

Fiscal Year 2016 Review of Operations

Annuity Retirement 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 6
- Fiscal Year 2016 Investment Return P 7
- Fiscal Year 2016 Investment Income P 8
- Fiscal Year 2016 Value of Assets P 9
- Fiscal Year 2016 Status of Risk Management P 10
- Fiscal Year 2016 Status of Entrusted Investment Management Institutions P 11
- Fiscal Year 2016 Fees P 12

- Section 2 Systems and activities concerning administration and investment of funds
- Basic Approach to Investment P 14
- Benchmark Portfolio P 15
- Governance P 16

- Section 3 Reference Data
- Changes in the investment return, etc. (since the integration of employee pension plans) P 22
- Changes in the value of investment assets and the asset mix (since the integration of employee pension plans) P 23
- Issues Held (as of the end of Fiscal Year 2016) P 24

Fiscal Year 2016 Investment Results (Overview)

**Investment return
(FY2016)**

+0.39% *Realized return (book value basis)

+0.40% *Total return (realized return adjusted for
increase/decrease of accrued income)

**Investment income
(FY2016)**

+JPY374 million

*Realized income (book value basis)

**Value of investment assets: JPY151.7 billion
(End of FY2016)**

* As pension investment funds are intended for long-term investment, the investment status must be judged from the long-term perspective.

(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.

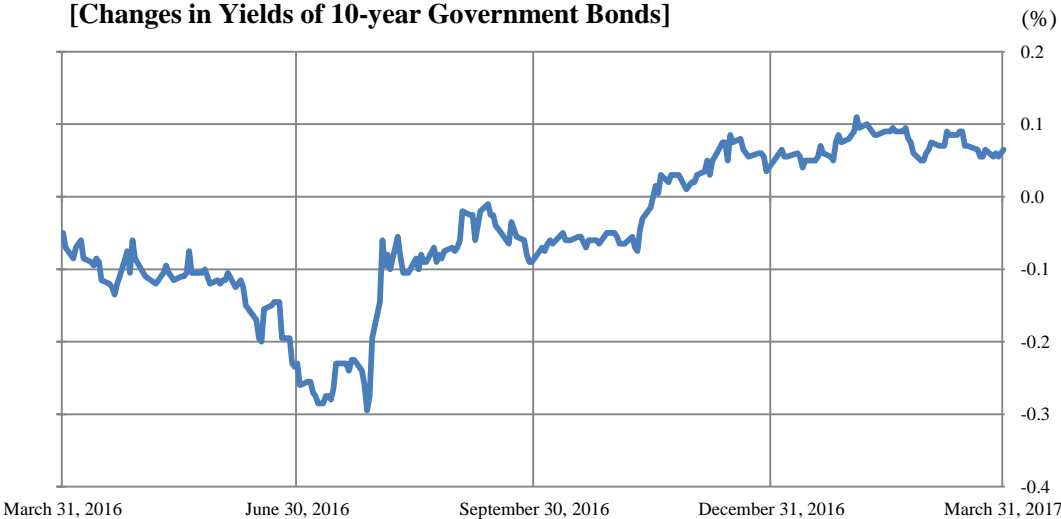
Section 1 Administration and Investment of Funds in FY2016

Fiscal Year 2016 Market Environment

○ Development in 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 2016 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.

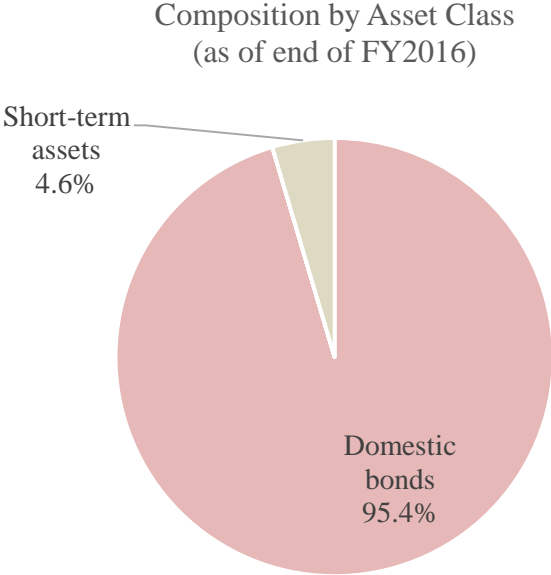


Fiscal Year 2016 Asset Mix

The composition by asset (book value basis) is as follows:

(Unit: %)

	FY2015	FY2016			
	End of FY	End of Q1	End of Q2	End of Q3	End of FY
Domestic bonds	85.3	99.8	99.7	99.9	95.4
Short-term assets	14.7	0.2	0.3	0.1	4.6
Total	100.0	100.0	100.0	100.0	100.0



(Note 1) Concerning the benchmark portfolio, the share in the mix is 100% for domestic bonds.
 (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.

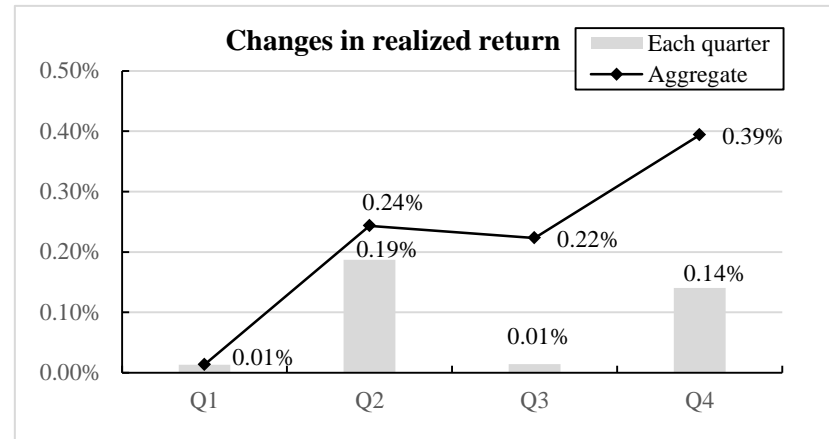
Fiscal Year 2016 Investment Return

The realized return for FY2016 was +0.39% for the overall assets.

Domestic bonds held by the Annuity Retirement Benefit Association Reserve Fund were evaluated based on book value on the premise of continued holding until maturity.

(Unit: %)

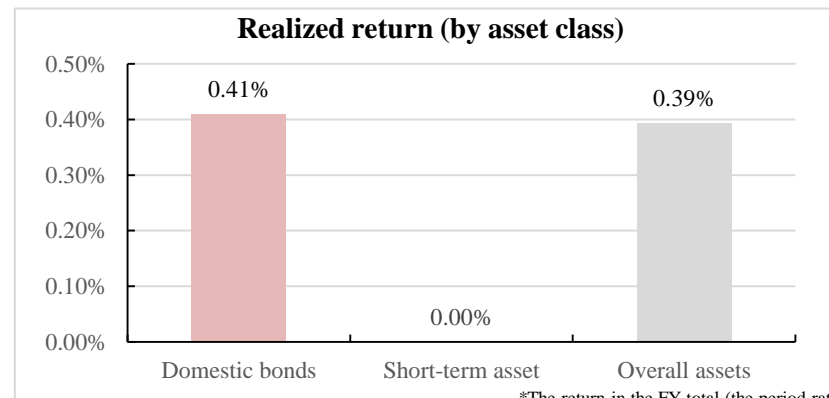
	FY2016				
	Q1	Q2	Q3	Q4	FY total
Realized return	0.01	0.19	0.01	0.14	0.39
Domestic bonds	0.01	0.20	0.01	0.14	0.41
Short-term assets	0.00	0.00	0.00	0.00	0.00



(Reference)

(Unit: %)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Modified total return	3.74	-2.60	-2.14	-0.56	-3.30
Total return	0.13	0.10	0.09	0.09	0.40



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

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

(Note 3) The modified total return represents the realized return adjusted for the effects of changes in valuation profits/losses that would arise if the assets are evaluated based on market value.

(Note 4) The total return realized return adjusted for increase/decrease of accrued income.

Fiscal Year 2016 Investment Income

The realized income for FY2016 was +JPY374 million (for overall assets).

Domestic bonds held by the Annuity Retirement Benefit Association Reserve Fund were evaluated based on book value on the premise of continued holding until maturity.

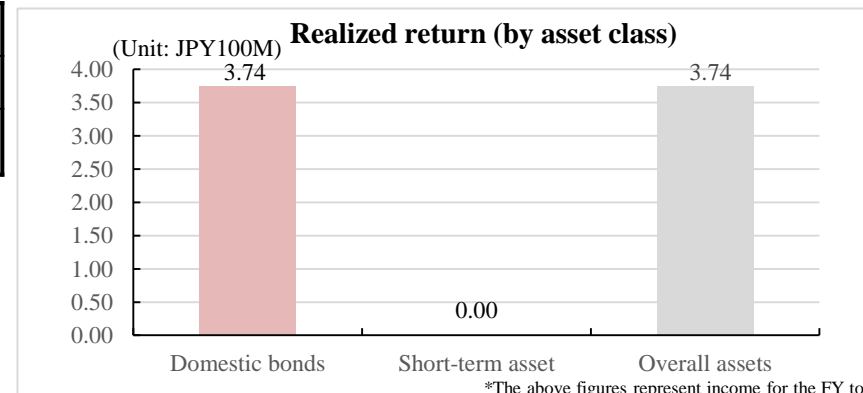
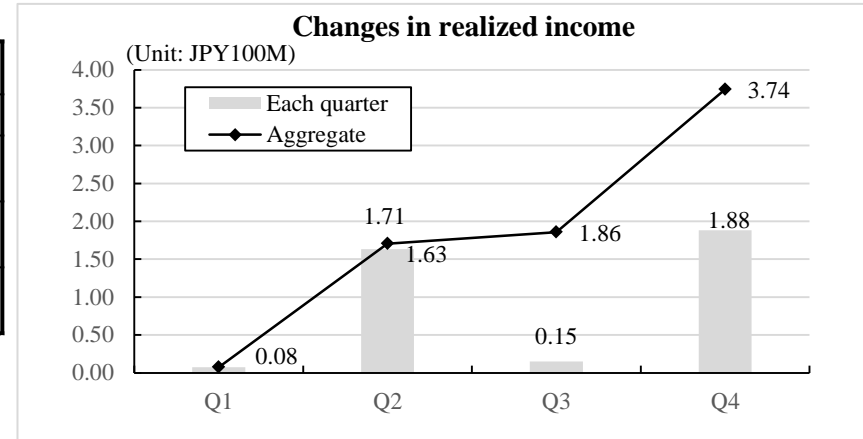
(Unit: JPY100M)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Realized income	0.08	1.63	0.15	1.88	3.74
Domestic bonds	0.08	1.63	0.15	1.88	3.74
Short-term assets	0.00	0.00	0.00	0.00	0.00

(Reference)

(Unit: JPY100M)

	FY2016				
	Q1	Q2	Q3	Q4	FY total
Investment income	21.74	-23.60	-22.95	-7.57	-32.39



- (Note 1) The realized income and investment 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.
 (Note 3) The investment income represents the realized income adjusted for the effects of changes in valuation gains/losses based on market value.
 (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	641	680	38	949	962	13	1,134	1,124	-10	1,447	1,428	-19
Short-term assets	1	1	0	2	2	0	1	1	0	70	70	0
Total	642	681	38	952	965	13	1,135	1,125	-10	1,517	1,498	-19

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

(Note 2) The market value and valuation profits/losses are indicated here for reference. The valuation profits/losses were tentatively calculated based on the market value.

(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 Status of Risk Management

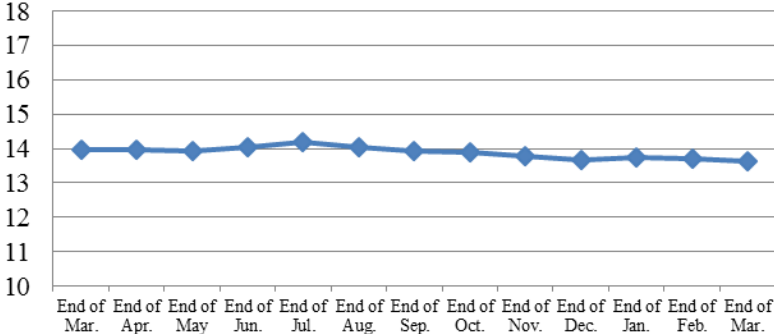
○ Domestic bonds

(1) Changes in modified duration

A modified duration is one of the indicators of market risk for bond investment, which shows the sensitivity of bond prices in the case of a fluctuation in interest rates to a certain degree.

The modified duration of domestic bonds was from 13.63 to 14.17.

Changes in modified duration



(2) Status of holding of domestic bonds

○ Status of holding (by rating)

The Federation is required to make investment in bond issues rated A or higher. In fiscal year 2016, there was no bond issue which was degraded to BBB or lower. (Note)

(Note) This requirement is applied to bonds other than government bonds, municipal bonds, and bonds issued by juridical persons under special laws (limited to those with a government guarantee).

Fiscal Year 2016 Status of Entrusted Investment Management Institutions

The full amount of funds of the Annuity Retirement Benefit Association Reserve Fund is invested in domestic bonds, etc. through in-house investment.

Fiscal Year 2016 Fees

There are no fees related to investment because the full amount of funds of the Annuity Retirement Benefit Association Reserve Fund is invested in domestic bonds, etc. through in-house investment.

Section 2 Systems and Activities Concerning Administration and Investment of Funds

Basic Approach to Investment

- As a basic policy, funds shall be invested for the purpose of contributing to the stable management of annuity retirement benefit plan operations in light of the characteristics of a cash balance-type pension program, whose benefit level is linked to the government bond yield or other benchmarks.
- In addition, funds shall be managed appropriately by establishing a benchmark portfolio so that investment returns needed for the fund (i.e. assumed return (meaning the assumed return stipulated in Article 28, Paragraph (5) of the Ordinance for Enforcement of the Local Public Service Mutual Aid Association Act (Cabinet Order No. 352 of 1962))) will be generated with the minimum risk.

Basic Policy for Management and Investment of Annuity Retirement Benefit Association Reserve Fund (Extract)

1. Basic Policy

The Federation shall manage the Annuity Retirement Benefit Association Reserve Fund with the objective of contributing to the stability of the annuity retirement benefit plan operations based on the characteristics of a cash-balance pension plan whose benefit level is linked to government bond yields, from the long-term perspective in a safe and efficient manner.

Accordingly, the Federation shall administer and invest the Annuity Retirement Benefit Association Reserve Fund by establishing an asset mix from the long-term perspective (the “benchmark portfolio”).

2. Investment target

The investment of the Annuity Retirement Benefit Association Reserve Fund, which has the characteristics of a cash-balance pension plan, shall be managed appropriately by establishing the benchmark portfolio so that investment returns needed for the fund (i.e., assumed return (meaning the assumed return stipulated in Article 28, Paragraph (5) of the Ordinance for Enforcement of the Local Public Service Mutual Aid Association Act (Cabinet Order No. 352 of 1962))) will be generated with the minimum risk.

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

Benchmark Portfolio

○ Benchmark Portfolio

	Domestic bonds
Asset mix	100%

The Federation manages the Annuity Retirement Benefit Association Reserve Fund with the objective of contributing to the stability of the annuity retirement benefit plan operations based on the characteristics of a cash-balance pension plan whose benefit level is linked to government bond yields. To this end, the Federation determined an asset mix from the long-term perspective.

In relation to the asset mix of the Annuity Retirement Benefit Association Reserve Fund, the full amount of funds is invested in domestic bonds.

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 operation, 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.

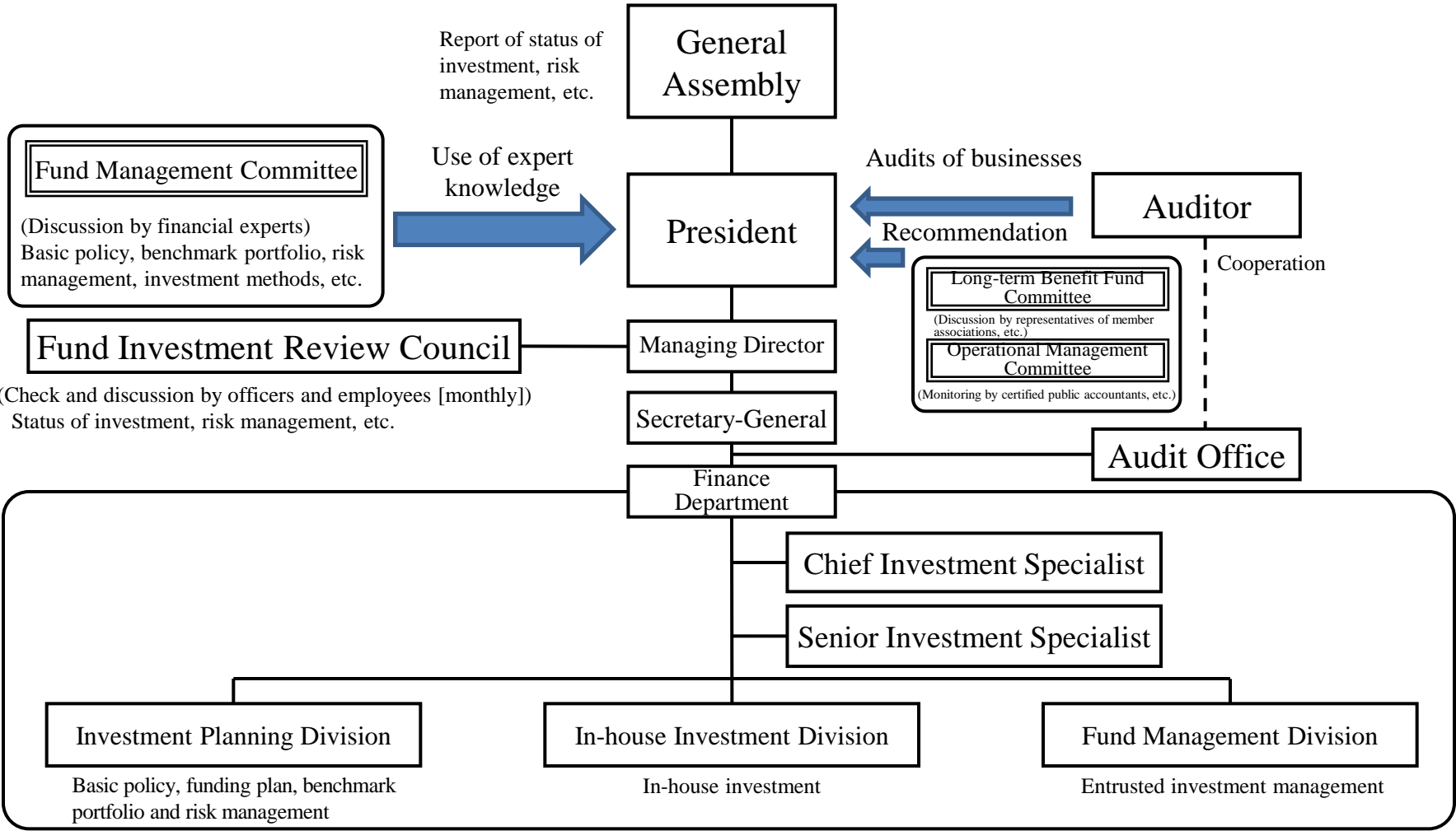
(6) Fund Investment Review Council

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, Kwansei 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 appropriately implements risk management for investment in consideration of the following points: that investment of funds should be made safely and efficiently from a long-term perspective; and the characteristics of a cash-balance pension plan whose benefit level is linked to government bond yields.

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 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) Annuity Retirement 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 annuity retirement benefit plan operations in the future.
- (4) The Federation shall manage the Annuity Retirement Benefit Association Reserve Fund by conducting appropriate risk management based on the characteristics of a cash-balance pension plan whose benefit level is linked to government bond yields.

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, for its assets as a whole, the Federation keeps track of and manages the status of the deviation of the actual portfolio from the benchmark portfolio in terms of the asset mix.

Management of asset administration institutions

- The Federation requires asset administration institutions to fulfill the fiduciary responsibilities and develop systems to ensure compliance with laws, and appropriately manages them by keeping track of their status of asset administration.

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 considers it necessary to check whether the existing benchmark portfolio is appropriate from the viewpoint of ensuring safe and efficient investment over the long term.

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.

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	0.13	0.39
Domestic bonds	0.16	0.41
Short-term assets	0.02	0.00

(2) Value of investment income

(Unit: JPY100M)

	FY 2015 (second half)	FY2016
Realized income	0.27	3.74
Domestic bonds	0.26	3.74
Short-term assets	0.01	0.00

(Reference)

(Unit: %)

	FY 2015 (second half)	FY2016
Modified total return	8.06	-3.30

(Reference)

(Unit: JPY100M)

	FY 2015 (second half)	FY2016
Investment income	16.96	-32.39

(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.

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	
	Book value balance	Composition	Book value balance	Composition
Domestic bonds	434	85.33	1,447	95.41
Short-term assets	75	14.67	70	4.59
Total	509	100.00	1,517	100.00

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

The tables below show the top 10 bond issues held through in-house investment as of the end of March 2017, classified by issuer 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	Japan Finance Organization for Municipalities	805
2	Yokohama City	31
3	Osaka Prefecture	27
4	Hyogo Prefecture	26
5	Saitama Prefecture	26
6	Kyoto Prefecture	25
7	Fukuoka Prefecture	25
8	Hiroshima Prefecture	25
9	Joint LGB	25
10	Aichi Prefecture	24
Total	54 Issuers	1,428

(Note 1) The names of issuers 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 of bonds 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.