

Fiscal Year 2022 Review of Operations

Annuity Retirement Benefit Association Reserve Fund

Table of Contents

Investment Results (Overview) 3

【Section 1 Administration and Investment of Funds in FY2022】

1 Investment results

 (1) Asset mix..... 5

 (2) Investment return 6

 (3) Investment income 7

 (4) Value of assets 8

 (5) Fees 9

2 Benchmark portfolio..... 10

3 Risk management

 (1) Approach to risk management 11

 (2) Risk management efforts 12

 (3) Status of risk management 13

【Section 2 Businesses and Fund Investment of the Federation】

1 Organizational structure 15

2 Fund Management Committee 18

3 Basic approach to investment 20

【Section 3 Reference Data】

1 Changes in the investment results 22

2 Issues held 23

Investment Results (Overview)

Investment return

Realized return (book value basis)
(FY2022)

+0.42%

Investment income

Realized income (book value basis)
(FY2022)

+JPY 2.964 billion

Value of investment assets:

Book value
(End of FY2022)

JPY 768.5 billion

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

(Note 1) The investment return and investment income represent the figures after the deduction of fees, etc.

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

Section 1 Administration and Investment of Funds in FY2022

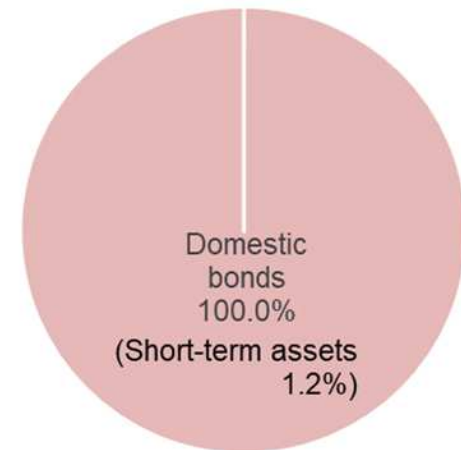
(1) Asset mix

The composition by asset (book value basis) 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	100.0	100.0	100.0	100.0	100.0	100.0
Short-term assets	(1.5)	(0.5)	(0.5)	(0.5)	(1.2)	
Total	100.0	100.0	100.0	100.0	100.0	

Composition by Asset Class
(as of end of FY2022)



(Note 1) Due to rounding, the total sum of individual figures may not necessarily add up to Total.
 (Note 2) Loans are included in domestic bonds (6.3% of domestic bonds).
 (Note 3) Short-term assets held by each fund were classified into relevant asset classes in principle.

(2) Investment return

The realized return for FY2022 was 0.42% for the overall assets.

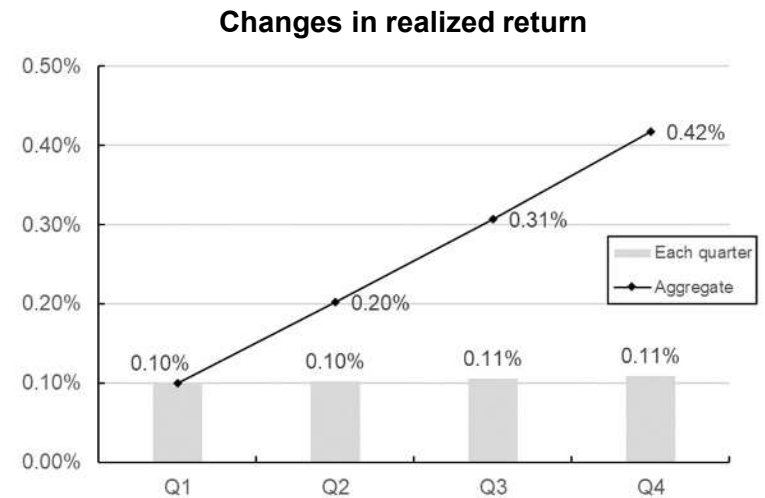
Domestic bonds held by the Annuity Retirement Benefit Association Reserve Fund were evaluated based on book value on the premise of continued holding until maturity.

(Unit: %)

	FY2022				
	Q1	Q2	Q3	Q4	FY total
Realized return	0.10	0.10	0.11	0.11	0.42
Domestic bonds	0.10	0.10	0.11	0.11	0.42
Short-term assets	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)

(Reference) (Unit: %)

	FY2022				
	Q1	Q2	Q3	Q4	FY total
Modified total return	-1.35	-0.84	-2.75	2.51	-2.29



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

(Note 2) Loans are included in domestic bonds.

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

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

(3) Investment income

The realized income for FY2022 was JPY2.964 billion (for overall assets).

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

(Unit: JPY100M)

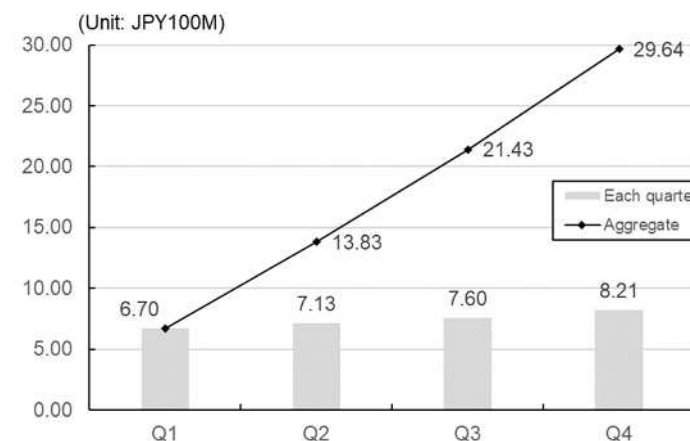
	FY2022				
	Q1	Q2	Q3	Q4	FY total
Realized income	6.70	7.13	7.60	8.21	29.64
Domestic bonds	6.70	7.13	7.60	8.21	29.64
Short-term assets	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)

(Reference)

(Unit: JPY100M)

	FY2022				
	Q1	Q2	Q3	Q4	FY total
Investment income	-89.57	-57.44	-192.16	177.80	-161.37

Changes in realized income



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

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

(Note 3) Loans are included in domestic bonds.

(Note 4) The investment income represents the realized income adjusted for the effects of changes in valuation gains/losses based on market value.

(Note 5) Due to rounding, the total sum of individual figures may not necessarily add up to FY Total.

(4) 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	6,646	6,574	-71	6,779	6,617	-162	7,102	6,871	-230	7,291	6,866	-425	7,685	7,422	-262
Short-term assets	(99)	(99)	(0)	(34)	(34)	(0)	(32)	(32)	(0)	(33)	(33)	(0)	(93)	(93)	(0)
Total	6,646	6,574	-71	6,779	6,617	-162	7,102	6,871	-230	7,291	6,866	-425	7,685	7,422	-262

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

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

(Note 3) Loans are included in domestic bonds.

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

(5) Fees

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

Benchmark portfolio

1. Benchmark portfolio

	Domestic bonds
Asset mix	100%

The Federation manages the Annuity Retirement Benefit Association Reserve Fund with a benchmark portfolio of 100% domestic bonds to secure the base interest rate with the minimum risk based on the characteristics of a cash-balance pension plan whose benefit level is linked to government bond yields or other benchmarks.

(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.
- 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 ensuring that investment of funds should be made safely and efficiently from a long-term perspective and considering the attributes of a cash balance-type pension plan that determines the benefit level linked to government bond yields, etc.

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

(iii) Annuity Retirement Benefit Association Reserve Fund

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

(2) Risk management efforts

○ Management of the deviation of the asset mix

- Investment based on the benchmark portfolio requires the management of various risk factors. Therefore, in order to secure returns in line with the benchmark portfolio from the long-term perspective, it is important, in particular, to manage the degree of deviation of the asset mix ratio of the fund from that of the benchmark portfolio.
- Specifically, for its asset as a whole, the Federation keeps track of and manages the status of the deviation of the fund from the benchmark in terms of the asset mix.

○ Management of asset administration institutions

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

○ Reporting on the status of risk management and improvement measures implemented

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

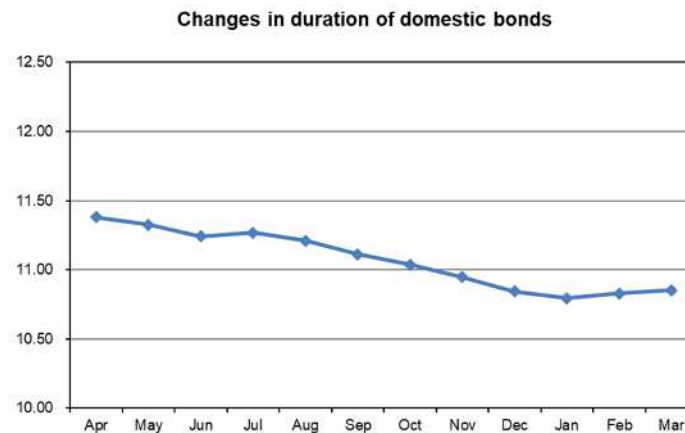
(3) Status of risk management

○ Domestic bonds

1. Change in duration

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

The duration of domestic bonds was from 10.79 to 11.38.



2. Status of holding of domestic bonds

○ Status of holding of bonds by credit rating

While the Federation makes it a principle to limit its bond investments to bonds with a credit rating of A or higher, it did not hold bonds with a credit rating of BBB or lower in FY2022.

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

Section 2 Businesses and Fund Investment of the Federation

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.

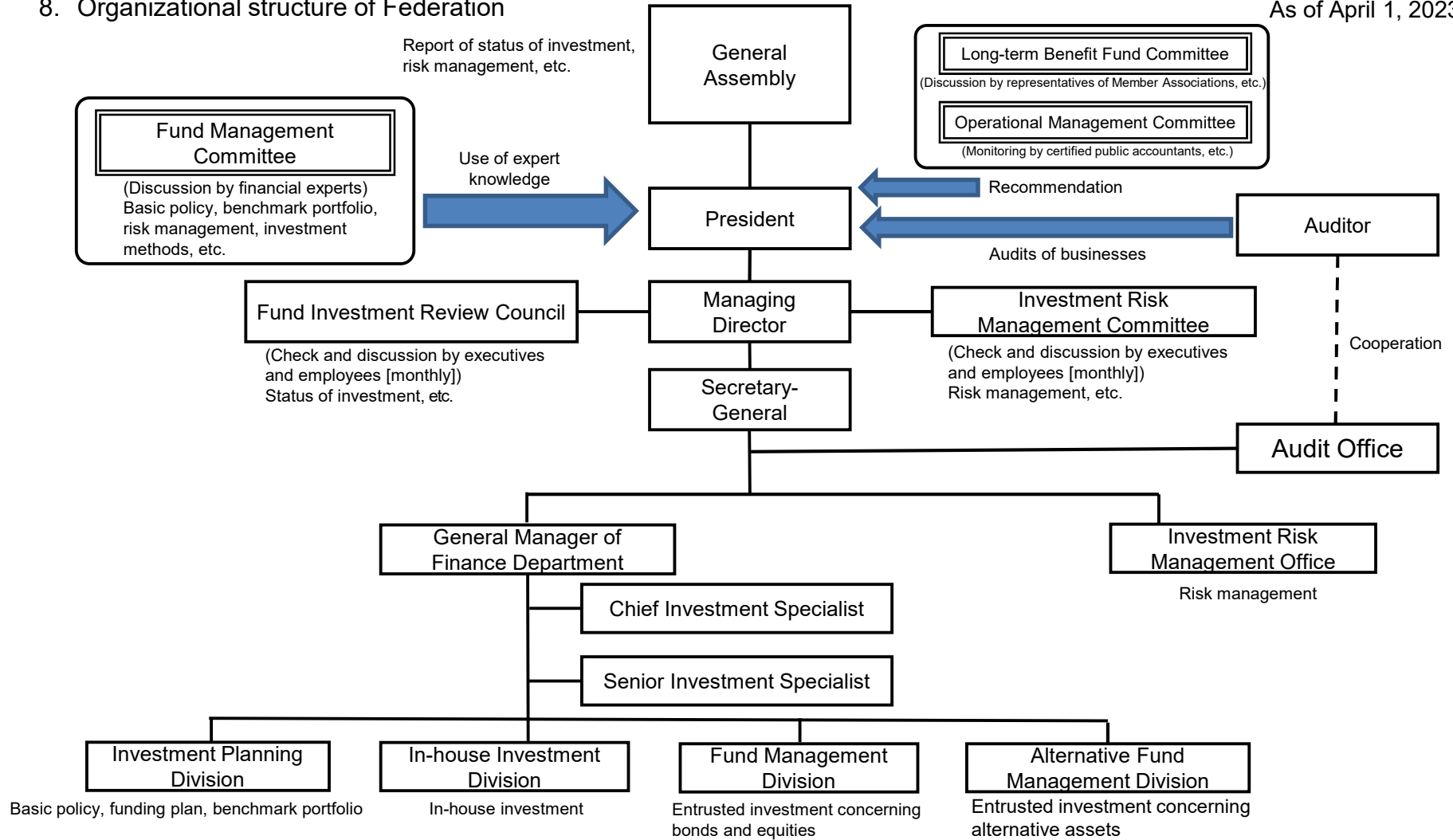
7. Investment Risk Management Committee

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

Basic approach to investment

○Basic policy

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

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

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

1. Basic Policy

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

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

2. Investment target

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

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

Section 3 Reference Data

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

1. Investment return

(Unit: %)

	FY 2015 (second)	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Realized return	0.13	0.39	0.42	0.43	0.50	0.44	0.41	0.42
Domestic bonds	0.16	0.41	0.43	0.46	0.51	0.44	0.41	0.42
Short-term assets	0.02	0.00	0.00	0.00	0.00	(0.00)	(0.00)	(0.00)

(Reference) (Unit: %)

	FY 2015 (second)	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Modified total return	8.06	-3.30	1.73	2.60	-0.04	-0.20	-1.04	-2.29

2. Value of investment income

(Unit: JPY100M)

	FY 2015 (second)	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Realized income	0.27	3.74	8.26	13.00	19.97	22.29	24.83	29.64
Domestic bonds	0.26	3.74	8.26	12.99	19.97	22.29	24.83	29.64
Short-term assets	0.01	0.00	0.00	0.01	0.00	(0.00)	(0.00)	(0.00)

(Reference) (Unit: JPY100M)

	FY 2015 (second)	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Investment income	16.96	-32.39	33.75	77.98	-1.47	-10.07	-63.56	-161.37

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

Issues held

The tables below show the top 10 bond issues held through in-house investment as of the end of March 2023, classified by issuer name. For information concerning bond issues ranked 11th or lower, see the website of the Federation (available in Japanese only).

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

○ Domestic bond (in order of book value balance)

No.	Names of issuer	Book value balance (Unit: JPY100M)
1	Japan Finance Organization for Municipalities	4,671
2	Joint LGB	489
3	Aichi Prefecture	159
4	Fukuoka Prefecture	97
5	Saitama Prefecture	95
6	Chiba Prefecture	93
7	Kanagawa Prefecture	90
8	Hiroshima Prefecture	81
9	Government of Japan	81
10	Shizuoka Prefecture	80
Total	58 Issuers	7,106

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