

# Fiscal Year 2018 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

## Table of Contents

▪ Investment Results (Overview).....	P3
<b>【Section 1 Administration and Investment of Funds in FY2018】</b>	
▪ Market environment .....	P5
▪ Asset mix.....	P6
▪ Investment return.....	P7
▪ Contribution analysis of excess return .....	P8
▪ Investment income.....	P10
▪ Value of assets.....	P11
▪ Fees.....	P12
▪ Benchmark portfolio .....	P13
▪ Approach to risk management.....	P14
▪ Risk management efforts.....	P15
▪ Status of risk management (overall assets).....	P16
▪ Stewardship activities .....	P17
▪ Review of manager structure.....	P27
▪ Administration and evaluation of entrusted investment management institutions, etc.....	P28
<b>【Section 2 Business and Fund Investment of National Federation of Mutual Aid Associations for Municipal Personnel】</b>	
▪ Organizational structure.....	P30
▪ Fund Management Committee .....	P32
▪ Basic approach to investment.....	P34
<b>【Section 3 Reference Data】</b>	
▪ Changes in the investment return, etc.....	P36
▪ Issues held.....	P37

## Investment Results (Overview)

**Investment return** **+1.22%** Modified total return (market value basis)  
(FY2018)

**Investment income** **+JPY71.7 billion** Investment income  
(FY2018) (market value basis)

**Value of investment assets: JPY5,790.6 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.

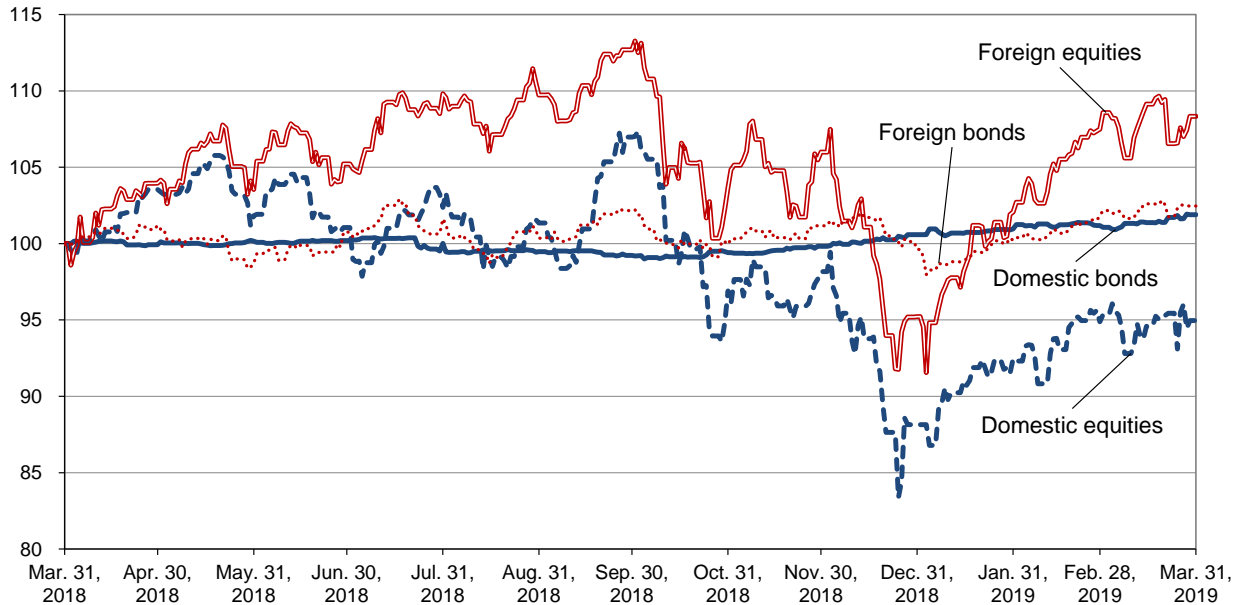
As investment income is based on the total market value as of the end of each term, it should be kept in mind that it includes valuation gains/losses, which means it may change depending on market movements.

(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.

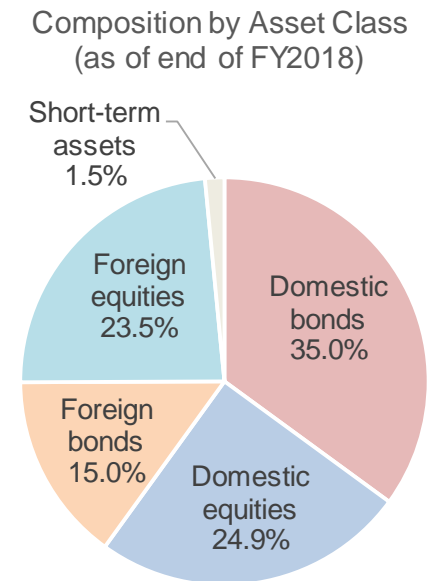
(Source: Bloomberg)

## 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	38.3	36.3	33.4	36.9	35.0
Domestic equities	26.7	26.5	27.4	24.3	24.9
Foreign bonds	11.7	13.0	14.2	15.3	15.0
Foreign equities	21.3	22.4	23.4	21.7	23.5
Short-term assets	2.0	1.8	1.7	1.8	1.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>



(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) Loans and invested real properties are included in domestic bonds.

(Note 4) Short-term assets held by each fund were classified into relevant asset classes in principle.

## Investment return

The modified total return for FY2018 was 1.22% for the overall assets.

(Unit: %)

	FY2018				
	Q1	Q2	Q3	Q4	FY total
Modified total return	1.55	3.01	-8.43	5.71	1.22
Domestic bonds	0.22	-0.80	1.16	1.05	1.55
Domestic equities	1.02	5.70	-17.48	7.61	-5.26
Foreign bonds	0.81	1.58	-2.52	2.88	2.62
Foreign equities	5.07	6.99	-15.66	13.84	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	1.17	1.03	0.62	0.74	3.57

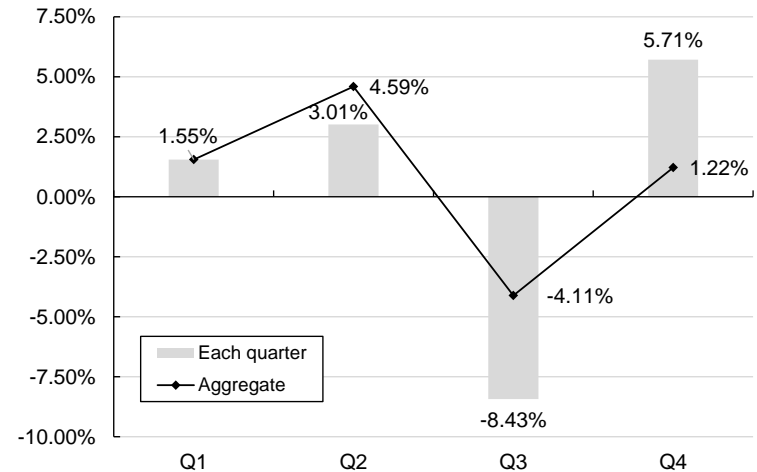
(Note 1) The return in each quarter is the period rate.

(Note 2) Loans and invested real properties are included in domestic bonds.

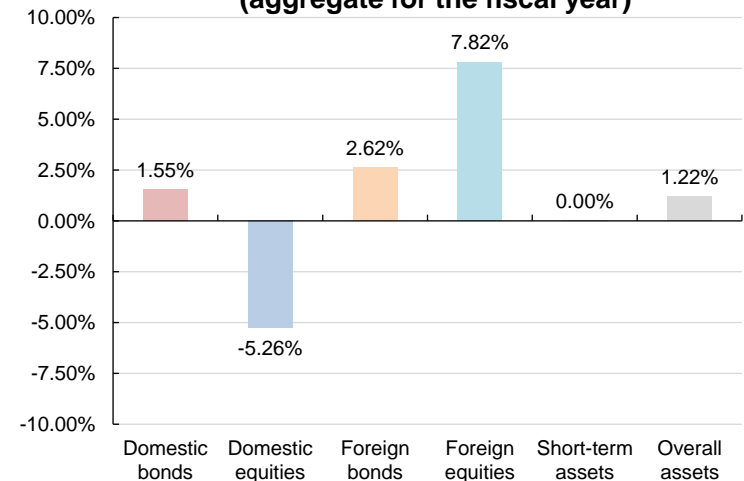
(Note 3) The modified total return and realized return represent figures after the deduction of fees, etc. settled within the relevant period.

(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 deducted from 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 1.22%, while the excess return compared with the benchmark return was -0.90%.

As for the asset allocation factor, overweight of domestic stocks and underweight of foreign stocks made negative contributions.

Regarding the individual asset factor, the modified total return on domestic bonds and stocks and foreign stocks was lower than the benchmark return, and this made negative contributions.

FY2018 (April 2018 through March 2019)

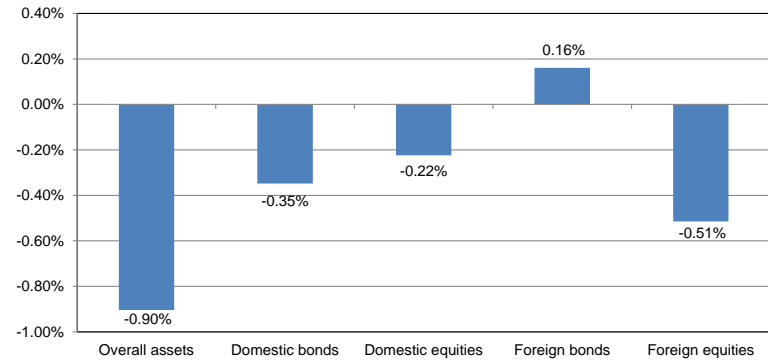
(Unit: %)

	Overall assets	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Modified total return	1.22	1.55	-5.26	2.62	7.82
Benchmark return	* 2.12	1.89	-5.04	2.46	8.33
Excess return	-0.90	-0.35	-0.22	0.16	-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	-0.05%	-0.17%	-0.22%
Domestic equities	-0.16%	-0.09%	-0.26%
Foreign bonds	-0.02%	0.00%	-0.02%
Foreign equities	-0.22%	-0.15%	-0.37%
Short-term assets	-0.04%	-0.00%	-0.04%
Total	-0.49%	-0.41%	-0.90%

### 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	36.1%	35.0%	1.1%	±15%
Domestic equities	26.8%	25.0%	1.8%	±14%
Foreign bonds	13.7%	15.0%	-1.3%	±6%
Foreign equities	21.9%	25.0%	-3.1%	±12%
Short-term assets	1.6%		1.6%	
Total	100.0%	100.0%	0.0%	

(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.



## Contribution analysis of excess return (2)

### ○ Domestic bonds

The modified total return of domestic bonds was 1.55%, which was below the benchmark return (1.89%) by 0.35%.

A fund which is overweight in municipal bonds and which makes passive investment whose benchmark is NOMURA-BPI/Ladder (20 Years) was affected by the widening of the spreads on those bonds. In addition, the return on loans using entrusted funds that are not evaluated at market price and on privately placed municipal bonds was lower than the benchmark. Because of these factors, the excess return was negative.

### ○ Domestic equities

The modified total return of domestic equities was -5.26%, which was below the benchmark return (-5.04%) by 0.22%.

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 2.62%, which exceeds the benchmark return (2.46%) by 0.16%.

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 JPY71.7 billion (for overall assets).

(Unit: JPY100M)

	FY2018				
	Q1	Q2	Q3	Q4	FY total
Investment income	910	1,790	-5,121	3,139	717
Domestic bonds	49	-170	234	214	328
Domestic equities	159	899	-2,906	1,020	-828
Foreign bonds	59	128	-218	244	212
Foreign equities	643	932	-2,232	1,661	1,005
Short-term assets	0	0	0	0	0

(Unit: JPY100M)

	FY2018				
	Q1	Q2	Q3	Q4	FY total
Realized income	577	507	308	364	1,756

(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.

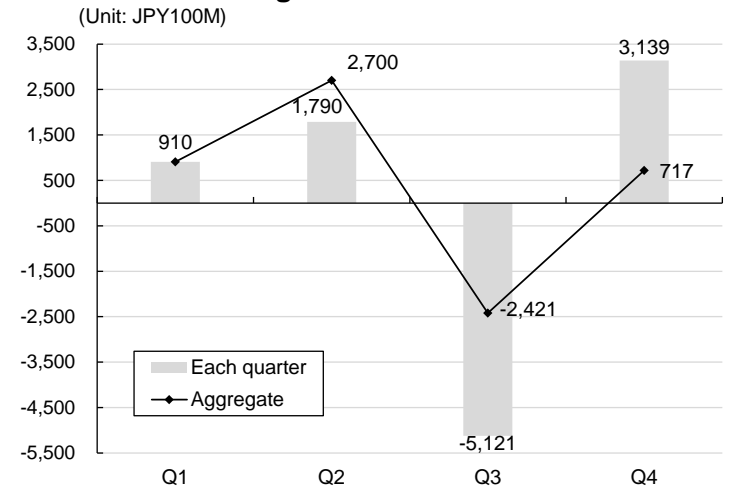
(Note 3) Realized income represents the sum of trading profits/losses and interest and dividend income, etc.

(Note 4) Loans and invested real properties are included in domestic bonds.

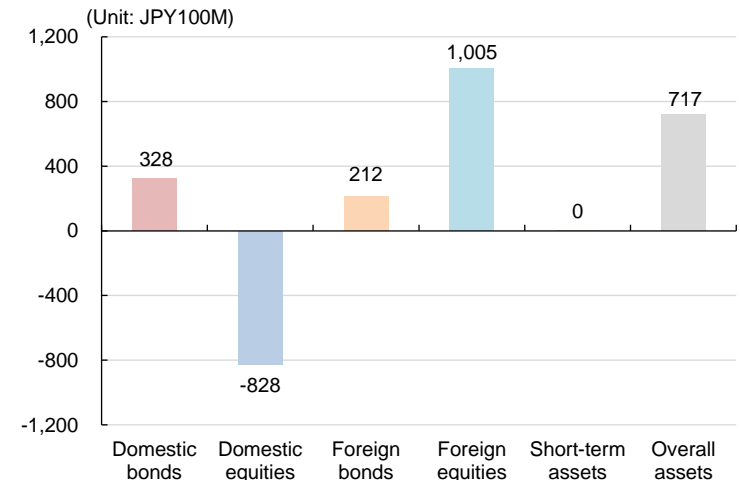
(Note 5) The amount of interest related to the settlement of the former occupational portion of the pension plans transferred from the transitional long-term accounting to the employees' pension insurance accounting is deducted from the return for domestic bonds.

(Note 6) 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)



## 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	20,417	22,625	2,208	19,438	21,564	2,125	18,521	20,296	1,775	18,371	20,317	1,947	18,269	20,293	2,024
Domestic equities	12,007	15,786	3,779	11,975	15,745	3,770	12,039	16,643	4,605	11,918	13,406	1,488	12,090	14,426	2,336
Foreign bonds	6,927	6,948	21	7,630	7,727	97	8,459	8,645	185	8,505	8,427	-78	8,607	8,670	63
Foreign equities	9,054	12,625	3,571	9,184	13,268	4,084	9,314	14,201	4,886	9,401	11,969	2,568	9,513	13,630	4,117
Short-term assets	1,156	1,156	0	1,061	1,061	0	1,029	1,029	0	982	982	0	886	886	0
Total	49,561	59,140	9,579	49,288	59,364	10,076	49,362	60,814	11,451	49,176	55,100	5,924	49,365	57,906	8,541

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

(Note 2) Loans and invested real properties are included in domestic bonds.

(Note 3) 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	-2,660	-532	1,510	-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).

## Fees

The amount of fees totaled about JPY3.1 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	0	0.00
Domestic equities	13	0.09
Foreign bonds	5	0.06
Foreign equities	12	0.09
Overall assets	31	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"), 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 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.

## 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.

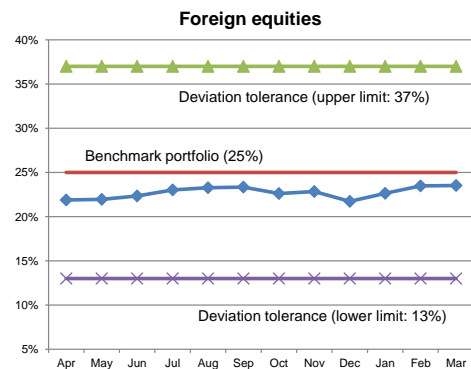
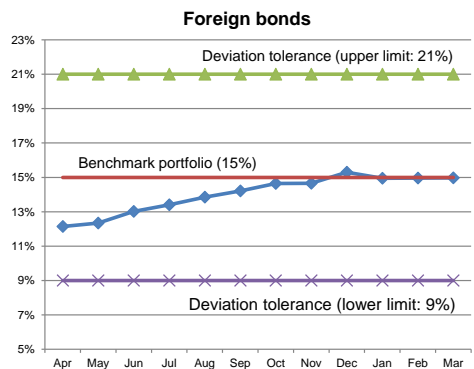
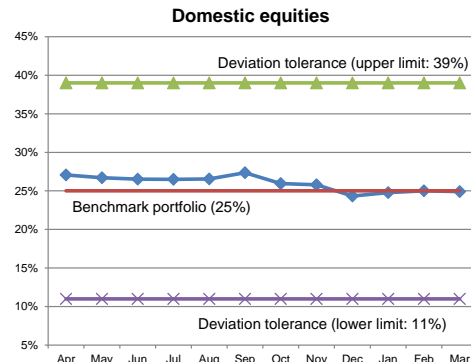
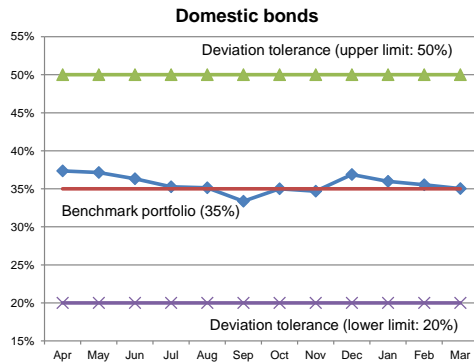
**Status of risk management (overall assets)**

○ **Asset mix and estimated tracking error**

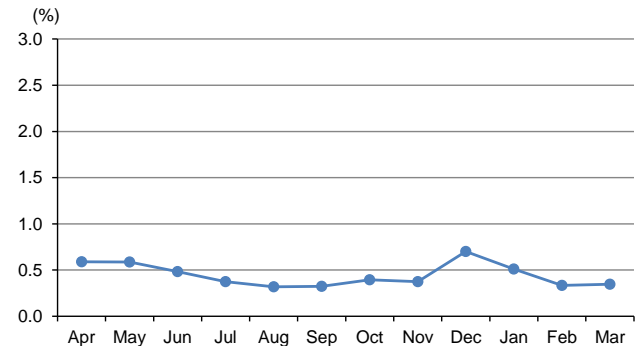
In fiscal year 2018, the shares in the asset mix concerning all asset classes—domestic bonds, domestic equities, foreign bonds and foreign equities—stayed within the deviation tolerance.

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

【Changes in the asset mix】



【Changes in the estimated tracking error】

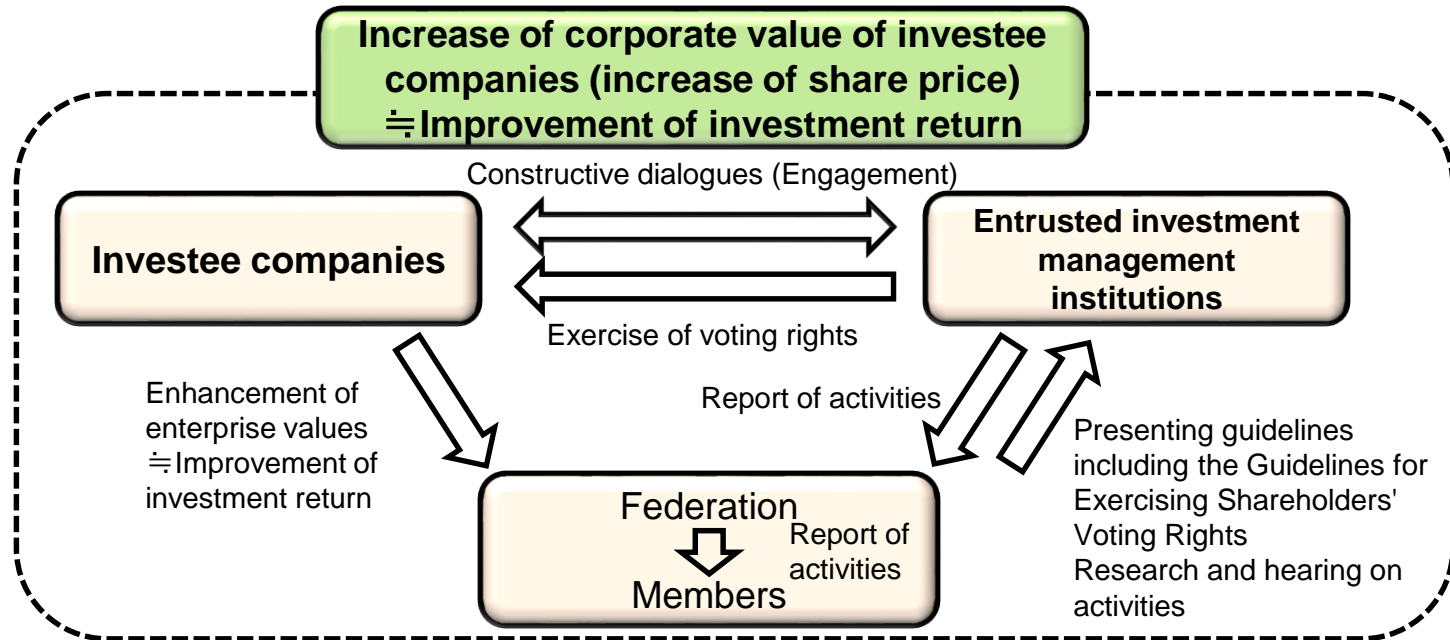




## Stewardship activities (1)

### 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 exercise of shareholders' voting rights and situations of 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.

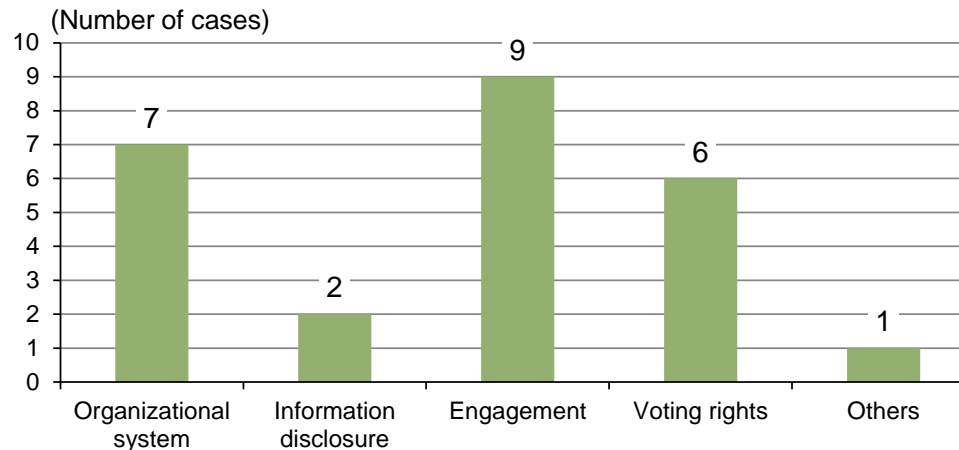
Dialogue items	Company	Specifics	
Capital policy	TSE 1st section Services	Dialogue	As the uptrend in cash holdings was conspicuous, the investment management institution conveyed concerns over the continuing accumulation of cash. The institution also pointed out the need for the company to specify its 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 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	
<b>Total</b>	<b>26,424</b>	<b>20,384</b>	<b>77.1%</b>	<b>6,040</b>	<b>22.9%</b>	<b>21.5%</b>
(Shareholder proposal)	(810)	(91)	(11.2%)	(719)	(88.8%)	(94.8%)
<b>By subject</b>						
Board of directors/directors (on a main proposal basis)	9,167	6,000	65.5%	3,167	34.5%	33.2%
[Reference] Appointment of directors (on a subsidiary proposal basis)	66,608	55,983	84.0%	10,625	16.0%	14.5%
[Reference] Appointment of outside directors (on a subsidiary proposal basis)	19,706	16,386	83.2%	3,320	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%	
Director bonus	791	606	76.6%	185	23.4%	16.4%
Retirement allowances	569	314	55.2%	255	44.8%	
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)	5,581	5,210	93.4%	371	6.6%	6.5%
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%	
Composition of the board of directors	190	159	83.7%	31	16.3%	35.0%
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	16,654	14,547	87.3%	2,107	12.7%	13.7%
(Shareholder proposal)	(1,540)	(617)	(40.1%)	(923)	(59.9%)	(58.5%)
<b>By subject</b>						
Board of directors/directors (on a main proposal basis)	4,912	4,459	90.8%	453	9.2%	9.9%
【Reference】 (on a subsidiary proposal basis)	22,408	21,539	96.1%	869	3.9%	
Board of auditors/auditors (on a main proposal basis)	246	243	98.8%	3	1.2%	0.3%
【Reference】 (on a subsidiary proposal basis)	260	257	98.8%	3	1.2%	
Director remuneration, etc.	3,122	2,846	91.2%	276	8.8%	14.7%
Appropriation of surplus	325	325	100.0%	0	0.0%	0.6%
Capital structure	1,788	1,527	85.4%	261	14.6%	16.9%
Takeover defense measures	182	169	92.9%	13	7.1%	8.6%
Capital increase or reduction	781	615	78.7%	166	21.3%	23.7%
Third party allotment of shares	349	347	99.4%	2	0.6%	0.0%
Acquisition of own shares	301	299	99.3%	2	0.7%	2.3%
Business restructure	188	183	97.3%	5	2.7%	2.1%
Incentives improvement for executives	687	531	77.3%	156	22.7%	12.5%
Other proposals	5,386	4,433	82.3%	953	17.7%	20.1%

(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**

In fiscal year 2018, there was no revision of the composition of investment management institutions due to annual comprehensive evaluation.

## **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.

**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, and 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.

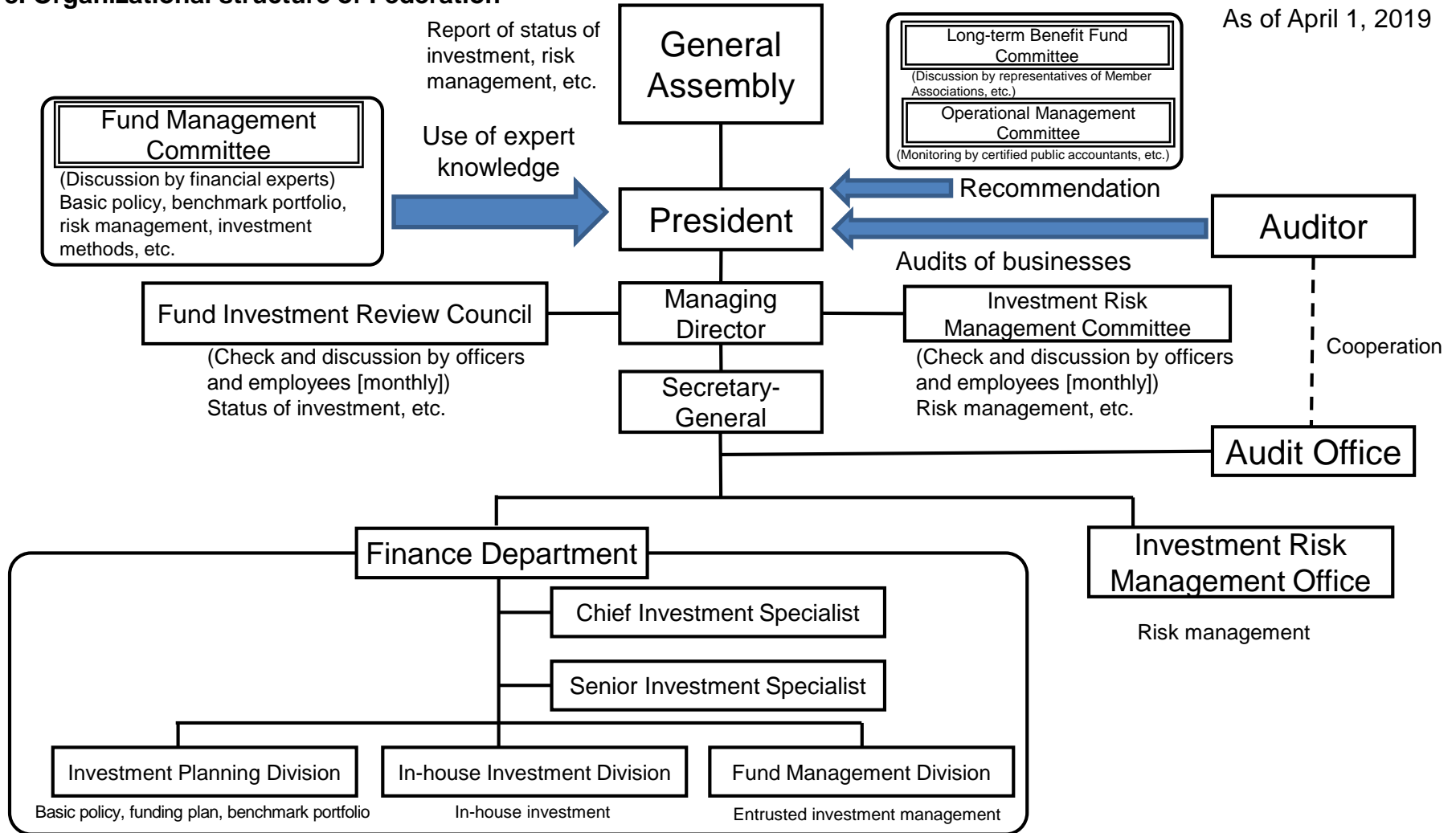
### 7. Investment Risk Management Committee

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

## 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, as well as generating benchmark returns for each asset class over the long term.

## 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.

**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	0.97	4.90	6.81	1.22
Domestic bonds	3.80	-0.52	0.96	1.55
Domestic equities	-4.50	14.94	16.32	-5.26
Foreign bonds	-2.21	-5.19	3.65	2.62
Foreign equities	-0.93	14.34	9.57	7.82
Short-term assets	0.02	0.01	0.00	0.00

**2. Value of investment income**

(Unit: JPY100M)

	FY 2015 (second half)	FY2016	FY2017	FY2018
Investment income	560	2,795	3,913	717
Domestic bonds	1,198	-141	234	328
Domestic equities	-444	1,800	2,317	-828
Foreign bonds	-119	-314	238	212
Foreign equities	-75	1,449	1,125	1,005
Short-term assets	1	0	0	0

(Unit: %)

	FY 2015 (second half)	FY2016	FY2017	FY2018
Realized return	2.15	2.59	5.09	3.57

(Unit: JPY100M)

	FY 2015 (second half)	FY2016	FY2017	FY2018
Realized income	1,085	1,305	2,508	1,756
(Income gain)	(522)	(1,078)	(1,360)	(1,176)

(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, through in-house investment, and indirectly through depositing with member associations 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 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	5,617
2	Government of Japan	4,728
3	Hyogo Prefecture	583
4	Kanagawa Prefecture	517
5	Japan Expressway Holding and Debt Repayment Agency	423
6	Yokohama City	417
7	Fukuoka Prefecture	371
8	Osaka City	360
9	Shizuoka Prefecture	349
10	Aichi Prefecture	347
Total	454 Issuers	20,007

### ○ Foreign bond (in order of total market value)

No.	Names of issuer	Total market value (in 100M yen)
1	UNITED STATES TREASURY	3,605
2	FRANCE (GOVERNMENT)	758
3	ITALY, REPUBLIC OF (GOVERNMENT)	702
4	UNITED KINGDOM OF (GOVERNMENT)	542
5	GERMANY (GOVERNMENT OF)	527
6	SPAIN, KINGDOM OF (GOVERNMENT)	481
7	BELGIUM, KINGDOM OF (GOVERNMENT)	191
8	AUSTRALIA (GOVERNMENT)	158
9	CANADA (GOVERNMENT)	151
10	NETHERLANDS, KINGDOM OF (GOVERNMENT)	142
Total	527 Issuers	8,691

(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) 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	6,359,800	420
2	SoftBank Group	2,311,000	249
3	Mitsubishi UFJ Financial Group	41,649,300	234
4	Takeda Pharmaceutical Company Limited	4,684,700	216
5	Keyence Corporation	290,800	201
6	Nippon Telegraph and Telephone Corporation	4,100,700	197
7	Sumitomo Mitsui Financial Group	4,836,700	192
8	Sony Corporation	3,507,900	164
9	Honda Motor Co., Ltd.	5,025,700	152
10	Mizuho Financial Group	83,529,900	146
Total	2,170 Issues		14,324

### ○ Foreign equity (in order of total market value)

No.	Issue names	No. of shares	Total market value (in 100M yen)
1	APPLE INC	1,171,229	246
2	MICROSOFT CORPORATION	1,881,205	246
3	AMAZON COM INC	109,927	217
4	FACEBOOK INC-A	717,030	132
5	ALPHABET INC-CL A	96,575	126
6	NESTLE SA (REGISTERED)	1,128,507	119
7	JOHNSON AND JOHNSON	715,362	111
8	ALPHABET INC-CL C	82,700	107
9	VISA INC-CLASS A SHRS	618,113	107
10	JPMORGAN CHASE & CO	852,105	95
Total	2,756 Issues		13,522