

## Pension Fund Association: Implementation Strategy for Investment of Pension Assets (hereinafter, the “Investment Strategy”)

Based on the Principal Policy for Investment of Pension Assets (“Principal Policy”), Pension Fund Association (“PFA”) sets forth the following specific investment strategies and manages and invests pension assets in accordance with the Principal Policy and this Investment Strategy.

### 1. Investable Assets

#### (1) Investable assets as a basis for the formulation of the Policy Asset Mix

Investable assets are those specified in the 3 (3) of the Principal Policy; however, the investable assets that are the basis for the formulation of the Policy Asset Mix shall be domestic and foreign bonds and equities.

#### (2) Portable alpha strategy

With the aim of diversifying sources of excess return (alpha) and managing market risk (beta) over PFA’s total assets, PFA may implement a portable alpha strategy in which alpha and beta are separated and combined efficiently.

#### (3) Portfolio overlay strategy

PFA may implement a portfolio overlay strategy for the purpose of adjustment (rebalancing) for deviations from the Policy Asset Mix.

#### (4) Currency overlay strategy

PFA may implement a currency overlay strategy for the purpose of the foreign exchange-rate risk management.

#### (5) Absolute return strategy

For the purpose of securing stable returns, PFA may implement an absolute return strategy, targeting a certain level of return against the short-term interest rates.

#### (6) Other assets and strategies

PFA shall fully consider risk and return characteristics, liquidity, valuation methods, and other matters of investable securities and strategies, and, if they are determined to be appropriate, implement them after clarifying the policy in the Principal Policy or this Investment Strategy.

## 2. Rebalancing

On the basis of the benchmark and tolerance of the Policy Asset Mix set forth in “3. Asset Allocation” of the Principal Policy, PFA shall conduct rebalancing as follows:

- 1) If the deviation exceeds the acceptable range, PFA shall conduct rebalancing by transferring assets to correct the state of deviation.
- 2) Notwithstanding 1) above, PFA may conduct rebalancing to correct the state of deviation after a comprehensive assessment of factors such as changes in funding ratios, market fluctuations, market impact, and transaction costs.
- 3) For Basic Pension (“Basic Pension” as provided in 1. of the Appendix to the Principal Policy), PFA may conduct rebalancing if the asset allocation of the Government Pension Investment Fund (GPIF) changes.
- 4) For Portable Corporate Pensions (“Portable Corporate Pensions” as provided in 2. of the Appendix to the Principal Policy), PFA may conduct rebalancing within the acceptable range set forth in the Principal Policy after verification of the optimal asset allocation based on changes in financial conditions, cash flows, and other factors for each accounting category.
- 5) When conducting rebalancing in accordance with 1) to 3) above, PFA may do so with a portfolio overlay strategy.
- 6) When conducting rebalancing in accordance with 1) to 5) above, the President of PFA may decide the range of rebalancing, target fund, assets to be paid in or out, the amount of transfer, derivatives to be used, and the range (position) thereof, in accordance with the provisions of Article 5, Paragraph (2) of the Pension Fund Association Rules for Investment and Management of Pension Assets, with due consideration to market impact and transaction costs, among others.

## 3. Benchmarks

### (1) Benchmarks for pension assets as a whole

#### 1) Benchmark for pension assets such as Basic Pension

##### a) Bonds

Customized benchmark weighted at 65% for Bloomberg’s Japanese Aggregate Index and 35% for the FTSE World Government Bond Index (excluding Japan, unhedged, based on Japanese Yen)

##### b) Equities

Customized benchmark weighted at 40% for TOPIX (inc. dividends) and 60% for MSCI (ACWI, JPY basis, dividend reinvested, net)

#### 2) Benchmark for pension assets of Portable Corporation Pensions

##### a) Bonds: Bloomberg Japan Aggregate Index

b) Global equities: MSCI (ACWI, JPY basis, dividend reinvested, net)

Composite benchmarks shall be calculated as follows:

(i) Employees' pension funds added benefit account:  $a) \times 88\% + b) \times 12\%$

(ii) Defined-benefit type corporate pensions account:  $a) \times 80\% + b) \times 20\%$

(iii) Portable Corporate Pensions ((i) + (ii)):  $a) \times 84\% + b) \times 16\%$

(2) Benchmark for investment managers

For benchmarks to be followed by investment managers as mandates, PFA shall present benchmarks that best reflect the capabilities and characteristics of each investment manager in the investment guidelines, taking into account the benchmarks described above.

#### 4. Important Notes for Investment Management

(1) Understanding cash flow

PFA shall strive to grasp and understand cash flows such as transferred monies received and benefit payments as early as possible and to allocate funds in consideration of market impact and other factors.

(2) Securing liquidity

To secure liquidity, PFA shall make use of in-house investment in preparation for cash outflows for benefit payments and other such payments, and manage other funds on a full investment basis to minimize idle funds.

(3) Risk management

PFA shall implement risk management across PFA's entire portfolio through appropriate management of the Policy Asset Mix and rebalancing.

In addition, PFA shall manage risks by identifying the risks for each asset class and investment manager on a regular basis to ensure those risks are within the assumed range.

(4) Stewardship responsibilities

PFA recognizes stewardship responsibilities as an aspect of fiduciary responsibility and shall set forth separate policies to fulfill those responsibilities.

(5) Use of derivatives

PFA shall separately set forth the specific guidelines for the use of derivatives, such as the reason, purpose, scope of use, and particulars to be reported.

(6) Trade executions

The specific details of the execution of trades shall be specified separately as guidelines.

#### 5. Calculation of Return

Return on investment is calculated with the time-weighted rate of return based on market value.

## 6. Criteria for Evaluation of Investment Managers

With specific matters to be noted in “4. (2) 2) Specific items in qualitative evaluation” of the Principal Policy in an appendix, PFA shall interview the individual fund managers who are in charge of decision-making in the investment management firms, and other responsible officers and employees of the relevant investment management firms as necessary.

## 7. In-house Investment

### (1) Position and role of in-house investment

PFA shall comprehensively manage the risks and costs for the entire Policy Asset Mix of PFA under the Principal Policy as follows:

- 1) Receipt and payment of cash flows, such as transferred monies received and pension benefit payments
- 2) Transition management through measures such as in-kind transfer and cross trading to minimize transition costs caused at times of “share” changes, among others
- 3) Rebalancing of the Policy Asset Mix

In this case, PFA may implement a portfolio overlay as set forth in Article 41-4, Paragraph (2) of the Employees’ Pension Funds Rules.

### (2) Investment process

In addition to the Principal Policy, PFA shall establish the following frameworks:

- 1) PFA shall establish frameworks to obtain accurate and necessary information on the actual conditions of in-house investment. These shall include a framework that enables the identification of the balance, return rate, risks, and other data of securities, cash, etc. on a daily basis at market value, and a framework that enables the identification and analysis of the consistency of in-house investment performance with the stock index fluctuations in domestic stock index funds.
- 2) To ensure best execution, PFA shall assign multiple officers in charge of the execution of trading and develop market information systems, ordering systems, and other systems.
- 3) The compliance officer shall conduct an audit of the status of legal compliance related to in-house investment.

### (3) Investment approach

PFA shall clarify investment styles and approaches for each fund in writing.

For domestic equities investment, PFA shall adopt index investing aimed at consistency with changes in TOPIX or the Russell/Nomura Prime Index, using the “full replication” approach, in which the number of shares calculated according to market capitalization composition of individual stocks in the index is selected for all of the securities that make up the index. PFA shall aim for an annualized tracking error of less than 1.0% for monthly excess returns.

## 8. Use of External Investment Consultants

If necessary, PFA may seek analyses and advice from investment consultants on matters such as formulation of the Principal Policy, formulation of the Policy Asset Mix, appointment of investment managers, and evaluation of investment performance. In this case, the party with whom PFA enters into an agreement shall be a party registered as a party engaged in investment advisory and agency business under Article 29 of the Financial Instruments and Exchange Act (Act No. 25 of 1948).

PFA shall confirm that there is no contract between the investment consultant in question and investment managers and clarify the areas for which PFA seeks advice and the obligations to be fulfilled by the investment consultant in the selection process before entering into the agreement.

## 9. Reporting to the Board of Trustees

Matters to be reported to the Board of Trustees concerning the management and investment of pension assets shall be as follows:

- 1) Formulation and amendment of the Principal Policy and investment guidelines
- 2) Appointment and dismissal of investment managers
- 3) Results of evaluation of investment managers
- 4) Risk management status of investment managers
- 5) Investment performance (e.g., market value of assets, asset allocation, return, risk, and investment performance by each investment manager)
- 6) Minutes of PFA's Investment Advisory Committee
- 7) Status of management and investment process
- 8) Status of training and self-improvement efforts of officers and employees who are in charge of management and investment operations
- 9) Reports on stewardship activities

## 10. Disclosure of Information

Contents of disclosure set forth in "7. Disclosure of Information on Pension Asset Investment" in the Principal Policy shall be as follows:

- 1) Investment income or loss, asset allocation, and overview of investment of pension assets
- 2) Overview of the Principal Policy
- 3) Summaries of Minutes of PFA Investment Advisory Committee
- 4) Stewardship activities
- 5) Other

## 11. Date of Implementation

This Investment Strategy will be implemented from August 1, 2006.

This Investment Strategy will be implemented from September 1, 2006.

This Investment Strategy will be implemented from October 1, 2006.

This Investment Strategy will be implemented from April 1, 2007.

This Investment Strategy will be implemented from October 1, 2007.

This Investment Strategy will apply from December 18, 2007.

This Investment Strategy will be implemented from September 4, 2008.

This Investment Strategy will be implemented from December 3, 2008.

This Investment Strategy will be implemented from June 22, 2009.

This Investment Strategy will be implemented from December 3, 2009. However, for changes in “1) Domestic bonds” in “(1) Benchmarks for pension assets as a whole” under “3. Benchmarks,” this Investment Strategy will apply from April 1, 2010.

This Investment Strategy will be implemented from April 14, 2010. However, for changes in “(1) Benchmarks for pension assets as a whole” under “3. Benchmarks,” this Investment Strategy will apply retroactively to April 1, 2010.

This Investment Strategy will be implemented from August 1, 2010.

This Investment Strategy will be implemented from November 2, 2011.

This Investment Strategy will be implemented from February 18, 2013. However, for “9. Reporting to the Board of Trustees” and “10. Disclosure of Information,” this Investment Strategy will apply from April 1, 2013.

This Implementation Strategy will come into effect on April 5, 2013 and apply retroactively to April 1, 2013.

This Investment Strategy will be implemented from April 1, 2014.

This Investment Strategy will be implemented from May 22, 2014.

This Investment Strategy will be implemented from December 1, 2014.

This Investment Strategy will be implemented from August 24, 2016.

This Investment Strategy will be implemented from October 1, 2017.

This Investment Strategy will be implemented from January 25, 2018.

This Investment Strategy will be implemented from April 16, 2020.

This Investment Strategy will be implemented from April 8, 2021.

Appendix: Checklist for Qualitative Evaluation of Investment Managers

Contents	Matters to be checked
1. Organization and human resources	<ol style="list-style-type: none"> <li>1) Overview of organization and management philosophy</li> <li>2) Management status (financial condition, performance results as an investment manager, evaluation by rating agencies)</li> <li>3) Relationship with parent company (affiliated company) (capital, personnel exchanges, governance, personnel relationships and capital relationships between investment manager and asset custodian and administration organization)</li> <li>4) Expertise and experience in human resources (operational capabilities and human resource development)</li> <li>5) Adequate and appropriate assignment of personnel</li> <li>6) Retention of human resources</li> <li>7) Continuity of operations</li> <li>8) High ethical standards (fiduciary responsibility, compliance)</li> <li>9) Social evaluation</li> </ol>
2. Investment policy	<ol style="list-style-type: none"> <li>1) Clarity of content</li> <li>2) Rationality of content</li> <li>3) Consistency of content</li> </ol>
3. Investment products	<ol style="list-style-type: none"> <li>1) Source of returns</li> <li>2) Risk (leveraging, investment strategy mechanisms and inherent risks)</li> <li>3) Investment costs, such as investment fees</li> <li>4) Inter-fund correlation for funds of funds</li> <li>5) Liquidity, such as terms of conversion</li> </ol>
4. Investment process	<ol style="list-style-type: none"> <li>1) Clarity of decision-making flow</li> <li>2) Clarity of assignment of responsibilities</li> <li>3) Consistency with investment policies</li> <li>4) Operational reproducibility</li> <li>5) Rationality of method of seeking returns (source of returns)</li> <li>6) Effectiveness of method of seeking returns</li> <li>7) Rationality of risk management indicators</li> <li>8) Effectiveness of risk management indicators</li> </ol>
5. Administration structure	<ol style="list-style-type: none"> <li>1) Efficiency of administrative processes such as trading and settlement</li> <li>2) Accuracy of administrative processes such as trading and settlement</li> <li>3) Promptness of investment performance reporting (information disclosure system and reporting method)</li> <li>4) Accuracy of investment performance reporting (basis for calculating market value)</li> <li>5) Transparency of investment performance reporting</li> <li>6) Quality management (internal control audit, ISO, performance standards compliance)</li> </ol>
6. Risk management structure	<ol style="list-style-type: none"> <li>1) Effectiveness of risk management system</li> <li>2) Appropriateness of risk management system</li> </ol>
7. Compliance	<ol style="list-style-type: none"> <li>1) Development of compliance systems for laws and regulations and investment guidelines</li> <li>2) Past violation of laws and regulations</li> <li>3) Response framework in the event of an accident</li> <li>4) Status of internal audits</li> <li>5) Status of external audits</li> </ol>

Contents	Matters to be checked
<p>8. Status of efforts toward various principles of the Japan's Stewardship Code (only for investment managers entrusted with investment in Japanese equities)</p>	<ol style="list-style-type: none"> <li>1) Formulation of clearly defined policies</li> <li>2) Structure for fulfillment of responsibilities</li> <li>3) Identification of status of investee companies and dialogue with them</li> <li>4) Formulation of clearly defined policies for exercise of voting rights and announcement of results thereof</li> </ol>