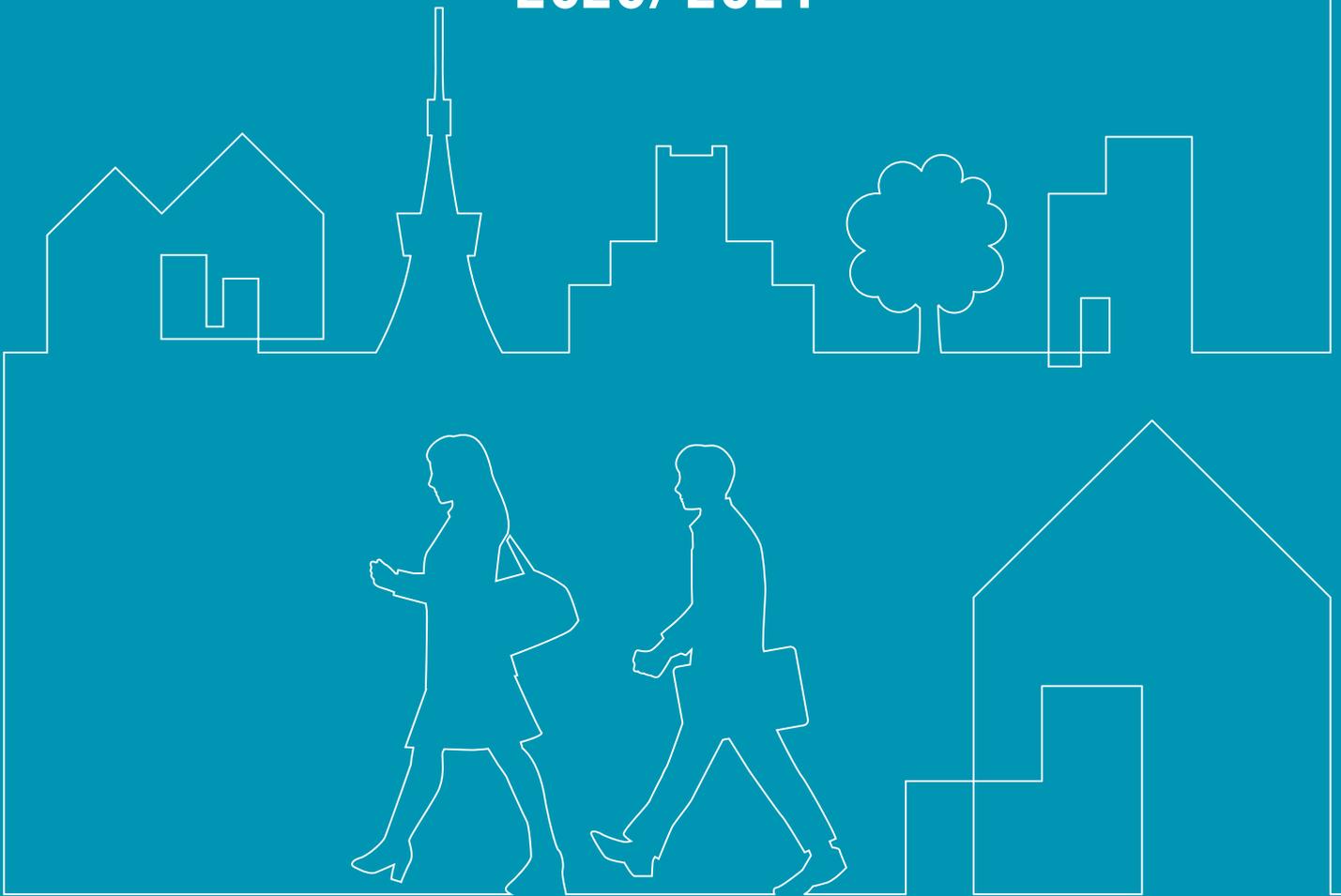


STEWARDSHIP REPORT

2020/2021



SUMITOMO MITSUI TRUST ASSET MANAGEMENT



CONTENTS

2	Executive Message
3	Evolution of ESG Investments and Our Initiatives
5	Features
5	Addressing Climate Change and Environmental Issues
7	Gender Diversity
9	SMTAM's Top Engagement
11	Purposes of Stewardship Activities
13	Stewardship Activity Focus Topics for 2019/2020
15	Stewardship Activity Initiatives
15	Overview
19	Top-down Engagement Activity – Establishment of ESG12 Topics –
21	Engagement
27	Exercise of Voting Rights
31	ESG Integration
31	Overview
33	ESG Integration in Domestic Shares
36	Fixed Income Engagement and ESG Integration
39	Disclosure of Climate-related Financial Information under TCFD
45	Reference

This is a booklet issued by Sumitomo Mitsui Trust Asset Management Co., Ltd. to report on its stewardship activities and promote clearer communication and understanding. Efforts made throughout the Sumitomo Mitsui Trust Group include striving to provide stakeholders with value and collaborating on ESG activities with scope to boost the long-term company value of the Group over time based on transparency.

Sumitomo Mitsui Trust Holdings' website (<https://www.smth.jp/en/csr/>) includes a full report and provides additional reports on topical areas other than "Stewardship," such as "Natural Capital" and "Environmental Real Estate."

Our aim at all times is to be an asset management company with closer relationships with our clients.

At Sumitomo Mitsui Trust Asset Management (the “Company”), our top priority is to strive consistently to boost the value of clients’ assets entrusted to us in the medium to long term and actively promote stewardship activities as part of this aim. This volume “Stewardship Report 2020/2021” – the fourth edition of the report – systematically summarizes our stewardship activities. In addition to the previous content, the report introduces the main activities during the year with regard to our focus themes – climate change, gender diversity, and engagement by our top management – as featured stories. We will continue to meet our responsibilities as one of Japan’s largest asset managers and contribute to the development of our clients’ assets and society.



Representative Director
and President
Yoshio Hishida

Managing Executive Officer
Responsible for
Stewardship Development Dept.
Hiroyuki Horii

Evolution of ESG Investments and Our Initiatives

With the evolution of ESG investments around the world, we are one of the first companies to promote proactive initiatives, including product development.

As a responsible institutional investor in favor of the Japan Stewardship Code, and as a body that has signed the UN PRI, we aim to achieve sustainable growth and sustainability for the company and entire society by encouraging companies to resolve ESG issues through business excellence. Today, both throughout the world and in Japan, there is a major change occurring in that companies themselves are seriously considering the balance between solving social issues and achieving business results, and there is a call for how businesses should get there. As an asset management company, we take this change seriously, and will identify and invest in companies that will grow at a new stage, to continuously pursue the "balance between solving social issues and gaining a return on investments.

Evolution of ESG Investments



Our Initiatives



2006

Presented the concept of ESG in PRI (Principles for Reasonable Investment) for the first time in the world



2015

Adopted the Sustainable Development Goals (SDGs) at the UN Summit



2010s

assessments

- Integrated an assessment of the company's response to ESG issues and financial impact

Integrating the environmental and social impact of investments

- Integrating the environmental and social impact of investments as well as investment returns

Received the Tokyo Financial Award
ESG Investment Category
 out of 40 financial institutions across 10 countries
 hosted by Tokyo Metropolitan Government



2019

Received the Tokyo Financial Award ESG Investment hosted by Tokyo Metropolitan Government (February 2019)

2015

Introduced MBIS® for non-financial information assessments

Launched Quality Growth, a strategy for managing Japanese shares (Research ROE enhancement)

2017

Established the Stewardship Development Department

2019

Established the Stewardship Activities Advisory Committee

Accepted the revised SSC

Developed impact investment products

- The first step is to set seeds for Japanese shares for future global share development

ESG

Impact

Developed an impact investment fund as an evolution of SRI and ESG investments

Addressing Climate Change and Environmental Issues

Importance of helping mitigate climate change issues

Under the Paris Agreement (Nov 2016) signatory nations agreed to “hold the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels,” in order to ensure sustainability. Furthermore, the Intergovernmental Panel on Climate Change (IPCC) published its Special Report on Global Warming of 1.5°C in October 2018, which calls for the reduction of greenhouse gas emissions to net zero as soon as possible. The use of fossil fuels must be significantly phased out if these goals of bringing global warming under control are to be met, and it is an issue that has the potential to significantly convert the structure of the industry. Addressing climate change issues is essential for investee companies to improve corporate value over a medium to long term period. At SMTAM, we are concerned that businesses that consume a lot of energy, especially coal, run the risk of ending up with stranded assets in the future; at the same time, we view environmental investments that take greenhouse gas reduction as a business opportunity and companies with technology that contributes to efficiency as promising investment opportunities. We properly assess the risks and opportunities related to climate change, and through our engagements, work to contribute toward a smooth transition to a society with low or net-zero carbon emissions. Below are some examples of our activities in Japan and overseas.

Activities through Climate Action100+ (hereinafter referred to as CA100+)

Participation in the Steering Committee (April 2020)

More than 500 asset managers participate in CA100+ worldwide and carry out collaborative engagements with more than 160 global companies with high greenhouse gas emissions. We had direct dialogs as a lead/corroborative manager for 9 companies in the Asia region, and in April 2020, we became a new member of the CA100+ Steering Committee which represents Asia. The CA100+ management is based on regional partnerships, but the Steering Committee, which consists of 10 representatives from each region of the world (as of the end of June 2020), is the center of the management control, including the formulation of regional engagement policies, the formulation of engagement



plans with governments, and the relaying of information. Becoming a member of the committee is a prestigious honor to represent the Asia region in the world's

largest collaborative engagement, and also a major responsibility to "move Asia and the world."

Published new benchmarks and sent message letters to target company representatives (September 2020)

In September 2020 as a new initiative, the CA100+ Steering Committee sent to the representatives of target listed companies a "message letter on the introduction of Net-Zero Company Benchmarks." The message letter called on companies to make ambitious efforts to achieve net zero greenhouse gas emissions, and informed them that we will publish evaluation results of the companies in the spring of 2021 based on benchmarks (under development) that evaluate the integrity and materiality of the migration plan to achieve net zero emissions. It is necessary to achieve a carbon neutral status, which means to reduce global greenhouse gas emissions to zero by 2050, in order to achieve the 1.5°C scenario set forth in the Paris Agreement. However, this is a hard goal to achieve even after adding national and corporate voluntary goals.

While we are involved in the process of planning and developing these projects in the Asia region, we will ask for positive corporate commitment through individual dialogs with target companies which we take care of as a lead manager.

Our Future Policy

We recognize that the global movement for carbon neutrality by 2050 will not stop. While checking company evaluations with the CA100+ benchmark which is scheduled to be published in the spring of 2021, we will explain that proactive responses to climate change issues are essential for companies to survive and grow in the medium-to long-term. In addition, in cooperation with the activities by the Steering Committee, we will ask governments of countries where issues still remain for a positive revision of the NDC (Nationally Determined Contribution; voluntary emissions reduction target in each country set forth in the Paris Agreement) and for disclosure of concrete mitigation plans for a decarbonized society, and will focus on monitoring these processes.

Engagement related to climate change in Japan

In our efforts to help mitigate climate change in Japan, we are promoting engagement activities with megabanks, electric utility companies, and general industrial companies. First of all, we are engaged in dialogs with megabank groups on the early withdrawal from project financing particularly related to development of coal-fired power plants overseas. In 2020, some megabanks announced policies to withdraw from project financing related to the development of new coal-fired power plants overseas.

In individual dialogs, we ask for enhancement of TCFD disclosure information, which remains at a low rating, and incorporation of responses to climate change risks into management policy. We were able to confirm certain progress in efforts made by some megabanks, such as responses indicated in the TCFD report newly presented in this fiscal year. In terms of clarification of customer response policies, however, there is room for improvement. We will continue to encourage improvement in responses to climate change through measures such as the establishment and management of greenhouse gas reduction targets in our company and for loan customers, and encourage international financial institutions to actively respond to the issue.

We have continued our dialog with electric utility companies on the balance between stable power supply and contributing to the reduction of GHG, and enhancement of TCFD disclosure items and action plans for which they expressed their support. Since large-scale power generation plants are expected to operate for more than 50 years after commencing operations, it is not easy to

change the power supply portfolio once it has been formulated. In the past, electric utility companies have built their businesses based on the national basic energy plan, focusing exclusively on stable supply. In recent years, however, the international society has expressed a strict view on the continued operation of coal-fired power plants with high greenhouse gas emissions, and the Ministry of Economy, Trade and Industry has also proposed the suspension and abolition of inefficient coal-fired power plants^{*1}. In the future, we believe that electric utility companies will be required to voluntarily build a power source composition that has a low environmental impact, and that each company must establish a power supply composition for medium- to long-term use and make the necessary preparations for realizing that. Since there are many challenges that are difficult for electric utility companies alone to address in achieving a power source composition centered on renewable energy with a low environmental impact, we are also working to promote cross-industry efforts, such as overcoming technical disruptions. Interest in environmental management is growing in industrial companies, especially global companies, with some of them endorsing RE100^{*2}. On the other hand, there are also a considerable number of companies which are slow to address the issues, even though it is very important to do so for their management. We encourage these companies to improve their efforts while citing examples of other companies. In order to prevent environmental management from ending up as a temporary trend, we believe that it is necessary to establish medium- and long-term targets, make investments to achieve said targets, and provide financial support for them. While encouraging industrial companies to address new financial methods such as green bonds and sustainability link bonds, we are preparing to respond to social demands by developing systems to comply with the new financial methods.



^{*1} Thermal power generation which is classified into subcritical pressure and supercritical pressure with a generation efficiency of 40 percent or less. Coal-fired power generation accounts for 32 percent of the composition of power sources in FY2018, and half of it (16 percent of the composition of power sources) is generated by inefficient coal. In terms of the number of plants, 114 out of 140 coal-fired power plants in Japan fall under inefficient coal plants.

^{*2} One of the environmental initiatives established to reduce environmental impact caused by business activities. The goal is cover 100 percent of the energy needed to run businesses with renewable energy.

Feature **2** ESG Activity Focus Topics

Gender Diversity

Why We Need Diversity

At SMTAM, we call on investee companies to put in place systems and structures that are capable of adapting to global business expansion and changes in the business environment. We also actively engage in activities aimed at encouraging investee companies to guarantee the independence of directors, to make effective use of human capital, and to respect diversity through our unique engagement and cooperative initiatives. So why do we need diversity? Diversity and inclusion are a social challenge, but are also one of the ways and solutions for companies to continue their sustainable growth. Diversity in companies plays two roles.

-
- 1) "Board diversity for enhancing the monitoring ability of the board of directors" = "G" of ESG
 2) "Diversity for improving business competitiveness through innovation and talent acquisition" = S of ESG
-

For diversity, we can take a variety of initiatives from perspectives including gender, race, generation, skill/experience, and culture. Among these, gender is the most important because the main target is female, who account for half of the population. In the global market, promotion for female is the premise of businesses as part of their business strategy. Which is a more sustainable company, a company that only does conventional things and does not take on challenges, or a company that strives to improve diversity with a strong desire to improve their business? We believe that initiatives taken by top management toward diversity represents how serious the company is for corporate transformation.

Delays in initiatives by Japanese companies

We will look at the situation in Japan.

While more companies are working to provide training for female and promote them to director positions, the initiatives taken in Japanese firms are still much slower than the rest of the world (Figure 1). The gender gap index survey by the World Economic Forum showed that Japan is ranked a record-low 121st out of 153 countries in its 2020 report. Although Japan is an advanced country, the economic sector is also ranked low, being 115th. The background to this is the delay in promoting female to senior leadership positions in private companies and the large average wage gap between men and women. Why is there no progression in terms of gender diversity?

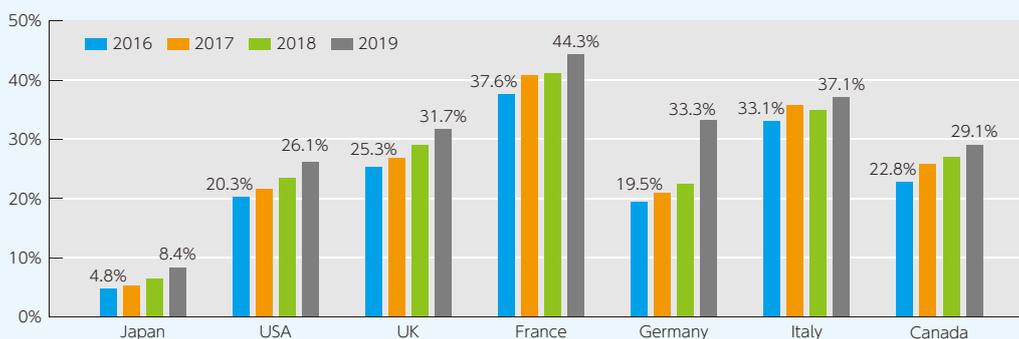
The tax and employment system based on the assumption that "female are responsible for household chores and childcare," and unconscious and deep-rooted biases of middle-level managers and executives which mainly consist

of male—these are hurdles for female continuous service and promotion, leading to a thin pool of candidates for female directors. Solving the issue requires a two-wheeled approach:

-
- 1) Initiatives to promote change of corporate culture and executive/employee attitude under the strong commitment by the top management
 - 2) Establishment of a system for striking a balance between work and changes in life stages
-

A change in attitude and workstyle reformation, which is carried out under the strong will of the top and is not merely a formality, will create a working environment that bridges the gender gap where all employees are comfortable to work, and will lead to a competitive advantage for companies that can acquire excellent talent under the declining birthrate. In addition, we believe that raising the level of the managers, which are the candidate pool, is a challenge that companies must address now for achieving board diversity in the future.

Figure 1: Global comparison on the proportion of female among directors of listed companies*



Source: Women on Boards 2019 Progress Report, MSCI ESG Research LLC, December 2019. Used with the permission of MSCI ESG Research (www.msci.com/esg-ratings)

Our initiatives

Case 1 Engagement

With an awareness of these issues, we are engaged in constructive dialog with investee companies from the following perspectives, aiming to solve the issues together.

- Gender diversity is not just a social contribution, but an important task to implement as part of a business strategy.
- Merely promoting female as a formality does not produce primary effects of diversity. Rather than promoting uniform measures, we identify challenges on the basis of situations the companies are in and objectives to address toward diversity, and share effective measures and best practices after sharing awareness.
- In order to evaluate the initiatives and measures carried out by the top management of companies, we encourage more appropriate disclosure of information, including historical disclosure on promotion of female at each level, formulation/disclosure of diversity policies and targets (KPI) as business strategies, and the creation of skills matrices for directors.

Case 2 Activities in Joint Initiatives

We are also working through joint initiatives to further accelerate gender diversity. In 2017, we signed the 30% Club (UK) Investor Group and 30% Coalition (US), investor groups focused on promoting board diversity. With the launch of the 30% Club Japan in 2019, we used the insights we gained to start the investor group as the only founding member that is a Japanese asset manager. Currently, our president, Hishida, serves as the vice chairperson of the board.

Figure 2: Engagement example cases

	Our advice	Response from company
Japanese electric company A	Diversity is important in this phase for future generational changes, and it is crucial to strengthen the governance by appointing more female employees to director positions.	Appointed two female directors at the 2020 general meeting. The top management expressed a commitment to drastically changing the executive personnel system.
Japanese pharmaceutical company B	The company has many female customers, but the promotion of female has been lagging. It is effective to establish promotion goals for female manager candidates with a view to future promotion to director positions, and to disclose progress and related issues.	Disclosed a new KPI in the mid-term management plan published in January 2020 and set a goal for the female manager ratio.
US retailer C	As the company works to expand its business operations, having diversity among directors is important, and it needs to promote a broad range of personnel.	Appointed a female director for the first time in July 2019.
US financial company D	Even after achieving a 30% female director ratio, the company should further deepen its efforts for diversity without regressing back.	Disclosed more information on the salary gap between male and female, set a KPI for the ratio of female managers, and appointed a female CEO in September 2020.

Major activities in the 30% Club Japan Investor Group



- Our company's managing director, Horii, held a study meeting for the media.
- We sent out a message of support to companies that are promoting workstyle reformation under the coronavirus situation.
- As a board member and best practice subgroup member, we are involved in the operation of the investor group, sharing dialog best practices, and creating annual reports.

[30% Club Japan website](https://30percentclub.org/about/chapters/japan)

<https://30percentclub.org/about/chapters/japan>

* This information is subject MSCI Inc's and MSCI ESG Research LLC's terms of use that you can find here: <https://www.msci.com/terms-of-use> and here [additional-terms-of-use-msci-esg-research-llc](https://www.msci.com/terms-of-use)

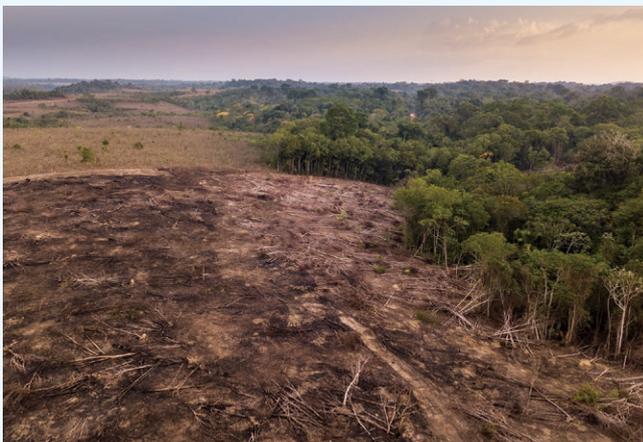
This information may not be used for corporate financing purposes (including, without limitation, ESG-linked loans, credit facilities, securities or structured products), as a basis for any financial instruments or products (including, without limitation, passively managed funds and index-linked derivative securities) or other products or services, to manage any funds or portfolios, to verify or correct data in any other compilation of data or index, to create any derivative works, nor to create any other data or index (custom or otherwise), without MSCI's prior written permission.

Feature **3** SMTAM's Top Engagement

SMTAM is Expanding Engagement Activities with its Top Management Involved

Dialog with the Brazilian government and the Central Bank of Brazil on the development and management of rainforests in the Amazon basin

In June 2020, the PRI-Ceres forest conservation engagement working group, which we are a member and carried out activities such as, submitting a public letter to public institutions supervised by the Brazilian government requesting the disclosure of information on the situation regarding effective conservation, management, and development of the Amazon forest, and started engagement activities for the government. We are the only Japanese asset manager which participated in the project and have been active as a lead manager. In July, we had 4 dialogues including the vice president of the country and the governor of the Central Bank of Brazil in addition to other working groups, we also had individual dialogs with the governor of the Central Bank of Brazil and ambassadors in Japan. Our president, Hishida, presented our views on engagement to continue investments and financing, and exchanged opinions in a meaningful way, highlighting the history of economic exchanges between Japan and Brazil. The area called the Amazon and Amazon Biome, which accounts



Forest destruction in the Amazon region of Brazil is the worst in more than a decade.

for 60% of the country's land, is a typical rainforest region, and environmental conservation in the region is required to prevent climate change and maintain biodiversity. Investors are increasingly concerned about the rapid development of forest destruction—the administration has expressed its policy to promote liberalization of the development of the Amazon basin and stand for liberalization and deregulation of agricultural development. Regular forest fires are also another factor. Through the dialogues, we asserted to Brazil that "the effectiveness of and endorsement for the policies will increase by enhancing their transparency and verification." Brazil's response was that it will give it active consideration. As we continue to hold discussions with the country's authorities and ambassadors in Japan, we will support and monitor the balance between environmental conservation and economic development in the Amazon basin, while firmly accepting the efforts by the government. It was decided that a PRI working group will be formed as a new entity to continue discussions with Brazil, and as a core member of the group we plan to continue discussions with the country.

Engagement activities for cluster bomb manufacturing companies

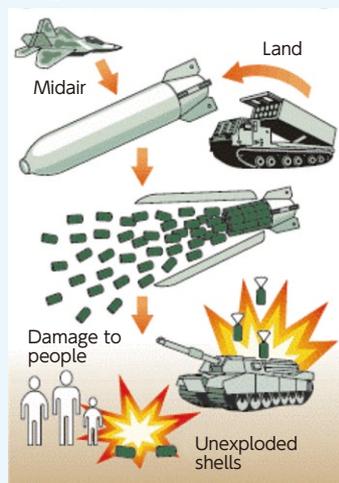
What is a Cluster Bomb?

A cluster bomb is a bomb that contains several submunitions inside a large shell. It scatters submunitions randomly over a large area, and can indiscriminately kill people in the area, whether they are military or civilian. Some of the submunitions do not explode when the cluster bomb is used and become unexploded shells. These shells are left on the ground like mines, making the affected fields and land unavailable to farmers and depriving children of playgrounds. These shells pose a major threat to reconstruction after a conflict.

In May 2008, 111 participating states endorsed a draft for

the Convention on Cluster Munitions in an international conference for establishing conventions for prohibiting cluster bombs, held in Dublin, Ireland. The Japanese government was reluctant to negotiate, but at the very end of the conventional negotiations in Dublin, the government changed its policy and decided to endorse the Convention, signed the Convention at the signing ceremony in December 2008 and ratified it in July 2009. We exclude shares of companies that manufacture inhuman weapons including cluster bombs (and anti-personnel mines, bioweapons, and chemical weapons) from new investment targets of equity and bond active funds.

Image of a cluster bomb



Source: Japan Campaign to Ban Landmines (JCBL)

from the business. The company has decided to focus on addressing the ESG issues, with its policies shifting its main businesses into solar power generation and financial services. We believe that our engagement had an effect regarding this shift.

Future Engagement Activities for Cluster Bomb Manufacturers

Fortunately, the use of cluster bombs has been declining in recent years. On the other hand, there have been some trends that undermine the Convention on Cluster Munitions in the U.S., Russia, China, and other countries that have not ratified the Convention. Most manufacturers of cluster bombs, including unlisted companies, are from countries that have not ratified the Convention, and it is also expected that bombs will be exported from these companies to conflict areas. Under these circumstances, we will continue to demand investee companies that manufacture cluster bombs and other inhuman weapons to withdraw from the business. Our top management will also participate in engagement as necessary to achieve more effective activities. Through cooperation with international NGOs*, we will demand a wide range of companies that manufacture such weapons to withdraw from the business even if they are not our investment targets.



Source: Japan Campaign to Ban Landmines (JCBL)

Engagement with Hanwha Group

The Hanwha Group in South Korea is a company that has a cluster bomb manufacturing department. Over the past five years, we have expressed our opinion on 1) humanitarian viewpoints, 2) reputation risks, including recommendations for investment exclusion from global investors, and 3) profitability of the business. In September 2019, our chairperson, Semaya, engaged with the group. At the end of July 2020, the group announced its intention to separate the business from other military departments and a withdrawal

	December 2015 ST Engineering (Singapore) withdrew from the business	August 2016 Textron (USA) withdrew from the business		July 2020 Hanwha Group (South Korea) announced separation of the business		
	2015	2016	2017	2018	2019	2020
			July 2017	September 2018		September 2019
Flow of our dialog with Hanwha Group	SMTAM	Although we understand the situation in the Korean Peninsula, your company should withdraw from the cluster bomb business, and improve information disclosure with regard to the business.		There are high expectations that tensions in the peninsula will be mitigated. The business is a negative factor from the viewpoint of corporate value. Your company should withdraw from the business at this opportunity.		Your company's renewable energy business should be highly valued from a sustainability perspective, but the cluster bomb manufacturing business may be an obstacle.
	Hanwha Group	Under the current situation, we believe that the Korean military will not stop orders for the time being, and we will continue manufacturing.		We may consider a withdrawal at this timing. We think that the business is a negative factor for our corporate value.		We recognize that other companies that work on renewable energy are using such to enhance their brand strength.

* Pax Christi
A catholic international NGO organization with its headquarters in Belgium, which advocates a ban on cluster bombs and other bombs. In order to raise awareness of the issue, it provides research to financial institutions.

Purposes of Stewardship Activities Supporting Value Creation in the Investment Chain

Earnings growth-driven dividend and wage growth

Investee Companies

Sustainable growth
Pursuing SDGs in partnership with investor

Investment
Enhancement



Constructive dialog and engagement

Sustainable growth of investee companies drives growth in earnings, and growth in earnings drives growth in dividends and wages which, ultimately, benefits household economies and the growth of the economy as a whole. All of this together is known as the investment chain. At SMTAM, we actively utilize our role as an asset manager in the investment chain to support our investee companies create value, leading to maximum returns for our clients, while at the same time contributing to the achievement of SDGs.



Investment Chain
element

Clients and Society

Medium-to-long-term investment return growth for growth of the global economy

Reinvestment of earnings

 SUMITOMO MITSUI TRUST ASSET MANAGEMENT

Total commitment to our clients and our world

Stewardship Activity Focus Topics for 2019/2020

At SMTAM, we believe we have an important role to play in the investment chain as a responsible institutional investor. Towards that end we are fully committed to the Stewardship Code and Corporate Governance Code, as reflected in our domestic and overseas engagement efforts, exercise of voting rights and various other activities. Below is a brief summary of the activities SMTAM was involved in between October 2019 September 2020.

2019

October

Disclosure of voting record on each proposal for each investee company

We disclosed the details on our website, whatever we exercised our voting rights on proposals involving investee companies in Japan.

October

1

Participation in Japan Climate Action Summit 2019 (JCAS2019)

At the top leadership session for JCAS2019 on October 31, our chairperson Semaya took the platform as the only participant from an asset managing company, and talked about Japan's responses to and challenges with regard to climate change from the perspective of an investor.



November

2

Attendance in an Annual Roundtable on Sustainable Palm Oil

On November 3 to 6, we attended the 17th Annual Roundtable Meeting on Sustainable Palm Oil in Bangkok, Thailand. We identified and shared various issues, including not only climate change issues due to palm oil, but also human rights and labor issues through the supply chain. In addition, we carried out individual discussions with palm oil-related companies, taking advantage of the opportunities where such companies gather.

2020

January

3

Revision of Guidelines for the Exercise of Voting Rights for Domestic Shares

January/April/July

Disclosure of voting record on each proposal for each investee company

February/May

Proposal to the Japanese and Korean governments through the Investor Agenda*, a collaborative initiative among institutional investors which seeks the transition to a low-carbon society.

Through the Investor Agenda we submitted proposals for more aggressive and concrete commitments, including raising the GHG emissions reduction targets under the Paris Agreement, to the Prime Minister of Japan and President of South Korea.

* See page 50

March

Participation in Ceres * Annual Conference as a speaker

We commented as a panelist on information disclosure and initiatives related to climate change in the Asia-Pacific region. (Remote participant)

* See page 50

1 The Japan Climate Initiative is a network designed to enhance information transmission and exchange of opinions among companies, local governments, and NGOs which are actively engaged in countermeasures against climate change in Japan.

It was an important opportunity to share a sense of crisis regarding climate change and prompt calls for the achievement of the 1.5°C target set forth in the Paris Agreement.

2 RSPO was established in 2004 by the World Wide Fund for Nature (WWF), Malaysian Palm Oil Association, and other institutes, in response to concerns regarding the environmental impact of rapid growth of oil palm plantations in Malaysia and Indonesia. It certifies sustainable palm oil that meets principles and standards for reducing environmental load.

It is operated by stakeholders in seven sectors related to the palm oil industry. (Palm oil production, oil expression/trade, consumer products manufacturing, retail, bank/investment companies, environmental NGOs, and social/development NGOs)

April

Enhancement of commitment to CA100+ activities*

We participate in the CA100+ Steering Committee (consisting of asset owners and managing company representatives from key regions in the world.) as the representative of Asian asset managers.

* See page 49

April/May

Participation in various ESG-related statements following the spread of the novel coronavirus

We sent out a message to companies through Japanese and overseas initiatives*, including IICEF, ICGN, ATM, Investor Agenda, and 30% Club Japan.

* See page 49 and 50

May

Announcement of the "Policy on exercise of voting rights and stewardship activities in light of the spread of novel coronavirus" on our website

May

Direct dialog with Sustainalytics, a global ESG vendor in the Netherlands

We checked the process for granting scandal rating schemes and asked for an improvement of operations and transparency.

May

Announcement of approval of the revised stewardship code

June

Participation in the ESG Disclosure Study Group

The ESG Disclosure Study Group conducts research activities related to ESG information disclosure, with the aim of creating a system that harmonizes the sustainable development of society together with companies' enhancement of their value. At the time of its establishment, the Group was composed of 19 private companies. We participated in the group as a founding member and are a member of the Board of Directors.

June/July

Dialog with the Brazilian government*

We signed an investor statement to convey concerns on laws and regulations related to Brazil's Amazon development and exchanged opinions directly with the Brazilian government.

* See page 9

July

4

Establishment of overseas subsidiary in the U.S. and commencement of operations

We dispatched and assigned dedicated stewardship officer to the U.S. subsidiary. This establishes a three-pole system of Japan, the United States, and Europe.



3 The points of the revision are as follows:

- The scope of the request for further strengthening the governance by a board of directors (more than one third of appointed directors are outside directors to strengthen supervisory functions and ensure independence) is expanded to all listed companies in principle.
- The scope of "companies with parent companies" is expanded and criteria is made stricter.
- Criteria (ROE) on performance of cash-rich companies is made stricter.

* See page 28

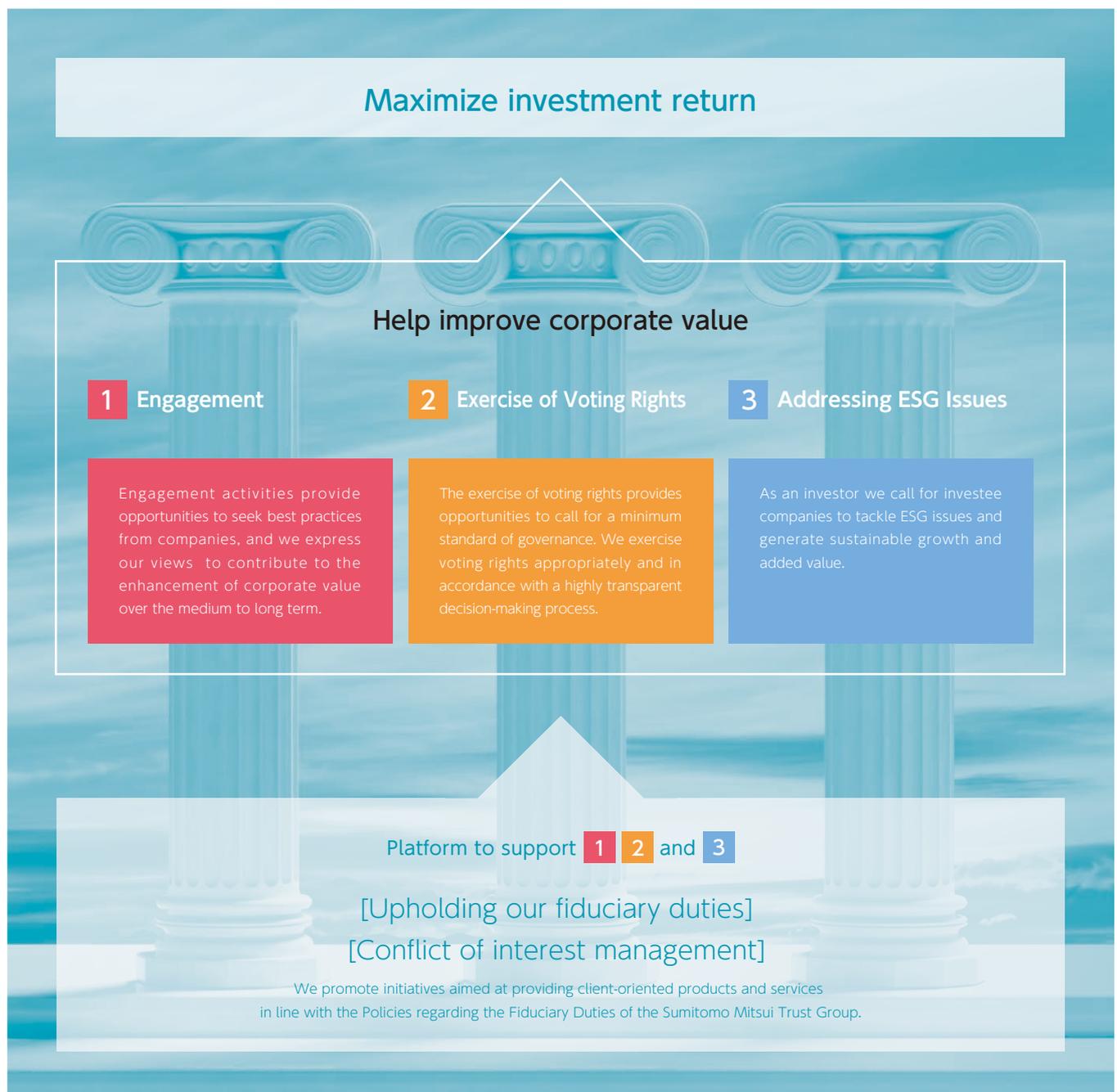
4 Sumitomo Mitsui Trust Asset Management Americas, Inc.

The United States, especially New York, is the global capital of the asset management business, both in terms of scale and innovation. The purposes of the establishment is to further enhance our operational capabilities, expand properties in trust from overseas investors, and improve investment managing service quality and global presence through local activities.

It carries out four operations: 1) client services, 2) manager research, 3) engagement research, and 4) consulting.

Striving to maximize investment returns as a responsible institutional investor.

As a responsible institutional investor, we pursue our three key pillars of stewardship activities that are built around engagement, the exercise of voting rights and measures for addressing ESG challenges. Our aim is to use stewardship activities as a means of helping investee companies improve their corporate value, thereby helping us to maximize medium-to-long-term investment return on the assets of our clients. Underlying all of this is our commitment to uphold our fiduciary duties. Because we believe that appropriate management of conflicts of interest related to stewardship activities helps us better to fulfil our fiduciary duties, we are constantly working to manage our conflict of interest management capabilities.



Engagement

1

At SMTAM, we view engagement activities as opportunities to seek best practices from companies, and we communicate our views so as to contribute to the enhancement of corporate value over the medium to long term. Gaining a proper understanding of a company's state of management and business situation is crucial to engagement. The ESG experts in our Stewardship Development Department work together with industrial corporate analysis professionals in the Research Investment Department to conduct in-depth engagement from both an ESG and business perspective, utilizing our proprietary MBIS® non-financial information evaluation tool. We use our networks in Tokyo, New York and London to engage with our own investee companies. We also conduct various activities and engage with stakeholders outside our investee companies through a wide variety of initiatives.

Exercise of Voting Rights

2

At SMTAM, we view the exercise of voting rights as an opportunity to call for a minimum standard of governance and consider it to be one method of governance-related engagement. We emphasize three key points when exercising voting rights: (1) high-quality governance that respects shareholder interests; (2) efficient utilization of shareholders' equity for sustainable growth; and (3) appropriate action in the event an incident occurs that damages corporate value. We disclose our guidelines for the exercise of voting rights based on these criteria, and also actively pursue engagement with companies with respect to the exercise of voting rights.

Addressing ESG Issues

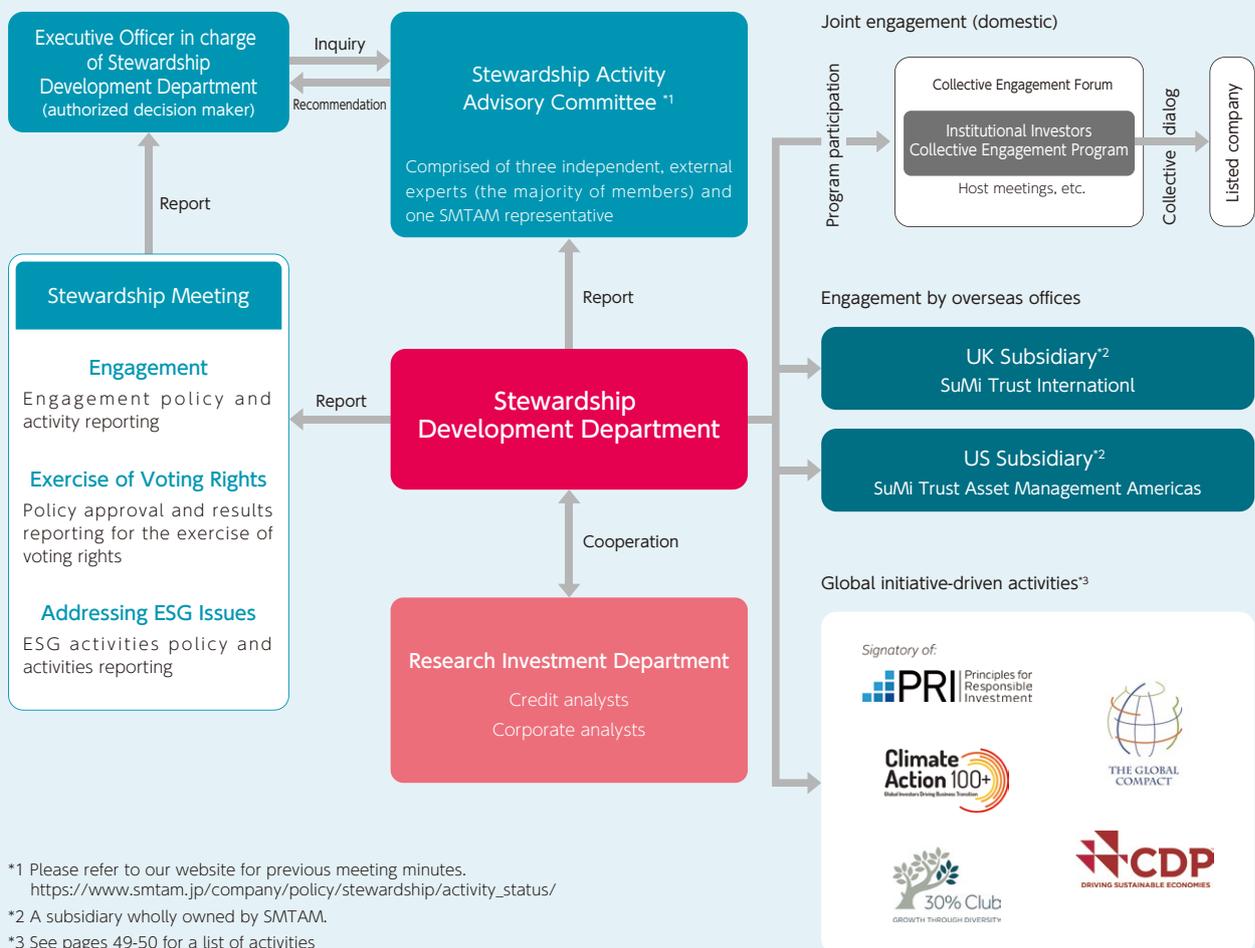
3

It is important to address ESG issues which can affect investee companies' medium-to-long-term growth. ESG issues reside in non-financial domains and do not manifest themselves in financial reporting, but they may have a considerable impact on corporate value over time. It has long been our practice to actively address ESG issues, and when the Principles for Responsible Investment (PRI) were established in May 2006 in order to prompt institutional investors to factor ESG considerations into their investment decision-making processes, SMTAM was among the founding signatories. We have also participated in various international initiatives which originated with the PRI and which led to expanding ESG activities being undertaken worldwide. As a signatory to the PRI, we endeavor to pursue upside potential and curb downside risk by incorporating ESG factors into our investment decision-making process and aim to maximize medium- to long-term returns for our clients.

*See page 31

Stewardship Activities Promotion Framework

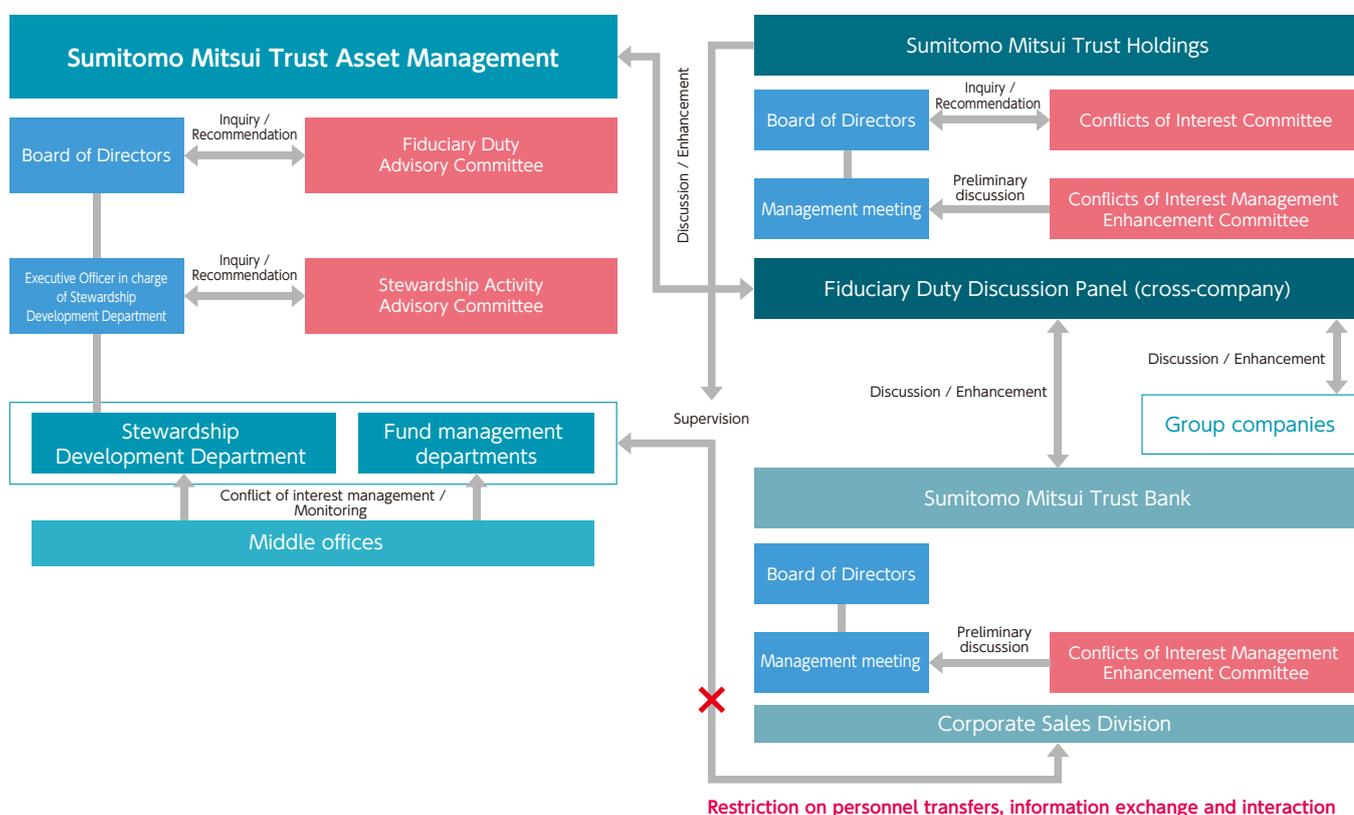
Stewardship activities promotion is principally the responsibility of the Stewardship Development Department, which works in conjunction with highly experienced analysts in the Research Investment Department. Within Japan, we pursue our own independent activities, as well as capitalize on the platform provided by the Institutional Investors Collective Engagement Forum (IICEF) to pursue joint engagement. Outside Japan, we dispatch representatives from Tokyo to meet with overseas companies, as well as rely on the independent engagement efforts of our London office; additionally, we carry out engagement through global initiatives and undertake collaborative activities with LGIM. All stewardship activities are reviewed and reported on by the Stewardship Committee and by the Stewardship Activities Advisory Committee, the majority of whose members are independent, outside experts.



Conflict of Interest Management

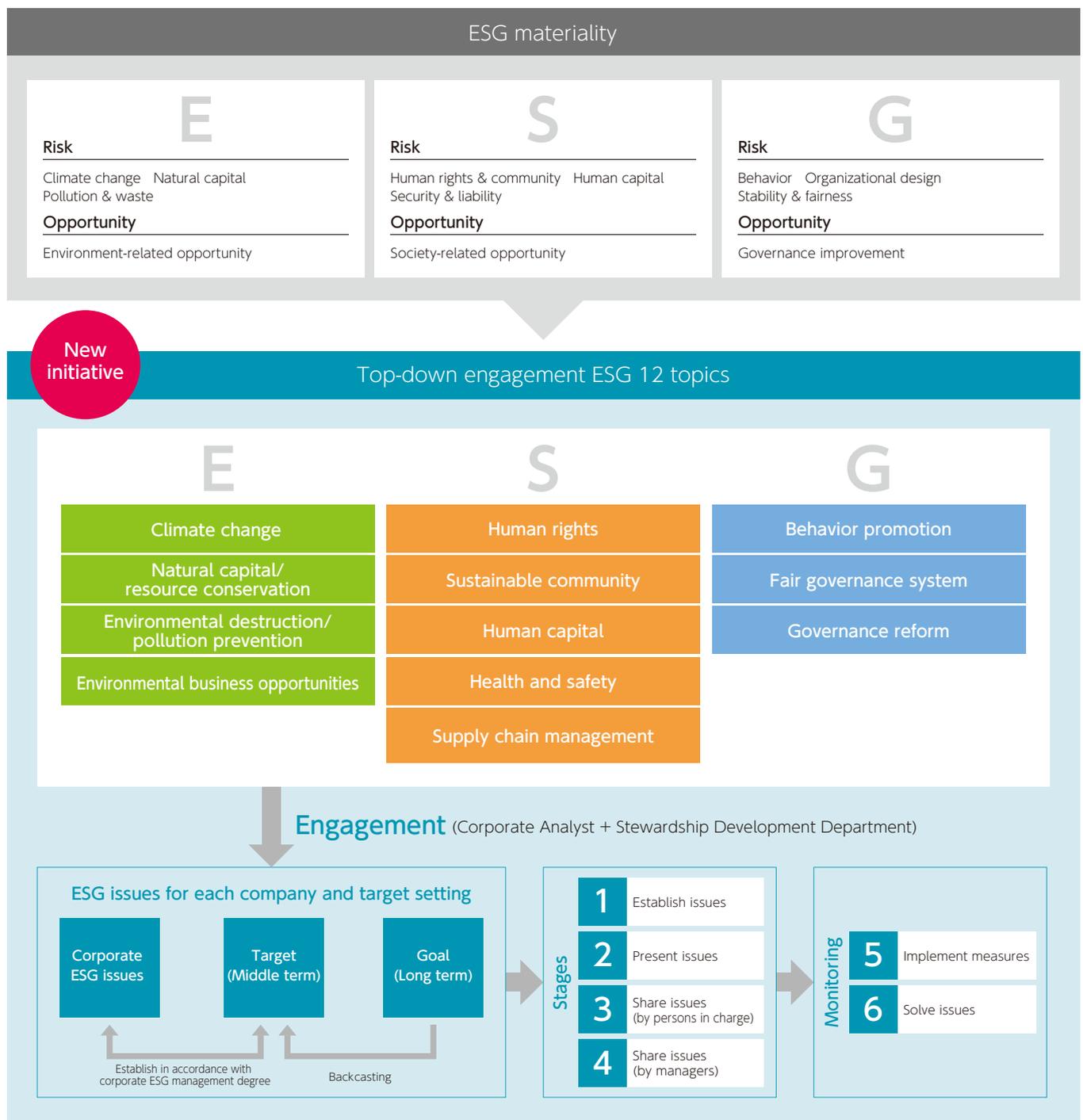
The Sumitomo Mitsui Trust Group has established and publicly released its Policies regarding the Fiduciary Duties of the Sumitomo Mitsui Trust Group. We promote initiatives aimed at providing client-oriented products and services in line with these policies. As we step up our stewardship activities, we believe that proper management of conflicts of interest relating to these activities will contribute to deeply embedding fiduciary duties into the way we do business; hence, we have put in place a conflict of interest management system.

Conflict of Interest Management System



Top-down Engagement Activity - Establishment of ESG12 Topics -

Our four key topics were climate change, water resources and marine pollution, backing governance reforms, and promoting ESG information disclosure. In September 2019, we established the ESG investment policy and identified ESG materiality therein. On the basis of that, we established 12 new ESG topics to further enhance top-down engagement activities.



For each ESG topic, we select target companies from investee companies on the top-down basis, set long-term goals and intermediate targets using a backcasting method in accordance with each company's ESG issues and ESG management level, and promote our engagement. We manage the progress of engagement in four stages by ESG topic, and monitor companies implement measures and solve the issues.

E	S	G
<p>Climate change</p> <p>Although greenhouse gas emissions are expected to decrease temporarily, green recovery is a top priority issue for avoiding an increase in emissions after economic activity resumes. The frequent occurrence of intensifying natural disasters is said to be attributable to the increase in greenhouse gas emissions from economic activities. We believe that corporate behaviors that are in harmony with the Paris Agreement are important in terms of the sustainability of the Earth, which is the foundation of economic activity. In line with this, we will continue to conduct engagement in relation to climate change issues on a global level.</p>	<p>Human rights</p> <p>Human rights is an important issue for global business expansion. We believe that companies need to work on their supply chain management from a human rights perspective, including child labor and forced labor for migrant workers.</p> <p>Sustainable community</p> <p>Local depopulation and aging public infrastructure are important issues for local communities. Infrastructure companies need to make a conversion to sustainable social infrastructure in proportion to mid- to long-term population decreases, and a shift to a business model that sustains with a region needs to be taken into account.</p>	<p>Behavior promotion</p> <p>When a company conducts ESG management, it is important for it to identify materiality, establish KPIs, and disclose performance. The company needs to disclose appropriate ESG information as a foundation for constructive dialog. Corporate behaviors that contribute to capital efficiency continue to be important, including the effective use of capital of cash-rich companies, and the review of the business portfolios of low-ROE and conglomerate companies with unprofitable businesses. Some companies' mid- to long-term management strategies set targets only as an extension of traditional goals, but we believe that strategic targets must be consistent with corporate philosophy and based on backcasting from a long-term management vision. Consequently, we will promote corporate behaviors from this perspective.</p>
<p>Natural capital/resource conservation</p> <p>The expansion of corporate economic activities is linked with the negative impact on natural capital and biodiversity, and the challenge is conversion to economic activities that are more appropriate for natural capital and biodiversity. In particular, food and water shortages and dangers regarding biodiversity are a global issue, and reducing food waste, securing water resources, and protecting nature are also important issues for corporate sustainability.</p>	<p>Human capital</p> <p>Improvement of working environments, such as reductions in overtime and safety/health management, is still an important issue. In addition, we will encourage companies to take measures for reviewing systems for personnel evaluation and treatment toward the establishment of diversified working styles such as working from home, conducting personnel education, shifting to high value-added products and services by means of intangible asset investment such as DX, and improving human productivity.</p>	<p>Fair governance system</p> <p>We call on companies that have engaged in misconduct to eliminate their failure in governance. In addition, we encourage corporate behaviors toward improvements in management discipline, such as reductions in cross-shareholdings, and abolition of anti-takeover measures. Furthermore, we believe that the reviewing and strengthening of group governance systems, such as parent-subsidiary listings, relationships with major shareholders, and the strengthening of overseas business including M&A, are important both for a growth strategy and risk reduction, and we are looking to encourage improvements regarding these points.</p>
<p>Environmental destruction/pollution prevention</p> <p>Among the destruction and pollution of the natural environment, forest destruction and the problem of marine plastics are important issues along with climate change. Concerns are rising that illegal deforestation and agricultural development to secure food will reduce CO₂ absorption, worsen climate change and adversely affect biodiversity. The problem of marine plastics is an important issue to solve, which includes preventing marine pollution, securing biodiversity, and achieving a recycling-based economy. We believe that strengthening efforts are essential in each industry in a related supply chain.</p>	<p>Health and safety</p> <p>While healthy management is expected to reduce economic losses due to employees' separation from workplaces, a shift from healthy management to wellness management is desired, where increased employee satisfaction is connected to increased added value and productivity. We continue to position access to medicine* as an important global topic. Considering the current coronavirus situation and problems concerning drug-resistant bacteria, we believe that initiatives for health-conscious economic activities are important, including infection prevention/management, food safety, and the proliferation of knowledge on infectious diseases.</p>	<p>Governance reform</p> <p>In order to bridge the gap between mid-term goals and mid-term milestones as an extension of the current situation, technological and business model reforms are required. Moreover, it is necessary to continue reforming governance to achieve a desirable state, and important to have a governance system that can back aggressive enforcement. We will encourage governance reforms from various angles—we believe that it is essential to review the skill set of the Board of Directors, promote diversity management, promote female active participation for achieving gender diversity (first stage of diversity management), and exercise the role of independent external directors to enhance the effectiveness of the Board of Directors.</p>
<p>Environmental business opportunities</p> <p>With regard to ESG, people tend to place their focus on risk containment, but we also direct our attention to the perspective of business opportunities. Although there are short-term cost burdens for environmental responses, we consider it essential to develop technologies that help reduce environmental burdens and expand environmentally-friendly products and services in order to eliminate the link between expansion of economic activities and an increase in environmental impact.</p>	<p>Supply chain management</p> <p>In expanding and sustaining global economic activities, we believe that building supply chains that are effective in solving and reducing labor, environment, and social problems is essential to avoid reputational risks and losses. The restructuring of supply chains in response to intensifying natural disasters and the spread of infectious diseases is an important risk management issue.</p>	

* This is a problem in which people cannot access the medicine and medical services they are in need of, mainly in developing countries and rapidly emerging economies, due to poverty and the lack of medical systems.

Improving Investee Corporate Value via Engagement

We have set our engagement targets as "all brands held, with mainly TOPIX composition brands," and by this point, we have engaged with a broad range of companies representing roughly 90% of the total market capitalization of TSE1. Our mission is to raise the level of medium-to-long-term corporate value and of the overall market and secure excess returns which will help us in maximizing medium-to-long-term investment returns for our clients. In order to achieve this goal, we are also focused on making our engagement activities more efficient and effective by identifying the challenges that each of our investee companies face.

Our approaches consist of the (1) market cap approach, (2) risk approach, and (3) top-down approach.

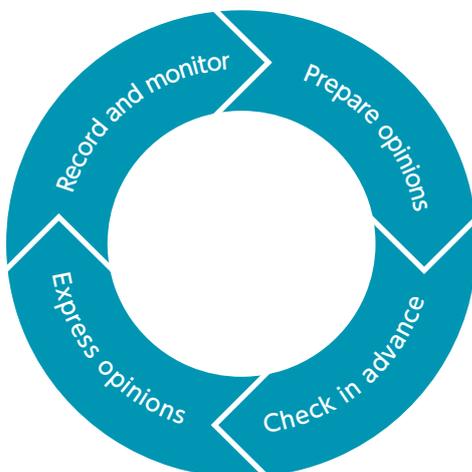
We select targets of the market cap approach on the basis of management situations, importance of management issues, and market capitalization, among other matters. The risk approach targets companies for which opposition votes were casted in the exercise of voting rights (low ROE, etc.) and companies that have engaged in misconduct.

As described in the previous page, we select target companies for the top-down approach on the basis of the 12 topics established premised on our ESG maturity.

Transition of ratio of the number of companies taking corporate action to the number of companies engaged (Accumulation)



SMTAM Engagement Process



Activities conducted in line with the above process are counted in our total number of engagements (simply being in contact with a company is not counted as an engagement)

Prepare opinions

To achieve effective engagement, our analysts use non-financial information analysis results and the like to help them identify management issues and formulate effective and coherent opinions.

Check in advance

We first submit the opinions formulated by each analysts to an internal review. This both helps improve and standardize opinion quality among the analysts.

Express opinions

Our analysts meet with investee company executives and express their opinions. At each meeting, a written oath stating the analysts will not make any material proposals nor acquire insider information is signed and mutually recognized.

Record and monitor

After the meetings, we record investee companies' responses to the analysts' opinions. We monitor the companies for any changes in management and then utilize this information when identifying management issues for the next engagement.

Engagement Example Cases - Domestic

CASE 1

Material Company A

- Greenhouse gas emissions reduction
- Promotion of ESG information disclosure

Analyst's Perspective

Despite the large amount of greenhouse gas emissions in its business structure, the company has not published its medium- to long-term reduction plan, and some overseas investors have listed it as a target of divestment. In order to achieve a sustainable society and improve corporate value, the company must clearly express its mid- to long-term initiative policy and goals toward climate change.

Opinion from SMTAM

Although you have set targets for the percentage of sales of products/technologies that contribute to the reduction of greenhouse gas emissions and environmental impact by FY2021, you need to formulate a medium- to long-term GHG reduction plan to comply with the Paris Agreement and set specific numerical targets. In addition, you should clearly indicate not only the sales targets of environmentally-friendly products, but also the GHG reduction contribution amount. In order to increase the effectiveness of a reduction plan, we believe it is good to add that to the evaluation indicators for executive remuneration.

Although your strength lies in the low energy cost of coal-fired power generation, coal-fired power has been under increasing pressure from the world and you will likely lose your business competitiveness.

Company Response

We are currently discussing the establishment of medium- to long-term targets for environmental issues. In setting the target level for reducing greenhouse gas emissions, we would like to take into consideration the opinions of investors. We will use alternative products and carry out recycling to reduce our environmental impact. We also want to expand our environmentally-friendly products. We take your opinion on reflection in compensation as valuable feedback.

Although it is difficult to immediately stop our coal-fired power generation, we are seriously discussing various matters, including the replacement of our business portfolio.

Company Action

In April 2020, the company expressed its support for the TCFD, and announced that it "aims to reduce greenhouse gas emissions by 80% by 2050" in the environmental vision that it subsequently announced. At the same time, it clearly indicated medium-term targets by 2030 for reducing greenhouse gas emissions and for a sales composition of environmentally-friendly products.

Evaluation by SMTAM / Future Policy

The company took a step forward by clearly indicated a mid- to long-term policy and targets toward climate change. Since its mid-term targets do not meet the target level under the Paris Agreement, we will continue to hold discussions on concrete measures to further reduce greenhouse gas emissions and on the positioning of coal-fired power generation.

CASE 2**Electrical Equipment Company B**

- Promotion of ESG information disclosure
- Independence and gender diversity of the board of directors

Analyst's Perspective

While its core products gain a high global market share, given the growing awareness of ESG overseas, we believe that consideration of ESG in management has become increasingly important in order to ensure its sustainable growth in the future.

Opinion from SMTAM

It has disclosed greenhouse gas emissions up to Scope 3, but has not clearly stated its reduction targets. In order to expand sales in Europe, which has taken the lead in terms of responses to climate change, you should set a medium- to long-term reduction target for greenhouse gas emissions in your supply chains.

There are three independent external directors, not even making up one-third of the board of directors, and there are zero female directors and auditors. The percentage of female managers and executives also remains low. We think you need to promptly strengthen the independence and diversity of the board of directors and to expand the number of female managers and executives in a far-sighted initiative.

Company Response

European customers have been asking us to disclose information on greenhouse gas emissions even in the transaction stage, and so we are disclosing what we can.

The medium-term environmental goals have not been fully discussed, and we recognize them as an issue. In the future, we will increase our internal staff for responding to ESG matters, and strive to enhance the content to disclose.

We have been gradually streamlining the composition of the board of directors in order to increase the ratio of external directors. We are selecting candidates for additional external directors at the next general meeting. Although we have female executive officers, we will appoint female internal directors under fair evaluation with other candidates rather than for the sole purpose of hiring female directors.

Company Action

At the general shareholders' meeting in June 2020, the company elected one female external director. The ratio of independent and external directors became more than one third of the total number of directors.

Evaluation by SMTAM / Future Policy

We appreciate the progress the company has made regarding its efforts for its governance system. We will encourage the company to set goals for increasing the ratio of female managers. On the other hand, its efforts to address climate change have been delayed, and we will encourage an early formulation of medium- to long-term targets, disclosure based on TCFD, and efforts to improve CDP evaluation.

CASE 3

Electrical Equipment Company C

- Group governance
- Addressing ESG issues

Analyst's Perspective

Although the company has been steadily promoting its efforts toward a reform of its earnings structure, analysts thought that there is a room for improvement in how parent-subsiidiary listings should be in terms of capital efficiency. As social issues manifest themselves under the coronavirus situation in addition to climate change, we have deepened discussions on business opportunities that will lead to solve these issues.

Opinion from SMTAM

Although the listed financial company has stable business performance, it does not contribute significantly to the expansion of the group's profits, and pushes down capital efficiency in particular. You should establish a policy based on the presence or absence of synergies.

ESG information is pre-financial information that should be reflected in finances over a medium to long term. You must establish appropriate non-financial KPIs that will lead to future sales growth, such as making contributions to productivity improvements through digitalization and to environmental issues by making recycling-oriented and decarbonized products more prevalent. Although the spread of the novel coronavirus has had a significant impact on your core business, the pervasion of the "new lifestyle" may be a new business opportunity that will solve social problems.

Company Response

We recognize that the financial business in our group is the cause of an expanding balance sheet and declining capital efficiency. We do not believe that the status of the parent-subsiidiary listing is the best. We would like to examine whether synergy effects are linked to the strengths of our core business and then set out a policy.

While we will publish ESG targets for each stakeholder, we will perform detailed internal management in line with our business plan, and will link numerical targets to them from various perspectives, including a breakdown for each customer. One of the social issues that emerged in the coronavirus situation is the need for business digitalization in companies, including the spread of telecommuting. With our eyes focused on this change, we will free ourselves from existing business models and accelerate the transformation into a company that offers new value.

Company Action

In March 2020, the company transferred part of the shares of the subsidiary, and excluded it from group management. The company explained that the transfer is based on its zero-based review from the perspective of each company's future growth and capital cost.

- In June 2020, the company announced that it will add ESG indicators to evaluation indicators for calculating executive bonuses.
- Based on the judgment that the changes in business environment that had been anticipated before the coronavirus recession have quickly progressed, the company expressed its intention to accelerate business transformation.

Evaluation by SMTAM / Future Policy

We will track the progress of the company's efforts toward accelerating transformation and continue discussions to ensure sustainable growth.

CASE 4

Service Company D

- Cross-shareholdings, mutual installation of external directors
- Executive remuneration system

Analyst's Perspective

Although the current performance is strong, the trust in the governance system was not sufficient, including the strengthening of cross-shareholdings and mutual appointment of external directors that went against capital efficiency improvement, and the executive remuneration system that had a high fixed remuneration ratio. We thought these are potential risk factors for sustainable improvement in corporate value.

Opinion from SMTAM

While the company increases the number of cross-held shares, there is the risk of it taking away the sense of tension from the corporate management and goes against improvement in capital efficiency. Because of the mutual appointment of external directors and auditors with major shareholders, the board of directors are not sufficiently independent, and we are concerned that the board may not be able to fulfill its highly effective supervisory function.

The majority of the current executive remuneration system is fixed cash remuneration, and has no remuneration elements as an incentive for improving corporate value other than a very small amount of share-based remuneration. Given that the company has a medium- to long-term business strategy and investment plan in its mid-term management plan, and a corporate policy that places an importance on CSR (ESG), you should establish performance-linked remuneration and non-financial KPIs related to ESG that are consistent with the achievement of the medium- to long-term business goals.

Company Response

After SMTAM pointing out that we have not gained sufficient trust in our governance system, we have renewed our awareness on the matter. However, current external directors provide us with opinions and discuss with us from an independent standpoint, and major shareholder companies do not interfere with our management decisions.

We have not introduced a remuneration system that is linked to performance in order to avoid attaching too much importance on short-term performance, but we will consider a remuneration system linked to mid- to long-term performance. We are aware that other companies have remuneration systems linked to ESG targets, and we will actively consider a similar system by establishing a remuneration committee.

Company Action

- In January 2020, the company acquired its own shares after its major shareholder companies indicated their intent to sell the shares.
- It reduced cross-shareholdings.

In October 2019, the company established a voluntary nomination/remuneration committee.

Evaluation by SMTAM / Future Policy

The company took a step forward by establishing a nomination/remuneration committee, but because it has not solved the specific concerns and issues pointed out by us, we will continue to engage in discussions.

Engagement Example Cases - Global

At SMTAM, our emphasis on ESG engagement activities extends worldwide. We focus on (1) engagement activities that are based on action principles or guidelines, such as the PRI, (2) activities aimed at addressing misconduct and other problems in accordance with international norms, and (3) independent activities aimed at promoting greater efficiency in corporate management and the establishment of outstanding corporate governance. For example, our (1) engagement activities that are based on action principles or guidelines, like the PRI, include active efforts to help companies with ESG issues limit their risk, such as by serving as the lead manager handling PRI working group promotion.

CASE 5

KEPCO (South Korea / Power Company)

Climate Change

- Promotion of climate change-related information disclosure

Engagement Specialist's Perspective

Although it is expected that the company's business will be heavily affected by climate change, its response is insufficient. It has a plan to implement coal-fired power plants in South Korea and the Southeast Asia region, and it is at risk of developing stranded assets.

Opinion from SMTAM

[Independent discussion between SMTAM and the company]

- You have plans to invest in coal-fired power plants in the Southeast Asia region through your subsidiaries, but considering the framework of the Paris agreement, there may be a risk of developing stranded assets or profitability issues in terms of power generation costs.
- It is expected that your company's business will be heavily affected by climate change, which is a concerning matter for investors both domestic and abroad. You should intensify efforts against climate change, formulate a policy for that, and consider disclosing information based on the TCFD framework.

[Engagement with government]

We advised the Ministry of Economy and Finance in South Korea, which is a stakeholder of the company, to encourage it to address climate change. We sent a letter under a joint signature of four institutional investors.

[Use of CA100+]

In collaboration with local stakeholders, we announced CA100+'s opposing opinions against the plan to invest in coal-fired power plants in Indonesia, Vietnam, and the Philippines through local media.

Company Response

- We will comply with the ROK government policy. With regard to GHG emissions, we will consider formulating reduction targets and disclose information within the framework of TCFD. Specifically, we will retire inefficient power plants and convert them to highly efficient power plants to reduce GHG emissions. In addition, we are carrying out projects for developing renewable energy power supplies in South Korea, mainly wind power generation.
- With regard to concerns over overseas coal-fired power generation projects, we will conduct an environmental assessment and gain an understanding regarding the matter from relevant parties. We have no plans to change our position.

Company Action

We received a letter in which the company stated that it would disclose information related to climate change within the TCFD framework in the 2020 Sustainability Report (which is not yet published).

Evaluation by SMTAM / Future Policy

More and more investors are avoiding investing in coal-fired power generation projects. There are still reputational risks and the risk of stranded asset development, so we will continue to encourage the company to withdraw from the business.

CASE 6

Novartis (Switzerland/Healthcare)

Access to Medicine

- Promotion of information disclosure regarding access-to-medicine activities

Engagement Specialist's Perspective

The benefits of carrying out Access to Medicine activities are difficult for investors to understand, and the company needs to demonstrate the relationship between the activities and corporate value improvement.

Opinion from SMTAM

With regard to access-to-medicine activities, your company provides support and low-cost products for treatment of endemic diseases such as malaria, but it is difficult to understand how this can improve corporate value. We recognize that access to medicine is your company's investment activity, and the company must promote it from a long-term perspective. For example, you should demonstrate the series of activities you are engaged in, and show the countries you working with and what plans you have.

Company Response

There is currently no prospect for monetization of our developing country strategy in five to ten years, and we do not have clear long-term plans for each country. The challenge is how to promote monetization with the background of an increasing population in developing countries, particularly Africa, and expected improvement in income levels. Linkage with corporate value improvement is an important piece of advice, and we would like to share it with management.

Company Action

The company shared an awareness with investors that access-to-medicine activities should be linked to medium- to long-term corporate value improvement.

Evaluation by SMTAM / Future Policy

We do not think this is a problem that will be solved in the short term, and will continue discussions with the company and encourage strategic development.

CASE 7

Citigroup (U.S./Finance)

Backing Corporate Governance Reform

- Promotion of gender diversity

Engagement Specialist's Perspective

The percentage of female board of directors exceeded 30 percent, but we thought it was important to increase the ratio in order to improve management execution.

Opinion from SMTAM

The percentage of female board of directors exceeds 30 percent, but we believe it is important to increase the ratio in order to improve management execution. The 30% Coalition, which we have signed, has set a target for increasing the number of female senior leaders. It is important to increase the percentage of female managers through continuous initiatives.

Company Response

We are aware that we need to raise the percentage of female middle management and above in order to resolve the salary gap between male and female. We aim to improve the percentage to 40% by 2021. We have incorporated diversity improvement as an evaluation item for department leaders, and have also given incentives.

Company Action

In September 2020, the company announced that Jane Fraser (woman) will be appointed as the next CEO.

Evaluation by SMTAM / Future Policy

We will continue to engage with the company in regard to efforts for narrowing the salary gap between male and female and for improving gender diversity in middle management and above.

Taking the Spread of the Novel Coronavirus into Account and Enhancing Disclosure of Reasons for Voting Based on the Revised Stewardship Code

As a responsible institutional investor, we consider the exercise of voting rights to be an important part of our stewardship activities. To maximize the medium- to long-term investment returns of clients and beneficiaries, we vote appropriately from the perspective of enhancing corporate value and boosting the interests of shareholders after considering the circumstances of investee companies and the details of our engagements with them.

Addressing the Spread of the Novel Coronavirus

In May 2020, we published the "Policy on exercise of voting rights and stewardship activities in light of the spread of novel coronavirus." In order to protect a sustainable economic society in the midst of stagnating economic activity to contain the spread of the novel coronavirus, we recognize that it is extremely important for companies to ensure sufficient liquidity in hand and to maintain their business activities. Therefore, we do not mechanically apply our guideline for the exercise of voting rights on topics regarding dividend of surplus, which is on the assumption of a normal economic environment, but rather we set a policy for voting decisions with due consideration to ensuring corporate liquidity in hand. We list companies that applied and agreed to the above policy regarding a surplus standard at the general meeting in June 2020 in documents for disclosing individual voting records.

Enhancing Visibility for Approvals and Disapprovals in Voting Activity

Principle 5 of Japan's Stewardship Code, which was revised in March 2020, says that "in particular, institutional investors should disclose their voting rationale with respect to either "for" or "against" vote, which are considered important from the standpoint of constructive dialogue with the investee companies, including those perceived to have conflicts of interest or those which need explanation in light of the investors' voting policy." We have published reasons for voting "against" to company proposals, however since the disclosure of individual voting records in July 2020 (for general meetings from April to June), we also publish all reasons for voting, regardless of it is "for" or "against," on proposals perceived to have conflicts of interest or those which need explanation in light of investors' voting policy. We introduce the details of proposals which need explanation in light of the investors' voting policy in the section below.

Proposals which Need Explanation in Light of the Investors' Voting Policy

(proposals that are not stipulated in the guideline, and those that are decided differently from the guideline)

9301 Mitsubishi Logistics

No.	Proposal	Voting record	Background/reason
7	[Shareholder proposal] Appointment of one director	For	<ul style="list-style-type: none"> The Board of Directors consists of 14 directors, including three external outside directors, according to this year's company proposal. As the proposers pointed out, all three external directors are from Mitsubishi Group companies. However, independent director notifications have been submitted, and the criteria of the independent directors stipulated in our guidelines for the exercise of voting rights have been fulfilled. However, from the viewpoint of the effectiveness of governance, the board of directors should consist of candidates with various attributes. Based on the above circumstances, we voted "for" to the shareholder proposal.
8	[Shareholder proposal] Appointment of one director	For	

9308 Inui Global Logistics

No.	Proposal	Voting record	Background/reason
3	[Company proposal] Approval of request by the board of directors for providing information regarding Alphaleo Holdings G.K.	For	<ul style="list-style-type: none"> Requests for providing information to specific shareholders do not require a resolution in a general shareholders meeting, and there is no criteria for the request in our guidelines. Alphaleo Holdings G.K. is its major shareholder holding 29.01% of the total issued shares and 30.34% of the total voting rights. We voted "for", because if the proposal is rejected, it is possible that the company will not be able to request Alphaleo Holdings G.K. to provide information. We also think that constructive dialogs with major shareholders would contribute to sustainable improvement of corporate value for other shareholders. This proposal shall be a legally non-binding advisory resolution, and the purpose is to confirm the shareholders' intention. There is no penalty if information is not provided, and it is not a defense against a takeover.

Guideline Revisions for the Current Fiscal Year

We revised the guideline in January 2020 (published in December 2019). The main points of revision are shown below.

Various criteria used in the guideline

Criteria	Before	After	Our View
Criteria on misconduct	(new)	When serious governance failure is observed	Classification was performed, and it was clearly stated that it falls under misconduct.

Appointment of directors

Criteria	Before	After	Our View
Criteria on parent companies, etc.	A company with a parent company in its corporate governance report, or a company with shareholders holding more than 50% of its shares	A company with a parent company or a controlling shareholder in its corporate governance report	We assume cases where a shareholder has 50% or less shares but damages the general shareholders' profit due to its substantial management control.
Criteria on the percentage of external directors in a company with a parent company, etc.	Opposed to appointment of directors if independent, external directors do not make up one-third or more of all directors in a company with a parent company, etc.	Opposed to appointment of directors if a system for securing independent decision making ^{*1} has not been established in a company with a parent company, etc.	For companies with controlling shareholders, such as a parent company, we require a governance system with higher independence from the perspective of protecting general shareholders' profit.
Criteria on the number and percentage of external directors	<ul style="list-style-type: none"> 2 or 20% or more independent, external directors For companies with nominations and supervisory committees, independent external directors shall make up one-third or more of the total. However, an interim measure shall be taken. ^{*2} 	<ul style="list-style-type: none"> One-third or more and multiple independent, external directors However, an interim measure shall be taken. ^{*3} 	The scope of the request for further strengthening the governance by a board of directors (strengthening supervisory functions and ensuring independence) is expanded to all listed companies.

*1 When a company where independent external directors make up one-third or more or over half of all directors falls under the condition below: Independent external directors in a nominating committee (including any advisory committee) make up a majority of all members, or independent external directors make up half of all members and the chairperson is an independent external director.

*2 "For", if it is judged that there is no interference with improvements to mid- to long-term corporate value in the performance (ROE) criteria

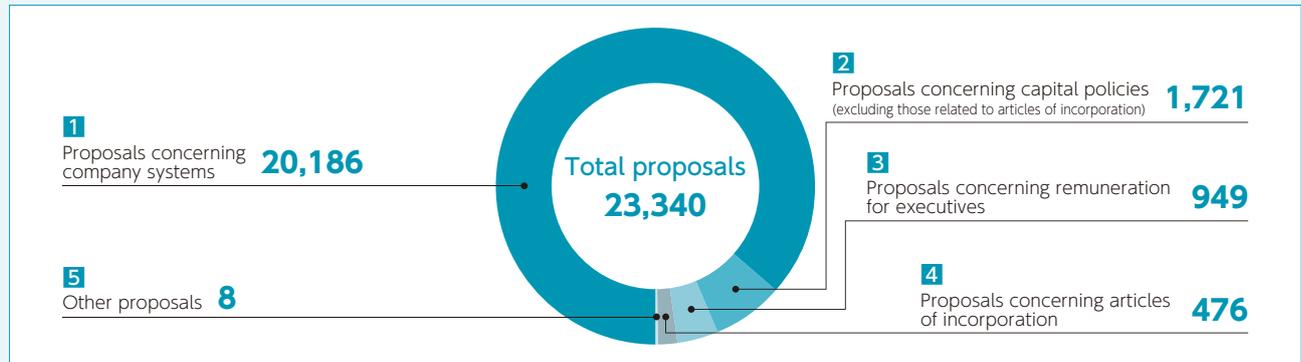
*3 "For", if it is judged that there is no interference with mid- to long-term corporate value improvements in the performance (ROE) criteria regarding a company with multiple independent external directors

Disposal of surplus funds

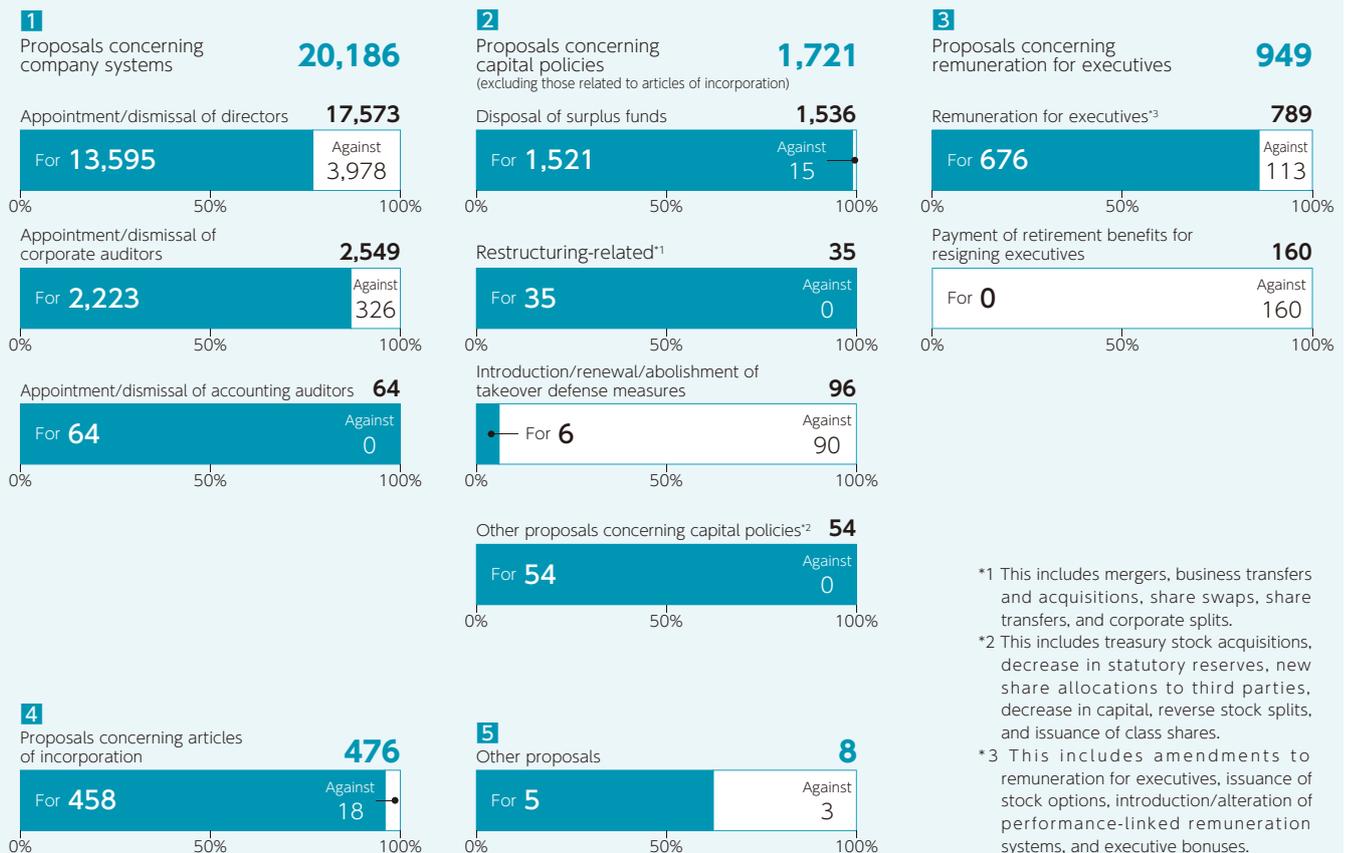
Criteria	Before	After	Our View
Criteria on disposal of surplus funds	(added)	"Against", if the current-term ROE of a company that falls under the cash-rich criteria is in the lower 50 percentile level of TOPIX composition brands, and dividend criteria are not met	For companies with surplus funds, we raised the required performance (ROE) level from the lower 25 percentile level to the lower 50 percentile level.

Record of exercising voting rights for Japan-listed companies

Company proposals July 2019 - June 2020	Voting Record (all company proposals)			
	For	Against	Abstention	Opposition %
	18,637	4,703	0	20.1%



Breakdown of voting record on company proposals



Shareholder proposals	For	Against	Abstention	Opposition %
	44	188	0	81.0%

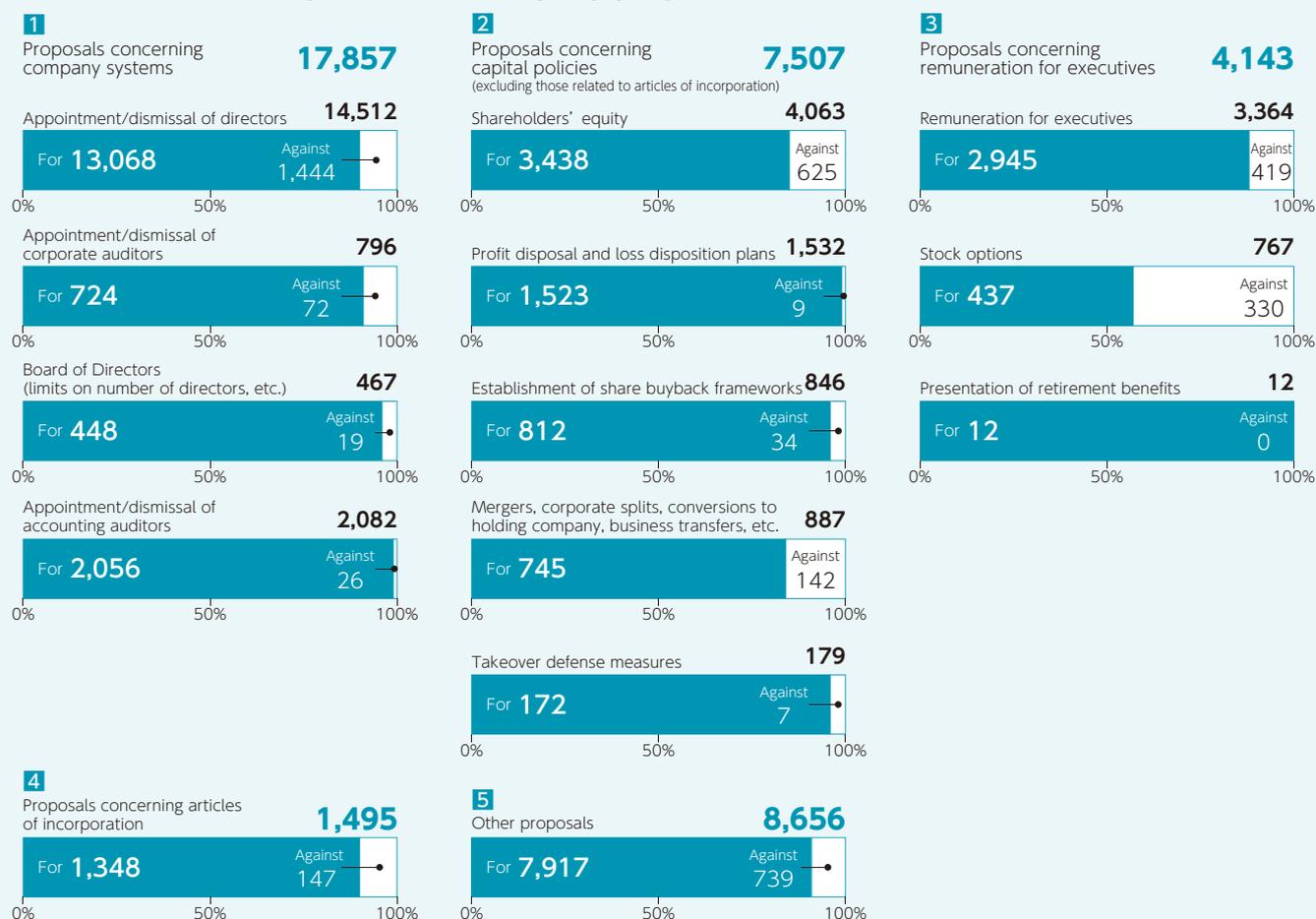
With regard to share lending transactions, we set loan limits for securing voting rights. For voting rights secured in shares outside of the loan limits, we exercise said rights in accordance with our policy on the exercise of voting rights.

Record of exercising voting rights for foreign-listed companies

Company proposals July 2019 - June 2020	Voting Record (all company proposals)			
	For	Against	Abstention	Opposition %
	35,645	4,013	0	10.1%



Breakdown of voting record on company proposals



Shareholder proposals	For	Against	Abstention	Opposition %
	1,250	435	0	25.8%

ESG Integration

We have identified 12 important sustainability challenges as "ESG materialities." In our investment decisions, we take the ESG investment evaluation into consideration, which is compared with the ESG materiality and incorporates quantitative evaluations based on both SMTAM and external data in line with portfolio characteristics. Following this, we carry out ESG integration.

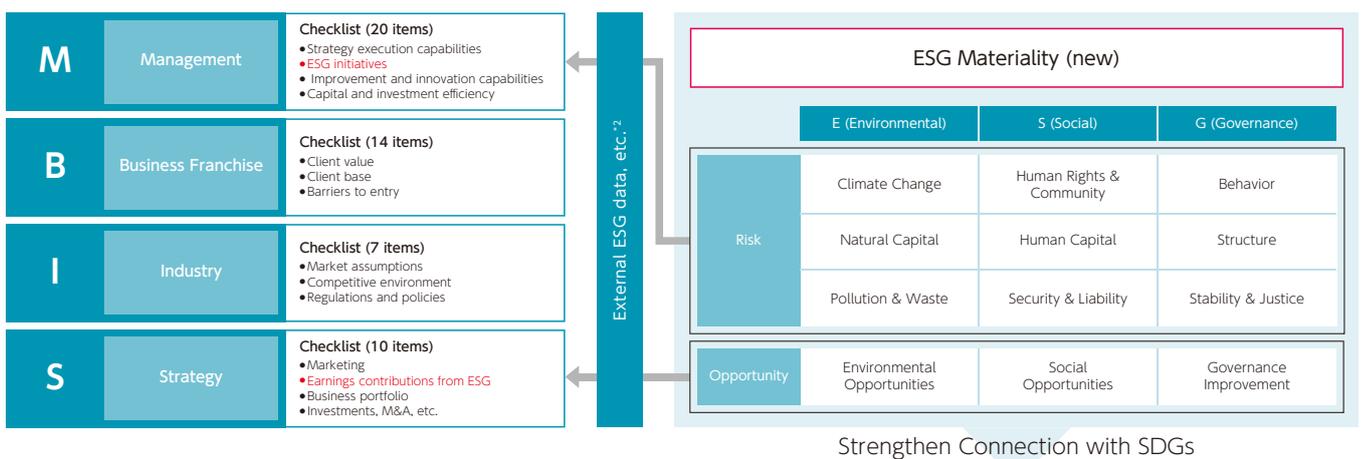
	E (Environmental)	S (Social)	G (Governance)
Risk	Climate Change	Human Rights & Community	Behavior
	Natural Capital	Human Capital	Structure
	Pollution & Waste	Security & Liability	Stability & Justice
Opportunity	Environmental Opportunities	Social Opportunities	Governance Improvement

1 ESG Materiality

We have identified important sustainability challenges as "ESG materialities." We take into consideration the SDGs and the SASB (Sustainability Accounting Standards Board).

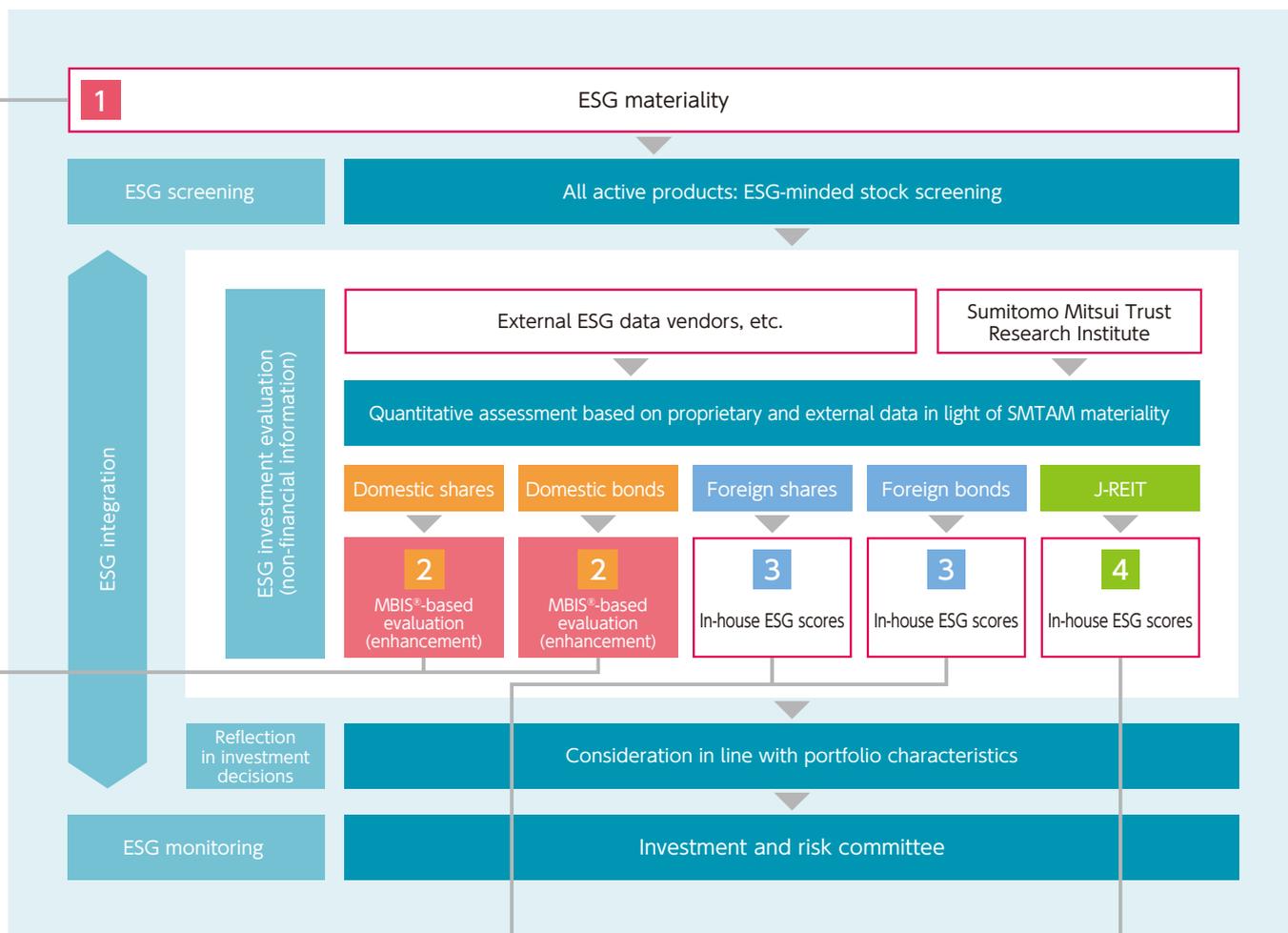
2 MBIS*1

The MBIS® is our proprietary, non-financial information evaluation tool which we have used since 2015 to evaluate domestic shares and bonds. Our analysts use MBIS® to help them gather, analyze and evaluate non-financial information which cannot be expressed in terms of financial data for the companies they cover; such information includes the level and sustainability of added value for a company's products and services, the governance system which supports the added value the company provides, and the company's impact on the societal and environmental foundations which sustain its growth. MBIS® is an acronym which stands for "Management" (M), "Business Franchise" (B), "Industry" (I) and "Strategy" (S). It is the "M" which comes into play when evaluating efforts aimed at risks associated with ESG issues, and it is the "S" which comes into play when evaluating efforts aimed at commercializing and capitalizing the opportunities associated with ESG issues. Some of the evaluations are based on ESG evaluation by external ESG data vendors. We incorporate the concept of the SDGs and the 17 goals into our evaluation.



*1 MBIS® is a registered trademark of Sumitomo Mitsui Trust Bank.

*2 Evaluations conducted by analysts using external ESG data and other resources for reference

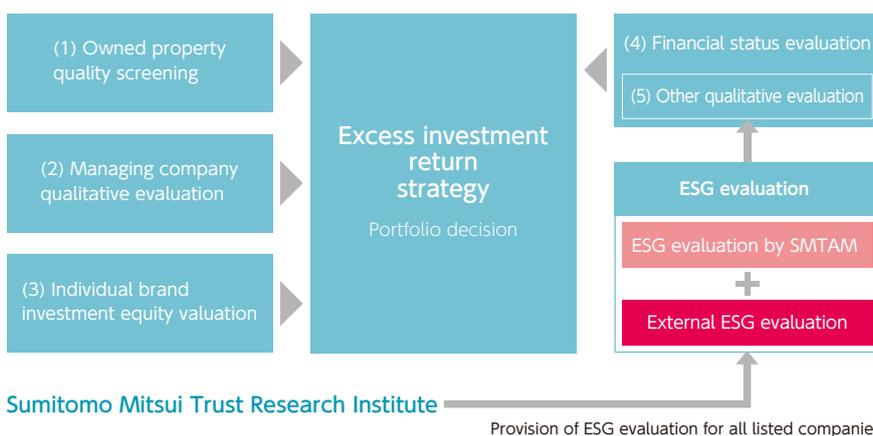


3 In-house ESG Score

We grant in-house ESG scores to domestic shares of companies that are not covered by analysts, overseas company shares, etc. and domestic corporate bonds. Using ESG materiality as a base, we identify the ESG issues of investee companies and then utilize external ESG data and other resources to perform three-tiered scoring. This score is taken into account when qualitatively assessing earnings and valuation in the case of shares, or creditworthiness or spread in the case of corporate bonds, and it is thus reflected in stock selection.

4 J-REIT

In J-REIT management, we conduct ESG integration using ESG scoring granted by Sumitomo Mitsui Trust Research Institute. Evaluations under ESG scoring by Sumitomo Mitsui Trust Research Institute look at four major considerations: the ESG promotion framework and initiatives related to the environment, society, and governance. Each item has its own checklist by which it is scored.



ESG Integration in Domestic Shares

We spoke to Tatsuya Suzuki, the fund manager of the Shares Management Unit of the Active Investment Department, which has been responsible for "domestic equity research and the ROE improvement strategy" for performing concentrated investment with a focus on non-financial information since its establishment.



Invest in companies where ROE is continuously improving and return the fruits of growth to customers

— Tell us about the domestic equity research and ROE improvement strategy.

Companies that continuously improve ROE by increasing their revenue (increasing their earning power) are valued in share markets. We will invest in companies for a medium to long period that are expected to do so and seek to acquire a stable return. In evaluations in selecting brands, we focus on two common factors for companies that are expected to continuously increase ROE through increasing revenue: "client value" and "sustainable growth." On the assumption of "client value" as the first evaluation axis, "corporate sales" is considered the same as "compensation for added value provided." The source of added value is goods and services that satisfy consumers' needs. It fulfills human desires, such as joy, health, wealth, effective use of time, and investment in the next generation. "Client value," we analyze the power to appeal to consumers regarding added value provided. For the second evaluation axis "sustainable growth," we analyze market creativity for driving client value. We ascertain the potential for expanding regions and client bases and arousing new demands in other areas, and use non-finance information to evaluate "client value" and "sustainable growth." We believe that we can acquire a return by analyzing and evaluating non-financial information, which does not appear in financial information, and carefully selecting investee companies. The expected investment length for each company in this product is three to five years, and engagement will help an investee company increase its corporate value in a medium to long period and continue to grow.

Using non-financial information to make concentrated investments on brands that are expected to see a sustainable ROE improvement

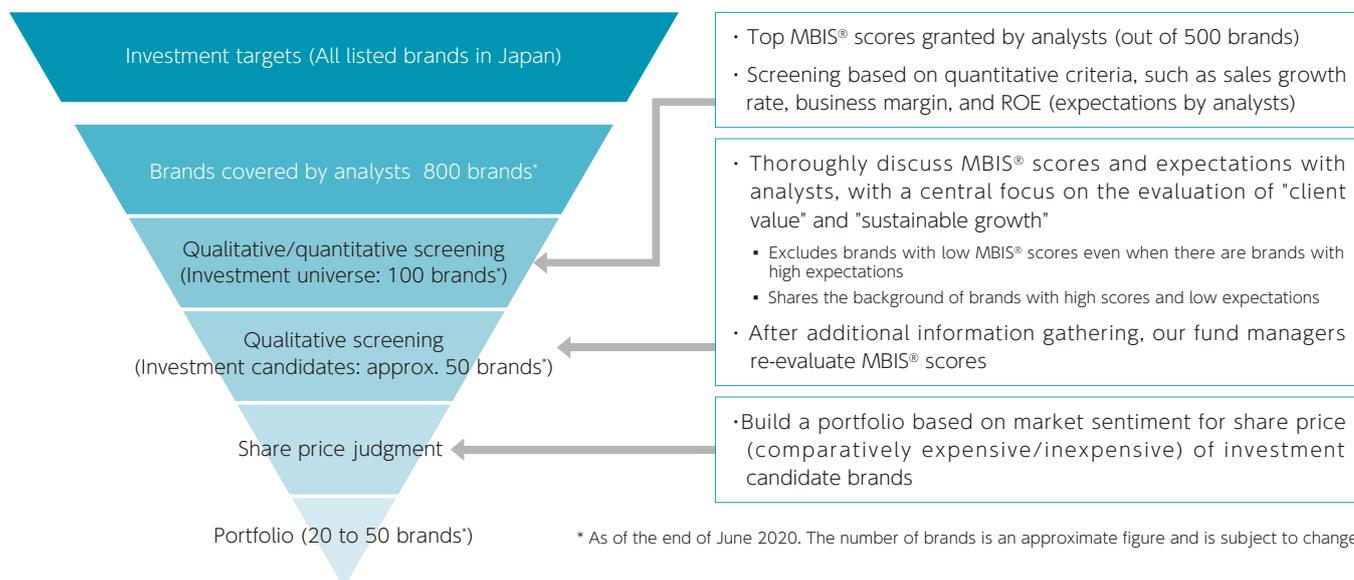
— Tell us about investment processes.

Because the analysis of non-financial information as well as financial information is critical to sustainable growth, we will focus on a selected 20 to 50 brands using MBIS®, our own framework for evaluating non-financial information. Our analysts use MBIS® to gather and analyze non-financial information which cannot be expressed in terms of financial data and evaluate corporate strength and challenges toward sustainable growth; such information includes the level and sustainability of added value for a company's products and services, the governance system which supports the added value the company provides, and the company's impact on the societal and environmental foundations which sustain its growth. MBIS® scores are granted to 500 brands under our analysts' concentrated coverage, including an estimation for the 5-term performance, out of approx. 800 brands covered by our analysts. MBIS® is an acronym which stands for "Management" (M), "Business Franchise" (B), "Industry" (I) and "Strategy" (S), and scores are granted to each of them. In this investment strategy, we build a portfolio by focusing on "Management" and "Business Franchise" out of the elements in MBIS®, which are highly compatible with "client value" and "sustainable growth".

— Tell us about the details of cooperation with analysts.

We call the approx. 500 brands under our analysts' concentrated coverage, which I mentioned earlier, as the investment universe. We narrow the approx. 500 brands down to approx. 100 brands on the basis of (1) brands with top MBIS® scores and (2) estimated 5-term performance by analysts (future transition of sales, business margin, and ROE). Our fund managers discuss MBIS® scores and expectations with analysts, with a central focus on the evaluation of "client value," a source of added value, and "sustainable growth," an indicator of market expandability and creativity, and will consult with analysts about the MBIS® score and future expectations.

Overview of investment process



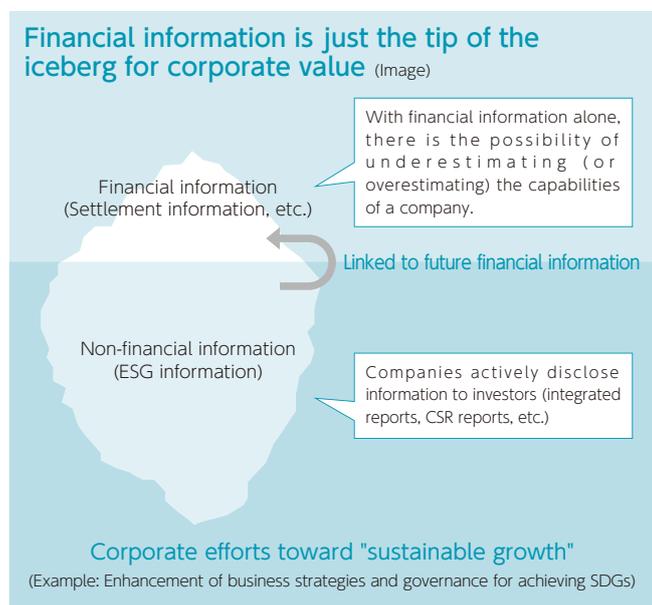
Brands with high expectations and low MBIS® scores shall be excluded from the investment universe, and those with high MBIS® scores and low expectations shall remain after the reason is shared. Our fund managers then gather information from executive officers and business representatives under cooperation with our analysts, re-evaluate MBIS® scores, and narrow investment candidates down to approx. 50 brands. In the discussion with analysts, the fund managers focus on "appropriate corporate value." They share the potential of a company reflected in MBIS® scoring, including the possibility of its market capitalization

doubling in 3 to 5 years, room for improving its position in the market, and expected improvements for its profitability.

Promoting mid- to long-term corporate value improvements and sustainable growth through constructive "purpose-based dialogs"

—Tell us about some examples of investment decisions based on engagement.

In engagement, our fund managers check whether investors and companies are "on the same boat" (i.e., whether they are in the same direction for "improving mid- to long-term corporate value"). If our fund managers confirm that they are on the same boat with companies, they will make new investments or continue an existing investment for the companies even when engagement is not directly connected to the companies' actions. If they cannot make this confirmation, they will sell the shares. In order to take these steps, it is also essential that investee companies have room to accept discussions. The room a company has for accepting discussions changes from time to time, depending on performance trends and the external environment. Even when a company is going through a difficult time to accept our engagement, our fund managers recognize that a company is "on the same boat" if it gives serious consideration to our engagement, and has an attitude to explain matters in as much detail as possible regarding things such as "why it cannot take actions now," "when it can take actions," and "why it cannot accept discussions," and if we confirm that the grounds are reasonable.



I will talk about an example of our engagement with machine manufacturer S.

The company primarily manufactures key parts devices for the automation of production lines. Corporate customers such as automotive, semiconductor manufacturing equipment, and machine tool manufacturers approve and accept the company's solutions from their development stage. Manufacturer S supplies highly reliable products within a short delivery time from production/sales bases around the world. We appraised its strategy to focus on expanding new production facilities and updating existing equipment, and to maintain and improve its market share while streamlining and reducing costs. Because with its equipment, users could achieve low-cost automation and labor saving, we evaluated that it had a high market growth potential in both emerging and developed countries. On the other hand, the issue of the company was weak corporate governance due to the top-down management by its founder. Although its performance remained strong, there were causes for concern such as the structure regarding succession of staff and strategic global expansion, which we believed were risks that would hinder its further development. Other issues included that it did not disclose sufficient information on its environmental initiatives, which negatively affected the evaluation it received by external evaluation institutions, and that its capital efficiency was poor due to abundant cash equivalent it owned. We conducted engagement for the company every quarter for improving its governance, which we believed was the most important issue. In September 2019, the company announced that its Board of

Directors decided to change its executive officers, showing that there was a direction of improvement for its governance. From the following month, we held discussions with the new executive officers, and since then, the company has made progress in its governance reforms, including the establishment of a nomination and compensation committee, abolition of the retirement bonus system for directors, and the introduction of a stock compensation system. For environmental information disclosure it expanded the contents of its CSR reports, and for cash equivalent it increased dividends for return; we believe that our engagement led to the actions it carried out, the mid- to long-term improvement in its corporate value, and to its sustainable growth.

— Tell us about SMTAM's goals and aims.

Five years have passed since we started the "domestic equity research and ROE improvement strategy" in 2015, and we received investments from not only customers in Japan but also from overseas who have sympathized with the concept; the trusted amount for the investment strategy has been steadily increasing. "Invest in companies where ROE is continuously improving and return the fruits of growth to customers" has been our constant goal since the start of the strategy. With that in mind, we engage with and support companies with the goal of growth through strong management without being influenced by the external environment, and we will develop ourselves as a fund with the intent of delighting our customers from the perspective of "client value" and "sustainable growth."

Creating a virtuous cycle through engagement



Fixed Income Engagement and ESG Integration

We are promoting engagement and ESG integration for fixed income management. Here, we will introduce a glimpse of the cooperation between credit analysts who conduct engagement and fixed income fund managers who actually use it for their management.



Importance of fixed income engagement

Hamada: Some say that engagement is difficult for fixed income investments because they do not require the exercise of voting rights.

Tsubota: Of course you cannot deny such an aspect, but I believe that engagement will contribute to the medium- to long-term growth of investee companies, and the reduction of downside risks, regardless of shares or fixed income. On that premise, we conduct engagement from the viewpoint of influencing creditworthiness in particular for the fixed income side. Green bonds^{*1}, etc. are specific to the fixed income side, and if a company has a target business, we may express our opinion on the issuance of green bonds.

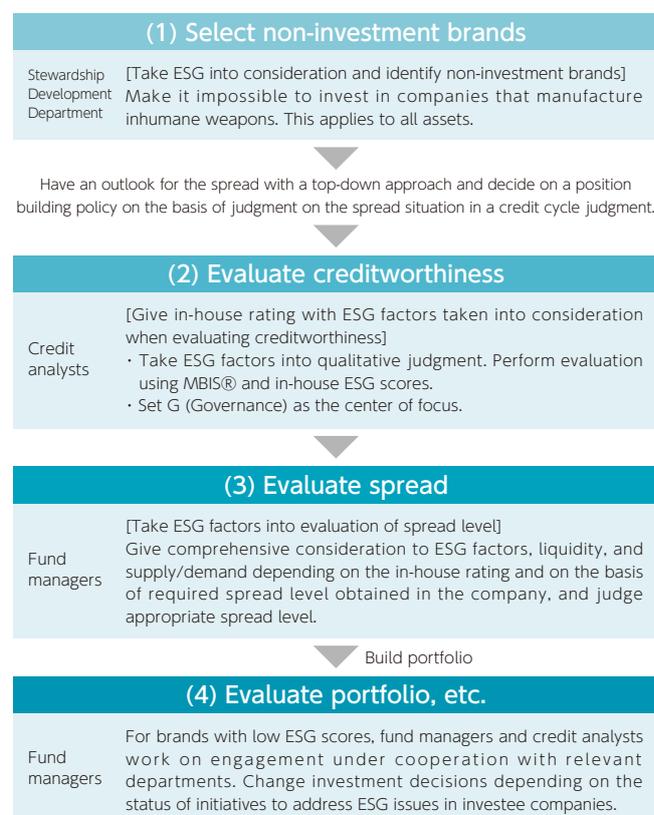
Hamada: Fixed income engagement is becoming increasingly important, with questions on fixed income-specific engagement added in the PRI^{*2} survey.

Tsubota: Fixed income issuance is becoming increasingly important for companies to continuously procure funds, and there is also a growing number of engagement opportunities for analysts. There is also a wide range of fixed income types issued, including subordinated bonds, and we have expressed a number of different opinions concerning such.

Taking governance into account is important for fixed income engagement and ESG integration

Tsubota: As a part of ESG integration in the fixed income investment, it is normal to take ESG into account for rating

in-house bonds. While it is natural to investigate financial and business risks, I have the impression that more managing companies take ESG elements into investment decisions.



Glossary

*1 Green Bond

A bond issued to procure funds required for a green project

*2 PRI

PRI: Principles for Responsible Investment (See page 49)

Hamada: Indeed it is difficult to find an asset manager that does not conduct ESG integration. Out of E, S, and G, G (Governance) is often directly included in a market price and should be viewed as the most important item.

Tsubota: Exactly. A governance failure has a direct impact on prices not only in a share market but also in a fixed income market. Recently, real estate company A and service company B saw a significant spread expansion (a significant price decline), which is likely to be attributable to governance failure.

Hamada: On the contrary, some companies saw a reduction in thick spreads (increase in price) when it was confirmed that their governance had been improved. We should avoid monolithic actions, including selling shares of companies under governance failure, and it is very important to check the direction of changes through engagement.

Increasing attention to the environment and society

Hamada: On the other hand, investment mainly in Europe is increasingly focusing on E (Environmental) and S (Social). In some aspects, various laws established for solving social issues are supporting this situation.

Tsubota: I think environmental awareness is growing considerably in Japan. Companies that do not take care of the environment and society must have medium- to long-term downside risks.

Hamada: An explosive number of SDGs-related bonds^{*3} have been issued in Japan since last year because they contribute to solving environmental and social issues. The Ministry of Environment is also pushing the issuance by supporting costs required to issue green bonds in its policies.

Tsubota: Companies issuing green bonds and social bonds^{*4} had to pay the additional cost of evaluation by external institutions and of annual reporting. Thanks to initiatives taken by the Ministry of Environment, fixed income is now a common means to inform people of their initiatives for the environment and society in an easy-to-understand manner.

Hamada: It has been pointed out that "Greenium"^{*5} exists in regard to green bonds, which means that the yield of green bonds is slightly lower than that of general bonds. What do you think about this?

Tsubota: Even if there is a "label" called a green bond, the creditworthiness of the bonds is the same as that of unlabeled bonds. In theory, they should be the same price. There may be differences in yield due to differences in market size and distribution volume, but I think they are insignificant.

Hamada: If terms and risks are the same, it is natural to invest in high-yield shares, but if there is no difference in yields, it is a sufficient reason to choose green bonds. By issuing green bonds, issuing bodies engage in public relations on their environmental/social initiatives, investors can earn a return on their investment through the provision of funds, and society can contribute to environmental conservation; this is close to the idea of "all three parties doing well" by Oumi merchants of the Edo period.

Tsubota: Green bonds and social bonds are mainstream now, and it is expected that sustainability-linked bonds^{*6} and transition bonds^{*7} will be issued and that the SDGs-related bond market will be developed. We will also actively make investments and contribute to the environment and society. By the way, as a unique initiative by Japan, if an investor makes an investment in such bonds in an issue market, it is published on the website of each issuing body as an investment announcement.

Hamada: As an investor, it makes it clear that we contribute to the environment and society, so we have asked for our company name to be published since day one. Looking at our performance last year, I believe we were one of the institutions that made a large number of investment announcements in the asset management industry.

Cooperation with equity analysts

Hamada: You said that you check the quality and direction of governance through engagement. Are there other outcomes of engagement? Also, tell me more about the cooperation with equity analysts.

Tsubota: For example, I think the increase in green bonds issued by REITs is one of the outcomes of engagement. Since around 2017, we have been talking with REIT issuing bodies and suggested reviews of fixed income issuance management and expansion of investors. To begin with, REIT is an entity that often acquires and possesses properties with excellent environmental

*3 SDGs-related bond

A generic term for bonds that contribute to the environment and society

*4 Social bond

A bond issued to procure funds for projects that help solve social problems

*5 Greenium

The effect of reducing yields by incorporating green investor demand

*6 Sustainability-linked bond

A bond whose interest rate and other things fluctuate depending on how much the ESG goals are achieved

Status of green bond issuance in REIT bonds



performance, and requires continued financing. I think discussions on the possibility of issuing green bonds as a means of raising funds by using such properties has helped increase in the number of green bonds issued by REIT.

Hamada: Green bond issuance is definitely increasing and I feel the number of investors is also expanding.

Tsubota: Cooperation with equity analysts includes discussions with companies in severe conditions under the coronavirus recession regarding strengthening of the financial base using hybrid financing^{*8}. While hybrid financing is a debt, some of the amount may be recognized as capital by rating companies and financial institutions. By discussing with equity analysts, we have been making efforts to have better dialogs with companies on whether equity finance or hybrid finance would be appropriate to strengthen their financial foundations in view of growth strategies after the coronavirus recession.

Hamada: While some people think that the fixed income and equity side are in conflict, because the former requires the certainty of cash flow and the latter wants growth investments and dividends from investee companies, I think that they have the same goal in the sense that the growth of a company will contribute to the stability of cash flow and improvement in corporate value. We conduct medium- to long-term engagement for improving corporate value, and we believe that the goals we need to achieve through engagement are the same regardless of the asset.

Future Activities Regarding ESGs-related Bonds

Hamada: We have taken a variety of initiatives. What are your thoughts on the next steps?

Tsubota: We have built up our investment achievements, so we will thoroughly review issuing bodies of SDGs-related bonds. We will not only check whether they have an impact on the environment and society that corresponds to the purpose of issuance, but will also think about and ask issuing companies on the next issue for achieving a sustainable society.

Hamada: It seems to be a difficult issue, but I think there are still many things that companies should carry out to solve various social problems, including global warming.

Tsubota: With regard to funds needed to solve issues, various sustainable financing methods are being developed in addition to green bonds, and we intend to work with companies to think about social actions taken by them and financing methods for them.

Hamada: It is also becoming increasingly important to cooperate with equity analysts and persons responsible for the Stewardship Development Dept. We are pleased to see an increase in the targets of ESG investment and in liquidity as a result of these efforts. It is the real pleasure of this job to see the market growth up close.

*7 Transition bond

A bond that, in general, is used for projects that do not meet the criteria for issuing green bonds in terms of carbon emissions, etc. but that is for transition to a low-carbon economy and society, etc.

*8 Hybrid financing

Financing that is between debt and capital. It is a form of financing and a corporate bond, but if it has a long-term special agreement with a lower priority on repayment, some of it is allowed to be incorporated as capital by rating companies.

Disclosure of Climate-related Financial Information under TCFD

We believe that important issues concerning Environmental, Social, and Governance (hereinafter, ESG) will affect the long-term return of assets under management entrusted from our customers. In particular, the effects of climate change have certainly begun to materialize and are beginning to have an impact on the corporate value of our investee companies. We believe it is important to evaluate the potential profit opportunities and risks in these investee companies. As such, we are reflecting the evaluation in investment decision processes and leveraging it in business management. Based on this concept, SMTAM endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in February 2019. This report discloses our response policies for climate change issues implemented in accordance with the recommendations, and we explain the response policies against climate change issues as an asset manager.



Representative Director and Chairperson /
Chairperson of the Board of Directors

David Semaya

Our Approach against Climate Change Issues

Climate change issues are a variety of phenomena caused by the progression of global warming, mainly attributable to human economic activities. Changes in weather patterns due to global warming cause ecosystem changes and damage to food, water, health, and the economy, which can adversely affect sustainable social/economic activities. Under the Paris Agreement that came into force in November 2016, signatory nations globally agreed to “hold the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels,” in order to ensure global sustainability. Furthermore, the Intergovernmental Panel on Climate Change (IPCC) published its Special Report on Global Warming in October 2018, which calls for the reduction of greenhouse gas emissions to net zero as soon as possible. The use of fossil fuels, which are the source of greenhouse gas, must be significantly phased out if these goals of bringing global warming under control are to be met. Penalties such as usage constraints, carbon taxes, and carbon credits will increase costs for companies, and companies that own fossil fuels as assets must amortize them. On the other hand, demand for products and services that contribute to the reduction of greenhouse gas is expected to continue to increase and create new growth opportunities. We believe that climate change has the potential to cause the global environment to deteriorate in an irrecoverable manner in the medium to long term, and have a significant impact on the corporate value of our investees over time. We are bolstering various activities and information disclosure on climate change issues in order to solve one of the biggest challenges facing the international community, and to fulfill our fiduciary duty of maximizing the return on medium- to long-term investments entrusted by our customers and to reduce downside risks.

TCFD

The recommendations announced by the TCFD call for companies and other organizations to disclose climate change-related information in the four core areas of (1) governance, (2) strategy, (3) risk management and (4) indicators and goals. The following is a disclosure of measures on climate change issues to be taken by our company in accordance with the recommendations.

Information Disclosure Recommended by the Task Force*

Climate-Related Governance	<ul style="list-style-type: none"> • Role of monitoring and management by the board of directors
	<ul style="list-style-type: none"> • <u>Climate-related risks and opportunities</u> • <u>Effects of climate-related risks and opportunities</u> • Potential effects of climate scenarios, including the 2°C or less scenario
	<ul style="list-style-type: none"> • <u>Process for identifying and evaluating climate-related risks</u> • <u>Process for managing climate-related risks</u> • Integration of processes for identifying, evaluating, and managing climate-related risks into comprehensive risks
	<ul style="list-style-type: none"> • <u>Indicators for evaluating climate-related risks and opportunities</u> • <u>GHG emissions under Scope 1, 2, and 3</u> • Targets used to manage climate-related risks/opportunities

* The underlined items are particularly required for asset managing companies.

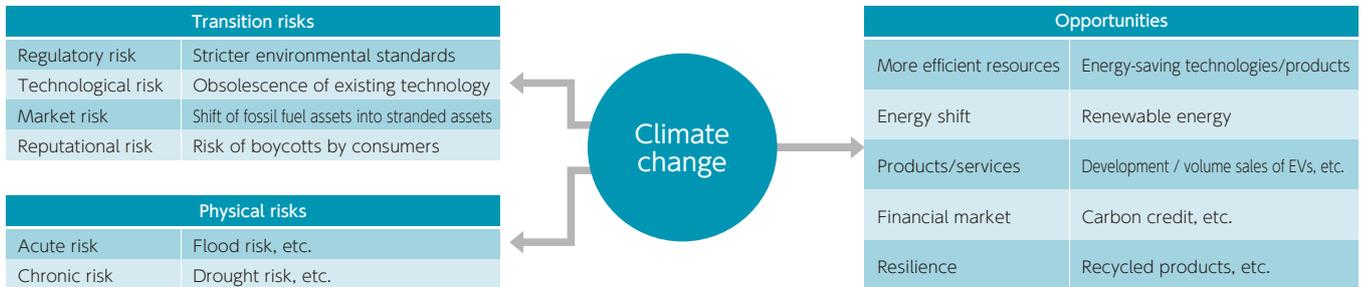
1 Climate-Related Governance

At SMTAM, the Board of Directors performs a supervisory function on issues related to climate change as well as other important management issues. Since 2020, the issues have been clarified as matters to report to the Board of Directors in the board of directors regulations so that more direct oversight can be carried out. The matters to be reported to the Board of Directors consist of the company's strategies for climate change issues, risk management, and monitoring of indicators and goals. These matters are discussed, planned, and checked by the management meeting chaired by the president and organized by the officers who control each business sector. Under this structure, the stewardship meeting—a cross-company organization acting as a secretariat—promotes administrative work on risk management and strategies related to climate change. The supervision and execution of climate change issues will be primarily carried out through the strategies we describe later ("Engagement," "Cooperation with stakeholders," and "Investment strategy.")



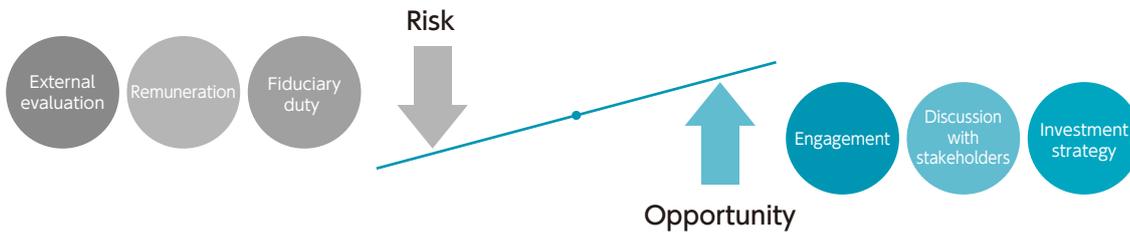
2 Climate Change-Related Strategies

(1) Common Climate Change Risks and Opportunities



We have identified climate change as one of the ESG material items and are engaged with domestic and overseas companies—we are tackling matters by exercising voting rights and as well as are developing and providing investment products, while integrating various climate-related risks and opportunities. We are also contributing to the creation of a sustainable future by participating in initiatives such as the UN Global Compact, the UN Principles for Responsible Investment (PRI), and CA100+.

(2) Climate Change Risks and Opportunities in the Asset Management Industry



A. Risk

Risks that the asset management industry receives from climate change include reduced management remuneration. As transition and physical risks become apparent, management assets from customers are reduced thus reducing management remuneration, undermining the stakes of management. In terms of fiduciary duty, the industry must actively address climate change risks as asset managers that accept customer capital. As asset owners are increasingly focusing on climate change initiatives in selecting companies to which they entrust their assets, we believe that failure to do them will lead to a decline in competitiveness as an asset manager.

B. Opportunity

We believe that climate change is an opportunity to expand managing assets by carrying out engagement, collaborating with stakeholders, and making investment strategies more sophisticated. Engagement with investee companies and cooperation with stakeholders are the most important activities closely related to investment and product strategies. Said activities include discussions with investee companies, direct/indirect statement of opinions, and support from various policy/institutional aspects. "Making investment strategies more sophisticated" is to incorporate climate change risks into existing or new investment strategies (ESG integration) and to increase investment importance on securities issued by companies that take a proactive stance on climate change issues. Through such efforts, we believe it will be possible to contribute to solving the issues related to climate change.

(3) Strategy

Strategy	Activity examples	Target
Engagement	<ul style="list-style-type: none"> Engagement with individual investment companies Cooperative engagement through PRI, CA100+, etc. 	Investee companies
Cooperation with stakeholders	<ul style="list-style-type: none"> Engagement with government offices and industry groups Partnership with NGOs such as Ceres Policy recommendation activities through initiatives such as the Investor Agenda 	Government offices Industry groups NGO
Investment strategy	<ul style="list-style-type: none"> Reflect climate change factors depending on the individual fund style Take into account climate change factors in investment decisions on individual securities 	Customers

Based on our understanding of climate change risks and opportunities in the asset management industry outlined in the previous section, we have established our specific strategies. We view engagement as a direct opportunity to actively ask for investee companies to make management decisions and build structures on the basis of climate change risks, in order to maximize asset under management and reduce operational risk. Engagement may be conducted by SMTAM as its own activities or through initiatives*1 such as PRI and CA100+. In cooperation with stakeholders related to climate change, we carry out engagement with government offices and industry groups and offer opinions on policies through the Investor Agenda*1. We reduce management risks and improve returns by adopting investment strategies based on climate change risks. We reflect climate change factors depending on the customer's intentions, investment strategies, and other specific circumstances. We increase or decrease composition the weight of individual securities in consideration of climate change under our investment decisions. We also offer our customers investment opportunities related to climate change by providing investment products.

Active/passive	Investment target	Index / investment strategy name	Details
passive	Domestic shares	S&P/JPX Carbon Efficient Index*2	<ul style="list-style-type: none"> S&P Dow Jones Indices, the world's largest independent index company, builds the index based on carbon emissions data from Trucost, a pioneer in environmental evaluation. The index puts heavier investment weight on companies that have high carbon efficiency (low greenhouse gas emissions/sales) and companies that disclose information on greenhouse gas emissions in the same industry. We provide products that are linked to the index.
passive	Global shares (including domestic shares)	SMT MIRAI Index Eco Index*2	<ul style="list-style-type: none"> We use our knowledge of quant active management to formulate the methodology for the FactSet Global Environmental Opportunities Index, which is an environmental-related theme index, and FactSet performs calculations. Investment targets are companies that obtain more than half of their sales from environmental-related businesses, including "alternative/renewable energy," "energy conservation," "efficient use of resources," "waste disposal," and "water resource conservation," and we offer products that are linked to the index.
Active	Domestic shares	Japanese Equity Impact Investment Strategy	<ul style="list-style-type: none"> This is an absolute return-type active investment strategy which aims to achieve social returns as well as economic returns by means of concentrated investment in companies that work on SDGs and other activities to solve social issues. The objective is to engage with companies and increase the probability of earning social and economic returns on the basis of an impact KPI set for each brand.
Active	Domestic shares	Japanese Equity Responsible Investment Management Strategy	<ul style="list-style-type: none"> This is an active investment strategy to achieve an excess return againststn TOPIX by investing in companies that have a strong commitment to ESG. We select investment brands on the basis of credit risk judgment, ESG evaluation, and share price evaluation from SRI universe candidates selected by the Japan Research Institute, which excels in ESG research.

*1 See page 49 and 50

*2 See page 48

3 Risk Management

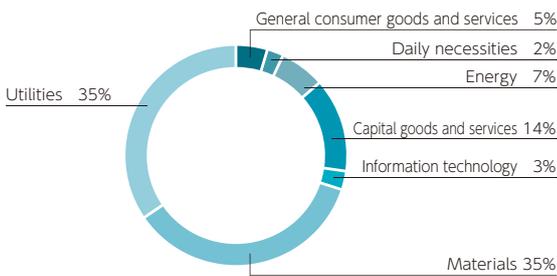
We evaluate the risk of assets under our management related to climate change by asset class. Our assessment method involves using (1) fixed point analysis based on the disclosed information of companies that make up our portfolio, along with their performance figures, and (2) transition pathway analysis based on future climate change-related scenarios. The following is a summarized disclosure of analysis results related to domestic and foreign shares managed by SMTAM. The analysis was carried out using the data and analysis methods of an outside organization *1. (The base date is June 30, 2020.)

(1) Domestic Shares

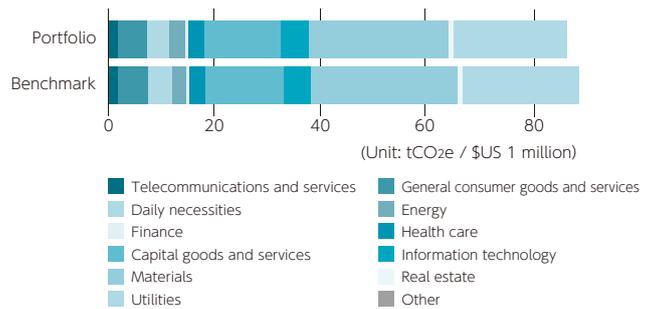
A. Fixed Point Observation

This is an attempt to ascertain the status of Greenhouse Gas Emission Exposure and other conditions at a fixed point in time, based on investee company disclosure data and other information. Looking at industry-specific emissions shows that utilities and materials account for 70% of total emissions. Notably, even when we look at portfolio emissions per unit of sales, we see that these two industries still contribute nearly 60% of total emissions.

Industry-specific Breakdown of Greenhouse Gas Emissions for the SMTAM Portfolio *2



Comparison of Greenhouse Gas Emissions per Unit of Sales *3

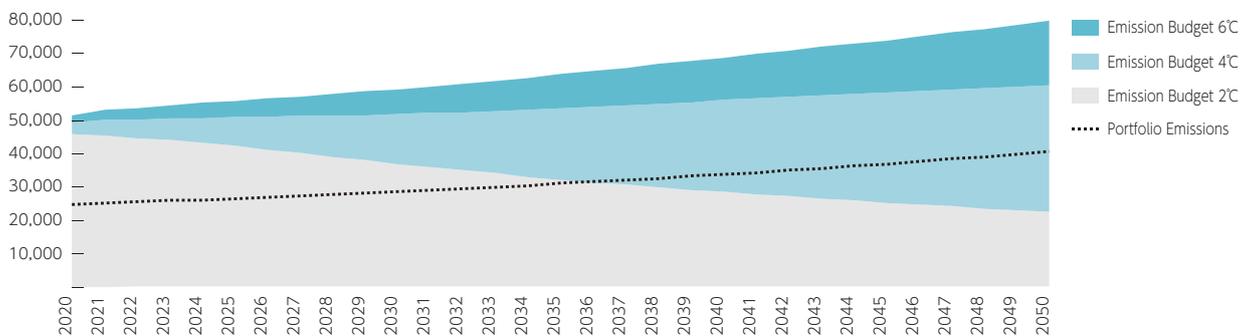


B. Transition Pathway Analysis

Transition pathway analysis assesses how the portfolio's climate change risk will change in the face of different scenarios for future climate change. The projected greenhouse gas emissions of the portfolio are compared with the projected carbon budgets calculated according to different climate change scenarios, and this produces an assessment of the portfolio's resilience relative to the different scenarios over time. The portfolio was specifically compared against the 2°C scenario of the Paris Agreement, as well as a 4°C scenario and 6°C scenario. Assuming the current level of the portfolio is maintained, its emissions would remain within acceptable levels for the 2°C scenario until 2036, after which time it is highly likely to exceed them.

Estimated Future Greenhouse Gas Emissions of the Portfolio in Comparison with Various Climate Change Scenarios *4

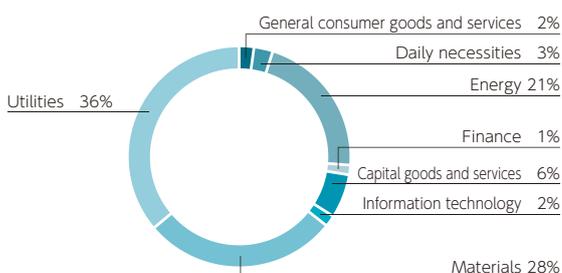
(unit: in 1 thousand of tons of CO₂e)



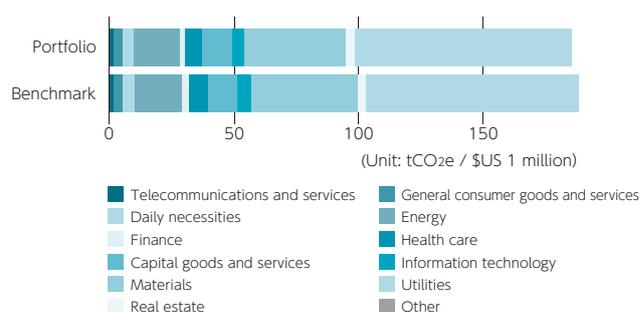
(2) Foreign Shares

A. Fixed-Point Observation

Industry-specific Breakdown of Greenhouse Gas Emissions for the SMTAM Portfolio *2



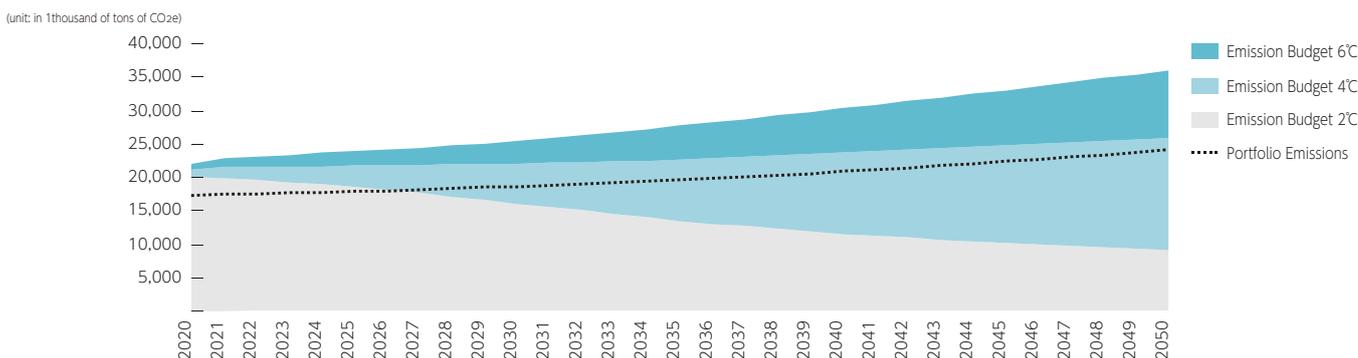
Comparison of Greenhouse Gas Emissions per Unit of Sales *3



B. Transition Pathway Analysis

Emissions in the portfolio would remain within acceptable levels for the 2°C scenario until 2027, after which time it is highly likely to exceed them.

Estimated Future Greenhouse Gas Emissions of the Portfolio in Comparison with Various Climate Change Scenarios *4



4 Indicators and Goals

Taking into account the strategies, risk management, and various issues regarding access to data discussed so far, we monitor periods until greenhouse gas emissions per unit sales (GHG intensity: Scope 1 + Scope 2) or future estimation of GHG emission levels in each portfolio (Scope 1) exceeds the emissions based on the 2°C scenario with regard to all investee companies with domestic shares and investee companies with foreign shares managed by SMTAM. In order to secure global sustainability agreed under the Paris Agreement, signatory nations will continue to “hold the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels,” in order to ensure sustainability.

Policies and Issues for the Future

Under the supervision of the Board of Directors, we will enhance our efforts and disclosure on climate change issues. We reduce greenhouse gas emissions generated by investee companies through our engagement, provide investment strategies and investment products in relation to climate change issues, and allocate resources in an optimal manner, with the aim of maximizing customers' returns on investments and contributing to climate change issues under the cooperation with investee companies. We are committed to continuing our efforts to achieve this goal.

*1 Institutional Shareholder Services Inc. *2 Scope 1+2+3 *3 Scope 1+2 *4 Scope 1

Corporate Profile

Provide people and society with everlasting security. That is our mission.

As one of the largest asset management companies in Japan and Asia, we will continue to fulfill our social responsibilities.

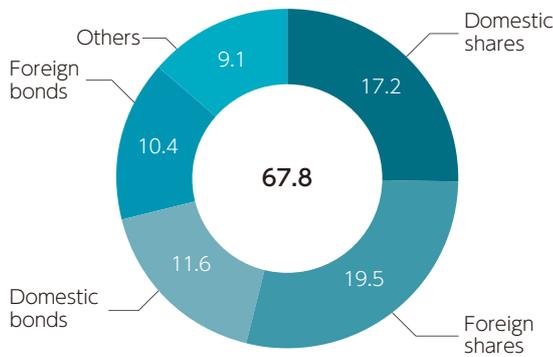
Balance of assets under management

As of the end of June 2020

Approx. 67.8 trillion yen

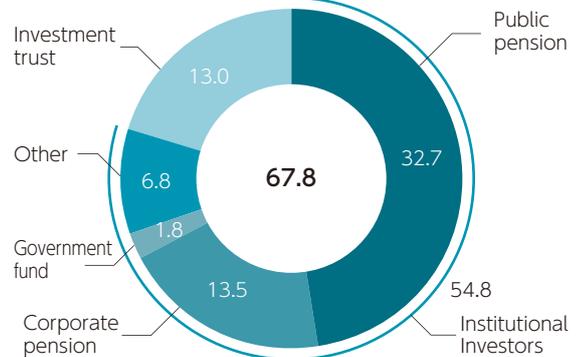
Investment advisor business	Approx. 54.8 trillion yen
Investment trust business	Approx. 13.0 trillion yen

By asset class



·Shares and bonds make up more than 50% and 30%, respectively, of the balance of assets under management, and we are actively promoting engagement activities for our investee companies. We are also working on ESG integration for both shares and bonds.

By client type



·We are trusted with a large amount of long-term funds for savings, including pension funds and investment trusts. We believe that ESG investment from a long-term perspective meets the needs of many customers.

·Most of our customers are in Japan, but foreign customers in the Middle East and Europe have been increasing in recent years.

Companies exercising voting rights

As of the end of June 2020

Number of Japanese companies	Approx. 2,300
Investment balance	Approx. 17 trillion yen
Number of foreign companies	Approx. 2,600
Investment balance	Approx. 19 trillion yen

Stewardship activities

[Number of meetings per year] July 2019 - June 2020

Number of engagements	Approx. 560
Number of engagements	Approx. 370
Number of contacts with companies (total*)	Approx. 6,000

* Total number of contacts including general interviews, company briefing sessions, factory tours, and telephone conferences as well as engagements

Responding to the Stewardship Code

At SMTAM we are addressing the principles of the Stewardship Code via the initiatives described in the table below. And, moving forward, we will continue to fulfill our stewardship responsibilities.

	Initiative	Self-assessment
Principle 1 Policy formulation and disclosure	In consideration of the revised Principles for Responsible Institutional Investors <<Japan's Stewardship Code>>, which was published on March 24, 2020, we re-endorsed the principles and updated our response policy on our website.	<ul style="list-style-type: none"> •We think our response at present is appropriate, but we will review our response from time to time when we deem it necessary.
Principle 2 Conflict of interest management	<ul style="list-style-type: none"> •As the investment managing company of the Sumitomo Mitsui Trust Group, we have put in place an essential conflict of interest management system. •We have disclosed summaries as needed of the deliberations of the Stewardship Activities Advisory Committee, which is an independent committee. 	<ul style="list-style-type: none"> •We think our response at present is appropriate, but we will continue to review it at correct times as environmental changes and other factors warrant.
Principle 3 Accurate understanding	<ul style="list-style-type: none"> •We promoted engagement through top-down approaches on prescribed focus topics. •We aimed to further increase corporate value by conducting in-depth analysis on companies with which we had engagement, and also expanded the number of the companies. 	<ul style="list-style-type: none"> •We focused on engagement on agenda such as climate change, backing corporate governance reform, and promotion of information disclosure. •By March 2018, we had engaged with companies which (cumulatively) cover 90% of the total market capitalization of TSE1.
Principle 4 Dialog with companies	<ul style="list-style-type: none"> •We published the "Policy on exercise of voting rights and stewardship activities in light of the spread of novel coronavirus" on our website. 	<ul style="list-style-type: none"> •The number of companies we have had engagement with reached approx. 800. Corporate actions that are consistent with the opinions expressed by us are also increasing. •The novel coronavirus is likely to cause significant changes in the way companies do business, and we have declared and implemented a plan to conduct engagement in response to that.
Principle 5 Exercise of voting rights	<ul style="list-style-type: none"> •We disclosed our voting records on all proposals for all brands we hold (in Oct 2019 and Jan, Apr, and Jul 2020). •We started to disclose the reasons for voting for each of the proposals which need explanation in light of the guidelines for exercise of voting rights (in July 2020). •For the shares of the parent company (Sumitomo Mitsui Trust Holdings), in consideration of conflict of interest management, we use the advice given from proxy advisory companies for the exercise of voting rights based on our guidelines for the exercise of voting rights, appropriately manage conflicts of interest with checks that are carried out by the Stewardship Activities Advisory Committee, and exercise voting rights. In exercising these rights, we started to disclose the names of proxy advisory companies for the exercise of voting rights that we used (in July 2020). •We revised and published our Guidelines for the Exercise of Voting Rights (in Jan 2020). 	<ul style="list-style-type: none"> •We think our response at present is appropriate, but we will work to maintain and enhance the transparency of our exercise of voting rights going forward. •Moving forward, we will continue to revise our Guidelines for the Exercise of Voting Rights in a timely and appropriate manner, taking into consideration such factors as environmental changes facing companies and changing corporate governance practices. •In the coronavirus recession, we responded to our investee companies with due consideration to each of their situations. We will continue to handle matters in the same manner in the event of another emergency.
Principle 6 Reporting to clients and beneficiaries	<ul style="list-style-type: none"> •We continue to provide explanations about our stewardship activities to asset owners. •We released our 2019/2020 Stewardship Report in November 2019. 	<ul style="list-style-type: none"> •We think our response at present is appropriate, considering our direct reporting to asset owners, our hosting of seminars, the release of our Stewardship Report, and the enhancement of information disclosed on our website. •Moving forward, we will endeavor to report in a timely and appropriate manner and also improve and expand the content of our activity reports.
Principle 7 Development of skills	<ul style="list-style-type: none"> •We established a new organization (ESG Research and Development Team) within the Stewardship Development Department to enhance top-down engagement and dispatch related information. •We started operation of a U.S. local subsidiary (Sumitomo Mitsui Trust Asset Management Americas, Inc.) on July 1, 2020. 	<ul style="list-style-type: none"> •We believe that it will lead to top-down theme-oriented engagement and improvement in activities on global initiatives related to ESG. •With the tripolar structure of Tokyo, London, and New York, we believe that we will be able to conduct global, comprehensive engagement and further enhance stewardship activities.

Active Involvement in the Principles for Responsible Investment (PRI)

Established with the support of the United Nations, the Principles for Responsible Investment (PRI) encourage institutional investors to incorporate environmental, social and governance (ESG) factors into their investment decision-making processes. The 100 signatory institutions to the PRI at the time of its launch in April 2006 represented total assets under management (AUM) of US\$6.5 trillion, but as of March 2020, the number of signatories had increased to 3,038, representing total AUM of around US\$103.4 trillion and a strong indication of the growing importance of responsible investment. Since becoming a signatory to the PRI in May 2006, we have drafted policies in accordance with the six principles and implemented initiatives in light of the latest developments. The PRI evaluates each signatory with respect to their commitment to and progress on implementing the six principles based on their reports. A score of A+ is the highest, while E is the lowest. As shown in the table to the right, we have collected favorable scores on the whole and received a comprehensive assessment score of A+ for the sixth year in a row. We will continue with our active involvement in the PRI going forward and will make every effort to maintain and improve our ratings.

2020	
Strategy and governance (comprehensive assessment)	A+
Integration status of listed equity into responsible investment	A+
Active ownership in listed equity	A+
Engagement	A+
Exercise of Voting Rights	A+
Fixed income investment (e.g., government bonds)	A+
Fixed income investment (e.g., corporate bonds)	A+

Principle 1

We will incorporate ESG issues into investment analysis and decision-making processes.

We analyze and evaluate non-financial information, such as management thoroughness, strategy execution capabilities, and capacity for reform, with the aim of identifying improvements in or maintenance of sustainable corporate value at investee companies. Furthermore, we seek to implement initiatives (ESG integration) that utilize the knowledge gained from our analyses and evaluations in our investment management operations.

Principle 2

We will be active owners and incorporate ESG issues into our ownership policies and practices.

We conduct engagements and exercise voting rights with ESG issues in mind; through these activities, we encourage investee companies to implement appropriate initiatives to tackle ESG challenges.

Principle 3

We will seek appropriate disclosures on ESG issues by the entities in which we invest.

We seek appropriate disclosure of ESG issues from investee companies.

Principle 4

We will promote acceptance and implementation of the Principles within the asset management industry.

We actively promote engagement and awareness-raising activities with investee companies so these Principles gain acceptance and are implemented in the asset management industry.

Principle 5

We will work together to enhance our effectiveness in implementing the Principles.

We collaborate with investment institutions in Japan and overseas through participation in PRI-sponsored working groups and involvement in signatory bodies established with the aim of resolving ESG issues in order to improve effectiveness in implementing the Principles.

Principle 6

We will report on our activities and progress towards implementing the Principles.

We implement these Principles and produce and issue reports that meet the requirements for signatories to disclose their activities and progress towards implementing them.

Recognizing and Addressing General Market Risks and Systemic Risks to Promote Appropriate Function of Financial Systems

As a participant in the global financial market, we also consider it is our responsibility to contribute to the upkeep of a stable financial system. We control risks in our assets by appropriately understanding market risks, such as each country's interest rates and exchange rates. In addition, we consider the climate change risk, which can affect many economic sectors and destabilize financial systems, as important criteria for decisions on investment, and will actively carry out initiatives for addressing it.

Managing market risks

Asset managers conduct transactions in various markets and are having an increasingly large impact on financial markets as their scale of management increases. Therefore, appropriate risk management is necessary from the viewpoint of smooth market continuation and development.

By measuring tracking errors and durations in portfolios under our management, we understand market risks such as interest rates, exchange rates, and stock prices, and set appropriate limits and thresholds for controlling said risks. In addition, we use methods such as VaR and stress testing to understand the impact of market fluctuations on our portfolio, and conduct capacity control, such as capping the amount of investment, in order to ensure that each portfolio is managed with an appropriate asset scale.

We secure a healthy operating status by getting an independent department outside investment departments to monitor it. The independent department also conducts transactions and places orders in markets using the best possible method with due consideration to scale and liquidity of each market.

Addressing climate change risks

There is a growing perception that climate change will destabilize financial systems from the two aspects: physical risks, such as heat wave, drought, and flood, and transition risks, such as decline in corporate profits and asset value in the midst of the shift to a low-carbon society.

With global ESG activities and investment decisions that take into account ESG elements, we conduct investment activities with due consideration to climate change risks, and are actively involved in the international society's initiatives against climate change, including participation in TCFD.

Cooperation with other stakeholders

We have signed international corporate behavior policies and principles, and conduct engagement in collaboration with the United Nations and various global initiatives. Specifically, we signed the PRI (Principles for Responsible Investment), and joined the water risk working group and palm oil working group to carry out engagement with investee companies. For Climate Action 100+, we play an important role as the lead manager for nine companies mainly in Asia and as a member of the Steering Committee to formulate plans for activities in Asia, organize signatory organizations, and spread information.

In addition, we were the only Japanese asset manager that joined a collaborative engagement with the Brazilian government on the destruction of the Amazon forest through the forest conservation working groups in PRI and Ceres. We also held individual discussions with the Central Bank of Brazil and Brazilian ambassadors in Japan.

Note on the S&P/JPX Carbon Efficient Index

The index provided by S&P Dow Jones Indices LLC is a product of S&P Dow Jones Indices LLC (SPDJ), which is licensed to Sumitomo Mitsui Trust Asset Management Co., Ltd. Standard & Poor's® and S&P® are registered trademarks of Standard & Poor's Financial Services LLC (S&P), and Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC (Dow Jones). A license to use these trademarks and a sublicense to use them for specific purposes is granted to SPDJI and Sumitomo Mitsui Trust Asset Management Co., Ltd, respectively. The financial products in the document are not sponsored, warranted, sold, or promoted by SPDJI, Dow Jones, S&P or its affiliates, and these parties do not make any representations regarding the appropriateness of investment in the products, and do not bear any liability for errors, omissions, or suspensions in the Index.

Note on the SMT MIRAI Index Eco Index

FactSet and FactSet Global Environmental Opportunities Index are trademarks of FactSet UK Limited and its affiliates and are licensed to Sumitomo Mitsui Trust Asset Management Co., Ltd. FactSet UK Limited does not support, warrant, sell, or promote this fund and does not make any representations regarding the appropriateness of investment in this fund. FactSet UK Limited does not warrant the accuracy and/or integrity of this index or data contained therein, and bears no responsibility for any errors, omissions, or suspensions therein.

Status of Participation in Global Initiatives (as of the end of July 2020)

As a signatory asset manager to international guidelines and principles on corporate conduct, we engage with investee companies while cooperating with the United Nations, NGOs, and other organizations to implement activities in keeping with our signatory commitments.

Initiatives related to the United Nations and climate change

Signatory of:



PRI

Principles for responsible investment which requires institutional investors to incorporate ESG factors into investment decision-making processes.

- Signed in May 2006



Climate Action 100+

Joint engagement that requires companies with high GHG emissions to disclose information based on TCFD

- Signed in December 2017
(Responsible for the Asia-Pacific region)

Initiatives related to specific topics



FAIRR

An engagement body focusing on the fishery and livestock industries

- Signed in October 2018



Access to Medicine

A collaborative body in which major asset managers and owners in the United States and Europe seek to improve access to medicine

- Signed in April 2018



30% Coalition 30% Club

An investor network that promotes greater diversity on the boards of directors at investee companies

- Signed in April 2017



SPOTT

An initiative established by the Zoological Society of London (ZSL) to support sustainable commodity products

- Signed in February 2020

United Nations GC (Global Compact)



Action principles on human rights, labor, environment and anti-corruption. Signatory companies require initiatives for implementing them.

- Sumitomo Mitsui Trust Group was the first Japanese bank which signed the initiative in July 2005



CDP

International NGO to address environmental issues such as climate change (The forerunner of the NGO was Carbon Disclosure Project)

- Signed in April 2014

Initiatives related to financial institutions

Ceres

A NGO that promotes corporate initiatives on environmental issues such as global warming

- Signed in April 2017



ICGN

An investor association that provides support and advice for implementing excellent corporate governance practices

- Signed in September 2017



CII

A non-profit organization that shares information and views on corporate governance, shareholder rights, and so on

- Signed in June 2018

AIGCC

An Asian investor association on climate change

- Signed in December 2017



Investor Agenda

An institutional investor initiative for promoting low carbon which acts on climate change

- Signed in June 2019

SMTAM's ESG Investment Policy

Basic Policy

1. Purpose and Significance of ESG Investment

As a signatory asset manager on the United Nations Principles for Responsible Investment, we conduct investment activities (ESG investment) focusing on the medium- to long-term environmental, social, and governance (ESG), on the basis of the values presented in the United Nations Global Compact and SDGs. We believe that fulfilling the role as an asset manager in an investment chain through ESG investment will make contributions in promoting value improvement and sustainable growth of investee companies, maximizing the investment return of clients (beneficiaries) over a medium to long term, reducing downside risks, and achieving a sustainable society.

The purpose of this policy is to clarify the basic policies and views when we make an ESG investment to reflect it in investment decision making.

2. Positioning

1) ESG investment refers to activities as an institutional investor with a focus on challenges and investment opportunities related to E (Environmental), S (Social), and G (Governance).

2) ESG investment is part of the effort to fulfill stewardship responsibilities as a responsible institutional investor.

3) ESG investment is promoted by utilizing direct portfolio management methods such as selection of investment target brands and weight decision, and other methods including engagement and exercise of voting rights, which are the core of stewardship activities.

3. Commitment

1) We take ESG investment into consideration to the maximum extent for all products under our management.

2) We make ESG investments in order to fulfill our responsibility (stewardship responsibility) to increase investment return to our clients (beneficiaries).

(1) ESG-related issues are non-financial issues that do not appear in financial information, and may have a significant impact on business opportunities, risks, and corporate value over time.

(2) Actively investing in companies that positively address ESG-related issues and seeking best practices from companies will lead to the pursuit of a medium- to long-term upside potential.

(3) Reducing investments in companies with ESG issues and correcting ESG-related issues that could damage corporate value will lead to a reduction of downside risks.

3) We manage portfolios for various investment strategies, and are consistent with each client's investment purposes. In making ESG investments, we use methods that are most appropriate for investment purposes, targets, and strategies.

4) In making ESG investments, we take ESG materiality below into consideration.

ESG Materiality

1. ESG materiality

There are many tasks and topics in each perspective regarding ESG, and information providing institutions, index providers, and other entities evaluate corporate activities with different evaluation items as their core. In order to systematize evaluation items for an ESG investment, we arrange major topics related to ESG on the basis of the purpose of the basic policy, and define them as "ESG materiality" as below.

2. Environment

1) Overview

While all economic activities depend on the natural environment, the activities by humankind after the Industrial Revolution have placed a significant burden on the natural environment and are a challenge that threatens its sustainable prosperity. In order to achieve a sustainable society and secure medium- to long-term investment return from client assets, it is necessary to take into account elements of the natural environment in investment activities and to support the realization of a recycling-oriented society.

2) Climate change

Global warming, which is attributable to the accumulation of greenhouse gases such as carbon dioxide, and the resulting extreme weather are not a threat in the future, but rather a reality that is in front of us. We consider climate change as the most important issue affecting all economic entities, and reflect measures for mitigating and adapting to it in ESG investment decisions.

3) Natural capital

Improper use of natural capital, which is a major material in economic activities, makes sustainable use of resources impossible and threatens the sustainable prosperity of society. We will reflect the situation regarding the sustainable use of natural capital such as water resources, mineral resources and fishery resources in our ESG investment decisions.

4) Pollution & waste

If various wastes generated as byproducts of economic activity are not properly managed by companies, the natural environment will be damaged and scarce resources will be consumed. We reflect the sustainability of material flow throughout life cycles of products in our ESG investment decisions.

5) Environment-related opportunity

The environmental issues in 2) to 4) above lead to the creation of new markets as represented by renewable energy through policy changes at a government level and changes in consumer awareness. We view this as an investment opportunity and reflect it in our ESG investment decisions in order to support the shift to a sustainable society and achieve growth of client assets.

3. Society

1) Overview

Companies must not only comply with internationally supported laws and regulations, but also operate with consideration to the interests of diverse stakeholders, including clients, employees, local communities, and members of worldwide supply chains. As the population structure changes and awareness of diversity deepens, the standards required for companies are increasing daily. In order to realize a sustainable society and ensure medium- to long-term investment return from client assets, companies must always seek a high level of effort.

2) Human rights and community

As a signatory asset manager for the United Nations Principles for Responsible Investment, we urge investees to act in compliance with international standards. For companies that have significant problems in relation to international standards, such as the manufacturing of cluster bombs and other inhumane weapons, we approach them through our engagement, and consider removing them from our investment targets. We reflect corporate activities related to human rights and community in our ESG investment decisions.

3) Human capital

As the economy pushes a shift to service, the quality of employees and the degree of engagement with employees are becoming more important factors that determine corporate performance.

On the other hand, at one end of expanding supply chains, there is a risk of inappropriate actions, such as neglecting work environments and abusing the human rights of workers. We approach companies that violate laws and regulations through our engagement and consider removing them from our investment targets. Additionally, we reflect the status of initiatives for improving performance through motivation improvement in our ESG investment decisions.

4) Security and liability

As economic activities become more complex, including globalization of supply chains and the rapid progress of digitization, there is growing risk of tangible and intangible damage to clients and other stakeholders through products and services that are the output of corporate activities.

We take into account the vulnerabilities that lead to such risks and consider how we should respond to and reflect them in our ESG investment decisions.

5) Society-related opportunities

The social issues in 2) to 4) above lead to the creation of new markets through policy changes at a government level and changes in consumer awareness. In addition, expanding services to communities and people where basic services necessary for achieving SDGs, such as medical services, are lacking, will lead to create new markets. We view this as an investment opportunity and reflect it in our ESG investment decisions in order to support the shift to a sustainable society and achieve growth of client assets.

4. Governance

1) Overview

Investment return is obtained when the interests of a target company coincide with those of stakeholders represented by investors, and its business goal is achieved. Corporate governance is the most basic system for this purpose, and it is necessary to consider it as a common important matter for all investees in order to secure investment return from client assets over a medium to long term.

2) Behavior

Whether a company conducts management with due consideration to the interests of its stakeholders is evident in its behaviors. We take into account behaviors such as capital efficiency and information disclosure and reflect them in our ESG investment decisions. We take particular care with regard to information disclosure in accordance with all ESG topics because it is the starting point of relevant action.

3) Organizational design

Corporate governance should be expressed objectively in corporate organizational design, including the composition of a board of directors. We check the appropriateness of organizational design with consideration to formal requirements such as the composition of a board of directors and shareholders, and anti-takeover measures, as well as the characteristics of the industry and country/region, and reflect it in our ESG investment decisions.

4) Stability and fairness

During a company's economic activities, there may be events that can have negative impacts inside and outside the company, ranging from deliberate violations of laws and regulations, to accidents. Depending on their details, they will not only go against social interests, but also greatly undermine the value of the company. We take into account the code of conduct for appropriately addressing these risks and risk management systems including their prevention, and reflect them in our ESG investment decisions.

5) Governance improvement

Because corporate governance is positioned as the core of corporate economic activities, it is expected that improvements in corporate governance with significant problems will quickly see an improvement in corporate performance and investment return. We will take into account the progress of governance improvements and reflect it in our ESG investment decisions in order to improve investment return over a medium to long term with appropriate engagement.

ESG Investment Methodology

In order to reflect this policy in investment decisions, we implement an appropriate combination of the following methods depending on the characteristics of the fund, and make effective ESG investments.

- 1. ESG negative screening**
Under certain criteria, we exclude companies from our investment universe who have significant problems from the perspective of ESG, such as those that manufacture inhumane weapons and that conflict with international codes.
- 2. ESG positive screening**
We actively invest in companies with high ESG ratings within each sector.
- 3. Integration of ESG-related information**
We incorporate knowledge obtained from analyzing/evaluating non-financial information regarding ESG and other matters into processes regarding selecting brands of each fund and building portfolios in an explicit and systematic manner.
- 4. Topic investment**
We establish topics regarding ESG and organize and manage funds that mainly incorporate companies related to it.
- 5. Impact investment**
We form and manage funds with an explicit purpose of having a positive impact on society from the ESG perspective, as well as producing economic investment return.
- 6. Engagement**
we hold constructive dialogs on ESG topics with investee companies as an opportunity to seek best practices from companies and improve their value over a medium to long term.
- 7. Exercise of voting rights**
We call for minimum standards and value improvement in investees by reflecting ESG factors in voting "for" or "against" an agenda item in the exercise of voting rights of investees.



Inquiries: | **Sumitomo Mitsui Trust Asset Management Co., Ltd.**
Stewardship Development Department (ss_office_hp@smtam.jp)
Please send any inquiries regarding this Stewardship Report to the above email address.