

Fiscal Year 2016 Review of Operations

Transitional Long-term Benefit Association Reserve Fund



全国市町村職員共済組合連合会
National Federation of Mutual Aid Associations for Municipal Personnel

Table of Contents

•Fiscal Year 2016 Investment Results (Overview)	P 3
Section 1 Administration and Investment of Funds in FY2016	
•Fiscal Year 2016 Market Environment	P 5
•Fiscal Year 2016 Asset Mix	P 8
•Fiscal Year 2016 Investment Return	P 9
•Fiscal Year 2016 Excess Return	P 10
•Fiscal Year 2016 Contribution Analysis of Excess Return	P 11
•Fiscal Year 2016 Investment Income	P 12
•Fiscal Year 2016 Value of Assets	P 13
•Fiscal Year 2016 Status of Risk Management (Overall Assets)	P 14
•Fiscal Year 2016 Fees	P 15
Section 2 Systems and Activities Concerning Administration and Investment of Funds	
•Basic Approach to Investment	P 17
•Benchmark Portfolio	P 18
•Stewardship Activities	P 19
•Review of Manager Structure	P 24
•Administration and Evaluation of Entrusted Investment Management Institutions, etc.	P 25
•Governance	P 26
•Other systems	P 31
Section 3 Reference Data	
•Changes in the investment return, etc. (since the integration of employee pension plans)	P 33
•Changes in the value of investment assets and the asset mix (since the integration of employee pension plans)	P 34
•Change in number of passive/active funds by assets (entrusted) (since the integration of employee pension plans)	P 35
•Change in fees (since the integration of employee pension plans)	P 36
•Issues held (as of the end of Fiscal Year 2016)	P 37

Fiscal Year 2016 Investment Results (Overview)

Investment return (FY2016) +4.90% *Modified total return (market value basis)
+2.59% *Realized return (book value basis)

Investment income (FY2016) +JPY279.5 billion *Investment income (market value basis)
+JPY130.5 billion *Realized income (book value basis)

Value of investment assets: JPY5,794.1 billion
(End of FY2016)

* As pension funds are intended for long-term investment, the investment status must be judged from the long-term perspective.
As investment income is based on the market value as of the end of each term, it should be kept in mind that it includes valuation gains/losses, which means it may change depending on market movements.

(Note 1) The return and income represent figures after the deduction of fees, etc. settled within the relevant period.

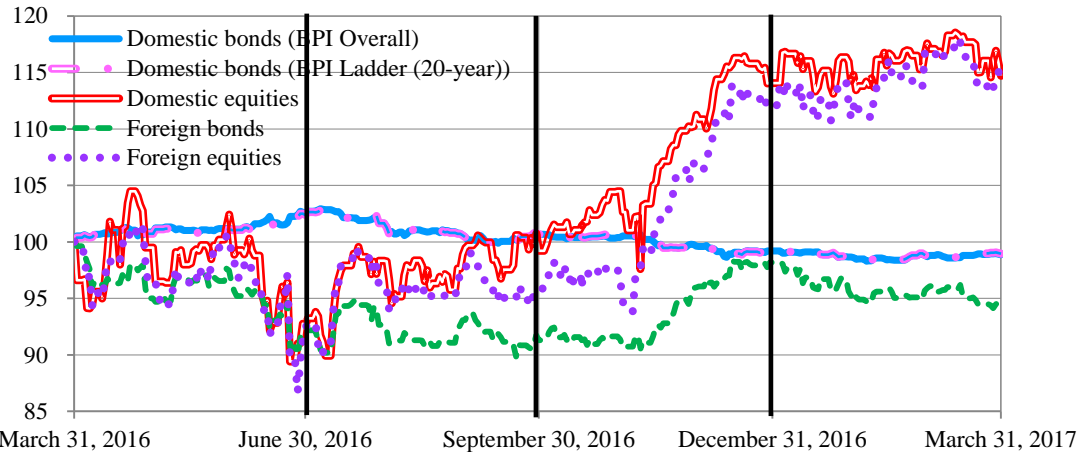
(Note 2) Realized income represents the sum of trading profits/losses and interest and dividend income, etc.

Section 1 Administration and Investment of Funds in FY2016

Fiscal Year 2016 Market Environment ①

1. Change in benchmark return

March 31, 2016=100



Asset class	Benchmark	Returns				
		Q1	Q2	Q3	Q4	Full fiscal year
Domestic bonds	NOMURA-BPI Overall	2.47%	-1.75%	-1.47%	-0.35%	-1.15%
Domestic equities	TOPIX (with dividends)	-7.39%	7.13%	14.95%	0.57%	14.69%
Foreign bonds	Citi World Government Bond Index (excluding Japan; without hedging, yen-based)	-8.14%	-0.62%	7.55%	-3.66%	-5.41%
Foreign equities	MSCI ACWI ex. JAPAN (yen-based, with dividends)	-7.63%	3.79%	16.82%	2.46%	14.77%
Total		-4.09%	2.01%	8.40%	0.08%	6.14%

* The total returns are the benchmark returns when all of the asset mixes are center values of benchmark portfolios.

(Reference)

Domestic bonds	NOMURA BPI Ladder (20-year)	2.38%	-1.65%	-1.45%	-0.26%	-1.03%
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2. Major developments in market (April 2016 - March 2017)

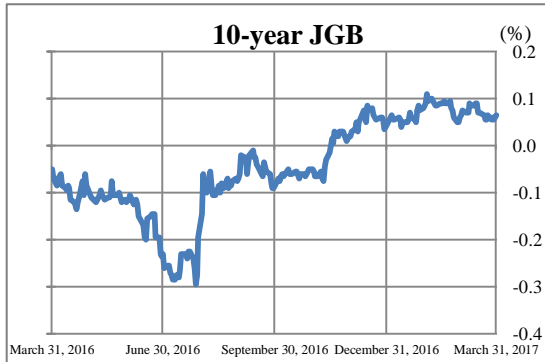
- 【Domestic bond market】** The yield on the 10-year government bond stayed negative because of the effects of the Quantitative and Qualitative Monetary Easing with a Negative Interest Rate which was adopted by the Bank of Japan (BOJ) in January 2016. It further declined due to the growing risk aversion among investors on concerns over the Brexit decision in June and growing expectations for additional monetary easing by the BOJ (the bond price increased). However, following the BOJ's additional monetary easing decided in late July which fell below market expectations, it turned upward (the bond price declined), and further rose from the negative range to the positive range (the bond price declined) associated with the rise in the long-term interest rate of the U.S. after the U.S. presidential election in November.
- 【Domestic equity market】** Domestic equity prices declined sharply due to such factors as the appreciation of the yen following the Brexit decision in June; however, it then turned upward due to expectations on economic policy. Although domestic equity prices steeply rose due to the sharp rise in the equity prices in the U.S. because of expectations on policies of the new administration after the U.S. presidential election in November and depreciation of the yen, the higher quotation was curbed due to the appreciation of the yen from the beginning of the year.
- 【Foreign bond market】** The yield on the 10-year government bond declined (the bond price increased) due to the growing risk aversion among investors on the concerns over the Brexit decision in June; however, it then rose (the bond price declined) following the declined risk aversion due to strong economic indicators and a rise in equity prices in the U.S. Following the U.S. presidential election in November, it rose due to the expectation over the new administration and the increase in the policy interest rate (the bond price declined), but it continued going up and down due to such factors as anxiety over the French presidential election from the beginning of the year.
- 【Foreign equity market】** Equity prices steeply declined following the Brexit decision in June. Thereafter, it mostly stayed upward because of a prospect of limited effect of Brexit and strong economic indicators in the U.S. The equity prices saw rises in all parts of the world due to the sharp rise in the U.S. equity prices from the expectations on policies of the new administration after the U.S. presidential election in November, and stayed strong thereafter.
- 【Foreign exchange market】** The yen appreciated steeply following the Brexit decision in June. Thereafter, amid the upward trend in equity prices in all parts of the world, risk aversion declined and the yen turned to depreciation. After the U.S. presidential election in November, the yen depreciated due to the expectations on policies of the new administration and an increase in the policy interest rate; however, from the beginning of the year, the yen appreciated due to the growing risk aversion from the Brexit notice of the U.K. and anxiety over the prospects of the U.S. government administration.

Fiscal Year 2016 Market Environment ②

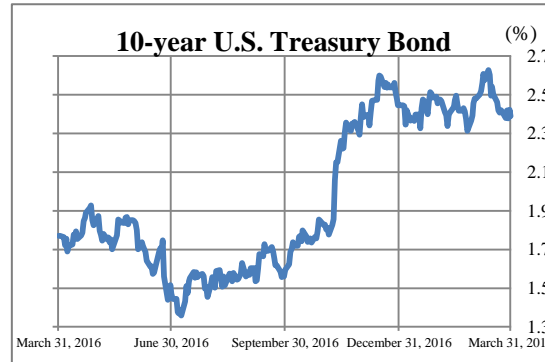
Changes in Yields of 10-year Government Bonds (Japan, US, Germany)

(Source: bloomberg)

End of Mar. 2016 -0.05 → End of Mar. 2017 0.07



End of Mar. 2016 1.77 → End of Mar. 2017 2.39

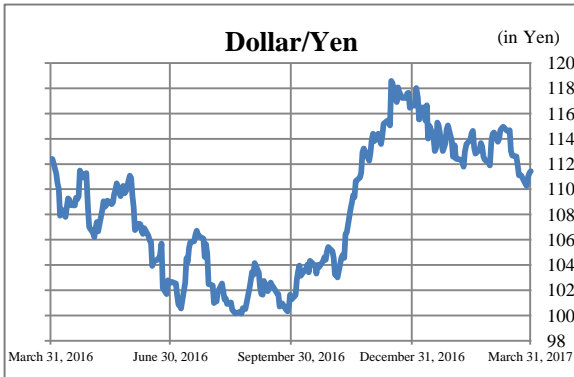


End of Mar. 2016 0.15 → End of Mar. 2017 0.33

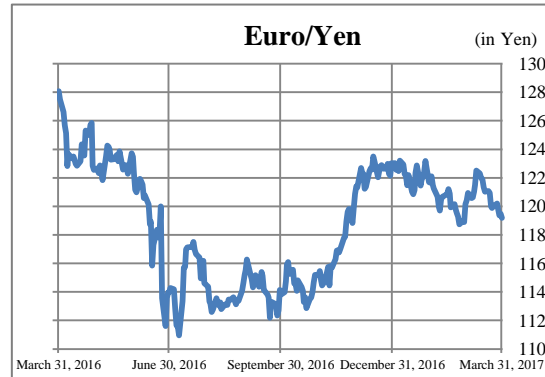


Changes in Exchange Rates (Dollar and Euro)

End of Mar. 2016 112.4 → End of Mar. 2017 111.4



End of Mar. 2016 128.1 → End of Mar. 2017 119.2



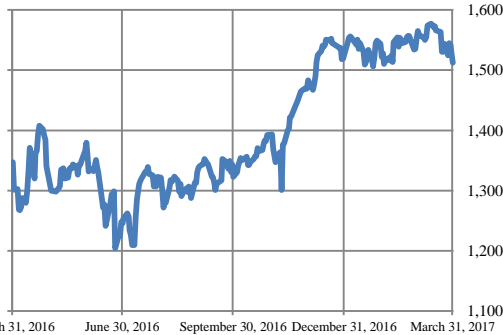
Fiscal Year 2016 Market Environment ③

Changes in Market Indices of Domestic Equities

End of Mar. 2016 1,347 → End of Mar. 2017 1,513

TOPIX

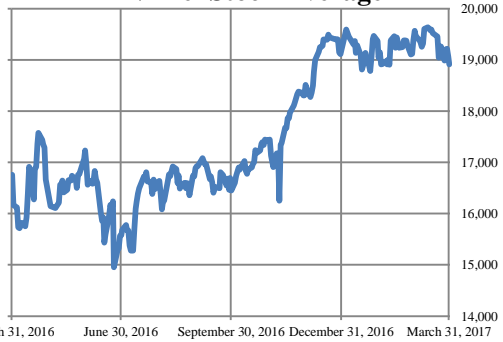
(Point)



End of Mar. 2016 16,759 → End of Mar. 2017 18,909

Nikkei Stock Average

(in Yen)

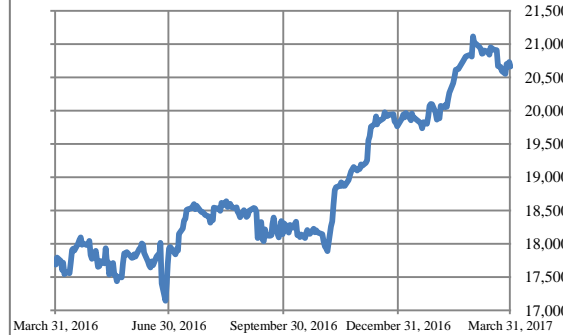


Changes in Market Indices of Foreign Equities

End of Mar. 2016 17,685 → End of Mar. 2017 20,663

NY Dow-Jones

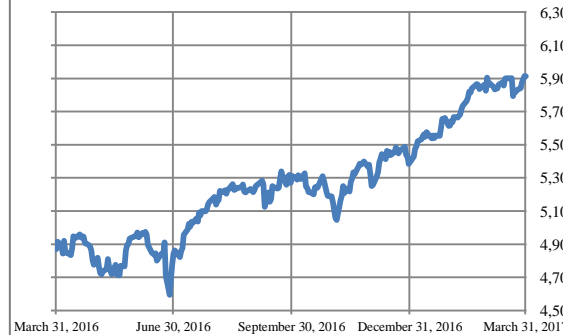
(in Dollar)



End of Mar. 2016 4,870 → End of Mar. 2017 5,912

NASDAQ Composite Index

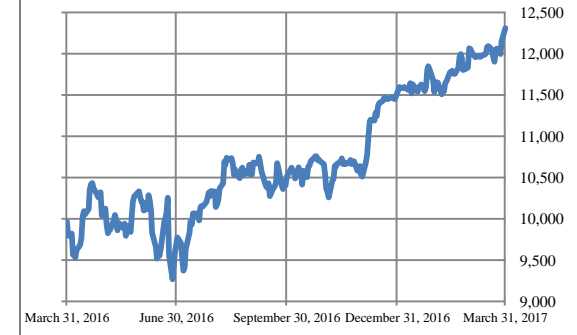
(Point)



End of Mar. 2016 9,966 → End of Mar. 2017 12,313

German DAX

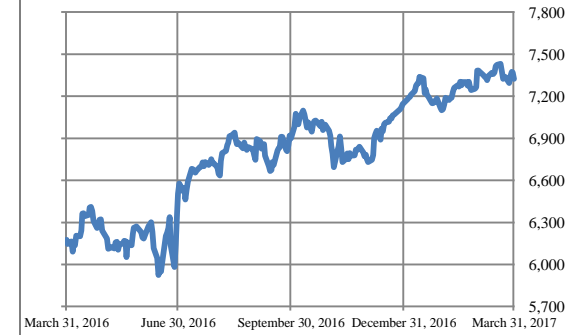
(Point)



End of Mar. 2016 6,175 → End of Mar. 2017 7,323

FTSE100

(Point)

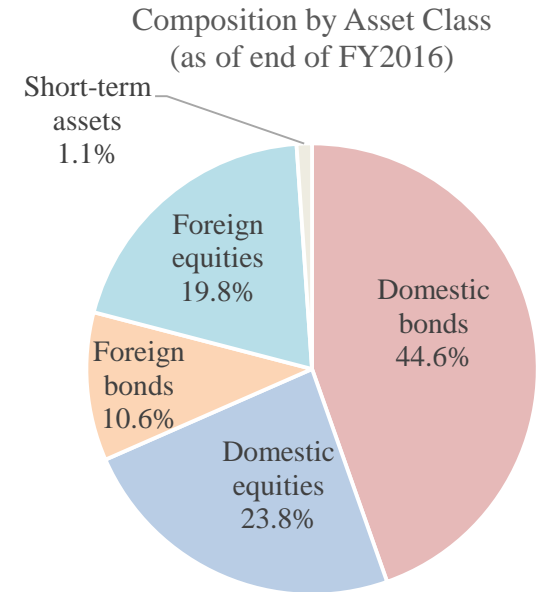


Fiscal Year 2016 Asset Mix

The composition by asset is as follows:

(Unit: %)

	FY2015	FY2016			
	End of FY	End of Q1	End of Q2	End of Q3	End of FY
Domestic bonds	48.3	50.1	48.4	45.3	44.6
Domestic equities	19.7	19.4	21.4	23.6	23.8
Foreign bonds	10.3	9.9	9.8	10.3	10.6
Foreign equities	16.9	16.4	17.2	19.3	19.8
Short-term assets	4.7	4.2	3.3	1.5	1.1
Total	100.0	100.0	100.0	100.0	100.0



(Note 1) Concerning the benchmark portfolio, the share in the mix is 35% for domestic bonds ($\pm 15\%$), 25% for domestic equities ($\pm 14\%$), 15% for foreign bonds ($\pm 6\%$) and 25% for foreign equities ($\pm 12\%$) (the figures in the parentheses represent deviation tolerances).

(Note 2) Due to rounding, the total sum of individual figures may not necessarily add up to 100%.

(Note 3) Starting in fiscal year 2016, short-term assets held by each fund were classified into relevant asset classes in principle.

Fiscal Year 2016 Investment Return

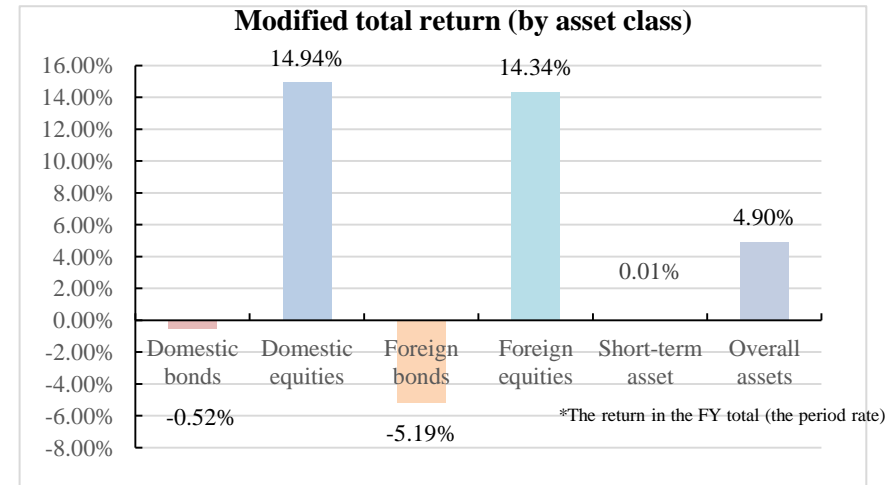
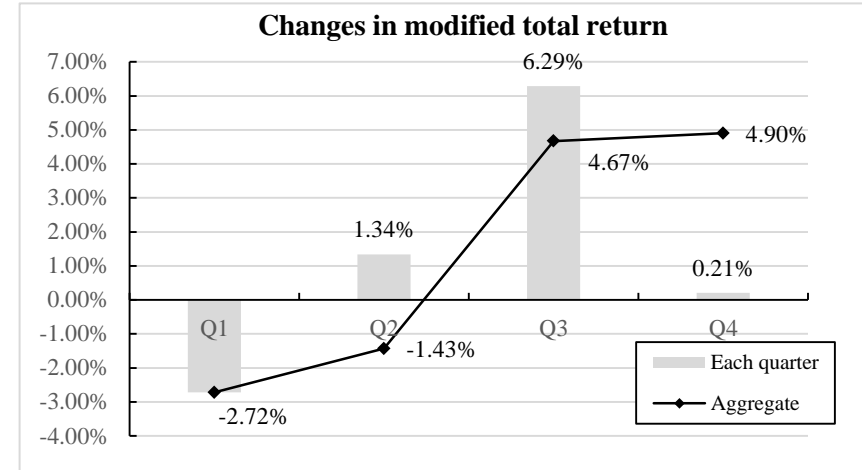
The modified total return for FY2016 was +4.90% for the overall assets.

(Unit: %)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Modified total return	-2.72	1.34	6.29	0.21	4.90
Domestic bonds	1.91	-1.23	-1.07	-0.17	-0.52
Domestic equities	-7.13	7.05	14.57	0.75	14.94
Foreign bonds	-8.15	-0.57	7.68	-3.54	-5.19
Foreign equities	-7.87	3.71	16.68	2.47	14.34
Short-term assets	0.00	0.00	0.00	0.00	0.01

(Unit: %)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Realized return	0.59	0.45	0.80	0.76	2.59



(Note 1) The return in each quarter is the period rate.

(Note 2) The modified total return and realized return represent figures after the deduction of fees, etc. settled within the relevant period.

Fiscal Year 2016 Excess Return

- 【Overall assets】** The modified total return was +4.90%, while the excess return was -1.24%. For the asset allocation of reserves, share of investment of domestic bonds whose benchmark return was relatively low exceeded the benchmark portfolio, whereas the share of investment of domestic and foreign equities whose benchmark returns were relatively high was lower than the benchmark portfolio. As a result, the excess return turned out to be negative.
- 【Domestic bonds】** The modified total return of domestic bonds was -0.52%, which exceeds the benchmark return (-1.15%) by 0.64%. The portfolio was overweight in local government bonds and corporate bonds whose returns were relatively higher than the benchmark. Owing to such investment, the excess return turned out to be positive.
- 【Domestic equities】** The modified total return of domestic equities was +14.94%, which exceeds the benchmark return (+14.69%) by 0.25%. Owing to good selection of the issues of active fund and the entire active fund exceeding the benchmark, the excess return turned out to be positive.
- 【Foreign bonds】** The modified total return of foreign bonds was -5.19%, which exceeds the benchmark return (-5.41%) by 0.22%. Owing to good selection of the issues of active fund and the entire active fund exceeding the benchmark, the excess return turned out to be positive.
- 【Foreign equities】** The modified total return of foreign equities was +14.34%, which was below the benchmark return (+14.77%) by 0.42%. In addition to the negative impact of dividend taxation factors on passive funds and active funds falling below the benchmark due to the poor selection of the issues, the excess return turned out to be negative.

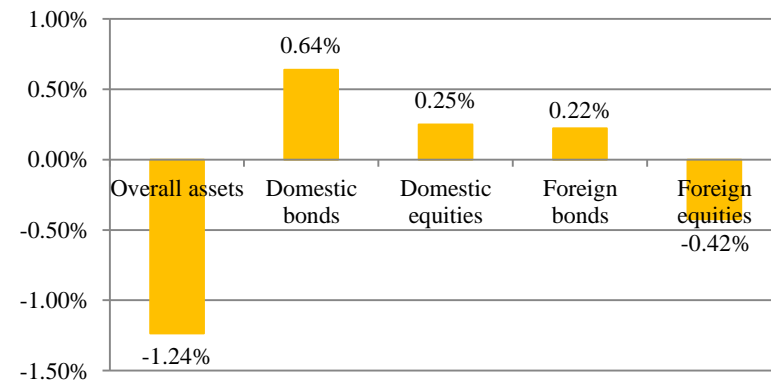
FY2016 (April 2016 through March 2017)

(Unit: %)

	Overall assets	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Modified total return	4.90	-0.52	14.94	-5.19	14.34
Benchmark return	* 6.14	-1.15	14.69	-5.41	14.77
Excess return	-1.24	0.64	0.25	0.22	-0.42

* The benchmark return for overall assets (hereinafter the "composite benchmark return") is calculated by weight-averaging the benchmark returns for individual asset classes based on the shares in the asset mix of the benchmark portfolio.

Excess Returns (by Asset Class)



Fiscal Year 2016 Contribution Analysis of Excess Return

○ Contribution analysis of deviation from composite benchmark return

The National Federation of Mutual Aid Associations for Municipal Personnel (hereinafter the "Federation") uses the following two factors so as to understand the factors giving rise to the difference between the return of funds and the composite benchmark return.

- (a) Asset allocation factor: A factor that is attributable to the difference in terms of the asset mix between the benchmark portfolio, which is the standard for the calculation of the composite benchmark, and the actual portfolio.
- (b) Individual asset factor: A factor that is attributable to the difference between the actual and benchmark returns concerning each asset class.

	Asset allocation factor ①	Individual asset factor ②	①+②
Domestic bonds	-0.89%	0.26%	-0.63%
Domestic equities	-0.33%	0.06%	-0.27%
Foreign bonds	0.50%	0.03%	0.53%
Foreign equities	-0.61%	-0.09%	-0.70%
Short-term assets	-0.17%	0.00%	-0.17%
Total	-1.50%	0.26%	-1.24%

	Benchmark return by asset	Composite benchmark return
Domestic bonds	-1.15%	6.14%
Domestic equities	14.69%	
Foreign bonds	-5.41%	
Foreign equities	14.77%	
Short-term assets	-0.04%	

The return for overall investment assets was +4.90%, while the composite benchmark return was +6.14% and the excess return was -1.24%.

For the asset allocation factors, domestic bonds whose benchmark return was lower than the composite benchmark return were overweight against the benchmark portfolio on average, and domestic and foreign equities whose benchmark returns were higher than the composite benchmark return were underweight against the benchmark portfolio on average. These factors contributed to the negative excess return.

The individual asset factor contributed positively due to the excess return of domestic bonds exceeding the benchmark return.

Fiscal Year 2016 Investment Income

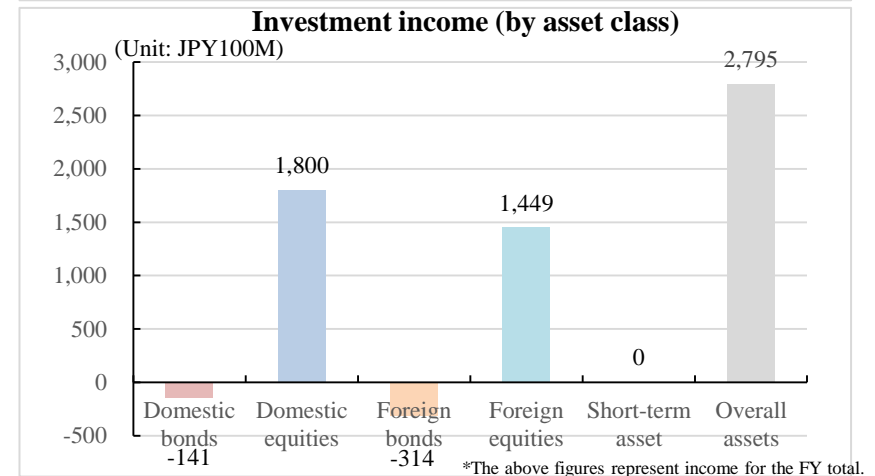
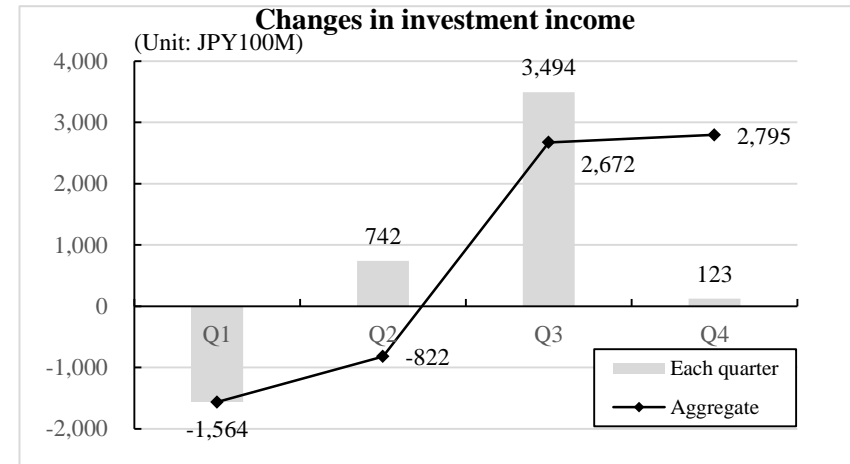
The investment income for FY2016 was +JPY279.5 billion (for overall assets).

(Unit: JPY100M)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Investment income	-1,564	742	3,494	123	2,795
Domestic bonds	531	-340	-288	-44	-141
Domestic equities	-827	772	1,752	103	1,800
Foreign bonds	-488	-31	420	-215	-314
Foreign equities	-780	342	1,609	279	1,449
Short-term assets	0	0	0	0	0

(Unit: JPY100M)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Realized income	299	225	400	380	1,305



(Note 1) The investment income and realized income represent figures after the deduction of fees, etc. settled within the relevant period.

(Note 2) The investment income represents the realized income adjusted for the effects of changes in valuation gains/losses based on market value.

(Note 3) Realized income represents the sum of trading profits/losses and interest and dividend income, etc.

(Note 4) Due to rounding, the total sum of individual figures may not necessarily add up to Total.

Fiscal Year 2016 Value of Assets

The book value, market value and valuation gains/losses by asset is as follows.

(Unit: JPY100M)

	FY2016											
	End of Q1			End of Q2			End of Q3			End of FY		
	Book value	Market value	Valuations profits/losses	Book value	Market value	Valuations profits/losses	Book value	Market value	Valuations profits/losses	Book value	Market value	Valuations profits/losses
Domestic bonds	24,077	27,783	3,706	23,792	27,026	3,234	23,462	26,321	2,859	23,154	25,842	2,689
Domestic equities	10,420	10,744	324	10,919	11,946	1,027	11,134	13,698	2,564	11,259	13,801	2,542
Foreign bonds	5,604	5,486	-118	5,583	5,455	-128	5,726	6,000	274	6,152	6,160	8
Foreign equities	8,190	9,101	911	8,406	9,613	1,206	8,486	11,222	2,736	8,566	11,501	2,934
Short-term assets	2,342	2,342	0	1,849	1,849	0	889	889	0	636	636	0
Total	50,634	55,457	4,823	50,549	55,888	5,339	49,698	58,131	8,434	49,767	57,941	8,174

(Note 1) Due to rounding, the total sum of individual figures may not necessarily add up to Total.

(Note 2) Starting in fiscal year 2016, short-term assets held by each fund were classified into relevant asset classes in principle.

The amount of funds allocated and withdrawn by asset class (for FY2016)

(Unit: JPY100M)

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Amount of funds allocated and withdrawn	-2,656	430	500	170

(Note 1) The above figures represent the total amount of fund flows related to the allocation and withdrawal of funds (rebalancing) conducted for the purpose of changing the asset mix and pension benefit payment (cashing-out).

(Note 2) As a result of the final classification of funds related to the integration of employee pension plans, funds totaling about JPY72.4 billion were transferred to the Employees' Pension Insurance Benefit Association Reserve Fund in December 2016.

Fiscal Year 2016 Status of Risk Management (Overall Assets)

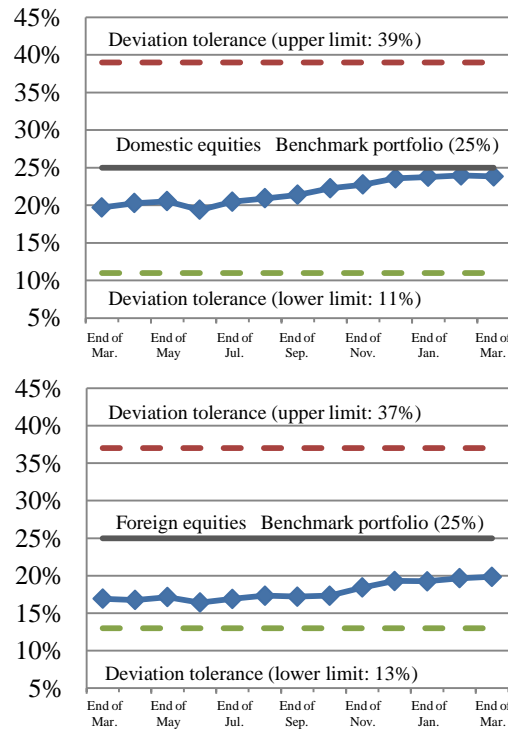
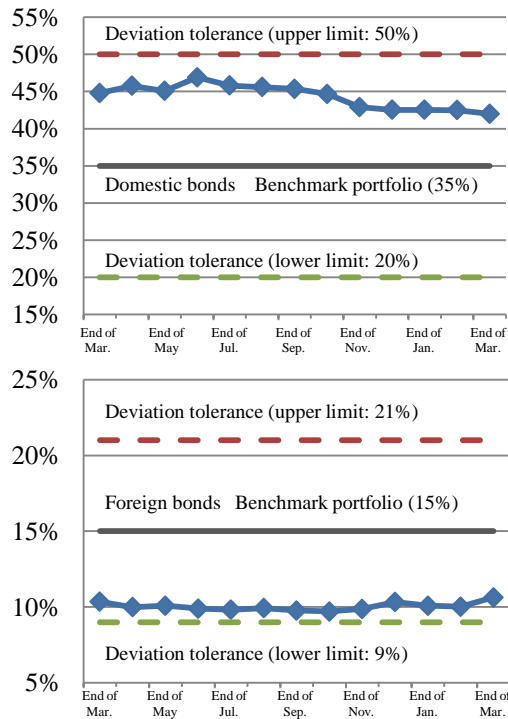
○ Asset mix and estimated tracking error

For fiscal year 2016, the necessary adjustment of asset mix was made while considering time dispersion so as to stay close to the benchmark portfolio. As a result of such adjustment, the share of domestic bonds (excluding private placement local government bonds) in asset mix declined, and the shares of other asset classes in the asset mix increased. The shares of all asset classes stayed within the deviation tolerance throughout the fiscal year.

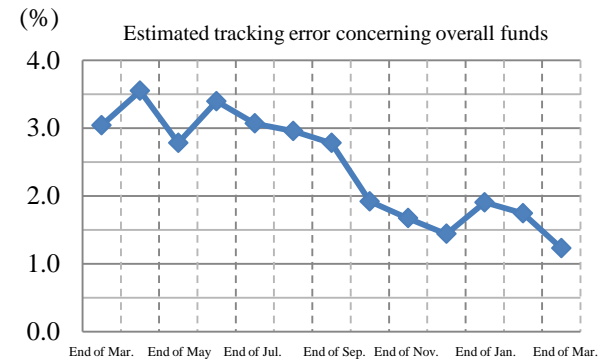
In addition, the estimated tracking error (*) for the entire fund gradually declined because the shares of each asset in the asset mix came close to the benchmark portfolio.

(*) Measured the estimated tracking error against the benchmark portfolio.

【Changes in the asset mix】



【Changes in the estimated tracking error】



Fiscal Year 2016 Fees

The amount of fees totaled about JPY2.2 billion in fiscal year 2016.

The fee rate relative to the value of investment assets came to 0.04%.

(Unit: JPY100M, %)

	FY2016	
	Fees	Fee rate
Domestic bonds	0	0.00
Domestic equities	9	0.08
Foreign bonds	3	0.06
Foreign equities	10	0.10
Overall assets	22	0.04

(Note 1) Fees include management fees and custodian fees related to investment.

(Note 2) The amount of fee is rounded off to the nearest hundred million yen.

(Note 3) Fee rate = fee amount/month-end market value average balance

Section 2 Systems and Activities Concerning Administration and Investment of Funds

Basic Approach to Investment

- As a basic policy, the Federation shall manage the fund with the objective of contributing to the stability of the TLTB plan operations based on the characteristics of a closed-end pension fund that will have no new contribution income, especially paying attention to downside risks, with constant awareness of the relationship between future liabilities and the fund and from a long-term perspective and in a stable and efficient manner.
- In the management of funds, investments shall be made in a way that ensures appropriate diversification across multiple assets with different risk/return profiles and other characteristics.
- The investment of the Transitional Long-term Benefit Association Reserve Fund, which has the characteristics of a closed pension plan, shall be managed appropriately by establishing the benchmark portfolio in order to generate investment returns needed for the fund with the minimum risk, while fully paying attention to the relationship between future liabilities and the fund. In addition, efforts shall be made to earn the benchmark return for each asset class over the long term, as well as generating benchmark returns for each asset class.

Basic Policy for Management and Investment of Transitional Long-term Benefit Association Reserve Fund (Extract)

1. Basic Policy

The Federation shall manage the Transitional Long-term Benefit Association Reserve Fund with the objective of contributing to the stability of the TLTB plan operations based on the characteristics of a closed-end pension fund that will have no new contribution income, especially paying attention to downside risks, with constant awareness of the relationship between future liabilities and the fund and from a long-term perspective and in a stable and efficient manner.

Accordingly, on the basis of appropriately diversifying investments in multiple assets that differ in risk/return and other characteristics ("diversified investment"), the Federation shall manage and invest the Transitional Long-term Benefit Association Reserve Fund by establishing an asset mix from the long-term perspective (the "benchmark portfolio").

2. Investment target

The investment of the Transitional Long-term Benefit Association Reserve Fund, which has the characteristics of a closed pension plan, shall be managed appropriately by establishing the benchmark portfolio in order to generate investment returns needed for the fund with the minimum risk, while fully paying attention to the relationship between future liabilities and the fund.

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

In addition, efforts shall be made to earn the benchmark return for each asset class for each fiscal year over the long term, as well as generating benchmark returns for each asset class.

Benchmark Portfolio and its Verification

○ Benchmark portfolio (asset mix)

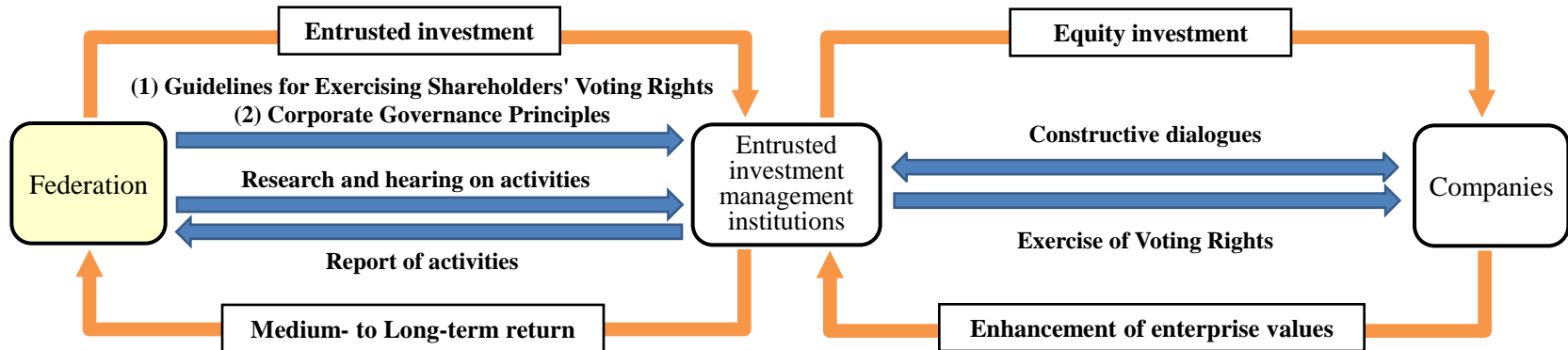
	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Asset mix	35%	25%	15%	25%
Deviation tolerance	± 15%	± 14%	± 6%	± 12%

Stewardship Activities ①

(1) Stewardship activities

- ◆ The Federation has the responsibilities of an institutional investor to increase medium to long-term investment returns for its members and beneficiaries by encouraging improvements in enterprise value and sustainable growth of investee companies. Efforts for the fulfillment of these responsibilities, including constructive dialogues with the investee companies (engagement) and exercise of voting rights, are collectively called "stewardship activities."

<Stewardship Activities>



- ◆ The Federation has established the "Corporate Governance Principles of National Federation of Mutual Aid Associations for Municipal Personnel" and "Guidelines for Exercising Shareholders' Voting Rights" setting forth basic approaches to stewardship activities. In addition, the Federation agreed with the purpose of Japan's Stewardship Code, and it announced its acceptance of the Code in May 2014. As the Federation currently makes equity investments through entrusted investment management institutions, it checks whether these institutions are implementing engagements and exercising voting rights in an appropriate way according to the policies of the Federation through investigations and hearings.

Past efforts

- May 2010 Established the "Guidelines for Exercising Shareholders' Voting Rights" (Document (1)), announcing the Federation's approaches to equity investment and exercise of voting rights as a beneficial shareholder.
- May 2014 Announced its acceptance of the Japan's Stewardship Code. Established the "Corporate Governance Principles" (Document (2)), announcing the Federation's approach for corporate governance necessary for the long-term enhancement of stock values.
- October 2015 Established the Basic Policy for Management and Investment of Funds associated with the integration of the employee pension plans, and newly established Documents (1) and (2).

Stewardship Activities ②

(2) Engagement

(i) Engagement initiatives

- ◆ As the Federation currently makes equity investments through entrusted investment management institutions, the Federation requires these institutions to implement engagements in an effective way and conducts hearing on the status of implementation.

(ii) Example of efforts by entrusted investment management institutions

- ◆ At a hearing of entrusted investment management institutions of domestic equities held in fiscal year 2016, the Federation confirmed the improvement of the engagement efforts by many institutions, including the development of management structures and an increase in investees for engagement.

<Example of engagement efforts by entrusted investment management institutions>

Improved points	Specific measures
Management structures	<ul style="list-style-type: none"> • Allocating the roles for engagement depending on the subject of engagement, by appointing a dedicated staff member in charge of investigation of non-financial information. • Established an independent committee which takes charge of checking the compliance with fiduciary duties in general, including conflicts of interest.
Selection of investees	<ul style="list-style-type: none"> • Selecting only investees with high potential of effective engagement (active management). • Selecting issues from those held in all funds, according to the general standards including corporate governance and ROEs (passive investment).
Implementing process	<ul style="list-style-type: none"> • Create a phased action plan for solving a problem, and manage the status of progress of the plan. • Regularly report activities at a supervising committee, and utilize advice of outside members for future engagements.
Subjects of engagement	<ul style="list-style-type: none"> • Repeated engagements led to deeper discussion toward solving problems. • Subjects of engagement extended to non-financial issues, such as the assessment of governance and management.

Stewardship Activities ③

(3) Exercise of Voting Rights

(i) Exercise of Voting Rights

- ◆ In order to fully achieve returns on equity investments, it is necessary to ensure that investee companies secure profits for a long time and manage their businesses paying attention to the interests of shareholders to the maximum degree. Exercising of voting rights is an important means to enhance shareholder value, and the Federation encourages business management which would contribute to the long-term enhancement of shareholder value through appropriately exercising voting rights, in relation to all issues held in principle.
- ◆ More concretely, in principle, entrusted investment management institutions exercise voting rights according to the policy on the exercise of shareholders' voting rights established by the institutions in line with the intent of the Guidelines for Exercising Shareholders' Voting Rights of the Federation and reviewed by the Federation. In addition, the Federation seeks reports from the entrusted investment management institutions on the status of exercising voting rights and considers them as part of the assessment of the institutions.

(ii) Exercise of Voting Rights in Fiscal Year 2015

- ◆ For the exercise of voting rights at general meeting of shareholders of companies which settled accounts in fiscal year 2015 (between April 2015 and March 2016), the Federation received reports from its entrusted investment management institutions on the results of exercising voting rights, reason for voting against the proposal, and organizational structure for exercise of voting rights. In addition, the Federation confirmed that voting rights were exercised in an appropriate way according to the Guidelines for Exercising Shareholders' Voting Rights of the Federation through hearings.
- ◆ Further, several entrusted investment management institutions have amended their guidelines on exercise of voting rights in light of Japan's Stewardship Code which requires exercise of voting rights that would promote the growth of investee companies. Such amendment includes tightening of the requirements of independence for appointing outside directors.

Stewardship Activities ④

(iii) Results of the exercise of voting rights concerning domestic equities (companies with accounting settlement between April 2015 and March 2016)

Items on agenda	Total	Vote for		Vote against		Abstention		Vote-against rate in the previous year
			Rate		Rate		Rate	
Total	30,115	24,398	81.0%	5,717	19.0%	0	0.0%	18.8%
(Shareholder proposal)	(862)	(23)	(2.7%)	(839)	(97.3%)	(0)	(0.0%)	(98.5%)
By subject								
Board of directors/directors	8,528	5,945	69.7%	2,583	30.3%	0	0.0%	28.4%
Board of auditors/auditors	6,100	5,045	82.7%	1,055	17.3%	0	0.0%	16.6%
Director remuneration, etc.	4,192	3,730	89.0%	462	11.0%	0	0.0%	18.4%
Appropriation of Surplus	5,574	5,320	95.4%	254	4.6%	0	0.0%	4.9%
Agenda concerning capital structure	842	588	69.8%	254	30.2%	0	0.0%	32.4%
Takeover Defense Measures	476	240	50.4%	236	49.6%	0	0.0%	44.0%
Capital increase or reduction	33	31	93.9%	2	6.1%	0	0.0%	
Third Party Allotment of Shares	15	11	73.3%	4	26.7%	0	0.0%	
Stock buyback	27	16	59.3%	11	40.7%	0	0.0%	
Business Restructure	139	139	100.0%	0	0.0%	0	0.0%	0.0%
Incentives Improvement for Executives and Employees	797	511	64.1%	286	35.9%	0	0.0%	30.6%
Others	3,943	3,120	79.1%	823	20.9%	0	0.0%	16.9%
Amendment to Articles of Incorporation	3,652	2,858	78.3%	794	21.7%	0	0.0%	17.0%

(Note) The figures include the results of the exercise of voting rights before October 2015, when the pension plans were integrated into the EPI.

Main features relating to exercise of voting rights

- The proposal for which the vote-against rate was the highest was "takeover defense measures," followed by "stock buyback."
- The vote-against rate of "takeover defense measures" increased from the previous fiscal year (from 44.0% to 49.6%). The major reason for this is that several entrusted investment management institutions tightened the requirements for the adoption and implementation of takeover defense measures in their guidelines on exercise of voting rights considering trends in corporate governance.
- There was no significant change in the vote-against rate for the proposals relating to "board of directors/directors" and "board of auditors/auditors" from the previous fiscal year. As a major reason for this, although some companies have adopted an outside director system, these systems do not satisfy the strict independence requirements provided in the guidelines on exercise of voting rights of the entrusted investment management institutions.
- Against the backdrop of the adoption of the Corporate Governance Code, proposals on revision of director remuneration plans are on the rise, such as adoption of performance-linked stock compensation plans.

Stewardship Activities ⑤

(iii) Results of the exercise of voting rights concerning foreign equities (Companies with accounting settlement between April 2015 and March 2016)

Items on agenda	Total	Vote for		Vote against		Abstention		Vote-against rate in the previous year
			Rate		Rate		Rate	
Total	14,393	12,482	86.7%	1,854	12.9%	57	0.4%	7.8%
(Shareholder proposal)	(1,458)	(574)	(39.4%)	(835)	(57.3%)	(49)	(3.36%)	(47.4%)
By subject								
Board of directors/directors	4,344	3,840	88.4%	493	11.3%	11	0.3%	5.0%
Board of auditors/auditors	865	848	98.0%	15	1.7%	2	0.2%	0.5%
Director remuneration, etc.	2,450	2,219	90.6%	230	9.4%	1	0.0%	10.2%
Appropriation of Surplus	284	284	100.0%	0	0.0%	0	0.0%	0.0%
Agenda concerning capital structure	1,177	1,057	89.8%	120	10.2%	0	0.0%	12.0%
Takeover Defense Measures	218	204	93.6%	14	6.4%	0	0.0%	7.4%
Capital increase or reduction	419	360	85.9%	59	14.1%	0	0.0%	
Third Party Allotment of Shares	154	153	99.4%	1	0.6%	0	0.0%	
Stock buyback	269	259	96.3%	10	3.7%	0	0.0%	
Business Restructure	563	489	86.9%	74	13.1%	0	0.0%	7.5%
Incentives Improvement for Executives and Employees	750	627	83.6%	122	16.3%	1	0.1%	16.5%
Others	3,960	3,118	78.7%	800	20.2%	42	1.1%	15.8%
Amendment to Articles of Incorporation	439	367	83.6%	72	16.4%	0	0.0%	14.3%

(Note) The above figures include the results of the exercise of voting rights before October 2015, when the pension plans were integrated into the EPI.

For investee companies in some countries, voting rights are not exercised considering costs for exercise and share blocking.*

(*) A scheme whereby shareholders exercising voting rights are restricted from selling shares for a certain period until the end of a general shareholders meeting.

Main features relating to exercise of voting rights

- The proposal for which the vote-against rate was the highest was "amendment to articles of incorporation," followed by "incentives improvement for executives and employees."
- Shareholders have growing interest in rights of shareholders. In particular, in the U.S. market, more shareholders support "Say on Pay" (grant of a shareholder's right to vote on the remuneration of executives) and more companies adopt proxy access (grant of a shareholder's right to propose appointment of directors subject to fulfilling certain requirements).
- Shareholder's proposals on ESG is increasing, which are approved by the majority votes in some cases.

Review of Manager Structure

(1) Selection of entrusted investment management institutions

As part of the review of investment institutions (manager structure), the Federation invited public applications of entrusted investment management institutions for active investments in foreign bonds, and started the investments from fiscal year 2016. In the process of selection, the Federation took the following measures as a result of overall assessment of past performances, investment philosophy, investment structure and investment process through documentary examinations and hearings.

○ Foreign bonds (active investment)

The Federation invited public applications for various investment products, and selected seven products.

(2) Selection of asset administration institutions

The Federation invited public applications of asset administration institutions for active investment of foreign bonds and active investment of foreign equities. The Federation selected the asset administration institutions based on overall assessment of business operation structures and asset administration systems.

Administration and Evaluation of Entrusted Investment Management Institutions, etc.

(1) Administration and evaluation of entrusted investment management institutions

For the administration of entrusted investment management institutions, the Federation seeks monthly reports from them on investment performance and the status of risk, verifies compliance with investment guidelines, and receives a briefing at regular meetings on the overview of investment results and future investment policies.

For the evaluation of entrusted investment management institutions, the Federation performs a qualitative assessment (investment structure, investment process, structures for risk management and compliance) and quantitative assessment (excess return and tracking error in the case of passive investments, and excess return and information ratio in the case of active investments) as of the end of each fiscal year.

(2) Administration and evaluation of asset administration institutions

For the administration of entrusted investment management institutions, the Federation seeks monthly reports from them on the status of administration of assets, verifies compliance with asset administration guidelines, and receives a briefing at regular meetings.

For the evaluation of asset administration institutions, the Federation performs qualitative assessment based on organizations for business operation, asset administration system, etc.

Governance ①

(1) Organization

As of April 1, 2017, the Federation had two executives (managing director and auditor) and 119 full-time employees.

The organization consists of the General Affairs Department (General Affairs Division, Planning Division, Insurance Division and Welfare Division), the Finance Department (Accounting Division, Investment Planning Division, In-house Investment Division, Fund Management Division), the Pension Department (Pension Planning Division, Pension Information System Division, Pension Inspection Division, Pension Benefit Division and Retirement Pension Benefit Division), and the Audit Office.

(2) General Assembly

The General Assembly consists of 61 members, 47 of which are elected by mutual vote the Presidents of associations which are the members of the Federation (hereinafter the "Member Associations"). Among the members of the General Assembly, 14 are elected by mutual vote of the Executive Directors of the Member Associations.

Revision of the articles of incorporation, the formulation and revision of the rules of operations, annual business plans, budgets and account settlement, disposal of important assets and assumption of significant debt are subject to resolution of the General Assembly.

(3) Fund Management Committee

This is a committee consisting of members who possess academic knowledge or practical experience in areas such as the pension system, economics, finance and fund management, which studies expert matters pertaining to the establishment and revision of basic policies and the administration and investment of the Employees' Pension Insurance Benefit Association Reserve Fund, Annuity Retirement Benefit Association Reserve Fund and Transitional Long-term Benefit Association Reserve Fund (hereinafter the "Funds").

(4) Long-term Benefit Fund Committee

This is a committee also participated in by the representatives of Member Associations, which conducts research and study relating to basic policies for investment of Funds and other important matters.

(5) Operational Management Committee

This is a committee also participated in by the representatives of Member Associations, which conducts research and monitoring of business administration and fund management implemented by the Federation and the Member Associations, as well as assessment of business.

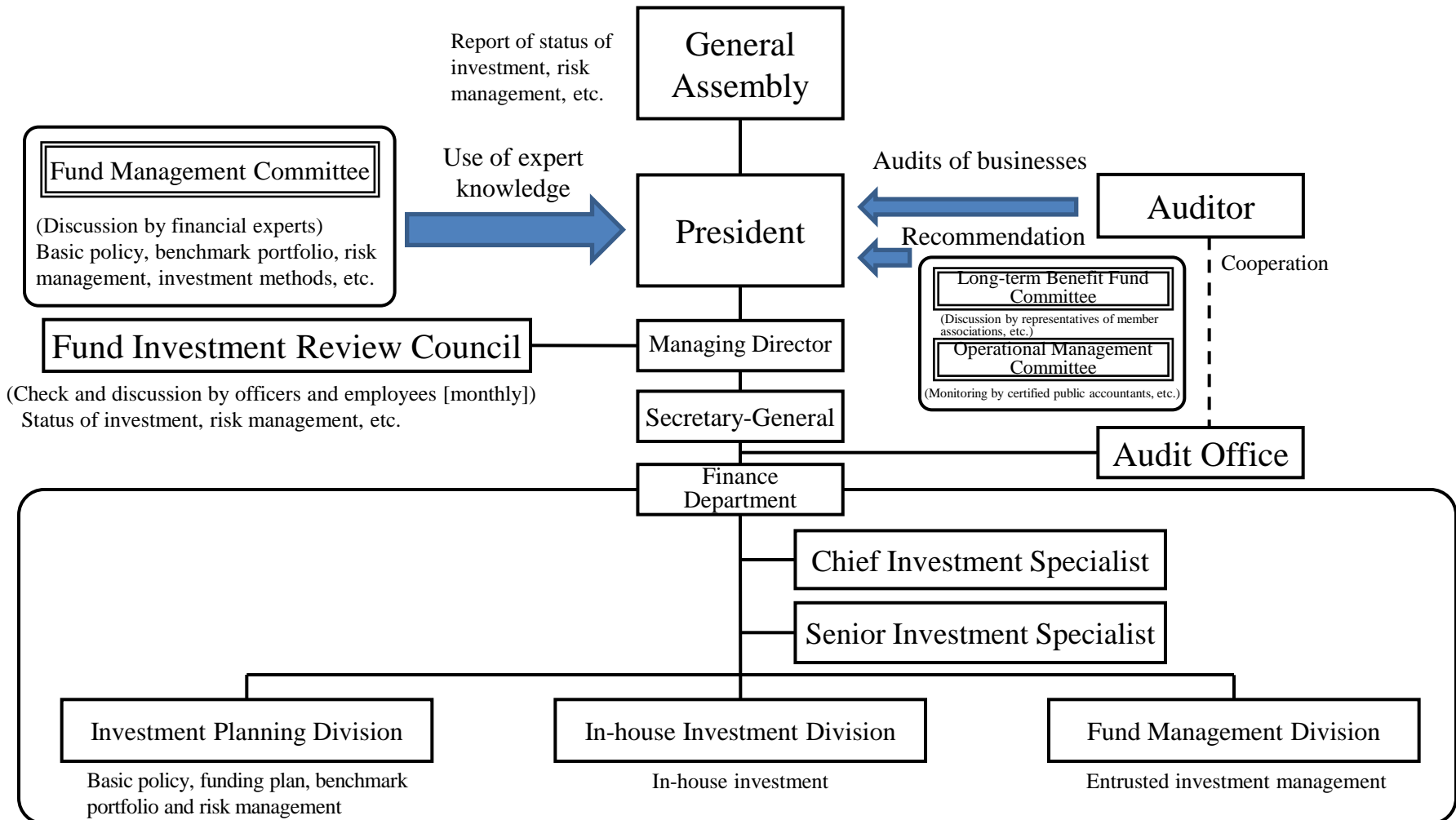
(6) Fund Investment Review Council

This is a council for ensuring the safe and effective investment of surplus from business operation of each of the accountings of the Federation, discussing decision-makings as to the investment of funds, analyzing the investment status and checking the status of risk management indicators. This council is constituted by the Managing Director, the Secretary-General, the General Manager of Finance Department, the Chief Investment Specialist, the Senior Investment Specialist, the Manager of Investment Planning Division, the Manager of In-house Investment Division, the Manager of Fund Management Division and other members as may be deemed necessary. In principle, the council regularly meets once a month, and from time to time depending on the necessity.

Governance ②

As of April 1, 2017

(7) Organizational structure of Federation



Governance ③ (Fund Management Committee)

○ Fund Management Committee

The Federation has established the Fund Management Committee, which is comprised of members who possess academic knowledge or practical experience in areas such as the pension system, economics, finance and fund management. Members are appointed by the President.

As an advisory body for the President, the Fund Management Committee has a duty to conduct research on basic issues relating to fund management, discuss matters necessary for the achievement of the purpose to contribute to the safe and efficient fund management, and to report the findings to the President. The Committee is also to give advice to the President for any other important matters relating to the fund management.

For expert matters relating to the management and investment of funds, including the adoption and amendment of basic policies for the management and investment of funds including benchmark portfolio, deliberation at the Fund Management Committee is required.

List of Committee Members (As of April 2017)

Yoshitaka Kai	Professor, Institute of Business and Accounting, Professional Graduate School, Kwansai Gakuin University
Yasuyuki Kato	Professor, Graduate School of Management, Kyoto University
Katsuyuki Tokushima	NLI Research Institute Pension Research Center, Financial Research Department, Chief Fixed Income Analyst
Masashi Toshino	Professor, Faculty of Economics, Seikei University
◎ Hiroshi Miyai	Visiting Professor, Graduate School of International Accounting, Chuo University
Kenji Wada	Professor, Faculty of Business and Commerce, Keio University

*A person with a "◎" mark is the Chairperson.

Governance ④ (Approach to Risk Management)

- Generally speaking, "risk" refers to a danger or possibility of negative impact. In the field of asset investment, risk can mean the magnitude of price fluctuation occurring under a certain condition or uncertainty towards the future.
Risks in the field of asset investment include interest rate fluctuation risk, price fluctuation risk, credit risk and liquidity risk. For asset investment, for various risks commensurate with investment, it is important to understand the magnitude and multifaceted impacts of risks from a long-term perspective.
- The Federation, in accordance with the implementation policy for risk management concerning investment of funds as an implementing organization, appropriately implements risk management concerning investment in consideration of the following points: that investment of funds should be made safely and efficiently from a long-term perspective; that diversified investments should be maintained in principle; that particular attention shall be paid to downside risks in light of the characteristics of a closed pension plan which receives no new contribution income; and that constant consideration shall be given to the relationship between future liabilities and the funds of all local public service personnel mutual aid associations

Implementation policy for risk management concerning investment of the fund (extract)

1. Basic approach concerning risk management

The National Federation of Mutual Aid Associations for Municipal Personnel appropriately conducts risk management related to the investment of adjustment funds in light of the following matters.

- (1) Investment of funds should be made safely and efficiently from a long-term perspective.
- (2) A benchmark portfolio should be developed and investment of funds should be made based on it.
- (3) Transitional Long-term Benefit Association Reserve Fund should be invested in consideration of the relationship between all local public service personnel mutual aid associations' liabilities and the funds related to transitional long-term benefit operations in the future.
- (4) The Federation shall manage the Transitional Long-term Benefit Association Reserve Fund by conducting appropriate risk management, especially paying attention to downside risks in light of the characteristics of a closed pension plan which receives no new contribution income, with constant awareness of the relationship between future liabilities and the fund.

Governance ⑤ (Risk Management Efforts)

Management of the deviation of the asset mix

- Investment based on the benchmark portfolio requires the management of various risk factors. Therefore, in order to secure profits in line with the benchmark portfolio from the long-term perspective, it is important, in particular, to manage the degree of deviation of the asset mix of the actual portfolio from that of the benchmark portfolio.
- Specifically, as the asset mix constantly changes due to asset price fluctuations, the Federation keeps track of the status of the deviation of the asset mix of its actual portfolio from that of the benchmark portfolio and manages the actual portfolio so as to keep the degree of deviation within a certain range (deviation tolerance). In this way, the Federation checks whether or not there are problems such as a deviation from the benchmark portfolio in excess of the deviation tolerance.

Monitoring of market risk, etc.

- The Federation identifies downside risks by using the value at risk approach, which measures the maximum foreseeable amount of losses expected under certain conditions, and the simulation of impact on funds in the case of fluctuation of share price and interest rate within a certain range (a stress test). As it also uses active investment in its investment of funds, the Federation seeks to earn an excess rate of return over the benchmark by diversifying investment strategies and investment issues within each asset class.
- Therefore, the Federation monitors the status of market risk (price volatility risk, etc. in each asset market), credit risk (default risk), etc. with respect to each asset class, mainly from the viewpoint of difference from the benchmark for each asset class.

Management of entrusted investment management institutions, etc.

- The Federation manages liquidity risk (risk that purchasing and selling assets will become difficult due to a decline in trading volume) from the viewpoint of revising asset allocations (rebalancing) and smooth conversion of assets into cash. In addition, as the Federation entrusts the operation of some investment-related activities to external institutions under its asset investment system, it manages the status of management (status of risk management and asset administration) of the institutions to which it entrusts asset management or asset administration (entrusted investment management institutions and asset administration institutions), from the viewpoint of ensuring the smooth operation.

Verification of the benchmark portfolio

- It is necessary to periodically verify the benchmark portfolio, which is formulated in consideration of long-term economic forecasts, by checking its assumptions, for example. In the verification, the Federation also checks whether the existing benchmark portfolio is appropriate from the viewpoint of ensuring safe and efficient investment over the long term, and it gives consideration to the viewpoint of comparison between the target investment return and the return that would be achieved if all funds were invested in domestic bonds.

Reporting on the status of risk management and improvement measures implemented

- The status of risk management and improvement measures implemented are reported to the General Assembly and the Fund Management Committee.

Other Efforts

○ Measures taken in response to low interest rate

The Bank of Japan (BOJ) has introduced the Quantitative and Qualitative Monetary Easing with a Negative Interest Rate (announced on January 29, 2016), which has resulted in decline in yield of many domestic bonds.

In addition, as a part of the monetary easing policy, the BOJ has introduced a negative interest rate policy for a part of the balance in BOJ current accounts of financial institutions. Due to this policy, a principal bears the burden of a portion of the amount equivalent to the negative interest rate applied to its asset management institutions, according to the balance of short-term assets within funds.

In these situations, the Federation took the following measure in fiscal year 2016.

-For in-house investment fund for buy-and-hold investment strategy, the Federation withdrew surplus funds on a regular basis from funds comprising interest and redemption payment, so as to reduce holdings of short-term assets within the funds.

Section 3 Reference Data

Changes in the investment return, etc. (since the integration of employee pension plans)

(1) Investment return

	(Unit: %)	
	FY 2015 (second half)	FY2016
Realized return	2.15	2.59

(2) Value of investment income

	(Unit: JPY100M)	
	FY 2015 (second half)	FY2016
Realized income (Income gain)	1,085 (522)	1,305 (1,078)

	(Unit: %)	
	FY 2015 (second half)	FY2016
Modified total return	0.97	4.90
Domestic bonds	3.80	-0.52
Domestic equities	-4.50	14.94
Foreign bonds	-2.21	-5.19
Foreign equities	-0.93	14.34
Short-term assets	0.02	0.01

	(Unit: JPY100M)	
	FY 2015 (second half)	FY2016
Investment income	560	2,795
Domestic bonds	1,198	-141
Domestic equities	-444	1,800
Foreign bonds	-119	-314
Foreign equities	-75	1,449
Short-term assets	1	0

(Note 1) The investment return for fiscal year 2015 is the period rate for the second half of fiscal year 2015.

(Note 2) The investment income for fiscal year 2015 is the aggregate amount of investment income for the second half of fiscal year 2015.

(Note 3) Income gains comprise interest and dividend income.

Changes in the value of investment assets and the asset mix (since the integration of employee pension plans)

(Unit: JPY100M, %)

		End of FY2015		End of FY2016	
		Total market value	Composition	Total market value	Composition
Domestic bonds	Total	27,834	48.28	25,842	44.60
	Passive	24,772	42.97	23,334	40.27
	Active	0	0.00	0	0.00
	Others	3,063	5.31	2,509	4.33
Domestic equities	Total	11,374	19.73	13,801	23.82
	Passive	8,725	15.13	8,527	14.72
	Active	2,649	4.60	5,273	9.10
Foreign bonds	Total	5,965	10.35	6,160	10.63
	Passive	5,727	9.93	4,485	7.74
	Active	238	0.41	1,676	2.89
Foreign equities	Total	9,759	16.93	11,501	19.85
	Passive	7,878	13.67	9,314	16.08
	Active	1,881	3.26	2,186	3.77
Short-term assets		2,716	4.71	636	1.10
Total		57,649	100.00	57,941	100.00

(Note) "Others" related to domestic bonds include deposits (municipal bonds, loan and invested real property) of the member associations.

Change in number of passive/active funds by assets (entrusted) (since the integration of employee pension plans)

		FY 2015 (second half)			FY2016		
		Cancellation	New adoption	End of FY	Cancellation	New adoption	End of FY
Domestic bonds	Passive	0	0	0	0	0	0
	Active	0	0	0	0	0	0
Domestic equities	Passive	0	0	2	0	0	2
	Active	1	11	19	0	0	19
Foreign bonds	Passive	0	0	2	0	0	2
	Active	0	0	1	0	7	8
Foreign equities	Passive	0	0	2	0	0	2
	Active	1	5	8	0	0	8
Total		2	16	34	0	7	41
Asset administration institutions		0	0	4	0	0	4

(Note 1) Cancellation and new adoption in fiscal years 2015 and 2016 are due to the review of the manager structure.

(Note 2) Newly adopted funds are classified by fiscal year to which the date of effective start of investment belongs.

Change in fees (since the integration of employee pension plans)

(Unit: JPY100M, %)

	FY 2015 (second half)		FY 2016	
	Fees	Fee rate	Fees	Fee rate
Domestic bonds	0	0.00	0	0.00
Domestic equities	2	0.02	9	0.08
Foreign bonds	1	0.01	3	0.06
Foreign equities	3	0.04	10	0.10
Overall assets	6	0.01	22	0.04

(Note 1) Fees include management fees and custodian fees related to investment.

(Note 2) The amount of fee is rounded off to the nearest hundred million yen.

(Note 3) Fee rate = fee amount/month-end market value average balance

(Note 4) The amount of fee and fee rate for the second half of FY2015 is the half of the fee rate for the entire FY2015.

Issues held (as of the end of Fiscal Year 2016)

The tables below show the top 10 bond and equity issues held indirectly through entrusted investment, through in-house investment, and indirectly through depositing with member associations as of the end of March 2017, with bond issues classified by issuer name and equity issues by issue name.

The status of holding of issues does not represent the assessment of investees by the Federation.

For information concerning bond issues ranked 11th or lower, see the website of the Federation.

○ Domestic bond issues held (by issuer, in order of total market value)

No.	Names of issuer	Total market value (in 100M yen)
1	Government of Japan	7,605
2	Japan Finance Organization for Municipalities	5,567
3	Kanagawa Prefecture	722
4	Hyogo Prefecture	621
5	Yokohama City	551
6	Chiba Prefecture	535
7	Fukuoka Prefecture	474
8	Joint LGB	455
9	Tokyo Metropolitan Government	452
10	Aichi Prefecture	438
Total	478 Issuers	24,332

○ Domestic equity issues held (in order of total market value)

No.	Issue names	No. of shares	Total market value (in 100M yen)
1	Toyota Motor Corporation	6,627,600	407
2	Mitsubishi UFJ Financial Group	44,808,000	318
3	Nippon Telegraph and Telephone Corporation	4,567,600	220
4	Sumitomo Mitsui Financial Group	5,280,800	218
5	SoftBank Group	2,473,300	195
6	Mizuho Financial Group	85,641,000	178
7	KDDI Corporation	5,993,900	178
8	Honda Motor Co., Ltd.	5,251,800	177
9	Sony Corporation	3,666,700	138
10	Keyence Corporation	287,700	128
Total	2,044 Issues		13,716

○ Foreign bond issues held (by issuer, in order of total market value)

No.	Names of issuer	Total market value (in 100M yen)
1	UNITED STATES TREASURY	2,415
2	ITALY (REPUBLIC OF)	544
3	FRENCH (REPUBLIC OF)	544
4	UNITED KINGDOM (GOVERNMENT OF)	410
5	GERMANY (FEDERAL REPUBLIC OF)	363
6	SPAIN (KINGDOM OF)	343
7	BELGIUM (KINGDOM OF)	129
8	CANADA (GOVERNMENT OF)	124
9	AUSTRALIA (COMMONWEALTH OF)	121
10	NETHERLANDS (KINGDOM OF)	109
Total	391 Issuers	6,100

○ Foreign equity issues held (in order of total market value)

No.	Issue names	No. of shares	Total market value (in 100M yen)
1	APPLE INC	1,273,481	204
2	MICROSOFT CORP	1,809,399	133
3	AMAZON.COM INC	100,584	99
4	FACEBOOK INC-CLASS A	624,072	99
5	JOHNSON & JOHNSON	656,463	91
6	JPMORGAN CHASE & CO	913,478	89
7	ALPHABET INC-CLASS A	94,391	89
8	WELLS FARGO & CO	1,410,871	88
9	EXXON MOBIL CORP	949,282	87
10	NESTLE SA (REGISTERED)	949,094	81
Total	2,567 Issues		11,406

(Note 1) The names of issuers and issues are provided by the Federation based on data registered with the T-STAR/GX system of the Nomura Research Institute, Ltd. as of March 2017.

(Note 2) The total market value is an aggregated figure calculated for each issuer by the Federation based on data registered in the T-STAR/GX system of the Nomura Research Institute, Ltd.