Pension Fund Association
for Local Government Officials

Fiscal Year 2024

Review of Operations

Annuity Retirement 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: **0.63%**
(Realized return)

Investment income: **¥869 million**
(Realized return)

Value of investment assets:
(As of the end of March 2025)

¥159.1 billion
(Book 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.

The Annuity Retirement Benefit Adjustment Fund is based on book value as the funds are invested in domestic bonds on the premise of continued holding until maturity.

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.

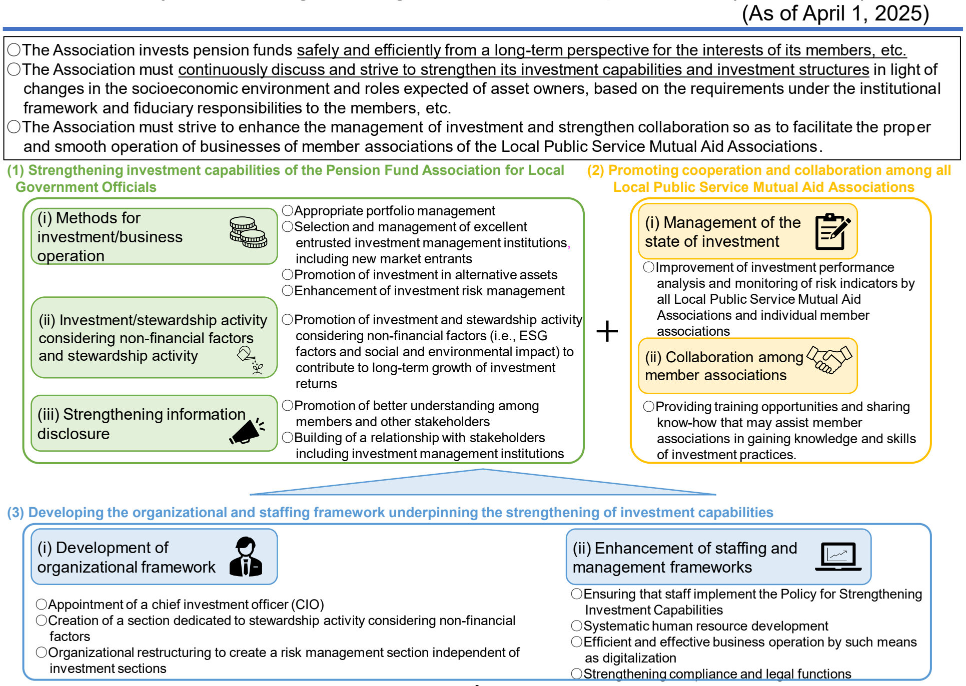
Under the Grand Design and Action Plan for a New Form of Capitalism 2024 Revised Version, the Association is required to accept the Asset Owner Principles and to formulate and publicly disclose its policies concerning the enhancement of investment capabilities. The Asset Owner Principles have been developed 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)



Section 1 Administration and Investment of Funds in FY2024

1 Investment results

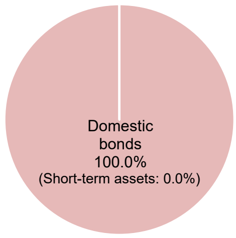
(1) Asset mix

The shares in the asset mix were as follows:

(Unit: %)

	End of FY2023	Fiscal Year 2024				Benchmark portfolio
		End of Q1	End of Q2	End of Q3	End of FY	
Domestic bonds	100.0	100.0	100.0	100.0	100.0	100.0
Short-term assets	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)	
Total	100.0	100.0	100.0	100.0	100.0	

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



(2) Investment return

The realized return (book value basis) came to 0.63%.

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

(Unit: %)

	Fiscal Year 2024				
	Q1	Q2	Q3	Q4	FY Total
Realized return (book value basis)	0.14	0.15	0.16	0.18	0.63
Domestic bonds	0.14	0.15	0.16	0.18	0.63
Short-term assets	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)

(Reference) (Unit: %)

	Fiscal Year 2024				
	Q1	Q2	Q3	Q4	FY Total
Modified total returns	-2.75	1.61	-1.56	-3.25	-6.10

(Note 1) The return in each quarter is the period rate.
(Note 2) The realized return (book value basis) and modified total return represent the figures after the deduction of fees, etc.
(Note 3) The modified total return represents the realized return (book value basis) adjusted for the effects of changes in valuation gains/losses based on market value.

(3) Investment income

The realized income (book value basis) was ¥869 million.

(Unit: JPY100M)

	Fiscal Year 2024				
	Q1	Q2	Q3	Q4	FY Total
Realized income (book value basis)	1.67	1.92	2.33	2.76	8.69
Domestic bonds	1.67	1.92	2.33	2.76	8.69
Short-term assets	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)

(Reference) (Unit: JPY100M)

	Fiscal Year 2024				
	Q1	Q2	Q3	Q4	FY Total
Investment income (market value basis)	-32.00	19.62	-21.04	-46.81	-80.22

(Note 1) The realized income (book value basis) represents the sum of trading profits/losses and interest income, etc.
(Note 2) The realized income (book value basis) and investment income (market value basis) represent the figures after the deduction of fees.
(Note 3) The investment income (market value basis) represents the realized income (book value basis) adjusted for the effects of changes in valuation gains/losses based on market value.
(Note 4) Due to rounding, the total sum of individual figures may not necessarily add up to the FY total.

(4) Value of assets

The value of investment assets (book value basis) was ¥159.1 billion.

(Unit: JPY100M)

	End of FY2023			Fiscal Year 2024											
				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	1,173	1,118	-55	1,264	1,177	-87	1,333	1,263	-70	1,472	1,381	-92	1,591	1,447	-144
Short-term assets	(0)	(0)	(0)	(1)	(1)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Total	1,173	1,118	-55	1,264	1,177	-87	1,333	1,263	-70	1,472	1,381	-92	1,591	1,447	-144

(5) Fees

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

2 Risk management

(1) Approach to risk management

Generally speaking, "risk" refers to the "possibility of an incident that could have a negative impact on an organization's goals and objectives." In the field of asset investment, "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 for investment in accordance with the "implementation policy for risk management concerning investment of the Annuity Retirement Benefit Adjustment Fund" in consideration of the following points: that investment of funds should be made safely and efficiently from a long-term perspective and the characteristics of a cash balance-type pension plan that links the benefit level to the government bond yield or other benchmarks.

Implementation policy for risk management concerning investment of the Annuity Retirement 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) A benchmark portfolio should be developed and investment of adjustment funds should be made based on it.
(3) In the investment of the adjustment funds, consideration should be constantly given to the relationship between the liabilities related to the Annuity Retirement Benefits operations and the funds in the future in light of the characteristics of a cash-balance pension plan, whose benefit level is linked to the government bond yield and other benchmarks.

(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, for its assets as a whole, the Association keeps track of and manages the status of the deviation of the actual portfolio from the benchmark portfolio in terms of the asset mix.

■Management of asset administration institutions

The Association requires asset administration institutions to improve systems to fulfill the fiduciary responsibilities and ensure compliance and appropriately manages them by keeping track of their status of asset administration.

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

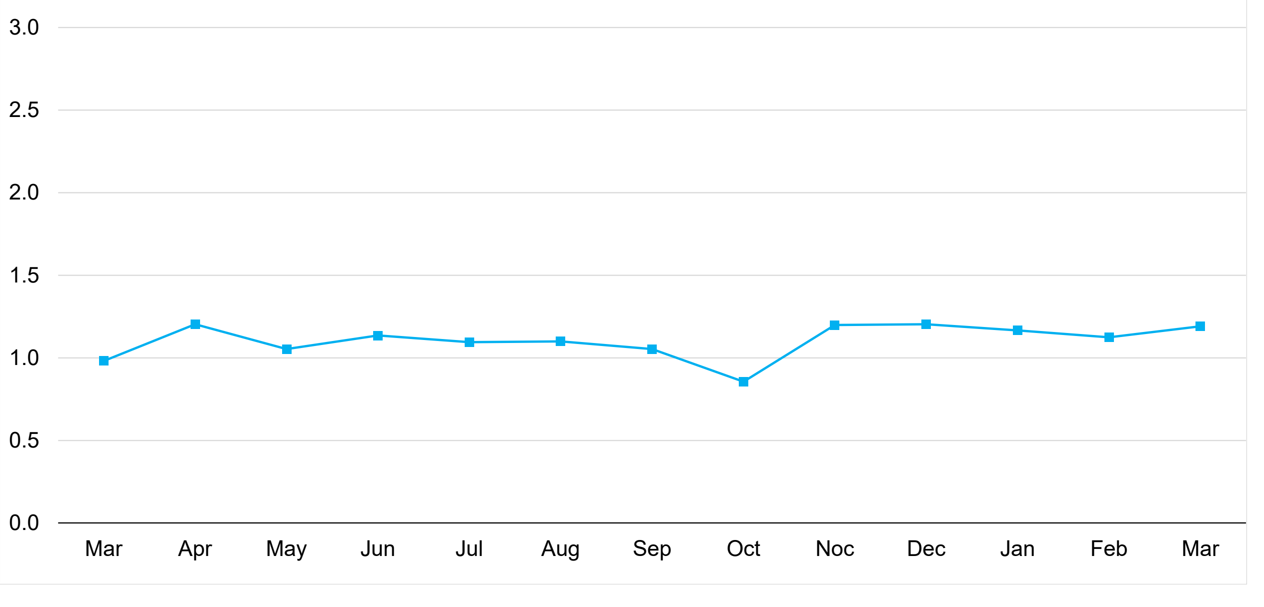
The Association reports on the status of risk management and improvement measures implemented to the Investment Risk Management Committee, the Fund Management Committee of Pension Fund Association for Local Government Officials and the Governing Council.

(3) Status of risk management

The full amount of funds of the Annuity Retirement Benefit Adjustment Fund is invested in domestic bonds.

The duration deviation from NOMURA-BPI Overall ranged from 0.8 years to 1.3 years.

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



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.

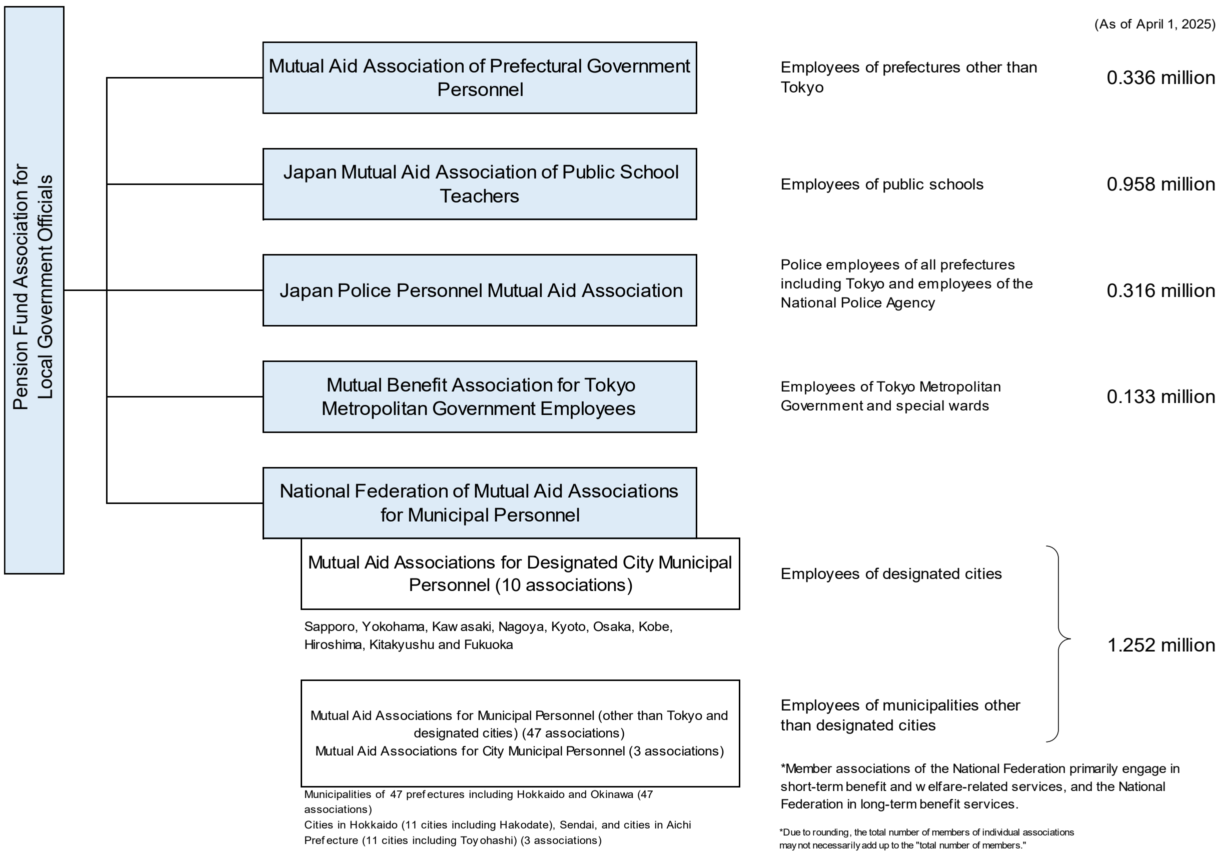
The Pension Fund Association for Local Government Officials was established on April 1, 1984, in order to stabilize the foundation of pension finance by integrating the pension funding units and to ensure appropriate and smooth management of operations related to long-term benefits of member associations 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

64 mutual aid associations in total

Total number of members: 2.996 million

(As of April 1, 2025)



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 Annuity Retirement 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

■ Executives

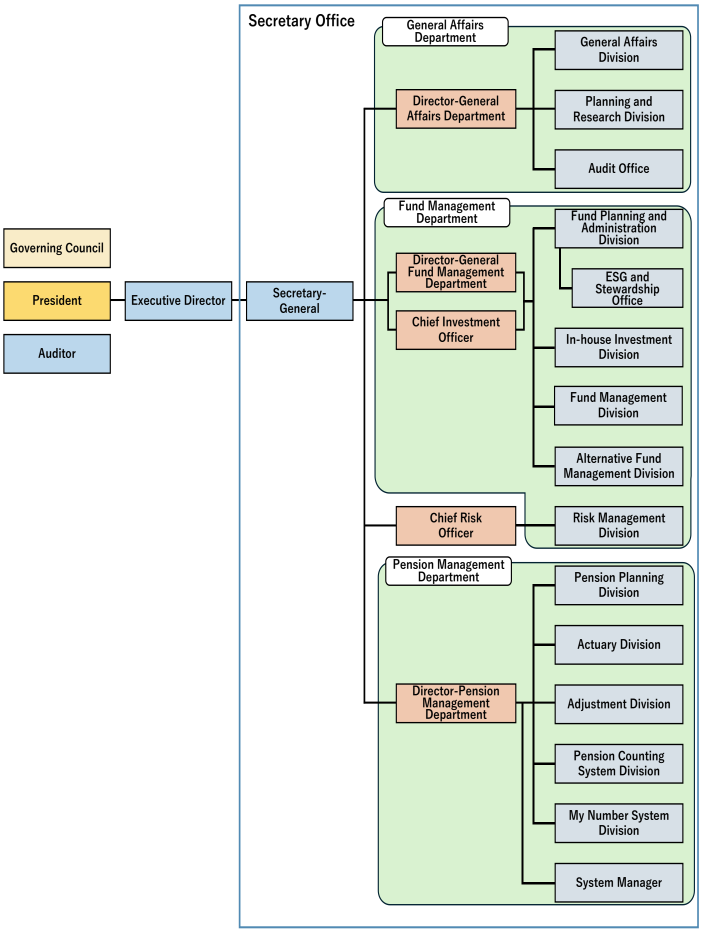
The Association is required to appoint the President, eight executive directors and three auditors. The President, two of the executive directors, and one of the auditors must serve on a full-time basis.

■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.

(As of April 1, 2025)



(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 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.

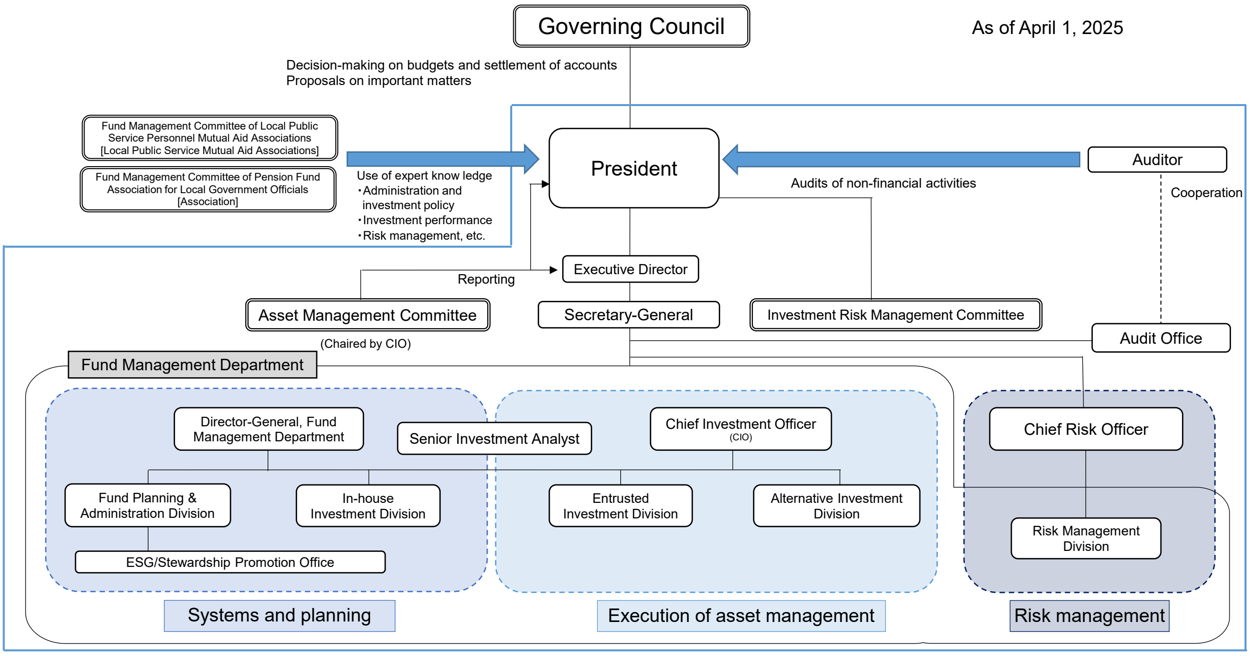
Unlike the Asset Management Committee, this committee is under the direct control of the President in order to ensure control over investment sections. In principle, the Investment Risk Management Committee shall hold a regular quarterly meeting and shall also meet as necessary.

(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 a 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

The Association formulates Administration and Investment Policy, which serves as the common policy for administration and investment organizations (the Local Public Service Mutual Aid Associations) subject to approval from the Minister for Internal Affairs and Communications (Article 112-10 of the Local Public Officers, etc. Mutual Aid Association Act).

A Basic Policy pertaining to administration and investment of funds is formulated by the administration and investment organizations so as to conform to the Administration and Investment Policy set by the Association (Article 112-11 of the Local Public Officers, etc. Mutual Aid Association Act).

【Mechanism of fund investment after the integration】