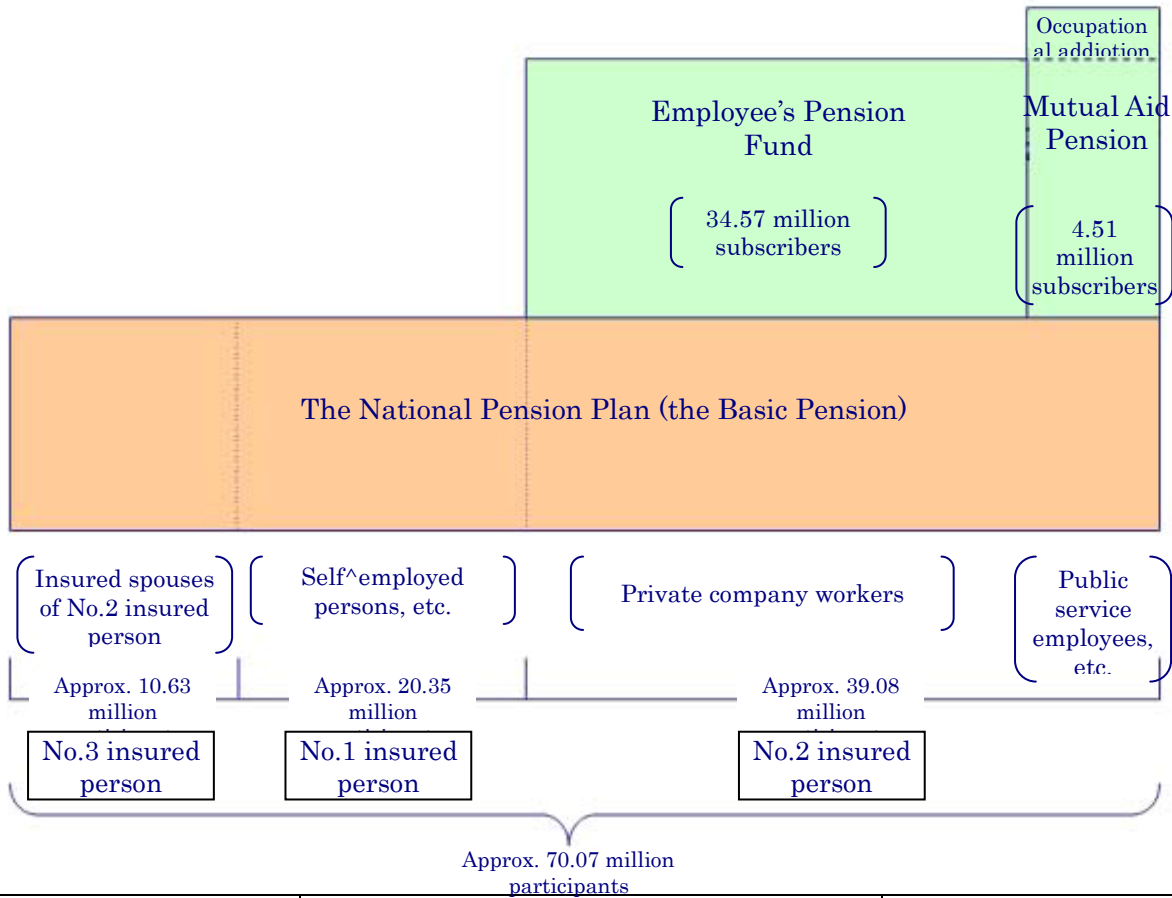


## [Structure of the Public Pension System]

(The figures are as of 31 March 2008.)



No. 1 insured person	No. 2 insured person	No. 3 insured person
○ Self-employed persons, farmers, etc. aged 20 or over but under 60.	○ Employees in private sector, public employees, etc.	○ Spouses of employees in private sector and public employees, etc.
○ Each pays a fixed amount of premium. 14,660 yen per month (From April 2009 through March 2010)	○ Remuneration-based premium. Premium rate of the Employees' Pension Insurance is fixed at 15.704% (from Sep. 2009 to Aug. 2010) <ul style="list-style-type: none"> <li>• The premium is raised by 0.354% every year.</li> <li>• Insurance premiums based on total remunerations in April 2003 and after.</li> <li>• Appropriated for the Basic Pension and Employees' Pension Insurance Scheme (remuneration-based portion) for No. 2 and No. 3 insured person.</li> </ul>	○ The insured themselves bear no cost. ○ The premium is paid by the insurer of the pension the husband (wife) is participating in.
The national subsidy rate is 1/2 for the basic pension.		

# Outline of Mid-Term Objectives and Plans of the New Government Pension Investment Fund

## 1. Period of Mid-Term Objectives

Four years starting from April 2006 and ending in March 2010.

## 2. Items pertaining to streamlining of operation administration

### Mid-Term Objectives and Plans concerning optimization of operations and system

On the basis of audits toward operations and system and innovation-feasibility surveys, prepare and publicize optimization plan concerning operations and system by fiscal 2007, and promptly implement such plan.

### Mid-Term Objectives and Plans concerning expenditure reduction

- Administrative expenses (excluding expenses in transition to an independent organization, pension benefits, office relocation expense)  
Reduce administrative expenses in the final fiscal year of the Mid-Term Objectives by more than 12% compared with expenses spent in fund management operations in the final fiscal year as a governmental corporation (fiscal 2005). Labor expenses, based on “Important Policies in Administrative Reform” (Cabinet approval in on December 24, 2005), will be reduced by more than 4% compared with the labor expenses in fund management operations in the final fiscal year as a governmental corporation (fiscal 2005).
- Operation expenses (excluding system development expenses, and consignment fees in fund management)  
Reduce operation expenses in the final fiscal year of the Mid-Term Objectives by more than 4% compared with expenses spent in fund management operations in the final fiscal year as a governmental corporation (fiscal 2005).

## 3. Items pertaining to improving quality of operations

### Mid-Term Objectives and Plans concerning the enforcement of fiduciary responsibility

Conduct thorough compliance with related laws and regulations, the Mid-Term Objectives, and the Mid-Term Plans, prepare sanction policies, notifications, etc.

### Mid-Term Objectives and Plans concerning information disclosure

Post on website the purpose and structure of the management of pension reserve fund, and promptly disclose information concerning management and application results for each fiscal year.

## 4. Items pertaining to management and application of the pension reserve fund

### 1) Basic policies concerning management and application of the pension reserve fund

#### Basic stance on application

(Mid-Term Objectives)

The application of pension reserve fund will be conducted safely and efficiently with long-term viewpoint, with a focus on return to contributors, with the purpose of contributing stable administration of pension welfare in future years.

(Mid-Term Plans)

Conduct management of pension reserve fund with diversified investment as basic stance, and prepare an asset composition ratio to be maintained long-term (hereinafter, Basic Portfolio”).

**Mid-Term Objectives and Plans concerning application objectives**

- Determine Basic Portfolio and appropriately conduct management for the purpose of establishing on a long-term basis the actual yield on investment within the various conditions present in pension financing.
- By appropriately implementing selection, management, and evaluation of application trustees, aim to secure benchmark earning rates of each assets in each fiscal year, and establish benchmark earning rates of each assets in the period of the Mid-Term Objectives as well.

**2) Items pertaining to the long-term asset composition in the management and application of the pension reserve fund**

**Preparation and review of portfolio (Mid-Term Objectives)**

The portfolio will be prepared so that it is consistent with the various conditions in pension financing with attention paid to the following points.

- Asset composition will be designed to secure actual yield on investment within the various conditions present in pension financing.
- Asset composition will be designed to suppress volatility risk at a certain range from the viewpoint of stabilizing pension financing.

In addition, verifications will be conducted to determine if the application environment assumed at the time of portfolio preparation has deviated from the actual conditions, and revisions will be made as necessary.

**Basic Portfolio (Mid-Term Plan)**

With total redemption of pension reserve fund from the Fiscal Loan Fund aimed to be completed in fiscal 2008, the Basic Portfolio shall be determined as the following.

Domestic bonds	Domestic shares	Foreign bonds	Foreign shares	Short-term assets
67%	11%	8%	9%	5%

Target yield: 3.37%, risk (standard deviation): 5.55%

Unit: %

	Domestic bonds	Domestic shares	Foreign bonds	Foreign shares
Accepted range of deviation	±8	±6	±5	±5
Range of fluctuation in asset	59-67-75	5-11-17	3-8-13	4-9-14

**Transition Portfolio (Mid-Term Plan)**

By preparing and managing portfolio for each year (hereinafter, Transition Portfolio) until the end of the transition period in fiscal 2008, smoothly shift to the composition rate adopted in the Basic Portfolio. Transition Portfolio of each fiscal year shall be prepared by the end of the previous fiscal year.

**3) Items pertaining to be upheld concerning the management and application of the pension reserve fund**

**Mid-Term Objectives and Plans concerning management of the Basic Portfolio or the Transition Portfolio and other risk management**

Confirm for deviation between the asset composition ratio of the entire market application funds with the Basic Portfolio or the Transition portfolio at least once a month. In addition, based on reports, etc. from application trustees or asset management institutions, conduct risk management on entire market application funds, each asset, etc.

### **Mid-Term Objectives and Plans concerning application method**

Each asset shall be mainly applied passively. Active application shall be conducted only when there is a high possibility of securing excess yield.

#### **Other**

- Pay due consideration of the scale of the funds applied and strive to prevent suffering from significant market impact, and be aware of the funds' influence on market price formation, etc.
- Pay due consideration of the influence on corporate management, etc., and do not select individual companies for investment.
- Pay due consideration of the influence on corporate management, etc., and from the viewpoint of maximizing shareholders' long-term return, take appropriate measures such as execution of voting rights as shareholder.

# OUTLINE OF THE GOVERNMENT PENSION INVESTMENT FUND

## ○ Purpose of Business:

The Government Pension Investment Fund (GPIF) shall manage and invest the reserve funds of the Government Pension Plans entrusted by the Minister of Health, Labour and Welfare, and shall contribute to the financial stability of the Employees' Pension Insurance Plan and the National Pension Plan by remitting profits of investment to the Special Accounts for the Government Pension Plans.

## ○ Date of Establishment: April 1, 2006

## ○ Organization: President (one person), Executive Managing Director (one person), Executive Auditors (two persons), staff (74 persons) (as of July 2009)

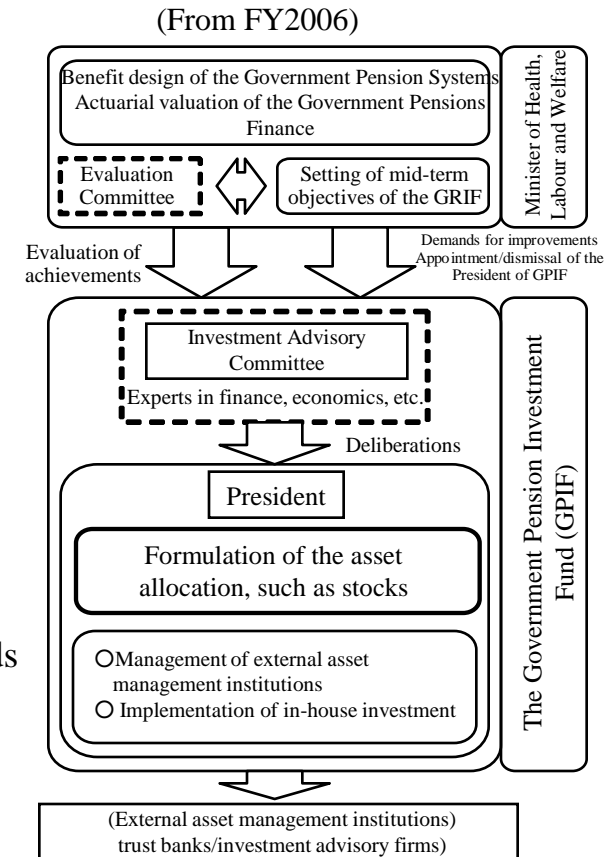
## ○ Outline of Business:

Management and investment of the pension reserve funds entrusted by the Minister of Health, Labour and Welfare (total investment assets: about ¥118 trillion (at the end of March, FY2009))

## ○ Investment method: The reserve funds are entrusted and invested by private investment institutions (trust banks and investment advisory firms). In addition to that, it carries a certain portion of domestic bonds investment.

## ○ Investment Committee:

- Its mission is to; (1) deliberate the medium-term plans and permit operational methods documents and (2) supervise the operation of reserve fund management and investment which are carried out by the GPIF.
- Members are appointed by the Minister of Health, Labour and Welfare from among people having significant insight into economic or financial matters as well as other people having academic experience.



# ROLE OF THE GOVERNMENT PENSION INVESTMENT FUND

## Basic approach to investment

- The GPIF should safely and efficiently invest pension reserve funds from a long-term viewpoint only for the benefit of the insured, especially keeping in mind that pension reserve funds are premiums collected from the insured and will become valuable financial sources for the payment of pensions in the future (Article 79-2 of the Employees' Pension Insurance Act; Article 75 of the National Pension Act).

## Objectives of investment

### (1) Securing of real investment returns

Because pension finance basically receives no influence as long as a real investment yield is secured (as long as the investment yield exceeds the wage growth rate by 1.1% or more), a long-term portfolio should be established and investments should be made according to the portfolio so that a real investment yield can be secured as a precondition for pension finance.

### (2) Securing of average market rate of return

In each fiscal year, efforts should be made to secure the benchmark rate of return for each asset. In addition, each benchmark rate of return should be secured in the mid-term objective period ((1) and (2) are mid-term objectives).

## Main Duties of the Government Pension Investment Fund

### ○ Establishment of a portfolio

Establish a portfolio in accordance with the preconditions for pension finance, paying attention to the following:

- Establish the composition of assets that can make it possible to secure a real investment yield as a precondition for pension finance.
- Establish the composition of assets that can make it possible to control the fluctuation risk within a certain level from the viewpoint of stabilization of pension finance. When establishing the composition, the GPIF carefully estimates the stock return risk, taking into consideration the characteristics of the risk, and minimize the risk on the whole portfolio.

### ○ Selection and management of asset management institutions

Except for some domestic bonds, the investment of reserve funds is entrusted to trust banks and investment advisory firms, both of which are specialized in investment. The GPIF selects and manages such asset management institutions.

### ○ Management (risk management) of all the assets managed by the GPIF

### ○ Securing of liquidity for the purpose of paying pension benefits whenever necessary