

**Fiscal Year 2015**

**Transitional Long-term Benefit Adjustment Fund**

**Review of Operations**

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**(Pension Fund Association for Local Government Officials)**



**地方公務員共済組合連合会**

Pension Fund Association for Local Government Officials

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### [DISCLAIMER]

When there are any discrepancies between original Japanese version and English translation version, the original Japanese shall prevail.

## Section 1 Pension Fund System for Local Government Officials, Etc.

### Pension Fund System for Local Government Officials

- **Pension Fund System for Local Government Officials**

The pension fund system for local government officials was established in December 1962 as a system to comprehensively manage the long-term benefits program, short-term benefits program and welfare services program for local government employees and their families, for the purpose of providing mutual aid for local government employees.

- **Local Public Service Law, Article 43**

“A mutual benefit system with mutual aid in view should be put into practice for the purpose of furnishing appropriate benefits in cases where illness, injuries, childbirth, suspension of business, calamities, retirement, disability, or death occur to personnel themselves, or where persons supported by them are visited by illness, injuries, childbirth, death, or calamities.”

- **Local Public Officers, etc. Mutual Aid Association Act, Article 1**

“This Act shall establish a mutual aid system to provide appropriate benefits with regard to an illness, injury, child delivery, temporary leave, accident, retirement, disability or death of an employee or an illness, injury, child delivery, death or accident of an employee’s nonworking dependents and provide for necessary matters concerning these benefits and welfare services to be performed, and additionally shall provide for matters concerning the pension system etc. for employees of local government-related entities for the purpose of contributing to the improvement of lifestyle stability and welfare of local public employees and their survivors and contributing to the efficient management of public duties.”

- **Establishment of Pension Fund Association for Local Government Officials**

Pension Fund Association for Local Government Officials, which was established on April 1, 1984 for the purpose of integrating pension funding units, stabilizing the pension funding base and achieving appropriate and smooth management of activities pertaining to mutual aid association long-term benefits, in order to maintain sound management of the local government officials’ pension system, is a federation comprising all Mutual Aid Associations for local government employees (as of March 31, 2016, 64 associations and National Federation of Mutual Aid Associations for Municipal Personnel.

## Organization of Local Public Service Personnel Mutual Aid Associations

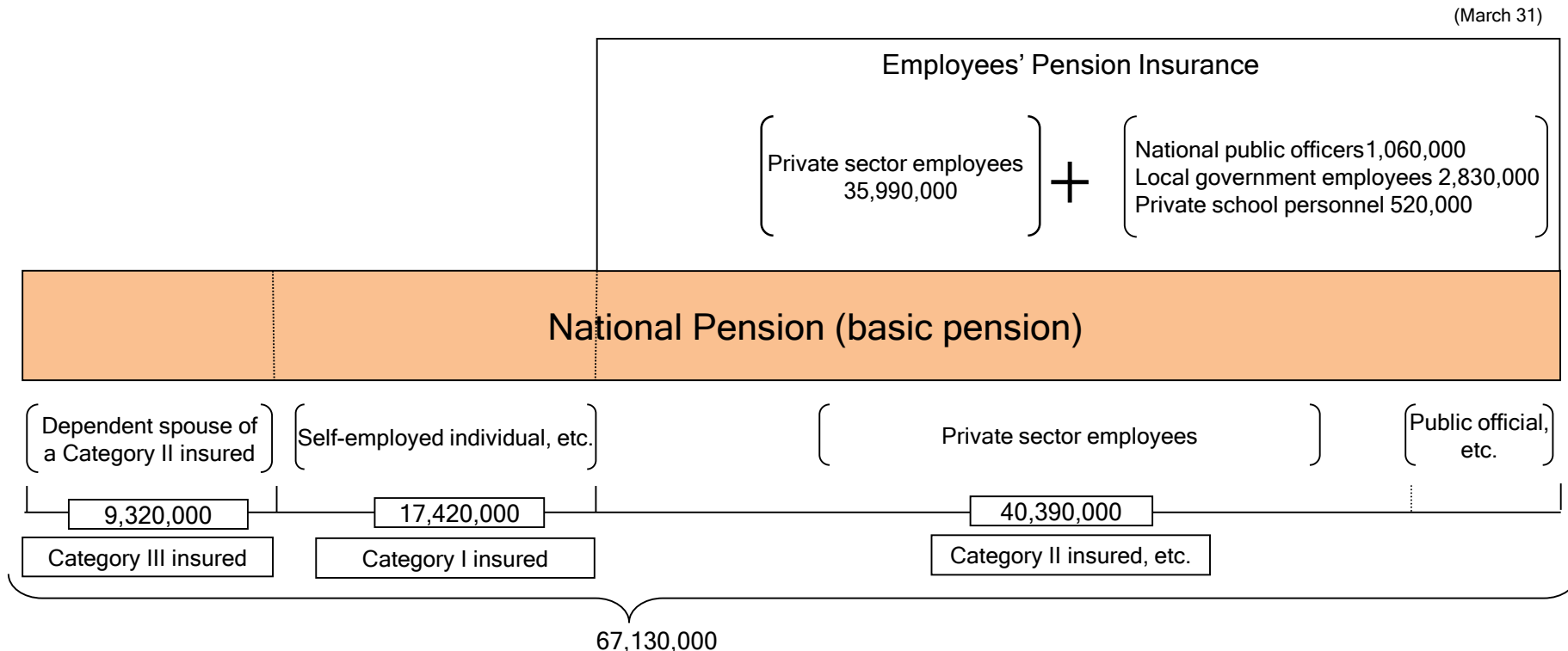
Total 64 mutual aid associations

Total number of association memberships 2,831,000  
March 2016



## Outline of the public pension system after Integration of Employee Pension Plans - From October 2015 -

With Integration of Employee Pension Plans, the mutual pension was discontinued and consolidated into Employee Pension Insurance. Government employees and school personnel at private schools are also enrolled in Employee Pension Insurance, and insurance premiums and benefits identical to those of private sector employees have been realized (systemic differences have been eliminated).



(Note) Individuals enrolled in a corporate pension who are included among individuals covered by Employee Pension Insurance 16,500,000  
(Breakdown: Employees' Pension Fund: 3,630,000; defined-benefit pension plans: 7,820,000; defined contribution pension plans (corporate type): 5,050,000)  
In addition, 210,000 individuals are enrolled in a defined contribution pension plan (individual type), and 450,000 individuals are covered by the National Pension Fund.

## Funds investments after integration of employee pension plans①

### ○ Funds investments after Integration of Employee Pension Plans

To ensure efficient administration and processing after integration with the Employees' Pension Benefit System as well, mutual aid associations will continue to manage memberships' pension records and prepare standard reports.

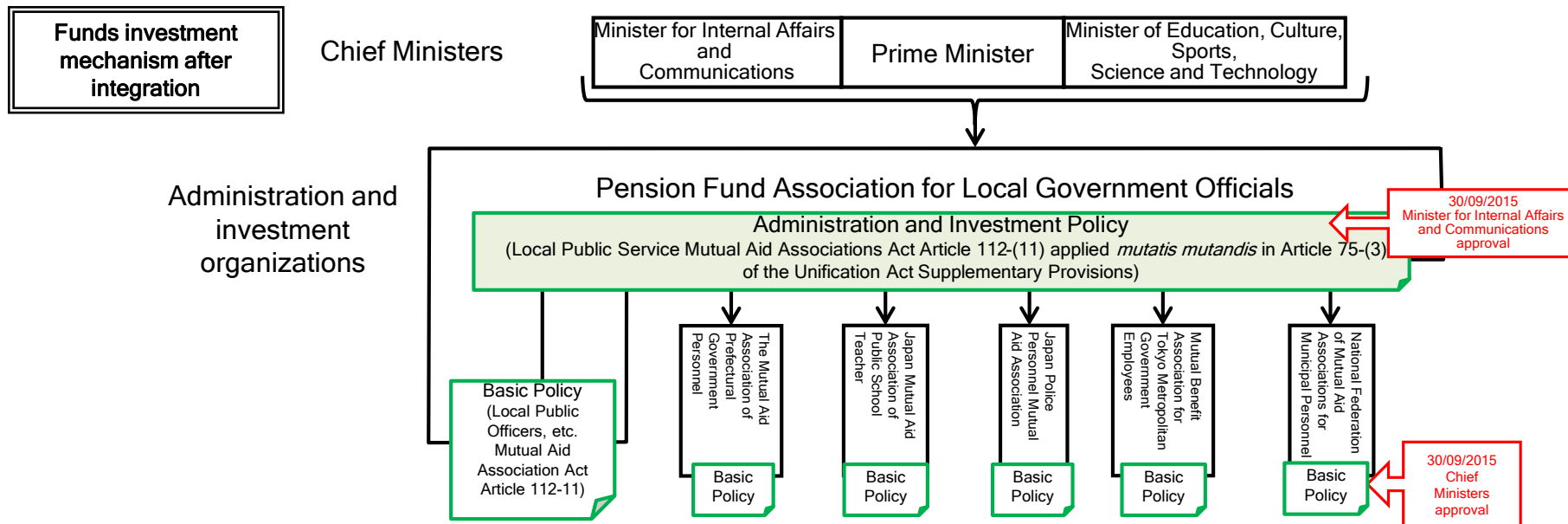
The association sets and revises standard compensation, collects insurance premiums, determines pension benefit, and provides pensions.

In addition, mutual aid associations are responsible for continuing to perform activities such as funds management and investments.

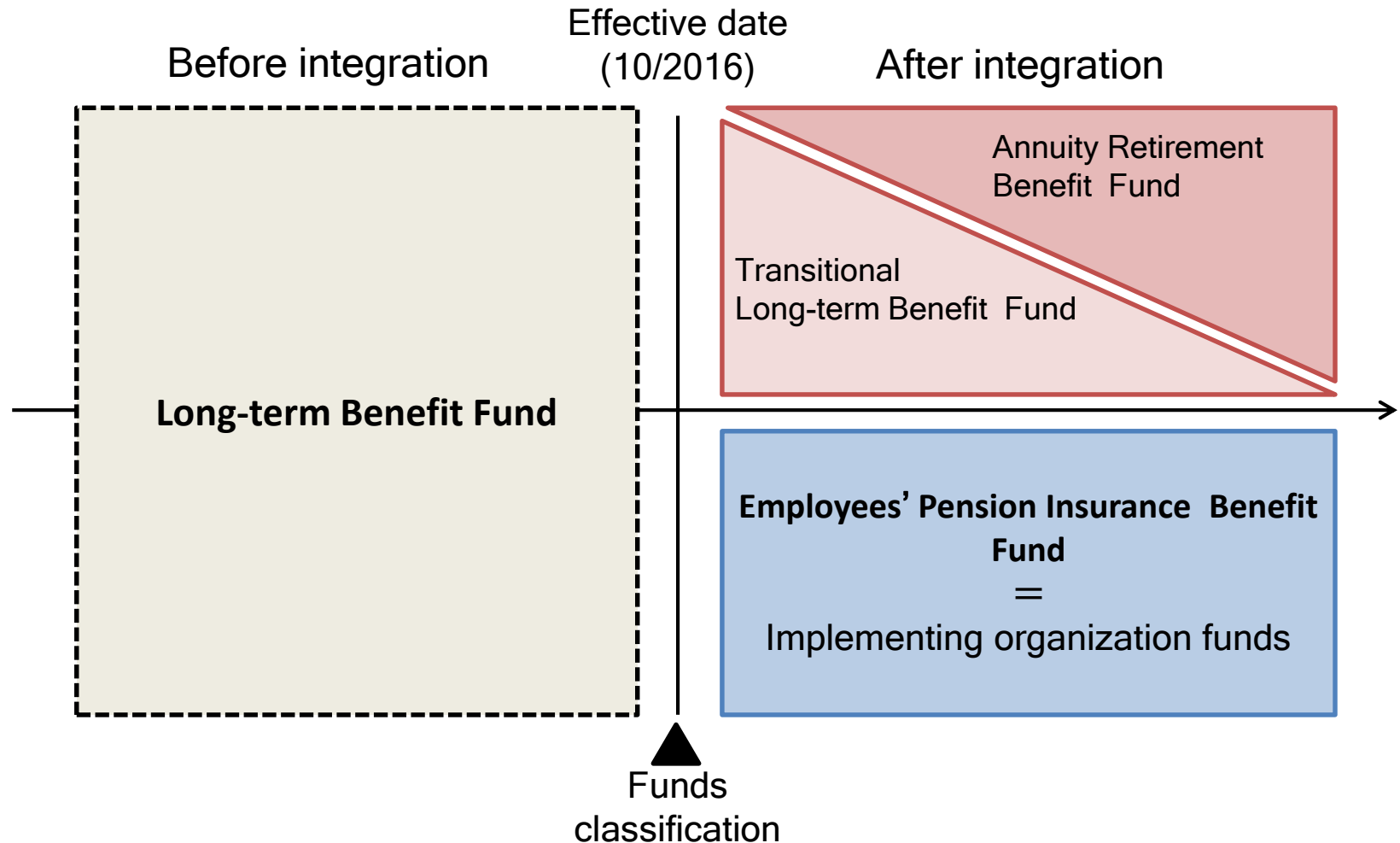
Until now, as a result of Integration of Employee Pension Plans, Long-term Benefit Fund had been the only funds available as the source of funds for long-term benefit, but since October 2015 there are three sources of funds: Employees' Pension Insurance Benefit Adjustment Fund, Annuity Retirement Benefit Adjustment Fund, and Transitional Long-term Benefit Adjustment Fund.

### ○ Formulation of administration and investment policies and basic policies

- ① Pension Fund Association for Local Government Officials formulates Administration and Investment Policy (Including the Portfolio at Local Public Service Mutual Aid Associations), which serves as the common policy for organizations such as Local Public Service Personnel Mutual Aid Associations in each region (the Implementing Organizations). (Local Public Service Mutual Aid Associations Act Article 112-(10) applied *mutatis mutandis* in Article 75-(3) of the Unification Act Supplementary Provisions)
- ② A Basic Policy (Including the benchmark portfolio) pertaining to funds administration and investment is formulated at Local Public Service Personnel Mutual Aid Associations or other organization in each region, so that it conforms to Administration and Investment Policy set by Pension Fund Association for Local Government Officials. (Local Public Service Mutual Aid Associations Act Article 112-(11) applied *mutatis mutandis* in Article 75-(3) of the Unification Act Supplementary Provisions)



## Funds investments after integration of employee pension plans②





## (Reference) Comparison of characteristics of each benefit after Integration of Employee Pension Plans

	Employees' Pension Insurance Benefits	Transitional Long-term Benefits	Annuity Retirement Benefits
Pension characteristics	Employee Pension Insurance in public pension form [Social security system portion]	Benefits remaining transitionally against the backdrop of expected rights concerning part of a mutual aid pension in public pension form	Part of retirement benefits [Corresponds to private sector corporate pensions]
	Benefit amount tied to inflation		As a rule, benefit level is linked to government bond return
	Macroeconomic slide applied		—
	Actuarial valuation every 5 years	Preparation of fund current status and outlook every 5 years	Actuarial valuation every 5 years
Fund administration system	Pay-as-you-go system	Closed Pension Plan	Advanced funding method
Benefits design	Defined benefits (scheme that sets benefit level in the form of a certain percentage of service period compensation)		Cash balance-type (system that sets benefit level in a form synchronized with government bond return, etc.)
Premium rate	Has been increased in stages, and for public officials as been set at 18.3% since 2018. (Employee Pension Insurance has been set at 18.3% since 2017)	Because it is a Closed Pension Plan, no new contributions are generated	The maximum insurance premium rate is 1.5%, and is set by considering factors such as the entitlement rate

## Basic Approach Concerning Investment of Transitional Long-term Benefit Adjustment Fund

- As a basic policy, the Association shall manage the Transitional Long-term Benefit adjustment fund with the objective of contributing to the stability of the Transitional Long-term Benefit scheme operations based on the characteristics of a closed pension plan that will have no new contribution income, especially paying attention to downside risks, with constant awareness of the relationship between future liabilities and the funds.
- When managing funds, Pension Fund Association for Local Government Officials invests by appropriately diversifying investments among multiple assets that differ in risk/return and other characteristics.
- Furthermore, to ensure the required return on investments of the funds with a minimum amount of risk, when investing the Transitional Long-term Pension Fund term Benefit Adjustment Fund with its characteristic of a closed-type fund the Pension Fund Association for Local government Officials establishes a benchmark portfolio, and while working to manage this portfolio appropriately and secure the benchmark return on each asset strives to secure the benchmark return on each asset over the long term, while sufficiently noting the relationship between future liabilities and the funds.

### Basic Policy for the Transitional Long-Term Benefit (TLTB) Adjustment Fund(excerpt)

#### 1 Basic Policy

The Association shall manage the TLTB adjustment fund and the TLTB association reserve funds (collectively, the “TLTB Funds”) with the objective of contributing to the stability of the TLTB plan operations based on the characteristics of a closed pension plan that will have no new contribution income, especially paying attention to downside risks, with constant awareness of the relationship between future liabilities and the reserve funds.

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

#### 2 Investment target

The investment of the TLTB Funds, which have the characteristics of a closed pension plan, shall be managed appropriately by establishing the Benchmark Portfolio so that investment returns needed for the reserve funds will be generated with the minimum risk, while fully paying attention to the relationship between future liabilities and the reserve funds. In so doing, the Association shall pay attention not to distort, among other things, price formation in the market and private sector investment activities.

In addition, the Association shall strive to earn the benchmark rate of return for each asset class for each fiscal year, as well as generating it for each asset class over the long term. 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.

## The Benchmark portfolio

### Benchmark portfolio

- Approach

Although investments of Transitional Long-term Benefit Adjustment Fund are undertaken for the purpose of contributing to the stability of Transitional Long-term Benefit Adjustment Fund operations management, while especially noting the downside risk, based on the closed pension plan characteristic of not generating new premium revenue, and always taking into consideration the relationship between future liabilities and the funds, the amount of the funds has been fixed since the autumn of fiscal year 2016, and based on the fact the amount was not fixed as of October 2015, and the point that prior to integration Employees' Pension Insurance Benefit Adjustment Fund and Transitional Long-term Benefit Adjustment Fund were invested together as Long-term Benefit Fund for the period until the amount of the funds was fixed Transitional Long-term Benefit Adjustment Fund benchmark portfolio was assumed to be identical to the of Employees' Pension Insurance Benefit Adjustment Fund benchmark portfolio. For the status of Employees' Pension Insurance Benefit Adjustment Fund benchmark portfolio, please refer to Employees' Pension Insurance Benefit Adjustment Fund Review of Operations.

### Benchmark portfolio (From October 1, 2015)

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Asset Mix	35%	25%	15%	25%
Deviation tolerance	±15%	± 14%	± 6%	± 12%

## Risk Management ①

- “Risk” encompasses various kinds of risk, and if interest rate risk, price fluctuation risk, credit risk, liquidity risk and other factors are also viewed as “risks” for asset investment, in some cases the possibility that the required yield cannot be ensured can be viewed as a “risk”. Therefore, for asset investment it is vital to consider the various risks commensurate with investment from a long-term point of view.
- Appropriately implement risk management, based on funds investments being undertaken safely and efficiently from a long-term viewpoint, diversified investment as a fundamental policy, taking special note of the downside risk based on the characteristic of closed pension plan funds to not receive new contribution income, and always being conscious of the relationship between Local Public Service Mutual Aid Associations’ total liabilities in the future and the funds.

### Implementation policy for risk management concerning investment of Transitional Long-term Benefits Adjustment Fund (excerpt)

#### 1 Basic approach concerning risk management

Pension Fund Association for Local Government Officials appropriately manages the risks related to adjustment investments, based on the following matters.

- ① Undertake adjustment investments safely and efficiently from a long-term viewpoint.
- ② Investment of the adjustment funds is performed based on formulating a benchmark portfolio to fundamentally invest by diversifying funds appropriately among multiple assets with differing characteristics including their risk/return profile (“Diversified Investment”).
- ③ The adjustment funds are invested while especially noting the downside risk, based on the closed pension plan characteristic of not generating new premium revenue.
- ④ Investment of the adjustment funds is performed by always taking into consideration the relationship between the liabilities related to transitional long-term benefit operations and the funds in the future.

## Risk Management ②

- For investment based on the Benchmark portfolio it is necessary to control the various risk factors, and to ensure earnings that are aligned with the Benchmark portfolio from a long-term viewpoint, managing the size of the divergence between the portfolio allocations by asset category of the Benchmark portfolio and the portfolio allocations by asset category of the actual portfolio in particular becomes especially critical.
- Specifically, because portfolio allocations by asset category are changing continually as a result of asset price movements, investments are managed by understanding the status of the divergence between the value of the portfolio allocations by asset category that are actually held for all assets and portfolio allocations by asset category set for the benchmark portfolio, and keeping the divergence within a certain range (Deviation tolerance).
- Furthermore, for deviation tolerance, flexible investments are implemented according to the investment policy formulated through discussions by a committee of specialists, and any deviation that actually occurs in this case is confirmed to be in line with the investment policy described above.
- Moreover, there is a possibility differences from the expected earnings will arise even if the portfolio allocations by asset category in the actual portfolio and benchmark portfolio are identical, because passive investments and active investments are utilized together for funds investments and the allocation of instruments within in each asset category might differ.
- Therefore, for each asset investments must be managed by considering market risk (risk of price fluctuations of each asset market, etc.), credit risk (default risk) and other variables, while keeping the main focus on the deviation from the benchmark.
- In addition, besides managing liquidity risk (the risk that transaction volume will decline and make sales and purchases difficult) from the viewpoint of smoothly implementing asset allocation modifications (re-balancing) and turning assets into cash, because there also are outsourced assets that are being managed externally under the association's asset investment program, the association has implemented controls on the management status (risk management status and asset management status) etc. of the organizations (each outsourced investment institution and each asset management organization) to which asset investment or asset management has been outsourced, from the viewpoint of ensuring smooth implementation of each entity's management.
- Furthermore, for the Benchmark portfolio formulated based on the long-term economic outlook, it is necessary to regularly verify performance, including the confirmation of assumptions. In its verification, Pension Fund Association for Local Government Officials confirms whether the existing Benchmark Portfolio is appropriate from the viewpoint of safe and efficient investing over the long-term, and also considers the investments from the viewpoint of comparisons with the target yield on investments and with an all-domestic bond investment portfolio.

## Stewardship Responsibilities ①

### Stewardship responsibilities

#### ○What are stewardship responsibilities?

Refers to the responsibilities of institutional investors to increase medium to long-term investment returns for their clients and beneficiaries by encouraging improvements in corporate value and sustainable growth of target firms, through means such as constructive “purposeful dialog” (engagement), based on a deep understanding concerning of the firms in which they invest, the operating environment, and other factors. The activities institutional investors use to fulfill their stewardship responsibilities include engagement, the exercise of shareholders’ voting rights, and ESG investments.

#### ○Efforts by Pension Fund Association for Local Government Officials

Based on the consideration that it must undertake its stewardship activities proactively in order to fulfill its “fiduciary responsibilities for the association’s memberships” and its “social responsibilities as a public pension plan”, Pension Fund Association for Local Government Officials enacted the Corporate Governance Principles of Pension Fund Association for Local Government Officials and the Guidelines for Exercising Shareholders’ Voting Rights in April 2004, and through the outsourced investment institutions has exercised its shareholder voting rights for domestic equities. In addition, since February 2010 Pension Fund Association for Local Government Officials has also been making investments in ESG funds.

The association agrees with the purport of the Principles for Responsible Institutional Investors <<Japan’s Stewardship Code>> enacted by the Financial Services Agency in February 2014, and announced its acceptance of the Code in May 2014.

With regard to amendments of the Corporate Governance Principles of Pension Fund Association for Local Government Officials and other rules, in March 2015 Pension Fund Association for Local Government Officials enacted amendments to the Corporate Governance Principles of Pension Fund Association for Local Government Officials and the Guidelines for Exercising Shareholders’ Voting Rights, based on the partial amendment of the Companies Act enforced in May 2015 and enactment of the Corporate Governance Code in May of the same year. In this year’s revisions of the Guidelines, Pension Fund Association for Local Government Officials decided it will negatively judge the appointment of directors at firms that have not appointed multiple outside directors, and to negatively judge as a rule takeover defense measures.

#### \*Corporate Governance Principles of Pension Fund Association for Local Government Officials (Excerpt)

Like many other shareholders, Pension Fund Association for Local Government Officials invests in the shares of firms whose value is projected to increase over the long term, and expects those firms to engage in management that will contribute to the growth in shareholder value over the long-term, and when growth in shareholder value cannot be expected for some reason Pension Fund Association for Local Government Officials will request that management take the actions necessary to increase shareholder value and carry out its fiduciary responsibility. That is, Pension Fund Association for Local Government Officials will act when shareholder value is not expected to increase sufficiently over the long term, and its point of view at such times will sufficiently reflect to the firm’s management Pension Fund Association for Local Government Officials’s opinion as a shareholder. Furthermore, Pension Fund Association for Local Government Officials believes it is required to accomplish its social responsibilities as one of Japan’s public pension plans, and in this sense as well must actively strive to improve corporate governance.

## Stewardship Responsibilities ②

### Exercise of shareholders' voting rights

#### ○Exercise of voting rights for domestic equities

Because it is difficult for Pension Fund Association for Local Government Officials to go into the details and render absolute verdicts of firms' management judgments, with regard to the exercise of shareholders' voting rights Pension Fund Association for Local Government Officials instructs outsourced investment institutions that invest in domestic stocks to exercise voting rights after making appropriate judgments suited to the conditions of the investee companies.

Pension Fund Association for Local Government Officials has formulated its Corporate Governance Principles of Pension Fund Association for Local Government Officials, Guidelines for Exercising Shareholders' Voting Rights (Domestic Equities), and Pension Fund Association for Local Government Official's Approach to Proposals on Takeover Defense Measures, to clearly express the association's thinking concerning the exercise of shareholders' voting rights and provide standards for the exercise of voting rights by outsourced investment institutions.

Pension Fund Association for Local Government Officials also confirms the status of the exercise of voting rights by outsourced investment institutions and the exercise conditions, including engagement, through regular hearings.

#### ○Summary of results from exercising voting rights in fiscal year 2015

The 46 funds of 23 outsourced investment institutions that invest in domestic equities exercised voting rights on a total of 81,804 resolutions at a total of 20,704 firms whose shares they hold during the fiscal year from April 1, 2014 through March 31, 2015. The main reason the number of firms and number of resolutions increased from the previous year was the increase in funds outsourced by Pension Fund Association for Local Government Officials.

Of the total of 81,804 resolutions, an opposing vote was exercised for 19,587 proposals. The main reason the percentage of opposing votes rose from the previous year was an increase in opposing votes exercised with regard to resolutions to appoint directors to a Board of Directors to which multiple outside directors have not been appointed, or with regard to hostile takeover defense measures that were judged to not contribute to an increase in shareholder value, in accordance with the Guidelines for Exercising Shareholders' Voting Rights as revised on March 31, 2015.

#### ○Exercise of voting rights for foreign equities

Together with enacting the Guidelines for Exercising Shareholders' Voting Rights (Foreign Equities) dated April 1, 2016, for general meetings of shareholders held on or after July 1, 2016 Pension Fund Association for Local Government Officials has made it a policy to exercise voting rights through outsourced investment institutions.

## Stewardship Responsibilities ③

Status of exercise of shareholders' voting rights (Target: Firms, etc. whose fiscal year-end was between April 2014 and March 2015)

Proposal details	Total	Breakdown (%)	Approved	Percent approved (%)	Opposed	Percent opposed (%)	Prior fiscal year Percent opposed (%)
<b>Grand total</b>	<b>81,804</b>	<b>100%</b>	<b>62,217</b>	<b>76.1%</b>	<b>19,587</b>	<b>23.9%</b>	<b>21.9%</b>
(Number of resolutions related to shareholders' proposals)	2,505	3.1%	53	2.1%	2,452	97.9%	97.6%
<b>Breakdown</b>	<b>81,804</b>	<b>100%</b>	<b>62,217</b>	<b>76.1%</b>	<b>19,587</b>	<b>23.9%</b>	<b>21.9%</b>
The Board of Directors and directors	21,281	26.0%	10,999	51.7%	10,282	48.3%	36.1%
The Board of Auditors and auditors	18,979	23.2%	15,534	81.8%	3,445	18.2%	17.9%
Director remuneration, etc.	8,949	10.9%	7,460	83.4%	1,489	16.6%	19.8%
Appropriation of surplus	15,409	18.8%	14,696	95.4%	713	4.6%	4.9%
Capital structure	1,575	1.9%	875	55.6%	700	44.4%	41.4%
Changes in company activities etc.	384	0.5%	383	99.7%	1	0.3%	0.3%
Improvement of executive and regular employee incentives	2,094	2.6%	1,575	75.2%	519	24.8%	24.7%
Other resolutions	13,133	16.1%	10,695	81.4%	2,438	18.6%	25.6%

Breakdown of "Resolutions concerning capital structure"

Proposal details	Total	Breakdown (%)	Approved	Percent approved (%)	Opposed	Percent opposed (%)	Percent opposed (%)
Hostile takeover defense measures	1,001	1.2%	376	37.6%	625	62.4%	48.4%
Capital increase or decrease	60	0.1%	58	96.7%	2	3.3%	0.0%
Third-party allotment	16	0.0%	16	100.0%	0	0.0%	0.0%
Share buyback	156	0.2%	84	53.8%	72	46.2%	38.9%



## Stewardship Responsibilities ④

### Engagement

#### ○Efforts on engagement

Pension Fund Association for Local Government Officials requires its institutional investors to implement engagement, from the viewpoint of medium- to long-term growth of pension assets, by promoting improvement in companies' corporate value and sustainable growth through constructive "purposeful dialogue" (engagement), based on an in-depth understanding of the investee companies and their business environments, etc., and conducts hearings concerning the status of institutional investors' engagement performance.

#### ○Results of engagement

As an engagement result, Pension Fund Association for Local Government Officials seeks to accomplish its stewardship responsibilities while obtaining medium- to long-term returns. Because the prices of investee companies' shares fluctuate as the result of various factors such as the global economy and monetary policy trends, however, it is difficult to quantitatively measure the contribution of engagement to returns. Therefore, Pension Fund Association for Local Government Officials requires outsourced investment institutions to encourage the growth of corporate value through means such as enhancements to corporate governance, and to make improvements in areas such as their engagement objectives, contents, progress, and management procedures.

The following various reports were received concerning the status of engagement activities at the outsourced investment institutions.

- From the viewpoint of improvement of corporate value, proposed ample enhancement of returns to shareholders using cash.
- From the viewpoint of strengthening the management restraint function, exchanged opinions on increasing and diversifying outside directors.
- To urge improvements in operating results, demanded measures such as a reduction in fixed costs in unprofitable businesses.
- From the viewpoint of productivity enhancement, exchanged opinions concerning brand restructuring.
- Urged study of the need for takeover defense measures, and discussed takeover defense scheme to which Pension Fund Association for Local Government Officials can agree.

### ESG Investing

#### ○Efforts for ESG investing

Pension Fund Association for Local Government Officials has outsourced its domestic equities ESG fund to four investment companies (two companies newly adopted in fiscal year 2015). These funds evaluate firms from an E (Environment), S (Social), and G (Governance) viewpoint, and basically make investments in the superior firms identified through these assessments. ESG investments focus not only on short-term corporate performance, but also on the element of sustainability in terms of ESG, and seek to ensure long-term yields. Each association etc. making ESG investments will continue efforts to accomplish its "fiduciary responsibility" and fulfill its "social responsibility" in the future as well, while continuously monitoring ESG evaluations and investment performance assessments.

## Revisions to Investment Institution Organization (Manager Structure) ①

As part of its revision of the investment institution organization (manager structure) for active investments in domestic bonds, domestic equities, and foreign bonds, Pension Fund Association for Local Government Officials implemented public offerings as explained below and commenced investing in fiscal year 2015. When making its selections, Pension Fund Association for Local Government Officials closely examined aspects such as product investment policy and investment process, and selected investment institutions based on a comprehensive judgment of both quantitative and qualitative aspects, while also taking into consideration the opinion expressed by the committee of outside specialists.

### (1) 【Domestic bonds】

For active investments in domestic bonds, Pension Fund Association for Local Government Officials utilized public offerings to diversify risk by varying investment methodologies and diversifying managers, and newly selected six products.

Specifically, the association selected investments that did not consider the benchmarks, and investments that incorporated hedged foreign bonds.

In conjunction with this, the association also reviewed existing products, and implemented steps such as the termination of two products.

### (2) 【Domestic equities】

For active investments in domestic equities, Pension Fund Association for Local Government Officials utilized public offerings to diversify risk by varying investment methodologies and diversifying managers, and newly selected seven products.

Specifically, the association selected investments based on quantitative methodologies, and investments that seek to earn excess returns from the viewpoint of ESG.

In conjunction with this, the association also reviewed existing products, and implemented steps such as the termination of three products.

### (3) 【Foreign bonds】

For active investment in foreign bonds, Pension Fund Association for Local Government Officials utilized public offerings to improve performance, diversify risk by varying investment methodologies and diversifying managers, and newly selected 11 products.

Specifically, the association selected investments such as investments based on interest rate projections, investments that seek to earn excess returns by broadening their investment targets to include non-government bonds, and investments that track non-market cap-weighted indices that enable them to anticipate earning excess returns over the medium- to long-term (smart- $\beta$ -type investments).

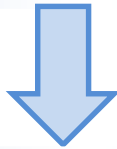
In conjunction with this, the association also reviewed existing products, and implemented steps such as investment improvement measures.

## Revisions to Investment Institution Organization (Manager Structure) ②

### Selection process

#### Pre-selection

- Identify selection candidates that meet the required qualification standards, based on a survey form concerning qualification standards



#### Final selection

- Conduct an interview and assess qualitative aspects, including confirming the reproducibility of investment results.
- After considering the investment style, perform a quantitative evaluation of the investment performance, etc. based on a summary of the application products and a survey form covering issues such as investment performance.
- Comprehensively judge the selection targets, taking into consideration a qualitative assessment based on interviews and a quantitative evaluation based on the investment performance, etc.

### Selection criteria

- Verification of requisites, such as approval based on related laws and regulations
- Invested asset balance and investment performance
- Investment institution's financial health
- Legal and regulatory compliance organization and past compliance record

Etc.

#### Qualitative aspect criteria

- Qualitative evaluation of investment philosophy, investment process, etc.
- Conformity with Pension Fund Association for Local Government Officials product allocations, etc.

#### Quantitative aspect criteria

- Return and risk after deduction of fees
- Relative comparison for identical investment style
- Whether performance-based compensation system has been introduced, etc.

## Governance System ①

### (1) Organization

As of April 1, 2016, Pension Fund Association for Local Government Officials had 12 executives, consisting of president, eight Executive Directors (one full-time executive responsible for Administration and Fund Investments and another responsible for pensions, and six part-time directors), and three auditors (one full-time Auditor and two part-time auditors), as well as 66 employees.

The organization consists of General Affairs Department (General Affairs Division, Planning and Research Division, Audit Office), Fund Management Department (Fund Planning and Administration Division, Fund Management Division 1, Fund Management Division 2, Risk Management Division), and Pension Management Department (Pension Division, Actuarial Division, Adjustment Division, Information Systems Division).

Furthermore, Auditing Office conducts operating audit in cooperation with the Auditors.

### (2) Governing Council

Pension Fund Association for Local Government Officials has established a Governing Council composed of individuals who possess academic and practical experience in such fields as economy, finance, and fund management, to examine technical matters pertaining to the administration and investment of funds (meaning administration and investment of the Managed Fund, administration and investment of Annuity Retirement Benefit Adjustment Fund (including administration of the investment status of Annuity Retirement Benefit Fund of the Associations, etc.), and the administration and investment of Transitional Long-term Benefit Adjustment Fund (including administration of the investment status of Transitional Long-term Benefit Adjustment Fund of the Associations, etc.

### (3) Fund Management Committee of Pension Fund Association for Local Government Officials

To study specialized matters pertaining to the management and operation of each adjustment fund based on the basic policy for Employees' Pension Insurance Benefit Adjustment Fund (enacted October 1, 2015), the basic policy for Annuity Retirement Benefit Adjustment Fund (enacted October 1, 2015) and the basic policy for Transitional Long-term Benefit Adjustment Fund (enacted October 1, 2015), Pension Fund Association for Local Government Officials has established Fund Management Committee of Pension Fund Association for Local Government Officials comprised of individuals who possess academic knowledge or business experience in areas such as economics, finance, and fund management.

## Governance System ②

### (4) Asset Management Committee

To deliberate beforehand when President will make important decisions concerning management of the investment status of the Employees' Pension Benefit Associations Fund, Annuity Retirement Benefit Adjustment Fund and Transitional Long-term Benefit Associations Fund and the management and operation of Employees' Pension Insurance Benefit Adjustment Fund, Annuity Retirement Benefit Adjustment Fund and Transitional Long-term Benefit Adjustment Fund, Pension Fund Association for Local Government Officials has established Asset Management Committee chaired by a full-time director responsible for fund management.

As a rule, this Committee shall convene once a week at a regularly scheduled time, and shall also convene at other times as necessary. The chairperson shall promptly report to President the status of the discussions in the Committee.

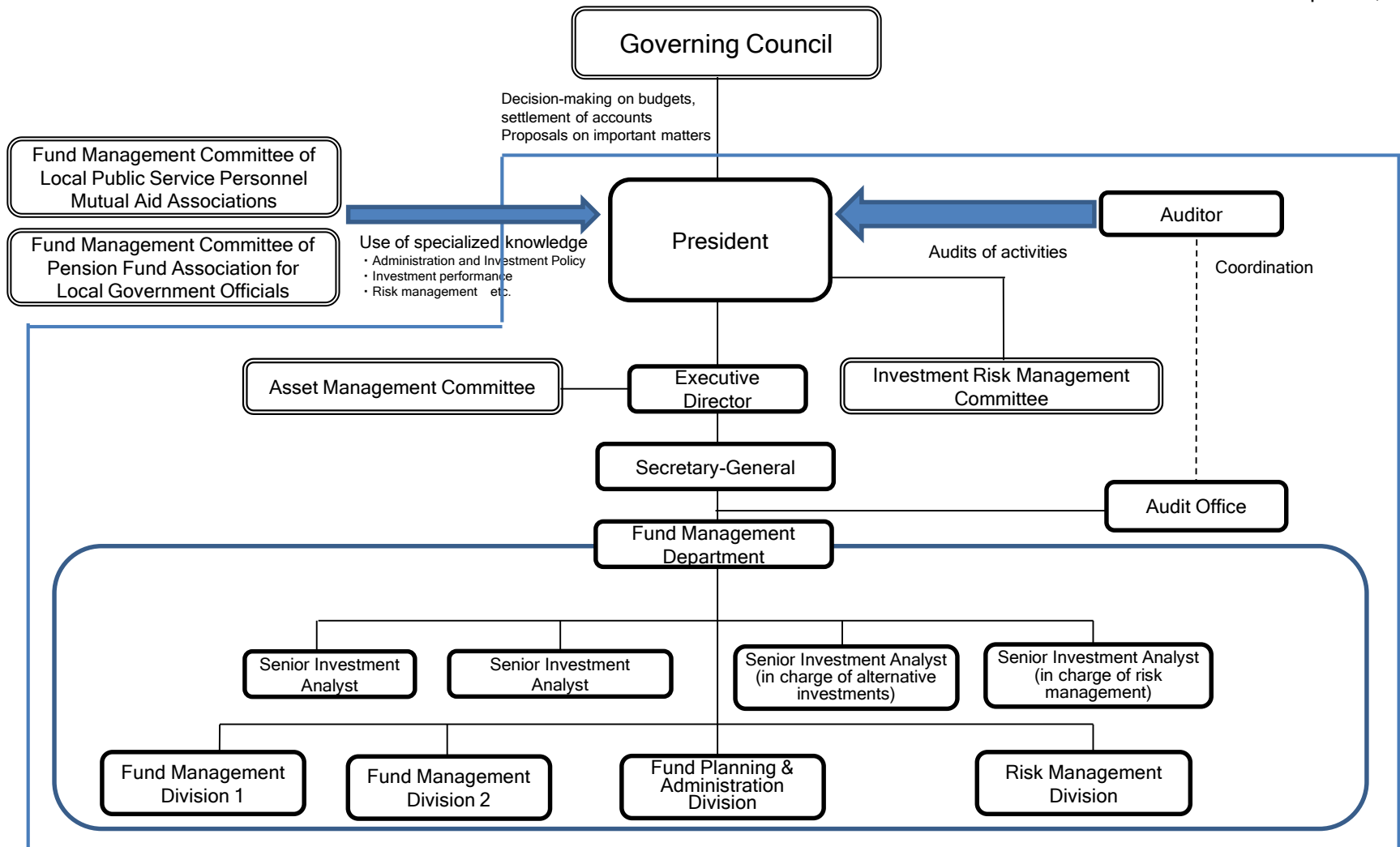
### (5) Investment Risk Management Committee

To deliberate matters to ensure risk management for investments of the Managed Fund, Annuity Retirement Benefit Fund and Transitional Long-term Benefit Fund and risk management for investments of Employees' Pension Insurance Benefit Adjustment Fund, Annuity Retirement Benefit Adjustment Fund and Transitional Long-term Benefit Adjustment Fund is performed appropriately, Pension Fund Association for Local Government Officials has established Investment Risk Management Committee chaired by President.

In contrast to Asset Management Committee, this committee is under the direct control of President in order to achieve mutual oversight of investments. As a rule, the Investment Risk Management Committee shall convene once a week at a regularly scheduled time, and shall also convene at other times as necessary.

## Governance System ③

April 1th, 2016



## Fund Management Committee of Pension Fund Association for Local Government Officials

### ○ Fund Management Committee of Pension Fund Association for Local Government Officials

To study specialized matters pertaining to the management and operation of each adjustment fund based on the basic policy for Employees' Pension Insurance Benefit Adjustment Fund (enacted October 1, 2015), the basic policy for Annuity Retirement Benefit Adjustment Fund (enacted October 1, 2015) and the basic policy for Transitional Long-term Benefit Adjustment Fund (enacted October 1, 2015), Pension Fund Association for Local Government Officials has established Fund Management Committee of Pension Fund Association for Local Government Officials comprised of individuals who possess academic knowledge or business experience in areas such as economics, finance, and fund management.

#### List of Committee Members (As of April 2016)

Chairman	Wakasugi Takaaki	Executive Director, Michigan University-Mitsui Life Financial Research Center
	Kawakita Hidetaka	Kyoto University, Professor Emeritus
	Kita Kounosuke	Russell Investments Japan Co., Ltd. Executive Consultant/Director, Consulting
	Takayama Yoshiko	J-Eurus IR Co., Ltd. Managing Director
	Takehara Hitoshi	Professor, Waseda Business School (Graduate School of Business and Finance)
	Hachisuka Kazuyo	Managing Director, Japan Economic Research Institute Inc.
	Fujisawa Kumi	President, Think Tank SophiaBank

#### • Committee deliberation matters

- ① Matters concerning formulation and modification of the basic policy
- ② Matters concerning formulation and modification of risk management implementation policy
- ③ Matters concerning formulation and modification of investment policy for new investments
- ④ Matters concerning formulation and modification of flexible investment policies
- ⑤ Matters concerning formulation and modification of selection criteria for outsourced investment institutions, etc.
- ⑥ Corporate Governance Principles and the Guidelines for Exercising Shareholders' Voting Rights Matters concerning line revisions, etc.
- ⑦ Other specialized matters concerning the management and operation of each adjustment reserve

#### • Committee reporting matters

- ① Investment performance
  - ② Status of risk management
  - ③ Investment status of new investments
  - ④ Status of selections of outsourced investment institutions, etc.
  - ⑤ Status of stewardship activities
  - ⑥ Status of training and nurturing of specialist human resources
  - ⑦ Other matters required by the committee concerning the management and operation of each adjustment reserve
- The committee can express its opinion on important matters through with consultations with president concerning specialized matters related to the management and operation of each of the Adjustment Funds.

## Section 2 Status of FY2015 Investments

### Fiscal Year 2015 Market Environment (Full Year) ①

#### 【Activity in each market (April 2015 - March 2016)】

- Domestic bonds:** The return on 10-year Japanese government bonds declined further (the bond price rose) because of a gradual downward trend driven by factors such as monetary expansion by the Bank of Japan, and the impact of the Bank of Japan's announcement at the end of January concerning the introduction of negative interest rates.
- Domestic equities:** Although a phase during which domestic stock prices rose because of factors such as expectations of improved corporate operating results as a result of the yen's depreciation was seen as well, in addition to China's currency devaluation in August, risk aversion moves grew stronger because of concerns of a global slowdown after the start of the year, and stock prices fell.
- Foreign bonds:** Although the return on 10-year U.S. Treasury bonds rose (the bond price fell) at the start of the fiscal year because of expectations of an interest rate hike by the FRB, the return subsequently declined (the bond price rose) as the year progressed because of moves to avoid risk. Although the return on 10-year German government bonds also rose (bond price declined) at the beginning of the fiscal year, the return has fallen since the new year (bond price rose).
- Foreign equities:** The prices of U.S. stocks fell in August, but throughout the fiscal year were nearly unchanged. German stocks retreated in the first half of fiscal year because of several factors, including a sense of uncertainty regarding circumstances in Greece, and although a phase of rising prices because of expectations of additional monetary expansion by the ECB was also seen, prices fell through the fiscal year.
- Foreign currency exchange rate:** During the first half of the fiscal year the dollar/yen exchange rate fluctuated around 120 yen. Following the Bank of Japan's announcement at the end of January that it would introduce a negative interest rate policy, a phase during which the yen weakened temporarily was evident, but amidst global moves to avoid risk the yen appreciated considerably. Following the increase in returns on German government bonds, the yen initially weakened and the euro rose, but because of a sense of uncertainty surrounding the situation in Greece and additional monetary expansion by the ECB, this shifted to appreciation of the yen/depreciation of the euro, and throughout the fiscal year the euro/yen exchange rate was nearly unchanged.

#### ○Benchmark returns

	April 2015 - March 2016
<b>Domestic bonds</b> NOMURA-BPI Overall	5.40%
<b>Domestic equities</b> TOPIX (including dividends)	-10.82%
<b>Foreign bonds</b> Citi World Government Bond Index (excluding Japan; no hedge, Japanese yen basis)	-2.74%
<b>Foreign equities</b> MSCI KOKUSAI (Japanese yen basis, including dividends) (April – September) MSCI ACWI (excluding Japan; Japanese yen basis, including dividends) (October – March)	-8.55%

#### ○Reference indices

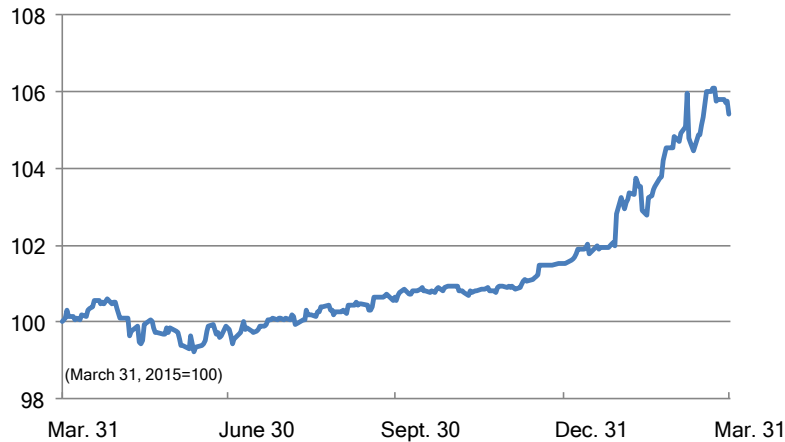
		March 31, 2015	June 31, 2015	September 30, 2015	December 31, 2015	March 31, 2016
Domestic bonds	(10-year government bond return) (%)	0.41	0.47	0.36	0.27	-0.03
Domestic equities	(TOPIX, no dividends) (Points)	1543.11	1630.40	1411.16	1547.30	1347.20
	(Nikkei Stock Average) (Yen)	19206.99	20235.73	17388.15	19033.71	16758.67
Foreign bonds	(10-year U.S. government bond return) (%)	1.92	2.35	2.04	2.27	1.77
	(10-year German government bond return) (%)	0.18	0.76	0.59	0.63	0.15
Foreign equities	(NY Dow-Jones) (US \$)	17776.12	17619.51	16284.70	17425.03	17685.09
	(German DAX) (Points)	11966.17	10944.97	9660.44	10743.01	9965.51
Exchange rates	(Dollar/Yen) (Yen)	119.90	122.36	119.78	120.24	112.39
	(Euro/Yen) (Yen)	128.80	136.32	133.73	130.70	128.07



## Fiscal Year 2015 Market Environment (Full Year) ②

Changes in benchmark indices (FY2015 full year)

【Domestic bonds】



【Foreign bonds】



【Domestic equities】



【Foreign equities】

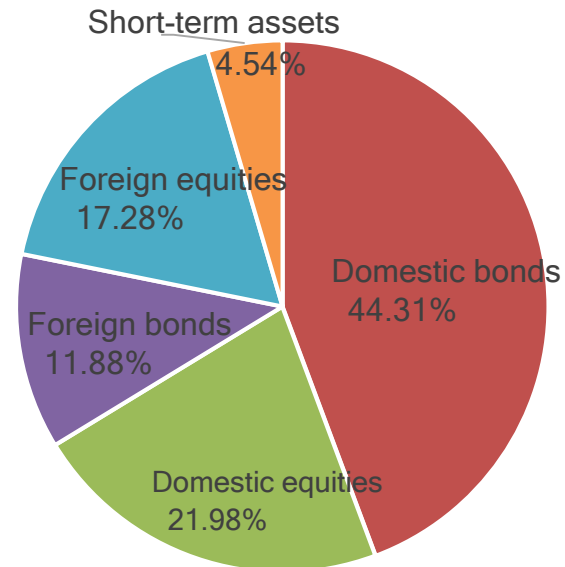


## Portfolio Allocation by Asset Category

(Unit: 100 mil. yen, %)

	FY2015 year-end	
	Asset Value	Portfolio Allocations
Domestic bonds	47,245	44.31
Domestic equities	23,438	21.98
Foreign bonds	12,671	11.88
Foreign equities	18,429	17.28
Short-term assets	4,841	4.54
Total	106,624	100.00

FY2015 year-end Portfolio Allocations by Investment Asset



(Note 1) The benchmark portfolio is domestic bonds 35% ( $\pm 15\%$ ), domestic equities 25% ( $\pm 14\%$ ), foreign bonds 15% ( $\pm 6\%$ ) and foreign equities 25% ( $\pm 12\%$ ) (Figures in parentheses are deviation tolerance).

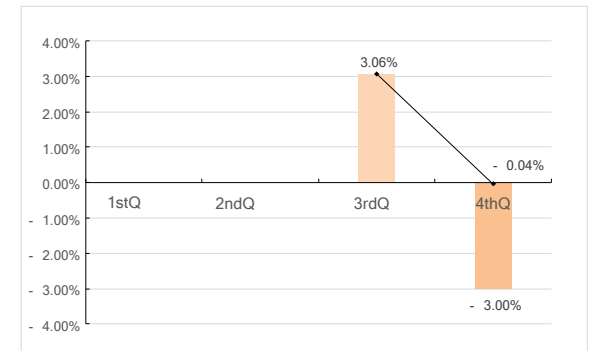
(Note 2) The total of the individual figures shown above might not agree with the total because of rounding.

## Fiscal Year 2015 Transitional Long-term Benefit Adjustment Fund: Return on Investments

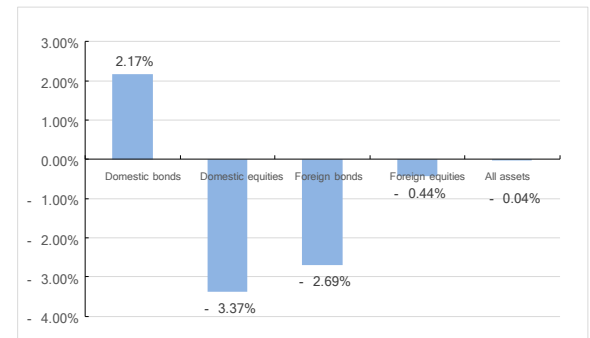
- The modified total return for fiscal year 2015 (second half) was  $-0.04\%$ . The realized return was  $1.48\%$ .
- The modified total return in the third quarter was  $3.06\%$ ; the modified total return in the fourth quarter was  $-3.00\%$ .
- The modified total return by asset were  $2.17\%$  for domestic bonds,  $-3.37\%$  for domestic equities, foreign government bonds came to  $-2.69\%$ , and on foreign equities came to  $-0.44\%$ .

(Unit: %)

	Fiscal Year 2015				
	1st Q	2nd Q	3rd Q	4th Q	FY total
Realized return			0.92	0.56	1.48
Modified total return			3.06	-3.00	-0.04



	Fiscal Year 2015				
	1st Q	2nd Q	3rd Q	4th Q	FY total
Modified total return			3.06	-3.00	-0.04
Domestic bonds			0.59	1.60	2.17
Domestic equities			9.53	-11.34	-3.37
Foreign bonds			-1.21	-1.50	-2.69
Foreign equities			5.53	-5.39	-0.44



(Note 1) Returns since October 2015, when the pension system was integrated with Employees' Pension Insurance System.

(Note 2) "3rd Q" and "4th Q" are period rate. "Fiscal year total" is the period rate for the second half of fiscal year 2015.

(Note 3) The returns are after deduction of fees.

(Note 4) The modified total return is the realized return tempered for changes to valuation gains and losses when tentatively valued at current market value.

## (Reference) Fiscal Year 2015 Long-term Benefit Fund: Return on Investments

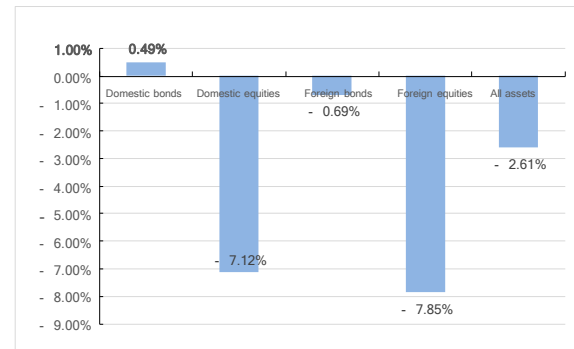
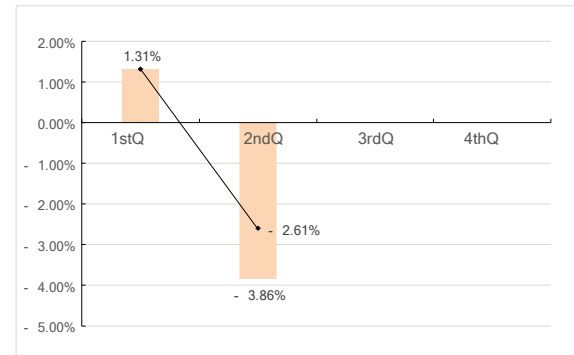
- The modified total return for fiscal year 2015 (first half) was  $-2.61\%$ . The realized return was  $2.39\%$ .
- The modified total return in the first quarter was  $1.31\%$ ; the modified total return in the second quarter was  $-3.86\%$ .
- By type of asset, the modified total return was  $0.49\%$  for domestic bonds and  $-7.12\%$  for domestic equities, and came to  $-0.69\%$  for foreign bonds and  $-7.85\%$  for foreign equities.

(Unit: %)

	Fiscal year 2015 (mutual-aid pension system)		
	1st Q	2nd Q	1st half
Realized return	0.90	1.48	2.39
Modified total return	1.31	-3.86	-2.61

(Unit: %)

	Fiscal year 2015 (mutual-aid pension system)		
	1st Q	2nd Q	1st half
Modified total return	1.31	-3.86	-2.61
Domestic bonds	-0.05	0.54	0.49
Domestic equities	5.86	-12.23	-7.12
Foreign bonds	-0.99	0.27	-0.69
Foreign equities	1.46	-9.09	-7.85



(Note 1) The return of mutual pension system assets before the pension system was integrated with Employees' Pension Insurance System.

(Note 2) "1st Q" and "2nd Q" are period rate. "Fiscal year total" is the period rate for the first half of fiscal 2015.

(Note 3) The returns are after deduction of fees.

(Note 4) The modified total return is the realized return tempered for changes to valuation gains and losses based on current market value.

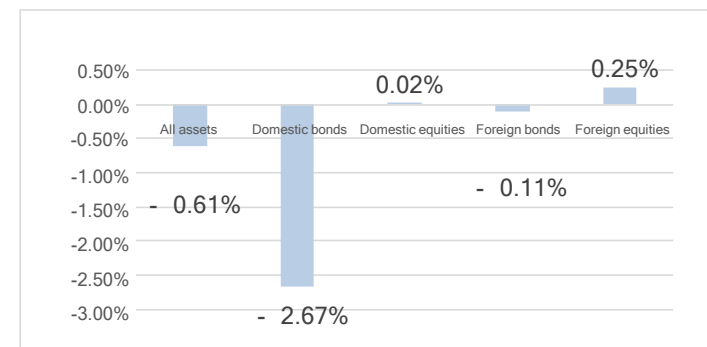
## Fiscal Year 2015 (Second Half) Excess Return

- All assets: The modified total return was  $-0.04\%$ , and the excess return was  $-0.61\%$ .  
With the ratio of domestic bonds in the asset allocation maintained at a higher percentage than in the benchmark portfolio, the decline in the domestic and foreign stock markets and ongoing appreciation of the yen in the foreign exchange market were positive factors, but returns on domestic bonds in the investment results by individual assets fell below the benchmark. As a result, the excess return was negative.
- Domestic bonds: The modified total return was  $2.17\%$ , and the excess return was  $-2.67\%$ .  
The duration of the domestic bonds in the funds is shorter than that of the benchmark, and the percentage increase in bond prices from the return decline was below the benchmark. As a result, the excess return was negative.
- Domestic equities: The modified total return was  $-3.37\%$ , and the excess return was  $0.02\%$ .  
As the yen's appreciation in the foreign exchange market progressed, the percentage holdings of export-related equities was restrained relative to the benchmark. As a result, the percentage decline of stock prices was also held within a smaller range than that of the benchmark, and the excess return was slightly positive.
- Foreign equities: The modified total return was  $-2.69\%$ , and the excess return was  $-0.11\%$ .  
The excess return was slightly negative; the primary factor was the percentage increase in prices of non-government bonds, which was below the benchmark, as the percentage holdings of non-government bonds was maintained at a level higher than the benchmark.
- Foreign equities: The modified total return was  $-0.44\%$ , and the excess return was  $0.25\%$ .  
As stock markets fell globally, the allocation of consumer-related firm stocks and public utility stocks, which are less susceptible to the influence of economic fluctuations, was maintained at a level higher than the benchmark. The percentage decline of stock prices was also held within a smaller range than that of the benchmark. As a result, the excess return was positive.

Fiscal year 2015 (October 2015 - March 2016)

	All assets	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Modified total return	- 0.04%	2.17%	- 3.37%	- 2.69%	- 0.44%
Benchmark return	0.57%	4.84%	- 3.39%	- 2.58%	- 0.69%
Excess return	- 0.61%	- 2.67%	0.02%	- 0.11%	0.25%

Excess return



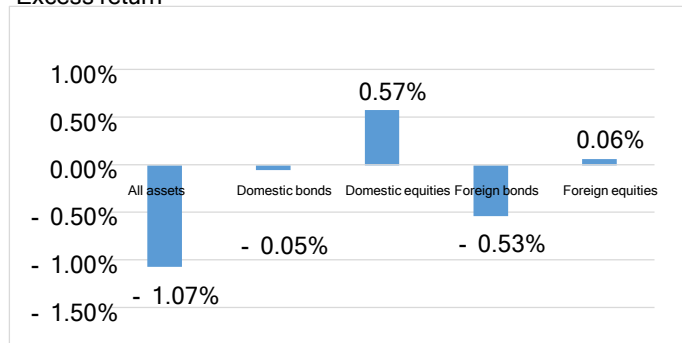
## (Reference) Fiscal Year 2015 (First Half) Excess Return

- All assets: The modified total return was  $-2.61\%$ , and the excess return was  $-1.07\%$ .  
Stock markets fell globally through the end of the fiscal year, as the ratio of domestic and foreign equities in the Funds asset allocation was maintained at a higher level than in the previous benchmark portfolio. As a result, the excess return was negative.
- Domestic bonds : The modified total return was  $0.49\%$ , and the excess return was  $-0.05\%$ .  
The duration of the domestic bonds in the funds was shorter than that of the benchmark, and the percentage increase in bond prices from the return decline was below the benchmark. As a result, the excess return was slightly negative.
- Domestic equities: The modified total return was  $-7.12\%$ , and the excess return was  $0.57\%$ .  
Stock prices fell against the backdrop of concerns about the future direction of the overseas economy, as the percentage holdings of export-related equities was restrained relative to the benchmark. As a result, the percentage decline of stock prices was also held within a smaller range than that of the benchmark, and the excess return was positive.
- Foreign bonds: The modified total return was  $-0.69\%$ , and the excess return was  $-0.53\%$ .  
The excess return was slightly negative; the main reason was the decrease in prices of non-government bonds held in the portfolio against the backdrop of a sharp fall in crude oil prices and concerns about the overseas economic climate, as the percentage holdings of non-government bonds was maintained at a level higher than the benchmark.
- Foreign equities: The modified total return was  $-7.85\%$ , and the excess return was  $0.06\%$ .  
As stock markets fell globally, the allocation of consumer-related firm stocks and public utility stocks, which are less susceptible to the influence of economic fluctuations, was maintained at a level higher than the benchmark. The percentage decline of stock prices was also held within a smaller range than that of the benchmark. As a result, the excess return was positive.

Fiscal year 2015 (April 2015 - September 2015)

	All assets	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Modified total return	-2.61%	0.49%	-7.12%	-0.69%	-7.85%
Benchmark return	-1.54%	0.54%	-7.69%	-0.16%	-7.91%
Excess return	-1.07%	-0.05%	0.57%	-0.53%	0.06%

Excess return



## Fiscal Year 2015 Transitional Long-term Benefit Adjustment Fund: Investment Income

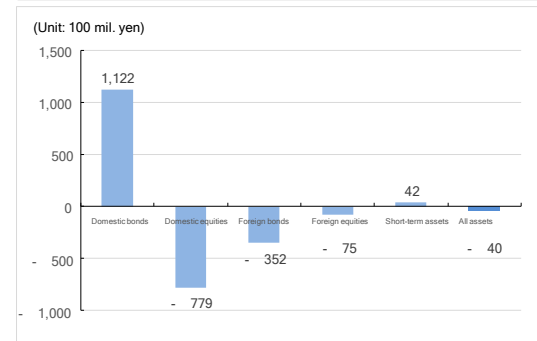
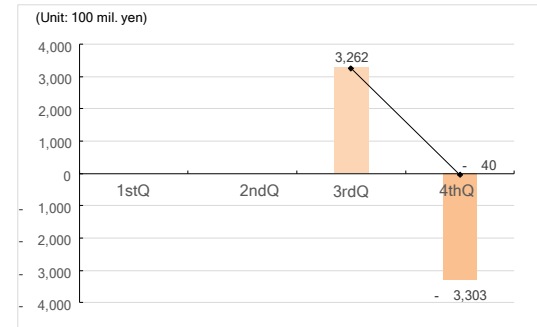
- The investment incomes for fiscal year 2015 (second half) were —¥4 billion. Furthermore, the realized incomes were ¥144.1 billion.
- The investment incomes for the third quarter was ¥326.2 billion, while the investment incomes for the fourth quarter came to —¥330.3 billion.
- The investment incomes by asset were ¥112.2 billion for domestic bonds, —¥77.9 billion for domestic equities, —¥35.2 billion for foreign bonds, and —¥7.5 billion for foreign equities.

(Unit: 100 mil. yen)

	Fiscal Year 2015				
	1st Q	2nd Q	3rd Q	4th Q	FY total
Realized income			895	547	1,441
Investment income			3,262	-3,303	-40

(Unit: 100 mil. yen)

	Fiscal Year 2015				
	1st Q	2nd Q	3rd Q	4th Q	FY total
Investment income			3,262	-3,303	-40
Domestic bonds			317	805	1,122
Domestic equities			2,132	-2,910	-779
Foreign bonds			-158	-194	-352
Foreign equities			907	-981	-75
Short-term assets			64	-22	42



(Note 1) Incomes since October 2015, when the pension system was integrated with Employees' Pension Insurance System.

(Note 2) "Fiscal year total" is the income for the second half of fiscal year 2015.

(Note 3) The incomes are after deduction of fees.

(Note 4) The investment incomes are the realized income tempered for changes to valuation gains and losses based on current market value.

(Note 5) The total of the individual figures shown above might not agree with the total because of rounding.

## (Reference) Fiscal year 2015 Long-term Benefit Fund: Investment Income

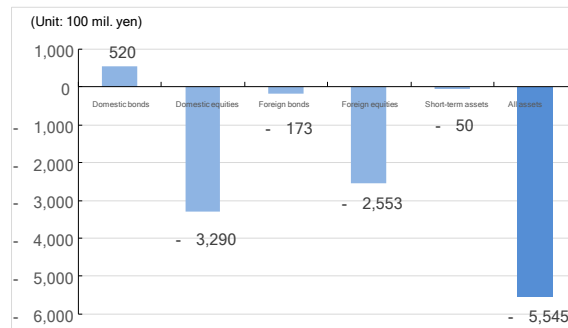
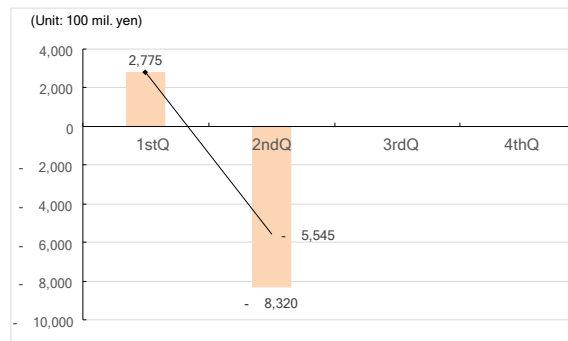
- The investment incomes for fiscal year 2015 (first half) were  $-\text{¥}554.5$  billion. Furthermore, the realized incomes were  $\text{¥}440.3$  billion.
- The investment incomes for the first quarter were  $\text{¥}277.5$  billion, while investment incomes for the second quarter came to  $-\text{¥}832$  billion.
- The investment incomes by asset were  $\text{¥}52$  billion for domestic bonds,  $-\text{¥}329$  billion for domestic equities,  $-\text{¥}17.3$  billion for foreign bonds, and  $-\text{¥}255.3$  billion for foreign equities.

(Unit: 100 mil. yen)

	Fiscal year 2015 (mutual-aid pension system)		
	1st Q	2nd Q	1st half
Realized income	1,645	2,757	4,403
Investment income	2,775	-8,320	-5,545

(Unit: 100 mil. yen)

	Fiscal year 2015 (mutual-aid pension system)		
	1st Q	2nd Q	1st half
Investment income	2,775	-8,320	-5,545
Domestic bonds	-56	576	520
Domestic equities	2,672	-5,962	-3,290
Foreign bonds	-240	68	-173
Foreign equities	468	-3,022	-2,553
Short-term assets	-70	20	-50



(Note 1) The mutual pension system income before the pension system was integrated with Employees' Pension Insurance System.

(Note 2) The incomes are after deduction of fees.

(Note 3) The investment incomes are the realized incomes tempered for changes to valuation gains and losses based on current market value.

(Note 4) The total of the individual figures shown above might not agree with the total because of rounding.



## Fiscal Year 2015 Transitional Long-term Benefit Adjustment Fund: Value of Assets

(Unit: 100 mil. yen)

	Fiscal Year 2015											
	End of 1st Q			End of 2nd Q			End of 3rd Q			Fiscal year-end		
	Book value	Market value	Valuation gains/losses	Book value	Market value	Valuation gains/losses	Book value	Market value	Valuation gains/losses	Book value	Market value	Valuation gains/losses
Domestic bonds							50,863	52,748	1,886	45,165	47,245	2,080
Domestic equities							20,091	24,958	4,868	21,607	23,438	1,831
Foreign bonds							12,596	13,019	424	12,537	12,671	135
Foreign equities							12,455	17,369	4,914	14,526	18,429	3,904
Short-term assets							1,604	1,605	1	4,841	4,841	0
Total							97,608	109,700	12,092	98,676	106,624	7,948

(Note 1) Investment asset amounts since October 2015, when the pension system was integrated with Employees' Pension Insurance System.

(Note 2) The total of the individual figures shown above might not agree with the total because of rounding.

## (Reference) Fiscal year 2015 Long-term Benefit Fund: Value of Assets

(Unit: 100 mil. yen)

	Fiscal year 2015 (mutual-aid pension system)					
	End of 1st Q			End of 2nd Q		
	Book value	Market value	Valuation gains/losses	Book value	Market value	Valuation gains/losses
Domestic bonds	102,728	106,094	3,366	101,917	105,273	3,356
Domestic equities	35,353	48,196	12,843	36,500	42,229	5,730
Foreign bonds	22,087	24,045	1,958	23,952	25,023	1,071
Foreign equities	21,035	32,592	11,556	23,397	31,322	7,925
Short-term assets	3,224	3,225	0	1,908	1,909	0
Total	184,427	214,151	29,723	187,674	205,757	18,083

(Note 1) Value of mutual pension system assets before the pension system was integrated with Employees' Pension Insurance System.

(Note 2) The total of the individual figures shown above might not agree with the total because of rounding.

## Fiscal Year 2015 Transitional Long-term Benefit Adjustment Fund: Fees

- Beginning from fiscal year 2001 we introduced a performance-based fee system to provide an incentive to outsourced investment institutions for active investments that seek to earn an excess return, and in fiscal year 2015 we completed the shift of all active investments to the performance-based fee system.

(Unit: 100 mil. yen, %)

	Fiscal Year 2015			
	1st half		1st half	
	Fees	Fee rate	Fees	Fee rate
Domestic bonds			7	0.05
Domestic equities			12	0.05
Foreign bonds			5	0.04
Foreign equities			8	0.05
All assets			32	0.05

(Note 1) Fees= Fees (Second half)/Month-end market price average balance

(Note 2) Investment asset amounts since October 2015, when the pension system was integrated with the Employees' Pension Insurance System.

(Note 3) Fees are management fees and custodian fees pertaining to outsourced investments.

## (Reference) Fiscal Year 2015 Long-term Benefit Fund: Fees

(Unit: 100 mil. yen, %)

	Fiscal year 2015 (mutual-aid pension system)	
	1st half	
	Fees	Fee rate
Domestic bonds	14	0.04
Domestic equities	20	0.04
Foreign bonds	12	0.05
Foreign equities	20	0.06
All assets	66	0.05

(Note 1) Fees = Fees (First half)/Month-end market price average balance

(Note 2) Mutual pension system income before the pension system was integrated with the Employees' Pension Insurance System.

(Note 3) Fees are management fees and custodian fees pertaining to outsourced investments.

## Entrusted Investment Managements

Management and evaluation of outsourced investment institutions and asset management organizations

### (1) Outsourced investment institutions

Outsourced investment institutions are required to submit a report monthly concerning the status of their investments, and must also submit an overview of their investment results and a report concerning matters such as their future investment policy after each quarter. In addition to these reports, as a rule Pension Fund Association for Local Government Officials will conduct a detailed interview once every six months concerning an overview of their investment results and a report concerning matters such as their future investment policy.

Furthermore, Pension Fund Association for Local Government Officials conducts a comprehensive evaluation each year that combines quantitative and qualitative evaluations of each asset and each investment category. In its quantitative evaluation, Pension Fund Association for Local Government Officials mainly assesses the actual excess return after deduction of compensation and the information ratio (for passive investments, the tracking error), and in its qualitative evaluation assesses the quality of the portfolio investment details that cannot be understood in the quantitative evaluation and communications capabilities of the investment institutions.

For an outsourced investment institution judged to need improvements based on the comprehensive evaluation, Pension Fund Association for Local Government Officials will request an investment improvement plan. When improved results are seen to a certain extent and an improved future evaluation can be anticipated, Pension Fund Association for Local Government Officials will look at raising its evaluation. If a sufficient improvement in performance is not evident and future evaluation improvement cannot be anticipated, however, or if an improvement plan is not submitted, Pension Fund Association for Local Government Officials will study a response, including immediate termination.

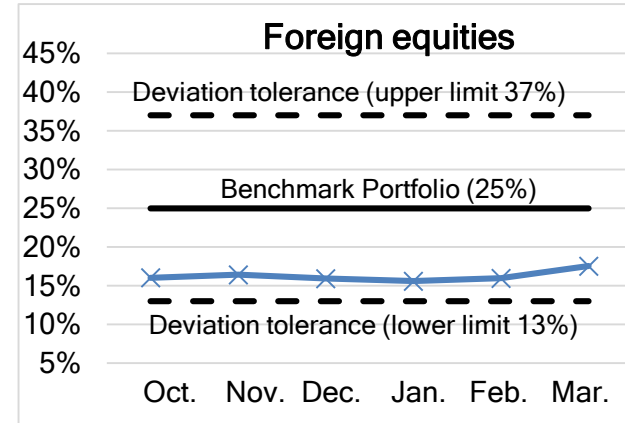
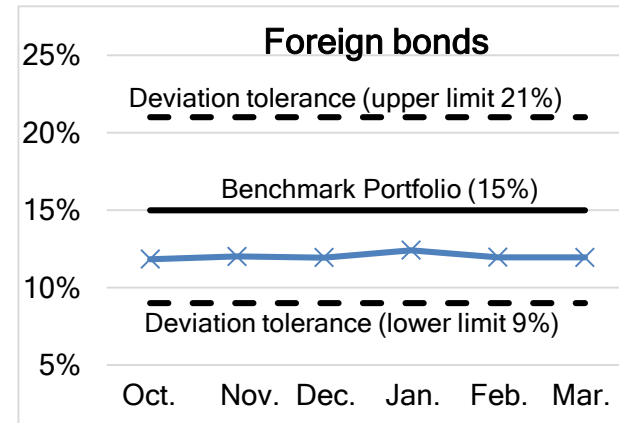
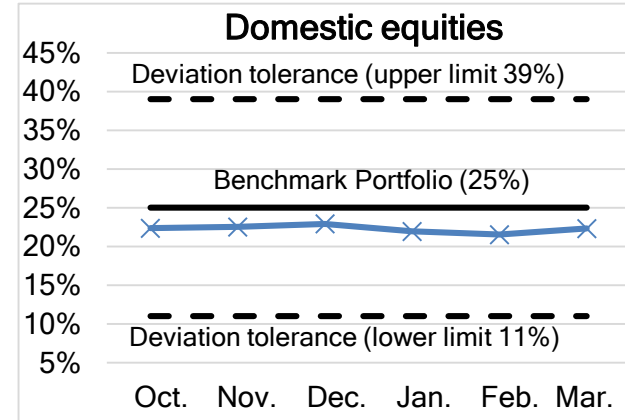
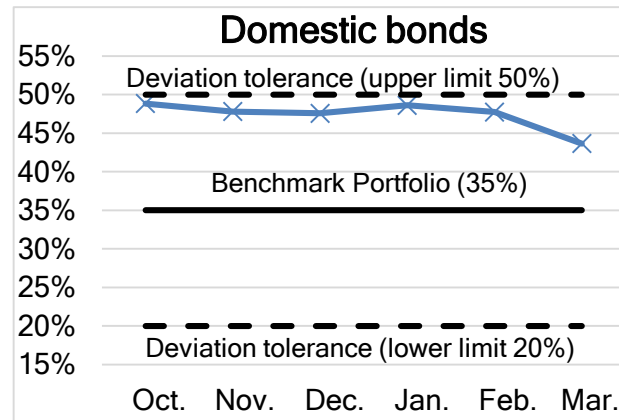
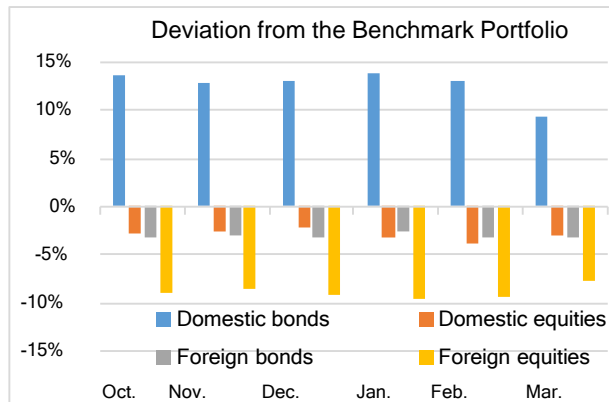
Based on the comprehensive evaluations for fiscal year 2015, Pension Fund Association for Local Government Officials has increased or decreased the amounts invested in domestic equities.

### (2) Asset management organizations

Pension Fund Association for Local Government Officials seeks to provide incentives for asset management organizations, or bring issues to their attention to help achieve appropriate asset management organization controls, by performing qualitative evaluations of their asset management conditions and providing feedback on the evaluation details to the asset management organizations on a timely basis, and by moving funds among asset management organizations based on the contents of its assessment.

## Status of Risk Management ①

The portfolio allocations by asset category at the end on each month during the second half of fiscal year 2015 moved within the range of the benchmark portfolio deviation tolerance.



## Status of Risk Management ②

- The estimated tracking error on the entire Funds was 2.21%.
- With regard to duration, foreign bonds were nearly level with the benchmark, but compared with the benchmark domestic bonds were -2.52. The main reason was mandatory investments in domestic bonds and the duration of Fund 1, which was short compared with the benchmark.
- Beta is nearly 1, and Pension Fund Association for Local Government Official's portfolio is closely synchronized with the market.

Fiscal year 2015 year-end estimated  
tracking error

Fund	2.21%
Domestic bonds	1.08%
Domestic equities	0.54%
Foreign bonds	0.26%
Foreign equities	0.38%

FY2015 year-end duration

	Domestic bonds	Foreign bonds
Fund	6.22	6.90
Benchmark	8.74	6.85
Difference	- 2.52	0.05

FY2015 year-end beta

	Domestic equities	Foreign equities
Beta	1.01	0.99

## Section 3 Reference Data

### (Reference) Changes in Return on Investments , Etc.

#### (1) Return on Investments

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	Last 5-year period (FY2011 - 2015)	Last10-year period (FY2006 - 2015)
Realized return	5.18%	4.03%	1.30%	1.47%	1.29%	1.14%	0.74%	3.11%	4.23%	3.95%	2.63%	2.63%

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	Last 5-year period (FY2011 - 2015)	Last10-year period (FY2006 - 2015)
Modified total return	3.95%	-4.42%	-8.92%	7.95%	-0.18%	2.53%	9.80%	8.44%	11.35%	-2.40%	5.81%	2.61%
Domestic bonds	2.45%	3.43%	1.21%	2.58%	1.72%	2.46%	2.79%	0.55%	2.04%	3.00%	2.16%	2.22%
Domestic equities	-2.08%	-27.89%	-39.02%	34.17%	-7.20%	1.72%	22.08%	18.81%	30.88%	-9.82%	11.73%	-0.68%
Foreign bonds	9.97%	0.43%	-6.61%	0.53%	-6.49%	5.11%	17.94%	14.79%	12.75%	-3.22%	9.20%	4.18%
Foreign equities	16.33%	-13.65%	-43.74%	46.61%	5.04%	2.48%	27.05%	32.02%	22.67%	-7.77%	14.23%	5.40%

#### (2) Investment income

(Unit: 100 mil. yen)

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	Last 5-year period (FY2011 - 2015)	Last10-year period (FY2006 - 2015)
Realized income	7,670	6,278	2,105	2,401	2,123	1,901	1,252	5,288	7,400	7,367	23,207	43,785

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	Last 5-year period (FY2011 - 2015)	Last10-year period (FY2006 - 2015)
Investment income	6,378	-7,435	-14,274	11,491	-276	3,908	15,549	14,718	21,435	-5,159	50,451	46,336
Domestic bonds	2,364	3,605	1,299	2,660	1,713	2,366	2,774	609	2,192	3,070	11,010	22,653
Domestic equities	-673	-8,071	-7,779	4,804	-1,632	402	5,169	4,926	10,500	-4,743	16,254	2,903
Foreign bonds	1,151	59	-1,001	77	-1,041	774	2,845	2,785	2,812	-833	8,382	7,627
Foreign equities	3,647	-2,927	-6,714	4,017	768	454	4,841	6,456	6,068	-2,680	15,139	13,929
Short-term assets	-111	-100	-79	-67	-84	-88	-79	-57	-137	28	-333	-775

(Note 1) Before Fiscal Year 2014, Long-term Benefit Fund.

(Note 2) Fiscal year 2015 is the total for the first half (Long-term Benefit Fund) and second half (Employees' Pension Insurance Benefit Adjustment Fund, Annuity Retirement Benefit Adjustment Fund, and Transitional Long-term Benefits Adjustment Fund) of the year.



## (Reference) Table of Invested Asset Amounts by Outsourced Investment Institution ①

Table of Invested Asset Amounts by Outsourced Investment Institution (Fiscal Year 2015 year-end aggregate market value) ①

(Unit: 100 mil. yen)

Investment methodology	Outsourced investment institution name	Manager - benchmark	Aggregate market value
Domestic bonds Active	Amundi Japan Ltd.	BPI Overall	777
	MU Investments Co., Ltd.	BPI Overall	2,075
	Tokio Marine Asset Management Co., Ltd.	BPI Overall	412
	Nissay Asset Management Corporation	-	51
	Nomura Asset Management Co., Ltd.	BPI Overall	207
	PIMCO Japan Ltd.	BPI Overall	208
	Baring Asset Management (Japan) Ltd.	BPI Overall	209
	Manulife Asset Management (Japan) Ltd.	BPI Overall	207
	Mizuho Trust & Banking Co., Ltd.	BPI Overall	309
	Mizuho Asset Management Co., Ltd.	BPI Overall	309
Domestic bonds Enhanced	Sumitomo Mitsui Trust Bank, Ltd.	BPI Overall	414
	Sumitomo Mitsui Trust Bank, Ltd.	BPI Overall	1,362
	Mitsubishi UFJ Trust and Banking Corp.	BPI Overall	2,181
Domestic bonds Passive	Resona Bank, Ltd.	BPI Overall	1,261
	In-house investment (agency bonds)	-	16,103
	In-house investment (Fund 1)	-	20,455
Group endowment insurance	In-house investment (municipal bond instruments)	-	70
	Taiyo Life Insurance Company	-	148
	Nippon Life Insurance Company	-	310
	Fukoku Mutual Life Insurance Company	-	82
	Meiji Yasuda Life Insurance Company	-	97

Management methodology	Asset management institution name	Aggregate market value
Asset management	Mizuho Trust & Banking Co., Ltd.	10,835
	Sumitomo Mitsui Trust Bank, Ltd.	23,438
	Mitsubishi UFJ Trust and Banking Corp.	46,609
	Resona Bank, Ltd.	20,266

(Note 1) Outsourced investment institutions and asset management institutions are shown in syllabic order.

(Note 2) Outsourced investment institutions entrusted with more than one investment that utilizes the same investment methodology are shown in order by start of investment, using a Roman numeral following the investment name.

(Note 3) The aggregate market values of outsourced investment institutions and asset management institutions include short-term assets.

(Note 4) The aggregate market values of asset management institutions exclude uncollected income etc. from terminated funds.

(Note 5) "Enhanced" refers to investments positioned between active and passive investments that are undertaken with the objective of stably exceeding the market average return while constraining divergence from the market average return.

(Note 6) A hyphen ("-") in the manager benchmark column indicates that a manager benchmark has not been set.

(Unit: 100 mil. yen)

Investment methodology	Outsourced investment institution name	Manager - benchmark	Aggregate market value
Domestic equities Active	Asahi Life Asset Management Co., Ltd.	TOPIX	583
	Allianz Global Investors Japan Co., Ltd.	TOPIX	102
	Wellington Management Japan Pte. Ltd.	S&P-J-S	105
	MU Investments Co., Ltd.	-	93
	Capital International K.K.	TOPIX	98
	Goldman Sachs Asset Management Co., Ltd.	TOPIX	173
	State Street Global Advisors (Japan) Co., Ltd.	State-J MV	207
	Sompo Japan Nipponkoa Asset Management Co., Ltd. I	TOPIX	1,319
	Sompo Japan Nipponkoa Asset Management Co., Ltd. II	SNAM	101
	DIAM Co., Ltd. I	TOPIX	395
	DIAM Co., Ltd. II	RN-S	115
	DIAM Co., Ltd. III	TOPIX	169
	Daiwa SB Investments Ltd.	-	100
	Tokio Marine Asset Management Co., Ltd. I	TOPIX	867
	Tokio Marine Asset Management Co., Ltd. II	TOPIX400	117
	Nikko Asset Management Co., Ltd.	-	110
	Nissay Asset Management Corporation I	TOPIX	180
	Nissay Asset Management Corporation II	TOPIX	98
	Nomura Asset Management Co., Ltd.	TOPIX	561
	BNY Mellon Asset Management Japan Limited	RN-S	120
	Fidelity Investments (Japan) Limited	TOPIX	112
	BlackRock Japan Co., Ltd. I	TOPIX	116
	BlackRock Japan Co., Ltd. II	TOPIX	170
	Mizuho Trust & Banking Co., Ltd.	-	108
	Mizuho Asset Management Co., Ltd.	TOPIX	332
	Sumitomo Mitsui Asset Management Co., Ltd. I	TOPIX	359
	Sumitomo Mitsui Asset Management Co., Ltd. II	TOPIX	86
	Sumitomo Mitsui Trust Bank, Ltd. I	TOPIX	638
	Sumitomo Mitsui Trust Bank, Ltd. II	TOPIX	123
	Sumitomo Mitsui Trust Bank, Ltd. III	FTSE GWA-J	167
	Sumitomo Mitsui Trust Bank, Ltd. IV	TOPIX	169
	Mitsubishi UFJ Trust and Banking Corp. I	TOPIX	317
	Mitsubishi UFJ Trust and Banking Corp. II	MSCI-J MV	192
	Meiji Yasuda Asset Management Co., Ltd.	TOPIX	101
	Resona Bank, Ltd. I	FTSE RAFI-J	169
	Resona Bank, Ltd. II	TOPIX	173
Domestic equities Passive	Mizuho Trust & Banking Co., Ltd. I	TOPIX	2,989
	Mizuho Trust & Banking Co., Ltd. II	RN-P	361
	Sumitomo Mitsui Trust Bank, Ltd. I	TOPIX	3,583
	Sumitomo Mitsui Trust Bank, Ltd. II	JPX400	382
	Sumitomo Mitsui Trust Bank, Ltd. III	MSCI-J	354
	Mitsubishi UFJ Trust and Banking Corp.	TOPIX	3,061
	Resona Bank, Ltd. I	TOPIX	3,394
	Resona Bank, Ltd. II	JPX400	370

## (Reference) Table of Invested Asset Amounts by Outsourced Investment Institution ②

Table of Invested Asset Amounts by Outsourced Investment Institution (Fiscal year 2015 fiscal year-end aggregate market value) ②

(Unit: 100 mil. yen)

Investment methodology	Outsourced investment institution name (Subcontractor)	Manager • benchmark	Aggregate market value
Foreign bonds Active	Invesco Asset Management (Japan) Ltd.	WGBI	927
	Goldman Sachs Asset Management Co., Ltd.	Barclays	191
	Sompo Japan Nipponkoa Asset Management Co., Ltd. (Colchester Global Investors Limited)	WGBI	186
	DIAM Co., Ltd. (Janus Capital Management LLC)	Barclays	188
	Daiwa SB Investments Ltd. (T. T. Rowe Price International Limited)	WGBI	190
	Tokio Marine Asset Management Co., Ltd. (Tokio Marine Rogge Asset Management Ltd.)	WGBI	591
	Nomura Asset Management Co., Ltd. I	WGBI	1,208
	Nomura Asset Management Co., Ltd. II	Nomura RAFI	190
	PIMCO Japan Ltd.	WGBI	192
	Fidelity Investments (Japan) Limited	Barclays	192
	BlackRock Japan Co., Ltd.	WGBI	376
	Prudential Investment Management Japan Co., Ltd.	Barclays	190
	Mizuho Asset Management Co., Ltd.	WGBI	193
	Sumitomo Mitsui Trust Bank, Ltd. (Pictet Asset Management (Japan) Ltd.)	WGBI	190
	Morgan Stanley Investment Management (Japan) Co., Ltd.	WGBI	128
	UBS Asset Management (Japan) Ltd.	WGBI	122
	Resona Bank, Ltd.	WGBI	474
	Sumitomo Mitsui Trust Bank, Ltd.	WGBI	1,695
	Mitsubishi UFJ Trust and Banking Corp.	WGBI	1,324
	Resona Bank, Ltd.	WGBI	1,771
Foreign bonds Enhanced	Mizuho Trust & Banking Co., Ltd.	WGBI	480
Foreign bonds Passive	Sumitomo Mitsui Trust Bank, Ltd.	WGBI	475
	Mitsubishi UFJ Trust and Banking Corp.	WGBI	475
	Resona Bank, Ltd.	WGBI	724

(Unit: 100 mil. yen)

Investment methodology	Outsourced investment institution name (Subcontractor)	Manager • benchmark	Aggregate market value
Foreign equities Active	Wellington Management Japan Pte. Ltd.	MSCI-A	225
	Goldman Sachs Asset Management Co., Ltd.	MSCI-K	550
	Schroder Investment Management (Japan) Ltd.	MSCI-E	66
	Sompo Japan Nipponkoa Asset Management Co., Ltd.	MSCI-K	232
	DIAM Co., Ltd. (Robeco Institutional Asset Management B.V.)	MSCI-E	76
	Nissay Asset Management Corporation (PanAgora Asset Management, Inc.)	MSCI-K	218
	Pictet Asset Management (Japan) Ltd.	MSCI-A	221
	Principal Global Investors (Japan) Ltd.	MSCI-A	219
	Manulife Asset Management (Japan) Ltd.	MSCI-A	222
	Mizuho Asset Management Co., Ltd. (Wells Capital Management, Inc.)	MSCI-K	209
	Sumitomo Mitsui Asset Management Co., Ltd. (Vontobel Asset Management Inc.)	MSCI-E	80
	Sumitomo Mitsui Trust Bank, Ltd. (INTECH Investment Management LLC)	MSCI-A	218
	Mitsubishi UFJ Trust and Banking Corp. I	MSCI-K	229
	Mitsubishi UFJ Trust and Banking Corp. II (Baillie Gifford Overseas Limited)	MSCI-A	346
	Meiji Yasuda Asset Management Co. Ltd. (Allianz Global Investors Japan Co., Ltd.)	MSCI-K	242
	Robeco Japan Company Limited	MSCI-A	226
	State Street Global Advisors (Japan) Co., Ltd.	MSCI-A	3,437
	Sumitomo Mitsui Trust Bank, Ltd.	MSCI-A	4,037
	Mitsubishi UFJ Trust and Banking Corp.	MSCI-K	3,860
	Resona Bank, Ltd.	MSCI-A	3,518
Foreign equities Passive			

## (Reference) Table of Invested Asset Amounts by Outsourced Investment Institution ③

- The abbreviations of the manager benchmark are shown below.

Asset class	Manager • benchmark	Manager • benchmark
Domestic bonds	BPI Overall	NOMURA-BPI Overall
Domestic equities	TOPIX	TOPIX (including dividends)
	TOPIX400	TOPIX Mid400 (including dividends)
	RN-P	Russell/Nomura Prime (including dividends)
	RN-S	Russell/Nomura Small Cap Index (including dividends)
	JPX400	JPX-Nikkei Index 400 (including dividends)
	MSCI-J	MSCI Japan Standard (including dividends)
	S&P-J-S	S&P Japan small Cap Index (including dividends)
	SNAM	SNAM Sustainability Index (custom index)
	FTSE RAFI-J	FTSE RAFI Japan 350 QSR (including dividends)
	MSCI-J MV	MSCI Japan Minimum Volatility Index (including dividends)
	FTSE GWA-J	FTSE GWA Japan Index (including dividends)
	State-J MV	State Street Japan Equity Minimum Variance Index (custom index)
Foreign bonds	WGBI	Citi World Government Bond Index (excluding Japan; no hedge, Japanese yen basis)
	Barclays	Barclays Global Aggregate Index
	Nomura RAFI	Nomura RAFI® Foreign bond investment standard index
Foreign equities	MSCI-K	MSCI KOKUSAI (Japanese yen basis, including dividends)
	MSCI-E	MSCI Emerging Markets (Japanese yen basis, including dividends)
	MSCI-A	MSCI ACWI (excluding Japan; Japanese yen basis, including dividends)

## (Reference) Table of Investment Performance by Outsourced Investment Institution (Last)

①

Table of Investment Performance by Outsourced Investment Institution

Investment Performance (Last) (October 2015 - March 2016) ①

Investment methodology	Outsourced investment institution name	Time-weighted return (A)	Benchmark return (B)	Excess return (C) = (A)-(B)	Historical tracking error (D)	Information ratio (C)/(D)
Domestic bonds Active	Amundi Japan Ltd.	5.15%	4.84%	0.31%	0.08%	3.73
	MU Investments Co., Ltd.	5.54%	4.84%	0.70%	0.21%	3.31
	Tokio Marine Asset Management Co., Ltd.	4.70%	4.84%	-0.14%	0.14%	-0.95
	Nomura Asset Management Co., Ltd.	5.08%	4.84%	0.24%	0.09%	2.62
	Mizuho Asset Management Co., Ltd.	4.54%	4.84%	-0.30%	0.15%	-1.97
Domestic bonds Enhanced	Sumitomo Mitsui Trust Bank, Ltd.	5.06%	4.84%	0.22%	0.09%	2.52
	Mitsubishi UFJ Trust and Banking Corp.	4.84%	4.84%	0.00%	0.09%	-0.01
	Resona Bank, Ltd.	4.85%	4.84%	0.01%	0.05%	0.13
Domestic bonds Passive	In-house investment (Fund 1)	5.57%			1.13%	

## (Reference) Table of Investment Performance by Outsourced Investment Institution (Last)

②

Table of Investment Performance by Outsourced Investment Institution

Investment Performance (Last) (October 2015 - March 2016) ②

Investment methodology	Outsourced investment institution name	Time-weighted return (A)	Benchmark return (B)	Excess return (C) = (A)-(B)	Historical tracking error (D)	Information ratio (C)/(D)
Domestic equities Active	Asahi Life Asset Management Co., Ltd.	-3.63%	-3.39%	-0.24%	2.09%	-0.11
	Allianz Global Investors Japan Co., Ltd.	-1.90%	-3.39%	1.49%	5.02%	0.30
	Wellington Management Japan Pte. Ltd.	0.93%	1.17%	-0.24%	3.93%	-0.06
	MU Investments Co., Ltd.	-2.55%			20.13%	
	Capital International K.K.	-2.08%	-3.39%	1.31%	2.90%	0.45
	State Street Global Advisors (Japan) Co., Ltd.	4.40%	4.36%	0.03%	0.07%	
	Sompo Japan Nipponkoa Asset Management Co., Ltd. I	-4.93%	-3.39%	-1.54%	1.40%	-1.10
	Sompo Japan Nipponkoa Asset Management Co., Ltd. II	-3.27%	-3.11%	-0.16%	0.23%	
	DIAM Co., Ltd. I	-2.67%	-3.39%	0.72%	3.80%	0.19
	DIAM Co., Ltd. II	5.05%	0.26%	4.79%	3.12%	1.53
	Daiwa SB Investments Ltd.	-1.84%			16.70%	
	Tokio Marine Asset Management Co., Ltd. I	-2.70%	-3.39%	0.69%	1.27%	0.54
	Tokio Marine Asset Management Co., Ltd. II	7.71%	-2.41%	10.12%	8.42%	1.20
	Nikko Asset Management Co., Ltd.	2.09%			15.41%	
	Nissay Asset Management Corporation I	-3.89%	-3.39%	-0.50%	2.22%	-0.23
	Nomura Asset Management Co., Ltd.	-2.40%	-3.39%	0.99%	1.70%	0.58
	BNY Mellon Asset Management Japan Limited	1.61%	0.26%	1.35%	7.86%	0.17
	Fidelity Investments (Japan) Limited	7.33%	-3.39%	10.72%	4.61%	2.33
	BlackRock Japan Co., Ltd. I	5.48%	-3.39%	8.87%	8.65%	1.02
	Mizuho Trust & Banking Co., Ltd.	-1.34%			17.35%	
	Mizuho Asset Management Co., Ltd.	-3.91%	-3.39%	-0.52%	3.45%	-0.15
	Sumitomo Mitsui Asset Management Co., Ltd. I	-4.40%	-3.39%	-1.01%	1.52%	-0.67
	Sumitomo Mitsui Trust Bank, Ltd. I	-1.92%	-3.39%	1.47%	0.42%	3.51
	Sumitomo Mitsui Trust Bank, Ltd. II	-5.89%	-3.39%	-2.50%	2.35%	-1.07
	Sumitomo Mitsui Trust Bank, Ltd. III	-6.31%	-6.26%	-0.05%	0.07%	
	Mitsubishi UFJ Trust and Banking Corp. I	-3.51%	-3.39%	-0.12%	3.71%	-0.03
	Mitsubishi UFJ Trust and Banking Corp. II	2.52%	2.50%	0.01%	0.10%	
	Meiji Yasuda Asset Management Co. Ltd.	-1.59%	-3.39%	1.80%	3.54%	0.51
Domestic equities Passive	Resona Bank, Ltd. I	-5.73%	-5.72%	-0.01%	0.08%	
	Mizuho Trust & Banking Co., Ltd. I	-3.43%	-3.39%	-0.04%	0.08%	
	Mizuho Trust & Banking Co., Ltd. II	-3.27%	-3.27%	0.01%	0.01%	
	Sumitomo Mitsui Trust Bank, Ltd. I	-3.48%	-3.39%	-0.09%	0.06%	
	Sumitomo Mitsui Trust Bank, Ltd. II	-2.59%	-2.58%	-0.01%	0.10%	
	Sumitomo Mitsui Trust Bank, Ltd. III	-3.98%	-3.90%	-0.08%	0.03%	
	Mitsubishi UFJ Trust and Banking Corp.	-3.47%	-3.39%	-0.08%	0.07%	
	Resona Bank, Ltd. I	-3.43%	-3.39%	-0.04%	0.08%	
	Resona Bank, Ltd. II	-2.61%	-2.58%	-0.04%	0.07%	

## (Reference) Table of Investment Performance by Outsourced Investment Institution (Last)

③

Table of Investment Performance by Outsourced Investment Institution

Investment Performance (Last) (October 2015 - March 2016) ③

Investment methodology	Outsourced investment institution name (Subcontractor)	Time-weighted return (A)	Benchmark return (B)	Excess return (C) = (A)-(B)	Historical tracking error (D)	Information ratio (C)/(D)
Foreign bonds Active	Invesco Asset Management (Japan) Ltd.	-2.94%	-2.58%	-0.36%	0.73%	-0.49
	Goldman Sachs Asset Management Co., Ltd.	-2.38%	-2.79%	0.41%	0.31%	1.29
	Sompo Japan Nipponkoa Asset Management Co., Ltd. (Colchester Global Investors Limited)	-1.70%	-2.58%	0.88%	1.71%	0.52
	DIAM Co., Ltd. (Janus Capital Management LLC)	-3.61%	-2.79%	-0.82%	0.72%	-1.15
	Daiwa SB Investments Ltd. (T. T. Rowe Price International Limited)	-2.41%	-2.58%	0.17%	0.59%	0.29
	Tokio Marine Asset Management Co., Ltd. (Tokio Marine Rogge Asset Management Ltd.)	-2.50%	-2.58%	0.08%	0.65%	0.12
	Nomura Asset Management Co., Ltd. I	-2.23%	-2.58%	0.35%	0.47%	0.75
	Nomura Asset Management Co., Ltd. II	-1.27%	-1.27%	0.00%	0.09%	-0.02
	PIMCO Japan Ltd.	-2.48%	-2.58%	0.10%	0.94%	0.11
	Fidelity Investments (Japan) Limited	-2.32%	-2.79%	0.47%	0.65%	0.72
	BlackRock Japan Co., Ltd.	-2.60%	-2.58%	-0.02%	0.35%	-0.04
	Prudential Investment Management Japan Co., Ltd.	-2.26%	-2.79%	0.53%	0.89%	0.59
	Mizuho Asset Management Co., Ltd.	-1.88%	-2.58%	0.70%	0.79%	0.88
	Sumitomo Mitsui Trust Bank, Ltd. (Pictet Asset Management (Japan) Ltd.)	-2.23%	-2.58%	0.35%	0.36%	0.97
	Morgan Stanley Investment Management (Japan) Co., Ltd.	-2.44%	-2.58%	0.14%	0.78%	0.18
	UBS Asset Management (Japan) Ltd.	-2.40%	-2.58%	0.18%	0.31%	0.59
	Resona Bank, Ltd.	-2.81%	-2.58%	-0.23%	0.60%	-0.37
Foreign bonds Enhanced	Sumitomo Mitsui Trust Bank, Ltd.	-2.54%	-2.58%	0.04%	0.11%	0.40
	Mitsubishi UFJ Trust and Banking Corp.	-2.47%	-2.58%	0.11%	0.14%	0.82
	Resona Bank, Ltd.	-2.87%	-2.58%	-0.29%	0.22%	-1.29
Foreign bonds Passive	Mizuho Trust & Banking Co., Ltd.	-2.57%	-2.58%	0.02%	0.03%	
	Sumitomo Mitsui Trust Bank, Ltd.	-2.58%	-2.58%	0.00%	0.03%	
	Mitsubishi UFJ Trust and Banking Corp.	-2.59%	-2.58%	-0.01%	0.06%	
	Resona Bank, Ltd.	-2.56%	-2.58%	0.02%	0.04%	

## (Reference) Table of Investment Performance by Outsourced Investment Institution (Last)

④

Table of Investment Performance by Outsourced Investment Institution

Investment Performance (Last) (October 2015 - March 2016) ④

Investment methodology	Outsourced investment institution name (Subcontractor)	Time-weighted return (A)	Benchmark return (B)	Excess return (C) = (A)-(B)	Historical tracking error (D)	Information ratio (C)/(D)
Foreign equities Active	Wellington Management Japan Pte. Ltd.	-3.82%	-0.69%	-3.12%	3.14%	-0.99
	Goldman Sachs Asset Management Co., Ltd.	0.35%	-0.80%	1.15%	1.47%	0.79
	Schroder Investment Management (Japan) Ltd.	-2.36%	-0.03%	-2.34%	0.81%	-2.88
	Sompo Japan Nipponkoa Asset Management Co., Ltd.	-1.13%	-0.80%	-0.33%	2.08%	-0.16
	DIAM Co., Ltd. (Robeco Institutional Asset Management B.V.)	-0.43%	-0.03%	-0.40%	0.72%	-0.56
	Nissay Asset Management Corporation (PanAgora Asset Management, Inc.)	-0.62%	-0.80%	0.18%	0.75%	0.24
	Pictet Asset Management (Japan) Ltd.	-2.19%	-0.69%	-1.50%	3.11%	-0.48
	Principal Global Investors (Japan) Ltd.	-2.40%	-0.69%	-1.71%	2.28%	-0.75
	Manulife Asset Management (Japan) Ltd.	1.53%	-0.69%	2.23%	3.71%	0.60
	Mizuho Asset Management Co., Ltd. (Wells Capital Management, Inc.)	-3.86%	-0.80%	-3.06%	2.51%	-1.22
	Sumitomo Mitsui Asset Management Co., Ltd. (Vontobel Asset Management Inc.)	1.94%	-0.03%	1.97%	5.52%	0.36
	Sumitomo Mitsui Trust Bank, Ltd. (INTECH Investment Management LLC)	-1.89%	-0.69%	-1.19%	2.32%	-0.51
	Mitsubishi UFJ Trust and Banking Corp. I	-1.72%	-0.80%	-0.92%	1.89%	-0.49
	Mitsubishi UFJ Trust and Banking Corp. II (Baillie Gifford Overseas Limited)	-0.92%	-0.69%	-0.22%	4.45%	-0.05
	Meiji Yasuda Asset Management Co. Ltd. (Allianz Global Investors Japan Co., Ltd.)	-0.96%	-0.80%	-0.16%	1.70%	-0.09
	Robeco Japan Company Limited	-0.75%	-0.69%	-0.05%	2.73%	-0.02
Foreign equities Passive	State Street Global Advisors (Japan) Co., Ltd.	-0.61%	-0.69%	0.08%	0.16%	
	Sumitomo Mitsui Trust Bank, Ltd.	-0.77%	-0.77%	0.00%	0.04%	
	Mitsubishi UFJ Trust and Banking Corp.	-0.83%	-0.80%	-0.03%	0.02%	
	Resona Bank, Ltd.	-0.30%	-0.27%	-0.03%	0.03%	

(Note 1) Outsourced investment institutions are shown in syllabic order.

(Note 2) Outsourced investment institutions entrusted with more than one investment that utilizes the same investment methodology are shown in order by start of investment, using a Roman numeral following the investment name.

(Note 3) The time-weighted return and benchmark return are annualized rates that exclude the effect of the trade suspended period for asset transfer.

(Note 4) In some instances the excess return and the information ratio do not agree with the value calculated using the numerical values in the table because the rates of return have been rounded to three decimal places.

(Note 5) Results is not shown for funds with less than six months of operating performance.

## (Reference) Table of Investment Performance by Outsourced Investment Institution (Last 3 Years) ①

Table of Investment Performance by Outsourced Investment Institution

Investment Performance (Last 3 Years) (April 2013 - March 2016) ①

Investment methodology	Outsourced investment institution name	Time-weighted return (A)	Benchmark return (B)	Excess return (C) = (A)-(B)	Historical tracking error (D)	Information ratio (C)/(D)
Domestic bonds Active	Amundi Japan Ltd.	3.54%	2.97%	0.57%	0.15%	3.70
	MU Investments Co., Ltd.	3.48%	2.97%	0.51%	0.25%	2.03
	Tokio Marine Asset Management Co., Ltd.	3.13%	2.97%	0.16%	0.14%	1.11
	Nomura Asset Management Co., Ltd.	3.17%	2.97%	0.21%	0.17%	1.22
	Mizuho Asset Management Co., Ltd.	3.09%	2.97%	0.12%	0.33%	0.37
Domestic bonds Enhanced	Sumitomo Mitsui Trust Bank, Ltd.	3.13%	2.97%	0.16%	0.09%	1.81
	Mitsubishi UFJ Trust and Banking Corp.	2.99%	2.97%	0.03%	0.08%	0.33
	Resona Bank, Ltd.	2.99%	2.97%	0.02%	0.09%	0.22
Domestic bonds Passive	In-house investment (Fund 1)	2.37%			0.93%	
Domestic equities Active	Asahi Life Asset Management Co., Ltd.	10.56%	11.38%	-0.83%	3.30%	-0.25
	Sompo Japan Nipponkoa Asset Management Co., Ltd. I	11.82%	11.38%	0.44%	3.25%	0.14
	DIAM Co., Ltd. I	14.37%	11.38%	2.99%	2.80%	1.06
	Tokio Marine Asset Management Co., Ltd. I	14.47%	11.38%	3.08%	2.36%	1.30
	Nissay Asset Management Corporation I	12.56%	11.38%	1.18%	2.12%	0.56
	Nomura Asset Management Co., Ltd.	11.99%	11.38%	0.61%	2.56%	0.24
	Mizuho Asset Management Co., Ltd.	11.21%	11.38%	-0.17%	4.75%	-0.04
	Sumitomo Mitsui Asset Management Co., Ltd. I	13.23%	11.38%	1.84%	2.15%	0.86
	Sumitomo Mitsui Trust Bank, Ltd. I	12.11%	11.38%	0.72%	2.73%	0.27
	Sumitomo Mitsui Trust Bank, Ltd. II	12.32%	11.38%	0.93%	3.18%	0.29
	Mitsubishi UFJ Trust and Banking Corp. I	13.89%	11.38%	2.51%	3.22%	0.78
Domestic equities Passive	Mizuho Trust & Banking Co., Ltd. I	11.35%	11.38%	-0.03%	0.13%	
	Sumitomo Mitsui Trust Bank, Ltd. I	11.32%	11.38%	-0.06%	0.16%	
	Mitsubishi UFJ Trust and Banking Corp.	11.43%	11.38%	0.05%	0.17%	
	Resona Bank, Ltd. I	11.32%	11.38%	-0.06%	0.16%	



## (Reference) Table of Investment Performance by Outsourced Investment Institution (Last 3 Years) ②

Table of Investment Performance by Outsourced Investment Institution

Investment Performance (Last 3 Years) (April 2013 - March 2016) ②

Investment methodology	Outsourced investment institution name (Subcontractor)	Time-weighted return (A)	Benchmark return (B)	Excess return (C) = (A)-(B)	Historical tracking error (D)	Information ratio (C)/(D)
Foreign bonds Active	Invesco Asset Management (Japan) Ltd.	8.06%	7.98%	0.08%	0.90%	0.09
	Tokio Marine Asset Management Co., Ltd. (Tokio Marine Rogge Asset Management Ltd.)	7.49%	7.98%	-0.49%	0.79%	-0.62
	Nomura Asset Management Co., Ltd. I	8.47%	7.98%	0.49%	0.92%	0.53
	BlackRock Japan Co., Ltd.	8.19%	7.98%	0.21%	0.48%	0.44
	Morgan Stanley Investment Management (Japan)Co., Ltd.	7.59%	7.98%	-0.39%	0.70%	-0.55
	UBS Asset Management (Japan) Ltd.	7.99%	7.98%	0.01%	0.53%	0.03
Foreign bonds Enhanced	Sumitomo Mitsui Trust Bank, Ltd.	8.02%	7.98%	0.04%	0.19%	0.22
	Mitsubishi UFJ Trust and Banking Corp.	8.05%	7.98%	0.07%	0.18%	0.38
	Resona Bank, Ltd.	8.28%	7.98%	0.30%	0.40%	0.74
Foreign bonds Passive	Mizuho Trust & Banking Co., Ltd.	7.59%	7.98%	-0.39%	0.50%	
	Resona Bank, Ltd.	8.05%	7.98%	0.08%	0.12%	
Foreign equities Active	Goldman Sachs Asset Management Co., Ltd.	18.78%	14.33%	4.44%	2.07%	2.15
	Sompo Japan Nipponkoa Asset Management Co., Ltd.	13.81%	14.33%	-0.52%	2.13%	-0.24
	Mitsubishi UFJ Trust and Banking Corp. I	12.33%	14.33%	-2.01%	2.19%	-0.92
	Meiji Yasuda Asset Management Co. Ltd. (Allianz Global Investors Japan Co., Ltd.)	15.39%	14.23%	1.16%	1.91%	0.61
Foreign equities Passive	State Street Global Advisors (Japan) Co., Ltd.	14.47%	14.39%	0.08%	0.11%	
	Sumitomo Mitsui Trust Bank, Ltd.	14.27%	14.35%	-0.08%	0.07%	
	Mitsubishi UFJ Trust and Banking Corp.	14.39%	14.33%	0.05%	0.17%	
	Resona Bank, Ltd.	14.48%	14.54%	-0.06%	0.07%	

(Note 1) Outsourced investment institutions are shown in syllabic order.

(Note 2) Outsourced investment institutions entrusted with more than one investment that utilizes the same investment methodology are shown in order by start of investment, using a Roman numeral following the investment name.

(Note 3) The time-weighted return and benchmark return are annualized rates that exclude the effect of the trade suspended period for asset transfer.

(Note 4) In some instances the excess return and the information ratio do not agree with the value calculated using the numerical values in the table because the rates of return have been rounded to three decimal places.

(Note 5) Results are not shown for funds with less than three years of operating performance.

## (Reference) Table of Investment Performance by Outsourced Investment Institution (Last 5 Years) ①

### Table of Investment Performance by Outsourced Investment Institution

#### Investment Performance (Last 5 Years) (April 2011 - March 2016) ①

Investment methodology	Outsourced investment institution name	Time-weighted return (A)	Benchmark return (B)	Excess return (C) =(A)-(B)	Historical tracking error (D)	Information ratio (C)/(D)
Domestic bonds Active	Amundi Japan Ltd.	3.70%	3.11%	0.59%	0.18%	3.20
	MU Investments Co., Ltd.	3.65%	3.11%	0.54%	0.24%	2.27
	Tokio Marine Asset Management Co., Ltd.	3.29%	3.11%	0.18%	0.16%	1.08
	Nomura Asset Management Co., Ltd.	3.16%	3.11%	0.05%	0.19%	0.26
	Mizuho Asset Management Co., Ltd.	3.24%	3.11%	0.13%	0.27%	0.47
Domestic bonds Enhanced	Sumitomo Mitsui Trust Bank, Ltd.	3.26%	3.11%	0.15%	0.14%	1.10
	Mitsubishi UFJ Trust and Banking Corp.	3.12%	3.11%	0.00%	0.10%	0.05
	Resona Bank, Ltd.	3.15%	3.11%	0.03%	0.11%	0.31
Domestic bonds Passive	In-house investment (Fund 1)	2.16%			0.89%	
Domestic equities Active	Asahi Life Asset Management Co., Ltd.	12.07%	11.47%	0.60%	3.02%	0.20
	Sompo Japan Nipponkoa Asset Management Co., Ltd. I	11.54%	11.47%	0.07%	3.44%	0.02
	DIAM Co., Ltd. I	12.52%	11.47%	1.05%	3.02%	0.35
	Tokio Marine Asset Management Co., Ltd. I	11.09%	11.47%	-0.39%	3.67%	-0.11
	Nissay Asset Management Corporation I	12.09%	11.47%	0.62%	2.09%	0.29
	Nomura Asset Management Co., Ltd.	11.57%	11.47%	0.10%	2.55%	0.04
	Mizuho Asset Management Co., Ltd.	10.94%	11.47%	-0.53%	4.86%	-0.11
	Sumitomo Mitsui Asset Management Co., Ltd. I	12.96%	11.47%	1.49%	2.43%	0.61
	Sumitomo Mitsui Trust Bank, Ltd. I	12.67%	11.47%	1.20%	2.73%	0.44
	Sumitomo Mitsui Trust Bank, Ltd. II	11.66%	11.47%	0.19%	2.83%	0.07
	Mitsubishi UFJ Trust and Banking Corp. I	11.83%	11.47%	0.36%	3.58%	0.10
Domestic equities Passive	Mizuho Trust & Banking Co., Ltd. I	11.49%	11.47%	0.02%	0.17%	
	Sumitomo Mitsui Trust Bank, Ltd. I	11.41%	11.47%	-0.06%	0.16%	
	Mitsubishi UFJ Trust and Banking Corp.	11.51%	11.47%	0.04%	0.18%	
	Resona Bank, Ltd. I	11.45%	11.47%	-0.03%	0.17%	

## (Reference) Table of Investment Performance by Outsourced Investment Institution (Last 5 Years) ②

### Table of Investment Performance by Outsourced Investment Institution

Investment Performance (Last 5 Years) (April 2011 - March 2016) ②

Investment methodology	Outsourced investment institution name (Subcontractor)	Time-weighted return (A)	Benchmark return (B)	Excess return (C) = (A)-(B)	Historical tracking error (D)	Information ratio (C)/(D)
Foreign bonds Active	Invesco Asset Management (Japan) Ltd.	9.45%	9.25%	0.20%	1.23%	0.16
	Tokio Marine Asset Management Co., Ltd. (Tokio Marine Rogge Asset Management Ltd.)	9.57%	9.25%	0.32%	1.02%	0.31
	Nomura Asset Management Co., Ltd. I	9.37%	9.25%	0.12%	0.83%	0.15
	BlackRock Japan Co., Ltd.	9.42%	9.25%	0.17%	0.53%	0.32
	Morgan Stanley Investment Management (Japan)Co., Ltd.	8.87%	9.25%	-0.38%	0.72%	-0.52
	UBS Asset Management (Japan) Ltd.	9.10%	9.25%	-0.15%	0.49%	-0.30
Foreign bonds Enhanced	Sumitomo Mitsui Trust Bank, Ltd.	9.17%	9.25%	-0.07%	0.28%	-0.26
	Mitsubishi UFJ Trust and Banking Corp.	9.20%	9.25%	-0.05%	0.30%	-0.16
	Resona Bank, Ltd.	9.50%	9.25%	0.25%	0.41%	0.61
Foreign bonds Passive	Mizuho Trust & Banking Co., Ltd.	9.09%	9.25%	-0.16%	0.57%	
Foreign equities Active	Goldman Sachs Asset Management Co., Ltd.	17.10%	14.14%	2.95%	1.86%	1.58
	Sompo Japan Nipponkoa Asset Management Co., Ltd.	13.17%	14.14%	-0.97%	2.07%	-0.47
	Mitsubishi UFJ Trust and Banking Corp.	11.90%	14.14%	-2.24%	2.55%	-0.88
	Meiji Yasuda Asset Management Co. Ltd. (Allianz Global Investors Japan Co., Ltd.)	14.09%	14.34%	-0.25%	2.05%	-0.12
Foreign equities Passive	State Street Global Advisors (Japan) Co., Ltd.	14.20%	14.17%	0.03%	0.12%	
	Sumitomo Mitsui Trust Bank, Ltd.	13.95%	14.15%	-0.20%	0.16%	
	Mitsubishi UFJ Trust and Banking Corp.	14.17%	14.14%	0.02%	0.15%	
	Resona Bank, Ltd.	14.16%	14.26%	-0.10%	0.07%	

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(Note 3) The time-weighted return and benchmark return are annualized rates that exclude the effect of the trade suspended period for asset transfer.

(Note 4) In some instances the excess return and the information ratio do not to agree with the value calculated using the numerical values in the table because the rates of return have been rounded to three decimal places.

(Note 5) Results are not shown for funds with less than three years of operating performance.

## (Reference) Asset balance by asset, by passive and active management

Asset balance by asset, by passive and active management

(Unit: 100 mil. yen)

		FY2015 year-end			
		All assets	Employees' Pension Insurance Benefit adjustment accounting	Transitional Long-term Benefit adjustment accounting	Retirement etc. Pension Benefit adjustment accounting
Domestic bonds	Passive	80,018	37,894	42,068	56
	Active	10,454	5,277	5,177	0
Domestic equities	Passive	27,647	13,153	14,494	—
	Active	17,865	8,921	8,944	—
Foreign bonds	Passive	13,044	6,100	6,944	—
	Active	11,453	5,726	5,727	—
Foreign equities	Passive	28,620	13,769	14,852	—
	Active	7,157	3,580	3,578	—
Short-term assets		9,338	4,488	4,841	9
Total		205,597	98,908	106,624	64

(Note 1) Balances for passive investments include enhanced investments; balances for active investments include alternative investments.

## (Reference) Fiscal year 2015 Fees

(Unit: 100 mil. yen, %)

	Fiscal Year 2015	
	Fees	Fee rate
Domestic bonds	29	0.09
Domestic equities	44	0.09
Foreign bonds	21	0.08
Foreign equities	37	0.11
All assets	131	0.10

(Note 1) Fee rate = Fees (FY2015 portion)/Month-end market price average balance

(Note 2) Fiscal year 2015 is the total for the first half (Long-term Benefit Fund) and second half (Employees' Pension Insurance Benefit Adjustment Funds, Annuity Retirement Benefit Adjustment Fund, and Transitional Long-term Benefit Adjustment Funds) of the year.

(Note 3) Fees are management fees and custodian fees pertaining to entrusted investment management.

## Glossary

- Administration and Investment Organizations  
The four management and investment entities are Government Pension Investment Fund, Federation of National Public Service Personnel Mutual Aid Associations, Pension Fund Association for Local Government Officials , and Promotion and Mutual Aid Corporation for Private Schools of Japan.
- Transitional Long-term Benefit Adjustment Fund  
This is a pension fund administered and invested by the Pension Fund Association for Local Government Officials and represents the former occupational portion of the fund after integration of employee pension schemes. In case of a shortage in resources of each mutual aid association to fund transitional long-term benefit payments, this Fund is to provide a necessary amount to cover it.
- Employees' Pension Insurance Benefit Adjustment Funds  
This is a pension fund administered and invested by the Pension Fund Association for Local Government Officials and represents the employee pension portion of the fund after integration of employee pension schemes. In case of a shortage in resources of each mutual aid association to fund employees' pension insurance benefit payments, this Fund is to provide a necessary amount to cover it.
- Government funding ratio  
In association with the integration of employee pension schemes, it was necessary to assign a portion of mutual aid associations' pension reserves that match the level of Employees' Pension Insurance (EPI) to EPI reserves (shared resources) after the integration. Specifically, an amount equivalent to the funding ratio of EPI before integration (the level of reserves measured as a number years' worth of amount held against annual expenditure of the basic pension and EPI (first tier and second-tier) funded by insurance premiums) was set aside as shared resources. This funding ratio is called the government funding ratio.
- Annuity Retirement Benefit Adjustment Fund  
A pension fund administered and invested by Pension Fund Association for Local Government Officials; this pension fund corresponds to the private sector corporate pensions that were newly founded when employee pensions were unified, and forms a part of retirement benefits. This Fund will provide the necessary amounts in case of a shortage of resources to fund retirement etc. pension benefit payments be each mutual aid association.
- Long-term Benefit Fund  
This is a pension fund administered and invested by the Pension Fund Association for Local Government Officials before the integration of employee pension schemes. The fund was built to provide for any shortage in pension benefit payments of mutual aid associations.