

Fiscal Year 2022 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

+1.65%

Time-weighted return (market value basis)

(FY2022)

(Investment return before the deduction of fees, etc.)

Investment income

+JPY 102.4 billion

Investment income (market value basis)

(FY2022)

Value of investment assets:

JPY 6,324.9 billion

Total market value

(End of FY2022)

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.

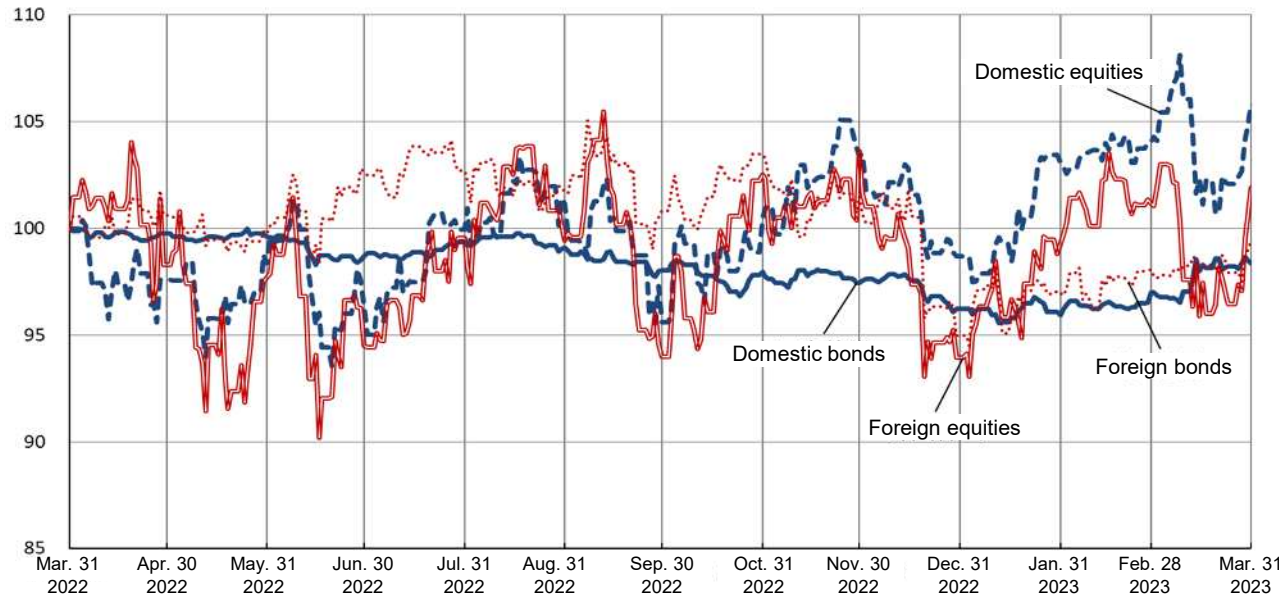
(Note 1) The investment income represents the income after the deduction of fees, etc.

Section 1 Administration and Investment of Funds in FY2022

1 Market environment

Change in benchmark return

Regarding the full-year benchmark return, while both the bond and stock markets declined as a result of a series of interest rate hikes by central banks amid rising inflation rates worldwide, the markets recovered in the second half of the fiscal year because of the post-COVID-19 economic normalization and expectations for a halt to the round of interest rate hikes in the United States. As a result, the total return came to +1.57%.



(Note) The level as of March 31, 2022 is the base figure of 100.

Asset class	Benchmark	Returns				
		Q1	Q2	Q3	Q4	Full fiscal year
Domestic bonds	NOMURA Bond Performance Index (Overall)	-1.30%	-0.66%	-1.88%	2.22%	-1.65%
Domestic equities	TOPIX (dividend-inclusive)	-3.65%	-0.79%	3.26%	7.21%	5.81%
Foreign bonds	FTSE World Government Bond Index (ex-Japan, ex-China, no hedge, in yen)	2.66%	-1.78%	-5.81%	4.69%	-0.56%
Foreign equities	MSCI ACWI ex Japan (in yen, dividend-inclusive)	-5.51%	-0.55%	-0.01%	8.44%	1.88%
Total		-1.96%	-0.89%	-1.05%	5.64%	1.57%

(Note) The total is the return calculated by weight-averaging the benchmark returns for individual asset classes based on the shares in the asset mix of the benchmark portfolio.

(Source: Bloomberg)

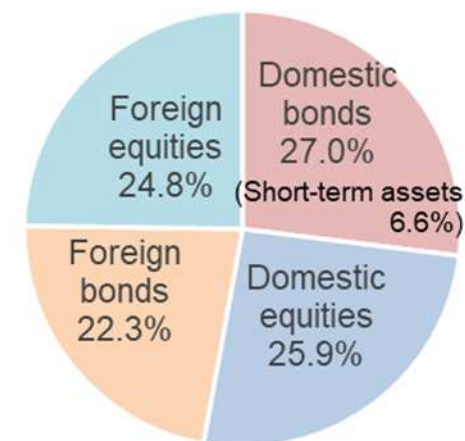
(1) Asset mix

The composition by asset is as follows:

(Unit: %)

	End of FY2021	FY2022				Benchmark portfolio
		End of Q1	End of Q2	End of Q3	End of Q4 (End of FY)	
Domestic bonds	26.8	23.3	26.4	24.2	27.0	25.0
Short-term assets	(6.8)	(1.7)	(5.5)	(2.3)	(6.6)	
Domestic equities	25.1	26.2	25.3	27.0	25.9	25.0
Foreign bonds	22.1	25.0	24.1	23.6	22.3	25.0
Foreign equities	25.9	25.6	24.2	25.2	24.8	25.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Composition by Asset Class
(as of end of FY2022)



(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) 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 2.1% (the upper limit for the benchmark portfolio is 5%).

(2) Investment return

The time-weighted return for FY2022 was 1.65% for the overall assets.
(Unit: %)

	FY2022				
	Q1	Q2	Q3	Q4	FY total
Time-weighted returns	-1.77	-0.64	-0.94	5.14	1.65
Domestic bonds	-1.08	-0.69	-1.54	1.58	-1.75
Short-term assets	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Domestic equities	-3.65	-0.40	3.05	6.89	5.70
Foreign bonds	3.55	-0.96	-5.59	3.99	0.68
Foreign equities	-5.29	-0.49	0.18	8.18	2.14

(Unit: %)

	FY2022				
	Q1	Q2	Q3	Q4	FY total
Modified total return	-1.80	-0.57	-0.90	5.05	1.65

(Unit: %)

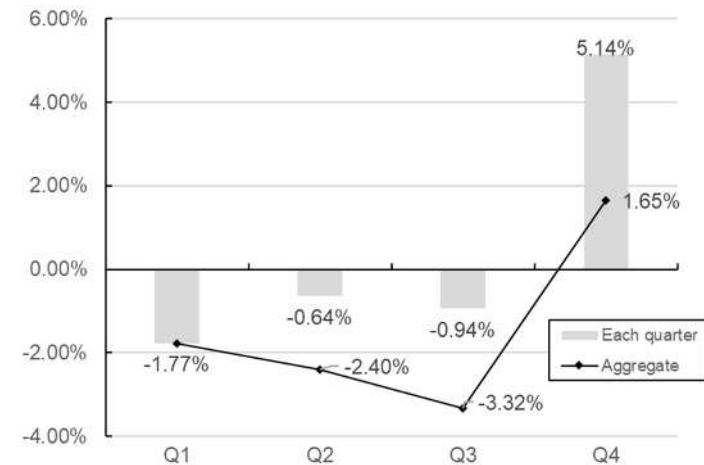
	FY2022				
	Q1	Q2	Q3	Q4	FY total
Realized return	1.56	1.33	0.83	0.90	4.59

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

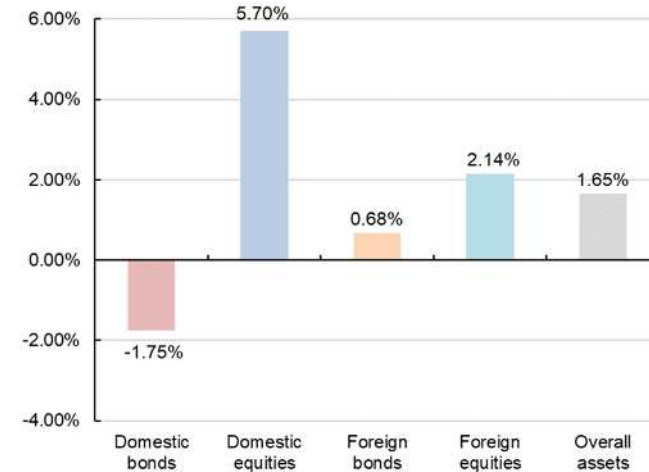
(Note 2) The time-weighted return represents the figure before the deduction of fees, etc.

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

Changes in time-weighted return



Time-weighted return by asset (aggregate for the fiscal year)



(3) Contribution analysis of excess return (i)

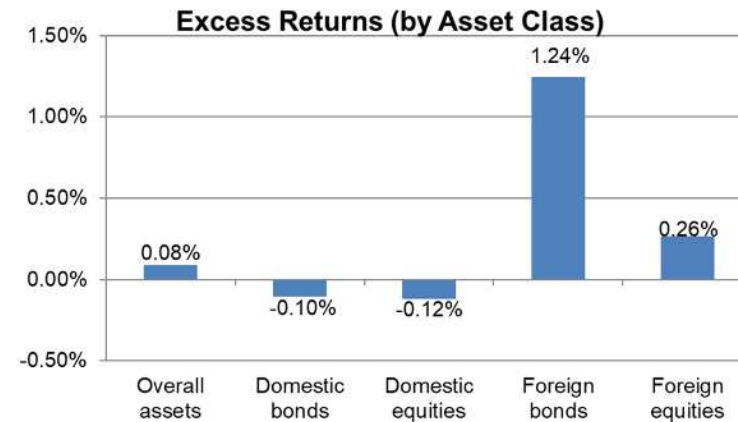
The time-weighted return for overall investment assets was 1.65%, while the excess return compared with the benchmark return was 0.08%.
The excess return for overall assets (0.08%) can be broken down as follows: asset allocation factor: 0.07%; individual asset factor: 0.32%; composite factor: -0.31%.

FY2022 (April 2022 through March 2023) (Unit: %)

	Overall assets	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Modified total return	1.65	-1.75	5.70	0.68	2.14
Benchmark return	* 1.57	-1.65	5.81	-0.56	1.88
Excess return	0.08	-0.10	-0.12	1.24	0.26

* 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	Individual asset factor	Composite factor
Domestic bonds	-0.00%	-0.03%	-0.07%
Domestic equities	0.03%	-0.03%	-0.07%
Foreign bonds	0.04%	0.31%	-0.09%
Foreign equities	0.00%	0.06%	-0.07%
Total	0.07%	0.32%	-0.31%



(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	25.1%	25.0%	0.1%	±20%
Domestic equities	25.7%	25.0%	0.7%	±12%
Foreign bonds	22.9%	25.0%	-2.1%	±9%
Foreign equities	26.3%	25.0%	1.3%	±11%
Total	100.0%	100.0%	0.0%	

Asset allocation factor: A factor that is attributable to the difference between the asset mix of the fund and the benchmark portfolio.
Individual asset factor: A factor that is attributable to the difference between the time-weighted return and benchmark return concerning each asset class.
Composite factor: A factor combining elements of the asset allocation and individual asset factors and calculation errors.

2 Investment results

(3) Contribution analysis of excess return (ii)

○ Domestic bonds

The time-weighted return of domestic bonds was -1.75%, which was below the benchmark return (-1.65%) by 0.10%. In passive investment, as the overweighting of municipal bonds was tolerated, the expansion of the yield spread between municipal and government bonds had a negative impact. In active investment, the performance varied across entrusted investment management institutions, but on a combined basis, the returns of the eight entrusted investment management institutions were similar to the benchmark. Currency-hedged foreign bond funds, which are classified as domestic bonds, made negative contributions against the backdrop of increased hedging cost, and as a result, the return on domestic bonds as a whole fell short of the benchmark.

○ Domestic equities

The time-weighted return of domestic equities was 5.70%, which was below the benchmark return (5.81%) by 0.12%. In passive investment, the return was similar to the benchmark. In active investment, value funds generally performed well, but growth funds and the performance of small- and mid-cap funds was poor. Regarding funds adopting smart beta strategies, the manager's benchmark return (5.11%) 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 time-weighted return of foreign bonds was 0.68%, which exceeds the benchmark return (-0.56%) by 1.24%. In passive investment, the return was generally similar to the benchmark. In active investment, only two of the eight entrusted investment management institutions delivered a return higher than the manager's benchmark. As the return on the Bloomberg Global Aggregate Index (1.14%), which was adopted as the manager's benchmark by five of the eight institutions, was much higher than the benchmark (WGBI), the returns for all of the five exceeded the return on the WGBI. As a result, the return on foreign bonds as a whole exceeded the benchmark. Alternative asset funds, classified as foreign bonds, also contributed to the excess return.

○ Foreign equities

The time-weighted return of foreign equities was 2.14%, which exceeds the benchmark return (1.88%) by 0.26%. In passive investment, the return fell slightly short of the benchmark due to the effects of dividend taxation. In active investment, some growth funds performed poorly. However, focused funds that invest in a limited number of issues and funds that make investment in ways that curb portfolio volatility performed well. As a result, an excess return was secured for active investments as a whole, and the return on foreign equities as a whole also exceeded the benchmark.

(4) Investment income

The investment income for FY2022 was JPY 102.4 billion for overall assets.

(Unit: JPY100M)

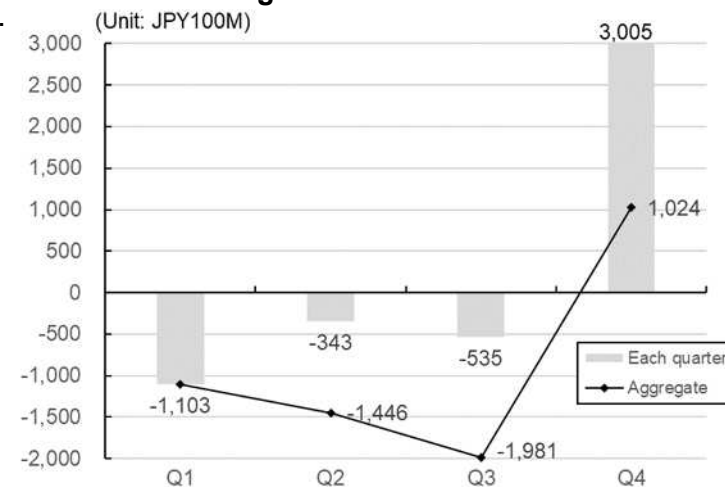
	FY2022				
	Q1	Q2	Q3	Q4	FY total
Investment income	-1,103	-343	-535	3,005	1,024
Domestic bonds	-170	-100	-221	249	-241
Short-term assets	(0)	(0)	(0)	(0)	(0)
Domestic equities	-581	-58	463	1,054	878
Foreign bonds	499	-140	-805	532	85
Foreign equities	-851	-45	29	1,170	303

(Unit: JPY100M)

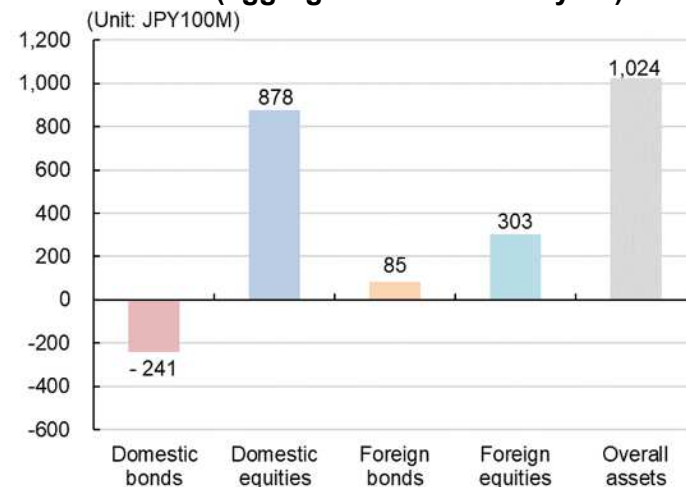
	FY2022				
	Q1	Q2	Q3	Q4	FY total
Realized income	764	658	418	459	2,299

- (Note 1) The total return and realized return represent the figures after the deduction of fees, etc.
- (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



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



(5) Value of assets

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

(Unit: JPY100M)

	End of FY2021			FY2022											
				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	17,032	17,073	41	13,614	13,570	-44	15,929	15,782	-148	14,314	13,949	-364	17,178	17,056	-122
Short-term assets	(4,328)	(4,328)	(0)	(989)	(989)	(0)	(3,289)	(3,289)	(0)	(1,337)	(1,337)	(0)	(4,183)	(4,183)	(0)
Domestic equities	12,222	15,961	3,739	12,221	15,280	3,059	12,205	15,122	2,917	12,451	15,536	3,085	12,550	16,395	3,845
Foreign bonds	13,464	14,074	610	13,531	14,571	1,040	13,642	14,395	753	13,784	13,589	-195	13,981	14,131	150
Foreign equities	8,706	16,482	7,776	8,547	14,942	6,396	8,437	14,495	6,059	8,521	14,489	5,968	8,649	15,668	7,019
Total	51,424	63,590	12,167	47,912	58,364	10,452	50,213	59,794	9,581	49,070	57,564	8,494	52,357	63,249	10,892

(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 FY2022 by asset class are as follows.

(Unit: JPY100M)

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Amount of funds allocated and withdrawn	369	-445	-27	-1,117

(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 JPY4.3 billion in FY2022.
The fee rate relative to the value of investment assets came to 0.07%.

(Unit: JPY100M, %)

	FY2022	
	Fees	Fee rate
Domestic bonds	6	0.05
Domestic equities	12	0.07
Foreign bonds	6	0.05
Foreign equities	14	0.09
Alternative assets	5	0.38
Overall assets	43	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%

4 Risk management

(1) Approach to risk management

- Generally speaking, "risk" refers to danger or possibility of negative impact. In the field of asset investment, risk means uncertainty of returns, etc. associated with market volatility or other factors. ("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.

4 Risk management

(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.

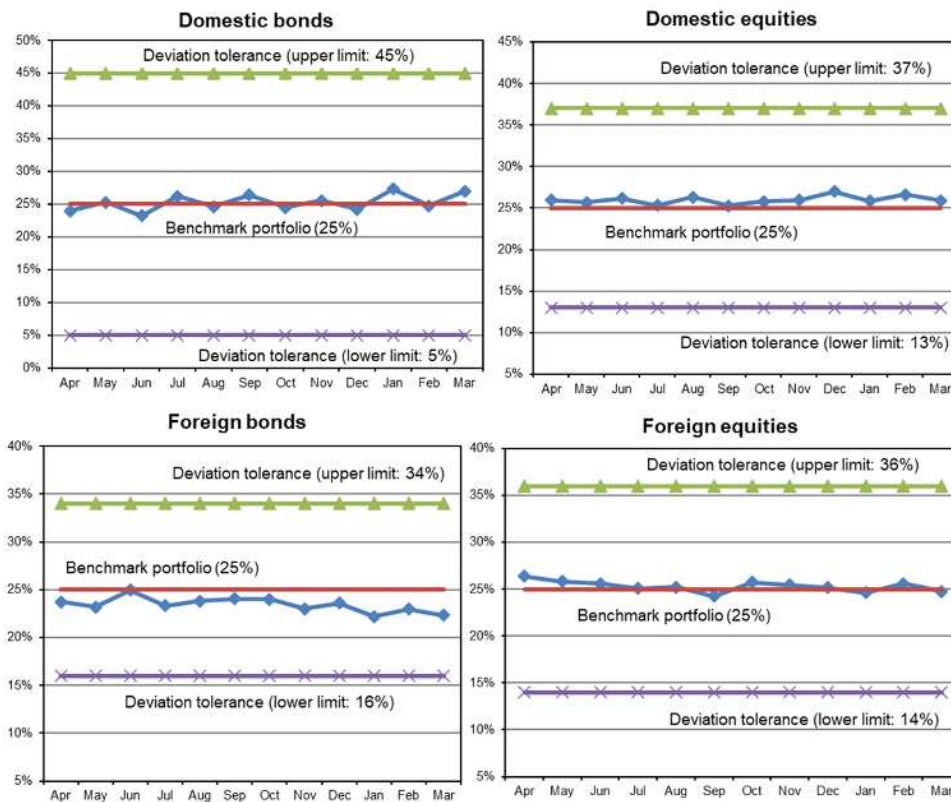
4 Risk management

(3) Status of risk management (overall assets)

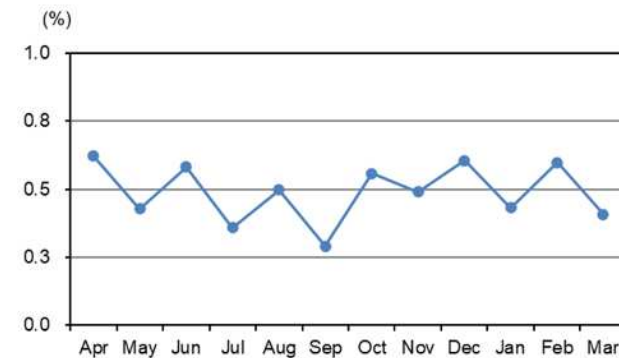
○ Asset mix and estimated tracking error

The asset-by-asset share in the asset mix stayed mostly at around the median value for all asset classes. The estimated tracking error concerning overall assets ranged from around 0.3% to 0.6%.

【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 excess returns can be obtained has been obtained.
 - (3) Because alternative assets are different from traditional assets in many points, such as marketability, profitability, individuality, transaction cost, and information disclosure status, the Federation shall conduct a study with due consideration of the development of the market environment, including the steady improvement of the earning capacity of each asset and the development of the secondary market.
 - (4) The Federation shall make alternative investment after developing the investment and risk management systems necessary for the investment (including hiring personnel with advanced expert skills).
 - (5) The Federation shall use the expert knowledge of the Fund Management Committee.

Investment in alternative assets (2)

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

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

(Reference)

Asset class	Main investment targets	Main income source and characteristics
Real estate	Real estate	Stable rent income earned from invested real estates
Infrastructure	Infrastructure operating companies	Stable business income earned from investee companies and projects
Private equity	Unlisted stocks	Rise in corporate value due to medium- to long-term investments in companies with high growth potential

(2) Adoption of entrusted investment management institutions

In FY2022, the Federation adopted the following entrusted investment management institution for one private equity fund.

- Mitsubishi UFJ Trust and Banking Corporation (domestic PE)

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 return (Fiscal year)
Nomura Asset Management	Diversified investment in sectors such as industrial facilities, rental houses, offices, and commercial facilities mainly in the three major metropolitan areas	¥3.3 billion	December 2018	7.68%
Sumitomo Mitsui Trust Bank	Diversified investment in privately placed REITs and privately placed funds investing mainly in domestic offices, industrial facilities, rental houses and commercial facilities (SMA)	¥5.5 billion	January 2022	4.47%

○ 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 return (Fiscal year)
Tokio Marine Asset Management	Diversified investment in real estate funds investing mainly in industrial facilities, offices, rental houses, commercial facilities, etc. at a global level (excluding Japan)	¥67.6 billion	December 2018	13.91%
PGIM Japan	Diversified investment in U.S. industrial facilities, rental houses, offices and commercial facilities	¥24.5 billion	December 2018	15.89%

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 return (Fiscal year)
J.P. Morgan Asset Management	Diversified investment in infrastructure assets centered on stably operating assets at a global level	¥12.9 billion	February 2020	14.62%
Tokio Marine Asset Management (Fund of funds manager: BlackRock Financial Management, Inc.)	Diversified investment in infrastructure assets centered on stably operating assets at a global level	¥6.7 billion	March 2020	33.96%

Investment in alternative assets (5)

○ Domestic private equity investment (included in domestic equities)

Entrusted investment management institutions	Outline of investment funds	Total market value (End of the fiscal year)	Starting date of investment	Time-weighted return (Fiscal year)
Mitsubishi UFJ Trust and Banking Corporation	Diversified investment in domestic PE funds centered on buy-outs (SMA)	¥0.5 billion	November 2022	-4.61%

○ 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 return (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 a global level (SMA)	¥3.9 billion	March 2021	11.35%
Nomura Asset Management (Fund of funds manager: HarbourVest Partners, LLC)	Diversified investment in PE funds centered on buy-outs at a global level (SMA)	¥6.0 billion	March 2021	9.96%

(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) One trait of PE investment is that, as expenditures accrue without any return being earned for several years after the start of investment, the return remains negative until the value of investee companies rise.

(Note 5) SMA (Separately Managed Account) refers to a dedicated account for managing multiple funds as a whole based on the investor's own investment policy.

(1) Efforts in FY2022

- As part of its stewardship activity in FY2022, the Federation conducted surveys and interviews with investment management institutions entrusted with domestic and foreign equity investment 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.

Surveys and hearings of entrusted investment management institutions

Subjects	Period	Targets	Main subjects
Survey on exercise of voting rights	September 2022	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 2022		<ul style="list-style-type: none"> • structure for managing conflicts of interest • details of engagement
Interviews regarding the above two items	November 2022		<ul style="list-style-type: none"> • strengthened efforts, challenges and issues • reason for the decision to exercise voting rights in relation to specific, individual proposals

(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 2023	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
FY2022 stewardship activity report	March 2023	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

6 Stewardship activities

(2) Future initiatives

- Discussion of methods for evaluating entrusted investment management institutions according to their characteristics
The Federation believes that it is necessary to evaluate stewardship activity with due consideration given to the differences across entrusted investment management institutions in the business model and product lineup. 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 has been making efforts by such means as PR papers and periodical reports at its general meetings, in addition to publicizing information through its website and other means. The Federation will exercise further efforts to deepen the understanding by its members (beneficiaries) as to its stewardship activity based on discussion for updates and more in-depth information.
- Gathering wide range of information
The Federation will continue gathering information through activities such as meetings with a broad range of institutional investors, participation in seminars featuring outside experts as instructors and information exchange with entrusted investment management institutions. Regarding assets other than domestic and foreign equities as well, the Federation has already held seminars with fund managers, analysts, etc. on themes such as the ESG approach concerning bonds, and the status of ESG efforts by Japanese companies as viewed from abroad. Going forward, the Federation will enhance its knowledge in the ESG field by gathering information from farther and wider than before with respect to ways of reflecting the ESG factors into investment, techniques for efficient measurement of the effects of ESG investment, and points of discussion regarding product evaluation.

<Reference material> Contents of FY2022 periodical report

- Annual Stewardship Activity Report FY2022
https://ssl.shichousonren.or.jp/fund/stewardship_active.html
- Federation's Newsletter (February issue)

2. 連合会のスチュワードシップ活動

スチュワードシップ活動で目指す好循環

- 連合会のスチュワードシップ活動は、運用受託機関を通じた投資先企業への働きかけによってインベストメント・チューンの機能向上を目指すものです。
- 投資先企業の中長期的な企業価値の向上によって、最終的に年金積立金の運用利回りの向上を目指します。

企業価値の向上
と運用利回りの向上

連合会
-活動報告-
組合員

活動内容の調査・ディスカッション
・株主議決権行使
・エンゲージメントのテーマや成果
・双方からの要望、懸念等

連合会の考え方を提示
「株主提案行動ガイドライン」
「コーポレートガバナンス原則」

投資先企業

運用受託機関

株主議決権行使

建設的な対話
(エンゲージメント)

企業との対話
・定期報告(情報開示、目標設定等)
・ダイバーシティ
・人的資本

スチュワードシップ活動について

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7 Other major efforts

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

1. Administration and evaluation of entrusted investment management institutions

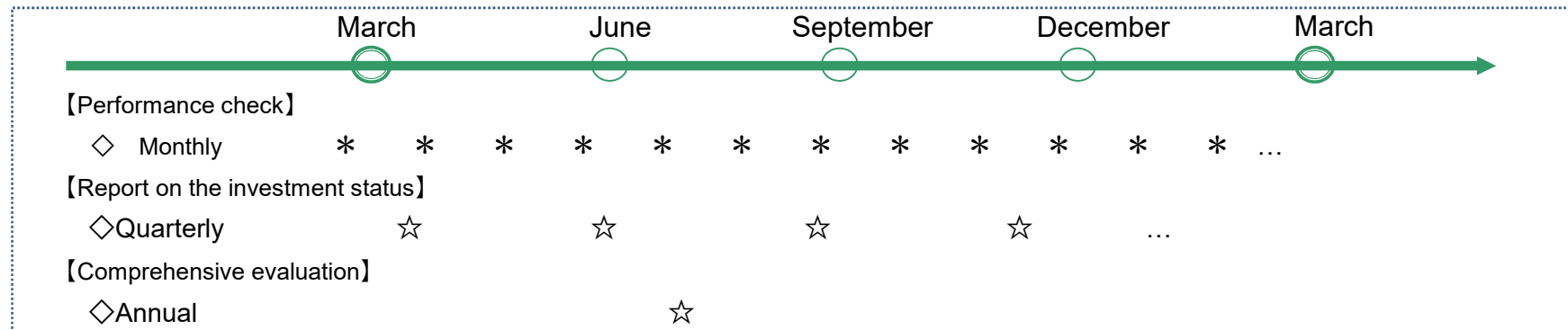
The Federation requires entrusted investment management institutions to submit monthly reports on investment results and the risk status and checks the status of compliance with the investment guidelines. The Federation also requires quarterly reports on the portfolio status, a factor breakdown of the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

☞ Three funds were partially cancelled (reduction) in the comprehensive evaluation whose base date is at the end of FY2021.

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

1 Organizational structure

Organizational structure (1)

1. Organization

As of April 1, 2023, 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 126.

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 IT and Information Security Office, 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.

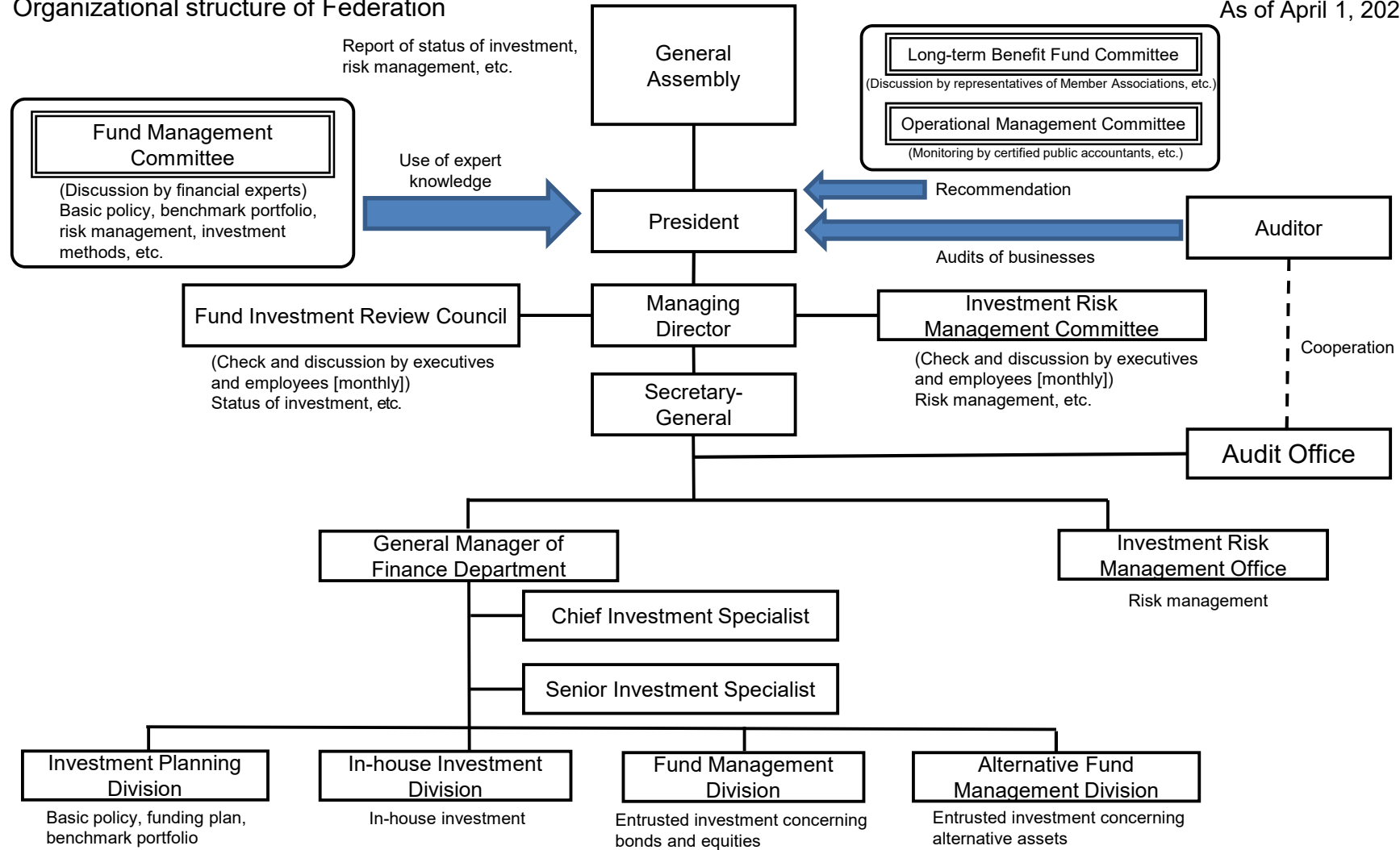
7. Investment Risk Management Committee

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, 2023



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 2023)		
	Ohno Sanae	Vice President, Musashi University
Chairperson	Kato Yasuyuki	Professor, Business School, Kyoto University of Advanced Science Adjunct Professor, Kyoto University Specially Appointed Professor, Tokyo Metropolitan 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	Specially Appointed 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 (FY2022)

Meeting number	Meeting date	Main subjects
52nd	June 16, 2022 (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 Employees' 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 • Effect of the Russia-Ukraine situation and status of investment, etc.
53rd	November 28, 2022 (Web conference)	<ul style="list-style-type: none"> • Examination of the benchmark portfolio for the Annuity Retirement Benefit Association Reserve Fund • Recommendation paper (draft) • Status of investment of pension funds • Status of investment of domestic bonds • Status of investment in alternative assets
54th	March 23, 2023	<ul style="list-style-type: none"> • Investment of pension funds in FY2023 • Status of investment of pension funds • Stewardship activities

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

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

1. Basic Policy

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

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

2. Investment target

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

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

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

Section 3 Reference Data

Changes in the investment return and investment income (since the integration of employee pension plans)

1. Investment return

	(Unit: %)							
	FY 2015 (second half)	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Return	0.89	4.16	6.40	1.59	-4.60	23.55	5.62	1.65
Domestic bonds	3.32	-0.79	1.25	1.94	0.13	-0.13	-0.96	-1.75
Short-term assets	-0.03	0.00	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	5.70
Foreign bonds	-2.32	-5.23	3.47	2.64	3.88	6.17	3.27	0.68
Foreign equities	-1.04	14.43	9.34	7.82	-12.35	59.17	17.63	2.14

	(Unit: %)							
	FY 2015 (second half)	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Realized return	2.29	2.24	4.37	2.96	2.98	3.62	6.91	4.59

2. Value of investment income

	(Unit: JPY100M)							
	FY 2015 (second half)	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Investment income	473	2,150	3,429	879	-2,506	11,774	3,440	1,024
Domestic bonds	984	-188	248	364	23	-23	-147	-241
Short-term assets	-1	0	0	0	0	(0)	(0)	(0)
Domestic equities	-330	1,331	1,836	-702	-1,205	4,801	290	878
Foreign bonds	-105	-320	247	204	304	606	446	85
Foreign equities	-75	1,327	1,098	1,013	-1,629	6,391	2,850	303

	(Unit: JPY100M)							
	FY 2015 (second half)	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Realized income	1,111	1,066	2,112	1,436	1,442	1,734	3,391	2,299
(Income gain)	(349)	(820)	(1,170)	(1,017)	(972)	(890)	(1,027)	(1,164)

(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.

(Note 5) The figures for returns for the periods from FY2015 to FY2021 represent total modified returns (after the deduction of fees, etc.), and the figures for returns for FY2022 represent time-weighted returns (before the deduction of fees, etc.)

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 2023, 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 (Unit: JPY100M)
1	Government of Japan	5,867
2	Japan Finance Organization for Municipalities	474
3	Japan Expressway Holding and Debt Repayment Agency	457
4	Joint LGB	433
5	Tokyo Metropolitan Government	329
6	Osaka Prefecture	227
7	Kanagawa Prefecture	204
8	Japan Housing Finance Agency	179
9	Hyogo Prefecture	175
10	Shizuoka Prefecture	173
Total	291 Issuers	12,010

○ Domestic equity (in order of total market value)

No.	Issue names	No. of shares	Total market value (Unit: JPY100M)
1	Toyota Motor Corporation	26,839,000	512
2	Sony Corporation	3,537,500	425
3	Keyence Corporation	507,900	328
4	Nippon Telegraph and Telephone Corporation	7,461,700	300
5	Mitsubishi UFJ Financial Group	32,858,000	284
6	Sumitomo Mitsui Financial Group	4,201,500	227
7	Daiichi Sankyo	4,688,400	227
8	Shin-Etsu Chemical	5,006,100	217
9	Hitachi	2,512,600	184
10	Tokyo Electron	1,121,000	183
Total	2,196 Issues		16,269

○ Foreign bond (in order of total market value)

No.	Names of issuer	Total market value (Unit: JPY100M)
1	UNITED STATES TREASURY	6,264
2	ITALY, REPUBLIC OF (GOVERNMENT)	1,061
3	FRANCE, REPUBLIC OF (GOVERNMENT)	1,036
4	GERMANY, FEDERAL REPUBLIC OF (GOVERNMENT)	829
5	SPAIN, KINGDOM OF (GOVERNMENT)	681
6	UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND (GOVERNMENT)	617
7	CANADA (GOVERNMENT)	269
8	BELGIUM, KINGDOM OF (GOVERNMENT)	256
9	AUSTRALIA, COMMONWEALTH OF (GOVERNMENT)	197
10	NETHERLANDS, KINGDOM OF THE (GOVERNMENT)	185
Total	689 Issuers	13,766

○ Foreign equity (in order of total market value)

No.	Issue names	No. of shares	Total market value (Unit: JPY100M)
1	APPLE INC	2,815,121	618
2	MICROSOFT CORP	1,353,693	519
3	AMAZON.COM INC	1,844,315	254
4	ALPHABET INC-CL A	1,413,790	195
5	NVIDIA CORP	433,023	160
6	META PLATFORMS INC	506,799	143
7	ALPHABET INC-CL C	1,030,317	143
8	TESLA INC	466,664	129
9	VISA INC	425,143	128
10	TAIWAN SEMICONDUCTOR MANUFACTURING	5,130,808	120
Total	2,908 Issues		15,465

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	Sumitomo Mitsui Trust Bank	Sumitomo Mitsui Trust Bank	55
Domestic real estate	Nomura Asset Management	Nomura Real Estate Asset Management	33
Domestic PE	Mitsubishi UFJ Trust and Banking Corporation	Mitsubishi UFJ Trust and Banking Corporation	5
Foreign real estate	Tokio Marine Asset Management	Tokio Marine Asset Management	676
Foreign real estate	PGIM Japan	PGIM, INC.	245
Foreign infrastructure	J.P. Morgan Asset Management	J.P.MORGAN INVESTMENT MANAGEMENT INC.	129
Foreign infrastructure	Tokio Marine Asset Management	BLACKROCK FINANCIAL MANAGEMENT, INC.	67
Foreign PE	Nomura Asset Management	HARBOURVEST PARTNERS, LLC	60
Foreign PE	J.P. Morgan Asset Management	J.P.MORGAN INVESTMENT MANAGEMENT INC.	39

(Note 1) The names of issuers and issues are those assigned by the Federation as of the end of March 2023 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.