

# Review of Operations in Fiscal 2012

Government Pension Investment Fund, Japan



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## Message from President



The mandate of the Government Pension Investment Fund (GPIF) is to contribute to the stability of the schemes of Employees' Pension Insurance and National Pension by managing and investing the reserve funds that the Minister of Health, Labour and Welfare entrusts to us and by paying the profit to the Pension Special Account.

Over the course of fiscal year 2012, the performance was hit by the revived anxiety on European debt crisis, before buoyed by the appreciation of foreign currencies against Japanese yen and the rising equity prices home and abroad. As a result, we could earn positive return for the year following the last year. We keep managing the pension reserve fund from a long-term perspective in a safe and efficient manner through the diversified investment and appropriate risk control.

In addition, during the five-year period of the second medium-term plan beginning from April 2010, we strive to improve the quality of operations by strengthening the functions to ensure the liquidity necessary for the pension benefits, by improving the transparency through our website and by doing research while obtaining the public understandings.

We shall strive to gain the public trust by becoming an organization that steadfastly achieves its mission through contributing to the fiscal stability of the nation's public pension schemes, thereby better securing people's life. All of us at the GPIF are determined to make every effort to see that this goal is met. In this endeavor, I respectfully ask for your understanding and support.

**Takahiro Mitani**  
President  
Government Pension Investment Fund, Japan

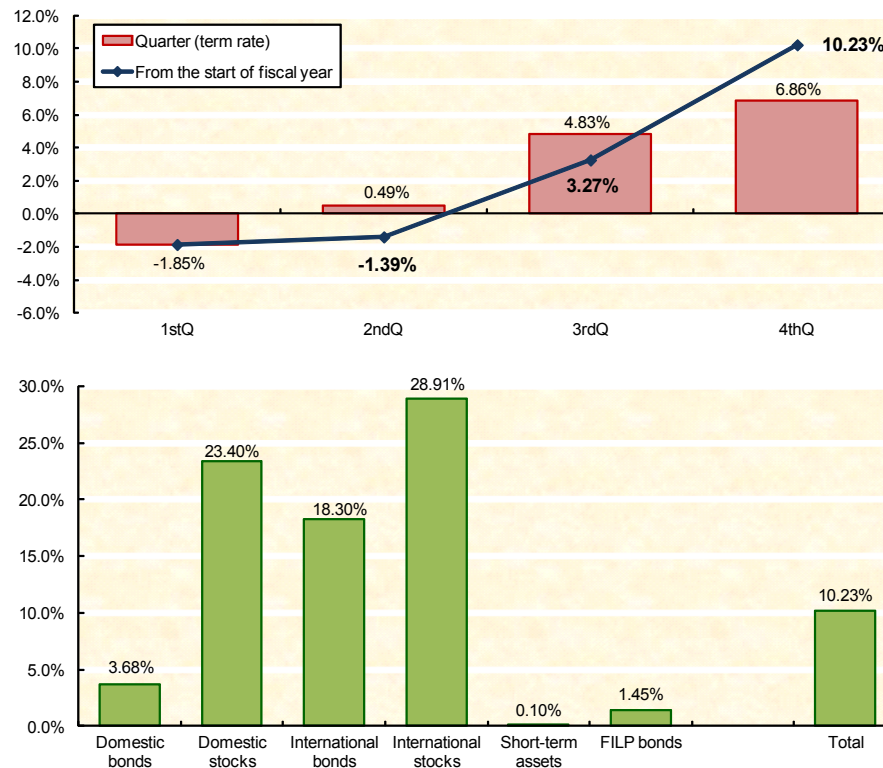


# Chapter 1: Investment Results

## 1. Investment Results in Fiscal 2012

### (1) Investment returns

The total return for fiscal 2012 was **10.23%**.



Note 1: Fiscal 2012 is the year ended March 31, 2013.

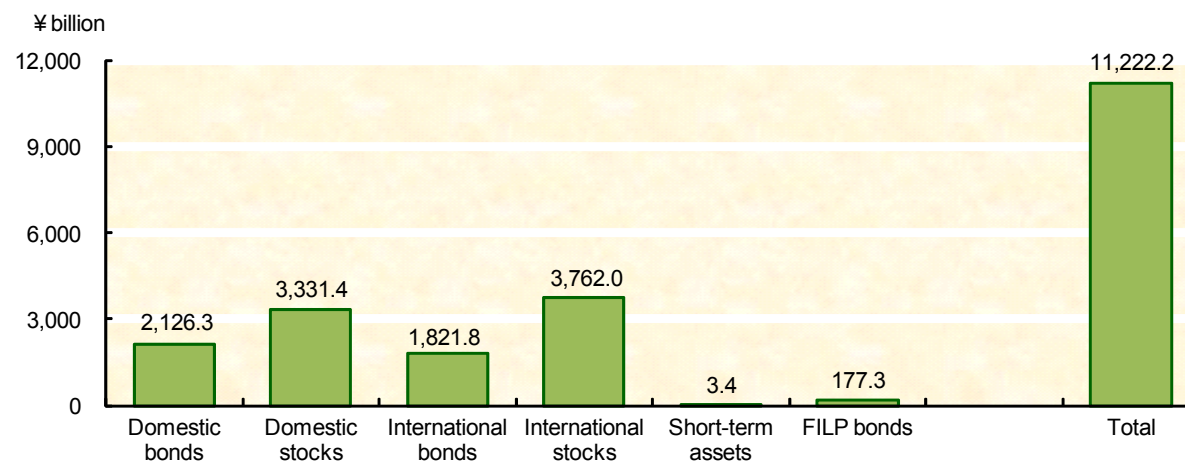
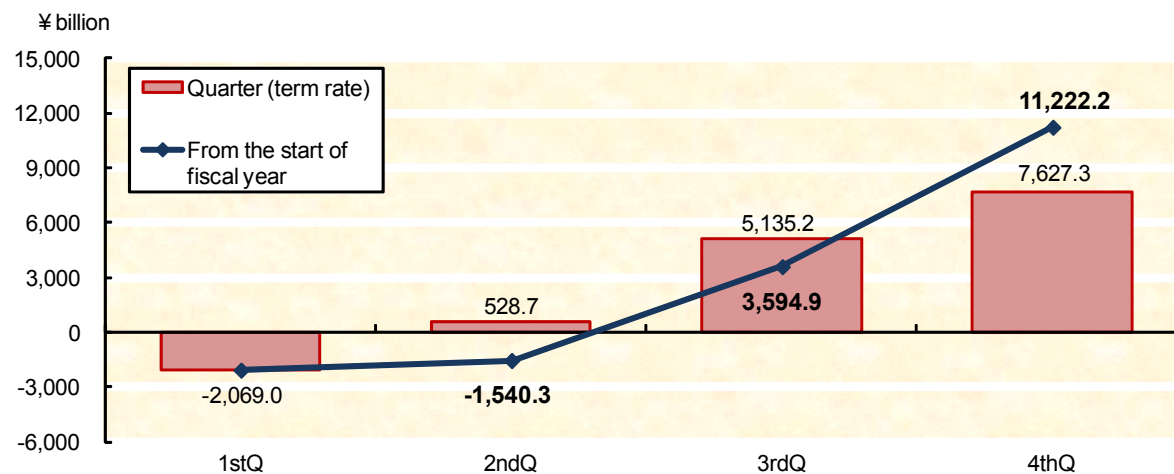
Note 2: The GPIF's portfolio consists of the funds invested in the markets (hereinafter "market investment," which is marked to market) and FILP bonds (See Note 4), which are held to maturity and valued at amortized costs.

Note 3: In this Review, return figures are the average of returns of market investment and FILP bonds weighted with investment principal, and are gross of fees. The rate of return on each asset class other than FILP bonds is time-weighted.

Note 4: The FILP bonds are government bonds issued to finance Fiscal Investment and Loan Program (FILP).

## (2) Investment income

The investment income for fiscal 2012 was **¥11,222.2 billion**.



Note: Investment incomes are gross of fees.



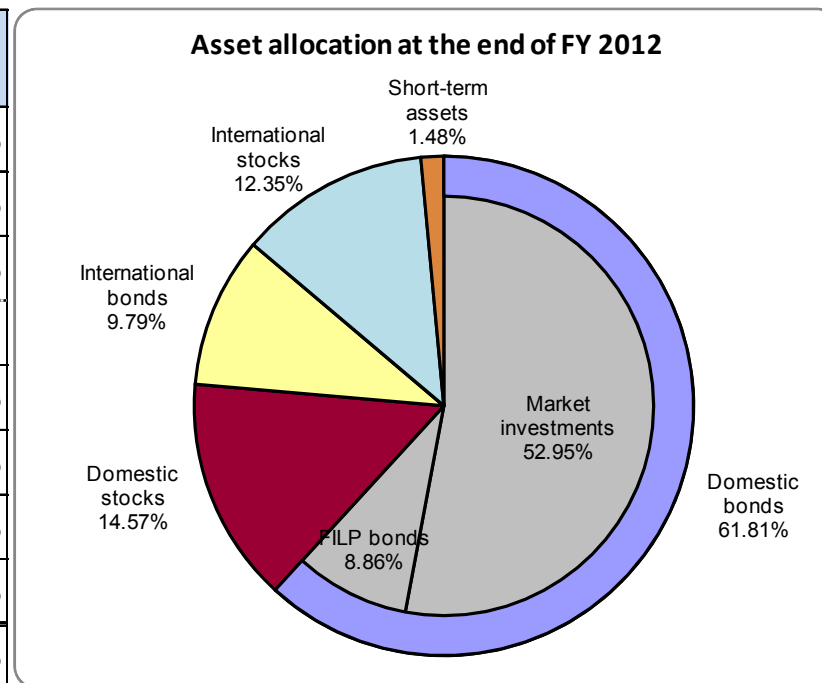
### (3) Asset allocation

The value of the investment assets was **¥120,465.3 billion** as of the end of fiscal 2012. The asset allocation was as follows:

**【Asset allocation of total investment assets, including FILP bonds】**

End of FY 2012

		Market value ( ¥ billion)	Allocation	(Reference) Allocation of Reserve Funds
Domestic bonds		74,458.6	61.81%	59.60%
Market investments		63,783.0	52.95%	51.06%
FILP bonds	Book value	10,675.7	8.86%	8.55%
	(Market value)	(11,092.8)	-	-
Domestic stocks		17,557.5	14.57%	14.05%
International bonds		11,789.6	9.79%	9.44%
International stocks		14,875.8	12.35%	11.91%
Short-term assets		1,783.8	1.48%	5.00%
<b>Total</b>		<b>120,465.3</b>	<b>100.00%</b>	<b>100.00%</b>



Note 1: The figures above are rounded, so the sums do not necessarily match with the total number.

Note 2: The amounts in the Market value column take account of accrued income and unpaid expenses.

Note 3: FILP bonds are the government bonds issued to finance Fiscal Investment and Loan Program (FILP). The GPIF's portfolio consists of market investments, which are marked to market, and FILP bonds, which are held to maturity and valued at amortized costs.

Note 4: The allocation figures in the reference column are derived by fixing the allocation for short term assets at 5% as in the policy asset mix (See page 23) for the convenience of comparison.

#### (4) Repayments of entrusted funds and servicing of borrowings

In fiscal 2012, the repayment of entrusted funds to the Pension Special Account and so on (“cash outflows” hereinafter) was fulfilled by redemption money and coupon payments of FLIP bonds and selling domestic bonds, domestic stocks and international stocks through market.

	April		May		June		July		August		September	
	Allocated	Withdrawn	Allocated	Withdrawn	Allocated	Withdrawn	Allocated	Withdrawn	Allocated	Withdrawn	Allocated	Withdrawn
Domestic bonds	0.0	377.2	0.0	636.9	0.0	1,329.0	0.0	106.7	0.0	59.1	0.0	1,063.0
Market investments	0.0	377.2	0.0	636.9	0.0	560.9	0.0	106.7	0.0	59.1	0.0	299.5
Fund for cash outflow	0.0	3.5	0.0	5.0	0.0	28.0	0.0	12.8	0.0	59.1	0.0	299.5
FILP bonds	—	0.0	—	0.0	—	768.1	—	0.0	—	0.0	—	763.5
Domestic stocks	0.0	19.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
International bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
International stocks	0.0	0.0	0.0	0.0	0.0	30.7	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>396.3</b>	<b>0.0</b>	<b>636.9</b>	<b>0.0</b>	<b>1,359.7</b>	<b>0.0</b>	<b>106.7</b>	<b>0.0</b>	<b>59.1</b>	<b>0.0</b>	<b>1,063.0</b>

<b>Cash outflows</b>	<b>1,574.2</b>	<b>0.0</b>	<b>1,788.3</b>	<b>0.0</b>	<b>973.7</b>	<b>0.0</b>
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(¥billion)

	October		November		December		January		February		March		Total	
	Allocated	Withdrawn	Allocated	Withdrawn	Allocated	Withdrawn	Allocated	Withdrawn	Allocated	Withdrawn	Allocated	Withdrawn	Allocated	Withdrawn
Domestic bonds	0.0	672.0	0.0	515.0	245.4	1,072.6	0.0	74.4	0.0	81.2	1,090.0	1,025.2	1,335.4	7,012.3
Market investments	0.0	672.0	0.0	515.0	245.4	308.0	0.0	74.4	0.0	81.2	1,090.0	385.6	1,335.4	4,076.5
Fund for cash outflow	0.0	72.0	0.0	65.0	0.0	308.0	0.0	74.4	0.0	81.2	0.0	385.6	0.0	1,394.1
FILP bonds	—	0.0	—	0.0	—	764.7	—	0.0	—	0.0	—	639.6	—	2,935.8
Domestic stocks	0.0	0.0	0.0	0.0	47.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	47.7	19.1
International bonds	0.0	0.0	0.0	0.0	37.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	37.7	0.0
International stocks	0.0	0.0	0.0	0.0	49.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	49.2	30.7
<b>Total</b>	<b>0.0</b>	<b>672.0</b>	<b>0.0</b>	<b>515.0</b>	<b>380.0</b>	<b>1,072.6</b>	<b>0.0</b>	<b>74.4</b>	<b>0.0</b>	<b>81.2</b>	<b>1,090.0</b>	<b>1,025.2</b>	<b>1,470.0</b>	<b>7,062.1</b>

<b>Cash outflows</b>	<b>803.0</b>	<b>0.0</b>	<b>114.6</b>	<b>0.0</b>	<b>180.0</b>	<b>-1,090.0</b>	<b>4,343.8</b>
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Note 1: “Withdrawn” figures for fund for cash outflow include redemptions and coupon payments.

Note 2: “Withdrawn” figures for FILP bonds are the sum of redemptions and coupon payments.

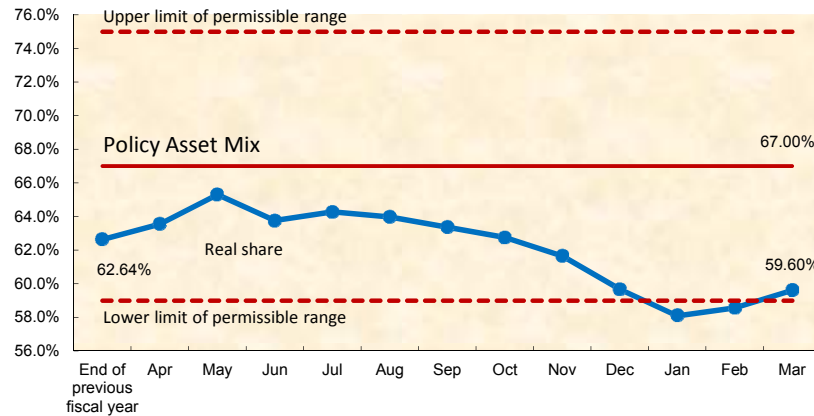
Note 3: “Cash outflows” are the sum of repayments of entrusted funds and contributions to the Pension Special Account, net of newly entrusted funds.

Note 4: The figures above are rounded, so the sums do not necessarily match with the total number.

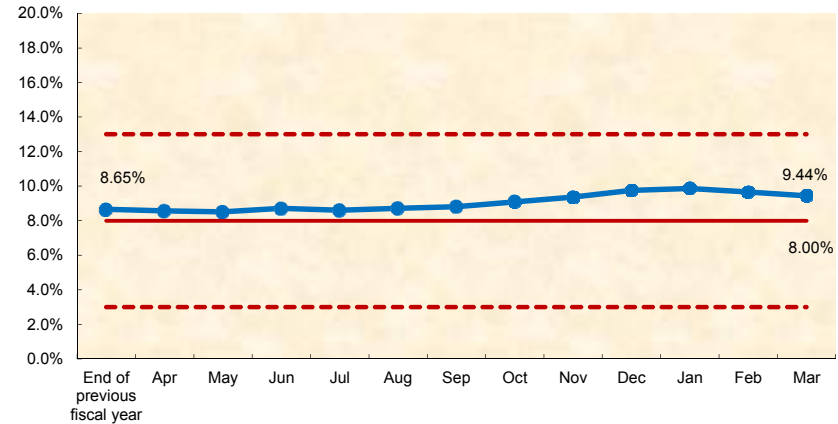
## 2. Portfolio Management

Asset allocations were managed on the basis of the policy asset mix. While the share of domestic bonds was outside lower limit of the permissible range at the end of January and February, it was back within the permissible range by the end of the fiscal year. Each other asset class stayed within the permissible range throughout the fiscal year.

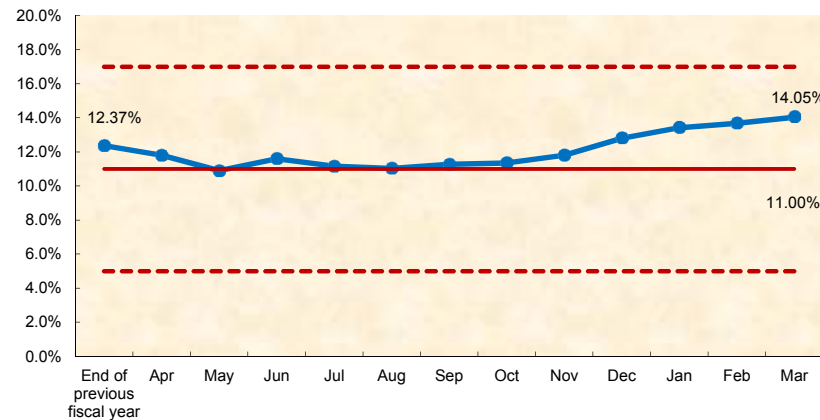
Domestic bonds



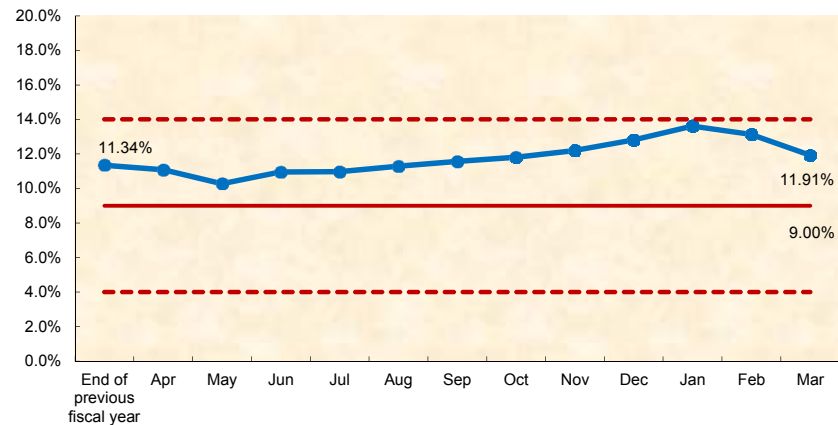
International bonds



Domestic stocks



International stocks



Note1: Short-term assets were assumed to be 5% of total assets in calculating the actual asset allocation.

Note2: The permissible range of deviations from the policy asset mix: domestic bonds  $\pm 8\%$ , domestic stocks  $\pm 6\%$ , international bonds  $\pm 5\%$ , international stocks  $\pm 5\%$

### 3. Comparison to the Assumed Investment Return in Actuarial Valuation

The average real investment return\* is 2.04% for the twelve years since the inauguration of the discretionary investment in 2001, and 1.99% for the seven years since the incorporation as the independent administrative agency in 2006. Each figure is higher than the average real investment return assumed in the actuarial valuation.

\* The real investment return is nominal investment return less wage inflation since public pension benefits are indexed to the wage until retirement and to the CPI afterwards.

#### GPIF's investment performance

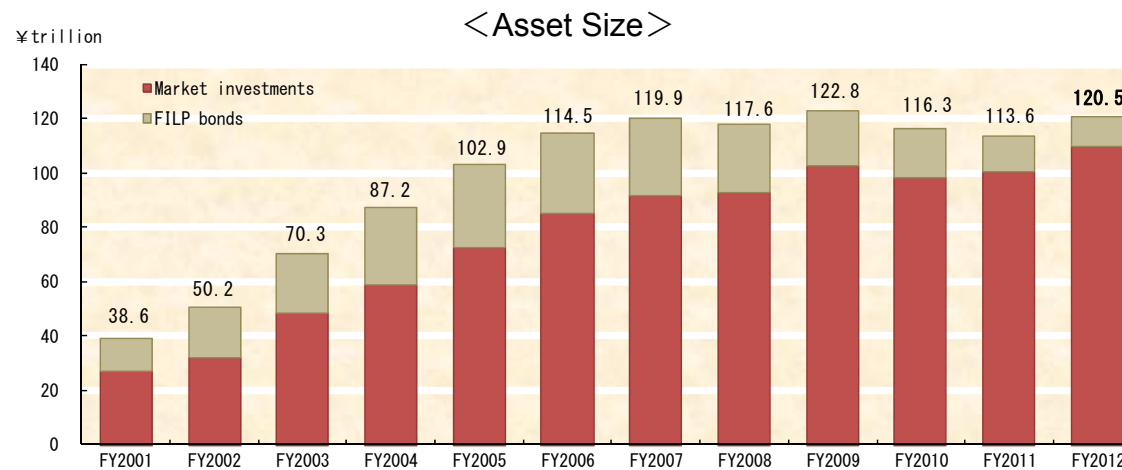
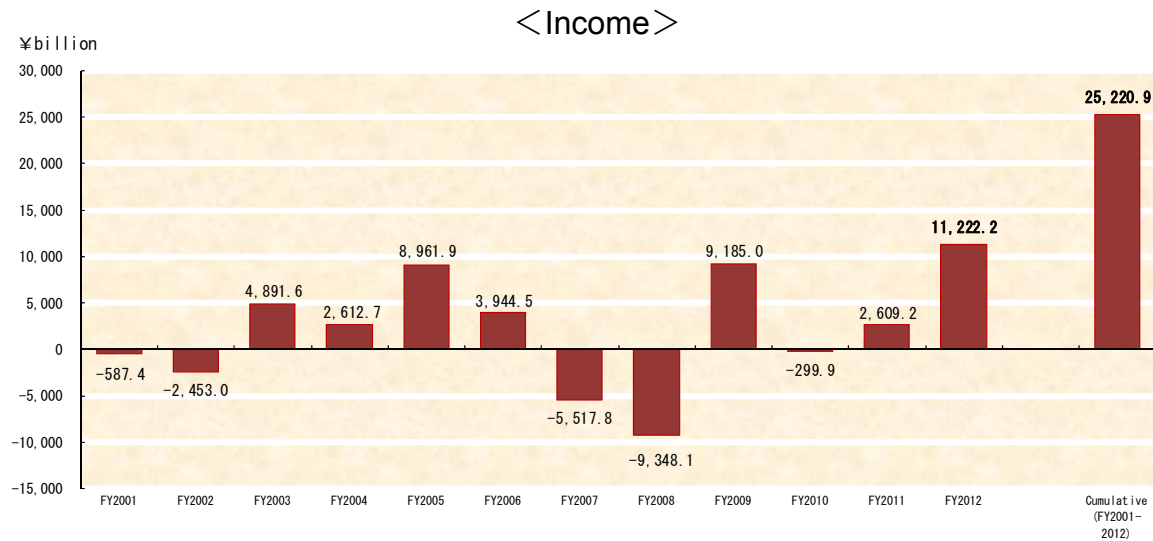
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Last seven-years (Annualized)	Last twelve-years (Annualized)
Performance	Nominal investment return (After deducting interest on debts, investment management fees, etc.)	-4.01	-6.69	7.61	2.91	9.57	3.52	-4.69	-7.61	7.88	-0.27	2.29	10.21	1.44	1.54
	Nominal rate of increase in wages	-0.27	-1.15	-0.27	-0.20	-0.17	0.01	-0.07	-0.26	-4.06	0.68	-0.21	0.21	-0.54	-0.49
	Real investment return	-3.75	-5.61	7.90	3.11	9.76	3.51	-4.63	-7.37	12.44	-0.95	2.51	9.98	1.99	2.04

#### Yields used in actuarial valuation

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Last seven-years (Annualized)	Last twelve-years (Annualized)
Yields used in actuarial valuation	Nominal investment return	4.00	4.00	0.80	0.90	1.60	2.30	2.60	3.00	1.47	1.78	1.92	2.03	2.16	2.20
	Nominal rate of increase in wages	2.50	2.50	0.00	0.60	1.30	2.00	2.30	2.70	0.05	3.41	2.66	2.81	2.27	1.90
	Real investment return	1.46	1.46	0.80	0.30	0.30	0.29	0.29	0.29	1.42	-1.58	-0.72	-0.76	-0.11	0.29

## 4. Income and Asset Size Since the Start of Discretionary Investment (Fiscal 2001)

Cumulative income from fiscal 2001, when we began discretionary investment, through fiscal 2012 is **¥25,220.9 billion** and the value of investment assets at the end of fiscal 2012 was **¥120.5 trillion**.



## 5. Return by Asset Class in the Last Seven- and Three-Year Periods

The foreign bond investment outperformed the benchmark by 0.13% for the seven years since the incorporation as the administrative agency in 2006, and by 0.19% during the second medium-term plan period from 2010. The other assets produced similar return or the respective benchmark for either period.

### Domestic bonds

Fiscal year	2006	2007	2008	2009	2010	2011	2012	Last seven-years (Annualized)	Last three-years (Annualized)
Time-weighted return	2.18%	3.31%	1.35%	1.98%	1.95%	2.92%	3.68%	2.48%	2.85%
Benchmark return	2.17%	3.36%	1.36%	2.03%	1.81%	2.94%	3.63%	2.47%	2.79%
Excess return	+0.01%	-0.05%	-0.01%	-0.05%	+0.14%	-0.02%	+0.04%	+0.01%	+0.06%

### Domestic stocks

Fiscal year	2006	2007	2008	2009	2010	2011	2012	Last seven-years (Annualized)	Last three-years (Annualized)
Time-weighted return	0.47%	-27.97%	-35.55%	29.40%	-9.04%	0.57%	23.40%	-5.33%	4.12%
Benchmark return	0.29%	-28.05%	-34.78%	28.47%	-9.23%	0.59%	23.82%	-5.29%	4.17%
Excess return	+0.18%	+0.08%	-0.77%	+0.93%	+0.19%	-0.02%	-0.42%	-0.04%	-0.05%

### International bonds

Fiscal year	2006	2007	2008	2009	2010	2011	2012	Last seven-years (Annualized)	Last three-years (Annualized)
Time-weighted return	10.19%	-0.32%	-6.75%	1.32%	-7.06%	4.77%	18.30%	2.58%	4.83%
Benchmark return	10.24%	-0.44%	-6.56%	0.82%	-7.38%	4.96%	17.86%	2.45%	4.64%
Excess return	-0.04%	+0.12%	-0.19%	+0.50%	+0.32%	-0.18%	+0.44%	+0.13%	+0.19%

International stocks

Fiscal year	2006	2007	2008	2009	2010	2011	2012	Last seven-years (Annualized)	Last three-years (Annualized)
Time-weighted return	17.50%	-17.10%	-43.21%	46.11%	2.18%	0.49%	28.91%	0.97%	9.80%
Benchmark return	17.67%	-16.92%	-43.42%	46.52%	2.27%	0.34%	28.78%	0.98%	9.74%
Excess return	-0.17%	-0.19%	+0.21%	-0.41%	-0.08%	+0.14%	+0.13%	-0.02%	+0.06%

Short-term assets

Fiscal year	2006	2007	2008	2009	2010	2011	2012	Last seven-years (Annualized)	Last three-years (Annualized)
Time-weighted return	0.26%	0.57%	0.53%	0.16%	0.10%	0.10%	0.10%	0.26%	0.10%
Benchmark return	0.19%	0.50%	0.39%	0.10%	0.09%	0.08%	0.07%	0.20%	0.08%
Excess return	+0.06%	+0.07%	+0.14%	+0.06%	+0.01%	+0.01%	+0.02%	+0.05%	+0.02%





# Chapter 2: Activities in Fiscal 2012

## 1. Reviewing External Asset Manager Structure

### (1) Domestic bonds investment

We revised both active and passive manager structure in domestic bond investment and selected external fund managers through three-stage screening process ended in 2012.

As a result of this, we adopted four new funds and dissolved five in the active investment, while we adopted three new funds and dissolved five in the passive investment.

We carried out the selection process through deliberation by the Investment Committee based on close examination of investment policies, investment processes, organizations and human resources, compliance, and administrative processing systems of all applicants to our public offering, together with use of consulting firms as outside experts, and comprehensive evaluation of matters including investment management fees. (See the following page concerning the investment manager selection process.)

### (2) International stocks active investment

Having decided to review the manager structure for active investment in international stocks, we issued a public offering for asset managers and completed the first and second selection processes during fiscal 2012.

### (3) Emerging-market stocks investment

During fiscal 2012 we started investment in the seven funds selected during fiscal 2011. At the end of fiscal 2012 we had invested assets of ¥112 billion in emerging-market stocks.

## 2. Rebalancing

GPIF manages the risk by monitoring the divergence between the policy asset mix and the actual asset composition. The portfolio is rebalanced in principle when the divergence breaches the permissible band from the policy asset mix. In addition, we periodically analyze and evaluate the need to execute rebalancing even when the divergence is within the permissible range of deviation. Also we evaluate the need of rebalancing in cases such as when the market has undergone substantial changes.

In fiscal 2012 we carried out rebalancing as shown below.

(¥billion)

	Domestic bonds	Domestic stocks	International bonds	International stocks
Allocated - Withdrawn	+5,919.2	0.0	0.0	-1,922.3

Note: The amount allocated/withdrawn for each asset is the amount allocated minus the amount withdrawn.

## Investment Manager Selection Process

### First screening

Inspect documents submitted by new managers to see the requirements such as registration at relevant authorities, asset under management or track record



### Second screening

- Hold in-person meetings with new and incumbent managers to hear investment policy, investment process, organization, human resources, legal compliance or reporting
- Evaluate items except the management fee



### Third screening

- Visit the offices of new and incumbent managers to confirm the mutual understandings of investment philosophy and process among decision-makers
- Evaluate items including the management fee

### Evaluation criteria

#### Investment policies

- Are its investment policies clearly defined and in agreement with GPIF policies?

#### Investment processes

- Has it developed investment processes consistent with its investment policies?
- Are its methods of seeking added value (at a passive asset manager, this refers to methods of matching benchmarks as much as possible while also giving consideration to securing income through efforts such as minimization of total transaction costs; at an active asset manager it refers to methods of seeking excess returns) reasonable, and can they be considered effective?
- Does it have objective recognition of investment risks? Does it conduct appropriate risk management such as ascertaining of deviation from assigned benchmarks?

#### Organization/HR

- Are its investment policies understood thoroughly in the organization? Are the flow of decision-making and the locations of responsibilities made clear?
- Does it have sufficient experienced managers and others assigned? Has it established risk management systems?

#### Compliance

- Is a system of internal controls in place for legal and regulatory compliance?

#### Administrative processing system

- Does it have adequate systems etc. for reporting results of investment?

#### Efforts for exercise of voting rights (stocks only)

- Does it recognize the importance of corporate governance and does it exercise voting rights and take other measures appropriately employing standards it has established for such exercise, based on the thought that the goal of exercising voting rights is maximization of long-term gains to shareholders?

#### Management fees

(Note) The selection process is to be carried out through deliberation by the Investment Committee.

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### 3. Exercise of Voting Rights

The Medium Term Objectives by the Minister of Health, Labour and Welfare stipulate that the GPIF take appropriate measures such as exercising voting rights from the viewpoint of maximizing the long-term interest of shareholders, while paying due consideration not to exert influence on corporate management in the private sector.

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

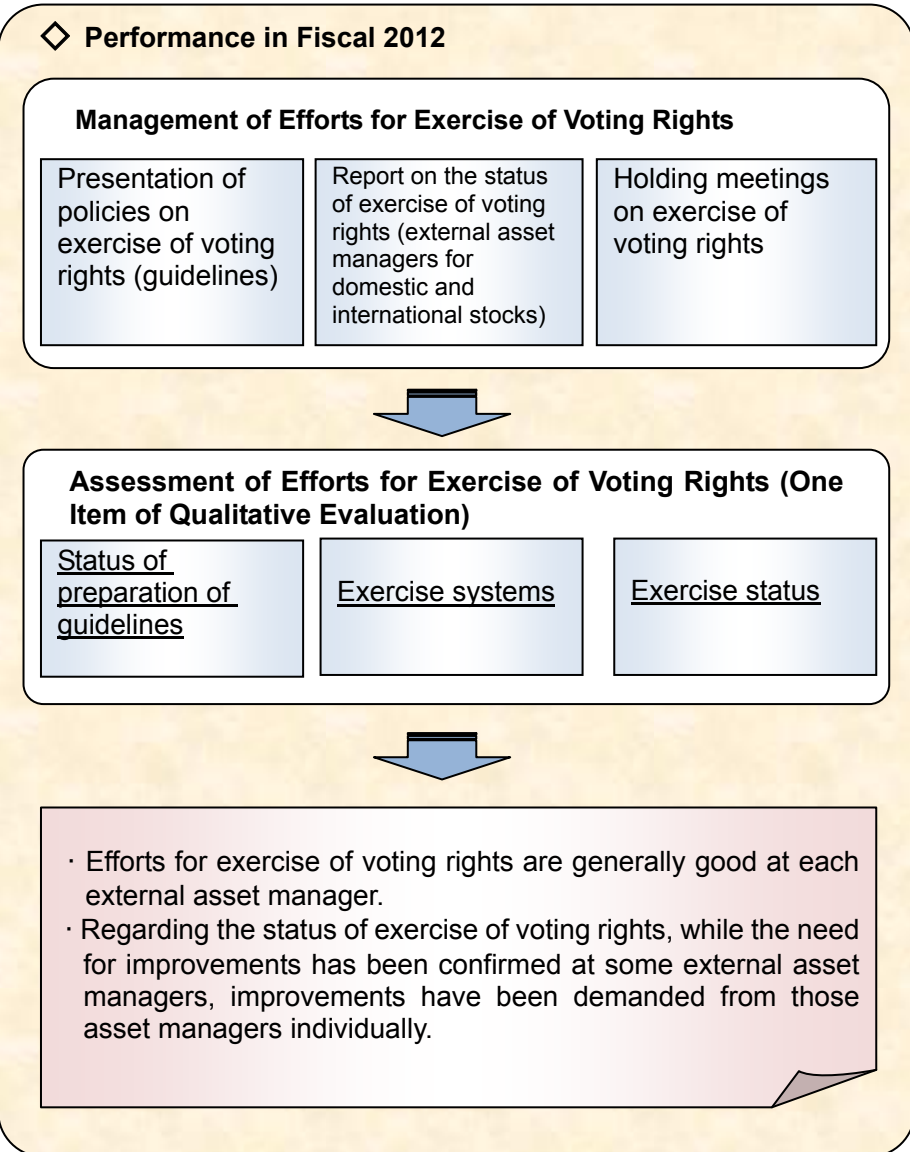
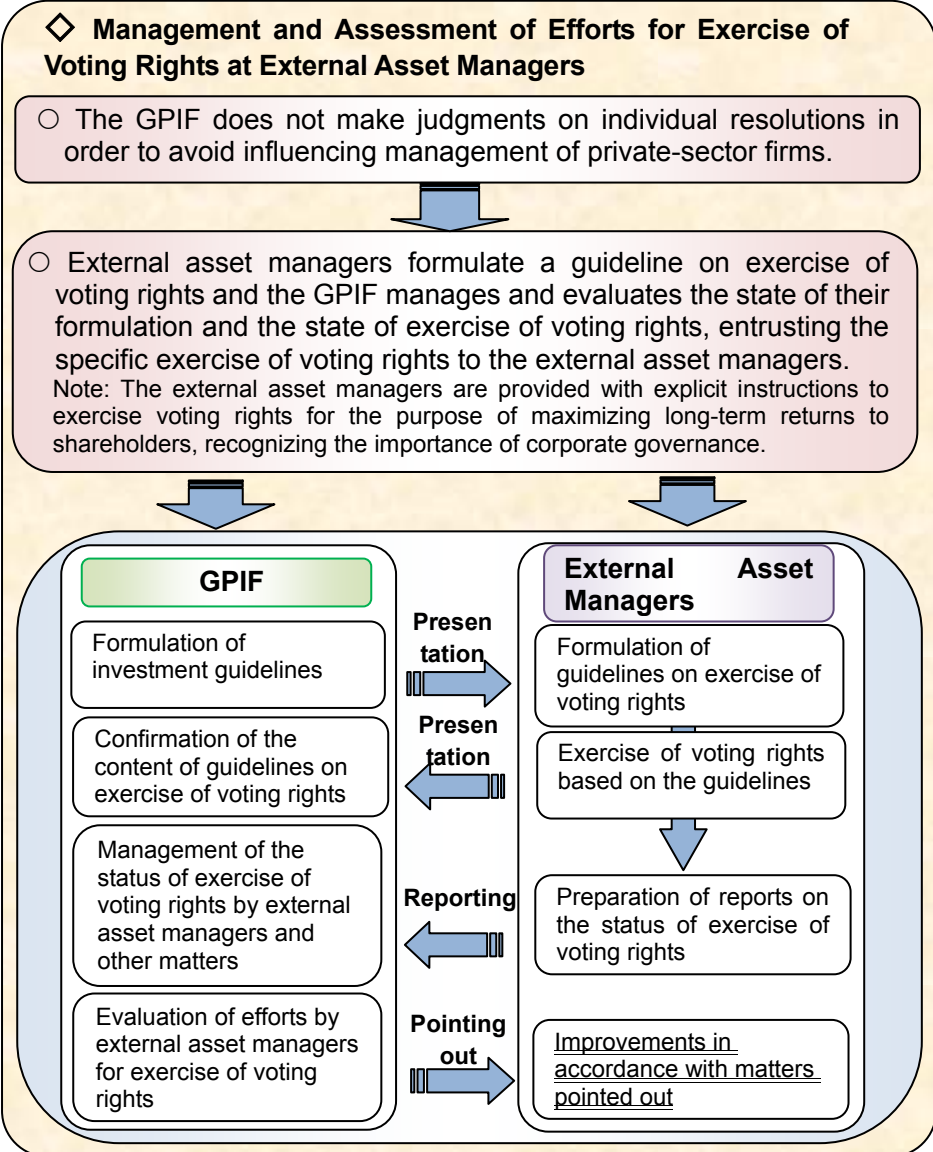
In line with the Plan, external managers submit the guideline for voting and annually report voting results to the GPIF. The GPIF holds meetings with the managers on the results, and in the annual evaluation process of each manager by the GPIF, the way a manager exercises voting rights is considered in the qualitative part of evaluation.

In fiscal 2012, we held meetings based on the reports on the votes cast from April to June 2012 and evaluated the external managers based on the reports and the meetings from the viewpoints of “establishing of a guideline for voting,” “organizational framework” and “actual implementation.”

We determine that the voting rights were appropriately exercised except a small number of cases with which we identified necessary improvements and asked individual managers to act accordingly.

For the voting results for fiscal 2012, please see the tables below.

## Exercise of Shareholder Voting Rights



(1) Domestic stocks (April 2012 to March 2013)

Number of external asset managers who exercised proxies  
 Number of external asset managers who did not exercise proxies

27 funds  
 none

Proposal	Proposals pertaining to company organization					Proposals pertaining to director remuneration, etc.				Proposals pertaining to capital management (excluding items pertaining to changes to the articles of incorporation)			Proposals pertaining to change to the articles of incorporation	Defense from hostile TOB (Rights plan)		Other proposals	Total	
	Appointment of directors	Outside directors	Appointment of corporate auditors	Outside corporate auditors	Appointment of accounting auditors	Director remuneration	Director bonuses	Director retirement bonuses	Granting of stock options	Dividends	Acquisition of treasury stock	Mergers, acquisition, etc.		Warning type	Trust-type			
No. of voting rights exercised	122,656	17,660	27,918	18,236	162	1,143	2,398	2,844	1,543	12,102	79	620	5,636	935	0	308	178,344	
Management proposals	Total	122,267	17,574	27,876	18,194	162	1,121	2,398	2,830	1,543	12,017	63	620	4,137	935	0	182	176,151
		(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(100.0%)
	Approved	109,940	13,554	23,160	13,866	162	1,069	2,325	1,310	1,147	11,679	62	610	3,976	468	0	177	156,085
		(89.9%)	(77.1%)	(83.1%)	(76.2%)	(100.0%)	(95.4%)	(97.0%)	(46.3%)	(74.3%)	(97.2%)	(98.4%)	(98.4%)	(96.1%)	(50.1%)	(0.0%)	(97.3%)	(88.6%)
Shareholder proposals	Opposed	12,327	4,020	4,716	4,328	0	52	73	1,520	396	338	1	10	161	467	0	5	20,066
		(10.1%)	(22.9%)	(16.9%)	(23.8%)	(0.0%)	(4.6%)	(3.0%)	(53.7%)	(25.7%)	(2.8%)	(1.6%)	(1.6%)	(3.9%)	(49.9%)	(0.0%)	(2.7%)	(11.4%)
	Total	389	86	42	42	0	22	0	14	0	85	16	0	1,499	0	0	126	2,193
		(100.0%)	(100.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(0.0%)	(100.0%)	(0.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(0.0%)	(0.0%)	(100.0%)	(100.0%)
Shareholder proposals	Approved	15	15	2	2	0	0	0	0	0	1	1	0	41	0	0	1	61
		(3.9%)	(17.4%)	(4.8%)	(4.8%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(1.2%)	(6.3%)	(0.0%)	(2.7%)	(0.0%)	(0.0%)	(0.8%)	(2.8%)
	Opposed	374	71	40	40	0	22	0	14	0	84	15	0	1,458	0	0	125	2,132
		(96.1%)	(82.6%)	(95.2%)	(95.2%)	(0.0%)	(100.0%)	(0.0%)	(100.0%)	(0.0%)	(98.8%)	(93.8%)	(0.0%)	(97.3%)	(0.0%)	(0.0%)	(99.2%)	(97.2%)

## (2) International stocks (April 2012 to March 2013)

Number of external asset managers who exercised proxies  
 Number of external asset managers who did not exercise proxies

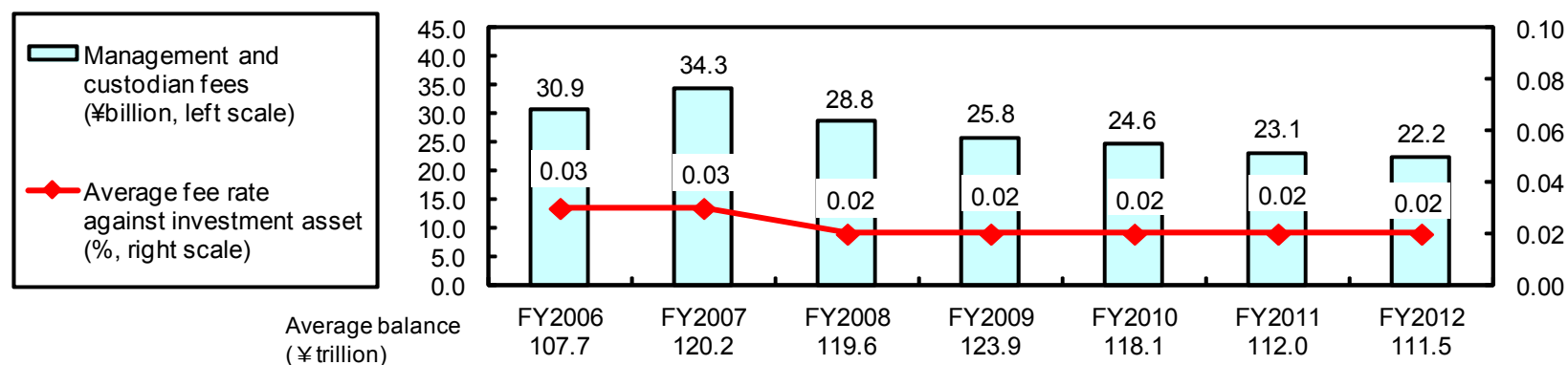
26 funds  
 none

Proposals	Proposals pertaining to company organization			Proposals pertaining to director remuneration, etc.				Proposals pertaining to capital management (excluding items pertaining to changes to the articles of incorporation)			Proposals pertaining to change to the articles of incorporation	Rights plan of pre-warning type	Other proposals		Total	
	Appointment of directors	Appointment of corporate auditors	Appointment of accounting auditors	Director remuneration	Director bonuses	Director retirement benefits	Granting of stock options	Dividends	Acquisition of treasury stock	Mergers, acquisition, etc.			Approval of financial statement, etc	Other proposals		
No. of voting rights exercised	79,955	2,639	8,636	12,575	480	254	4,304	4,660	3,957	6,539	3,956	267	5,660	21,733	155,615	
Management proposals	Total	79,507	2,511	8,600	12,194	451	225	4,087	4,645	3,957	6,519	3,509	221	5,658	17,624	149,708
		(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)
	Approved	76,224	2,373	8,536	11,155	424	119	3,631	4,624	3,728	5,919	3,314	153	5,629	16,087	141,916
	(95.9%)	(94.5%)	(99.3%)	(91.5%)	(94.0%)	(52.9%)	(88.8%)	(99.5%)	(94.2%)	(90.8%)	(94.4%)	(69.2%)	(99.5%)	(91.3%)	(94.8%)	
Opposed	3,283	138	64	1,039	27	106	456	21	229	600	195	68	29	1,537	7,792	
	(4.1%)	(5.5%)	(0.7%)	(8.5%)	(6.0%)	(47.1%)	(11.2%)	(0.5%)	(5.8%)	(9.2%)	(5.6%)	(30.8%)	(0.5%)	(8.7%)	(5.2%)	
Shareholder proposals	Total	448	128	36	381	29	29	217	15	0	20	447	46	2	4,109	5,907
		(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)
	Approved	233	98	26	118	11	10	11	1	0	12	189	31	1	1,385	2,126
	(52.0%)	(76.6%)	(72.2%)	(31.0%)	(37.9%)	(34.5%)	(5.1%)	(6.7%)	(0.0%)	(60.0%)	(42.3%)	(67.4%)	(50.0%)	(33.7%)	(36.0%)	
Opposed	215	30	10	263	18	19	206	14	0	8	258	15	1	2,724	3,781	
	(48.0%)	(23.4%)	(27.8%)	(69.0%)	(62.1%)	(65.5%)	(94.9%)	(93.3%)	(0.0%)	(40.0%)	(57.7%)	(32.6%)	(50.0%)	(66.3%)	(64.0%)	

## 4. Fee Expenses

We have been making constant efforts to realize efficient and viable levels of the management and custodian fees which are consistent with the investment styles and the services provided.

In fiscal 2012, management and custodian fees decreased by ¥0.8 billion from the previous year to ¥22.2 billion, due mainly to factors such as reductions in fees accompanying the review of the manager structure for domestic bonds and review of fee structures for some funds, despite increases in fees as a result of fluctuations in the market values of investment assets. The average rate of the total fees against the investment amount for fiscal 2012 was 0.02%.



### Fees by asset class

Fiscal year	2006	2007	2008	2009	2010	2011	2012
Domestic bonds	8.5	10.2	10.0	7.1	6.7	6.4	4.7
Domestic stocks	9.8	9.6	7.0	6.6	6.5	6.2	5.9
International bonds	4.9	6.3	6.1	6.0	5.6	5.2	5.7
International stocks	7.7	8.2	5.6	6.1	5.8	5.3	6.0

(¥ billion)

### Average rate of fees against externally managed assets

Fiscal year	2006	2007	2008	2009	2010	2011	2012
Domestic bonds	0.03	0.02	0.02	0.01	0.01	0.01	0.01
Domestic stocks	0.05	0.06	0.06	0.05	0.05	0.05	0.04
International bonds	0.06	0.07	0.06	0.06	0.06	0.06	0.06
International stocks	0.07	0.06	0.06	0.05	0.05	0.04	0.04

(%)





# Chapter 3: Framework for Reserve Fund Investment and Roles of Government Pension Investment Fund

## 1. Framework for Reserve Fund Investment

### (1) Public pension schemes and the reserve funds

Japan's public pension schemes are said to have three significant characteristics: a) universal pension coverage, b) a social insurance-type format (i.e., a framework in which insured pay contributions and receive pension benefits proportionate with contributions paid), and c) intergenerational dependency (the so-called "pay-as-you-go" method in which, in principle, working generations support the older generation with their contributions). Amid the rapid emergence of a society marked by a falling birthrate and an aging population, problems such as growing burden on working generations have been intensified. Thus, the building of public pension schemes that will be sustainable into the future has become an important issue. The 2004 Pension Reform was undertaken to dispel the suspicion and to restore the sustainability of pension finances with the framework, by combining the following four points.

#### **i. Fixing the contribution program**

Young generation suspected that the contribution rates would be raised forever through future pension reforms. To restore their trust in the social security pension schemes, Government decided to adopt the fixed schedule of the contribution rates for the future period (the Employees' Pension Insurance contribution schedule: Fixed at 18.3% after September 2017, the National Pension contribution schedule (monthly amount): Fixed at JPY 16,900 after April 2017).

#### **ii. Introducing of the automatic balancing mechanism and the replacement ratio as the measurement of the benefit level**

Basically, pension benefits are increased in line with the increase in per-capita disposable income of active workers for newly awarded beneficiaries and in the Consumer Price Index (CPI) after awarded. But before pension finance attains equilibrium, the pension index is modified to decrease the pension benefit level in line with two rates such as the decrease rate in the number of covered persons by the social security pension schemes and the projected average annual increase rate of life expectancy. The modified index is obtained by subtracting the two rates from the principal index. In the 2004 Actuarial Valuation, the replacement ratio was projected to decrease from 59.3% in FY2004 to 50.2% in FY2023.

#### **iii. Raising the national subsidy rate for the Basic Pension to 1/2 \***

Raising the national subsidy rate for the Basic Pension benefits had been discussed for a long time before the 2004 Actuarial Valuation. In the 2000 Pension Reform it was stipulated that the rate should be raised to 1/2 from 1/3 by securing financial resources.

#### **iv. Re-defining of the period of financial equilibrium (from perpetuity to around 100-year period)**

The government decided to adopt the finite period of financial equilibrium with the target of reserve fund at the end of the period. The period of financial equilibrium is decided to be around 100-year. The level of target of reserve fund is defined to be enough not to get into trouble on paying pension benefits. At least every five years, actuarial valuations should be carried out to verify the pension finances over a period of around 100 years from the time of valuation.

\* While this rate was increased temporarily to 1/2 using extraordinary funding sources beginning in fiscal 2009, it will remain permanently at 1/2 using stable funding sources beginning in fiscal 2014.

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## (2) Significance of the reserve funds

Public pension schemes of Japan are supported by society as a whole and work on the basis of intergenerational dependency whereby contributions made by the working generation are used to support the older generation. However, given that the older generation's share of the total population will continue to increase in the future, the portion of contributions, not allocated to pension benefits but retained and invested as a reserve fund, is used to stabilize pension financing. This is where the basic significance of the reserve funds is found within the public pension schemes.

The 2004 Reform can be considered to have firmly established intergenerational dependency in Japan's public pension schemes and to have even more concretely clarified the significance of the reserve funds. In other words, the significance of reserve funds is concretely defined as contributing to stable pension financing through use of investment yield and the reserve funds while fixing the contribution levels as well as keeping benefits at the highest possible level.

## 2. Roles of Government Pension Investment Fund

### (1) Roles of Government Pension Investment Fund

We are responsible for the management and investment of the reserve funds in accordance with the provisions of the GPIF Law and other relevant regulations. The object of us is to contribute to the stability of Employees' Pension Insurance and National Pension by remitting a return on the reserve funds to the Pension Special Account, and we are taking following roles.

#### 1) Portfolio-based investment

Reserve funds must be managed safely and efficiently from a long-term perspective solely for the benefit of the insured (according to the Employees' Pension Insurance Act and other laws), and diversified investment is effective for the purposes of safe and efficient management. For this reason, in the process of investment, the GPIF, to exploit the benefit of diversification, determines the portfolio to maintain or the policy asset mix as below, on the basis of which the funds are managed.

		Domestic bonds	Domestic stocks	International bonds	International stocks	Short-term assets
Policy asset mix	Target allocation	67%	11%	8%	9%	5%
	Permissible range of deviation	±8%	±6%	±5%	±5%	-

Note: The GPIF considers revision of the policy asset mix as necessary even during the period of medium-term objectives in the event of rapid changes in market conditions.

#### 2) Ensuring liquidity for pension benefit payment

We ensure the liquidity (cash) necessary for pension benefit payments, etc., in view of the expected path of the pension financing and cash flow, and conducts efficient cash management.

### (2) Governance Structure of Government Pension Investment Fund

#### 1) Outline of independent administrative agency system

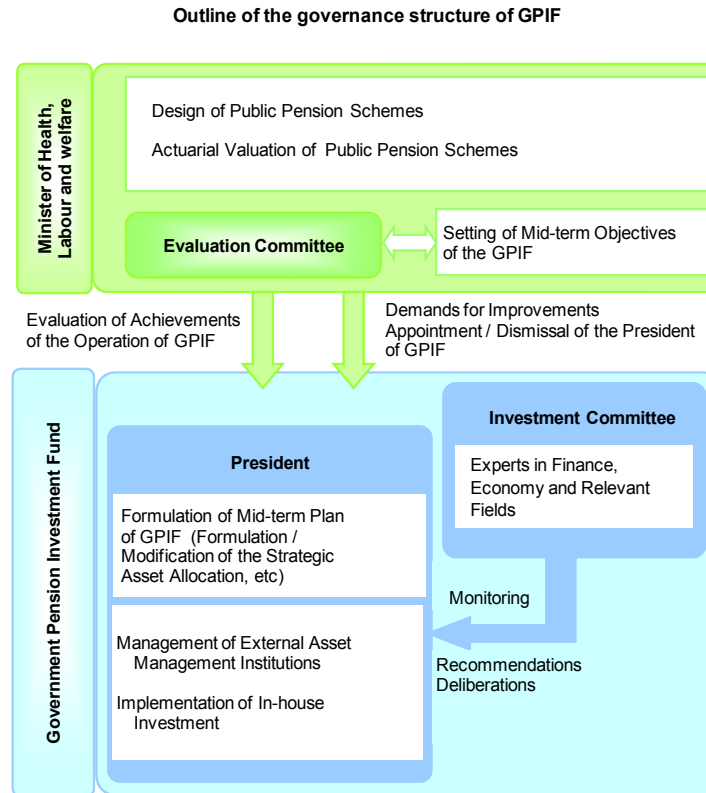
The independent administrative agency scheme—which focuses on those activities implemented by government that are highly public in nature but which, although not requiring direct government involvement, may not be realized if entrusted to the private sector—seeks to improve operational efficiency and quality, to ensure the autonomous operational management of those activities, and to maintain operational transparency by establishing independent administrative agencies whose corporate status differs from that of government and by having these institutions take on relevant activities.

Supervising ministers (in the case of the GPIF, the Minister of Health, Labour and Welfare) establish “medium-term objectives” of three to five years for each agency under their jurisdiction. Then, receiving the objectives, the heads of an agency formulates

“medium-term plans” to achieve the objectives. Each fiscal year and at the end of the medium-term objective period, an Evaluation Committee for Independent Administrative Agencies consisting of external experts is set up in the supervising government office (in the case of the GPIF, the Ministry of Health, Labour and Welfare), and evaluates the performance of each agency in reaching the targets.

## 2) Investment Committee

The Investment Committee is established within the GPIF. It consists of eleven or fewer members who are chosen from experts in finance, economy or other relevant fields and appointed by the Minister of Health, Labour and Welfare. The preparation of medium-term plans must be discussed by the Committee. The Committee is also entitled to monitor the implementation of investment policy by the GPIF, express opinions pertaining to important issues in management and investment operations in response to inquiries from the President, and submit recommendations to the President pertaining to issues deemed necessary.



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## Investment Committee Members (As of April 1, 2013)

Nobuo Inaba	Director; Corporate Executive Vice President; RICOH COMPANY, LTD. President; Ricoh Institute of Sustainability and Business
◎ Kazuo Ueda	Professor; Graduate School of Economics/Faculty of Economics, The University of Tokyo
Masaharu Usuki	Professor; Graduate School of Economics/Faculty of Economics, Nagoya City University
○ Jun Uno	Professor; Graduate School of Finance, Accounting, and Law, Waseda University
Hiromichi Oono	Member of the Board & Corporate Vice President AJINOMOTO CO., INC.
Seki Obata	Associate Professor; Graduate School of Business Administration, Keio University
Takashige Komoda	Director General; JTUC Research Institute for Advancement of Living Standards
Hisae Sato	General Manager; Chief Investment Officer; Treasury Department, NISSAN MOTOR CO., LTD.
Kimikazu Noumi	CEO; Innovation Network Corporation of Japan
Masato Murakami	Senior Executive Director of Institute; Mizuho Pension Research Institute Ltd.

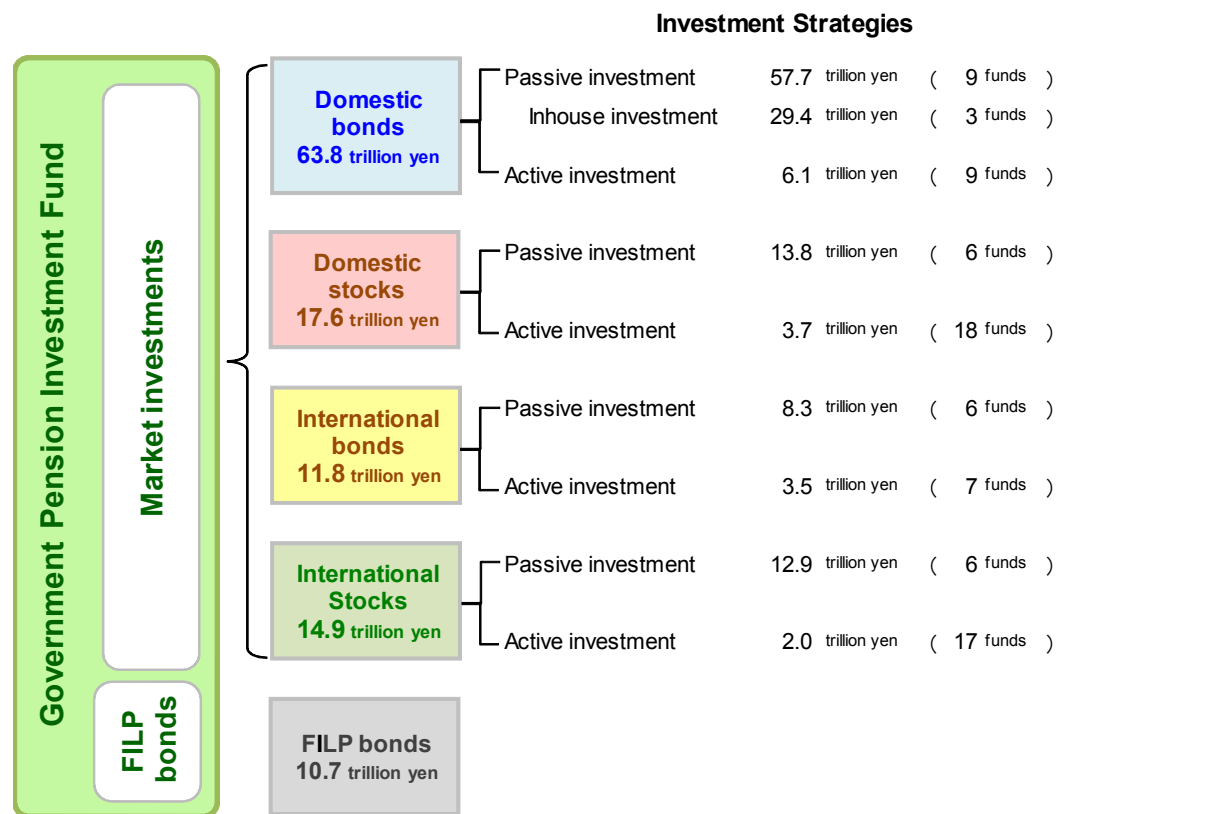
Note 1: Committee members are listed in order of the Japanese syllabary

Note 2: ◎indicates Chairman, ○indicates Vice Chairman

### (3) Investment strategies

Broadly speaking, fund investment strategies can be divided into active and passive investment management. In general, passive investment is a method that seeks to secure returns that are in line with market averages, while active investment aims to exceed market averages by conducting market analyses and building a portfolio that differs from the market. However, because the size of the fund is such that it is necessary to consider the impact of transactions on market, and because it is thought to be difficult to consistently outperform the market average over the long term as the market is largely efficient, our investment strategy centers on passive investment.

Actual investments except a part of domestic bonds are entrusted to professional asset managers such as trust banks and asset management companies. We select and manage these managers.



Total investment assets 120.5 trillion yen\* (end of March 2013)

\*Short-term assets included

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#### (4) Risk management

The policy asset mix is constructed with multiple asset classes having different expected rate of return and risk characteristics. Therefore, in order to maintain a portfolio with characteristics comparable to the policy asset mix and to achieve long-term expected return, it is necessary to appropriately manage various risks. Specific risk management methods involve determining risk management items to be targeted and monitoring those using analytical and other tools for each risk. If problems in the risk situation are identified as a result of such measurement, appropriate measures are implemented.

One of the most important risk management is to monitor deviation of actual portfolio from the policy asset mix. Asset allocation of actual portfolio does not stay unchanged due to the asset price fluctuation, making it necessary to monitor deviation and to keep it within a predetermined permissible range. In addition, steps such as analysis of the causes of annual return deviation from compound benchmarks are taken as well.

Other types of risk that are managed include market risk for each asset (risk of investment in each asset market, risk of price fluctuations in each market, etc.), liquidity risk (risk that sales or purchases become costly due to lower volume of trade), and credit risk (risk of bankruptcy). Also monitored and managed are the risk management by external asset managers and the asset management by custodial banks.

With regard to derivatives, we allow the managers to use for hedge purposes. For example, stock futures are used as a temporary substitute (long hedge) of underlying assets during the intake of additional investment funds or of reinvesting accrued dividends receivable. Furthermore, bond futures are used in active domestic or international bond investment and so are currency forward transactions in active international bond investment in accordance with individual investment guidelines that are formulated based on each external asset manager's investment style or investment capacity. Conditions surrounding the use of these derivatives and compliance with use restrictions are monitored through requiring monthly reports on notional amount (market face value of relevant derivatives).

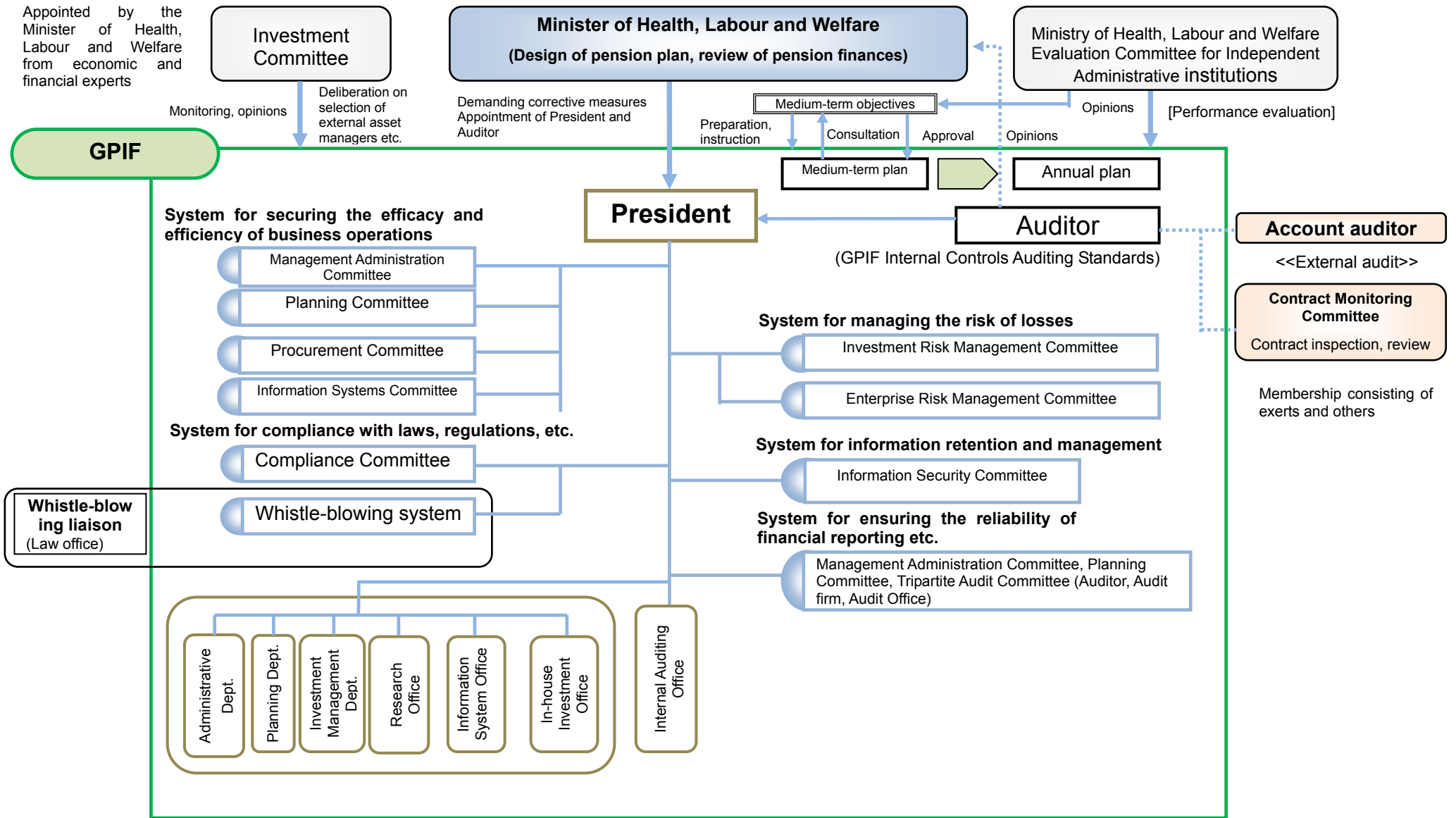
#### (5) Formulation of the administrative policy on investment management

In addition to the medium-term plan, etc., an “administrative policy on investment management” that establishes specific policies pertaining to management and investment of the reserve funds is formulated to achieve the medium-term objectives. This policy is made available to the public at our website (Japanese version only. <http://www.gpif.go.jp/operation/policy.html>).

#### (6) Internal Controls System

We established Basic Policy of Internal Controls to ensure our proper operations and enhance the internal control structure. (See the following page for a schematic diagram on internal controls and other matters.)

## Schematic Diagram of Internal Controls





# Reference Data

## 1. Investment Assets by Investment Method(MV at the end of fiscal 2012)

		Market value (¥billion)	Allocation
Investment asset total		120,465.3	100.00%
Market investment	Total	109,789.6	91.14%
	Passive investment	92,768.2	77.01%
	Active investment	17,021.4	14.13%
FILP bonds		10,675.7	8.86%

		Market value (¥billion)	Allocation
Investment asset total		120,465.3	100.00%
Domestic bonds	Total	63,783.0	52.95%
	Passive investment	57,710.1	47.91%
	Active investment	6,072.8	5.04%
Domestic stocks	Total	17,557.5	14.57%
	Passive investment	13,831.6	11.48%
	Active investment	3,725.9	3.09%
International bonds	Total	11,789.6	9.79%
	Passive investment	8,323.1	6.91%
	Active investment	3,466.5	2.88%
International stocks	Total	14,875.8	12.35%
	Passive investment	12,903.4	10.71%
	Active investment	1,972.4	1.64%
Short-term assets		1,783.8	1.48%
FILP bonds		10,675.7	8.86%

Note 1: The figure in the market value column for FILP bonds includes accrued earnings in the book value amount based on the amortized cost method.

Note 2: The figures above are rounded, so the sums do not necessarily match with the total numbers.

## 2. Investment Assets by Manager (MV at the end of fiscal 2012)

(Unit: ¥billion)

Investment method	Fund name (Subcontractor)	Manager benchmark	Market value
Domestic bond active investment	MU Investments	B P I	486
	DIAM	B P I	980
	Tokio Marine Asset Management	B P I	840
	PIMCO Japan (Pacific Investment Management Company LLC etc.)	B P I	417
	Prudential Investment Management Japan	B P I	417
	Manulife Asset Management (Japan)	B P I	415
	Mizuho Trust & Banking	B P I	839
	Sumitomo Mitsui Trust Bank	B P I	840
	Mitsubishi UFJ Trust and Banking	B P I	838
Domestic bond passive investment	In-house investment I	B P I	4,917
	In-house investment II	B P I - J	4,531
	In-house investment III	B P I - C	19,929
	State Street Global Advisors (Japan)	B P I	4,914
	Mizuho Trust & Banking	B P I	4,912
	Sumitomo Mitsui Trust Bank I	B P I	4,915
	Sumitomo Mitsui Trust Bank II	B P I - J	4,531
	Mitsubishi UFJ Trust and Banking	B P I - J	4,530
	Resona Bank	B P I - J	4,530

(Unit: ¥billion)

Investment method	Fund name (Subcontractor)	Manager benchmark	Market value
Domestic stock active investment	Amundi Japan I	T O P I X	238
	Amundi Japan II	T O P I X	296
	Invesco Asset Management(Japan)	T O P I X	281
	JPMorgan Asset Management (Japan) I	R N - G	129
	JPMorgan Asset Management (Japan) II	R N - V	238
	DIAM	T O P I X	218
	Daiwa SB Investments	R N - V	163
	Tokio Marine Asset Management	R N - G	139
	Nomura Asset Management I	T O P I X	383
	Nomura Asset Management II	R N - S	41
	Nomura Asset Management III	T O P I X	320
	Black Rock Japan	T O P I X	215
	Mizuho Trust & Banking	T O P I X	302
	Sumitomo Mitsui Trust Bank I	R N - V	162
	Sumitomo Mitsui Trust Bank II	T O P I X	246
	Mitsubishi UFJ Trust and Banking	T O P I X	296
	Resona Bank I	R N - S	22
Resona Bank II	R N - C	40	

(Unit: ¥billion)

Investment method	Fund name (Subcontractor)	Manager benchmark	Market value
Domestic stock passive investment	DIAM	T O P I X	2,016
	Black Rock Japan	T O P I X	2,129
	Mizuho Trust & Banking	T O P I X	2,417
	Sumitomo Mitsui Trust Bank	T O P I X	2,571
	Mitsubishi UFJ Trust and Banking	T O P I X	2,655
	Resona Bank	T O P I X	2,045
International bond active investment	Alliance Bernstein Japan (Alliance Bernstein L.P. etc.)	W B I G	495
	Goldman Sachs Asset Management (Goldman Sachs Asset Management International etc.)	W B I G	487
	Tokio Marine Asset Management (Tokio Marine Rogge Asset Management Limited)	W B I G	467
	PIMCO Japan (Pacific Investment Management Company LLC etc.)	W B I G	527
	Black Rock Japan (BlackRock Financial Management, Inc. etc.)	W B I G	516
	Mizuho Asset Management (Loomis, Sayles & Company, L.P.)	W B I G	493
	Morgan Stanley Investment Management (Japan) (Morgan Stanley Investment Management Inc. etc.)	W B I G	482
	State Street Global Advisors (Japan)	W G B I	1,388
International bond passive investment	Northern Trust Global Investments Japan (Northern Trust Investments, Inc.)	W G B I	1,388
	Black Rock Japan	W G B I	1,388
	Mizuho Trust & Banking	W G B I	1,387
	Sumitomo Mitsui Trust Bank	W G B I	1,386
	Mitsubishi UFJ Trust and Banking	W G B I	1,385
	International stock active investment	Amundi Japan	M S C I - K
Invesco Asset Management (Japan) (Invesco Advisers, Inc.)		M S C I - E	10
MFS Investment Management (Massachusetts Financial Services Company)		M S C I - K	225
State Street Global Advisors (Japan) (State Street Bank and Trust Company)		M S C I - K	259

(Unit: ¥billion)

Investment method	Fund name (Subcontractor)	Manager benchmark	Market value
International stock active investment	Nomura Asset Management I	M S C I - K	140
	Nomura Asset Management II	M S C I - E	19
	Nomura Funds Research and Technologies (Dimensional Fund Advisors LP)	M S C I - E	19
	BNY Mellon Asset Management Japan I (Walter Scott & Partners Limited)	M S C I - K	135
	BNY Mellon Asset Management Japan II (Newton Investment Management Limited)	M S C I - K	128
	Fidelity Investments Japan (Pyramis Global Advisors Trust Company)	M S C I - K	132
	Black Rock Japan (BlackRock Institutional Trust Company, N.A.)	M S C I - K	251
	Principal Global Investors (Japan) (Principal Global Investors, LLC)	M S C I - K	135
	Mizuho Asset Management (Wells Capital Management, Inc.)	M S C I - E	19
	Sumitomo Mitsui Asset Management Company (Vontobel Asset Management, Inc.)	M S C I - E	19
	Sumitomo Mitsui Trust Bank (Baring Asset Management Limited)	M S C I - E	8
	Lazard Japan Asset Management (Lazard Asset Management LLC)	M S C I - E	18
	Legg Mason Asset Management (Japan) (Batterymarch Financial Management, Inc.)	M S C I - K	127
	International stock passive investment	State Street Global Advisors (Japan)	M S C I - K
Black Rock Japan		M S C I - K	2,166
Mizuho Trust & Banking		M S C I - K	2,155
Sumitomo Mitsui Trust Bank		M S C I - K	2,146
Mitsubishi UFJ Trust and Banking		M S C I - K	2,145
Resona Bank		M S C I - K	2,145
Short-term assets	In-house investment	T D B	1,784
Subtotal		-	109,789
FILP bonds	In-house investment	-	10,676
Total		-	120,465

## Investment Assets by Custodian

(Unit: ¥billion)

Custodian name	Market value
Trust & Custody Services Bank	76,242
Japan Trustee Services Bank	17,557
State Street Trust and Banking	11,790
The Master Trust Bank of Japan	14,875

Note 1: Figures in the market value column do not include accrued dividend income from closed funds.

Note 2: The market value figure for the Trust & Custody Services Bank contains the domestic bond passive fund for in-house investment, short-term asset fund, and FILP bond fund.

Note 3: Other than funds listed above, six funds with six companies for domestic stock investment are kept in order to continue lawsuits against SEIBU Railway Co., Ltd.

Note 4: In addition to in-house management, we also conclude contracts on discretionary investment and trust contracts on asset management and management of securities lending.

Note 5: Manager benchmarks are shown below.

Domestic bonds: (BPI) NOMURA-BPI non-ABS, (BPI-J) NOMURA -BPI JGB, (BPI-C) NOMURA -BPI/GPIF Customized

Domestic stocks: (TOPIX) TOPIX (incl. dividends), (RN-G) RUSSELL/ NOMURA Total Market Growth index (incl. dividends)

(RN-V) RUSSELL /NOMURA Large Cap Value index (incl. dividends)

(RN-S) RUSSELL /NOMURA Small Cap index (incl. dividends)

(RN-C) Composite index of the following using ratios as instructed by us: RUSSELL /NOMURA Large Cap Value index (incl. dividends) and RUSSELL /NOMURA Large Cap Growth index (incl. dividends)

International bonds: (WBIG) Citigroup World Broad Investment-Grade Bond Index (not incl. JPY, no hedge/JPY basis)

(WGBI) Citigroup World Government Bond Index (not incl. JPY, no hedge/JPY basis)

International stocks: (MSCI-K) MSCI KOKUSAI (JPY basis, incl. dividends, after taking into account our dividend tax factors)

(MSCI-E) MSCI EMERGING MARKETS (JPY basis, incl. dividends, after deducting taxes)

Short-term assets: (TDB) TDB 1-mo. Repurchase agreement

### 3. Number of External Managers by Asset and Passive/Active Style

Fiscal year		2006			2007			2008			2009			2010			2011			2012		
		Terminations, etc	New funds	End of FY	Terminations, etc	Newfunds	End of FY	Terminations, etc	New funds	End of FY	Terminations, etc	New funds	End of FY	Terminations, etc	New funds	End of FY	Terminations, etc	New funds	End of FY	Terminations, etc	New funds	End of FY
Domestic bonds	Passive	0	0	6	-1	3	8	0	0	8	0	0	8	0	0	8	0	0	8	-5	3	6
	Active	0	0	11	0	0	11	0	0	11	-1	0	10	0	0	10	0	0	10	-5	4	9
Domestic stocks	Passive	0	0	7	0	0	7	0	0	7	0	0	7	0	0	7	0	0	7	-1	0	6
	Active	0	0	15	0	0	15	-4	10	21	0	0	21	-1	0	20	-1	0	19	-1	0	18
International Bonds	Passive	0	0	4	-1	1	4	0	0	4	0	0	4	-1	3	6	0	0	6	0	0	6
	Active	0	0	7	-2	2	7	0	0	7	0	0	7	0	0	7	0	0	7	0	0	7
International stocks	Passive	0	0	7	-1	1	7	0	0	7	-1	0	6	-2	2	6	0	0	6	0	0	6
	Active	-2	0	13	-1	0	12	-8	11	15	-1	0	14	-1	0	13	0	0	13	-3	7	17
Total		-2	0	70	-6	7	71	-12	21	80	-3	0	77	-5	5	77	-1	0	76	-15	14	75
Custodial bank		0	0	4	0	0	4	0	0	4	0	0	4	0	0	4	0	0	4	0	0	4

Note 1: One fund termination and one fund addition in each of domestic bond passive investment, international bond passive investment and international stock passive investment in fiscal 2007 are results of fund transfer due to the transfer of business.

Note 2: Fund terminations and additions in domestic stock active investment and international stock active investment in fiscal 2008 are results of review of our external active managers.

Note 3: One fund termination in fiscal 2009 in domestic bond active investment is a result of overall evaluation. One fund termination in international stock passive investment is a result of fund integration due to the merger of external asset managers. One fund termination in international stock active investment is a result of review of our external active managers in fiscal 2008.

Note 4: Two fund terminations in domestic stock active investment and international stock active investment in fiscal 2010 are results of changes in their investment team. The numbers of termination etc. and new funds in international bonds passive investment and international stock passive investment are results of review of our external active managers.

Note 5: The fund termination in domestic stock active investment in fiscal 2011 is a result of a change in its investment team.

Note 6: The changes recorded in fiscal 2012 in termination etc. and new funds in passive and active investment in domestic bonds were due to reviewing the manager and investment structure. The termination etc. of one fund in passive investment in domestic stocks was due to a merger. The termination etc. of one fund in active investment in domestic stocks was due to a conflict with the selection criteria for external managers. Three fund terminations in active investment in international stocks were due to factors such as changes to the manager structure. The seven new funds in active investment in international stocks (emerging markets) were selected during fiscal 2011 and their management began in fiscal 2012.

## 4. Investment Performance by Manager

(1) Last three fiscal years (April 2010 to March 2013)

Domestic bond passive investment

Fund name	Time-weighted return (A)	Benchmark return (B)	Excess return (A)-(B)	Historical tracking error
In-house investment I	2.81%	2.78%	+0.04%	0.08%
In-house investment II	2.99%	2.99%	+0.00%	0.04%
Mizuho Trust & Banking	2.79%	2.81%	-0.03%	0.08%
Sumitomo Mitsui Trust Bank I	2.80%	2.78%	+0.03%	0.08%
Sumitomo Mitsui Trust Bank II	3.00%	2.99%	+0.01%	0.03%

Domestic bond active investment

Fund name	Time-weighted return (A)	Benchmark return (B)	Excess return (C)=(A)-(B)	Historical tracking error (D)	Information ratio (C)/(D)
DIAM	3.04%	2.77%	+0.27%	0.13%	1.99
Tokio Marine Asset Management	3.08%	2.77%	+0.31%	0.21%	1.47
Mizuho Trust & Banking	3.05%	2.77%	+0.28%	0.16%	1.77
Sumitomo Mitsui Trust Bank	3.09%	2.77%	+0.32%	0.12%	2.67
Mitsubishi UFJ Trust and Banking	2.84%	2.77%	+0.07%	0.15%	0.43

### Domestic stock passive investment

Fund name	Time-weighted return (A)	Benchmark return (B)	Excess return (A)-(B)	Historical tracking error
DIAM	4.28%	4.17%	+0.10%	0.14%
Black Rock Japan	4.22%	4.17%	+0.05%	0.14%
Mizuho Trust & Banking	4.20%	4.17%	+0.02%	0.11%
Sumitomo Mitsui Trust Bank	4.17%	4.17%	-0.01%	0.11%
Mitsubishi UFJ Trust and Banking	4.25%	4.17%	+0.08%	0.13%
Resona Bank	4.17%	4.17%	-0.00%	0.12%

### Domestic stock active investment

Fund name	Time-weighted return (A)	Benchmark return (B)	Excess return (C)=(A)-(B)	Historical tracking error (D)	Information ratio (C)/(D)
Amundi Japan I	1.86%	2.96%	-1.10%	1.60%	-0.69
Amundi Japan II	7.30%	3.88%	+3.41%	2.94%	1.16
Invesco Asset Management (Japan)	-1.77%	2.96%	-4.73%	3.76%	-1.26
JPMorgan Asset Management (Japan) I	2.64%	3.79%	-1.14%	2.60%	-0.44
JPMorgan Asset Management (Japan) II	2.25%	1.49%	+0.76%	2.57%	0.30
DIAM	5.37%	4.15%	+1.22%	2.07%	0.59
Daiwa SB Investments	3.61%	1.49%	+2.11%	1.61%	1.31
Tokio Marine Asset Management	3.24%	3.79%	-0.54%	2.97%	-0.18
Nomura Asset Management I	4.25%	3.88%	+0.36%	2.82%	0.13
Nomura Asset Management II	8.82%	8.98%	-0.16%	3.21%	-0.05
Nomura Asset Management III	4.01%	3.88%	+0.13%	1.11%	0.11
Black Rock Japan	2.82%	2.69%	+0.13%	1.44%	0.09
Mizuho Trust & Banking	3.67%	3.88%	-0.21%	2.62%	-0.08
Sumitomo Mitsui Trust Bank I	-0.73%	0.35%	-1.09%	1.86%	-0.59
Sumitomo Mitsui Trust Bank II	1.41%	2.96%	-1.55%	1.03%	-1.51
Mitsubishi UFJ Trust and Banking	4.23%	3.88%	+0.35%	0.96%	0.36
Resona Bank I	7.77%	7.63%	+0.14%	4.04%	0.04
Resona Bank II	4.91%	4.91%	+0.00%	0.07%	0.00

### International bond passive investment

Fund name	Time-weighted return (A)	Benchmark return (B)	Excess return (A)-(B)	Historical tracking error
State Street Global Advisors (Japan)	4.63%	4.60%	+0.03%	0.19%
Northern Trust Global Investments Japan	4.69%	4.60%	+0.09%	0.17%
Black Rock Japan	4.70%	4.60%	+0.10%	0.19%

### International bond active investment

Fund name	Time-weighted return (A)	Benchmark return (B)	Excess return (C)=(A)-(B)	Historical tracking error (D)	Information ratio (C)/(D)
Alliance Bernstein Japan	5.73%	4.86%	+0.87%	0.81%	1.07
Goldman Sachs Asset Management	4.89%	4.86%	+0.03%	0.45%	0.07
Tokio Marine Asset Management	4.83%	4.86%	-0.03%	0.96%	-0.03
PIMCO Japan	6.31%	4.86%	+1.44%	0.95%	1.53
Black Rock Japan	5.07%	4.86%	+0.21%	0.50%	0.41
Mizuho Asset Management	5.97%	4.86%	+1.10%	1.22%	0.91
Morgan Stanley Investment Management (Japan)	5.04%	4.86%	+0.18%	0.78%	0.23



### International stock passive investment

Fund name	Time-weighted return (A)	Benchmark return (B)	Excess return (A)-(B)	Historical tracking error
State Street Global Advisors (Japan)	9.79%	9.75%	+0.03%	0.03%
Black Rock Japan	9.75%	9.75%	-0.01%	0.04%
Mizuho Trust & Banking	9.76%	9.75%	+0.01%	0.02%
Resona Bank	9.79%	9.75%	+0.04%	0.05%

### International stock active investment

Fund name	Time-weighted return (A)	Benchmark return (B)	Excess return (C)=(A)-(B)	Historical tracking error (D)	Information ratio (C)/(D)
Amundi Japan	10.24%	9.75%	+0.48%	1.05%	0.46
MFS Investment Management	14.00%	9.75%	+4.25%	2.89%	1.47
State Street Global Advisors (Japan)	9.97%	9.75%	+0.22%	0.51%	0.43
Nomura Asset Management I	7.42%	9.75%	-2.33%	3.54%	-0.66
BNY Mellon Asset Management Japan I	11.47%	9.75%	+1.72%	4.42%	0.39
BNY Mellon Asset Management Japan II	10.01%	9.75%	+0.26%	4.01%	0.06
Fidelity Investments Japan	9.70%	9.75%	-0.05%	1.15%	-0.04
Black Rock Japan	9.78%	8.80%	+0.98%	1.47%	0.67
Principal Global Investors (Japan)	10.80%	9.75%	+1.05%	1.36%	0.78
Legg Mason Asset Management (Japan)	9.64%	9.75%	-0.11%	1.55%	-0.07

(2) Last five fiscal years (April 2008 to March 2013)

Domestic bond passive investment

Fund name	Time-weighted return (A)	Benchmark return (B)	Excess return (A)-(B)	Historical tracking error
In-house investment I	2.38%	2.34%	+0.03%	0.07%
In-house investment II	2.42%	2.42%	+0.00%	0.04%
Mizuho Trust & Banking	2.30%	2.32%	-0.02%	0.08%
Sumitomo Mitsui Trust Bank I	2.32%	2.32%	+0.01%	0.07%
Sumitomo Mitsui Trust Bank II	2.42%	2.41%	+0.01%	0.03%

Domestic bond active investment

Fund name	Time-weighted return (A)	Benchmark return (B)	Excess return (C)=(A)-(B)	Historical tracking error (D)	Information ratio (C)/(D)
DIAM	2.54%	2.34%	+0.20%	0.17%	1.19
Tokio Marine Asset Management	2.63%	2.34%	+0.29%	0.22%	1.35
Mizuho Trust & Banking	2.60%	2.30%	+0.30%	0.16%	1.86
Sumitomo Mitsui Trust Bank	2.42%	2.25%	+0.18%	0.28%	0.64
Mitsubishi UFJ Trust and Banking	2.13%	2.08%	+0.05%	0.20%	0.25

## Domestic stock passive investment

Fund name	Time-weighted return (A)	Benchmark return (B)	Excess return (A)-(B)	Historical tracking error
DIAM	-0.54%	-0.67%	+0.13%	0.17%
Black Rock Japan	-0.89%	-0.93%	+0.03%	0.17%
Mizuho Trust & Banking	-0.95%	-0.93%	-0.02%	0.26%
Sumitomo Mitsui Trust Bank	-0.60%	-0.67%	+0.06%	0.28%
Mitsubishi UFJ Trust and Banking	-0.85%	-0.93%	+0.07%	0.17%
Resona Bank	-1.73%	-1.71%	-0.02%	0.18%

## Domestic stock active investment

Fund name	Time-weighted return (A)	Benchmark return (B)	Excess return (C)=(A)-(B)	Historical tracking error (D)	Information ratio (C)/(D)
Invesco Asset Management (Japan)	-2.88%	-1.36%	-1.51%	5.25%	-0.29
JPMorgan Asset Management (Japan) I	-3.78%	-3.09%	-0.68%	3.26%	-0.21
JPMorgan Asset Management (Japan) II	0.49%	-0.98%	+1.47%	2.74%	0.54
DIAM	-1.48%	-1.73%	+0.25%	2.15%	0.12
Daiwa SB Investments	1.16%	-0.98%	+2.14%	2.04%	1.05
Tokio Marine Asset Management	-3.64%	-2.98%	-0.66%	3.54%	-0.19
Nomura Asset Management I	-0.46%	-1.09%	+0.63%	3.10%	0.20
Black Rock Japan	-2.88%	-1.78%	-1.11%	1.52%	-0.73
Sumitomo Mitsui Trust Bank I	-2.18%	0.14%	-2.32%	2.11%	-1.10

### International bond passive investment

Fund name	Time-weighted return (A)	Benchmark return (B)	Excess return (A)-(B)	Historical tracking error
State Street Global Advisors (Japan)	1.24%	1.25%	-0.01%	0.24%
Northern Trust Global Investments Japan	1.07%	1.05%	+0.03%	0.20%
Black Rock Japan	1.04%	0.94%	+0.10%	0.23%

### International bond active investment

Fund name	Time-weighted return (A)	Benchmark return (B)	Excess return (C)=(A)-(B)	Historical tracking error (D)	Information ratio (C)/(D)
Alliance Bernstein Japan	2.91%	2.34%	+0.57%	0.90%	0.63
Goldman Sachs Asset Management	3.88%	3.58%	+0.30%	0.74%	0.41
Tokio Marine Asset Management	2.53%	2.25%	+0.28%	0.87%	0.32
PIMCO Japan	3.30%	2.12%	+1.17%	0.96%	1.23
Black Rock Japan	2.57%	2.34%	+0.23%	0.66%	0.35
Mizuho Asset Management	3.34%	2.25%	+1.08%	1.68%	0.65
Morgan Stanley Investment Management (Japan)	2.77%	2.34%	+0.43%	0.76%	0.57

### International stock passive investment

Fund name	Time-weighted return (A)	Benchmark return (B)	Excess return (A)-(B)	Historical tracking error
State Street Global Advisors (Japan)	2.30%	2.30%	-0.00%	0.06%
Black Rock Japan	1.84%	1.92%	-0.08%	0.13%
Mizuho Trust & Banking	2.01%	2.11%	-0.09%	0.10%
Resona Bank	2.00%	2.01%	-0.01%	0.14%

### International stock active investment

Fund name	Time-weighted return (A)	Benchmark return (B)	Excess return (C)=(A)-(B)	Historical tracking error (D)	Information ratio (C)/(D)
Amundi Japan	2.34%	1.81%	+0.53%	1.23%	0.43
MFS Investment Management	5.80%	1.92%	+3.88%	3.35%	1.16
Black Rock Japan	1.49%	1.39%	+0.10%	1.50%	0.07

Note 1: Funds are listed in order of the Japanese syllabary.

Note 2: In calculating time-weighted return and benchmark return, the effect of the trade suspended period for asset transfer is excluded.

Note 3: Excess returns and Information ratios are rounded off to the nearest hundredth.





**Government Pension Investment Fund, Japan  
Review of Operations in Fiscal 2012**

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