

Basic Policy for the Transitional Long-Term Benefits (TLTB) Adjustment Fund

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In accordance with Article 112-11, Paragraph (1), of the Local Public Service Mutual Aid Association Act (Act No. 152 of 1962; the “Act”) as applied mutatis mutandis under Article 75-3, Supplementary Provisions of the Act to Partially Amend the Employees’ Pension Insurance Act and Related Acts for Unifying Employees’ Pension Systems (Act No. 63 of 2012; the “Unification Act”), the basic policy for administering and investing the transitional long-term benefits (TLTB) adjustment fund (the “Basic Policy”) is established for appropriate administration and investment of the TLTB adjustment fund as follows.

I Basic policy for the administration and investment of the TLTB adjustment fund

1 Basic policy

The Association shall manage the TLTB adjustment fund with the objective of contributing to the stable operation of the TLTB plan based on the characteristics of a closed-end pension fund that will have no new contribution income, paying particular attention to downside risks, with constant awareness of the relationship between future liabilities and the reserve fund.

Accordingly, on the basis of appropriately diversifying investments in multiple assets that differ in terms of risk/return and other characteristics (“Diversified Investment”), the Association shall administer and invest the TLTB adjustment fund by establishing an asset mix from a long-term perspective (the “Benchmark Portfolio”).

2 Utilization of the Fund Management Committee of Pension Fund Association for Local Government Officials

The Association shall establish a Fund Management Committee of Pension Fund Association for Local Government Officials consisting of individuals with academic knowledge and practical experience in fields such as economics, finance, and fund management (the “Committee”).

The Association shall leverage the expert knowledge of the Committee when examining technical matters concerning the administration and investment of the TLTB adjustment fund including the development and revision of the Basic Policy.

3 Initiatives to strengthen investment capabilities

In order to fulfill the required role regarding fiduciary responsibilities and the development of markets, etc., while responding to changes in the socioeconomic environment, the Association must continuously strive to strengthen its investment capabilities and enhance its investment structure.

Therefore, based on the contents of the “Asset Owner Principles” (formulated by the Cabinet Secretariat on August 28, 2024), the Association will develop and implement a “Policy for Strengthening Investment Capabilities” regarding initiatives to enhance its investment capabilities, etc.

The implementation status of this policy will be periodically reviewed and disclosed to the public, and its contents will be revised as appropriate. Any particularly important changes will be subject to deliberation by the Committee.

4 Fund management plan

(1) Annual fund management plan

An annual fund management plan for the management of the TLTB adjustment fund shall be created before the beginning of every fiscal year.

The annual fund management plan shall include the following:

A Outlook for cash flows

(A) Closing balance

(B) Expected revenues

a Bond principal and interest

b Other revenues

(C) Expected expenditures

a Contributions stipulated in Article 76, Paragraph (1), Supplementary Provisions of the Unification Act

b Grants to associations

c Money transferred to the administration accounting

d Mandatory investment

e Voluntary investment (in-house investment)

f Voluntary investment (entrusted investment)

g Other expenditures

(D) Balance brought forward or closing balance

B Investment plan

(A) Mandatory investment

Acquisition of municipal bonds or bonds issued by the Japan Finance Organization for Municipalities

(B) Voluntary investment

a In-house investment

b Entrusted investment

(2) Quarterly fund management plan

A quarterly fund management plan for the management of TLTB adjustment funds shall be created before the beginning of every quarter.

The quarterly fund management plan shall include a specific outlook for cash flows based on the annual fund management plan.

5 Flexible investment

Based on changes in the economic and market environment, the asset mix may be determined flexibly within the deviation tolerance (“Flexible Investment”). 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 by stipulating the investment policy in advance based on said outlook.

When establishing the aforementioned investment policy, it shall be deliberated by the Committee and the implementation status shall be reported in a timely manner to the Committee.

The details regarding Flexible Investments shall be stipulated in the annual fund management plan in 4-(1).

6 Pooled investment

Part of the TLTB adjustment fund may be invested together with respective TLTB association reserve funds deposited with the Association by the local public service mutual aid associations (Local Public Service Personnel Mutual Aid Associations stipulated in Article 3, paragraph (1) of the Act, excluding constituent associations stipulated in Article 27, paragraph (2) of the Act (“Mutual Aid Associations”); the same shall apply hereinafter) or the National Federation of Mutual Aid Associations.

ns for Municipal Personnel.

II Matters to be observed in administering and investing the TLTB adjustment fund

1 Ensuring fiduciary responsibility

Thorough observance of the duty of care and loyalty of a prudent expert shall be ensured for all persons involved in the investment of the TLTB adjustment fund. This shall be stipulated in contracts, etc. with respect to contracts with entrusted investment management institutions, asset management institutions and life insurers, etc.

2 Consideration of the impact on market and private sector activities

In managing the TLTB adjustment fund, the Association shall, in light of the market size, strive not to be excessively impacted by the market and 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 Activities to fulfill stewardship responsibility

In order to fulfill the fiduciary responsibilities to increase the value of assets for members over the long term, the Association shall engage in stewardship activities (meaning activities by institutional investors aimed at enhancing 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 engagement (meaning constructive “purposeful dialogue” based on in-depth knowledge of the investee companies and their business environments, etc. and consideration of sustainability (meaning mid- and long-term sustainability including ESG factors) in line with investment strategies); the same shall apply hereinafter) or other means.

Since the Association invests its funds in companies through entrusted investment management institutions, it shall also engage in stewardship activities through these entrusted investment management institutions.

The Association shall request entrusted investment management institutions to engage in stewardship activities based on policies set forth by the Association, including the Policy for Fulfilling Stewardship Responsibility, corporate governance principles, and the Guidelines for Exercising Shareholders’ Voting Rights, including the exercise of shareholder voting rights to ensure that the company conducts corporate management to maximizes shareholder benefits over the long term. The Association may also request reports from each entrusted investment management institution on the status of the exercise of voting rights and other initiatives, etc. and monitor these activities.

In addition, 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

Any review of the Corporate Governance Principles and the Guidelines for Exercising Shareholders’ Voting Rights shall be deliberated by the Committee and the status of stewardship activities shall be reported to the Committee in a timely manner.

Furthermore, in order to assist appropriate decision-making in association with dialogue with other administration and investment institutions and entrusted investment management institutions, the Association shall exchange opinions with investee companies on the assumption that it will pay due care not to have a direct impact on the business management of private sector companies.

4 ESG-conscious investment

With respect to the investment of the TLTB adjustment fund, the necessary initiatives shall be implemented, based on a case-by-case analysis, with a view to promoting investment that takes into c

onsideration 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.

5 Impact-conscious investment

From the perspective of securing long-term returns for the benefit of members, the necessary initiatives shall be implemented, 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 and cooperation with 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, etc. 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 TLTB association reserve funds.

III Matters concerning asset mix from a long-term perspective in administering and investing the TLTB adjustment fund

1 Investment targets

Investment of the TLTB adjustment fund, which has the characteristics of a closed pension plan, shall be managed appropriately by establishing the Benchmark Portfolio in order to generate real investment returns needed for the reserve fund (meaning the investment returns minus the nominal wage growth rate) of 1.9% with minimum risk, while paying careful attention to the relationship between future liabilities and the reserve fund.

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, 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 TLTB Funds.

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 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.

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 (meaning the Governing Council stipulated in Article 38-4, Paragraph (1) of the Act; the same shall apply hereinafter) upon deliberation by the Committee.

3 Asset class and asset mix of the Benchmark Portfolio

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	±9%	±9%	±7%	±9%

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

4 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)

5 Review of the Benchmark Portfolio

The Association shall appropriately manage risks based on market trends, annually verify the Benchmark Portfolio and, if it is considered necessary in specific cases, such as when 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 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 until the realization of the Benchmark Portfolio) in order to smoothly transition to the revised Benchmark Portfolio.

6 Securing liquidity for expenditures

Based on the outlook of pension finances and the profit and loss status, the Association shall secure liquidity (cash, etc.) necessary for contributions stipulated in Article 76, Paragraph (1), Supplementary Provisions of the Unification Act and grants to associations, etc., 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.

7 Risk management

Based on conducting Diversified Investment, various risks associated with the administration and investment of the TLTB adjustment fund shall be appropriately managed.

In addition, while the TLTB adjustment fund is administered and invested by entrustment to investment management institutions and asset management institutions, group pure endowment insurance of life insurance companies, and mandatory and in-house investments; risk management shall be conducted based on reporting from the entrusted investment management institutions, asset management institutions and life insurance companies for overall assets, each asset class, each entrusted investment management institution, asset management institution and life insurance company, and for mandatory and voluntary investments, by the methods below. Policy for the implementation of risk management shall be reported to the Governing Council upon deliberation by the Committee, and timely reports on the risk management status shall be made to the Governing Council and the Committee.

(1) Overall assets

In order to appropriately manage the portfolio, check the asset mix of the TLTB adjustment fund for any deviations from the portfolio at least once a month, and take the necessary measures. Further, check the TLTB adjustment fund's asset mix for any deviations from the Benchmark Portfolio of the TLTB Funds 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.

(2) Asset class

Manage risks associated with each asset class, including market risk, liquidity risk, credit risk and country risk, etc.

(3) Entrusted investment management institutions

Understand and appropriately manage investment performance and level of risk exposure and changes to the investment structure, etc. of each entrusted investment management institution by presenting investment guidelines to each entrusted investment management institution (the "Investment Guidelines") and benchmarks.

In addition, Administration and Investment Institutions shall appropriately manage manager structures, through the diversification of the investments styles, etc. of entrusted investment management institutions.

(4) Asset management institutions

Present guidelines for asset management to each asset management institution (the "Asset Management Guidelines"), understand the asset management status and changes to asset management structures of each institution, 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.

(5) Life insurance companies

Understand the business management status and asset management status of each insurer and manage them appropriately.

(6) Mandatory and in-house investments

Establish guidelines for investment (the "In-house Investment Guidelines"), and manage risks ap-

propriately by, for example, checking investment performance and level of risk exposure.

8 Investment methods

(1) Basic approach

In principle, both passive and active investment approaches shall be employed. 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 Committee 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 Committee by, for example, timely reporting on matters requested by the Committee.

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.

(2) Specific investment methods

A Mandatory investment

In accordance with Article 11-10-3 of the Regulation for Enforcement of the Local Public Service Mutual Aid Association Act (Order of the Ministry of Home Affairs No. 20 of 1962) as applied mutatis mutandis under Article 4-2, Paragraph (3), Supplementary Provisions of the same Regulation, the entrustment of asset management in the case of investment by acquiring municipal bonds or bonds issued by the Japan Finance Organization for Municipalities shall be conducted as follows.

- (A) The management of mandatory investment assets may be entrusted to asset management institutions. The asset management institutions are required to observe the following items and the Asset Management Guidelines.
 - a Strictly administer and take custody of the Association's assets, separating them from other trust assets.
 - b Pay careful attention to the delivery and settlement of securities.
 - c Give sufficient consideration to credit risk, administrative capability and costs, etc. when re-entrusting custody services.
 - d Submit data regarding the status of asset administration at the end of every month and, on an as-needed basis, provide necessary data and explanations.
 - e Observe laws, regulations and contracts, etc. and establish the necessary framework to ensure compliance.
- (B) In the event an asset management institution has engaged in any act that violates laws and regulations, contracts, and the Asset Management Guidelines, etc. prompt reporting shall be requested and instructions shall be given as necessary.

B In-house investment

In order to contribute to the safe and efficient investment of the TLTB adjustment fund, part of the fund shall be administered and invested in accordance with the following long-term and short-term investment rules and In-house Investment Guidelines.

(A) Types

a Long-term investment

(a) Basic approach

Strive to make favorable investments over the long term, taking into account the following.

- (i) Creditworthiness of issuers and market liquidity
- (ii) Coupon rate, acquisition price and current maturity
- (iii) Interest outlook

(b) Investment assets

Investment assets shall consist of the following yen-denominated securities.

- (i) Government bonds
- (ii) Municipal bonds
- (iii) Bonds issued by corporations under special laws (limited to those with a government guarantee)
- (iv) Bonds rated A or above by any of the rating agencies stipulated in the Appended Table (the “Rating Agencies”). With respect to unrated bonds, bonds of an issuer rated A or above by any of the Rating Agencies may be included in investment assets.

(c) Administration and management considerations

(i) Diversified Investment

When acquiring bonds other than government bonds, municipal bonds, and bonds issued by corporations under special laws (limited to those with a government guarantee), the amount of investment in bonds issued by a single issuer shall not exceed 10% of the in-house investment assets.

(ii) Response to a credit rate cut of acquired bonds

If the ratings by all Rating Agencies of bonds other than government bonds, municipal bonds, and bonds issued by corporations under special laws (limited to those with a government guarantee) fall below A after acquisition, necessary actions, such as selling, shall be taken provided that full consideration is given to the credit risk of the issuer.

(iii) Structured bonds

Structured bonds shall be included in investment assets if the structure of the bonds does not give rise to principal risk, and the total amount of structured bonds of similar structure shall not exceed 10% of the in-house investment assets.

b Short-term investment

(a) Basic approach

Short-term investments shall be limited to the minimum amount, and made for the purpose of facilitating efficient allocation of assets for TLTB adjustment accounting. Efforts shall be made to make favorable investments in consideration of safety and liquidity, the investable period, and short-term interest trends.

(b) Investment assets

Investment assets shall include short-term government bonds, treasury discount bills, deposits, negotiable certificates of deposits, commercial papers (including repurchase agreements) rated A or above by any of the Rating Agencies and the MMF.

c Lending to other accounts

Lending to other accounts shall be made in accordance with what is provided for separately by the Association. However, no lending shall be made to the Employees’ Pension Insurance benefits adjustment account and the retirement pension benefits adjustment account.

(B) Financial institutions

The standards stipulated in the In-house Investment Guidelines shall be observed when selecting partner financial institutions.

(C) Entrustment of asset management

- a The Association may entrust the management of in-house investment assets to asset management institutions.
- b The provisions of A-(A) and A-(B) apply mutatis mutandis to the entrustment of in-house investment assets to asset management institutions. In such case, the provisions apply with the term “mandatory investment assets” being replaced by “in-house investment assets.”

C Entrustment of investment management in the form of a trust

The following items shall be observed for entrusted investments in specified money trusts and specified comprehensive trusts under discretionary investment management contracts with investment advisory firms, as well as individually operated designated money trusts and individually o

perated designated comprehensive trusts by banks engaged in trust services.

The Association shall have entrusted investment management institutions and asset management institutions administer and invest funds in accordance with this Policy.

(A) Instructions on the asset mix that serves as standards for the entrusted investment management institutions (the “Standard Asset Mix”)

Provide instructions on the Standard Asset Mix according to the characteristics and evaluation of the entrusted investment management institution, taking into consideration the asset structure and diversification of investment style, etc., based on the Benchmark Portfolio.

If it is considered appropriate to change the Standard Asset Mix, instructions on the change shall be given promptly.

(B) Matters to be observed in investment management

The entrusted investment management institution shall observe investment assets, investment methods, numerical investment targets and risk management indicators proposed by the entrusted investment management institution and agreed by the Association, benchmarks designated by the Association (“Manager Benchmarks”) and the Investment Guidelines presented by the Association regarding the following items, and the Association shall manage compliance thereof and provide necessary instructions.

The Association shall not provide instructions on the selection of individual stocks to any entrusted investment management institution in the case of entrusted investment in the form of a trust.

a General matters

(a) Standards Asset Mix

Entrusted investment management institutions must observe the Standards Asset Mix instructed by the Association.

(b) Registration of investment style

Entrusted investment management institutions must clarify the investment philosophy by asset class as well as investment style and processes based on it, register them with the Association and observe the registered matters. Any change thereto must be discussed with the Association.

(c) Thorough risk management

Entrusted investment management institutions must vigorously manage risks, complying with the Investment Guidelines presented by the Association.

(d) Establishment of legal compliance framework

Entrusted investment management institutions must observe laws and regulations, contracts and the Investment Guidelines, etc. and establish the necessary framework to ensure compliance.

(e) Investment considerations

Entrusted investment management institutions must consider the following when making investments.

(i) In addition to investment following sufficient research and analysis, diversify investments appropriately. With respect to assets denominated in foreign currencies, select countries and currencies, giving full consideration to political and economic stability, as well as characteristics of the market, such as settlement systems, trading regulations and tax systems, etc.

(ii) When putting individual blocks of stocks in the portfolio, liquidity must be carefully considered.

(iii) When acquiring domestic stocks, domestic bonds (excluding government bonds, municipal bonds, and bonds issued by corporations under special laws (limited to those with a government guarantee)), foreign stocks and foreign bonds (excluding government bonds of Manager Benchmark constituent countries), investments in a single stock must be

e capped at 10% of the market value of the asset class. However, this shall not apply to cases in which the market value weighting of individual stocks in Manger Benchmarks has exceeded the cap; the excess is due to characteristics of investment methods; or there are other rational reasons that make it difficult to observe the aforementioned limits. If the cap is exceeded, it must be reported to the Association.

- (iv) Pay careful attention to market impacts and other similar factors when trading, making best efforts to avoid incurring unnecessary costs.
- (v) When placing an order with the parent company, or the parent group's or its own group's securities firms and their overseas subsidiaries, they must be reported.
- (vi) When selecting securities firms and other trading partners, afford due attention to their creditworthiness and other factors, and transaction records must be reported.

(f) Derivatives transactions

With respect to the handling of securities, currencies and interest rate futures, forward exchange contracts, index futures or options, or currency or interest rate swaps ("Derivatives Transactions"), entrusted investment management institutions must pay attention to the following.

- (i) Derivatives Transactions are conducted with the aim of temporarily hedging price fluctuation risks in underlying assets, such as stocks, bonds, and foreign exchange rates ("Sell Hedging") or for the temporary substitution of underlying assets ("Buy Hedging"). Hedging should not be used for speculative purposes. However, Derivatives Transactions may be conducted for purposes other than Sell Hedging or Buy Hedging in accordance with the provisions of the Investment Guidelines presented by the Association.
- (ii) With respect to notional principals of Derivatives Transactions for the purposes of Sell Hedging or Buying Hedging, they should be, in the case of net Sell Hedging, within the underlying assets that are currently held or will be held in the future and, in the case of net Buy Hedging, within the surplus fund currently held or to be held in the future.

b Domestic bonds

- (a) Investment assets shall consist of yen-denominated bonds.
- (b) Bonds other than the government bonds, municipal bonds and bonds issued by corporations under special laws (limited to those with a government guarantee) must be rated BBB or above by any of the Rating Agencies. In addition, pursuant to the Investment Guidelines presented by the Association, unrated bonds may be included in investment assets if the issuer or guarantor institution is rated BBB or above by any of the Rating Agencies.
- (c) For bonds set forth in (b) above, if the ratings by all the Rating Agencies fall below BBB after acquisition, necessary actions, such as selling, shall be taken provided full consideration is given to the credit risk of the issuer and other factors.

c Domestic stocks

Investment assets shall consist of stocks listed on domestic securities exchanges (including REIT securities). If held stocks temporarily become non-public due to a stock transfer or stock exchange, etc., or if newly listed stock is acquired, such stock shall be treated as stocks listed on a domestic securities exchange (including REIT securities).

d Foreign bonds

- (a) Investment assets shall consist of foreign currency-denominated bonds.
- (b) The bonds (or, for unrated bonds, its issuer or guarantor institution) must be rated BBB or above by any of the Rating Agencies. However, investments may be made in bonds below this rating in accordance with the provisions of the Investment Guidelines presented by the Association if reasonable grounds exist, provided that full consideration is given to the credit risk of the issuer and other factors.
- (c) For bonds set forth in (b) above (excluding those pertaining to the proviso in (b)), if the ratings by all the Rating Agencies fall below BBB after acquisition, necessary actions, such

as selling, shall be taken provided that full consideration is given to the credit risk of the issuer and other factors. However, bonds below this rating made be held in accordance with the provisions of the Investment Guidelines presented by the Association if reasonable grounds exist, provided full consideration is given to the credit risk of the issuer and other factors.

e Foreign stocks

Investment assets shall consist of foreign currency-denominated stock listed on foreign securities exchanges or the OTC market (including REIT securities). In addition, in accordance with the provisions of the Investment Guidelines presented by the Association, investments may be made in other stocks and depositary receipts, etc.

f Bonds with new share acquisition rights

Bonds with new share acquisition rights shall be treated as substitute assets of domestic stocks or domestic bonds, and shall not be treated as an independent asset class.

g Hedged assets denominated in foreign currencies

Hedged assets denominated in foreign currencies shall be handled by categorization into domestic bonds, domestic stocks, foreign bonds or foreign stocks according to the risk/return and other characteristics.

h Short-term assets

Notwithstanding the provisions of Paragraph (3), short-term assets held within a fund shall be classified and handled as domestic bonds, domestic stocks, foreign bonds, or foreign stocks according to the fund's investment assets. In addition, investments may be made provided consideration is given to safety and liquidity, the investable period, and short-term interest trends.

(C) Asset management considerations

The provisions of A-(A) apply mutatis mutandis to cases in which the management of assets is entrusted to asset management institutions in the form of a trust. In such case, the term "mandatory investment assets" shall be replaced by "assets under entrusted investment management in the form of a trust."

(D) Reporting on investment status

The Association shall have entrusted investment management institutions submit data quarterly in accordance with the form stipulated separately, conduct regular interviews on investment performance and investment policy, and, if necessary, provide instructions regarding investment.

(E) Other reports

If an entrusted investment management institution or asset management institution has violated laws and regulations, contracts, Investment Guidelines or Asset Management Guidelines, etc., they shall be required to report such violation promptly, and instructions will be issued as necessary.

D Investment in group pure endowment insurance

Investment in group pure endowment insurance shall be conducted in accordance with the guidelines for such investment, as follows.

(A) Life insurer selection criteria

Life insurers shall be selected, taking into consideration their financial standing and special dividends, etc. in accordance with the guidelines for investment in group pure endowment insurance prescribed separately.

(B) Setting up group pure endowment insurance and additional funding

When investing in pure endowment insurance, individual agreements shall be concluded with

h life insurance companies selected in accordance with the criteria stipulated in (A), and the investment amount and additional funding shall be determined in consideration of their individual total assets, financial position, and special dividends, etc.

(C) Insurance policy cancellation

In the event of any significant change to the assumed return, the financial position of insurance companies or other investment environments, cancellation of the whole or part of pure endowment insurance policies shall be considered in accordance with the procedures set forth in the insurance policy.

(3) Selection and evaluation of entrusted investment management institutions, etc.

A Selection of entrusted investment management institutions

Entrusted investment management institutions shall be selected based on the Benchmark Portfolio upon conducting interviews on the points below and other details, with consideration given to the diversification of investment styles of the Association as a whole in a comprehensive manner. If there are other corporations that make actual investment decisions, such as subcontractors ("Subcontractors, etc." in C), the following items, etc. shall be confirmed in the same manner.

- (A) Business standing (financial position, number of employees, customers, etc.) is found to be stable.
- (B) Investment philosophy, investment method, investment structure, legal compliance framework, and other qualitative evaluation results are favorable.
- (C) Investment performance is favorable for a specified period.

B Selection of asset management institutions

Asset management institutions shall be selected from financial institutions that are engaged in trust services and meet the following criteria. If there are sub-trustees and co-trustees ("Sub-trustees, etc." in D), the following items, etc. shall be confirmed in the same manner.

- (A) Business standing (financial position, number of employees, customers, etc.) is found to be stable.
- (B) Asset management status is favorable.
- (C) The framework for compliance with laws and regulations is in place.

C Evaluation of entrusted investment management institutions

Entrusted investment management institutions shall be evaluated comprehensively through both qualitative and quantitative assessments. If there are Subcontractors, etc., confirmation shall be made from the same perspective.

(A) Quantitative assessment

In addition to excess returns against Manager Benchmarks and indicators that incorporate the magnitude of risks taken to achieve the excess return, entrusted investment management institutions are assessed by other methods appropriate for their investment styles.

(B) Qualitative assessment

In addition to reviewing the investment philosophy, investment method and investment structure, etc., entrusted investment management institutions shall be assessed by other methods appropriate for their investment styles, including the quality of the portfolio's investment activities and communication capabilities.

D Evaluation of asset management institutions

Asset management institutions shall be evaluated in a timely manner through qualitative assessment with respect to their business management status, asset administration status and framework for compliance with laws and regulations, and their suitability shall be determined accordingly.

If there are Sub-trustees, etc., confirmation shall be made from the same perspective.

E Addition and reduction of entrusted amount

Any addition or reduction of the entrusted amount, including contract cancellation, shall be considered necessary in the following cases.

- (A) The addition or reduction is based on the evaluation results in C
- (B) Adjusting the asset mix of the Association as a whole due to a deviation from the Benchmark Portfolio
- (C) Making adjustments following consideration of the diversification of investment styles, etc.

If any of the entrusted investment management institutions is found to have violated laws and regulations, contracts, and the Investment Guidelines, etc. or any significant investment issue occurs, timely action shall be taken upon consideration of options such as reducing the entrusted amount (including cancellation of the contract with the entrusted investment management institution) and revising the Investment Guidelines.

IV Other necessary matters concerning appropriate administration and investment of the TLTB adjustment fund

1 Enhancing transparency

Regarding the management and investment of the TLTB adjustment 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 entrusted investment management institutions, administration and investment entrustment fees, the status of stewardship activities, and other status of administration and investment performance, etc.

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 Committee.

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

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

2 Enhancing operational framework, including the retention of highly skilled and specialized personnel

In order to strengthen the function of making agile decisions in the execution of investment management that respond to changes in the economic and market environment while comprehensively managing the overall assets through specialized expertise, the Association shall appoint a Chief Investment Officer (CIO). In addition, the Association 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 to providing staff with support to obtain fund management qualifications, the Association shall aim to enhance the performance of its staff by, for example, leveraging highly skilled and specialized personnel and promoting the acquisition of knowledge and skills through practical experience and training.

Regarding personnel development, the Association shall clarify the competencies and career paths required of staff involved in the management of funds for public pensions, formulate a personnel development policy to retain and develop the necessary personnel, and implement it systematically.

The enhancement and development of specialized personnel shall be actively promoted by reporting on the status of such activities to the Committee as necessary and taking their opinions into consideration.

Furthermore, in order to conduct efficient and effective business operations, the Association shall work to improve the processes and systems for data processing related to fund management.

3 Strengthening risk management

In addition to enhancing investment capabilities, the Association shall also strengthen risk management under a risk management officer who is independent of the investment division, so that an appropriate check function can be exercised over the investment division.

In addition to establishing the necessary risk management systems, 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.

4 Enhancing research and study activities

When conducting research and study activities, in addition to commissioning such work to think-tanks and other similar institutions, engaging staff including highly skilled and specialized personnel in the work shall be considered so that know-how on the administration and investment of the TLTB adjustment fund will be accumulated within the Association. 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 the TLTB adjustment fund in the future.

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

(Appended Table) Rating Agencies

- 1 Rating and Investment Information, Inc.
- 2 Japan Credit Rating Agency, Ltd.
- 3 S&P Global Ratings
- 4 Fitch Ratings Ltd.
- 5 Moody's Investors Service, Inc.

Supplementary Provisions

This Basic Policy comes into force from October 1, 2015.

Supplementary Provisions

This Basic Policy comes into force from July 1, 2017.

Supplementary Provisions

This Basic Policy comes into force from July 19, 2018.

Supplementary Provisions

This Basic Policy comes into force from April 1, 2020.

Supplementary Provisions

This Basic Policy comes into force from January 1, 2022.

Supplementary Provisions

This Basic Policy comes into force from April 1, 2025.