

Administration and Investment Policy for the Managed Reserve Fund for Employees' Pension Insurance Schemes

(Established on October 1, 2015)

(Revised on July 13, 2018)

(Revised on March 31, 2020)

(Revised on December 24, 2021)

(Last revised on March 31, 2025)

In accordance with Article 79-6, Paragraph (1), of the Employees' Pension Insurance Act (Act No. 115 of 1954; the "Act"), the policy for administration and investment, this Administration and Investment Policy is established with the aim of appropriately administering and investing the Managed Reserve Fund (meaning the Managed Reserve Fund stipulated in the same paragraph; the same shall apply hereinafter) (including the management of investment status of the Managed Reserve Fund; the same shall apply hereinafter), as well as serving as standards to be observed by the Implementing Organizations (meaning the local public service personnel mutual aid associations stipulated in Article 3, Paragraph (1), of the Local Public Service Mutual Aid Association Act (Act No. 152 of 1962; the "Mutual Aid Association Act"), excluding constituent member associations stipulated in Article 27, Paragraph (2), of the Mutual Aid Association Act ("Mutual Aid Associations"); the same shall apply hereinafter), the National Federation of Mutual Aid Associations for Municipal Personnel (the "Municipality Association"), and the Pension Fund Association for Local Government Officials (the "Association"); the same shall apply hereinafter) in deciding the asset mix of their respective implementing organization reserve funds (meaning the implementing organization reserve funds stipulated in Article 79-2, of the Act; the same shall apply hereinafter) from a long-term perspective under Article 112-3, Paragraph (3), of the Mutual Aid Association Act in order to meet the fund basic guidelines stipulated in Article 79-4, Paragraph (1), of the Act and in line with the asset mix target for funds (the "Model Portfolio") stipulated in Article 79-5, Paragraph (1), of the Act as follows.

I Basic policy for administering and investing the Managed Reserve Fund

The basic policy listed in Article 79-6, Paragraph (2), Item 1 of the Act shall be set forth as follows.

1. Basic policy concerning the Managed Reserve Fund

(1) Basic policy

Especially keeping in mind that the Managed Reserve Fund forms part of insurance premiums collected from insured persons of the Employees' Pension Insurance ("EPI") and serves as a valuable source of funds for future pension benefits, the Association shall invest the Managed Reserve Fund with the objective of contributing to the stable operation of EPI schemes in the future by investing it safely and efficiently "solely for" ("for" in the case of investing in line with the objectives of the Mutual Aid Association Act under Article 79-3, Paragraph (3), of the Act) the interests of insured persons of the EPI from a long-term perspective.

In addition, the Association shall administer and manage the Managed Reserve Fund in accordance with the "Basic Guidelines for the Safe and Efficient Administration and Investment of the Reserve Funds from a Long-Term Perspective" (July 2014 Notification No. 1 of the Ministry of Internal Affairs and Communications (MIC), Ministry of Finance (MOF), Ministry of Education, Culture, Sports, Science and Technology (MEXT) and the Ministry of Health, Labour and Welfare (MHLW); the "Fund Basic Guidelines").

Accordingly, on the basis of diversifying investments in multiple assets that differ in risk/return and other characteristics ("Diversified Investment"), Administration and Investment Organizations (meaning the Government Pension Investment Fund (GPIF), the Federation of National Public Ser

vice Personnel Mutual Aid Associations, the Association, and the Promotion and Mutual Aid Corporation for Private Schools of Japan; the same shall apply hereinafter) shall jointly establish the Model Portfolio, and, in reference to the Model Portfolio, the Association shall administer and invest the Managed Reserve Fund 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 a 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 (“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 Managed Reserve Fund 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 Implementing Organizations to enhance the knowledge and capabilities of each Implementing Organization.

2. Basic policy for implementing organization reserve funds

In order to appropriately administer and invest the Managed Reserve Fund, Implementing Organizations shall appropriately administer and invest their respective implementing organization reserve funds as below.

(1) Basic policy

Especially keeping in mind that implementing organization reserve funds form part of insurance premiums collected from insured persons of EPI and serve as a valuable source of funds for future pension benefits, Implementing Organizations shall invest the reserve funds with the objective of contributing to the stable operation of EPI schemes in the future by investing them safely and efficiently “solely for” (“for” in the case of investing in line with the objectives of the Mutual Aid Association Act under Article 79-3, Paragraph (3), of the Act) the interests of insured persons of the EPI from a long-term perspective.

To this end, each Implementing Organization shall set forth Benchmark Portfolios based on Diversified Investment and administer and invest implementing organization reserve funds.

In order to appropriately administer and invest implementing organization reserve funds, Implementing Organizations shall establish a basic policy for administering and investing implementing organization reserve funds (“Basic Policy”) that describes, among other matters, the asset mix of the reserve funds in accordance with the Fund Basic Guidelines and the Administration and Investment Policy (collectively the “Administration and Investment Policy, etc.”) and publicly announce it, and Implementing Organizations (excluding the Association) shall submit their Basic Policy to the Association. In addition, if the Administration and Investment Policy, etc. is revised or otherwise reviewed is considered necessary, Implementing Organizations shall review and, if necessary, revise their Basic Policy, and Implementing Organizations (excluding the Association) shall submit it to the Association.

Implementing Organizations shall create specific fund management plans for each fiscal year and conduct investments based on said plans. In addition, Implementing Organizations (excluding the Association) shall submit the plans to the Association.

The Association shall receive investment reports (meaning “investment reports” stipulated in Article 112-6, Paragraph (1), of the Mutual Aid Association Act) from other Implementing Organizations, and the Association may also request that other Implementing Organizations report on the administration and investment status of their implementing organization reserve funds.

Further, if the Association finds that another Implementing Organization’s administration and in

vestment of implementing organization reserve funds does not comply with the Administration and Investment Policy, etc., the Association shall request the Implementing Organization to take necessary measures so that it does comply with the Administration and Investment Policy, etc.

(2) Utilization of Implementing Organization's Expert Meeting

The Implementing Organizations shall establish an expert meeting consisting of individuals with academic knowledge and practical experience in fields such as economics, finance, and fund management (the "Expert Meeting").

The Implementing Organizations shall leverage the expert knowledge of the Expert Meeting when examining technical matters concerning the administration and investment of the implementing organization reserve funds including the development and revision of the Basic Policy.

(3) Initiatives based on "Asset Owner Principles"

Since each of the Implementing Organizations acknowledges the "Asset Owner Principles," they shall voluntarily consider initiatives based on these principles.

(4) Flexible investment

Based on changes in the economic and market environment, Implementing Organizations may flexibly determine the asset mix within the deviation tolerance ("Flexible Investment") instead of making it closer to that of the Benchmark Portfolio. In such case, the assumption shall be that an outlook on the market environment is provided with a high degree of accuracy and investment is made based on said outlook.

When conducting Flexible Investment, its investment policy shall be deliberated by the Expert Meeting and the status of implementation shall be reported in a timely manner to the Expert Meeting.

(5) Pooled investment

Implementing Organizations (excluding the Association) may deposit implementing organization reserve funds with the Association for investment management.

If an Implementing Organization (excluding the Association) deposits its implementing organization reserve funds with the Association, the Association shall appropriately administer and invest these funds in accordance with the policy for the administration and investment of deposited money separately established by the Association.

II Matters to be observed in administrating and investing the Managed Reserve Fund

The matters to be observed listed in Article 79-6, Paragraph (2), Item 2 of the Act shall be set forth as follows.

1. Ensuring fiduciary responsibility

Implementing Organizations 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 implementing organization reserve funds, in light of market size, Implementing Organizations shall strive not to be excessively impacted by the market and 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.

In addition, Implementing Organizations shall pay attention to the following so as not to have a direct and excessive impact on the business management of private sector companies.

(i) Establish limits on the holdings of securities issued by a single company for each entrusted investment management institution (including in-house investment).

(ii) In consideration of the impact on corporate management, individual stocks shall not be selected for equity investments.

3. Activities to fulfill stewardship responsibility

In order to fulfill their fiduciary responsibilities to increase the long-term value of assets for the insured persons, Implementing Organizations shall engage in stewardship activities (meaning activities by institutional investors to enhance the mid- and long-term investment returns for their clients and beneficiaries by enhancing and fostering investee company corporate value and sustainable growth through the exercise of shareholder voting rights and constructive engagement (constructive “purposeful dialogue” based on in-depth knowledge of the investee companies, and their business environment, as well as consideration of sustainability (meaning mid- and long-term sustainability including ESG factors) in line with investment strategies or other means); the same shall apply hereinafter).

Shareholder voting rights shall be exercised so that corporations can manage their business operations in ways that maximize the interests of shareholders over the long term.

In the event Implementing Organizations issue instructions for the exercise of voting rights, they shall give instructions so that entrusted investment management institutions will exercise them in accordance with said instructions. When Implementing Organizations do not issue instructions for the exercise of voting rights, Implementing Organizations shall have entrusted investment management institutions exercise voting rights in accordance with the guidelines on exercising shareholder voting rights established by each Implementing Organization in line with the intent of the corporate governance principles established by the Implementing Organization. In addition, Implementing Organizations shall request entrusted investment management institutions to report on, among other things, the status of the exercise of voting rights.

In doing so, based on the Principles for “Responsible Institutional Investors” (Japan’s Stewardship Code) (February 26, 2014, by the Council of Experts Concerning Japan’s Stewardship Code) and Japan’s Corporate Governance Code (June 1, 2015, Tokyo Stock Exchange, Inc.), the Association shall review its Corporate Governance Principles and the Guidelines for Exercising Shareholders’ Voting Rights, as necessary, and take action in line with the basic principles for performing stewardship responsibilities.

Furthermore, Implementing Organizations shall exchange opinions with other Implementing Organizations and other Administration and Investment Organizations as necessary in order to assist appropriate decision-making in association with stewardship activities. In such case, the Association shall conduct necessary coordination to promote the exchange of opinions.

4. ESG-conscious investment

With respect to the investment of implementing organization reserve funds, Implementing Organizations 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 insured persons.

5. Impact-conscious investment

From the perspective of securing long-term returns for the benefit of insured persons, Implementing Organizations 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 when evaluating the sustainable growth potential, etc. of investee companies.

6. Coordination between the Association and other Administration and Investment Organizations

The Association shall strive to cooperate and work together with other Administration and Investment Organizations by providing necessary information, etc.

7. Cooperation and coordination between the Association and other Implementing Organizations

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

In addition, the Association and other Implementing Organizations shall cooperate and work together by sharing the necessary information, etc. in relation to the management of implementing organization reserve funds.

III Matters concerning asset mix from a long-term perspective in administering and investing the Managed Reserve Fund

Matters concerning the asset mix from a long-term perspective listed in Article 79-6, Paragraph (2), Item 3 of the Act shall be set forth as follows.

1. Investment targets

In consideration of the current status and outlook of public finances stipulated in Article 2-4, Paragraph (1), of the Act and Article 4-3, Paragraph (1), of the National Pension Act (Act No. 141 of 1959) and the level of investment returns that can be reasonably expected in the future from investment of the Managed Reserve Fund, the Association shall manage the investment of the Managed Reserve Fund appropriately by establishing the Benchmark Portfolio in order to generate necessary real investment returns for reserve funds (meaning investment returns less nominal wage increases) of 1.9% with minimum risk, while maintaining necessary liquidity for providing insurance benefits, etc.

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

In addition, efforts shall be made to generate the composite benchmark returns for overall assets (meaning those calculated by taking a weighted average of the benchmark returns for each asset based on the asset mix in the Benchmark Portfolio; the same shall apply hereinafter) over the long term, and to generate the composite benchmark returns for overall assets and the benchmark returns for each asset class in each fiscal year.

Appropriate market indicators shall be used for benchmarks, considering, among other factors, whether their structure reflects the market, whether they consist of investable securities, and whether details of the indicators are disclosed.

In evaluating performance, an appropriate method shall be used based on the benchmark returns. In doing so, efforts shall be made to break down factors in line with investment behavior to the extent possible, such as impact of asset allocation, benchmark selection, and fund selection, from the perspective of refining factor analysis and improving transparency, etc.

2. Establishing the Model Portfolio

The Association shall establish the Model Portfolio jointly with other Administration and Investment Organizations. The Model Portfolio shall be an asset mix that is in line with investment targets, and established from a long-term perspective, taking into consideration generally accepted expert knowledge on asset administration and investment, as well as economic trends in and outside Japan, based on forward-looking risk analyses (forward-looking by relying not only on past data but al

so future economic outlooks [interest rates and inflation, etc.]). Establishment of the Model Portfolio shall be reported to the Governing Council upon deliberation by the Fund Management Committee (meaning the Governing Council stipulated in Article 38-4, Paragraph (1) of the Mutual Aid Association Act; the same shall apply hereinafter), and its relationships with Benchmark Portfolios established by other Administration and Investment Organizations in reference to the Model Portfolio shall be examined.

3. Reviewing the Model Portfolio

If the Association finds it necessary in cases where the current status and outlook of public finances are developed by the government or where the investment environment assumed at the time of establishing the Model Portfolio deviates from reality, the Association shall review the Model Portfolio jointly with other Administration and Investment Organizations and change it as necessary. Any change to the Model Portfolio shall be reported to the Governing Council upon deliberation by the Fund Management Committee. In addition, verification of whether the investment environment assumed at the time of establishing the Model Portfolio has deviated from actual conditions shall be conducted when necessary during regular verification of the Benchmark Portfolio.

4. Basic approach to the Benchmark Portfolio

The Benchmark Portfolio 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 inside and outside Japan, based on forward-looking risk analyses. The Benchmark Portfolio shall demonstrate independence and ingenuity, having an asset mix and deviation tolerance in line with investment targets while ensuring the unity of EPI operations based on the Model Portfolio.

In doing so, the downside risks from the nominal wage growth rate shall not exceed that of a portfolio consisting entirely of domestic bonds, and the portfolio shall have the smallest average shortfall rate when returns fall below the nominal wage growth rate. The likelihood of falling short of the planned reserve amount shall also be confirmed.

The Association shall report on the establishment of the Benchmark Portfolio to the Governing Council upon deliberation by the Fund Management Committee.

5. Benchmark Portfolio

(1) Asset class and asset mix

Asset classes that make up the Benchmark Portfolio shall be domestic bonds, domestic stocks, foreign bonds and foreign stocks, and the asset mix and deviation tolerance are set forth as below.

Exceeding the deviation tolerance shall be allowed during the period up to the transition to the following Benchmark Portfolio.

Assets	Domestic bonds	Domestic stocks	Foreign bonds	Foreign stocks
Asset mix	25%	25%	25%	25%
Deviation tolerance	±20%	±9%	±7%	±9%

(Note) Short-term assets are classified into domestic bonds.

(2) Positioning of alternative assets

Alternative assets (nontraditional assets such as infrastructure, private equity and real estate; the same shall apply hereinafter) are classified into domestic bonds, domestic stocks, foreign bonds and foreign stocks according to risk/return and other characteristics, and capped at 5% of the overall assets. If the relevant cap is exceeded for a certain period due to changes in the economic or market environment, the Association shall consider and implement appropriate measures, and shall also report to the Fund Management Committee in a timely manner on the extent of the upward deviation from the cap, the background circumstances, and the status of the response, etc. In such cases, the Association shall cooperate and coordinate appropriately with other Implementing Organizations.

6. Benchmarks

Benchmarks for the respective asset classes are as follows.

(1) Domestic bonds

NOMURA Bond Performance Index (Overall)

(2) Domestic stocks

TOPIX (dividend-inclusive)

(3) Foreign bonds

FTSE World Government Bond Index (ex-Japan, ex-China, no hedge, in yen)

(4) Foreign stocks

MSCI ACWI (excluding Japan, yen, dividend-inclusive, before tax)

7. Review of the Benchmark Portfolio

The Association shall appropriately manage risks based on market trends, regularly verify the Benchmark Portfolio and, if it is considered necessary in cases where the investment environment ass

umed at the time of establishing the Benchmark Portfolio deviates from reality, 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.

8. Risk management

Based on reports from other Implementing Organizations, the Association shall administer and invest the Managed Reserve Fund and conduct risk management on the investment status of the overall assets, Implementing Organizations, 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 Managed Reserve Fund from the Benchmark Portfolio at least once a month.

In addition, it shall enhance necessary functions to understand and analyze market trends in order to conduct appropriate and smooth rebalancing.

Furthermore, it shall confirm risks associated with overall assets, analyze and assess the degree of risk exposure, and conduct, among other things, analysis of factors for deviations from the composite benchmark return of each fiscal year.

B Implementing Organizations

The Association shall confirm deviations of other Implementing Organizations' asset mix from their respective Benchmark Portfolio and from the Benchmark Portfolio of the Managed Reserve Fund at least once a month.

In addition, the Association shall confirm other Implementing Organizations' risks, analyze and assess the level of risk exposure, and conduct, among other things, analysis of factors for deviations from the composite benchmark return of each fiscal year.

C Asset class

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

9. Diversification of investments

In order to facilitate Diversified Investment, alternative investment and other diversification efforts shall be made based on the basic policy in I-1 (1).

With respect to alternative investments, the Association shall establish its investment policy upon prior deliberation by the Fund Management Committee, on the assumption that Diversified Investment benefits are found and that sufficient grounds are obtained to back expectations for generating excessive income. In addition, the Association shall work under the appropriate monitoring of the Fund Management Committee, by, for example, timely reporting on the implementation status of alternative investments at Implementing Organizations and on matters requested by the Fund Management Committee.

In doing so, recognizing that alternative investments carry inherent risks such as marketability, profitability, individuality, transaction costs and information disclosure status, the Association shall establish and continuously improve the investment and risk management framework necessary for investment.

IV Standards to be observed in establishing the asset mix for implementing organization reserve funds from a long-term perspective

The standards to be observed stipulated in Article 112-3, Paragraph (3) of the Mutual Aid Association Act shall be set forth as follows.

1. Investment targets

In order to generate the targeted investment returns for the Managed Reserve Fund, each Implementing Organization shall establish the Benchmark Portfolio and appropriately manage investment of its implementing organization reserve funds.

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

In addition, efforts shall be made to generate the composite benchmark returns for overall assets over the long term, and to ensure the composite benchmark returns for overall assets and the benchmark returns for each asset class in each fiscal year by, among other means, appropriately selecting, managing, and evaluating entrusted investment management institutions.

Appropriate market indicators shall be used for benchmarks, taking into consideration whether their structure reflects the market, whether they consist of investable securities, whether details of the indicators are disclosed, and whether they are consistent with benchmarks of the Managed Reserve Fund.

In evaluating performance, an appropriate method shall be used based on the benchmark returns. In doing so, efforts shall be made to break down factors in line with investment behavior to the extent possible, such as impact of asset allocation, benchmark selection, and fund selection, from the perspective of refining factor analysis and improving transparency, etc.

2. Basic approach to the Benchmark Portfolio

The Benchmark Portfolio, which shall comply with the Administration and Investment Policy, etc. and have an asset mix and deviation tolerance in line with the 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.

In doing so, the downside risks from the nominal wage growth rate shall not exceed that of a portfolio consisting entirely of domestic bonds, and the portfolio shall have the smallest average shortfall rate when returns fall below the nominal wage growth rate. The likelihood of falling short of the planned reserve amount shall also be confirmed.

Implementing Organizations 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 the Implementing Organizations under Article 6 of the Mutual Aid Association Act, and the General Meeting stipulated in Article 30, Paragraph (1) of the Mutual Aid Association Act; the same shall apply hereinafter) upon deliberation by the Expert Meeting.

3. Benchmark Portfolio

(1) Asset class and asset mix

Implementing Organizations shall establish the asset mix and deviation tolerance of the Benchmark Portfolio in the Basic Policy within the asset mix and deviation tolerance of the Benchmark Portfolio of the Managed Reserve Fund stipulated in III-5, respectively.

Exceeding the deviation tolerance is allowed during the period up to the transition to the established Benchmark Portfolio.

(2) Positioning of alternative assets

Alternative assets are classified into domestic bonds, domestic stocks, foreign bonds and foreign stocks according to the risk/return and other characteristics, and capped at 5% of the overall assets. If the relevant cap is exceeded for a certain period due to changes in the economic or market environment, Implementing Organizations shall consider and implement appropriate measures, and shall also report to the Expert Meeting in a timely manner on the extent of the upward deviation from the cap, the background circumstances, and the status of the response, etc.

4. Review of the Benchmark Portfolio

Implementing Organizations shall appropriately manage risks based on market trends, regularly verify the Benchmark Portfolio and, if it is considered necessary in cases where the investment environment assumed at the time of establishing the Benchmark Portfolio deviates from reality, 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 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.

5. Securing liquidity for pension benefits, etc.

Based on the outlook of pension finances and the profit and loss status, Implementing Organizations 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.

If an Implementing Organization has difficulty earning investment returns set as investment targets and maintaining investment within the asset mix and deviation tolerance of the Benchmark Portfolio due to reasons such as providing benefits, Implementing Organizations may be subject to different treatment regardless of 1 and 3 above upon individual consultation with the Association. In such case, the reasons shall be clarified in the Basic Policy of the Implementing Organization.

6. Risk management

Implementing Organizations shall manage various types of risks associated with the administration and investment of implementing organization reserve funds by conducting Diversified Investment as the basis of risk management.

In addition, Implementing Organizations shall administer and invest implementing organization reserve funds by entrusting them to investment management institutions and asset management institutions, investing in group pure endowment policies of life insurance companies, and conducting in-house investment. Based on, among other things, reports from such entrusted investment management institutions, asset management institutions and life insurance companies, Implementing Organizations shall conduct risk management using the methods listed below for overall assets, each asset class, each entrusted investment management institution, asset management institution and life insurance company, and in-house investment. Implementing Organizations 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, Implementing Organizations shall identify deviations of the asset mix of implementing organization reserve funds from their respective Benchmark Portfolio at least once a month and take the necessary measures. In addition, Implementing Organizations shall identify deviations of the asset mix of implementing organization reserve funds from the Benchmark Portfolio of the Managed Reserve Fund at least once a month.

In addition, Implementing Organizations shall enhance necessary functions to understand and

analyze market trends in order to conduct appropriate and smooth rebalancing.

Furthermore, Implementing Organizations shall confirm risks associated with overall assets, analyze and assess the degree of risk exposure, and conduct, among other things, analysis of factors for deviations from the composite benchmark return of each fiscal year.

B Asset class

Implementing Organizations shall manage market risk, liquidity risk, credit risk, and country risk, etc. for each asset class.

C Entrusted investment management institutions

Implementing Organizations shall present investment guidelines and benchmarks to each entrusted investment management institution, understand investment performance and level of risk exposure of the institution as well as any changes in the investment structure, and manage them appropriately.

In addition, Implementing Organizations shall appropriately manage manager structures, through the diversification of the investments styles, etc. of entrusted investment management institutions.

D Asset management institutions

Implementing Organizations shall present asset management guidelines to each asset management institution, understand the asset management status of the institution and changes to its asset management structures, etc., and manage the credit risk, etc. of each institution appropriately.

In addition, Implementing Organizations shall continue to monitor the stable operational status of asset management institutions.

E Life insurance companies

Implementing Organizations shall understand the business management status and asset management status of each insurer and manage it appropriately.

F In-house investment

Implementing Organizations shall establish their respective investment guidelines, and manage appropriately by checking investment performance and the level of risk exposure, etc.

7. Investment methods

In principle, Implementing Organizations shall employ passive and active investment approaches, except in cases such as cash-out responses. Based on this, active investment management shall be conducted with the aim of generating excess returns. However, active investment shall be conducted upon deliberation by the Expert Meeting on fund selection standards on the assumption that risk selection is reasonable with sufficient grounds to back the expectations for excess returns, also taking into consideration past investment performance. In addition, its transparency shall be ensured under appropriate monitoring by the Expert Meeting by, for example, timely reporting on matters requested by the Expert Meeting.

With respect to benchmarks, not only traditional capitalization weighted indexes, but also the use of new benchmarks from the perspective of improving investment returns shall be examined as necessary.

In addition, Implementing Organizations shall strive to enhance the selection and management of entrusted investment management institutions by reviewing investment methods for generating investment returns and improving investment efficiency and conducting proper performance management. Implementing Organizations shall also evaluate investment performance on a regular basis and review entrusted investment management institutions in a timely manner, including fund allocation.

In addition to leveraging the competent knowhow of entrusted investment management institutions, the use of in-house investment to the extent permissible under the laws shall be examined in consideration of investment cost reductions and accumulation of investment knowledge, experience, and the like.

8. Diversification of investments

In order to facilitate Diversified Investment, Implementing Organizations shall consider making alternative investment and other diversification efforts based on the basic policy in I-2 (1). The addition of new investment in new assets shall be considered broadly and decided upon deliberation by the Expert Meeting, on the assumption that they serve the interests of the insured persons.

With respect to alternative investments, Implementing Organizations shall undertake such investments under appropriate monitoring by the Expert Meeting, for example, following deliberation on the investment policy by the Expert Meeting in advance and timely reporting on the implementation status and other matters requested by the Expert Meeting, based on the assumption that Diversified Investment benefits are found and there are sufficient grounds to back expectations for generating excessive income.

In doing so, recognizing that alternative investments carry inherent risks such as marketability, profitability, individuality, transaction costs and information disclosure status, the Association shall establish and continuously improve the investment and risk management framework necessary for investment.

In evaluating alternative investments, efforts shall be made to clarify evaluation methods based on generally accepted expert knowledge on asset administration and investment.

V Other necessary matters concerning appropriate administration and investment of the Managed Reserve Fund

The matters listed in Article 79-6, Paragraph (2), Item 4 of the Act shall be set forth as follows.

1. Enhancing transparency

(1) Administration and Investment Organizations

Regarding the management and investment of the Managed Reserve Fund, the Association shall promptly publish on its website, etc. on an annual basis the status of investment returns and risks for overall investment assets and for each asset class for each fiscal year, the status of alternative investment, the status of entrusted investment management institutions at Implementing Organizations, administration and investment entrustment fees, the status of stewardship activities, and other status of administration and investment performance, etc. (meaning “Status of Administration and Investment Performance, etc.” in (2)).

In addition, the quarterly status of investment returns for overall investment assets and each asset class shall be promptly published on a quarterly basis on the website, etc.

The Association shall devise ways to make disclosure documents easier to understand and examine ideal ways of information disclosure and publicity activities for the public, responding to the diversification, sophistication, and internationalization of investment, and enhance them accordingly.

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) Implementing Organizations

With respect to the administration and investment of the implementing organization reserve funds, Implementing Organizations shall promptly publish on their websites, etc. on an annual basis the Status of Administration and Investment Performance, etc. for each fiscal year.

In addition, the quarterly status of investment returns for overall investment assets and each asset class shall be promptly published on a quarterly basis on the website, etc.

Implementing Organizations shall devise ways to make disclosure documents easier to understand and examine ideal ways of information disclosure and publicity activities for the public, responding to the diversification, sophistication, and internationalization of investment, and enhance them a

ccordingly.

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

Transparency in selecting entrusted investment management institutions shall be ensured under appropriate monitoring by the Expert Meeting by, for example, making the selection criteria subject to deliberation by the Expert Meeting and timely reporting on the implementation status and other matters requested by the Expert Meeting, and promptly publishing selections.

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

2. Retaining and leveraging highly skilled and specialized personnel

Implementing Organizations 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) Administration and Investment Organizations

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) Implementing Organizations

Each Implementing Organization shall establish necessary risk management systems.

In addition, Implementing Organizations 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

When Implementing Organizations conduct research and study activities, in addition to commissioning the work to think-tanks and other similar institutions, engaging staff of Implementing Organizations including highly skilled and specialized personnel in the work shall be considered so that know-how on the administration and investment of the funds will be accumulated within Implementing Organizations. 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 July 13, 2018.

Supplementary Provisions

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

Supplementary Provisions

This Administration and Investment Policy comes into force from April 1, 2022.

Supplementary Provisions

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