

**Pension Fund Association for
Local Government Officials**

Fiscal Year 2022

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)

Table of Contents

- Fiscal Year 2022 Investment Results (Overview)** 3

- Section 1 Administration and Investment of Funds in FY2022** 5
 - 1 Investment results 5
 - 2 Risk management 9
 - 3 Contribution analysis of excess return by asset 12
 - 4 Alternative assets 16
 - 5 Stewardship activities 22
 - 6 Other major efforts 29

- Section 2 Businesses and Fund Management of Association** 33
 - 1 Establishment 33
 - 2 Major operations 34
 - 3 Organization 34
 - 4 Investment of funds 39

Fiscal Year 2022 Investment Results (Overview)



Investment return:

1.63%

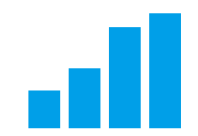
(Time-weighted return before the deduction of fees, etc.)



Investment income:

¥223.3 billion

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



Value of investment assets:

(As of the end of March 2023)

¥13,964.9 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 fiscal year 2022, it should be kept in mind that it includes valuation gains/losses, which means it may change depending on market movements.

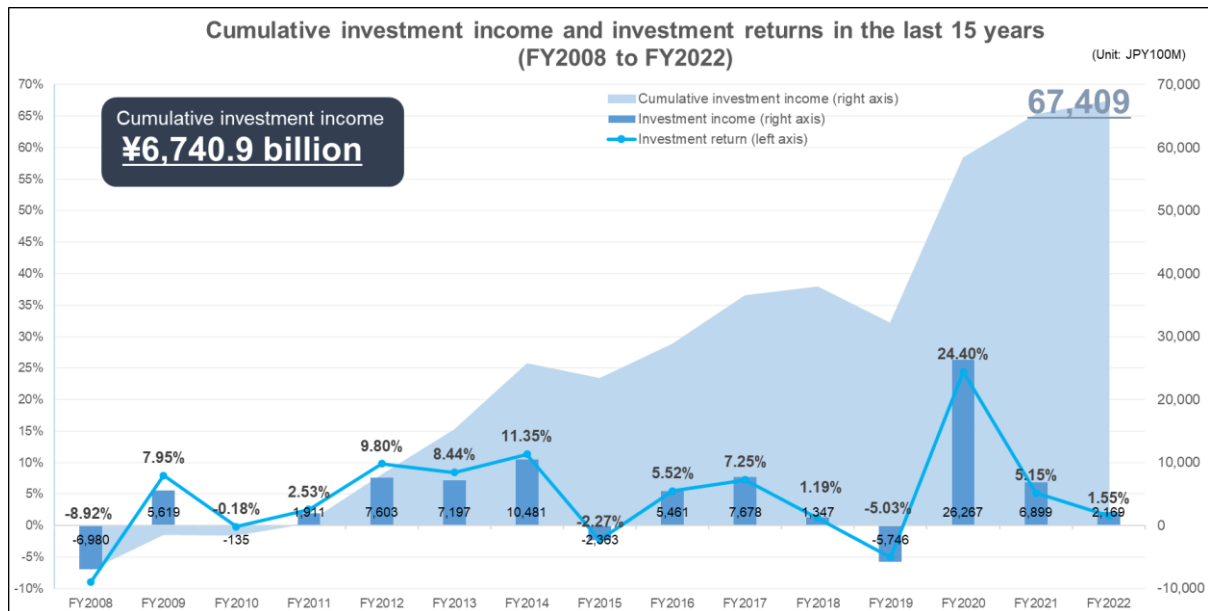
◆ Long-term status of investments (last 15 years)

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

¥6,740.9 billion

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

4.31%



<Changes in the real investment return concerning funds>

	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	Average of 15 years
Nominal investment return	-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%	5.15%	1.55%	4.31%
Nominal wage growth	-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%	1.26%	1.67%	0.16%
Real investment return	-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%	3.84%	-0.12%	4.15%

(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 figures for nominal investment return represent modified total returns (after the deduction of fees, etc.)

(Note 3) 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 4) 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 5) 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.

Section 1

Administration and Investment of Funds in FY2022

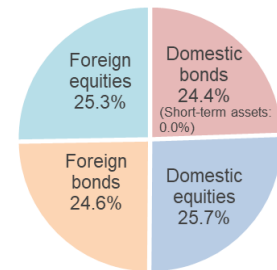
1 Investment results

(1) Asset mix

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

	End of FY2021	Fiscal Year 2022				Benchmark portfolio
		End of Q1	End of Q2	End of Q3	End of FY	
Domestic bonds	24.1	24.6	24.9	25.1	24.4	25.0
Short-term assets	(0.2)	(0.0)	(0.0)	(0.0)	(0.0)	
Domestic equities	25.1	24.8	24.8	25.5	25.7	25.0
Foreign bonds	24.7	25.7	25.6	24.4	24.6	25.0
Foreign equities	26.1	24.9	24.8	25.0	25.3	25.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Composition by Investment Asset Class
(as of end of FY2022)



(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 fiscal year 2022, the ratio of alternative assets to the total amount of funds is 1.9% (the upper limit is 5%).

(2) Investment return

The time-weighted return came to 1.63% due to factors such as rises of domestic equities.

	Fiscal Year 2022				
	Q1	Q2	Q3	Q4	FY Total
Time-weighted return	-1.81	-0.78	-1.12	5.50	1.63
Domestic bonds	-1.14	-0.64	-1.90	2.08	-1.64
Short-term assets	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Domestic equities	-3.56	-0.75	3.08	7.16	5.73
Foreign bonds	2.98	-1.29	-5.55	4.37	0.20
Foreign equities	-5.34	-0.48	-0.01	8.28	1.99

	Fiscal Year 2022				
	Q1	Q2	Q3	Q4	FY Total
Modified total returns	-1.80	-0.78	-1.12	5.48	1.60

	Fiscal Year 2022				
	Q1	Q2	Q3	Q4	FY Total
Realized return (book value basis)	1.34	1.32	0.91	1.06	4.62

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

(Note 2) The time-weighted return and modified total 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 time-weighted return for overall assets was 1.63% and the composite benchmark return for overall assets was 1.57%. The excess return over the composite benchmark was 0.07%.

	Overall assets
Time-weighted return	1.63%
Composite benchmark return	1.57%
Excess return	0.07%

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Time-weighted return	-1.64%	5.73%	0.20%	1.99%
Benchmark return	-1.65%	5.81%	-0.56%	1.88%
Excess return	0.02%	-0.09%	0.76%	0.11%

(Note 1) The time-weighted return represents the figure before the deduction of fees, etc.

(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 0.07% can be broken down as follows: asset allocation factor: -0.12%; individual asset factor: 0.18%; other factors: 0.00%.

	Asset allocation factor ①	Individual asset factor ②	Other factor ③ (including errors)	①+②+③
Domestic bonds	-0.04%	0.00%	0.00%	-0.04%
Domestic equities	0.00%	-0.02%	0.00%	-0.02%
Foreign bonds	-0.03%	0.19%	-0.00%	0.15%
Foreign equities	-0.05%	0.02%	0.00%	-0.03%
Total	-0.12%	0.18%	0.00%	0.07%

(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 ¥223.3 billion.

(Unit: JPY100M)

	Fiscal Year 2022				
	Q1	Q2	Q3	Q4	FY Total
Investment income (market value basis)	-2,486	-1,055	-1,499	7,273	2,233
Domestic bonds	-381	-218	-639	694	-543
Short-term assets	(0)	(0)	(0)	(0)	(0)
Domestic equities	-1,233	-253	1,038	2,419	1,972
Foreign bonds	1,000	-448	-1,896	1,420	76
Foreign equities	-1,873	-136	-2	2,740	728

(Unit: JPY100M)

	Fiscal Year 2022				
	Q1	Q2	Q3	Q4	FY Total
Realized income (book value basis)	1,511	1,510	1,048	1,237	5,305

(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 ¥13,964.9 billion.

(Unit: JPY100M)

	End of FY2021			End of FY2022											
				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	33,393	33,240	-153	33,534	33,072	-462	33,918	33,214	-704	34,442	33,141	-1,301	34,756	34,134	-622
Short-term assets	(277)	(277)	(0)	(18)	(18)	(0)	(5)	(5)	(0)	(25)	(25)	(0)	(12)	(12)	(0)
Domestic equities	27,141	34,626	7,485	27,404	33,394	5,990	27,686	33,148	5,461	27,880	33,649	5,770	28,345	35,850	7,505
Foreign bonds	33,108	34,079	971	32,886	34,645	1,759	33,280	34,187	908	33,567	32,245	-1,321	34,692	34,368	-324
Foreign equities	19,269	35,927	16,658	19,602	33,595	13,993	19,725	33,074	13,350	19,979	33,007	13,028	20,031	35,297	15,265
Total	112,911	137,872	24,961	113,425	134,706	21,281	114,609	133,624	19,015	115,867	132,043	16,175	117,824	139,649	21,825

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	1,445	-731	229	-1,335

(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 ¥6.4 billion. The fee rate relative to the value of investment assets came to 0.05%.

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 2022	
	Fee	Fee rate
Domestic bonds	6	0.02
Domestic equities	17	0.05
Foreign bonds	13	0.04
Foreign equities	22	0.06
Alternative assets	6	0.26
Overall assets	64	0.05

(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 the Fund Management Committee of Pension Fund Association for Local Government Officials. 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

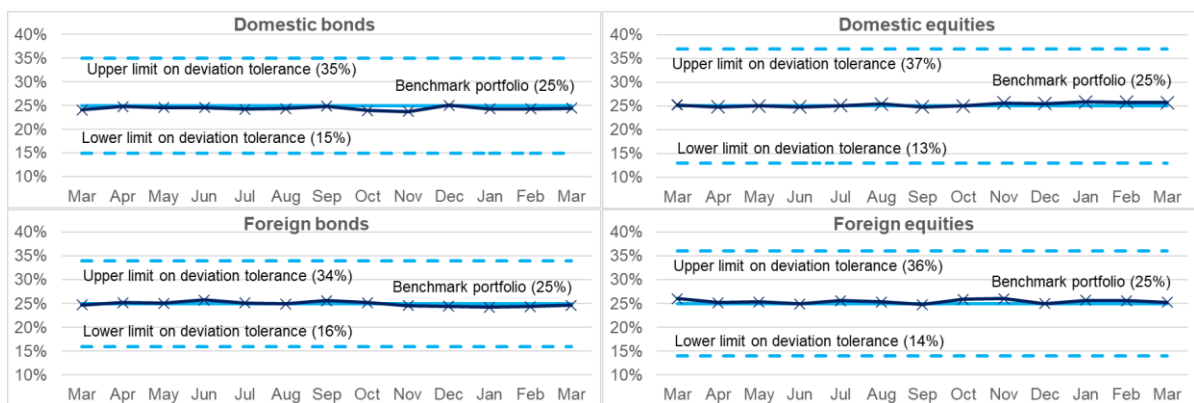
The Association reports on the status of risk management and improvement measures implemented to the Investment Risk Management Committee, the Fund Management Committee of Pension Fund Association for Local Government Officials and the Governing Council.

(3) Status of risk management (overall assets)

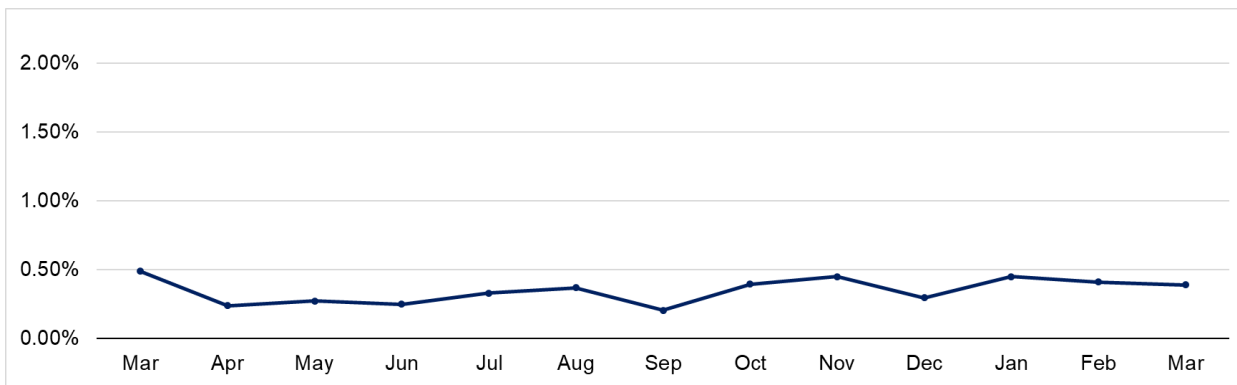
The shares in the asset mix concerning all asset classes—domestic bonds, domestic equities, foreign bonds and foreign equities—stayed within the deviation tolerance.

The estimated tracking error concerning overall assets generally stayed stable despite some changes due to the market factor and other factors.

【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 Contribution analysis of excess return by asset

(1) Domestic bonds

■ Contribution analysis of the excess return

By factor, the excess return of 0.02% on domestic bonds can be broken down as follows: fund factor: 0.00%; benchmark factor: -0.01%; other factors: 0.02%.

Regarding the fund factor, funds for mandatory investment made negative contributions due to the expansion of the spread for municipal bonds, while domestic real estate funds, which secured stable income gains, made positive contributions.

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

Time-weighted return ①	Benchmark ②	Excess Return ①-②	Fund factor	Benchmark factor	Other factor
- 1.64%	- 1.65%	0.02%	0.00%	- 0.01%	0.02%

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

	Mandatory investment, etc.	Inflation-indexed bonds	Nomura BPI Overall (Passive)	Nomura BPI Overall (Enhanced)	Nomura BPI Overall (Active)	NOMURA-BPI CaRD Index	Non-benchmark
Fund factor	- 0.08%	0.02%	0.00%	0.01%	0.02%	- 0.00%	- 0.04%
Benchmark factor			0.00%	0.00%	0.00%	- 0.01%	

	Domestic real estate, etc.	Short-term assets	Total
Fund factor	0.07%	0.00%	0.00%
Benchmark factor			- 0.01%

(Note 1) The time-weighted return represents the figure before the deduction of fees, etc.

(Note 2) 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 3) 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 4) "Other factors" are factors attributable to calculation errors, in-kind asset transfer, etc.

(2) Domestic equities

■ Contribution analysis of the excess return

By factor, the excess return of -0.09% on domestic equities can be broken down as follows: fund factor: -0.04%; benchmark factor: -0.06%; other factors: 0.01%.

Regarding the fund factor, funds oriented toward growth stocks, such as TOPIX Mid 400 (Active), made negative contributions.

As for the benchmark factor, SOMPO Sustainability Index and other funds oriented towards small- and mid-cap value stocks made positive contributions, while MSCI Japan ESG Select Leaders Index and other funds oriented toward large-cap growth stocks made negative contributions.

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

Time-weighted return ①	Benchmark ②	Excess Return ①-②	Fund factor	Benchmark factor	Other factor
5.73%	5.81%	- 0.09%	- 0.04%	- 0.06%	0.01%

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

	TOPIX (Passive)	JPX-Nikkei 400 (Passive)	Russell/Nomura Prime (Passive)	MSCI JAPAN ESG Select Leaders Index (Passive)	S&P/JPX Carbon Efficient Index (Passive)	TOPIX (Active)	TOPIX Mid400 (Active)
Fund factor	0.03%	0.00%	0.00%	0.00%	- 0.00%	0.01%	- 0.07%
Benchmark factor	0.00%	0.00%	- 0.00%	- 0.15%	- 0.05%	0.00%	0.00%

	FTSE RAFI Japan 350 QSR (Active)	Russell/Nomura Small Cap Index (Active)	SOMPO Sustainability Index (Active)	Non-benchmark	Domestic PE	Total
Fund factor	- 0.00%	- 0.06%	- 0.01%	0.03%	0.03%	- 0.04%
Benchmark factor	0.02%	0.05%	0.06%			- 0.06%

(Note 1) The time-weighted return represents the figure before the deduction of fees, etc.

(Note 2) 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 3) 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 4) "Other factors" are factors attributable to calculation errors, in-kind asset transfer, etc.

(3) Foreign bonds

■ Contribution analysis of the excess return

By factor, the excess return of 0.76% on foreign bonds can be broken down as follows: fund factor: 0.67%; benchmark factor: 0.15%; other factors: -0.06%.

Regarding the fund factor, foreign real estate and other funds that secured stable income gains and FTSE World Government Bond Index (Active), which benefited from the shortening of durations, made positive contributions amid the interest rate rises worldwide.

As for the benchmark factor, Bloomberg Global Aggregate Index, which is relatively underweight in euro-area bonds, made positive contributions.

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

Time-weighted return ①	Benchmark ②	Excess Return ①-②	Fund factor	Benchmark factor	Other factor
0.20%	- 0.56%	0.76%	0.67%	0.15%	- 0.06%

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

	FTSE World Government Bond Index (Passive)	FTSE World Government Bond Index (Active)	Bloomberg Global Aggregate Index (Active)	Foreign real estate, etc.	Total
Fund factor	0.03%	0.05%	- 0.01%	0.59%	0.67%
Benchmark factor	0.00%	0.01%	0.14%		0.15%

(Note 1) The time-weighted return represents the figure before the deduction of fees, etc.

(Note 2) 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 3) The benchmark factor is a factor attributable to the difference between the return for the manager benchmark and the return for the policy benchmark (the FTSE Global Government Bond Index (excluding Japanese and Chinese government bonds; without hedging; on a yen basis)).

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

(Note 4) "Other factors" are factors attributable to calculation errors, in-kind asset transfer, etc.

(4) Foreign equities

■ Contribution analysis of the excess return

By factor, the excess return of 0.11% on foreign equities can be broken down as follows: fund factor: 0.17%; benchmark factor: 0.06%; other factors: -0.12%.

Regarding the fund factor, foreign PE funds and MSCI ACWI (Active) and other funds oriented toward value stocks made positive contributions.

As for the benchmark factor, funds focusing on the European market, such as MSCI Europe and MSCI Europe Value, made positive contributions.

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

Time-weighted return ①	Benchmark ②	Excess Return ①-②	Fund factor	Benchmark factor	Other factor
1.99%	1.88%	0.11%	0.17%	0.06%	- 0.12%

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

	MSCI ACWI (Passive)	MSCI NorthAmerica (Passive)	MSCI Europe and Middle East (Passive)	MSCI Pacific (Passive)	MSCI Emerging Markets (Passive)	MSCI ACWI (Active)	MSCI KOKUSAI (Active)	MSCI Europe (Active)
Fund factor	- 0.15%	0.00%	- 0.00%	- 0.00%	- 0.02%	0.06%	- 0.04%	0.02%
Benchmark factor	0.00%	- 0.12%	0.03%	- 0.00%	- 0.07%	0.00%	0.03%	0.16%

	MSCI Europe Value (Active)	MSCI KOKUSAI Small Cap Index (Active)	Russell 1000 Value Index (Active)	Russell 1000 Growth Index (Active)	S&P 500 Total Return Index (Active)	MSCI Emerging Markets (Active)	Foreign PE	Total
Fund factor	0.04%	- 0.02%	0.02%	0.02%	0.03%	0.00%	0.21%	0.17%
Benchmark factor	0.09%	- 0.03%	0.02%	- 0.03%	- 0.01%	0.01%		0.06%

(Note 1) The time-weighted return represents the figure before the deduction of fees, etc.

(Note 2) 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 3) 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 4) "Other factors" are factors attributable to calculation errors, in-kind 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. As of the end of fiscal year 2022, 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 status of performance of funds and investment assets 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 risk-return profile varies by asset class, such as real estate and PE, and within the same class, it varies by investment strategy and by region and sector of investment.

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 compensates for the low liquidity is added to the return.

The Association is relatively free from liquidity-related constraints because of its long-term investment period. Therefore, by investing in alternative assets, the Association earns premium returns in exchange for sacrificing liquidity with respect to some portions of its investment assets.

■ 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 foreign 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 and post-investment management

■ 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.

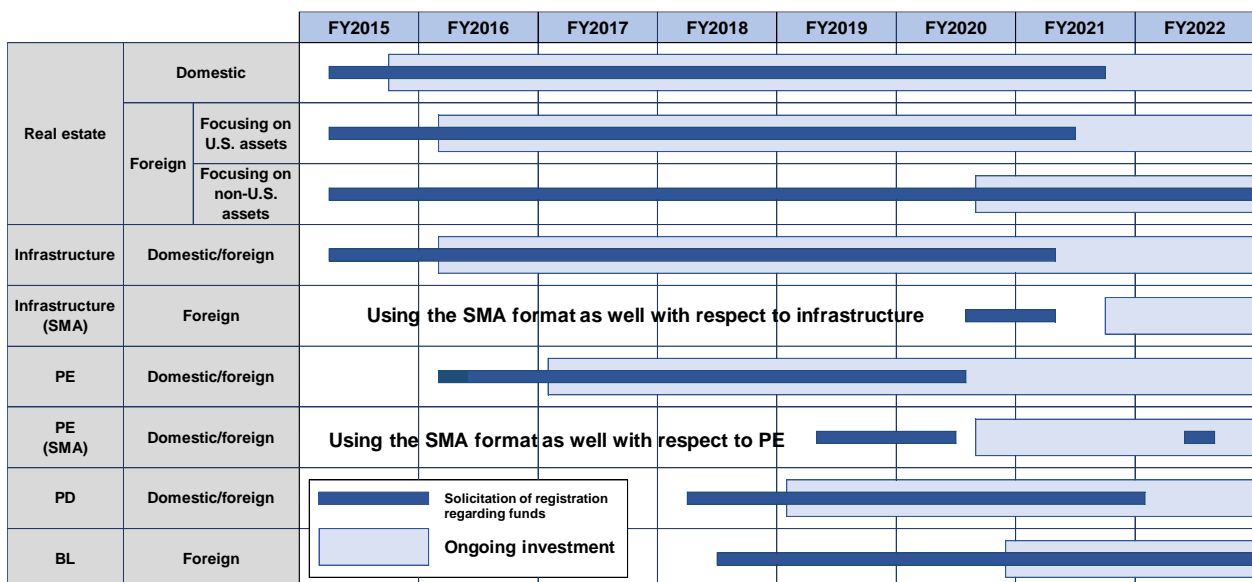
■ Diversification of investment schemes

Under the Asset Manager Registration System, the Association started soliciting registrations with respect to funds investing in domestic and foreign PE in August 2019 and with respect to foreign infrastructure in November 2020 through the SMA (Separately Managed Account) format. SMA refers to a dedicated account under which the gatekeeper manages multiple funds as a whole based on the investor's own investment policy.

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

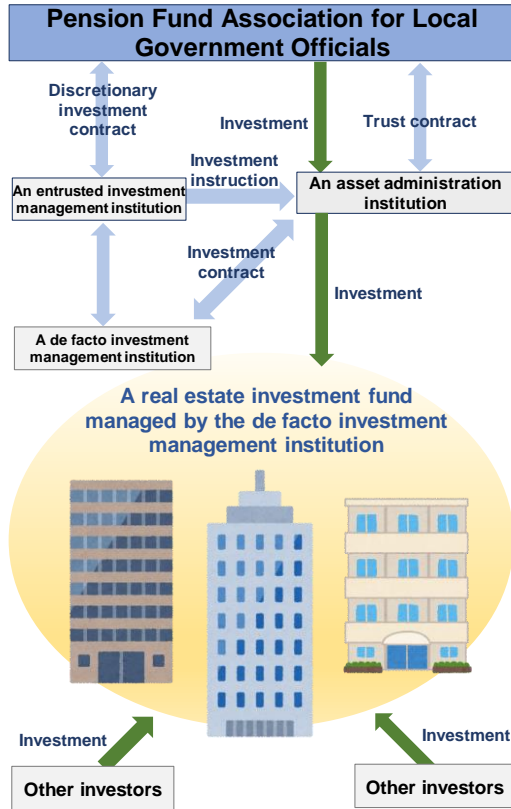
As of the end of fiscal year 2022, the Association uses the SMA format as well with respect to funds investing in PE and infrastructure.

【Solicitation of registration regarding asset classes, etc.】

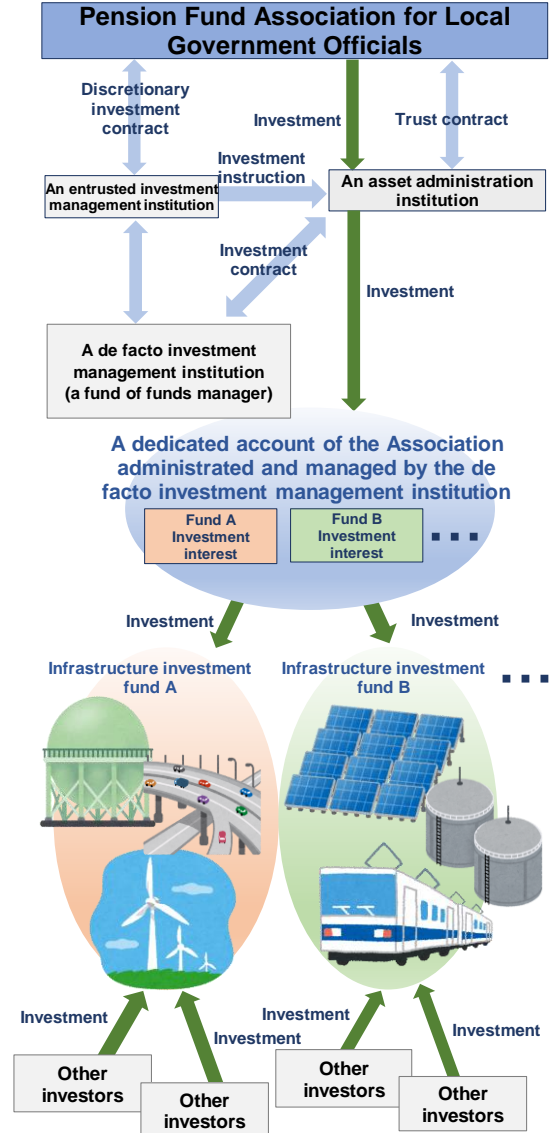


【Investment schemes】 (diagram)

A single fund (an example of real estate investment)



SMA (an example of infrastructure investment)

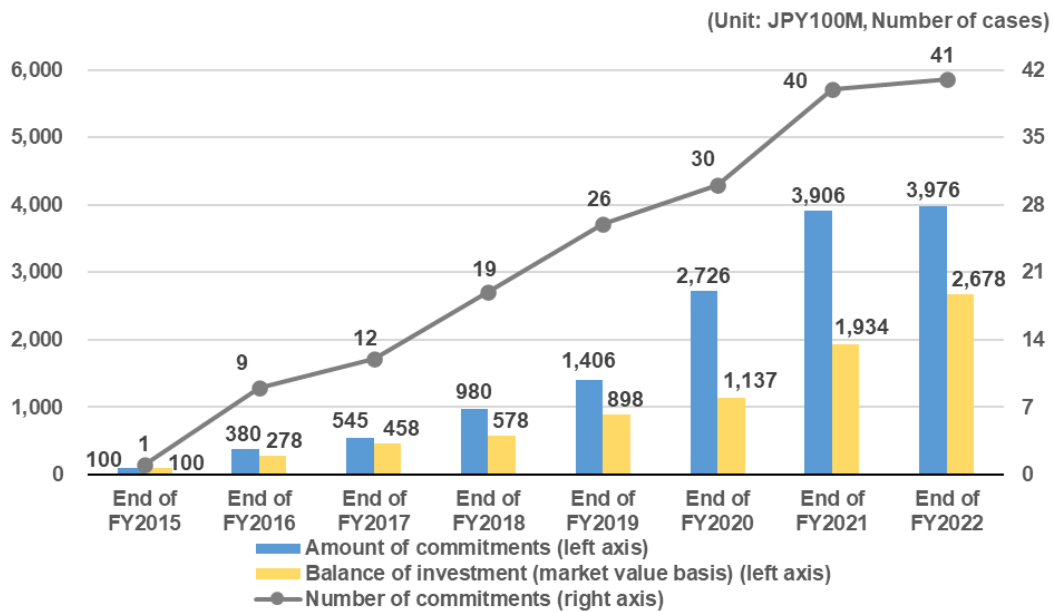


■ Selection of investment funds and the number of funds adopted

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. The Association invests mainly in funds adopting the most risk-restrictive investment strategy in each asset class. As of the end of fiscal year 2022, the Association decided to adopt a total of 41 funds and started investment with respect to 39 of the total, with a total market value of 26.78 billion yen (1.9% of the total amount of 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.

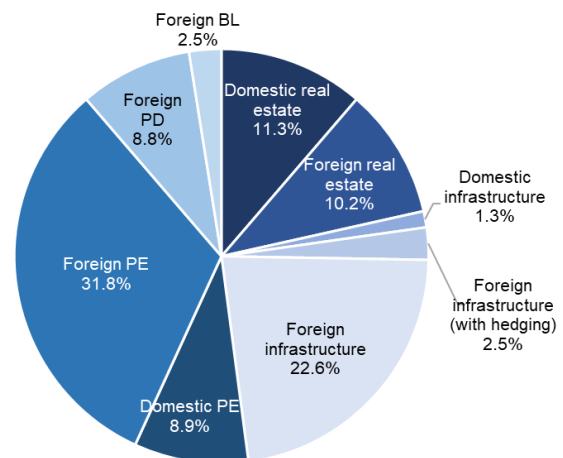
【Changes in the cumulative amount of investment】



【Number of funds adopted】

Investment fund	Number of funds adopted
Domestic real estate	6
Foreign real estate	7
Domestic infrastructure	1
Foreign infrastructure	7
Domestic PE	7
Foreign PE	5
Foreign PD	7
Foreign BL	1
Total	41

【Asset mix】



*Commitment basis as of the end of FY2022

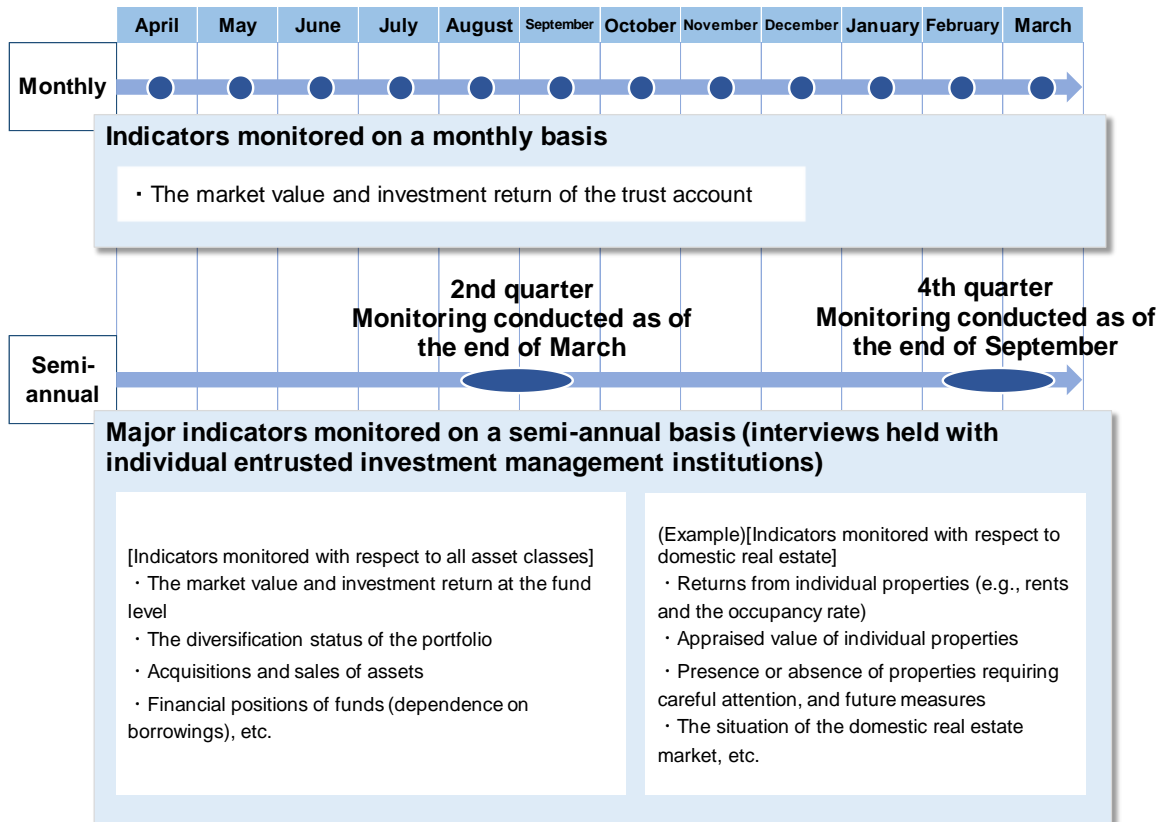
*The number of funds with respect to which contracts had been concluded by the end of FY2022 is indicated.

■ Fund monitoring

Generally speaking, in the case of alternative assets, it is difficult to quantitatively conduct risk management with respect to funds after the start of investment in light of price volatility-based indicators (e.g., standard deviation and tracking error) alone because price formation does not occur on a daily basis, unlike in the case of listed assets. The Association therefore conducts risk management not only quantitatively but also qualitatively, but the qualitative indicators that should be monitored vary across asset classes.

The Association selects the indicators that should be monitored by asset class and checks each fund's investment results and status of investment assets through periodic interviews and also holds interviews with entrusted investment management institutions when incidents that may affect fund management have occurred. If unusual signs have been detected, it checks with entrusted investment management institutions on the cause and planned countermeasures and requests them to make improvements as necessary.

【Monitoring cycle】 (diagram)



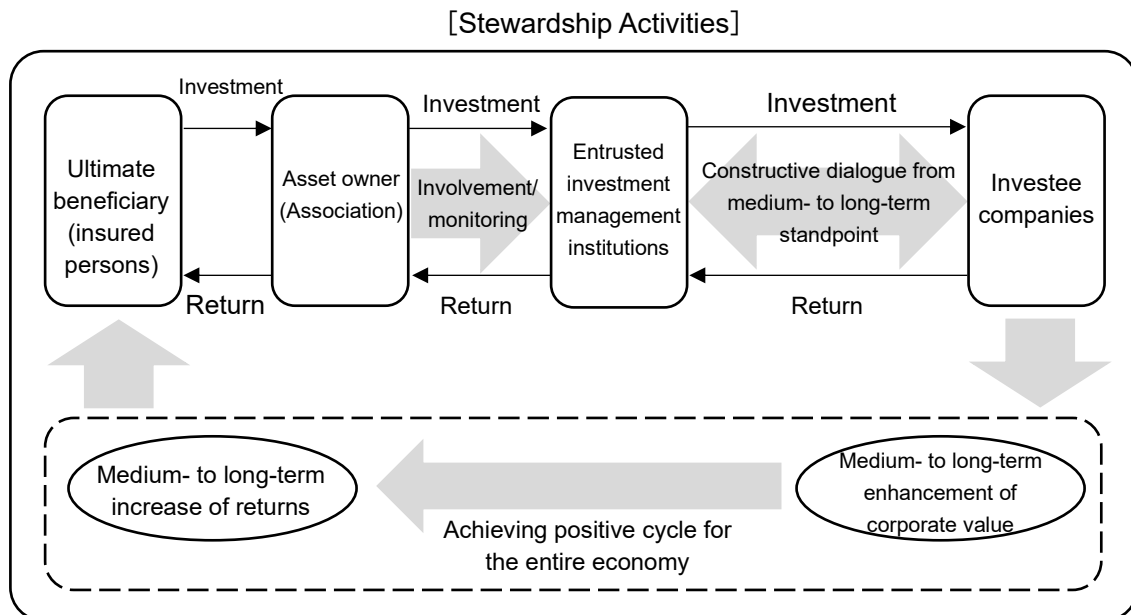
5 Stewardship activities

(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 the exercise of shareholders' voting rights and 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).

The Association is required to fulfill its fiduciary responsibility of increasing the value of its assets for the insured persons 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.



Prepared based on the documents distributed at the 1st meeting (Jan. 2017) of the Council of Experts on the Stewardship Code (Financial Services Agency)

Based on this idea, the Association established the "Corporate Governance Principles of Pension Fund Association for Local Government Officials" (hereinafter referred to as "Corporate Governance Principles") and the "Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities)" in April 2004 and the "Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities)" in April 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 clarified its approach to stewardship activities.

[Chronology of the Association's stewardship activity]

Year	Activities
2002	- Instructed trust banks to exercise voting rights based on specified comprehensive trust contracts.
2003	- Revised the Guidelines so as to require entrusted investment institutions to exercise voting rights based on discretionary investment contracts.
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.
2014	- Signed up to Japan's Stewardship Code.
2015	- Established the policies including the "Administration and Investment Policy for the Managed Reserve Fund for Employees' Pension Insurance Schemes" and the Basic Policies in association with the unification of pension systems. Specified measures to fulfill the stewardship responsibilities.
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).
2020	- Signed up to Japan's Stewardship Code (second revised version).
2022	- Revised the "Corporate Governance Principles of Pension Fund Association for Local Government Officials," the "Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities)" and the "Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities)."

(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 May 2022, the Association held briefing meetings on the direction of the Association's stewardship activity for investment management institutions entrusted with domestic and foreign stock investment in fiscal year 2022 and explained the matters which the Association considers important in relation to stewardship activities.

From May to July, the Association provided feedback regarding its evaluation of stewardship activities in fiscal year 2021 individually to entrusted investment management institutions that requested it.

In July, the Association requested all investment management institutions entrusted with stock investment (14 companies for domestic equities and 16 companies for foreign equities) to submit reports on their initiatives to be evaluated by the Association in fiscal year 2022 with respect to their stewardship activities (i.e., policies, structures, processes for and results of stewardship activities). Based on the reports submitted, the Association held interviews from around October to November focused on the matters which the Association considers important in relation to stewardship activities.

Considering the results of review of the reports and hearing, the Association conducted the evaluation of stewardship activities of entrusted investment management institutions.

Matters which the Association considers important in relation to stewardship activities

[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)**

[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**

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

The Association exercised voting rights through 14 investment management institutions entrusted with domestic stock investment (a total of 29 funds) at a general meeting of shareholders of a total of 14,230 companies held between July 2021 and June 2022. The number of proposals for which voting rights were exercised was 58,777.

Of the 58,777 proposals, 11,153 (including 1,839 shareholder proposals) were voted against, translating into a vote-against rate of 19.0%. The vote-against rate concerning company proposals was 16.4%.

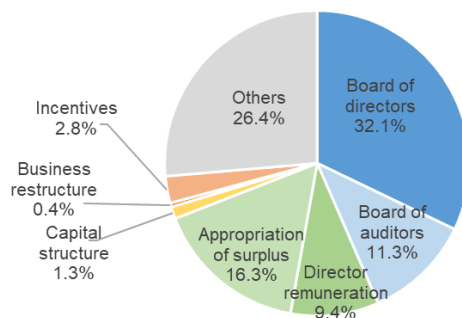
The vote-against rate came to 35.5% concerning proposals related to the board of directors/directors, 13.8% concerning proposals related to the board of auditors/auditors and 16.3% concerning proposals related to director remuneration, etc.

Voting activity (The figures are based on the proposals submitted to general meetings of shareholders held between July 2021 and June 2022.)

Number of proposals by type of proposer	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Company proposal	47,466	83.6%	9,314	16.4%	0	0.0%	56,780
Shareholder proposal	158	7.9%	1,839	92.1%	0	0.0%	1,997
Total	47,624	81.0%	11,153	19.0%	0	0.0%	58,777

Number of proposals by type of proposal	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Board of directors/directors	12,169	64.5%	6,711	35.5%	0	0.0%	18,880
Board of auditors/auditors	5,743	86.2%	923	13.8%	0	0.0%	6,666
Director remuneration, etc.	4,602	83.7%	898	16.3%	0	0.0%	5,500
Appropriation of surplus	9,192	96.1%	375	3.9%	0	0.0%	9,567
Capital structure	294	39.2%	456	60.8%	0	0.0%	750
Takeover defense measures	12	3.6%	322	96.4%	0	0.0%	334
Capital increase or reduction	114	100.0%	0	0.0%	0	0.0%	114
Third party allotment of shares	29	63.0%	17	37.0%	0	0.0%	46
Acquisition of own shares	13	10.8%	107	89.2%	0	0.0%	120
Business restructure	236	94.8%	13	5.2%	0	0.0%	249
Incentives improvement for executives	1,436	85.7%	239	14.3%	0	0.0%	1,675
Other proposals	13,952	90.1%	1,538	9.9%	0	0.0%	15,490
Total	47,624	81.0%	11,153	19.0%	0	0.0%	58,777
Climate-related proposals	51	31.9%	109	68.1%	0	0.0%	160

Share by proposal subject



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

The Association exercised voting rights through 16 investment management institutions entrusted with foreign stock investment (a total of 23 funds) at a general meeting of shareholders of a total of 10,268 companies held between July 2021 and June 2022. The number of proposals for which voting rights were exercised was 98,704.

Of the 98,704 proposals, 15,742 (including 2,159 shareholder proposals) were voted against, translating into a vote-against rate of 15.9%. The vote-against rate concerning company proposals was 14.6%.

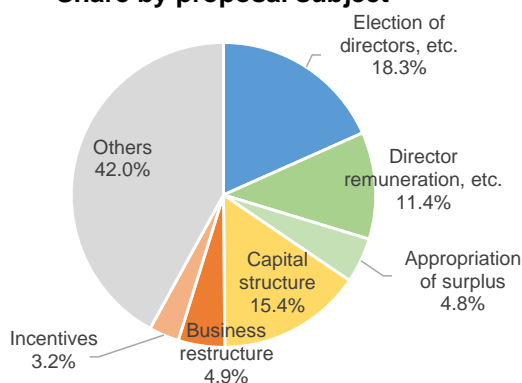
The vote-against rate came to 14.6% concerning proposals related to the election of directors, etc. and 13.7% concerning proposals related to director remuneration, etc.

Voting activity (The figures are based on the proposals submitted to general meetings of shareholders held between July 2021 and June 2022.)

Number of proposals by type of proposer	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Company proposal	79,371	85.3%	13,583	14.6%	127	0.1%	93,081
Shareholder proposal	3,426	60.9%	2,159	38.4%	38	0.7%	5,623
Total	82,797	83.9%	15,742	15.9%	165	0.2%	98,704

Number of proposals by type of proposal	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Proposal for election of directors, etc.	15,409	85.1%	2,646	14.6%	42	0.2%	18,097
Director remuneration, etc.	9,639	86.0%	1,533	13.7%	34	0.3%	11,206
Appropriation of surplus	4,707	99.3%	33	0.7%	1	0.0%	4,741
Capital structure	13,077	86.2%	2,089	13.8%	9	0.1%	15,175
Takeover defense measures	458	96.8%	15	3.2%	0	0.0%	473
Capital increase or reduction	4,807	79.6%	1,226	20.3%	8	0.1%	6,041
Third party allotment of shares	1,517	92.3%	127	7.7%	0	0.0%	1,644
Acquisition of own shares	3,305	96.7%	112	3.3%	1	0.0%	3,418
Business restructure	3,660	75.1%	1,206	24.8%	6	0.1%	4,872
Incentives improvement for executives	1,923	60.9%	1,233	39.0%	4	0.1%	3,160
Other proposals	34,382	82.9%	7,002	16.9%	69	0.2%	41,453
Total	82,797	83.9%	15,742	15.9%	165	0.2%	98,704
Climate-related proposals	320	54.3%	260	44.1%	9	1.5%	589

Share by proposal subject



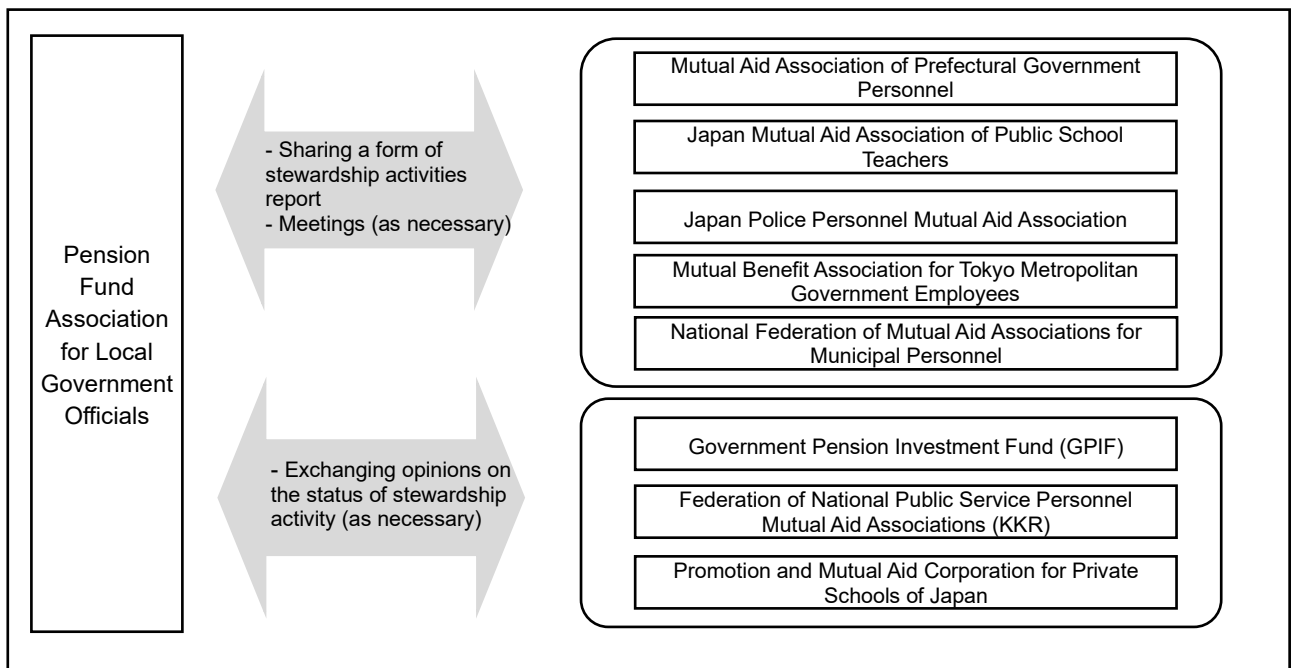
* From the viewpoints of constraints related to the exercise of voting rights and additional cost burden, the exercise of voting rights is limited to 18 countries and regions (the United States, Canada, the United Kingdom, Ireland, Australia, New Zealand, Singapore, Hong Kong, Chile, the Czech Republic, Indonesia, Mexico, the Philippines, South Africa, Taiwan, Thailand, Pakistan and China A Stock).

(5) 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 on an as-needed basis 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 cooperating with other public pension funds, such as GPIF, as necessary, while exchanging opinions on the ideal ways of stewardship activity and other matters.

[Collaboration with other public pension funds, etc.]



(6) 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.

In fiscal year 2023, the Association plans to start monitoring the stewardship activities of investment management institutions entrusted with bond investment.

■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. In addition, the Association will continue to check whether the activities of investment management institutions entrusted with equity investment take sustainability into consideration when monitoring their stewardship activities.

■Revision of the Corporate Governance Principles, etc.

The Association will revise the "Corporate Governance Principles" and 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.

6 Other major efforts

(1) ESG Investment

■ Basic approach to ESG investment

As the Association invests pension funds over the long term, the Association considers it 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.

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 revised Basic Policy for Funds (public notice issued by four ministries). The Association's basic policy revised in fiscal year 2020 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 Basic Policies were revised to incorporate provisions concerning investment considering non-financial factors.

■ Initiatives concerning ESG Investment

• Consideration of the ESG factors for funds managed by entrusted institutions

The Association evaluates the status of consideration of the ESG factors in the processes of annual comprehensive evaluation of funds managed by entrusted institutions and selection of new funds. That also applies to alternative investments. In particular, in the case of investment management institutions entrusted with real estate and infrastructure investments, the Association recommends the acquisition of the GRESB(*) certification and conducts checks on the status of relevant activities.

It also requests investment management institutions entrusted with equity investment to take sustainability (medium- to long-term sustainability, including regarding the ESG factors) into consideration when conducting engagement activity or exercising voting rights as part of stewardship activity and checks the status of those activities.

* GRESB (Global Real Estate Sustainability Benchmark) is a global benchmark for the evaluation of the status of ESG-related activities conducted by companies and funds owning and managing real estate and infrastructure assets. GRESB gives ratings based on evaluation using two sets of metrics—the "management" metrics, which look at the status of development of organizational systems and policies related to ESG, and the "performance" metrics, which look at the volume of energy usage regarding specific assets and the status of acquisition of environmental certification.

- Investment in ESG funds as part of equity investment

The Association has started investing in ESG funds in fiscal year 2009 with respect to active investment in domestic equities. Subsequently, the Association gradually increased the number of adopted funds and the amount of investment. In fiscal year 2020, the Association started investing in ESG funds as part of passive investment in domestic equities, and in fiscal year 2022, as part of active investment in foreign equities.

As of the end of fiscal year 2022, the Association has adopted seven ESG funds concerning domestic equities (five funds for active investment and two funds for passive investment), with a total value (market value) of 481.7 billion yen (approximately 13.4% of the outstanding balance of domestic stocks in the Association's portfolio), and two ESG funds concerning foreign equities (two funds for active investment), with a total value (market value) of 54.1 billion yen (approximately 1.5% of the outstanding balance of domestic stocks in the Association's portfolio).

By adopting ESG funds for active investment, the Association seeks to earn an excess return while fully taking into consideration ESG factors in the investment process. Regarding the ESG funds for passive investment, the Association expects that its investment in ESG funds (ESG indexes) will attract attention to ESG indexes and encourage a wide range of companies to conduct activities to correct ESG-related problems with the aim of increasing corporate value, thereby boosting the overall value of the whole of the domestic stock market.

- Investment in ESG bonds as part of bond investment

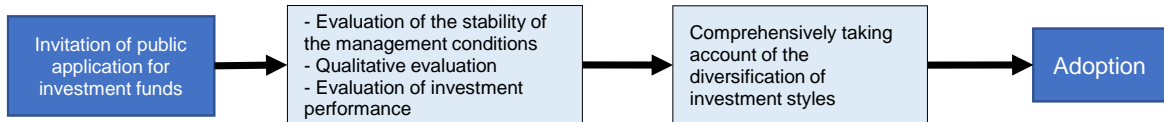
The Association started investing in products considering ESG factors as part of in-house investment in domestic bonds in fiscal year 2019. For the time being, the Association intends to make investment mainly in ESG bonds issued by local governments and institutions funded by a fiscal investment and loan program. As of the end of fiscal year 2022, the total value (book value) is 5.2 billion yen (0.1 billion yen for local government bonds and 5.1 billion yen for bonds issued by institutions funded by a fiscal investment and loan program).

(2) 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, consideration of ESG factors, 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 the Asset Manager Registration System, which started in fiscal year 2015 with respect to alternative investments, also with respect to traditional assets in fiscal year 2016, and has started accepting registrations with respect to all asset classes.

■ Selection of entrusted investment management institutions

In fiscal year 2022, the Association selected new entrusted investment management institutions with respect to domestic equities and foreign equities through the Asset Manager Registration System.

■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 fund.

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.

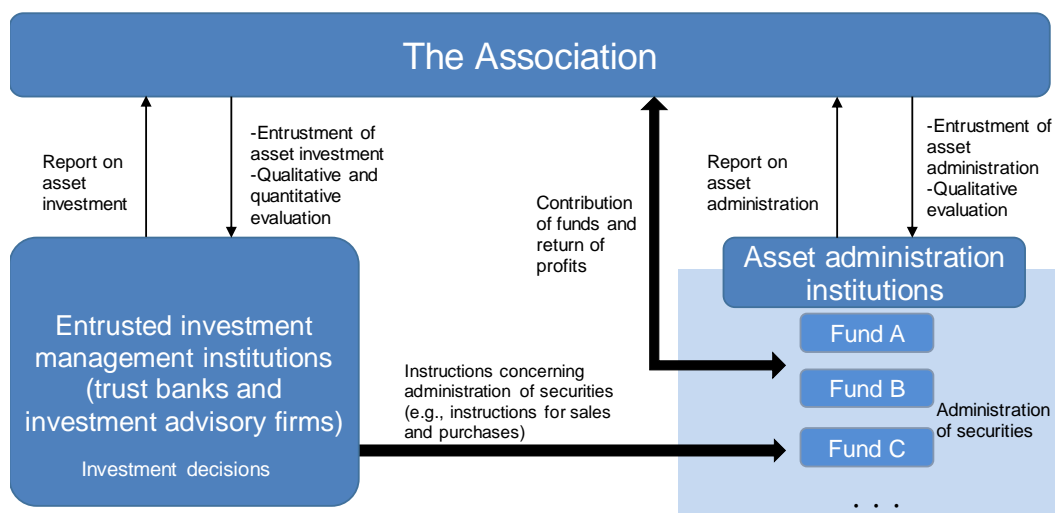
Quantitative evaluation assesses such factors as the excess return, the information ratio (the tracking error in the case of passive investment), and the cost performance (the excess return earned relative to fees).

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 (e.g., domestic equity market type and foreign equity growth type) 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】



Section 2

Businesses and Fund Management of Association

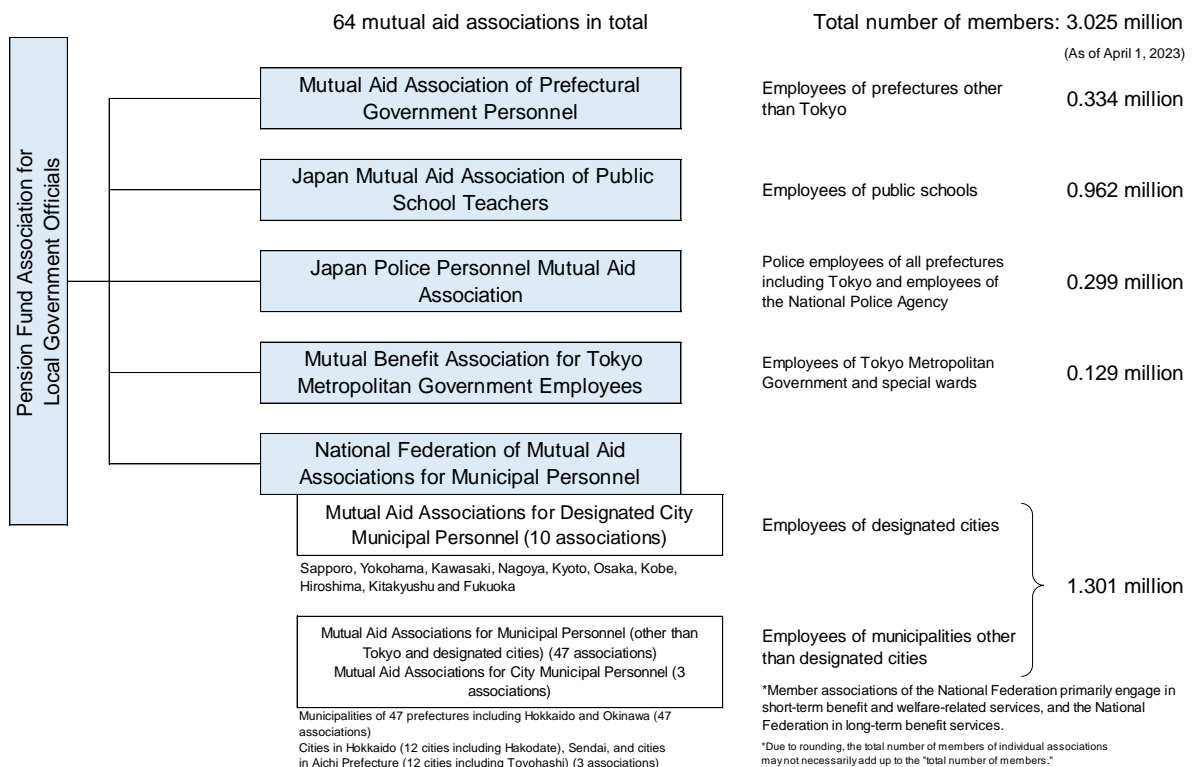
1 Establishment

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, 2023)

Hidetaka Kawakita	Kyoto University, Professor Emeritus
Konosuke Kita	Russell Investments Japan Co., Ltd. Director, Consulting/Executive Consultant
Hisae Sato	Trustee, International Christian University
Yoshiko Takayama	J-Eurus IR Co., Ltd. Vice Chairperson
Hitoshi Takehara	Professor, Waseda Business School (Graduate School of Business and Finance)
Katsuyuki Tokushima	NLI Research Institute Director, Member of the Board 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
41st Meeting	June 28, 2022	<ul style="list-style-type: none"> • Review of Operations reports concerning administration and investment of individual funds in FY2021 (Association) • Status of risk management of individual funds in FY2021 (Association) • Examination of the benchmark portfolio of the Annuity Retirement Benefit Adjustment Fund • Result of the selection of active investment products for foreign bonds • Commencement of the selection of active investment products for domestic equities • Review of investment of funds in FY2021 and status of asset allocation for FY2022 (April and May)
42nd Meeting	December 6, 2022	<ul style="list-style-type: none"> • Status of investment of individual funds in the second quarter of FY2022 (Association) • Status of risk management of individual funds in the second quarter of FY2022 (Association) • Result of the selection of active investment products for foreign bonds • Result of the selection of active investment products for domestic equities • Status of asset allocation in FY2022
43rd Meeting	March 28, 2023	<ul style="list-style-type: none"> • Status of investment of individual funds in the third quarter of FY2022 (Association) • Status of risk management of individual funds in the third quarter of FY2022 (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 • Mid-term investment plan for alternative assets • Annual Stewardship Activity Report FY2022 • Review of investments in FY2022, and investment policy in FY2023

(3) Executives and Secretariat

■ Executives

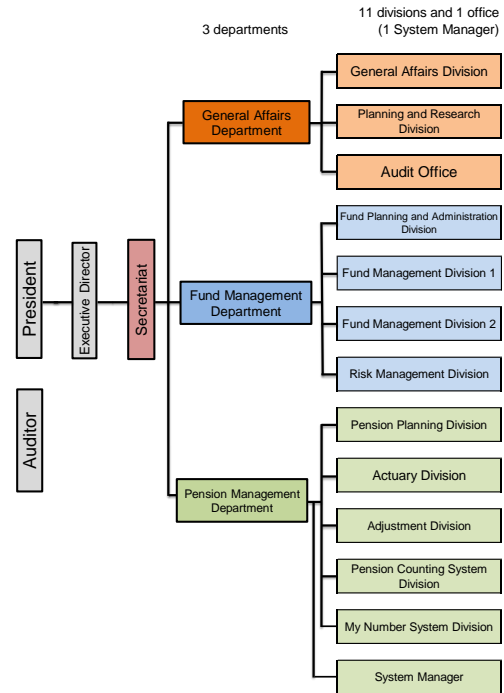
The Association is required to appoint the President, eight executive directors and three auditors. The President, two of the executive directors, and one of the auditors must serve on a full-time basis.

■ 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, 2023, the prescribed number of employees at the Secretariat is 80.

(As of April 1, 2023)



(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 monthly meeting and shall also meet as necessary.

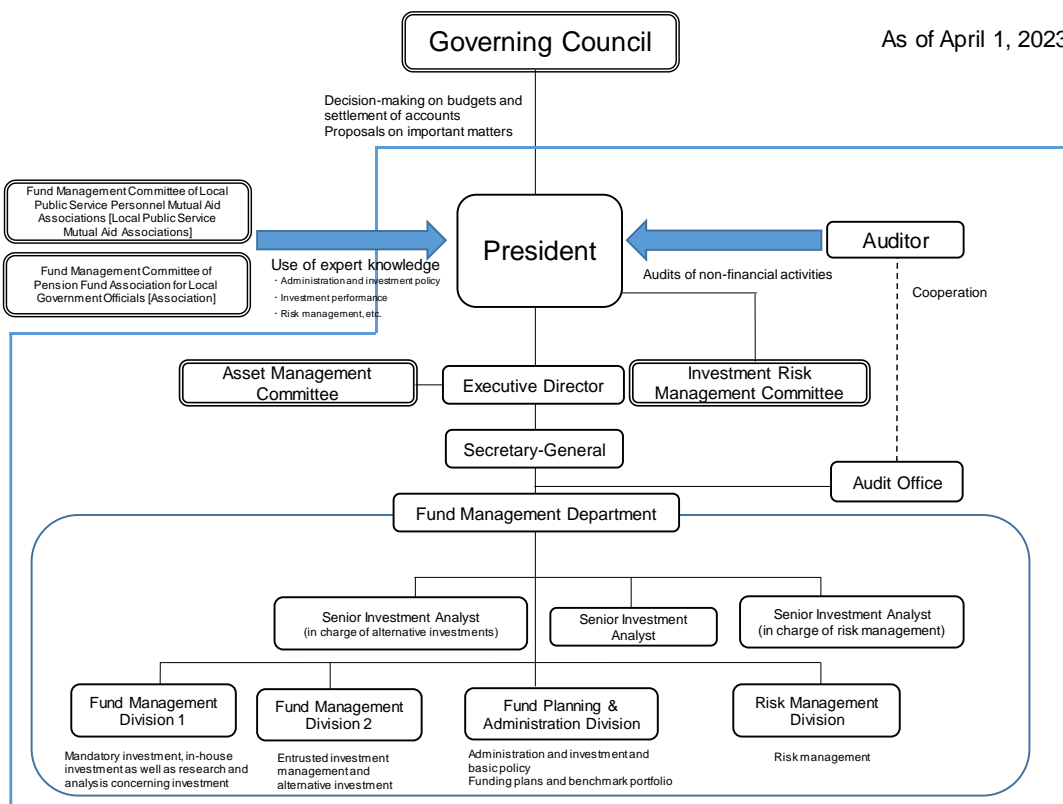
The chairperson shall promptly report to the President on the status of discussions at the Committee.

■ 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

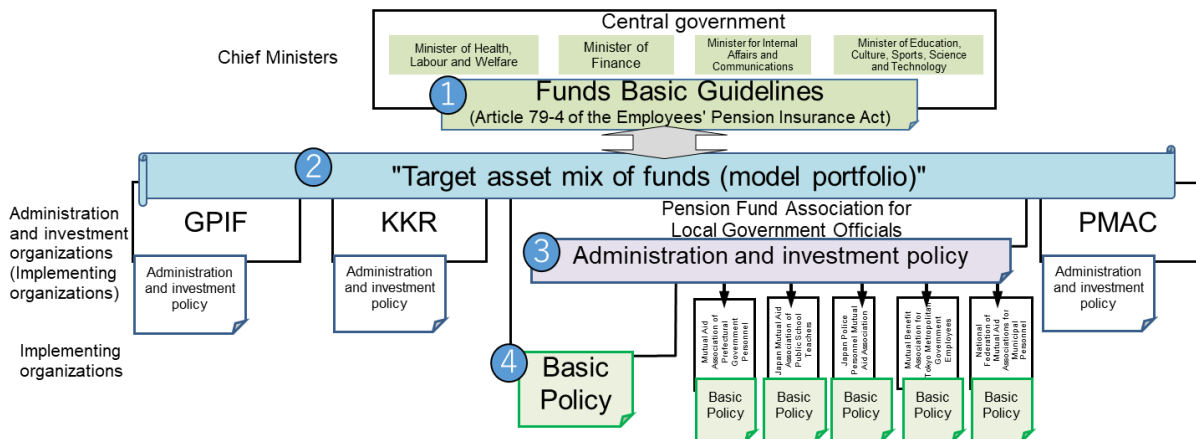
(1) Mechanisms

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)

【Mechanism of fund investment after the integration】



(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.