

# Investment Trust

(The original is written in Japanese. This translation is for reference purposes only.)

## Investment Trust Guide

### 1 What is an “Investment Trust” ?

Investment trusts invest funds collected from a large number of investors in diversified securities such as stocks and bonds. The profit and loss resulting from the investment management activity belong to investors.

- Assets are diversified across many investments.
- Profit and loss belong to investors and are appropriated on a pro-rata basis relative to the percentage of the investment trust assets belonging to each investor.
- Principal and returns are not guaranteed.

Investment trusts are managed professionally by the following types of institutions.

- Creation and management of an investment trust ..... ITM company (Investment management company)
- Distribution of an investment trust and pooling of funds  
..... Distributor (Securities companies and other financial institutions)
- Safe keeping and administration of pooled funds as trust assets ..... Trustee (Trust bank)

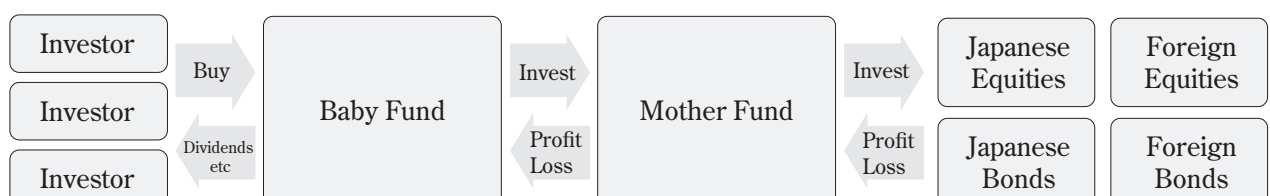
### 2 Characteristics of an Investment Trust

Investment trusts have the following characteristics:

- They give investors access to diversified portfolios of equities, bonds and other securities with a small amount of capital.
- Investment specialists select and manage the investments.
- By having specialists pool funds and diversify them among various issues of stocks and bonds, fluctuation in prices can be reduced (risk is lowered) when compared to investing in a single issue.
- While there is a possibility of large excess return, principal may incur losses due to price decline. Thus, principal is not guaranteed.
- Products offered vary by investment target and management style so as to allow investors to select products that meet their investment objectives and risk tolerance.

We have investment trusts which are managed by the family of funds method.

- Investment trusts managed by the family of funds method consist of baby funds and a mother fund.
- Investors can purchase the baby fund. (It is not possible to purchase the mother fund.)
- Baby funds invest in its mother fund.
- Multiple baby funds with the same investment policy will invest in the mother fund which in turn invests in equities and/or bonds. As a result, more efficient investing can be carried out due to the size of assets in the mother fund.
- Profit and loss associated with the investment management process of the mother fund are passed to investors through the baby funds.



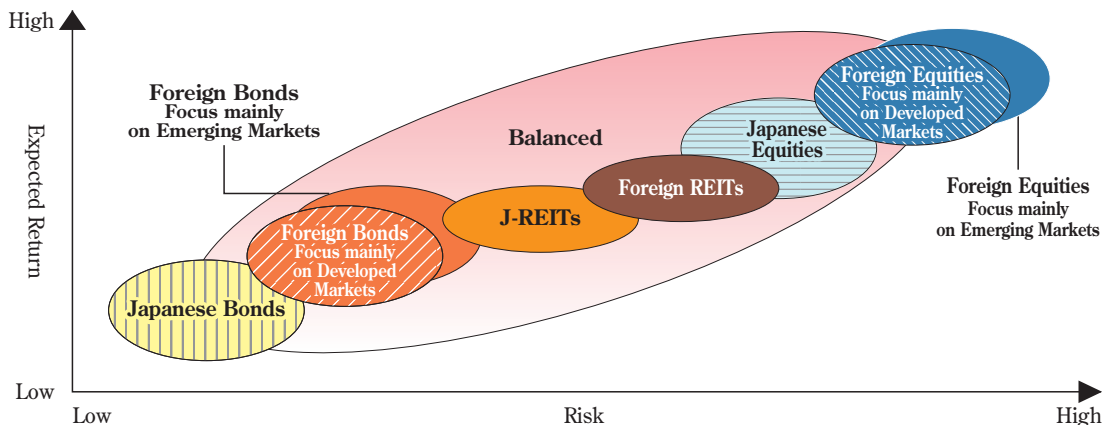
### 3 Categories by Investment Target

#### ◎Categories by Investment Target

<b>Japanese Equities</b>	● Invests mainly in Japanese equities. Includes large caps, mid-small caps, and small caps.
<b>Foreign Equities</b>	● Invests mainly in foreign equities. Includes equities of developed countries and emerging markets.
<b>Japanese Bonds</b>	● Invests mainly in Japanese bonds. Includes the Japanese government bonds, municipal bonds and corporate bonds.
<b>Foreign Bonds</b>	● Invests mainly in foreign bonds. Includes bonds of developed countries and emerging markets.
<b>Balanced</b>	● Invests mainly in both Japanese and foreign equities and bonds. Combines a balance of various asset classes while investing.

\*Asset categories besides equities or bonds for investment target include Real Estate Investment Trusts (REITs).

#### ■Risk and Return in Asset Class■



\*This graph is provided to illustrate the relationship between risk and return for reference while actual investment performance will differ.

#### ◎Categories by Investment Style

##### ●Passive Management(Index Management)

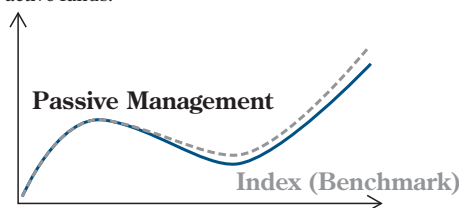
- A style of management where a fund's performance is aimed to mirror a market index (benchmark).
- Portfolios composed of issues adopted from an index with similar asset class ratios.
- Investment performance depends on market trends.

##### <Characteristics>

If the target index is the same, performance tends to mirror the index. Passive products tend to be generic and without unique features.

##### <Cost>

Research and analysis costs are not incurred, thus management fees tend to be lower than those for active funds.



##### ●Active Management

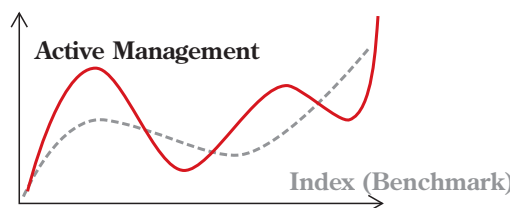
- A style of management where a fund aims to outperform a specific index (benchmark).
- Specialists (fund managers) select stocks based on proprietary research and analysis.
- Performance depends on both market trends and the management ability of the investment management company.

##### <Characteristics>

Even when the benchmark is the same, actively managed funds tend to perform differently from one another. Actively managed products can vary in detail and possess unique characteristics.

##### <Cost>

Management fees tend to be more than those for passive products due to research and analysis cost incurred.



##### ■Classifications of active funds

##### ●Value Investing (invests in undervalued stocks)

- A strategy of investing in stocks that are judged to be undervalued upon evaluating the companies' earnings and financial position.

##### ●Growth Investing (invests in stocks with growth potential)

- A strategy of investing in stocks that are judged to have potential for growth while paying attention to their earnings and performance.

#### ●What is a benchmark?

A benchmark is a standard against which the performance of an investment trust can be measured. Generally, broad market indexes are identified as benchmarks. For example, if the investment target is Japanese stocks, the Nikkei Stock Average, TOPIX (Tokyo Stock Price Index), etc., are identified as benchmarks.

#### ●Major Benchmarks

<b>Japanese Equities</b>	● TOPIX (Tokyo Stock Price Index) An index released daily by the Tokyo Stock Exchange (TSE). It is one of the major indices for Japanese equities. It is a capitalization weighted index which was set at the closing of January 4, 1968 with a base value of 100.
<b>Foreign Equities</b>	● MSCI-KOKUSAI Index A capitalization-weighted index developed by Morgan Stanley Capital International (MSCI). It consists of major developed countries excluding Japan.
<b>Japanese Bonds</b>	● NOMURA-BPI A total return index developed by Nomura Securities representing all publicly offered bonds issued in Japan.
<b>Foreign Bonds</b>	● FTSE World Government Bond Index An index calculated and released by FTSE Russell. It is an index of the overall investment yield of government bonds from developed countries that is a weighted-average based on each market capitalization.

## 4 Risks

- Investment trusts invest in securities such as stocks, bonds and other vehicles with price fluctuations.
  - Securities have the following risks, and the net asset value (NAV) of investment trust units will fluctuate. Therefore, the principal is not guaranteed.
  - In general, products with higher risk have higher expected returns but inversely have the possibility of greater losses.
  - Risks associated with investment trusts are different depending upon the investment universe of the investment trust.
- Please confirm the risks for each investment trust by referring to the product guides.

### Major Risks

<b>Price Fluctuation Risk</b>	Price of securities fluctuate due to changes in the market, economy, social circumstances and earnings performance of the issuer. Therefore, the net assets value (NAV) per unit of the investment trust which invests in securities also fluctuates.
<b>Interest Rate Risk</b>	Prices of bonds fluctuate due to interest rate fluctuations in the market. In general, an increase in interest rates is a negative factor, and a decrease in interest rates is a positive factor.
<b>Credit Risk</b>	Investors may suffer a loss of principal or difficulties of interests collection due to bankruptcy or decline in the financial conditions of the issuers of the underlying securities.
<b>Currency Risk</b>	Yen based value of foreign currency denominated securities fluctuates due to the fluctuation of foreign exchange rates in addition to the price fluctuations of the securities. Some investment trusts hedge currency risk in order to avoid these fluctuations. Additional cost is required for currency hedging. Also, currency hedging does not always work perfectly due to price fluctuations of the underlying securities.

### Other Risks

<b>Liquidity Risk</b>	Small market size or low transaction volume may result in difficulties in selling of securities within the expected period and at the expected price. As a result, loss may be borne or profit may be lost.
<b>Mid-Small Cap Equity Risk</b>	Changes in business climate, as well as changes in individual business performance affects small to medium sized enterprises to a greater extent than large companies, thus increasing the credit risk. In addition, there is a further liquidity risk due to the low number of shares issued. Thus price fluctuations of mid-small cap stocks tend to be higher than that of large cap stocks.
<b>Country Risk</b>	Overseas securities are subject to political and economic conditions, exchange regulations, capital regulations, tax systems, etc, in the country of origin. Once these are altered, they may affect the financial and securities markets - such securities may lose considerable value, and some restrictions may be imposed on the ability to trade such securities. In particular, emerging markets have greater volatility than markets in advanced countries. As a result securities trading in these markets are more prone to price fluctuations.
<b>Real Estate Investment Risk</b>	Unit prices and dividends from Real Estate Investment Trusts (REIT) may fluctuate due to reduction in property values or rental income from properties owned, as they are influenced by the real estate market, rental market, interest rates, economy, etc. Unit prices and dividends may also fluctuate due to natural disasters such as earthquakes and fires.

## 5 Trading Information

- Investment is made by purchasing or switching to and from the investment products.
- Investment instructions may be made through AnswerNet (online) or AnswerCenter (call center).
- Please refer to the product guide of the relevant product for transaction details.

### Application date

#### Purchase for contributions and conversion

**If the investment instructions are received before midnight on the day before wiring of the contribution or conversion assets, the date of application receipt will be the business day following the day of wiring.**

\*In individual DC, after money is wired to the National Pension Fund Association (NPFA), application for the purchase is made on a specified date. That date will become the date of application receipt.

#### Switching

##### Sell

For investment instructions received prior to midnight on a business day, the date of application receipt will be the following business day.

##### Purchase

Investment instructions for purchases are made at the same time as when selling products. However the date of application receipt is the day money is wired to the asset administrator (the settlement date).

\*In individual DC, the application date is the day money is wired to the asset administrator consigned by the NPFA.

\*When switching out of a bank deposit product and purchasing an investment trust, the date of application receipt is the business day following the settlement date.

\*For investment trusts that invest in foreign securities, applications cannot be made on foreign holidays. In this case, the date of application receipt will be the following business day. Please refer to the prospectus for details.

\*Investment products can be changed by "switching". This allows investors to sell all, or a part of the product and simultaneously purchase other products with the proceeds. Making instructions to sell without purchasing is not acceptable.

## 6 Taxes and Fees

- The following fees are charged when purchasing, holding, or selling (liquidating) investment trusts.
- These costs are to be borne by the participants directly or indirectly.
- Please confirm the details of fees and taxes in the prospectus for each investment trust.

### < Direct costs >

<b>Purchase</b>	Transaction cost	Not imposed in a defined contribution plan
	Purchase/Redemption Fee	Charged depending upon the requirements for each investment product.
<b>Hold</b>	Taxes	No income or local tax is imposed on dividends in a defined contribution plan.
<b>Sell (Liquidation)</b>	Purchase/Redemption Fee	Charged depending upon the requirements for each investment product.
	Taxes	No income or local tax is imposed on profits from sale of holdings in a defined contribution plan.
<b>Redemption</b>	Taxes	No income or local tax is imposed on profits from redemptions of holdings in a defined contribution plan.

### < Indirect costs (Deducted from assets)>

<b>Hold</b>	Asset management fee	Yes
	Other	Fees and taxes for the management of investment trust. <ul style="list-style-type: none"> <li>• Trading fees for underlying securities of stocks, bonds or other types of securities</li> <li>• Asset management fees, and consumption tax on the trading fees</li> <li>• Fees for the custody of foreign currency denominated assets</li> <li>• Taxes on fund assets</li> <li>• Various fees required for trust administration (Including auditing charge paid to an auditing firm from the fund)</li> <li>• The interest for advanced money paid by trust banks, etc.</li> </ul>

## 7 Redemption (Termination of the trust)

Investment trusts offered in DC pension plans are unlimited in term. However, the investment trust management company may terminate the trust (advance redemption) at its own discretion due to unavoidable reasons. (Please refer to the Investment Product Guides for a description of possible reasons.) If the trust is terminated (advance redemption), the beneficiary rights of the investment trust are converted into redemption proceeds and it can no longer be invested in thereafter.

## 8 Protections for Investment Trusts

Assets in investment trusts are protected by law, even if a distributor, an ITM company or a trust bank becomes bankrupt. (However, principal is not guaranteed due to fluctuations of the net asset value per unit.)

**Distributor** DC assets are maintained by the asset administrator\*. When a participant purchases an investment trust, the beneficiary right is processed to record by book-entry transfer system which is maintained by a central securities depository, JASDEC, and it is maintained in the name of the asset administrator by JASDEC Inc. JASDEC Inc. has been designated under the Law Concerning Central Securities Depository and Book-Entry Transfers (the “CSD Law”). Therefore, even if the investment product distributor becomes insolvent, creditors cannot make a claim against the beneficiary rights.

\* For individual DC plan, the asset administrator is consigned by the National Pension Fund Association.

**ITM company** The role of the ITM company is management of the assets. Trust assets are not kept at the ITM company.

**Trustee  
(Trust bank)** The trust bank is responsible for the safe keeping and administration of the assets invested in investment trusts (Trust Assets) through a distributor and an ITM company. The trust assets are preserved separately from trustee’s assets. (This is a legal requirement.) Therefore, even if the trust bank became bankrupt, creditors cannot claim against the entrusted assets.

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