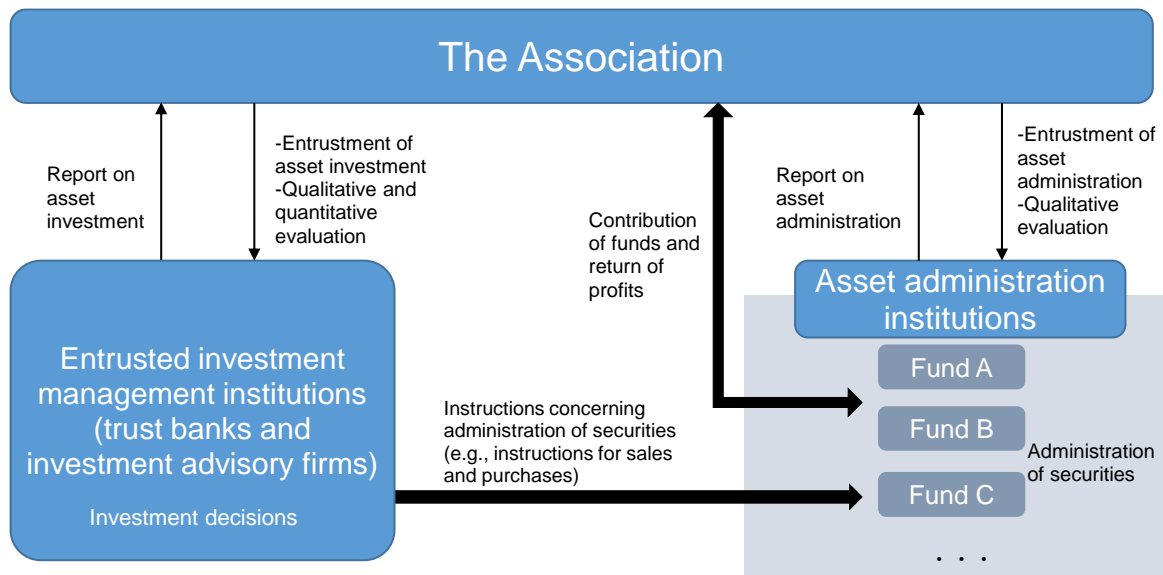
The Association allocates funds in a consistent manner across the entire portfolio in consideration of not only the results of comprehensive evaluation but also the balance of strategy categories in each asset class and the balance of funds in each category.

■ Administration and evaluation of 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.

【Relationships with entrusted investment management institutions and asset administration institutions】



1 Establishment

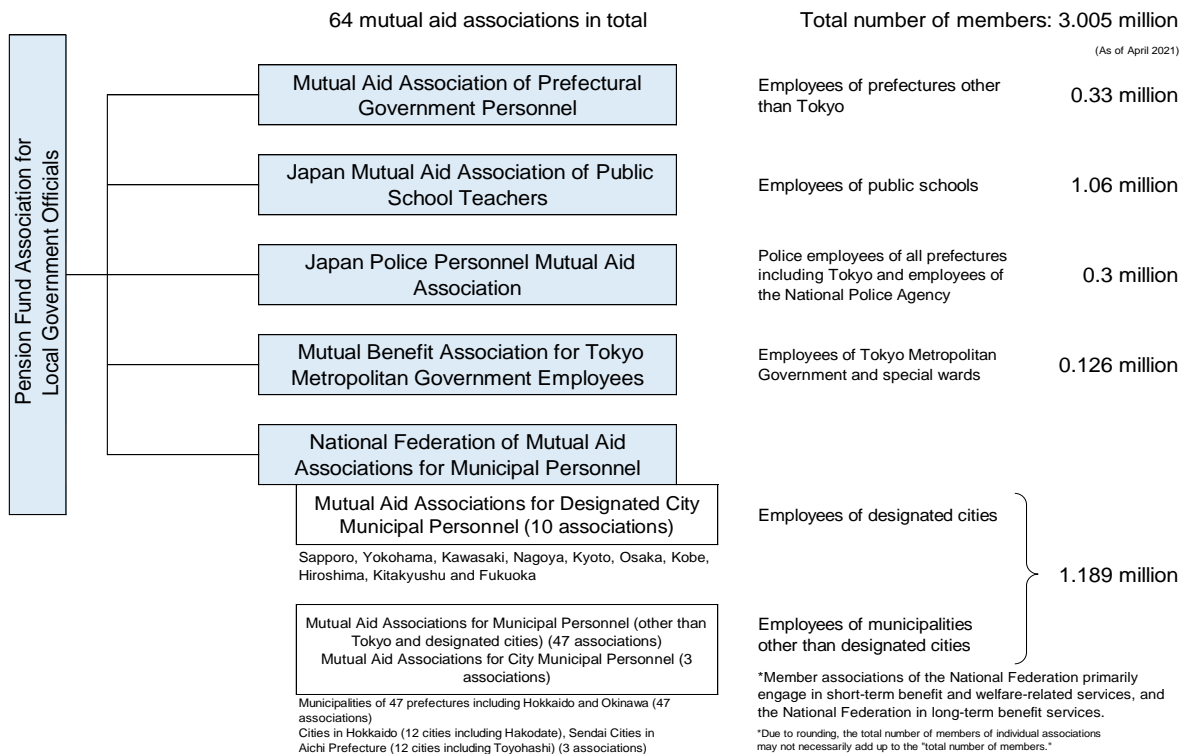
Article 43 of the Local Public Service Act provides "A mutual aid system shall be implemented in order to provide appropriate benefits in cases of employees' illness, injury, childbirth, involuntary leave, calamity, retirement, disability or death, or their dependents' illness, injury, child birth, death 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 member 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 Association has become a federation comprising all member associations.

Outline of Local Public Service Mutual Aid Associations



2 Major operations

The Association conducts the following operations in order to maintain sound management of pension systems related to local government officials.

- Administration and investment of funds
- Investment of surplus funds entrusted by member associations
- Provision of technical and professional knowledge and reference materials related to operations concerning long-term benefits of member associations
- Exchange of information and communication and coordination with the implementing organizations prescribed under the EPI Act
- Matters concerning contributions and grants related to employees' pension insurance. Payment of National Pension contributions.
- Calculation of the following items related to retirement and other pension benefits: the entitlement rate, the standard interest rate, the present value rates of lifetime pensions and fixed-term pensions, and the ratio of the standard monthly remuneration to premiums and the ratio of the standard term-end allowances, etc. to premiums
- Handling of matters related to payment to and receipt from the KKR of fiscal adjustment contributions
- Exchange of information related to special levies of nursing care insurance premiums, etc. from pension benefits
- Businesses related to sharing of pension information under the "My Number" system
- Operations intended to achieve other objectives (e.g., administrative works related to the aggregation of pension coverage periods in Japan and other countries)

3 Organization

(1) Governing Council

Pursuant to the provisions of the Local Public Officers, etc. Mutual Aid Association Act, the Association is required to establish a Governing Council. The Minister for 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.

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

■ Outline of Fund Management Committee of Pension Fund Association for Local Government Officials

To study expert matters pertaining to the administration and investment of adjustment funds based on the Basic Policy for Employees' Pension Insurance Benefit Adjustment Fund, 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 (the "Fund Management Committee").

The Fund Management Committee can discuss and receive reports concerning expert matters related to the administration and investment of each adjustment fund and also can express its opinions on important matters upon request from the President.

■ Matters for deliberation and report by the Fund Management Committee

Deliberation matters	Reporting matters
<ul style="list-style-type: none"> • Matters concerning establishment and revision of the basic policy • Matters concerning establishment and revision of risk management implementation policy • Matters concerning establishment and revision of investment policy for new investment instruments • Matters concerning establishment and revision of flexible investment policies • Matters concerning establishment and revision of the selection criteria for entrusted investment management institutions, etc. • Matters concerning the revision, etc. of the Corporate Governance Principles and the Guidelines for Exercising Shareholders' Voting Right • Other expert matters concerning the administration and investment of each adjustment fund 	<ul style="list-style-type: none"> • Investment performance • Status of risk management • Investment status of new investment instruments • Status of selection of entrusted investment management institutions, etc. • Status of stewardship activities • Status of training and nurturing of expert personnel • Other matters required by the Fund Management Committee concerning the administration and investment of each adjustment fund

■ List of Fund Management Committee Members (As of April 1, 2021)

Hidetaka Kawakita	Kyoto University, Professor Emeritus
Konosuke Kita	Russell Investments Japan Co., Ltd. Executive Consultant/Director, Consulting
Hisae Sato	Trustee, International Christian 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 Director Head of Pension Research, CMA Financial Research Department
Chairperson Takaaki Wakasugi	The University of Tokyo, Professor Emeritus Chairman, Japan Corporate Governance Research Institute

■ Past Meetings of the Fund Management Committee

Meeting number	Meeting date	Main theme
35th Meeting	September 18, 2020	<ul style="list-style-type: none"> ▪ Review of Operations reports concerning administration and investment of individual funds in FY2019 (Association) ▪ Status of investment of individual funds in the first quarter of FY2020 (Association) ▪ Status of risk management of individual funds in FY2019 (Association) ▪ Status of risk management of individual funds in the first quarter of FY2020 (Association) ▪ Examination of the benchmark portfolio of the Annuity Retirement Benefit Adjustment Fund ▪ Development of a medium-term investment plan for alternative assets ▪ Signup to Japan's Stewardship Code (second revised version) ▪ Status of asset allocation in FY2020 (April-July)
36th Meeting	March 19, 2021	<ul style="list-style-type: none"> ▪ Status of investment of individual funds in the third quarter of FY2020 (Association) ▪ Status of risk management of individual funds in the third quarter of FY2020 (Association) ▪ Examination of the benchmark portfolio of the Employees' Pension Insurance Benefit Adjustment Fund ▪ Examination of the benchmark portfolio of the Transitional Long-term Benefit Adjustment Fund ▪ Status of investment in alternative assets ▪ Results of selecting domestic equity products ▪ Annual Stewardship Activity Report FY2020 ▪ Investment policy for FY2021

(3) Executives and Secretariat

■ Executives

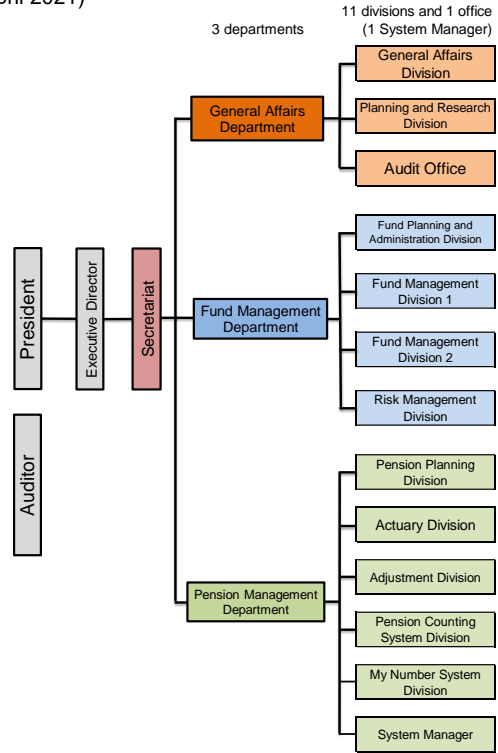
The Association is required to appoint the President, eight executive directors and three auditors. The President, two of the executive directors, and one of the auditors must serve on a full-time basis.

■ Secretariat

The Association's Secretariat is comprised of three departments, 11 divisions (there is also a system manager outside the divisions), and one office.

As of April 1, 2021, the prescribed number of employees at the Secretariat is 80.

(As of April 2021)



(4) Meetings

■ Asset Management Committee

The Association has established the Asset Management Committee, which is chaired by a full-time executive director responsible for fund management, in order to conduct preliminary deliberation when the President makes important decisions concerning the management of status of investment of funds of member associations as well as the management and

investment of funds by the Association.

In principle, the Committee shall hold a regular weekly meeting and shall also meet as necessary.

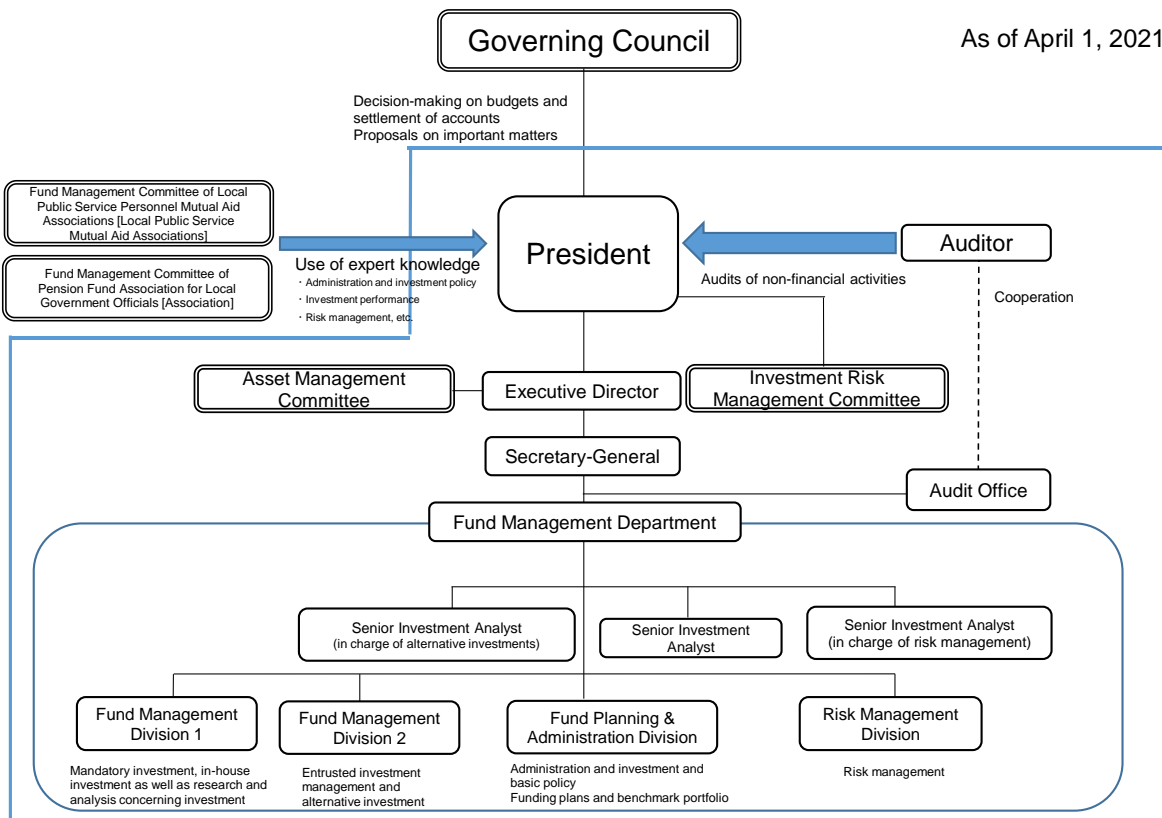
The chairperson shall promptly report to the President on the status of discussions at the Committee.

■ 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 funds 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.

(5) Governance structure



4 Investment of funds

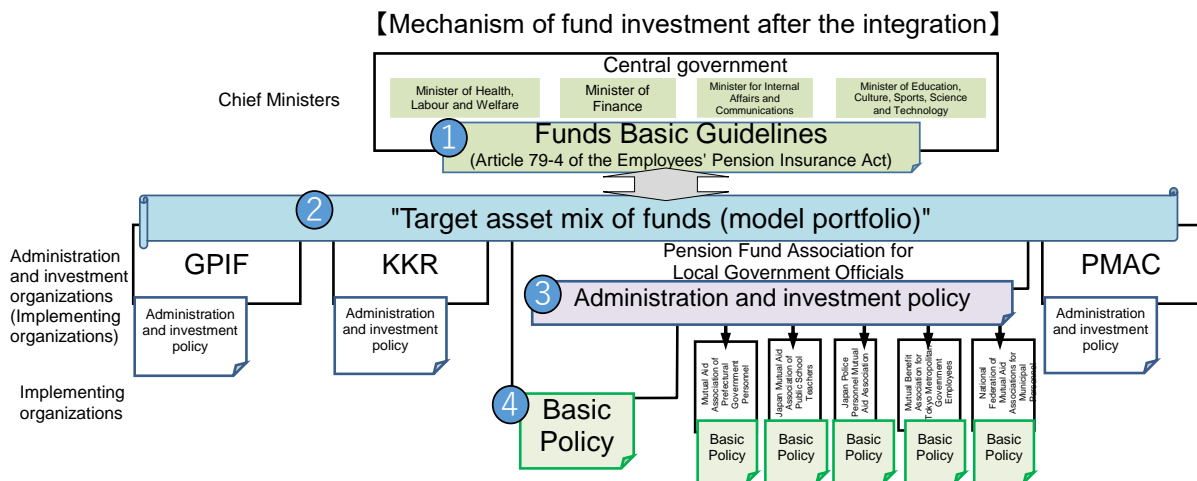
(1) Mechanisms

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 establish 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 Association, and the PMAC) jointly establish the target asset mix of funds (model portfolio) based on the Funds Basic Guidelines. (②)

The Association establishes the administration and investment policy subject to approval from the Minister for Internal Affairs and Communications (③) and individual implementing organizations establish basic policies on funds 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 overall assets and each asset class in each fiscal year as well as over the long term.

