

Fiscal Year 2023 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 +22.64% Time-weighted return (market value basis)
(FY2023) (Investment return before the deduction of fees, etc.)

Investment income +JPY 1,374.3 billion Investment income (market value basis)
(FY2023)

Value of investment assets: JPY 7,558.1 billion Total market value
(End of FY2023)

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.

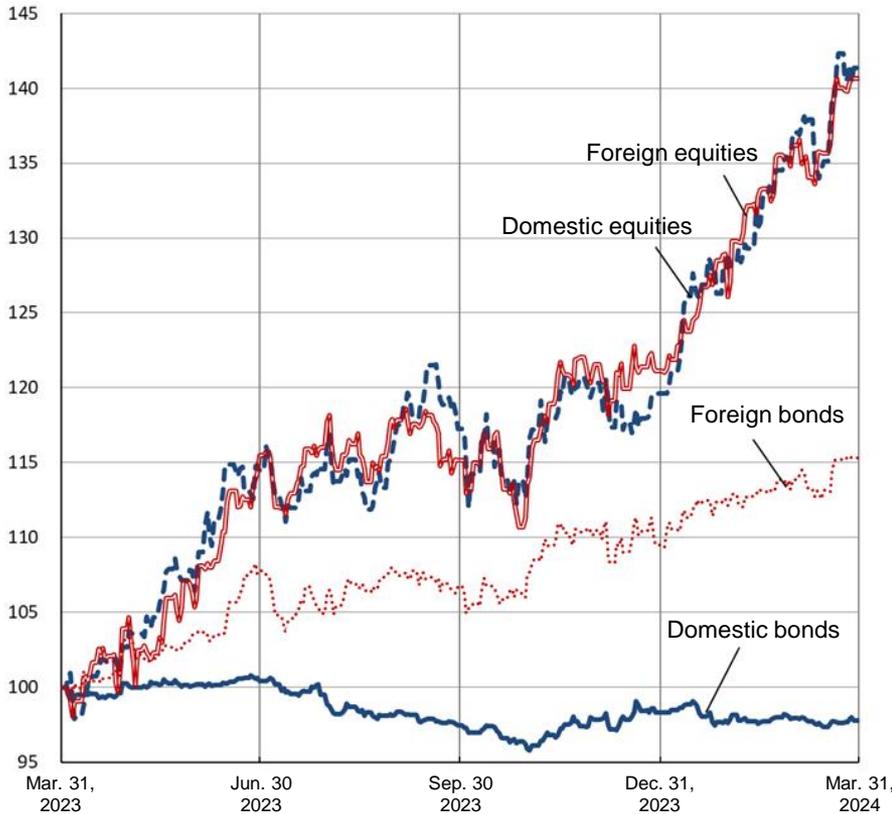
(Note 1) The investment income represents the income after the deduction of fees, etc.

Section 1 Administration and Investment of Funds in FY2023

Change in benchmark return

Regarding the full-year benchmark return, while domestic bonds made a negative contribution, domestic and foreign equities rose steeply and the return on foreign bonds became positive against the backdrop of the yen's depreciation. As a result, the total return came to +22.63%.

○ Changes in benchmark indices (for all asset classes)



(Note) The level as of March 31, 2023 is the base figure of 100.

○ Benchmark return

Asset class	Benchmark	Returns				
		Q1	Q2	Q3	Q4	Full fiscal year
Domestic bonds	NOMJRA Bond Performance Index (Overall)	0.41%	-2.97%	0.89%	-0.51%	-2.20%
Domestic equities	TOPIX (dividend-inclusive)	14.45%	2.45%	2.04%	18.14%	41.34%
Foreign bonds	FTSE World Government Bond Index (ex-Japan, ex-China, no hedge, in yen)	7.80%	-0.97%	2.56%	5.33%	15.32%
Foreign equities	MSCI ACWI ex. Japan (in yen, dividend-inclusive)	15.49%	-0.27%	5.17%	16.10%	40.63%
Total		9.45%	-0.44%	2.68%	9.60%	22.63%

(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.

○ Reference indices

Asset class	Market Indices	As of March 31, 2023	As of June 30, 2023	As of September 30, 2023	As of December 31, 2023	As of March 31, 2024
Domestic bonds	10-year government bond return (%)	0.35	0.40	0.77	0.61	0.73
Domestic equities	TOPIX, no dividends (Points)	2,003.50	2,288.60	2,323.39	2,366.39	2,768.62
	Nikkei Stock Average (Yen)	28,041.48	33,189.04	31,857.62	33,464.17	40,369.44
Foreign bonds	10-year U.S. government bond return (%)	3.47	3.84	4.57	3.88	4.20
	10-year German government bond return (%)	2.29	2.39	2.84	2.02	2.30
Foreign equities	NY Dow-Jones (US\$)	33,274.15	34,407.60	33,507.50	37,689.54	39,807.37
	German DAX (Points)	15,628.84	16,147.90	15,386.58	16,751.64	18,492.49
Exchange rates	Dollar/Yen (Yen)	133.09	144.54	149.23	140.98	151.35
	Euro/Yen (Yen)	144.60	157.69	157.99	155.73	163.45

(Source: Bloomberg)

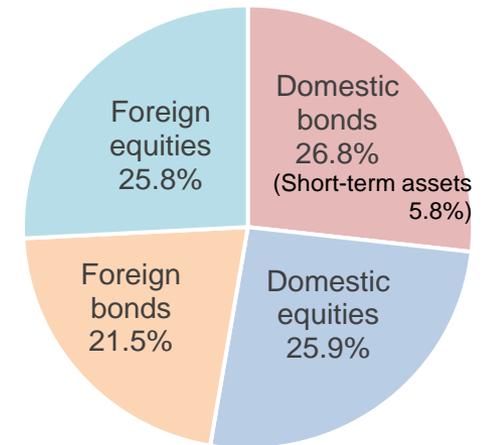
(1) Asset mix

The composition by asset is as follows:

(Unit: %)

	End of FY2022	FY2023				Benchmark portfolio
		End of Q1	End of Q2	End of Q3	End of Q4 (End of FY)	
Domestic bonds	27.0	21.5	25.0	24.6	26.8	25.0
Short-term assets	(6.6)	(1.5)	(5.2)	(2.6)	(5.8)	
Domestic equities	25.9	27.6	26.5	26.1	25.9	25.0
Foreign bonds	22.3	23.5	22.7	23.2	21.5	25.0
Foreign equities	24.8	27.5	25.8	26.2	25.8	25.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Composition by Asset Class
(as of end of FY2023)



(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 FY2023 was 22.64% for the overall assets.

(Unit: %)

	FY2023				
	Q1	Q2	Q3	Q4	FY total
Time-weighted returns	9.52	-0.09	2.35	9.50	22.64
Domestic bonds	0.52	-2.02	0.75	-0.23	-1.00
Short-term assets	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)
Domestic equities	14.02	2.49	1.85	17.46	39.80
Foreign bonds	7.78	-0.77	1.95	5.29	14.80
Foreign equities	15.22	-0.25	5.00	15.94	39.91

(Unit: %)

	FY2023				
	Q1	Q2	Q3	Q4	FY total
Modified total return	9.46	-0.07	2.35	9.30	21.91

(Unit: %)

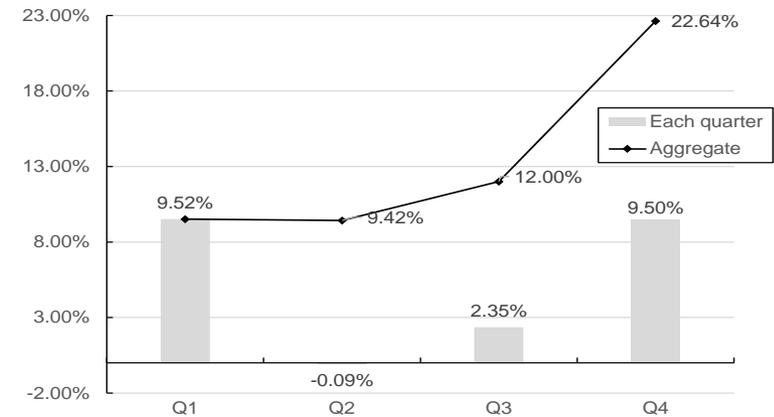
	FY2023				
	Q1	Q2	Q3	Q4	FY total
Realized return	1.75	2.14	2.07	3.01	9.03

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

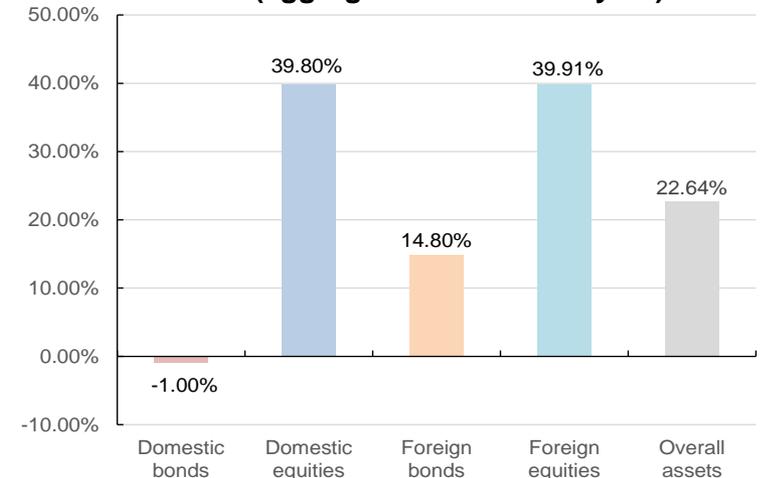
(Note 2) The time-weighted return represents the figure before the deduction of fees, etc.

(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 22.64%, while the excess return compared with the benchmark return was 0.01%.

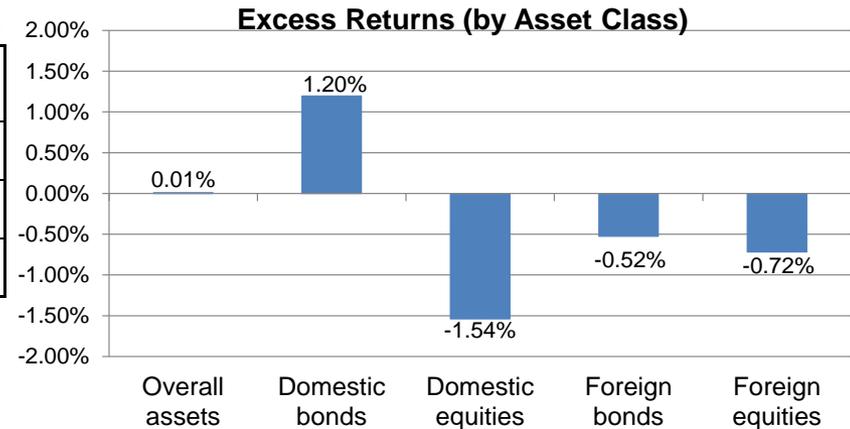
The excess return for overall assets (0.01%) can be broken down as follows: asset allocation factor: -0.29%; individual asset factor: -0.40%; composite factor: 0.69%.

FY2023 (April 2023 through March 2024)

(Unit: %)

	Overall assets	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Time-weighted return	22.64	-1.00	39.80	14.80	39.91
Benchmark return	* 22.63	-2.20	41.34	15.32	40.63
Excess return	0.01	1.20	-1.54	-0.52	-0.72

* 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	-0.47%	0.30%	0.20%
Domestic equities	0.04%	-0.38%	0.16%
Foreign bonds	0.15%	-0.13%	0.16%
Foreign equities	-0.01%	-0.18%	0.17%
Total	-0.29%	-0.40%	0.69%

(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	26.9%	25.0%	1.9%	±20%
Domestic equities	25.2%	25.0%	0.2%	±12%
Foreign bonds	22.9%	25.0%	-2.1%	±9%
Foreign equities	25.0%	25.0%	-0.0%	±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.

(3) Contribution analysis of excess return (ii)

○ Domestic bonds

The time-weighted return of domestic bonds was -1.00%, which exceeded the benchmark return (-2.20%) by 1.20%. In passive investment, while the overweighting of municipal bonds was tolerated, the narrowing of the spread of municipal bond yields over government bond yields made a positive contribution. Active investment showed a robust performance on the whole, and on a combined basis, the returns of the eight entrusted investment management institutions exceeded the benchmark. Currency-hedged foreign bond funds, which are classified as domestic bonds, made a positive contribution despite the continued high hedging cost, benefiting from the high yields in foreign markets. The holdings of short-term assets also made a positive contribution, and as a result, the return on domestic bonds as a whole exceeded the benchmark.

○ Domestic equities

The time-weighted return of domestic equities was 39.80%, which was below the benchmark return (41.34%) by 1.54%. In passive investment, the return was similar to the benchmark. In active investment, amid a market environment favorable for investment in large-cap and value stocks, some value funds performed well. However, growth funds and small- and mid-cap funds performed poorly. Regarding funds adopting smart beta strategies, the manager's benchmark return (33.38%) was much 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 14.80%, which was below the benchmark return (15.32%) by 0.52%. In passive investment, the return was similar to the benchmark. In active investment, four of the seven entrusted investment management institutions delivered a return higher than the manager's benchmark. As the return on the Bloomberg Global Aggregate Index (16.53%), which was adopted as the manager's benchmark by five of the seven institutions, was higher than the benchmark (WGBI), the returns for all of the five exceeded the return on the WGBI. As a result, active investment made a positive contribution. However, in FY2023, the return for some funds investing in alternative assets, classified as foreign bonds, remained low, and as a result, the return on foreign bonds as a whole fell short of the benchmark.

○ Foreign equities

The time-weighted return of foreign equities was 39.91%, which was below the benchmark return (40.63%) by 0.72%. 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 well. However, focused funds investing in a limited number of issues and not owning shares in market-leading large companies and funds making investment in ways that curbed portfolio volatility amid the steep market rally performed poorly. As a result, the return on active investments as a whole fell short of the benchmark, and the return on foreign equities as a whole was also lower than the benchmark.

(4) Investment income

The investment income for FY2023 was JPY 1,374.3 billion for overall assets.

(Unit: JPY100M)

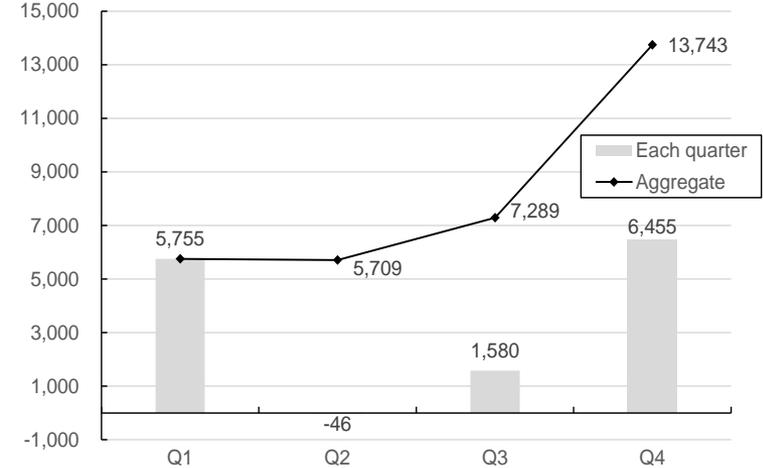
	FY2023				
	Q1	Q2	Q3	Q4	FY total
Investment income	5,755	-46	1,580	6,455	13,743
Domestic bonds	66	-334	148	-64	-185
Short-term assets	(0)	(0)	(0)	(0)	(0)
Domestic equities	2,227	451	303	2,990	5,972
Foreign bonds	1,098	-117	295	806	2,082
Foreign equities	2,364	-46	834	2,723	5,874

(Unit: JPY100M)

	FY2023				
	Q1	Q2	Q3	Q4	FY total
Realized income	875	1,094	1,081	1,630	4,680

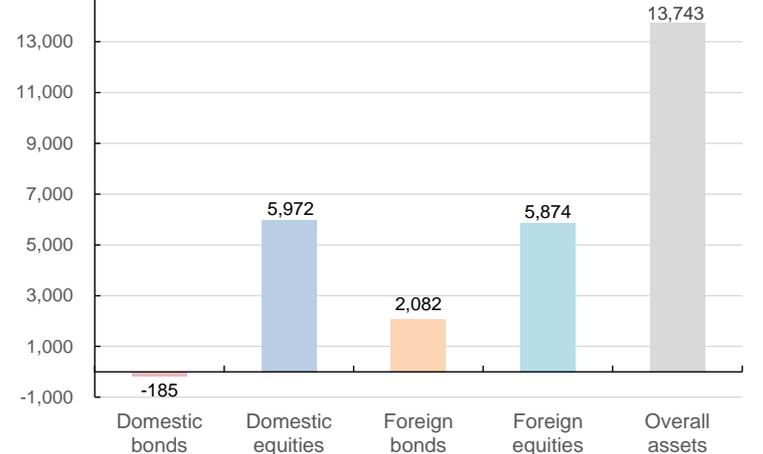
Changes in investment income

(Unit: JPY100M)



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

(Unit: JPY100M)



(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.

(5) Value of assets

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

(Unit: JPY100M)

	End of FY2022			FY2023											
				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	17,178	17,056	-122	13,974	13,924	-50	17,073	16,704	-369	16,602	16,373	-229	20,556	20,242	-314
Short-term assets	(4,183)	(4,183)	(0)	(984)	(984)	(0)	(3,449)	(3,449)	(0)	(1,715)	(1,715)	(0)	(4,365)	(4,365)	(0)
Domestic equities	12,550	16,395	3,845	12,157	17,873	5,717	11,916	17,680	5,764	11,830	17,384	5,554	11,788	19,576	7,789
Foreign bonds	13,981	14,131	150	14,040	15,229	1,189	14,251	15,148	896	14,438	15,442	1,004	14,771	16,252	1,481
Foreign equities	8,649	15,668	7,019	8,715	17,805	9,091	8,578	17,224	8,646	8,498	17,474	8,976	8,510	19,510	11,000
Total	52,357	63,249	10,892	48,885	64,832	15,947	51,819	66,755	14,937	51,368	66,673	15,306	55,625	75,581	19,956

(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 FY2023 by asset class are as follows.

(Unit: JPY100M)

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Amount of funds allocated and withdrawn	3,190	- 2,790	39	- 2,032

(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 JPY4.6 billion in FY2023.
The fee rate relative to the value of investment assets came to 0.07%.

(Unit: JPY100M, %)

	FY2023	
	Fees	Fee rate
Domestic bonds	6	0.04
Domestic equities	13	0.08
Foreign bonds	6	0.05
Foreign equities	15	0.09
Alternative assets	6	0.39
Overall assets	46	0.07

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

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

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

(Note 4) In the above table, the figures for alternative assets are separately indicated.

Benchmark portfolio

1. Benchmark portfolio

	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, 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.

(3) Status of risk management

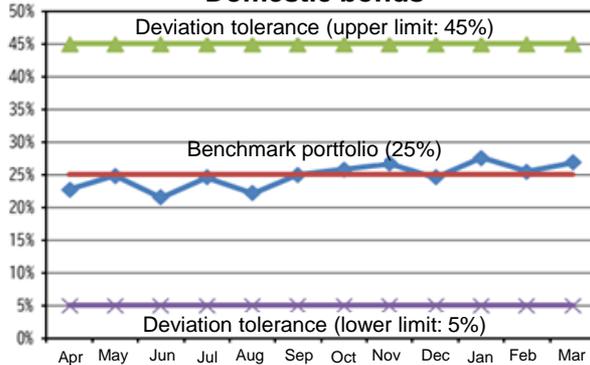
Status of risk management (overall assets)

○ Asset mix and estimated tracking error

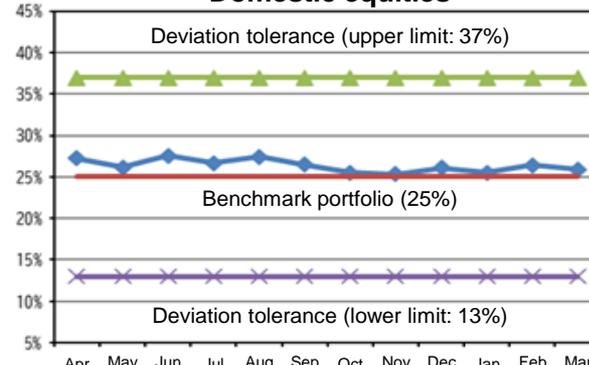
The asset-by-asset share in the asset mix stayed within the deviation tolerance for all asset classes. The estimated tracking error concerning overall assets ranged from around 0.4% to 1.0%.

【Changes in the asset mix】

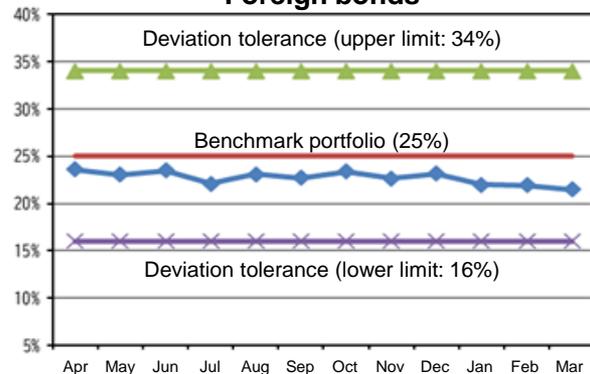
Domestic bonds



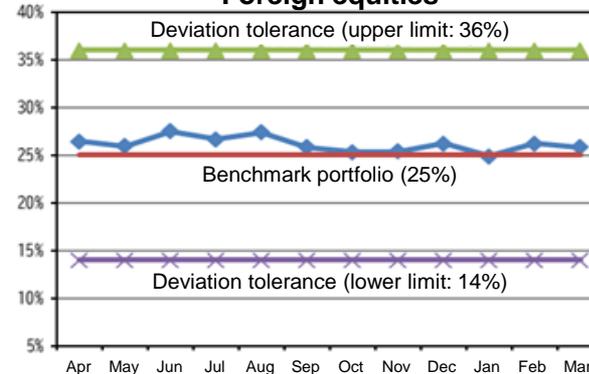
Domestic equities



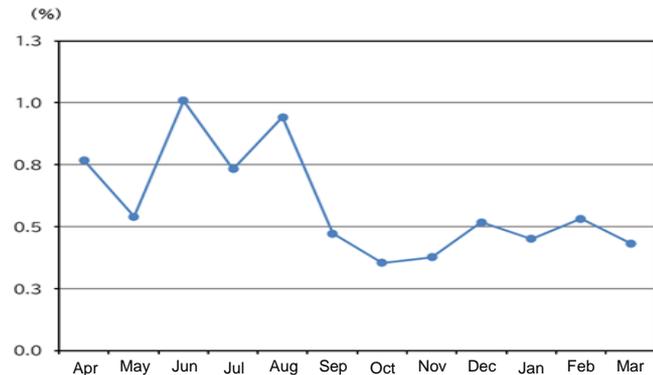
Foreign bonds



Foreign equities



【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)

* Calculated based on figures excluding alternative assets from September 2023

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 FY2023, the Federation adopted the following entrusted investment management institution for one real estate fund.

➤ Nomura Asset Management Co., Ltd. (foreign 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 return (Fiscal year)
Nomura Asset Management	Diversified investment in sectors such as industrial facilities, offices, rental houses, and commercial facilities mainly in the three major metropolitan areas	¥3.4 billion	December 2018	7.12%
Sumitomo Mitsui Trust Bank	Diversified investment in privately placed REITs and privately placed funds investing mainly in domestic industrial facilities, offices, rental houses and commercial facilities (SMA)	¥9.8 billion	January 2022	5.83%

○ 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 (SMA)	¥69.2 billion	December 2018	2.41%
PGIM Japan	Diversified investment in U.S. industrial facilities, rental houses, offices and commercial facilities	¥24.8 billion	December 2018	1.20%
Nomura Asset Management (Fund of funds manager: StepStone Group Real Estate LP)	Diversified investment in real estate funds investing mainly in industrial facilities and rental houses in the U.S. and Europe (SMA)	¥0 billion	March 2024	0.00%

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	¥16.3 billion	February 2020	26.17%
Tokio Marine Asset Management (Fund of funds manager: BlackRock Financial Management, Inc.)	Diversified investment in infrastructure funds centered on stably operating assets at a global level (SMA)	¥12.3 billion	March 2020	26.58%

Investment in alternative assets (5)

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)	¥1.3 billion	November 2022	-9.67%

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)	¥8.7 billion	March 2021	28.03%
Nomura Asset Management (Fund of funds manager: HarbourVest Partners, LLC)	Diversified investment in PE funds centered on buy-outs at a global level (SMA)	¥11.1 billion	March 2021	20.26%

(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.

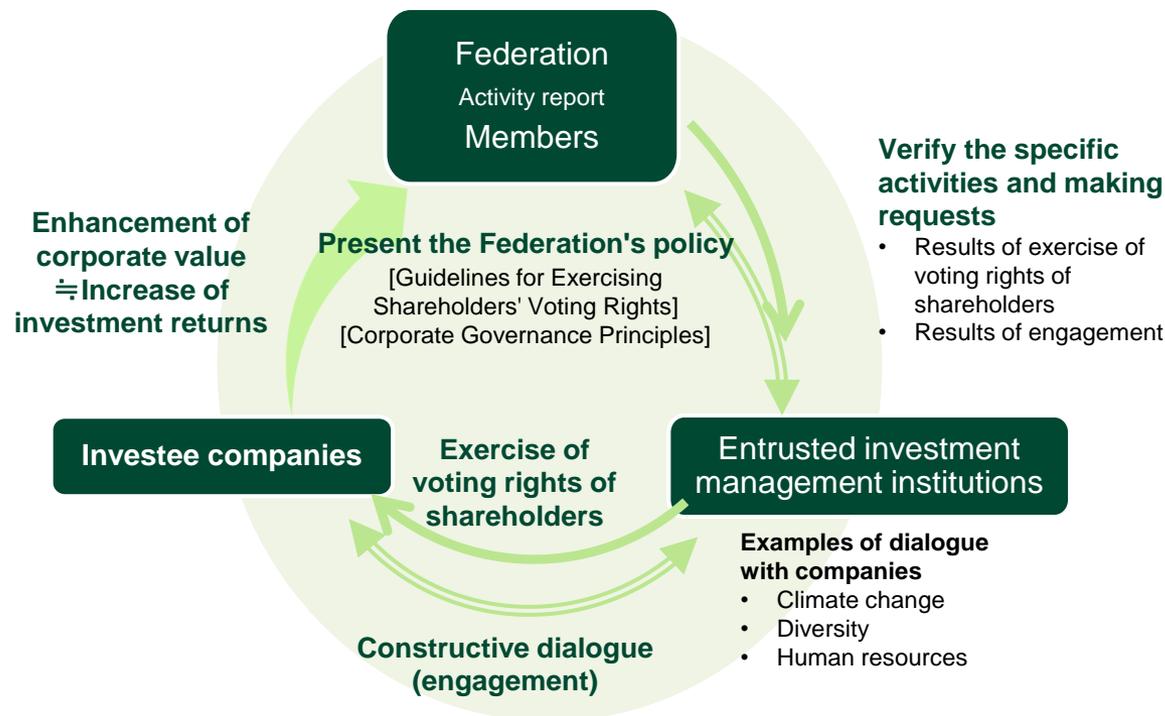
(Note 3) The investment start date is the date of signing the discretionary investment contract.

(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) Overview of stewardship activity

- "Stewardship activities" refers to the activities of institutional investors to increase medium- to long-term investment returns for their clients and beneficiaries by encouraging improvements in corporate value and sustainable growth of investee companies through means such as the exercise of shareholders' voting rights and engagement (e.g., constructive "purposeful dialogue" with investee companies).
- The Federation entrusts investment management institutions to make stock investments in individual companies. The Federation believes that instructing these entrusted investment management institutions to conduct stewardship activities for the enhancement of the function of the investment chain while monitoring the status of their activities would be effective for fulfilling the stewardship responsibility, as they have more opportunities to access investee companies and have in-depth insight on corporate management.



(2) Initiatives in FY2023

- As part of its stewardship activity in FY2023, 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 policies.
- In addition, the Federation started surveys concerning domestic and foreign bonds in FY2023. While bond investment does not involve the exercise of voting rights, the Federation checked the status of dialogue with companies, the policy for bond investment, and organizational systems.

Surveys and hearings of entrusted investment management institutions

Subjects	Period	Targets	Main subjects
Survey on performance of stewardship activities	August 2023	Institutions entrusted with equity and bond investment	<ul style="list-style-type: none"> Organizational systems and details of stewardship activity Structure for managing conflicts of interest Results of exercise of voting rights, and organizational systems (only for equity investment) Results and structure of engagement
Interviews	October 2023	Institutions entrusted with equity investment	<ul style="list-style-type: none"> Details of engagement Strengthened efforts, challenges and issues Reasons for voting decision concerning individual proposals

Periodical reports related to stewardship activities

Subjects	Period	Targets	Main subjects
Federation's newsletter (activity report)	February 2024	Executives and employees of the Federation Executives and employees of member associations	<ul style="list-style-type: none"> Initiatives in FY2023 Themes of engagement, example cases Trends in exercise of voting rights
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
FY2023 stewardship activity report	March 2024	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

(3) Future initiatives

○ **Sophistication of monitoring of entrusted investment management institutions**

The Federation will continue a study on the scope of assets covered by stewardship activity and periodically review the specifics of monitoring activity to ensure efficient and effective monitoring.

○ **Discussion of methods for evaluating entrusted investment management institutions according to their characteristics**

The Federation believes that it is necessary to evaluate whether entrusted investment management institutions are conducting efficient 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 gathering information on evaluation methods and discussing the appropriate methods for evaluation.

○ **Strengthening of information feedback**

The Federation will exercise further efforts to deepen the understanding by its stakeholders as to its stewardship activity by such means as the Federation's website, newsletters, and periodical reports at its general meetings.

○ **Gathering wide range of information**

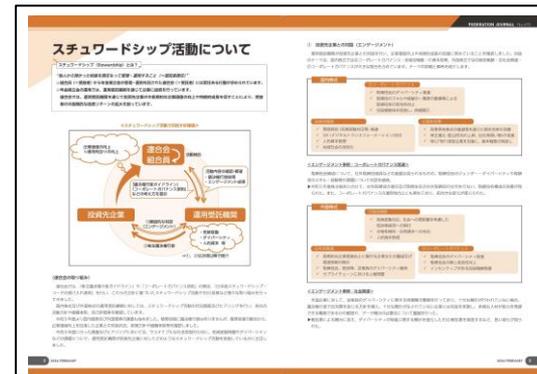
The Federation will continue gathering information on global ESG trends and various initiatives through meetings with institutional investors, seminars by outside experts and information exchange with entrusted investment management institutions.
The Federation will enhance its knowledge regarding the ESG field by gathering information focusing on discussions on the measurement of the economic and social effects of ESG initiatives.

<Reference material> Contents of FY2023 periodical report

○ Annual Stewardship Activity Report FY2023

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

○ Federation's Newsletter (February issue)



(1) Initiatives concerning ESG investment

○ Basic approach concerning ESG

As the Federation invests pension funds over the long term, the Federation considers it rational to aim to maximize the long-term return by paying attention not only to short-term business performance when making investment but also to factors related to sustainability, including ESG (Environmental, Social, and Governance).

With respect to ESG investment, the Federation revised its policies including the "Basic Policy for the Administration and Investment of Employees' Pension Insurance Benefit Association Reserve Fund" in line with the revised Basic Policy for Funds (public notice issued by four ministries). The Federation's basic policy revised in fiscal year 2020 provides: the necessary initiatives shall be implemented, based on a case-by-case analysis, with a view to promoting investment considering non-financial elements including ESG in addition to financial elements based on the approach that the sustainable growth of investee companies and the entire market is necessary for the increase of return on investment portfolio over long time so as to secure long-term return for the benefit of insured persons.

As part of its effort to ensure long-term returns for the interests of insured persons, the Federation pays attention to regional revitalization initiatives when considering contributions to ESG.

○ Consideration of the ESG factors for funds managed by entrusted institutions

The Federation evaluates the status of consideration of the ESG factors in the processes of annual comprehensive evaluation of funds managed by entrusted institutions and selection of new funds. It also requests investment management institutions entrusted with equity investment to take sustainability into consideration when conducting engagement activity or exercising voting rights as part of stewardship activity and checks the status of those activities.

Regarding alternative investment, when selecting new products, the Federation conducts assessment from the viewpoint of whether the entrusted investment management institution has signed the Principles for Responsible Investment (PRI) or accepted the Japan's Stewardship Code (second revised version). In addition, it conducts monitoring regarding the specifics of ESG activities conducted by entrusted investment management institutions through periodic reports and seminars.

○ Investment in ESG funds and ESG bonds

In FY2012, the Federation started equity investments benchmarked against the MSCI Japan ESG Leaders Index. As of the end of FY2023, the total value (market value) of those investments, which involved two products, was 11.4 billion yen.

In FY2021, the Federation started investing in ESG bonds as part of in-house investment issued by local governments and institutions funded by a fiscal investment and loan program. As of the end of FY2023, the total value (book value) is 300 million yen (government-guaranteed bonds).

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

1. Administration and evaluation of entrusted investment management institutions

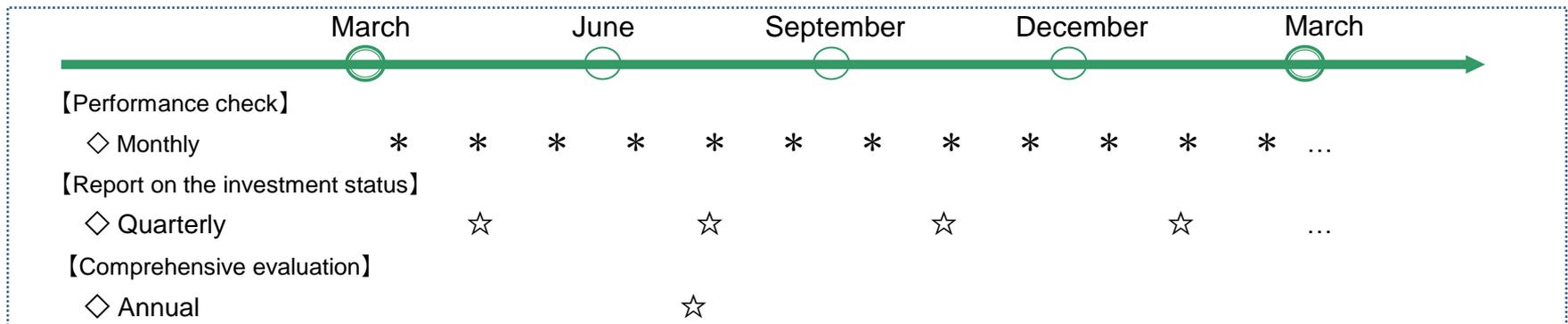
The Federation requires entrusted investment management institutions to submit monthly reports on investment results and the risk status and checks the status of compliance with the investment guidelines. The Federation also requires quarterly reports on the portfolio status, a factor breakdown of the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

☞ Two funds were cancelled and one fund was partially cancelled (reduction) in the comprehensive evaluation whose base date is at the end of FY2022.

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, 2024, it is required that the Federation has executives consisting of one President, 13 Executive Directors and three Auditors, including one full-time Executive Director and one full-time Auditor with academic knowledge. The maximum number of employees is 129.

The organization consists of the General Affairs Department (General Affairs Division, Planning Division, Health Insurance and Health Management 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 Service Department (Pension Planning Division, Pension Information Systems Division, Pension Inspection Division, Pension Benefit Division and Retirement Pension Benefit Division), as well as the IT/Information Security Office, Investment Risk Management Office, Audit Office and Renewal Promotion 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 Executive Director (hereinafter a "Managing Director"), the Secretary-General, the Director 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.

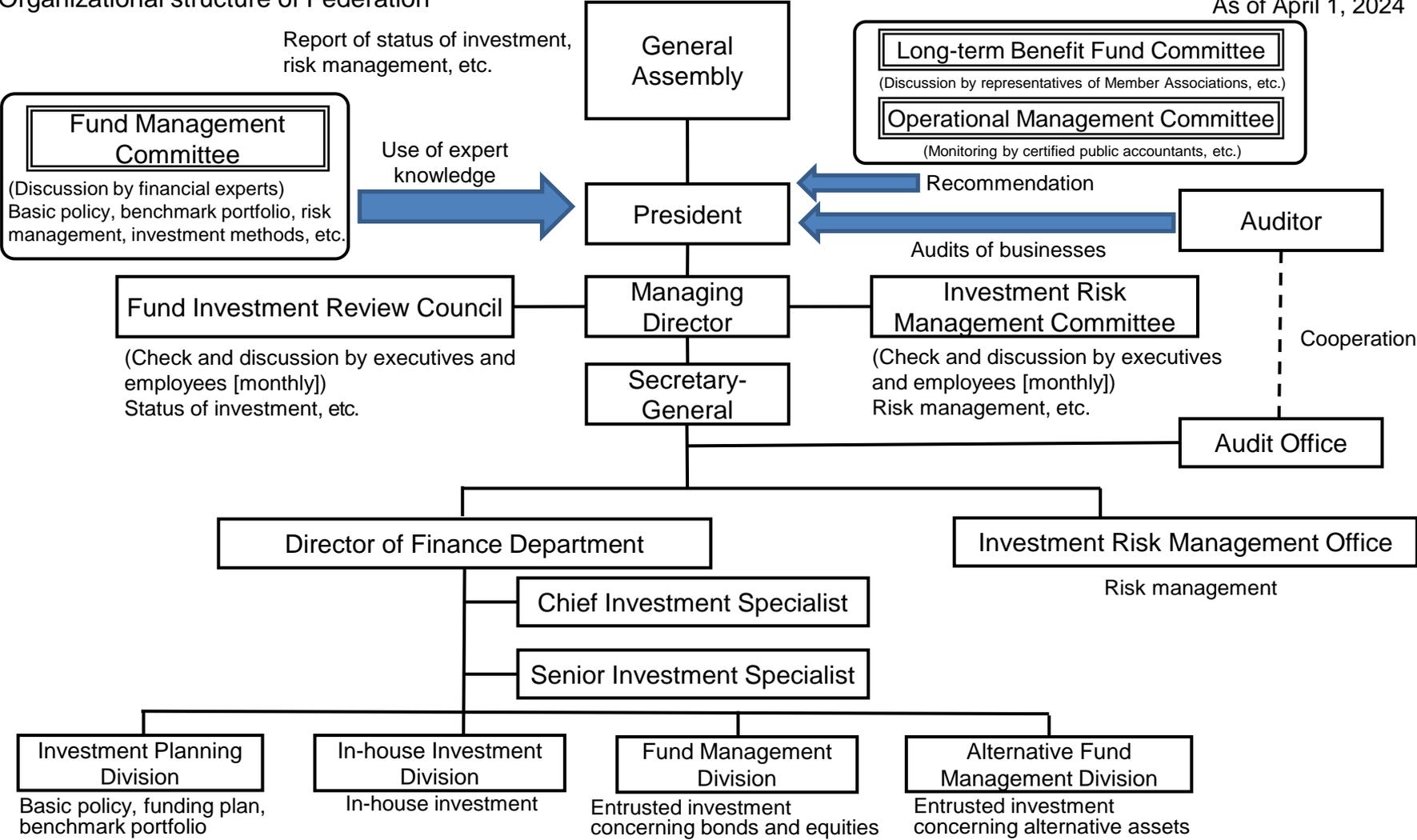
7. Investment Risk Management Committee

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 Managing Director, the Secretary-General, the Manager of Investment Risk Management Office, the Director 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, 2024



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 2024)	
Ohno Sanae	Professor, Faculty of Economics, Musashi University
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 (FY2023)

Meeting number	Meeting date	Main subjects
55th	June 19, 2023	<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
56th	November 27, 2023	<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 • Signing of Principles for Responsible Investment (PRI)
57th	March 22, 2024	<ul style="list-style-type: none"> • Consideration of reviewing the basic portfolio for the Annuity Retirement Benefit Association Reserve Fund • Recommendation paper (draft) • Investment of pension funds in FY2024 • Criteria for evaluation of entrusted investment management institutions • Status of investment of pension funds • Stewardship activities

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 the Administration and Investment of Employees' Pension Insurance Benefit Association Reserve Fund (Extract)

1. Basic Policy

Especially keeping in mind that the EPI 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 reserve funds shall be managed with the objective of contributing to the stable operation of EPI schemes in the future by investing them 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, on the basis of appropriately diversifying investments in multiple assets that differ in terms of risk/return and other characteristics ("Diversified Investment"), the Federation shall administer and invest the EPI benefit association reserve fund by establishing an asset mix from a long-term perspective (the "Benchmark Portfolio").

2. Investment target

The investment of the EPI benefit association reserve fund shall be managed appropriately by establishing a Benchmark Portfolio in order to generate investment returns which is the investment target for management fund stipulated in Article 79-6, Paragraph (1) of the EPI Act ("Management Fund").

In so doing, the Federation shall pay attention not to distort, among other things, price formation in the market and private sector investment activities.

In addition, efforts shall be made to earn the benchmark returns for overall assets and each asset class for each fiscal year by appropriately implementing the selection, management and assessment of entrusted investment management institutions, as well as generating 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 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	FY2023
Return	0.89	4.16	6.40	1.59	-4.60	23.55	5.62	1.65	22.64
Domestic bonds	3.32	-0.79	1.25	1.94	0.13	-0.13	-0.96	-1.75	-1.00
Short-term assets	-0.03	0.00	0.00	0.00	0.00	(0.00)	(0.00)	(0.00)	(0.01)
Domestic equities	-3.98	14.76	15.85	-5.24	-9.58	41.97	1.80	5.70	39.80
Foreign bonds	-2.32	-5.23	3.47	2.64	3.88	6.17	3.27	0.68	14.80
Foreign equities	-1.04	14.43	9.34	7.82	-12.35	59.17	17.63	2.14	39.91

(Unit: %)

	FY 2015 (second half)	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Realized return	2.29	2.24	4.37	2.96	2.98	3.62	6.91	4.59	9.03

2. Value of investment income

(Unit: JPY100M)

	FY 2015 (second half)	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Investment income	473	2,150	3,429	879	-2,506	11,774	3,440	1,024	13,743
Domestic bonds	984	-188	248	364	23	-23	-147	-241	-185
Short-term assets	-1	0	0	0	0	(0)	(0)	(0)	(0)
Domestic equities	-330	1,331	1,836	-702	-1,205	4,801	290	878	5,972
Foreign bonds	-105	-320	247	204	304	606	446	85	2,082
Foreign equities	-75	1,327	1,098	1,013	-1,629	6,391	2,850	303	5,874

(Unit: JPY100M)

	FY 2015 (second half)	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Realized income	1,111	1,066	2,112	1,436	1,442	1,734	3,391	2,299	4,680
(Income gain)	(349)	(820)	(1,170)	(1,017)	(972)	(890)	(1,027)	(1,164)	(1,282)

(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 after 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 2024, 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	6,872
2	Japan Expressway Holding and Debt Repayment Agency	950
3	Joint LGB	697
4	Tokyo Metropolitan Government	625
5	Japan Finance Organization for Municipalities	514
6	Osaka Prefecture	309
7	Aichi Prefecture	293
8	Hyogo Prefecture	281
9	Kanagawa Prefecture	256
10	Osaka City	236
Total	295 Issuers	15,026

○ Domestic equity (in order of total market value)

No.	Issue names	No. of shares	Total market value (Unit: JPY100M)
1	Toyota Motor Corporation	23,499,700	899
2	Mitsubishi UFJ Financial Group	28,160,200	444
3	Sony Corporation	3,113,200	406
4	Tokyo Electron	990,300	394
5	Mitsubishi Corporation	9,463,447	333
6	Hitachi	2,292,300	320
7	Sumitomo Mitsui Financial Group	3,528,300	319
8	Keyence Corporation	450,100	314
9	Shin-Etsu Chemical	4,545,000	302
10	Nippon Telegraph and Telephone Corporation	155,190,500	283
Total	2,173 Issues		19,433

○ Foreign bond (in order of total market value)

No.	Names of issuer	Total market value (Unit: JPY100M)
1	UNITED STATES TREASURY	7,150
2	FRANCE, REPUBLIC OF (GOVERNMENT)	1,190
3	ITALY, REPUBLIC OF (GOVERNMENT)	1,159
4	GERMANY, FEDERAL REPUBLIC OF (GOVERNMENT)	935
5	UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND (GOVERNMENT)	806
6	SPAIN, KINGDOM OF (GOVERNMENT)	746
7	CANADA (GOVERNMENT)	324
8	BELGIUM, KINGDOM OF (GOVERNMENT)	265
9	AUSTRALIA, COMMONWEALTH OF (GOVERNMENT)	224
10	NETHERLANDS, KINGDOM OF THE (GOVERNMENT)	215
Total	722 Issues	15,735

○ Foreign equity (in order of total market value)

No.	Issue names	No. of shares	Total market value (Unit: JPY100M)
1	MICROSOFT CORP	1,241,061	790
2	APPLE INC	2,404,798	624
3	NVIDIA CORP	417,430	571
4	AMAZON.COM INC	1,658,838	453
5	META PLATFORMS INC	420,330	309
6	ALPHABET INC-CL A	1,218,726	278
7	ALPHABET INC-CL C	919,805	212
8	TAIWAN SEMICONDUCTOR MANUFACT CO LTD	4,829,808	179
9	LILLY ELI & CO	147,006	173
10	VISA INC	367,100	155
Total	2,800 Issues		19,163

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 (Unit: JPY100M)
Domestic real estate	Sumitomo Mitsui Trust Bank	Sumitomo Mitsui Trust Bank	98
Domestic real estate	Nomura Asset Management	Nomura Real Estate Asset Management	34
Domestic PE	Mitsubishi UFJ Trust and Banking Corporation	Mitsubishi UFJ Trust and Banking Corporation	13
Foreign real estate	Tokio Marine Asset Management	Tokio Marine Asset Management	692
Foreign real estate	PGIM Japan	PGIM, INC.	248
Foreign real estate	Nomura Asset Management	STEPSTONE GROUP REAL ESTATE LP	0
Foreign infrastructure	J.P. Morgan Asset Management	J.P.MORGAN INVESTMENT MANAGEMENT INC.	163
Foreign infrastructure	Tokio Marine Asset Management	BLACKROCK FINANCIAL MANAGEMENT, INC.	123
Foreign PE	Nomura Asset Management	HARBOURVEST PARTNERS, LLC	111
Foreign PE	J.P. Morgan Asset Management	J.P.MORGAN INVESTMENT MANAGEMENT INC.	87

(Note 1) The names of issuers and issues are those assigned by the Federation as of the end of March 2024 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.