



SMAM

“GPIF’s Change of Base Portfolio”

“GPIF (Government Pension Investment Fund)” is an organisation which manages and invests the reserve funds of public pension fund such as the National Pension Schemes. The GPIF is one of the largest pension fund in the world with the asset under management of approx. JPY127trillion as of June 2014. The allocation weight to the Japanese bonds and the Japanese equities were 53% and 17%, respectively, as of June 2014. And, adoption of a new policy asset mix had been considered aiming for more efficient and proper asset management.

Point 1

Japanese equity’s weight to increase to 25% from 12%, and Japanese bond’s weight decrease to 35% from 60%, respectively
Overseas eq. 12%⇒25%, overseas bonds 11%⇒15%, short-term assets 5%⇒0%

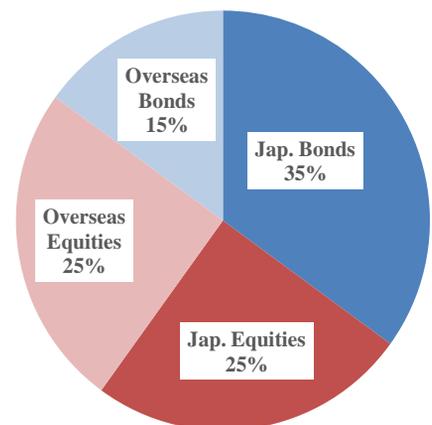
- The GPIF announced that it has obtained an approval from the Minister of Health, Labour and Welfare of the “Revision of medium-term plan” on its management and investment operations of the pension fund. The new basic asset allocation (Base Portfolio), which reflects the fundamental ideas of the medium-term plan, was released to public.
- According to the new “Base Portfolio”, asset allocation to the Japanese bonds will be significantly decreased from 60% to 35%, while allocation to the Japanese equities, overseas equities and overseas bonds will be increased by 30% in total. Allocation to the riskier assets will be lifted substantially. As a result, the allocation weight between the Japanese asset and the overseas asset will be 60% vs. 40% and that of bonds and equities will be 50% vs. 50%.

Point 2

Announced on the same day when BOJ unveiled additional easing
BOJ to purchase ETF on “JPX Nikkei 400 Index”, the benchmark index GPIF uses

- On the same day when the GPIF announced change of its Base Portfolio, the BOJ decided the additional easing including increase in its JGB purchase amount by JPY30trillion per year. When the “Base Portfolio” is fully implemented, the GPIF’s JGB investment is expected to decrease by about JPY32trillion based on the asset mix as of June end. This amount is equivalent to the case of its reducing the JGB’s allocation weight from 53% as of June end (7% less than the allocation of the previous Base Portfolio) to 28% (7% less than the allocation of the new Base Portfolio). The BOJ’s further purchase of JGBs is expected to absorb the selling pressure of JGBs by the GPIF, which will contribute to control the upward pressure of JGB’s yields.
- The BOJ decided to add “JPX Nikkei 400” index linked ETF as an asset to their purchasing list. The GPIF had already decided to partly use this index to manage its Japanese equity portfolio this year. In this sense, the direction of key policies of GPIF and BOJ is consistent.

GPIF's New Base Portfolio



Japanese Asset : Overseas Asset
60 : 40

Bonds : Equities
50 : 50

(Source) SMAM, based on the GPIF data



The Allocation change would support the Japanese equity market, Additional economic measures by Abe's government is also expected

■ Increase in the allocation to the Japanese equity may not be completed yet

When the allocation to the Japanese equities is increased to 25% based on the new Base Portfolio from allocation of 17% as of June end, the GPIF needs to additionally purchase approx. JPY10trillion of the Japanese equities. According to the statistics of Tokyo Stock Exchange, accumulated net purchase amount of trust banks from July to Oct. this year, majority of which are traded as a proxy of the public pension funds, was still less than JPY1trillion. It can be said that the additional purchase of the Japanese equities has not completed yet at the end of October.

■ Stimulative economic measures are expected in supplementary budget

Japanese outlook on inflation is getting weaker as the pace of consumption recovery has been weaker than expected after the implementation of consumption tax hike. We believe that it is increasingly necessary for the Abe administration to take stimulative economic measures such as supplementary budget. The reason is the possibility of another consumption tax hike next year became higher due to the latest BOJ's decision on the additional easing. Many market participants are closely watching what kind of economic measures would be implemented by the Abe's government, following the successive announcements made by the BOJ and the GPIF.

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