

Administration and Investment Policy for the Annuity Retirement Benefits (ARB) Fund

(Established on October 1, 2015)

(Revised on March 31, 2020)

(Last revised on March 31, 2025)

In accordance with Article 112-10, Paragraph (1), of the Local Public Service Mutual Aid Association Act (Act No. 152 of 1962; the “Act”), the Pension Fund Association for Local Government Officials (the “Association”) sets forth the administration and investment policy for the safe and efficient administration and investment of the annuity retirement benefits (ARB) fund (meaning the administration and investment of the annuity retirement benefits (ARB) adjustment fund and management of the investment status of the ARB association reserve funds of the local public service mutual aid associations (“Mutual Aid Associations”; excluding constituent member associations stipulated in Article 27, Paragraph (2) of the Act; the same shall apply hereinafter) and the National Federation of Mutual Aid Associations for Municipal Personnel; the same shall apply hereinafter) from a long-term perspective (the “Administration and Investment Policy”), as follows.

I Basic policy for the administration and investment of the ARB funds

The basic policy listed in Article 112-10, Paragraph (2), Item 1 of the Act shall be set forth as follows.

1. Basic policy for the annuity retirement benefits (ARB) fund

The Association shall safely and efficiently administer and invest the ARB Funds from a long-term perspective as follows.

(1) Basic policy

The Association shall manage the ARB adjustment fund and the ARB association reserve funds (collectively, the “ARB Funds”) with the objective of contributing to the stable operation of the ARB plan based on the characteristics of a cash-balance pension plan whose benefit level is linked to government bond yields.

Accordingly, the Association shall administer and invest the ARB Funds by establishing an asset mix from a long-term perspective (the “Benchmark Portfolio”).

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

The Association shall establish the Fund Management Committee of Local Public Service Personnel Mutual Aid Associations consisting of individuals with academic knowledge and practical experience in fields such as economics, finance, and fund management (the “Fund Management Committee”).

The Association shall leverage the expert knowledge of the Fund Management Committee when examining technical matters concerning the administration and investment of the ARB Funds including the development and revision of the Administration and Investment Policy.

(3) Initiatives to strengthen investment capabilities

Based on the content of the “Asset Owner Principles” (formulated by the Cabinet Secretariat on August 28, 2024), the Association shall continuously strive to strengthen its investment capabilities and enhance its investment structure in order to respond to changes, etc. in the socio-economic environment and fulfill its required role regarding fiduciary responsibilities and market development, etc. Furthermore, the Association shall promote cooperation and coordination among Administration and Investment Institutions (meaning Mutual Aid Associations, the National Federation of Mutual Aid Associations, etc.).

al Aid Associations for Municipal Personnel, and the Association; the same shall apply hereinafter) to improve investment knowledge and capabilities.

2. Basic policy for the ARB Association Reserve Funds

In order to appropriately administer and invest the ARB Funds, the Administration and Investment Institutions shall appropriately administer and invest respective ARB association reserve funds or ARB adjustment fund (collectively, the “ARB Association Reserve Funds”), as follows.

(1) Basic policy

The Administration and Investment Institutions shall manage the ARB Association Reserve Funds with the objective of contributing to the stable operation of the ARB plan based on the characteristics of a cash-balance pension plan whose benefit level is linked to government bond yields.

To this end, the Administration and Investment Institutions shall set forth Benchmark Portfolios and administer and invest the ARB Association Reserve Funds.

In order to appropriately administer and invest the ARB Association Reserve Funds and to comply with the Administration and Investment Policy, Administration and Investment Institutions shall establish and publish a basic policy for administering and investing the ARB Association Reserve Funds (the “Basic Policy”) which describes, among other matters, the asset mix of the ARB Association Reserve Funds, and the Administration and Investment Institutions (excluding the Association) shall submit their Basic Policy to the Association. In addition, in the event the Administration and Investment Policy is revised or otherwise a review is considered necessary, Administration and Investment Institutions shall review and, if necessary, revise and publish their Basic Policy, and Administration and Investment Institutions (excluding the Association) shall submit it to the Association.

Administration and Investment Institutions shall create specific fund management plans for each fiscal year, and conduct investments based on such plans. In addition, Administration and Investment Institutions (excluding the Association) shall submit such plans to the Association.

The Association shall receive investment reports (meaning “investment reports” stipulated in Article 112-13, Paragraph (1) of the Act) from other Administration and Investment Institutions, and the Association may also request other Administration and Investment Institutions to report on the administration and investment status of their ARB association reserve funds.

In addition, if the Association finds that another Administration and Investment Institution’s administration and investment of ARB association reserve funds does not comply with the Administration and Investment Policy, the Association shall request the Institution to take necessary measures so that it does comply with the Administration and Investment Policy.

(2) Utilization of Administration and Investment Institution’s Expert Meetings

Administration and Investment Institutions shall establish an expert meeting consisting of individuals with academic knowledge and practical experience in fields such as economics, finance, and fund management (“Expert Meeting”).

Administration and Investment Institutions shall leverage the expert knowledge of the Expert Meeting when examining technical matters concerning the administration and investment of the ARB Association Reserve Funds including the development and revision of the Basic Policy.

(3) Initiatives based on “Asset Owner Principles”

Since each of Administration and Investment Institution acknowledges the “Asset Owner Principles,” they shall voluntarily consider initiatives based on these principles.

(4) Pooled investment

Administration and Investment Institutions (excluding the Association) may deposit ARB association reserve funds with the Association for investment management.

If Administration and Investment Institutions (excluding the Association) deposit ARB associati

on reserve funds with the Association, the Association shall appropriately administer and invest the m in accordance with the policy for the administration and investment of deposited money separately established by the Association.

II Matters to be observed in administering and investing the ARB Funds

The matters to be observed listed in Article 112-10, Paragraph (2), Item 2 of the Act shall be set forth as follows.

1. Ensuring fiduciary responsibility

Administration and Investment Institutions shall ensure thorough observance of the duty of care and loyalty of a prudent expert.

2. Consideration of the impact on market and private sector activities

In managing respective ARB Association Reserve Funds, Administration and Investment Institutions shall, in light of the market size, strive not to be excessively impacted by the market, and also pay attention not to distort, among other things, price formation in the market and private sector investment activities, especially by avoiding concentration in specific time periods when investing and exiting funds.

3. ESG-conscious investment

With respect to the investment of the ARB Association Reserve Funds, Administration and Investment Institutions shall implement the necessary initiatives, based on a case-by-case analysis, with a view to promoting investment that takes into consideration ESG factors (Environmental, Social, and Governance), a non-financial factor in addition to financial factors based on the concept that the sustainable growth of investee companies and the entire market is necessary for the increase of returns on investment assets over the long term so as to secure long-term returns for the benefit of members.

4. Impact-conscious investment

From the perspective of securing long-term returns for the benefit of members, Administration and Investment Institutions shall implement necessary initiatives, based on a case-by-case analysis, with a view to promoting investments considering the social and environmental effects (impacts) generated by the business activities of investee companies as a non-financial factor.

5. Coordination between the Association and the Federation of National Public Service Personnel Mutual Aid Associations

The Association shall strive to cooperate and work together with the Federation of National Public Service Personnel Mutual Aid Associations by providing necessary information, etc.

6. Cooperation and coordination between the Association and other Administration and Investment Institutions

The Association shall provide other Administration and Investment Institutions with technical and expert knowledge and materials on the administration and investment of reserve funds, gain an understanding of research and study activities and other efforts made by other Administration and Investment Institutions, and exchange information and communicate/coordinate with other Administration and Investment Institutions by, for example, providing said information.

In addition, the Association and other Administration and Investment Institutions shall cooperate and work together by sharing the necessary information, etc. in relation to the management of ARB Association Reserve Funds.

III Matters concerning asset mix from a long-term perspective in administering and investing the ARB Funds

The matters concerning the asset mix from a long-term perspective listed in Article 112-10, Paragraph (2), Item 3 of the Act shall be set forth as follows.

1. Investment targets

The investment of the ARB Funds, which have the characteristics of a cash-balance pension plan, shall be managed appropriately by establishing the Benchmark Portfolio so that investment returns needed for the reserve fund (i.e., assumed return (meaning the assumed return stipulated in Article 28, Paragraph (5) of the Order for Enforcement of the Local Public Service Mutual Aid Association Act (Cabinet Order No. 352 of 1962); the same shall apply hereinafter)) will be generated with minimum risk.

In doing so, attention shall be paid not to distort, among other things, price formation in the market and private sector investment activities.

2. Basic approach to the Benchmark Portfolio

The Benchmark Portfolio, which shall have an asset mix and deviation tolerance in line with investment targets, shall be established from a long-term perspective in consideration of generally accepted expert knowledge on asset administration and investment as well as economic trends in and outside Japan, based on forward-looking risk analyses.

The Association shall report on the establishment of the Benchmark Portfolio to the Governing Council (meaning the Governing Council stipulated in Article 38-4, Paragraph (1) of the Act; the same shall apply hereinafter) upon deliberation by the Fund Management Committee.

3. Asset class and asset mix of the Benchmark Portfolio

The asset mix of the Benchmark Portfolio shall be as follows.

Assets	Domestic bonds
Asset mix	100%

(Note) Short-term assets may be held to the extent necessary for benefit payments.

Short-term assets, real estate and loan receivables are classified into domestic bonds.

4. Review of the Benchmark Portfolio

The Association shall appropriately manage risks, etc. based on market trends, and regularly verify the Benchmark Portfolio by, for example, confirming that the most recent investment returns meet the target benchmark interest rate (meaning the benchmark interest rate stipulated in Article 77, Paragraph (3) of the Act; if there is an addition rate to be added pursuant to a fiscal recalculation (meaning the recalculation stipulated in the latter part of Article 113, Paragraph (1) of the Act), the benchmark interest rate before adding said addition rate; and if there is a deduction rate to be deducted pursuant to a fiscal recalculation, the benchmark interest rate before deducting said deduction rate; the same shall apply hereinafter). Furthermore, if it is considered necessary in cases where the investment environment assumed at the time of establishing the Benchmark Portfolio deviates from reality, it shall examine the Benchmark Portfolio and revise it as necessary. Any change to the Benchmark Portfolio shall be reported to the Governing Council upon deliberation by the Fund Management Committee. If the Association finds it necessary in consideration of market impact and other factors, it shall establish a transition portfolio (meaning a transitional asset mix up until the realization of the Benchmark Portfolio; the same shall apply hereinafter) in order to smoothly transition to the revised Benchmark Portfolio.

5. Risk management

Based on reports from other Administration and Investment Institutions, the Association shall administer and invest the ARB Funds and conduct risk management on the investment status of the overall assets, Administration and Investment Institutions, and each asset class in accordance with the methods below. In conducting risk management, the Association shall report its risk management

implementation policy to the Governing Council upon deliberation by the Fund Management Committee and timely report the risk management status to the Governing Council and the Fund Management Committee.

A Overall assets

In order to appropriately manage the portfolio, the Association shall check deviations of the asset mix of the ARB Funds from the Benchmark Portfolio at least once a month.

In addition, the Association shall enhance necessary functions, such as for understanding and analyzing market trends.

Furthermore, the Association shall confirm risks associated with overall assets, analyze and assess the level of risk exposure, and conduct, among other things, analysis of factors for deviations from the return needed for the reserve fund.

B Administration and Investment Institutions

The Association shall confirm deviations of asset mixes of other Administration and Investment Institutions from their respective Benchmark Portfolios at least once a month.

Furthermore, the Association shall confirm other Administration and Investment Institutions' risks, analyze and assess the level of risk exposure, and conduct, among other things, analysis of factors for deviations from the return needed for the reserve funds.

C Asset class

The Association shall manage market risk, liquidity risk, and credit risk, etc. for each asset class.

IV Standards to be observed by Administration and Investment Institutions in establishing the asset mix for their respective ARB Association Reserve Funds from a long-term perspective

The standards to be complied with listed in Article 112-10, Paragraph (2), Item 4 of the Act shall be set forth as follows.

1. Investment targets

Each Administration and Investment Institution shall establish the Benchmark Portfolio and appropriately manage the investment of ARB Association Reserve Funds, which have the characteristics of a cash-balance pension plan, in order to generate investment returns needed for the reserve fund (assumed return) with minimum risk.

In doing so, attention shall be paid not to distort, among other things, price formation in the market and private sector investment activities.

2. Basic approach to the Benchmark Portfolio

Each Administration and Investment Institution shall establish the asset mix of the Benchmark Portfolio in its Basic Policy in accordance with the asset mix of the Benchmark Portfolio of ARB Funds stipulated in III-3. In doing so, Administration and Investment Institutions shall report on the establishment of the Benchmark Portfolio to the Governing Council, etc. (meaning the Governing Council, the Governing Council and the Council of Mutual Aid Associations established within Administration and Investment Institutions under Article 6 of the Act, and the General Meeting stipulated in Article 30, Paragraph (1) of the Act; the same shall apply hereinafter) upon deliberation by the Expert Meeting.

3. Review of the Benchmark Portfolio

Administration and Investment Institutions shall appropriately manage risks based on market trends, regularly verify the Benchmark Portfolio by, for example, confirming that the most recent investment returns meet the target benchmark interest rate, etc. and, if it is considered necessary in cases, such as when the investment environment assumed at the time of establishing the Benchmark Portfolio deviates from reality, examine and, if necessary, revise the Benchmark Portfolio upon review.

wing the Benchmark Portfolio stipulated in III-4. Any change to the Benchmark Portfolio shall be reported to the Governing Council upon deliberation by the Expert Meeting. If it is found necessary in consideration of market impact and other factors, a transition portfolio may be established in order to smoothly transition to the revised Benchmark Portfolio.

4. Securing liquidity for pension benefits, etc.

Based on the outlook of pension finances and the profit and loss status, Administration and Investment Institutions shall secure liquidity (cash, etc.) necessary for pension benefits and conduct cash management efficiently.

In doing so, necessary functions, such as to understand and analyze market trends, shall be enhanced so that funds will be secured without shortfalls by, for example, smoothly selling assets, taking into consideration price formation in the market.

5. Risk management

Administration and Investment Institutions shall appropriately manage various types of risks associated with the administration and investment of the ARB Association Reserve Funds.

In addition, Administration and Investment Institutions shall administer and invest the ARB Association Reserve Funds by conducting in-house investment and entrusting to asset management institutions, and manage risks using the methods below based on reports from asset management institutions for overall assets, each asset class, in-house investment and each asset management institution. Administration and Investment Institutions shall report their risk management policy to the Governing Council upon deliberation by the Expert Meeting and timely report risk management status to the Governing Council and the Expert Meeting.

A Overall assets

With the aim of appropriately managing the portfolio, Administration and Investment Institutions shall identify deviations of the asset mix of the ARB Association Reserve Funds from their respective Benchmark Portfolios at least once a month monthly and take the necessary measures.

In addition, Administration and Investment Institutions shall enhance necessary functions, such as for understanding and analyzing market trends.

Furthermore, Administration and Investment Institutions shall confirm risks associated with overall assets, analyze and assess the level of risk exposure, and conduct, among other things, analysis of factors for deviations from the return needed for the reserve fund.

B Asset class

The Administration and Investment Institutions shall manage market risk, liquidity risk, and credit risk, etc. for each asset class.

C In-house investment

Administration and Investment Institutions shall establish their respective investment guidelines and manage investment appropriately by checking the investment performance and level of risk exposure.

D Asset management institutions

Administration and Investment Institutions shall present asset management guidelines to each asset management institution, understand the asset management status of the institution and changes to its asset management structure, etc., and manage the credit risk, etc. of each institution appropriately.

In addition, Administration and Investment Institutions shall continue to monitor the stable operational status of asset management institutions.

6. Investment methods

Administration and Investment Institutions shall in principle invest the full amount, excluding short-term assets necessary for benefit payments, in domestic bonds and hold them until maturity (however, this excludes cases in which holding until maturity is not possible due to benefit payments or other reasons). In doing so, administration and investment institutions shall strive to increase returns by controlling associated risks and through the appropriate selection of the types and maturities of domestic bonds.

In such cases, in light of the need to reduce management costs, in-house investment shall be the main form of investment.

V Other necessary matters concerning administration and investment of the ARB Funds

The matters listed in Article 112-10, Paragraph (2), Item 5 of the Act shall be set forth as follows.

1. Enhancing transparency

(1) Association

Regarding the administration and investment of the ARB Funds, the Association shall promptly publish the status of administration and investment performance, etc. such as investment returns and risks for each fiscal year on its website, etc. on an annual basis.

In addition, the quarterly status of investment returns shall be promptly published on a quarterly basis on the website, etc.

The Association shall strive to enhance publicly disclosed materials by devising ways to make them easier to understand, etc.

Such publication shall be reported in a timely manner to the Governing Council and the Fund Management Committee.

When making such publication, attention shall be paid to market impacts.

(2) Administration and Investment Institutions

Regarding the administration and investment of the ARB Association Reserve Funds, Administration and Investment Institutions shall promptly publish the status of administration and investment performance, etc. such as investment returns and risks for each fiscal year on its website, etc. on an annual basis.

In addition, the quarterly status of investment returns shall be promptly published on a quarterly basis on the website, etc.

The Association shall strive to enhance publicly disclosed materials by devising ways to make them easier to understand, etc.

Such publication shall be reported in a timely manner to the Governing Council and the Expert Meeting.

When making such publication, attention shall be paid to market impacts.

2. Retaining and leveraging highly skilled and specialized personnel

Administration and Investment Institutions shall, if necessary, examine in detail operations that require advanced and specialized skills as well as the expertise required for such operations, and strive to retain highly skilled and specialized personnel who possess such expertise.

In addition, training shall be conducted by leveraging highly skilled and specialized personnel with the aim of enhancing the performance of its staff.

The enhancement and development of specialized personnel shall be actively promoted, by reporting on the status of such activities to the Fund Management Committee or the Expert Meeting as necessary and their opinions taken into consideration.

3. Strengthening risk management

(1) Association

The Association shall establish a risk management system for the overall portfolio.

In addition, the Association shall strive to enhance risk management by, for example, strengthening forward-looking risk analysis functions, establishing risk management analysis tools, and enhancing information collection and investigation functions.

(2) Administration and Investment Institutions

Administration and Investment Institutions shall establish necessary risk management systems.

In addition, Administration and Investment Institutions shall enhance risk management as necessary by, for example, strengthening forward-looking risk analysis functions, establishing risk management analysis tools, and enhancing information collection and investigation functions.

4. Enhancing research and study activities

If Administration and Investment Institutions conduct research and study activities, in addition to commissioning the work to think-tanks and other similar institutions, engaging staff including hi

ghly skilled and specialized personnel of the Administration and Investment Institutions in the work shall be considered in order to accumulate know-how on the administration and investment of reserve funds in the Administration and Investment Institutions. If highly skilled and specialized personnel are employed, establishing the necessary framework to expand internal research and study activities by leveraging said personnel shall be considered to accumulate know-how obtained from the research and to ensure the safe and efficient administration and investment of reserve funds in the future.

In the event research is outsourced, thorough measures shall be taken to prevent information leaks.

Supplementary Provisions

This Administration and Investment Policy comes into force from October 1, 2015.

Supplementary Provisions

This Administration and Investment Policy comes into force from April 1, 2020.

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This Administration and Investment Policy comes into force from April 1, 2025.