GPIF

ANNUAL REPORT
FISCAL YEAR 2016

Government Pension Investment Fund

Investment Principles

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

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

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

4. By fulfiling our stewardship responsibilities, we shall continue to maximize medium- to long-term equity investment returns for the benefit of pension recipients.

Code of Conduct

【1】Social responsibility

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

【2】Fiduciary duty

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

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

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

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

◆We shall strictly control confidential information that we come to access through our businesses, such as non-public information related to investment policies and investment activities, and never use such information privately or illegally.

◆We shall effectively use the GPIF's assets, both tangible and intangible (e.g., documents, proprietary information, system, and know-how), and protect and manage such assets properly.

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

◆We shall never use our occupations or positions for the interests of ourselves, relatives, or third parties.

◆We shall never seek undue profits at the expense of the GPIF.

【6】Fairness of business transactions

◆We shall respect fair business practices at home and abroad, and treat all counterparties impartially.

◆We shall never make transactions with anti-social forces or bodies.

【7】Improving information disclosure

◆We shall continue to improve our public information disclosure and public relations activities.

◆We shall ensure the accuracy and appropriateness of our financial statements and other public documents that are required to be disclosed by laws and ordinances.

◆We shall remain mindful that our outside activities, regardless of whether business or private (e.g., publications, speeches, interviews, or use of social media) affect the credibility of the GPIF, and act accordingly.

【8】Developing human resources and respect in the workplace

◆We are committed to the GPIF's mission by improving our professional skills and expertise, promoting communication and teamwork and nurturing a diversity of talents and capabilities.

◆We shall respect each person's personality, talents and capabilities, perspectives, well-being, and privacy to maintain a good work environment, and never allow discrimination or harassment.

【9】Self-surveillance of illegal or inappropriate activity

◆Whenever an illegal or inappropriate activity is (or is expected to be) perpetrated by Committee members, executives, staff, or other related personnel, such activity shall be immediately reported to the GPIF through various channels including our whistleblowing system.

◆When such a report is made, we shall conduct the necessary investigation and take corrective actions and preventive measures according to our internal rules.

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

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

In Fiscal Year 2016, the investment return turned positive thanks to robust equity prices in Japan and abroad.

In the first half of Fiscal Year 2016, the yen appreciated rapidly and equity prices dropped steeply across the world as the U.K. referendum on the European Union membership resulted in a decision to leave the EU contrary to prior market expectations. However, in the second half of the year, the yen fell back and Japanese and foreign equity prices staged a strong rally, as investors were encouraged by favorable economic environment and expectations for expansionary fiscal policy to be taken by the new U.S. administration following the presidential election in November. As a result of these developments, the annual rate of return came to +5.86%, bringing the cumulative amount of returns since Fiscal Year 2001, when the GPIF started managing pension reserve funds, to more than 50 trillion yen.Of course, the returns constantly fluctuate, so the GPIF is resolved to continue to comply with the Investment Principles and the Code of Conduct and fulfil its fiduciary duty so that it can set aside the necessary amount of reserve funds for the public pension system by managing assets from a long-term perspective without being distracted by short-term market fluctuations. In this annual report for Fiscal Year 2016, we expanded the scope of information and analysis again, as we did in the previous year, so that we can give a clearer picture of our activities.

In December 2016, a revision bill including the reorganization of the GPIF was enacted. Accordingly, the GPIF has been preparing to implement governance reform measures, such as the introduction of collegiate decision-making scheduled in October 2017, with the intention of establishing an organization that can be better trusted by the general public.

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

President 髙橋則広

Norihiro Takahashi

Government Pension Investment Fund, Japan

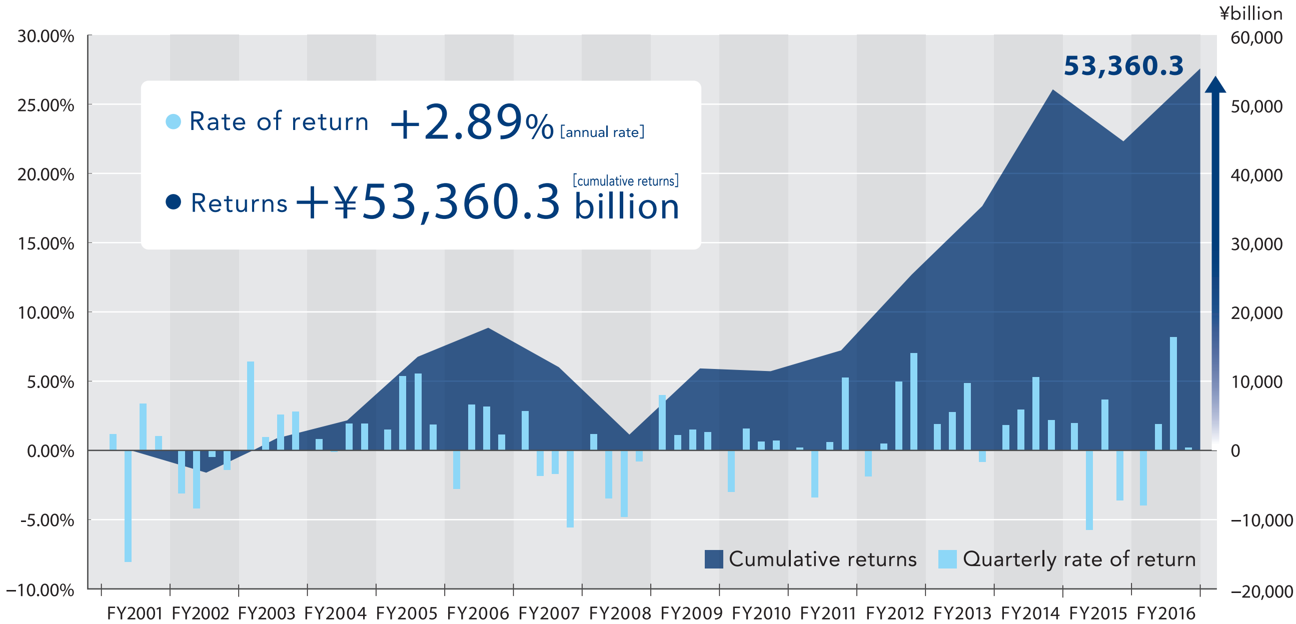
Overview of Fiscal Year 2016

Investment results

	Fiscal Year 2016	Since Fiscal Year 2001
Rate of return (Returns)	+5.86% [annual rate] (+¥7,936.3 billion [annual returns])	+2.89% [annual rate] (+¥53,360.3 billion [cumulative returns])
Asset size	¥144,903.4 billion [as of end of fiscal 2016]	

Since returns are marked to market as of the end of fiscal 2016, they include unrealized gains and losses, and they are exposed to short-term market movements.

Cumulative returns since Fiscal 2001

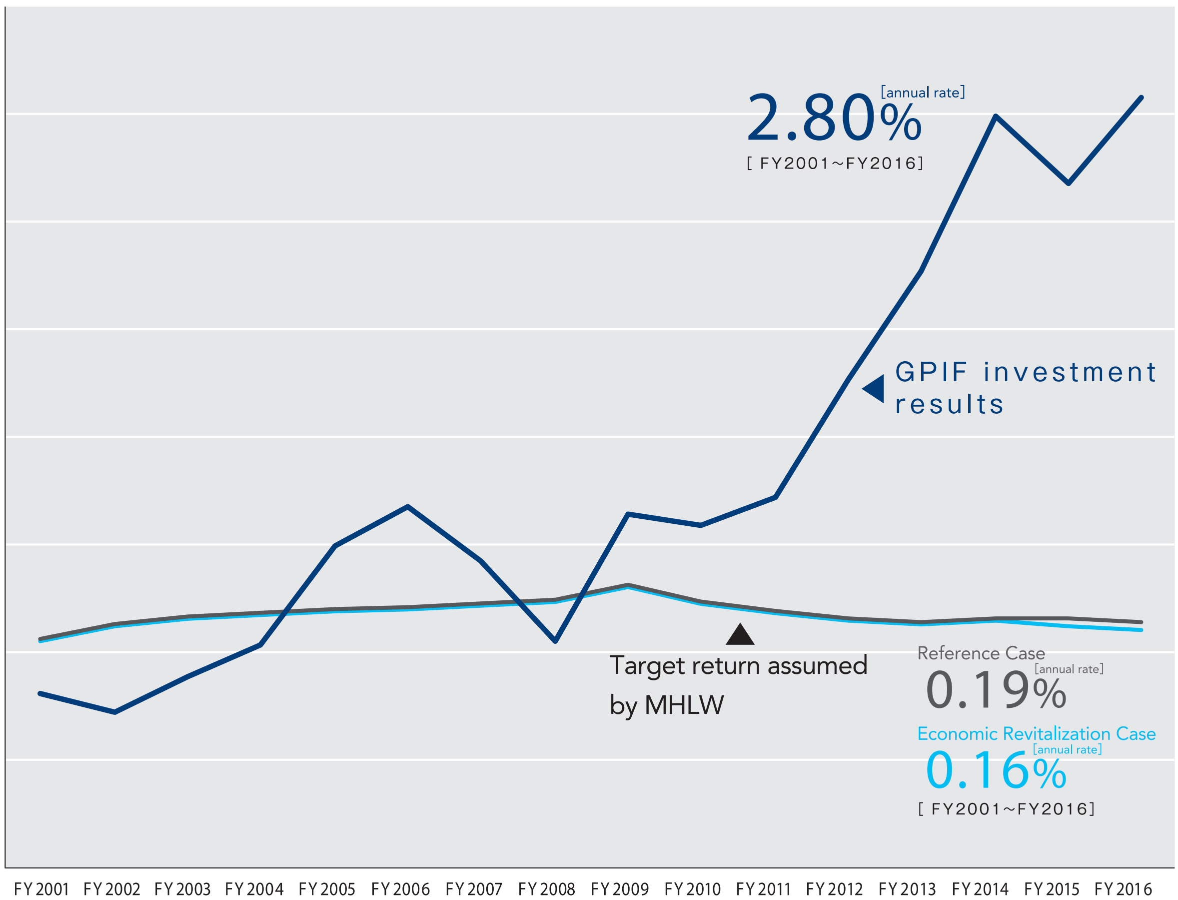


Contribution to the public pension system

Real return on investment (cumulative)	Target return assumed by the MHLW
2.80% [annual rate]	Reference Case 0.19% [annual rate]
	Economic Revitalization Case 0.16% [annual rate]

The GPIF's investment target is to secure a long-term real return on investment (return on investment minus rate of increase in nominal wages) of 1.7% with the minimal level of risk, under the Medium-term Objectives established by the Minister of Health, Labour and Welfare (MHLW).

Real return on investment (cumulative) since fiscal 2001



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

Summary of the major initiatives

1 Invitation for applications for the Asset Manager Registration System

With objectives such as enabling a flexible change of its external asset managers, the GPIF launched the Asset Manager Registration System, which had been deliberated and decided to be introduced in FY2016, and started inviting applications and taking other measures as follows. [For details, refer to page 24.]

- ○ Invitation for applications for outsourcing foreign equity investment (passive and active investment)
- ○ Invitation for applications for outsourcing domestic equity investment
- ○ Development of an organization and system in preparation for invitation for applications regarding investment in alternative assets

2 Soliciting proposals for ESG Indices comprised of Japanese equities

The GPIF solicited proposals for indices for passive investment in Japanese equities, aiming to achieve a risk reduction effect and outperformance of investment for a medium-to long-term by taking account of ESG (environmental, social and governance) issues in investment activity (ESG integration). [For details, refer to page 25.]

3 Promoting fulfilment of the stewardship responsibilities

The GPIF carried out stewardship activities including the following, in order to consider how it should fulfil the stewardship responsibilities as an institution responsible for pension fund management and to promote collaboration with Japanese and foreign institutional investors and organizations involved with the Principles for Responsible Investment (PRI).

[For details, refer to page 26 to 28.]

- ○ Establishment of the Stewardship & ESG Division
- ○ Holding the Business and Asset Owners' Forum and the Global Asset Owners' Forum
- ○ Conducting a questionnaire survey concerning stewardship activities by external asset managers
- ○ Joining the Board of the PRI Association
- ○ Joining the UK 30% Club and the US Thirty Percent Coalition

4 Disclosure of all items of securities owned by the GPIF

In order to ensure the transparency of its investment, the GPIF implemented gradual disclosure of all items of securities that it owns (the names of issuing entities in the case of bonds), while taking into account the opinions of related organizations and conducting an event study to confirm that the disclosure had no apparent impact on the market.

[For details, refer to page 28.]

5 Promoting research and study

With a view to enhancing academic research concerning pension fund investment, which is necessary for the stable and efficient investment of pension reserve funds, the GPIF established the finance awards and selected Mr. Tatsuyoshi Okimoto as the first winner.

[For details, refer to page 29.]

Chapter 1

Investment Result in Fiscal Year 2016

1 | Overall Assets

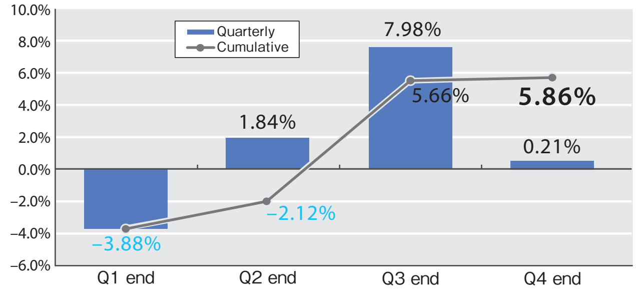
[1] Investment results

① Rate of investment return

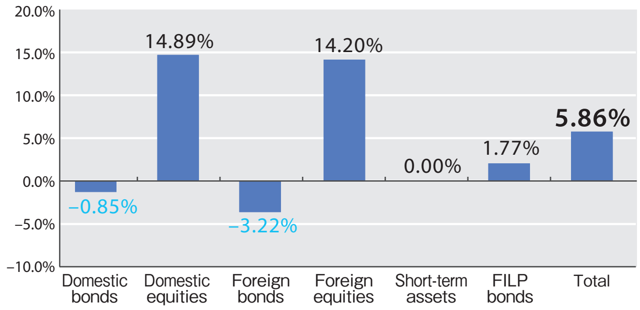
The result for Fiscal Year 2016 is

+5.86%

due to positive returns on domestic and foreign equities.



		1stQ	2ndQ	3rdQ	4thQ	Total
Total		-3.88%	1.84%	7.98%	0.21%	5.86%
Market Investments	Domestic bonds	1.91%	-1.34%	-1.07%	-0.32%	-0.85%
	Domestic equities	-7.38%	7.14%	15.18%	0.52%	14.89%
	Foreign bonds	-8.02%	-0.22%	8.82%	-3.09%	-3.22%
	Foreign equities	-7.76%	3.65%	16.46%	2.56%	14.20%
FILP bonds		0.44%	0.44%	0.45%	0.45%	1.77%



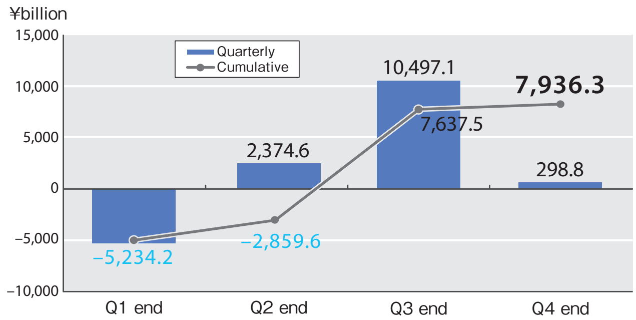
(Note 1) Fiscal 2016 is the year ended March 31, 2017.
(Note 2) The GPIF's portfolio consists of funds invested in the markets (hereinafter "market investment" which is marked to market) and FILP bonds (See Note 4), which are held to maturity and valued at amortized costs.
(Note 3) In this annual report, return figures are the average of returns of market investment and FILP bonds weighted with investment principal, and are gross of fees. The rate of return on each asset class other than FILP bonds is time-weighted.
(Note 4) The FILP bonds are government bonds issued to finance the Fiscal Investment and Loan Program (FILP).

② Amount of investment returns

The result for Fiscal Year 2016 is

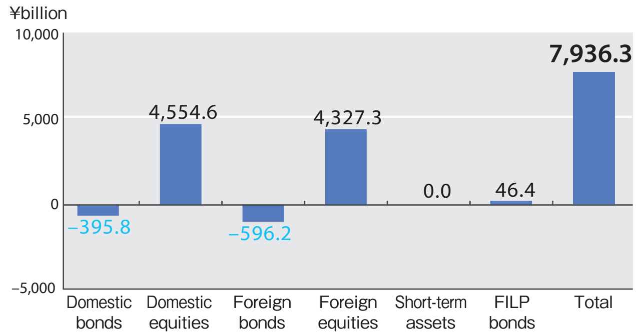
+¥7,936.3 billion

due to profits on domestic and foreign equities.



(Unit : ¥billion)

		1stQ	2ndQ	3rdQ	4thQ	Total
Total		-5,234.2	2,374.6	10,497.1	298.8	7,936.3
Market Investments	Domestic bonds	938.3	-667.1	-519.0	-148.1	-395.8
	Domestic equities	-2,257.4	2,023.4	4,608.3	180.4	4,554.6
	Foreign bonds	-1,519.3	-39.8	1,576.2	-613.3	-596.2
	Foreign equities	-2,410.7	1,045.5	4,821.1	871.3	4,327.3
	Short-term assets	0.0	0.0	0.0	0.0	0.0
FILP bonds		14.9	12.6	10.5	8.4	46.4



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

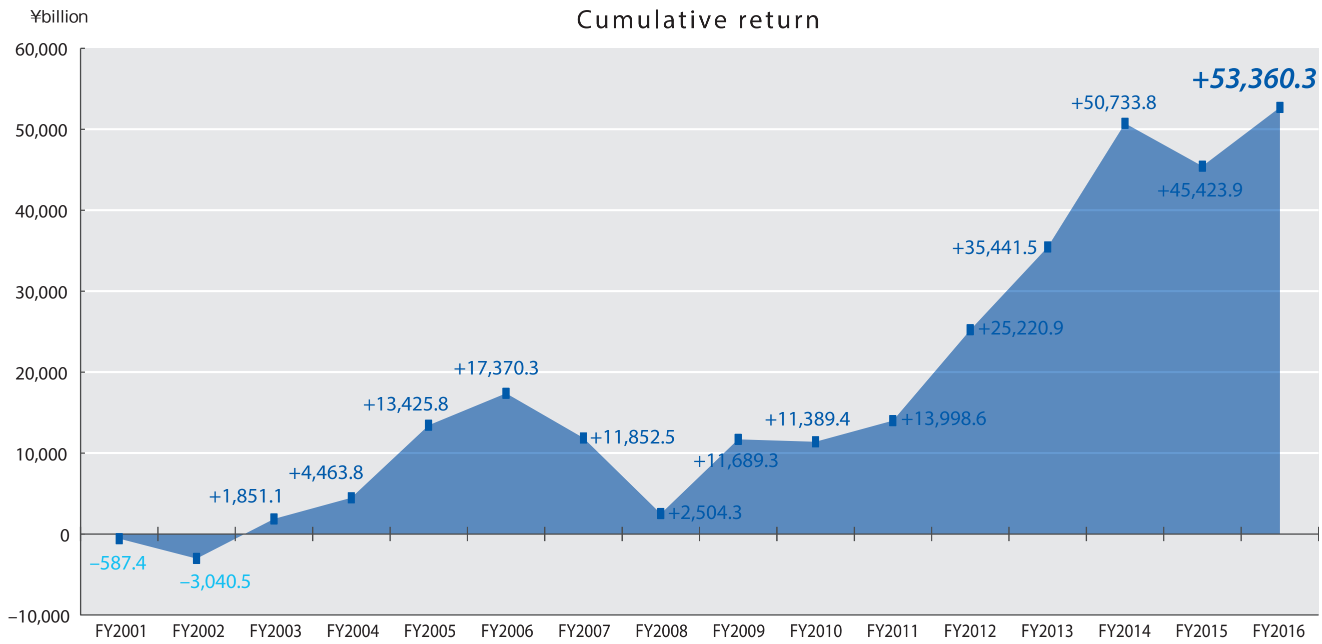
③ Cumulative returns and asset size since fiscal year 2001

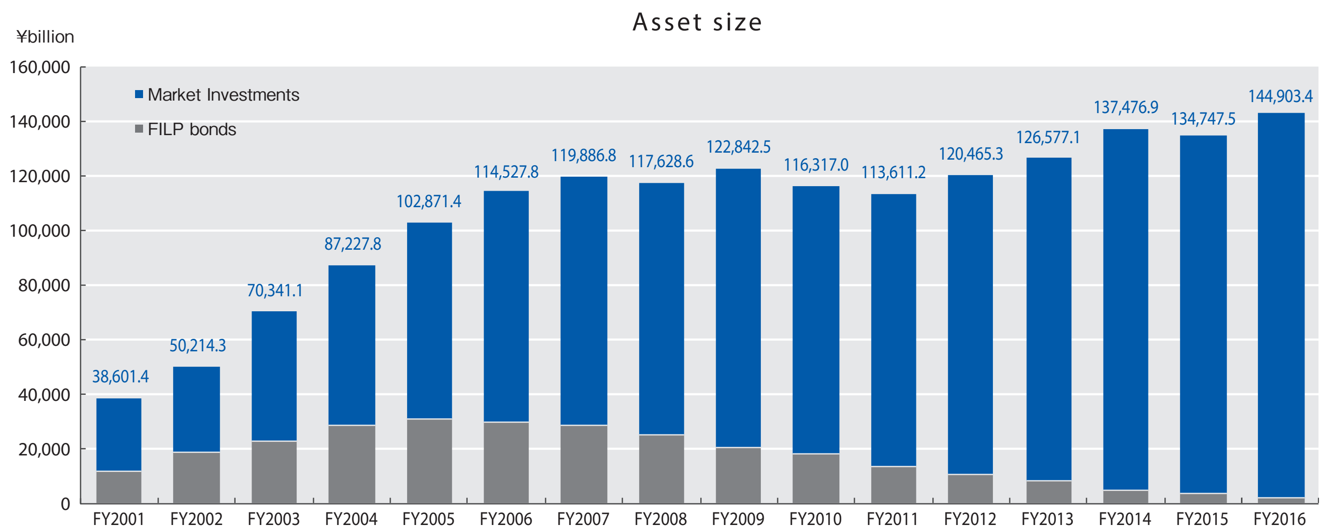
Cumulative returns from fiscal 2001 to fiscal 2016 are

+¥53,360.3 billion

and the value of investment assets at the end of fiscal 2016 is

¥144,903.4 billion





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

④ Income gain

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

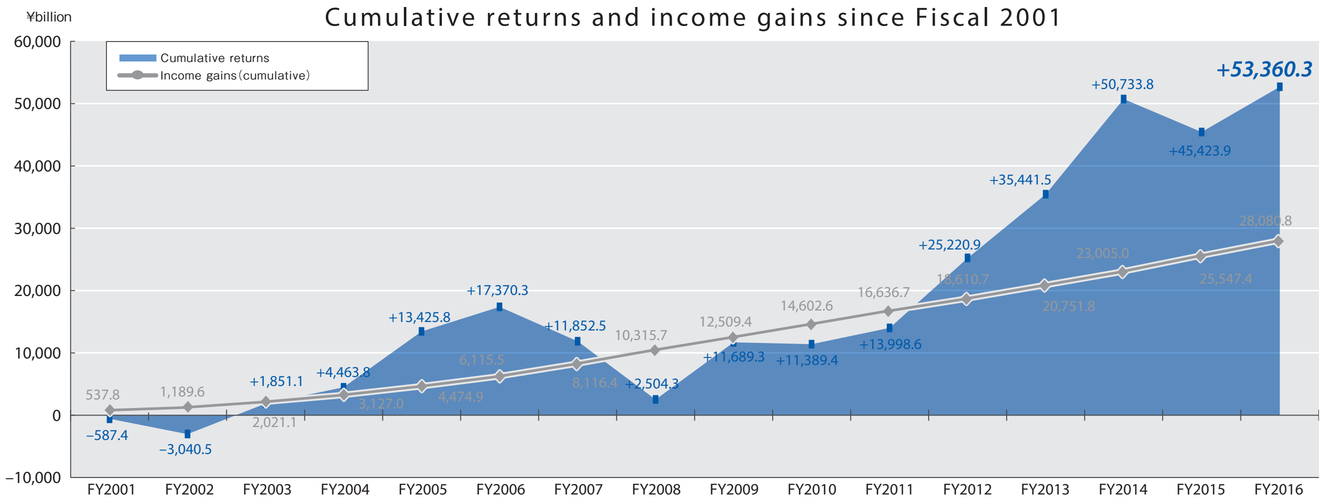
In Fiscal Year 2016, the total amount of income gains was

¥2,533.4 billion (rate of return: +1.75%),

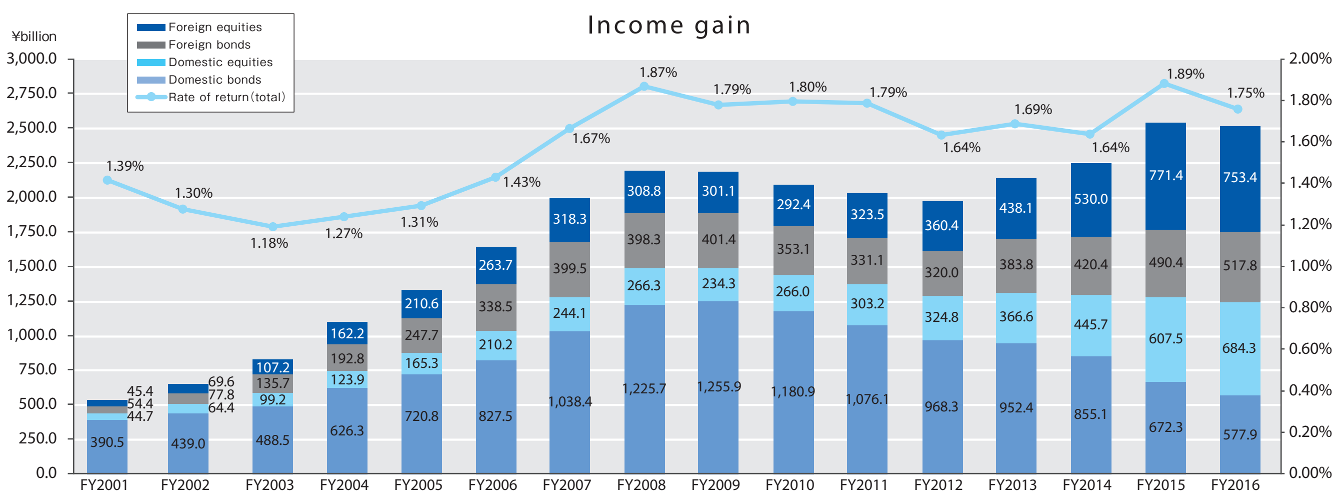
and the cumulative amount of income gains for the 16 years since Fiscal Year 2001, when the GPIF started managing pension reserve funds, was

¥28,080.8 billion (rate of return: +1.59%).

Cumulative returns and income gains since Fiscal 2001



Income gain



Rate of return, returns (Income gains)

(Unit : ¥billion)

	Cumulative	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Domestic bonds	13,295.6 (1.30%)	390.5 (1.49%)	439.0 (1.26%)	488.5 (1.03%)	626.3 (1.03%)	720.8 (1.10%)	827.5 (1.12%)	1,038.4 (1.21%)	1,225.7 (1.41%)	1,255.9 (1.51%)	1,180.9 (1.52%)	1,076.1 (1.50%)	968.3 (1.30%)	952.4 (1.36%)	855.1 (1.51%)	672.3 (1.27%)	577.9 (1.21%)
Domestic equities	4,450.6 (1.51%)	44.7 (0.65%)	64.4 (0.87%)	99.2 (0.83%)	123.9 (1.00%)	165.3 (0.87%)	210.2 (1.10%)	244.1 (1.77%)	266.3 (2.34%)	234.3 (1.59%)	266.0 (1.98%)	303.2 (2.14%)	324.8 (1.85%)	366.6 (1.76%)	445.7 (1.41%)	607.5 (1.99%)	684.3 (1.95%)
Foreign bonds	5,062.7 (3.31%)	54.4 (4.04%)	77.8 (3.06%)	135.7 (3.43%)	192.8 (3.33%)	247.7 (3.28%)	338.5 (3.73%)	399.5 (4.13%)	398.3 (3.98%)	401.4 (3.96%)	353.1 (3.75%)	331.1 (3.33%)	320.0 (2.71%)	383.8 (2.74%)	420.4 (2.31%)	490.4 (2.59%)	517.8 (2.63%)
Foreign equities	5,256.0 (2.18%)	45.4 (1.19%)	69.6 (1.56%)	107.2 (1.81%)	162.2 (1.99%)	210.6 (1.96%)	263.7 (2.09%)	318.3 (2.92%)	308.8 (3.40%)	301.1 (2.27%)	292.4 (2.23%)	323.5 (2.48%)	360.4 (2.42%)	438.1 (2.22%)	530.0 (1.76%)	771.4 (2.48%)	753.4 (2.16%)
Total	28,080.8 (1.59%)	537.8 (1.39%)	651.8 (1.30%)	831.4 (1.18%)	1,106.0 (1.27%)	1,347.9 (1.31%)	1,640.7 (1.43%)	2,000.8 (1.67%)	2,199.4 (1.87%)	2,193.7 (1.79%)	2,093.2 (1.80%)	2,034.1 (1.79%)	1,973.9 (1.64%)	2,141.1 (1.69%)	2,253.2 (1.64%)	2,542.4 (1.89%)	2,533.4 (1.75%)

(Note 1) Due to rounding, the total sum of the figures in individual fiscal years does not necessarily match the cumulative amount of income gains.
(Note 2) The figures for domestic bonds include income gains from FILP bonds (including convertible corporate bonds only in Fiscal Year 2001), while the total includes income gains from short-term assets.
(Note 3) The annual rate of return represents the geometric mean of the rates of return in individual fiscal years. (annualized)

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

The average real investment return* is **2.80%** for sixteen years since fiscal 2001 and is **3.12%** for eleven years since we were established as an independent administrative agency in 2006.

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

* The real investment return is 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

(%)

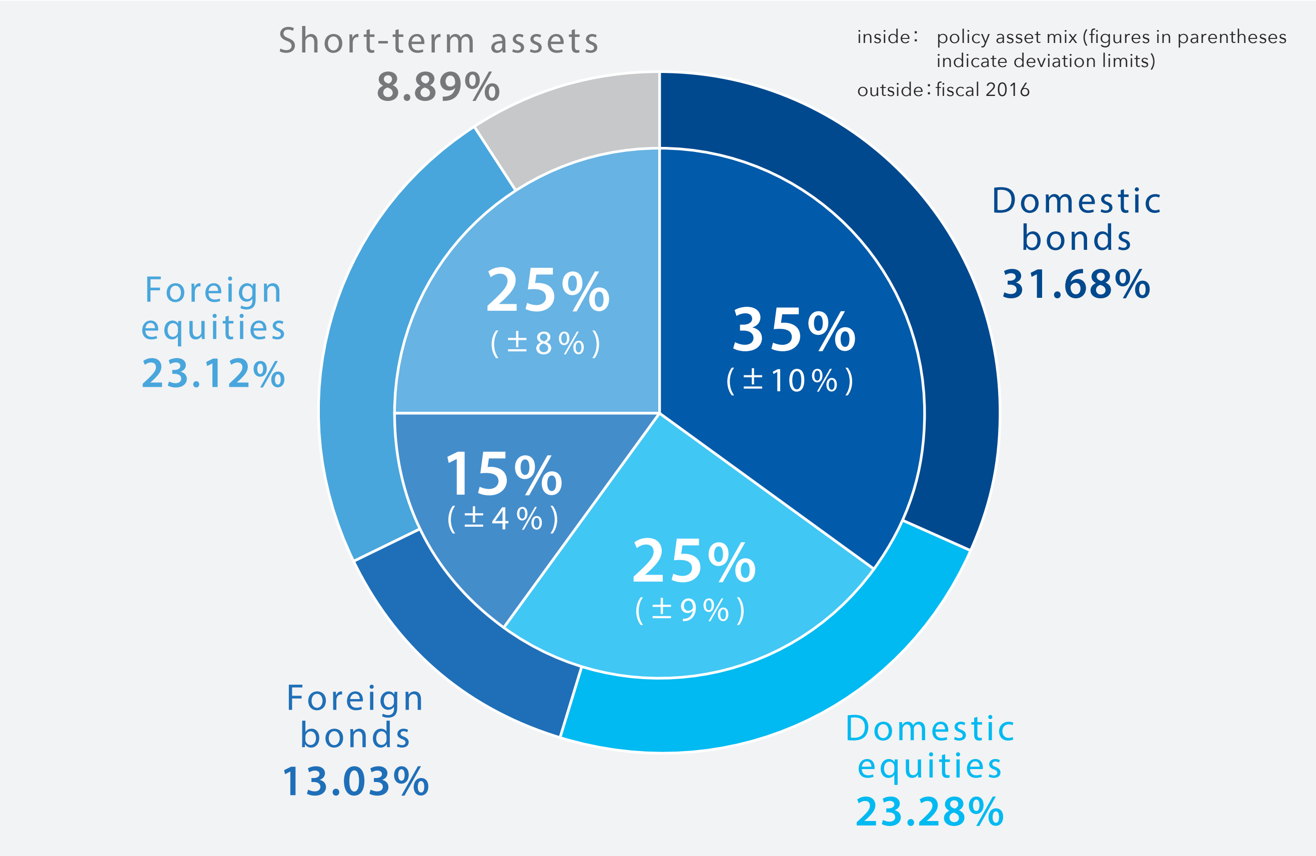
		FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	Last 11 years (annualized)	Last 16 years (annualized)
Performance	Nominal investment return (After deducting interest on debts, investment management fees, etc.)	-4.01	-6.69	7.61	2.91	9.57	3.52	-4.69	-7.61	7.88	-0.27	2.29	10.21	8.62	12.24	-3.84	5.82	2.91	2.53
	Nominal rate of increase in wages	-0.27	-1.15	-0.27	-0.20	-0.17	0.01	-0.07	-0.26	-4.06	0.68	-0.21	0.21	0.13	0.99	0.50	0.03	-0.19	-0.26
	Real investment return	-3.75	-5.61	7.90	3.11	9.76	3.51	-4.63	-7.37	12.44	-0.95	2.51	9.98	8.48	11.14	-4.31	5.79	3.12	2.80

Investment return target assumed in the MHLW's actuarial valuation

(%)

		FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	Last 11 years (annualized)	Last 16 years (annualized)
Yields used in actuarial valuation	Nominal investment return	4.00	4.00	0.80	0.90	1.60	2.30	2.60	3.00	1.47	1.78	1.92	2.03	2.23	1.34	1.88 1.61	2.17 1.88	2.06 2.01	2.12 2.09
	Nominal rate of increase in wages	2.50	2.50	0.00	0.60	1.30	2.00	2.30	2.70	0.05	3.41	2.66	2.81	2.60	1.00	2.47 1.63	2.52 2.27	2.23 2.13	1.96 1.89
	Real investment return	1.46	1.46	0.80	0.30	0.30	0.29	0.29	0.29	1.42	-1.58	-0.72	-0.76	-0.36	0.34	-0.59 -0.02	-0.35 -0.39	-0.16 -0.11	0.16 0.19

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



		Market value (¥billion)	Allocation of reserve fund (A)	Policy asset mix (B)	Deviation (A−B)
Domestic bonds		47,870.7	31.68%	35% (±10%)	−3.32%
Market investments		46,223.6	30.59%	—	—
FILP bonds	(Book value)	1,647.2	1.09%	—	—
	(Market value)	(1,748.5)	—	—	—
Domestic equities		35,178.4	23.28%	25% (±9%)	−1.72%
Foreign bonds		19,681.7	13.03%	15% (±4%)	−1.97%
Foreign equities		34,926.2	23.12%	25% (±8%)	−1.88%
Short-term assets		13,436.5	8.89%	—	—
Total		151,093.5	100.00%	100%	—

(Note 1) The figures above are rounded, so the sums do not necessarily match the total number.
(Note 2) The amounts in the Market value column take account of accrued income and accrued expenses.
(Note 3) Book values of FILP bonds are book values by the amortized cost method plus accrued income.
(Note 4) While Reserve Funds as a whole include reserves managed under a special account as of the end of fiscal 2016, this amount is prior to adjustment for revenues and expenditures and differs from the amount in final settlement of accounts.
(Note 5) Policy Asset Mix: Domestic bonds 35% (±10%), Domestic equities 25% (±9%), Foreign bonds 15% (±4%), Foreign equities 25% (±8%). The percentage of alternative investments is 0.07% (within a maximum of 5% of total portfolio).
(Note 6) The notes above apply to the following pages as well.

The allocation changes of each asset class as a result of rebalancing, during fiscal 2016

(Unit : ¥billion)

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Allocated/withdrawn	−4,580.9	+45.0	+1,339.2	−471.3

(Note 1) Each number shows the net rebalancing amount.
(Note 2) Redemptions and coupon revenue of the Special Fund for cash outflow were ¥3,374.1 billion. Redemptions and coupon revenue of the Special Fund for FILP bonds were ¥1,841.5 billion.

⑦ Factor analysis of difference from compound benchmark return

The rate of return on all investment assets came to **5.86%** against a compound benchmark return of **6.22%**, representing an excess rate of return of **−0.37%**.

Taking the average for the 11 years since the GPIF's establishment in FY2006, the total rate of return on all investment assets was **2.91%**, the compound benchmark rate of return was **2.87%**, and the excess return rate was **+0.04%**, respectively.

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

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

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

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

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

In FY2016, the rate of return attributable to asset allocation factors was -0.66%. Domestic and foreign equities, which delivered higher returns than the compound benchmark return, were underweighted on average compared with the policy asset mix. The rate of return attributable to individual asset factors was +0.33%. Foreign bonds made significant positive contributions by delivering a return of +0.36%.

Factor analysis of the difference from the compound benchmark return in Fiscal Year 2016

	Rate of return			Factor analysis of excess rate of return			
	Return of GPIF	Benchmark return on each asset	Excess rate of return	Asset allocation factor (1)	Individual asset factor (2)	Other factors (including error) (3)	(1)+(2)+(3)
Total	5.86%	6.22%	−0.37%	−0.66%	+0.33%	−0.04%	−0.37%
Domestic bonds	−0.74%	−0.79%	+0.05%	−0.15%	+0.02%	+0.00%	−0.13%
Domestic equities	14.89%	14.69%	+0.20%	−0.20%	+0.05%	−0.00%	−0.16%
Foreign bonds	−3.22%	−5.41%	+2.19%	+0.16%	+0.36%	−0.04%	+0.49%
Foreign equities	14.20%	14.61%	−0.41%	−0.21%	−0.10%	+0.01%	−0.30%
Short-term assets	0.00%	0.00%	0.00%	−0.25%	0.00%	0.00%	−0.25%

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

Factor analysis of the difference from the compound benchmark return on overall assets (from Fiscal Year 2006 to 2016)

	Rate of return			Factor analysis of excess rate of return			
	Return of GPIF	Benchmark return on each asset	Excess rate of return	Asset allocation factor (1)	Individual asset factor (2)	Other factors (including error) (3)	(1)+(2)+(3)
FY2006～FY2016	2.91%	2.87%	+0.04%	+0.04%	+0.01%	−0.01%	+0.04%
FY2006	4.56%	4.64%	−0.08%	−0.06%	−0.00%	−0.02%	−0.08%
FY2007	−6.10%	−6.23%	+0.13%	+0.17%	−0.02%	−0.02%	+0.13%
FY2008	−7.57%	−8.45%	+0.88%	+0.90%	−0.12%	+0.11%	+0.88%
FY2009	7.91%	8.54%	−0.63%	−0.70%	+0.08%	−0.01%	−0.63%
FY2010	−0.25%	−0.02%	−0.23%	−0.26%	+0.12%	−0.09%	−0.23%
FY2011	2.32%	2.59%	−0.27%	−0.19%	−0.01%	−0.07%	−0.27%
FY2012	10.23%	9.00%	+1.24%	+1.40%	+0.03%	−0.19%	+1.24%
FY2013	8.64%	7.74%	+0.90%	+0.92%	−0.06%	+0.04%	+0.90%
FY2014 from Apr.1 to Oct.30	3.97%	3.50%	+0.46%	+0.47%	−0.03%	+0.02%	+0.46%
FY2014 from Oct.31 to Mar.31,2015	8.19%	9.98%	−1.78%	−1.99%	+0.01%	+0.19%	−1.78%
FY2015	−3.81%	−3.81%	+0.00%	+0.21%	−0.15%	−0.06%	+0.00%
FY2016	5.86%	6.22%	−0.37%	−0.66%	+0.33%	−0.04%	−0.37%

(Note 1) Representing the geometric mean of the rates of return in individual fiscal years (an annualized rate)

(Note 2) For the period from Fiscal Year 2006 to 2007, analysis of the difference between the rate of return on market investments (time-weighted rate of return) and the compound benchmark return was conducted. For the period from Fiscal 2008 onwards, analysis of the difference between the rate of return on overall invested assets (modified total return) and the compound benchmark return was conducted.

(Note 3) For the period from Fiscal Year 2006 to 2007, the rate of return for the GPIF (overall assets) represents the geometric mean of the rates of return on market investments in individual fiscal years, and for the period from Fiscal Year 2008 onwards, it represents the geometric mean of the modified total returns in individual years.

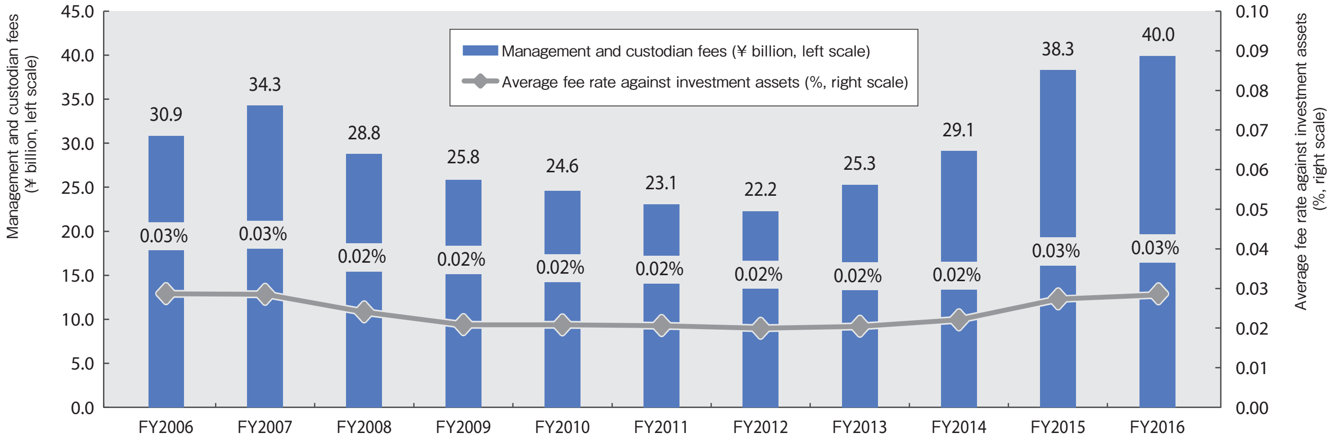
(Note 4) The figures for the period from Fiscal Year 2008 onwards also reflect the rate of return on FILP bonds.

⑧ Fees and expenses

In fiscal 2016, total fees rose by ¥1.7 billion from the previous year to **¥40.0 billion**

The average rate of the total fees against the investment balance for fiscal 2016 was **0.03%**

Management and custodian fees



Fees by asset class

(Unit : ¥billion)

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

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

Average rate of fees against externally managed assets

(%)

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

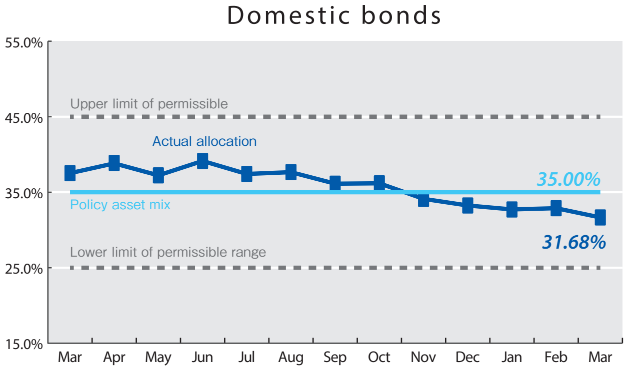
(Note 1) For FILP funds subject to private investment, monthly average balances of book values through the amortized cost method are used.
(Note 2) Management and custodian fees are rounded off to the nearest ¥100 million.

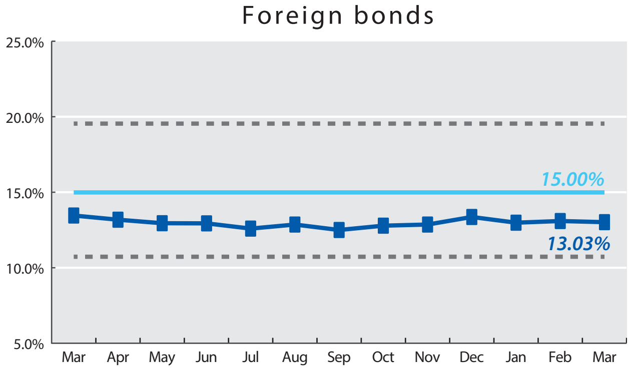
[2] Risk management

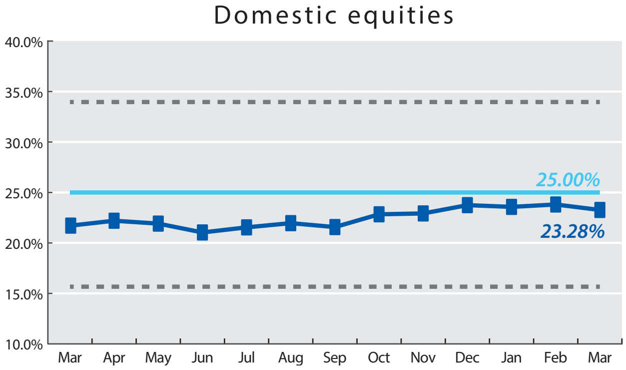
① Asset Allocation and Tracking Errors

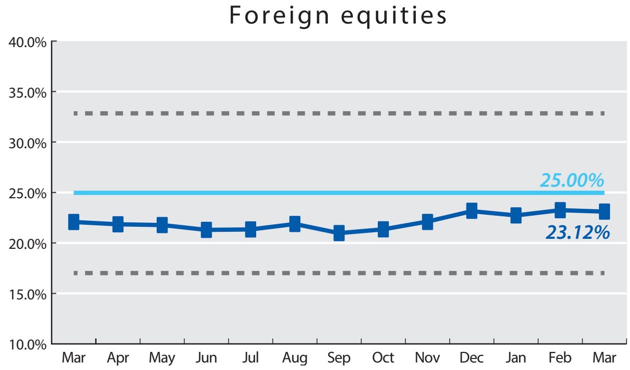
Changes in asset allocation during fiscal 2016 stayed within the permissible range throughout the fiscal year.
The estimated tracking error of the entire Reserve Funds was stable throughout the fiscal year, with no major changes.

Asset Allocation



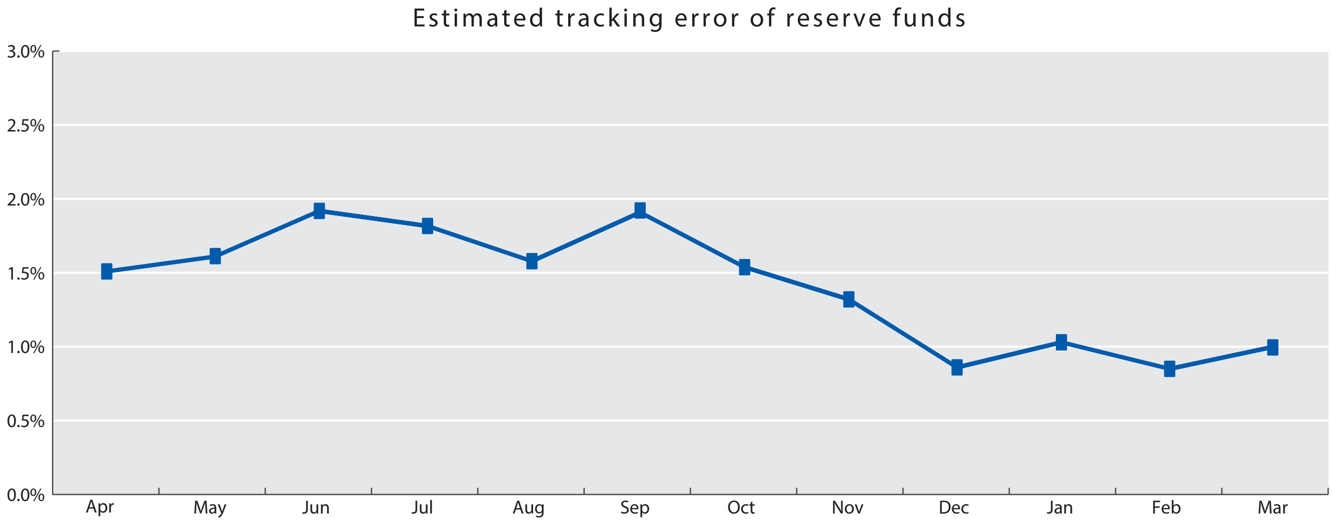






(Note 1) Asset allocation is calculated including reserves managed in the Pension Special Account.
(Note 2) The permissible range of deviation is ± 10% for domestic bonds, ± 9% for domestic equities, ± 4% for foreign bonds, and ± 8% for foreign equities.

Estimated Tracking Error



2 | Investment in Bonds

[1] Domestic bonds

① Excess rate of return

Concerning domestic bond investment (market investment), the excess rate of return over the benchmark was +0.05% (+0.18% for active investment and +0.02% for passive investment). In active investment, the return outperformed the benchmark due to the positive contributions of security selection in the government bond sector and the portfolio's overweight in corporate bonds compared with the benchmark. In passive investment, the return was comparable with the benchmark. For overall domestic bond investment as well, the rate of return was in line with the benchmark.

② Contribution analysis of excess rate of return

The breakdown of the excess rate of return (+0.05%) on domestic bond investment (market investment) by factor is as follows: fund factors (Note 1): +0.05%; benchmark factors (Note 2): -0.01%; other factors (Note 3): +0.01%.

Time-weighted rate of return (1)	Benchmark (2)	Excess rate of return (1) − (2)	Fund factors	Benchmark factors	Other factors
−0.85%	−0.90%	+0.05%	+0.05%	−0.01%	+0.01%

The excess rate of return turned positive mainly because of a fund factor—a higher rate of return on active investment than the managers' benchmark.

Factor analysis by investment styles

	Nomura-BPI (excluding ABS) (passive)	Nomura-BPI government bonds (passive)	Nomura-BPI/ GPIF Customized (passive)	Nomura-BPI (excluding ABS) (active)	Inflation-linked bonds (active)	Total
Fund factors	+0.00%	+0.01%	+0.01%	+0.03%	−0.00%	+0.05%
Benchmark factors	−0.03%	−0.13%	+0.17%	−0.04%	+0.02%	−0.01%

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

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

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

[2] Foreign bonds

① Excess rate of return

The excess rate of return over the benchmark was +2.19% (+5.91% for active investment and +0.05% for passive investment). In active investment, the return outperformed the benchmark because of the positive contributions of security selection in USD and EUR bond investment and the portfolio's underweight in EUR bonds relative to the benchmark. In passive investment, the return was in line with the benchmark.

② Contribution analysis of excess rate of return

The breakdown of the excess rate of return (+2.19%) on foreign bond investment by factor is as follows: fund factors (Note 1) : +1.07%; benchmark factors (Note 2) : +1.06%; other factors (Note 3) : +0.06%

Time-weighted rate of return (1)	Benchmark (2)	Excess rate of return (1) - (2)	Fund factors	Benchmark factors	Other factors
-3.22%	-5.41%	+2.19%	+1.07%	+1.06%	+0.06%

The positive excess rate of return reflected the contributions of the outperformance of global aggregate investment relative to the managers' benchmark (a fund factor) and the higher level of the managers' benchmark for global aggregate investment than the benchmark for foreign bonds (a benchmark factor).

Factor analysis by investment styles

	WGBI (passive)	U.S government 1-3years (passive)	Global aggregate (active)	U.S aggregate (active)	Europe aggregate (active)	Inflation-linked (active)	U.S. high-yield (active)	Europe high-yield (active)	Emerging (active)	Infrastructure (active)	Total
Fund factors	+0.03%	+0.00%	+0.92%	+0.13%	+0.01%	-0.00%	-0.02%	+0.00%	+0.01%	-0.01%	+1.07%
Benchmark factors	0.00%	-0.00%	+0.69%	+0.15%	-0.01%	+0.02%	+0.19%	+0.01%	+0.02%	0.00%	+1.06%

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

3 | Investment in Equities

[1] Domestic equities

① Excess rate of return

The excess rate of return over the benchmark was +0.20% (+2.61% for active investment and -0.04% for passive investment). In active investment, the return outperformed the benchmark due to positive contributions from the portfolio's underweight in the land transportation sector and the overweight in the machinery sector relative to the benchmark as well as security selection in the pharmaceutical sector. In passive investment, the return was in line with the benchmark.

② Contribution analysis of Excess rate of return

The breakdown of the excess rate of return (+0.20%) on overall domestic equity investment by factor is as follows: fund factors (Note 1) : +0.17%; benchmark factors (Note 2) : +0.05%; other factors (Note 3) : -0.02%.

Time-weighted rate of return (1)	Benchmark (2)	Excess rate of return (1) – (2)	Fund factors	Benchmark factors	Other factors
14.89%	14.69%	+0.20%	+0.17%	+0.05%	-0.02%

The return outperformed the benchmark mainly because the TOPIX (active) delivered a higher return than the managers' benchmark (a fund factor).

Factor analysis by investment styles

	TOPIX (passive)	JPX Nikkei 400 (passive)	MSCI Japan Standard (passive)	RUSSELL/NOMURA Prime (passive)	Nomura RAFI (passive)	S&P GIVI Japan (passive)
Fund factor	+0.03%	-0.00%	+0.00%	+0.00%	+0.00%	-0.02%
Benchmark factors	0.00%	-0.07%	-0.03%	-0.00%	+0.12%	-0.07%

	TOPIX (active)	RUSSELL/NOMURA Large Cap Value (active)	RUSSELL/NOMURA Small Cap (active)	MSCI Japan Small (active)	Total
Fund factor	+0.12%	+0.00%	+0.01%	+0.02%	+0.17%
Benchmark factors	0.00%	+0.09%	+0.01%	+0.01%	+0.05%

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

[2] Foreign equities

① Excess rate of return

The excess rate of return over the benchmark was -0.41% (-2.49% for active investment and -0.01% for passive investment). In active investment, the return underperformed the benchmark because of the negative contributions of the portfolio's underweight in the banking sector relative to the benchmark and security selection in the pharmaceutical, biotechnology, and life sciences sectors in developed-country markets. The negative contributions more than offset the positive contributions of security selection in the food, drink and tobacco sector and the software and services sector in emerging-country markets. In passive investment, the return was in line with the benchmark.

② Contribution analysis of Excess rate of return

The breakdown of the excess rate of return (-0.41%) on foreign equity investment by factor is as follows: fund factors (Note 1) : -0.39%; benchmark factors (Note 2) : +0.00%; other factors (Note 3) : -0.03%.

Time-weighted rate of return (1)	Benchmark (2)	Excess rate of return (1) – (2)	Fund factors	Benchmark factors	Other factors
14.20%	14.61%	-0.41%	-0.39%	+0.00%	-0.03%

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

Factor analysis by investment styles

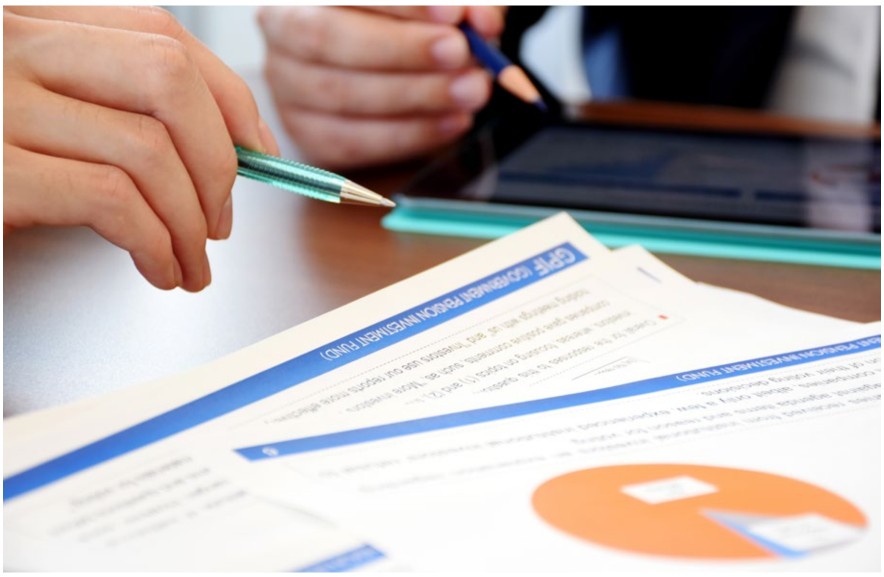
	ACWI (passive)	Developed (passive) (note4)	Developed (active)	Emerging (active)	Private Equity (active)	Total
Fund factors	-0.01%	-0.03%	-0.37%	+0.03%	-0.00%	-0.39%
Benchmark factors	+0.02%	+0.00%	-0.03%	+0.01%	+0.00%	+0.00%

(Note 1) Fund factors refer to factors resulting from differences in rates of return between individual funds and managers' benchmarks. They are calculated taking into consideration the market total average balance of each fund.

(Note 2) Benchmark factors refer to factors resulting from differences in rates of return between managers' benchmarks and the benchmark (a compound index consisting of MSCI KOKUSAI [JPY basis, incl. dividends, after taking into account our dividend tax factors], MSCI EMERGING MARKETS [JPY basis, incl. dividends, after deducting taxes], MSCI ACWI [not incl. JPY, JPY basis, incl. dividends, after taking into account our dividend tax factors]). They are calculated taking into consideration the market total average balance of each fund.

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

(Note 4) Investment in developed countries (passive investment) is interim management investment (investment made for the purpose of maintaining exposure until the allocation of funds in cases such as when the allocation destination is not yet determined in transition management or when the investment timing needs to be considered).



[3] Fulfiling stewardship responsibilities and exercise of voting rights

① Fulfiling stewardship responsibilities

A. Significance of implementation of stewardship activities by the GPIF

For the GPIF, which is a universal owner (an investor with a very large fund size and a widely diversified portfolio) and a super-long-term investor (responsible for supporting pension finance with an investment horizon of as long as 100 years), it is essential to minimize negative externalities (e.g. environmental and social issues) and to contribute to the sustainable growth of the overall capital market. As the GPIF makes equity investments and exercises voting rights via external asset managers, it fulfils stewardship responsibilities by promoting constructive dialogue (engagement) between external asset managers and investee companies. Such dialogue will ultimately boost the investment returns by contributing to the growth of the overall Japanese economy through an increase in Japanese companies' corporate value over the medium-to long-term, thereby building a win-win relationship in the investment chain.

B. Examples of stewardship activities by the GPIF

The major activities for fulfiling stewardship responsibilities in FY2016 are as follows:

(i) Conducted a questionnaire survey with companies which are components of the JPX Nikkei 400 index.
(ii) Held the "Business and Asset Owners' Forum."
(iii) Held the "Global Asset Owners' Forum."
(iv) Published a list of excellent corporate governance reports and integrated reports selected by external asset managers employed by the GPIF.
(v) Revised the criteria for evaluating external asset managers (e.g. increasing the weight of activities related to the stewardship responsibilities conducted by external asset managers entrusted with passive investment in domestic equities).
(vi) Strengthened collaboration with organizations involved with the PRI Association and other relevant organizations in Japan and abroad.
(vii) Joined the UK 30% Club and the US Thirty Percent Coalition.
(viii) Solicited proposals for ESG indices comprised of Japanese equities.

C. Stewardship activities by external asset managers

The GPIF required all external asset managers entrusted with domestic equity investment to report on their stewardship activities. As a result, the GPIF found that they are proactively engaging with investee companies–for example, they are continuously engaging in dialogue and enhancing the substance of communication and identified challenges related to their stewardship activities.

(i) External asset managers have established or strengthened divisions or committees dedicated to overseeing stewardship activities. This indicates their readiness to systematically conduct stewardship activities on a routine basis instead of merely exercising voting rights at annual shareholders' meetings.
(ii) Although all external asset managers are conducting engagement activities, the definition and substance of the activities vary across asset managers depending on the organizational structure and investment style. Some asset managers cited interviews with outside directors as a new initiative.
(iii) Although all external asset managers entrusted with domestic equity investment professed to be addressing ESG (environmental, social and governance) issues, few are actually doing so as part of their engagement activities. On the whole, asset managers give consideration to ESG issues only in relation to governance or the exercise of voting rights. Therefore, their efforts to address ESG issues, particularly environmental and social ones, are not sufficient.
(iv) In some cases, external asset managers appeared to be mechanically following the pro-forma standards or recommendations from proxy advisors when exercising voting rights.

D. Calling for external asset managers to address challenges

We have already expressed strong expectations for external asset managers to address the following four challenges: (i) contributing to the enhancement of investee companies' corporate value and their sustainable growth over the medium-to long-term through engagement activities making full use of corporate governance reports and integrated reports; (ii) enhancing the effectiveness of systems of governance and prevention of conflicts of interest; (iii) exercising voting rights in ways that contribute to investee companies' sustainable growth; and (iv) giving consideration to ESG issues (ESG integration) when making investment.

In addition, we would like external asset managers to tackle the following two new challenges:

- ○ Proposing a new business model for passive investment that matches asset owners' needs in this era of stewardship accountability.
- ○ Considering an appropriate remuneration system for executives and employees [at asset management institutions] (making sure to avoid providing an incentive that could foster short-termism).

E. GPIF's new stewardship initiatives

(i) The GPIF will shift from the existing unilateral monitoring approach—checking external asset managers' stewardship activities once a year—to the engagement approach—focusing on two-way communication so as to foster understanding on its attitude to the stewardship responsibilities.

(ii) The GPIF will consider developing a method of evaluating passive investment and a fee system that are suited to a new business model for passive investment in this era of stewardship accountability.

(iii) The GPIF will improve the method of evaluating engagement activities and ESG integration.

(iv) The GPIF will check the state of governance at external asset managers, including the exercise of voting rights, the independence of the board of directors and outside directors intended to ensure the effectiveness of prevention of conflicts of interest, and the role of third-party committees.

(v) The GPIF will hold interviews with external asset managers entrusted with foreign equity investment as well with respect to their stewardship and ESG activities outside Japan.

② Exercise of voting rights

A. Concept of exercise of voting rights

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

In this regard, the GPIF in its Medium-term Plan states, "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.

B. Exercise of voting rights in the fiscal 2016

In fiscal 2016, we held meetings based on the reports on the votes cast from April to June 2016 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." As a result, we confirmed that the voting rights were appropriately exercised.

(a) Situation of external asset managers of domestic equities (April 2016 to March 2017)

Number of external asset managers who exercised voting rights 28 funds
Number of external asset managers who did not exercise voting rights none

(Unit : No. of proposals, percentage)

Proposal		Proposal pertaining to company organization					Proposals pertaining to director remuneration, etc.				Proposals pertaining to capital management (excluding items pertaining to amendment of the articles of incorporation)			Proposals pertaining to amendment of the articles of incorporation	Poison Pills (Rights plan)		Other proposals	Total
		Appointment of directors	External directors	Appointment of auditors	External auditors	Appointment of accounting auditors	Director remuneration	Director bonuses	Director retirement benefits	Granting of stock options	Dividends	Acquisition of treasury stock	Mergers, acquisition, etc.		Warning type	Trust-type		
Number of voting rights exercised		145,639	38,195	23,482	15,467	365	6,106	1,871	1,655	1,438	12,748	64	1,446	7,037	1,241	8	235	203,335
Management proposals	Total	145,527	38,190	23,473	15,467	365	6,106	1,871	1,655	1,438	12,675	33	1,446	5,822	1,241	8	226	201,886
		(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%)	(100.0%)	(100.0%)
	Approved	135,419	34,195	20,234	12,361	364	5,938	1,815	767	1,176	12,240	33	1,421	5,644	536	2	187	185,776
		(93.1%)	(89.5%)	(86.2%)	(79.9%)	(99.7%)	(97.2%)	(97.0%)	(46.3%)	(81.8%)	(96.6%)	(100.0%)	(98.3%)	(96.9%)	(43.2%)	(25.0%)	(82.7%)	(92.0%)
	Opposed	10,108	3,995	3,239	3,106	1	168	56	888	262	435	0	25	178	705	6	39	16,110
		(6.9%)	(10.5%)	(13.8%)	(20.1%)	(0.3%)	(2.8%)	(3.0%)	(53.7%)	(18.2%)	(3.4%)	(0.0%)	(1.7%)	(3.1%)	(56.8%)	(75.0%)	(17.3%)	(8.0%)
Shareholder proposals	Total	112	5	9	0	0	0	0	0	0	73	31	0	1,215	0	0	9	1,449
		(100.0%)	(100.0%)	(100.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(0.0%)	(0.0%)	(100.0%)	(100.0%)
	Approved	0	0	0	0	0	0	0	0	0	15	6	0	59	0	0	0	80
		(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(20.5%)	(19.4%)	(0.0%)	(4.9%)	(0.0%)	(0.0%)	(0.0%)	(5.5%)
	Opposed	112	5	9	0	0	0	0	0	0	58	25	0	1,156	0	0	9	1,369
		(100.0%)	(100.0%)	(100.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(79.5%)	(80.6%)	(0.0%)	(95.1%)	(0.0%)	(0.0%)	(100.0%)	(94.5%)

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

(b) Situation of external asset managers of foreign equities (April 2016 to March 2017)

Number of external asset managers who exercised proxies 22 funds
Number of external asset managers who did not exercise proxies none

(Unit : No. of proposals, percentage)

Proposal		Proposal pertaining to company organization			Proposals pertaining to director remuneration, etc.				Proposals pertaining to capital management (excluding items pertaining to amendment of the articles of incorporation)			Proposals pertaining to amendment of the articles of incorporation	Poison Pills for pre-warming type	Other proposals		Total
		Appointment of directors	Appointment of auditors	Appointment of accounting auditors	Director remuneration	Director bonuses	Director retirement benefits	Granting of stock options	Dividends	Acquisition of treasury stock	Mergers, acquisition, etc.			Approval of financial statement, etc.	Other proposals	
Number of voting rights exercised		93,910	3,295	12,024	19,782	454	359	4,500	8,830	4,794	13,181	7,016	391	11,988	39,399	219,923
Management proposals	Total	92,792	2,934	11,966	19,374	454	351	4,394	8,802	4,789	12,969	6,628	372	11,988	33,960	211,773
		(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	86,611	2,568	11,798	17,405	404	280	3,401	8,760	4,390	11,130	5,961	239	11,818	30,311	195,076
		(93.3%)	(87.5%)	(98.6%)	(89.8%)	(89.0%)	(79.8%)	(77.4%)	(99.5%)	(91.7%)	(85.8%)	(89.9%)	(64.2%)	(98.6%)	(89.3%)	(92.1%)
	Opposed	6,181	366	168	1,969	50	71	993	42	399	1,839	667	133	170	3,649	16,697
		(6.7%)	(12.5%)	(1.4%)	(10.2%)	(11.0%)	(20.2%)	(22.6%)	(0.5%)	(8.3%)	(14.2%)	(10.1%)	(35.8%)	(1.4%)	(10.7%)	(7.9%)
Shareholder proposals	Total	1,118	361	58	408	0	8	106	28	5	212	388	19	0	5,439	8,150
		(100.0%)	(100.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(0.0%)	(100.0%)	(100.0%)
	Approved	522	181	31	87	0	2	26	0	0	200	207	19	0	2,052	3,327
		(46.7%)	(50.1%)	(53.4%)	(21.3%)	(0.0%)	(25.0%)	(24.5%)	(0.0%)	(0.0%)	(94.3%)	(53.4%)	(100.0%)	(0.0%)	(37.7%)	(40.8%)
	Opposed	596	180	27	321	0	6	80	28	5	12	181	0	0	3,387	4,823
		(53.3%)	(49.9%)	(46.6%)	(78.7%)	(0.0%)	(75.0%)	(75.5%)	(100.0%)	(100.0%)	(5.7%)	(46.6%)	(0.0%)	(0.0%)	(62.3%)	(59.2%)

(Note 1) The number of total exercised items excludes non-exercise.
(Note 2) If a proposal has multiple items to exercise, the number of exercised items of each proposal is shown.
(Note 3) The figures in parentheses are percentages to the total number of each proposal.
(Note 4) The negative votes include 120 abstentions.

4 | Major Initiatives

[1] Invitation of applications from and management of external asset managers

① Invitation for applications for the Asset Manager Registration System

A. Invitation for applications for outsourcing foreign equity investment (passive and active investment)

To change the lineup of external asset managers entrusted with foreign equity investment, the GPIF started inviting applications for outsourcing foreign equity investment (passive and active investment) under the Asset Manager Registration System in April 2016. The screening of applicants concerning passive investment has already started.

By the end of March 2017, a total of 401 funds have applied under the registration system, 319 for making an entry as an external asset manager and 82 for providing information.

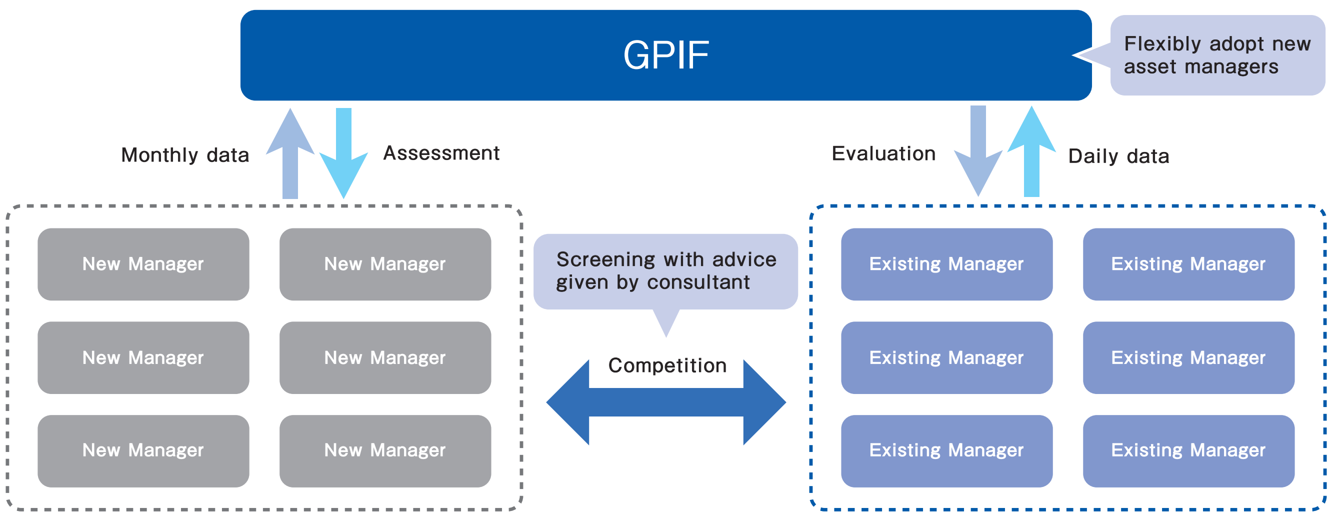
B. Invitation for applications for outsourcing domestic equity investment

To enhance stewardship activities concerning domestic stock passive investment, the GPIF started inviting applications for outsourcing domestic equity investment in March 2017. In the selection process, the GPIF will evaluate each applicant's business model as a whole, including the investment process, policy for stewardship activities, organizational systems to implement investment and stewardship activities and the remuneration level.

C. Development of an organization and system in preparation for invitation for applications regarding investment in alternative assets

To diversify the investment portfolio, the GPIF developed an organization and system in preparation for inviting applications for executing multi-manager strategies concerning alternative assets (infrastructure, private equity and real estate) (invitation launched on April 11, 2017).

The inclusion of alternative assets, which have different risk-return profiles compared with traditional investment assets such as listed equities and bonds, is expected to improve efficiency of the GPIF's investment portfolio through diversification.



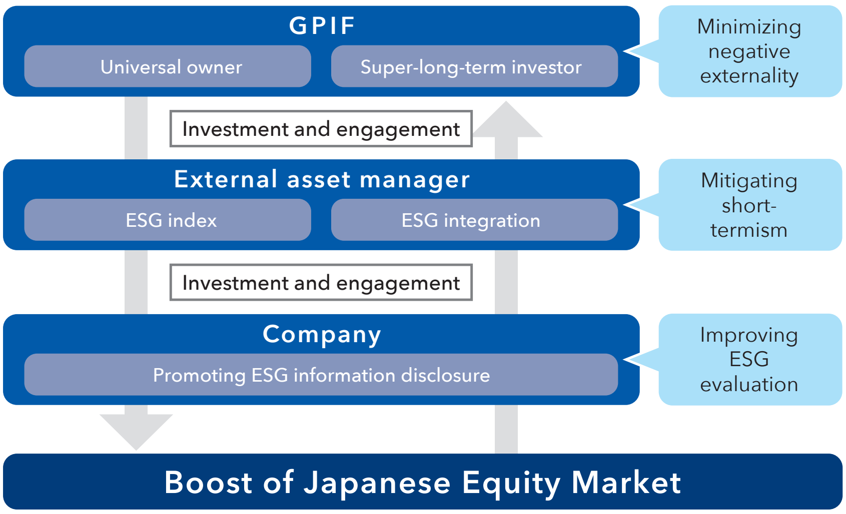
② Soliciting proposals for ESG Indices comprised of Japanese equities

A. Objective of soliciting proposals for ESG indices

For the GPIF as a universal owner (an investor with a very large fund size and a widely diversified portfolio), it is a rational approach to seek to maximize its portfolio's investment return over the long term by minimizing negative externalities (e.g. environmental and social issues). Taking account of ESG issues in investment activity (ESG integration) will increase the risk-adjusted return by reducing risks. The GPIF believes that the longer the investment horizon is, the greater this risk-reduction effect is.

From this viewpoint, the GPIF solicited proposals for indices that are expected to reduce risks and to outperform benchmarks over the medium-to long-term in order to explore the feasibility of integrating ESG into passive investment in domestic equities.

Optimization of the investment chain expected by ESG investment



B. Solicitation process

During the solicitation period from the end of July to the end of September 2016, 14 companies including Japanese and foreign asset managers and stock index developers proposed 27 indices. To examine the proposed indices both qualitatively and quantitatively, several rounds of interviews have been conducted and the Investment Advisory Committee has been convened seven times.

C. Emphasis on the positive impact on the entire market

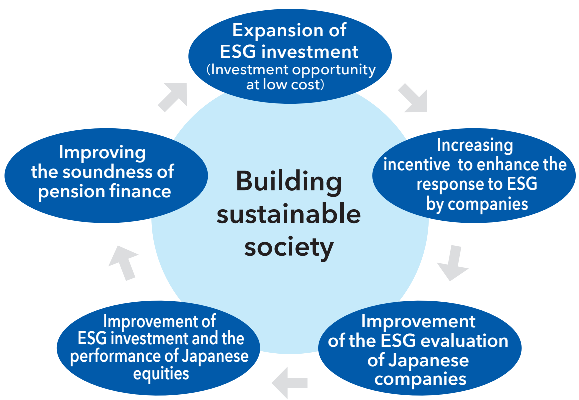
In the selection process, the GPIF is considering such points as whether the adoption of the proposed index (indices) would have a positive impact on the Japanese stock market as a whole by improving ESG evaluation, in addition to examining economic rationality factors, such as the risk-return trade-off. More specifically, emphasis is placed on the following points:

*The selection of components of the index should be based on public information from the perspective of promoting information disclosure by companies.

*Companies superior in addressing ESG issues should be given precedence in the selection of components (positive screening).

*The selection of components should be open to a wide range of companies.

The GPIF believes that in order to encourage companies to be proactive in addressing ESG issues and disclosing information, it is important to help them understand the principles of ESG evaluation and index development. To promote the understanding, the GPIF is calling for stock index developers to publicly disclose how they conduct ESG evaluation and how they develop stock indices.



[2] Promoting fulfilment of the stewardship responsibilities

① Establishment of the Stewardship & ESG Division

On March 22, 2016, the GPIF established the Stewardship Enhancement Group, which was comprised of staffs of relevant offices and divisions, in order to conduct cross-divisional activities. In order to promote new activities based on the building of a Win-Win Relationship in the Investment Chain initiative, which was announced on July 28, 2016, the GPIF upgraded this group on October 1, 2016 to the Stewardship & ESG Division in the Public Market Investment Department , which is comprised of seven staffs, including two dedicated ones. The Stewardship & ESG Division will continue to promote stewardship activities by the GPIF mainly by performing the following tasks from a strategic perspective: (i) considering how the GPIF should fulfil the stewardship responsibilities as an institution responsible for pension fund management and specifically what activities it should conduct; (ii) considering how to analyze and evaluate the status of stewardship activities that give consideration to ESG (environmental, social and governance) issues, including activities by external asset managers entrusted with domestic and foreign equity investment; and (iii) promoting collaboration with Japanese and foreign institutional investors and organizations involved with the Principles for Responsible Investment through an international network.

② Initiative to build a win-win relationship in the investment chain

In order to energize the investment chain so that the investment return for the beneficiaries can be increased over the medium-to long-term, the GPIF has established the Business and Asset Owners' Forum, whereby opinions from companies can be collected on a regular basis, and the Global Asset Owners' Forum, whereby opinions can be exchanged with asset owners from abroad.

A. Holding the Business and Asset Owners' Forum

In a questionnaire survey conducted with listed companies in January 2016, many companies expressed hopes to hold meetings with asset owners. As a result, the GPIF has been holding meetings with those companies on a regular basis. Several companies, including Omron Corporation, Eisai Co., Ltd. and Nissan Motor Corporation, proposed the establishment of a regular platform for constructive exchange of opinions between the GPIF, as an asset owner, and companies. In response, the first Business and Asset Owners' Forum was held on September 1, 2016, with the participation of a total of eight companies, including those three companies as the co-organizers. At this forum, the participants discussed topics such as strategies for improvement of corporate value, "engagement that encourages constructive engagement" from companies' perspective, and expectations and requests for asset owners, including a request for GPIF to set forth the proxy voting principles. As the opportunity to listen to companies' voices is very useful for the GPIF to fulfil its stewardship responsibilities, the GPIF will continue to hold the Business and Asset Owners' Forum. The opinions conveyed to the GPIF will be fed back to external asset managers and overseas asset owners as well so that the whole investment chain can be improved and optimized.

B. Holding the Global Asset Owners' Forum

The Global Asset Owners' Forum was established with the aim of creating a regular platform for exchange of opinions with overseas public pension funds and other asset owners advanced in the field of stewardship accountability so that the GPIF can better fulfil its stewardship responsibilities for the beneficiaries by incorporating sophisticated expertise.

On November 14, 2016, the first Global Asset Owners' Forum was held with the GPIF, CalSTRS (California State Teachers' Retirement System) and CalPERS (California Public Employees' Retirement System) as the co-organizers.

At this forum, the GPIF discussed the following matters with 12 overseas public pension funds: the need for sharing best practices to align the interests of asset owners with those of asset managers and sharing knowledge and experience concerning ESG (environmental, social, and governance) issues; and joint utilization of legal networks and research and study. A summary of the discussions was published.

③ Conducting a questionnaire survey concerning stewardship activities by external asset managers

A. Objective of the survey

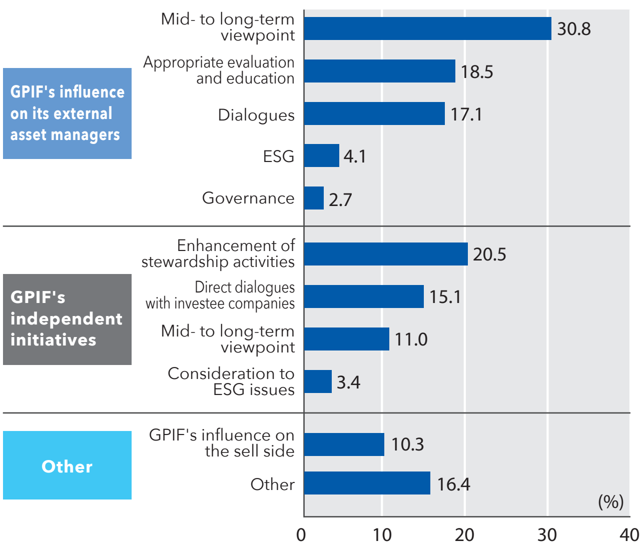
As the GPIF entrusts domestic equity investment of pension reserve funds to external asset managers, it is calling for them to enhance stewardship activities. In line with this initiative, in 2016, the GPIF conducted its first questionnaire survey with listed companies with respect to institutional investors' stewardship activities (the survey subjects were companies adopted as components of the JPX Nikkei Index 400) and received replies from 260 companies (response rate at 65.0%). In 2017, the second questionnaire survey (the survey subjects were companies adopted as components of the JPX Nikkei Index 400 as was the case in the previous survey) was conducted in order to evaluate external asset managers' stewardship activities and examine the current status of "purposeful and constructive dialogue" (engagement) and changes since the previous questionnaire and replies were received from 272 companies (response rate at 68.0%).

B. Summary of the results of the questionnaire survey

A large majority of the respondent companies recognized some positive changes in institutional investors' activities since the previous survey but failed to see a significant change in their preparations for IR meetings or their use of corporate governance reports. As was the case in the previous survey, many respondents expressed expectations for institutional investors in general to adopt a medium- to long-term approach to investment and dialogue. However, there was a notable increase in the proportion of companies expressing expectations for debate and understanding on ESG issues and non-financial information.

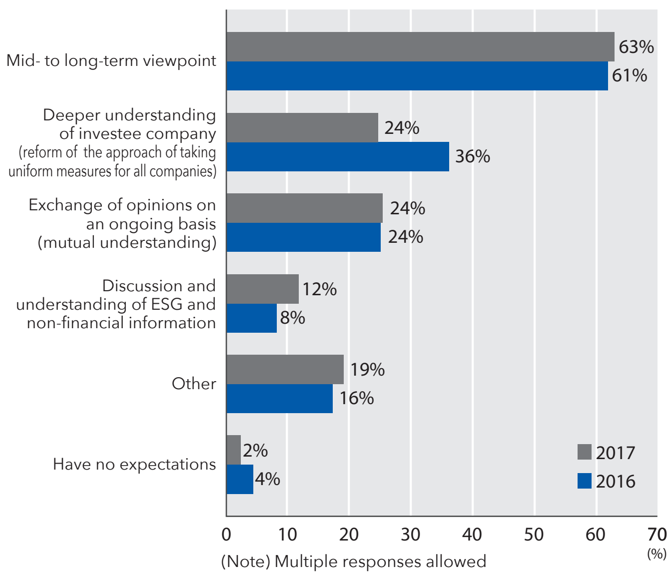
The respondents voiced expectations for the GPIF to call for asset managers to take a medium- to long-term approach to investment and dialogue, to promote its own stewardship activities, and actively engage in direct dialogue with companies. Expectations were also expressed for the GPIF to reach out to securities companies (sell-side investors) via asset managers or to implement demonstration research programs concerning corporate governance.

Expectations for GPIF



(Note) Keywords cited from free descriptions in responses; multiple responses allowed

Expectations for institutional investors



(Note) Multiple responses allowed

④ Joining the Board of the PRI Association

As part of its commitment to fulfiling its stewardship responsibilities, in September 2015, the GPIF signed the Principles for Responsible Investment (PRI), whereby the United Nations is calling for institutional investors to give consideration to ESG (environmental, social and governance) issues when making investment decisions. In November 2016, Hiromichi Mizuno, Executive Managing Director and Chief Investment Officer of the GPIF, was elected as a new member of the Board of the PRI Association.

⑤ Joining the UK 30% Club and the US Thirty Percent Coalition

In order to collect information and expand its knowledge concerning initiatives for promoting gender diversity carried out at companies and institutional investors abroad, the GPIF joined, as an observer, the UK 30% Club and the US Thirty Percent Coalition, which have been founded with the goal of pursuing gender diversity and enabling women to hold 30% of board seats.

[3] Disclosure of all items of securities owned by the GPIF

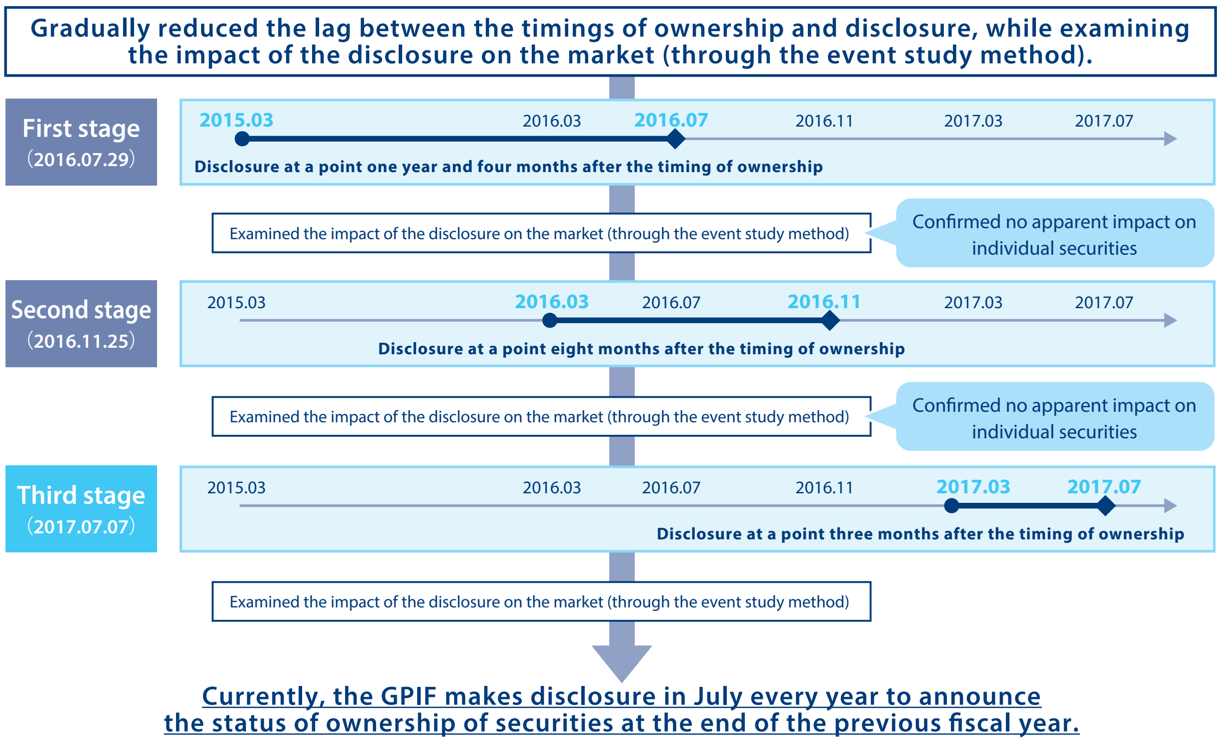
The GPIF has decided to disclose all items of securities that it owns in order to ensure the transparency of its investment.

On its way to the full disclosure, the GPIF is gradually reducing the time lag between the timings of ownership and disclosure with respect to domestic equities for which the share of the GPIF's holdings in the market is relatively large while examining the impact of the disclosure on the market.

In the first stage, the items owned as of the end of March 2015 were disclosed in July 2016, and in the second stage, the items owned as of the end of March 2016 were disclosed in November of the same year. In each stage, no apparent impact of the disclosure on the market was confirmed as a result of examination conducted through the event study method (see the column in the next page).

When the items owned as of the end of March 2017 are disclosed in the third stage, the impact on the market will also be examined through the event study method.

Schedule for disclosure of securities owned by the GPIF



[4] Promoting research and study

GPIF Finance Awards

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

As part of an initiative to develop such an environment, the GPIF Finance Awards have been established to encourage research activities by commending young researchers who have made remarkable achievements in the field of pension fund investment and by widely communicating their achievements and the social significance of their activities.

The winner of the award was selected as follows as a result of screening by a selection committee comprised of Distinguished Professor Robert Merton of the MIT Sloan School of Business (winner of the 1997 Nobel Prize in economics), and other eminent researchers in the field of finance.

Winner : Tatsuyoshi Okimoto, associate professor, Crawford School of Public Policy, Australian National University and visiting associate professor, Graduate School of International Corporate Strategy, Hitotsubashi University

Profile :
- 1999: Graduated from the Faculty of Economics at the University of Tokyo
- 2001: Acquired a master's degree in economics from the Graduate School of Economics at the University of Tokyo
- 2003: Acquired a master's degree in statistics at the University of California San Diego
- 2005: Acquired a Ph.D in economics in 2005 at the University of California San Diego, and served as an associate professor at Yokohama National University
- 2008: Served as an associate professor at Hitotsubashi University
- 2014 to date: Has held the current posts

Prize motivation : Mr. Okimoto has achieved research results highly useful for portfolio investment based on an international diversification strategy and is expected to continue to deliver successful results in the future.

Selection committee members

Robert Merton	Distinguished professor, MIT Sloan School of Business and professor emeritus at Harvard University Winner of the Nobel prize in economics
Josh Lerner	Professor, Harvard Business School
Kazuo Ueda	Professor, Graduate School of Economics and Faculty of Economics, University of Tokyo (former chair of the Investment Advisory Committee)
Yuri Okina	Vice Chairman, Japan Research Institute (member of the Financial System Council)
Shinichi Fukuda	Professor, Graduate School of Economics and Faculty of Economics, University of Tokyo (member of the Financial System Council)
Yasuhiro Yonezawa	Professor, Waseda Business School (former chair of the Investment Advisory Committee)

Memo

Chapter 2

Overview of the Government Pension Investment Fund

1 | Medium-term Objectives and Medium-term Plan

[1] Independent administrative agency system

① Objective of independent administrative agency system

The independent administrative agency system is intended to improve the efficiency and quality of operations by the government of Japan with a highly public nature which may not necessarily be run directly by the government but may not work properly if outsourced to the private sector, by establishing independent administrative agencies whose corporate status is independent from the government and entrusting such operations to them, while securing their autonomous management and transparency.

② Agency Managed under the Medium-term Objective

Independent administrative agencies are classified into three types: Agencies Managed under the Medium-term Objective (AMO), National Research and Development Agencies, and Agencies Engaged in Administrative Execution. The GPIF is classified as AMO.

An AMO is intended to manage operations of a public nature (other than those to be managed by a National Research and Development Agency) that require a medium-term perspective, while demonstrating a certain degree of independence and autonomy in light of such nature. It is intended to do so based on a plan for achieving the objectives of its operations as established by the national government for the medium term, promoting the public benefit through providing diverse, high-quality services that satisfy the public.

The competent minister (in the case of the GPIF, the Minister of Health, Labour and Welfare) sets objectives to be achieved by the AMO over a three-to-five-year period (Medium-term Objectives) and instructs such objectives to the AMO accordingly. The content of the Medium-term Objectives includes the period for the Medium-term Objectives, matters concerning improvement of the quality of services to be provided to the public and other operations, matters concerning improvement of operational efficiency, matters concerning improvement of the agency's financial conditions, and other important matters.

Upon receiving such instructions from the minister, the AMO should prepare a plan to achieve its Medium-term Objectives (Medium-term Plan) and have them approved by the competent minister. The Medium-term Plan is required to include measures necessary to achieve objectives for improvement of the quality of services to be provided to the public and other operations, measures intended to achieve the objectives for more efficient operational management, budgeting (including estimated personnel expenses), revenue and expenditure plans, and funding plans.

The competent minister should seek the opinions of the Incorporated Administrative Agency System Evaluation Committee under the Ministry of Internal Affairs and Communications prior to formulation or revision of the Medium-term Objectives and should consult with the Minister of Finance before approving the formulation or revision of the Medium-term Objectives or Medium-term Plan.

The competent minister also should assess the performance of operations every fiscal year and at the end of every Medium-term Plan period.

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

① The Medium-term Objectives period

The Medium-term Objectives period at the GPIF is a four-year period from fiscal 2006, the year of the GPIF's establishment, through fiscal 2009 for the first period, a five-year period from fiscal 2010 through fiscal 2014 for the second period, and a five-year period from fiscal 2015 through fiscal 2019 for the third period. The final fiscal year of each of these periods corresponds to the year of an actuarial valuation that the government conducts every five years on the public pension schemes. This reflects the fact that the applicable law stipulates that the GPIF policy asset mix should be established in consideration of actuarial valuation and should be described in the Medium-term Plan.

② Operating Rules for Investment Management (ORIM)

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

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

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

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

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

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

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

(Note) See the GPIF website (http://www.gpif.go.jp/operation/policy.html) for details of the operational policies.

Chapter 2

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

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

The third Medium-term Objectives also require the GPIF to make efforts not to hinder market price formation or private-sector investment behavior and to achieve the benchmark rate of return (market average rate of return) for each asset class.

Regarding risk management for the reserve funds, the GPIF maintains the diversified portfolio, and manages and controls risks at the levels of the overall asset portfolio, each asset class, and each investment manager.

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

Furthermore, the Investment Advisory Committee is to oversee new investment methods and/or any new investment products in an appropriate manner; in the Medium-term Plan, the GPIF seeks prior deliberation by the Investment Advisory Committee before certain matters including investment policies for new investment methods and/or new investment products are implemented, and the GPIF reports to the Committee on the progress of selection of external investment managers or other matters as requested by the Committee.

④ Asset allocation (Policy Asset Mix) from a long-term perspective

Under the second Medium-term Objectives, as revised in October 2014, the policy asset mix, consistent with the investment objectives, should be further enhanced, based on the expertise generally recognized for asset management, macro-economic trends, and a long-term perspective with forward-looking risk analysis. We define the Reference Probability as the probability that the return of an all-domestic-bond portfolio falls below the nominal wage growth rate, and examine the probability that the return on the policy asset falls below the nominal wage growth rate is lower than the Reference Probability. We also take into due consideration the downside risk of equity investment, evaluate appropriately the probability that the reserve funds fall below the required level in the actuarial valuation by the government, and validate the policy asset mix using in-depth, multiple risk scenarios.

With this background, the GPIF established the policy asset mix shown below through the revised second Medium-term Plan in October 2014.
The same policy asset mix continues to be stipulated under the third Medium-term Plan.

	Domestic bonds	Domestic equities	Foreign bonds	Foreign equities
Target allocation	35%	25%	15%	25%
Permissible range of deviation	±10%	±9%	±4%	±8%

(Note1) Alternative investment will be made within maximum 5% of total portfolio, in accordance with development of dedicated team. Infrastructure, private equities, real estates or other assets determined upon deliberation at the Investment Advisory Committee, are classified as domestic bonds, domestic equities,foreign bonds or foreign equities, depending on their risk and return profiles.
(Note2) GPIF adopts tactical asset allocation within permissible range of deviation for each asset class, and this allocation is solely based upon thorough analysis on economic and market environment, and prudent judgment.

⑤ Other important matters to be observed for reserve funds management

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

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

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

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

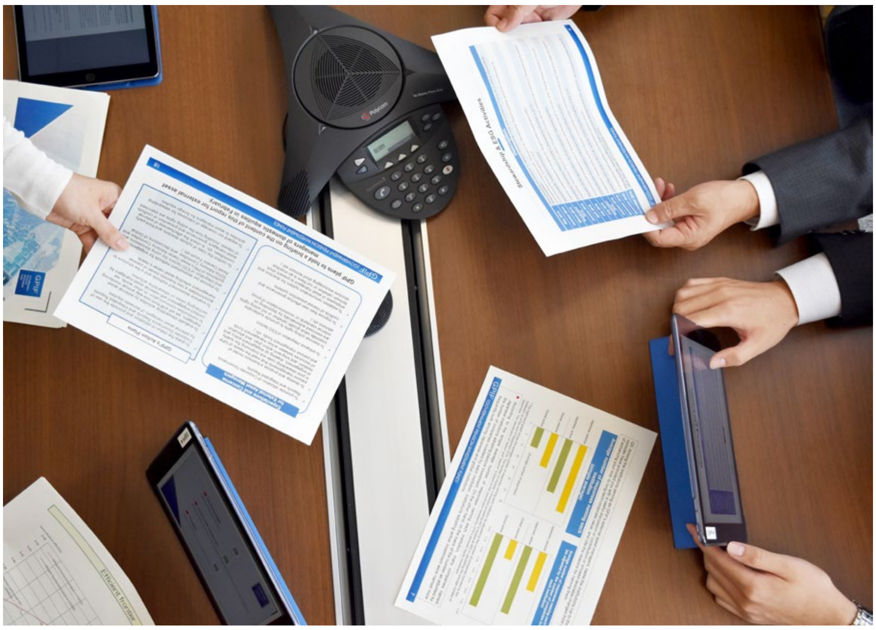
⑥ Enhancement of investment management capabilities, improvement of operational efficiency

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

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

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

Chapter 2



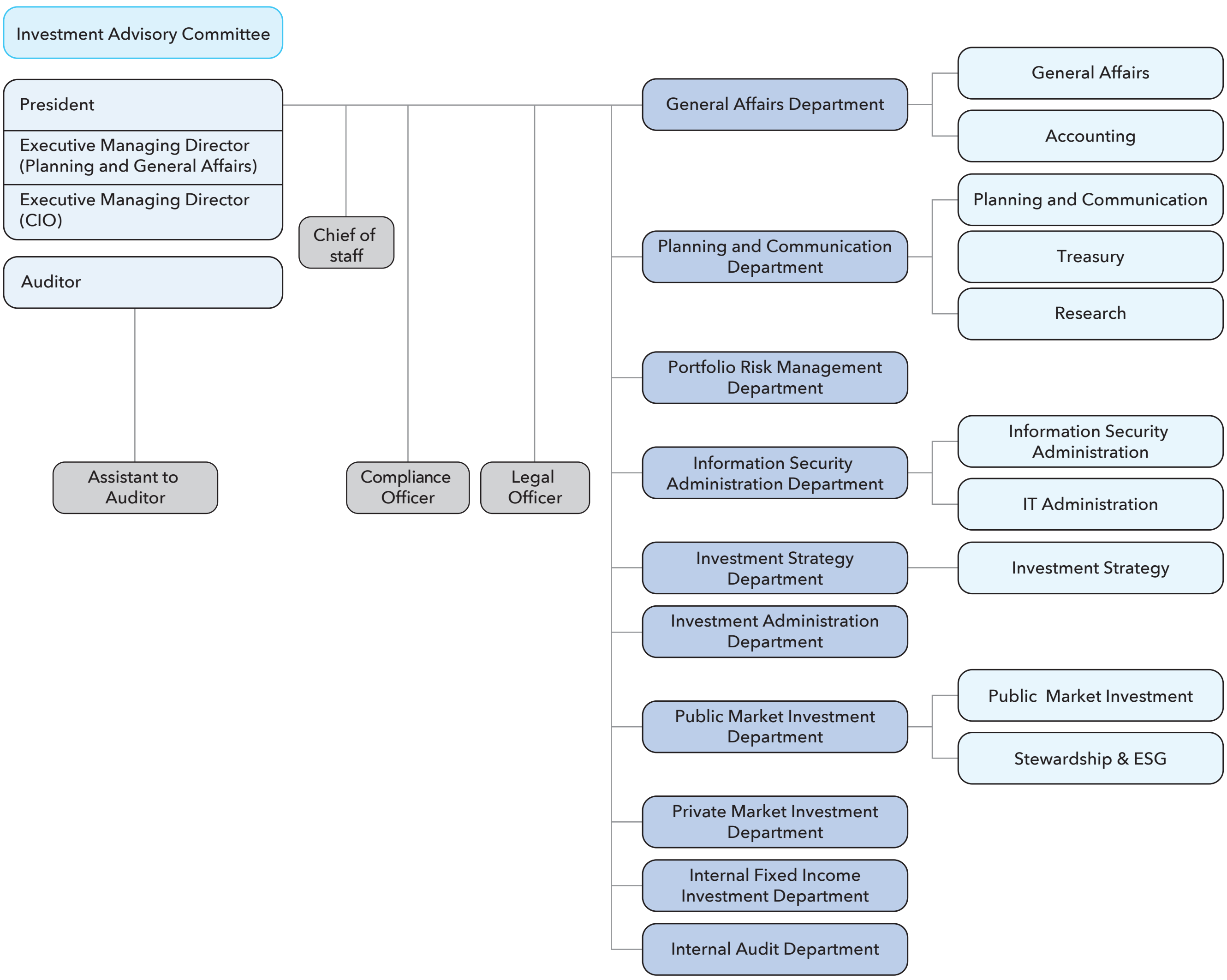
2 | Organization and Internal Control System

[1] Organization

As of July 1, 2017, the GPIF has five executives, consisting of the President, two Executive Managing Directors (one for Planning and General Affairs and another for investment Management and serving as the CIO), and two Auditors (including one non-executive auditor), as well as 104 employees (excepting one part-time employee).

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

Organization Chart (as of July 1, 2017)



[2] Internal control system

Under the Basic Policies of Internal Control, we maintain the effectiveness and efficiency of business operations, comply with laws and regulations, conduct risk management, preserve documents and information, and ensure reliability of financial reporting.

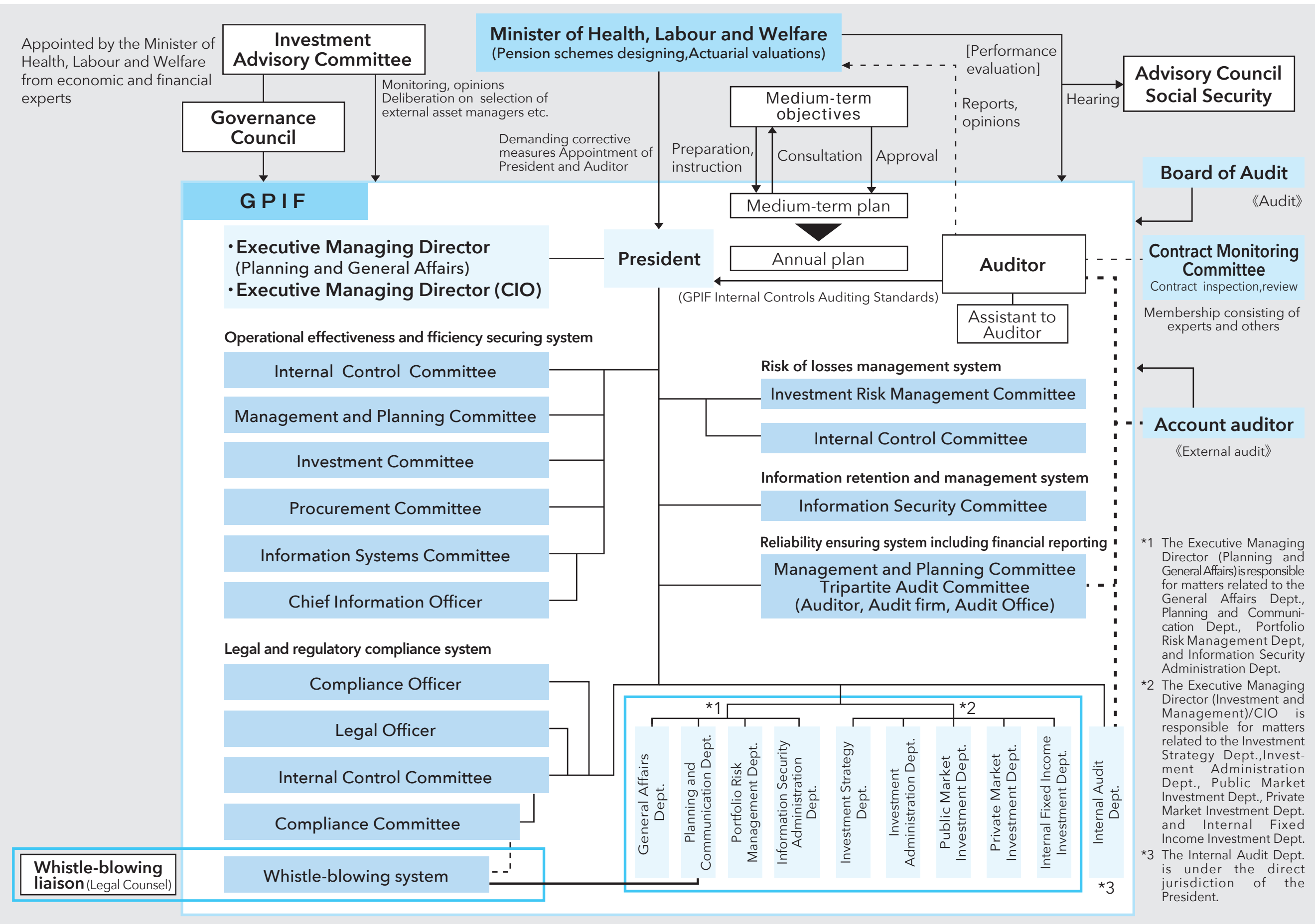
In order to maintain the effectiveness and efficiency of operations, the Internal Control Committee oversees the internal control system, and directors, departments and persons responsible for internal control are assigned. All executives and employees are informed of the necessity to comply with the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

Regarding compliance with laws and regulations, the Compliance Committee under the Internal Control Committee as well as the Compliance Officer are responsible for this mission. We also maintain a whistle-blowing system and take corrective actions and preventive measures according to our internal rules whenever an illegal or inappropriate activity is (or is expected to be) perpetrated by Investment Advisory Committee members, executives or employees of the GPIF.

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

In order to manage/preserve documents and information appropriately, internal policies are established for the maintenance and usage of information systems and the management of documents, and the Information Security Committee is responsible for strengthening the robust system for information security.

Schematic Diagram of Internal Control



3 | Investment Advisory Committee

The Investment Advisory Committee has been established within the GPIF. It consists of eleven or fewer members with a high degree of economic or financial expertise or relevant academic knowledge or experience, as appointed by the Minister of Health, Labour and Welfare.

Pursuant to the applicable law, preparation and revision of the Statement of Operation Procedures and the Medium-term Plan, including the policy asset mix, are to be made after deliberation by the Investment Advisory Committee. In addition, at the GPIF these matters require the prior approval of the Investment Advisory Committee subject to internal rules, and the Investment Advisory Committee deliberates on whether or not to approve these.

It is also entitled to monitor the status of asset management of the reserve funds and other management and operational matters, provide opinions on important matters related to management and operations as requested by the President, and make recommendations to the President on matters as it deems necessary.

All members of the Investment Advisory Committee comprise the Governance Council, which is in charge of making proposals regarding the GPIF Investment Principles and the Code of Conduct and monitoring their status of compliance, among other duties.

Members of Investment Advisory Committee

◎ Tomio Arai	Professor Emeritus, The University of Tokyo
Takashi Inoue	Managing Director, Japan Business Federation (From Jun.28, 2017)
Hiromichi Oono	Member of the Board & Corporate Vice President Ajinomoto Co., Inc. (Until Jun.27, 2017)
Yasuyuki Kato	Professor, Graduate School of Management, Kyoto University
Setsuya Sato	Professor, Department of Global Innovation Studies, Faculty of Global and Regional Studies, Toyo University
○ Junko Shimizu*	Professor, Faculty of Economics Gakushuin University
Isao Sugaya	Managing Director, JTUC Research Institute for Advancement of Living Standards
Yoko Takeda	Chief Economist Deputy General Manager, Research Center for Policy and Economy, Mitsubishi Research Institute, Inc.

(Note 1) Committee members are listed in order of the Japanese syllabary.
(Note 2) ◎ indicates Chairman; ○ indicates Vice Chairman.
(Note 3) * indicates Chairman of Governance Council.

4 | Revision of GPIF Law

In order to ensure the establishment of an organizational system that can be better trusted by the general public at the GPIF and safer and more efficient management of pension reserve funds, the Bill to Partially Revise the National Pension Act, etc. to Enhance the Sustainability of the Public Pension System, which includes the reorganization of the GPIF, was submitted to the ordinary session of the Diet in 2016 in consideration of the revision of Japan Revitalization Strategy in 2014 (Cabinet decision on June 24, 2014) and debate at the Subcommittee for Pension Fund Management of the Social Security Council, a governmental advisory panel. The bill was enacted in December of the same year.

Ahead of the effectuation of the revised law in October 2017, the GPIF is preparing.

(1) Shift from individual to collegiate decision-making

Currently, the president of the GPIF has the sole decision-making authority concerning matters such as the formulation of the policy asset mix. Following the legal revision, this individual decision-making system will be replaced by a collegiate system under which decisions are made by the Management Committee that is comprised of the president and nine experts in such fields as economics, finance, asset management and business administration.

(2) Separation of Decision-Making and Supervision from Execution

To enhance the executive team's supervisory function, the decision-making and execution functions, which have until now been combined by the president, will be separated, with the Management Committee taking over the function of supervising the executive team. To ensure effective supervision of the executive team, the Audit Committee will be established and charged with conducting audits and overseeing day-to-day operations. The Audit Committee will conduct supervision based on the results of its own audits, exercising its supervisory authority independently from the Management Committee.

(3) Diversification of investment

The scope of permitted types of derivative transactions will be expanded while limiting the purpose of use to risk management. In addition, the provision of call loans will be added to the scope of permitted short-term investment vehicles.

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Annual Report Fiscal Year 2016

This document has been prepared and released to the public in accordance with Article 26 of the Act on the Government Pension Investment Fund.

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