The Government Pension Investment Fund (GPIF) establishes specific policies on the management and investment of its pension reserve fund (including management reserve fund [refers to management reserve fund defined in Article 79-6, paragraph 1 of the Employees’ Pension Insurance Law]) (hereinafter referred to as the “Operation Policy”) as follows, pursuant to the policy of the medium-term plan provided in the Act on General Rules for Incorporated Administrative Agency (Act No. 103 of 1999; hereinafter referred to as the “Act on General Rules”) and Article 20 of the Act on the Government Pension Investment Fund (Act No. 105 of 2004; hereinafter referred to as the “Individual Act”) (hereinafter referred to as the “Medium-Term Plan”), and pursuant to the policies on the management and investment provided in Article 79-6, paragraph 1 of the Employees’ Pension Insurance Law (Act No. 115 of 1954) (hereinafter referred to as the “Management and Investment Policy”). With the aim of achieving the medium-term targets specified by the Minister of Health, Labour and Welfare (hereinafter referred to as the “Medium-Term Objectives”) pursuant to the Act on General Rules, GPIF shall conduct management and investment operations in accordance with the Operation Statement, the Medium-Term Plan, the Management and Investment Policy and the Operation Policy based on the Investment Principles and Code of Conduct of GPIF.

I. Objectives of Management and Investment of the Pension Reserve Fund

In order to achieve the investment objectives stipulated in the Medium-Term Plan and the Management and Investment Policy, GPIF specifies the objectives of the management and investment of the pension reserve fund entrusted by the Minister of Health, Labour and Welfare (hereinafter referred to as the “pension reserve fund” except for in section II item 2(1)) pursuant to the Employees’ Pension Insurance Law and the National Pension Act as follows.

1. Objectives of Management and Investment Pertaining to the Medium-Term Plan

GPIF aims to achieve the following objectives as provided in the Medium-Term Plan and the Management and Investment Policy:

- GPIF shall manage and invest the pension reserve fund based on diversified
investment and asset allocation from a long-term perspective (hereinafter referred to as the “Policy Asset Mix”).

- GPIF shall strive to achieve as much investment return as the benchmark of each asset for each fiscal year and for the period of Medium-term Objective by appropriately selecting, managing and evaluating external asset managers.

2. Objective of Investment for Five Years
   In addition to the objectives in item 1, GPIF shall strive to achieve as much investment return as the benchmark for each asset specified in the Policy Asset Mix for five years, and shall use the result in the evaluation provided in section VIII item 1(1).

3. Benchmark
   GPIF sets forth the benchmarks for the Policy Asset Mix in items 1 and 2 as per Exhibit 1.

II. Asset Allocation and Methods pertaining the Management and Investment of Pension Reserve Fund

1. Asset Allocation
   (1) Policy Asset Mix
      (i) Management and investment based on the Policy Asset Mix
         GPIF shall manage and invest the pension reserve fund in accordance with the Policy Asset Mix.

      (ii) Review of the Policy Asset Mix
         GPIF shall examine the Policy Asset Mix on a regular basis and consider reviewing the Policy Asset Mix if necessary such as the environment for investment assumed in formulating the Policy Asset Mix is no longer applicable.
         In addition, GPIF shall examine the Reference Asset Mix (i.e., the target asset allocation of the reserve fund; the same applies in (ii)) which is jointly specified by the Management and Investment Entities [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; the same applies in (ii)] in
collaboration with the other Management and Investment Entities if necessary.

(2) Investable Assets

GPIF may invest in domestic bonds, domestic equities, foreign bonds, foreign equities and short-term assets, and may trade derivatives of those assets. GPIF may also lend bonds and foreign equities (including lending in securities trusts). GPIF may invest in alternative assets (infrastructure, private equity, real estate and other assets approved by the Board of Governors) in line with developing the investment capabilities and shall classify them into domestic bonds, domestic equities, foreign bonds and foreign equities in accordance with their risk-return profiles.

2. Methods of Management and Investment

(1) Asset Allocation of the Pension Reserve Fund

(i) Changes in asset allocation

If the asset allocation of the whole Pension Reserve Fund (i.e., the reserve funds in the Employees' Pension Insurance and the National Pension; the same applies in (iv)) has deviated beyond the permissible ranges of deviation of the Policy Asset Mix, the asset allocation shall be changed so that the deviation falls within the permissible ranges.

(ii) Consideration of market situations when changing asset allocation

The changes in asset allocation pursuant to the provisions of (i) may be implemented depending on market situations.

(iii) Flexible investment

In view of the recent trend of volatile economic and market environments, GPIF may invest flexibly within the permissible ranges of deviation of the Policy Asset Mix based on the appropriate outlook of market environment, provided, however, that such outlook shall never been speculative and shall be certain.

(iv) Maximum allocation to alternative assets

The maximum allocation to alternative assets set forth in the Policy Asset Mix shall be managed by the proportion of the aggregate amount of alternative assets, that are classified into domestic bonds, domestic equities, foreign bonds
and foreign equities, to the whole pension reserve fund.

(2) Market Investment Funds
GPIF shall manage and invest market investment funds as follows:
(i) The investment of market investment funds shall be made using the following methods/instruments:
   (a) Separately-managed discretionary trust with a trust company (including a bank that operates trust business; the same applies hereinafter);
   (b) Non-discretionary trust with a trust company, provided, however, that it is limited to those invested under a discretionary investment agreement with a financial instruments business operator;
   (c) Payment of life insurance premiums; and
   (d) In-house investment (including that managed by a non-discretionary trust with a trust company).

(ii) Investment methods of market investment funds
   Except in cases such as responding to payouts, market investment funds shall be invested both passively (i.e., tracking the manager benchmark stipulated in section III item 2) and actively (i.e., gaining excess return against the manager benchmark stipulated in section III item 2), in principle.

(iii) Risk management of market investment funds for the whole asset and for each asset
   With regard to risk management of market investment funds for the whole asset and for each asset, risk profiles such as tracking error and duration shall be monitored each month, and if the risk profile is not appropriate, proper measures such as making changes to the asset allocation shall be taken.

(iv) Supervision by the Board of Governors
   Upon introducing new methods, matters deemed by the Board of Governors as material shall be implemented in accordance with the resolution thereof.

(3) Fiscal Investment and Loan Program (FILP) Bonds
GPIF shall manage and invest in FILP bonds (held-to-maturity) it has underwritten. In accordance with the Accounting Standards for Incorporated Administrative Agencies, GPIF shall evaluate the FILP bonds by book values
based on the cost method (or at amortized costs in cases if the underwritten prices differ from the redemption values), and in order to manage the pension reserve fund appropriately, GPIF shall also evaluate the FILP bonds at market prices and disclose the results.

(4) Performance Attribution Analysis Relative to Composite Benchmark Return
GPIF shall conduct performance attribution analysis relative to composite benchmark return for each fiscal year.

(5) Consistency with Cash Flows of the Pension Special Account
GPIF shall share information closely with the administrator of Pension Special Account (the Employees’ Pension Account and National Pension Account) to preserve the necessary liquidity (cash and its equivalent) for payouts such as benefit payments and shall carry out efficient cash management. Upon doing so, it shall consider price formation in markets, sell asset smoothly and secure sufficient funds.

(6) Initiatives in Stewardship Responsibilities
GPIF shall formulate and disclose its policy on initiatives to be carried out based on Japan’s Stewardship Code (i.e., “Principles for Responsible Institutional Investors” established by the Financial Services Agency; the same applies hereinafter) (hereinafter referred to as the “Policy to fulfill Stewardship Responsibilities”).

In addition, as part of initiatives to fulfill its stewardship responsibilities, GPIF shall make efforts in the Principles for Responsible Investment (PRI). Each fiscal year GPIF shall disclose its stewardship activities including interviews with its external asset managers of domestic and foreign equities on their stewardship activities.

III. External Asset Managers

1. Basic Matters
GPIF shall request external asset managers (i.e., trust companies, financial instruments business operators or life insurance companies that manage or invest in market investment funds when investing under methods described in section II item 2(2)(i)(a) through (c) and that are not trust and custody services providers
defined in section IV item 1; the same applies hereinafter) to make reports concerning the management and investment of funds (the investment in the case of financial instruments business operators: the same applies in items 1 and 2(4)(i)) as of the end of each month or request the submission of necessary materials as needed. GPIF shall hold regular meetings with each investment manager on the management and investment of the funds on a regular basis, and provide necessary instructions to the external asset managers based on their reports.

2. Investment Guidelines
When investing under the methods described in section II item 2(2)(i)(a) through (c), according to the profile of the assets, GPIF shall provide to external asset managers the investment guidelines of investment methods, investment objectives, risk management, benchmarks (hereinafter referred to as the “Manager Benchmark”) and other matters described below. GPIF shall monitor the compliance of the investment guidelines and provide necessary instructions to the external asset managers.

(1) Investment Guidelines Applied to Each Asset
External asset managers shall comply with the following requirements for each asset.
(i) Domestic bonds
(a) The investable bonds in this asset class shall be yen-denominated bonds (including convertible bonds, perpetual bonds and bank loan investment trust beneficiary certificates). In the case of active investment, sufficient researches and analyses upon terms and conditions of the issuance such as the bond's rating, coupon, maturity date and liquidity have to be done in selecting each bond.
(b) Appropriate diversification in issuers and maturities shall be sought in accordance with the investment method.
(c) The investable bonds which exclude Government bonds, municipal bonds and certain bonds issued by corporations under special laws (particularly limiting to those with guarantee from government) have to have a BBB rating or higher from any of the rating agencies stipulated in Exhibit 2 (hereinafter referred to as the “Rating Agencies”). In case of the bonds without ratings, the issuer or the guarantor has to fulfill the same requirement of rating. However, this does not apply to cases where GPIF has
acknowledged beforehand that there are reasonable grounds notwithstanding the rating requirement above due to the nature of the investment method.

(d) Measures such as sale shall be taken for bonds described in (c) (excluding those pertaining to the proviso therein) whose rating by any of the Rating Agencies has fallen below BBB after purchase, upon adequate consideration to the issuer’s default risk.

(ii) Domestic equities

(a) The investable equities in this asset class shall be issues of shares floated on domestic securities exchanges (including real estate investment trust beneficiary certificates, preferred shares and preferred securities). In the case of active investment, the issue shall be selected upon sufficient research and analysis of the business operation of the target company and liquidity of the issue.

(b) Appropriate diversification in industries and securities shall be sought in accordance with the investment method.

Investment in equities issued by the same company shall be no more than 5% of total equities outstanding of the company for each external asset manager.

(c) External asset managers that adopt Japan’s Stewardship Code shall carry out appropriate initiatives based on the policy on how they fulfill their stewardship responsibilities. External asset managers that do not adopt Japan’s Stewardship Code shall report the reason to GPIF. External asset managers, signatories to the PRI, shall report such fact, and those non-PRI signatories, shall report the reason to GPIF.

(iii) Foreign bonds

(a) The investable bonds in this asset class shall be foreign currency-denominated bonds (including convertible bonds, perpetual bonds and bank loan investment trust beneficiary certificates). In the case of active investment, at first the country and the currency to invest have to be selected, after sufficient investigation of political and economic stability, as well as specific characteristics of the settlement system and tax rules. Then, researches and analyses upon terms and conditions of the issuance such as the bond’s rating, coupon, maturity date, and liquidity have to be done in selecting each bond.
(b) Appropriate diversification in issuers and maturities shall be sought in accordance with the investment method.

(c) The investable bonds shall have a BBB rating or higher from any of the Rating Agencies. For those bonds without issue ratings, the same condition applies to the issuer or guarantee agencies of them. However, this does not apply to cases where GPIF has acknowledged beforehand that there are reasonable grounds notwithstanding the above such as cases where the investment shall be in an issue that does not meet this rating requirement due to the nature of the investment method.

(d) Measures such as sale shall be taken for bonds described in (c) (excluding those pertaining to the proviso therein) whose rating by any of the Rating Agencies has fallen below BBB after purchase, upon adequate consideration to the issuer’s default risk.

(iv) Foreign equities

(a) The investable equities in this asset class shall be issues of foreign currency-denominated shares floated on securities exchanges and over-the-counter markets of foreign countries (including real estate investment trust beneficiary certificates and preferred shares). In the case of active investment, the investable country and currency shall be selected upon sufficient research on market characteristics such as political and economic stability, settlement system, and tax system, and the issue shall be selected upon sufficient research and analysis of the business operation of the target company and liquidity of the issue. However, investment in depositary receipts, and investment trust beneficiary certificates may be made in cases where there are reasonable grounds such as the existence of a restriction on direct purchase of the underlying stock.

(b) Appropriate diversification in countries, currencies, industries and securities shall be sought in accordance with the investment method. Investment in equities issued by the same company shall be no more than 5% of total equities outstanding of the company for each external asset manager.

(c) External asset managers that adopt Japan’s Stewardship Code shall carry out appropriate initiatives based on the policy on how they fulfill their stewardship responsibilities. External asset managers that do not adopt Japan’s Stewardship Code shall report the reason to GPIF. External asset managers, signatories to the PRI, shall report such fact, and
those, non-PRI signatories, shall report the reason to GPIF.

(v) Alternative assets
Notwithstanding the provisions of (i) through (iv), following matters shall be complied with for alternative assets.
(a) Investable assets are securities that mostly invest in alternative assets (limited to those with limited liability; hereinafter in (v) the same applies).
(b) Upon investment, sufficient research and analysis shall be carried out with regard to the legal, tax and accounting rules applied to securities, as well as the eligibility, profitability, usage of procured funds and appropriateness of information disclosure of securities.
(c) External audit by an auditor shall be conducted for each accounting period (within two years for the first and last accounting periods, and within a year for other accounting periods), with their reports (hereinafter in (v) referred to as the “Audit Report”) promptly provided upon completion. In cases where the Audit Report has already been completed, an unqualified, qualified or equivalent opinion shall be expressed in the latest Audit Report.
(d) Appropriate measures shall be taken in cases where the Audit Report has ceased to be provided or an unqualified, qualified or equivalent opinion has ceased to be expressed in the latest Audit Report.

(vi) Short-term assets
Investable assets are treasury discount bills, U.S. treasury bills, deposits, short-term corporate bonds (i.e., electronic CP), commercial paper, negotiable deposits, call loans, bills traded on discount markets, beneficiary rights for non-discretionary money trusts, lending to general accounts of life insurance companies, short-term loans against the States (including its special account), and short-term loans guaranteed by the States (including repurchase agreements).

(2) Investment Guidelines Applied to All Assets.
External asset managers shall comply with the following requirements common to all assets.
(i) Prohibited transactions
(a) External asset managers shall not participate in pump-and-dump or cornering and also shall not make investments to control investee companies.
(b) External asset managers shall not deal with margin trading such as buying on margin and short selling.
(c) External asset managers shall avoid situations where frequent transactions of securities would increase the transaction costs and decrease the investment return net of the costs.

(ii) Guidelines of derivatives transactions

(a) Purposes
Derivatives transactions shall be limited to preventing or alleviating the risk of price fluctuations of the underlying assets, preventing or alleviating the risk of exchange rate fluctuations in investments in foreign currency-denominated assets and temporary substitution for the disposal of the underlying assets (referred to as “short hedge” in (b)), or to temporary substitution for the purchase of the underlying assets (referred to as “long hedge” in (b)), and shall not be for speculative purposes, provided, however, that this does not apply to cases where it is set forth otherwise in the individual investment guidelines provided by GPIF.

(b) Notional amounts
In the case of short hedges, the notional amounts of derivatives shall be within the scope of the underlying assets that are currently held or set to be held, while in the case of long hedges, the notional amounts of derivatives shall be within the scope of cash and its equivalent that are currently held or set to be held. However, if it is set forth otherwise in accordance with the proviso of (a) above, the notional amounts shall be within the scope thereof.

(iii) Guidelines for exercise of shareholder voting rights

(a) Basic concept upon exercise of shareholder voting rights
External asset managers shall recognize the importance of corporate governance, establish their proxy voting policies by taking into account that the purpose of exercising voting rights is to maximize shareholders’ long-term interests, and appropriately exercise the voting rights accordingly.

(b) Understanding external asset managers’ policies on exercise of shareholder voting rights and the status of exercise
External asset managers shall submit their policies concerning the exercise
of shareholder voting rights to GPIF. Said policies must also set out how to respond to cases of antisocial behavior at the company.

Furthermore, external asset managers shall report the status of exercise of shareholder voting rights to GPIF every fiscal year.

(iv) Guidelines of trade executions

(a) The transactions of securities shall be executed to minimize the total transaction costs, taking the best way of execution into consideration.

(b) When trading securities, the following matters shall be registered with GPIF beforehand:
   • Policies and systems for placing purchase or sale orders
   • Principles for selecting and evaluating securities brokers
   • Principles for placing purchase or sale orders
   • Policies for transaction with a securities broker that is a parent company, subsidiaries or affiliates of the external asset managers

(c) When trading securities, the most advantageous terms shall be selected upon choosing securities brokers and transaction methods.

(d) Prohibition of soft dollar

External asset managers shall not execute securities transactions involving soft dollar whereby the costs of various research and information provision pertaining to the transactions are commingled in the commissions.

(v) Guidelines of risk management and compliance

External asset managers shall strive to develop internal control systems to examine risk and comply with laws, regulations and investment guidelines.

(3) Requirements for Trust and Custody Services

External asset managers shall comply with the following requirements with regard to trust and custody services.

(i) In cases where external asset managers are also delegated with trust and custody services, they shall manage the entrusted assets by clearly distinguishing them from its own assets, and pay careful attention to the custody of securities holdings and the settlement operations of funds. They shall also pay careful attention to credit risk, operational expertise and costs when selecting another custodian.
(ii) In cases where assets must be sold for the changes in asset allocation or investment guidelines by GPIF, or for the termination of the contracts, external asset managers shall pay careful attention to the market impact and transaction costs, and do their utmost to avoid losses for GPIF.

(4) Reporting
External asset managers shall comply with the following reporting requirements.
(i) External asset managers shall report to GPIF on the results of management and investment of funds as of the end of each month.

(ii) In the event of violation of any laws, regulations, contracts or investment guidelines, external asset managers shall immediately report to GPIF and follow the instructions thereof.

3. Management Fees
With regard to fees paid to external asset managers, the fee level shall be efficient and reasonable according to the investment methods.

IV. Trust and Custody Services Providers

1. Basic Matters
GPIF shall request trust and custody services providers (i.e., trust companies that provide trust and custody services, and lend bonds or foreign equities under management upon instructions from GPIF or external asset managers; the same applies hereinafter) to make reports concerning the administration of funds (including the lending of bonds or foreign equities under management; the same applies hereinafter) or request the submission of necessary materials as needed, hold regular meetings with each provider concerning the administration, and give necessary instructions to the providers based on their reports.

2. Trust and Custody Services Guidelines
When entrusting the trust and custody services of funds to providers, GPIF shall present the guidelines of objectives and other matters described below to providers and monitor their compliance and provide necessary instructions to the providers.
(1) Communication with External Asset Managers
Trust and custody services providers shall strive to closely communicate with GPIF or external asset managers that provide investment instructions on the entrusted assets and shall operate to be able to accurately and promptly provide relevant information requested from GPIF or from external asset managers.

(2) Requirements for Trust and Custody Services
Trust and custody services providers shall administer the entrusted assets by clearly distinguishing them from their own assets, pay careful attention to the custody of securities holdings and the settlement operations of funds. They shall also pay careful attention to credit risk, operational expertise and costs when selecting another custody services provider.

(3) Reporting
Trust and custody services providers shall comply with the following requirements concerning reporting.
(i) Trust and custody services providers shall report to GPIF on the results of administration of funds.

(ii) In the event of violation of any law, regulation, contracts or trust and custody services guidelines, trust and custody services providers shall immediately report to GPIF and follow the instructions thereof.

3. Trust and Custody Services Fees
With regard to fees paid to trust and custody services, the fee level shall be efficient and reasonable according to the investment methods.

IV-2. Transition Managers

1. Basic Matters
Notwithstanding the provisions of section III, GPIF shall request transition managers (i.e., trust companies or financial instruments business operators that conduct transition management operations; the same applies hereinafter) to make reports or request the submission of necessary materials on the management and investment of funds (the investment in the case of financial instruments business operators; the same applies in items 1 and 2(3)(i)) as needed, hold regular meetings
with each transition manager on the management and investment, and provide necessary instructions to the transition managers based on their reports.

2. Transition Management Guidelines

When entrusting transition management operations, GPIF shall provide transition management guidelines to transition managers on matters described below and monitor the compliance of the guidelines and provide necessary instructions to the transition managers.

(1) Guidelines of Transition Management Operations

Transition managers shall comply with the following requirements.

(i) Prohibited transactions

(a) Transition managers shall not participate in pump-and-dump or cornering and also shall not make investments to control investee companies.

(b) Transition managers shall not deal with margin trading such as buying on margin and short selling.

(c) Transition managers shall avoid situations where frequent transactions of securities would increase the transaction costs and decrease the investment return net of the costs.

(ii) Guidelines of derivatives transactions

(a) Purposes

Derivatives transactions shall be limited to preventing or alleviating the risk of price fluctuations of the underlying assets, preventing or alleviating the risk of exchange rate fluctuations in investments in foreign currency-denominated assets and temporary substitution for the disposal of the underlying assets (referred to as “short hedge” in (b)), or to temporary substitution for the purchase of the underlying assets (referred to as “long hedge” in (b)), and shall not be for speculative purposes, provided, however, that this does not apply to cases where it is set forth otherwise in the individual transition management guidelines provided by GPIF.

(b) Notional amounts

In the case of a short hedges, the notional amounts of the derivative shall be within the scope of the underlying assets that are currently held or set to be held, while in the case of a long hedges, the notional amounts of the derivative shall be within the scope of cash and its equivalent that are currently held or set to be held.
(iii) Guidelines for exercise of shareholder voting rights

(a) Basic concept upon exercise of shareholder voting rights
Transition managers shall recognize the importance of corporate governance, establish their proxy voting policies by taking into account that the purpose of exercising voting rights is to maximize shareholders' long-term interests, and appropriately exercise the voting rights accordingly.

(b) Understanding transitions managers’ policies on exercise of shareholder voting rights and the status of exercise
Transition managers shall submit their policies concerning the exercise of shareholder voting rights to GPIF. Said policies must also set out how to respond to cases of antisocial behavior at the company. Furthermore, transition managers shall report the status of exercise of shareholder voting rights to GPIF every fiscal year.

(iv) Guidelines of trade executions

(a) The transactions of securities shall be executed to minimize the total transaction costs, taking the best way of execution into consideration.

(b) When trading securities, the following matters shall be registered with GPIF beforehand:
- Policies and systems for placing purchase or sale orders
- Principles for selecting and evaluating securities brokers
- Principles for placing purchase or sale orders
- Policies for transaction with a securities broker that is a parent company, subsidiaries or affiliates of the transition managers

(c) When trading securities, the most advantageous terms shall be selected upon choosing securities brokers and transaction methods.

(d) Prohibition of soft dollar
Transition managers shall not execute securities transactions involving soft dollar whereby the costs of various research and information provision pertaining to the transactions are commingled in the commissions.

(v) Guidelines of risk management and compliance
Transition managers shall strive to develop internal control systems to examine risk and comply with laws, regulations and transition management guidelines.
(2) Requirements for Trust and Custody Services

Transition managers shall comply with the following requirements with regard to trust and custody services.

(i) In cases where transition managers are also delegated with trust and custody services, they shall manage the entrusted assets by clearly distinguishing them from its own assets, and pay careful attention to the custody of securities holdings and the settlement operations of funds. They also shall pay careful attention to credit risk, operational expertise and costs when selecting another custody services provider.

(ii) In cases where assets must be sold for the changes in asset allocation or investment guidelines by GPIF, or for the termination of the contracts, external asset managers shall pay careful attention to the market impact and transaction costs, and do their utmost to avoid losses for GPIF.

(3) Reporting

Transition managers shall comply with the following reporting requirements.

(i) Transition managers shall report to GPIF on the results of management and investment of funds.

(ii) In the event of violation of any laws, regulations, contracts or transition management guidelines, transition managers shall immediately report to GPIF and follow the instructions thereof.

3. Transition Management Fees

With regard to fees paid to transition managers, the fee level shall be efficient and reasonable according to the investment methods.

V. Selection and Evaluation of External Asset Managers

1. External Asset Managers

(1) Criteria and Methods of Selection and Review of the Structure of External Asset Managers

When selecting external asset managers, GPIF shall observe the resolutions of
the Board of Governors concerning important matters and comply with the following criteria and methods.

(i) Criteria for selection

The minimum requirements shall be as follows:

(a) External asset managers has had registration of Investment Management Business under “Financial Instrument and Exchange Act (Anc No.25 of 1948), etc. to be entrusted with the management and investment of the pension reserve fund.

(b) Assets entrusted from pension funds globally to its entire group (i.e., the company that submits consolidated financial statements, its subsidiaries and affiliates) must be large enough.

(c) External asset managers must not engage in any significantly inappropriate incidents regarding asset management operations within the last three years.

(d) External asset managers that provide trust and custody services in addition to the asset management must have credit ratings (long-term ratings on issuers based on their requests) of BBB- or higher from no less than two Rating Agencies and must not have a credit rating of BB- or lower from any of the Rating Agencies.

(ii) Methods of selection

(a) Except in special circumstances, solicitations to external asset managers shall be made publicly.

(b) In principle, public solicitations shall be made without any deadlines for applications (hereinafter referred to as the “Manager Registration System”).

(c) External asset managers shall be selected by taking into consideration the results of comprehensive evaluation including the evaluation of management fees and the manager structure.

(iii) Review of manager structure

Manager structure may be reviewed as needed for each investment asset and style, based on periodic examinations of the manager structure, the status of application with the Manager Registration System and the comprehensive evaluation of existing external asset managers.

(2) Criteria for Allocation
GPIF shall allocate its funds to external asset managers that manage traditional assets and adopt investment styles to be funded, and meet a certain level in comprehensive evaluation. GPIF shall commit its funds to external asset managers that manage alternative assets and meet a certain level in comprehensive evaluation.

(3) Criteria and Methods of Withdrawal and Termination
When GPIF withdraws funds from traditional assets or terminates contracts with external asset managers, GPIF shall follow the criteria and methods set forth below. The same applies to criteria for withdrawal of commitment (including the deletion of all or part of unused commitment: the same applies hereinafter) and termination of contracts of alternative assets, but methods may be decided on a case-by-case bases by taking into account the efficiency in investment.

(i) Criteria for withdrawal and termination
(a) When an external asset manager ceases to satisfy the criteria for selection
The contract with an external asset manager shall be terminated when the external asset manager ceases to meet the requirements of sub-item (1)(i). If a trust company is downgrade to BB- or lower from any of the Rating Agencies but takes necessary measures to preserve the assets of GPIF, the contract with the trust company need not be terminated immediately.
(b) When a comprehensive evaluation falls below a certain level
When the comprehensive evaluation of an external asset manager falls below a certain level, GPIF shall issue a warning to the external asset manager, and the withdrawal of funds or commitments that GPIF allocates (hereinafter referred to as “withdrawal”) shall be carried out in principle. Furthermore, the contract may be terminated if the comprehensive evaluation is significantly low.
(c) When a problem arises in relation to investment expertise due to changes in its organization or other issues.
When a problem arises in relation to the investment expertise of an external asset manager due to changes in its organization or other issues, GPIF shall issue a warning to the external asset manager and withdraw funds entrusted to the external asset manager, or terminate the contract with the external asset manager. However, the warning shall not be required if necessary.
(d) When an investment guideline is violated.
When an external asset manager violates an investment guideline provided by GPIF (excluding minor violations), GPIF shall issue a warning to the external asset manager and withdraw funds entrusted to the external asset manager, or terminate the contract with the external asset manager. However, the warning shall not be required if necessary.

(e) When withdrawal or termination is necessary for the management and investment of assets
GPIF may withdraw funds entrusted to an external asset manager or terminate the contract with an external asset manager when it is necessary for the management and investment of assets.

(ii) Method of withdrawal of funds
When GPIF withdraws funds entrusted to an external asset manager or terminates the contract with an external asset manager in accordance with the provision of (i), the withdrawal or the termination shall be carried out in principle by transferring the assets.

(iii) Monitoring of external asset managers to whom GPIF issues warning
To the external asset managers to whom GPIF issues warning, GPIF shall require to submit a remediation plan, and continue monitoring for a certain period of time.
In case the improvement cannot be expected, GPIF may terminate the contract.

(4) Suspension of Allocation
When GPIF suspends the allocation of funds to an external asset manager, GPIF shall follow the criteria set forth below.

(i) When a criterion for withdrawal or termination is expected to be applied
When a criterion for withdrawal or termination defined in sub-items (3)(i)(a), (c) or (d) is expected for an external asset manager, GPIF shall request a report to the external asset manager or investigate the situation, and suspend the allocation of funds to the external asset manager until GPIF confirms that the criterion for withdrawal or termination is not applied.

(ii) When suspension is expected to be necessary for the management and investment of assets
GPIF may suspend the allocation of funds to an external asset manager when GPIF expects the suspension to be necessary for the management and investment of assets.

(5) In Case of Merger or Acquisition
When an external asset manager is merged with or acquired by another, GPIF may withdraw funds from, terminate the contract with or allocate funds to the external asset manager based on the evaluation of the investment expertise and the changes in the organization.

2. Trust and Custody Services Providers
(1) Criteria and Methods of Selection
When selecting trust and custody services providers, GPIF shall observe the resolutions of the Board of Governors concerning important matters and comply with the following criteria and methods.

(i) Criteria for selection
The minimum requirements shall be as follows:
(a) Trust and custody services providers must obtain the necessary license to be entrusted with trust and custody services of the pension reserve fund.
(b) Assets under management in the entire group (i.e., the company that submits consolidated financial statements, its subsidiaries and affiliates) must be large enough.
(c) Trust and custody services providers must not engaged in any significantly inappropriate act regarding trust and custody services operations within the last three years.
(d) Trust and custody services providers must have credit ratings (long-term ratings on issuers based on their requests) of BBB- or higher from no less than two Rating Agencies and must not have a credit rating of BB- or lower from any of the Rating Agencies.

(ii) Method of selection
(a) Except in special circumstances, solicitations to trust and custody services providers shall be made publicly.
(b) Trust and custody services providers shall be selected by taking into consideration the results of comprehensive evaluation including trust and
custody services fees in Japan, and custody services fees abroad.

(2) Criteria and Methods of Withdrawal and Termination
When GPIF withdraws funds from entrusted assets or terminate contracts with trust and custody services providers, GPIF shall follow the criteria and methods set forth below.

(i) Criteria for withdrawal and termination
(a) When a trust and custody services provider ceases to satisfy the criteria for selection
The contract with an trust and custody services provider shall be terminated when the trust and custody services provider ceases to meet the requirements of sub-item (1)(i).

(b) When a trust and custody services provider is reviewed based on comprehensive evaluation
When a trust and custody services provider is determined not to be able to be entrusted after the comprehensive evaluation, the contract with the trust and custody services provider shall be terminated.

(c) When a problem arises in relation to trust and custody services expertise due to changes in its organization or other issues
When a problem arises in relation to trust and custody services expertise due to changes in its organization or other issues, GPIF shall issue a warning to the trust and custody services provider and withdraw funds entrusted to the trust and custody services provider, or terminate the contract with the trust and custody services provider. However, the warning shall not be required if necessary.

(d) When a trust and custody services guideline is violated
When a trust and custody services provider violates a trust and custody services guideline provided by GPIF (excluding minor violations), GPIF shall issue a warning to the trust and custody services provider and withdraw funds entrusted to the trust and custody services provider, or terminate the contract with the trust and custody services provider. However, the warning shall not be required if necessary.

(e) When withdrawal or termination is necessary for the management and investment of assets
GPIF may withdraw funds entrusted to a trust and custody services provider or terminated the contract with a trust and custody services provider when it
is necessary for the management and investment of assets.

(ii) Methods of withdrawal of funds
When GPIF withdraws funds entrusted to a trust and custody services provider or terminate the contract with a trust and custody services provider in accordance with the provision of (i), the withdrawal or the termination shall be carried out in principle by transferring the assets.

(3) In Case of Merger or Acquisition
When a trust and custody services provider is merged with or acquired by another, GPIF may withdraw funds from, terminate the contract with or allocate funds to the trust and custody services provider based on the evaluation of the trust and custody services expertise and the changes in the organization.

3. Transition Managers
(1) Criteria and Methods of Selection
Notwithstanding the provisions of item 1(1), when selecting transition managers, GPIF shall observe the resolutions of the Board of Governors concerning important matters and comply with the following criteria and methods.

(i) Criteria for selection
The minimum requirements shall be as follows:
(a) Transition managers must obtain the necessary license to be entrusted with the transition management.
(b) Transition managers must not engage in any significantly inappropriate act regarding transition management operations within the last three years.
(c) Transition managers that provide trust and custody services in addition to the transition management must have credit ratings (long-term ratings on issuer based on their requests) of BBB- or higher from no less than two Rating Agencies and must not have a credit rating of BB- or lower from any of the Rating Agencies.

(ii) Methods of selection
(a) Except in special circumstances, solicitations to transition managers shall be made publicly.
(b) Transition managers shall be selected by taking into consideration the results of comprehensive evaluation including the evaluation of transition
management fees and shall be expected to execute the transition management properly.

(2) Criteria for Termination

Notwithstanding the provisions of item 1(3), GPIF shall terminate contracts with transition managers by the criteria set forth below.

(a) When a transition manager ceases to satisfy the criteria for selection

The contract with a transition manager shall be terminated when the transition manager ceases to meet the requirements of sub-item (1)(i). However, if it is downgraded to BB- or lower from any of the Rating Agencies but it takes necessary measures to preserve the assets of GPIF, the contract need not be terminated immediately.

(b) When a transition manager is reviewed based on comprehensive evaluation

When a transition manager is determined not to be able to be entrusted after the comprehensive evaluation, the contract with the transition manager shall be terminated.

(c) When a problem arises in relation to transition management expertise due to changes in its organization or other issues

When a problem arises in relation to transition management expertise due to changes in its organization or other issues, GPIF shall issue a warning to the transition manager and terminate the contract with the transition manager. However, the warning shall not be required if necessary.

(d) When a transition management guideline is violated

When a transition manager violates a transition management guideline provided by GPIF (excluding minor violations), GPIF shall issue a warning shall to the transition manager and terminate the contract with the transition manager. However, the warning shall not be required if necessary.

(e) When termination is necessary for the management and investment of assets

GPIF may terminate the contract with a transition manager when it is necessary for the management and investment of assets.

4. Methods of Comprehensive Evaluation

(1) External Asset Managers

GPIF shall set out its comprehensive evaluation standards with regards to the following issues for its decision making of selecting a new external asset manager, as well as increasing fund allocation to, partially withdrawing from, and
terminating an existing external asset manager. In selecting a new external asset manager, if the investment style of the manager is the same as the existing ones, a comparative evaluation among such external asset managers shall be carried out.

To determine whether to partially withdraw from, terminate fully, or increase allocation to an existing investment manager, a comprehensive evaluation shall be carried out at least once every fiscal year (or as many times as needed, if necessary).

- **Investment policy**
  - Whether the investment policy is consistent with that of GPIF and clearly articulated.

- **Investment process (Including ESG integration)**
  - Whether an investment process is constructed in accordance with the investment policy.
  - Whether the method of pursuing added value is reasonable, whether it shows feasible performances and reasonable tracking record, and whether the method is valid. In case of a passive external asset manager, the method of pursuing added value means its method of tracking the manager benchmark while paying due consideration to securing revenues by minimizing the total transaction cost. In case of an active external asset manager, it means its method of pursuing excess return over the manager benchmark.
  - Whether investment risk is recognized objectively.
  - Whether risk management such as understanding the degree of deviation from the given manager benchmark is appropriately carried out in accordance with the profile of the asset.
  - Whether ESG integration is implemented in a suitable way for the fund characteristics (GPIF defines ESG integration as “the explicit and systematic inclusion of ESG factors into investment analysis and investment decisions”).

- **Organization and human resources**
  - Whether the investment policy is thoroughly enforced within the organization.
  - Whether the flow of decision-making and responsibilities have been made clear.
  - Whether the experienced staff, whose track record indicates to take appropriate measures to different environments in investing, are sufficiently assigned.
  - Whether the staff are motivated by remuneration that is aligned with investment performance.
Whether the risk management system has been established.
Whether the governance system as an asset management company and the system for preventing conflicts of interest have been established.

- Internal control

Whether the internal control system for compliance with laws and regulations has been established. In addition, whether the internal inspection and external audit systems have been developed.

- Initiatives in stewardship responsibilities

At external asset managers for equities, whether the improvement in corporate value and fostering sustainable growth of investee companies are being promoted through constructive engagement activities based on the policy on how they fulfill their stewardship responsibilities and appropriate initiatives to achieve shareholder return such as the development of a system to manage conflicts of interest.

Whether external asset managers recognize the importance of corporate governance, a guideline of exercise of voting rights has been established, and exercise of voting rights is appropriately conducted based on the concept that the purpose of exercising voting rights is to maximize long-term shareholder return.

Furthermore, in the engagement activities toward an investee company, whether external asset managers request explanation on said investee company’s policy of responding to ESG (Environmental, Social and Governance) issues and appropriately carry out voluntary initiatives that take ESG into consideration in order to expand medium- to long-term investment return by promoting the improvement of corporate value and sustainable growth.

- Administrative system

Whether a system to report investment performance has been fully developed.

- Information security measures

Whether a system to appropriately implement information security measures has been established.

- Information provision

Whether an external asset manager provides GPIF with useful information on the investment environment and investment methods or the manager can be expected to do so.

- Management fees
Whether the level of management fees is reasonable from a perspective of continuous provision of high-quality service.

(2) Trust and Custody Services Providers

GPIF shall conduct comprehensive evaluation as follows and apply the results to the criteria for the selection of trust and custody services providers and for the termination of the contract. The comprehensive evaluation for the criteria for the selection includes trust and custody services fees in Japan and custody fees abroad.

- Organization and human resources
  Whether the business policy is clear, the capital is sufficiently invested in trust and custody services operations and the organization can provide the trust and custody services in large scale.
  Whether the human resource management enables staff to have expertise in trust and custody services operations and allocates those staff to relevant departments.
- Operating system
  Whether the efficient operating system has been established and operation is conducted promptly and securely.
- Internal control
  Whether the internal control system for compliance with laws and regulations has been established. In addition, whether the internal inspection and external audit systems have been developed.
- Trust and custody services system
  Whether the system is sufficient to carry out trust and custody services operations. Furthermore, whether the capital expenditure is sufficient to maintain and improve the system.
- Global custody services
  Whether the global custody services provider is selected reasonably and appropriately managed on an ongoing basis. Whether the capabilities of securities delivery, funds settlement and information provision are sufficient.
- Information provision
  Whether the various information can be provided efficiently. Whether the organization ensures the information provision.
- Information security measures
  Whether the system to appropriately implement information security
(3) Transition Managers

Notwithstanding the provisions of sub-item (1), GPIF shall conduct comprehensive evaluation as follows and apply the results to the criteria for the selection of transition managers and for the termination of the contract, based on the transition managers’ performance including transaction costs. The comprehensive evaluation for the criteria for the selection includes the evaluation of transition management fees.

- Trade execution expertise
  Whether the transition manager has the expertise to build targeted portfolio through the appropriate execution of transactions based on the analysis of the portfolio and environments in investing, while controlling total transaction costs.

- Organization and human resources
  Whether the flow of decision-making and responsibilities have been made clear. Whether the experienced staff are sufficiently assigned. Whether the risk management system has been established.

- Internal control
  Whether the internal control system for compliance with laws and regulations has been established. In addition, whether the internal inspection and external audit systems have been developed.

- Initiatives in exercise of shareholder voting rights
  Whether transition managers for domestic and foreign equities recognize the importance of corporate governance. Whether a guideline of exercise of voting rights has been established and exercise of voting rights is appropriately conducted based on the concept that the purpose of exercising voting rights is to maximize long-term shareholder return.

- Administrative system
  Whether the system to report the implementation status of transition management has been fully developed.

- Information security measures
  Whether the system to appropriately implement information security measures has been established.

VI. In-house Investment
1. The Roles of In-house Investment

In order to contribute to the efficient investment of the pension reserve fund, GPIF shall manage and invest part of the pension reserve fund by itself, while utilizing trust and custody services providers, in some of the investable assets by the investment method described in Article 21, paragraph 1, Item 3(a) and (b) of the Individual Act. In managing and investing internally, GPIF shall thrive to do it efficiently and shall assume the following roles to secure necessary liquidity and carry out efficient cash management.

(1) Management and investment of passive funds of domestic bonds

(2) Management and investment of inflation-linked government bonds

(3) Management and investment of foreign currency-denominated unit trust

(4) Management and investment of FILP bonds funds

(5) Preservation of the necessary liquidity for the redemption of entrusted funds and efficient management of cash

(6) Preservation of the necessary liquidity for investment in alternative assets and efficient management of cash

2. Basic Investment Policy

GPIF shall carry out in-house investment by launching the following funds to fulfill the roles set forth in item 1.

(1) Passive funds of domestic bonds

As passive funds of domestic bonds, the fund shall be managed passively by minimizing tracking error to the manager benchmarks in order to contribute to the efficient investment of the pension reserve fund.

Another fund shall be managed in order to secure the necessary liquidity for the payments of pension benefits.

Lending shall be carried out for some of the domestic bond holdings.

(2) Fund of Inflation-linked government bonds
As an active fund of domestic bonds, the fund shall be managed and invested in inflation-linked government bonds in order to mitigate inflation risk.

(3) Fund of foreign currency-denominated unit trusts
The fund shall be managed and invested in foreign currency-denominated investment trusts in order to invest in alternative assets.

(4) Fund of FILP bonds
The fund shall be managed and invested in FILP bonds that are held to maturity.

(5) Fund of Japanese Yen-denominated short-term assets
The fund shall be safely and efficiently managed and invested in Japanese Yen-denominated short-term assets in order to secure the necessary liquidity for the redemption of entrusted funds. Notwithstanding the provisions of item 4, the fund may be invested in coupon-bearing government bonds (those with the maturity of less than a year).

(6) Fund of foreign currency-denominated short-term assets
The fund shall be safely and efficiently managed and invested in foreign currency-denominated short-term assets in order to secure the necessary liquidity for investing in alternative assets.

3. Criteria for the Selection of Counterparties
When selecting securities firms as counterparties of securities transactions, when selecting banks, securities firms and money market brokers as counterparties of short-term assets investment, and when selecting trust companies as counterparties of bonds lending (referred to as the “Counterparties” hereinafter in item 3) for in-house investment, GPIF shall follow the criteria and methods set forth below.

(1) Selection of Counterparties
   (i) Minimum requirements
      (a) The counterparty must obtain the necessary business license to trade with GPIF.
      (b) The counterparty must have made sufficient transactions in capital markets.
(c) The counterparty must not engage in any significantly inappropriate act within the last three years.

(d) Counterparties of short-term assets investment or bonds lending must have credit ratings (long-term ratings on issuer based on their requests) of BBB- or higher from no less than two Rating Agencies and must not have a credit rating of BB- or lower from any of the Rating Agencies.

(ii) Selection of Counterparties

Counterparties shall be selected by taking comprehensive evaluation into consideration.

(2) Evaluation of Counterparties

GPIF shall periodically conduct comprehensive evaluation of Counterparties with regard to their expertise of trade executions and operations and shall decide to continue to trade with them.

4. Investment Guidelines

The provisions of section III, item 2 and section IV, item 2 shall be applied mutatis mutandis to investment guidelines for the in-house investment, provided, however, that for the funds of foreign currency-denominated investment trusts, investment guidelines shall be stipulated in a different bylaw.

5. Evaluation of In-house Investment

When evaluating in-house investment, GPIF shall conduct comprehensive evaluation that takes into account the roles of the in-house investment including performance comparison to manager benchmarks and to external asset managers in a same manner when GPIF conducts comprehensive evaluation of external asset managers.

VII. Short-Term Borrowing

1. Short-Term Borrowing

GPIF may undertake short-term borrowing as needed in order to respond to a temporary shortage of funds caused by unforeseen reasons.

2. Criteria for Selection of Counterparties
When selecting counterparties of short-term borrowing, GPIF shall follow the criteria and method set forth below.

(1) Criteria of Counterparties
   (i) Minimum requirements
       (a) The counterparty must obtain the necessary business license to lend funds to GPIF.
       (b) The counterparty must provide GPIF credit line that is large enough.
       (c) The counterparty must not engaged in any significantly inappropriate act within the last three years.

   (ii) Selection of Counterparties
       Counterparties shall be selected by taking into consideration comprehensive evaluation.

(2) Evaluation of Counterparties
GPIF shall periodically conduct comprehensive evaluation of Counterparties with regard to their lending capabilities and shall decide to continue to borrow from them.

VIII. Other Important Matters Concerning the Operations of Management and Investment

1. Self-Evaluation and Record-Keeping of Management and Investment
   (1) GPIF shall base its operations of management and investment of the pension reserve fund on sufficient research and analysis, and shall evaluate the operations each fiscal year.

   (2) GPIF shall thrive to keep appropriate records supporting sub-item (1) for sufficiently long period.

2. Others
This Operation Policy shall be examined at least once every year, in addition to when the Medium-Term Plan or the Management Policy is changed, and shall be revised as needed.
(Exhibit 1) Benchmarks for investable assets in the Policy Asset Mix

- Domestic bonds: Composite index of NOMURA·BPI excluding ABS, NOMURA·BPI Government, NOMURA·BPI/GPIF Customized, NOMURA J-TIPS Index (with floor) and NOMURA·BPI J-TIPS Plus (weighted average by the composition of each investment)
- Domestic equities: TOPIX (including dividends)
- Foreign bonds: FTSE World Government Bond Index (excluding Japan, without currency hedge and Japanese Yen term)
- Foreign equities: MSCI ACWI (excluding Japan, Japanese Yen term, including dividends and deducted dividend taxes applied to GPIF)

(Exhibit 2) Rating agencies

1. Rating and Investment Information, Inc.
2. Japan Credit Rating Agency, Ltd.
3. Standard & Poor’s Ratings Services
4. Fitch Ratings Ltd.
5. Moody’s Investors Service, Inc.

(In order of the Japanese syllabary)