

Fiscal Year 2020 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

Modified total return (market value basis)

(FY2020)

+23.55%

Investment income

Investment income (market value basis)

(FY2020)

+JPY 1,177.4 billion

Value of investment assets:

Total market value

(End of FY2020)

JPY 6,220.1 billion

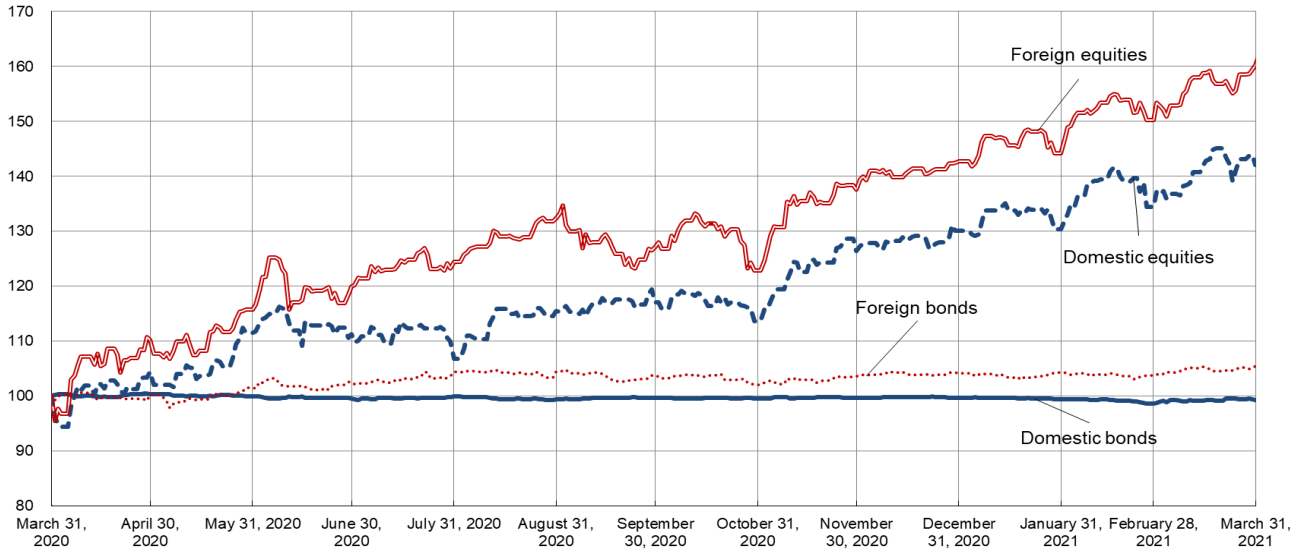
As pension funds are intended for long-term investment, the investment status must be judged from the long-term perspective. As investment income is based on the total market value as of the end of each term, it should be kept in mind that it includes valuation gains/losses, which means it may change 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 FY2020

Change in benchmark return

The benchmark return of the total assets for the year was +24.83%, mainly driven by the sharp rise in domestic and foreign stocks from the development of the COVID-19 vaccines and from expectations of economic recovery due to large additional economic measures in the United States.



(Note) The level as of March 31, 2020 is the base figure of 100.

Asset class	Benchmark	Returns				
		Q1	Q2	Q3	Q4	Full fiscal year
Domestic bonds	NOMURA-BPI Overall	-0.49%	0.17%	-0.00%	-0.38%	-0.70%
Domestic equities	TOPIX (with dividends)	11.25%	5.17%	11.19%	9.25%	42.13%
Foreign bonds	FTSE World Government Bond Index (excluding Japan; without hedging, yen-based)	2.60%	0.81%	0.67%	1.27%	5.43%
Foreign equities	MSCI ACWI ex. JAPAN(yen-based, with dividends)	19.94%	5.97%	12.27%	12.27%	60.21%
Total		8.17%	3.13%	6.04%	5.53%	24.83%

(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)

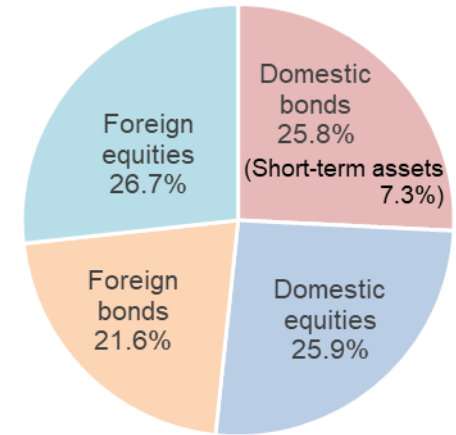
(1) Asset mix

The composition by asset is as follows:

(Unit: %)

	End of FY2019	FY2020				Benchmark portfolio
		End of Q1	End of Q2	End of Q3	End of Q4 (End of FY)	
Domestic bonds	42.4	33.7	32.8	25.8	25.8	25.0
Short-term assets	(8.4)	(1.8)	(5.4)	(1.9)	(7.3)	
Domestic equities	21.7	24.5	24.2	26.3	25.9	25.0
Foreign bonds	15.4	17.0	18.4	20.8	21.6	25.0
Foreign equities	20.5	24.9	24.7	27.1	26.7	25.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Composition by Asset Class
(as of end of FY2020)



(Note 1) Deviation tolerances from the benchmark portfolio are ±20% for domestic bonds, ±12% for domestic equities, ±9% for foreign bonds and ±11% 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 0.9% (the upper limit for the benchmark portfolio is 5%).

(2) Investment return

The modified total return for FY2020 was 23.55% for the overall assets.

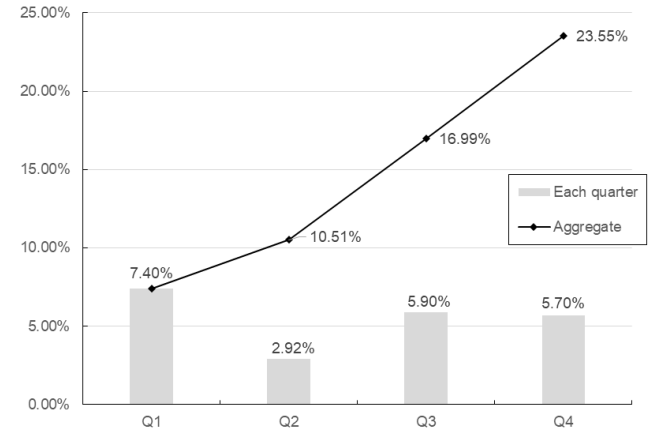
(Unit: %)

	FY2020				
	Q1	Q2	Q3	Q4	FY total
Modified total return	7.40	2.92	5.90	5.70	23.55
Domestic bonds	-0.19	0.28	0.16	-0.41	-0.13
Short-term assets	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Domestic equities	11.83	5.31	10.91	9.01	41.97
Foreign bonds	2.97	0.73	0.89	1.67	6.17
Foreign equities	20.02	6.00	12.03	12.07	59.17

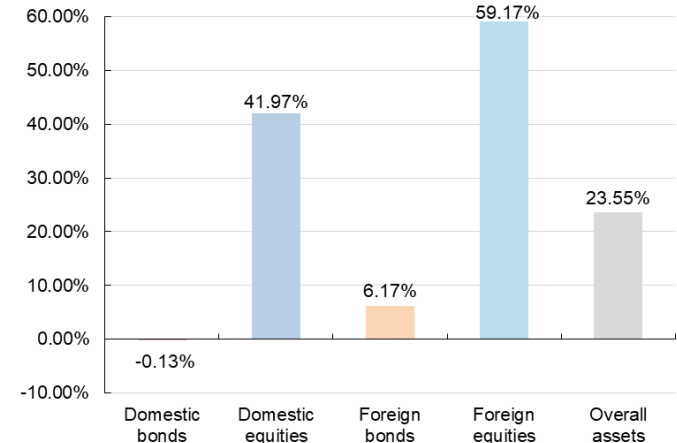
(Unit: %)

	FY2020				
	Q1	Q2	Q3	Q4	FY total
Realized return	0.30	0.89	0.81	1.60	3.62

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.

(3) Contribution analysis of excess return ①

The modified total return for overall investment assets was -23.55%, while the excess return compared with the benchmark return was -1.28%. As for the asset allocation factor, overweight of domestic bonds and underweight of domestic and foreign equities made negative contributions. As for the individual asset factor, foreign and domestic bonds made positive contributions.

FY2020 (April 2020 through March 2021) (Unit: %)

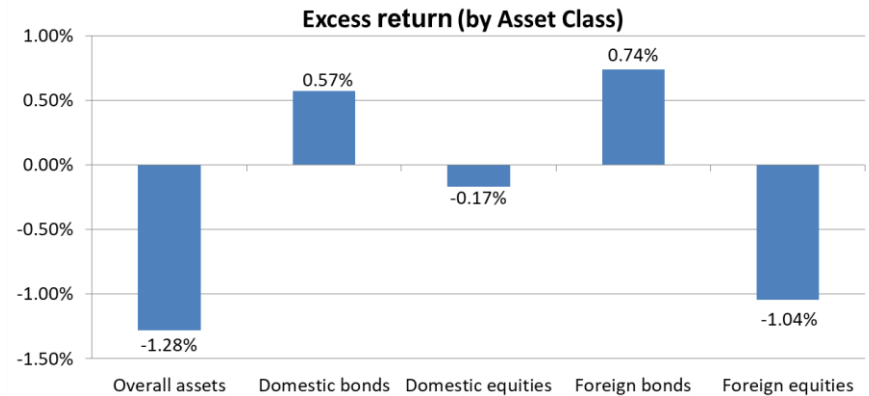
	Overall assets	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Modified total return	23.55	-0.13	41.97	6.17	59.17
Benchmark return	* 24.83	-0.70	42.13	5.43	60.21
Excess return	-1.28	0.57	-0.17	0.74	-1.04

* The benchmark return for overall assets is calculated by weight-averaging the benchmark portfolio. Due to rounding, the total sum of individual figures may not necessarily add up to the total.

	Asset allocation factor①	Individual asset factor②	①+②
Domestic bonds	-2.39%	0.52%	-1.87%
Domestic equities	-0.14%	0.18%	0.04%
Foreign bonds	1.21%	0.35%	1.56%
Foreign equities	-0.97%	-0.03%	-1.01%
Total	-2.30%	1.02%	-1.28%

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.



(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	35.9%	25.0%	10.9%	±20%
Domestic equities	22.9%	25.0%	-2.1%	±12%
Foreign bonds	19.6%	25.0%	-5.4%	±9%
Foreign equities	21.6%	25.0%	-3.4%	±11%
Total	100.0%	100.0%	0.0%	

(3) Contribution analysis of excess return ②

○ Domestic bonds

The modified total return of foreign equities was -0.13%, which exceeds the benchmark return (-0.70%) by 0.57%.

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

○ Domestic equities

The modified total return of foreign bonds was 41.97%, which was below the benchmark return (42.13%) by 0.17%.

The passive funds were almost the same as the benchmark. As for the active funds, there are differences in performance depending on the fund strategies. Many funds with a growth strategy and medium- to small-sized stock funds were strong. The manager benchmark of funds with low volatility strategy among smart beta funds was well below the rate of return of TOPIX while the market rose significantly. These made all domestic equities below the benchmark.

○ Foreign bonds

The modified total return of domestic bonds was 6.17%, which exceeds the benchmark return (5.43%) by 0.74%.

The passive funds were below the benchmark due to factors such as the timing of adding funds to the funds. The active funds generally performed well. The returns of five out of eight companies that uses the Bloomberg Barclays Global Aggregate Index (8.54%) as a manager benchmark (8.54%) greatly exceeded the benchmark return rate, meaning that the brand selection for all five companies was successful. As a result, all foreign bonds exceeded the benchmark.

○ Foreign equities

The modified total return of foreign equities was 59.17%, which was below the benchmark return (60.21%) by 1.04%.

The passive funds was below the benchmark due to the negative impact of the factors such as taxation on dividends. As for the active funds, there are differences in performance depending on the fund strategies. The funds that manage portfolios with reduced volatility struggled as the markets rise significantly. All foreign equities was below the benchmark.

(4) Investment income

The investment income for FY2020 was JPY 1,177.4 billion for overall assets.

(Unit: JPY100M)

	FY2020				
	Q1	Q2	Q3	Q4	FY total
Investment income	3,663	1,567	3,224	3,320	11,774
Domestic bonds	-38	53	27	-65	-23
Short-term assets	(0)	(0)	(0)	(0)	(0)
Domestic equities	1,323	672	1,464	1,342	4,801
Foreign bonds	239	68	94	205	606
Foreign equities	2,139	774	1,639	1,839	6,391

(Unit: JPY100M)

	FY2020				
	Q1	Q2	Q3	Q4	FY total
Realized income	142	429	386	777	1,734

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

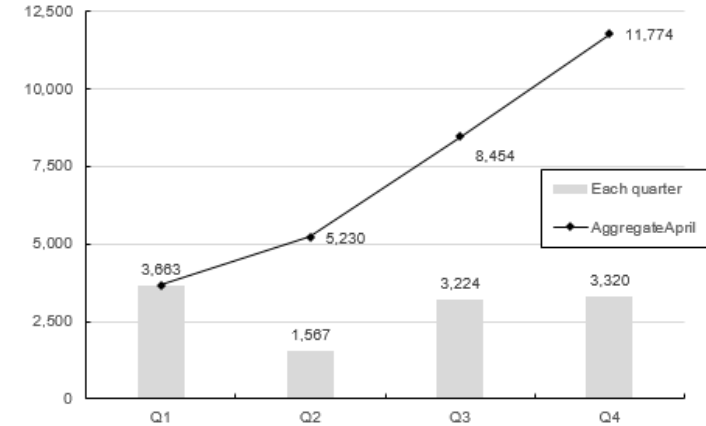
(Note 2) The investment income represents the realized income adjusted for the effects of changes in valuation gains/losses based on market value.

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

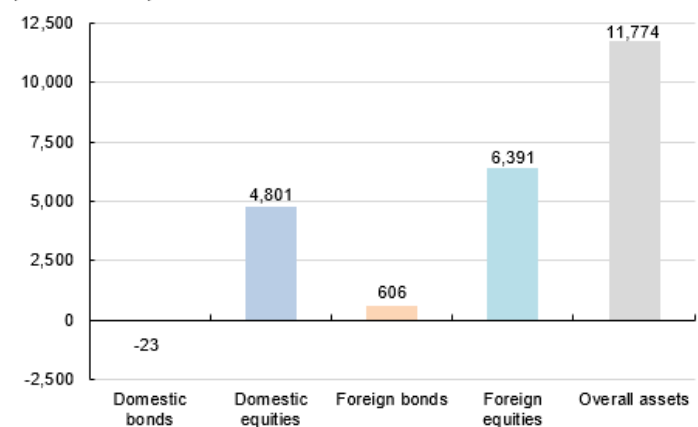
(Note 4) Due to rounding, the total sum of individual figures may not necessarily add up to FY total.

Changes in investment income

(Unit: JPY100M)

Total investment income by asset
(aggregate for the fiscal year)

(Unit: JPY100M)



(5) Value of assets

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

(Unit: JPY100M)

	End of FY2019			FY2020											
				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	21,652	22,149	497	16,975	17,394	419	17,694	18,056	363	14,143	14,475	332	15,791	16,032	241
Short-term assets	(4,399)	(4,399)	(0)	(937)	(937)	(0)	(2,998)	(2,998)	(0)	(1,058)	(1,058)	(0)	(4,561)	(4,561)	(0)
Domestic equities	11,176	11,310	134	11,181	12,633	1,452	11,240	13,305	2,065	11,500	14,769	3,269	11,901	16,111	4,210
Foreign bonds	7,949	8,063	114	8,384	8,752	368	9,721	10,109	388	11,185	11,634	449	12,895	13,435	540
Foreign equities	9,370	10,702	1,332	9,363	12,841	3,478	9,493	13,615	4,122	9,545	15,185	5,640	9,496	16,623	7,127
Total	50,147	52,225	2,078	45,902	51,620	5,718	48,147	55,086	6,939	46,372	56,062	9,690	50,083	62,201	12,118

(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 FY2020 by asset class are as follows.

(Unit: JPY100M)

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Amount of funds allocated and withdrawn	-6,256	0	4,766	-470

(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 JPY3.7 billion in FY2020.
The fee rate relative to the value of investment assets came to 0.07%.

(Unit: JPY100M, %)

	FY2020	
	Fees	Fee rate
Domestic bonds	8	0.05
Domestic equities	10	0.08
Foreign bonds	5	0.06
Foreign equities	12	0.09
Alternative assets	2	0.42
Overall assets	37	0.07

(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.

Benchmark portfolio

1. Benchmark portfolio (asset mix)

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

2. Verification of the benchmark portfolio

○ Verification mechanism

In accordance with the basic policy on the administration and investment of the Employees' Pension Insurance Benefit Association Reserve Fund, regular verifications shall be performed for the Federation's benchmark portfolio. The results of the verification carried out in FY2020 are as follows.

○ Verification method

After calculating the expected return of each asset and the risk/correlation coefficient based on the recent market environment, a Monte Carlo simulation (Note) was carried out, and we confirmed that there was no problem with the quantitative standard used when reviewing the benchmark portfolio (March FY2020).

① Securing the expected reserve fund

- Will the average reserve ratio (percentage of average assets calculated by simulation for reserve fund necessary for financial recalculation) be 100% or more?
- Will an expected investment yield (nominal wage increase rate +1.7%) of 4.1% be achieved?

② Downside risk

- Is the probability of underfunding less than that in the case of domestic bonds 100%?
- Is the downward probability (probability that the annual return will be less than the nominal wage increase rate) less than the probability in the case where domestic bonds are 100%?
- Is there a big difference between the conditional average deficiency rate (average deficiency rate when the annual return is less than the nominal wage increase rate) and the rate when the benchmark portfolio was reviewed?

○ Verification results

As a result of the above verification, it is expected that the reserve ratio can be maintained at 100% or more and the portfolio meets the expected investment yield. Also, because the downward probability and conditional average deficiency rate have no particular issues, overall, we judged that there is no need to change the current benchmark portfolio and decided to continue our current benchmark portfolio.

(Note) The Monte Carlo simulation is a method for conducting analysis from the statistical values of data distribution obtained by systematically generating thousands to tens of thousands or more pseudo-random sequences and substituting each sequence into the formula.

(1) Approach to risk management

- Generally speaking, "risk" refers to danger or possibility of negative impact. In the field of asset investment. In the field of asset investment, risk means uncertainty of returns, etc. associated with market volatility or other factors. ("Uncertainty of returns" includes upside risks as well as downside risks of asset values.)
- 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)

1. 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.

- (1) Investment of funds should be made safely and efficiently from a long-term perspective.
- (2) 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.

3. Method of risk management

(2) Matters unique to each reserve fund

① Employees' Pension Insurance Benefit Association Reserve Fund

- A. For the basic portfolio, the Federation shall identify the probability of falling below the nominal wage growth rate (hereinafter referred to as "Lower Partial Probability") and the average shortfall rate when falling below the nominal wage growth rate (hereinafter referred to as the "Conditional Average Shortage Rate") at least once a year and manage them appropriately.

(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.

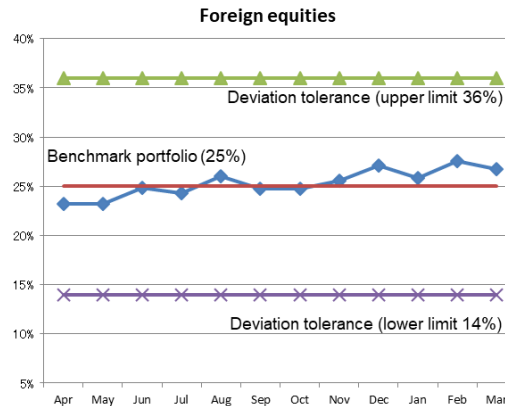
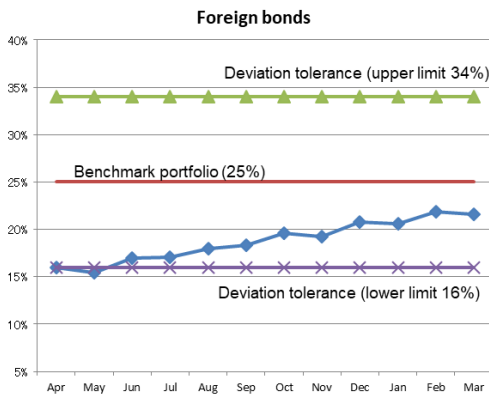
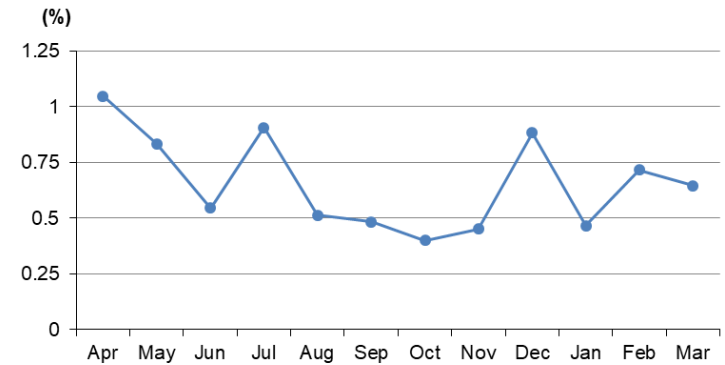
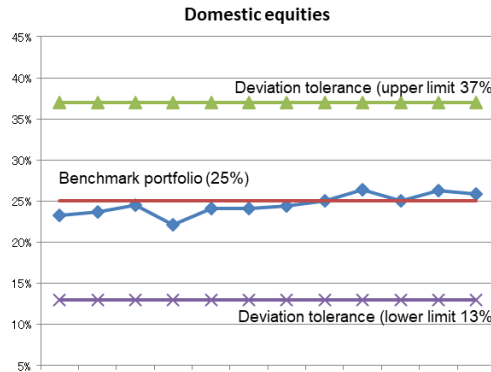
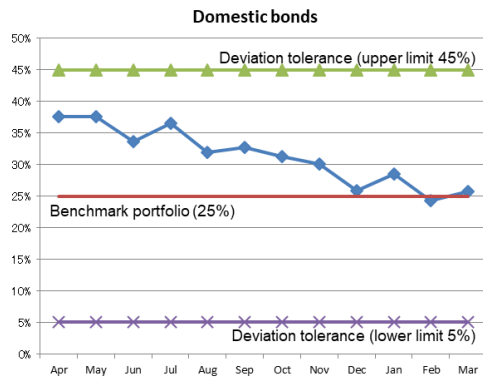
(3) Status of risk management (overall assets)

○ Asset mix and estimated tracking error

The asset mix of domestic equities and foreign equities changed near the center value. On the other hand, the asset mix of domestic bonds and foreign bonds approached the median at the end of the period through the transfers between the bonds with the review of the benchmark portfolio. The estimated tracking errors of overall assets fluctuated due to the impact of transfers of domestic and foreign bonds between assets with the review of the benchmark portfolio and factors of market fluctuations.

【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
 - ① 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 (hereinafter referred to as "alternative assets").
 - ② 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
 - ① 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.
 - ② 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.
 - ① In principle, investment shall be diversified between traditional assets, such as equities and bonds, and alternative assets and across different types of alternative assets.
 - ② 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.
 - ③ 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.
 - ④ 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).
 - ⑤ 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 invested real estates
Infrastructure	Infrastructure operating companies	Stable business income earned from investee companies and projects
Private equity	Unlisted stocks	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 FY2020, the Federation adopted entrusted investment management institutions for two funds related to investment in private equity.

- J.P. Morgan Asset Management (Foreign Private Equity)
(Fund of funds manager: J.P. Morgan Investment Management Inc.)
- Nomura Asset Management Co., Ltd. (Foreign private equity)
(Fund of funds manager: HarbourVest Partners, LLC)

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 Returns (Fiscal year)
Nomura Asset Management Co., Ltd.	Diversified investment in sectors such as offices, rental houses, and industrial and commercial facilities mainly in the three major metropolitan areas	¥3.1 billion	December 2018	7.17%

○ 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 Returns (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	¥31.9 billion	December 2018	15.13%
PGIM Japan	Diversified investments in such sectors as offices, commercial facilities, industrial facilities and rental houses in major U.S. cities	¥15.9 billion	December 2018	3.46%

Investment in alternative assets ④

○ Foreign infrastructure investment(recorded in foreign bonds)

Entrusted investment management institutions	Outline of investment funds	Total market value (End of the fiscal year)	Starting date of investment	Time-weighted Returns (Fiscal year)
J.P. Morgan Asset Management	Diversified investment in infrastructure assets centered on stably operating assets at global level	¥5.3 billion	February 2020	6.69%
Tokio Marine Asset Management (Fund of funds manager: BlackRock Financial Management, Inc.)	Diversified investment in infrastructure funds centered on stably operating assets at global level	¥1.8 billion	March 2020	0.67%

○ Foreign private equity investment (recorded in foreign equities)

Entrusted investment management institutions	Outline of investment funds	Total market value (End of the fiscal year)	Starting date of investment	Time-weighted Returns (Fiscal year)
J.P. Morgan Asset Management (Fund of funds manager: J.P. Morgan Investment Management Inc.)	Diversified investment in PE funds centered on buy-outs at global level	¥0 billion	March 2021	1.61%
Nomura Asset Management Co., Ltd. (Fund of funds manager: HarbourVest Partners, LLC)	Diversified investment in PE funds centered on buy-outs at global level	¥0 billion	March 2021	0.00%

(Note 1) Foreign investment funds were affected by changes in market price valuation due to foreign exchange fluctuations.

(Note 2) The above table covers only items for which entrusted investment management institutions consented to disclosure.

(Note 3) The investment start date is the date of signing the discretionary investment contract.

(1) Efforts in FY2020

- As a part of its stewardship activities for FY2020, the Federation confirmed the situation of efforts made by entrusted investment management institutions through the surveys and hearings for them in relation to the situations of shareholders' voting right exercises and engagement activities. Furthermore, by asking additional questions to clarify the differences among the institutions, we encouraged them to carry out efficient stewardship activities in line with their operational style and team arrangement. In addition, the Federation made periodical reports on its stewardship activities.
- Based on the re-revision of Japan's Stewardship Code by the Financial Services Agency in March 2020, in September of the same year, the acceptance statement of the code was revised.

Surveys and hearings of entrusted investment management institutions

Subjects	Period	Targets	Main subjects
Survey on exercise of voting rights	August 2020	Entrusted investment management institutions for domestic and foreign equities (12 companies for domestic equities and 8 companies for foreign equities)	<ul style="list-style-type: none"> • results of exercise of voting rights • structure for exercise of voting rights
Survey on performance of stewardship activities	September 2020	12 entrusted investment management institutions for domestic equities	<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
Additional survey on the above two items	November 2020		

(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

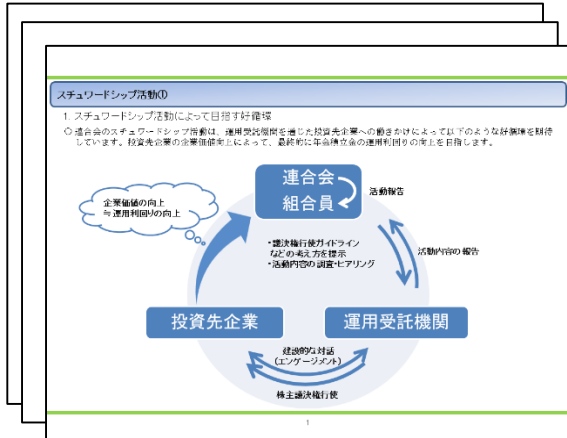
Subjects	Period	Targets	Main subjects
Providing information on an as-needed basis in addition to regular reports at executive meetings	As necessary	Executives of the Federation Executives and employees of member associations	Federation's approach to stewardship activities and ESG investment
Report of the Federation's stewardship activity in its PR papers	February 2021	Executives and employees of the Federation Executives and employees of member associations	Executives and employees of member associations
FY2020 stewardship activity report	March 2021	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

(2) Main activities and future initiatives

① Periodical report

○ Annual Stewardship Activity Report FY2020

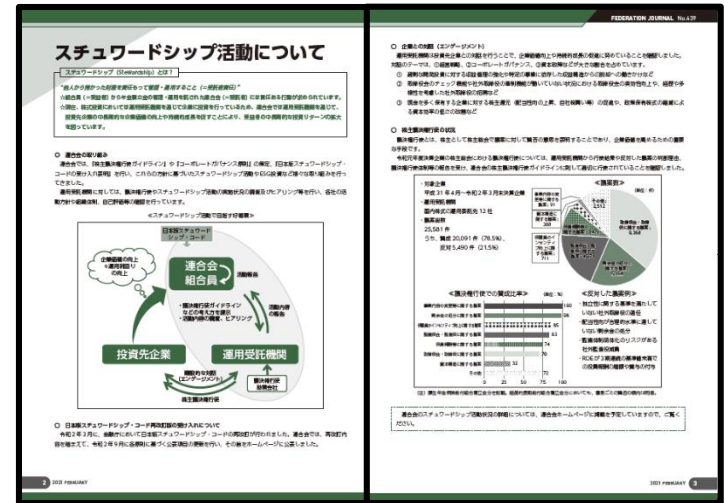
https://ssl.shichousonren.or.jp/fund/stewardship_active.html



② Future initiatives

- Discussion of methods for evaluating entrusted investment management institutions according to their characteristics
The Federation will continue discussing the methods for monitoring entrusted investment management institutions' effective stewardship activities and the appropriate methods for evaluation.
- Strengthening of information feedback
The Federation will publicize information through its website and other means and exercise its efforts to deepen the understanding by its members (beneficiaries) as to its stewardship activity by such means as PR papers and periodical reports at its general meetings.

○ Federation's Newsletter (February issue)



- Gathering wide range of information
The Federation will continue gathering information by such way as meeting with other institutional investors, participating in online seminars by outside experts and information exchange with entrusted investment management institutions. In the future, we will collect information widely regarding the summary of issues in product evaluation and method of reflecting on investment and measuring effect, and enhance our knowledge in this field. Also, We will continue to look out for the response of entrusted investment management institutions during the COVID-19 pandemic.
- Revision of regulations
We will consider reviewing the "Federation Corporate Governance Principles" as needed based on the revision of the "Corporate Governance Code".

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

① Administration and evaluation of entrusted investment management institutions

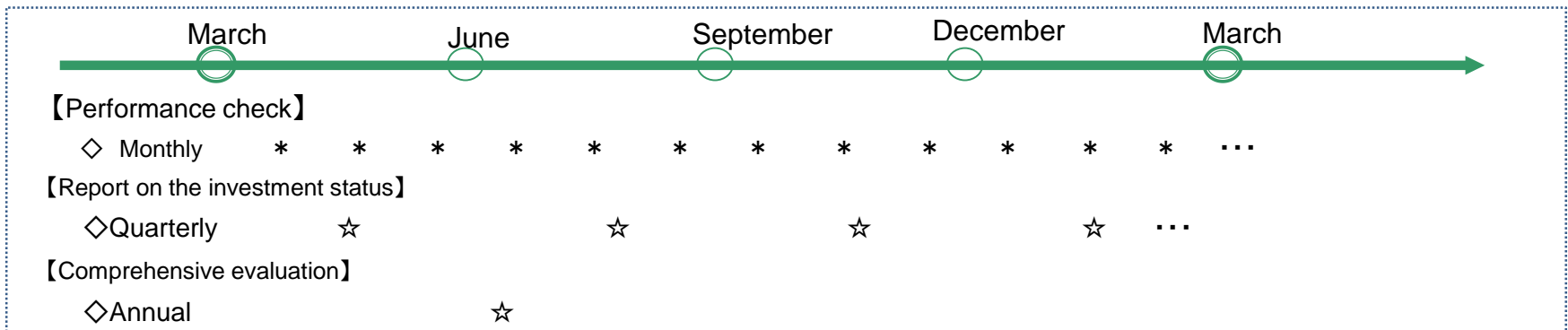
The Federation requires entrusted investment management institutions to submit monthly reports on investment results and the risk status and checks the status of compliance with the investment guidelines. The Federation also requires quarterly reports on the portfolio status, a factor breakdown of the 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.

☞ One fund was partially cancelled (reduction) in the comprehensive evaluation whose base date is at the end of FY2019.

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 Businesses and Fund Investment of the Federation

Organizational structure ①

1. Organization

As of April 1, 2021, it is required that 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 122.

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.

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.

Organizational structure ②

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.

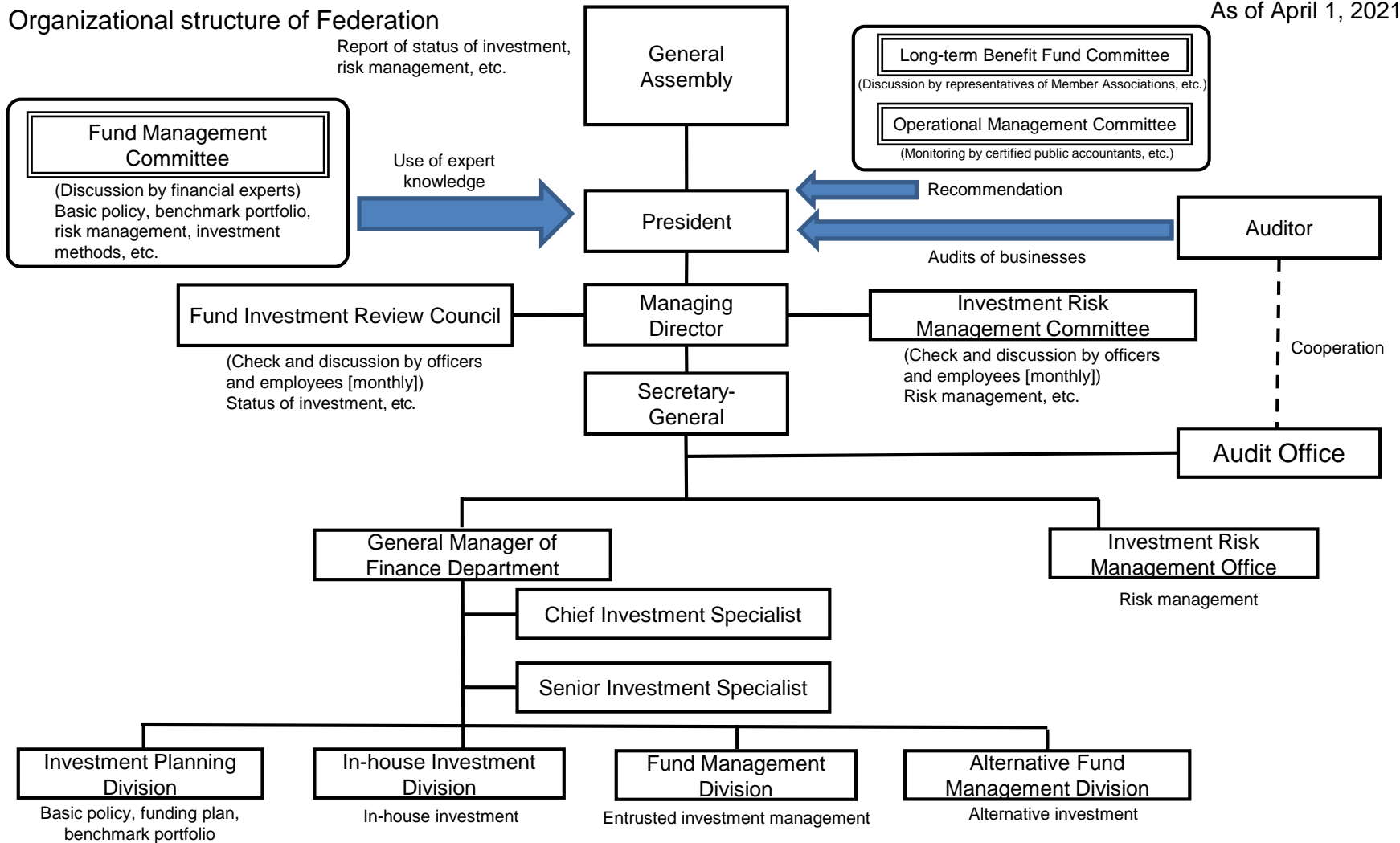
7. Investment Risk Management Committee

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, 2021



Fund Management Committee ①

○ Fund Management Committee

A Fund Management Committee is established within the Federation. The Committee shall comprise 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 Fund Management Committee Members (As of April 2021)		
	Ohno Sanae	Professor, Faculty of Economics, Musashi University
Chairperson	Kato Yasuyuki	Professor, Graduate School of Business Administration, Kyoto University of Advanced Science Specially Appointed 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	Chief fixed income analyst(Director), Financial Research Department, NLI Research Institute
	Toshino Masashi	Professor, Faculty of Business Administration , Seikei University
	Miwa Yumiko	Professor, Faculty of Commerce, Meiji University

(Note) In Japanese alphabetical order, honorifics omitted.

Fund Management Committee ②

○ Meetings of the Fund Management Committee (FY2020)

Meeting number	Meeting date	Main subjects
46th	September 28, 2020 (Web conference)	<ul style="list-style-type: none"> • Consultation paper • Subjects to be discussed this year and how to proceed with them • Examination of the benchmark portfolio for the Annuity Retirement Benefit Association Reserve Fund • Recommendation paper (draft) • Acceptance statement of Japan's Stewardship Code • Status of investment of pension funds
47th	February 8, 2021 (Web conference)	<ul style="list-style-type: none"> • Concept of safe and efficient investment of pension funds • Status of stewardship activities • Status of investment of pension funds
48th	March 29, 2021 (Web conference)	<ul style="list-style-type: none"> • Examination of the benchmark portfolio for the Welfare Pension Insurance Benefit Association Reserve Fund • Examination of the benchmark portfolio for the Transitional Long-term Benefit Association Reserve Fund • Recommendation paper (draft) • Status of investment of pension funds in FY2021

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

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

① Investment return

(Unit: %)

	FY2015 (second half)	FY2016	FY2017	FY2018	FY2019	FY2020
Modified total return	0.89	4.16	6.40	1.59	-4.60	23.55
Domestic bonds	3.32	-0.79	1.25	1.94	0.13	-0.13
Short-term assets	-0.03	0.00	0.00	0.00	0.00	(0.00)
Domestic equities	-3.98	14.76	15.85	-5.24	-9.58	41.97
Foreign bonds	-2.32	-5.23	3.47	2.64	3.88	6.17
Foreign equities	-1.04	14.43	9.34	7.82	-12.35	59.17

② Value of investment income

(Unit: JPY100M)

	FY2015 (second half)	FY2016	FY2017	FY2018	FY2019	FY2020
Investment income	473	2,150	3,429	879	-2,506	11,774
Domestic bonds	984	-188	248	364	23	-23
Short-term assets	-1	0	0	0	0	(0)
Domestic equities	-330	1,331	1,836	-702	-1,205	4,801
Foreign bonds	-105	-320	247	204	304	606
Foreign equities	-75	1,327	1,098	1,013	-1,629	6,391

(Unit: %)

	FY2015 (second half)	FY2016	FY2017	FY2018	FY2019	FY2020
Realized return	2.29	2.24	4.37	2.96	2.98	3.62

(Unit: JPY100M)

	FY2015 (second half)	FY2016	FY2017	FY2018	FY2019	FY2020
Realized income	1,111	1,066	2,112	1,436	1,442	1,734
(Income gain)	(349)	(820)	(1,170)	(1,017)	(972)	(890)

(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.

(Note 4) Short-term assets in FY2020 are short-term bonds included in domestic bonds.

Issues held ①

The tables below show the top 10 bond and equity issues held indirectly through entrusted investment and directly through in-house investment as of the end of March 2021, 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	4316
2	Japan Finance Organization for Municipalities	381
3	Japan Expressway Holding and Debt Repayment Agency	348
4	Tokyo Metropolitan Government	281
5	Joint LGB	239
6	Kanagawa Prefecture	220
7	Japan Housing Finance Agency (former Government Housing Loan Corporation)	219
8	Saitama Prefecture	182
9	Osaka Prefecture	177
10	Aichi Prefecture	157
Total	305 Issuers	10,253

○ Domestic equity (in order of total market value)

No.	Issue names	No. of shares	Total market value (in 100M yen)
1	Toyota Motor Corporation	5,370,600	468
2	Sony Corporation	3,186,800	370
3	SoftBank Group	3,740,200	350
4	Keyence Corporation	533,300	269
5	Mitsubishi UFJ Financial Group	37,057,500	224
6	Shin-Etsu Chemical	1,062,000	199
7	Sumitomo Mitsui Financial Group	4,609,600	189
8	Recruit Holdings	3,409,400	184
9	Nippon Telegraph and Telephone Corporation	6,301,000	183
10	Nintendo Co., Ltd.	277,800	175
Total	2,214 Issues		15,999

○ Foreign bond (in order of total market value)

No.	Names of issuer	Total market value (in 100M yen)
1	UNITED STATES TREASURY	5,524
2	ITALY, REPUBLIC OF (GOVERNMENT)	1,304
3	FRANCE (GOVERNMENT)	1,240
4	GERMANY (GOVERNMENT OF)	871
5	SPAIN, KINGDOM OF (GOVERNMENT)	830
6	UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND	787
7	AUSTRALIA, COMMONWEALTH OF (GOVERNMENT)	309
8	BELGIUM, KINGDOM OF (GOVERNMENT)	279
9	CANADA (GOVERNMENT)	277
10	NETHERLANDS, KINGDOM OF (GOVERNMENT)	213
Total	712 Issuers	14,053

○ Foreign equity (in order of total market value)

No.	Issue names	No. of shares	Total market value (in 100M yen)
1	APPLE INC	3,801,485	513
2	MICROSOFT CORPORATION	1,657,894	432
3	AMAZON COM INC	100,762	345
4	FACEBOOK INC-A	614,030	200
5	ALPHABET INC-CL A	82,263	187
6	ALPHABET INC-CL C	75,236	172
7	TAIWAN SEMICONDUCTOR	6,038,808	138
8	JPMORGAN CHASE & CO	797,247	134
9	VISA INC-CLASS A SHR	528,470	124
10	ALIBABA GROUP HOLDING	493,248	124
Total	2,995 Issues		16,505

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.	Nomura Real Estate Asset Management	31
Foreign real estate	Tokio Marine Asset Management	Tokio Marine Asset Management	319
Foreign real estate	PGIM Japan	PGIM REAL ESTATE	159
Foreign infrastructure	J.P. Morgan Asset Management	J.P.MORGAN INVESTMENT MANAGEMENT INC.	53
Foreign infrastructure	Tokio Marine Asset Management	BLACKROCK FINANCIAL MANAGEMENT, INC.	18
Foreign PE	J.P. Morgan Asset Management	J.P.MORGAN INVESTMENT MANAGEMENT INC.	0
Foreign PE	Nomura Asset Management Co., Ltd.	HARBOURVEST PARTNERS, LLC	0

(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 the BarraOne system of MSCI as of the end of March 2021.

(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.