GPIF

ANNUAL REPORT FISCAL YEAR 2017

Government Pension Investment Fund

Investment Principles

1 Our overarching goal should be to achieve the investment returns required for the public pension system with minimal risks, solely for the benefit of pension recipients from a long-term perspective, thereby contributing to the stability of the system.

2 Our primary investment strategy should be diversification by asset class, region, and timeframe. While acknowledging fluctuations of market prices in the short term, we shall achieve investment returns in a more stable and efficient manner by taking full advantage of our long-term investment horizon. At the same time, we shall secure sufficient liquidity to pay pension benefits.

3 We formulate the policy asset mix and manage and control risks at the levels of the overall asset portfolio, each asset class, and each investment manager. We employ both passive and active investments to attain benchmark returns (i.e., average market returns) set for each asset class, while seeking untapped profitable investment opportunities.

4 By fulfilling our stewardship responsibilities (including the consideration of ESG (Environmental, Social, and Governance) factors) , we shall continue to maximize medium- to long-term investment returns for the benefit of pension recipients.

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- Investment results of Government Pension Investment Fund, including this annual report, are available on the Fund's website (http://www.gpif.go.jp/en).
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Message from Chairperson of the Board of Governors

Following the law amendment concerning the public pension scheme in 2016, Government Pension Investment Fund (GPIF) introduced the Board of Governors and the Audit Committee in October 2017.

The Board of Governors is comprised of a total of 10 members—nine experts with extensive knowledge and experience and the President—and makes important decisions by mutual consent. In addition, the Board of Governors supervises activities of the Executive Office in cooperation with the Audit Committee. Under this structure, there is a clear separation of roles between the Board of Governors and the Executive Office, led by the President. The separation of decision-making and supervision from execution is a governance structure generally adopted by public pension funds of foreign countries.

The purpose of implementing the governance reforms by GPIF is to become an organization worthy of greater trust of Japanese public. In this regard, the Board of Governors needs to undertake a broad range of tasks. What is of particular importance, among other things, is to put all our efforts into safely and efficiently managing pension reserve funds from a long-term perspective solely for the pension beneficiaries. In addition, we must continue making efforts to clearly explain and seek the understanding of the roles of GPIF in the whole public pension scheme, as well as its approach to and actual conditions of investment management.

With this in mind, the Board of Governors and the Executive Office will fulfill their roles adequately through mutual cooperation as we aim to meet the expectations of Japanese public.

Chairperson of the Board of Governors 平野英治

Eiji Hirano

Government Pension Investment Fund, Japan

Members of the Board of Governors

Message from President

The mandate of Government Pension Investment Fund is to contribute to the stability of the schemes of Employees' Pension Insurance and National Pension by managing and investing the pension reserve funds entrusted by the Minister of Health, Labour and Welfare and by distributing the investment return to the Pension Special Account.

In fiscal 2017, the investment return was positive thanks to factors including robust equity prices in Japan and overseas.

Taking an overview of the market environment in fiscal 2017, equity prices in Japan and overseas rose substantially, underpinned by generally favorable economic conditions and robust corporate earnings, calming of the political climate in Europe after the presidential election in France and expectations that the enactment of the U.S. tax reform bill would prop up the U.S. economy. Toward the end of the fiscal year, however, the rise in equity prices in the Japanese and overseas equity markets slowed, due to uncertainty over the U.S. trade policy, and the yen accelerated its appreciation, in particular, against the U.S. dollar in the foreign exchange market.

As a result of these developments, the annual rate of return came to +6.90%, bringing the cumulative amount of returns since fiscal 2001, when GPIF started managing pension reserve funds, to more than ¥60 trillion. Of course, the returns constantly fluctuate, so GPIF is resolved to continue to comply with the Investment Principles and the Code of Conduct and fulfil its fiduciary duty so that it can set aside the necessary amount of pension reserve funds for the public pension scheme by managing assets from a long-term perspective without being distracted by short-term market fluctuations. In this annual report for fiscal 2017, we expanded the scope of information and analysis again, as we did in the previous year, so that we can give a clearer picture of our activities.

In October 2017, GPIF implemented governance reforms, such as introduction of council decision-making, to establish a governance structure in which the company executes investment and management of pension reserve funds under the Board of Governors, which is charged with decision-making and supervision. Under this new governance structure, GPIF will carry out its operations appropriately.

We pledge to continue, through exercising fiduciary responsibilities for the pension reserve funds, fulfilling our mission of contributing to the stability of the public pension finance and the stability of the lives of Japanese public, as we aim to be an organization worthy of the public's trust. I would sincerely appreciate your continued understanding and support.

President 髙橋則広

Norihiro Takahashi

Government Pension Investment Fund, Japan

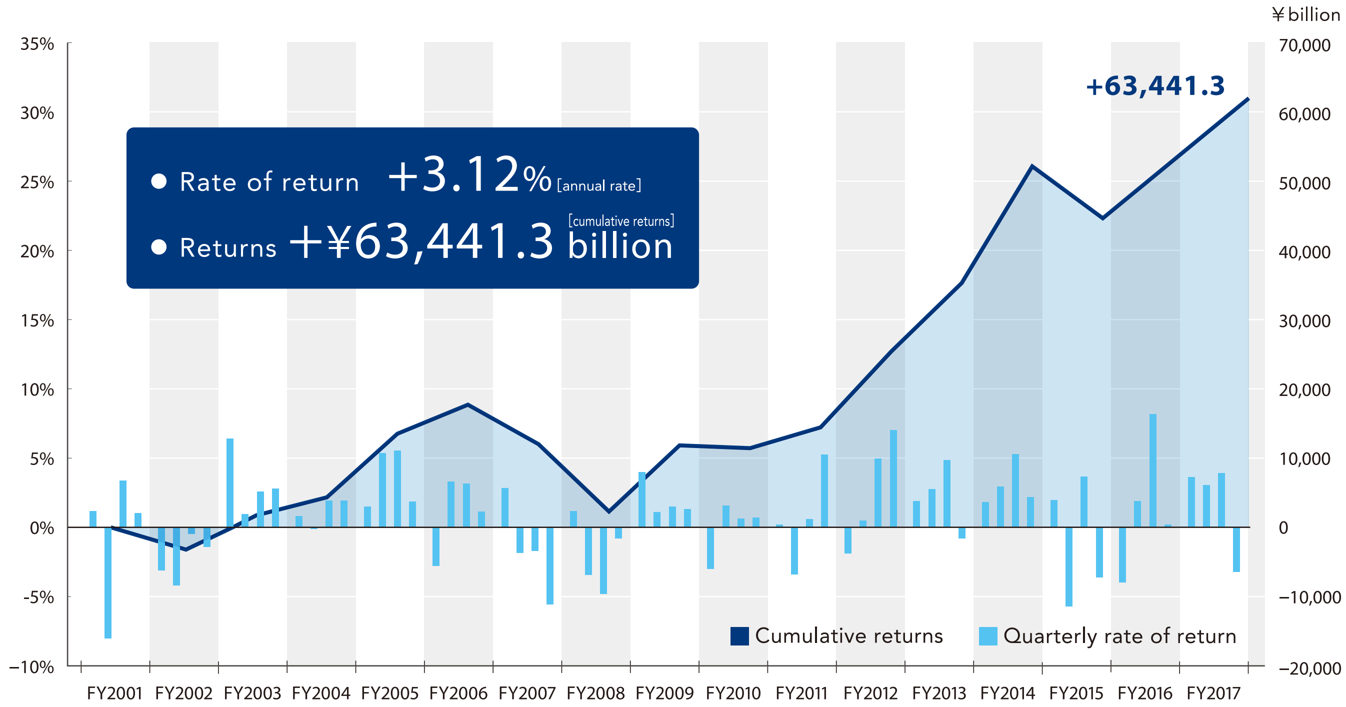
Overview of Fiscal 2017

Investment results

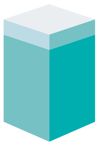
	Fiscal 2017	Since Fiscal 2001
Rate of return (Returns)	+6.90% [annual rate] (+¥10,081.0 billion) [annual returns]	+3.12% [annual rate] (+¥63,441.3 billion) [cumulative returns]
Asset size	¥156,383.2 billion [as of the end of fiscal 2017]	

Since returns are marked to market as of the end of fiscal 2017, they include unrealized gains and losses, and they are exposed to short-term market movements.

Cumulative returns since fiscal 2001

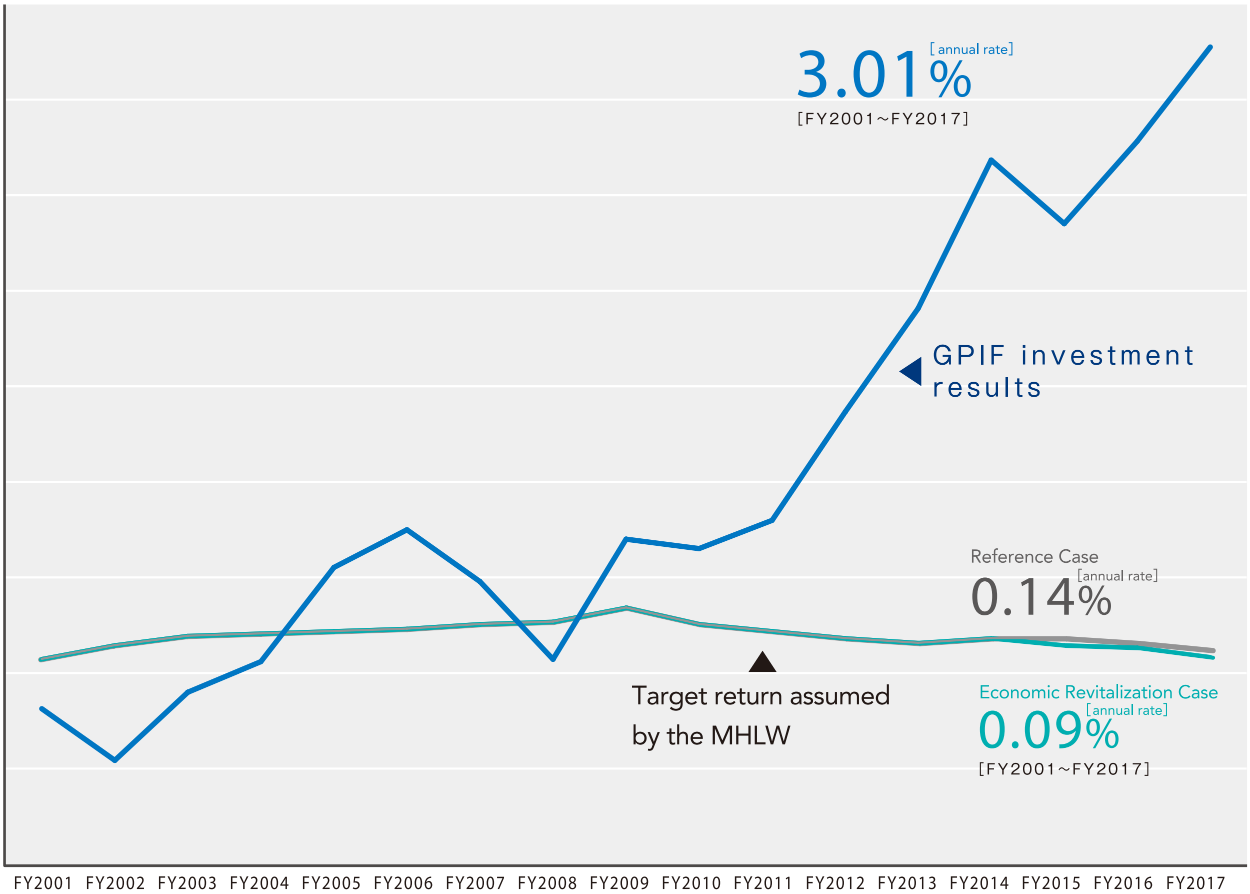


Contribution to the public pension finance

Real return on investment (cumulative)	Target return assumed by the MHLW	
 3.01% [annual rate]	Reference Case	0.14% [annual rate]
	Economic Revitalization Case	0.09% [annual rate]

GPIF's investment target is to secure a long-term real return (net investment yield on the pension reserve funds (hereinafter "pension reserve") less the nominal wage growth rate) of 1.7% with the minimal level of risk, under the Medium-term Objectives established by the Minister of Health, Labour and Welfare (MHLW).

Real return on investment (cumulative) since fiscal 2001



Note: Real return on investment (%) is calculated as (1 + nominal return on investment [%]) / (1 + nominal increase in wages [%]) -1.

Summary of the major initiatives

1 Governance Reforms
(Establishment of the Board of Governors and the Audit Committee)

Following the revision of the Act on the Government Pension Investment Fund in 2016, the Government Pension Investment Fund (GPIF) established the Board of Governors and the Audit Committee in October 2017, with the aim of shifting from an individual to a council decision-making system, separating decision-making and supervision from execution and clarifying the responsibility and authority of the Executive Office. [For details, refer to page 52.]

2 Activities as a Universal Owner and a Super long-term Investor

It is essential for GPIF, as a "universal owner" (an investor with a very large fund size and a widely diversified portfolio) ※ and a "super long-term investor" (responsible for supporting pension finance with an investment horizon of as long as 100 years), to minimize negative externalities of corporate activities (environmental and social issues, etc.) and to promote stable and sustainable growth of the overall capital market. ※[For details, refer to page 39.]

【Promoting fulfillment of the stewardship responsibilities】

In fiscal 2017, GPIF revised the Investment Principles. Then, the scope of measures aimed at fulfilling stewardship responsibilities was expanded from equity investment to all asset classes.

[For details, refer to page 32-38.]

- ○Establishment of stewardship principles and proxy voting principles
- ○Endorsement to the revised Japan's stewardship code
- ○Request for disclosure of the details of proxy voting records
- ○Engagement with external asset managers / Meetings with third-party committees of external asset managers
- ○Holding the Business and Asset Owners' Forum and the Global Asset Owners' Forum
- ○Conducting a survey of listed companies regarding institutional investors' stewardship activities

【ESG activities】

GPIF conducted stewardship activities by giving consideration to ESG (environmental, social and governance) issues not only in equity investment but also in investment in other asset classes such as bonds and alternative assets, with the objective of expanding medium- to long-term investment returns of pension beneficiaries. [For details, refer to page 39-42.]

- ○Selected ESG indices for Japanese equities
- ○Called for application for global environmental stock index
- ○Joint research program to incorporate ESG factors in fixed income investment

3 Strengthening Alignment of Interest with External Asset Managers

GPIF took various initiatives to strengthen alignment of interest with external asset managers entrusted with investing a large part of our assets.

【Call for applications through the Asset Manager Registration System】

With objectives such as enabling a flexible review of its external asset managers, GPIF deliberated on and introduced the Asset Manager Registration System in fiscal 2016, by which asset managers are called for applications for executing asset management. We expanded its scope to include external asset managers of all the four traditional asset classes: domestic and foreign bonds and domestic and foreign equities. [For details, refer to page 43.]

- ◯Call for applications for managers of foreign equity (passive and active investment)
- ◯Call for applications for managers of domestic equity (passive investment)
- ◯Call for applications for managers of alternative assets
- ◯Expansion of the scope of the Asset Manager Registration System to the four traditional asset classes

【Introduction of a new performance-based fee structure】

With the objectives of strengthening alignment of interest with active managers and managing investment capacity of active managers, GPIF introduced a full-scale performance-based fee structure from April 2018. In addition, GPIF relaxed restrictions on investment to allow active managers to better use their abilities to achieve target excess return rate as expected. [For details, refer to page 45.]

【Review of assessment methods】

GPIF reviewed assessment methods for external asset managers and shifted from comprehensive assessment based on qualitative assessment and quantitative assessment to comprehensive assessment based on qualitative assessment that takes into account quantitative performance. [For details, refer to page 45-46.]

4 Progress in Alternative Investments

GPIF has been progressing in investment in alternative assets with the aim to improve the investment efficiency and contribute to the stability of the pension system through investment diversification by incorporating alternative assets into its investment portfolio. In addition, GPIF started calling for applications from external asset managers who will pursue multi-manager investment strategies to build a portfolio of diversified investment strategies. GPIF selected external asset managers for a global-core infrastructure mandate and for a core strategy in Japan real estate mandate, and implemented relevant investments.

[For details, refer to page 24-31.]

Chapter 1 Investment Results in Fiscal 2017

1 | Investment Results

[1] Rate of investment return / Amount of investment returns, etc.

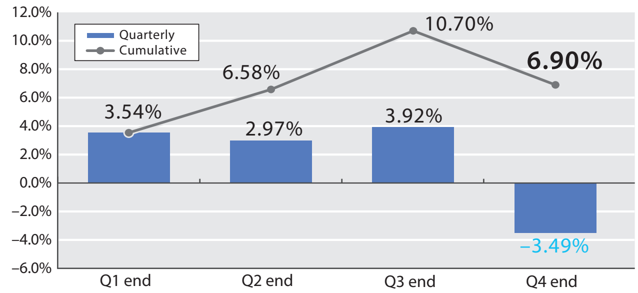
① Rate of investment return

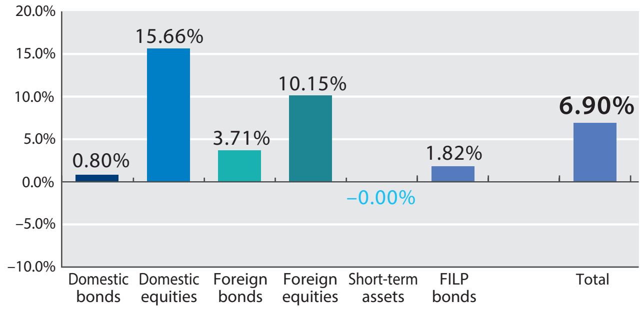
The rate of investment return for fiscal 2017 is

+6.90%

due to significant gains in returns on domestic and foreign equities.

		1stQ	2ndQ	3rdQ	4thQ	Total
Total		3.54%	2.97%	3.92%	−3.49%	6.90%
Market Investments	Domestic bonds	−0.01%	0.16%	0.39%	0.25%	0.80%
	Domestic equities	6.59%	4.79%	8.68%	−4.72%	15.66%
	Foreign bonds	4.45%	2.49%	1.21%	−4.28%	3.71%
	Foreign equities	5.48%	5.55%	5.65%	−6.35%	10.15%
	Short-term assets	0.00%	0.00%	0.00%	−0.00%	−0.00%
FILP bonds		0.45%	0.45%	0.46%	0.48%	1.82%





(Note 1) Fiscal 2017 is the year ended March 31, 2018.
(Note 2) The GPIF's portfolio consists of funds invested in the markets (hereinafter "market investment" which is marked to market) and FILP bonds (see Note 5), which are held to maturity and valued at amortized costs.
(Note 3) In this annual report, return figures are the average of returns of market investment and FILP bonds weighted with investment principal, and are gross of fees. The rate of return on each asset class other than FILP bonds is time-weighted.
(Note 4) Alternative asset funds contain a mixture of asset classes, and investment returns of such funds are allocated to each asset on a pro-rata basis according to the targeted asset composition ratio in the investment plan at the start of investment of such funds (the same shall apply hereinafter).
(Note 5) The FILP bonds are government bonds issued to finance the Fiscal Investment and Loan Program (FILP).

② Amount of investment returns

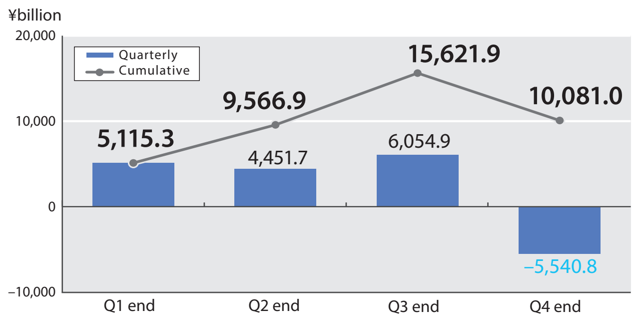
The amount of investment returns for fiscal 2017 is

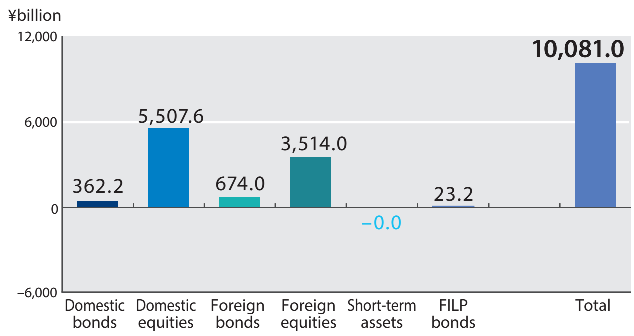
+¥10,081.0 billion

due to significant gains in returns on domestic and foreign equities.

(Unit : ¥billion)

		1stQ	2ndQ	3rdQ	4thQ	Total
Total		5,115.3	4,451.7	6,054.9	−5,540.8	10,081.0
Market Investments	Domestic bonds	−1.4	74.8	176.4	112.5	362.2
	Domestic equities	2,316.1	1,795.9	3,407.7	−2,012.1	5,507.6
	Foreign bonds	880.9	539.9	275.6	−1,022.4	674.0
	Foreign equities	1,912.4	2,034.9	2,189.9	−2,623.2	3,514.0
	Short-term assets	0.1	0.0	0.0	−0.1	−0.0
FILP bonds		7.2	6.2	5.3	4.5	23.2





(Note 1) Investment returns are gross of fees.
(Note 2) Due to rounding, the total sum of figures in individual quarters does not necessarily match the total number.

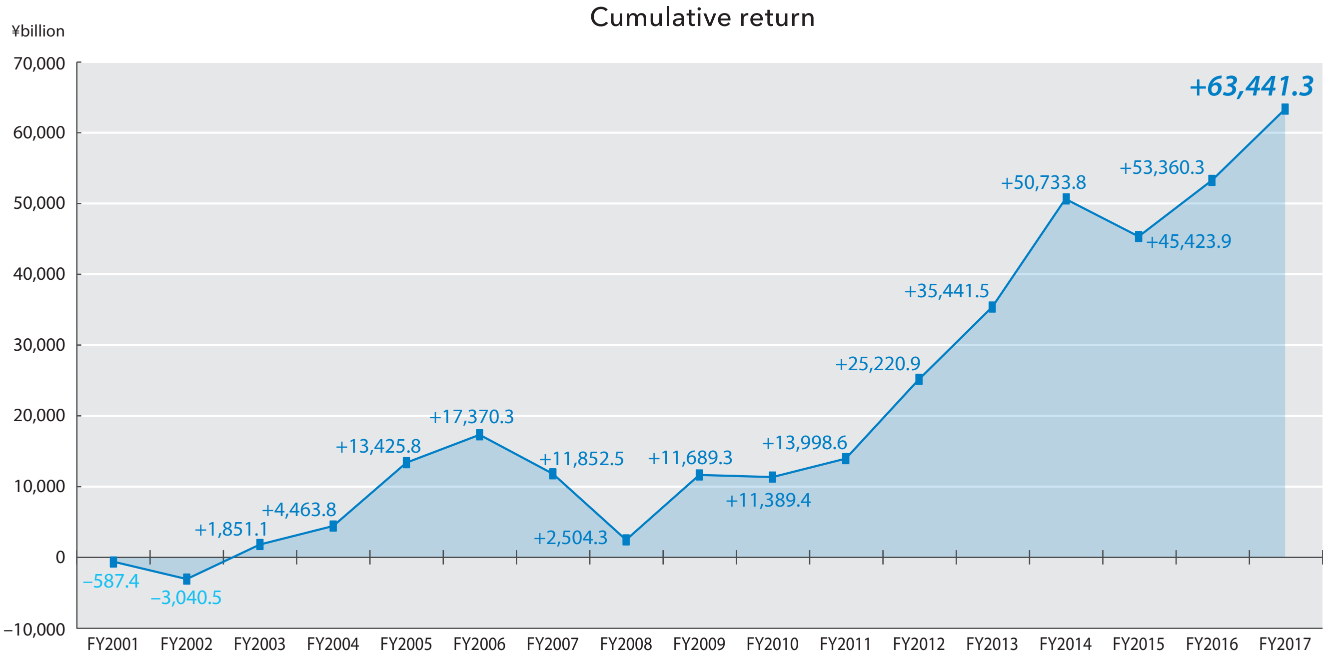
③ Cumulative returns and asset size since fiscal 2001

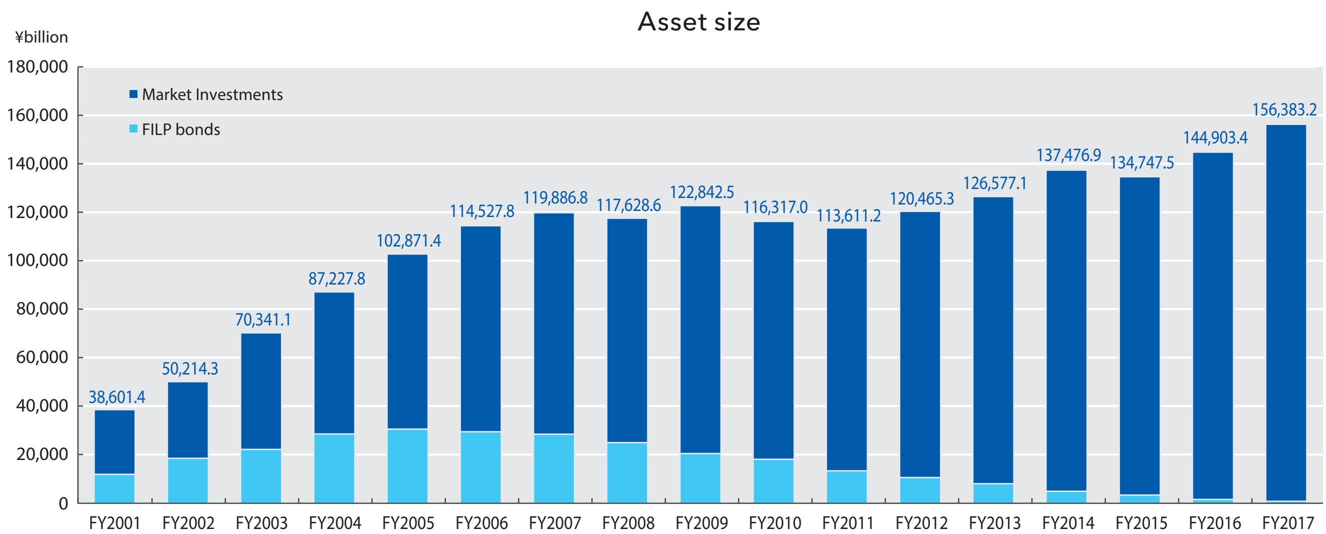
Cumulative returns from fiscal 2001 to fiscal 2017 are

+¥63,441.3 billion

and the value of investment assets at the end of fiscal 2017 is

¥156,383.2 billion





(Note) The balance of FILP bonds increased from fiscal 2001 through fiscal 2007 due to increased underwriting and decreased since then due to redemption on maturity.

④ Investment income

The returns on investment assets are valued at market prices and can be classified into investment income (interest dividend income) and capital gains and losses (realized and unrealized gains or losses due to price fluctuations). Investment of pension reserve is intended to deliver stable returns in accordance with a policy asset mix established from a long-term perspective. Therefore, investment income, which is generated in a stable stream from holdings of investment assets, is important. In particular, market price fluctuations may cause capital losses in the short term, while investment income is relatively immune to such changes and continues to bring profits constantly.

The breakdown of investment income shows that the proportion of investment income from domestic and foreign equities has been rising while that from domestic bonds has been decreasing in recent years.

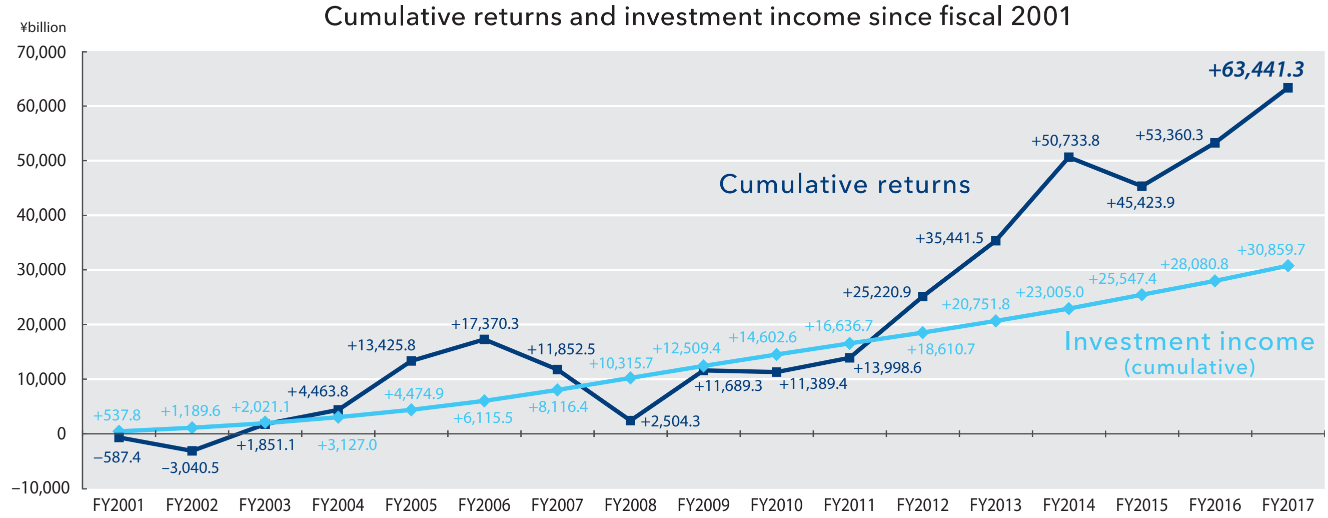
In fiscal 2017, the total amount of investment income was

¥2,778.9 billion (rate of return: +1.78%),

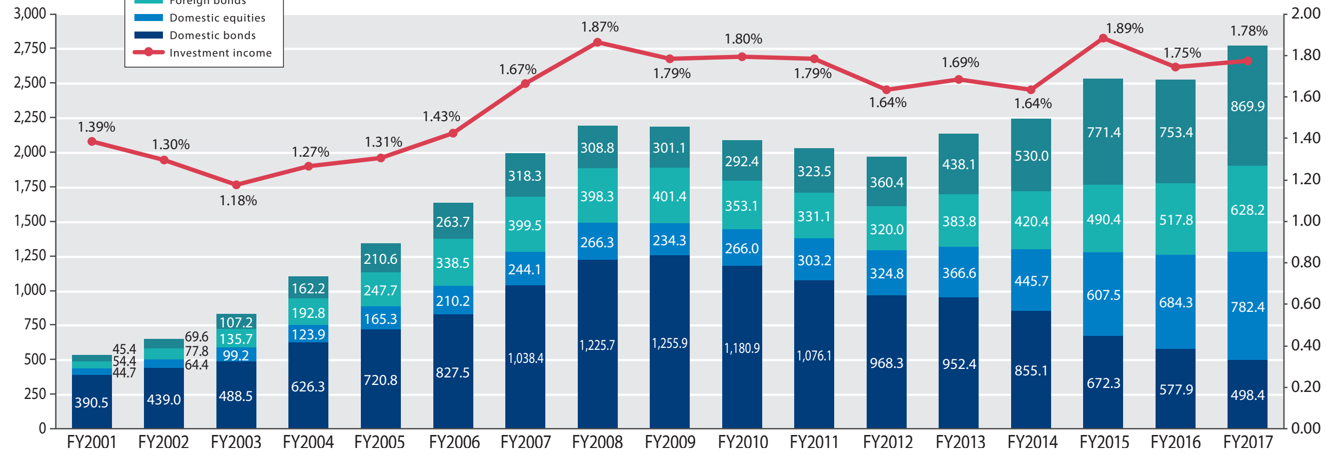
and the cumulative amount of investment income for the 17 years since fiscal 2001, when GPIF started managing pension reserve, was

¥30,859.7 billion (rate of return: +1.60%).

Cumulative returns and investment income since fiscal 2001



Rate of return, returns (Investment income)



(Unit : ¥billion)

	Cumulative	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Domestic bonds	13,794.0 (1.29%)	390.5 (1.49%)	439.0 (1.26%)	488.5 (1.03%)	626.3 (1.03%)	720.8 (1.10%)	827.5 (1.12%)	1,038.4 (1.21%)	1,225.7 (1.41%)	1,255.9 (1.51%)	1,180.9 (1.52%)	1,076.1 (1.50%)	968.3 (1.30%)	952.4 (1.36%)	855.1 (1.51%)	672.3 (1.27%)	577.9 (1.21%)	498.4 (1.12%)
Domestic equities	5,233.1 (1.53%)	44.7 (0.65%)	64.4 (0.87%)	99.2 (0.83%)	123.9 (1.00%)	165.3 (0.87%)	210.2 (1.10%)	244.1 (1.77%)	266.3 (2.34%)	234.3 (1.59%)	266.0 (1.98%)	303.2 (2.14%)	324.8 (1.85%)	366.6 (1.76%)	445.7 (1.41%)	607.5 (1.99%)	684.3 (1.95%)	782.4 (1.92%)
Foreign bonds	5,690.9 (3.27%)	54.4 (4.04%)	77.8 (3.06%)	135.7 (3.43%)	192.8 (3.33%)	247.7 (3.28%)	338.5 (3.73%)	399.5 (4.13%)	398.3 (3.98%)	401.4 (3.96%)	353.1 (3.75%)	331.1 (3.33%)	320.0 (2.71%)	383.8 (2.74%)	420.4 (2.31%)	490.4 (2.59%)	517.8 (2.63%)	628.2 (2.63%)
Foreign equities	6,125.8 (2.19%)	45.4 (1.19%)	69.6 (1.56%)	107.2 (1.81%)	162.2 (1.99%)	210.6 (1.96%)	263.7 (2.09%)	318.3 (2.92%)	308.8 (3.40%)	301.1 (2.27%)	292.4 (2.23%)	323.5 (2.48%)	360.4 (2.42%)	438.1 (2.22%)	530.0 (1.76%)	771.4 (2.48%)	753.4 (2.16%)	869.9 (2.25%)
Total	30,859.7 (1.60%)	537.8 (1.39%)	651.8 (1.30%)	831.4 (1.18%)	1,106.0 (1.27%)	1,347.9 (1.31%)	1,640.7 (1.43%)	2,000.8 (1.67%)	2,199.4 (1.87%)	2,193.7 (1.79%)	2,093.2 (1.80%)	2,034.1 (1.79%)	1,973.9 (1.64%)	2,141.1 (1.69%)	2,253.2 (1.64%)	2,542.4 (1.89%)	2,533.4 (1.75%)	2,778.9 (1.78%)

(Note 1) Due to rounding, the total sum of the figures in individual fiscal years does not necessarily match the cumulative amount of investment income.

(Note 2) The figures for domestic bonds include investment income from FILP bonds (including convertible corporate bonds only in fiscal 2001), while the total includes investment income from short-term assets.

(Note 3) The annual rate of return represents the geometric mean of the rates of return in individual fiscal years. (annualized)

⑤ Comparison to the investment return target assumed in the MHLW's actuarial valuation

The average real investment return* is **3.01%** for the 17 years since fiscal 2001 and is **3.39%** for the 12 years since GPIF was established as an incorporated administrative agency in 2006.

These returns are higher than the real investment return target assumed in the MHLW's actuarial valuation.

* The real investment return is net investment yield on the pension reserve less the nominal wage growth rate since public pension benefits are indexed to the wage until retirement and to the CPI afterwards.

GPIF's investment performance

(Unit : %)

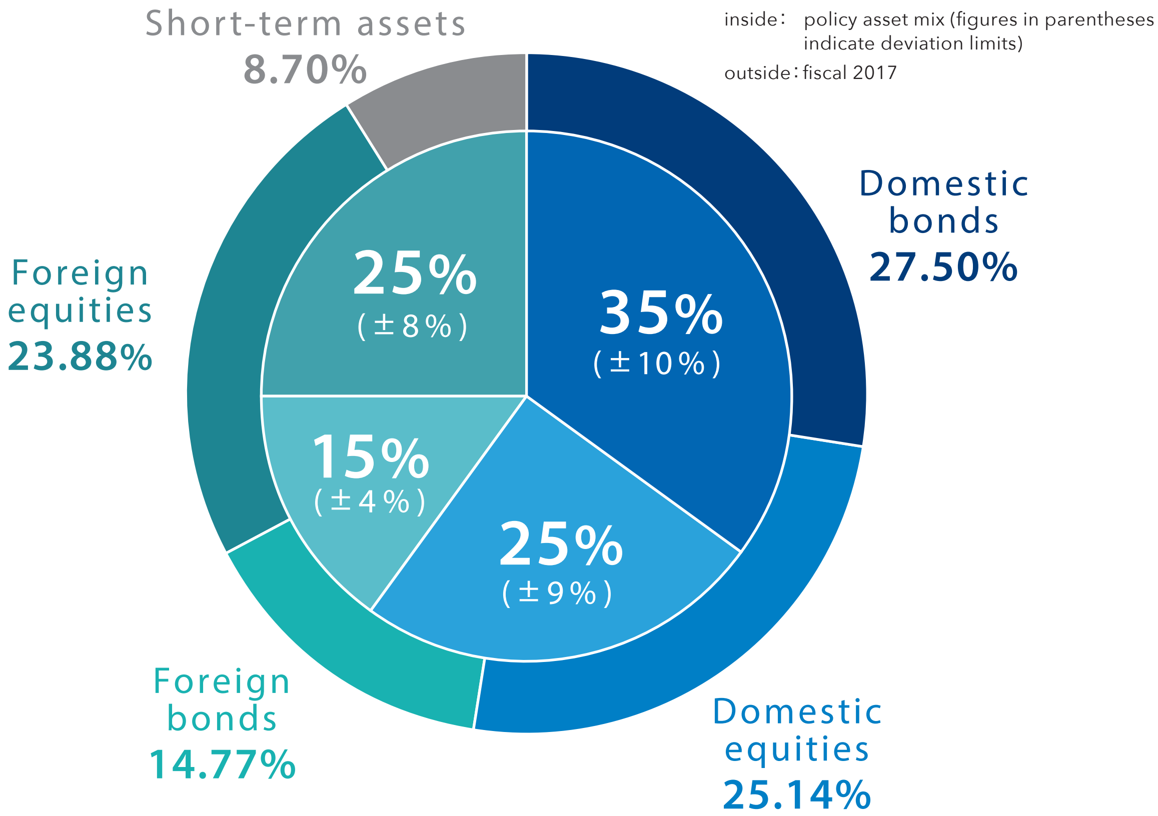
		FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	Last 12 years (annualized)	Last 17 years (annualized)
Performance	Nominal investment return (After deducting interest on debts, investment management fees, etc.)	−4.01	−6.69	7.61	2.91	9.57	3.52	−4.69	−7.61	7.88	−0.27	2.29	10.21	8.62	12.24	−3.84	5.82	6.86	3.24	2.78
	Nominal rate of increase in wages	−0.27	−1.15	−0.27	−0.20	−0.17	0.01	−0.07	−0.26	−4.06	0.68	−0.21	0.21	0.13	0.99	0.50	0.03	0.41	−0.14	−0.22
	Real investment return	−3.75	−5.61	7.90	3.11	9.76	3.51	−4.63	−7.37	12.44	−0.95	2.51	9.98	8.48	11.14	−4.31	5.79	6.43	3.39	3.01

Investment return target assumed in the MHLW's actuarial valuation

(Unit : %)

		FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	Last 12 years (annualized)	Last 17 years (annualized)
Yields used in actuarial valuation	Nominal investment return	4.00	4.00	0.80	0.90	1.60	2.30	2.60	3.00	1.47	1.78	1.92	2.03	2.23	1.34	1.88 1.61	2.17 1.88	2.57 2.13	2.11 2.02	2.15 2.09
	Nominal rate of increase in wages	2.50	2.50	0.00	0.60	1.30	2.00	2.30	2.70	0.05	3.41	2.66	2.81	2.60	1.00	2.47 1.63	2.52 2.27	3.56 2.86	2.34 2.19	2.05 1.95
	Real investment return	1.46	1.46	0.80	0.30	0.30	0.29	0.29	0.29	1.42	−1.58	−0.72	−0.76	−0.36	0.34	−0.59 −0.02	−0.35 −0.39	−0.99 −0.73	−0.22 −0.16	0.09 0.14

⑥ Investment assets and portfolio allocation
(Consolidated with GPIF and the Pension Special Account)



		Market value (¥billion)	Allocation of pension reserve(A)	Policy asset mix (B)	Deviation (A−B)
Domestic bonds		44,517.8	27.50%	35%(±10%)	−7.50%
Market investments		43,621.4	26.95%	−	−
FILP bonds	(Book value)	896.4	0.55%	−	−
	(Market value)	(972.7)	−	−	−
Domestic equities		40,699.5	25.14%	25%(±9%)	0.14%
Foreign bonds		23,910.9	14.77%	15%(±4%)	−0.23%
Foreign equities		38,662.9	23.88%	25%(±8%)	−1.12%
Short−term assets		14,084.4	8.70%	−	−
Total		161,875.5	100.00%	100.00%	−

(Note 1) The figures above are rounded, so the sums do not necessarily match the total number.
(Note 2) The amounts in the Market value column take account of accrued income and accrued expenses.
(Note 3) Book values of FILP bonds are book values by the amortized cost method plus accrued income.
(Note 4) While pension reserve as a whole include reserves managed under a special account as of the end of fiscal 2017 (about ¥5.5 trillion), this amount is prior to adjustment for revenues and expenditures and differs from the amount in final settlement of accounts.
(Note 5) Policy Asset Mix: Domestic bonds 35% (±10%), Domestic equities 25% (±9%), Foreign bonds 15% (±4%), Foreign equities 25% (±8%). The percentage of alternative investments is 0.13% (within a maximum of 5% of total portfolio).
(Note 6) The notes above apply to the following pages as well.

The allocation changes of each asset class as a result of rebalancing, during fiscal 2017

(Unit : ¥billion)

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Allocated/withdrawn	−3,738.4	+21.2	+3,556.1	+225.2

(Note 1) Each number shows the net rebalancing amount.
(Note 2) Redemptions and coupon revenue of the Special Fund for cash outflow were ¥3,225.4 billion. Redemptions and coupon revenue of the Special Fund for FILP bonds were ¥774.0 billion.

⑦ Factor analysis of difference from compound benchmark return

In fiscal 2017, the rate of return on all investment assets came to **6.90%** against a compound benchmark return of **7.26%**, representing an excess rate of return of **–0.37%**.

Taking the average for the 12 years since the GPIF's establishment in fiscal 2006, the total rate of return on all investment assets was **3.24%**, the compound benchmark rate of return was **3.23%**, and the excess return rate was **+0.00%**, respectively.

GPIF breaks down the difference between the total rate of return on all investment assets and the compound benchmark rate of return into the following three factors to ascertain which factors contribute to the deviation.

(i) Asset allocation factor : Factor resulting from differences between the policy asset mix used as the basis for calculating the compound benchmark and the actual asset mix.

(ii) Individual asset factor : Factor resulting from differences between the actual rate of return on each asset and the corresponding benchmark rate of return.

(iii) Other factors (including errors) : Factors involving both the asset allocation and individual asset factors and calculation errors(Note)

(Note) Calculation errors arise from differences in the methods of calculating the rates of return on invested assets as a whole and on the compound benchmark.

In fiscal 2017, the rate of return attributable to asset allocation factors was -0.36%. Short-term assets, which delivered lower returns, were overweight, due to continued cash inflow against assumptions resulting from a return of the substitutional part of Employee's Pension Fund, etc. as well as based on GPIF's investment decision. The rate of return attributable to individual asset factors was +0.00%.

Factor analysis of the difference from the compound benchmark return in fiscal 2017

	Rate of return			Factor analysis of excess rate of return			
	Return of GPIF	Benchmark return on each asset	Excess rate of return	Asset allocation factor (1)	Individual asset factor (2)	Other factors (including error)(3)	(1)+(2)+(3)
Total	+6.90%	+7.26%	–0.37%	–0.36%	+0.00%	–0.01%	–0.37%
Domestic bonds	+0.83%	+0.77%	+0.06%	+0.16%	+0.02%	–0.00%	+0.18%
Domestic equities	+15.66%	+15.87%	–0.21%	–0.03%	–0.05%	+0.00%	–0.08%
Foreign bonds	+3.71%	+4.23%	–0.52%	+0.02%	–0.08%	+0.00%	–0.06%
Foreign equities	+10.15%	+9.70%	+0.46%	–0.06%	+0.11%	–0.00%	+0.05%
Short–term assets	-0.00%	-0.00%	0.00%	–0.45%	0.00%	0.00%	–0.45%

(Note) The "compound benchmark return" is expressed in terms of an annualized rate calculated on the basis of the "compound benchmark rate return (monthly basis)," which was obtained by weight-averaging the benchmark rates of return on individual assets according to the shares in the policy asset mix (domestic bonds: 35%; domestic equities: 25%; foreign bonds: 15%; foreign equities: 25%).

Factor analysis of the difference from the compound benchmark return on overall assets (from fiscal 2006 to 2017)

	Rate of return			Factor analysis of excess rate of return			
	Return of GPIF	Benchmark return on each asset	Excess rate of return	Asset allocation factor (1)	Individual asset factor (2)	Other factors (including error)(3)	(1)+(2)+(3)
FY2006~FY2017	3.24%	3.23%	+0.00%	+0.00%	+0.01%	–0.01%	+0.00%
FY2006	4.56%	4.64%	–0.08%	–0.06%	–0.00%	–0.02%	–0.08%
FY2007	–6.10%	–6.23%	+0.13%	+0.17%	–0.02%	–0.02%	+0.13%
FY2008	–7.57%	–8.45%	+0.88%	+0.90%	–0.12%	+0.11%	+0.88%
FY2009	7.91%	8.54%	–0.63%	–0.70%	+0.08%	–0.01%	–0.63%
FY2010	–0.25%	–0.02%	–0.23%	–0.26%	+0.12%	–0.09%	–0.23%
FY2011	2.32%	2.59%	–0.27%	–0.19%	–0.01%	–0.07%	–0.27%
FY2012	10.23%	9.00%	+1.24%	+1.40%	+0.03%	–0.19%	+1.24%
FY2013	8.64%	7.74%	+0.90%	+0.92%	–0.06%	+0.04%	+0.90%
FY2014 from Apr.1 to Oct.30	3.97%	3.50%	+0.46%	+0.47%	–0.03%	+0.02%	+0.46%
FY2014 from Oct.31 to Mar.31,2015	8.19%	9.98%	–1.78%	–1.99%	+0.01%	+0.19%	–1.78%
FY2015	–3.81%	–3.81%	+0.00%	+0.21%	–0.15%	–0.06%	+0.00%
FY2016	5.86%	6.22%	–0.37%	–0.66%	+0.33%	–0.04%	–0.37%
FY2017	6.90%	7.26%	–0.37%	–0.36%	+0.00%	–0.01%	–0.37%

(Note 1) The annual rate of return of GPIF's investment and benchmark rate of return represent the geometric mean of the rates of return in individual fiscal years (an annualize rate).
(Note 2) For the period from fiscal 2006 to 2007, analysis of the difference between the rate of return on market investments (time-weighted rate of return) and the compound benchmark return was conducted. For the period from fiscal 2008 onwards, analysis of the difference between the rate of return on overall invested assets (modified total return) and the compound benchmark return was conducted.
(Note 3) For the period from fiscal 2006 to 2007, the rate of return for GPIF (overall assets) represents the geometric mean of the rates of return on market investments in individual fiscal years, and for the period from fiscal 2008 onwards, it represents the geometric mean of the modified total returns in individual years.
(Note 4) The figures for the period from fiscal 2008 onwards also reflect the rate of return on FILP bonds.

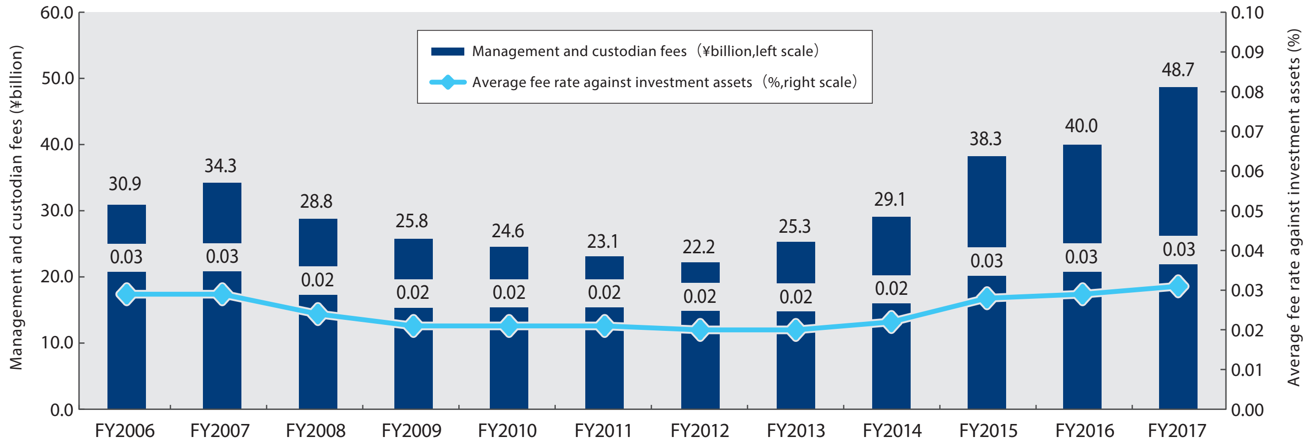
⑧ Fees and expenses

In fiscal 2017, total fees were **¥48.7 billion**

The average rate of the total fees against the investment assets for fiscal 2017 was **0.03%**

Total fees rose by ¥8.7 billion from the previous fiscal year, due to an increase in investment assets, but the average fee rate against investment assets was lower than that of overseas public pension funds.

Management and custodian fees



Fees by asset class

(Unit : ¥billion)

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Total	30.9	34.3	28.8	25.8	24.6	23.1	22.2	25.3	29.1	38.3	40.0	48.7
Domestic bonds	8.5	10.2	10.0	7.1	6.7	6.4	4.7	3.6	3.8	3.8	3.9	4.0
Domestic equities	9.8	9.6	7.0	6.6	6.5	6.2	5.9	7.8	5.7	8.3	8.8	10.6
Foreign bonds	4.9	6.3	6.1	6.0	5.6	5.2	5.7	6.8	8.5	9.1	12.5	17.2
Foreign equities	7.7	8.2	5.6	6.1	5.8	5.3	6.0	7.2	11.2	17.0	14.9	16.9

(Note) The total includes fees and expenses related to alternative assets.

Average rate of fees against externally managed assets

(Unit : %)

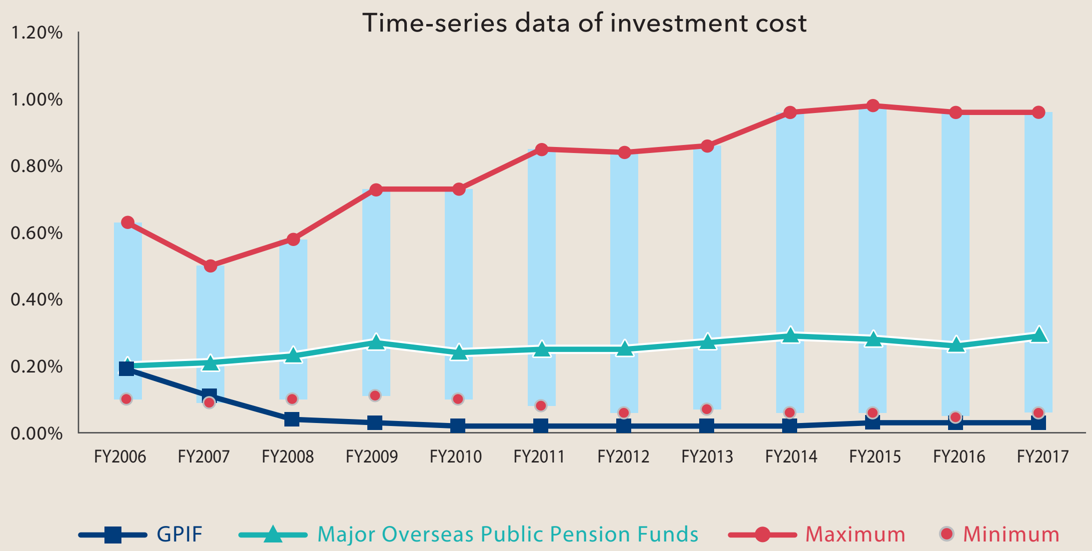
	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Total	0.03	0.03	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.03	0.03	0.03
Domestic bonds	0.03	0.02	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.03	0.03
Domestic equities	0.05	0.06	0.06	0.05	0.05	0.05	0.04	0.04	0.02	0.03	0.03	0.03
Foreign bonds	0.06	0.07	0.06	0.06	0.06	0.06	0.06	0.05	0.05	0.05	0.07	0.08
Foreign equities	0.07	0.06	0.06	0.05	0.05	0.04	0.04	0.04	0.05	0.05	0.05	0.04
Average balance (¥trillion)	107.7	120.2	119.6	123.9	118.1	112.0	111.5	123.9	131.9	139.0	137.3	155.7

(Note 1) For FILP funds subject to private investment, monthly average balances of book values through the amortized cost method are used.
(Note 2) Management and custodian fees are rounded off to the nearest ¥100 million.

(Column) Comparison of Investment Cost between GPIF and Major Overseas Public Pension Funds

GPIF's investment cost averaged 0.05% over the past 12 years, which is lower than that of overseas public pension funds. The investment cost data of overseas public pension funds represents the average figure of the following nine institutions (Note 1).

The reasons for GPIF's low investment cost are: (1) the majority of GPIF's holdings are allocated to passive funds. Since a large portion of investment cost accounts for the management and custodian fees, and those for passive funds are economical, the average fee rate against investment assets is low.



(Note 1) Canada Pension Plan Investment Board (CPPIB: Canada), The Government Pension Fund Global (GPFG: Norway), California Public Employees' Retirement System (CalPERS: the U.S.), California State Teachers' Retirement System (CalSTRS:the U.S.), Swedish National Pension Fund (AP1, AP2, AP3, AP4: Sweden) and National Pension Service (NPS: South Korea)

(Note 2) Investment cost includes investment management fees and general and administrative expenses under operational expenses.

[2] Portfolio risk management

The purpose of investment management of pension reserve is to contribute to stable management of public pension scheme into the future through stable and efficient management from a long-term perspective solely for the pension beneficiaries. Based on this principle, GPIF performs portfolio risk management in accordance with the following basic policies.

(1) GPIF formulates the policy asset mix and appropriately manages it to ensure the achievement of investment return required for the pension finance with the minimum risk.

(2) GPIF adopts a basic principle for risk management of diversifying investment portfolios across multiple asset classes with different risk-return profiles, etc.

(3) GPIF performs risk management at each level of the overall asset portfolio, asset class, and external asset manager, etc., as well as ensuring the achievement of the benchmark rate of returns for each asset class.

(4) GPIF carries out flexible investment based on a proper outlook for the market environment, within a permissible range of deviation for the policy asset mix, upon thorough analysis on the current trends marked by the fast-changing economic and market environment. Meanwhile, GPIF's investment should not, by any means, be based on a speculative outlook on the market environment but a highly reliable one.

(5) Although there are short-term fluctuations in market prices, GPIF aims to earn investment returns more stably and efficiently by taking advantage of its long-term investment horizon and maintain the liquidity necessary for a pension payout. In order to assure liquidity without shortage, GPIF takes appropriate measures including selling assets smoothly while giving consideration to market price formation, etc.

(6) Regarding investment and management of pension reserve, GPIF endeavors to strengthen its expertise, clarify the system of accountability, and implement thorough compliance with the duty of care and fiduciary duty of a prudent expert.

Risks subject to our portfolio risk management are market risk, liquidity risk, credit risk, and country risk.

Market risk	The risk of changes in the value of portfolio assets, including derivatives, due to fluctuations in various market risk factors such as interest rates, foreign exchange rates, equities, and alternative assets
Liquidity risk	The risk of facing a difficulty in securing necessary funds or incurring losses due to being forced to raise funds at an interest rate significantly higher than normal, resulting from reasons such as an unexpected increase in cash outflow (cash management risk) and the risk of incurring losses resulting from the inability to conduct market transactions due to confusion in the market or being forced to conduct market transactions at prices significantly disadvantageous than normal (market liquidity risk)
Credit risk	The risk of incurring losses due to reduction or elimination of the value of assets, including derivatives, due to factors such as deterioration in the financial position of issuers of the portfolio assets, institutions entrusted with asset management, etc. or counterparties of derivatives transactions
Country risk	The risk of incurring losses in foreign assets due to foreign currency situations or political and economic conditions of countries relevant to the said assets

Regarding the process for managing the above portfolio risks, GPIF makes necessary decisions on risk control upon grasping risks based on measurements on tracking error, Value at Risk (VaR), and stress test outcomes, etc. and qualitative information and performing periodic risk monitoring and reporting.

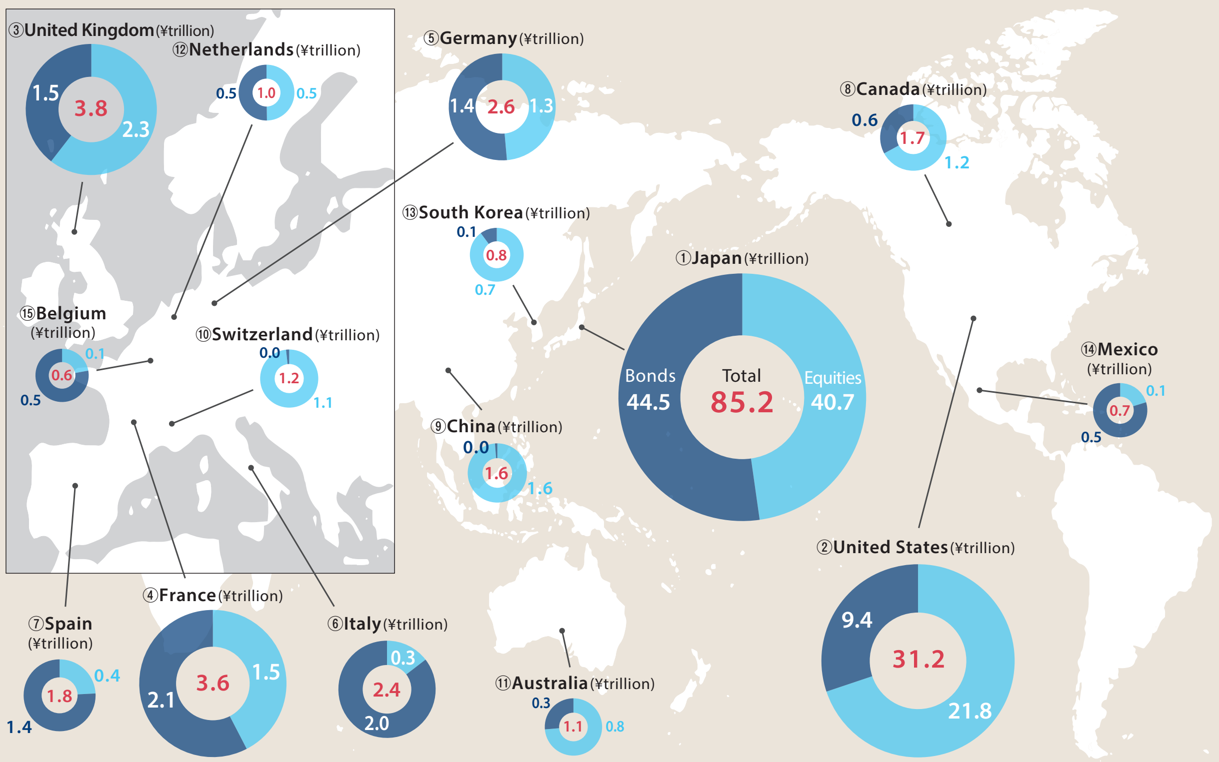
The Executive Office monitors and reports risks mainly at the Portfolio Risk Management Committee and holds deliberations on risk control at the Investment Committee. In addition, the Board of Governors receives reports from the Executive Office and deliberates on important matters related to portfolio risk management.

In fiscal 2017, following the full-scale implementation of the total risk management system (Note), GPIF conducted VaR analysis, stress tests based on past events and virtual scenarios and analysis of profit and loss simulation of changes in interest rates and equity prices, and implemented more advanced, dual-track portfolio risk management. From the aspect of credit risk management, we conducted credit risk analysis for relaxing restrictions on active bond investment and verified the impact of such relaxation of restrictions. In addition, following the elimination of investment restrictions by country, we reviewed the framework of country risk management by taking measures, such as providing country ratings and introducing credit exposure management by country rating. As for alternative assets, we performed a risk review on candidates for external asset managers in accordance with the framework of portfolio risk management established in the previous fiscal year.

(Note) A total risk management system is a system designed to analyze the portfolio risk of investment assets, made up of four traditional asset classes of domestic and foreign bonds and domestic and foreign equities, as well as alternative assets.

(Column) Investment Amount Classified by Country

Top 15 countries by amount invested as of the end of March 2018 are as follows.



(Note 1) Classifications of countries are determined by countries of issuers for bond investment and by MSCI Country Classification for equity investment.
(Note 2) The figure for China excludes that for Hong Kong.

Asset Allocation, Tracking Error and VaR

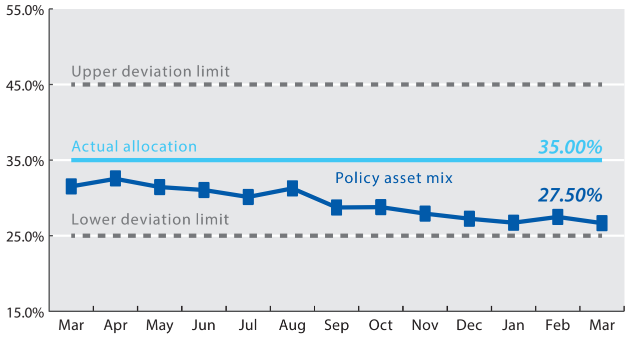
Changes in asset allocation during fiscal 2017 stayed within the permissible range throughout the fiscal year.
The estimated tracking error (Note 1) of the entire pension reserve was stable throughout the fiscal year, with no major changes.

Value at Risk (VaR) (Note 2) of the overall pension reserve was on a downward trend over the course of the fiscal year due to a low volatility environment in the market, even though there was a temporary increase following the sharp slide in the equity market in February.

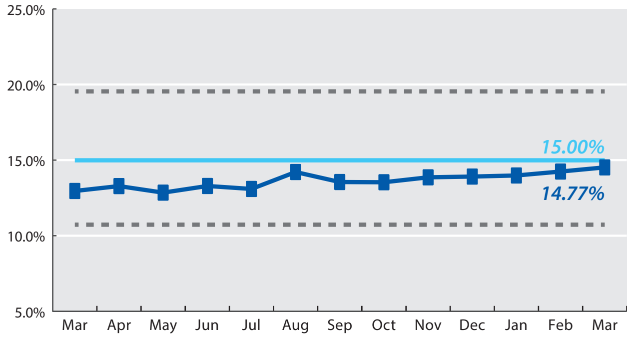
(Note 1) Tracking error measures the standard deviation of the difference (excess rate of return) between the benchmark rate of return and the rate of return of an investment portfolio.
(Note 2) The largest loss likely to be suffered on an investment portfolio assuming a certain holding period with a given probability (confidence level).

Asset Allocation

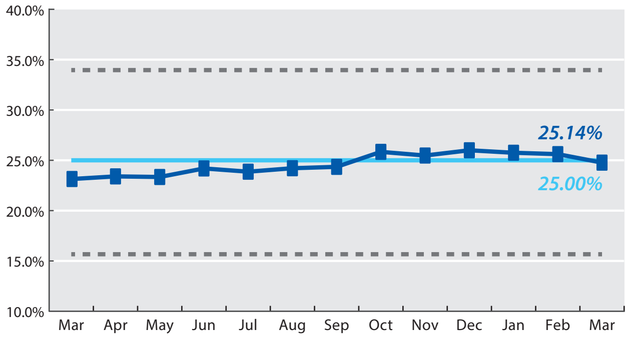
Domestic bonds



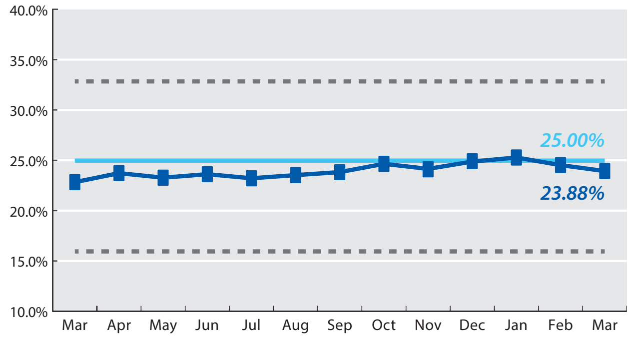
Foreign bonds



Domestic equities



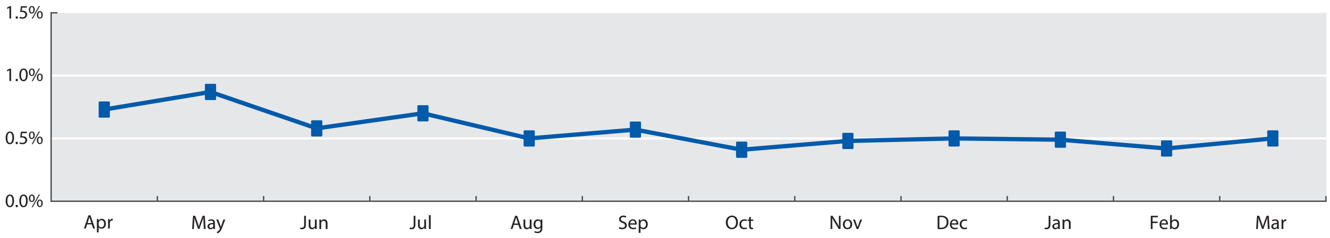
Foreign equities



(Note 1) Asset allocation is calculated including reserves managed in the Pension Special Account.
(Note 2) The permissible range of deviation is ± 10% for domestic bonds, ± 9% for domestic equities, ± 4% for foreign bonds, and ± 8% for foreign equities.

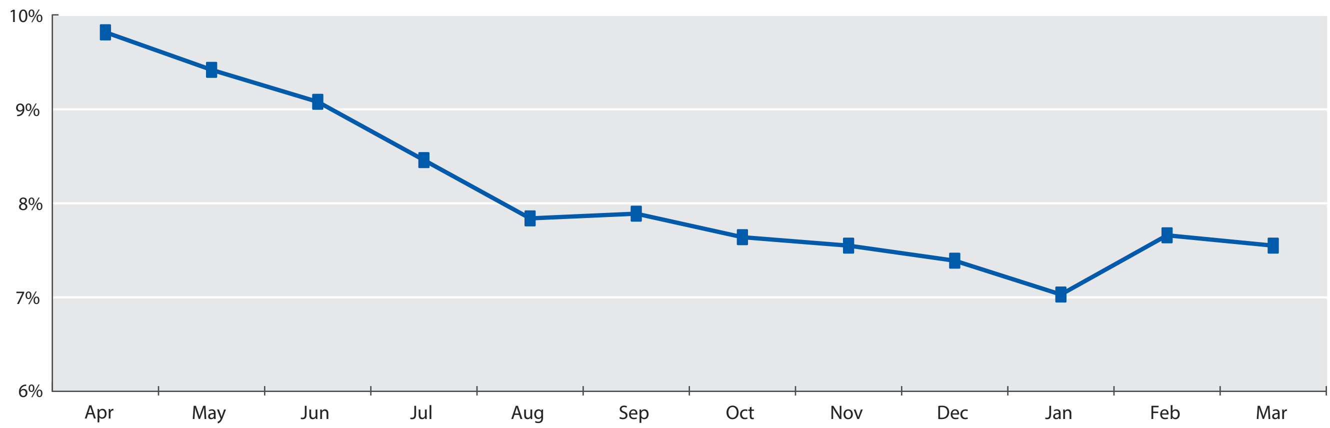
[Estimated tracking error and Value at Risk of overall pension reserve]

Estimated tracking error



VaR (Value at Risk)

Risk amount



(Note) VaR is calculated using the delta method over a one-year holding period and two-year observation period, with a standard deviation of one (confidence level: 84%).

2 | Status of Investment in Each Asset Class

[1] Domestic bonds

① Excess rate of return

Concerning domestic bond investment (market investment), the excess rate of return over the benchmark was +0.06% (+0.20% for active investment and +0.02% for passive investment). In active investment, the return outperformed the benchmark due to the positive contributions of security selection in the government bond sector. In passive investment, the return was comparable with the benchmark. For overall domestic bond investment as well, the rate of return was in line with the benchmark.

② Contribution analysis of excess rate of return

The breakdown of the excess rate of return (+0.06%) on domestic bond investment (market investment) by factor is as follows: fund factors(Note 1): +0.06%; benchmark factors(Note 2): -0.00%; other factors(Note 3): -0.00%.

Time–weighted rate of return (1)	Benchmark (2)	Excess rate of return (1) – (2)	Fund factors	Benchmark factors	Other factors
0.80%	0.74%	+0.06%	+0.06%	–0.00%	–0.00%

The excess rate of return entered positive territory mainly because the rate of return on active investment using NOMURA-BPI plus Inflation-Linked bonds as the managers' benchmark was higher than the rate of return of the managers' benchmark.

Factor analysis by managers' benchmarks, etc.

	NOMURA–BPI (excluding ABS) (passive)	NOMURA–BPI government bonds (passive)	NOMURA–BPI/ GPIF Customized (passive)	NOMURA-BPI plus infration-Linked bonds (active)	Inflation–Linked bonds (active)	Alternative (active)	Total
Fund factors	+0.00%	+0.02%	–0.00%	+0.05%	–0.01%	–0.00%	+0.06%
Benchmark factors	+0.02%	+0.06%	–0.17%	+0.02%	+0.06%	+0.00%	–0.00%

(Note1) Fund factors refer to those resulting from differences in rates of return between individual funds and managers' benchmarks. They are calculated taking into consideration the market total average balance of each fund. The manager's benchmark for inflation-indexed domestic-bond funds is calculated using NOMURA-Inflation-Linked bonds (with the principal repayment guaranteed).

(Note 2) Benchmark factors refer to those resulting from differences in the rates of return between managers' benchmarks and the benchmark (a compound index consisting of NOMURA-BPI [excluding ABS], NOMURA-BPI government bonds, NOMURA-BPI/GPIF Customized, NOMURA-Inflation-Linked bonds (with the principal repayment guaranteed) and NOMURA-BPI plus Inflation-Linked bonds [weighted average according to each asset type's share of the investment amount]). They are calculated taking into consideration the market total average balance of each fund.

(Note 3) Other factors refer to calculation errors and such.

[2] Foreign bonds

① Excess rate of return

The excess rate of return over the benchmark was -0.52% (-1.68% for active investment and +0.24% for passive investment). In active investment, the excess return was negative mainly because the market value composition of EUR bonds was underweight relative to the benchmark and the market value composition of USD bonds was overweight relative to the benchmark. In passive investment, the excess return was positive mainly because the market value composition of EUR bonds was overweight relative to the benchmark.

② Contribution analysis of excess rate of return

The breakdown of the excess rate of return (-0.52%) on foreign bond investment by factor is as follows: fund factors(Note 1): +0.22%; benchmark factors(Note 2): -0.70%; other factors(Note 3): -0.04%.

Time-weighted rate of return (1)	Benchmark (2)	Excess rate of return (1) – (2)	Fund factors	Benchmark factors	Other factors
3.71%	4.23%	-0.52%	+0.22%	-0.70%	-0.04%

The negative excess rate of return reflected the underperformance of the managers' benchmark for global and U.S. aggregate investments relative to the benchmark for foreign bonds (a fund factor).

Factor analysis by managers' benchmarks, etc.

	WGBI (passive)	U.S. government 1-3years (passive)	Europe government (passive)	Global aggregate (active)	U.S. aggregate (active)	Europe aggregate (active)	Inflation-Linked (active)	U.S. high-yield (active)	Europe high-yield (active)	Emerging U.S. dollar (active)	Emerging local currency (active)	Alternative (active)	Total
Fund factors	+0.08%	-0.00%	+0.00%	+0.04%	+0.03%	+0.02%	+0.00%	-0.00%	+0.00%	+0.00%	+0.01%	+0.03%	+0.22%
Benchmark factors	0.00%	-0.06%	+0.13%	-0.55%	-0.31%	+0.11%	-0.00%	-0.06%	+0.04%	-0.01%	+0.01%	0.00%	-0.70%

(Note 1) Fund factors refer to those resulting from differences in rates of return between individual funds and managers' benchmarks. They are calculated taking into consideration the market total average balance of each fund.
(Note 2) Benchmark factors refer to those resulting from differences in rates of return between managers' benchmarks and the benchmark (FTSE World Government Bond Index [not incl. JPY, no hedge/JPY basis]). They are calculated taking into consideration the market total average balance of each fund.
(Note 3) Other factors refer to calculation errors and such.

[3] Domestic equities

① Excess rate of return

The excess rate of return over the benchmark was -0.21% (+2.04% for active investment and -0.43% for passive investment). In active investment, security selection in the machinery, services, and precision equipment sectors contributed to the outperformance relative to the benchmark. In passive investment, the excess return was negative reflecting the underperformance of the non-TOPIX benchmark relative to TOPIX.

② Contribution analysis of excess rate of return

The breakdown of the excess rate of return (–0.21%) on overall domestic equity investment by factor is as follows: fund factors(Note 1): +0.26%; benchmark factors(Note 2): –0.45%; other factors(Note 3): –0.03%.

Time–weighted rate of return (1)	Benchmark (2)	Excess rate of return (1) – (2)	Fund factors	Benchmark factors	Other factors
15.66%	15.87%	–0.21%	+0.26%	–0.45%	–0.03%

The negative excess rate of return reflected the underperformance of the returns of the NOMURA RAFI and S&P GIVI Japan, which are managers' benchmarks, relative to the rate of return of the benchmark for domestic equities (a benchmark factor).

Factor analysis by managers' benchmarks, etc.

	TOPIX (passive)	JPX Nikkei 400 (passive)	MSCI Japan Standard (passive)	RUSSELL/NOMURA Prime (passive)	NOMURA RAFI (passive)	S&P GIVI Japan (passive)	MSCI Japan ESG Select Leaders (passive)	MSCI Japan Empowering Women (passive)	FTSE Blossom Japan (passive)
Fund factor	+0.01%	+0.00%	+0.00%	+0.00%	+0.00%	+0.01%	+0.00%	+0.00%	–0.00%
Benchmark factors	0.00%	–0.06%	–0.04%	–0.01%	–0.14%	–0.11%	–0.02%	–0.01%	–0.01%

	TOPIX (active)	RUSSELL/NOMURA Large Cap Value (active)	RUSSELL/NOMURA Small Cap (active)	MSCI Japan Small (active)	Alternative (active)	Total
Fund factor	+0.14%	+0.02%	+0.09%	+0.00%	+0.00%	+0.26%
Benchmark factors	0.00%	–0.09%	+0.02%	+0.02%	0.00%	–0.45%

(Note 1) Fund factors refer to those resulting from differences in rates of return between individual funds and managers' benchmarks. They are calculated taking into consideration the market total average balance of each fund.
(Note 2) Benchmark factors refer to those resulting from differences in rates of return between managers' benchmarks and the benchmark (TOPIX dividends included). They are calculated taking into consideration the market total average balance of each fund.
(Note 3) Other factors refer to calculation errors and such.

[4] Foreign equities

① Excess rate of return

The excess rate of return over the benchmark was +0.46% (+3.16% for active investment and +0.04% for passive investment). In active investment, the return outperformed the benchmark because of the positive contributions of the portfolio being overweight in the software and services sector in terms of the market value composition relative to the benchmark and security selection, etc. in the software and services sector and the healthcare equipment and services sector in the developed-country markets. In the emerging-country market, the portfolio being underweight in the software and services sector in terms of the market value composition and security selection, etc. in the telecommunication services sector contributed negatively. In passive investment, the return was in line with the benchmark.

② Contribution analysis of excess rate of return

The breakdown of the excess rate of return (+0.46%) on foreign equity investment by factor is as follows: fund factors(Note 1): +0.56%; benchmark factors(Note 2): -0.10%; other factors(Note 3): -0.00%.

Time–weighted rate of return (1)	Benchmark (2)	Excess rate of return (1) – (2)	Fund factors	Benchmark factors	Other factors
10.15%	9.70%	+0.46%	+0.56%	–0.10%	–0.00%

The outperformance of active investment in developed-country markets relative to the managers' benchmark (a fund factor) made positive contributions.

Factor analysis by investment styles

	ACWI (passive)	Europe&Middle East (passive)	Emerging (passive)	Developed (active)	Emerging (active)	Alternative (active)	Total
Fund factors	+0.03%	–0.00%	–0.00%	+0.54%	–0.01%	–0.00%	+0.56%
Benchmark factors	+0.00%	–0.00%	+0.00%	–0.17%	+0.06%	+0.000%	–0.10%

(Note 1) Fund factors refer to those resulting from differences in rates of return between individual funds and managers' benchmarks. They are calculated taking into consideration the market total average balance of each fund.
(Note 2) Benchmark factors refer to those resulting from differences in rates of return between managers' benchmarks and the benchmark (MSCI ACWI [not incl. JPY, JPY basis, incl. dividends, after taking into account our dividend tax factors]). They are calculated taking into consideration the market total average balance of each fund.
(Note 3) Other factors refer to calculation errors and such.

3 | Investment in Alternative Assets

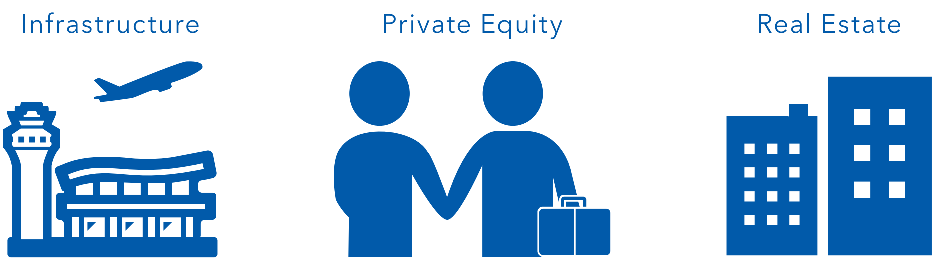
[1] Overview

① Investment purpose

Alternative assets have different risk-return profiles from traditional investment products such as listed equities and bonds, and are less affected by price volatility in the public equity market, etc. Considering these profiles, the inclusion of alternative assets in GPIF's investment portfolio is expected to improve the investment efficiency and contribute to the stability of pension finance. In addition, GPIF, as a long-term investor, can expect a premium by taking a liquidity risk for investments in alternative assets.

Pension funds in other countries have been promoting diversification by investing in alternative assets for the aforementioned objectives and effects. Prior to starting investment in alternative assets, GPIF carried out careful examinations in research projects. In particular, the research projects conducted in fiscal 2012 reported that the inclusion of alternative investments is expected to realize investment premium for liquidity and improve the efficiency of investment through diversification. By taking into account the results of such research projects, GPIF has increased investments in alternative assets since fiscal 2017. The current Medium-term Plan (from fiscal 2015 to fiscal 2019) approved by the Minister of Health, Labour and Welfare, permits investments in alternative assets (infrastructure, private equity and real estate) up to 5% of the total portfolio.

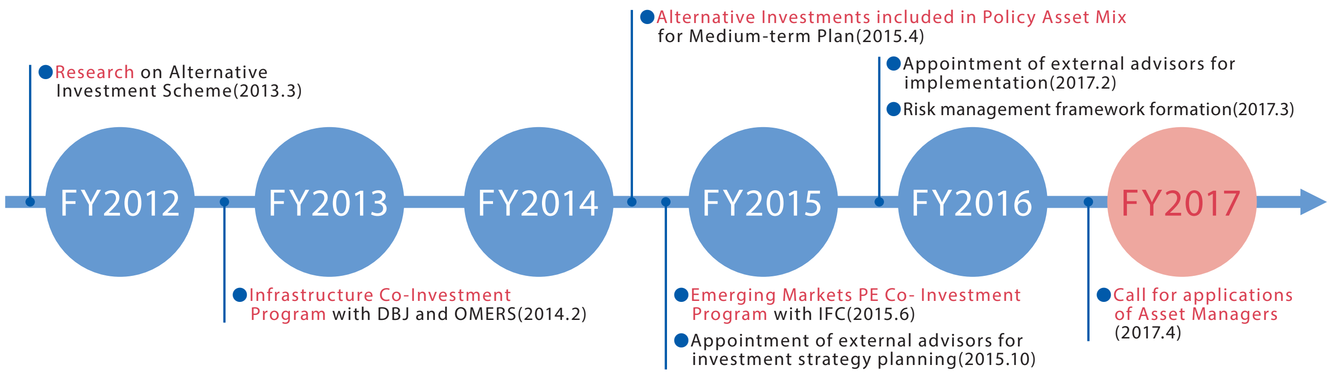
Alternative Assets



② Investment history

Based on the results of the abovementioned research projects, GPIF has been investing in alternative assets through a co-investment platform with institutional investors since 2013 (in infrastructure since fiscal 2013 and in private equity since fiscal 2015).

GPIF has continuously worked on developing and strengthening the system for investing in alternative assets by taking measures, such as establishing a specialized unit (Private Market Investment Department) by employing experts, examining investment strategy by consulting with external advisors (since fiscal 2015) and developing a risk management framework. Considering that the investment performance of alternative assets varies from asset to asset and alternative assets have low liquidity, risk management at the time of investment evaluation and after execution of investment is an important issue, and we will continually work to strengthen the framework for investing in alternative assets.



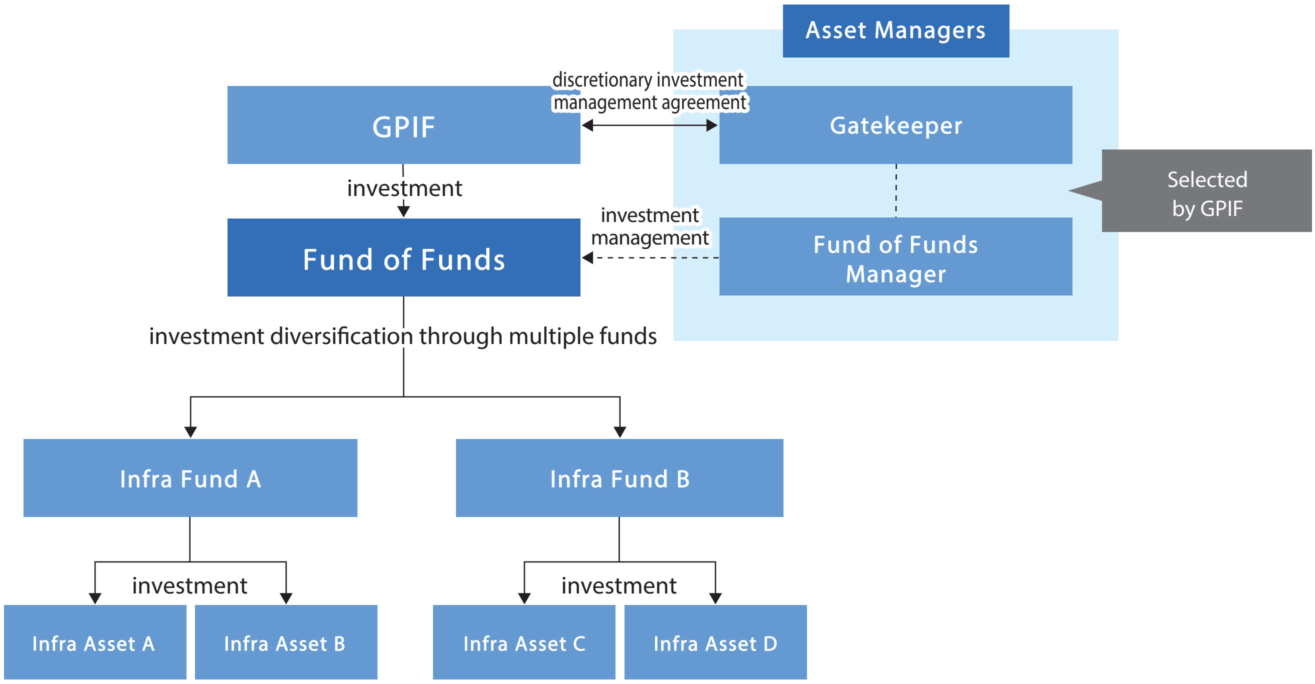
③ Activities in fiscal 2017

A. Call for application, selection of Gatekeepers and Fund of Funds managers

In fiscal 2017, GPIF started calling for applications from external asset managers in alternative assets by utilizing the Asset Manager Registration System and went through the screening process for external asset managers for executing customized multi-manager strategies (Note) for GPIF.
To select asset managers, GPIF team has been conducting several rounds of screening of documents, interviews, and company visits with two external advisors(Willis Towers Watson and Russell Investments), to carefully examine the capabilities, investment strategies, investment track record, and risk management system, etc. of managers.

(Note) A multi-manager strategy is an investment approach of investing in multiple funds, and GPIF invests in a fund-of-funds managed by a third party manager.

(Example) Illustrative structure of infrastructure investment scheme



* Investment in private equity and real estate will be executed based on similar investment scheme.

B. Development in preparation for investment in limited partnerships (LPs)

In September 2017, Ordinance for Enforcement of the GPIF Act was amended to add investment in limited partnerships (LPs) to the forms of investment GPIF is allowed to hold. The expected benefits of investing in LPs include faster access to information on investees and improvement of net returns while strengthening risk management through simplified investment scheme with fewer intermediaries involved between investors and investees. Thus, investment in LPs has been adopted by institutional investors in other countries including pension funds as a general method of investing in alternative assets.
Following the amendment of the Ordinance, GPIF, from fiscal 2017, sorted out its policy for resourcing staff, etc. to launch investment in LPs.

[2] Infrastructure

① Overview

Infrastructure investment is defined as investment in infrastructure such as power generation facilities, electricity transmission systems, gas pipelines or railways. Infrastructure investment is expected to generate stable revenue over the long term from usage fees, and therefore investment in infrastructure funds, etc. has become one of the important strategies for pension funds in other countries.
In particular, investment in infrastructure that is essential for social and economic activities under a well-established regulatory environment by the authorities and that can be expected to generate stable usage fees, etc. based on long-term contracts is called the Core infrastructure investment. GPIF mainly focuses on Core infrastructure at the moment.

② GPIF's investment

A. Investment approach

GPIF aims to achieve stable returns from investment income through timely and efficient investment, in consideration of various market conditions with the focus on diversified Core infrastructure assets.

B. Investment objectives and scheme

GPIF will mainly invest in equity stakes of operational infrastructure assets and infrastructure debt backed by the income stream from operating infrastructure assets.

(i) Investment program launched in February 2014 – In-house investment in a unit trust

Based on the co–investment agreement with Ontario Municipal Employees Retirement System ("OMERS"), a Canadian public pension fund with an extensive track record in infrastructure investment, and Development Bank of Japan Inc. (DBJ), GPIF has invested in a unit trust that targets operational infrastructure assets in developed countries.

[Infrastructure investment case 1]

Thames Water

Thames Water Utilities Ltd. is the largest water and sewerage service company in the UK providing essential service in London and the surrounding areas.

[Infrastructure investment case 2]

Port of Melbourne Corporation

The Port of Melbourne is the largest Australian container port located near downtown Melbourne, the second-largest city in Australia, and it functions as a logistic hub in the country.

(ii) Investment program launched in fiscal 2017 – Based on discretionary investment mandate (Multi-manager investment strategy)

GPIF selected external asset managers for infrastructure investment by utilizing the Asset Manager Registration System. Investments are conducted based on discretionary investment management agreements. Appointed asset managers execute investment in funds in accordance with the pre-agreed investment guidelines that define investment targets, styles, certain restrictions and risk management, etc.

Asset manager name	Investment style
Gatekeeper: Sumitomo Mitsui Asset Management Company, Limited Fund of Funds Manager: StepStone Infrastructure & Real Assets	Global-Core
Gatekeeper: Nomura Asset Management Co., Ltd. Fund of Funds Manager: Pantheon	Global-Core
Gatekeeper and Fund of Funds Manager: DBJ Asset Management Co., Ltd.	Global infrastructure mandate focusing mainly on opportunities in Japan

[Infrastructure investment case 3]

Birmingham Airport

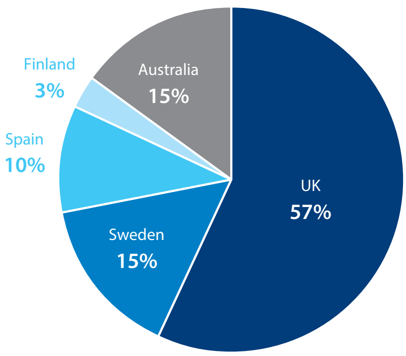
Bristol Airport
Amazing journeys start here

Birmingham Airport and Bristol Airport are located in Birmingham, the second-largest industrial city after London, and in Bristol in South West England, respectively. With stable passenger traffic, these airports are expected to generate stable revenue form airport charges and others.

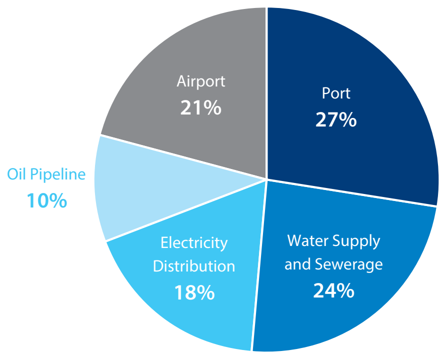
C. Investment status

The total value of GPIF's infrastructure investment as of the end of March 2018 was ¥196.8 billion.
The breakdown of portfolio by country shows the UK with the largest share at 57%, followed by Sweden at 15% and Spain at 10%. As for the breakdown of portfolio by sector of infrastructure assets, the largest share went to port at 27%, followed by water supply and sewerage service at 24% and electricity distribution facilities at 18%. GPIF expects stable revenue to be generated from the diversified core infrastructure portfolio. IRR from the overall infrastructure investment for fiscal 2017 stood at 5.25% in USD terms, and the total dividend received during the previous fiscal year was ¥3.3 billion, demonstrating stable income.

Value by Country



Value by Sector



[3] Private Equity

① Overview

In private equity, GPIF invests primarily in funds with focus on equities of private companies (private equity (PE) funds). PE funds generally seek investment opportunities in companies at various development stages while diversifying investment timing. Various types of PE funds include Buyout funds (seeking to create enterprise value of investee companies by improving post-investment management practices and corporate governance), Growth equity funds (providing capital for growth and expansion of companies), Venture capital funds (investing in start-up and early stage companies, etc. for growth potential), Turnaround funds (seeking opportunities to turn around companies in financial challenges through balance sheet restructuring, etc.), and Private debt funds (investing in debt instruments of private companies). GPIF makes diversified investments in PE funds of these types.

② GPIF's investments

A. Investment approach

GPIF makes diversified investment primarily in equities of private companies at various stages of corporate development, such as start-up, growth, expansion, and turnaround, in seeking for relatively higher investment returns driven mainly by enterprise value creation, and contribute to the improvement of GPIF's overall portfolio returns.

B. Investment objectives and scheme

GPIF invests in equities (private equity (PE)) and debts (private debts) of private companies.

(i) Investment program launched in June 2015 – In-house investment in a unit trust

Based on the co-investment agreement with International Finance Corporation (IFC), a member of the World Bank Group, and DBJ, GPIF holds a unit trust that invests in private equities (PE) of consumer-related companies, etc. in emerging markets. The objective is to gain investment returns from the growth of the global economy in a well-balanced manner by adjusting the bias toward particular sectors in public equity in emerging markets and investing in consumer-related companies, etc. with high growth potential benefitted from favorable demographic shifts and economic developments down the road.

(ii) Investment program started to be considered from fiscal 2017 — Based on discretionary investment mandate (Multi-manager investment strategy)

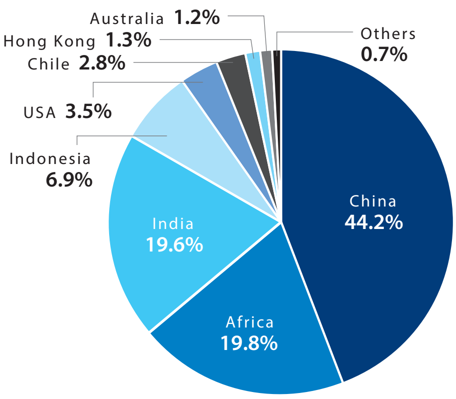
In the similar way as for infrastructure investment, GPIF is selecting external asset managers for private equity by utilizing the Asset Manager Registration System. Appointed asset managers will execute investment under discretionary investment management agreements in accordance with the pre-agreed investment guidelines that define investment targets, styles, certain restrictions and risk management, etc.

C. Investment status

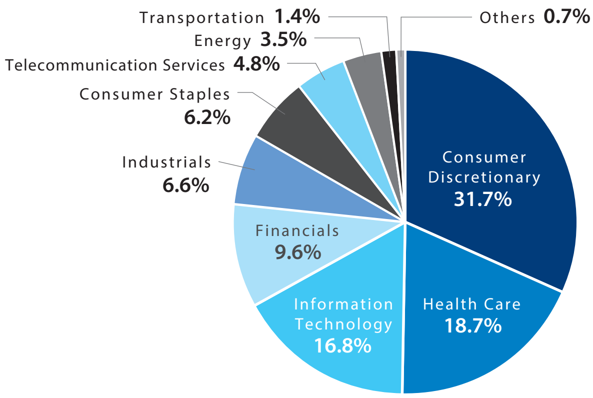
The total value of GPIF's private equity investment as of the end of March 2018 was ¥8.2 billion. Private equity investment generally follows a J-curve pattern (funds experience negative returns for the first several years due to cash outflows for investment during the initial phase of building an investment portfolio). GPIF's private equity investment, likewise, recorded an internal rate of return (IRR) in USD terms of -5.85% since inception in June 2015. Given that its since inception IRR as of the end of March 2017 stood at -14.26%, the investment performance shows steady improvement toward positive returns. The redemption proceeds received in the previous fiscal year totaled ¥200 million.

The breakdown of investee companies by country and by sector are being developed as anticipated and diversified over various sectors including growth areas such as the consumer-related sector.

Value by Country/Region



Value by Sector



[4] Real Estate

① Overview

GPIF's real estate investment focuses on real estate funds that invest in actual real estate properties such as office buildings, commercial and logistics facilities, and rental housing.

GPIF implements an investment strategy of investing in "core" real estate properties, which are expected to generate continuous and stable rental income from tenants, and this strategy has been adopted as the major investment method by pension funds in other countries. In the meantime, it is important to diversify the timing of investment and the type of investment products considering that the real estate market has cycles (prices fluctuate according to supply and demand and financial market, etc.) and each investment amount tends to be relatively large. In addition, it is necessary to utilize asset manager and/or property manager, etc. to sustain asset value over the long term.

② GPIF's investments

A. Investment approach

GPIF aims to earn stable returns centering on investment income by making diversified investment with the focus on core-type real estate funds in a timely and efficient way by giving consideration to the market environment.

B. Investment objectives and scheme

GPIF will mainly invest in equities (equity stakes) of operational real estate and debt backed by the income stream from such real estate assets.

(i) Investment program launched from fiscal 2017 –Discretionary investment (Multi-manager investment strategy)

Through the Asset Manager Registration System, GPIF appointed Mitsubishi UFJ Trust and Banking Corporation as investment manager for a real estate mandate in Japan in December 2017. The appointed investment manager executes investments in real estate funds under a discretionary investment agreement in accordance with the pre-agreed investment guidelines that define investment targets, styles, certain restrictions and risk management, etc.

Asset manager name	Investment style
Mitsubishi UFJ Trust and Banking Corporation	Core strategy in Japan

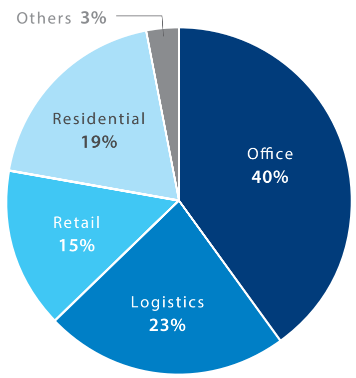
GPIF is in the selection process for Multi-manager for a foreign real estate mandate through the Asset Manager Registration System in the same manner as investment in Japan and will start global real estate investment upon selecting an investment manager.

C. Investment status

Since the start of domestic real estate investment in January 2018, GPIF has invested in eight private REITs with diversified portfolios, and their total value as of the end of March 2018 was ¥8.1 billion.

As for the breakdown of portfolio by type of asset, office buildings accounted for the largest share at 40% of the total portfolio, followed by logistics facilities at 23%, commercial facilities at 15%, and rental housing at 19%.

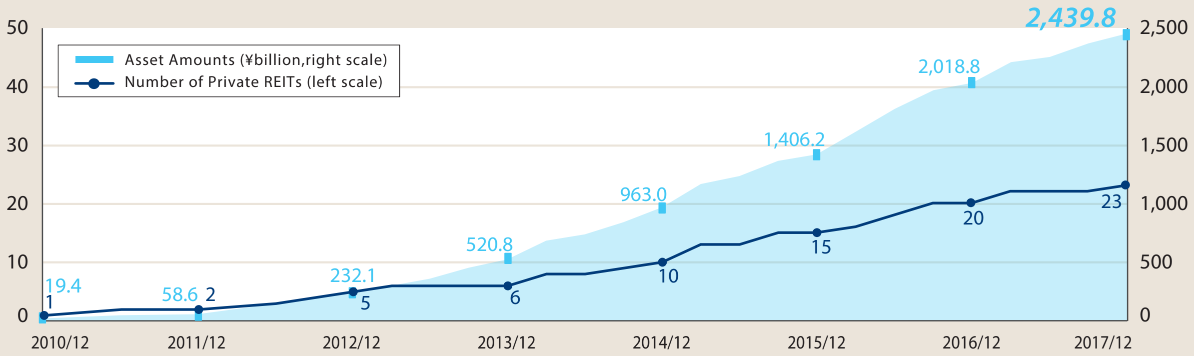
Value by asset type: domestic real estate



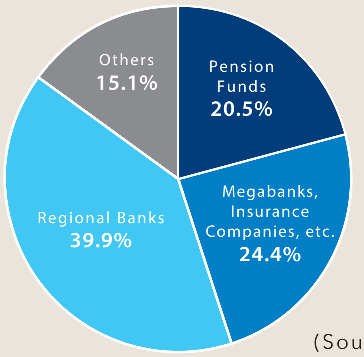
(Column) Private REIT market

Since the introduction of unlisted real estate investment trusts (private REITs) in 2010, both the total assets under management and the number of investment managers have steadily increased to reach ¥2,439.8 billion and 23 managers, respectively, as of December 2017. Private REITs make diversified investment in office buildings, commercial and logistics facilities and rental housing, etc., and have attracted a wide variety of investors including financial institutions, pension funds, and corporations.
Private REITs have the following characteristics: 1) unlisted, making them less sensitive to price volatility in the equity market; 2) the liquidity of investment units is secured to a certain extent; and 3) no specified exit timing, allowing investment with a medium- to long-term horizon.

Private REIT: Asset Amounts and Number of Private REITs



Private REIT: Investor Type



(Source) ARES

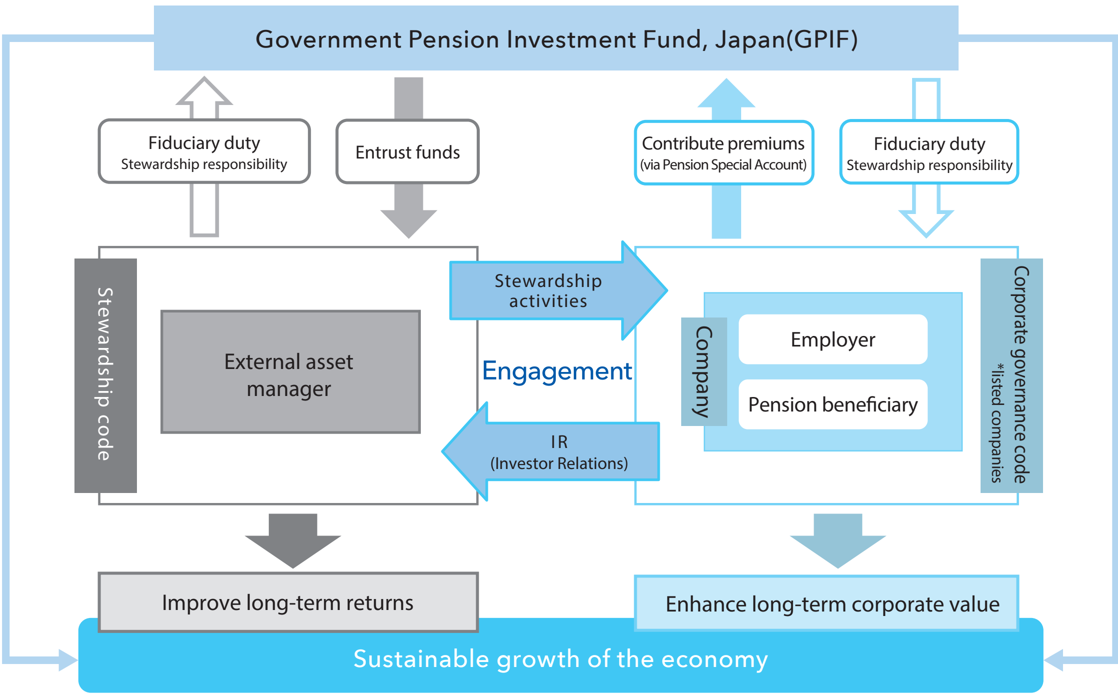
4 | Stewardship responsibilities

[1] Objectives and significance of stewardship activities

GPIF, in its Investment Principles and the Code of Conduct, stipulates that it promotes activities aimed at fulfilling its stewardship responsibilities (hereinafter "stewardship activities") with the objectives of appropriately fulfilling its responsibilities to pension beneficiaries, as their fiduciary, and expanding investment returns over the medium to long term. The Investment Principles were partially amended in October 2017 to stipulate that ESG factors should be taken into consideration in stewardship activities.

As illustrated in the diagram below, GPIF assumes stewardship responsibilities to pension beneficiaries, while external asset managers entrusted with investment by GPIF assume stewardship responsibilities to GPIF.

"Universal owner" and "super long-term investor" are the keywords for GPIF to fulfill its stewardship responsibilities appropriately. It is essential for GPIF, as a "universal owner" (an investor with a very large fund size and a widely diversified portfolio) and a "super long-term investor" (responsible for supporting pension finance with an investment horizon of as long as 100 years), to minimize negative externalities of corporate and government activities (environmental and social issues, etc.) and to promote steady and sustainable growth of the overall capital market as well as the underlying society. GPIF makes daily transactions and investments, except for those in some investment products, and exercise voting rights via external asset managers. Therefore, GPIF is committed to conduct stewardship activities as a universal owner and a super long-term investor and fulfill stewardship responsibilities by promoting constructive dialogue (engagement) in consideration of ESG (environmental, social and governance) factors between its external asset managers and investee companies, and building a win-win relationship in the investment chain. In this chain, a long-term improvement in corporate value would lead to growth of the overall economy, which would eventually enhance long-term investment returns.



[2] Development of stewardship activities

GPIF started activities pertaining to stewardship responsibilities on a full-scale basis with the adoption of Japan's Stewardship Code in May 2014. In March 2015, the following year, GPIF formulated the Investment Principles, which set down its guiding principle that GPIF is committed to increasing investment returns over the medium to long term for the pension beneficiaries by conducting various activities to fulfill its stewardship responsibilities. In September 2015, GPIF signed the Principles for Responsible Investment (PRI) launched by the United Nations, as part of its efforts to strengthen ESG implementation. In October 2017, GPIF revised the Investment Principles to expand the scope of activities to fulfill stewardship responsibilities, which had been focused on equity investment, to cover all assets, and made it clear that ESG factors should be considered in conducting stewardship activities. As shown below, GPIF's stewardship activities evolved dramatically in 2017. As for concrete stewardship activities for asset classes other than equity, GPIF called for applications for external asset managers for alternative assets (private equity, infrastructure, real estate) and assessed external asset managers' efforts to fulfill stewardship responsibilities and address ESG issues in the selection process. Also, GPIF launched a joint research program on "Incorporating ESG factors into fixed income investment" with World Bank Group. We will continuously examine appropriate stewardship responsibilities for an institution managing pension reserve and promote activities to fulfill its own stewardship responsibilities.

[3] Promoting fulfillment of the stewardship responsibilities

① Establishment of Stewardship Principles and Proxy Voting Principles, and Endorsement to the Revised Stewardship Code

A. Establishment of Stewardship Principles and Proxy Voting Principles

On June 1, 2017, GPIF established the Stewardship Principles and the Proxy Voting Principles. The objective of these two principles is, as a responsibility of a super long-term asset owner, to make clear requirements and principles which external asset managers should observe in conducting stewardship activities, including exercise of voting rights. GPIF requires external asset managers to comply with these principles, and if an asset manager should decide not to comply with any of them, it is required to explain the rationale for the non-compliance to GPIF. In order to fulfill its own stewardship responsibilities, GPIF appropriately monitors the stewardship activities of external asset managers, including the exercise of voting rights, and proactively conducts dialogue (engagement) with them. The Stewardship Principles are comprised of the following five items.

(1) Corporate Governance Structure of Asset Managers
(2) Management of Conflicts of Interest by Asset Managers
(3) Policy for Stewardship Activities, including Engagement
(4) ESG Integration into the Investment Process
(5) Exercise of Voting Rights

In the Proxy Voting Principles, GPIF has asked its external asset managers to formulate and publicly disclose a proxy voting policy and guidelines that contribute to maximizing shareholders' long-term interests, place importance on communication with investee companies to ensure all voting rights are exercised after due consideration, integrate ESG factors into the investment process, and publicly disclose all voting records at each investee company and for each proposal.

B. Endorsement to the revised Japan's Stewardship Code

GPIF declared the adoption of Japan's Stewardship Code on May 30, 2014, and has since been conducting stewardship activities. Following the revision of Japan's Stewardship Code on May 29, 2017, GPIF announced the approval of the purport of the revised Code and updated the "Policy to Fulfill Stewardship Responsibilities" on August 1, 2017. In this policy, GPIF set out the basic policies of stewardship activities, including approach to stewardship responsibilities, policy regarding GPIF's stewardship initiatives, and policy regarding external asset managers' stewardship initiatives, based upon which GPIF disclosed policies to comply with each principle of the Japan's Stewardship Code in accordance with the Stewardship Principles and the Proxy Voting Principles and clarified its responsibilities as an asset owner.

C.Request for disclosure of the details of proxy voting records

GPIF jointly with other asset owners requested external asset managers of domestic equities to publicly disclose proxy voting records for each investee company on individual proposal items (hereinafter, the "disclosure of the proxy voting records"). Following these requests, GPIF held meetings individually with its external asset managers, where appropriate. In those meetings, GPIF explained that disclosing the proxy voting records without delay is of critical importance for institutional investors to fulfill their own stewardship responsibilities and that such disclosure is expected to provide an opportunity for deepening dialogue between investee companies and asset managers and requested them to disclose their proxy voting records. GPIF exchanged opinions with regard to the timing and methods for disclosure as well as the methods for disclosing results in cases where voting results are divided, etc. As a result, 15 of the 16 external asset managers entrusted with investment by GPIF have disclosed their proxy voting records. The names of asset managers who have disclosed their proxy voting records, as well as URLs of the websites on which the records are disclosed, are listed in GPIF's Stewardship Activity Report published on February 2, 2018.

② Reinforcement of Engagement with Relevant Organizations

A. Engagement with external asset managers

With regard to communication with external asset managers, GPIF has shifted from one-way annual monitoring to constructive communication through engagement with external asset managers by exchanging views on stewardship responsibilities. This change is to encourage asset managers to exchange opinions with and give feedback to GPIF. Specifically, whenever GPIF implements new policies or significant amendments, we conduct briefings for asset managers in addition to individual meetings, providing sufficient information on its background and our views, with Q&A sessions and follow-up surveys. In 2017, GPIF conducted three briefings for external asset managers and held dialogue mainly on stewardship responsibilities, including establishment of the Stewardship Principles and the Proxy Voting Principles, review of the comprehensive assessment method, and review of the performance-based fee structure.

In addition, GPIF has changed the meeting arrangement with its external asset managers to hold stewardship meetings as well as meetings and questionnaires whenever there are topics to discuss or where necessary, separately from a comprehensive assessment meeting held once a year. As our new initiatives for the current fiscal year, we clearly stated in the Stewardship Principles that external asset managers should integrate ESG factors in the investment process and that they should proactively engage with investee companies on material ESG issues. In light of the above, GPIF confirmed material ESG issues recognized by external asset managers entrusted with domestic equity investment. (For the results, please refer to [4] Material ESG issues recognized by external asset managers on page 37.)

B. Meetings with third-party committees

Amid the development of a framework for management of conflicts of interest, mainly among Japanese asset managers, including the appointment of independent outside directors, establishment of third-party committees, etc., GPIF conducted a survey on the status of "stewardship activities and the establishment of a third-party committee on proxy voting," etc. targeting its external asset managers. Following this, GPIF held meetings with the chairs of third-party committees and committee members with a focus on its external asset managers of passive investment.

As a result, it was confirmed that the scope of recognition and positioning of conflicts of interest differed significantly among external asset managers and the selection of committee members reflected the role of third-party committees. Meanwhile, there were some external asset managers for whom the actual conditions of operation of the third-party committee was not visible from the outside. We continue our efforts to confirm that the third-party committees are functioning properly to ensure the prevention of conflicts of interest at external asset managers. In addition, we continue to examine responses to external asset managers that have not established a third-party committee and to foreign-affiliated asset managers.

③ Initiative to build a Win-Win relationship in the investment chain

In order to energize the investment chain so that the return for the pension beneficiaries can be increased over the medium to long term, GPIF holds the Business and Asset Owners' Forum, whereby opinions from companies can be collected on a regular basis, and Global Asset Owners' Forum, whereby opinions can be exchanged with asset owners from abroad. Separately from these two forums, following the selection of ESG indices for Japanese equities and commencement of investment linked to those indices, GPIF gave presentations, etc. at the ESG Investment Forum (sponsored by Keidanren, Japanese Trade Union Confederation, Japan Association of Corporate Executives, Japan Chamber of Commerce and Industry, Japan Exchange Group, Inc./Tokyo Stock Exchange, Inc.) held in July 2017 and at other conferences, in an effort to enhance communication.

A. Business and Asset Owners' Forum

In a questionnaire survey conducted with listed companies in January 2016, many companies requested to have meetings with asset owners. As a result, GPIF has been holding meetings with those companies on a regular basis. Several companies proposed the establishment of a regular platform for constructive exchange of opinions between GPIF, as an asset owner, and companies. In response, the first Business and Asset Owners’ Forum was held on September 1, 2016 by three co-organizers. The forum was held in April and October 2017, with the participation of a total of 10 companies, including the three co-organizers.
At this forum, the participants discussed topics such as strategies for improvement of corporate value, including initiatives for ESG, SDGs and sustainable management, “engagement that encourages constructive engagement” from companies’ perspective, and expectations for asset owners, including GPIF, to set forth the proxy voting principles and requests for disclosure of proxy voting records and promotion of dialogue.
As the opportunity to listen to companies' voices is very useful for GPIF to fulfil its stewardship responsibilities, GPIF continues to hold the Business and Asset Owners' Forum. The opinions conveyed to GPIF will be fed back to external asset managers and overseas asset owners as well so that the whole investment chain can be improved and optimized.

B. Global Asset Owners' Forum

The Global Asset Owners' Forum was established with the aim of creating a regular platform for exchange of opinions with overseas public pension funds and other asset owners advanced in the field of stewardship accountability so that GPIF can better fulfil its stewardship responsibilities for the pension beneficiaries by incorporating sophisticated expertise.
On November 14, 2016, the first Global Asset Owners' Forum was hosted by GPIF, CalPERS (California Public Employees' Retirement System) and CalSTRS (California State Teachers' Retirement System) as the co-chairs. In 2017, the second Global Asset Owners' Forum was held in California, the U.S. in May and the third one was convened in Tokyo in November. At this forum, GPIF discussed the following matters with overseas public pension funds: the need for sharing best practices to align the interests of asset owners with those of asset managers and sharing knowledge and experience concerning ESG (environmental, social, and governance) issues; and shared use of legal networks, and research studies, etc. A summary of the discussions was published.

④ Conducting a Survey of Listed Companies regarding Institutional Investors' stewardship activities

A. Objective of the survey

As GPIF entrusts domestic equity investment of pension reserve to external asset managers, it requests them to enhance stewardship activities. In line with this initiative, in 2016, GPIF conducted its first questionnaire survey with listed companies concerning institutional investors' stewardship activities (the survey subjects were companies adopted as components of the JPX Nikkei Index 400). The purpose of surveys is to verify the effectiveness of external asset managers' stewardship activities through surveys of listed companies, which are the target of external asset managers' stewardship activities.

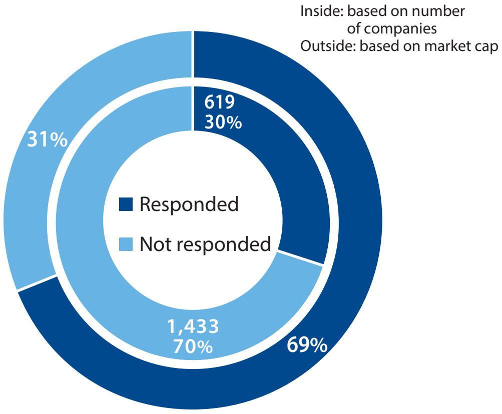
In fiscal 2017, GPIF conducted the third survey in order to evaluate stewardship activities carried out by GPIF's external asset managers and ascertain the actual status of purposeful and constructive dialogue (engagement), as well as the changes that have been observed since the revision of Japan's Stewardship Code in May 2017. The scope of the survey was expanded to companies listed on the First Section of the Tokyo Stock Exchange (TSE) (2,052 companies*) to obtain opinions from a broader range of companies, and responses were obtained from 619 companies, or 30.2% of the all subjects surveyed. (*As of December 15, 2017)

B. Summary of the results of the survey

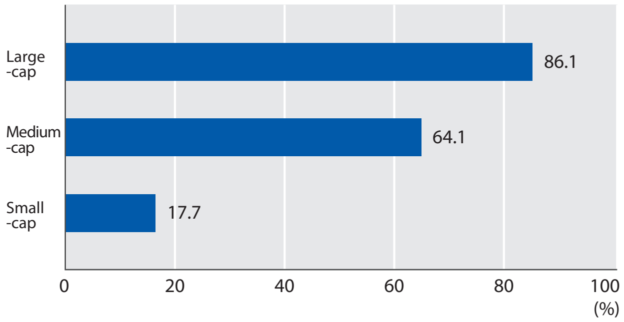
Of the survey respondents, 40 percent answered that there had been favorable changes to the attitudes of institutional investors at IR meetings, etc. since the revision of Japan's Stewardship Code in May 2017. Compared to the results of the previous questionnaire survey, the percentage of companies that saw favorable changes increased slightly. As regards the time span of discussion of institutional investors at IR meeting, the majority of respondent companies answered that institutional investors are focusing on a "medium- to long-term viewpoint" in discussion on management strategy.

Meanwhile, many respondents voiced the following expectations for GPIF to: (i) encourage its external asset managers and securities companies through its external asset managers to conduct dialogue from a medium- to long-term perspective; (ii) implement measures to promote reforms of its external asset managers including personnel and evaluation systems from a medium- to long-term perspective; and (iii) promote ESG investment and opportunities for direct and indirect dialogue that will involve small cap companies.

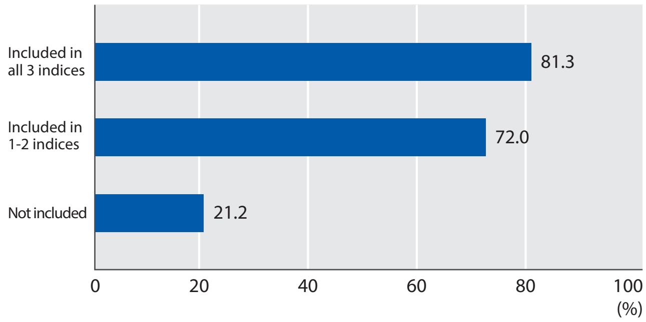
Response coverage rate



Response rate by company size



Response rate by status of inclusion in ESG indices



[4] Material ESG issues recognized by external asset managers

Material ESG issues recognized by external asset managers entrusted with domestic equity investment are as follows. GPIF found that asset managers entrusted with passive investment that keep holding investees' stocks tend to recognize long-term issues such as "E" (environmental) and "S" (social) as material ESG issues, while asset managers entrusted with active investment with primary holding periods of approximately several months to a few years tend to recognize "G" (governance) issues as material.

[Material ESG issues for passive managers]

Climate change
Diversity
Misconduct/Scandals
Capital efficiency
Supply chain
Disclosure
Protection of minority shareholder's interests (cross shareholding, etc.)

[Material ESG issues for active managers]

Capital efficiency
Protection of minority shareholder's interests (cross shareholding, etc.)
Corporate Governance
Structure and evaluation of Board of directors

Notes: Asset managers entrusted with both passive and active investment were counted as asset managers entrusted with passive investment
Issues listed by all asset managers are marked in red
The lists include issues listed by more than five out of six asset managers entrusted with passive investment as well as issues listed by more than eight out of 10 asset managers entrusted with active investment

[5] Exercise of voting rights

① Concept of exercise of voting rights

The Medium-term Objectives by the Minister of Health, Labour and Welfare stipulate that GPIF should pay due consideration not to unduly exert influence on corporate management and should take appropriate measures including exercise of voting rights from the viewpoint of maximizing the long-term interest of shareholders, while considering influence on corporate management, etc.

In this regard, GPIF in its Medium-term Plan states, " GPIF itself does not exercise voting rights and instead entrusts the external asset managers with the exercise of voting rights so as not to give rise to a concern that GPIF could have a direct influence over corporate management. GPIF also suggests to the external managers that they should recognize the importance of corporate governance and that the voting rights should be exercised to maximize the long-term interest of shareholders. GPIF asks each external asset manager to establish a detailed proxy voting policy (guideline) and to report the voting results to GPIF."

External managers submit the guideline for voting and annually report voting results to GPIF. GPIF holds meetings with the managers on the results, and in the annual evaluation process of each manager by GPIF, the way a manager exercises voting rights is evaluated by considering the item as part of initiatives for fulfilling stewardship activities.

② Exercise of voting rights in fiscal 2017

GPIF held meetings based on the reports on the status of exercise of voting rights from April to June 2017 and evaluated the external asset managers based on the reports and the meetings from the viewpoints of "establishing of guidelines for the exercise of voting rights," "organizational framework," and "the status of exercise of voting rights." As a result, we confirmed that voting rights were appropriately exercised.

The status of exercise of voting rights by external asset managers for domestic equities (from April 2017 to March 2018)

Number of external asset managers who exercised voting rights: 30 funds
Number of external asset managers who did not exercise voting rights: none

(Unit: No. of proposals; percentage)

Proposal		Proposal pertaining to company organization					Proposals pertaining to director remuneration, etc.				Proposals pertaining to capital management (excluding items pertaining to amendment of the articles of incorporation)			Proposals pertaining to amendment of the articles of incorporation	Poison Pills (Rights plan)		Other proposals	Total
		Appoint-ment of directors	External directors	Appoint-ment of auditors	External auditors	Appointment of accounting auditors	Director remuneration	Director bonuses	Director retirement benefits	Granting of stock options	Dividends	Acquisition of treasury stock	Mergers, acquisition, etc.		Warning type	Trust–type		
Number of voting rights exercised		139,164	37,857	14,258	9,612	312	4,022	1,608	1,405	918	11,761	1	2,131	6,130	875	0	219	182,804
Management pro-posals	Total	138,861	37,753	14,196	9,564	312	4,011	1,608	1,405	918	11,675	0	2,131	4,301	875	0	201	180,494
		(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(100.0%)
	Approved	128,191	33,606	12,431	7,909	310	3,733	1,477	767	751	11,258	0	2,093	4,098	186	0	176	165,471
		(92.3%)	(89.0%)	(87.6%)	(82.7%)	(99.4%)	(93.1%)	(91.9%)	(54.6%)	(81.8%)	(96.4%)	(0.0%)	(98.2%)	(95.3%)	(21.3%)	(0.0%)	(87.6%)	(91.7%)
	Opposed	10,670	4,147	1,765	1,655	2	278	131	638	167	417	0	38	203	689	0	25	15,023
		(7.7%)	(11.0%)	(12.4%)	(17.3%)	(0.6%)	(6.9%)	(8.1%)	(45.4%)	(18.2%)	(3.6%)	(0.0%)	(1.8%)	(4.7%)	(78.7%)	(0.0%)	(12.4%)	(8.3%)
Shareholder pro-posals	Total	303	104	62	48	0	11	0	0	0	86	1	0	1,829	0	0	18	2,310
		(100.0%)	(100.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(0.0%)	(0.0%)	(0.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(0.0%)	(0.0%)	(100.0%)	(100.0%)
	Approved	25	12	0	0	0	0	0	0	0	24	1	0	193	0	0	11	254
		(8.3%)	(11.5%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(27.9%)	(100.0%)	(0.0%)	(10.6%)	(0.0%)	(0.0%)	(61.1%)	(11.0%)
	Opposed	278	92	62	48	0	11	0	0	0	62	0	0	1,636	0	0	7	2,056
		(91.7%)	(88.5%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(0.0%)	(0.0%)	(0.0%)	(72.1%)	(0.0%)	(0.0%)	(89.4%)	(0.0%)	(0.0%)	(38.9%)	(89.0%)

(Note 1) If a proposal has multiple items to exercise, the number of votes exercised for each item is shown.
(Note 2) The figures in parentheses are percentages to the total number of votes exercised for each proposal.

The status of exercise of voting rights by external asset managers for foreign equities (from April 2017 to March 2018)

Number of external asset managers who exercised voting rights: 20 funds
Number of external asset managers who did not exercise voting rights: none

(Unit : No. of proposals, percentage)

Proposal		Proposal pertaining to company organization			Proposals pertaining to director remuneration, etc.				Proposals pertaining to capital management (excluding items pertaining to amendment of the articles of incorporation)			Proposals pertaining to amendment of the articles of incorporation	Poison Pills for warning type	Other proposals		Total
		Appoint-ment of directors	Appoint-ment of auditors	Appointment of accounting auditors	Director remuneration	Director bonuses	Director retirement benefits	Granting of stock options	Dividends	Acquisition of treasury stock	Mergers, acquisition, etc.			Approval of financial statement, etc.	Other proposals	
Number of voting rights exercised		91,099	3,210	11,699	23,713	343	300	4,477	8,428	4,527	13,646	7,423	299	11,814	39,227	220,205
Management pro-posals	Total	89,300	2,657	11,543	23,481	343	299	4,448	8,401	4,527	13,534	6,693	284	11,814	34,408	211,732
		(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)
	Approved	82,063	2,187	11,343	20,389	307	218	3,203	8,355	4,183	11,849	6,032	166	11,598	30,632	192,525
		(91.9%)	(82.3%)	(98.3%)	(86.8%)	(89.5%)	(72.9%)	(72.0%)	(99.5%)	(92.4%)	(87.5%)	(90.1%)	(58.5%)	(98.2%)	(89.0%)	(90.9%)
	Opposed	7,237	470	200	3,092	36	81	1,245	46	344	1,685	661	118	216	3,776	19,207
		(8.1%)	(17.7%)	(1.7%)	(13.2%)	(10.5%)	(27.1%)	(28.0%)	(0.5%)	(7.6%)	(12.5%)	(9.9%)	(41.5%)	(1.8%)	(11.0%)	(9.1%)
Shareholder pro-posals	Total	1,799	553	156	232	0	1	29	27	0	112	730	15	0	4,819	8,473
		(100.0%)	(100.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(100.0%)
	Approved	1,156	363	126	65	0	0	11	7	0	95	443	15	0	2,157	4,438
		(64.3%)	(65.6%)	(80.8%)	(28.0%)	(0.0%)	(0.0%)	(37.9%)	(25.9%)	(0.0%)	(84.8%)	(60.7%)	(100.0%)	(0.0%)	(44.8%)	(52.4%)
	Opposed	643	190	30	167	0	1	18	20	0	17	287	0	0	2,662	4,035
		(35.7%)	(34.4%)	(19.2%)	(72.0%)	(0.0%)	(100.0%)	(62.1%)	(74.1%)	(0.0%)	(15.2%)	(39.3%)	(0.0%)	(0.0%)	(55.2%)	(47.6%)

(Note 1) Total number of votes exercised does not include the number of voting rights which were not exercised.
(Note 2) If a proposal has multiple items to exercise, the number of votes exercised for each item is shown.
(Note 3) The figures in parentheses are percentages to the total number of votes exercised for each proposal.
(Note 4) The negative votes include 252 abstentions.

5 | ESG activities

[1] Basic approach

Universal owner

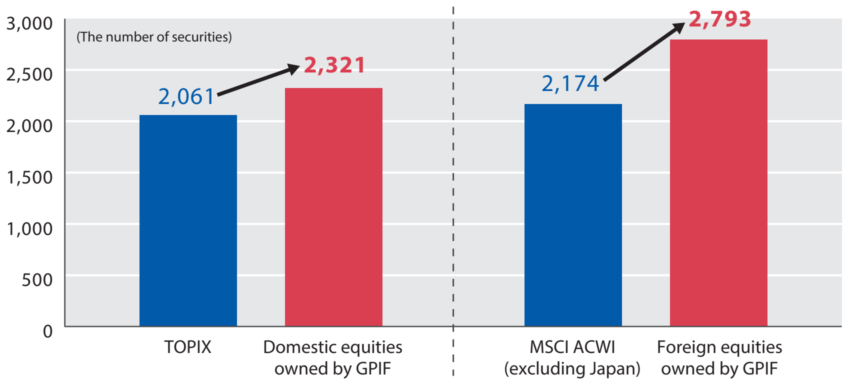
・GPIF is an investor with a very large fund size and a widely diversified portfolio.

Super long-term investor

・GPIF is responsible for supporting pension finance with an investment horizon of as long as 100 years.

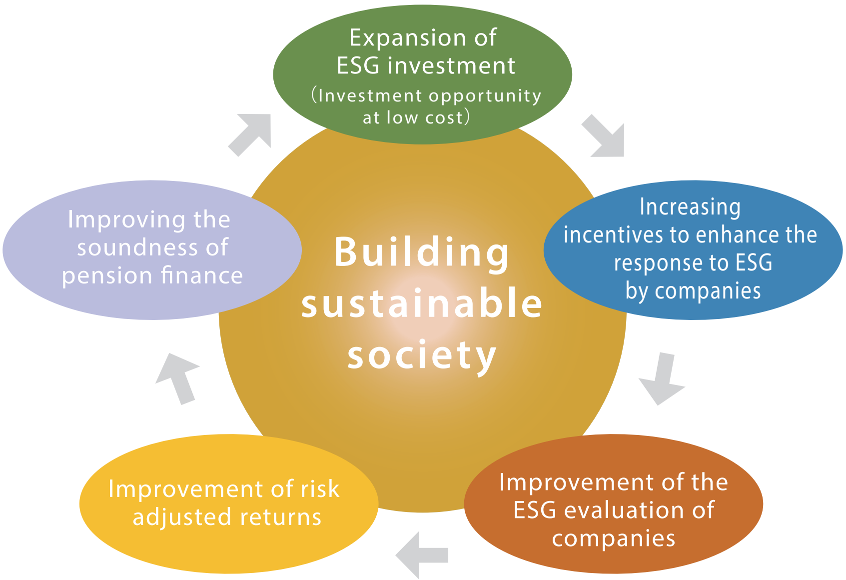
One of the core activities of GPIF to fulfill its stewardship responsibilities is ESG (environmental, social and governance) activities, and GPIF is stepping up the stewardship activities because it is a universal owner and a super long-term investor. "Universal owner" is a term used in relation to pension investment and ESG investment and refers to an investor with a well-diversified portfolio that largely represents the world's capital market. GPIF is a typical "universal owner" with a broadly diversified portfolio comprised of equities and bonds of the majorities of Japanese listed companies and major foreign companies.

The number of securities owned by GPIF (as of the end of March 2018)



For instance, if the share prices of some portfolio companies rise as a result of conducting business activities without paying attention to their large impacts on the environment and society for short-term revenue expansion, the overall portfolio of a universal owner will be significantly impaired if the economy as a whole, including operations of other companies, and society are negatively affected by such activities. In other words, the sustainability of the capital market and society is a prerequisite for the sustainability of universal owners' portfolios. The "universal ownership", the concept that universal owners conduct ESG activities proactively to control and minimize such negative externalities–lies at the core of GPIF's ESG investment. In addition, the longer the ESG risks persist, the more likely it is that they will materialize. Therefore, we consider that it has great benefits for GPIF to integrate ESG factors into its investment process as a super long-term investor responsible for supporting pension finance designed with an investment time horizon of as long as 100 years. That is to say, conducting ESG activities is consistent with the objective of the Employees' Pension Insurance Act and the National Pension Act to "manage pension reserve safely and efficiently from a long-term perspective solely for the pension beneficiaries," and GPIF continues promoting ESG activities proactively.

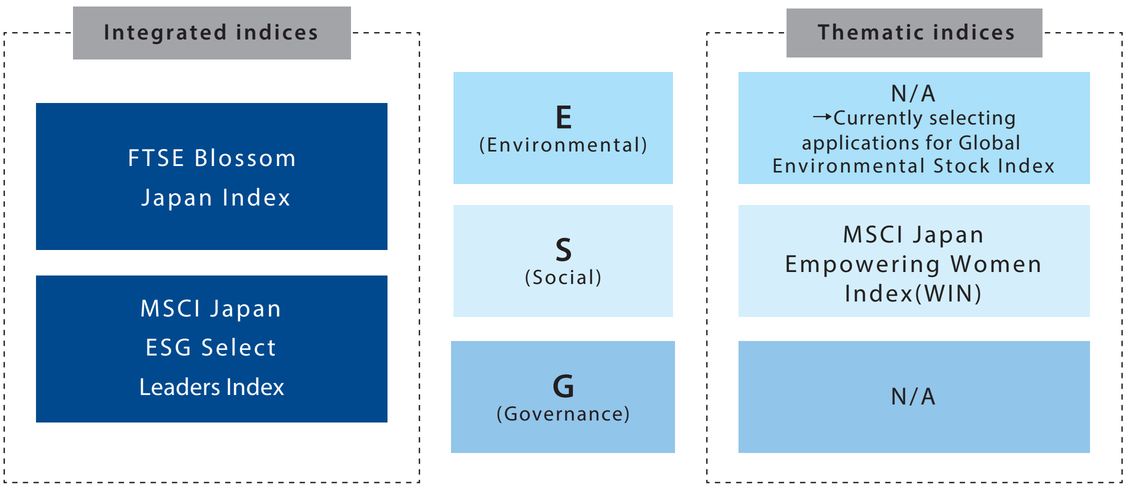
GPIF conducts ESG activities not only for equities but also for other asset classes, including bonds and alternative assets, with the aim of maximizing medium- to long-term investment returns for the pension beneficiaries. Evaluation of ESG promotion activities requires the following perspectives: 1) it takes a long period of time for the effects of ESG investment to materialize; and 2) ESG investment is also aimed at improving and raising the level of the sustainability of the entire capital market. These perspectives are different from the basis of general investment evaluation of how much investment returns are generated over a certain period. In order to measure the effects of the ESG promotion activities, including ESG investment, in improving the sustainability of the capital market and risk-adjusted returns and to make PDCA (plan-do-check-act) cycle work properly, we plan to compile "ESG Report" in fiscal 2018.



[2] Selected ESG indices for Japanese equities

In July 2017, GPIF selected three ESG indices for Japanese equities and commenced passive investment tracking those indices. The selection criteria for the ESG indices included economic rationality based on the risk-return profile of each index and if the adoption of the said indices is expected to lead to boosting the equity market in Japan through improvement of ESG evaluation. In choosing the ESG indices, GPIF emphasized that (1) the evaluation should be based on public information and its method and results should be disclosed in order to facilitate information disclosure by companies and (2) "positive screening" that determines constituent companies based on their ESG evaluation should be adopted in order to make opportunities available to a wide range of companies to be selected as composite companies. We are expecting that the use of those selected ESG indices will provide an incentive for Japanese companies to enhance responses to ESG issues to lead to the improvement of their corporate value in the long term.

List of selected ESG indices

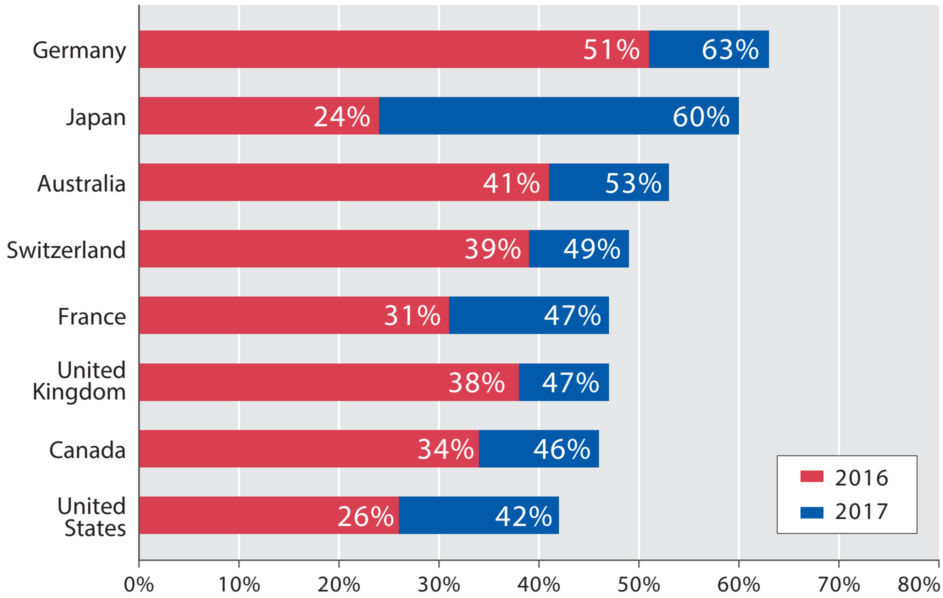


	FTSE Blossom Japan Index	MSCI Japan ESG Select Leaders Index	MSCI Japan Empowering Women Index (WIN)
Index concept	· The index uses the ESG assessment scheme that is applied to the FTSE4Good Japan Index Series which has one of the longest track records globally for ESG indexes. · The index is a broad ESG index that selects stocks with high absolute ESG scores and adjusts industry weights to neutral.	· The MSCI Japan ESG Select Leaders Index is a broad ESG index that integrates various ESG risks into today's portfolio. The index is based on MSCI ESG Research that more than 1,000 clients use globally. · The index incorporates stocks with relatively high ESG scores in each industry.	· MSCI calculates the gender-diversity scores based on various pieces of information disclosed under "the Act on Promotion of Women's Participation and Advancement in the Workplace" and selects companies with higher gender diversity scores from each sector. · The first index designed to cover a broad range of factors related to gender diversity.
Constituent universe (parent index)	FTSE JAPAN INDEX (509 stocks)	Top 500 companies (in terms of market cap) in the MSCI Japan IMI	Top 500 companies (in terms of market cap) in the MSCI Japan IMI
Number of index constituents	149	252	208
Weighting	Market cap weighted (Industry neutral compared with the parent index to bring industry weights in line)	Market cap weighted	"Market cap" times "Composite score" (*Composite score: "Sector-adjusted gender diversity score" times "Sector-adjusted quality score")
Assets under management	¥526.6 billion	¥622.9 billion	¥388.4 billion

(Note) Number of index constituents and assets under management are as of March 31, 2018.

GPIF believes that in order to encourage companies to be proactive in addressing ESG issues and disclosing information, it is important to help them deepen their understanding of the principles of ESG evaluation and index development. To promote such understanding, GPIF requests for index providers to publicly disclose how they conduct ESG evaluation and how they develop indices, and to proactively engage with companies. As a result, dialogue is increasing rapidly between index providers and companies, which is expected to lead to an improvement in responses to ESG issues and information disclosure by Japanese companies.

[Percentages of companies engaged in dialogue with MSCI during the ESG evaluation process]



(Note) The objects of this reserch are companies selected by MSCI ACWI index

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[3] Called for application for global environmental stock index

In November 2017, following the selection of three ESG indices in July, GPIF started soliciting applications for the environmental index for global equities. Considering that environmental issues including climate change constitute cross-border, global challenges, applicants should propose two indices based on the same concept, one for (i) global equities (excluding Japanese equities) and one for (ii) Japanese equities. In addition, the index should be based on the concept that it encourages entities to seek solutions to environmental issues, rather than uniformly excluding companies in specific industries or types of business. The solicitation for applications was closed at the end of January 2018. We received proposals from 11 companies (groups) and are currently in the screening process.

[4] Joint research program to incorporate ESG factors in fixed income investment

Research and implementation of ESG considerations in investment are making progress in the field of equity investment, but they have just started in the field of fixed income investment. In order to explore the significance and possibilities of integrating ESG considerations into fixed income investment, for which the concept of ESG integration is relatively new, GPIF has decided to conduct a joint research program to incorporate ESG factors in fixed income investment with the World Bank Group, which is the world's leading issuer of green bonds and social bonds and is practicing integration of ESG factors in the process of investment and loan to governments and companies around the world.

In conducting research work, we carried out a comprehensive study of past academic research work, as well as interviews with officials of the world's major public pension funds, asset managers, and credit rating agencies. The World Bank Group released a research report based on our joint research program at Spring Meetings held in April 2018.

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6 | Other Major Initiatives

[1] Call for applications from external asset managers

① Call for applications through the Asset Manager Registration System

A. Call for applications for managers of foreign equity (passive and active investment)

To review external asset managers entrusted with foreign equity investment, GPIF started to call for applications for managers of foreign equity investment (passive and active) through the Asset Manager Registration System in April 2016. The screening process of applications concerning passive investment has moved on to the second stage.
As of the end of March 2018, a total of 434 funds have applied under the registration system, of which 350 funds made entries as external asset managers and 84 for providing information.

B. Call for applications for managers of domestic equity (passive investment)

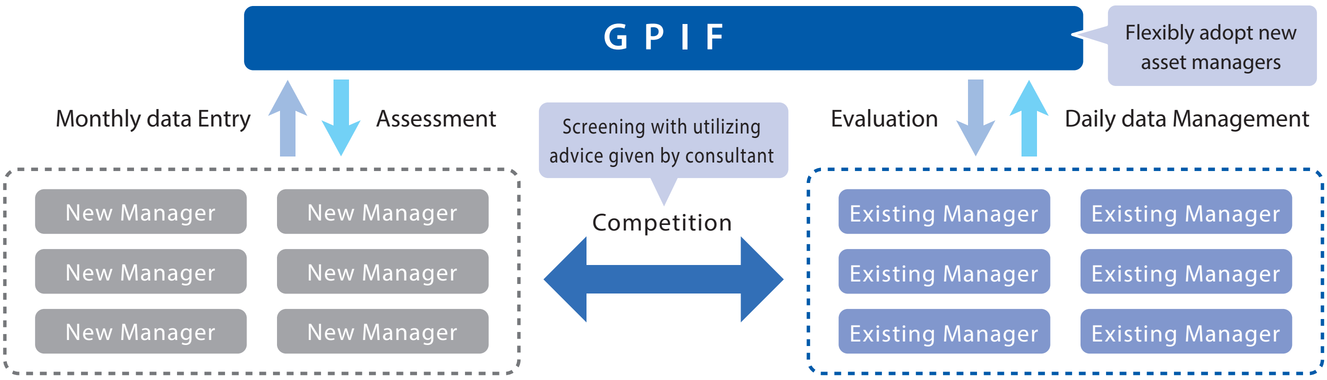
To enhance stewardship activities concerning domestic equity passive investment, GPIF started to call for applications for managers of domestic equity in March 2017. The screening process has moved on to the second stage. In the screening process, GPIF evaluates each applicant's business model as a whole, including the investment process, policy for stewardship activities, organizational systems to implement stewardship activities, and the management fee level.
As of the end of March 2018, a total of five funds have applied, all of which made entries as external asset managers with no fund filing an application to provide information.

C. Call for applications for managers of alternative assets

To diversify the investment portfolio, GPIF calls applications for executing multi-manager strategies concerning alternative assets (infrastructure, private equity and real estate). One domestic real estate fund and there infrastructure funds have been appointed by the end of this fiscal year, and started investment in those funds. In the screening process, GPIF hired experts to develop a system to prepare for starting alternative investment and utilized expertise of multiple external advisors. In addition, GPIF introduced a new fee structure that gives a higher weight to performance-based fees with the aim of strengthening the alignment of interest between GPIF and external asset managers.
Concurrently with the above, GPIF is selecting external asset managers in the private equity field and the overseas real estate field, and the screening process is expected to be completed by the end of fiscal 2018.
The incorporation of alternative assets, which have different risk-return profiles from traditional investment products such as listed equities and bonds, into GPIF's portfolio is expected to improve investment efficiency through diversification.

D. Expansion of the scope of the Asset Manager Registration System to the four traditional asset classes

To enable flexible selection of external asset managers, GPIF started to call for applications from managers of domestic bonds, foreign bonds, and domestic equities active investment through the Asset Manager Registration System on February 19, 2018. The expansion of the scope allows us to compare the performance of new external asset managers with existing ones under the same conditions, which would promote competition among external asset managers.



Selection Process for Asset Managers

Calling for application through the Asset Manager Registration System

Periodic Examination

- Based on periodic examination of the composition of external asset managers, the outline, etc. of review of external asset managers is deliberated on at the Board of Governors.

First screening

- Based on the documents submitted by asset managers that applied for the Asset Management Registration System, asset managers subject to the second screening will be selected.

  (·Requirements for public invitation, such as approval under relevant laws and regulations
  · Investment performance, etc.)

Second screening

- Interview subject: Newly applied asset managers
- Interview questions: (Investment policy, investment process, organization and human resources, stewardship activities, internal control, administrative operation system, information security system, etc.)
- Based on the results of interview, comprehensive assessment, without considering investment management fees, of asset managers will be conducted. Asset managers subject to the third screening will be selected by taking the composition of external asset managers into account.

Third screening

- Interviews will be conducted with newly applied asset managers that have passed the second screening at their offices (to confirm if their investment philosophy and processes are shared by fund managers, etc. who make investment decisions and other matters).
- After interviews are conducted, a comprehensive assessment of newly applied asset managers and existing asset managers will be carried out by taking investment management fees into consideration, and GPIF's asset managers will be selected.
- The results of selection will be reported to the Board of Governors.

Assessment criteria

Qualitative assessment that takes into account quantitative performance

- Investment policies
- Investment processes
- Organization and human resources
- Corporate governance structure and conflicts of interest
- Internal control
- Stewardship activities (only for equities)
- Information security measures
- Administrative operation system
- Information provision, etc.
- Investment management fees

② Introduction of a new performance-based fee structure

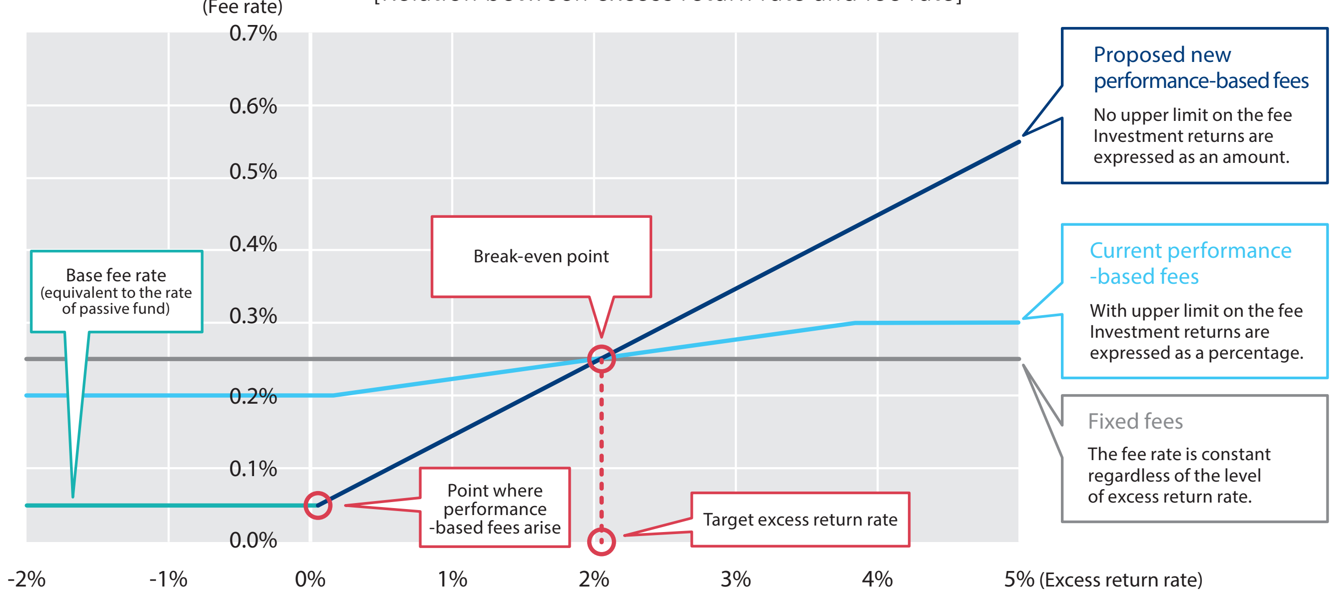
GPIF studied implementing a full-scale performance-based fee structure with the aim of strengthening the alignment of interest between GPIF and external asset managers entrusted with active investment (to encourage to achieve an excess rate of return over the benchmark and improving the levels of excess returns over the long term) and enhancing self-governance (investment capacity management) of asset managers entrusted with active investment, and introduced the new performance-based fee structure from April 2018. In addition, GPIF newly approved investment in perpetual bonds, unrated bonds (limited to those with an issuer's rating) and bank loans (limited to those invested through investment trusts) under a certain risk management so that capabilities of active asset managers can be demonstrated and expected further. GPIF also eased full investment and restrictions on concentrated investment.

Outline of the new performance-based fee structure

- Investment fees will be linked to excess returns (i.e., performance-based fees), and the fee rate applied to funds which do not deliver excess returns will only receive fees on a par with those paid to asset managers of passive investment (i.e., basic fees).
- The fee scheme is structured so that the fee rate applied to funds which achieved target excess return rate is assumed to be the same level as the fixed fee rate for existing contracts.
- In exchange for applying fees linked to long-term investment results to some external asset managers, a multi-year contract is concluded with some external asset managers based on market cycles.

New performance-based fee structure

[Relation between excess return rate and fee rate]



③ Management and assessment of external asset managers, etc.

A. Management and assessment of external asset managers

To manage external asset managers, GPIF employed methods that included requesting monthly reports on investment performance and risk status, confirming the status of compliance with investment guidelines, and requesting explanations in regular meetings and other activities.

To assess external asset managers, we changed the method of assessment in November 2017 from the comprehensive assessment of external asset managers through qualitative assessment (of matters such as investment policies including the basis of investment style, investment processes including strategic decisions, organizations and human resources) and quantitative assessment (of excess rate of returns and tracking errors for passive investment and of excess rate of returns and information ratio for active investment) to comprehensive assessment through qualitative assessment that factors in quantitative performance. The objective is to boost the future possibility of earning excess returns. As a result of this change, the comprehensive assessment of foreign bond investment and domestic bond investment was performed based on the conventional comprehensive assessment through qualitative assessment and quantitative assessment, while the comprehensive assessment of domestic equity active investment and foreign equity active investment was performed based on the revised comprehensive assessment through qualitative assessment that factors in quantitative performance.

As a result of the above comprehensive assessment, we decided to collect some funds from or cease to allocate funds to two domestic equity active funds, four foreign bond active funds and four foreign equity active funds. In addition, we terminated a contract with one foreign bond active fund due to the resignation of the fund manager.

To manage external asset managers who are transition managers, GPIF employed methods that included requesting reports on transition management, confirming the status of compliance with investment guidelines, and requesting explanations in regular meetings and other activities. Assessment of transition managers was conducted based on the comprehensive assessment of items including transaction execution capability, organizations and human resources. The results of this comprehensive assessment showed that there were no particular problems identified with any transitional manager, which led us to conclude that it would be appropriate to continue with the existing contracts with them.

B. Management and assessment of custodians

To manage custodians, we employed methods that included requesting data on asset management, confirming the status of compliance with asset management guidelines, and requesting explanations in regular meetings, including on-site inspection, and other activities. Assessment of custodians was conducted through comprehensive assessment of items including operational structures and asset management systems. The results of this comprehensive assessment showed that there were no particular problems identified with any custodian, which led us to conclude that it would be appropriate to continue with the existing contracts with them.

[2] Promoting research and study

① GPIF Finance Awards

GPIF believes that if pension reserve is to be invested safely and efficiently now that investment techniques are becoming increasingly sophisticated and financial products are growing in diversity, it is essential to develop an environment that encourages continuous efforts to enhance academic research concerning investment.

As part of an initiative to develop such an environment, GPIF Finance Awards have been established in 2017 to encourage research activities by commending young researchers who have made remarkable achievements in the field of investment and by widely promoting their achievements and the social significance of their activities. In January 2018, the selection committee of experts in the academia and related fields selected Dr.Yoshio Nozawa as a winner of the 2nd Awards for his contributions to risk premiums analysis of corporate bonds.

Selection committee members

Robert Merton	Distinguished professor, MIT Sloan School of Business and professor emeritus at Harvard University, Winner of the Nobel prize in economics
Josh Lerner	Professor, Harvard Business School
David Chambers	Professor, Cambridge Judge Business School, University of Cambridge
Kazuo Ueda	Professor, Faculty of International Studies at Kyoritsu Women's University, Director, Center for Advanced Research in Finance at the University of Tokyo (former chair of the Investment Advisory Committee)
Yuri Okina	Chairman, Japan Research Institute (member of the Financial System Council)
Shinichi Fukuda	Professor, Graduate School of Economics and Faculty of Economics, University of Tokyo (member of the Financial System Council)
Yasuhiro Yonezawa	Professor, Waseda Business School (former chair of the Investment Advisory Committee)

② Promoting joint research and study

GPIF considers that it is necessary to conduct research studies and joint research projects with universities, etc. and accumulate know-how acquired through such research activities in order to continue management and investment of pension reserve safely and efficiently into the future. In fiscal 2017, we carried out the following three research studies and joint research projects.

A. Research study project on business models of investment managers

Objectives: For GPIF which outsources investment management of a large proportion of assets, it is essential to understand the current status and direction of business models of investment managers. Our full-scale launch of alternative investment and introduction of the Asset Manager Registration System have led to the diversification of external asset managers. Considering this, we conducted research on items including business strategies, income and expense structures, monetary incentives for managers and employees of external asset managers.
Company to which work was outsourced: Accenture Japan Ltd.

B. Research study project on the impact of Artificial Intelligence (AI) on investment management

Objective: AI is being put in use in many fields, due to the explosive growth in data volume and dramatic increase in the processing speed of computers and it has started to come into use also in investment management in operations including research, trading and compliance. In the meantime, there is very few precedents that serve as a reference available for the use of AI in investment management for public pension funds, etc. Accordingly, GPIF conducted a pioneering analysis of the usability, etc. of AI in the long-term investment management of pension reserve and the overall operations of GPIF and examined the impact of AI on business models of investment managers.
Company to which work was outsourced: Accenture Japan Ltd., Sony Computer Science Laboratories, Inc.

C. Joint research project on macroeconomic forecast using the Overlapping-Generations (OLG) Model

Objective: Target returns of public pension fund investment are set in comparison to the rate of nominal wage growth. Therefore, it is important to sophisticate the macroeconomic forecast model, including forecasts of the rate of nominal wage growth, in order to assess the profitability of investment assets appropriately. Therefore, we enhanced the framework of macroeconomic forecast based on the Overlapping-Generations Model by factoring in changes in the demographic composition, in particular, the coexistence of the working generation and the retired generation in the household sector, and changes including a generation transition.
Joint research entity: Keio University

Memo

Chapter 2

Roles and Organizational Operation of Government Pension Investment Fund

1 | GPIF's Roles in the Public Pension Scheme

[1] GPIF's position

① The pension finance system and GPIF

Japan's public pension scheme is fundamentally managed as a pay-as-you-go system that incorporates the concept of intergenerational dependency, whereby pension premiums collected from working generations support older generations, instead of the advance funding method whereby funds required to cover pension benefits are accumulated in advance.

Under the pay-as-you-go pension system, it is not generally necessary to hold a large amount of pension reserve, aside from pension reserve for payment. In the meantime, Employees' Pension Fund started as an advanced funding method, and due partly to this, the portion of pension premiums not allocated to pension benefits were accumulated as pension reserve. Given the increase in the proportion of elderly population in the future, pension reserve has a fundamental significance in the public pension scheme that "the portion of pension premiums not allocated to pension benefits will be invested as pension reserve to stabilize pension finance."

There are three laws relevant to public pension fund investment management: the Employees' Pension Insurance Act, National Pension Act, and Act on the Government Pension Investment Fund, Incorporated Administrative Agency (hereinafter the "Act on the Government Pension Investment Fund") which provide that "pension reserve shall be managed safely and efficiently from a long-term perspective solely for the pension beneficiaries" (Employees' Pension Insurance Act and National Pension Act) and "pension reserve shall be managed safely and efficiently" (Act on the Government Pension Investment Fund). Based on these laws, the most fundamental requirement for management of pension reserve is "safe and efficient management of pension reserve from a long-term perspective."

The competent minister is to set objectives of GPIF for a set period of time, as is the case in other incorporated administrative agencies (Act on General Rules for Incorporated Administrative Agencies). "Objectives to be achieved by GPIF" (hereinafter the "Medium-term Objectives"), set by the Minister of Health, Labour and Welfare, stipulates that "GPIF is required to achieve a long-term real return (net investment yield on the pension reserve less the nominal wage growth rate) of 1.7% with minimal risks, while maintaining liquidity necessary for the pension payout, based on the current status and outlook for pension finance." In light of these requirements, GPIF, in its Medium-term Plan, established the asset allocation (Policy Asset Mix) from a long-term perspective, based on the philosophy of diversified investment, and carries out investment and management of pension reserve based on the Policy Asset Mix.

② Roles of pension reserve in pension finance

Pension reserve is to be used to stabilize pension finance. Specifically, with the aim of balancing pension finance in about 100 years, the fiscal plan was drawn up to use investment returns on pension reserve to pay part of pension benefits in the beginning and gradually use pension reserve drawn down, in addition to investment returns, after a certain period of time to fund pension benefits so that pension reserve equivalent to one year of pension benefits will remain approximately after 100 years. About 90 percent of the financial source of pension benefits (the average of approximately 100 years based on the assumption of fiscal verification) are funded by pension premium and government contribution for the year, while the financial source obtained from pension reserve (reimbursement of trust money or payment to national treasury) accounts for about 10 percent. GPIF owns sufficient pension reserve necessary for the payment of pension benefits, and therefore short-term market fluctuations in relation to the investment of pension reserve do not affect the payment of pension benefits.

[2] Key items of the Medium-term Objectives and the Medium-term Plan

① The Medium-term Objectives period

The Medium-term Objectives periods at GPIF are the following: a four-year period from fiscal 2006, when GPIF was established, to fiscal 2009 (the first cycle), a five-year period from fiscal 2010 to fiscal 2014 (the second cycle), and a five-year period from fiscal 2015 to fiscal 2019 (the third cycle). The final fiscal year of each cycle corresponds to the year of an actuarial valuation that the government conducts every five years on the public pension scheme. This is based on the stipulation of the applicable law, which specifies GPIF policy asset mix should be established in consideration of actuarial evaluation and should be described in the Medium-term Plan.

② Operating Rules for Investment Management (ORIM)

The Medium-term Objectives acknowledge that the pension reserve, part of the premium collected from pension beneficiaries, is valuable sources of funding for future pension benefits, and that the purpose of the fund is to contribute to the future stable management of public pension schemes through stable and efficient management from a long-term perspective solely for the pension beneficiaries. To promote disciplined investment management, the Objectives require GPIF to formulate the ORIM. This is based on the following provisions of the Employees' Pension Insurance Act and other relevant laws and regulations.

○Article 79-2 of the Employees' Pension Insurance Act (same philosophy is written in the National Pension Act)

. . . the pension reserve, a part of the premium collected from the pension beneficiaries, is a valuable source of funding for future pension benefits and . . . the purpose of the fund is to contribute to the future stability of management of the Employees' Pension Insurance through stable and efficient management from a long-term perspective solely for the pension beneficiaries the Employees' Pension Insurance.

○Article 20, Paragraph 2 of the Act on the Government Pension Investment Fund

. . . GPIF must consider generally recognized expertise and macro-economic trends, as well as the impact of the pension reserve on the markets and other private sector activities, while avoiding concentration on any particular style of investment. GPIF's investment management should also satisfy the objectives under Article 79-2 of the Employees' Pension Insurance Act and Article 75 of the National Pension Act.

In light of these requirements, the Medium-term Plan establishes the policy asset mix from a long-term perspective, based on the philosophy of diversified investment. Given the standardization of employees' pensions from October 2015, the policy asset mix of the third Medium-term Plan took into consideration the Reference Portfolio established jointly by GPIF, the Federation of National Public Service Personnel Mutual Aid Associations, the Pension Fund Association for Local Government Officials and the Promotion and Mutual Aid Corporation for Private Schools of Japan.

In addition to the formulation and publication of the ORIM, the Medium-term Plan requires GPIF to review the ORIM at least once a year and revise it promptly as deemed necessary.

③ Investment objectives, risk management, improvements in transparency, etc.

The third Medium-term Objectives as well as the second Medium-term Objectives, as revised in October 2014, stipulate that a pension reserve must achieve a long-term real return (net investment yield on the pension reserve less the nominal wage growth rate) of 1.7% with minimal risks, while maintaining liquidity necessary for the pension payout, based on the actuarial valuation of the pension scheme.

The third Medium-term Objectives also require GPIF to make efforts not to affect market pricing or investment activities by private sectors, and to achieve the benchmark rate of return (market average rate of return) for each asset class during the period for the Medium-term Plan.
Regarding risk management for the pension reserve, GPIF maintains the diversified portfolio, and manages and controls risks at the levels of the overall asset portfolio, each asset class, and each investment manager.

The third Medium-term Objectives which started in April 2015 require GPIF to combine passive and active investments, with active investment to be based on the strong conviction of the excess return, taking historical performance into account. In equity investment, GPIF considers non-financial factors, including environment, social and governance (ESG) issues without compromising return.

In October 2017, the Board of Governors was established. The Board of Governors is responsible for holding deliberations and making decisions on important matters related to the introduction of a new investment method, etc. An outline of the deliberations at the Board of Governors is published promptly upon obtaining approval of the Board of Governors. Governance reforms, as will be described later, are centered on establishing the Board of Governors and the Audit Committee and have helped improve the transparency of GPIF's organizational operation.

④ Other important matters to be observed for pension reserve management

The third Medium-term Objectives call for thorough compliance with the duty of care and fiduciary duty of prudent experts.

When managing the pension reserve, GPIF is required to consider the market size, not to be exposed to unfavorable market impact, and to avoid concentration of timing of investment and/or collection.

GPIF is required not to unduly exert influence on corporate management but to take appropriate measures such as exercise of shareholders' voting rights for maximizing long-term returns to shareholders. We fulfil Stewardship Responsibilities based on Japan's Stewardship Code. However, we do not select individual stocks by ourselves, in consideration of the impact on corporate management.

It is also stipulated that GPIF should secure the liquidity necessary for pension payouts by taking into consideration the actuarial valuation for the public pension schemes and the status of revenues and expenditures, and, in order to enhance the functions necessary for assuring liquidity without shortage, GPIF is expected to take appropriate measures including selling assets smoothly while giving consideration to market price formation, etc.

⑤ Enhancement of investment management capabilities, improvement of operational efficiency

In the Medium-term Objectives, GPIF is expected to clarify the expertise for the highly skilled professionals and the area of operations requiring such expertise, while developing an appropriate environment for attracting such talent, implementing a periodical performance evaluation system, and maintaining human resource in the most suitable way. GPIF is also expected to explain clearly to the public the appropriateness of the remuneration level applied to such highly skilled professionals by referring to comparable remuneration in private sectors.

GPIF is also expected to develop a comprehensive portfolio risk management system, including alternative-investment-specific risk management, with consideration of cost effectiveness. GPIF will make risk management more sophisticated by upgrading its forward-looking risk analysis functions, risk analysis tools, information accumulation and research capability.

With regard to improvements in operational efficiency, the Objectives stipulate that the average cost savings during the Medium-term Objectives period should be at least 1.34% per annum based on the fiscal 2014 level. The cost-saving target includes general administrative expenses (excluding retirement allowances and office relocation expenses) and operational expenses (excluding expenses related to computer systems, fees for external asset managers, personnel expenses for highly skilled professionals, and expenses related to short-term borrowing). The new additions and expansions pursuant to the December 2013 Cabinet Office decision and similar factors are excluded from the cost-saving target. However, the additions and expansions are included in the 1.34% cost-saving target from the following fiscal year onward. The Objectives also call for continued efforts to reduce fees for external asset managers, considering changes in the respective amounts of invested assets.

2 | Organization and Internal Control System

[1] Governance reforms (establishment of the Board of Governors and the Audit Committee)

Following the promulgation of the Law to Partially Amend the National Pension Act, etc. to improve the sustainability of the public pension scheme in December 2016 and the partial enactment of the law, the Act on the Government Pension Investment Fund, was amended in October 2017 with the aim of establishing an organizational framework worthy of greater trust of Japanese public and managing pension reserve more safely and efficiently. In accordance with this law amendment, GPIF established the Board of Governors and the Audit Committee with the aim of "shifting from the individual decision-making model to the council system" and "separating decision-making and supervision from execution."

Before its amendment, the Act on the Government Pension Investment Fund stipulated that the President shall represent GPIF as the chief of an agency, and preside over its operations in accordance with the Act on General Rules for Incorporated Administrative Agencies. GPIF accordingly adopted an individual decision-making model whereby the President takes responsibility for all decision-making. The Investment Advisory Committee, which is comprised of external experts, is established under the President. Important matters, such as preparation and revision of the Medium-term Plan including Policy Asset Mix, are required deliberation by the Investment Advisory Committee. Meanwhile, the Investment Advisory Committee was positioned strictly as an advisory body of the President.

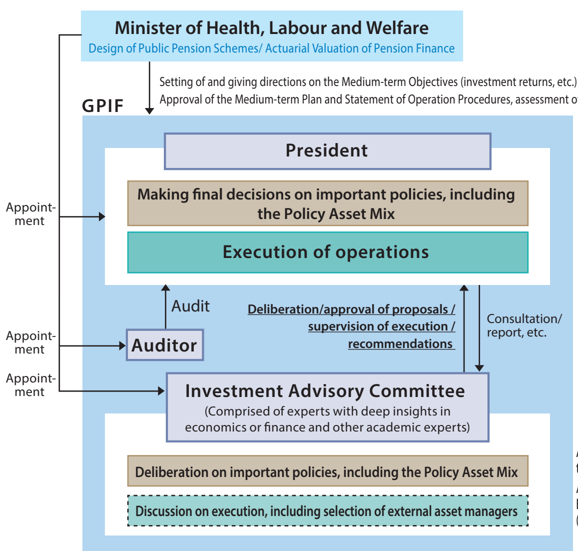
Under the new governance system based on the revised law, the Board of Governors was established. The Board consists of a total of 10 members: nine professionals with academic background or practical experience in economics, finance, asset management, business administration, and other fields relevant to GPIF's operations, and the President. The Board makes decisions on important matters upon deliberation through resolution, pursuant to Article 5-3, Paragraph 1-1 of the Act on the Government Pension Investment Fund. In other words, unlike the preceding Investment Advisory Committee, the Board of Governors makes decisions on GPIF's important policies by itself. "Important decision-making" carried out by the Board of Governors includes development of the Policy Asset Mix and the Medium-term Plan, preparation of annual plans, review of operations, decisions on important maters relevant to the operation of GPIF, such as approval of appointment of the President. In addition, the Board of Governors is to supervise the execution of duties by the President and other executives, pursuant to Article 5-3, Paragraph 1-2 of the Act on the Government Pension Investment Fund.

Three Governors concurrently serve as Auditors (of which one is a full-time member) and carry out audit on GPIF's operations pursuant to the Article 19, Paragraph 4 of the Act on General Rules for Incorporated Administrative Agency applied mutatis mutandis pursuant to Article 5-9, Paragraph 1 of the Act on the Government Pension Investment Fund. The Board also supervises the status of implementation of GPIF's operations by the President or Executive Managing Directors as provided for by the Board of Governors in accordance with Article 5-9, Paragraph 2 of the Act on the Government Pension Investment Fund.

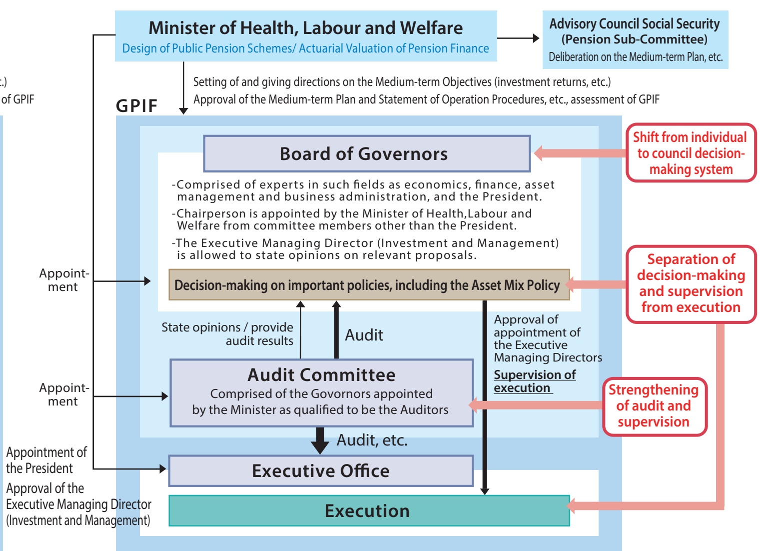
Under the supervision and monitoring by the Board of Governors and other bodies, the President represents GPIF and presides over GPIF's operations as provided by the Board, in accordance with the provisions of Article 7, Paragraph 1 of the Act on the Government Pension Investment Fund.

GPIF is required to carry out its operations appropriately under such new governance system and gain greater trust from Japanese public.

[Before amendment]



[After amendment]



[2] Board of Governors

The Board of Governors held a total of eight meetings in fiscal 2017. An outline of the meetings is as described in the following table. The Board of Governors resolved to change various regulations following the change of governance in the early days after its establishment, and subsequently deliberated on and resolved various matters. In addition, the Board of Governors received numerous reports on important matters from the Executive Office and held discussions on the details of such matters. The details of discussion by the Board of Governors are published on the website of GPIF after a certain period time as a summary of agenda items.

At meetings of the Board of Governors, experts in various fields, such as economics, finance, asset management and business administration, make an effort to discuss a broad range of agenda items related to GPIF's investment and operation management from a multidimensional perspective whenever possible and make timely and appropriate decision-making. For instance, at the meeting of the Board of Governors held in March 2018, Governors deliberated and made resolutions on GPIF's scheduled activities and budgetary provision necessary to conduct such activities from various perspectives, such as the pros and cons of investment activities, appropriate measurement method of cost performance, and improvement of transparency of expenses.

Outline of Meetings of the Board of Governors

Fiscal 2017

	Date of meeting	Main agendas (only matters for resolution/deliberation are recorded)
1st meeting (Round-robin meeting)	Oct. 1, 2017	**(Resolution)** (i) Establishing of the Board of Governors' Rules, (ii) Establishment of the Guidelines for Preparation and Disclosure of the Board of Governors' Minutes, (iii) Approval regarding the Appointment of Executive Managing Director (for investment management) and Executive Managing Director (excluding one for investment management)
2nd meeting	Oct. 2, 2017	**(Resolution)** (i) Change of the Statement of Operation Procedures, (ii) Change of the Medium-term Plan, (iii) Change of the Investment Management Policies, (iv) Change of the Annual Plan, (v) Change of the Standards for Payment of Remunerations, etc. and Salaries, etc., (vi) Change of Sanction Rules, (vii) Establishment of matters provided for by the Ordinance of the Ministry of Health, Labour and Welfare as required for executing duties of the Audit Committee, (viii) Establishment of matters provided for by the Ordinance of the Ministry of Health, Labour and Welfare as required for ensuring the appropriateness of GPIF's operations (ix) Important matters related to organization and staff size, (x) Change of GPIF Investment Principles and the Code of Conduct, (xi) Matters regarding the maintenance of ethics and discipline in the duties of executives and staff members **(Deliberation)** Principal regulations regarding compliance
3rd meeting	Nov. 1, 2017	**(Resolution)** Change of the Standards for Payment of Remunerations, etc. and Salaries, etc. **(Deliberation)** Principal regulations regarding compliance (second round)
4th meeting	Dec. 15, 2017	**(Resolution)** (i) Revision of regulations regarding compliance, etc., (ii) Coordination procedures prior to resolving on the annual plan (budget), (iii) Matters for resolution regarding the comprehensive assessment **(Deliberation)** Sorting out matters for resolution on the investment and management operations
5th meeting	Jan. 22, 2018	**(Resolution)** (i) Establishment of Project Team (PT) for examining the Policy Asset Mix, (ii) Starting of investment in bank loans **(Deliberation)** (i) In-house derivatives transactions, (ii) Efforts for the LPs scheme in relation to alternative investment, (iii) Sorting out of matters for resolution on the investment management operations (second round)
6th meeting	Feb. 19, 2018	**(Resolution)** (i) Change of accounting rules, (ii) In-house derivatives transactions, (iii) Efforts for the LPs scheme in relation to alternative investment
7th meeting	Mar. 14, 2018	**(Resolution)** (i) Important matters related to organization and staff size, (ii) Change of the Standards for Payment of Remunerations, etc. and Salaries, etc., (iii) Implementation of project for review of existing regulations **(Deliberation)** (i) Change of the Statement of Operation Procedures, (ii) Annual plan for fiscal 2018 (draft)
8th meeting	Mar. 30, 2018	**(Resolution)** (i) Change of the Statement of Operation Procedures, (ii) Annual plan for fiscal 2018 (draft) **(Deliberation)** Periodic verification of the Policy Asset Mix

[3] Audit Committee

The Audit Committee executes its duties by taking command of staff members at the Secretariat for the Audit Committee, who assist the duties of the Audit Committee and are independent from the President and Executive Managing Directors, as well as closely coordinating with the Internal Audit Department and the Accounting Auditor (Deloitte Touche Tohmatsu LLC). In addition, the Audit Committee attends various committee meetings organized by the Executive Office (the Investment Committee, the Portfolio Risk Management Committee, the Management and Planning Committee, the Procurement Committee, etc.), as needed. The Committee assesses the actual status of GPIF's operations through interviews with the person in charge of each department, the President, and Executives Managing Directors, reports and shares information obtained through these activities with the Board of Governors, and raise questions on organizational management issues, such as further strengthening internal controls. The Board of Governors will inspect improvements of GPIF's regulations for internal controls, etc. by the end of fiscal 2018, based on this year's law revision aimed at enhancing governance, and the Audit Committee is proceeding with work in accordance with the resolution by the Board of Governors.

The Audit Committee held a total of eight meetings in fiscal 2017. The Audit Committee performed audits primarily from the five perspectives: the status of achievement of Medium-term Objectives, the status of execution of duties by the Board of Governors and Governors, the status of execution of duties by the President, other executives and staff members, the status of internal control system following the change of governance system, and the status of accounting. The results of audits would be published as the Audit Report on GPIF's website.

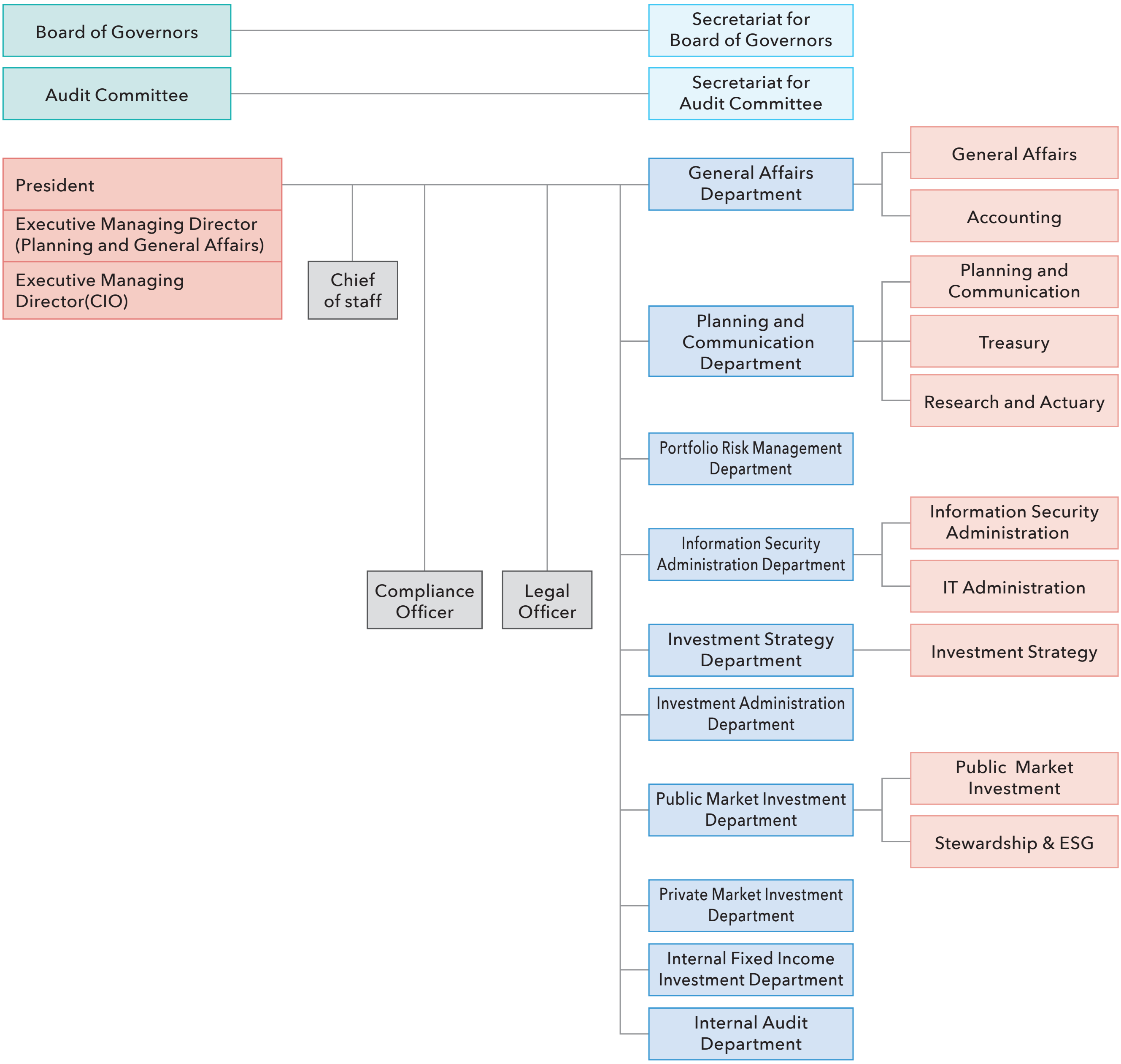
[4] Execution system

① Organization

As of April 1, 2018, GPIF has 12 executives, consisting of Chairperson of the Board of Governors, eight Governors(including three Governors and Auditors), the President and two Executive Managing Directors (one for Planning and General Affairs and another for investment Management and serving as the CIO), as well as 121 staff members (excepting part-time staff).

The organization consists of Secretariat for Board of Governors, Secretariat for Audit Committee, the General Affairs Department (General Affairs Division, Accounting Division), Planning and Communication Department (Planning and Communication Division, Treasury Division, Research and Actuary Division), Portfolio Risk Management Department, Information Security Administration Department (Information Security Administration Division, IT Administration Division), Investment Strategy Department (Investment Strategy Division), Investment Administration Department, Public Market Investment Department (Public Market Investment Division, Stewardship & ESG Division), Private Market Investment Department, Internal Fixed Income Investment Department, and Internal Audit Department (to report directly to the President).

Organization Chart (as of April 1, 2018)



② Internal control system

At GPIF, the Board of Governors provides for the system to make sure that the execution of duties by the President, Executive Managing Directors, and staff members complies with laws and regulations, which would be necessary to ensure proper operations. Based on those provisions, the Basic Policies of Internal Control set forth the system to maintain the effectiveness and efficiency of operations, the system to comply with laws and regulations, the system to manage portfolio risks, the system to preserve documents and information, and the system to ensure reliability of financial reporting.

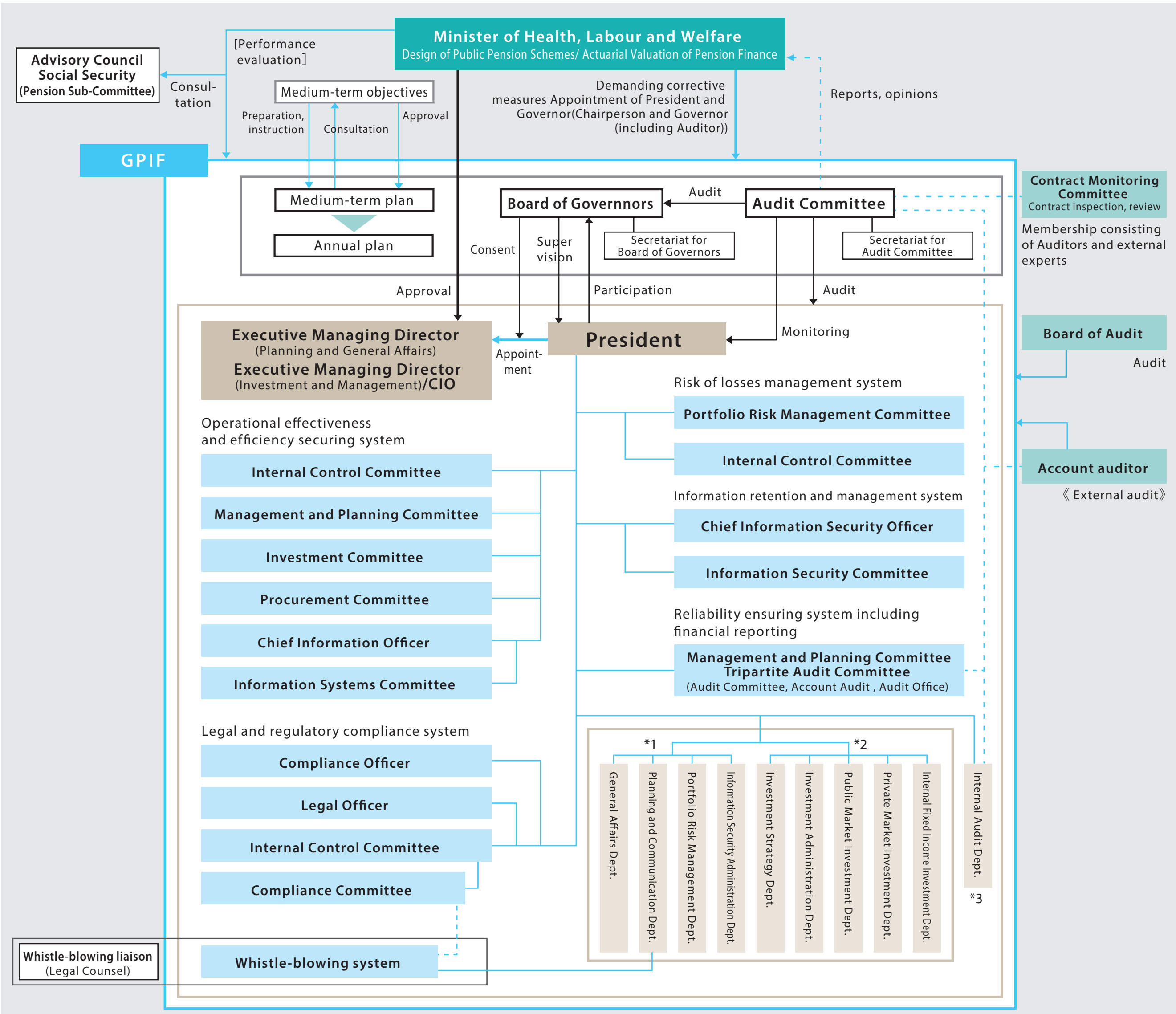
In order to maintain the effectiveness and efficiency of operations, the Internal Control Committee oversees the internal control system, and directors, departments, and persons in charge of internal control are assigned. All executives and staff members are informed of the necessity to comply with the Investment Principles and Code of Conducts and to act as an organization worthy of the trust of the public. The Management and Planning Committee facilitates the efficient operation of GPIF, and the appropriate decision-making on important management issues. Also, the Chief Investment Officer (CIO) is assigned to run investment management, and the Investment Committee, chaired by the CIO, ensures that investment decisions are made appropriately. Furthermore, the Internal Audit Department conducts internal auditing of GPIF's operations and related responsibilities.

Regarding the system for compliance with laws and regulations, the Compliance Committee is established under the Internal Control Committee to deliberate on important compliance issues, and the Compliance Officer and Legal Officer are appointed. A whistle blowing system is also available, and corrective actions and preventive measures would be taken according to our internal rules whenever an illegal or inappropriate activity is (or is expected to) perpetrated by executives or staff members of GPIF.

Regarding portfolio risk management, the Portfolio Risk Management Committee monitors and manages various portfolio risks, and the Internal Control Committee identifies, analyzes, and manages operational risks that could impede GPIF's day-to-day operations.

In order to establish a system for managing and preserving documents and information, the Chief Information Security Officer is appointed, and internal policies for the maintenance and usage of information system, as well as the management of documents, are established. Information security system is also strengthened by taking measures, such as conducting deliberation on important information security issues at the Information Security Committee.

Concept of Internal Control



*1 The Executive Managing Director (Planning and General Affairs) is responsible for matters related to the General Affairs Dept., Planning and Communication Dept., Portfolio Risk Management Dept., and Information Security Administration Dept.

*2 The Executive Managing Director (Investment and Management)/CIO is responsible for matters related to the Investment Strategy Dept.,Investment Administration Dept., Public Market Investment Dept., Private Market Investment Dept. and Internal Fixed Income Investment Dept.

*3 The Internal Audit Dept. is under the direct jurisdiction of the President.

Chapter 3

Reference Data

1 | Investment Assets by Investment Method and by Manager, etc.

[1] Investment assets by investment method and by asset class (market value at the end of fiscal 2017)

		Market Value (¥billion)	Portfolio allocation
Total (Investment assets)		156,383.2	100.00%
Market investments	Total	155,486.8	99.43%
	Passive investments	118,599.7	75.84%
	Active investments	36,887.1	23.59%
FILP bonds		896.4	0.57%

		Market Value (¥billion)	Portfolio allocation
Total (Investment assets)		156,383.2	100.00%
Domestic bonds	Total	43,621.4	27.89%
	Passive investments	33,599.7	21.49%
	Active investments	10,021.7	6.41%
Domestic equities	Total	40,699.5	26.03%
	Passive investments	36,807.6	23.54%
	Active investments	3,892.0	2.49%
Foreign bonds	Total	23,910.9	15.29%
	Passive investments	14,819.6	9.48%
	Active investments	9,091.3	5.81%
Foreign equities	Total	38,662.9	24.72%
	Passive investments	33,372.8	21.34%
	Active investments	5,290.1	3.38%
Short-term assets (Active investments)		8,592.0	5.49%
FILP bonds		896.4	0.57%

(Note 1) The figure in the market value column for FILP bonds includes accrued earnings in the book value amount based on the amortized cost method.
(Note 2) The figures above are rounded, so the sum of each figure may not equal the total.

[2] Changes in the ratios of passive and active investment (market investments)

		FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Domestic bonds	Passive	50.67%	61.36%	75.47%	78.58%	79.88%	77.97%	80.87%	82.26%	83.09%	82.05%	81.61%	90.48%	90.13%	86.10%	82.50%	79.38%	77.03%
	Active	49.33%	38.64%	24.53%	21.42%	20.12%	22.03%	19.13%	17.74%	16.91%	17.95%	18.39%	9.52%	9.87%	13.90%	17.50%	20.62%	22.97%
Domestic equities	Passive	44.24%	70.84%	77.02%	76.87%	76.19%	76.27%	76.41%	75.73%	75.26%	75.26%	76.23%	78.78%	87.69%	86.71%	81.52%	90.62%	90.44%
	Active	55.76%	29.16%	22.98%	23.13%	23.81%	23.73%	23.59%	24.27%	24.74%	24.74%	23.77%	21.22%	12.31%	13.29%	18.48%	9.38%	9.56%
Foreign bonds	Passive	71.42%	76.85%	73.30%	72.45%	72.04%	71.91%	72.31%	71.71%	70.93%	70.62%	70.87%	70.60%	71.70%	69.85%	64.94%	60.89%	61.98%
	Active	28.58%	23.15%	26.70%	27.55%	27.96%	28.09%	27.69%	28.29%	29.07%	29.38%	29.13%	29.40%	28.30%	30.15%	35.06%	39.11%	38.02%
Foreign equities	Passive	53.25%	79.03%	81.56%	79.86%	79.69%	79.85%	82.94%	85.35%	85.59%	86.23%	86.01%	86.74%	89.37%	88.05%	84.15%	86.45%	86.32%
	Active	46.75%	20.97%	18.44%	20.14%	20.31%	20.15%	17.06%	14.65%	14.41%	13.77%	13.99%	13.26%	10.63%	11.95%	15.85%	13.55%	13.68%
Total	Passive	50.07%	65.54%	74.89%	77.78%	78.06%	77.22%	79.53%	80.47%	79.67%	78.13%	76.65%	84.50%	86.00%	83.91%	79.28%	77.31%	76.28%
	Active	49.93%	34.46%	25.11%	22.22%	21.94%	22.78%	20.47%	19.53%	20.33%	21.87%	23.35%	15.50%	14.00%	16.09%	20.72%	22.69%	23.72%

[3] Investment assets by manager,etc. (market value at the end of fisical 2017)

(Unit : ¥billion)

Investment method	Asset manager name (Subcontractor, etc.)	Manager benchmark	Market Value
Domestic bonds active investment	Asset Management One Co., Ltd. (former DIAM) Ⅰ	BPI-TIPS	1,083.8
	Asset Management One Co., Ltd. (former Mizuho Trust & Banking) Ⅱ	BPI-TIPS	932.5
	MU Investments Co., Ltd.	BPI-TIPS	695.0
	Tokio Marine Asset Management Co., Ltd.	BPI-TIPS	930.0
	PGIM Japan Co., Ltd.	BPI-TIPS	626.7
	PIMCO Japan Ltd. (Pacific Investment Management Company LLC, etc.)	BPI-TIPS	541.6
	Manulife Asset Management (Japan) Limited	BPI-TIPS	416.5
	Sumitomo Mitsui Trust Bank, Limited	BPI-TIPS	936.1
	Mitsubishi UFJ Trust and Banking Corporation	BPI-TIPS	931.6
	In-house investment	-	2,921.2
Domestic bonds passive investment	In-house investment Ⅰ	BPI	1,341.0
	In-house investment Ⅱ	BPI-G	9,155.3
	In-house investment Ⅲ	BPI-C	14,657.3
	Asset Management One Co., Ltd. (former Mizuho Trust & Banking)	BPI	1,136.9
	State Street Global Advisors (Japan) Co., Ltd.	BPI	1,272.4
	Sumitomo Mitsui Trust Bank, Limited Ⅰ	BPI	1,272.8
	Sumitomo Mitsui Trust Bank, Limited Ⅱ	BPI-G	3,187.1
	Mitsubishi UFJ Trust and Banking Corporation	BPI-G	1,576.8
Domestic equities active investment	Asset Management One Co., Ltd. (former DIAM) Ⅰ	TOPIX	645.6
	Asset Management One Co., Ltd. (former Mizuho Asset Management) Ⅱ	RN-S	108.9
	Eastspring Investments Limited (Eastspring Investments (Singapore) Limited)	TOPIX	276.2
	Invesco Asset Management (Japan) Limited	TOPIX	217.3
	Capital International K.K. (Capital International, Inc.)	TOPIX	495.4
	JPMorgan Asset Management(Japan) Ltd.	RN-V	395.6
	Schroder Investment Management (Japan) Limited	TOPIX	287.2
	SEIRYU Asset Management Ltd. (Taiyo Pacific Partners LP)	RN-S	11.4
	Daiwa SB Investments Ltd.	RN-V	408.6
	Nikko Asset Management Co., Ltd.	TOPIX	319.8
	Nomura Asset Management Co., Ltd. Ⅰ	RN-S	58.4
	Nomura Asset Management Co., Ltd. Ⅱ (Dimensional Fund Advisors L.P.)	MSCI-JS	172.1
	FIL Investments (Japan) Limited	TOPIX	392.9
	Russell Investments Japan Co., Ltd. (Russell Investments Implementation Services, LLC.)	TOPIX	101.2
Domestic equities passive investment	Asset Management One Co., Ltd. (former DIAM) Ⅰ	TOPIX	9,562.3
	Asset Management One Co., Ltd. (former DIAM) Ⅱ	JPX	548.8
	Asset Management One Co., Ltd. (former Mizuho Trust & Banking) Ⅲ	RN-P	1,643.5
	Asset Management One Co., Ltd. Ⅳ	FTSE-BL	87.8
	Goldman Sachs Asset Management Co., Ltd. (Goldman Sachs Asset Management, L.P., etc.)	SP-G	2,023.9
	Nomura Asset Management Co., Ltd.	RAFI	1,855.2
	BlackRock Japan Co., Ltd. Ⅰ	TOPIX	6,960.7
	BlackRock Japan Co., Ltd. Ⅱ	MSCI-J	316.2
	BlackRock Japan Co., Ltd. Ⅲ	FTSE-BL	438.9
	Sumitomo Mitsui Trust Bank, Limited Ⅰ	TOPIX	3,852.0
	Sumitomo Mitsui Trust Bank, Limited Ⅱ	JPX	592.2
	Mitsubishi UFJ Trust and Banking Corporation Ⅰ	TOPIX	7,060.2
	Mitsubishi UFJ Trust and Banking Corporation Ⅱ	JPX	854.7
	Mitsubishi UFJ Trust and Banking Corporation Ⅲ	MSCI-ESG	622.9
	Mitsubishi UFJ Trust and Banking Corporation Ⅳ	MSCI-WIN	388.4

(Unit : ¥billion)

Investment method	Asset manager name (Subcontractor, etc.)	Manager benchmark	Market Value
Foreign bonds active investment	Asset Management One Co., Ltd. (former DIAM) Ⅰ (Janus Capital Management LLC)	USAGG	466.2
	Asset Management One Co., Ltd. (former Mizuho Asset Management) Ⅱ (Loomis, Sayles & Company, L.P.)	G-AGG	561.8
	Ashmore Japan Co., Ltd (Ashmore Investment Management Limited)	GBI-EMGD	209.0
	AllianceBernstein Japan Ltd. (AllianceBernstein L.P.,etc.)	EMBIGD	89.3
	Goldman Sachs Asset Management Co., Ltd. (Goldman Sachs Asset Management, L.P., etc.)	G-AGG	264.6
	Schroder Investment Management (Japan) Limited (Schroder Investment Management Limited, etc)	G-AGG	515.3
	Sompo Japan Nipponkoa Asset Management Co., Ltd. (Colchester Global Investors Limited)	G-AGG	683.3
	Nomura Asset Management Co., Ltd. Ⅰ (Franklin Advisers, Inc.)	G-AGG	685.9
	Nomura Asset Management Co., Ltd. Ⅱ (Nomura Corporate Research And Asset Management Inc.)	USHY2%	127.9
	Nomura Asset Management Co., Ltd. Ⅲ (MacKay Shields LLC)	USHY2%	122.8
	BNP Paribas Asset Management Japan Limited (BNP Paribas Asset Management USA,Inc.)	WGILB	135.4
	BNY Mellon Asset Management Japan Limited (Insight Investment Management (Global) Limited)	EUROAGG	536.9
	PGIM Japan Co., Ltd.(PGIM,Inc.,etc)	G-AGG	736.0
	PIMCO Japan Ltd. (Pacific Investment Management Company LLC, etc.)	G-AGG	722.4
	FIL Investments (Japan) Limited (Fidelity Institutional Asset Management)	USAGG	463.9
	BlackRock Japan Co., Ltd. (BlackRock Financial Management, Inc., etc)	G-AGG	433.1
	Manulife Asset Management (Japan) Limited (Manulife Asset Management (US) LLC)	G-AGG	703.7
	Morgan Stanley Investment Management (Japan) Co., Ltd. (Morgan Stanley Investment Management, Inc., etc.)	G-AGG	687.6
	UBS Asset Management (Japan) Ltd. (UBS Asset Management (UK) Ltd)	EUROHY 2%	163.9
	Leg Mason Asset Management (Japan) Co., Ltd. (Brandywine Global Investment Management, LLC)	G-AGG	601.0
Foreign bonds passive investment	Asset Management One Co., Ltd. (former Mizuho Trust & Banking)	WGBI	1,834.9
	State Street Global Advisors (Japan) Co., Ltd.	WGBI	1,876.4
	Nomura Asset Management Co., Ltd.	WGBI	2,394.1
	BlackRock Japan Co., Ltd. Ⅰ	WGBI	2,653.6
	BlackRock Japan Co., Ltd. Ⅱ	USGOV 1-3Y	115.5
	BlackRock Japan Co., Ltd. Ⅲ	EGBI	520.5
	Sumitomo Mitsui Trust Bank, Limited	WGBI	1,836.7
	Resona Bank, Limited. Ⅰ	WGBI	2,354.1
	Resona Bank, Limited. Ⅱ	USGOV 1-3Y	239.3
	Resona Bank, Limited. Ⅲ	EGBI	994.5

(Unit : ¥billion)

Investment method	Asset manager name (Subcontractor, etc.)	Manager benchmark	Market Value
Foreign equities active investment	Asset Management One Co., Ltd. (former Mizuho Asset Management) (Wells Capital Management Inc.)	MSCI-E	99.7
	Amundi Japan Ltd.	MSCI-K	835.8
	Wellington Management Japan Pte Ltd. (Wellington Management Company LLP.)	MSCI-K	653.6
	MFS Investment Management K.K. (Massachusetts Financial Services Company)	MSCI-K	561.2
	Nikko Asset Management Co., Ltd. (INTECH Investment Management LLC)	MSCI-K	829.0
	Nomura Asset Management Co., Ltd. Ⅰ	MSCI-E	111.3
	Nomura Asset Management Co., Ltd. Ⅱ (Dimensional Fund Advisors L.P.)	MSCI-E	40.9
	BNY Mellon Asset Management Japan Limited (Walter Scott & Partners Limited)	MSCI-K	596.3
	Mitsubishi UFJ Trust and Banking Corporation (Baillie Gifford Overseas Limited)	MSCI-K	703.9
	UBS Asset Management (Japan) Ltd. (UBS Asset Management (UK) Ltd)	MSCI-K	768.6
	Lazard Japan Asset Management K.K. (Lazard Asset Management LLC)	MSCI-E	64.9
Foreign equities passive investment	Asset Management One Co., Ltd. (former Mizuho Trust & Banking)	MSCI-A	4,968.2
	State Street Grobal Advisors (Japan) Co., Ltd. Ⅰ	MSCI-A	5,930.2
	State Street Grobal Advisors (Japan) Co., Ltd. Ⅱ	MSCI - EU	45.9
	State Street Grobal Advisors (Japan) Co., Ltd. Ⅲ	MSCI-E	58.4
	BlackRock Japan Co., Ltd.	MSCI-A	5,015.0
	Sumitomo Mitsui Trust Bank, Limited	MSCI-A	5,842.6
	Mitsubishi UFJ Trust and Banking Corporation	MSCI-A	5,677.2
	Resona Bank, Limited.	MSCI-A	5,835.3
Alternative infrastructure	Gatekeeper: Nomura Asset Management Co., Ltd. Fund of Funds Manager: Pantheon	-	10.7
	Gatekeeper: Sumitomo Mitsui Asset Management Company,Limited Fund of Funds Manager: StepStone Infrastructure & Real Assets	-	39.3
	In-house investment (Unit Trust Manager: Nissay Asset Management Corporation)	-	146.7
Alternative private equity	In-house investment (Unit Trust Manager: Nissay Asset Management Corporation)	-	8.2
Alternative real estate	Mitsubishi UFJ Trust and Banking Corporation	-	8.1
Short-term assets	In-house investment Ⅰ	-	8,589.7
	In-house investment Ⅱ	-	2.2
Subtotal		-	155,485.5
FILP bonds	In-house investment	-	896.4
Total	36 companies, 104 Funds	-	156,381.9

(Unit : ¥billion)

Investment method	Custodian etc. name	Market Value
Custody	Trust & Custody Services Bank, Ltd. (Domestic bonds, short-term assets)	53,100.6
	Japan Trustee Services Bank,Ltd. (Domestic equities)	40,698.3
	State Street Trust and Banking Co., Ltd (Foreign bonds, alternative assets, short-term assets)	23,945.6
	The Master Trust Bank of Japan, Ltd. (Foreign equities)	38,638.1
Security lending	Trust & Custody Services Bank, Ltd. [In-house investment Ⅰ]	330.0
	Trust & Custody Services Bank, Ltd. [In-house investment Ⅱ]	3,400.0
	Trust & Custody Services Bank, Ltd. [In-house investment Ⅲ]	5,698.0
Transition management	BlackRock Japan Co., Ltd. (Foreign bonds) (BlackRock Asset Management North Asia Limited)	0.6
	Russell Investments Japan Co., Ltd. (Foreign equities) (Russell Investments Implementation Services,LLC.)	0.1

(Note 1) The figure in the market value column for FILP bonds includes accrued earnings in the book value amount based on the amortized cost method.
(Note 2) The 36 asset managers in the total column does not include in-house investment, but the 104 funds in the total column include 9 in-house investment funds.
(Note 3) The figure in the total market value column for funds managed by asset managers (104 funds managed by 36 managers) does not include accrued dividend income from closed funds (statutory trust accounts).
(Note 4) Figures in the market value column for custodians do not include accrued dividend income (foreign equities: ¥0.6 billion) from closed funds (statutory trust accounts).
(Note 5) Figures in the market value column for securities lending investment are the principal (face value) of bond lending investment.
(Note 6) Managers' benchmarks are shown in the table below and the sources of those benchmarks are as listed in the right-hand column of the table below.

	Manager's benchmark		source of benchmark
Domestic bonds	BPI	NOMURA-BPI (excluding ABS)	Nomura Research Institute,Ltd.
	BPI-C	NOMURA-BPI/GPIF Customized	Nomura Securities Co,Ltd.
	BPI-G	Nomura-BPI government bonds	Nomura Research Institute,Ltd.
	BPI-TIPS	Nomura-BPI plus inflation-Linked bonds	Nomura Research Institute,Ltd.
Domestic equities	TOPIX	TOPIX (incl. dividends)	Tokyo Stock Exchange,Inc.
	JPX	JPX-Nikkei Index 400 (incl. dividends)	Tokyo Stock Exchange,Inc.
	MSCI-J	MSCI Japan Standard (incl. dividends)	MSCI G.K.
	MSCI-JS	MSCI Japan Small (incl. dividends)	MSCI G.K.
	RAFI	Nomura RAFI reference Index	Nomura Asset Management Co., Ltd.
	RN-P	RUSSELL/NOMURA Prime Index (incl. dividends)	Nomura Research Institute,Ltd.
	RN-S	RUSSELL/NOMURA Small Cap Index (incl. dividends)	Nomura Research Institute,Ltd.
	RN-V	RUSSELL /NOMURA Large Cap Value Index (incl. dividends)	Nomura Research Institute,Ltd.
	SP-G	S&P GIVI Japan (Gross Total Return)	S&P Opco,LLC
	FTSE-BL	FTSE Blossom Japan Index	FTSE International Limited
	MSCI-ESG	MSCI Japan ESG Select Leaders Index	MSCI G.K.
	MSCI-WIN	MSCI Japan Empowering Women Index (WIN)	MSCI G.K.
Foreign bonds	WGBI	FTSE World Government Bond Index (not incl. JPY, no hedge/JPY basis)	FTSE Fixed Income LLC
	G-AGG	Bloomberg Barclays Global Aggregate Index (not incl. JPY, no hedge/JPY basis)	Bloomberg Index Services Limited
	USAGG	Bloomberg Barclays US Aggregate Index (no hedge/JPY basis)	Bloomberg Index Services Limited
	EUROAGG	Bloomberg Barclays EURO Aggregate Index (no hedge/JPY basis)	Bloomberg Index Services Limited
	USHY2%	Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Bond Index (no hedge/JPY basis)	Bloomberg Index Services Limited
	EUROHY2%	Bloomberg Barclays EURO Corporate High Yield 2% Issuer Capped Bond Index (no hedge/JPY basis)	Bloomberg Index Services Limited
	GBI-EMGD	J.P. Morgan Government Bond Index-Emerging Markets Global Diversified Index (no hedge/JPY basis)	J.P.Morgan Securities LLC
	EMBIGD	J.P. Morgan EMBI Global Diversified (no hedge/JPY basis)	J.P.Morgan Securities LLC
	WGILB	Bloomberg Barclays World Government Inflation-Linked Bond Index (not incl. JPY, no hedge/JPY basis)	Bloomberg Index Services Limited
	EGBI	FTSE EMU Government Bond Index (no hedge/JPY basis)	FTSE Fixed Income LLC
	USGOV 1-3Y	FTSE US Government Bond Index 1-3years (no hedge/JPY basis)	FTSE Fixed Income LLC
Foreign equities	MSCI-K	MSCI KOKUSAI (JPY basis, incl. dividends, after taking into account our dividend tax factors)	MSCI G.K.
	MSCI-E	MSCI EMERGING MARKETS (JPY basis, incl. dividends, after deducting taxes)	MSCI G.K.
	MSCI-A	MSCI ACWI (not incl. JPY, JPY basis, incl. dividends, after taking into account our dividend tax factors)	MSCI G.K.
	MSCI - EU	MSCI Europe & Middle East (JPY basis, incl. dividends, after taking into account our dividend tax factors)	MSCI G.K.

[4] Investment performance by manager, etc.

① Investment performance (over the last year) (from April 2017 to March 2018)

Investment method	Asset manager name	Time-weighted return (A)	Benchmark return (B)	Excess rate of return (C)=(A)-(B)	remarks column
Domestic bonds passive investment	In-house investment Ⅰ	0.96%	0.90%	+0.05%	
	In-house investment Ⅱ	0.99%	0.94%	+0.05%	
	In-house investment Ⅲ	0.27%	0.29%	-0.01%	
	Asset Management One Co., Ltd. (former Mizuho Trust & Banking)	0.92%	0.90%	+0.01%	
	State Street Global Advisors (Japan) Co., Ltd.	0.92%	0.90%	+0.01%	
	Sumitomo Mitsui Trust Bank, Limited Ⅰ	0.94%	0.90%	+0.03%	
	Sumitomo Mitsui Trust Bank, Limited Ⅱ	0.99%	0.94%	+0.04%	
	Mitsubishi UFJ Trust and Banking Corporation	1.00%	0.94%	+0.06%	
Domestic bonds active investment	Asset Management One Co., Ltd. (former DIAM) Ⅰ	1.16%	0.90%	+0.26%	
	Asset Management One Co., Ltd. (former Mizuho Trust & Banking) Ⅱ	1.25%	0.90%	+0.35%	
	MU Investments Co., Ltd.	1.05%	0.90%	+0.15%	
	Tokio Marine Asset Management Co., Ltd.	1.19%	0.90%	+0.29%	
	PGIM Japan Co., Ltd.	1.46%	0.90%	+0.56%	
	PIMCO Japan Ltd.	1.33%	0.90%	+0.43%	
	Manulife Asset Management (Japan) Limited	1.95%	0.90%	+1.05%	
	Sumitomo Mitsui Trust Bank, Limited	1.27%	0.90%	+0.37%	
	Mitsubishi UFJ Trust and Banking Corporation	1.10%	0.90%	+0.20%	
	In-house investment	1.44%	-	-	
Domestic equities passive investment	Asset Management One Co., Ltd. (former DIAM) Ⅰ	15.86%	15.87%	-0.00%	
	Asset Management One Co., Ltd. (former DIAM) Ⅱ	14.71%	14.69%	+0.02%	
	Asset Management One Co., Ltd. (former Mizuho Trust & Banking) Ⅲ	15.60%	15.60%	+0.00%	
	Asset Management One Co., Ltd. Ⅳ	-5.96%	-5.98%	+0.02%	○
	Goldman Sachs Asset Management Co., Ltd.	13.81%	13.67%	+0.14%	
	Nomura Asset Management Co., Ltd.	12.70%	12.68%	+0.02%	
	BlackRock Japan Co., Ltd. Ⅰ	15.89%	15.87%	+0.02%	
	BlackRock Japan Co., Ltd. Ⅱ	14.62%	14.57%	+0.06%	
	BlackRock Japan Co., Ltd. Ⅲ	7.90%	7.88%	+0.02%	○
	Sumitomo Mitsui Trust Bank, Limited Ⅰ	15.85%	15.87%	-0.01%	
	Sumitomo Mitsui Trust Bank, Limited Ⅱ	14.66%	14.69%	-0.03%	
	Mitsubishi UFJ Trust and Banking Corporation Ⅰ	15.89%	15.87%	+0.02%	
	Mitsubishi UFJ Trust and Banking Corporation Ⅱ	14.71%	14.69%	+0.02%	
	Mitsubishi UFJ Trust and Banking Corporation Ⅲ	6.41%	6.39%	+0.01%	○
	Mitsubishi UFJ Trust and Banking Corporation Ⅳ	6.80%	6.80%	+0.00%	○
Domestic equities active investment	Asset Management One Co., Ltd. (former DIAM) Ⅰ	14.06%	15.87%	-1.81%	
	Asset Management One Co., Ltd. (former Mizuho Asset Management) Ⅱ	59.27%	22.39%	+36.88%	
	Eastspring Investments Limited	13.10%	15.87%	-2.77%	
	Invesco Asset Management (Japan) Limited	18.11%	15.87%	+2.25%	
	Capital International K.K.	18.45%	15.87%	+2.58%	
	JPMorgan Asset Management(Japan) Ltd.	12.61%	11.30%	+1.31%	
	Schroder Investment Management (Japan) Limited	20.52%	15.87%	+4.66%	
	SEIRYU Asset Management Ltd.	28.45%	22.39%	+6.06%	
	Daiwa SB Investments Ltd.	12.43%	11.30%	+1.12%	
	Nikko Asset Management Co., Ltd.	13.68%	15.87%	-2.19%	
	Nomura Asset Management Co., Ltd. Ⅰ	20.32%	20.13%	+0.18%	
	Nomura Asset Management Co., Ltd. Ⅱ	31.96%	22.39%	+9.57%	
	FIL Investments (Japan) Limited	29.39%	15.87%	+13.52%	
	Russell Investments Japan Co., Ltd.	19.67%	15.87%	+3.80%	
Foreign bonds passive investment	Asset Management One Co., Ltd. (former Mizuho Trust & Banking)	4.33%	4.23%	+0.10%	
	State Street Global Advisors (Japan) Co., Ltd.	4.36%	4.23%	+0.13%	
	Nomura Asset Management Co., Ltd.	4.39%	4.23%	+0.16%	
	BlackRock Japan Co., Ltd. Ⅰ	4.47%	4.23%	+0.24%	
	BlackRock Japan Co., Ltd. Ⅱ	-4.33%	-4.54%	+0.21%	
	BlackRock Japan Co., Ltd. Ⅲ	6.04%	5.99%	+0.05%	○
	Sumitomo Mitsui Trust Bank, Limited	4.35%	4.23%	+0.12%	
	Resona Bank, Limited. Ⅰ	4.31%	4.23%	+0.08%	
	Resona Bank, Limited. Ⅱ	2.66%	2.64%	+0.02%	○
	Resona Bank, Limited. Ⅲ	-2.12%	-2.14%	+0.02%	○

Investment method	Asset manager name	Time-weighted return (A)	Benchmark return (B)	Excess rate of return (C)=(A)-(B)	remarks column
Foreign bonds active investment	Asset Management One Co., Ltd. (former DIAM) Ⅰ	-3.25%	-3.41%	+0.16%	
	Asset Management One Co., Ltd. (former Mizuho Asset Management) Ⅱ	3.45%	2.35%	+1.10%	
	Ashmore Japan Co., Ltd	10.97%	7.84%	+3.14%	
	AllianceBernstein Japan Ltd.	-0.96%	-1.92%	+0.96%	○
	Goldman Sachs Asset Management Co., Ltd.	1.73%	2.25%	-0.52%	
	Schroder Investment Management (Japan) Limited	2.85%	2.35%	+0.50%	
	Sompo Japan Nipponkoa Asset Management Co., Ltd.	3.96%	2.35%	+1.61%	
	Nomura Asset Management Co., Ltd. Ⅰ	-1.96%	2.35%	-4.31%	
	Nomura Asset Management Co., Ltd. Ⅱ	-0.70%	-0.95%	+0.25%	
	Nomura Asset Management Co., Ltd. Ⅲ	-1.64%	-0.95%	-0.69%	
	BNP Paribas Asset Management Japan Limited	4.43%	3.72%	+0.71%	
	BNY Mellon Asset Management Japan Limited	13.98%	12.34%	+1.64%	
	PGIM Japan Co., Ltd.	6.24%	2.35%	+3.88%	
	PIMCO Japan Ltd.	3.28%	2.35%	+0.93%	
	FIL Investments (Japan) Limited	-1.59%	-3.41%	+1.83%	
	BlackRock Japan Co., Ltd.	1.65%	1.86%	-0.21%	
	Manulife Asset Management (Japan) Limited	-1.59%	2.35%	-3.94%	
	Morgan Stanley Investment Management (Japan) Co., Ltd.	4.91%	2.35%	+2.55%	
	UBS Asset Management (Japan) Ltd.	13.43%	13.31%	+0.11%	
	Leg Mason Asset Management (Japan) Co., Ltd.	5.56%	2.35%	+3.21%	
Foreign equities passive investment	Asset Management One Co., Ltd. (former Mizuho Trust & Banking)	9.75%	9.70%	+0.05%	
	State Street Grobal Advisors (Japan) Co., Ltd. Ⅰ	9.69%	9.70%	-0.01%	
	State Street Grobal Advisors (Japan) Co., Ltd. Ⅱ	-6.61%	-6.59%	-0.02%	○
	BlackRock Japan Co., Ltd.	9.74%	9.70%	+0.04%	
	Sumitomo Mitsui Trust Bank, Limited	9.80%	9.70%	+0.10%	
	Mitsubishi UFJ Trust and Banking Corporation	9.73%	9.70%	+0.03%	
	Resona Bank, Limited.	9.70%	9.70%	+0.00%	
Foreign equities active investment	Asset Management One Co., Ltd. (former Mizuho Asset Management)	17.36%	19.23%	-1.88%	
	Amundi Japan Ltd.	8.31%	8.39%	-0.08%	
	Wellington Management Japan Pte Ltd.	11.78%	8.39%	+3.39%	
	MFS Investment Management K.K.	8.37%	8.39%	-0.03%	
	Nikko Asset Management Co., Ltd.	12.10%	8.39%	+3.71%	
	Nomura Asset Management Co., Ltd. Ⅰ	14.73%	19.23%	-4.50%	
	Nomura Asset Management Co., Ltd. Ⅱ	15.51%	19.23%	-3.72%	
	BNY Mellon Asset Management Japan Limited	11.54%	8.39%	+3.15%	
	Mitsubishi UFJ Trust and Banking Corporation	21.52%	8.39%	+13.13%	
	UBS Asset Management (Japan) Ltd.	15.58%	8.39%	+7.19%	
	Lazard Japan Asset Management K.K.	20.38%	19.23%	+1.15%	

② Investment performance (alternative assets)

Alternative Assets	Investment Style	Asset manager name	IRR (local currency)	IRR (JPY)	Local currency	Start of investment
Infrastructure	Global-Core	Nomura Asset Management Co., Ltd.	-	-	USD	February 2018
	Global-Core	Sumitomo Mitsui Asset Management Company,Limited	-	-	USD	January 2018
	Global-Core	In-house investment	5.39%	1.68%	USD	February 2014
Private equity	Emerging markets-Diversified	In-house investment	-5.85%	-9.57%	USD	June 2015
Real estate	Japan-Core	Mitsubishi UFJ Trust and Banking Corporation	-	-	JPY	December 2017

(Note 1) Funds are listed in the order of the Japanese syllabary.
(Note 2) Asset managers entrusted with investment for more than one contract using the same investment method are indicated with Roman figures.
(Note 3) The time-weighted return and the benchmark return are annualized rates that exclude the effect of the trade suspended period for asset transfer.
(Note 4) Excess returns and information ratio may not equal the value calculated with figures in the table because the figures are rounded off to two decimal places.
(Note 5) Time-weighted returns of in-house investment passive domestic bond funds, passive foreign bond funds, some of the active funds and passive foreign equity funds include returns from securities lending investment.
(Note 6) Internal rate of return (IRR) is a rate of return calculated by taking into account the effects of the size and timing of cash flows of investment target funds during the investment period. The calculation period of IRR is from the start of investment to the end of the current fiscal year.
(Note 7) Actual investments in alternative assets are denominated in major investment currencies. IRR (yen-denominated funds) is calculated by converting cash flows denominated in major investment currencies into yen at the going market exchange rate and is subject to exchange rate fluctuations throughout the investment period.
(Note 8) A circle in the remarks column indicates an external asset manager with less than one year of investment period. The rates of returns of external asset managers with less than one year of investment period show periodic rates of returns. The rate of returns for investments in alternative assets show the rate of returns of investment products with an investment period of one year or more.

Code of Conduct

【1】 Social responsibility

- GPIF's mission is to contribute to the stability of the public pension system (Employees' Pension Insurance and National Pensions) by managing the reserve assets and distributing the proceeds to the government.

【2】Fiduciary duty

- We fully understand that the reserve assets are instrumental for future pension benefits payments, act solely for the benefit of pension recipients, and pledge to pay due attention as prudent experts in exercising our fiduciary responsibilities. The Chairperson and the member of the Board of Governors shall by no means be motivated by benefitting the organizations to which they belong.

【3】Compliance with laws and maintaining highest professional ethics and integrity

- We shall comply with laws and social norms, remain fully cognizant of our social responsibilities associated with pension reserve management, and act with the highest professional ethics and integrity to avoid any distrust or suspicion of the public.

【4】Duty of confidentiality and protecting GPIF's asset

- We shall strictly control confidential information that we come to access through our businesses, such as non-public information related to investment policies and investment activities, and never use such information privately or illegally.
- We shall effectively use GPIF's assets, both tangible and intangible (e.g., documents, proprietary information, system, and know-how), and protect and manage such assets properly.

【5】Prohibition of pursuing interests other than those of GPIF

- We shall never use our occupations or positions for the interests of ourselves, relatives, or third parties.
- We shall never seek undue profits at the expense of GPIF.

【6】Fairness of business transactions

- We shall respect fair business practices at home and abroad, and treat all counterparties impartially.
- We shall never make transactions with anti-social forces or bodies.

【7】Appropriate information disclosure

- We shall continue to improve our public information disclosure and public relations activities.
- We shall ensure the accuracy and appropriateness of our financial statements and other public documents that are required to be disclosed by laws and ordinances.
- We shall remain mindful that our outside activities, regardless of whether business or private (e.g., publications, speeches, interviews, or use of social media) affect the credibility of GPIF, and act accordingly.

【8】Developing human resources and respect in the workplace

- We are committed to GPIF's mission by improving our professional skills and expertise, promoting communication and teamwork and nurturing a diversity of talents and capabilities.
- We shall respect each person's personality, talents and capabilities, perspectives, well-being, and privacy to maintain a good work environment, and never allow discrimination or harassment.

【9】Self-surveillance of illegal or inappropriate activity

- Whenever an illegal or inappropriate activity is (or is expected to be) perpetrated by executives, staff, or other related personnel, such activity shall be immediately reported to GPIF through various channels including our whistleblowing system.
- When such a report is made, we shall conduct the necessary investigation and take corrective actions and preventive measures according to our internal rules.

Government Pension Investment Fund,Japan

Annual Report Fiscal Year 2017

This document has been prepared and released to the public in accordance with Article 26, Paragraph 1 of the Act on Government Pension Investment Fund and Article 79-8, Paragraph 1 of the Employees' Pension Insurance Act.

Inquiries

Planning and Communication Division, Planning and Communication Department Government Pension Investment Fund

Toranomon Hills Mori Tower, 1-23-1
Toranomon, Minato-ku, Tokyo, Japan 105-6377

Tel: +81-3-3502-2486 (direct dial) Fax: +81-3-3503-7398
Website: http://www.gpif.go.jp/en/