The Pension Fund Association (hereinafter referred to “PFA”) sets out the policy for investment of reserves for pension benefits (hereinafter referred to as “pension assets”) as follows, and manages pension assets in accordance with this policy. This policy is adopted by a resolution of the Board of Directors, and is revised in the same manner. The President regularly reports to the Board of Directors on matters prescribed by the President under this policy.

1. Primary Objective
PFA manages pension assets with the objective of accumulating reserves for pension benefits, thus ensuring to provide pension benefits necessary for a long period of time in the future. Especially, PFA focus on risk management, because PFA is managing a part of the public pension assets.

2. Investment Objective
(1) Objective for Total Fund
PFA will strive to ensure sufficient level of funding necessary to achieve the objective set out in the preceding section. Consequently, PFA will seek to minimize the probability of the shortage of reserves for pension benefits based on simulations of future developments by taking expected fluctuations of pension liabilities into account.

(2) Objective for Each Asset Class
PFA aims to outperform the market return (benchmark) in each asset class over the long term within acceptable risk tolerances.

3. Asset Allocation
(1) In order to achieve the goal for total fund as set out in the preceding section, PFA sets policy asset mix. It is based on the analysis of pension assets and liabilities (ALM) by taking into account the level of funding, future cash flow forecasts, and expected distribution of asset returns.
As the probability of future funding shortage changes in line with changes in the funding level and in underlying conditions, the policy asset mix will be reviewed to achieve the goal for total fund. For this purpose, PFA also considers transaction cost and impact on the market, because PFA manages a large size of asset.

(2) The policy asset mix is determined as follows in accordance with funding level.

<table>
<thead>
<tr>
<th>Funding level</th>
<th>Domestic and foreign bonds</th>
<th>Domestic and foreign equities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 105%</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>105% - less than 110%</td>
<td>55%</td>
<td>45%</td>
</tr>
<tr>
<td>More than 110%</td>
<td>60%</td>
<td>40%</td>
</tr>
</tbody>
</table>

The above figures of the asset allocation are indicative. The allowance of \( \pm 10\% \) shall be admitted.

With regard to the exchange risk of the foreign currency denominated assets, the net currency exposure should be allowed up to 30\% of the total portfolio.

(3) In order to diversify risks and enhance portfolio efficiency, PFA invests in not only traditional asset classes such as equities and bonds but also non-traditional asset classes (alternative investment) such as private equity, real estate, hedge funds and infrastructure.

When PFA invest in alternative investments, PFA carefully review the risks; for example, leverage, liquidity risk, credit risk, fraud and a serious mistake risk, legal risk, operational risk, etc.

1) Investment in Private Equity

Private equity investment (in buyouts, venture capital and equivalent) is classified as part of equity exposures to capture alpha from long-term illiquidity premiums and from effective governance over companies. PFA invests within the limit of 2\% of gross assets by an actual investment balance.

2) Investment in Hedge Fund

Investment in hedge funds is classified as the alpha portion of the portable alpha strategy in order to diversify alpha sources. PFA invests within the limit of 4\% of gross
assets by an actual investment balance.

3) Investment in Real Estate
Investment in real estate is classified as an independent asset class separate from traditional asset classes for the primary purpose of acquiring long-term income gains (such as rent). PFA invests within the limit of 2% of gross assets by an actual investment balance.

Investment in real estate is not included in the policy asset mix and rebalancing.

4) Investment in Infrastructure
Investment in infrastructure is classified as part of bond exposures for the primary purpose of acquiring long-term income gains (such as usage fee). PFA invests within the limit of 2% of gross assets by an actual investment balance.

(4) Determination and revision of the policy asset mix is resolved at the Board of Directors, after the opinions by the PFA Investment Advisory Committee are given.

4. Selection and Evaluation of Investment Managers
(1) Selection of Investment Managers
PFA selects the most appropriate investment managers for each asset class for investment in consideration of their investment styles and approaches in accordance with the policy asset mix described in the preceding section.

PFA selects investment managers after a thorough review in accordance with the provisions of the following paragraph, and the diversification of investment managers is also fully considered.

(2) Evaluation of Investment Managers
1) Method of Evaluation
PFA evaluates investment managers in a comprehensive manner, combining quantitative evaluation (the comparative performance analysis against benchmarks in each asset class, the universe analysis for peer comparison of investment managers using the same benchmark in each asset class, and the evaluation by a Sharpe ratio, information ratio, etc.) with qualitative evaluation.
2) Qualitative evaluation
The specific items and aspects for review in the evaluation process are to be set out separately.
In the process, the fund managers who are actually involved in the investment decision are to be interviewed, together with the other executives as necessary.

3) Change in Asset Allocations
PFA changes asset allocations and entrusted asset amounts, terminates contracts or changes the investment guidelines based on evaluation results of investment managers, etc. as set out in this policy and investment guidelines. In these cases, investment managers are evaluated for their medium to long term performance and, for pre-contract quantitative evaluation, GIPS (Global Investment Performance Standards) investment performance standards compliant performance is used. Thus, PFA changes asset allocations and entrusted asset amounts, terminates investment management contracts or changes the investment guidelines based on the medium to long term performance evaluation results regardless of post-contract durations.

When actual asset allocations of PFA total fund deviates considerably from the policy asset mix due to large fluctuations in market prices, when the policy asset mix is reviewed or when manager structure is reviewed for appropriate diversification in investment styles and approaches, PFA may change asset allocations and entrusted asset amounts, terminates contracts or change the investment guidelines regardless of the performance evaluation of investment managers by prioritizing the PFA policy decisions.

(3) Selection and Evaluation of Custodians
PFA selects custodians (which are institutions exclusively hold and safeguard assets in accordance with the instructions for investment provided by investment managers and include investment managers with entrusted assets) after a thorough review of their 1) management principles and operations; 2) understanding for corporate pension scheme; 3) custody frameworks (whether utmost attention is given to the custody of securities, fund settlement operations and the selection of sub-custodians; whether pension assets are managed distinctly separately from their proprietary assets; whether they have appropriately developed custody systems, etc.); 4) implementation of the best execution of asset management; 5) appropriate reporting; and 6) the frequency of back-office mistakes and their materiality. PFA evaluates custodians on an ongoing basis even after
the selection, and replaces them based on evaluation results.

5. Items Concerning Management of Investment Managers and Custodians

Investment managers and custodians manage pension assets in accordance with the followings as well as the investment guidelines presented separately.

(1) Fiduciary Responsibility

Investment managers and custodians, in management of assets of PFA, must execute their duties devoted only to the interests of PFA as an entruster with the fidelity and the care of a good manager.

Investment managers and custodians must also keep all of their executives and employees involved in operations for management of pension assets of PFA well-informed about the gist of the responsibility described above.

(2) Exercise of Shareholder Voting Rights

Investment managers must exercise shareholder voting rights entirely for the enhancement of the interests of PFA as an investor.

(3) Legality

Investment managers and custodians must comply with laws and regulations and develop solid frameworks for ensuring compliance.

(4) Clarification of Investment Styles and Approaches

Investment managers must clarify investment philosophies and investment policies as well as investment styles and approaches for each mandate, and when they intend to change any of those, they must notify PFA to that effect in writing and discuss with PFA.

(5) Objectives

Investment managers must make utmost efforts to realize expected returns while taking risks associated with their investment styles and methods into account.

(6) Execution of Trades

Investment managers must execute securities trades by always keeping the best execution for PFA in mind and minimizing total trading costs including market impacts.
(7) Use of Derivatives
Investment managers shall use derivatives only for the purpose of increasing efficiency in risk management and the use for speculative trading is prohibited.

(8) Specific Rules for Each Asset Class
Specific compliance rules for each asset class are set out under the investment guidelines, etc.

(9) Cooperation with Investment Managers
Custodians must strive to maintain close exchanges of information with investment managers from which they receive instructions on investment of entrusted assets, and accurately and promptly provide investment managers with requested information on entrusted assets.

(10) Considerations in Managing Assets
Custodians must manage entrusted assets distinctly separated from proprietary assets and give utmost attention to the custody of securities held and fund settlements. They must also give due heed to credit risks, back-office capabilities and costs, etc. in the selection of sub-custodians.

Also, when it becomes necessary to sell assets as a consequence of changes in asset allocations and the investment guidelines and the termination of contracts, investment managers must give utmost attention to market impacts and trading costs, etc. and make best efforts to avoid hurting the interests of PFA.

(11) Reporting
Investment managers and custodians must report on the following, and with their fiduciary responsibility, provide information on the management and investment of pension assets to PFA.

1) Reporting on Investment Conditions
Investment managers and custodians must submit reports on the status of investment of pension assets as at the end of each month (custody report for custodians and investment report for investment advisory firms) to PFA. They must also report on an ad hoc basis in accordance with PFA’s instructions.
In the cases where there are actions that violate contracts, this policy or investment guidelines, etc., they must report to PFA immediately and comply with PFA’s instructions.

2) Meetings
PFA, investment managers and custodians hold meetings as necessary on the investment of pension assets to discuss and exchange information on important matters regarding management and investment of pension assets.

6. In-house Investment
   (1) Role of In-house Investment
   In order to increase efficiency in pension asset investment, PFA on its own manages part of pension assets in accordance with Items 4 and 5, Paragraph 1, Article 136-3 of the Employees’ Pension Insurance Act applicable mutatis mutandis to Paragraph 3 of Article 164 of the same act and with Items 1 and 2, Article 44 of the Order for Enforcement of the Defined Benefit Corporate Pension Act applicable mutatis mutandis to Article 65-4 of the same act.

   Also, in-house investment contributes to comprehensive risk management and cost management for the overall policy asset mix of PFA.

   (2) Investment Structure
   1) PFA appoints at least one director in charge of in-house investment operations.

   2) In-house investment is assigned to the Pension Investment Department of PFA. In the Department, at least one fund manager with expertise and experiences is assigned for each in domestic bonds, domestic equities and foreign bonds to execute in-house investment operations in an appropriate manner.

   (3) Investable Securities
   Investable securities are listed in an appendix, and specific compliance matters are stipulated in the investment guidelines, etc.

   (4) Exercise of Shareholder Voting Rights
   Exercise of shareholder voting rights in equity investments is an important means of
enhancing shareholder values, and it is necessary to exercise shareholder voting rights in an appropriate manner to fulfill fiduciary responsibility imposed on PFA. Thus, PFA exercises its voting rights in such a manner to influence companies to manage their businesses with the objective of enhancing long term shareholder values.

The specific exercise of shareholder voting rights is carried out in accordance with the guidelines for the exercise of shareholder voting rights set out separately by the President.

(5) Evaluation of Investment Performance
In-house investment performance is evaluated, in a comprehensive manner combining quantitative and qualitative analyses as with investment managers, and allocations are changed based on evaluation results.

7. Disclosure of Information on Pension Asset Management
PFA discloses information on the status of pension asset investment via websites, etc.

8. PFA Investment Advisory Committee
PFA establishes the PFA Investment Advisory Committee as an advisory panel for the President to solicit opinions and receive advice on important matters related to pension assets of PFA. The Committee consists of external professionals with investment expertise and experience, and the executives and staffs of PFA. And the Committee is administered in accordance with the guidance for its establishment set out separately by the President.

9. Organization and training
PFA establishes the organization necessary to achieve the objective of the Investment Policy and to fulfill its fiduciary responsibilities.
All executives and staffs involved in the asset management of PFA are expected to train themselves to enhance expertise by obtaining relevant qualification, attending lectures, etc.

10. Others
1) The specific investment strategy based on this policy is set out separately by the President as the “implementation strategy for pension asset management.”
2) PFA informs investment managers and custodians of changes in this policy in writing when deemed necessary.

3) Investment managers and custodians must manage pension assets of PFA in line with this policy and investment guidelines presented separately.

4) Investment managers and custodians may offer their opinions about this policy, investment guidelines, etc. Investment managers discuss with PFA individually in cases where their investment styles and approaches are substantially constrained.

5) PFA presents the document on which investment managers can check the total assets of PFA.
## 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 Item 5, Paragraph 24, Article 2 of the Financial Instruments and Exchange Act

5. The following securities described in Paragraph 1, Article 2 of the Financial Instruments and Exchange Act
   - (1) Government bonds;
   - (2) Municipal bonds;
   - (3) Bonds issued by a juridical person under a special act (excluding those listed in 1 and 4);
   - (4) Specified 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 juridical person and 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 Item 2, Paragraph 21, Article 2 of the Financial Instruments and Exchange Act

8. Domestic stocks

9. Stock index futures or stock index options

10. Lending of call money or bill discounting

11. Foreign exchange forwards and currency options