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Committed to Tomorrow's Corporate Pensions

FY2023

Pension Fund Association Statement of Pension Asset Investment

Pension Fund Association
Pension Investment Department

Management Philosophy

(Mission of Pension Fund Association)

Through the portable corporate pension business and the provision of services for corporate pensions, Pension Fund Association will strive to protect the welfare of corporate pension subscribers and beneficiaries, and enhance the understanding and evaluation of corporate pensions, thereby promoting the development of corporate pensions.



Overview

Pension Fund Association's predecessor, the Federation of Employees' Pension Funds, was founded in February 1967 as a federation of employees' pension funds, based on the Employees' Pension Insurance Act, and the Federation was reorganized into Pension Fund Association ("PFA") under the revision of the Act in October 2005.

PFA conducts the portable pension business by taking over pension assets from persons who have seceded from corporate pension funds (employees' pension funds, defined-benefit corporate pensions, and defined contribution pensions) due to retirement or other reasons (midway seceders), and providing future payments of pension benefits in an integrated manner. It also serves as a portability function, transferring the pension assets of midway seceders to corporate pension plans of their new employer or

individual-type defined contribution pension plans (iDe-Co). In addition, for the purpose of the development of corporate pensions, PFA also conducts research and study, submits proposals and requests, and undertakes a range of support activities necessary for the sound development of member companies, including information provision, counseling, advice, and training. The Pension Investment Department efficiently manages and invests the funds necessary for pension benefits based on the portable pension business.

PFA is a qualified institutional investor as defined by the Cabinet Office Order under Article 2, Paragraph (3), Item (i) of the Financial Instruments and Exchange Act (Cabinet Office Order on Definitions under Article 2 of the Financial Instruments and Exchange Act).

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History (Matters Mainly Related to Pension Asset Investment)

1967–1986

- 1967 Feb.** • Federation of Employees' Pension Funds established
- 1983 Mar.** • Announced "Aiming for Fund-Led Asset Investment" following the relaxation and elimination of investment regulations
- 1985 Mar.** • Formulated the Principal Policy for Investment
- 1986 Apr.** • Started measuring performance based on market value

1996–1999

- 1996 Oct.** • Drastically revised the Principal Policy for Investment and formulated the policy asset mix after being made exempt from investment regulations (5-3-3-2 regulation)
 - Started emerging market equity (specialized) investment
- 1997 Apr.** • Changed the Pension Investment Department to a team structure
- 1998 Mar.** • Transitioned to mark-to-market accounting
 - Nov.** • Started security lending (domestic equities)
- 1999 Oct.** • Changed the Principal Policy and clarified corporate governance

2007–2011

- 2007 Jan.** • Introduced a currency overlay strategy
 - Oct.** • Started hedge fund investment
- 2008 Dec.** • Adopted investment in foreign bonds for its in-house investments
- 2009 Jun.** • Formulated a new policy for real estate investment
- 2010 Feb.** • Adopted investment in emerging bonds for its in-house investments
 - Aug.** • Introduced a downside-risk model
 - Revised the policy asset mix based on funding levels
- 2011 Nov.** • Introduced a portfolio overlay strategy
 - Started infrastructure investment

1967-1986

1990-1995

1996-1999

2001-2004

2005-2006

2007-2011

2014-2023

1990–1995

- 1990 Apr.** • Due to the expansion of investment operations, hired an investment advisory firm (liberalization of manager selection), and started in-house investment (domestic bonds)
- 1991 Feb.** • Established the Asset Investment Committee (currently the Investment Advisory Committee)
- 1993 Oct.** • Expanded operations to cover quasi-specialized investment (investment in two types of asset class)
- 1995 Apr.** • Expanded operations to cover specialized investments following the relaxation of investment regulations
 - Started handling investment in global equities

2001–2004

- 2001 Oct.** • Formulated the Practical Guidelines for the Exercise of Shareholder Voting Rights
- 2002 Apr.** • Adopted passive investment in domestic equities for its in-house investments
 - Sep.** • Started private equity fund investment
 - Nov.** • Established a dedicated fund for pension benefits
- 2004 Aug.–Nov.** • Fundamental separation of investment management and asset administration (ban on discretionary investment contracts for trust banks lifted)

2005–2006

- 2005 Jul.** • Adopted the Manager Entry System
 - Oct.** • Reorganized into Pension Fund Association
- 2006 Apr.** • Started to strengthen the investment structure
 - Introduced an investment specialist system, reorganized into specialist groups by asset type, separated front-end and backend, etc.
 - Aug.** • Changed the Principal Policy and formulated the Implementation Strategy
 - Sep.** • Started the transition toward a policy asset mix based on funding levels (completed in December 2007)

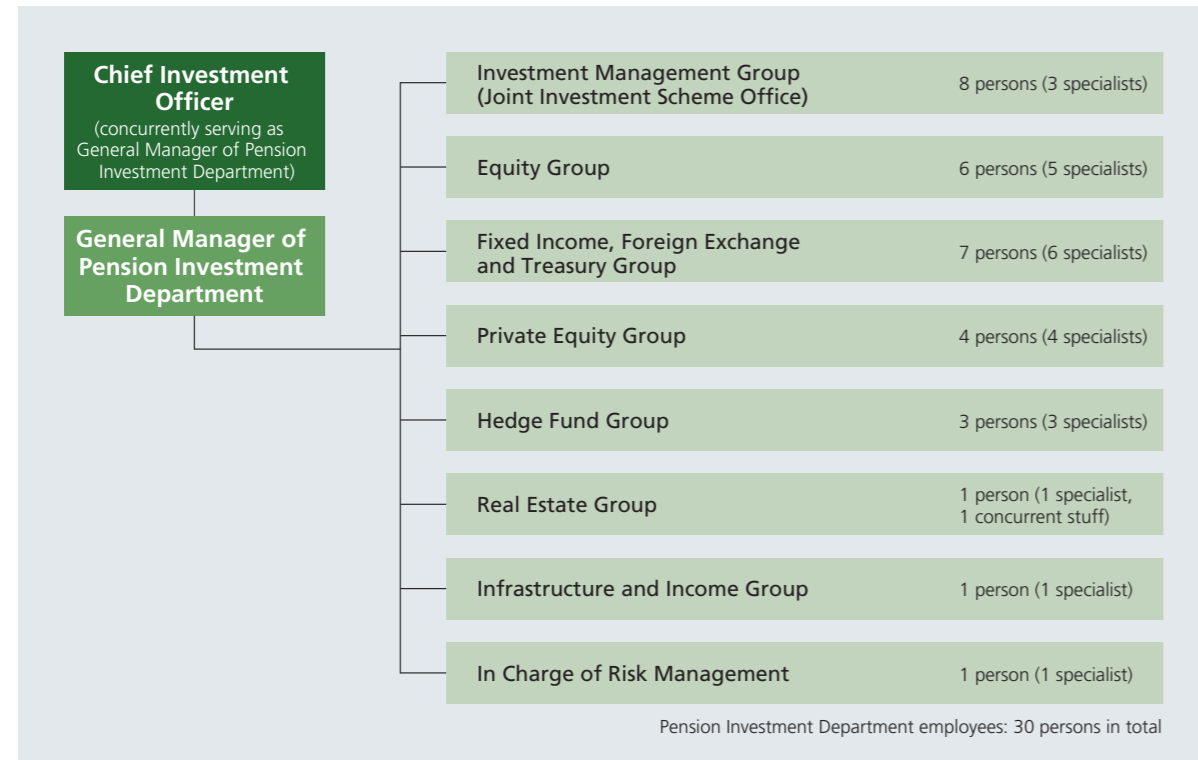
2014–2023

- 2014 Apr.** • Separated asset portfolios for Basic Pension and Portable Corporate Pensions
 - Formulated the policy asset mix for portable corporate pension assets
 - May** • Announced acceptance of the Japan's Stewardship Code
 - 2016 May** • Signed the United Nations' Principles for Responsible Investment (UN-PRI)
 - Oct.** • Started joint investment
 - Nov.** • Started stable income investment
 - 2017 Oct.** • Joined the Institutional Investors Collective Engagement Forum

Organization/Personnel

Organization Chart of the Pension Investment Department and Management and Investment Structure for In-House Investment

Organization chart of the Pension Investment Department (as of April 1, 2024)



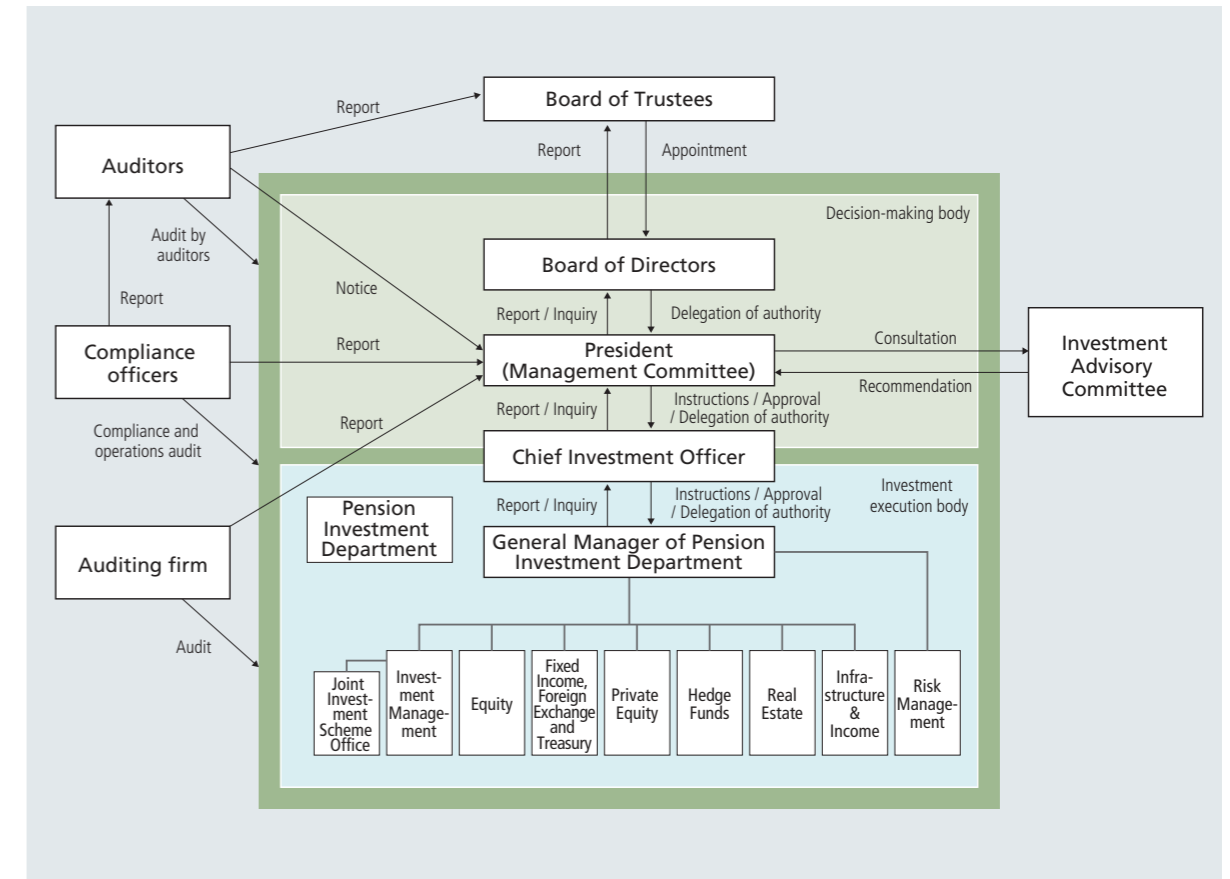
Management and investment structure for in-house investment (persons who have notified the Minister of Health, Labour and Welfare)

Chief Investment Officer	Member(s) of the Board of Chief Investment Officer operations using the method set forth in Article 136-3, Paragraph (1), Item (v) of the Employees' Pension Insurance Act prior to its revision, as applied <i>mutatis mutandis</i> in accordance with Article 164, Paragraph (3) of the same Act prior to its revision.	Akihiro Nakamura
Fund Managers	Persons with expert knowledge and experience to properly perform clerical work related to the execution of investment operations using the method set forth in Article 136-3, Paragraph (1), Item (v) of the Employees' Pension Insurance Act prior to its revision, as applied <i>mutatis mutandis</i> in accordance with Article 164, Paragraph (3) of the same Act prior to its revision.	Domestic Bonds Fund Managers Foreign Currency Bonds Fund Managers Tsutomu Kawasaki Satoshi Kon Mayumi Sase Teruhiko Suzuki
		Equity Fund Managers Taku Yamamoto Akiharu Tachihara Yasuko Nagata Takahiro Umeno Masaki Aikawa
Person(s) responsible for the administration of overall pension assets	Responsible staff member(s) assigned in the event that PFA implements a portfolio overlay as set forth in Article 41-4, Paragraph (2) of the Employees' Pension Funds Rules prior to their abolition.	Hidenori Konta Atsushi Kumagai

Governance

1 Decision-Making and Investment Execution Related to Pension Investment

Overview



PFA's Board of Directors is composed of directors who are elected and appointed from and by the Board of Trustees. While the Principal Policy for Investment of Pension Assets is decided by the Board of Directors, some of the specific execution authority regarding pension investment has been delegated to the President by the Board of Directors. Said authority is stipulated in the Rules for Investment and Management of Pension Assets, which were established by a resolution of the Board of Directors. Matters decided by the President are reported to the Board of Directors and the Board of Trustees.

Details of the Principal Policy and specific investment strategies are determined by the Management Committee (consisting of full-time directors and advisors), which is chaired by the President, as part of the Implementation Strategy for Investment of Pension Assets. However, to perform operations efficiently, some of the authority relating to pension investment operations has been delegated by the President to a Chief Investment Officer and below. The authority for pension investment operations is laid out in detail in the internal regulations, Approval and Decision-Making Procedures for Operations Under the Jurisdiction of the Pension Investment Department.

<Matters to be determined by the President as stipulated in the Rules for Investment and Management of Pension Assets>

- Parties with which to conclude contracts (investment managers) in relation to the management and investment of the reserves for pension benefits
- The amount of assets entrusted to investment managers
- The percentage of trust funds or insurance premiums related to the reserves for pension benefits, and the proportion of the payment or insurance premium burden

2 Audit

PFA regularly undergoes the following audits regarding pension investment operations.

Compliance and operations audit

The compliance officer conducts audits to check the status of business operations related to pension investment and the status of compliance with the relevant laws and regulations in accordance with the Implementation Guidelines for Compliance and Operations Audits.

Monthly audits are conducted for the management of pension assets, investment management, equity, fixed income, and joint investment. Quarterly audits are conducted for the management of alternative investments (private equity, hedge funds, real estate, and infrastructure & income).

The compliance officer reports the audit results to the President, the Compliance and Contract Inspection Committee, and auditors.

Audit by auditors

In accordance with the Pension Fund Association Auditor's Audit Regulations, auditors elected from among members of the Board of Trustees conduct quarterly audits on the management and investment of pension assets and notify the President of the results of the audits.

In the case of financial results audits (fourth quarter audits), the auditors notify the President and report the status and findings to the Board of Trustees.

Audit by auditing firm (accounting audit)

In order to ensure appropriate accounting procedures, PFA requests an auditing firm to audit its financial statements each fiscal year. The balance of fixed assets and investment income and expenses of pension accounting, which make up the financial statements, are audited as part of pension investment operations.

The auditing firm reports the results of the audit to the President.

3 The Pension Fund Association Investment Advisory Committee

PFA has established 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 investment of pension assets of PFA.

The committee consists of external academic experts (up to five of these external members) and executives and employees of PFA. The term of office of the external members is two years. In principle, the Committee meets each quarter.

Matters to be consulted include principal policies on asset management, investment policy, policy asset mix,

risk management, and selection and evaluation of investment managers.

PFA established a Pension Asset Management Committee, consisting of Association executives and employees, in November 1983. In February 1991, this committee was reorganized by adding external academic experts. The name of the committee was successively changed to PFA Pension Asset Investment Committee, the Pension Fund Association Pension Asset Investment Committee, and PFA Pension Asset Investment Advisory Committee before adopting its current name of the Pension Fund Association Investment Advisory Committee.

(As of April 2024, honorific titles omitted, listed in Japanese alphabetical order)

External members	Yoshiaki Akeda	Special Research Fellow, Japan Securities Research Institute
	Masaharu Usuki	Professor Emeritus, Nagoya City University
	Tomonori Uchiyama	Professor, Graduate School of Management, Tokyo Metropolitan University
	Katsumasa Nishide	Professor, Graduate School of Business and Finance, Waseda Business School
	Chieko Matsuda	Professor, Graduate School of Management, Tokyo Metropolitan University

Committee Meetings in FY2023

(held 4 times in total)

Held on June 14	<ul style="list-style-type: none"> ▶ Investment overview ▶ Recent developments in corporate pension asset investment
Held on July 19	<ul style="list-style-type: none"> ▶ Investment overview ▶ Review of policy asset mix ▶ Exercise of shareholder voting rights for in-house investments
Held on November 13	<ul style="list-style-type: none"> ▶ Investment overview ▶ Stewardship activities of investment managers ▶ Activity report on engagement at the Pension Fund Association
Held on February 7	<ul style="list-style-type: none"> ▶ Investment overview ▶ Revisions to the Guidelines for the Exercise of Shareholder Voting Rights ▶ Policy Plan for Promoting Japan as a Leading Asset Management Center

4 Outline of BCP Related to Pension Investment

PFA takes measures to ensure the continuation of pension investment operations in the event that natural disasters or other events interfere with normal operations.

Securing funds for pension benefits

To ensure that pension benefits are not stalled in the event that pension investment operations are completely suspended, the funds required for one fixed pension payment are always held in cash within the in-house bond fund.

Development of disaster-resistant system infrastructure

Much of the system equipment used in pension investment operations is installed in Japan's highest-level data centers with high disaster resistance. Additionally, PFA uses both virtual and physical PCs in the office. Therefore, in the unlikely event of a disaster, a system is in place that enables employees to continue working from home using the telework PCs they store at home.



FY2023 Investment Overview

In FY2023, domestic and overseas stock prices rose even amid concerns over the uncertainties surrounding the situation in the Middle East and the prolonged monetary tightening by the U.S. Federal Reserve Board. This growth was due to factors including the strong U.S. economy, expectations for interest rate cuts at the beginning of the year and for a soft landing for the U.S. economy, in addition to expectations for reforms by companies following the Tokyo Stock Exchange's request and for the end of deflation in Japan.

Amid such an investment environment, in FY2023 the modified total rate of return came to 17.30% for Basic Pension and to 5.56% for Portable Corporate Pensions.

	Basic Pension	Portable Corporate Pensions
Asset balance [Comparison with the previous fiscal year]	¥13,048.0 bn [+¥1,389.4 bn]	¥526.7 bn [+¥27.6 bn]
Total [Comparison with the previous fiscal year]	¥13,574.6 bn	[+¥1,417.0 bn]
Asset allocation		
Equities	41.2%	16.8%
Domestic equities	15.9%	
Foreign equities	25.3%	
Bonds	58.8%	83.2%
Domestic bonds	37.8%	
Foreign bonds	21.1%	
Return (modified total rate of return)	17.30%	5.56%
Risk	7.42%	3.40%
Funding ratio	126.5%	115.4%

Basic Pension

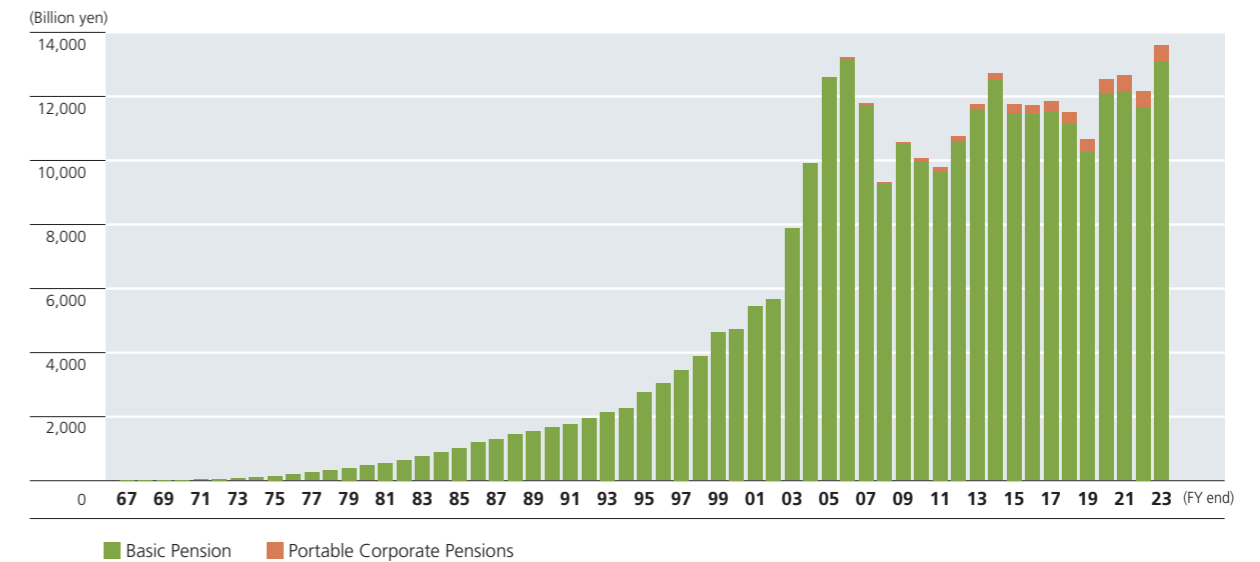
These are assets that are associated with basic pensions proposed to be transferred from the employees' pension funds to PFA and subrogated pensions collected from employees' pension funds that were dissolved by March 2014, and assets that are based on the amounts equivalent to lump-sum withdrawal payments (early seceding) and dividends of residual assets (dissolution) transferred to PFA by September 2005. Pension resources (subrogated portions) for paying part of the employees' pension on behalf of the state are included in basic pensions and subrogated pensions.

Portable Corporate Pensions

These are assets that are associated with pension benefits, etc. based on the amounts equivalent to lump-sum withdrawal payments (early seceding) and dividends of residual assets (dissolution and termination) transferred to PFA in or after October 2005. They are pension liabilities consisting only of a portable portion without a subrogated portion.

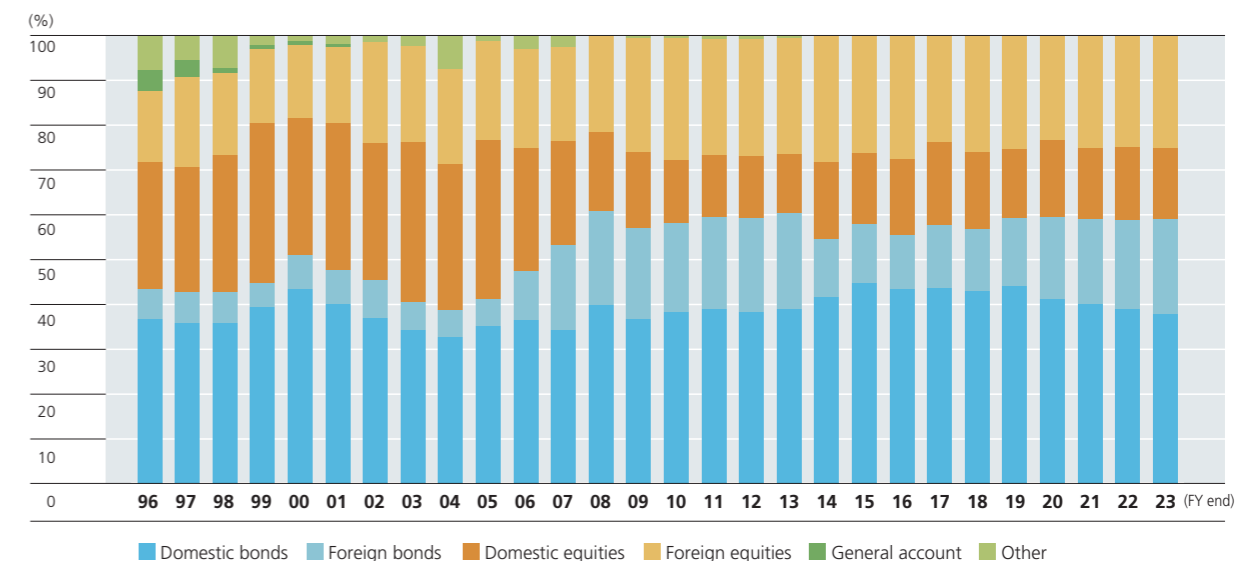
Changes in Asset Balances

Since its establishment, the pension assets that PFA manages and invests have continued to grow, exceeding 13 trillion yen at the end of FY2006. Since then, the asset balance has fluctuated due to factors such as large market fluctuations and increases in pension payments. At the end of FY2023, the asset balance totaled 13,574.6 billion yen.



Changes in Asset Allocation

Changes in asset allocation since FY1996, when PFA became exempt from asset mix regulations (5-3-3-2 regulation), are as shown below. PFA formulated its policy asset mix in FY1996, and has revised it seven times since then while periodically conducting verification from the perspective of risk management. PFA places the policy asset mix at the center of its pension asset investment under appropriate risk management, and typically rebalances when asset allocations deviate from the policy asset mix.



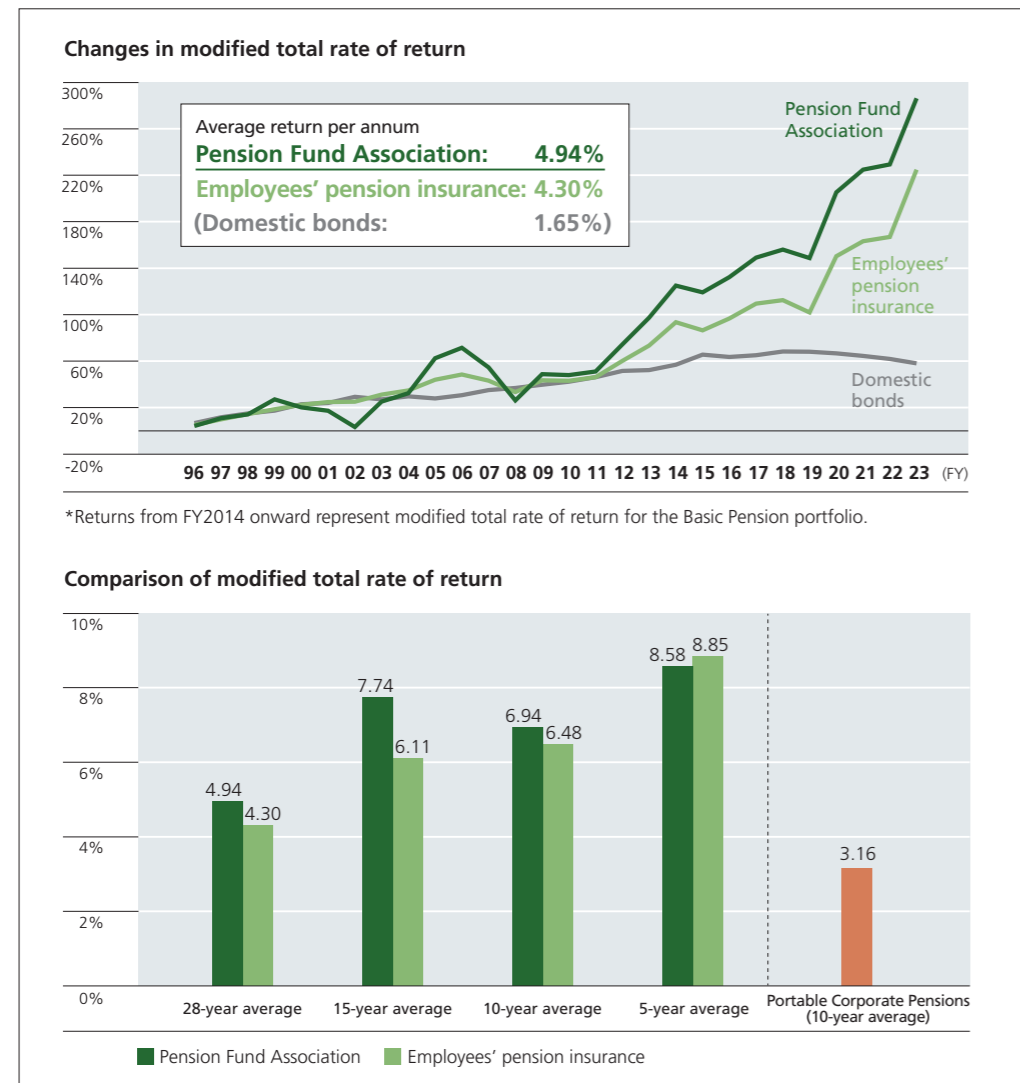
Changes in Investment Return

1 Changes in Modified Total Rate of Return

Since FY1996 (once it became possible for PFA to formulate policy asset mixes at its own risk and discretion following exemption from asset mix regulations [5-3-3-2 regulation]), the modified total rate of return has trended as follows, with an average rate of 4.94% (per annum) over 28 years. For assets associated with Basic Pension, PFA holds the subrogated portion of employees' pension insurance. A comparison with the return on employees' pension insurance over this period for reference shows PFA's average return outpacing this figure over the medium to long term. (Since October

1999, the calculation of the minimum actuarial reserve for the subrogated portion has been evaluated based on the return on employees' pension insurance.)

Portable Corporate Pensions, launched in October 2005, were managed together with Basic Pension until they reached an asset size that could be managed efficiently. Since FY2014, they have been managed in separate portfolios. The modified total rate of return for the 10-year period after portfolio separation was 3.16% per annum, above the target average rate of approximately 2.0%.

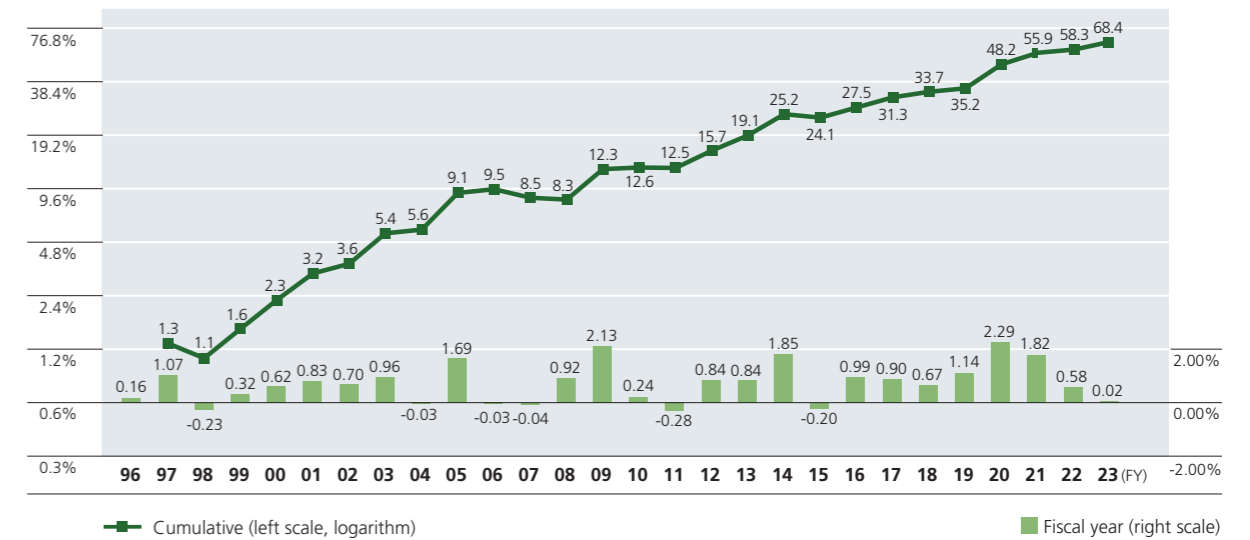


Remaining above the return on employees' pension insurance over the medium to long term

2 Excess Returns and Value-Added Amount

Over the past 28 years, PFA achieved a cumulative excess return of 68.41%, or 0.72% per annum, versus the composite benchmark value calculated based on the policy asset mix. In addition, excess returns were achieved for many of the fiscal years in this 28-year period for a total of 22 times (79%).

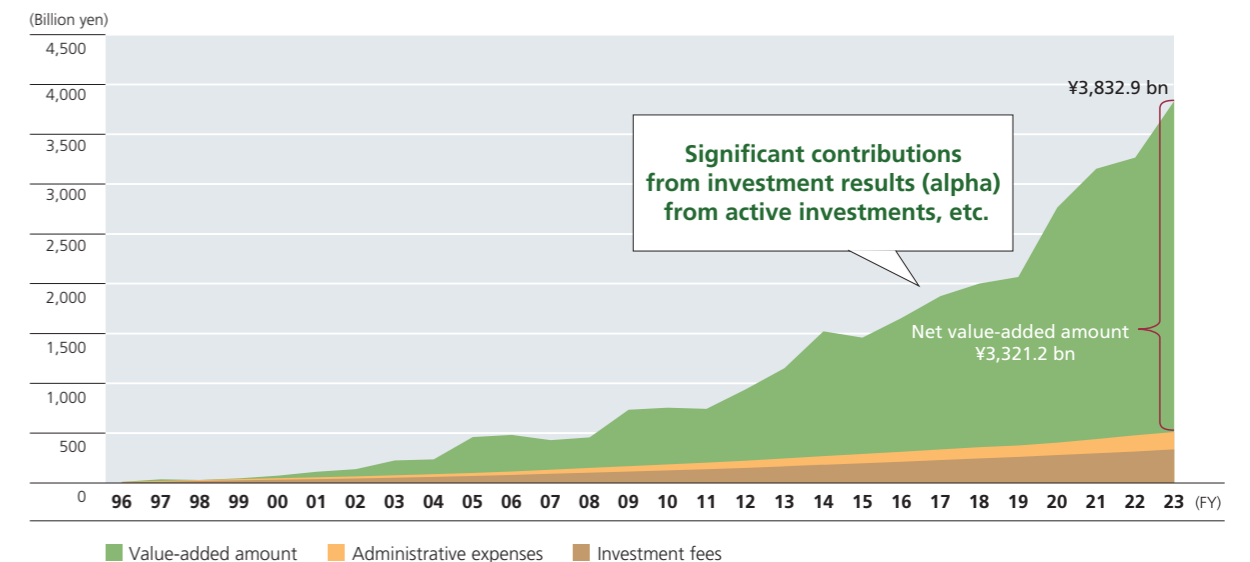
Changes in excess returns



The value-added amount is calculated by multiplying the average principal balance for each fiscal year by the excess return. The cumulative value-added amount calculated over the 28-year period using the modified total rate of return for the next fiscal year onward is 3,832.9 billion yen. Even after deducting administrative

expenses carried over to business accounting and fees paid to external investment managers, pension finances remained sound at 3,321.2 billion yen, thanks largely to investment results (alpha) achieved through active investments, etc.

Changes in value-added amount



Investment Strategy

1 Basic Stance

Market returns are unpredictable

In formulating the investment policy for its entire portfolio, PFA did not implement active market forecasting based on the assumption that market returns are uncertain and unpredictable. Because the alpha generated by active management is skill-dependent and may not necessarily be earned as a reward for taking on active risk, PFA does not preemptively factor in alpha ex-

pectations when formulating its investment strategy for the entire portfolio. This is not to say that PFA is opposed to active investment. Generating alpha is expected to increase the added value of PFA's entire portfolio, thereby contributing to risk reduction and the stabilization of funding levels in subsequent investment policies. (See previous page for alpha results.)

Assume the existence of risk premiums

In formulating the investment policy for its entire portfolio, PFA assumes the existence of risk premiums. PFA believes that since wealth creation is brought about by the economic activity of corporations, long-term investments in equities, which are essentially expected to generate premiums commensurate with this risk, will pay off.

Equities are a source of risk and return

The risk and return of the entire portfolio is largely determined by the equity ratio. Therefore, the most important decision in the investment policy is the extent at which to incorporate equities, both domestic and foreign. The domestic-foreign ratio, active-passive ratio, style diversification, presence and proportion of alternative investments, currency exposure, etc. are determined secondarily.

Fluctuations in funding levels pose a risk

In asset management, risk is generally defined as the standard deviation of returns. However, this is a risk focused solely on the asset side. PFA also places importance on pension liabilities, and defines changes in funding levels as a risk in its investment policy for the entire portfolio. PFA aims to ensure sufficient levels of funding necessary for future pension benefits.

Aiming to diversify alpha sources in alternative investments

While PFA invests in alternative assets as part of diversification efforts, it invests with the aim of diversifying alpha sources in each asset class rather than diversifying risk for the entire portfolio.

Further specific strategies and details on the Principal Policy are also clearly outlined in its Implementation Strategy and Practical Guidelines. Accordingly, all its members involved in PFA's asset investment carry out asset investment operations with a common understanding.

2 Principal Policy for Investment

PFA's Principal Policy for Investment of Pension Assets is determined by the Board of Directors, the decision-making body, and investments are made in accordance with this policy. Pension asset management and investment is conducted in a consistent, transparent, and disciplined manner.

Principal policy for investment (overview)

Purpose and objective

- ▶ PFA manages pension assets for the purpose of accumulating the necessary pension assets over the long term to ensure that future pension payments are not delayed.
- ▶ With the goal of maintaining sufficient funding levels in a stable manner, PFA shall invest with the aim of minimizing the probability of a shortage of reserves.

Policy asset mix and investable assets

- ▶ The policy asset mix is formulated based on the results of ALM and other analyses in order to achieve investment purposes and objectives.
- ▶ Investable assets include not only bonds and equities, but also alternative assets. In such cases, PFA makes investments after clarifying the purpose and policy for these investments.

Selection, evaluation, and management of investment managers

- ▶ PFA clarifies selection criteria, evaluation methods, and compliance requirements for investment managers.
- ▶ It stipulates matters such as fiduciary responsibilities, exercise of voting rights, legal compliance frameworks, defining and clarification of investment styles and approaches, and execution of trades.

Approach to in-house investments

- ▶ With regard to in-house investments, PFA stipulates matters such as positioning, investment structure, investable securities, exercise of voting rights, and performance evaluation. Currently, PFA invests in domestic bonds, foreign bonds (including foreign exchange transactions), and domestic equities (index investments).

Two portfolios according to the characteristics of pension liabilities

The pension assets that PFA manages and invests in are divided into two portfolios according to the characteristics of pension liabilities. One is the portfolio for assets associated with Basic Pension with subrogated portions (Basic Pension portfolio), and the other is the portfolio for assets associated with Portable Corporate Pensions with an average assumed interest rate of around 2% (Portable Corporate Pensions portfolio). Pension asset investments are based on a policy asset mix tailored to the respective pension liabilities. (See page 21 for more information on the policy asset mix)

PFA had previously managed Portable Corporate Pensions, which began in October 2005, together with Basic Pension for reasons such as insufficient asset size, but they have since grown to an asset size that allows for efficient asset management. Accordingly, in FY2014, PFA began managing these pensions' assets separately with their own portfolios.

Basic Pension portfolio

¥13,048.0 bn

(FY2023)

Investment in assets associated with Basic Pension with subrogated portions

(started in October 2005)

Portable Corporate Pensions portfolio

¥526.7 bn

(FY2023)

Investment in assets associated with Portable Corporate Pensions with an average assumed interest rate of around 2%

Investment Strategy

Investable securities

Investable securities for the policy asset mix are domestic and foreign bonds and domestic and foreign equities. Alternative investments such as private equity, hedge funds, real estate, infrastructure, and stable income are positioned as substitutes for bonds or equities in accordance with the characteristics of each fund.

The policy asset mix is composed of two types of asset class (domestic and foreign bonds and domestic and foreign equities in the Basic Pension portfolio, and

bonds and global equities in the Portable Corporate Pensions portfolio). The ratio of domestic and foreign securities is not specified at the policy asset mix stage. The reasons for this include the fact that with equities, correlation has increased due to globalization, making it difficult to expect diversification by country, and with bonds, there is no need to distinguish between domestic and foreign products if conducting currency hedging. The benchmarks for each asset class are as follows.

Asset classes and their respective benchmarks

Basic Pension portfolio		Portable Corporate Pensions portfolio	
Domestic and foreign bonds (composite benchmark)	Domestic and foreign equities (composite benchmark)	Bonds	Global equities
Bloomberg Japanese Aggregate Index: 65%	TOPIX Total Return Index: 40%	Bloomberg Japanese Aggregate Index	MSCI-ACWI (JPY-converted, dividend reinvested, net)
FTSE World Government Bond Index (excluding Japan, JPY-converted): 35%	MSCI-ACWI (JPY-converted, dividend reinvested, net): 60%		

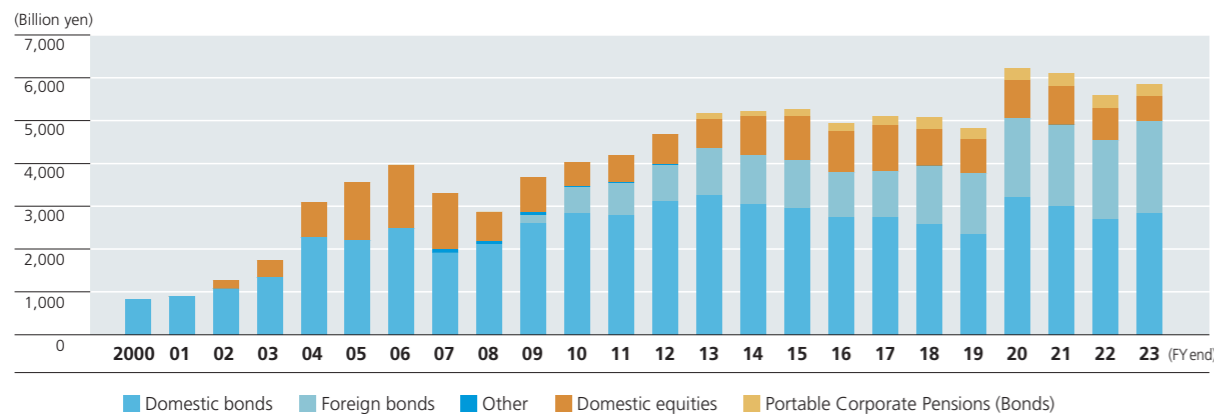
For the purpose of efficiently managing the policy asset mix, PFA has adopted a portfolio overlay strategy and a currency overlay strategy. Rebalancing of the Basic Pension portfolio (adjustment for the portfolio's deviation from the policy asset mix due to market fluctuations) is carried out in the form of adjustments made by domes-

tic and overseas passive equity managers using futures (portfolio overlay strategy). Meanwhile, foreign currency exposure is managed via adjustments of in-house investments (bond, foreign exchange, and fund groups) through currency overlay.

Positioning of in-house investments

In-house investment operations involve not only the management of investable securities, but also the receipt and payment of cash flows, transition management, rebalancing functions, and portfolio overlay as part of comprehensive risk and cost management for PFA's entire portfolio.

Changes in asset balances for in-house investments



Changes in asset allocation for in-house investments in PFA's portfolio



Receipt and payment of cash flows

There are regular inflows and outflows of funds with external parties, such as the transfer of assets from corporate pension funds and the payment of pension benefits to beneficiaries. These cash flows are managed as part of in-house investment operations, allowing PFA

to focus on investments in other funds without being affected by cash flow. This contributes to efficient investments as well as accurate and reliable cash flow management.

Transition management

If, when changing managers, PFA sells its securities and other holdings and converts them into cash, which it then allocates to the new manager before building a portfolio, these transactions will result in lost time and the incurrance of fees and other costs. In order to avoid this, PFA temporarily transfers assets in-house via in-kind transfer, then rebalances and delivers them to the

new manager's desired portfolio at low cost, thereby reducing total trading costs. The efficient management of costs in this way when changing managers is called transition management, which PFA strives to actively implement to efficiently transfer assets that can be managed in-house.

Rebalancing function (portfolio overlay strategy)

In rebalancing, defined as adjusting for deviations from the policy asset mix, PFA conducts timely and efficient rebalancing while actively utilizing in-house investments. Currently, in-house investments consist of domestic bonds, foreign bonds, and domestic equities. Adjustments to these three asset classes are conducted in-house. Meanwhile, foreign equities, which cannot be managed in-house, are adjusted by an external passive manager.

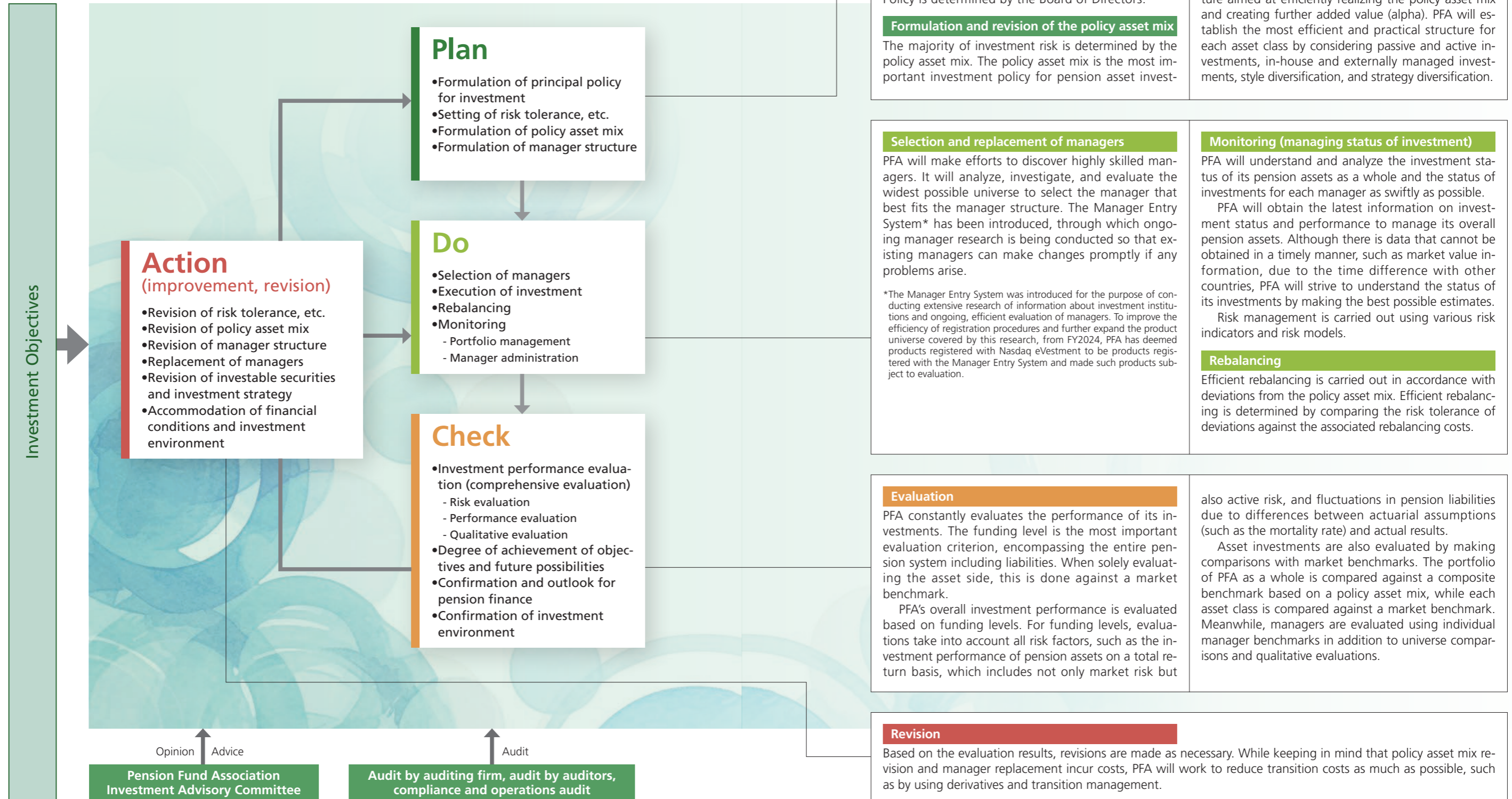
equities and foreign equities) through the utilization of the portfolio overlay strategy. If an equity deviates upward, PFA sells a physical asset and allocates the proceeds to an in-house bond fund in preparation for future pension payments. If an equity deviates downward, PFA increases its equity exposure by long positions in equity futures. For domestic equity adjustments, PFA implements a portfolio overlay strategy using these equity futures in in-house investment operations.

The rebalancing of Basic Pension portfolio is typically conducted by adjusting the ratio of equities (domestic

Investment Strategy

3 Investment Process

Using the PDCA (Plan-Do-Check-Action) cycle shown below, PFA constantly reviews and assesses its investment process and amends it as necessary. In doing so, it makes improvements with the aim of even more efficient investment of pension assets.



Investment Strategy

4 Policy Asset Mix

PFA recognizes policy asset mix as its most important investment policy and places it at the center of its pension asset investment and risk management.

PFA formulates its policy asset mix from long-term perspectives, and does not change it based on uncertain short-term market forecasts. On the other hand, the relationship between pension assets and pension liabilities (“funding level,” or the ratio of pension assets to pension liabilities) does change in line with increases and decreases in pension assets due to market fluctuation. Alternatively, it is conceivable that future pension liabilities will differ from that initially assumed, or structural changes in the market environment may occur over the long term.

As described above, the conditions assumed when the policy asset mix was first formulated shall change over time. If that is the case, PFA will review the policy asset mix based on its best assumptions at the time and amend it as necessary. We regularly review and confirm whether the current policy asset mix reflects the impact of various changes and is the most appropriate portfolio to achieve our investment objectives and targets.

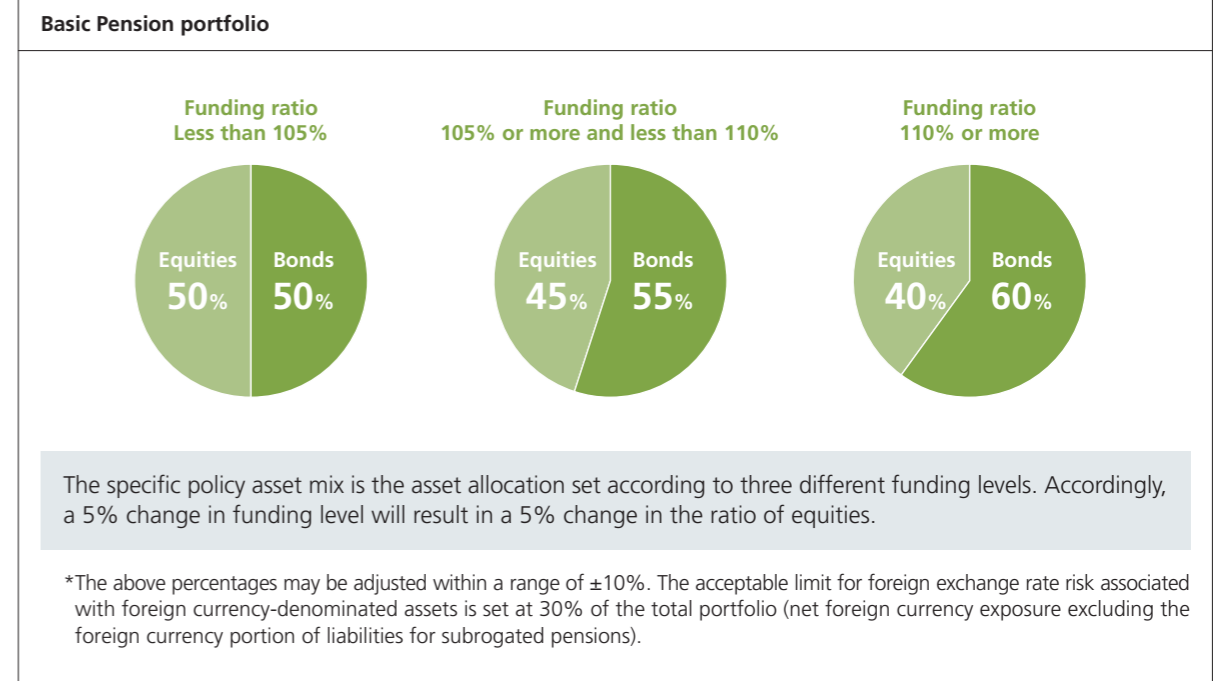
Even if the assumed interest rate of the portable portion is in the range of 4%, because the portable portion only accounts for just over 20% of pension liabilities (ratio of pension liabilities not including surplus funds), it will be approximately 1% when translated to total assets. Accordingly, we adjust the incorporation of risk assets into our portfolio within the acceptable range of risks compared to GPIF’s portfolio, with the aim of achieving a return of more than 1%. The ratio of risk assets varies depending on the funding level. If the funding level is in surplus, the required return of the portable portions when translated to total assets will be lowered in proportion with the extent to which the value of the assets exceeds the pension liabilities, which means that the ratio of risk assets can be reduced.

Policy asset mix for Basic Pension portfolio

The Basic Pension portfolio includes pension resources (subrogated portions) for paying part of the employees’ pension on behalf of the state. The liabilities of subrogated portions are assessed based on the investment return of the main employees’ pensions. The assets of the main employees’ pensions are managed by the Government Pension Investment Fund (GPIF). Mirroring GPIF’s investment approaches will allow PFA to achieve similar results to GPIF. This ensures there will be no excess or deficit in pension finance for the subrogated portions, allowing PFA to hedge (offset risk) the liabilities of the subrogated portions.

On the other hand, in terms of the portable portions of Basic Pension (the portable portion of corporate pension plans after exclusion of the subrogated portion), because pension liabilities increase each fiscal year based on the assumed interest rate, returns above the assumed interest rate (in the 4% range) need to be achieved. The ratio of the liabilities of subrogated portions to that of portable portions (the ratio of liabilities to total pension assets, including surplus funds) is approximately three-fourths, although this varies in line with changes in cash flows and funding level fluctuations. The policy asset mix for Basic Pension portfolio is formulated from the following perspectives. For approximately three-fourths of the assets, which make up the subrogated portion, we consider hedging liabilities while taking into account the investment conducted by GPIF, and for the remaining one-fourth of the assets, we consider how to achieve stable returns in the range of 4% across the entire asset portfolio.

As described above, given the hedgeable nature of the subrogated portions of Basic Pension, which account for about three-fourths of the portfolio, the required return of the portable portion when translated to total assets will change due to fluctuations in the funding level. Accordingly, the allocation of risk assets must be adjusted. Therefore, from the perspective of risk management, we preemptively formulate the policy asset mix in accordance with the funding levels of each asset class to control their risk volume appropriately. In this way, we conduct dynamic asset allocation management to adjust asset allocation in response to changes in funding levels. For the Basic Pension portfolio, the probability of future underfunding can be reduced by reducing risks in line with improvements in funding levels. This approach results in a policy asset mix that stabilizes pension finances.

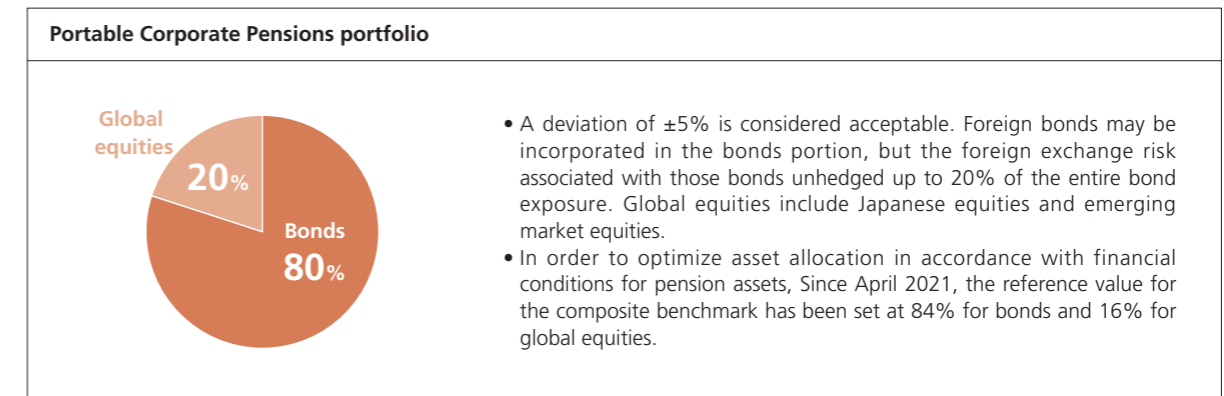


Policy asset mix for Portable Corporate Pensions portfolio

The Portable Corporate Pensions portfolio comprises pension liabilities consisting only of a portable portion without a subrogated portion, and is managed to achieve an expected return higher than the assumed investment return while minimizing risk.

Since there is no subrogated portion in Portable Corporate Pensions, unlike Basic Pension, there is no need to hedge a portion of the pension liabilities and no change in the required return of the portable portion when translated to the total assets. Although our aim is to invest the total assets to achieve higher than the assumed return, the portfolio will not be as high

risk in the first place, due to its lower assumed interest rate compared to the Basic Pension. Therefore, the risk adjustment function achieved by dynamically managing asset allocation in response to changes in the funding level is much more limited than in the case of Basic Pension. For this reason, we do not implement dynamic management, opting instead to manage the portfolio in a way that keeps the risk volume at a certain level, while preserving the policy asset mix as closely as possible in our goal of achieving sound finances.



Investment Strategy

Policy asset mix formulation method

Quantitative analysis

PFA adopts the downside risk model for the quantitative model for the formulation of policy asset mix. Downside risk refers to the potential for a target to fall below a defined threshold. We define downside risk as the risk that the return of the portfolio of the portable portion will fall below the target return (assumed interest rate), and use the downside-risk model to arrive at a portfolio (asset allocation) that will minimize downside risk.

We also use ALM analysis to estimate a large number of statistically probable future assets and pension liabilities for the candidate portfolios, confirming changes in the distribution of funding status.

In these quantitative analyses, we perform future simulations based on the expected returns of each asset class and a large number of returns using historical distributions.

While there are various methods for downside risk models, we employ a simulation-based model using the framework of ALM analysis. The specific analysis method is as follows.

Specific analysis method by downside-risk model

- ▶ Ten years of combinations of each return are generated as models for future return data from 10,000 different data points. Based on this return data, we calculate the returns of a total of 100,000 portfolios.
- ▶ If the returns of the 100,000 portfolios exceed the assumed interest rate are set to "0," and if they fall below the threshold, the difference is squared. Optimization calculation is then performed to obtain the portfolio with the smallest average of the 100,000 portfolios.
- ▶ Return data is generated with the moving block bootstrap method, using the distribution of historical data to reflect the effects of tail risk and serial correlation without assuming a normal distribution.

Qualitative judgment

Although quantitative analysis will produce the correct answers as long as the analysis is based on the assumption that the data entered into the model is accurate, the data entered cannot possibly be completely accurate. Accordingly, rather than blindly believing the results of the model, we combine quantitative analysis with qualitative judgments to determine the final policy asset mix.

In particular, the Basic Pension portfolio is worth over 10 trillion yen. Thus, a policy that implements rebalancing of asset allocations in accordance with funding levels will require a careful response to market impact (the risk that PFA's own transactions will move prices in an unfavorable direction). Therefore, we use qualitative judgments, such as giving consideration to market, to make adjustments while taking the results of modelling into account.

Checking

The portfolio, which combines quantitative analysis with qualitative judgments, is checked through ALM analysis and stress testing before the final policy asset mix is determined.

In ALM analysis, we estimate future funding levels using the return data used in the downside-risk model. In particular, we confirm, evaluate, and examine the

probability and circumstances of underfunding.

In our stress testing, we simulate the extent to which the funding level will deteriorate in a major disruption, both of the kind that has occurred in the past and the kind that has never occurred, to check their tolerability against downside risk.

Verification and revision of policy asset mix

The policy asset mix will be revised as necessary in the event of changes in underlying conditions, such as structural changes in pension liabilities, future cash flows, and expected long-term returns for each asset.

PFA also regularly verifies whether any such changes have occurred.



Investment Strategy

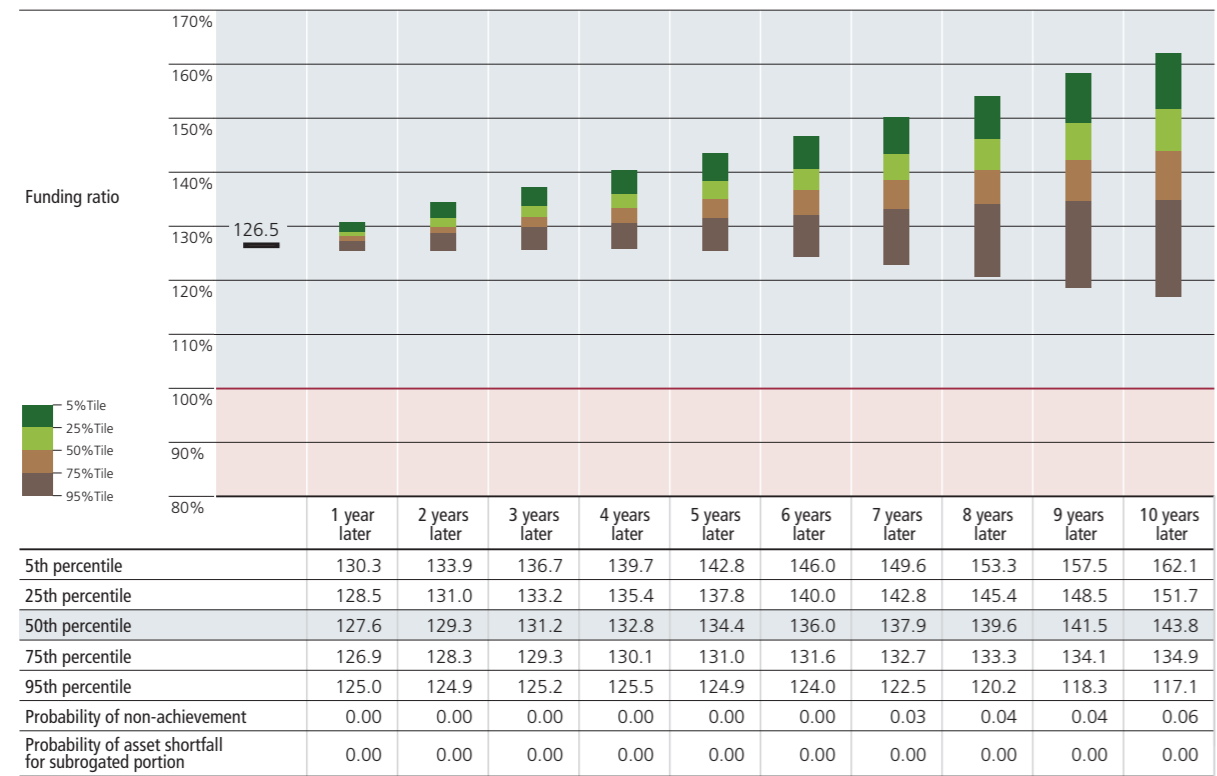
Verification results (as of March 31, 2024)

As a result of ALM analysis and stress testing with March 31, 2024 set as the base date, it was confirmed that no revisions to the current policy asset mix are necessary.

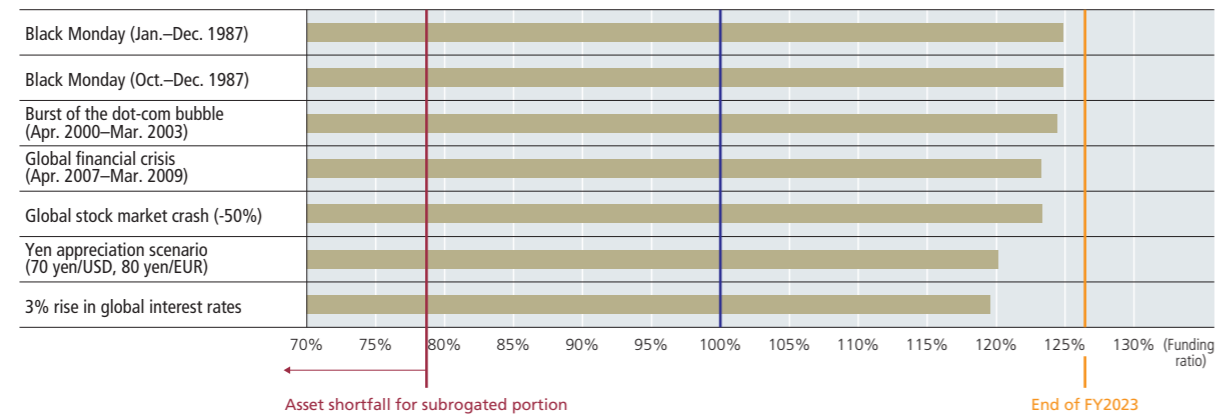
Under its Principal Policy for Investment, PFA manages investments with the aim of minimizing the probability of underfunding so as to maintain stable and sufficient funding levels. The results of the ALM analysis and stress testing are consistent with this objective.

Basic Pension portfolio

Verification results for ALM analysis

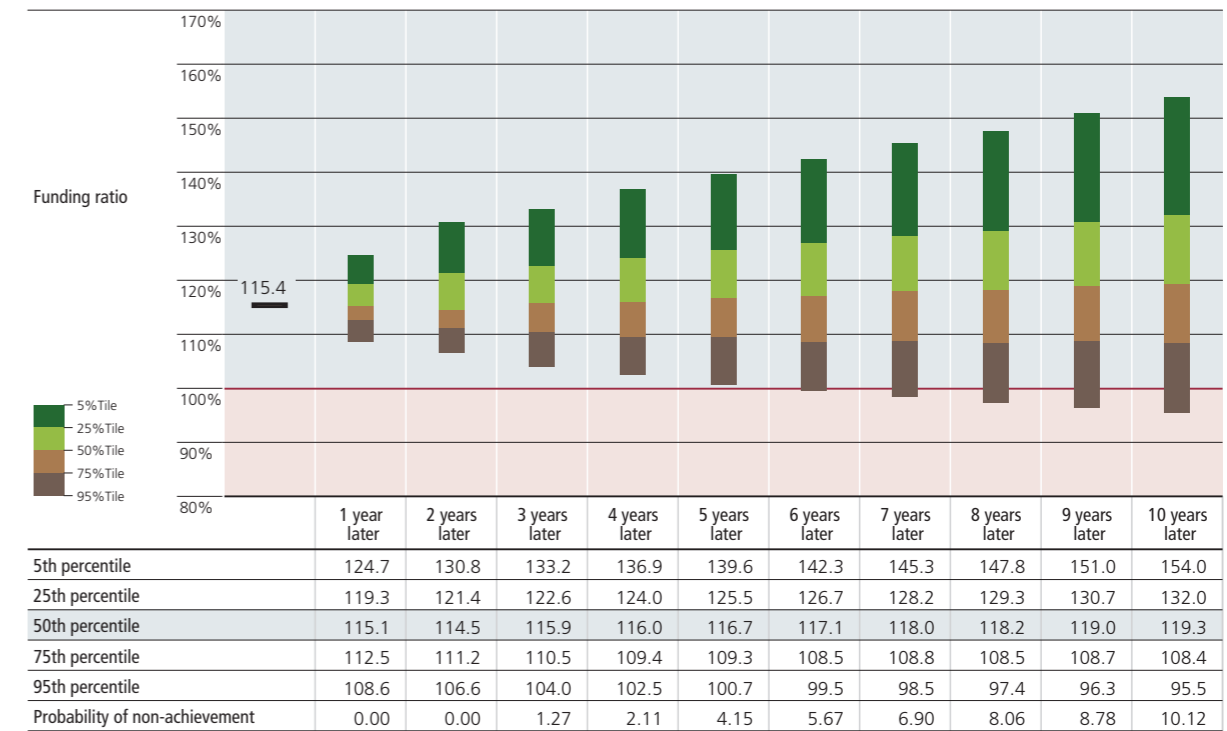


Stress test results

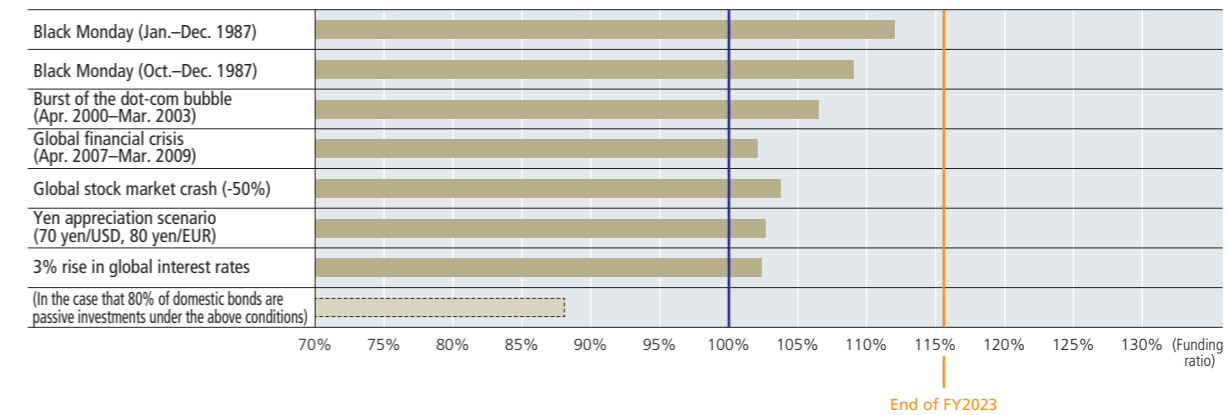


Portable Corporate Pensions portfolio

Verification results for ALM analysis



Stress test results



Investment Strategy

5 Monitoring

PFA monitors its portfolio on a daily basis. Based on the balance data and cash flow data of the previous day, asset composition ratios and time-weighted rate of return are calculated and the funding level is estimated. This information is then reported to executives and the managers for each investment division. For foreign currency-denominated assets, because the acquisition of balance data is delayed by one day due to time differ-

ences, calculations are carried out using benchmark returns as a substitute. Once the figures have been finalized, we update them retroactively up to that point, and constantly carry out checks while updating them to ensure they are based on the most up-to-date information available.

The decision to conduct rebalancing is based on these results.

6 Rebalancing

The actual asset allocation can deviate from the policy asset mix due to market fluctuations if left unadjusted. Ignoring this would mean taking unintended risks. Therefore, adjustments are needed to counteract the deviation, in a practice known as rebalancing.

Rebalancing approach

Rebalancing of Basic Pension portfolio is primarily carried out by adjusting the ratio of equities. If the ratio of equities deviates upward, exceeding the policy asset mix benchmark due to market fluctuations, PFA sells equities and transfer the proceeds to an in-house bond fund to prepare for future pension payments, and managed through highly liquid government bonds, etc. Conversely, if the ratio of equities deviates downward, PFA increases its equity exposure by buying stock index futures in order to reduce the downward deviation (portfolio overlay).

In the case of rebalancing for the Portable Corporate Pensions portfolio, since the asset size is small and

the trading amount required for rebalancing is low, rebalancing is carried out through spot trading.

If both portfolios exceed the range set forth in the Principal Policy, PFA will promptly undertake rebalancing. However, even when the deviation is within the acceptable range, rebalancing may also be carried out as necessary from risk management perspectives, after taking into consideration factors such as future cash flow trends and the costs associated with the rebalancing. In reality, adjustments are made within a narrower range than the tolerance set out in the Principal Policy for Investment.

Implementation of rebalancing in FY2023

In FY2023, PFA rebalanced its Basic Pension portfolio by selling domestic and foreign equities when stock prices were rising a total of nine times throughout the year, for a total of approximately 970 billion yen.

For the Portable Corporate Pensions portfolio, PFA maintained the policy asset mix by selling approximately 20 billion yen worth of global equities and reallocating the proceeds to bonds through rebalancing.

<Reference: Overview of principal policies for investment>

	Basic Pension	Portable Corporate Pensions												
Asset balance	¥13,048.0 bn	¥526.7 bn												
Start date	February 1967	October 2005 (Managed together with Basic Pension until March 2014)												
Liability structure	Subrogated pension liabilities Approx. 78% Average assumed interest rate for portable pension liabilities Approx. 4.7%	Average assumed interest rate..... Approx. 1.9%												
Funding ratio	126.5%	115.4%												
Policy asset mix	<table border="1"> <tr> <td>Funding ratio</td> <td>Up to 105%</td> <td>Up to 110%</td> <td>110% or more</td> </tr> <tr> <td>Bonds: 65% domestic, 35% foreign</td> <td>50%</td> <td>55%</td> <td>60%</td> </tr> <tr> <td>Equities: 40% domestic, 60% foreign</td> <td>50%</td> <td>45%</td> <td>40%</td> </tr> </table>	Funding ratio	Up to 105%	Up to 110%	110% or more	Bonds: 65% domestic, 35% foreign	50%	55%	60%	Equities: 40% domestic, 60% foreign	50%	45%	40%	Bonds 80% Global equities 20%
Funding ratio	Up to 105%	Up to 110%	110% or more											
Bonds: 65% domestic, 35% foreign	50%	55%	60%											
Equities: 40% domestic, 60% foreign	50%	45%	40%											
Expected return Assumed risk	<table border="1"> <tr> <td>Funding ratio</td> <td>Up to 105%</td> <td>Up to 110%</td> <td>110% or more</td> </tr> <tr> <td>Expected return</td> <td>4.1%</td> <td>3.9%</td> <td>3.7%</td> </tr> <tr> <td>Assumed risk</td> <td>10.3%</td> <td>9.5%</td> <td>8.7%</td> </tr> </table>	Funding ratio	Up to 105%	Up to 110%	110% or more	Expected return	4.1%	3.9%	3.7%	Assumed risk	10.3%	9.5%	8.7%	Expected return 2.6% Assumed risk 4.7%
Funding ratio	Up to 105%	Up to 110%	110% or more											
Expected return	4.1%	3.9%	3.7%											
Assumed risk	10.3%	9.5%	8.7%											
Asset management (Rebalancing)	<ul style="list-style-type: none"> Dynamic management: Changes to asset allocation in accordance with funding levels Dual portfolio management <ul style="list-style-type: none"> -Subrogated pension liability hedging portfolio -Portable pension liability handling portfolio 	<ul style="list-style-type: none"> Static management <ul style="list-style-type: none"> -Rebalancing to stay at the benchmark as much as possible 												
In-house investments	<ul style="list-style-type: none"> Domestic bonds, foreign bonds, emerging market bonds, currency overlay Domestic equities (passive) (Approx. 43% of the entire portfolio)	<ul style="list-style-type: none"> Domestic bonds (foreign bonds, currency overlay) (Approx. 54% of the entire portfolio)												
Investable assets	Domestic bonds Foreign bonds Domestic equities Global equities Private equity fund investments (Target: 5% [±5%]) Hedge Funds (Target: 5% [±5%]) Real estate investments Infrastructure investments Stable income investments Currency overlay	Domestic bonds Foreign bonds Global equities Hedge Funds (Maximum: 15%) Real estate investments Infrastructure investments Stable income investments Currency overlay												

Note: The information above is as of March 31, 2024



COLUMN

ESG Investments

PFA believes that “investment as it should be” is to invest in and generate profit from outstanding businesses that create new technologies, products, and services that the world needs. For this reason, we conduct pension asset investments centered around active management.

As the primary focus of pension assets is long-term investment, investing pension assets with the aim of acquiring alpha over the long term involves a significant portion of our portfolio is invested with sustainability in mind. This is because corporate activities that harm society are not conducive to the sustainable enhancement of corporate value, and are not suitable for long-term investment. We believe that managers who have traditionally made investment decisions with sustainability in mind are excellent managers who have achieved good results over the long term. We expect that the importance of sustainability will become even more prominent going forward. Therefore, it will be more crucial than ever to evaluate the corporate value of investee companies by reflecting ESG factors in their future cash flows. PFA believes that the analysis and evaluation of corporate value that includes ESG factors by highly qualified active managers will lead to a long-term and sustainable rise in returns, thereby contributing to the realization of not only economic value but also social value.

Furthermore, we expect that appropriate governance (G) will lead to appropriate responses to environmental (E) and social (S) issues, and that, accordingly, improving and enhancing governance is essential for

resolving these issues. Recognizing the importance of improving and resolving environmental and social issues, we place the highest priority on issues related to corporate governance, and, in our capacity as a long-term investor, we would like to work together with investee companies to help resolve the sustainability issues in their business models.

With regards to the status of our ESG investments, we classified our current portfolio based on ESG investment methods, with the active management of domestic and foreign equities falling under “ESG integration,” and passive management falling under “engagement.” In domestic and foreign bond investment, we also invest in green bonds and social bonds.

As for alternative investments, our investment in renewable energy as part of infrastructure investments is a “thematic investment,” while investment in microfinance as part of our stable income investments is a form of “impact investment.” We take the environment and energy efficiency into consideration in our real estate investments as well, and private equity investments can also be considered governance funds. Furthermore, in venture capital investments, a form of private equity investment, we invest in companies that help solve social issues by creating new technologies and industries. We have high expectations on this front as “impact investments.”

In light of these ESG investment classifications, we consider about 40% of PFA’s overall pension assets to be ESG investments.

Examples of ESG-related investments in private equity investments

In private equity investments, we invest in companies and businesses well-positioned to solve various environmental and social issues through funds and joint investment schemes.

These investments include many in startups, all of which are aimed at improving long-term investment returns based on carefully selected investment projects. Although each ESG theme is merely an “expected secondary effect,” we will introduce some of them below as examples of substantial ESG investment initiatives through PFA’s asset investment operations.



Global Environment and Climate Change

We conduct a wide range of investments around the world under the theme of energy transition, including in the following businesses.

- ▶ Companies that provide solutions needed to realize a decarbonized society (e.g., visualization, management, and reduction support for CO₂ emissions)
- ▶ Recycled secondary battery businesses with low environmental impact
- ▶ Technologies that could lead to a more fundamental solution to energy problems (e.g., those related to nuclear fusion)
- ▶ Companies working to solve the problem of space debris (tackling environmental destruction in space is also an important issue over the long term)



Healthcare and Life Sciences

Our investments in the healthcare sector are diverse, and we aim to generate high returns while also contributing to global health.

- ▶ Investments in drug discovery
- ▶ Companies committed to closing disparities in access to treatment for rare diseases
- ▶ Regenerative medicine, remedying chronic diseases via apps, telemedicine, etc.



Labor Shortages

The declining working population caused by Japan’s low birthrate and aging society presents a significant social challenge that must be addressed. To this end, we carry out investments in the following businesses.

- ▶ Robotics (improving labor efficiency and resolving labor shortage issues through automation)
- ▶ Investments in solutions (software centered on SaaS) needed to accelerate the digitalization of operations in the construction and manufacturing industries

Equity

Basic Pension

1 Basic Approach to Manager Structure

Markets are efficient but not perfect	PFA has established a manager structure that integrates passive investment and active investment, in order to earn not only a passive return from the market as a whole, which is the premise of the policy asset mix, but also excess returns (alpha) beyond that.
Pension benefits and rebalancing are managed mainly with passive funds	In order to limit the impact on active investment conducted from a medium to long term perspective, pension benefits and rebalancing are managed mainly with passive funds, so that investment managers are able to focus on their investment.
Proactive approach to external information sources	When selecting active managers, PFA utilizes the Manager Entry System to enable own research. Furthermore, information from the overseas consulting firms enables to select the foreign equity investment managers. This consulting support includes the provision of meetings with analysts.
Regional Equities Investment	When investing in foreign equities, PFA focuses on not only a global equities investment but also utilizes a regional equities investment (U.S., Europe, Asia, etc.) which enables to find an opportunity from the detailed research.
Flexibility for various benchmarks	When determining manager benchmarks, PFA assigns benchmarks that are regarded as most suited to the managers' investment approaches and purposes, without adhering to a sponsor benchmark.
Investment in Emerging Markets	PFA has been investing in emerging markets for over 25 years for expanding the investment universe not limiting only developed countries to encourage medium to long term return.

2 Manager Structure

Manager structure

The manager structure for equities is divided into domestic equities and foreign equities.

With domestic equities, all passive investment is managed in-house by PFA itself. For active investment, its approaches and styles are diversified based on the attributes of each active manager. At the same time, to diversify the sources of alpha, distinctive investments are conducted by employing benchmark agnostic managers and overseas investment managers.

For active investment in foreign equities, PFA delegates investment through institutions such as trust

bank in order to access managers without a base in Japan who are expected to deliver higher excess returns. In these efforts, PFA is strengthening its information gathering capabilities through support such as information provided by overseas consulting firms and interviews with their local research analysts.

When delegating investments to those investment managers compared to major investment managers, PFA takes into consideration the amount entrusted to each manager from a risk management perspective.

Manager benchmarks

For domestic equities, the sponsor benchmark TOPIX is mainly used as manager benchmark. For the passive In-house I Fund, the Russell/Nomura Prime Index is used as its benchmark.

For active investment in foreign equities, the sponsor benchmark MSCI-ACWI is used as manager benchmark of global equities investment. Meanwhile for re-

gional equities investment, the benchmark that most suited each manager's investment style is used, so that managers can make the most of their investment skill.

Monitoring and management are conducted to ensure that the risk characteristics and return levels for the manager structure as a whole do not significantly deviate from the sponsor benchmark.



Equity

Basic Pension

3 In-House Investment

Purpose

PFA positions the role of in-house investment as comprehensive management of risks and costs for the entire PFA portfolio, and with in-house investment in domestic equities, it improves profitability (which includes reducing costs), allows for flexible rebalancing, and takes on the role of a transition manager.

First, regarding profitability improvement, it significantly reduces investment fees compared to direct entrustment to an external investment manager.

Next, regarding flexible rebalancing, by performing its own operations, PFA is able to swiftly make intended adjustments to its risk exposure after making decisions on matters such as rebalancing, thereby fulfilling the role of comprehensive risk management.

Finally, in the role of transition manager, when changing the manager structure of domestic equities, the shares held by the outgoing manager are transferred in kind to an in-house fund before being handed over to the new manager after being rebalanced to suit the new manager's portfolio. This process allows for adjustments to address share shortages or surpluses within the in-house fund, effectively reducing total trade execution costs. Furthermore, the know-how obtained through this process is useful when hiring transition managers for foreign equities.

The two funds have separate roles. In-house I Fund aims to track the benchmark as accurately and efficiently as possible. In-house II Fund provides the two functions of flexible rebalancing and transition management.

Investment approach

The two funds operate based on the role and purpose of in-house investment.

Benchmark	In-house I Fund: Russell/Nomura Prime Index
	In-house II Fund: TOPIX
Portfolio construction	Full-replication index investment (generally, all the stocks in the index are included in the portfolio)
Tracking error	Less than 1.0% (internal rules call for control to limit tracking error to 0.3%)

Investment management

Under the General Manager of the Pension Investment Department, the team has six members including the chief fund manager and fund managers.

Specifically, the team reports to and obtain approval from the General Manager of the Pension Investment Department at the group meetings attended by all Equity Group members concerning administration status up to the previous month and administration policy for the current month and beyond. Based on this policy, the chief fund manager supervises day-to-day operations.

Investment result is reported to the Chief Investment Officer and the General Manager of the Pension Investment Department on a daily basis.

Investment performance

(Unit: %)

	FY2019	FY2020	FY2021	FY2022	FY2023	5-year
In-house I Fund	-9.15	+43.38	+1.92	+5.58	+41.18	+14.63
Russell/Nomura Prime	-9.26	+43.38	+1.88	+5.56	+41.24	+14.60
Excess return	+0.11	-0.00	+0.05	+0.02	-0.06	+0.03
Fiscal year-end balance (Million yen)	177,960	255,116	259,989	274,467	387,447	

	FY2019	FY2020	FY2021	FY2022	FY2023	5-year
In-house II Fund	-10.13	+42.03	+2.25	+5.79	+38.49	+13.84
TOPIX	-9.50	+42.13	+1.99	+5.81	+41.34	+14.43
Excess return	-0.62	-0.10	+0.26	-0.03	-2.85	-0.59
Fiscal year-end balance (Million yen)	454,785	477,871	465,785	486,183	198,322	

*Returns for the In-house II Fund include the effects of rebalancing and transition management
 *Existing Funds Only
 *Returns for periods exceeding one year have been annualized

4 Evaluation of External Investment Managers

Evaluation process

Evaluation of external investment managers involves monitoring of qualitative and quantitative aspects.

With qualitative evaluations, meetings are held to check the overall situation with investment, such as the absence of deviation between the registered investment approach and actual investment. These evaluations also include examining the manager's risk management framework and business operations. Additionally, on-site visits are conducted.

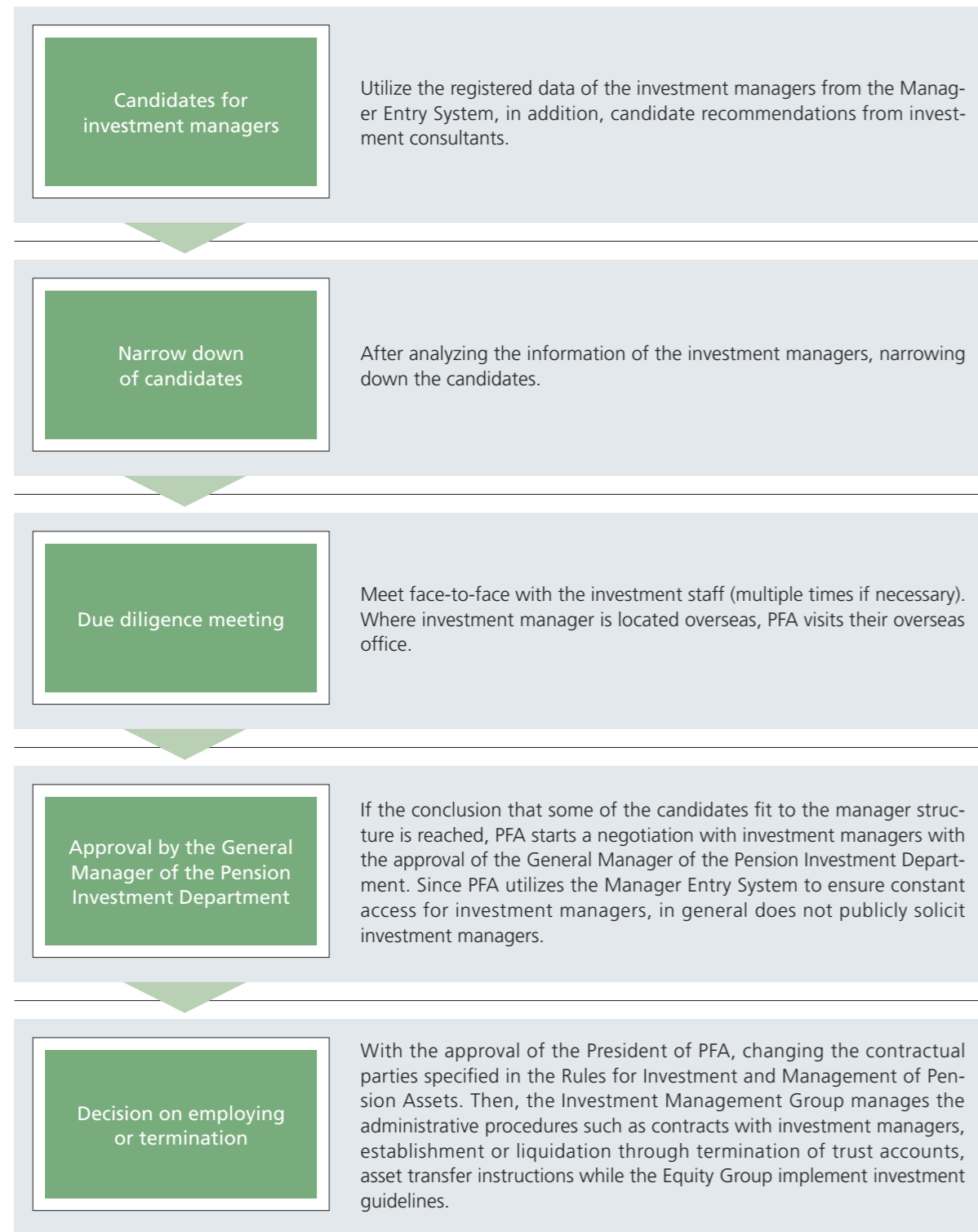
With quantitative evaluations, PFA evaluates investment performance from a long term perspective by analyzing the excess return over one year, three year, and five year periods against the benchmark assigned to the investment manager. In that case, PFA assesses each investment manager based on the respective roles that are expected to take (the expected alpha based on the investment manager's approach and style given market conditions and the expected alpha correlation between investment managers).

Equity

Basic Pension

Selection and termination of investment managers

After careful evaluation of investment managers through the evaluation process explained on the previous page, if PFA finds it necessary to change the manager structure, alternative investment managers are chosen by following process.



Support from Investment Consultants

PFA utilizes investment consultants when employing external investment managers. This approach allows access to a broad investment universe, including managers that cannot be covered by the Manager Entry System.

In particular, since it is hard for Japanese pension funds to secure access to foreign investment managers without a base in Japan, support from investment con-

sultants also helps to diversify the sources of returns under the manager structure.

This support from investment consultants is not limited to the time of employing managers, but also includes meetings with research analysts and ongoing provision of information about the employed investment managers.

5 Performance Monitoring and Risk Management

PFA utilizes FactSet and Barra for monitoring the manager structure (portfolio management and analysis), and Bloomberg to gather market information and data.

The detailed content and frequency of monitoring are as follows.

Daily (for each manager)	Monthly
<ul style="list-style-type: none"> ▶ Performance ▶ Status of large holdings (5% or more) ▶ Status of shares with significant price changes (10% or more) ▶ New purchase ▶ Complete sale ▶ Status of holdings other than listed shares 	<ul style="list-style-type: none"> ▶ Portfolio profile analysis (regions, sectors, individual shares) ▶ Active weight (regions, sectors, individual shares) ▶ Performance contribution analysis (regions, sectors, individual shares) ▶ Major transactions of each manager ▶ Estimated tracking error ▶ Risk index

Equity

Basic Pension

6 Investment Overview

Active portfolio status (As of March 31, 2024)

(1) Domestic equities

Sector allocation (TSE 33 sectors, non-manufacturing)

BM: TOPIX (Unit: %)

	Fishery, Agriculture & Forestry	Mining	Construction	Electric Power and Gas	Land Transportation	Marine Transportation	Air Transportation	Warehousing and Harbor Transportation	Information & Communication	Wholesale Trade	Retail Trade	Banks	Securities and Commodities Futures	Insurance	Other Financing Business	Real Estate	Services
PFA	0.06	1.92	2.07	0.74	1.24	0.20	0.31	0.10	8.21	4.15	7.70	6.62	0.65	3.35	1.18	3.05	4.30
BM	0.08	0.33	2.08	1.39	2.49	0.70	0.41	0.13	7.25	7.41	4.22	7.40	0.93	2.72	1.19	2.14	4.48
Active	-0.02	1.58	-0.01	-0.65	-1.25	-0.50	-0.09	-0.03	0.96	-3.26	3.48	-0.79	-0.28	0.63	-0.02	0.91	-0.18
End of FY2022	-0.04	2.46	0.58	-0.76	-1.78	-0.47	0.12	0.11	-0.24	-1.47	2.01	1.05	-0.25	0.32	0.07	-0.13	0.08
End of FY2021	-0.03	1.96	0.29	-0.68	-2.11	-0.19	0.17	0.15	1.13	-1.45	3.36	0.26	0.15	-0.05	-0.08	-0.96	0.75

Sector allocation (TSE 33 sectors, manufacturing)

BM: TOPIX (Unit: %)

	Foods	Textiles and Apparels	Pulp and Paper	Chemicals	Pharmaceutical	Oil and Coal Products	Rubber Products	Glass and Ceramics Products	Iron and Steel	Nonferrous Metals	Metal Products	Machinery	Electric Appliances	Transportation Equipment	Precision Instruments	Other Products	Cash
PFA	3.95	0.61	0.12	6.17	3.16	0.20	1.21	0.71	1.36	1.21	0.67	6.57	14.67	6.93	2.21	1.82	2.05
BM	3.08	0.36	0.17	5.71	4.26	0.52	0.69	0.69	0.94	0.71	0.52	5.61	17.39	9.49	2.21	2.28	0.00
Active	0.87	0.25	-0.04	0.46	-1.10	-0.32	0.52	0.02	0.42	0.50	0.16	0.95	-2.72	-2.56	0.00	-0.46	2.05
End of FY2022	0.09	0.03	-0.03	1.14	-1.83	-0.32	0.74	-0.20	0.51	1.02	0.13	0.72	-4.16	-1.58	-0.32	-0.97	2.53
End of FY2021	-0.80	-0.18	0.14	0.57	-0.87	-0.27	0.90	-0.41	0.58	0.74	0.15	1.32	-4.83	-2.19	-0.36	-0.45	2.48

Portfolio profile

	PFA	BM
Dividend Yield	1.99	1.98
P/E	15.52	15.42
P/E (1-year forward)	15.88	16.10
P/E (2-year forward)	14.60	15.06
P/B	1.34	1.46
ROE	10.41	11.54
EPS Growth (3 to 5-year forward)	10.49	11.45

Barra risk profile

	PFA	BM	Diff.
Growth	0.01	0.01	-0.00
Value	0.14	0.03	0.11
Earnings Yield	0.11	0.04	0.07
Size	-0.16	0.07	-0.23
Size Nonlinear	0.27	-0.06	0.33
Liquidity	0.11	0.07	0.04
Momentum	-0.20	0.03	-0.23
Sentiment	0.03	-0.04	0.07
Long-Term Reversal	0.10	-0.07	0.17
Beta	-0.06	0.07	-0.14
Residual Volatility	0.09	-0.02	0.11
Financial Leverage	-0.05	0.04	-0.09
Sensitivity to Overseas Economies	-0.04	0.04	-0.08
Sensitivity to Macro Factors	0.10	-0.01	0.11
Earnings Quality	0.08	-0.01	0.09
Industry Momentum	-0.04	-0.01	-0.04

Estimated risk

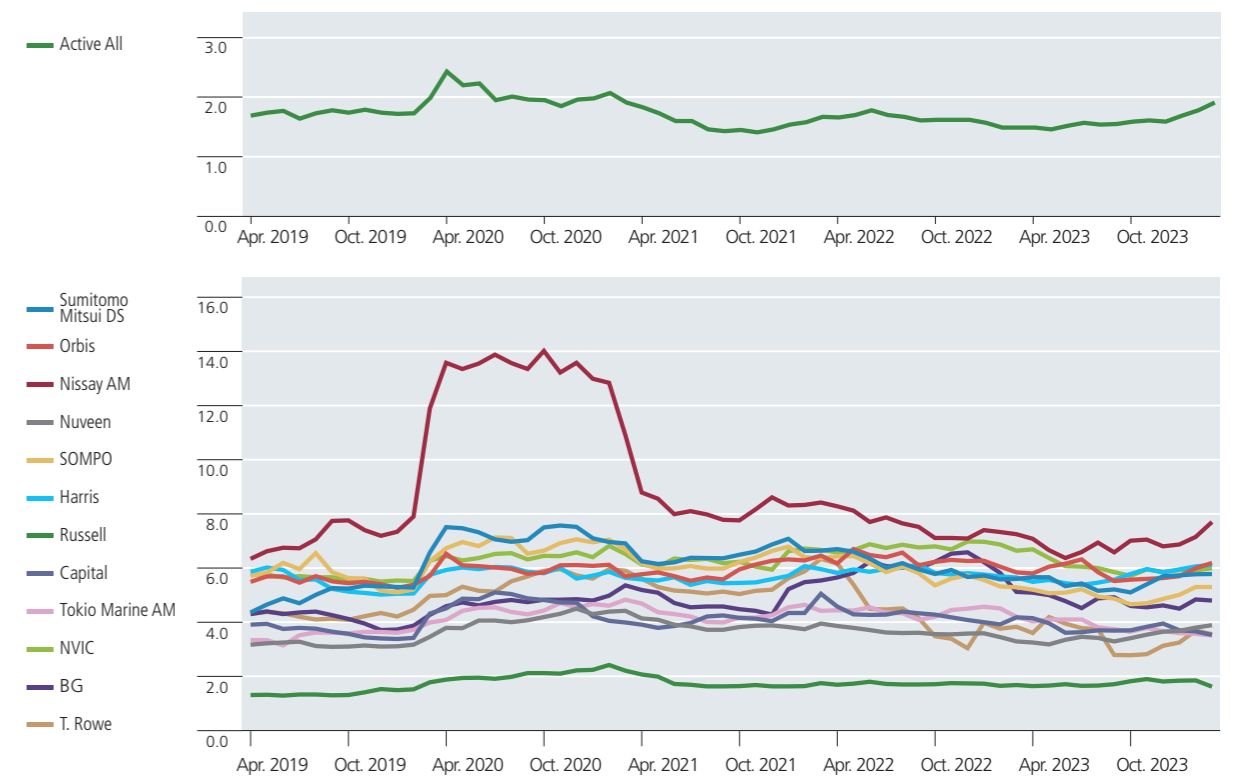
	TE	β
Sumitomo Mitsui DS	5.78	0.99
Orbis	6.19	0.87
Nissay	7.70	0.87
Nuveen	3.89	0.93
SOMPO	5.30	0.91
Harris	6.12	0.88
Russell	1.62	1.01
Capital	3.53	0.96
Tokio Marine AM	3.51	1.05
NVIC	5.99	0.98
BG	4.80	0.99
T.Rowe	3.56	1.05

<Active>

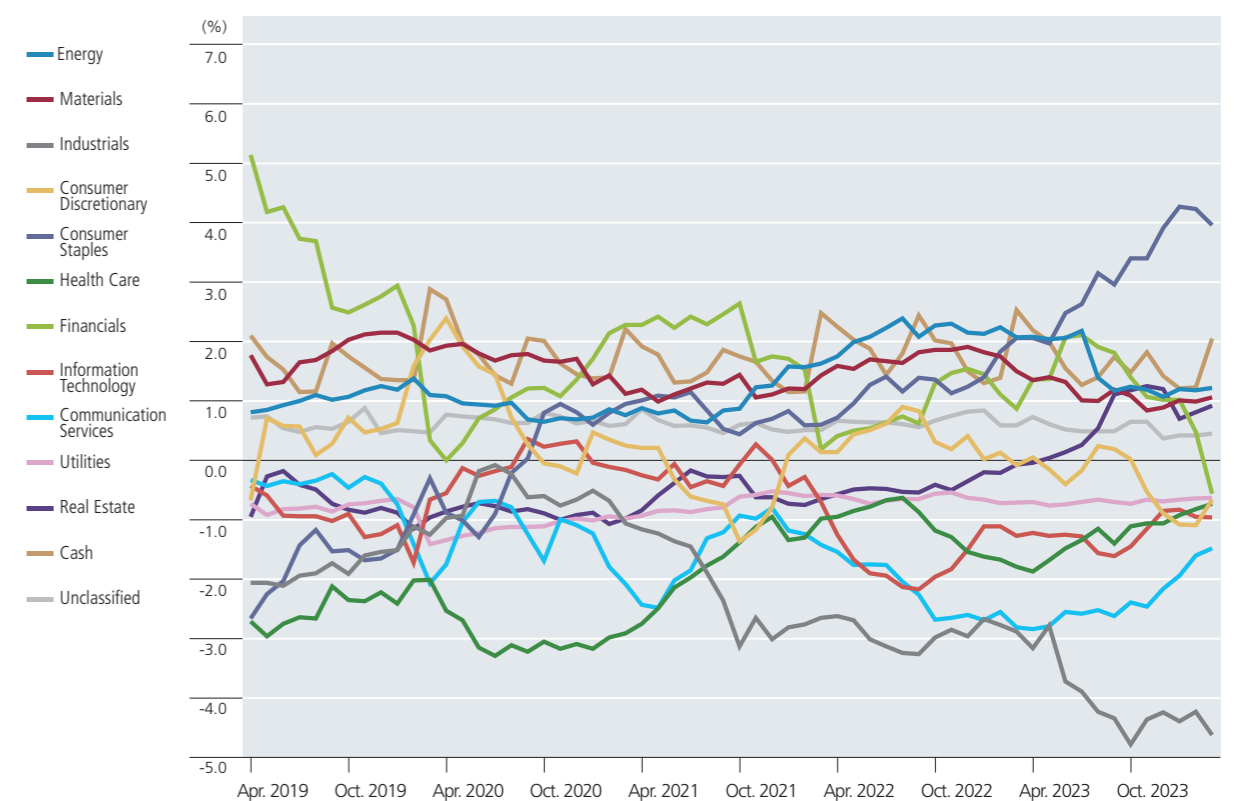
	TE	β
Active All	1.91	0.97

*Estimated TE and β exclude unclassified securities including cash and futures

Changes in estimated tracking error



Changes in sector allocation

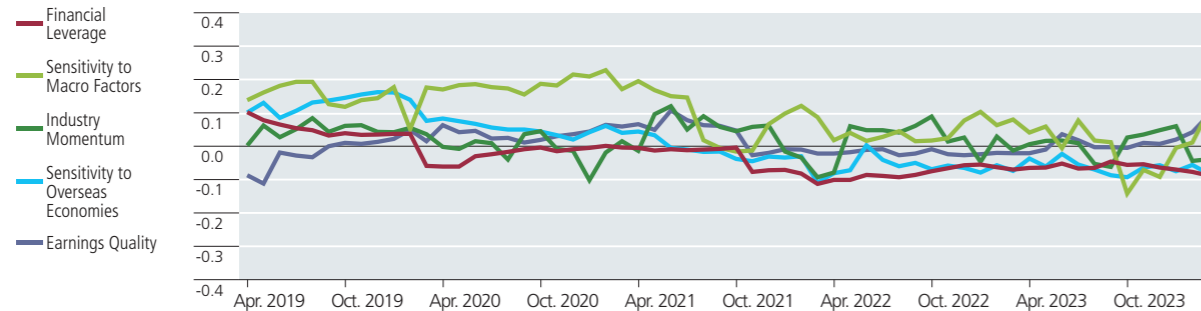
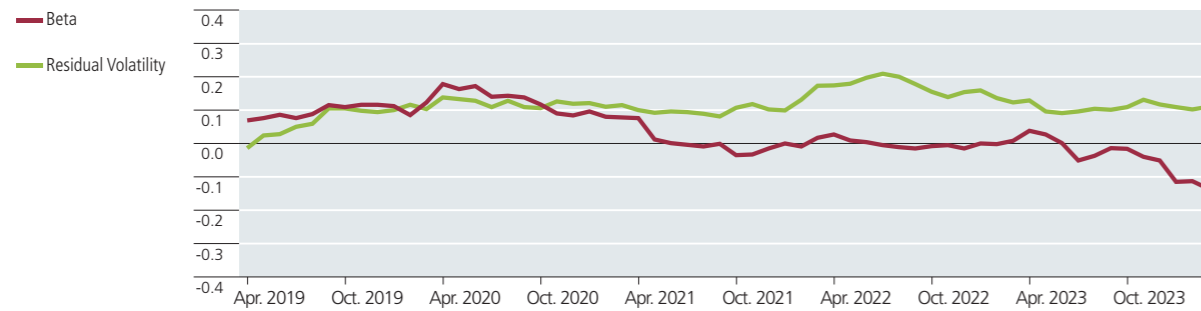
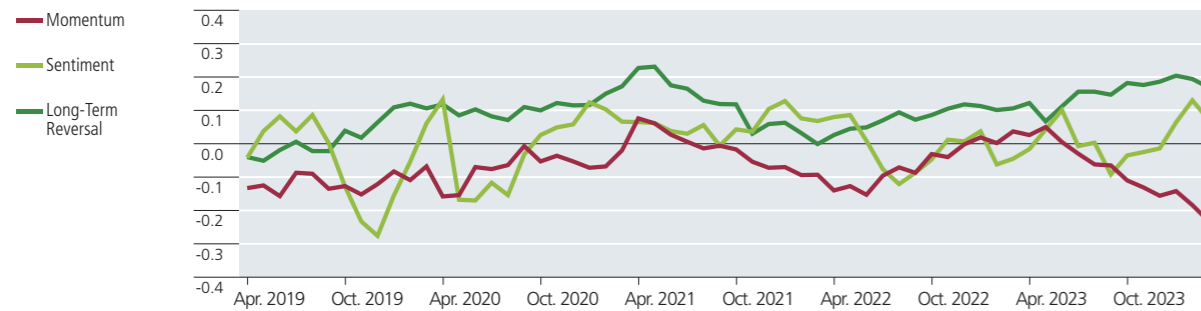
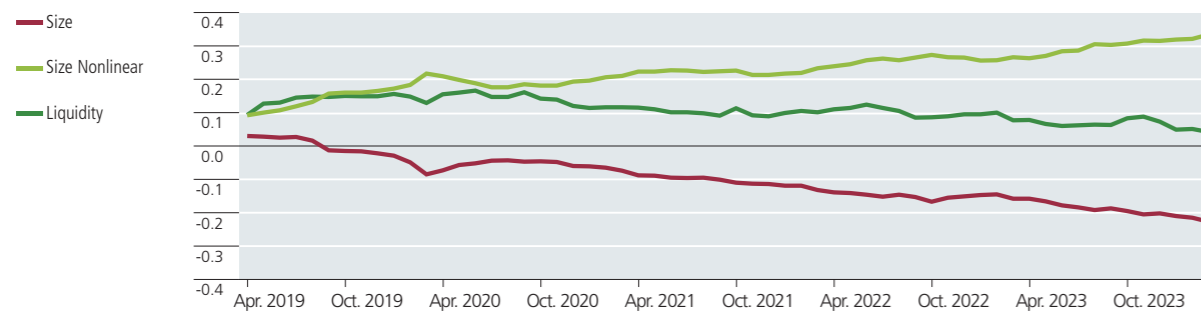
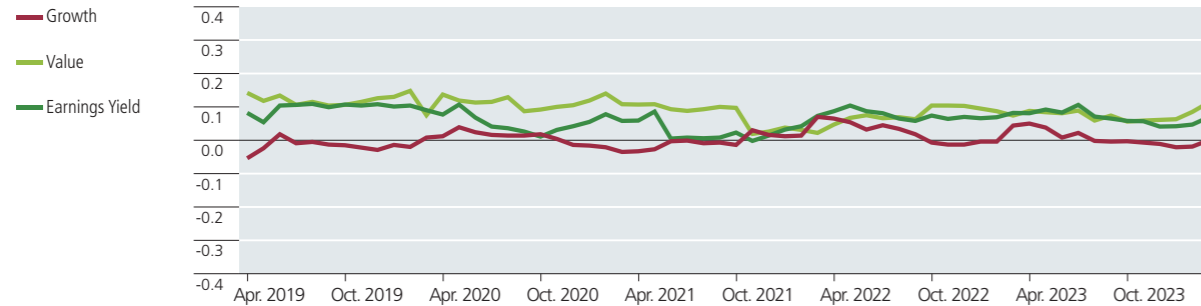


*Estimated TE excludes unclassified securities including cash and futures
The figure before entrusted investment management is provided by the companies

Equity

Basic Pension

Changes in main risk exposures



(2) Foreign equities

Regional allocation

	Japan	North America	Europe and the Middle East	Pacific	EM	Cash	Unclassified
PFA	4.99	60.51	18.70	1.31	9.08	2.57	2.84
BM	5.52	66.57	15.46	2.47	9.98	0.00	0.00
Active	-0.53	-6.07	3.24	-1.16	-0.90	2.57	2.84
End of FY2022	-0.30	-7.66	4.96	-1.46	-0.40	1.98	2.89
End of FY2021	-0.14	-6.47	3.34	-1.18	-1.12	2.69	2.89

BM:MSCI-ACWI

ACWI investees: Japan, North America, Europe and the Middle East, Pacific, Emerging

ADR/GDR (depository receipts): Classified based on the issuing country of underlying shares

Unclassified: Unclassifiable securities, ETFs, futures, etc. (cash components of futures have been offset)

*Includes an allocation fund

Sector allocation (GICS 11)

	Energy	Materials	Industri-als	Consumer Discre-tionary	Consumer Staples	Health Care	Financials	Informa-tion Technol-ogy	Communi-cation Services	Utilities	Real Estate	Cash	Unclassified
PFA	5.35	3.96	10.33	12.15	4.19	10.62	15.87	21.45	8.23	1.45	1.03	2.57	2.81
BM	4.55	4.23	10.80	10.90	6.43	11.14	16.06	23.68	7.56	2.46	2.20	0.00	0.00
Active	0.80	-0.27	-0.47	1.25	-2.23	-0.52	-0.19	-2.24	0.68	-1.01	-1.16	2.57	2.81
End of FY2022	0.72	-0.39	-0.55	1.67	-1.26	0.31	-1.78	-1.00	0.24	-1.46	-1.45	1.98	2.97
End of FY2021	1.31	1.02	-1.07	1.76	-0.35	0.49	-2.62	-2.99	-0.67	-0.91	-1.66	2.69	2.99

Portfolio profile

	PFA	BM
Dividend Yield	1.6	1.9
P/E	29.8	29.4
P/E (1-year forward)	23.6	24.3
P/E (2-year forward)	19.9	20.9
P/B	4.4	4.9
ROE	17.7	18.9
EPS Growth (3 to 5-year forward)	14.5	12.5

Estimated risk

<Global>			<Europe>		
	TE	β		TE	β
Wellington	1.75	1.03	Schroders	5.46	1.09
Russell	2.62	1.00	Comgest	5.59	1.01
BG	11.43	1.38	Alken	7.50	1.10
Sanders	3.99	0.93	<Asia>		
Jennison	6.85	1.18		TE	β
Polaris	4.96	0.98	UBS	3.40	0.99
Sands	9.47	1.33	JOH	6.03	0.96
GQG	8.10	1.18			
Hosking	5.27	1.04		TE	β
Arrow	3.30	0.98	Coronation	6.56	1.12
			Oaktree	5.87	1.11
			<Active>		
				TE	β
			Active All	1.78	1.06

Barra risk profile

	PFA	BM	Diff.
Beta	0.22	0.09	0.12
Residual Volatility	0.05	-0.07	0.12
Size	0.00	0.26	-0.26
Mid Capitalization	-0.01	-0.07	0.06
Liquidity	0.11	-0.02	0.13
Leverage	0.01	0.00	0.00
Growth	0.15	0.01	0.14
Book-to-Price	0.07	-0.04	0.11
Dividend Yield	-0.09	0.01	-0.10
Earnings Yield	0.09	0.01	0.08
Momentum	0.18	0.05	0.13
Earnings Variability	0.17	-0.05	0.22
Earnings Quality	0.08	-0.02	0.10
Investment Quality	-0.01	0.04	-0.05
Long-Term Reversal	0.02	0.00	0.01
Profitability	0.01	0.04	-0.02
Industries	1.05	1.07	-0.02
Countries	0.85	0.88	-0.03
Currencies	1.00	1.00	0.00
Market	0.95	1.00	-0.05

<US>

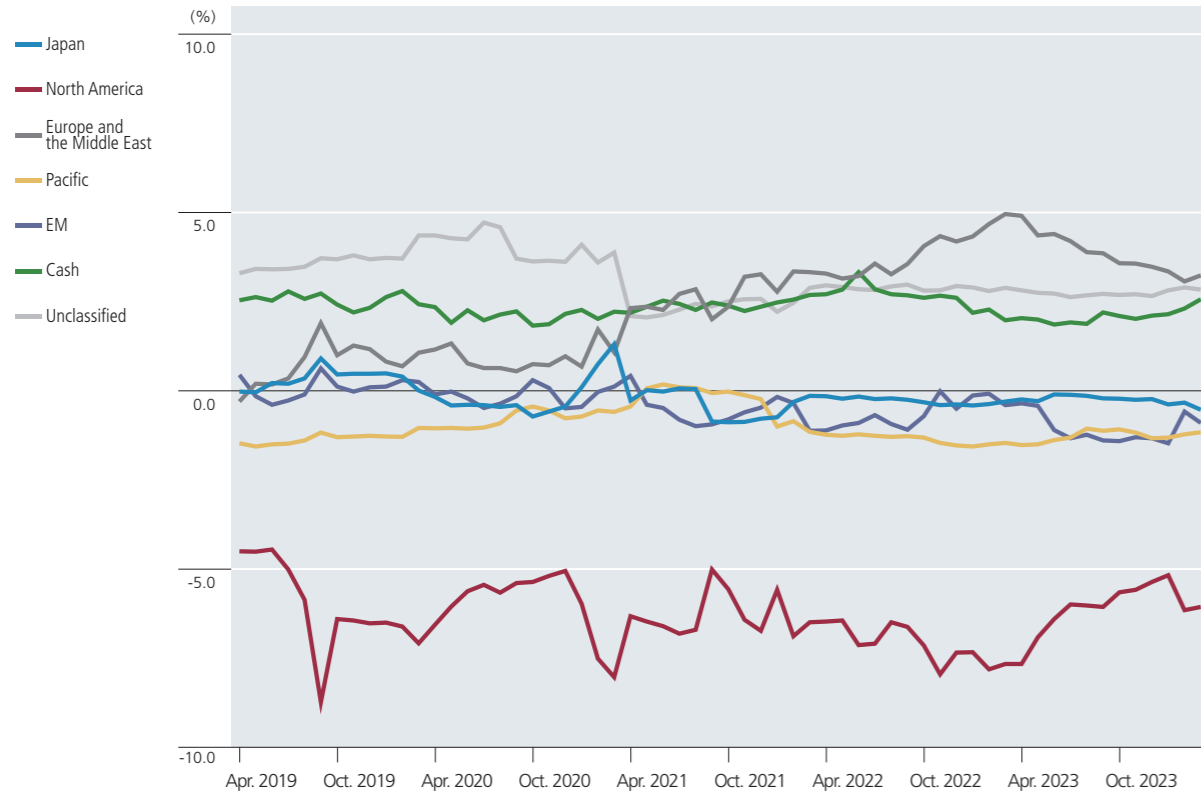
	TE	β
Brown	3.24	0.99
Sound	4.11	1.01
Harris	4.55	1.14
Jennison	3.04	1.04
Southeastern	8.70	1.08
Donald	9.20	0.93
Arrow	2.96	0.98
GQG	8.72	1.17
Jacobs	2.54	1.05
Brandywine	3.36	1.00

*Estimated TE and β exclude unclassified securities including cash and futures

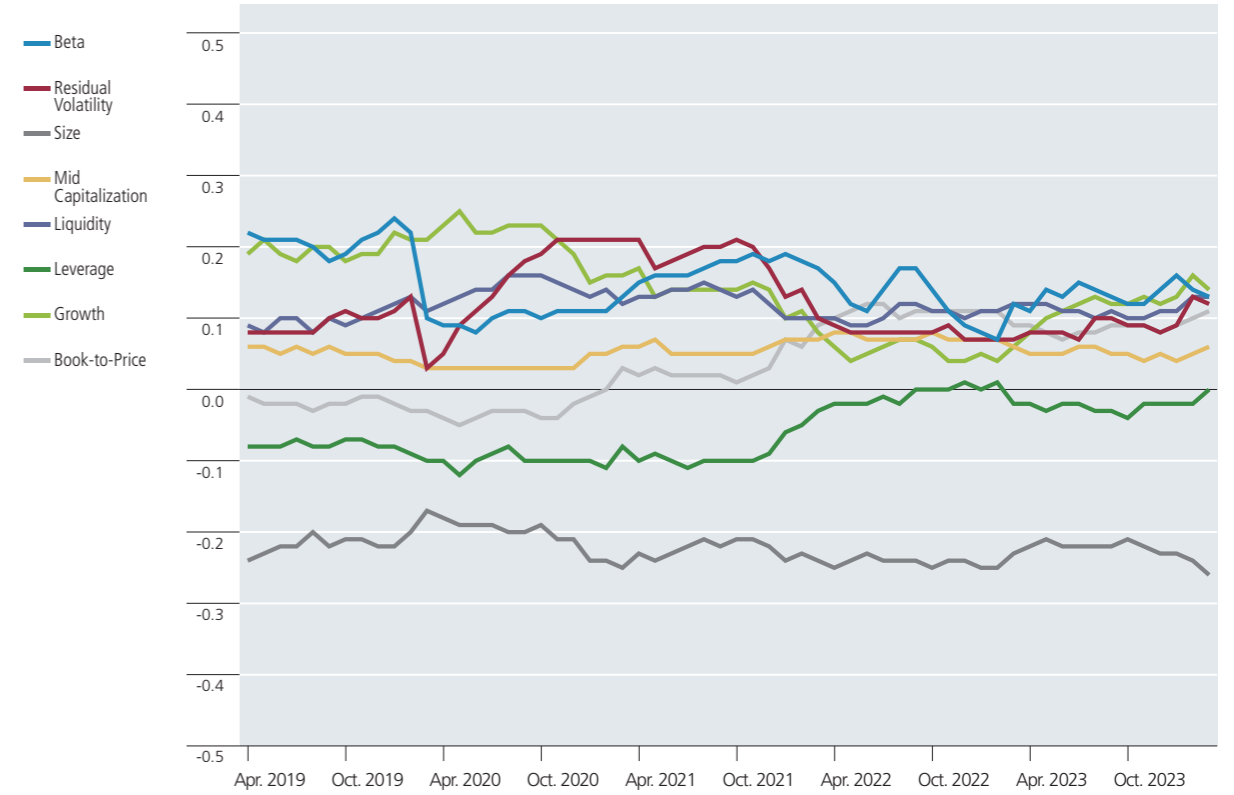
Equity

Basic Pension

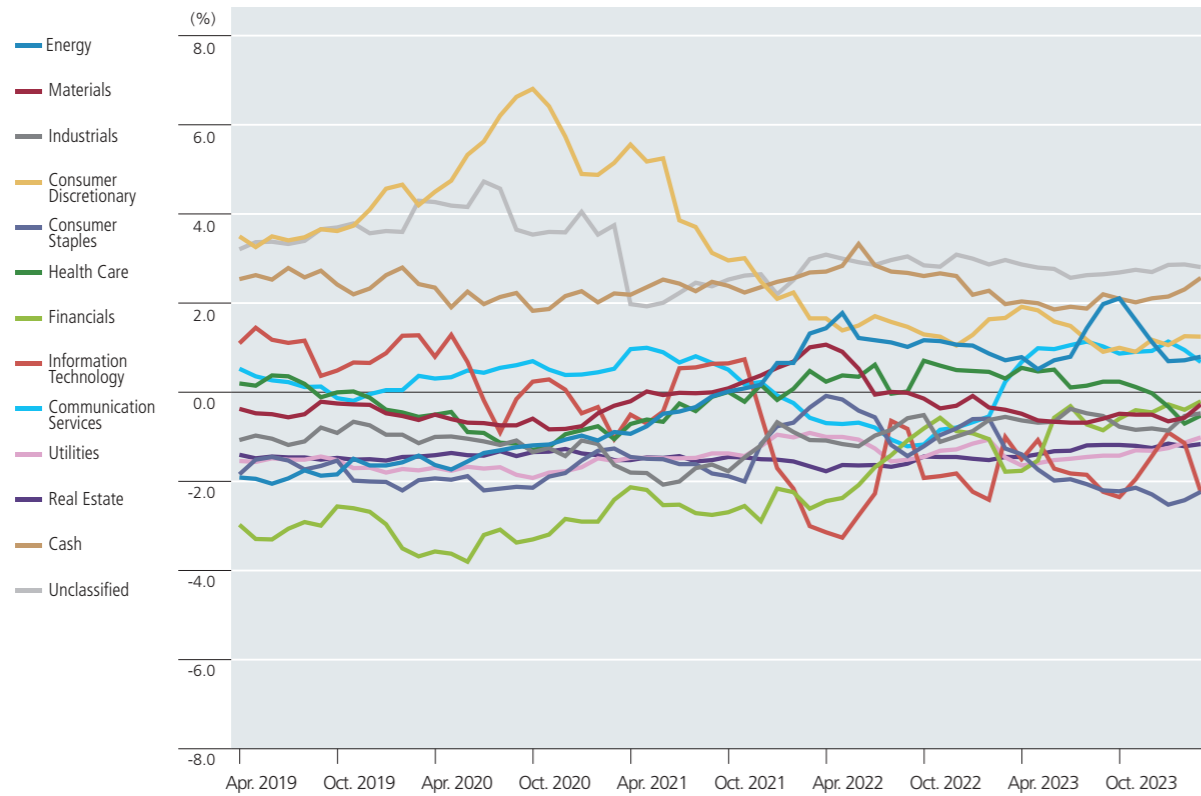
Changes in regional allocation



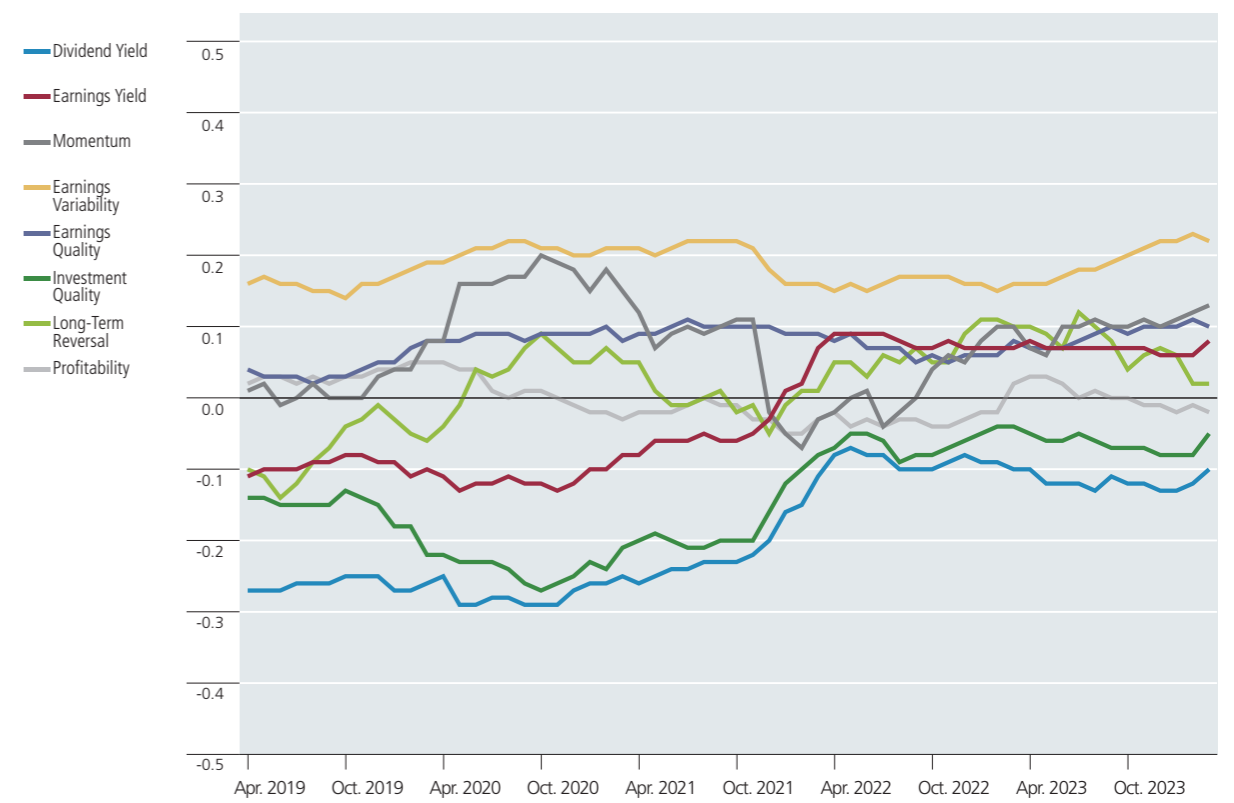
Changes in risk exposures (1)



Changes in sector allocation



Changes in risk exposures (2)



Equity

Basic Pension

<Reference: Status of entire foreign equity portfolio (including a passive fund)>

Regional allocation

(Unit: %)

	Japan	North America	Europe and the Middle East	Pacific	EM	Cash	Unclassified
PFA	4.92	59.53	17.49	1.47	8.93	2.03	5.65
BM	5.52	66.57	15.46	2.47	9.98	0.00	0.00
Active	-0.61	-7.05	2.03	-1.00	-1.05	2.03	5.65
End of FY2022	-0.35	-6.93	3.05	-1.11	-0.43	1.42	4.35
End of FY2021	-0.22	-5.75	1.76	-0.84	-1.00	1.74	4.32

BM:MSCI-ACWI

ACWI investees: Japan, North America, Europe and the Middle East, Pacific, Emerging

ADR/GDR (depository receipts): Classified based on the issuing country of underlying shares

Unclassified: Unclassifiable securities, ETFs, futures, etc. (cash components of futures have been offset)

*Includes an allocation fund

Sector allocation (GICS 11)

(Unit: %)

	Energy	Materials	Industrials	Consumer Discretionary	Consumer Staples	Health Care	Financials	Information Technology	Communication Services	Utilities	Real Estate	Cash	Unclassified
PFA	5.03	3.86	10.07	11.52	4.44	10.35	15.35	21.11	7.84	1.57	1.19	2.03	5.62
BM	4.55	4.23	10.80	10.90	6.43	11.14	16.06	23.68	7.56	2.46	2.20	0.00	0.00
Active	0.48	-0.36	-0.73	0.62	-1.98	-0.80	-0.70	-2.57	0.29	-0.89	-1.00	2.03	5.62
End of FY2022	0.41	-0.40	-0.63	0.91	-1.05	-0.09	-1.59	-1.24	0.02	-1.09	-1.09	1.42	4.41
End of FY2021	0.76	0.54	-0.93	0.84	-0.38	0.03	-2.08	-2.47	-0.63	-0.65	-1.16	1.74	4.39

Portfolio profile

	PFA	BM
Dividend Yield	1.7	1.9
P/E	29.7	29.4
P/E (1-year forward)	23.7	24.3
P/E (2-year forward)	20.1	20.9
P/B	4.5	4.9
ROE	17.9	18.9
EPS Growth (3 to 5-year forward)	14.1	12.5

Barra risk profile

	PFA	BM	Diff.
Beta	0.19	0.09	0.10
Residual Volatility	0.03	-0.07	0.10
Size	0.05	0.26	-0.22
Mid Capitalization	-0.02	-0.07	0.05
Liquidity	0.08	-0.02	0.10
Leverage	0.01	0.00	0.00
Growth	0.12	0.01	0.11
Book-to-Price	0.05	-0.04	0.09
Dividend Yield	-0.07	0.01	-0.08
Earnings Yield	0.07	0.01	0.06
Momentum	0.15	0.05	0.10
Earnings Variability	0.13	-0.05	0.18
Earnings Quality	0.06	-0.02	0.08
Investment Quality	-0.00	0.04	-0.04
Long-Term Reversal	0.01	0.00	0.01
Profitability	0.02	0.04	-0.02
Industries	1.02	1.07	-0.05
Countries	0.83	0.88	-0.06
Currencies	1.00	1.00	0.00
Market	0.93	1.00	-0.07

Performance of active managers

(1) Domestic equities investment manager: excess return

(Unit: 100 million yen, %)

	Investment manager	Benchmark	Fiscal year-end asset balance	FY					3-year	5-year
				FY2019	FY2020	FY2021	FY2022	FY2023		
Japan	Sumitomo Mitsui DS	TOPIX	2,030	-9.61	+6.14	+1.68	+8.41	+10.73	+6.55	+2.22
	Orbis	TOPIX	2,440	+1.83	+3.01	+3.36	+6.03	+10.41	+6.26	+4.66
	Nissay AM	TOPIX	361	-15.92	+15.02	-1.32	+3.56	-12.02	-2.61	
	Nuveen	TOPIX	549		-11.96	-1.72	+4.54	-8.70	-1.47	
	SOMPO AM	TOPIX	474				+4.27	-0.70		
	Harris	TOPIX	360				-2.73	-7.21		
	Russell	TOPIX	2,833	-0.82	+4.25	-0.40	+0.75	-5.37	-1.36	-0.35
	Capital	TOPIX	2,050	-0.77	+13.66	-2.64	+2.07	-11.18	-3.38	-0.14
	Tokio Marine AM	TOPIX	1,152	+5.10	+13.29	+0.72	-4.22	-4.68	-2.56	+1.77
	NVIC	TOPIX	546	+11.99	-3.91	-3.46	-0.95	-13.77	-5.47	-1.13
Baillie Gifford	TOPIX	439	-3.79	+18.13	-10.62	-8.83	-14.25	-11.07	-5.06	
T.Rowe	TOPIX	771	+4.60	+14.10	-15.56	-5.67	-18.13	-12.94		
Total	Custom Benchmark	14,004	-2.33	+8.14	-1.80	+1.69	-3.25	-0.96	+0.10	

(Reference)	Active	Passive	TOPIX	19,862	-1.04	+3.88	-1.03	+0.74	-2.55	-0.82	-0.14
Total											

*For the re-entrusted products, names of the investment managers are presented

*Returns for periods exceeding one year have been annualized

*Entrusted entities continuing to conduct investment as of the end of FY2023 are presented

*Totals include terminated entrusted entities

The active manager return for domestic equities in FY2023 was 3.25% below the benchmark.

The domestic stock market boomed amid a continuing favorable corporate earnings environment, as well as depreciation of the yen due to difference in monetary policy between Japan and the U.S. and expectations for progress in Corporate governance reform.

In such environment, managers who focus on profit growth continued to be underperformed as in the previous fiscal year, while managers who invest in value stocks were relatively well.

Excess returns over the past three years have been 0.96% (annualized) below the benchmark, but over the past five years, they have been 0.10% (annualized) higher.

Equity

Basic Pension

(2) Foreign equities investment manager: excess return

(Unit: 100 million yen, %)

	Investment manager	Benchmark	Fiscal year-end asset balance	FY					3-year	5-year
				FY2019	FY2020	FY2021	FY2022	FY2023		
Global	Wellington	MSCI ACWI	1,531	+2.27	+2.72	-0.06	-0.18	+1.75	+0.40	+1.26
	Russell	MSCI ACWI	3,730	-3.70	+8.82	-1.59	+1.54	-0.29	-0.02	+0.23
	Baillie Gifford	MSCI ACWI	335	+22.07	+52.95	-27.06	-11.27	+4.52	-12.97	+4.06
	Sanders	MSCI ACWI	1,437	+3.10	+19.13	+0.32	+6.95	+5.04	+4.20	+6.15
	Jennison	MSCI ACWI	843	+10.33	+30.26	-9.60	-7.03	+17.31	-1.58	+5.99
	Polaris	MSCI ACWI	602	-11.45	+19.02	-6.78	+3.18	-4.58	-2.42	-2.11
	Sands	MSCI ACWI	374	+8.48	+21.65	-17.73	-11.49	+4.42	-9.58	-0.72
	GQG	MSCI ACWI	975	+9.40	-18.09	+14.61	-1.04	+27.90	+11.98	+6.55
	Hosking	MSCI ACWI	475	-9.53	+22.33	-4.73	-1.33	+2.36	-1.47	-0.52
	Arrowstreet	MSCI ACWI	716			+0.62	+7.59	+8.12	+5.42	
	Global Total	Custom Benchmark	11,018	+2.35	+14.24	-5.57	-0.31	+4.23	-0.86	+2.18
U.S.	Brown Advisory	Russell1000	563	+2.92	+6.18	-4.94	+1.63	+10.30	+1.78	+2.77
	Sound Shore	Russell1000V	473	-3.53	+15.47	+0.20	-0.98	+20.56	+5.41	+4.30
	Harris	Russell1000V	852	+3.00	+29.14	+0.99	+3.66	+18.36	+6.96	+9.09
	Jennison	Russell1000G	381	-0.04	+7.90	-11.65	-5.79	+9.13	-4.17	-1.40
	Southeastern	S&P500	160	-11.41	+27.79	-11.76	-4.29	-10.94	-8.66	-4.61
	Donald Smith	Russell2000V	315	+5.50	+21.33	+25.13	+29.63	+33.65	+29.49	+21.90
	Arrowstreet	Russell3000	1,018	-4.08	+8.37	+7.61	+5.36	+5.42	+6.18	+3.71
	GQG	Russell1000	602	+11.64	-17.70	+13.44	-1.57	+24.32	+10.18	
	Jacobs Levy	Russell3000	796	-1.28	+10.61	+6.74	+4.13	+6.23	+5.62	
	U.S. Total	Custom Benchmark	5,161	-1.08	+8.62	+0.29	+2.40	+13.10	+4.65	+3.72
Europe	Schroders	MSCI Europe	362	+10.99	+15.11	-6.32	-10.24	+1.59	-5.44	+1.86
	Comgest	MSCI Europe	364	+17.70	-1.76	+4.49	+0.66	+7.70	+4.09	+6.74
	Alken	MSCI Europe	292	-7.02	-1.99	+24.32	+3.50	-0.85	+8.90	+2.69
	Europe Total	Custom Benchmark	1,018	+5.44	+5.20	+2.35	-3.13	+3.06	+0.60	+2.64

(Unit: 100 million yen, %)

	Investment manager	Benchmark	Fiscal year-end asset balance	FY					3-year	5-year
				FY2019	FY2020	FY2021	FY2022	FY2023		
Asia	UBS	MSCI AC Asia ex Japan	202	+5.84	+5.29	-1.70	-4.61	+2.70	-1.47	+1.23
	JOHambro	MSCI AC Asia ex Japan	113	+5.42	+17.26	+0.76	+5.10	+0.30	+2.10	+4.98
	Asia Total	Custom Benchmark	315	+5.71	+9.08	-0.77	-1.28	+1.82	-0.20	+2.51
Emerging	Coronation	MSCI Emerging	121	+5.76	+8.69	-23.98	+9.41	+0.60	-6.34	-1.40
	Oaktree	MSCI Emerging	156					+0.73		
	Emerging Total	Custom Benchmark	277	+1.47	-1.28	-3.70	+2.40	+1.61	-0.05	+0.19
Total	Custom Benchmark	17,789	+1.77	+12.16	-3.71	+0.28	+6.27	+0.58	+2.59	

(Reference)	Active	Passive	MSCI ACWI	23,398	+0.64	+7.01	-3.51	+0.39	+3.69	-0.02	+1.19
	Total										

*In the case of subcontract investment products, the names of the investment subcontractors are presented

*Returns for periods exceeding one year have been annualized

*Entrusted entities continuing to conduct investment as of the end of FY2023 are presented

*Totals include terminated entrusted entities

The active manager return for foreign equities in FY2023 was 6.27% higher than the benchmark.

Global stock markets soared by more than 40% in yen terms, partly because of the depreciation of the yen. In particular, semiconductor and IT related stocks rose sharply, driven by rising expectations for generative AI. Despite an overall favorable market environment, the Chinese stock market recorded a drop, the only major market to do so, as strong concern about the risk of a slowdown in Chinese economy mounted.

In such environment, global equities investment benefited from managers who achieved strong returns

on the back of the rise in AI related stocks. In regional equities investment, U.S. managers achieved large excess returns, mainly through stock selection, while European, Asian and emerging market managers also performed well.

As a result, excess returns over the past three years have been 0.58% (annualized) higher than the benchmark, and over the past five years, they have been 2.59% (annualized) higher.

In the current fiscal year, one investment manager was newly employed, and three investment managers were terminated.

Equity

Portable Corporate Pensions

1 Basic Concept

With Portable Corporate Pensions, PFA utilizes global equities investment based on a similar approach as with Basic Pension.

2 Investment Overview

Active portfolio status (As of March 31, 2024)

Regional allocation

(Unit: %)

	Japan	North America	Europe and the Middle East	Pacific	EM	Cash	Unclassified
PFA	1.98	53.89	19.03	1.81	16.09	2.29	4.90
BM	5.52	66.57	15.45	2.47	9.98	0.00	0.00
Active	-3.55	-12.68	3.58	-0.66	6.11	2.29	4.90
End of FY2022	-3.80	-18.47	6.12	-1.25	9.57	2.02	5.81
End of FY2021	-3.70	-21.93	7.93	-1.18	8.15	2.81	7.92

BM: MSCI-ACWI

ACWI investees: Japan, North America, Europe and the Middle East, Pacific, Emerging

ADR/GDR (depository receipts): Classified based on the issuing country of underlying shares

Unclassified: Unclassifiable securities, ETFs, futures, etc. (cash components of futures have been offset)

Sector allocation (GICS 11)

(Unit: %)

	Energy	Materials	Industri-als	Consumer Discre-tionary	Consumer Staples	Health Care	Financials	Informa-tion Technol-ogy	Communi-cation Services	Utilities	Real Estate	Cash	Unclassi-fied
PFA	6.00	5.36	11.25	12.59	4.46	7.75	16.36	18.15	7.41	2.28	1.21	2.29	4.90
BM	4.55	4.23	10.80	10.90	6.43	11.14	16.06	23.68	7.56	2.46	2.20	0.00	0.00
Active	1.45	1.13	0.45	1.70	-1.97	-3.39	0.30	-5.53	-0.15	-0.19	-0.99	2.29	4.90
End of FY2022	1.46	4.57	2.95	2.43	-3.02	-6.12	-0.29	-6.31	-0.72	-1.34	-1.46	2.02	5.81
End of FY2021	3.15	6.57	3.25	-1.01	-3.04	-6.77	0.95	-8.01	-2.37	-1.53	-1.91	2.81	7.92

Portfolio profile

	PFA	BM
Dividend Yield	1.7	1.9
P/E	29.9	29.4
P/E (1-year forward)	23.0	24.3
P/E (2-year forward)	19.5	20.9
P/B	4.0	4.9
ROE	16.0	18.9
EPS Growth (3 to 5-year forward)	13.7	12.5

Estimated risk

<Global>

	TE	β
Russell	2.77	1.05

<Active>

	TE	β
Portable active	2.77	1.05

*Estimated TE and β exclude unclassified securities including cash and futures

Barra risk profile

	PFA	BM	Diff.
Beta	0.18	0.09	0.09
Residual Volatility	0.03	-0.07	0.10
Size	-0.00	0.26	-0.26
Mid Capitalization	0.04	-0.07	0.11
Liquidity	0.10	-0.02	0.12
Leverage	0.02	0.00	0.02
Growth	0.08	0.01	0.07
Book-to-Price	0.06	-0.04	0.10
Dividend Yield	-0.09	0.01	-0.10
Earnings Yield	0.06	0.01	0.05
Momentum	-0.05	0.05	-0.10
Earnings Variability	0.16	-0.05	0.21
Earnings Quality	0.10	-0.02	0.12
Investment Quality	-0.09	0.04	-0.13
Long-Term Reversal	0.07	0.00	0.07
Profitability	-0.16	0.04	-0.19
Industries	0.98	1.07	-0.09
Countries	0.82	0.88	-0.07
Currencies	1.00	1.00	0.00
Market	0.93	1.00	-0.07

<Reference: Status of entire Portable Corporate Pensions portfolio (including a passive fund)>

Regional allocation

(Unit: %)

	Japan	North America	Europe and the Middle East	Pacific	EM	Cash	Unclassified
PFA	2.87	57.07	18.07	1.97	11.97	1.88	6.17
BM	5.52	66.57	15.45	2.47	9.98	0.00	0.00
Active	-2.65	-9.50	2.61	-0.50	1.99	1.88	6.17
End of FY2022	-3.11	-15.09	4.98	-1.02	5.82	1.66	6.75
End of FY2021	-2.74	-16.14	5.89	-0.87	3.18	1.96	8.74

BM: MSCI-ACWI

ACWI investees: Japan, North America, Europe and the Middle East, Pacific, Emerging

ADR/GDR (depository receipts): Classified based on the issuing country of underlying shares

Unclassified: Unclassifiable securities, ETFs, futures, etc. (cash components of futures have been offset)

Sector allocation (GICS 11)

(Unit: %)

	Energy	Materials	Industri-als	Consumer Discre-tionary	Consumer Staples	Health Care	Financials	Informa-tion Technol-ogy	Communi-cation Services	Utilities	Real Estate	Cash	Unclassi-fied
PFA	5.48	4.88	10.94	11.83	4.81	8.52	15.68	18.92	7.22	2.25	1.42	1.88	6.17
BM	4.55	4.23	10.80	10.90	6.43	11.14	16.06	23.68	7.56	2.46	2.20	0.00	0.00
Active	0.94	0.65	0.14	0.93	-1.62	-2.62	-0.38	-4.76	-0.34	-0.22	-0.77	1.88	6.17
End of FY2022	1.10	3.56	2.29	1.71	-2.59	-5.07	-0.66	-5.57	-0.80	-1.15	-1.23	1.66	6.75
End of FY2021	2.20	4.60	2.27	-1.08	-2.41	-5.11	0.09	-6.53	-2.04	-1.21	-1.48	1.96	8.74

Portfolio profile

	PFA	BM
Dividend Yield	1.8	1.9
P/E	29.9	29.4
P/E (1-year forward)	23.5	24.3
P/E (2-year forward)	20.0	20.9
P/B	4.3	4.9
ROE	16.8	18.9
EPS Growth (3 to 5-year forward)	13.4	12.5

Barra risk profile

	PFA	BM	Diff.
Beta	0.18	0.09	0.08
Residual Volatility	-0.01	-0.07	0.06
Size	0.05	0.26	-0.21
Mid Capitalization	0.01	-0.07	0.08
Liquidity	0.07	-0.02	0.09
Leverage	0.02	0.00	0.01
Growth	0.06	0.01	0.05
Book-to-Price	0.04	-0.04	0.08
Dividend Yield	-0.06	0.01	-0.07
Earnings Yield	0.04	0.01	0.04
Momentum	-0.02	0.05	-0.07
Earnings Variability	0.11	-0.05	0.16
Earnings Quality	0.07	-0.02	0.09
Investment Quality	-0.06	0.04	-0.10
Long-Term Reversal	0.05	0.00	0.05
Profitability	-0.11	0.04	-0.14
Industries	0.98	1.07	-0.09
Countries	0.81	0.88	-0.07
Currencies	1.00	1.00	0.00
Market	0.92	1.00	-0.08

Equity

Portable Corporate Pensions

Performance of active managers

Portable Corporate Pensions investment manager: excess return

(Unit: 100 million yen, %)

	Investment manager	Benchmark	Fiscal year-end asset balance	FY					3-year	5-year
				FY2019	FY2020	FY2021	FY2022	FY2023		
	Russell	MSCI ACWI	691	+0.33	+3.62	-0.62	+2.63	-0.69	+0.61	+0.99
	Active Total	MSCI ACWI	691	+0.33	+3.62	-0.62	+2.63	-0.69	+0.61	+0.99
(Reference)	Active Passive Total	MSCI ACWI	928	+0.93	+2.00	-0.87	+1.94	-0.59	+0.29	+0.72

*Returns for periods exceeding one year have been annualized
 *Entrusted entities continuing to conduct investment as of the end of FY2023 are presented

The active manager return in FY2023 was 0.69% below the benchmark.

Among the seven managers of funds included in the Russell (fund of funds), three managers earned excess returns. Global equities managers who focus on profit growth performed well, while U.S. managers benchmarked to growth index and emerging market managers underperformed.

Excess returns over the past three years have been 0.61% (annualized) higher than the benchmark, and over the past five years, they have exceeded the benchmark by 0.99% annually.

Fixed Income, Foreign Exchange and Treasury

1 In-House Investment

Significance and role of in-house investment

We began in-house investment in bonds in April 1990, and while investing efficiently and accumulating investment know-how, we improved our investment performance and structure, and expanded in-house investment.

Pursuit of returns

During the 24 years between FY2000 and FY2023, we earned stable excess returns from active investment in domestic bonds, averaging 21 basis points annually.

Reduction of investment costs

By increasing the share of in-house investment, we have saved several billion yen each year in costs associated with all our domestic and foreign bond investments compared with if we had entrusted them entirely to external investment managers.

Roles of comprehensive risk management and cost management for the entire policy asset mix

- ▶ With in-house bond investment, we handle the receipt and payment of cash flows, such as transferred monies received and benefit payments. This means that with other active investments, we can focus on investment without being affected by cash flows, which helps us to invest efficiently overall.
- ▶ To minimize the costs associated with transfers of assets in conjunction with actions such as the dismissal of investment managers or increases/decreases in assets entrusted to them, in-house funds are used to transfer assets between funds.
- ▶ With policy asset mix rebalancing, we minimize timing risk and perform the rebalancing efficiently by utilizing in-house investment.

Enhancement of ability to negotiate with external investment managers

Because the increasing diversification and efficiency of in-house investment approaches, and accumulation of investment know-how, we have significantly improved our ability to evaluate and negotiate with external investment managers, enabling us to entrust investment on extremely favorable terms.

■ Fixed Income, Foreign Exchange and Treasury

In-house bond investment timeline

1990	Start of domestic bond investment (initial asset investment amount: 18 billion yen)
1992–1998	Gradual expansion of asset investment amount to 300 billion yen
1999	Expansion to 40% of domestic bonds following change to investment structure (700 billion yen)
2002	Expansion to 50% of domestic bonds (1,050 billion yen)
2006	Implementation of bond investment via benefits-exclusive fund (total asset investment amount: 2,500 billion yen)
2008	Start of liquidity measure for benefits-exclusive fund (part of BCP), start of foreign bond investment
2009	Start of currency hedging
2010	Expansion to over 50% of domestic and foreign bond investment (total asset investment amount: 3,300 billion yen), start of emerging market bond investment
2011	Expansion to over 60% of domestic and foreign bond investment (total asset investment amount: 3,540 billion yen), start of global risk control (GRC) fund investment
2014	Commencement of separate investment of Portable Corporate Pensions
	Start of domestic-bond focused maturity investment
2015	Introduction of investment via global bond integrated fund after integrating foreign bond, emerging market bond, and GRC funds
2019	Start of investment via credit-focused fund, expansion to over 70% of domestic and foreign bond investment (total asset investment amount: 4,010 billion yen)
2020	Expansion to 80% of domestic and foreign bond investment (total asset investment amount: 5,330 billion yen)
2021	Initiation of low-risk investment of Portable Corporate Pensions
2022	Introduction of investment via In-house Bond II Fund after integrating benefits-exclusive, domestic-bond focused maturity, and foreign exchange funds

Investment scale

Started investment in April 1990
Approx. 5,266 billion yen as of March 31, 2024

Investment structure

General Manager of Pension Investment Department
Fixed Income, Foreign Exchange and Treasury Group: Comprising six in-house fund staff

[Group meeting]

At group meetings, the investment policy for the upcoming month (including investment environment analysis) is approved by the General Manager of the Pension Investment Department. Additionally, investment performance for the previous month is reported.

Attendees: General Manager of Pension Investment Department, Investment Management Group Leader, Fixed Income, Foreign Exchange and Treasury Group Leader and fund managers.

Investment approach and style

Domestic bond and global bond investment using specified trusts

Domestic bonds

▶ Active investments (In-house Bond I)

This is active investment with the Bloomberg Japanese Aggregate Index used as the benchmark.

We adopt medium- to long-term perspective while paying attention to the benchmark, and continuously endeavor to construct an optimal portfolio while balancing risk and return. In addition to controlling duration based on interest rate forecasts, we aim for excess returns relative to the benchmark by controlling the portfolio's composition in terms of maturities, bond types, etc.

▶ Absolute return investment (In-house Bond II and Portable Corporate Pensions)

This is an investment that seeks long-term absolute returns without being bound to a benchmark.

We adopt a medium- to long-term perspective while paying attention to the relationship between risk and return, and continue to construct an optimal portfolio that is focused on maturities.

We also employ this absolute return investment with bond investment for Portable Corporate Pensions, and with the aim of achieving an annual absolute return of 1.5% over the long term, we have also permitted investment in foreign bonds provided that foreign exchange risk is appropriately managed.

With in-house investment, we handle the receipt and payment of cash flows based on this investment approach, and also perform transition management, rebalancing, etc.

Foreign bonds

▶ Global bond investment

We aim for excess returns through active investment that takes liquidity into account and uses the FTSE World Government Bond Index (including Japan) as the benchmark.

▶ Credit-focused investment

With credit-focused investment, we aim for returns exceeding those of Japanese yen, U.S. dollar, and euro (5:3:2 allocation) long-term interest rate swaps by controlling credit risk through adjustment of the average credit rating of the portfolio, selecting securities with high carry and roll-down effects while considering transaction costs, etc., taking advantage of pricing differences between primary and secondary markets, and making valuation decisions that reflect bond attributes.

Fixed Income, Foreign Exchange and Treasury

In-house investment performance

PFA has been conducting in-house bond investment for more than 30 years since it began doing so in 1990, and since FY2000, when the investment structure was changed, it has earned stable excess returns mainly from active investment in domestic bonds. We im-

proved our investment structure in FY2006, and since then, except during the challenging period of the global financial crisis, excess returns have gradually but have recently leveled off due to declining interest rates.

In-house domestic bond fund investment performance

(Unit: %)

	FY					3-year average	5-year average	10-year average
	FY2019	FY2020	FY2021	FY2022	FY2023			
In-house Bond I	-0.27	-0.43	-1.02	-1.67	-1.83	-1.51	-1.04	0.64
Benchmark	-0.12	-0.84	-1.32	-1.54	-2.37	-1.74	-1.24	0.37
Excess return	-0.15	0.41	0.31	-0.13	0.54	0.24	0.20	0.27

*Returns for periods exceeding one year have been annualized

(Unit: %)

	FY					3-year average	5-year average	10-year average
	FY2019	FY2020	FY2021	FY2022	FY2023			
In-house Bond II	-0.28	-0.07	-0.86	-1.45	-1.64	-1.32	-0.86	0.86
Benchmark	-0.15	-0.10	-0.69	-1.25	-2.33	-1.42	-0.91	0.76
Excess return	-0.12	0.02	-0.17	-0.20	0.68	0.11	0.05	0.09

*Returns for periods exceeding one year have been annualized

Annual excess returns from In-house Bond I Fund, the flagship fund for in-house domestic bond investment, have averaged 0.27% over the past decade to FY2023, 0.20% over the past five years, and 0.24% over the past three years, demonstrating positive excess returns across all time frames. In-house Bond II Fund is affected by cash flows due to the receipt and payment of cash flows, has lower excess returns compared to In-house Bond I Fund. However, investment is aimed at absolute returns without being bound to a market benchmark, and the absolute level of portfolio returns is higher than that from In-house Bond I Fund over the medium to long term. Probable factors behind the stable excess returns from the domestic bond funds are the fact that

our relative value analytical capabilities and trading abilities have improved due to the enhancement of our investment structure, and the fact that we deployed an advanced risk management system in 2016. As a result, we have become able to make trading decisions such as adjustments to maturity composition more quickly and confidently.

Furthermore, in April 2021, we started in-house low-risk investment of Portable Corporate Pensions, which has allowed us to achieve more stable investment by controlling investment risk for Portable Corporate Pensions assets. In FY2023, the absolute return was -0.04%, and the average over the past three years was -0.02%.

In-house foreign bond fund investment performance

(Unit: %)

	FY					3-year average	5-year average	10-year average
	FY2019	FY2020	FY2021	FY2022	FY2023			
Global bonds	2.99	5.43	1.17	0.07	14.51	5.05	4.71	3.61
Benchmark	3.55	4.22	1.34	-0.82	12.76	4.26	4.11	3.08
Excess return	-0.56	1.21	-0.16	0.89	1.75	0.79	0.60	0.53

*Figures for FY2012 to FY2014 are for In-house Foreign Bond I, while figures for FY2015 onward are for in-house global bond integrated
*Returns for periods exceeding one year have been annualized

(Unit: %)

	FY					3-year average
	FY2019	FY2020	FY2021	FY2022	FY2023	
Credit-focused	-1.93	7.03	0.97	-0.41	9.55	3.28
Benchmark	2.05	0.79	-0.39	-0.06	6.95	2.11
Excess return	-3.97	6.24	1.36	-0.35	2.60	1.17

*Started investment in August 2019
*Returns for periods exceeding one year have been annualized

In-house global bond investment began with passive investment in December 2008. Later, from FY2010, we switched to active investment to leverage the know-how we had gained from domestic bond investment. Regarding investment results, thanks largely to the effects of adjustments to maturity composition based on relative value analysis, annual excess returns have averaged 0.53% over the past decade, 0.60% over the

past five years, and 0.79% over the past three years. As for credit-focused investment, which we began in August 2019, we invest globally, mainly in corporate bonds with high credit ratings, and we beat the benchmark, which is the return on Japanese yen, U.S. dollar, and euro (5:3:2 allocation) long-term interest rate swaps, by 2.60% in FY2023 and by 1.17% on average each year over the past three years.

2 Investment Managers

Determination of composition of investment managers

We conduct investigations of the desirable combination of investment managers for each investable asset based on investment style. After comprehensively taking into account factors such as appropriate amounts of assets entrusted for investment, we then determine the most appropriate composition of investment managers.

Evaluation and review of investment managers

For each investment manager, we perform continuous and consistent monitoring and evaluation for each asset by, for example, holding regular meetings. Specifically, we evaluate investment managers in a comprehensive manner, combining quantitative evaluation involving comparisons of performance with the benchmark and universe with qualitative evaluation, which is aimed at ascertaining whether the manager is investing in line with the investment policy and involves the eval-

uation of other aspects of their investment philosophy, approach, structure, etc.

Regarding the composition of investment managers, we endeavor to perform a comprehensive evaluation that combines quantitative and qualitative evaluation over as long a timeline as possible, and we conduct reviews as necessary, which may involve changing investment managers.

3 Investment Policy and Status of Domestic and Foreign Bond Portfolio

Regarding benchmarks for domestic and foreign bonds, a composite benchmark weighted at 65% for domestic bonds (Bloomberg Japanese Aggregate Index) and 35% for foreign bonds (FTSE World Government Bond Index (excluding Japan)) is used for Basic Pension, while the Bloomberg Japanese Aggregate Index alone (100% weighting) is used for Portable Corporate Pensions.

As for the domestic and foreign bond portfolio as a whole, investment is in accordance with internal guidelines that prescribe weights of 50% or less for foreign bonds and 60% or more for national government bonds (including yen cash), and foreign currency exposure of 50% or less for the domestic and foreign bond portfolio in the case of Basic Pension, and foreign cur-

rency exposure of 20% or less in the case of Portable Corporate Pensions. While benefiting from the risk premium from foreign bonds and maintaining the liquidity required for pension benefits, we also consider risks such as falls in bond prices and fluctuations in exchange rates, as we aim for a balanced investment that is not overly conservative.

Furthermore, we have set our target estimated tracking error for the domestic and foreign bond portfolio in the case of Basic Pension, at approximately 100 bps. Regarding the bond portfolio for Portable Corporate Pensions, we aim for a maximum annualized standard deviation in absolute returns of approximately 5%.

Investment performance and portfolio status for Basic Pension (domestic and foreign bond portfolio)

Investment performance

(Unit: %)

	FY					3-year average	5-year average	10-year average
	FY2019	FY2020	FY2021	FY2022	FY2023			
Domestic and foreign bond portfolio	0.51	3.31	0.00	-1.10	5.72	1.49	1.66	2.07
Benchmark	1.00	1.34	-0.16	-1.11	3.53	0.73	0.91	1.43
Excess return	-0.49	1.97	0.16	0.01	2.19	0.76	0.75	0.64

*Returns for periods exceeding one year have been annualized

Overview of portfolio

Currency allocation

(Unit: %)

	JPY	USD	EUR	GBP	CAD	AUD	Other	Residual
Portfolio	57.33	24.03	11.86	1.88	0.54	0.34	3.58	0.44
Benchmark	65.00	16.44	11.12	1.81	0.72	0.48	4.44	0.00
Active (portfolio minus benchmark)	-7.67	7.60	0.74	0.08	-0.17	-0.14	-0.86	0.44

Country allocation

(Unit: %)

	Japan	United States	France	Canada	United Kingdom	Spain	Italy	Other
Portfolio	67.95	11.66	2.55	1.72	1.48	1.38	1.26	12.00
Benchmark	64.77	16.52	2.88	0.72	1.81	1.70	2.53	9.08
Active (portfolio minus benchmark)	3.18	-4.86	-0.34	1.01	-0.33	-0.32	-1.26	2.92

Type allocation

(Unit: %)

	National government bonds	Corporate bonds	Government agency bonds, etc.	As-set-backed securities	Commercial mortgage-backed securities	Cash, etc.	Other
Portfolio	48.94	15.54	6.06	3.10	0.63	25.46	0.27
Benchmark	96.41	1.75	1.85	0.00	0.00	0.00	0.00
Active (portfolio minus benchmark)	-47.46	13.79	4.21	3.10	0.63	25.46	0.27

*Cash, etc. includes interest rate exposure from derivatives (futures and options)

Duration by maturity

(Unit: Years)

	2-year	5-year	10-year	30-year	Overall
Portfolio	0.23	1.80	5.40	0.83	8.26
Benchmark	0.34	2.27	3.63	1.98	8.23

Fixed Income, Foreign Exchange and Treasury

Duration by currency

(Unit: Years)

	JPY	USD	EUR	GBP	Other	Overall
Portfolio	5.39	1.36	0.96	0.18	0.37	8.26
Benchmark	5.91	0.99	0.83	0.18	0.34	8.23

Spread duration

(Unit: Years)

Portfolio	1.78
Benchmark	0.90

Yield with one-year holding period

(Unit: %)

Portfolio	2.96
Benchmark	2.07

Risk (standard deviation, annualized)

(Unit: %)

Portfolio	4.17
Benchmark	3.62

Estimated risk

(Unit: %)

Estimated tracking error	0.70
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Investment performance and portfolio status for Portable Corporate Pensions

Investment performance

(Unit: %)

	FY					3-year average	5-year average
	FY2019	FY2020	FY2021	FY2022	FY2023		
Domestic and foreign bonds (portable corporate pensions)	1.45	0.34	-2.06	-5.66	-1.42	-3.06	-1.50

*Returns for periods exceeding one year have been annualized

Overview of portfolio

Currency allocation

(Unit: %)

	JPY	USD	EUR	HUF	MXN	Other	Residual
Portfolio	97.63	4.68	1.80	1.09	1.07	-6.66	0.38

Country allocation

(Unit: %)

	Japan	Canada	Denmark	United States	Netherlands	France	Australia	Other
Portfolio	76.16	6.60	4.83	3.95	1.43	1.28	1.23	4.52

Type allocation

(Unit: %)

	National government bonds	Corporate bonds	Asset-backed securities	Government agency bonds, etc.	Cash, etc.	Other
Portfolio	47.24	17.91	6.36	4.47	24.14	-0.11

*Cash, etc. includes interest rate exposure from derivatives (futures and options)

Duration by maturity

(Unit: Years)

	2-year	5-year	10-year	30-year	Overall
Portfolio	0.27	2.57	6.50	0.63	9.98

Duration by currency

(Unit: Years)

	JPY	USD	EUR	AUD	Other	Overall
Portfolio	7.96	0.77	0.75	0.27	0.22	9.98

Spread duration

(Unit: Years)

Portfolio	1.51
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Yield with one-year holding period

(Unit: %)

Portfolio	1.08
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Risk (standard deviation, annualized)

(Unit: %)

Portfolio	3.72
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Private Equity

1 Principal Policy for Investment

In the Principal Policy for Investment of Pension Assets, we have positioned the objectives of private equity investment as follows and commenced investment in the fall of 2002.

“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.” (excerpt from the Principal Policy for Investment of Pension Assets, Pension Fund Association)

2 Overview of Private Equity Fund Investments

Private equity fund investment is an investment strategy centered on equity investment in unlisted companies and businesses. In addition to providing capital, it offers various management support from a medium- to long-term perspective to increase corporate value, ultimately generating returns through IPOs, sales to strategic M&A buyers, etc.

Each fund typically invests in various companies over three to five years and provides management support, etc. to each investee company for three to seven years before exiting. The funds are disbursed only when an

investee company is identified and a demand for funds arises (capital call method). The principal and returns of exited investments are usually distributed to investors on a case-by-case basis without reinvestment. Therefore, the investment balance of each fund gradually increases in the first half of the fund period (usually 10 to 12 years) and gradually decreases in the second half. Accordingly, by continuously making new commitments (investment pledges), it is possible to maintain exposure to the asset class in question and to develop a long-term investment program.

3 Investment Scheme

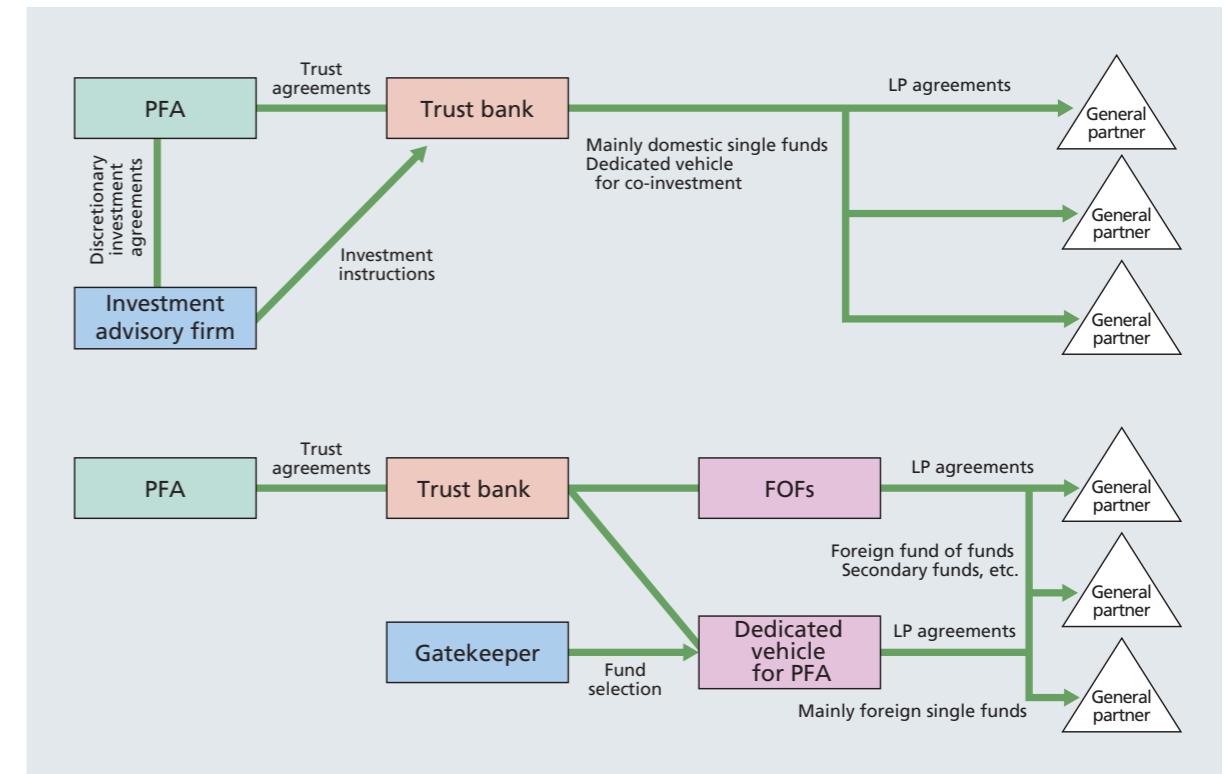
PFA invests in partnerships or so-called fund structures. Unlike most asset classes, private equity funds are offered on a cyclical basis typically every three to five years, and offering activities are conducted for a limited period. To maintain investment exposure for the medium to long term and achieve vintage diversification, we continuously make new commitments totaling around 100 billion yen each fiscal year to approximately 20 to 30 funds.

Investments in funds are made through trust banks and investment advisory firms, and in the selection of specific funds, we utilize gatekeepers specializing in private equity investments. In addition, PFA itself is in constant contact with a wide range of funds and conducts meetings (held a total of approximately 470 meetings in FY2023, including online), and for specific investment candidates, conducts thorough due diligence (scrutiny) as follows.

- ▶ Office visits and fund manager interviews
- ▶ Meetings with managers of investee companies and other institutional investors (reference checks)
- ▶ Scrutiny of various data (track record, etc.)
- ▶ Contract-related scrutiny, etc.

In this way, the fund selection process is structured to reflect the perspectives of multiple professionals, and PFA itself also conducts appropriate checks on this process.

Scheme overview



Private Equity

4 Current Status of Portfolio (Overview)

Current investment balance (as of March 31, 2024)

Market-value investment balance	¥1,060.4 bn
Unused commitment balance (Unfunded commitments)	¥465.0 bn

*Available data at base dates converted to Japanese yen at the exchange rates as of March 31

Commitment status

Type	Number of general partners
FOFs / Secondary / Co-investment Fund	18
Foreign single funds	88
Domestic single funds	37

*Current investment targets are mainly single funds, with approximately 90% of remaining commitments being single funds in separate accounts solely owned by PFA. Comingled funds of funds (FOFs) are used on a limited basis as a satellite strategy.

FY2023 return (JPY basis)

IRR	17.13%
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Details on performance are discussed below.

FY2023 cash flow

In FY2023, approximately 92.0 billion yen was newly invested (capital calls) and approximately 121.7 billion yen was received in distribution.

As a result of our long-term, continuous new commitment activities, we continue to make stable new investments, while distributions have also increased as our portfolio has matured. We are in a self-sustaining state in which we use the inflows of funds from distributions to fund new investments while maintaining the

balance of the overall private equity investment program at around the target allocation and generating returns. In general, despite the slowdown in exits due to sales of investee companies by funds and new public listings in 2022 and 2023, we were able to receive a wide range of distributions from our diversified portfolio, allowing us to continue to have positive cash flow as an investment program and remain self-sustaining.

5 Changes in Commitments and Vintage Year Diversification Status

Vintage year diversification status



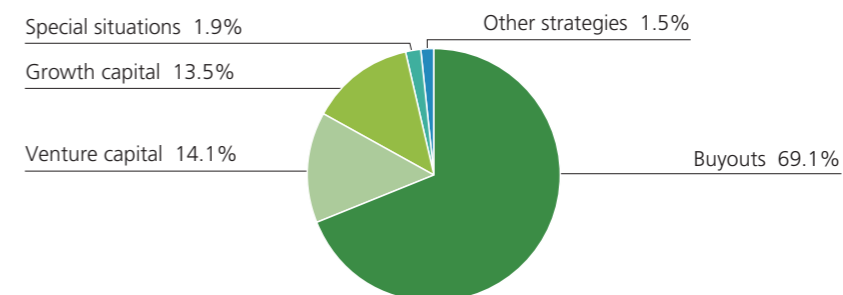
The above vintage years (investment years) are calculated based on the year in which the first capital call (start of investment) was actually made. In some cases, there is a time lag between timing of fund offering and decision-making for commitments and the actual start of investment. Thus, we carry out commitment activities while paying as much attention to diversification on an actual vintage-year basis as possible.

Since each fund invests in companies and business projects over about three to five years from the start of investment, the investment years based on investee projects will be further diversified for each vintage year over the next few years.

6 Strategic Diversification Status

Private equity investment strategies broadly include buyouts, venture capital, growth capital, mezzanine, distressed, and special situations.

Strategic diversification status (%NAV)



PFA has constructed a portfolio centered on buyout investments, taking into account risk-return characteristics and market depth, and has a policy of managing the portfolio within the following ranges. Each strategy tends to generate returns in different economic cycles, and we believe that combining them in a portfolio can provide a diversification benefit.

Buyouts (incl. growth opportunities)	60 to 80%
Venture (incl. growth opportunities)	15 to 20%
Other strategies (e.g., distressed, mezzanine)	5 to 10% (depending on investment opportunities)

Private Equity

7 Geographical Diversification Status

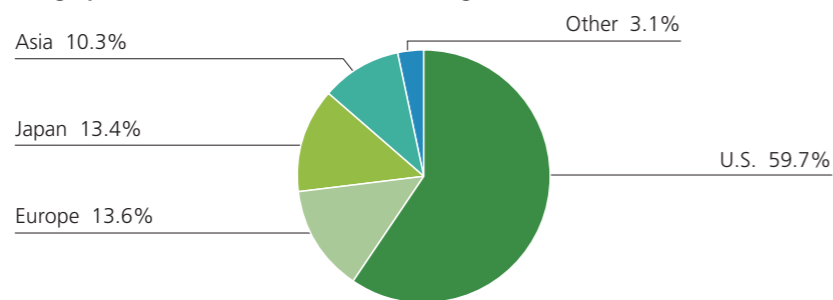
Although we are pursuing geographical diversification in reflection of the size of the global market, our portfolio is centered on the U.S. due to the depth of the market and the diversity of strategies and transactions.

The Japanese private equity market is relatively new, having only matured in the late 1990s, and remains a relatively small market by global standards. However, we are proactive in investing in Japan, as we believe that it is highly likely that we will be able to contribute to the growth and enhancement of the corporate value

of Japanese companies and that we can demonstrate our strengths as a Japanese investor in due diligence and post-investment monitoring.

In Asia and the rest of the world, there are countries/territories (Asia, Latin America, Africa, etc.) where private equity markets have developed in recent years along with economic development, and we also invest in these regions based on the recommendations of our gatekeepers.

Geographical diversification status (Percentage of Net Asset Value)



The portfolio is constructed by combining global funds as well as other funds, such as region- and country-focused funds. The allocation by country of the overall portfolio is generally based on the following range, however, investment opportunities vary depending on the timing of fund offerings, so this is only a guideline.

U.S.	50 to 65%
Europe	15 to 25%
Japan	10 to 25%
Asia / Other	10 to 20%

8 Status by Investment Type

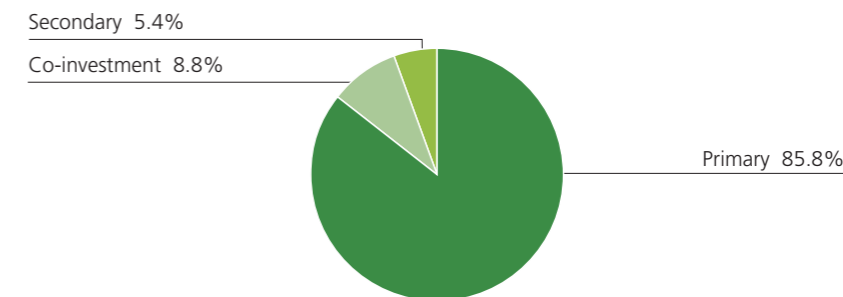
Primary and secondary

With regard to fund investments, we mainly participate in blind pool-type funds (primary) from the beginning when new funds are offered. This is to ensure that we can fully enjoy the expected returns throughout the entire fund period, and it is a portfolio approach premised on long-term investment.

At the same time, the secondary market has also developed significantly in recent years. We have been incorporating positions through secondary transactions as appropriate, since, in general, the impact of the

J-curve is small, and stable investment performance is expected from an early stage after investment. After the financial crisis in particular, we consciously increased the proportion of such positions, but many of these have been exited and distributed over the past few years, so our positions have declined slightly. When changes in the market environment disrupt the supply and demand balance, significant investment attractiveness can be generated. We intend to continue to seize such investment opportunities as appropriate.

Investment method diversification status (%NAV)



Direct co-investment

Direct co-investments, in which funds invest in individual projects alongside with fund managers (GPs: general partners), are expected to further improve portfolio returns by providing investment opportunities in blue-chip projects and reducing fees and other costs. As such, they have become increasingly popular in recent years, primarily among large-scale institutional investors such as pension funds and sovereign wealth funds around the world. PFA invests in "funds" that make direct co-investments.

In addition, PFA has established a direct co-investment fund exclusively for PFA (investment managers: Sumitomo Mitsui Trust Bank, Alternative Investment

Capital and Hamilton Lane). Co-investment opportunities are on the rise in the areas of domestic buyouts and growth capital, and PFA plans to invest in carefully selected blue-chip projects through these funds.

In direct co-investments, it is generally necessary to be aware of the risk of concentration on individual projects (the risk of concentrating investment in a specific company as a result), but PFA's private equity investment program is already large in scale in terms of actual investment and is sufficiently diversified, making it possible to further improve portfolio returns without bearing such risks.

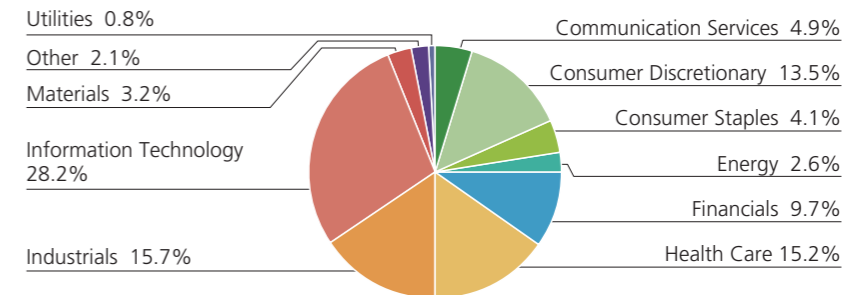
9 Sector Diversification Status

Although it depends on the investment strategy and fund size, each fund typically invests in around 10 to 15 companies. Among these, some funds are widely diversified across sectors, while others specialize in sectors in which they excel, such as energy, information technology (IT), and health care. The industry diversification of the overall portfolio is a bottom-up result of

each fund's investment in individual companies, and cannot be controlled in advance, but we take care to build a portfolio by combining sector-diversified and sector-specific funds to avoid excessively concentrating on a specific industry.

As shown in the graph below, the resulting portfolio is sector-diversified.

Sector diversification status (%NAV)



*Based on the market-value amount (NAV) (as of December 31, 2023)
*Classifications are based on the Global Industry Classification Standard (GICS), a widely used taxonomy for sector definitions

Private Equity

10 Performance

In FY2023, the time-weighted return for the entire private equity investment program in FY2023 was 16.89% (JPY basis). The listed stock market index for the same fiscal year was 40.12% for the MSCI-ACWI (dividend-included, net, JPY-converted).

The pooled IRR, calculated by combining all daily cash flows for the period, was 17.13% on a JPY basis. Public Market Equivalents (PME*, index used: MSCI-ACWI, dividend-included, net, JPY-converted) calculated using cash-flows during the period was 40.26%.

As shown in the table below, we continue to generate long-term alpha.

(Unit: %)

	FY2019	FY2020	FY2021	FY2022	FY2023
PFA's PE Investment Program: IRR (JPY basis)	10.80	18.83	55.24	3.90	17.13
Benchmark PME (MSCI-ACWI, dividend-included, JPY-converted)	-13.32	57.93	17.77	1.27	40.26
Alpha (vs. benchmark PME)	24.12	-39.10	37.47	2.63	-23.13

(Unit: %)

	3-year average (per annum)	5-year average (per annum)	10-year average (per annum)	From start of investment in October 2002 (per annum)
PFA's PE Investment Program: IRR (JPY basis)	24.14	20.18	18.18	15.09
Benchmark PME (MSCI-ACWI, dividend-included, JPY-converted)	18.43	18.02	12.82	11.77
Alpha (vs. benchmark PME)	5.72	2.16	5.36	3.32

*PME is defined in the Global Investment Performance Standards (GIPS®) as a comparative benchmark against the public equity market when measuring private equity performance and is a methodology widely used in the industry. It represents the internal rate of return (IRR) that would be achieved if a public equity index were traded with the exact same cash flows and timing as the private equity portfolio.

*Returns for periods exceeding one year have been annualized

Note that there is a time lag in private equity investment reports, and the market value as of March 31, which is the basis for this return measurement, is calculated based on the valuation data reported by each fund as of September 31, 2023 (some as of December 31, 2023), reflecting the impact of subsequent cash flows and exchange rate fluctuations.

A commonly used metric for measuring private equity investment performance is total value to paid-in capital (TVPI). This indicates how many times the investment capital (including fees and various expenses) has multiplied, taking into account the current valuation, and is calculated by dividing the sum of the distributed capital and the current residual value (NAV) by the investment capital. As of March 31, 2024, the TVPI for the overall private equity program was 1.89 times.

Hedge Funds

1 Principal Policy for Investment

PFA shall conduct hedge fund investments as a portion of the bond exposure for the purpose of stable acquisition of absolute returns (benchmark: Secured Overnight Financing Rate (SOFR)).

2 Investment Overview

The hedge fund balance at the end of FY2023 was 1,034.6 billion yen, accounting for 7.9% of assets associated with Basic Pension. Portable Corporate Pensions came to 71.3 billion yen, accounting for 12.9% of assets associated with Portable Corporate Pensions. The total number of investee hedge funds stood at 96.

Changes in performance

(As of March 31, 2024, USD basis) (Unit: %)

	FY2021		FY2022		FY2023		3-FY average (per annum)	
	Return	Excess return	Return	Excess return	Return	Excess return	Return	Excess return
Basic Pension	4.59	4.39	6.01	2.66	10.19	4.80	6.90	3.94
Benchmark 3M Libor (USD) / SOFR (from Apr. 2023)	0.20		3.35		5.39		2.96	
Portable Corporate Pensions	4.96	4.76	5.58	2.23	8.89	3.50	6.46	3.50
Benchmark 3M Libor (USD) / SOFR (from Apr. 2023)	0.20		3.35		5.39		2.96	

*Returns for periods exceeding one year have been annualized

Investment managers

(Unit: Million dollars)

	Investment manager (Advisor)	Subcontractor (Sub-advisor)	Benchmark	Start of investment	Term-end balance
Basic Pension	Franklin Templeton Japan	K2/D&S Management	SOFR	April 2018	1,724
	Goldman Sachs Asset Management	Goldman Sachs Hedge Fund Strategies	SOFR	April 2018	1,502
	Russell Investments	Russell Investments Management	SOFR	April 2018	592
	Tokio Marine Asset Management	—	SOFR	April 2010	1,392
	Tokio Marine Asset Management	abrdrn Inc.	SOFR	August 2010	1,714
	Other (Securitized assets and cash investments)		SOFR		2
	Total hedge fund investments		SOFR		6,926
Portable	Tokio Marine Asset Management	abrdrn Inc.	SOFR	March 2014	478

3 Investment Scheme

The investment structure consists of an investment scheme in which PFA opens an account with an asset management trust bank, concludes a discretionary pension investment agreement (or pension trust agreement) with an investment manager (advisor), and then outsources fund selection, portfolio construction, ongoing monitoring, risk management, etc. for each

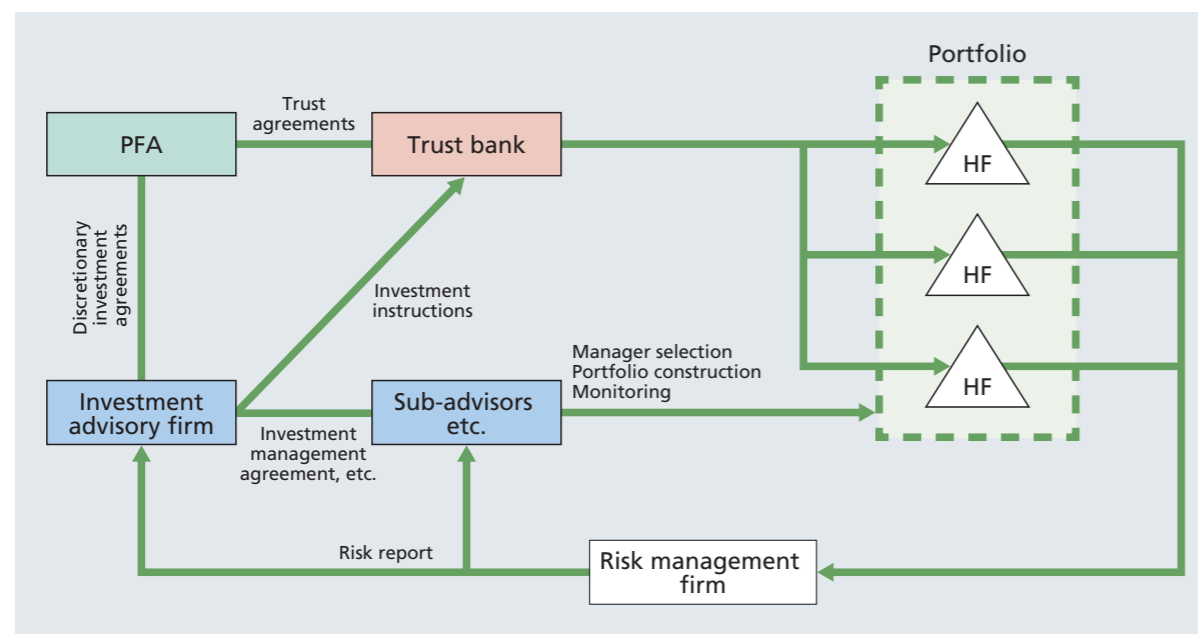
program, mainly to overseas sub-advisors. By diversifying investments through multiple investment managers and implementing the above-mentioned risk management and monitoring to manage the overall risk of the program, PFA aims to curb overall risk and conduct investments efficiently.

Hedge Funds

When conducting program investments, it is extremely important to understand risk and return through the continuous monitoring of individual funds, as well as to implement risk management for the entire program.

Therefore, PFA has employed Albourne Partners and MSCI to monitor risk exposure metrics, key risk factors, and other relevant indicators, as well as stress test figures for the entire program on a monthly basis.

Example of PFA's hedge fund (HF) investment structure



Advisors and sub-advisors

K2/D&S Management Co., LLC
 Founded in 1994. An investment advisory firm under the Franklin Templeton Group. The amount of assets under management is approximately 10.2 billion dollars. Its main business is multi-manager investments of alternative assets, primarily hedge funds. The firm has 49 employees (including 21 specialists in research, portfolio management, etc.). Headquartered in Stamford, Connecticut, USA, it has investment bases in New York and Fort Lauderdale. The firm also has sales offices in London and other locations.

Goldman Sachs Asset Management (GSAM)
 Established in 1988 as the investment management division of Goldman Sachs (established in 1869) and founded as a company in 1989. GSAM has total assets of approximately 2,568.5 billion dollars. Its asset management services include equities, bonds, real estate, hedge funds, and private equity. The firm has 2,534 employees. Headquartered in New York, USA, and bases in Tokyo and other major cities around the world.

Russell Investment Group
 Founded in 1936. A comprehensive asset management provider with investment institution research as its core business. It manages approximately \$302.7 billion in assets and provides asset management and investment advisory services for equities, bonds, hedge funds, etc., and has 1,371 employees. Headquartered in Seattle, Washington, USA, it has bases in major cities around the world.

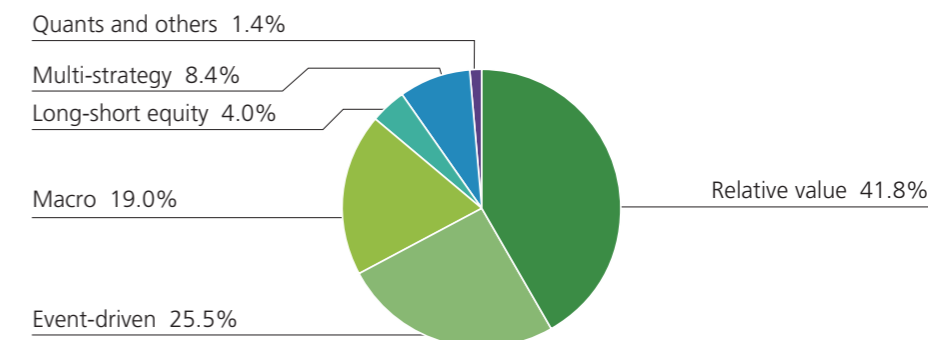
abrdn Inc.
 abrdn Inc. is a U.S.-based subsidiary of abrdn plc, a global investment company headquartered in Edinburgh, Scotland. abrdn plc was formed in August 2017 through the merger of UK-based Standard Life plc and Aberdeen Asset Management PLC. abrdn plc manages approximately \$472.8 billion in assets and employs 4,611 staff members worldwide.

Tokio Marine Asset Management Co., Ltd.
 Tokio Marine Group's asset management company headquartered in Tokyo. Established in 1985 and merged with Tokio Marine Property Investment Management in October 2016. It has assets under management of about 9,900 billion yen, and 399 officers and employees.

4 Overview of Portfolio

By combining event-driven and relative value strategies with portfolio hedging, PFA aims to generate stable absolute returns via a portfolio with reduced volatility.

Investment strategy allocation as of March 31, 2024



5 Advisor Selection Process

As mentioned above, sub-advisors specializing in hedge funds handle hedge fund selection and portfolio management for each program.

PFA regularly conducts quantitative and qualitative evaluations of the advisors and sub-advisors it employs.

Furthermore, PFA carries out thorough checks of investment details, including through close contact with these advisors, visits individual investee hedge funds (or investee candidates) to the extent possible, and strives to strengthen investment monitoring through subsequent communication.

Real Estate

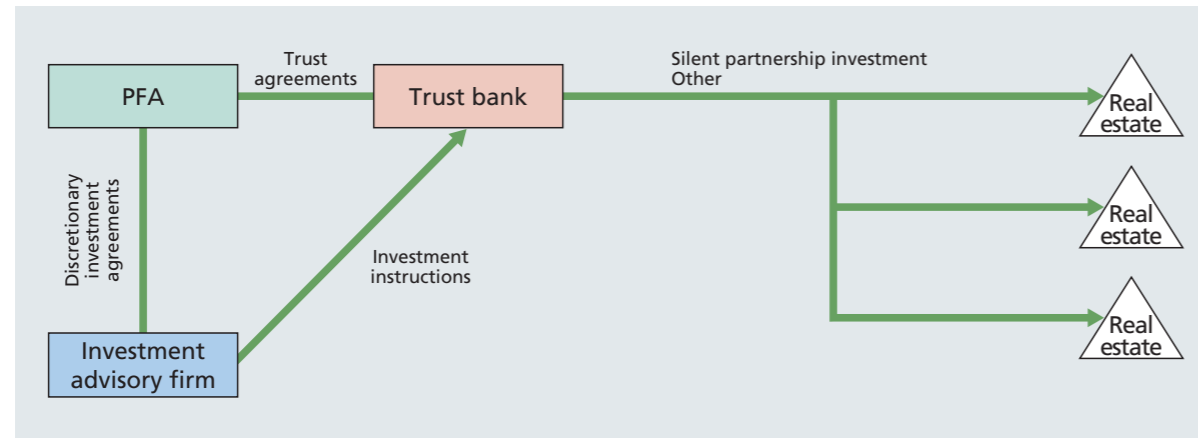
1 Principal Policy for Investment

PFA shall invest in real estate as a portion of the bond exposure with the primary purpose of acquisition of long-term income gains (rental income, etc.). (“Principal Policy for Investment of Pension Assets”)

2 Investment Method

Investments are entrusted either to trust banks through pension trust agreements or to investment advisory firms through discretionary investment agreements. With regards to entrusting investments, PFA creates investment guidelines that stipulate investment methods, and also carefully monitors the investment performance of each investment project continuously.

As of March 31, 2024, PFA entrusts to five external investment managers in total: One trust bank (Mizuho Trust & Banking) and four investment advisory firms (DBJ Asset Management, Tokio Marine Asset Management, Mitsubishi Jisho Investment Advisors, and Mitsui Fudosan Investment Advisors).



3 Investment Targets

PFA's basic investment strategy is to acquire long-term stable income gains based on rental income from high-quality real estate assets. We invest in real estate expected to maintain stable occupancy rates mainly for large-scale office buildings and rental housing and other properties, which are located in areas where stable demand is expected over the long term.

Investments are mainly carried out in the form of equity investments related to investable real estate (trust beneficiary rights, silent partnership investments, preferred investments in specified purpose companies, etc.), in addition to debt investments, private placement funds, investment in listed investment corporations (REITs), etc.

4 Summary of Investments

The majority of the investment properties currently held are new investments made in and after 2010, following the global financial crisis, and investment performance remains stable. In FY2023, the investment yield came to 3.95% on a time-weighted rate of return.

The total investment balance as of March 31, 2024, was approximately 114.1 billion yen, the majority of which is invested in office buildings and rental housing in the 23 wards of Tokyo.

We are continuing to build our portfolio in line with the aforementioned investment policy.

Time-weighted rate of return (Overall real estate investment)

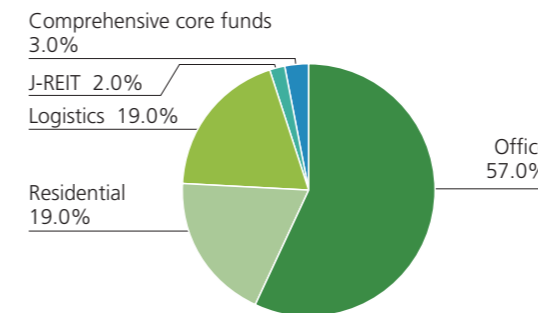
FY2023	3.95%
3-year average	6.11%
5-year average	6.78%

*Returns for periods exceeding one year have been annualized

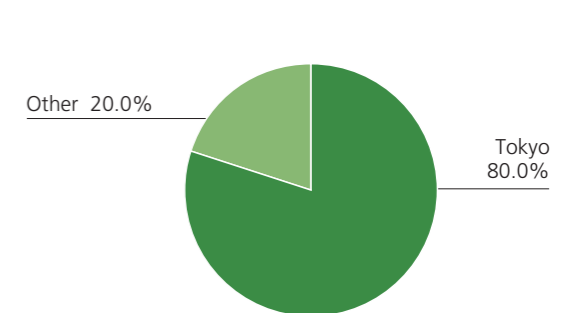
5 Current Status of Real Estate Investment Portfolio (as of March 31, 2024)

- ▶ The current real estate portfolio consists mainly of office buildings, residential properties, and logistics facilities.
- ▶ Office and residential assets are located in the 23 wards of Tokyo, with the majority of assets in the three central wards (Chiyoda Ward, Chuo Ward, and Minato Ward).

Asset type



Region



Infrastructure & Income Investments

1 Principal Policy for Investment

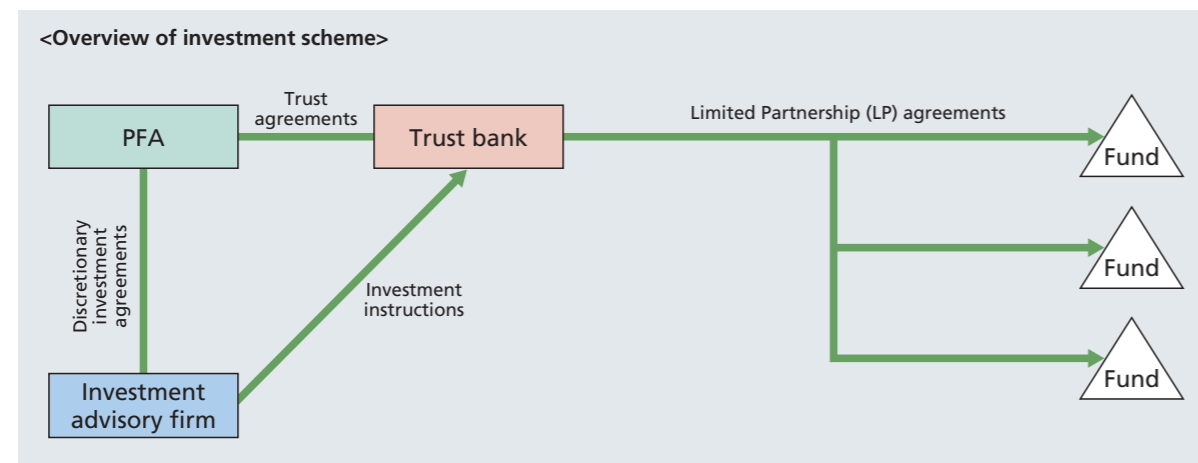
PFA shall make infrastructure investments and stable income investments as part of its bond exposure for the primary purpose of acquisition of long-term income gains.

PFA started making infrastructure investments in November 2011, and stable income investments in No-

vember 2016. Taking advantage of the characteristics of pension assets that enable ultra-long-term investment, PFA shall invest in diverse and attractive assets that have low liquidity but can generate stable cash flows, while also taking risks into consideration.

2 Investment Method

Infrastructure and income investments primarily involve investing in assets that can generate stable cash flows through funds. In doing so, the investment manager (investment advisory firm) conducts thorough due diligence and makes the investment in accordance with the Principal Policy for Investment.



3 Investment Targets

- Infrastructure equity
- Infrastructure mezzanine
- Infrastructure debt
- Direct lending
- Loyalty strategy
- Asset lease (e.g., aircraft leasing)
- Insurance-related investment
- Agriculture and forestry investment
- Other finance, etc.

For assets other than those above, we plan to gradually invest in assets that are superior in terms of risk and return and that meet our investment purposes.

4 Summary of Investments

In FY2023, we conducted careful reviews and monitoring of our funds. The investment asset balance as of March 31, 2024, was 188.9 billion yen. We will continue to build our portfolio in accordance with the aforementioned Principal Policy for Investment.

Investment returns (as of March 31, 2024, JPY basis)(Annualized since inception)

Basic Pension		Portable Corporate Pensions	
Infrastructure investments	Stable income investments	Infrastructure investments	Stable income investments
IRR: 10.1%, ROI: 1.70x	IRR: 13.3%, ROI: 1.42x	IRR: 9.3%, ROI: 1.26x	IRR: 12.5%, ROI: 1.45x

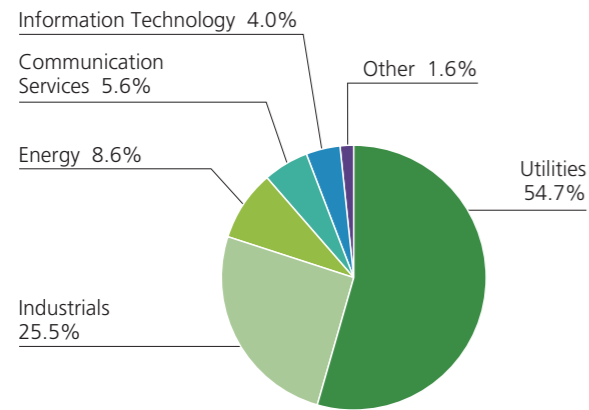
Infrastructure & Income Investments

Overall diversification (as of March 31, 2024, JPY basis)

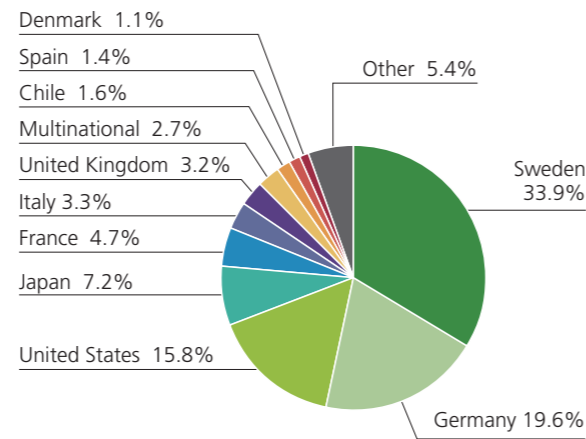
Basic pension

Infrastructure

By industry

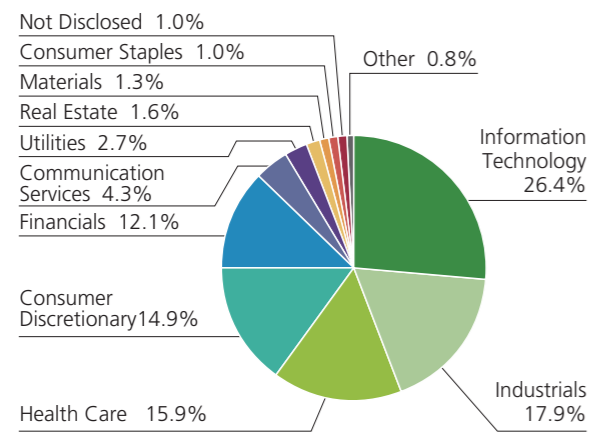


By region

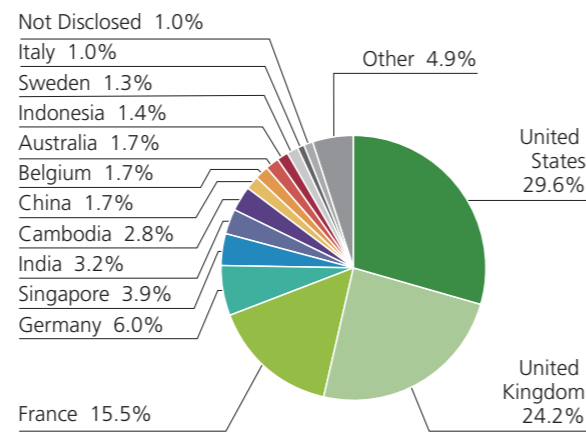


Stable income

By industry



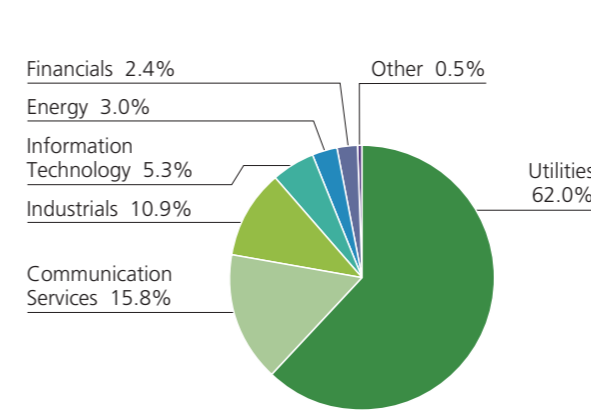
By region



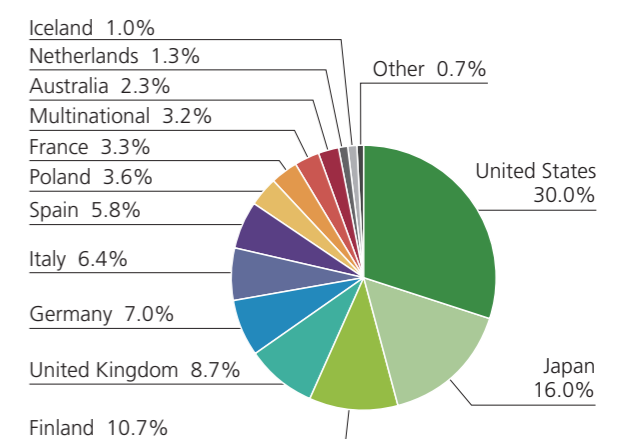
Portable corporate pensions

Infrastructure

By industry

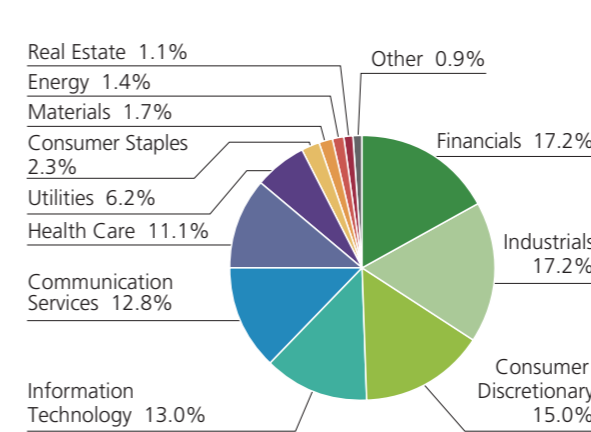


By region

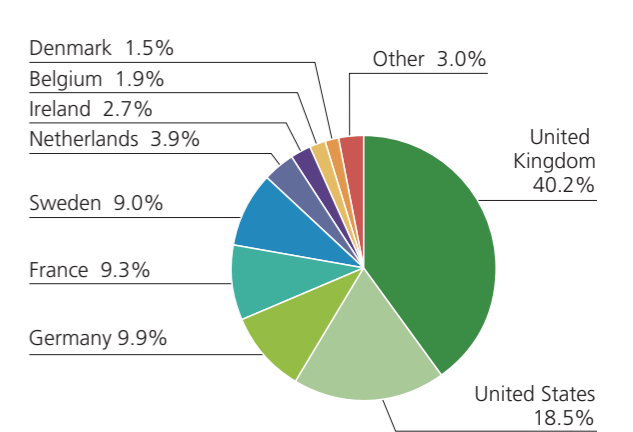


Stable income

By industry



By region



Administration

1 Aggregate Investment Overview

A total of 131 funds are managed as pension assets of PFA, including in-house investments and externally managed investments (as of March 31, 2024).

As part of the administration duties of the Investment Management Group, the performance of overall investment assets (market value of the asset balance and returns) is aggregated on a daily and monthly basis and reported to PFA. In addition, in accordance with the relevant laws and regulations, we submit an "Asset Management Report on the Management and Invest-

ment of Pension Benefits Reserves and of Reserves" to the Ministry of Health, Labour and Welfare every fiscal year.

Moreover, the valuation of fixed assets, along with investment income and expenses, is compiled for the three pension accounts (employees' pension funds basic benefit account, employees' pension funds added benefit account, and defined-benefit type corporate pensions account) to create the basic data for PFA's budget and financial results.

2 Asset Custodians and Investment Managers

All investment assets are entrusted to asset custodians. In addition to pension trusts in which both asset management and investment are entrusted to the same trust bank, there are specified pension trusts in which asset management is entrusted to a trust bank and investment is entrusted to a discretionary investment manager.

Asset balance by asset custodian (as of March 31, 2024)

	Asset balance (Million yen)	Ratio (%)
Pension trust		
Mitsubishi UFJ Trust and Banking Corporation	729,252	5.4
Mizuho Trust & Banking Co., Ltd.	270,006	2.0
Sumitomo Mitsui Trust Bank, Limited	32,244	0.2
Subtotal	1,031,501	7.6
Specified pension trust		
The Master Trust Bank of Japan, Ltd.	9,519,192	70.0
Custody Bank of Japan, Ltd.	1,859,204	13.7
Mizuho Trust & Banking Co., Ltd.	1,185,578	8.7
Subtotal	12,563,974	92.4
Total	13,595,475	100.0

*Figures for specified pension trusts at Mizuho Trust & Banking include Joint Investment Scheme assets

More than 90% of PFA's investment assets are managed as specified pension trusts. The Master Trust Bank of Japan (MTBJ) is primarily entrusted with the management of foreign currency-denominated assets and in-house bond funds (domestic and foreign bonds), and has the largest balance of assets under management. Mizuho Trust & Banking, as an asset custodian, is entrusted with the management of domestic equities and bonds managed in-house and domestic equities managed externally, as well as Portable Corporate Pensions (including Joint Investment Scheme). The Custody Bank of Japan (CBJ) is entrusted with the management of domestic equities and

bonds managed in-house, as well as externally managed domestic equities and real estate assets.

The selection of asset custodians for specified pension trusts is determined based on a comprehensive assessment of fundamental factors such as soundness of management and administrative capabilities, as well as the efficiency of administrative procedures such as in-kind transfers and fund transfers between in-house investments.

The asset balances for each investment manager are as shown in the "List of investment managers" on the next page.

List of investment managers (Basic Pension)

(Unit: Million yen)

Asset class	Investment manager	Subcontractor, etc.	Asset custodian	Balance as of March 31, 2024	
Domestic equities	Russell Investments Japan Co., Ltd.	Multi-manager	The Master Trust Bank of Japan, Ltd.	283,314	
	Russell Investments Japan Co., Ltd.	Orbis	The Master Trust Bank of Japan, Ltd.	243,954	
	Capital International KK		Mizuho Trust & Banking Co., Ltd.	204,994	
	Sumitomo Mitsui DS Asset Management Company, Limited		Custody Bank of Japan, Ltd.	202,952	
	Tokio Marine Asset Management Co., Ltd.		Mizuho Trust & Banking Co., Ltd.	115,211	
	T. Rowe Price Japan, Inc.		The Master Trust Bank of Japan, Ltd.	77,134	
	Mizuho Trust & Banking Co., Ltd.	Nuveen	–	54,894	
	Russell Investments Japan Co., Ltd.	NVIC	Custody Bank of Japan, Ltd.	54,565	
	Sompo Asset Management Co., Ltd.		Mizuho Trust & Banking Co., Ltd.	47,446	
	Mitsubishi UFJ Trust and Banking Corporation	Baillie Gifford	The Master Trust Bank of Japan, Ltd.	43,857	
	Nissay Asset Management Corporation		Mizuho Trust & Banking Co., Ltd.	36,088	
	Natixis Investment Managers Japan Co., Ltd.	Harris	Mizuho Trust & Banking Co., Ltd.	36,012	
Externally managed investments	Sumitomo Mitsui Trust Bank, Limited		The Master Trust Bank of Japan, Ltd.	489,886	
	Russell Investments Japan Co., Ltd.	Multi-manager	The Master Trust Bank of Japan, Ltd.	372,955	
	Wellington Management Japan Pte Ltd.		The Master Trust Bank of Japan, Ltd.	153,112	
	Mitsubishi UFJ Trust and Banking Corporation	Sanders	The Master Trust Bank of Japan, Ltd.	143,706	
	Russell Investments Japan Co., Ltd.	Arrowstreet	The Master Trust Bank of Japan, Ltd.	101,795	
	Russell Investments Japan Co., Ltd.	GQG	The Master Trust Bank of Japan, Ltd.	97,454	
	Natixis Investment Managers Japan Co., Ltd.	Harris	The Master Trust Bank of Japan, Ltd.	85,214	
	Mitsubishi UFJ Trust and Banking Corporation	Jennison	The Master Trust Bank of Japan, Ltd.	84,276	
	Russell Investments Japan Co., Ltd.	Jacobs Levy	The Master Trust Bank of Japan, Ltd.	79,617	
	Russell Investments Japan Co., Ltd.	Arrowstreet	The Master Trust Bank of Japan, Ltd.	71,599	
	Sumitomo Mitsui Trust Bank, Limited		The Master Trust Bank of Japan, Ltd.	71,004	
	Mizuho Trust & Banking Co., Ltd.	Polaris	–	60,238	
	Russell Investments Japan Co., Ltd.	GQG	The Master Trust Bank of Japan, Ltd.	60,237	
	Mitsubishi UFJ Trust and Banking Corporation	Brown Advisory	The Master Trust Bank of Japan, Ltd.	56,322	
	Russell Investments Japan Co., Ltd.	Hosking	The Master Trust Bank of Japan, Ltd.	47,512	
	Mitsubishi UFJ Trust and Banking Corporation	Sound Shore	The Master Trust Bank of Japan, Ltd.	47,256	
	Foreign equities	Mitsubishi UFJ Trust and Banking Corporation	Jennison	The Master Trust Bank of Japan, Ltd.	38,109
		Mitsubishi UFJ Trust and Banking Corporation	Sands	The Master Trust Bank of Japan, Ltd.	37,405
		Mizuho Trust & Banking Co., Ltd.	Comgest	–	36,381
		Schroder Investment Management (Japan) Limited		The Master Trust Bank of Japan, Ltd.	36,181
		Mitsubishi UFJ Trust and Banking Corporation	Baillie Gifford	The Master Trust Bank of Japan, Ltd.	33,509
		Mizuho Trust & Banking Co., Ltd.	Donald Smith	–	31,491
		Russell Investments Japan Co., Ltd.	Brandywine	The Master Trust Bank of Japan, Ltd.	31,404
		Mizuho Trust & Banking Co., Ltd.	Alken	–	29,227
		UBS Asset Management (Japan) Ltd		The Master Trust Bank of Japan, Ltd.	20,231
		Mizuho Trust & Banking Co., Ltd.	Southeastern	–	16,025
		Russell Investments Japan Co., Ltd.	Oaktree	The Master Trust Bank of Japan, Ltd.	15,607
		Mitsubishi UFJ Trust and Banking Corporation	Coronation	The Master Trust Bank of Japan, Ltd.	12,132
		Mizuho Trust & Banking Co., Ltd.	JOHambro	–	11,310
		Russell Investments Japan Co., Ltd.	Transition management	The Master Trust Bank of Japan, Ltd.	412
Mizuho Trust & Banking Co., Ltd.		Ardevora	–	91	
AllianceBernstein Japan Ltd.			The Master Trust Bank of Japan, Ltd.	68	
Mizuho Trust & Banking Co., Ltd.		William Blair	–	23	

Administration

List of investment managers (Basic Pension)

(Unit: Million yen)

	Asset class	Investment manager	Subcontractor, etc.	Asset custodian	Balance as of March 31, 2024
Externally managed investments	Domestic bonds	Tokio Marine Asset Management Co., Ltd.		The Master Trust Bank of Japan, Ltd.	156,043
		PIMCO Japan Ltd		The Master Trust Bank of Japan, Ltd.	104,542
		Manulife Investment Management (Japan) Limited		The Master Trust Bank of Japan, Ltd.	96,936
		BlackRock Japan Co., Ltd.		The Master Trust Bank of Japan, Ltd.	82,169
		PIMCO Japan Ltd		The Master Trust Bank of Japan, Ltd.	70,595
		Lombard Odier Trust (Japan) Limited	AIM	The Master Trust Bank of Japan, Ltd.	16,726
	Foreign bonds	PGIM Japan Co., Ltd.		The Master Trust Bank of Japan, Ltd.	257,666
		BlackRock Japan Co., Ltd.		The Master Trust Bank of Japan, Ltd.	184,900
		Goldman Sachs Asset Management Co. Ltd.		The Master Trust Bank of Japan, Ltd.	152,969
		Asahi Life Asset Management Co., Ltd.	Loomis Sayles	The Master Trust Bank of Japan, Ltd.	117,513
		Neuberger Berman East Asia Limited		The Master Trust Bank of Japan, Ltd.	72,682
		Guggenheim Partners Japan Limited		The Master Trust Bank of Japan, Ltd.	69,451
	PE	Mitsubishi UFJ Trust and Banking Corporation		-	729,252
		Alternative Investment Capital Limited		The Master Trust Bank of Japan, Ltd.	300,178
		Sumitomo Mitsui Trust Bank, Limited		-	32,244
	HF	Franklin Templeton Japan Co., Ltd.	K2	The Master Trust Bank of Japan, Ltd.	257,733
		Tokio Marine Asset Management Co., Ltd.	abrdn	The Master Trust Bank of Japan, Ltd.	254,804
		Goldman Sachs Asset Management Co. Ltd.		The Master Trust Bank of Japan, Ltd.	224,341
		Tokio Marine Asset Management Co., Ltd.		The Master Trust Bank of Japan, Ltd.	209,237
		Russell Investments Japan Co., Ltd.		The Master Trust Bank of Japan, Ltd.	88,173
		Tokio Marine Asset Management Co., Ltd.		The Master Trust Bank of Japan, Ltd.	270
		GCM Investments Japan K.K.		The Master Trust Bank of Japan, Ltd.	0
	Real estate	DBJ Asset Management Co., Ltd.		Custody Bank of Japan, Ltd.	39,955
		Mitsubishi Jisho Investment Advisors, Inc.		The Master Trust Bank of Japan, Ltd.	20,049
		Mizuho Trust & Banking Co., Ltd.		-	13,325
		Mizuho Trust & Banking Co., Ltd.		-	10,448
		Mitsui Fudosan Investment Advisors, Inc.		Custody Bank of Japan, Ltd.	7,766
Mizuho Trust & Banking Co., Ltd.			-	4,818	
Infrastructure & Income	Alternative Investment Capital Limited		The Master Trust Bank of Japan, Ltd.	96,457	
	Alternative Investment Capital Limited		The Master Trust Bank of Japan, Ltd.	43,542	
In-house investments	Domestic equities	In-house Equity I		Custody Bank of Japan, Ltd.	387,447
		In-house Equity II		Mizuho Trust & Banking Co., Ltd.	198,322
	Domestic bonds	In-house Bond II		The Master Trust Bank of Japan, Ltd.	1,672,599
		In-house Bond I		Custody Bank of Japan, Ltd.	1,166,519
	Foreign bonds	In-house Foreign Bond III		The Master Trust Bank of Japan, Ltd.	1,966,227
		In-house Credit-Focused		The Master Trust Bank of Japan, Ltd.	169,141
	Other	In-house Foreign Exchange 3		The Master Trust Bank of Japan, Ltd.	1,454
		In-house Foreign Exchange 2		The Master Trust Bank of Japan, Ltd.	864
		In-house Foreign Exchange 1		The Master Trust Bank of Japan, Ltd.	-3,332
		In-house Deposit & Withdrawal T		Mizuho Trust & Banking Co., Ltd.	1
		In-house Deposit & Withdrawal M		The Master Trust Bank of Japan, Ltd.	1
In-house Deposit & Withdrawal J			Custody Bank of Japan, Ltd.	0	

List of investment managers (Portable Corporate Pensions + Joint Investment Scheme)

(Unit: Million yen)

	Asset class	Investment manager	Subcontractor, etc.	Asset custodian	Balance as of March 31, 2024
Externally managed investments	Foreign equities	Russell Investments Japan Co., Ltd.	Multi-manager	Mizuho Trust & Banking Co., Ltd.	69,068
		BlackRock Japan Co., Ltd.		Mizuho Trust & Banking Co., Ltd.	23,741
	Foreign bonds	BlackRock Japan Co., Ltd.		Mizuho Trust & Banking Co., Ltd.	12,720
		Neuberger Berman East Asia Limited		Mizuho Trust & Banking Co., Ltd.	12,145
	HF	Tokio Marine Asset Management Co., Ltd.	abrdn	Mizuho Trust & Banking Co., Ltd.	71,325
	Real estate	Mizuho Trust & Banking Co., Ltd.		Mizuho Trust & Banking Co., Ltd.	12,407
Tokio Marine Asset Management Co., Ltd.			Mizuho Trust & Banking Co., Ltd.	3,585	
Infrastructure & Income		Alternative Investment Capital Limited		Mizuho Trust & Banking Co., Ltd.	28,230
In-house investments	Domestic bonds	In-house Bond I		Mizuho Trust & Banking Co., Ltd.	191,652
		Other	In-house Foreign Exchange 1		Mizuho Trust & Banking Co., Ltd.
	In-house Foreign Exchange 2			Mizuho Trust & Banking Co., Ltd.	725
	In-house Foreign Exchange 3			Mizuho Trust & Banking Co., Ltd.	583
	In-house Deposit & Withdrawal			Mizuho Trust & Banking Co., Ltd.	0
	Domestic bonds	In-house Bond - Additional		Mizuho Trust & Banking Co., Ltd.	99,886

*The “-” symbol indicates that the asset is managed under a pension trust, where custody and investment management are conducted by the same entity; the remainder are specified pension trusts.

3 Fees

Trust fees and investment advisory fees related to pension asset investment are paid from trust assets in May and November each year. Payment processing is carried out after verifying the billing information received from asset custodians and investment managers.

Basic Pension portfolio

FY2023 fees		
Total fees (including consumption tax)		¥21.92 bn
	Pension trust	¥0.38 bn
	Specified trusts	¥1.32 bn
	Investment advisor	¥20.21 bn
Fee rate		17.9 bp

Portable Corporate Pensions portfolio (including Joint Investment Scheme)

FY2023 fees		
Total fees (including consumption tax)		¥0.68 bn
	Investment advisor	¥0.68 bn
Fee rate		15.8 bp

*In addition to the above, trust fees of 52 million yen have been paid (including consumption tax) in connection with PFA's investment units and In-house Bond Funds

Administration

4 Asset Transfers

Fund transfers associated with cash flows from pension benefits, etc., in-kind transfers, such as asset transfers related to new contracts and cancellations, rebalancing, fund settlement, capital calls, and other transfers between funds occur constantly regardless of whether the assets are denominated in yen or foreign currencies. The Investment Management Group gives instructions to the asset custodian (trust bank) on the management of such transfers and also communicates with the investment manager.

	FY2021	FY2022	FY2023
Number of transfers	119	121	97

5 Contract Management

Since we make revisions to investment managers as necessary, administrative work related to new contracts and cancellations occurs throughout the year. Changes are also made to agreement terms for investment fees, etc. We conduct unified management of all new contracts, and contract cancellations and amendments, regardless of asset class.

	FY2021	FY2022	FY2023
Number of new contracts and account openings	2	4	7
Number of contract cancellations and account closures	5	6	4

6 External Cash Flow Management

We constantly monitor changes in the principal of pension assets (external cash flow), such as benefit payments, monies received and transferred, and grants from dissolved funds and terminated DBs, and share the status of cash flows within the department.

7 List of External Investment Consultants

External investment consultants
Towers Watson Investment Services K.K.
Russell Investments Japan Co., Ltd.
Mercer Japan Ltd.

4 Litigation Related to Pension Assets

PFA has filed lawsuits seeking damages with the aim of recovering losses incurred in the investment of pension assets. As of March 31, 2024, the cases currently under litigation are as follows (the names and amounts claimed are as of the time of filing the lawsuit).

Volkswagen	Deutsche Bank
Lawsuit filed : March (September) 2016	Lawsuit filed : December 2017
Plaintiff : The Master Trust Bank of Japan, Ltd. : Trust & Custody Services Bank, Ltd.	Plaintiff : The Master Trust Bank of Japan, Ltd.
Defendant : Volkswagen AG (Germany)	Defendant : Deutsche Bank AG (Germany)
Court : Braunschweig Higher Regional Court (Germany)	Court : Cologne Higher Regional Court (Germany)
Legal counsel, etc. : Grant & Eisenhofer : DRRT : Claims Funding Europe	Legal counsel, etc. : Kessler Topaz Meltzer & Check : Grant & Eisenhofer
Claim amount : Approx. €26 million	Claim amount : Approx. €0.5 million
Porsche	BHP Billiton
Lawsuit filed : September 2016	Lawsuit filed : May 2018
Plaintiff : The Master Trust Bank of Japan, Ltd. : Trust & Custody Services Bank, Ltd.	Plaintiff : The Master Trust Bank of Japan, Ltd.
Defendant : Porsche Automobil Holding SE (Germany)	Defendant : BHP Billiton Limited (Australia)
Court : Stuttgart Higher Regional Court (Germany)	Court : Federal Court of Australia (Australia)
Legal counsel, etc. : Grant & Eisenhofer : DRRT : Claims Funding Europe	Legal counsel, etc. : Kessler Topaz Meltzer & Check : Grant & Eisenhofer
Claim amount : Approx. €5 million	Claim amount : Approx. US\$5 million
Danske Bank	
Lawsuit filed : March 2019	
Plaintiff : The Master Trust Bank of Japan, Ltd. : Trust & Custody Services Bank, Ltd.	
Defendant : Danske Bank A/S (Denmark)	
Court : Copenhagen District Court (Denmark)	
Legal counsel, etc. : Grant & Eisenhofer : DRRT	
Claim amount : Approx. US\$1 million	

■ Administration

Each of the following cases has been settled.

Steinhoff	
Lawsuit filed	: December 2019
Plaintiff	: The Master Trust Bank of Japan, Ltd. : Mizuho Trust & Banking
Defendant	: Steinhoff International Holdings N.V. (Netherlands)
Court	: Amsterdam District Court (Netherlands)
Legal counsel, etc.	: Kessler Topaz Meltzer & Check : Grant & Eisenhofer
Claim amount	: Approx. US\$1 million
Settlement	: February 2022

Toshiba	
Lawsuit filed	: March 2017
Plaintiff	: Japan Trustee Services Bank, Ltd. : The Master Trust Bank of Japan, Ltd.
Defendant	: Trust & Custody Services Bank, Ltd.
Court	: Toshiba Corporation
Court	: Tokyo District Court
Legal counsel	: Iwata Godo
Claim amount	: Approx. ¥1.2 billion
Settlement	: October 2023



Stewardship Activities

1 Japan's Stewardship Code

As part of its efforts to fulfill its steward responsibilities as one aspect of its fiduciary responsibilities in May 2014, PFA declared its acceptance of the Principles for Responsible Institutional Investors, "Japan's Steward-

ship Code." Since then, PFA has revised its "Policy for the Fulfillment of Stewardship Responsibilities" in accordance with amendments to the Japan's Stewardship Code.

2 Engagement

In order to strengthen "purposeful dialogue" (engagement), one of the actions called for in the Principles for Responsible Institutional Investors, "Japan's Stewardship Code," PFA has contracted Hermes EOS (UK), a stewardship service company with a wide range of asset owners as clients (mainly public and private pension funds in Europe and the United States), to conduct high-level dialogue with Japanese companies, for the efficient implementation of engagement activities by experts.

As PFA's in-house investment is passive using the full replication approach, it holds all stocks listed on the TOPIX index and has a structure in which boosting the Japanese market as a whole contributes to its investment performance. Therefore, in "purposeful dialogue," PFA focuses on corporate governance issues

common to all Japanese companies, rather than on management issues specific to individual companies.

In October 2017, we participated in a platform for collaborative engagement with other major institutional investors held by the Institutional Investors Collective Engagement Forum (IICEF), and started conducting direct collaborative dialogue (collaborative engagement) in January 2018. As of March 31, 2024, in addition to PFA, the participating members of the IICEF consist of one trust bank, one life insurance company, and four investment management companies. Members continue to engage in dialogue with relevant companies on multiple topics (the method of dialogue varies depending on the topic, such as corresponding solely through letters, meetings held only with the secretariat, meetings with all members, etc.).

3 United Nations PRI

In May 2016, PFA applied to sign and participate in the UN-PRI, endorsed by the United Nations, and became a signatory. The Principles for Responsible Investment (PRI) is a set of principles that require companies to incorporate ESG (short for Environmental, Social, and

Governance) issues into their investment decision-making processes. PFA takes care to link its investment operations to these principles. PFA has submitted detailed activity reports to the UN-PRI since 2017 (calendar year basis), which have been assessed by the UN.

Stewardship Activities

4 Exercise of Shareholder Voting Rights

PFA began in-house investment in domestic equities in April 2002, and began exercising its shareholder voting rights in July of the same year. In February 2003, PFA established its "Guidelines for the Exercise of Shareholder Voting Rights" to serve as the criteria for the exercise of its shareholder voting rights, which have since undergone multiple revisions. In April 2024, PFA outsourced part of its operations related to exercise instructions to Institutional Shareholder Services Inc. (ISS) to improve the efficiency of these operations.

Investment managers to whom PFA entrusts investment in domestic equities shall be required to accept

the Japan's Stewardship Code as outlined in the Principal Policy for Investment, and to strive for better medium- to long-term returns by implementing the principles of the Code.

The results of the exercise of shareholder voting rights at the general meetings of shareholders held in the one year from July 2023 to June 2024 (FY2023) for domestic equities invested in-house are as shown below. Aggregate disclosures by proposal type, as well as the results of the exercise by company and by proposal (individual disclosure), are published on PFA website.

FY2023 Results of the of Shareholder Voting

Types of proposals	For	Against	Abstain	Total	Against / Abstain ratio (%)
Election of Directors	14,622	2,552	16	17,190	14.9
Election of Statutory Auditors	1,669	142	0	1,811	7.8
Election of Audit Firm	41	0	0	41	0.0
Remuneration for Directors / Auditors (*1)	656	79	0	735	10.7
Payment of Retirement Benefits for Retiring Directors	43	32	0	75	42.7
Appropriation of Surplus	1,399	0	0	1,399	0.0
Organisational Restructuring (*2)	24	0	0	24	0.0
Takeover Defense Measures	0	42	0	42	100.0
Other Capital Policy Proposals (*3)	60	0	0	60	0.0
Partial Amendments to the Articles of Incorporation	418	0	0	418	0.0
Other Proposals	0	0	0	0	-
Management Proposals: Total	18,932	2,847	16	21,795	13.1
Shareholder Proposals (*4)	11	370	0	381	(*4) 2.9

*1 Revision of directors/auditors compensation, stock option plans, performance-based compensation, annual bonuses, etc.
 *2 Mergers & Acquisitions, business transfer, share exchange, share transfer, company split, etc.
 *3 Share repurchase, reduction of statutory reserves, third-party allotment of new shares, share consolidation, issuance of class shares, etc.
 *4 For shareholder proposals, the percentage of votes in favor of proposals is stated

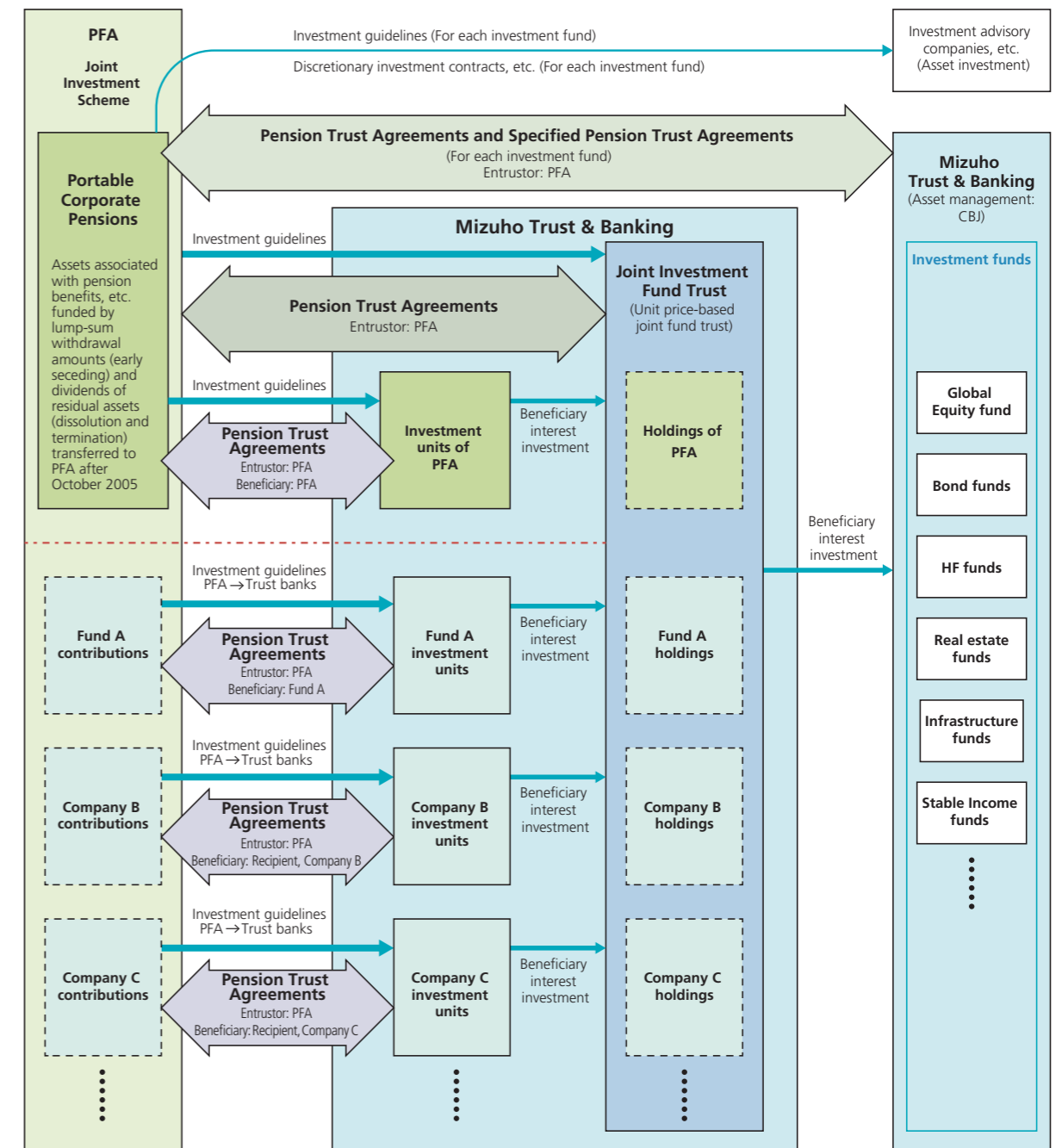
Joint Investment Scheme

1 Summary of Joint Investment Scheme

Since October 2016, we have been conducting Joint Investments Scheme for corporate pensions (defined-benefit corporate pensions [fund-type and contract-type] and employees' pension funds), for which we consolidate pension assets to increase asset size with the aim of enhancing the efficiency of pension asset investments.

Investment Scheme

The scheme involves the conclusion of pension trust agreements and specified pension trust agreements for each subscribed business pension fund. This arrangement allows for the separate management and preservation of each fund's assets, while also ensuring that investment results and costs are distributed fairly through a unit price-based joint fund trust.



Joint Investment Scheme

2 Investment Policy for Joint Investment Scheme

In the Joint Investment Scheme, investments are carried out by combining contributions from pension funds etc. subscribed to the scheme with all or part of the assets of the Portable Corporate Pensions managed and invested by PFA. As a result, pension funds etc. subscribed to the scheme are able to enjoy the benefits from economies of scale.

Summary of investment policy

Policy asset mix	
Bonds	80%
Global equities	20%

Tolerance	
Acceptable range of deviation from the policy asset mix	±5%

The investment targets for bonds include not only domestic bonds but also foreign bonds and bond-alternative investments. Foreign currency exposure within bond investments is limited to 20% of total bonds (equivalent to 16% of the entire portfolio [80% × 20%]).

Expected portfolio return and risk	
Return	2.6% (Bonds: 1.5%, Global equities: 7.0%)
Risk	4.7%

Benchmarks	
Bonds	Bloomberg Japanese Aggregate Index
Global equities	MSCI (ACWI, JPY-converted, dividend reinvested, net)

Investment targets

The primary investment targets include domestic and foreign bonds and equities, as well as alternative investments such as hedge funds, real estate, infrastructure, and stable income assets. Each investment fund that invests in these targets may also invest in financial derivative instruments (derivatives transactions).
 A currency overlay strategy is implemented for the purpose of foreign exchange-rate risk management.

3 Investment Results

The investment results of the Joint Investment Scheme fund trust are as follows.

Changes in performance

Since starting operations (October 2016), the Joint Investment Scheme has achieved an average return of 3.69% and a risk of 3.89% as of March 31, 2024, representing a cumulative excess return of 0.90% against the composite benchmark (80% bonds, 20% global equities).

(Unit: %)

	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	FY
FY2019	0.80	-1.17	1.41	0.31	-0.37	0.47	0.39	0.74	0.24	0.40	-1.15	-2.89	-0.87
FY2020	1.93	1.05	0.86	0.97	1.22	-0.48	-0.74	2.58	0.94	0.27	0.44	1.88	11.44
FY2021	0.87	0.70	0.73	0.33	0.41	-0.78	1.51	-0.38	1.05	-1.47	-0.88	0.78	2.88
FY2022	-1.23	0.06	-1.99	2.21	-0.99	-2.75	1.69	1.03	-3.09	1.97	0.15	1.31	-1.79
FY2023	0.66	-0.21	1.86	-0.07	-0.44	-1.06	-1.07	2.86	0.73	0.62	1.53	1.40	6.95

(Unit: %)

	Average return	Risk	Excess return	Tracking error	Benchmark
Since start of investments (from Oct. 2016, per annum)	3.69	3.89	+0.90	1.29	20% MSCI-ACWI + 80% Bloomberg Japanese Aggregate
			+1.09	-	Expected return: 2.6%



Changes in performance by asset

Global equities

(Unit: %)

	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	FY
FY2019	4.31	-7.88	5.61	0.94	-4.30	3.85	2.61	3.98	2.39	-0.93	-8.27	-13.44	-12.51
FY2020	9.83	5.47	3.45	3.19	6.70	-3.88	-3.32	12.22	3.61	0.79	4.91	6.30	60.24
FY2021	3.37	2.15	1.68	-0.77	2.52	-2.04	6.68	-4.17	5.85	-4.03	-2.24	7.68	16.96
FY2022	-1.27	0.05	-4.52	4.86	0.48	-5.39	9.11	2.27	-8.63	6.79	1.78	-0.73	3.44
FY2023	3.33	0.35	9.84	2.29	-0.65	-1.57	-1.50	7.08	-0.36	3.86	6.88	4.97	39.52

(Unit: %)

	Average return	Risk	Excess return	Tracking error	Benchmark
Since start of investments (from Oct. 2016, per annum)	17.80	16.11	+1.04	1.67	MSCI-ACWI

Joint Investment Scheme



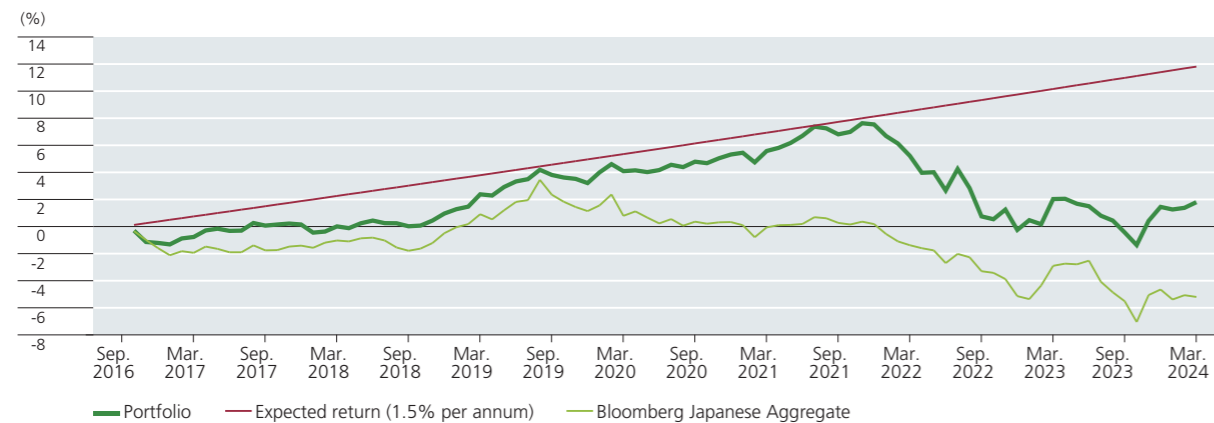
Bonds (including bond-alternative investments)

(Unit: %)

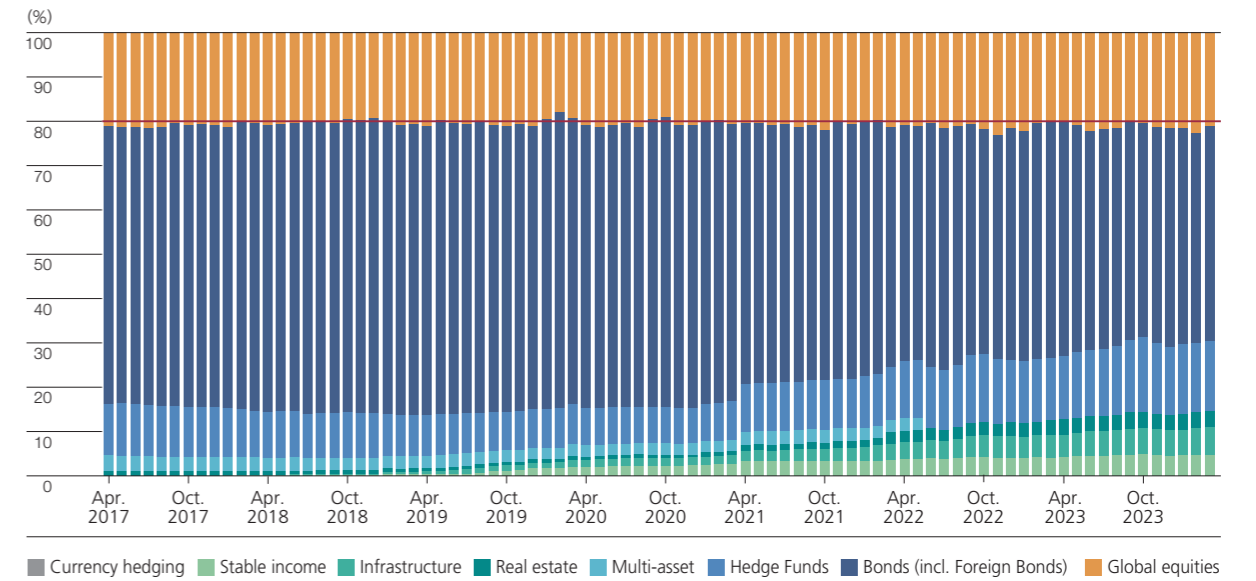
	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	FY
FY2019	-0.09	0.61	0.40	0.17	0.66	-0.37	-0.18	-0.10	-0.30	0.76	0.59	-0.49	1.67
FY2020	0.05	-0.12	0.14	0.37	-0.16	0.38	-0.10	0.34	0.27	0.13	-0.68	0.80	1.43
FY2021	0.22	0.34	0.50	0.64	-0.12	-0.41	0.18	0.59	-0.09	-0.79	-0.52	-0.86	-0.34
FY2022	-1.19	0.04	-1.30	1.55	-1.36	-2.03	-0.21	0.70	-1.48	0.72	-0.30	1.85	-3.03
FY2023	0.02	-0.36	-0.18	-0.69	-0.36	-0.88	-0.93	1.82	1.02	-0.19	0.13	0.41	-0.23

(Unit: %)

	Average return	Risk	Excess return	Tracking error	Benchmark
Since start of investments (from Oct. 2016, per annum)	0.24	2.19	-1.26	—	Expected return: 1.5% (investment objective)
			+0.95	1.50	Bloomberg Japanese Aggregate



Changes in asset allocation



Changes in number of Joint Investment Scheme subscribers and asset value

FY end	Number of subscribers	Asset value
2016	2	¥1.3 bn
2017	5	¥8.2 bn
2018	4	¥9.3 bn
2019	9	¥11.2 bn
2020	9	¥13.5 bn
2021	9	¥15.0 bn
2022	11	¥18.4 bn
2023	13	¥20.3 bn

Code of Conduct

1. Services for Subscribers and Beneficiaries

We will strive to provide friendly services and carry out our work accurately and promptly so that persons who will receive pensions in the future and those who are already receiving pensions can receive pensions with peace of mind.

2. Services for Members

We will take our members' requests seriously to proactively provide high-quality services.

3. Enhancement and Development of the Corporate Pension System

We will conduct activities aimed at enhancing and developing Japan's corporate pension system.

4. Safe and Efficient Management and Investment of Assets

We will manage and invest the pension assets entrusted to us safely and efficiently.

5. Compliance with Laws and Regulations

We will act with high ethical standards and in compliance with legal norms and social rules.

6. Protection of Personal Information

We will constantly keep in mind the importance of personal information and ensure its safe management.

7. Enrichment of the Work Environment

We will create an open work environment in which employees cooperate with each other and exchange opinions freely.