

Fiscal Year 2017 Review of Operations

Employees' Pension Insurance 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

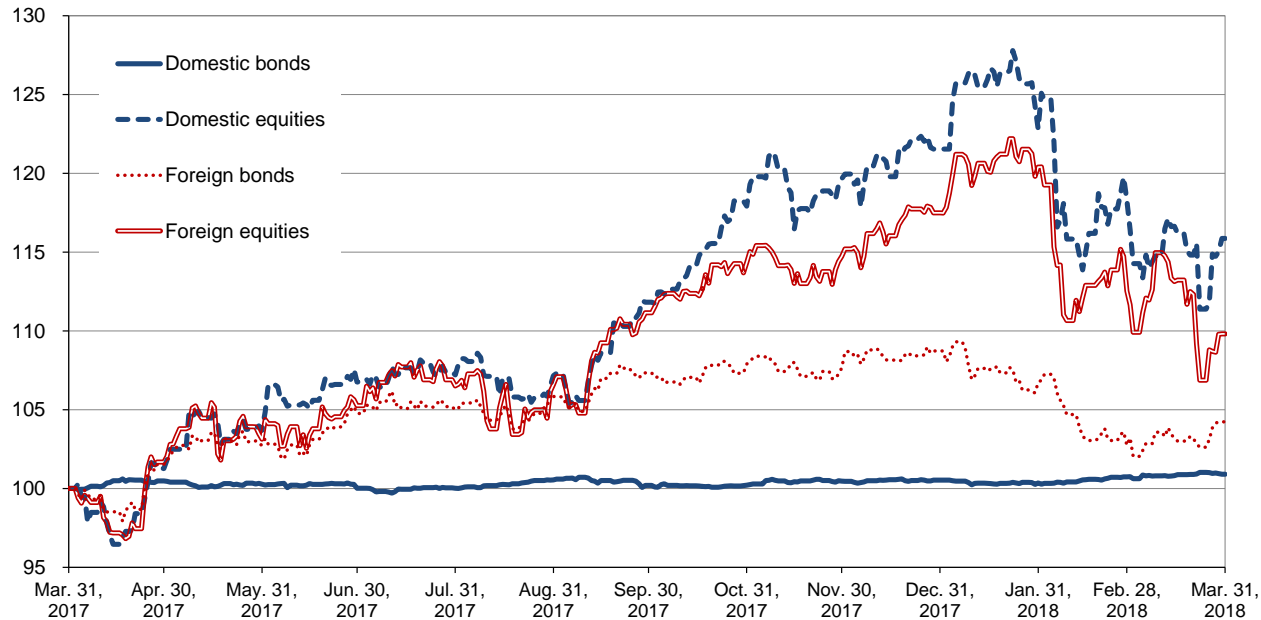
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Section 1 Administration and Investment of Funds in FY2017

Fiscal Year 2017 Market Environment

○ Change in benchmark return (March 31, 2017 = 100)



Asset class	Benchmark	Returns				
		Q1	Q2	Q3	Q4	Full fiscal year
Domestic bonds	NOMURA-BPI Overall	0.02%	0.18%	0.33%	0.37%	0.90%
Domestic equities	TOPIX (with dividends)	6.76%	4.74%	8.69%	-4.67%	15.87%
Foreign bonds	FTSE World Government Bond Index (excluding Japan; without hedging, yen-based)	4.76%	2.46%	1.29%	-4.14%	4.23%
Foreign equities	MSCI ACWI ex. JAPAN (yen-based, with dividends)	5.26%	5.60%	5.69%	-6.54%	9.81%
Total		3.70%	3.02%	3.88%	-3.28%	7.34%

(Note) The total is the return calculated by weight-averaging the benchmark returns for individual asset classes based on the shares in the asset mix of the benchmark portfolio.

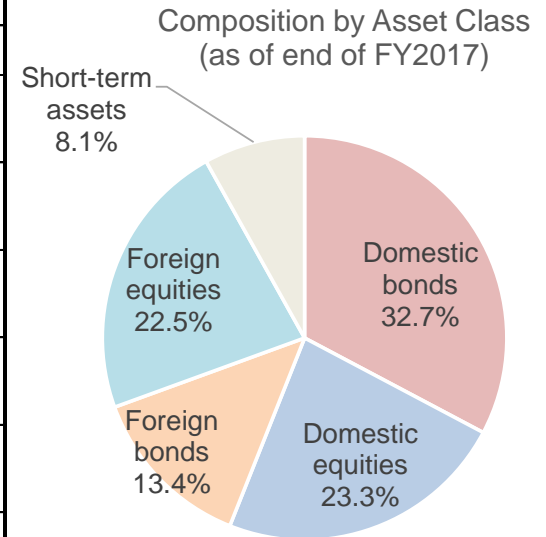
(Source: bloomberg)

Fiscal Year 2017 Asset Mix

The composition by asset is as follows:

(Unit: %)

	FY2016	FY2017			
	End of FY	End of Q1	End of Q2	End of Q3	End of FY
Domestic bonds	39.5	38.7	34.7	33.0	32.7
Domestic equities	19.5	22.3	22.8	24.7	23.3
Foreign bonds	12.1	13.5	13.4	14.2	13.4
Foreign equities	20.3	22.7	23.2	24.4	22.5
Short-term assets	8.6	2.7	5.9	3.7	8.1
Total	100.0	100.0	100.0	100.0	100.0



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

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

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

Fiscal Year 2017 Investment Return

The modified total return for FY2017 was 6.40% for the overall assets.

(Unit: %)

	FY2017				
	Q1	Q2	Q3	Q4	FY total
Modified total return	3.28	2.80	3.60	-3.13	6.40
Domestic bonds	0.13	0.44	0.35	0.36	1.25
Domestic equities	6.84	5.00	8.76	-4.52	15.85
Foreign bonds	4.77	2.44	1.34	-4.36	3.47
Foreign equities	5.61	5.45	5.51	-6.60	9.34
Short-term assets	0.00	0.00	0.00	0.00	0.00

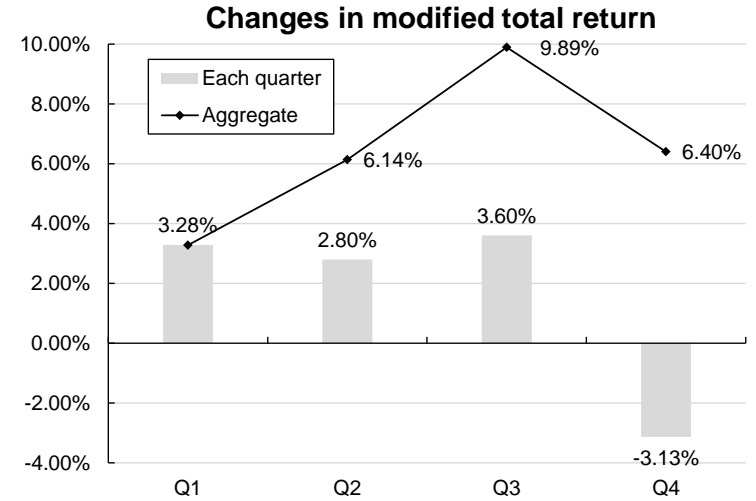
(Unit: %)

	FY2017				
	Q1	Q2	Q3	Q4	FY total
Realized return	1.00	1.18	0.86	1.32	4.37

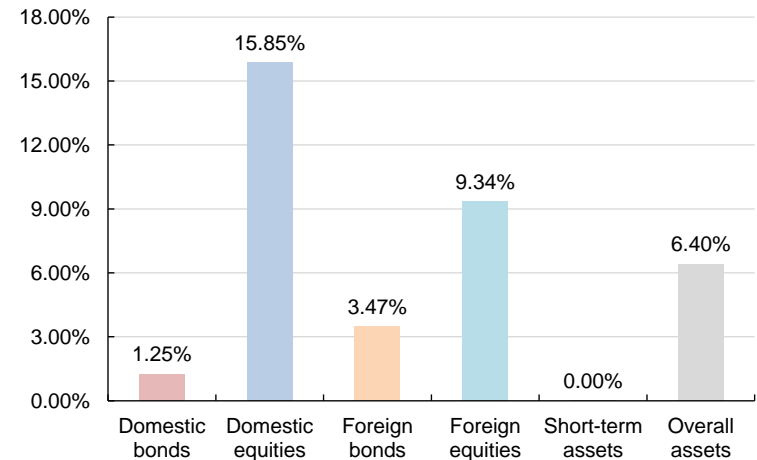
(Note 1) The return in each quarter is the period rate.

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

(Note 3) The amount of interest related to the settlement of additional expenses for the transfer from the transitional long-term accounting to the employees' pension insurance accounting is included in the return for domestic bonds.



Modified total return by asset (aggregate for the fiscal year)



Fiscal Year 2017 Contribution Analysis of Excess Return ①

The modified total return for overall investment assets was 6.40%, while the excess return compared with the benchmark return was -0.94%. For the asset allocation factors, domestic equities whose benchmark return was relatively high were underweight against the benchmark portfolio on average. This factor and the holding of short-term assets necessary for the pension benefit payment contributed to the negative excess return.

The excess return due to the individual asset factor made negative contributions because the modified total return on foreign bonds and foreign equities was lower than the benchmark return.

FY2017 (April 2017 through March 2018)

(Unit: %)

	Overall assets	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Modified total return	6.40	1.25	15.85	3.47	9.34
Benchmark return	*7.34	0.90	15.87	4.23	9.81
Excess return	-0.94	0.34	-0.01	-0.76	-0.47

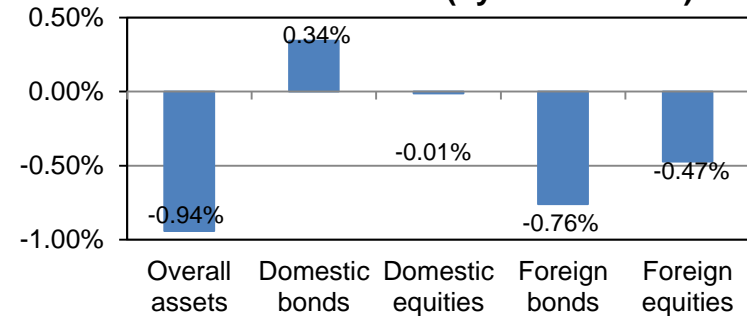
* The benchmark return for overall assets is calculated by weight-averaging the benchmark returns for individual asset classes based on the shares in the asset mix of the benchmark portfolio.

	Asset allocation factor ①	Individual asset factor ②	①+②
Domestic bonds	-0.13%	0.13%	-0.00%
Domestic equities	-0.29%	0.00%	-0.29%
Foreign bonds	0.06%	-0.11%	-0.04%
Foreign equities	-0.07%	-0.11%	-0.17%
Short-term assets	-0.44%	0.00%	-0.44%
Total	-0.86%	-0.08%	-0.94%

(1) Asset allocation factor: A factor that is attributable to the difference between the asset mix of the fund and the benchmark portfolio.

(2) Individual asset factor: A factor that is attributable to the difference between the modified total return and benchmark returns concerning each asset class.

Excess Returns (by Asset Class)



(Reference) Deviation of the Federation's portfolio (book value average balance + accrued income as of the end of previous period + valuation gains/losses as of the end of previous period) from the benchmark portfolio

	Federation's portfolio	Benchmark portfolio	Deviation	Deviation tolerance
Domestic bonds	37.2%	35.0%	2.2%	±15%
Domestic equities	21.6%	25.0%	-3.4%	±14%
Foreign bonds	13.3%	15.0%	-1.7%	±6%
Foreign equities	21.9%	25.0%	-3.1%	±12%
Short-term assets	6.0%		6.0%	
Total	100.0%	100.0%	0.0%	

Fiscal Year 2017 Contribution Analysis of Excess Return ②

○ Domestic bonds

The modified total return of domestic bonds was 1.25%, which exceeds the benchmark return (0.90%) by 0.34%.

The portfolio was overweight in local government bonds and corporate bonds whose returns were relatively higher than the benchmark. In addition, the interest related to the settlement of additional expenses was received. Owing to factors such as these, the excess return was positive.

○ Domestic equities

The modified total return of domestic equities was 15.85%, which was below the benchmark return (15.87%) by 0.01%.

The selection of issues of the active fund was generally good; whereas the modified total return on passive funds was lower than the benchmark due to such factors as impact of additional investment. Owing to these, the excess return turned out to be negative.

○ Foreign bonds

The modified total return of foreign bonds was 3.47%, which was below the benchmark return (4.23%) by 0.76%.

The excess return was negative due to such factors as the relatively lower returns on active funds whose benchmark is Barclays Global Aggregate Index compared with active funds whose benchmark is FTSE Global Bond Index.

○ Foreign equities

The modified total return of foreign equities was 9.34%, which was below the benchmark return (9.81%) by 0.47%.

In addition to the negative impact of dividend taxation factors on passive funds, a part of active funds fell below the benchmark, and the excess return turned out to be negative.

Fiscal Year 2017 Investment Income

The investment income for FY2017 was JPY342.9 billion (for overall assets).

(Unit: JPY100M)

	FY2017				
	Q1	Q2	Q3	Q4	FY total
Investment income	1,715	1,524	2,020	-1,831	3,429
Domestic bonds	27	88	66	67	248
Domestic equities	740	598	1,133	-636	1,836
Foreign bonds	319	176	103	-351	247
Foreign equities	629	663	718	-912	1,098
Short-term assets	0	0	0	0	0

(Unit: JPY100M)

	FY2017				
	Q1	Q2	Q3	Q4	FY total
Realized income	471	568	417	656	2,112

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

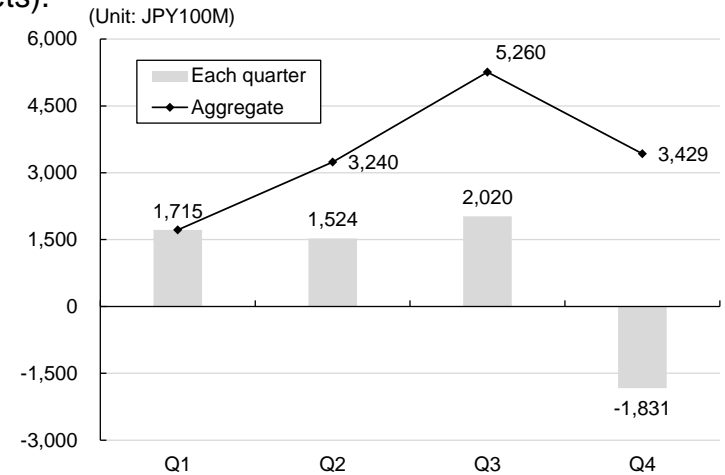
(Note 2) The investment income represents the realized income adjusted for the effects of changes in valuation gains/losses based on market value.

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

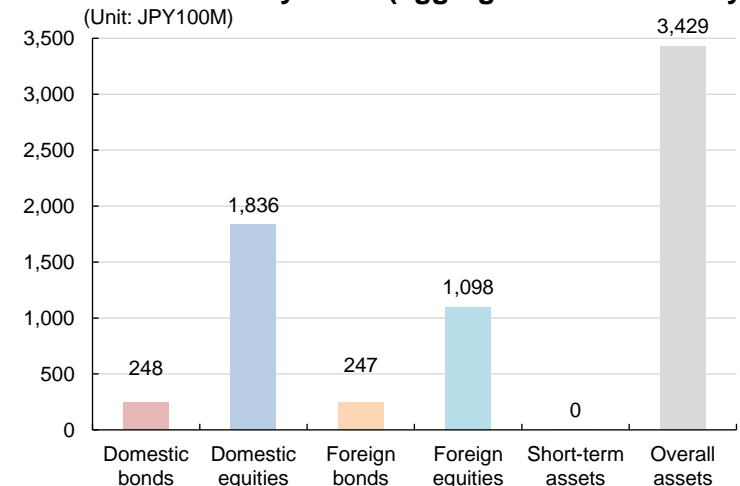
(Note 4) The amount of interest related to the settlement of additional expenses for the transfer from the transitional long-term accounting to the employees' pension insurance accounting is deducted from the return for domestic bonds.

(Note 5) Due to rounding, the total sum of individual figures may not necessarily add up to FY Total.

Changes in investment income



Investment income by asset (aggregate for the fiscal year)



Fiscal Year 2017 Value of Assets

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

(Unit: JPY100M)

	FY2016 End of FY			FY2017											
	Book value	Total market value	Valuations profits/losses	End of Q1			End of Q2			End of Q3			End of FY		
				Book value	Total market value	Valuations profits/losses	Book value	Total market value	Valuations profits/losses	Book value	Total market value	Valuations profits/losses	Book value	Total market value	Valuations profits/losses
Domestic bonds	20,486	21,454	968	19,526	20,361	834	18,638	19,331	693	17,981	18,677	695	18,105	18,744	639
Domestic equities	8,745	10,601	1,856	9,341	11,731	2,391	9,852	12,739	2,887	10,217	13,962	3,745	10,487	13,327	2,840
Foreign bonds	6,737	6,590	-148	6,961	7,099	137	7,225	7,485	259	7,721	8,028	306	7,799	7,677	-122
Foreign equities	8,441	11,031	2,590	8,870	11,950	3,080	9,291	12,922	3,632	9,513	13,771	4,257	9,632	12,858	3,226
Short-term assets	4,649	4,649	0	1,426	1,426	0	3,283	3,283	0	2,094	2,094	0	4,632	4,632	0
Total	49,058	54,324	5,266	46,125	52,566	6,442	48,289	55,760	7,471	47,527	56,531	9,004	50,655	57,238	6,583

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

(Note 2) Short-term assets held by each fund were classified into relevant asset classes in principle.

The amount of funds allocated and withdrawn by asset class (for FY2017)

(Unit: JPY100M)

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Amount of funds allocated and withdrawn	-2,958	890	840	730

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

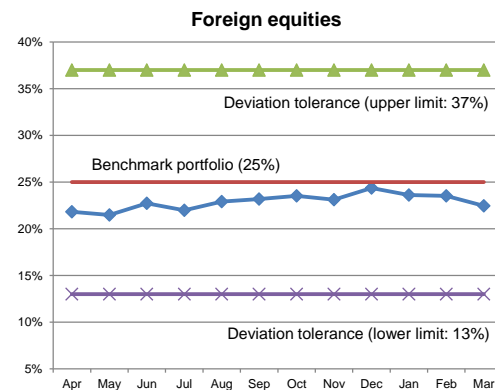
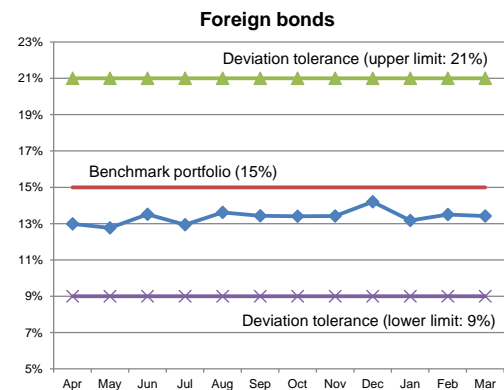
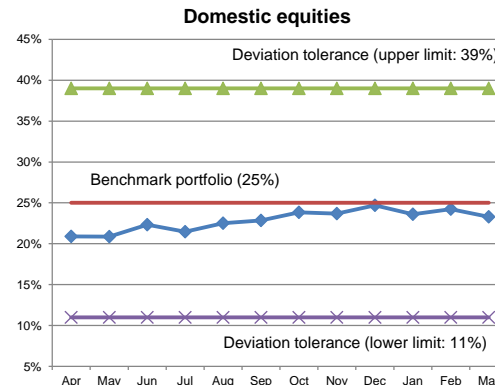
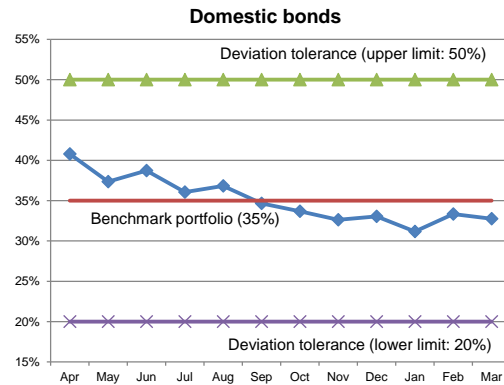
Fiscal Year 2017 Status of Risk Management (Overall Assets)

○ Asset mix and estimated tracking error

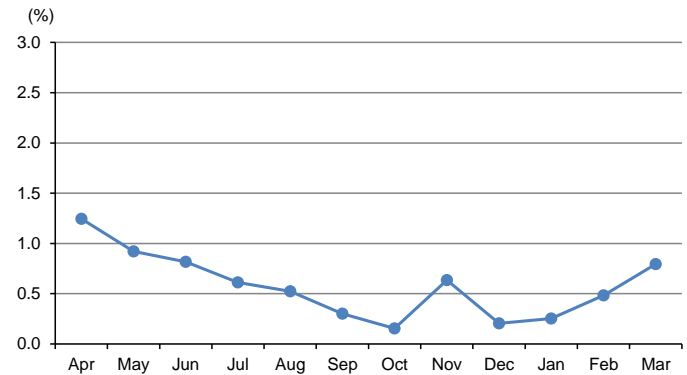
In fiscal year 2017, the shares in the asset mix concerning all asset classes—domestic bonds, domestic equities, foreign bonds and foreign equities—stayed within the deviation tolerance.

In addition, the estimated tracking error for the entire asset (*) declined at the end of the fiscal year compared with that of the beginning of the fiscal year because the shares of each asset in the asset mix came close to the benchmark portfolio.

【Changes in the asset mix】



【Changes in the estimated tracking error】



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

Fiscal Year 2017 Fees

The amount of fees totaled about JPY3.3 billion in fiscal year 2017.
The fee rate relative to the value of investment assets came to 0.07%.

(Unit: JPY100M, %)

	FY2017	
	Fees	Fee rate
Domestic bonds	7	0.04
Domestic equities	10	0.08
Foreign bonds	5	0.07
Foreign equities	11	0.09
Overall assets	33	0.07

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

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

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

Section 2 Systems and Activities Concerning Administration and Investment of Funds

Basic Approach to Investment

- As a basic policy, the Federation shall make investments for the purpose of contributing to the stable management of the Employees Pension Insurance scheme operations in the future, from a long-term perspective and in a stable and efficient manner for the benefit of the insured of the Employee Pension Insurance.
- In the management of funds, investments shall be made in a way that ensures appropriate diversification across multiple assets with different risk/return profiles and other characteristics.
- In addition, in order to ensure investment returns which is set as the investment targets of managed funds provided in Article 79-6, Paragraph (1) of the Employees' Pension Insurance Act, a benchmark portfolio shall be set and appropriately managed, and efforts shall be made to earn the benchmark return for each asset class, as well as generating benchmark returns for each asset class over the long term.

Basic Policy for Management and Investment of Employees' Pension Insurance Benefit Association Reserve Fund (Extract)

1. Basic Policy

Especially keeping in mind that the Employees' Pension Insurance 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 funds shall be managed with the objective of contributing to the stable operation of EPI schemes in the future by investing it 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, the Employees' Pension Insurance Benefit Association Reserve Fund shall be managed and invested with an asset mix established from the long-term perspective (the "benchmark portfolio") based on appropriately diversifying investments in multiple assets that differ in risk/return and other characteristics ("diversified investment").

2. Investment target

Investment of the Employees' Pension Insurance Benefit Association Reserve Fund shall be managed appropriately by establishing a Benchmark Portfolio, so as to secure investment returns targeted for managed funds provided in Article 79-6, Paragraph (1) of the EPI Act (the "managed funds").

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

In addition, efforts shall be made to secure benchmark returns for each asset class in each fiscal year by appropriately selecting, managing and assessing entrusted investment management institutions, as well as securing benchmark returns for each asset class over the long term.

Benchmark Portfolio

1. Benchmark portfolio (asset mix)

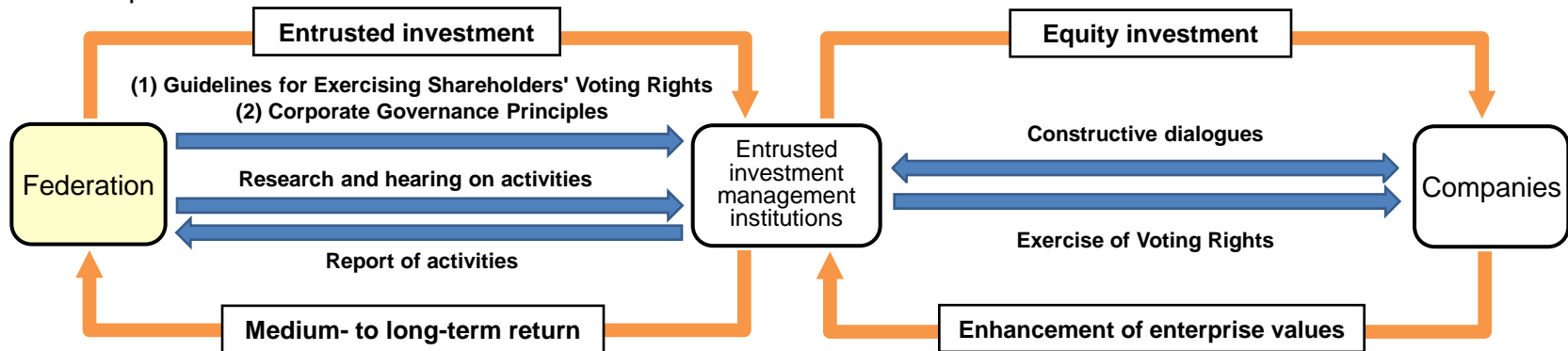
	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Asset mix	35%	25%	15%	25%
Deviation tolerance	± 15%	± 14%	± 6%	± 12%

Stewardship Activities ①

1. Stewardship activities

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

<Stewardship Activities>



- The Federation has established the "Corporate Governance Principles of National Federation of Mutual Aid Associations for Municipal Personnel" and "Guidelines for Exercising Shareholders' Voting Rights" setting forth basic approaches to stewardship activities. In addition, the Federation agreed with the purpose of Japan's Stewardship Code, and it announced its acceptance of the Code in May 2014 and the Revised Stewardship Code (the "Revised SSC") in November 2017. As the Federation currently makes equity investments through entrusted investment management institutions, it checks whether these institutions are implementing engagements and exercising voting rights in an appropriate way according to the policies of the Federation through investigations and hearings.

Past efforts

- May 2010 Established the "Guidelines for Exercising Shareholders' Voting Rights" (Document (1)), announcing the Federation's approaches to equity investment and exercise of voting rights as a beneficial shareholder.
- May 2014 Announced its acceptance of the Japan's Stewardship Code.
Established the "Corporate Governance Principles" (Document (2)), announcing the Federation's approach for corporate governance necessary for the long-term enhancement of stock values.
- October 2015 Established the Basic Policy for Management and Investment of Funds associated with the integration of the employee pension plans, and newly established Documents (1) and (2).
- November 2017 Announced the acceptance of the Revised SSC

Stewardship Activities ②

2. Efforts in fiscal year 2017

- As a part of its stewardship activities for fiscal year 2017, the Federation conducted surveys and hearings for entrusted investment management institutions in relation to the situations of engagement activities and exercise of shareholders' voting rights so as to verify the status of their efforts. In addition, the Federation sought their opinions on challenges and issues with their stewardship activities and encouraged them to engage in stewardship activities in an effective way adapted to their respective investment styles and resources.
- For the Revised SSC published by the Financial Services Agency on May 29, 2017, the Federation agreed with the purpose and renewed its acceptance at the end of November 2017, publishing it on its website. Further, the Federation confirmed that all twelve entrusted investment management institutions of domestic equities have signed up for the Revised SSC.
- On January 25, 2018, the Federation publicized its Annual Stewardship Activity Report FY2017 on its website.

Outline of efforts in fiscal year 2017

Subjects	Period	Surveyed institutions	Main subjects confirmed
Survey on exercise of voting rights	September 2017	Entrusted investment management institutions for domestic and foreign equities (12 companies for domestic equities and 8 companies for foreign equities)	<ul style="list-style-type: none"> • Results of exercise of voting rights • Changes to guidelines • Structure for exercise of voting rights • Special features of proposals and trends of affirmative and negative voting decisions
Survey on performance of stewardship activities	October 2017	12 entrusted investment management institutions for domestic and foreign equities	<ul style="list-style-type: none"> • Structure for managing conflicts of interest • Specific details of engagement activities (target companies, details, progress management, costs, etc.) • Improvements, challenges and issues with engagement efforts • Reason for decision on exercise of individual proposals • Method of self-assessment of stewardship activities (including internal assessments and incentives of persons in charge)
Hearings of entrusted investment management institutions	November 2017		
Signup of Revised SSC (for the details, see the following page)	November 30, 2017		
Public disclosure of Annual Stewardship Activity Report FY2017	January 2018		

Stewardship Activities ③

3. Signup to revised stewardship code

- About three years have passed from the establishment of Japan's Stewardship Code, and some progress has been made in corporate governance reform; however, it has been also pointed out that companies' responses are only formal. In this situation, in order to develop the formal corporate governance reform into a substantive one, the Financial Services Agency published the revised SSC in May 2017.
- The revised SSC provides for the more stringent management of conflicts of interest by entrusted investment management institutions, expanded disclosure of results of exercise of voting rights and self-assessment of stewardship activities, in addition to existing provisions.
- The following table shows the major items newly added to the Revised SSC and the Federation's responses.

Major new items of Revised SSC and responses by Federation

Major new items of Revised SSC		Responses of Federation
(Principle 1) Guidance 1-3,4,5	Effective monitoring of asset managers by asset owners	The Federation made it clear in its signup statement that it will conduct monitoring focusing on the quality of efforts in relation to stewardship activities by entrusted investment management institutions.
(Principle 2) Guidance 2-2,3,4	Strengthening governance and management of conflict of interest	The Federation made it clear in its signup statement that it will conduct monitoring of entrusted investment management institutions to check whether they have established appropriate governance structures and manage conflicts of interest in an appropriate way.
(Principle 5) Guidance 5-3	Enhanced disclosure of voting records (disclosure on the basis of individual investee companies and agenda items)	The Federation required all twelve entrusted investment management institutions of domestic equities to make disclosure on an individual basis. As a result, it was confirmed that eleven of them already made the disclosure on the individual basis on their websites and that the remaining one company plans to make the disclosure in May 2018. In addition, the Federation made clear in its signup statement that it will require the entrusted investment management institutions to make public disclosure of results of exercise of voting rights with respect to individual investee companies and agenda items, and also that it will require any non-disclosing institution to provide an explanation for non-disclosure.
(Principle 7) Guidance 7-4	Self-assessment of stewardship activities	The Federation made clear in its signup statement that it will regularly conduct a review of the status of implementation of each principle as set out in the Revised SSC and make efforts to further improve its future stewardship activities.

Stewardship Activities ④

4. Exercise of Voting Rights

(i) Exercise of Voting Rights

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

(ii) Exercise of Voting Rights in Fiscal Year 2016

- For the exercise of voting rights at general meeting of shareholders of companies which settled accounts in fiscal year 2016 (between April 2016 and March 2017), the Federation received reports from its entrusted investment management institutions on the results of exercising voting rights, reason for voting against the proposal, and organizational structure for exercise of voting rights. In addition, the Federation confirmed that voting rights were exercised in an appropriate way according to the Guidelines for Exercising Shareholders' Voting Rights of the Federation through hearings.

Stewardship Activities ⑤

(iii) Results of the exercise of voting rights concerning domestic equities (companies with accounting settlement between April 2016 and March 2017)

(Unit: Number of occasions)

Items on agenda	Total	Vote for		Vote against		Abstention		Vote-against rate in the previous year
			Rate		Rate		Rate	
Total	28,857	22,666	78.5%	6,191	21.5%	0	0.0%	19.3%
(Shareholder Proposal)	(1,388)	(70)	(5.0%)	(1,318)	(95.0%)	(0)	(0.0%)	(97.3%)

By subject								
Board of Directors/Directors	8,780	5,875	66.9%	2,905	33.1%	0	0.0%	30.7%
Board of Auditors/Auditors	5,089	4,441	87.3%	648	12.7%	0	0.0%	17.5%
Director Remuneration, etc.	3,460	2,891	83.6%	569	16.4%	0	0.0%	11.0%
Appropriation of Surplus	5,763	5,393	93.6%	370	6.4%	0	0.0%	4.6%
Capital Structure	1,421	1,124	79.1%	297	20.9%	0	0.0%	30.5%
Takeover Defense Measures	449	160	35.6%	289	64.4%	0	0.0%	49.7%
Capital Increase or Reduction	27	27	100.0%	0	0.0%	0	0.0%	6.5%
Third Party Allotment of Shares	7	5	71.4%	2	28.6%	0	0.0%	26.7%
Acquisition of Own Shares	2	0	0.0%	2	100.0%	0	0.0%	40.7%
Business Restructure	165	162	98.2%	3	1.8%	0	0.0%	0.0%
Incentives Improvement for Executives	652	494	75.8%	158	24.2%	0	0.0%	35.4%
Other proposals	3,527	2,286	64.8%	1,241	35.2%	0	0.0%	21.6%
Amendment to Articles of Incorporation	3,256	2,072	63.6%	1,184	36.4%	0	0.0%	22.5%

○ Main features relating to exercise of voting rights

- Proposals for which the vote-against ratio was high mainly concerned board of director/directors, takeover defense measures, and amendment to articles of incorporation.
- The vote-against ratio of proposals concerning board of director/directors slightly increased from the previous fiscal year (from 30.7% to 33.1%). The major reason for this is that several entrusted investment management institutions tightened the criteria for the exercise of voting rights and proactively implemented qualitative evaluation. Amidst investors' emphasized focus on corporate governance, a proposal for election of outside directors is increasing.
- The vote-against ratio of proposals concerning takeover defense measures significantly increased from the previous fiscal year (from 49.7% to 64.4%). The major reason for this is that several entrusted investment management institutions tightened the criteria for the exercise of voting rights. On the other hand, more and more companies decide to abandon takeover defense measures due to investors' stringent policy for exercise of voting rights.

Stewardship Activities ⑥

(iv) Results of the exercise of voting rights concerning foreign equities (companies with accounting settlement between April 2016 and March 2017)

(Unit: Number of occasions)

Items on agenda	Total	Vote for		Vote against		Abstention		Vote-against rate in the previous year
			Rate		Rate		Rate	
Total	17,650	15,193	86.1%	2,405	13.6%	52	0.3%	12.9%
(Shareholder Proposal)	(1,611)	(625)	(38.8%)	(940)	(58.3%)	(46)	(2.9%)	(57.3%)
By subject								
Board of Directors/Directors	4,942	4,448	90.0%	490	9.9%	4	0.1%	11.4%
Board of Auditors/Auditors	996	993	99.7%	3	0.3%	0	0.0%	1.7%
Director Remuneration, etc.	3,922	3,347	85.3%	574	14.6%	1	0.0%	9.4%
Appropriation of Surplus	360	358	99.4%	2	0.6%	0	0.0%	0.0%
Capital Structure	1,660	1,378	83.0%	282	17.0%	0	0.0%	10.2%
Takeover Defense Measures	222	203	91.4%	19	8.6%	0	0.0%	6.5%
Capital Increase or Reduction	729	554	76.0%	175	24.0%	0	0.0%	14.1%
Third Party Allotment of Shares	231	231	100.0%	0	0.0%	0	0.0%	0.6%
Acquisition of Own Shares	309	302	97.7%	7	2.3%	0	0.0%	3.7%
Business Restructure	232	227	97.8%	5	2.2%	0	0.0%	13.1%
Incentives Improvement for Executives	778	682	87.7%	96	12.3%	0	0.0%	16.3%
Other proposals	4,760	3,760	79.0%	953	20.0%	47	1.0%	20.3%
Amendment to Articles of Incorporation	411	341	83.0%	70	17.0%	0	0.0%	16.6%

(Note) In some countries, voting rights were not exercised due to such factors as cost consideration and constraints related to administration.

○ Main features relating to exercise of voting rights

- The major proposals for which the vote-against ratio was high concerned director remuneration, etc., capital increase or reduction, and amendment to articles of incorporation.
- The vote-against ratio of director remuneration, etc. increased from the previous fiscal year (from 9.4% to 14.6%). In all markets, there is a growing interest in transparent, performance-linked remuneration systems.
- In addition, against the background of the adoption of the Paris Agreement on December 2015, shareholder proposals on the environment (E) and social concerns (S) increased, voted for by many investors. Further, for some investees, a proposal was made for the appointment of experts with a view to reducing potential risks to shareholder value.

Diversification of eligible investment instruments (investment in alternative assets)

- In fiscal year 2017, the Federation adopted an asset manager registration system for real estate and started receiving entries. The selection of asset managers has been underway.
- In fiscal year 2018, the Federation will also start receiving entries for infrastructure and private equities.

Investment policy pertaining to diversification of eligible investment instruments (investment in alternative assets) (Excerpt)

1. Definition of diversification of eligible investment instruments
 - i. Definition of diversification of eligible investment instruments
"Diversification of eligible investment instruments" means making investments in assets whose characteristics, such as the risk/return profiles, are different from those of traditional assets such as equities and bonds ("alternative assets").
 - ii. Scope of alternative assets
Alternative assets are assets such as real estate, infrastructure and private equities, and negotiable securities, trust beneficiary rights and other assets backed by those assets.
2. Purpose of diversification of eligible investment instruments
Diversification is used to promote diversified investment of the Employees' Pension Insurance Benefit Association Reserve Fund for the purpose of investing the funds safely and efficiently from a long-term perspective.
3. Classification of alternative assets in the benchmark portfolio
 - i. Classification of alternative assets in the benchmark portfolio
Alternative assets are classified into domestic bonds, domestic equities, foreign bonds or foreign equities according to their risk/return profiles and other characteristics.
 - ii. Share of alternative assets in the asset mix of the portfolio
The share of alternative assets in the asset mix is limited to a maximum of 5% of the overall assets of the Employees' Pension Insurance Benefit Association Reserve Fund.
4. Matters to note when diversifying eligible investment instruments
The National Federation of Mutual Aid Associations for Municipal Personnel (hereinafter referred to as the "Federation") takes note of the following matters when diversifying eligible investment instruments.
 - i. In principle, investment shall be diversified between traditional assets, such as equities and bonds, and alternative assets and across different types of alternative assets.
 - ii. Diversification shall be made after the effects of diversified investment have been recognized and sufficient evidence to support the expectation that an excess return can be obtained has been obtained.
 - iii. Because alternative assets are different from traditional assets in many points, such as marketability, profitability, individuality, transaction cost, and information disclosure status, the Federation shall conduct a study with due consideration of the development of the market environment, including the steady improvement of the earning capacity of each asset and the development of the secondary market.
 - iv. The Federation shall make alternative investment after developing the investment and risk management systems necessary for the investment (including hiring personnel with advanced expert skills).
 - v. The Federation shall use the expert knowledge of the Fund Management Committee.

Review of Manager Structure

1. Selection of Entrusted Investment Management Institutions

In order to maintain and improve the expected returns on investment in domestic bonds, the Federation invited the public applications for entrusted investment management institutions for active investment in currency-hedged foreign bonds and started the investments from fiscal year 2017. In the process of selection, the Federation took the following measures as a result of overall assessment of past performances, investment philosophy, investment structure and investment process through documentary examinations and hearings.

○ Active investment in currency-hedged foreign bonds

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

2. Selection of asset administration institutions

For an asset administration institution for active investment in currency-hedged foreign bonds, from the standpoint of economies of scale related to efficiency of business administration and fees considerations, the Federation made an additional entrustment to the existing financial institution that has been already entrusted with the asset administration business related to active investment in foreign bonds.

3. Annual comprehensive evaluation

The amount of active investment of domestic equities was reduced based on an annual comprehensive evaluation as of the end of fiscal year 2016.

Administration and Evaluation of Entrusted Investment Management Institutions, etc.

1. Administration and evaluation of entrusted investment management institutions

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

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

2. Administration and evaluation of asset administration institutions

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

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

Governance ①

1. Organization

As of April 1 of 2018, the Federation has executives consisting of one president, 13 managing directors and three auditors, including one full-time managing director and one full-time auditor with academic knowledge. The maximum number of employees is 120.

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 and Fund Management Division), the Pension Department (Pension Planning Division, Pension Information System Division, Pension Inspection Division, Pension Benefit Division and Retirement Pension Benefit Division), as well as the Investment Risk Management Office and Audit Office.

The Investment Risk Management Office was newly established on April 1, 2018, as a section separate from the Finance Department from the standpoint of improving and reinforcing risk management and the mutual checks and balances function.

2. General Assembly

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

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

3. Fund Management Committee

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

4. Long-term Benefit Fund Committee

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

5. Operational Management Committee

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

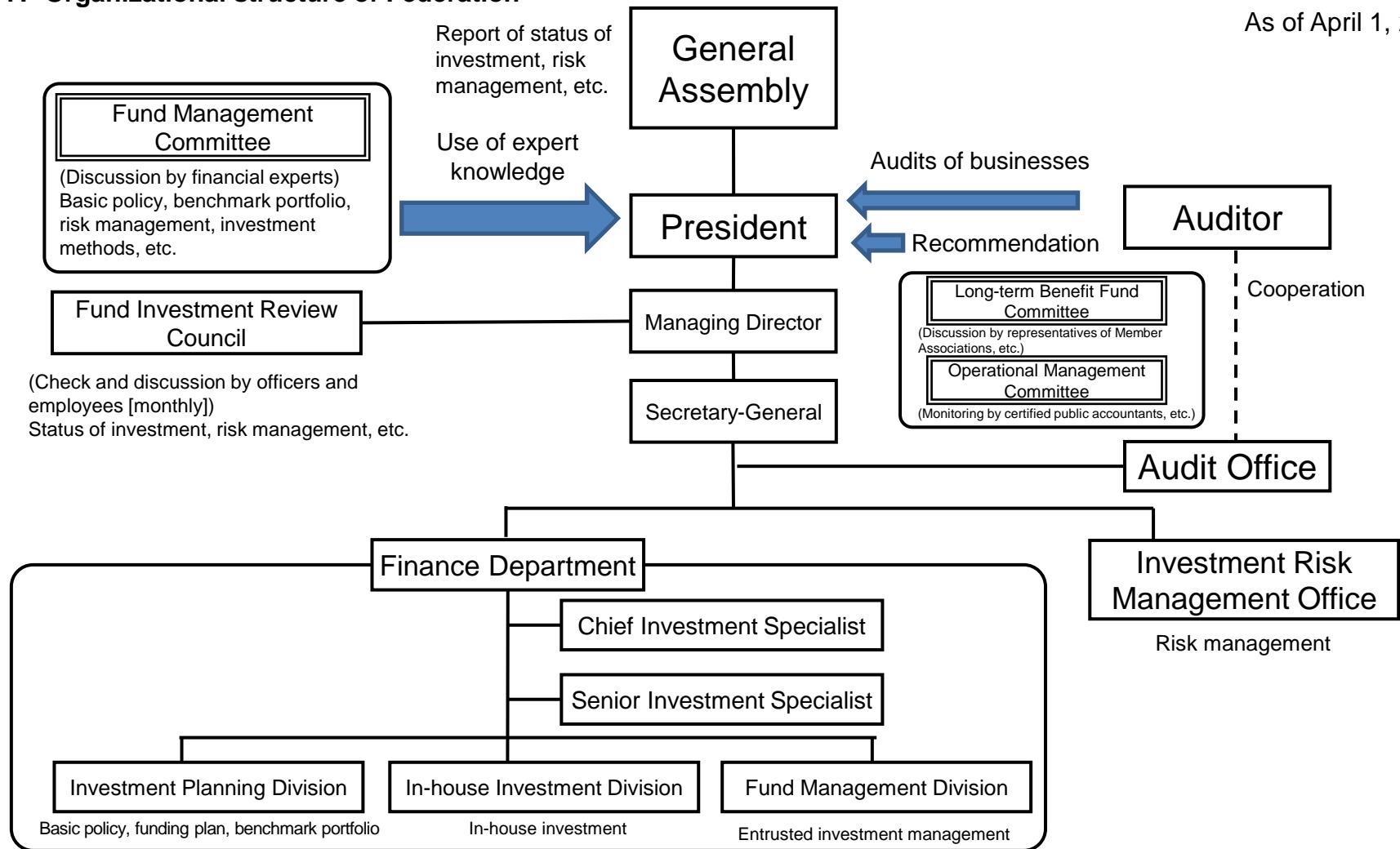
6. Fund Investment Review Council

This is a council for ensuring the safe and effective investment of surplus from business operation of each of the accountings of the Federation, discussing decision-makings as to the investment of funds, analyzing the investment status and checking the status of risk management indicators. This council is constituted by a full-time managing director (hereinafter a "Senior 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, the Manager of Investment Risk Management Office, 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

7. Organizational structure of Federation

As of April 1, 2018



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 2018)

Yoshitaka Kai	Professor, The Kyoto College of Graduate Studies for Informatics
Yasuyuki Kato	Professor, Graduate School of Management, Kyoto University
Katsuyuki Tokushima	Chief Fixed Income Analyst, Financial Research Department, NLI Research Institute
Masashi Toshino	Professor, Faculty of Economics, Seikei University
Hiroshi Miyai	President and Representative Director, Asset Management Life
Kenji Wada	Professor, Faculty of Business and Commerce, Keio University

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 concerning investment in accordance with the implementation policy for risk management concerning investment of the fund in consideration of the following points: that investment of funds should be made safely and efficiently from a long-term perspective; that diversified investments should be maintained in principle; and that the relationship between liabilities and the funds of all Local Public Service Mutual Aid Associations in the future should be taken into consideration.

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

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:

- (i) Investment of funds should be made safely and efficiently from a long-term perspective.
- (ii) A benchmark portfolio should be developed and investment of funds should be made based on the benchmark portfolio through appropriate diversification across multiple asset classes with different risk/return profiles and other characteristics (hereinafter referred to as "diversified investment") in principle.
- (iii) Each fund should be invested in consideration of the relationship between all Local Public Service Mutual Aid Associations' liabilities and the funds of all Local Public Service Mutual Aid Associations in the future.

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 returns 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 ratio of the fund from that of the benchmark portfolio.
- Specifically, as the asset mix constantly changes due to asset price fluctuations, the Federation keeps track of the status of the deviation of the asset mix of the fund from that of the benchmark portfolio, and manages the actual portfolio so as to keep the degree of deviation within a certain range (deviation tolerance). In this way, the Federation checks whether or not there are problems such as a deviation from the benchmark portfolio in excess of the deviation tolerance.

○ Monitoring of market risk, etc.

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

○ Management of entrusted investment management institutions, etc.

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

○ Verification of the benchmark portfolio

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

○ Reporting on the status of risk management and improvement measures implemented

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

Other efforts

○ Measures taken in response to low interest rate

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

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

In these situations, the Federation took the following measure in fiscal year 2017.

i. Starting of active investment in currency-hedged foreign bonds

Amid the protracted excessively low interest rates, as the yields of bonds of various terms contained in NOMURA-BPI Overall, which is a benchmark for domestic bonds, are negative, in fiscal year 2016, the Federation invited public applications for entrusted investment management institutions for the active investment in hedged foreign bonds in order to expand its investment strategies, and started the investments from fiscal year 2017.

ii. Others

- As an alternative investment, the Federation started receiving entries for investment products investing in real estate (selection is now underway).

In addition, the Federation discussed adding infrastructure and private equities to the investment instruments (the public application is to be started from fiscal year 2018).

- For passive investment of domestic bonds, the Federation instructed the institutions to refrain from purchasing bonds with negative yields.

○ Increase of eligible investment instruments

In fiscal year 2017, the Federation discussed adding inflation-indexed government bonds to eligible investment instruments so as to secure the substantive value of funds, considering that benefits are linked to prices, and it is more probable than not that the future prices will rise at least from the current level (investment will be started from fiscal year 2018 in relation to an in-house investment).

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	FY2017
Modified total return	0.89	4.16	6.40
Domestic bonds	3.32	-0.79	1.25
Domestic equities	-3.98	14.76	15.85
Foreign bonds	-2.32	-5.23	3.47
Foreign equities	-1.04	14.43	9.34
Short-term assets	-0.03	0.00	0.00

2. Value of investment income

(Unit: JPY100M)

	FY 2015 (second half)	FY2016	FY2017
Investment income	473	2,150	3,429
Domestic bonds	984	-188	248
Domestic equities	-330	1,331	1,836
Foreign bonds	-105	-320	247
Foreign equities	-75	1,327	1,098
Short-term assets	-1	0	0

(Unit: %)

	FY 2015 (second half)	FY2016	FY2017
Realized return	2.29	2.24	4.37

(Unit: JPY100M)

	FY 2015 (second half)	FY2016	FY2017
Realized income	1,111	1,066	2,112
(Income gain)	(349)	(820)	(1,170)

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

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

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

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

(Unit: JPY100M, %)

		End of FY2015		End of FY2016		End of FY2017	
		Total market value	Composition	Total market value	Composition	Total market value	Composition
Domestic bonds	Total	25,810	47.67	21,454	39.49	18,744	32.75
	Passive	19,999	36.94	15,659	28.82	11,169	19.51
	Active	5,811	10.73	5,795	10.67	7,575	13.23
Domestic equities	Total	8,566	15.82	10,601	19.51	13,327	23.28
	Passive	6,735	12.44	6,630	12.20	8,922	15.59
	Active	1,831	3.38	3,971	7.31	4,405	7.70
Foreign bonds	Total	5,875	10.85	6,590	12.13	7,677	13.41
	Passive	5,694	10.52	4,968	9.15	6,004	10.49
	Active	181	0.34	1,622	2.99	1,673	2.92
Foreign equities	Total	8,744	16.15	11,031	20.31	12,858	22.46
	Passive	7,020	12.97	9,028	16.62	10,661	18.63
	Active	1,724	3.18	2,003	3.69	2,197	3.84
Short-term assets		5,145	9.50	4,649	8.56	4,632	8.09
Total		54,140	100.00	54,324	100.00	57,238	100.00

(Note 1) Starting in fiscal year 2016, short-term assets held by each fund were classified into relevant asset classes in principle.

(Note 2) In principle, assets invested according to a methodology intended to achieve investment performance linked to the benchmark of each asset is classified as "passive," and other assets as "active."

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

		FY 2015 (After the integration)			FY2016			FY2017		
		Cancellation	New adoption	End of FY	Cancellation	New adoption	End of FY	Cancellation	New adoption	End of FY
Domestic bonds	Passive	0	0	2	2	2	2	0	0	2
	Active	0	8	8	0	0	8	0	4	12
Domestic equities	Passive	0	0	2	0	0	2	0	0	2
	Active	1	11	19	0	0	19	1	0	18
Foreign bonds	Passive	0	0	2	0	0	2	0	0	2
	Active	0	0	1	0	7	8	0	0	8
Foreign equities	Passive	0	0	2	0	0	2	0	0	2
	Active	1	5	8	0	0	8	0	0	8
Total		2	24	44	2	9	51	1	4	54
Asset administration institutions		0	0	4	0	0	4	0	0	4

(Note 1) Cancellations and new adoptions from fiscal year 2015 to 2017 are due to the review of the manager structure.

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

(Note 3) Assets invested according to a methodology intended to achieve investment performance linked to the benchmark of each asset is classified as "passive," and other assets as "active."

Issues held (as of the end of Fiscal Year 2017)

The tables below show the top 10 bond and equity issues held indirectly through entrusted investment as of the end of March 2018, with bond issues classified by issuer name and equity issues by issue name. For information concerning bond and equity issues ranked 11th or lower, see the website of the Federation.

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

○ Domestic bond (in order of total market value)

No.	Names of issuer	Total market value (in 100M yen)
1	Government of Japan	5,752
2	Japan Finance Organization for Municipalities	912
3	Japan Expressway Holding and Debt Repayment Agency	634
4	Joint LGB	549
5	Tokyo Metropolitan Government	474
6	Osaka Prefecture	398
7	Kanagawa Prefecture	326
8	Aichi Prefecture	319
9	Yokohama City	314
10	Saitama Prefecture	298
Total	339 Issuers	17,258

○ Foreign bond (in order of total market value)

No.	Names of issuer	Total market value (in 100M yen)
1	UNITED STATES OF AMERICA	2,964
2	FRANCE (REPUBLIC OF)	922
3	ITALY (REPUBLIC OF)	916
4	SPAIN (KINGDOM OF)	580
5	UNITED KINGDOM (GOVERNMENT OF)	551
6	GERMANY (FEDERAL REPUBLIC OF)	506
7	CANADA (GOVERNMENT OF)	235
8	FEDERAL NATIONAL MORTGAGE ASSOCIATION	202
9	AUSTRALIA (COMMONWEALTH OF)	194
10	BELGIUM (KINGDOM OF)	167
Total	576 Issuers	9,221

○ Domestic equity (in order of total market value)

No.	Issue names	No. of shares	Total market value (in 100M yen)
1	Toyota Motor Corporation	5,737,500	398
2	Mitsubishi UFJ Financial Group	35,801,500	253
3	Sumitomo Mitsui Financial Group	4,295,200	195
4	Nippon Telegraph and Telephone Corporation	3,662,200	182
5	SoftBank Group	2,144,500	171
6	Keyence Corporation	254,300	168
7	Honda Motor Co., Ltd.	4,476,100	165
8	Sony Corporation	3,039,800	157
9	Mizuho Financial Group	70,654,500	138
10	KDDI Corporation	4,771,200	132
Total	2,102 Issues		13,243

○ Foreign equity (in order of total market value)

No.	Issue names	No. of shares	Total market value (in 100M yen)
1	APPLE INC	1,316,546	235
2	MICROSOFT CORP	1,891,021	184
3	AMAZON COM INC	107,459	165
4	FACEBOOK INC-A	729,748	124
5	ALPHABET INC-CL A	99,117	109
6	JPMORGAN CHASE & CO	909,743	106
7	JOHNSON AND JOHNSON	707,920	96
8	BANK OF AMERICA CORP	2,828,093	91
9	ALPHABET INC-CL C	81,974	90
10	NESTLE SA (REGISTERED)	1,027,020	86
Total	2,626 Issues		12,765

(Note 1) The names of issuers and issues are provided by the Federation based on data registered in the T-STAR/GX system of Nomura Research Institute and BarraOne system of MSCI as of the end of March 2018.

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

(Note 3) As issuers of bonds held in relation to active investment of hedged foreign bonds are classified as issuers of foreign bonds, the total market values may differ from those for each asset.

(Note 4) The names of issuers and issues may be different from those on the list of all issues held separately and published on the website.