Policy Asset Mix for the Fifth Medium-Term Objectives Period
- Summary -

Government Pension Investment Fund

Policy Asset Mix for the Fifth Medium-Term Objectives Period

- ○ Government Pension Investment Fund (“GPIF”) establishes the target weights of different assets as a policy asset mix and makes an investment based on it. GPIF has formulated the policy asset mix for the fifth medium-term objectives (5-year plan) starting from fiscal 2025. The new policy asset mix was decided after six rounds of discussions at the Board of Governors, and will be effective on April 1, 2025.
- ○ In order to facilitate discussions at the Board of Governors, a Project Team consisting of experts in economics and finance was established under the Board of Governors in fiscal 2022, and has conducted twenty rounds of deliberations from multifaceted, comprehensive, theoretical and practical perspectives.
- ○ With regard to the investment of pension reserves, it is necessary to secure the investment returns required for the pension finance over the long run at the minimum risk, while responding to changes in the current investment environment and the expected future investment environment, toward stable pension benefits in the future.
- ○ In formulating the policy asset mix;
  - ➢ The results of the financial verification conducted by the Ministry of Health, Labour and Welfare and the medium-term objectives provided by the Minister of Health, Labour and Welfare were taken into consideration, as well as a reference asset mix jointly established by the four asset management entities responsible for the investment of pension reserves after the integration of the Employee’s Pension Schemes.
  - ➢ The professional knowledge generally recognized for asset management and investment were taken into account, as well as domestic and foreign economic trends.
  - ➢ In light of the increasing uncertainties in the recent global situation, such as the effects of various geopolitical risks and global challenges on the economy and society, a risk analysis was conducted from a forward-looking perspective.
- ○ Against these backdrops, by estimating the expected returns and risks of different assets and the correlation between them, and formulating a policy asset mix that achieves the investment returns required for the pension finance at the minimum risk, the target allocation remains the same as in the fourth medium-term objectives period.
- ○ The deviation limits to the target allocation are established for four assets as well as global bonds and global equities in order to strengthen the risk management on the equity side. The new deviation limits are narrowed compared with that of the fourth medium-term objectives period, based on the newly assumed risks.

Policy Asset Mix for the Fifth Medium-Term Objectives Period

○ GPIF has formulated policy asset mix as follows;

[Fourth Period]

	Domestic bonds	Foreign bonds	Domestic equities	Foreign equities
Target allocation	25%	25%	25%	25%
Deviation limits (each asset)	±7%	±6%	±8%	±7%
Deviation limits (global bonds and equities)	±11%		±11%	

[Fifth Period]

	Domestic bonds	Foreign bonds	Domestic equities	Foreign equities
Target allocation	25%	25%	25%	25%
Deviation limits (each asset)	±6%	±5%	±6%	±6%
Deviation limits (global bonds and equities)	±9%		±9%	

○ The target allocation remains the same as in the fourth medium-term objectives period, for the reason that GPIF selected a portfolio that achieves the real investment return* of 1.9% at the minimum risk after estimating the expected return of each asset based on the fiscal 2024 financial verification, and changing the calculation and updating the data with regard to the risks of different assets and the correlation between them.

* nominal investment return minus nominal wage growth

○ The deviation limits to the target allocation are established for four assets as well as global bonds and global equities in order to strengthen the risk management on the equity side. The new deviation limits are narrowed compared with that of the fourth medium-term objectives period, based on the newly assumed risks.

○ Alternative assets (infrastructure, private equities, real estates and other assets determined after discussions by the Board of Governors) are not positioned as independent asset classes as before and managed within domestic bonds, foreign bonds, domestic equities and foreign equities according to their risk-return characteristics with the upper limit of 5% of the total portfolio.

GPIF