

Fiscal Year 2016 Annual Report

【Retirement Pension Benefit Reserve】

Federation of National Public Service Personnel Mutual Aid Associations

The Federation of National Public Service Personnel Mutual Aid Associations (“KKR”) hereby publishes the Fiscal Year 2016 Annual Report with regard to the Retirement Pension Benefit Reserve pursuant to provision of Article 35-4 of the National Public Officers Mutual Aid Association Act (“NMA”).

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Reference:

- (1) Market Conditions & Glossary : See the Annual Report on the Employees' Pension Insurance Benefit Reserve.
- (2) Definition of Terms: : In this report, deposits to finance the Fiscal Investment and Loan Program (FILP) are referred to as "FILP deposits"; real estates and loan receivables held by KKR in connection with the mutual-aid business operations are referred to as the "Mutual-aid proprietary assets"

1. Amount of Asset Under Management

The amount of asset under management for FY 2016 is as set forth below:

(Unit: ¥0.1 billion)

	FY 2016			
	Q1 end	Q2 end	Q3 end	Year-end
Domestic bonds	704	979	1,317	1,552
Short-term assets	55	55	41	36
Total	759	1,034	1,358	1,588

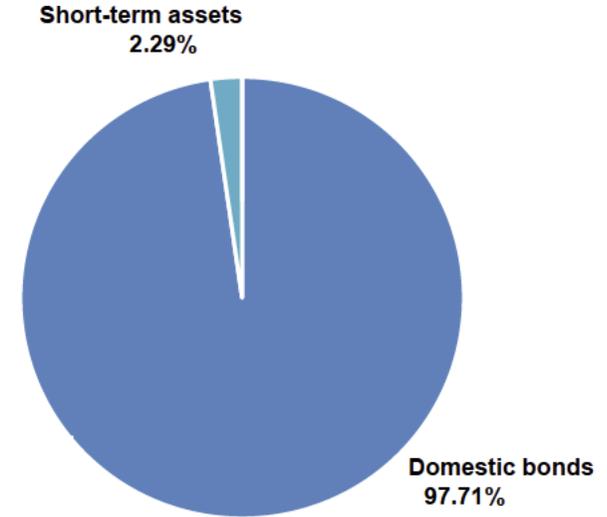
Note 1: Domestic bonds include mutual aid proprietary assets.

Note 2: Due to rounding, the total sum of individual figures may not necessarily add up to the total.

2. Asset Mix

Asset mix at the end of FY 2016 is as set forth below:

	At the end of FY 2016	
	Asset Amount (¥0.1 billion)	Asset Mix
Domestic bonds	1,552	97.71%
Short-term assets	36	2.29%
Total	1,588	100.00%



Note 1: Domestic bonds include mutual aid proprietary assets.

Note 2: The policy asset mix consists of 100% domestic bonds (incl. short-term assets).

Note 3: Due to rounding, the total sum of individual figures may not necessarily add up to the total.

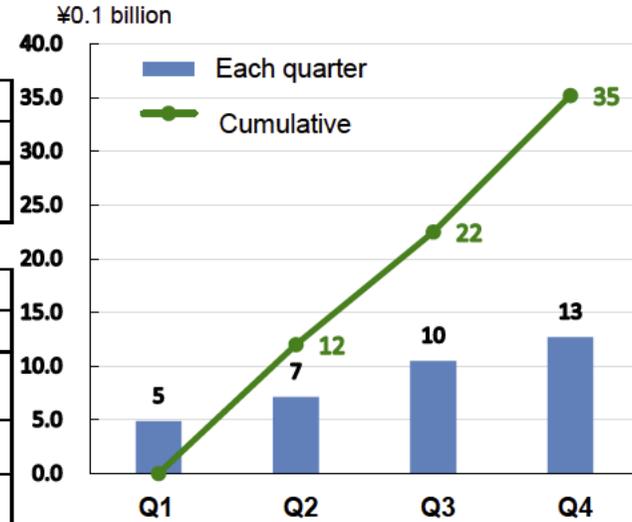
3. Return

The amount of return in FY 2016 is as set forth below:

(Unit: ¥0.1 billion)

	FY 2016				
	Q1	Q2	Q3	Q4	Full-year
Realized return	5	7	10	13	35

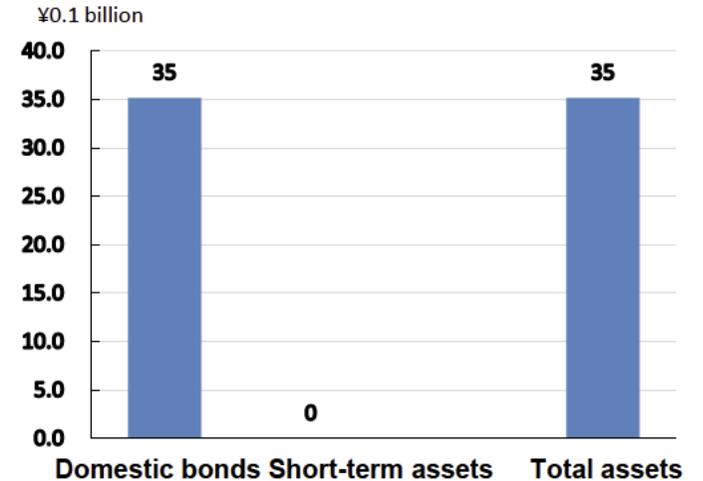
	FY 2016				
	Q1	Q2	Q3	Q4	Full-year
Realized return	5	7	10	13	35
Domestic bonds	5	7	10	13	35
Short-term assets	0	0	0	0	0



Note 1: The amounts of return are after deducting the management fees.

Note 2: Domestic bonds include mutual aid proprietary assets.

Note 3: Due to rounding, the total sum of individual figures may not necessarily add up to the total.



4. Rate of Return

The rate of return in FY 2016 is as stated below:

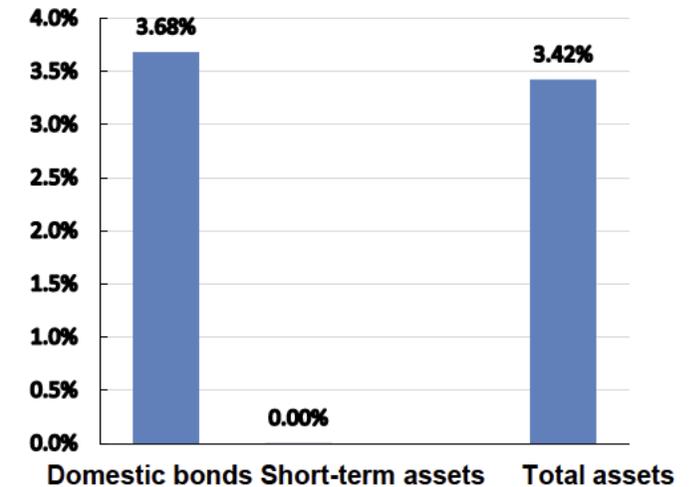
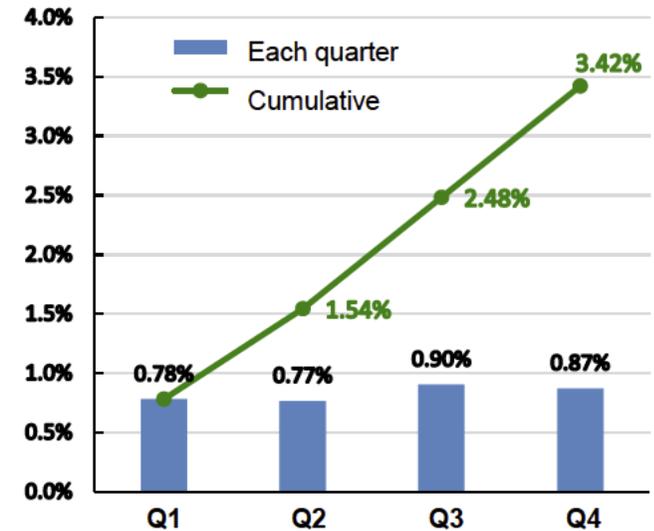
(Unit: ¥0.1 billion)

	FY 2016				
	Q1	Q2	Q3	Q4	Full-year
Realized rate of return	0.78	0.77	0.90	0.87	3.42

	FY 2016				
	Q1	Q2	Q3	Q4	Full-year
Realized rate of return	0.78	0.77	0.90	0.87	3.42
Domestic bonds	0.88	0.85	0.99	0.93	3.68
Short-term assets	0.00	0.00	0.00	0.00	0.00

Note 1: The rate of return stated above is after management fees are deducted.
The rate of return of each quarter in 2016 and of the full-year is that of the respective period.

Note 2: Domestic bonds include mutual aid proprietary assets.



5. Policy Asset Mix

(1) Policy Asset Mix

The policy asset mix in the administration and management policy prepared on October 1, 2015 is set forth as follows:

○ Policy asset mix

	Domestic bonds
Asset allocation	100%

Note: FILP deposits, mutual aid proprietary assets and short term assets are included in domestic bonds.

(2) Policy on the Basic Asset Mix

The retirement pension benefit schemes were created by the reserve funding method based on the cash balance plan. In light of the nature of the scheme that requires reliable investment return, higher than the target investment return (i.e., the anticipated rate; provided that, if the base rate of the fiscal year exceeds the anticipated rate, the target rate shall be the base rate), assets that produce steady income gain and return of principal, mainly domestic bonds (including FILP deposits), are held as basic assets.

Mutual-aid proprietary assets are assets held by KKR in connection with the mutual-aid business operations, and consist of real estates and loan receivables. These assets are held by the Transitional Long-term Benefit Reserve and the Retirement Pension Benefit Reserve, which are the reserves for national public service personnel.

6. Risk Management

(1) Establishment of the investment Risk Management Committee and enactment of the Investment Risk Management Policy, etc.

In order to properly conduct the investment risk management operations, KKR established the “Investment Risk Management Policy” and the “Investment Risk Management Guidelines” and established the Investment Risk Management Committee, led by the President as a chairperson, as well.

The Investment Risk Management Committee shall hold meetings regularly, or as required, to discuss the quarterly status of the investment risk management, and the details of discussion shall be reported to the Investment Committee comprising external academic experts, as appropriate. By receiving the advices from the Investment Committee, the knowledge of the experts is reflected in the investment risk management operations.

(2) Basic Policy on Investment Risk Management

The basic policy, etc. on the investment risk management with regard to the Retirement Pension Benefit Reserve is as set forth below:

1) Investment Risks to be Managed

Investment risks to be managed by KKR shall include market risk, liquidity risk, credit risk and other risks that KKR assumes in order to secure the investment returns necessary for the pension funding on a long-term basis.

2) Items to be Risk Managed

Major items to be managed upon risk management are as set forth below:

- Deviation from the policy asset mix
- Performance
- Financing status
- Rating and status of concentrated investment

3) Major risk management status

○ Deviation from the policy asset mix

As of the end of FY 2016, the reserve is invested 100% in domestic bonds, and does not deviate from policy asset mix.

○ Performance

The investment return of the Retirement Pension Benefit Reserve in FY 2016 was 3.42%, exceeding the anticipated rate of 0.48% (base rate 0.40%), which is the target investment return.

The average investment return since October 2015 is 3.27%, exceeding also the anticipated rate of 0.48% (base rate 0.43%)

	FY 2016	FY 2015 – FY 2016 (1.5 years average)
Investment return (realized rate of return)	3.42%	3.27%
Anticipated rate of return (base rate of return)	0.48% (0.40%)	0.48% (0.43%)

* Anticipated rate: Rate required for funding the retirement pension benefit schemes and calculated in the actuarial valuation.
 ** Base rate: Rate used for calculating the amount of benefits (reviewed annually in October)

Note 1: Since the base rate from Oct. 2015 to Sept. 2016 was 0.48% and the same rate from Oct. 2016 to Sept. 2017 was 0.32%, the base rate for FY 2016 was set at 0.40% $(0.48\% + 0.32\%) / 2$.

Note 2: The average above is the geometric mean of realized rate of return, anticipated rate and base rate of the latter half of FY 2015 and full FY 2016, respectively.

Note 3: The target investment return is the anticipated rate (however, if the base rate for each year exceeds the anticipated rate, the target rate shall be the base rate).

○ Financing status

Since the retirement pension benefit schemes have not been in place for a long time, large pay out of pension benefits is not anticipated for the some time, and funds required for the payment of pension benefits is secured for the time being.

○ Rating and status of concentrated investment

They are managed in accordance with the standards for credit ratings and concentrated investment, etc. set forth in the Administration and Management Policy .

7. Governance Structure

◆ Overview of Services Offered by KKR

To contribute to the stability of life and better welfare of national public service personnel, etc. and their bereaved family, as well as to the efficient operation of the duties by the national public service personnel, KKR conducts the services for the following businesses (among the businesses offered by the mutual-aid associations consisting of government employees) pursuant to the provisions of the NMA.

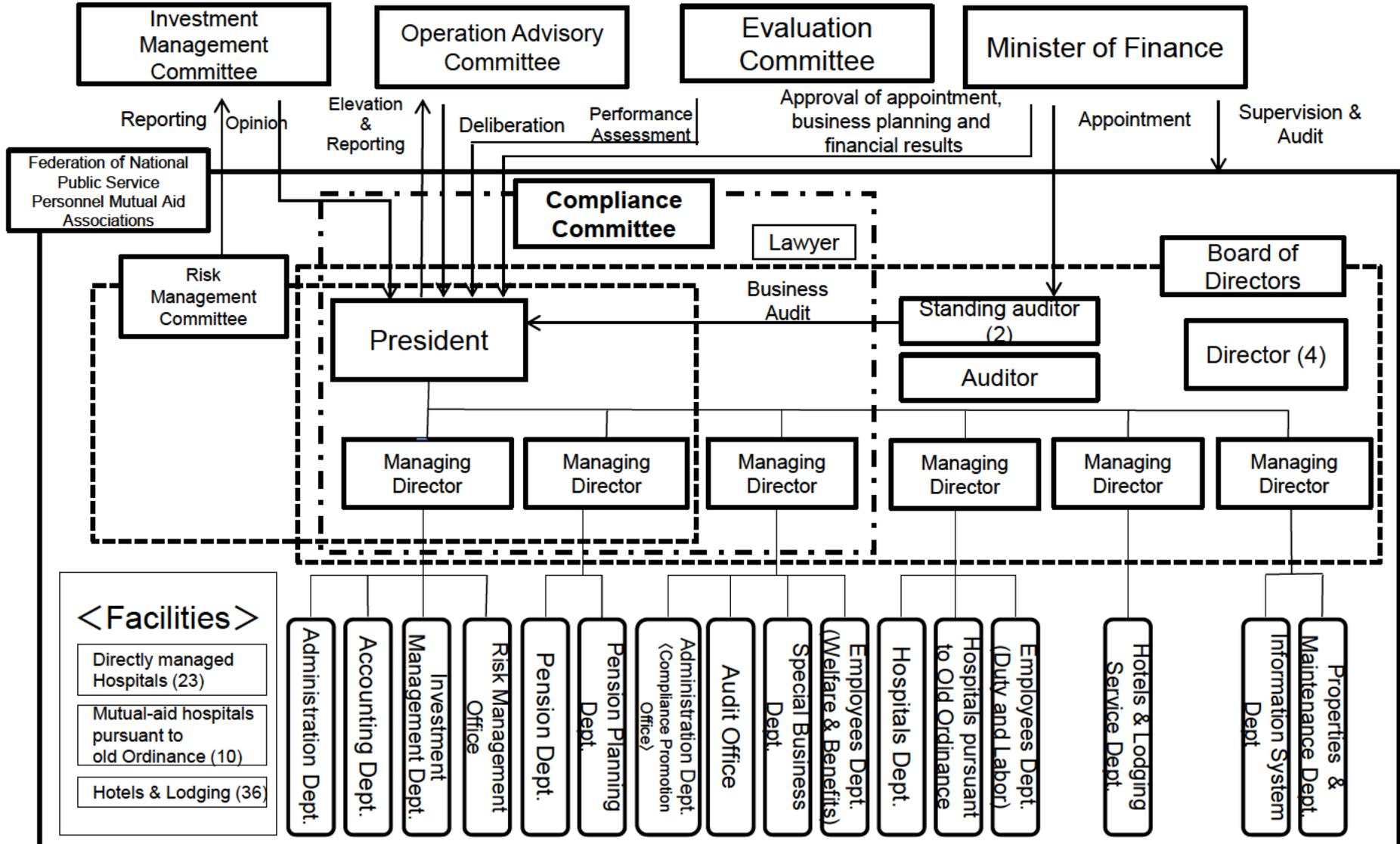
- Employees' Pension Insurance Benefit, Retirement Pension Benefit and Transitional Long-term Benefit businesses
Employees' pension benefits, retirement pension benefits and transitional long-term benefits refer to the various benefits, such as retirement pension, disability pension and bereaved family pension, etc. to be paid in the events of retirement, disability or death of the members of the mutual aid associations.
KKR conducts the decision-making and payment, cost calculation and management of the reserves.
- Welfare Business
KKR mainly offers the services for the following welfare businesses to contribute to the enhancement of the welfare of the members.
 - A. Medical service
 - B. Hotels and lodging service
- Other Businesses
In addition to the businesses provided above, KKR provides services in relation to the business pursuant to the supplementary provisions of the NMA and other laws.

◆ Officers and employees of KKR

There are fourteen (14) officers, including one president, six managing directors, four directors, two standing auditors and one auditor, and 11,912 employees, as of the end of March 2017.

◆ Organization Chart (Governance Structure)

(as of the end of March 2017)



(1) Operation Council

1) Establishment of the Operation Council

Operation Council shall be established within KKR for the appropriate operation of the business of KKR pursuant to the NMA.

2) Deliberated matters, etc.

A. amendment of the articles of incorporation, B. preparation and amendment of operational rules and regulations, C. business plan, allocation of budgets and settlement of accounts for each business year, D. disposition of important assets and assumption of material debts, and E. other important matters relating to the operation of the businesses of employees' pension insurance benefits, retirement pension benefits and transitional long-term benefits and the operation of welfare business shall be deliberated at the Operation Council.

The Committee also examines and deliberates important matters pertaining to the business of KKR in response to inquiries from the President or submit recommendations to the President on matters deemed necessary by the Council.

3) Members of the Operation Council

Members of the Council shall be appointed (no more than 16) by the President, among the members of the mutual aid associations who have a wide range of knowledge of the business of the associations and KKR, and matters relating to the welfare of the members of the associations, and half of the Council members shall represent the members of the associations.

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(2) Investment Management Committee

KKR has established the Investment Management Committee, as an advisory body of the President, for the appropriate management and investment of the employees' pension insurance benefit reserve, retirement pension benefit reserve and traditional long-term benefit reserve. The members of the Committee consist of no more than six external academic experts, and other expert members can be appointed as necessary. The President of KKR commissions the members and other expert members.

The Committee shall hold meetings regularly, and at any time as required, to discuss the business plans, settlement of accounts, quarterly investments and status of risk management as agenda. KKR shall ask for views or seek advice from the Investment Management Committee on important matters with regard to the management and investment of the reserves.

○List of Members of the Asset Investment Management Committee (As of March 31, 2017)

Name	Current Occupation	Remarks
Masaharu Usuki	Professor, Graduate School of Economics / Faculty of Economics, Nagoya City University	
Seki Obata	Associate Professor, Graduate School of Business Administration, Keio University (Keio Business School)	
Masashi Toshino	Part-time lecturer, Faculty of Commerce, Waseda University	
Hajime Yamazaki	Visiting Researcher, Rakuten Securities Institute of Economic Research	
Yasuhiro Yonezawa	Professor, Waseda Business School (Graduate School of Business and Finance)	Chairperson

(As of July 1, 2017)

Name	Current Occupation	Remarks
Masaharu Usuki	Professor, Graduate School of Economics / Faculty of Economics, Nagoya City University	Deputy chairperson
Seki Obata	Associate Professor, Graduate School of Business Administration, Keio University (Keio Business School)	
Naohiko Jinnō	President of JAPAN COLLEGE OF SOCIAL WORK, Honorable Professor of The University of Tokyo	Chairperson
Shuichi Sugawara	Professor, Bunkyo University Graduate School of International Studies	
Masashi Toshino	Professor, Faculty of Economics, Seikei University	
Hazime Yamazaki	Visiting Researcher, Rakuten Securities Institute of Economic Research	

(Titles omitted, in the order of Japanese syllabary)

○ Meetings held by the Investment Management Committee (Since April 2016)

	Date	Major Agenda
58 th	June 16, 2016	(1) Investment management status of FY 2015, (2) Risk management status (3) Policy asset mix
59 th	July 27, 2016	(1) FY 2015 Annual Report , (2) FY 2016 quarterly investment management status
60 th	September 15, 2016	(1) Risk management status (for the first quarter of FY 2016) (2) Investment management status for the first quarter of FY 2016 (3) Investment management status for the second quarter of FY 2016 (July – August)
61 st	November 21, 2016	(1) Investment management status for the second quarter of FY 2016 (2) Risk management status (for the second quarter of FY 2016)
62 nd	March 9, 2017	(1) Verification of policy asset mix, (2) Business plan of FY 2017 (3) FY 2016 quarterly investment management status (4) Risk management status (for the third quarter of FY 2016)
63 rd	June 16, 2017	(1) Investment management status of FY 2016, (2) Risk management status (At the end of FY 2016)
64 th	June 30, 2017	(1) FY 2016 Annual Report, (2) FY 2017 quarterly investment management status (3) Policy asset mix

(3) Policy for Appropriate Administration and Management of the Pension Reserve

KKR shall formulate the administration and management policy to ensure safe and efficient management and investment of the Transitional Long-term Benefit Reserve from a long-term perspective pursuant to the NMA.

KKR formulated the “Administration and Management Policy of the Transitional Long-term Benefit Reserve” (“Administration and Management Policy”) on October 1, 2015, with the approval from the Minister of Finance, and has been conducting the management and investment of the reserves in accordance with the Administration and Management Policy together with relevant laws and regulations.

(4) Competent Minister of the Annual Report and Its Public Disclosure

KKR shall prepare an annual report, pursuant to the NMA, each fiscal year after the closing of accounts, stating the amount of assets of the pension reserve, asset mix, amount of investment return and other matters stipulated in the laws and regulations, and submit the same to the Minister of Finance and disclose it to the public.

(5) Response to Proposals by the Investment Management Committee

1) Proposals by the Investment Management Committee

Upon the consolidation of employees' pension schemes on October 1, 2015, KKR formulated the "Administration and Management Policy" relating to the three pension reserves (Employees' Pension Insurance Benefit Fund, Transitional Long-term Benefit Fund and Retirement Pension Benefit Fund). In light of this, KKR received a proposal from the Committee to promote (i) enhancement of risk management and (ii) strengthening of internal control, taking into account of the possibility to increase the risk assets especially in the Employees' Pension Insurance Benefit Fund.

2) Response by KKR to Date

In response to these proposals, KKR has strengthened the organizational structure, staffing and IT systems, while enhancing the risk management system and implementing new measures as below:

- A. In order to increase the frequencies of verification of the status of investment and risk management, KKR increased the number of meetings regularly held by the Investment Management Committee, as well as the number of Committee members from 4 to 6.
- B. As a measure to strengthen the organizational structure of Investment Management Department (which includes risk management staff), since FY 2014, KKR has been increasing the number of staff including professional personnel.
- C. KKR has introduced advanced risk management tools and enhanced various risk analysis performance.
- D. In order to strengthen the internal control system, KKR has established a "Risk Management Committee" in April 2015, consisting the President, officers in charge of fund management and of pension financing, etc. Deliberations at the Committee are reported to the Investment Management Committee and their views are heard.
- E. The Risk Management Committee has formulated the "Risk Management Policy" which stipulates the objectives and basic policies of risk management, and "Risk Management Guideline" which identifies the management risks subject to supervision and sets forth the specific viewpoints for management, and has enforced them from April 1, 2016.
- F. In July 2016, KKR increased the number of risk management staff, and established the Risk Management Office, independent from the Fund Management Department. By establishing a newly independent organization, it strengthens the restraining function over the Fund Management Department (responsible for management of funds) and enhances the risk management system.

(6) Internal Governance System within KKR

KKR endeavors to secure appropriate business operations through the following measures.

1) Promotion of Compliance

KKR has formulated the “Compliance Promotion Rules” and established a Compliance Committee (with the President as chairperson and external lawyers as committee members) to discuss important matters on compliance. KKR has also appointed the head of compliance, who is responsible for KKR-wide promotion of compliance, and compliance officer in each department (office) within KKR.

KKR has established the Code of Conduct applicable to all officers and employees and is keeping them all informed, to secure the trust from association members, users and the society.

In addition, KKR has put in place a whistle-blowing system for early detection and correction of misconducts, etc. to contribute to the strengthening of compliance system.

2) Reinforcement of Risk Management

In light of the advancement of risk management methods and diversification of financial instruments that are the subject of investment, KKR makes efforts to review the items to be risk managed as appropriate, and to strengthen the risk management capabilities. In addition, on July 1, 2016, KKR newly established a Risk Management Office, independent from the Fund Management Department, for the furtherance of the restraining function over the fund management operation.

3) Risk Management Committee

In April 2015, KKR established a Risk Management Committee consisting of the President, officers in charge of fund management and of pension financing, etc. Deliberations at the Committee are reported to the Investment Management Committee and their views are heard.

4) Investment Committee

KKR has established an Investment Committee, with the officer in charge of fund management as chairperson, to conduct careful review upon preparing investment plans, etc. of pension reserves.

5) Investment Risk Review Meeting

On October 1, 2016, KKR established an Investment Risk Review Meeting, consisting of officer and staff in charge of risk management etc., with the objective to monitor various risks and strengthen the risk management function in relation to management of pension reserves.

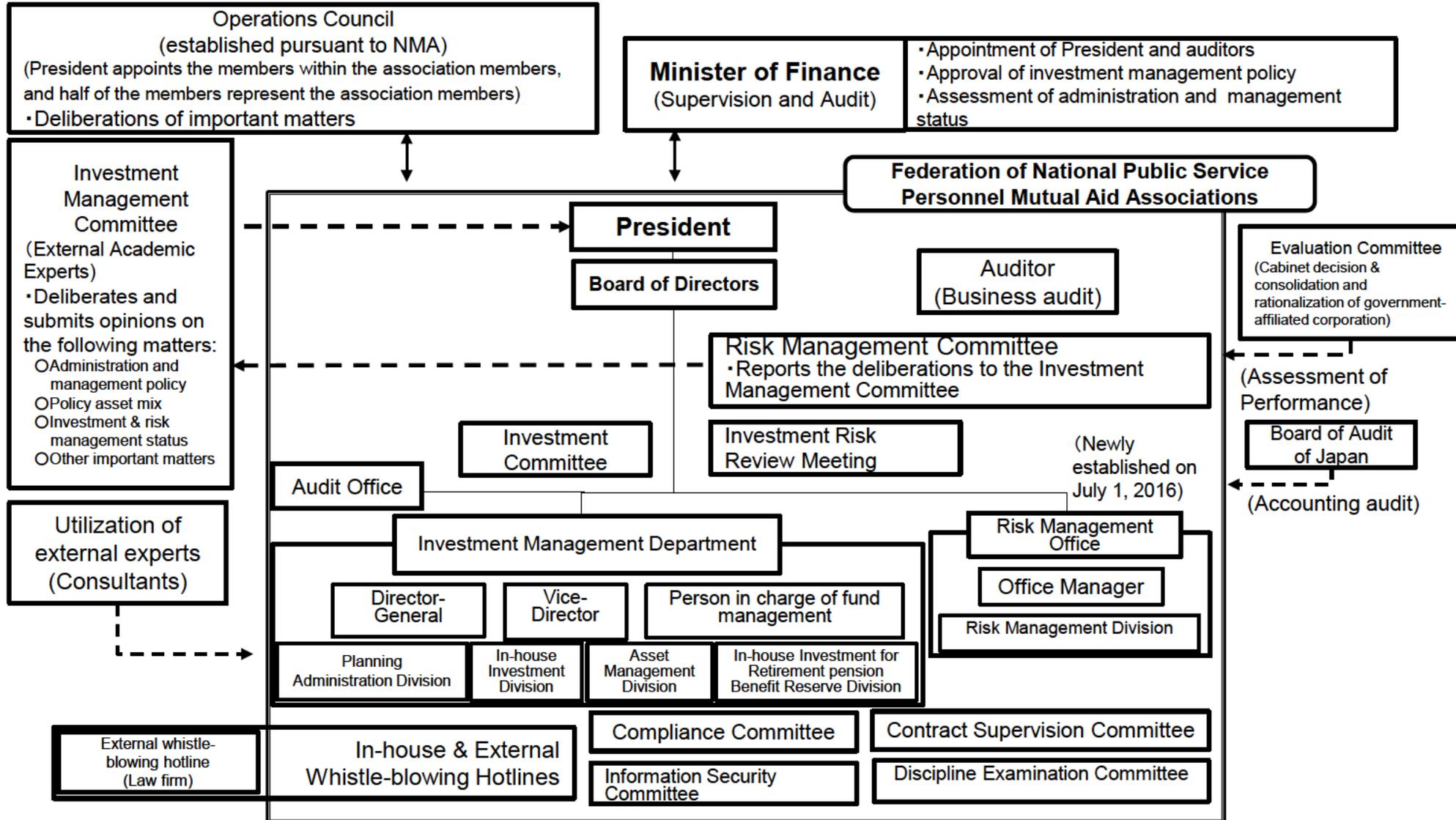
6) Ensuring Information Security

With the advancement of information-driven operations, KKR has established various internal rules regarding appropriate protection and management of the information system and information data processed by such system in order to ensure information security.

KKR has also established the Information Security Committee and formulated the Information Security Standards. Managers, staff and head of information security have been allocated to each department (office) to prepare and review the Implementation Policies of each department (office) in line with the Information Security Standards and confirm the compliance status of these Implementation Policies.

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Reference: Conceptual Diagram of Governance Structure, etc. of Administration and Management of Pension Reserve



8. Other

Matters provided under Article 85-14, Items 7 and 8 of the enforcement regulations of the NMA

- (1) Investment Management Status by Investment Method (includes selection of the counterparty of the investment management contract and investment management status when making investments by the method stipulated in Article 9-3, Paragraph 1, Item 3 (main provision), (b) of the same Item, and Item 4 of the same paragraph of the enforcement ordinance of the NMA) (Item 7)

KKR conducts in-house investment pursuant to the policy asset mix (100% domestic bonds), and such status is as provided in 1 to 4 hereunder.

KKR does not delegate its management authority to external asset managers and does not make investment by the method stipulated in Article 9-3, Paragraph 1, Item 4 of the enforcement ordinance of the NMA.

- (2) Status of Exercising of Voting Rights Relating to Equities by KKR (Item 8)

KKR does not make investment in equities for the Retirement Pension Benefit Reserve.