Formulated on August 1, 2006

Revised on July 20, 2022

Pension Fund Association: Principal Policy for Investment of Pension Assets (hereinafter, the “Principal Policy”)

Pension Fund Association (hereinafter referred to as “PFA”) sets out its Principal Policy for reserves for pension benefits and the investment of reserves (hereinafter referred to as “pension assets”) as stated below, and manages and invests pension assets in accordance with this Principal Policy. This Principal Policy shall be decided by a resolution of the Board of Directors and revised in the same manner. The President shall report regularly to the Board of Directors on matters set forth by the President in this Principal Policy.

1. Investment Purpose

PFA invests pension assets with the purpose of accumulating reserves for pension benefits, thus ensuring that it can provide pension benefits necessary for the long term into the future. In light of the fact that PFA manages a portion of public pension assets, PFA emphasizes risk management in the investment processes of the pension assets.

2. Investment Objectives

(1) The objective for the overall pension assets

PFA’s objective shall be to ensure sufficient levels of funding (“funding ratio”) necessary to achieve the purpose set forth in the preceding paragraph. Consequently, PFA shall seek to minimize the probability of a shortfall of reserves for pension benefits on the basis of simulations of the future liabilities that include the revisions of the model assumptions.

(2) Objective for each asset class

PFA shall seek to outperform the market return (benchmark) in each asset class over the long term within the pre-determined acceptable risk limits.

3. Asset Allocation

(1) PFA shall set a policy asset mix (hereinafter, the “Policy Asset Mix”) for achieving the objective for the overall pension assets set forth in the preceding paragraph. The Policy Asset Mix shall be set on the basis of ALM and other analyses, taking into account funding ratios, future cash flow

forecasts, and expected performance profile of each asset.

As the probability of a future shortfall of reserves for pension benefits changes in line with changes in the funding ratio and underlying conditions, the Policy Asset Mix shall be revised as necessary to achieve the objective for the overall pension assets. In such a situation, in consideration of the scale of the pension assets held by PFA, PFA shall also take factors such as transaction costs and market impact into due consideration.

(2) The specific the Policy Asset Mix shall be as set forth in the Appendix.

(3) To minimize the risks by diversification and to improve the risk/return profile, PFA shall invest not only in the traditional asset classes such as equities and bonds (short-term funds), but also in the non-traditional asset classes (alternative investments) such as private equity, real estate, hedge funds, and infrastructure.

For alternative investments, PFA shall pay the utmost attention to the due diligence on the risks particular to each asset class, such as leverage, liquidity risk, credit risk, risk of fraud and gross negligence, legal risk, and operational risk before making investments. The specific policies for alternative investments shall be as set forth in the Appendix.

In cases alternative investments including but not limited to the asset classes such as hedge fund investments or some types of so-called multi asset strategies are to be put in the asset portfolio at the discretion of the investment managers for the purposes that differ from or are not set forth in this Principal Policy, PFA shall ask for the reasonable explanation from the investment manager in question regarding the purpose, reason, allocation size, particular risks, and other material issues related to the investment.

(4) The determination and amendment of the Policy Asset Mix shall be resolved by the Board of Directors, upon hearing the opinions of PFA's Investment Advisory Committee.

Further, for the determination and administration of the Policy Asset Mix, one (1) or more persons (asset management staff) with experience in the practical operations of the Policy Asset Mix determination and the knowledge of economics, finance, and securities investment required for such determination shall be appointed as the responsible staff member(s) for the administration of PFA's overall pension assets.

4. Selection and Evaluation of Investment Managers

(1) Selection of investment managers

PFA shall select the most appropriate investment managers for each asset class for investments, taking into account the diversification of investment styles and approaches, in accordance with the Policy Asset Mix described in the preceding paragraph.

PFA shall select investment managers after a thorough screening in accordance with the provisions of the following paragraph. Diversification of investment managers is also taken into consideration to ensure that selections are not excessively concentrated on specific investment managers.

(2) Evaluation of investment managers

1) Method of evaluation

PFA shall evaluate investment managers in a comprehensive manner, combining quantitative evaluation (e.g., comparative performance analysis against benchmarks, universe analysis for peer comparison of investment managers using the same benchmark in each asset class, and evaluation by Sharpe ratio with risk factored in, Information ratio) with qualitative evaluation.

2) Specific items in qualitative evaluation

In the selection and evaluation of investment managers, PFA shall set forth particulars for review separately, and confirm and evaluate the details and status of the investment managers according to each particular.

In this process, PFA shall interview the individual fund managers who shall actually make investment decisions in the invest management firms, together with other executives of those investment management firms as necessary.

3) Amendment of asset allocations and other matters

PFA shall make amendments to asset allocations and entrusted asset amounts, terminate contracts or amend the investment guidelines based on the results of evaluations of the investment managers and other related parties as set forth in this Principal Policy and the investment guidelines. In such cases, investment managers shall be evaluated in respect of their medium- to long-term performance. For pre-contract track record quantitative evaluation, composite return and other performance standards under GIPS (Global Investment Performance Standards) shall be used. Accordingly, PFA shall amend asset allocations and entrusted asset amounts, terminate investment management contracts, or amend the investment guidelines based on medium- to long-term performance evaluation results, regardless of contract duration.

When 1) actual asset allocations of PFA's overall fund deviate considerably from the Policy Asset Mix due to large fluctuations in market prices, 2) the Policy Asset Mix is reviewed, or 3) the composition of investment managers is changed for appropriate diversification of investment styles and approaches, PFA may amend asset allocations and entrusted asset amounts, terminate contracts or amend the investment guidelines irrespective of the performance evaluation of investment managers, giving priority to PFA's policy decisions.

(3) Selection and evaluation of asset custodians

PFA shall select asset custodians (defined as institutions who are specialized in holding custody of assets under the instructions for investment provided by investment managers; this includes investment managers that also hold custody of assets (e.g., trust banks that conduct investments in accordance with pension trust agreements)) after a thorough screening of their 1) management principles, operations, and social reputation; 2) understanding and knowledge in the corporate pension scheme; 3) custody frameworks (whether utmost attention is paid to the custody of securities, fund settlement operations, and the selection of sub-custodians; whether custody of pension assets is held distinctly separate from the asset custodian's proprietary assets; whether the asset custodian has appropriately developed custody systems, etc.); 4) implementation of the best execution in asset custody; 5) appropriate reporting; and 6) frequency and materiality of clerical errors. PFA shall evaluate asset custodians on an ongoing basis even after their selection and may replace them based on the results of such evaluations.

5. Matters Concerning Management of Investment Managers and Asset Custodians

Investment managers and asset custodians shall invest and hold custody of pension assets in accordance with the following eleven (11) basic requirements and with investment guidelines separately presented by PFA to them, and PFA shall monitor the status of their compliance of these requirements.

(1) Fiduciary responsibility

Investment managers and asset custodians, in their investment and custody of PFA's pension assets, must execute their duties with the due care of a prudent manager, being faithful only to the interests of PFA as the entrusting party.

In addition, investment managers and asset custodians are to keep all their executives and employees who are involved in the investments and custody of PFA's pension assets fully informed of the intent of their responsibility described above.

(2) Stewardship responsibilities

Investment managers are to strive to enhance the corporate value of the investee companies by conducting constructive dialogue with those investee companies and exercising their shareholder voting rights, solely for the best interests of PFA as the entrusting party.

Investment managers to whom PFA entrusts investment in domestic equities shall be required to accept the Japan's Stewardship Code (hereinafter, the "Code") and to strive for the better medium- to long-term returns according to the various principles of the Code.

(3) Legal compliance frameworks

Investment managers and asset custodians are to comply with relevant laws and regulations and to develop solid frameworks for ensuring such compliance.

(4) Defining and clarification of investment styles and approaches

Investment managers are to define and clarify their investment philosophies and investment policies, as well as their investment styles and approaches based on those philosophies and policies, for each mandate, and if they intend to amend any of these, they are to notify PFA to that effect in writing and consult with PFA.

(5) Objectives

Investment managers are to make the best effort to realize the expected returns while anticipating risks associated with their investment styles and approaches into account.

(6) Execution of trades

When executing securities trades, investment managers are to always bear in mind what it takes to provide PFA with the best execution possible and to minimize overall trading costs, including market impacts.

(7) Use of derivatives

In cases of using derivatives, investment managers shall do so solely for efficient risk management, and they are not to use them for speculative trading.

(8) Specific rules for each asset class

Specific compliance rules for each asset class shall be presented in the investment guidelines and other related documents.

(9) Cooperation with investment managers

Asset custodians are to strive to maintain close communication and share information with the investment managers from which they receive instructions on the investment of the entrusted assets and to accurately and promptly provide investment managers with requested information on the entrusted assets.

(10) Considerations in custody of assets

Asset custodians are to hold custody of the entrusted assets distinctly separate from their proprietary assets and to pay utmost attention to the storage of securities held and in fund settlement operations. In selecting sub-custodians, they must also give due consideration to factors such as credit risks, back-office capabilities, and costs.

Also, if it becomes necessary to sell assets as the result of amendments to asset allocations, revision of investment guidelines, or termination of contracts, etc., investment managers are to pay utmost attention to market impacts and trading costs, among other factors, and to make their best efforts to avoid harming the interests of PFA.

(11) Reporting

Investment managers and asset custodians are to report on the following matters, and based on their fiduciary responsibility, to provide information to PFA on the custody and investment of pension assets.

1) Reporting on status of asset custody and investment

Investment managers and asset custodians are to submit reports on the status of custody and investment of pension assets at the end of each month (custody report for asset custodians and investment report for investment advisory firms) to PFA. They are also to report on an ad hoc basis when requested to do so by PFA.

In the event of an act that is in violation of a contract, this Principal Policy, the investment guidelines, or other rules and regulations, they are to report to PFA immediately and comply with PFA’s instructions.

2) Meetings

PFA, investment managers, and asset custodians shall hold meetings as necessary to discuss and exchange information on important matters regarding the custody and investment of pension assets.

6. In-house Investment

(1) The reason and role of in-house investment

In order to increase the efficiency of pension asset investment, PFA shall hold custody of and invest a portion of its pension assets itself, in accordance with the provisions of Article 136-3, Paragraph (1), Items (iv) and (v) of the Employees' Pension Insurance Act prior to its revision, as applied mutatis mutandis in accordance with Article 164, Paragraph (3) of the same Act, which is deemed to remain in force in accordance with the provisions of Article 38, Paragraph (1) of the Supplementary Provisions to the Act Partially Amending the Employees' Pension Insurance Act to Ensure the Soundness and Reliability of the Public Pension System (Act No. 63 of 2013 (2013 Amended Act)) as replaced in accordance with the provisions of Paragraph (2) of the same article.

In-house investment shall also play a role in comprehensive risk management and cost management of the overall Policy Asset Mix of PFA.

(2) Investment structure

1) PFA shall appoint at least one (1) member of Board of Directors responsible for investments for the in-house investment operations.

2) In-house investment shall be conducted by the Pension Investment Department (the "Department") of PFA. In the Department, one (1) or more internal fund management individuals with expert knowledge and experience shall be assigned to each of domestic bonds, domestic equities, and foreign currency bonds to execute in-house investment operations properly.

(3) Investable securities

Investable securities shall be listed in an appended table, and specific compliance matters for their investment shall be stipulated in the investment guidelines and other related documents.

(4) Stewardship responsibilities

With respect to in-house investment in domestic equities, PFA shall accept the Code and, in accordance with a policy established separately, contribute to the enhancement of the corporate value of investee companies and strive to expand medium- to long-term returns.

The exercise of shareholder voting rights associated with in-house investments shall be carried out in accordance with the criteria set forth separately for the exercise of shareholder voting rights.

(5) Evaluation of investment performance

The evaluation of in-house investment performance and the amendment of asset allocations based on the results thereof shall take a comprehensive approach that combines quantitative and qualitative evaluation, as is the case in the evaluation of investment managers.

7. Disclosure of Information on Pension Asset Investment

PFA shall disclose information on the status of pension asset investment via its website and other means.

8. Establishment of Investment Advisory Committee

PFA shall establish the Pension Fund Association Investment Advisory Committee as an advisory panel for the President to solicit opinions and obtain advice on important matters related to the pension assets of PFA. The Committee shall consist of external professionals with investment expertise and experience, and executives and employees of PFA. It shall be administered in accordance with the rules for its establishment set forth separately by the President.

9. Organization and Training

PFA shall establish the organizational structure necessary to fulfill its fiduciary responsibilities in accordance with this Principal Policy and to achieve its objectives.

All executives and employees involved in the custody and investment of PFA's pension assets must make constant efforts to enhance their expertise, for example, by obtaining relevant qualifications, attending lectures and seminars, and gathering market intelligence.

10. Others

1) The specific investment strategies based on this Principal Policy shall be set forth separately by the President as the "Implementation Strategy for Investment of Pension Assets."
2) PFA shall inform investment managers and asset custodians of any amendments to this Principal Policy in writing when it is considered necessary.
3) Investment managers and asset custodians are to invest and hold custody of the pension assets of PFA in line with this Principal Policy and the investment guidelines presented separately.
4) Investment managers and asset custodians may offer their opinions about this Principal Policy, the investment guidelines, and other related documents. In particular, investment managers shall consult with PFA individually in cases where their investment styles and approaches are substantially constrained.
5) PFA shall provide documentation to investment managers with which the investment managers may check the overall asset size of PFA.

Supplementary Provisions

This policy shall come into effect on August 1, 2006.

This policy shall come into effect on December 18, 2007.

This policy shall come into effect on February 14, 2008.

This policy shall come into effect on April 1, 2008.

This policy shall come into effect on December 3, 2008.

This policy shall come into effect on June 2, 2009.

This policy shall come into effect on December 4, 2009.

This policy shall come into effect on August 1, 2010.

This policy shall come into effect on November 29, 2011.

This policy shall come into effect on February 18, 2013.

This policy shall come into effect on July 23, 2013.

This policy shall come into effect on April 1, 2014.

This policy shall come into effect on May 22, 2014.

This policy shall come into effect on November 26, 2014.

This policy shall come into effect on November 30, 2016.

This policy shall come into effect on July 20, 2017.

This policy shall come into effect on February 19, 2019.

This policy shall come into effect on April 8, 2021.

This policy shall come into effect on July 20, 2022.

Appendix: Policy Asset Mix and Alternative Investments Policy

1. Basic Pension (defined as pension benefits applied to early seceders from employees' pension funds as set forth in Article 45 of the Pension Fund Association Constitution, pension benefits applied to members to dissolved employees' pension funds as set forth in Article 47 of the Pension Fund Association Constitution, basic portable pension benefits in Article 41 of the Federation of Employees' Pension Funds Constitution (hereinafter referred to as "former Constitution") as set forth in Article 5 of the Supplementary Provisions of the Pension Fund Association Constitution, and subrogated corporate pension benefits in Article 45 of the former Constitution as set forth in Article 6 of the Supplementary Provisions of the Pension Fund Association Constitution)

(1) The Policy Asset Mix of the Basic Pension shall be as follows, in proportion to the funding ratio.

Funding ratio	Domestic and foreign bonds	Domestic and foreign equities
Less than 105%	50%	50%
From 105% to less than 110%	55%	45%
110% or more	60%	40%

The above percentages may be adjusted within a range of ±10% in consideration of fluctuations in market values, or fluctuations in the portfolio managed by the Government Pension Investment Fund.

Foreign exchange rate risk for foreign currency-denominated assets can be unhedged up to the amount equal to 30% of the net foreign currency exposure of the entire portfolio.

(2) Alternative investments related to the pension assets of the Basic Pension shall be as follows.

1) Private equity fund investments

PFA shall conduct private equity fund investments as part of its equity exposure with the objective of long-term acquisition primarily of illiquidity premiums and alpha generated from effective governance to the investee company. The guide for the allocation ratio shall be 5% (±5%) of the total applicable assets (related to the Basic Pension) by actual invested balance.

2) Hedge fund investments

PFA shall conduct hedge fund investments based on one of the following policies in accordance with the profile of the fund to be invested in. The guide for the allocation ratio shall be 5% (±5%) of the total applicable assets (related to the Basic Pension) by the total invested balance.

a) Investment as the alpha portion of a portable alpha strategy whose purpose is the diversification and dispersal of alpha sources in equity exposure

b) Investment as a portion of the bond exposure for the purpose of acquisition of absolute returns

3) Bond-alternative investments with emphasis on income gains

PFA shall make the following investments as part of its bond exposure for the primary purpose of acquisition of long-term income gains. The guide for the allocation ratio shall be 5% (±5%) of overall applicable assets (related to the Basic Pension).

a) Real estate investments

b) Infrastructure investments

c) Stable income investments (e.g., infrastructure debt, direct lending, royalty strategy, asset leasing, insurance-related investment, agriculture and forestry investment, and other finance)

2. Portable Corporate Pensions (defined as pension benefits as set forth in Article 48 of the Pension Fund Association Constitution, pension benefits applied to deemed early seceders from employees' pension funds as provided in Article 47-2 of the former Constitution set forth in Article 7 of the Supplementary Provisions to the Pension Fund Association Constitution, and pension benefits applied to deemed subscribers to dissolved employees' pension funds as provided in Article 47-5 of the former Constitution set forth in Article 8 of the Supplementary Provisions to the Pension Fund Association Constitution)

(1) The Policy Asset Mix related to the pension assets of Portable Corporate Pensions shall be as follows.

80% Bonds : 20% Global equities

The above mix may be adjusted within a range of ±5% in light of fluctuations in market values, individual accounting finance status, and other factors.

Foreign bonds may be incorporated in the bonds portion, but the foreign exchange risk associated with those bonds can be unhedged up to the amount equal to 20% of the entire bond exposure.

(2) Alternative investments related to the pension assets of Portable Corporate Pensions shall be as follows.

1) Hedge fund investments

PFA shall conduct hedge fund investments of up to 15% of the overall applicable assets (related to the Portable Corporate Pensions) as a portion of the bond exposure for the purpose of acquisition of absolute returns.

2) Bond-alternative investments with emphasis on income gains

PFA shall conduct bond-alternative investments up to 20% of the overall applicable assets (related to the Portable Corporate Pensions) as a portion of the bond exposure with the primary purpose of acquisition of long-term income gains.

a) Real estate investments

b) Infrastructure investments

c) Stable income investments (e.g., infrastructure debt, direct lending, royalty strategy, asset leasing, insurance-related investment, agriculture and forestry investment, and other finance)

Appended Table

Investable Securities for In-house Investment

1. Beneficiary certificates or investment securities of investment trusts and foreign mutual funds, and foreign investment securities
2. Beneficiary certificates of loan trusts
3. Deposits or postal savings (including negotiable certificates of deposit)
4. Standardized instruments related to securities (bond futures) among those listed in Article 2, Paragraph (24), Item (v) of the Financial Instruments and Exchange Act
5. The following securities described in Article 2, Paragraph (1) of the Financial Instruments and Exchange Act: (1) National government bonds; (2) Municipal bonds; (3) Debentures issued by a corporation in accordance with a special act (excluding those set forth in 1 and (4)); (4) Specified corporate bonds prescribed in the Act on the Securitization of Assets (Act No. 105 of 1998); (5) Corporate bonds (including those issued by a mutual company); (6) Commercial paper; and (7) Securities or certificates issued by a foreign state or foreign corporation and that have the nature of securities or certificates listed in items (1) to (6).
6. Exchange-traded bond options (including standardized ones), OTC bond options (both excluding transactions overseas)
7. Interest rate futures (those listed in Article 2, Paragraph (21), Item (ii), of the Financial Instruments and Exchange Act)
8. Domestic equities
9. Stock index futures or stock index options
10. Lending of call money or bill discounting
11. Foreign exchange forwards and currency options