



STEWARDSHIP REPORT

2021/2022



SUMITOMO MITSUI TRUST ASSET MANAGEMENT



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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 to our clients.

At Sumitomo Mitsui Trust Asset Management, our top priority is striving to consistently 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.



Realizing opportunities today to ensure sustainable prosperity for tomorrow.

**Your goals are our goals. Your success is our success.
We strive to create the new standard of asset management that
acknowledges the aspirations of all our investors and stakeholders
and work with each of you every step of the way.**

Our corporate philosophy was re-established in March 2021.

We defined our ideal image of society as a broad concept for society from the perspective of all employees, customers, and various stakeholders, and encapsulated these thoughts into a short sentence. It includes our sincere desire toward all potentials in harmony with our founder's ideals, and our desire to warmly cultivate a "truly affluent society" together with our various stakeholders based on a desire to "open up" new possibilities for a better future.

The definition of a "truly affluent society" has a wide meaning. We understand it to mean "new types of asset management that meet future expectations" with unlimited possibilities according to the times.

Regarding the process for establishing this philosophy, there is one other point I want to emphasize; the activities for establishing this corporate philosophy involved all employees over a period of time. More than 20

employees from a wide variety of generations voluntarily contributed to these activities. Rather than ask all employees repeatedly to unify our ideas, we understood that an ideal organization should be tolerant of different values and seek out common goals. Formulating a corporate philosophy is something that should unite the interests and feeling of all employees. Therefore, I felt it was important to have such a process this time, and I believe that such effort will become part of the culture of the asset management company.

Activities related to rethinking the meaning of companies and jobs are ongoing worldwide. This is related to "realizing a carbon-neutral society in 2050." I believe that rethinking the relationship between myself, the company, and society is the first step and is the start of a major movement.

At the same time, as a responsible institutional investor,



Representative Director and President
Yoshio Hishida

we feel it is our mission to help you reach future goals and ideals through asset management

To that end, stewardship activities such as contributing to the enhancement of corporate value through dialog with investee companies and promoting ESG-related activities are extremely important. Therefore, our desire is to continue making efforts and improvements.

We have been dealing with companies and society for years as a signatory of the United Nations Principles for Responsible Investment (PRI) since their establishment in 2006. In addition to the Japanese shares impact investment fund that launched in October 2019, we already established an impact investment fund for foreign shares, and are ready to provide these to our customers. In addition, ESG standards were determined in the proposal for the appointment of directors in the guidelines for exercising voting rights for Japanese shares in January of 2021.

We are also actively participating in overseas engagement activities from the early stages. As for the PRI, we have been a lead manager in the working group. As of the end of September 2021, we are members of 16 international ESG promotion organizations and are engaging in related activities all over the globe. While we are collaborating with overseas asset owners and asset management companies, we express our opinions as a Japanese asset management company, and actively implement advanced ESG activities from other countries to reflect a global ESG perspective in engagement with Japanese companies.

This Stewardship Report for this year will introduce the various activities that we have been engaged in over the past year. I hope that you will appreciate our activities, which are being carried out in cooperation with many employees and stakeholders.

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 all of 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. 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

Since the **1920s** Initial ethical investment

- Choice of investees based on religious and ethical motives

1960s

SRI as a social movement

- Cooperation with social movements including human rights, labor, and the environment

1920

1960

Our initiatives

2003

Started offering publicly offered investment trusts of Japanese shares SRI for Individual investors

2004

Started offering SRI funds to DC plan

2006

Signed PRI (Principles for Responsible Investment)

2010

Started offering publicly offered investment trusts of Chinese shares SRI

2014

Accepted Japan Stewardship Code (SSC)

1990s to 2000s

Both financial and non-financial assessments

- Merging financial and non-financial (ESG) assessments
- Integrated an assessment of the company's response to ESG issues and financial impact

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

Integrating the environmental and social impact of investments

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

1990

2000

2006 SRI

2010

2015 ESG

2020

2019 Impact

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

2015

Introduced MBIS® for non-financial information assessment

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

2017

Established the Stewardship Development Department

Established the Stewardship Activities Advisory Committee

Accepted the revised SSC

2019

Developed impact investment products
Set Seeds in Japanese Stocks (Commercialized in 2020)

2020

Set Global Shares Impact Fund Seeds

Accepted the revised SSC

2021

Listed on SMT ETF Carbon Efficient Index Japan Equity

Sponsored by Tokyo
Tokyo Financial Award
ESG Investment Category
out of 40 financial institutions across 10 countries
Award-winning Company

2019

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

SMTAM's ESG12 Topics

SMTAM promotes top-down engagement with 12 ESG topics*.

E nvironment

Climate Change Issues

- Reduction of greenhouse gas emissions and decarbonization
- Promotion of corporate activities aligns with the Paris Agreement

Natural capital and resource protection

- Reducing food waste loss and addressing water resource shortages
- Corporate activities that incorporate biodiversity

Environmental destruction / Pollution control

- Addressing illegal deforestation and agricultural land development
- Addressing the marine plastic issue

Environmental business opportunities

- Technology development that helps reduce environmental load
- Expansion and promotion of environmentally-friendly products and services

S ocial

Human rights

- Elimination of child labor and forced labor of migrant workers
- Comprehensive supply chain management from a human rights perspective

Human capital

- Establishment of diverse work styles
- Improvements to human resource education and individual productivity

G overnance

Promotion of corporate activities

- Proper disclosure of ESG information
- Corporate activities that contribute to better capital efficiency
- Backcasting based on a long-term vision

Stable and fair governance system

- Better governance of company misconduct
- Better management discipline
- Review and strengthening of group governance systems

Governance reform

- Better board of directors skill set
- Promotion of diversity management
- Improving the effectiveness of the board of directors

* See pages 29-32

ESG12 Topics	Review of Our Activities During the Past Year	Future Activity Policy
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E (Environment)

Addressing Climate Change	We promoted the formulation of an action plan and reset goals that aligns with the Paris Agreement in regards to the reduction of greenhouse gas emissions, which is causing natural disasters to intensify. In particular, we have taken a stronger stance with companies that are regarded as having high emissions.	We have positioned it as the most important issue. Therefore, we will encourage early efforts to effectively stop the increase in GHG emissions due to the resumption of economic activities after the COVID-19 pandemic. We will also encourage the development of an effective action plan that aligns with the government's more aggressive emission reduction targets.
Natural capital and resource protection	Discussions were held mainly about industries and companies that have a large impact on the shift to corporate activities that take the protection of natural capital and resources into consideration.	Maintaining and ensuring natural capital and biodiversity are important obligations. We encourage companies to take actions and make efforts to the extent possible in order to eliminate the effects of external diseconomies.
Environmental destruction / Pollution control	We have strengthened dialogs with companies connected with the marine plastics issue to prevent marine pollution and realize biodiversity and a recycling-based economy.	To realize a recycling-based economy, it is essential to strengthen cooperation between industries and companies at each stage of the supply chain. We will hold talks that include the value chain and encourage actions toward the realization of a recycling-based economy.
Environmental business opportunities	We discussed with companies about supporting technological development and expanding products and services that contribute to reducing environmental load.	It is essential to find balance between resolving environmental issues and achieving economic returns in order to achieve social and corporate sustainability. We will hold dialogs for accomplishing this.

S (Society)

Human rights	We confirmed whether child labor and forced labor of migrant workers exists in the supply chain, and discussed methods for checking human rights issues with the Board of Directors.	We will encourage the establishment of a system where the Board of Directors can continuously check for human rights issues.
Sustainable local society	Discussed on business model reforms targeting better sustainability of local infrastructure.	The progression of depopulation and aging appear to be irreversible. We are encouraging companies to shift to a business model that is sustainable within their community.
Human capital	Talks were held on the progress of work style reforms related to the spread of remote work due to the COVID-19 pandemic, and on measures for connecting DX promotion to improve human productivity.	By deepening work style reforms such as by establishing remote work and further promoting DX, we will make effort to improve human productivity and thereby improve profitability.
Health and safety	We confirmed the status of employee health maintenance and management during the COVID-19 pandemic and efforts for handling this pandemic as a social issue. We discussed efforts and improvement measures related to medical access by pharmaceutical companies.	In addition to countermeasures for the COVID-19 pandemic, we will focus on the issue of drug-resistant bacteria, which is often overlooked because of the current pandemic, and have constructive talks on topics such as new therapeutic agents, new business models, and in-hospital preventive measures.
Supply chain management	In response to production suspensions at domestic and overseas factories due to the COVID-19 pandemic and heavy rains, and issues with parts procurement, we have discussed the sophistication of supply chain management from the perspectives of infectious diseases and natural disasters.	In addition to confirming the effectiveness of supply chain restructuring that has been promoted due to the COVID-19 pandemic, we will urge companies to further enhance their sophistication and strengthen risk management for after COVID-19.

G (Governance)

Promotion of corporate activities	While encouraging information disclosure, materiality identification, and the setting of KPIs, we reviewed the effective use of funds and unprofitable businesses, and discussed measures for improving capital efficiency.	A backcast perspective based on a long-term vision is more important for a company's medium-term management plan. As external uncertainty increases, we encourage companies to take actions for resolving problems based on a long-term perspective.
Stable and fair governance system	We strongly urged companies facing misconduct to prevent recurrence and strengthen governance. In addition, we continued to emphasize the need to improve management discipline by reducing cross-held shares and abolishing takeover defense measures.	We will continue to urge companies involved in misconduct not to repeat such actions and to strengthen their governance system. We will encourage corporate actions for improving management discipline and continue discussing issues related to group governance.
Governance reform	Discussions were held on the skill set of the Board of Directors, active participation by women for achieving diversity, and efforts to enhance the effectiveness of the Board of Directors.	We will continue holding discussions in order to establish a truly effective Board of Directors allowing achievement of intermediate goals backcasted based on where the company should be, and to achieve functional management.

Sustainable local society

- Addressing depopulation in rural areas and aging public infrastructure
- Sustainable social infrastructure and business model

Health and safety

- Transitioning to wellness management
- Improving global medical access
- Addressing issues with drug-resistant bacteria

Supply chain management

- Resolving issues with labor, the environment, and society
- Addressing the intensifying of natural disasters and the spread of infectious diseases

Feature 1 TNFD Taskforce on Nature-related Financial Disclosures

Initiatives for addressing issues with natural capital

(This article is based on facts and schedules known as of the end of August 2021.)

Blessings from nature such as resources are often utilized in everyday human life and economic activities based on the premise of regeneration. For example, rainwater and reservoirs are used for water, but such can be depleted if used excessively. For human society to maintain sustainable growth, it has become necessary to manage resources that were viewed as a blessings from nature. Therefore, our company recognizes the importance of assessing whether investee companies are sustainably using the natural environment.

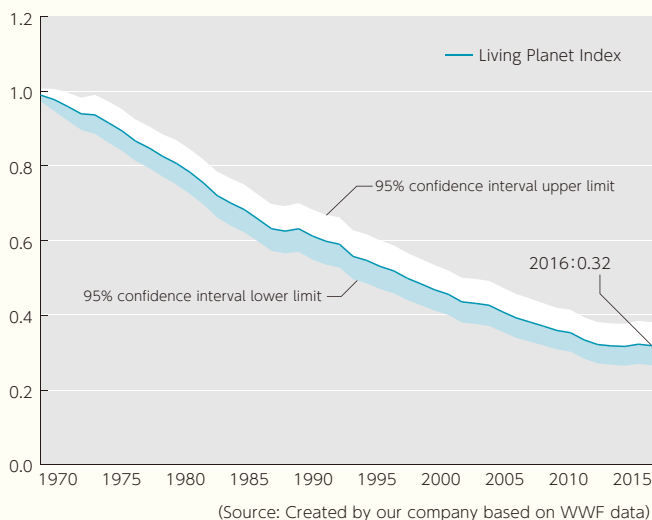
Challenges related to natural capital

Just as with climate change, the deterioration of the natural environment could pose significant corporate and financial risks. Various social and economic activities are supported by the many blessings received from nature. Natural capital is a term that considers forest resources, water resources, soil resources, air resources, and biological resources as capital. According to a 2020 report by the World Economic



Forum, natural capital accounts for an estimated US\$44 trillion in economic activity, which is more than half of the world's gross domestic product (GDP). So, it is believed that the deterioration of the natural environment will be something that interferes with the sustainable growth of the economy and society. In recent years, biodiversity, which supports ecosystems and is a part of natural capital, has been declining. The World Wildlife Fund (WWF), an NGO that addresses environmental issues, estimated that biodiversity declined by 68% in the nearly 50 years from 1970 to 2016. According to a report by the British government, when compared to other economic capital trends, the overall decline in natural capital is significant.

Living Planet Index



* The Living Planet Index is an index released by the World Wildlife Fund (WWF) that measures trends related to biodiversity. Between 1970 and 2016, mammal, bird, amphibian, reptile, and fish populations have declined earth wide by an average of 68%.

Establishing a framework for protecting domestic and foreign natural capital and the launch of TNFD

The impact from the destruction of ecosystems and the loss of natural capital due to economic activities is expected to continue growing. Therefore, we are currently developing a global framework to prevent these with the goal of recycling. For example, regarding biodiversity, at the 15th meeting of the Conference of the Parties to the Convention on Biological Diversity (COP15) being held in October this year (2021) in Kunming, China, consideration was given to revising the Aichi Targets that were set at COP10 in Nagoya in 2010. Our goal is to reverse the loss of biodiversity by 2030 and bring about a world that "coexists with nature" by 2050.

In Japan, the National Biodiversity Strategy was formulated in 2008 based on the Basic Act on Biodiversity. Since 2020,

Diversity and Initiatives Envisioned by SMTAM

studies have already been underway for formulating the next national biodiversity strategy.

In response to these movements, there is an increasing trend to require companies to disclose how corporate activities are impacted by natural capital and how corporate activities impact natural capital as part of their business strategy. In addition, the Taskforce on Nature-related Financial Disclosures (TNFD) was launched in June 2021. The goal of the TNFD is to develop an information disclosure framework by the end of 2023 similar to TCFD, which is an information disclosure framework for climate change.

Whereas the TCFD is mandated by governments, the TNFD is lead by the United Nations Environment Program Finance Initiative (UNEP FI), the United Nations Development Program (UNDP), the Global Canopy (NGO in the UK), and the World Wildlife Fund (WWF). It was started voluntarily based on initiatives in the private sector. Since September 2020, we have been the only Japanese investment institution to participate in this informal working group that is a preparatory working group for the launch, and have contributed to the launch of the TNFD through discussions on framework development and future management methods.

Similar to TCFD recommendations, the TNFD discloses the environmental impact of companies on the natural environment and the financial impact that changes in the natural environment have on companies including physical risks for the loss of natural capital that companies depend on in their economic activities, transition risks caused mainly by stricter regulations, and systemic risks related to ecosystem destruction, and scenario-based verification will be conducted.

In addition, since the purpose of this framework is to disclose and verify the overall impact on natural capital, disclosure is done gradually, and priority is given to businesses that are considered to have a large impact. For now, attention will be focused on the disclosure status of sectors related to the agricultural supply chain, which have a major impact on the environment (daily necessities, retail sector, etc.). However, the overall market is assumed to have a major impact on the natural capital of the value chain, so it is believed that corporate information disclosure will be required for all sectors.

Policy and schedule for our initiatives

We have long been working on the conservation and regeneration of natural capital as an important environmental issue, and have engaged in activities related to palm oil production, and government activities and recommendations related tropical rainforest conservation in Brazil and Indonesia. In the future, we will also promote activities for disclosing information based on the TNFDs of investee companies and participation in global collaborative engagement activities.

In addition, as the only Japanese investment institution* that has committed to the TNFD, we will utilize our knowledge to hold lectures and study sessions about the TNFD and participate in discussions between the public and private sectors on the contents and detailed rules for the TNFD as domestic enlightenment activities in order to proactively contribute to its smooth implementation and utilization from 2023.

* As of June 2021

TNFD: Schedule up until practical utilization

Phase	Preparation phase	Establishment Phase I	Verification Phase II	Examination Phase III	Communication Phase IV	Introduction Phase V
Period	2020 to 2021	2020 to 2021	2022	2023	2023	2023
Activity contents	<ul style="list-style-type: none"> July 2020 TNFD unofficially launched September 2020 Informal working group activities initiated by 62 financial institutions, companies, governments, etc. January 2021 Statement of support by President Macron of France June 2021 Official launch of TNFD 	<ul style="list-style-type: none"> Composition of a 30-member task force Start of TNFD framework implementation 	<ul style="list-style-type: none"> Verification of the TNFD framework in emerging markets and developed markets Framework refinement 	<ul style="list-style-type: none"> Consultation with related parties including financial authorities and data service providers in more than 20 emerging markets and developed markets 	<ul style="list-style-type: none"> TNFD framework disclosure 	<ul style="list-style-type: none"> Announcement of guidance for TNFD framework utilization

(Source: Created by our company based on the TNFD Secretariat (June 2021))

Feature
2

The Problem with Palm Oil

Current situation of the palm oil problem, which includes various issues such as natural capital and human rights, and our initiatives

What is palm oil?

When people hear about palm oil, many respond that they have heard of it, but do not really understand what it is. Palm oil is a vegetable oil made from the fruit of the oil palm, which is native to West Africa. In addition to being used for many purposes such as breads and confectioneries, margarine, instant noodles, and other foods, it is also used in detergents and cosmetics. It is a cheap vegetable oil with a much higher yield than other vegetable oils, and currently has the highest production of all vegetable oils in the world.

However, there are a number of issues related to the palm oil production process, including environmental problems and human rights and labor issues related to the supply chain, and climate change issues due to deforestation. It has become an important theme in the goal of achieving virtually zero greenhouse gas emissions by 2050

Our initiatives related to the palm oil problem

Activities through RSPO

Since 1990, palm oil has grown into a major industry in the ASEAN region. However, there are problems throughout the

supply chain. In 2002, NGOs and other organizations set up the RSPO (Roundtable on Sustainable Palm Oil) as a way to resolve these by providing opportunities for related parties to discuss sustainable palm oil production that gives consideration to the environment and human rights. We have been participating in the RSPO since 2016, and through that framework, we have engaged in activities with palm oil producers and financial institutions that lend money to business operators to resolve related issues.

The goal of the RSPO is to “transform markets to make sustainable palm oil the norm.” In addition to compliance with relevant laws and regulations, this also requires economically sustainable, environmentally appropriate, and socially beneficial palm oil production.

PRI (Principles for Responsible Investment) Activities through the Palm Oil Working Group - Engagement with Financial Institutions -

In 2016, we joined the PRI Palm Oil Working Group (WG) as a PRI signatory, becoming a lead manager, and have continued to play an active role. This WG was established in 2011, making it the oldest PRI WG. It was established because of major social issues related to Palm oil production, including in the large-scale destruction of



Rainforest destroyed by the laying of roads for palm oil production plantation development (Malaysia)



RSPO (2019)

Diversity and Initiatives Envisioned by SMTAM

rainforests and biodiversity, poor work environments, and conflicts with local residents over land development. In 2018, the WG determined the need to strengthen its engagement activities with ASEAN financial institutions. The main purpose is to encourage financial institutions that have an important role in supplying funds to the palm oil supply chain to strengthen monitoring of palm oil producers to ensure compliance. In November 2018, WG members, including our company, visited financial institutions in the ASEAN region to clarify the financial industry’s role in transitioning to a sustainable palm oil sector, and requested better monitoring by financial institutions.

Multi-engagement activities
- Engagement with the Indonesian Government -

In November 2020, the Indonesian government passed an “Omnibus Law” to accelerate business by simplifying laws and regulations to boost the economy. In the bill stage, we were concerned that enforcement of the law could lead to the destruction of forests. Since cooperation between the government / public policy agencies and private companies / public enterprises is essential for addressing social issues, we

determined it was necessary to engage with multiple stakeholders in addition to investee companies.

In September 2020, we sent a letter to the government together with 35 overseas investment agencies stating concern that the “economic stimulus measures based on the law could result in deforestation.” We received individual replies to the letters from the country’s Deputy Foreign Minister and the Minister of Environment and Forestry. At the same time, we privately engaged with the Ambassador to Japan. We expressed our opinion that (1) long-term investors are concerned with the transparency of the application process, not with the bill itself, and (2) special consideration should be given to protect forest conservation measures. The government recognized that, when enforcing the law, it should be aware of various stakeholders such as investors and environmental groups, and that the balance between economic stimulus and environmental conservation, especially measures to prevent deforestation, should be carefully considered when determining detailed implementation rules.

Future approach policy for resolving issues

The number of companies, including those in Japan, that are currently strengthening their efforts to tackle the palm oil problem is increasing (joining RSPO, JaSPON*, etc.). Although the number of products with the RSPO certification (logo) is increasing on products such as shampoos, soaps, detergents, and cup noodles due to growing interest by consumers, there is still much work needed to resolve problems that are seen in the entire palm oil supply chain.

To resolve such issues, it is extremely important that consumers take an interest and understand the importance of palm oil being manufactured in a way that shows consideration for the environment and society. As a responsible institutional investor, we will continue making efforts to resolve these issues by working on a wide range of targets both upstream and downstream in the palm oil supply chain.

* Japan Sustainable Palm Oil Network: This is a platform aimed at helping improve environmental and social issues related to the palm oil industry by contributing to the promotion of sustainable palm oil procurement and consumption in the Japanese market.

Examples of engagement activities by the PRI Palm Oil WG

Target company Malaysia: CIMB Group (Finance)

Made decision to strengthen engagement with ASEAN financial institutions
 In 2018, the WG decided to strengthen its engagement activities with ASEAN financial institutions. The purpose was to encourage financial institutions that have an important role in supplying funds in the palm oil supply chain to strengthen monitoring of palm oil producers, etc., to ensure compliance.

Engagement with CIMB
 We initiated engagement with the CIMB Group, which is a representative financial group in Asia that has a major presence in ASEAN, by (1) clarifying their role as a financial institution for transitioning to a sustainable palm oil sector, and (2) requesting that they strengthen monitoring of palm oil producers, etc., to ensure compliance.

Corporate action

- Based on continuous engagement, the said company formulated policies that they would (1) become the first financial institution in the region to include EES (environmental, economic, and social) issues into risk assessment, (2) add sustainable finance policies to the examination items of lenders, and (3) formulate a policy to promote better monitoring to ensure compliance by palm oil producers.
- In December 2020, they declared that coal-related loans would be phased out by 2040. This made them the first financial institution in Malaysia to announce such a withdrawal with a clearly defined schedule.

Plans for the future
 As we expand the scope of our engagement to other financial institutions in ASEAN, we have already seen a positive responses with sustainability activities from the top groups in ASEAN, while we are still helping middle and lower groups to understand the importance of “sustainability activities by financial institutions.” Our policy is to engage with financial institutions in the ASEAN region to resolve issues related to palm oil.

Feature 3

Net Zero Asset Managers initiative

In July 2021, we participated in the Net Zero Asset Managers Initiative (NZAMI) with the goal of contributing to a smooth transition to a low-carbon / decarbonized society.

Background of participation with NZAMI

NZAMI is a global initiative by asset management companies launched in December 2020 that is working to achieve net zero greenhouse gas emissions from investee companies by 2050. As of July 2021, 128 asset management companies from around the world are participating, and the total assets under management has reached US\$43 trillion.

Climate change has long been one of the most important ESG issues facing the world, and it is starting to impact the corporate value of investees. The Japanese Government already announced a policy targeting carbon neutrality by 2050, and similar declarations have been made by other major governments. In the investment industry, asset owners such as pension funds have taken the lead in targeting zero greenhouse gas emissions, but management companies also need to be on the same page.

We support the purpose of the Paris Agreement, which endeavors to limit the increase in global average temperature to 1.5°C, which is well below 2°C, compared to

before the Industrial Revolution. We will contribute to achieving this goal by participating in NZAMI as a new initiative. We understand that investment institutions play a major role in addressing climate change, which is one of the biggest issues facing the international community.

Targeting Japanese stocks first

Our policy is to achieve zero greenhouse gas emissions by investee companies through engagement with companies, exercising voting rights, and by developing and providing investment products among other activities. Participation in NZAMI requires the fulfillment of three commitments (Chart 1), and "10 Efforts" that are required for that purpose have been stipulated (Chart 2). Based on this, as an interim goal for 2030, we will target Japanese stocks held by the Company (about 1/4th of the total assets being managed by the Company) as of 2030. Our plan is to reduce greenhouse gases by 46% compared to 2013, which is the plan by the Japanese government, and then gradually expand the target assets.

Specifically, we will promote engagement through validation of the greenhouse gas emission reduction plans by investee companies and through research on technologies required for virtually zero emission by 2050, and strengthen our voting policy in regards to climate change. We will also strengthen engagement with stakeholders related to investee companies including voting advisory companies and data service providers. By providing investment products for securities issued by companies that are connected to reducing greenhouse gas emissions, we will provide investment opportunities for such companies while also supporting their financing.

Chart 1 : Three Commitments Required by NZAMI Participants

NET ZERO ASSET MANAGERS INITIATIVE
 The Net Zero Asset Managers Initiative is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius, and to supporting investing aligned with net zero emissions by 2050 or sooner.

Commitment a	Commitment b	Commitment c
Collaboration with asset owners	Setting intermediate goals	Review of intermediate goals
Work in partnership with asset owner clients on decarbonisation goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all assets under management ('AUM')	Set an interim target for the proportion of assets to be managed in line with the attainment of net zero emissions by 2050 or sooner	Review our interim target at least every five years, with a view to ratcheting up the proportion of AUM covered until 100% of assets are included

In June 2021, we listed "SMT ETF Carbon Efficient Index Japan Equity" on the Tokyo Stock Exchange as a product for investing in companies working on greenhouse gas emission reduction. The ETF has the same risk/return as TOPIX, but the carbon efficiency is 19% higher than TOPIX (as of the end of

Diversity and Initiatives Envisioned by SMTAM

Chart 2 : 10 Efforts to Fulfill Commitments

Assets in line with commitment (b)	
1	Set interim targets for 2030, consistent with a fair share of the 50% global reduction in CO ₂ identified as a requirement in the IPCC special report on global warming of 1.5°C
2	Take account of portfolio Scope 1 & 2 emissions and, to the extent possible, material portfolio Scope 3 emissions
3	Prioritize the achievement of real economy emissions reductions within the sectors and companies in which we invest
4	If using offsets, invest in long-term carbon removal, where there are no technologically and/or financially viable alternatives to eliminate emissions
5	As required, create investment products aligned with net zero emissions by 2050 and facilitate increased investment in climate solutions
Across all assets under management	
6	Provide asset owner clients with information and analytics on net zero investing and climate risk and opportunity
7	Implement a stewardship and engagement strategy, with a clear escalation and voting policy, that is consistent with our ambition for all assets under management to achieve net zero emissions by 2050 or sooner
8	Engage with actors key to the investment system including credit rating agencies, auditors, stock exchanges, proxy advisers, investment consultants, and data and service providers to ensure that products and services available to investors are consistent with the aim of achieving global net zero emissions by 2050 or sooner
9	Ensure any relevant direct and indirect policy advocacy we undertake is supportive of achieving global net zero emissions by 2050 or sooner
Accountability	
10	Publish TCFD disclosures, including a climate action plan, annually, and submit them to the Investor Agenda via its partner organizations for review to ensure the approach applied is based on a robust methodology, consistent with the UN Race to Zero criteria, and action is being taken in line with the commitments made here

March 2021). Before that, in May of the same year, we began selling the investment trust “Decarbonization-related Global Equity Strategic Fund.” This fund invests in the shares of companies connected with decarbonization (companies that are expected to contribute to the reduction, absorption, and removal of greenhouse gas emissions).

Expanding the target to foreign stocks

Our policy is to expand target assets to include foreign stocks based on what we learn from our efforts with Japanese stocks. In addition to our own engagement activities with overseas investee companies utilizing our three bases in Japan, Europe (London), and the United States (New York), we are proactively tackling climate change issues through various collaborations based on global initiatives.

Currently, with CA100+ (Climate Action 100+)*1, in addition to being a part of the Global Steering Committee, we are the lead manager (an organization that engages on behalf of participating investment institutions) of engagement with multiple Asian companies. We are also the lead manager of the Asian Utilities Engagement Program (CA100+ collaborative engagement program for Asian public interest companies with high emissions from non-target companies)

at AIGCC (Asia Investor Group on Climate Change). In addition, we participated in the launch of the Ceres (Coalition for Environmentally Responsible Economies) Working Group on Land Use and Climate Terms of Reference in North America. Furthermore, as part of our policy on advocacy activities, we support and participate in “The 2021 Global Investor Statement to Governments on the Climate Crisis” addressed to governments of each country through the Investor Agenda.

As a responsible institutional investor, we will contribute to a smooth transition to a low-carbon / decarbonized society by means of stewardship activities.

At this point, we prioritize the reduction of greenhouse gas emissions by investee companies, and do not promote so-called carbon offset*2, where all or part of the amount that cannot be reduced are compensated using other methods. This is because we believe that if investee companies use such methods to survive, it will not lead to a review of their business models and reliable emission reductions. In addition, we will not simply withdraw from investment (divestment) to exclude companies with high greenhouse gas emissions from investment targets. Withdrawal from investment is an easy way to eliminate the company’s involvement, but we believe that even if the assets we manage can be decarbonized, it will not result in decarbonization in the real world. It is our unwavering policy since we began stewardship activities nearly 20 years ago to work with companies to encourage improvement. Through stewardship activities, we will focus on activities such as engagement with investee companies.

As a responsible institutional investor in favor of the Japan Stewardship Code, and as a signatory of the United Nations PRI, we aim to achieve sustainable growth and sustainability for investee companies and all of society by encouraging investee companies to resolve ESG issues through business excellence. Going forward, we will add activities through NZAMI to continue our efforts in tackling climate change issues and promoting a smooth transition to a low-carbon / decarbonized society.

*1 See page 69 for each initiative such as CA100+.
 *2 Making up for all or part of greenhouse gases that cannot be reduced despite efforts through efforts such as afforestation, forest protection, and clean energy projects (purchase of emission credits).

Addressing SMTAM's TNFD

Current Status of the Palm Oil Problem and SMTAM Initiatives

Participation in the Net Zero Asset Managers Initiative

Feature
4

Diversity Envisioned by SMTAM

We have placed diversity as an important agenda for engagement.
Why is diversity so important and what can be done to promote it?

We interviewed Ms. Mami Sasaki, one of our External Directors
who has been successful in the financial industry since the start of women's advancement.



Kyoko Hara

Sumitomo Mitsui Trust Asset Management Co., Ltd.
Stewardship Development Department



Mami Sasaki

Sumitomo Mitsui Trust Asset Management Co., Ltd.
External Director



Keisuke Fukunaga

Sumitomo Mitsui Trust Asset Management Co., Ltd.
Chief Stewardship Officer

Fukunaga Ms. Sasaki is the chairperson of our Fiduciary Duty Advisory Committee (hereinafter referred to as the FD Advisory Committee). Today, I'd like to talk with Ms. Hara, who is in charge of diversity-related initiatives, about "gender diversity," which is one of the topics we focus on with engagement.

Sasaki Thank you for giving me this opportunity to speak with two people who are working actively in this field every day. I've been working since the beginning of women's advancement and have experienced all stages of life as a woman, so I think there is something I can add to this discussion.

Different ideas and perspectives are important

Fukunaga Engagement is an important part of our stewardship activities. There are two reasons why diversity is such an important issue. The first is that "diversity strengthens the monitoring function of the board of directors," and the second is "diversity enhances business competitiveness through innovation and the acquisition of excellent human resources." As an External Director, Ms. Sasaki, have you seen the importance of diversity in the Board of Directors?

Sasaki In addition to myself, our External Directors include Professor Emeritus Yonezawa from a Graduate School, and Mr. Iwase, a former Deputy General Manager of the Metropolitan Police Department. This was the first time in my career working with someone from a police background. Mr. Iwase views things from a completely different perspective. I feel that having people with different backgrounds on the board of directors is extremely beneficial in terms of properly steering the company.

Fukunaga I have also been inspired when I receive interesting questions from external directors at the FD Advisory Committee. I have seen where receiving basic questions that are often overlooked and points that I never expected lead to new ideas.

Sasaki By only working with people from the financial industry, you get blinded by the common sense of the industry. The FD Advisory Committee includes outside

experts who have a wealth of overseas experience, so discussions become very lively. I believe that diverse experience greatly benefits the board of directors and the committee.

Management commitment and action —The driving forces behind diversity promotion

Fukunaga Have you ever realized the importance of diversity in your career?

Sasaki A company is built on employees. So, I think that respecting the individuality of the people who work here is at the core of everything. It is especially important to consider this at the management level.

Fukunaga To promote corporate diversity, we feel it's necessary to take two measures; to promote a change in corporate culture and an awareness by executives and employees, and to establish a system that allows for life stage and work mobility. The commitment of top management is an important driving force for this.

Sasaki In my own career, I was shown much understanding by top management and my supervisors at the time. In my generation, it was difficult for women to take responsible positions without commitment by top management. Responsible positions require commensurate career development and experience. It was very helpful to have the experience of working while having future goals.

Fukunaga How did the people around you react when you received a major assignment?

Sasaki I was put in charge of a major customer in the latter half of the 1980s. At that time, some in the company complained to my supervisor saying, "Why are you putting such a young woman in charge of this?" But his response was, "because of her ability." At that time, there were still many people who felt that way even at foreign-affiliated securities companies. Some also said that it would be easier to work with me if I were a man. However, I have never felt that way. Although I faced such responses from time to time, I just recognized that there are people like that. I continued working without worrying about it.



Mami Sasaki

Sumitomo Mitsui Trust Asset Management Co., Ltd.
External Director

Joined The Fuji Bank, Ltd. (currently Mizuho Bank, Ltd.)
After served as Managing Director of Morgan Stanley (Morgan Stanley Japan Limited, currently Mitsubishi UFG Morgan Stanley Securities Co.,Ltd.). Joined Credit Suisse First Boston Securities (Japan) Limited as Managing Director and Head of Fixed Income Sales. External Board Director of Daito Trust Construction Co., Ltd. since 2015. Served as an External Director of Sumitomo Mitsui Trust Asset Management Co., Ltd. since October 2018.

Fukunaga Do you mean that such a view existed even at foreign-affiliated companies?

Sasaki That's how it was in Japan. However, in New York, where the head office is located, there was already a move toward the promotion of women. People often talk about a quota system, and I think it is best to just set goals and give promotions. However, I think that simply introducing a quota system will raise questions about what to do when an unqualified woman takes a position. In Japan, that could be a problem.

Fukunaga Since the employment system in Japan is not flexible, it may be more difficult for companies to make decisions.

Hara The other day, our president Mr. Hishida was the facilitator at a panel event of 30% Club Japan Investor Group as chair. One panelist said, "The ability of women has not been visualized, and there are no skills for objectively finding female managerial candidates. Companies tend to look at job experience, but there are many factors. We must increase the size of the human resource pool by evaluating the requirements for managerial positions using objective factors, and develop people who do not yet have the necessary experience and skills." When I heard that, I thought it made sense. She also said, "The reason why self-awareness of women is so low is that women who are asked to be promoted are afraid because

an objective analysis has not been made." This made me realize again that it's necessary for companies to systematically provide experience and training so that both men and women have the abilities needed for being promoted. In your case, Ms. Sasaki, your boss gave you the opportunity and time to gain experience.

Sasaki I often hear from corporate management that women don't actually want to be promoted. I think it is necessary for management to find out why women individually do not want to take on responsible positions, collect detailed information, and then implement necessary measures. Japan has traditional expectations for women, so it's not easy for women themselves to escape from these. I felt that way when I was raising children. We face the dilemma of "I haven't done this" while unconsciously also thinking "I must do this." I was very aware of the restrictions imposed by social norms and was very conscious of prioritizing and balancing my daily work and private time within my limited schedule.

The essence of diversity is respect for individuality

Hara People's expectations about the role of women in the home and society are gradually changing. For example, the generation of children whose mothers were pioneers like Ms.

Diversity and Initiatives Envisioned by SMTAM

Sasaki welcome the idea. Do you feel that diversity is changing in companies and society?

Sasaki Yes, very much. Now, no one in the top management of a company really believes that diversity is unimportant. However, compared to Europe and the United States, there are fewer things in Japan that require understanding and respect as far as individuality and differences. In Japan, the word "individual" has not always had a positive connotation. Diversity means understanding and respecting individuality and the differences of each person. That is the starting point. When investors talk to business owners, I think it is important to deepen mutual understanding in order to move toward true diversity.

Hara The reason why collaboration with a variety of people leads to better performance is not because they can give opinions from a female perspective. Rather, overseas research shows that discussion are deepened and new ideas are born based on the premise that it is necessary to explain something clearly because this person has a different background. So it is necessary to thoroughly prepare to ensure mutual understanding and to expect different opinions. Instead of saying, "everyone already understands, right?," both the person who is explaining and the people who give their opinions prepare well and do research. This deepens the work. When these overlap, innovation becomes possible from a new perspective. As you just mentioned, respecting individuality is important. I realized that it is difficult to see the benefits of diversity when you take an external stance that it is still missing in Japan and diversity is not progressing, and it is better to appoint women.

Sasaki Encouraging active participation by women and promoting women are only a small part of diversity. That alone is not enough. I myself sometimes am expected to say something from a woman's perspective. Of course, it's okay for others to think that what I say is from a woman's point of view, but, although I am a woman, I don't think that what I say is from the standpoint of representing women. Rather, I feel it is just a statement from my point of view, a statement as an individual. I have never felt that I made a certain business decision as a "woman".

Hara Classifying stereotypes that this is what women are like and this is what men are like is not diversity.

The importance of role models

Sasaki My thinking today is based on role model women who came before me. In my generation, there were no women in Japan who could be role models. But at the New York headquarters I mentioned before, there were women who were holding positions of responsibility and juggling life events. By talking with them, I came to feel that I could do the same. I think it is very important to have role models. One problem in Japan is that there are few role models.

Hara Today, I think people who have been active like Ms. Sasaki are role models. As investors, I think that having women as External Directors not only gives diversity to the board of directors, it is also a role model for promoting gender diversity in the entire company. But what do you think from the standpoint of actually being an External Director at multiple companies?

Sasaki I hope that's true. But to be honest, I don't think it's that easy. A person with a career that fits in well with a company can be a role model, but how much impact can a successful woman have as an external director with completely different education and experience? If a company appoints an external director with the hope that they will be a role model, I think they should select someone with that in mind to some extent.

Hara At our company, Ms. Sasaki's experience at a financial institution fits in nicely.

Sasaki I think it is possible for me to serve as a role model at our company. However, I don't know if I can be a role model if I'm among people with completely different backgrounds. In that sense, there is a movement toward appointing female external directors, but it is also important to make sure that those who are being appointed really meet the needs of the company.

Hara It's bad for both companies and women if someone is hired simply for diversity regardless of their needed skills. I think it's very important to select candidates for directors with an awareness of diversity while considering the skills a company wants directors to have.



Keisuke Fukunaga

Sumitomo Mitsui Trust Asset Management Co., Ltd.
Chief Stewardship Officer

Joined Sumitomo Trust and Banking (currently Sumitomo Mitsui Trust Bank) in 1991. Since 2001, he has been a high-tech analyst and is in charge of voting rights in the Asset Management Department, and has been involved in research and analysis from the perspectives of corporate earning power and governance sophistication.

With Sumitomo Mitsui Trust Asset Management since 2018 after the group's investment departments were integrated. Current position since 2019.

Fukunaga Regarding the skills of directors, skill matrix disclosure was added to the recent revision of the Corporate Governance Code, but we have already been asking companies to do this through engagement. We feel that constructive discussions begin with what skills a company believes their directors need to have. Based on that flow, we have discussions such as on the skills and human resources that a company lacks, and who should be appointed as an external director. When it comes to diversity, it's not just about appointing women. We discuss what kind of diversity is really needed for the company. However, women make up half of the world, so it is something that should be taken up as a gateway to diversity.

Understanding and action on diversity is essential for top management.

Fukunaga There are four types of companies where board diversity is especially important. The first are TOPIX100 companies that represent Japan. This is essential as a global standard. The second are companies with sluggish performance. In this case, it is an effective measure for recovering business performance. Third are companies with misconduct. This is necessary to

strengthen monitoring. Finally, gender diversity is especially important in industries that handle consumer products where women are customers. I talk to companies from these perspectives, but some companies do not quickly understand the need.

Sasaki Top management must be able to respect differences and individuality. This is a basic requirement. Actually, there is research showing how world trends requires diversity, which benefits companies in the future, so failing to understand this is a serious problem. It is meaningless if they understand this logically, but do not follow through with actions and hearts. It's necessary for managers to take action based on what they understand. It will be important to recognize that failure to act will be a serious disadvantage for a company. This is clear when considering how students who have been educated from a young age about things like SDGs do not want to work for companies that do not respect individuality and diversity. It would be good if those in older generations could share the same values. However, I think we must be prepared to not have excellent employees in the future.

Fukunaga I totally agree with that. It is important for our generation and management to understand how the younger generation thinks.

Kyoko Hara

Sumitomo Mitsui Trust Asset Management Co., Ltd.
Stewardship Development Department
Senior Stewardship Officer

Joined Sumitomo Mitsui Trust Asset Management in 2018 after working as a fund manager and analyst at an asset management company of a securities group company. Involved with engagement, voting, and ESG-related activities at the Stewardship Development Department. Has been a member of the 30% Club Japan Investor Group since its inception in 2019, and is an active core member together President Hishida, who serves as the chair.



Expect inclusion at SMTAM

Fukunaga In addition to the 30% Club Japan Investor Group, of which the president is the chair, we are also participating in 30% related initiatives in the United Kingdom and the United States, which are leading the way in promoting diversity, and we are working globally from three bases in Japan, the United States, and Europe. We've been getting all kinds of information from overseas, and in the U.S. and the U.K., major companies have gone beyond the stage of appointing female directors and have moved on to appointing female CEOs and increasing the number of directors from diverse racial and ethnic groups. In the U.S., NASDAQ has announced that diversity should include race and LGBTQ+.

Sasaki I think it is important for all people to be able to work in a situation where they feel comfortable, so it is very important for a company to show that it agrees with various values in order to promote diversity, and I think this can be done immediately.

Fukunaga I believe that we are participating as a core member in a number of global initiatives including diversity, and we intend to put more effort into stewardship activities. What is your impression from an external perspective, Ms. Sasaki?

Sasaki Regarding global initiatives, I think that we are very active. For example, we have expressed opinions on behalf of Japan related to deforestation in Brazil. In terms of diversity, we are the only Japanese asset management company participating in initiatives at three bases in Japan, the United States and Europe. In Japan, our president himself is carrying the flag and is very active. We are also working enthusiastically on our internal activities. For example, we listen to feedback from the field on what we should be doing when creating our corporate philosophy. It has been three years since we integrated the investment management businesses of the group trust banks, so I think we need to take our own acceptance of diverse values and respect for individuality to another level.

Fukunaga Thank you. We are continuing to make effort to further promote diversity with regard to women such as by introducing a mentor system.

Sasaki We have mid-career hires, people from banks, and people with different skills, and I think that there are a variety of values. Therefore, in the future, I think it's important that we focus on inclusion.

Fukunaga Thank you for sharing your meaningful experiences today, which will no doubt lead to the sophistication of our stewardship activities. We look forward to hearing your frank opinions in the future.



Purpose of stewardship activities

Supporting Value Creation in the Investment Chain

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.

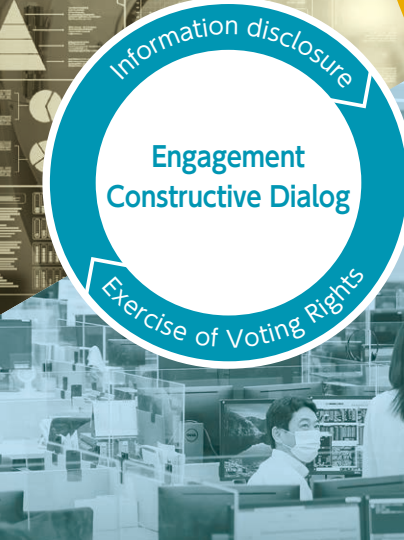
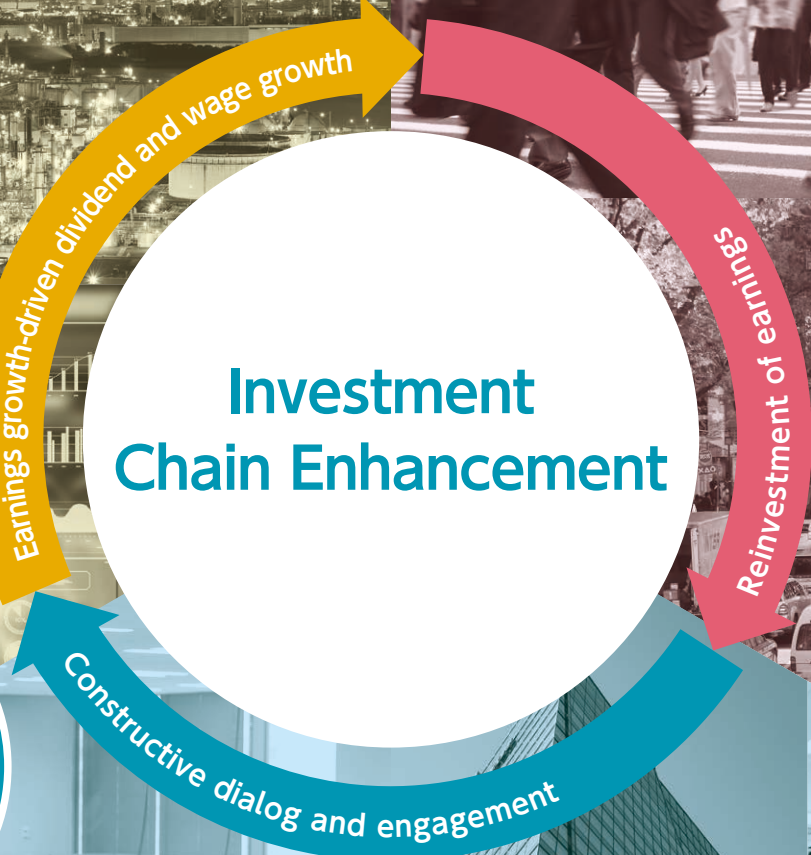
All of this together is known as the investment chain.

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.

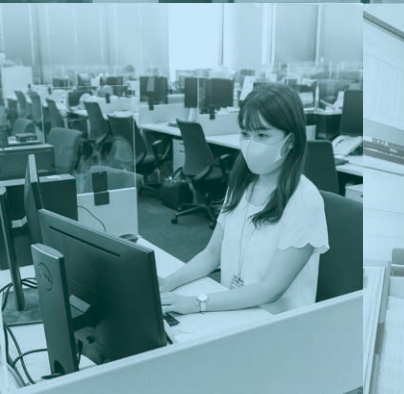


Investee company
 Sustainable growth
 Pursuing SDGs in partnership with investor

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



 **SUMITOMO MITSUI TRUST ASSET MANAGEMENT**
 Total commitment to our clients and our world



Stewardship Activity Focus Topics for 2020/2021

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 2020 and September 2021.

2020	9	<p>Participated in the TNFD* (Taskforce on Nature-related Financial Disclosures)</p> <p>Participated in a working group that handles engagement and makes recommendations on the disclosure of natural capital information.</p>
	11	<p>Stewardship Report 2020/2021 published</p>
		<p>Participated in Investor Action on AMR*</p> <p>Joined as signatory of the organization that handles collaborative engagement and recommendations to pharmaceutical and agricultural supply chain companies connected to the issue of resistant bacteria.</p>
		<p>30% Club Japan* media event</p> <p>Company President Hishida, who is the Vice Chair (at that time, Chair as of June 2021) addressed.</p> 
		<p>ESG Disclosure Study Group* webinar</p> <p>Mr. Horii, Managing Executive Officer of the Company, participated as a panelist.</p> 
2021	1	<p>Revision of Guidelines for the Exercise of Voting Rights for Domestic Shares</p> <p>*See page 44</p>
		<p>CDP* Award</p> <p>President Hishida gave a lecture on "The Perspective of Signatory Financial Institutions" as a representative investor.</p>
	2	<p>Signed a statement issued by the Access to Medicine Foundation (AtM)*</p> <p>Signed a statement of support requesting the fair and equitable supply of COVID-19 vaccines globally.</p>
	<p>Participated in the symposium "Movement around companies toward Biodiversity COP15"</p> <p>Participated as a panelist in a symposium sponsored by the MS&AD Insurance Group Holdings, Inc.</p> 	

2021

3

Attended webinar sponsored by ICJ Inc.

At the webinar for issuing companies sponsored by ICJ Inc., Mr. Fukunaga, Chief Stewardship Officer of the Stewardship Development Department, explained how the Company exercises its voting rights.

4

Joined JETI-sponsored webinar

Participated as a panelist in the "Leadership by Japanese Institutional Investors on Climate Change Stewardship" webinar sponsored by the Japan Energy Transition Initiative.

5

Joined a new Ceres* working group

Participated in the newly launched Working Group on Land Use and Climate Terms of Reference as a founding member.

6

Supported the letter for G20 by the Investor Agenda*

Agreed with "The 2021 Global Investor Statement to Governments on the Climate Crisis" addressed to governments of each country, including the Government of Japan, by the investor organization "The Investor Agenda" by UNEP-FI, PRI, CDP and others.

Participated in a new AIGCC* program

Launched collaborative engagement demanding that five major electric power companies in Asia to reduce carbon dioxide emissions, strengthen information disclosure, and strengthen governance of climate-related risks.

Listed "SMT ETF Carbon Efficient Index Japan Equity" on the TSE

ETF which investor can see the degree of carbon efficiency improvement of a portfolio compared to TOPIX. This visualized the significance of the efforts for "social contribution through investment."



7

Signed the Net Zero Asset Managers Initiative*

Initiative by global asset management companies with the goal of achieving net zero greenhouse gas emissions from managed assets by 2050.

9

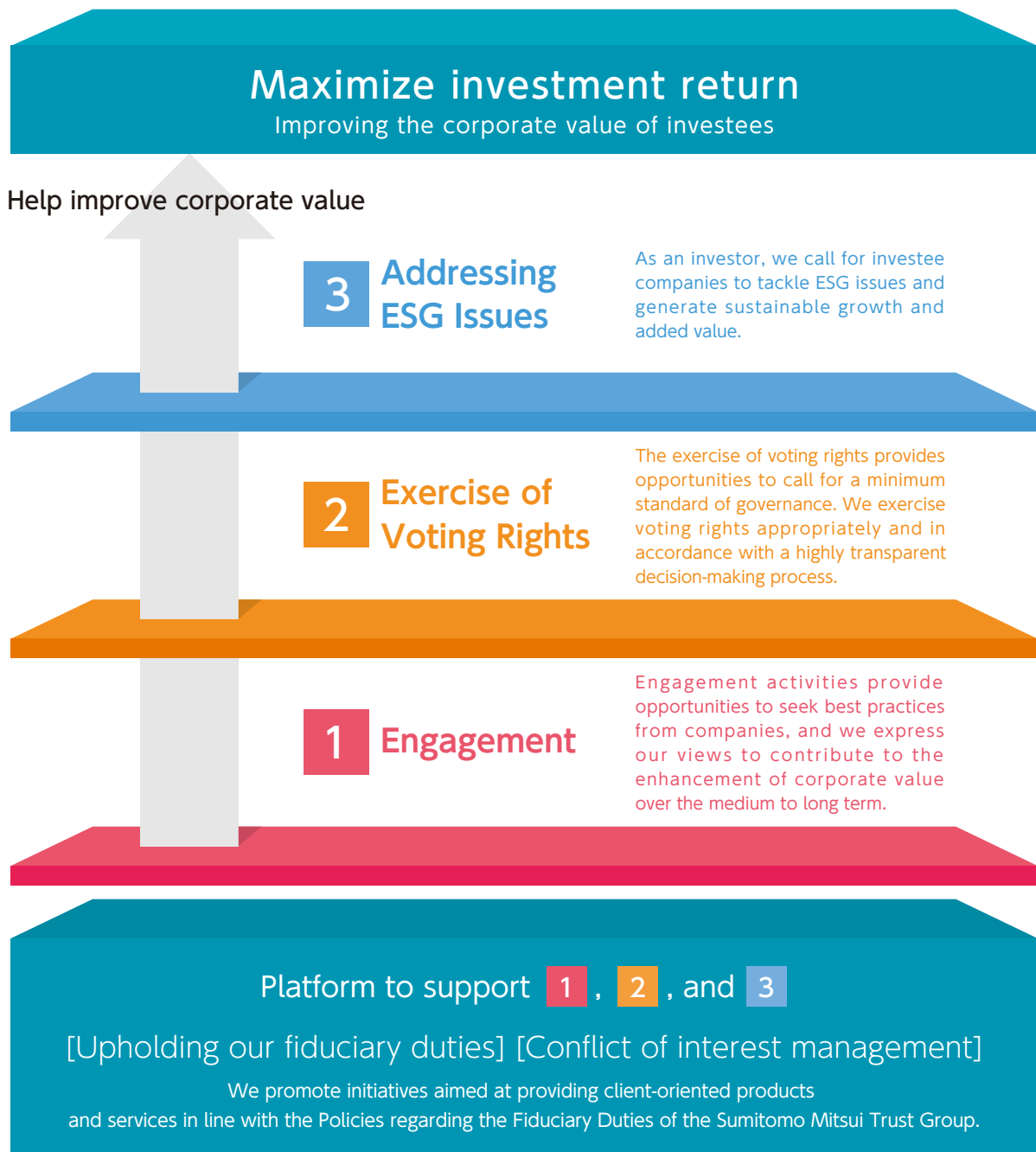
ICGN Governor (Director) inauguration

Appointed to the Board of Directors of ICGN, which is a network that disseminates opinions on corporate governance, makes policy recommendations, and introduces best practices.

* See pages 69-70

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 fulfill 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 have our own engagement with 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' capital 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.

We 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 achieve maximize medium- to long-term returns for our clients.

* See page 47

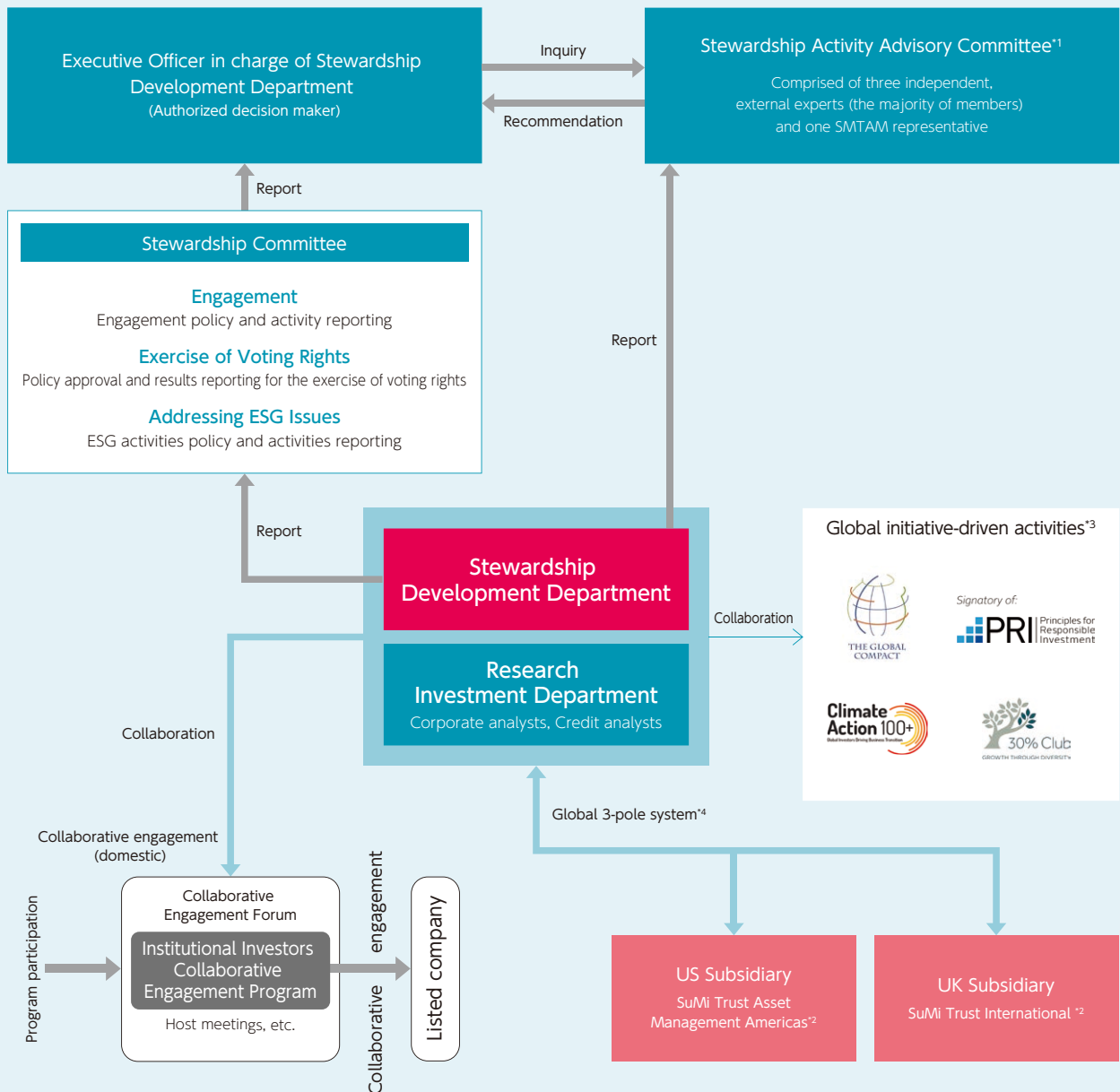
Stewardship Promotion Framework

Stewardship 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 execute inhouse stewardship, as well as join 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 inhouse engagement efforts of our London office; additionally, we carry out engagement through global initiatives and undertake collaborative activities.

All stewardship activities are reviewed and reported to the Stewardship Committee and to the Stewardship Activities Advisory Committee, the majority of whose members are independent, outside experts.



*1 Please refer to our website for previous meeting minutes https://www.smtam.jp/company/policy/stewardship/activity_status/

*2 A subsidiary wholly owned by SMTAM

*3 See pages 69-70 for a list of activities

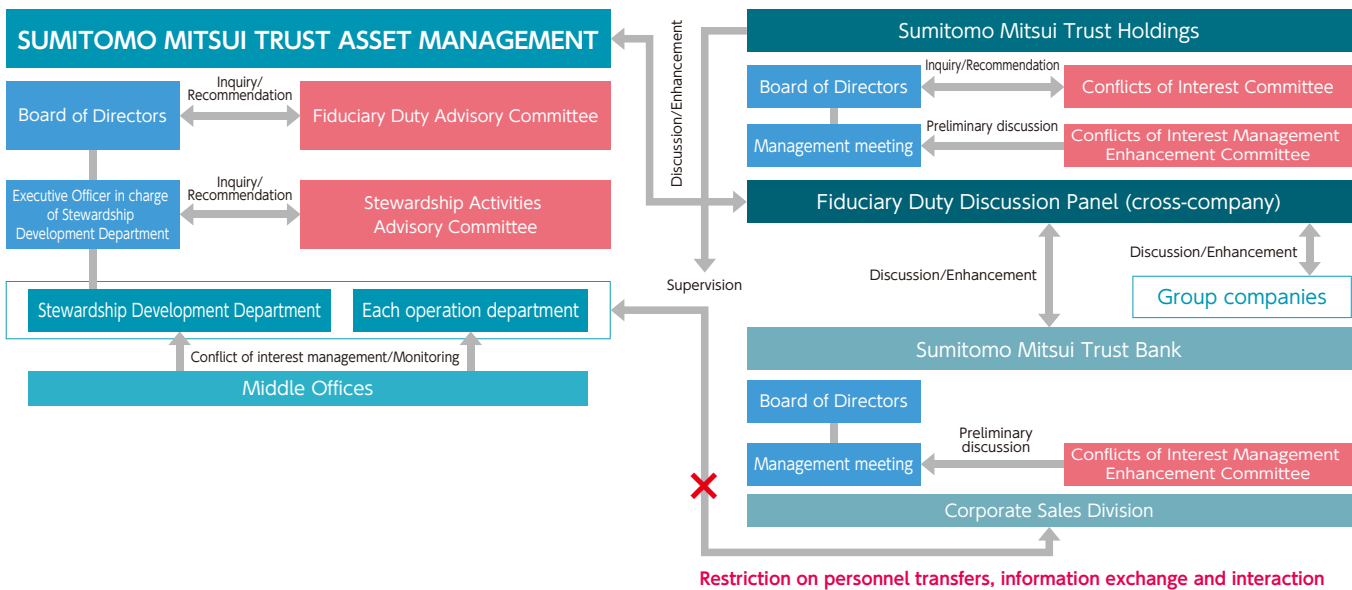
*4 The 15 employees who engage in stewardship promotion (including those in London and New York) are mainly composed of analysts, fund managers, and overseas expatriates. They have an average of 20 years of investment experience.

(As of the end of September 2021)

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



Regarding possible conflicts of interest related to stewardship activities, we will conduct strict management according to company rules including conflict of interest management rules, investment management business rules, and other related rules in order to put the interests of customers (beneficiaries) first.

We have also disclosed an overview of the policies determined in these conflict of interest management rules.

<https://www.sumitrust-am.com/conflict-interest-management-policy>

The Stewardship Committee meets monthly, and the Stewardship Activity Advisory Committee (hereinafter referred to as the Advisory Committee) meets quarterly. At these meetings, deliberations are held on revisions to guidelines on exercising voting rights and reports are made on stewardship activities. Reports on stewardship activities are also made to the Board of Directors and the FD Advisory Committee once a year.

At the Company, the Executive Officer in charge of the Stewardship Development Department has exclusive authority over the exercise of voting rights independent of the executive authority of other departments, which eliminates any possible conflicts of interest regarding the exercise of voting rights. Specifically, conflicts of interest include other departments exercising influence on the investment department based on, for example, the importance of a business partner or the size of transactions. The Advisory Committee consists mainly of external experts with guaranteed independence. This organization deliberates on various inquiries made by the Executive Officer in charge of the Stewardship Development Department, and then makes a report. They establish, amend, or abolish company guidelines on exercising voting rights, approve or disapprove proposals not stipulated in the guidelines, determine the appropriateness of interpreting the guidelines in individual proposals, and verify or improve the process for determining whether to implement a proposal that could cause a conflict of interest. The Executive Officer in charge of the Stewardship Development Department makes decisions on various matters while respecting reports from the Advisory Committee, and if the committee submits a report on improvements to the exercise of voting rights, prompt necessary corrective and improvement measures are taken while respecting the report to the extent possible.

Regarding all proposals to the parent company, Sumitomo Mitsui Trust Holdings, Inc., and regarding proposals for candidates as officers of investee companies who have a close relationship with the Company or the parent company (active officers, persons who were in important positions, etc.), in order to manage conflicts of interest, we consider the advice of voting advisory companies based on the guidelines for exercising voting rights, and properly deal with conflicts of interest after confirmation is made by the Advisory Committee before exercising voting rights. At general meetings held from July 2020 to June 2021, determinations were made using the above process for 15 companies.

Status of top-down engagement initiatives

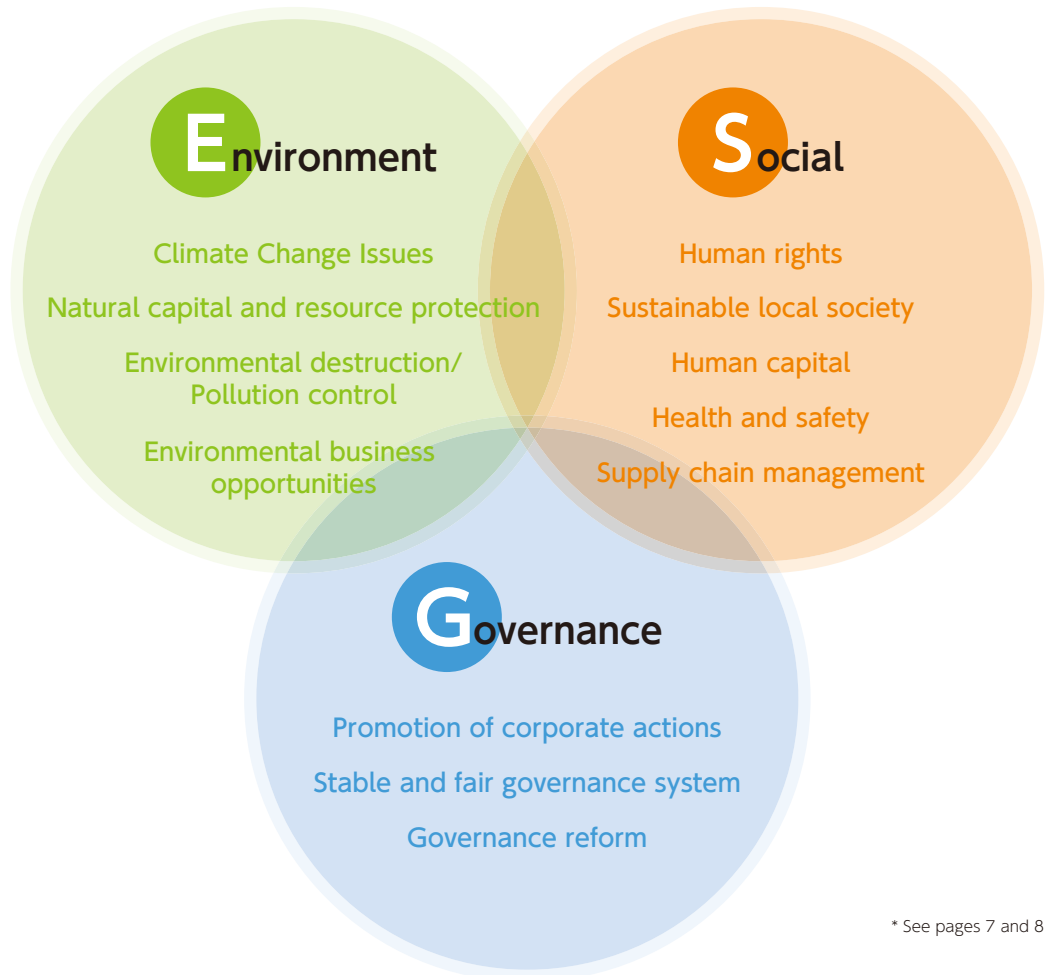
In 2019, an ESG investment policy was established at management meetings and ESG materiality was identified. Based on this materiality, in 2020, we set 12 specific ESG engagement topics and promoted top-down engagement activities after discussions at Stewardship Committee meetings and consultations and reporting at Stewardship Activities Advisory Committee meetings.

Setting goals and targets, and the engagement process

ESG Materiality (Important Issues) 2019

	E	S	G
Risk	Climate change	Human rights and community	Corporate actions
	Natural capital	Human capital	Organizational design
	Pollution and waste	Safety and responsibility	Stability and fairness
Opportunity	Opportunities related to Environment issues	Opportunities related to Social issues	Governance improvement

ESG Engagement Topics* 2020



* See pages 7 and 8

Selection of target companies for top-down engagement based on ESG topics and setting goals and targets



After selecting around 100 target companies from among investee companies from the top down analysis according to each ESG topic, engagement activities will be promoted by setting goals (long-term goals) for each ESG topic and setting targets (interim goals) by backcasting based on the ESG issues and ESG management level of each company. Setting effective goals and targets, and effective engagement are possible based on our “deep understanding and knowledge about companies and industry trends” that has been accumulated through numerous engagements up until now, and “knowledge on global trends related ESG” gained through domestic and foreign initiatives that we are actively participating in from our three bases in Japan, the United States, and Europe.

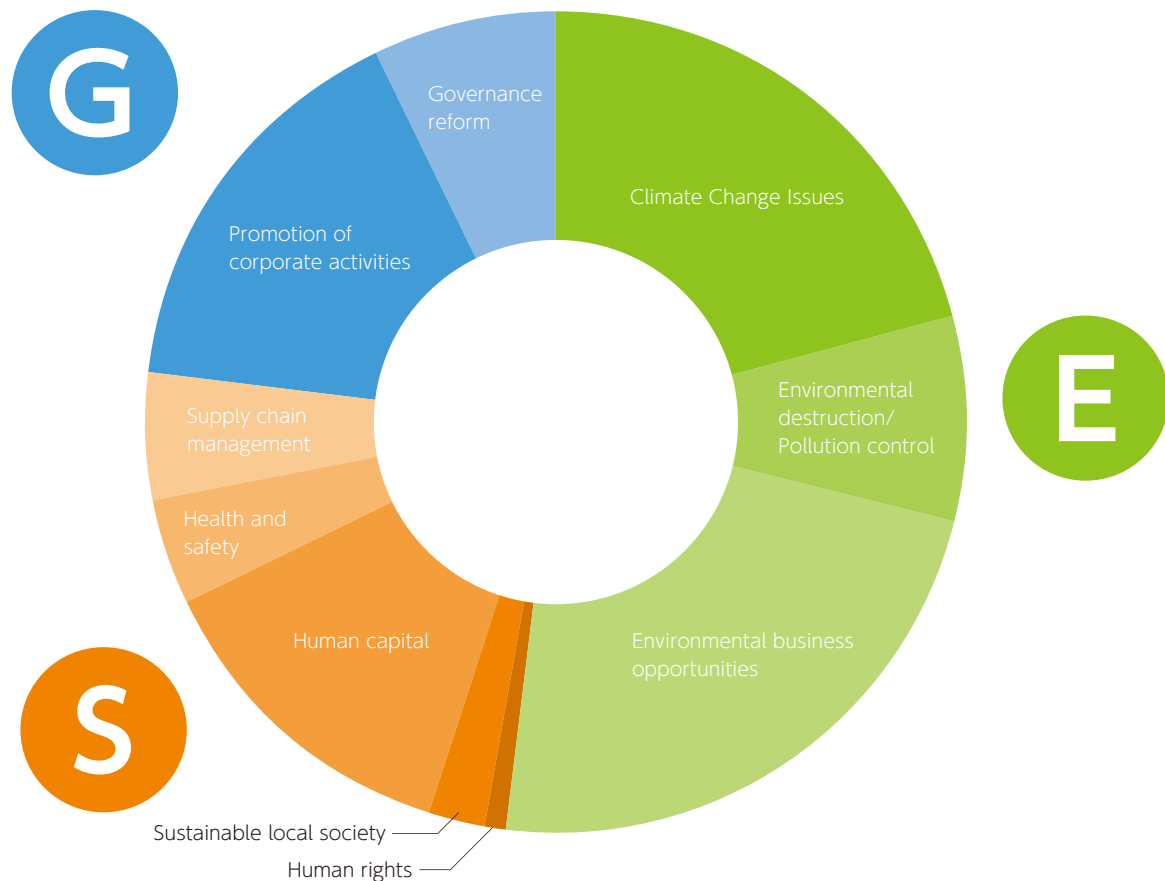
Stage management and monitoring

Engagement progress is managed in four stages according to the ESG topic, and further measures are then implemented and the resolution of issue is monitored.

Stage management	(1) Issue setting	<ul style="list-style-type: none"> Identifying important ESG issues with investee companies and setting specific topics (issues) Setting targets (intermediate goals) by backcasting from topic goals
	(2) Issue presentation	<ul style="list-style-type: none"> Issues are presented during interviews with companies and engagements are held continuously for sharing issues
	(3) Issue sharing (with person in charge at the company)	<ul style="list-style-type: none"> While sharing issues with the person in charge at the company, engagements is escalated to the management for implementing measures and resolving issues
	(4) Issue sharing (with management)	<ul style="list-style-type: none"> Issues are shared with management and best practices are introduced Internal examination is promoted for implementing measures and resolving issues
Monitoring	(5) Implementation of measures	<ul style="list-style-type: none"> Corporate policy statements (corporate actions) are confirmed Progress is monitored
	(6) The resolution of issue	<ul style="list-style-type: none"> Target achievements are confirmed and shared with the company If the progress is insufficient, consideration is given when exercising voting rights

Improving corporate sustainability and corporate value

Composition of top-down engagement topics



Trends according to topic

According to topic, environmental business opportunities are 23%, climate change issues are 21%, corporate activity promotion is 16%, and human capital is 14%.

We will actively engage in about business-related opportunities and risks.

Balance among E, S, and G

According to ESG, E (environment) is 52%, S (society) is 25%, and G (governance) is 23%.

We have well-balanced engagements focusing on important issues related to E and S with investee companies.

Alignment with other topics

Setting sub-topics for target companies in addition to the main topics allows us to have engagement over a wider area.

We are involved in multifaceted engagement at the same time as our main engagement activities including the advancement of women, reduction of strategically held shares, and human rights in the supply chain.

Progress in 2020 (July 2020-June 2021)

We have taken advantage of many opportunities such as Shareholder Relations (SR), Investor Relations (IR), and opportunities for engagements on the exercise of voting rights, and have taken steps with engagement by proactively approaching target management.

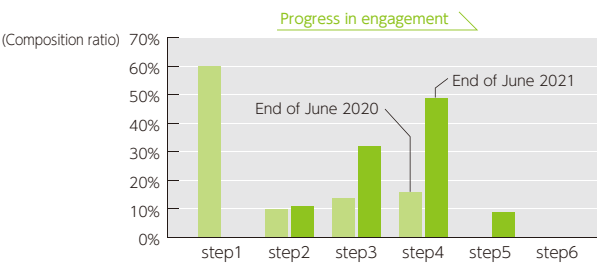
In fiscal 2020, many companies escalated to Step 3 (Sharing issue awareness with people in charge at the company) and Step 4 (Sharing issue awareness with management).

We will continue engagements in fiscal 2021. In particular, for companies at Step 4, we will work to escalate them forward to Step 5 (Implementation of measures) and Step 6 (Issue resolution).

At the same time, we will keep an eye on alignment with other important ESG issues, add bottom-up engagement from a business perspective and risk approach engagement elements/activities, and encourage positive corporate activities.

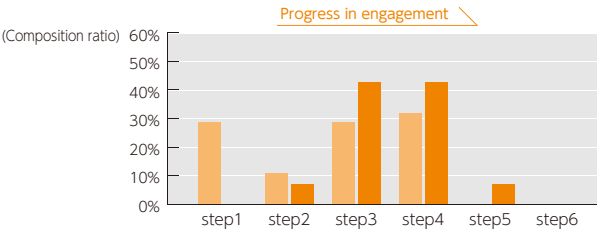
E Average progress

End of June 2020: **1.8 step** → End of June 2021: **3.6 step**



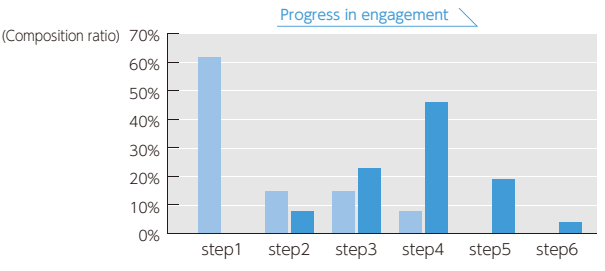
S Average progress

End of June 2020: **2.6 step** → End of June 2021: **3.5 step**

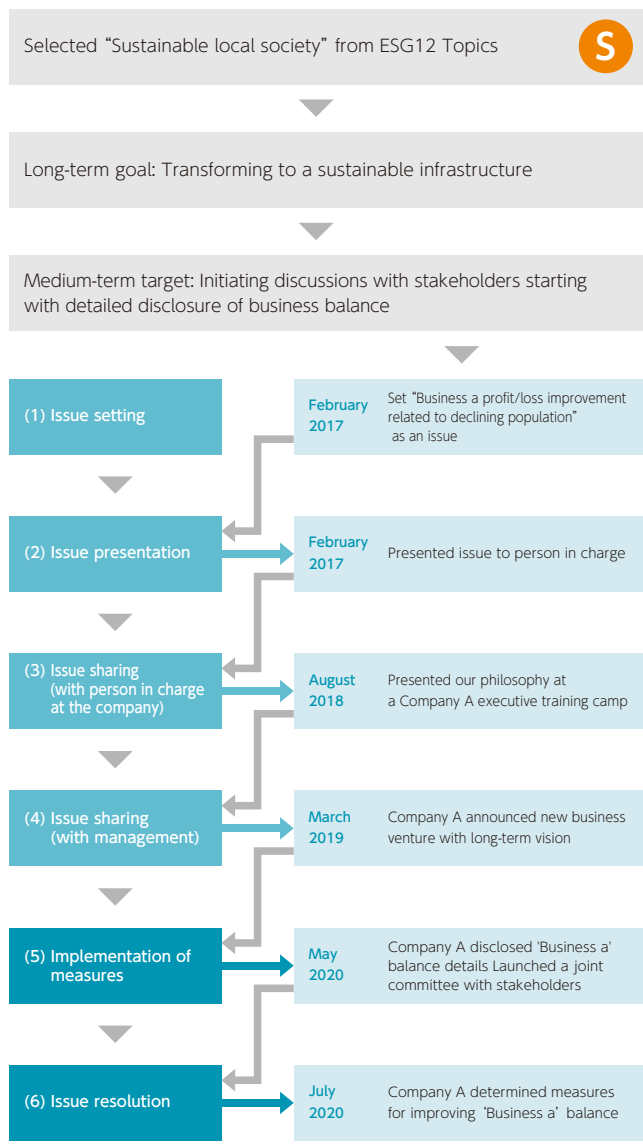


G Average progress

End of June 2020: **1.7 step** → End of June 2021: **3.9 step**



Case of infrastructure Company A for supporting local society



Engagement which contribute to create corporate value of the investee companies

We set our engagement targets as “all brands held, with mainly TOPIX composition brands,” and unto this time, we have engaged with a broad range of companies representing roughly 90% of the market capitalization of the First Section of the Tokyo Stock Exchange.

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. We select target companies for the top-down approach on the basis of the 12 topics established premised on our ESG materiality.

SMTAM Engagement Process

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

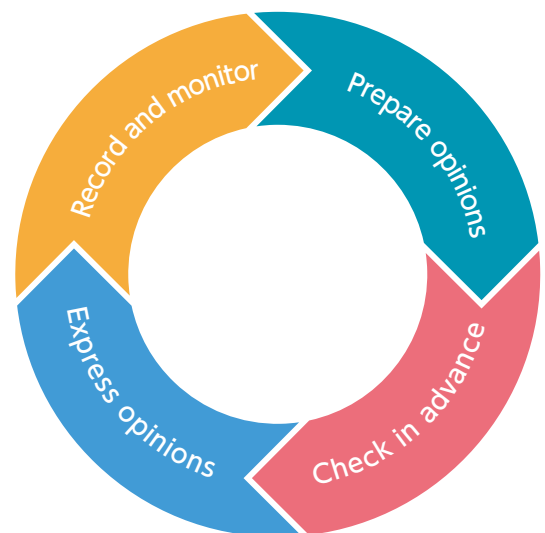
We first submit the opinions formulated by each analysts to an internal review. This both helps improve and standardize opinion quality among the analysts.

Express opinions

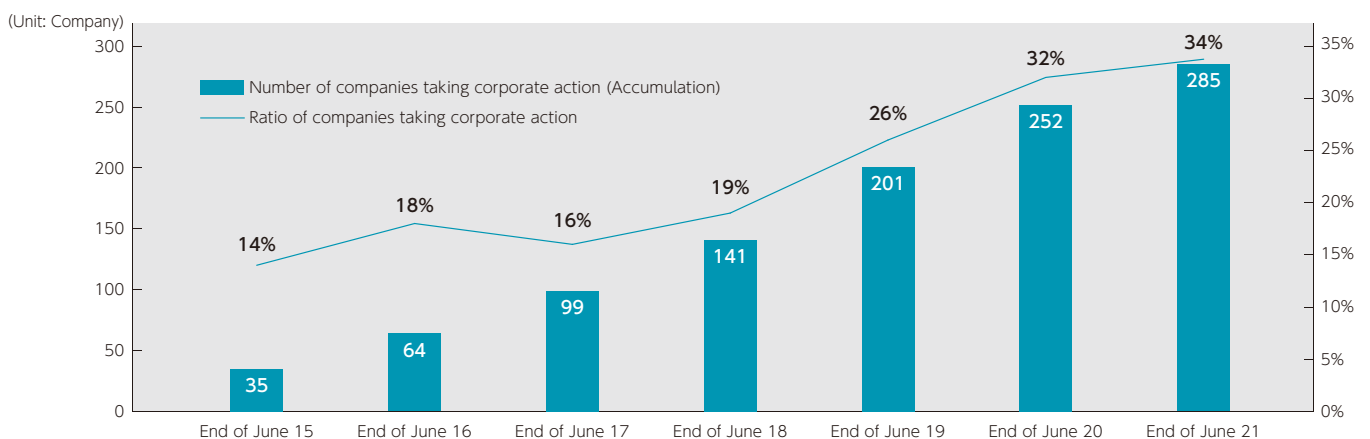
Our analysts meet with investee company executives and express their opinions. At each meeting, a written oath stating the analysts will not make any material proposals nor acquire insider information is signed and mutually recognized.

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.



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



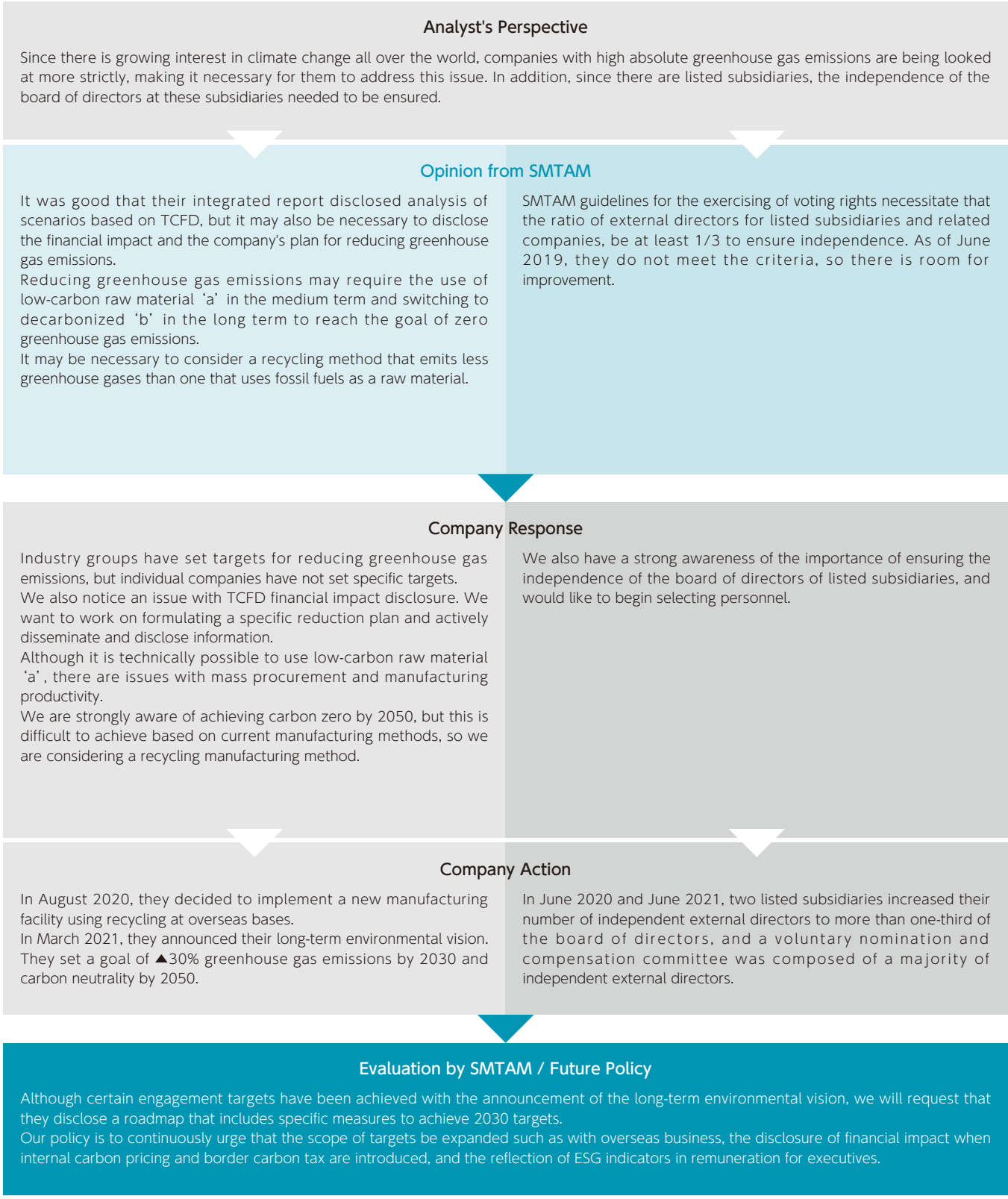
* Only actions that are in harmony with the opinions expressed by our company are counted. * See pages 34-36 for specific examples.

Engagement Example Cases - Domestic

CASE 1

Company A in the manufacturing sector

- Greenhouse gas emissions reduction
- Corporate governance



CASE 2

Company B in the non-manufacturing sector

- Addressing social issues
- Promotion of ESG information disclosure (Social)

Analyst's Perspective

In addition to setting goals and improving disclosure related to social issues that increase corporate value over the medium to long term, as an advanced company, we believe it is necessary to set goals in regards to gender diversity and improve external communication.

Opinion from SMTAM

ESG materiality is being disclosed, but not KPIs. In the past, Company B's non-financial value was comprised of social capital such as human capital and intellectual capital. Therefore, it seems necessary to disclose KPIs and outcomes that will impact future finance by resolving social issues.

To promote diversity among the board of directors, as an advanced company, it may be necessary to set targets for female managers on par with the ratio of female employees, disclose their gender policy, and take specific actions.

Company Response

Currently, business results are shown as outcomes, and materiality is not set based on medium- to long-term strategies. As pointed out, there are no KPIs that can be used as pre-financial information, and nothing connected to outputs or outcomes is disclosed, so we would like to organize and consider disclosure of these items.

Even on a consolidated basis, the gap of the gender ratio is about 10% when comparing all employees with managers, mainly due to domestic divergence. We will continue to improve the work environment by providing more opportunities for helping supervisors see the need to review work-life balance and introduce full remote and full flex working styles. We will consider how to improve disclosure of gender-related information, which was pointed out in the past.

Company Action

In May 2021, they announced their commitment to addressing issues with society and employees.

- Regarding their commitment to society, they announced outcomes such as cutting the time it takes for job seekers to get a job in half by fiscal 2030.
- As for their commitment to employees, they announced a goal to increase the ratio of female senior managers, managers, and employees in the group to about 50% by fiscal 2030.

Evaluation by SMTAM / Future Policy

Although the engagement targets we set were achieved, our policy is to continue encouraging positive initiatives and hold other engagements on model sustainability management.

CASE 3

Company C in the non-manufacturing sector

- Cross-shareholding policy
- Business strategy

Analyst's Perspective

As a company viewed as having cross-held shares, we thought it was necessary for them to clarify their holding policy. We also thought it was necessary to further address the changing business environment and improve the sustainability of their core businesses.

Opinion from SMTAM

A securities report from a certain company stated, "we are expecting an order from company C" regarding the purpose and significance of cross-held shares. It may be necessary to clarify in the Corporate Governance Report that it does not interfere with the intention to sell cross-held shares and that construction orders are not related to cross-held shares.

It is necessary to change the business model of the C1 business based on the medium- to long-term trend of population decline and labor shortage. In particular, due to the COVID-19 pandemic, it may be necessary to accelerate the examination of business model conversion for departments with deficits, which continue to exist through cross-subsidization.

Company Response

We will consider stating that construction orders are not related to cross-held shares such as by referring to the disclosures in corporate governance reports by other companies.

- Regarding the best way to handle business after the current pandemic, we believe that changes in people's values are not temporary, so it is important to respond to changes in people's behavior. Business demand may not return to the same level as before the pandemic, so we want to consider how users select our products to increase market share.
- We recognize that using cross-subsidization to cover deficit is not sustainable, and we are considering a sustainable business model.

Company Action

In June 2021, the Corporate Governance Report stipulated that it would not interfere with the intention to sell cross-held shares.

At a meeting with the president in February 2021, a review of the deficit business was announced, and at the financial results briefing in May 2021, specific measures for converting the business model were announced.

Evaluation by SMTAM / Future Policy

The engagement targets we set were completed and our policy is to continue confirming the progress of set goals. Our policy is to continue monitoring the shift to a sustainable business model.

CASE 4

Company D in the non-manufacturing sector

- Management strategy
- Promotion of ESG information disclosure (Environment)

Analyst's Perspective

It is necessary to disclose a decarbonization plan in regards to resource-related businesses, which are relatively high compared to other companies in the same sector. It also seems necessary to disclose concrete measures for environmental targets that are consistent with the Paris Agreement, and to improve TCFD disclosure.

Opinion from SMTAM

What risk control measures will they take in regards to their D1 business, which emits a large amount of greenhouse gas, and their D2 business where there is concern over a decrease in demand? In addition to controlling risks, it may be possible to consider using this as a business opportunity.	Goals were set to reduce greenhouse gas emissions in half by 2030 (compared to 2020) and to achieve net zero by 2050 in response to climate change, but it seems necessary to review the business portfolio based on the introduction of internal carbon pricing. It may be necessary to clarify their climate change response policy and enhance TCFD disclosure.
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Company Response

One issue is reducing the environmental load from our D1 business, but this must be considered while keeping an eye on the economic conditions of emerging countries. We are aware of risks related to declining demand and price drops in the D2 business, but there is still a certain amount of demand, so we will prepare to respond flexibly. As for business opportunities, we are making investments with various R&D projects.	The 2050 Net Zero target includes a wide range of feasible items, but it is not clear whether certain items will be included in the calculation for the reduction amount. The internal carbon pricing system will be used not only for new projects but also with existing projects for evaluating contribution to reduction. As for TCFD, we want to consider enhancing disclosure including Scope3. In addition to selecting stranded assets and calculating PL impact, we will consider which businesses should be minimized and create new business for offset in our TCFD scenario analysis.
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Company Action

In June 2021, they announced the sale of equity interest in their overseas D1 business.	In August 2020, they introduced internal carbon pricing, and Scope3 was announced in their integrated report.
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Evaluation by SMTAM / Future Policy

The engagements we held were completed, and some engagement targets such as D1 project reductions and improvements to climate-related information disclosure were achieved. Our policy is to continue dialogs on the implementation status of measures to reduce greenhouse gas emissions in half by 2030.

CASE 5

Company E in the non-manufacturing sector

- Promotion of ESG information disclosure (Environment)
- Addressing environmental pollution

Analyst's Perspective

It is necessary to disclose targets for reducing greenhouse gas emissions. There was an accident resulting in pollution to the environment, so it is necessary to take measures to prevent recurrence and in regards to biodiversity.

Opinion from SMTAM

It may be necessary to set greenhouse gas emission targets for 2030, to show a clear roadmap for reduction, and ensure objectivity by acquiring SBT (Science Based Targets*) certification.	As for the accident that cause environmental pollution, it may be necessary to thoroughly implement measures to prevent recurrence, consider how to avoid reputation risk, and comprehensively fulfilling social responsibilities while working to recover natural capital.
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[Utilization of IICEF]
Regarding the response to the accident, we had an engagement was held on supply chain management and information dissemination through the Institutional Investors Collective Engagement Forum (IICEF).

* An initiative to encourage companies to set reduction targets that are based on scientific knowledge with the goal of limiting the rise in global average temperature caused by climate change to 1.5 degrees Celsius compared to before the Industrial Revolution.

Company Response

We are in the process of formulating an environmental roadmap for up to 2030, and we recognize the need to provide objective support.	Although we have no legal liability for the accident, we must consider measures that take into account the balance between medium- to long-term loss avoidance by fulfilling social responsibility and avoiding reputation risk. We will consider improvements to operation management for preventing recurrence.
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Company Action

In June 2021, they disclosed their Environmental Vision including goals of reducing the greenhouse gas emission intensity of the transportation business by 45% by 2035, together with a capital investment plan for achieving this goal. They also announced efforts to acquire SBT certification.	In September 2020, they announced efforts to contribute to a fund and donated to local NGOs in order to repair the environment at the accident site and help the community.
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Evaluation by SMTAM / Future Policy

The engagements we set have completed, and we will continue to confirm the progress of goals. Our policy is to continue engagement on reducing conventional businesses and to review their business portfolio that takes new environmental business opportunities while also considering medium-to long-term energy mix trends and environmental risks.

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. Target companies were selected by referring to information from collaborating organizations and initiatives, and activity policies and goals were set based on our ESG engagement topics.

CASE 6

Archer Daniels Midland (US, food)

Environmental destruction / Pollution control

Engagement Specialist's Perspective

- Since they play an important role in Brazil's stricter stance on forest conservation and cultivated land conversion by partner farmers, it is necessary to strengthen supply chain management and set deadlines.
- It is possible to utilize their knowledge of direct talks with the Brazilian government regarding the development of the Amazon basin.

Opinion from SMTAM

- In February 2021, the following opinions were expressed in an engagement letter to give support to a shareholder proposal made by Ceres/PRI Engagement partners.
- It seems necessary to establish a deforestation-free supply chain and set a deadline for achieving this in the Cerrado region of Brazil.
 - It seems they should disclose the status of their response to the strengthening of due diligence for import products to Europe.

Company Response

- In the same region, especially in regions with serious deforestation problems, traceability has been improved by using satellites. At the moment, we have achieved 100% traceability with direct procurement. This has not been achieved for indirect procurement, which accounts for about 10% of total procurement, but we have confirmed our total commitment to forest conservation.
- One problem with realizing a deforestation-free supply chain is that it is not possible to know the situation at the farm level, which is an indirect supplier. There could be illegal activities at the farmer level, but indirect suppliers cannot currently be completely excluded in terms of business operations.
- In the UK, import restrictions require proof that harvesting is not done illegally, but this can be overcome by confirming the farmer's license.

Company Action

- In March 2021, they announced the goal of achieving 100% traceability and eliminating deforestation from the supply chain by 2030.
- 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

Preventing deforestation, achieving 100% traceability in the supply chain, and clarifying the schedule is a step forward. We will continue to monitor the situation and have dialogs for realizing this.

CASE 7

Ameren (US, Electricity)

- Promotion of ESG information disclosure (Environment)
- Corporate governance

Engagement Specialist's Perspective

We reviewed greenhouse gas reduction targets (80% reduction by 2050 compared to 2005), which were behind those in the industry, and felt it was necessary to improve corporate governance for that purpose.

Opinion from SMTAM

- In May 2020, Ceres members submitted a shareholder proposal requesting the chairperson of the board to appoint independent personnel to strengthen measures for reducing greenhouse gases, but this was rejected.
- However, it may be necessary to set more ambitious goals and disclose information on improving corporate governance and reducing greenhouse gas emissions by appointing an independent person as the board of directors chairperson.

Company Response

Because of reviewing the environmental governance system, the approval rate for shareholder proposals was only 29%. However, greenhouse gas emission reduction targets are under review and are planned to be announced in September 2020. Coal-fired power generation is inexpensive, but we are planning to gradually phase it out, and will be considered in balance with various factors such as fuel purchasing power and supply stability.

Company Action

- In September 2020, they announced their greenhouse gas emission reduction goal of achieving Net Zero by 2050.
- At talks held in December 2020, explanations were given as to how they (1) carried out a top-down review, (2) found potential locations of wind power generation, and (3) improved efficiency by upgrading gas power generation.

Evaluation by SMTAM / Future Policy

It was determined that progress has been made in changing the greenhouse gas reduction target to net zero and disclosing it. Moving forward, the policy will be to monitor specific progress toward achieving net zero and progress with low carbonization of the gas business.

CASE 8

ArcelorMittal (Luxembourg, Steel)

- Climate Change Issues
- Promotion of information disclosure (Environment)

Engagement Specialist's Perspective

As a leader in the global steel industry, it is believed that encouraging initiatives related to greenhouse gas reduction efforts and information disclosure would benefit industry efforts.

Opinion from SMTAM

For the global steel industry to overcome environment-related issues, major involvement by the governments of each country will be needed in the future. Examples would include investment in advanced technologies such as hydrogen and carbon dioxide storage (CCS, etc.). From this perspective, it may be necessary to promote discussions with governments and industry groups, and information disclosure of those activities is needed to stakeholders.

Company Response

- While investing a large amount to deal with environmental problems in the steel industry, where profitability is difficult, we believe that government support is essential to ensure investment efficiency acceptable to shareholders. But government efforts are being promoted in the steel industry even in Europe where it is advanced.
- Production of electric furnaces will need to increase in the future, but some blast furnaces will still need to be produced. The key is to increase the strength of crude steel for electric furnaces, and to improve the structure of the entire iron scrap supply chain to ensure high quality scrap.
- Our first goal is to achieve decarbonization in Europe by 2030. In other regions, we are aiming to achieve decarbonization by 2040 as a realistic goal based on the policies of each region.
- We will seriously consider strengthening information disclosure.

Company Action

We have confirmed a positive commitment to reduce greenhouse gases. They also shared recognition of the issue that the support of policy makers in each country and efforts involving the entire supply chain are needed for implementation.

Evaluation by SMTAM / Future Policy

- We will continue engagement for helping ArcelorMittal achieve greenhouse gas reduction.
- At the same time, our policy is to support the development of steel products that have low environmental impact (zero carbon steel) by engaging with the regulatory agencies in each country and related industries.

CASE 9

Vale (Brazil, Resource mining industry)

- Addressing companies with misconduct
- Corporate governance

Engagement Specialist's Perspective

We felt it was necessary to strengthen corporate governance as a measure to prevent misconduct from recurring.

Opinion from SMTAM

In 2019, an accident involving a dam owned in the Brumadinho region of Brazil resulted in many victims and major environmental destruction, as well as a large financial loss. Since then, they have been working to strengthen corporate governance such as through organizational reforms, but it may be necessary to further strengthen the independence of the board of directors to prevent misconduct including accidents, and to strengthen emergency response in the event of an accident.

Company Response

- After the accident, the board of directors was under increased pressure to strengthen their industry experience, and the whole process for appointing directors was reviewed by an external consultant.
- In addition to establishing two risk-related committees with highly independent directors from outside the company to be responsible for accident recovery and internal investigations, the roles and functions of existing committees were reviewed. An audit committee chaired by an independent director was established in March 2020, and in June of the same year, a Chief Compliance Officer (CCO), who is also in charge of the whistle-blower organization, was appointed to have a system for reporting directly to the board of directors meeting that is independent from management.
- We are also preparing to establish a nomination committee for directors by the 2021 annual meeting. Some directors are nominated by the controlling shareholders, but there are no substantial connections. In addition, after a period where the changing of directors requires the agreement of shareholders, it will change to personnel with greater independence.

Company Action

- Sharing awareness of moving toward strengthening the independence of the board of directors, preventing misconduct, and strengthening responses to emergencies.
- In July 2020, they announced the establishment of a nominating committee, which is composed mostly of external and highly independent directors with experience and technical knowledge.

Evaluation by SMTAM / Future Policy

- We will continue engagement to improve the independence of the board of directors, to prepare for risks, and monitor ability to respond to incidents.
- Our policy is to support the reduction of greenhouse gases and strengthen efforts related to biodiversity.

CASE 10**SK Innovation** (Korea, Petrochemical) (CA100 + / Lead)

- Business strategy
- Climate Change Issues

Engagement Specialist's Perspective

Their main business involves manufacturing and selling petroleum products. Based on the size of its impact on climate change issues, it is necessary to review their business structure over the medium to long term.

Opinion from SMTAM

It seems it would be good for them to make effort to reduce or withdraw from business related to the manufacture and sale of petroleum products and to expand into the battery business for electric vehicles (hereinafter referred to as EVs). They should also aim to transform their business structure over the medium to long term while disclosing their efforts to address climate change issues.

Company Response

Overall, the SK Group has the goal of making its business green. The strategic outline is summarized in "Green Balance 2030" in harmony with the TCFD framework where SK Innovation plans to transform its business to contribute to strengthening the EV battery business to realize a circular economy.

Company Action

- In July 2021, they announced their commitment of net zero greenhouse gas emissions by 2050.
- In August of that year, they announced the separation of both EV battery and oil development businesses.
- They implemented information disclosure in harmony with the TCFD framework.

Evaluation by SMTAM / Future Policy

- In addition to CA100+ engagement, engagement by the Company Chairperson, Mr. Semaya, was also successful.
- Our policy is to confirm their progress toward zero greenhouse gas emissions by 2050 through engagement.

CASE 11**Pfizer** (US, Healthcare)

- Access to Medicine
- Business strategy

Engagement Specialist's Perspective

- Although they show strengths in specialty areas such as access to medicine (AtM) and antimicrobial resistance (AMR) in emerging countries, there is still room for improvement.
- However, we believe it is necessary to confirm their supply policy with regard to COVID-19 vaccines for low-income countries.

Opinion from SMTAM

- They have been criticized as having an AtM strategy that drug makers European companies. Regarding AMR compliance measures, eliminate volume incentives for sales staff could be a potential solution. There seems to be room for improvement in both cases.
- As for COVID-19 vaccines for low-income countries, since shareholder proposals requesting that these be provided at cost have been submitted to major pharmaceutical manufacturers, it seems necessary to distribute the vaccine globally without bias in response to the pandemic.

Company Response

- Our AtM strategy is positioned as the core of our social responsibility activities, and our policy is that the entire company, including officers, be committed. Based on our policy to further strengthen industry leadership from now, we will continue efforts to improve pricing and distribution in countries and regions facing problems.
- As for marketing, we have already removed quantity incentives and operating compensation in the UK, and are considering moving to a similar system in other markets. Pfizer's AMR approach seeks to establish proper use under comprehensive oversight, with a portion of sustainable corporate bond proceeds being donated to the industry initiative AMR Fund. KPI standards for manufacturing processes are now being set, and when completed, these will be used within the industry as standards for independent certification bodies. We have also formed an initiative to monitor resistant bacteria and are expanding the monitoring system to include emerging countries, and we are sharing data.
- We are already providing COVID-19 vaccines to low-income countries at cost, and are also caring for transportation for the last mile including refrigeration equipment.

Company Action

- In 2021, they developed and supplied COVID-19 vaccines to emerging countries at cost via international organizations.
- The number of cases involving sustainable initiatives integrated into business strategies including strengthening local business bases for access to emerging countries has increased, and they improved significantly according to the Access to Medicine Index* announced in January 2021, moving from 11th place the previous year to 4th place.

Evaluation by SMTAM / Future Policy

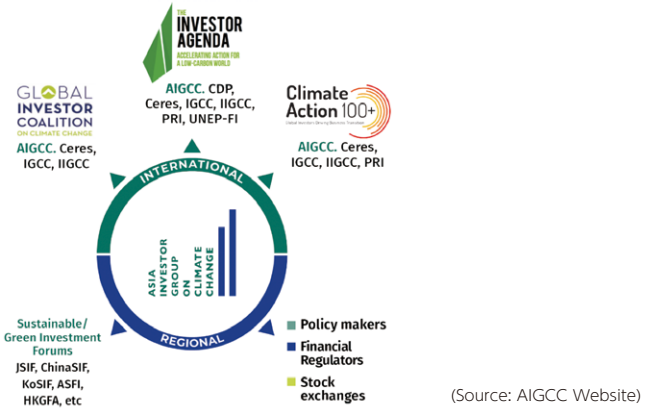
Based on activities through AtM and initiatives for AMR strategies, we plan to continue engagement in order to enhance corporate governance and business strategies, and to improve corporate value (both financial and non-financial).

* The Access to Medicine Index is a rigorous research project conducted every two years where data focusing on the drug access initiatives of 20 major global pharmaceutical companies is collected, verified, scored, and analyzed.

Contribution

Comment on the Sumitomo Mitsui Trust Asset Management Stewardship Report 2021/2022

The latest IPCC report, published in August 2021, found that achieving the Paris Agreement’s target of limiting temperature rise to 1.5°C will require robust, immediate, and sustained actions to reduce carbon emissions. The report has forecasted five scenarios between 2021 to 2040 – from strong climate change mitigation measures to BAU. The results revealed that, regardless of the scenarios, the temperature rise is likely to exceed 1.5°C. However, it is projected that if countries can take strong and decisive actions immediately, global average temperatures could again fall below the 1.5°C threshold in the following decades.



The Asia Investor Group on Climate Change (AIGCC) is an initiative to create awareness and encourage action among Asia’s asset owners and financial institutions about the risks and opportunities associated with climate change and low carbon investing. AIGCC also plays a significant role in global investor initiatives on climate change, including Climate Action 100+ and the Investor Agenda. AIGCC helps to facilitate the involvement of Asian asset owners and managers - helping Asian investors to work cooperatively is crucial in driving these actions and achieve significant progress on climate change across our industry.

Outlining strong targets and having a clear roadmaps for reaching net-zero emissions, together with rigorous policies from governments and collaborative engagement with companies, can create enormous new investment opportunities in net zero emissions industries and infrastructure and help us meet our common Paris Agreement goals.

Climate Action 100+ is an initiative led by five investor networks^{*1} and comprising 617 global investors who are responsible for more than \$55 trillion in assets under management across 33 markets^{*2}. The initiative is overseen by a global Steering Committee that aligns the initiative’s strategic priorities, governance and structure.

Sumitomo Mitsui Trust Asset Management (SMTAM) is an integral signatory to Climate Action 100+ and are the Asia investor representative on the global Steering Committee and a member of the Asia Advisory Group. SMTAM, as an investor signatory, is responsible for engaging the companies in which they invest in to improve their climate change governance, reducing emissions, and strengthening climate-related financial disclosures. SMTAM has taken the lead for engagement with several major Asian companies and have also assisted Climate Action 100+ more broadly with insights and expertise on local business culture and customs.

SMTAM is also a part of the AIGCC Asian Utilities Engagement Program (AUEP), which complements and runs in parallel with Climate Action 100+. Under the AUEP, investors are seeking to collaboratively engage with Asia’s systematically important electric utilities to increase the effectiveness of climate engagement. The utilities sector will play a critical role in enabling the transition and decarbonization of other sectors which are dependent on utilities.

SMTAM has also announced its participation in the Net Zero Asset Managers initiative (NZAMi). It is heartening to see that SMTAM is accelerating multi-way conversations and encouraging close collaboration between investors, companies, and governments in Japan, in other Asia markets, and beyond.



AIGCC looks forward to continuing to work closely with SMTAM on its commitment to combating climate change. I wish SMTAM every success in its endeavors.

IGCC and AIGCC
CEO
Rebecca Mikula Wright

*1 PRI, IIGCC, Ceres, IGCC, and AIGCC *2 As of the end of July 2021

Activity Report from our New York Base

It has been over a year since this base was established. Looking back on what has been accomplished, I would like to give an overview of our activity status.



Masaru Okubo
 SMTAMA Senior Stewardship Officer
 Has worked in international equity investment since 1998. Has been stationed for 16 years in New York, Silicon Valley, and Edinburgh, UK. Has accumulated knowledge through discussions with many global companies.

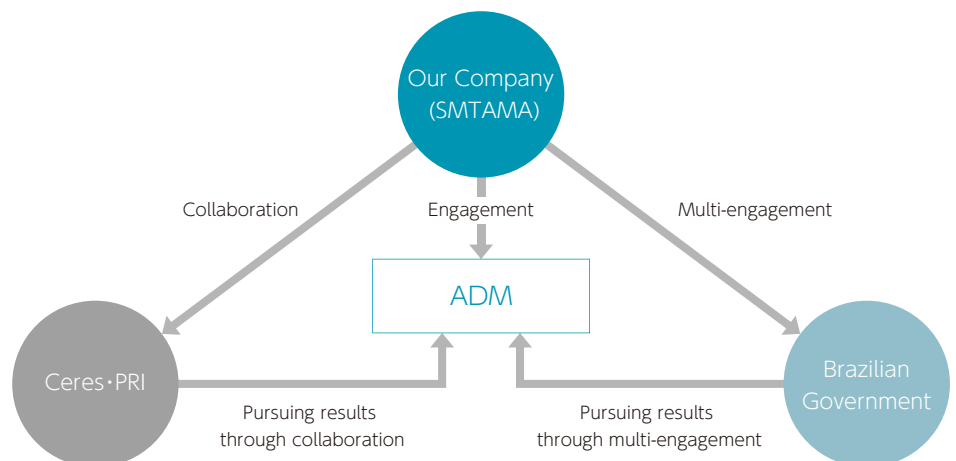
In July 2020, Sumitomo Mitsui Trust Asset Management Americas (SMTAMA) was established as a wholly-owned management company in the midst of the COVID-19 pandemic. It began engagement activities with companies based in Americas and ESG-related research activities. Since the economic lockdown due to COVID-19 was implemented in New York City, we launched our stewardship activities online. However, we had built our IT infrastructure and operational processes to accommodate restrictions on office work, operations started relatively smoothly.

124 engagement meetings in the first year

We conduct individual engagements for a wide range of sectors including energy, finance, consumer goods, healthcare, and IT. Also we participate in collaborative engagements through global initiatives. We conducted a total of 124 engagements over one year period since July 2020.

By means of individual engagements, we hold dialogues addressing social issues, climate and environmental issues, gender diversity, medical access, and information disclosure, which our Group is systematically addressing as important issues. We also hold talks on value creation and sustainability by addressing social issues with investee companies in our global equity impact investment portfolio. In addition, we combine our efforts in engagement and proxy voting to promote the improvement of corporate governance, as well as the above-mentioned social issues. As for collaborative dialogs, we engage along with global initiatives to encourage companies to strengthen efforts on issues such as deforestation, water risk management, working conditions, etc., which have significant impact on companies' sustainability. As we learn global expertise on these issues through the collaboration, we share to build the knowledge with Tokyo.

Talks were held with Archer Daniels Midland (ADM: Major US grain firm; strengths include soybeans, cotton seeds, and corn, which are the raw materials for cooking oils) in February 2021 asking stronger actions to stop deforestation related to their agricultural supply chain in Brazil. We held discussions to support shareholder proposals submitted by Ceres-PRI engagement partners calling for strengthening. Afterward, they announced a goal of having zero



deforestation with a timeframe, and the proposal was withdrawn. This is an example of how we try to make impact by combining engagement and proxy vote, in addition to collaborating on the global initiative platforms. At the same time, we are participating in multifaceted engagement with the goal of advancing solutions, including holding talks with the Brazilian government about deforestation.

Multi-engagement and collaboration among three global bases

Through ESG research activities, in addition working with NGOs in the US, such as Ceres, Council of Institutional Investors (CII), and The Thirty Percent Coalition, we are also collaborating with European organizations, such as FAIRR and Access to Medicine through our London base to assess ESG issues on US companies*. We are participating in virtual conferences and seminars hosted by these organizations, and through these networks. We share trends and updates on environmental and social topics, financial markets and regulatory trends, and corporate governance with Tokyo. In the United States, problems related to systemic racial discrimination surfaced on the back of the pandemic, requiring companies to respond. The discussion of board room diversity began to include race and ethnicity, and this has been reflected in some state laws and stock exchange rules. This is mainly a particular issue in the United States, but cannot be ignored by global companies. Therefore, we are monitoring the responses by companies and investors as a member of The Thirty Percent Coalition, and sharing the information.

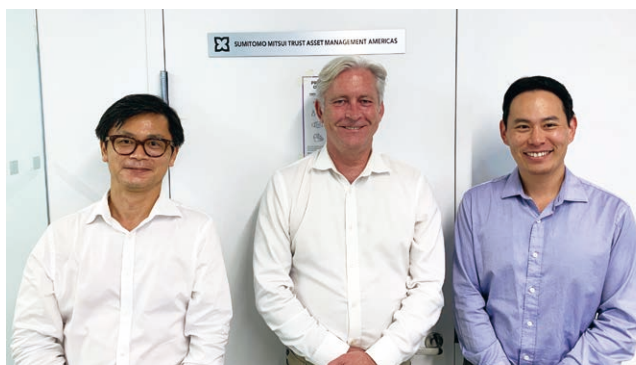
In June 2020, the US Department of Labor proposed tighter regulations for ESG investment and proxy voting by corporate pensions. We worked on collecting information with CII, which opposes this since it would weaken shareholder rights. We supported PRI, which shared our view, and submitted opinions during the public comment period. Additionally, we are collecting information on the development of non-financial information disclosure by companies through the talks with and the participation in conferences organized by standard setting organization, such as SASB (currently VRF). At these conferences, we joined in discussions with

issuing companies and exchanged opinions on how to efficiently disclosure ESG information, which is valuable for investors. We also engage with environmental initiative, CA100+, supporting the publication of the engagement strategy report as part of investor reviewers. In September 2020, we joined when Ceres' Biodiversity Working Group was established, and expanded the information network on business sustainability risks related to deforestation in Brazil and other countries, and on engagement strategies for companies.

Future Activities

Finally, regarding the water resource issue, since it is strongly connected to climate change and biodiversity, we consider it to be a major part of the natural capital topic, which is one of our focus areas. Since it can be a corporate sustainability risk, especially for the food and beverage, apparel, and semiconductor industries, we are also working as an important engagement agenda for American companies.

Ceres recently launched a water risk assessment project. The goal is to come up with effective engagement strategies for complex issues that are highly regional and involve human rights issues. We are also considering participating as a member of the investor group aiming to further strengthen dialogs for gaining knowledge and addressing issues.



(Person at the center and on the right of the photo are local employees)

* See pages 69-70

Introducing criteria for exercising voting rights on important issues that are likely to impact corporate value

Purpose of Exercise of Voting Rights

As a “responsible institutional investor,” we position the exercise of voting rights on entrusted assets (hereinafter referred to as “exercise of voting rights”) as one of our important stewardship activities. The purpose of exercising voting rights is to maximize the medium- to long-term investment returns for customers (beneficiaries) by improving the corporate value of investee companies and promoting sustainable growth. Please visit our website for more details.

https://www.sumitrust-am.com/responsible_investment/proxy_voting/

Reforms for 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 are maintaining this policy during 2021, but will more closely examine targets by comparing the response in 2020. We list companies that applied and agreed to the above policy regarding a surplus standard in documents for disclosing individual voting records.

<https://www.smtam.jp/company/policy/voting/result/>

Approval or disapproval based on customer standards

In the disclosure materials for individual voting records, proposals based on customer standards that differ from our standards are clearly indicated with “*” in the “Other Voting Records” column. This applies to about 10% of the total number of proposals.

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 rational 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” company proposals, however since the disclosure of individual voting records in July 2020, we also began publishing 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)

8028 FamilyMart October 2020 General meeting

Proposals No	Proposal	Voting record	Background/reason
1	[Company proposal] Reverse stock splits	Against	<ul style="list-style-type: none"> ITOCHU made a tender offer to make it a wholly owned subsidiary. Proposal to purchase the remaining shares of minority shareholders after the tender offer and make it a wholly owned subsidiary. The two companies are listed as parent-subsiary, and the board of directors of FamilyMart took a neutral position in the vote in spite of special consideration is required for the interests of minority shareholders. We were against this because we determined that the explanation of the validity of the merger consideration, etc., did not sufficiently meet company guidelines.
2	[Company proposal] Partial amendment to the articles of incorporation (Change in the total number of issuable shares, abolition of unit shares)	Against	

6502 Toshiba March 2021 General meeting

Proposals No	Proposal	Voting record	Background/reason
1	[Shareholder Proposal] Appointment of a person to investigate the status of the business and assets of a joint-stock company as stipulated in Article 316, Paragraph 2 of the Companies Act.	For	<ul style="list-style-type: none"> The investigation method by the company is to have the Audit Committee appoint an external law firm, but this is limited to internal investigations, so there were concerns about objectivity. In addition, the purpose of the investigation was mainly to confirm in-house materials and related parties, and it could be debated as to whether the investigation was sufficient. Since there have been a number of scandals related to governance including an issue with fraudulent accounting in the nuclear power plant business, we agreed with the shareholder proposal that it is necessary for the company to conduct a rigorous investigation in order to remove any concerns about investor governance.

5009 Fuji Kosan June 2021 General meeting

Proposals No	Proposal	Voting record	Background/reason
3	[Company Proposal] Approval to introduce a response policy for the tender offer, etc., targeting the company's shares by the Aslead Strategic Value Fund and the Aslead Growth Impact Fund	For	<ul style="list-style-type: none"> Regarding takeover defense measures implemented in the event of an emergency, based on the determined substantial shareholder value including future prospects, the decision was made to exercise takeover defense measures together with the pros and cons of invoking the takeover defense measures regardless of whether the formal requirements are met. In the medium-term management plan, the company set the goals of having at least 1 billion yen in ordinary profit and ROE of at least 8% for the fiscal year ending March 2024, and it was explained that if the medium-term management plan can be realized, it will be possible to achieve a stock price that exceeds the tender offer price in the future. On the other hand, while the purchaser did not explain the specific management plan, ENEOS, a major customer, expressed concern about the Tender Offer due to the possibility of the purchaser taking control since concerns about the impact on business relationships cannot be ignored. Based on this, we agreed to implement takeover defense measures and to invoke countermeasures.
4	[Company proposal] Gratis allotment of stock acquisition rights	For	

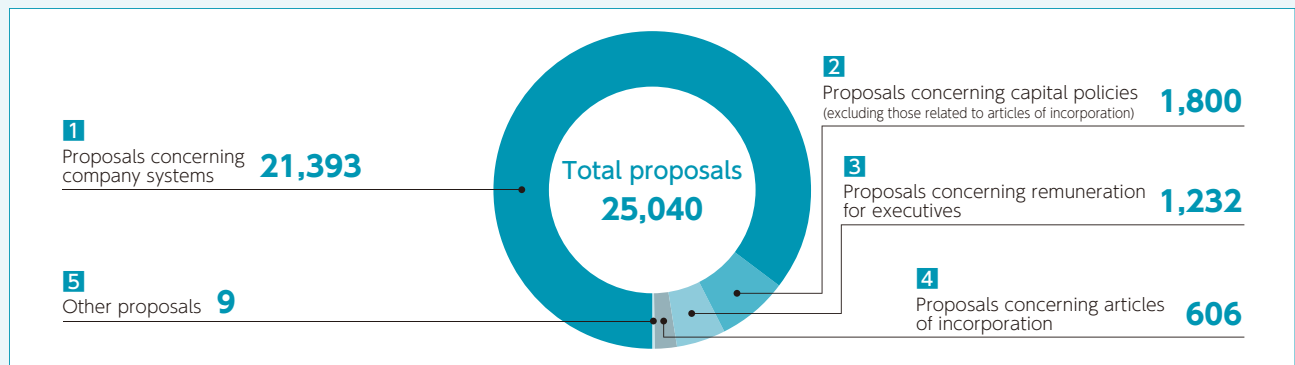
Guideline Revisions for the Current Fiscal Year

We revised the guideline in January 2021 (published in December 2020). The main points of the revision are shown below.

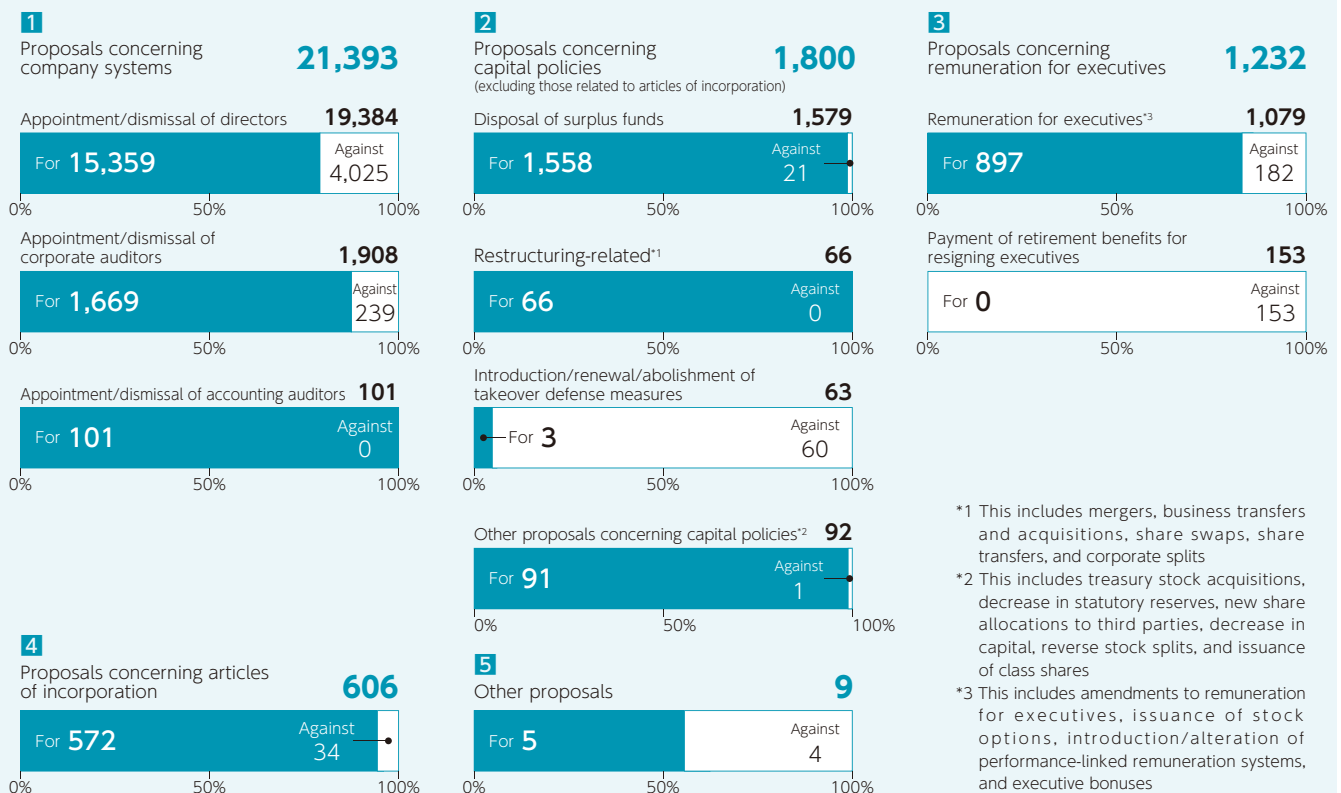
Criteria	Before	After	Our View
Composition of the board of directors, appointment of directors	[General Rules of Exercise] In principle, for any of the following cases, we vote Against. (Remaining information is omitted)	[General Rules of Exercise] (1) In any of the following cases, we will dissent in principle from the proposals (Remaining information is omitted) (2) In any of the following cases, we will consider dissent from proposals <ul style="list-style-type: none"> In case where the company, having significant issue such as ESG themes, does not engage or have not made improvement of the situation despite continued engagement In case where the company, having cross shareholding excessively, does not engage or have not made improvement of the situation despite continued engagement 	To clarify our stance that we may vote Against depending on the engagement status, added a clause that even when a case does not violate the quantitative requirements stipulated in [Decision Criteria for Exercise of Voting Rights] if it is an important issue that is likely to affect corporate value.

Record of exercising voting rights for Japan-listed companies

Company proposals July 2020 - June 2021	Voting Record (all company proposals)			
	For	Against	Abstention	Opposition %
	20,321	4,719	0	18.8%



Breakdown of voting record on company proposals



Shareholder proposals	For	Against	Abstention	Opposition %
	10	203	0	95.3%

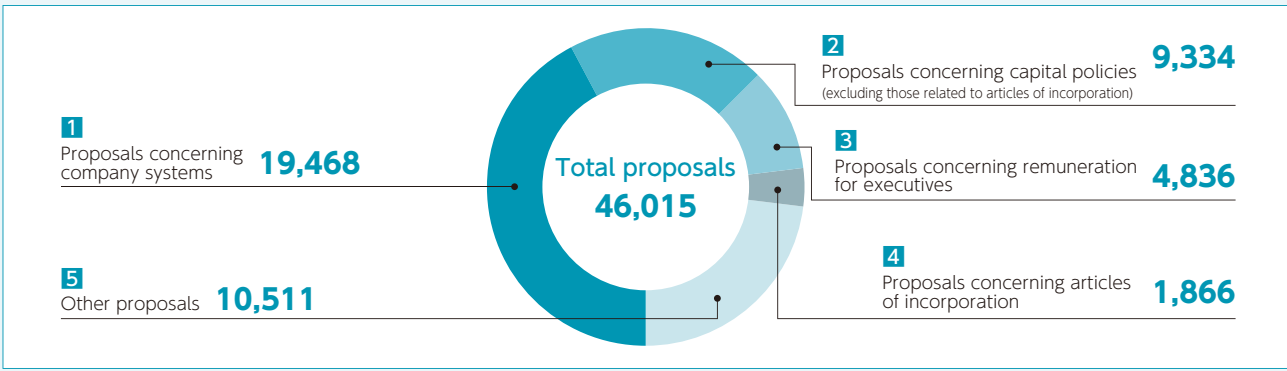
Factors that affect the result of exercising voting rights and the opposition ratio

Regarding the comparison of the opposition ratio to company proposals over the same period during the previous year, the opposition ratio decreased due to company efforts to strengthen the corporate governance system such as by increasing the number of external directors at investee companies.

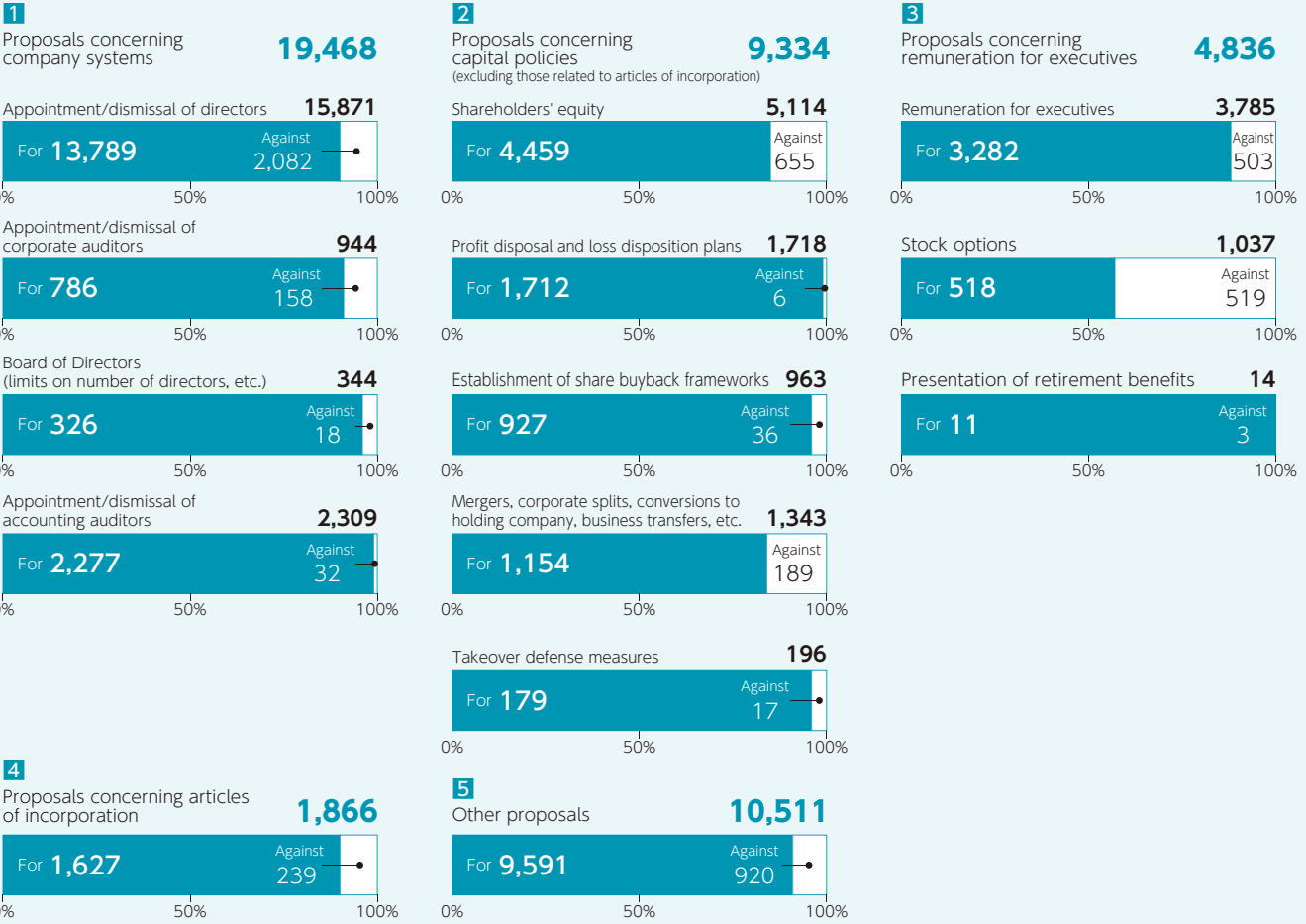
With regard to stock lending transactions, we set loan limits for securing voting rights. For voting rights secured in shares outside of the loan limits, we exercise said rights in accordance with our policy on the exercise of voting rights. In daily processes, our fund manager confirmed positions such as the number of lent stock.

Record of exercising voting rights for foreign-listed companies

Company proposals July 2020 - June 2021	Voting Record (all company proposals)			
	For	Against	Abstention	Opposition %
	40,638	5,377	0	11.7%



Breakdown of voting record on company proposals



Shareholder proposals	For	Against	Abstention	Opposition %
	1,416	378	0	21.1%

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.

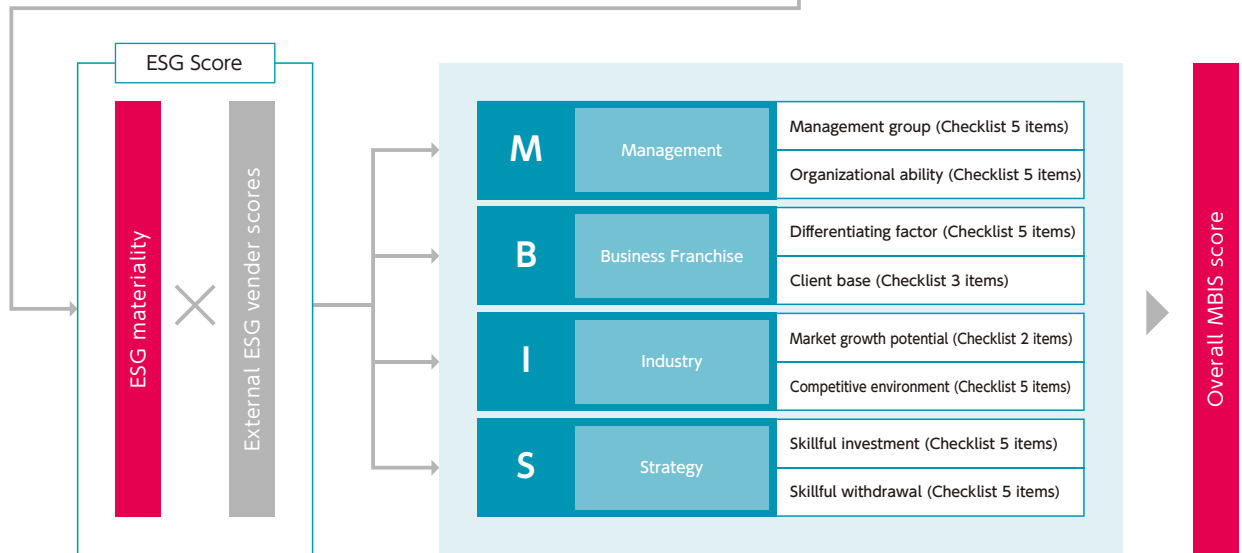
1 ESG Materiality

We have identified important sustainability challenges as “ESG materialities.” We take into consideration the SDGs and the SASB (Sustainability Accounting Standards Board; currently Value Reporting Foundation).



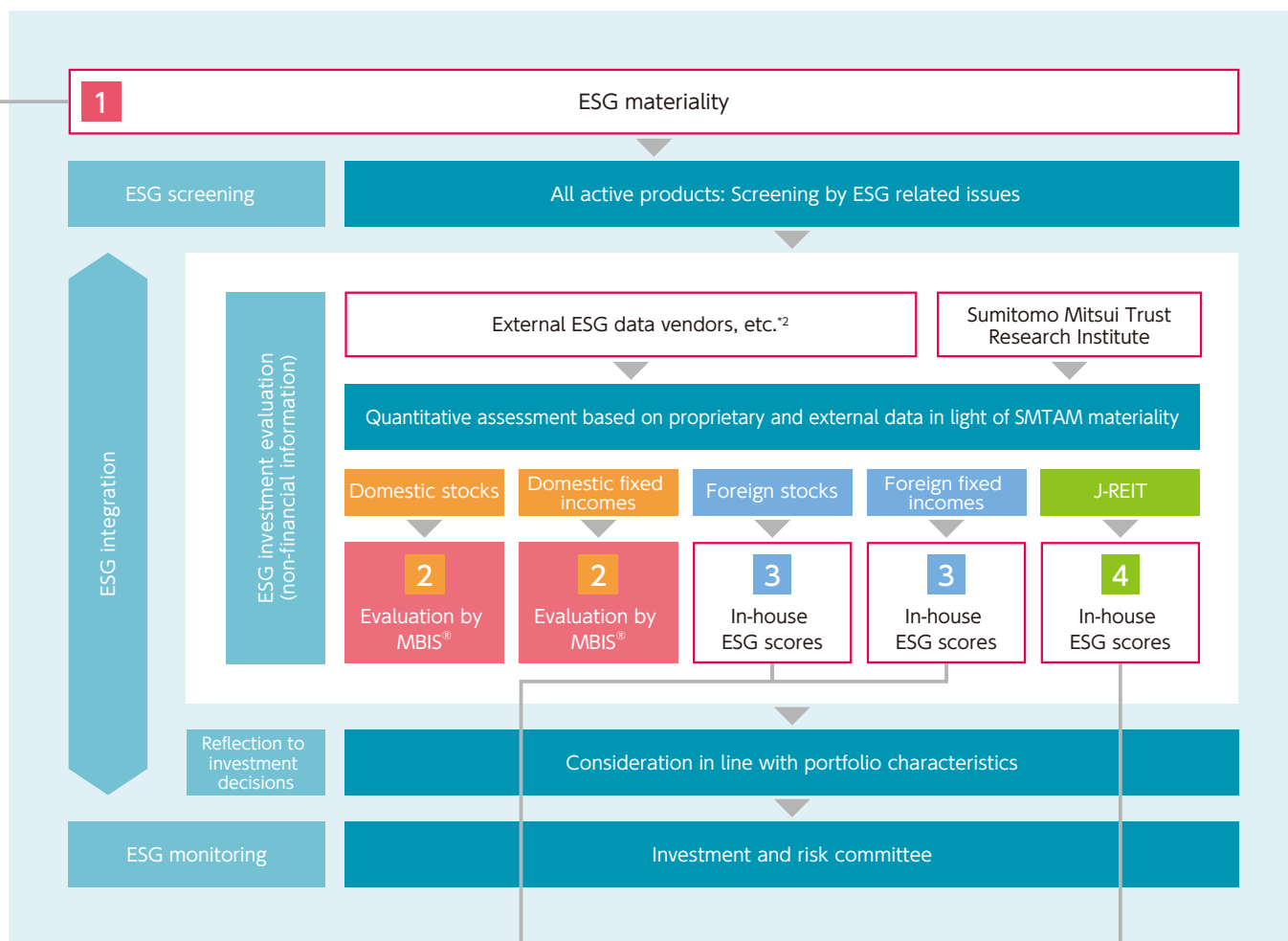
	E (Environment)	S (Society)	G (Governance)
Risk	Climate Change	Human Rights & Community	Behavior
	Natural Capital	Human Capital	Structure
	Pollution & Waste	Security & Liability	Stability & Justice
Opportunity	Environmental Opportunities	Social Opportunities	Governance Improvement

2 MBIS®¹



The MBIS® is our proprietary, non-financial information evaluation tool which we have used since 2015 to evaluate domestic stocks and fixed incomes. Our analysts use this 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 monetizing the opportunities associated with ESG issues. We utilize external ESG data vendors for evaluation to the issuer. 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.

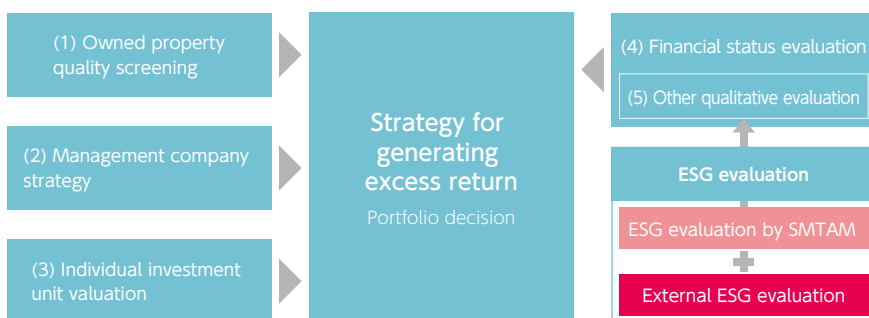


3 In-house ESG Score

We grant in-house ESG scores to domestic stocks of companies that are not covered by analysts, foreign company stocks, etc. and domestic corporate bonds. Using ESG materiality as a base, we identify the ESG issues of investee companies and then utilize external ESG vendor 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 stocks, or credit worthiness or spread in the case of corporate bonds, and it is thus reflected in investee selection.

4 J-REIT

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



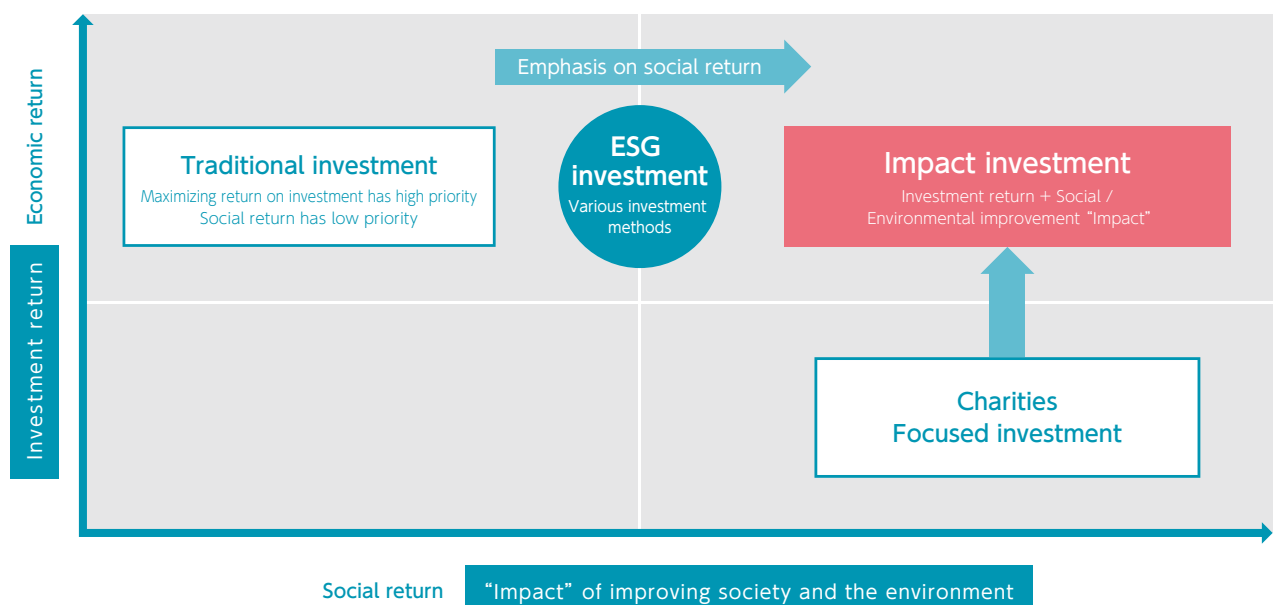
Sumitomo Mitsui Trust Research Institute

Provision of ESG evaluation for all listed companies

*2 We use data such as from external ESG data vendors as references for our own ESG quantitative evaluations. We have engagement with ESG vendors at least once a year to confirm and improve service contents based on what we use (universe expansion, higher data accuracy, better information on misconduct, etc.).

Impact Investment Strategy

Impact investment refers to an investment strategy where both economic and social return are pursued through investment, and is characterized by measuring and disclosing social returns. The following figure shows the positioning of impact investment where the vertical axis is the Economic return, which is the investment profit obtained by improving the corporate value of the investee, and the horizontal axis is the Social return gained through efforts to address social issues. We believe it is important to evaluate and invest in companies from a long-term perspective in order to properly address social issues and gain return on investment.



SDGs and Impact

The Sustainable Development Goals (SDGs) were adopted by the United Nations in 2015. The SDGs include 17 goals with 169 specific targets. In our impact investment strategy, we have a strong awareness of resolving social issues that lead to achieving SDGs.

It is said that US\$5-7 trillion in annual funds are needed to achieve these goals, and we believe that using private funds and corporate business power are essential.





The Japan Government recently declared that it is aiming to realize a carbon-neutral and decarbonized society by 2050. In the future, we expect national efforts to achieve the goals set forth in the SDGs to expand globally.



Focus on practical business ability in addressing social issues

The table below lists nine “issue resolution areas” that we have set based on the relationship between long-term world structural changes, the social issues that arise from these, and the goals of the SDGs. We believe that these present great growth opportunities for companies while also being “impact opportunities” for addressing social issues through business.

Nine issue resolution areas being considered by SMTAM

Long-term world structural changes	Global issues	Major SDGs	Issue resolution areas
Population structure (World population increase, aging, population increase in emerging countries)	Medical system, shortage of resources, food, and water, disease, healthy life expectancy		New healthcare Sustainable food chain
Climate change	Large-scale disasters, disease, shortage of resources, food, and water		Transition to green energy Recycling society
Diversification (Values, culture, working styles, gender) Widening disparity (Gender, region, income, education)	Increased social unrest, sustained growth inhibition		Employment and education Eliminating disparity
Environmental pollution	Health hazards, shortage of resources, food, and water		Clean nature (Oceans, water, forests, soil, air) Sustainable cities / Strong infrastructure
World growth rate slowdown	Declining employment opportunities, sluggish income growth rate		R&D, technology infrastructure, productivity improvement

We envision the following as examples of businesses that contribute to resolving social issues and that are expected to expand over a long period of time.

- New healthcare that addresses threats from infectious diseases that have become a reality due to the worldwide spread of COVID-19
- Businesses that spread green energy to curb global warming, which worsens every year
- Businesses related disparity elimination and education for achieving the slogan for SDGs, “Leaving no one behind”
- Businesses that make cities and the natural environment sustainable
- Businesses that promote R&D and productivity improvement for supporting sustainable world development

On the other hand, to address unresolved issues through business, we believe that corporate innovation and practical business skill premised on coexistence with the limited global environment are important. To evaluate the practical business skill of companies, in addition to evaluating financial information, we feel it is also important to evaluate “non-financial information” such as management and company organizational strength, and business strategies, which are what we focus on. The following page includes an overview and explanation by a fund manager on the characteristics of each investment strategy for the “Japan Equity Impact Investment Strategy” and “Global Equity Impact Investment Strategy.”

Japan Impact Equity Strategy

Engagement is one of the most important process to maximize impact and financial return through companies' long-term positive changes



1. Concentrated portfolio which invests in companies where business solutions to SDGs drive corporate value over the long-term

I would like to explain three features of our Japan Impact Equity Strategy. The first is invest in companies where business solutions to social and environmental issues drive corporate value over the long-term. We focus on practical business ability, the materiality and long-term growth potentials of the businesses to address social and environmental issues, and the commitment of management team to tackle those issues. When evaluating these, we conduct extensive research including interviews with management team, and assess companies using MBIS®, which is our unique corporate evaluation framework. Through this process, we identify companies that have long-term growth potential by providing sustainable solutions to social and environmental issues through their own business.

2. Impact KPIs to measure the impacts on social and environmental issues

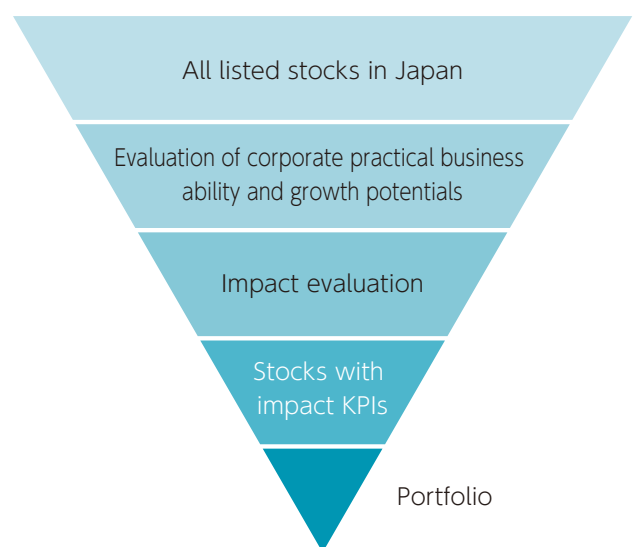
The second feature is to set Impact KPIs. In our impact investment strategy, each company has Impact KPIs that are the indicators to measure the degree to which social and environmental issues are addressed through its own business. This allows us to quantitatively understand the social return from providing solutions to social and environmental issues, which we believe is as important as financial performance for improving corporate value. Next, we evaluate the positive/negative impact that companies create based on the "Impact KPIs". Each investee company is monitored through the Impact KPIs with relevant financial data from long-term perspective.

3. Engagement with management team to maximize positive social and environmental impact alongside the mitigation of negative impact

The third feature is the engagement with management team. We hold regular meetings with management team from long-term perspective and encourage changes to drive positive impact by leveraging our knowledge and experiences.

Engagement is one of the most important process in our impact investment. Portfolio managers closely work with our ESG specialists and corporate analysts who are specialists in industrial sector and jointly engage with management team. In the engagement, we discuss how to drive positive impact through business, how to control negative impact, and how to improve ESG factors that are potential long-term business risks. Through such engagement, we encourage changes in investee companies, and promote activities that maximize impact and result in investment returns.

Process construction process



Global Equity Impact Investment Strategy

Building a portfolio by combining engagement, quants, and research skill to address social issues and achieve investment returns.



1. Identifying social issue-solving areas

A common feature of Japanese and global equity impact investment strategies is making long-term investment in companies that have the resolving of social issues as a growth driver. We believe it is possible to identify company growth potential, such as products and services that will be in high demand in the future, by focusing on and then identifying social issues resulting from long-term structural changes and their solutions.

The social issue-solving areas is determined through a consultation with ESG specialists including fund managers, analysts, and workers living overseas, and by utilizing the knowledge gained through our participation in global initiatives*.

2. Selecting investment targets through quantitative analysis (quants analysis)

The second feature is identifying companies whose growth is expected to materialize by providing solutions for social issues through a three-step quantitative analysis (quants analysis). The first step is to assess ESG rating as an indicator to measure the degree of commitment to social issues and consider that companies with higher ESG assessment have greater potential to contribute to social issues. The second step is to identifying companies that are actively addressing identified social issues using RBICS data, which is about 1,700 industry or products categories with its sales contributions provided by FactSet. In the third step, the competitive advantages of a company in resolving social

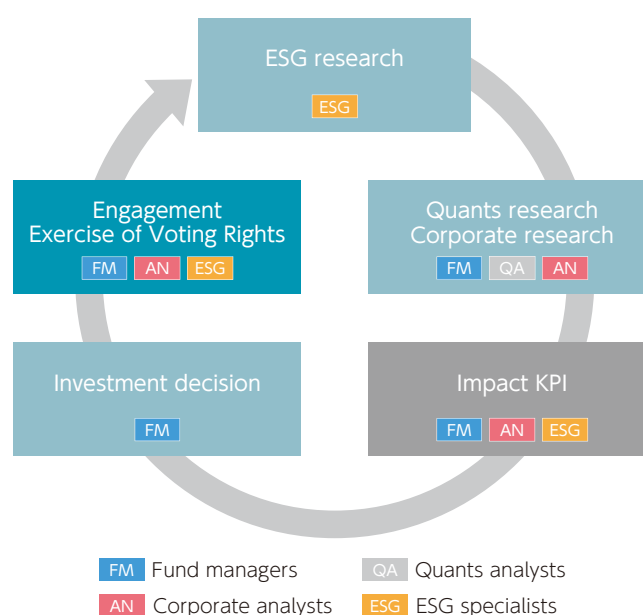
issues are evaluated for each area using items centered on non-financial indicators in order to select companies that have a high feasibility of resolving a social issue. Target company groups for investment are then determined.

3. Measuring and anticipating impact KPIs, interacting with companies, and increasing investment confidence

The third feature is to measure impact KPIs relating to social return which is achieved by providing solutions for social issues, and then to engage in dialog with the company. We have ongoing discussions with them on the importance of addressing social issues, management commitment, attitude toward information disclosure, sustainability, and business risk. This increases the likelihood of achieving social and economic returns and helps reduce investment risk.

Fund managers, quants analysts who are professionals at analyzing data, corporate analysts who are professionals at corporate research, and ESG specialists work together to engage in the growth of investee companies and to maximize investment returns through them.

Overview of Investment Process



* 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. See pages 69-70 for more details.

Fixed Income ESG

We have been promoting engagement and ESG integration for fixed income management. In addition to an overview of fixed income ESG integration, the following will explain recent trends in ESG bonds along with some of collaborations between credit analysts and fixed income fund managers through their dialogs .

Significance of ESG integration in fixed income management and equity investment respectively

Comparing the significance of ESG integration for bonds and stocks, and points of investment

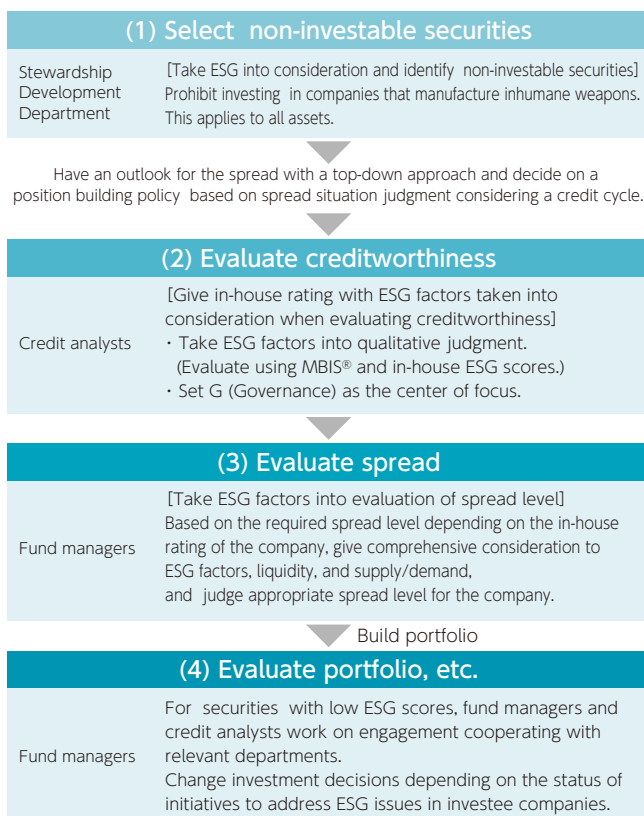
	Bonds	Stocks
Maturity of investment target	Yes	No
How to use ESG evaluations	Consideration for creditworthiness evaluation	<ul style="list-style-type: none"> Qualitative evaluation Valuation assessment (Capital cost, etc.)
Return on investment	Fixed at the time of investment based on assumption that default will not occur	<ul style="list-style-type: none"> Corporate growth through ESG Downside risk reduction
	<p>Point</p> <p>Based on ESG factors, <ul style="list-style-type: none"> Credit evaluation and whether defaults occur </p>	<p>Based on ESG initiatives, <ul style="list-style-type: none"> Expansion of non-financial value and exchange to financial value Capital cost reduction and stability </p>

Due to the difference in product characteristics shown on the left, there are differences between stocks and bonds investment related to the significance of ESG integration and investment points. Although bondholders do not have voting rights, as a direct funder, we believe that they have an important position for corporate management. Therefore, as a bondholder, while we have the right to ask investee companies to take measures for medium- to long-term growth and to reduce downside risk, we also believe we have responsibilities to request social contribution.

The following explains the rights and responsibilities we bear in mind for fixed income ESG investment.

ESG integration for fixed income management

ESG information is used for the following flow in fixed income management.



The following figure shows “Security selection determination through spread evaluation and ESG evaluation” for the process in (3) on the left.

Relationship between spread evaluation and ESG evaluation when making investment decisions



- A Actively invest**
It is a bargain and has a high ESG evaluation, so active investment is likely (purchase/hold).
- B Improve ESG evaluation through engagement**
It is a bargain, but the ESG evaluation is low. Effort to improve ESG evaluation through engagement.
- C Can be owned (Possible to own but subject to sell (Not owned))**
It is overvalued, but the ESG evaluation is high, so it can be owned.
- D Sell / Not owned**
It is overvalued, the ESG evaluation is low, and the spread may widen (price decline) in the future, so it is subject to sell (Not owned).

Recent Trends in ESG bonds



Looking back on the past year

Mr. Hamada Issuing so-called SDGs-related bonds^{*1} has been increasing. When it comes to conventional green bonds^{*2} and social bonds^{*3}, the industries of the issuers and the use of funds are diversifying. Although a second opinion^{*4} has been acquired for most SDGs-related bonds in Japan, there seems to be a lot of variation in the degree of environmental improvement and social benefits from projects that use the raised funds.

Mr. Tsubota In response to such trends, we can begin to see movement by regulatory authorities. I have started to see in the press that there is a trend toward concern over “green wash^{*5}.” And as for green bonds, Europe established its own classification standard called “EU taxonomy^{*6}” and is promoting a movement toward severely limiting the use of funds.

Mr. Hamada Today, it is natural to follow the rules, but the goal should be to achieve high aspirations. For example, hybrid cars, which are a specialty of Japan, used to be a qualified asset, but it seems to have become more difficult recently since they are no longer approved in Europe.

Mr. Tsubota Since “EU taxonomy” is an EU regulation, it’s not believed to be a problem in Japan where they (such bonds) are often issued based on the ICMA principle^{*7}. However, we have such global movements in mind when engaging with issuers.

Mr. Hamada By the way, you mentioned the possibility that hybrid cars would not be accepted as a use of proceeds when you attended an IR meeting with a car manufacturer.

Mr. Tsubota The issuer also acquired a second opinion, but while speaking with them, I explained the possibility that these might not be approved in the future. As a bond investor, I would like companies to have a common understanding about our stance of working together to aim higher in the future.

Stance on social bonds

Mr. Hamada Since bond investors have many corporate IR opportunities related to bond issuance, we think it is also their responsibility as a creditor to encourage companies to issue SDGs-related bonds from various angles. How about social bonds?

Mr. Tsubota Since social issues have been resolved to a certain extent in Japan compared to emerging countries, We feel it’s extremely difficult to determine how much additional social benefit is being sought.

Mr. Hamada The Financial Services Agency is taking the lead to formulate “Social Bond Guidelines,” but even in this case, investors are required to properly assess the social effects of a project that the funds will be used without simply relying on external reviews. What kind of discussions do you have with issuers?

Mr. Tsubota First, we confirm use of proceeds and their effects with the issuer at the IR for bond investors. If we don’t agree with how the funds will be used, we check the target background and the contents of discussions with external review organizations. We sometimes also give our opinion on the subsequent issuing contents.

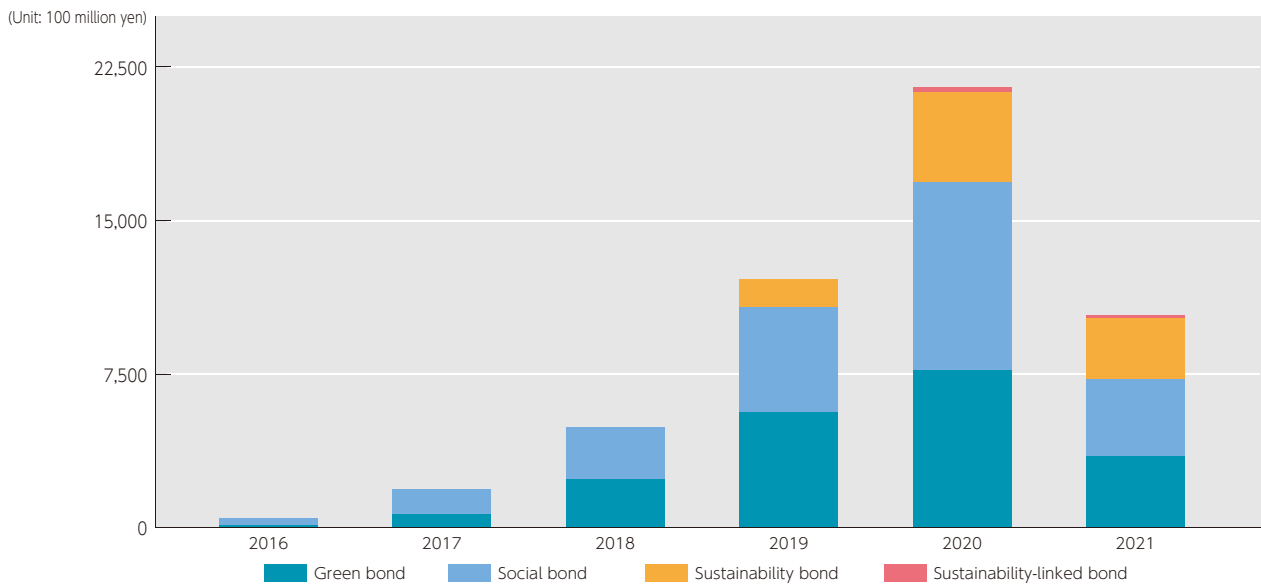
Mr. Hamada It’s not only about the formal requirements. The way of thinking of the company is also important.

Mr. Tsubota That is something we view as important. We also think it’s important for issuers (or companies) to aim for continuous issuance to address social issues, and not just temporary issuance to take advantage of a boom. So, do you not invest if you do not agree with the use of funds?

Mr. Hamada We may invest if it is attractive as a regular bond.

Mr. Tsubota In that case, it may be better not to make a so-called investment statement for investors to express their intentions.

Changes in issuance amount and number SDGs-related bonds in Japan (Public offerings)



Responding to diversifying SDGs-related bonds

Mr. Hamada Sustainability-linked bonds^{*8} and transition bonds^{*9} have started to be issued in Japan. You often have discussed the bond framework with securities firms and issuers as a bond investor.

Mr. Tsubota We have been trying to collect information on sustainability-linked bonds for a long time since there was the possibility of issuance in Japan based on trends in overseas bond markets and loan markets. When it was first issued in Japan last year, some people hesitated to invest because there are cases where economic return is higher if a target is not achieved despite investing to improve the environment, and because it was difficult to calculate the theoretical value regarding coupon step-up^{*10} when a sustainability target is not achieved.

Mr. Hamada We recognized coupon step-up as a general global scheme, and we determined that initial coupons were at a level commensurate with creditworthiness regardless of the conditions for when a target is not achieved. Therefore, we invested. Because of this, it was a big deal since we were the only asset management company that made an investment statement at the first issuance case in Japan. So, we contributed to the increase in issuance cases thereafter. Through such initiatives, we want to support the activities of companies to set their own sustainability goals and other efforts. Since then, there

have been more opportunities to discuss schemes with issuers and securities companies.

Mr. Tsubota There are also some sustainability-linked bonds where the same amount is donated instead of coupon step-up whenever a goal is not reached.

Mr. Hamada Coupon step-up is common in other countries, and it seems that there are pros and cons to donation-type schemes. I view having different schemes as helping to expand the sustainability-linked bond issuance market.

About the impact of investment

Mr. Hamada When issuing green bonds, that company will publish environmental improvement indicators based on the funds such as on the status of greenhouse gas reduction. Therefore, we believe it is easy to measure the impact of holding green bonds. On the other hand, there are differing opinions on measuring the impact of social bonds, which are aimed at addressing social issues. How should we view this?

Mr. Tsubota If we look overseas, there are some cases where impact is relatively easy to measure, such as the amount of medical care and medicines provided to poor countries. In Japan, some social bonds are easy to measure and some are not. But, I feel that the number of people that can be helped such as through equipment for disaster prevention can be included as an impact.

Mr. Hamada I see. If you consider the number of people that can be helped, it is possible to quantitatively show a numerical value. Some SDGs focus on infrastructure, such as “creating sustainable cities,” but it may be better to understand quantitatively through changes in traffic volume and population.

Mr. Tsubota That’s true. When it comes to social bonds, there are still many unclear points as mentioned by the Financial Services Agency, but I think the issuing market and investor base can be expanded by visualizing social return. I also feel it is necessary to have comprehensive discussions with the issuer.

Future activities with ESGs-related bonds

Mr. Hamada As a company, I think you have made a variety of efforts, but what do you feel would be the next step?

Mr. Tsubota I think transition bonds will create more opportunities to collaborate with equity analysts.

Mr. Hamada What do you mean?

Mr. Tsubota As the world moves towards carbon neutrality, so-called transition strategies have become a more urgent issue for businesses. And it is said that a large amount of money will be needed to address this. However, in addition to being a risk, transition strategies can also present companies with opportunities for future growth.

Mr. Hamada There is room for collaboration between equity analysts and credit analysts.

Mr. Tsubota Regarding company transition strategies, I feel it’s possible to have better dialog with a company by collaborating with equity analysts to discuss future growth potential and credit analysts to discuss efficient financing methods using transition bonds. We will continue to have close information exchange and then respond accordingly.

Mr. Hamada Speaking of collaboration with equity analysts, I believe there was recently a positive case involving engagement with a real estate company.

Mr. Tsubota Yes. Our analysts spoke with the president and explained that financing through subordinated loan or bond goes beyond appealing to existing equity investors who are investing in hopes of advanced business models and growth potential. The analyst went on to explain that it is a measure that contributes to financial preparation for future changes in the external environment and is a way to respond to the demand for funds for regrowth after the current pandemic. As a result, last year, the company raised funds through a subordinated loan for the first time

Mr. Hamada That’s great. Same as with green bonds, being able to visibly track growth and see changes in a company is rewarding and a social mission.

Mr. Tsubota Don’t we investors also need to change as we engage with companies?

Mr. Hamada Of course, EU SFDR also impact investors, so we feel that disciplined investment, products, and engagement are needed.

Mr. Tsubota We are also participating in the Net Zero Asset Managers Initiative with the goal of achieving net zero greenhouse gas emissions from our assets by 2050.

Glossary

*1 SDGs-related bond

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

*2 Green bond

A bond issued to finance a green project

*3 Social bond

A bond issued to finance projects that help solve social problems

*4 Second opinion

External opinions and certifications ensuring the compliance with the “Green Bond Principles” by the International Capital Markets Association (ICMA) and transparency to increase investor appeal in the issuance of SDGs-related bonds.

*5 Green wash

Making something appear to be environmentally friendly

*6 EU taxonomy

Classification by the EU for clarifying whether a particular economic activity is environmentally sustainable

*7 ICMA principles

The Green Bond Principles (GBP) and Social Bond Principles (SBP) of the International Capital Markets Association (ICMA) define green bonds and social bonds, and establish four core elements which these bonds should fulfill.

*8 Sustainability-linked bond

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

*9 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.

*10 Coupon step-up

Something with a coupon (interest) that increases before maturity. Here, a coupon is something that increases by a certain amount when a target is not reached.

Disclosure of Climate-related Financial Information under TCFD

We believe that important issues concerning the Environment, Society, 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. The following is an explanation of the measures taken by our company as an asset manager on climate change issues in accordance with the recommendations.



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 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5 degrees Celsius above pre-industrial levels,” in order to ensure global sustainability.

In Japan, the government recently announced in October 2020 that it will “reduce overall greenhouse gas emissions to zero by 2050 to realize a carbon-neutral, carbon-free society by 2050.” However, a forecast released by the Intergovernmental Panel on Climate Change (IPCC) in August 2021 pointed out that the temperature will increase 1.5 degrees between 2021 and 2040, and stated, “It is unequivocal that human influence has warmed the atmosphere, ocean and land.”

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.

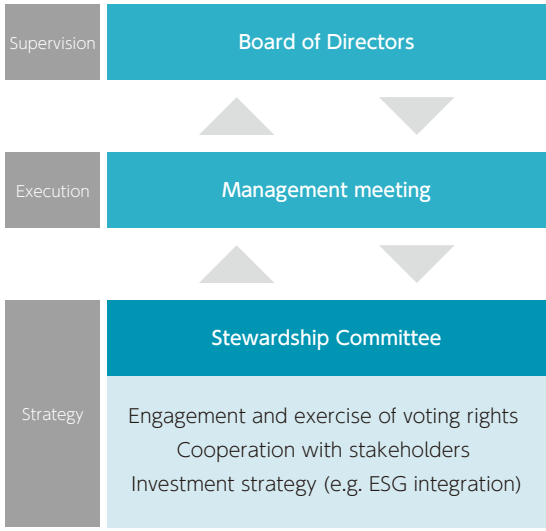
Information Disclosure Recommended by the Task Force*

1 Climate-Related Governance	<ul style="list-style-type: none"> Monitoring by the board of directors Role of management
	<p>2 Climate change-related strategies</p> <ul style="list-style-type: none"> Climate-related risks and opportunities Effects of climate-related risks and opportunities Potential effects of climate scenarios, including the 2°C or less scenario
	<p>3 Risk management</p> <ul style="list-style-type: none"> Process for identifying and evaluating climate-related risks Process for managing climate-related risks Integration of processes for identifying, evaluating, and managing climate-related risks into comprehensive risks
	<p>4 Indicators and goals</p> <ul style="list-style-type: none"> Indicators for evaluating climate-related risks and opportunities GHG emissions under Scope 1, 2, and 3 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 and exercise of voting rights,” “Cooperation with stakeholders,” and “Investment strategy.”)



2 Climate change-related strategies

(1) Common Climate Change Risks and Opportunities

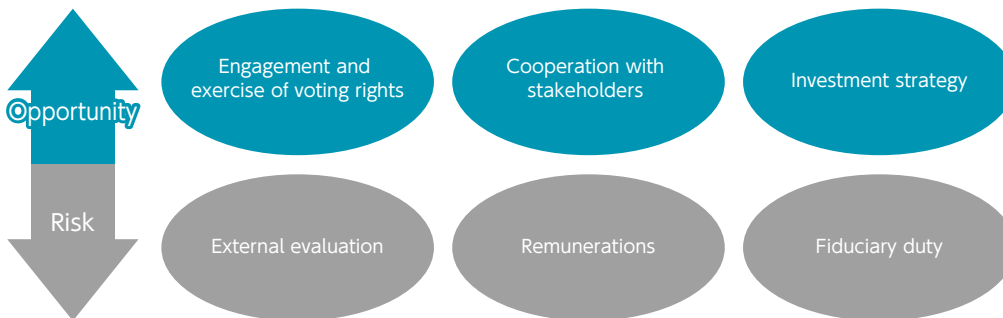
Transition risk	
Regulatory risk	Stricter environmental standards
Technological risk	Obsolescence of existing technology
Market risk	Shift of fossil fuel assets into stranded assets
Reputational risk	Risk of boycotts by consumers

Physical risk	
Acute risk	Flood risk, etc.
Chronic risk	Drought risk, etc.

Opportunity	
More efficient resources	Energy-saving technologies/products
Energy shift	Renewable energy
Products/services	Development/volume sales of EVs, etc.
Financial market	Carbon credit, etc.
Resilience	Recycled products, etc.

We have identified climate change as one of the ESG material items and are engaged with companies inside and outside Japan, we are tackling matters by exercising voting rights and 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), CA100+, and the Net Zero Asset Managers Initiative.

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



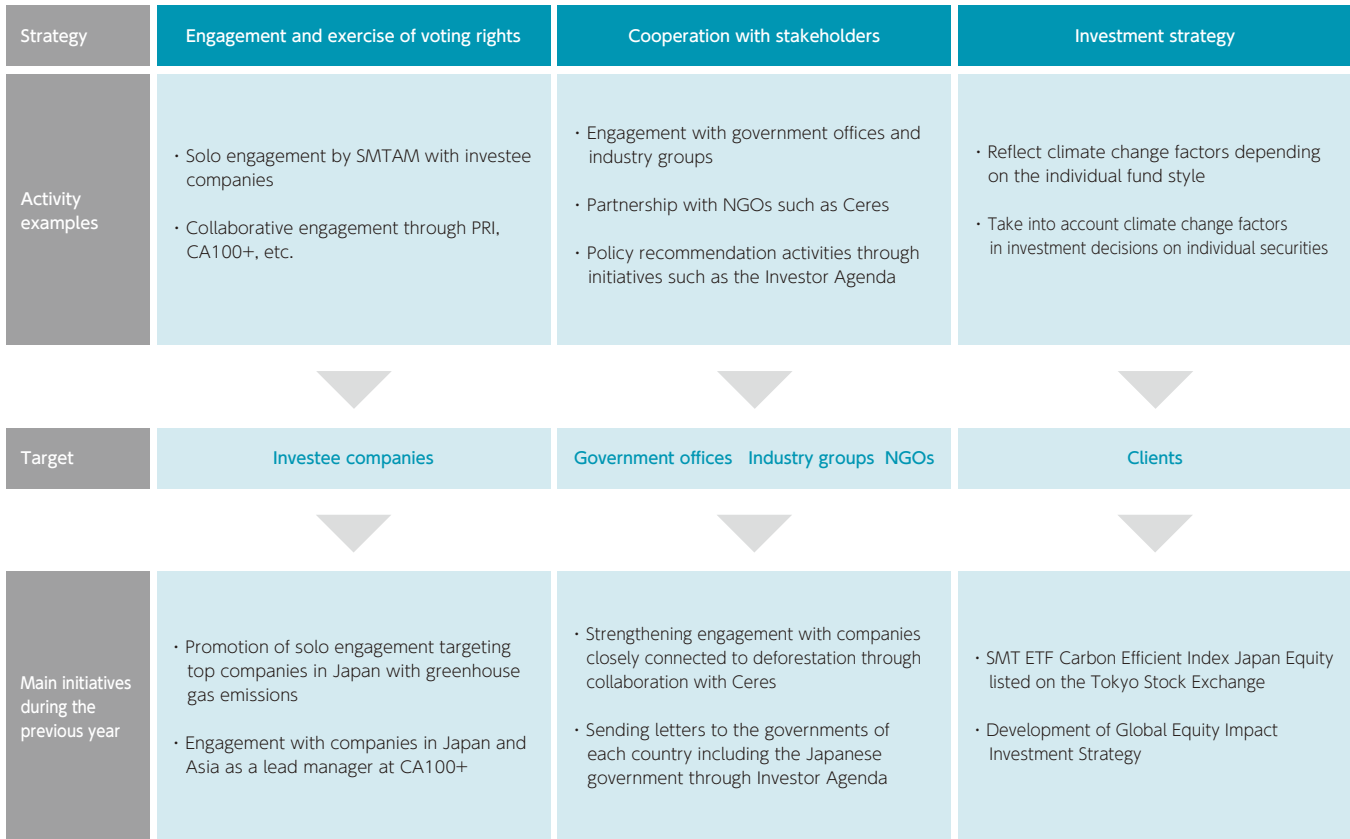
A. Risk

Risks that the asset management industry receives from climate change include reduced management fee. As transition and physical risks become apparent, management assets from customers are reduced, thus reducing management fee, 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 this 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 through engagement and exercise of voting rights, 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. These activities include discussions with investee companies, direct/indirect statement of opinions, and support from various policy/institutional aspects. "Making investment strategies more sophisticated" means incorporating climate change risks into existing or new investment (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



Based on our understanding of climate change risks and opportunities in the asset management industry listed in the previous section, we have established our specific strategies.

We view engagement and exercise of voting rights 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 such as the Investor Agenda*1.

We reduce management risks and improve returns by adopting investment strategies based on climate change issues. We reflect climate change factors depending on the client's intentions, investment strategies, and other specific circumstances. We increase or decrease the composition 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.

*1 See pages 69-70

List of investment strategies that take climate change issues into consideration

Active/ Passive	Asset Class	Index/Investment strategy name	Details
Passive	Japan Equity	S&P/JPX Carbon Efficient Index ^{*2}	<ul style="list-style-type: none"> S&P Dow Jones Indices, the world's largest independent index provider, builds the index based on carbon emissions data from Trucost, a pioneer in environment 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 linked to the index.
Passive	Global Equity (including Japan Equity)	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 business, including "alternative/renewable energy," "energy conservation," "efficient use of resources," "waste disposal," and "water resource conservation," and we offer products linked to the index.
Active	Japan Equity Global Equity	Japanese Equity Impact Investment Strategy Global Equity Impact Investment Strategy	<ul style="list-style-type: none"> This is an absolute return-type active investment strategies 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 KPIs set for each brand.
Active	Japan Equity	Japan Equity Responsible Investment Management Strategy	<ul style="list-style-type: none"> This is an active investment strategy for achieving an excess return against TOPIX by investing in companies that have a strong commitment to ESG. We select investment stocks 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.
Active	Japan and Global Equity	Decarbonization-related Global Equity Strategic Fund (Asset growth type) / (Expected dividend offer type) ^{*3}	<ul style="list-style-type: none"> This is an active management fund where investment stocks are selected from among companies related to decarbonization after verifying growth potential and degree of undervaluation on stock by means of fundamental analysis.
Active	Japan and Global Fixed Income	Future Focus Corporate Bond Investment Strategy	<ul style="list-style-type: none"> This is an active management strategy of investing in the bonds issued by companies (including issuers other than companies such as governments, government-affiliated organizations, local governments, and international organizations) that have a track record of issuing bonds, etc., where use of funds is related to the resolving of environmental and social issues, and bonds that incorporate resolving environmental and social issues in the issuance conditions, etc.

*2 See page 77

*3 See pages 77 and 78

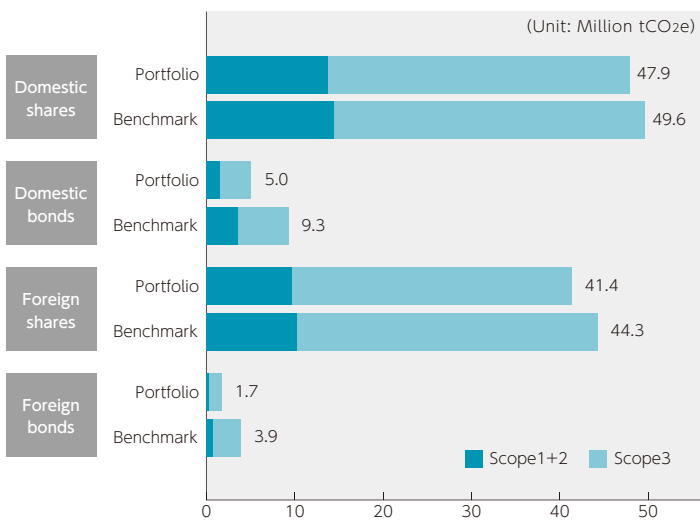
3 Risk management

We evaluate risks for managed assets related to climate change according to the asset class, and then integrate asset classes to evaluate all held assets. 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 as well as domestic and foreign bonds managed by SMTAM. The analysis was carried out using the data and analysis methods of an outside organization⁴. (The base date is June 30, 2021.)

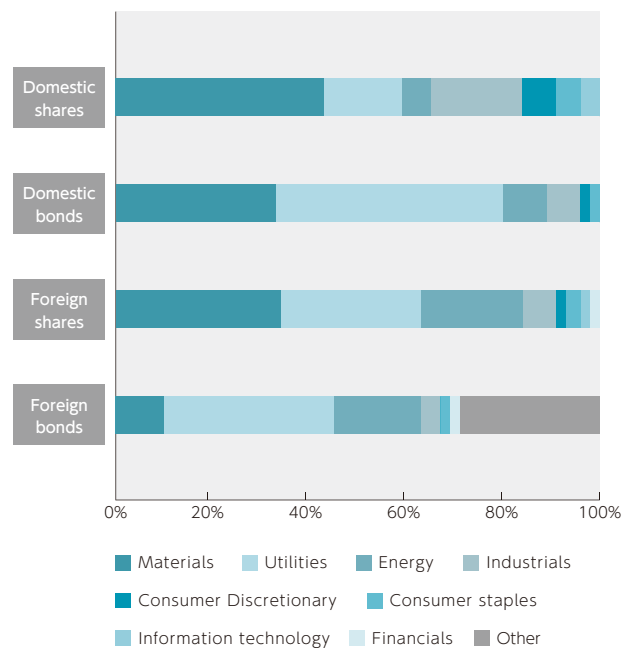
(1) Fixed point analysis (Greenhouse gas emissions, etc.)

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. Domestic shares, domestic bonds, foreign shares, and foreign bonds are the targets and the emissions of each asset are below the benchmarks. Looking at industry-specific emissions, utilities and materials make up a large part of the total for each asset.

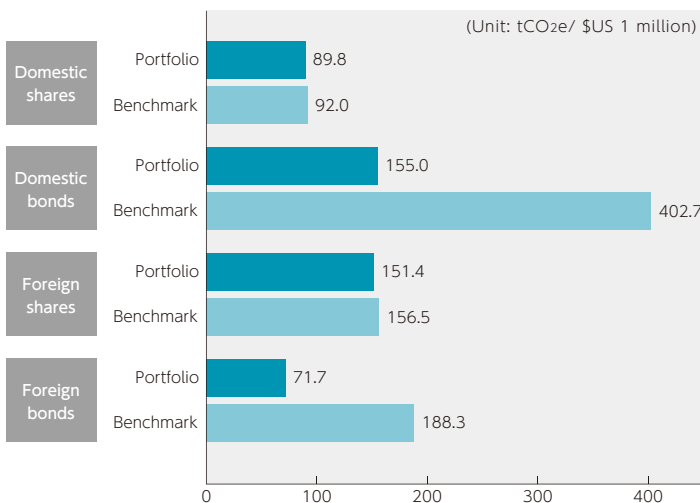
Greenhouse gas emissions by managed assets^{5 *7 *8}



Industry-specific breakdown of greenhouse gas emission^{6 *8}



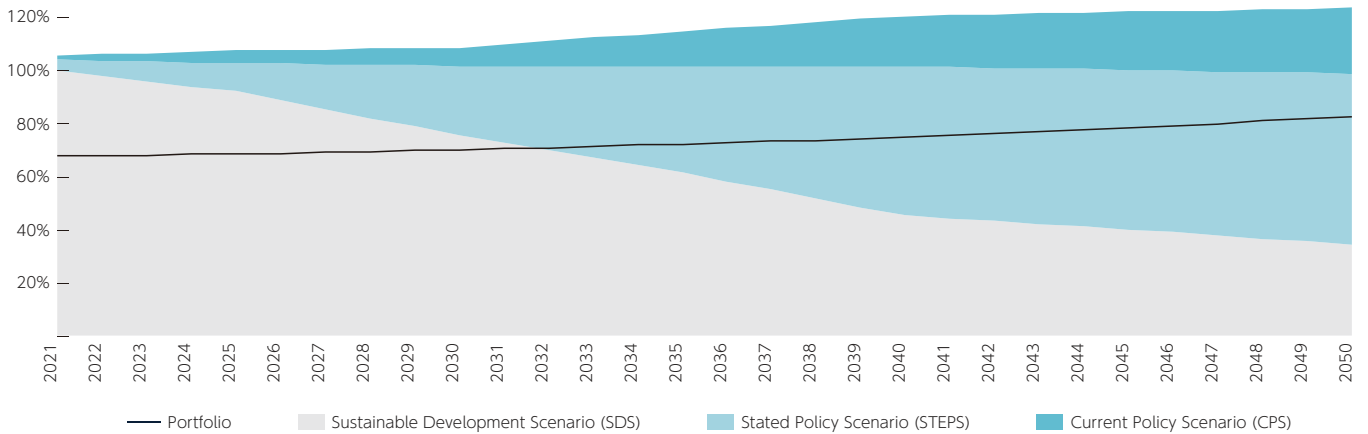
Weighted average carbon emissions (Emissions per unit sales)^{6 *7 *8}



Weighted average carbon emissions (emissions per unit sales) are also below the benchmarks for each asset. It seems that the value of domestic bonds in our portfolios and benchmarks are high due to the large composition ratio from the utilities sector such as electric power companies. The value of foreign shares is also relatively high, but it is believed that this is due to the relatively large number of held shares issued by companies in the utilities and materials sectors in China and Asia.

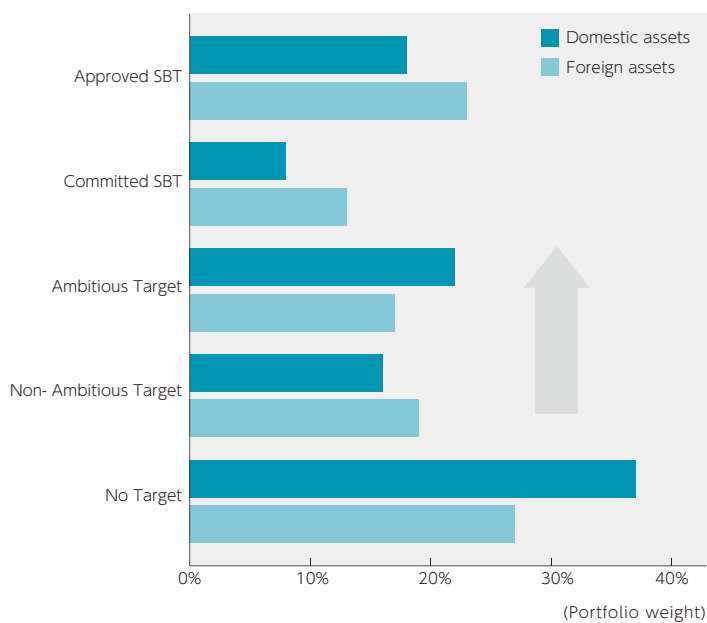
(2) Transition Pathway Analysis

Comparison of the expected pathway for greenhouse gas emissions by all assets managed by SMTAM and emission budgets for each climate change scenario^{8 *9 *10 *11}



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. Specifically, evaluation will be based on the three scenarios of the International Energy Agency (IEA), which are the "SDS: Sustainable Development Scenario," "STEPS: Stated Policy Scenario," and "CPS: Current Policy Scenario." This confirms that the emissions of all assets we manage (all domestic shares, domestic bonds, foreign shares and foreign bonds) are likely to reach the SDS-allowed emissions by 2032. Based on our evaluation, this is a relatively strong tendency with foreign assets, but as stated above, with foreign assets, this is influenced by the relatively large amount of held stocks and bonds in the utilities and materials sectors of China and Asia, which suggests that it is important to support and strengthen initiatives to address climate change issues in these regions and sectors.

Survey on climate-related targets



We recognize that there are many investee companies in our portfolio of managed assets that are not aggressively addressing climate change issues. We consider increasing the number of investee companies that can set ambitious goals, commit to SBT, and obtain certification¹¹ to be an important measure, and we will actively work with investee companies.

4 Indicators and goals

After considering matters such as strategies, risk management, and issues related to access to various data mentioned above, we perform fixed point analysis and transition pathway analysis of domestic shares, domestic bonds, foreign shares, and foreign bonds that we manage individually and collectively. As a responsible institutional investor, in order to achieve the global sustainability agreed upon under the Paris Agreement, we will continue to “hold the increase in the global average temperature to well below 2 degrees above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5 degrees above pre-industrial levels,” in order to ensure sustainability.

Plans for the future

Under the supervision of the Board of Directors, we will continue our efforts and disclosures on climate change issues. We reduce greenhouse gas emissions generated by investee companies through collaboration with stakeholders such as engagement, exercise of voting rights, and policy advocacy activities, provision of investment strategies and investment products in relation to climate change issues, and the optimal allocation of resources with the aim of (1) maximizing customer returns on investments and (2) contributing to climate change issues in cooperation with investee companies. We are committed to continuing our efforts to achieve this goal.

*4 ISS (Institutional Shareholder Services)

*5 Based on Scope 1+2+3

*6 Based on Scope 1+2

*7 Benchmarks are:

Domestic shares: Tokyo Stock Price Index (TOPIX)

Domestic bonds: NOMURA-BPI Overall (Corporate bonds only),

Foreign shares: MSCI-ACWI (ex Japan),

Foreign bonds: Bloomberg Global Overall (excluding Japan) (Corporate bonds only)

*8 Calculated based on the SMTAM holdings for the adjusted corporate value of each asset.

*9 All industries except the fossil fuel production industry: Scope 1+2, Fossil fuel production industry: Scope 3, Electric power: Scope 1

*10 SDS (Sustainable Development Scenario): A scenario aimed at global sustainable development

Scenario in harmony with “initiatives to keep the temperature below +2 degrees and +1.5 degrees” as stipulated in the Paris Agreement.

STEPS (Stated Policy Scenario): Scenario for achieving policy statements

Scenario for achieving the goals stated by governments (end of this century +2.7 degrees)

CPS (Current Policy Scenario): Current policy-keeping scenario

Scenario where the current status maintained without changing policies (end of this century +3.2 degrees)

*11 SBT (Science Based Targets): Targets for reducing greenhouse gas emissions set by companies with a target year of 5 to 15 years in the future in harmony with the standards stipulated in the Paris Agreement. Numerical values must be aligned with the latest indicators from meteorological science. These are implemented as WMB (We Mean Business) initiatives, and are established and carried out by WMB constituent organizations such as the World Resources Institute (WRI) and CDP.

SBT certification: Indicates that goals are certified based on the above. Even after being certified, it is necessary to disclose emission amounts, the progress of measures every year, and to regularly confirm the validity of targets.

SBT commitment: Declaration that SBTs will be set within 2 years.

Corporate Profile

Balance of assets under management

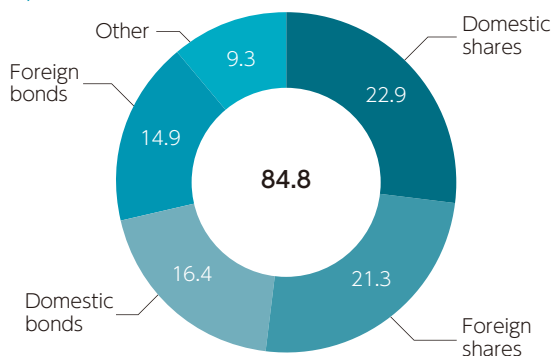
As of the end of June 2021

Investment advisor business: Approx. 69.3 trillion yen

Investment trust business: Approx. 15.5 trillion yen

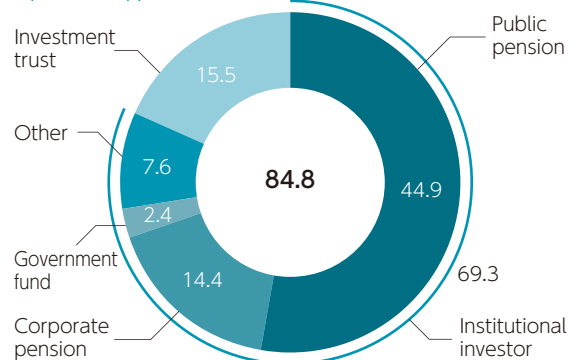
Approx.
84.8 trillion yen

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

■ Communication with Customers

We actively collect feedback from customers in order to improve our stewardship activities. ESG is a major topic in the market, and customer needs are constantly changing. Therefore, we view discussions with customers as precious opportunities to quickly confirm any changes and give these priority. In fact, when we have discussions with customers one to four times a year, we report on our policies and the contents of stewardship activities. We also use opportunities when many of our customers are gathered to explain our initiatives. We continuously use the feedback we receive from customers based on such direct exchanges to improve our initiatives. As a specific example, our top-down approach has been enhanced through feedback received from customers.

Companies exercising voting rights

As of the end of June 2021

Number of Japanese companies: Approx. 2,600 companies

Investment balance: Approx. 23 trillion yen

Number of foreign companies: Approx. 2,700 companies

Investment balance: Approx. 21 trillion yen

Stewardship activities

[Number of meetings per year] July 2020-June 2021

Number of engagement meetings: Approx. 850

Domestic Number of engaged companies: Approx. 430 companies

Number of contacts with companies (Overall**): Approx. 6,600

Overseas Number of engagement meetings: Approx. 380

Number of engaged companies: Approx. 290 companies

* 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	We re-endorsed the revised Principles for Responsible Institutional Investors <<Japan's Stewardship Code>>, which was published on March 24, 2020. Sumitomo Mitsui Trust Asset Management has formulated and published a "Policy for Addressing the Principles of the Japan's Stewardship Code."	·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. 	·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 top-down approach activities for selecting companies for engagement according to each ESG12 topic based on our ESG materiality. ·We continued to focus on market cap approach activities for selecting target companies based on the importance of management issues and market capitalization, and risk approach activities targeting companies that we voted against the management proposals, and companies with misconduct. 	<ul style="list-style-type: none"> ·Through our top-down approach, stage management is implemented for addressing ESG issues, and it was confirmed that we are making progress compared to last year. ·Since this activity started in 2014, as of June 2021, we have engaged with companies representing 90% of the total market value of the first section of the Tokyo Stock Exchange. We have engaged with over 800 companies, and corporate actions being taken based on content from our opinions are increasing.
Principle 4 Dialog with companies	<ul style="list-style-type: none"> ·We promoted collective engagement activities in Japan as a member of the Institutional Investor Collective Engagement Forum (IICEF). 	<ul style="list-style-type: none"> ·Through the IICEF, as the lead manager of the parent-subsiary listing issue agenda, we held collaborative talks with eight companies.
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 October 2020 and January, April, and July 2021). ·We disclosed our reasons for voting on each of the proposals which need explanation in light of the guidelines for exercise of voting rights. We disclosed details on voting activity in the Stewardship Report. ·We revised and published our Guidelines for the Exercise of Voting Rights (in January 2021) 	<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. ·In order to increase the value of investee companies through the sophistication of corporate governance and the addressing of environmental and social issues, as a minimum standard, we will continue revising the guidelines for exercising voting rights in a timely and appropriate manner. ·Based on revisions to the Corporate Governance Code implemented in March 2021, we will consider revising the guidelines for exercising voting rights.
Principle 6 Reporting to clients and beneficiaries	<ul style="list-style-type: none"> ·We are providing explanations about our stewardship activities to asset owners periodically or non-periodically. ·We released our 2020/2021 Stewardship Report in November 2020. 	<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"> ·Participated in the Investor Action on AMR, TNFD, and Net Zero Asset Managers Initiative*. ·We started operation of a U.S. subsidiary (Sumitomo Mitsui Trust Asset Management Americas, Inc) on July 1, 2020 and strengthened engagement activities in the Americas. 	<ul style="list-style-type: none"> ·While pursuing achievements through Global Initiative activities for addressing ESG issues, we will improve our stewardship activities by accumulating skills through these activities. ·Our three bases in Tokyo, London, and New York, makes comprehensive global engagement possible, and the number of engagements with overseas companies has increased significantly.

* See pages 69-70

Announcement of approval of the UK Stewardship Code

As a responsible institutional investor and as a body that has signed the UN PRI, we have made it our aim to achieve sustainability for investee companies and society as a whole by encouraging companies to resolve ESG issues through business excellence. We take 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.”

As an institutional investor with a global business base, in addition to supporting Japan's Stewardship Code, we understand and support the policies of the UK Stewardship Code. The following table shows how the 12 principles of the UK Stewardship Code apply to our activities.

Stewardship code principles		Applicable portion	Corresponding page
Principle1	Purpose, strategy and culture	Message from the CEO Purpose of stewardship activities	3-4, 21-26
Principle2	Governance, resources and incentives	Stewardship Promotion Framework Conflict of interest management ESG Activities and Incentives	27-28, 68
Principle3	Conflicts of interest	Conflict of interest management	28
Principle4	Promoting well-functioning markets	Disclosure of climate-related financial information under TCFD Collaboration with various initiatives	57-64, 69-70
Principle5	Review and assurance	Striving to maximize investment returns as a responsible institutional investor Stewardship Promotion Framework Conflict of interest management Status of top-down engagement initiatives Engagement which contribute to creating corporate value of the investee companies Responding to the Stewardship Code Announcement of approval of the UK Stewardship Code	25-32, 33-40, 66-68
Principle6	Client and beneficiary needs	Corporate Profile	65
Principle7	Stewardship, investment and ESG integration	SMTAM' s ESG12 Topics ESG Integration Impact Investment Strategy Fixed Income ESG	7-8, 47-56

Stewardship code principles		Applicable portion	Corresponding page
Principle8	Monitoring managers and service providers	ESG Integration	48
Principle9	Engagement	SMTAM' s ESG12 Topics Engagement which contribute to creating corporate value of the investee companies ESG Integration	7-8, 33-40, 47-48
Principle10	Collaboration	Collaboration with various initiatives Active Involvement in the Principles for Responsible Investment (PRI)	69-70, 71
Principle11	Escalation	Status of top-down engagement initiatives	29-32
Principle12	Exercising rights and responsibilities	Introducing criteria for exercising voting rights on important issues that are likely to impact corporate value Fixed Income ESG	43-46, 53-56

(Note) We are currently preparing to sign the UK Stewardship Code during 2022.

■ ESG Activities and Incentives

For investment managers including our fund managers and analysts, we have a compensation system where achievements related to ESG integration of the investment process are reflected to incentives. In addition, as a responsible institutional investor, we have established a corporate philosophy and formulated an annual management plan for achieving it. As a result, our philosophy is reflected in the measures and achievements of each department as well as in bonuses linked to these achievements.

Collaboration with various initiatives (as of the end of July 2021)

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.

Global initiatives

Initiatives related to the United Nations and climate change

<p>PRI</p> <p>Principles for responsible investment which requires institutional investors to incorporate ESG factors into investment decision-making processes.</p> <p>Signatory of:  Principles for Responsible Investment</p> <p>Serve on the PRI Japan Network Advisory Committee. Promote policy engagement with governments. Participate in the collaborative task force for strengthening the disclosure of sustainability information by the PRI and the World Business Council for Sustainable Development (WBCSD).</p> <ul style="list-style-type: none"> • Signed in May 2006 	<p>Climate Action 100+</p> <p>Joint engagement organization that requires companies with high GHG emissions to disclose information based on TCFD</p>  <p>In addition to participating in the Global Steering Committee representing Asia, are the lead manager of joint engagement with Asian companies</p> <ul style="list-style-type: none"> • Signed in December 2017 (Responsible for the Asia-Pacific region)
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Initiatives related to specific topics

<p>FAIRR</p> <p>An engagement body focusing on the fishery and livestock industries</p>  <p>Participate in collaborative engagement on work environment issues that have surfaced due to COVID-19. Also participated in a statement calling for the agricultural sector to disclose data on greenhouse gas emissions</p> <ul style="list-style-type: none"> • Signed in October 2018 	<p>SPOTT</p> <p>An initiative established by the Zoological Society of London (ZSL) to support sustainable commodity products</p>  <p>Participated in the 2020 revision of assessment questions as a member of TAG (Technical Advisory Group) for SPOTT</p> <ul style="list-style-type: none"> • Signed in February 2020
<p>30% Coalition, 30% Club</p> <p>An investor network that promotes greater diversity on the boards of directors at investee companies</p>  <p>Utilizing knowledge gained from bases in Europe and the United States related to gender diversity for engagement in Japan. Presently, discussions are moving from gender to race in Europe and the United States.</p> <ul style="list-style-type: none"> • Signed in April 2017 	<p>Access to Medicine</p> <p>A collaborative body in which major asset managers and owners in the United States and Europe seek to improve access to medicine</p>  <p>Taking the lead in engagement activities with Japanese pharmaceutical companies, and are the only Japanese institutional investor to be an international signatory on COVID-19 vaccines.</p> <ul style="list-style-type: none"> • Signed in April 2018
<p>Investor Action on AMR</p> <p>Signatory of the organization that handles collaborative engagement and recommendations to pharmaceutical and agricultural supply chain companies connected to the issue of resistant bacteria</p>  <p>Participated as the only Japanese institutional investor in November 2020, and are actively promoting activities to raise awareness of the resistant bacteria issue through various meetings in Japan and overseas</p> <ul style="list-style-type: none"> • Signed in November 2020 	<p>TNFD</p> <p>A working group that handles engagement and makes recommendations on the disclosure of natural capital information</p>  <p>Joined the informal working group before its start in June 2021 and promoted the official launch project</p> <ul style="list-style-type: none"> • Signed in September 2020

Domestic initiative

Related to climate change

 **TCFD Consortium**

Signatory organization for public/private collaborative efforts to promote climate information disclosure under the framework of the TCFD

Participate in roundtable discussions and exchanged opinions with companies on efforts related to climate change issues

- Signed in May 2019

Initiatives related to specific topics

<p>ESG Disclosure Study Group</p>  <p>General incorporated association that conducts research on ESG information disclosure in collaboration with listed companies and investors</p> <p>Our officers serve as directors. Listed companies, major audit corporations, and institutional investors collaborate to promote research activities on ESG information disclosure</p> <ul style="list-style-type: none"> • Signed in June 2020 	<p>30% Club Japan Investor Group</p>  <p>An investor network that promotes greater diversity on the boards of directors at Japanese investee companies</p> <p>Our President serves as the Investor Group chair Activities for raising awareness on gender diversity are promoted through the creation of annual reports and study sessions</p> <ul style="list-style-type: none"> • Signed in May 2019
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United Nations GC (Global Compact)

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

Engagement is done by including action principles on human rights, labor, the environment, and anti-corruption in our ESG materiality

- 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 (forerunner of the Carbon Disclosure Project)

Send letters encouraging companies to set SBTs (Science Based Targets) by participating in collaborative engagement programs

- Signed in April 2014

Investor group related



Ceres

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

Joined the working group for land use and climate change in May 2021 to strengthen engagement with companies that are closely connected to deforestation

- Signed in April 2017



CII

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

Attended the CII Spring Conference in March 2021. Collected information on corporate governance, financial markets and regulations, accounting/auditing, and diversity

- Signed in June 2018



AIGCC

An Asian investor association on climate change

Lead manager in charge of collaborative engagement with the Asian Utilities Engagement Program launched in March 2021

- Signed in December 2017



ICGN

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

Appointed to the Board of Governors as a representative of Japan in September 2021 Strengthening efforts related to governments, authorities, and exchange in each country to improve corporate governance

- Signed in September 2017



Investor Agenda

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

Supported the 2021 global investor statement to governments on climate change issues

- Signed in June 2019

Net Zero Asset Managers Initiative

Initiative by global asset management companies with the goal of achieving net zero greenhouse gas emissions from managed assets by 2050

Participated in July 2021. Announced the goal of net zero greenhouse gas emissions from owned assets by 2050

- Signed in July 2021

Investor group related



Institutional Investors Collective Engagement Forum

General incorporated association whose purpose is supporting collaborative engagement between institutional investors and companies

Seven domestic institutional investors promote collaborative engagement according to six agendas including issues related to parent-subsidary listings

- Signed in October 2017



Japan Sustainable Investment Forum (JSIF)

NPO whose goal is to promote sound development of sustainable investment and financing in Japan

Our officers serve as directors. Contributed to the White Paper on Sustainable Investment in Japan, and dispatched lecturers to sustainable finance courses at universities sponsored by the organization

- Signed in March 2005



Japan Stewardship Initiative

Organization that manages and revises reporting formats between asset owners and investment institutions, while collecting and sharing information on related best practices.

Contributed as a member company to the spread of smart formats, which are a common platform for reporting stewardship activities to asset owners

- Signed in November 2019

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 2021, the number of signatories had increased to 3,826, representing total AUM of around US\$121.3 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 up until 2020. 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+

* The evaluation for 2021 will be announced later.

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.

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.

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 (SPDJI), 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

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Note on the Decarbonization-related Global Equity Strategic Fund (Asset growth type)/(Expected dividend offer type)

■ Fund overview

Investment is made in the shares of decarbonization-related companies from around the world.

■ Fund investment risk

Because the fund invests in securities with price fluctuations, the base price fluctuates. Therefore, the investment principal is not guaranteed for all investors, and a drop in the net asset value could result in loss and it going below the investment principal. All profit and loss incurred in the trust property belongs to investors. Investment trusts differ from bank accounts.

Stock price fluctuation risk, foreign exchange fluctuation risk, credit risk, theme-oriented investment risk, country risk, liquidity risk, interest volatility risk

* The above are not the only factors that can impact the net asset value.

[Other notes] ● The provisions of Article 37-6 of the Financial Instruments and Exchange Act (referred to as cooling-off) do not apply to fund transactions.

■ Fund costs

▼ Costs directly borne by customers

Purchase fee	This is calculated by multiplying the Purchase value by the Commission rate determined by the sales company. <u>(Upper limit 3.3% (3.0% excluding tax))</u> * It is possible to switch between funds that constitute the "Decarbonization-related Global Equity Strategic Fund." However, some sales companies do not handle switching. Contact your sales company for more details.
Value of assets retained in the trust	<u>None.</u>

▼ Costs indirectly borne by customers

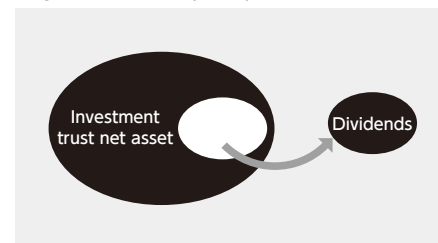
Substantial operation management costs (Trust fee)	<u>Annual rate of up to 1.848%</u> of the total net assets <u>(up to 1.74% excluding tax)</u> This fund invests in other funds. Therefore, substantial operation management costs borne by the customer are calculated by adding the operation and management costs for the investment target fund of the Fund <u>(annual rate of up to 0.66%)</u> to the fund operation and management costs <u>(annual rate of up to 1.276% (up to 1.16% excluding tax))</u> . However, this value is only a guide and varies according to the actual involvement status of the target investment fund.
Other expenses/fees	Audit costs, securities trading/holding, and various costs related to trust administration (audit costs are daily) are borne by the fund. The rate, maximum amount, etc., cannot be indicated in advance for these costs since these vary according to the operational status.

* The total for the above fees, etc., varies according to factors such as the holding period. Therefore, the maximum amount and other items cannot be indicated in advance.

■ Note on dividends

- Unlike interest on bank accounts, dividends are paid from the net assets of the investment trust. Therefore, when dividends are paid, the net asset value decreases by an equivalent amount.
- Dividends may be paid in excess of earnings generated during the calculation period (trading profit including dividend income and valuation profit after deducting expenses). In this case, the net asset value on the settlement date of the current fiscal year will be lower than on the settlement date of the previous fiscal year. In addition, the dividend level does not always indicate the fund's rate of return during the calculation period.
- Depending on the fund purchase value of the investor, some or all of the dividends may closely correspond to a partial refund of the principal. This also applies when the increase in the net asset value is below the dividend amount due to the operational status after purchasing the fund.

Diagram of dividends paid by investment trusts



[Notes]

- This document was created by Sumitomo Mitsui Trust Asset Management. It is not intended as a disclosure document based on the Financial Instruments and Exchange Act.
- Be sure to confirm the latest investment trust manual (prospectus for issuance) before making your own decision on applying for a purchase.
- Because investment trusts invest in securities, which have price fluctuations (foreign currency-denominated assets include foreign exchange fluctuation risk), the base price also fluctuates. Therefore, investment principal and yield are not guaranteed. All profit and loss from fund management belong to investors.
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■ Settings and operation



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Trade name: Sumitomo Mitsui Trust Asset Management Co., Ltd.

Financial Instruments Business Operator, Director of Kanto Local Finance Bureau (Financial instruments firms) No.347

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Member: The Investment Trusts Association, Japan

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Homepage: <https://www.smtam.jp/>



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.