

Fiscal Year 2018 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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Investment Results (Overview)

Investment return **+1.59%** Modified total return (market value basis)
(FY2018)

Investment income **+JPY87.9 billion** Investment income
(FY2018) (market value basis)

Value of investment assets: JPY5,669.5 billion Total market value
(End of FY2018)

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

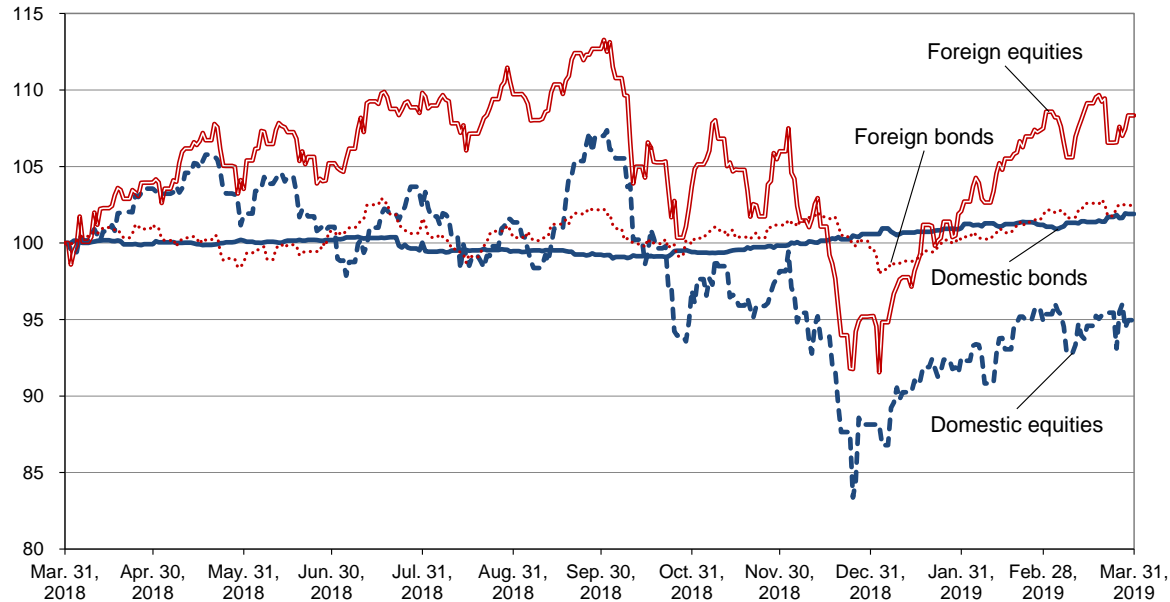
As investment income is based on the total market value as of the end of each term, it should be kept in mind that it includes valuation gains/losses, which means it may change depending on market movements.

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

Section 1 Administration and Investment of Funds in FY2018

Market environment

○ Change in benchmark return (March 31, 2018 = 100)



| Asset class | Benchmark | Returns | | | | |
|-------------------|-----------------------------------------------------------------------------------|---------|--------|---------|--------|------------------|
| | | Q1 | Q2 | Q3 | Q4 | Full fiscal year |
| Domestic bonds | NOMURA-BPI Overall | 0.20% | -0.96% | 1.36% | 1.30% | 1.89% |
| Domestic equities | TOPIX (with dividends) | 1.05% | 5.86% | -17.60% | 7.74% | -5.04% |
| Foreign bonds | FTSE World Government Bond Index (excluding Japan; without hedging, yen-based) | 0.76% | 1.40% | -2.49% | 2.85% | 2.46% |
| Foreign equities | MSCI ACWI ex. JAPAN (yen-based, with dividends) | 5.21% | 7.10% | -15.50% | 13.77% | 8.33% |
| Total | | 1.76% | 3.10% | -8.34% | 6.21% | 2.12% |

(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.

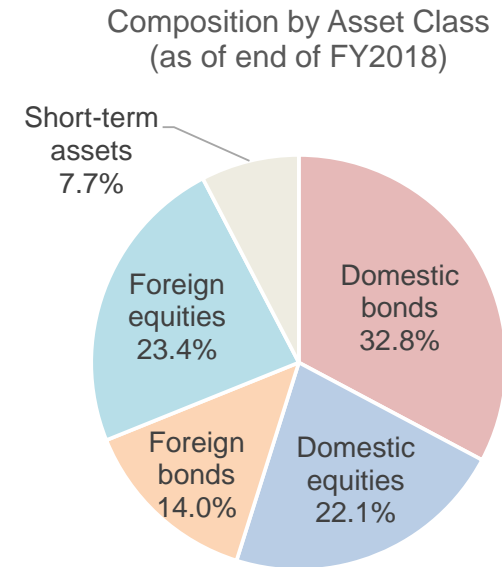
(Source: Bloomberg)

Asset mix

The composition by asset is as follows:

(Unit: %)

| | FY2017 | FY2018 | | | |
|-------------------|-----------|-----------|-----------|-----------|-----------|
| | End of FY | End of Q1 | End of Q2 | End of Q3 | End of FY |
| Domestic bonds | 32.7 | 35.0 | 32.9 | 37.1 | 32.8 |
| Domestic equities | 23.3 | 24.7 | 24.6 | 22.9 | 22.1 |
| Foreign bonds | 13.4 | 14.3 | 13.7 | 15.2 | 14.0 |
| Foreign equities | 22.5 | 25.1 | 25.1 | 23.3 | 23.4 |
| Short-term assets | 8.1 | 0.9 | 3.7 | 1.5 | 7.7 |
| 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) Short-term assets held by each fund were classified into relevant asset classes in principle.

(Note 4) The ratio of alternative assets to the total amount of pension funds is 0.2% (the upper limit for the benchmark portfolio is 5%).

Investment return

The modified total return for FY2018 was 1.59% for the overall assets.

(Unit: %)

| | FY2018 | | | | |
|-----------------------|--------|-------|--------|-------|----------|
| | Q1 | Q2 | Q3 | Q4 | FY total |
| Modified total return | 1.63 | 3.00 | -8.19 | 5.68 | 1.59 |
| Domestic bonds | 0.18 | -0.82 | 1.23 | 1.35 | 1.94 |
| Domestic equities | 1.01 | 5.70 | -17.54 | 7.64 | -5.24 |
| Foreign bonds | 0.80 | 1.55 | -2.55 | 2.88 | 2.64 |
| Foreign equities | 5.11 | 6.97 | -15.61 | 13.82 | 7.82 |
| Short-term assets | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

(Unit: %)

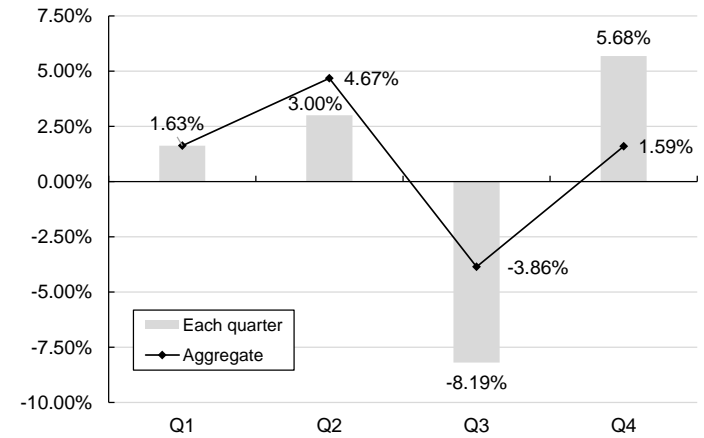
| | FY2018 | | | | |
|-----------------|--------|------|------|------|----------|
| | Q1 | Q2 | Q3 | Q4 | FY total |
| Realized return | 0.75 | 0.79 | 0.63 | 0.79 | 2.96 |

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

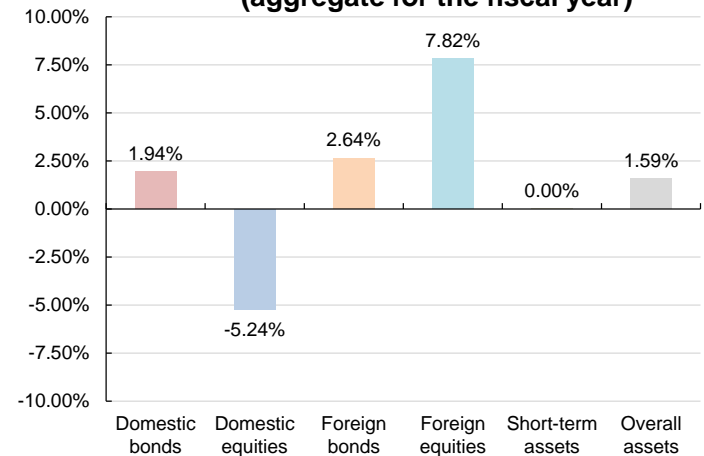
(Note 2) The modified total return and realized return represent figures after the deduction of fees, etc. settled within the relevant period.

(Note 3) The amount of interest related to the settlement of the former occupational portion of the pension plans transferred from the transitional long-term accounting to the employees' pension insurance accounting is included in the return for domestic bonds.

Changes in modified total return



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



Contribution analysis of excess return (1)

The modified total return for overall investment assets was 1.59%, while the excess return compared with the benchmark return was -0.53%. As for the asset allocation factor, underweight of foreign stocks and holding of short-term assets contributed to the negative excess return. The return due to the individual asset factor was negative because the return on domestic and foreign stocks was lower than the benchmark. As a result, the excess return on overall assets was negative.

FY2018 (April 2018 through March 2019)

(Unit: %)

| | Overall assets | Domestic bonds | Domestic equities | Foreign bonds | Foreign equities |
|-----------------------|----------------|----------------|-------------------|---------------|------------------|
| Modified total return | 1.59 | 1.94 | -5.24 | 2.64 | 7.82 |
| Benchmark return | * 2.12 | 1.89 | -5.04 | 2.46 | 8.33 |
| Excess return | -0.53 | 0.04 | -0.20 | 0.18 | -0.51 |

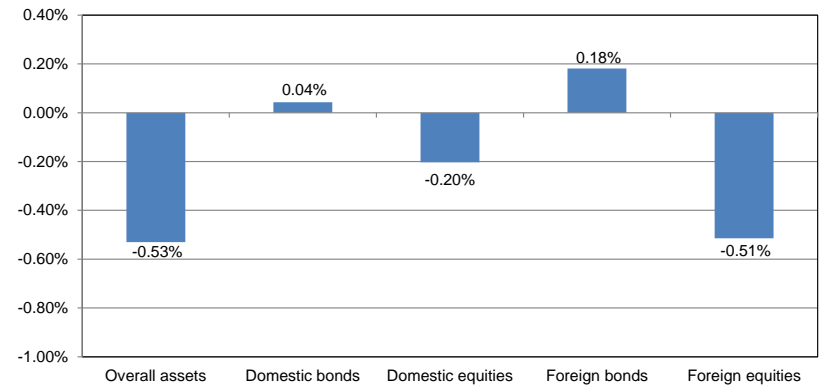
* The benchmark return for overall assets is calculated by weight-averaging the benchmark returns for individual asset classes based on the shares in the asset mix of the benchmark portfolio.

| | Asset allocation factor ① | Individual asset factor ② | ①+② |
|-------------------|------------------------------|------------------------------|--------|
| Domestic bonds | -0.04% | -0.03% | -0.07% |
| Domestic equities | 0.02% | -0.08% | -0.06% |
| Foreign bonds | -0.02% | 0.01% | -0.02% |
| Foreign equities | -0.12% | -0.16% | -0.28% |
| Short-term assets | -0.10% | -0.01% | -0.10% |
| Total | -0.26% | -0.27% | -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 | 34.0% | 35.0% | -1.0% | ±15% |
| Domestic equities | 24.3% | 25.0% | -0.7% | ±14% |
| Foreign bonds | 14.0% | 15.0% | -1.0% | ±6% |
| Foreign equities | 23.5% | 25.0% | -1.5% | ±12% |
| Short-term assets | 4.2% | | 4.2% | |
| Total | 100.0% | 100.0% | 0.0% | |

Contribution analysis of excess return (2)

○ Domestic bonds

The modified total return of domestic bonds was 1.94%, which exceeds the benchmark return (1.89%) by 0.04%.

The selection of corporate bond issues (some of which are yen-denominated foreign bonds) by active funds was successful, resulting in a higher return than the benchmark. Because of this and other factors, the excess return was positive.

○ Domestic equities

The modified total return of domestic equities was -5.24%, which was below the benchmark return (-5.04%) by 0.20%.

While the return on passive funds exceeded the benchmark due to the effects of lending income, the return on active funds investing mainly in small- and mid-cap stocks or promoting growth strategy performed poorly. Because of these factors, the excess return was negative.

○ Foreign bonds

The modified total return of foreign bonds was 2.64%, which exceeds the benchmark return (2.46%) by 0.18%.

The excess return was positive due to such factors as the relatively higher returns on active funds whose benchmark is Barclays Global Aggregate Index compared with active funds whose benchmark is FTSE Global Bond Index as a result of the difference in returns for each benchmark.

○ Foreign equities

The modified total return of foreign equities was 7.82%, which was below the benchmark return (8.33%) by 0.51%.

The dividend taxation factor had negative effects on passive funds. In addition, the return on some active funds was lower than the benchmark. For example, value-type funds making intensive investments in issues whose market prices were deviating far from the fundamental enterprise value performed poorly. Because of these factors, the excess return was negative.

Investment income

The investment income for FY2018 was JPY87.9 billion (for overall assets).

(Unit: JPY100M)

| | FY2018 | | | | |
|-------------------|--------|-------|--------|-------|----------|
| | Q1 | Q2 | Q3 | Q4 | FY total |
| Investment income | 888 | 1,673 | -4,682 | 3,000 | 879 |
| Domestic bonds | 34 | -154 | 231 | 252 | 364 |
| Domestic equities | 134 | 762 | -2,485 | 888 | -702 |
| Foreign bonds | 61 | 120 | -201 | 223 | 204 |
| Foreign equities | 659 | 946 | -2,228 | 1,637 | 1,013 |
| Short-term assets | 0 | 0 | 0 | 0 | 0 |

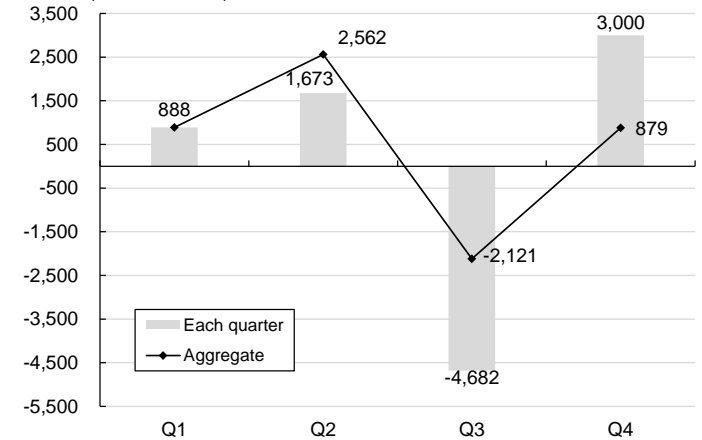
(Unit: JPY100M)

| | FY2018 | | | | |
|-----------------|--------|-----|-----|-----|----------|
| | Q1 | Q2 | Q3 | Q4 | FY total |
| Realized income | 359 | 383 | 306 | 387 | 1,436 |

- (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 the former occupational portion of the pension plans transferred from the transitional long-term accounting to the employees' pension insurance accounting is included in the return for domestic bonds.
- (Note 5) Due to rounding, the total sum of individual figures may not necessarily add up to FY Total.

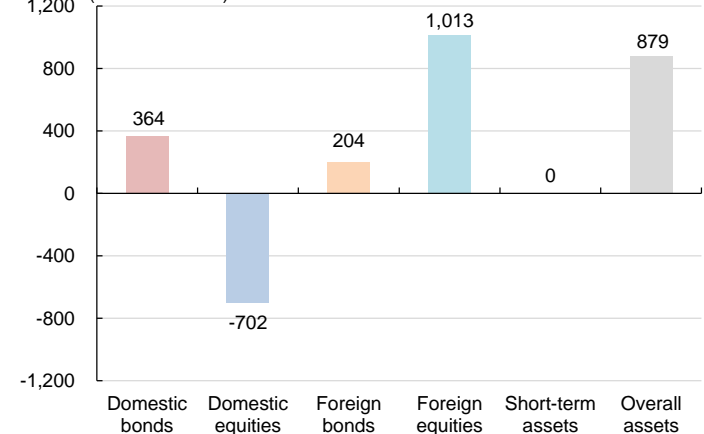
Changes in investment income

(Unit: JPY100M)



Investment income by asset (aggregate for the fiscal year)

(Unit: JPY100M)



Value of assets

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

(Unit: JPY100M)

| | FY2017 End of FY | | | FY2018 | | | | | | | | | | | |
|-------------------|---------------------|--------------------|------------------------|------------|--------------------|------------------------|------------|--------------------|------------------------|------------|--------------------|------------------------|------------|--------------------|------------------------|
| | Book value | Total market value | Valuation gains/losses | End of Q1 | | | End of Q2 | | | End of Q3 | | | End of FY | | |
| | | | | Book value | Total market value | Valuation gains/losses | Book value | Total market value | Valuation gains/losses | Book value | Total market value | Valuation gains/losses | Book value | Total market value | Valuation gains/losses |
| Domestic bonds | 18,105 | 18,744 | 639 | 18,192 | 18,873 | 681 | 18,343 | 18,825 | 482 | 18,185 | 18,851 | 666 | 17,794 | 18,584 | 790 |
| Domestic equities | 10,487 | 13,327 | 2,840 | 10,499 | 13,350 | 2,851 | 10,547 | 14,112 | 3,565 | 10,668 | 11,627 | 959 | 10,811 | 12,515 | 1,704 |
| Foreign bonds | 7,799 | 7,677 | -122 | 7,778 | 7,738 | -40 | 7,814 | 7,858 | 44 | 7,933 | 7,738 | -196 | 8,022 | 7,964 | -58 |
| Foreign equities | 9,632 | 12,858 | 3,226 | 9,755 | 13,518 | 3,762 | 9,816 | 14,353 | 4,538 | 9,688 | 11,805 | 2,117 | 9,701 | 13,291 | 3,590 |
| Short-term assets | 4,632 | 4,632 | 0 | 481 | 481 | 0 | 2,107 | 2,107 | 0 | 737 | 737 | 0 | 4,341 | 4,341 | 0 |
| Total | 50,655 | 57,238 | 6,583 | 46,706 | 53,961 | 7,255 | 48,627 | 57,255 | 8,628 | 47,211 | 50,758 | 3,547 | 50,669 | 56,695 | 6,026 |

(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 FY2018)

(Unit: JPY100M)

| | Domestic bonds | Domestic equities | Foreign bonds | Foreign equities |
|-----------------------------------------|----------------|-------------------|---------------|------------------|
| Amount of funds allocated and withdrawn | -524 | -110 | 83 | -580 |

(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).

Fees

The amount of fees totaled about JPY3.4 billion in fiscal year 2018.
The fee rate relative to the value of investment assets came to 0.06%.

(Unit: JPY100M, %)

| | FY2018 | |
|-------------------|--------|----------|
| | Fees | Fee rate |
| Domestic bonds | 8 | 0.03 |
| Domestic equities | 10 | 0.08 |
| Foreign bonds | 5 | 0.06 |
| Foreign equities | 11 | 0.09 |
| Overall assets | 34 | 0.06 |

(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

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% |

Approach to risk management

- Generally speaking, "risk" refers to danger or a possibility of negative impact. In the field of asset investment, risk means uncertainty of returns, etc. associated with market volatility or other factors.
- Risks in the field of asset investment include interest rate fluctuation risk, price fluctuation risk, credit risk and liquidity risk. Therefore, it is important to understand the magnitude and multifaceted impacts of various risks commensurate with investment from a long-term perspective.
- The National Federation of Mutual Aid Associations for Municipal Personnel (hereinafter 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.

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, it monitors 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.

○ 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.

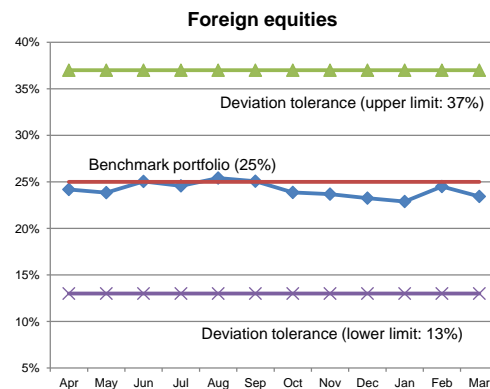
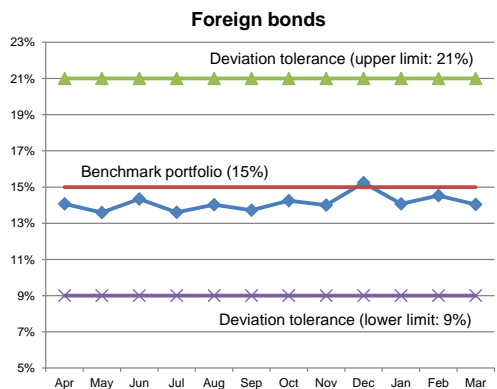
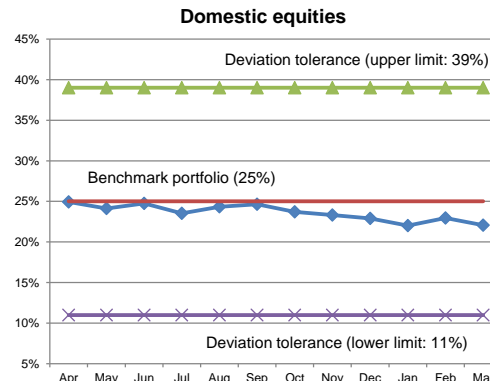
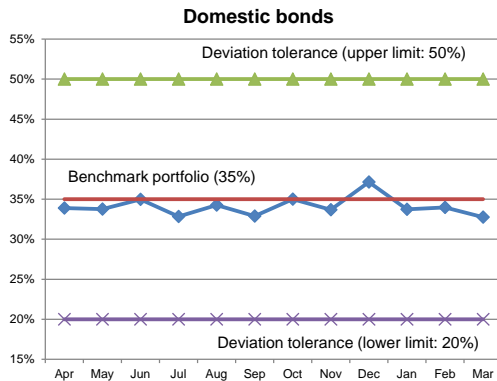
Status of risk management (overall assets)

○ Asset mix and estimated tracking error

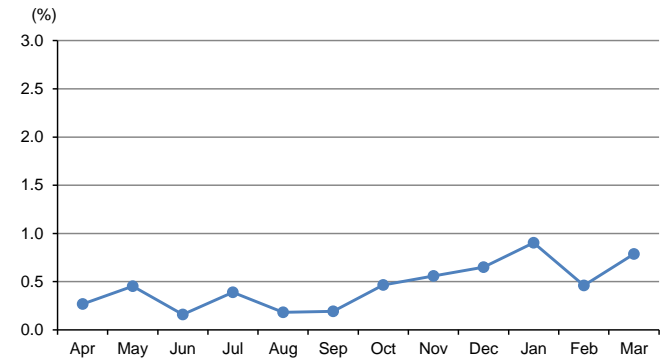
In fiscal year 2018, the shares in the asset mix concerning all asset classes—domestic bonds, domestic equities, foreign bonds and foreign equities—stayed within the deviation tolerance.

The estimated tracking error for the assets overall generally stayed stable.

【Changes in the asset mix】



【Changes in the estimated tracking error】



(Note) The fluctuations of the estimated tracking error reflect changes in short-term funds, etc. due to payments of pension benefits.

Investment in alternative assets

The Federation started alternative investment in fiscal year 2018 in order to promote diversified investment of the Employees' Pension Insurance Benefit Association Reserve Fund for the purpose of ensuring safe and efficient investment management of the fund from the long-term perspective.

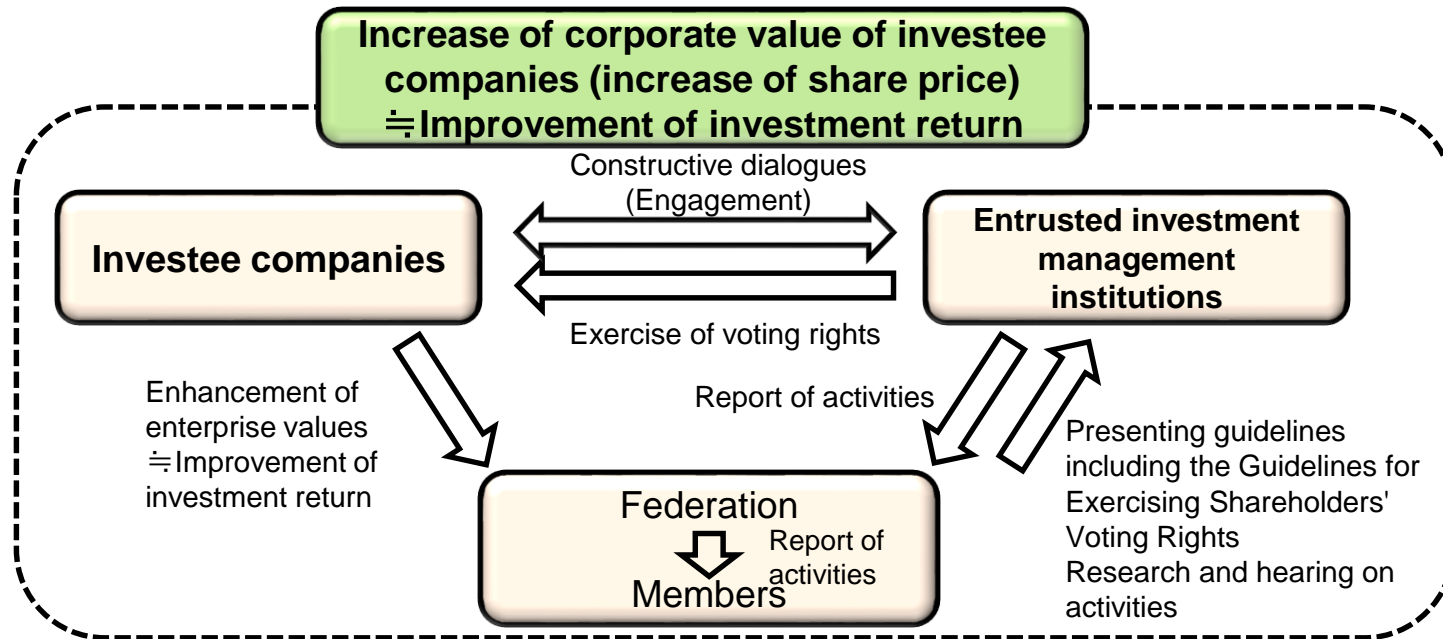
Investment policy pertaining to diversification of eligible investment instruments (investment in alternative assets) (Excerpt)

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.

Stewardship activities (1)

1. Virtuous circle which the Federation aims to create through stewardship activities

- Through its stewardship activities, the Federation expects to create the virtuous circle described below by encouraging investee companies to take necessary actions via entrusted investment management institutions. The Federation ultimately aims to increase the investment return of individual funds by raising the enterprise value of investee companies.



| Past efforts | |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| • May 2010 | Established the Guidelines for Exercising Shareholders' Voting Rights, 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, 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. |
| • November 2017 | Announced the acceptance of the Revised SSC |

Stewardship activities (2)

2. Efforts in fiscal year 2018

- As a part of its stewardship activities for fiscal year 2018, the Federation conducted surveys and hearings for entrusted investment management institutions in relation to the situations of exercise of shareholders' voting rights and engagement activities. In addition, the Federation encouraged them to engage in stewardship activities in an effective way adapted to their respective investment styles and resources. Further, the Federation made periodical reports for fiscal year 2018.
- On February 1, 2019, the Federation publicized its Annual Stewardship Activity Report FY2018 on its website.

Surveys and hearings of entrusted investment management institutions

| Subjects | Period | Targets | Main subjects |
|-----------------------------------------------------|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Survey on exercise of voting rights | August 2018 | Entrusted investment management institutions for domestic and foreign equities (12 companies for domestic equities and 8 companies for foreign equities) | Verification of: - results of exercise of voting rights - structure for exercise of voting rights |
| Survey on performance of stewardship activities | September 2018 | 12 entrusted investment management institutions for domestic equities | Verification of: - structure for managing conflicts of interest - details of engagement - strengthened efforts, challenges and issues - reason for the decision to exercise voting rights in relation to specific, individual proposals |
| Hearing related to the two subjects mentioned above | October 2018 | | |

(Note 1) The following twelve companies are entrusted with the investment management of domestic equities: Asset Management One Co., Ltd., Invesco Asset Management (Japan) Limited, Capital International K.K., Schroder Investment Management (Japan) Limited, Nikko Asset Management Co., Ltd., Nissay Asset Management Corporation, Nomura Asset Management Co., Ltd., Mizuho Trust & Banking Co., Ltd., Sumitomo Mitsui Asset Management Company, Limited, Sumitomo Mitsui Trust Bank, Limited, Mitsubishi UFJ Trust and Banking Corporation and Resona Bank, Limited

(Note 2) The following eight companies are entrusted with the investment management of foreign equities: Wellington Management, MFS Investment Management, State Street Global Advisors, SEIRYU Asset Management Ltd., Tokio Marine Asset Management Co., Ltd., Natixis Investment Managers, BlackRock Japan Co., Ltd. and Sumitomo Mitsui Trust Bank, Limited

Periodical reports related to stewardship activities

| Subjects | Period | Targets | Main subjects |
|---------------------------------------------------------------------------------------------------|---------------|-----------------------------------------------------------------------------------------------|--------------------------------------------------------------------|
| Report of the Federation's stewardship activity in its Review of Operations | July 2018 | (Publicized on the Federation's website) | Stewardship activity of the Federation |
| Report of the Federation's stewardship activity in its PR papers | February 2019 | Executives and employees of the Federation Executives and employees of member associations | Stewardship activity of the Federation |
| Providing information on an as-needed basis in addition to regular reports at executive meetings. | As necessary | Executives of the Federation Executives and employees of member associations | Federation's approach to stewardship activities and ESG investment |

Stewardship activities (3)

3. Results of monitoring of stewardship activities conducted by entrusted investment management institutions

(i) Constructive "purposeful dialogue (engagement)" with investee companies

○ Differences in engagement between active and passive investments

- Japan's Stewardship Code stipulates that in passive investment, investment management institutions should conduct engagement and exercise voting rights from a medium- to long-term viewpoint. In light of that, the Federation conducted a survey as to differences in engagement between active and passive investments at entrusted investment management institutions.
- As a result, it was confirmed that because of differences in the purpose of engagement, there were various differences between active and passive investments, for example in terms of the target companies of engagement, the contents of engagement and the system of evaluating engagement staff members.

Major differences in engagement between active and passive investments

| Items | Active investment | Passive investment |
|--------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Purpose | Increasing medium- to long-term enterprise value (increasing the return from investee companies) | Increasing medium- to long-term enterprise value (increasing the return from the entire stock market) |
| Target companies of engagement | Investee companies and companies surveyed by sector analysts | Selecting from all companies those which may have a large impact on the market because of their size or if their business performance weakens or a case of misconduct occurs. |
| Contents of dialogue | Selecting themes expected to lead to an increase in the return through the resolution of problems on a company-by-company basis. The scope of themes ranges widely, from management principles to financial strategy and governance. | Selecting themes focusing on common problems that obstruct an increase in enterprise value, such as low profitability and governance system issues. |
| Personnel evaluation of engagement staff members | Focusing mainly on quantitative evaluation based on performance (however, the weight of qualitative evaluation is also growing). | Focusing mainly on qualitative evaluation, which examines engagement processes. Engagement staff members find an incentive in conducting engagement in sectors attracting attention. |

(Note) The above are examples of major opinions collected through hearings with entrusted investment management institutions.

Stewardship activities (4)

○ Contents of engagement

- The contents of engagement and major cases that led to some results are as described in the table below.
- In addition, there were some cases in which multiple entrusted investment management institutions conducted engagement with the same company on the same theme.

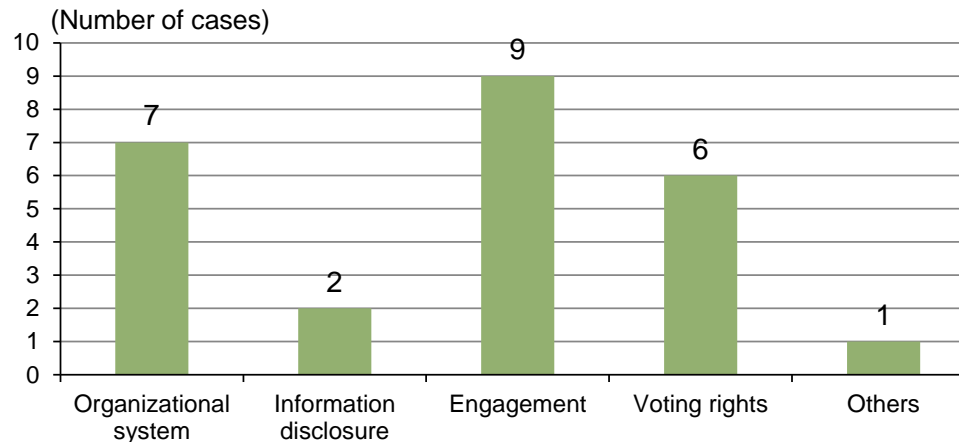
| Dialogue items | Company | Specifics | |
|------------------------|------------------------------------------------|-----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Capital policy | TSE 1st section Services | Dialogue | As the uptrend in cash holdings was conspicuous, the investment management institution conveyed concerns over the continuing accumulation of cash. The institution also pointed out the need for the company to specify its approach to cash positions in order to ensure efficient cash management. |
| | | Results | The company replied that as it was objectively true that it was holding a large amount of cash, it regarded how to manage capital policy as a challenge under the next medium-term management plan. In a management plan announced later, the company specified the cash level that the management team considers to be necessary. |
| Business strategy | TSE 1st section Electrical equipment | Dialogue | Although the company is gradually shifting to a growth strategy in response to the progress in the cost structure reform of its main business, its newly announced plan to strengthen the business through M&A was short on specifics, as it merely indicated target areas and the fund amount. The investment management institution pointed out the need to present goals for which progress can be identified from the outside. |
| | | Results | Although the company set immediate numerical targets for individual business divisions, it will continue considering goals for which progress can be continuously identified from the outside. While implementing the medium-term management plan, the company's attitude to sharing the progress in implementation with investors changed. Dialogue will be continued with a view to increasing enterprise value. |
| Environmental issues | TSE 1st section Machinery | Dialogue | Amid growing antipathy toward coal as general-use fuel, the investment management institution expressed hope that the company would improve its information disclosure on the exposure of its businesses to general-use coal, management officers' awareness and their approach to risk management. |
| | | Results | As the company was receiving similar concerns and requests from an increasing number of other investors, it expressed willingness to share the concerns company-wide and consider what can be disclosed. |
| Social issues | TSE 1st section Insurance | Dialogue | Regarding the company's new nursing care business, the investment management institution repeatedly conducted one-on-one dialogue related to business strategy from the viewpoint of simultaneously addressing social issues and increasing enterprise value. The institution pointed out the importance of securing nursing care personnel and improving workplace productivity in order to achieve sustainable growth. |
| | | Results | The company replied that it shared the recognition of the need to secure nursing care personnel and improve workplace productivity. While the dialogue was ongoing, the company turned profitable in fiscal 2017, earlier than planned, due to an improvement in the occupancy rate in the nursing care business. |
| Corporate governance | TSE 1st section Rubber products | Dialogue | The investment management institution set challenges for the company, including the separation of execution and supervision of business management, reduction of the number of inside directors, an increase in the number of outside directors, and appointment of women to the post of director and conducted dialogue about those challenges. |
| | | Results | At a general shareholders' meeting, the number of inside directors was reduced from 9 to 6, while the number of outside directors was increased from 3 to 4, with the ratio of outside directors rising from 25% to 40%. The institution regards this as an improvement of the corporate governance system. |
| Information disclosure | TSE 1st section Information and communications | Dialogue | Although the company made a series of announcements concerning the launch of new businesses, it failed to indicate a strong commitment to future profit growth, resulting in a stock price plunge. The investment management institution conveyed its concerns about the company's failure to indicate a stance of sharing a medium- to long-term business vision through explanations of details, instead of explaining the short-term deterioration of business performance due to prior investments, and called for improvements. |
| | | Results | At the earnings briefing session, the company provided fairly satisfactory explanations about the purpose and specifics of its prior investments and its future vision. |

Stewardship activities (5)

(ii) Entrusted investment management institutions' priorities in stewardship activities

- The Federation conducted a survey with entrusted investment management institutions on their priorities in fiscal year 2017.
- As a trend, many entrusted investment management institutions stated that they allocated business resources to engagement and organizational system measures. Among major examples of engagement are conducting collective engagement and strengthening information sharing. Among major examples of organizational measures was increasing the number of engagement staff to strengthen engagement.
- Through an exchange of opinions with entrusted investment management institutions, the Federation recognized that the institutions were gradually developing the preparedness to conduct stewardship activities. As entrusted investment management institutions are strengthening efforts in various fields, the Federation is looking forward to the results of future stewardship activities.

Fields of stewardship activity to which entrusted investment management institutions devoted efforts



(Note) The above figures were tabulated by the Federation based on questionnaires and hearings with 12 entrusted investment management institutions.

Stewardship activities (6)

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 2017

- For the exercise of voting rights at general meeting of shareholders of companies which settled accounts in fiscal year 2017 (between April 2017 and March 2018), 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 (7)

(iii) Results of the exercise of voting rights concerning domestic equities
(companies with accounting settlement between April 2017 and March 2018)

(Unit: Number of occasions)

| Items on agenda | Total | Vote for | | Vote against | | Vote-against rate in the previous year |
|--------------------------------------------------------------------------------------|--------|----------|---------|--------------|---------|----------------------------------------|
| | | | Rate | | Rate | |
| Total | 26,422 | 20,383 | 77.1% | 6,039 | 22.9% | 21.5% |
| (Shareholder proposal) | (810) | (91) | (11.2%) | (719) | (88.8%) | (94.8%) |
| By subject | | | | | | |
| Board of directors/directors (on a main proposal basis) | 9,166 | 6,000 | 65.5% | 3,166 | 34.5% | 33.2% |
| [Reference] Appointment of directors (on a subsidiary proposal basis) | 66,607 | 55,983 | 84.0% | 10,624 | 16.0% | 14.5% |
| [Reference] Appointment of outside directors (on a subsidiary proposal basis) | 19,705 | 16,386 | 83.2% | 3,319 | 16.8% | |
| Board of auditors/auditors (on a main proposal basis) | 4,753 | 3,974 | 83.6% | 779 | 16.4% | 12.8% |
| [Reference] Appointment of auditors (on a subsidiary proposal basis) | 6,517 | 5,676 | 87.1% | 841 | 12.9% | 10.6% |
| [Reference] Appointment of outside auditors (on a subsidiary proposal basis) | 4,461 | 3,657 | 82.0% | 804 | 18.0% | |
| Director remuneration | 1,533 | 1,292 | 84.3% | 241 | 15.7% | 16.4% |
| Director bonus | 791 | 606 | 76.6% | 185 | 23.4% | |
| Retirement allowances | 569 | 314 | 55.2% | 255 | 44.8% | 6.5% |
| Appropriation of surplus (accompanied by a decrease in capital reserves) | 37 | 36 | 97.3% | 1 | 2.7% | |
| Appropriation of surplus (not accompanied by a decrease in capital reserves) | 5,580 | 5,209 | 93.4% | 371 | 6.6% | |
| Capital structure (takeover defense measures) | 191 | 16 | 8.4% | 175 | 91.6% | 64.4% |
| Capital structure (capital increase or reduction (other than third-party allotment)) | 24 | 24 | 100.0% | 0 | 0.0% | 0.0% |
| Capital Structure (capital increase (third party allotment of shares)) | 11 | 8 | 72.7% | 3 | 27.3% | 28.6% |
| Capital structure (acquisition of own shares) | 4 | 2 | 50.0% | 2 | 50.0% | 100.0% |
| Capital structure (others) | 291 | 289 | 99.3% | 2 | 0.7% | 0.4% |
| Business restructure | 121 | 119 | 98.3% | 2 | 1.7% | 1.8% |
| Incentives improvement for executives | 835 | 642 | 76.9% | 193 | 23.1% | 24.9% |
| Amendment to articles of incorporation | 2,133 | 1,542 | 72.3% | 591 | 27.7% | 35.0% |
| Composition of the board of directors | 190 | 159 | 83.7% | 31 | 16.3% | |
| Other proposals | 193 | 151 | 78.2% | 42 | 21.8% | |

The total number of proposals was counted on a main proposal basis.

Stewardship activities (8)

(iv) Results of the exercise of voting rights concerning foreign equities
(companies with accounting settlement between April 2017 and March 2018)

(Unit: Number of occasions)

| Items on agenda | Total | Vote for | | Vote against | | Vote-against rate in the previous year |
|---------------------------------------------------------|---------|----------|---------|--------------|---------|----------------------------------------|
| | | | Rate | | Rate | |
| Total | 16,585 | 14,481 | 87.3% | 2,104 | 12.7% | 13.6% |
| (Shareholder proposal) | (1,530) | (610) | (39.9%) | (920) | (60.1%) | (58.3%) |
| By subject | | | | | | |
| Board of directors/directors (on a main proposal basis) | 4,914 | 4,458 | 90.7% | 456 | 9.3% | 9.9% |
| 【Reference】 (on a subsidiary proposal basis) | 22,417 | 21,543 | 96.1% | 874 | 3.9% | |
| Board of auditors/auditors (on a main proposal basis) | 248 | 245 | 98.8% | 3 | 1.2% | 0.3% |
| 【Reference】 (on a subsidiary proposal basis) | 265 | 262 | 98.9% | 3 | 1.1% | |
| Director remuneration, etc. | 3,123 | 2,847 | 91.2% | 276 | 8.8% | 14.6% |
| Appropriation of surplus | 325 | 325 | 100.0% | 0 | 0.0% | 0.6% |
| Capital structure | 1,727 | 1,467 | 84.9% | 260 | 15.1% | 17.0% |
| Takeover defense measures | 181 | 168 | 92.8% | 13 | 7.2% | 8.6% |
| Capital increase or reduction | 774 | 609 | 78.7% | 165 | 21.3% | 24.0% |
| Third party allotment of shares | 297 | 295 | 99.3% | 2 | 0.7% | 0.0% |
| Acquisition of own shares | 300 | 298 | 99.3% | 2 | 0.7% | 2.3% |
| Business restructure | 187 | 183 | 97.9% | 4 | 2.1% | 2.2% |
| Incentives improvement for executives | 688 | 532 | 77.3% | 156 | 22.7% | 12.3% |
| Other proposals | 5,373 | 4,424 | 82.3% | 949 | 17.7% | 20.0% |

(Note 1) For investee companies in some countries, voting rights are not exercised considering costs for exercise and share blocking.

(Note 2) The total number of proposals was counted on a main proposal basis.

Stewardship activities (9)

(v) Major trends in the results of exercise of voting rights and proposals

○ Domestic equities

- Proposals for which the vote-against ratio was high mainly concerned board of director/directors, retirement allowances, and takeover defense measures.
- The vote-against ratio for proposals concerning takeover defense measures rose steeply, as it did in the previous fiscal year (49.7% in FY2016→64.4% in FY2017→91.6% in FY2018). The main reason for the increase is that some entrusted investment management institutions tightened the criteria for the exercise of voting rights. On the other hand, the number of proposals declined. While the main factor of the decline is a decrease in the number of companies that were nearing the date of updating their respective takeover defense plans, another factor is that some companies abolished (discontinued) takeover defense measures.
- The vote-against ratio for shareholder proposals declined slightly (from 94.8% to 88.8%). The main reason for the decline is an increase in proposals expected to lead to an improvement in corporate governance. The number of proposals also declined because of a decrease in the number of proposals per proposer.

○ Foreign equities

- Proposals for which the vote-against ratio was high mainly concerned capital increase or reduction and incentives improvement for executives.
- The vote against ratio for proposals concerning director remuneration declined (from 14.7% to 8.8%). Among the main factors were an increase in proposals concerning remuneration that contribute to shareholders' value and an improvement in disclosure.
- Proposals concerning environmental (E) and social issues (S) increased. In the United States, the number of shareholder proposals concerning environmental and social (E&S) issues hit a record high of 485. Regarding proposals concerning directors, a surveillance system (independence and skills) that can deal with risks related to non-financial factors, including ESG factors, has come to be appreciated.

Stewardship activities (10)

5. Future initiatives

Through an exchange of opinions with entrusted investment management institutions, the Federation will revise its stewardship activities as appropriate.

○ Revision of the Guidelines

The Federation will consider revising the Corporate Governance Principles and the Guidelines for Exercising Shareholders' Voting Rights as necessary while taking laws and regulations and the social circumstances into account, with a view to conducting more effective stewardship activities.

○ Consideration of how to evaluate stewardship activities conducted by entrusted investment management institutions

The Federation recognizes the need for an evaluation system that takes differences in the business model and product lineup between entrusted investment management institutions into account, rather than a system that conducts evaluation based on "one size fits all" criteria. The Federation will consider how to evaluate entrusted investment management institutions while continuing to conduct monitoring as to whether they are conducting effective stewardship activities.

○ Continuous information gathering

The Federation will gather information by holding meetings with other institutional investors and workshops inviting external experts as lecturers and by participating in various seminars, including the Business and Asset Owners' Forum, which is hosted by GPIF.

○ Strengthening of information feedback

In addition to widely providing information through its website, the Federation will make further efforts to deepen understanding on its stewardship activities through periodic reports to members (beneficiaries).

Review of manager structure

1. Selection of entrusted investment management institutions

In order to secure stable income gains, the Federation invited public applications for entrusted investment management institutions concerning alternative investment (real estate) and selected three funds. In the process of selection, the Federation conducted the overall assessment of past performances, investment philosophy, investment structure and investment process through documentary examinations and hearings.

2. Selection of asset administration institutions

As a result of the invitation for public applications and evaluation based on document screening and hearings, Mizuho Trust & Banking was selected as the asset administration institution concerning alternative investment.

3. Annual comprehensive evaluation

There was no cancellation based on annual comprehensive evaluation as of the end of fiscal year 2017.

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 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 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.

Section 2 Business and Fund Investment of National Federation of Mutual Aid Associations for Municipal Personnel

Organizational structure (1)

1. Organization

As of April 1 of 2019, 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. 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.

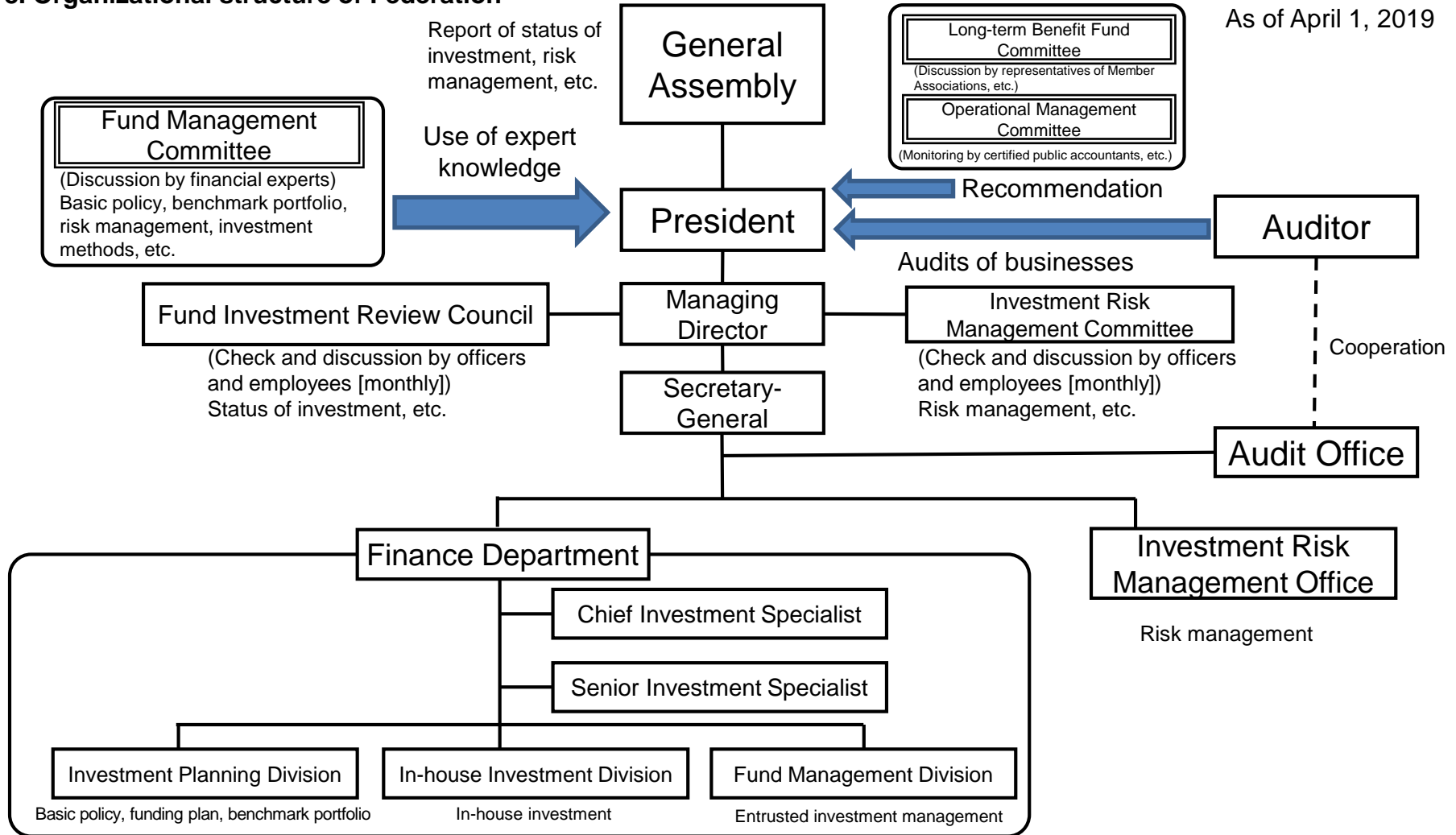
7. Investment Risk Management Committee

This is a committee to conduct activities such as verification, reporting and discussion so as to ensure appropriate risk management related to fund investment. This committee is constituted by the Senior Managing Director, the Secretary-General, the Director-General of Finance Division, the Senior Investment Analyst, the Senior Investment Analyst, the Manager of Investment and Planning Division, the Manager of In-house Investment Division, the Manager of Investment and 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 as depending on the necessity.

Organizational structure (2)

8. Organizational structure of Federation

As of April 1, 2019



Fund Management Committee (1)

○ 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 2019)

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

Fund Management Committee (2)

○ Meetings of the Fund Management Committee (fiscal year 2018)

| Meeting number | Meeting date | Main subjects |
|----------------|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 41st | September 27, 2018 | <ul style="list-style-type: none"> • Consultation paper • Issues for deliberation in the current fiscal year and method of discussion • Examination of the benchmark portfolio for the Annuity Retirement Benefit Association Reserve Fund • Recommendation paper (draft) • Status of investment of individual Funds in the first quarter of FY2018 |
| 42nd | March 26, 2019 | <ul style="list-style-type: none"> • Examination of the benchmark portfolio for the Employees' Pension Insurance Benefit Association Reserve Fund • Examination of the benchmark portfolio for the Transitional Long-term Benefit Association Reserve Fund • Discussion related to the review of the benchmark portfolio for the Annuity Retirement Benefit Association Reserve Fund • Recommendation paper (draft) • Approach to safe and efficient investment of individual Funds • Status of investment of individual Funds in FY2019 • Status of investment of individual Funds in the third quarter of FY2018 |

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 (“EPI”) 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 EPI.
- 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 EPI 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.

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 | FY2018 |
|-----------------------|--------------------------|--------|--------|--------|
| Modified total return | 0.89 | 4.16 | 6.40 | 1.59 |
| Domestic bonds | 3.32 | -0.79 | 1.25 | 1.94 |
| Domestic equities | -3.98 | 14.76 | 15.85 | -5.24 |
| Foreign bonds | -2.32 | -5.23 | 3.47 | 2.64 |
| Foreign equities | -1.04 | 14.43 | 9.34 | 7.82 |
| Short-term assets | -0.03 | 0.00 | 0.00 | 0.00 |

(Unit: %)

| | FY 2015 (second half) | FY2016 | FY2017 | FY2018 |
|-----------------|--------------------------|--------|--------|--------|
| Realized return | 2.29 | 2.24 | 4.37 | 2.96 |

2. Value of investment income

(Unit: JPY100M)

| | FY 2015 (second half) | FY2016 | FY2017 | FY2018 |
|-------------------|--------------------------|--------|--------|--------|
| Investment income | 473 | 2,150 | 3,429 | 879 |
| Domestic bonds | 984 | -188 | 248 | 364 |
| Domestic equities | -330 | 1,331 | 1,836 | -702 |
| Foreign bonds | -105 | -320 | 247 | 204 |
| Foreign equities | -75 | 1,327 | 1,098 | 1,013 |
| Short-term assets | -1 | 0 | 0 | 0 |

(Unit: JPY100M)

| | FY 2015 (second half) | FY2016 | FY2017 | FY2018 |
|-----------------|--------------------------|--------|---------|---------|
| Realized income | 1,111 | 1,066 | 2,112 | 1,436 |
| (Income gain) | (349) | (820) | (1,170) | (1,017) |

(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.

Issues held

The tables below show the top 10 bond and equity issues held indirectly through entrusted investment and through in-house investment as of the end of March 2019, 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 Association.

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 | 6,213 |
| 2 | Japan Finance Organization for Municipalities | 795 |
| 3 | Japan Expressway Holding and Debt Repayment Agency | 639 |
| 4 | Joint LGB | 619 |
| 5 | Tokyo Metropolitan Government | 544 |
| 6 | Osaka Prefecture | 455 |
| 7 | Kanagawa Prefecture | 345 |
| 8 | Aichi Prefecture | 337 |
| 9 | Saitama Prefecture | 312 |
| 10 | Yokohama City | 275 |
| Total | 357 Issuers | 17,097 |

○ Foreign bond (in order of total market value)

| No. | Names of issuer | Total market value (in 100M yen) |
|-------|-----------------------------------|-------------------------------------|
| 1 | UNITED STATES TREASURY | 3,334 |
| 2 | FRANCE (GOVERNMENT) | 981 |
| 3 | ITALY, REPUBLIC OF (GOVERNMENT) | 636 |
| 4 | SPAIN, KINGDOM OF (GOVERNMENT) | 606 |
| 5 | UNITED KINGDOM OF (GOVERNMENT) | 516 |
| 6 | GERMANY (GOVERNMENT OF) | 472 |
| 7 | BELGIUM, KINGDOM OF (GOVERNMENT) | 204 |
| 8 | CANADA (GOVERNMENT) | 166 |
| 9 | AUSTRALIA (GOVERNMENT) | 142 |
| 10 | AUSTRIA, REPUBLIC OF (GOVERNMENT) | 138 |
| Total | 603 Issuers | 9,399 |

(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 2019.

(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) Issuers of bonds held in relation to active investment of hedged foreign bonds are classified as issuers of foreign bonds.

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

○ Domestic equity (in order of total market value)

| No. | Issue names | No. of shares | Total market value (in 100M yen) |
|-------|--------------------------------------------|---------------|-------------------------------------|
| 1 | Toyota Motor Corporation | 5,523,700 | 365 |
| 2 | SoftBank Group | 2,016,800 | 217 |
| 3 | Mitsubishi UFJ Financial Group | 35,897,700 | 201 |
| 4 | Takeda Pharmaceutical Company Limited | 4,164,500 | 192 |
| 5 | Keyence Corporation | 255,900 | 177 |
| 6 | Nippon Telegraph and Telephone Corporation | 3,568,500 | 171 |
| 7 | Sumitomo Mitsui Financial Group | 4,128,000 | 164 |
| 8 | Sony Corporation | 3,122,600 | 146 |
| 9 | Honda Motor Co., Ltd. | 4,367,100 | 132 |
| 10 | Mizuho Financial Group | 72,166,400 | 126 |
| Total | 2,171 Issues | | 12,437 |

○ Foreign equity (in order of total market value)

| No. | Issue names | No. of shares | Total market value (in 100M yen) |
|-------|------------------------|---------------|-------------------------------------|
| 1 | APPLE INC | 1,152,448 | 242 |
| 2 | MICROSOFT CORPORATION | 1,850,885 | 242 |
| 3 | AMAZON COM INC | 107,880 | 213 |
| 4 | FACEBOOK INC-A | 704,674 | 130 |
| 5 | ALPHABET INC-CL A | 94,448 | 123 |
| 6 | NESTLE SA (REGISTERED) | 1,088,365 | 115 |
| 7 | JOHNSON AND JOHNSON | 701,218 | 108 |
| 8 | ALPHABET INC-CL C | 80,984 | 105 |
| 9 | VISA INC-CLASS A SHRS | 591,922 | 102 |
| 10 | JPMORGAN CHASE & CO | 836,878 | 94 |
| Total | 2,743 Issues | | 13,195 |