

Basic Policy for the Administration and Investment of Annuity Retirement Benefit Association Reserve Fund

(Established on October 1, 2015)

(Revised on March 9, 2018)

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In accordance with Article 112-11, Paragraph (1), of the Local Public Service Mutual Aid Association Act (Act No. 152 of 1962; the "Act"), the basic policy for administering and investing the annuity retirement benefit (ARB) association reserve fund (the "Basic Policy") for the National Federation of Mutual Aid Associations for Municipal Personnel (the "Federation") is established as follows.

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

1 Basic policy

The Federation shall manage the ARB association reserve fund with the objective of contributing to the stability of the ARB plan operations based on the characteristics of a cash-balance pension plan whose benefit level is linked to government bond yields, from a long-term perspective and in a safe and efficient manner.

Accordingly, the Federation shall administer and invest the ARB 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 ARB association reserve fund so as to ensure the appropriate administration and investment of the ARB association reserve fund. The Federation shall also submit this Basic Policy to the Pension Fund Association for Local Government Officials ("PAL"). In addition, if there is any revision to the administration and investment policy of PAL as referred to in Article 112-10, Paragraph (1) of the Act, 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 ARB 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 Order for Enforcement of the Local Public Service Mutual Aid Association Act (Cabinet Order No. 352 of 1962); the same applies hereinafter)) will be generated with the minimum risk.

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

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 ARB 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 ARB 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 ARB 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) Refund of deposits with Member Associations
 - (C) Return on short-term investment
 - (D) Bond principal and interest, etc.
 - (E) Other revenues
- C Expected expenditures
 - (A) Benefit payment
 - (B) Deposits with Member Associations
 - (C) Payment to PAL
 - (D) Money transferred to the administration accounting
 - (E) 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 Investment of deposits by Member Associations

5 Risk management

With respect to the administration and investment of the ARB association reserve fund, risk management shall be conducted for overall assets, each asset class, each asset management institution, and in-house investments, by the below methods. The implementation policy of this risk management shall be reported to the General Assembly upon deliberation at the Fund Management Committee, and timely reports on the risk management status shall be made to the General Assembly and the Fund Management Committee.

(1) Overall assets

In order to appropriately manage the Benchmark Portfolio, check the asset mix of the ARB association reserve fund for any deviations from the Benchmark Portfolio at least monthly, and take necessary actions.

Also, enhance necessary functions for understanding and analyzing market trends.

Furthermore, check risks of overall assets and conduct the analysis and assessment of the degree of risk-taking and the analysis of factors for deviations from the return needed for the fund.

(2) Asset class

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

(3) In-house investment

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

(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.

6 Investment methods

(1) Basic approach

In principle, all the amount, excluding short-term assets necessary for benefit payments, shall be invested in domestic bonds and such bonds shall be held until maturity (excluding cases where holding them until maturity is impossible due to such reasons as benefit payments). In doing so, efforts shall be made to increase the return upon controlling risks by appropriately selecting the types and maturities of domestic bonds.

In this case, from the standpoint of reducing investment costs, in-house investment shall be made in principle.

(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 ARB 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 domestic bonds, strive to make favorable investments over the long term, taking into account the interest outlook and other points.

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

Investment assets shall be the following yen-denominated securities.

(a) Government bonds

(b) Municipal bonds

(c) Bonds issued by the Japan Finance Organization for Municipalities

(d) Bonds guaranteed by the national or local government

However, for bonds issued by the Japan Finance Organization for Municipalities without government guarantee or bonds guaranteed by local governments, 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), and for unrated bonds, limited to those issued by juridical persons rated A or above).

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 employees' pension insurance accounting or the 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) 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.

(b) 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 ARB association reserve fund, the entrusted amount may be added or reduced giving priority to the policy decision of the Federation.

B Investment of deposits by Member Associations

Investment of deposits by Member Associations shall be made in accordance with the following, and the necessary matters shall be implemented after consultation between the Federation and Member Associations according to the terms and conditions to be separately determined by the Federation.

(A) Basic policy

Investment of deposits by Member Associations shall be made while considering the purpose and nature of deposits and paying consideration to safety and efficiency, in a manner contributing to the improvement of the welfare of association members. In addition, Member Associations shall make investment of deposits by fully recognizing that the fund for investment is a part of the entire fund for the investment of ARB association reserve fund of all mutual aid associations for municipal personnel.

(B) Responsibility of Member Associations

Member Associations are bound by the duty of loyalty and duty of care of a prudent manager, including careful management and investment, considering that they are investing funds for pensions of association members and pension beneficiaries.

In particular, Member Associations shall not conduct transactions which would be favorable for any accounting other than each Member Association's accounting for the management of deposits (the "Annuity Retirement Benefit Deposit Management Accounting") at the expense of the profit of the Annuity Retirement Benefit Deposit Management Accounting.

(C) Financial institutions, etc.

Partner financial institutions shall be selected in accordance with standards to be separately provided by the Federation considering credit risks and other factors.

(D) Investment assets

a Lending to other accounting

Lending to other accounting of each Member Associations shall be made in accordance with the standards to be separately provided by the Federation.

b Short-term asset investment

(a) The amount of short-term asset investment of each Member Association shall be the minimum amount necessary for facilitating lending to other accountings, and shall comply with the terms and conditions separately provided by the Federation.

(b) Investment assets shall be deposits and negotiable certificates of deposits, and partnership financial institutions shall be allocated in an appropriate way.

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

(E) Administration and management considerations

Structure for the verification of compliance with laws and regulations shall be developed.

(F) Discussion and report

a Member Associations shall consult with the Federation on investment plans for each fiscal year.

b Member Associations shall summarize the results of investment and report them to the Federation once a year.

c Member Associations shall provide explanation on the status of management, investment activities, etc. upon the request from the Federation, and the Federation shall give instructions on investment as deemed necessary.

d Member Associations shall submit to the Federation a report on the status of fund management and investment as of the end of each month, and the Federation may request the Member Associations to submit documents.

e In cases of any act in violation of laws and regulations, agreements, etc., a Member Association shall immediately report it to the Federation and follow its instructions.

7 Investment considering non-financial elements

With respect to the investment of the ARB 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 members..

8 Pooled investment

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

II Matters to be observed in administering and investing the ARB 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 ARB association reserve fund. This shall be stipulated in contracts, etc. with respect to contracts with asset management institutions, etc.

2 Consideration to impact on the market and private sector activities

In managing the ARB 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.

3 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.

4 Coordination among the Federation and other administration and investment

institutions

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

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

1 Basic approach to the Benchmark Portfolio

The Benchmark Portfolio, which shall have an asset mix in line with the 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

The asset mix of the Benchmark Portfolio shall be as follows.

	Domestic bonds
Asset mix	100%

(Note) (1) Short-term assets may be held to the extent necessary for pension payment, etc.

(2) Short-term assets and loans are classified into domestic bonds.

3 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 ARB association reserve fund

1 Framework for responsibility of Federation

(1) Responsibility of Federation

For the investment of the ARB 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 ARB 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 ARB 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 ARB 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 on an annual basis (on a quarterly basis for quarterly status of administration and investment performance).

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

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, 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 ARB 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 ARB association reserve 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 9, 2018)

This Basic Policy comes into force from April 1, 2018.

Supplementary Provisions (March 31, 2020)

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