

**Basic Policy for the Administration and Investment of Employees' Pension
Insurance Benefit Association Reserve Fund**

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In accordance with Article 112-4, Paragraph (1) of the Local Public Service Mutual Aid Association Act (Act No. 152 of 1962; the "Act"), for the appropriate administration and investment of the implementing organization reserve fund (the "employees' pension insurance ("EPI") benefit association reserve fund") stipulated in Article 79-2 of the Employees' Pension Insurance Act (Act No. 115 of 1954; the "EPI Act"), in compliance with the Fund Basic Guidelines stipulated in Article 79-4, Paragraph (1) of the EPI Act (Public Notice No. 1 of the Ministry of Internal Affairs and Communications, Ministry of Finance, Ministry of Education, Culture, Sports, Science and Technology and Ministry of Health, Labour and Welfare dated July 3, 2014; the same applies hereinafter) as well as the administration and investment policy of the Pension Fund Association for Local Government Officials ("PAL") stipulated in Article 79-6, Paragraph (1), of the EPI Act and Article 112-3, Paragraph (3), of the Act, the basic policy (the "Basic Policy") on the administration and investment of the EPI benefit association reserve fund of the National Federation of Mutual Aid Associations for Municipal Personnel (the "Federation") is set forth as follows.

I Basic policy for the administration and investment of the EPI benefit association reserve fund

1 Basic policy

Especially keeping in mind that the EPI benefit association reserve fund is part of insurance premiums collected from insured persons of the EPI and valuable resources for funding future pension benefits, the reserve funds shall be managed with the objective of contributing to the stable operation of EPI schemes in the future by investing them safely and efficiently "solely for" ("for" in the case of investing in line with the objectives of the Act under Article 79-3, Paragraph (3), of the EPI Act) the interests of insured persons of the EPI from the long-term perspective.

Accordingly, on the basis of appropriately diversifying investments in multiple

assets that differ in terms of risk/return and other characteristics ("Diversified Investment"), the Federation shall administer and invest the EPI benefit association reserve fund by establishing an asset mix from a long-term perspective (the "Benchmark Portfolio").

The Federation shall provide and publicly disclose a Basic Policy setting forth the matters related to the asset mix of EPI benefit association reserve fund so as to ensure the appropriate administration and investment of the EPI benefit association reserve fund, in accordance with the basic policy on fund and policy on the administration and investment ("Administration and Investment Policy"). The Federation shall also submit this Basic Policy to the PAL. In addition, if there is any revision to the Administration and Investment Policy, or if the Federation determines it necessary, the Federation shall review the Basic Policy and amend and publicly disclose it as necessary, and shall submit it to PAL.

2 Investment target

The investment of the EPI benefit association reserve fund shall be managed appropriately by establishing a Benchmark Portfolio in order to generate investment returns which is the investment target for management fund stipulated in Article 79-6, Paragraph (1) of the EPI Act ("Management Fund").

In so doing, the Federation shall pay attention 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 returns for overall assets and each asset class for each fiscal year by appropriately implementing the selection, management and assessment of entrusted investment management institutions, as well as generating benchmark returns for overall assets and 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, whether details of the indicators are disclosed, and whether they are consistent with the benchmark for the Management Fund.

3 Committees

The Federation establishes and utilizes the following committees:

(1) Fund Management Committee

This is a committee consisting of members who possess academic knowledge or practical experiences in areas such as economics, finance and fund

management, which studies expert matters pertaining to the establishment and revision of the Basic Policy and the administration and investment of the EPI benefit association reserve fund.

(2) Long-term Benefit Fund Committee

This is a committee also participated in by representatives of associations constituting the Federation ("Member Associations"), which conducts research and study relating to the Basic Policy for management of the EPI benefit association reserve fund and other important matters.

(3) Operational Management Committee

This is a committee also participated in by 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.

4 Fund management plan

For the management of the EPI benefit association reserve fund, the Federation shall prepare an annual fund management plan at the beginning of each fiscal year and a quarterly fund management plan for each quarter, and shall manage the fund according to these plans. The Federation shall also submit these plans to PAL.

The fund management plan shall include the following.

(1) Outlook for cash flows

- A Amount of short-term investment as of the end of the previous fiscal year
- B Expected revenues
 - (A) Revenue from insurance premiums, etc.
 - (B) Repayment of long-term loans
 - (C) Appropriation for basic pension
 - (D) Appropriation for employees' pension
 - (E) Return on short-term investment
 - (F) Bond principal and interest, etc.
 - (G) Other revenues
- C Expected expenditures
 - (A) Benefit payment
 - (B) Payment to PAL
 - (C) Contribution for basic pension
 - (D) Contribution for employees' pension
 - (E) Long-term loans

- (F) Money transferred to the administration accounting
- (G) Other expenditures
- D Amount of short-term investment
- E Amount of investment
- F Amount of short-term investment as of the end of the relevant fiscal period
- (2) Fund management policy
 - A In-house investment
 - B Entrustment of investment management in the form of trust

5 Risk management

Based on conducting Diversified Investment, various risks associated with the administration and investment of the EPI benefit association reserve fund shall be appropriately managed.

Also, while the EPI benefit association reserve fund is administered and invested by entrustment to entrusted investment management institutions and asset management institutions, group pure endowment insurance of life insurance companies, and in-house investments; risk management shall be conducted based on reporting from the entrusted investment management institutions, asset management institutions and life insurance companies for overall assets, each asset class, each entrusted investment management institution, asset management institution and life insurance company, and for in-house investments, by the methods below. The implementation policy of this risk management shall be reported to the General Assembly upon deliberation at the Fund Management Committee, etc., and timely reports on the risk management status shall be made to the General Assembly and the Fund Management Committee, etc.

(1) Overall assets

In order to appropriately manage the Benchmark Portfolio, check the asset mix of the EPI benefit association reserve fund for any deviations from the Benchmark Portfolio at least monthly, and take necessary actions. In addition, check the EPI benefit association reserve fund's asset mix for any deviations from the Benchmark Portfolio of the Management Fund at least monthly.

Also, enhance necessary functions for understanding and analyzing market trends in order to conduct appropriate and smooth rebalancing.

Furthermore, check the risks of overall assets and conduct the analysis and assessment of the degree of risk-taking, the analysis of factors for deviations from the composite benchmark return of each fiscal year and the like.

- (2) Asset class

Manage risks associated with each asset class, including market risk, liquidity risk and credit risk. For foreign assets, closely watch country risk as well.
- (3) Entrusted investment management institutions

Understand and appropriately manage the investment and risk-taking status of each entrusted investment management institution by presenting investment guidelines to each entrusted investment management institution (the "Investment Guidelines").

Also, exercise caution for any changes to investment structures.
- (4) Asset management institutions

Present guidelines on asset management to each asset management institution (the "Asset Management Guidelines"), understand the asset management status of each institution, and manage it appropriately.

In addition, manage the credit risk of each institution and pay attention to any changes to asset management structures.
- (5) Life insurance companies

Understand the business management status and asset management status of each insurer and manage them appropriately.
- (6) In-house investment

Establish a guideline on investment, and manage risks appropriately by, for example, checking the investment and risk-taking status.

6 Investment methods

- (1) Basic approach

In principle, except for cases of cashing-out, both passive and active investment approaches shall be employed. Based on this, active investment management shall be conducted with the aim of generating excess returns. However, active investment shall be conducted upon deliberation at the Fund Management Committee on fund selection standards on the assumption that risk selection is reasonable with sufficient grounds to back the expectations for excess returns, also taking into consideration the past investment performance. In addition, its transparency shall be ensured under appropriate monitoring by the Fund Management Committee by, for example, timely reporting on matters requested by the Fund Management Committee.

With respect to benchmarks, not only traditional capitalization weighted indexes but also the adoption of new benchmarks from the perspective of

improving investment returns shall be examined.

The Federation shall review the investment methods with a view to securing investment returns and efficient investment by such way as reviewing benchmarks and strengthening its efforts for the better selection and management of entrusted investment management institutions through appropriate performance management. In addition, the Federation shall assess investment performance on a regular basis and review its entrusted investment management institutions in a timely manner, for example, by revisiting the allocation of funds.

In addition to utilizing excellent know-how of entrusted investment management institutions, the Federation shall consider in-house investment to the extent permitted under the laws from the standpoints of reducing investment costs and accumulating knowledge and expertise of investment.

(2) Specific investment methods

A Matters relating to in-house investment

(A) Basic policy

In order to contribute to the safe and efficient investment of the EPI benefit association reserve fund, part of the fund shall be administered and invested in accordance with the following long-term and short-term investment policies.

a Long-term investment

For the acquisition of government and corporate bonds, efforts shall be made for favorable investments over a long-term considering the following points:

- (a) Creditworthiness of issuers and market liquidity
- (b) Coupon rate, acquisition price, and current maturity
- (c) Interest outlook

b Short-term investment

A short-term investment is an investment of resource funds for pension benefit payment, and efforts shall be made for favorable investment in accordance with a monthly fund plan while securing safety and liquidity as the first priorities, considering the investable period and short-term interest rate trends.

(B) Financial institutions

For the selection of a partner financial institution for in-house investment (long-term and short-term investment), standards

separately stipulated by the Federation considering credit risks and other factors shall be observed.

(C) Investment assets

a Long-term investment

(a) Investment assets shall be the following yen-denominated securities among those set forth in the laws and notices of the Ministry of Internal Affairs and Communications.

(i) Government bonds

(ii) Municipal bonds

(iii) Bonds issued by juridical persons under special laws (in the case of bonds without government guarantee, limited to those rated A or above by a qualified rating agency ("Qualified Rating Agency") set forth in Article 2 of the "Rating Agencies Separately Designated by the Commissioner of the Financial Services Agency and Categories Separately Designated as Being Equivalent to Rating by Qualified Rating Agencies According to Standard for Determining Whether the Adequacy of Equity Capital of a Bank is Appropriate in Light of Circumstances such as Assets, etc. Held by the Bank Pursuant to Article 14-2 of the Banking Act" (Public Notice of the Financial Services Agency No. 28 of 2007)); provided, however, that for unrated bonds, limited to those issued by juridical persons rated A or above).

(iv) Domestic corporate bonds (excluding bonds with new share acquisition rights and also excluding bonds with warrants issued under the Commercial Code before the revision dated April 1, 2002)

Corporate bonds rated A or above by any of the Qualified Rating Agencies

(v) Yen-denominated foreign bonds

i. Yen-denominated bonds issued by the International Bank for Reconstruction and Development, Asian Development Bank, Inter-American Development Bank, African Development Bank, European Bank for Reconstruction and Development or International Finance Corporation (including Euro-yen bonds; the

same applies hereinafter)

- ii. Yen-denominated bonds issued by foreign governments (including local governments), yen-denominated bonds issued by international organizations under treaties (excluding those issued by organizations set forth in i.) or yen-denominated bonds issued by foreign juridical persons equivalent to government-guaranteed bonds, which are rated AA or above by any of the Qualified Rating Agencies
- iii. Yen-denominated bonds issued by Japanese companies or overseas subsidiaries of Japanese companies, which are rated A or above by any of the Qualified Rating Agencies

(vi) Specified bonds (meaning specified bonds provided for in Article 2, Paragraph (7), of the Act of Securitization of Assets (Act No.105 of 1998; the same applies hereinafter)

Specified bonds rated A or above by any of the Qualified Rating Agencies

(vii) Bonds with new share acquisition rights (limited to convertible bond-type bonds with new share acquisition rights; and including convertible bonds issued under the Commercial Code before the revision dated April 1, 2002)

Corporate bonds rated A or above by any of the Qualified Rating Agencies and whose unit price at the time of acquisition does not exceed the face value thereof

(b) For the bonds referred to in (iv), (v) and (vi) of (a), investment instruments shall be those which satisfy the following conditions:

- (i) bonds to be redeemed at par value;
- (ii) bonds with fixed rates; and
- (iii) bonds which are issued and redeemed, and whose interests are paid, in Japanese yen.

b Short-term investment

Investment assets shall be short-term government bonds, financing bills, deposits, negotiable certificates of deposits, commercial papers rated A or above by any of the Qualified Rating Agencies, money management fund ("MMF") and free financial fund

("FFF"). For assets other than deposits, MMFs and FFFs, investment assets shall include those based on repurchase agreements.

c Lending to other accounting

Lending to other accounting of the Federation shall be made in accordance with a budget under the laws and regulations. However, no lending shall be made to the retirement pension accounting or transitional long-term accounting.

d Other investment

For the management of government and corporate bond investment trusts (excluding MMF and FFF), securities trusts, etc., the risks and returns related to investment instruments shall be fully analyzed, and cancellation fees and other costs shall be considered in a comprehensive manner.

e Considerations

(a) Diversified Investment

Issuers and other factors shall be diversified in an appropriate way. The acquisition of bonds other than government bonds, municipal bonds, and bonds issued by juridical persons under special laws (excluding finance bonds) which are issued by the same issuer shall not exceed 10% of in-house investment assets.

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

For bonds other than government bonds, municipal bonds, and bonds issued by juridical persons under special laws (limited to those with a government guarantee), ratings shall be checked on a regular basis, and shall be sold in principle if all ratings fell below the designated level. However, if the sale would not be profitable, these bonds may be retained by paying full attention to their credit risks and other factors.

(c) Time deposits

No new investment shall be made in instruments with a potential risk of loss of principal also considering fees at the time of early cancellation.

(D) Entrustment of asset management

a The Federation may entrust a financial institution to manage its

in-house investment assets. The Federation shall ensure that the institution entrusted with asset management (an "In-house Asset Management Institution") will perform the following:

- (a) Expressly provide in a contract, etc. that the financial institution shall be bound to exercise its best efforts with loyalty, observing the duty of due care as an expert and solely for the benefit of the Federation as a principal in connection with the administration and investment of the Federation's assets.
- (b) Strictly administer and take custody of the Federation's assets, clearly separating them from the financial institution's own assets.
- (c) Pay utmost care in securities delivery and settlement.
- (d) Give sufficient consideration to credit risk, administrative capability, costs, etc. when re-entrusting custody services or trust assets.
- (e) Submit data regarding the status of asset management at the end of every month and, on an as-needed basis, provide necessary data and explanations.
- (f) Observe laws, regulations, contracts, etc., establishing structures to ensure the observance.

b If an In-house Asset Management Institution has engaged in any act that violates laws and regulations, contracts, etc., the Federation shall promptly request reporting and give instructions as necessary.

(E) Selection and evaluation of In-house Asset Management Institutions

a Selection of In-house Asset Management Institutions

In-house Asset Management Institutions shall be selected from financial institutions that are engaged in trust services and meet the following criteria.

- (a) Business standing (e.g., capital, financial position, number of employees, customers) is found to be stable.
- (b) Asset management status is favorable.
- (c) A structure for complying with laws and regulations is in place.

b Evaluation of In-house Asset Management Institutions

In-house Asset Management Institutions shall be evaluated in a timely manner through qualitative assessment with respect to their asset management status and structures for complying with laws

and regulations, and their competence shall be determined.

c Addition or reduction of entrusted amount

An addition or reduction of entrusted amount, including the cancellation of a contract, shall be made based on the assessment set forth in b, and in the case of an addition or reduction of the amount of in-house investment due to the increase or decrease of the balance of EPI benefit association reserve fund, the entrusted amount may be added or reduced giving priority to the policy decision of the Federation.

B Entrustment of investment management in the form of trust

The items below shall be observed for entrusted investments in specified money trusts and specified comprehensive trusts under discretionary investment management contracts with investment advisory firms, as well as individually operated designated money trusts and individually operated designated comprehensive trusts by banks engaged in trust services.

The Federation shall have entrusted investment management institutions and entrusted investment asset management institutions (entrusted investment management institutions and entrusted investment asset management institutions are hereinafter collectively referred to as "Entrusted Institutions") administer and invest assets in accordance with the Basic Policy.

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

The Federation shall provide instructions on the Standard Asset Mix as necessary according to the characteristics and evaluation of the entrusted investment management institution, taking into consideration the asset mix and the diversification of investment style based on the Benchmark Portfolio.

If it is considered appropriate to change the Standards Asset Mix, the Federation shall promptly give instructions on the change.

(B) Matters to be observed in investment management

The Federation shall manage the observance of investment assets, investment methods, numerical investment targets and risk management indicators proposed by the entrusted investment management institution and agreed by the Federation, as well as benchmarks designated by the Federation ("Manager Benchmarks")

and the Investment Guidelines regarding the following items presented by the Federation, and give necessary instructions.

a General matters

(a) Standards Asset Mix

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

(b) Registration of investment style

Entrusted investment management institutions shall report to and register with the Federation in writing their management philosophies for each asset class as well as the investment styles and processes based on the philosophy, and shall comply with the registered matters. Any change to the registered matters requires prior discussion with the Federation.

(c) Matters related to framework for risk management

Entrusted investment management institutions shall make efforts to vigorously manage risks, complying with the Investment Guidelines presented by the Federation.

(d) Establishment of legal compliance frameworks

Entrusted investment management institutions must observe laws and regulations, contracts with the Federation, the Investment Guidelines, etc. and establish frameworks to ensure the observance.

(e) Investment considerations

Entrusted investment management institutions must consider the following points when making investment in securities:

- (i) In addition to investing upon sufficient research and analysis, diversifying investments appropriately. With respect to assets denominated in foreign currencies, selecting countries and currencies, giving full consideration to political and economic stability, as well as the characteristics of the market, such as settlement systems, trading regulations, and tax systems.
- (ii) When putting individual blocks of issues in the portfolio, liquidity must be considered.
- (iii) When acquiring domestic bonds (excluding government bonds, municipal bonds, and bonds issued by juridical

persons under special laws (excluding finance bonds)), domestic stocks, foreign bonds (excluding government bonds of Manager Benchmark constituent countries) and foreign stocks, investment in a single issuer must be capped at 10% of the market value of the asset. However, if this cap is exceeded due to a rational reason, such as that the asset mix ratio of the market value of individual stocks in Manager Benchmarks has exceeded the cap, it must be reported to the Federation.

(iv) Paying utmost attention to market impacts and other similar factors when trading, making best efforts to avoid incurring unnecessary costs.

(v) No structured instruments incorporating derivatives as underlying assets which are investment instruments (excluding floating rate government bonds and inflation-indexed government bonds) shall be purchased.

(vi) Credit status and other factors shall be fully considered in selecting a securities firm, etc. which execute transactions. Efforts shall be made to execute transactions under a best execution policy.

(vii) When placing an order with the parent company, or parent group's or its own group's securities firms and their overseas subsidiaries, it must be reported to and registered with the Federation in advance. The purchase of securities underwritten or otherwise by any of these affiliates requires prior consent from the Federation.

(f) Considerations for derivatives transactions

Entrusted investment management institutions must consider the following points when making derivatives transactions:

(i) In principle, derivatives transactions shall be transactions with the aim of hedging price fluctuation risk in underlying assets held, such as bonds, stocks, and foreign exchange rates ("Sell Hedging") or substituting underlying assets ("Buy Hedging"), not for speculative purposes. Consultation on the specific details of the handling of derivatives transactions shall be held with the Federation in advance.

- (ii) Notional principals of derivatives transactions for the purposes of net Sell Hedging shall be within the amount equivalent to the asset that are currently held or to be held in the future for certain, and, in the case of net Buy Hedging, within the surplus fund currently held or to be held in the future for certain.
- (iii) Consultation on the specific details of the handling of derivatives transactions for a purpose other than hedging shall be held with the Federation in advance.

b Domestic bonds

- (a) Investment assets shall be the following yen-denominated bonds.
 - (i) Government bonds
 - (ii) Municipal bonds
 - (iii) Bonds issued by juridical persons under special laws (in the case of bonds without government guarantee, limited to those rated BBB or above by any of the Qualified Rating Agencies; provided, however, that for unrated bonds, limited to those issued by juridical persons rated BBB or above)
 - (iv) Corporate bonds rated BBB or above by any of the Qualified Rating Agencies
 - (v) Specified bonds rated BBB or above by any of the Qualified Rating Agencies
 - (vi) Bonds issued by foreign governments or foreign juridical persons and rated BBB or above by any of the Qualified Rating Agencies.

- (b) Bonds set forth in (a)(iii) without government guarantee and bonds set forth in (iv), (v) and (vi) shall be sold in principle if all ratings fell below the designated level after the acquisition. However, if the sale would not be profitable, these bonds may be retained by paying full attention to their credit risks and other factors.

If such bonds are to be continuously held, the total market value of the bonds shall not exceed 5% of the market value of the domestic bond assets, and the status of holding shall be reported to the Federation.

c Domestic stocks

Investment assets shall be yen-denominated stocks listed on domestic securities exchanges (including those planned to be listed on domestic securities exchanges). No margin transaction is allowed.

d Foreign bonds

(a) Investment assets shall be bonds denominated in a currency of a Manager Benchmark constituent countries.

(b) Bonds shall be rated BBB or above by any of Qualified Rating Agencies.

(c) Bonds set forth in (a) shall be sold in principle if all ratings referred to in (b) fell below BBB after the acquisition. However, if the sale would not be profitable, these bonds may be retained by paying full attention to their credit risks and other factors.

If such bonds are to be continuously held, the total market value of the bonds shall not exceed 5% of the market value of the foreign currency-denominated bond assets, and the status of holding shall be reported to the Federation.

e Foreign stocks

Investment assets shall be stocks constituting the Manager Benchmark or stocks issued by companies of Manager Benchmark constituent countries, which are denominated in the currency of the Manager Benchmark constituent country.

f Hedged assets denominated in foreign currencies

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

g Non-traditional assets (alternative assets)

Non-traditional assets, such as infrastructure, private equity and real estate ("Alternative Assets"), shall not be treated as an independent asset class, and shall be categorized into domestic bonds, domestic stocks, foreign bonds or foreign stocks according to risk/return and other characteristics. Also, investments shall be made after determining that they are appropriate as investment assets based on the results of examination in section 7 below.

h Sections b through g do not apply to a case otherwise provided for by the Federation or a case regarding which consultation with the Federation has been held in advance.

(C) Asset management considerations

The Federation shall require its entrusted investment asset management institutions to perform the following:

a Strictly administer and take custody of the Federation's assets, clearly separating them from the institution's own assets.

b Pay utmost care in securities delivery and settlement.

c Give sufficient consideration to credit risk, administrative capability, costs, etc. when entrusting and re-entrusting custody services (in particular, custody services for foreign currency-denominated assets).

d Submit data regarding the status of asset management at the end of every month and, on an as-needed basis, provide necessary data and explanations.

e Observe laws, regulations, contracts, etc., establishing structures to ensure the observance.

(D) Reporting on investment status

a The Federation shall require its Entrusted Institutions to submit a monthly report on management and investment.

b The Federation shall require its Entrusted Institutions to submit documents on a quarterly basis in the forms to be separately provided, conduct interviews on the overview of investment results, future investment plans, etc. In addition, the Federation shall require its entrusted investment management institutions to provide an explanation on the status of management and investment activities from time to time.

c The Federation shall give instruction on investment to its Entrusted Institutions as deemed necessary.

d In cases of any act in violation of laws and regulations, contracts, Investment Guidelines, etc., an Entrusted Institution shall immediately report it to the Federation and follow its instructions.

(E) Matters related to selection and evaluation of Entrusted Institutions

a Selection of entrusted investment management institutions

Entrusted investment management institutions shall be selected

based on the Benchmark Portfolio upon conducting detailed interviews on the points below and other details, with consideration given to the diversification of investment styles of the Federation as a whole in a comprehensive manner.

- (a) The business standing (e.g., capital, financial position, number of employees, customers) is found to be stable.
- (b) The investment philosophy, investment method, investment structure, legal compliance structure, and other qualitative evaluation results are favorable.
- (c) The investment performance is favorable for at least a certain period of time.

b Selection of entrusted investment asset management institution

Entrusted investment asset management institutions shall be selected from financial institutions that are engaged in trust services and meet the following criteria.

- (a) The business standing (e.g., capital, financial position, number of employees, customers) is found to be stable.
- (b) The asset management status is favorable.
- (c) A structure for complying with laws and regulations is in place.

c Evaluation of entrusted investment management institutions

Entrusted investment management institutions shall be evaluated comprehensively through both qualitative and quantitative assessments on a regular basis.

(a) Quantitative assessment

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

(b) Qualitative assessment

In addition to the evaluation of quality of management of portfolio, investment philosophy, structure for investment, investment processes, risk management capability, structure for compliance, etc., assessment shall be made by the methods appropriate to investment styles.

d Evaluation of entrusted investment asset management institutions

Entrusted investment asset management institutions shall be evaluated in a timely manner through qualitative assessment with respect to their asset management status and structures for complying with laws and regulations, and their competence shall be determined.

e Addition or reduction of entrusted amount

An addition or reduction of entrusted amount, including the cancellation of a contract, shall be made based on the assessment set forth in c and d; however, in the following cases, the entrusted amount may be added or reduced giving priority to the policy decision of the Federation regardless of the assessment results of c and d.

- (a) Adjusting the asset composition of the Federation as a whole due to a significant deviation from the Benchmark Portfolio
- (b) Making adjustments upon considering the diversification of investment styles or other similar aspects

C Investment in group pure endowment insurance

Investment in group pure endowment insurance shall be made in accordance with the following:

(A) Selection of life insurers

A life insurer shall be selected among life insurers rated above a certain level by Qualified Rating Agencies considering credit risks and other factors, in accordance with standards to be separately provided by the Federation.

(B) Setting and addition of entrusted amount

For setting or adding entrusted amount, a decision shall be made among life insurers satisfying the standards of selection set forth in (A) considering the status of financial standing and dividend payment.

(C) Cancellation of insurance policies of life insurers

Cancellation of insurance policies of life insurers shall be made considering rating from Qualified Rating Agencies and the status of compliance with laws and regulations, in accordance with standards to be separately provided by the Federation.

7 Diversification of investments

In order to facilitate Diversified Investment, alternative investment and other

diversification shall be discussed.

Investment in new assets shall be examined based on generally accepted expert knowledge on fund management with appropriate monitoring by the Fund Management Committee, for example, through deliberation of the investment policy at the Fund Management Committee in advance and timely reporting on the implementation status and other matters requested by the Fund Management Committee, on the assumption that Diversified Investment benefits are found; sufficient grounds are obtained to back expectations for generating excess returns; and investment and risk management structures are in place for making such investment.

In doing so, steady improvement in the assets' ability to generate returns, the existence of the secondary market and other market environment factors shall be fully taken into consideration, given that Non-traditional Assets have many differences compared with traditional assets in risks and other aspects based on their marketability, ability to generate returns, individuality, transaction costs, information disclosure status and the like, which cannot be managed only by enhancing investor side capabilities.

In addition, in evaluating Non-traditional Assets, evaluation methods shall be clarified based on generally accepted expert knowledge on asset administration and investment.

8 Flexible investment

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

In the case of Flexible Investment, the investment policy shall be deliberated at the Fund Management Committee and the implementation status shall be reported in a timely manner to the Fund Management Committee.

In the case of Flexible Investments, the details shall be stipulated in the fund management plan in I.4.

9 Investment considering non-financial elements

With respect to the investment of the EPI benefit association reserve fund, the

necessary initiatives shall be implemented, based on a case-by-case analysis, with a view to promoting investment considering non-financial elements including ESG (environment, social and governance) in addition to financial elements based on the approach that the sustainable growth of investee companies and the entire market is necessary for the increase of return on investment portfolio over long time so as to secure long-term return for the benefit of insured persons.

10 Pooled investment

The Federation may manage the EPI benefit association reserve fund by depositing it with PAL.

II Matters to be observed in administering and investing the EPI benefit association reserve fund

1 Ensuring fiduciary responsibility

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

2 Consideration to impact on the market and private sector activities

In managing the EPI benefit association reserve fund, the Federation shall, in light of the market size, strive not to be excessively impacted by the market and not to distort, among other things, price formation in the market and private sector investment activities, especially by avoiding concentration in specific time periods for investing and exiting funds.

In addition, consideration shall be paid to the following points so as to avoid any impact on the business management of private businesses.

- (1) Create a restriction on the holding of securities issued by the same entities, for each entrusted investment management institutions (including in-house investment).
- (2) Avoid selecting individual issues in stock investment, considering the impact on the business management of companies and other factors.

3 Actions to fulfill stewardship responsibility

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

If the Federation individually directs the exercise of voting rights, it shall give instructions so that entrusted institutions will exercise them in accordance with the directions. In the case of not individually directing the exercise of voting rights, the Federation shall have entrusted institutions exercise voting rights in accordance with the Guidelines for Exercising Shareholders' Voting Rights established by the Federation in line with the intent of the Corporate Governance Principles established by the Federation. Also, the Federation shall request entrusted institutions to report on, among other things, the status of exercising voting rights.

In doing so, based on the Principles for Responsible Institutional Investors «Japan's Stewardship Code» (February 26, 2014, by the Council of Experts Concerning the Japanese Version of the Stewardship Code) and Japan's Corporate Governance Code (June 1, 2015, by Tokyo Stock Exchange, Inc.), the Federation shall review its Corporate Governance Principles, the Guidelines for Exercising Shareholders' Voting Rights, etc. as necessary, and take action in line with the basic principles for performing stewardship responsibilities (meaning the responsibilities of institutional investors to enhance the mid- and long-term investment return for their clients and beneficiaries by enhancing and fostering Japanese investee companies' corporate value and sustainable growth through constructive engagement or other means based on in-depth knowledge of the companies, and their business environment).

Furthermore, in order to assist appropriate decision-making in association with dialogues with investee companies and stewardship activities, the Federation shall consider exchanging opinions with other implementing organizations, administration and investment institutions, as well as having a forum for that as necessary.

4 Securing liquidity for pension benefit payment

Based on the outlook of pension financing and the profit and loss status, the Federation shall secure liquidity (e.g., cash) necessary for the payment of pension benefits, etc., and conduct cash management efficiently.

In doing so, necessary functions, such as for understanding and analyzing market trends shall be enhanced so that funds will be secured without shortfalls by, for example, smoothly selling assets, taking into consideration price formation in the market.

5 Coordination among the Federation and other implementing organizations

In addition, the Federation shall cooperate with PAL and other implementing organizations in collaboration with each other with respect to the investment operations of EPI benefit association reserve funds by, for example, providing necessary information.

III Matters concerning asset mix from a long-term perspective in administering and investing the EPI benefit association reserve fund

1 Basic approach to the Benchmark Portfolio

The Benchmark Portfolio, which shall have an asset mix and deviation tolerance in line with the Administration and Investment Policy and investment targets, shall be established from the long-term perspective in consideration of generally accepted expert knowledge on asset administration and investment as well as economic trends in and outside Japan, based on forward looking risk analyses.

The Federation shall report on the establishment of the Benchmark Portfolio to the General Assembly upon deliberation at the Fund Management Committee, etc.

2 Benchmark Portfolio

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

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

	Domestic bonds	Domestic stocks	Foreign bonds	Foreign stocks
Asset mix	25%	25%	25%	25%
Deviation tolerance	±20%	±12%	±9%	±11%

(Note)

- (1) Short-term assets and life insurance (limited to a general account) are classified into domestic bonds.
- (2) In principle, the values are based on market value.
- (3) Alternative Assets are classified into domestic bonds, domestic stocks, foreign bonds and foreign stocks according to risk/return and other

characteristics, and capped at 5% of the overall assets.

3 Management of Benchmark Portfolio

Investment assets shall be assessed each month based on market value in principle to check the asset mix for each category of asset, and adjustment to the asset mix shall be made as necessary.

4 Benchmarks

Benchmarks for respective asset classes are as follows.

- (1) Domestic bonds
NOMURA Bond Performance Index (Overall)
- (2) Domestic stocks
TOPIX (dividend-inclusive)
- (3) Foreign bonds
FTSE World Government Bond Index (ex-Japan, ex-China, no hedge, in yen)
- (4) Foreign stocks
MSCI ACWI ex. Japan (in yen, dividend-inclusive)

Investment targets of entrusted investment management institutions and Manager Benchmarks to be used for risk management, etc. shall be provided in the Investment Guidelines.

5 Review of the Benchmark Portfolio

The Federation shall appropriately manage risks based on market trends, annually verify the Benchmark Portfolio and, if it is considered necessary in specific cases, such as that the investment environment assumed at the time of establishing the Benchmark Portfolio deviates from reality, examine the Benchmark Portfolio and revise it as necessary. Any change to the Benchmark Portfolio shall be reported to the General Assembly upon deliberation at the Fund Management Committee, etc. If the Federation finds it necessary in consideration of market impact and other factors, it shall establish a transition portfolio (meaning a transitional asset mix up until the realization of the Benchmark Portfolio) in order to smoothly transition to the revised Benchmark Portfolio.

IV Other necessary matters concerning appropriate administration and investment of the EPI benefit association reserve fund

1 Framework for responsibility of Federation

(1) Responsibility of Federation

For the investment of the EPI benefit association reserve fund, the Federation shall establish structures for the administration and investment and clarify the structure of responsibilities according to the following.

A Committees

The Federation shall establish the Fund Management Committee, Long-term Benefit Fund Committee, and Operational Management Committee as set out in I.3 and shall manage them according to the guidelines on establishment of committees to be separately provided.

B Organizational structure for business administration

The Federation shall ensure the accuracy in execution of businesses with utmost care, and shall make efforts for the improvement of structure for business administration by such way as strengthening the check and balance function and documenting the details of business administration.

C Organizational structure for decision making

Decision-making shall be made according to the following processes. Efforts shall be made for the improvement of an organizational structure for decision-making.

(A) Gather and share necessary information.

(B) Any issues related to investment shall be sufficiently discussed at the organizational level and recorded in the minutes of meetings, etc.

D Audit and internal control systems

The Federation shall have an auditor conduct a monthly audit, and, in particular, make efforts for strengthening business audit and improving internal control systems, including compliance.

(2) Responsibilities of persons in charge of investment management

For the investment of the EPI benefit association reserve fund, especially keeping in mind that the fund is a valuable resource for funding the long-term benefits of association members, the Federation shall clarify its structure of responsibilities and ensure that all persons engaged in the management of the EPI benefit association reserve fund fulfill fiduciary responsibilities (duty of loyalty and duty of care of a prudent manager).

2 Enhancing transparency

Regarding the administration and investment of the EPI benefit association

reserve fund, the Federation shall devise ways to make disclosure documents easier to understand by promptly publishing the status of administration and investment performance, such as investment returns and risks for each fiscal year by leveraging its website, etc. on an annual basis (on a quarterly basis for quarterly status of administration and investment performance). Also, the Federation shall examine ideal ways of information disclosure and publicity activities, responding to the diversification, sophistication and internationalization of investment, and make enhancement accordingly.

The Federation shall report on these matters to the General Assembly and Fund Management Committee, etc. in a timely manner.

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

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

3 Retaining and leveraging highly skilled and specialized talents

The Federation shall, if necessary, examine in detail the operations that require advanced and specialized skills as well as the expertise required for such operations, and strive to retain highly skilled and specialized talents who have such expertise.

In addition, training shall be conducted by leveraging highly skilled and specialized talents with the aim of enhancing performance of its staff.

The enhancement and development of specialized talents shall be promoted actively, with reporting on the status made to the Fund Management Committee as necessary and their opinions taken into consideration

4 Strengthening risk management

Necessary risk management systems shall be established.

In addition, also in light of various factors such as Flexible Investment, the Federation shall strive to enhance risk management by, for example, strengthening forward-looking risk analysis functions, establishing risk management analysis tools, and enhancing information collection and investigation functions as necessary.

5 Enhancing research and study operations

When conducting research and study operations, besides commissioning the work

to think tanks and other similar institutions, engaging staff including highly skilled and specialized talents in the work shall be considered so that know-how on the administration and investment of the EPI association reserve fund will be accumulated within the Federation. If highly skilled and specialized talents are employed, the establishment of a structure for expanding internal research and study activities by leveraging the talents shall be considered to accumulate know-how obtained from the research and conduct the administration and investment of the fund safely and efficiently in the future.

In the case of commissioning the research, measures to prevent information leak shall be taken thoroughly.

6 Provision on necessary matters

Any necessary matters not provided for in this Basic Policy shall be separately provided.

Supplementary Provisions

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

Supplementary Provisions (March 3, 2017)

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

Supplementary Provisions (July 19, 2018)

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

Supplementary Provisions (March 31, 2020)

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

Supplementary Provisions (December 24, 2021)

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