Explanation of Investment Principles

1. Our overarching goal is to contribute to the stability of the national pension system by securing the investment returns that it requires with minimal risk and from a long-term perspective, to the sole benefit of insureds.

- Japan's public pension system (Employees' Pension Insurance and National Pension) is fundamentally managed as a pay-as-you-go system that incorporates the concept of intergenerational dependency, whereby contributions paid by working generations support older generations.

- In light of the country's declining birthrate and aging population, however, future working generations would be substantially burdened if pension benefits were funded solely by these contributions. The government has therefore created a fiscal plan in which reserve assets (GPIF) are used to fund benefits and maintain fiscal equilibrium in the pension system over a span of approximately 100 years. After this period, the fund is projected to hold reserve assets equivalent to around one year's worth of benefits, which will be used to pay for subsequent generations.

- GPIF's core mission is to contribute to the stability of the national pension system by achieving the investment returns this system requires within the framework of the fiscal plan outlined above. In other words, the most significant risk for GPIF is a failure to achieve such returns.

- However, GPIF will not unnecessarily pursue high returns above all else. To reiterate, our goal is solely to secure the necessary returns required by the pension system from a long-term perspective.

- GPIF is the largest pension fund in the world, with 250 trillion yen (as of the end of March 2025) in assets under management. Securing benefits for insureds is GPIF's highest priority, and we will invest to maintain the value of reserve assets while taking market size into account.

- We will never use reserve assets to influence equity markets or to implement economic policies. We pledge to invest solely for the benefit of insureds.

2. Our primary investment strategy is diversification by asset class, region, and timeframe. While market prices may fluctuate in the short term, GPIF will take full advantage of our long-term investment horizon to achieve investment returns in a more stable and efficient manner, while simultaneously ensuring sufficient liquidity to pay pension benefits.

<<Diversified Investments>>

- As the proverb “don’t put all your eggs into one basket” suggests, safe, efficient management of investment funds requires investing in a diversified set of assets with different attributes. This applies not only to pension reserve assets but generally, and it has been demonstrated theoretically and heuristically, both in Japan and abroad.

- For example, appropriately diversifying across multiple assets with different risk/return profiles—e.g., investing in both bonds and equities—can produce the same expected returns with less volatility over the long term.

- Diversification is thus our primary investment strategy.

<<Characteristics of each asset class>>

- Bond investors can generally expect to receive principal payments at full maturity. In particular, domestic bonds play an important role in pension reserve fund management, as they are highly liquid instruments that yield yen-denominated cash required for pension benefits to insureds.

However, while public bonds are generally considered to be safer than equities, losses can arise whenever interest rates increase and market prices decrease. Furthermore, continuously investing in bonds with interest rates lower than the rate of inflation of goods and wages would result in a decline in reserve asset value in real terms.

- With respect to equity assets, on the other hand, broad market indices such as TOPIX generally move in line with economic growth and are expected to result in high, stable returns over the long term. The basic principle of equity investment is to invest in stocks whose values are expected to rise in the long term. However, in the short term, market prices can often diverge significantly from intrinsic values (fundamental values) for a variety of reasons.

- Additionally, while investing overseas enables us to benefit from global economic growth, market prices can be affected by fluctuations in foreign exchange rates and changes in the political environment in the country where the investment is made.

- While acknowledging the market fluctuations mentioned above, we believe that investing in a variety of different asset classes will contribute to achieving the investment returns required by the pension finance because: (1) market prices are expected to converge to their intrinsic values over the long term, and (2) holding a variety of asset classes provides the benefits of diversification.

<<Long-term investment horizon>>

- Similar to how long-term time deposits enjoy higher interest rates than ordinary deposits that can be withdrawn at any time, longer investment horizons generally result in higher returns.

- With a long-term investment horizon, we can avoid being forced to sell assets at disadvantageous prices and wait until market prices recover.

- Financial projections for the public pension system do not forecast the need for significant reserve asset drawdowns in the foreseeable future, which enables us to invest over a relatively long term. We aim to take advantage of this feature to achieve investment returns in a stable and efficient manner.

  The long-term nature of the reserve fund

  - The government is required to assess the current status of pension finances ("Financial Verification"), make projections, and verify its robustness at least every five years.
  - According to the latest Financial Verification released in July 2024, although depending on the economic scenario used, reserve assets are expected to trend upward over the long term then continuously decline after peaking.
  - Our view is that, to the extent it does not affect our cash-out plan, we can invest long-term both during the period when reserve assets are high as well as after drawdowns begin.

<<Securing liquidity for pension benefit payments>>

- The pension reserve managed by GPIF has the important role of providing immediate liquidity to the government's Pension Special Account ("Account") if the fund balance in the Account faces a cash shortage and pension benefit payments cannot be met.
- As such, we think it is imperative to pool proceeds from domestic bond coupons and redemptions in advance in accordance with fiscal projections, and hold an adequate level of highly liquid assets should the Account unexpectedly require an immediate liquidity injection.

3. We formulate our overall policy asset mix and manage risks at the portfolio, asset class, and investment manager level. We utilize both passive and active management in order to achieve benchmark returns (i.e., average market returns) and seek untapped profitable investment opportunities.

<<Formulating the policy asset mix>>

- When investing over the long term, rather than frequently changing the portfolio asset allocation in response to short-term market movements, determining a policy asset mix and maintaining it over a long period is more effective and yields better results.

- In this sense, formulating the policy asset mix is the most important decision GPIF has to make. Hence, a rigorous procedure is established whenever a medium-term plan, including the policy asset mix, is created or changed. When GPIF creates or changes its medium-term management plan, which includes the policy asset mix, we first obtain approval from the Board of Governors, then submit the plan to the Minister of Health, Labour and Welfare for final approval.

- GPIF formulates a policy asset mix that seeks to achieve the investment returns required for the pension system from a long-term perspective with minimal risks.

<<Risk control>>

- The most significant risk for GPIF is a failure to achieve the investment returns required for the pension system. Meanwhile, there are a variety of risks to be controlled in day-to-day investment operations.

- Such risks include not only the market risk, liquidity risk, credit risk, and country risk associated with invested assets, but also investment and monitoring process-related risks such as investment manager/custodian risk, GPIF operational risk, and other risks.

- We identify those risks associated with overall assets, each asset class, and each investment manager in advance, and monitor and manage them both regularly and on an ad hoc basis as necessary.
- Furthermore, as a long-term investor, we stay vigilant to the emergence of new risks that need to be controlled in accordance with changes in the economic environment or advances in investment diversification and sophistication, and we address such risks in a flexible and prompt manner.

<<Securing benchmark returns (i.e., average market returns)>>

- Investors trade assets in financial markets based on their own motives using a wide variety of information. Assuming a horizon long enough for information to become widely available and for many investors to conduct a massive number of transactions, market prices are expected to eventually converge to their intrinsic values and become neither undervalued nor overvalued. In this regard, markets are generally considered to be more or less efficient.
- This view is compatible with passive management (i.e., investing based on indices that reflect overall market price movements), and is useful for large long-term investors such as GPIF.
- On the other hand, the market can undervalue or overvalue security prices when public information is not sufficiently widespread amongst all investors, when markets overreact to uncertain information, or if the number of investors is limited.
- This view is compatible with active management (i.e., investment strategies that deliberately deviate from indices reflecting overall market price movements in pursuit of excess returns) and investment in alternative assets.
- GPIF utilizes both passive and active management in order to achieve benchmark returns (i.e., average market returns) while seeking untapped profitable investment opportunities

based upon a thorough examination of the fundamental sources of such investment returns.

4. We believe that sustainable growth of investee companies and the capital market as a whole is vital in enhancing long-term investment returns. In order to secure such returns for the benefit of insureds, therefore, we promote sustainability investment including those which take into account non-financial factors such as ESG and social or environmental effects (impact), in addition to financial factors.

- GPIF promotes sustainability investment that incorporates environmental, social, and governance (ESG) factors and social or environmental effects (impact) into the investment process in order to reduce negative externalities arising from environmental and social issues and thereby improve the long-term return of the overall portfolio. GPIF is particularly active in sustainability initiatives due to our position as a "universal owner" and "cross-generational investor." "Universal owner" is a term used often within the pension and sustainability investment industry, and refers to an investor whose portfolio spans the entire world capital market. With a broadly diversified portfolio comprised of the equities and bonds of the majority of Japanese listed companies and major foreign companies, GPIF is a typical "universal owner".

- Even if some portfolio companies are able to boost their share price by pursuing temporary profits at the expense of the environment and society, this could potentially have a devastating effect on the overall portfolio of a universal owner if other companies, the overall economy and society as a whole are negatively impacted. In other words, the sustainability of the capital market and society is a prerequisite for the sustainability of universal owners' portfolios.

- The concept of "universal ownership"—that is, proactively taking steps to limit the negative externalities of sustainability issues, including environmental and social issues, on the capital market—lies at the core of GPIF's sustainability investment activities. In addition, the longer into the future the sustainability risk exists, the more likely it is that the risk will materialize. Since GPIF is a "cross-generational investor" with responsibility for managing the pension finance over a span of 100 years, there is enormous benefit to integrating sustainability factors into our investment process. In other words, engaging in sustainability activities is consistent with the objective stated in the Employees' Pension Insurance Act and the National Pension Act of "managing the pension reserve "safely and efficiently, from a long-term perspective, and for the sole benefit of insureds."

- GPIF considers reducing sustainability risk and creating impact as important means of achieving its objective of increasing the long-term performance of the portfolio as a whole. By balancing "reducing sustainability risk and improving the sustainability of the market" with "securing average market returns," we aim to contribute to increasing the long-term performance of GPIF's portfolio as a whole. We will not make investments purely for impact, which would deviate from our objective of investing "for the sole benefit of insureds"

- Further, GPIF promotes investment that incorporates sustainability factors into the investment process not only for equities but also for other assets, such as fixed income and alternative assets, in order to enhance medium- to long-term investment returns for insureds.

5. In order to enhance long-term investment returns, we shall advance various initiatives (including those considering sustainability such as ESG) to promote long-termism as well as sustainable growth of investee companies and the capital market as a whole, and to fulfill our stewardship responsibilities.

- The Council of Experts Concerning the Japanese Version of the Stewardship Code assembled by the Financial Services Agency released the "Principles for Responsible Institutional Investors <Japan's Stewardship Code>" (Second Revised Version) in March, 2020. Stewardship responsibilities are defined as "institutional investors' responsibilities to aim to increase medium- to long-term investment returns for clients or beneficiaries by enhancing the corporate value and sustainable growth of investee companies through constructive, purposeful dialogue ("engagement"), based on a deep understanding of those companies and their operational environments and consideration of sustainability (medium- to long-term sustainability, including ESG factors) according to investment strategies."

- GPIF promotes constructive dialogue ("engagement") between our asset managers and the companies they invest in. If engagement improves long-term corporate value and leads to overall market growth, we benefit from higher returns. We will therefore fulfill our stewardship responsibilities by aiming to build a virtuous circle in the investment chain.

- As an asset owner in the Stewardship Code, GPIF also fulfills its stewardship responsibilities by engaging in initiatives that we are permitted to implement ourselves, by understanding and monitoring the work performed by our investment managers, by proactively engaging with these investment managers, and by disclosing an annual summary of the activities we undertake.

- Further, a set of common principles for asset owners' investment, governance, and risk management (the Asset Owner Principles) was formulated in August 2024. GPIF has endorsed and embraced the intent thereof and formulated a response policy. The principles state, as one of its fundamental rules, that “Asset owners should give consideration to the sustainable growth of investee companies by conducting stewardship activities by themselves or through the investment trustee, in order to achieve the investment targets for beneficiaries.”

- GPIF will strive to fulfill our mission of enhancing long-term returns for insureds and contribute to the stability of the pension system by engaging in a variety of stewardship activities while also considering sustainability, including ESG (environmental, social, and governance) issues. We anticipate this will lead to a reduction in risk, with higher risk-adjusted returns being realized as investment horizons lengthen.
- GPIF is promoting activities to fulfill its stewardship responsibilities in all assets.

In implementing the above Investment Principles, GPIF is committed to further bolstering the strength of our organization and earning the trust of the public.

- Establishing an investment policy that closely aligns with the Investment Principles above is meaningless if we do not have the organizational capacity to effectively implement it.
- We consider it crucial to utilize in-depth professional expertise in fulfilling our mission. GPIF is therefore committed to bringing in sufficient talent and creating an environment that encourages continuous self-improvement and where each person can utilize his or her unique capabilities while preserving a spirit of unity.