Pension Fund Association for
Local Government Officials

Fiscal Year 2024

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 2024 Investment Results (Overview)

Investment return: ***0.56%***

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

Investment income: ***¥92.9 billion***

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

Value of investment assets:

(As of the end of March 2025)

¥17,703.8 billion

(Market value)

As pension funds are to be invested from a long-term perspective, the investment status must also be judged from a long-term perspective.

As investment income is based on the market value as of the end of fiscal year 2024, it should be kept in mind that it includes valuation gains/losses, which means it may change depending on market movements.

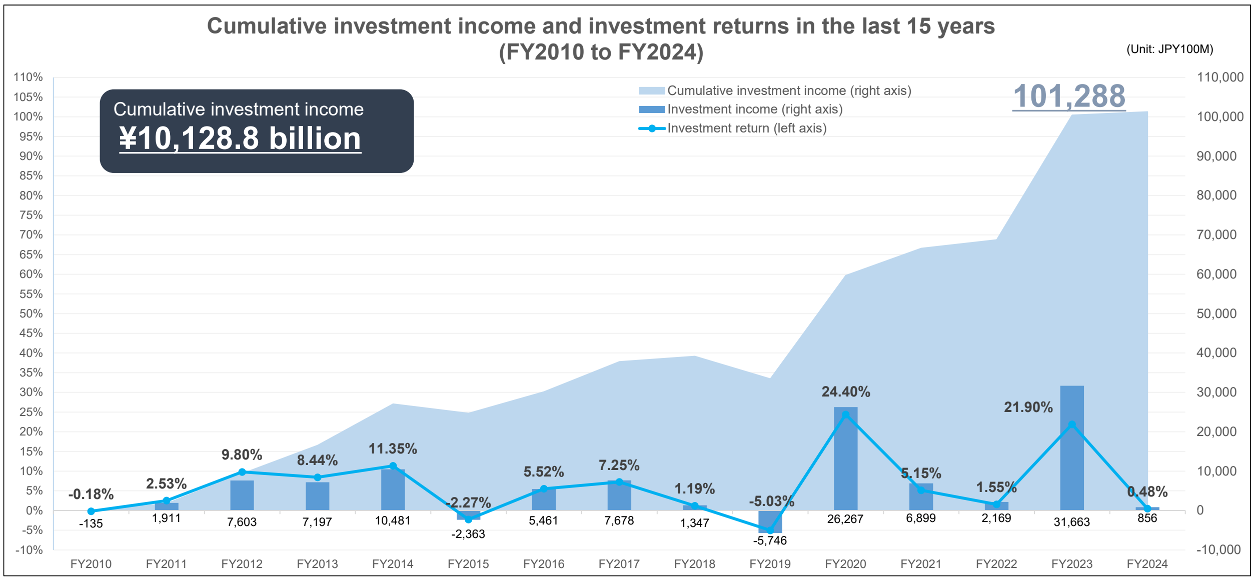
◆Long-term status of investments (last 15 years)

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

¥10,128.8 billion

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

5.85%



<Changes in the real investment return concerning funds>

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	Average of 15 years
Nominal investment return	-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%	21.90%	0.48%	5.85%
Nominal wage growth	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%	1.84%	2.19%	0.72%
Real investment return	-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%	19.70%	-1.68%	5.09%

(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.

(Note 6) The real investment return is calculated with the following formula:
{(1 + nominal investment return/100)/(1 + nominal wage growth/100)} × 100 - 100

Review of investment in FY2024

The Employees' Pension Insurance Benefit Adjustment Fund forms part of insurance premiums collected from insured persons of the Employee's Pension Insurance (EPI), and serves as a valuable source of funds for future pension benefits.

Accordingly, **with a view to ensuring safe and efficient investment for the interests of insured persons of the EPI from a long-term perspective, the Pension Fund Association for Local Government Officials (the "Association") invests the funds by establishing a benchmark portfolio (a policy asset mix to be established from a long-term perspective for the management and investment of the reserve fund) based on diversifying investments in multiple assets that differ in terms of risk/return and other characteristics.**

Despite a return to a more normal situation following the very strong performance of the previous fiscal year (a return of 22.63% in FY2023) and the conspicuously increased uncertainty regarding the investment environment, **the investment return (time-weighted return) in FY2024 came to 0.56%, similar to the composite benchmark return (0.61%)**, because of various investment initiatives conducted by the Association.

1. Market environment

In FY2024, at first, the performance of the whole of the Employees' Pension Insurance Benefit Adjustment Fund stayed firm, supported by the weak yen trend and other factors. However, around summer, signs of deterioration started to appear in the U.S. labor market, which had until then stayed firm, so concerns over recession grew in the market. In early August, the yen appreciated rapidly, while stocks declined steeply. Later, a steep interest rate reduction was implemented in the United States, and the yen and stock prices continued to recover from the beginning of autumn onward amid growing expectations for a soft economic landing. However, since the beginning of the new year, uncertainty over the future course of the global economy grew in response to the aggressive tariff policy adopted by the U.S. administration, so stock prices fell and the yen appreciated again toward the end of the fiscal year. As the investment environment changed dramatically in a short period of time, the investment performance became very volatile.

In contrast to policy interest rate reductions implemented in the United States and Europe, in Japan, the Bank of Japan raised interest rates in order to normalize the monetary environment, resulting in a sharp rise in domestic long-term interest rates (bond prices dropped). Japan continued to face a harsh situation in which the diversification effect could not work well as bond prices kept declining even amid the instability of the stock market. Regarding asset class-specific benchmark returns, the return on domestic bonds was the worst, at a rate of -4.73%. Meanwhile, as the spread between domestic and foreign interest rates narrowed, there was no contribution by a weak yen in the exchange market to the investment performance, unlike in the previous fiscal year (in FY2024, the U.S. dollar fell 1.19% and the euro dropped 1.17% against the yen). However, foreign equities and foreign bonds, which were relatively firm on a local currency basis, supported the overall performance. In the United States, there was a conspicuous trend of investment funds being concentrated in some large-capitalization growth stocks. However, the conspicuously increased perception of stock price overvaluation and heightened concerns over the sustainability of brisk investment in AI in the United States grew and triggered a change in that extreme trend, with preference gradually shifting to value stocks.

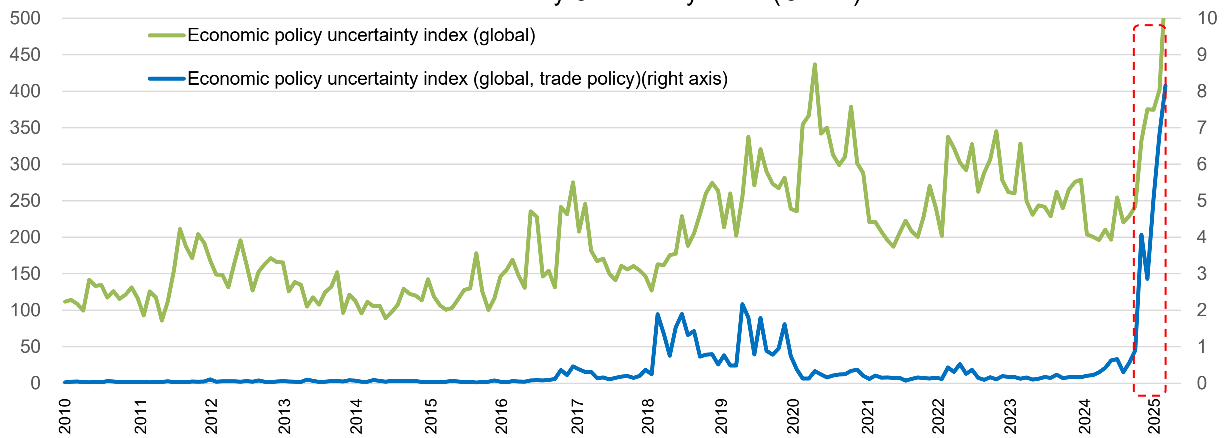
(Column) Rapidly heightening uncertainty in the market

In the fourth quarter of FY2024, heightened uncertainty over the new U.S. administration's policies led to risk aversion in the market and significantly affected financial and exchange markets and the investment performance.

In particular, the U.S. administration's aggressive tariff policy further heightened uncertainty over the future course of economic conditions, inflation, and the FRB's monetary policy, triggering stock market declines and the yen's appreciation, as it not only put upward pressure on prices through the imposition of tariffs on goods and but also had negative economic effects, such as constraints on consumption and investment.

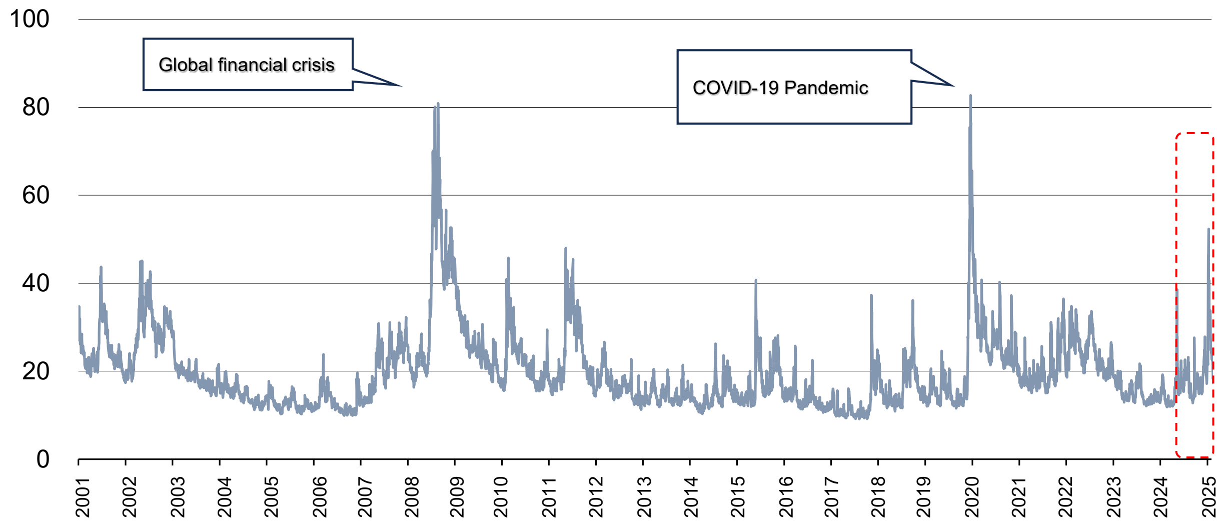
In this investment environment with little clarity over the future, the importance of making investments based on the benchmark portfolio from a long-term perspective is expected to grow further.

Economic Policy Uncertainty Index (Global)



(Note) An economic policy uncertainty index indicates the level of uncertainty over the future based on the frequency of use of keywords related to economic policy in articles of major newspapers around the world. The value of the index rises when uncertainty over economic policy grows. The values in the above graph are based on the Economic Policy Uncertainty Index developed by Scott R. Baker and others.

VIX



(Note) VIX, which stands for the Volatility Index, is composed by Cboe Global Markets based on the volatility of options transactions related to the S&P500. It is supposed to indicate the state of investors' sentiment on the future. Therefore, it is also known as an "investor fear gauge." The value of VIX rises when anxiety among investors grows. VIX stays at around 10 to 20 and rises steeply in times of increased anxiety over the future course of the market.

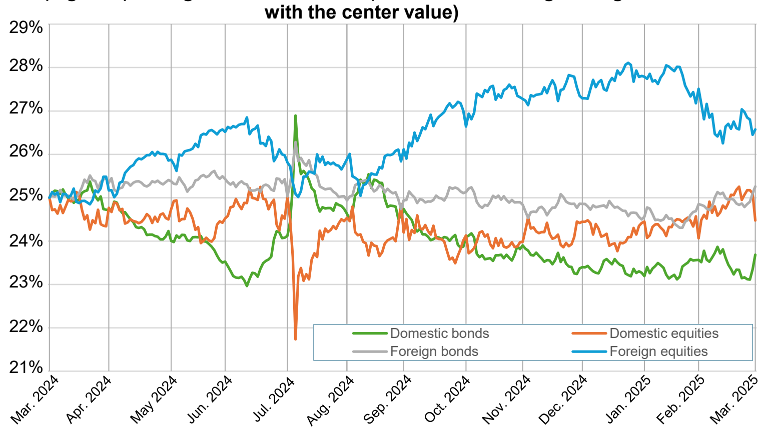
2. Investment-related initiatives

(1) Appropriate portfolio management based on rebalancing between asset classes

In FY2024, as inflation gradually subsided, the United States shifted to interest rate reduction and the U.S. economy maintained moderate growth. On the other hand, because of various risk factors, including the U.S. presidential election and the situation in the Middle East, uncertainty was liable to heighten easily.

Under these circumstances, the Association conducted meticulous analysis of the economic and market environments, and **strove to ensure appropriate risk control and secure a return through careful rebalancing** in order to keep the deviation from the benchmark portfolio small. As shown in Figure 1, if rebalancing had not been implemented from the beginning of the fiscal year, the asset mix would have deviated far from the benchmark portfolio due to fluctuations of market prices of individual asset classes. In the current year, the Association mainly **sold overweighted stocks so as to ensure time diversification** and reallocated the proceeds mainly to domestic and foreign bonds, thereby curbing risks. On the other hand, in a risk-off phase, such as the one that was seen in August, the Association flexibly bought domestic and foreign equities that had become underweighted due to sharp price falls while carefully examining valuations (corporate value evaluated in terms of profits and assets). As a result, as shown in Figure 2, the Association limited the deviation of each asset class's share in the benchmark portfolio from the center value of 25%.

(Figure 1) Changes in the asset mix (without rebalancing for alignment with the center value)



(Figure 2) The actual asset mix of the Employees' Pension Insurance Benefit Adjustment Fund

Asset mix	End of Jun. 2024	End of Sep. 2024	End of Dec. 2024	End of Mar. 2025
Domestic bonds	24.2%	25.2%	24.5%	25.3%
(Rate of deviation)	-0.8%	0.2%	-0.5%	0.3%
Domestic equities	25.2%	25.2%	25.8%	24.9%
(Rate of deviation)	0.2%	0.2%	0.8%	-0.1%
Foreign bonds	25.1%	24.6%	24.7%	25.4%
(Rate of deviation)	0.1%	-0.4%	-0.3%	0.4%
Foreign equities	25.4%	25.1%	25.0%	24.5%
(Rate of deviation)	0.4%	0.1%	-0.0%	-0.5%

* "Rate of deviation" represents the rate of deviation from the center value of the share in the benchmark portfolio.

*Day-to-day changes in the asset mix that would have occurred if rebalancing had not been implemented from the beginning of the fiscal year in order to align the share of each asset class with the center value of 25%.

(2) Broadly diversified investment in alternative assets

The Association has been systematically developing its portfolio so as to avoid disproportionate fund allocations to particular countries or particular asset classes within the alternative asset category. **The cumulative amount of investment incomes since 2015, when the Association started investing in alternative assets, has surpassed 110 billion yen**.

In FY2024, the Association newly adopted funds concerning foreign private equity, private debt, and infrastructure and increased the balance of investments while giving consideration to time diversification **(the balance of investments on a market value basis came to 442.9 billion yen [up 72.5 billion yen from the previous year], accounting for 2.5% of the total amount of assets)**.

As for the status of investment for existing funds, while domestic bonds and foreign bonds are prone to the effects of interest rate fluctuations because they carry fixed interest rates, infrastructure assets delivered stable returns even amid rising market interest rates because facility usage fees, which correspond to revenue, are linked to inflation in some cases and also because private debts carry variable interest rates. Returns from funds concerning private equity rose moderately because the corporate value of individual companies adopted as components of the existing funds gradually materialized and was reflected in market prices.

While returns on traditional assets became more volatile than before, alternative assets helped the Association as a whole secure stable returns because of their low correlation with traditional assets and their peculiar risk and return profiles.

(For detailed information on alternative investments, see 25 through 32 pages.)

(3) Acceptance of Asset Owner Principles and efforts towards the enhancement of investment capabilities

On September 4, 2024, in response to requests from the Japanese government in the Grand Design and Action Plan for a New Form of Capitalism 2024 Revised Version (Cabinet Decision on June 21, 2024), **the Association announced its acceptance of the Asset Owner Principles**. In addition, in order to further enhance investment capabilities and strengthen its investment structures for fulfilling its fiduciary duties to insured persons, and to fulfill its required roles in light of the development of markets, the Association devised **the Policy for Strengthening Investment Capabilities** and publicly disclosed it on September 4, 2024. On April 1, 2025, the Association implemented necessary revisions to reflect the internal reorganization and other matters.

(For details of the Asset Owner Principles and Policy for Strengthening Investment Capabilities, see 10 through 13 pages.)

3. Factor-by-factor analysis of the excess return

The asset allocation factor (attributable to the deviation of asset allocations from the asset mix of the benchmark portfolio) made a contribution of 0.06% to the excess return, the individual asset factor (attributable to the deviation from the benchmark for each asset class) made a contribution of -0.10%, and other factors made a contribution of -0.01%.

Regarding the asset allocation factor, as a result of the initiatives mentioned in 2(1), the Association secured an excess return for two consecutive years from FY2023 while keeping the risks related to the benchmark low.

Regarding the individual asset factor, while the performance of foreign equities was inferior to the benchmark, excess returns were secured with respect to other asset classes.

Foreign equities made a contribution of -0.22% (individual asset factor) to the excess return, becoming the most negative factor for the performance. As uncertainty over the future course of the economy and business results grew from time to time mainly in the U.S. due to wide-ranging risks, the assessment of the growth potential of corporate earnings and stock valuations became unstable, resulting in a significant change in stock preferences in the market in a short period of time. Presumably, this was a situation that made it difficult for many active managers to secure an excess return.

As for alternative assets, as the return for the current year remained firm at 4.08%, higher than the composite benchmark return of 0.61%, they made a contribution of 0.04% (individual asset factor) to the excess return. Amid the instability of the returns on traditional assets, alternative assets are contributing to the acquisition of stable returns.

Going forward, the Association will continue to ensure safe and efficient investment management for the sake of the interests of insured persons covered by the EPI from a long-term perspective in order to fulfill its fiduciary duty.

Asset Owner Principles and Policy for Strengthening Investment Capabilities

1. Asset Owner Principles

In fiscal year 2024, the Japanese government, after devising the Grand Design and Action Plan for a New Form of Capitalism 2024 Revised Version, formulated the Asset Owner Principles.

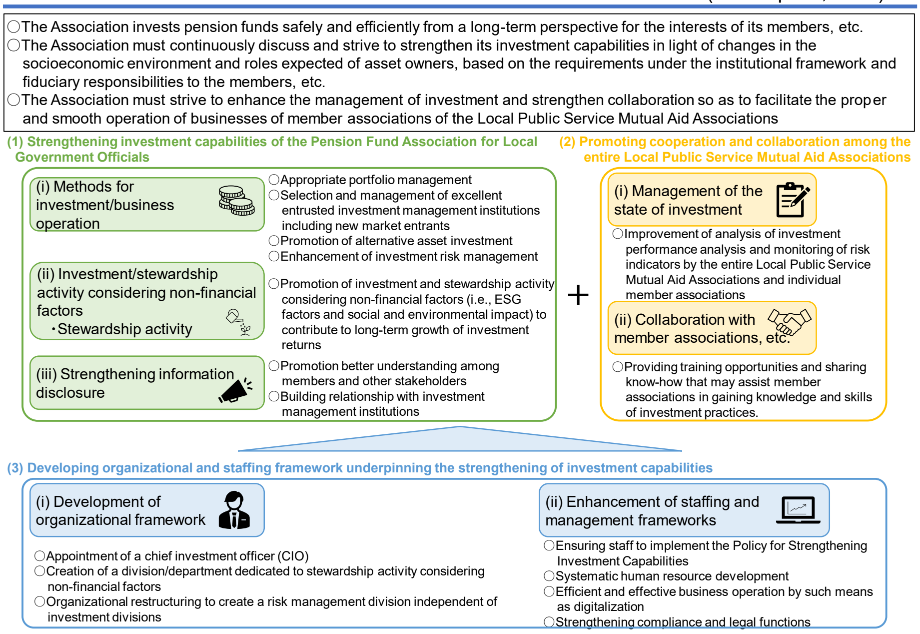
Under the Grand Design and Action Plan for a New Form of Capitalism 2024 Revised Version, the Association is required to accept the Asset Owner Principles and to formulate and publicly disclose its policies concerning the enhancement of investment capabilities. The Asset Owner Principles have been developed by the government as a set of common principles that are useful for asset owners to fulfill their responsibility to manage their assets (fiduciary duties), taking into account the best interests of beneficiaries.

The Asset Owner Principles provide for basic matters to be addressed by asset owners, including the establishment of investment policies and the retaining of necessary personnel, which have been already addressed by the Association even since before its acceptance. The Association announced its acceptance of these principles on September 4, 2024.

2. Policy for Strengthening Investment Capabilities

The Association has been committed to strengthening its investment capabilities to adapt to changes in the socio-economic environment and institutional reforms, by such way as retaining external experts with asset management expertise. In this connection, in response to the initiatives of the government as mentioned above, in order to further enhance the investment capabilities and investment structures, fulfill its fiduciary duties to insured persons, and fulfill its required roles in light of the development of markets, the Association devised the Policy for Strengthening Investment Capabilities and publicly disclosed it on September 4, 2024, and implemented necessary revisions to reflect the internal reorganization and other matters on April 1, 2025. The following diagram illustrates the key points of this policy.

Policy for Strengthening Investment Capabilities (Overview)
(As of April 1, 2025)



■Strengthening of the Association's investment capabilities

・ Proper management of investment portfolio

The Association implements fund management under a mechanism designed to secure the required long-term investment returns safely and effectively, by establishing and appropriately managing an asset mix from a long-term perspective (i.e., a benchmark portfolio), in compliance with laws and regulations. The Association will continue to appropriately control risks and secure returns.

・ Selection and management of excellent entrusted investment management institutions, including new market entrants, and securing funds with good performance

With respect to the selection of funds proposed by entrusted investment management institutions, the Association deleted its former numerical criteria on the value of assets invested by the institution and track records of proposed products in September 2024, so as to expand the scope of funds eligible for investment and adopt more well-performing funds.

・ Promotion of investment in alternative assets

As part of its diversified investment aimed at securing safe and efficient investment from a long-term perspective, the Association also invests in alternative assets. The Association will advance alternative investment, targeting an increase in the value of investment to more than twice the value seen at the end of fiscal year 2023 (370.4 billion yen), by the end of fiscal year 2029.

・ Enhancement of investment risk management

In order to ensure safe and efficient investment, it is important to appropriately manage investment risks. While the Association has already engaged in efforts to ensure appropriate risk management, including the risk monitoring activity for the Association and the Local Public Service Mutual Aid Associations, it further strengthened its risk management structure in April

2025. The Association will also promote its initiatives to ensure a stable investment performance, in connection with the monitoring of member associations' risk management.

・ Investment and stewardship activity considering non-financial factors

The Association, based on the approach that the sustainable growth of investee companies and the entire market is necessary for the increase of return on the investment portfolio over the long term so as to secure a long-term return for the benefit of insured persons, invests in ESG (Environmental, Social, and Governance) funds and conducts monitoring of the voting and engagement through entrusted investment management institutions and the status of their activity. The Association is committed to continuing these initiatives in this regard. Further, in March 2025, the Association developed and publicly disclosed the Policy for Strengthening Investment Capabilities summarizing its approaches and initiatives. The Association will implement necessary initiatives, based on a case-by-case analysis, so as to promote investment considering social and environmental impact.

・ Strengthening information disclosure

The Association prepares and publicizes annual Review of Operations reports disclosing the status of the management and investment of reserve funds for the Pension Fund Association for Local Government Officials and for all Local Public Service Mutual Aid Associations, respectively, according to laws and regulations. The Association also holds briefing meetings for members of the Local Public Service Mutual Aid Associations nationwide to explain such matters as basic approaches to pension fund investment and the status of investment. Along with these initiatives, the Association will make further efforts for information disclosure that would facilitate broader public understanding of the Association's investment activities, by such way as making disclosures of a Review of Operations easier to understand and more informative.

■ Promotion of cooperation and collaboration among all Local Public Service Mutual Aid Associations

As the Pension Fund Association for Local Government Officials and member associations of the Local Public Service Mutual Aid Associations invest funds under the common investment management policy, the Pension Fund Association for Local Government Officials undertakes to manage the investment of funds of member associations and to facilitate information exchange and communication among them, so as to ensure the safe and efficient investment of funds from a long-term perspective for all Local Public Service Mutual Aid Associations. The Association will continue to strive to foster cooperation and coordination among all Local Public Service Mutual Aid Associations, while respecting the independence of each member association, by providing opportunities for training and sharing know-how that may assist them in gaining knowledge and skills of investment practices.

■ Developing the organization and staff structure underpinning the efforts to strengthen investment capabilities

In order to respond more appropriately to changes in the socio-economic environment and other factors, the Association intensified its investment management system in April 2025. The Association will continue to engage in efforts for staff allocation, retaining of outside experts, and systematic human resource development.

・ Appointment of a CIO (chief investment officer)

In order to strengthen the function enabling flexible decisions on the execution of investment in response to the changing economic and market environment in the overall view of the asset portfolio based on expert insights, the Association newly created the position of Chief Investment Officer (CIO).

・ Creating a section dedicated to ESG investment and stewardship activity

In response to the increased roles expected of asset owners with respect to investment considering ESG and other non-financial factors, and stewardship activity, as well as to create and submit PRI reports, the Association newly established the ESG and Stewardship Office.

(Note) PRI (Principles for Responsible Investment): International principles that require institutional investors to give consideration to ESG (environmental, social, and governance) challenges in their investment activities.

・ Separation of risk management section from investment sections

The Association intensified its framework for risk management, by such ways as separating the organizational sections for execution of investment and risk management, appointing a Chief Risk Officer who acts independently from investment sections, and reinforcing the staffing to improve the risk management.

In addition, the Association will also advance its initiatives aimed at improving its framework for business operation to ensure efficient and effective investment, and strengthening compliance and legal functions to secure the proper execution of businesses, within the limited staffing framework.

Section 1

Administration and Investment of Funds in FY2024

1 Investment results

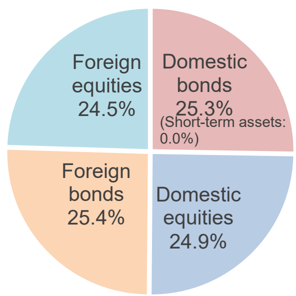
(1) Asset mix

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

(Unit: %)

	End of FY2023	Fiscal Year 2024				Benchmark portfolio
		End of Q1	End of Q2	End of Q3	End of FY	
Domestic bonds	24.5	24.2	25.2	24.5	25.3	25.0
Short-term assets	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	
Domestic equities	25.4	25.2	25.2	25.8	24.9	25.0
Foreign bonds	24.7	25.1	24.6	24.7	25.4	25.0
Foreign equities	25.4	25.4	25.1	25.0	24.5	25.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Composition by Investment Asset Class
(as of end of FY2024)



(Note 1) Deviation tolerances from the benchmark portfolio are ±10% for domestic bonds, ±12% for domestic equities, ±9% for foreign bonds and ±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 2024, the ratio of alternative assets to the total amount of funds is 2.5% (the upper limit is 5%).

(2) Investment return

The time-weighted return came to 0.56% due to factors such as rises of foreign equities.

(Unit: %)

	Fiscal Year 2024				
	Q1	Q2	Q3	Q4	FY Total
Time-weighted return	3.65	-3.64	4.32	-3.48	0.56
Domestic bonds	-2.27	1.39	-1.22	-2.38	-4.46
Short-term assets	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Domestic equities	1.83	-4.87	5.35	-3.50	-1.51
Foreign bonds	5.53	-5.63	4.30	-2.03	1.76
Foreign equities	9.57	-5.38	8.92	-6.14	5.99

(Unit: %)

	Fiscal Year 2024				
	Q1	Q2	Q3	Q4	FY Total
Modified total returns	3.62	-3.62	4.27	-3.46	0.52

(Unit: %)

	Fiscal Year 2024				
	Q1	Q2	Q3	Q4	FY Total
Realized return (book value basis)	2.95	1.77	2.17	1.84	8.69

(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.
(Note 4) The time-weighted return for overall alternative assets was 4.08%.

(3) Excess return

The time-weighted return for overall assets was 0.56% and the composite benchmark return for overall assets was 0.61%. The excess return over the composite benchmark was -0.05%.

	Overall assets
Time-weighted return	0.56%
Composite benchmark return	0.61%
Excess return	-0.05%

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Time-weighted return	-4.46%	-1.51%	1.76%	5.99%
Benchmark return	-4.73%	-1.55%	1.61%	6.88%
Excess return	0.27%	0.03%	0.16%	-0.89%

(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 -0.05% can be broken down as follows: asset allocation factor: 0.06%; individual asset factor: -0.10%; other factors: -0.01%.

	Asset allocation factor ①	Individual asset factor ②	Other factor ③ (including errors)	①+②+③
Domestic bonds	0.02%	0.07%	-0.00%	0.08%
Domestic equities	0.02%	0.01%	-0.00%	0.03%
Foreign bonds	-0.01%	0.04%	-0.00%	0.03%
Foreign equities	0.03%	-0.22%	-0.00%	-0.20%
Total	0.06%	-0.10%	-0.01%	-0.05%

(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.
(Note) The contribution of overall alternative assets to the excess return (individual asset factor) was 0.04%.

(Reference) Benchmark indexes of assets in the benchmark portfolio

Domestic bonds	NOMURA-BPI Overall
Domestic equities	TOPIX (including dividends)
Foreign bonds	FTSE Global Government Bond Index (excluding Japanese and Chinese government bonds; unhedged; on a yen basis).
Foreign equities	MSCI ACWI (excluding Japan, on a yen basis, including dividends, before taking into account tax factors)

(4) Investment income

Investment income (market value basis) was ¥92.9 billion.

(Unit: JPY100M)

	Fiscal Year 2024				
	Q1	Q2	Q3	Q4	FY Total
Investment income (market value basis)	6,332	-6,568	7,523	-6,358	929
Domestic bonds	-973	607	-538	-1,068	-1,973
Short-term assets	(0)	(0)	(0)	(0)	(0)
Domestic equities	800	-2,169	2,372	-1,590	-588
Foreign bonds	2,373	-2,556	1,841	-918	740
Foreign equities	4,132	-2,449	3,849	-2,781	2,751

(Unit: JPY100M)

	Fiscal Year 2024				
	Q1	Q2	Q3	Q4	FY Total
Realized income (book value basis)	3,905	2,414	3,020	2,625	11,964

(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 ¥17,703.8 billion.

(Unit: JPY100M)

	End of FY2023			End of FY2024											
				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	43,787	42,532	-1,255	45,757	43,659	-2,099	45,276	43,793	-1,483	46,549	44,603	-1,946	47,696	44,721	-2,975
Short-term assets	(19)	(19)	(0)	(26)	(26)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Domestic equities	27,436	44,069	16,633	28,862	45,376	16,515	29,943	43,833	13,890	31,591	46,864	15,274	31,712	44,016	12,304
Foreign bonds	39,825	42,923	3,098	40,221	45,280	5,059	40,817	42,813	1,997	41,775	45,014	3,239	43,446	44,887	1,441
Foreign equities	20,149	44,085	23,937	19,953	45,805	25,852	21,372	43,651	22,279	21,118	45,425	24,308	22,879	43,413	20,534
Total	131,197	173,609	42,412	134,793	180,120	45,327	137,408	174,090	36,683	141,033	181,907	40,874	145,733	177,038	31,304

Allocation changes of each asset class as a result of rebalancing

(Unit: JPY100M)

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Amount of funds allocated/withdrawn	4,173	555	1,241	-3,397

(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 0.04%.

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 2024	
	Fee	Fee rate
Domestic bonds	10	0.02
Domestic equities	19	0.04
Foreign bonds	12	0.03
Foreign equities	23	0.05
Alternative assets	9	0.22
Overall assets	73	0.04

(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 risks. 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 adopting an investment strategy to diverge the portfolio from its benchmark index.

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

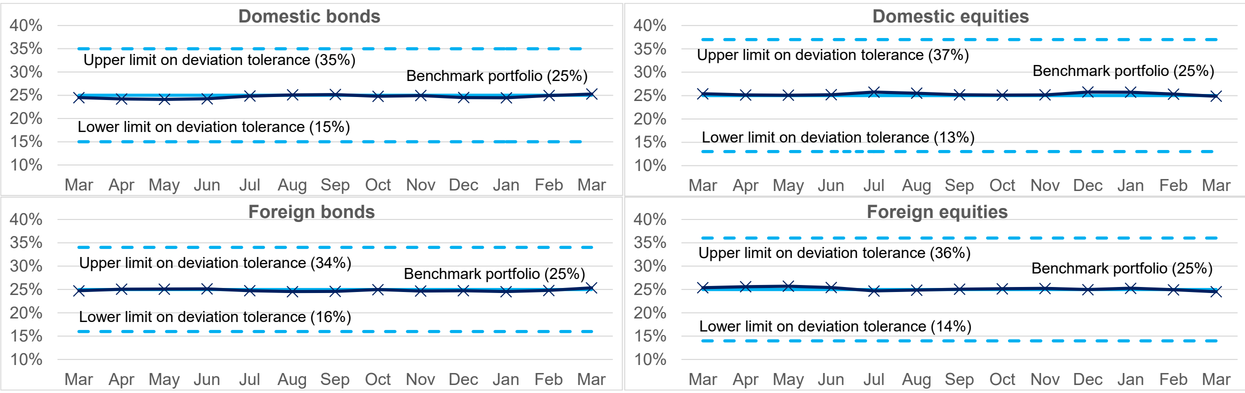
The Association reports on the status of risk management and improvement measures implemented to the Investment Risk Management Committee, the Fund Management Committee of Pension Fund Association for Local Government Officials and the Governing Council.

(3) Status of risk management (overall assets)

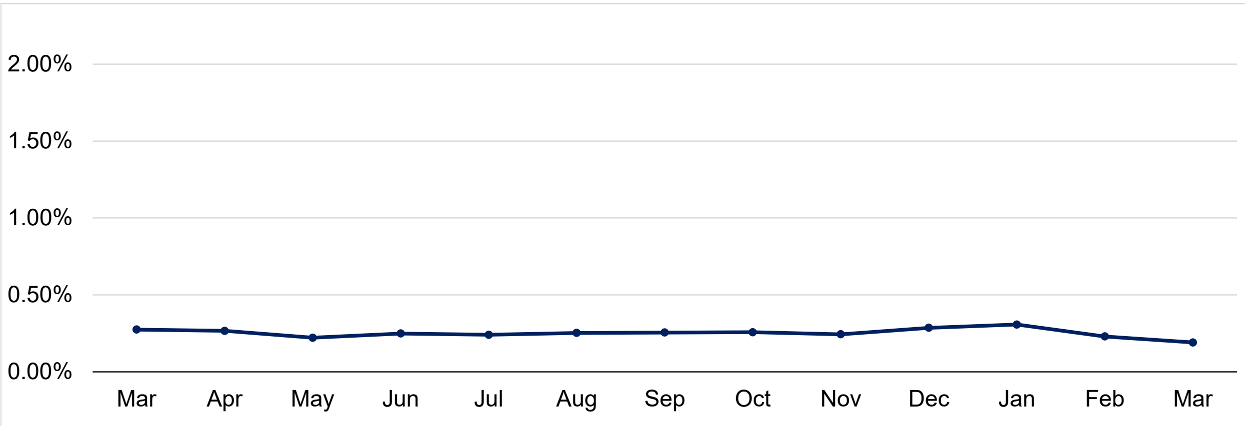
The shares in the asset mix concerning all asset classes—domestic bonds, domestic equities, foreign bonds and foreign equities—stayed within the deviation tolerance.

The estimated tracking error concerning overall assets generally stayed stable.

【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 and status of risk management

(1) Domestic bonds

■Contribution analysis of the excess return

By factor, the excess return of 0.27% on domestic bonds can be broken down as follows: fund factor: 0.31%; benchmark factor: 0.00%; other factors: -0.05%.

Regarding the fund factor, amid the rise in domestic interest rates, Nomura-BPI Overall (Enhanced) with a shortened duration, and Nomura BPI Overall (Active), which performed strongly due to its yield curve strategy and the overweight of corporate bonds, and funds investing in domestic real estate assets, which earned stable investment income, made positive contributions.

Time-weighted return ①	Benchmark ②	Excess Return ①-②			
			Fund factor	Benchmark factor	Other factor
- 4.46%	- 4.73%	0.27%	0.31%	0.00%	- 0.05%

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

	In-house investments (JFM bonds), etc.	Inflation-indexed bonds	NOMURA-BPI Overall (Passive)	NOMURA-BPI Overall (Enhanced)	NOMURA-BPI Overall (Active)	NOMURA-BPI CaRD Index	Non-benchmark
Fund factor	- 0.03%	0.01%	0.00%	0.11%	0.06%	0.00%	0.03%
Benchmark factor			0.00%	0.00%	0.00%	0.00%	

	Domestic real estate, etc.	Short-term assets	Total
Fund factor	0.12%	0.00%	0.31%
Benchmark factor			0.00%

(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 in-house investments (JFM bonds), etc. and non-benchmark funds, a factor attributable to the difference between the return for an individual fund and the return for the benchmark for the benchmark portfolio (NOMURA-BPI Overall) 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 benchmark for the benchmark portfolio and the return for the manager 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 0.03% on domestic equities can be broken down as follows: fund factor: -0.08%; benchmark factor: 0.20%; other factors: -0.08%.

Regarding the fund factor, amid the rise in domestic interest rates, value stocks were preferred, mainly in the financial sector, within the TOPIX (Active) category, so funds oriented toward value stocks made positive contributions. However, as the negative contribution of funds oriented toward growth stocks somewhat outweighed that positive contribution, the overall contribution was negative.

As for the benchmark factor, positive contributions came from successful stock selection by MSCI Japan ESG Select Leaders Index based on ESG evaluation and the strong performance of Russell/Nomura Small Cap Index, which invests in small-capitalization stocks, due to a shift of funds from large-capitalization stocks, among which export-oriented stocks have a large share, to small- and medium-capitalization stocks, many of which are related to domestic demand, amid the weak yen trend and concerns over the U.S. tariff policy.

Time-weighted return ①	Benchmark ②	Excess Return ①-②			
			Fund factor	Benchmark factor	Other factor
- 1.51%	- 1.55%	0.03%	- 0.08%	0.20%	- 0.08%

【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)
Fund factor	0.03%	0.02%	0.00%	- 0.00%	- 0.00%	- 0.18%
Benchmark factor	0.00%	0.01%	0.01%	0.08%	- 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%	- 0.01%	- 0.00%	0.00%	0.06%	- 0.08%
Benchmark factor	0.02%	0.05%	0.04%			0.20%

(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 benchmark for the benchmark portfolio (TOPIX (including dividends)) 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 benchmark for the benchmark portfolio and the return for the manager benchmark (TOPIX (including 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 0.16% on foreign bonds can be broken down as follows: fund factor: 0.04%; benchmark factor: 0.11%; other factors: 0.01%.

Regarding the fund factor, FTSE World Government Bond Index (Active), for which the yield curve factor had negative effects in the United States, made a negative contribution. However, FTSE World Government Bond Index (Passive), which delivered an increased return due to lending, made a positive contribution.

Regarding the benchmark factor, amid the stable credit spread, funds such as Bloomberg Global Aggregate Index, for which bonds other than government bonds, such as corporate bonds, performed strongly, made a positive contribution.

Time-weighted return ①	Benchmark ②	Excess Return ①-②	Fund factor	Benchmark factor	Other factor
1.76%	1.61%	0.16%	0.04%	0.11%	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)	Bloomberg Global Aggregate Index (Active)	Foreign real estate, etc.	Total
Fund factor	0.04%	- 0.03%	0.01%	0.02%	0.04%
Benchmark factor	0.00%	0.03%	0.08%		0.11%

(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 benchmark for the benchmark portfolio (the FTSE Global Government Bond Index (excluding Japanese and Chinese government bonds; unhedged; on a yen basis)) and the return for the manager benchmark. The FTSE Global Government Bond Index (active) fund refers to the FTSE Global Government Bond Index (excluding Japanese government bonds; unhedged; 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 -0.89% on foreign equities can be broken down as follows: fund factor: -0.75%; benchmark factor: -0.04%; other factors: -0.10%.

Regarding the fund factor, until the end of the year, large-capitalization growth stocks performed better, driven by active AI-related investment. However, funds oriented toward growth stocks, such as MSCI ACWI (Active) and MSCI KOKUSAI (Active) made negative contributions because of the underweight of large-capitalization technology stocks and also because value stocks started to perform better after the beginning of the new year.

Regarding the benchmark factor, MSCI Europe Value Index, which performed well compared with MSCI ACWI due to the large weight of the banking sector made a positive contribution. However, as large-capitalization stocks for which relatively stable business results are expected were preferred amid uncertainty in the market, MSCI Kokusai Small Cap Index, which invests in small-capitalization stocks, among other funds, made a negative contribution.

Time-weighted return ①	Benchmark ②	Excess Return ①-②			
			Fund factor	Benchmark factor	Other factor
5.99%	6.88%	- 0.89%	- 0.75%	- 0.04%	- 0.10%

【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	- 0.06%	- 0.00%	- 0.00%	- 0.00%	- 0.00%	- 0.23%	- 0.16%	0.02%
Benchmark factor	0.00%	0.01%	- 0.00%	- 0.01%	0.01%	0.00%	0.01%	- 0.04%

	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)	Foreign PE	Total
Fund factor	- 0.07%	- 0.08%	- 0.04%	- 0.06%	- 0.05%	- 0.01%	- 0.75%
Benchmark factor	0.09%	- 0.09%	- 0.02%	- 0.00%	0.00%		- 0.04%

(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 benchmark for the benchmark portfolio (MSCI-ACWI, excluding Japan; on a yen basis; including dividends; before taking into account tax factors) 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 4) "Other factors" are factors attributable to calculation errors, in-kind asset transfer, etc.

Section 2

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 2024, 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 risk-return profile 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.

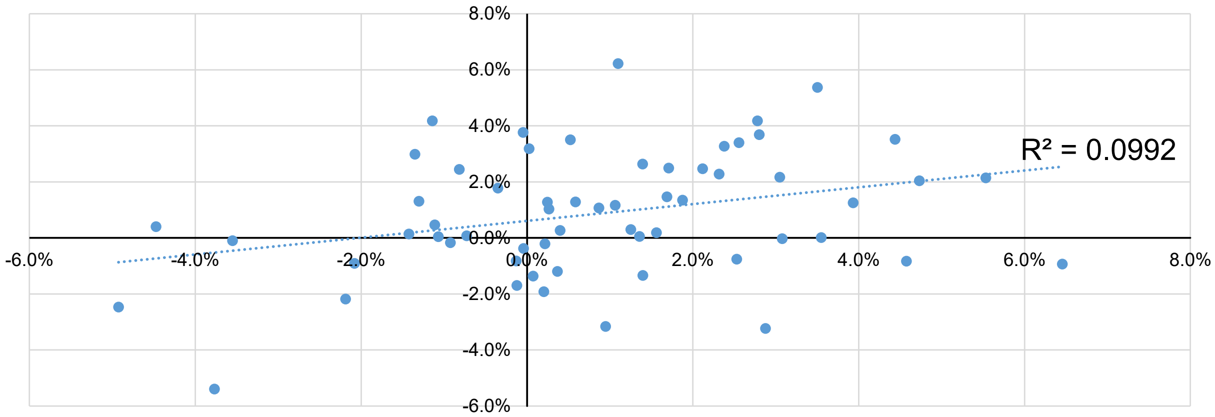
The Association holds down risks related to alternative assets by setting up its investment to a cap of 5% of the total portfolio.

(2) Objectives of investment

There are differences between traditional and alternative assets in the risk-return profile. As shown in the diagram below, the correlation between returns on traditional assets (composite benchmark) and returns on overall alternative assets is low. 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.

Returns on the entire portfolio of traditional assets (composite benchmark) and alternative assets in which the Association invests (vertical axis: the entire portfolio of alternative assets, horizontal axis: composite benchmark)



(Note) Plotting monthly returns (in yen terms) in the past five years (from April 2020 to March 2025)

■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.

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.

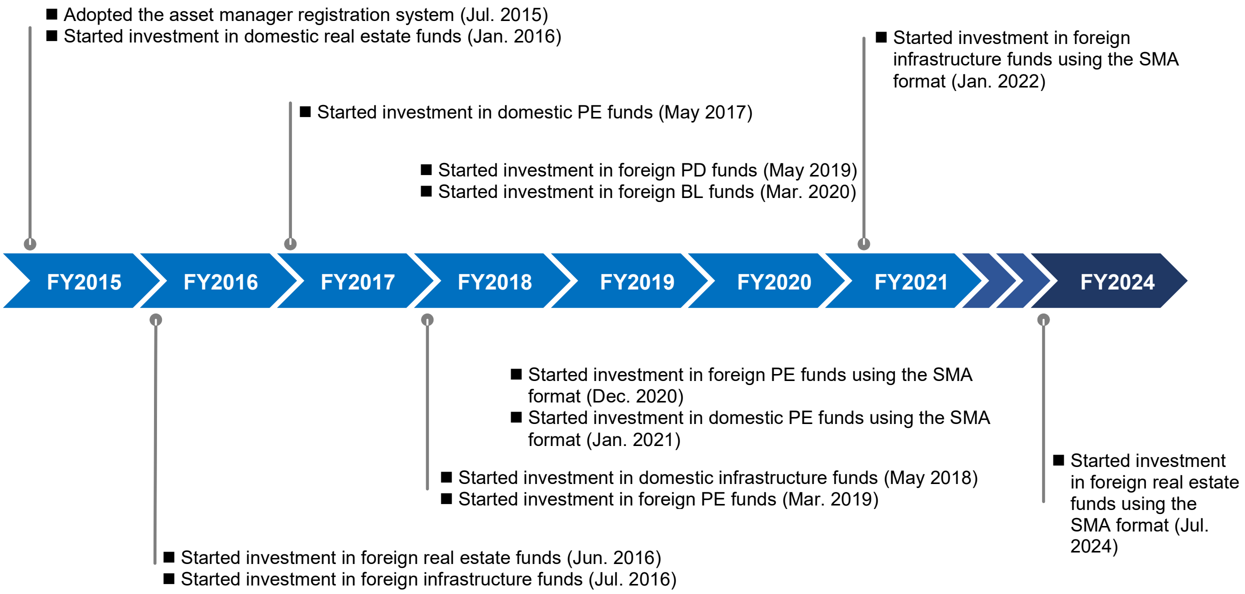
■Diversification of investment schemes

Under the Asset Manager Registration System, the Association started soliciting registrations with respect to funds investing in domestic and foreign PE in August 2019 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.

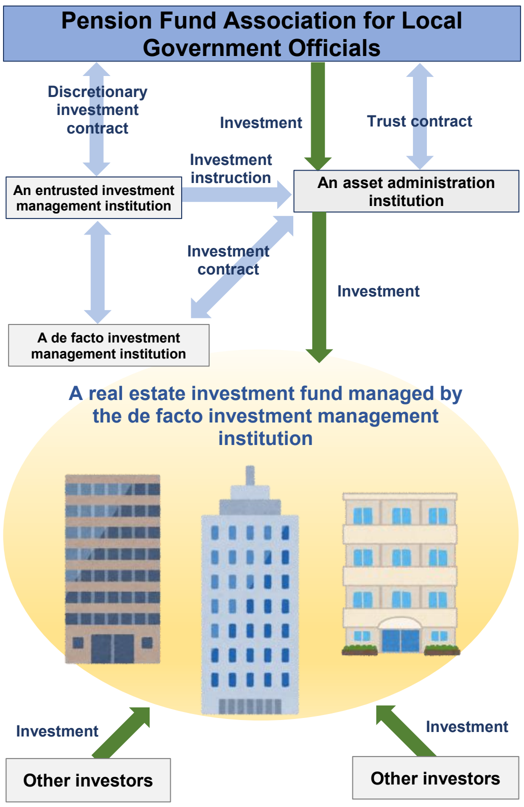
As of the end of fiscal year 2024, the Association uses the SMA format as well with respect to funds investing in PE, infrastructure and real estate.

【Selection of funds, etc.】

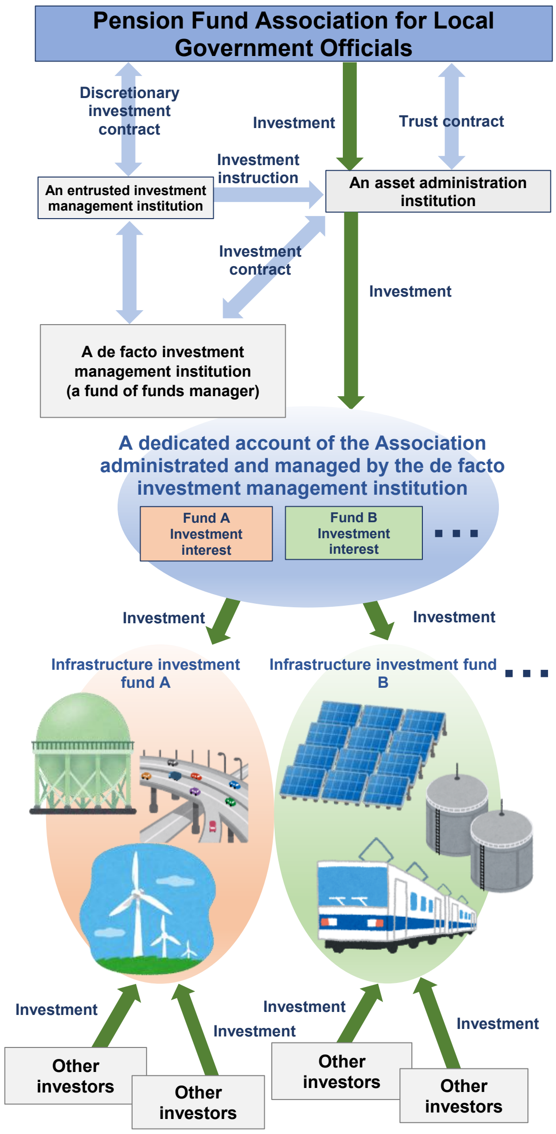


【Investment schemes】(diagram)

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 selects investment funds that are 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 2024, the Association decided to adopt a total of 50 funds and started investment with respect to 47 of the total, with a total market value of 442.9 billion yen (2.5% of the total amount of funds).

In fiscal year 2024, the Association newly adopted one fund investing in foreign PD, two funds investing in foreign PE, one SMA fund investing in foreign infrastructure. It also made an additional commitment (the amounts agreed on as the maximum amount of investment) to two funds investing in domestic real estate and two SMA funds investing in foreign infrastructure.

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.

＜Adopted funds (as of the end of FY2024)＞

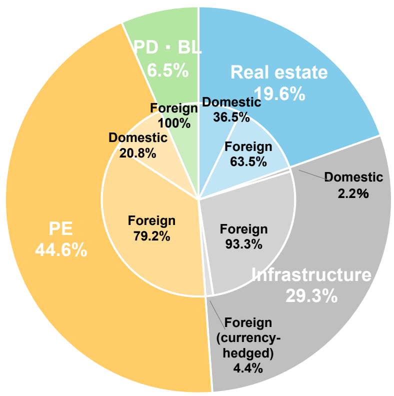
【Number of funds adopted and total market value of investment】

【Number of funds adopted and total market value of investment】

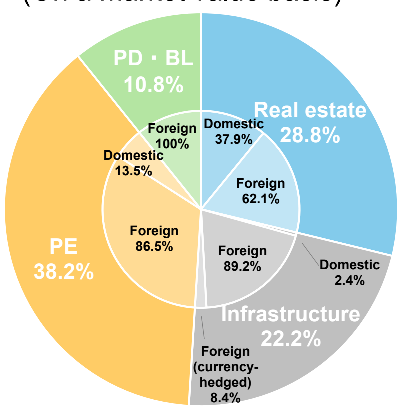
Investment fund	Number of funds adopted	Market value
Domestic real estate	6	484
Foreign real estate	10	792
Domestic infrastructure	1	23
Foreign infrastructure	8	959
Domestic PE	8	229
Foreign PE	8	1,465
Foreign PD	8	295
Foreign BL	1	182
Total	50	4,429

【Asset mix】

(On a commitment basis)



(On a market value basis)

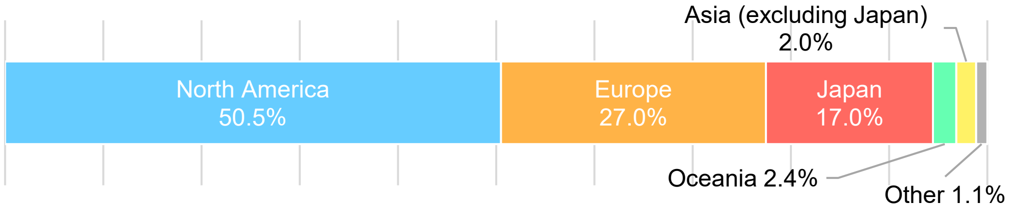


Reference information

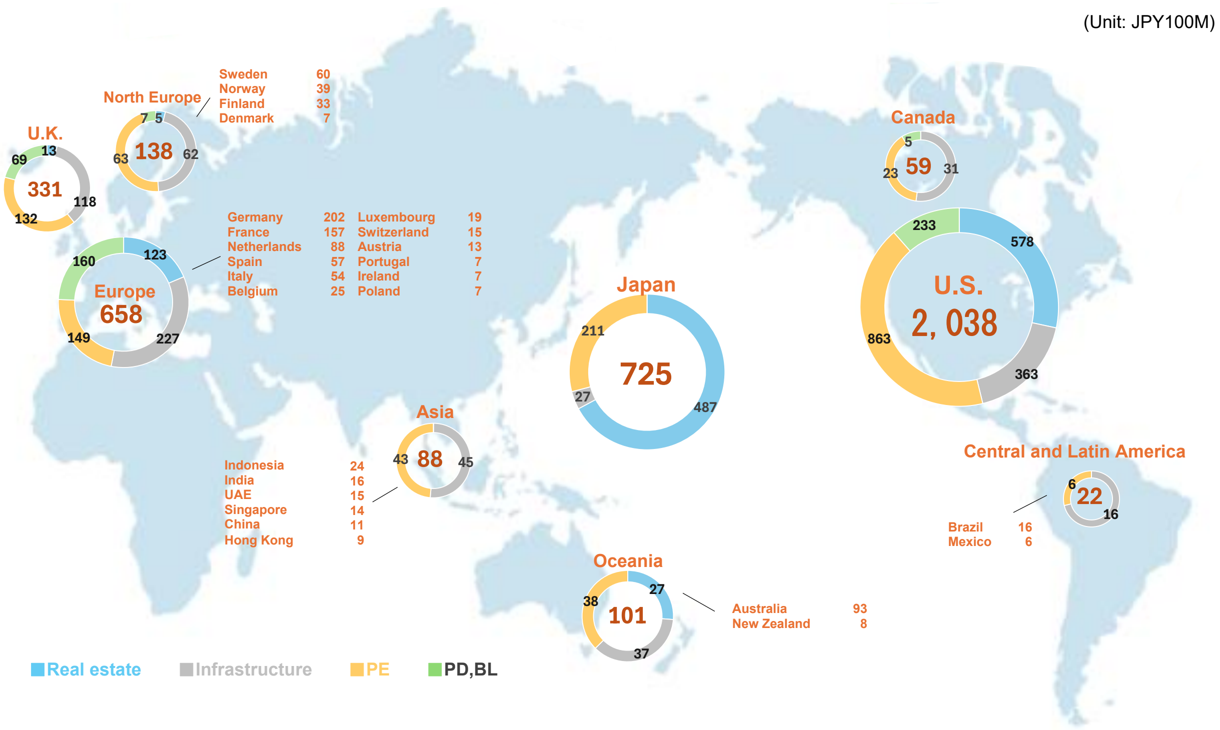
Diversification of investment assets (global diversification)

Alternative assets in which the Association invests are globally diversified, with developed countries as the main region of investment.

【Status of diversification by region】



【Status of diversification by major country】



(Note 1) Diversification across the top 30 destination countries of investment in terms of asset value. In the case of real estate assets, the classification is by the country where the asset is located, and in the case of infrastructure, PE, and PD/BL, the classification is by the country where the head office of the investing company is located.
(Note 2) The status of diversification by major country is based on the statuses of individual funds as most recently identified by the Association.

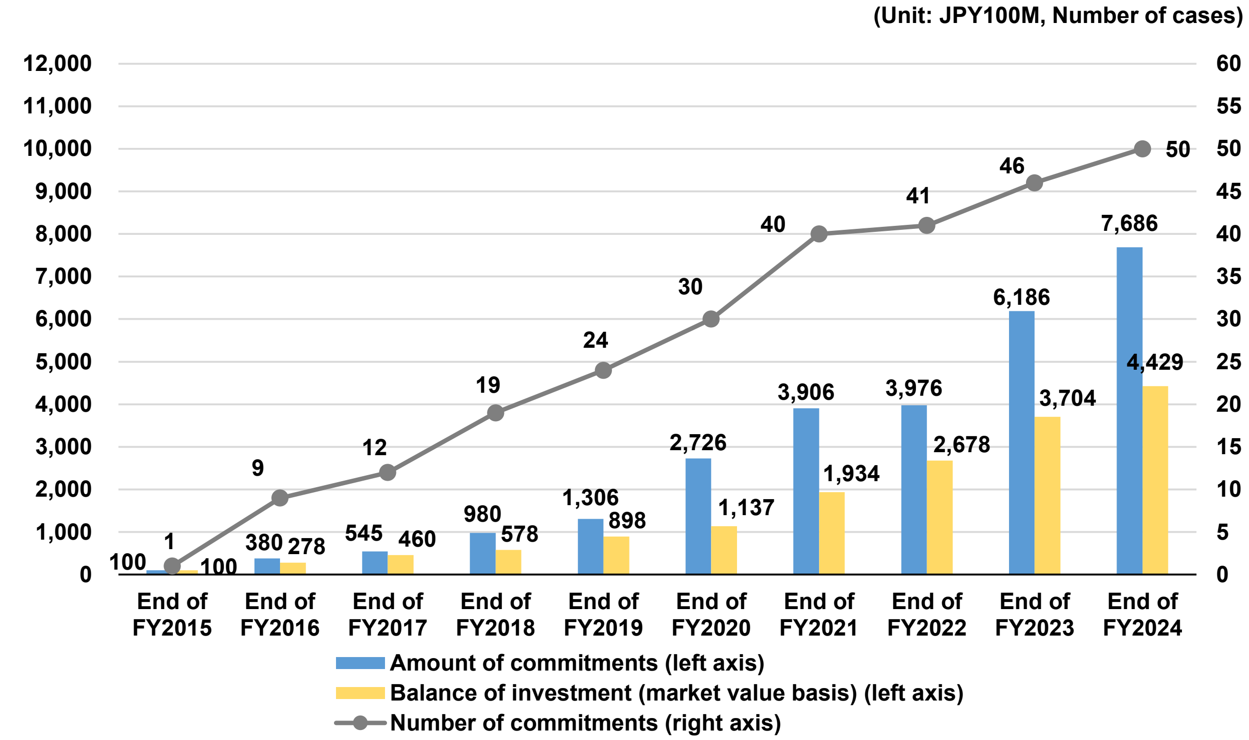
【Number of individual assets】

The Association invests in alternative assets through funds, and individual assets that are components of the funds are diversified across many properties and companies.

Real estate	Infrastructure	PE	PD, BL
4,412 properties	**476 projects**	**More than 27,700 companies**	**729 companies**

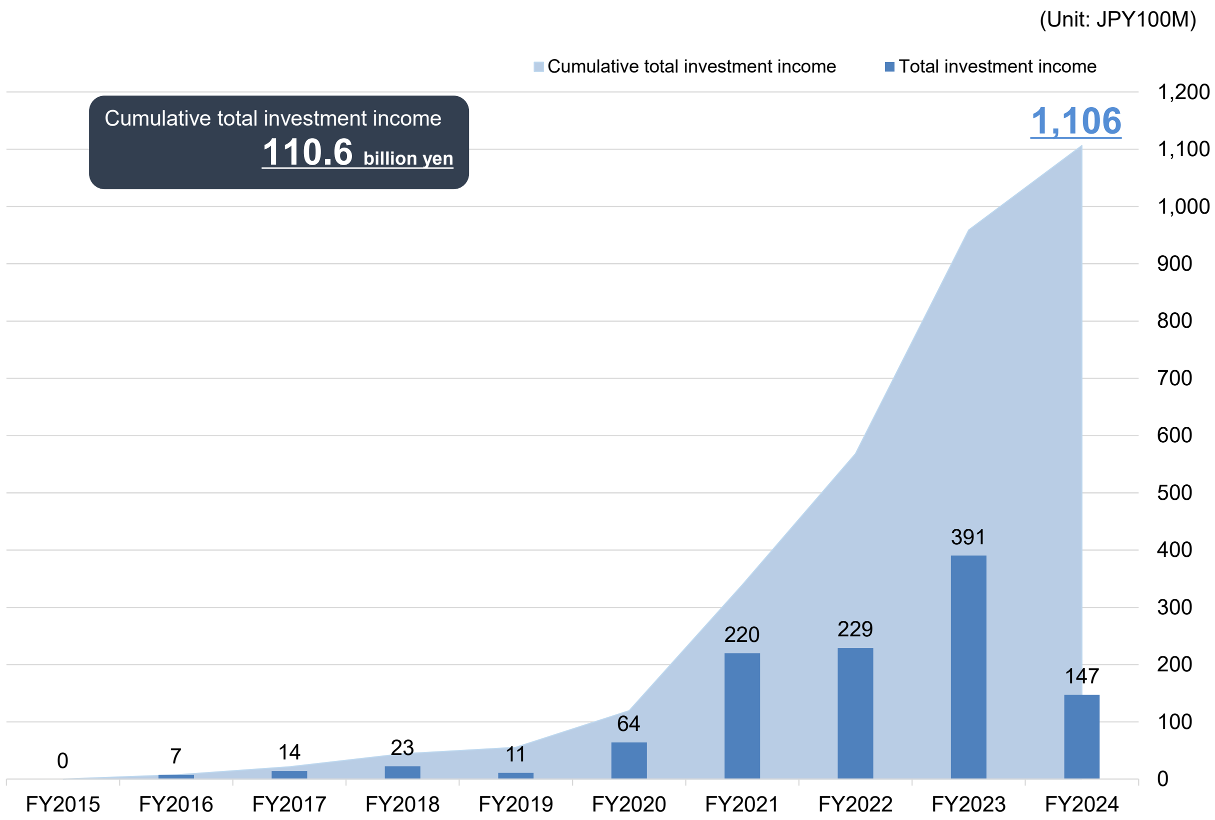
(Note) The sum of the number of individual assets held by single funds in which the Association invests and the number of individual assets held by funds of funds (FoFs), such as SMA.
Based on reports from entrusted investment management institutions as of the end of September 2024.
Regarding cases of multiple FoFs holding the same asset, the calculation was made with no regard for double-counting.

【Changes in the cumulative amount of investment】



(Note) The number of cases refers to the number of funds for which contracts were concluded by the end of each fiscal year. The balance of investment refers to the total amount of funds (in Yen).

【Change in investment income】

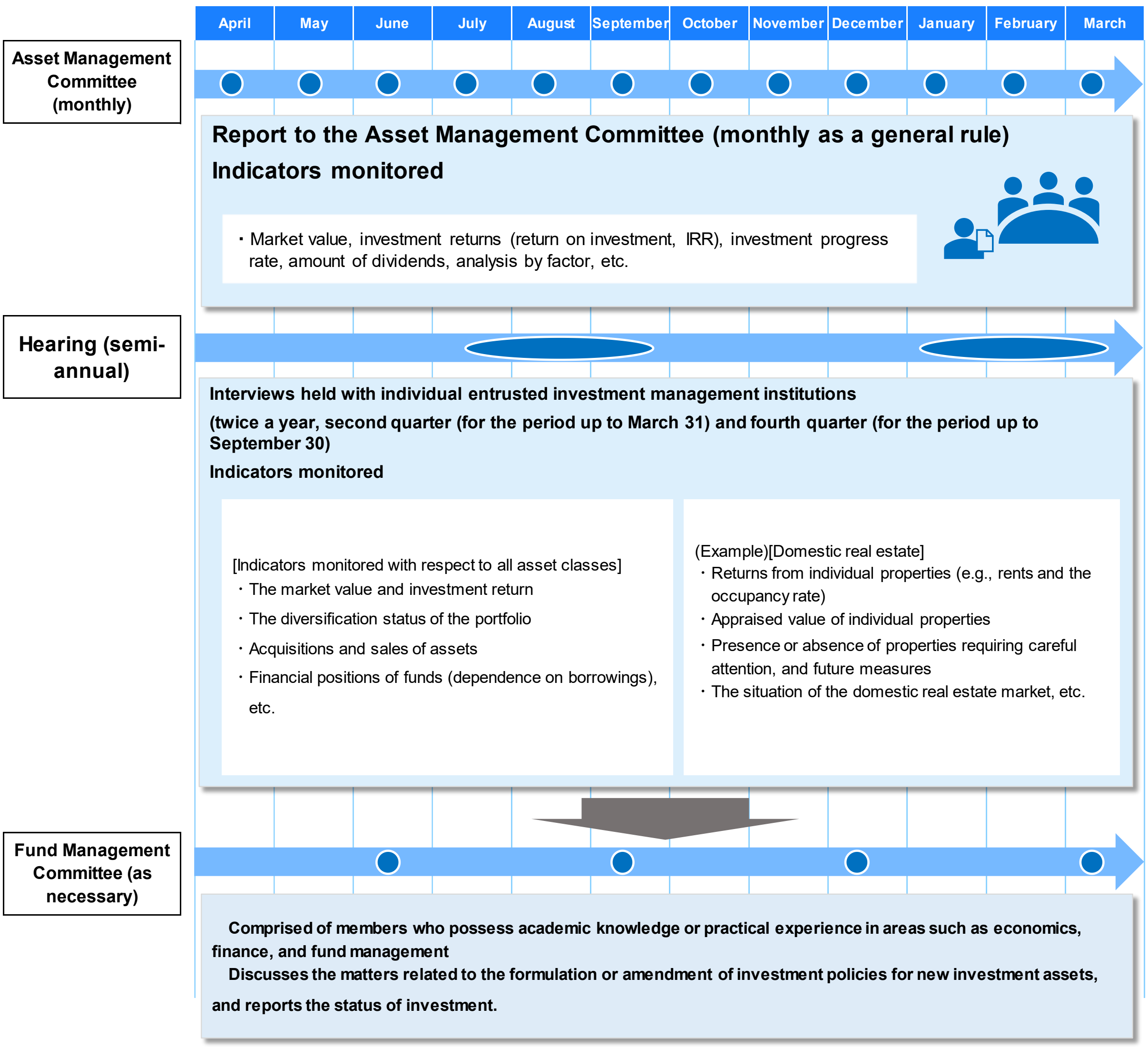


■Fund monitoring

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. It checks with entrusted investment management institutions on the cause and planned countermeasures and requests them to make improvements as necessary.

【Items for monitoring and reporting to the Fund Management Committee】(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 (medium- to long-term sustainability including ESG factors) according to the investment strategy).

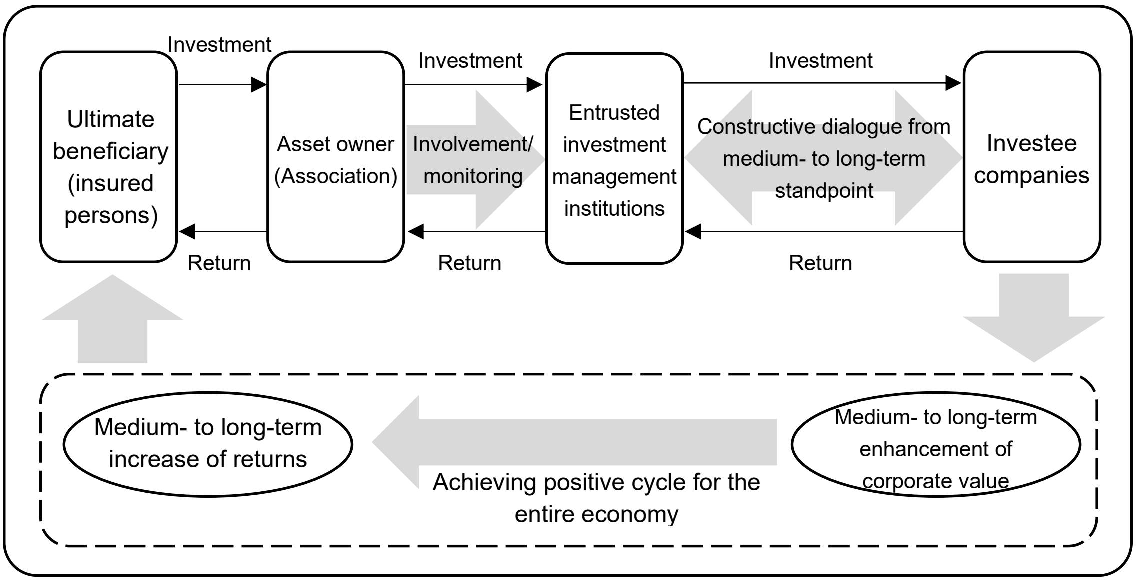
The Association has been proactively committed to stewardship activities with a view to fulfilling its fiduciary responsibility of increasing the value of its assets for insured persons over the long term, while recognizing its social responsibility as a public pension fund.

In addition, the Association entrusts investment management institutions to make 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.

Therefore, the Association requires entrusted investment management institutions to conduct stewardship activity in accordance with the "Corporate Governance Principles of Pension Fund Association for Local Government Officials" (hereinafter referred to as the "Corporate Governance Principles") and other guidelines set by the Association and strives to keep track of the status of stewardship activity and enhance the effectiveness by monitoring individual entrusted investment management institutions' efforts.

In addition, the Association prepares Annual Stewardship Activity Reports containing information learned through the monitoring of entrusted investment management institutions and makes them public on its website.

[Stewardship Activities]



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

■ Formulation of policies concerning stewardship activity

With regard to policies concerning stewardship activity, the Association established the 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.

In addition, the "Basic Policy for Employees' Pension Insurance Benefit Adjustment Fund" specify 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.

The Association clearly indicates these policies to entrusted investment management institutions when concluding contracts with them and requires them to conduct stewardship activity in compliance with these policies.

Further, in order to simply explain its policies and initiatives concerning stewardship activity, the Association formulated and publicly disclosed the Policy for Fulfilling Stewardship Responsibility in March 2025.

■ Expansion of the scope of assets covered by stewardship activities

In light of the revision of Japan's Stewardship Code in March 2020, the Association signed up to the revised Japan's Stewardship Code in September of the same year, and expressed an intention to "consider the principles that can be applied to assets other than listed domestic equities" and to "implement necessary initiatives to the extent possible" in its revised Signup to Japan's Stewardship Code.

The Association has already been monitoring stewardship activity related to foreign equities since FY2017, and in FY2023, it started monitoring stewardship activity related to bonds as well.

■ Participation in initiatives

In June 2021, the Association announced support for the Task Force on Climate-related Financial Disclosures (TCFD).

In addition, the Association became a signatory organization of the Principles for Responsible Investment (PRI) in May 2024.

(Note 1) TCFD: Established by the Financial Stability Board (FSB) upon a request from the G20 finance ministers and central bank governors. In June 2017, the TCFD published non-binding recommendations that encourage information disclosure with respect to the financial impacts of climate change-related risks and opportunities in order to enable investors to make appropriate investment decisions. The task force was dissolved in October 2023, with its function of monitoring the progress made in implementing the recommendations transferred to the IFRS Foundation (a private-sector, non-profit organization responsible for developing international financial reporting standards).

(Note 2) PRI: International principles that require institutional investors to give consideration to ESG (environmental, social, and governance) challenges in their investment activities.

(2) Monitoring of entrusted investment management institutions

For each fiscal year, the Association has been monitoring the stewardship activities of the entrusted investment management institutions by receiving reports concerning stewardship activity and holding interviews so as to ensure compliance with the Association's policies.

In its monitoring activity, while the Association does look at such formal aspects as entrusted investment management institutions' frameworks for conducting stewardship activities, it focuses on the "quality" of those activities. That is, the Association examines entrusted investment management institutions' approaches to stewardship activity and their specific activities in order to check whether the activities are based on the deep understanding of investee companies and their business environments and the considerations for sustainability that are made in accordance with investment strategy.

[Activities in FY2024]

April: Provided an explanation in the form of a document on the direction of the Association's stewardship activity for asset managers in FY2024 to ensure their understanding of the matters that the Association considers important in relation to stewardship activities.

May: Provided feedback regarding its evaluation of stewardship activities in FY2023 individually to investment management institutions entrusted with equity investment that requested it.

July: Held briefing meetings for entrusted investment management institutions (14 companies for domestic equities, 14 companies for foreign equities, 11 companies for domestic bonds and 14 companies for foreign bonds) and required them to submit reports on their stewardship activities. Also presented examples of incorrect reporting made by entrusted investment management institutions in FY2023 to draw their attention.

October to November: Held interviews with the investment management institutions entrusted with equity investment.

Considering the results of a review of the reports and interviews, the Association conducted the evaluation of stewardship activities of the 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 equity investment (a total of 30 funds) at a general meeting of shareholders of a total of 14,111 companies held between July 2023 and June 2024. The number of proposals for which voting rights were exercised was 47,404.

Of all proposals, 11,615 were voted against, translating into a vote-against rate of 24.5%.

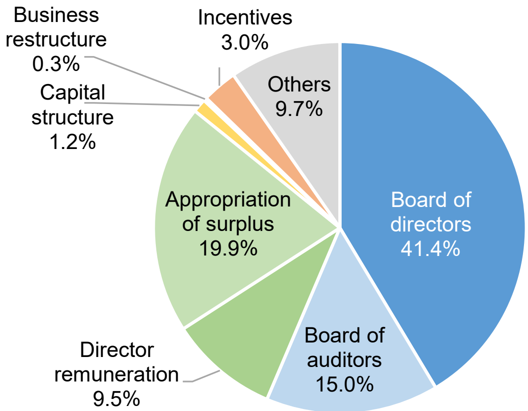
The vote-against rate came to 36.5% concerning proposals for the election of directors, 13.9% concerning proposals for the election of auditors and 16.8% concerning proposals related to director remuneration, etc.

Voting activity (The figures are based on the proposals submitted to general meetings of shareholders held between July 2023 and June 2024.)

Number of proposals by type of proposer	Vote for	Rate	Vote against	Rate	Abstentions	Rate	Total
Company proposal	35,542	78.9%	9,489	21.1%	0	0.0%	45,031
Shareholder proposal	247	10.4%	2,126	89.6%	0	0.0%	2,373
Total	*35,789*	*75.5%*	*11,615*	*24.5%*	*0*	*0.0%*	*47,404*

Number of proposals by type of proposal	Vote for	Rate	Vote against	Rate	Abstentions	Rate	Total
Board of directors/directors	12,455	63.5%	7,173	36.5%	0	0.0%	19,628
Board of auditors/auditors	6,123	86.1%	986	13.9%	0	0.0%	7,109
Director remuneration, etc.	3,739	83.2%	754	16.8%	0	0.0%	4,493
Appropriation of surplus	8,877	94.0%	569	6.0%	0	0.0%	9,446
Capital structure	190	33.6%	375	66.4%	0	0.0%	565
Takeover defense measures	5	2.2%	219	97.8%	0	0.0%	224
Capital increase or reduction	43	100.0%	0	0.0%	0	0.0%	43
Third party allotment of shares	18	62.1%	11	37.9%	0	0.0%	29
Acquisition of own shares	31	18.9%	133	81.1%	0	0.0%	164
Business restructure	132	100.0%	0	0.0%	0	0.0%	132
Incentives improvement for executives	1,245	86.3%	198	13.7%	0	0.0%	1,443
Other proposals	3,028	66.0%	1,560	34.0%	0	0.0%	4,588
Total	*35,789*	*75.5%*	*11,615*	*24.5%*	*0*	*0.0%*	*47,404*

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 equity investment (a total of 25 funds) at a general meeting of shareholders of a total of 9,527 companies held between July 2023 and June 2024. The number of proposals for which voting rights were exercised was 90,167.

Of all proposals, 14,702 were voted against, translating into a vote-against rate of 16.3%.

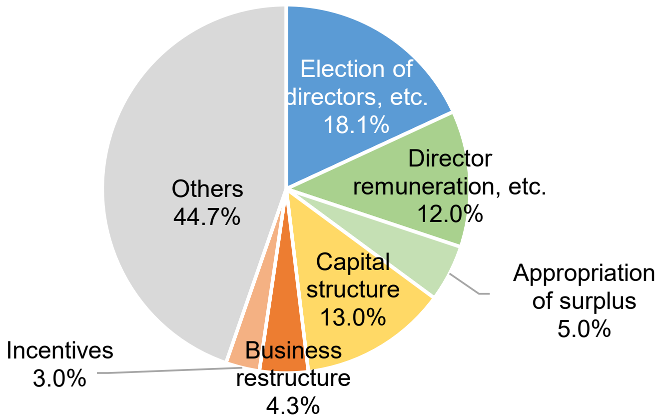
The vote-against rate came to 11.2% concerning proposals related to the election of directors, etc. and 11.9% concerning proposals related to director remuneration, etc.

Voting activity (The figures are based on the proposals submitted to general meetings of shareholders held between July 2023 and June 2024.)

Number of proposals by type of proposer	Vote for	Rate	Vote against	Rate	Abstentions	Rate	Total
Company proposal	72,104	85.9%	11,789	14.0%	37	0.0%	83,930
Shareholder proposal	3,319	53.2%	2,913	46.7%	5	0.1%	6,237
Total	*75,423*	*83.6%*	*14,702*	*16.3%*	*42*	*0.0%*	*90,167*

Number of proposals by type of proposal	Vote for	Rate	Vote against	Rate	Abstentions	Rate	Total
Proposal for election of directors, etc.	14,506	88.8%	1,826	11.2%	7	0.0%	16,339
Director remuneration, etc.	9,510	88.0%	1,289	11.9%	7	0.1%	10,806
Appropriation of surplus	4,482	99.5%	19	0.4%	2	0.0%	4,503
Capital structure	10,268	87.7%	1,436	12.3%	0	0.0%	11,704
Takeover defense measures	413	94.9%	22	5.1%	0	0.0%	435
Capital increase or reduction	3,410	79.7%	871	20.3%	0	0.0%	4,281
Third party allotment of shares	906	89.6%	105	10.4%	0	0.0%	1,011
Acquisition of own shares	3,206	99.2%	27	0.8%	0	0.0%	3,233
Business restructure	3,150	82.0%	691	18.0%	0	0.0%	3,841
Incentives improvement for executives	1,660	61.8%	1,023	38.1%	1	0.0%	2,684
Other proposals	31,847	79.0%	8,418	20.9%	25	0.1%	40,290
Total	*75,423*	*83.6%*	*14,702*	*16.3%*	*42*	*0.0%*	*90,167*

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 17 countries and regions (the United States, Canada, the United Kingdom, Ireland, Australia, New Zealand, Singapore, Hong Kong, the Czech Republic, Indonesia, Mexico, the Philippines, South Africa, Taiwan, Thailand, Pakistan and China A Stock).

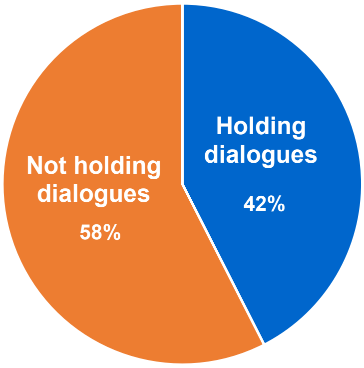
(5) Results of engagement activity (domestic equities)

During the period from July 2023 to June 2024, the Association conducted engagement with around 42% of the companies whose shares it owned as of the end of June 2024, and the combined market capitalization of the 42% accounted for around 92% of the total market capitalization of the companies whose shares it owned.

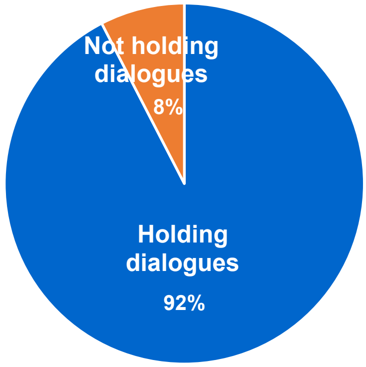
Status of Engagement by Equity Managers (July 2023 to June 202)

*In cases where there were funds newly created or cancelled during the data period (from July 2023 to June 2024), the data include dialogue held regarding those funds (30 funds).

[Number of companies that held dialogues]



[Ratio of companies that held dialogues (on a market capitalization basis)]



(6) 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.

Under those circumstances, in FY2024, the Association is participating in the Keidanren-GPIF Asset Owners Roundtable as part of its activity to promote constructive dialogue between companies and investors and is deepening mutual understanding regarding what stewardship activity should be like.

(7) 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.

The Association will also accumulate knowledge concerning stewardship activity through such means as monitoring of and dialogue with entrusted investment management institutions in order to improve assessment and monitoring methods.

The Association will also use frameworks, such as Keidanren-GPIF Asset Owners Roundtable, to promote mutual understanding with asset managers and investee companies.

■Promotion of dialogues and 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 as well as social and environmental impacts, 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," the "Guidelines for Exercising Shareholders' Voting Rights" (Domestic Equities/Foreign Equities) and the Signup to Japan's Stewardship Code 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.

In addition, the Association will strive to identify the most recent trends related to ESG investment and develop relationships with domestic and foreign asset owners and asset managers while using the network of the PRI, which newly became a signatory organization in FY2024.

6 Review of benchmark portfolio

(1) Basic approach to reviewing the benchmark portfolio

Under the Basic Policy for Employees' Pension Insurance Benefit Adjustment Fund, the Association is required to appropriately manage risks based on market trends, annually verify the benchmark portfolio and, if it is considered necessary in specific cases, such as when the investment environment assumed at the time of establishing the benchmark portfolio deviates from reality, examine the benchmark portfolio and revise it as necessary.

In line with the review of the benchmark portfolio for the Local Public Service Mutual Aid Associations as a whole, the Association revised its benchmark portfolio (revised on March 31, 2025, effective from April 1).

(2) Basic policy for reviewing benchmark portfolio

As a result of estimating the asset allocation that can achieve the real investment return required for pension finance with minimum risk, the Association adopted the benchmark portfolio with a 25% allocation to each asset class, in the same way as the asset allocation of the benchmark portfolio of the Local Public Service Mutual Aid Associations as a whole.

(3) Benchmark portfolio after the review

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Asset allocation	25%	25%	25%	25%
Deviation tolerance	±9%	±9%	±7%	±9%

※Short-term assets are classified into domestic bonds.
※Alternative assets are classified into domestic bonds, domestic equities, foreign bonds or foreign equities according to their risk/return profiles and other characteristics. The share of alternative assets in the asset mix is limited to a maximum of 5% of the overall assets.

<Attributes>

Real investment return	Nominal investment return	Standard deviation	Lower partial probability	Conditional average shortfall rate
1.9%	3.2%	10.3%	42.3%	7.2%

※The real investment return and nominal investment return assumes the "recurrence of past 30 years case."
※The lower partial probability refers to the probability of the return falling below the nominal wage growth rate, and the conditional average shortfall rate refers to the average shortfall rate when the return is below the nominal wage growth rate.

(Reference 1) Benchmark portfolio before review (before March 31, 2025)

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Asset allocation	25%	25%	25%	25%
Deviation tolerance	±10%	±12%	±9%	±11%

(Reference 2) Assumptions and conditions for review of the benchmark portfolio

(A) Target investment return: real investment return of 1.9%

(B) Risk constraints: (a) the risk of the benchmark portfolio underperforming the nominal wage growth rate should be lower than the risk of a portfolio comprised solely of domestic bonds underperforming the nominal wage growth rate; and (b) the average shortfall rate in case the return is below the nominal wage growth rate should be minimized.

(C) Asset classification: domestic bonds, domestic equities, foreign bonds, and foreign equities (short-term assets are classified into domestic bonds)

(D) Expected returns and risks concerning each asset class

(i) Expected returns

In connection with the review of the benchmark portfolio, the Association estimated expected returns for all four economic scenarios described in 2024 Fiscal Review concerning the employees pension insurance benefits.

It was confirmed that the real investment return of 1.9%, which is the investment target, can be achieved on the assumption of any of these economic scenarios.

	Expected returns concerning each asset class (nominal values)				Real expected returns on portfolio (figures in parentheses represent nominal values)
	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities	
High economic growth case	3.3%	7.5%	4.9%	8.2%	2.0% (6.0%)
Growth-oriented economy case	2.8%	7.0%	4.4%	7.7%	2.0% (5.5%)
Recurrence of past 30 years case	0.5%	4.8%	2.2%	5.4%	1.9% (3.2%)
Zero growth per capita case	-0.1%	4.2%	1.6%	4.8%	2.1% (2.6%)

(ii) Risk

Asset class	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities	Wage growth rate
Risk	2.59%	19.20%	9.72%	20.35%	0.92%

(iii) Correlation

Asset class	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities	Wage growth rate
Domestic bonds	1.000	-0.254	0.072	-0.123	-0.105
Domestic equities		1.000	0.270	0.690	0.523
Foreign bonds			1.000	0.558	0.197
Foreign equities				1.000	0.614
Wage growth rate					1.000

7 Other major efforts

(1) 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.

With respect to ESG investment, based on the Basic Policy for Ensuring Safe and Efficient Management and Investment of Funds from Long-term Perspective" (the "Basic Policy for Funds"), the Association has provided in its Basic Policy for Employees' Pension Insurance Benefit Adjustment Fund that the necessary initiatives shall be implemented, based on a case-by-case analysis, with a view to promoting investment that takes into consideration ESG factors (Environmental, Social, and Governance), a non-financial factor in addition to financial factors based on the concept that the sustainable growth of investee companies and the entire market is necessary for the increase of returns on investment assets over the long term so as to secure long-term returns 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 into consideration when conducting engagement activity or exercising voting rights as part of stewardship activity and checks the status of those activities.

(Note) 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 FY2009 with respect to active investment in domestic equities.

Subsequently, the Association gradually increased the number of adopted funds and the amount of investment. In FY2020, the Association started investing in ESG funds as part of passive investment in domestic equities, and in FY2022, as part of active investment in foreign equities.

The Association has adopted six ESG funds concerning domestic equities as of the end of FY2024 (four funds for active investment and two funds for passive investment), with a total value (market value) of 687.2 billion yen (approximately 15.6% of the outstanding balance of domestic stocks in the Association's portfolio), and two ESG funds concerning foreign equities for active investment, with a total value (market value) of 78.3 billion yen (approximately 1.8% of the outstanding balance of foreign 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 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.

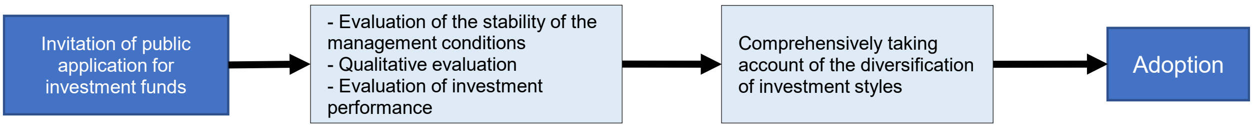
As of the end of FY2024, the total value (book value) is 5.9 billion yen (0.1 billion yen for local government bonds and 5.8 billion yen for bonds issued by institutions funded by a fiscal investment and loan program).

(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 (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 in fiscal year 2015 with respect to alternative investments, and with respect to all asset classes including traditional assets in fiscal year 2016.

In September 2024, the Association deleted its former numerical criteria on the value of assets invested by investment management institutions and track records of proposed funds, so as to expand the scope of funds eligible for investment and adopt more well-performing funds.

■Selection of entrusted investment management institutions

In fiscal year 2024, the Association newly adopted two market-based funds investing in 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 such factors as "whether the fund is expected to deliver an excess return 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 after deduction of fees and the information ratio (the tracking error in the case of passive investment).

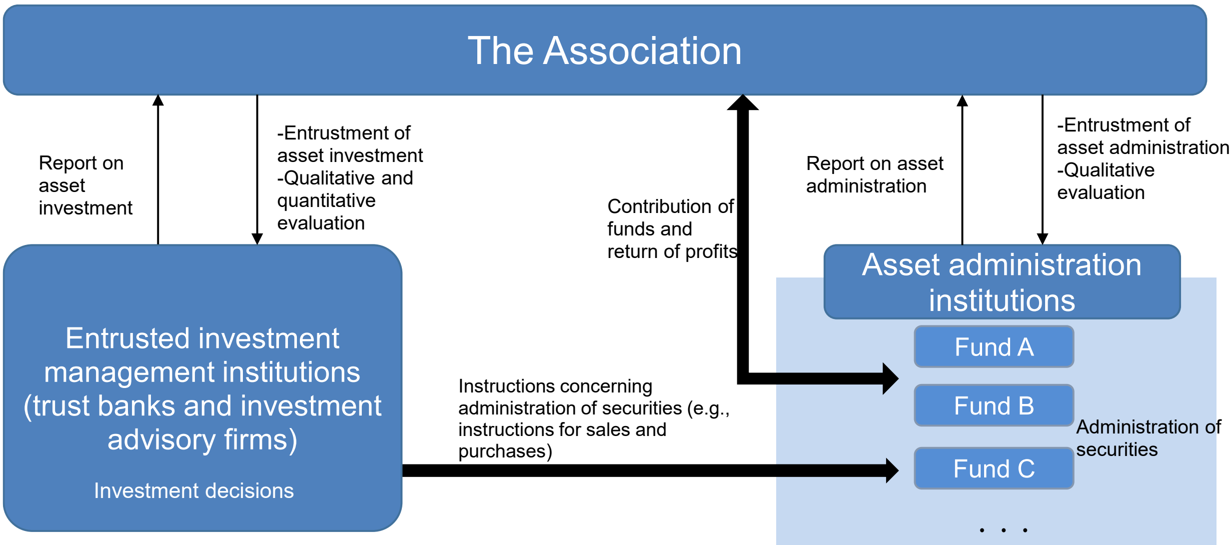
The Association allocates funds in a consistent manner across the entire portfolio in consideration of not only the results of comprehensive evaluation but also the balance of strategy categories in each asset class (e.g., domestic equity market type and foreign equity growth type) and the balance of funds in each category.

In fiscal year 2024, the Association cancelled one passive fund investing in domestic equities, and three active funds investing in foreign equities that did not perform well.

■Administration and evaluation of asset administration institutions

The Association requires asset administration institutions to submit annual reports on its status of business, asset administration and frameworks for ensuring compliance frameworks with laws and regulations, and conducts hearings on these reports. The Association also performs a qualitative assessment based on the hearings to check whether these statuses and frameworks are appropriate.

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



Section 2

Businesses and Fund Management of Association

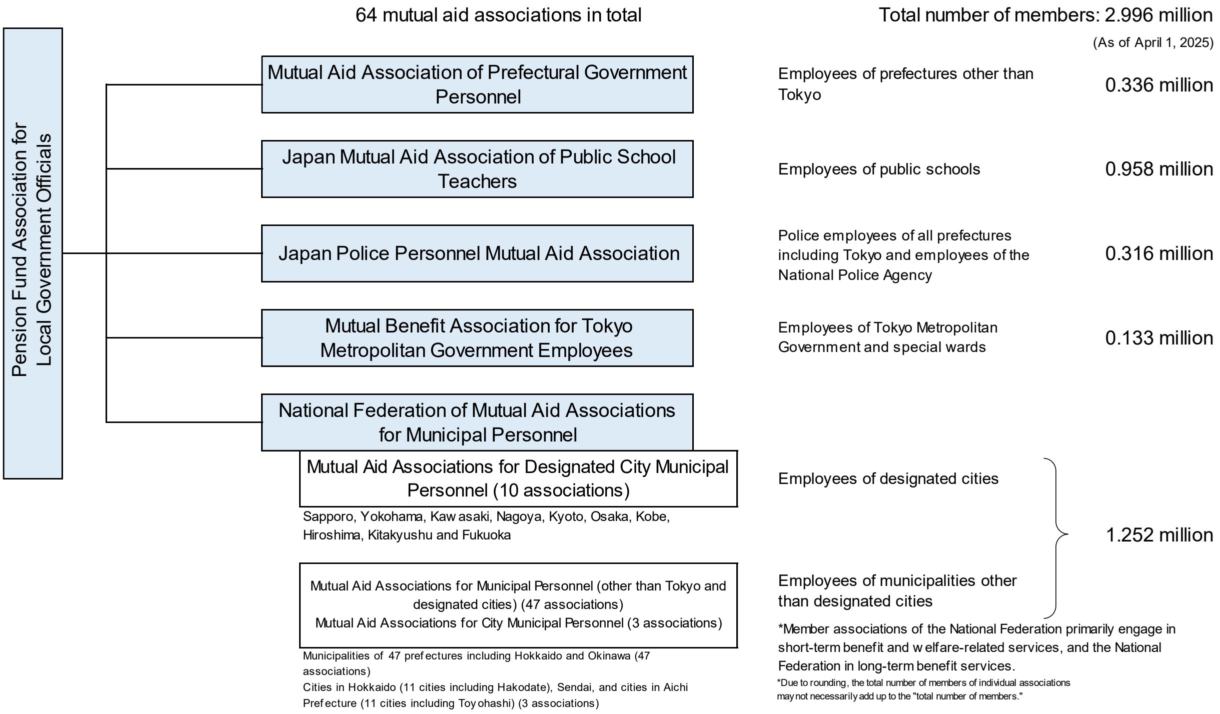
1 Establishment

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
・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	・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, 2025)

Hidetaka Kawakita	Kyoto University, Professor Emeritus
Konosuke Kita	Former Senior Advisor to Russell Investments Japan Co., Ltd.
Hisae Sato	Council Member, 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 Managing 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
47th	June 25, 2024	・Review of Operations reports concerning administration and investment of individual funds in FY2023 ・Status of risk management of individual funds in FY2023 ・Examination of the benchmark portfolio of the Annuity Retirement Benefit Adjustment Fund ・Responses to the Policy Plan for Promoting Japan as a Leading Asset Management Center ・Status of investment in alternative assets ・Review of investment of funds in FY2023 and status of asset allocation for FY2024
48th	September 3, 2024	・Status of investment of individual funds in the first quarter of FY2024 ・Status of risk management of individual funds in the first quarter of FY2024 ・Acceptance of the Asset Owner Principles and Policy for Strengthening Investment Capabilities ・Result of the selection of active investment products for foreign equities ・Review of investments in FY2024
49th	December 9, 2024	・Status of investment of individual funds in the second quarter of FY2024 ・Status of risk management of individual funds in the second quarter of FY2024 ・Review of benchmark portfolio concerning EPI benefits ・Review of benchmark portfolio concerning transitional long-term benefits ・Asset allocation in FY2024
50th	February 17, 2025	・Review of benchmark portfolio (proposal) ・Annual Stewardship Activity Report FY2024 ・Asset allocation in FY2024
51st	March 11, 2025	・Status of investment of individual funds in the third quarter of FY2024 ・Status of risk management of individual funds in the third quarter of FY2024 ・Revision of basic policies ・Policy for Fulfilling Stewardship Responsibility ・Review of investments in FY2024, and investment policy in FY2025

(3) Executives and Secretariat

(As of April 1, 2025)

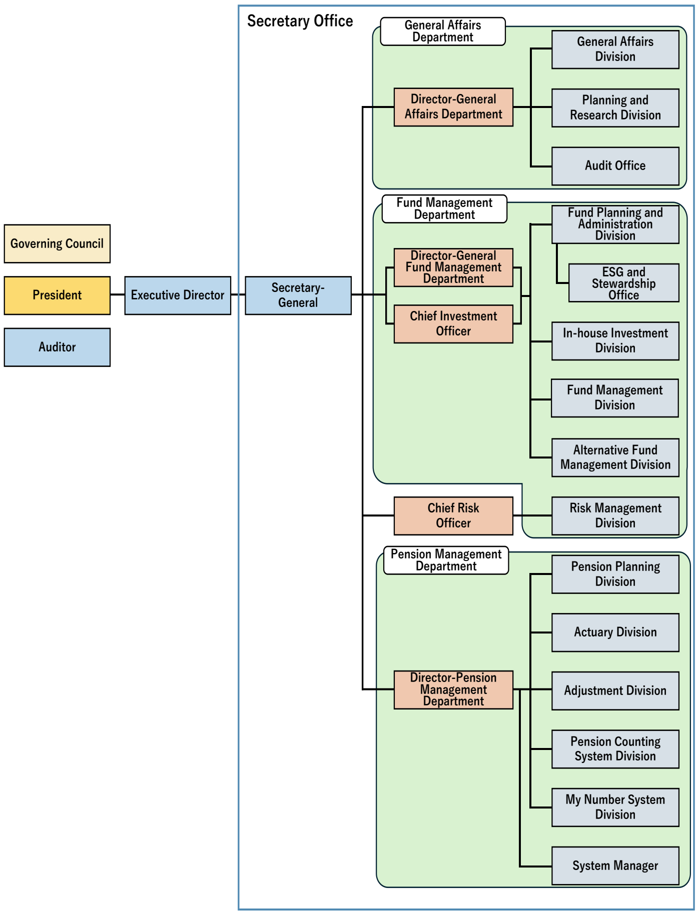
■ Executives

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 (there is also a Chief Risk Officer outside the departments), 12 divisions (there is also a system manager outside the divisions), and two offices.

As of April 1, 2025, the prescribed number of employees at the Secretariat is 92.



(4) Meetings

■Asset Management Committee

The Association has established the Asset Management Committee, which is chaired by the Chief Investment Officer, 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 is required to report to the President and other officials on the status of discussions at the Committee as necessary.

■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.

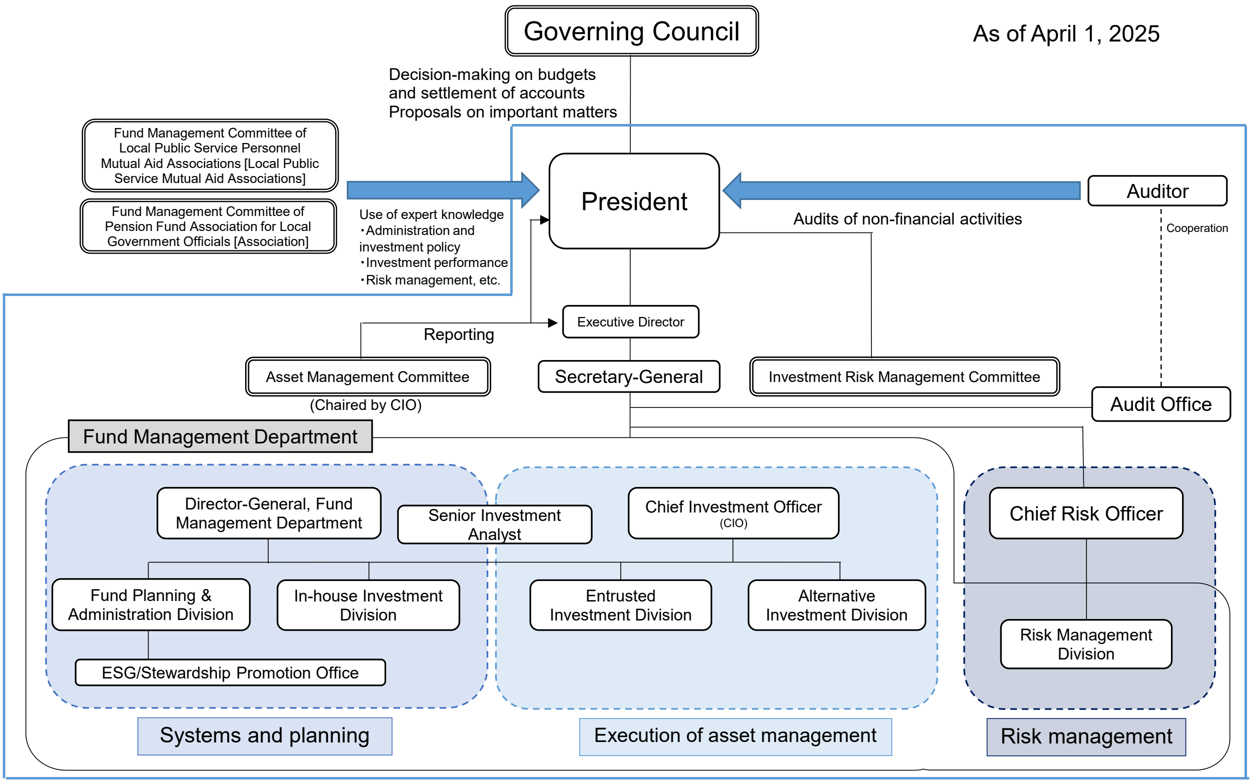
Unlike the Asset Management Committee, this committee is under the direct control of the President in order to ensure control over investment sections. In principle, the Investment Risk Management Committee shall hold a regular quarterly meeting and shall also meet as necessary.

(5) Governance structure

At the Association, pursuant to the provisions of the Local Public Officers, etc. Mutual Aid Association Act, the Governing Council that includes council members representing the individual mutual aid associations' members deliberates on and resolves annual business plans, and the Fund Management Committee of Pension Fund Association for Local Government Officials composed of outside experts of fund investment studies expert matters.

In addition, the Association has also established the Asset Management Committee and the Investment Risk Management Committee to make decisions informed by active discussions among officers and staff in charge. Along with the establishment of this governance framework, the Association's auditors conduct annual audits of its business operations.

With respect to the organizational structure for fund management, in April 2025, according to its Policy for Strengthening Investment Capabilities, the Association reorganized the related functions into (i) systems and planning, (ii) execution of asset management, and (iii) risk management, and appointed the Director-General of Fund Management Department and Chief Investment Officer (CIO) within the Fund Management Department, each of whom is responsible for overseeing (i) and (ii), respectively, and the Chief Risk Officer who is independent of the Fund Management Department responsible for overseeing (iii). The Association has also developed frameworks for business operation through collaboration and checks and balances among these officers so as to strengthen its capabilities for business operations.



4 Investment of funds

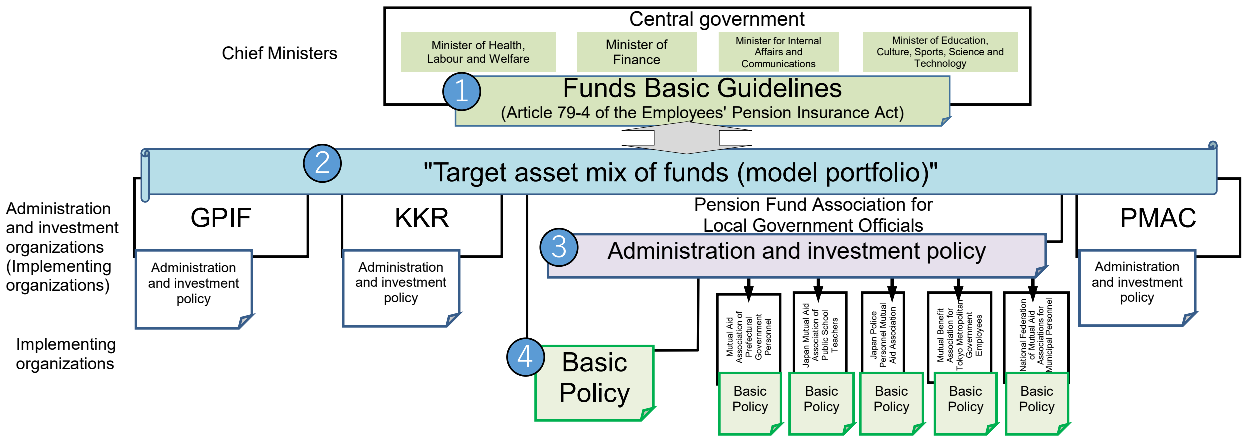
(1) Mechanisms

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 "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) of 1.9% at the minimum risk, a benchmark portfolio shall be established and appropriately managed and efforts shall be made to secure the composite benchmark return on the entire asset portfolio and benchmark return for each asset class in each fiscal year, as well as the composite benchmark return on the entire asset portfolio over the long term.