

**Local Public Service
Mutual Aid Associations**

Fiscal Year 2022

Review of Operations

Transitional Long-term 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)

Unification Act: Act for Partial Revision of the Employees' Pension Insurance Act Relating to the Unification of Employees' Pension System (Act No. 63 of 2012)

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 2022 Investment Results (Overview)



Investment return:

1.38%

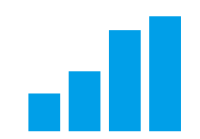
(Modified total return after the deduction of fees, etc.)



Investment income:

¥349.8 billion

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



Value of investment assets:

(As of the end of March 2023)

¥24,885.1 billion

(Market value)

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

As investment income is based on the market value as of the end of fiscal year 2022, it should be kept in mind that it includes valuation gains/losses, which means it may change depending on market movements.

Section 1

Administration and Investment of Funds in FY2022

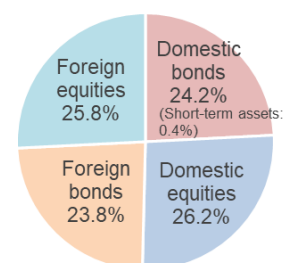
1 Investment results

(1) Asset mix

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

	End of FY2021	Fiscal Year 2022				Benchmark portfolio
		End of Q1	End of Q2	End of Q3	End of FY	
Domestic bonds	24.2	24.6	25.0	24.8	24.2	25.0
Short-term assets	(0.5)	(0.3)	(0.6)	(0.2)	(0.4)	
Domestic equities	25.5	25.2	25.3	26.2	26.2	25.0
Foreign bonds	23.6	24.9	24.7	23.7	23.8	25.0
Foreign equities	26.7	25.3	25.0	25.3	25.8	25.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

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



(Note 1) Deviation tolerances from the benchmark portfolio are $\pm 20\%$ 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) Group pure endowment insurance and real estate are included in domestic bonds.

(2) Investment return

The modified total return came to 1.38% due to factors such as rises of domestic equities.

	Fiscal Year 2022					FY Total
	Q1	Q2	Q3	Q4		
Modified total returns	-2.04	-0.81	-0.93	5.41	1.38	
Domestic bonds	-0.92	-0.51	-1.66	1.75	-1.36	
Short-term assets	(-0.00)	(0.00)	(-0.01)	(0.01)	(-0.00)	
Domestic equities	-3.76	-0.65	3.13	6.97	5.32	
Foreign bonds	2.63	-1.65	-5.49	4.45	-0.35	
Foreign equities	-5.56	-0.44	0.18	8.29	1.63	

	Fiscal Year 2022				
	Q1	Q2	Q3	Q4	FY Total
Time-weighted return	-2.04	-0.83	-0.95	5.49	1.51

	Fiscal Year 2022				
	Q1	Q2	Q3	Q4	FY Total
Realized return (book value basis)	1.44	1.42	1.05	1.19	5.10

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

(Note 2) The modified total return 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 1.51% and the composite benchmark return for overall assets was 1.57%. The excess return over the composite benchmark was -0.05%.

	Overall assets
Time-weighted return	1.51%
Composite benchmark return	1.57%
Excess return	-0.05%

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Time-weighted return	-1.30%	5.56%	-0.32%	1.81%
Benchmark return	-1.65%	5.81%	-0.56%	1.88%
Excess return	0.35%	-0.26%	0.24%	-0.07%

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

(Note 2) The composite benchmark return for overall assets is calculated by weight-averaging the benchmark returns for individual asset classes based on the shares in the asset mix of the benchmark portfolio.

By factor, the excess return of -0.05% can be broken down as follows: asset allocation factor: -0.10%; individual asset factor: 0.07%; other factors: -0.02%.

	Asset allocation factor ①	Individual asset factor ②	Other factor ③ (including errors)	①+②+③
Domestic bonds	-0.04%	0.09%	-0.00%	0.05%
Domestic equities	0.02%	-0.06%	-0.00%	-0.05%
Foreign bonds	-0.02%	0.06%	-0.00%	0.03%
Foreign equities	-0.06%	-0.02%	-0.00%	-0.08%
Total	-0.10%	0.07%	-0.02%	-0.05%

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

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

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

(4) Investment income

Investment income (market value basis) was ¥349.8 billion.

(Unit: JPY100M)

	Fiscal Year 2022				
	Q1	Q2	Q3	Q4	FY Total
Investment income (market value basis)	-5,122	-1,985	-2,248	12,854	3,498
Domestic bonds	-559	-306	-995	1,032	-829
Short-term assets	(-0)	(0)	(-0)	(0)	(-0)
Domestic equities	-2,401	-400	1,922	4,320	3,441
Foreign bonds	1,560	-1,004	-3,285	2,522	-208
Foreign equities	-3,721	-274	110	4,980	1,094

(Unit: JPY100M)

	Fiscal Year 2022				
	Q1	Q2	Q3	Q4	FY Total
Realized income (book value basis)	2,909	2,904	2,155	2,462	10,431

(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 ¥24,885.1 billion.

(Unit: JPY100M)

	End of FY2021			Fiscal Year 2022											
	Book value	Market value	Valuation gains/losses	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
Domestic bonds	60,240	60,633	393	60,091	60,024	-67	60,871	60,425	-446	60,256	58,847	-1,409	60,659	60,183	-477
Short-term assets	(1,226)	(1,226)	(0)	(797)	(797)	(0)	(1,356)	(1,356)	(0)	(518)	(518)	(-0)	(968)	(968)	(0)
Domestic equities	49,422	64,117	14,695	49,651	61,455	11,803	50,041	61,000	10,959	50,532	62,050	11,518	50,768	65,212	14,444
Foreign bonds	57,536	59,207	1,671	57,861	60,767	2,906	58,294	59,497	1,202	58,883	56,198	-2,685	60,196	59,263	-933
Foreign equities	35,575	67,088	31,513	35,644	61,865	26,222	35,550	60,349	24,799	35,805	59,958	24,153	35,887	64,193	28,306
Total	202,773	251,046	48,273	203,246	244,110	40,864	204,756	241,271	36,515	205,476	237,053	31,577	207,510	248,851	41,340

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	378	-2,347	264	-3,988

(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 ¥13.4 billion. The fee rate relative to the value of investment assets came to 0.05%.

(Unit: JPY100M, %)

	Fiscal Year 2022	
	Fee	Fee rate
Domestic bonds	12	0.02
Domestic equities	44	0.07
Foreign bonds	25	0.04
Foreign equities	53	0.08
Overall assets	134	0.05

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

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

2 Risk management

(1) Approach to risk management

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

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

The 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) Transitional Long-term Benefit Fund

- (i) The Association conducts risk management for investment of the Transitional Long-term Benefit Adjustment Fund and the Transitional Long-term Benefit Association Reserve Fund (hereinafter referred to as "Transitional Long-term Benefit Fund").
- (ii) The member associations conduct risk management for investment of the Transitional Long-term Benefit Association Reserve Fund (in the case of the Association, the Transitional Long-term Benefit Adjustment Fund).

(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

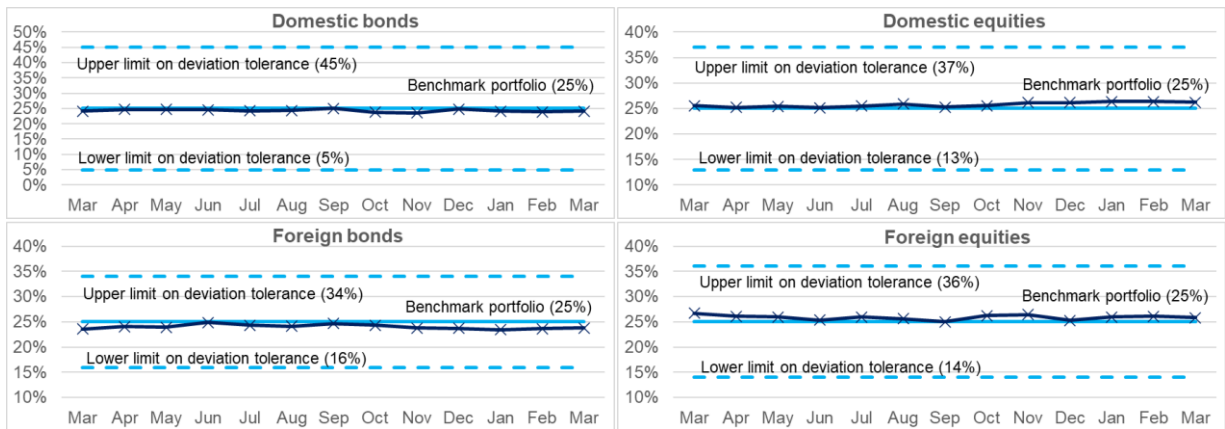
The status of risk management and improvement measures implemented are reported to the committees of specialists and the Governing Council.

(3) Status of risk management

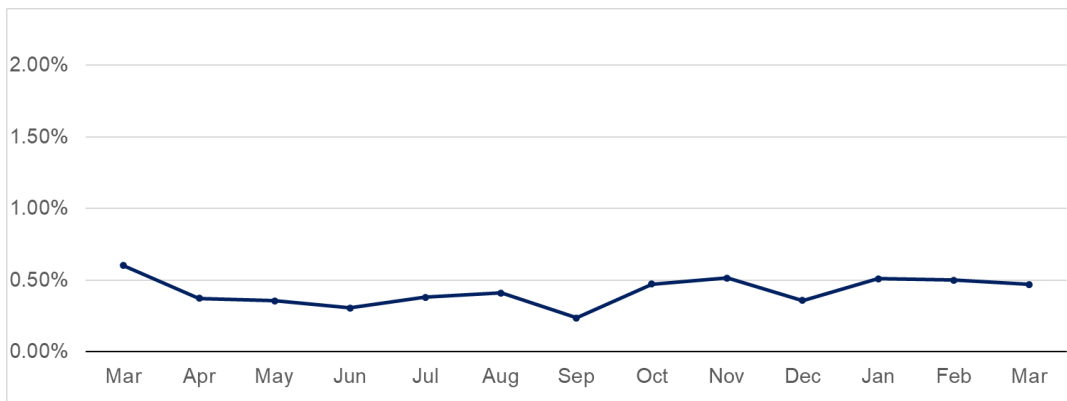
The shares in the asset mix concerning all asset classes—domestic bonds, domestic equities, foreign bonds and foreign equities—stayed within the deviation tolerance.

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).

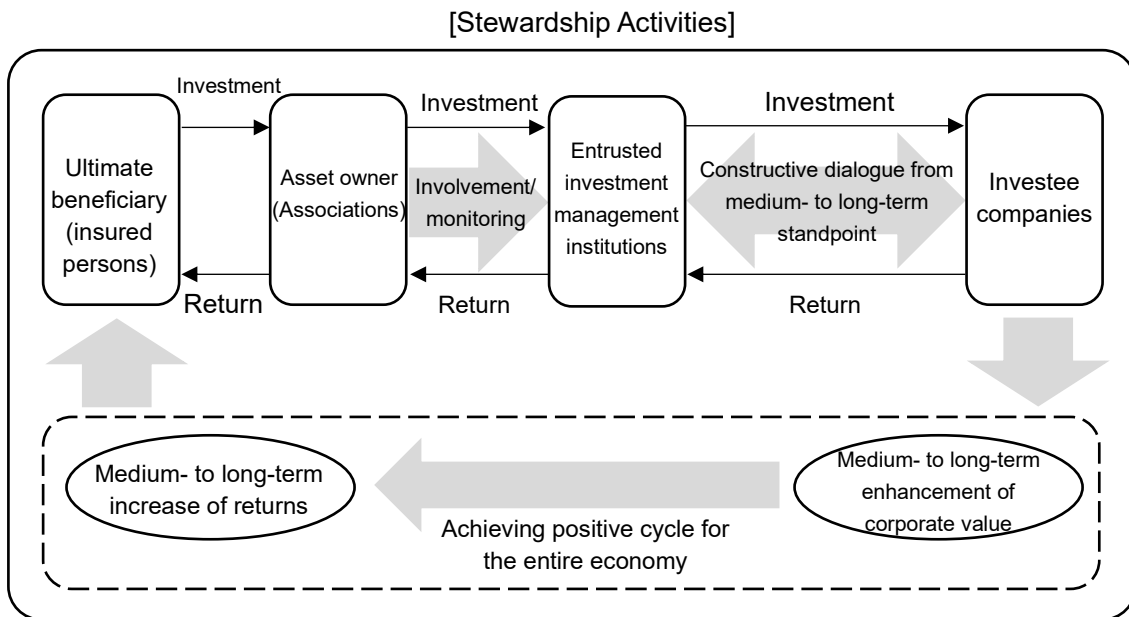
3 Stewardship activities

(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 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)

The Associations exercised voting rights through 20 investment management institutions entrusted with domestic stock investment at a general meeting of shareholders of a total of 36,504 companies held between July 2021 and June 2022. The number of proposals for which voting rights were exercised was 150,478.

Of the 150,478 proposals, 28,378 (including 4,347 shareholder proposals) were voted against, translating into a vote-against rate of 18.9%. The vote-against rate concerning company proposals was 16.5%.

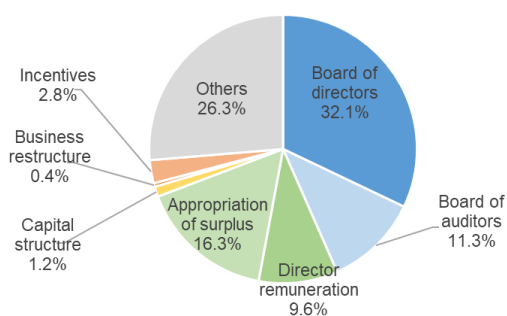
The vote-against rate came to 35.3% concerning proposals related to the board of directors/directors, 13.8% concerning proposals related to the board of auditors/auditors and 16.5% concerning proposals related to director remuneration, etc.

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

Number of proposals by type of proposer	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Company proposal	121,694	83.5%	24,031	16.5%	0	0.0%	145,725
Shareholder proposal	406	8.5%	4,347	91.5%	0	0.0%	4,753
Total	122,100	81.1%	28,378	18.9%	0	0.0%	150,478

Number of proposals by type of proposal	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Board of directors/directors	31,209	64.7%	17,039	35.3%	0	0.0%	48,248
Board of auditors/auditors	14,684	86.2%	2,345	13.8%	0	0.0%	17,029
Director remuneration, etc.	12,019	83.5%	2,368	16.5%	0	0.0%	14,387
Appropriation of surplus	23,491	95.8%	1,041	4.2%	0	0.0%	24,532
Capital structure	709	38.3%	1,144	61.7%	0	0.0%	1,853
Takeover defense measures	37	4.4%	802	95.6%	0	0.0%	839
Capital increase or reduction	284	100.0%	0	0.0%	0	0.0%	284
Third party allotment of shares	68	59.1%	47	40.9%	0	0.0%	115
Acquisition of own shares	27	8.9%	278	91.1%	0	0.0%	305
Business restructure	608	94.7%	34	5.3%	0	0.0%	642
Incentives improvement for executives	3,619	86.5%	564	13.5%	0	0.0%	4,183
Other proposals	35,761	90.3%	3,843	9.7%	0	0.0%	39,604
Total	122,100	81.1%	28,378	18.9%	0	0.0%	150,478

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 stock investment at a general meeting of shareholders of a total of 23,200 companies held between July 2021 and June 2022. The number of proposals for which voting rights were exercised was 229,541.

Of the 229,541 proposals, 35,490 (including 5,966 shareholder proposals) were voted against, translating into a vote-against rate of 15.5%. The vote-against rate concerning company proposals was 13.7%.

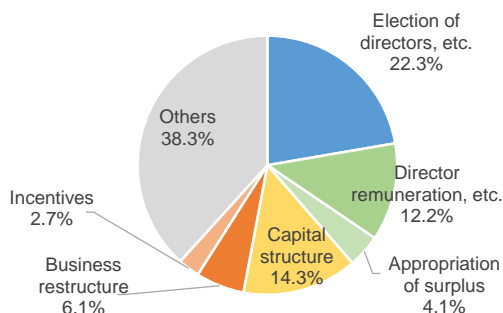
The vote-against rate came to 12.4% concerning proposals related to the election of directors, etc. and 16.2% concerning proposals related to director remuneration, etc.

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

Number of proposals by type of proposer	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Company proposal	185,016	86.2%	29,524	13.7%	201	0.1%	214,741
Shareholder proposal	8,662	58.5%	5,966	40.3%	172	1.2%	14,800
Total	193,678	84.4%	35,490	15.5%	373	0.2%	229,541

Number of proposals by type of proposal	Vote for		Vote against		Abstentions		Total
		Rate		Rate		Rate	
Proposal for election of directors, etc.	44,779	87.5%	6,335	12.4%	56	0.1%	51,170
Director remuneration, etc.	23,416	83.6%	4,544	16.2%	63	0.2%	28,023
Appropriation of surplus	9,373	99.3%	62	0.7%	2	0.0%	9,437
Capital structure	28,749	87.3%	4,177	12.7%	10	0.0%	32,936
Takeover defense measures	1,045	95.4%	50	4.6%	0	0.0%	1,095
Capital increase or reduction	10,594	80.0%	2,640	19.9%	8	0.1%	13,242
Third party allotment of shares	3,716	91.9%	328	8.1%	0	0.0%	4,044
Acquisition of own shares	6,941	97.4%	181	2.5%	2	0.0%	7,124
Business restructure	10,128	72.8%	3,768	27.1%	8	0.1%	13,904
Incentives improvement for executives	4,062	65.5%	2,133	34.4%	5	0.1%	6,200
Other proposals	73,171	83.3%	14,471	16.5%	229	0.3%	87,871
Total	193,678	84.4%	35,490	15.5%	373	0.2%	229,541

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

■ **Collaboration with other public pension funds, etc.**

As part of 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.

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

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 2022, 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 540.9 billion yen (approximately 8.3% 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 72.3 billion yen (approximately 1.1% of the outstanding balance of domestic 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 2022, the total value (book value) of the Associations'(*) in-house investment of domestic bonds is 25 billion yen (1.4 billion yen for local government bonds and 23.6 billion yen for bonds issued by institutions funded by a fiscal investment and loan program).

* The Mutual Aid Association of Prefectural Government 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

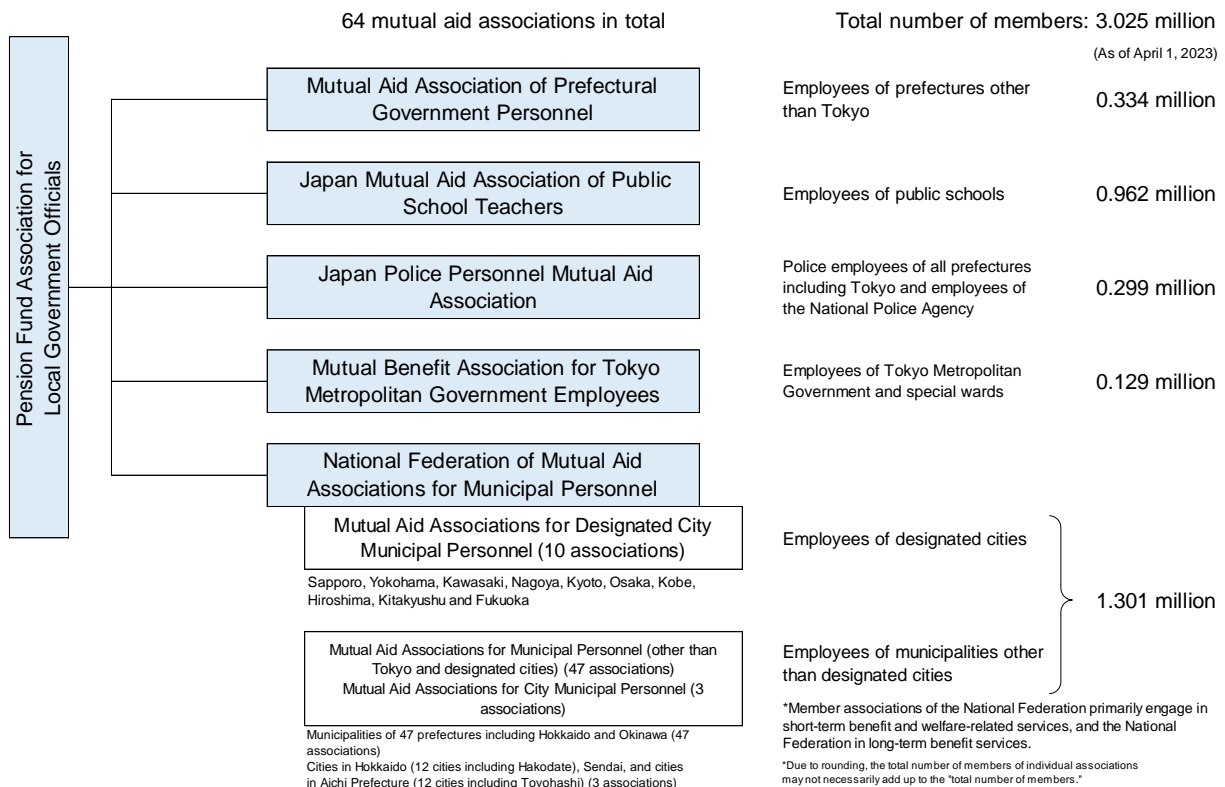
Businesses and Fund Management of Local Public Service Mutual Aid Associations

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

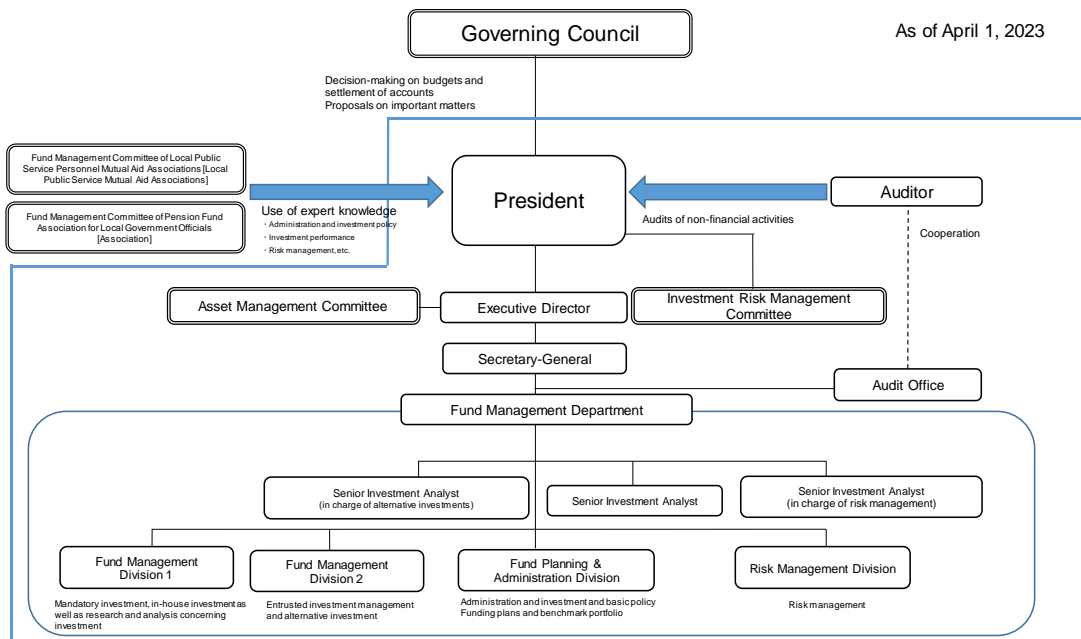
(1) Governing Council

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 “Basic Policy for Management and Investment of Transitional Long-term Benefit Adjustment Fund,” etc., 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, 2023)

Hidetaka Kawakita	Kyoto University, Professor Emeritus
Konosuke Kita	Russell Investments Japan Co., Ltd. Director, Consulting/Executive Consultant
Hisae Sato	Trustee, 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	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
34th Meeting	June 28, 2022	<ul style="list-style-type: none"> Review of Operations reports concerning administration and investment of individual funds in FY2021 (Local Public Service Mutual Aid Associations) Status of risk management of individual funds in FY2021 (Local Public Service Mutual Aid Associations) Examination of the benchmark portfolio of the Annuity Retirement Benefit Fund
35th Meeting	December 6, 2022	<ul style="list-style-type: none"> Status of investment of individual funds in the second quarter of FY2022 (Local Public Service Mutual Aid Associations) Status of risk management of individual funds in the second quarter of FY2022 (Local Public Service Mutual Aid Associations)
36th Meeting	March 28, 2023	<ul style="list-style-type: none"> Status of investment of individual funds in the third quarter of FY2022 (Local Public Service Mutual Aid Associations) Status of risk management of individual funds in the third quarter of FY2022 (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:

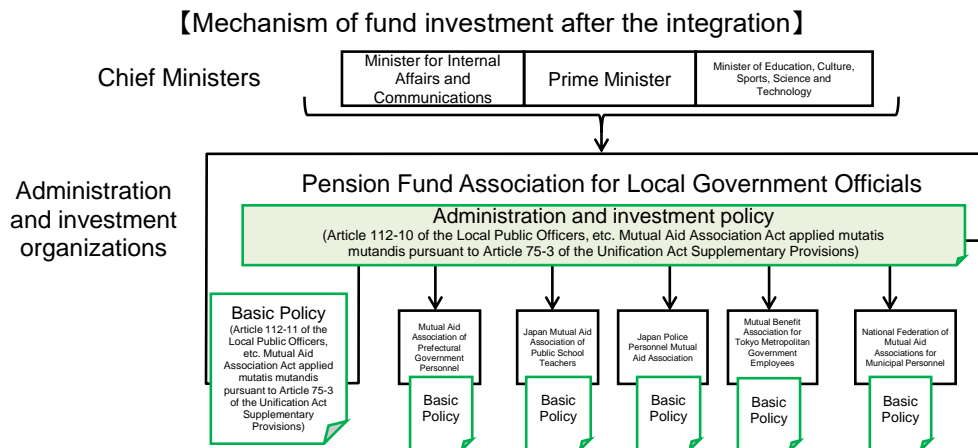
Names of associations	Names of committees
Mutual Aid Association of Prefectural Government Personnel	Pension Asset Management Committee
Japan Mutual Aid Association of Public School Teachers	Asset Management Committee
Japan Police Personnel Mutual Aid Association	Study Group on Fund Management Issues, 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

The Pension Fund Association for Local Government Officials establishes Administration and Investment Policy (including the Portfolio at Local Public Service Mutual Aid Associations), which serves as the common policy for administration and investment organizations (the Local Public Service Mutual Aid Associations) subject to approval from the Minister for Internal Affairs and Communications. (Article 112-10 of the Local Public Officers, etc. Mutual Aid Association Act applied mutatis mutandis pursuant to Article 75-3 of the Unification Act Supplementary Provisions)

A Basic Policy (including the benchmark portfolio) pertaining to administration and investment of funds is established by the administration and investment organizations so as to conform to the Administration and Investment Policy set by the Pension Fund Association for Local Government Officials. (Article 112-11 of the Local Public Officers, etc. Mutual Aid Association Act applied mutatis mutandis pursuant to Article 75-3 of the Unification Act Supplementary Provisions)



(2) Basic approach to investment

■ Basic policy

As a basic policy, investment shall be made for the purpose of contributing to the stable management of the Transitional Long-term Benefit scheme operations. In the investment management, particular attention shall be paid to downside risks and constant consideration shall be given to the relationship between future liabilities and the funds in light of the characteristics of a closed pension plan, which receives no new contribution income.

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.

Moreover, for the investment of the Transitional Long-term Benefit Fund, which has the characteristics of a closed pension plan, the benchmark portfolio shall be determined and appropriately managed so as to secure the required return on investment of the funds at the minimum risk, in due consideration of the relationship between future liabilities and the funds. In addition, 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.