

Dai-ichi Life's Investment Strategy

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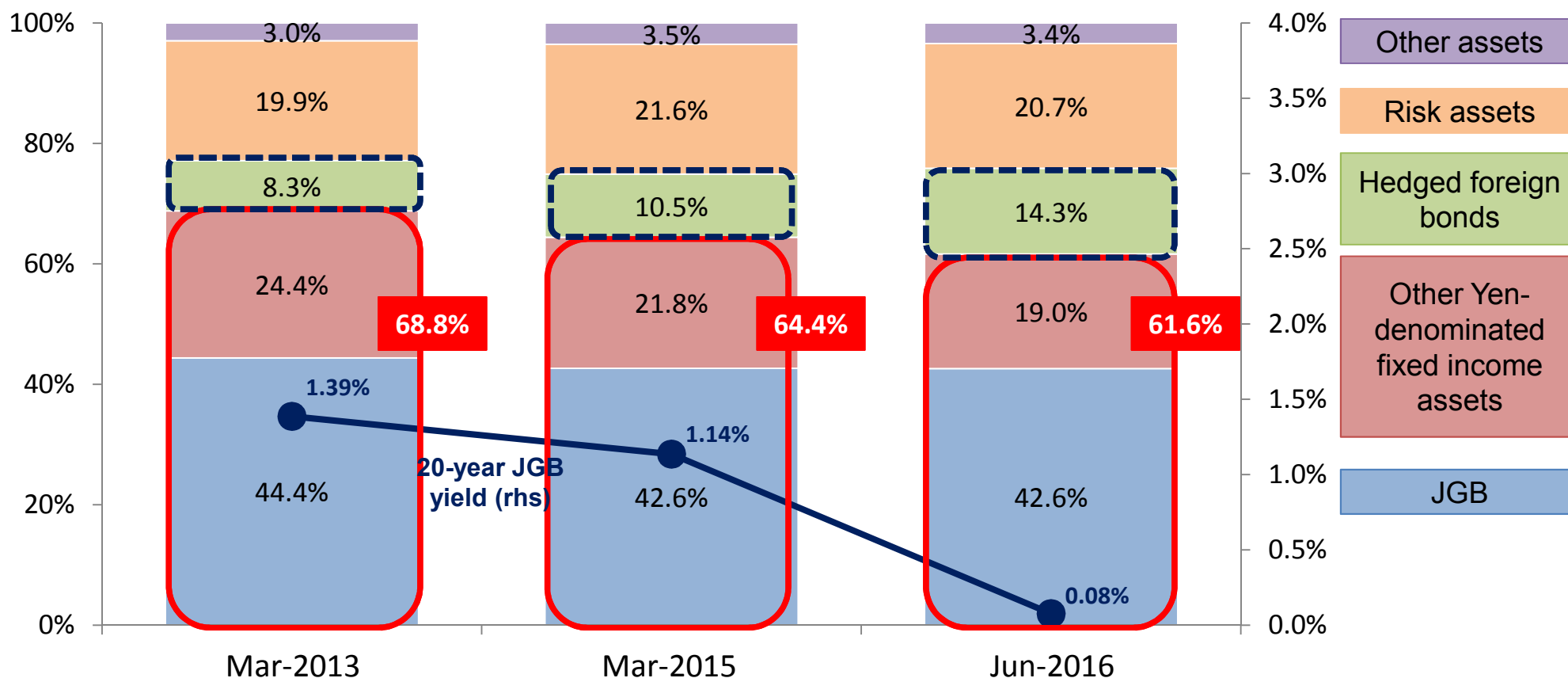
Review of results (Asset Allocation)

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- Given the low interest rates in Japan, we limited JGB investments and focused on hedged foreign bonds (relatively attractive yield even after hedge cost) and selective credit investments.

Asset allocation of general fund (lhs)



(Note) Asset shares are based on internal asset allocation criteria on an book value basis

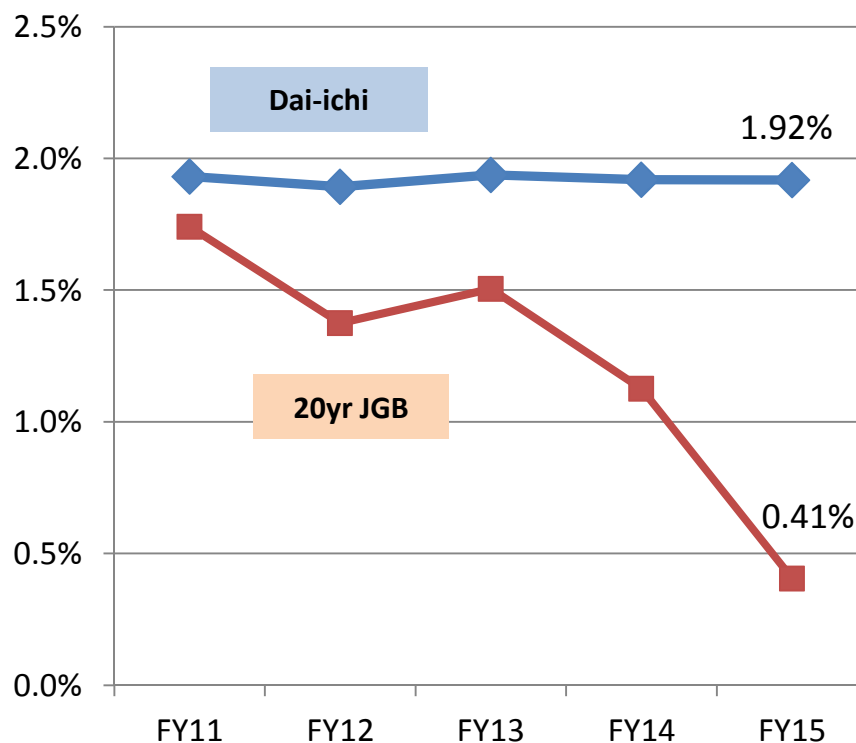
Review of results (Investment Performance)

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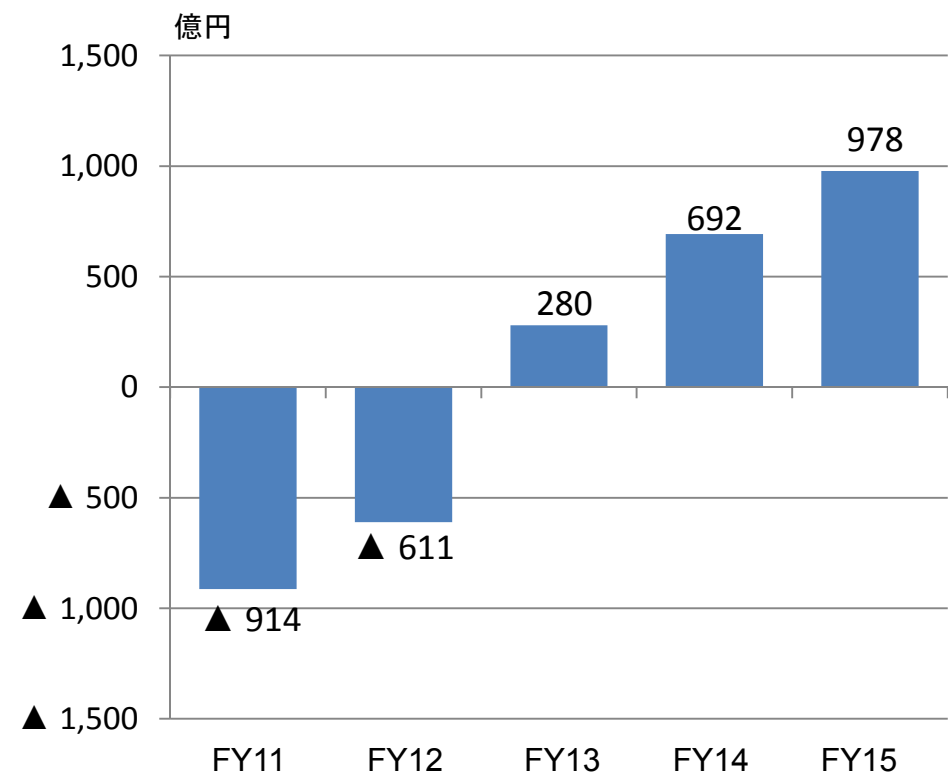
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- The yield on our yen-denominated bonds was less affected by the lower interest rates because we limited new investments in this category.
- Positive spread increased due to increased exposure to hedged foreign bonds and other assets, as well as market recovery such as the weakening of the yen.

Yield trend on yen-denominated bonds



Trend on positive/negative spread



Review of investment activities in Q1 FY2016

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- Increased hedged foreign bonds within fixed income assets: reduced exposure to risk asset category such as equities and un-hedged foreign bonds with the use of derivatives as well as sale of security.
- Secured 'Positive Spread' and derivative transaction gains in the Q1 under yen-strengthening period.

Major activities in 1Q

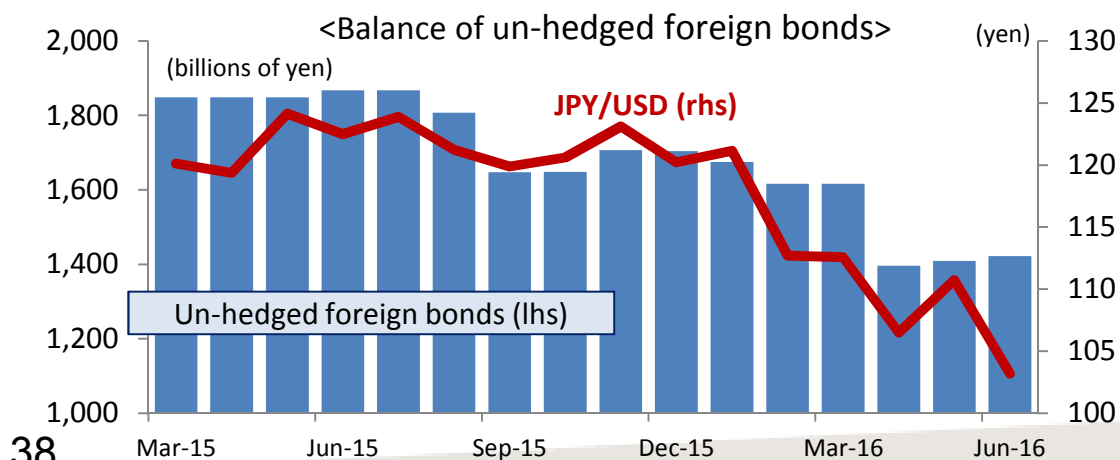
Yen-fixed income assets

Hedged foreign bonds ► ca.+800 bil.

Risk assets (incl. derivatives)

Domestic & foreign equities ► ca (200) bil.

Un-hedged foreign bonds ► ca (200) bil.



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(note) Asset shares are based on internal asset allocation criteria on an book value basis

Review of 1Q performance (condensed: billions of yen)

	1Q FY2016
Fundamental Profit	86.4
Positive spread	4.0
Capital gains/losses	54.5
Gains/losses on sale of securities	36.9
Derivative transaction gains/losses	55.5
Ordinary revenue	120.2
Net income (non-consolidated)	59.3

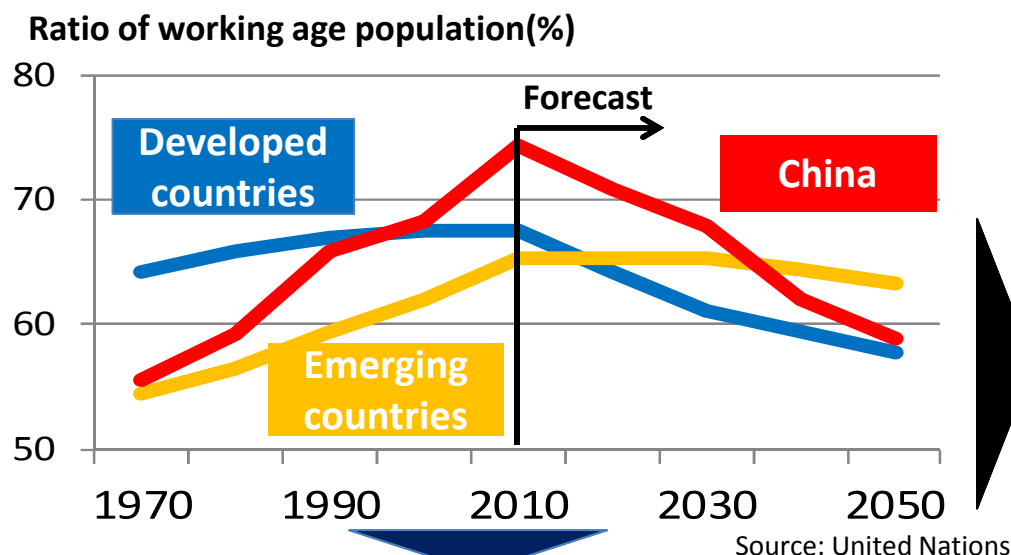
Global market forecast of mid-to-long term

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Structural issues

Working age population will peak out globally



Developed countries:
Lower external demand

Emerging countries:
Growth expected due to population increases starts deteriorating

Stagnant resource prices
(crude oil)

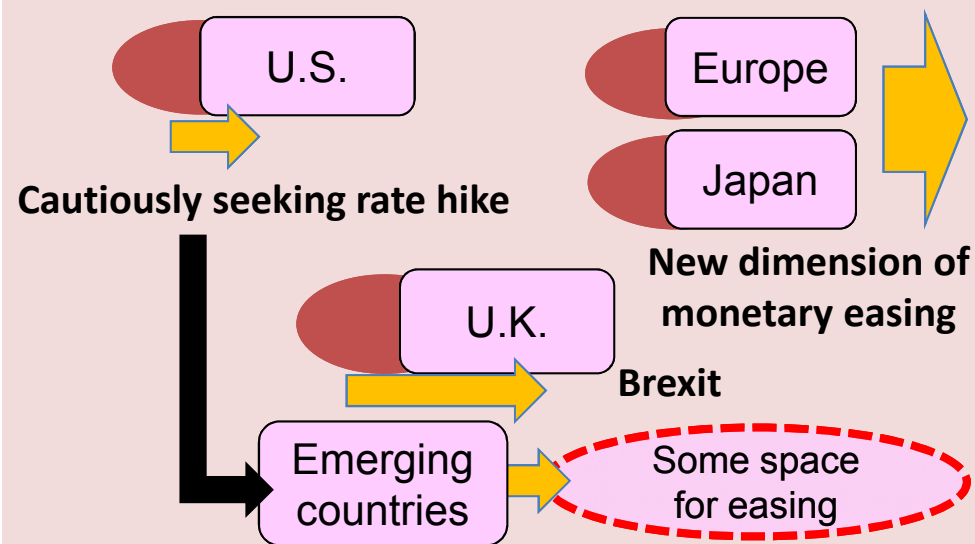
Low economic growth and low inflation rates are anticipated in the medium term, due to structural factors

Monetary policy

Monetary easing spreads globally

Tightening

Easing



Financial Markets

Low interest rates to continue

Higher volatility

Overview of our mid-to-long term investment policy

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- Coping with a changing environment, we aim for a stable profit increase through an increase in accounting profit and an adequate control of economic value indicators

Financial market environment

Easing : Low interest rates

Tightening : Interest rate increases

Our initiatives

Excellence
in ALM

- Assets: Further enhancing our mid-to-long-term portfolio simulation model
- ① Liabilities: Strategically managing liability profiles
(market-oriented sales and product strategy)

Improved
net income

- ② Asset allocation with flexibility to respond to market changes
(increased exposure to hedged foreign bonds and risk assets, selective credit investments)
- ③ Enhancing investments in new areas (project finance, asset finance etc.)

Cautiously monitoring signs of interest rate
increase / widening spread
Build hedge position for sudden rate hike

More investments in bonds/
Asset duration to lengthen

Risk control on
an economic
basis

- ④ Control of asset duration utilizing
derivatives

Utilizing group
resources

- ⑤ Joint product development with asset management companies /
consolidation of asset management companies

Segmentation accounting and ALM initiatives

- ALM-based investments are supported by segmentation accounting and the initiatives laid out below
- On the asset side, we run our mid-to-long-term portfolio simulation model on the premise that lower rates will continue. On the liability side, the investment team was actively involved in setting up sales and product strategy.

Segmentation accounting

Adequate portfolio management strategy based on product profile / liability nature

Individual business
in general

Balanced portfolio
(fixed income and risk asset)

Group pension
business

Balanced portfolio
(fixed income and risk asset)

Single premium
whole life policies

Duration matching
(largely fixed income)

■
■
■

■
■
■

Portfolio management initiatives

Further enhancing our mid-to-long-term
portfolio simulation model

- With the use of our economic scenario generator, portfolio simulations are conducted on the premise that lower domestic interest rates will continue

Liability side initiatives

Market-oriented sales and product strategy

- Reducing assumed rates on return for single premium whole life
- Suspended underwriting group pension fund in general account and promoted sales of new product in separate account

② Asset allocation with agility to market changes

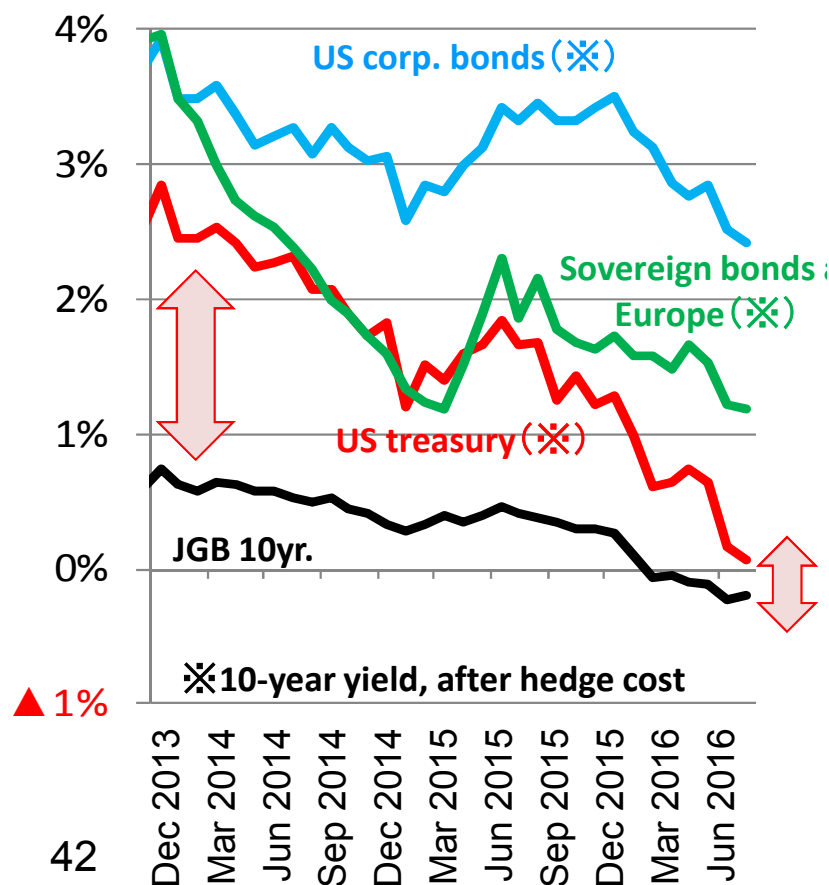
Selective investments in hedged foreign bonds

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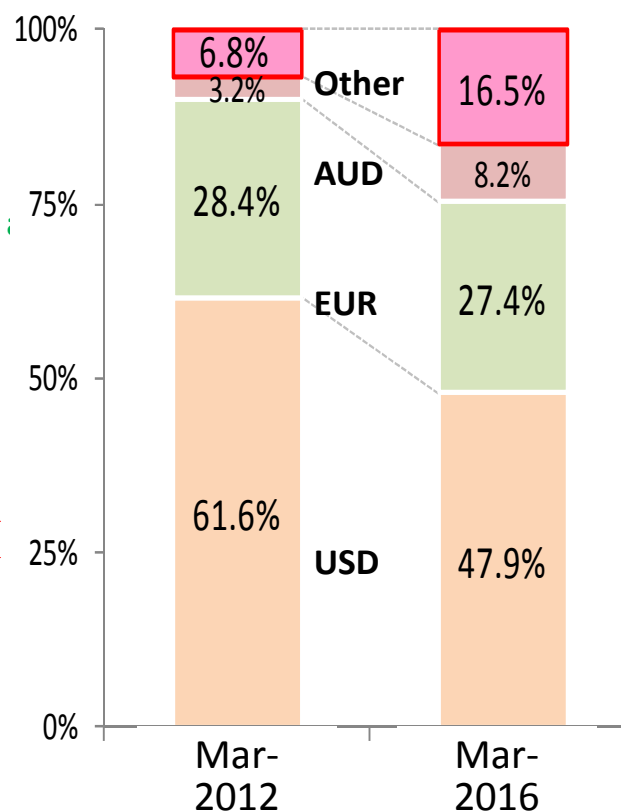
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- Increased exposure to hedged foreign bonds since second half of FY2013, in light of the relative attractiveness in yen-based yield
- Increased number of invested countries/currencies in view of revenue growth and risk diversification (32 countries, 22 currencies)
- Took credit risk selectively to maintain/enhance revenue

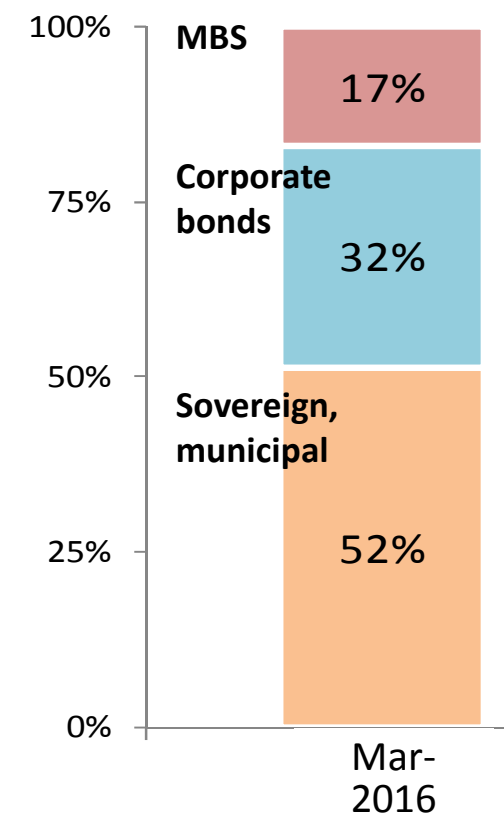
Trend on yield (after hedge-cost basis)



Currency composition



Sector composition



③ Enhancing investments in new areas

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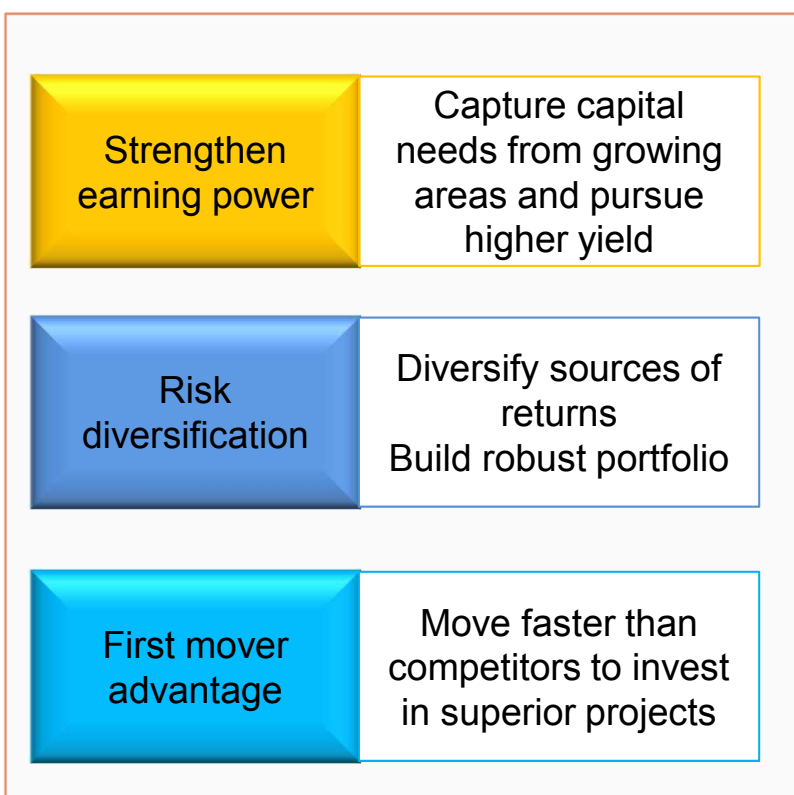
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Enhancing investments in new areas

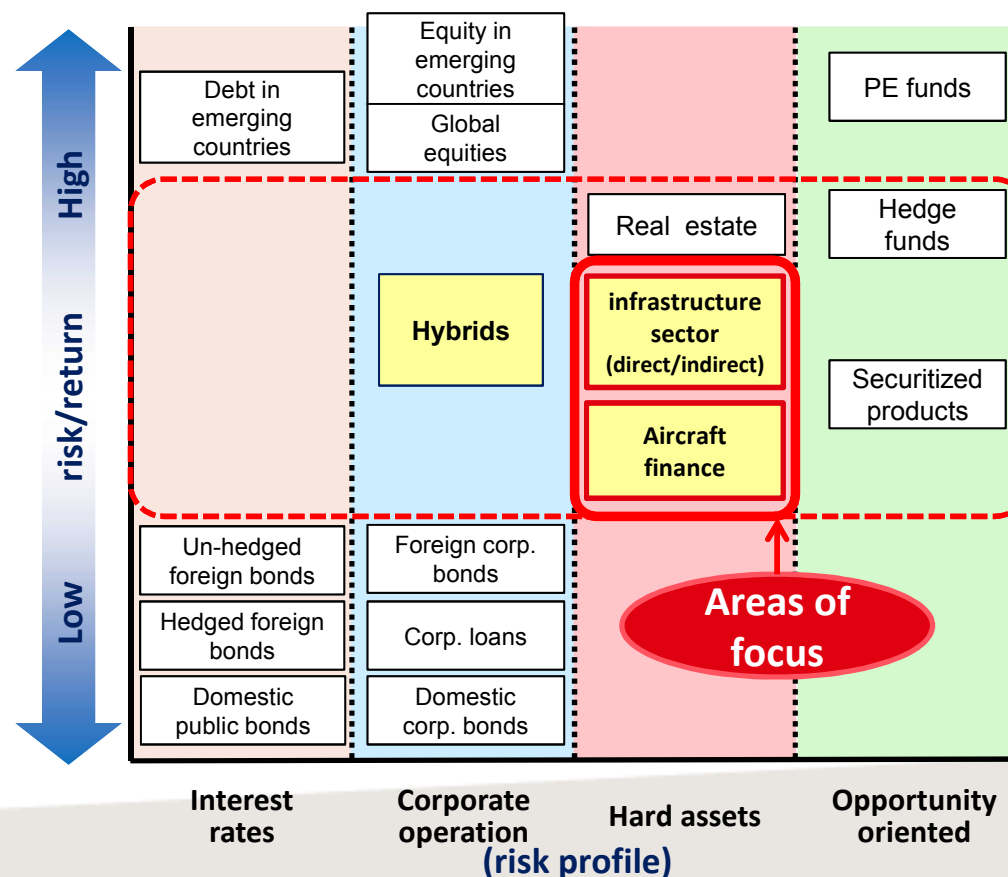
- Aiming both accounting profit and risk control on economic-value basis, we plan to enhance investments in new areas that have different sources of income (risk profile).

→ **In particular, areas of focus are hard asset areas such as the infrastructure sector**

Purpose of investments in new areas



Areas of focus



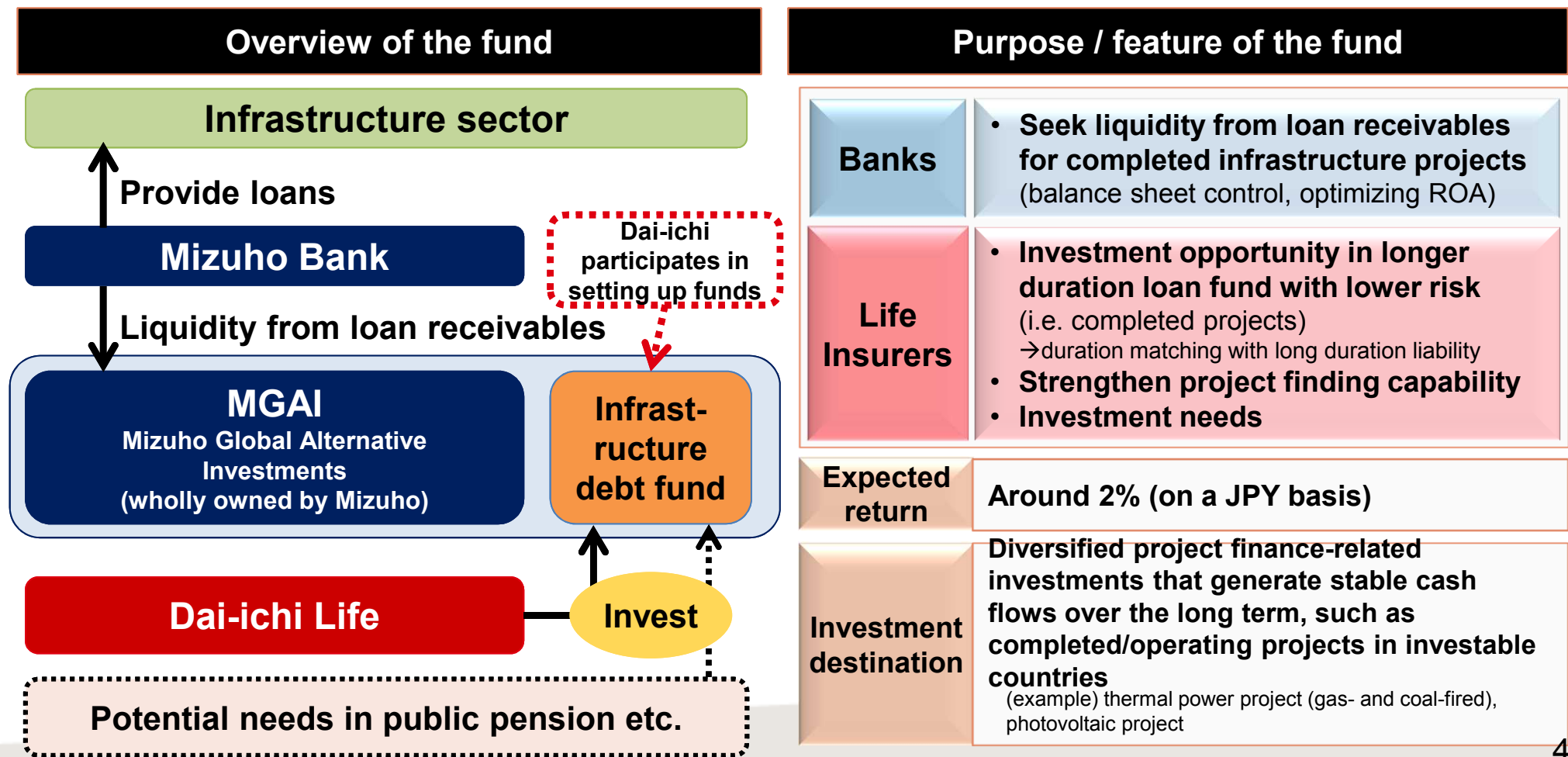
③ Enhancing investments in new areas

Debt funding of overseas infrastructure projects, the first time ever in Japan

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- Took initiatives in setting up yen-denominated debt funds consisting of overseas infrastructure projects in investable countries that generate stable cash flows over the long term.
- Going forward, we will cultivate potential needs in public pension etc. and grow the fund size to 100 bil. Yen, and contribute to an expansion of infra-debt market.



③ Enhancing investments in new areas

Developing a new investment scheme in new investment horizon

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- We promote (a) increased investment options, (b) accumulation of expertise, and (c) human resource development, through a synergy between direct investment in infrastructure sector and investment through funds
- Will accelerate more investment in the sector, and pursue both quality (quality projects) and quantity (increased investment options)

<The core of our investments in new areas>

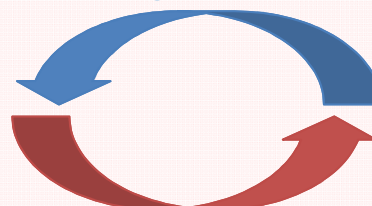
The size of the world's project finance market: approx. 300 billion USD a year

Effectively access new markets both from quality and quantity perspective

Direct investment (trust banking scheme)

- ✓ Gain investment and administration know-how
- ✓ Human resources development

Sharing know-how



Project monitoring

Infrastructure fund

- ✓ Reduce project size constraint and more risk diversification
- ✓ Share expertise

Investment division of Dai-ichi life

Joint effort to create investment schemes with win-win relationship

Other financial institutions (banks / trust banks)

④Control of asset duration utilizing derivatives

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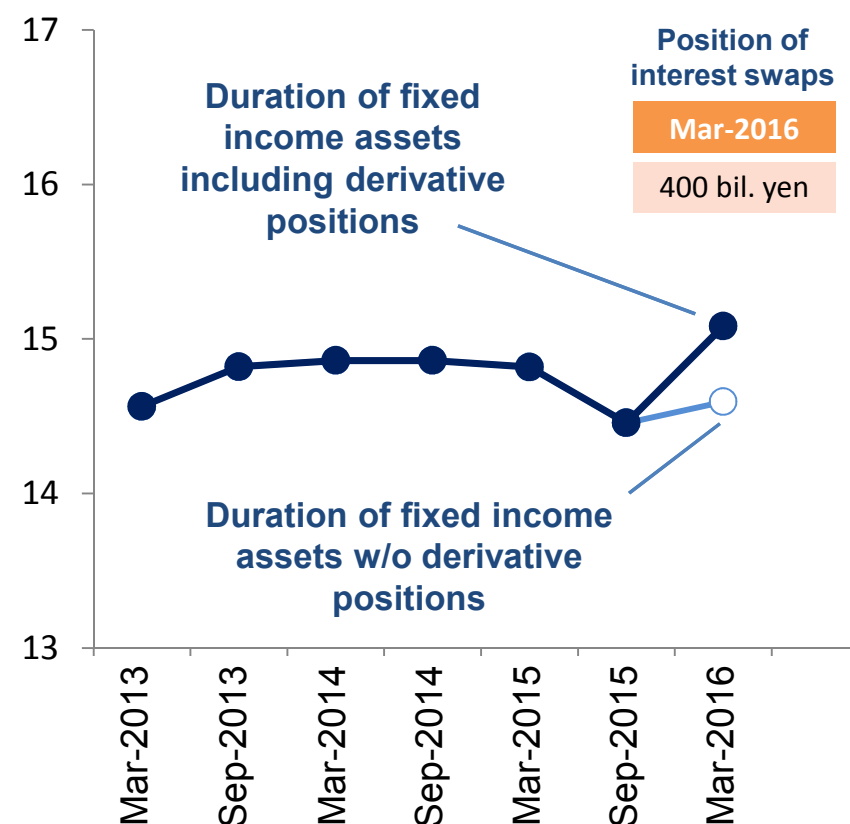
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- We increased the asset duration using derivatives, taking into consideration the impact to accounting profit and economic value indicators as well as liquidity in the market
- With interest rate swaps, we were able to lengthen the asset duration of the fixed income portfolio by approximately 1 year compared to that of Sep. 2015.

Reducing interest rate risk

		Interest swaps (receiving fixed interest)	Purchase super long bonds
Accounting profit	Income gains	✓	✗ (decrease income yield of existing portfolio)
	Capital gains	(Hedge accounting, and fair value through OCI)	✗ (huge capital gains but higher risk of losses in interest rate hike scenario)
Economic value	Control of interest rate risk	✓	✓
Liquidity		✓ (relatively more liquid compared to JGB)	-

Trend of asset duration



⑤ Joint product development with asset management company

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Synergies for Product Development

- We developed customer-centric and market-oriented products jointly with DIAM and other group resources. AUM of Separate Account Balanced Fund II successfully increased to 200+ billion yen
- We will strive to increase AUM by providing better solutions to pension fund customers such as Separate Account Bond Fund, and also continue to engage in joint product development.

Product development utilizing group resources

Understand customer needs

Leverage DIAM's expertise

Separate Account Balanced Fund II (April 2014 -)

- Agile asset allocation based on signs of market changes (such as volatility) and avoid losses on sudden interest rate hike and/or equity market correction

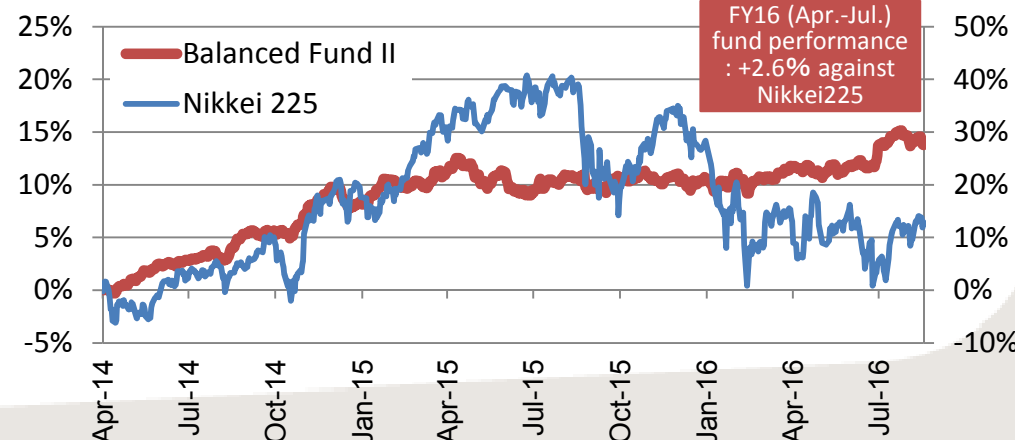
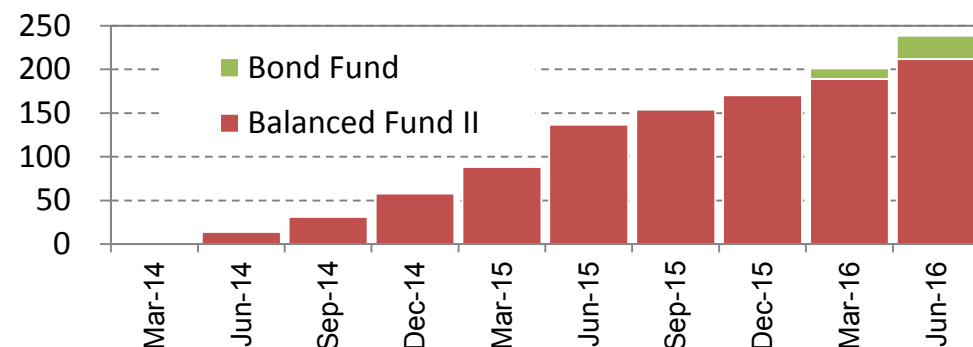
Separate Account Bond Fund (January 2016 -)

- Securing stable income based on quantitative analysis

Customer-centric product development
Market-oriented product development

Trends in AUM and performance

(Billions of yen)



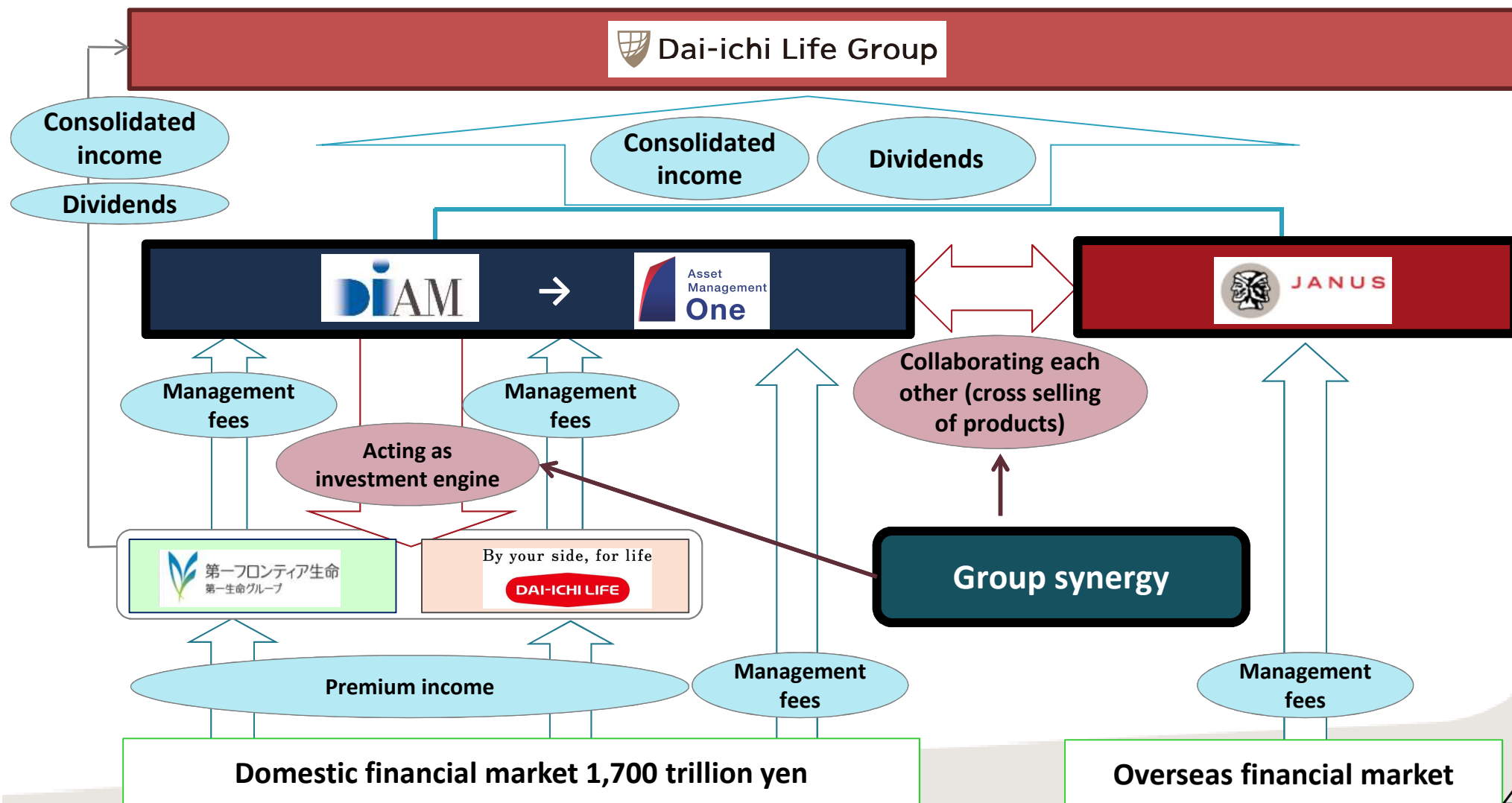
⑤ Consolidate and strengthen asset management companies

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Overview of initiatives in the asset management business

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- In addition to the corporate value increments at our asset management companies, they provide investment services to insurance companies within the group and grow their net income



⑤ Consolidate and strengthen asset management companies

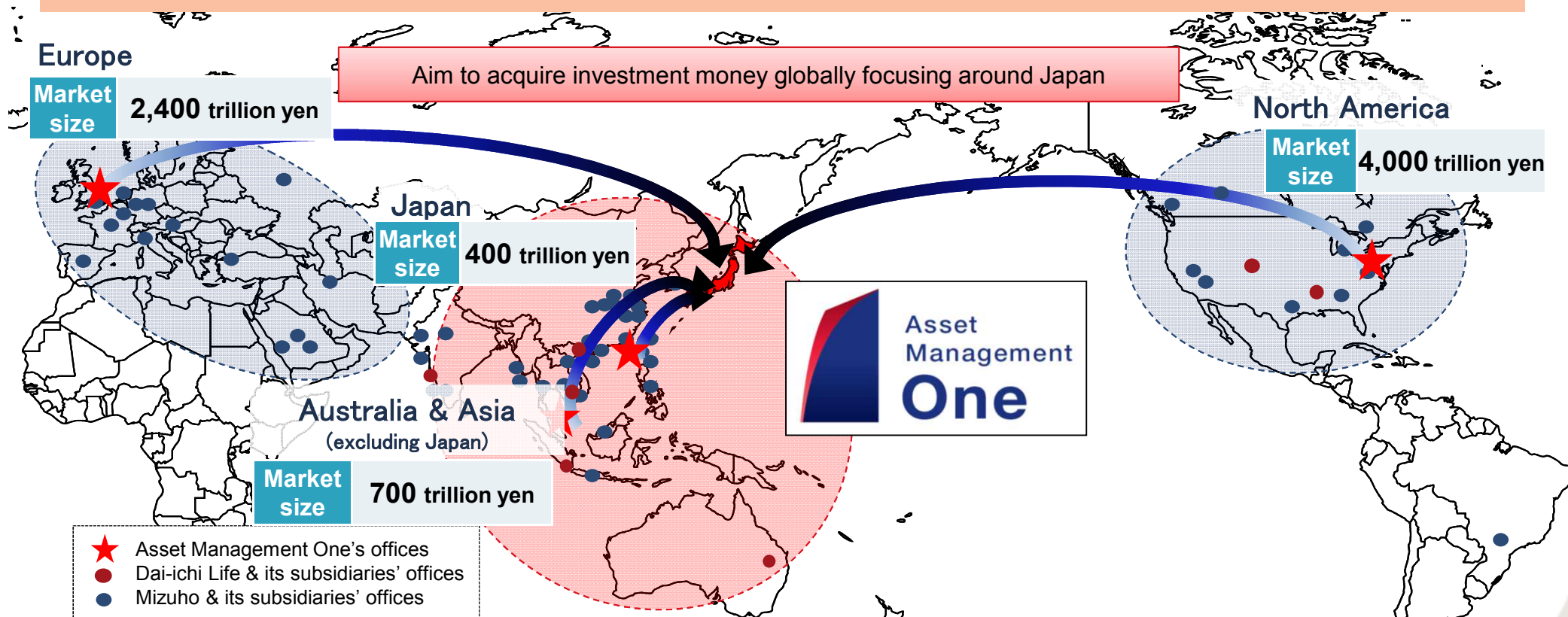
Vision of Asset Management One

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■ To be a global asset management company which provides solutions by using its expertise in investment in Japan and Asia

- Carry out fiduciary duties of high standard and contribute to customers' wealth management
- Aim to increase AUM from 53 trillion to 100 trillion yen, (i.e. A leap from No.1 in Asia to Global Top 20)



Core
competences
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- ◆ High reputation for asset management capability in domestic market (aiming to expand in Asian markets)
- ◆ Provide solutions to customers with quantitative analysis capability
- ◆ Competitive cost efficiency in passive investment products supported by large AUM

※ Market size: McKinsey & Company (2014), at a rate of 1USD = 112 JPY

⑤ Consolidate and strengthen asset management companies

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Strategy of Asset Management One

- The new company puts priority to improve revenue and cost efficiency for the initial 3 years. Thereafter it will pursue growth acceleration in the long term.

		FY2016H2 ~ FY2018 (Integration stage)	2019 onwards
Revenue expansion	Retail market (mutual funds)	<ul style="list-style-type: none"> ● <u>Boost the share in publicly offered mutual funds</u> <ul style="list-style-type: none"> ✓ Develop and promote new flagship products ✓ New products to capture the shift “from savings to investments”(bank deposit substitute, products for DC) ✓ Pursue sales volume leveraging the wide distribution network 	Accelerate growth
	Institutional investors market	<ul style="list-style-type: none"> ● <u>Enhance product development capability for institutional investors</u> <ul style="list-style-type: none"> ✓ Cross selling to customer base of integrating 4 companies ✓ Promote sales of high value added products such as alternative products 	
	Overseas market	<ul style="list-style-type: none"> ● <u>Strategy to increase mandate from overseas funds</u> <ul style="list-style-type: none"> ✓ Products tailored for overseas market (Domestic & Asian equity, smart beta fund) ✓ Sales efforts collaborating with parent companies 	
Cost efficiency		<ul style="list-style-type: none"> ● <u>Streamlining products → Operational efficiency</u> ● <u>Consolidation of IT Systems → Cost efficiency</u> 	

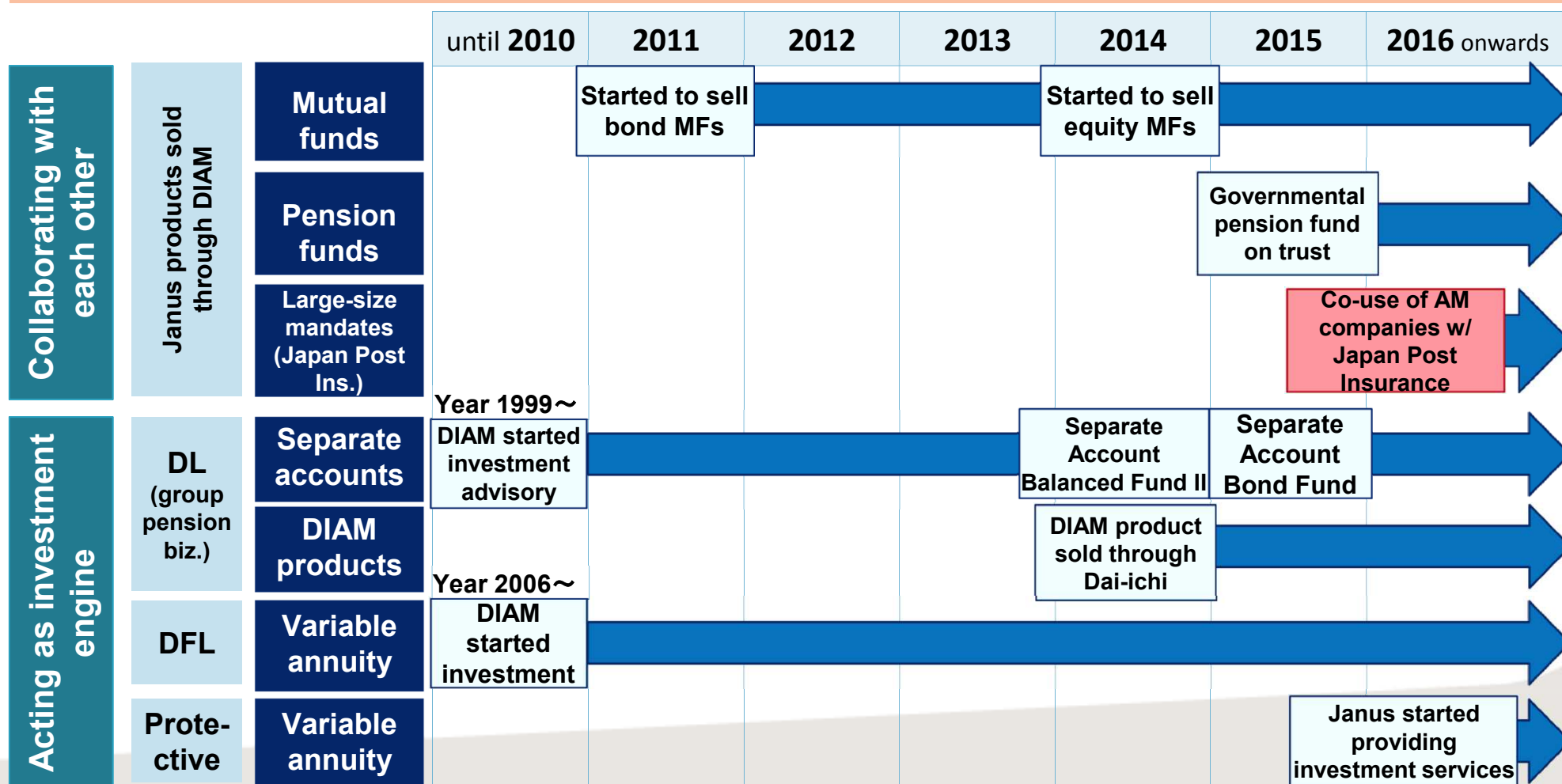
⑤ Consolidate and strengthen asset management companies

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Creating group synergies

- Dai-ichi's new alliance with Japan Post Insurance creates additional business collaboration opportunities in asset management area.
- Utilize asset management companies' capability to strengthen wealth management functions of the group
- Benefit of group synergy amounts to ca. 20% of DIAM's revenue and ca 10%+ of Janus' international operation and, accordingly contributes to revenues of life insurance companies within the group



Alliance with Japan Post Insurance

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- Mutual efforts in developing investment functions are being made. We will announce the progress as and when necessary.

Common
challenge

- ❑ Difficulties in finding investment opportunities to maintain profitability

Common
solution

- ❑ Expansion of investment area/method by developing new horizon and utilizing capabilities of external asset management experts

Both Japan Post Insurance and Dai-ichi have a similar liability profile and, accordingly, similar challenges. Through the joint effort to enhance investment functions, we strive to tackle the challenges.

Front
Office

Co-investing in infrastructure projects globally
Joint utilization of external asset managers as a supplement to in-house investments

- More access to superior projects.
- Strengthen earning power / diversify risk

Middle
Office

HR exchange by mutually seconding trainees
Sharing credit analysis expertise

- Nurture people who manage investments in new areas
- Strengthen credit analysis functions

Back
Office

Co-investing in custody banks
Sharing know-how on securities administration

- Sharing platform of security administration that is flexible enough for the changing environment