

# Investment Strategy of Dai-ichi Life

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By your side, for life

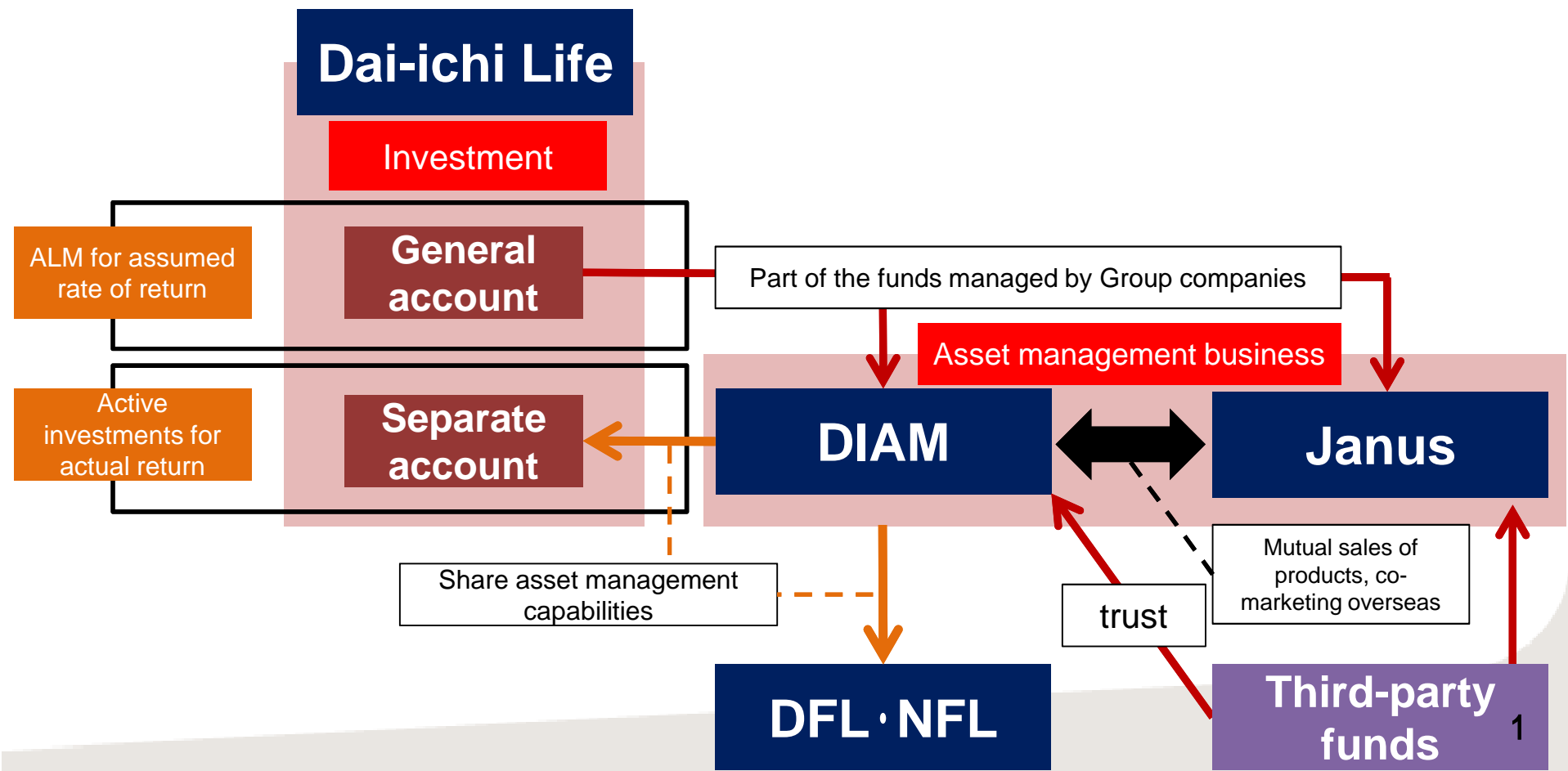
**DAI-ICHI LIFE**

# Framework of Investment at Dai-ichi Life Group

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- Investment framework at Dai-ichi Life is composed of “ALM for assumed rates of return (general account)” and “Active investment for actual return (separate account)”.
- General account is managed basically in-house with group asset management capabilities, while DIAM advises on management of separate accounts.
- Asset management business manages third-party funds.



**< Achieve Quantitative Targets of D-Ambitious >**

Mission of the Division

**Maintain positive spreads and financial prudence**

**Sustainable growth in contribution to Group earnings**

Management Policy

**Advanced investment management**

- Advanced ALM for product development
- Strengthen earnings power against low interest rate environment
- Preparation for a possible interest rate hike
- Demonstrating the faculties of institutional investor
- Human resources management



**Strengthen asset management business**

- Strengthen asset management and product development capabilities, including reorganization around DIAM

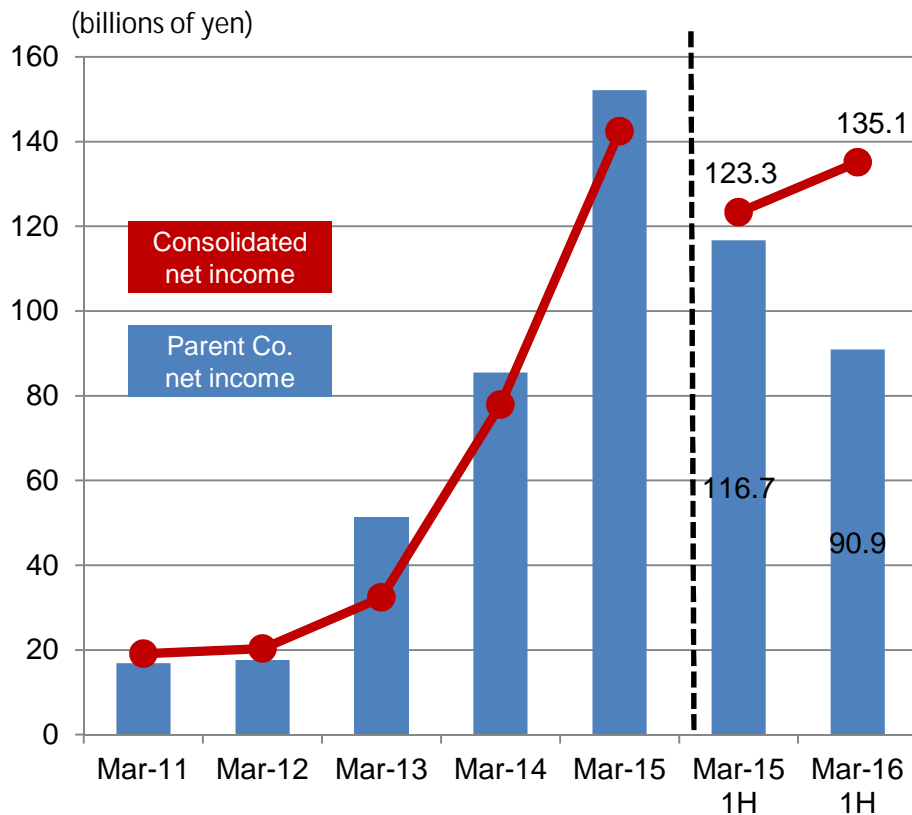
# What We Have Done So Far

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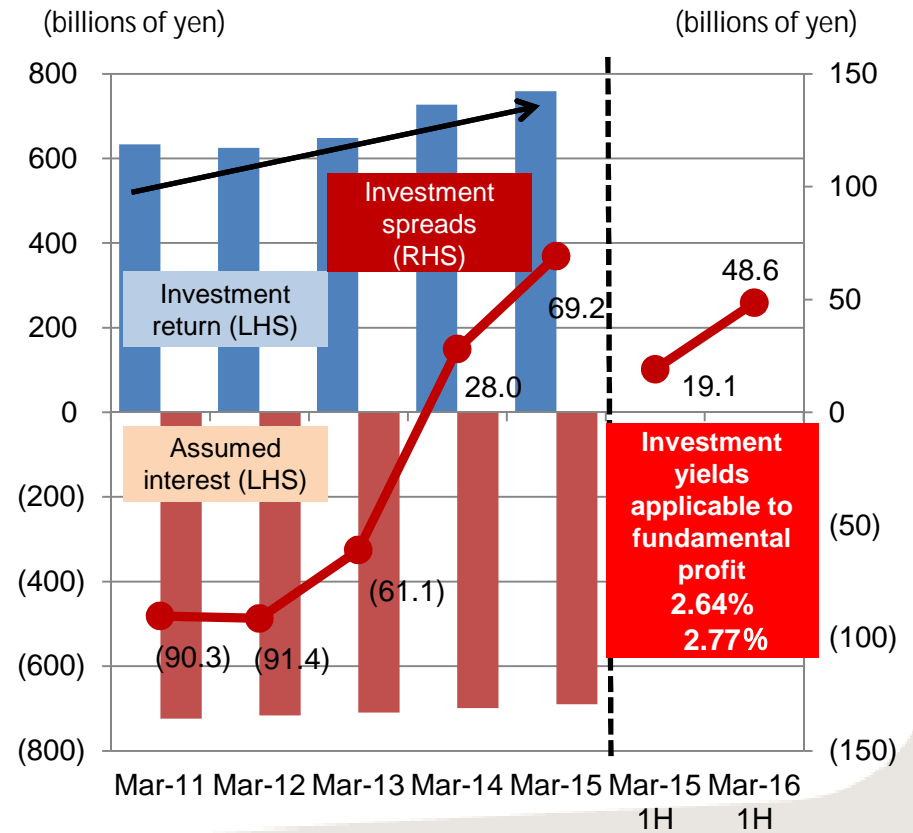


- Net income improved significantly during the previous mid-term management plan
- Asset Management Unit contributed through increased interest & dividend income, reversing negative spreads to positive

## Trends in Net Income



## Investment Spreads

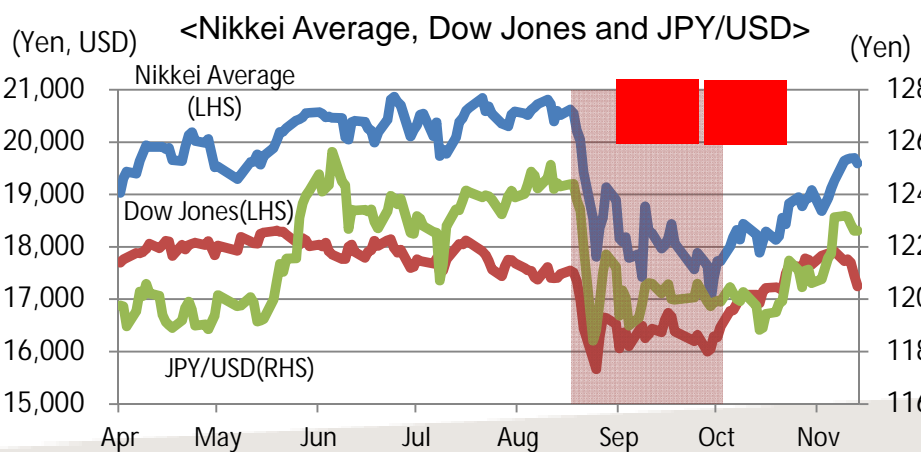
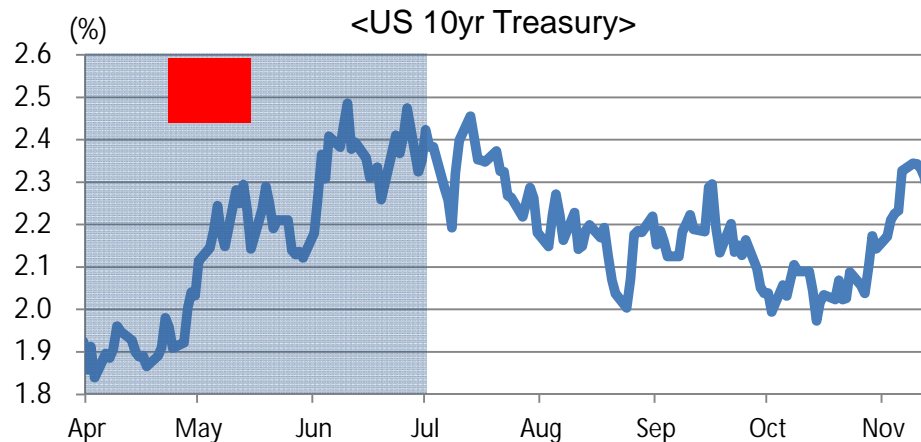


# Activities during 1H FY Mar-16



- Active allocation of funds both within fixed income asset class and risk asset class, responding to the dynamics of the market to maximize return

## Markets and Allocation Timing during 1H



## Main Changes

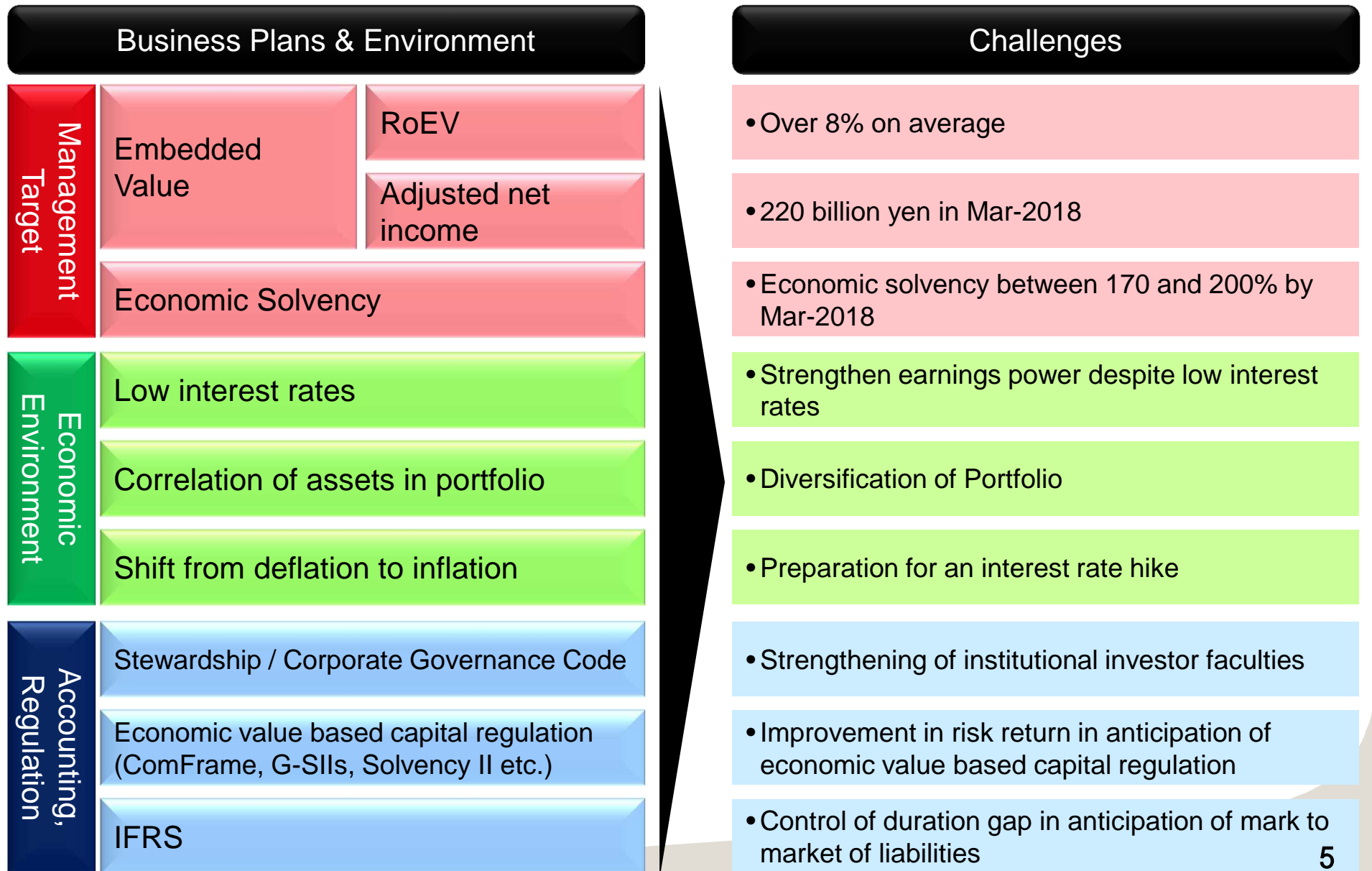
### Fixed Income Assets

- Increased hedged foreign bonds → + ¥400B
- Increased credit investment → + ¥150B

### Risk Assets

- Increased domestic & foreign stocks → + ¥150B
- Reduced un-hedged foreign bonds → ( ¥150B)

# Current Investment Environment and Challenges



## Major Initiatives

1. Advanced ALM and synergies for product development

Sophistication of process for mid-to-long term investment policy

Applying expertise in investment to product development in order to reflect customers' needs and investment environment

2. Earnings power under low interest rates

Active allocation of funds, such as to foreign bonds and risk assets

Investment & loans to emerging business or fields

3. Preparation for an interest rate hike

Use of derivatives to hedge against hikes in interest rates in domestic & overseas markets

Observation of signs of any interest rate movements

4. Demonstrating faculties of an institutional investor

Investment in growth business

Active engagement in stewardship

5. Human resources development and sharing of Group resources to achieve initiatives listed above

# 1-1. Synergies for Product Development

- Continue to utilize DIAM's asset management know-how in co-developing products based on customer needs and the market environment
- Launching new products in January 2016

## Co-development of Products with DIAM

**Increased needs for investment products that secure stable income while limiting downside risk**

DIAM's  
Know-how

**"Separate Account Balanced Fund II"**  
(April 2014 - )

<Product characteristics>

- Secure 3% annual income for mid-to-long term
- Assume risk amount equivalent to domestic bonds
- Active asset allocation based on quantitative analysis
- Avoid interest rate hike and plunge in equities signaling volatility

Increased needs for alternative investment products in anticipation of "prolonged low environment" and "possible hike" in JGB yields

DIAM'S  
Know-how

**"Separate Account Bond Fund"**  
(January 2016 - )

<Product characteristics>

- Aim for excess return of 2.0 to 2.5% over short-term rates
- Assume risk amount equivalent to domestic bonds and hedged foreign bonds
- Secure positive return when JGB yields are rising
- Secure stable income by quantitative analysis, instead of benchmarking

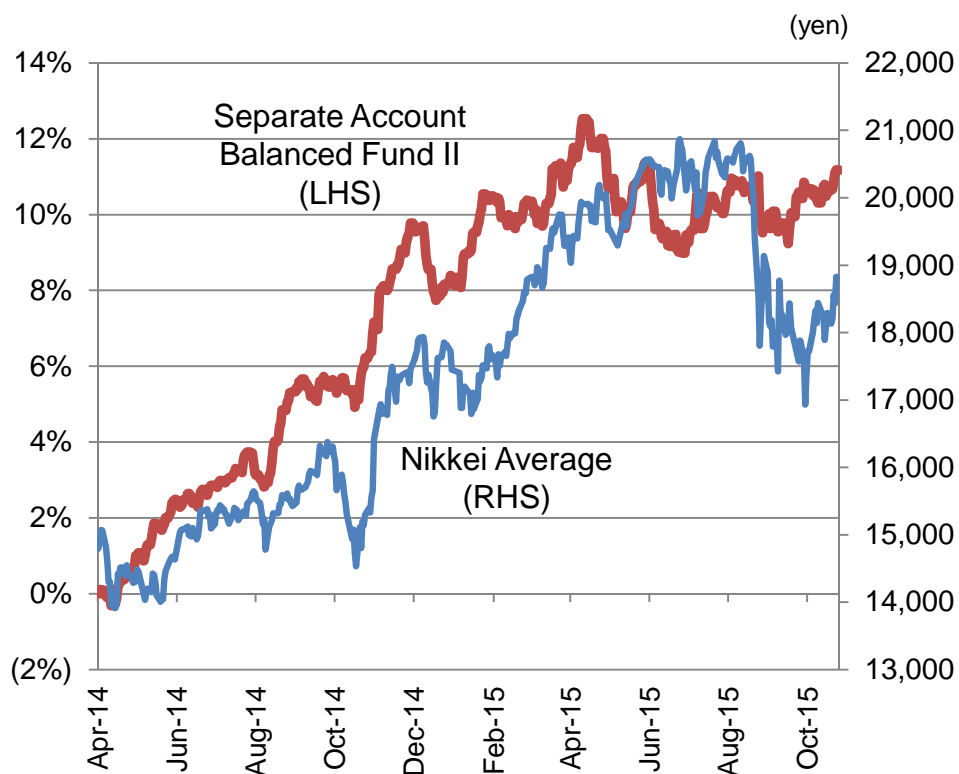


# 1-2. Synergies for Product Development

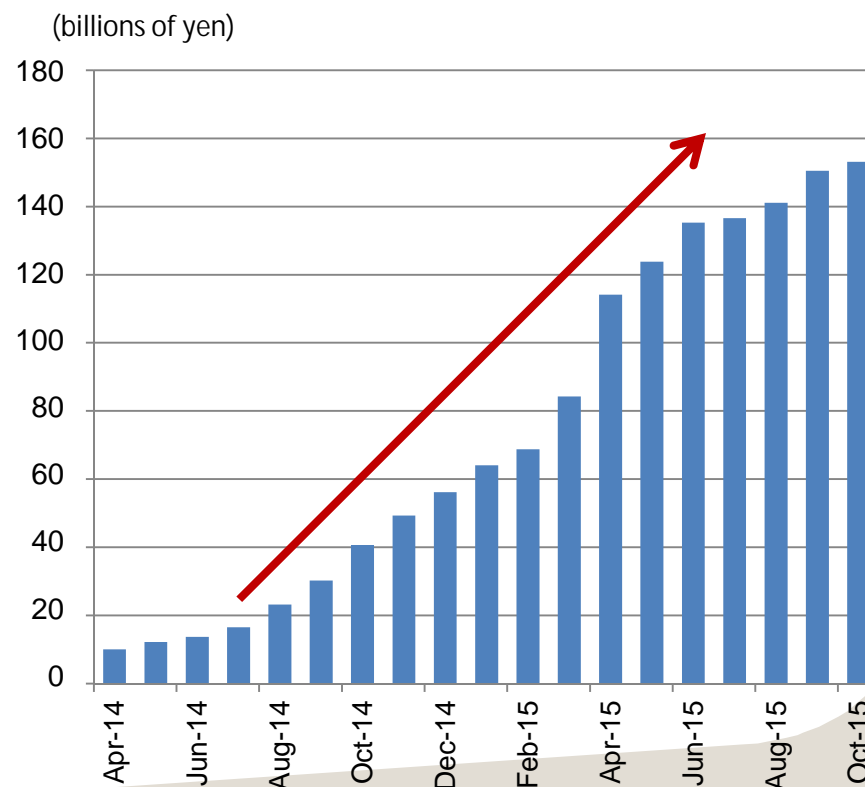


- By using signal model, we achieved consistent performance even when markets show sharp decline
- That attracted customers' need for consistent return, and contract balance of Separate Account Balanced Fund II continues to increase

### Performance of Separate Account Balanced Fund II



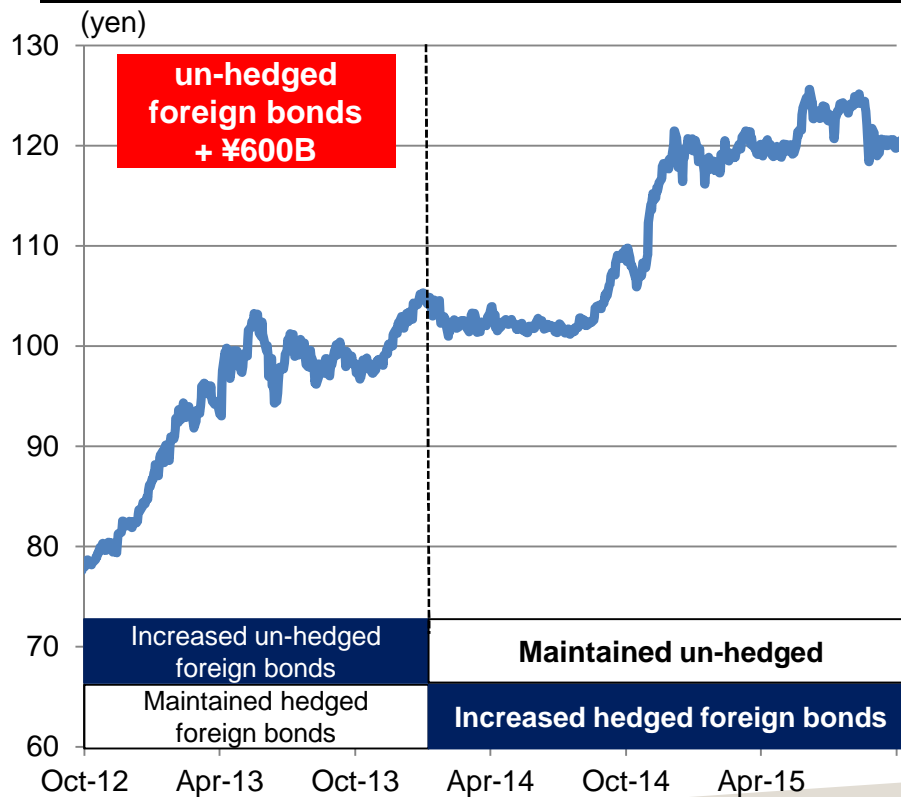
### Contract Balance of Separate Account Balanced Fund II



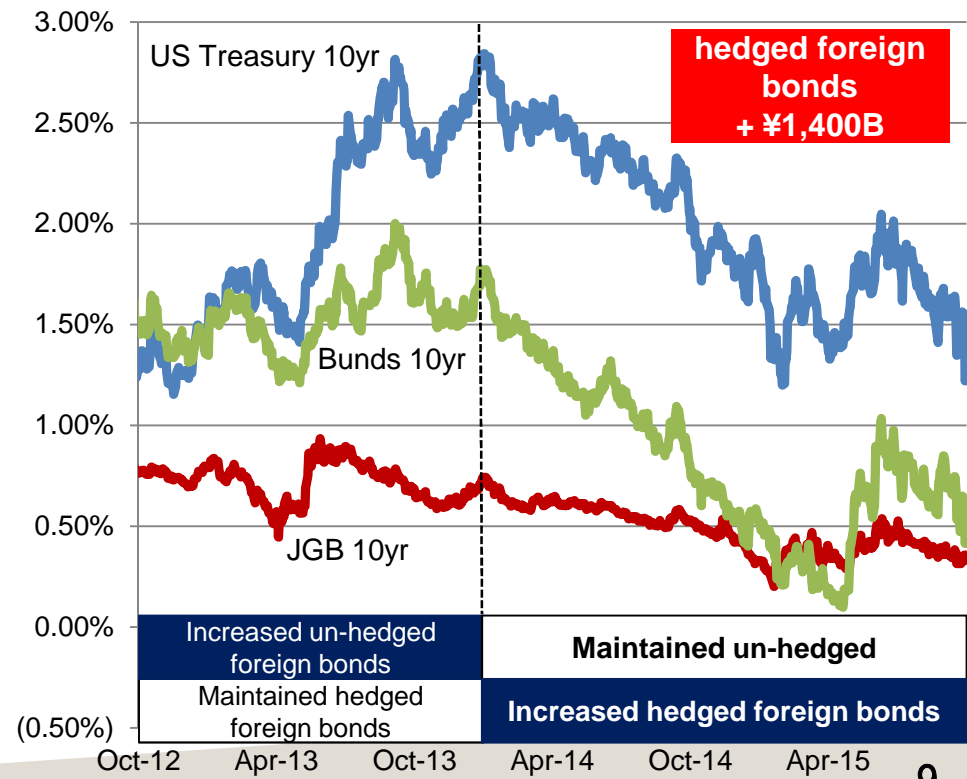
# 2-1. Active Allocation to Boost Earnings under Low Yields

- Increased un-hedged foreign bonds during 2H FY2012 and 1H FY2013 with backdrop of a correction of the excessively strong yen
- Since 2H FY2013, yen has been traded within a limited range, pegged by conflicting risks
- We see opportunities in hedged foreign bonds relative to JGBs as hedging cost remains attractive  
We have been increasing hedged foreign bonds since 2H FY2013

## Yen against USD



## Sovereign bond yields after hedging costs



(Note) Hedge costs: annualized three months hedging costs

## 2-2. Earnings Power under Low Interest Rates

- We expanded range of investments in countries and currencies, principally emerging markets, in order to diversify risk and improve returns together with the recovery of these economies after the financial crisis of 2008
- We continue to invest in emerging markets to enhance diversifying effects. We are interested in infrastructure projects in those markets

### Expansion of Investment Horizon

<b>Investable Countries</b>	<b>Stock</b>	2009	→	Sep 2015
		<b>20</b>		<b><u>28</u></b>
<b>Investable Countries</b>	<b>Bonds</b>	2009	→	Sep 2015
		<b>19</b>		<b><u>29</u></b>
<b>Currency</b>	<b>Emerging currencies ( )</b>	2009	→	Sep 2015
		<b>3.5%</b>		<b><u>11.5%</u></b>
	<b>Investable currencies</b>	2009	→	Sep 2015
	<b>13</b>		<b><u>24</u></b>	

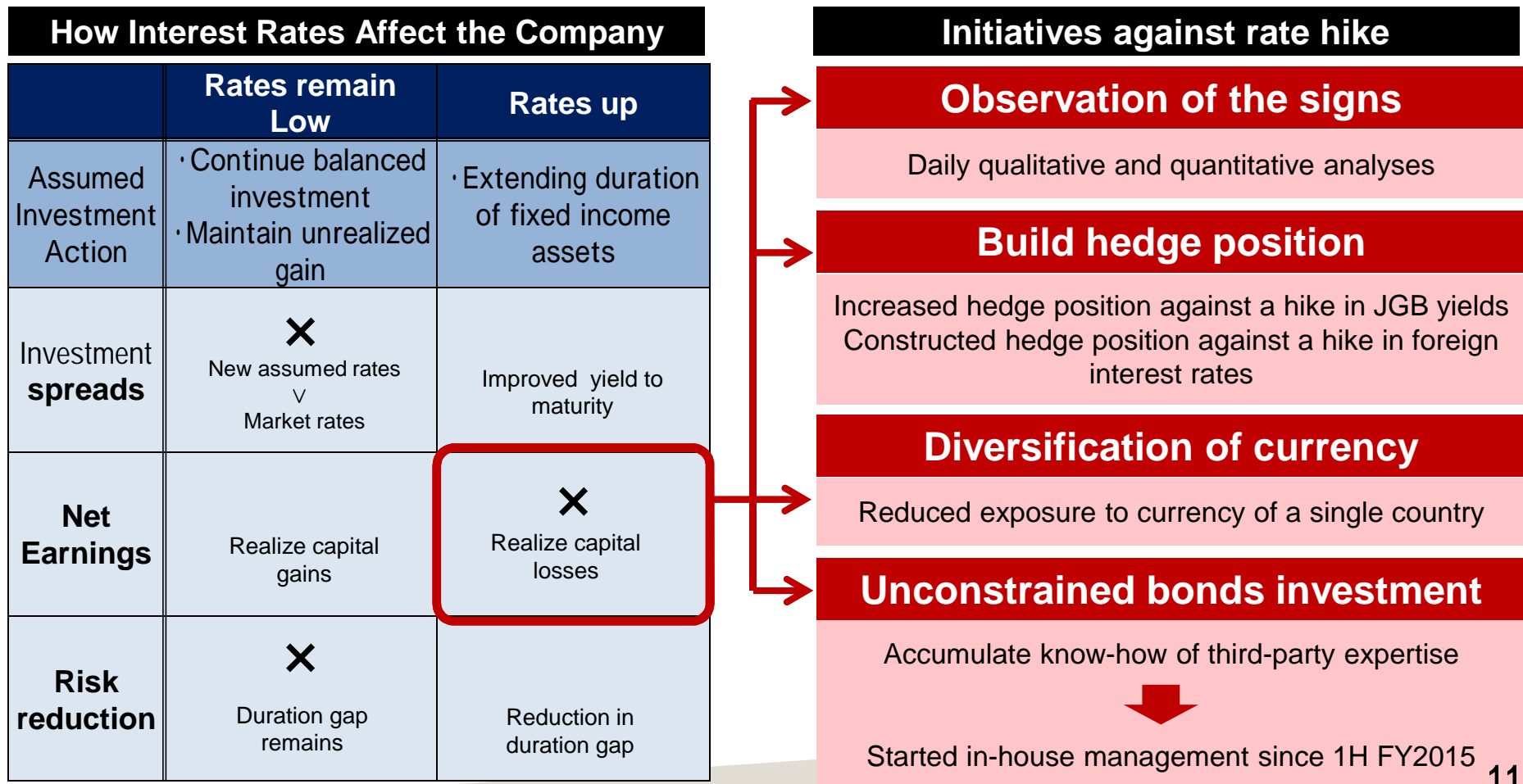
### Size of Investable Emerging Markets

		Market size
Real Assets	Infrastructure Stock	¥28T
	Debt	Investments by funds
	Aerospace & ship	¥16T
Corporates	Hybrid securities	¥34T
	Banks & industrials	
	High-yield bonds	¥180T in Dollar / Euro
	Overseas bank loans	¥154T in Dollar / Euro
	LBO loans	¥17T

( ) Except for the main currencies of foreign securities (USD, EUR, GBP and AUD)

# 3. Preparation for an Interest Rate Hike

- When interest rates rise, the Company will start extending the duration of bonds, reducing duration gap, and improving yield to maturity. But it would have to record capital losses and would negatively impact earnings.
- Various initiatives are already in place to minimize the impact of a hike in interest rates



# 4-1. Demonstrating faculties of an Institutional Investor

- The company started investments in growing areas for incremental earnings and diversification, in addition to the business nature of financial intermediation
- Concluded 200 billion yen budget for FY2013-2015 ahead of schedule
- Looking for middle risk investments in infrastructure projects or real assets in order to further diversify asset portfolio

Areas	Actions taken during FY2015	Looking ahead				
Environment, infrastructure	<ul style="list-style-type: none"> <li>✓ Accelerated investments in overseas infrastructure<sup>(note)</sup> projects and aircraft leasing</li> </ul> <p>(Note) The Company participated in project financing of the US thermal power plants (announced in April 2015)</p>	<ul style="list-style-type: none"> <li>✓ The Company will focus on three middle risk investments to further diversify the portfolio</li> </ul> <div data-bbox="1458 791 2033 1007" style="border: 1px dashed black; padding: 5px;"> <table border="1"> <tr> <td rowspan="3" style="background-color: black; color: white; text-align: center; vertical-align: middle;"><b>Middle risk investments</b></td> <td style="text-align: center;"><b>Infrastructure</b></td> </tr> <tr> <td style="text-align: center;"><b>Real assets</b></td> </tr> <tr> <td style="text-align: center;"><b>Private debt</b></td> </tr> </table> </div> <ul style="list-style-type: none"> <li>✓ Group-wide sophistication of investment process would support the initiative</li> </ul> <div data-bbox="1442 1158 2040 1477" style="border: 1px dashed black; padding: 10px; text-align: center;"> <div style="background-color: red; color: white; padding: 5px; margin-bottom: 10px;">Develop human resources, accumulate know-how</div> <div style="font-size: 2em; margin-bottom: 10px;">+</div> <div style="background-color: red; color: white; padding: 5px;">Share resources group-wide, use of third-party capacities</div> </div>	<b>Middle risk investments</b>	<b>Infrastructure</b>	<b>Real assets</b>	<b>Private debt</b>
<b>Middle risk investments</b>	<b>Infrastructure</b>					
	<b>Real assets</b>					
	<b>Private debt</b>					
Emerging companies in Japan	<ul style="list-style-type: none"> <li>✓ Increased in-house management of emerging companies</li> </ul>					
Emerging countries	<ul style="list-style-type: none"> <li>✓ Extended the scope of investment in emerging countries (Bonds and equities in 30 countries)</li> <li>✓ In order to manage total exposures, taking account of the market environment, the Company reduced in-house investment outstanding</li> </ul>					

**Investment of 200 billion yen ahead of schedule**

## 4-2. Demonstrating faculties of an Institutional Investor

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- Actively engaged in discussion with the companies in order to improve “governance”, “ROE”, and “shareholder return” based on our Stewardship Activity Policy.
- Evolve the engagement with medium-to long-term view in order to expand corporate value of the investees and improve investment returns.

increase the value of investees → maximize medium-to long-term return

Co-creation between investors and companies

Engagement with medium-to long-term view

### Dialogues with investees

- Create dedicated team (Stewardship promotion team)
- Publish the results of dialogues
- Review of dialogues based on Corporate Governance Code

### Sophisticated investor

- Daily accumulation of corporate information
- Cooperate with Investor Relations team (to better understand investees)

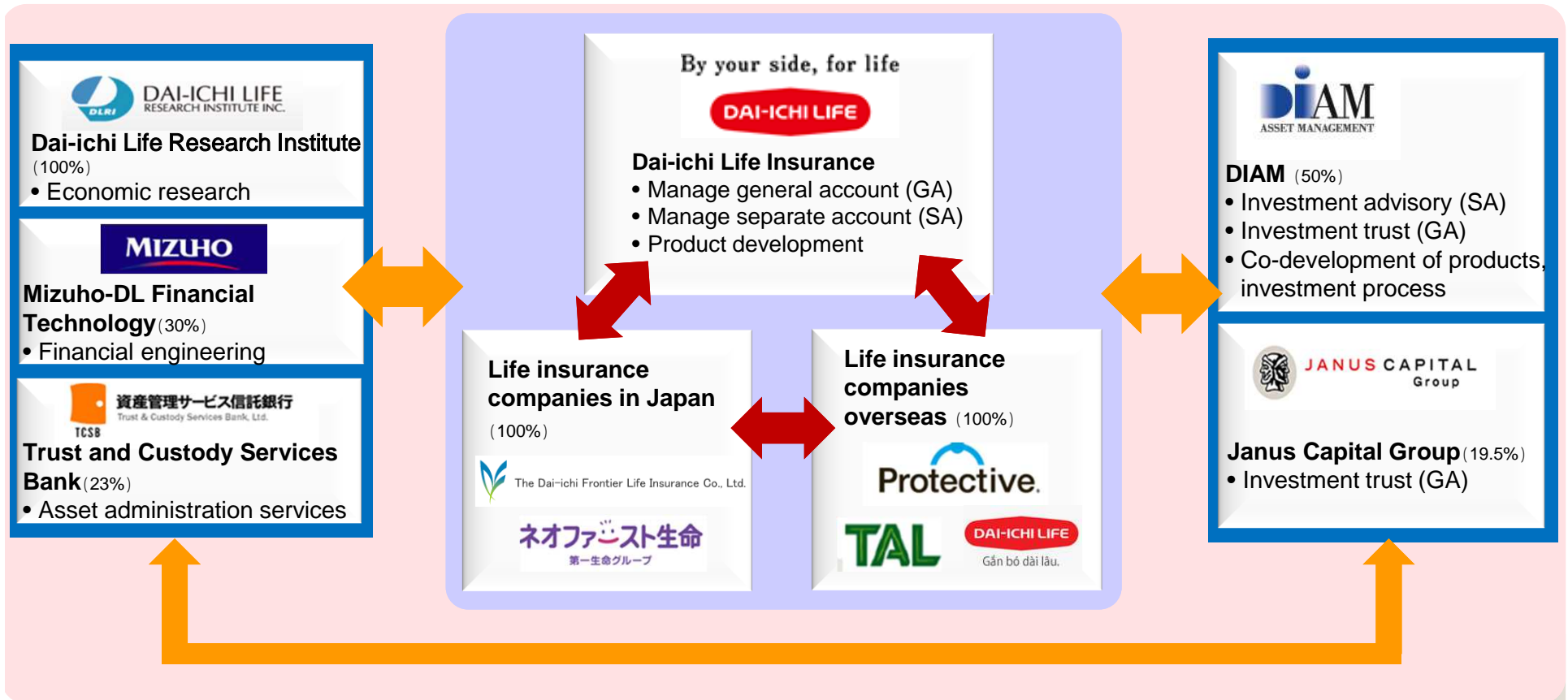
### Exercise voting rights

- Exercise voting rights based on dialogues
- Publish the voting results (since FY2014)
- Reviewed voting principles (Introduced independence criteria for outside directors in FY2015)

# 5. Sharing Resources of the Group



- To become a more sophisticated investor we share expertise in investment among life insurance subsidiaries and utilize asset management capabilities of the Group



(Note) Numbers in parentheses represent the Company's interest

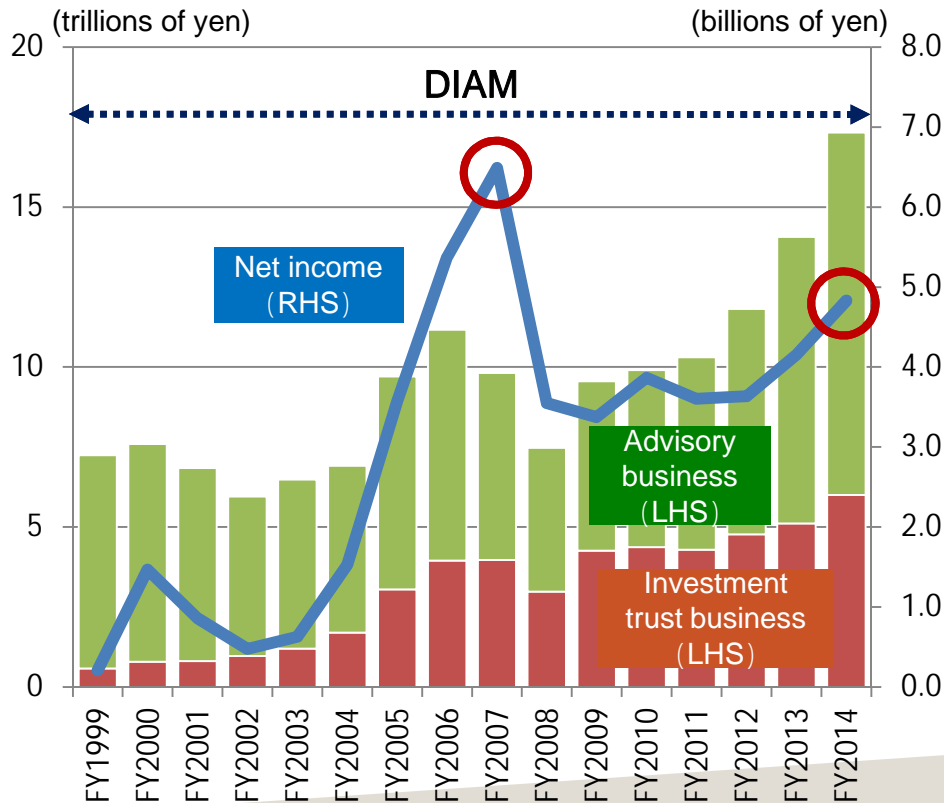
**Enhance diversification & sophistication of investment management process by sharing resources of the Group**

# Current Status of Asset Management Business



- The Group started its asset management business in 1985 with Dai-ichi Life Asset Management (DLAM). In 1999, through the business alliance with the IBJ, DLAM was merged with the companies under IBJ, creating DIAM
- Since then DIAM grew under equal partnership between the Group and Mizuho FG
- AUM continue to grow, but net income fails to surpass pre- financial crisis level. => Growth at high margin investment trust business remain slow

## Trends in Net Income and AUM



## AUM by Business

(trillions of yen)	FY2007		FY2014		Change		Margin
	balance	share	balance	share	balance	share	
Investment trust business	4.0	40%	6.0	35%	+2.0	(5.8%)	High
Advisory business	5.8	60%	11.3	65%	+5.5	+5.8%	Low
Total	9.8	100%	17.3	100%	+7.5	-	

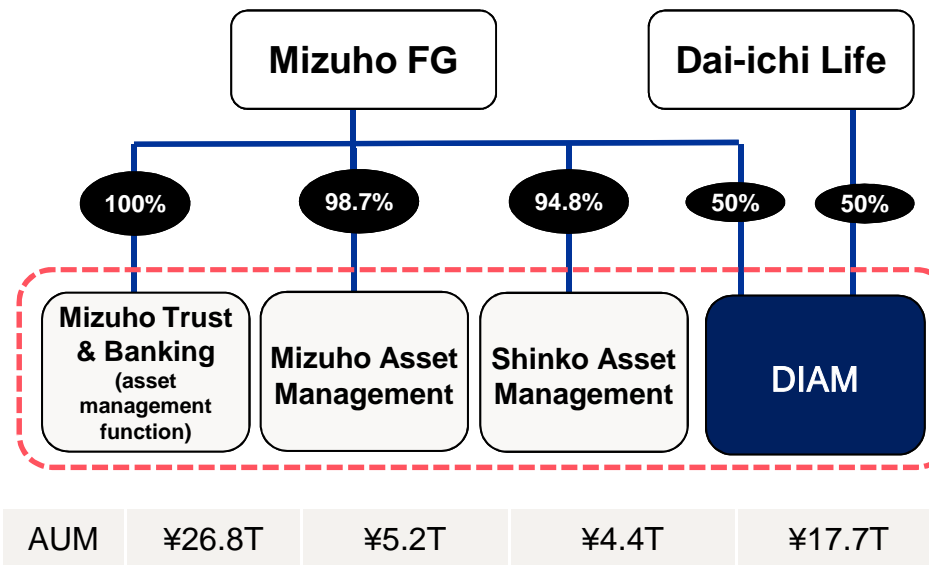
**While maintaining competitive edge in advisory business, the Group aims to strengthen sales of investment trusts**



# Strengthen Asset Management Business

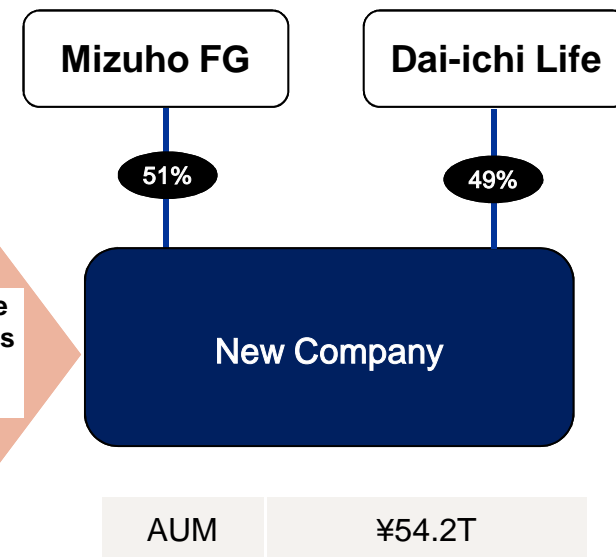
- In order to grow DIAM further, the Group agreed with Mizuho FG to jointly build a number one asset management business platform in Japan in quality and size, in order to create a global asset management company
  - Integrate resources & know-how of the companies to address financial assets in domestic and overseas market
  - Establish corporate structure that ensures high level of governance framework in order to fulfill fiduciary duty

## Overview of Integrating Companies



(Note) Economic interests are as at fiscal year ended March 2015. AUM are as at June 2015.

## Structure of New Company



(Note) Interests in voting rights. AUM is simple sum of the companies

**To become a leading company in the industry based on equal partnership**

# Rationale for Dai-ichi Life Group

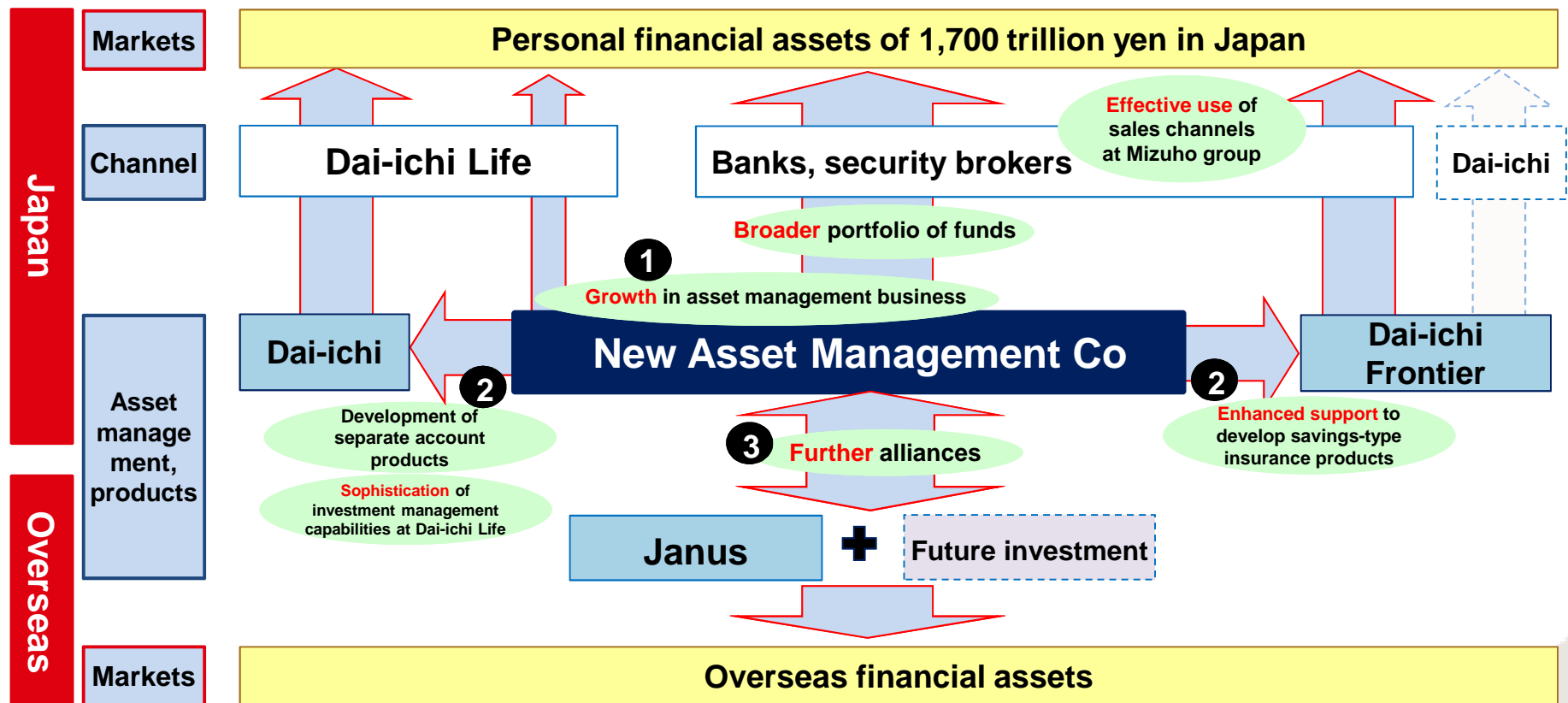


- Strengthen Dai-ichi Life's investment management and asset management capabilities through integration of asset management businesses

Integrate management resources and know-how, enhance capabilities of asset management, product development, and sales, new asset management company is set to grow

New asset management company will provide investment expertise and the Group can strengthen development of savings-type products (DFL and Dai-ichi's separate accounts), and investment management capabilities at Dai-ichi Life

Build reputation as top asset management company in Japan, further alliances with asset management companies in overseas market (Janus and others)



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## Investor Contact

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