

Fiscal Year 2020 Review of Operations

Transitional Long-term Benefit Association Reserve Fund



全国市町村職員共済組合連合会

National Federation of Mutual Aid Associations for Municipal
Personnel

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Investment Results (Overview)

Investment return

Modified total return (market value basis)

(FY2020)

+24.44%

Investment income

Investment income (market value basis)

(FY2020)

+JPY 1,285.5 billion

Value of investment assets:

Total market value

(End of FY2020)

JPY 6,382.3 billion

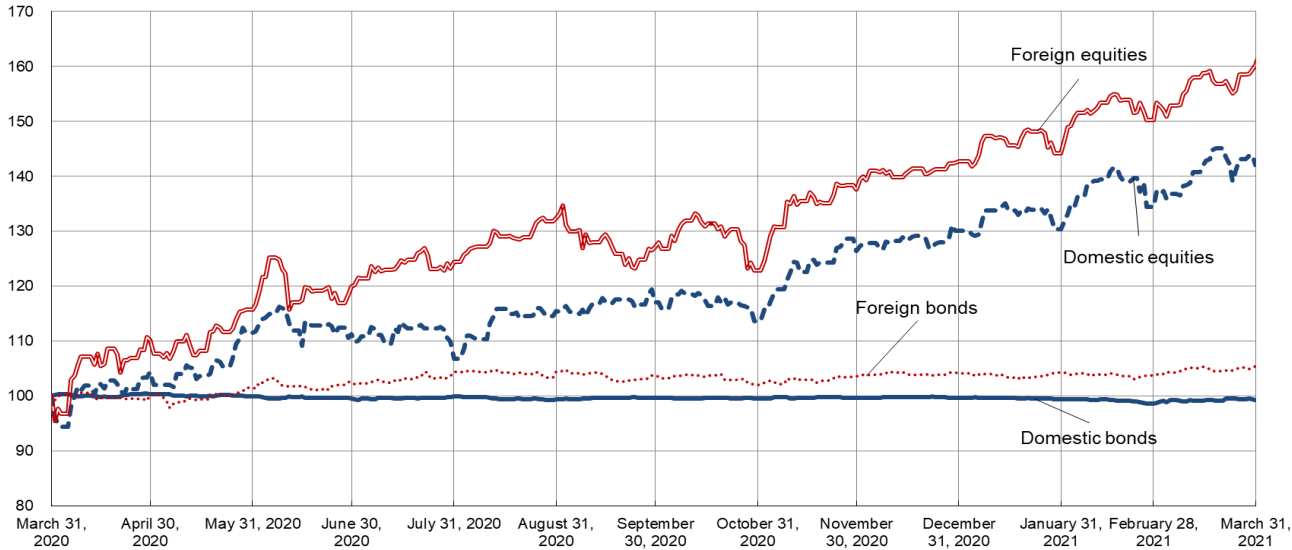
As pension funds are intended for long-term investment, the investment status must be judged from the long-term perspective. As investment income is based on the total market value as of the end of each term, it should be kept in mind that it includes valuation gains/losses, which means it may change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

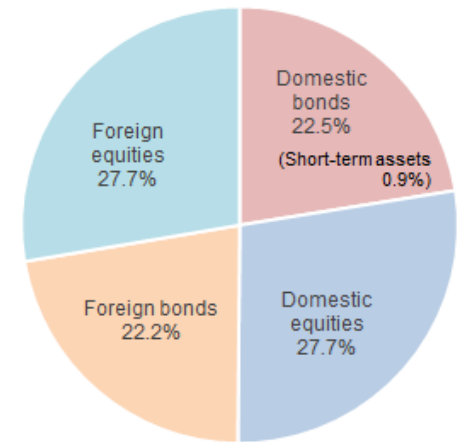
(1) Asset mix

The composition by asset is as follows:

	End of FY2019	FY2020				Benchmark portfolio
		End of Q1	End of Q2	End of Q3	End of Q4 (End of FY)	
Domestic bonds	37.9	33.8	30.6	26.3	22.5	25.0
Short-term assets	(1.1)	(0.8)	(1.0)	(1.1)	(0.9)	
Domestic equities	23.4	24.6	25.3	26.7	27.7	25.0
Foreign bonds	16.7	16.8	18.3	19.6	22.2	25.0
Foreign equities	22.1	24.9	25.8	27.4	27.7	25.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

(Unit: %)

Composition by Asset Class
(as of end of FY2020)



(Note 1) Deviation tolerances from the benchmark portfolio are $\pm 20\%$ for domestic bonds, $\pm 12\%$ for domestic equities, $\pm 9\%$ for foreign bonds and $\pm 11\%$ for foreign equities.

(Note 2) Due to rounding, the total sum of individual figures may not necessarily add up to 100%.

(Note 3) Loans and invested real properties are included in domestic bonds (percentage of 11.0% occupied in domestic bonds).

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

(2) Investment return

The modified total return for FY2020 was 24.44% for the overall assets.

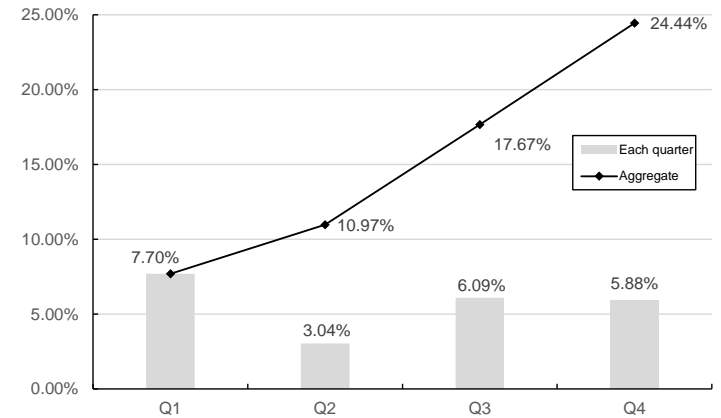
(Unit: %)

	FY2020				
	Q1	Q2	Q3	Q4	FY total
Modified total return	7.70	3.04	6.09	5.88	24.44
Domestic bonds	-0.05	0.27	0.18	-0.26	0.17
Short-term assets	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Domestic equities	11.90	5.31	10.86	8.99	41.93
Foreign bonds	2.88	0.83	0.87	1.44	5.93
Foreign equities	20.02	6.00	12.03	11.92	58.91

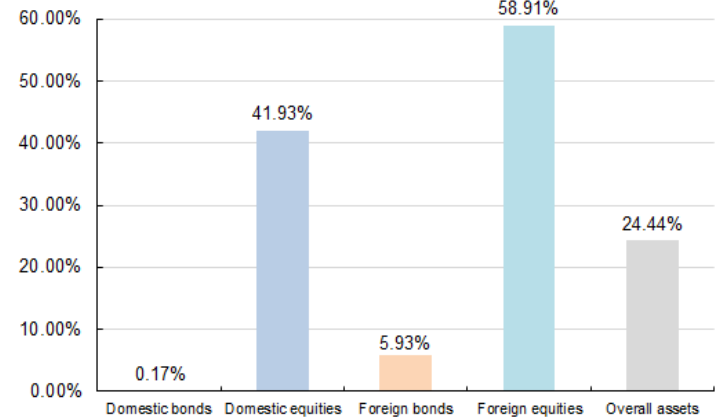
(Unit: %)

	FY2020				
	Q1	Q2	Q3	Q4	FY total
Realized return	0.49	1.16	1.23	2.71	5.60

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 24.44%, while the excess return compared with the benchmark return was -0.39%. As for the asset allocation factor, overweight of domestic bonds and underweight of foreign equities made negative contributions. As for the individual asset factor, domestic bonds and foreign bonds made positive contributions.

FY2020 (April 2020 through March 2021)

(Unit: %)

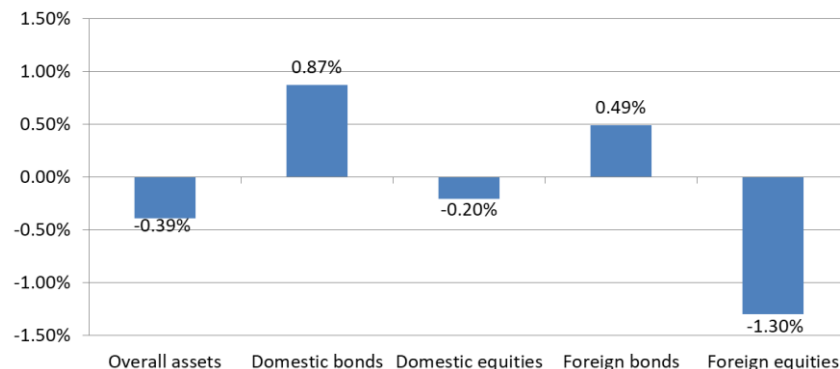
	Overall assets	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Modified total return	24.44	0.17	41.93	5.93	58.91
Benchmark return	*24.83	-0.70	42.13	5.43	60.21
Excess return	-0.39	0.87	-0.20	0.49	-1.30

* 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	-1.93%	0.59%	-1.34%
Domestic equities	0.04%	0.18%	0.22%
Foreign bonds	1.20%	0.30%	1.50%
Foreign equities	-0.68%	-0.09%	-0.77%
Total	-1.37%	0.98%	-0.39%

- ① Asset allocation factor: A factor that is attributable to the difference between the asset mix of the fund and the benchmark portfolio.
- ② Individual asset factor: A factor that is attributable to the difference between the modified total return and benchmark returns concerning each asset class.

Excess return (by Asset Class)



(Reference) Deviation of the Federation's portfolio (book value average balance + accrued income as of the end of previous period + valuation gains/losses as of the end of previous period) from the benchmark portfolio

	Federation's portfolio	Benchmark portfolio	Deviation	Deviation tolerance
Domestic bonds	34.0%	25.0%	9.0%	±20%
Domestic equities	23.9%	25.0%	-1.1%	±12%
Foreign bonds	19.7%	25.0%	-5.3%	±9%
Foreign equities	22.4%	25.0%	-2.6%	±11%
Total	100.0%	100.0%	0.0%	

(3) Contribution analysis of excess return ②

○ Domestic bonds

The modified total return of domestic bonds was 0.17%, which exceeded the benchmark return (-0.70%) by 0.87%.

In addition to benchmark factors making slightly positive contributions by the 20 year ladder-type investments, which accounts for 90% of the balance, the funds are operated with an higher ownership ratio of municipal bonds compared with the benchmark, and the bond type factors from having ownership made a positive contribution. The rate of return of municipal bonds purchased privately by financial institutions with no market valuation made a positive contribution, which made all domestic bonds exceeded the benchmark.

○ Domestic equities

The modified total return of foreign equities was 41.93%, which was below the benchmark return (42.13%) by 0.20%.

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 5.93%, which exceeds the benchmark return (5.43%) by 0.49%.

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 58.91%, which was below the benchmark return (60.21%) by 1.30%.

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 1,285.5 billion for overall assets.

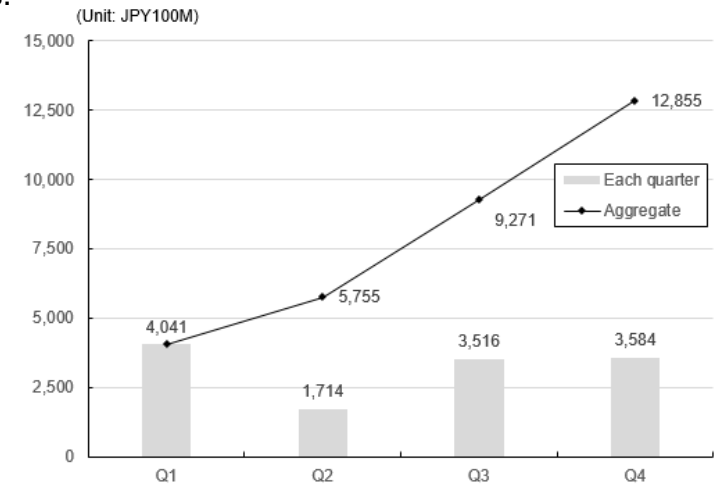
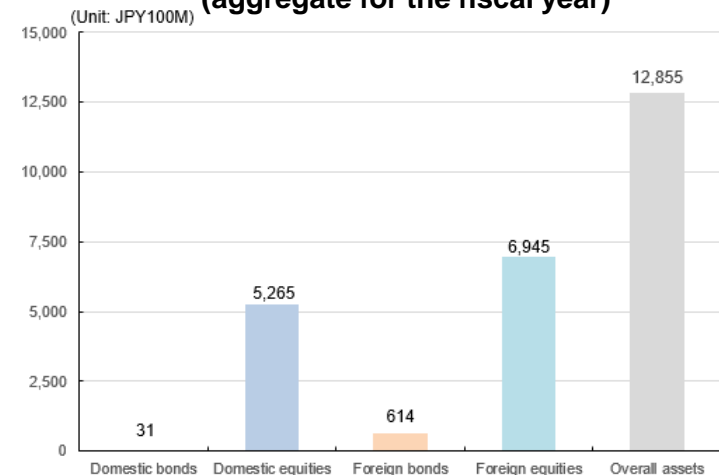
(Unit: JPY100M)

	FY2020				
	Q1	Q2	Q3	Q4	FY total
Investment income	4,041	1,714	3,516	3,584	12,855
Domestic bonds	-10	49	31	-39	31
Short-term assets	(0)	(0)	(0)	(0)	(0)
Domestic equities	1,459	737	1,598	1,470	5,265
Foreign bonds	254	81	96	183	614
Foreign equities	2,338	846	1,791	1,970	6,945

(Unit: JPY100M)

	FY2020				
	Q1	Q2	Q3	Q4	FY total
Realized income	237	557	593	1,319	2,706

Changes in investment income

Total 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) 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)

	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	18,457	20,092	1,635	17,495	19,025	1,530	16,283	17,664	1,380	14,726	15,928	1,202	13,409	14,337	928
Short-term assets	(559)	(559)	(0)	(465)	(465)	(0)	(551)	(551)	(0)	(660)	(660)	(0)	(566)	(566)	(0)
Domestic equities	11,936	12,400	464	11,937	13,859	1,922	12,014	14,596	2,582	12,313	16,194	3,881	12,793	17,664	4,871
Foreign bonds	8,614	8,840	227	8,951	9,444	494	10,062	10,586	524	11,301	11,882	581	13,528	14,165	637
Foreign equities	9,750	11,692	1,942	9,754	14,030	4,276	9,903	14,876	4,973	9,961	16,587	6,626	9,677	17,657	7,980
Total	48,756	53,024	4,268	48,137	56,358	8,221	48,263	57,722	9,459	48,301	60,591	12,290	49,406	63,823	14,416

(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	-5,793	0	4,710	-980

(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 JPY 3.3 billion in FY2020.
The fee rate relative to the value of investment assets came to 0.06%.

(Unit: JPY100M, %)

	FY2020	
	Fees	Fee rate
Domestic bonds	0	0.00
Domestic equities	14	0.10
Foreign bonds	6	0.05
Foreign equities	13	0.09
Overall assets	33	0.06

(Note 1) Fees include management fees and custodian fees related to investment.

(Note 2) The amount of fee is rounded off to the nearest hundred million yen.

(Note 3) Fee rate = fee amount/month-end market value average balance

Benchmark portfolio

1. Benchmark portfolio (asset mix)

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Asset mix	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 Transitional Long-term 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

② Transitional Long-term Benefit Association Reserve Fund

- A. The Federation shall conduct appropriate risk management, especially paying attention to downside risks in light of the characteristics of a closed pension plan which receives no new contribution income, with constant awareness of the relationship between future liabilities and the fund.

(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.

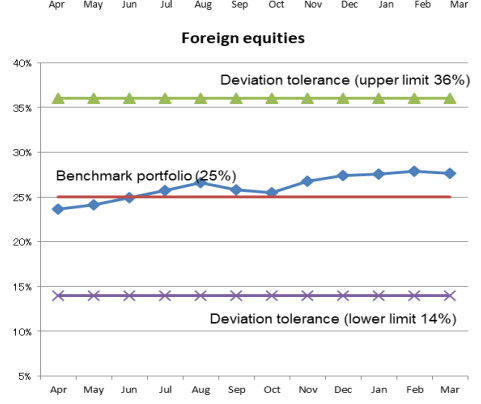
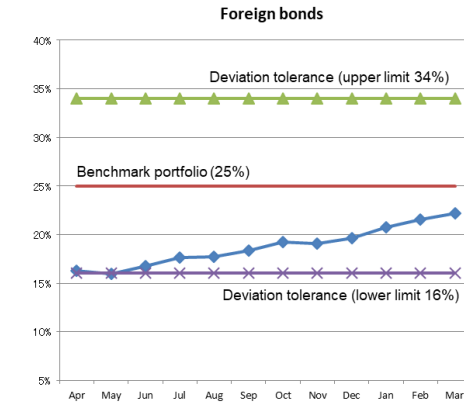
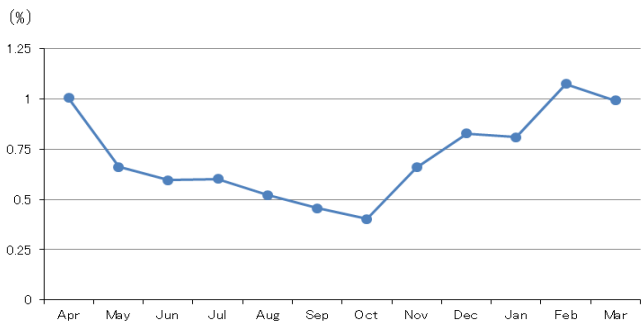
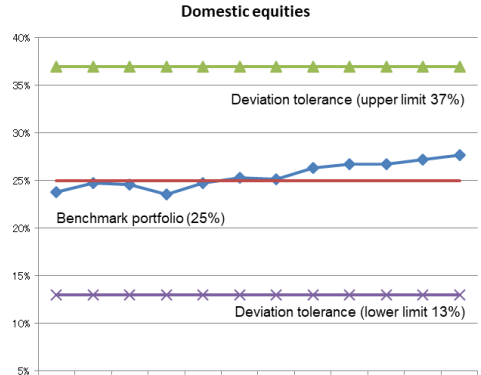
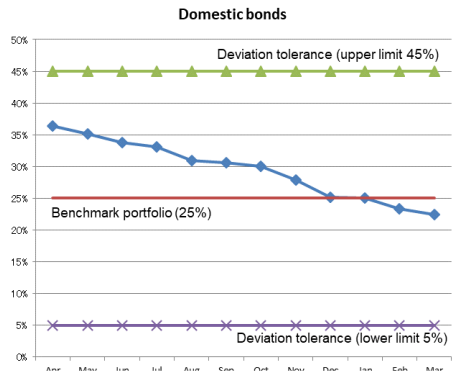
(3) Status of risk management (overall assets)

○ 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)

(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

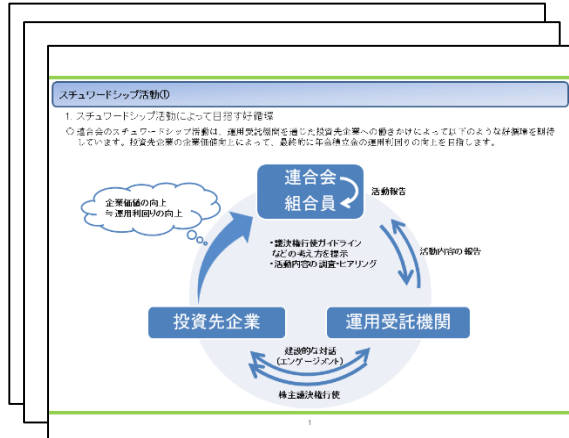
Subjects	Period	Targets	Main subjects
Providing information on an as-needed basis in addition to regular reports at executive meetings	As necessary	Executives of the Federation Executives and employees of member associations	Federation's approach to stewardship activities and ESG investment
Report of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

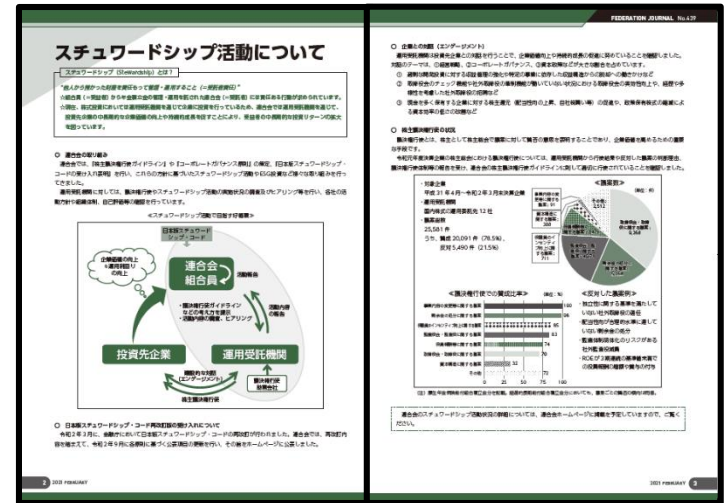
https://ssl.shichousonren.or.jp/fund/stewardship_active.html



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)



Administration and evaluation of entrusted investment management institutions, etc.

① Administration and evaluation of entrusted investment management institutions

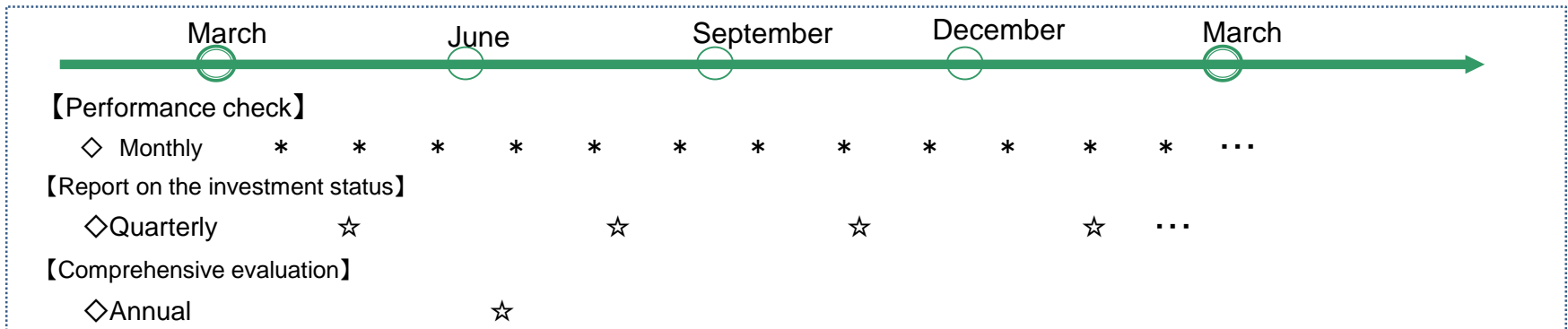
The Federation requires entrusted investment management institutions to submit monthly reports on investment results and the risk status and checks the status of compliance with the investment guidelines. The Federation also requires quarterly reports on the portfolio status, a factor breakdown of the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

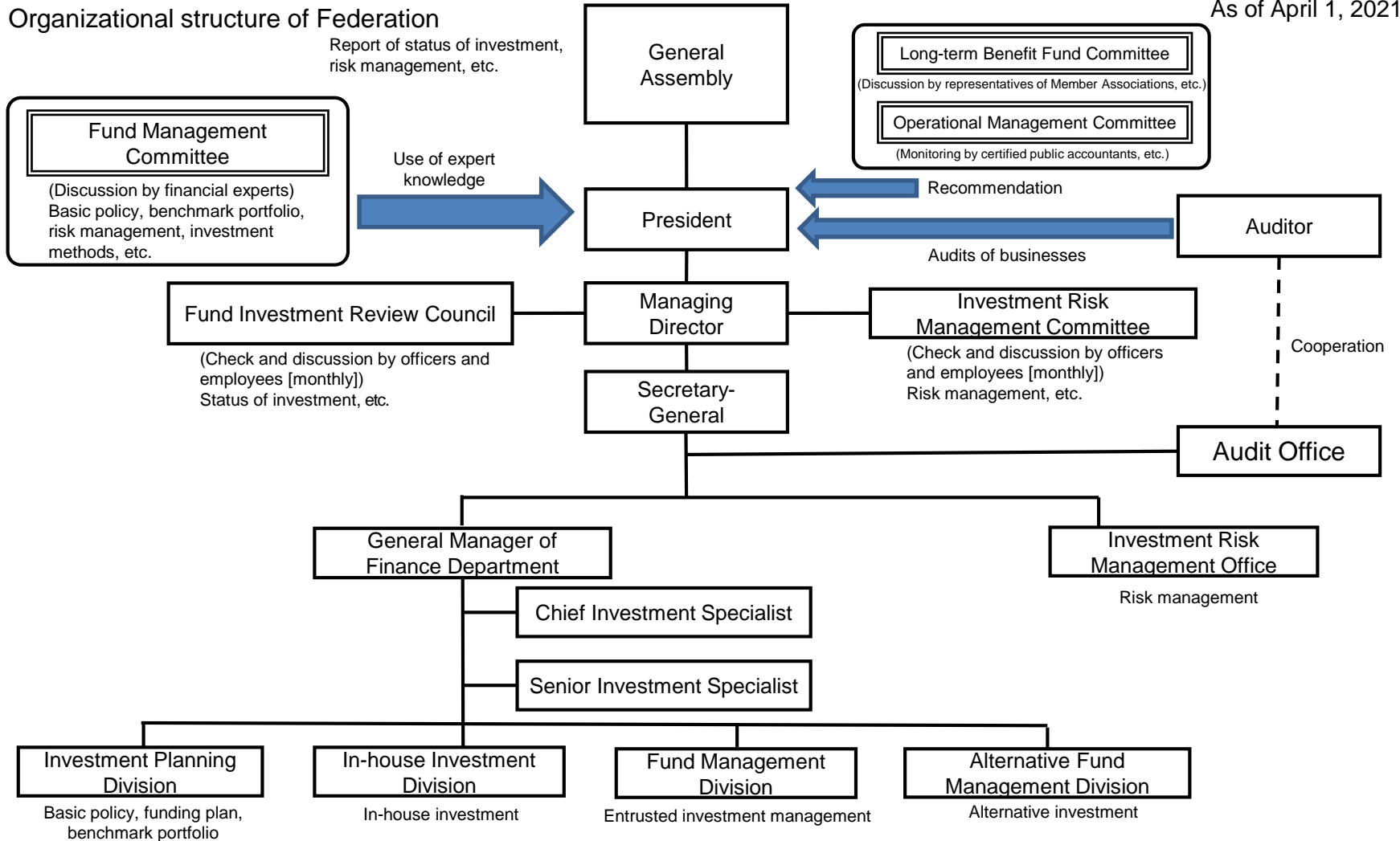
7. Investment Risk Management Committee

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 manage the fund with the objective of contributing to the stability of the transitional long-term benefit (“TLTB”) plan operations based on the characteristics of a closed-end pension fund that will have no new contribution income, especially paying attention to downside risks, with constant awareness of the relationship between future liabilities and the fund and from a long-term perspective and in a stable and efficient manner.

In the management of funds, investments shall be made in a way that ensures appropriate diversification across multiple assets with different risk/return profiles and other characteristics.

The investment of the Transitional Long-term Benefit Association Reserve Fund, which has the characteristics of a closed pension plan, shall be managed appropriately by establishing the benchmark portfolio in order to generate investment returns needed for the reserve fund with the minimum risk, while fully paying attention to the relationship between future liabilities and the reserve fund. In addition, 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 Transitional Long-term Benefit Association Reserve Fund (Extract)

1. Basic Policy

The Federation shall manage the TLTB association reserve fund with the objective of contributing to the stability of the TLTB plan operations based on the characteristics of a closed-end pension fund that will have no new contribution income, especially paying attention to downside risks, with constant awareness of the relationship between future liabilities and the fund and from a long-term perspective and in a stable and efficient manner. Accordingly, on the basis of appropriately diversifying investments in multiple assets that differ in risk/return and other characteristics (“diversified investment”), the Federation shall manage and invest the TLTB association reserve fund by establishing an asset mix from the long-term perspective (the “benchmark portfolio”).

2. Investment target

The investment of the TLTB association reserve fund, which has the characteristics of a closed pension plan, shall be managed appropriately by establishing the benchmark portfolio in order to generate investment returns needed for the fund with the minimum risk, while fully paying attention to the relationship between future liabilities and the fund.

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

In addition, efforts shall be made to earn the benchmark return for overall assets each asset class for each fiscal year, as well as generating 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	0.97	4.90	6.81	1.22	-4.97	24.44
Domestic bonds	3.80	-0.52	0.96	1.55	-0.34	0.17
Short-term assets	0.02	0.01	0.00	0.00	0.00	(0.00)
Domestic equities	-4.50	14.94	16.32	-5.26	-9.00	41.93
Foreign bonds	-2.21	-5.19	3.65	2.62	4.07	5.93
Foreign equities	-0.93	14.34	9.57	7.82	-13.33	58.91

(Unit: %)

	FY2015 (second half)	FY2016	FY2017	FY2018	FY2019	FY2020
Realized return	2.15	2.59	5.09	3.57	2.94	5.60

② Value of investment income

(Unit: JPY100M)

	FY2015 (second half)	FY2016	FY2017	FY2018	FY2019	FY2020
Investment income	560	2,795	3,913	717	-2,842	12,855
Domestic bonds	1,198	-141	234	328	-68	31
Short-term assets	1	0	0	0	0	(0)
Domestic equities	-444	1,800	2,317	-828	-1,286	5,265
Foreign bonds	-119	-314	238	212	350	614
Foreign equities	-75	1,449	1,125	1,005	-1,838	6,945

(Unit: JPY100M)

	FY2015 (second half)	FY2016	FY2017	FY2018	FY2019	FY2020
Realized income	1,085	1,305	2,508	1,756	1,431	2,706
(Income gain)	(522)	(1,078)	(1,360)	(1,176)	(1,149)	(1,035)

(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

The tables below show the top 10 bond and equity issues held indirectly through entrusted investment, directly through in-house investment, and indirectly through depositing with member associations 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	Japan Finance Organization for Municipalities	4,523
2	Government of Japan	3,084
3	Hyogo Prefecture	546
4	East Japan Railway Company	309
5	Osaka City	305
6	Kitakyushu City	240
7	Kyoto City	228
8	Kobe City	193
9	Nagoya City	188
10	Development Bank of Japan	166
Total	473 Issuers	13,771

○ Domestic equity (in order of total market value)

No.	Issue names	No. of shares	Total market value (in 100M yen)
1	Toyota Motor Corporation	5,780,800	504
2	Sony Corporation	3,379,800	393
3	SoftBank Group	3,926,800	367
4	Keyence Corporation	569,000	287
5	Mitsubishi UFJ Financial Group	40,457,900	244
6	Shin-Etsu Chemical	1,160,100	217
7	Sumitomo Mitsui Financial Group	5,205,100	213
8	Nippon Telegraph and Telephone Corporation	6,815,300	197
9	Recruit Holdings	3,590,900	194
10	KDDI Corporation	5,264,300	182
Total	2,214 Issues		17,535

○ Foreign bond (in order of total market value)

No.	Names of issuer	Total market value (in 100M yen)
1	UNITED STATES TREASURY	5,787
2	FRANCE (GOVERNMENT)	1,370
3	ITALY, REPUBLIC OF (GOVERNMENT)	1,348
4	GERMANY (GOVERNMENT OF)	968
5	UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND	849
6	SPAIN, KINGDOM OF (GOVERNMENT)	832
7	BELGIUM, KINGDOM OF (GOVERNMENT)	311
8	AUSTRALIA, COMMONWEALTH OF (GOVERNMENT)	296
9	CANADA (GOVERNMENT)	260
10	NETHERLANDS, KINGDOM OF (GOVERNMENT)	237
Total	687 Issuers	14,174

○ Foreign equity (in order of total market value)

No.	Issue names	No. of shares	Total market value (in 100M yen)
1	APPLE INC	4,023,503	543
2	MICROSOFT CORPORATION	1,748,985	456
3	AMAZON COM INC	106,508	364
4	FACEBOOK INC-A	648,678	211
5	ALPHABET INC-CL A	86,643	197
6	ALPHABET INC-CL C	79,606	182
7	TAIWAN SEMICONDUCTOR	6,362,861	145
8	JPMORGAN CHASE & CO	844,798	142
9	VISA INC-CLASS A SHR	567,667	133
10	TESLA INC	176,958	131
Total	3,001 Issues		17,494

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