STEWARDSHIP REPORT 2023/2024

SUMITOMO MITSUI TRUST ASSET MANAGEMENT

CONTENTS

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.
The period covered is from July 1, 2022 to June 30, 2023 (including some contents from after July 2023).
Efforts made throughout the Sumitomo Mitsui Trust Group include striving to provide stakeholders with value and collaborating on sustainability activities with scope to boost the long-term corporate value of the Group over time based on transparency.
For more details, visit the Sumitomo Mitsui Trust Holdings website (https://www.smth.jp/csr/).

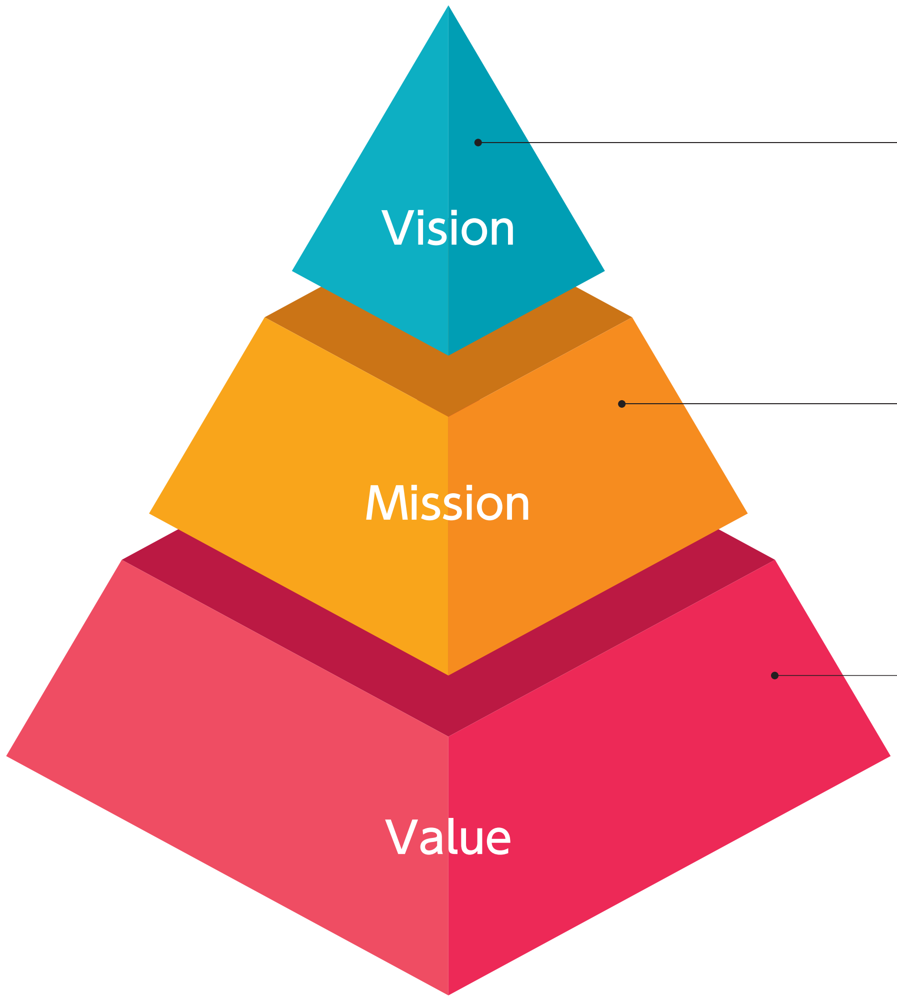
Corporate Philosophy Structure

The corporate philosophy of Sumitomo Mitsui Trust Asset Management is to share various ideas with our diverse stakeholders from a global perspective, continue searching for possibilities leading to a better future, and work to create a society that is not just economically wealthy, but truly affluent.

Based on such concepts, we have established our ideal Vision, our Mission for achieving our ideals, and behavior policies for Values to pursue asset management that aligns with current trends together with our stakeholders.

Our Vision includes our sincere desire in regard to all potentialities in harmony with our founder's ideals and to "open up" new possibilities for a better future.
It also includes our desire to warmly cultivate a "truly affluent society" together with our various stakeholders that is not just economically wealthy, but a "truly affluent society" envisioned by all.

We feel it is our Mission to help everyone to reach future goals and ideals through asset management. For this purpose, our Mission includes working closely with our clients, pursuing the best outcome through dialogue with stakeholders, continuously addressing challenges, and pursuing asset management in harmony with current trends.



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.

The first step in achieving our Vision and Mission is to have our employees adhere to the following six Values as their individual behavior policy.

Stand in the shoes of others and engage in dialogue with empathy

At all times, we will never forget to be considerate of others.
By always putting ourselves in the shoes of others,
we will build relationships of mutual trust through ongoing dialogue based on empathy and consideration.

Have self-awareness and seek constant self-improvement

Growth is possible at any age.
To achieve personal growth, we must consider what we can do for the society in which we live,
first looking carefully at ourselves and continuing to pursue self-improvement to achieve even greater heights.

Expand curiosity and transform awareness into action

Going beyond our own specialized fields, we will keep our sense of curiosity alive,
connecting the insights and ideas we gain from this curiosity to the actions we take.

Create synergies by bringing unique personalities together

Each individual among us brings different strengths to the table.
By respecting talents and personalities that differ from our own,
and by proactively multiplying each other's strengths, we will create innovative synergies.

Pursue quality and value that goes one step ahead

We will continue pursuing quality and value one step ahead of the rest: this is our DNA.
"How can we exceed client expectations?" "How can we become their best partner?"
With these questions in mind, every small step taken by each of us will lead to a major step forward for the company.

Look ahead to the future, continuously challenging ourselves

We will not only respond to the voices of our clients and the changing times,
but also recognize current trends and create new value that is not merely an extension of what we have provided in the past.
Moreover, we will continue to take on the never-ending challenge
of creating products and services that engender both inspiration and excitement.

A new standard of asset management that shares various ideas with our diverse stakeholders

While global circumstances and social/economic environments rapidly change and it becomes more and more difficult to predict what will happen, the expectations of investors and society regarding asset management are getting higher, making us even more keenly aware of our heavy responsibility. The role of asset management is to serve as a bridge between investors and investee companies, to encourage investee companies to improve their corporate value, and provide investment return to investors. We believe it is essential to fulfill our mission of maximizing return on the assets entrusted to us by our clients, and to continuously seek possibilities for a better future to create a truly "affluent" society. To accomplish this, we will endeavor to share various ideas with our diverse stakeholders from a global perspective while pursuing a new standard of asset management.

The concept that addressing ESG issues and working towards improving sustainability are important has become common in society and among investors and companies as a "generality." At the same time, when it comes to "particulars" such as placing priority on issues that need to be resolved and then taking specific action to do so, we face a number of challenges including various restrictions, while also recognizing that the solution may result in other issues. This necessitates taking action from a "compound perspective" based on diversity as opposed to a "singular perspective."

As an example, human capital has gained attention. It is more common for companies to have an awareness that "employees" are important stakeholders in a company. However, some companies have put an end to remote work, which became a countermeasure for COVID-19, while others use hybrid working styles. Still others have long been endeavoring to create diverse working styles. Each company needs to determine the best way to improve their corporate value, and whether the answer is appropriate for that company is indicated by the stock market or human resource market. Increased costs for resources, raw materials, and logistics as a result of geopolitical risks have had a major impact on corporate activities. Although the scale of impact on business performance differs for each company, deciding whether to proactively change company behavior to be more flexible and creative has a more significant impact on corporate value over the medium to long term.

There is also a greater demand for information disclosure by listed companies such as on their priorities and what actions are being taken for ESG issues and sustainability. In Japan, the "Cabinet Office Order on Disclosure of Corporate Affairs" was amended in January of 2023 to require disclosure of human capital and diversity in addition to sustainability in a company's securities report. The International Sustainability Standards Board (ISSB), which was established by the International Financial Reporting Standards (IFRS), officially announced the General Requirements for Disclosure of Sustainability-related Financial Information (S1) and Climate-related Disclosures (S2) in June of 2023, which will require a response by investee companies.

As institutional investors, we need to make good decisions based on the information disclosed by companies while also acting to support company efforts and behavioral changes through engagement. At such times, decisions should be made according to that company's situation and not just a predetermined response, especially when making decisions related to human capital. In other words, it is important that we be able to make an evaluation based on a combination of predetermined performance indicators for horizontal company comparisons, and free performance indicators according to each company's situation.

As a signatory institute of the Principles for Responsible Investment (PRI), we will improve the viability of our stewardship activities through advanced engagement and ability to evaluate companies while also fulfilling our mission to maximize return on assets entrusted to us from clients by improving our operations and implementing product governance.

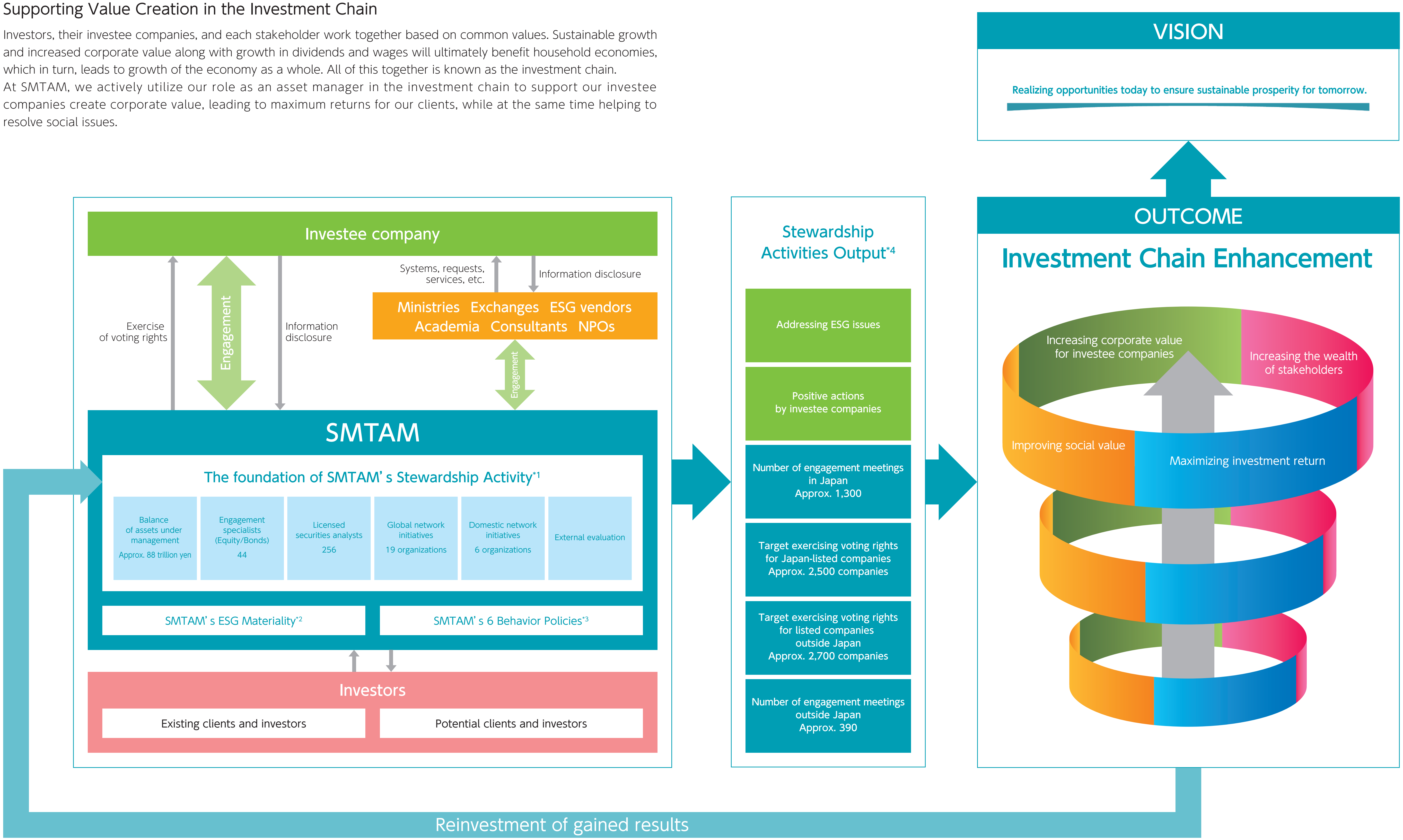
Our Stewardship Report for this fiscal year will introduce the various efforts we have made over the past 12 months. Many pages are used to introduce our engagement activities to give you a better understanding. In the featured article entitled, "Roundtable Discussion by Engagement Specialists in Japan, US, and UK," each participant explains our engagement activities in harmony with global ESG trends. There is also a list showing the relationship among 25 collaborative initiatives in which our company is participating. I hope that this report will help all to understand our company's activities, which are being carried out by everyone reading this booklet including our stakeholders.

Representative Director and President Yoshio Hishida

Purposes of Stewardship Activities

Supporting Value Creation in the Investment Chain

Investors, their investee companies, and each stakeholder work together based on common values. Sustainable growth and increased corporate value along with growth in dividends and wages will ultimately benefit household economies, which in turn, leads to 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 corporate value, leading to maximum returns for our clients, while at the same time helping to resolve social issues.



*1. As of the end of June 2023 *2. See pages 13 and 14. *3. See page 2.

*4. The number of engagements is from July 2022 to June 2023, and the number of target companies for exercise of voting rights is as of the end of June 2023.

1920

Since the 1920s

Initial ethical investment

- Choice of investees based on religious and ethical motives

1960

1960s

SRI as a social movement

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

1990

1990 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

2000

2006

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

PRI Principles for Responsible Investment

2006 SRI

2010

2010s

Integrating the environmental and social impact of investments

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

2015 ESG

2015

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

2019 Impact

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

2020

Evolution of ESG Investments and SMTAM Initiatives

We proactively engage in ESG investment initiatives. The Principles for Responsible Investment (PRI), which were established with the support of the United Nations, encourage institutional investors to incorporate environmental, social and governance (ESG) factors into their investment decision-making processes. In addition to becoming a signatory to the PRI upon its inception in May 2006, we have developed policies in accordance with the six principles. As a responsible institutional investor in favor of Japan's Stewardship Code, and as a signatory of the 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 their business and integrating ESG factors in investments.
Therefore, although ESG issues change over time, the response to such issues and the priority on sustainability are constant. Moreover, it will become ever more important to carefully consider and respond from a long-term perspective while considering such changes. As an asset management company, we take this change seriously, and will continuously pursue the "balance between solving social issues and gaining a return on investments" through support to investee companies.

SMTAM initiatives

2003
- Started offering publicly offered investment trusts of Japan equity SRI for individual investors

2004
- Started offering SRI funds to DC

2006
- Signed PRI (Principles for Responsible Investment)

2010
- Started offering publicly offered investment trusts of China equity SRI

2014
- Accepted Japan's Stewardship Code (SSC)

2015
- Introduced MBIS® for non-financial information assessment
- Launched Quality Growth, a strategy for managing Japanese equity (Research ROE enhancement)

2017
- Established the Stewardship Development Department
- Established the Stewardship Activities Advisory Committee
- Accepted the revised SSC

2019
- Developed investment impact products Set Seeds in Japan equity (Commercialized in 2020)

2019

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

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

2020
- Set Global Equity Impact Fund Seeds
- Accepted the revised SSC

2021
- Listed SMT ETF Carbon Efficient Index Japan Equity

2022
- Bloomberg MSCI Global Aggregate Sustainability A+ Index-Linked Setting (Bonds)
- Started high-return, low-beta strategy (Japanese equity, ESG consideration type) for pension trust

2022

Asia Asset Management magazine
Best of the Bests Country Awards <Japan> Category
Received Best ESG Engagement Initiative

2023
- Our stewardship activities were highly evaluated in Japan and other countries*

* See page 86.

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 incorporating ESG factors into investment decision-making processes. 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 assessments. 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.

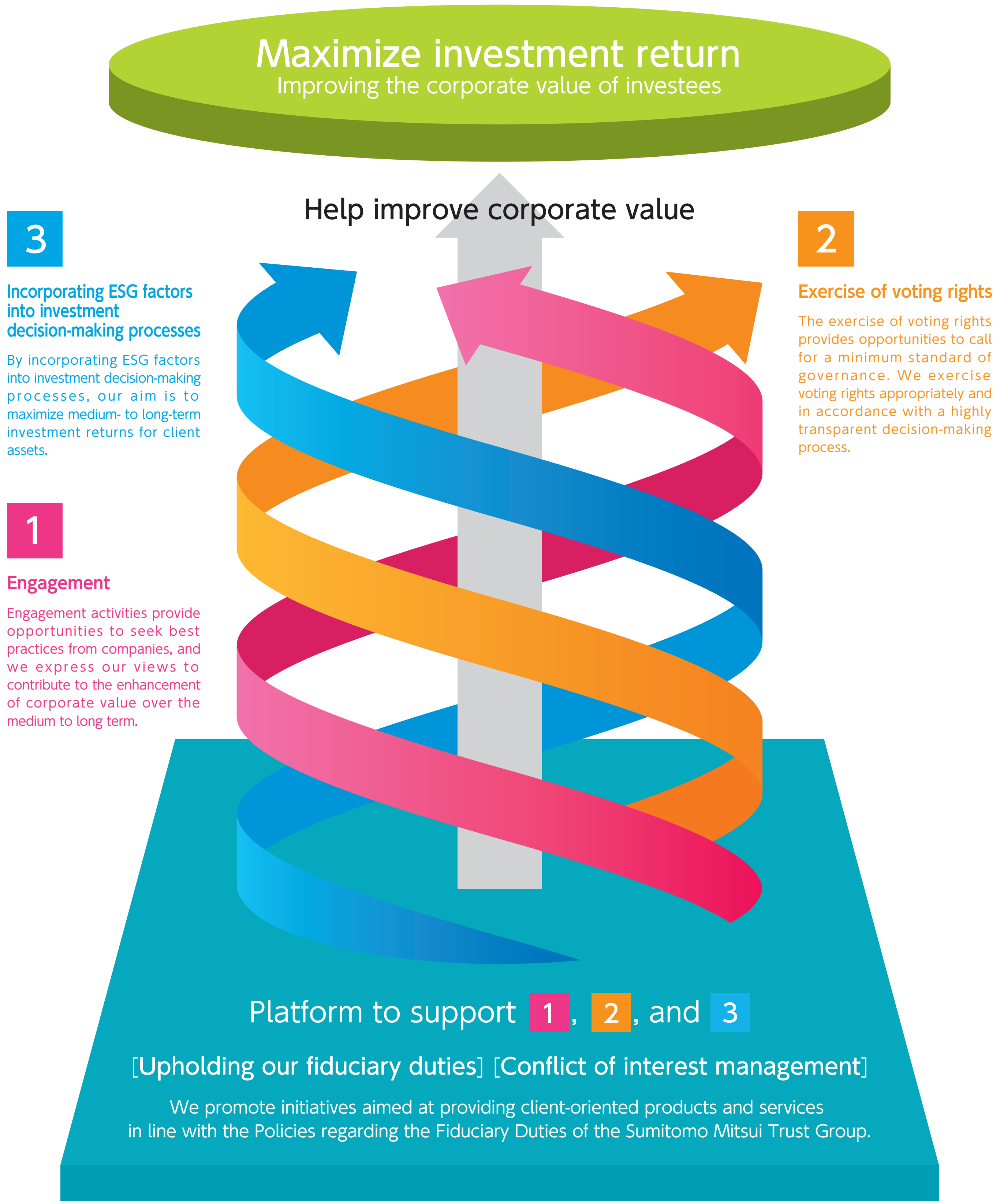
Exercise of Voting Rights 2

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 shareholders' equity; (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 Principles for Exercising Voting Rights based on these criteria. We also actively pursue engagement with companies regarding the exercise of voting rights.

Incorporating ESG Factors into Investment Decision-Making Processes 3

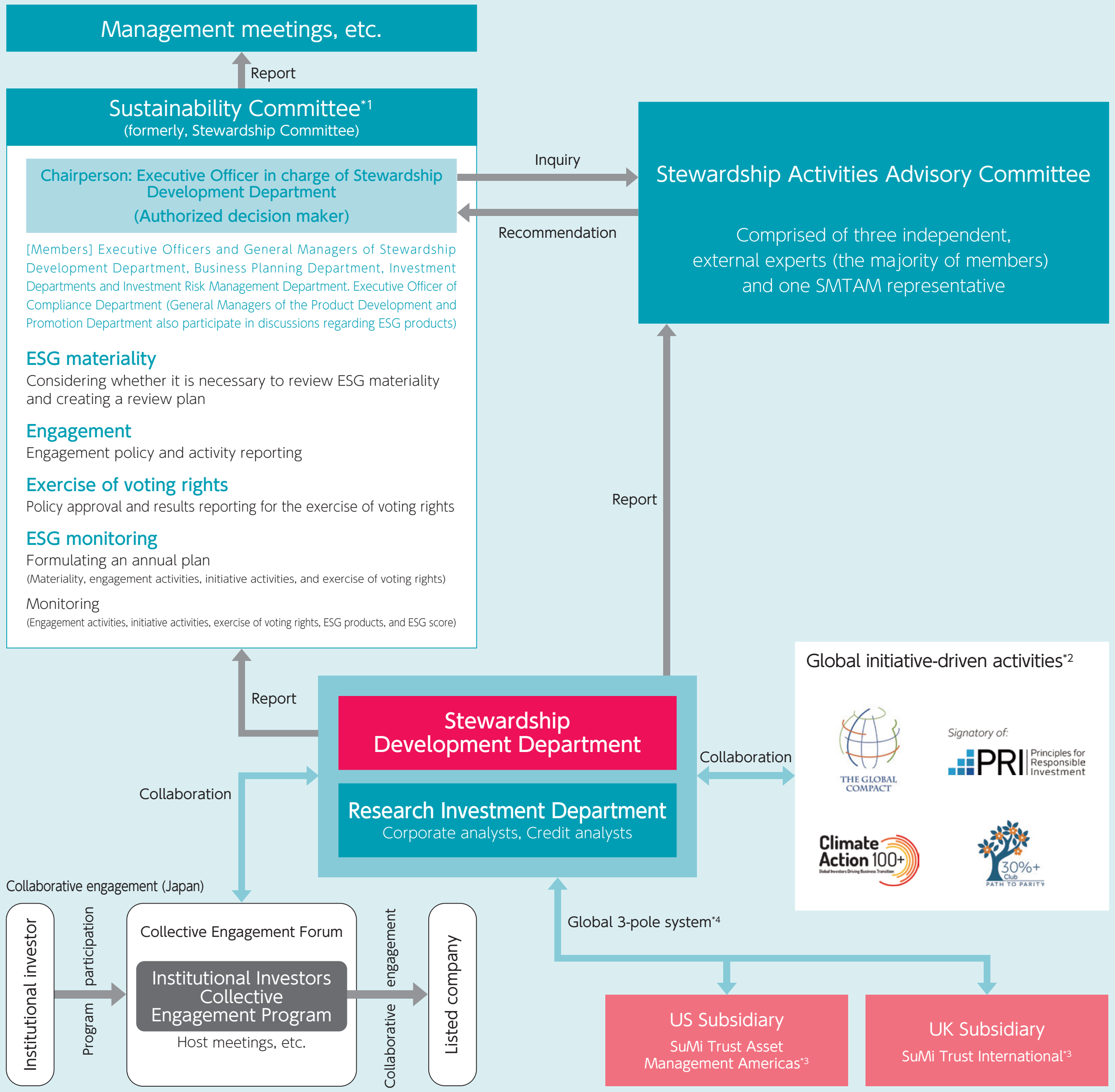
It is important to address ESG issues which can affect investee companies' medium-to-long-term growth. ESG issues reside in non-financial domains and do not manifest themselves in financial reporting, but they may have a considerable impact on corporate value over time. We encourage investee companies to address ESG issues, and support them so that they can minimize impact on corporate value, and increase corporate value by creating business opportunities. In May 2006, SMTAM was among the founding signatories of PRI for prompting them to incorporate ESG factors into their investment decision-making processes. We have also participated in various international initiatives that originated with the PRI and which led to expanded ESG activities being undertaken worldwide. As a signatory to the PRI, we endeavor to pursue investment return upside potential and curb downside risk by incorporating ESG factors into our investment decision-making process and aim to maximize medium- to long-term returns for our clients.

* See page 58.



Stewardship Activities Promotion Framework

Stewardship activities promotion is principally the responsibility of the Stewardship Development Department, which works in conjunction with highly experienced analysts in the Research Investment Department. Within Japan, we execute in-house stewardship, and 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 in-house engagement efforts of our New York and London offices; additionally, we carry out engagement through global initiatives and undertake collaborative activities. All stewardship activities are reviewed and reported to the Sustainability Committee and to the Stewardship Activities Advisory Committee (hereinafter, the Advisory Committee), the majority of whose members are independent, outside experts. At these committee meetings, revisions to the Principles for Exercising Voting Rights are also considered. Sustainability Committee meetings are held every month, and Advisory Committee meetings are held every quarter. Reports on stewardship activities are also made to the Board of Directors, at management meetings, and to the FD Advisory Committee once a year.



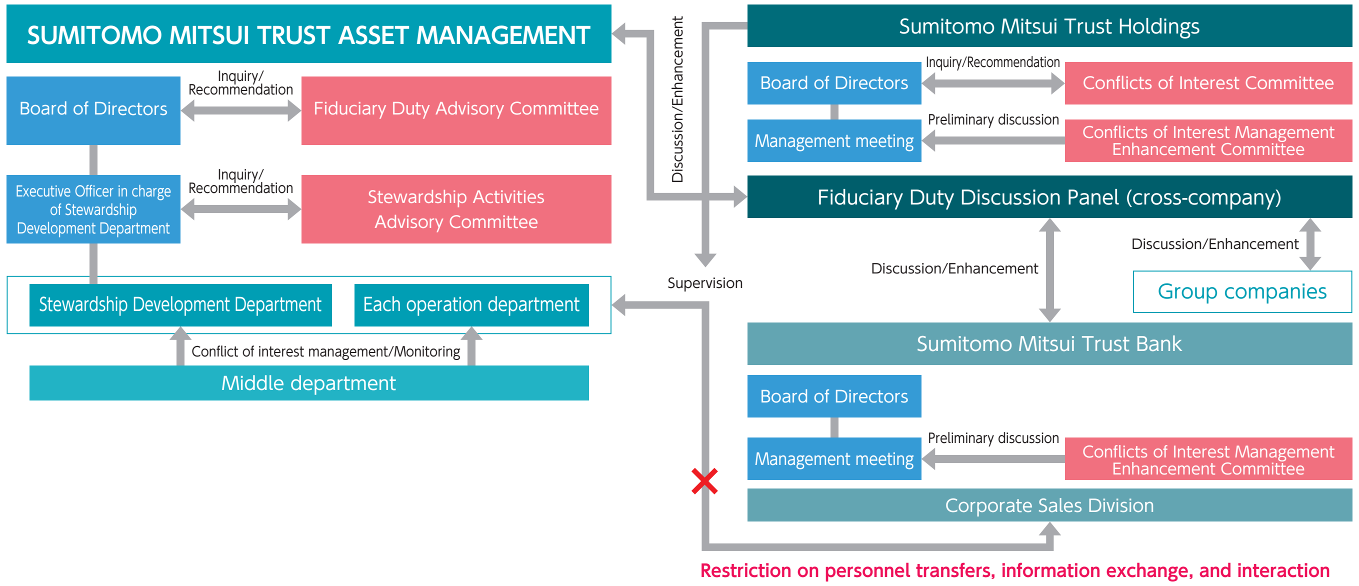
*1. The former Stewardship Committee was reorganized on October 1, 2023.
*2. See pages 17 and 20 for a list of activities.
*3. A subsidiary wholly owned by SMTAM
*4. The 23 employees who engage in stewardship promotion (including those in London and New York) mainly include analysts, portfolio managers, and overseas expatriates. They have an average of 20 years of investment experience.

(As of October 1, 2023)

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 clients (beneficiaries) first. We have also disclosed an overview of the policies determined in these conflict of interest management rules.
https://www.smtam.jp/company/policy/coi/

At the Company, the Executive Officer in charge of 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 Principles 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 2022 to June 2023, determinations were made using the above process for 12 companies.

12 ESG Materialities

We have identified 12 important ESG issues as "ESG materialities." These are sorted from the perspectives of risks and opportunities in order to improve investee value and promote sustainable growth, and are then used for ESG evaluation of investees, engagement activities, and for determining the exercise of voting rights.

	ESG materiality	Risk / Opportunity	Main engagement theme and target	Main activities / Initiative contents from the past year	Future activity policy
Environment	1 Climate Change	Risk	Greenhouse gas emissions reduction Consistency with Paris Agreement (1.5°C scenario)	After positioning climate change as a top priority issue, we promoted goal setting and the formulation of an action plan that aligns with the Paris Agreement in regards to the reduction of greenhouse gas emissions, which is causing natural disasters to intensify. We conducted engagement to request the formulation and disclosure of a detailed action plan for setting interim targets for 2030.	For companies with high emissions, we will encourage the taking of specific effective action as soon as possible. For 2030 interim targets, we will continue having engagements with management for requesting the formulation of viable and specific action plans for the transition path according to the industry while also raising reduction targets in line with the Paris Agreement.
Environment	2 Natural Capital	Risk	Improving the sustainability of corporate activities with high dependency on natural capital and reducing usage amounts Conservation of water resources and forests, and recovery of biodiversity Achieving 30 by 30* by 2030	For companies that have a high dependency on natural capital and resources, discussions were held about the shift to corporate activities that take the protection of natural resources and biodiversity into consideration. Since there are broad concepts involved, we conducted engagement for selecting proper themes and identifying issues, and then encouraged companies to carry these out.	Maintaining and improving natural capital and biodiversity are important obligations for people living today. In addition to efforts for achieving zero damage to natural capital through the conservation of water resources and forests, as well as responsible land use, we will encourage corporate actions that aim to restore and thus maintain and improve natural capital and biodiversity.
Environment	3 Pollution & Waste	Risk	Sustainable procurement of raw materials (palm oil, natural rubber, and timber) Tackling issues of illegal deforestation and agricultural land development, and ocean plastic Reducing waste	We repeatedly engaged with companies connected with initiatives and issues for preventing marine pollution and realizing a circular economy. We engaged in dialogue for requesting initiatives for improving the rate of certification acquisition/procurement related to procurement of raw materials.	To realize a circular economy, it is essential to strengthen cooperation among industries and among companies at each stage of the value chain. We will encourage corporate actions for establishing a circular economy including the development of products and services that take resource recycling into consideration along with education/awareness activities for consumers.
Environment	4 Environmental opportunities	Opportunity	Expanding sales of environmentally-friendly products and services Promotion of technology developments that help reduce environmental load Transitioning to a resource circulation model	Continuous engagements were conducted on clarification of definitions for target products and services as well as on target setting in order to encourage the promotion of company technological development and sale of products and services that will help reduce 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 encourage companies to take the initiative to realize this and to improve corporate value.
Social	5 Human Rights & Community	Risk	Enhancement of human rights due diligence, and visualization of responses/handling of human rights issues by setting up a grievance mechanism Environmental load and work environment, management of chemicals, and ensuring traceability of conflict minerals Just transition	We conducted engagement for requesting management of risks related to human rights violations including child labor and forced labor among immigrants, and for establishing a system of due diligence for preventing potential human rights violations. We also advanced engagements on implementing structures such as board of director regulations and a grievance mechanism to improve traceability of raw materials and to better understand supply chain risks.	In addition to risk management by establishing a human rights policy and establishing and operating a system for human rights due diligence, we will also encourage proactive information disclosure on related initiatives for improving corporate value. We will encourage improvement of community sustainability by reducing the supply chain load and "just transition."
Social	6 Human Capital	Risk	Clarification of human resource strategies (Human resource development, recruitment, placement, and evaluation) Improving employee engagement Promotion of DE&I management, establishment of diversified working styles, and a more flexible organization culture	We conducted engagement on initiatives for reducing the workforce and improving human productivity through work style reforms associated with the spread of remote work and the promotion of digital transformation (DX). We also conducted engagement for correcting engagement indexes and labor habits that appear negative from an international perspective, and on initiatives for eliminating gender gaps while considering how to ensure human resources and improving company ability in the midst of declining birthrates and aging populations.	While utilizing human capital by promoting DE&I management, we will continue conducting engagements for requesting initiatives to improve corporate value. These initiatives include enhancing employee engagement, disseminating corporate philosophy and business strategies, and fostering each employee's ability to create value.
Social	7 Safety & Responsibility	Risk	Promotion of well-being initiatives Improving access to medicine, countermeasures for infectious disease, and responding to antimicrobial resistance issues Product safety management and zero occupational accidents	We discussed AMR issues as potential risks in addition to maintaining/managing the health and safety of employees while securing and improving access to medicine globally.	From the perspective of well-being, we will encourage initiatives for maintaining/managing the health and safety of employees, and for improving the ability of each employee to create value for increasing corporate value. We will also continue having engagements for requesting initiatives to improve external evaluations through active information disclosure on improving access to medicine globally.
Social	8 Social Opportunities	Opportunity	Expansion and promotion of products and services that address social issues Building sustainable social infrastructure and business model	We had engagements on relationships and initiatives for enhancing local infrastructure sustainability, reforming business models, and addressing social issues through company products and services, which also contribute to increasing corporate value, as well as on initiatives aimed at improving disclosure practices and establishing clear goals.	We will promote initiatives for business that resolves social issues by creating employment opportunities and job support. We will also encourage companies to shift to a business model that is sustainable within communities with aging populations and declining birthrates.
Governance	9 Behavior	Risk	Promotion of non-financial (ESG) information disclosure Improving awareness of capital efficiency and capital cost Promotion of proper capital policies and business portfolio reforms Purpose management (vision, mission, value) and alignment with the management strategy	While encouraging 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 such as by reviewing business portfolios based on capital costs.	A backcast perspective based on a long-term vision is important for a company's medium-term management plan. We will continue to have discussion with management personnel on setting goals through backcasting as external uncertainties increase, and on their achievement, along with the resolution of various issues.
Governance	10 Structure	Risk	Board of director structure and skill set Promotion of board diversity	We held repeated discussions with companies about forming the optimal structure for the board of directors for achieving ideals such as promoting diversity and improving the skill set of the board of directors.	We will encourage the improvement of corporate value through the establishment of a diverse board of directors necessary for realizing its purpose, corporate philosophy, and long-term vision.
Governance	11 Stability & Justice	Risk	Better governance of company misconduct and prevention of recurrence Enhancement of risk management Improvement of management rules (Cross-shareholding, takeover defense measures) Reviewing and enhancing group governance systems (Including parent-subsidiary listing issues)	We encouraged companies facing misconduct to investigate the cause and establish measures for preventing recurrence while organizing a monitoring system. In cases where the cause seemed to be related to governance, we held discussions on the need to review and enhance the governance system. We continued engagements to emphasize the need to improve management discipline by reducing cross-held shares and abolishing defense measures for takeovers where there is advance warning.	We will continue to engage with companies that have experienced misconduct, encouraging actions to prevent its recurrence and to improve management discipline, as well as requesting the establishment of risk management processes to prevent such incidents beforehand.
Governance	12 Governance Improvement	Opportunity	Improving the effectiveness of the board of directors (Fulfillment of roles by independent external directors, remunerations system for directors, and planning for successors)	Dialogues were repeatedly held on initiatives for enhancing the effectiveness of the board of directors, including demonstrating the independence of external directors, designing proper incentives for director remuneration, and developing plans for the necessary skills and training of successors.	We will promote the improvements to corporate value by encouraging the establishment of a foundation that allows each director to demonstrate their potential and to fulfill their role.

*30 by 30: G7 goal that aims to halt and reverse the loss of biodiversity by preserving at least 30% of land and ocean areas as healthy ecosystems by 2030.

Engagement

Engagement is one of the three pillars of our stewardship activities. In addition to investee companies, engagement is carried out with various stakeholders including public agencies, exchanges, industry groups, NGOs, and academic institutions. While engagement is something we can do on our own, it is also done in collaboration with other investors who share the same beliefs. Engagement also includes activities that expand the investor base. This "Engagement" section will go into detail on our engagement activities.

SMTAM's Collaborative Engagement

SMTAM's Materiality	Environment: Climate Change	Environment: Natural Capital	Social: Human Rights & Community	Social: Human Capital	Social: Security Responsibility	Governance: Governance Improvement	Other: Market Development / Reports
According to purpose – Support pledge	[3] United Nations GC						
Awareness, information sharing, and activity promotion	[1] PRI						
				[7] 30% Club (UK) [7] Thirty Percent Coalition (US) [22] 30% Club (Japan)	[9] AMR	[17] ICGN [15] CII (US)	
Collaborative engagement	[2] Climate Action 100+	[1] PRI Stewardship Initiative on Nature	[1] PRI Advance		[8] ATM		
		[12] FSDA					
	[16] AIGCC (Asia)	[13] NA100					
	[14] Ceres (US) - Climate change	Water	Human rights issues				
	[5] FAIRR - Climate change	Environmental pollution	Labour issues				
	[23] IICEF (Japan)						
Policy engagement	[18] The Investor Agenda	[11] IPDD					
	[1] PRI Collaborative Sovereign Engagement (Australia)						
Information disclosure and analysis	[4] CDP - Climate change	Water and forests					
		[6] SPOTT					
	[20] TCFD Consortium (Japan)	[10] TNFD Forum					
	[21] EDSG (Japan)						
Other (Asset management company organizations)	[19] Net Zero Asset Managers initiative						[24] JSIF (Japan) [25] JSI (Japan)

Note 1: For working groups, only PRI is listed.
Note 2: Initiatives without a region such as (Japan), (UK), (US), or (Asia), are global.
Note 3: Numbers at the beginning of initiatives indicate the initiative No. in the list (pages 17-20).

▶For more details about each initiative, see pages 17-20.

Certain social issues such as climate change are global. Collaborative engagement is an approach to such issues across barriers in collaboration with other investors who share the same beliefs. Of course, it is not limited to global matters. There are also local and domestic activities. SMTAM has been actively promoting collaborative engagement to support individual engagement activities, as actions that we believe can have an effect greater than the sum of individual companies, and as a way to improve the functionality and efficiency of our activities. Our participation is determined by whether (1) it is in harmony with our ESG materiality, (2) we expect a synergetic effect with individual engagement, and (3) we expect to gain new know-how. There are various initiatives for such collaborative engagement. As the above table shows, we are participating in 25 initiatives as of June 2023. We believe it to be important that all such activities by done systematically, be in harmony with our ESG materiality, and result in mutual benefits. These were selected based on such criteria.

Activities and information are shared among our three offices. Initiatives in the US are engaged in by members in the US and Tokyo offices, initiatives in Europe are done in collaboration with members from the UK and Tokyo offices, while activities in Japan and Asia/Australia are mainly engaged in by members from the Tokyo office. We efficiently and effectively engage with companies and carry out policy engagement with governmental parties as we collect information.

For example, we are participating in initiatives related to climate change, which we consider to be important, such as Climate Action 100+ (CA100+, [2]), The Asia Investor Group on Climate Change (AIGCC, [16]), Farm Animal Investment Risk & Return (FAIRR, [5]), Ceres ([14]), Carbon Disclosure Project (CDP, [4]), and The Investor Agenda ([18]). These allow us to promote multi-layered engagement with companies, policy engagement with policy makers, and promote systematic/integrated improvements to information disclosure and analysis.

As for natural capital, we are expanding our activities that are related to information disclosure and analysis to The Investors Policy Dialogue on Deforestation (IPDD, [11]), Finance Sector Deforestation Action (FSDA, [12]), Nature Action 100 (NA100, [13]) in addition to TNFD Forum ([10]) and SPOTT ([6]) in order to strengthen systematic/integrated activities for natural capital.

We are also proactively involved in management of initiatives. For example, we have been appointed as management committee members who oversee the activities of the IPDD, Board of Governors of the International Corporate Governance Network (ICGN, [17]), Advisory Group members of the Net Zero Asset Managers initiative (NZAMI, [19]), chair of the 30% Club Japan Investor Group ([22]), and as a director of the ESG Disclosure Study Group (EDSG, [21]).

Participating in such initiatives has significant merits such as helping us to understand global trends related to ESG issues and how best to respond. Bringing back such information to Japan helps us to enhance our overall stewardship activities.

As an example, the FSDA, which we began participating in 2022 (signatory in 2021) is an initiative related to natural capital that is designed to prevent the destruction of forests in the soft commodities supply chain. Since companies outside Japan are more advanced when it comes to information disclosure on forest conservation, we utilize the knowledge we learned through our participation by applying it to engagement with investee companies and to information provision in Japan.

Collaboration with Various Initiatives (As of the end of July 2023)

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.

			Title	Date signed	Initiative details	Affiliated working group (Year principally indicates participation year)	Main accomplishments from activities in the past year (Principally from July 2022 to June 2023)
Global initiatives	UN climate change-related	1	PRI	May 2006	This was established under of the United Nations Environment Programme Finance Initiative (UNEP FI). The purpose is to promote investment activities and stewardship activities based on the Principles for Responsible Investment by investment managers for creating a sustainable society as promoted by the United Nations. We have been a participant since its inception. To date, this agreement has been signed by around 5,400* investment managers, asset owners, data service companies, and others, and total assets under management by signatory managers have reached 121 trillion USD. It is an essential initiative for global investment managers.	[1] PRI Advance (2022)	- As a collaboration manager, we conducted collaborative engagement for human rights with companies in the raw materials sector in Korea and China.
						[2] PRI Collaborative Sovereign Engagement (Australia) (2023)	- We attended meetings with responsible persons in the Australian government to exchange opinions.
						[3] PRI Stewardship Initiative on Nature (2023)	- At the PRI Webinar Series (5 in total), we joined as a panelist in the second webinar entitled "Climate Change Issues and Activities based on Global Initiatives" and the fifth webinar entitled "Biodiversity and TNFD / Trends with Investors."
		2	Climate Action 100+	December 2017	The purpose is to reduce greenhouse gas emissions, improve climate change governance, and strengthen information disclosure related to climate with the goal of having target engagement companies comply with Paris Agreement standards. It is operated and coordinated by five investor networks, which are PRI, AIGCC, Ceres, IGCC, and IIGCC. Around 740* investment managers are participating to promote collaborative engagement with about 170* global companies that have large greenhouse gas emissions.		- As a lead manager, we continued to have collaborative engagement mainly with Asian companies in Japan, Indonesia, Korea, and Thailand. As a collaboration manager, we continued to have collaborative engagement with companies in the US. - As a lead manager, we discussed ideal global decarbonization pathways for the steel industry, discussed disclosure and evaluation methods for contributing parts to decarbonization through provision of technologies, products, and services from major electronics industries, and discussed ideal disclosure on lobbying for examining engagement contents.
		3	United Nations GC (Global Compact)	July 2005 as the Sumitomo Mitsui Trust Group	All Ten Principles of the four areas defined by the United Nations Global Compact (human rights, labour, environment, and anti-corruption) are recognized internationally as universal values adopted and agreed to globally. Signatory members agree with the 10 principles and are required to make continuous efforts to achieve these based on the commitment of top executives from their companies and organizations.		
		4	CDP	April 2014	They promote information disclosure by companies on natural capital such as water security and forests in addition to climate change with the goal of resolving climate change issues and helping to preserve and restore natural capital. They send questionnaires to companies about information disclosure regarding these matters, and depending on the response, they give a score and provide this as reference information for engagement to participating investors.		- We participated in a panel discussion hosted by the CDP (Singapore) at an event of the UN water conference, and discussed water security with ASEAN government agencies and businesses.
	Specific topic-related	5	FAIRR	October 2018	Their purpose is to raise awareness of risks and opportunities related to ESG in the global food sector. It focuses on sustainability issues related to intensive livestock farming, including environmental pollution, labor issues, antimicrobial resistance, and climate change issues, and participates in collaborative engagement with the aim of minimizing system risks over the long term from a broad perspective in the food value chain while encouraging responses to related business opportunities.	[1] Sustainable Proteins (2021)	- As a lead manager, we conducted collaborative engagement with food makers in the US based on the theme of sustainable protein.
						[2] Working Conditions in Global Meat Supply Chains (2021)	- As a lead manager, we conducted collaborative engagement with Brazilian meat packaging companies about their work environment.
		6	SPOTT	February 2020	This was established by the Zoological Society of London (ZSL). Their purpose is to give a score to companies related to palm oil, timber, and natural rubber based on sector-specific ESG indicators with the purpose of monitoring the progress of responses to long-term issues. They provide these scores to asset management companies and others, and provide support for improving ESG risk management, relationships with stakeholders, and transparency across multiple industries.		- As a member of TAG (Technical advisory group), we exchanged opinions with members in the London office and discussed how to improve assessments of the natural rubber supply chain.
		7	30% Club UK Investor Group, Thirty Percent Coalition	April 2017	The 30% Club UK Investor Group is a working group consisting of institutional investors in the UK engaged in a global campaign aiming to increase the percentage of women in decision-making bodies at companies including the boards of directors. The purpose of the Thirty Percent Coalition is to increase the diversity of boards of directors and senior management of companies in the US. The aim of both is to achieve diversity in companies by sharing best practices and participating in joint campaigns with the goal of hiring diverse directors not just in regard to gender but also race and ethnicity.		- The 30% Club UK Investor Group introduced case studies from business companies, created analysis reports on diversity, and shared best practices related to 30% Club initiatives from other regions. - At the annual meeting of the Thirty Percent Coalition in November 2022, commissioners of the SEC (U.S. Securities and Exchange Commission) and women and minority directors from companies in the US were invited to a panel discussion, and reports, etc., were presented on diversity analysis for boards of directors of companies in the US. - We directly participated in these activities by utilizing our 3-pole system including our offices in the US and UK, and learned about advanced diversity activities in Europe and the US.
		8	Access to Medicine	April 2018	This was established with funding from the Bill & Melinda Gates Foundation and the UK and Dutch governments. Its purpose is to encourage major pharmaceutical companies around the world to provide medicines and medical services to developing countries, and to improve their medical infrastructures so that public health can be improved in these countries.		- As a lead manager with major pharmaceutical companies in Japan, we promoted collaborative engagement to encourage them to establish and implement a management strategy for improving access to medicine. - We appeared on stage at the Access to Medicine Index Tokyo Conference held in December 2022, and presented our initiatives.
		9	Investor Action on AMR	November 2020	This was established by Access to Medicine, FAIRR, and the UK's Department of Health and Social Care at the World Economic Forum Annual Meeting (Davos) held in January 2020. Its purpose is to encourage investors to take the initiative regarding the global issue of antimicrobial resistance (AMR), and to improve social acknowledgment of its threat in order to protect social, economic, and long-term portfolio value.		- We participated in the NIKKEI FT Communicable Diseases Conference that was held in November 2022 as the only investment manager from Japan, and presented our views and specific initiatives on AMR.
		10	TNFD Forum	Jun 2021	Its purpose is to encourage companies to disclose information on natural capital according to the TCFD, which is an information disclosure framework for climate change. There are over 1,000 stakeholder organizations* who participate including financial institutions and government officials. They published a preliminary version (beta version) of the TNFD information disclosure framework, solicited public comments on it, held discussions on the final plan, and then published the final proposal (v1.0) in September 2023.		- We participated in the preliminary committee that was set up in September 2020, and also joined in public comments. We also participated in and gave recommendations at the TNFD meeting at the 15th Conference of the Parties to the UN Convention on Biological Diversity (COP 15) held in Montreal, Canada in 2022.
		11	IPDD	July 2020	Its purpose is to promote policy engagement on forest conservation with the governments of each country. Since forest resources play an important role in climate change as carbon sinks, it promotes collaborative engagement with the governments of Brazil and Indonesia, which have large areas of tropical rainforest, to encourage stricter policies on land usage.	[1] Brazil Engagement Group (2020)	- As a management committee member for supervising and managing group activities, we are involved in the operation and management of initiatives. - In April of 2023, we had dialogue with the new President Lula administration of Brazil, and exchanged opinions and gave recommendations on forest conservation in the Amazon according to the local situation.
						[2] Indonesia Engagement Group (2021)	- In October 2022, we held a meeting with the government and people related to financial markets in Indonesia. A "Memorandum of Understanding" was concluded with the Jakarta Stock Exchange and IPDD for providing advice on sustainability.
						[3] Consumer Countries Group (2022)	- For the European Commission, we conducted policy engagement with countries and regions (including the US, Europe, and China) that import and consume agricultural products and processed products, like palm oil and soy, which are at risk of contributing to deforestation.
		12	FSDA	November 2021	At COP26 held in 2021, we agreed and signed the Financial Sector Commitment Letter on Eliminating Commodity Driven Deforestation. Later, this was established mainly by signatory institutions with the purpose of stopping the destruction of forests in the soft commodities supply chain. Collaborative engagement has been promoted throughout the world with more than 70 companies that are deeply involved in deforestation.		- In September 2022, we began collaborative engagement with companies that have a soft commodities supply chain. We encouraged companies in Japan, Korea, Malaysia, and Indonesia as well as financial institutions that provide finances to such businesses, to disclose and implement effective measures for avoiding deforestation risks by 2025.
		13	Nature Action 100 — NA100	September 2023	Under the notion that more than half of the world's GDP depends on natural capital, and that depletion of natural capital will negatively impact the global economy, its purpose is to halt and reverse the loss of nature and biodiversity by 2030 (nature positive). It is planning to promote collaborative engagement for encouraging the top 100 companies in the world with high dependency and impact on natural capital to improve their information disclosure and governance, and to change their behavior through these.		- We participated in events at the COP15 held in Montreal, Canada, and were present at the NA100 launch announcement. We were also on stage for discussions about the purpose of its activities.

* As of March 2021

			Title	Date signed	Initiative details	Affiliated working group (Year principally indicates participation year)	Main accomplishments from activities in the past year (Principally from July 2022 to June 2023)
Global initiatives	Investor group-related	14	Ceres	April 2017	Its purpose is to help resolve environmental issues related to climate change and water resources as well as issues with sustainability including related human rights issues through wide global network collaboration with investors, companies, and non-profit organizations. It aspires to achieve sustainable economic growth and capital market development, and therefore promotes collaborative engagement, uses science to analyze issues, proposes solutions, and promotes policy advocacy.	[1] Investor Water Hub (2019)	- With the Valuing Water Finance Initiative, we conducted collaborative engagement with US fast food companies as a lead manager, and as a collaboration manager for US beverage companies.
						[2] Biodiversity Working Group (2020)	- We conducted collaborative engagement on deforestation in Brazil with grain trading companies in the US.
						[3] Food Emission 50 (2021)	- We conducted collaborative engagement on climate change risks in agriculture supply chains with meatpacking companies and discount stores in the US.
						[4] Paris Aligned Investment (2021)	- We participated in panel discussions of the Paris Aligned Investment Working Group. We explained the status of our efforts related to natural capital and climate change.
		15	CII	June 2018	Its purpose is to achieve effective corporate governance, strong shareholder rights, and sensible financial regulations that foster fair, vibrant capital markets. Most participants are asset owners and asset management companies in the US. It promotes education for investors on corporate governance, policy advocacy, and stakeholder engagement.		- We participated in regular meetings held every six months in the US in September 2022 and March 2023. We collected information on corporate governance, financial markets and regulations, accounting/auditing, and diversity.
		16	AIGCC	December 2017	Its purpose is to encourage companies in Asia to reduce greenhouse gas emissions, improve climate change governance, and strengthen information disclosure on the climate. It also plays a supervisory role in Climate Action 100+ for the Asia region. Investment managers in Asia conduct collaborative engagement to promote the "Asian Utilities Engagement Program (AUEP)" targeting major public utility organizations in Asia including Japan.	[1] Energy Transition Working Group (2023) [2] Forest and Land Use Working Group (2023)	- As a lead manager, we continue to have collaborative engagement with major power company groups in Japan. - We began participating in working groups [1] and [2] for the first time and proactively joined in discussions on solutions to cross-sectional energy issues in Asia and issues related to forest and land usage.
		17	ICGN	September 2017	Its purpose is to establish global standards for corporate governance. It provides recommendations and practices collaborative engagement with policy makers including relevant authorities and related organizations in each country and region.	Natural Capital Committee (2021) Policy Oversight Committee (2021)	- We are appointed to the Board of Governors. - At the Japan/Korea conferences held in October 2022, we participated in panel discussions on corporate governance reforms for these countries, and gave our opinions and lobbied with related organizations such as the Financial Services Agency, Ministry of Economy, Trade and Industry, and KEIDANREN (Japan Business Federation). - As a board member of the ICGN, we participate in the Natural Capital Committee and Policy Oversight Committee.
		18	The Investor Agenda	June 2019	Its purpose is to speak out for investors who request countries participating in conferences on climate change and international conferences such as the G7 and G20 to strengthen measures on climate change. In addition, in 2022, they announced a new evaluation framework for performing self-evaluations for stewardship activities related to climate change issues by investment companies referred to as ICAP, and they recommend that investment companies disclose information using ICAP.	Global Investor Statement to Governments on The Investor Agenda Climate Crisis (Signed and agreed to the 2023 Investor Statement)	- In the statement made in July 2023, in addition to climate change, we repeated appeals to strengthen measures for protecting forest resources that are deeply connected to climate change. - We conducted a self-evaluation of our stewardship activities related to climate change according to ICAP, and disclosed it in our Stewardship Report.
		19	Net Zero Asset Managers initiative	July 2021	This is an international group of asset management companies with the goal of achieving net zero greenhouse gas emissions from assets under management by 2050 in harmony with global initiatives to limit global warming to 1.5°C.		- We have been appointed as an Advisory Group member. - We participated in an in-person meeting held with the NZAOA (Net-Zero Asset Owner Alliance) in London as an NZAMI Advisory Committee member. We conducted an exchange of opinions between asset owners and asset managers about initiatives for climate change issues. - We took the stage as a representative of the Asia region Advisory Group at the NZAM Bi-Annual Signatories Meeting. (Australia, held online)
Domestic initiatives	Climate change-related	20	TCFD Consortium	May 2019	Their purpose is to create opportunities for discussing initiatives on promoting effective information disclosure by companies and linking the disclosed information to proper investment/loan decisions by financial institutes, etc., through the integrated efforts of companies and financial institutes who agree with TCFD recommendations. It expects to have active discussions on effective information disclosure while also proactively participating in international discussions and information sharing so that such initiatives are accepted by the global market.		- We participated in the TCFD roundtable, which included investment managers and issuing bodies, and gave advice on disclosure that we, as an investment manager, expect from the participating business companies (participating listed companies), along with exchanging opinions.
	Specific topic-related	21	ESG Information Disclosure Study Group	June 2020	Their goal is to create a system for aligning the sustainable development of society with the enhancement and growth of corporate value. Listed companies, institutional investors, and public agencies collaborate for achieving an effective and efficient ESG information disclosure framework, collect practical examples (verification), and promote mutual understanding among stakeholders for better decision-making. Such achievements are shared in Japan and throughout the world, and in particular, recommendations are shared with the ISSB, etc. Its purpose is also to provide helpful reference materials to companies who want to improve their ESG information disclosure. As of the end of June 2023, it is comprised of 117 listed companies and institutional investors along with 11 other organizations. The subcommittee for improving integrated reports, subcommittee on human capital, and expert study groups are organized for sharing information.		- We participate as a Full Membership company with our Senior Managing Director, Hiroyuki Horii, serving as a Director, while other SMTAM employees are members of plan working groups. During the year from July 2022 to June 2023, we held monthly study groups and regular general meetings in addition to the "Subcommittee for improving integrated reports (targeting four listed companies)," "Subcommittee on human capital disclosure," and "Subcommittee for analyzing the relationship between S-factor and financial value." We also submitted a letter with our comments on the ISSB public draft by the IFRS Foundation. We published a one-year activity report in June 2023. In this way, we strengthened relationships with member companies and deepened our understanding of ESG information disclosure.
		22	30% Club Japan Investor Group	May 2019	This is the Japan branch of the 30% Club, which was established in the UK. It has a global campaign designed to increase the percentage of women in decision-making bodies at companies including boards of directors. A common goal is to increase the percentage of women on the boards of directors at TPX100 companies* to 30% by 2030, and their activities are designed to share the importance of gender diversity with top management through constructive engagement with boards of directors and senior management at investee companies to contribute to their achievements. For the institutional investor community, best practices for achieving gender diversity with company top management are established and shared for improving ability to engage with all institutional investors.		- We issued progress reports including examples of best practices for engagement in November 2022 and March 2023. We also engaged in a public awareness campaigns by holding events targeting female senior leaders at TOPIX companies who are main members of the initiative body. SMTAM President Yoshio Hishida is the chair for the Investor Group and a member of the Steering Committee that is managing organization for 30% Club Japan, and as the top person, he is taking the lead in managing these.
	Investor group-related	23	Institutional Investors Collective Engagement Forum	October 2017	Their purpose is to support proper stewardship activities by institutional investors for contributing to a positive economic cycle. They support constructive and "purposeful dialogues" (collective engagement) by institutional investors through working with companies. In particular, the Forum operates the "Institutional Investors Collective Engagement Program" as a way to practice collective engagement for allowing participation by each institutional investor. As of the end of June 2023, participants include six asset management companies and one asset owner organization. They currently have six agendas, which are "Identification of materiality and disclosure of non-financial information," "Scandal handling," "Responding to proposals with many "against" votes at general shareholders meetings," "Explanation of the necessity of takeover defense measures," "Reduction of cross-shareholdings," and "Enhancing governance for parent-subsidiary listings."		- We sent letters for each of the six agendas at the left, and practiced collective engagement with several companies who responded. We are also the lead manager for the "Enhancing governance for parent-subsidiary listings" agenda, and practiced collective engagement with major steel companies over the past year.
		24	Japan Sustainable Investment Forum (JSIF)	March 2005	Their purpose is to promote and develop sustainable investment (such as socially responsible investment [SRI] and ESG investment), which has been practiced in Europe and the US, in Japan.They provide a forum for interactive exchange and study for people and institutions involved in SRI/ESG investments, as well as those interested in them. Their goal is to encourage companies to publish information to help establish a sustainable society through the healthy development of sustainable investment.		- SMTAM Senior Managing Director Hiroyuki Horii is a director. Mr. Horii served as a lecturer for the course operated in cooperation with JSIF at Waseda University Graduate School of Business and Finance. One of our employees also contributed an article to the "White Paper on Sustainable Investment" of the JSIF entitled "The Impact of Overseas Regulations on Investors in Japan."
		25	Japan Stewardship Initiative (JSI)	November 2019	Their goal is to improve the transmission of information and communication between asset owners and investment managers. Their activities focus on management and revision of reporting formats (smart formats), and the collection and sharing of information on related best practices. They also aspire to promote open dialogue among members in order to create an environment where results obtained through activities can be shared as assets among all involved in the stewardship industry.		- We participated in meetings for examining revisions to smart formats in 2023, and attended the annual general meeting. We also attended the meeting for exchanging opinions with executives of the Stewardship Asia Centre (an organization that manages and operates stewardship principles in Singapore) held by the JSI in Tokyo, and participated in seminars on corporate governance in Japan hosted by the Consulate-General of Japan held in New York, USA.

* Board of directors: Including audit and supervisory board members for companies with an audit and supervisory board

Stewardship Activity Focus Topics for 2022/2023

2022	10	Participated in the International Corporate Governance Network (ICGN) Tokyo conference and appeared as a panelist
	11	Began collaborative engagement at Finance Sector Deforestation Action (FSDA), which is an initiative aimed at preventing deforestation caused by increased grain production
		Gave a presentation at the Cabinet Office "Study Group on Effective Disclosure and Governance of Intellectual Property Investment and Utilization Strategies" (14th)
		Appeared as a panelist on the antimicrobial resistance (AMR) subcommittee at the 9th NIKKEI FT Communicable Disease Conference
		Company Chairperson, David Semaya, appeared at the World Climate Summit, which was a major side event of the 27th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP27) (Egypt)
	12	Participated in events related to the 15th Conference of the Parties to the UN Convention on Biological Diversity (COP15) (Canada)
		Appeared at the 2022 Access to Medicine Index Tokyo Conference
2023	1	Company President, Yoshio Hishida, appeared at the "Study Group for Achieving a Positive Cycle of Women's Empowerment and Economic Growth (2nd)" of the Cabinet Office
		Appeared on the PRI Webinar Series: Questions for ESG Experts (5th)
	2	Company President, Yoshio Hishida, appeared at the "Follow-up Seminar on Efforts Related to the Net Zero Asset Managers initiative" hosted by The Investment Trusts Association
2023	3	Participated in Ceres Paris Aligned Investment Working Group Panel (US)
		Participated in symposium related to the Transition Plan Taskforce (TPT) international conference "Transition Plans: What, Why, When and How?" (Tokyo)
		Appeared at The Asia Investor Group on Climate Change (AIGCC) Japan Working Group Q1 2023 meeting with the theme "AIGCC Member Experience in setting net zero targets" (Tokyo)
		Appeared at events related to the UN Water Conference (Singapore)
	4	Appeared at the Net Zero Asset Managers (NZAM) Bi-Annual Signatories Meeting as an advisory group representative of the Asian region (Australia, held online)
		Appeared at the S&P Dow Jones "ETF Conference" under the theme "Regulations and Standards. What Comes Next in ESG Investing?" (Tokyo)
		SMTAM Chairperson David Semaya appeared at the International Institute of Finance (IIF) Sustainable Finance Summit (Tokyo)
		Participated in the Investors Policy Dialogue on Deforestation (IPDD) Brazil policy (Brazil)
	5	SMTAM Chairperson, David Semaya, appeared at the Net Zero Delivery Summit (London)
		Participated in a roundtable of the United Nations Environment Programme Finance Initiative (UNEP FI) (Korea)
	6	Appointed as a Glasgow Financial Alliance for Net Zero (GFANZ) Index Investing Workstream Member
		SMTAM President, Yoshio Hishida, appeared at the GFANZ Japan Chapter Inaugural Event

Appeared as a panelist on the antimicrobial resistance (AMR) subcommittee at the 9th NIKKEI-FT Communicable Diseases Conference (Tokyo)

He appeared as a panelist on the antimicrobial resistance (AMR) subcommittee, gave a presentation on our initiatives, and participated in creating the "Tokyo Statement 2022." He served as a moderator at the Japan Pharmaceutical Manufacturers Association Special Session "Establishing a Drug Recovery Ecosystem for Infectious Disease Area," facilitated discussions among experts representing industry, government, and academia, and summarized the recommendations.

Chairperson, David Semaya, appeared at the World Climate Summit of the 27th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP27) (Egypt)

We participated in the World Climate Summit, which is an event related to COP27. We also participated in COP26 in Glasgow, UK, making this the second consecutive year. As at COP26, SMTAM Chairperson, David Semaya, took the stage in important panel discussions representing Asian institutional investors, and discussed how to resolve climate change issues together with parties from finance, companies, government and international organizations, experts on climate measures, NGOs, and innovators from around the world.

Participated in events related to the 15th Conference of the Parties to the Convention on Biological Diversity (COP15) (Canada)

We participated in events related to COP15. We were present at the announcement for the launch of the NA100 global initiative that proposes collaborative engagement for achieving the purpose of the Convention on Biological Diversity, which is to "comprehensively conserve biodiversity while using biological resources in a sustainable manner," and discussed the purpose and future development of the NA100's activities in panel discussions.

President, Yoshio Hishida, appeared at the "Follow-up Seminar on Efforts Related to the Net Zero Asset Managers initiative" hosted by The Investment Trusts Association (Tokyo)

SMTAM President, Yoshio Hishida, appeared at the Follow-up Seminar on Efforts Related to the Net Zero Asset Managers initiative hosted by The Investment Trusts Association. He explained the status of our multi-stakeholder engagement and the implementation of global, efficient, and effective engagement with around 40 companies in Japan and around 60 companies outside Japan that have especially high greenhouse gas emissions as part of our efforts to reach 2030 interim targets for achieving net-zero greenhouse gas emissions from investee companies by 2050.

Appeared at the S&P Dow Jones "ETF Conference" under the theme "Regulations and Standards. What Comes Next in ESG Investing?" (Tokyo)

We participated in a conference under the theme "Mindset and Asset Formation in an Uncertain Investment Environment: Long-term Investment and Passive Management Tested in Challenging Times." We joined in a panel discussion on the theme "Regulations and Standards. What Comes Next in ESG Investing?" and explained our ESG investment and initiatives for ESG investment-related regulations including outside Japan to the over 1,000 participants from around the world.

Participated in the Investors Policy Dialogue on Deforestation (IPDD) Brazil policy (Brazil)

We visited Brazilian governmental agencies and the Central Bank as part of IPDD policy engagement activities, and engaged in dialogue on how to improve the information foundation and control systems for supporting initiatives for forest preservation in the private sector.

SMTAM Initiatives for Addressing Issues with Natural Capital

—Progress toward Developing an International Framework—

We humans have long been benefitting from the abundance found in nature in our daily lives and economic activities, and these have become the foundation of social and economic activities. Such abundance from nature has been used as natural resources (including plants, animals, air, water, soil, and minerals), and these have greatly benefited humans and supported our social and economic activities. Such natural resources have long been viewed as free or inexpensive. However, the balance between self-benefit and the speed at which natural resources can recover was lost due to excessive use, climate change, and environmental pollution, which have had a serious impact on society and the economy. Therefore, it has now become necessary to view natural resources as "natural capital" stock, and to evaluate and manage these appropriately. According to a 2020 report by the World Economic Forum, natural capital accounts for about $44 trillion, which is over half of the world's total GDP. Globally, there is a trend of recognizing the need to examine dependency and the level of impact from the perspective of maintaining the relationship between natural capital and economic activities. SMTAM also believes it is important to examine the use of natural capital by companies for their economic activities from the perspective of sustainability.

Becoming nature positive

It has been forecast that destruction of ecosystems and loss of natural capital will continue as a result of economic activities, so a global framework has been established with the aim of preventing damage to natural capital and promoting its recovery. At the 15th Conference of the Parties to the Convention on Biological Diversity (COP15) held in Montreal, Canada in December 2022, a new global goal on biodiversity was adopted, referred to as the "Kunming-Montreal Global Biodiversity Framework" (hereinafter, GBF). The GBF set a goal of "30 by 30" where at least 30% of land and oceans are set aside as protected areas by 2030 with the aim of halting and reversing the loss of biodiversity by 2030 (Nature Positive).

Based on adoption of the GBF, the "National Biodiversity Strategy and Action Plan 2023-2030" was determined by the Kishida Cabinet in March 2023. This strategy was established as a roadmap for achieving "Nature Positive by 2030" to halt and reverse the loss of biodiversity, and specific strategies and action plans were made so that all Japanese citizens can act to protect and utilize natural capital.

Overview of the National Biodiversity Strategy and Action Plan 2023-2030

2050 Vision "Society that Coexists with Nature"

Aim for 2030: Becoming Nature Positive

Basic strategy	(1) Recover the soundness of ecosystems
	(2) Use nature to resolve social issues
	(3) Realize a Nature Positive economy
	(4) Recognize the value of biodiversity, and take action during life/consumption activities
	(5) Establish a foundation for supporting initiatives related to biodiversity and promoting international collaboration
Goal	Establish progress goals (total of 15) and action goals (total of 25) for each of the five basic strategies
Action plan	Measures by the respective governmental agencies for each of the 25 action goals

Source: Prepared by SMTAM based on the National Biodiversity Strategy and Action Plan 2023-2030

Initiatives for TNFD

Regarding the mutual impact of business activities and natural capital, there is a deepening trend to request information disclosure. In June 2021, the "Taskforce on Nature-related Financial Disclosures (TNFD)" was launched. The TNFD disclosed its final framework in September 2023. In this, it was recommended that goals be set for maintaining consistency with international initiatives such as the GBF backed up by science.

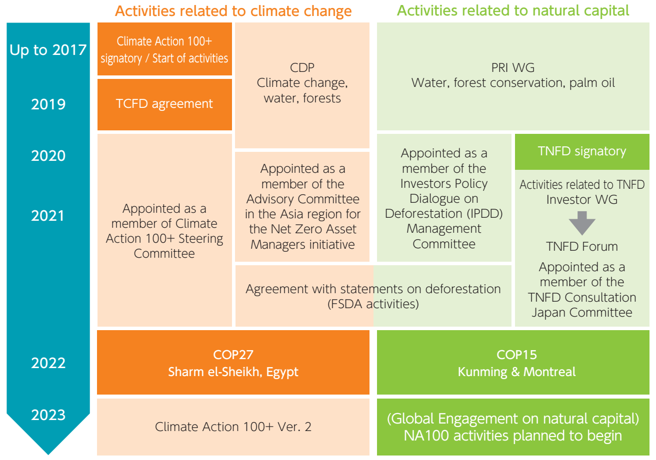
Whereas the Taskforce on Nature-related Financial Disclosures (TCFD) is mandated by governments, the TNFD is led by the United Nations Environment Program Finance Initiative (UNEP FI), the United Nations Development Program (UNDP), the Global Canopy (NGO in the UK), and the World Wildlife Fund (WWF), and it is operated by the private sector. Similar to the TCFD, the TNFD requests information disclosure and examinations based on scenario analysis related to company financial impact on companies from changes in the natural environment and the impact that companies have due to their business activities including physical risks caused by the loss of natural capital used in business activities, transition risks mainly due to stricter regulations, and systemic risks caused by destruction of ecosystems. On the other hand, the TNFD targets nature including ecosystems that differ according to region, so as with the TCFD, it is difficult to measure impact using a single indicator. Therefore, a multifaceted perspective is needed. Regarding such information disclosure, there is a plan to gradually publish individual guidance starting for sectors that have a greater dependency and impact on natural capital.

Since September 2020, we have been the only Japanese asset manager to participate in this informal working group that is a preparatory meeting of the TNFD, and have contributed to the launch of the TNFD through discussions on framework development and future management methods.

Climate change framework and global movement toward natural capital

There are active discussions about forest resources, which are considered especially important as natural capital, since these have a significant impact on climate change. At the UN Climate Change Conference of the Parties (COP26) in 2021, the "Glasgow Leaders' Declaration on Forests and Land Use" was announced (joined by over 140 countries/regions). At the next conference in 2022 (COP27) hosted by the UK, which was the presidency holder for COP26, "The Forest & Climate Leaders' Partnership (FCLP)" was launched (joined by 27 countries/regions). The FCLP is considering providing funds to emerging countries such as Brazil and Indonesia that will handle protection of forest resources, which have a major impact on climate change. Regarding the preservation of natural capital, forest conservation activities alone are estimated to require a huge sum of $130 billion annually. In order to provide the necessary funds to emerging countries, various projects for leading private investment funds to forest conservation are being discussed by related governmental parties and financial institutions, and SMTAM has also joined in the framework development.

Links between Climate Change Issues and Natural Capital Issues



Source: Created by SMTAM based on various materials

Initiatives and engagement activities for conserving forest resources

SMTAM also views the conservation and restoration of forest resources to be an important environmental issue, so we have been involved in policy engagement with governments in addition to engagement with companies.

As of the end of March 2023, 71 asset managers around the world are actively participating in the IPDD (Investors Policy Dialogue on Deforestation), which is an initiative that facilitates policy engagement with governments (responsible parties) in countries where there is a high risk of deforestation to protect forest resources. Since forest resources play an important role in climate change as carbon sinks, it promotes collaborative engagement with the governments of Brazil and Indonesia, which have large areas of tropical rainforest, to strengthen policies for preventing unregulated land use and development. As a result of restrictions on slash-and-burn cultivation in Brazil and the development of sustainable finance guidelines in Indonesia, policies designed to prevent deforestation have been implemented with positive results.

In regard to forest resource conservation in the financial industry, the FSDA (Financial Sector Deforestation Action) was launched at COP26. This is an initiative designed to protect forest resources in soft commodity supply chains including beef, soybeans, palm oil, paper, and pulp. Engagement is being carried out with major companies that handle grains in order to help reduce or avoid the risk of forest resource destruction by 2025. Financial institutions that have influence on the ground are being requested to avoid supply chain risks.

Using NA100 as an opportunity to strengthen SMTAM initiatives

At COP15 held in December 2022, the international initiative by NGOs and institutional investors called Nature Action 100 (NA100) was announced. Similar to Climate Action 100+ (CA100+), the purpose of NA100 is to halt and reverse the loss of nature and biodiversity by 2030 through collaborative engagement with 100 global companies that have a high dependency and impact on natural capital. Through collaborative engagement, investee companies belonging to eight important sectors are requested to evaluate their dependency and impact on natural capital, set targets and disclose progress, verify management and supervision of their board of directors, and promote initiatives related to restoring natural capital while having dialogue with stakeholders. Investors in Japan and other countries have agreed to and became signatories of NA100, and full-scale activities are planned to begin from September 2023. We joined the NA100 when it was established, and are enhancing our initiatives in harmony with full-scale operation of initiative activities. In addition to enhancing company information disclosure in accordance with TNFD, we will enhance our initiatives by engagement activities through newly initiated NA100 with the aim of achieving a sustainable society capable of coexisting with nature.

SMTAM Initiatives for Promoting Management of Human Capital

—Improving Future Corporate Value by Investing in Employees—

The "Report of the Study Group on Improvement of Sustainable Corporate Value and Human Capital—The Human Resources Edition Ito Report" was announced by the Ministry of Economy, Trade and Industry in 2020, and the Kishida Cabinet then clearly indicated the expansion of investment in people in order to achieve a new form of capitalism in the "Basic Policy on Economic and Fiscal Management and Reform 2022" (hereinafter, "Basic Policy 2022"), so human capital management is drawing greater attention. Human capital management refers to a management method where human resources are viewed as the "capital" of corporate activities, and their value is maximized for improving sustainable corporate value. According to the revised "Basic Policy 2023," the aim is to promote a "virtuous cycle of wages and prices" through systemic raising of wages based on results from trinity labor market reforms, and to promote "expansion of private investment centered on investment in people" by stimulating public investment in order to create a society where diverse human resources help improve company productivity.

Reason for focusing on human capital management

The reason for focusing on human capital management is due to changes in the corporate environment. In Japan, there is a need to recruit women, seniors, and foreigners in order to compensate for the decline in the number of workers as a result of a declining birthrate and aging population, which will require changes in the existing uniform human resource management method to adopt more flexible working styles according to needs of employees. COVID-19 forced companies to accelerate work style reforms such as establishing remote work, and review of human resource systems.

Looking at global trends, we are entering the fourth industrial revolution where AI and robots are used to optimize work. This shift makes it difficult for companies to differentiate themselves merely by extending existing ideas and technologies. Innovation is essential for improving competitiveness, and human resources are the ones who bring this about. The aim of human capital management is to create an environment that maximizes the use of diverse human resources as the source of innovation, and maximizes the abilities of each individual employee.

Human capital management is also compatible with requests from society such as Goal 8 of the SDGs, which is to "Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all," as well as with the promotion of diversity, and human resource development. The purpose of human capital management is to enhance job satisfaction by providing opportunities for employees to acquire skills and an environment where it is easy to work, thereby achieving corporate and economic growth.

The stock market also views having both improvement of medium- to long-term corporate value and resolution of social issues through human capital management as important from the perspective of ESG investment. Regarding our 12 ESG Materialities, we have listed human capital management as part of "Human Capital" and "Safety & Responsibility" in the "S" (Society) in ESG, and have positioned it as a priority area for engagement with investee companies. We also view it as a priority item in G (Governance) from the perspective of promoting diversity with boards of directors. This is because the ratio of females in executive positions and the ratio of foreign employees, which are in-house human resources for candidates as directors, are keys to diversity with future boards of directors.

Proposing human capital investment in the value creation story

One reason that companies implement human capital management is based on the perspective of proactively improving corporate value through financial and non-financial evaluations by the company itself, and not just based on changes in the outside environment. Allocation of human resources to the proper position through visualization of employee skills and improvement of skills through human capital investment result in better work productivity. Also, maintaining and improving motivation through strategic human resource development can help to improve each employee's sense of belonging. Moreover, companies that focus on human resource development have a higher likelihood of acquiring excellent human resources by gaining higher evaluations in the labor market. As a result, companies that implement human capital management are more likely to increase corporate value in regard to both financial value (economic profit) and non-financial value (social value).

However, in order to realize human capital management, management strategies and human resources strategies must be aligned and be reflected in the value creation story. It is essential to recognize the gaps between future vision outlined by the top management and the current situation both quantitatively and qualitatively, and to set human resource strategy goals and proper KPIs for implementing the necessary measures to overcome these gaps. It is necessary to verify the effectiveness of these measures, review human resource strategies as necessary, and work toward achieving company ideals through initiatives.

To implement such human resource strategies, it is also important to establish these as part of the corporate culture. Strategies will be more effective if the corporate philosophy and purpose are shared from management to employees, if management strategies including human resource strategies are known and established within the organization, and if employees take it upon themselves to understand these. In addition to spreading DE&I*, creating a comfortable work environment, managing a safe work environment, and improving well-being, we believe it is important to have employee engagement to verify the effectiveness of these.

Global human capital disclosure

Since information related to human capital is a useful index for determining future corporate value, there is a worldwide trend toward companies proactively disclosing such information. Human capital disclosure has already started to be mandated in the EU (2017) and the US (2020). In Japan, the "Cabinet Office Order on Disclosure of Corporate Affairs" was revised and went into effect in January 2023, which mandates the disclosure in the securities report starting from the fiscal year ended March 2023. This targets around 4,000 companies, which are mainly listed companies.

In the securities report, "Philosophy and initiatives related to sustainability" was newly added, and disclosure of "Governance" and "Risk management" is mandatory according to the "General sustainability" section. While companies can use their discretion according to the importance for disclosure of "Strategy" and "Indicators and targets," they must disclose about "Human capital including diversity of human resources," "Diversity in securing human resources," "Policies for developing human resource," and "Policies for building the internal environment." Also, "Employee status" was enhanced by requiring disclosure of the "Percentage of female workers in management positions," "Percentage of male workers who took childcare leave," and "Difference in wages between male and female workers."

However, we believe that such quantitative information disclosure by companies is still insufficient. In order to fill the gaps that exist as seen by current numbers and future goals, we believe it to be necessary for companies to explain what initiatives they will take as part of their story. For example, they need to explain why there is a difference in wages between male and female workers, and also disclose what initiatives they will take to eliminate this gap along with proper goals, KPIs, and progress status. From now on, it seems necessary to reference the "Guidelines for Human Capital Visualization" (August 2022) and the 11 areas of ISO 30414 set by the International Organization for Standardization (ISO), etc., as companies devise a more persuasive value creation story by setting their own specific disclosure items for improving corporate value.

Human capital disclosure in securities reports

[Business status] "Philosophy and initiatives related to sustainability" added	
General sustainability	
Governance	Disclosure required
Risk management	Disclosure required
Strategy	Disclosure is at the discretion of the company according to its importance
Indicators and targets	Disclosure is at the discretion of the company according to its importance
Human capital including diversity of human resources (Strategy along with indicators and targets)	
Diversity in securing human resources	Disclosure required
Policies for developing human resource	Disclosure required
Policies for building the internal environment	Disclosure required
[Employee status] Disclosure based on Act on Promotion of Women's Active Engagement in Professional Life added	
Percentage of female workers in management positions	Disclosure required
Percentage of male workers who took childcare leave	Disclosure required
Difference in wages between male and female workers	Disclosure required

Source: Prepared by SMTAM based on the revised "Cabinet Office Order on Disclosure of Corporate Affairs"

11 areas on human capital disclosure in ISO 30414

1	Compliance and ethics
2	Cost
3	Diversity
4	Leadership
5	Organization culture
6	Organizational health, safety, and well-being
7	Productivity
8	Recruitment / Allocation / Turnover
9	Skills and ability
10	Successor development plan
11	Labor force

Source: Prepared by SMTAM based on materials of the International Standardization Organization (ISO)

Promoting human capital management through engagement activities

In Japan, there are sayings such as, "A company is its people" and "People are assets." However, after the collapse of Japan's economic bubble, there was a prolonged period of economic stagnation that resulted in neglecting investment in people. Companies lost their ability to innovate while creating stiff work environments that lowered competitiveness. We view enhancement of human capital disclosure as an opportunity to encourage investee companies to strengthen their initiatives for human capital management by our engagement activities. We will proactively support investee companies to improve their value by requesting them to share qualitative and quantitative information on how effectively human capital is being utilized in accordance with their own purpose, vision, and mission. We will also engage in discussions to ensure that their management strategies and human resources strategies are coherently included into their value creation story.

* Abbreviation for Diversity, Equity & Inclusion.

SMTAM' s Philosophy on Cross-Shareholding and Initiatives for its Reduction

Introduction

Cross-shareholding refers to a unique shareholding style in Japan where shares are held in another company for the purpose of strengthening business relationships or preventing takeovers. In addition to cases of mutual holding of shares referred to as "cross-shareholding," there is also a method called "unilateral shareholding" where a company unilaterally owns shares in another company. Why are there so many negative articles and opinions on cross-shareholding?

Historical Background on Cross-Shareholdings

Cross-shareholding is defined in the "Cabinet Office Order on Disclosure of Corporate Affairs" as shares that are held for a purpose other than pure investment among stocks categorized as "investment securities" that are recorded on the balance sheet. Cross-shareholding was a practice by former Zaibatsu conglomerate companies, of which the holding headquarters were forcibly disbanded just after World War II, in order to strengthen mutual relationships. The purpose was to build stronger group relationships by mutually owning shares in the other company. Later, cross-shareholding became a common defense measure against takeovers by overseas companies due to capital liberalization, and it was viewed as a characteristic of the corporate finance and corporate governance of Japanese companies until the 1980s.

In 1990, the economic bubble collapsed, and in the financial crisis that followed, cross-shareholding between banks and general companies began to dissolve. Reasons included, (1) increased risks related to owning bank stocks as a result of bank rating downgrades and bank failures, and (2) banks needing funds to write off bad loans. Starting from 2000, as a result of legal amendments (Act on Limitation on Shareholding by Banks and Other Financial Institutions), shareholding by banks became limited to the scope of equity capital, and changes to accounting standards that required fair market valuation of securities increased accounting risks with stockholding, which reduced cross-shareholding.

From the mid-2000s, however, cross-shareholding began to become more common with some companies. Reasons included the increase in the number of hostile takeovers and increased ownership by foreign investors. There are still cases where capital tie-ups = cross-shareholding in connection with business alliances.

Issues SMTAM Sees with Cross-Shareholding

Although there are positive opinions that cross-shareholding helps to promote stable management from a long-term perspective by becoming mutual stable shareholders for companies with whom they have a good relationship or business partnership, while also restricting shareholder intervention in management from a short-term perspective, it results in cooperative business relationships and capital relationships that are unique to Japan. While it is true that collaborative relationships that involve capital contributions, including capital alliances and joint ventures, exist globally, in most cases, collaboration details such as business transactions and co-development are clearly defined. Japan' s Corporate Governance Code states that "they should disclose their policy with respect to doing so, including their policies regarding the reduction of cross-shareholding." However, we believe there are the following issues related to cross-shareholding.

■ Hollowing of voting rights
By establishing stable shareholders, proposals favored by a company tend to be proposed and approved at general meetings of shareholders, creating concern that there is no effective monitoring by outside shareholders, which results in loss of management discipline.

■ Principle of shareholder equality
If transactions between companies are performed on the premise of cross-shareholding, there is concern that favor may be given to specific shareholders. If they receive profit (investment return) that cannot be acquired by general shareholders, it violates the principle of shareholder equality.

■ Worsening capital efficiency
Using funds intended for company growth to engage in cross-shareholding may interfere with efficient management and, therefore, hollow out the capital.

■ Accounting risks
Although cross-shareholding is recorded on the balance sheet, it is also an unused risk asset. If this impacts profit and loss statements and balance sheets, it cannot be called efficient capital management.

■ Guaranteeing superior position
This is primarily an issue for the party compelling a business partner to hold the shares, which can be considered an abuse of a superior bargaining position under the Antimonopoly Act. This can damage the interest of general shareholders.

Figure 1: Items describing cross-shareholdings in Japan' s Corporate Governance Code, etc.

Japan' s Corporate Governance Code	Guidelines for Investor and Company Engagement (Extract)
Principle 1.4 When companies hold shares of other listed companies as cross-shareholdings, they should disclose their policy with respect to doing so, including their policies regarding the reduction of cross-shareholdings. In addition, the board should annually assess whether or not to hold each individual cross-shareholding, specifically examining whether the purpose is appropriate and whether the benefits and risks from each holding cover the company' s cost of capital. The results of this assessment should be disclosed. Companies should establish and disclose specific standards with respect to the voting rights as to their cross-shareholdings, and vote in accordance with the standards.	(2) Cross-Shareholdings [Assessment of Cross-Shareholdings] Whether the assessment of holding effects is sufficient based on the perspective of the common interests of shareholders, for example through the effective involvement of independent external directors. [Relations with Cross-Shareholders] ●When cross-shareholders (i.e., shareholders who hold a company' s shares for the purpose of cross-shareholding) indicate their intention to sell their shares, does the company hinder the sale of the cross-held shares by, for instance, implying possible reduction of business transactions? ●Does the company engage in transactions with cross-shareholders which may harm the interests of the company or the common interests of their shareholders by, for instance, continuing the transactions without carefully examining the underlying economic rationale?

Source: JPX, Financial Services Agency

SMTAM' s Activities for Reducing Cross-Shareholding and Trends for Reducing Cross-Shareholding

In order to respond to issues related to cross-shareholding, we have positioned its reduction as a priority agenda for our stewardship activities.

We established "SMTAM' s 12 ESG Materialities" for engaging with investee companies, and reduction of cross-shareholding is an essential engagement agenda item when requesting a "stable and fair governance system" for Governance (G).

We also are enhancing our initiatives in regard to the exercise of voting rights. In our revised Principles for Exercising Voting Rights in January 2023, we stated that "if a company has excessive cross-shareholdings (top 10th percentile of TOPIX (TSE Stock Price Index) companies in terms of the net asset ratio), we will object to the appointment of directors who have served for three years or more." In the meantime, targets are TOPIX500 companies, and we consider expanding the target scope in the future.

While carrying out such activities, more investee companies have committed to proactively reducing their assets under management and to the reduction plan (see Figure 2). In some cases, shares in major business partners were sold, so we expect to see a greater divergence between "business relationships" and "capital relationships." There is a recent trend for companies to mention about their reduction efforts in the convocation notice for the general meeting of shareholders, or to disclose their reduction efforts in their financial results briefing materials and company website. We view such actions as an indication that companies are changing their behavior.

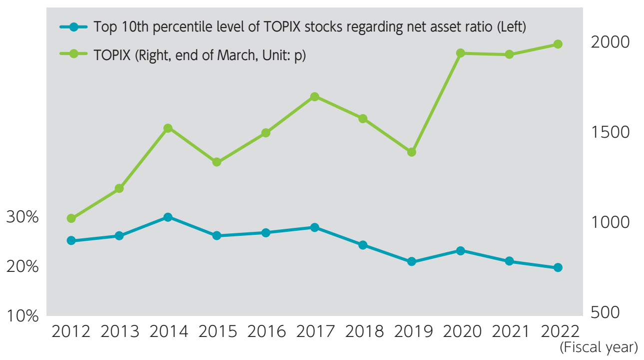
The assets under management for all listed companies appear to be declining (see Figure 3). In the context of rising TOPIX stock prices, we view the decline in the level of the top 10th percentile for the ratio against net assets positively. We conduct engagement through constructive dialogue with investee companies based on an understanding of the reason and circumstances for holding shares, as well as reduction plans. We also engage with parties that compel other parties to hold shares in certain cases in order to reduce the overall cross-shareholding balance and resolve related issues.

Figure 2: Cases with major reductions or with reduction plans for the fiscal year ended March 2023

Case	Company name	Contents
Cases with a large reduction rate (amount)	NSK Ltd.	Due to a partial sale of deemed shares held for pension contribution, the ratio of the balance of net assets (referred to as "ratio" in Figure 2) is 15.1% as of the end of March 2023, which is a significant reduction compared to 28.0% at the end of the previous fiscal year
	Keikyu Corporation	Reduction has been promoted with the goal of having a ratio including deemed shares held of 20% or less by the end of the fiscal year ending March 2024, which is the final fiscal year of the medium-term management plan. It was 24.3% at the end of the fiscal year ended March 2023, which is much lower than the 31.2% at the end of the previous fiscal year
Cases where a reduction plan was disclosed	Dai Nippon Printing Co., Ltd.	Although the ratio at the close of the fiscal year ended March 2023 was 26.6% (33.5% at the end of the previous fiscal year), a plan was announced to reduce this to below 10% by the end of the fiscal year ending March 2028
	SHIMIZU CORPORATION	Although the ratio at the close of the fiscal year ended March 2023 was 30.7% (34.2% at the end of the previous fiscal year), a plan was announced to reduce this to below 20% by the end of the fiscal year ending March 2027

Source: Prepared by SMTAM based on securities reports and other materials

Figure 3: Top 10th percentile level of TOPIX stocks regarding net asset ratio, and TOPIX trends

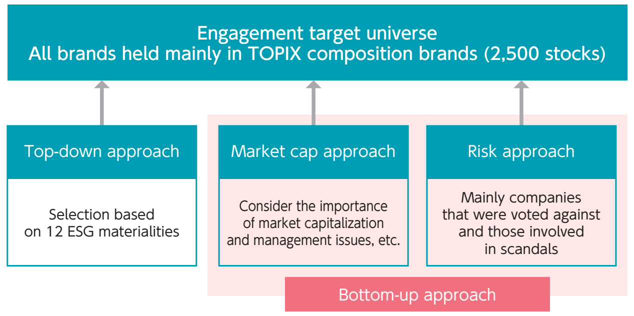


Source: Prepared by SMTAM based on Quick data

Performing Engagement that Contributes to Improved Investee Corporate Value

Our engagement targets for Japanese equity are "all brands held mainly in TOPIX (Tokyo Stock Price Index) composition brands." Up to this time, we have engaged with a broad range of companies representing roughly 90% of the market capitalization of TOPIX companies.

Our mission is to maximize medium- to long-term return on investment for clients by improving corporate value over a medium- to long-term period for investee companies, and acquiring excess return through investment while raising the market as a whole. To accomplish these, we identify issues with each investee company, and conduct effective and efficient engagement. Our engagement consists of (1) the market cap approach, (2) the risk approach, and (3) the top-down approach. We select target companies for the top-down approach on the basis of our 12 ESG materialities, and perform stage management for engagement.



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

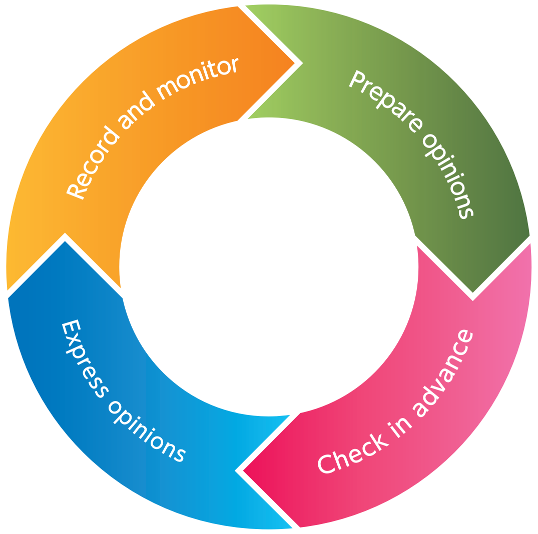
We first submit the opinions formulated by each analyst to an internal review. This both helps improve and standardize opinion quality among the analysts

Express opinions

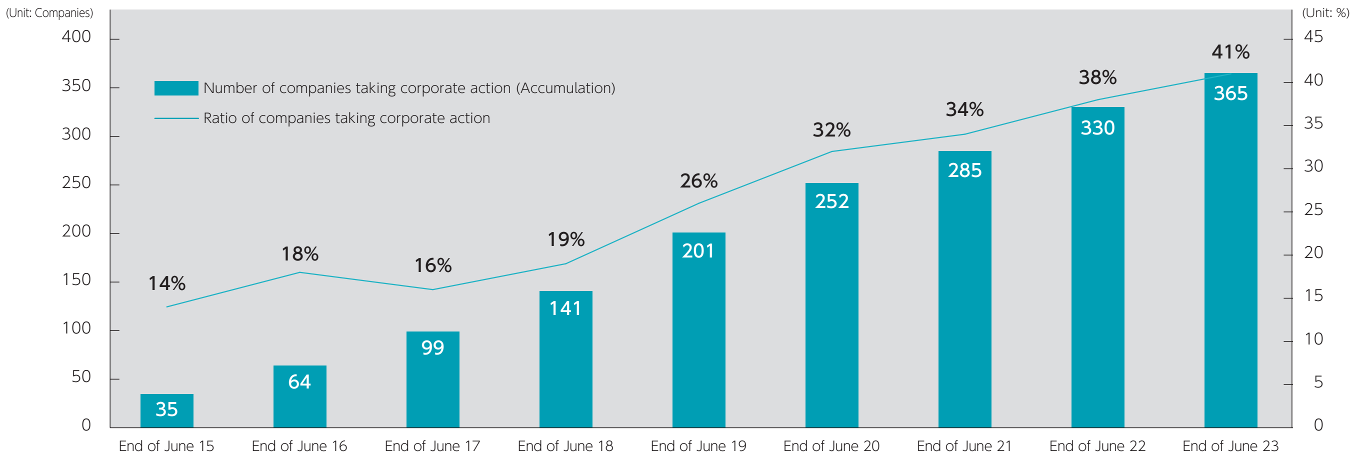
Our analysts meet with the investee company management group and express their opinions. At each meeting, a written oath stating the analysts will not make any material proposals nor acquire insider information is signed and mutually recognized

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 30-32 for specific examples.

Engagement Example Cases - Japan

CASE 1 Company A in the non-manufacturing sector

- Cross-shareholding
- Addressing climate change

Analyst's Perspective

Although they are working to reduce cross-held shares, the speed is slow and their initiatives are insufficient. The market expects them to accelerate their reduction initiatives. Regarding their response to climate change, their response policy was published. They have high exposure and there are no interim targets set for the whole group. I think this attitude toward initiatives is the cause of their slump in corporate value.

Opinion from SMTAM

Generally, it is best to have no cross-held shares. It seems necessary to set ultimate goals and disclose their reduction plan for this. In order to improve capital efficiency, it seems necessary to allocate cross-held shares that are no longer needed to business investment. The reduction speed is slower than the previous year, but the market expects them to accelerate their reduction initiatives. We also want them to use market price for setting reduction targets since risks with cross-shareholding should be evaluated using market price.

Some reduction targets for greenhouse gas are limited to original unit targets, so the overall reduction amount is not clear. It seems necessary to establish 2030 interim targets that can easily be understood externally.

Company Response

We take the matters that were pointed out seriously, but we cannot simply say our goal is zero. We need to respond according to the opinion of the holder. Honestly, we also want to reduce this as much as possible, but we need to be cautious because we have received bans or trading halts in the past.

We believe it is important to set goals according to our business situation, so we have begun responding to business partners from industries with high emissions. Even if we set top-down goals, they are not meaningful. We will set meaningful targets and indicators while implementing initiatives.

Corporate Action

Announced enhancement of the reduction plan for cross-shareholding in their financial results briefing materials in May 2023. Plans for reducing the net asset ratio to below 20% on a market value basis and policies for continuing reduction were presented.

Their aim is to respond gradually by industry, and to cover about 70% of their emissions by the end of FY2023.

Evaluation by SMTAM / Future Policy

We will monitor their progress toward enhanced reduction targets. As for reduction after the medium-term management plan, we will encourage them to set a goal of zero balance as the ultimate goal.

Regarding their response to climate change, we will confirm their progress toward reduction targets set by the company, and will encourage them to set total emissions and overall reduction targets as 2030 interim targets.

CASE 2

Company B in the manufacturing sector

- Performance-linked remuneration
- Cross-shareholding

Analyst' s Perspective

Their corporate value has not improved for more than 10 years. In their remunerations for executives, the ratio of fixed remunerations is high, and details related to performance-linked remunerations including the calculation method have not been disclosed. Also, they have excessive cross-held shares, and although reduction has been progressing, these account for a major part of the balance sheet, so I believe they need to present a reduction plan.

Opinion from SMTAM

Their remunerations for executives consist of fixed remunerations and performance-linked remunerations, but the ratio of fixed remunerations is 65%, which is high, so it is not clear whether these function properly as an incentive. It seems necessary to raise the percentage of performance-linked remunerations and to consider implementing stock remunerations.

As for cross-held shares, reduction is progressing and the number of some stocks is decreasing, but the ratio on the balance sheet is high. According to SMTAM' s Principles for Exercising Voting Rights, our policy is principally to object to proposals on the election of directors from companies with excessively concentrated share ownership, which applies to this case. We want them to disclose their reduction plan with target standards and specific achievement times to indicate their attitude toward future initiatives.

Company Response

We have now implemented an executives' stock ownership plan that accounts for about 10% of fixed remunerations. Our management is in line with profits from the perspective of shareholders, and we always consider implementing new short- to long-term incentives. We will deepen discussions on detailed disclosure for remuneration for executives.

The industry we are a part of focuses on sales, and we have long-term customers, so we have owned their shares in order to strengthen relationships. Although we have been working on reduction from the perspective of capital efficiency, we will need to link this to business investment and share buybacks as a way of improving ROE. We also recognized that our explanations have been lacking, so we will improve disclosure.

Corporate Action

Announced introduction of a stock compensation system in May 2022 that is designed to raise the ratio of performance-linked remunerations. Details on the system for remuneration of executives were disclosed in the integrated report issued in August 2022.

Announced accelerated reduction of held assets in their basic management policy published in February 2023. Announced sales targets for cross-held shares in March of the same year.

Evaluation by SMTAM / Future Policy

After the stock compensation system is implemented, we will confirm that the linked remunerations ratio has been raised, and will monitor its effectiveness.
Regarding the reduction of cross-held shares, we will monitor the progress status of initiatives for achieving set targets and the effectiveness of resource distribution for helping to improve corporate value.

CASE 3

Company C in the manufacturing sector

- Business strategy
- Addressing climate change

Analyst' s Perspective

The current stock price is likely below PBR 1 as a reflection of the risk of becoming a stranded asset due to climate change. It' s necessary to have a business portfolio strategy that is linked with a response to climate change issues.

Opinion from SMTAM

There has come to be a stricter view of fossil fuel interests as a result of climate change issues. They have the risk of becoming a stranded asset in the future, so it seems necessary to always take sale of interests into consideration when conducting business management. Although the rise of resource prices may contribute to higher performance in the short term, profit contribution is greatly impacted by market fluctuations, so it is a good time to sell while the market is good. We want them to present their business portfolio conversion/transition plan, and to clarify their resource distribution policy for using acquired resources in the area of decarbonization rather than simply reducing greenhouse gas emissions.

Regarding their greenhouse gas reduction plan, although 2030 interim targets and carbon neutrality by 2050 have been set, these are the targets for Scope 1+2*1 and no targets have been set for Scope 3, which accounts for 90% of emissions. It seems necessary to set targets including for Scope 3 that align with the Paris Agreement, and to acquire SBTi*2 certification.

Company Response

We recognize that the fossil fuel business is drawing greater attention, and we have also discussed the risk of becoming a stranded asset in the future. However, we have no intention of immediately withdrawing business based on the situation in Japan because of our responsibility as a supplier. We will implement initiatives for reducing our environmental load by providing solutions such as development of alternative fuels and mixed combustion.

Our main business itself is the target of greenhouse gas Scope 3 emissions. There are requests to reduce the total usage amount in Japan by 80% compared to 2020 by 2050, and our company also expects reductions in line with this. We believe that the remaining 20% will need to be addressed by absorption and sequestration technologies of greenhouse gases, so we will only commit to our own reduction targets for Scope 1+2. We also recognize the need to set targets including for Scope 3, but we have not been able to do so.

Corporate Action

As part of the new medium-term management plan that was announced in November 2022, a revised greenhouse gas reduction plan and investment plan were disclosed. New targets were set for the 2030 revenue composition rate.
Since announcing the sale of their overseas fossil fuel interests in February 2023, held fossil fuel interests were greatly reduced.

They announced their plan to reduce its capacity by 30% in their new medium-term management plan in November 2022. Based on this, 2030 Scope 1+2 reduction targets were revised upward, but they postponed setting of targets for Scope 3.

Evaluation by SMTAM / Future Policy

They retained some fossil fuel interests from the perspective of their responsibility to provide a stable supply. We will continue to monitor the progress of their initiatives with low carbonization by providing alternative fuels, etc., and monitor their business that is at risk of becoming a stranded asset.
We will request that they promote initiatives for achieving 2030 revenue composition ratio targets as early as possible. In particular, regarding use of alternative fuels, we will request that they ensure the sustainability of raw material procurement as well as traceability.
As for the setting of Scope 3 targets, we will encourage them to grasp the necessity and set targets by introducing examples from other companies, and share concepts on setting environmental targets in the value chain.

CASE 4

Company D in the manufacturing sector

- Sustainable procurement and human rights due diligence
- Corporate governance

Analyst' s Perspective

In addition to addressing climate change, preserving natural capital and biodiversity, and considering human rights in their supply chain are essential for stable and sustainable business management. However, these initiatives are not clearly mentioned in their disclosure information.
In order for their board of directors to have a proper composition as a company aiming to change their business portfolio and restructure their business model, I believe they need to implement initiatives for enhancing corporate governance such as by disclosing the concept of their process for appointing and dismissing directors and ensuring the independence of external directors.

Opinion from SMTAM

Regarding human rights due diligence, we recognize that they are currently in the pilot survey phase. In order to improve the sustainability of main raw material procurement, they need to identify human rights risks, conduct external audits, disclose evaluation results, and establish a contact point for handling complaints including indirect business partners, and then handle complaints. It seems necessary to have them show milestones toward establishing a human rights due diligence system, and to improve information disclosure on the progress status.

It seems necessary for them to aim to have a proper composition of directors in harmony with their ideals through planned and regular changes with directors. There are very few TOPIX companies that have external directors with tenures of over 12 years, and it is a violation of our Principles for Exercising Voting Rights. Simply stating that the term of office is only one year and the qualifications for candidates are not a sufficient explanation for the independence of external directors. It seems necessary to have them explain the reason and background of those who are candidates for re-election by showing their concept on the tenure of external directors and their discussion process for appointing successors.

Company Response

Regarding initiatives for improving the sustainability of main raw materials, we have already begun responding starting with the grievance mechanism, have set up a contact point on our website, and are proceeding with responses. We have also completed evaluations for 60% of our business partners via third-party organizations, which covers 89% of our monetary base. We plan to nearly complete assessments by 2023. We have implemented these initiatives for improvements, and we will consider disclosure in the future.

We understand SMTAM' s Principles for Exercising Voting Rights regarding the independence of external directors. We will send our opinions on the independence of our external directors in writing, so please refer to these when deciding about the exercise of voting rights.

Corporate Action

They announced their long-term management strategy and equipment investment plan that will promote diversity with the procurement of raw materials. They determined their global human rights policy and disclosed their policy on respecting international human rights regulations. Regarding human rights due diligence, they determined their onsite audit plan for tracking down raw materials to cultivation farms in collaboration with third-party organizations. They also established a grievance mechanism in the supply chain in collaboration with third-party organizations, and began operating it.
They showed their policy for future quarterly information disclosure, and set goals in addition to KPIs on human rights.

Evaluation by SMTAM / Future Policy

Engagement goals were achieved in regard to sustainable procurement and human rights due diligence. We will continue engagement for improving the sustainability of their corporate activities and their corporate value.
At their general meeting of shareholders, proposals were made for re-election of external directors with long tenures. Since they did not provide a sufficient explanation for applying any exception, we voted against their proposals for the election of directors based on our Principles for Exercising Voting Rights.
Regarding their proposals for electing directors, we will continue requesting that they select external directors who have independence and who can contribute to improving viability.

CASE 5

Company E in the manufacturing sector

- Business portfolio review
- Employee engagement

Analyst' s Perspective

When considering their next medium-term management plan, simply showing ROE targets along with financial strategies is not enough to improve corporate value. They need to explain their roadmap for improving ROE by enhancing monitoring of their business portfolio based on ROIC and by reviewing their business portfolio.
Although they set targets for their employee engagement indicators, their roadmap for future finance is unclear. It also seems they need to explain how it relates to finance and improved corporate value.

Opinion from SMTAM

Their ROE has remained low, so it may be a violation of the performance standards in our Principles for Exercising Voting Rights for three consecutive periods. In order to achieve an ROE of 8% as quickly as possible, in addition to financial strategies such as buybacks, it seems necessary for them to enhance monitoring of their business portfolio using ROIC, and to select and focus on a business portfolio. We want them to improve their ability to explain things by clearly showing their roadmap for improving ROE in their next medium-term management plan.

Although employee engagement indicators exceed targets, improvement from engagement did not lead to improved business performance. It seems that expansion of sales, improved productivity, and their approach to improving added value are not clear from the outside. If they are able to include engagement scores as a future finance target in their next medium-term management plan, we want them to explain how it relates to finance and improved corporate value so that these initiatives will lead to improved corporate value.

Company Response

It became possible for us to understand capital efficiency for each business by transitioning to a company system, but we also could see the need to enhance ROIC management because the impact from market contraction in some businesses resulted in lower capital efficiency in focused businesses. When we prepare our next medium-term management plan, we will consider disclosing information so that investors can understand how becoming a company that focuses on a particular business helps improve corporate value.

For our next medium-term management plan, in addition to financial targets during the planning period, we are considering setting goals related to long-term financial value by responding to sustainability issues. We believe that human resources are a source of added value, and are therefore an investment, not a cost. We will ensure diversity and monitor engagement indicators, etc., while confirming the link with client evaluations and sales, and will explain how these initiatives lead to increased corporate value.

Corporate Action

Their business performance is improving, so they could avoid violating the business performance standards in our Principles for Exercising Voting Rights. However, in their new medium-term management plan announced in March 2023, there was not enough disclosure on the transition to a company focusing on their core business through ROIC management, or their roadmap for improving ROE.

In their new medium-term management plan announced in March 2023, human capital management was set as a core management strategy, employee engagement indicators were set as KPIs, and earning power per employee was specified. They announced their policy for improving their ability to generate funds by increasing revenue from their service business and optimizing their workforce in other businesses.

Evaluation by SMTAM / Future Policy

Although ROE was set in their new medium-term management plan, the explanation of their review of the business portfolio using ROIC and the business portfolio transition was insufficient. We will continue with engagement for improving their ability to explain their improvement initiatives in addition to their information disclosure.
Engagement goals regarding use of employee engagement indicators were achieved. We will continue monitoring whether improvements to presented indicators lead to actual improvement of corporate value.

*1. Based on GHG (greenhouse gas) protocols, emissions are categorized and accounted for by Scope 1 (direct emissions), Scope 2 (indirect emissions, such as from electricity), and Scope 3 (emissions from other companies, such as via supply chains).

*2. Science Based Targets Initiative: Collaborative initiative for setting climate targets based on science. Established by CDP (international NGO), United Nations Global Compact (UNGC), World Resources Institute (WRI), and World Wide Fund for Nature (WWF).

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

A.P. Moller-Maersk

(Denmark / Marine transport)

- Climate change issues
- Information disclosure

Perspective of Engagement Specialist

As a major European marine transporter, in 2018, they were one of the first in the marine transport industry to set the goal of being carbon neutral by 2050. Later, in January 2022, they set aggressive goals related to climate change such as by moving their goal for achieving net zero up to 2040.
However, disclosure of their progress including quantitative goals for specific initiatives is still insufficient, and as a global leader in the marine transport industry, further initiatives are needed.

Opinion from SMTAM

In order to increase the probability of achieving ambitious goals, it seems they need to actively disclose information related to engagement with their supply chain in addition to establishing various measures.
Their policy is to transition 25% of fuel to green fuel by 2030 for achieving their goal, but there has been little progress, so we want them to disclose information on measures for increasing the probability of achieving their goal.

Company Response

To increase usage of green fuel, which is the key to reducing greenhouse gas emissions for marine transport, we concluded supply contracts with eight energy companies, and we have taken measures to increase confidence in the plan such as by showing the management stage of price pass-through for each supplier.
At the same time, specific investment plans need to be examined for using green fuel. Since there are different types of green fuel, we have to consider future changes related to technology and supply and demand when making investment decisions.

Corporate Action

To increase the probability of achieving their ambitious commitment, they are managing the stages of their response status to price pass-through for each supplier, and disclosing information on their plan to secure green fuel with energy companies.

Evaluation by SMTAM / Future Policy

- We have proactively engaged in dialogue via email, the internet, and in person since 2019 because they are one of our target 100 companies on climate change response.
- It seems they will promote specific initiatives from now, and have determined that they are in a phase where progress must be confirmed.
- Our policy is to continue engaging in dialogue to encourage them to continue promoting aggressive initiatives as a leader in the industry.

CASE 7

Swiss Life Holding

(Switzerland / Insurance)

- Diversity

Perspective of Engagement Specialist

We have been requesting this company to improve gender diversity since 2019, and determined that they still need to increase the ratio of females on the board of directors. I believe that dialogue using knowledge acquired from initiative activities such as the 30%Club[*1] and examples of other companies in Europe will be effective.

Opinion from SMTAM

We confirmed that there has been an improvement in the ratio of female directors from about 18% in 2019 to about 25% in April 2022, but this is still insufficient. We believe that 30% is a good standard based on knowledge gained from initiatives such as the 30%Club and trends with other European companies. We want to confirm their awareness of the issue and their strategy for improving diversity.
At the general meeting of shareholders in 2022, we raised concerns about gender imbalance and the governance system, and voted against the proposal for re-election of the nomination committee chairperson. We want to see how they respond and the examination status.

Company Response

Globally, our gender ratio for employees is around half, but the ratio of female directors is still around 25% even after adding another female director in 2022. We are very aware that our investors want to see improvement and we will make every effort.
Although the ratio of female executives has increased slightly, we are continuing to make improvements and are working to change the mindset inside the company. In recent years, we have been focusing on providing in-house education including training for new employees, so our policy is to promote people based on skill.
There are some areas where improvement is needed including unevenness with departments and insufficient disclosure of initiatives for hiring experts, so we will discuss future improvements.

Corporate Action

At the general meeting of shareholders in June 2023, female directors were increased and they now over 30% female directors, which was their goal.

Evaluation by SMTAM / Future Policy

- We share an awareness of their issues such as improving diversity with their board of directors and increasing the ratio of females in management and below.
- Since they have reached over 30% female directors, our policy is to encourage them to increase the ratio of females in management and to eliminate gender imbalance among departments to improve diversity.

CASE 8

Archer Daniels Midland

(US / Wholesale of agricultural products)

- Enhancement of supply chain management
- Prevention of deforestation

Perspective of Engagement Specialist

As a major wholesaler of agricultural products in the US, they need to improve monitoring and enforcement related to soybean production and its supply chain, which is considered a major cause of deforestation in Brazil. The impact of deforestation on climate change and water resources interferes with the sustainable growth of this company.

Opinion from SMTAM

In addition to deforestation with tropical rainforests, it is necessary to prevent destruction of vegetation in the savannah grasslands, including the Cerrado region, which is a major production area for soybeans. We have sent letters to this company requesting them to establish complete traceability of their supply chain, including direct and indirect suppliers, and clearly state when this will be achieved, disclose their policy for handling violations, and set goals related to soybean procurement not cultivated in farming areas made through deforestation. While it is good that they have made a commitment regarding supply chain monitoring and disclosed their goal to eliminate deforestation by 2030, there are news reports that raise suspicions on their initiatives.
It seems that top management should also explain the economic rationale related to risks and business opportunities to strengthen confidence in their initiatives for achieving goals.

Company Response

Regarding soybeans in South America, we expect to have complete traceability of the supply chain in 2022. Although we expect to see a positive response from clients based on our commitment to eliminate deforestation, it is not clear how it will affect our business. We are committed to achieving sustainability goals, and recognize that it is the foundation for our mid- to long-term business strategy. We are sure that strengthening sustainability through the value chain, including the implementation of regenerative agriculture and the production of sustainable aviation fuel, is a source for our competitiveness.

Corporate Action

In April 2022, they announced that they move up their target year for achieving zero deforestation from 2030 to 2025. In their sustainability report in May of 2022, they also stated that they achieved their goal of 100% traceability for direct and indirect suppliers.

Evaluation by SMTAM / Future Policy

- They announced the establishment of a supply chain traceability system, but their policy for handling non-compliant suppliers and the timeline to accomplish it remain unclear, so there are questions about the effectiveness of their goal of achieving zero deforestation by 2025.
- In addition to confirming the implementation status, we will continue engaging in dialogue to help them step up their initiatives for improving transparency and sustainable farming. Our policy is to utilize collaborative engagement through the US NGO Ceres and the policy engagement initiative IPDD.

CASE 9

AGL Energy

(Australia / Power company)

- Climate change issues
- Information disclosure

Perspective of Engagement Specialist

While they will continue coal power generation business in Australia, they are enhancing initiatives for addressing climate change issues through organizational changes such as by dividing their power generation and distribution businesses. Based on their existing plan, they will not be able to reach the Paris Agreement scenario (1.5°C), so they need to formulate and disclose an effective plan for addressing climate change issues, and establish climate change governance.

Opinion from SMTAM

It is estimated that their coal-fired thermal power generation accounts for 8% of greenhouse gas emissions in Australia, so they need to accelerate reduction of greenhouse gas emissions in order to achieve NDC[*2] in Australia. Their transition plan was announced, but it remains insufficient, so we believe they should formulate an effective transition plan as quickly as possible for accelerating withdrawal from coal-fired thermal power generation and invest in renewable energy.

Company Response

Our policy is to withdraw from coal-fired thermal power generation from a mid- to long-term perspective. Then, we need to make decisions based on economic rationale and market conditions. We are also considering selling our coal-fired thermal power generation business when splitting the company. This issue involves business reorganization including investment in renewable energy, so a specific transition plan needs to be made after in-house restructuring is completed.

Corporate Action

A transition plan for climate change was proposed and approved by the company at their general meeting of shareholders in November 2022. At the same time, they announced that the time for closing operation of a coal-fired thermal power generation plant in Victoria, which had long been a concern, will be moved forward 10 years.

Evaluation by SMTAM / Future Policy

Our policy is to confirm the progress of just transition including formulation and implementation of an employment strategy due to announcement of their early transition plan such as withdrawal from coal-fired thermal power generation.

*1. Initiative based in the UK that promotes diversity of gender, race, etc.
*2. Abbreviation for Nationally Determined Contribution. Under the Paris Agreement, there are greenhouse gas reduction targets for each country.

CASE 10

Kuala Lumpur Kepong (KLK)

(Malaysia / Palm oil plantation)

- Forest conservation
- Enhancement of supply chain management

Perspective of Engagement Specialist

FSDA[*3] collaborative engagement as a lead manager is ongoing. I think more effort should be made to eliminate deforestation activities through agricultural products in the investment portfolio by 2025.

Opinion from SMTAM

To achieve sustainable lives and food supplies globally, it is essential to have a thriving agricultural supply chain without deforestation.
It seems they need to disclose information as a palm oil producer and RSPO[*4] member regarding their activities for preventing deforestation and strengthening supply chain traceability.

Company Response

Responding to EUDR[*5] is an urgent issue. The EU enacted laws mandating that companies confirm that products such as palm oil, beef, soybeans, coffee, cocoa, lumber, and natural rubber are not being produced on farmland developed through deforestation after December 2020, so we quickly need to establish a system for this. Responding to this law is similar to the response to MSPO (Malaysian Sustainable Palm Oil), so there is no way to avoid increases in management costs and production costs.

Corporate Action

They set a policy for NDPE[*6] and already achieved 100% traceability for owned palm oil plantations. There are still areas they need to improve in regard to procurement from small holders and dealers, and they are planning to resolve such issues by providing education to small holders and installing GPS.

Evaluation by SMTAM / Future Policy

We will monitor their response to the EUDR, and continue to have collaborative engagement through FSDA.

CASE 11

Steel Dynamics

(US / Steel industry)

- Climate change issues
- Information disclosure

Perspective of Engagement Specialist

Dialogue has been ongoing since 2020. They are an electric furnace steel manufacturer, so the intensity of their greenhouse gas emissions is considerably lower than that of competitive blast furnace manufacturers, but I think they should be taking the lead when it comes to energy transition in the industry from a long-term perspective by bringing forward their reduction activities.
There is also room for improvement regarding information disclosure. I want them to clarify their environmental strategy and strengthen communication with stakeholders.

Opinion from SMTAM

Carbon intensity is already lower than competitors, so we want them to set absolute targets for reducing greenhouse gas emissions and to improve information disclosure by participating in CDP[*7] surveys.
Although blast furnace manufacturers had advantages in the past for use with automobiles due to the processing method, electric furnaces are becoming more popular, so we want to confirm the possibility of expanding their share in the future.

Company Response

We are making efforts to promote in-house initiatives to improve information disclosure based on feedback from investors. It is possible to further reduce emissions based on intensity by increasing use of renewable electricity. Horizontal development of recycling to copper and aluminum is also underway to promote the transition.
Although blast furnaces still have advantages when it comes to automobile body surfaces, for other components, electric furnaces have advantages due to low carbon and lightweight.
We are also making efforts to implement biocarbon technologies that can contribute to further low carbonization, and if realized, it will be possible to achieve better functions with carbon and weight compared to aluminum.

Corporate Action

In July 2021, they disclosed their goal for achieving net zero greenhouse gas emissions by 2050, as well as a 50% reduction by 2030 and a 20% reduction by 2025.
In 2022, they participated in the CDP survey. They also announced their investment in the horizontal development of an aluminum recycling business using renewable electricity.

Evaluation by SMTAM / Future Policy

- Although the US is not a major emitter since electric furnace manufacturers are the mainstay, we will continue to have engagement by approaching the global steel manufacturing sector as a whole.
- There are remaining issues such as the launch of a low-carbon steel and aluminum business, and deepening sustainability business strategies by improving information disclosure on clarification of the impact.

CASE 12

Activision Blizzard

(US / Game software development)

- Diversity
- Human rights
- Information disclosure

Perspective of Engagement Specialist

The company has been identified as lagging behind in terms of information disclosure according to our in-house ESG screening, and dialogue has been ongoing since 2020.
They issued their first ESG report in June 2021, which improved information disclosure, and later, problems with their in-house work environment were discovered including sexual harassment, which developed into a lawsuit. Currently, the main theme for dialogue is deepened to improvement of overall human capital management and management transparency.

Opinion from SMTAM

We began dialogue with this company on improving ESG information disclosure, and there was some improvement such as disclosure of ESG reports. As part of this, DE&I (diversity, equity, and inclusion) was set as a priority issue, but KPIs have not been sufficiently disclosed. We want them to consider publishing their employee composition for regulatory submission (EEO-1), which other major companies in the US are doing.
There have been complaints of sexual harassment and discrimination in the workplace, so it seems important to improve transparency by effectively operating and disclosing the grievance mechanism.

Company Response

There is room for improving our information disclosure and transparency. As a first step, we published an ESG report. Our policy is to have ongoing dialogue with stakeholders and to share progress on important KPIs.
Although we have already made disclosure about the gender pay gap, we want to improve this. Our goal is to raise the percentage of females and minorities in each hierarchy of the company' s organization by 50% from the current level within the next five years.
There are few American companies that disclose grievance mechanism, so we are concerned this could be misunderstood.

Corporate Action

They improved information disclosure including on employee composition (for EEO-1), pay gap, and promotion/turnover rate disparity (gender/minority) by 2022.
In 2023, they published a transparency report that included detailed information of the grievance process.

Evaluation by SMTAM / Future Policy

- While dealing with the loss of human resources caused by the sexual harassment lawsuit, information disclosure on human capital is improving rapidly.
- Regarding engagement with shareholders, a person was hired to be in charge of ESG, which established a bidirectional communication process.
- We will confirm the effect of initiatives for improving diversity and the overall culture in the workplace by monitoring these trends.

CASE 13

UltraTech Cement

(India / Cement manufacturing)

- Addressing climate change
- Information disclosure

Perspective of Engagement Specialist

Investment in infrastructure is expected to increase in India, so a high demand for cement is expected. On the other hand, it is not possible to avoid high greenhouse gas emissions with the current cement manufacturing process when handling processing for raw materials, so drastic measures are needed.
In addition to the approach to individual companies, an approach through global industry activities seems necessary.

Opinion from SMTAM

Current cement production causes large amounts of greenhouse gas emissions during the manufacturing process. It seems necessary to quickly address this based on a realistic transition plan.
In particular, it seems necessary to (1) implement measures for low carbonization in the production process, and to (2) stimulate demand for low-carbon cement. Additionally, we gave our opinion that it would be good to (3) disclose specific measures for confirming the effectiveness of capital policy support, etc.

Company Response

We recognize and understand that there is an urgent need to promote decarbonization measures for cement manufacturing. We have a clear roadmap for our decarbonization measures, and plan to acquire SBTi[*8] certification.
We have already responded to information disclosure on climate change according to the TCFD framework, and announced specific measures for achieving 100% renewable energy in September 2021.
We also want you to follow-up on our plan to enhance disclosure of our progress status.

Corporate Action

In their sustainability report for June 2023, their plan based on SBTi certification and information based on the TCFD framework were disclosed.
Regarding disclosure of their progress status, it was confirmed that the renewable energy rate in 2022 was 28%, which is higher than the target for 2023 of 19%. Sales of low-carbon products reached 70%, so it was confirmed that their product mix transition has progressed more than expected.

Evaluation by SMTAM / Future Policy

- We have conducted effective engagement activities in collaboration with local asset managers who participate in CA100+[*9].
- We also recommended that they formulate an effective transition plan by collaborating with GCCA (Global Cement and Concrete Association), which they are a member of, along with best practices in the cement industry.
- It is necessary to confirm progress details with the transition plan, and we will continue to encourage disclosure through dialogue.

*3. Abbreviation for Financial Sector Deforestation Action. This is an initiative by the financial sector requesting the elimination of deforestation caused by production of agricultural commodities.
*4. Abbreviation for Roundtable on Sustainable Palm Oil. This is a non-profit organization established in 2004 for promoting the production and use of sustainable palm oil.
*5. Abbreviation for European Deforestation Regulation. These are regulations on deforestation agreed to by the EU in December 2022. These regulations ban the import of agricultural products connected with deforestation to the EU.
*6. Promotes procurement in harmony with the principles of No Deforestation, No Peat, No Exploitation.
*7. Abbreviation for Carbon Disclosure Project. This NGO, which was established in 2000, initially evaluates and discloses information on the strategies and efforts for climate change and greenhouse gas emission reductions made by companies and local governments. They now also cover environmental issues such as forest and water security in addition to carbon.
*8. Abbreviation for Science Based Targets initiative. This is an initiative requesting companies to set reduction targets in harmony with scientific scenarios for achieving the targets of the Paris Agreement.
*9. Abbreviation for Climate Action100+. Initiative requesting companies that have high GHG emissions for disclosing information based on the TCFD framework.

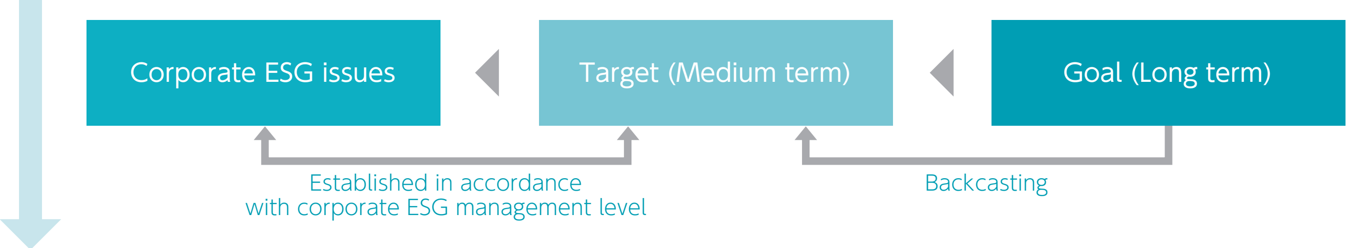
Top-Down Engagement

In 2019, an ESG investment policy was established at management meetings and 12 ESG materialities were identified. We are promoting top-down engagement activities in harmony with these.

After selecting around 100 target companies from among investee companies via top-down analysis according to each ESG materiality, engagement activities will be promoted by setting goals (long-term goals) linked to each ESG materiality and setting targets (interim targets) by backcasting based on the ESG issues and ESG management level of each company. Effective goals and targets are set, and effective engagement is performed 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 Japanese and global initiatives that we are actively participating in from our three offices in Japan, the US, and the UK.

The progress status of engagement is managed in four phases according to the ESG materiality targets of each company. After targets are met, monitoring is done for later processes such as implementation of measures and resolution of issues.

1. Selection of target companies based on ESG topics and setting goals and targets



2. Stage management and monitoring

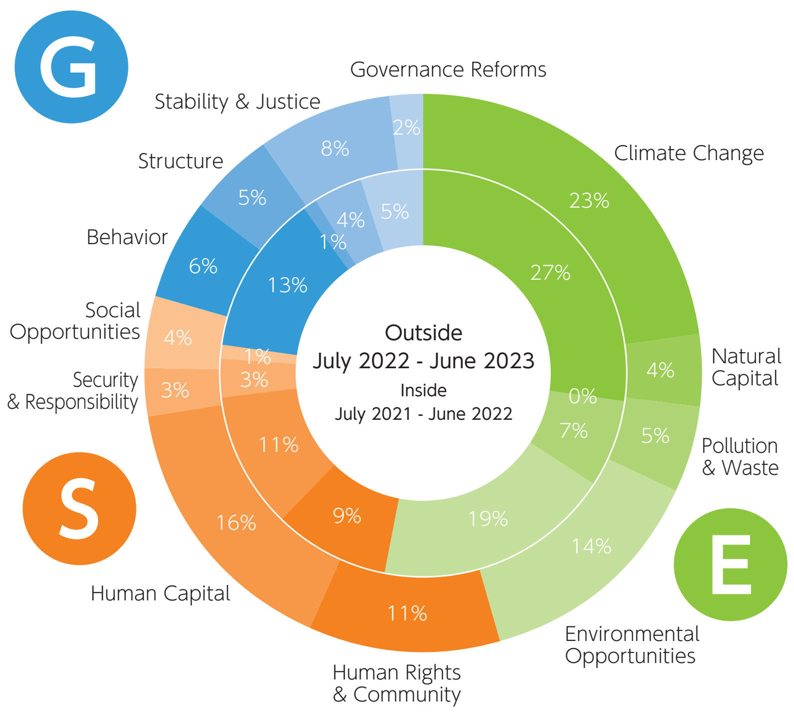
Engagement progress is managed in four stages according to the ESG topic, and further measures are then implemented and the resolution of issues is monitored.

(1) Issue setting	- Identifying ESG priority issues with investee companies and setting specific topics (issues) - Setting targets (interim targets) by backcasting from topic goals
(2) Issue presentation	- 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)	- While sharing issues with the person in charge at the company, engagement is escalated to the management for implementing measures and resolving issues
(4) Issue sharing (with management group)	- Issues are shared with the management group and best practices are introduced - Internal examination is promoted for implementing measures and resolving issues
(5) Implementation of measures	- Corporate policy statements (corporate actions) are confirmed - Progress is monitored
(6) Issue resolution	- Target achievements are confirmed and shared with the company - If the progress is insufficient, consideration is given when exercising voting rights

3. Improving corporate sustainability and corporate value for investee companies

Activity Results for 2022 (July 2022-June 2023)

Materiality Composition for Engagement



When looking at each topic, climate change accounted for 23%, environment-related opportunities for 14%, human capital for 16%, human rights and community for 11%, and social opportunities for 4%. We actively engaged in dialogue not only about risks, but also about opportunities.

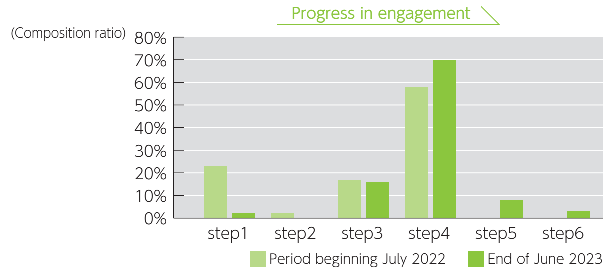
Progress was also observed at a number of companies during this fiscal year, and in many cases, they progressed to Step 5 (Implementation of measures) and Step 6 (Resolution of issues). Regarding E, only some were able to implement measures, so for S, we actively engaged in dialogue with management groups, which increased the Step 4 ratio (Issue sharing with management groups). During FY2023, we will continue engaging in dialogue with management groups so that all can move to the next step, and in particular, we will promote engagement activities while keeping an awareness of Steps 5 and 6.

Step Progress Status (Compared to Previous Year)

E Average progress

Period beginning July 2022 **2.9 step** ▶ End of June 2023 **3.9 step***

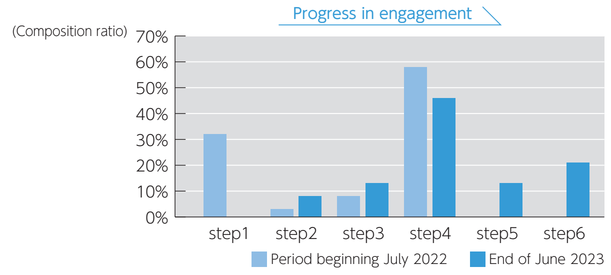
Progress in engagement



G Average progress

Period beginning July 2022 **2.6 step** ▶ End of June 2023 **4.3 step***

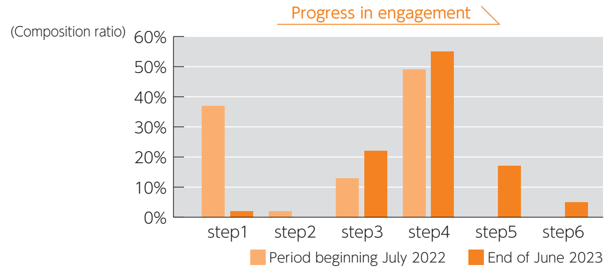
Progress in engagement



S Average progress

Period beginning July 2022 **2.4 step** ▶ End of June 2023 **4.0 step***

Progress in engagement



* It is not possible to simply compare the materiality composition between the end of June 2022 and the end of June 2023, or to simply compare steps at the end of June 2022 and steps at the beginning of the July 2022 period.
- Brands/topics are replaced as part of the annual plan for the period beginning July 2022.
- Topics (Steps 5, 6) where targets were achieved by the end of June 2022 were excluded.

Example of the process for achieving goals related to climate change issues (Case of company A in the manufacturing sector)

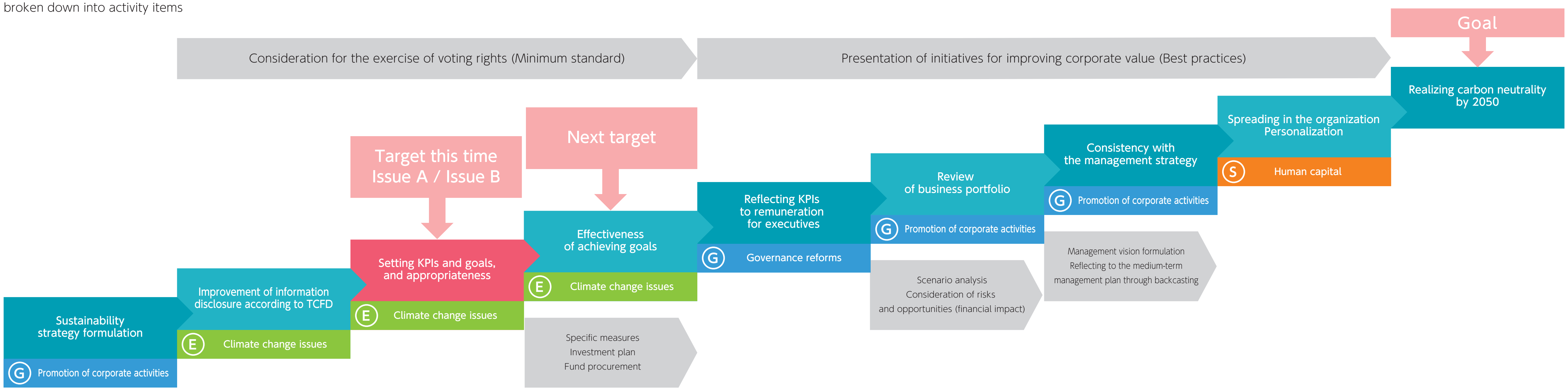
To achieve each of ESG materiality goals (long-term goals), it is necessary to set materiality targets (interim targets) not just for "E," but also to formulate targets that combine the "S" and "G" aspects of materiality, so that each can be achieved in a multi-layered manner. For example, carbon neutrality by 2050 has been set as a goal regarding climate change issues, and engagement is performed by setting targets according to the situation of each company for achieving this. We will conduct effective engagement by establishing issues as detailed activity items for each target. In the following case, we set "appropriateness of set goals" as the target.

1. Target setting

For company engagement, ESG materialities are set as specific targets (interim targets).For each of these targets, specific issues are broken down into activity items

2. Relationship between goals and targets

For achieving ESG materiality goals, targets with the same or multiple materiality issues must be cleared



Engagement example with climate change issues for Company A in the manufacturing sector

Issue A

April 2021 (Step 1)

SMTAM
Since 2030 GHG reduction targets (Scope 1+2) disclosed in March of the same year were poor compared to NDC*, **raising these target values has been set as an issue by setting the appropriateness of set goals as a target**

*NDC: Nationally Determined Contribution

April 2021 (Steps 2, 3, 4)

SMTAM
Through dialog with persons in charge and management groups, we pointed out the need to raise target values and review the business portfolio

Company Response
Even though renewable energy was doubled, the necessary amount was not reached, so scenarios are being analyzed. There are potential business opportunities. Introduction of internal carbon pricing and financial resilience tests will also be considered

November 2021 (Step 5)

Company Action
Announcement of higher 2030 interim reduction targets

SMTAM's Policy
Since making high-emission business into an equity method subsidiary impacted additional GHG reduction amounts, the actual status of the company is not properly reflected, so **it was reset as Issue B**

Issue B

December 2021 (Step 1)

SMTAM
Since GHG reduction targets disclosed in November of the same year did not include the equity method subsidiary, **reflecting to target values or presenting Scope 3 targets was set as an issue**

August 2022 (Steps 2, 3)

SMTAM
During dialogue with persons in charge, the need to set goals that include the equity method subsidiary was pointed out

Company Response
Although not included in set goals, it is being managed for governance

December 2022 (Step 4)

SMTAM
During dialogue with external directors, the need to set goals that include the equity method subsidiary was pointed out

Company Response
The board of directors has had serious discussions on this business. For both financial and non-financial matters, involvement in formulating plans, managing goals, providing oversight, and promoting initiatives will be undertaken

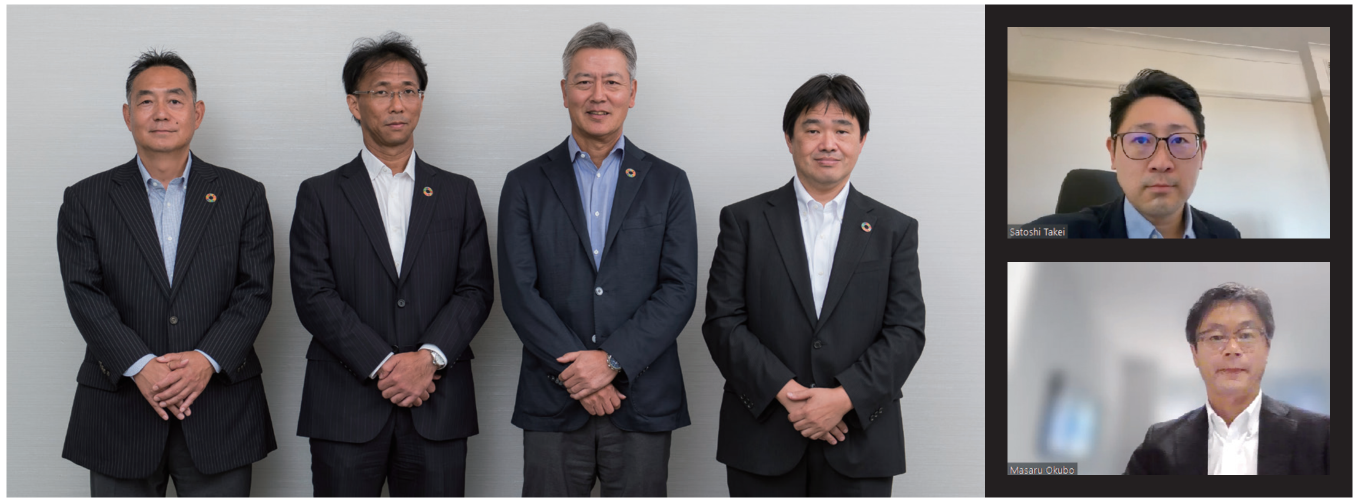
February 2023 (Step 5)

Company Action
Announcement of Scope 3 targets that reflect the equity method subsidiary
Next, effectiveness of achieving goals is set as a target

Global Trends Related to ESG, and SMTAM's Philosophy and Activity Status

—Roundtable Discussion by SMTAM Engagement Specialists in Japan, the US, and UK—

SMTAM has established stewardship activities offices in the UK and US in addition to Japan for gathering knowledge on global trends related to ESG issues and regulations. Our aim is to provide meaningful engagement activities that take into account the unique circumstances and difficulties in each region including Japan, the US, Europe, Asia, and Oceania.
This time, six individuals who are taking the lead with our engagement efforts in Japan, the US, and Europe gathered to exchange opinions about the prominent ESG topics, drawing from their daily activities and the local circumstances of each region, and to provide insights to other offices. This section includes some information on global trends related to ESG and our engagement activities based on their roundtable discussion.



From the left: Takeshi Wada, Masaki Soma, Hisaya Kambayashi, Seiji Kawazoe, Satoshi Takei (top), Masaru Okubo (bottom)

Global trends related to ESG

Kambayashi: Here, we have gathered together individuals in charge of engagement activities in Japan, the US, and UK. I would like you to share your frank opinions on your unique circumstances and give suggestions to other offices based on your daily activities. First, to get things started, I'd like to ask Mr. Kawazoe, who is the General Manager of Global Initiatives, to explain some current global trends related to ESG.

Kawazoe: Floods, heat waves, and droughts are clearly occurring more often as a result of climate change, and it seems to me that there is a growing sense of crisis related to climate change worldwide. As for reducing the use of fossil fuels, deeper discussions have been held at international conferences such as the UN Climate Change Conference of the Parties and G7 Summits, and developed countries are working to achieve the 1.5°C scenario[*1] at the very least by cutting greenhouse gas emissions in half by 2030.
At the same time, there is a huge gap in the responses by developed and emerging countries. Emerging countries are worried that their economic development may be disrupted by climate change measures, which was brought up in Egypt in 2022 at COP27 (the 27th Conference of the Parties to the United Nations Framework Convention on Climate Change). At the previous conference, everyone was somehow able to reach an agreement, but there are heated negotiations on whether to continue a global cooperative system for providing funds and technology to emerging countries for fighting climate change. The provision of funds for climate change measures is expected to be a major issue at COP28 held in Dubai in November 2023. The reality is that the way private funds are used for implementing climate change measures has become a serious issue with financial markets, and governments and international organizations have high expectations on the progress of various initiatives.
The Russia-Ukraine conflict has also had a negative impact on the climate change debate. In Europe, natural gas supply from Russia was stopped, which increased energy and electricity prices, so coal-fire power generation and nuclear power generation, which had been suspended, needed to be restarted. This is a global trend. There is a recognition that energy transition plans have not yet been achieved from a security perspective and that it is difficult to quickly withdraw from fossil fuels, which has led to the search for more practical solutions. Examples of this search include investment in CCS (carbon dioxide capture and storage) and coal-ammonia co-firing technology, which is being promoted in Japan. Without a stable transition plan, it will not be possible to withdraw from fossil fuels, so I believe that such trends and discussions will continue.
There was a major movement with the global framework related to natural capital. Although establishment was delayed due to the pandemic, at the 15th Conference of the Parties to the Convention on Biological Diversity (COP15) held in Montreal in December 2022, many countries agreed to "set 2050 as a goal for nature recovery." The new global target called the "Kunming-Montreal Biodiversity Framework," which aims to halt the loss of natural capital by 2030, was adopted, and additionally, goals for recovering it by 2050 were put forward. This is the biggest movement since the conclusion of the Nagoya Protocol in 2010, and shows the sense of crisis related to the loss of natural capital. Regarding climate change issues, greater attention is being given to the relationship with natural capital, so agendas at the UN Climate Change Conference of the Parties have included measures for preventing loss of carbon sinks (sources for absorbing greenhouse gases). In addition, I believe that information disclosure on natural capital (TNFD) that started in 2023, which is a framework similar to information disclosure on climate change (TCFD), will accelerate the resolving of issues in this field.
Since a global framework on sustainability has been organized, it is necessary for companies to strengthen value chain management as part of corporate governance. Responding to social issues such as properly responding to issues with indigenous peoples will require a new perspective, and will be a point of contention in the future when resolving environmental issues like climate change and natural capital.

Actions on Climate Change Issues in Each Region

Kambayashi: First, let's talk about trends with actions to address climate change issues, which is clearly the most important theme that exists in all regions. Mr. Okubo, could you tell us about the situation in the US?

Okubo: In the US, climate change issues cause significant political divisions, and companies are promoting activities aimed at reducing risks and gaining business opportunities through energy transition. The Inflation Reduction Act that was enacted in 2022 includes a huge budget set aside for creating jobs and promoting industry during the transition period, and promotes investment in development with mobility, hydrogen, and CCUS (carbon capture, utilization, and storage). It has become a realistic response. As for information disclosure on climate change, we are waiting for the final rules set by the US Securities and Exchange Commission (SEC). In particular, there is not enough accuracy with the data in Scope 3[*2], so companies hesitate to set goals. Recently, the ISSB[*3] announced its final proposal, so as it becomes standardized, I believe the expectations of companies and investors on climate-related information will gradually converge. What is the situation like in Europe, Mr. Takei?

Takei: ESG disclosure by European companies is improving every year, and with climate change in particular, many companies have already come to understand the status under Scope 1, 2, and 3 and have set targets. So, it has moved to the phase where they are working to clarify their greenhouse gas reduction plans from a medium- to long-term perspective and are discussing specific strategies. On the other hand, one bottleneck for advancing environmental action that we are hearing from different companies is obtaining accurate data. We are waiting for rules to be established for encouraging better accuracy with data for the whole value chain so that progress toward set targets can be disclosed. The trend with investors is to escalate proposals by shareholders and divestment, but at this moment, there are limits to the improvements that can be made by companies regarding accuracy, and it seems dialogue on this point has become rigid.

Wada: In Asia, the focus is not just on responding to companies with high greenhouse gas emissions, but also on issues with natural capital as the climate change theme. In addition to palm oil[*4], we will also plan to address traceability with the natural rubber supply chain from this fiscal year.

Issues with phasing out coal-fired thermal power

Kambayashi: Regarding energy transition, which is a common issue when responding to climate change, there are problems with phasing out of coal-fired thermal power generation (Note: Gradual termination), especially in Asia

Seiji Kawazoe

Global Initiative Fellow
ESG Research and Development Office
Stewardship Development Department (Tokyo)

Has worked as a foreign equity analyst at local subsidiaries in New York, London, and Luxembourg for a total of 13 years since 1993. Has been involved in ESG-related business since 2006. Current position since 2022.

and Japan. Coal-fired thermal power generation is still the main power source in Asian countries where economic growth is expected in the future, and there are a number of facilities that recently began operating, so if these are forcefully closed, there is concern that shareholder value may be affected as a result of huge losses. New ones are still being built, even in Japan.

Soma: Although this was focused on in the AIGCC[*5] program, electric power companies in Japan are required to have a specific action plan for phasing out coal. However, generally, Japanese companies have a tendency to determine long-term targets from the bottom-up as an extension of the current situation, so it is frustrating to see the huge gap that exists with global mid- to long-term goals, deadlines, and plans. Ammonia co-firing/single-firing and use of CCS at existing facilities should not be rejected as a practical solution at this time, but to incorporate these, I feel it is necessary to present implementation milestones and funding plans.

Okubo: The US and Canada are using the competitiveness of their own natural gas production as leverage to promote medium-term decarbonization via a major transition from coal to gas. At the same time, while investment in renewable energy is being promoted, there are serious concerns about supply stability. There are also expectations with the export of LNG, so the current trend seems to be to focus on improving related infrastructure, hydrogen co-firing, and CCUS development.

Kambayashi: So it seems that CCS where new holes are drilled and filled with CO_2, which is being done in Japan, and CCS that utilizes the petroleum oil and gas extraction layers at existing drilling sites in the US and elsewhere are completely different in regard to their contents and profitability.

Soma: In Japan, there are many restrictions and conditions related to CCS, so it cannot be used by all thermal power stations. We are asking electric power companies to present realistic transition plans that include the feasibility of resuming use of nuclear power plants.

Kawazoe: We should look cautiously at the related trend of focusing on biomass power generation as a measure for supplementing nuclear power generation. There are some serious questions being asked globally about large-scale biomass power generation. This is because biomass power generation was never intended for large-capacity power generation. It was intended as a way to generate power by converting waste materials and unnecessary wood into pellets and then burning them. For example, in the UK, a large amount of pellets was imported for use as biomass power generation. The concern that such pellets are made from timber spread and it became an issue. Later, the value of UK wood pellet imports fell sharply, but import has increased in Japan recently as investment in biomass power generation has increased. Although biomass power generation is eco-friendly, it is meaningless if it requires cutting down forests. As for whether it can really be considered carbon neutral, to avoid the problem that existed in the UK, Japan needs to take steps such as improving the sustainability and traceability of the procured wood pellets as fuel.

Wada: In Asia, there have been discussions on the necessity of coal-fired thermal power using so-called zero-emission thermal power as a realistic transition, and we are focusing on this movement to find practical solutions for energy transition in each region.

Okubo: Some people believe that these will just end up being ways to extend the lifespan of coal-fired thermal power plants.

Kambayashi: If these are really not just extension measures, a detailed transition plan needs to be presented to avoid such concerns.

Wada: Exactly. The purpose of the GFANZ[*6] Japan Country Chapter is for financial institutions to "demonstrate collective leadership and innovation that will contribute toward the world's net zero challenge," and they are planning to give a clear message leading up to COP28 and the PRI Tokyo convention. I am expecting these to serve as a reference that will help companies create transition plans. The GFANZ Asia-Pacific Network (APAC) engages in consultations for the phasing out of coal-fired thermal power generation, and SMTAM is also providing feedback.

Kawazoe: Biomass usage has limits, so ultimately, it is necessary to continue promoting development of renewable energy, like offshore wind power generation, while keeping an eye on the restart status of nuclear power plants. I believe that, for the time being, a realistic transition involves supplementing any insufficiencies with ammonia co-firing and CCS, which serve as regulators in what are considered zero-emission thermal power generation methods.

Decarbonization strategies of major financial institutions

Okubo: I want to discuss decarbonization planning in the investment and loan portfolios of financial institutions. Financial institutions play an important role when it comes to energy transition, and initiatives are evolving through the establishment of decarbonization targets in portfolios. Therefore, it seems we are in a phase where information disclosure is needed in order to confirm progress as a whole company.

Soma: Megabanks in Japan are setting goals using a sector-specific approach in line with PCAF[*7] and NZBA[*8] guidelines, but this creates the issue that standards for overall emission reduction targets are not clear.

Kambayashi: Major financial institutions in Japan have been criticized for having large loan balances with existing fossil fuel industries. Regarding this, since major banks in each region are promoting disclosure, it seems there is a need for deeper analysis such as global comparisons of the contents of coal policies.

Okubo: Major banks in the US collaborate with the NZBA and promote this including decarbonization targets in investment and loan portfolios. At first, it started with the three high-emission sectors, and then targets gradually expanded. However, in the US as well, most targets are intensity-centered according to sector (emissions per unit sales), so the problem is still that overall reduction control cannot be seen as an absolute value. Banks claim that simple calculations of total emissions without complete individual data will damage the reliability of the disclosed information. However, some feel strongly that accountability is needed such as by showing progress status because of commitment to emission reductions from portfolios, so we recognize that managing calculations using absolute values requires an approach from diverse perspectives including methodology and phase theory.

Masaki Soma

Senior Stewardship Officer
Head of ESG Research and Development Office
Stewardship Development Department (Tokyo)

Has worked with Japanese equity investment since 2001. Joined SMTAM in 2005 after working at securities companies in Japan. Current position since 2020.

Takeshi Wada

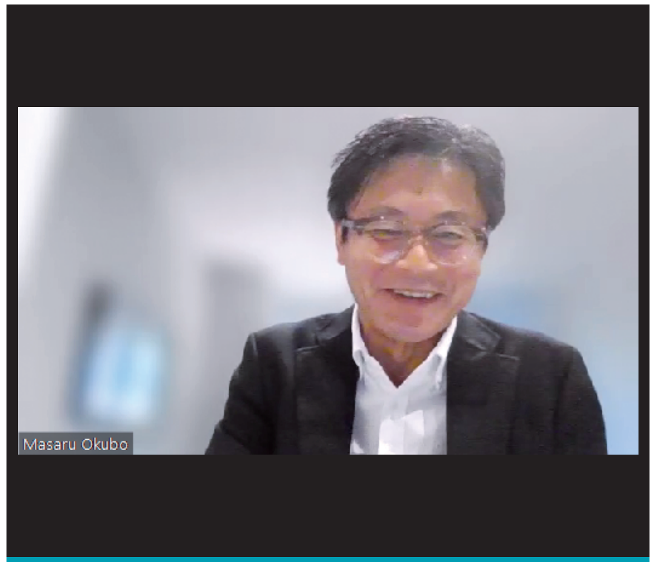
Senior Stewardship Officer
ESG Research and Development Office
Stewardship Development Department (Tokyo)

Has worked in Japanese and in international equity investment since 1998. Worked in New York and Edinburgh, UK before assuming his current position in 2017.

Soma: In Japan, setting interim targets has also progressed in each sector, but I want to have a more clear plan for achieving 2030 targets. It also seems necessary to confirm consistency with the national carbon budget and NDC*9.
Kambayashi: Regarding expansion of target sectors for disclosure, Japanese megabanks claim that they have the highest coverage rate in the world, but is that really the case?
Okubo: Some megabanks have affiliated local banks in the US, and they also give details in the US.
Soma: It's true that some megabanks state that they have a high disclosure percentage from high-emission sectors, but based on what I have heard in Europe, I don't consider it a best practice.
Kambayashi: Many major banks from around the world are members of the NZBA and are engaged in discussions about how to measure carbon emissions in investment and loan portfolios using frameworks such as GFANZ and PCAF, so it seems that overall disclosure ends up being in the same framework despite differences in progress according to regional characteristics. How are initiatives progressing with individual European banks?
Takei: Currently, in Europe as well, few disclose decarbonization targets for their overall investment and loan portfolio. At the same time, coverage of sectors with high greenhouse gas emissions has progressed according to NZBA guidelines. For example, disclosure sectors increased greatly from 5 to 10. Many are saying that they will disclose the majority of emissions for their overall portfolio during 2023, and will disclose the remaining sectors in 2024. By country, the Nordic nations, France, and the UK are advancing, while major banks in Spain and Italy are following close behind regarding disclosure. On the other hand, Germany and Switzerland have many high-emission sectors, so they seem to be behind.
Soma: Coverage by megabanks in Japan increased to around 70% as target sectors expanded in FY2023, so the difference with advancement in Europe is expected to shrink. However, I also want them to present emission reduction targets for their overall portfolios.
Takei: Speaking of disclosures by absolute values or by intensity, banks in Europe use intensity for managing their investment and loan portfolios for each sector. On the other hand, some companies in the energy sector are not just disclosing intensity but are also disclosing absolute levels in response to investors.
Kambayashi: In Japan, at general meetings of shareholders in June 2023, three megabanks were requested through shareholder proposals to disclose their decarbonization plans that align with the Paris Agreement. What about in Europe and the US?
Okubo: In the US too, there have been shareholder proposals to major banks on target disclosure. However, some hesitate to disclose details about their decarbonization plan because of the possibility that the information will be reviewed and amended in the future due to accuracy. They are concerned about the risk of potential lawsuits and reputational risks, which is understandable. We are trying to confirm what financial institutions should work on to avoid problems with information accuracy, which is a bottleneck, through individual dialogue.
Takei: The same is true in Europe. In high-emission industries, including the energy industry, accurate Scope 3 reduction plans have not yet been developed, and there are many cases where targets for Scopes 1, 2, and 3 are disclosed, but detailed measures and investment plans do not exist. Since the decarbonization scenarios that are referenced by each company for disclosure (IEA: International Energy Agency, WBCSD: World Business Council for Sustainable Development, etc.) are not unified, many banks believe it is difficult to improve disclosure, and they hesitate to make improvements or enhancements to reduction plans. Many similar comments have been made by non-life insurance and reinsurance companies.
Wada: In Asia, we are starting to see a positive stance taken by financial institutions in Singapore and Malaysia. DBS Bank in Singapore is playing a leading role in preparing the consultation paper on transition finance in Asia for GFANZ. In addition, the bank has disclosed its decarbonization targets for nine major industries and has been proactive in addressing transition finance with conditions, and its initiatives have been highly evaluated. At the same time, the stance of financial institutions in China and India is to follow national policies, so their response is slow.
Okubo: The Monetary Authority of Singapore appeared at the ISSB Symposium held in Montreal in February 2023, and requested that initiatives be promoted based on a sense of crisis related to future local economies.
Kambayashi: I have spoken with the GIC, which is a government-affiliated investment company in Singapore, and they mentioned that they are committed to promoting action on climate change in the ASEAN region, and are proactively promoting impact investment for selected individual projects. It seems that transition is being promoted in Singapore through a unified approach by the Government, the exchange, sovereign funds, and financial institutions.

Carbon pricing and carbon border tax issues

Soma: To encourage companies and individuals to change their behavior, full-scale carbon pricing*10 needs to be implemented. However, there is a strong tendency in Japan to resist extreme changes to systems, so it is difficult to implement a bold system design.
Kambayashi: There is a huge difference in carbon prices that have been introduced in Japan and elsewhere, but ultimately, global carbon pricing should not differ greatly, so I believe it will eventually even out. How can we understand the big price difference that now exists between Japan and elsewhere?
Soma: If the price does not even out, production bases and investee companies may move from regions and countries with high carbon prices to those with lower prices, which could result in carbon leakage where total carbon emissions actually increase. I believe the introduction of a carbon border tax, which is now being considered in Europe and elsewhere, will prevent this from happening. Japan also needs to gradually introduce this to reduce the price gap that exists between Japan and other countries, and use these funds to develop low-carbon, decarbonized, and energy-saving technologies.
Kambayashi: The reality is that such discussions have not progressed, which shows that the government, companies, and citizens in Japan lack a proper sense of crisis regarding global warming, a sense of ownership, and determination to make changes. What are the latest developments in Europe and the US?
Takei: In Europe, they have determined to implement a carbon border tax starting in 2026, so companies in the



Masaru Okubo

Senior Stewardship Officer
Sumitomo Mitsui Trust Asset Management Americas (US subsidiary)

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.

region have already incorporated responses and strategies for this. In our discussions with companies, it seems that in industries such as chemicals and cement, there is a firm policy to actively pursue the use of CCUS. Additionally, there is a common understanding in other industries to accelerate the transition and advance decarbonization strategies. On this premise, there is a widespread inclination to consider the use of partial carbon credits in cases where it's not possible to fully eliminate carbon emissions.

Okubo: In the US, there is a trend where energy companies use offset techniques such as CCUS and DAC[*11] in their transition strategies. They are using natural gas, which is cost competitive, as transitional energy in Japan and overseas while also trying to convert their specialized engineering technology. Carbon offsets are based on the premise of proper carbon pricing, so petroleum groups in the US and major oil companies such as ExxonMobil have also changed their stance by agreeing to implement carbon pricing. The Inflation Reduction Act (IRA) that was enacted last year also includes tax deductions for carbon capture, which is expected to become a business in the future. Companies in Canada are also planning CCUS projects and are requesting the Canadian government to make financial policies similar to the US.

Satoshi Takei

Senior Stewardship Officer
Sumitomo Mitsui Trust International (UK subsidiary)

Has worked with Japanese equity investment since 2015. Later, he was put in charge of food and healthcare companies as a Japanese and foreign equity analyst. Current position since October 2022.

Global trends related to diversity

Kambayashi: Changing topics here, Japan continues to be one of the worst countries in terms of diversity and was ranked 125th in the latest world rankings on gender. I think that awareness of this issue has improved by individual companies as a result of various education activities, but it seems to take a long time to overcome the customs of a male-dominated society, and movement seems slow compared to other countries in this area as well. How do people in other countries view this?

Okubo: In the US, state laws such as in California and NASDAQ listing regulations specify a minimum diversity for human resources when it comes to gender and race for the board of directors.

Kambayashi: Recently, the US Supreme Court determined that such quota systems amount to reverse discrimination and are a violation of the Constitution, right?

Okubo: That was related to university admissions. The Supreme Court has a conservative leaning, and some are worried about the impact this will have on companies promoting diversity. It's true that zero diversity in terms of human resources in a company's board of directors is not good, but there are arguments against rigid quotas that force a certain composition ratio for personnel, such as 50-50 male/female. The prevailing opinion is that skill also needs to be considered for selection. The discussion theme for dialogue with companies seems to be changing from gender issues including diversity for the whole workplace and management positions to human capital issues by rethinking human resource utilization and rigid career paths.

Takei: In Europe, the trend is to expand the application target for gender diversity from the board of directors and committees to senior management. In some countries, the quota system seems to be accelerating diversity in the board of directors and board of auditors. For example, in France, it is mandatory that women comprise at least 30% of executive positions by 2027 and at least 40% by 2030, and legislation in other countries is progressing such as in Germany where women must comprise at least 30% of supervisory boards. It seems that future issues will include expanding the target scope for quota systems from listed to unlisted companies and gender equalization among departments. For example, there are many female workers in IR and ESG related teams and management departments, but few in other departments, so I want to conduct engagement that focuses on such issues.

Kambayashi: All cabinet ministers who attended the G7 Ministerial Meeting on Gender Equality and Women's Empowerment were women except for the minister from Japan. Most of the participants from other countries at 30% Club and Thirty Percent Coalition[*12] gatherings that we participate in are women, and many of the people in charge of overseas initiatives and NGO experts working on issues such as climate change are women.

Takei: Financial institutions and traditional manufacturing industries in Europe are still male-centric, and like Japan, Germany and Switzerland seem to be behind.

Kambayashi: When I used to visit factories and technical laboratories of major manufacturers in Japan, I asked why they do not hire more females and foreigners. Their answer was that manufacturing is dangerous, so it is difficult for women and for foreigners who cannot communicate well, which made me feel uncomfortable. It is true that it involves manufacturing. This existing wall of "men's work, men's society" seems difficult to take down.

Okubo: Some advanced companies voluntarily began disclosing their gender and racial gap on turnover and promotion rates and salary. Such data affects employee engagement. I think it is important as an investor to discuss and share with companies about how diversity and fairness are linked with corporate value, and to promote the PDCA cycle.

Soma: Disclosure of human capital has also started in Japan. But because it has just started, many companies are confused about information disclosure, and investors now need to try to understand the disclosure contents. At the same time, analysis is needed not only of the current cross-section but also on the background of each. Utilization of females is important in Japan due to the aging population and declining birthrate, and companies with poor employee engagement are workplaces where it is also difficult for men to work. Information disclosure has just begun for initiating discussions for eliminating problems caused by the gender gap, but I expect the contents and quality to improve and that discussions will deepen.

Hisaya Kambayashi

Senior Stewardship Officer
ESG Research and Development Office
Stewardship Development Department

Worked at subsidiaries in Germany and the UK since 1988 for over 10 years, and engaged in foreign currency asset management. Has much experience with sales to institutional investors in Japan and overseas. Current position since 2017.

*1. Normative scenario in harmony with efforts to limit the increase in the average global temperature to 1.5ºC compared to pre-industrial levels.
*2. Other indirect emissions outside of Scope 1 (direct emissions) and Scope 2 (indirect emissions such as electricity).
*3. Abbreviation for "International Sustainability Standards Board," which is an organization that formulates the "IFRS Sustainability Disclosure Standards" as international standards allowing companies to report on environmental, social, and governance (ESG) fields.
*4. Various issues related to the production process, including environmental problems and human rights and labor issues related to the supply chain, and climate change issues due to deforestation.
*5. Asian investor association on climate change.
*6. Abbreviation for Glasgow Financial Alliance for Net Zero. A global coalition of financial institutions committed to achieving carbon neutrality by 2050.
*7. Partnership for Carbon Accounting Financials. Framework for rational calculation of greenhouse gas emissions by the party receiving funds from financial institutions through loans and investments.
*8. International initiative where the United Nations Environment Programme Finance Initiative (UNEP FI) is the secretariat. Consists of private banks (including investment banks) that aim to achieve net zero greenhouse gas emissions by 2050 through investment and loan portfolios.
*9. Reduction targets, etc. for greenhouse gas emissions that must be created, reported, and maintained by each country according to the Paris Agreement.
*10. Policy method that puts a price on the CO (carbon) emitted by companies, etc., and is used to change the behavior of emitters. Methods include well-known systems such as "carbon tax" and "emission trading."
*11. Abbreviation for Direct Air Capture and is technology for direct air capture. Special absorption liquids and filters are used to separate and collect low concentration CO_2 that exists in the air.
*12. An investor network that promotes greater diversity on the boards of directors at investee companies.

Making the Tokyo Market More Attractive and SMTAM Initiatives

1. Introduction

As stated in the "Asset Income Doubling Plan" of the "Basic Policy on Economic and Fiscal Management and Reform 2023" (Honebuto no Hoshin), in order to achieve financial inclusion where the benefits of financial and capital markets are distributed to all citizens, expectations are raised that initiatives will improve the corporate value of listed companies, who are recipients of risk money, and for the investment chain.

In this situation, efforts are accelerating to improve the attractiveness of the Tokyo market not only by investors but also by the investment chain including security exchanges and regulatory authorities.

2. Investment chain initiatives to improve the attractiveness of the Tokyo market.

This section will introduce initiatives by JPX Market Innovation & Research, the Tokyo Stock Exchange, and the Financial Services Agency (created by SMTAM based on disclosed contents by each company/agency).

(1) JPX Market Innovation & Research - Publication of the new "JPX Prime 150 Index" focused on value creation (March 2023)*1

(Purpose)

The JPX Prime 150 Index is designed to make leading Japanese companies that are expected to create value more visible, and to make the index and its constituent stocks the target of medium- to long-term investment by institutional and individual investors in Japan and abroad, thereby contributing to the penetration of value-creating management and enhancing the appeal of the Japanese stock market.

(Main contents)

Stocks are selected using two indicators to determine value creation: "equity spread," the difference between ROE (return on equity) and cost of equity, and PBR, a market valuation based on stock price. These are positioned as "leading Japanese companies that are expected to create value." A new stock price index comprised of these stocks was developed and published.

(2) Tokyo Stock Exchange - Action on Cost of Capital-Conscious Management and Other Requests*2 (March 2023)

(Purpose)

To summarize matters considered important for achieving sustainable growth and enhancing corporate value over the medium to long term, and while not mandatory under TSE rules, listed companies are requested to proactively implement these in consideration of investor expectations.

(Main contents)

Listed companies are requested to conduct a series of actions on an ongoing basis, starting by gaining a proper understanding of their own cost of capital and profitability, and then analyzing and assessing the current situation around these and the market valuation at board meetings, preparing and disclosing plans for improvement, and then using dialogue with investors to update them on the progress of these efforts.

(3) Financial Services Agency "Opinion Statement No. 6 from the Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code" - Publication of the Action Program for Accelerating Corporate Governance Reform: From Form to Substance (April 2023)*3

(Purpose)

To create an environment that promotes self-awareness among companies and investors, and make the dialogue between companies and investors more productive and more effective.

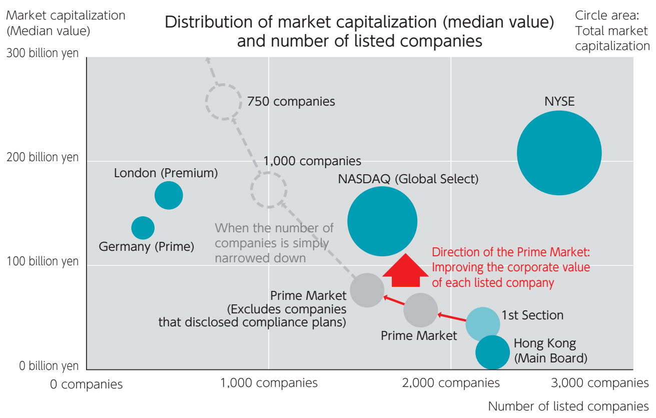
(Main contents)

Action program formulated to promote self-awareness by listed companies in order to accelerate and strengthen Japan's corporate governance reforms.

Recommendations were made on measures and discussion contents related to "issues for seeking sustainable corporate growth and increased corporate value over the medium to long term" and "issues related to dialogue between companies and investors."

Regarding any of the above (1), (2), and (3), the common key expression is "management with an awareness of profitability and growth based on the cost of capital," which is stated in Principle 5-2 of Japan's Corporate Governance Code, giving a strong message to listed companies and market participants. This series of initiatives accomplishes more than just narrowing down listed stocks to specific quality companies. They raise the level of all listed companies and the Japanese market.

Figure 1. Direction of the Prime Market: Improving the corporate value of each listed company



Note: Data acquired as of April 1, 2022 for TSE (former market) and as of July 1, 2022 for others (Source: Created using published materials from each exchange)

Source: TSE Reference material (Discussions and current status at follow-up meetings)

3. Efforts by SMTAM to make the Tokyo market more attractive and increase corporate value

We are pursuing our three key pillars of stewardship activities that are built around engagement, the exercise of voting rights, and incorporating ESG factors into investment decision-making processes in order to help improve corporate value and maximize investment return. With engagement, in order to more effectively resolve issues, we focus on multi-engagement not only with investee companies but also with stakeholders including security exchanges and regulatory authorities who are in a position to promote sustainability and improve the value of listed companies by listing rules and various regulations.

(1) Engagement with JPX Market Innovation & Research

In addition to individual dialogue, we are continuing to engage in activities as a member of the "Index Advisor Panel" and in dialogue by submitting our opinions, etc. at the "Index Consultation."

For example, we expressed our opinion that it is desirable for TOPIX to be comprised of companies not held by specific shareholders, but rather those capable of continuing constructive dialogue with investors. There is also a need for systems that protect minority shareholders, and it is important to consider the presence or absence of information disclosure on corporate value creation, similar to integrated reports. We also informed our opinion on the need to improve the system and platform so that ESG information disclosed by companies through exchange can be acquired and viewed.

(2) Engagement with the Tokyo Stock Exchange

In addition to individual dialogue, we submitted our opinion on the "Consultation Paper Concerning the Follow-up of Market Restructuring."

For example, regarding companies that have had a significantly low market value in the Prime Market over a long period, we expressed our opinion that a system be established to encourage such companies to make effort to raise the market value, such as by disclosing a sustainability index and establishing standards including KPIs together with medium- to long-term ROE targets and cash flow forecasts, and that such efforts and disclosure by companies be used as materials for dialogue with investors for improving corporate value, which can improve effectiveness.

(3) Response to the Action Program for Accelerating Corporate Governance Reform: From Form to Substance

As a specific initiative in this program, resolution of legal issues was mentioned, and that there will be further discussions on clarification of the "act of making important suggestions" and "joint holders" under the large shareholding reporting rule, transparency of beneficial shareholders, and how to protect minority shareholders in the case of partial takeover bids. Consideration began by the "Working Group on Tender Offer Rule and Large Shareholding Reporting Rule" of the Financial System Council of the Financial Services Agency in June 2023, and we are the only institutional investor to joined (Senior Managing Director, Mr. Horii, is a member).

4. Future expectations

In order to make the Tokyo market more attractive by improving corporate value, we believe that it is essential to work across the entire investment chain, rather than in individual silos. It is important to collaborate with investment chains including improvement and development of indices used for investment, improvement of listing systems and information disclosure systems, and support from authorities. We feel that measures to encourage "management with an awareness of profitmaking and growth based on the cost of capital" for companies published this spring were the start of this movement.

Such collaboration with related organizations has a powerful impact on improving corporate value, and we believe that this also makes investors, including those outside Japan, expect Japanese companies to make innovative changes and increases trust in the Tokyo market, which will drive investment funds.

We expect such movements to accelerate, and SMTAM will continue engaging with the investment chain. We will also share best practices on reforms to the Tokyo market through dialogue with exchanges outside Japan in order to promote improvements to the global capital market while also working to convey the appeal of the Tokyo market.

*1. https://www.jpx.co.jp/corporate/news/news-releases/0060/20230330-01.html
*2. https://www.jpx.co.jp/news/1020/20230331-01.html
*3. https://www.fsa.go.jp/news/r4/singi/20230426.html

Dialogue with exchanges outside Japan

Activities by SMTAM to Promote Financial Literacy for Increasing Investors

Helping People Understand the Benefits of Investment

We are engaging in activities to promote financial literacy for increasing investors. Rather than focusing on an approach based on the so-called "20 million yen problem" that emphasizes the anxiety faced after retirement, we focus on developing society through investment, finding enjoyment by contributing to this, and experiencing social dynamism through investment with the goal of developing investors with a long-term perspective while learning about investment in a positive way.
The Financial Literacy Promotion Office is making effort to develop cyclical economic growth through money and investment based on the message "Watashi mo hataraku, Okane mo hataraku (I work, and money works)."

"Raku-kun" mascot character

This mascot character is designed to look like the Japanese character "Raku." "Raku" can include the meaning of economic affluence.

Classes Held at Elementary, Junior High, and High Schools to Teach Students about the Basics and Importance of Investing

Since our activities started in 2022, a total of 270 students from four schools participated in our investment education activities. We are teaching how investment is a way to support companies based on the theme, "Understanding how investing promotes a peaceful and sustainable society." To help children understand the unfamiliar concept of investment, we tried a number of methods, including using the "Raku-kun" character and starting with the topic of SDGs. We have received positive feedback from students taking the classes, which shows they could find joy in understanding the contents. This year, we are working to make further improvements to the program so it is easier to understand financial matters. This is the second year, and we are trying to help young people become more familiar with the financial world.

Showa Women' s University Elementary School

- December 1, 2022
- Total of 107 5th-grade students

Students showed a positive attitude during group work discussions, and many made comments during the presentation.

Funabashi Gakuen Toyo High School

- November 1, 2022
- Total of 82 students and faculty from grades 1 to 3

Students from all grades and faculty members willingly participated in an extracurricular class hosted by the principal. According to a survey, the portion they remembered most was the key message "Watashi mo hataraku, Okane mo hataraku (I work, and money works)." We could see firsthand that students had a deep understanding of the information.

Direct Feedback from the Financial Community

We engage in various activities to communicate with the financial community. We regularly exchange ideas and hold events with the "USIC*1" university student investment circle and with the "KINYU-JOSHI*2," which is a female-led financial community. This is our fourth year collaborating with the "USIC." We have been able to have regular exchange with core student members and hold study sessions with members.

USIC: Sponsor of the financial information magazine "SPOCK" and roundtable discussion with women on investment

Last year, we became a sponsor of the financial information magazine "SPOCK," issued annually by the USIC, with the goal of improving the financial literacy of university students. In SPOCK (vol. 27), a roundtable discussion with female members of the USIC was published. We interviewed four female members who attended the roundtable and asked why they joined the USIC, how they came to be interested in investment and finance, and about their life plan and asset formation in order to help university students who have not joined the USIC and new students become interested in investment and finance and make them think about their future.

"KINYU-JOSHI" YouTube video production / Girls' Night Out

We made a YouTube video and held a "Girls' Night Out" in collaboration with the "KINYU-JOSHI" as part of an event called, "Understanding NISA and Reverse Investment in 2024 with help from SMTAM." We collected feedback from members, including their concerns about investments and thoughts on the new NISA, captured these moments in videos and reports, and shared them on YouTube and Instagram.

Co-Sponsor of "Mirai no Jugyo (Future Classes)"

Same as last year, we are planning to donate the SDG-related publication "Mirai no Jugyo (Future Classes)" published by SENDENKAIGI to 35,000 elementary, junior high, and high schools throughout Japan. While awareness of SDGs is increasing by promoting understanding at schools and promoting the understanding of people in general through mass media, we posted an advertisement in the publication for the fourth time so that our SDG activities can be known to students, faculty, and guardians. We view this as an opportunity for such people to recognize the social role asset management companies play.

Conclusion: Developing Future Investors

Linking investors with companies that engage in initiatives to resolve issues through investment increases people's assets, which ultimately helps resolve world issues. Our desire is to help as many people as possible understand the importance of such investment and help people find companies they want to support through investment. We believe that by continuing to educate people on the power of investment through classes and events, more people will come to understand our ideas and participate in investment, which will help resolve many issues.

*1. USIC (Union of Student Investment Clubs) is the largest student organization in Japan related to finance with over 1,100 students from 32 universities. Founded in 2008, the initiative has been committed to advancing the financial literacy of students, with the vision of turning Japan into a financial power through the investment activities of its students. Its main activities include jointly holding study groups and seminars with finance-related companies in Japan and overseas. Recently, they have been working to establish an environment where young people can easily begin investing by focusing on dissemination via media and working on system-related initiatives.
*2. Financial community established by women in their 20s and 30s who are not familiar with finance for women who are not familiar with finance.

Exercise of Voting Rights

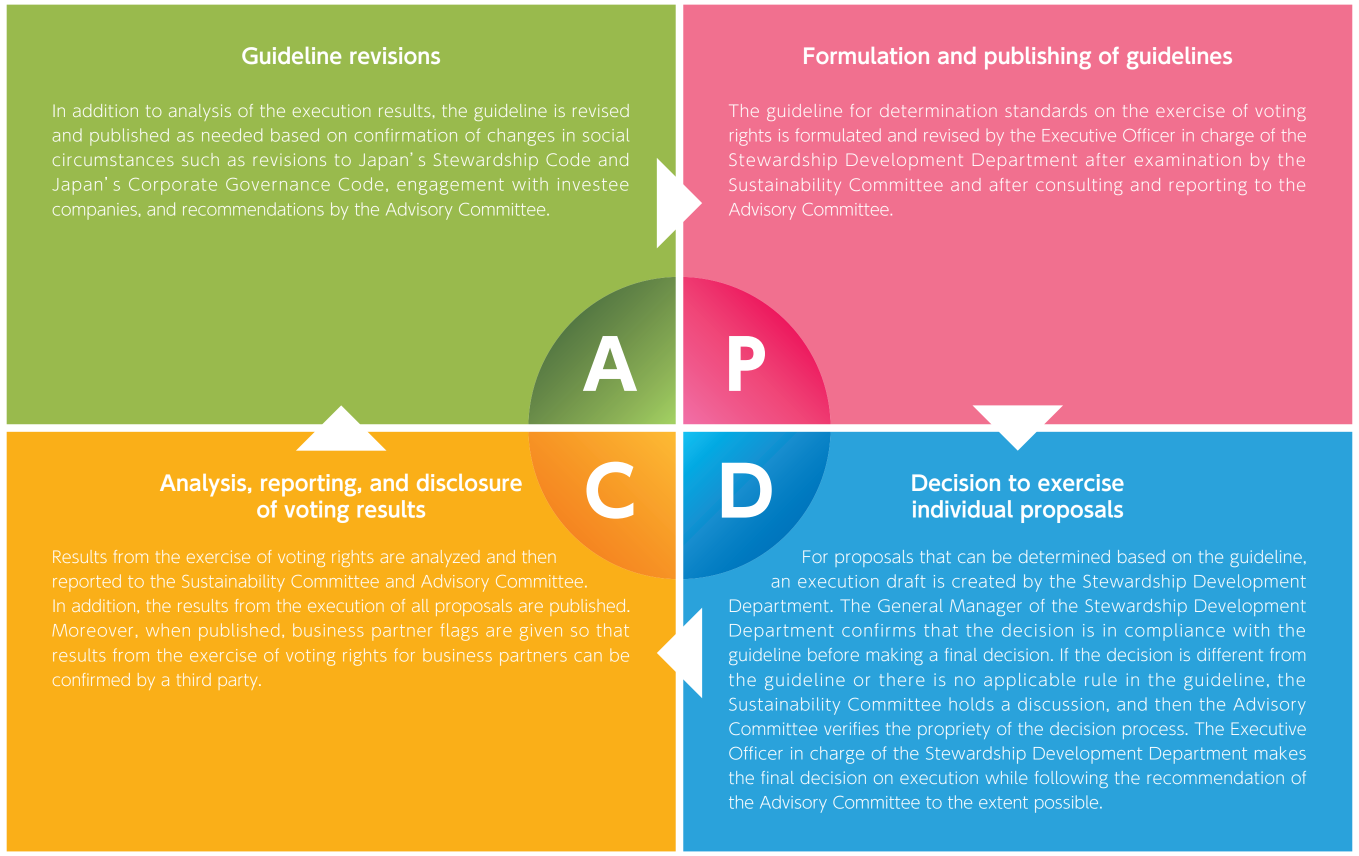
Stricter Standards for Exercise of Voting Rights Related to "Appointment of Female Directors" and "Cross-Shareholding"

Purpose of Exercising 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 clients (beneficiaries) by improving the corporate value of investee companies and promoting sustainable growth.
Please visit our website for more details.
https://www.smtam.jp/institutional/stewardship_initiatives/stewardship_activities/voting_index/voting_thoughts.html

PDCA in the Exercise of Voting Rights

We established a Stewardship Activities Advisory Committee that is made up of independent external experts for ensuring the proper exercise of voting rights. Our operations are carried out through proper monitoring based on clear decision standards in harmony with our guideline established after consulting with the Advisory Committee. The Advisory Committee plays an important role in the following PDCA cycle.



In order to help visualize the above process, we publish guidelines and deliberation contents by the Advisory Committee (summary), and disclose results from the exercise of voting rights for each proposal (in addition to disclosing the existence of business relationships with Sumitomo Mitsui Trust Group and reasons for opposing).

Revisions to the Principles for Exercising Voting Rights

We revised the Principles for Exercising Voting Rights in January 2023 (published in December 2022). The main point of the revisions is to make standards for the appointment of female directors, for cross-shareholding, and for takeover defense measures more strict.

We made the standard for appointing female directors that "if there are no female directors, we vote against appointment of directors" more strict. This standard was newly established based on revisions made in January 2022, and the scope was set to include TOPIX100 companies at that time. However, in January 2023, the scope was revised to include TOPIX500 companies. We will continue to expand the target scope in the future.

We made the standard for cross-shareholding that "if a company has excessive cross-held shares, we will object to the appointment of directors who have served for more than three years" more strict. This standard was added to revisions made in January 2021 to clarify the statement, "We may vote against depending on the engagement status." When this was added, it stated that we would "consider" voting against, but with the January 2023 revision, we positioned the reduction of cross-held shares as a "minimum standard of governance" and established specific criteria. Moreover, we set the standard for the top 10th percentile level of TOPIX stocks since we intend to continually request reduction.

We changed our standard for introduction/renewal of takeover defense measures to "principally vote against introduction/renewal of takeover defense measures" to make it more strict. When this standard was revised in October 2017, it stated that we "may agree" when a majority of the board of directors is external directors whose independence is recognized. The intent was to show that although we are principally against takeover defense measures, we approve their introduction for companies with a highly independent board of directors as an exception. Later, our opposition ratio for such proposals remained over 90%, and since there are some cases where emergency takeover defense measures were approved by judicial decision starting in 2022, we determined that implementation of pre-warning-type takeover defense measures was no longer meaningful and so revised this in January 2023.

Main revisions to the Principles for Exercising Voting Rights

Revised items	Revised contents
Criteria	● Regarding independency standards for external officers, the supplementary provision on long terms of office was removed
Composition of the board of directors, appointment of directors	● Made the standard regarding the appointment of female directors more strict ● Made the standard regarding cross-held shares more strict
Takeover defense measures	● Revised stance on pre-warning-type takeover defense measures to principally vote against

Cases Where the Exercise of Voting Rights Was Determined Based on Engagement

Rather than deciding based on formalistic standards, before exercising voting rights, SMTAM carefully considers the circumstances of investee companies and engagement contents with the relevant company and then determines whether it leads to the sustainable growth of the investee company.
The following are cases where we exercised voting rights based on engagement.

Cases where the exercise of voting rights was determined based on engagement

Code	Company	Proposal	Voting record	Decision contents
3994	Money Forward	[Company proposal] Appointment of directors	For	- This company had an operating income deficit in three consecutive periods, so according to our standards for the exercise of voting rights, we should vote against directors who have served for more than three years. - However, through engagement, we were able to confirm that (1) the company deficit was due to cost of up-front investments for improving future corporate value, (2) the user cancelation rate is low at 1.3% and up-front investment was determined to be rational, and (3) they plan to have a surplus based on EBITDA in the November period of 2024. Therefore, we made an exception and voted "for."
8306	Mitsubishi UFJ Financial Group	[Company proposal] Appointment of directors	For	- This company had already disclosed their forecasts that the net asset ratio for cross-held shares (including deemed holdings) will drop to 22.52% after the next medium-term management plan starting in FY2024 when only those for which sale has been approved by the owner are reflected. We explained that this holding level will still be considered excessive, so we confirmed their policy for future reduction. - As a result, we could confirm that their policy is to increase reduction in the next medium-term management plan, which they are now preparing, so determined that this was an exception and voted "for."
8316	Sumitomo Mitsui Financial Group	[Shareholder proposal] Partial amendment to the articles of incorporation (Response to climate change)	Against	- At their annual meeting of shareholders in 2022, a proposal was made by shareholders requesting this company to enhance their action on climate change, and at the time, reduction targets in the investment and loan portfolio targeted only the electric power sector. We determined that their attitude toward climate change initiatives was insufficient, so we voted "for" the proposal by shareholders. - Although targets for reduction goals were only for three sectors (electric power, oil and gas, coal), as of May 2023, they presented a plan to set targets for two other sectors (steel, automobile) during FY2023, and to set targets for all nine sectors with high greenhouse gas emissions during FY2024. - Based on the fact that we could confirm progress with this company's initiatives for responding to climate change and that it will be possible to see their emission coverage rate from now, we voted "against" the shareholders' proposal in 2023.
9404	Nippon Television Holdings	[Company proposal] Appointment of directors	For	- Since this company had not appointed any female directors, we explained that we need to vote "against" proposals for appointment of directors. We then confirmed their concept on the appointment of female directors, and they explained that they were working on their appointment the following year. We requested them to announce this if possible. - Later, as a supplementary explanation for a proposal at the general meeting of shareholders, they announced that there would be proposals for female candidates as directors at next year's general meeting. Since we could confirm their policy on the appointment of female directors, we voted "for" (excluding external directors with many years of service).

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 whether 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.

8975 Ichigo Office REIT, General meeting in June 2023

Proposals No.	Proposal	Voting record	Background / Reason
1 to 8 11 to 14	Revision to asset management fees, appointment of executive officers, appointment of supervisory officers, revision to remuneration for executives, etc.	[Investment corporation proposal] For [Investor proposal] Against	- Investors made an investor proposal requesting the lowering of asset management fees, and the investment corporation made a counter proposal. We decided to vote based on the investor value judgment for both proposals. - Regarding earnings/dividend performance remunerations, there was no rational explanation about the level after reduction in the proposal by the investment corporation, so we determined that Proposal 9 by the investors was appropriate. However, since Proposal 9 was withdrawn by the investors, we voted "for" the proposal by the investment corporation. - Regarding the appointment of officers, based on concerns of a conflict of interest, we opposed the proposal by investors. Therefore, we voted "for" all proposals by the investment corporation, and voted "against" proposals by investors.

Record of Exercising Voting Rights for Japanese Equity (July 2022 to June 2023)

Company proposals

		For	Against	Abstention	Total	Opposition ratio
Proposals concerning company systems	Appointment/dismissal of directors	14,500	4,198	0	18,698	22.5%
	Appointment/dismissal of corporate auditors	1,928	275	0	2,203	12.5%
	Appointment/dismissal of accounting auditors	96	0	0	96	0.0%
Proposals concerning remuneration for executives	Remuneration for executives*1	642	100	0	742	13.5%
	Payment of retirement benefits for resigning executives	0	91	0	91	100.0%
Proposals concerning capital policies (Excluding proposals concerning articles of incorporation)	Disposal of surplus funds	1,469	57	0	1,526	3.7%
	Restructuring-related*2	38	0	0	38	0.0%
	Introduction/renewal/abolishment of takeover defense measures	1	84	0	85	98.8%
	Other proposals concerning capital policies*3	58	0	0	58	0.0%
Proposals concerning articles of incorporation		767	11	0	778	1.4%
Other proposals		4	0	0	4	0.0%
Total		19,503	4,816	0	24,319	19.8%

*1. This includes amendments to remuneration for executives, issuance of stock options, introduction/alteration of performance-linked remuneration systems, and executive bonuses
*2. This includes mergers, business transfers and acquisitions, share swaps, share transfers, and corporate splits
*3. This includes treasury stock acquisitions, decrease in statutory reserves, new share allocations to third parties, decrease in capital, reverse stock splits, and issuance of class shares

Shareholder proposals

	For	Against	Abstention	Total	Opposition ratio
Total	39	365	0	404	90.3%

Factors that affect the result of exercising voting rights and the opposition ratio
When comparing the opposition rate to company proposals with the same period last year, there was an increase attributed to stricter standards regarding the appointment of female directors, cross-shareholding, etc., but overall, there was a slight decrease because enhancements with the investee company governance systems (such as an increase in number of independent external directors) offset this increase.

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 portfolio managers confirm positions such as the number of lent stock.

Record of Exercising Voting Rights for Foreign Equity (July 2022 to June 2023)

Company proposals

		For	Against	Abstention	Total	Opposition ratio
Proposals concerning company systems	Appointment/dismissal of directors	13,872	1,722	0	15,594	11.0%
	Appointment/dismissal of corporate auditors	553	96	0	649	14.8%
	Composition of board of directors (limits on number of directors, etc.)	332	15	0	347	4.3%
	Appointment of accounting auditors	2,209	29	0	2,238	1.3%
Proposals concerning remuneration for executives	Remuneration for executives	3,230	487	0	3,717	13.1%
	Stock options	547	410	0	957	42.8%
	Presentation of retirement benefits	10	2	0	12	16.7%
Proposals concerning capital policies (Excluding proposals concerning articles of incorporation)	Shareholders' equity	3,301	529	0	3,830	13.8%
	Profit disposal and loss disposition plans	1,567	3	0	1,570	0.2%
	Establishment of share buyback frameworks	886	48	0	934	5.1%
	Mergers, corporate splits, conversions to holding company, business transfers, etc.	732	169	0	901	18.8%
	Takeover defense measures	186	10	0	196	5.1%
Proposals concerning articles of incorporation		1,344	375	0	1,719	21.8%
Other proposals		8,921	1,152	0	10,073	11.4%
Total		37,690	5,047	0	42,737	11.8%

Shareholder proposals

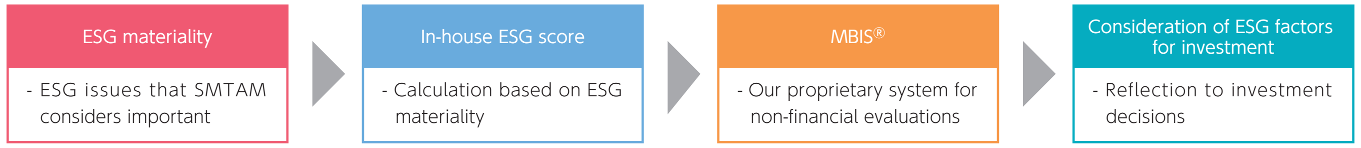
	For	Against	Abstention	Total	Opposition ratio
Total	1148	543	0	1,691	32.1%

ESG Integration

We have identified 12 important ESG issues as “ESG materialities.” We conduct non-financial evaluations using our in-house ESG score calculation based on “ESG materialities” and MBIS®, which is a proprietary system, and reflect these into our investment decision-making process according to portfolio characteristics in order to maximize investment return.

SMTAM’ s ESG Integration

ESG integration process



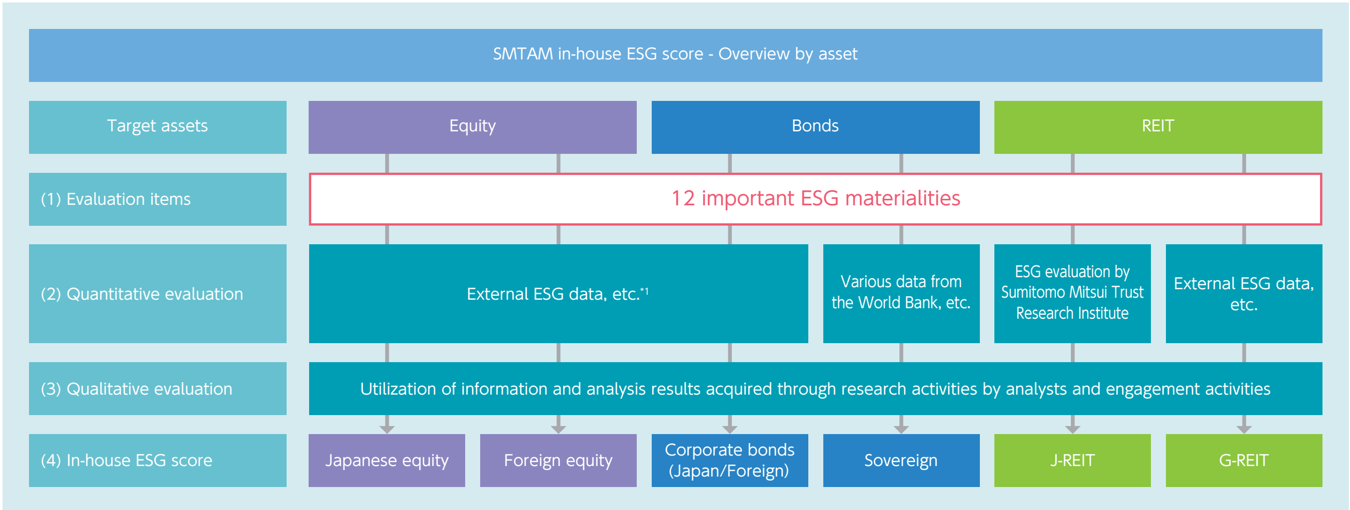
ESG materiality

ESG materiality refers to ESG issues that we view as important for improving the value of the investee company and promoting sustainable growth. We consider this ESG materiality when performing ESG investment including ESG evaluation of investee companies, engagement activities, and decisions for exercise of voting rights.

	E	S	G
Risk	Climate Change Issues Natural Capital Pollution & Waste	Human Rights & Community Human Capital Safety & Responsibility	Behavior Structure Security & Justice
Opportunity	Environmental Opportunities	Social Opportunities	Governance Improvement

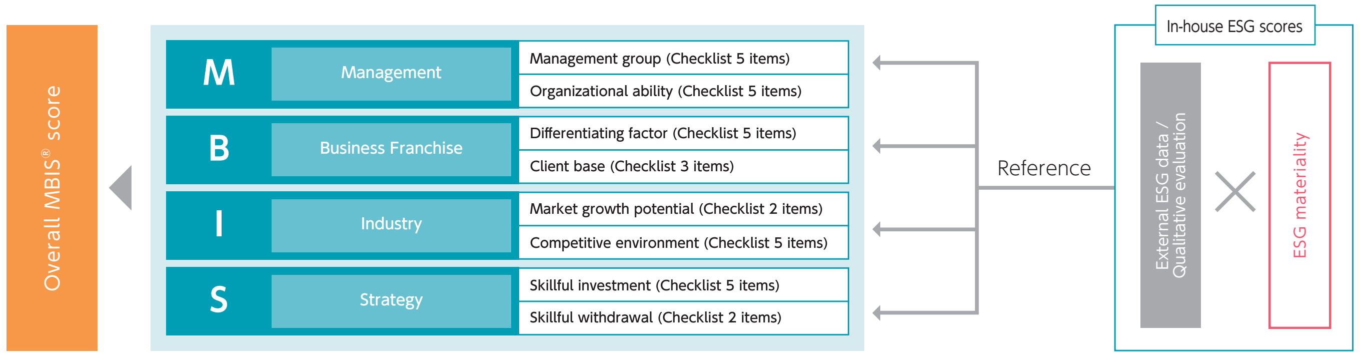
In-house ESG scores

Principally, we give an in-house ESG score on the investment universe for the whole asset. The in-house ESG score is our investment evaluation index given from the perspective of investors after analyzing the impact of opportunities and risks resulting from ESG issues on nations, companies, etc. It is calculated based on ESG materiality by utilizing external ESG data and by reflecting information acquired through research activities by analysts and engagement activities, and then reflecting the analysis results. In order to select brands and determine the investment weight, we add company performance, financial status and valuation for equity and REIT, and add credit evaluation and spread evaluation for Sovereigns and corporate bonds.



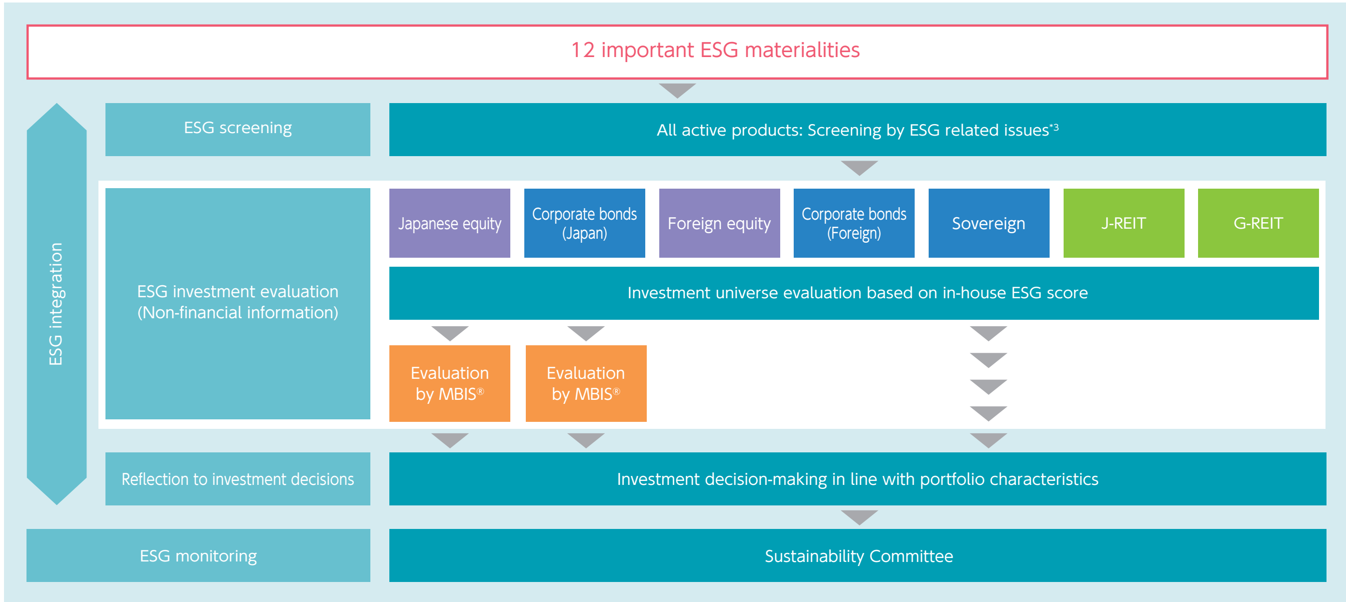
MBIS®*2

MBIS® is our unique system for evaluating the medium- to long-term sustainable growth of companies utilizing non-financial information including ESG elements. We started performing such evaluations for Japanese companies in 2015, and are using these for ESG integration related to Japanese equity and Japanese bond investments. 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 abbreviation for Management, Business Franchise, Industry, and Strategy, and it also incorporates our in-house ESG score evaluations for each evaluation item. In this way, we consider the impact of the investment opportunities and risks through the initiatives of each company for ESG issues for the creation of new markets and business models such as commercialization and monetization on medium- to long-term sustainable growth of each company. We incorporate the concept of the SDGs and the 17 goals into our evaluation.



Consideration of ESG factors for investment

Regarding equity in companies that produce cluster bombs, anti-personnel landmines, and biological and chemical weapons, which are considered to be controversial weapons based on ESG materiality, if engagement is not possible due to company reasons, we exclude them as an investment target in active funds (equity/bonds). Later, we reflect the MBIS® and in-house ESG score to the investment decision according to the characteristics of each asset.



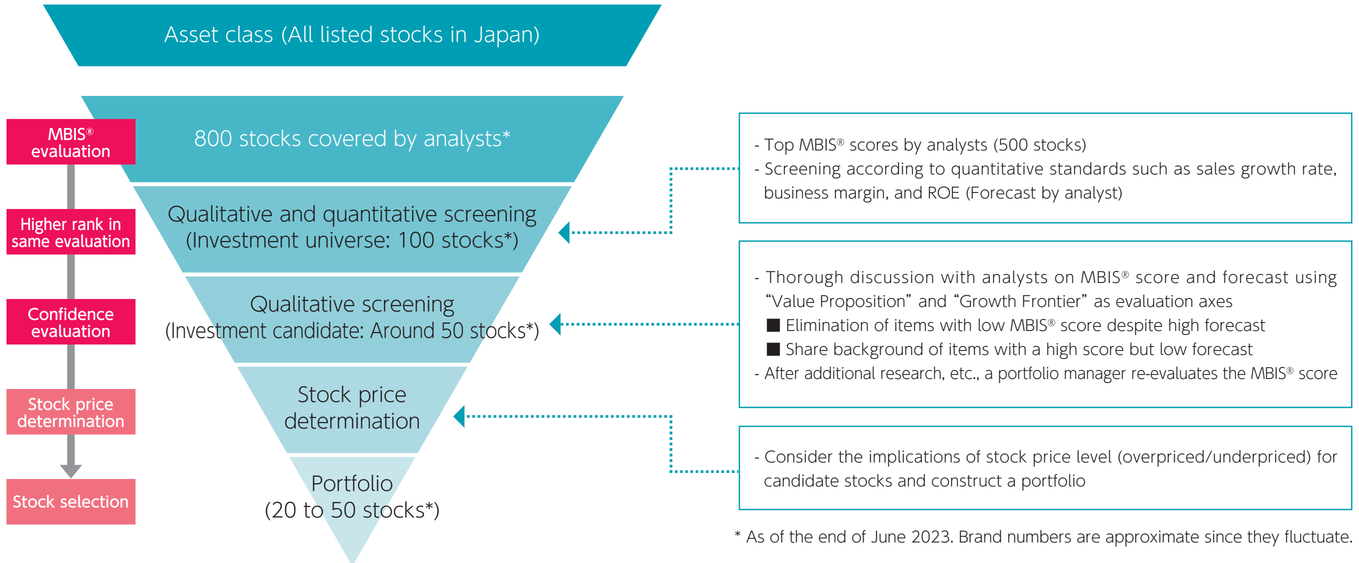
*1. We use data such as from external ESG data vendors as references for our own ESG quantitative evaluations. We have engagement with ESG vendors at least once a year to confirm and improve service contents based on what we use (universe expansion, higher data accuracy, better information on misconduct, etc.).
*2. MBIS® is the registered trademark of Sumitomo Mitsui Trust Asset Management.
*3. Screening results are limited to nine companies. Moreover, there has been no change with these nine companies over the past year (as of the end of June 2023).
Anhui Great Wall Military Industry Co., Ltd., Aselsan Elektronik Sanayi ve Ticaret AS, LIG Nex1 Co., Ltd.
Poongsan Corp., POONGSAN HOLDINGS Corp., SNT DYNAMICS Co., Ltd., SNT Holdings Co., Ltd., China Aerospace Science & Technology Group Co., Ltd., Israel Aerospace Industries Ltd.

Japanese Equity ESG Integration

Cases of Japan Quality Growth Strategy (Research, ROE Improvement)

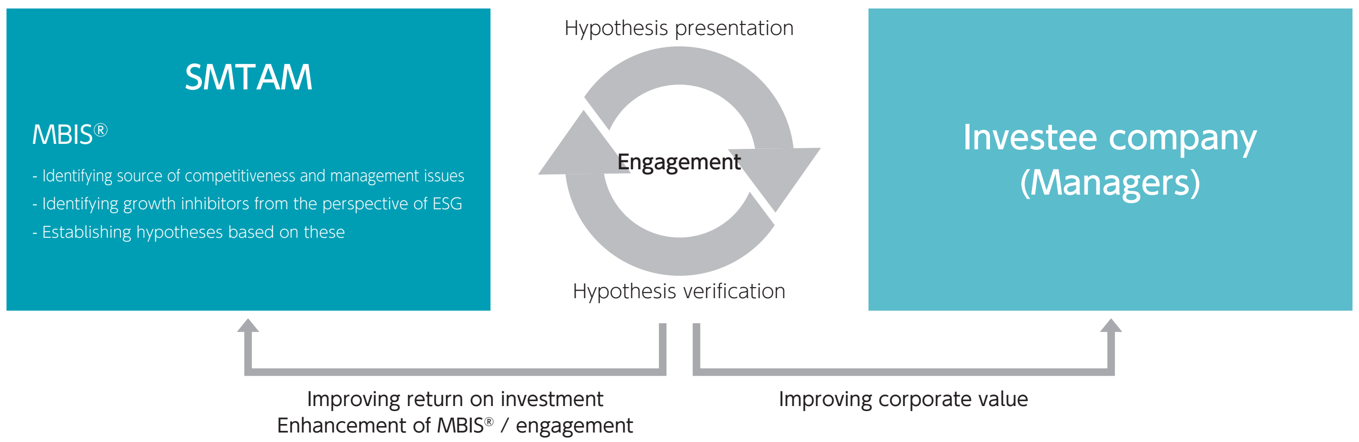
The following will explain Japanese equity research and ROE improvement strategies as examples of Japanese equity ESG integration. The investment universe for this fund is around 500 stocks given priority coverage by our analysts. These were narrowed down to about 100 stocks based on (1) stocks with the highest MBIS® score, and (2) 5-year performance forecasts by analysts (future sales trends, business margins, and ROE). Portfolio managers thoroughly discuss the MBIS® score and future forecasts with analysts based on the "Value Proposition," which is the source of the added value, and the "Growth Frontier," which indicates market development and creativity, as evaluation axes. Items with a low MBIS® score are eliminated from the investment universe even if these have a high future forecast, and items with a high MBIS® score are kept in the investment universe even if these have a low future forecast. After conducting interviews with management and business representatives, together with analysts, portfolio managers re-evaluate the MBIS® score to narrow it down to around 50 potential stocks. During discussions with analysts, priority is given to "ideal corporate value." Company potential indicated by the MBIS® score such as the possibility of the investment candidate' s market capitalization doubling over the next three to five years, room for improving their position in the industry, and expectations for improved profit margin by reforming the earnings structure are shared.

Portfolio construction process



* As of the end of June 2023. Brand numbers are approximate since they fluctuate.

Expressing opinions on business strategies and responses to ESG issues

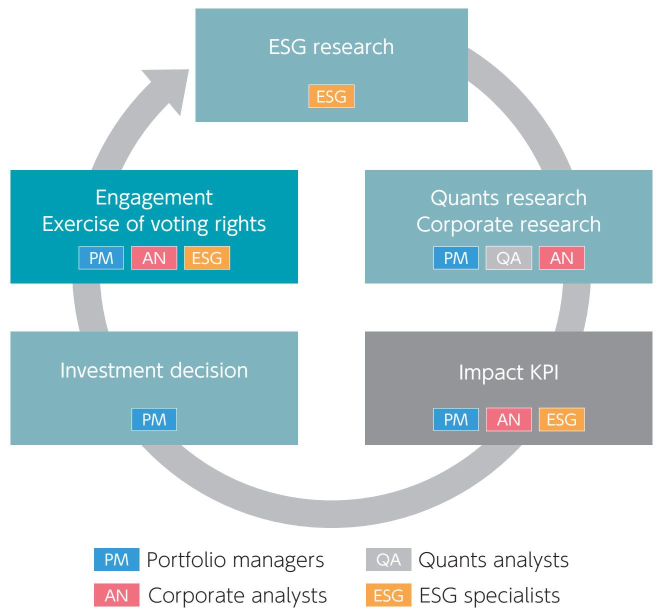


Foreign Equity ESG Integration

Cases of Global Equity Impact Investment Strategies

Long-term investments are made in companies where resolving social issues is a growth driver. By utilizing knowledge obtained through company research, engagement, and participation in global initiatives, we are able to identify social issues requiring resolution, and extract investment target companies based on quantitative analysis. We measure "Impact KPIs" for each company, and carry out engagement based on this in order to increase the probability of obtaining social and economic return.

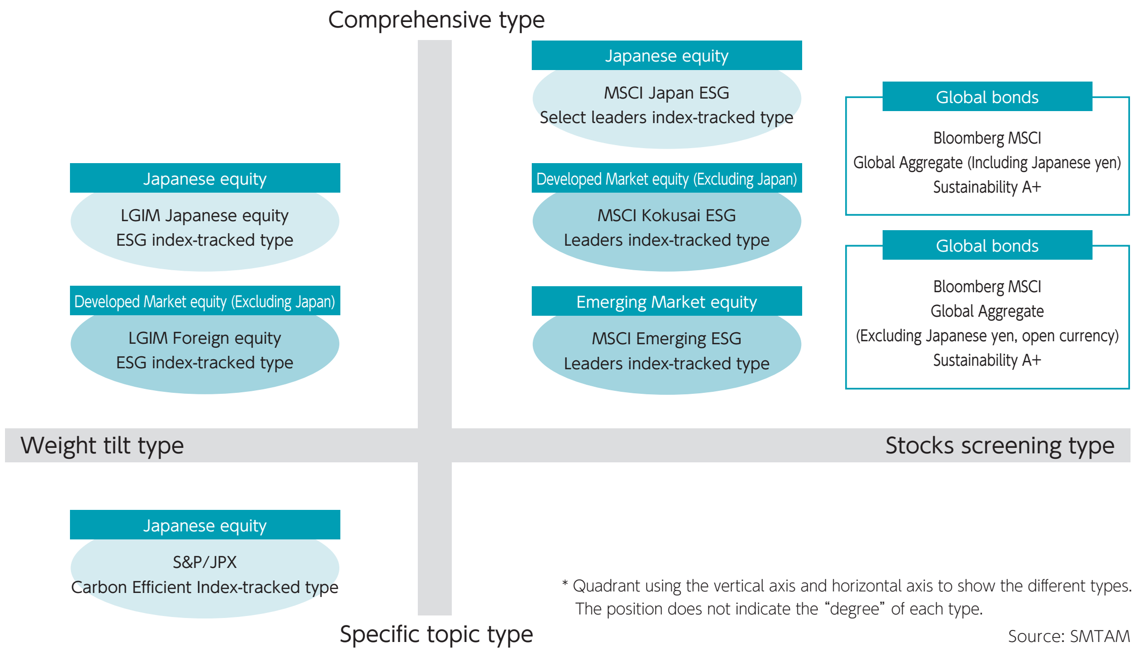
Overview of investment process



Passive ESG Integration

SMTAM provides a wide range of ESG investment products for all assets, even with passive investment, from two perspectives: (1) providing a variety of investment opportunities for clients ensures return on investment while also helping to improve the sustainability of society and companies, and (2) this contributes to stewardship activities since ESG investment leads to changes in corporate behavior.

SMTAM' s ESG passive investment strategy map



* Quadrant using the vertical axis and horizontal axis to show the different types. The position does not indicate the "degree" of each type.

Source: SMTAM

Bond ESG Integration

Cases of Credit Investment

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.

We are unique in that our credit and equity analysts work together. The purpose is the same for both: to improve the sustainability of investee companies and society and to increase corporate value. Both sides perform research and engagement from different perspectives for the same investee company, which makes it possible to add value to activities and to strengthen support, allowing companies to address ESG issues.

ESG is taken into consideration for investment based on the credit evaluation and spread evaluation.

(1) Select non-investable securities

Stewardship Development Department

[Take ESG into consideration and identify non-investable securities]
Prohibit investing in companies that manufacture inhumane weapons. This applies to all assets.

Have an outlook for the spread with a top-down approach and decide on a position building policy based on spread situation judgment considering a credit cycle.

(2) Evaluate creditworthiness

Credit analysts

[Give in-house rating with ESG factors taken into consideration when evaluating creditworthiness]
- Take ESG factors into qualitative determination.
  (Evaluate using MBIS® and in-house ESG scores.)
- Set G (Governance) as the center of focus.

(3) Evaluate spread

Portfolio managers

[Take ESG factors into evaluation of spread level]
Based on the required spread level according to the in-house rating of the company, give comprehensive consideration to ESG factors, liquidity, and supply/demand, and determine the appropriate spread level for the company.

Build portfolio

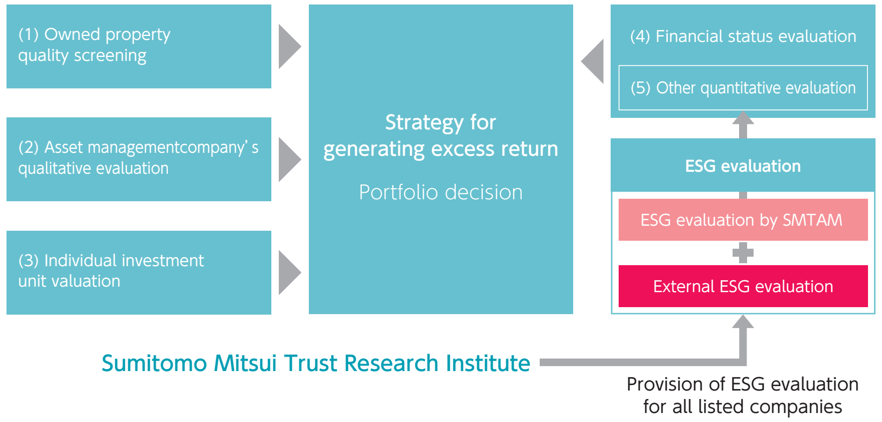
(4) Evaluate portfolio, etc.

Portfolio managers

For securities with low ESG scores, portfolio managers and credit analysts work on engagement cooperating with relevant departments.
Change investment decisions depending on the status of initiatives to address ESG issues in investee companies.

J-REIT ESG Integration

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



Bond ESG

Sovereign ESG Integration

Investing in sustainable government bonds can be a way to reduce future risks while pursuing stable return, and it is believed that investment that takes ESG into consideration is important when considering government bonds (hereafter referred to as sovereigns). Incidents such as Russia's invasion of Ukraine have greatly affected the order of international society, and have reminded us of the importance of considering ESG factors when investing in sovereigns. To meet the needs of our clients, we also provide funds that integrate sovereign ESG evaluations.

Sovereign ESG score

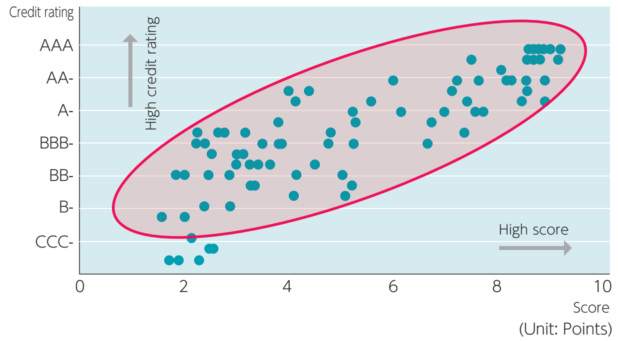
Principally, ESG evaluations for sovereign investment are integrated into the same process as with corporate bond investment, and our in-house sovereign ESG score is reflected as a quantitative judgment when making investment decisions. The sovereign ESG score is based on our ESG Materiality items, and these are segmented and scored using various data published by public institutions such as the World Bank. In addition to reflecting ESG Materiality, the indices we use are limited to items that are confirmed to be highly correlated with CDS spread and credit rating. As a result, countries with a high ESG score tend to have a high credit rating.

Although the sovereign ESG score is based on quantitative data, if an incident occurs that cannot be grasped quantitatively (such as cases where it takes time to reflect data), we use qualitative judgment. For example, when Russia invaded Ukraine in February of 2022, our quantitative data could not quickly incorporate this event, so we also used qualitative judgment to lower scores.

Main evaluation items for our ESG Materiality and sovereign ESG scores

ESG classification	ESG materiality	Sub-classification of sovereign ESG score
Environment (E)	Climate Change	Climate change
	Natural Capital	Biodiversity and habitat, water resources, etc.
	Pollution & Waste	Air quality, air pollution, etc.
	Environmental Opportunities	Waste management, etc.
Society (S)	Human Rights & Community	Internet availability, etc.
	Human Capital	Average life expectancy, income distribution, etc.
	Safety & Responsibility	Global Peace Index, etc.
Governance (G)	Behavior	Ease of doing business
	Structure	Quality of regulations, legal system, etc.
	Stability & Justice	Prevention of corruption, government efficiency, etc.

High correlation between ESG score and credit ratings

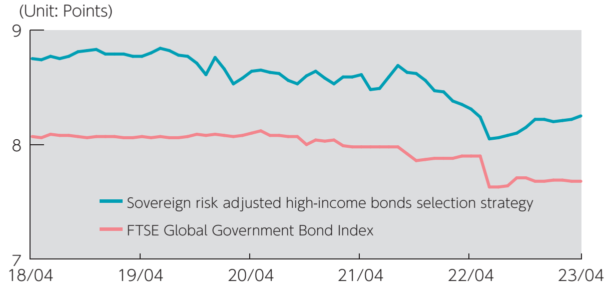


Example: ESG integration to investment products

Our sovereign risk adjusted high-income bonds selection strategy is a product that has stable earnings by targeting global government bonds that have strong fiscal soundness and high expected returns, with the aim of maximizing return while minimizing risk. In our investment process, we determine the maximum investment ratio for each country using our SMTAM country risk score that measures financial soundness, and the sovereign ESG score is incorporated into this country risk score for ESG evaluation.

For ESG evaluations in the investment process, credit evaluations are conducted that, in particular, include whether governance issues can result in financial deterioration in the future, which is reflected in bottom-up securities selection from the perspective of being incorporated into the credit spread, and this is then linked to reduce downside risk. Initiatives for environmental problems by the issuing body are viewed as a factor that is reflected to medium- to long-term creditworthiness, and we reflect this in our bottom-up securities selection. In addition, with this strategy, comprehensive evaluations of each ESG item are reflected to configure the maximum investment ratio while maintaining high ESG characteristics for index comparison, which is a fund reference index, so that medium- to long-term return can be improved while reducing downside risk.

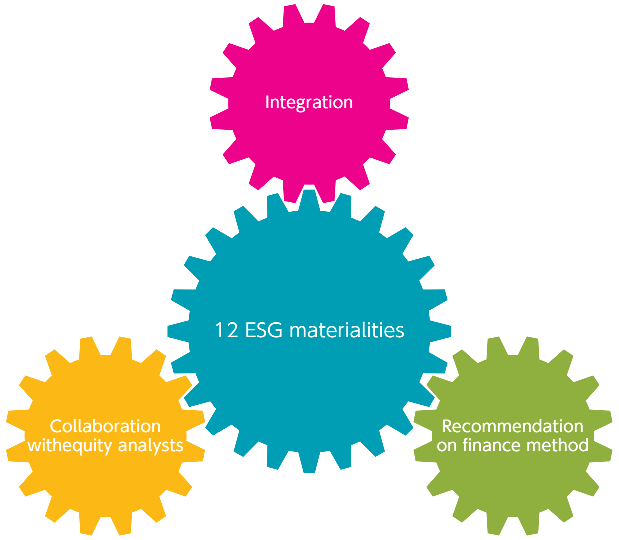
Comparison of sovereign risk adjusted high-income bonds selection strategy and reference index sovereign ESG score



Engagement for Corporate Bonds

Principally, company ESG issues such as the inclusion of environmental response and resolution of social issues are the same for equity and bonds, so we also promote engagement activities for bonds based on our 12 ESG materialities. For this, we utilize our strengths as a multi-asset manager, and collaborate with equity analysts and the Stewardship Development Department. In addition to common issues, we also focus on engagement activities based on our unique approach to the bond field.
The following will introduce some examples.

Figure 1: Diagram showing the relationship between SMTAM' s ESG materiality and our unique approach to the bond field



Unique approach to bond field

Integration
- Creditworthiness evaluation to investment by considering ESG
- If investment is made in "Spread bargain / Low ESG evaluation" securities, aim to improve ESG evaluation through engagement

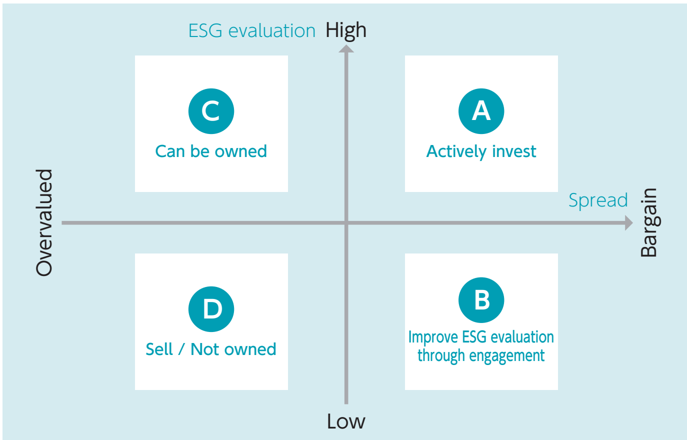
Recommendation on finance method
- SDGs-related bond issuance promotion, initiatives for content enhancement
- Engagement with related parties (including securities firms, governmental agencies, and rating agencies)
- Engagement for stable bond issuance and management

Collaboration with equity analysts
- Finance strategy for transition strategy
- Capital allocation
- Hybrid finance

■Integration

If there is a security with a bargain spread that is highly attractive for investment, investment may be done based on later engagement conditions even if the ESG evaluation is low at the time of investment but could improve later (Area B in Figure 2).
For example, there is a case involving investment in an IT company that has many listed group companies. When investing in corporate bonds, we recognized governance issues included having no clear financial KPIs and investment policy for the issuing entity that could result in a financial burden due to a sudden takeover or shareholder returns, and conflicts of interest among group companies. After dialogue at debt IR, etc., we saw improvement such as with information disclosure related to financial KPIs and investment policies, but our confidence in their governance evaluation did not improve based on their actions including investment and shareholder return, so in the end, we sold our held corporate bonds.

Figure 2: Relationship between spread evaluation and ESG evaluation when making investment decisions



Ⓐ **Actively invest**
It is a bargain and has a high ESG evaluation, so active investment is likely (purchase/hold).

Ⓑ **Improve ESG evaluation through engagement**
It is a bargain, but the ESG evaluation is low. Effort to improve ESG evaluation through engagement.

Ⓒ **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.

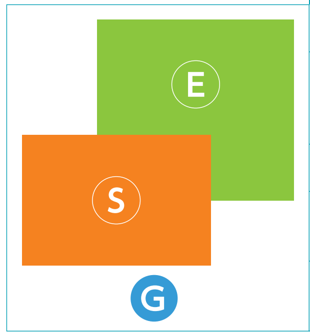
Ⓓ **Sell / Not owned**
It is overvalued, the ESG evaluation is low, and the spread may widen (price decline) in the future, so it is subject to sell (Not owned).

Source: SMTAM

■Recommendation on finance method

● Initiatives for SDGs-related bonds
Since the issuing of SDGs-related bonds is becoming common in various industries, we continue to engage in discussions based on EU taxonomy, etc., and dialogue on enhancing the use of funds and setting goals. We also focus on follow-up after investing in SDGs-related bonds.

Figure 3: Relationship among SDGs-related bonds, use of funds, and ESG factors



Type of bond	Use of funds
Transition bond	Projects that are not green projects, but increase the possibility of transition
Green bond	New or existing green projects that contribute to climate change mitigation or climate change adaptation, conservation of natural resources, biodiversity conservation, pollution prevention, and environmental objectives
Sustainability bond	Projects that are both green and social
Social bond	New or existing social projects that address or help mitigate specific social issues, or have social benefits for certain groups or for society as a whole
Sustainability-linked bond	Regardless of how funds are used, achievement of ambitious and meaningful sustainability performance targets set in advance must be linked to bond characteristics such as the coupon

Source: SMTAM

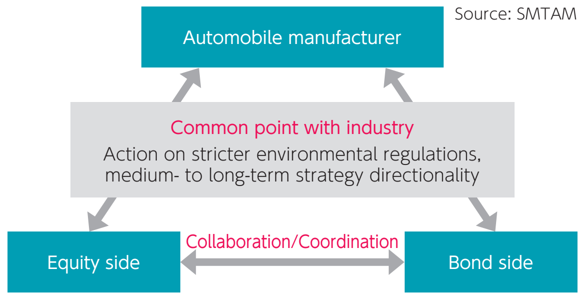
● Engagement for stable bond issuance and management
From the perspective of sustainable corporate activities, we believe it is important to establish a stable financing base. This includes finding more new investors by promoting the issuance of SDGs-related bonds. For companies that require a large amount of funds, we conduct engagement to spread out the issuing time and market for corporate bonds, and promote investor understanding by clarifying the financial strategy.

■Collaboration with equity analysts

For companies in industries that emit a large amount of greenhouse gases, a transition strategy is an urgent issue requiring a large amount of capital. However, this can also be considered a business opportunity for future growth and social value creation. For such cases, we believe that more effective dialogue is possible with the company in collaboration with equity analysts.
For example, we have had the following engagement with automobile manufacturer A.

Figure 4: Dialogue framework with automobile manufacturer

Source: SMTAM



[Equity] Pursuing upside (Engagement for maximizing corporate value)

- Company growth through ESG (environmental regulations) action
- Improvement of the valuation assessment (Reducing and stabilizing capital cost, etc.)
- Expansion of non-financial value and exchange to financial value in the future

[Bonds] Reducing downside (Engagement for stable creditworthiness)

- Ability to respond financially through ESG (environmental regulations) response ➡ Clearly indicating investment policies, financial discipline, and capital allocation strategy
- Business/financial risk caused by delay with ESG (environmental regulations) response ➡ Clarifying the roadmap for electrification and risk of becoming obsolete / impairment
- Proper finance management ➡ Utilization of sustainable finance

Source: SMTAM

SMTAM' s Opinion	Company Response	Future Financing
This is now a transition period toward electrification (EVs), and the investment burden on the earnings/cash flow tends to increase during this phase. Shouldn' t companies be required to disclose and share information with investors such as their "investment policy and discipline," "capital allocation strategy," and "policy for improving the profitability of existing businesses like gasoline vehicles, and accuracy?"	Failing to comply with environmental regulatory standards will directly result in a sharp loss of sales ability and business base. Therefore, we are now considering an "electrification roadmap," "partnerships with other companies," and "risk of becoming obsolete / impairment with existing assets," etc.	We discussed using ESG finance to raise needed funds. For example, with green bonds, we confirmed the effectiveness of EU taxonomy issues and framework, and shared our recognition on the importance of working to create a sustainable financing base.

Global Trends Related to ESG Investment and SMTAM' s Efforts

1. Introduction

As interest in ESG investment and its AUM grows, there is an increasing concern about investment management not related to the actual practices of ESG investment, as well as exaggerated promotions and marketing (known as greenwashing). Various regulations on information disclosure, etc., related to ESG investment have been considered and implemented in this regard, and their contents are becoming more complex and strict.

Regulations in countries outside Japan reflect the characteristics and circumstances in each country and region at the time of formulation. On the other hand, regulations in countries including Japan tend to aim for global harmonization, which greatly affects asset management business in Japan, making it necessary to respond and prepare.

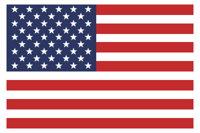
2. Regulatory trends in different countries

The current trend is to increase the transparency of asset management companies and investment products. In particular, information disclosure on ESG investment is being enhanced, and fund names are becoming a clearer reflection of the contents of the investment products.

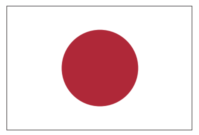
There are two basic concepts related to regulations on strengthening information disclosure: (1) Funds are classified according to the degree of ESG investment, that is, how important it is to consider ESG factors in the investment decision-making process, and based on this classification, the required content and depth of information disclosure differ; and (2) the decision on the classification of funds, based on each regulation, is made by the asset management company itself.

The purpose of the EU' s Sustainable Finance Disclosure Regulation (hereinafter, SFDR) is to protect end investors, respond to the needs of investors who want sustainable financial products, and increase the comparability of financial products while preventing greenwashing. The SFDR has been in effect since March 2021. Funds are classified into three categories: Article 8 funds which require investee companies to have an excellent governance system in place while promoting E (Environmental) and S (Social) characteristics; Article 9 funds where sustainable investment is the objective and which require either the use of an index that contributes to this objective or clearly defined measures on how they will achieve this objective; and Article 6 funds that do not fall under Articles 8 or 9. This indicates that fund classification and the content required for information disclosure are seeing enhancement, as the regulatory requirements are getting clearer. Also, in November 2022, the European Securities and Markets Authority (ESMA) announced a proposal to introduce numerical standards for using ESG terms in fund names, and it is expected to be finalized during 2023.

In the UK, the Financial Conduct Authority (FCA) began receiving additional feedback on drafting regulations on ESG investment in October 2022. Three sustainable investment product categories are set in it (Sustainable Focus, Sustainable Improvers, and Sustainable Impact), and beginning in June 2024, restrictions on the use of terms related to sustainability for fund names and marketing will gradually be implemented for funds not qualifying as sustainable investment.



In the US as well, the Securities and Exchange Commission (SEC) presented a draft of enhanced disclosure restrictions for ESG investment in May 2022. It also included three categories for sustainable investment products, which are Integration Funds, ESG-Focused Funds, and Impact Funds. In addition, a proposal to revise regulations for fund names was presented; it requires funds with a name related to ESG to contain at least 80% ESG-related assets in the portfolio.



In Japan, at the end of March 2023, the Financial Services Agency finalized revisions to the "Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc." (hereinafter, "Supervisory Guidelines") related to ESG investment trusts, and this went into effect on the same day. In addition to determining the scope of ESG investment trusts, this revision also determines specific verification items for information disclosure of publicly offered investment trusts related to ESG, and a development of an organizational structure for investment trust management companies.

When properly set and implemented, such regulations, etc., help asset management companies to enhance their ESG investment management processes. It is also expected that these will help improve the "Transparency" of ESG investment so that end investors can make proper investment decisions.

3. SMTAM' s ESG investments and initiatives in response to regulations

As it is recognized that the impact of ESG-related risks and opportunities is, though uncertain, likely to become more obvious over the long term and have a more significant impact on corporate value, it is compatible with long-term investment. Therefore, taking ESG factors into consideration when making investment decisions is expected to improve medium- to long-term risk return. In Japan' s Stewardship Code that was revised in March 2020, "consideration of sustainability (medium- to long-term sustainability including ESG factors) consistent with investment management strategies" was added to the definition of "stewardship responsibilities," which makes ESG investment more important.

As an investment manager that is a signatory of the UN Principles for Responsible Investment (PRI), we engage in ESG investment that reflects ESG materiality based on concepts indicated in the UN Global Compact and SDGs.

We have organized and strengthened our ESG investment structure even before regulations were enhanced while promoting ESG investment. In particular, we determined our "ESG Investment Policy" and "ESG Materiality" (see pages 89 and 90 for details) to ensure the effectiveness of our ESG investment governance. The Sustainability Committee (formerly Stewardship Committee) selected 12 "ESG Materialities" that were approved by a management meeting, which are considered for engagement activities and for making decisions on the exercise of voting rights, and are then reflected in the in-house ESG score so that we can engage in ESG investment according to our "ESG Investment Policy" for systematically incorporating ESG factors into our investment decisions.

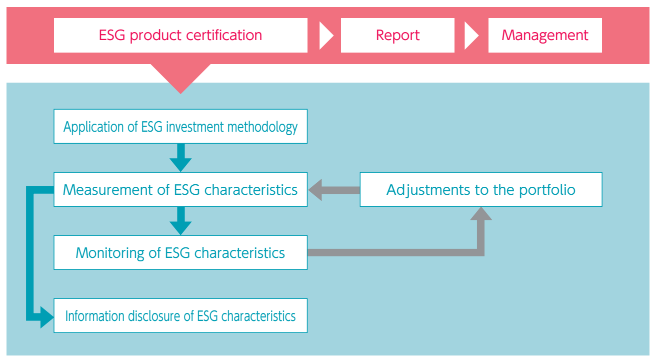
To improve product governance, we also determined "ESG Product Management Guidelines" that incorporate global ESG investment-related regulations, and published our certification on our ESG products based on them*. In addition, we completed the application process of UCITS funds that meet the requirements for SFDR Article 8 funds, and published our annual report in compliance with the SFDR.

Our ESG product certification standards specify three conditions, which are that "ESG investment methods be applied," that "the portfolio contains ESG characteristics which can be measured," and that "proper disclosure regarding ESG is possible." Making measurability of ESG characteristics one of the requirements contributes to enhancing objectivity, and this mechanism enables monitoring and information disclosure of ESG products.

Regarding outsourced management, we have developed a system to evaluate outsourced asset management companies and ESG investments of their products based on the "Guideline for handling Due Diligence, etc. for Outsourced Operations."

(ESG product governance)

- ESG product certification: approval by a General Manager of the Business Planning Department, then the decision is reported to the "Investment and Risk Committee," and the ESG product certification status, ESG investment methodology application status, and ESG characteristics and measurement method, etc., are monitored
- ESG project measurement and monitoring: ESG characteristics of the portfolio are measured, and monitored periodically by the Business Planning Department, and then the result is reported to the "Investment and Risk Committee"



* https://www.smtam.jp/fund/fundgroup/21/

(ESG investment)

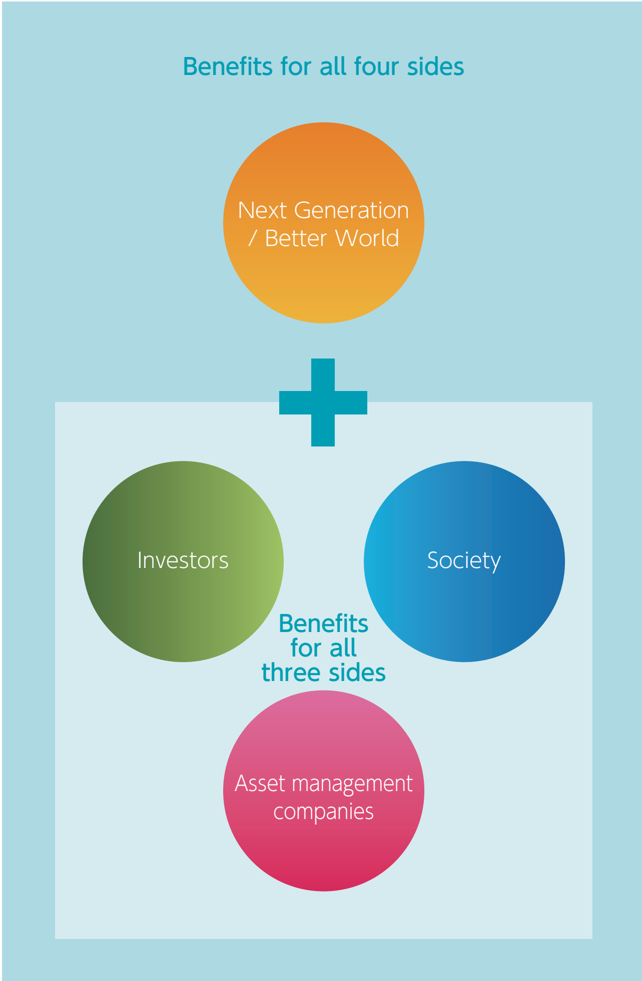
- ESG investment category: Sorted into three categories according to the "ESG Investment Policy"
  - (1) ESG investment:
    Investment promoted by utilizing direct ESG investment methods (ESG integration) for portfolio management as well as other ESG investment methods (active ownership) including engagement and exercise of voting rights, which are the core of stewardship activities.
  - (2) ESG integration:
    Investment method where non-financial information including ESG is analyzed and evaluated, and then directly reflected in portfolio management.
  - (3) ESG product:
    Products that incorporate proper ESG investment methods into the management process and that meet the three requirements determined in the "ESG Product Management Guidelines."
- ESG investment methodology: Seven investment methods have been determined for ESG investment, and are used in proper combinations according to characteristics such as product investment purpose, investment target, and investment strategy

Classification		SMTAM' s ESG investment methodology
ESG investment	ESG integration	1. ESG negative screening
		2. ESG positive screening
		3. Integration of ESG-related information
		4. Thematic investment
		5. Impact investment
	Active ownership	6. Engagement
		7. Exercise of voting rights

Conditions stipulated by rules

ESG product

We make judgements for the applicability of ESG investment based on various regulations, but there are undermined points and differences among these regulations. In particular, to respond properly to principle-based regulations which are different from rule-based regulations like the Supervisory Guidelines by the Financial Services Agency in Japan, it is important for investment managers to have a robust in-house ESG investment policy, to organize governance and structures for ensuring the effectiveness of the policy, and to increase transparency through information disclosure.
Through these activities, our aim is to deepen investors' understanding of ESG investments, improve the soundness and reliability of capital markets, and contribute to investor profit as well as the realization of a sustainable society. By adding the perspective of Next Generation / Better World as the time axis to the concept of "Benefits for all three sides," which are asset management companies, investors, and society, we will contribute to realizing "Benefits for all four sides" which lead to a better future.



4. Future action and expectations

The contents of these regulations have recently begun to move toward harmonization, and this is expected to continue. In 2021, the CFA Institute presented standards for voluntary disclosure on ESG, which is just one example of a movement toward support for information disclosure. On the other hand, in addition to implementing numerical criteria for sustainable investment allocation and setting targets for sustainability based on fund classification and fund names, there is also a trend to consider implementing audits for disclosed data. Therefore, constant attention needs to be given to regulation-related trends.
Follow-up on these regulations, strengthening information disclosure on sustainable investment, and collection of relevant data will result in various costs. It is also important to secure human resources with new skills and to develop human resources internally (hiring and retention). We believe there needs to be a response from the entire investment chain for issues related to the sustainability of all stewardship activities including ESG investment. Such efforts have already started in some areas, and consideration is also underway.
For example, in evaluating asset managers, the Government Pension Investment Fund (GPIF) announced implementation of a system that evaluates highly asset managers that properly fulfill stewardship responsibilities, and that ESG integration is considered an important part of the evaluation for their investment process. The GPIF has adopted a passive investment model known as "Engagement-enhanced Passive" that focuses on stewardship. At the selection of asset managers, the integrated business model that encompasses investment process and stewardship activity policies, the organization structure for implementing these, and remuneration standards are used for evaluation, and we, SMTAM, have also been appointed.
A "Fact-Finding Survey Report of Stewardship Activities by Institutional Investors, etc." commissioned by the Financial Services Agency was published in March 2023, and in the " Initiatives between investment managers and asset owners," it stated that asset owners are expected to properly evaluate whether investment managers have proper recognition of issues based on reports from investment managers along with the effectiveness of initiatives for their resolution, to monitor their initiatives and to reflect these results to selecting investment managers and determining their remunerations.
We believe that such trends will not only encourage asset management companies to engage in meaningful stewardship activities, but also improve the sustainability of the entire investment chain.

ESG investment is an investment method where attention is given to current finance that has already been materialized and manifested by a company, as well as to future finance known as unmaterialized finance information. It is believed that the impact of ESG investment is realized over the long term, and is an essential perspective for investors making long-term investment. As ESG investment becomes more common, the "long-term investment perspective of investors" and "long-term management perspective of corporate management" will be shared. This sharing of the time horizon between investors and corporate managers will increase mutual trust between both parties, which will improve the sustainability of both investee companies and the capital market as a whole. Therefore, we believe that such trust will finally lead to the realization of a sustainable society and an increase in the return on investment.
While there are a number of definitions and concepts for ESG investment, since market participants already recognize that ESG factors are material factors for formulating stock prices and corporate value, we believe it is useful and necessary to consider ESG factors in investment decisions. To improve the soundness and trust of the capital market through such an understanding of ESG investment and its spread, it is important to respond properly to regulations for ensuring transparency. Asset management companies, need to keep in mind that responding to ESG investment regulations will be a long and arduous journey.
We are engaging with companies and multi-stakeholders by capital allocation through financial education support for clients and by promoting ESG investment based on dialogue with asset owners, as well as by active ownership through engagement and the exercise of voting rights so that we can continue to help "realize a sustainable society" based on social returns, and "improve client returns" through economic return at the same time.

Disclosure of Climate-related Financial Information under TCFD

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 on climate change issues in accordance with the recommendations.

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 clients. 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. Therefore, while it is important to reduce our own greenhouse gas emissions, we believe it is also important to evaluate the potential profit opportunities and risks related to climate change in these investee companies. As such, we are reflecting the evaluation in investment decision processes and leveraging it in business management.

David Semaya
Representative Director and Chairperson / Chairperson of the Board of Directors

Our Approach against Climate Change Issues

Climate change issues are a variety of phenomena caused by the progression of global warming, mainly attributable to human economic activities. Changes in weather patterns due to global warming cause ecosystem changes and damage to food, water, health, and the economy, which can adversely affect sustainable social/economic activities.

Under the Paris Agreement that came into force in November 2016, signatory nations globally agreed to "hold the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels," in order to ensure global sustainability. We agreed with the purpose of the Paris Agreement, and as a global initiative for helping to achieve its goals, in July 2021, we joined "The Net Zero Asset Managers initiative" (hereinafter, NZAMI) by asset management companies who have committed to achieve net zero greenhouse gas emissions from investee companies by 2050. In May 2022, we also established and announced our interim targets that should be achieved by 2030.

At the same time, the impact of climate change issues is becoming more obvious. According to the Synthesis Report for the Sixth Assessment Report announced in March 2023 by the Intergovernmental Panel on Climate Change (IPCC), the cause of global warming was again connected to human activities, and the importance of efforts to reduce greenhouse gas emissions over the next 10 years in order to prevent temperature from rising more than 1.5°C by 2100 was restated. In May 2023, we participated as a panelist in the "Net Zero Delivery Summit" hosted by the City of London with other financial institutions and policymakers throughout the world to discuss policies for achieving a net zero society. At this meeting, the main theme was accelerating transition by companies for achieving a net zero society, and there were active discussions on the importance of utilizing private funds and engaging with investee companies (constructive dialogue). We again recognize the high level of expectations placed on asset management companies for achieving a net zero society along with its importance. Based on this, as a responsible investor, we are promoting effective engagement with company groups that have a significant global impact on the reduction of greenhouse gas emissions in order to help resolve climate change issues while also implementing standards related to these issues in the Principles for Exercising Voting Rights.

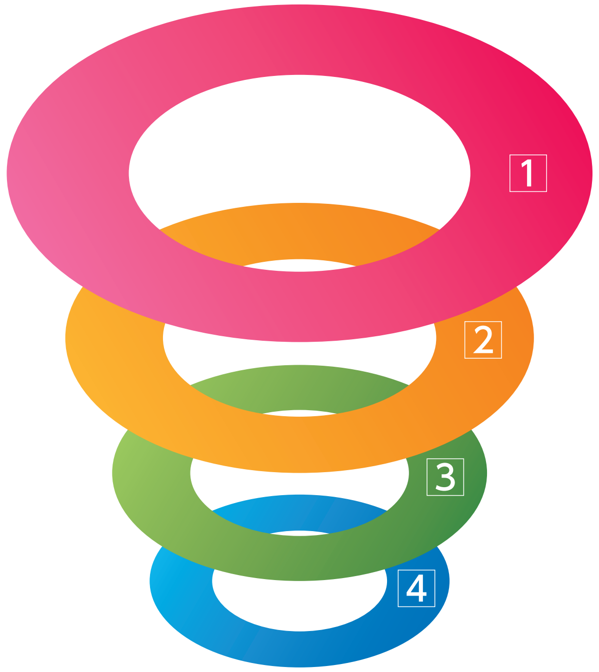
The NZAMI, mentioned previously, is a part of the Glasgow Financial Alliance for Net Zero (hereinafter, GFANZ), which is a coalition of financial institutions that are working to achieve a net zero society. GFANZ has established a Country Chapter in Japan to spearhead the net zero transition in the Asia-Pacific region, and began operating in June 2023. Since we participated in its establishment as a core working group member, we have continued to discuss the approach for transitioning in the Asia-Pacific region with other financial institutions. In this way, awareness of the importance of transitioning to a net zero society is increasing globally, and the role of investors to promote company transitions over the long term is drawing attention.

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 investee companies over time. Based on this, we understand the importance of working on climate change issues over the long term while also being able to respond flexibly to changes. From this broad perspective, we are bolstering various activities and information disclosure on climate change issues as one of the biggest challenges facing the international community, while fulfilling our fiduciary duty of maximizing the return on medium- to long-term investments and reducing downside risks of the assets entrusted by our clients.

TCFD

According to the TCFD Recommendations, companies and other organizations are suggested to consider four key elements: (1) governance, (2) strategy, (3) risk management, and (4) metrics and targets when disclosing climate change-related information. The following is an explanation of the measures taken by SMTAM on climate change issues in accordance with the recommended information disclosure framework.

Figure 1: Recommended core elements for climate-related financial information disclosure



Climate-Related Governance	• Monitoring by the board of directors • Role of management
Climate change-related strategies	• Climate-related risks and opportunities • Effects of climate-related risks and opportunities* • Potential effects of climate scenarios, including the 2°C or less scenario
Risk management	• 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 risk management
Metrics and targets	• Targets for evaluating climate-related risks and opportunities* • GHG emissions under Scopes 1, 2, and 3* • Targets used to manage climate-related risks/opportunities

* Items are particularly required for asset managing companies

1 Climate-related governance

(1) Policies related to climate change

As a member of the Sumitomo Mitsui Trust Group, we have established a basic policy for promoting measures on sustainability, including on climate change issues, and are continuously working to improve systems for "Realizing opportunities today to ensure sustainable prosperity for tomorrow" as our philosophy in harmony with the Sustainability Basic Philosophy and the Sustainability Policy of the Group. In the investment management business rules and related rules, we regulate concepts and processes for engagement, the exercise of voting rights, and ESG investment while taking climate change issues into consideration.

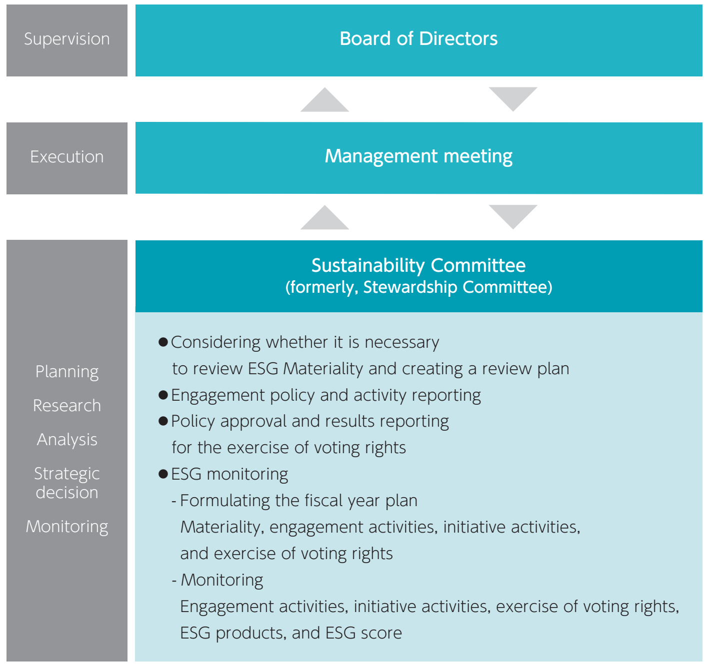
(2) Governance related to climate change

We recognize climate change as risk and opportunity factors that greatly impact SMTAM and investee companies, and our Board of Directors performs its supervisory functions on these issues as well as other important management issues. Since 2020, issues related to climate change 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 progress on responding to climate change-related issues, risk management, and monitoring of metrics and targets. These matters are considered and discussed at management meetings chaired by the President together with executive officers responsible for each business field.

Under this structure, administrative work on risk management and strategies related to climate change is conducted by the Sustainability Committee as a cross-company organization acting as a secretariat, while related departments are responsible for promotion and implementation.

Figure 2: SMTAM' s climate-related governance structure



(3) Remuneration for executives

At SMTAM, evaluation methods for remuneration of the CEO and Named Executive Officers have been determined by the Compensation Committee comprised mainly of external directors. One KPI in the evaluation method includes the reduction of greenhouse gas emissions in our portfolio. For example, the level of achievement for climate-related KPIs is reflected at a certain rate in the long-term incentive remunerations of CEOs. The methods to evaluate the remunerations of other Named Executive Officers are similar to CEOs.

2 Climate change-related strategies

(1) Common climate change risks and opportunities

As average temperatures and sea levels rise, weather-related disasters including large-scale wildfires, floods, droughts, extreme heat, and heavy rains are occurring more often around the world. The increase in temperature affects climate patterns over the medium to long term, and there is concern that this will impact farming production and marine and fishery resources. Since resolving these changes will require a large amount of money, there is an ongoing global debate on how such economic costs will be borne. Thus, climate change issues are increasingly recognized as a serious risk to social and economic activities all over the world.

Based on recommendations by the TCFD, transition risks are defined as changes in climate change policies, changes in financial markets and social norms, and rapid transition to a low-carbon society through technical innovations, etc., while physical risks are defined as damage to social infrastructure and nature, etc., as a result of medium- to long-term climate change and abnormal weather. Transition risks include stricter environmental standards, obsolete existing technologies, stranded fossil fuel assets, and risk of boycotts by consumers, while physical risks include flooding risk and drought risk.

These recommendations define things such as the increased demand for energy-saving technology and renewable energy as business opportunities related to climate change, and organize them into five categories ranging from resource efficiency to resilience. In particular, energy-saving technologies and products, renewable energy, environmentally-friendly products and services, carbon credits, recycled products, and the like are expected to increase. Figure 3 shows an overview of this. Moreover, these recommendations request business entities and financial institutions to identify climate change risks and opportunities that will impact their business activities, and to disclose and explain the impact on business and resilience. We understand such climate change risks and opportunities, and utilize these in investment decisions and business management.

Figure 3: Common climate change risks and opportunities

Transition risks	
Regulatory risk	Stricter environmental standards Example: Stricter emission regulations and higher carbon tax
Technological risk	Obsolescence of existing technology Example: Prohibiting sales of gasoline vehicles
Market risk	Shift of fossil fuel assets into stranded assets Example: Oil, coal, and natural gas
Reputational risk	Risk of boycotts by consumers Example: Exclusion from ultimate consumers and supply chain

Physical risks	
Acute risk	Flood risk, etc. Example: Stoppage of equipment and social infrastructure, and increased restoration costs
Chronic risk	Drought risk, etc. Example: Damage to crops and wildfires

Opportunity	
More efficient resources	Energy-saving technologies/products Example: Heat pump technology and inverter technology
Energy shift	Renewable energy Example: Solar power, wind power, hydrogen power, and biomass power generation
Products/services	Expansion of environmentally-friendly products and services Example: Electric and fuel cell vehicles, zero-emission buildings/houses
Financial market	Carbon credit, etc. Example: J Credits, Non-Fossil Fuel Certificates, and Renewable Energy Certificates
Resilience	Recycled products, etc. Example: Carbon dioxide capture and utilization (CCU) and battery reuse/recycling

(2) Approach to climate change-related risks and opportunities for SMTAM

This section will explain climate change risks and opportunities that we have identified as well as their impact on Company management.

A. Climate change risks

First, we believe that it is necessary to properly control climate change risks in order to fulfill our fiduciary duty. Risks for financial institutions are generally categorized into areas such as market risk, credit risk, liquidity risk, and operational risk. Rather than adding it as a new risk category, we have positioned climate change risks as a "risk driver" that can raise or lower the risks in existing risk categories as a result of climate change.

Next, we recognize how climate change risks impact our business management through three routes, which are damage to the value of assets under management, loss of entrusted assets and of newly entrusted opportunities, and loss of business continuity, all of which can ultimately worsen our finances and lower our viability as a company.

Figure 4 shows a list of the climate change risks that we have identified, their assumed impact on management, and when they are expected to appear according to risk category. Main market risks are expected to be a failure of investee companies to handle transition risks and physical risks, which can greatly damage corporate value and significantly reduce our assets under management. Main reputational risks include existing clients no longer choosing us due to our failure to properly handle climate change risks, and difficulty in acquiring personnel and increasing turnover due to insufficient responses to climate-related risks. Operational risks include an increase in compliance risks due to a delay with system response such as disclosure of climate-related information, damage to servers and lines due to increased wind/water damage, and decreased employee safety. Finally, credit risk is assumed to be a drawdown of overall financial markets resulting in a sudden loss of assets under management when credit risks for companies and markets increase when transition risks and physical risks become manifest.

We have positioned these risks according to their impact on our business management. Those that impact finance such as periodic profit and loss are classified as "medium," and those that may have a major impact on our viability as a company are classified as "major." As for the time axis of their manifestation, although there are differences with each risk factor, risk factors related to transition risks are expected to last approximately 10 years from now (short/medium term), whereas risk factors related to physical risks are expected to last around 10 to 30 years (medium/long term).

Figure 4: Climate change risks for SMTAM

Risk category	Specific risk factor		Impact*2	Time axis*3
Market risk	Damage to value of investee companies due to insufficient response to transition risks	Transition	Major	Short/medium term
	Damage to value of investee companies due to insufficient response to physical risks resulting in loss of business assets	Physical	Major	Medium/long term
	Lower profitability due to complex and diverse climate-related data and indices, and increased costs	Transition	Medium	Short/medium term
Reputational risk (Strategic risk)	Loss of existing clients due to the Company's improper response to climate-related risk*1	Transition	Major	Short/medium term
	Missed opportunities to acquire new clients due to the Company's improper response to climate-related risk	Transition	Medium	Short/medium term
	Difficulty in acquiring personnel and increased turnover due to the Company's insufficient response to climate-related risk	Transition	Major	Short/medium term
Operational risk	Compliance risk (wash) due to the Company's failure to comply with regulations	Transition	Major	Short/medium term
	Lack of personnel and resources due to advancement of climate-related response	Transition	Medium	Short/medium term
	Decreased business continuity of business partners and vendors	Transition / Physical	Medium	Medium/long term
	Damage to servers and lines, and decreased employee safety	Physical	Major	Medium/long term
Credit risk	Drawdown of financial markets due to increased credit risk with companies and markets as a result of climate change issues	Transition / Physical	Major	Medium/long term
	Decreased viability due to lowering of Company credit as a result of climate change issues (Loss of existing clients and missed opportunities to acquire new clients)	Transition	Major	Short/medium term

B. Climate change opportunities

We view climate change opportunities as opportunities to fulfill our fiduciary duty, and that taking advantage of these to implement strategies can help to expand the Company's assets under management, and improve business continuity and viability.

We have identified six items related to improving SMTAM's response to climate change as "opportunities" to convert climate change risks to business growth, which are engagement, exercise of voting rights, enhancement of investment decisions and investment strategies, enhancement of product lineups, and strengthening of information dissemination. For example, regarding engagement, in addition to engagement with investee companies, we engage in dialogue with diverse stakeholders, including governmental agencies, industry groups, NGOs, and universities, referred to as multi-engagement. As for exercise of voting rights, there is a measure to strengthen guidelines related to climate change issues in our Principles for Exercising Voting Rights. In this way, we encourage companies to change their behavior toward decarbonization in order to maintain and increase assets under management while reducing climate change risks. Through enhancement of investment decisions and investment strategies, and enhancement of product lineups, we will reflect climate change factors based on the style of individual funds, and provide new investment opportunities related to climate change for meeting the investment needs in the climate change field for existing and potential clients. We expect that we will be able to maintain/increase the balance under management while minimizing loss of opportunities. We also believe that strengthening information dissemination can help raise awareness of climate change issues for existing and potential clients, and that improving SMTAM's evaluations will help expand our client base.

There are two items we view as "opportunities" from a broad perspective that are essential for acquiring such growth opportunities. One is enhancement of our climate-related organizational structure, and another is strengthening engagement with the value chain. As specific actions to strengthen our climate-related organizational structure, we have been making efforts to establish a system that can appropriately respond to standards and regulations on climate-related information disclosure such as those of the TCFD and SFDR, and to advance our human capital management by recruiting and developing the necessary personnel, while improving our ability to execute business. As specific actions to strengthen engagement with the value chain, we have begun engaging in dialogue with data vendors and index vendors that handle ESG data in order to maintain and improve the quality of climate-related data. Figure 5 gives an overview of these opportunities.

Figure 5: Climate change opportunities for SMTAM

Opportunity	Strategy (Action)	Example (Action)
Engagement	Engagement with investee companies	- Focus on companies with high greenhouse gas emissions - Horizontal development of best practices - Increasing the frequency of adoption as an agenda
Engagement	Engagement with government agencies, industry groups, NGOs, academia, etc.	- (Investee company) Indirectly promoting changes to Company behavior - Improving SMTAM value by acquiring and using the latest information
Exercise of voting rights	Strengthening guidelines related to climate change issues in our Principles for Exercising Voting Rights	- Reflecting global trends and knowledge
Enhancement of investment decisions and investment strategies	- Reflecting climate change factors according to the individual fund style - Taking climate change factors into account in investment decisions on individual securities	- ESG monitoring (fund governance) - Expansion of target assets
Product lineup enhancement	Supporting actions to address climate change issues by providing investment opportunities	- Developing indices that contribute to climate change issues - Developing management products that contribute to climate change issues
Strengthening information dissemination	Enhancing awareness of climate change issues by clients, and approaching potential investors	- Public dissemination and discovering investors
The following are considered to be essential items for acquiring a growth base and opportunities as a broad definition, "opportunities."		
Enhancement of SMTAM's organizational structure for responding to climate change	- Proper actions to address climate-related regulations - Enhancement of human resource development and resources for responding to climate change (strengthening retention, maintaining creditworthiness)	- Responding to disclosure regulations such as SFDR - Investment in employees (Human capital)
Engagement	Engagement with the value chain	- Engaging in dialogue for maintaining and improving data vendor and index vendor viability and quality, and for improving response to climate change issues

*1 Gaps in SMTAM's product lineup, obsolete investment decisions and strategies, improper response to regulations on information disclosure, etc.
*2 Major: Impact assumed on SMTAM's viability, Medium: Impact assumed on SMTAM's finances.
*3 Short to medium term: Assumed to be 10 years from now, Medium to long term: Assumed to be 10 to 30 years from now.

(3) Strategy

Figure 6: SMTAM's strategy on climate change issues based on risks and opportunities

Strategy	Target	Actions
Engagement with investee companies	Investee company	- Promotion of top-down engagement for companies with high greenhouse gas emissions - Horizontal development of best practices for investee companies - Proactively use it as an agenda for bottom-up engagement
Engagement with various stakeholders including governments	Governments, industry groups, NGOs, academia, etc.	- Engaging in dialogue with the Ministry of Economy, Trade and Industry to implement a carbon pricing system - Engaging in dialogue with the Ministry of the Environment to promote decarbonization (Explaining requests by companies and awareness of issues) - Exchange of opinions with the Central Research Institute of Electric Power Industry - Providing feedback on the Consultation Report "Financing the Managed Phaseout of Coal-Fired Power Plants in Asia Pacific" by GFANZ
Strengthening guidelines related to climate change issues in our Principles for Exercising Voting Rights	Investee company	- Having implemented specific standards on climate change issues and already had a record of approval for shareholder proposals
Reflecting climate change factors according to individual fund styles, and taking climate change factors into account in investment decisions on individual securities	SMTAM (Clients)	- ESG monitoring results for each fund are reported quarterly at in-house meetings - In addition to equity, climate change factors are also considered for investment in corporate bonds and J-REIT
Supporting actions to address climate change issues by providing investment opportunities	Clients	- Setting S&P/JPX Carbon Efficient Index-tracked type strategy (Japanese equity) - Setting Bloomberg MSCI Global Aggregate Sustainability A+ Strategy (Global bonds)
Enhancing awareness of climate change issues by clients, and approaching potential investors	Clients (Including potential clients)	- Publishing online articles - Promoting onsite financial lectures - Providing content to Nikkei MOOK Datsutanso Toshi Nyumon [Introduction to Decarbonization Investment] (in Japanese) - Engaging in dialogue with asset owners as a member of NZAMI advisory group
The following are considered to be essential items for acquiring a growth base and opportunities as a broad definition, "strategies."		
Proper response to climate-related regulations	SMTAM	- Disclosing information on climate-related risks based on SFDR disclosure regulations - Disclosing information based on TCFD
Improving personnel development and resources for climate-related response	SMTAM	- Employees taking classes at the PRI Academy - Providing in-house e-learning - Holding in-house workshops on TCFD disclosure
Engagement with the value chain	Data vendors Index vendors, etc.	- Engaging in dialogue with Bloomberg to improve ESG data - Engaging in dialogue with ISS to clarify guidelines for the exercise of voting rights related to climate change and voting recommendations - Engaging in dialogue with MSCI to change the calculation process for ESG scores - Engaging in dialogue with S&P to enhance climate change information disclosure via the Carbon Efficient Index

We have demonstrated our specific strategies as shown above according to "Approach to climate change-related risks and opportunities for SMTAM." These are sorted into six items, which are "Engagement," "Exercise of voting rights" "Investment considerations," "Providing clients with investment opportunities," "Engagement with clients," and "Enhancing SMTAM's response to climate change."

The targets of engagement are A. Investee companies, B. Government agencies and other stakeholders, and C. the Value chain. Among these, for A. Investee companies, we encourage investee companies to change their behavior by promoting top-down engagement and the horizontal implementation of best practices, especially for companies with high greenhouse gas emissions (hereinafter, high-emission companies), and by proactively using this approach as an agenda for bottom-up engagement. As for exercise of voting rights, in order to enhance connectivity, especially if the guidelines in our Principles for Exercising Voting Rights are not being met and there is no legitimate reason, we would principally vote against proposals for electing directors for high-emission companies. Moreover, we will not simply withdraw from investment (divestment) to exclude high-emission companies from the investment universe. Rather, through engagement and the proper exercise of voting rights, our aim is to encourage investee companies to promote realistic solutions for addressing climate change including transition, and to achieve sustainable growth and sustainability for companies and society as a whole. As for B. Engagement with stakeholders, targets include government agencies, industry groups, NGOs, and academic institutions, and our aim is to be a bridge with investee companies while indirectly encouraging them to change their behavior. Also, regarding C. Engagement with the value chain, targets include data vendors and index vendors, and our aim is to enhance the sustainability of collaborative relationships with them and enhance responses to climate change issues through collaboration.

Regarding investment considerations, climate change factors are reflected in accordance with the individual fund style, and climate change factors are considered when making investment decisions for individual securities. Recently, we have enhanced fund governance by ESG monitoring including climate change issues, and have promoted expansion of target assets with climate change factors considered.

"Providing clients with investment opportunities" is for providing investment products, while "Engagement with clients" is for providing diverse information to clients. Providing investment opportunities means setting an investment strategy in consideration of climate change issues, and having the clients use related investment products for contributing to reduction of greenhouse gas emissions. Engagement means having future or potential investors deepen their knowledge of climate change issues through information dissemination by means of online articles, and helping them see that they can help resolve such issues through investment.

Finally, "Enhancing SMTAM's response to climate change" is the foundation of our growth, and we believe it to be an important "Strategy" for obtaining a foundation for growth. In recent years, we have disclosed information on climate-related risks in accordance with SFDR disclosure regulations, and prior to that, we were already performing TCFD information disclosure. We believe that it is very important for us to be recognized as an asset management company and to be sustainable. At the same time, improving personnel development and resources for climate-related response is essential for the continued existence of our company, and we have been providing various types of in-house education and workshops.

3 Risk management

We evaluate risks for portfolios[*4] related to climate change by asset class, and then integrate asset classes to evaluate 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, (2) transition pathway analysis based on future climate change-related scenarios, and (3) portfolio resilience analysis related to climate change. The following is a summarized disclosure of analysis results related to Japanese and foreign equity as well as Japanese and foreign bonds managed by SMTAM. The analysis was carried out using the data and analysis methods of an outside organization[*5]. (The base date is June 30, 2023.)

(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. For example, when looking at the greenhouse gas emissions by asset class (targets are Japanese equity, Japanese bonds, foreign equity, and foreign bonds), the GHG emissions based on Scope 1+2 of each asset are below the reference index. In addition, compared to the previous year[*6], although the greenhouse gas emissions from Japanese equity increased, there was a greater reduction in Japanese bonds and foreign equity, so the greenhouse gas emissions from the overall portfolio was 20.9 million tCO_2e (21.3 million tCO_2e the previous year), which was a decrease from the previous year. On the other hand, while GHG emissions were below the reference index for all asset classes for Scope 3, when compared to the previous year, with the exception of domestic fixed bonds, it increased for three asset classes. Therefore, the overall portfolio increased significantly to 197.0 million tCO_2e (171.2 million tCO_2e the previous year). Looking at the reason, the greatest increase was with Japanese equity because some companies expanded the measurement range for emissions compared to the previous year resulting in a sudden increase in Scope 3 emissions, so it is assumed that changes in the measurement range resulted in a temporary increase. Emissions according to industry showed the same tendencies as the previous year where the utilities sector and materials sector made up the largest amount for all asset classes.

Figure 7: Greenhouse gas emissions by asset class[*7*9*10]

(Unit: Million tCO_2e)

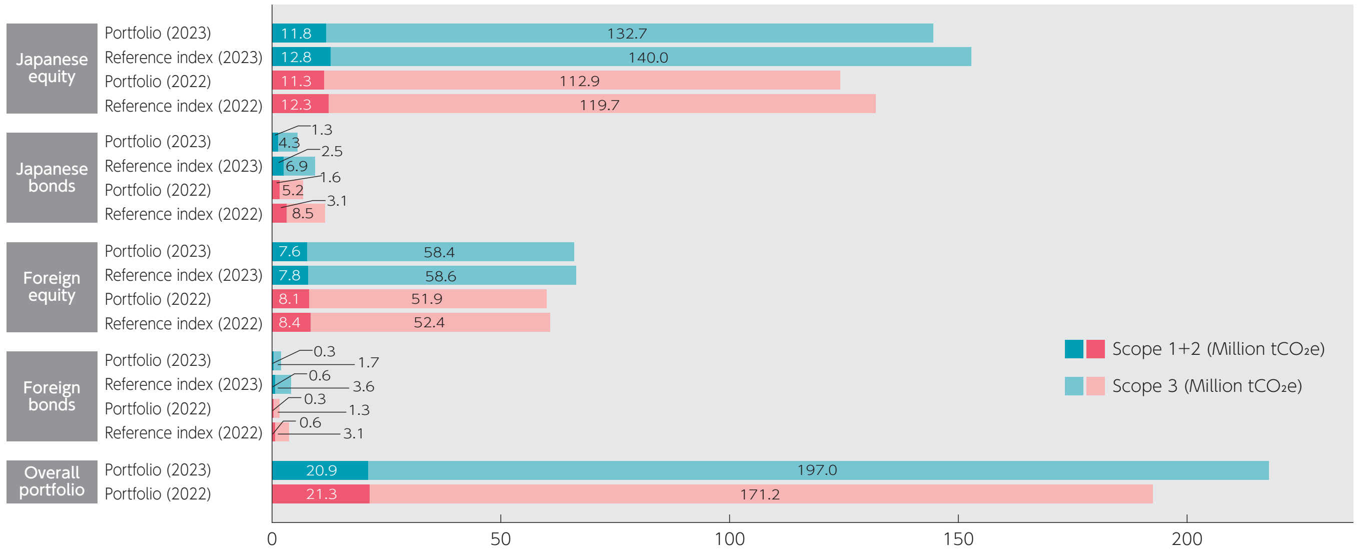


Figure 8: Industry breakdown of greenhouse gas emissions[*8*10]

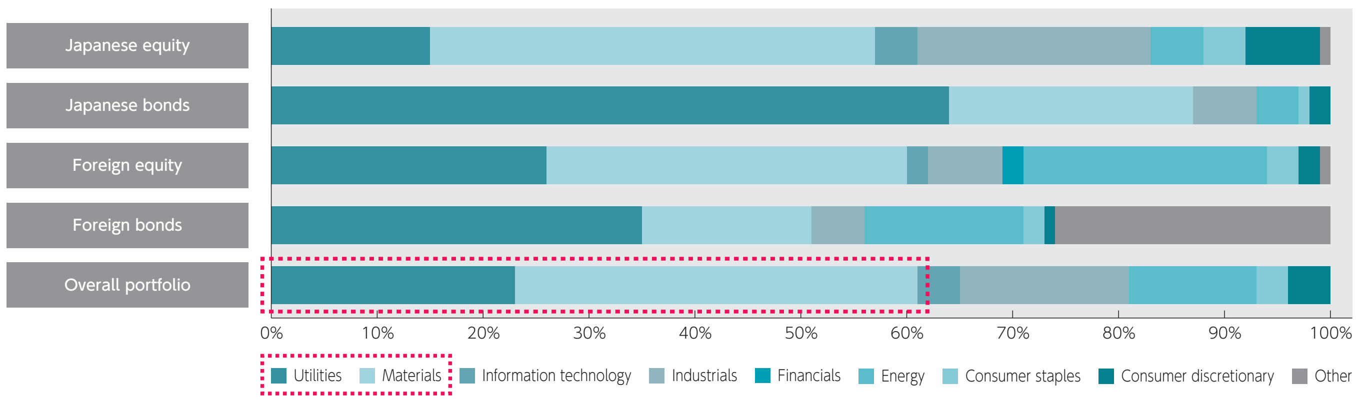
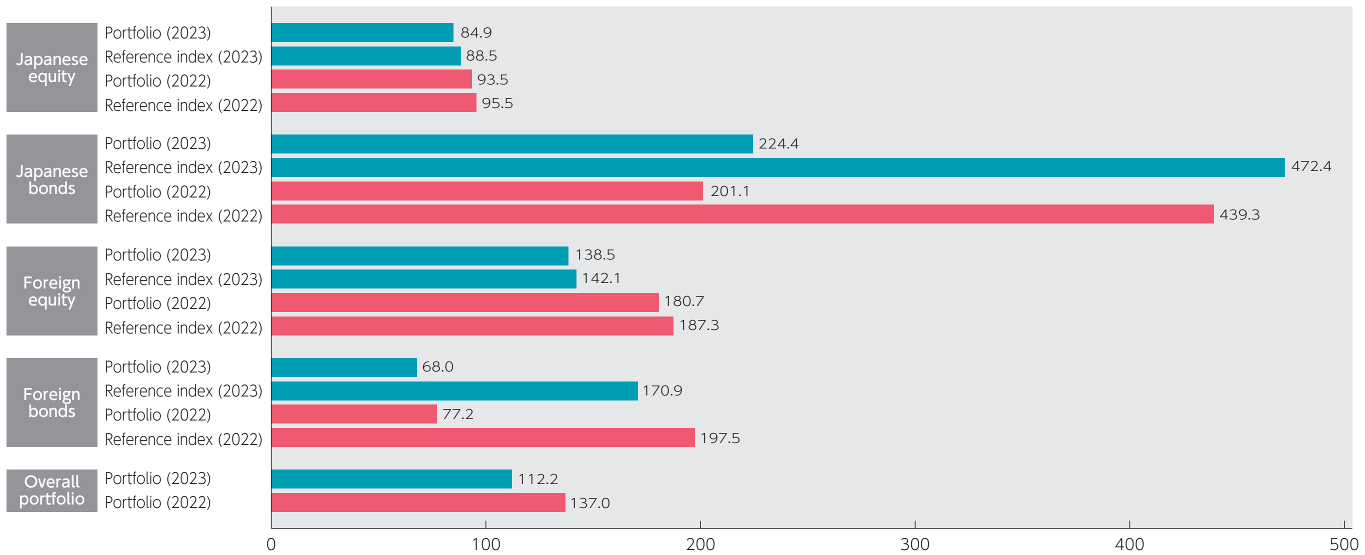


Figure 9: Weighted average carbon intensity (WACI, emission per sales unit) by asset class [*8*9*10]

(Unit: tCO_2e / $US 1 million)

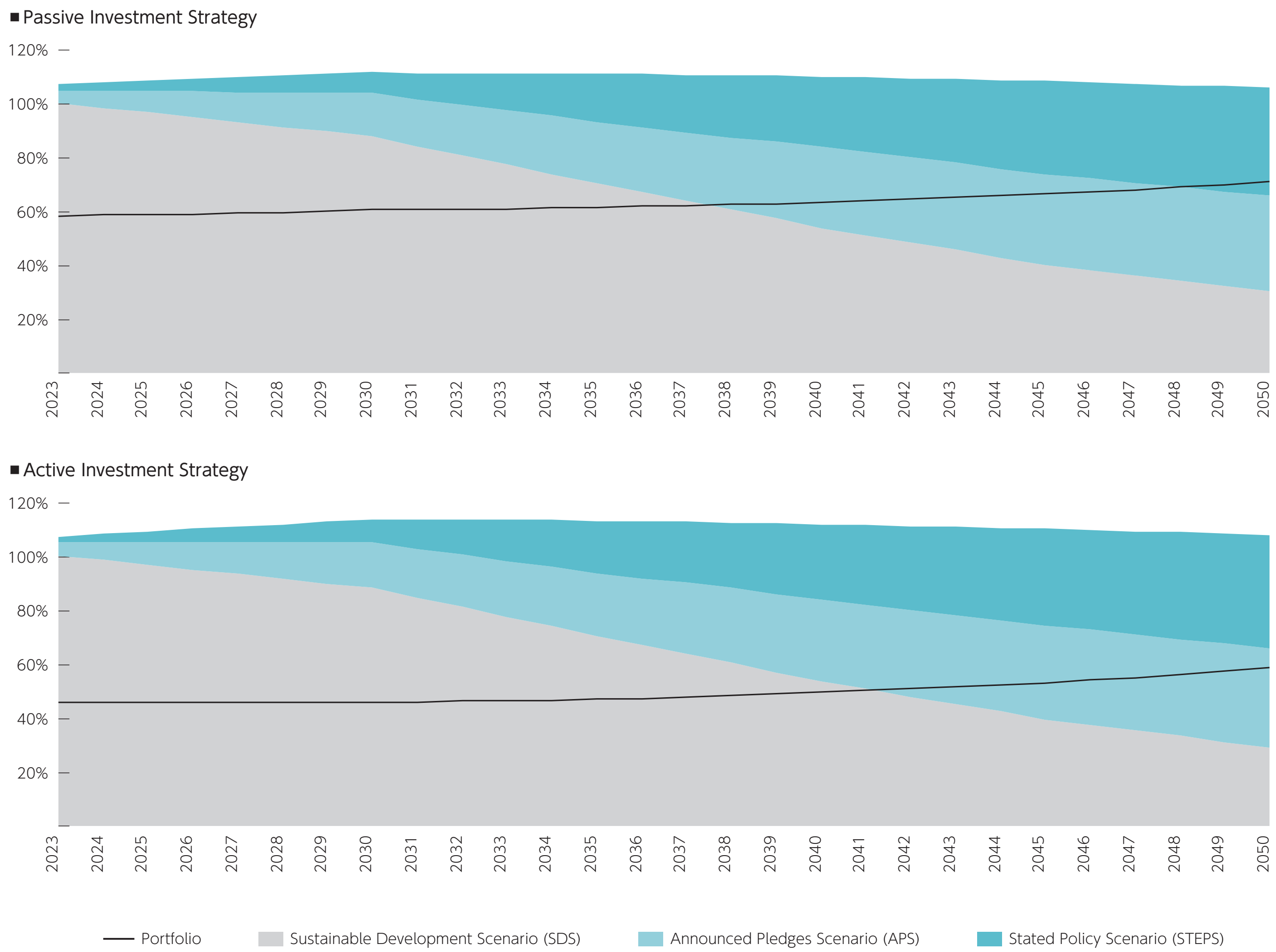


On the other hand, as with the previous year, the weighted average carbon intensity (WACI, emission per sales unit) is below the reference index for all asset classes. Also, compared to the previous year[*6], improvement was seen for asset classes with the exception of Japanese bonds, and for the overall portfolio. The reason that the value of Japanese bonds is higher than other asset classes is that there is a high composition ratio from the utilities sector including power companies, which have a higher carbon intensity. In addition, the value of foreign equity is also higher than other asset classes, and it is believed that the shareholding ratio of companies' equity in the utilities and materials sectors, which have higher carbon intensity, is relatively high compared to other asset classes.

(2) Transition pathway analysis

A. Comparison of the expected pathway for portfolio greenhouse gas emissions and carbon budgets for each climate change scenario

Figure 10: Expected transition pathway for each investment strategy[*10*11]



Here, a method called transition pathway analysis is used to assess how the portfolio' s climate change risks will change in the face of different scenarios for future climate change. Specifically, future estimated values for greenhouse gas emissions from the portfolio are compared to the carbon budgets of the climate change scenarios, and the portfolio' s consistency with these scenarios is assessed. The scenarios used were the three scenarios of the International Energy Agency (IEA), which are the "SDS: Sustainable Development Scenario," "APS: Announced Pledges Scenario," and "STEPS: Stated Policy Scenario."

Figure 11: Scenarios used for analysis

SDS Sustainable Development Scenario	APS Announced Pledges Scenario	STEPS Stated Policy Scenario
Normative scenario in harmony with "initiatives to keep the temperature below +2°C and +1.5°C" as stipulated in the Paris Agreement.	Exploratory scenario where ambitious targets (NDC) set by each government are met (end of this century +2.1°C).	Exploratory scenario for achieving the goals stated by governments (end of this century +2.6°C).

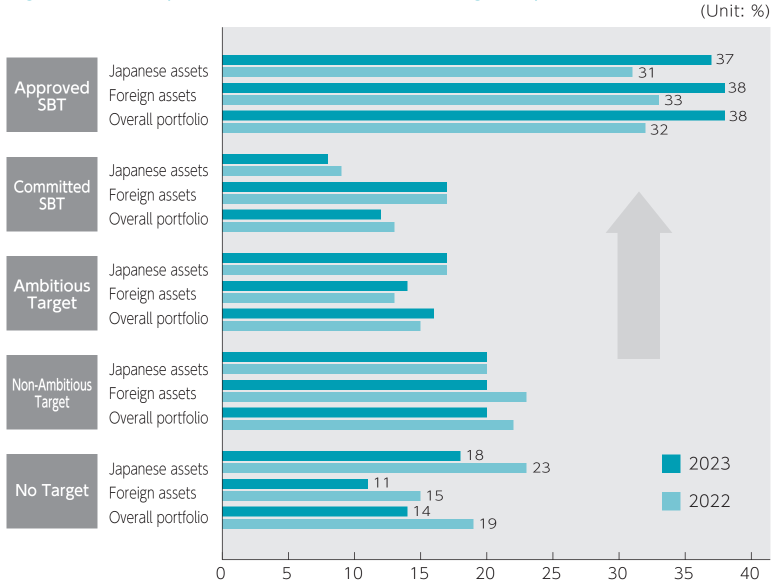
Source: World Energy Outlook 2022

First, it was confirmed that SMTAM portfolio emissions would likely reach the upper limit of the SDS scenario by 2038 with the Passive Investment Strategy and by 2042 with the Active Investment Strategy. However, compared to the previous year[*6], the time to reach the upper limit was postponed by two years with the Passive Investment Strategy (2036 the previous year) and by about 6 years for the Active Investment Strategy (2036 the previous year), so there was some improvement. The Active Investment Strategy has a lower holding ratio in the energy sector, which is expected to greatly exceed the carbon budget, and is a possible reason why the acceptable level comes later than with the Passive Investment Strategy.

B. Survey on climate-related targets

We confirmed that there are a certain number of investee companies in our portfolio 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 certification[*12] to be an important measure, and we will actively work with investee companies. When looking at the composition ratio of companies with "SBT certification" by asset class compared to the previous year[*6], domestic assets increased to 37% (31% the previous year) and foreign assets increased to 38% (33% the previous year). On the other hand, the composition ratio of "No Target" decreased to 18% (23% the previous year) for domestic assets, and to 11% (15% the previous year) for foreign assets, which was recognized as a considerable achievement. We will continue to make such efforts so that this trend continues in the future.

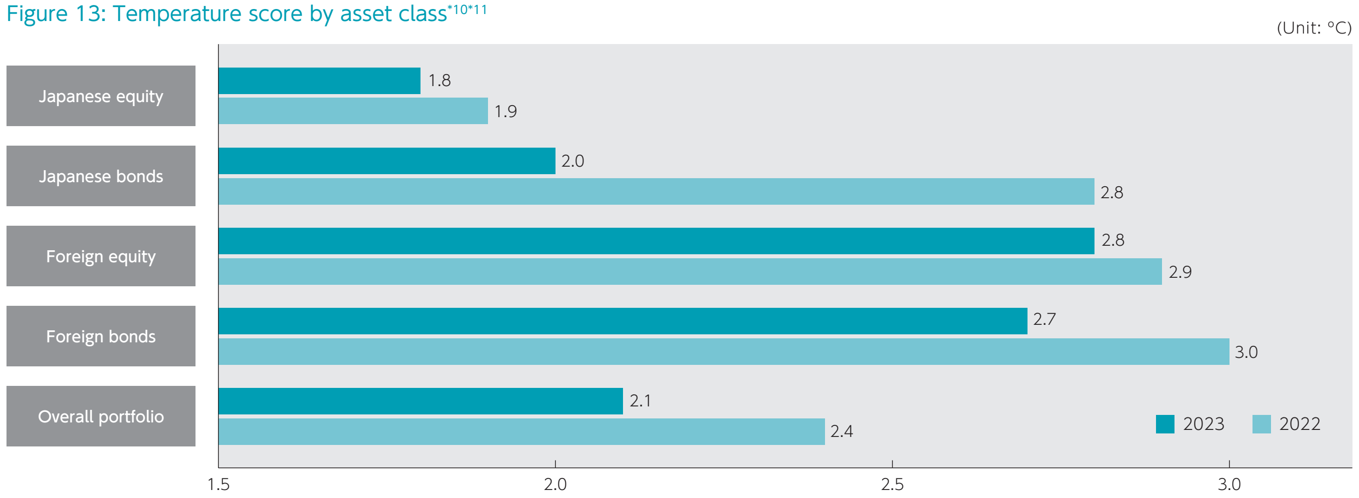
Figure 12: Survey results on climate-related targets by asset class[*10]



C. Temperature score analysis

The temperature score index expresses how consistent the future estimated value of the portfolio greenhouse gas emissions is with the carbon budget for achieving the SDS scenario by converting it to a rise in temperature. For example, with a portfolio consistent with the SDS scenario in 2050, it will be 1.5°C. Looking at the temperature score for each asset class compared to the previous year, Japanese equity was 1.8°C (1.9°C the previous year), and Japanese bonds were 2.0°C (2.8°C the previous year), foreign equity was 2.8°C (2.9°C the previous year), and foreign bonds were 2.7°C (3.0°C the previous year), and the overall portfolio was 2.1°C (2.4°C the previous year). Although the result for the overall portfolio shows a temperature rise exceeding 1.5°C, compared to the previous year, the score itself is getting closer to 1.5°C. This indicates that consistency with the SDS scenario has improved.

Figure 13: Temperature score by asset class[*10*11]



(3) Portfolio resilience analysis related to climate change

A. Transition risk analysis

(a) Portfolio power generation mix analysis

One index for evaluating portfolio transition risk is the power generation mix ratio of the portfolio based on the amount of power generation. Here, the power generation mix ratio is compared for each asset class and reference index. Additionally, the power generation mix ratio was estimated for the overall portfolio for 2030 and 2050 under the SDS scenario. Figure 14 shows an overview of these values. Based on this, the power generation mix ratio for each asset class is nearly the same as the reference index. Additionally, as of now, about 2/3 of the overall portfolio is based on fossil fuels, which shows the need to reduce the fossil fuel composition ratio to about 1/3 in 2030, and to reduce it to 7% for 2050.

Figure 14: Power generation mix ratio by asset class[*9*10]

*The total composition ratio may not be 100% depending on the way fractions are handled.

(b) Portfolio transition VaR analysis

Another transition risk evaluation indicator is called transition value at risk (hereinafter, VaR). Transition VaR is an indicator that converts the impact on investee companies to portfolio value based on the Net Zero Emission (NZE) Scenario announced by the International Energy Agency (IEA). When comparing each asset class and reference index using this indicator, as shown in Figure 15, the amount of transition risk for SMTAM with each asset class is equivalent to the reference index or lower. Japanese bonds and foreign bonds in particular have a very narrow risk range. Additionally, it was determined that the transition risk amount for the overall portfolio is 9%.

Figure 15: Transition VaR by asset class*9*10

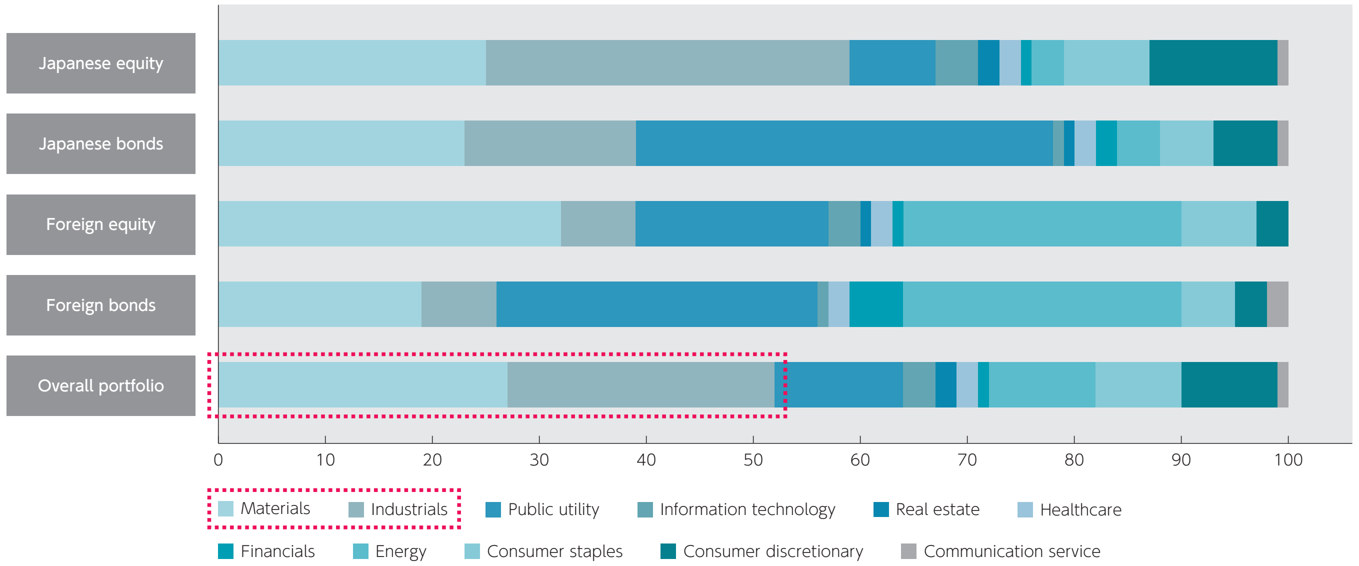
(Unit: %)

	Japanese equity	Japanese bonds	Foreign equity	Foreign bonds	Overall portfolio
Portfolio (A)	12	19	5	2	9
Reference index (B)	12	32	5	6	-
Difference (A-B)	0	-13	0	-4	-

Figure 16 shows the composition ratio of overall portfolio transition VaR by sector, and as can be seen, over half is comprised of the Materials and Industrials sectors. Since a high carbon price is introduced with the NZE Scenario, companies that have high emissions face a heavy burden, and this is believed to impact the corporate value of investee companies. As for transition risk, it can be seen that our portfolio is designed in such a way that it is strongly impacted by these two sectors.

Figure 16: Sectoral composition ratio of transition VaR by asset class*10

(Unit: %)



B. Physical risk analysis (Portfolio physical VaR analysis)

There is also a physical risk evaluation indicator called physical value at risk (hereinafter, VaR). This is an indicator that converts the physical risk impact on investee companies to portfolio value based on the assumed scenario (a 2°C rise in temperature) prepared by the Intergovernmental Panel on Climate Change (IPCC). Figure 17 shows a comparison between the reference index and the physical risk by asset class based on this indicator. As can be seen, our physical risks by asset class are the same as the reference index or below. Additionally, physical risk for the overall portfolio is 1%, which is much lower than the transition risk of 9%.

Figure 17: Physical VaR by asset class*9*10

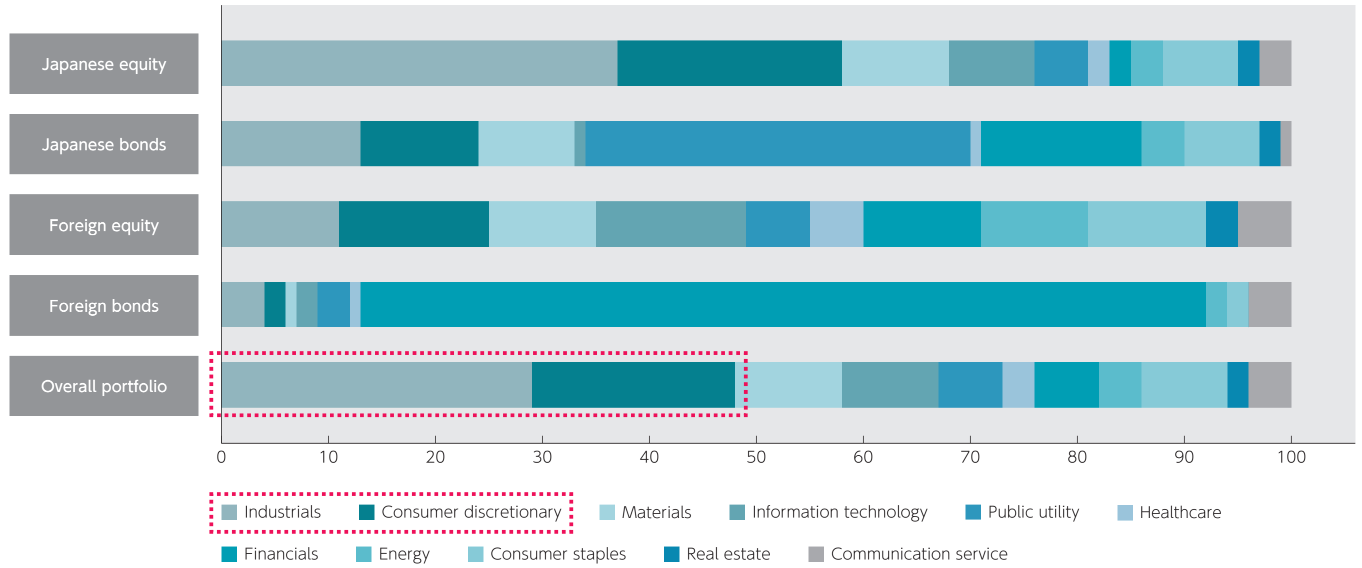
(Unit: %)

	Japanese equity	Japanese bonds	Foreign equity	Foreign bonds	Overall portfolio
Portfolio (A)	2	3	1	1	1
Reference index (B)	2	4	1	1	-
Difference (A-B)	0	-1	0	0	-

Figure 18 shows the composition ratio of overall portfolio physical VaR by sector, and as can be seen, about half is comprised of the industrials and consumer discretionary sectors. It can be seen that our portfolio is designed in such a way that it is strongly impacted by these two sectors.

Figure 18: Sectoral composition ratio of physical VaR by asset class*10

(Unit: %)



Looking at the overall analysis results, to effectively reduce greenhouse gas emissions for our portfolio, Japanese equity and foreign equity are important as asset classes, and utilities and materials are important as sectors, and the approach to the industrials sector is important from the perspective of reducing transition risk. We will encourage investee companies in prioritized target assets and sectors to enhance their initiatives related to climate change issues through our engagement and exercise of voting rights.

*4. Based on assets under management excluding domestic and foreign sovereign bonds, etc.
*5. ISS (Institutional Shareholder Services)
*6. Since the values for the previous year (end of June 2022) were calculated (remeasured) using updated data such as carbon emissions, these do not match with the values in the SS report from last year.
*7. Based on Scope 1+2+3
*8. Based on Scope 1+2
*9. The following are reference indices used.
Japanese equity: Tokyo Stock Price Index (TOPIX)
Japanese bonds: NOMURA-BPI Overall (Corporate bonds only)
Foreign equity: MSCI-ACWI (ex Japan)
Foreign bonds: Bloomberg Global Overall (excluding Japan) (Corporate bonds only)
*10. Calculated based on SMTAM's holdings for the adjusted corporate value of each asset.
*11. All industries except the fossil fuel production industry: Scope 1+2, Fossil fuel production industry: Scope 3, Electric power: Scope 1
*12. 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. Also, SBT commitment refers to the declaration that SBTs will be set within 2 years.

4 Metrics and targets

As a responsible institutional investor, we are promoting the reduction of greenhouse gas emissions by investee companies through our engagement and exercise of voting rights, collaboration with stakeholders such as asset owners and governmental agencies, improving investment strategies, and providing investment opportunities (products) to clients. In this way, we will help our investee companies achieve net zero greenhouse gas emissions by 2050, which is our commitment*13 when joining NZAMI, and reduce these by half compared to 2019, which is our interim target for 2030.

As for our own greenhouse gas emissions, we will also make effort under the net zero realization framework of the Group-based CO_2 emissions (Scope 1+2) by 2030, which was set by the Sumitomo Mitsui Trust Group.

*13. Our interim target for 2030 is to halve the emissions compared to the levels in 2019. The emission amount is calculated based on 43 trillion yen, which is about half of the total operational asset balance of approximately 85 trillion yen as of the end of June 2021. The ultimate goal is to achieve net zero for all assets under management.

Plans for the Future

Under the supervision of the Board of Directors, we will continue our efforts and disclosures on climate change issues. In addition to reduction of greenhouse gas emissions generated by investee companies through collaboration with stakeholders such as engagement, exercise of voting rights, and policy advocacy activities, and in addition to the optimal allocation of resources through investment strategies and investment products for responding to climate change issues, we aim to both maximize client returns on investments and contribute to climate change issues through client initiatives and enhancement of our organizational structures for climate-related responses. We are committed to continuing our efforts to achieve this goal.

Reference

1 SMTAM's carbon emissions data list

(1) Data related to asset class

Asset class	Target year	Total portfolio (Billion USD)	Portfolio / Reference index	Carbon emissions (Scope 1+2) (tCO_2e)	Total carbon emissions (tCO_2e)	Carbon intensity (tCO_2e / Million USD)	WACI (tCO_2e / Million USD)	Temperature score (°C)	Transition VaR (%)	Physical VaR (%)
Japanese equity	2023	158.6	Portfolio	11,792,794	144,469,857	100.0	84.9	1.8	12%	2%
			Reference index	12,762,122	152,754,621	103.1	88.5			
	2022	152.3	Portfolio	11,349,818	124,249,405	100.5	93.5	1.9	10%	2%
			Reference index	12,278,324	131,983,314	103.9	95.5			
Japanese bonds	2023	7.5	Portfolio	1,274,893	5,529,261	269.7	224.4	2.0	19%	3%
			Reference index	2,505,642	9,427,194	474.2	472.4			
	2022	9.7	Portfolio	1,622,053	6,815,285	269.7	201.1	2.8	18%	2%
			Reference index	3,112,543	11,594,720	498.8	439.3			
Foreign equity	2023	148.3	Portfolio	7,606,930	65,971,960	159.0	138.5	2.8	5%	1%
			Reference index	7,781,838	66,365,578	164.0	142.1			
	2022	149.6	Portfolio	8,071,511	59,929,687	180.5	180.7	2.9	5%	1%
			Reference index	8,390,593	60,822,131	187.5	187.3			
Foreign bonds	2023	8.8	Portfolio	269,766	1,959,297	164.4	68.0	2.7	2%	1%
			Reference index	597,294	4,162,489	187.0	170.9			
	2022	9.0	Portfolio	263,703	1,560,023	176.3	77.2	3.0	2%	1%
			Reference index	649,546	3,749,770	226.2	197.5			
Overall portfolio	2023	323.2	Portfolio	20,944,383	217,930,375	121.7	112.2	2.1	9%	1%
	2022	320.5	Portfolio	21,307,085	192,554,400	129.0	137.0	2.4	8%	2%

(2) Data related to investment strategy

Investment strategy	Target year	Total portfolio (Billion USD)	Portfolio / Reference index	Carbon emissions (Scope 1+2) (tCO_2e)	Total carbon emissions (tCO_2e)	Carbon intensity (tCO_2e / Million USD)	WACI (tCO_2e / Million USD)	Temperature score (°C)	Transition VaR (%)	Physical VaR (%)
Passive investment strategy	2023	297.5	Portfolio	19,126,271	202,049,621	120.8	113.6	2.1	9%	1%
	2022	294.2	Portfolio	19,343,241	178,034,809	127.8	138.7	2.4	8%	1%
Active investment strategy	2023	24.3	Portfolio	1,754,741	15,214,855	134.9	98.7	1.9	11%	2%
	2022	24.8	Portfolio	1,874,264	13,806,562	142.4	119.5	2.5	10%	2%

2 Description of main terms

Term	Description	Calculation formula
Total Carbon Emissions / Financed Emissions	● Portfolio GHG total emissions (Unit: CO_2 converted tons (tCO_2e)) ● GHG emissions for investee companies are based on Scope 1+2+3.	$\sum_{n}^{i}\left[\frac{\text{Investment market value } i}{\text{Investee company's EVIC } i^*} \times \text{Investee company's GHG emissions } i\right]$
Carbon Intensity	● Value that can be acquired by dividing the total carbon emissions by the total sales of each investee company in the portfolio (Unit: CO_2 converted tons (tCO_2e) per Million USD). ● GHG emissions for investee companies in total carbon emissions are based on Scope 1+2.	$\dfrac{\text{Total carbon emissions}}{\sum_{n}^{i}\left[\frac{\text{Investment market value } i}{\text{Investee company's EVIC } i^*} \times \text{Investee company's sales } i\right]}$
Weighted Average Carbon Intensity (WACI)	● Weighted average for carbon emissions per unit sales of each investee company using investment weight of each investee company (Unit: CO_2 converted tons (tCO_2e) per Million USD). ● GHG emissions for investee companies are based on Scope 1+2.	$\sum_{n}^{i}\left[\frac{\text{Investment market value } i}{\text{Portfolio market price}} \times \frac{\text{Investee company's GHG emissions } i}{\text{Investee company's sales } i}\right]$

* EVIC stands for Enterprise Value Including Cash and expresses corporate value including cash.
EVIC = Market capitalization (Class stocks such as common stocks and preferred stocks) + Interest-bearing debt (Book value) + Controlling stockholder equity (Book value).

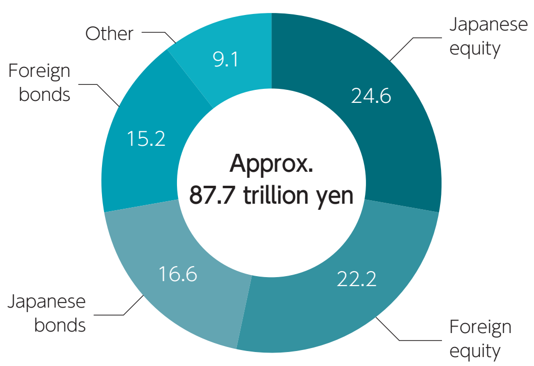
Corporate Profile

Balance of assets under management

As of the end of June 2023

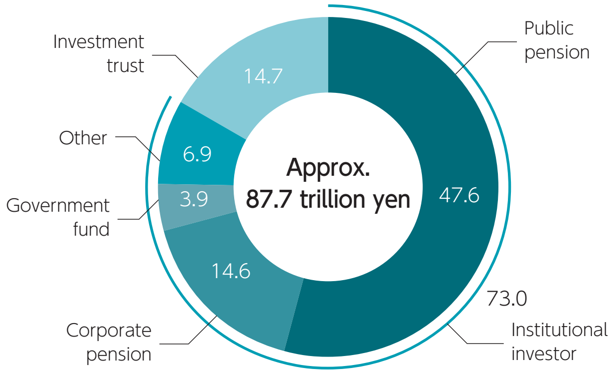
Approx. 87.7 trillion yen	Investment advisor business: Approx. 73.0 trillion yen
	Investment trust business: Approx. 14.7 trillion yen

By asset class (Unit: Trillion yen)



- Equity 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 equity and bonds.

By client type (Unit: Trillion yen)



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

Companies where we exercise voting rights

As of the end of June 2023

Number of Japanese companies: Approx. 2,500
Investment balance: Approx. 25 trillion yen

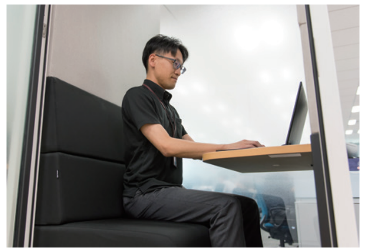
Number of foreign companies: Approx. 2,700
Investment balance: Approx. 22 trillion yen

Stewardship activities

[Number of meetings per year] From July 2022 to June 2023

Domestic	Number of engagement meetings: Approx. 1,300
	Number of engaged companies: Approx. 530 companies
	Number of contacts with companies (Overall*): Approx. 7,100
Overseas	Number of engagement meetings : Approx. 390
	Number of engaged companies: Approx. 310 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.

	Initiatives and self-assessment	Reference
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 will review our response from time to time when we deem it necessary.	Company website: https://www.smtam.jp/company/policy/stewardship/
Principle 2 Conflict of interest management	As the asset management 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 composed mostly of independent members. We will review this when necessary, as the environment changes.	This report p. 12
Principle 3 Accurate understanding Principle 4 Dialogue with companies	- Engagement activities were promoted by means of a top-down approach according to the agenda based on our ESG Materiality, a market cap approach that focuses on the scale of the market price, and a risk approach targeting companies with a low ROE. - In addition to trilateral cooperation among our Tokyo, London, and New York offices, collaborative engagement activities were carried out in Japan and internationally. - We were praised for a good example in regard to our evaluation framework under ICAP (Investor Climate Action Plan) for the second year in a row. - We received the top rating as an "Investment manager practicing the most effective stewardship activities" by an outside evaluation survey.	This report p. 8, pp. 13-20, pp. 23-48, p. 88
Principle 5 Exercise of voting rights	Standards for gender diversity and cross-shareholding were added based on revisions to the Principles for Exercising Voting Rights (January 2023). We also disclosed our voting records on all proposals for all brands we hold (in October 2022 and January, April, and July 2023). We began disclosure in CSV format starting in July 2023. While we believe that our current response is appropriate, we will continue to revise the Principles for Exercising Voting Rights, which serves as a minimum standard, and work to maintain and enhance the transparency of our exercise of voting rights.	This report pp. 53-56
Principle 6 Reporting to clients and beneficiaries	We are providing explanations about our stewardship activities to asset owners periodically or non-periodically. We found opportunities at external seminars and workshops for explaining our stewardship activities. We released our 2022/2023 Stewardship Report (October 2022). Moving forward, we will endeavor to report in a timely and appropriate manner and also improve and expand the content of our activity reports.	This report pp. 21-22 And our website https://www.smtam.jp/file/137/stewardship_report.pdf
Principle 7 Development of skills	We acquired, shared, and deepened new knowledge through activities such as various global initiatives and workshops. We also utilized engagement targeting government offices, institutions, and academic institutes for gaining new knowledge. We utilized an external organization (PRI Academy) and in-house e-learning to strengthen ESG knowledge. By continuing such activities, we will enhance our ability to engage in stewardship activities.	This report p. 5, pp. 15-20

Active Involvement in the Principles for Responsible Investment (PRI), and Maintaining/Improving Evaluations

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. There were 100 signatories when it launched in April 2006, and has increased greatly to 5,381 by the end of March 2023, which made the positioning more important. In addition to 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.

PRI Assessments are evaluations done on the commitment and progress of signatories toward the six principles of the PRI. These are conducted according to reports made by signatories.

We carefully examine the evaluation results from this assessment and make effort to improve items with insufficiencies, viewing these as opportunities for improving our response. For example, in the previous report (2021), there was a question related to the disclosure rate of individual disclosures on the exercise of voting rights in the evaluation items for listed equity. We originally were targeting disclosure of Japanese equity, but in response to this, we added foreign equity to the scope. Regarding questions related to the selection and monitoring of outsourced asset management companies, it was determined that there was room for improving the monitoring level. One measure we took was to improve the contents of the survey on responsible investment for outsourced asset management companies in order to raise the monitoring level. At the same time, we organized our regulations for approving ESG products from among outsourced management products in order to reorganize outsourced products.

In October 2023, the annual meeting of the PRI (PRI in Person) was held in Japan (Tokyo) for the first time, and we participated as a Gold Sponsor. We will continue with our active involvement in the PRI going forward and will make every effort to maintain and improve our ratings.

		2021*1
Investment & Stewardship Policy*2		★★★★★
Listed equity		
	Active - Quantitative / Engagement	★★★★★
	Active - Fundamental / Engagement	★★★★★
	Investment trust / Engagement	★★★★★
	Passive / Engagement	★★★★
	Active - Quantitative / Voting rights	★★★★
	Active - Fundamental / Voting rights	★★★★
	Investment trust / Voting rights	★★★★
	Passive / Voting rights	★★★★
Fixed income investment		
	SSA	★★★★
	Corporate	★★★★
Hedge fund (HF)		
	Multiple strategies	★★★★★
	Long/short equity	★★★★★
	Long/short equity / Voting rights	★★★
Management company selection, appointment, and monitoring (SAM)		
	Listed equity - Active	★★
	Fixed income - Passive	★★
	Fixed income - Active	★★

*1. The evaluation for 2021 is the PILOT version. The official version will be available starting with the evaluation for 2023.
*2. Including engagement activities.

Principle 1	**We will incorporate ESG issues into investment analysis and decision-making processes.** With SMTAM's aim of maximizing medium- to long-term investment return to our clients (beneficiaries) and suppressing downside risk, we analyze and evaluate non-financial information including ESG, and promote initiatives that utilize knowledge acquired from this analysis and evaluation for investment (ESG integration).
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.** By proactively promoting stewardship activities and educational activities, we help capital market participants to accept and implement the Principles.
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.

Information Disclosure According to the ICAP (Investor Climate Action Plan) Framework

The Investor Climate Action Plan (ICAP) is a framework for carrying out self-evaluation of stewardship activities by asset management companies that was announced by The Investor Agenda in May 2021. As shown in the figure below, the expected achievement level for engagement activities of investors is determined for four key focus areas and governance, and it is recommended that asset management companies use ICAP for information disclosure. Since 2022, SMTAM has continued information disclosure according to this framework.

Focus areas	Expected achievement level	Company stewardship activities
(1) Investment		
Goal setting	Managing systemic climate risks in investor portfolios and enabling the transition by shifting capital to value-creating businesses set to succeed in a net zero future.	In 2021, we joined NZAMI. We announced our efforts to achieve net zero greenhouse gas emissions from investee companies by 2050, and to reach interim targets by 2030.
Risk management		Conducting evaluation of our portfolio ((1) Fixed-point analysis and (2) Transition pathway analysis based on future climate change scenarios).
Asset allocation		SMT ETF Carbon Efficient Index Japan Equity listed on the Tokyo Stock Exchange in 2021.
Additional goal setting		Policy of voting against proposals for election of Directors if there is no improvement after engagement.
(2) Corporate Engagement		
Collective/Collaborative engagement	Engaging companies to drive and demonstrate real progress in line with a 1.5°C future.	Appointed as lead manager for multiple companies in Climate Action 100+ and as the Asian representative member of the NZAMI Advisory Committee.
Bilateral engagement		Promoting effective activities with about 100 companies that have a major impact on reducing total greenhouse gas emissions. Engagement across the commodity supply chain as an initiative for deforestation.
Corporate escalation		Policy of voting against proposals for election of Directors if there is no improvement after engagement.
(3) Policy Advocacy		
Investor statements	Advocating for policies aligned with delivering a just transition to a net zero economy by 2050 or sooner.	Participation as a lead manager in the IPDD (Investors Policy Dialogue on Deforestation), and engagement with policymakers in Brazil and Indonesia.
Lobbying activities		Engaging in dialogue with policymakers in Japan on 2030 power generation mix determined in the Sixth Strategic Energy Plan and future prospects.
Advocacy		Presentation of recommendations on forest conservation to the UK Environment Minister (Lord Goldsmith), which was the host country for COP26.
(4) Investor Disclosure		
Commitment, purpose, and goals	Enhancing investor disclosure to help stakeholders track investor action in line with a 1.5°C pathway.	Information disclosure in accordance with ICAP through our Stewardship Report as a step toward achieving net zero by 2050.
Carbon emissions and portfolio evaluation		Disclosure of portfolio and benchmarks for weighted average carbon emissions (emissions per unit of sales).
Alignment with TCFD		Conducting evaluation of our portfolio ((1) Fixed-point analysis and (2) Transition pathway analysis based on future climate change scenarios).
Evaluation of disclosure		Posting of engagement example cases from inside and outside Japan through Stewardship Report issued once a year.

Regarding The Investor Agenda, in July 2023, the Investor Climate Action Plan (ICAP) "Expectation Ladder*" was partially revised to enhance overall items related to deforestation. In September 2023, the 4th case studies focusing on ICAP best practices to facilitate the implementation of climate change measures by more institutional investors was announced.

Our stewardship activities were introduced as best practices the same as in the first one in January 2022. As shown in the above table, SMTAM is conducting a self-evaluation of our current approach to risks and opportunities related to climate change in four focus areas, and our self-evaluations of the expectation ladder in four focus areas have continued to be highly evaluated as Tier 1 or Tier 2.

As an example of "Corporate engagement (Collective/Collaborative engagement)," achievements include being appointed as a lead manager for multiple companies in the Climate Action 100+ and as the Asian representative member of the NZAMI Advisory Committee. Also, as an example of Policy Advocacy (investor statement), we have acknowledged our participation as a lead manager in the IPDD (Investors Policy Dialogue on Deforestation), and our engagement with policymakers in Brazil and Indonesia. Additionally, as initiatives related to deforestation, case studies of engagement across the commodity supply chain have been introduced.

We will continue to make effort to improve and enhance the transparency of our stewardship activities through information disclosure by means of ICAP.

* Concept indicating actions that should be taken according to each situation by sorting into four levels; from investors who are making effort to set standards for net-zero carbon emissions (Tier 1) to investors who are just beginning to consider climate change (Tier 4).

SMTAM' s ESG Investment Policy

I. Basic Policy

1. Purpose and significance of ESG investment
As a signatory asset manager on the Principles for Responsible Investment, we conduct investment activities (ESG investment) focusing on 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 investment manager in an investment chain through ESG investment will make contributions in value improvement and sustainable growth in 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 in making ESG investment integrating into investment decision making while also promoting systematic ESG investment with assured consistency and continuity.

2. Positioning
1) ESG investment refers to general investment activities as an institutional investor with a focus on challenges and investment opportunities related to the environment (E), society (S), and governance (G).
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 ESG investment methods for portfolio management determined in "III. ESG Investment Methodology and In-house ESG Scores," and other ESG investment methods including engagement and exercise of voting rights, which are the core of stewardship activities.
4) ESG integration refers to actions including analyzing and evaluating non-financial information including ESG, and utilizing knowledge acquired from this analysis and evaluation for investment to maximize medium- to long-term investment return to our clients (beneficiaries) and reducing downside risk. In particular, we use ESG investment methods from 1) to 5) that are directly related to portfolio management as determined in "1. ESG investment methodology for in-house managed products" of "III. ESG Investment Methodology and In-house ESG Scores."
5) ESG products are products that incorporate proper ESG investment methods into the management process and that meet the requirements determined separately in related Company rules.

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) while carrying our proper monitoring and disclosure.
(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 investment return 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 for investment return.
3) In making ESG investments, we take "II. ESG Materiality" into consideration.
4) We manage portfolios for various investment strategies, and are consistent with each client' s investment purposes. For ESG investment, we use properly combined ESG investment methods determined in "III. ESG Investment Methodology and In-house ESG Scores" according to characteristics such as the investment purpose, investment target, and investment strategy.
5) As an escalation measurement of ESG investment methodology, if it becomes difficult to raise the ESG investment effect through engagement activities with investee companies, we consider voting against company proposals or agreeing to shareholder proposals in the relevant investee company.
6) In order to improve the effect of ESG investments, we examine and try to understand the evaluation purpose, method, and restrictions for ESG evaluation and data used to allow us to perform ESG evaluations and ESG investments for investee companies, and take necessary measures.

II. ESG Materiality

1. ESG materiality
ESG materiality refers to ESG issues that we view as important for improving the value of the investee company and promoting sustainable growth. We consider ESG materiality when performing ESG investment including ESG evaluation of investee companies, engagement activities, and decisions for exercise of voting rights. In addition, we have positioned ESG materiality as the basis for planning and promoting various stewardship activities, and have set it as the basis for formulating implementation plans related to engagement activities, various initiative activities, and the exercise of voting rights.
With ESG, there are various issues and topics from a number of perspectives, and these differ according to each external evaluation agency. Therefore, we have our own definition of "ESG Materiality," and the following 3. to 5. are the main evaluation items and contents for our ESG investment.

2. Review of ESG materiality
ESG materiality is considered based on the information acquired through dialogue with each stakeholder, and is reviewed annually.

3. Environment
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.
1) 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 society and economic activities as a whole, and reflect measures for mitigating and adapting to it in ESG investment decisions by considering matters such as international frameworks.
2) Natural capital
Economic activities depend greatly on natural capital. Misuse of natural capital, which mainly include raw materials, makes it impossible to use such resources sustainably, and is also a threat to the continuous prosperity of society. Therefore, it is necessary not just to put a stop to their depletion, but to restore natural capital in order to maintain a sustainable society. We especially recognize the importance of conserving forests that act as a carbon sink, which helps with biodiversity as the foundation of ecosystem services that support society and the economy, and addressing climate change. We also understand that such issues can occur anywhere in the supply chain. We will reflect the status of biodiversity and the sustainable use of natural capital and resources such as forests, water, minerals, and agriculture, forestry, and fisheries into our ESG investments.
3) Pollution and waste
If various wastes generated as byproducts of economic activity are not properly managed by governments or companies, natural capital will be damaged by destruction of the environment and by pollution, and scarce resources will be consumed. We reflect the status of compliance with laws and regulations by governments and companies, sustainability of natural capital and resources through waste reduction and resource circulation of product lifecycles into our ESG investments.
4) Environmental opportunities
The environmental issues in 1) to 3) above lead to the creation of new markets and business models as represented by renewable energy and resource circulation through the promotion of international initiatives and policy changes at a governmental level and changes in consumer awareness. We view this as an investment opportunity and reflect it in our ESG investments in order to support the shift to a sustainable society and achieve growth of client assets.

4. Society
Overview
As a signatory asset manager for the Principles for Responsible Investment, we must require investee companies not only to 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. In addition, 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.
1) Human rights and community
We consider compliance by investee companies with international rules to be a point of emphasis. In supply chains, there are risks related to neglecting the work environment and with misconduct such as human rights infringement with workers. Therefore, we understand the initiatives such as with human rights due diligence according to international standards on labor and human rights, and reflect these to ESG investments from perspectives such as "Just Transition."
2) Human capital
As the economy pushes a shift to services, ensuring excellent personnel, human resource development, and engagement with employees are becoming more important factors that determine investee company performance. We consider the efforts made by investee companies for improving value through diversity, inclusion, equality, investment in human resources, and improvement of well-being and motivation, and reflect these in our ESG investments.
3) Security and responsibility
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. Social responsibility of governments and companies in regards to labor and safety is increasing. We take into account the vulnerabilities that lead to such risks and consider how investee companies respond to and reflect them in our ESG investments.
4) Social opportunities
Initiatives through international frameworks and government-level policies are implemented for the social issues in the above 1) to 3), so the process where economy and social disparity are eliminated results in social opportunities. In particular, expansion to communities and people where basic services necessary for achieving SDGs such as medical services, information communication, and finance are lacking, will lead to the creation of new markets and business models. We view this as an investment opportunity and reflect it in our ESG investments in order to support the shift to a sustainable society and achieve growth of client assets.

5. Governance
Overview
Investment return is obtained when the interests of an investment country or investment target company coincide with those of stakeholders represented by investors, and its goal is achieved. Governance is the most basic system for this purpose, and it is necessary to consider it as a common important matter for all investee companies in order to secure investment return from client assets over a medium to long term.
1) Behavior
Whether a company, etc., conducts management with due consideration to the interests of its stakeholders is evident in its behaviors, etc. We take into account behaviors such as capital efficiency and information disclosure and reflect them in our ESG investment decisions. We take care with regard to information disclosure in accordance with all ESG topics because it is the starting point of relevant action.
2) Structure
Governance should be expressed objectively in government laws and regulations and in corporate organizational structure. SMTAM considers the appropriateness of corporate governance based on the composition of the board of directors and the diversity of directors, remuneration systems, takeover defense measures, and the composition of shareholders along with the characteristics of the industry and country/region, and reflects these to ESG investments.
3) Stability and justice
For countries and companies, events can occur that have a negative impact inside and outside the organization, ranging from deliberate violations of laws and regulations, to accidents. If the way of responding to such an incident or the speed with which it is handled is not sufficient, in addition to disadvantages for society, the creditworthiness of the country and corporate value will be greatly impacted. In order to deal with such risks properly, we consider political stability and fairness, a company' s code of conduct, their risk management system including preventive measures, and company climate regarding compliance, etc., and reflect these to our ESG investments.
4) Governance improvement
Governance is positioned as the core of the social and economic activities by governments and companies. Improvements and advancements with governance are what move governments and companies to achieve sustainability and engage in new business opportunities. In other words, these are expected to raise return on investment. We view this as an investment opportunity and reflect it in our ESG investments in order to achieve growth with client assets.

III. ESG Investment Methodology and In-house ESG Scores

1. ESG investment methodology for in-house investment products
The ESG investment method for carrying out ESG investments is defined in the following 1) to 7).
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 including ESG 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 dialogues 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 investee companies by reflecting ESG factors in voting "for" or "against" a proposal in the exercise of voting rights of investee companies.

2. In-house ESG score
The in-house ESG score refers to SMTAM' s investment evaluation indices based on ESG given from the perspective of investors by analyzing the impact of ESG issues on opportunities and risks for governments and companies, etc., with the aim of maximizing medium- to long-term investment returns for clients (beneficiaries) while controlling downside risks.
Using ESG evaluations based on ESG materiality determined by SMTAM, we give an in-house ESG score for investment universe, etc., in order to make continuous improvement.
Details related to in-house ESG score are determined separately in SMTAM' s regulations, etc.

SUMITOMO MITSUI TRUST ASSET MANAGEMENT

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