Defined Contribution Pension Plan Follow UP Letter

Understanding Your Money Plan

vol. 01 2020

Brush Up Quiz! **Economic** / **Money Sense**

Take our quiz on topics related to oftmentioned fundamental financial issues and test your economic knowledge and money sense.

A Money Plan **That Makes** Sense

This edition's theme is "Effectiveness of DC plans for long-term asset management."

Money for Life Events, and so on

We will introduce data on money. This time, the topic is "Educational Expenses.'

Brush Up Quiz! Economic / **Money Sense**

Take the Money Quiz!

What is the measure that serves as the standard for evaluating the performance of investment trusts?

A Standard Deviation

B Benchmark

C Net Asset Value (NAV)

According to a survey conducted by the Fidelity Investor Education Institute in 2018, what is considered the most critical knowledge required after retirement?

A Ways to stay healthy B Asset Management Skills

C Dealing with long-term care issues





The measure that serves as a standard for evaluating investment trust investment performance is called a benchmark. Benchmarks differ depending on the market or the type of securities that each investment trust invests in. For example, when investing in stocks listed in Japan, the Nikkei Stock Average and TOPIX (Tokyo Stock Price Index) are often utilized as benchmarks. When assessing the investment performance of investment trusts, it is vital to not only look at changes in the net asset value (NAV), but how the NAV moves relative to the benchmark.



In a Financial Literacy Study for the Elderly conducted by the Fidelity Investor Education Institute in 2018, the results showed that "ways to stay healthy" ranked top in "knowledge necessary for post-retirement life," followed by "asset management skills." It was also found that the knowledge deemed necessary depends on gender rather than age, with men tending to focus on money such as asset management, pensions, and withdrawal of assets, whereas women tend to focus on health maintenance, nursing care and inheritance.



A Money Plan That Makes Sense

Effectiveness of defined contribution (DC) plans for "long-term asset management"



What factors are suitable for long-term asset management?

1

A DC plan is a type of "regular investment scheme," and is suitable for long-term asset management

DC plans are regarded as "suitable for long-term asset management" because they provide the possibility to benefit from the consistent investing of contributions over time. One is the expectation of the effect of the dollar-cost averaging method. This is the method of consistently investing a fixed amount each

month. If a fund's NAV at the time of purchase is high, the number of units purchased is small, but if the NAV is low, the number of units purchased should increase, and as a result, it can be expected that the average unit purchase price will decrease.

Fluctuations in the NAV of an investment trust (per 10,000 units) (image) *1

(Note) With a purchasing amount of 10,000 yen each month



| | 1st Month | 2nd Month | 3rd Month | | |
|--|----------------------------|----------------------------|----------------------------|---|--|
| Purchasing 10,000 units each month | 10,000 units 10,000 yen | 10,000 units 6,000 yen | 10,000 units 14,000 yen | Total number of units purchased: Total purchase price: Average purchase price: | 30,000 units 30,000 yen 10,000 yen |
| Purchasing 10,000 yen each month (dollar-cost averaging method) | 10,000 units 10,000 yen | 16,667 units 10,000 yen | 7,143 units 10,000 yen | Total number of units purchased: Total purchase price: Average purchase price: | 33,810 units 30,000 yen 8,873 yen |

^{*1} The above is just a conceptual diagram and does not indicate the actual investment performance of any product. The number of units purchased each month is calculated by rounding up to the nearest whole number. Fees and taxes are not considered.



Under a regular investment scheme utilizing the dollar-cost averaging method, unit purchases decline when the NAV is high, but unit purchases increase when the NAV is low, so you can expect that the average unit purchase price will decline.

In this scenario, by using the dollar-cost averaging method, the total number of units purchased is high and the average purchase price can be kept low.

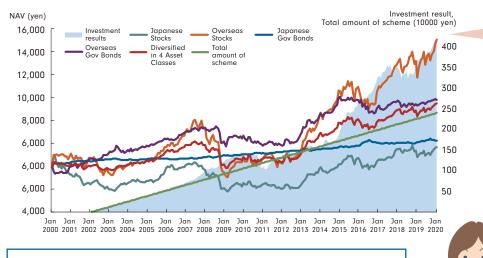


Assets can be expected to increase over time thanks to the "compound effect"

Another advantage of DC plans that consistently invest a fixed amount every month is that you can expect a "compound effect." The "compound effect" refers to a virtuous cycle which is enabled by adding the generated profit to the investment principal and

investing it again, whereby "the principal expands and profits increase." Compound interest is expected to increase assets more efficiently than simple interest, which earns interest only on the principal amount.

Investment results for the past 20 years, when consistently investing 10,000 yen each month in the four assets in a regular investment scheme*2



Diversified investment that combines assets whose prices tend to move differently over time reduces the risk of price fluctuations, as opposed to concentrated investment in individual assets. For example, if you have invested 10,000 yen a month for the past 20 years, the investment result would be approximately

4.3 million yen.

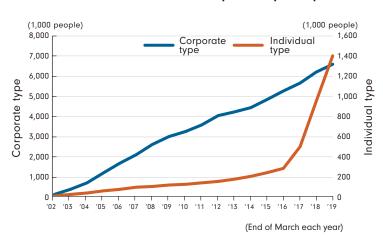
(The investment principal is 2.4 million yen)

*2 Created by FIL Investment (Japan) based on RIMES. Japanese Stocks: Nikkei Stock Average, Overseas Stock: MSCI Kokusai Index (excluding Japanese Government Japan), Bonds: FTSE Japanese Government Bond Index, Overseas Bonds: FTSE World Government Bond Index (excluding Japan, yen basis), Diversified in 4 Asset Classes: Evenly allocated 1/4 to each asset class. All are denominated in yen. Period: From the end of January 2000 to the end of December 2019. Indexation using respective prices at the end of January 2000 as 100. Fees, trust fees and taxes are not considered. Past performance is no guarantee of

3

The number of participants in Defined Contribution plans has increased

Changes in the number of corporate / individual defined contribution pension participants



Since the DC system was established in 2001, there has been a steady increase in the number of overall plans adopted in workplaces, and the number of corporate defined contribution plan participants has been on the rise. Meanwhile, enrollees in individual-type Defined Contribution pension plans (iDeCo), which is a voluntary pension plan, have been increasing since 2017, when its eligibility was expanded to include full-time homemakers and government employees. As of the end of March 2019, there were approximately 6.9 million corporate and 1.21 million individual participants.

Source: Prepared from the Pension Fund Association (PFA) "Statistical Data on Defined Contribution Pensions from the end of March 2002 to the end of March 2019 (provided by the DC Pension Plan Operational Management Institution Advisory Committee)"



Money for Life Events, and so on

Educational Expenses

"What are the total educational expenses for a child?"

Approx. **8.23** million yen to approx. **26.41** million yen

Source: Compiled by FIL Investment (Japan) based on data from the Ministry of Education,
Culture, Sports, Science and Technology's (MEXT's) "Fiscal 2018 Survey on Children's Educational Expenditures"
and Japan Student Services Organization's "Fiscal 2016 Survey on Student Life."

Parents naturally want their children to be well educated. How much would it cost to send a child to public schooling from kindergarten (3 years) to university? According to calculations from the MEXT "Fiscal 2018 Survey on Children's Educational Expenditures" and Japan Student Services Organization's "Fiscal 2016 Survey on Student Life," the average total is approximately 8.23 million yen.

On the other hand, the average total amount for private education from kindergarten to university (living alone while at university) is approx. 26.41 million yen. If only kindergarten and university are private, and elementary school to high school is public, this would amount to approx. 11.72 million yen (calculated on the premise of commuting to university from the family home).

Annual Cost of Education from Kindergarten to High School

| | Kindergarten | Elementary School | Junior High School | High School |
|---------|--------------|-------------------|--------------------|-------------|
| Public | 223,647 yen | 321,281 yen | 488,397 yen | 457,380 yen |
| Private | 527,916 yen | 1,598,691 yen | 1,406,433 yen | 969,911 yen |

Source: MEXT "Fiscal 2018 Survey on Children's Educational Expenditures"

Although the document is prepared by Fidelity Investments based on reliable information, we do not assume any responsibility for its accuracy and comprehensiveness.

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Annual Cost of University Life

| | Family Home | Boarding/Apartment/Other | |
|----------|---------------|--------------------------|--|
| National | 699,600 yen | 1,307,700 yen | |
| Public | 711,000 yen | 1,242,100 yen | |
| Private | 1,342,800 yen | 2,027,100 yen | |

Source: Created by FIL Investment (Japan) based on the "Fiscal 2016 Survey on Student Life" by the Japan Student Services Organization.

Note: From the source data. "Family Home" only includes school expenses (excludes living expenses such as food expenses, etc. "Boarding / Apartment / Other" includes food expenses, rent / utility expenses, and health and hygiene expenses in addition to school expenses.

^{*} The content of this follow-up letter is shown for illustrative purposes only and may differ depending on the adopted assumptions, so please consult with experts as necessary.

