



Adoption of New Policy Portfolio

- Government Pension Investment Fund (“GPIF”) manages assets in line with its policy portfolio, which specifies the target allocation for each asset class. GPIF has adopted a new policy portfolio as follows.

(Old)

	Domestic bonds	Foreign bonds	Domestic equities	Foreign equities
Target allocation	35%	15%	25%	25%
Deviation Limits	±10%	±4%	±9%	±8%



(New)

		Domestic bonds	Foreign bonds	Domestic equities	Foreign equities
Target allocation		<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>
Deviation Limits	Asset class	<u>±7%</u>	<u>±6%</u>	<u>±8%</u>	<u>±7%</u>
	Bonds/Equities	<u>±11%</u>		<u>±11%</u>	

- The allocation to domestic bonds in the new policy portfolio has decreased due to declining interest rates and lower bond yields in Japan, while the foreign bond allocation has increased due to the relatively higher interest rates on these instruments. The new policy portfolio meets the GPIF’s return target (real investment return* of 1.7%) with the lowest risk.
- Furthermore, in addition to the current deviation limits set for each asset class, new deviation limits for total bonds and total equities have been established in order to strengthen risk management on the equity side. As a result, whereas the permissible range for total equities would be 50% +13% (i.e. the combined lower bound of the two individual bond bands) if each asset class was considered separately, the range for equity holdings will be limited to 50% +11% by the total equity holdings band.
- The new policy was determined after 13 meetings of the Board of Governors and will be implemented beginning April 1, 2020. A working sub-committee consisting of economics and finance professionals was established under the Board of Governors to streamline deliberations. The committee held 32 discussions on matters related to the policy portfolio from a comprehensive, multi-dimensional, technical perspective.

*Nominal investment return less nominal wage increase