

# Fiscal Year 2019 Review of Operations

Annuity Retirement 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** **+0.50%** Realized return (book value basis)  
(FY2019)

**Investment income** **+JPY1.997 billion** Realized income  
(FY2019) (book value basis)

**Value of investment assets: JPY458.1 billion** Book value  
(End of FY2019)

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

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

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

Section 1 Administration and Investment of Funds in FY2019

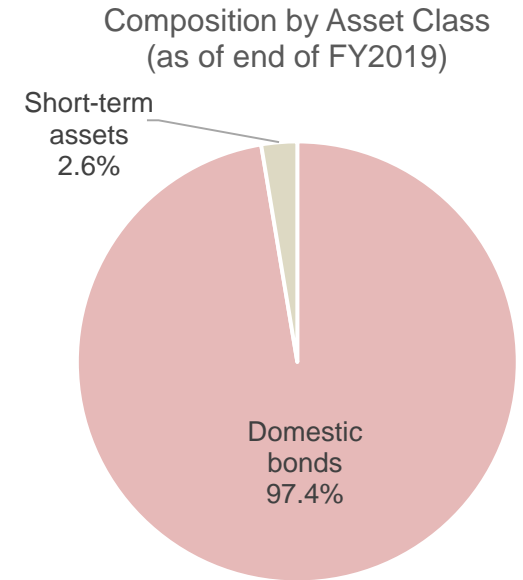
(1) Asset mix

The composition by asset (book value basis) is as follows:

	FY2018	FY2019			
	End of FY	End of Q1	End of Q2	End of Q3	End of Q4 (End of FY)
Domestic bonds	97.4	93.5	98.9	99.2	97.4
Short-term assets	2.6	6.5	1.1	0.8	2.6
Total	100.0	100.0	100.0	100.0	100.0

(Unit: %)

Benchmark portfolio	100.0
	-
	100.0



(Note 1) Due to rounding, the total sum of individual figures may not necessarily add up to 100%.  
 (Note 2) Loans are included in domestic bonds.  
 (Note 3) Short-term assets held by each fund were classified into relevant asset classes in principle.

(Reference) Breakdown of domestic bonds  
(Unit: JPY100M)

	End of FY2019	
	Value of assets	Composition
Domestic bonds	4,460	100.0%
Loan	808	18.1%

(2) Investment return

The realized return for FY2019 was 0.50% for the overall assets.

Domestic bonds held by the Annuity Retirement Benefit Association Reserve Fund were evaluated based on book value on the premise of continued holding until maturity.

(Unit: %)

	FY2019				
	Q1	Q2	Q3	Q4	FY total
Realized return	0.13	0.13	0.13	0.12	0.50
Domestic bonds	0.13	0.13	0.13	0.12	0.51
Short-term assets	0.00	0.00	0.00	0.00	0.00

(Reference)

(Unit: %)

	FY2019				
	Q1	Q2	Q3	Q4	FY total
Modified total return	0.73	0.55	-0.60	-0.56	-0.04

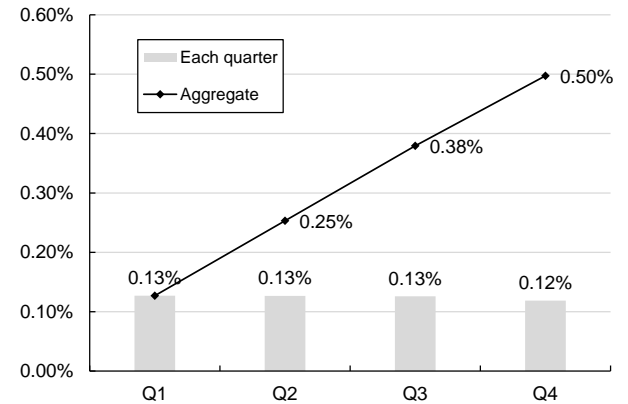
(Note 1) The return in each quarter is the period rate.

(Note 2) Loans are included in domestic bonds.

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

(Note 4) The modified total return represents the realized return adjusted for the effects of changes in valuation gains/losses that would arise if the assets are evaluated based on market value.

Changes in realized return



Realized return by asset (aggregate for the fiscal year)



(3) Investment income

The realized income for FY2019 was JPY1.997 billion (for overall assets). Domestic bonds held by the Annuity Retirement Benefit Association Reserve Fund were evaluated based on book value on the premise of continued holding until maturity.

(Unit: JPY100M)

	FY2019				
	Q1	Q2	Q3	Q4	FY total
Realized income	4.57	4.97	5.19	5.25	19.97
Domestic bonds	4.57	4.97	5.19	5.25	19.97
Short-term assets	0.00	0.00	0.00	0.00	0.00

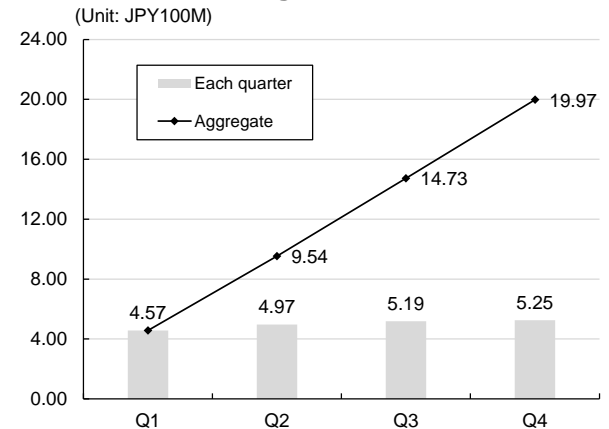
(Reference)

(Unit: JPY100M)

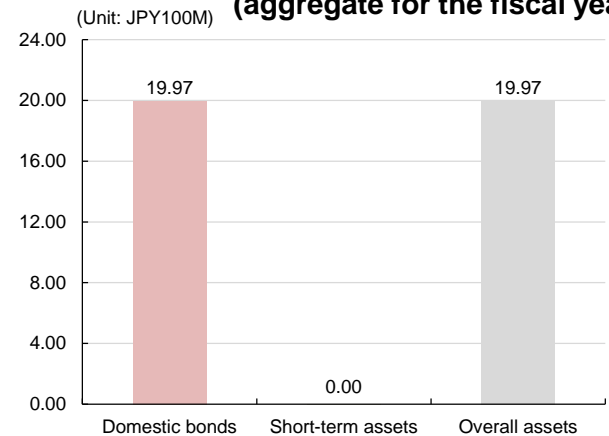
	FY2019				
	Q1	Q2	Q3	Q4	FY total
Investment income	26.68	22.20	-25.28	-25.06	-1.47

- (Note 1) The realized income and investment income represent figures after the deduction of fees, etc. settled within the relevant period.
- (Note 2) Realized income represents the sum of trading profits/losses and interest and dividend income, etc.
- (Note 3) Loans are included in domestic bonds.
- (Note 4) The investment income represents the realized income adjusted for the effects of changes in valuation gains/losses based on market value.
- (Note 5) Due to rounding, the total sum of individual figures may not necessarily add up to FY total.

Changes in realized return



Realized return by asset (aggregate for the fiscal year)



## (4) 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											
				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	Book value	Total market value	Valuation gains/losses
Domestic bonds	3,457	3,528	71	3,445	3,541	96	3,966	4,077	111	4,160	4,243	83	4,460	4,510	50
Short-term assets	93	93	0	239	239	0	43	43	0	33	33	0	120	120	0
Total	3,550	3,621	71	3,684	3,780	96	4,008	4,119	111	4,193	4,276	83	4,581	4,630	50

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

(Note 2) The total market value and valuation gains/losses are indicated here for reference. The valuation gains/losses were tentatively calculated based on the market value.

(Note 3) Loans are included in domestic bonds.

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



## (5) Fees

There are no fees related to investment because the funds of the Annuity Retirement Benefit Association Reserve Fund are invested in domestic bonds through in-house investment and investment of deposits by member associations.

Benchmark portfolio

(1) Benchmark portfolio (asset mix)

	Domestic bonds
Asset mix	100%

The Federation manages the Annuity Retirement Benefit Association Reserve Fund with the objective of contributing to the stability of the annuity retirement benefit plan operations based on the characteristics of a cash-balance pension plan whose benefit level is linked to government bond yields or other benchmarks. To this end, the Federation determined an asset mix from the long-term perspective.

In relation to the asset mix of the Annuity Retirement Benefit Association Reserve Fund, the full amount of funds is invested in domestic bonds.

## (1) Approach to risk management

- Generally speaking, "risk" refers to danger or 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 fund in consideration of points including the following: that investment of funds should be made safely and efficiently from a long-term perspective and that a cash balance-type pension plan links the benefit level to the government bond yield or other benchmarks.

### 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) Risk management shall be appropriately implemented in consideration of the characteristics of a cash-balance pension plan whose benefit level is linked to government bond yields or other benchmarks.

## (2) 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, for its asset as a whole, the Federation keeps track of and manages the status of the deviation of the fund from the benchmark in terms of the asset mix.

### ○ Management of asset administration institutions

The Federation requires asset administration institutions to fulfill the fiduciary responsibilities and develop systems to ensure compliance with laws, and appropriately manages them by keeping track of their status of asset administration.

### ○ 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.

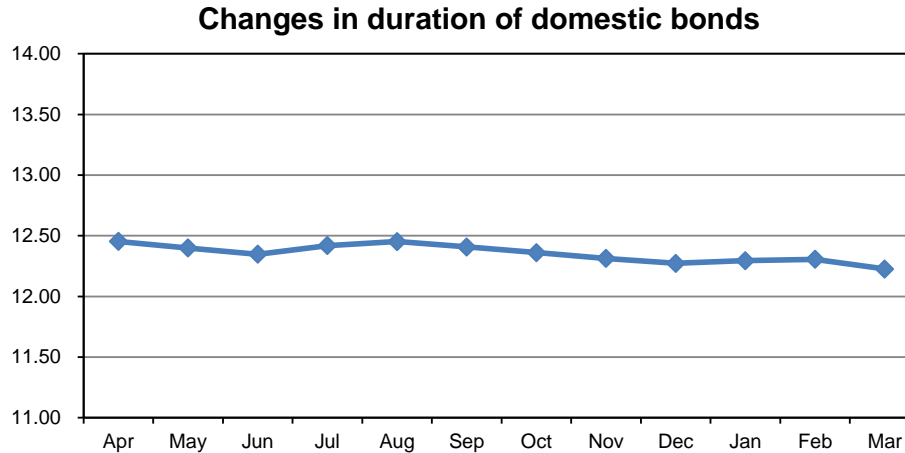
**(3) Status of risk management**

○ Domestic bonds

1. Change in duration

Duration, which is an indicator of market risk related to bond investment, represents sensitivity in terms of how much bond prices change in response to a certain change in interest rates.

The duration of domestic bonds was from 12.23 to 12.45.



2. Status of holding of domestic bonds

○ Status of holding of bonds by credit rating

While the Federation makes it a principle to limit its bond investments to bonds with a credit rating of A or higher, it did not hold bonds with a credit rating of BBB or lower in FY2019.

(Note) This policy applies to bonds other than government bonds, municipal bonds, and bonds issued by corporations under special laws (limited to those with a government guarantee).

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, 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

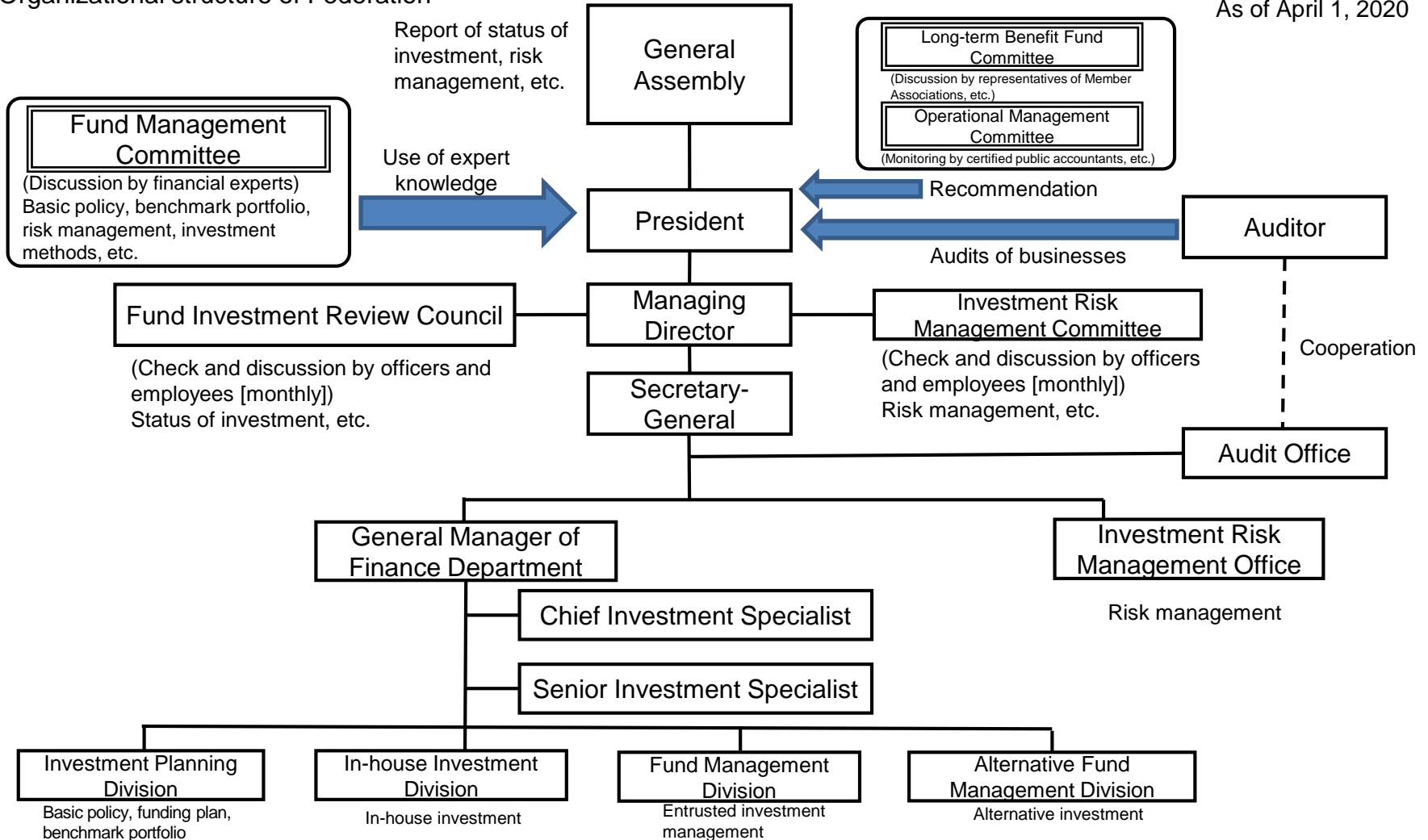
This is a committee to conduct activities such as verification, reporting and discussion so as to ensure appropriate risk management related to fund investment. This committee is constituted by the Senior Managing Director, the Secretary-General, the General Manager of Finance Department and other members 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"> <li>• Consultation paper</li> <li>• Issues for deliberation in FY2019 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 pension funds in the first quarter of FY2019</li> </ul>
44th	February 27, 2020	<ul style="list-style-type: none"> <li>• Status of investment of pension funds in the third quarter of FY2019</li> <li>• Status of stewardship activities</li> <li>• Review of the Federation's benchmark portfolio (first and second tiers) (proposal)</li> <li>• Review of the Federation's benchmark portfolio (former third tier) (proposal)</li> </ul>
45th	March 27, 2020	<ul style="list-style-type: none"> <li>• Deviation tolerance in the Federation's benchmark portfolio</li> <li>• Recommendation paper (draft)</li> <li>• Partial revision of basic policy on administration and investment of pension funds</li> <li>• Safe and effective investment of pension funds</li> </ul>

## Basic approach to investment

### ○ Basic policy

Funds shall be invested for the purpose of contributing to the stable management of annuity retirement benefit plan operations in light of the characteristics of a cash balance-type pension program, whose benefit level is linked to the government bond yield or other benchmarks.

In addition, funds shall be managed appropriately by establishing a benchmark portfolio so that investment returns needed for the fund (i.e. assumed return (meaning the assumed return stipulated in Article 28, Paragraph (5) of the Order for Enforcement of the Local Public Service Mutual Aid Association Act (Cabinet Order No. 352 of 1962))) will be generated with the minimum risk.

### Basic Policy for Management and Investment of Annuity Retirement Benefit Association Reserve Fund (Extract)

#### 1. Basic Policy

The Federation shall manage the Annuity Retirement Benefit Association Reserve Fund with the objective of contributing to the stability of the annuity retirement benefit plan operations based on the characteristics of a cash-balance pension plan whose benefit level is linked to government bond yields or other benchmarks, from the long-term perspective in a safe and efficient manner.

Accordingly, the Federation shall administer and invest the Annuity Retirement Benefit Association Reserve Fund by establishing an asset mix from the long-term perspective (the “benchmark portfolio”).

#### 2. Investment target

The investment of the Annuity Retirement Benefit Association Reserve Fund, which has the characteristics of a cash-balance pension plan, shall be managed appropriately by establishing the benchmark portfolio so that investment returns needed for the fund (i.e., assumed return (meaning the assumed return stipulated in Article 28, Paragraph (5) of the Order for Enforcement of the Local Public Service Mutual Aid Association Act (Cabinet Order No. 352 of 1962))) will be generated with the minimum risk.

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

Section 3 Reference Data

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

1. Investment return

(Unit: %)

	FY2015 (second half)	FY2016	FY2017	FY2018	FY2019
Realized return	0.13	0.39	0.42	0.43	0.50
Domestic bonds	0.16	0.41	0.43	0.46	0.51
Short-term assets	0.02	0.00	0.00	0.00	0.00

(Reference) (Unit: %)

	FY2015 (second half)	FY2016	FY2017	FY2018	FY2019
Modified total return	8.06	-3.30	1.73	2.60	-0.04

2. Value of investment income

(Unit: JPY100M)

	FY2015 (second half)	FY2016	FY2017	FY2018	FY2019
Realized income	0.27	3.74	8.26	13.00	19.97
Domestic bonds	0.26	3.74	8.26	12.99	19.97
Short-term assets	0.01	0.00	0.00	0.01	0.00

(Reference) (Unit: JPY100M)

	FY2015 (second half)	FY2016	FY2017	FY2018	FY2019
Investment income	16.96	-32.39	33.75	77.98	-1.47

(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.

## Issues held

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

The status of holding related to issues does not represent the assessment of issuers, etc. by the Federation.

## ○ Domestic bond (in order of book value balance)

No.	Names of issuer	Book value balance (in 100M yen)
1	Japan Finance Organization for Municipalities	2,243
2	Joint LGB	95
3	Aichi Prefecture	80
4	Government of Japan	68
5	Kanagawa Prefecture	60
6	Shizuoka Prefecture	60
7	Kyoto Prefecture	56
8	Chiba Prefecture	54
9	Tokyo Metropolitan Government	54
10	Fukuoka Prefecture	52
Total	55 Issuers	3,652

(Note 1) The names of issuers 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 book value balance is an aggregated figure calculated for each issuer by the Federation based on data registered in T-STAR/GX system of Nomura Research Institute.