

**Local Public Service Mutual
Aid Associations**

Fiscal Year 2023

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 2023 Investment Results (Overview)



Investment return: **21.92%**
(Modified total return after the deduction of fees, etc.)



Investment income: **¥5,561.6 billion**
(Investment income after the deduction of fees, etc.)



Value of investment assets:
(As of the end of March 2024)
¥30,399.7 billion
(Market value)

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

As investment income is based on the market value as of the end of fiscal year 2023, it should be kept in mind that it includes valuation gains/losses, which means it may change depending on market movements.

Section 1

Administration and Investment of Funds in FY2023

1 Investment results

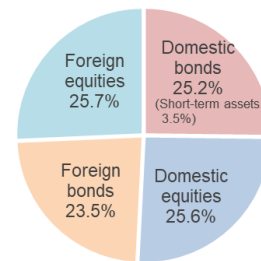
(1) Asset mix

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

(Unit: %)

	End of FY2022	Fiscal Year 2023				Benchmark portfolio
		End of Q1	End of Q2	End of Q3	End of FY	
Domestic bonds	25.8	23.6	25.4	25.2	25.2	25.0
Short-term assets	(4.0)	(2.3)	(3.7)	(2.9)	(3.5)	
Domestic equities	25.6	25.8	25.7	25.4	25.6	25.0
Foreign bonds	23.6	24.1	23.8	24.0	23.5	25.0
Foreign equities	25.0	26.4	25.2	25.4	25.7	25.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Composition by Investment Asset Class
(as of end of FY2023)



(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 FY2023, the ratio of alternative assets to the total amount of funds is 1.9% (the upper limit is 5%).

(2) Investment return

The modified total return came to 21.92% due to factors such as rises of domestic equities.

(Unit: %)

	Fiscal Year 2023				
	Q1	Q2	Q3	Q4	FY Total
Modified total returns	9.40	-0.20	2.50	9.38	21.92
Domestic bonds	0.46	-2.30	0.84	-0.34	-1.33
Short-term assets	(0.01)	(0.00)	(0.00)	(0.01)	(0.02)
Domestic equities	14.10	2.57	1.94	17.34	38.50
Foreign bonds	7.82	-0.85	2.25	5.30	14.84
Foreign equities	15.10	-0.35	5.00	15.66	37.76

(Unit: %)

	Fiscal Year 2023				
	Q1	Q2	Q3	Q4	FY Total
Time-weighted return	9.53	-0.21	2.52	9.58	22.79

(Unit: %)

	Fiscal Year 2023				
	Q1	Q2	Q3	Q4	FY Total
Realized return (book value basis)	2.09	2.07	1.68	3.14	9.02

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

(Note 2) The modified total returns and the realized return (book value basis) represent the figure after the deduction of fees, etc.

(Note 3) The time-weighted return represents the figure before the deduction of fees, etc.

(3) Excess return

The time-weighted return for overall assets was 22.79% and the composite benchmark return for overall assets was 22.63%. The excess return over the composite benchmark was 0.16%.

	Overall assets		Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Time-weighted return	22.79%	Time-weighted return	-1.26%	40.49%	15.23%	40.07%
Composite benchmark return	22.63%	Benchmark return	-2.20%	41.34%	15.32%	40.63%
Excess return	0.16%	Excess return	0.95%	-0.85%	-0.09%	-0.56%

(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 0.16% can be broken down as follows: asset allocation factor: 0.18%; individual asset factor: -0.04%; other factors: 0.02%.

	Asset allocation factor ①	Individual asset factor ②	Other factor ③ (including errors)	①+②+③
Domestic bonds	-0.01%	0.24%	0.01%	0.23%
Domestic equities	0.09%	-0.15%	0.00%	-0.06%
Foreign bonds	0.07%	-0.02%	0.01%	0.05%
Foreign equities	0.04%	-0.10%	0.01%	-0.06%
Total	0.18%	-0.04%	0.02%	0.16%

(i) Asset allocation factor: A factor that is attributable to the difference in terms of the asset mix between the benchmark portfolio, which is the standard for the calculation of the composite benchmark return, and the actual portfolio.

(ii) Individual asset factor: A factor that is attributable to the difference between the actual and benchmark returns concerning each asset class, which may arise depending on the level of investment expertise.

(iii) Other factor (including errors): A factor combining elements of the asset allocation and individual asset factors and calculation errors.

(4) Investment income

Investment income (market value basis) was ¥5,561.6 billion.

(Unit: JPY100M)

	Fiscal Year 2023				
	Q1	Q2	Q3	Q4	FY Total
Investment income (market value basis)	23,171	-546	6,766	26,225	55,616
Domestic bonds	288	-1,520	576	-249	-904
Short-term assets	(1)	(0)	(0)	(1)	(1)
Domestic equities	8,820	1,770	1,344	11,955	23,889
Foreign bonds	4,620	-547	1,450	3,554	9,076
Foreign equities	9,442	-248	3,395	10,965	23,555

(Unit: JPY100M)

	Fiscal Year 2023				
	Q1	Q2	Q3	Q4	FY Total
Realized income (book value basis)	4,332	4,383	3,627	7,003	19,345

(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 ¥30,399.7 billion.

(Unit: JPY100M)

	End of FY2022			Fiscal Year 2023											
				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	65,060	64,396	-664	63,275	62,865	-409	70,232	68,356	-1,877	70,307	69,009	-1,298	78,201	76,544	-1,657
Short-term assets	(10,024)	(10,024)	(-0)	(6,040)	(6,040)	(0)	(10,046)	(10,046)	(0)	(7,966)	(7,965)	(-0)	(10,591)	(10,591)	(0)
Domestic equities	50,157	63,897	13,739	47,987	68,762	20,775	47,896	69,145	21,250	48,479	69,411	20,931	48,177	77,951	29,774
Foreign bonds	59,194	58,823	-370	60,204	64,120	3,916	61,405	64,022	2,616	62,395	65,626	3,230	65,995	71,346	5,351
Foreign equities	35,966	62,415	26,449	35,868	70,266	34,399	35,691	67,999	32,308	35,468	69,531	34,063	36,199	78,155	41,956
Total	210,378	249,532	39,154	207,333	266,014	58,680	215,224	269,522	54,298	216,649	273,576	56,927	228,572	303,997	75,425

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	13,063	-9,782	3,356	-7,788

(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 ¥17.5 billion. The fee rate relative to the value of investment assets came to 0.06%.

(Unit: JPY100M, %)

	Fiscal Year 2023	
	Fee	Fee rate
Domestic bonds	19	0.03
Domestic equities	49	0.07
Foreign bonds	26	0.04
Foreign equities	66	0.10
Alternative assets	15	0.30
Overall assets	175	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

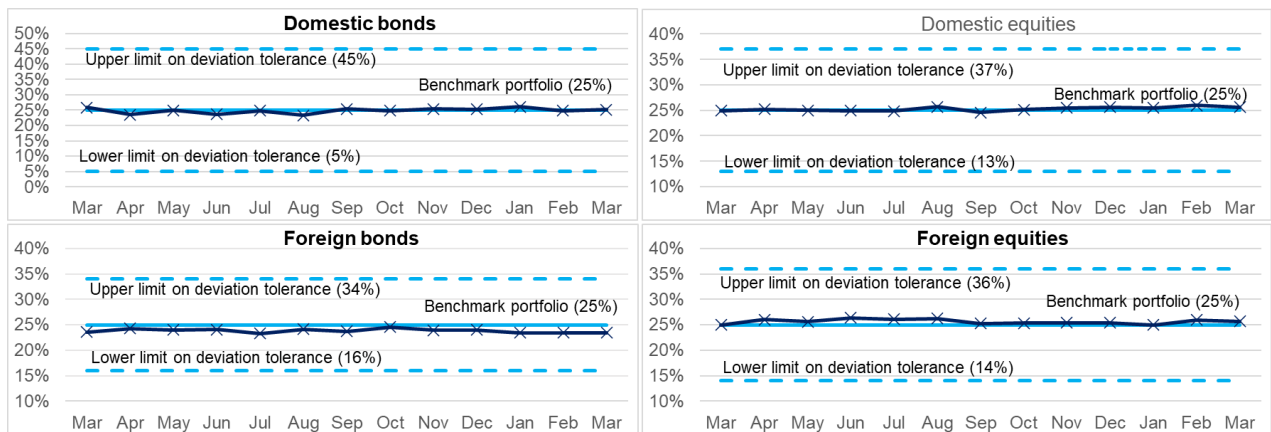
The status of risk management and improvement measures implemented are reported to the committees of specialists and the Governing Council.

(3) Status of risk management

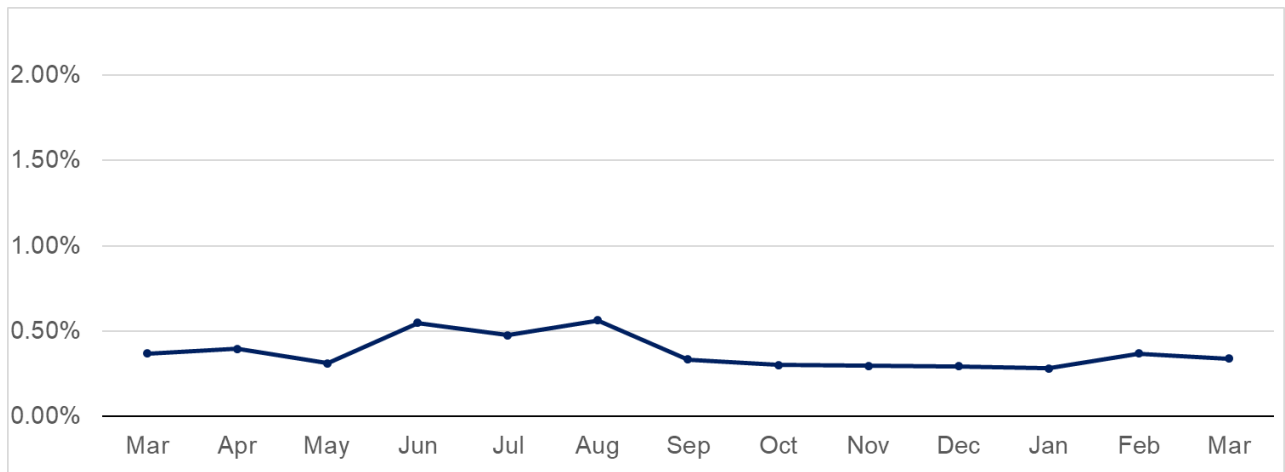
The shares in the asset mix concerning all asset classes—domestic bonds, domestic equities, foreign bonds and foreign equities—stayed within the deviation tolerance.

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

【Changes in the asset mix】



【Changes in the estimated tracking error concerning overall assets】



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

3 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 2023.

The risk-return profile 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 soliciting entries with respect to funds investing in real estate under the Asset Manager Registration System. Subsequently, the scope of investment target assets was expanded to include infrastructure and PE.

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 investment funds and the number of funds adopted

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 2023, the Japan Mutual Aid Association of Public School Teachers, the Japan Police Personnel Mutual Aid Association, the National Federation and the Pension Fund Association for Local Government Officials have adopted a total of 65 funds, and started the investment in 60 funds, with a total value (market value) of 572 billion yen (1.9% of the total amount of funds).

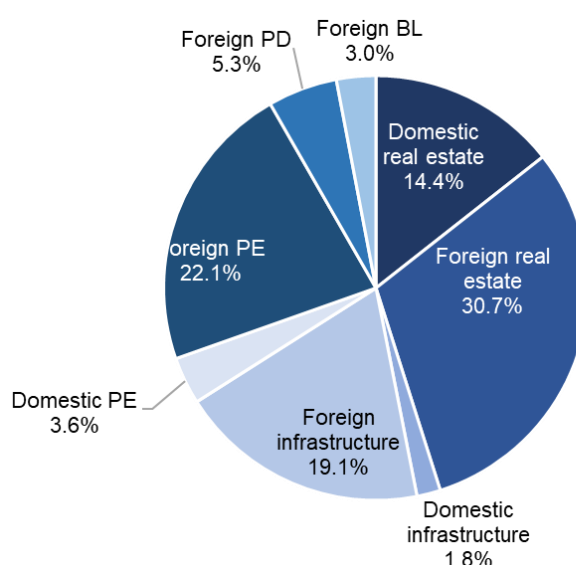
The Associations will continue to evaluate the funds registered and make selection in the future so as to seize opportunities for investing in superior funds likely to contribute to diversified investment.

【Number of funds adopted】

Investment fund	Number of funds adopted
Domestic real estate	10
Foreign real estate	19
Domestic infrastructure	1
Foreign infrastructure	10
Domestic PE	9
Foreign PE	8
Foreign PD	7
Foreign BL	1
Total	65

* The number of funds with respect to which contracts had been concluded by the end of FY2023 is indicated.

【Asset mix】



* Total market value basis as of the end of FY2023

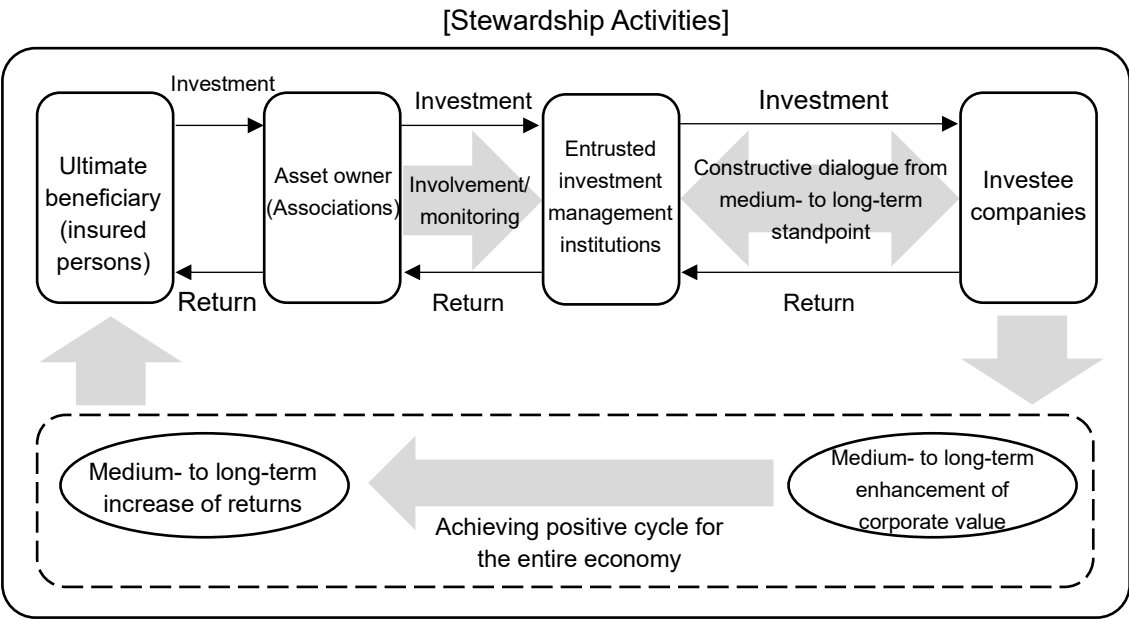
4 Stewardship activities

(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 the exercise of shareholders' voting rights and engagement (i.e. constructive "purposeful dialogue" based on a deep understanding concerning the investee companies, their business environment, and other factors as well as consideration for their sustainability according to the investment strategy).

The Associations are required to fulfill their fiduciary responsibility of increasing the value of their assets for the members 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)

The Associations exercised voting rights through 19 investment management institutions entrusted with domestic equity investment at a general meeting of shareholders of a total of 36,302 companies held between July 2022 and June 2023. The number of proposals for which voting rights were exercised was 123,496.

Of the 123,496 proposals, 29,256 (including 5,920 shareholder proposals) were voted against, translating into a vote-against rate of 23.7%. The vote-against rate concerning company proposals was 20.0%.

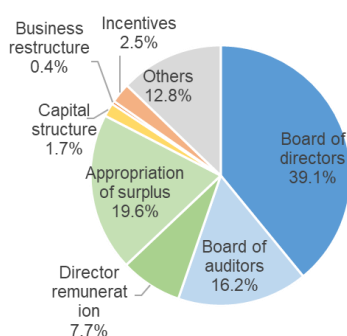
The vote-against rate came to 35.7% concerning proposals related to the board of directors/directors, 14.6% concerning proposals related to the board of auditors/auditors and 18.1% concerning proposals related to director remuneration, etc.

Voting activity (The figures are based on the proposals submitted to general meetings of shareholders held between July 2022 and June 2023.)

Number of proposals by type of proposer	Vote for	Rate	Vote against	Rate	Abstentions	Rate	Total
Company proposal	93,527	80.0%	23,336	20.0%	0	0.0%	116,863
Shareholder proposal	713	10.7%	5,920	89.3%	0	0.0%	6,633
Total	94,240	76.3%	29,256	23.7%	0	0.0%	123,496

Number of proposals by type of proposal	Vote for	Rate	Vote against	Rate	Abstentions	Rate	Total
Board of directors/directors	31,052	64.3%	17,214	35.7%	0	0.0%	48,266
Board of auditors/auditors	17,093	85.4%	2,924	14.6%	0	0.0%	20,017
Director remuneration, etc.	7,747	81.9%	1,713	18.1%	0	0.0%	9,460
Appropriation of surplus	23,166	95.5%	1,089	4.5%	0	0.0%	24,255
Capital structure	617	29.7%	1,462	70.3%	0	0.0%	2,079
Takeover defense measures	61	5.6%	1,030	94.4%	0	0.0%	1,091
Capital increase or reduction	173	100%	0	0.0%	0	0.0%	173
Third party allotment of shares	66	77.6%	19	22.4%	0	0.0%	85
Acquisition of own shares	80	16.3%	411	83.7%	0	0.0%	491
Business restructure	504	99.2%	4	0.8%	0	0.0%	508
Incentives improvement for executives	2,635	85.6%	444	14.4%	0	0.0%	3,079
Other proposals	11,426	72.2%	4,406	27.8%	0	0.0%	15,832
Total	94,240	76.3%	29,256	23.7%	0	0.0%	123,496

Share by proposal subject



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

The Associations exercised voting rights through 25 investment management institutions entrusted with foreign equity investment at a general meeting of shareholders of a total of 22,389 companies held between July 2022 and June 2023. The number of proposals for which voting rights were exercised was 222,785.

Of the 222,785 proposals, 33,776 (including 8,210 shareholder proposals) were voted against, translating into a vote-against rate of 15.2%. The vote-against rate concerning company proposals was 12.4%.

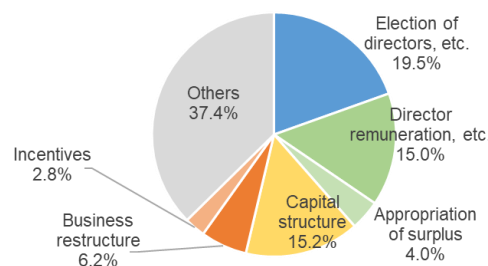
The vote-against rate came to 12.7% concerning proposals related to the election of directors, etc. and 13.9% concerning proposals related to director remuneration, etc.

Voting activity (The figures are based on the proposals submitted to general meetings of shareholders held between July 2022 and June 2023.)

Number of proposals by type of proposer	Vote for	Rate	Vote against	Rate	Abstentions	Rate	Total
Company proposal	180,807	87.5%	25,566	12.4%	194	0.1%	206,567
Shareholder proposal	7,807	48.1%	8,210	50.6%	201	1.2%	16,218
Total	188,614	84.7%	33,776	15.2%	395	0.2%	222,785

Number of proposals by type of proposal	Vote for	Rate	Vote against	Rate	Abstentions	Rate	Total
Proposal for election of directors, etc.	37,965	87.2%	5,527	12.7%	61	0.1%	43,553
Director remuneration, etc.	28,646	85.9%	4,640	13.9%	43	0.1%	33,329
Appropriation of surplus	8,847	99.4%	41	0.5%	10	0.1%	8,898
Capital structure	30,171	89.0%	3,720	11.0%	13	0.0%	33,904
Takeover defense measures	937	92.1%	79	7.8%	1	0.1%	1,017
Capital increase or reduction	12,135	83.2%	2,446	16.8%	12	0.1%	14,593
Third party allotment of shares	4,723	95.0%	246	5.0%	0	0.0%	4,969
Acquisition of own shares	6,009	98.2%	108	1.8%	0	0.0%	6,117
Business restructure	10,399	75.9%	3,308	24.1%	0	0.0%	13,707
Incentives improvement for executives	4,057	65.8%	2,097	34.0%	9	0.1%	6,163
Other proposals	68,529	82.3%	14,443	17.4%	259	0.3%	83,231
Total	188,614	84.7%	33,776	15.2%	395	0.2%	222,785

Share by proposal subject



※ From the viewpoints of constraints related to the exercise of voting rights, additional cost burden and other reasons, the exercise of voting rights is limited to certain countries and regions.

(4) Future initiatives

The Associations 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 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)", 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 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

■ Basic approach to 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 their policies including the "Basic Policy for Employees' Pension Insurance Benefit Adjustment Fund" in line with the revised "Basic Policy for Ensuring Safe and Efficient Management and Investment of Funds from Long-term Perspective" (the "Basic Policy for Funds"). The Association's basic policy revised in FY2020 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 members.

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

■ Initiatives concerning ESG Investment

• Investment in ESG funds as part of equity investment

As of the end of fiscal year 2023, the Associations(*) have adopted 14 ESG funds concerning domestic equities (12 funds for active investment and two funds for passive investment), with a total value (market value) of 743.6 billion yen (approximately 9.5% of the outstanding balance of domestic stocks in the Associations' portfolio), and four ESG funds concerning foreign equities (four funds for active investment), with a total value (market value) of 102.4 billion yen (approximately 1.3% of the outstanding balance of foreign stocks in the Associations' portfolio).

* 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

• Investment in ESG bonds as part of bond investment

As of the end of fiscal year 2023, the total value (book value) of the Associations'(*) in-house investment of domestic bonds is 5.6 billion yen (0.1 billion yen for local government bonds and 5.5 billion yen for bonds issued by institutions funded by a fiscal investment and loan program).

* The Mutual Aid Association of Prefectural Government Personnel, National Federation of Mutual Aid Associations for Municipal Personnel, and the Pension Fund Association for Local Government Officials

(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 seek 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 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 (e.g., domestic equity market type and foreign equity growth type) and the balance of funds in each category.

■ Administration and evaluation of asset administration institutions

The 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.

Section 2

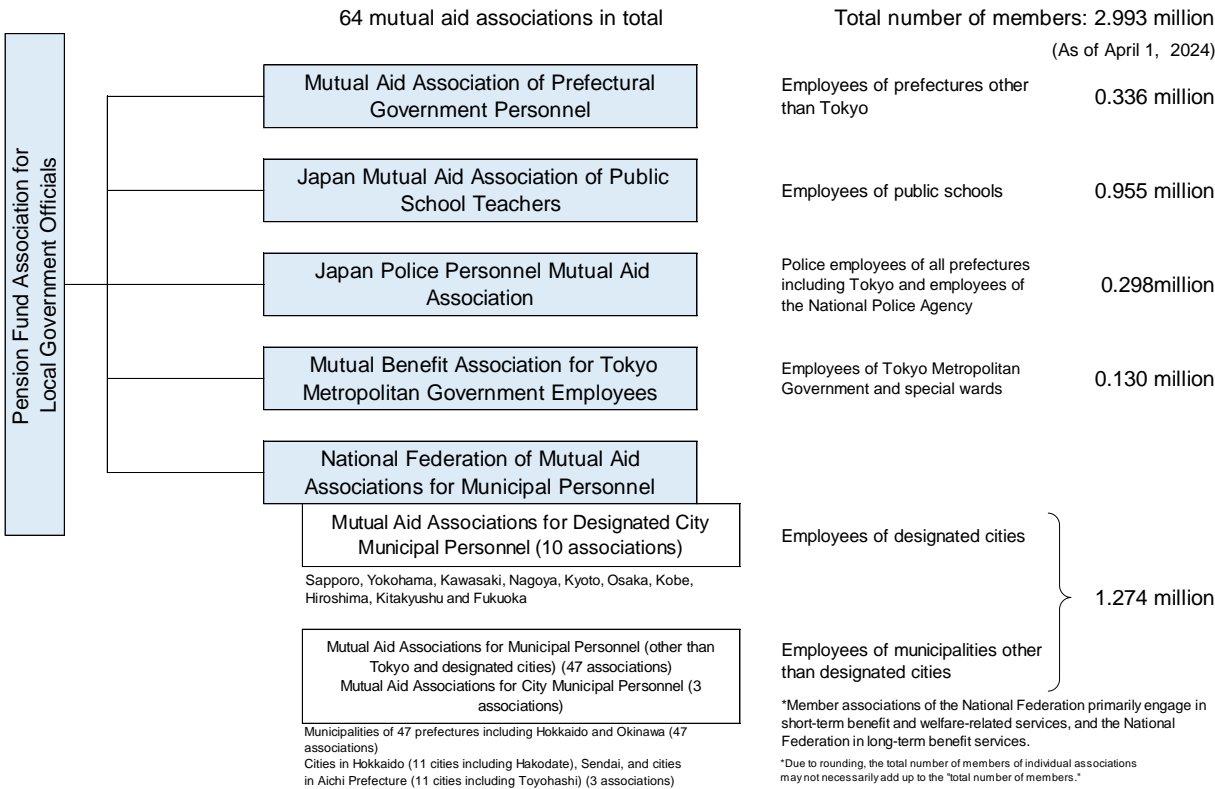
Businesses and Fund Management of Local Public Service Mutual Aid Associations

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

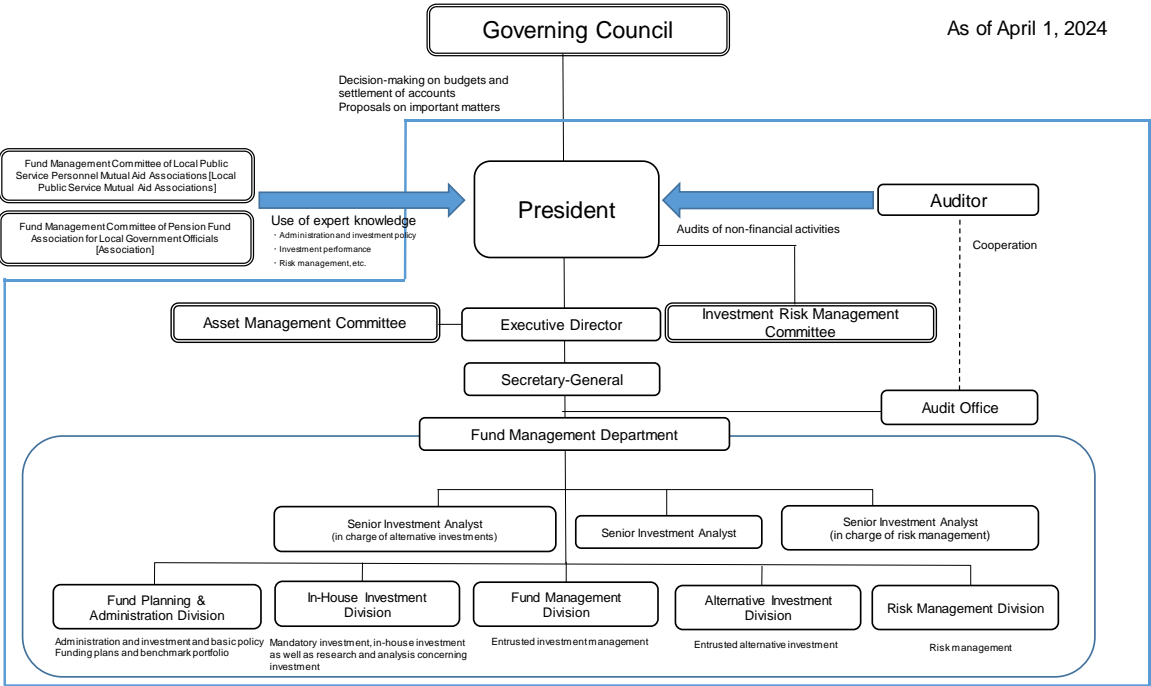
(1) Governing Council

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, 2024)

Hidetaka Kawakita	Kyoto University, Professor Emeritus
Konosuke Kita	Russell Investments Japan Co., Ltd. Director, Consulting/Executive Consultant
Hisae Sato	Councilor, International Christian University
Toshio Serita	Professor, Department of Economics, Aoyama Gakuin University
Yoshiko Takayama	J-Eurus IR Co., Ltd. Vice Chairperson
Hitoshi Takehara	Professor, Waseda Business School (Graduate School of Business and Finance)
Katsuyuki Tokushima	NLI Research Institute Director, Member of the Board Head of Pension Research, CMA Financial Research Department
Akiko Nomura	Senior Fellow, Nomura Institute of Capital Markets Research
Teppei Hayashi	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
37th Meeting	June 27, 2023	<ul style="list-style-type: none"> Review of Operations reports concerning administration and investment of individual funds in FY2022 (Local Public Service Mutual Aid Associations) Status of risk management of individual funds in FY2022 (Local Public Service Mutual Aid Associations) Examination of the benchmark portfolio of the Annuity Retirement Benefit Fund
38th Meeting	January 23, 2024	<ul style="list-style-type: none"> Status of investment of individual funds in the second quarter of FY2023 (Local Public Service Mutual Aid Associations) Status of risk management of individual funds in the second quarter of FY2023 (Local Public Service Mutual Aid Associations)
39th Meeting	March 26, 2024	<ul style="list-style-type: none"> Status of investment of individual funds in the third quarter of FY2023 (Local Public Service Mutual Aid Associations) Status of risk management of individual funds in the third quarter of FY2023 (Local Public Service Mutual Aid Associations) Examination of the benchmark portfolio of the Employees' Pension Insurance Benefit Fund Examination of the benchmark portfolio of the Transitional Long-term Benefit 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

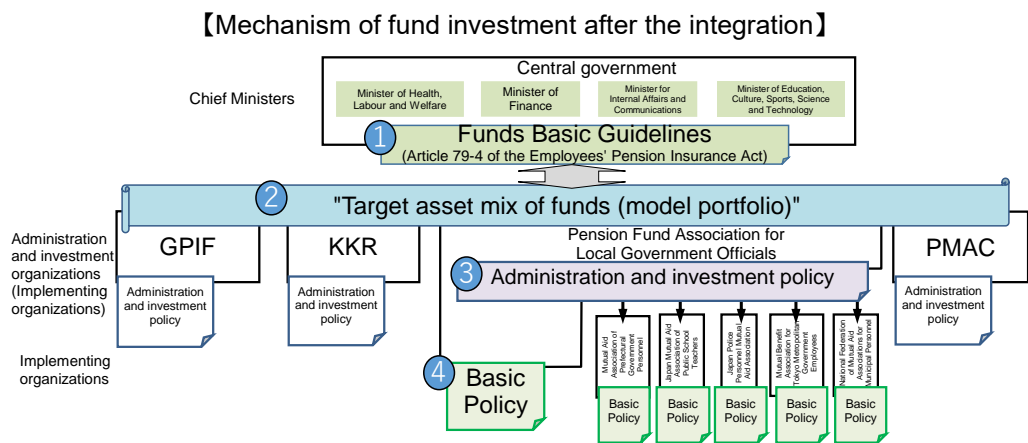
3 Investment of funds

(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 establish① the Funds Basic Guidelines as an overall framework.

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

The Pension Fund Association for Local Government Officials establishes ③ the Administration And Investment Policy subject to approval from the Minister for Internal Affairs and Communications and individual implementing organizations establish ④ Basic Policies relating to funds in accordance with the administration and investment policy.



(2) Funds Basic Guidelines (Article 79-4 of the Employees' Pension Insurance Act)

■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.