

Fiscal Year 2018 Annual Report

【Transitional Long-term 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 2018 Annual Report with regard to the Transitional Long-Term Benefit Reserve pursuant to the provision of Article 35-4 of the National Public Officers Mutual Aid Association Act (“NMA”) applied mutatis mutandis by the provision of Article 49-3 of the Supplemental Provisions for the Partial Revision of the Employees’ Pension Insurance Act for the Consolidation, etc. of Employees’ Pension Schemes.

Table of Contents

1. Amount of Asset Under Management	3
2. Asset Mix	4
3. Return	5
4. Rate of Return	6
5. Policy Asset Mix	8
6. Risk Management	9
7. Governance Structure	11
8. Other	20

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 2018 is as set forth below:

(Unit: ¥0.1 billion)

	FY 2018			
	Q1 end	Q2 end	Q3 end	Year-end
Domestic bonds	5,697	4,171	4,125	4,524
Short-term assets	871	2,183	1,482	856
Total	6,568	6,354	5,608	5,380

Note 1: Domestic bonds include FILP deposits and 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 2018 is as set forth below:

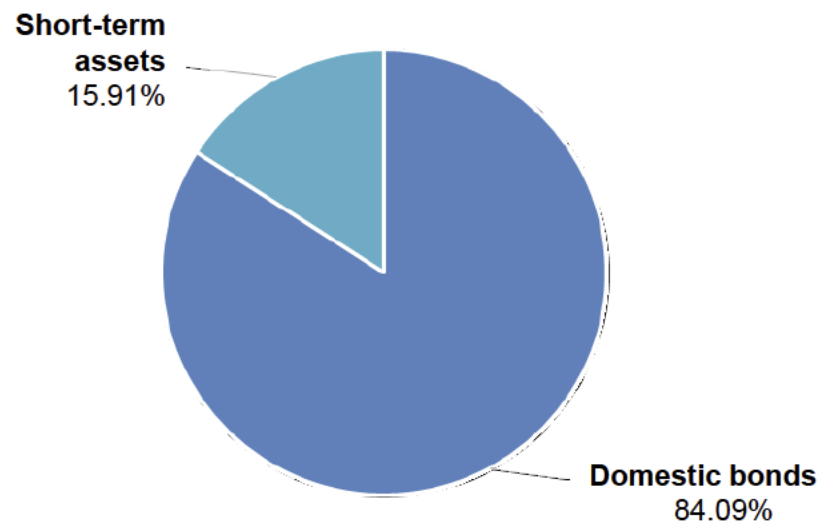
	At the end of FY 2018	
	Asset Amount (¥ 0.1 billion)	Asset Mix
Domestic bonds	4,524	84.09%
Short-term assets	856	15.91%
Total	5,380	100.00%

Note 1: Domestic bonds include FILP deposits and mutual aid proprietary assets.

Note 2: FILP deposits are evaluated based on book value.

Note 3: The policy asset mix consists of 100% domestic bonds (incl. short-term assets).

Note 4: 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 2018 is as set forth below:

(Unit: ¥0.1 billion)

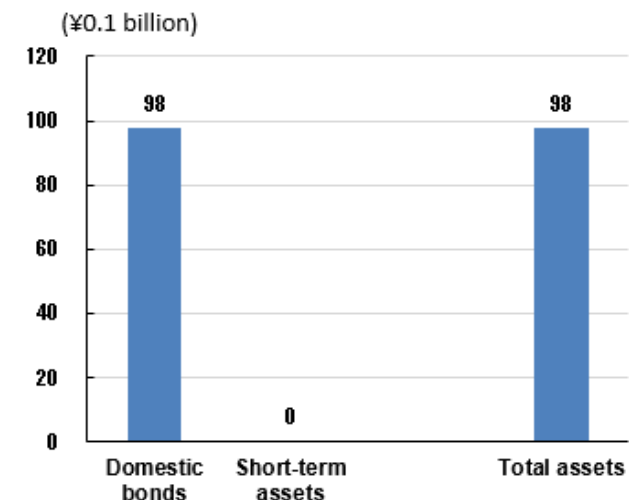
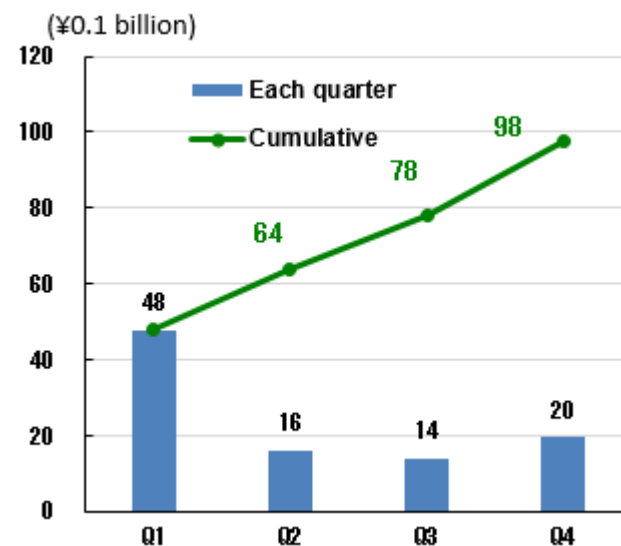
	FY 2018				
	Q1	Q2	Q3	Q4	Full-year
Realized return	48	16	14	20	98

	FY 2018				
	Q1	Q2	Q3	Q4	Full-year
Realized return	48	16	14	20	98
Domestic bonds	48	16	14	20	98
Short-term assets	0	0	0	0	0

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

Note 2: Domestic bonds include FILP deposits and 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

(1) Rate of Return

The rate of return in FY 2018 is as stated below:

(Unit: ¥0.1 billion)

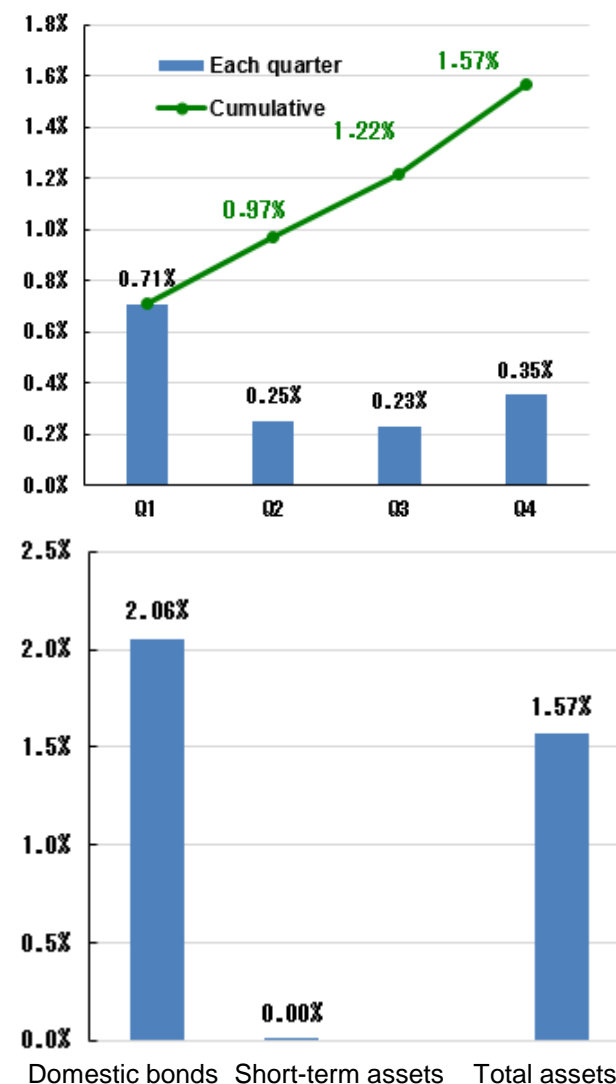
	FY 2018				
	Q1	Q2	Q3	Q4	Full-year
Realized rate of return	0.71	0.25	0.23	0.35	1.57

	FY 2018				
	Q1	Q2	Q3	Q4	Full-year
Realized rate of return	0.71	0.25	0.23	0.35	1.57
Domestic bonds	0.84	0.30	0.37	0.47	2.06
Short-term assets	0.00	0.00	0.00	0.00	0.00

Note 1: Rate of return represents the rate after deducting the management fees.

The rate of return of each quarter in FY 2018 and the full-year is that of the respective period.

Note 2: Domestic bonds include FILP deposits and mutual aid proprietary assets.



(2) Investment Return Compared to the Return Assumed by MHLW in the Actuarial Valuation (FY 2018)

The investment return of the Transitional Long-term Benefit Reserve in FY 2018 was 1.57%, below the nominal investment return for FY 2018 of 3.08% that was assumed in the actuarial recalculation of FY 2014.

The average investment return after October 2014 was 3.13%, exceeding the average nominal investment return of 2.50% that was assumed in the actuarial recalculation of FY 2014.

	FY 2018	FY 2015 – FY 2018 (3.5 years average)
Investment return (Actual rate of return)	1.57%	3.13%
Target investment return	3.08%	2.50%

Note 1: The averages above are the geometric mean of investment returns from the second half of FY 2015 through FY 2018.

Note 2: The target investment return above is the nominal investment return assumed in the actuarial recalculation (Economic recovery scenario prepared by the Cabinet Office).

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) Concept of Preparing the Policy Asset Mix

Since the transitional long-term benefit schemes are closed type of pension scheme and the size of the scheme is expected to shrink at a relatively early stage, 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 Transitional Long-term Benefit Reserve is as set forth below:

1) Investment Risks to be Managed

Investment risks to be managed by KKR shall include liquidity risk, credit risk and other risks that KKR assumes in order to shrink of the scale of the Transitional Long-term Benefit Reserve relatively early and to secure the target investment return.

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

1) Deviation from the policy asset mix

As of the end of FY 2018, the reserve is invested 100% in domestic bonds, and does not deviate from policy asset mix.

2) Performance

Please see 4. Rate of Return, (2) Comparison with the target investment return assumed in actuarial valuation by the Ministry of Health, Labour and Welfare.

3) Financing status

In light of the prospects for pension financing and status of income and expenditure, the funds necessary for the payment of pension benefits is secured.

4) Rating and status of concentrated investment

KKR manages the credit ratings and concentrated investments in accordance with the standards 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.

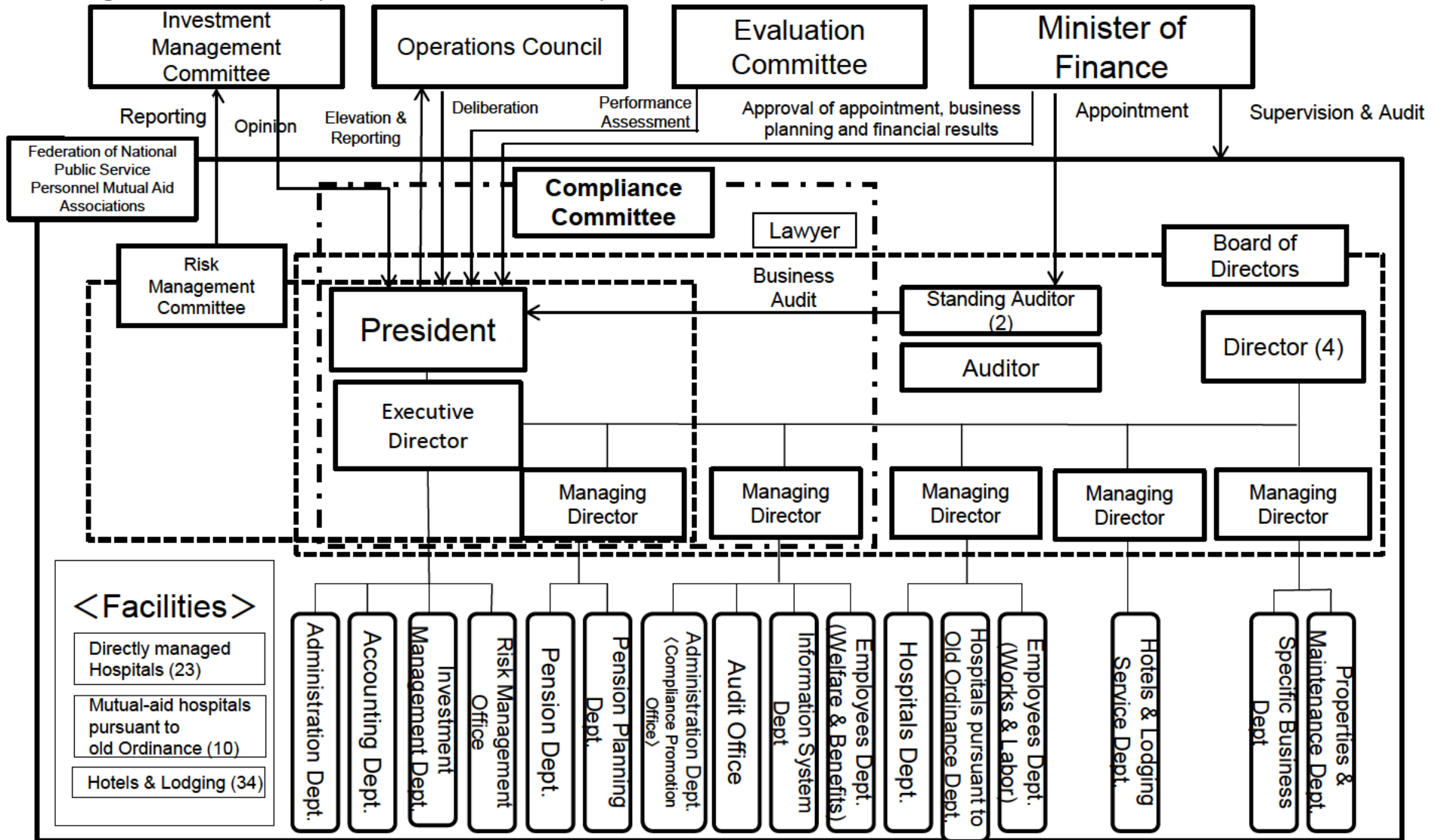
- Employees' Pension Insurance Benefit, Retirement Pension Benefit and Transitional Long-term Benefit businesses
Employees' pension benefits, retirement pension benefits and transitional long-term benefits refer to the various benefits, such as retirement pension, disability pension and bereaved family 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, one senior managing director, five managing directors, four directors, two standing auditors and one auditor, and 11,911 employees, as of the end of March 2019.

◆ Organization Chart (Governance Structure)

(As of the end of March 2019)



Note: The number of persons in charge of fund management related work is 24.

(1) Operations Council

1) Establishment of the Operations Council

Operations 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 Operations Council.

The Council 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 Operations 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.

(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 Investment Management Committee

(As of March 31, 2019)

Name of Members	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 Jinno	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	
Hajime 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 2018)

	Date	Major Agenda
69 th	June 8, 2018	(1) Investment management status of FY 2017 (2) Risk management status (at the end of FY 2017) (3) Manager structure (foreign equities)
70 th	June 26, 2018	(1) FY 2017 Annual Report (2) Partial revision of the Administration and Management Policy
71 st	July 23, 2018	(1) Investment management status of the first quarter FY 2018 (2) Risk management status of the first quarter FY 2018
72 nd	October 26, 2018	(1) Investment management status of the second quarter of FY 2018 (2) Risk management status (for the second quarter of FY 2018) (3) Permissible range of deviation and rebalancing
73 rd	January 25, 2019	(1) Investment management status of the third quarter of FY 2018 (2) Risk management status (for the third quarter of FY 2018) (3) Manager structure (domestic equities) (4) Investment in alternative assets (REIT, private placement)
74 th	March 14, 2019	(1) Verification of the policy asset mix (2) FY 2018 investment prospect and FY 2019 investment plan
75 th	June 7, 2019	(1) Investment management status of FY 2018 (2) Risk management status (at the end of FY 2018) (3) Manager structure (domestic equities)
76 th	June 28, 2019	(1) FY 2018 Annual Report

(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 July 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. In light of the advancement of risk management methods and diversification of financial instruments that are the subject of investment, KKR reviews the items to be risk managed as appropriate, and endeavors to strengthen the risk management capabilities.

3) Risk Management Committee

KKR has 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

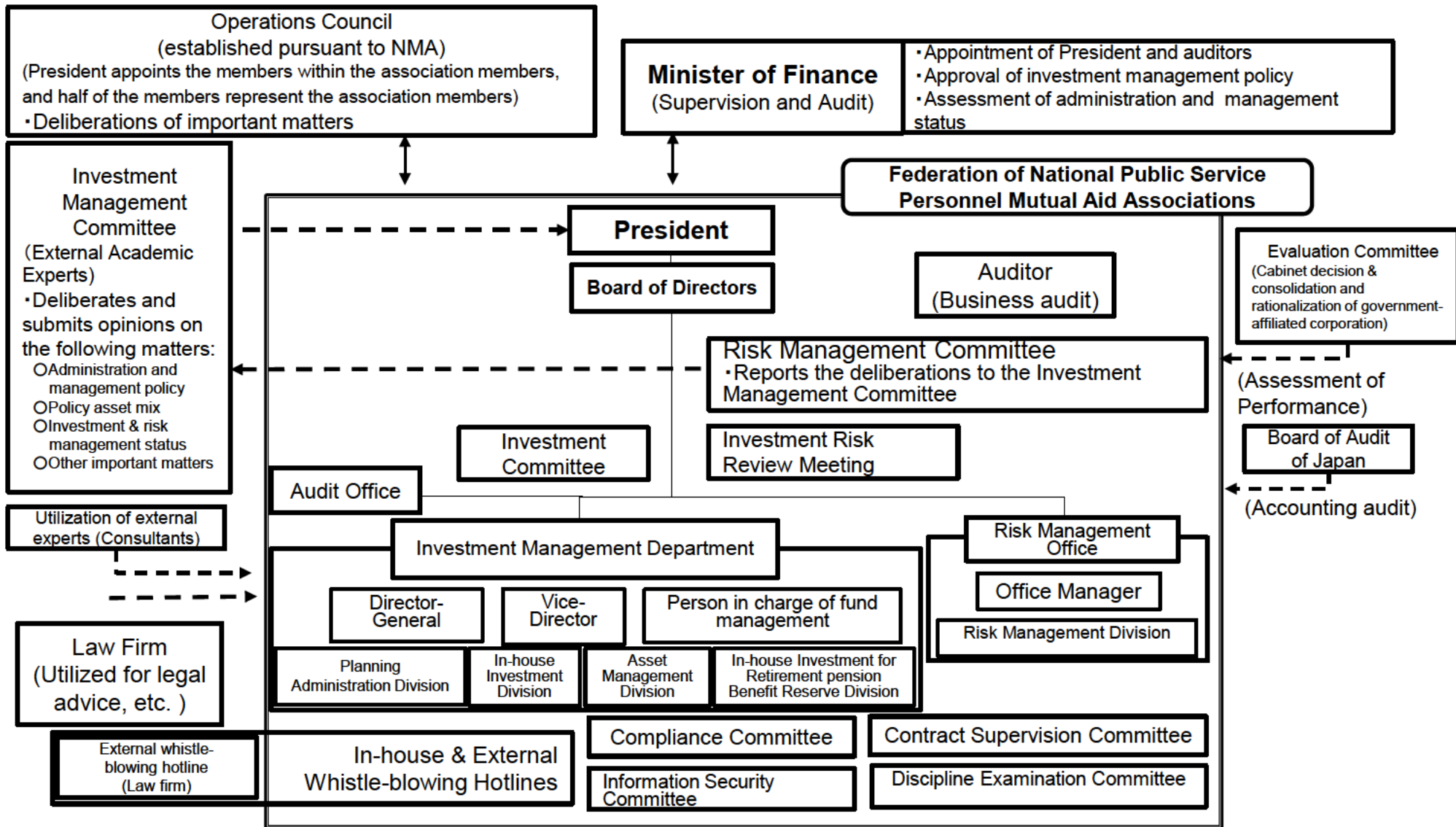
KKR has established an Investment Risk Review Meeting, consisting of officer and staff in charge of risk management etc., with the objective to monitor various risks and strengthen the risk management function in relation to management of pension reserves.

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.

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



8. Other

Matters stated in Article 5, Items 6 and 7 of the Ministry Ordinance Concerning Transitional Measures for Long-term Benefits Based on the National Public Officers Mutual Aid Association Act in connection with the Enforcement of the Partial Revision of the Employees' Pension Insurance Act for the Consolidation, etc. of Employees' Pension Schemes and Enforcement of the Partial Revision of the Act on National Public Officers' Retirement Allowance to Review, etc. the Level of Retirement Pension Benefits of Public Officers

- (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 6)

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 7)

KKR does not make investment in equities for the Transitional Long-term Benefit Reserve.