

## “GPIF” Reform Set to Move – Seeking for Higher Return

### 1. What is GPIF? What are its issues?

The GPIF is an independent administrative institution with the mission of managing and investing the “Reserve Funds” of the public pension funds (Employees' Pension Insurance and the National Pension). Official name of the GPIF is the “Government Pension Investment Fund, Japan”, however, the GPIF is commonly used. The GPIF is the world’s largest pension fund which manages approx. ¥129trillion as of end 2013. Currently, the GPIF allocates approx. 55% of its total asset to the domestic bonds and approx. 17% to the domestic equities. Lately, revision of the GPIF’s asset allocation is gaining its momentum since the current allocation has limited interest rate return and the policy of government to end deflation increases the risk of bond price fall.

### 2. Latest Trend

Minister Tamura, the Ministry of Health, Labor and Welfare (MHLW), appointed seven members of the GPIF investment committee on April 22. Three of newly elected members are former members of the public pension fund reform panel who had been calling for the changes of the current investment strategy which heavily invests into domestic bond. One of this three committee members is Waseda University professor Yasuhiro Yonezawa who is expected to be picked by his colleagues to lead the committee. Professor Yonezawa belongs to several advisory panels calling for changes of way to manage pension funds. With him onboard, it is expected that the committee will favor the government policy to increase equity exposure this time. Number of the investment committee members became eight, including one to resign this July, are responsible to discuss and monitor investment administration of medium term strategies of the GPIF.

“Review of the Actuarial Valuation of the Public Pension Plans” published every 5 years by MHLW is likely to be due in the end of May or in June this year which may speed up the pension investment reform.

GPIF’s Asset Allocation & Basic Portfolio

	End December, 2013		Basic Portfolio (%)		
	Asset Size (Yen Trillion)	Weighting (%)	Median	Allowable range of deviation	
				Lower end	Upper end
Domestic bonds	71.0	55.2	60	52	68
Domestic stocks	22.1	17.2	12	6	18
International bonds	13.6	10.6	11	6	16
International stocks	19.5	15.2	12	7	17
Short-term assets	2.3	1.8	5	-	-
Total	128.5	100.0	100	-	-

(Source) Prepared by SMAM based on the data of the GPIF

### 3. Future Outlook

It is estimated that approx. 1% increase of allocation to the domestic equities by the GPIF will create “inflow” of ¥1trillion into the Japanese equity market. This amount is equal to that of almost one month of the annual net purchase by the foreign investors in 2013 (over ¥15trillion) which lead the Japanese equity market to rise. In addition, mutual aid pension programs covering central government employees, local government employees and private-school teachers & staff are to share their investment strategies with the GPIF from October 2015. The three mutual aid programs had an aggregate approx. ¥30trillion in investment assets as of March 2013. This movement implies that the investment strategy reform of the GPIF would also influence the other pension funds.

Market participants assume that the pension funds are conservative and therefore new allocation to the Japanese equity would be 2 to 3% in the near terms. Having said that, this movement is definitely the supporting news for the Japanese equity market which is worth paying attention to.

#### Disclaimer

##### **Please read this disclaimer carefully.**

- This material is for non-Japanese institutional investors only.
- The research and analysis included in this report, and those opinions or judgments as outcomes thereof, are intended to introduce or demonstrate capabilities and expertise of Sumitomo Mitsui Asset Management Company, Ltd. (hereinafter “SMAM”), or to provide information on investment strategies and opportunities. Therefore this material is not intended to offer or solicit investments, provide investment advice or service, or to be considered as disclosure documents under the Financial Instruments and Exchange Law of Japan.
- The expected returns or risks in this report are calculated based upon historical data and/or estimated upon the economic outlook at present, and should be construed no warrant of future returns and risks.
- Past performance is not necessarily indicative of future results.
- The simulated data or returns in this report besides the fund historical returns do not include/reflect any investment management fees, transaction costs, or re-balancing costs, etc.
- The investment products or strategies do not guarantee future results nor guarantee the principal of investments. The investments may suffer losses and the results of investments, including such losses, belong to the client.
- The recipient of this report must make its own independent decisions regarding investments.
- The opinions, outlooks and estimates in this report do not guarantee future trends or results. They constitute SMAM’s judgment as of the date of this material and are subject to change without notice.
- The awards included in this report are based on past achievements and do not guarantee future results.
- The intellectual property and all rights of the benchmarks/indexes belong to the publisher and the authorized entities/individuals.
- This material has been prepared by obtaining data from sources which are believed to be reliable but SMAM can not and does not guarantee its completeness or accuracy.
- All rights, titles and interests in this material and any content contained herein are the exclusive properties of SMAM, except as otherwise stated. It is strictly prohibited from using this material for investments, reproducing/copying this material without SMAM’s authorization, or from disclosing this material to a third party.

Registered Number: Kanto Regional Finance Bureau (KINSYO) No.399

Member of Japan Investment Advisers Association and the Investment Trusts Association, Japan

© Sumitomo Mitsui Asset Management Company, Limited



Sumitomo Mitsui Asset Management

SMAM