

**Local Public Service  
Mutual Aid Associations**

**Fiscal Year 2023**

# **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 2023 Investment Results (Overview)



Investment return:

**22.46%**

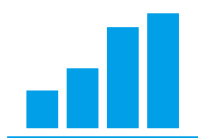
(Modified total return after the deduction of fees, etc.)



Investment income:

**¥5,691.4 billion**

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



Value of investment assets:

(As of the end of March 2024)

**¥29,878.2 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

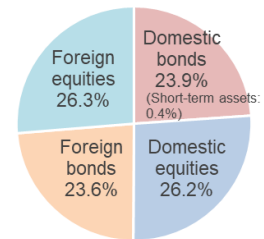
### (1) Asset mix

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    | 24.2          | 23.3             | 24.1      | 24.3      | 23.9      | 25.0                |
| Short-term assets | (0.4)         | (0.3)            | (0.5)     | (0.3)     | (0.4)     |                     |
| Domestic equities | 26.2          | 26.2             | 26.3      | 25.8      | 26.2      | 25.0                |
| Foreign bonds     | 23.8          | 23.8             | 23.9      | 24.0      | 23.6      | 25.0                |
| Foreign equities  | 25.8          | 26.7             | 25.7      | 25.8      | 26.3      | 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) Group pure endowment insurance and real estate are included in domestic bonds.

### (2) Investment return

The modified total return came to 22.46% due to factors such as rises of domestic equities.

(Unit: %)

|                        | Fiscal Year 2023 |         |         |        |          |
|------------------------|------------------|---------|---------|--------|----------|
|                        | Q1               | Q2      | Q3      | Q4     | FY Total |
| Modified total returns | 9.54             | -0.22   | 2.66    | 9.63   | 22.46    |
| Domestic bonds         | 0.46             | -2.31   | 0.87    | -0.33  | -1.31    |
| Short-term assets      | (0.02)           | (-0.00) | (-0.00) | (0.00) | (0.01)   |
| Domestic equities      | 14.21            | 2.58    | 1.92    | 17.36  | 38.60    |
| Foreign bonds          | 7.79             | -0.94   | 2.63    | 5.30   | 15.13    |
| Foreign equities       | 15.13            | -0.44   | 5.13    | 15.76  | 37.90    |

(Unit: %)

|                      | Fiscal Year 2023 |       |      |      |          |
|----------------------|------------------|-------|------|------|----------|
|                      | Q1               | Q2    | Q3   | Q4   | FY Total |
| Time-weighted return | 9.60             | -0.21 | 2.68 | 9.72 | 23.22    |

(Unit: %)

|                                    | Fiscal Year 2023 |      |      |      |          |
|------------------------------------|------------------|------|------|------|----------|
|                                    | Q1               | Q2   | Q3   | Q4   | FY Total |
| Realized return (book value basis) | 2.06             | 2.37 | 1.84 | 3.62 | 9.92     |

(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 23.22% and the composite benchmark return for overall assets was 22.63%. The excess return over the composite benchmark was 0.59%.

|                            | Overall assets |                      | Domestic bonds | Domestic equities | Foreign bonds | Foreign equities |
|----------------------------|----------------|----------------------|----------------|-------------------|---------------|------------------|
| Time-weighted return       | 23.22%         | Time-weighted return | -1.36%         | 40.64%            | 15.52%        | 40.27%           |
| Composite benchmark return | 22.63%         | Benchmark return     | -2.20%         | 41.34%            | 15.32%        | 40.63%           |
| Excess return              | 0.59%          | Excess return        | 0.84%          | -0.70%            | 0.20%         | -0.36%           |

(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 0.59% can be broken down as follows: asset allocation factor: 0.44%; individual asset factor: 0.06%; other factors: 0.09%.

|                   | Asset allocation factor<br>① | Individual asset factor<br>② | Other factor<br>③<br>(including errors) | ①+②+③ |
|-------------------|------------------------------|------------------------------|-----------------------------------------|-------|
| Domestic bonds    | 0.17%                        | 0.21%                        | 0.01%                                   | 0.39% |
| Domestic equities | 0.11%                        | -0.13%                       | 0.03%                                   | 0.01% |
| Foreign bonds     | 0.05%                        | 0.04%                        | 0.02%                                   | 0.11% |
| Foreign equities  | 0.11%                        | -0.06%                       | 0.02%                                   | 0.07% |
| Total             | 0.44%                        | 0.06%                        | 0.09%                                   | 0.59% |

(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 ¥5,691.4 billion.

(Unit: JPY100M)

|                                        | Fiscal Year 2023 |        |       |        |          |
|----------------------------------------|------------------|--------|-------|--------|----------|
|                                        | Q1               | Q2     | Q3    | Q4     | FY Total |
| Investment income (market value basis) | 23,729           | -584   | 7,160 | 26,609 | 56,914   |
| Domestic bonds                         | 283              | -1,482 | 570   | -226   | -855     |
| Short-term assets                      | (0)              | (-0)   | (-0)  | (0)    | (0)      |
| Domestic equities                      | 9,100            | 1,822  | 1,356 | 12,119 | 24,397   |
| Foreign bonds                          | 4,631            | -611   | 1,693 | 3,538  | 9,251    |
| Foreign equities                       | 9,715            | -313   | 3,542 | 11,179 | 24,122   |

(Unit: JPY100M)

|                                    | Fiscal Year 2023 |       |       |       |          |
|------------------------------------|------------------|-------|-------|-------|----------|
|                                    | Q1               | Q2    | Q3    | Q4    | FY Total |
| Realized income (book value basis) | 4,273            | 4,982 | 3,920 | 7,858 | 21,033   |

(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 ¥29,878.2 billion.

(Unit: JPY100M)

|                   | End of FY2022 |              |                        | Fiscal Year 2023 |              |                        |            |              |                        |            |              |                        |            |              |                        |
|-------------------|---------------|--------------|------------------------|------------------|--------------|------------------------|------------|--------------|------------------------|------------|--------------|------------------------|------------|--------------|------------------------|
|                   | 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    | 60,659        | 60,183       | -477                   | 63,069           | 62,876       | -193                   | 66,512     | 64,823       | -1,689                 | 67,669     | 66,552       | -1,116                 | 72,955     | 71,456       | 1,499                  |
| Short-term assets | (968)         | (968)        | (0)                    | (700)            | (700)        | (0)                    | (1,391)    | (1,391)      | (0)                    | (758)      | (758)        | (0)                    | (1,100)    | (1,100)      | (0)                    |
| Domestic equities | 50,768        | 65,212       | 14,444                 | 48,952           | 70,763       | 21,811                 | 48,359     | 70,521       | 22,162                 | 48,814     | 70,438       | 21,625                 | 47,924     | 78,320       | 30,396                 |
| Foreign bonds     | 60,196        | 59,263       | -933                   | 61,021           | 64,386       | 3,364                  | 62,063     | 64,028       | 1,965                  | 62,889     | 65,698       | 2,809                  | 65,688     | 70,546       | 4,858                  |
| Foreign equities  | 35,887        | 64,193       | 28,306                 | 35,623           | 72,155       | 36,531                 | 35,022     | 69,077       | 34,054                 | 34,725     | 70,636       | 35,910                 | 34,993     | 78,460       | 43,467                 |
| Total             | 207,510       | 248,851      | 41,340                 | 208,666          | 270,180      | 61,513                 | 211,957    | 268,449      | 56,492                 | 214,097    | 273,325      | 59,228                 | 221,560    | 298,782      | 77,222                 |

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 | 11,867         | -11,185           | 2,076         | -9,741           |

(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 ¥15.3 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    | 13               | 0.02     |
| Domestic equities | 50               | 0.07     |
| Foreign bonds     | 25               | 0.04     |
| Foreign equities  | 65               | 0.09     |
| Overall assets    | 153              | 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) 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

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### ■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

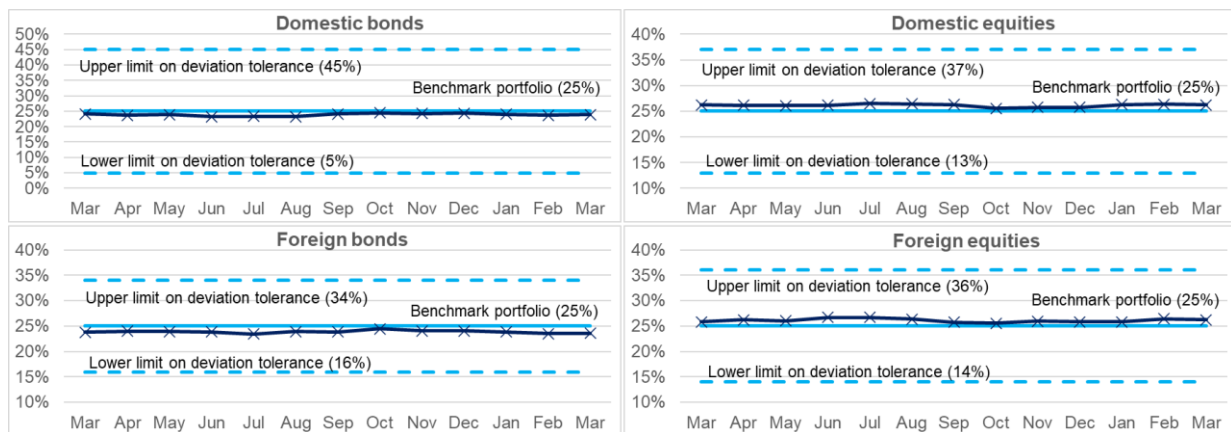
The status of risk management and improvement measures implemented are reported to the committees of specialists and the Governing Council.

### (3) Status of risk management

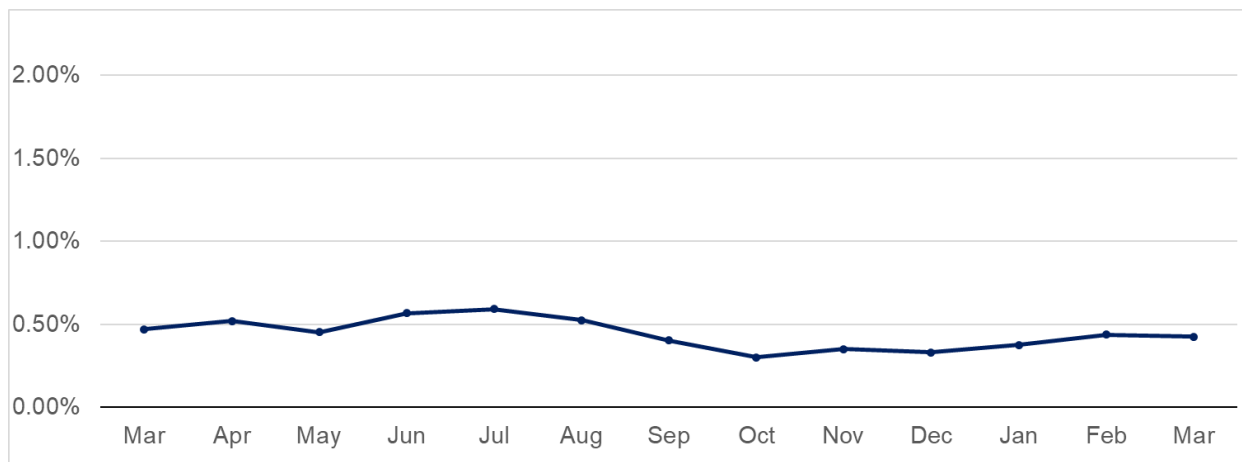
The shares in the asset mix concerning all asset classes—domestic bonds, domestic equities, foreign bonds and foreign equities—stayed within the deviation tolerance.

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).

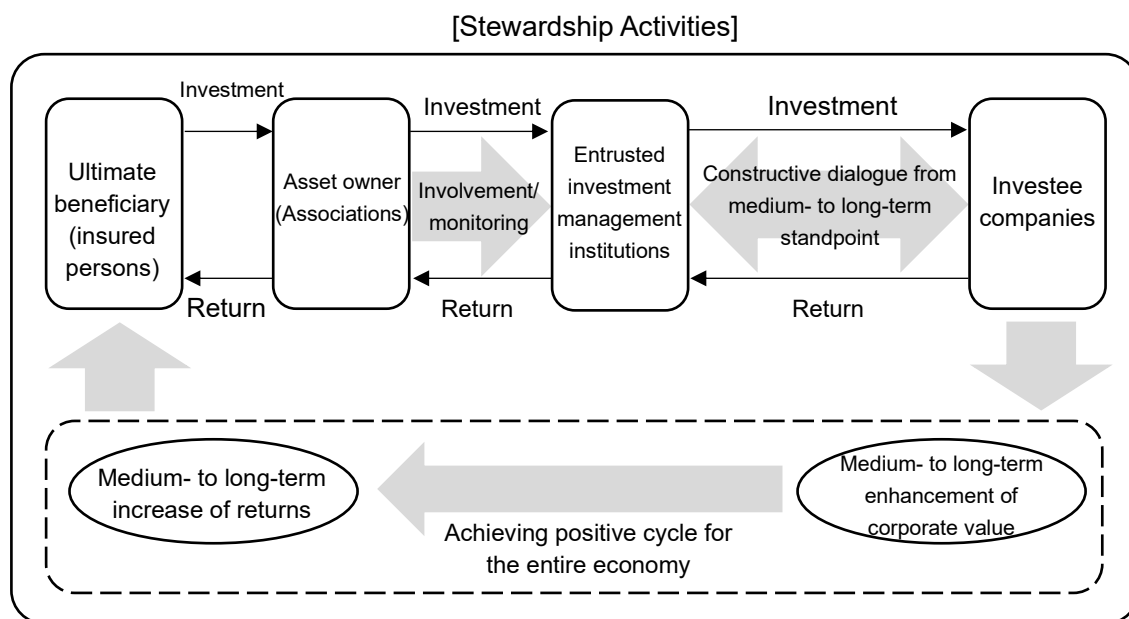
### 3 Stewardship activities

#### (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 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 20 investment management institutions entrusted with domestic equity investment at a general meeting of shareholders of a total of 33,759 companies held between July 2022 and June 2023. The number of proposals for which voting rights were exercised was 122,007.

Of the 122,007 proposals, 28,824 (including 5,879 shareholder proposals) were voted against, translating into a vote-against rate of 23.6%. The vote-against rate concerning company proposals was 19.9%.

The vote-against rate came to 35.4% concerning proposals related to the board of directors/directors, 14.8% concerning proposals related to the board of auditors/auditors and 18.4% concerning proposals related to director remuneration, etc.

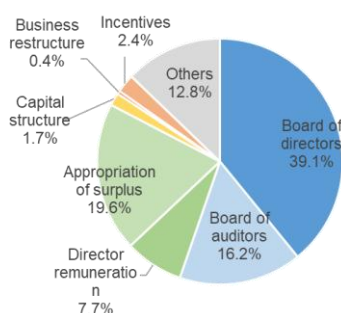
### Voting activity (The figures are based on the proposals submitted to general meetings of shareholders held between July 2022 and June 2023.)

| Number of proposals by type of proposer | Vote for |       | Vote against |       | Abstentions |      | Total   |
|-----------------------------------------|----------|-------|--------------|-------|-------------|------|---------|
|                                         |          | Rate  |              | Rate  |             | Rate |         |
| Company proposal                        | 92,506   | 80.1% | 22,945       | 19.9% | 0           | 0.0% | 115,451 |
| Shareholder proposal                    | 677      | 10.3% | 5,879        | 89.7% | 0           | 0.0% | 6,556   |
| Total                                   | 93,183   | 76.4% | 28,824       | 23.6% | 0           | 0.0% | 122,007 |

| Number of proposals by type of proposal | Vote for |        | Vote against |       | Abstentions |      | Total   |
|-----------------------------------------|----------|--------|--------------|-------|-------------|------|---------|
|                                         |          | Rate   |              | Rate  |             | Rate |         |
| Board of directors/directors            | 30,827   | 64.6%  | 16,877       | 35.4% | 0           | 0.0% | 47,704  |
| Board of auditors/auditors              | 16,852   | 85.2%  | 2,916        | 14.8% | 0           | 0.0% | 19,768  |
| Director remuneration, etc.             | 7,663    | 81.6%  | 1,732        | 18.4% | 0           | 0.0% | 9,395   |
| Appropriation of surplus                | 22,876   | 95.5%  | 1,070        | 4.5%  | 0           | 0.0% | 23,946  |
| Capital structure                       | 620      | 30.1%  | 1,439        | 69.9% | 0           | 0.0% | 2,059   |
| Takeover defense measures               | 65       | 6.0%   | 1,019        | 94.0% | 0           | 0.0% | 1,084   |
| Capital increase or reduction           | 166      | 100.0% | 0            | 0.0%  | 0           | 0.0% | 166     |
| Third party allotment of shares         | 65       | 80.2%  | 16           | 19.8% | 0           | 0.0% | 81      |
| Acquisition of own shares               | 80       | 16.6%  | 402          | 83.4% | 0           | 0.0% | 482     |
| Business restructure                    | 505      | 99.2%  | 4            | 0.8%  | 0           | 0.0% | 509     |
| Incentives improvement for executives   | 2,571    | 86.3%  | 408          | 13.7% | 0           | 0.0% | 2,979   |
| Other proposals                         | 11,269   | 72.0%  | 4,378        | 28.0% | 0           | 0.0% | 15,647  |
| Total                                   | 93,183   | 76.4%  | 28,824       | 23.6% | 0           | 0.0% | 122,007 |

### 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 22,410 companies held between July 2022 and June 2023. The number of proposals for which voting rights were exercised was 225,174.

Of the 225,174 proposals, 33,969 (including 8,061 shareholder proposals) were voted against, translating into a vote-against rate of 15.1%. The vote-against rate concerning company proposals was 12.4%.

The vote-against rate came to 12.6% concerning proposals related to the election of directors, etc. and 13.9% concerning proposals related to director remuneration, etc.

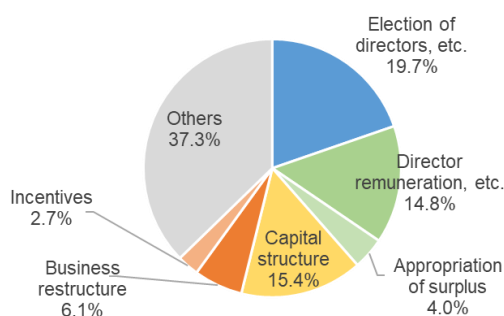
#### Voting activity (The figures are based on the proposals submitted to general meetings of shareholders held between July 2022 and June 2023.)

| Number of proposals by type of proposer | Vote for |       | Vote against |       | Abstentions |      | Total   |
|-----------------------------------------|----------|-------|--------------|-------|-------------|------|---------|
|                                         |          | Rate  |              | Rate  |             | Rate |         |
| Company proposal                        | 183,010  | 87.5% | 25,908       | 12.4% | 195         | 0.1% | 209,113 |
| Shareholder proposal                    | 7,800    | 48.6% | 8,061        | 50.2% | 200         | 1.2% | 16,061  |
| Total                                   | 190,810  | 84.7% | 33,969       | 15.1% | 395         | 0.2% | 225,174 |

| Number of proposals by type of proposal  | Vote for |       | Vote against |       | Abstentions |      | Total   |
|------------------------------------------|----------|-------|--------------|-------|-------------|------|---------|
|                                          |          | Rate  |              | Rate  |             | Rate |         |
| Proposal for election of directors, etc. | 38,739   | 87.3% | 5,587        | 12.6% | 61          | 0.1% | 44,387  |
| Director remuneration, etc.              | 28,596   | 85.9% | 4,631        | 13.9% | 44          | 0.1% | 33,271  |
| Appropriation of surplus                 | 8,981    | 99.4% | 44           | 0.5%  | 10          | 0.1% | 9,035   |
| Capital structure                        | 30,843   | 89.1% | 3,753        | 10.8% | 13          | 0.0% | 34,609  |
| Takeover defense measures                | 1,055    | 92.5% | 85           | 7.4%  | 1           | 0.1% | 1,141   |
| Capital increase or reduction            | 12,361   | 83.4% | 2,447        | 16.5% | 12          | 0.1% | 14,820  |
| Third party allotment of shares          | 4,747    | 95.1% | 246          | 4.9%  | 0           | 0.0% | 4,993   |
| Acquisition of own shares                | 6,110    | 98.3% | 108          | 1.7%  | 0           | 0.0% | 6,218   |
| Business restructure                     | 10,443   | 75.5% | 3,390        | 24.5% | 0           | 0.0% | 13,833  |
| Incentives improvement for executives    | 4,035    | 65.6% | 2,105        | 34.2% | 9           | 0.1% | 6,149   |
| Other proposals                          | 69,173   | 82.5% | 14,459       | 17.2% | 258         | 0.3% | 83,890  |
| Total                                    | 190,810  | 84.7% | 33,969       | 15.1% | 395         | 0.2% | 225,174 |

#### 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

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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.



## 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 its policies including the "Basic Policy for the Transitional Long-term Benefit (TLTB) Adjustment Fund" in line with the revised "Basic Policy for Ensuring Safe and Efficient Management and Investment of Funds from Long-term Perspective." 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 13 ESG funds concerning domestic equities (11 funds for active investment and two funds for passive investment), with a total value (market value) of 746.3 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 102.5 billion yen (approximately 1.3% 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 2023, the total value (book value) of the Associations'(\*) in-house investment of domestic bonds is 36.6 billion yen (7.1 billion yen for local government bonds and 29.5 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)

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### ■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

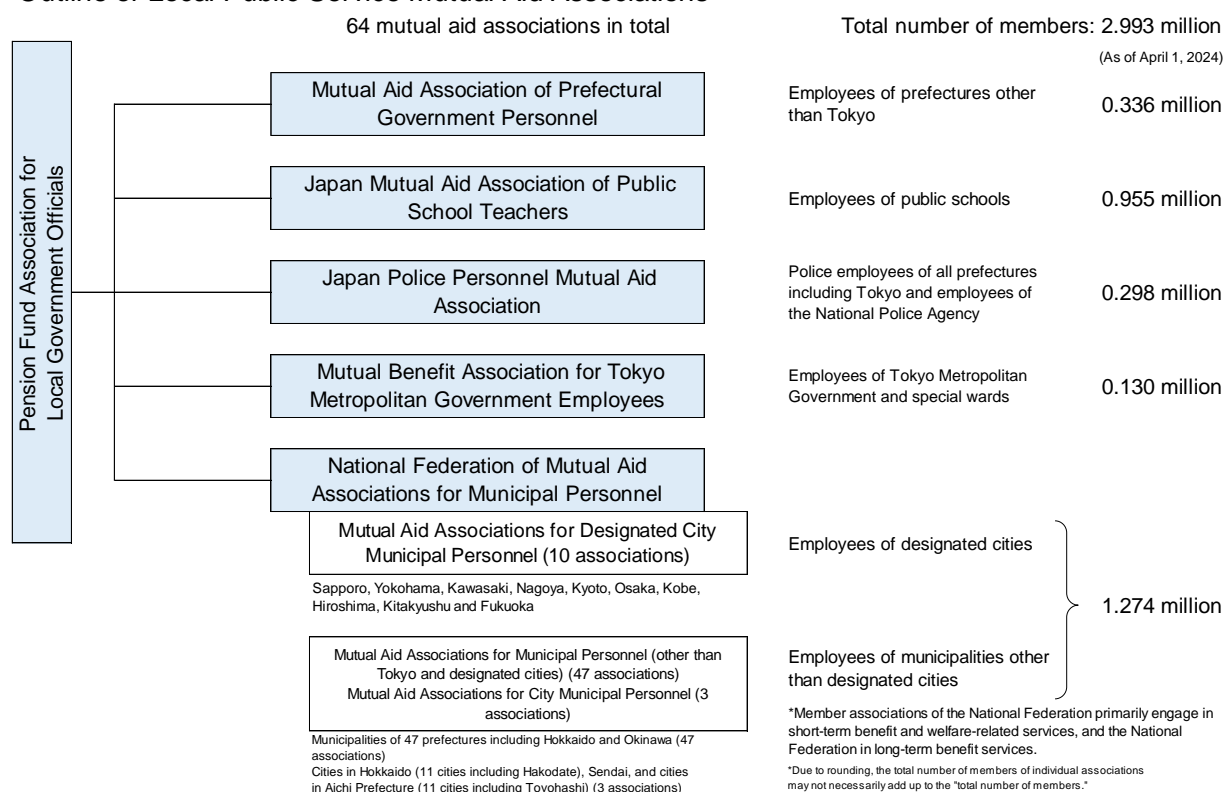
# Businesses and Fund Management of Local Public Service Mutual Aid Associations

## 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

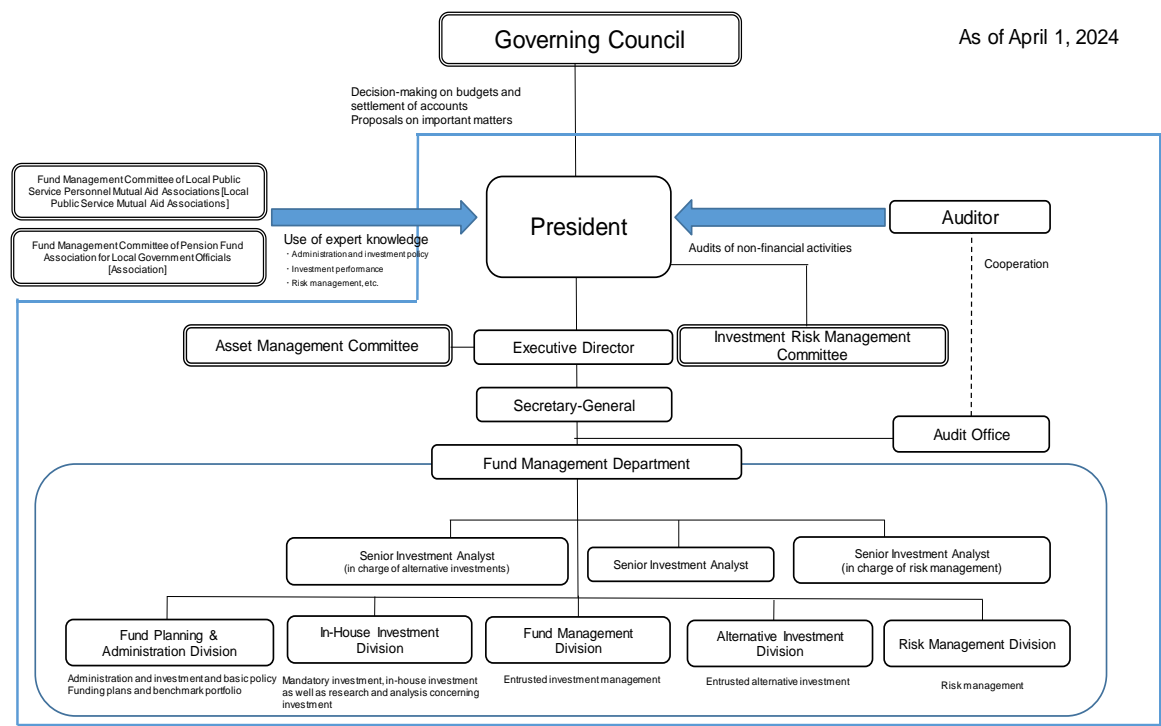
(1) Governing Council

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

■List of Fund Management Committee Members (As of April 1, 2024)

|                              |                                                                                                                           |
|------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| Hidetaka Kawakita            | Kyoto University, Professor Emeritus                                                                                      |
| Konosuke Kita                | Russell Investments Japan Co., Ltd.<br>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.<br>Vice Chairperson                                                                                  |
| Hitoshi Takehara             | Professor, Waseda Business School (Graduate School of Business and Finance)                                               |
| Katsuyuki Tokushima          | NLI Research Institute<br>Director, Member of the Board<br>Head of Pension Research, CMA<br>Financial Research Department |
| Akiko Nomura                 | Senior Fellow, Nomura Institute of Capital Markets Research                                                               |
| Teppey Hayashi               | All-Japan Prefectural and Municipal Workers Union<br>General Manager, Central Executive Committee Bureau of Labor         |
| Chairperson Takaaki Wakasugi | The University of Tokyo, Professor Emeritus<br>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"> <li>• Review of Operations reports concerning administration and investment of individual funds in FY2022 (Local Public Service Mutual Aid Associations)</li> <li>• Status of risk management of individual funds in FY2022 (Local Public Service Mutual Aid Associations)</li> <li>• Examination of the benchmark portfolio of the Annuity Retirement Benefit Fund</li> </ul>                                                                                                 |
| 38th Meeting   | January 23, 2024 | <ul style="list-style-type: none"> <li>• Status of investment of individual funds in the second quarter of FY2023 (Local Public Service Mutual Aid Associations)</li> <li>• Status of risk management of individual funds in the second quarter of FY2023 (Local Public Service Mutual Aid Associations)</li> </ul>                                                                                                                                                                                               |
| 39th Meeting   | March 26, 2024   | <ul style="list-style-type: none"> <li>• Status of investment of individual funds in the third quarter of FY2023 (Local Public Service Mutual Aid Associations)</li> <li>• Status of risk management of individual funds in the third quarter of FY2023 (Local Public Service Mutual Aid Associations)</li> <li>• Examination of the benchmark portfolio of the Employees' Pension Insurance Benefit Fund</li> <li>• Examination of the benchmark portfolio of the Transitional Long-term Benefit Fund</li> </ul> |

### (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:

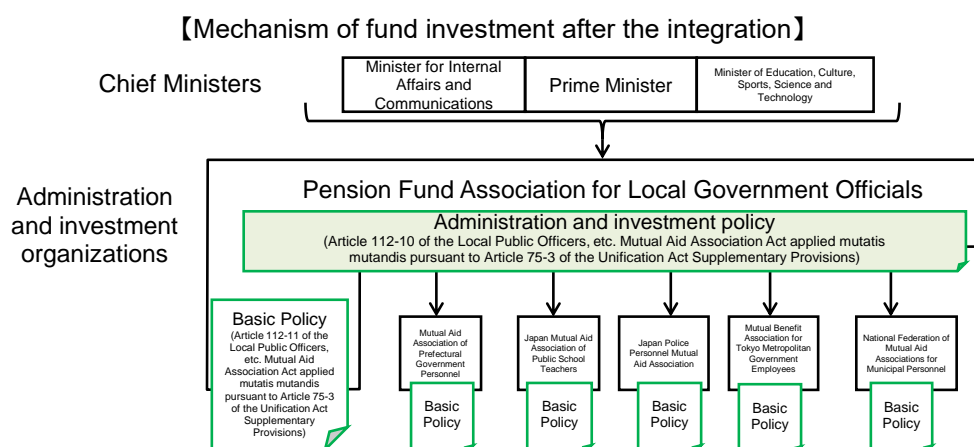
| Names of associations                                                  | Names of committees                                                                               |
|------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|
| 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.