

Fiscal Year 2017 Review of Operations

Transitional Long-term Benefit Association Reserve Fund



全国市町村職員共済組合連合会

National Federation of Mutual Aid Associations for Municipal Personnel

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Fiscal Year 2017 Investment Results (Overview)

Investment return (FY2017)	+6.81%	*Modified total return (market value basis)
	+5.09%	*Realized return (book value basis)
Investment income (FY2017)	+JPY391.3 billion	*Investment income (market value basis)
	+JPY250.8 billion	*Realized income (book value basis)
Value of investment assets: (End of FY2017)	JPY5,914 billion	*Total market value

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

As investment income is based on the total market value as of the end of each term, it should be kept in mind that it includes valuation gains/losses, which means it may change depending on market movements.

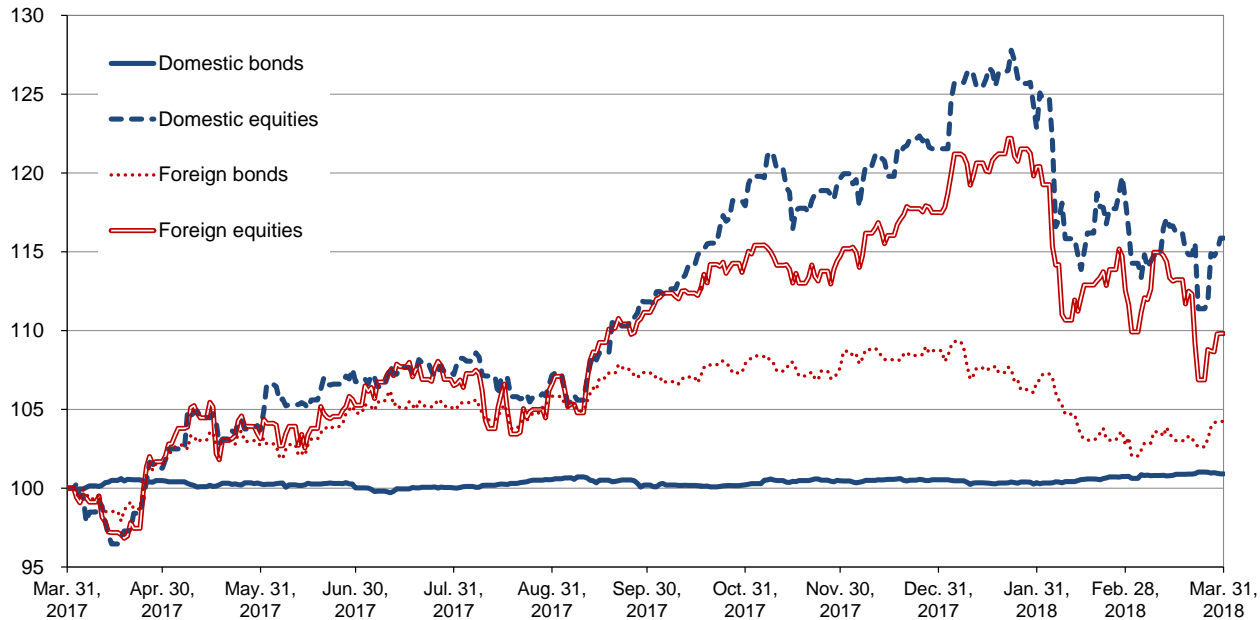
(Note 1) The return and income represent figures after the deduction of fees, etc. settled within the relevant period.

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

Section 1 Administration and Investment of Funds in 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.

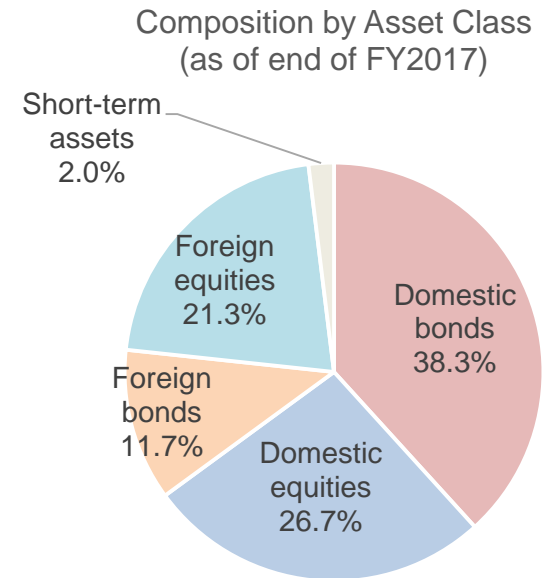
(Source: bloomberg)

Fiscal Year 2017 Asset Mix

The composition by asset is as follows:

(Unit: %)

	FY2016 End of FY	FY2017			
		End of Q1	End of Q2	End of Q3	End of FY
Domestic bonds	44.6	42.0	40.2	37.8	38.3
Domestic equities	23.8	25.2	25.9	27.4	26.7
Foreign bonds	10.6	11.2	11.5	11.6	11.7
Foreign equities	19.8	20.7	21.4	22.0	21.3
Short-term assets	1.1	0.9	1.1	1.2	2.0
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 6.81% for the overall assets.

(Unit: %)

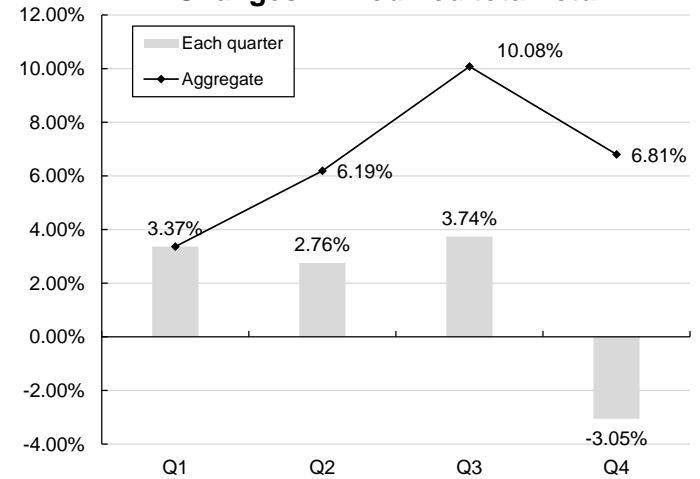
	FY2017				
	Q1	Q2	Q3	Q4	FY total
Modified total return	3.37	2.76	3.74	-3.05	6.81
Domestic bonds	0.20	0.21	0.27	0.30	0.96
Domestic equities	6.80	4.97	8.79	-4.41	16.32
Foreign bonds	4.77	2.43	1.31	-4.35	3.65
Foreign equities	5.60	5.47	5.49	-6.60	9.57
Short-term assets	0.00	0.00	0.00	0.00	0.00

(Unit: %)

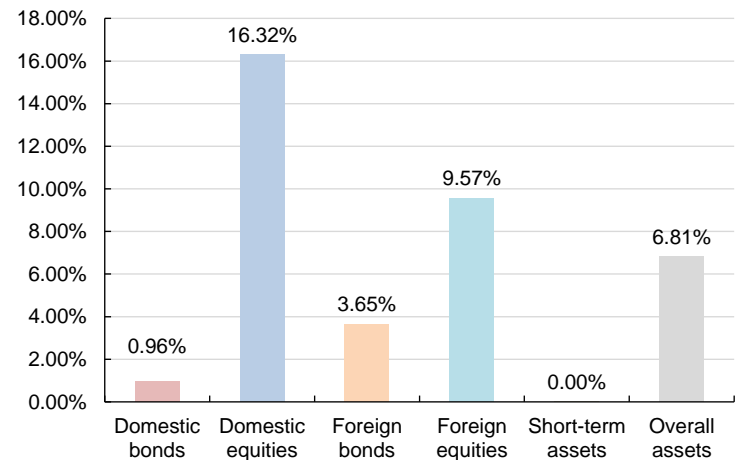
	FY2017				
	Q1	Q2	Q3	Q4	FY total
Realized return	1.19	1.04	1.18	1.68	5.09

- (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 deducted from the return for domestic bonds.

Changes in modified total return



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 6.81%, while the excess return compared with the benchmark return was -0.53%.

For the asset allocation factors, domestic bonds whose benchmark return was relatively low were overweight against the benchmark portfolio on average. This factor, among others, contributed to the negative excess return.

The excess return due to the individual asset factor made positive contributions because the modified total return on domestic equities exceeded the benchmark return.

FY2017 (April 2017 through March 2018)

(Unit: %)

	Overall assets	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Modified total return	6.81	0.96	16.32	3.65	9.57
Benchmark return	* 7.34	0.90	15.87	4.23	9.81
Excess return	-0.53	0.05	0.45	-0.58	-0.24

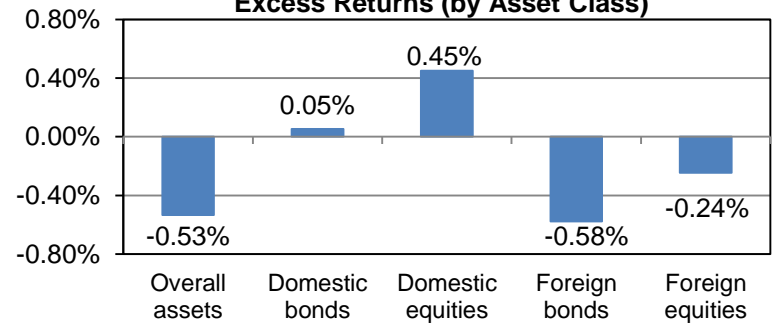
* The benchmark return for overall assets is calculated by weight-averaging the benchmark returns for individual asset classes based on the shares in the asset mix of the benchmark portfolio.

	Asset allocation factor ①	Individual asset factor ②	①+②
Domestic bonds	-0.47%	0.03%	-0.44%
Domestic equities	-0.02%	0.12%	0.09%
Foreign bonds	0.13%	-0.07%	0.05%
Foreign equities	-0.10%	-0.05%	-0.16%
Short-term assets	-0.08%	0.00%	-0.08%
Total	-0.55%	0.02%	-0.53%

(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	42.4%	35.0%	7.4%	±15%
Domestic equities	24.7%	25.0%	-0.3%	±14%
Foreign bonds	11.3%	15.0%	-3.7%	±6%
Foreign equities	20.5%	25.0%	-4.5%	±12%
Short-term assets	1.1%		1.1%	
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 0.96%, which exceeds the benchmark return (0.90%) by 0.05%.

Although the deduction of 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 had a negative impact, the excess return was positive due to such factors as high returns on passive investment whose benchmark is NOMURA-BPI/Ladder (20 years), which generated higher returns than the benchmark NOMURA-BPI Overall.

○ Domestic equities

The modified total return of domestic equities was 16.32%, which exceeds the benchmark return (15.87%) by 0.45%.

Owing to good selection of the issues of active fund and the entire active fund exceeding the benchmark, the excess return turned out to be positive.

○ Foreign bonds

The modified total return of foreign bonds was 3.65%, which was below the benchmark return (4.23%) by 0.58%.

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 9.57%, which was below the benchmark return (9.81%) by 0.24%.

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 JPY391.3 billion (for overall assets).

(Unit: JPY100M)

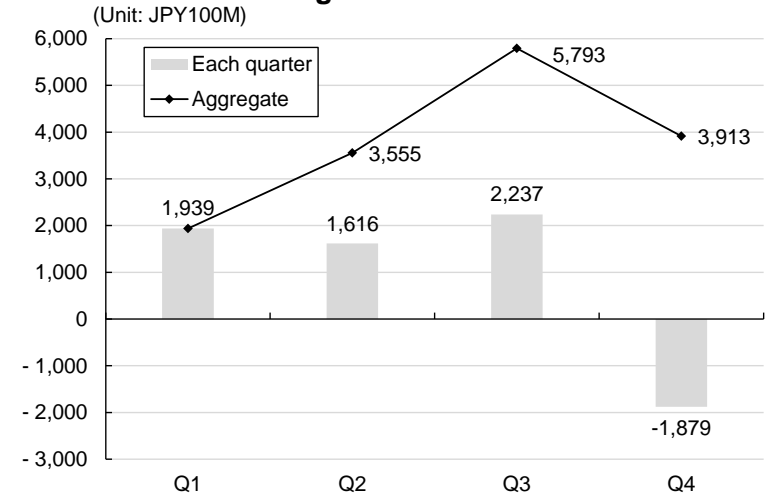
	FY2017				
	Q1	Q2	Q3	Q4	FY total
Investment income	1,939	1,616	2,237	-1,879	3,913
Domestic bonds	50	50	63	69	234
Domestic equities	944	736	1,375	-739	2,317
Foreign bonds	297	162	91	-313	238
Foreign equities	648	667	707	-897	1,125
Short-term assets	0	0	0	0	0

(Unit: JPY100M)

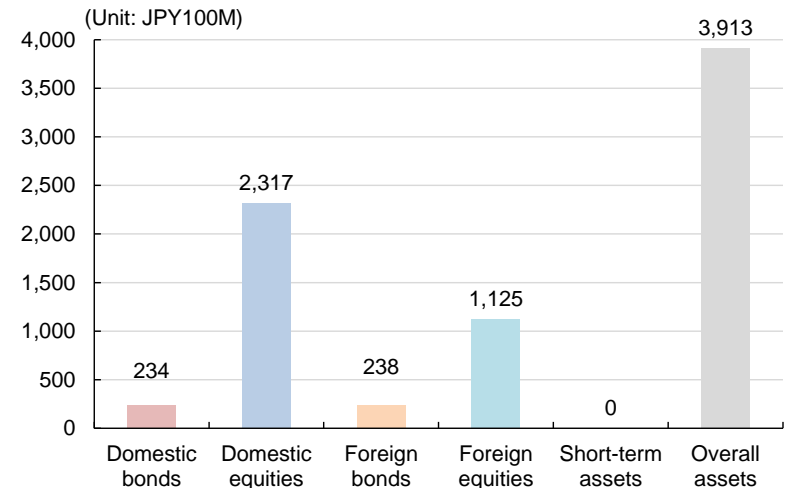
	FY2017				
	Q1	Q2	Q3	Q4	FY total
Realized income	589	512	579	829	2,508

- (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	23,154	25,842	2,689	22,074	24,596	2,522	21,621	24,066	2,446	20,897	23,251	2,354	20,417	22,625	2,208
Domestic equities	11,259	13,801	2,542	11,523	14,745	3,222	11,657	15,481	3,824	12,011	16,857	4,846	12,007	15,786	3,779
Foreign bonds	6,152	6,160	8	6,311	6,578	267	6,496	6,870	374	6,704	7,111	408	6,927	6,948	21
Foreign equities	8,566	11,501	2,934	8,721	12,148	3,426	8,836	12,815	3,979	8,932	13,522	4,590	9,054	12,625	3,571
Short-term assets	636	636	0	509	509	0	629	629	0	742	742	0	1,156	1,156	0
Total	49,767	57,941	8,174	49,138	58,575	9,437	49,240	59,862	10,622	49,286	61,482	12,197	49,561	59,140	9,579

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

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

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

(Unit: JPY100M)

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Amount of funds allocated and withdrawn	-3,451	-332	550	-0

(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)

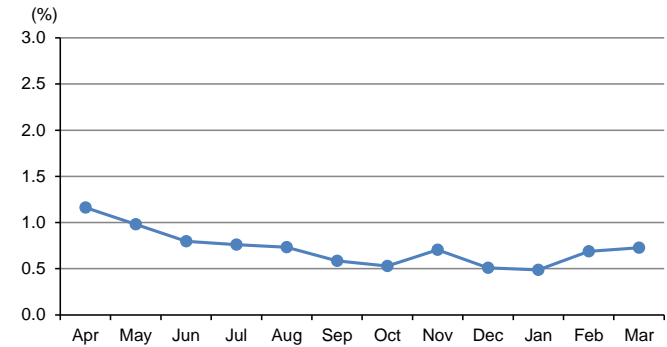
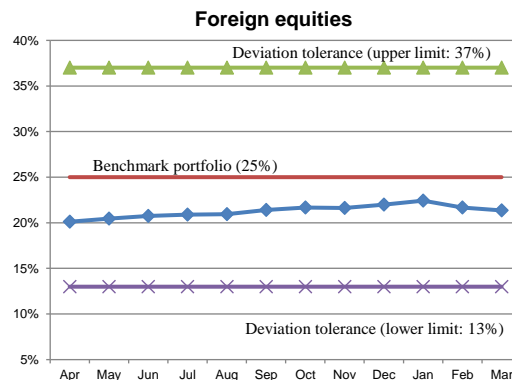
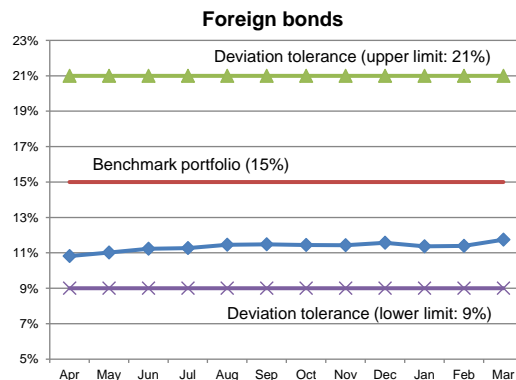
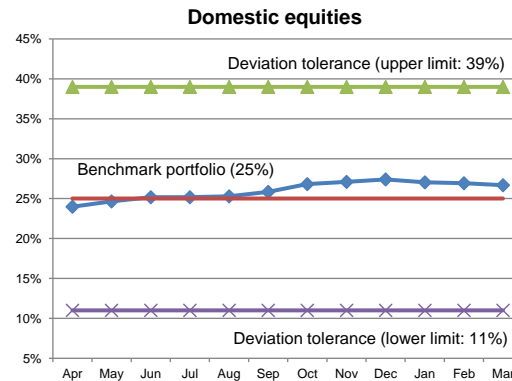
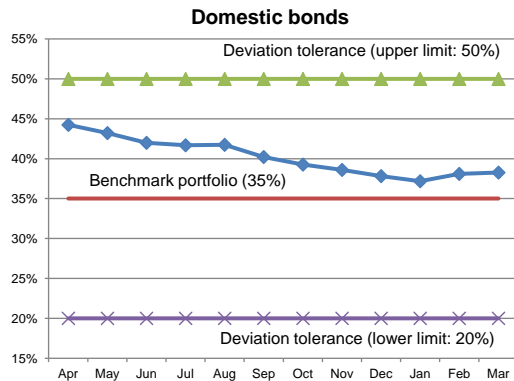
Asset mix and estimated tracking error

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 JPY3.0 billion in fiscal year 2017.
The fee rate relative to the value of investment assets came to 0.05%.

(Unit: JPY100M, %)

	FY2017	
	Fees	Fee rate
Domestic bonds	0	0.00
Domestic equities	13	0.09
Foreign bonds	5	0.07
Foreign equities	12	0.10
Overall assets	30	0.05

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

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

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

Section 2 Systems and Activities Concerning Administration and Investment of Funds

Basic Approach to Investment

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

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

1. Basic Policy

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

Accordingly, on the basis of appropriately diversifying investments in multiple assets that differ in risk/return and other characteristics (“Diversified Investment”), the Federation shall manage and invest the TLTB association reserve fund by establishing an asset mix from the long-term perspective (the “Benchmark Portfolio”).

2. Investment target

The investment of the TLTB association reserve fund, which has the characteristics of a closed pension plan, shall be managed appropriately by establishing the benchmark portfolio in order to generate investment returns needed for the fund with the minimum risk, while fully paying attention to the relationship between future liabilities and the fund.

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

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

Benchmark Portfolio

1. Benchmark portfolio (asset mix)

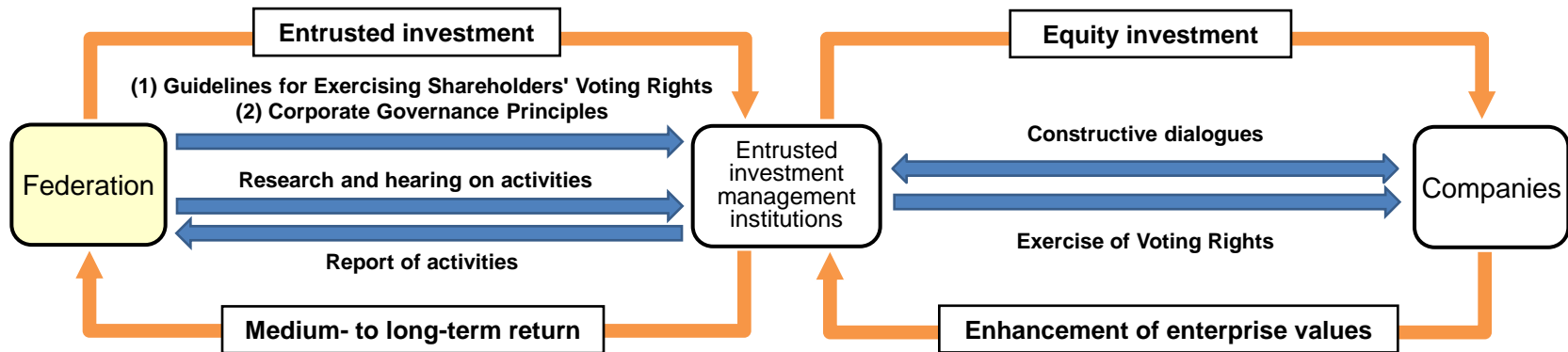
	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Asset mix	35%	25%	15%	25%
Deviation tolerance	±15%	±14%	±6%	±12%

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	28,861	22,669	78.5%	6,192	21.5%	0	0.0%	19.0%
(Shareholder Proposal)	(1,388)	(70)	(5.0%)	(1,318)	(95.0%)	(0)	(0.0%)	(97.3%)
By subject								
Board of Directors/Directors	8,782	5,876	66.9%	2,906	33.1%	0	0.0%	30.3%
Board of Auditors/Auditors	5,090	4,442	87.3%	648	12.7%	0	0.0%	17.3%
Director Remuneration, etc.	3,460	2,891	83.6%	569	16.4%	0	0.0%	11.0%
Appropriation of Surplus	5,764	5,394	93.6%	370	6.4%	0	0.0%	4.6%
Capital Structure	1,421	1,124	79.1%	297	20.9%	0	0.0%	30.2%
Takeover Defense Measures	449	160	35.6%	289	64.4%	0	0.0%	49.6%
Capital Increase or Reduction	27	27	100.0%	0	0.0%	0	0.0%	6.1%
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%	35.9%
Other proposals	3,527	2,286	64.8%	1,241	35.2%	0	0.0%	20.9%
Amendment to Articles of Incorporation	3,256	2,072	63.6%	1,184	36.4%	0	0.0%	21.7%

○ 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 30.3% 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 49.6% 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	17,649	15,186	86.0%	2,411	13.7%	52	0.3%	12.9%
(Shareholder Proposal)	(1615)	(625)	(38.7%)	(944)	(58.5%)	(46)	(2.8%)	(57.3%)
By subject								
Board of Directors/Directors	4,943	4,449	90.0%	490	9.9%	4	0.1%	11.3%
Board of Auditors/Auditors	997	994	99.7%	3	0.3%	0	0.0%	1.7%
Director Remuneration, etc.	3,926	3,348	85.3%	577	14.7%	1	0.0%	9.4%
Appropriation of Surplus	358	356	99.4%	2	0.6%	0	0.0%	0.0%
Capital Structure	1,658	1,378	83.1%	280	16.9%	0	0.0%	10.2%
Takeover Defense Measures	222	203	91.4%	19	8.6%	0	0.0%	6.4%
Capital Increase or Reduction	725	553	76.3%	172	23.7%	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	310	303	97.7%	7	2.3%	0	0.0%	3.7%
Business Restructure	233	228	97.9%	5	2.1%	0	0.0%	13.1%
Incentives Improvement for Executives	779	682	87.5%	97	12.5%	0	0.0%	16.3%
Other proposals	4,755	3,751	78.9%	957	20.1%	47	1.0%	20.2%
Amendment to Articles of Incorporation	412	342	83.0%	70	17.0%	0	0.0%	16.4%

(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 14.7%). 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.

Review of Manager Structure

○ 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 at regular meetings on the overview of investment results and future investment policies.

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

2. Administration and evaluation of asset administration institutions

For the administration of 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.

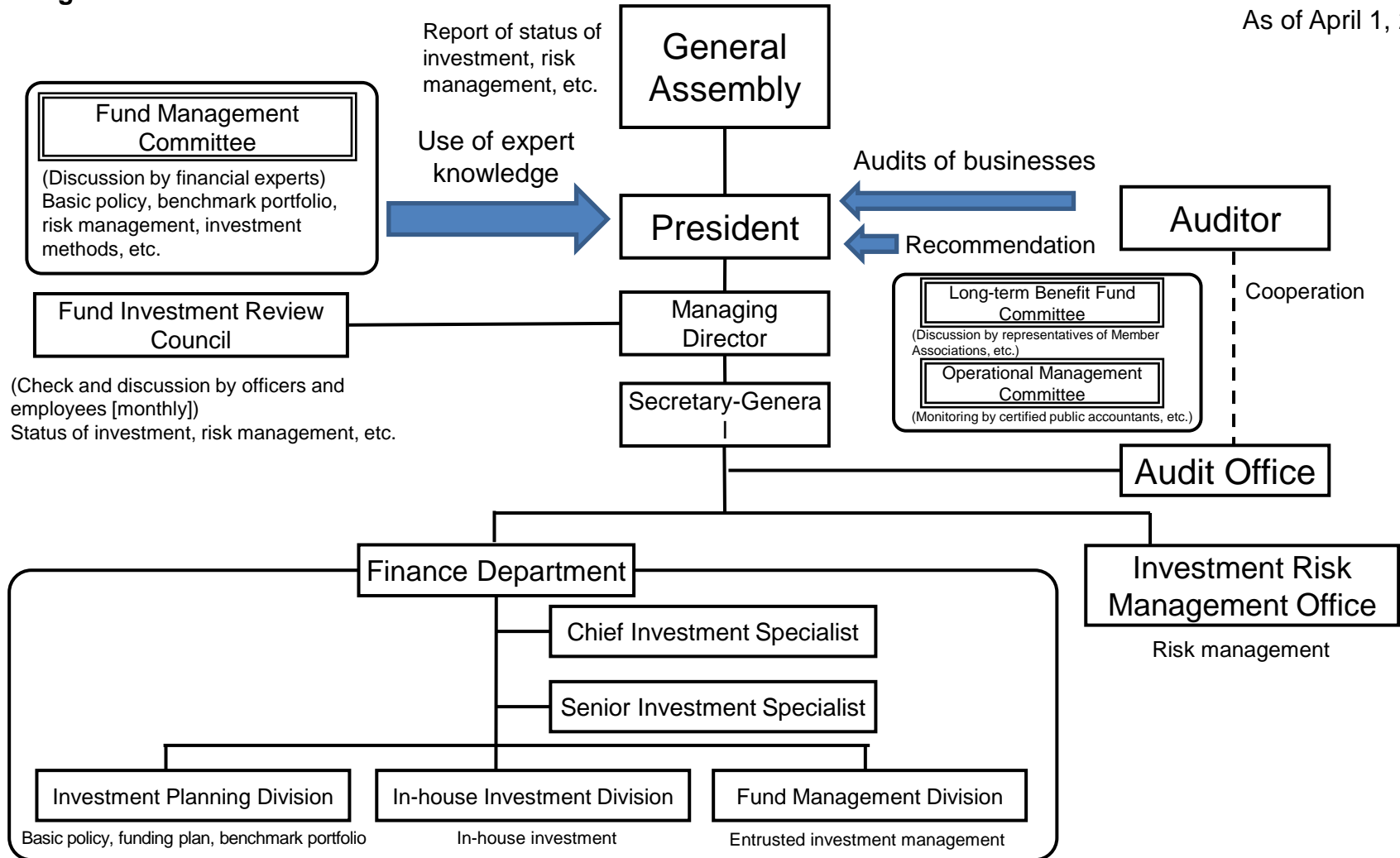
6. Fund Investment Review Council

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, in accordance with the implementation policy for risk management concerning investment of funds as an implementing organization, appropriately implements risk management concerning investment in consideration of the following points: that investment of funds should be made safely and efficiently from a long-term perspective; that diversified investments should be maintained in principle; that particular attention shall be paid to downside risks in light of the characteristics of a closed pension plan which receives no new contribution income; and that constant consideration shall be given to the relationship between future liabilities and the funds of all Local Public Service Mutual Aid Associations.

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 adjustment 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.
- (iv) The Federation shall conduct appropriate risk management, especially paying attention to downside risks in light of the characteristics of a closed pension plan which receives no new contribution income, with constant awareness of the relationship between future liabilities and the fund.

Governance ⑤ (Risk Management Efforts)

○ **Management of the deviation of the asset mix**

- Investment based on the benchmark portfolio requires the management of various risk factors. Therefore, in order to secure 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 decline in yield of many domestic bonds.

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

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

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

○ 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	0.97	4.90	6.81
Domestic bonds	3.80	-0.52	0.96
Domestic equities	-4.50	14.94	16.32
Foreign bonds	-2.21	-5.19	3.65
Foreign equities	-0.93	14.34	9.57
Short-term assets	0.02	0.01	0.00

2. Value of investment income

(Unit: JPY100M)

	FY 2015 (second half)	FY2016	FY2017
Investment income	560	2,795	3,913
Domestic bonds	1,198	-141	234
Domestic equities	-444	1,800	2,317
Foreign bonds	-119	-314	238
Foreign equities	-75	1,449	1,125
Short-term assets	1	0	0

(Unit: %)

	FY 2015 (second half)	FY2016	FY2017
Realized return	2.15	2.59	5.09

(Unit: JPY100M)

	FY 2015 (second half)	FY2016	FY2017
Realized income	1,085	1,305	2,508
(Income gain)	(522)	(1,078)	(1,360)

(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	27,834	48.28	25,842	44.60	22,625	38.26	
	Passive	24,772	42.97	23,334	40.27	0	0.00	
	Active	Entrusted investment management	0	0.00	0	0.00	0	0.00
		Others	0	0.00	0	0.00	22,625	38.26
Others	3,063	5.31	2,509	4.33	0	0.00		
Domestic equities	Total	11,374	19.73	13,801	23.82	15,786	26.69	
	Passive	8,725	15.13	8,527	14.72	9,886	16.72	
	Active	2,649	4.60	5,273	9.10	5,900	9.98	
Foreign bonds	Total	5,965	10.35	6,160	10.63	6,948	11.75	
	Passive	5,727	9.93	4,485	7.74	5,219	8.82	
	Active	238	0.41	1,676	2.89	1,729	2.92	
Foreign equities	Total	9,759	16.93	11,501	19.85	12,625	21.35	
	Passive	7,878	13.67	9,314	16.08	10,226	17.29	
	Active	1,881	3.26	2,186	3.77	2,399	4.06	
Short-term assets		2,716	4.71	636	1.10	1,156	1.95	
Total		57,649	100.00	57,941	100.00	59,140	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."

(Note 3) Due to the reclassification, deposits of member associations that were classified as "others" related to domestic bonds (municipal bonds, loans, and invested real property) and the fund that was classified as "passive" related to domestic bonds until fiscal year 2016 are classified as "active" from fiscal year 2017

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	0	0	0	0	0	0	0
	Active	0	0	0	0	0	0	0	0	0
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	16	34	0	7	41	1	0	40
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, through in-house investment, and indirectly through depositing with member associations as of the end of March 2018, with bond issues classified by issuer name and equity issues by issue name. For information concerning bond 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	Japan Finance Organization for Municipalities	5,513
2	Government of Japan	5,187
3	Kanagawa Prefecture	706
4	Hyogo Prefecture	600
5	Yokohama City	469
6	Fukuoka Prefecture	430
7	Chiba Prefecture	427
8	Japan Expressway Holding and Debt Repayment Agency	421
9	Aichi Prefecture	399
10	Osaka City	384
Total	468 Issuers	21,459

○ Foreign bond (in order of total market value)

No.	Names of issuer	Total market value (in 100M yen)
1	UNITED STATES OF AMERICA	2,549
2	ITALY (REPUBLIC OF)	653
3	FRANCE (REPUBLIC OF)	650
4	GERMANY (FEDERAL REPUBLIC OF)	453
5	UNITED KINGDOM (GOVERNMENT OF)	450
6	SPAIN (KINGDOM OF)	423
7	BELGIUM (KINGDOM OF)	148
8	CANADA (GOVERNMENT OF)	146
9	NETHERLANDS (KINGDOM OF)	127
10	AUSTRALIA (COMMONWEALTH OF)	125
Total	528 Issuers	7,016

○ Domestic equity (in order of total market value)

No.	Issue names	No. of shares	Total market value (in 100M yen)
1	Toyota Motor Corporation	3,670,100	470
2	Mitsubishi UFJ Financial Group	24,924,600	301
3	Sumitomo Mitsui Financial Group	3,227,300	233
4	Nippon Telegraph and Telephone Corporation	2,495,100	214
5	SoftBank Group	1,386,000	201
6	Keyence Corporation	170,600	196
7	Honda Motor Co., Ltd.	2,983,700	195
8	Sony Corporation	1,830,200	182
9	Mizuho Financial Group	49,605,900	164
10	KDDI Corporation	3,407,300	156
Total	2,102 Issues		15,685

○ Foreign equity (in order of total market value)

No.	Issue names	No. of shares	Total market value (in 100M yen)
1	APPLE INC	1,277,442	228
2	MICROSOFT CORP	1,828,902	178
3	AMAZON COM INC	104,259	160
4	FACEBOOK INC-A	712,250	121
5	ALPHABET INC-CL A	97,727	108
6	JPMORGAN CHASE & CO	879,015	103
7	JOHNSON AND JOHNSON	689,151	94
8	BANK OF AMERICA CORP	2,780,168	89
9	ALPHABET INC-CL C	79,651	87
10	NESTLE SA (REGISTERED)	1,021,613	86
Total	2,623 Issues		12,527

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