

Fiscal Year 2019 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 -4.60% Modified total return (market value basis)
(FY2019)

Investment income -JPY250.6 billion Investment income
(FY2019) (market value basis)

Value of investment assets: JPY5,222.5 billion Total market value
(End of FY2019)

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

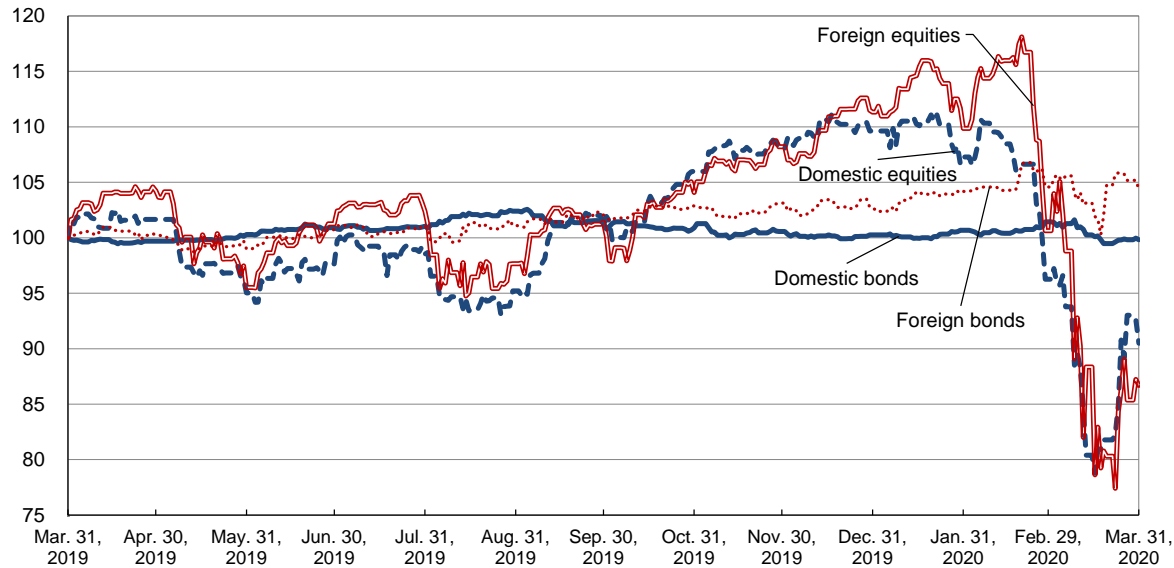
As investment income is based on the total market value as of the end of each term, it should be kept in mind that it includes valuation gains/losses, which means it may change depending on market movements.

(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 FY2019

Change in benchmark return

The benchmark return for overall assets continued to be positive until the third quarter. However, as domestic and foreign equity prices fell steeply due to the spread of novel coronavirus infections in the fourth quarter, the benchmark return for the full year came to minus 4.83%.



(Note) The level as of March 31, 2019 is the base figure of 100.

Asset class	Benchmark	Returns				
		Q1	Q2	Q3	Q4	Full fiscal year
Domestic bonds	NOMURA-BPI Overall	0.91%	0.40%	-1.05%	-0.43%	-0.18%
Domestic equities	TOPIX (with dividends)	-2.35%	3.39%	8.59%	-17.45%	-9.50%
Foreign bonds	FTSE World Government Bond Index (excluding Japan; without hedging, yen-based)	0.73%	1.32%	0.52%	1.74%	4.37%
Foreign equities	MSCI ACWI ex. JAPAN (yen-based, with dividends)	1.25%	0.17%	9.78%	-22.14%	-13.31%
Total		0.26%	1.30%	4.23%	-10.09%	-4.83%

(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.

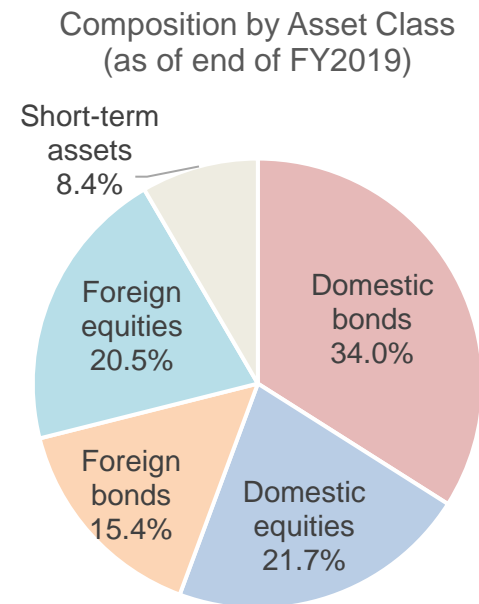
(Source: Bloomberg)

(1) Asset mix

The composition by asset is as follows:

(Unit: %)

	FY2018	FY2019				Benchmark portfolio
	End of FY	End of Q1	End of Q2	End of Q3	End of Q4 (End of FY)	
Domestic bonds	32.8	35.5	33.2	33.1	34.0	35.0
Domestic equities	22.1	23.2	23.0	25.1	21.7	25.0
Foreign bonds	14.0	15.1	14.5	14.5	15.4	15.0
Foreign equities	23.4	25.0	23.9	25.8	20.5	25.0
Short-term assets	7.7	1.2	5.4	1.6	8.4	-
Total	100.0	100.0	100.0	100.0	100.0	100.0



(Note 1) Deviation tolerances from the benchmark portfolio are $\pm 15\%$ for domestic bonds, $\pm 14\%$ for domestic equities, $\pm 6\%$ for foreign bonds and $\pm 12\%$ for foreign equities.

(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 funds is 0.7% (the upper limit for the benchmark portfolio is 5%).

(2) Investment return

The modified total return for FY2019 was -4.60% for the overall assets.

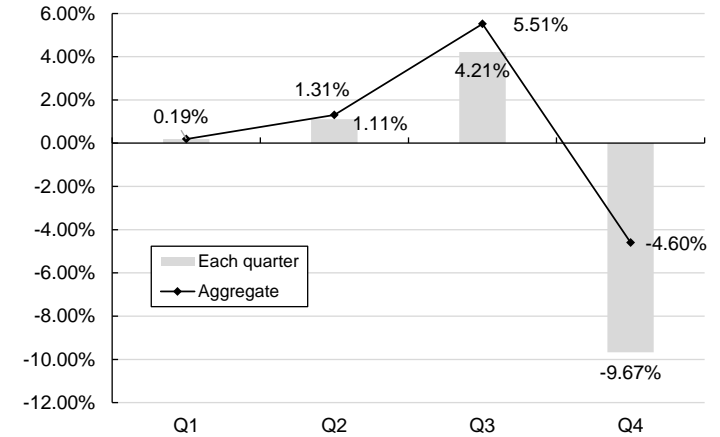
(Unit: %)

	FY2019				
	Q1	Q2	Q3	Q4	FY total
Modified total return	0.19	1.11	4.21	-9.67	-4.60
Domestic bonds	1.01	0.36	-0.72	-0.53	0.13
Domestic equities	-2.40	3.37	8.67	-17.62	-9.58
Foreign bonds	0.68	1.34	0.79	1.02	3.88
Foreign equities	1.23	0.17	9.55	-21.87	-12.35
Short-term assets	0.00	0.00	0.00	0.00	0.00

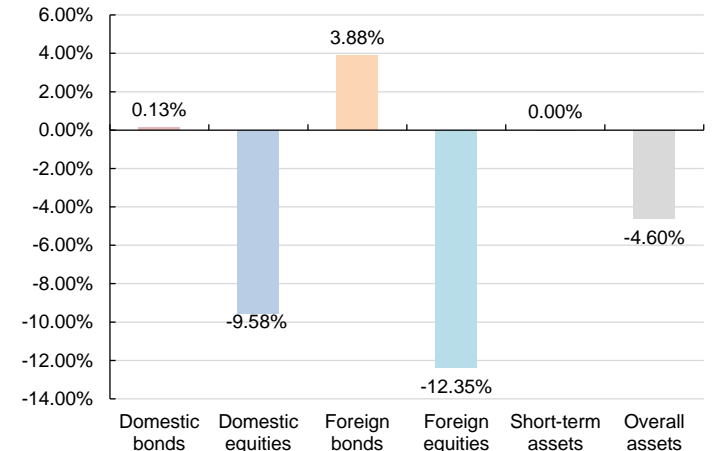
(Unit: %)

	FY2019				
	Q1	Q2	Q3	Q4	FY total
Realized return	0.86	0.78	0.68	0.67	2.98

Changes in modified total return



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



(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 adjustment of the economic burden on the national treasury and public organizations transferred from the employees' pension insurance account to the transitional long-term account was deducted from the figures for domestic bonds.

(3) Contribution analysis of excess return ①

The modified total return for overall investment assets was -4.60%, while the excess return compared with the benchmark return was 0.22%. Regarding the asset allocation factor, underweighting in domestic equities and holding of short-term assets made positive contributions. As for the individual asset factor, foreign equities and domestic bonds made positive contributions.

FY2019 (April 2019 through March 2020)

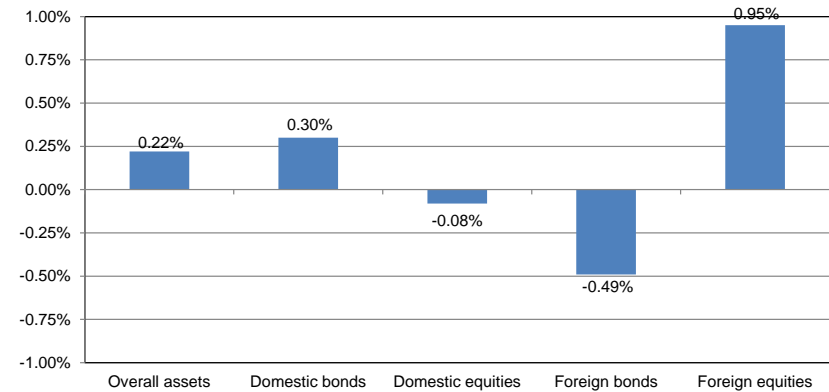
(Unit: %)

	Overall assets	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Modified total return	- 4.60	0.13	- 9.58	3.88	- 12.35
Benchmark return	* - 4.83	- 0.18	- 9.50	4.37	- 13.31
Excess return	0.22	0.30	- 0.08	- 0.49	0.95

* 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. Due to rounding, the total sum of individual figures may not necessarily add up to the total.

	Asset allocation factor ①	Individual asset factor ②	①+②
Domestic bonds	-0.11%	0.06%	-0.05%
Domestic equities	0.06%	-0.05%	0.01%
Foreign bonds	-0.07%	-0.10%	-0.17%
Foreign equities	0.03%	0.20%	0.23%
Short-term assets	0.21%	-0.01%	0.20%
Total	0.12%	0.10%	0.22%

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	33.8%	35.0%	-1.2%	±15%
Domestic equities	23.1%	25.0%	-1.9%	±14%
Foreign bonds	14.4%	15.0%	-0.6%	±6%
Foreign equities	24.2%	25.0%	-0.8%	±12%
Short-term assets	4.5%		4.5%	
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.

(3) Contribution analysis of excess return ②

○ Domestic bonds

The modified total return of domestic bonds was 0.13%, which exceeds the benchmark return (-0.18%) by 0.30%.

Regarding passive funds, as investments were made in a way that allowed an overweighting in local bonds, the return exceeded the benchmark due to the shrinkage of the spread between local bonds and government bonds. As for active funds, bond selection related to industrial bonds (including some yen-denominated foreign bonds) was successful and currency-hedged foreign bond funds, classified as domestic bonds, made positive contributions, resulting in a higher return than the benchmark.

○ Domestic equities

The modified total return of domestic equities was -9.58%, which was below the benchmark return (-9.50%) by 0.08%.

Regarding passive funds, the return exceeded the benchmark due to the effects of lending income, among other factors. However, as the return for active funds fell short of the benchmark, the excess return for overall domestic equities was negative. As for active funds, some growth-style funds performed strongly, but for some smart beta funds, the manager benchmark fell far short of the return for TOPIX. In addition, some value-style funds and funds mainly investing in small- and mid-cap stocks performed poorly due to an adverse market environment.

○ Foreign bonds

The modified total return of foreign bonds was 3.88%, which was below the benchmark return (4.37%) by 0.49%.

The modified total return was negatively impacted, as the return for the Bloomberg Barclays Global-Aggregate index (1.96%), which is used as a manager benchmark by more than half of active funds, fell far short of the benchmark return (4.37%). In addition, some funds using the aggregate index as a manager benchmark delivered a lower return than the benchmark because of the unsuccessful results of country-by-country allocation and bond selection related to industrial bonds and mortgages when the market was disrupted due to concerns over the global economy toward the end of the fiscal year. As a result, the excess return for overall foreign bonds was negative.

○ Foreign equities

The modified total return of foreign equities was -12.35%, which exceeds the benchmark return (-13.31%) by 0.95%.

Regarding passive funds, the return exceeded the benchmark due to the positive effects of the successful timing of some asset sales, resulting in a positive excess return for overall foreign equities. As for active funds, the performance varied widely from fund to fund according to the strategy adopted. Investment performance was poor for some funds that invested in companies selected because they were judged to be attractive according to internal evaluation standards. The return for overall active funds was lower than the benchmark.

(4) Investment income

The investment income for FY2019 was -JPY250.6 billion (for overall assets).

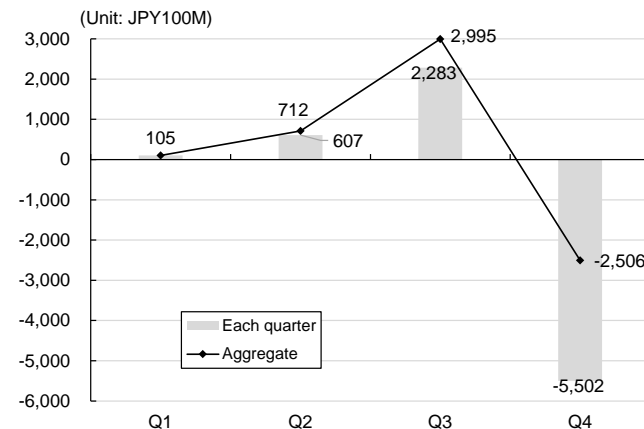
(Unit: JPY100M)

	FY2019				
	Q1	Q2	Q3	Q4	FY total
Investment income	105	607	2,283	-5,502	-2,506
Domestic bonds	186	66	-132	-97	23
Domestic equities	-298	412	1,103	-2,423	-1,205
Foreign bonds	53	106	63	82	304
Foreign equities	163	23	1,250	-3,064	-1,629
Short-term assets	0	0	0	0	0

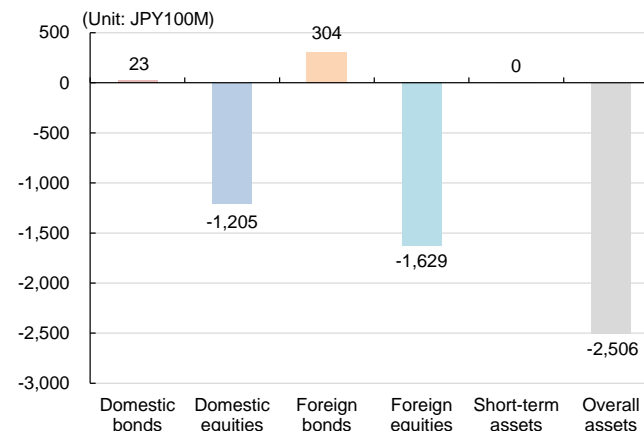
(Unit: JPY100M)

	FY2019				
	Q1	Q2	Q3	Q4	FY total
Realized income	412	379	325	326	1,442

Changes in investment income



Investment income by asset (aggregate for the fiscal year)



- (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 adjustment of the economic burden on the national treasury and public organizations transferred from the employees' pension insurance account to the transitional long-term account was deducted from the figures for domestic bonds.
- (Note 5) Due to rounding, the total sum of individual figures may not necessarily add up to FY Total.

(5) Value of assets

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

(Unit: JPY100M)

	FY2018 End of FY			FY2019											
	Book value	Total market value	Valuation gains/losses	End of Q1			End of Q2			End of Q3			End of Q4 (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	17,794	18,584	790	17,760	18,644	884	17,456	18,256	799	17,476	18,149	673	17,253	17,750	497
Domestic equities	10,811	12,515	1,704	10,804	12,217	1,413	10,828	12,630	1,802	11,053	13,733	2,679	11,176	11,310	134
Foreign bonds	8,022	7,964	-58	7,940	7,962	23	7,872	7,975	103	7,822	7,948	126	7,949	8,063	114
Foreign equities	9,701	13,291	3,590	9,592	13,125	3,532	9,685	13,147	3,462	9,566	14,117	4,550	9,370	10,702	1,332
Short-term assets	4,341	4,341	0	615	615	0	2,985	2,985	0	855	855	0	4,399	4,399	0
Total	50,669	56,695	6,026	46,710	52,562	5,852	48,826	54,992	6,166	46,772	54,801	8,029	50,147	52,225	2,078

(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 amounts of funds allocated and withdrawn in FY2019 by asset class are as follows.

(Unit: JPY100M)

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Amount of funds allocated and withdrawn	-857	0	-205	-960

(Note) The above figures are the total sums of asset cancellations (cash-out) for the purpose of securing funds for pension benefits and fund transfer for each asset class related to asset cancellation and reinvestment for the purpose of asset portfolio mix adjustment (rebalancing).

(6) Fees

The amount of fees totaled about JPY3.6 billion in fiscal year 2019.
The fee rate relative to the value of investment assets came to 0.06%.

(Unit: JPY100M, %)

	FY2019	
	Fees	Fee rate
Domestic bonds	8	0.03
Domestic equities	10	0.08
Foreign bonds	5	0.06
Foreign equities	12	0.09
Alternative assets	1	0.36
Overall assets	36	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

(Note 4) In the above table, the figures for alternative assets are separately indicated.

Mechanism of the review of the benchmark portfolio and the results

(1) Mechanism of review

In accordance with the basic policy on the administration and investment of the Employees' Pension Insurance Benefit Association Reserve Fund, the National Federation of Mutual Aid Associations for Municipal Personnel (hereinafter the "Federation") shall, if it is considered necessary in cases, such as that the investment environment assumed at the time of establishing the benchmark portfolio deviates from reality, examine the benchmark portfolio and revise it as necessary. To reflect the amendment to the administration and investment policy due to the revision of the benchmark portfolio for the entire Local Public Service Mutual Aid Associations based on the results of the FY2019 Actuarial Valuation, the Federation decided to review its benchmark portfolio (amended on March 31, 2020, effective from April 1, 2020).

(2) Result of review

As a result of the estimation of an asset portfolio mix which achieves the effective return required for pension finance (1.7%) and which meets risk constraints, the benchmark portfolio has been revised as follows.

○Revised benchmark portfolio

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Asset mix	25%	25%	25%	25%
Deviation tolerance	±20%	±12%	±9%	±11%

(Note) Short-term assets are classified as domestic bonds.

○Attributes of the benchmark portfolio

Effective return	Nominal return	Standard deviation	Downward probability	Conditional average shortfall rate
1.7%	4.0%	12.3%	44.4%	9.2%

(Note) The downward probability refers to the probability of the return falling short of the wage growth rate, while the conditional average shortfall rate refers to the average shortfall rate when the return is lower than the wage growth rate.

(Reference) Benchmark portfolio before revision

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

(1) 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. ("Uncertainty of returns" refers to the presence of the risk of the value of assets rising as well as falling.)
- 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 Federation appropriately implements risk management concerning investment in accordance with the implementation policy for risk management concerning investment of the funds in consideration of the points including the following: that investment of funds should be made safely and efficiently from a long-term perspective; and that diversified investments should be maintained in principle.

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) The probability of the return for the benchmark portfolio falling short of the nominal wage growth rate (hereinafter referred to as the "downward probability") and the average shortfall rate when the return is lower than the nominal wage growth rate (hereinafter referred to as the "conditional average shortfall rate") should be appropriately managed.

(2) Risk management efforts ①

○ 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.

(2) Risk management efforts ②

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

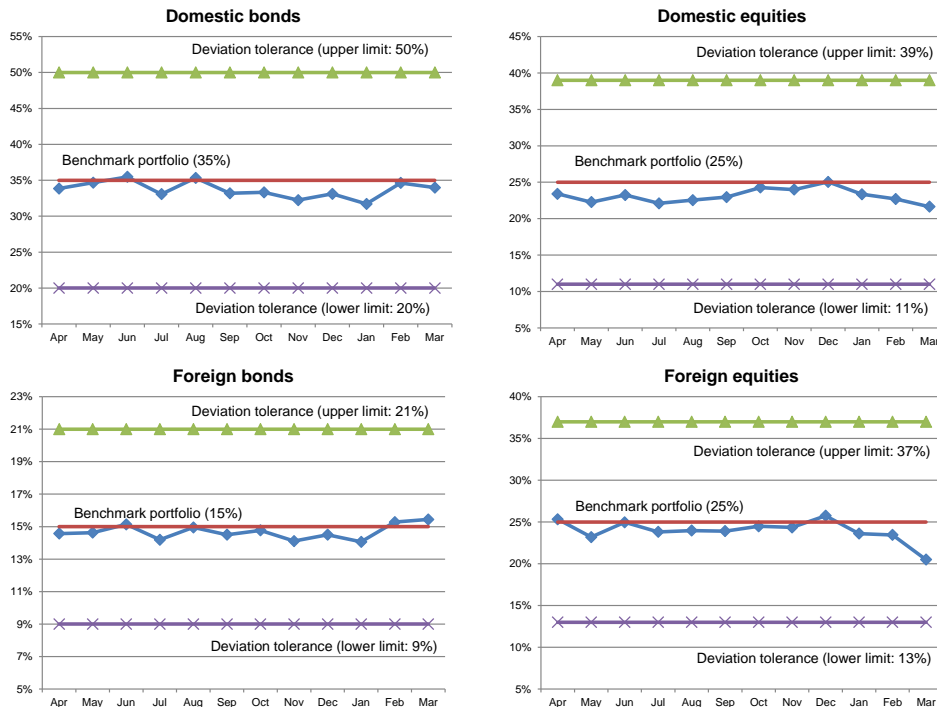
The status of risk management and improvement measures implemented are reported to the General Assembly and the Fund Management Committee.

(3) Status of risk management (overall assets)

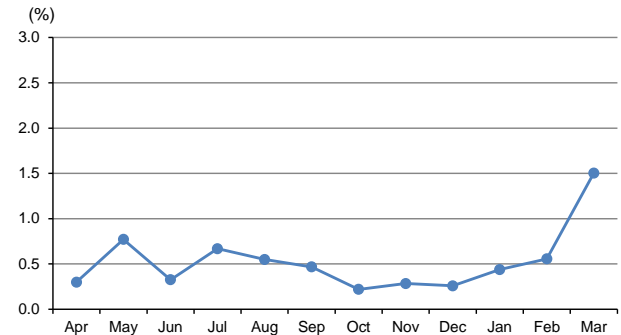
○ Asset mix and estimated tracking error

In fiscal year 2019, the shares in the asset mix concerning all asset classes—domestic bonds, domestic equities, foreign bonds and foreign equities—stayed within the deviation tolerance. In addition, the estimated tracking error for overall assets generally stayed stable, but it rose toward the end of the fiscal year due to the effects of market fluctuations associated with the spread of novel coronavirus infections.

【Changes in the asset mix】



【Changes in the estimated tracking error】



Estimated tracking error:

A benchmark used to estimate the degree of deviation (standard deviation) of the future excess return (the difference between the return for the portfolio and the benchmark return)

Investment in alternative assets (1)

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. The status of investment is as shown in the next page.

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.

Investment in alternative assets (2)

1. Invitation of public applications for entrusted investment management institutions through Asset Manager Registration System

The Federation started accepting entries with respect to products investing in real estate from fiscal year 2017 and products investing in infrastructure and private equity from fiscal year 2018.

(Reference)

Asset class	Main investment targets	Main income source and characteristics
Real estate	Real estate	Stable rent income earned from real estate via funds
Infrastructure	Stocks of infrastructure operating companies	Stable business income earned from investee companies and projects via funds
Private equity	Unlisted stocks	Income earned via funds in the form of a rise in corporate value due to medium- to long-term investments in companies with high growth potential

2. Adoption of entrusted investment management institutions

In fiscal year 2019, the Federation adopted entrusted investment management institutions for two funds related to investment in infrastructure.

- JPMorgan Asset Management (Japan) Limited (foreign infrastructure)
 - Tokio Marine Asset Management Co., Ltd. (foreign infrastructure)
- (Fund of funds manager: BlackRock Financial Management, Inc.)

(Note) As of the end of fiscal year 2019, investment has not been effectively started with respect to the above two funds.

Investment in alternative assets (3)

3. Status of investments

○ Domestic real estate investments (counted as domestic bonds)

Entrusted investment management institutions	Outline of investment funds	Total market value (End of the fiscal year)	Starting date of investment	Time-weighted return (Fiscal year)
Nomura Asset Management	Diversified investment in sectors such as offices, rental houses, and industrial and commercial facilities mainly in the three major metropolitan areas	¥2.7 billion	December 2018	-1.75%

○ Foreign real estate investments (counted as foreign bonds)

Entrusted investment management institutions	Outline of investment funds	Total market value (End of the fiscal year)	Starting date of investment	Time-weighted return (Fiscal year)
Tokio Marine Asset Management	Diversified investments in real estate funds (mainly in the office, commercial facility, industrial facility, and rental house sectors) in global developed countries excluding Japan	¥23.3 billion	December 2018	-1.02%
PGIM Japan	Diversified investments in such sectors as offices, commercial facilities, industrial facilities and rental houses in major U.S. cities	¥10.2 billion	December 2018	1.91%

(Note 1) The return for domestic real estate (Nomura Asset Management) was negative due to a time lag between additional investments and market-price evaluation.

(Note 2) Foreign investment funds were affected by changes in market price valuation due to foreign exchange fluctuations.

(Note 3) The above table covers only items for which entrusted investment management institutions consented to disclosure.

(1) Efforts in fiscal year 2019

- As a part of its stewardship activities for fiscal year 2019, 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. The Federation encouraged them to engage in stewardship activities in an effective way adapted to their respective investment styles and resources. In addition, the Federation made periodical reports on its stewardship activities and revision to related rules.

Surveys and hearings of entrusted investment management institutions

Subjects	Period	Targets	Main subjects
Survey on exercise of voting rights	August 2019	Entrusted investment management institutions for domestic and foreign equities (12 companies for domestic equities and 8 companies for foreign equities)	Verification of: <ul style="list-style-type: none"> - results of exercise of voting rights - structure for exercise of voting rights
Survey on performance of stewardship activities	September 2019	12 entrusted investment management institutions for domestic equities	Verification of: <ul style="list-style-type: none"> - 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 to November, 2019		

(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 DS 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
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
Report of the Federation's stewardship activity in its PR papers	February 2020	Executives and employees of the Federation Executives and employees of member associations	Stewardship activity of the Federation
Annual Stewardship Activity Report FY2019	March 2020	Publicized on the Federation's website	<ul style="list-style-type: none"> • Results of monitoring of stewardship activities conducted by entrusted investment management institutions • Status of exercise of voting rights of shareholders

Administration and evaluation of entrusted investment management institutions, etc. (traditional assets)

(1) Administration and evaluation of entrusted investment management institutions

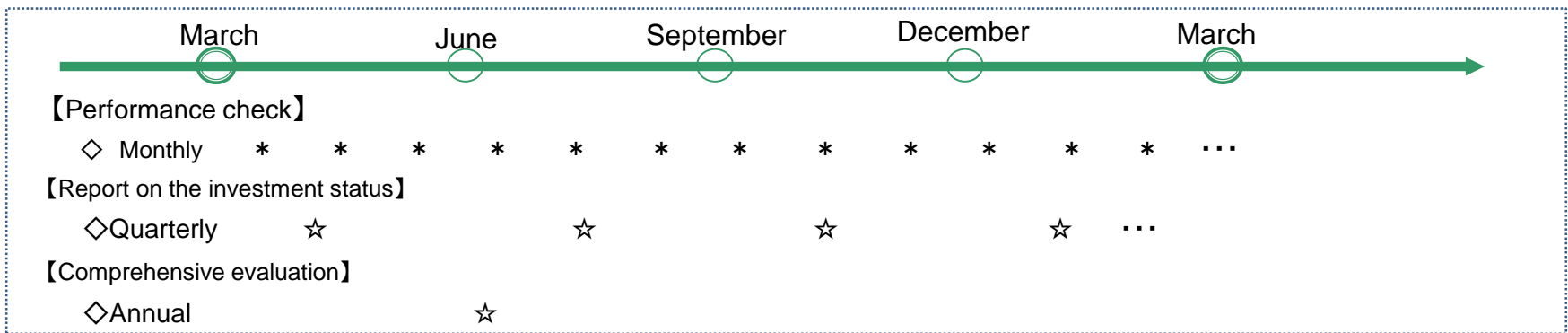
The Federation requires entrusted investment management institutions to submit monthly reports on investment results and the risk status and checks the status of compliance with the investment guidelines. The Federation also requires quarterly reports on the portfolio status, a factor breakdown of the excess return, and changes in the organizational structure and investment management system and conducts administration through measures such as receiving explanations about summary investment results and future investment policy, among other matters, as necessary at meetings.

The evaluation is conducted with the end of each fiscal year as the reference date based comprehensively on qualitative evaluation (e.g., investment management systems and processes, risk management, and compliance) and quantitative evaluation (the excess return and tracking error in the case of passive investment and the excess return and the information ratio, among other items, in the case of active investment). Quantitative evaluation is conducted based on actual results in the past three years and in the past five years, with the possible effects of the market environment and investment style taken into consideration.

☞ As a result of the comprehensive evaluation conducted with the end of FY2018 as the reference date, one fund was partially cancelled (reduction).

(2) Administration and evaluation of asset administration institutions

The Federation requires monthly reports on the asset administration status in order to check the status of compliance with the asset administration guidelines and conducts administration through measures such as receiving explanations at meetings as necessary. Qualitative evaluation is conducted with respect to such items as the business operation system and asset administration system.



Section 2 Fund Investment System, etc. of the Federation

Organizational structure (1)

1. Organization

As of April 1 of 2020, 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, Fund Management Division and Alternative 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 Alternative Fund Management Division of the Finance Department was established as of April 1, 2020 in order to establish decision-making and administration and management systems independent from systems related to traditional assets following the earnest start of investment in alternative assets.

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.

Organizational structure (2)

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 Alternative 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.

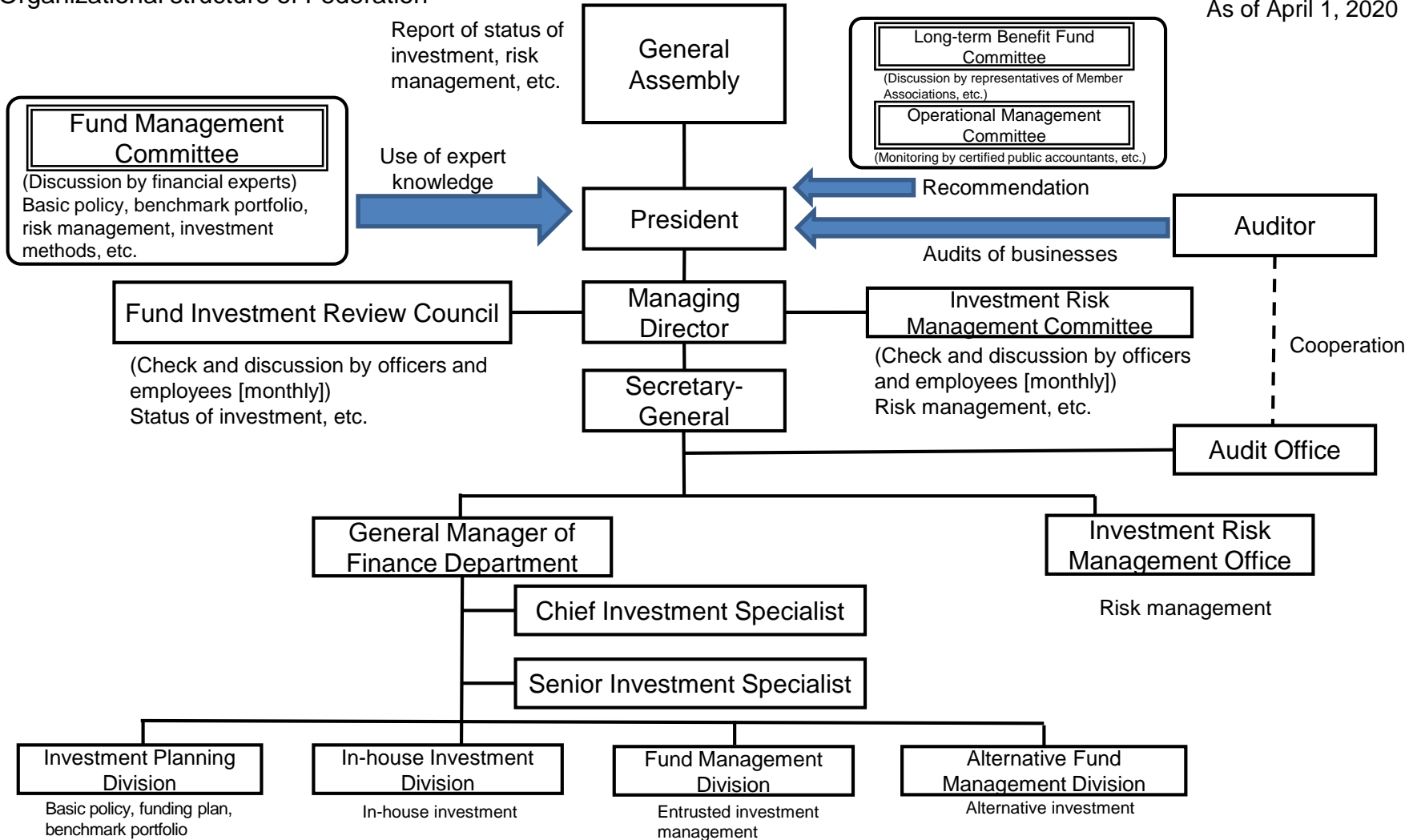
7. Investment Risk Management Committee

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 General Manager of Finance Department 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 (3)

8. Organizational structure of Federation

As of April 1, 2020



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 2020)	
Ohno Sanae	Professor, Faculty of Economics, Musashi University
Kato Yasuyuki	Project Professor, Graduate School of Management, Tokyo Metropolitan University Adjunct Professor, Graduate School of Management, Kyoto University
Takehara Hitoshi	Professor, Waseda Business School (Graduate School of Business and Finance)
Tokushima Katsuyuki	NLI Research Institute, Head of Pension Research, CMA Financial Research Department
Toshino Masashi	Professor, Faculty of Economics, Seikei University
Miwa Yumiko	Professor, Faculty of Commerce, Meiji University

Fund Management Committee (2)

○ Meetings of the Fund Management Committee (fiscal year 2019)

Meeting number	Meeting date	Main subjects
43rd	September 18, 2019	<ul style="list-style-type: none"> • Consultation paper • Issues for deliberation in FY2019 and method of discussion • Examination of the benchmark portfolio for the Annuity Retirement Benefit Association Reserve Fund • Recommendation paper (draft) • Status of investment of pension funds in the first quarter of FY2019
44th	February 27, 2020	<ul style="list-style-type: none"> • Status of investment of pension funds in the third quarter of FY2019 • Status of stewardship activities • Review of the Federation's benchmark portfolio (first and second tiers) (proposal) • Review of the Federation's benchmark portfolio (former third tier) (proposal)
45th	March 27, 2020	<ul style="list-style-type: none"> • Deviation tolerance in the Federation's benchmark portfolio • Recommendation paper (draft) • Partial revision of basic policy on administration and investment of pension funds • Safe and effective investment of pension funds

Basic approach to investment

○ 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 Employees' Pension Insurance Act, a benchmark portfolio shall be set and appropriately managed, and efforts shall be made to earn the benchmark return for overall assets and each asset class, as well as generating benchmark returns for overall assets and 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 overall assets and each asset class in each fiscal year by appropriately selecting, managing and assessing entrusted investment management institutions, as well as securing benchmark returns for overall assets and each asset class over the long term.

Section 3 Reference Data

1 Changes in the investment results

Changes in the investment return, etc. (since the integration of employee pension plans)

(1) Investment return

(Unit: %)

	FY2015 (second half)	FY2016	FY2017	FY2018	FY2019
Modified total return	0.89	4.16	6.40	1.59	-4.60
Domestic bonds	3.32	-0.79	1.25	1.94	0.13
Domestic equities	-3.98	14.76	15.85	-5.24	-9.58
Foreign bonds	-2.32	-5.23	3.47	2.64	3.88
Foreign equities	-1.04	14.43	9.34	7.82	-12.35
Short-term assets	-0.03	0.00	0.00	0.00	0.00

(2) Value of investment income

(Unit: JPY100M)

	FY2015 (second half)	FY2016	FY2017	FY2018	FY2019
Investment income	473	2,150	3,429	879	-2,506
Domestic bonds	984	-188	248	364	23
Domestic equities	-330	1,331	1,836	-702	-1,205
Foreign bonds	-105	-320	247	204	304
Foreign equities	-75	1,327	1,098	1,013	-1,629
Short-term assets	-1	0	0	0	0

(Unit: %)

	FY2015 (second half)	FY2016	FY2017	FY2018	FY2019
Realized return	2.29	2.24	4.37	2.96	2.98

(Unit: JPY100M)

	FY2015 (second half)	FY2016	FY2017	FY2018	FY2019
Realized income	1,111	1,066	2,112	1,436	1,442
(Income gain)	(349)	(820)	(1,170)	(1,017)	(972)

(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 (1)

The tables below show the top 10 bond issues and equity issues indirectly held through entrusted investment and through in-house investment as of the end of March 2020, with bond issues classified by issuer name and equity issues by issue name. For information concerning bond and equity issues ranked 11th or lower, see the website of the Federation.

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

○ Domestic bond (in order of total market value)

No.	Names of issuer	Total market value (in 100M yen)
1	Government of Japan	6,672
2	Japan Finance Organization for Municipalities	640
3	Japan Expressway Holding and Debt Repayment Agency	639
4	Joint LGB	552
5	Tokyo Metropolitan Government	504
6	Osaka Prefecture	335
7	Kanagawa Prefecture	327
8	Saitama Prefecture	295
9	Aichi Prefecture	282
10	Japan Housing Finance Agency (former Government Housing Loan Corporation)	264
Total	329 Issuers	16,399

○ Domestic equity (in order of total market value)

No.	Issue names	No. of shares	Total market value (in 100M yen)
1	Toyota Motor Corporation	5,597,900	371
2	Sony Corporation	3,145,800	203
3	Nippon Telegraph and Telephone Corporation	7,368,700	193
4	Keyence Corporation	473,500	165
5	Mitsubishi UFJ Financial Group	35,633,300	148
6	SoftBank Group	3,853,600	147
7	KDDI Corporation	4,266,700	139
8	Takeda Pharmaceutical Company Limited	3,997,100	136
9	Nintendo Co., Ltd.	283,700	120
10	NTT DOCOMO, INC.	3,483,600	120
Total	2,194 Issues		11,213

○ Foreign bond (in order of total market value)

No.	Names of issuer	Total market value (in 100M yen)
1	UNITED STATES TREASURY	3,432
2	ITALY, REPUBLIC OF (GOVERNMENT)	682
3	FRANCE (GOVERNMENT)	671
4	SPAIN, KINGDOM OF (GOVERNMENT)	524
5	UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND	430
6	GERMANY (GOVERNMENT OF)	424
7	FEDERAL NATIONAL MORTGAGE ASSOCIATION	254
8	BELGIUM, KINGDOM OF (GOVERNMENT)	208
9	CANADA (GOVERNMENT)	137
10	IRELAND, REPUBLIC OF (GOVERNMENT)	128
Total	669 Issuers	8,798

○ Foreign equity (in order of total market value)

No.	Issue names	No. of shares	Total market value (in 100M yen)
1	MICROSOFT CORPORATION	1,745,689	297
2	APPLE INC	1,055,343	290
3	AMAZON COM INC	103,609	218
4	FACEBOOK INC-A	636,308	115
5	NESTLE SA (REGISTERED)	995,318	110
6	ALPHABET INC-CL A	87,131	109
7	ALIBABA GROUP HOLDING	476,900	100
8	ALPHABET INC-CL C	78,002	98
9	VISA INC-CLASS A SHRS	545,430	95
10	JOHNSON AND JOHNSON	643,414	91
Total	2,864 Issues		10,613

Issues held (2)

○ Alternative investment (classified by asset class and arranged in the descending order of total market value)

Asset class	Names of entrusted investment management institutions	Names of beneficial investment institutions	Total market value (in 100M yen)
Domestic real estate	Nomura Asset Management Co., Ltd.	—	27
Foreign real estate	Tokio Marine Asset Management Co., Ltd.	—	233
Foreign real estate	PGIM Japan Co., Ltd.	PGIM REAL ESTATE	102

(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 2020.

(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.

(Note 5) The above table covers only items for which entrusted investment management institutions consented to disclosure.