

**Local Public Service Mutual
Aid Associations**

Fiscal Year 2021

Review of Operations

Employees' Pension Insurance Benefit 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 2021 Investment Results (Overview)



Investment return:

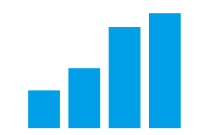
5.19%

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



Investment income: **¥1,258.2 billion**

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



Value of investment assets:

(As of the end of March 2022)

¥24,950.6 billion

(Market value)

As pension investment funds are intended for long-term investment, the investment status must be judged from the long-term perspective.

As investment income is based on the market value as of the end of FY2021, it should be kept in mind that it includes valuation gains/losses, which means it may change depending on market movements.

Administration and Investment of Funds in FY2021

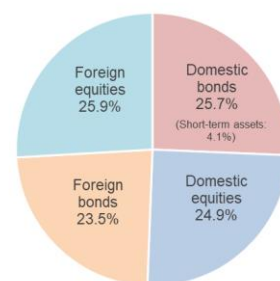
1 Investment results

(1) Asset mix

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

	End of FY2020	Fiscal Year 2021				Benchmark portfolio
		End of Q1	End of Q2	End of Q3	End of FY	
Domestic bonds	25.9	24.6	26.3	24.9	25.7	25.0
Short-term assets	(4.4)	(2.6)	(4.2)	(3.0)	(4.1)	
Domestic equities	25.2	25.0	25.7	24.9	24.9	25.0
Foreign bonds	23.0	23.7	23.0	23.6	23.5	25.0
Foreign equities	25.9	26.8	24.9	26.5	25.9	25.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Composition by Investment Asset Class
(as of end of FY2021)



(Note 1) Deviation tolerances from the benchmark portfolio are $\pm 20\%$ for domestic bonds, $\pm 12\%$ for domestic equities, $\pm 9\%$ for foreign bonds and $\pm 11\%$ for foreign equities.

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

(Note 3) At the end of FY2021, the ratio of alternative assets to the total amount of funds is 1.2% (the upper limit is 5%).

(2) Investment return

The return (market value) came to 5.19% due to factors such as rises of foreign equities.

	Fiscal Year 2021				
	Q1	Q2	Q3	Q4	FY Total
Return (market value basis)	2.62	0.95	2.82	-1.16	5.19
Domestic bonds	0.41	0.08	-0.04	-1.21	-0.82
Short-term assets	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)
Domestic equities	-0.16	5.32	-1.61	-1.59	1.77
Foreign bonds	1.70	-0.78	2.63	-1.02	2.46
Foreign equities	8.31	-0.78	10.53	-0.81	17.24

	Fiscal Year 2021				
	Q1	Q2	Q3	Q4	FY Total
Realized return (book value basis)	1.91	1.74	1.46	1.20	6.30

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

(Note 2) Unless otherwise specified, the return (market value basis) refers to the modified total return. (The same shall apply hereinafter.)

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

(3) Excess return

The return (market value basis) for overall assets was 5.19% and the composite benchmark return for overall assets was 5.48%. The excess return over the composite benchmark was -0.29%.

	Overall assets	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Return (market value)	5.19%	-0.82%	1.77%	2.46%	17.24%
Composite benchmark return	5.48%	-1.22%	1.99%	1.89%	19.38%
Excess return	-0.29%	0.40%	-0.22%	0.57%	-2.14%

(Note) 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.

(4) Investment income

Investment income (market value basis) was ¥1,258.2 billion.

(Unit: JPY100M)

	Fiscal Year 2021				
	Q1	Q2	Q3	Q4	FY Total
Investment income (market value basis)	6,240	2,318	6,946	-2,923	12,582
Domestic bonds	246	48	-27	-778	-511
Short-term assets	(0)	(0)	(0)	(0)	(0)
Domestic equities	-97	3,218	-1,028	-1,003	1,090
Foreign bonds	948	-447	1,508	-608	1,402
Foreign equities	5,143	-500	6,493	-534	10,601

(Unit: JPY100M)

	Fiscal Year 2021				
	Q1	Q2	Q3	Q4	FY Total
Realized income (book value basis)	3,692	3,417	2,910	2,427	12,446

(Note 1) The investment income (market value basis) represents the income after 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 ¥24,950.6 billion.

(Unit: JPY100M)

	End of FY2020			Fiscal Year 2021											
				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	61,631	62,543	913	57,866	59,014	1,149	63,914	64,940	1,026	61,418	62,372	953	63,906	64,041	135
Short-term assets	(10,549)	(10,550)	(0)	(6,197)	(6,197)	(0)	(10,418)	(10,418)	(0)	(7,451)	(7,451)	(0)	(10,215)	(10,215)	(0)
Domestic equities	44,714	60,735	16,021	44,857	60,139	15,281	45,551	63,539	17,988	46,480	62,258	15,778	48,449	62,217	13,769
Foreign bonds	53,491	55,549	2,057	54,007	56,906	2,898	54,694	56,810	2,116	55,914	59,031	3,117	56,744	58,585	1,841
Foreign equities	36,479	62,574	26,095	35,457	64,303	28,846	35,175	61,535	26,360	35,096	66,355	31,258	35,185	64,662	29,477
Total	196,315	241,401	45,086	192,187	240,362	48,175	199,335	246,824	47,490	198,909	250,015	51,106	204,284	249,506	45,222

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	2,010	391	1,635	-8,514

(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 ¥14.8 billion. The fee rate relative to the value of investment assets came to 0.06%.

(Unit: JPY100M, %)

	Fiscal Year 2021	
	Fee	Fee rate
Domestic bonds	19	0.04
Domestic equities	46	0.08
Foreign bonds	19	0.03
Foreign equities	57	0.09
Alternative assets	7	0.32
Overall assets	148	0.06

(Note 1) Fees include management fees and custodian fees related to entrusted investment.

(Note 2) Fee rate = fee amount/month-end market value average balance

2 Risk management

(1) Approach to risk management

Generally speaking, "risk" refers to the "possibility of an incident that could have a negative impact on an organization's goals and objectives." In the field of asset investment, "risk" refers to the range of fluctuations of expected return on investment. Risk in this sense includes not only the possibility of failing to secure the required yield but also the range of fluctuations of return on investment due to various risks, such as interest rate risk, price fluctuation risk, credit risk, and liquidity risk.

Therefore, for asset investment, it is important to consider various risks commensurate with investment from a long-term perspective.

The Local Public Service Mutual Aid Associations (the "Associations"), in accordance with the implementation policy for risk management concerning investment of the fund, appropriately implement risk management concerning investment in consideration of the following points: that investment of funds should be made safely and efficiently from a long-term perspective; and that diversified investments should be maintained in principle.

Implementation policy for risk management concerning investment of the fund (excerpt)

1 Basic approach concerning risk management

The Mutual Aid Association of Prefectural Government Personnel, the Japan Mutual Aid Association of Public School Teachers, the Japan Police Personnel Mutual Aid Association, the Mutual Benefit Association for Tokyo Metropolitan Government Employees, the National Federation of Mutual Aid Associations for Municipal Personnel, and the Pension Fund Association for Local Government Officials (the "Association") appropriately conduct risk management related to the investment of their funds in light of the following matters.

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

2 Risk management implementing entities and subjects of management

(1) Employees' Pension Insurance Scheme Managed Fund

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

(2) Risk management efforts

■Management of the deviation of the asset mix

Investment based on the benchmark portfolio requires the management of various risk factors. Therefore, in order to secure profits in line with the benchmark portfolio from the long-term perspective, it is important, in particular, to manage the degree of deviation of the asset mix of the actual portfolio from that of the benchmark portfolio.

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

■Monitoring of market risk, etc.

The Associations monitor downside risks by using the value at risk approach, which measures the maximum probable amount of losses, and stress tests, which conduct simulations assuming the application of certain shocks to markets.

As they also use active investment in their investment of funds, the Associations seek to earn an excess rate of return over the benchmark by diversifying investment strategies and investment issues within each asset class.

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

■Management of entrusted investment management institutions, etc.

The Associations manage liquidity risk (risk that purchasing and selling assets will become difficult due to a decline in trading volume) from the viewpoint of revising asset allocations (rebalancing) and smooth conversion of assets into cash. In addition, as the Associations entrust the operation of some investment-related activities to external institutions, the Associations monitor the status of management (status of risk management and asset administration) of the institutions to which they entrust asset management or asset administration (entrusted investment management institutions and asset administration institutions), from the viewpoint of smooth operation by individual institutions.

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

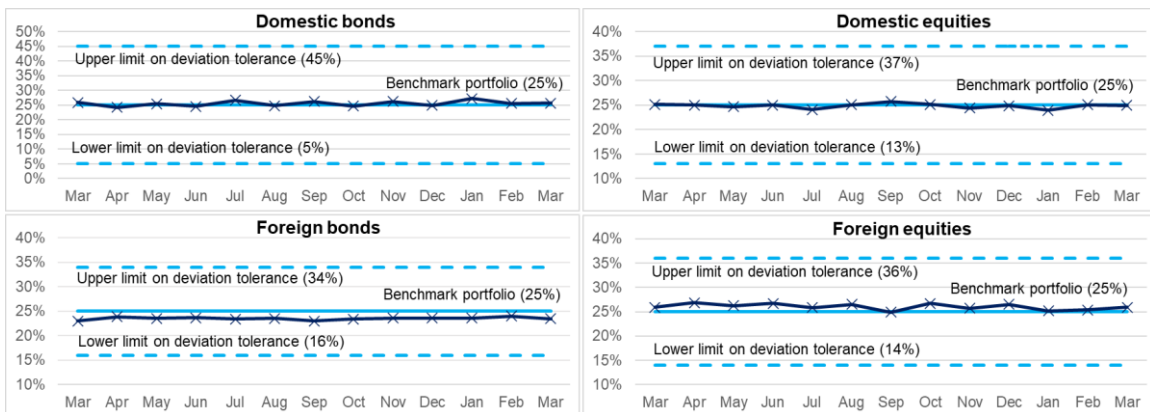
The status of risk management and improvement measures implemented are reported to the committees of specialists and the Governing Council.

(3) Status of risk management

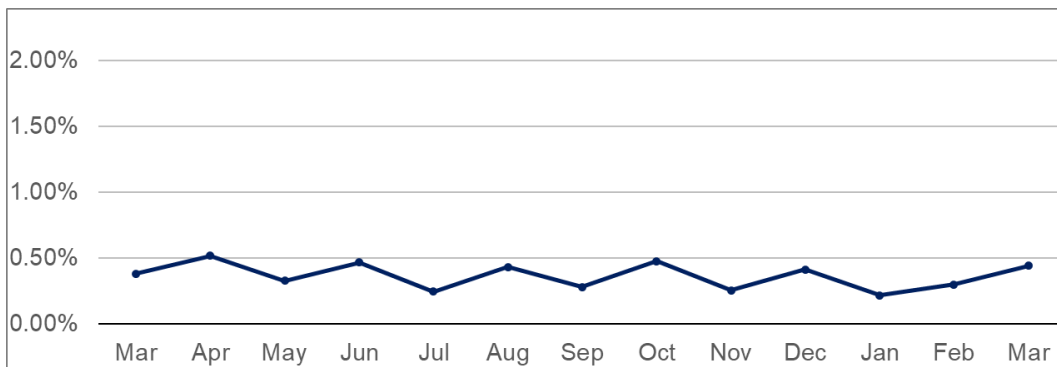
The shares in the asset mix concerning all asset classes—domestic bonds, domestic equities, foreign bonds and foreign equities—stayed within the deviation tolerance.

The estimated tracking error concerning overall assets stayed stable throughout the fiscal year as the asset mix remained stable.

【Changes in the asset mix】



【Changes in the estimated tracking error concerning overall assets】



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

3 Alternative assets

(1) What are alternative assets?

Alternative assets are assets whose risk and return characteristics are different from those of traditional assets, such as equities and bonds.

The types of alternative assets targeted for investment differ from member association to member association. The Pension Fund Association for Local Government Officials, whose scope of investment targets is the broadest, invests in 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") as of the end of fiscal year 2021.

The profile of risk and return of alternative assets is diverse. Therefore, when selecting funds, the Associations hold interviews with respect to each fund and make 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 Associations continue monitoring by periodically receiving reports on the status of performance of funds and investment assets from entrusted investment management institutions.

The Associations hold down risks related to alternative assets by setting up their investment to a cap of 5% of the total portfolio.

(2) Fund selection

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

An Asset Manager Registration System is a system to accept entries from entrusted investment management institutions for funds on an ongoing basis for the purpose of selecting funds and concluding contracts.

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

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

In December 2021, the Japan Police Personnel Mutual Aid Association started soliciting entries with respect to funds investing in real estate and infrastructure under the Asset Manager Registration System.

■ Selection of funds

Among the funds registered, the Associations carefully selected investment funds that were expected to deliver long-term returns and provide the diversified investment effect and conforming to the investment policies and selection criteria related to the investment strategy, based on a comprehensive evaluation from both quantitative and qualitative aspects.

As of the end of fiscal year 2021, the Japan Mutual Aid Association of Public School Teachers, the National Federation and the Pension Fund Association for Local Government Officials decided to adopt a total of 49 funds, and started the investment in 46 funds.

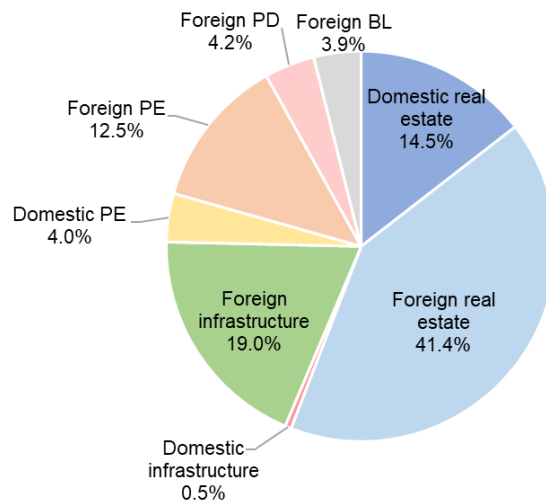
The Associations will continue to evaluate the funds registered and make selection in the future so as to seize opportunities for investing in superior funds likely to contribute to diversified investment.

【Number of funds adopted】

Investment fund	Number of funds adopted
Domestic real estate	9
Foreign real estate	9
Domestic infrastructure	2
Foreign infrastructure	9
Domestic PE	7
Foreign PE	7
Foreign PD	5
Foreign BL	1
Total	49

* The number of funds with respect to which contracts had been concluded by the end of FY2021 is indicated.

【Asset mix】



* Total market value basis as of the end of FY2021

4 Stewardship activities

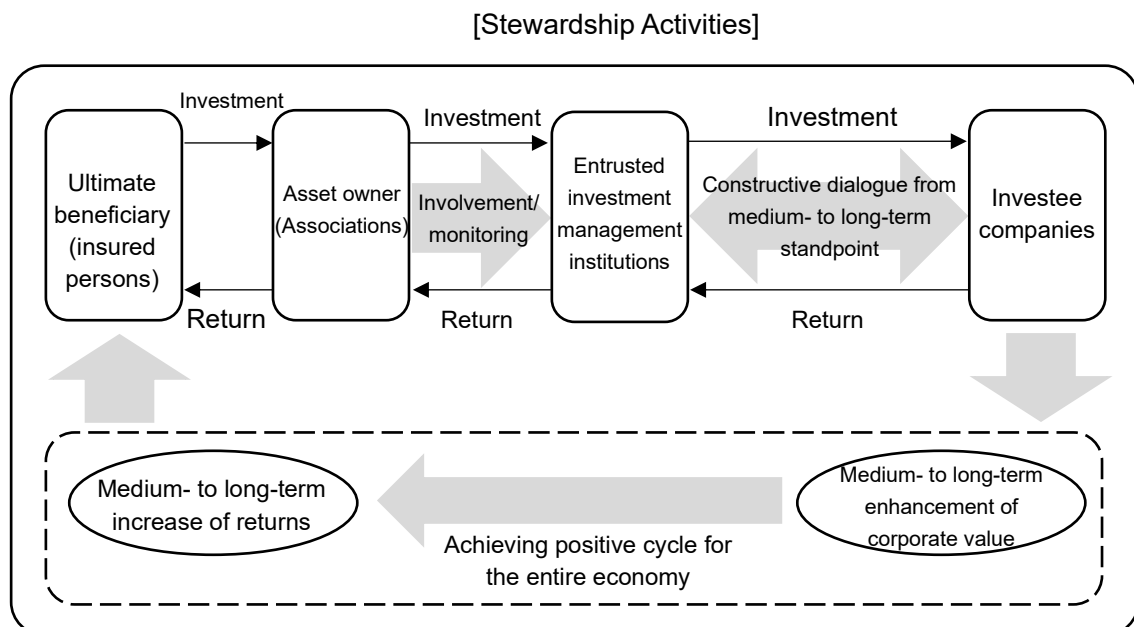
(1) Overview of the Associations' stewardship activity

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

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

The Associations are required to fulfill their fiduciary responsibility of increasing the value of their assets for the insured persons over the long term and social responsibility as public pension funds. In this connection, the Associations have been proactively committed to effective stewardship activities.

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



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

The Associations have established the Corporate Governance Principles and the Guidelines for Exercising Shareholders' Voting Rights, and have made clear the approach to exercise shareholders' voting rights. The Associations require entrusted investment management institutions to exercise voting rights in accordance with these principles and guidelines. In addition, the Associations have made clear their activities to fulfill the stewardship responsibilities in the Administration and Investment Policy for the Managed Reserve Fund for Employees' Pension Insurance Schemes.

Moreover, in May 2014, the Associations signed up to Japan's Stewardship Code and clarified their approach to stewardship activities.

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

Regarding the Employees' Pension Insurance Benefit Fund, the Associations exercised voting rights through 22 investment management institutions entrusted with domestic stock investment, with respect to a total of 37,797 companies which settled accounts between April 2020 and March 2021. The number of proposals for which voting rights were exercised was 126,273.

Of the 126,273 proposals, 26,968 (including 2,932 shareholder proposals) were voted against, translating into a vote-against rate of 21.4%. The vote-against rate concerning company proposals was 19.5%.

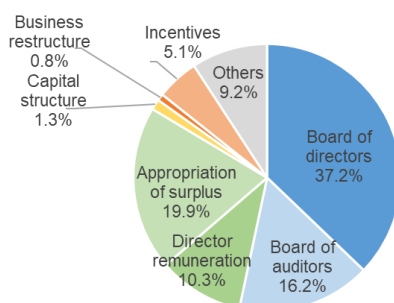
The vote-against rate came to 35.0% concerning proposals related to the board of directors/directors, 14.6% concerning proposals related to the board of auditors/auditors and 20.8% concerning proposals related to director remuneration, etc.

Voting activity (Companies with accounting settlement between April 2020 and March 2021)

Number of proposals by type of proposer	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Company proposal	99,032	80.5%	24,036	19.5%	2	0.0%	123,070
Shareholder proposal	271	8.5%	2,932	91.5%	0	0.0%	3,203
Total	99,303	78.6%	26,968	21.4%	2	0.0%	126,273

Number of proposals by type of proposal	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Board of directors/directors	30,499	65.0%	16,422	35.0%	0	0.0%	46,921
Board of auditors/auditors	17,454	85.4%	2,979	14.6%	0	0.0%	20,433
Director remuneration, etc.	10,338	79.2%	2,718	20.8%	0	0.0%	13,056
Appropriation of surplus	24,668	98.1%	468	1.9%	1	0.0%	25,137
Capital structure	757	47.1%	851	52.9%	0	0.0%	1,608
Takeover defense measures	33	4.2%	751	95.8%	0	0.0%	784
Capital increase or reduction	286	100%	1	0.3%	0	0.0%	287
Third party allotment of shares	112	91.8%	10	8.2%	0	0.0%	122
Acquisition of own shares	4	5.2%	73	94.8%	0	0.0%	77
Business restructure	1,017	98.8%	12	1.2%	0	0.0%	1,029
Incentives improvement for executives	5,516	85.4%	945	14.6%	0	0.0%	6,461
Other proposals	9,054	77.9%	2,573	22.1%	1	0.0%	11,628
Total	99,303	78.6%	26,968	21.4%	2	0.0%	126,273

Share by proposal subject



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

Regarding the Employees' Pension Insurance Benefit Fund, the Associations exercised voting rights through 26 investment management institutions entrusted with foreign stock investment, with respect to a total of 21,139 companies which settled accounts between April 2020 and March 2021. The number of proposals for which voting rights were exercised was 198,499.

Of the 198,499 proposals, 25,487 (including 3,754 shareholder proposals) were voted against, translating into a vote-against rate of 12.8%. The vote-against rate concerning company proposals was 11.6%.

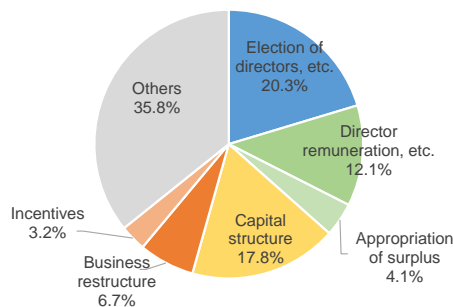
The vote-against rate came to 13.0% concerning proposals related to the election of directors, etc. and 16.9% concerning proposals related to director remuneration, etc.

Voting activity (Companies with accounting settlement between April 2020 and March 2021)

Number of proposals by type of proposer	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
c.f. Company proposal	165,522	88.3%	21,733	11.6%	144	0.1%	187,399
c.f. Shareholder proposal	7,267	65.5%	3,754	33.8%	79	0.7%	11,100
Total	172,789	87.0%	25,487	12.8%	223	0.1%	198,499

Number of proposals by type of proposal	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Proposal for election of directors, etc.	35,102	86.9%	5,236	13.0%	47	0.1%	40,385
Director remuneration, etc.	19,943	82.8%	4,066	16.9%	64	0.3%	24,073
Appropriation of surplus	8,047	99.4%	45	0.6%	7	0.1%	8,099
Capital structure	31,225	88.3%	4,137	11.7%	5	0.0%	35,367
Takeover defense measures	873	93.0%	66	7.0%	0	0.0%	939
Capital increase or reduction	11,545	82.0%	2,528	18.0%	1	0.0%	14,074
Third party allotment of shares	5,986	92.8%	467	7.2%	0	0.0%	6,453
Acquisition of own shares	5,309	97.1%	155	2.8%	2	0.0%	5,466
Business restructure	11,242	84.3%	2,083	15.6%	3	0.0%	13,328
Incentives improvement for executives	4,080	65.1%	2,177	34.8%	7	0.1%	6,264
Other proposals	63,150	89.0%	7,743	10.9%	90	0.1%	70,983
Total	172,789	87.0%	25,487	12.8%	223	0.1%	198,499

Share by proposal subject



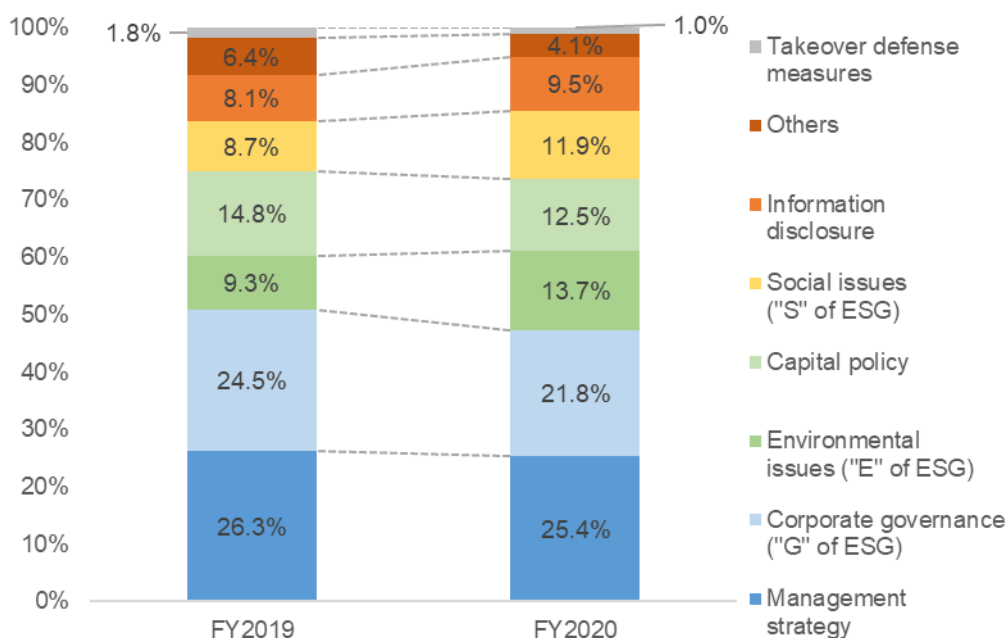
* From the viewpoints of constraints related to the exercise of voting rights and additional cost burden, the exercise of voting rights is limited to 18 countries and regions (the United States, Canada, the United Kingdom, Ireland, Australia, New Zealand, Singapore, Hong Kong, Chile, the Czech Republic,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

(4) Number of engagement cases (domestic equities)

Regarding the Employees' Pension Insurance Benefit Fund, in fiscal year 2020, the Associations implemented engagement with a total of 12,027 companies through 22 investment management institutions to which domestic stock investment was entrusted. The number of cases of dialogue was 54,291.

Regarding major subjects of engagement, the number of cases of dialogue concerning management strategy issues came to 13,793, or 25.4% of the total, followed by dialogue concerning corporate governance issues with 11,844 cases (21.8%) and environmental issues with 7,447 cases (13.7%).

Change of composition of number of cases of engagement

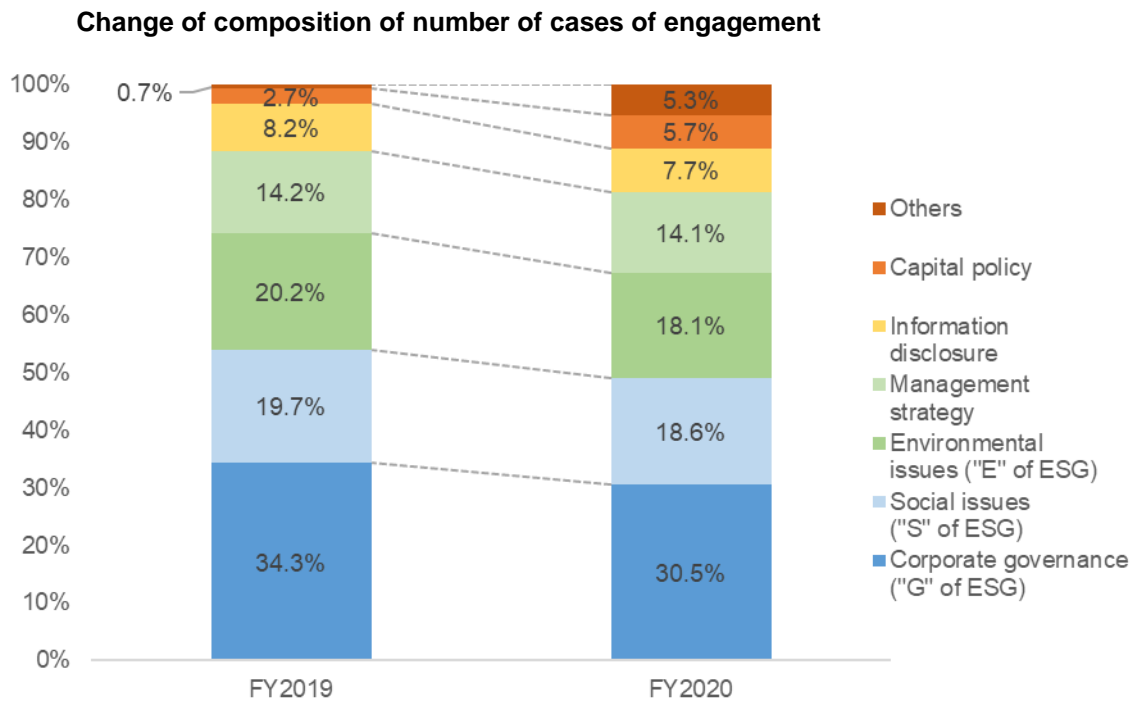


* The standards for counting the number of cases of engagement vary among entrusted investment management institutions.

(5) Number of engagement cases (foreign equities)

Regarding the Employees' Pension Insurance Benefit Fund, in fiscal year 2020, the Associations implemented engagement with a total of 6,477 companies through 26 investment management institutions to which foreign stock investment was entrusted. The number of cases of dialogue was 26,542.

Regarding major subjects of engagement, the number of cases of dialogue concerning corporate governance issues came to 8,095, or 30.5% of the total, followed by dialogue concerning social issues with 4,942 cases (18.6%) and environmental issues with 4,810 cases (18.1%).



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

(6) Future initiatives

The Associations will continue to actively conduct stewardship activity.

■ Implementation of effective monitoring of entrusted investment management institutions

The Associations will continue to make sure that entrusted investment management institutions' stewardship activity is consistent with the Associations' policies and will conduct monitoring with emphasis placed on the "quality" of initiatives.

■ Revision of the Corporate Governance Principles, etc.

The Associations will revise the Corporate Governance Principles, the Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities/Foreign Equities) as necessary while taking into consideration revisions of laws, regulations and codes and changes in the social situation.

■ Collaboration with other public pension funds, etc.

As part of their efforts to enhance the effectiveness and efficiency of stewardship activity, the Associations will also exchange opinions with member associations and other public pension funds, among other activities.

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

5 Other major efforts

(1) ESG Investment

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

With respect to ESG investment, the Associations revised the Administration and Investment Policy for the Managed Reserve Fund for Employees' Pension Insurance Schemes in line with the Basic Policy for Funds (public notice issued by four ministries) revised in 2020. The policy provides: the necessary initiatives shall be implemented, based on a case-by-case analysis, with a view to promoting investment considering non-financial elements including ESG (Environmental, Social, and Governance) in addition to financial elements based on the approach that the sustainable growth of investee companies and the entire market is necessary for the increase of return on investment portfolio over long time so as to secure long-term return for the benefit of insured persons.

With respect to ESG investment of the Associations, each of the member associations has been taking necessary measures based on case-by-case analysis.

At present, 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, and the Pension Fund Association for Local Government Officials have entrusted investment in 16 domestic equity funds and one foreign equity fund as ESG funds.

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

■ Approach to selection

The Associations offer public invitations and invite entries under an asset manager registration system. In the selection process, the Associations closely examine investment policies for funds, investment processes and other factors and select investment management institutions based on a comprehensive evaluation from both quantitative and qualitative aspects while also taking into consideration opinions expressed at a meeting of outside experts.

■Administration and evaluation of entrusted investment management institutions

The Associations receive 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. In addition, the Associations conduct detailed interviews concerning the overview of investment results, future investment policy and other matters and interviews through visits to entrusted investment management institutions.

Furthermore, the Associations annually conduct a comprehensive evaluation combining quantitative and qualitative evaluation by asset and by investment category (e.g., domestic equity market type and foreign equity growth type).

Comprehensive evaluation is intended to conduct evaluation from the long-term perspective and from the viewpoint of the role that each fund is expected to play. Quantitative evaluation assesses such factors as the excess return, the information ratio (the tracking error in the case of passive investment), and the cost performance (the excess return earned relative to fees). Qualitative evaluation assesses the quality of the portfolio investment that cannot be captured by quantitative evaluation and the communications capabilities, investment process and philosophy, portfolio structuring and monitoring, execution of transactions, business management, consideration of ESG factors, etc. of entrusted investment management institutions.

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

■Administration and evaluation of asset administration institutions

The Associations provide an incentive or give a reminder for asset administration institutions as appropriate by providing feedback on the results of qualitative evaluation of their asset administration status and by transferring funds from one institution to another depending on the results in order to ensure appropriate administration by asset administration institutions.

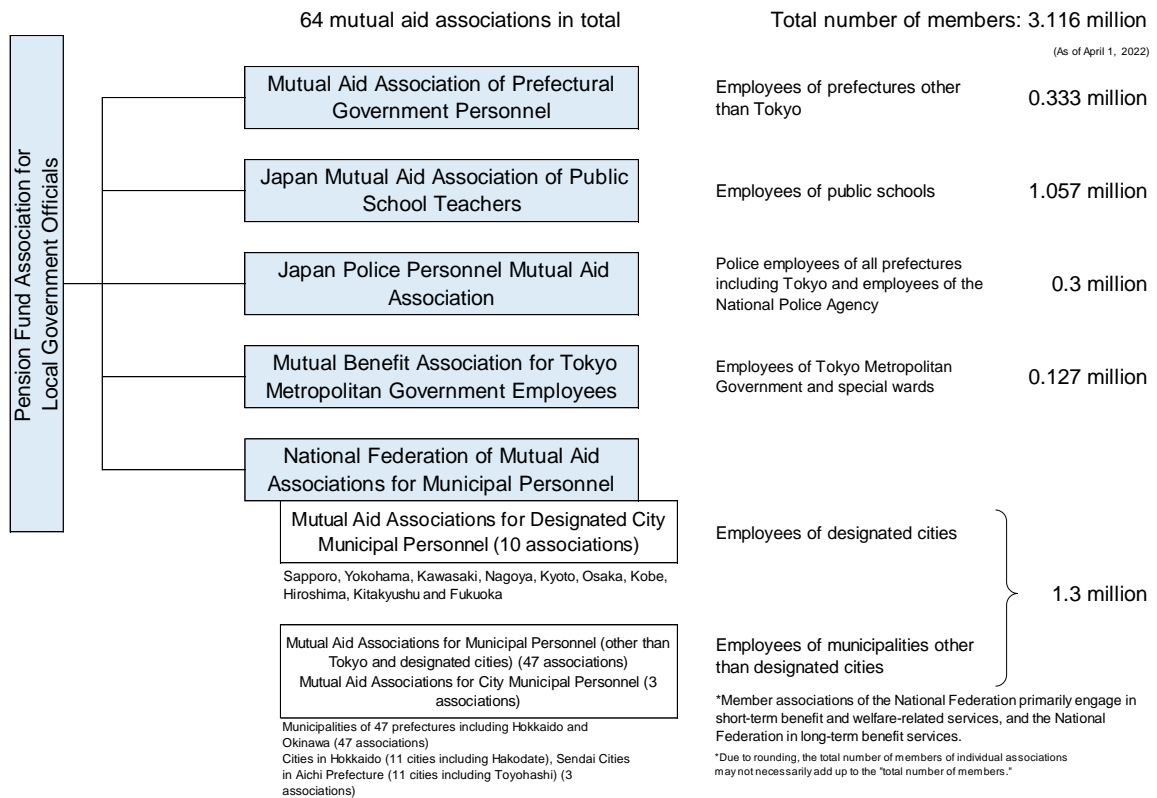
Governance and Fund Management of Local Public Service Mutual Aid Associations

1 Establishment

Article 43 of the Local Public Service Act provides "A mutual aid system shall be implemented in order to provide appropriate benefits in cases of employees' illness, injury, childbirth, involuntary leave, calamity, retirement, disability or death, or their dependents' illness, injury, child birth, death or calamity." Based on this provision, the Local Public Officers, etc. Mutual Aid Association Act has been enacted.

The pension fund system for local government officials was established in December 1962 as a system to comprehensively manage the long-term benefits program, short-term benefits program and welfare services program for local government employees and their families, for the purpose of providing mutual aid for local government employees.

Outline of Local Public Service Mutual Aid Associations



2 Organization

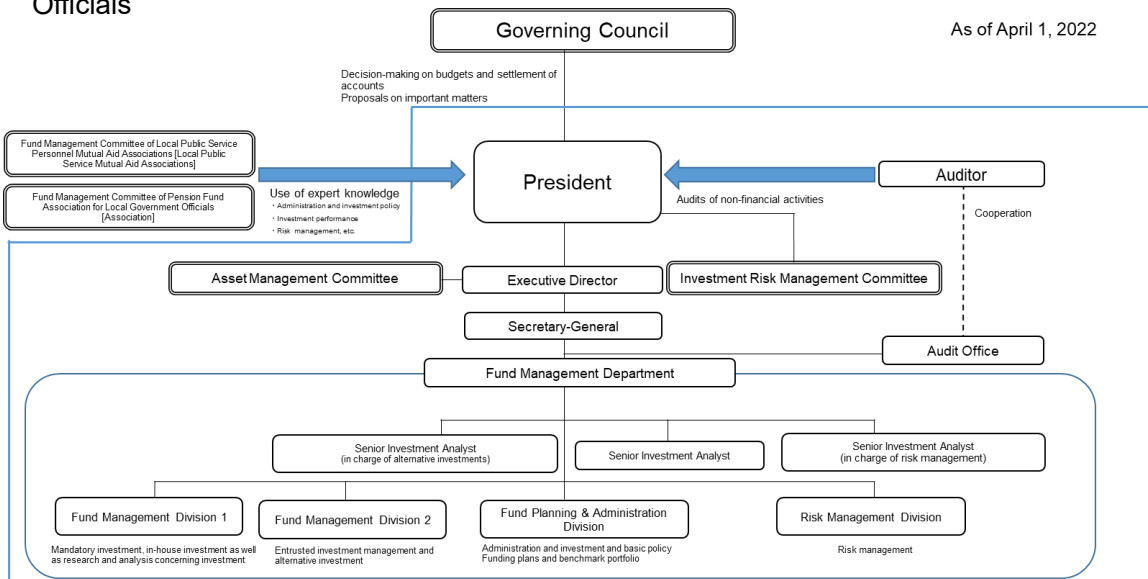
(1) Governing Council

Pursuant to the provisions of the Local Public Officers, etc. Mutual Aid Association Act, the Associations are required to establish a Governing Council. 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.

The designations, etc. of the governing councils and other committees at the Associations are as follows.

- Governing Council (Articles 6, 7, and 8 of the Local Public Officers, etc. Mutual Aid Association Act)
 - Mutual Aid Association of Prefectural Government Personnel (Prefectural Mutual Aid Secretary Office), Japan Mutual Aid Association of Public School Teachers, Japan Police Personnel Mutual Aid Association
- Governing Council (Articles 38-4 and 38-5 of the Local Public Officers, etc. Mutual Aid Association Act)
 - Pension Fund Association for Local Government Officials
- Associations Committee (Articles 6, 9 and 10 of the Local Public Officers, etc. Mutual Aid Association Act)
 - Mutual Benefit Association for Tokyo Metropolitan Government Employees, Mutual Aid Associations for Designated City Municipal Personnel, Mutual Aid Associations for Municipal Personnel (other than Tokyo and designated cities), Mutual Aid Associations for City Municipal Personnel
- General Committee (Articles 30, 31 and 32 of the Local Public Officers, etc. Mutual Aid Association Act)
 - National Federation
- Management Board of Trustees (Articles 144-5, 144-6 and Article 144-7 of the Local Public Officers, etc. Mutual Aid Association Act)
 - Group Mutual Aid Department of Prefectural Mutual Aid Association

■(Reference) Governance structure for Pension Fund Association for Local Government Officials



(2) Fund Management Committee of Local Public Service Personnel Mutual Aid Associations

■ Outline of Fund Management Committee of Local Public Service Personnel Mutual Aid Associations

To study expert matters pertaining to the administration and investment of funds based on the Administration and Investment Policy for Managed Reserve Fund for Employees' Pension Insurance Schemes, the Fund Management Committee of Local Public Service Personnel Mutual Aid Associations has been established, which is comprised of individuals who possess academic knowledge or practical experience in areas such as economics, finance, and fund management (the "Fund Management Committee").

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

Secretaries general of the Local Public Service Mutual Aid Associations attend meetings of the committee as observers. In addition, a working group of practitioners from the Local Public Service Mutual Aid Associations established under the committee deliberates matters to be studied by the committee and reports the results to the Fund Management Committee.

■ Matters for deliberation and report by the Fund Management Committee

Deliberation matters	Reporting matters
<ul style="list-style-type: none"> - Matters concerning formulation and revision of the model portfolio - Matters concerning establishment and revision of administration and investment policy - Matters concerning establishment and revision of risk management implementation policy - Matters concerning establishment and revision of investment policy for new investment instruments - Other expert matters concerning the administration and investment of each fund 	<ul style="list-style-type: none"> - Investment performance - Status of risk management - Investment status of new investment instruments - Status of training and nurturing of expert personnel - Other matters required by the Fund Management Committee concerning the administration and investment of each fund

■List of Fund Management Committee Members (As of April 1, 2022)

Hidetaka Kawakita	Kyoto University, Professor Emeritus
Konosuke Kita	Russell Investments Japan Co., Ltd. Executive Consultant/Director, Consulting
Hisae Sato	Trustee, International Christian University
Toshio Serita	Professor, Department of Economics, Aoyama Gakuin University
Yoshiko Takayama	J-Eurus IR Co., Ltd. Managing Director
Hitoshi Takehara	Professor, Waseda Business School (Graduate School of Business and Finance)
Katsuyuki Tokushima	NLI Research Institute Director, Member of the Board Head of Pension Research, CMA Financial Research Department
Akiko Nomura	Nomura Institute of Capital Markets Research Managing Director, Research Department
Masahiro Morimoto	All-Japan Prefectural and Municipal Workers Union General Manager, Central Executive Committee Bureau of Labor
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
31st Meeting	July 13, 2021	<ul style="list-style-type: none"> ▪ Review of Operations reports concerning administration and investment of individual funds in FY2020 (Local Public Service Mutual Aid Associations) ▪ Status of risk management of individual funds in FY2020 (Local Public Service Mutual Aid Associations) ▪ Examination of the benchmark portfolio of the Annuity Retirement Benefit Fund
32nd Meeting	November 22, 2021	<ul style="list-style-type: none"> ▪ Response to inclusion of Chinese government bonds in the FTSE World Government Bond Index ▪ Revision of the Administration and Investment Policy for Managed Reserve Fund for Employees' Pension Insurance Schemes ▪ Revision of the Administration and Investment Policy for Transitional Long-term Benefit Fund ▪ Status of investment of individual funds in the second quarter of FY2021 (Local Public Service Mutual Aid Associations) ▪ Status of risk management of individual funds in the first quarter of FY2021 (Local Public Service Mutual Aid Associations)
33rd Meeting	March 29, 2022	<ul style="list-style-type: none"> ▪ Status of investment of individual funds in the third quarter of FY2021 (Local Public Service Mutual Aid Associations) ▪ Status of risk management of individual funds in the third quarter of FY2021 (Local Public Service Mutual Aid Associations) ▪ Examination of the benchmark portfolio of the Employees' Pension Insurance Benefit Adjustment Fund ▪ Examination of the benchmark portfolio of the Transitional Long-term Benefit Adjustment Fund

(3) Committee of specialists

For expert matters pertaining to the administration and investment of implementing organization funds, including the formulation and revision of basic policy, the Associations utilize and consider expert knowledge of committees of experts comprised of individuals who possess academic knowledge or practical experience in areas such as economics, finance and fund investments.

The names of the committees of specialists of the Associations are as follows:

Names of associations	Names of committees
Mutual Aid Association of Prefectural Government Personnel	Pension Asset Management Committee
Japan Mutual Aid Association of Public School Teachers	Asset Management Committee
Japan Police Personnel Mutual Aid Association	Study Group on Fund Management Issues, Japan Police Personnel Mutual Aid Association Headquarters
Mutual Benefit Association for Tokyo Metropolitan Government Employees	Study Group on Fund Management
National Federation of Mutual Aid Associations for Municipal Personnel	Fund Management Committee
Pension Fund Association for Local Government Officials	Fund Management Committee of Pension Fund Association for Local Government Officials

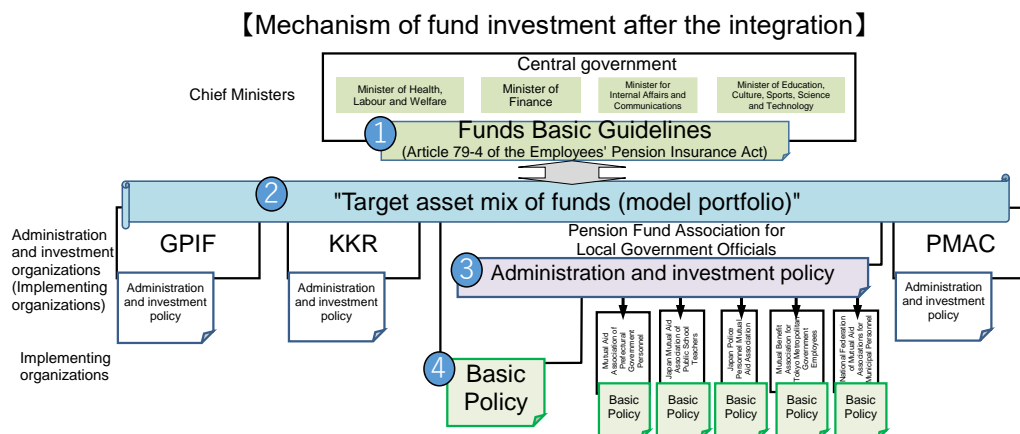
3 Investment of funds

(1) Mechanisms

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

Next, the administration and investment organizations (the GPIF, the KKR, the Pension Fund Association for Local Government Officials, and the PMAC) jointly establish the target asset mix of funds (model portfolio) based on the Funds Basic Guidelines. (②)

The Pension Fund Association for Local Government Officials 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 relating to funds in accordance with the administration and investment policy. (④)



(2) Basic approach to investment

■ Basic policy

Investment shall be made for the purpose of contributing to the stable management of the Employees' Pension Insurance operations into the future by investing safely and efficiently from a long-term perspective for the benefits of individuals covered by Employees' Pension Insurance.

In the management of funds, investments shall be made in a way that ensures appropriate diversification across multiple assets with different risk/return profiles and other characteristics.

To ensure the required real return on investments of the funds (meaning the investment return less the nominal wage increase) at the minimum risk, a benchmark portfolio shall be established and appropriately managed and efforts shall be made to secure the benchmark return for overall assets and each asset class in each fiscal year as well as over the long term.