

Operation Policy

(Enacted: April 1, 2006)

(Latest revision: January 17, 2023)

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. Pension Reserve Fund Management and Investment Objectives

In order to achieve the investment target stipulated in the Medium-Term Plan and the Management and Investment Policy, GPIF has established the following objectives for management and investment of the pension reserve fund (the same applies hereinafter except for in section II item 2(1) , which is stipulated in article 3 of the Operation Statement .

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

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

- GPIF shall manage and invest the pension reserve fund based on the principle of

investment diversification, and determine asset class proportions (hereinafter referred to as the “Policy Asset Mix”) from a long-term perspective.

- By appropriately selecting, managing and evaluating external asset managers, GPIF shall strive to achieve the evaluation benchmark investment return for the entire investment portfolio and for each individual asset classes during each fiscal year and for the entire Medium-Term Objective period.

2. Five-Year Investment Objective

In addition to the objectives stated in item 1, GPIF shall strive to achieve the evaluation benchmark investment return for each asset class specified in the Policy Asset Mix over a five year period, and use these results in the evaluation outlined in section VIII item 1(1).

3. Evaluation Benchmark

GPIF has defined the evaluation benchmarks specified in items 1 and 2 as per Exhibit 1.

II. Pension Reserve Fund Asset Allocation and Management and Investment Methodology

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) Policy Asset Mix Review

GPIF shall examine the Policy Asset Mix on a timely and appropriate basis over the course of the Medium-Term Objective period, and consider revising the Policy Asset Mix if deemed necessary by the Board of Governors due to reasons such as a drastic change in the investment environment from the time in which the Policy Asset Mix was originally defined.

In addition, GPIF shall examine the Reference Asset Mix (i.e., the target asset allocation of the reserve fund as jointly specified by the Management and Investment Entities* (same applies in (ii)) as deemed necessary in collaboration with the other 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 (same applies in (ii)).

(2) Investable Assets

GPIF may invest in domestic bonds, domestic equities, foreign bonds, foreign equities and short-term assets, and in derivatives on 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), which shall be classified into domestic bonds, domestic equities, foreign bonds and foreign equities according to their respective risk-return profiles. GPIF shall classify foreign bonds with foreign currency hedging and yen-denominated short-term assets as domestic bonds, and foreign currency-denominated short-term assets as foreign bonds.

2. Management and Investment Methodology

(1) Pension Reserve Fund Asset Allocation

(i) Changes in Asset Allocation

If the asset class ratios of the Pension Reserve Fund as a whole (i.e., the reserve funds in the Employees' Pension Insurance and the National Pension; the same applies in (iv)) deviate from the Policy Asset Mix beyond the permissible ranges assets may be reallocated so that the deviation falls within these 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 light of quickly changing economic and market environments over recent years, GPIF will flexibly manage investments based on an appropriate, reasonably grounded outlook for the market environment and subject to the deviation bands for the Policy Asset Mix.

(iv) Maximum Allocation to Alternative Assets

The alternative assets allocation will be managed by comparing the value of alternative assets categorized as domestic bonds, domestic equities, foreign bonds and foreign equities as a proportion of the aggregate pension reserve fund with the maximum alternative asset allocation for the Policy Asset Mix.

(2) Pension Reserve Fund

GPIF shall manage and invest pension reserve fund as follows:

(i) The Investment of pension reserve fund 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 Pension Reserve Fund

Except in cases such as responding to payouts, pension reserve fund 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 Pension Reserve Fund for the Whole Asset and for Each Asset

With regard to risk management of pension reserve fund for the whole asset and for each asset, necessary risk profiles 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) Performance Attribution Analysis Relative to Composite Benchmark Return

GPIF shall conduct a performance attribution analysis relative to returns for the composite benchmark for each fiscal year.

(4) Consistency with Pension Special Account Cash Flows

GPIF shall coordinate closely with the Pension Special Account administrator (the administrator for the Employees' Pension Account and National Pension Account) to preserve the liquidity (cash and cash equivalents) necessary for benefit and other payments, and manage cash efficiently. In the course of doing so, GPIF shall give adequate consideration to market price formation, sell assets in an orderly fashion and secure sufficient funds.

(5) Stewardship Initiatives

GPIF shall create and disclose its policy (hereinafter referred to as the "Policy to Fulfill Stewardship Responsibilities") for engaging in initiatives related to Japan's Stewardship Code (i.e., "Principles for Responsible Institutional Investors" established by the Financial Services Agency; the same applies hereinafter).

In addition, as part of its stewardship role, GPIF shall participate in the activities of the Principles for Responsible Investment (PRI). Each fiscal year GPIF shall publish its stewardship activities, including interviews it conducts with its asset managers about 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 pension reserve fund 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 by Asset Class

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.

(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.

(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) Japan’s Stewardship Code, etc.

External asset managers that adopt Japan’s Stewardship Code shall engage in initiatives based on their individual stewardship policy. External asset managers that do not adopt Japan’s Stewardship Code shall explain the reason to GPIF.

External asset managers, that are PRI signatories shall report that fact to GPIF, while non-PRI signatories shall explain why they are not signatories to GPIF.

(iv) Guidelines for Exercise of Shareholder Voting Rights

(a) Basic Concept for Exercise of Shareholder Voting Rights

External asset managers shall recognize the importance of ESG (Environmental, Social, and Governance) issues, establish their proxy voting policy with the knowledge that the purpose of exercising voting rights is to maximize shareholders’ long-term interests, and appropriately exercise voting rights based on this policy.

(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.

(v) 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.

(vi) 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 from 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. Also, when entrusting temporary foreign cash management related trust and custody services during portfolio rebalances, GPIF shall set forth fund management guidelines and provide necessary instructions to providers based on a separately concluded trustee agreement.

(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) Transition Management Operation Guidelines

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 for Exercise of Shareholder Voting Rights

Transition managers shall recognize the importance of ESG issues, establish their proxy voting policy with the understanding that the purpose of exercising voting rights is to maximize shareholders' long-term interests, and appropriately exercise voting rights based on this policy.

(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 withdraw funds entrusted to an external asset manager or terminate 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 a 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 the 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. Comprehensive Evaluation Methods

(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.

- Stewardship Initiatives

For equity asset managers, GPIF will examine the following:

Whether the asset manager encourages corporate value creation and sustainable growth of investee companies through constructive engagement and other activities based on the GPIF's Policy to Fulfill Stewardship Responsibilities, in addition to other initiatives for realizing shareholder return such as establishing an organizational framework for managing conflicts of interest.

Whether the asset manager recognizes the importance of ESG, and has established proxy voting guidelines and exercises voting rights appropriately based on the understanding that the purpose of doing so is to maximize long-term shareholder return.

Whether the asset manager, over the course of engagement activities, asks investee companies to explain how they address ESG (Environmental, Social and Governance) issues and whether the asset manager proactively conducts ESG-related activities to enhance long-term investment return through encouraging corporate value creation 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 measures has been established.

(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.

- Proxy Voting Initiatives

GPIF will examine whether transition managers for domestic and foreign equities recognize the importance of ESG and have established proxy voting guidelines and exercise voting rights appropriately based on the understanding that the purpose of doing so 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 funds of domestic bonds
- (2) Management and investment of inflation-linked government bonds
- (3) Management and investment of foreign currency-denominated unit trust
- (4) Investment in Limited Partnership Structures
- (5) Management and investment of stock index futures
- (6) Preservation of the necessary liquidity for the redemption of entrusted funds and efficient management of cash
- (7) 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) Funds of Domestic Bonds

Investing into domestic bonds, these funds shall be managed in appropriate ways in order to contribute to the efficient investment of the pension reserve

fund.

Some of the domestic bond holdings could be applied for lending.

(2) Fund of Inflation-Linked Government Bonds

Besides the funds defined in (1), this 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 Limited Partnership Structures

The fund shall invest in Limited Partnership Structures which invest in alternative assets.

(5) Fund of Stock Index Futures

The fund shall be managed and invested in stock index futures as a temporary substitute for the acquisition or disposal of underlying assets held in domestic or foreign stocks to avoid losses from stock prices fluctuations.

(6) 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).

(7) 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 and derivatives transactions, when selecting banks and foreign exchange brokers as counterparties of foreign exchange transactions for stock index futures, 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 investment guidelines for the in-house investment shall be based on the provisions of section III, item 2 and section IV, item 2 mutatis mutandis taking into account the roles and the characteristics of the in-house investment, provided, however, the investment guidelines for the funds of foreign currency-denominated investment trusts and funds of Limited Partnership Structure, 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 and the characteristics of the in-house investment including performance comparison to manager benchmarks and to 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 Management and Investment Operations

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

In addition to revisions made due to changes in the Medium-Term Plan or the Management Policy, this Operation Policy shall be reviewed and revised as needed in a timely and proper manner in light of drastic changes in the economic environment.

Supplementary Provision (Effective Date: July 21, 2020)

(Effective Date)

This amendment shall come into effect as of July 21, 2020, and shall apply from April 1, 2020.

(Exhibit 1) Evaluation Benchmarks for Investable Assets in the Policy Asset Mix

- Domestic bonds: NOMURA-BPI (excluding ABS)
- Domestic equities: TOPIX (incl. dividends)
- Foreign bonds: FTSE World Government Bond Index(not incl. JPY,CNY, no hedge/JPY basis)
- Foreign equities: MSCI ACWI (not incl. JPY, JPY basis, incl. dividends, after taking into account GPIF dividend tax factors)

(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)