

# Fiscal Year 2021 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)  
(FY2021)

+5.62%

### Investment income

Investment income (market value basis)  
(FY2021)

+JPY 344.0 billion

### Value of investment assets:

Total market value  
(End of FY2021)

JPY 6,359.0 billion

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

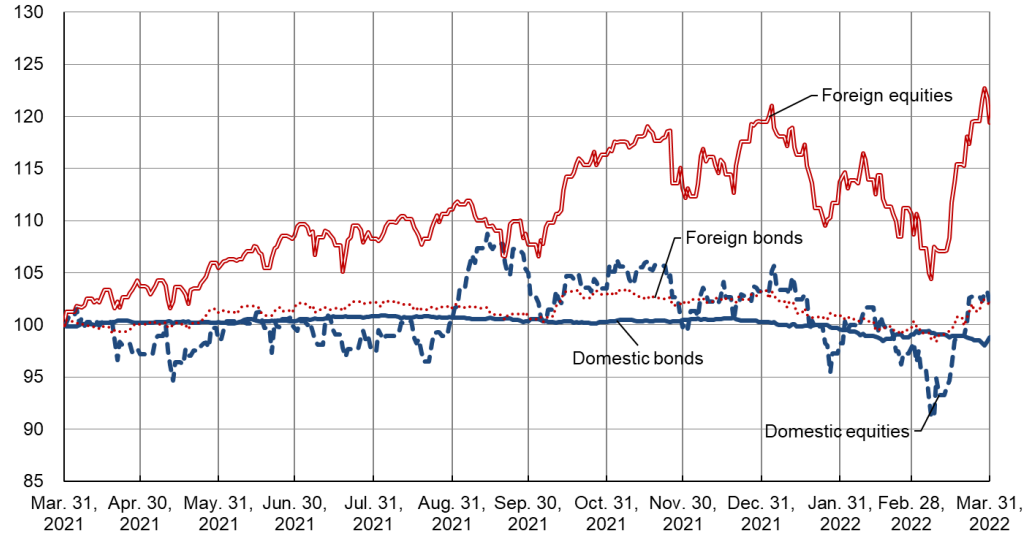
As investment income is based on the total market value as of the end of each term, it should be kept in mind that it includes valuation gains/losses, which means it may change depending on market movements.

(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 FY2021

Change in benchmark return

The full-year benchmark return came to +5.48%. Despite the effects of the FRB's (U.S. Federal Reserve Board's) stance of accelerating interest rate hikes and the rising tension in the Ukraine situation, foreign equities made significant contributions amid the yen's depreciation.



(Note) The level as of March 31, 2021 is the base figure of 100.

Asset class	Benchmark	Returns				
		Q1	Q2	Q3	Q4	Full fiscal year
Domestic bonds	NOMURA Bond Performance Index (Overall)	0.31%	0.06%	-0.07%	-1.50%	-1.22%
Domestic equities	TOPIX (dividend-inclusive)	-0.33%	5.32%	-1.69%	-1.17%	1.99%
Foreign bonds	FTSE World Government Bond Index (ex-Japan, ex-China, no hedge, in yen)	1.65%	-0.89%	2.52%	-1.35%	1.89%
Foreign equities	MSCI ACWI ex. Japan (in yen, dividend-inclusive)	8.55%	-0.79%	10.92%	-0.07%	19.38%
<b>Total</b>		<b>2.52%</b>	<b>0.95%</b>	<b>2.91%</b>	<b>-0.96%</b>	<b>5.48%</b>

(Note 1) 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.

(Note 2) The figures for foreign bonds until December, 2021 were calculated with the FTSE World Government Bond Index (ex-Japan, ex-China, no hedge, in yen) as the benchmark.

(Source: Bloomberg)

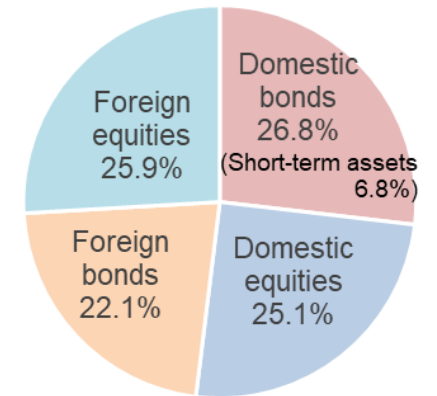
(1) Asset mix

The composition by asset is as follows:

	End of FY2020	FY2021				Benchmark portfolio
		End of Q1	End of Q2	End of Q3	End of Q4 (End of FY)	
Domestic bonds	25.8	20.7	26.2	23.5	26.8	25.0
Short-term assets	(7.3)	(1.4)	(5.4)	(2.7)	(6.8)	
Domestic equities	25.9	27.0	26.6	26.2	25.1	25.0
Foreign bonds	21.6	23.0	22.0	22.8	22.1	25.0
Foreign equities	26.7	29.2	25.3	27.5	25.9	25.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

(Unit: %)

Composition by Asset Class  
(as of end of FY2021)



(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 1.6% (the upper limit for the benchmark portfolio is 5%).

(2) Investment return

The modified total return for FY2021 was 5.62% for the overall assets.

(Unit: %)

	FY2021				
	Q1	Q2	Q3	Q4	FY total
Modified total return	2.79	1.05	2.81	-0.96	5.62
Domestic bonds	0.41	0.06	-0.04	-1.25	-0.96
Short-term assets	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Domestic equities	-0.04	5.22	-1.79	-1.49	1.80
Foreign bonds	1.76	-0.63	2.84	-0.66	3.27
Foreign equities	8.32	-0.62	10.51	-0.45	17.63

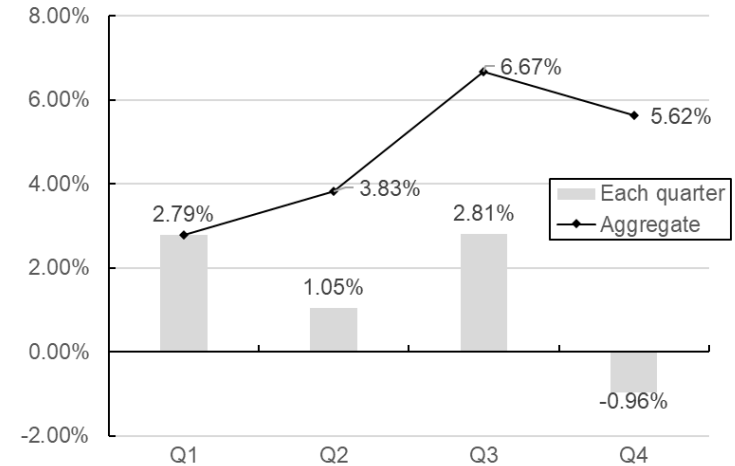
(Unit: %)

	FY2021				
	Q1	Q2	Q3	Q4	FY total
Realized return	1.64	2.81	1.19	1.29	6.91

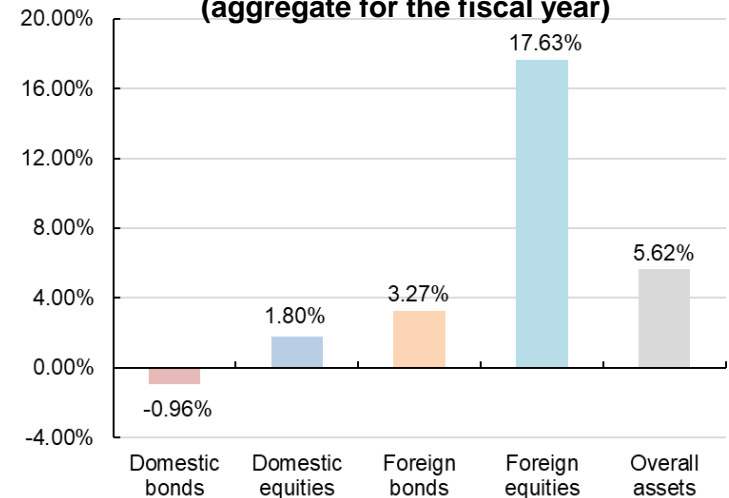
(Note 1) The return in each quarter is the period rate.

(Note 2) The modified total return and realized return represent figures after the deduction of fees, etc. settled within the relevant period.

Changes in modified total return



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

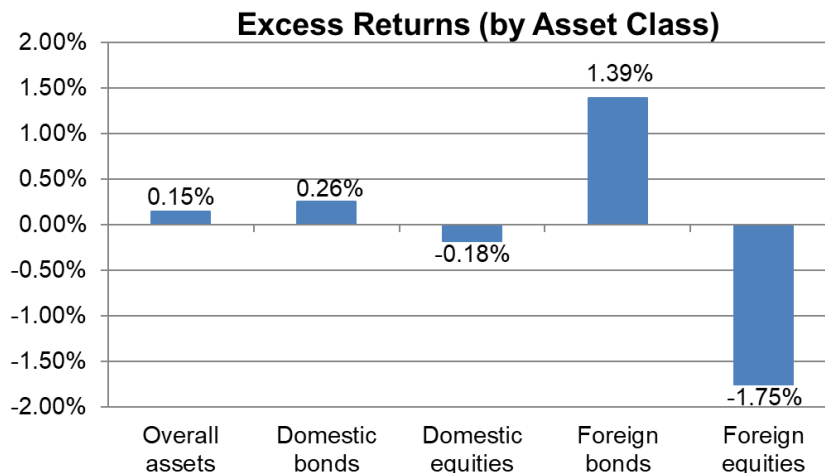


**(3) Contribution analysis of excess return ①**

The modified total return for overall investment assets was 5.62%, while the excess return compared with the benchmark return was 0.15%. As for the asset allocation factor, underweight of foreign bonds and overweight of foreign equities made positive contributions. As for the individual asset factor, foreign and domestic equities made negative contributions.

FY2021 (April 2021 through March 2022)		(Unit: %)			
	Overall assets	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Modified total return	5.62	-0.96	1.80	3.27	17.63
Benchmark return	* 5.48	-1.22	1.99	1.89	19.38
Excess return	0.15	0.26	-0.18	1.39	-1.75

\* The benchmark return for overall assets is calculated by weight-averaging the benchmark returns for individual asset classes based on the shares in the asset mix of the benchmark portfolio. Due to rounding, the total sum of individual figures may not necessarily add up to the total.



	Asset allocation factor ①	Individual asset factor ②	①+②
Domestic bonds	0.01%	0.07%	0.08%
Domestic equities	-0.04%	-0.04%	-0.09%
Foreign bonds	0.08%	0.33%	0.41%
Foreign equities	0.19%	-0.45%	-0.26%
Total	0.24%	-0.09%	0.15%

(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	25.0%	25.0%	-0.0%	±20%
Domestic equities	26.3%	25.0%	1.3%	±12%
Foreign bonds	22.3%	25.0%	-2.7%	±9%
Foreign equities	26.4%	25.0%	1.4%	±11%
Total	100.0%	100.0%	0.0%	

① Asset allocation factor: A factor that is attributable to the difference between the asset mix of the fund and the benchmark portfolio.

② Individual asset factor: A factor that is attributable to the difference between the modified total return and benchmark returns concerning each asset class.



### (3) Contribution analysis of excess return ②

#### ○ Domestic bonds

The modified total return of foreign equities was -0.96%, which exceeds the benchmark return (-1.22%) by 0.26%.

Regarding passive funds, for which an overweighting of municipal bonds is tolerated, although the narrowing of the yield spread between municipal and government bonds made positive contributions due to the bond type factor, the return was lower than the benchmark due to the effects of the unfortunate timings of additional investments. Active funds generally performed well, as the selection of corporate bond issues was successful. Funds investing in currency-hedged foreign bonds, classified as domestic bonds, made negative contributions, but the return for domestic bonds as a whole was higher than the benchmark.

#### ○ Domestic equities

The modified total return of foreign bonds was 1.80%, which was below the benchmark return (1.99%) by 0.18%.

The passive funds were almost the same as the benchmark. Regarding active funds, some growth funds and small- and mid-cap stock funds performed poorly—although the results varied depending on the funds' strategies—on a full-year basis amid the market environment in which value and large-cap stocks performed better. Regarding funds adopting smart beta strategies, the manager's benchmark return was lower than the return on the TOPIX index for those using a low-volatility strategy. As a result, the return on domestic equities as a whole was lower than the benchmark.

#### ○ Foreign bonds

The modified total return of domestic bonds was 3.27%, which exceeds the benchmark return (1.89%) by 1.39%.

For passive funds, the return was higher than the benchmark because of the effects of the differences between the funds and the benchmark in the prices used for market price valuation. For active funds, funds of five out of eight entrusted investment management institutions that adopt the Bloomberg Global Aggregate Index (3.44%) as the manager's benchmark exceeded the benchmark return, and in addition, funds of four of those five entrusted investment management institutions delivered a higher return than the manager's benchmark due to a successful selection of issues. As a result, the return for foreign bonds as a whole was higher than the benchmark. Funds investing in alternative assets, which are classified as domestic bonds, also contributed to the excess return.

#### ○ Foreign equities

The modified total return of foreign equities was 17.63%, which was below the benchmark return (19.38%) by 1.75%.

For passive funds, the return was lower than the benchmark due to the negative effects of taxation on dividends and the unfortunate timing of some cancellations. Regarding active funds, despite the steady performance of funds whose investment management kept portfolio volatility under control, many other funds made an unsuccessful selection of issues. As a result, the return for foreign equities as a whole was lower than the benchmark.

(4) Investment income

The investment income for FY2021 was JPY 344.0 billion for overall assets.

(Unit: JPY100M)

	FY2021				
	Q1	Q2	Q3	Q4	FY total
Investment income	1,665	650	1,740	-615	3,440
Domestic bonds	56	9	-7	-204	-147
Short-term assets	(0)	(0)	(0)	(0)	(0)
Domestic equities	-6	835	-297	-241	290
Foreign bonds	237	-87	390	-94	446
Foreign equities	1,379	-106	1,654	-77	2,850

(Unit: JPY100M)

	FY2021				
	Q1	Q2	Q3	Q4	FY total
Realized income	783	1,375	587	646	3,391

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

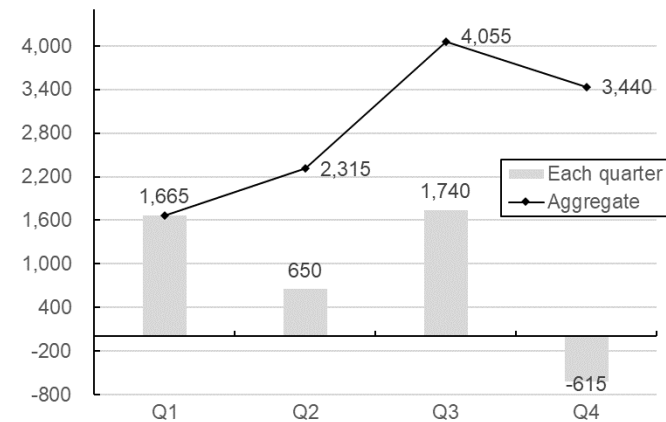
(Note 2) The investment income represents the realized income adjusted for the effects of changes in valuation gains/losses based on market value.

(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.

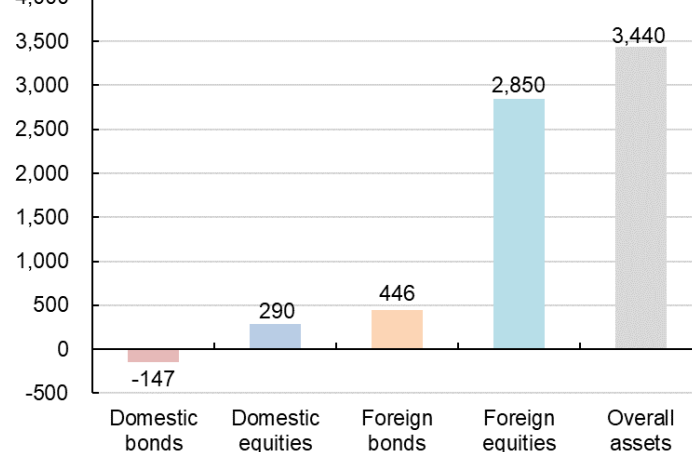
Changes in investment income

(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 FY2020			FY2021											
				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	15,791	16,032	241	12,057	12,357	300	16,014	16,267	254	14,324	14,568	243	17,032	17,073	41
Short-term assets	(4,561)	(4,561)	(0)	(831)	(831)	(0)	(3,334)	(3,334)	(0)	(1,642)	(1,642)	(0)	(4,328)	(4,328)	(0)
Domestic equities	11,901	16,111	4,210	12,022	16,105	4,083	11,744	16,499	4,755	11,999	16,202	4,204	12,222	15,961	3,739
Foreign bonds	12,895	13,435	540	12,963	13,718	754	13,071	13,658	588	13,273	14,147	874	13,464	14,074	610
Foreign equities	9,496	16,623	7,127	9,389	17,387	7,998	8,769	15,688	6,919	8,793	17,034	8,240	8,706	16,482	7,776
Total	50,083	62,201	12,118	46,432	59,567	13,135	49,597	62,113	12,515	48,389	61,951	13,561	51,424	63,590	12,167

(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 FY2021 by asset class are as follows.

(Unit: JPY100M)

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Amount of funds allocated and withdrawn	1,420	- 440	193	- 2,991

(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 JPY4.2 billion in FY2021.

The fee rate relative to the value of investment assets came to 0.07%.

(Unit: JPY100M, %)

	FY2021	
	Fees	Fee rate
Domestic bonds	6	0.05
Domestic equities	12	0.08
Foreign bonds	6	0.05
Foreign equities	15	0.09
Alternative assets	3	0.38
Overall assets	42	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.

### 3 Benchmark portfolio

#### Benchmark portfolio

##### 1. Benchmark portfolio

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

## (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. ("Uncertainties of returns, etc." refers to the risk of the value of assets rising as well as falling)
- Risks in the field of asset investment include interest rate fluctuation risk, price fluctuation risk, credit risk and liquidity risk. Therefore, it is important to understand the magnitude and multifaceted impacts of various risks commensurate with investment from a long-term perspective.
- The Federation appropriately implements risk management concerning investment in accordance with the implementation policy for risk management concerning investment of the funds in consideration of the points including the following: that investment of funds should be made safely and efficiently from a long-term perspective; and that diversified investments should be maintained in principle.

### Implementation policy for risk management concerning investment of the fund (extract)

#### 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

- Management of the deviation of the asset mix
  - Investment based on the benchmark portfolio requires the management of various risk factors. Therefore, in order to secure returns in line with the benchmark portfolio from the long-term perspective, it is important, in particular, to manage the degree of deviation of the asset mix ratio of the fund from that of the benchmark portfolio.
  - Specifically, as the asset mix constantly changes due to asset price fluctuations, the Federation keeps track of the status of the deviation of the asset mix of the fund from that of the benchmark portfolio and manages the actual portfolio so as to keep the degree of deviation within a certain range (deviation tolerance). In this way, the Federation checks whether or not there are problems such as a deviation from the benchmark portfolio in excess of the deviation tolerance.
- Monitoring of market risk, etc.
  - The Federation identifies downside risks by using the value at risk approach, which measures the maximum foreseeable amount of losses expected under certain conditions, and the simulation of impact on funds in the case of fluctuation of share price and interest rate within a certain range (a stress test).
  - As it also uses active investment in its investment of funds, the Federation seeks to earn an excess rate of return over the benchmark by diversifying investment strategies and investment issues within each asset class. Therefore, the Federation monitors the status of market risk (price volatility risk, etc. in each asset market), credit risk (default risk), etc. with respect to each asset class, mainly from the viewpoint of difference from the benchmark for each asset class.
- Management of entrusted investment management institutions, etc.

The Federation manages liquidity risk (risk that purchasing and selling assets will become difficult due to a decline in trading volume) from the viewpoint of revising asset allocations (rebalancing) and smooth conversion of assets into cash. In addition, as the Federation entrusts the operation of some investment-related activities to external institutions, it monitors the status of management (status of risk management and asset administration) of the institutions to which it entrusts asset management or asset administration (entrusted investment management institutions and asset administration institutions), from the viewpoint of ensuring the smooth operation.
- Reporting on the status of risk management and improvement measures implemented

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

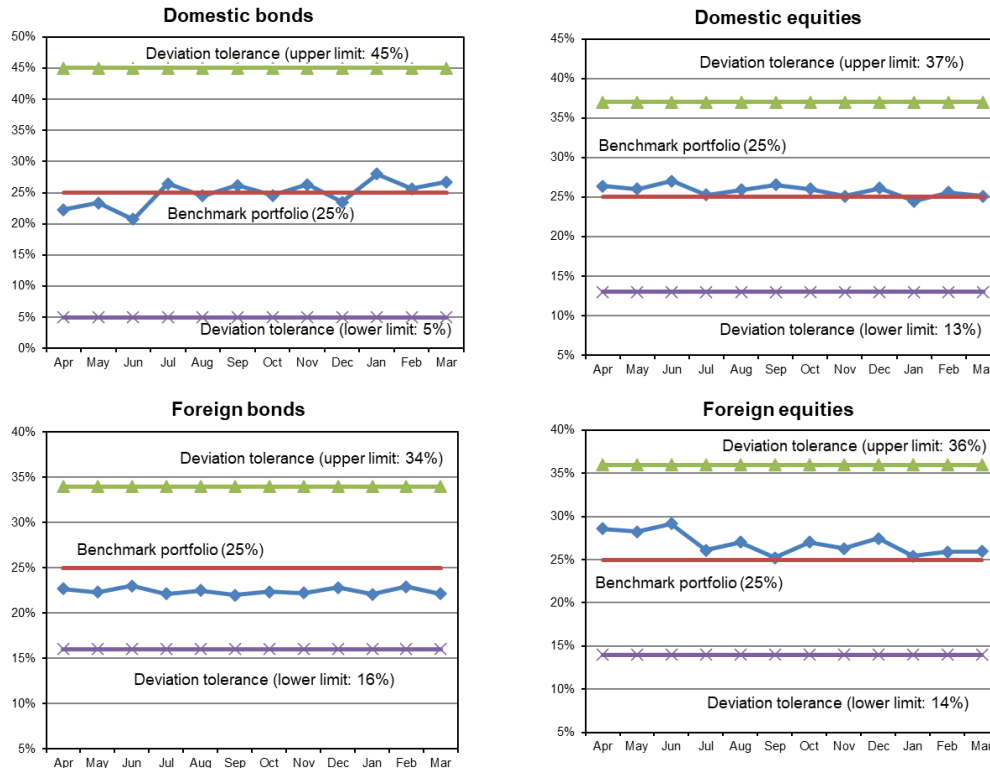
## 4 Risk management

### (3) Status of risk management (overall assets)

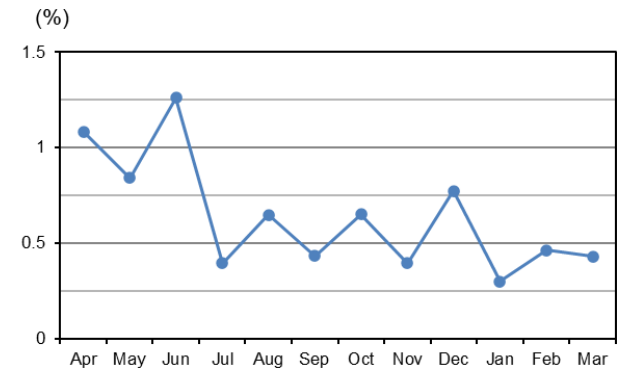
#### ○ Asset mix and estimated tracking error

The asset-by-asset share in the asset mix stayed mostly at around the median value for all asset classes. The estimated tracking error for all assets exceeded 1% temporarily mainly due to the expansion of the difference between the shares of foreign equities in the actual and benchmark portfolios in the first half of the fiscal year. From July, the estimated tracking error stayed at around 0.5% due to rebalancing.

【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)



## 5 Investment in alternative assets

### Investment in alternative assets ①

For the purpose of ensuring safe and efficient investment management of the Employees' Pension Insurance Benefit Association Reserve Fund from a long-term perspective, the Federation started investment in alternative assets in FY2018 in order to promote diversified investment.

#### 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.

5 Investment in alternative assets

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 FY2021, the Federation adopted an entrusted investment management institution for one fund related to real estate investment.

- Sumitomo Mitsui Trust Bank, Limited (Domestic real estate)

## Investment in alternative assets ③

## (3) Status of investments

## ○ Domestic real estate investments (included in 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	Diversified investment in sectors such as rental houses, offices, and industrial and commercial facilities mainly in the three major metropolitan areas	¥3.1 billion	December 2018	5.99%
Sumitomo Mitsui Trust Bank	Diversified investment in privately placed REITs and privately placed funds focusing primarily on investment in domestic offices, industrial facilities, rental houses, commercial facilities, etc.	¥2.3 billion	January 2022	0.00%

## ○ Foreign real estate investments (included 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)
Tokio Marine Asset Management	Diversified investment in real estate funds focusing mainly on investment in properties across the world excluding Japan, including industrial facilities, offices, rental houses, and commercial facilities	¥55.6 billion	December 2018	29.60%
PGIM Japan	Diversified investment in U.S. industrial facilities, rental houses, offices and commercial facilities	¥21.2 billion	December 2018	33.01%

5 Investment in alternative assets

Investment in alternative assets ④

○ Foreign infrastructure investment (included 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	¥11.3 billion	February 2020	10.91%
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	¥4.5 billion	March 2020	21.33%

○ Foreign private equity investment (included 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	¥2.0 billion	March 2021	12.58%
Nomura Asset Management (Fund of funds manager: HarbourVest Partners, LLC)	Diversified investment in PE funds centered on buy-outs at global level	¥3.3 billion	March 2021	12.85%

(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.

(Note 4) The return earned by JP Morgan Asset Management in overseas infrastructure investment is underrepresented compared with the actual figure because the amount of dividends scheduled to be paid out in the following term is booked as a negative figure.

## (1) Efforts in FY2021 ①

- As part of its stewardship activity in FY2021, the Federation conducted surveys and interviews with entrusted investment management institutions regarding the status of their exercise of shareholders' voting rights and engagement and encouraged them to conduct efficient stewardship activity in accordance with their own investment styles and staffing situations. The Federation conducted surveys and interviews with investment management institutions entrusted with foreign equities as well as those entrusted with domestic equities.

**Surveys and hearings of entrusted investment management institutions**

Subjects	Period	Targets	Main subjects
Survey on exercise of voting rights	September 2021	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"> <li>• results of exercise of voting rights</li> <li>• structure for exercise of voting rights</li> </ul>
Survey on performance of stewardship activities	October 2021	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"> <li>• structure for managing conflicts of interest</li> <li>• details of engagement</li> <li>• strengthened efforts, challenges and issues</li> <li>• reason for the decision to exercise voting rights in relation to specific, individual proposals</li> </ul>
Interviews regarding the above two items	November 2021		

(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
Report of the Federation's stewardship activity in its PR papers	February 2022	Executives and employees of the Federation Executives and employees of member associations	Federation's approach to stewardship activities
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
FY2021 stewardship activity report	March 2022	Publicized on the Federation's website	<ul style="list-style-type: none"> <li>• Results of monitoring of stewardship activities conducted by entrusted investment management institutions</li> <li>• Status of exercise of voting rights of shareholders</li> </ul>

### (1) Efforts in FY2021 ②

○ In FY2021, following the revision of the Corporate Governance Code (June 2021) by the Tokyo Stock Exchange and the Financial Services Agency, the Federation revised the Corporate Governance Principles and the Guidelines for Exercising Shareholders' Voting Rights (see (ii) in the next item). In addition, it expressed support for the Task Force on Climate-related Financial Disclosures (TCFD),\* established by the Financial Stability Board (FSB).

\* The TCFD was established by the FSB upon the request of the G20 Finance Ministers and Central Bank Governors. In June 2017, the TCFD published voluntary recommendations intended to encourage information disclosure regarding the financial impacts of climate-related risks and opportunities in order to enable investors to make appropriate investment decisions. By now, many organizations around the world, including pension funds and other asset owners, asset managers, financial institutions such as banks, non-financial companies, and governments, have announced their support for the TCFD's recommendations.



## 7 Other major efforts

### 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.

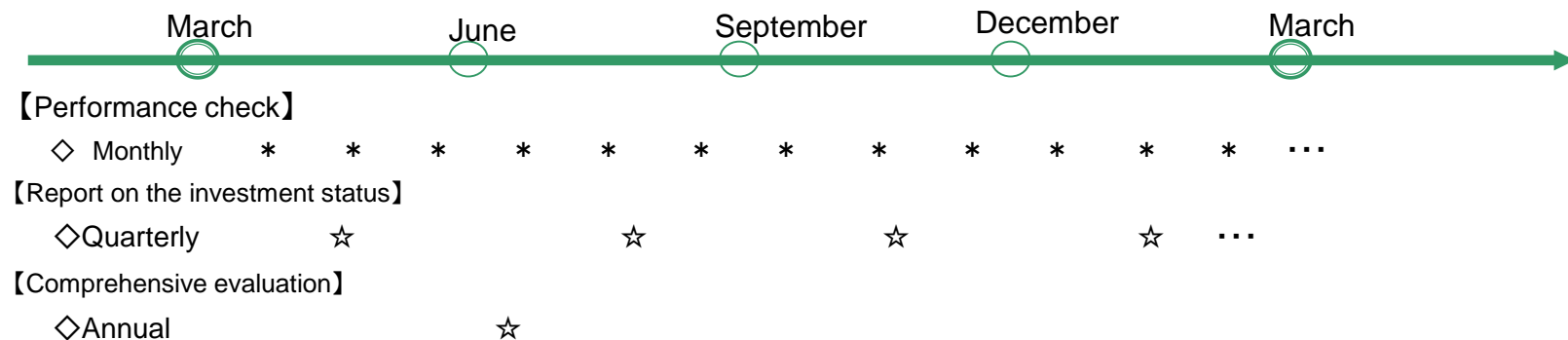
The evaluation is conducted with the end of each fiscal year as the reference date based comprehensively on qualitative evaluation (e.g., investment management systems and processes, risk management, and compliance) and quantitative evaluation (the excess return and tracking error in the case of passive 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.

☞ Five funds were partially cancelled (reduction) in the comprehensive evaluation whose base date is at the end of FY2020.

#### 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, 2022, 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 of 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.

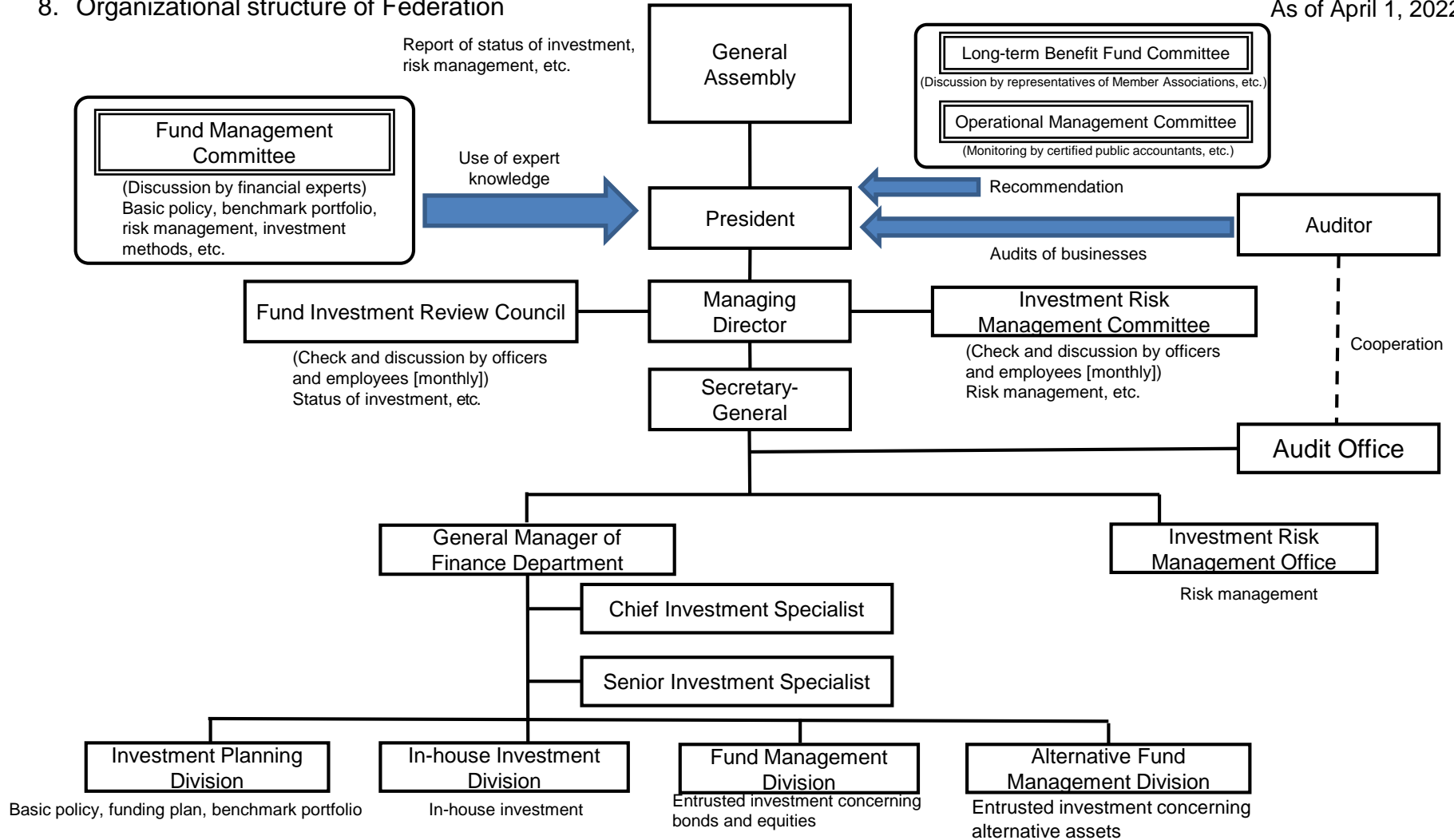
### 7. Investment Risk Management Committee

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 Manager of Investment Risk Management Office, 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 depending on the necessity.

Organizational structure ③

8. Organizational structure of Federation

As of April 1, 2022



## 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 2022)	
Ohno Sanae	Vice President, Musashi University
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	NLI Research Institute Director, Member of the Board, Head of Pension Research, CMA Financial Research Department
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 (FY2021)

Meeting number	Meeting date	Main subjects
49th	September 28, 2021 (Web conference)	<ul style="list-style-type: none"> <li>• Consultation paper</li> <li>• Subjects to be discussed this year and how to proceed with them</li> <li>• Examination of the benchmark portfolio for the Annuity Retirement Benefit Association Reserve Fund</li> <li>• Recommendation paper (draft)</li> <li>• ESG efforts related to the investment of pension funds</li> <li>• Status of investment of pension funds</li> </ul>
50th	December 7, 2021 (Web conference)	<ul style="list-style-type: none"> <li>• Response to inclusion of Chinese government bonds in the FTSE World Government Bond Index</li> <li>• Partial revision of the Basic Policy concerning Administration and Investment of Pension Funds</li> <li>• Status of investment of pension funds</li> </ul>
51st	March 14, 2022 (Web conference)	<ul style="list-style-type: none"> <li>• Investment of pension funds in FY2022</li> <li>• Status of investment of pension funds</li> <li>• Effects of the Russia-Ukraine situation and status of investment</li> <li>• Status of stewardship activities</li> <li>• Partial Revision of the Corporate Governance Principles and Guidelines for Exercising Shareholders' Voting Rights</li> <li>• Support for the Task Force on Climate-Related Financial Disclosures (TCFD)</li> </ul>

### 3 Basic approach to investment

#### 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 persons of the EPI.

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

In addition, in order to ensure investment returns which is set as the investment targets of managed funds provided in Article 79-6, Paragraph (1) of the Employees' Pension Insurance Act, a benchmark portfolio shall be set and appropriately managed, and efforts shall be made to earn the benchmark return for overall assets and each asset class, as well as generating benchmark returns for overall assets and each asset class over the long term.

#### Basic Policy for Management and Investment of Employees' Pension Insurance Benefit Association Reserve Fund (Extract)

##### 1. Basic Policy

Especially keeping in mind that the Employees' Pension Insurance Benefit Association Reserve Fund is part of insurance premiums collected from insured persons of the EPI and valuable resources for funding future pension benefits, the funds shall be managed with the objective of contributing to the stable operation of EPI schemes in the future by investing it safely and efficiently "solely for" ("for" in the case of investing in line with the objectives of the Act under Article 79-3, Paragraph (3), of the EPI Act) the interests of insured persons of the EPI from the long-term perspective.

Accordingly, the Employees' Pension Insurance Benefit Association Reserve Fund shall be managed and invested with an asset mix established from the long-term perspective (the "benchmark portfolio") based on appropriately diversifying investments in multiple assets that differ in risk/return and other characteristics ("diversified investment").

##### 2. Investment target

Investment of the Employees' Pension Insurance Benefit Association Reserve Fund shall be managed appropriately by establishing a Benchmark Portfolio, so as to secure investment returns targeted for managed funds provided in Article 79-6, Paragraph (1) of the EPI Act (the "managed funds").

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

In addition, efforts shall be made to secure benchmark returns for overall assets and each asset class in each fiscal year by appropriately selecting, managing and assessing entrusted investment management institutions, as well as securing benchmark returns for overall assets and each asset class over the long term.

Section 3 Reference Data



## 1 Changes in the investment results

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

#### ① Investment return

(Unit: %)

	FY 2015 (second half)	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Modified total return	0.89	4.16	6.40	1.59	-4.60	23.55	5.62
Domestic bonds	3.32	-0.79	1.25	1.94	0.13	-0.13	-0.96
Short-term assets	-0.03	0.00	0.00	0.00	0.00	(0.00)	(0.00)
Domestic equities	-3.98	14.76	15.85	-5.24	-9.58	41.97	1.80
Foreign bonds	-2.32	-5.23	3.47	2.64	3.88	6.17	3.27
Foreign equities	-1.04	14.43	9.34	7.82	-12.35	59.17	17.63

#### ② Value of investment income

(Unit: JPY100M)

	FY 2015 (second half)	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Investment income	473	2,150	3,429	879	-2,506	11,774	3,440
Domestic bonds	984	-188	248	364	23	-23	-147
Short-term assets	-1	0	0	0	0	(0)	(0)
Domestic equities	-330	1,331	1,836	-702	-1,205	4,801	290
Foreign bonds	-105	-320	247	204	304	606	446
Foreign equities	-75	1,327	1,098	1,013	-1,629	6,391	2,850

(Unit: %)

	FY 2015 (second half)	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Realized return	2.29	2.24	4.37	2.96	2.98	3.62	6.91

(Unit: JPY100M)

	FY 2015 (second half)	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Realized income	1,111	1,066	2,112	1,436	1,442	1,734	3,391
(Income gain)	(349)	(820)	(1,170)	(1,017)	(972)	(890)	(1,027)

(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) The figures for short-term assets after fiscal year 2020 are included in domestic bonds.

2 Issues held

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 2022, 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 (available in Japanese only).

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	5,105
2	Japan Finance Organization for Municipalities	495
3	Japan Expressway Holding and Debt Repayment Agency	385
4	Joint LGB	336
5	Tokyo Metropolitan Government	285
6	Kanagawa Prefecture	253
7	Osaka Prefecture	223
8	Japan Housing Finance Agency	210
9	Shizuoka Prefecture	178
10	Saitama Prefecture	174
Total	290 Issuers	11,518

○ Domestic equity (in order of total market value)

No.	Issue names	No. of shares	Total market value (in 100M yen)
1	Toyota Motor Corporation	26,175,300	589
2	Sony Corporation	3,304,700	422
3	Keyence Corporation	489,800	281
4	Mitsubishi UFJ Financial Group	35,458,600	275
5	Tokyo Electron	361,500	231
6	Nippon Telegraph and Telephone Corporation	6,250,300	225
7	Recruit Holdings	3,758,400	204
8	Shin-Etsu Chemical	1,043,000	199
9	Mitsubishi Corporation	4,160,300	194
10	ITOCHU Corporation	4,387,900	185
Total	2,203 Issues		15,859

○ Foreign bond (in order of total market value)

No.	Names of issuer	Total market value (in 100M yen)
1	UNITED STATES TREASURY	6,150
2	ITALY, REPUBLIC OF (GOVERNMENT)	1,222
3	FRANCE, REPUBLIC OF (GOVERNMENT)	1,159
4	GERMANY, FEDERAL REPUBLIC OF (GOVERNMENT)	877
5	SPAIN, KINGDOM OF (GOVERNMENT)	740
6	UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND (GOVERNMENT)	730
7	CANADA (GOVERNMENT)	280
8	AUSTRALIA, COMMONWEALTH OF (GOVERNMENT)	277
9	BELGIUM, KINGDOM OF (GOVERNMENT)	259
10	NETHERLANDS, KINGDOM OF THE (GOVERNMENT)	216
Total	738 Issuers	14,225

○ Foreign equity (in order of total market value)

No.	Issue names	No. of shares	Total market value (in 100M yen)
1	APPLE INC	3,104,673	658
2	MICROSOFT CORP	1,401,085	524
3	AMAZON.COM INC	91,725	363
4	ALPHABET INC-CL A	68,238	230
5	ALPHABET INC-CL C	61,285	208
6	TESLA INC	154,126	202
7	NVIDIA CORP	454,613	151
8	TAIWAN SEMICONDUCTOR MANUFACTURING	5,336,808	136
9	VISA INC	446,767	126
10	META PLATFORMS INC	449,342	121
Total	2,933 Issues		16,316

## 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	Nomura Real Estate Asset Management	31
Domestic real estate	Sumitomo Mitsui Trust Bank	Sumitomo Mitsui Trust Bank	23
Foreign real estate	Tokio Marine Asset Management	Tokio Marine Asset Management	556
Foreign real estate	PGIM Japan	PGIM, INC.	212
Foreign infrastructure	J.P. Morgan Asset Management	J.P.MORGAN INVESTMENT MANAGEMENT INC.	113
Foreign infrastructure	Tokio Marine Asset Management	BLACKROCK FINANCIAL MANAGEMENT, INC.	45
Foreign PE	Nomura Asset Management	HARBOURVEST PARTNERS, LLC	33
Foreign PE	J.P. Morgan Asset Management	J.P.MORGAN INVESTMENT MANAGEMENT INC.	20

(Note 1) The names of issuers and issues are those assigned by the Federation as of the end of March 2022 using data from the Nomura Research Institute's T-STAR/GX system, MSCI's Barra One, and Bloomberg

(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.