

Note: This is a reference translation. In the event of any conflict between the original Japanese version and the English version, the text of the original Japanese version shall prevail.

Government Pension Investment Fund Medium-Term Plan

Approval of Ministry of Health, Labour and Welfare 0331 No. 15 dated March 31, 2020
Revision: Approval of Ministry of Health, Labour and Welfare 0125 No. 4 dated January 25, 2023

Pursuant to the provisions of Article 30, Paragraph (1) of the Act on General Rules for Incorporated Administrative Agencies (Act No. 103 of 1999), a plan to achieve the Medium-Term Objectives (the “Medium-Term Plan”) shall be established as follows in order to achieve the objectives concerning the operations to be achieved by the Government Pension Investment Fund (GPIF) during the period from April 2020 to March 2025 (the “Medium-Term Objectives”) as instructed by the Minister of Health, Labour and Welfare as of March 6, 2020, pursuant to the provisions of Article 29, Paragraph (1) of the said Act.

March 26, 2020

Norihiro Takahashi, President, Government Pension Investment Fund, Japan

Section 1 Measures to be taken to achieve the objectives concerning improving the quality of the services provided to the public and any other operations

1. Basic policy for management and investment of pension reserve funds

(1) Basic policy for management and investment of pension reserve funds

Any investment of the pension reserves is carried out, pursuant to the provisions of the related laws and regulations and the Medium-Term Objectives, with particular attention to the fact that the pension reserves are a part of the insurance premiums collected from insureds and that they are a valuable source of future pension benefits payments. And investment is done for the sole benefit of the insureds with the purpose of contributing to the sound management of pension services for years to come by safely and efficiently investing those reserves from a long-term perspective.

In addition, GPIF shall manage and invest pension reserves in accordance with the provisions of the “basic policy meant to ensure that the reserves are managed and invested safely and efficiently from a long-term perspective” (Notification of the Ministry of Internal Affairs and Communications, Ministry of Finance, Ministry of Education, Culture, Sports, Science and Technology, and Ministry of Health, Labour and Welfare No. 1 of 2014).

On the basis of investment diversification in multiple asset classes having different risk and return profiles, etc., therefore, the management and investment entities (meaning 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; the same shall apply hereinafter) jointly establish the reference asset mix for reserves (the “Reference Asset Mix”), formulate the policy asset mix from a long-term perspective (the “Policy Asset Mix”) after taking into consideration the Reference Asset Mix and invest the pension reserve funds.

In this regard, GPIF not only formulates and publishes the specific policies on the management and investment of the pension reserve fund but also reviews the policies in a timely and proper manner in light of drastic changes in the economic environment and revises them promptly as required.

(2) Matters to be observed for management and investment of pension reserve funds

[1] Thorough performance of fiduciary responsibility

GPIF thoroughly complies with the duty of care and duty of loyalty of prudent experts.

[2] Consideration of the impact on markets and private activities

When managing the pension reserve, GPIF pays close attention not to distort market price formation or private investment behavior, particularly by avoiding the concentration of rebalancing at a particular time, and also ensures to prevent it from suffering a disadvantage as a result of any excessive impact of its own actions, including information dissemination, on the market.

In addition, due consideration shall be given to the following points so as not to have a direct and excessive impact on corporate management and other operations.

- i There shall be a restriction on the holding of securities issued by the same company for each external asset manager (including in-house investment).
- ii Not to select individual stocks in equity investment.

(3) Cooperation with other management and investment entities

GPIF endeavors to cooperate in mutual coordination such as by providing other management and investment entities with necessary information.

2. Establishing an organizational structure worthy of greater trust from the Japanese public and ensuring transparency in operations

The Board of Governors shall vote on important matters of GPIF and conduct operations such as supervising the execution of duties by its executives in line with its policies so that its executives and employees including the President can use their expertise and execute their duties properly under their discretionary authority and responsibility. The Audit Committee shall conduct audits and other acts in collaboration with the Board of Governors from the viewpoints of thorough compliance, appropriateness of business execution procedures, risk management, etc. and shall provide the Board of Governors with its opinions as necessary.

In addition, the President shall participate in decision-making as a member of the collegial Board of Governors, represent GPIF, and preside over GPIF’s operations as stipulated by the Board of Governors. The Executive Managing Director (Management and Investment Operations), as stipulated by the Board of Governors, may attend a meeting of the Board of Governors and express its opinions about the management and investment operations.

As stated above, the Board of Governors in charge of decision-making and supervision, the Audit Committee in charge of audit, etc., and the President and other executives in charge of execution

shall work to ensure the full functioning of the autonomous PDCA cycle and establish an organizational structure that is more trusted by the public by appropriately sharing roles and cooperating. In addition, GPIF shall further enhance its efforts to contribute to improving transparency in light of the purport of the governance reform, such as by taking advantage of the accumulation of examples of the Board of Governors' judgments to organize the matters resolved by the Board of Governors and establish rules.

In order to promote the active involvement of executives and employees in operations, a survey on the attitudes of executives and employees is conducted once a year to examine and establish a mechanism to improve the situation.

3. Basic investment methods and investment targets

(1) Investment based on Policy Asset Mix

The pension reserve funds are invested with the aim of ensuring a long-term real return (net investment yield on the pension reserve fund less the nominal wage growth rate) of 1.7% with minimal risks, in light of the current financial situation and prospects as set forth in Article 2-4, Paragraph (1) of the Employees' Pension Insurance Act (Act No. 115 of 1954) and Article 4-3, Paragraph (1) of the National Pension Act (Act No. 141 of 1959). In order to achieve this return on investment, the Policy Asset Mix from a long-term perspective of management and investment of pension reserve fund shall be established and appropriately managed.

GPIF shall obtain the long-term and stable gains from the fruits of global economic growth, including interest and dividend income, and basically make long-term international diversified investment, in which assets, regions, etc. are diversified, from a viewpoint of risk management.

In doing so, GPIF shall give consideration not to distort market price formation, private investment behavior, etc.

(2) Ensuring the achievements of the benchmark returns

GPIF endeavors to ensure the achievement of the benchmark returns for the entire portfolio and individual asset classes for each fiscal year and ensures the achievement of respective benchmark returns also in the Medium-Term Objectives period.

For benchmarks, appropriate market indicators shall be used, taking into account the fact that they reflect the market, that they consist of investable securities, that details of such indicators are disclosed, etc.

In evaluating the performance, appropriate methods shall be used based on the benchmark returns and the results shall be reported to the Board of Governors. At such time, GPIF shall analyze factors in line with investment behavior to the extent possible, including the effect of asset allocation, effect of benchmark selection, and effect of fund selection, so that the PDCA cycle of investment behavior can be implemented.

(3) Formulation of Reference Asset Mix

GPIF shall formulate the Reference Asset Mix jointly with other management and investment entities.

(4) Review of Reference Asset Mix

When deemed necessary by the Board of Governors (e.g., if the investment environment that was assumed at the time of formulating the Reference Asset Mix may differ from reality or significantly change), GPIF shall examine and correct as necessary the Reference Asset Mix jointly with other management and investment entities. Such verification of the Reference Asset

Mix is conducted when it is deemed necessary in the verification of the Policy Asset Mix.

(5) Basic concept of Policy Asset Mix

The target allocation of the Policy Asset Mix to be formulated by the Board of Governors shall take into consideration the Reference Asset Mix and shall be in line with the investment objectives. The Policy Asset Mix shall be formulated from a long-term perspective and it should incorporate generally recognized asset management and investment expertise as well as domestic and overseas economic trends, in light of forward-looking risk analysis.

In doing so, the downside risks of underperforming the nominal wage growth rate cannot exceed that of the portfolio comprised solely of domestic bonds, and appropriate consideration shall be given to the fact that the downside risks for equities may be larger than expected. In addition, the probability that reserves may fall shorter than originally planned shall be properly accounted for and risk scenario analysis and others shall be conducted by exercising in-depth multiple scenarios.

(6) Policy Asset Mix

[1] Target allocation and deviation limits of each asset class

The asset classes comprising the Policy Asset Mix are domestic bonds, domestic equities, foreign bonds and foreign equities, and the Policy Asset Mix and deviation limits are set as follows.

The deviation limits shall be allowed to be exceeded until the transition to the Policy Asset Mix specified below is completed.

	Domestic bonds	Foreign bonds	Domestic equities	Foreign equities
Target allocation	25%	25%	25%	25%
Deviation limits	±7%	±6%	±8%	±7%
	±11%		±11%	

(Note) JPY hedged foreign bonds and yen-denominated short-term assets are classified as domestic bonds, while foreign currency-denominated short-term assets are classified as foreign bonds.

[2] Concept of deviation limits

GPIF may carry out flexible investment based on a proper outlook for the market environments, within a deviation limit for the Policy Asset Mix, upon taking into account the current trends marked by the fast-changing economic and market environments. However, the outlook must be based on reasonable grounds.

[3] Ideal approach to alternative asset investment

Alternative assets (infrastructures, private equities, real estates, and other assets determined through resolutions at the Board of Governors) are classified into domestic bonds, domestic equities, foreign bonds, and foreign equities based on their risk and return profiles, and are capped to 5% of total assets. However, if economic and market conditions prevent compliance with the 5% ceiling rule, this limit may be raised after deliberation and resolution by the Board of Governors.

(7) Review of Policy Asset Mix

GPIF shall conduct appropriate risk management in light of market trends, verify the Policy Asset Mix in a timely and appropriate manner during the Medium-Term Objectives period, and, if the Board of Governors deems it necessary due to the possibility that the investment environment presumed at the time of formulation may change significantly, consider reviewing the Policy Asset

Mix even during the Medium-Term Objectives period, and promptly revise the Policy Asset Mix as necessary. If it is deemed necessary in view of the impact on the market, etc., a transitional asset mix (meaning the transitional composition of assets until the realization of the Policy Asset Mix) shall be formulated in order to smoothly make the transition to the revised Policy Asset Mix.

(8) Securing the liquidity for pension payout

GPIF shall secure the liquidity necessary for pension payouts, etc. and efficiently manage cash by taking into consideration the outlook for the pension finance and the status of revenue and expenditure.

At the same time, GPIF shall enhance the necessary functions, such as grasping and analyzing market trends and utilizing short-term borrowings, for the purpose of assuring liquidity without shortages by selling assets and so on in a smooth manner while giving consideration to market price formation and other factors..

4. Diversified and sophisticated investment management

(1) Investment method

With respect to investment method, appropriate risk management shall be conducted under appropriate supervision by the Board of Governors such as through resolution after deliberation of matters which the Board of Governors deems to be important in association with the introduction of a new method, etc.

In principle, both passive investment and active investment aimed at capturing excess returns are used in making investment. However, GPIF shall make active investment on the premise that sufficient grounds which support the expectation of capturing excess returns are obtained, based on a qualitative assessment that takes into account quantitative performance, and manage the manager structure of the active asset managers such as by diversifying styles. In addition, through the new performance-based fee structure introduced in FY2018, GPIF shall strengthen the alignment with the active external asset managers and improve the self-governance of active external asset managers.

Benchmarks shall be examined not only based on the traditional market capitalization-based index but also from a broad perspective, and with respect to the assessment of alternative assets that is difficult to conduct based on benchmarks, the method of assessment shall be specified based on generally accepted expertise in asset management and investment.

In addition, GPIF shall continually collect information on and make an analysis of various potential benchmark indexes through index posting.

(2) Diversified investments

GPIF shall attempt to diversify the investments such as by making alternative investments in order to promote investment diversification in accordance with the basic policy specified in Section 1, Paragraph 1. When adding new investment targets, the Board of Governors shall broadly examine on the premise that it will benefit the insureds.

In regard to alternative investments, based on the differences in investment methods from traditional assets and inherent risks such as marketability, profitability, individuality, transaction costs, and information disclosure situation, GPIF shall endeavor to enhance the ability to select high-quality investments by securing investment front office personnel with high expertise and utilizing external advisors, and to improve the system by enhancing middle and back office functions. In addition, GPIF shall proceed with thorough consideration of factors specific to alternative assets, such as the stability of profitability of each asset, the potential for excess returns,

and the development of the market environment including the development of secondary markets. Meanwhile, GPIF shall continually make validation in terms of risk management and stable securing of excess returns, and shall proceed with prudent measures based on the results of such validation.

In addition, GPIF shall expand and strengthen legal functions so that it can respond to highly individualized alternative investments in a timely and appropriate manner.

5. Selection, assessment, and management of external asset managers, etc.

GPIF shall proceed with measures to select and strengthen the selection and management of external asset managers, and the external asset managers including their fund allocation shall be periodically assessed and reviewed in a timely manner. When selecting external asset managers, consideration shall be given not only to the assessment of each individual investment manager but also to the manager structure such as style diversification.

GPIF shall enhance the sophistication of assessment methods for the adoption of external asset managers with higher added value, such as the acquisition of excess returns and stewardship activities, and also promote the use of more flexible and high-quality custody service providers and the utilization of investment data in response to the sophisticated and diversified investment management.

In addition, GPIF shall strengthen the middle and back office systems to maximize the expertise of the investment front office.

6. Risk management

(1) Risk management for management and investment of pension reserve funds

GPIF adopts a basic principle for risk management of diversifying investment portfolios across multiple asset classes having different risk and return profiles, etc. and appropriately manages various risks associated with the management and investment of pension reserve funds. The President shall regularly report the status of risk management to the Board of Governors and the Board of Governors shall appropriately monitor the status.

In addition, specific risk management methods shall be as follows based on reports from external asset managers and custody service providers for the entire portfolio, each asset class, each external asset manager, each custody service provider, and in-house investment.

[1] Entire portfolio

In order to appropriately manage the Policy Asset Mix, GPIF shall understand the deviation between the portfolio allocation of pension reserves and the Policy Asset Mix at least once a month and take necessary measures. In addition, in order to carry out appropriate and smooth rebalancing, GPIF shall understand and analyze the market trends, confirm the entire portfolio risks, analyze and assess the degree of risk bearing, and analyze factors for deviation from the composite benchmark return of each fiscal year.

[2] Each asset class

GPIF shall manage market risk, liquidity risk, credit risk, etc. For foreign assets, GPIF shall also pay close attention to country risks.

[3] Each external asset manager

GPIF shall present investment guidelines to external asset managers regarding investment objectives, investment methods, risk indicators, benchmarks, etc., and understand and appropriately manage and assess the investment status and risk bearing status of each manager and changes in investment structures, etc. In addition, appropriate management of the manager structure, such as diversifying investment styles of external asset managers, shall be carried out.

[4] Each custody service provider

GPIF shall present trust and custody service guidelines to custody service providers regarding asset management objectives, management methods, systems, etc., and understand and appropriately manage and assess the asset management status of each provider and changes in

asset management systems. In addition, from the viewpoint of BCPs and other considerations, GPIF shall promote the adoption of multiple custody service providers, as well as the development of an operation system of asset management in response to sophisticated and diversified investment management.

[5] In-house investment

GPIF shall establish investment guidelines with respect to investment objectives, investment methods, risk indicators, and benchmarks and manage them appropriately.

[6] Transition management

GPIF shall develop a system and structure for appropriately managing the cost of fund transfers arising from various investment motives such as asset allocation changes, benchmark changes, and manager changes.

(2) Development of systems to strengthen risk management and internal control, etc.

With the increase in assets under management and the full-fledged development of alternative investments, in order to appropriately manage the risk of the entire portfolio, GPIF shall develop a system for appropriately managing investment risks such as by promoting integrated and multi-tiered risk management, enhancing and strengthening middle and back office functions, and multiplexing a check system.

In addition, in order to promote the sophistication of risk management, GPIF shall further develop the database for investment decision-making and various tools, and investigate and study risk management methods from the perspective of long-term investment, including climate change risk analysis and long-term, multi-period scenario analysis.

Further, GPIF shall expand and strengthen the legal function in order to steadily implement the PDCA cycle for operational risks, encourage appropriate responses in the event of an incident, and strengthen the internal control.

7. Activities to fulfill stewardship responsibilities

From the purpose of avoiding directly influencing corporate management, GPIF itself does not exercise voting rights and instead entrusts the external asset managers with the exercise of voting rights. However, from the viewpoint of further promoting its activities to fulfill GPIF's stewardship responsibilities (the "stewardship activities"), GPIF shall conduct effective engagement when entrusting an external asset manager, with an awareness of materiality of ESG (environmental, social, and governance) that leads to long-term investment returns. When doing so, GPIF shall clarify that stewardship activities including the exercise of voting rights by external asset managers aim to improve long-term investment returns solely for the insureds. In addition, assessment of the effectiveness of Stewardship Activities will be considered through engagement, etc. via two-way communication between GPIF and external asset managers. GPIF shall compile a "Stewardship Activities Report" regarding the status of stewardship activities and report to the Board of Governors.

GPIF shall make responses in accordance with the "Policy for Fulfilling Stewardship Responsibilities" based on the principles of "Responsible Institutional Investors" - Japan's Stewardship Code.

8. Investment considering ESG, etc.

In investing pension reserves, GPIF shall promote investments that consider ESG (environmental, social, and governance) as non-financial factors in addition to financial factors based on the idea

that sustainable growth of investees as well as the overall markets is necessary for the long-term expansion of investment returns on the assets under management, from the viewpoint of securing long-term returns for the benefit of the insureds, and continuously verify the effectiveness thereof.

In addition to equity investment, for which measures have already been taken, GPIF shall advance measures that consider EGS while taking into account the different characteristics of each asset class.

9. Information dissemination, public relations, and ensuring transparency

In accordance with the interests of the public, etc., GPIF shall strategically consider the ideal approach of information dissemination and public relations activities, continue to further enhance information dissemination and public relations activities not only for experts but also for the public and the media. GPIF shall also endeavor to evaluate them and understand and analyze the effectiveness thereof.

With regard to the management and investment of pension reserve funds, GPIF shall promptly publish the status of management and investment performance for each fiscal year (including the status of the entire invested assets, the status of each invested asset, the status of each external asset manager, etc., management and custodian fees, and the selection of external asset managers) once a year (or quarterly for the status of management and investment performance for each quarter (including the status of the entire invested assets and the status of each invested asset)) on the website, etc.

In addition, in light of the characteristics that GPIF is a super-long-term investor with an investment period of several decades and that there is a high possibility that the reserve fund will increase significantly over the next several decades, GPIF shall deepen its consideration of the ideal approach of information dissemination in an easy-to-understand manner so that the public can understand the entity it should be from a multifaceted perspective (necessity of long-term globally diversified investment, the significance of alternative investments, the concept of stewardship activities, and ESG investments, etc.). In doing so, GPIF shall further enhance its website and the Annual Reports, etc. and devise effective means of information dissemination in accordance with the nature of the investment, including speeches by executives.

Such public relations efforts shall be periodically verified, and the content of such efforts shall be continuously improved based on the results.

Furthermore, GPIF shall ensure the transparency of matters that the Board of Governors deems to be important under appropriate supervision by the Board of Governors, such as by resolving the matters after deliberation by the Board of Governors, and publicly disclose the minutes and an outline of the proceedings promptly after the lapse of the period specified in the Ordinance of the Ministry of Health, Labour and Welfare (Ministerial Ordinance on Business Operation, Finance, Accounting and Human Resources Management of the Government Pension Investment Fund (Ordinance of the Ministry of Health, Labour and Welfare No. 60 of 2006)) in order to ensure the transparency of the deliberation by the Board of Governors.

Moreover, in order to further enhance the transparency of the management and investment of pension reserve funds by GPIF, GPIF shall publicly announce the names of all securities it holds (for bonds, the names of the issuers) and the total market value of the securities. At the same time, GPIF shall promote the disclosure of information on alternative investments as clearly as possible and consider appropriate methods for disclosure of information after grasping the substantial expenses paid to asset managers, etc. in as much detail as possible. In doing so, consideration shall also be given to the content of the contract with asset managers, etc.

When disclosing such information, the impact on the market should be taken into consideration.

Section 2 Measures to be taken to achieve the objectives concerning improving the efficiency of the operations

1. Establishment of efficient operation system

In order to carry out operations efficiently and effectively, GPIF shall review the organization and staffing of each division (including the administrative division), in line with actual circumstances while taking into account examples of other private financial institutions, etc., and actively utilize advanced technologies such as AI and RPA for the advancement and efficiency of operations. In doing so, if GPIF expands its organizational structure, including increasing its personnel, it shall proceed after thoroughly examining the necessity for such expansion, with the involvement of the Board of Governors.

In addition, appropriate performance evaluation, etc. shall be conducted that reflect the awareness of cost savings, capabilities, and performance.

2. Cost savings associated with streamlining operations

The average cost savings during the Medium-Term Objectives period shall be at least 1.24% per annum compared with the previous fiscal year, based on the fiscal 2019 level. The cost-saving target includes general administrative expenses (excluding expenses related to computer systems and personnel expenses) and operational expenses (excluding expenses related to computer systems, management and custodian fees, index fees, personnel expenses, and expenses related to short-term borrowings). Costs added or expanded to secure highly skilled human resources with expertise and respond to the sophistication and diversification of investment, etc. are excluded from the cost-saving target. The additions and expansions shall be subject to the 1.24% cost-saving target from the following fiscal year.

For overall expenses, including those added or expanded, GPIF shall strengthen efforts in the PDCA cycle that ensures the proper implementation of budgets and appropriate reviews, as necessary, and the Board of Governors shall regularly discuss and revise these efforts as necessary.

GPIF shall appropriately handle the personnel expenses in accordance with the policies of the government of Japan. In this regard, GPIF shall secure the necessary personnel structure so that GPIF can appropriately respond to the sophisticated and diversified investment management and the strengthening of risk management including the securing of highly skilled human resources with expertise.

In addition, GPIF shall make efforts to ensure the appropriateness of the salary levels after verifying the salaries of executives and employees, including allowances, taking into account the salaries of national public servants, the salaries of private companies such as financial institutions, the business performance of GPIF, the job characteristics of staff, etc. and also publish the results of the verification and the status of the efforts. In this case, the level of remuneration for highly skilled human resources with expertise shall be addressed in accordance with Section 9, Paragraph 1.

GPIF shall endeavor to make the level of management and custodian fees efficient and reasonable by comparing changes in fees depending on the investment performance as a result of the introduction of the new performance-based fee structure, as well as changes in asset sizes for each asset class in relation to returns or by analyzing factors.

3. Appropriate contracts

In order to realize appropriate, prompt, and effective procurement through fair and transparent procurement procedures, GPIF shall steadily take measures under the “Procurement

Rationalization Plan” formulated by GPIF in accordance with the “Promotion of Procurement Rationalization Measures by Incorporated Administrative Agencies” (Decision of the Minister of Internal Affairs and Communications dated May 25, 2015).

4. Measures for computerization of operations

To implement operations efficiently and effectively, GPIF shall promote the use of IT, computerization, etc. Specifically, GPIF shall improve the efficiency of corporate operations such as by developing information systems that contribute to the reduction and streamlining of clerical work and by actively utilizing external resources with specialized expertise.

In addition, GPIF shall appropriately develop and manage information systems in accordance with the “Basic Policy for Development and Management of Information Systems” (Decision of the Minister for Digital Transformation dated December 24, 2021) established by the Digital Agency.

Furthermore, in order to promote these efforts, GPIF shall strive to develop and recruit IT specialists.

Section 3 Matters concerning improving the financial conditions

GPIF shall prepare a budget for the Medium-Term Plan in consideration of the matters specified in “Section 2. Measures to be taken to achieve the objectives concerning improving the efficiency of the operations,” and conduct appropriate and efficient operations based on the budget.

Section 4 Budget, income and expenditure plan and financial plan

1. Budget

As per Table 1

2. Income and expenditure plan

As per Table 2

3. Financial plan

As per Table 3

Section 5 Upper limit of short-term borrowings

1. Upper limit of short-term borrowings

2 trillion yen

2. Assumed reason

To respond to a temporary shortage of funds due to unforeseeable reasons.

Section 6 If GPIF has any unnecessary property or any property that is expected to be unnecessary property, a plan for disposal of such property

Not applicable

Section 7 If GPIF intends to transfer or provide as collateral any important property other than the property provided for in Section 6, a plan therefor

Not applicable

Section 8 Use of a surplus

Not applicable

Section 9 Other matters concerning the operations specified by order of the relevant ministry

1. Securing, development, retention, etc. of highly skilled human resources with expertise

- (1) GPIF shall clarify the area of operations requiring highly skilled human resources with expertise and develop an environment for accepting such human resources.

In addition, in order to maintain the contribution of highly skilled human resources with expertise to GPIF, their performance shall be periodically evaluated and the human resources shall be allocated in a timely and appropriate way, for example, by making it possible to review the employment relationship if necessary.

Furthermore, GPIF aims to improve the operational capabilities by returning the know-how and achievements of highly skilled human resources with expertise to the executives and employees of GPIF.

An appropriate level of remuneration for highly skilled human resources with expertise shall be examined by making the remuneration system performance-based and comparing it with the level of remuneration for human resources with similar skills in the private sector. The results shall be clearly explained to the public.

Through these efforts, GPIF shall secure, develop, and retain highly skilled human resources with expertise in response to the sophisticated and diversified investment management, etc.

- (2) To improve the quality of staff members, GPIF shall provide professional and practical training in areas such as asset management and actively support acquisition of qualifications in those areas, etc. In addition, based on the “Guidelines on the Establishment of Objectives for Incorporated Administrative Agencies” (Decision of the Minister of Internal Affairs and Communications dated September 2, 2014), GPIF shall formulate a policy for strategically securing and developing human resources for the purpose of securing and develop specialists and also develop and strengthen human resources by enhancing training systems and preparing a human resource map.

2. Research

With regard to research on the management and investment of pension reserve funds, from the viewpoint of safe and efficient management and investment of pension reserve funds into the future, GPIF shall work on research based on the purpose, “for the sole benefit of the insureds,” by utilizing external resources including universities and think tanks. Specifically, GPIF shall actively engage to verify that research on the Policy Asset Mix, sophistication and diversification of investment management, promotion of sustainability-focused investment activities, enhancement of risk management and internal control functions, research contributing to the utilization of advanced technologies, and public and private activities for the realization of the Sustainable Development Goals (SDGs) contribute to the long-term benefit of the insureds and safe and efficient asset management. In doing so, GPIF shall pay attention to the development of in-house systems utilizing highly skilled human resources with expertise, in-house accumulation of know-how obtained through research, and further promotion of development of human resources. GPIF shall thoroughly take measures to prevent information leakage, etc. when conducting research utilizing external resources.

Further, with the appropriate involvement of the Board of Governors, GPIF shall enhance its efforts for the PDCA cycle related to research activities, such as setting research themes, setting achievement objectives for research results, evaluation, and utilization of research results in operations. In that process, GPIF shall endeavor to appropriately verify the cost-effectiveness of the research.

3. Strengthening the system to further strengthen internal control

GPIF shall strive to further strengthen the system of internal control, etc. based on the “Basic Policies of Internal Control” established by the Board of Governors. Specifically, GPIF shall strive to ensure compliance with laws and regulations as well as fiduciary responsibility, etc., comply with the Investment Principles and the Code of Conduct, and build an organization worthy of greater trust from the public. To this end, while taking into account the examples of other private financial institutions, etc., the Board of Governors, the Audit Committee, and the executives and employees including the President shall work together to inspect the current internal system and promptly take any necessary improvement measures.

Regarding investment and management of the pension reserves, GPIF strives to improve its expertise, clarify the system of accountability, and thoroughly disseminate and comply with the relevant laws and regulations, the Medium-Term Objectives, the Medium-Term Plan and the specific policies on the management and investment of pension funds set forth in Section 1, Paragraph 1 based on the duty of care and duty of loyalty of a prudent expert. Further, GPIF requests the external asset managers, etc. to thoroughly comply with the relevant laws and regulations, etc.

In order to ensure thorough compliance and to more appropriately ensure compliance with laws and regulations, GPIF shall utilize highly objective and specialized legal experts, expand and strengthen the legal system and functions, and also ensure strict adherence to rules on re-employment of executives and employees to prevent any suspicion of inappropriate relationships with external asset managers, etc.

4. Enhancing governance by strengthening the functions of the Audit Committee

(1) Strengthening the system to ensure the effectiveness of the duties of the Audit Committee

GPIF shall develop and improve the environment to enable the Audit Committee to fully perform its role, such as by strengthening the system to assist the Audit Committee and providing necessary expenses for audits by the Audit Committee.

(2) Audit and monitoring policies

The Audit Committee shall consider the Audit Committee Rules, the Rules on Implementation of Audit and Monitoring by the Audit Committee, and the Audit Committee’s Audit Implementation Standards for Internal Control as its audit policies, and audit and monitor the operations of GPIF in accordance with these policies.

GPIF shall revise the policies from time to time to respond to changes in circumstances during the Medium-Term Plan period and to conduct appropriate audits.

(3) Formulation of an audit plan and conduct of audits based on the plan

The Audit Committee shall prepare an audit report for each fiscal year based on the results of the operational and accounting audits for the relevant year, formulate an audit plan as the audit policy for the following year, present it to the Board of Governors and the Executive Office (the “Audited

Subject”), and conduct audits in line with such plan.

The Audit Committee shall communicate with the Audited Subject, such as through the provision of feedback on the results of operational and accounting audits for each fiscal year to the Audited Subject, maintain close cooperation with the Internal Audit Department and other departments in charge of internal control functions, and participate in training sessions and liaison meetings for the Audit Committee members. The Audit Committee shall improve the effectiveness of audits by implementing the audit PDCA cycle, for example by reflecting the information and findings obtained from such activities to.

(4) Inspection of operations pursuant to internal rules

The Audit Committee shall confirm through the operational audits whether the operations are being conducted in accordance with various internal rules and, if deemed necessary, submit its opinions to either the Board of Governors or the President, or alternatively the Minister of Health, Labour and Welfare.

5. Information security measures

GPIF shall strictly take information security measures based on the Information Security Management Rules, evaluate the effectiveness of information security measures taken by GPIF, and confirm that the measures are functioning sufficiently on a daily basis.

In accordance with the government’s cloud-by-default principle, GPIF shall sophisticate the information security measures when using cloud services.

In addition, GPIF shall thoroughly evaluate the effectiveness of the information management system of not only the executives and employees of GPIF but also related institutions such as external asset managers outside GPIF.

6. Plans for facilities and equipment

Not applicable

7. Debt burden beyond the Medium-Term Objectives period

GPIF shall assume debts beyond the Medium-Term Objectives period if deemed reasonable after taking into consideration the necessity and appropriateness of such assumption of debts in order to efficiently perform management and investment operations.