

INVESTMENT OF PUBLIC PENSION RESERVE FUNDS IN FOREIGN COUNTRIES

○ The pension systems in three countries whose ratio of reserve funds is high are in the following conditions:

(1) Canada and Sweden:

Without confining investments to the small domestic market, they aim to expand investment returns by raising the ratios of risk assets – for example, raising the ratio of stocks to more than 60% and the ratio of foreign assets to more than 50%.

(2) US:

All funds have been invested in non-marketable treasury securities (debt securities issued by the Secretary of the Treasury).

○ Recent investment performance shows that the higher the ration of risk assets rises, the more investment performance fluctuates.

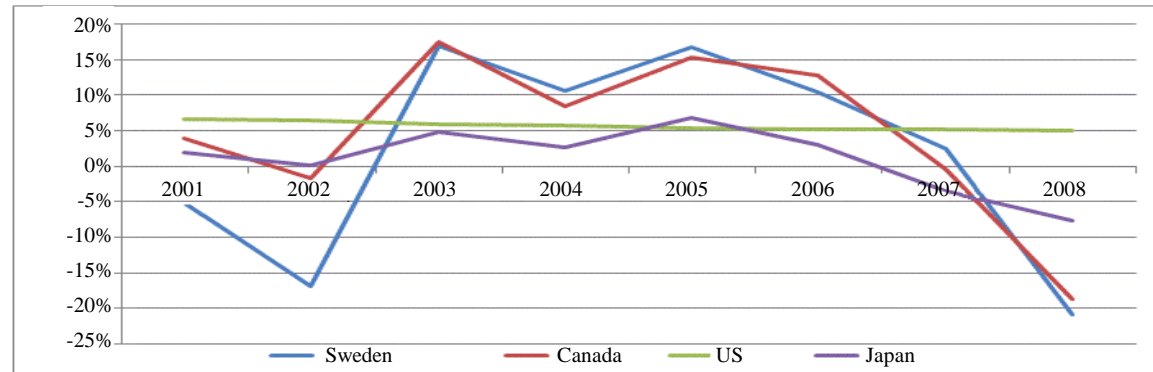
*Around 2001-2002 in Canada, the impact from the stock market was extremely minor, as the most of the reserve funds were invested in municipal bonds (the ratio of stocks was roughly 10%).

Portfolios of major countries

	Sweden	Canada	US	Japan
Bonds	37%	30%	100%	75%
Stocks	57%	65%	0	20%
Short-term assets	6%	5%	0	5%
Assets	¥8 trillion	¥8 trillion	¥219 trillion	¥118 trillion

(Note) The figures were as of the end of FY2008. The table was made based on each fund's website.

Investment performance of major countries



	2001	2002	2003	2004	2005	2006	2007	2008
Sweden	-5.0%	-16.8%	17.0%	10.6%	16.9%	10.5%	2.5%	-20.8%
Canada	4.0%	-1.5%	17.6%	8.5%	15.5%	12.9%	-0.3%	-18.6%
US	6.6%	6.4%	6.0%	5.7%	5.5%	5.3%	5.3%	5.1%
Japan	1.9%	0.2%	4.9%	2.7%	6.8%	3.1%	-3.5%	(-7.6%)

(Note 1) Calendar year in the US and Sweden (AP4); fiscal year from April to March in Canada and Japan

(Note 2) Canada raised the ratio of stocks step by step (ratio of stocks: about 10% in 2002 and about 60% in 2006).

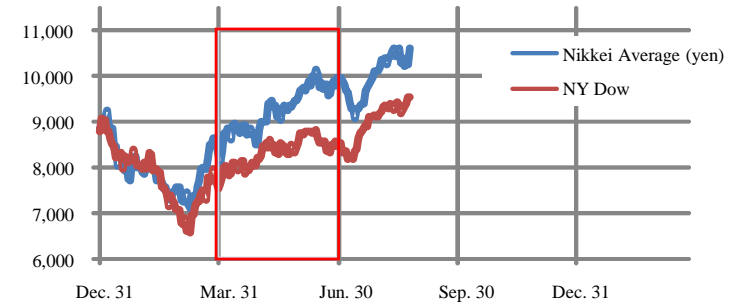
(Note 3) All pension reserve funds in the case of Japan. The figure for 2008 is the rate of return of the assets managed by the GPIF.

INVESTMENT PERFORMANCE OF GPIF (APRIL-JUNE QUARTER OF FY2009)

○ In the first quarter (from April to June), the GPIF's investment return was 3.9% (about ¥4.6 trillion), because financial and capital markets recovered their composure and stock prices sharply rose in domestic and foreign stock markets.

* The return only from its market investments was 4.9% (about ¥4.5 trillion).

(Reference) With regard to the pension reserve funds as a whole, about ¥18 trillion accumulated from FY2001 (when discretionary investment began).



○ Amount and rate of return by type of assets
(1st quarter of FY2009)

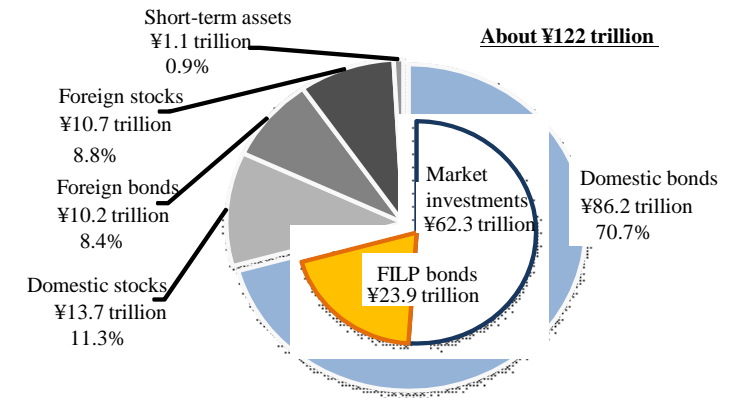
(Unit: ¥100 million)

		Q1 (Apr. to Jun.)	
			Rate of return
Market investments	Domestic bonds	3,811	0.6%
	Domestic stocks	23,425	20.6%
	Foreign bonds	1,677	1.7%
	Foreign stocks	16,007	17.6%
	Total	44,921	4.9%
FILP bonds		761	0.3%
All invested assets		45,682	3.9%

○ Amount of assets managed by GPIF
(as of end of Jun. 2009)

(Unit: ¥100 million)

	Amount of invested assets	% to total
Domestic bonds	861,763	70.7%
Market investments	622,697	51.1%
FILP bonds	239,065	19.6%
Domestic stocks	137,411	11.3%
Foreign bonds	101,812	8.4%
Foreign stocks	106,735	8.8%
Short-term assets	10,898	0.9%
Total	1,218,619	100.0%



(Reference) Results of investment of reserve funds
(from beginning of discretionary investment until FY2008)

(Unit: ¥100 million)

Fiscal year	Investment		Return on investment of reserve funds	Rate of return	Cumulative return
	GPIF	Funds entrusted			
FY2001	-13,084	40,870	27,787	1.9%	27,787
FY2002	-30,608	32,968	2,360	0.2%	30,146
FY2003	44,306	24,407	68,714	4.9%	98,860
FY2004	22,419	17,169	39,588	2.7%	138,448
FY2005	86,811	11,533	98,344	6.8%	236,792
FY2006	37,608	8,061	45,669	3.1%	282,461
FY2007	-56,455	4,678	-51,777	-3.5%	230,684
FY2008	-94,015	839	-93,176	-6.9%	137,508
FY2009	(45,682)	-	(45,682)	-	(183,190)
Total	(42,663) <25,774>	140,526	(183,190)	-	-

* The figure in <> indicates a cumulative balance of investments, including the Pension Welfare Service Public Corporation's balance in or before FY2000 and the increase through revaluation at the time of the establishment of the new GPIF in April 2006.

○ Compared with foreign pension funds, more importance is placed on the safety of investments ("diversified investments centering on domestic bonds").

(Reference) Investment of pension funds in foreign countries

		FY2009 (Q1)	(FY2008)
• CalPERS (California Public Employees' Retirement System)	<Ratio of stocks: about 60%>	7.1%	(-29.1%)
• CPPIB (Canada)	<Ratio of stocks: about 70%>	7.1%	(-18.6%)
• GPF-G (Norway)	<Ratio of stocks: about 60%>	12.9%	(-9.5%)
• GPIF	<Ratio of stocks: about 20%>	3.9%	(-7.6%)
	(Market investments)	4.9%	(-10.0%)

MARKET TRENDS (APRIL-JUNE QUARTER OF FY2009)

《All invested assets (market investments + FILP bonds)》

	FY2008	FY2009				Fiscal year
		Q1	Q2	Q3	Q4	
Rate of return (%)	-7.57	3.89	-	-	-	-
Amount of return (¥100 million)	-94,015	45,682	-	-	-	-
Invested assets (¥100 million)	1,176,286	1,218,619	-	-	-	-

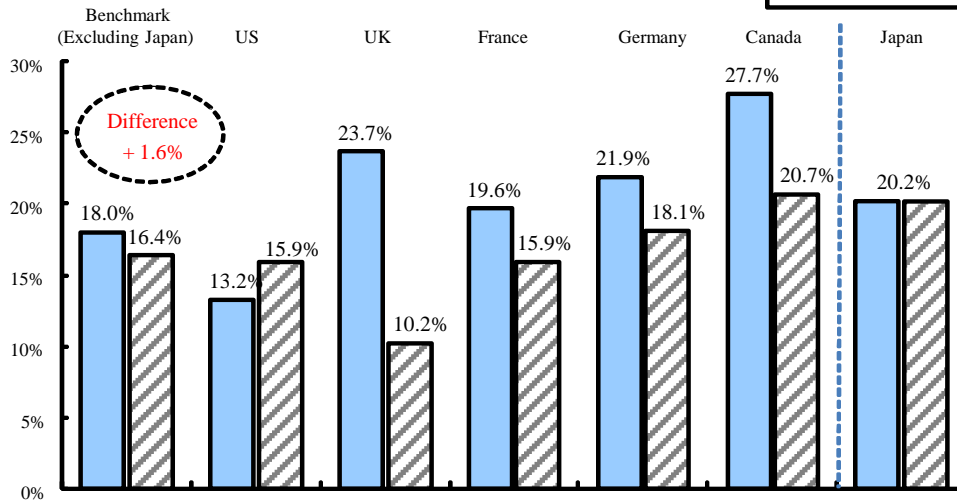
* Investment charges, loan interests, etc. are deducted from the amount of return in FY2008.

○ Reference indexes

	End of Mar. 2009	End of Jun. 2009	End of Jul. 2009
Nikkei Average (Change on end of Mar. 2009)	¥8,109.5	¥9,958.4 (22.8%)	¥10,356.8 (27.7%)
NY Dow (Change on end of Mar. 2009)	\$7,608.9	\$8,447.0 (11.0%)	9,171.6 (20.5%)
Exchange rate (Dollar/yen) (Change on end of Mar. 2009)	¥98.8	¥96.5 (-2.3%)	¥95.2 (-3.6%)
(Euro/yen) (Change on end of Mar. 2009)	¥131.1	¥135.3 (3.2%)	¥135.0 (2.9%)

Stock market

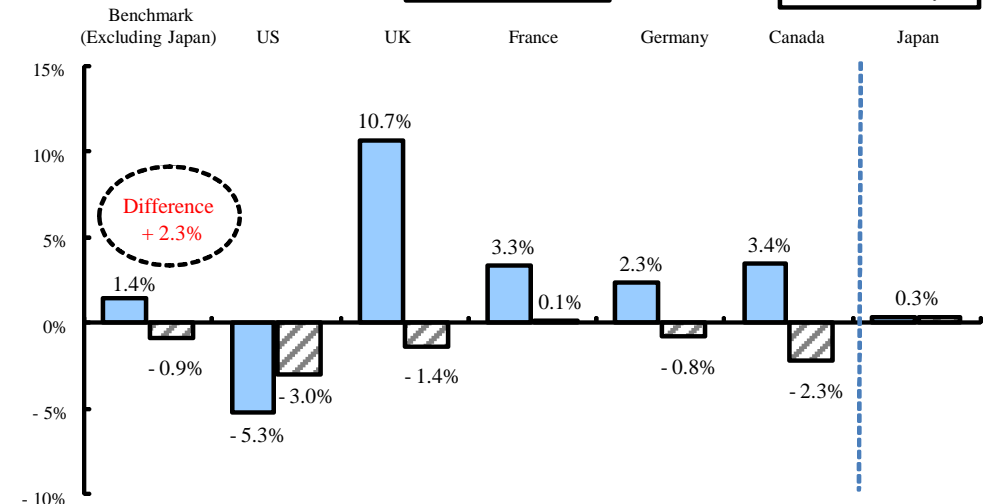
■ Yen denominated
▨ Local currency



(Note) Benchmark: MSCI-KOKUSAI (North America: Europe: others = 6:3:1)

Bond market

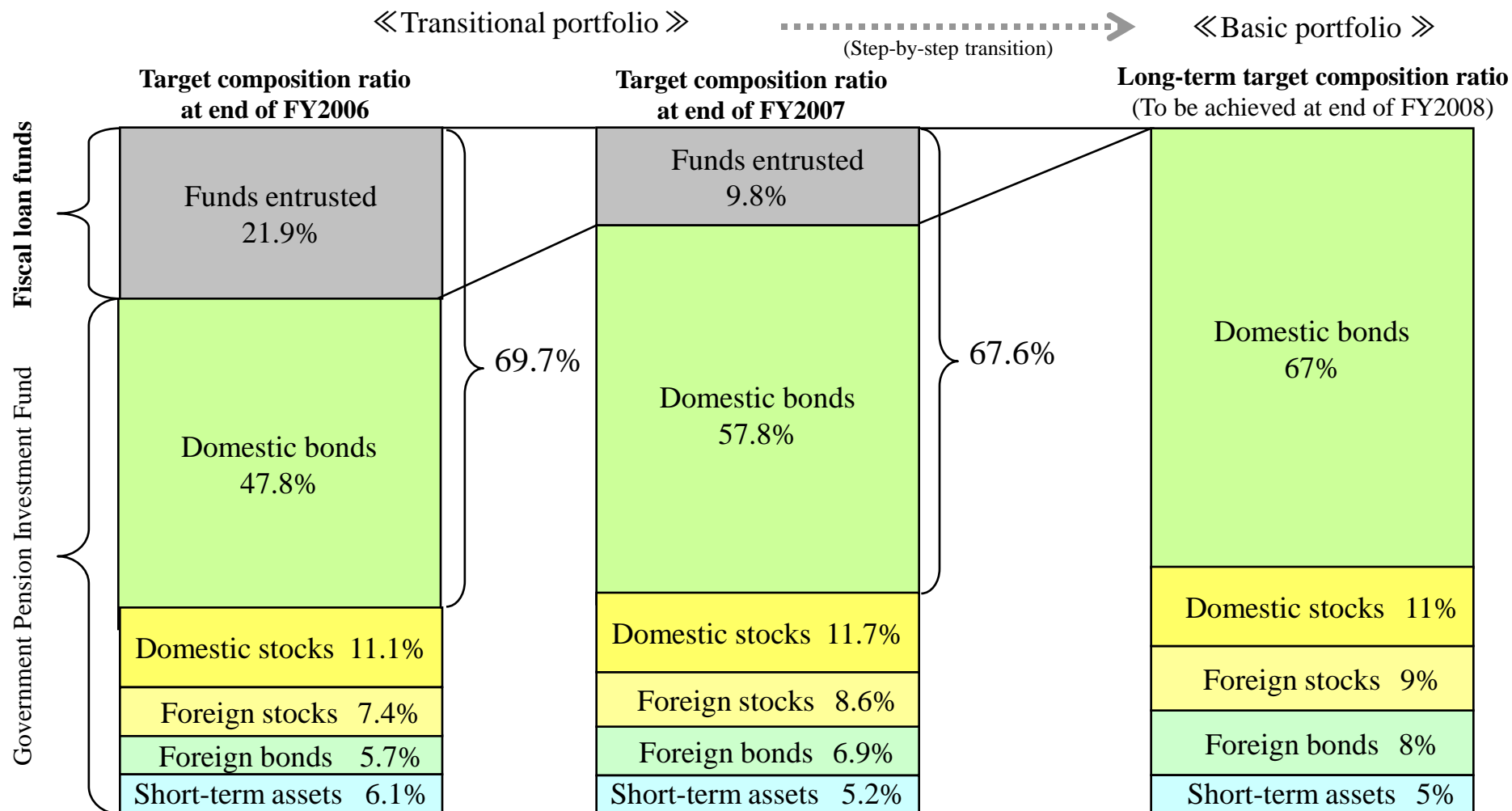
■ Yen denominated
▨ Local currency



(Note) Benchmark: Citigroup World Government Bond Index (North America: Europe = 1:2)

○ ASSET COMPOSITION RATIO OF PENSION RESERVE FUNDS

In its mid-term plan, the GPIF itself determines the asset composition ratio of pension reserve funds based on the mid-term targets set by the government.
 (Note) The present asset composition ratio was determined based on discussions at the Subcommittee for Pension Fund Management of the Social Security Council and others. The present asset composition ratio is transitional, and step-by-step transition is now in progress to achieve a long-term asset composition ratio (basic portfolio) by the end of FY2008, when the public reserve funds entrusted to the former Trust Fund Bureau (present fiscal loan funds) will be completely returned (the portfolios for FY2006 and FY2007 are transitional ones).



VARIOUS OPINIONS ON RECENT PENSION RESERVE INVESTMENT

- In the last fiscal year, the Council on Economic and Fiscal Policy (Expert Committee on Reforms Addressing Globalization (the Working Group on the Financial and Capital Markets)), based on awareness that present investments mainly in domestic bonds are insufficient in diversifying risk and returns are also not enough compared to other countries, compiled a report including the following points:
 - (1) Investments centered on domestic bonds should be changed and risk should be diversified (raising the ratio of risk assets, such as domestic and foreign stocks).
 - (2) Investments should be expanded to commodities futures and real estate funds, etc.
 - (3) Turnover of assets should be dynamically implemented to respond changing environment of financial market by employing specialist with high level of financial expertise from the inside and the outside of the country.
 - (4) The investment organization should undergo drastic reform (such as treatment of officers to be the same level with that of officers and staff at international investment institutions, independency that is the same level with that of the Bank of Japan, establishment of overseas bases and split of the funds into several units).
- At the Council on Economic and Fiscal Policy held on May 23, 2008, private-sector member submitted a paper based on the above report and the discussion was made on that. For the material submitted, the Minister of Health, Labour and Welfare pointed out the following and asked for careful consideration:
 - A large amount of investment loss is possibly incurred if the ratio of risk assets is raised sharply. How should we consider the responsibility thereof?
 - Since investment costs are surely to increase substantially, is it possible to obtain understanding and acceptance from pension contributors (investment costs are disbursed from pension reserve funds)?
 - Since resources of pension reserve funds are premiums collected from pension contributors, isn't it necessary to have perspective of pension contributors?
- On the other hand, with regard to the investment of pension funds, some have the opinion that the risk of the investment should be reduced, for example, by investing only in government bonds.

THE FORM THAT PENSION RESERVE FUND INVESTMENT AND INVESTMENT ORGANIZATION WILL TAKE

【The form that pension reserve fund investment will take】

- Such approaches as “investments centered on domestic bonds,” “investments centered on passive investments,” “curbing risk” and “efficient system” which were presented by the Subcommittee for Pension Fund Management of the Social Security Council and a ruling party in the 2004 pension system revision are the promise to the citizens.

*In the deliberations at the Diet, etc., there are many opinions that are critical to stock investments. Opinions in favor of lowering the ratio of domestic bonds and raising the ratio of stocks and other risk assets (high-risk, high-return oriented opinions) are limited.

- From the standpoint of citizens, such arguments as “risk diversification is insufficient” and “returns are low” have the meaning same as lowering the ratio of domestic bonds and raising the ratio of risk assets including stocks, commodities futures, real estate funds, etc. How should we consider the responsibility if large investment loss is incurred as a result of raising the ratio of risk assets?
 - Resources of pension reserve funds are premiums collected from pension contributors through compulsory coverage to apply for pension benefits. It is essential that the labor and the management participate in the discussion on the basic form that pension reserve fund investment will take.
- ⇒ “Discussion through participation of the labor and the management based on the discussion at the Diet” (discussion in absence of interested parties should be avoided.)

【The form that investment organization will take】

- To begin with, professionalism of the Investment Committee should be improved and specific discussion that fully takes into account of investment practices will be held.
- Costs of investment organization are disbursed from pension reserve funds. Under the circumstances where harsh words are heard among citizens on the use of pension premiums and pension reserve funds, a top priority should be given on the basic form that investment will take.
- In Sweden where investments are carried out through multiple funds, there aren't any significant differences from fund to fund, and full attention is necessary to be paid that such investments have been criticized in terms of efficiency.
 - (Example 1) CPPIB in Canada was newly established (1997) to switch over from traditional investments through municipal bonds to investments centered on stocks and foreign assets.
 - (Example 2) In AP funds in Sweden, multiple wage-earner funds were liquidated and consolidated based on the consensus of both the ruling and opposition parties to raise investment returns through competition among each fund (each fund raised the ratio of risk assets).
 - (Example 3) In order to implement such approaches as “investments centered on domestic bonds,” “investments centered on passive investments and “efficient system” as stated above, the GPIF was established under the Government Pension Investment Fund Act of 2004. The Law stipulates that the head office shall be placed in Kanagawa Prefecture, and therefore, the relocation is mandated.