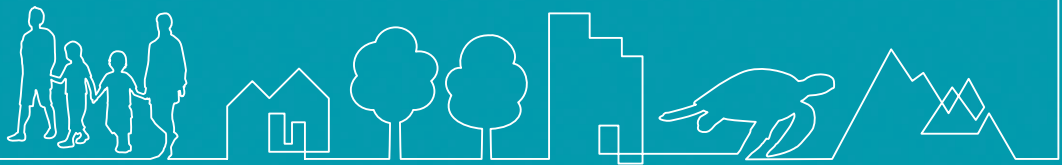


STEWARDSHIP

REPORT

2022/2023



SUMITOMO MITSUI TRUST ASSET MANAGEMENT



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This is a booklet issued by Sumitomo Mitsui Trust Asset Management Co., Ltd. to report on its stewardship activities and promote clearer communication and understanding.

Efforts made throughout the Sumitomo Mitsui Trust Group include striving to provide stakeholders with value and collaborating on sustainability activities with scope to boost the long-term corporate value of the Group over time based on transparency.

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

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

At Sumitomo Mitsui Trust Asset Management, our top priority is striving to consistently boost the value of clients' assets entrusted to us in the medium to long term and actively promote stewardship activities as part of this aim.



Realizing opportunities today to ensure sustainable prosperity for tomorrow.

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

From “Transient ESG” to “Sustainable ESG.”

The spread of the COVID-19 pandemic and the invasion of Ukraine by Russia have had a major impact on society, the economy, politics, and other areas throughout the world, which has deeply affected people’s lives. Some people may believe that efforts related to ESG issues would be halted by such emergencies and abnormal circumstances. However, we feel the opposite.

The COVID-19 pandemic has encouraged work style reform. Investee companies shifted their thinking so that such workstyle reformations have led to corporate value. In anticipation of the “New Normal” in a post-pandemic world, we feel that more companies are promoting workstyles based on an understanding of people’s behavior, the economy, and that business frameworks will never completely go back to the way they were, and are transitioning their business itself in order to maintain and improve corporate value.

The invasion of Ukraine by Russia has had a major impact on humanitarian issues as well as on the global economy and the financial market, including issues with energy security and food. Awareness of human

rights issues on a global scale has increased, and many companies are taken action by withdrawing their business from Russia. A number of investee companies are not passively accepting the use fossil fuels but, rather, have shown a positive attitude by using these efficiently based on a long-term perspective while also reducing greenhouse gases.

The pandemic and Ukraine are two major issues reminding us that efforts related to ESG issues and improving sustainability are vital even in times of emergencies. We believe that the real value of concepts, beliefs, and actions of society, companies, and investors have been put to the test. Additionally, these two issues have brought about a “Change in ESG.” In other words, it has transitioned from “Permeation” to “Refinement,” from “Generalities” to “Particulars,” and from a “Singular perspective” to a “Compound perspective,” resulting in a change from “Transient ESG” to “Sustainable ESG.” 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 to ESGs

from a long-term perspective while considering such changes.

From this perspective, SMTAM, as a signatory institute of the Principles for Responsible Investment (PRI), will endeavor to understand such changes to society and companies in order to perform engagement, exercise voting rights, and make investments for fulfilling its mission to maximize returns on assets entrusted by our clients.

Our Stewardship Report for this fiscal year will introduce the various efforts we have made over the past 12 months. Feature articles introduce our efforts related to carbon neutrality as well as progress toward human rights issues and issues related to access to medicines. I hope that this report will help all to understand our company's activities, which are being carried out by everyone reading this report including our stakeholders.

Representative Director and President
Yoshio Hishida

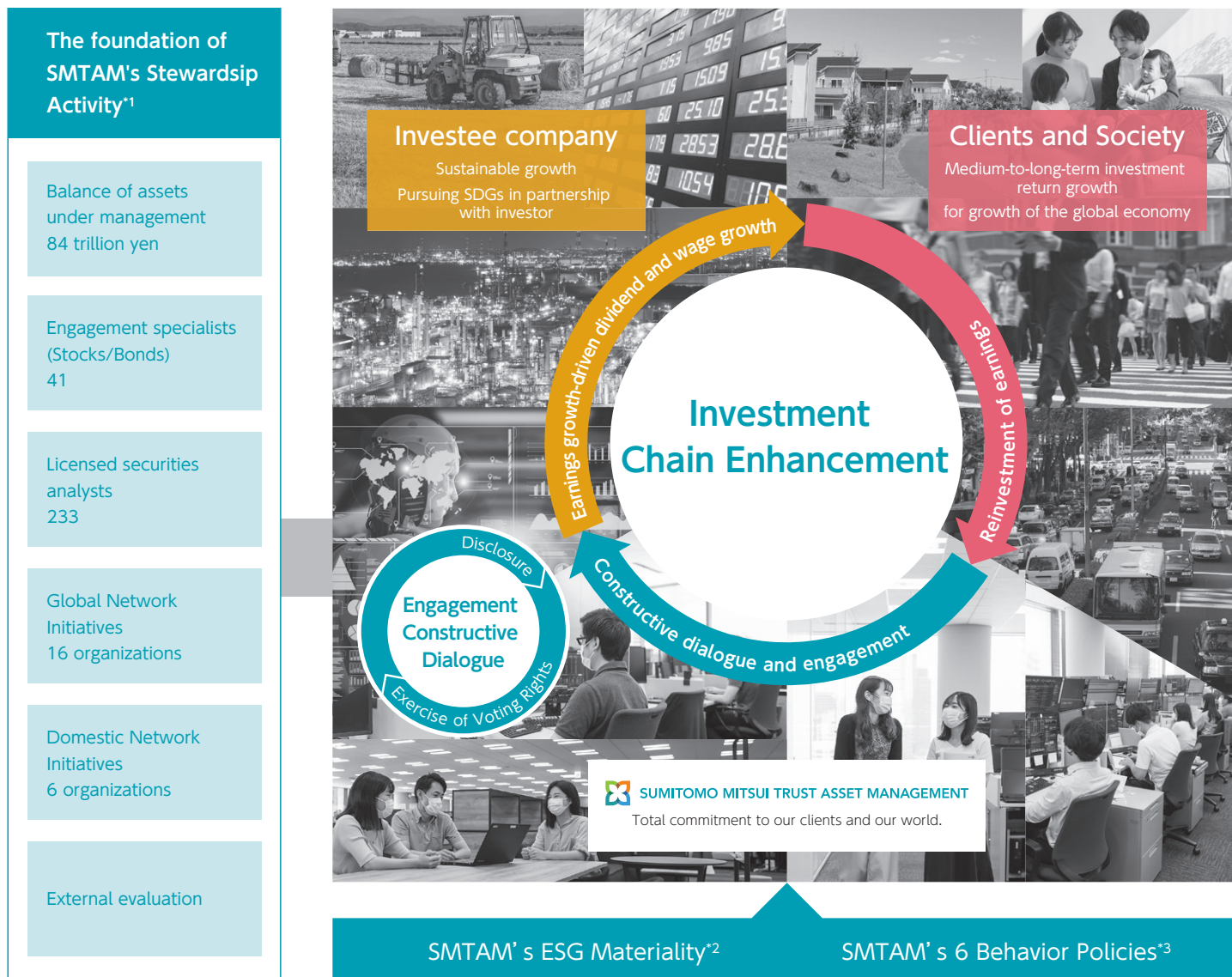


Purposes of Stewardship Activities

Supporting Value Creation in the Investment Chain.

Sustainable growth of investee companies drives growth in earnings, and growth in earnings drives growth in dividends and wages which, ultimately, benefits household economies and the growth of the economy as a whole. All of this together is known as the investment chain.

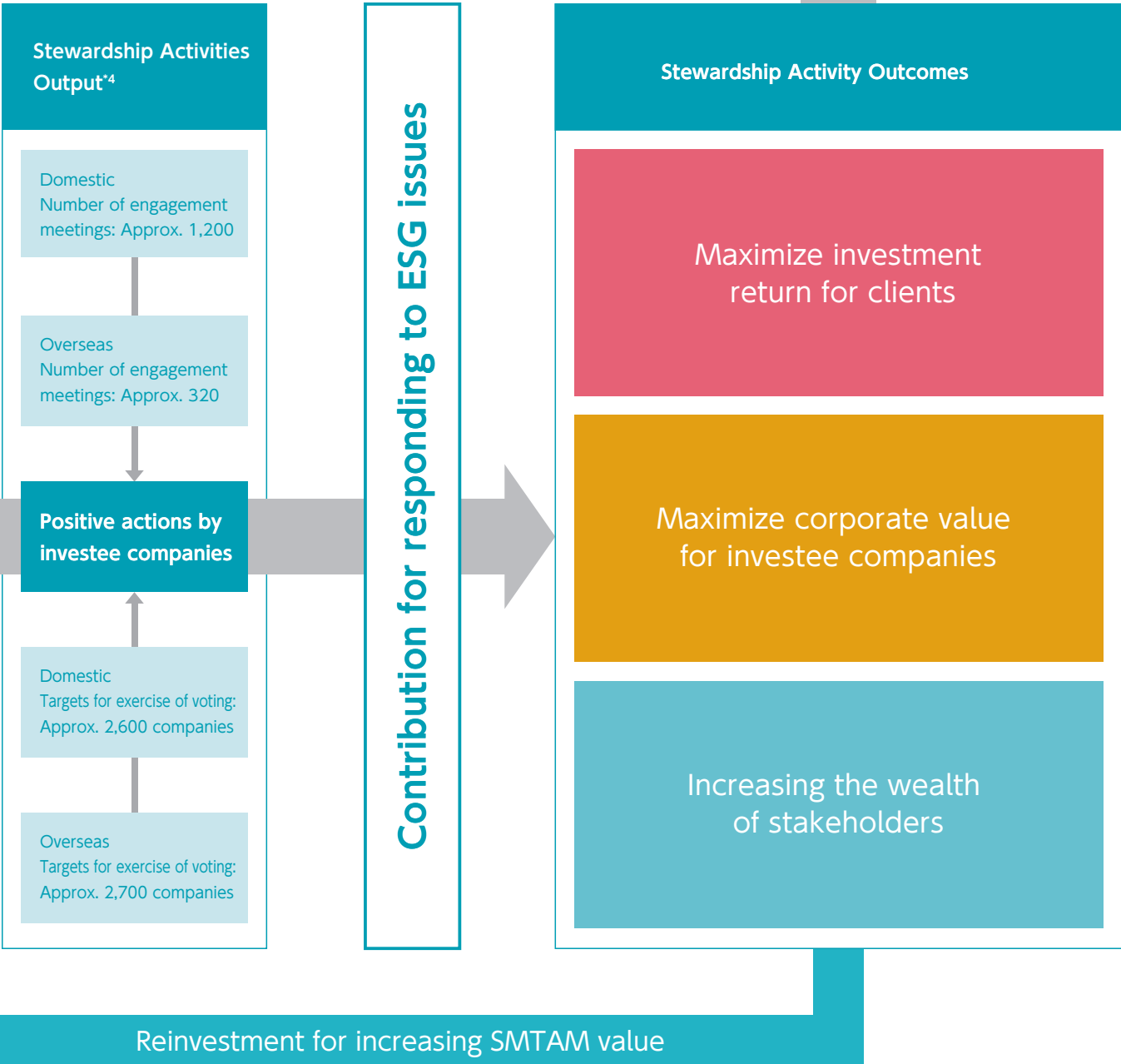
At SMTAM, we actively utilize our role as an asset manager in the investment chain to support our investee companies create corporate value, leading to maximum returns for our clients, while at the same time contributing to the achievement of SDGs.



*1 As of the end of June 2022 (As the end of March 2022 for licensed securities analysts). *2 See pages 78 to 80.

*3 See our website. <https://www.smtam.jp/company/information/philosophy/>

Realizing opportunities today to ensure sustainable prosperity for tomorrow.



*4 The number of engagements are from July 2021 to June 2022, and the number of target companies for exercise of voting rights are as the end of June 2022.

Evolution of ESG Investments and Our Initiatives

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

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

Evolution of ESG Investments

Since the **1920s**

Initial ethical investment

- Choice of investees based on religious and ethical motives

1960s

SRI as a social movement

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

1920

1960

Our initiatives

2003

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

2004

Started offering SRI funds to DC

2006

Signed PRI (Principles for Responsible Investment)

2010

Started offering publicly offered investment trusts of Chinese shares SRI


2014

Accepted Japan’s Stewardship Code (SSC)

2006
Presented the concept of ESG in PRI (Principles for Responsible Investment) for the first time in the world



2015
Adopted the Sustainable Development Goals (SDGs) at the UN Summit



1990s to 2000s

Both financial and non-financial assessments

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

2010s
Integrating the environmental and social impact of investments

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



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

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

2019
Developed impact investment products
Set Seeds in Japanese Stocks (Commercialized in 2020)

2020
Set Global Shares Impact Fund Seeds
Accepted the revised SSC

2021
Listed on SMT ETF Carbon Efficient Index Japan Equity

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

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 

2022
Asia Asset Management magazine
Best of the Bests Country Awards <Japan> Category
Received Best ESG Engagement Initiative

2021/2022 Stewardship Activity Focus Topics

At SMTAM, we believe we have an important role to play in the investment chain as a responsible institutional investor. Towards that end we are fully committed to the Stewardship Code and Corporate Governance Code, as reflected in our domestic and overseas engagement efforts, exercise of voting rights and various other activities. Below is a brief summary of the activities SMTAM was involved in between October 2021 and September 2022.

2021	11	<h3>Attended COP26 Glasgow, UK</h3> <p>Company Chairman, David Semaya, attended the 26th UN Climate Change Conference of the Parties (COP26). He attended the “World Climate Summit” where investors and non-governmental organizations from around the world gathered to discuss climate change, and took the platform as a panelist.</p>  <p>Mr. Semaya is second from the left</p>
		<h3>Participation in Financial Sector Commitment Letter on Eliminating Commodity Driven Deforestation</h3> <p>We were the only investment manager from Japan¹ to agree and join the “Financial Sector Commitment Letter on Eliminating Commodity Driven Deforestation” announced at the 26th UN Climate Change Conference of the Parties (COP26). This initiative was approved by more than 30 global investment managers. Mr. Semaya gave a speech at the memorial reception hosted by Prince Charles, and he explained our company’s activities to world leaders on climate change.</p> 
		<h3>Panelist at the World Antimicrobial Awareness Week 2021 AMR² event (UK Base)</h3>
		<h3>Stewardship Report 2021/2022 published</h3>
2022	1	<h3>Revision of Guidelines for the Exercise of Voting Rights for Domestic Shares</h3> <p>*See pages 45.</p>
		<h3>Received Best ESG Engagement Initiative <Japan></h3> <p>Received Best ESG Engagement Initiative for our ESG engagement activities presented by the Asia Asset Management³ magazine, and received the award for Best Impact Investing Manager for impact investment based on achievement of SDGs.</p> 
		<h3>Introduced Company Activities as ICAP Best Practices</h3> <p>“The Investor Agenda²,” which is a global initiative, introduced our stewardship activities as a leading best practice for the assessment framework known as ICAP (Investor Climate Action Plans).</p>
		<h3>Participated in Ceres² Paris Aligned Investment Working Group Panel (US Base)</h3> <p>Since our company activities were selected as a leading best practice for ICAP, we participated in the panel, which introduced the status of our efforts at the Ceres Working Group (WG). We also encouraged other investment managers who attended the WG to participate in ICAP.</p>

2022	3	<p>Selected as an Advisory Group member representing Asia for the Net Zero Asset Managers Initiative (NZAMI)*²</p> <p>We were selected as an Advisory Group member representing Asia that is made up of six signatory managers, and participating in the overall management of NZAMI.</p>
		<p>Participated in the FAIRR*² Working Conditions Engagement Program (US Base)</p> <p>We became a leading investor through dialogue with Brazilian companies about human rights and work environments as collaborative engagement phase 2 for the livestock supply chain.</p>
	4	<p>Appointed as co-chair of the CA100+*² Global Steering Committee</p> <p>Up to now, we participated in the Global Steering Committee as an Asian representative. However, this time, we were appointed as co-chair of the said committee (term is until September 2022).</p>
	5	<p>Setting interim targets for net zero greenhouse gas emissions for assets under management</p> <p>We set up interim targets for 2030 for net zero greenhouse gas emissions of investee companies by 2050, which have been promoted through NZAMI.</p>
		<p>SMTAM President Hishida appointed to the 30% Club Japan*² Steering Committee</p> <p>He had been the chairperson of the 30% Club Japan Investors Group, and has also been assigned to participate as a member of the Steering Committee.</p>
		<p>Nikkei Project related to the future of the Asset Management Companies SMTAM Senior Managing Director Horii on stage for “Questions on the Real Value of ESG Investment”</p>
	<p>Appearance at Webinar in Taiwan</p> <p>Participated in a webinar for management at listed companies in Taiwan hosted by the Taiwan Stock Exchange and Alliance Advisors*⁴ and explained SMTAM’s engagement activities and policy for exercise of voting rights, etc.</p>	
	<p>Appearance at CDP*² Webinar</p> <p>Participated in an “Investor-Corporate Dialogue” webinar hosted by CDP in Indonesia, and explained SMTAM’s concept of the role of institutional investors who support transitioning to a sustainable palm oil supply chain.</p>	

*1 As of November 2021

*2 See pages 75 and 76.

*3 Asset management related journal that began being published in Hong Kong in 1995, which presents Best of the Best Awards to excellent asset management companies and service providers in the Asia-Pacific region every year.

*4 Alliance Advisors is a consultation company focused on Hong Kong and Taiwan that specializes in ESG.

Feature 1

SMTAM Efforts related to Climate Change Issues

Realizing Carbon Neutrality by 2050

Climate change issues include a variety of phenomena which affect our lives that are caused by the progression of global warming, mainly attributable to human economic activities. Changes in weather patterns due to global warming cause changes to ecosystems and damage to food, water, health, and the economy, which can adversely impact sustainable social/economic activities. We prioritize our responses to such climate change issues among our Stewardship Activities agenda. Here, we would like to introduce the collaborative research being carried out with The Japan Research Institute, Limited (hereinafter JRI) as one of our activities over the past year related to this issue.

Collaborative Research with JRI

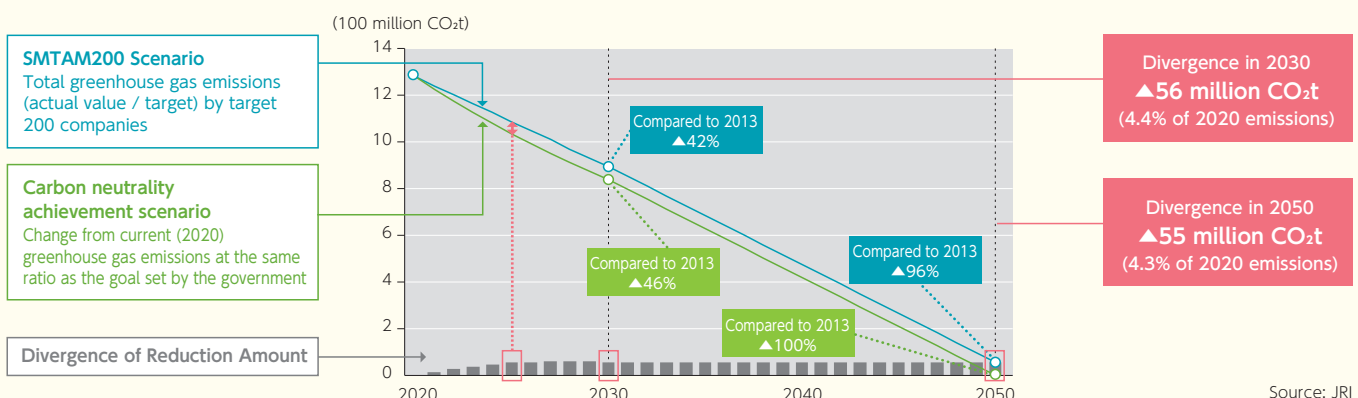
We engaged in collaborative research with JRI for seven months from September 2021 to March 2022 in order to formulate strategies that contribute toward carbon neutrality in Japan such as “Promotion of Engagement with Added Value” and “Discovering Investment Opportunities.” The JRI combined their specialized knowledge related to climate change with the knowledge of our corporate analysts who are industry specialists and ESG specialists to promote research. The following shows the specific steps.

- (1) Confirming the current state of greenhouse gas emissions by SMTAM200 companies¹
 - Confirming gaps between greenhouse gas suppression targets by the Japanese Government (Top-Down Scenario) and accumulated reduction plans by SMTAM200 companies (Bottom-Up Scenario)
 - Confirming the industry-scope composition ratio
- (2) Scenario analysis for reducing greenhouse gas emissions by SMTAM200 companies
- (3) Identifying priority fields (industries, technologies, etc.) for achieving governmental goal by SMTAM200 companies
- (4) Determining SMTAM’s carbon neutrality strategy

1. Confirming the current state of greenhouse gas emissions in the domestic shares portfolio

When it comes to greenhouse gas emissions, the Japanese Government has currently set the goal of “46% Reduction by 2030 (Compared to 2013)”² and Realization of Carbon Neutrality by 2050.” We set this as a Top-Down Scenario, and set the emissions outlook for SMTAM200 companies (total reduction plan value by each company based on disclosed data)³ as the Bottom-Up Scenario, and then performed a comparison and analysis of the outlook for greenhouse gas emissions for both. As a result, we confirmed that the divergence for both 2030 and 2050 was about 4% (Figure 1).

Figure 1: Comparison of Top-Down and Bottom-Up Scenarios



Source: JRI

Next, we checked forecasts for greenhouse gas emissions by SMTAM200 companies according to the industry for 2030 and 2050 (Figure 2 (Scope 1 base), Figure 3 (Scope 1+2+3 base)).

According to Scope 1 base, the scenario is that emissions from “Energy Resources” and “Electricity / Gas,” which accounts for a large portion as of 2020, will quickly reduce after 2030, and carbon neutrality will be achieved by 2050. In addition, “Steel / Nonferrous metals” and “Raw materials / Chemicals” will still have a high ratio in 2030 and 2050.

According to Scope 1+2+3 base, compared to only Scope 1 base, the ratio for “Automobile” and “Electronics” is relatively high. This is because in Scope 3, emissions are expected to be high in Category 1 (Purchased Goods and Services) and Category 11 (Use of sold products). As for industries where emissions are expected to remain in 2030 and 2050 for Scope 1 base and Scope 1+2+3 base, it will be necessary to request further efforts for goals to reduce greenhouse gas emissions.

Figure 2: Expected greenhouse gas emissions by SMTAM200 companies in 2030 and 2050 (Scope 1 base)

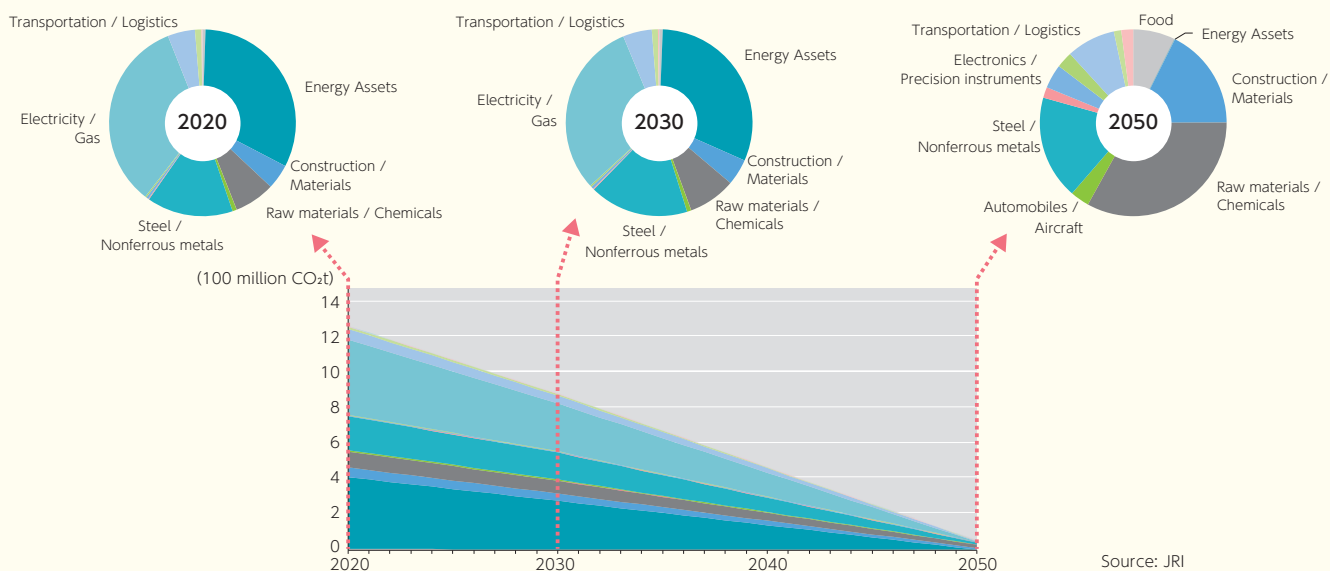
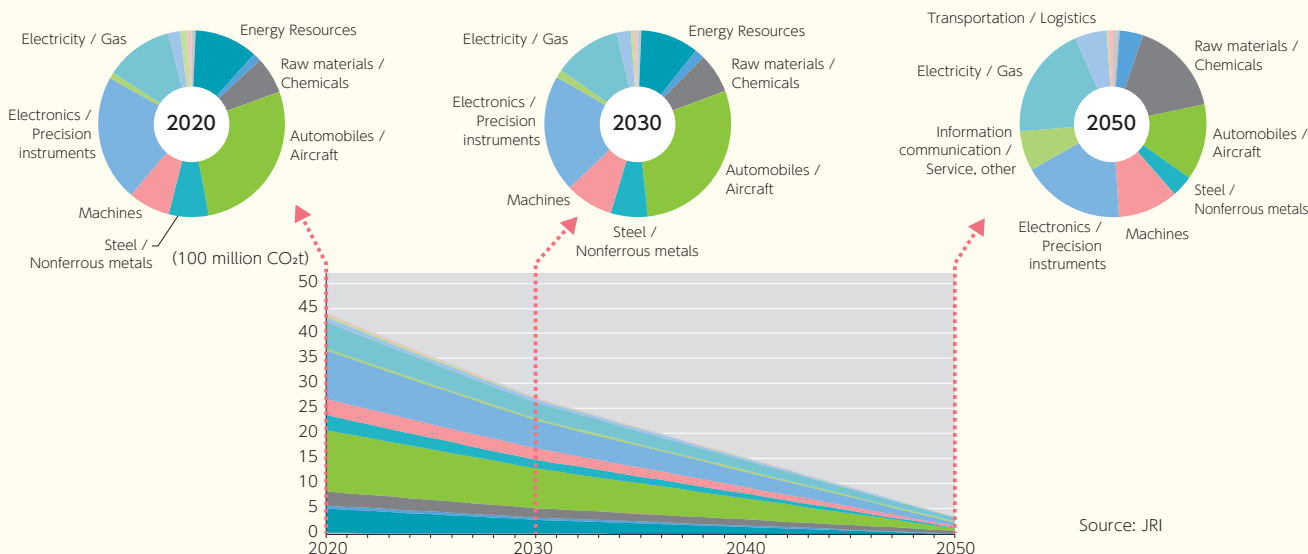


Figure 3: Expected greenhouse gas emissions by SMTAM200 companies in 2030 and 2050 (Scope 1+2+3 base)

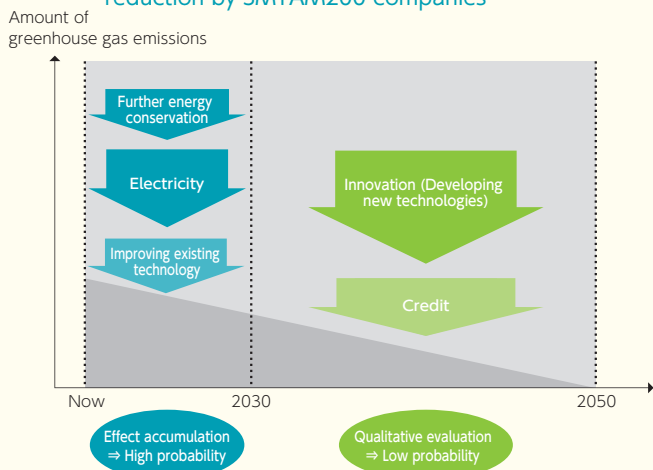


*1 The top 200 companies for greenhouse gas emissions among domestic share investee companies. Estimated to be equivalent to 80% of emissions by listed companies in Japan.
 *2 Also states “Aiming for 50% reduction.”
 *3 As of the end of August 2021. To prevent overlap of Scope 2 by individual companies and Scope 1 power companies, only Scope 1 values by individual companies are used instead of Scope 1+2 (base is Scope 1). However, if only Scope 1 is not disclosed, Scope 1+2 and Scope 1+2+3 are used as alternatives. Also, Scope 1+3 values are only used for TEPCO and Chubu Electric Power in consideration of JERA. Scope 1+3 values are used for coal, oil, and gas due to their business style.

2.Scenario analysis for reducing greenhouse gas emissions by SMTAM200 companies

Next, we researched efforts for reducing greenhouse gas emissions and their expected effects through disclosed information and hearings with SMTAM200 companies. As a result, we confirmed that between now and 2030, most companies will focus on “(Further) Energy Conservation” and “Electricity,” which is mainly a change in the composition of procured electricity, and between 2030 and 2050, they will focus on “Innovation” by developing new technologies (Figure 4).

Figure 4: Expected period and factors for greenhouse gas reduction by SMTAM200 companies



Note: Technological measures are sorted as Methods based on improvements to existing technologies (Existing Type) and Methods based on newly developed technologies (New Type). Hereinafter, newly developed technologies that are important for achieving carbon neutrality are referred to as “Innovation.”

Source: JRI

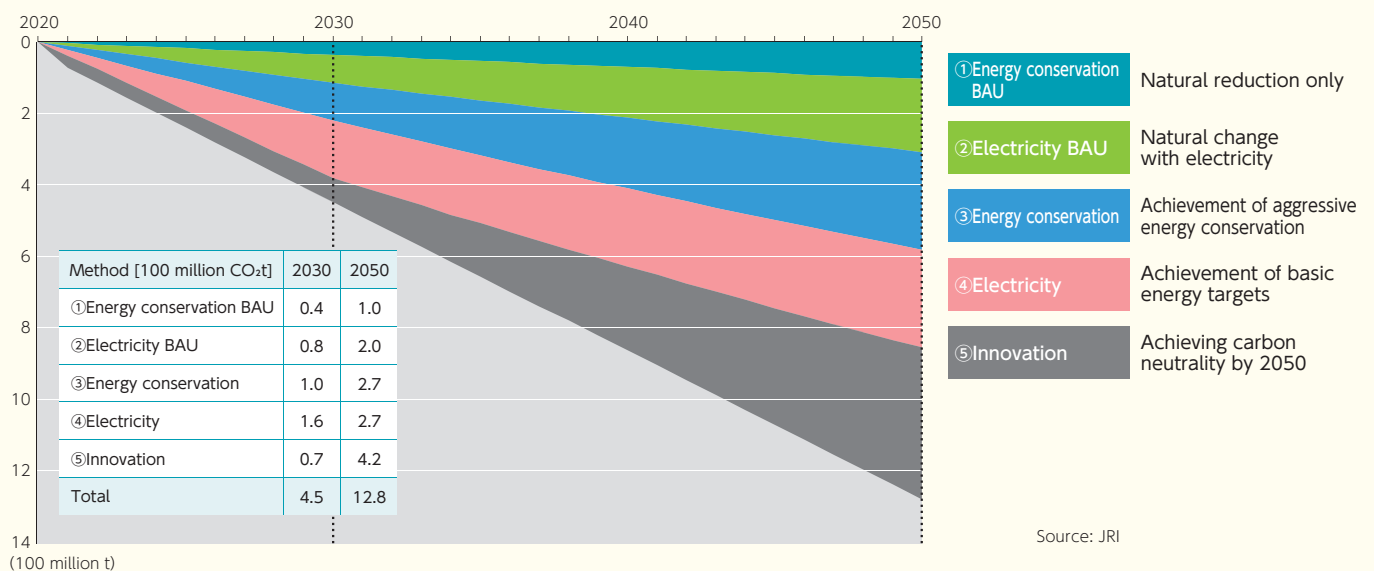
In this research, we also conducted scenario analysis on methods for reducing greenhouse gases such as “Energy conservation,” “Electricity,” and “Innovation.”

- “Energy conservation”: “Energy conservation BAU”^① (in Figure 5) which does not include “Ambitious energy-saving efforts” in the 6th Basic Energy Plan (hereinafter “Basic Energy”) and “Energy conservation (same as ③)” including “Ambitious energy-saving efforts” (both based on the assumption that the annual reduction ratio in 2030 continues after 2030) *4 Refers to Business As Usual
- “Electricity”: Estimation of “Electricity BAU (same as ②)” when forced carbon neutrality is no longer effective (Mainly Renewable energy + LNG thermal power, renewal of nuclear power plants does not progress), and “Electricity (same as ④)” assuming zero-emission thermal power generation and renewal of nuclear power plants according to the basic energy plan
- “Innovation”: Achieves carbon neutrality (same as ⑤) by handling the reduction amount not achieved from these four items

Figure 5 shows the transition in the greenhouse gas emission reduction amounts based on these assumptions.

The analysis results indicate that when it comes to the amount of contribution toward reduction for achieving carbon neutrality by 2050, Energy conservation BAU is 8%, Electricity BAU is 16%, Energy conservation is 21%, and Innovation is 33%, and it was confirmed that Innovation represents the largest contribution. Although “Energy conservation BAU” and “Electricity BAU” can be expected to reduce naturally, “Energy conservation,” “Electricity,” and

Figure 5: Transition in amount of greenhouse gas reduction by SMTAM200 companies according to method



Source: JRI

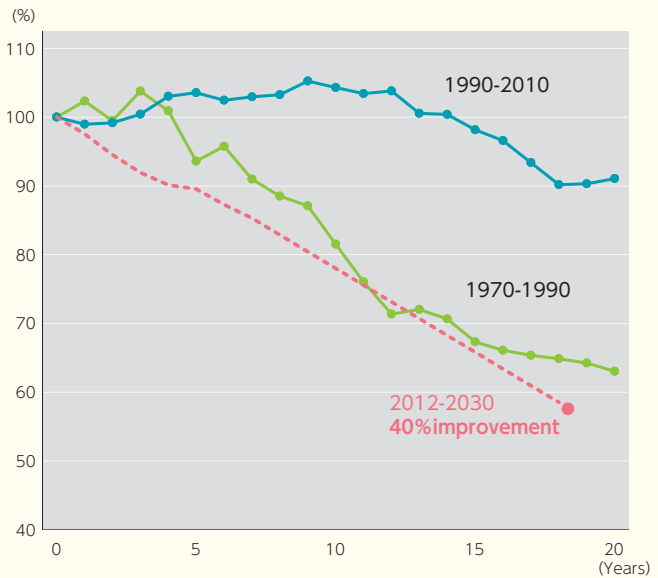
“Innovation” are each difficult to achieve, and we recognize that more aggressive efforts will be needed.

For example, regarding “Energy conservation,” energy efficiency improvements by 2030 according to the Japanese Government are far higher than the achievements between 1990 to 2010, and are also greater than the achievements between 1970 to 1990, which include the first and second “Oil crises” (Figure 6).

As for “Electricity,” trends with nuclear power plants are a major uncertainty factor. The Japanese Government showed analysis where the number of operating plants will reduce drastically after 2040 if no new nuclear power plants are constructed (Figure 7). In this case, in order to realize balance between electricity demand and carbon neutrality, it will be necessary to compensate for the lack in power supply using zero carbon thermal power. There are some costs and technology issues related to practical use of zero carbon thermal power, so we believe that realization of “Electricity” will be accordingly difficult.

Based on such examinations, we concluded that progress with “Innovation” and efforts for implementing these to society as soon as possible are highly important for achieving carbon neutrality.

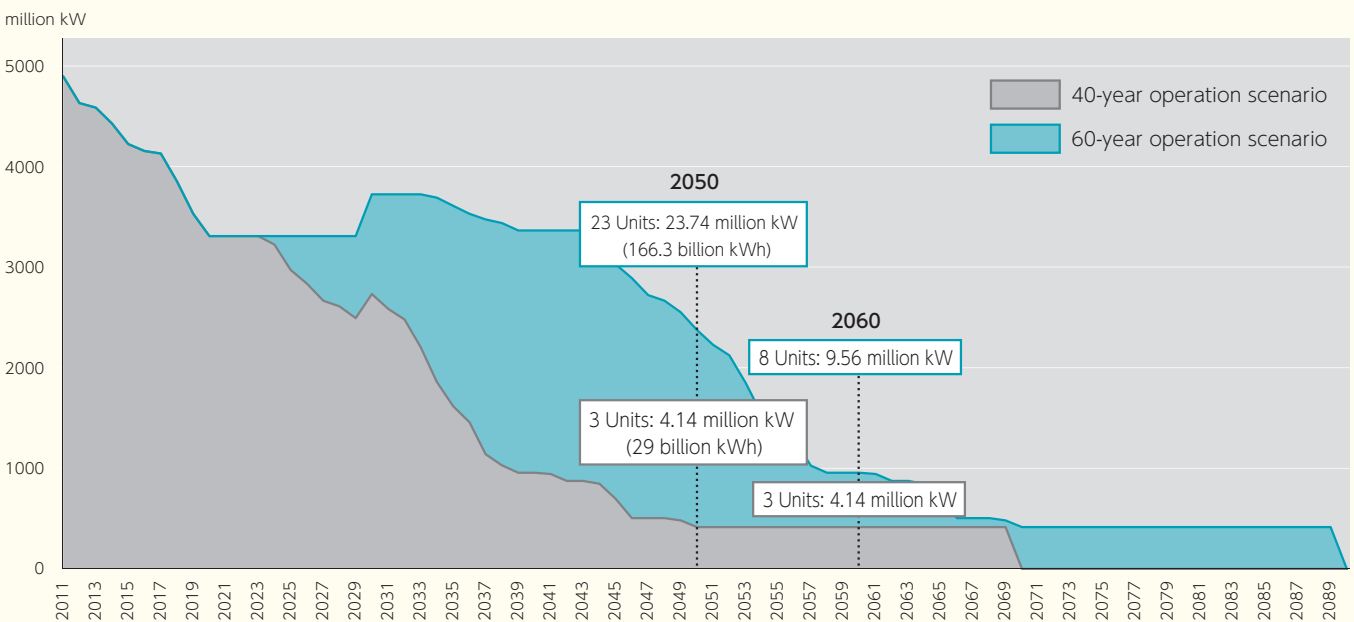
Figure 6: Improvement ratio in energy efficiency for achieving 2030 targets set by the Japan Government



Source: Agency for Natural Resources and Energy “Expected Supply and Demand in FY2030 (Reference Document)”

Figure 7: Expected ability of nuclear power plants in Japan to generate power

According to the 2012 revisions to the Act on the Regulation of Nuclear Source Materials, Nuclear Fuel Materials and Reactors, it was determined that nuclear power plants in Japan will operate for **40 years**. However, this can be extended a maximum one time for **up to 20 years** if they comply with the standards stipulated in the rules of the Nuclear Regulatory Commission.



Source: Agency for Natural Resources and Energy, Advisory Committee for Natural Resources and Energy, Strategic Policy Committee, “Investigation for Realization of Carbon Neutrality by 2050”

3. Identifying priority fields (industries, technologies, etc.) for achieving governmental goal by SMTAM200 companies

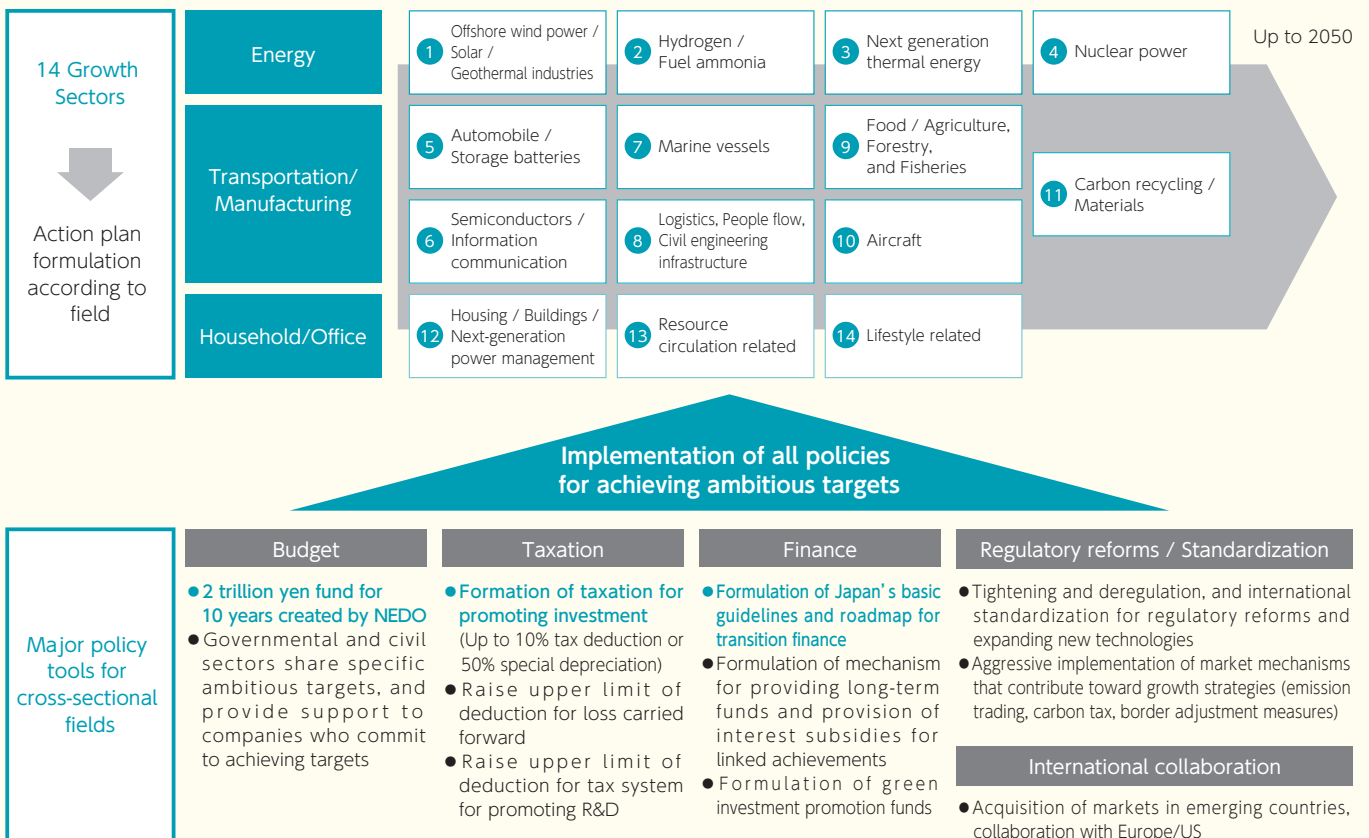
Regarding fields where “Innovations” are expected, on December 25, 2020, the government announced the “Green Growth Strategy Through Achieving Carbon Neutrality in 2050” (revised on June 18, 2021), and indicated the formulation of an action plan that sets ambitious goals according to 14 priority fields, as well as the orientation for implementing all policies (Figure 8).

Although each of these 14 fields is important and require attention, in our research, we focused on “Storage Batteries,” “Hydrogen / Fuel Ammonia,” and “Carbon Recycling” from comprehensive perspectives including “Ripple Range,” “Diffusion Time,” “Technological Superiority,” and “Greenhouse Gas Gap.” We believe that investee companies who engage in these will have business opportunities while contributing to the environment from different perspectives (Figure 9). On the other hand, there are a number of issues that need to be resolved in these three fields, and we believe that the impact which technological and commercial diffusion will have on each other is a major issue. It is vital to

further implement “Storage batteries” in order to promote implementation of energy recycling while minimizing the burden on electricity systems. At the same time, if “Hydrogen / Fuel ammonia,” which are clean, inexpensive, and abundant, can be obtained through production based on renewable energy and value chain establishment, existing thermal power generation will become cleaner, making it possible to ensure power coordination, which is necessary for implementing renewable energy. In addition, regarding “Carbon recycling” where separated/collected carbon dioxide is reused, use of hydrogen will make it possible to expand its usage including as fuel. We have concluded that it will be difficult to accomplish carbon neutrality in Japan without establishing such circulation.

In order to properly promote decarbonization while greatly reshaping Japan’s energy infrastructure, it is essential to encourage all companies to properly transit through policy inducements including providing funds, and improving policy foreseeability. Furthermore, it is assumed that existing policy support and subsidies are entirely insufficient as funds, especially for companies that discharge large amounts of

Figure 8: 14 priority fields for “Green Growth Strategy Through Achieving Carbon Neutrality in 2050”



Source: Created by SMTAM and JRI based on the Ministry of Economy, Trade and Industry’s “Green Growth Strategy Through Achieving Carbon Neutrality in 2050”

Figure 9: Comparison of “Ripple Range,” “Diffusion Time,” “Technological Superiority,” and “Greenhouse Gas Gap” for the 14 green growth strategy fields

Field		Ripple Effect		Diffusion period		Technological Superiority		Gap with greenhouse gas emissions	
1	Offshore wind power / Solar / Geothermal industries	Large		Short	Practical use phase, problem is cost	Medium	Superiority of advanced technology is key	Large	Increase in electricity demand essential Change
2	Hydrogen / Fuel ammonia	Large	Directly related to Scope 1 (①②④) / Scope 2 (③) of other companies	Medium	Technology is available, practical application foreseeable	High	Development needs aiming for practical use	Large	Top energy demand alternative
3	Next generation thermal energy	Large		Medium	Technology is available, practical application foreseeable	High	Major gas companies are prospects	Large	Top energy demand alternative
4	Nuclear power	Large		Long	Development phase targeting 2050	Medium	Has various element	Small	Limited need for new technology
5	Automobile / Storage batteries	Large		Short	Practical use phase, problem is cost	Medium	Can it survive cost competition	Large	Scope 3 / LCA are large Store
6	Semiconductors / Information communication	Large	Major impact through supply chain	Short	Practical use phase, problem is cost	Medium	Breaking free from general-purpose products is key	Medium	Deepen connection though digitalization
7	Marine vessels	Medium	Impact mainly to logistics	Medium	Technology is available, practical application foreseeable	Low	Body is superior, fuel is difficult	Medium	Large dependency on fuel
8	Logistics, People flow, Civil engineering infrastructure	Medium	Unclear range	Medium	Technology is available, practical application foreseeable	Medium	Elemental technologies are superior	Small	Limited
9	Food / Agriculture, Forestry, and Fisheries	Medium	Long supply chain	Medium	Technology is available, practical application foreseeable	Medium	Can it be globalized	Medium	Unique circumstances with methane, etc.
10	Aircraft	Medium	Impact mainly to logistics	Medium	Technology is available, practical application foreseeable	Low	Body is superior, fuel is difficult	Medium	Large dependency on fuel
11	Carbon recycling / Materials	Medium	Long impact through materials	Long	Development phase targeting 2050	Medium	Iron-making, concrete, etc., are superior	Medium	Needs of high-emission businesses Reduce
12	Housing / Buildings / Next-generation power management	Small	Mainly consumer demand	Short	Practical use phase, problem is cost	Medium	Can it be globalized	Small	Mainly consumer demand
13	Resource circulation related	Small	Mainly consumer demand	Medium	Technology is available, practical application foreseeable	High	Can it be globalized	Small	Mainly consumer demand
14	Lifestyle related	Small	Mainly consumer demand	Medium	Technology is available, practical application foreseeable	Medium	Can it be globalized	Small	Mainly consumer demand

Source: JRI

greenhouse gasses. Therefore, we believe that a realistic solution is to improve support for efforts toward decarbonization through the provision of funds such as transition finance, which require “Aggressive target setting.”

4.Determining SMTAM’s carbon neutral strategy (Summary)

We believe it is important for each investee company to set ambitious targets and disclose that information in order to promote transitioning toward carbon neutrality by 2050. It is necessary to set interim targets for 2030 as a bridge for this. However, we also recognize that many companies set interim targets without formulating a specific transition plan, business plan, or funding plan. Each company must aspire to realize a decarbonized society and raise the possibility of realization while maintaining economic performance. For

example, when looking at 2030 and 2050 targets for greenhouse gas emission reduction, business plans and investment plans need to be established in 10 year units from a longer perspective than before. We at SMTAM want to provide specific support through the engagement for the efforts of investee companies by understanding the differences in their individual circumstances and business environments. To achieve carbon neutrality in 2050, we believe it is our role to support the efforts of investee companies for achieving carbon neutrality by providing transition funds needed for properly promoting this. Our desire is to fulfill this role and contribute to the great transition of social and industrial structures together with investee companies.

Feature
2

SMTAM Efforts related to Human Rights Issues

For a society where everyone can have peace and freedom

Human rights refer to the inherent right of each person on this planet to live as a human despite their race, ethnicity, gender, nationality, or age. It is a universal value owned by everyone. This is something that everyone has an equal share in, and must be guaranteed for each person. When human rights are protected and respected by society as a whole, it becomes possible to have a society where everyone has peace and freedom. The following will introduce SMTAM's efforts toward human rights issues.

Companies and Human Rights

On December 10, 1948, the Universal Declaration of Human Rights was adopted at the 3rd session of the United Nations General Assembly. The Universal Declaration of Human Rights states that it is "a common standard of achievements for all peoples and all nations" to ensure human rights and freedom. "Respect for basic human rights" is one of the three basic principles in Article 11 of the Constitution of Japan, the others being "popular sovereignty" and "pacifism."

Companies are also important members of society. As economies become more globalized, company activities that impact society are drawing attention. Therefore, there are more people who are requesting companies to take responsibility for respecting human rights. In 1976, the Organization for Economic Cooperation and Development (OECD) formulated the OECD Guidelines for Multinational Enterprises, which requests multinational corporations in participating countries to voluntarily take actions that are expected by companies. In 1977, the International Labor Organization (ILO) adopted the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy to set guidelines for things such as employment, training, working and living conditions, and industrial relations for multinational enterprises, governments, and employer and labor organizations. This has raised a global framework for corporate activities.

In 1999, UN Secretary-General Kofi Annan proposed the "UN Global Compact" at the World Economic Forum, that requested

each company and organization to demonstrate responsibility and creative leadership in regards to 10 principles in four fields (Human Rights, Labor, Environment, and Anti-Corruption). In other words, the UN Global Compact represents the voluntary efforts by each company and organization as good members of society for realizing sustainable growth in harmony with the commitment made by top management. In addition, in 2011, UN Special Representative of the Secretary-General John Ruggie formulated and submitted the "Guiding Principles on Business and Human Rights" to the Human Rights Council, which was supported by related resolutions. The three pillars of these principles are (1) State duty to protect human rights, (2) The corporate responsibility to respect human rights, and (3) Access to remedy for victims of business-related abuses. In Japan as well, an "Action plan on business and human rights" was formulated in 2020 by incorporating these guiding principles, and this movement is in response to the global framework.

The Ten Principles of the UN Global Compact

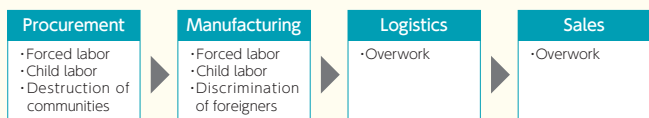
Human Rights	Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights; and
	Principle 2	make sure that they are not complicit in human rights abuses.
Labour	Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
	Principle 4	the elimination of all forms of forced and compulsory labour;
	Principle 5	the effective abolition of child labour; and
Environment	Principle 6	the elimination of discrimination in respect of employment and occupation.
	Principle 7	Businesses should support a precautionary approach to environmental challenges;
	Principle 8	undertake initiatives to promote greater environmental responsibility; and
Anti-Corruption	Principle 9	encourage the development and diffusion of environmentally friendly technologies.
	Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.

Source: Created by SMTAM based on materials from the Global Compact Network Japan

When companies take the initiative in their business to protect human rights, they can avoid risks related to human right with supply chains inside and outside Japan. This also improves the company's reputation in regards to handling human rights, which helps to improve corporate brand value, ensures human resources, and employee motivation, which in turn contributes to sustainable growth. It is believed that achieving Sustainable

Development Goals (SDGs) and protecting and promoting human rights are two sides of the same coin, and that respect for human rights is essential for a company to engage in SDGs.

Major Risks to Human Rights in Supply Chains



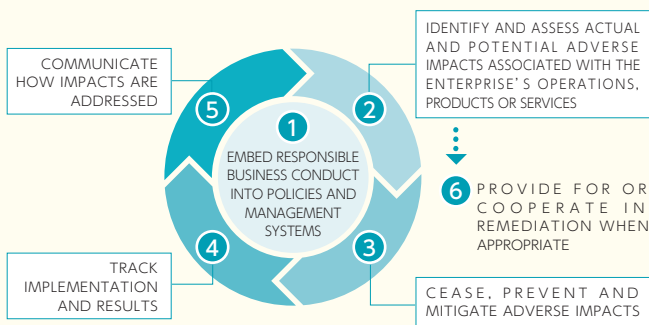
Source: Created by SMTAM

SMTAM Engagement Activities related to Human Rights

In Japan, the Corporate Governance Code was revised in June of 2021, and it clearly states that “respect for human rights” is an issue that needs to be considered at company board of directors meetings. Therefore, companies are expected to make efforts related to human rights issues in their business. Through its engagement, SMTAM encourages companies to strengthen their governance as the foundation of their organization by establishing a human rights policy and identifying human rights risks.

They are required to incorporate human rights due diligence (DD) in their management decision-making processes. They are also required to evaluate human rights risks that may impact stakeholders in their human rights DD process, to prevent or reduce negative impacts according to the degree of risk, conduct follow up on the implementation status and results, and to disclose information on the overall process.

Human Rights Due Diligence Process and Supporting Measures



Source: OECD Due Diligence Guidance for Responsible Business Conduct

The following are basic examples of agendas and concepts used to carry out engagement.

- Equality before the law
Investee companies are required to conduct business activities based on the assumption that there is no political, economic, or social discrimination due to race, creed, gender, social status, etc., and if issues exist, they are required to address these.
- Promotion and protection of decent work (rewarding and humane work)
Engagement is carried out to make improvements with various issues such as long working hours, work-life balance, discrimination, and job satisfaction.

- Promotion and protection of children’s rights in the workplace
For investee companies, engagement is carried out to encourage improving responses including supply chains.
- Protecting the rights of indigenous peoples and minorities
When an investee company carries out a project for mining, etc., there are cases where the protection of rights of indigenous peoples and minorities at planned sites is required, and changes to plans or re-examination of the implementation may be requested.
- Conflict areas and human rights
SMTAM carries out engagement with investee companies who engage in business in conflict areas to encourage them to thoroughly respect and protection of human rights including in the supply chain.
- Inhuman weapons and human rights
Inhuman weapons literally refer to specific weapons with various inhumane effects. Examples include bioweapons, chemical weapons, incendiary bombs, and depleted uranium ammunition. SMTAM carries out engagement by requesting businesses to withdraw when an investee company is in anyway involved with the manufacturing of inhuman weapons. Additionally, we have a policy whereby shares and bonds issued by investee companies that manufacture cluster bombs, anti-personnel mines, bioweapons, and chemical weapons are sold under specific conditions (divestment) when making actual investments.
- Transitioning to a decarbonized society and human rights
We believe it is important that investee companies disclose their policy and achievements related to climate change and human rights as we face the important task of transitioning to a decarbonized economy in order to realize a “just transition”, and we carry out engagement by supporting this.
*Concept where the aim is to reduce any negative impact on employment caused by transitioning to a decarbonized economy including unemployment and worsening labor conditions in order to realize both economic growth and a sustainable society.

Engagement Examples

Engagement Contents	Engagement Contents
While the Chinese market, which is developing, is a future growth driver, there are human rights risks in the supply chain such as issues with cotton in the Xinjiang Uygur Autonomous Region. Therefore, shouldn't it be necessary to disclose and explain the monitoring system including human rights DD?	Regarding development of the Pilbara Mine in West Australia, mining began without sufficient surveys, resulting in the destruction of the remains of aboriginal people. In addition to clarifying who is responsible, shouldn't it be necessary to implement measures to prevent it from happening again?
Company Respons The CSR Committee chair took the initiative to establish a check system for the PDCA cycle in regard to potential risks with the supply chain including human rights and the work environment. We have exercise drills for the contact network and a decision-making process at board of directors meeting for times when issues come up so that we can respond quickly.	Company Respons Officers were changed to clarify responsibility and measures for preventing recurrence were announced. An announcement was made that preliminary research will be sufficiently carried out in the future for resource development, dialogue with aboriginal people will be strengthened, and these will be reflected to in-house development plans and decision making processes.

This section focused on human rights, which is one of the ESG 12 Topics where SMTAM is making efforts. The elimination child labor and forced labor by immigrants were mentioned along with thorough implementation of supply chain management. Issues in the Xinjiang Uygur Autonomous Region, political changes in Myanmar, and Russia's invasion of Ukraine have raised global awareness on the protection of human rights. SMTAM aspires to promote responsible corporate action through engagement activities with investee companies for promoting the protection of human rights of stakeholders through global initiative activities, and to contribute to human rights protection and promotion for society as a whole, while also aspiring to help improve the corporate value of investee companies and achieving SDGs.

Feature
3

ATM Access to Medicine / AMR Antimicrobial Resistance

SMTAM's Approach for Improving Access to Medicines and Addressing Antimicrobial Resistance

The COVID-19 pandemic has resulted in difficult situations for people all over the world. The pandemic reminds us all of the importance of health. Sadly, though, this pandemic also brought the gap in Access to Medicine (ATM) between developed and developing countries into clear focus. While supplies of COVID-19 vaccines were limited, wealthier developed countries were able to secure vaccinations and succeeded in mitigating infections and deaths. On the other hand, developing countries struggled to secure vaccines despite support from the World Health Organization (WHO).

Antimicrobial Resistance (AMR), where antibacterial medicines used for treatment become ineffective, was already a serious issue in the field of infectious disease prior to the pandemic. If drug-resistant bacterium spread at medical institutions and nursing-care facilities, drug therapy will become ineffective, resulting in loss of life, especially among the elderly. Since such infections spread quietly, AMR has been referred to as a "silent pandemic." Improving ATM and addressing AMR are urgent issues.

Initiatives for Improving ATM

The issue of ATM is that people in developing countries do not have access to minimum necessary medicines and medical services as a result of poverty or insufficient medical insurance systems. The Access to Medicine Foundation (hereinafter, ATMF) is an international initiative that aims to improve and resolve such issues related to ATM. The ATMF was established in the Netherlands in 2003, and many investment managers and asset owners in Europe and the US have joined. SMTAM agreed with the principles of their activities and became the first investment firm in Japan to become a signatory in April of 2018.

The ATMF announces the ATM Index every two years to encourage the pharmaceutical industry to help improve ATM. The top 20 pharmaceutical companies in Europe, the US, and Japan are ranked, and the excellence and issues related to

ATM for each company are pointed out so that they can use it for future efforts.

According to the latest ATM Index from 2021, the top three companies are GlaxoSmithKline (UK), Novartis (Switzerland) and Johnson & Johnson (US), and among Japanese companies, Takeda Pharmaceutical was highest at 6th. The extent to which a company promotes ATM in developing countries by incorporating it into their business strategy is evaluated using three evaluation items, which are governance of ATM, R&D that takes developing countries into consideration, and medical supply systems for developing countries.

2021 Access to Medicine Index

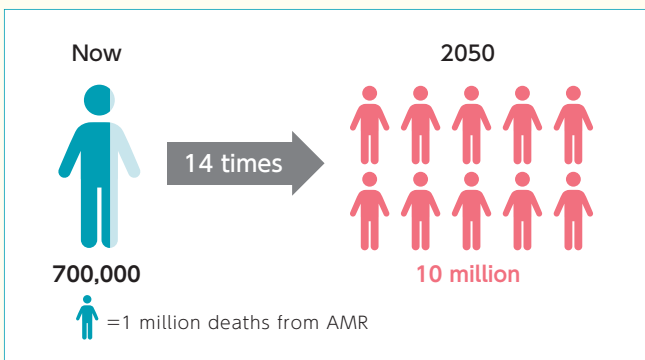
Ranking	Company	Country	Total Score
1	GSK	UK	4.23
2	Novartis	Switzerland	4.18
3	Johnson & Johnson	USA	3.76
4	Pfizer	USA	3.65
5	Sanofi	France	3.47
6	Takeda Pharmaceutical	Japan	3.31
7	AstraZeneca	UK	3.30
8	Merck KGaA	Germany	3.09
9	Roche Holding	Switzerland	3.07
10	Novo Nordisk	Denmark	2.96
11	Eisai	Japan	2.87
12	Boehringer Ingelheim	Germany	2.84
13	Bayer	Germany	2.63
14	Astellas Pharma	Japan	2.33
14	Gilead Sciences	USA	2.33
15	Merck	USA	1.88
16	Daiichi Sankyo	Japan	1.80
17	AbbVie	USA	1.73
18	Eli Lilly	USA	1.59
19	Bristol Myers Squibb	USA	1.55

Source: Created by SMTAM based on material by ATMF

Initiatives for Addressing AMR Issues

During this pandemic, people throughout the world witnessed the threat of infection. People must be keenly aware of how helpless they would be without vaccines and therapeutic drugs. Similarly, if bacterial infections resulting from AMR spread, there is nothing that can be done. If no effective antibacterial drugs are available, even simple infections could result in death in modern medical settings such as removal of wisdom teeth, organ transplants, and cancer chemotherapy treatments. Currently, about 700,000 people die worldwide each year due to drug-resistant bacterium, including 8,000 in Japan. If no measures are implemented, it is predicted over 10 million will die in 2050, which is more than the expected number of deaths from cancer.

Expected Number of Deaths from AMR by 2050



Source: AMR Action Fund

To resolve and improve AMR issues, it is first of all important to thoroughly implement proper use of antibacterial drugs so that drug-resistant bacterium do not appear, and secondly, it is essential to establish a sustainable R&D system to prepare for new drug-resistant bacterium.

Antibacterial drugs are not only used for treating humans. These are also used for preventing infections with livestock at animal farms by mixing these into feed. Therefore, to improve and resolve AMR issues, it is essential to integrate and strengthen management of how antibacterial drugs are used. Such efforts are referred to as the One Health approach.

Regarding AMR issues, SMTAM is collaborating with international initiatives such as ATMF mentioned previously and the engagement organization Farm Animal Investment Risk & Return (FAIRR) who is involved with the fishery and livestock industries for a wide approach centering on the pharmaceutical industry and livestock industry. In particular,

SMTAM is the only Japanese investment manager that is a founding member of the Investor Action on AMR, which is connected to FAIRR, and are disseminating the importance of AMR issues to the world through this initiative.

Future Efforts for Resolving Issues

Among the SDGs (Sustainable Development Goals), “Good Health and Well-being” is included as Goal 3. Specific targets have been set to improve access to medical services for everyone by 2030, and to eliminate infectious disease, in particular AIDS/HIV, tuberculosis, and malaria. However, society has still low awareness of ATM and AMR issues. Therefore, it is necessary to have people recognize that both of these issues exist and to provide social education activities. For example, SMTAM attended the 8th NIKKEI FT Communicable Diseases Conference held in October of 2021 as the first institutional investor, and gave a presentation on the impact of AMR on society at the AMR Breakout Session.

One of our ESG12 Topics is “Health and Safety,” and we will continue our activities for improving ATM and addressing AMR issues through engagement with investee companies and international initiative activities.



8th NIKKEI FT Communicable Diseases Conference (October 2021)

Feature
4

ICAP (Investor Climate Action Plans)*¹

Publishing Goals and Evaluation Guidance for Stewardship Activities Expected of Worldwide Investors

The movement toward requesting greater transparency of Stewardship Activities by investment companies is intensifying.

In particular, in January 2022, “The Investor Agenda²,” which is a global initiative, announced a new evaluation framework for performing self evaluations for Stewardship Activities by investment companies referred to as ICAP, and they recommend that investment companies disclose information using ICAP.

Overview of ICAP

ICAP is a framework for carrying out self evaluation of Stewardship Activities by investment companies that was formulated by The Investor Agenda. As shown in Figure 1, the expected achievement level for engagement activities of investors is determined for four key focus areas and governance.

Figure 1: The Investor Agenda Key Focus Areas



ICAPs Expectation Ladder

ICAPs Expectations Ladder establishes four tiers of sequential accomplishment for stewardship activities, from investors just beginning to think about climate change (Tier 4) to investors who have made net zero carbon emission commitments and

have made progress toward setting and implementing targets (Tier 1).

In addition, this assessment is designed as a “Self Assessment Checklist” so that investors themselves can identify areas where further improvements are needed. The following responses are expected by investors.

- (1) Assessing their current approach to managing climate change risk and opportunity
- (2) Publishing a standalone ICAP
- (3) Embedding elements of the ICAPs into their climate change strategies and disclosures
- (4) Communicating their current activities and plans to stakeholders

Disclosure of SMTAM’s Stewardship Activities in harmony with ICAP

SMTAM conducts self assessment of its current approach to climate change risks and opportunities in the four key focus areas shown in Figure 2 in harmony with the expectation ladder assessment disclosed by ICAP.

Among the focus area, as an example of assessment item ② “Corporate Engagement (Collective/Collaborative Engagement),” appointment of Climate Action 100+ Steering Committee Members, participation in collaborative engagement program at AIGCC (Asian Utilities Engagement Program) as well as appointment of lead managers are being evaluated as our activity achievements. As for example of assessment item ③ “Policy Advocacy (Investor statements),” as part of forest conservation working group activities by PRI/Ceres, we sent letters requesting the government of Brazil to disclose information on Amazon forest conservation/management along with their development status, and independently engaged in dialogue with Brazil’s Central Bank Governor and Brazil’s Ambassador to Japan. These are also assessed as achievements. We recognize that such assessment is equivalent to the Tier 1 in the ICAP Expectations Ladder.

Figure 2: SMTAM' s ICAP (Overview)

Focus Areas	Company Stewardship Activities
① Investment	
Strategy	Promote advancement of research/engagement toward 2050 net zero, and strengthen policies for the exercise of voting rights on climate change.
Risk management	Conduct evaluation of all owned assets ((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 voting against proposals for election of Directors if there is no improvement after engagement.
② Corporate Engagement	
Collective/Collaborative engagement	Appointment as Climate Action 100+ Steering Committee Member.
Bilateral engagement	Aiming to accomplish interim targets through collaboration with investee companies, asset owners, and industry groups, etc., in order to realize net zero greenhouse gases emitted by investee companies and net zero for portfolio assets under management.
Corporate escalation	Policy voting against proposals for election of Directors if there is no improvement after engagement.
③ Policy Advocacy	
Investor statements	As part of forest conservation WG activities, letters sent requesting disclosure on Amazon Forest conservation and development status.
Lobbying activities	TNFD study groups held with the Financial Services Agency, Ministry of Agriculture, Forestry and Fisheries (about loss of biodiversity, etc., due to climate change).
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	Collaborate with clients who are asset owners about decarbonization.
Carbon emissions and portfolio evaluation	Disclosure of portfolio and benchmarks for weighted average carbon emissions (emissions per unit of sales).
Alignment with TCFD	Conduct evaluation of all owned assets ((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.

Source: SMTAM

Best Practices published by The Investor Agenda

In January 2021, The Investor Agenda announced the first case studies focusing on ICAP best practices to facilitate the implementation of climate change measures by more institutional investors. These case studies included 10 companies from 5 continents, with SMTAM being the only company selected from Japan^{*3}. In addition, SMTAM members from the US base took the stage as panelist at a webinar hosted by Ceres in the US for introducing ICAP to institutional investors, where they explained SMTAM' s activities on climate change. In May of 2022, the second group of case studies were released, and it is expected that ICAP will become more common in the future.

Expanded Goals on Disclosure regarding Stewardship Activities by Investment Managers Who Use ICAP

The aim of The Investor Agenda is have at least 50% of all major institutional investors disclose information with ICAP within the next five years, and it is expected that investors who disclose such information will incorporate elements

from each phase related to expected value into their plans, reports, and strategies for the following year.

Moreover, Rebecca Mikula-Wright, Executive Director of the Asia Investor Group on Climate Change and member of the global Steering Committee of the Investor Agenda, pointed out, "The ICAPs Expectations Ladder and Guidance sets out a clear pathway for investor integration that leads to an ultimate goal of net zero that must be reached, wherever an investor may be on that journey. By publishing a clear and robust climate action plan using the ICAPs framework, and acting on it, Asian institutional investors can be better positioned to seize the enormous investment opportunities that are being created by the transition to net zero."

Our policy at SMTAM is to use the information disclosed by means of ICAP to improve the transparency of Stewardship Activities and to strengthen those activities.

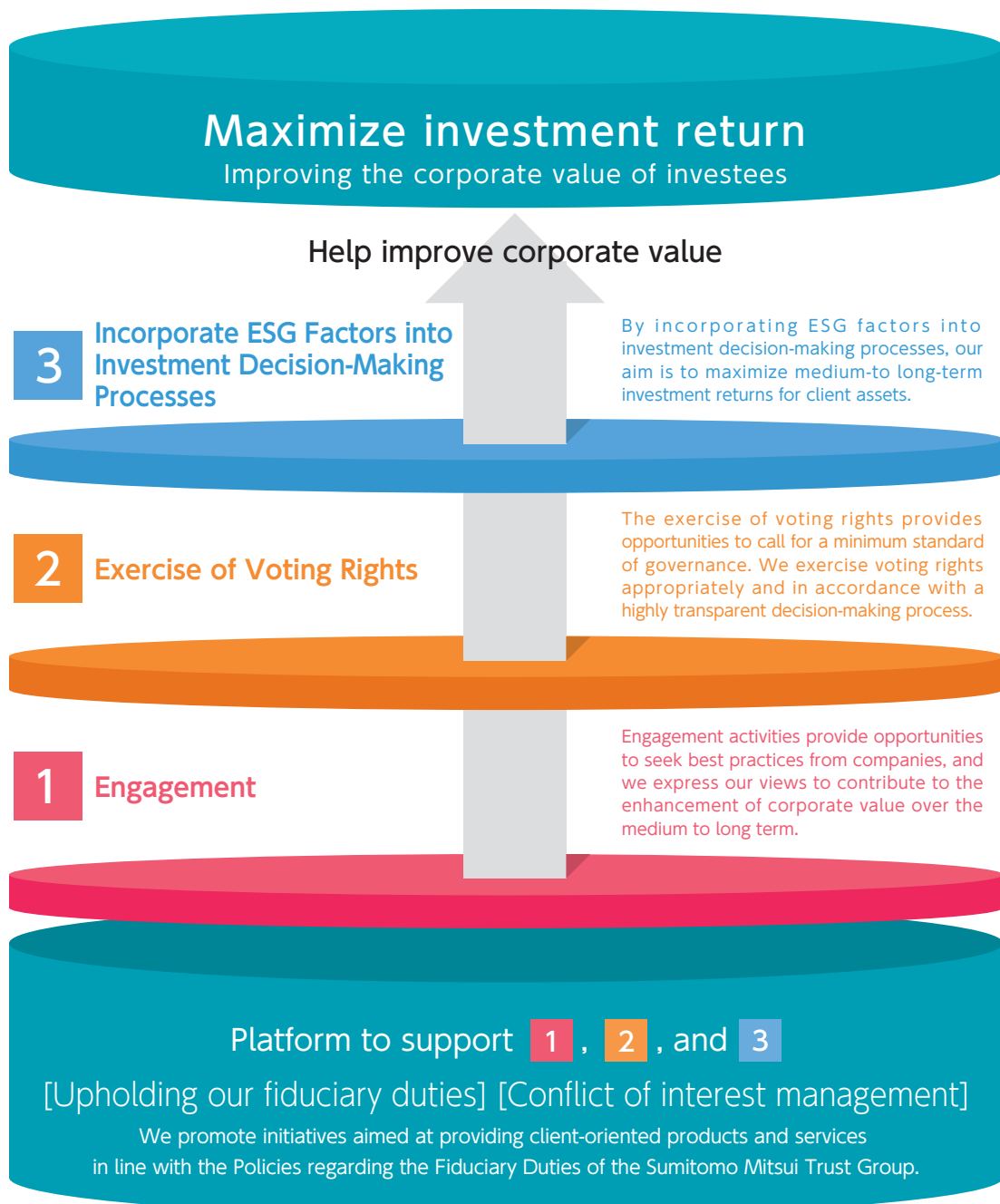
*1 ICAP = Investor Climate Action Plans

*2 An integrated and comprehensive Leadership Agenda on the climate crisis focusing on accelerating investor action toward an economy with net zero carbon emissions (actual zero). Founding partners include the following seven major institutions which work with investors: Asian Investor Group on Climate Change (AIGCC), CDP, Ceres, Investor Group on Climate Change (IGCC), Institutional Investor Group on Climate Change (IIGCC), Principles for Responsible Investment (PRI), and United Nations Environment Program Finance Initiative (UNEP FI).

*3 Release of SMTAM case studies <https://theinvestoragenda.org/wp-content/uploads/2022/01/SMTAM-pdfcase-study.pdf>

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 Guideline on the Exercise of Voting Rights based on these criteria. We also actively pursue engagement with companies with respect to the exercise of voting rights.

Incorporate ESG factors into Investment Decision-Making Processes 3

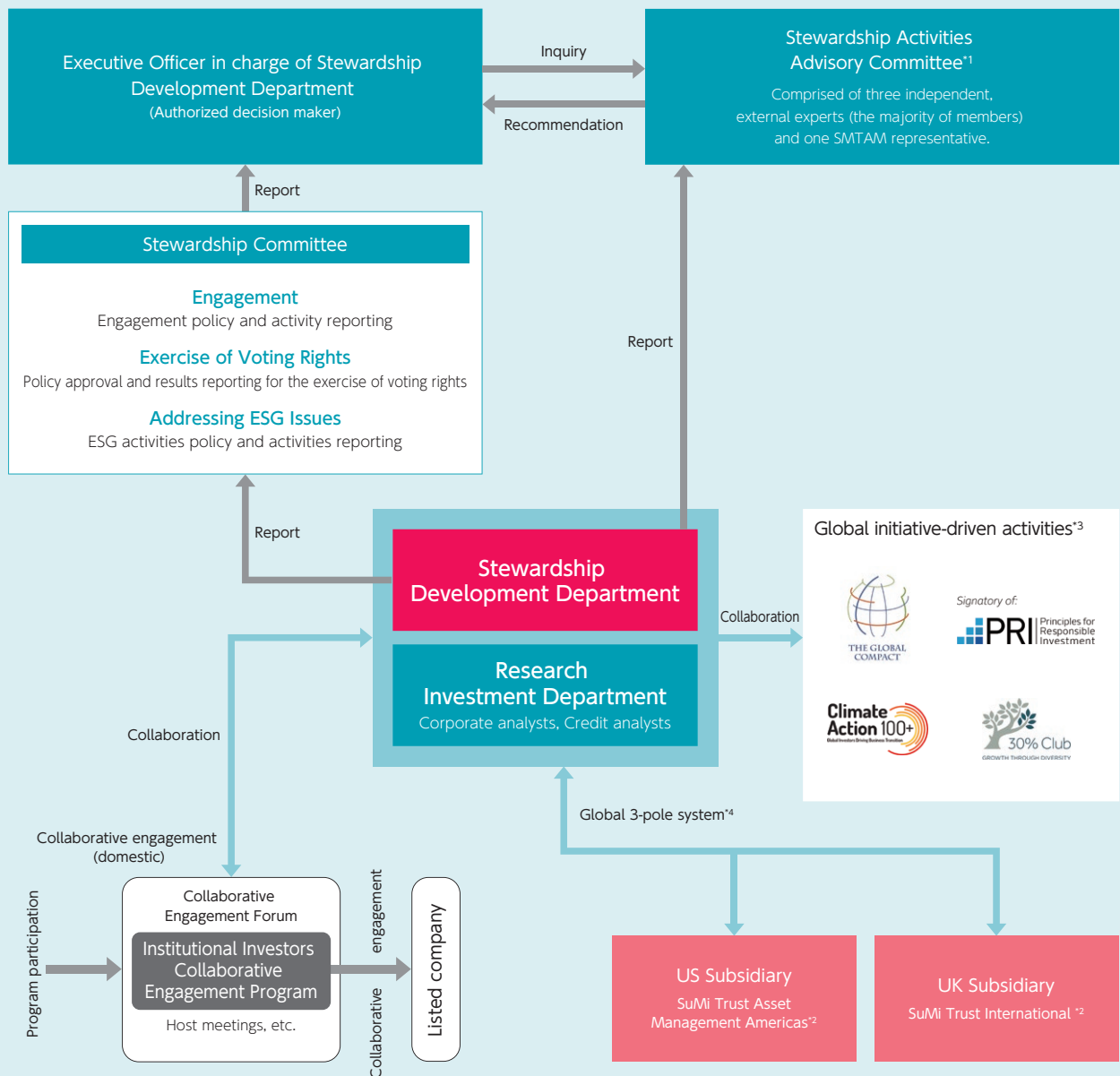
It is important to address ESG issues which can affect investee companies' medium-to-long-term growth. ESG issues reside in non-financial domains and do not manifest themselves in financial reporting, but they may have a considerable impact on corporate value over time. We encourage investee companies 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 factor ESG considerations into their investment decision-making processes. We have also participated in various international initiatives which originated with the PRI and which led to expanding ESG activities being undertaken worldwide. As a signatory to the PRI, we endeavor to pursue investment return upside potential and curb downside risk by incorporating ESG factors into our investment decision-making process and aim to achieve maximize medium- to long-term returns for our clients.

* See page 51.

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 inhouse stewardship, as well as join the platform provided by the Institutional Investors Collective Engagement Forum (IICEF) to pursue joint engagement. Outside Japan, we dispatch representatives from Tokyo to meet with overseas companies, as well as rely on the inhouse engagement efforts of our New York and London bases; additionally, we carry out engagement through global initiatives and undertake collaborative activities. All stewardship activities are reviewed and reported to the Stewardship Committee and to the Stewardship Activities Advisory Committee, the majority of whose members are independent, outside experts. The Stewardship Committee meets monthly, and the Stewardship Activities Advisory Committee (hereinafter referred to as the Advisory Committee) meets quarterly. At these meetings, deliberations are held on revisions to Guideline on the Exercise of Voting Rights and reports are made on stewardship activities. Reports on stewardship activities are also made to the Board of Directors, management meetings, and the FD Advisory Committee once a year.



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

*2 A subsidiary wholly owned by SMTAM

*3 See pages 75 and 76 f for a list of activities

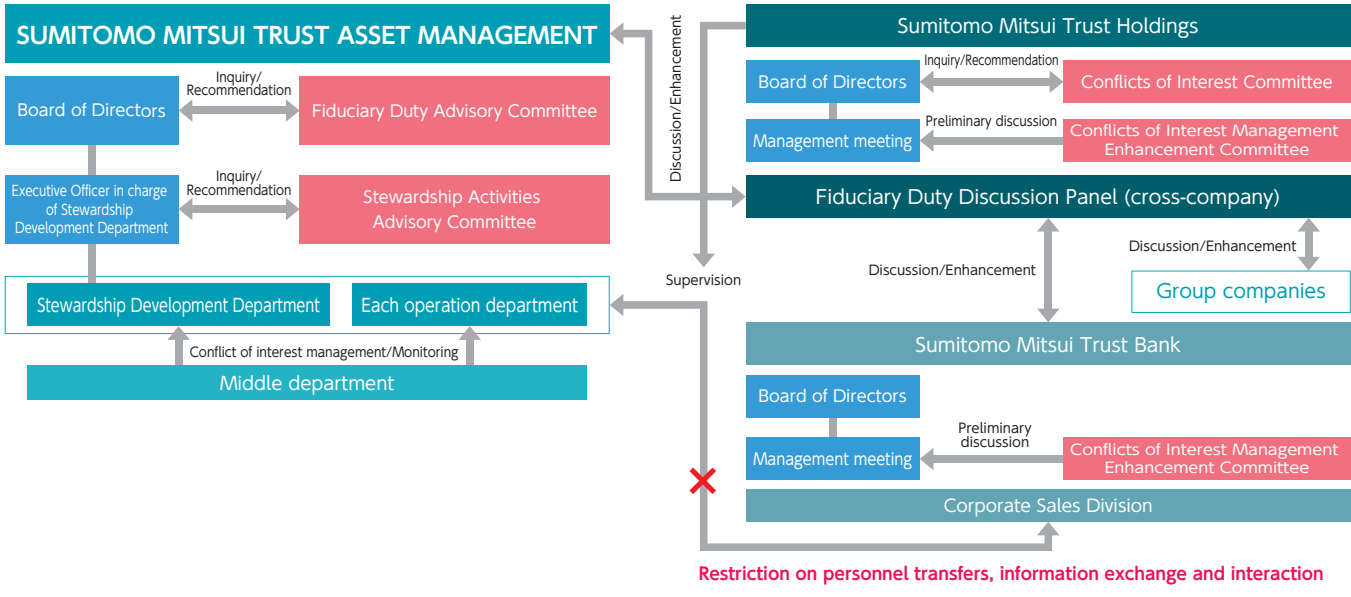
*4 The 15 employees who engage in stewardship promotion (including those in London and New York) are mainly composed of analysts, fund managers, and overseas expatriates. They have an average of 20 years of investment experience.

(As of the end of September 2022)

Conflict of interest management

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

Conflict of Interest Management System



Regarding possible conflicts of interest related to stewardship activities, we will conduct strict management according to company rules including conflict of interest management rules, investment management business rules, and other related rules in order to put the interests of customers (beneficiaries) first. We have also disclosed an overview of the policies determined in these conflict of interest management rules.
<https://www.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. This organization deliberates on various inquiries made by the Executive Officer in charge of Stewardship Development Department, and then makes a report. They establish, amend, or abolish company Guideline on the Exercise of Voting Rights, approve or disapprove proposals not stipulated in the Guideline, determine the appropriateness of interpreting the Guideline 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.

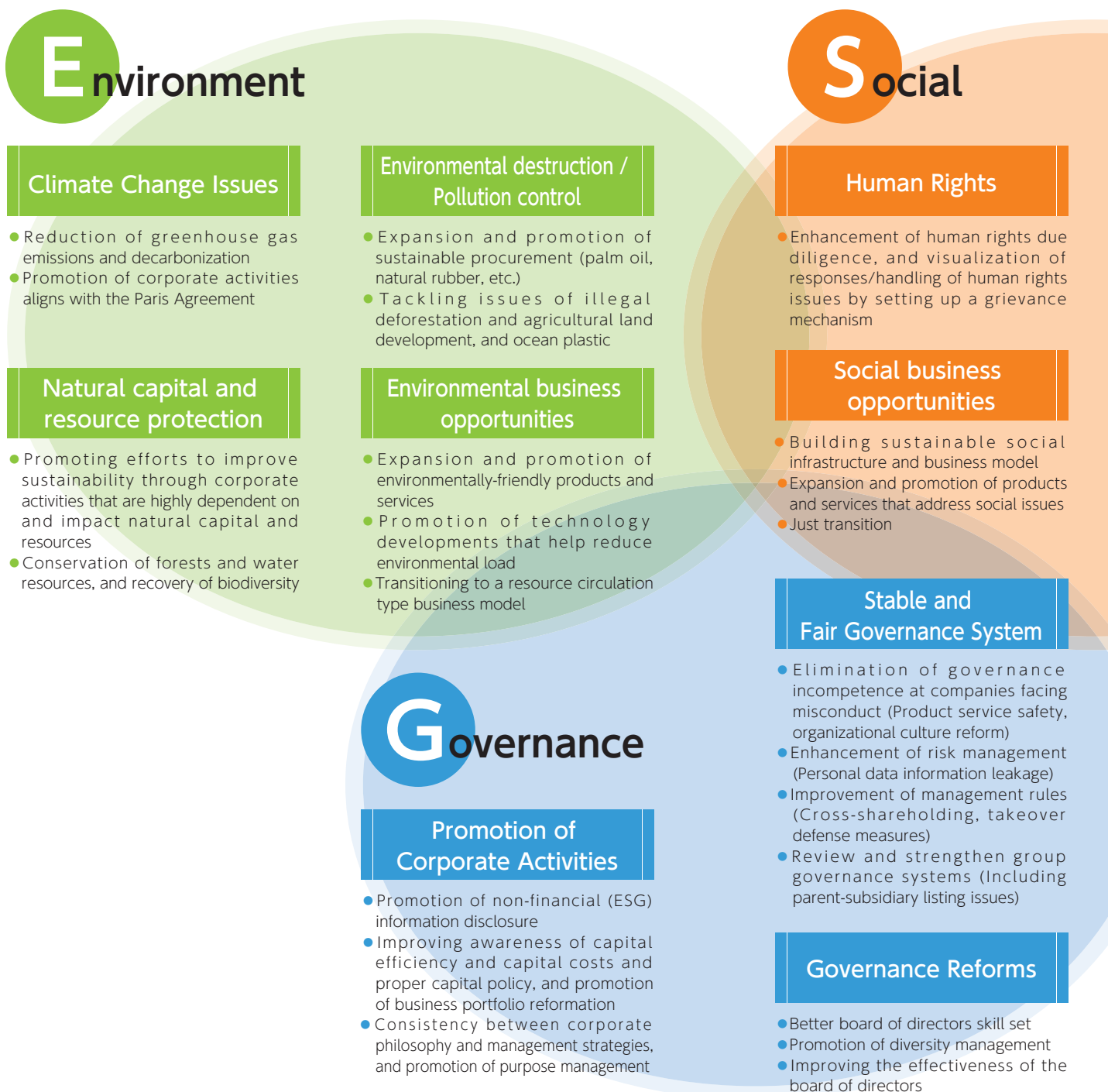
Regarding all proposals to the parent company, Sumitomo Mitsui Trust Holdings, Inc., and regarding proposals for candidates as officers of investee companies who have a close relationship with the Company or the parent company (active officers, persons who were in important positions, etc.), in order to manage conflicts of interest, we consider the advice of voting advisory companies based on the Guideline on the 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 2021 to June 2022, determinations were made using the above process for 12 companies.

SMTAM's ESG12 Topics

SMTAM promotes top-down engagement with 12 ESG topics. We revised some topics this time to improve our engagement.

In particular, the topic "Sustainable local society" was changed to "Social business opportunities." The perspectives of "Promoting expansion of products and services that address social issues" and "Just transition" were added to "Building sustainable social infrastructures and business models" with the aim of expanding the range of dialogue for achieving balance with the resolution of environmental issues and creating business opportunities while resolving social issues.

The three topics "Climate change issues" "Corporate activity promotion," and "Governance reform" continue to be positioned as priority topics. "Natural capital and resource protection," which SMTAM believes are becoming increasingly important, has been added to priority topics, which will encourage multifaceted engagement with a wider range of dialogue than before.



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

Climate Change Issues	After positioning priority issues, 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. In particular, there was dialogue on a concrete action plan for the interim targets set for 2030.	It is still positioned as an issue of highest priority. We will encourage the taking of specific effective action as soon as possible. We will continue having dialogue with management for requesting the formation of specific action plans for the transition path according to the industry while also raising targets that in line with the Paris Agreement.
Natural capital and resource protection	Discussions were held about industries and companies that have a large impact on the shift to corporate activities that take the protection of natural resources and biodiversity into consideration. Dialogue was held for selecting appropriate topics and identifying issues since wide concepts are included.	Maintaining and ensuring natural capital and biodiversity are important obligations. We will prompt companies to take action with the aim of not just achieving forest conservation and near zero water resource damage, but also positive recovery.
Environmental destruction / Pollution control	We strengthened dialogues with companies connected with initiatives and issues for preventing marine pollution and realizing biodiversity and a recycling-based economy.	To realize a recycling-based economy, it is essential to strengthen cooperation between industries and companies at each stage of the supply chain. We will hold talks that include the value chain and encourage actions toward its realization.
Environmental business opportunities	Continuous dialogues were held on clarification of definitions for target products and services as well as on target setting in order to encourage the promotion of technological development and 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 continue having dialogue for requesting companies to make efforts for its realization.

S (Society)

Human Rights	We verified the existence of child labor and forced labor of migrant workers in the supply chain, and discussed methods for checking human rights issues, especially with the Board of Directors.	We will work to encourage the board of directors to set a human rights policy, establish and manage a human rights due diligence system, and to proactively disclose information.
Social business opportunities (Formerly: Sustainable local society)	Discussed business model reforms for better sustainability of local infrastructure.	We will encourage companies to shift to a business model that is sustainable within communities with aging populations and declining birthrates. We will also encourage companies to carry out "Just transition" such as through the creation of employment opportunities and employment support.
Human Capital	Talks were held on the progress of work style reformation related to the spread of remote work due to the COVID-19 pandemic, and on increasing profitability by improving human productivity DX promotion.	In addition to the utilization of human capital through diversity and inclusion, we will hold employee engagement to implement corporate philosophy and business strategies.
Health and Safety	Discussed AMR issues as potential risks in addition to maintaining/managing health during the COVID-19 pandemic while securing and improving access to medicine.	Along with efforts to improve access to medicine and initiatives for addressing AMR issues, we will encourage efforts related to the maintaining and promoting of the health of employee from the perspective of well being.
Supply Chain Management	We confirmed supply chain issues exposed by the COVID-19 pandemic and natural disasters, and discussed the progress status of restructured supply chains.	We will hold dialogs on the restructuring of supply chains and risk management in response to lack of materials and price increases caused by the COVID-19 and the conflict in Ukraine.

G (Governance)

Promotion of Corporate Activities	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.
Stable and Fair Governance System	We strongly requested companies facing misconduct to work to prevent recurrence and strengthen governance. We explained the importance of improving management rules by reducing cross-held shares and abolishing takeover defense measures.	We will confirm risk management processes for preventing misconduct, and will encourage companies facing misconduct to take corporate action for preventing recurrence and improve management rules. Dialogue will also continue to be held on the strengthening of group governance.
Governance Reforms	Discussions were held on improving the ratio of women and initiatives that can enhance the effectiveness of the board of directors for promoting diversity and improving the skill set of the board of directors.	We will continue having dialogue with management personnel to establish a diverse and highly independent board of directors, and to carry out functional management in order to achieve the purpose, corporate philosophy, and long-term vision (future ideal situation).

Human Capital

- Clarification of human resource strategies (Recruitment, training, placement, and evaluation)
- Response to work satisfaction improvements
- Promotion of DE&I (Diversity, Equity and Inclusion) management, establishment of diversified working styles, and a more flexible organization culture

Health and Safety

- Promotion of well being initiatives
- Improving global medical access
- Countermeasure for infectious disease and management of antibiotics

Supply Chain Management

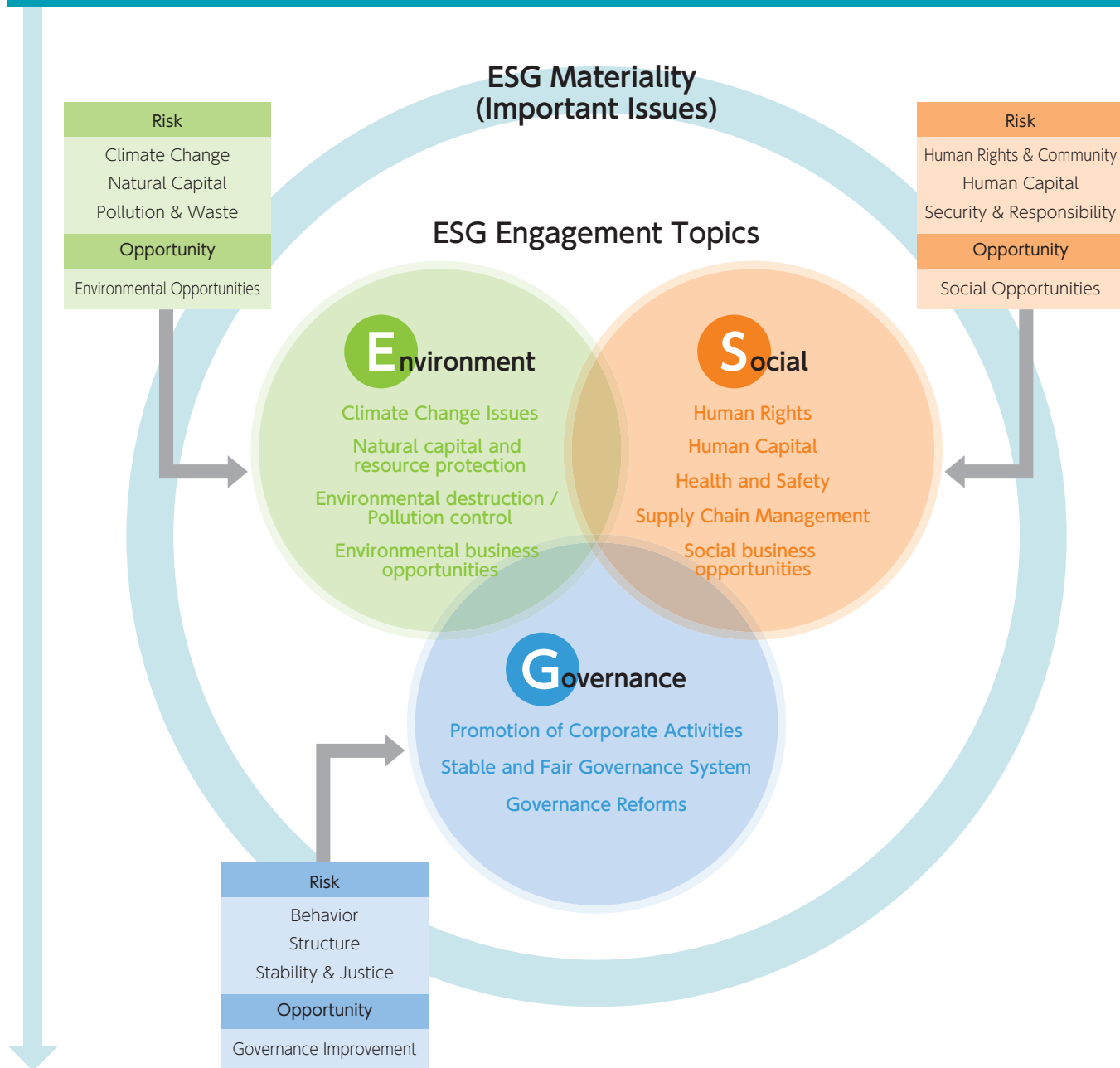
- Elimination of labor, environmental, and social issues from supply chains
- Restructuring of global supply chains (Geopolitical and geomorphological correspondence)

Status of Top-Down Engagement Initiatives

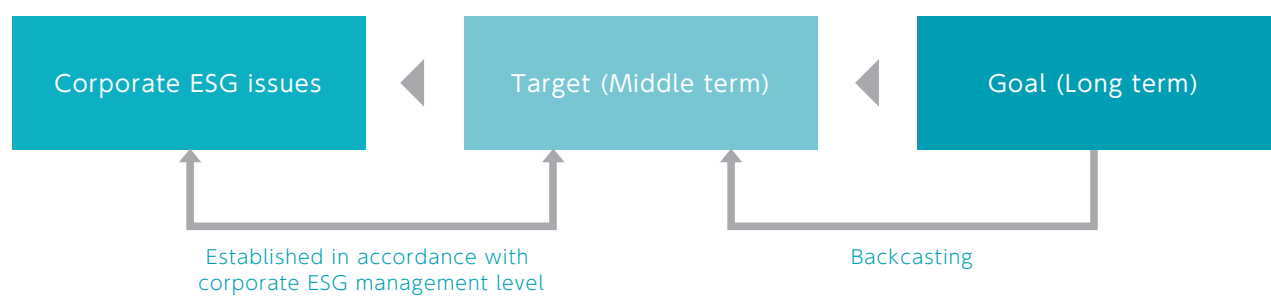
In 2019, an ESG investment policy was established at management meetings and ESG materiality was identified. Based on this materiality, in 2020, we set 12 specific ESG engagement topics and promoted top-down engagement activities after discussions at Stewardship Committee meetings and consultations and reports at Stewardship Activities Advisory Committee meetings. In June of 2022, we reviewed certain topics.

Setting goals and targets, and the engagement process

1. Identifying Engagement from ESG Materiality



2. Selecting Target Companies and Setting Goals and Targets according to ESG Topics



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

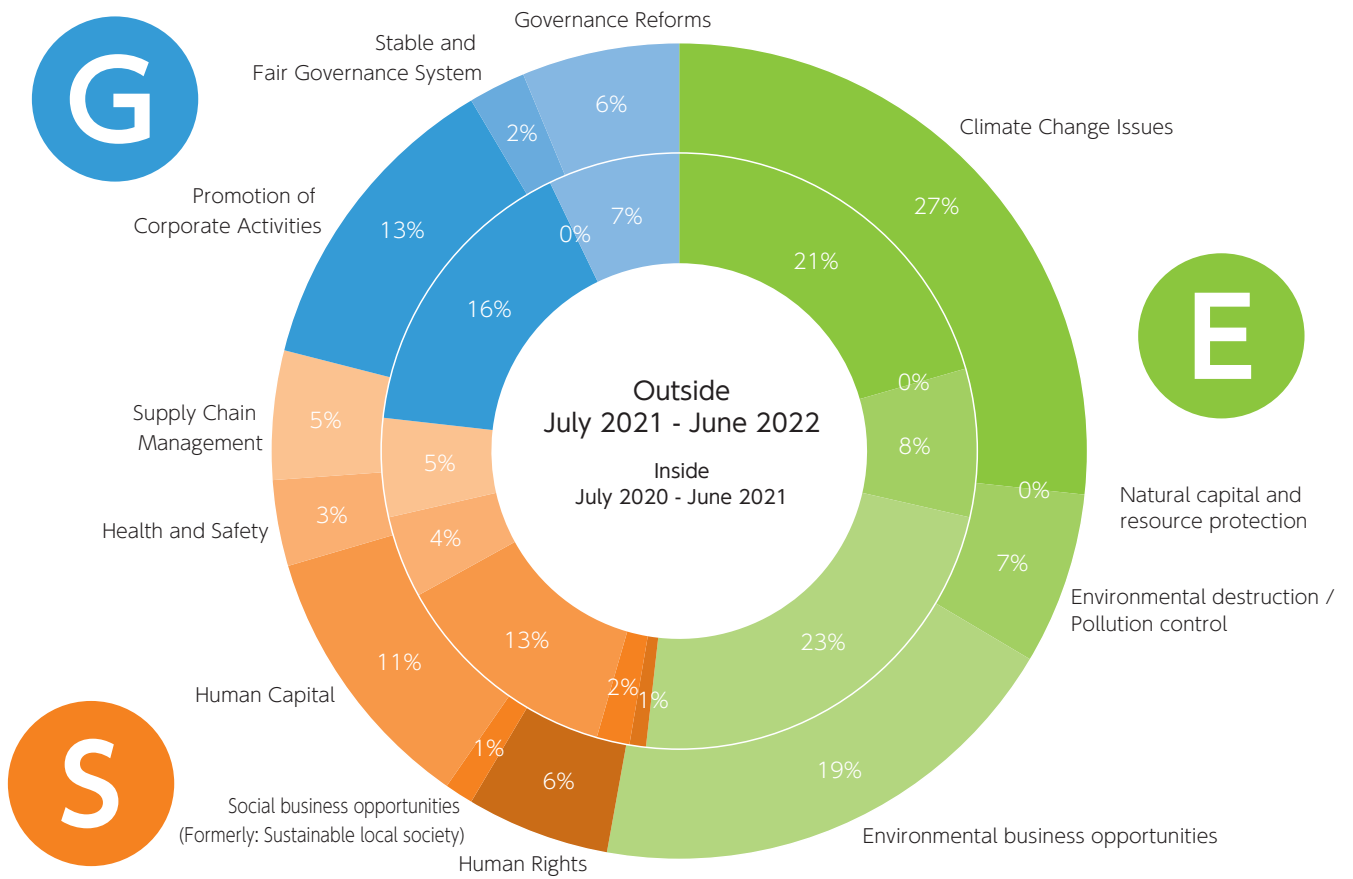
3. Stage management and monitoring

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

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

4. Improving corporate sustainability and corporate value for investee companies

Composition of top-down engagement topics



Trends according to topic

Regarding topics, we not only proactively held discussions on business risks such as Climate change issues 27%, Environmental business opportunities 19%, Promotion of corporate activities 13%, and Human capital 11%, but also on opportunities.

Balance among E, S, and G

According to ESG, E (environment) is 53%, S (society) is 26%, and G (governance) is 21%. There was well-balanced engagement focusing on important issues related to E and S with investee companies.

Alignment with other topics

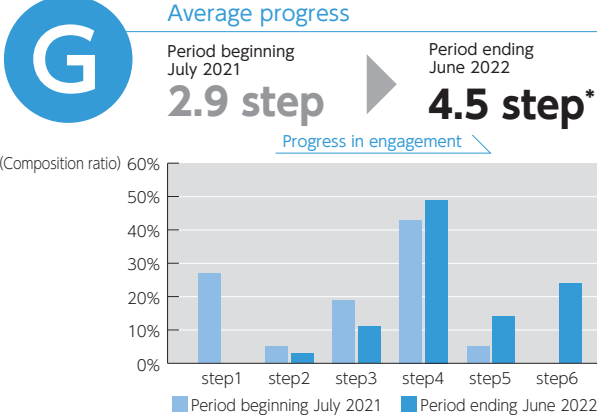
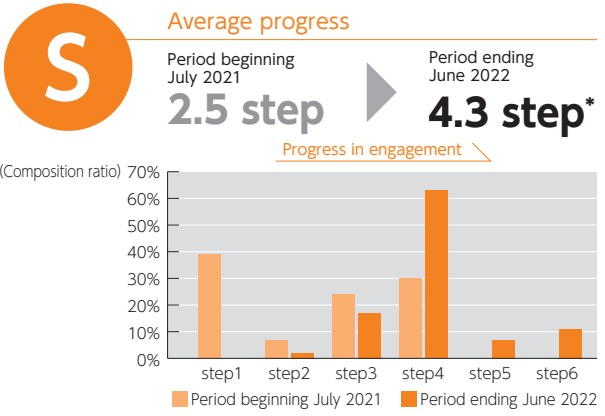
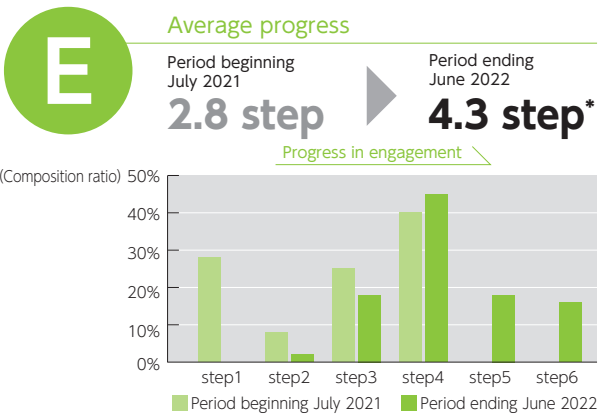
Setting sub-topics for target companies in addition to the initially set topics allows us to have engagement over a wider area. We are involved in multifaceted engagement at the same time as our main engagement activities including the diversity with the board, advancement of women, reduction of strategically held shares, human rights in the supply chain, and natural capital / biodiversity.

Progress in 2021 (July 2021-June 2022)

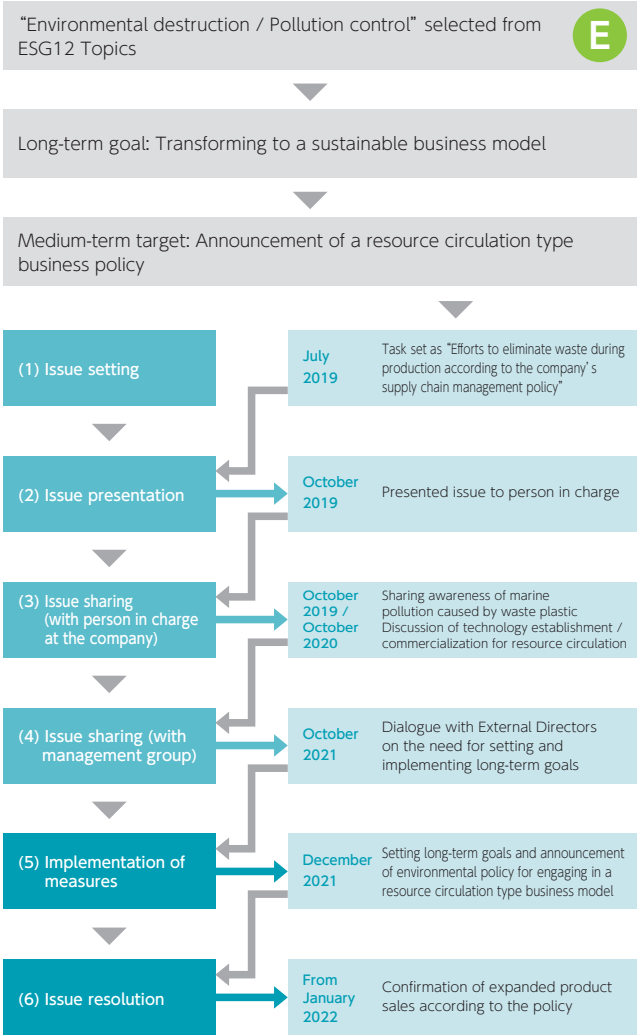
We have taken advantage of many opportunities such as Stakeholder Relations (SR), Investor Relations (IR), and opportunities for engagements on the exercise of voting rights, and have taken steps with engagement by proactively approaching target management group.

During FY2021, many companies made progress with Step 4 (Issue sharing with management). There were also many cases where companies that were in Step 4 as of the end of FY2020 were able to move to Step 5 (Implementation of measures) and Step 6 (Resolution of issue). We will continue taking action with a strong awareness of helping them progress from Step 4 to Steps 5 and 6 while continually taking steps forward as a whole during FY2022.

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



Case Example of Global Retailer A



* Step as of end of June 2021 does not match with step at beginning of July 2021 for the following reason.
 -Brand/topic are replaced as part of annual plan for the period beginning July 2021.
 -Topics (Steps 5, 6) where targets were achieved by the end of June 2021 were excluded.

Engagement that Contributes to Improved Investee Corporate Value

We set our engagement targets as “all brands held, especially 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 approach consists of the (1) market cap approach, (2) risk approach, and (3) top-down approach. We select targets of the market cap approach on the basis of management situations, importance of management issues, and market capitalization, among other matters. The risk approach targets companies for which opposition votes were cast in the exercise of voting rights (low ROE, etc.) and companies that have engaged in misconduct. We select target companies for the top-down approach on the basis of our ESG12 topics, 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

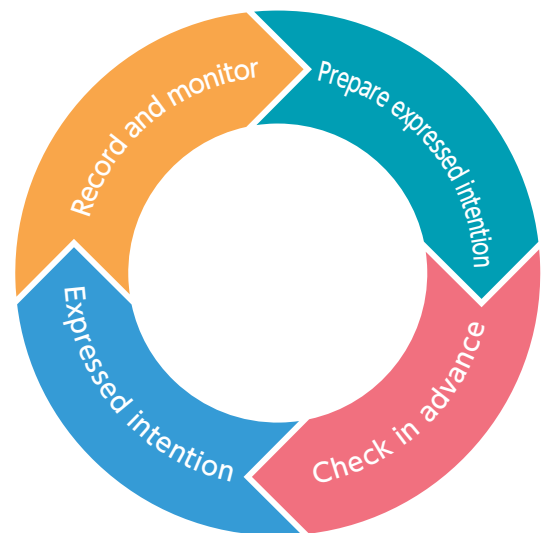
We first submit the opinions formulated by each analysts to an internal review. This both helps improve and standardize opinion quality among the analysts.

Express opinions

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

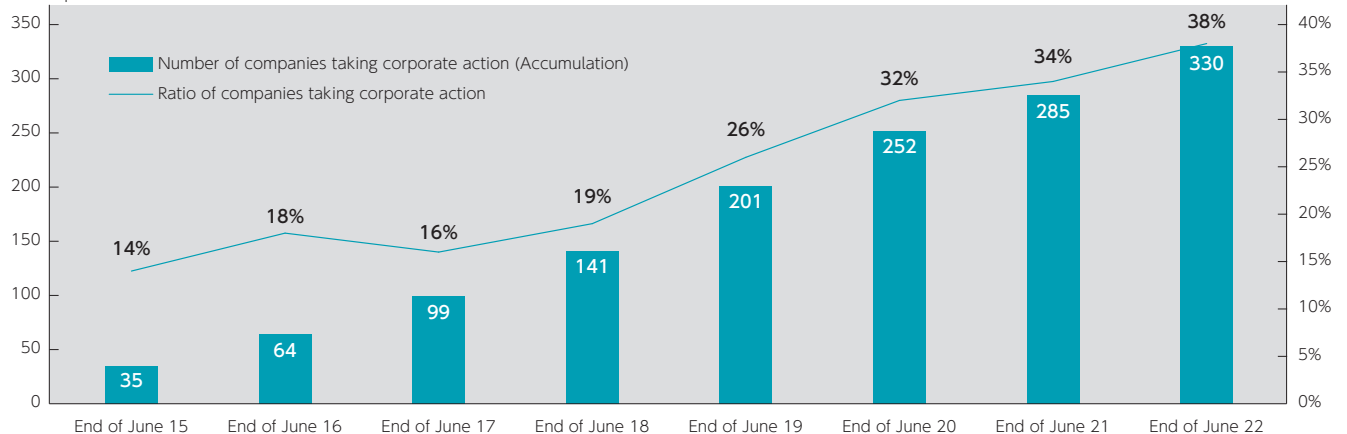
Record and monitor

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



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

(Unit: Companies)



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

Engagement Example Cases – Domestic

CASE 1

Company A in the manufacturing sector

- Addressing social issues (Human rights)
- Gender diversity with the Board of Directors

Analyst's Perspective

A third-party evaluation of their response to human rights was low, so it is necessary to disclose implementation and evaluation of human rights due diligence in the supply chain to improve risk response transparency. There are also no women on the Board of Directors, so it is necessary to improve diversity.

Opinion from SMTAM

Human rights evaluation by an third-party evaluation institution was low. For global companies, consumer boycotts due to human rights issues and damage to brand and corporate value are serious risks. To eliminate such concerns, it seems necessary to strengthen efforts related to human rights.	According to the revisions to Guideline on the Exercise of Voting Rights in January of 2022, our policy is principally against re-election proposals for directors whose term is 3 years or longer at TOPIX100 companies with no female directors. This agenda has been discussed a number of times, so it seems necessary to appoint a female director as soon as possible.
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Company Response

We are implementing human rights due diligence according to the rules in RBA ^{*1} , and conducting surveys at assigned factories throughout the world. We do not publish survey results, but there are no business partners with low evaluations where improvements need to be made.	We are making efforts to help with advancement of female employees and have two female executive officers. Our policy is to elect personnel who meet the requirements as internal directors regardless of gender. At the same time, although we have been considering inviting women to become External Directors, we have been unable to find someone who meets our standards for election.
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Corporate Action

Group human rights policy formulated and disclosed in October 2021, and human rights risks were identified.

Evaluation by SMTAM / Future Policy

At the General Meeting of Shareholders, re-election of directors with terms of three years or longer are opposed since there are no female candidates for director. Continue to emphasize the importance of efforts for diversity and encourage the election of female directors as soon as possible. Although only an overview of human rights due diligence implementation was disclosed, it was confirmed that there are no low evaluations with business partners. Dialogue for encouraging the strengthening of human rights responses will continue while confirming the status of functions in sections that handle complaints.

CASE 2

Company B in the non-manufacturing sector

- Business strategy
- Human capital

Analyst's Perspective

Since the business environment has been changing during the COVID-19 pandemic, it is necessary to shift to sustainable business management that does not depend solely on increasing the number of users. We felt that a human resource strategy needed to be formed that is linked with the management strategy.

Opinion from SMTAM

When considering the changes in lifestyle caused by COVID-19, a medium-long-term decrease in domestic population, and issues with physical capacity, it is necessary to shift to sustainable business management that is not overly dependent on increasing the number of facility users.	Examples of corporate value improvement cycles need to be presented starting with human capital. KPIs for human capital need to be determined as ESG issues, and efforts need to be made for achieving these with the aim of increasing corporate value.
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Company Response

We recognize that, in the past, we were overly dependent on increasing the number of users. Regarding future business management, we want to focus on growing the customer unit price by increasing customer experience value.	We understood the need to set KPIs for personalization and employee engagement, etc., for CSV ^{*2} from the perspective of human resource utilization, and the need to explain these in the management decision-making process.
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Corporate Action

In April 2022, announced the medium-term management plan showing the policy to (1) increase sales per customer by improving the experience value, and (2) achieve sustainable business management by improving the work environment and ensuring necessary human resources while decreasing the upper limit on the number of users per day compared to before the pandemic.	Human resource strategy also announced in the medium-term management plan. Work satisfaction survey conducted for visualizing the actual status. In addition to efforts for improving organizational management, conducting personnel systems and treatment review, etc.
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Evaluation by SMTAM / Future Policy

Successfully achieved a shift in strategy to sustainable business management that does not depend only on increasing the number of users. In the future, the policy will be to encourage improvement of experience value online and outside of facilities to transcend physical restrictions, and encourage more specific efforts toward developing new business. Although a human resource strategy linked with the management strategy was formed, the policy will be to confirm the effectiveness of the PDCA cycle by using work satisfaction surveys to improve coordination among the two strategies.

^{*1} Responsible Business Alliance. This determines the standards for ensuring that work environments are safe and that workers are treated with respect and dignity, that their business activities are being carried out responsibly and ethically in regards to the environment for the electronics industry, industries where these are main components, and in their supply chains.

^{*2} Abbreviation for Creating Shared Value. Management strategy framework that has balance between "Social value (positive impact on the environment and society)," which is created by resolving social issues through company business, and "Economic value (business profit, growth)."

CASE 3

Company C in the non-manufacturing sector

- Business strategy
- Greenhouse gas emissions reduction

Analyst's Perspective

Company with a high business ratio related to mineral resources. Stock price likely below PBR 1 as a reflection of the risk of becoming a stranded asset due to climate change. Necessary to have business portfolio strategy that is linked with response to climate change issues.

Opinion from SMTAM

Although scenario analysis by business segment is being done as part of disclosure based on TCFD recommendation, response to climate change issues and the business portfolio strategy are not sufficiently linked. In the next medium-term plan, it seems necessary to show a business portfolio strategy that is linked with response to climate change issues so that efforts for improving sustainable corporate value are made while maintaining balance between acquiring profit opportunities and suppressing risk.

We think the whole supply chain is responsible for responding to climate change. It seems necessary to set medium- to long-term goals by including equity method investment not only in Scope 1+2 but also in Category 15³ of Scope 3. It also seems necessary for the trading portion in Category 11⁴ to be handled by contributing to greenhouse gas reduction through the creation of business opportunities toward the decarbonization of the client as well as by verifying and disclosing stranded asset risks in the portfolio assets.

Company Response

When forming the medium-term management plan, each business segment was categorized according to environmental load, and business portfolio replacement was considered for achieving transitioning. Discussions are being held by reflecting internal carbon pricing for each individual investment.

We could organize our thinking on how to respond to Scope 3. As for Categories 11 and 15, we want to proceed with examinations for disclosure. At the same time, SBTi⁵ carbon neutrality only approves decarbonization, but we want to consider offset responses that include credits. We will organize visualization tools for stranded asset risks, and promote risk management according to the business segment. We will examine a review of business portfolios based on profitability that reflects internal carbon pricing.

Corporate Action

The new midterm management plan disclosed in the announcement of 2022 financial statements clarified alignment of the management strategy with environmental vision and goals. Disclosed cross-sectional business department efforts for promoting energy transition investment and transition, governance systems for monitoring progress of sustainability initiatives, and composition ratio plan in green assets balance sheets, etc. Implemented mechanisms for achieving balance between portfolio decarbonization and strengthening.

In October 2021, publicly announced that GHG emissions will be reduced by half (compared to FY2020) by FY2030 including Scope 1+2 (Ownership ratio) of affiliated companies, while aiming for net zero by 2050. Formulated investments related to energy transition by FY2030 worth several trillion yen along with its roadmap.

Evaluation by SMTAM / Future Policy

Dialogue goals for set issues were achieved. Policy is to monitor the effectiveness of the business portfolio strategy that is linked to responses to climate change issues according to the mid-term management plan. In addition, for greenhouse gas reduction, policy is to have continuous dialogue on improving disclosure based on TCFD recommendations including a breakdown of the action plan and reduction plan for achieving Scope 3 reduction target range expansion (Category 11, etc.) and 2030 goals, and improvement of scenario analysis.

CASE 4

Company D in the non-manufacturing sector

- Greenhouse gas emissions reduction
- Corporate governance

Analyst's Perspective

Since there is growing interest in climate change issues, companies with high absolute greenhouse gas emissions are being looked at more strictly, necessitating a quick response. There are no female directors on the board, and the ratio of External Directors is less than 1/3, which indicates a need to improve corporate governance.

Opinion from SMTAM

If other stockholders make a proposal related to climate change, which SMTAM considers a priority ESG issue, decision to act will be based on whether a greenhouse gas reduction plan is presented and on past performance. Their reduction plan is based on the premise that greenhouse gases can be collected and stored, but from a technical perspective and based on social trends, we feel there are certain risks related to its effectiveness. It seems necessary to consider and disclose alternative scenarios.

Their ratio of independent External Directors is below 1/3, so it does not meet SMTAM's Guideline on the Exercise of Voting Rights. It seems necessary to improve corporate governance including raising the ratio of independent External Directors. How do they recognize and analyze results from a low approval rate related to proposals for the election of chairperson and president at the annual meeting of shareholders? It seems necessary to link such results to improvement of corporate governance.

Company Response

According to the greenhouse gas reduction plan for 2030, renovation of aging plants and operation stoppage are planned. However, each individual plan has not been presented outside the company. Since the effect of CO₂ reduction at newly built plants depends on which plant is suspended, it cannot be disclosed.

As for increasing the ratio of independent external directors to 1/3 or higher, reviews are under discussion during this year including on organization design. It was concluded that factors for the low approval rate that was pointed out are due to a low ratio of external directors and lack of female directors. Although not possible this time, efforts will continue to find suitable people.

Corporate Action

While transitioning to a company with an Audit and Supervisory Committee, achieved a ratio of at least 1/3 for independent External Directors along with the appointment of female directors.

Evaluation by SMTAM / Future Policy

At the annual meeting of shareholders, shareholder proposals requesting the addressing of climate change issues were made. From the perspective of encouraging the company to take action, and since there was no problem based on SMTAM's Guideline on the Exercise of Voting Rights, we voted for the shareholder proposal. In the future, we will request to formulate and disclose specific and effective measures for achieving 2030 and 2050 goals. From the perspective of corporate governance, it seems that some progress has been made. But the policy will be to continue dialog on efforts for improving corporate governance such as the selection of successors for independent External Directors with long years of service causing questions about their independence.

*3 One of the 15 Categories of Scope 3 (Other indirect emissions) outside of Scope 1 (Direct emissions) and Scope 2 (Indirect emissions such as electricity), and referred to as greenhouse gas emissions by investees.

*4 Similarly, it refers to emissions from the use of sold products.

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

CASE 5

Company E in the non-manufacturing sector

- Greenhouse gas emissions reduction
- Supply chain management (Society)

Analyst's Perspective

Considering the increased environmental load due to the large amount of resources being used, an increase in lifecycle CO₂ emissions, and final disposal through incineration and landfills for mass production and mass sales, it is necessary to set goals for reducing CO₂ emissions and the recycle ratio.

As business risks such as import bans on some countries have started to be imposed as a result of human rights issues in the supply chain, it is believed that response to human rights issues needs to be strengthened to eliminate problems, and to then disclose this information.

Opinion from SMTAM

It seems necessary to make a declaration on efforts for shifting to a sustainable business model from a mass production and mass sales business model, and to set goals for responding to climate change issues in line with TCFD recommendations.

Regarding supply chain management, it seems necessary to monitor raw material production processes in addition to supervising raw material factories and production factories, including global base suppliers and consignees, in order to establish traceability for improving brand value.

Company Response

Billions of products are sold every year, so efforts to recover and recycle these are accelerating. As for setting goals related to climate change issues, the policy is to have disclosure in line with TCFD recommendations, and it is now under discussion.

Organizational adjustments to track and monitor raw material production processes have started. A department for sustainability marketing is being set up in the Public Relations section to organize a system for disseminating efforts related to supply chain management outside the company.

Corporate Action

In September 2021, goals for FY 2030 were set including ▲90% compared to 2019 for greenhouse gas emissions in Scope 1+2, ▲20% for product raw materials, material production, and product manufacturing processes in Scope 3, and a renewable energy rate of 100% for electricity used inhouse, along with the announcement of SBT certification*.

Announcement of the 2030 action plan at the sustainability briefing held at the end of the same year. Setting a new goal to switch to about 50% recycled material for overall raw materials used by FY2030.

Announcement in October 2021 about conducting surveys including the most upstream portion for raw material procurement such as production farmers, and announcement of a policy for ensuring higher traceability. Establishment of a global project team and efforts started for identifying production farmers.

Evaluation by SMTAM / Future Policy

Although the dialogue targets for set issues were achieved, regarding greenhouse gas reduction, monitoring will be carried out on the progress status for achieving set targets through dialogue.

For supply chain management, the policy is to confirm the progress status of the global project team through dialogue.



*6 Certified that it is consistent with known climate science through *5 SBTi.

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

Nextera Energy Inc. (US / Electric Power)

- Climate change issues
- Promotion of disclosure (Environment)

Engagement Specialist's Perspective

A high greenhouse gas emitter without any disclosure of specific long-term measures. We believe this point needs to be improved.

Opinion from SMTAM

Although they are a strong investor in renewable energy in the industry and their disclosure of greenhouse gas reduction performance and their specific short term goals, there is no long-term net zero commitment. Alignment with the 1.5 degree scenario is also not clear. It seems necessary to show a roadmap along with the long-term net zero commitment.

Company Response

- Although it is important to commit to long-term transition toward net zero greenhouse gas emissions, it will be promoted by considering stable power supply and acceptable price setting.
- Power composition in the state of Florida is 60% from gas and 20% from nuclear power with the remaining coming from solar power and storage. The issue with solar power is that the amount of power generation depends on the amount of sunlight, and nuclear needs to maintain a constant operation rate, which lacks flexibility for fluctuations in demand, so power generation from gas is an important cushion for making adjustments.
- In the future, it will be possible to shift to hydrogen.

Corporate Action

- Announcement of long-term (2045) net zero goal in June 2022.
- Comprehensive goals include acceleration of renewable energy, decarbonization of power sources such as promotion of energy storage and hydrogen technology, and economical effects such as the creation of employment for just transition.

Evaluation by SMTAM / Future Policy

- Dialogue conducted from business perspectives together with consideration of the management environment including technology, regulations, and politics, and mutual understanding with company was deepened.
- Achievement of effective engagement including submission of written opinions to the chairperson that referenced collaborative initiative tools such as CA100+¹.
- Policy is to continue making the specific plan, by considering social impact, etc., through a long-term action plan, investment plan, and decarbonization transition, from PDCA perspective.

CASE 7

Cigna Corp (US / Healthcare Services)

- Diversity

Engagement Specialist's Perspective

Although it is possible to give a partially good evaluation of efforts toward diversity related to gender and race, shareholder proposals were made on further promoting diversity, indicating it is insufficient compared to advanced companies. It is believed that this point can be improved.

Opinion from SMTAM

We highly rate their improvements to disclosure of organizational composition including appointment of female managers and inclusion of different races. At the same time, advanced companies in the US have even begun disclosing gaps in salaries, promotions, employment, and turnover rates. As an example, median salary is easy information for stakeholders because it is simple and makes it easy to understand results of efforts and such movement. It seems that their company should make greater efforts toward improvements.

Company Response

- There are jobs at our company that have traditionally been held by women, so even if the ratio in female managers increases, it will have little impact on median salary, and it will be difficult to visualize company efforts.
- Our efforts toward diversity are not limited to management. Note that it is being promoted throughout the company.

Corporate Action

- Compared to 2019 before dialogue started, the ratio of female directors has nearly doubled, and in 2022, the ratio exceeded 30%, which shows significant improvement.
- On the other hand, their aggressive goal of having a ratio of 50% female managers is progressing slowly.

Evaluation by SMTAM / Future Policy

- Discussions held since 2020 based on shareholder proposals regarding improving the ratio of female in the board of directors and the disparity in salary between male and female employees. Dialogue widened to include governance and issues with organizational structure by linking these with the exercise of voting rights, and structural factors such as organizational rigidity under management group deepened.
- In addition to confirming progress with diversity improvements with management group, the policy is to continue dialogue toward advancing disclosure of efforts for visualization and improvement of organizational structure issues and regarding human capital, and to improve corporate value based on this.

*1 See page 75.

CASE 8

TotalEnergies (France / Energy)

- Climate change issues

Engagement Specialist's Perspective

Since 2021, proactive and advanced efforts related to climate change have been promoted. However, as an industry leader, we felt they should endeavor to strengthen and accelerate this.

Opinion from SMTAM

This is a major energy company in Europe, and is a target brand in CA100+. Therefore, it attracts attention from investors. It seems necessary to strengthen various efforts related to achieving net zero greenhouse gas emissions. In particular, they are expected to promote leading strategies in the industry, including the disclosure of progress on investment projects related to renewable energy, and deepening efforts with Scope 3².

Company Response

Since our commitment to net zero was announced in 2020, details on investment projects related to renewable energy have been disclosed, and detailed initiatives and policies for Scope 3 were announced. Dialogue with each stakeholder is also carefully being promoted. It is our desire to continue this while keeping an eye on what our competitors are doing.

Corporate Action

Direct dialogue was conducted on site in July 2022. Individual policies for achieving net zero were made and their stance of aiming to be top tier representative of the energy industry and strong commitments were made.

Evaluation by SMTAM / Future Policy

- Although they have already promoted advanced initiatives for reducing greenhouse gases, it was explained they are in a phase of improving each measure for making solid progress, and they understood this.
- Prior to engagement, our opinions were presented in letters to establish more detailed discussions and a good relationship.
- Policy is to monitor future progress related to specific efforts for achieving net zero.

CASE 9

Moncler (Italy / Apparel)

- Promotion of disclosure

Engagement Specialist's Perspective

We have engaged in dialogue with this company since 2019. Because disclosure related to ESG including climate change is not sufficient, it seems necessary to have them make proactive efforts.

Opinion from SMTAM

Seems they should show their policies on various issues related to ESG. Overall, their disclosure of ESG policy, climate change issues, and tax affairs are insufficient. It is believed that each stakeholder including shareholders and general consumers who are their customers seem to have questions about their stance on ESG issues.

Company Response

We have a strong desire to make efforts, but as a relatively new company, we need considerably more time to disclose our detailed plan and to implement measures.

Corporate Action

In 2021, the said company published a Non Financial Report for the first time based on requests for various disclosure including ESG. At the same time, they stated that they will continue improving disclosure.

Evaluation by SMTAM / Future Policy

After achieving a core understanding of insufficiencies related to disclosure on ESG, their efforts have improved. The policy is to continue monitoring to further improve information disclosure.

² Scope 1 : Direct emission of greenhouse gases by a company (Combustion of fuel, industrial process)

Scope 2 : Indirect emissions from use of electricity, heat, and steam provided by other companies

Scope 3 : Indirect emissions other than Scope 1 and Scope 2 (Emission by other companies related to a company's activities)

CASE 10

PGE Polska Grupa Energetyczna (Poland / Utilities)

- Climate change issues

Engagement Specialist's Perspective

There is a lack of urgency in the environmental policies of the Polish government such as on climate change issues. The largest shareholder is the government, which we understand will inevitably have an impact, but as an EU company, we feel they should proactively respond independently.

Opinion from SMTAM

The largest shareholder is the Polish Government, and we understand the influence that government environmental policies have on their business plan, and also understand the situation in Poland where coal is still widely used for energy. However, they are also an EU company and are expected to proactively implement efforts for the environment. In particular, they are expected to have a more proactive response to climate change issues in compliance with EU standards. It seems there is a need for them to show their thinking based on the policies of the Polish Government and discussions with them.

Company Response

- Although the response toward climate change issues was passive due to the stance of the Polish Government, in 2021, the government shifted to an active stance on environmental policies. As a result, the said company announced plans for net zero greenhouse gas emissions, shifting to a proactive stance.
- Stance on discussions with stakeholders became positive, and opportunities for discussion with institutional investors and industrial institutions were set as well as for collecting feedback (SMTAM participated as only investor from Asia).

Corporate Action

Announcement of policies on climate change issues in March 2021 including polices on net zero greenhouse gas emissions.

Evaluation by SMTAM / Future Policy

- Showing net zero policies is a major step in the right direction, but there are still points that need improvement. Through continuous dialogue, including confirming the progress of each plan, we will give support so that they can smoothly promote efforts for achieving net zero.
- They are also expected to play an important role in the energy policies of the Polish Government, so the status of discussions with the Polish Government will be confirmed.

CASE 11

DBS Group Holdings (Singapore / Bank)

- Climate change issues
- Human rights issues

Engagement Specialist's Perspective

Largest bank based on assets in the ASEAN region, so it seems necessary to enhance supply chain management in the palm oil section, which is an important industry in the region.

Opinion from SMTAM

In addition to individual engagement with this company, we have had continuous communication with them through the PRI Palm Oil Working Group. As deforestation and human rights and labor issues have become more serious in the palm oil sector supply chains in the ASEAN region, as the largest financial institution in the region, it seems necessary to implement solid supply chain management.

Company Response

We have been strengthening monitoring of the palm oil sector supply chain as part of our sustainability activities based on our position as a bank. Specifically, we have encouraged all customers in the supply chain to thoroughly comply with NDPE (No Deforestation, No Peat and No Exploitation) policies. We recommend participation in RSPO^{*3} and acquiring certification.

Corporate Action

As a result of efforts, as of 2020, 45% of customers in the palm oil sector supply chain committed to NDPE, and 5% committed to RSPO. Disclosed that these were increases of 26% and 4% respectively compared to 2019.

Evaluation by SMTAM / Future Policy

- This was evaluated as an achievement of multifaceted engagement through RSPO and PRI^{*4} (Palm Oil WG) in addition to individual engagement.
- There has been engagement with other banks in Indonesia and Malaysia for encouraging them to strengthen supply chain monitoring. However, there are few banks that fully appreciate the importance of such activities and implement them into their strategies. Therefore, the policy is to continue providing educational activities.

*3 Roundtable on Sustainable Palm Oil

*4 See page 75.

CASE 12

POSCO (Korea / Steel)

- Climate change issues
- Promotion of disclosure

Engagement Specialist's Perspective

While they are developing their business through four business segments, their steel business emits a large amount of greenhouse gas including production of hot-rolled steel, cold-rolled steel, and stainless steel, so we believe a quick response is needed.

Opinion from SMTAM

Our understanding is that the whole steel industry needs to do something about the large amount of greenhouse gas emissions. Since their investments in necessary equipment for realizing zero carbon steel is extremely large, it seems necessary to have a detailed strategy including a capital plan, and to disclose this information.

Company Response

- Based on the Group's response to climate change issues, we want to give consideration to existing coal power plants including the possibility of withdrawal.
- We consider trends with major customers such as the automobile industry to be important, so we also want to focus more on joint research and development with customers.
- We also want to improve business strategies including Scope 3 target setting and response plans that include the value chain.

Corporate Action

- Announced the goal of net zero greenhouse gas emissions in December 2020.
- In January 2021, disclosed plan in consideration of the 1.5 degree scenario.

Evaluation by SMTAM / Future Policy

- Engaged in CA100+ collaborative initiatives as a lead investor, and utilized comprehensive capabilities including suggestions to Korean policy makers and collaboration with investors in Korea as well as asset owners in Europe for accomplishment.
- Technical advancements such as hydrogen reduction are needed to reduce greenhouse gas emissions, so the policy is to give suggestions on infrastructure organization to those in charge of Korean policies for achieving this.

CASE 13

Top Glove (Malaysia / Healthcare)

- Addressing companies with misconduct

Engagement Specialist's Perspective

As the world's largest manufacturer of rubber gloves for medical use, they own 40 factories as a group in Malaysia for producing natural rubber and gloves, and have a large number of employees. There are human rights infringements including forced labor of migrants at subsidiary factories. After receiving reports about this, we feel it is necessary to confirm the facts and to request improvements.

Opinion from SMTAM

First, it is necessary to implement measure for preventing recurrent of this problem. Then, it seems necessary to disclose the handling status and results for import bans given by US agencies related to this matter. (Utilization of ISS ESG-Norm Based Engagement (hereinafter, ISS ESG-NBE)^{*5} collaborative engagement programs)

Company Response

In June 2020, a contract was made with the independent international ethical trading consultant Impactt, and a cause investigation and implementation of measures for preventing recurrence were announced.

Corporate Action

Impactt conducted an assessment of 11 points where forced labor was suspected, and in April 2021, they publicly announced that all items including cases where questions were raised had been resolved. Through this assessment, a Zero Recruitment Policy was implemented, and unpaid salary was given to all employees (farm workers) who had made contracts prior to January 2019. Announced that the policy was added to prevent workers from being deceived by brokers during the employment contract period. Moreover, based on disclosure by Impactt, US agency announced in September 2021 that the import ban was cancelled, and imports to the US resumed.

Evaluation by SMTAM / Future Policy

- Achievement was made through collaborative engagement program activities of the ISS ESG-NBE. In addition to our independent engagement, the policy is to use the ISS ESG-NBE program to encourage improvements to the work environment in the natural rubber and rubber glove sectors in Malaysia.

*5 Department that identifies companies violating international regulations on human rights, labor, and corruption and that provide special collaborative engagement programs for requesting improvements by ISS ESG, which is the Responsible Investment Division of the global voting advisor ISS.

Activity Report from the New York Base

Sumitomo Mitsui Trust Asset Management Americas



Masaru Okubo

SMTAMA Senior Stewardship Officer

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

Sumitomo Mitsui Trust Asset Management Americas (hereinafter, SMTAMA) was established as a wholly-owned subsidiary in New York, USA in July 2020. In the US, an entrepreneurial spirit that incorporates new technologies and social trends, and dynamic financial markets that support rapid commercialization have been the backbone of economic growth and a positive growth cycle. At the same time, when it comes to responding to ESG issues including negative externalities, Europe has been at the forefront. However, recently, the SEC conducted hearings focusing on climate issues with investors and initiative opinions for improving corporate disclosure. On the corporate side, environmental and social issues are viewed as business opportunities, and they focus on solution development, which reminds me of the importance of US capital markets. Regarding stewardship engagement, we believe that deepening mutual understanding between ourselves and investee companies is of utmost importance. We are endeavoring to collaborate with initiatives for effective progress and to share the latest information on best practices through information sharing among our global bases.

Sharing Knowledge from Global Initiatives

The main stewardship activities by SMTAMA involve engagement activities with companies in the US as well as Central and South America. Primary topics are climate issues, biodiversity, diversity, and disclosure, which are positioned as priority issues by our company. Recently, human capital management including human rights and work environments

are often addressed. Dialogues include those conducted by our company independently as well as in collaboration with initiative organizations. Regarding collaborative engagement, we participate in engagement programs on risk management enhancement for climate and water resources in the agricultural supply chains of food makers, and in dialogues related to improving work environments at meat packing plants. We have been continuously engaging in some of these programs for years. Approaches through collaborative engagement, such as organizing issues for target companies while utilizing the expert knowledge of international initiatives on specific issues and consideration of best practices, setting goals for each phase, and then confirming achievements are extremely helpful for us. Such efforts are shared by each global office, and this contributes to effective implementation of independent engagement as well. Regarding climate change and water resource management, which are among our priority issues, we select target companies, conduct shared evaluation scoring with Asian and European companies, and clarify engagement goals and the status of improvements. Nextera (US / Electric Power) was one target and an example case where the response to climate change issues was improved by deepening mutual understanding through collaborative engagement with our global impact investment team.

As part of our ESG research activities, we collect information on ESG trends in the US through working with international initiatives, and share this within the company. At the meeting of the Council of Institutional Investors (CII)*, we reported to Tokyo and UK bases about discussions on a wide range of issues including employee safety and health management, response to human rights in the supply chain, and reflecting ESG evaluations to remunerations for executives. For the 30% Coalition*, we participated in regular meetings for investors members, and reported about the widened discussions on diversity in the US including on the hiring of female directors and on race and ethnicity, promotion of diversity in the workplace, and efforts for preventing different types of harassment.

Focus on Information Dissemination in the US

In addition to the collection of such ESG information from actual sites, we also make efforts to disseminate information on our Stewardship Activities in the US. We introduced an example of our corporate engagement involving policy engagement in Asia to the investor working group (Paris Aligned Investor Working Group) of the environmental initiative group Ceres*, and it was highly evaluated as a good example of multifaceted engagement by an international investor group on climate change issues (The Investor Agenda*). SMTAMA is also proactively involved in multifaceted engagement. We participate in meetings for exchanging opinions on best practices for disclosure by food companies and investors hosted by an NGO (FAIRR*), and we engaged in dialogue on ESG activity promotion by listed companies.

Acceptance of Student Interns

In addition to our Stewardship Activities, SMTAMA also engages in due diligence of US investment products for our Japanese clients, and promote our investment products for customers in the US. Here, we have been expanding our network including with investment managers, investors, investee companies, industry groups, and media for developing business. It has been two years since our establishment, and we have begun a student internship program as part of our business activities. Target work includes ESG investigations and research on investment industries. While providing actual work experience for students, this can produce a positive effect through their fresh perspective and awareness of issues when considering matters related to ESG for our company.

Future Activities

2022 is the year of the US midterm elections, and discussions about ESG have recently become more political. However, we want to continue dialogue that helps companies strengthen risk management and that establishes trust among internal and external stakeholders. Since the setting of global non-financial disclosure standards on climate and human

capital has progressed, we will focus on human capital including diversity in the workplace and work environments as priority issues. Regarding natural capital, the TNFD (Taskforce on Nature-related Financial Disclosures) has begun in earnest. SMTAMA also supports the establishment of natural capital disclosure frameworks through dialogue with companies and stakeholders, and are aiming to hold dialogue for resolving related issues such as water resources and deforestation.



Author is at center of photo. Together with local staff.

* See pages 75, 76.

Activity Report from the London Base

Sumitomo Mitsui Trust International Limited



Tetsuro Takase

SMTI Director of ESG

Engaged in investments as the Asia Equity Portfolio Manager since 2002. Assigned to London based from the end of 2017, in charge of Stewardship Activities, etc., mainly for Europe.

The UK— An Advanced ESG Country

Sumitomo Mitsui Trust International Limited (hereinafter SMTI) is a wholly owned subsidiary of the Company based in London, UK. Our office is located in the City of London, which is the financial district, and is our base for providing investment products to asset owners such as pensions/SWF (Sovereign Wealth Fund) in Europe and the Middle East, and for our Stewardship Activities in Europe.

Since many financial companies from all over the world have offices in the UK, large international conferences are frequently held here. In Europe, ESG-related discussions and implementation are advancing, and the UK is where the latest intelligence on ESG is concentrated.

Over the past few years, the COVID-19 pandemic has impacted various aspects of lives in Europe, but it has gradually been brought under control as vaccines have become penetrated. Currently, in-person communication and visits to investee companies are resuming.

Discussions related to ESG have progressed in Europe, and responses to climate change issues including intergovernmental initiatives such as EU taxonomy have been proactively implemented by companies belonging to sectors that are categorised as ones with larger environmental impact. In addition to climate change issues, a wide range of topics, such as human rights, diversity and access to medicine, have been actively discussed. On the background of this situation, there are a number of initiative organizations based in

European countries that are dedicated to various ESG-related issues. Such initiatives are exclusively for specific topics and often provide opportunities for communications between asset managers and investee companies. If we can agree with the thoughts and directions of an initiative, we become signatory members and proactively participate in discussions and activities.

SMTI Activities

SMTI's aim is to contribute to enhance the enterprise value through various engagement activities, which is why we are usually conducting the meetings in person with investee companies in Europe, as well as discussions and collaborative engagement activities with initiative organizations based in Europe. We also conducting the dialogues with regulators, service providers, and the media as a part of multi-engagement activities. The knowledge acquired through such activities is shared and reported through opinion exchange with the staffs in both Tokyo and New York for enhancing the level of our stewardship activities.

We have focused our activities on investee companies mainly in Western Europe, additionally, we also cover countries in Central and Eastern Europe such as Poland and the Czech Republic, which have significant economic growth, as well as companies in Africa. We think that a wide range access and consistent dialogues are attributed to the contribution by the dedicated staffs in London. We have achieved more than 100 engagement activities in the past one year despite the difficulties by the COVID-19 pandemic.

In addition to issues such as climate change and diversity, we have dealt with a wider range topics such as supply chain management, human rights, and access to medicine, which have also recently gained attention in Japan. We will still conduct our activities with paying attention for enhancing the presence.

Case Studies

1. Climate Change

We have set a wide range of the engagement targets from the Upstream Energy companies such as Shell (UK, Energy) and BP (UK, Energy) to Consumer Related companies such as Volkswagen (Germany, Automobiles) and Nestle (Switzerland, Food). Here, we would like to mention you a case of PGE. The Polish Government is the main shareholder of this company, and they supply power for all of Poland. Since 2020, SMTI has conducted the continuous engagement activities with them for addressing various ESG issues, especially climate change. In addition to these efforts, since the Polish Government revealed their proactive stances on climate change issues, PGE also announced their stance on achieving net zero greenhouse gas emissions in 2021. As they continuously show their strong commitment toward climate change issues, SMTI plans to contribute to climate change issues through the engagement activities with them and to enhance the enterprise value of PGE with it.

2. Issues with Access to Medicine and Antimicrobial Resistance

We also take a proactive approach to topics other than climate change issues. As an example, we would like to talk about initiatives for addressing access to medicine and antimicrobial resistance. In 2018, we were the first Japanese financial investment manager to join the Access to Medicine Foundation (hereinafter, ATMF), which is an initiative that aims to resolve issues with access to medicine. Since then, we have proactively been involved in collaborative engagement activities for access to medicine as well as protein management and more. We have conducted the dialogues with European pharmaceutical companies such as Merck KGaA (Germany, pharmaceuticals) and Novartis (Switzerland, pharmaceuticals) by developing collaboration with the initiatives, and SMTI is playing a role as a contact person for the dialogues with one of major Japanese pharmaceutical companies where we are lead managers by means of collaboration with this initiative, which has its head office in the Netherlands.

In recent years, awareness about antimicrobial resistance have been increased significantly under the pandemic situation of COVID-19 in the past couple of years. To address this issue in a professional way, in 2021, Investor Action AMR was established in 2018 with the cooperation between ATMF and other initiative organizations. Our company participated as the only Asian investment management company when it was established. SMTI and persons in charge from Tokyo cooperated to join as panelists at meetings attended by both the public and private sectors, and proactively are making effort to raise the public awareness about this issue in Japan and make progress toward its resolution.

Next Action

As mentioned previously, various kind of advances ESG topics have been discussed in Europe. As all of you may be aware of, but we feel that some number of topics, such as climate change and diversity, have made significant impact on Japanese society. We will continue to work further with keeping in mind of the importance of the latest ESG trends. Recently, topics related to supply chain management requiring a wide-ranging response from companies including human rights and environmental issues are gathering more and more attention. SMTI plans to conduct the dialogues with investee companies and other stakeholders with focusing on these points in order to enhance the long-term enterprise value and contribute to resolve the social issues.



Author is on the right in the photo. Managing director of SMTI on the left.

Added criteria for “Responding to Climate Change” and “Appointment of Female Directors” to Guidelines on the Exercise of Voting Rights for responding to ESG issues

Purpose of Exercise of Voting Rights

As a “responsible institutional investor,” we position the exercise of voting rights on entrusted assets (hereinafter referred to as “exercise of voting rights”) as one of our important stewardship activities.

The purpose of exercising voting rights is to maximize the medium- to long-term investment returns for customers (beneficiaries) by improving the corporate value of investee companies and promoting sustainable growth. Please visit our website for more details.

https://www.smtam.jp/institutional/stewardship_initiatives/stewardship_activities/voting_index/voting_thoughts.html

Revisions to the Guideline on the Exercise of Voting Rights

We revised the Guideline on the Exercise of Voting Rights in January 2022 (published in December 2021). The main points that were revised were the addition of standards for responses to climate change for addressing ESG issues, addition of standards for the appointment of female directors, and changes in harmony with revisions to the Corporate Governance Code.

Since July 2021, we have been a part of the global “Net Zero Asset Managers initiative” by asset management companies whose aim is to achieve net zero greenhouse gas emissions from investee companies by 2050. By establishing standards for responding to climate change to the Guideline on the Exercise of Voting Rights, our goal is to prompt investee companies to take action for addressing climate change and to achieve sustainable growth and the sustainability of companies and society as a whole.

Main Revisions to the Guideline on the Exercise of Voting Rights

Revised Items	Revision Details
Standard	<ul style="list-style-type: none"> Added period of service to the independency standards for external officers, etc.
Composition of the board of directors, appointment of directors	<ul style="list-style-type: none"> For responding to ESG issues, added standards related to responses to climate change and standards on the appointment of female directors For listed companies in the Prime Market, request the having of multiple independent external directors and that these be at least 1/3 of the total directors (applicable to shareholder meetings from April 2022) Companies that have parent companies, etc., are requested to have a majority of directors be independent external directors Added concept on the number of companies where external directors hold concurrent posts
Performance-linked remuneration, stock remuneration, and stock options	<ul style="list-style-type: none"> Revised the period for possibility of selling stocks to after 3 years Newly set exception standards for cases where a non-performance-linked stock compensation system / Stock remuneration type stock options are provided for external directors
Takeover defense measures	<ul style="list-style-type: none"> Added standards for takeover defense measures implemented in emergencies
Shareholder proposals	<ul style="list-style-type: none"> Added standards for amending the Articles of Incorporation Added standards for responses to climate change

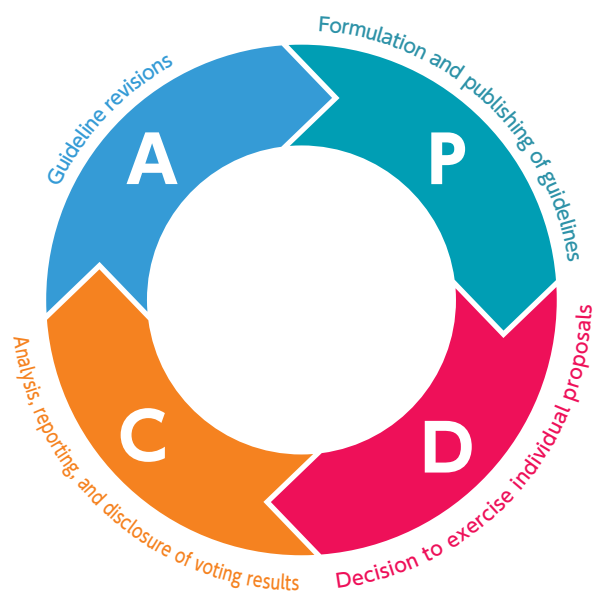
Enhancing Visibility for Approvals and Disapprovals in Voting Activity

Principle 5 of Japan's Stewardship Code, which was revised in March 2020, says that "in particular, institutional investors should disclose their voting rationale with respect to either "for" or "against" vote, which are considered important from the standpoint of constructive dialogue with the investee companies, including those perceived to have conflicts of interest or those which need explanation in light of the investors' voting policy."

We have published reasons for voting "against" company proposals, however since the disclosure of individual voting records in July 2020, we also began publishing all reasons for voting, regardless of it is "for" or "against," on proposals perceived to have conflicts of interest or those which need explanation in light of investors' voting policy. We introduce the details of proposals which need explanation in light of the investors' voting policy in the section below.

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.



- P** **Formulation and publishing of guidelines**

The guideline for determination standards on the exercise of voting rights is formulated and revised by the Executive Officer in charge of Stewardship Development Department after examination by the Stewardship Committee and after consulting and reporting to the Advisory Committee.
- D** **Decision to exercise individual proposals**

For proposals that can be determined based the guideline, an execution draft is created by the Stewardship Development Department. The General Manager of the Stewardship Development Department confirms that the decision is in compliance with the guideline before making a final decision. If the decision is different from the guideline or there is there not applicable rule in the guideline, the Stewardship Committee holds a discussion, and then the Advisory Committee verifies the propriety of the decision process. The Executive Officer in charge of the Stewardship Development Department makes the final decision on execution while following the recommendation of the Advisory Committee to the extent possible.
- C** **Analysis, reporting, and disclosure of voting results**

The results from the exercise of voting rights are analyzed, and are then reported to the Stewardship Committee and Advisory Committee. In addition, the results from the execution of all proposals are published. Moreover, when published, business partner flags are given so that results from the exercise of voting rights for business partners can be confirmed by a third party.
- A** **Guideline revisions**

In addition to analysis of the execution results, the guideline is revised and published as needed based on confirmation of changes in social circumstances such as revisions to the Stewardship Code and Corporate Governance Code, engagement with investee companies and recommendations by the Advisory Committee.

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).

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

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

6335 TOKYO KIKAI SEISAKUSHO, October 2021 General meeting

Proposals No	Proposal	Voting record	Background / Reason
1	[Company proposal] Gratis allotment of stock acquisition rights	For	<ul style="list-style-type: none"> Proposal for implementing takeover defense measures based on stock accumulation by Asia Investment Fund Co. Ltd. Regarding takeover defense measures implemented in the event of an emergency, based on the determined substantial shareholder value including future prospects, the decision is being made to exercise takeover defense measures together with the pros and cons of invoking the takeover defense measures regardless of whether the formal requirements are met. A takeover bid was not used this time and there was no opportunity for minor shareholders to sell their stocks, and the decision was made from the perspective of whether corporate value would be damaged if the offeror maintained a 40% holding. The offeror did not have a policy or plan for explaining how they would improve the corporate value of the said company. Because of this stock accumulation (large volume holding), users seemed to put off order and delivery of newspaper presses. On the company side, no mid-term plan was published and there were no clear measures by the current management system for improving corporate value. However, we determined that the risk of damage to corporate value under control by the offeror would be higher.

9919 KANSAI FOOD MARKET (Formerly Kansai Super Market), October 2021 General meeting

Proposals No	Proposal	Voting record	Background / Reason
1 - 5	[Company Proposal] Share Exchange and Related Proposal	Against	<ul style="list-style-type: none"> This case involved selecting either (1) continued listing under H₂O based on a business merger with a H₂O Retailing (hereinafter, H₂O) subsidiary, or (2) delisting after a takeover bid by OK Co., Ltd., (hereafter, OK), who is the tender offeror. The decision was made from the perspective that it would be possible to have a share price with (1) that was higher than the tender offer price (2,250 yen) in (2). According to a calculation by a third party requested by the said company, the theoretical price after the business merger in proposal (1) would be higher than the tender offer price (2,250 yen being the highest price after listing, which was more than double the price on the offer date). However, the business plan that was the premise for the calculation showed a graph rising to the right, and there was no persuasive explanation about how it would be realized. Since the realization accuracy was unclear, we determined that the takeover bid by OK in (2) was desirable. Moreover, the takeover bid by OK was based on the premise that it would be done with the agreement of the said company after the company proposal is denied at the general meeting of shareholders. Although there were concerns that it would not be approved and that the takeover bid would fail, we expected the opposing company proposal would push the management of the said company to have positive dialog with OK.

2928 RIZAP GROUP, June 2022 General meeting

Proposals No	Proposal	Voting record	Background / Reason
5	[Company Proposal] Appointment of Directors	Partially Against	<ul style="list-style-type: none"> One of the candidates for director was involved in misconduct related to management of general meetings of shareholders at another company. Because the person's actions were against corporate ethics related to the operation of general meetings of shareholders, which is a place for making the most important decisions for a stock company, we determined the person was not appropriate as a director.

6406 Fujitec, June 2022 General meeting

Proposals No	Proposal	Voting record	Background / Reason
5	[Company Proposal] Appointment of Directors	Partially Against	<ul style="list-style-type: none"> The investment fund that is a shareholder publicly stated their suspicion of a conflict of interest between a manager from the founding family of the said company and the company, so we considered this in our decision for the exercise of voting rights. It was determined that all re-elected directors had a defect in their qualifications for execution of duties and management/supervision because they are reluctant to have an investigation by a third-party or an external briefing about suspicious legal or corporate governance actions. It was also determined that approval cannot be given to increase remuneration for a board of directors that does not properly execute their duties.
8	[Company Proposal] Revision to remuneration amount	Against	

Proposal Withdrawal 8303 Shinsei Bank, November 2021 General meeting

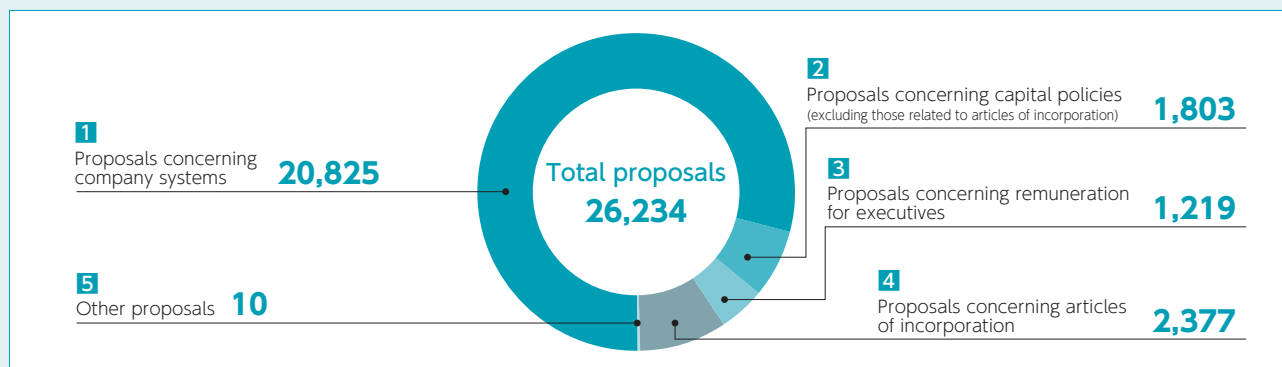
Proposals No	Proposal	Voting record	Background / Reason
1	[Company proposal] Gratis allotment of stock acquisition rights	Against	<ul style="list-style-type: none"> Regarding takeover defense measures implemented in the event of an emergency, based on the determined substantial shareholder value including future prospects, the decision is being made to exercise takeover defense measures together with the pros and cons of invoking the takeover defense measures regardless of whether the formal requirements are met. It was determined that the offeror, SBI Holdings, handled the provision of information to existing shareholders properly and gave consideration to minor shareholders by doing the following. <ol style="list-style-type: none"> Handling procedures while showing consideration to shareholders such as by extending the period for the takeover bid Stating that more than half of the board of directors will be independent external directors after acquisition, which shows consideration to minor shareholders after acquisition After considering the fact that the company was unable to improve their corporate value despite having sufficient time, we determined that the choice including the takeover bid with a certain premium and pursuit of growth opportunities under the new strategy of the offeror was not unreasonable.

Proposal Withdrawal 1890 Toyo Construction, June 2022 General meeting

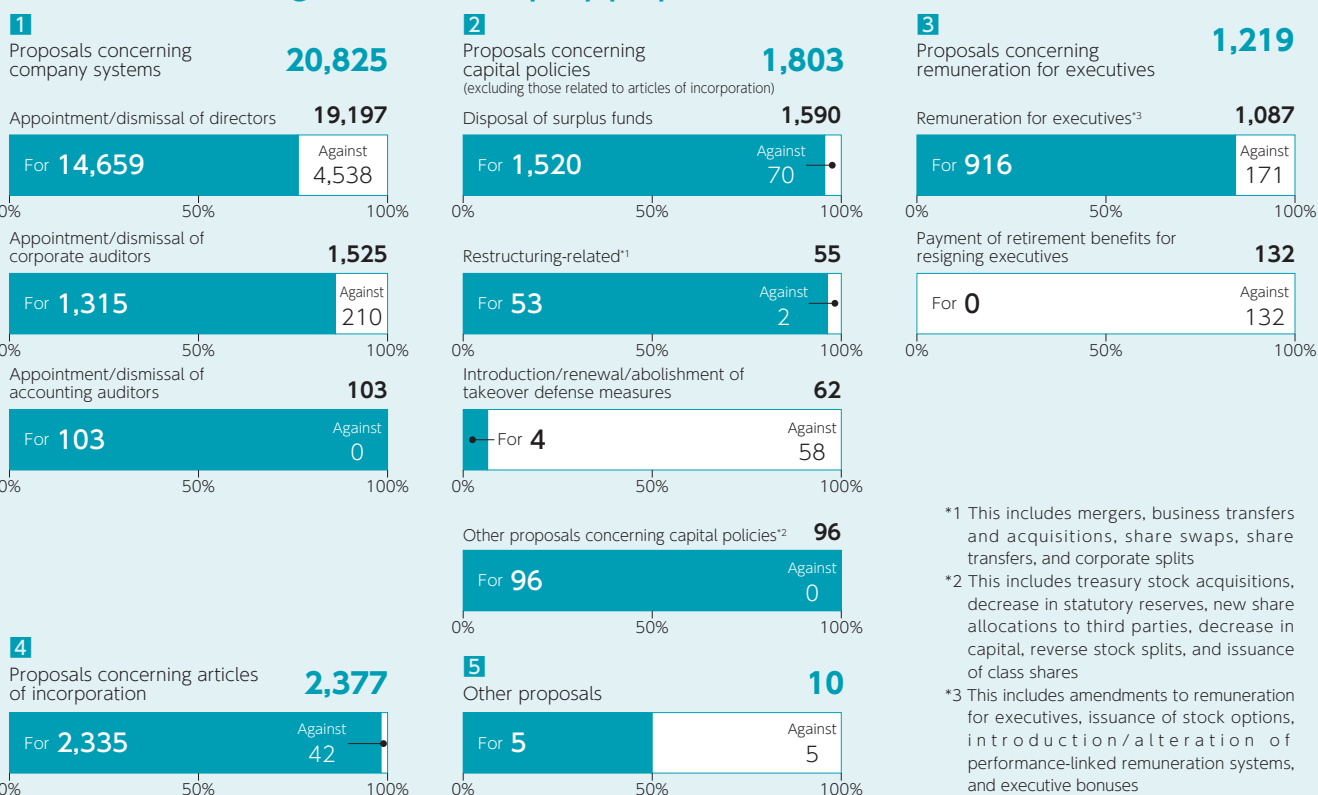
Proposals No	Proposal	Voting record	Background / Reason
5	[Company Proposal] Policy for responding to large-scale purchase	Against	<ul style="list-style-type: none"> The said company did not set a relevant response policy for takeover defense measures, but assumed that gratis allotment of stock acquisition rights was their countermeasure. We viewed this as a practical emergency takeover defense measure, so we made the execution decision based on the actual determined shareholder value including future prospects. The said company stated that the key is either (1) medium- to long-term corporate value achieved by the 100% acquisition of the said company by the offeror including the joint company Vpg, etc., or (2) the medium- to long-term corporate value and shareholder shared profit achieved by the said company themselves or in collaboration with a third party, which ever is higher, but there is no explanation about specific measures for improving medium- to long-term corporate value by the said company. Since the company cannot share any specific measures for improving corporate value, we decided that there is no legitimate reason to remove the TOB application opportunity of the investor

Record of exercising voting rights for Japan-listed companies

Company proposals July 2021 - June 2022	Voting Record (all company proposals)			
	For	Against	Abstention	Opposition Ratio
	21,006	5,228	0	19.9%



Breakdown of voting record on company proposals



Shareholder proposals	For	Against	Abstention	Opposition Ratio
	16	285	0	94.7%

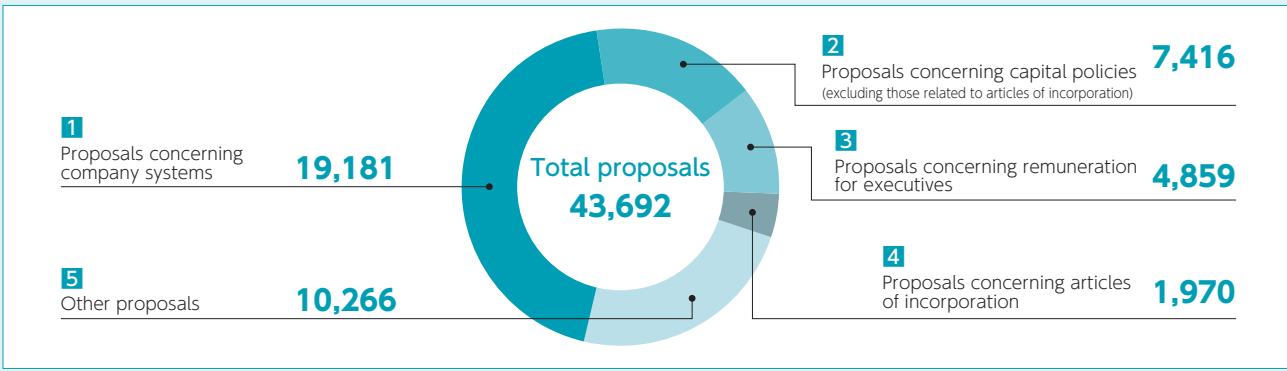
Factors that affect the result of exercising voting rights and the opposition ratio

Regarding the comparison of the opposition ratio to company proposals over the same period during the previous year, the opposition ratio slightly increased due to revisions with the guideline such as stricter standards for companies who have parent companies, and the addition of service years to independency standards for external officers.

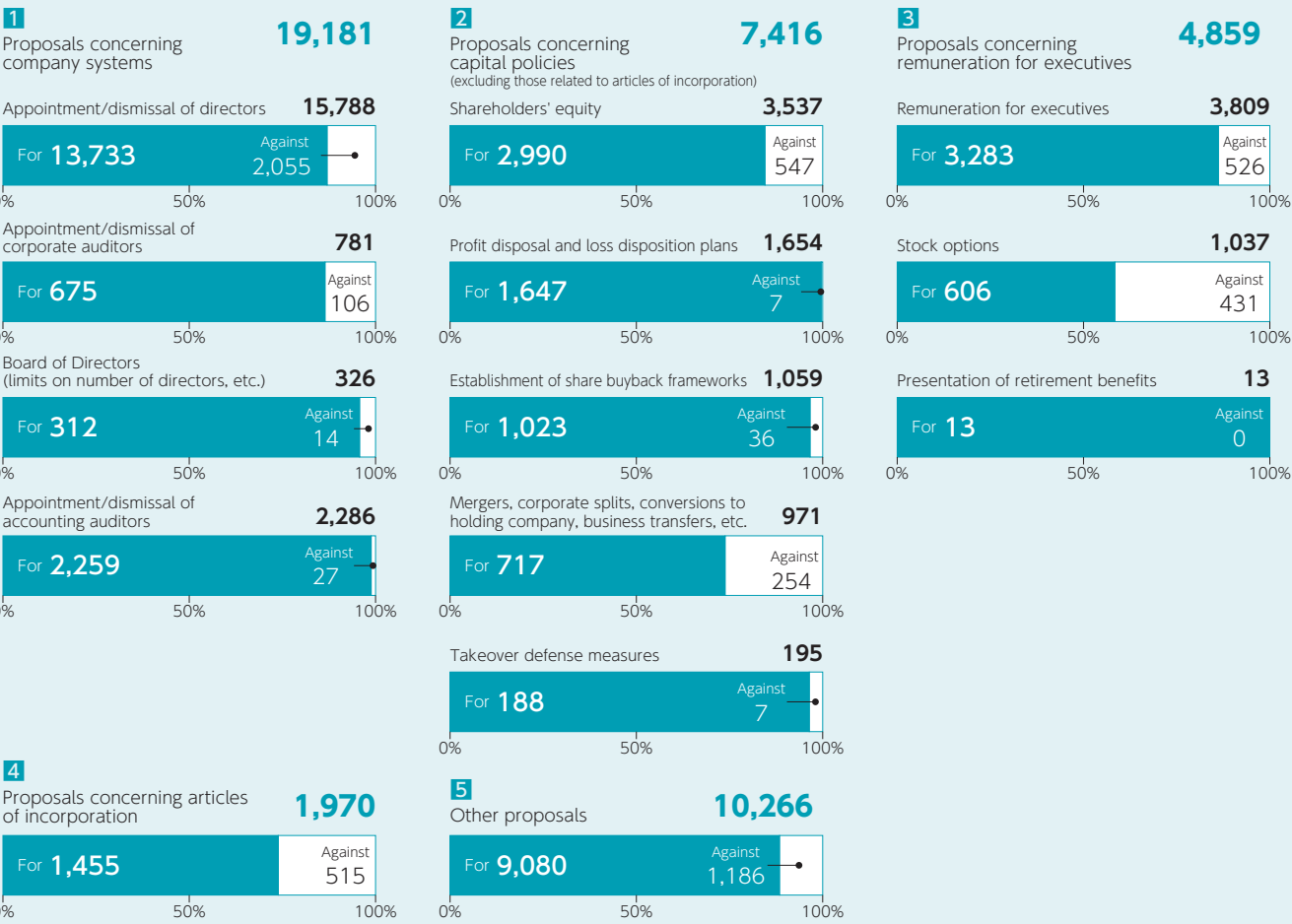
With regard to stock lending transactions, we set loan limits for securing voting rights. For voting rights secured in shares outside of the loan limits, we exercise said rights in accordance with our policy on the exercise of voting rights. In daily processes, our fund manager confirmed positions such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

Record of exercising voting rights for foreign-listed companies

Company proposals July 2021 - June 2022	Voting Record (all company proposals)			
	For	Against	Abstention	Opposition Ratio
	37,981	5,711	0	13.1%



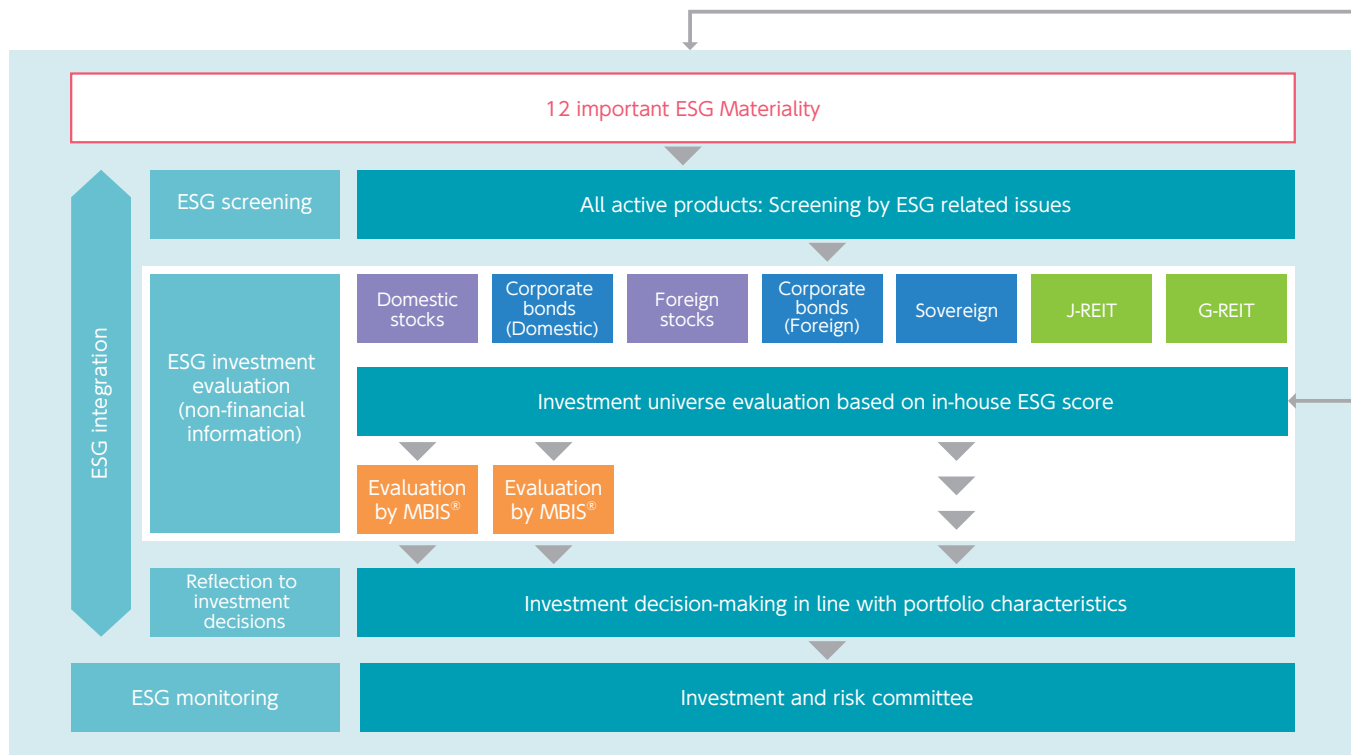
Breakdown of voting record on company proposals



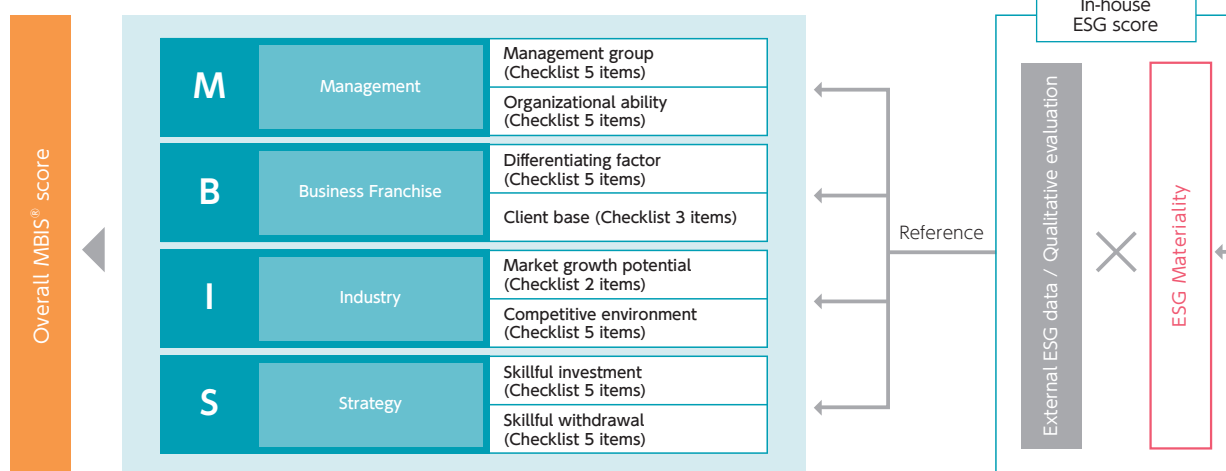
Shareholder proposals	For	Against	Abstention	Opposition Ratio
	1,159	451	0	28.0%

ESG Integration

We have identified 12 important ESG challenges as “ESG Materiality.” We take the ESG evaluation conducted based on this “ESG Materiality” into the investment decision-making process in line with portfolio characteristics, and then carry out ESG integration with the aim of maximizing investment return.



3 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 domestic companies in 2015, and are using these for ESG integration related to domestic shares and domestic bond investment. 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.

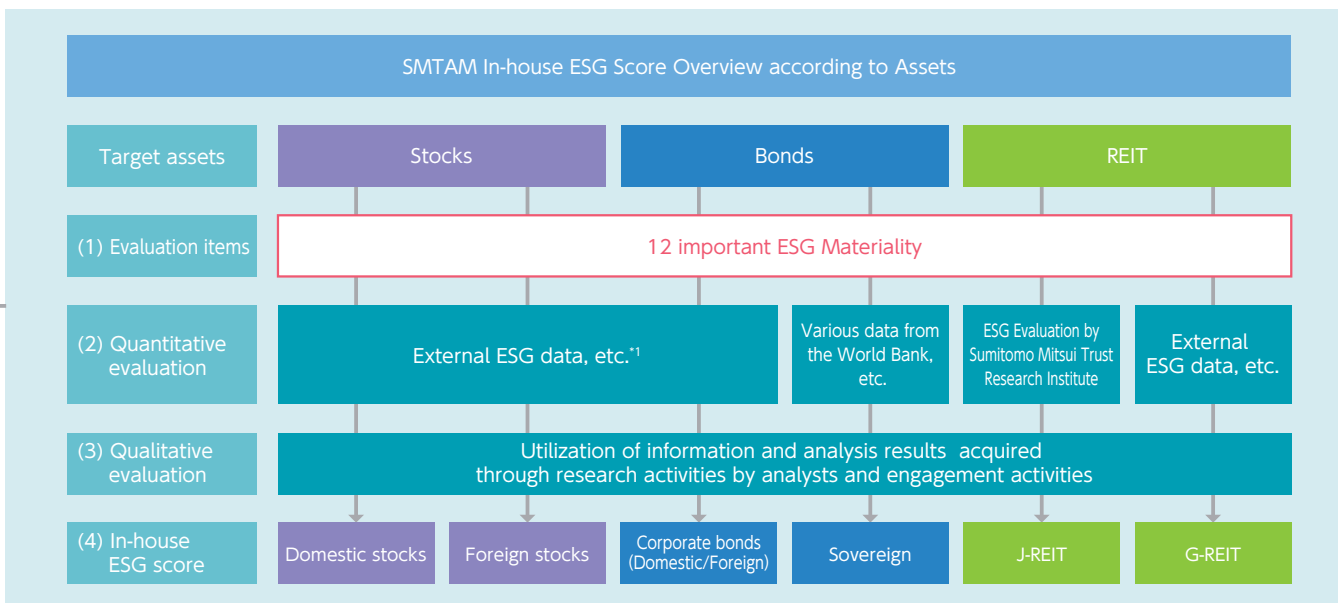
1 ESG Materiality

ESG issues that we view as important for improving the value of the investee and to promote sustainable growth are identified as “ESG Materiality” from the perspective of both risk and opportunity. As we give consideration to things such as SDGs, and then reflect this to ESG evaluations of investees, our engagement activities, and decisions for exercise of voting rights.

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



2 In-house ESG Score



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 and 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 stocks and REIT, and add credit evaluation and spread evaluation for Sovereigns and corporate bonds.

4 J-REIT

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

*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 a registered trademark of Sumitomo Mitsui Trust Bank.



Japan Equity Impact Investment Strategy

Pursuing social return and economic return through engagement



Kuniyuki Sugihara

Senior Portfolio Manager,
Equity Investment Unit

Strategy overview

Long-term investments are made in companies where resolution of social issues is itself the growth driver. "Impact KPIs" that are for measuring the degree to which social issues are resolved are set for each company, and probability for obtaining social and economic return are increased through engagement based on these KPIs.

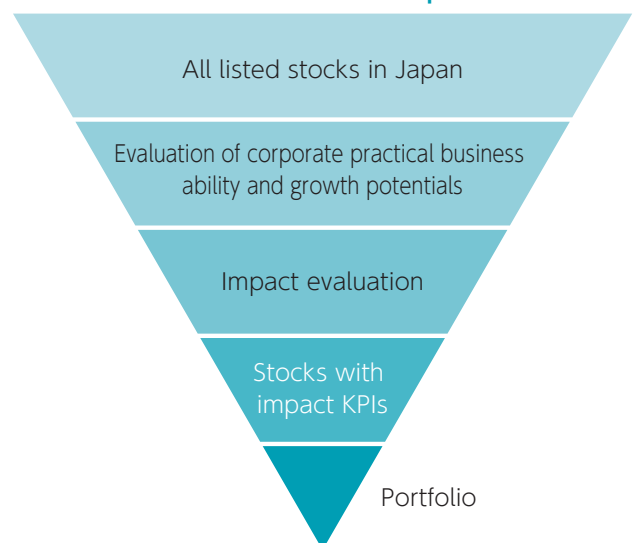
Development background

In 2015, which was when SDGs were adopted by the United Nations, I got the idea of impact investment for achieving resolution of issue to create a better society for future generations while performing investment through discussions with major global foundations and institutional investors. I felt it was something I needed to do at the time, so I began promoting development. Usually, I try to grasp incidents related to social and environmental issues occurring around the world through help from experts and others, and have discussions with companies in each industry about how to resolve such issues. Also, by conducting engagement for investees together with our corporate analysts and ESG specialists, we are encouraging the improvement of corporate value.

Future outlook

Impact investment is still in the early days throughout the world, but I believe that it will develop greatly in the future. I want to carry out daily activities with the aim of giving long-term impact and investment return that exceed customer expectations while also contributing toward the development of impact investment.

Portfolio construction process





Global Equity Impact Investment Strategy

Combining research, engagement, and quants skill to pursue resolving social issues and achieve investment returns.



Yoshiki Takeda

Head of Global Equity,
Equity Investment Unit

Fund overview

Long-term investments are made in companies where resolution of social issues is itself the 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.

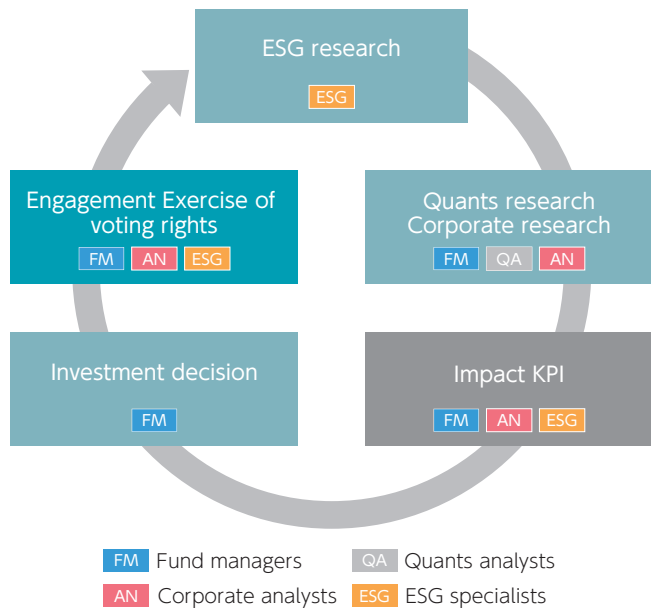
Development background

We believe that a strategy for discovering and investing in companies addressing social issues based on collaboration with professionals from a variety of fields allows us to respond to the desires of investors who want to contribute to society, which lead to the development of this strategy. Members include corporate analysts, quants analysts who are professionals at data analysis, ESG specialists, and portfolio managers belonging to different bases in Japan, Hong Kong, Singapore, London, and New York. As a team, we carry out engagement for the growth of investee companies to maximize social and economic return.

Future outlook

Companies, investors, and society as a whole must recognize social issues caused by changes in global structure, and promote innovations for resolving such issues. Through both top-down engagement based on our participation in global initiatives, and bottom-up engagement based on dialog with companies, it is our desire to help companies contribute to the resolution of social issues, and to pursue asset management capable of leading to a better future society.

Overview of Investment Process





Japan Quality Growth Strategy (Research, ROE Improvement)

In addition to financial information, analysis of non-financial information is important for determining sustainable growth



Tatsuya Suzuki

Active Investment Department,
Equity Investment Unit
Head of Bottom-up Investment Team

Fund overview

Acquisition of stable returns is pursued by medium- to long-term investments in companies whose ROE continuously improves through profit expansion. We focus on “Value Proposition” and “Growth Frontier” as evaluation axes for selecting brands. The premise of “Value Proposition” is the belief that “Company sales are compensation for the added value it provides.” The source of added value is goods and services that meet the demands of consumers, and that help realize human desires such as for joy, health, prosperity, effective use of time, and investment to the next generation. For “Value Proposition,” the appeal of added value provided to customers is analyzed, and for “Growth Frontier,” the creativity of the market where client value is developed is analyzed.

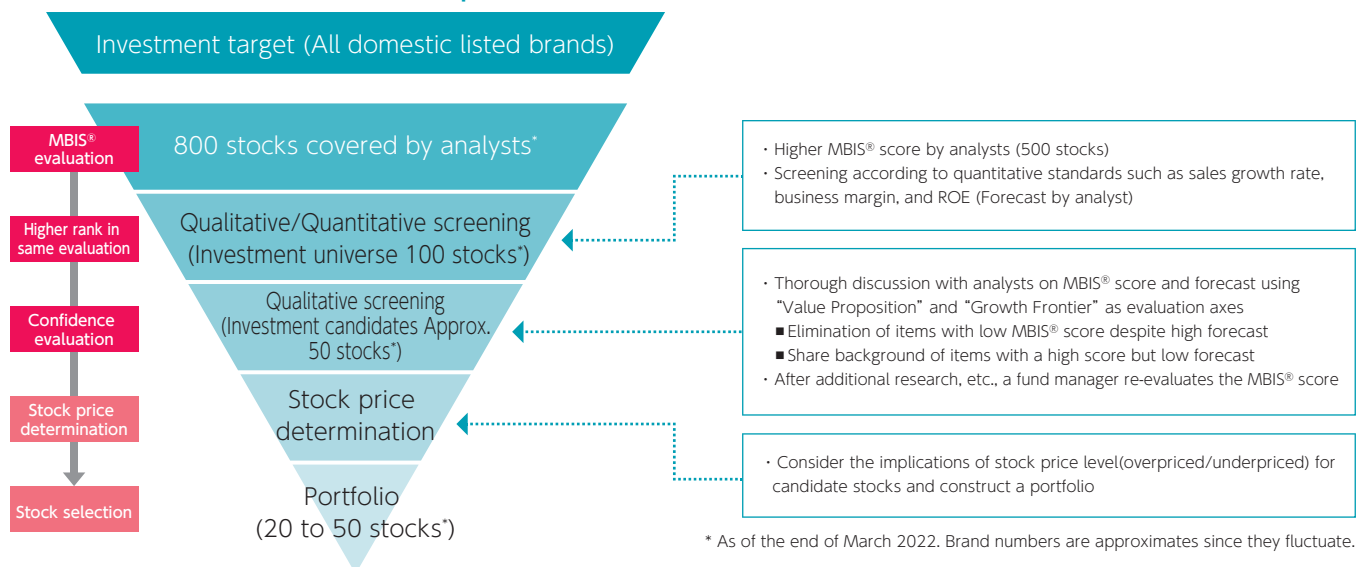
Development background

Rather than focusing on short-term performance, we wanted to invest in the medium- to long-term growth of the company and then return achievements back to the client. This is what led to the development of this strategy. In addition to financial information, analysis of non-financial information is important for determining sustainable growth, so we utilize MBIS®, which is our unique evaluation framework for assessing non-financial information, focusing investment on 20 to 50 stocks. With this product, the assumed investment period for individual companies is three to five years, so we encourage investee companies to improve their medium- to long-term corporate value and sustainable growth through engagement.

Future outlook

It has been over seven years since this operation began back in 2015, and we have been entrusted by our customers who agree with this concept to invest, which results in a solid increase in balance of assets under management. Our desire to “invest in companies whose ROE continuously improves and then return achievements back to the client” has not changed since this operation started. We want to support companies that are continuously growing with a strong management determination regardless of the external environment, and it is our desire to develop this product as a fund for satisfying our customers from the perspectives of “Value Proposition” and “Growth Frontier.”

Portfolio construction process



* As of the end of March 2022. Brand numbers are approximate since they fluctuate.



Domestic Shares High Dividend, Low Beta, ESG-Friendly Strategy

Proactively utilizing ESG information from the perspective of upside potential



Fund overview

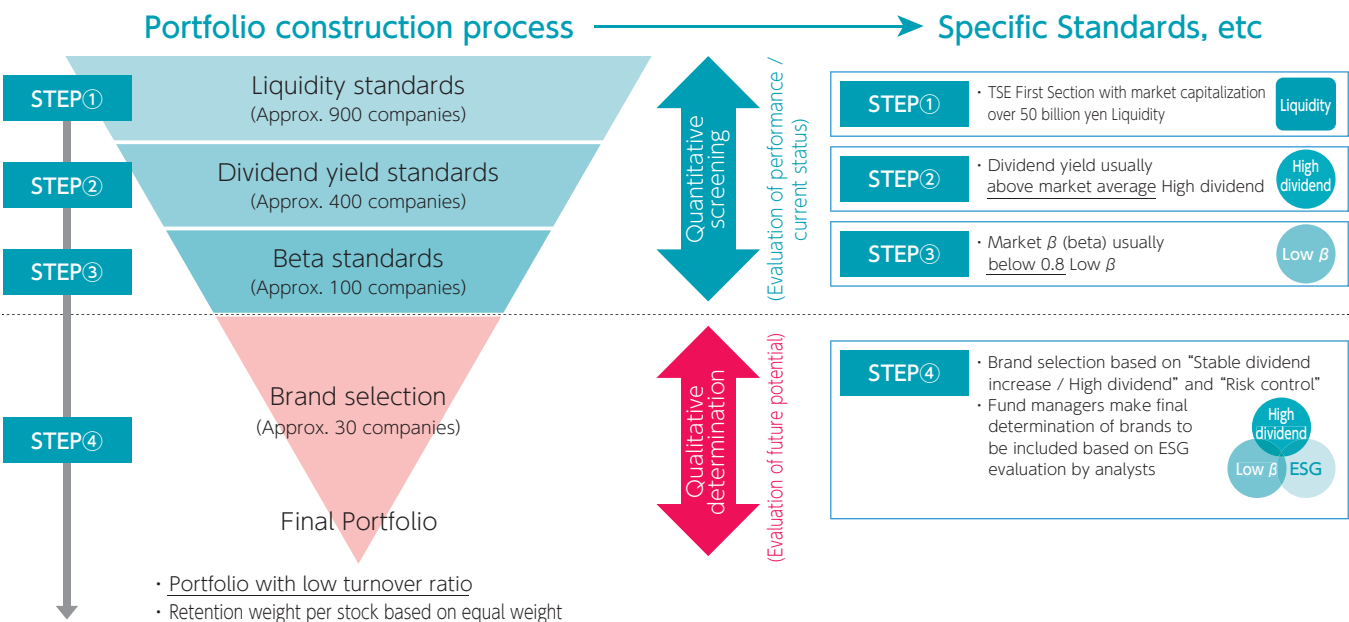
Investment is made in companies with a high dividend yield that can achieve stable profit growth over the medium- to long-term and increase dividends regardless of business fluctuations. When selecting brands to be included, in addition to determination standards for "High dividend yield," "Low beta" indicating resilience to business fluctuation risks, and "High ESG" indicating medium- to long-term sustainability are added and enhanced for increasing the probability of achieving stable profit growth over the medium- to long-term and increasing dividends regardless of business fluctuations.

Development background

We wanted to respond to the demands of investors who wish to invest in high-dividend shares rather than bonds, which lead to the development of this strategy. Since this is an alternative to bonds, we carefully established the investment process for further reducing the risks of the stock price dropping and dividend reduction when compared to general high-dividend strategies. We added low beta standards to the quantitative screening phase as well as dividend yield standards, and also added check items such as recession resistance and shareholder return stance from an economic perspective, and sustainability from an ESG perspective during the qualitative determination phase. Qualitative determination is the key to the success of this strategy, and it is fully supported by corporate analysts and ESG specialists.

Future outlook

This was developed to meet investment needs as an alternative to bonds. In the past, ESG information was utilized for suppressing downside risks such as risks of the stock price drops and dividend reduction. However, we want to proactively utilize ESG information for upside potential for increasing corporate competitiveness and dividend growth capability.





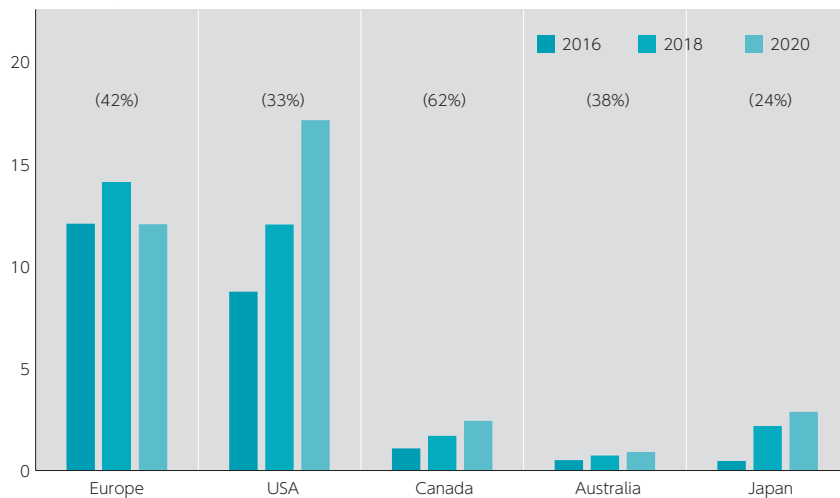
ESG investment approach and our efforts in passive strategy

ESG investment has already become a common investment strategy in Europe and the US, and the investment amount is increasing worldwide. Although the amount is far below that of Europe and the US, in Japan, the ESG investment amount for 2020 increased to more than six times higher than in 2016, becoming the third largest market after the US and Europe. However, the ESG investment ratio is lower than in Europe and the US, so it is believed there is still potential for great expansion.

With ESG investment, in addition to active strategy products, ESG passive strategy products have become more common, which is where investment is made with the aim of tracking with ESG indices that reflect ESG-related information to indices.

Changes in ESG investment amount by region and ESG investment ratio

(Unit: Trillion USD)



Parentheses indicate 2020 ESG investment ratio

Source: The Global Sustainable Investment Alliance

ESG Index

There are differences between each ESG index, such as (1) gap with market benchmarks like TOPIX, and (2) ESG characteristics as a portfolio, such as greenhouse gas emissions and ESG score in ESG index, etc. in the ESG index. The characteristics of (1) and (2) tend to be tradeoffs. The stronger (weaker) the ESG characteristics in (2), the higher (lower) the gap from the index market benchmark. ESG indices can be classified according to the following perspectives.

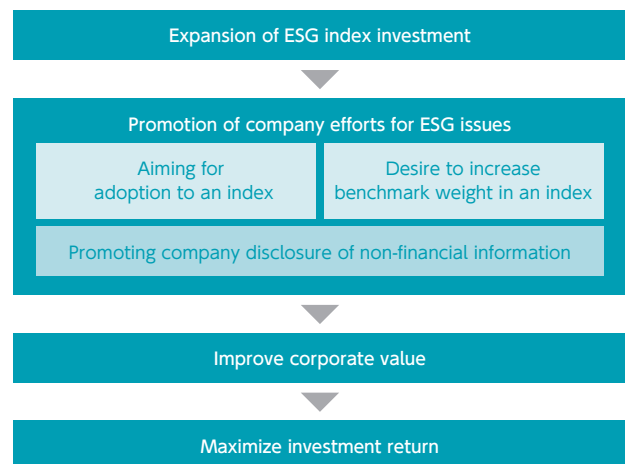
- Classification according to “Comprehensive type” where each ESG evaluation is reflected, and “Specific topic type” where one specific ESG evaluation is reflected such as E where climate change topic are mainly reflected.
- Classification according to ESG index construction method into “Stocks screening type” where the number of stocks adopted for the index is narrowed down to stocks with high ESG evaluations, and “Weight tilt type” where narrowing down the number of stocks adopted for the index is minimized and stocks with high (low) ESG evaluations are given higher (lower) weight in the index.

As explained, there are various types of ESG indices. It is believed that investment in an ESG index and its expansion will have a positive impact for supporting company initiatives for ESG issues through the adoption of a company index and incentives such as higher benchmark weight.

In addition, since a company's information disclosure is used in ESG evaluations that are used for ESG indices, it is believed to be an effective way to promote a company's disclosure of non-financial information.

In this way, it is believed that improving awareness of ESG indices and expanding usage by market participants will encourage companies to change their behavior, which will maximize corporate value, and in turn maximize investment return.

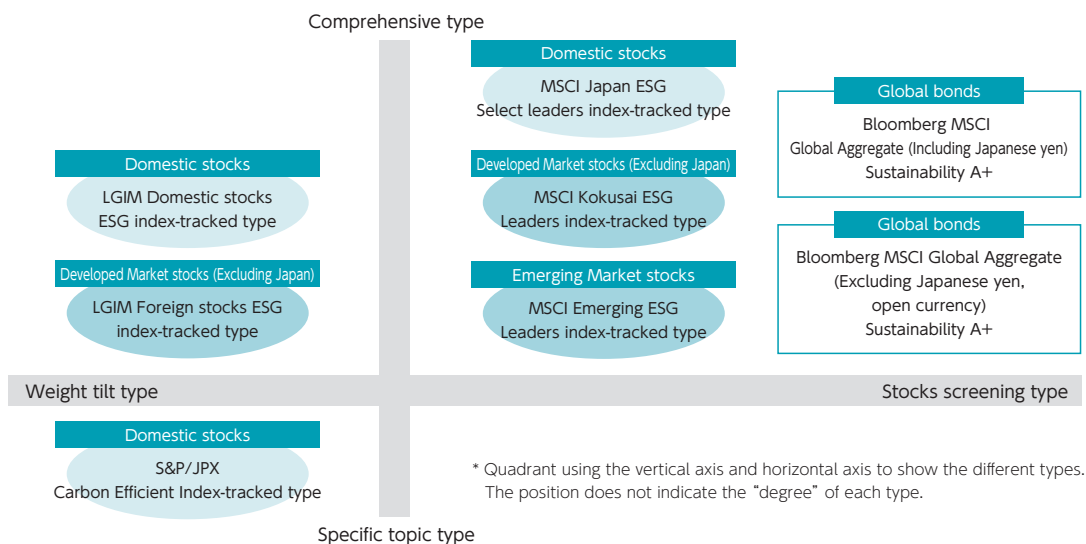
Effect from Expanding ESG Index investment



Source: SMTAM

SMTAM's ESG Passive Investment Strategy

SMTAM's ESG Passive Investment Strategy Map



Source: SMTAM

At SMTAM, we believe that providing a wide range of ESG investment products for passive strategy, active strategy, and assets are an important part of our work as "Responsible Investors" from the following perspectives.

- Part of Stewardship Activities in the sense that it can encourage companies to change their behavior through ESG investment.
- Providing a variety of investment opportunities makes it possible for clients to contribute toward better sustainability for society and companies, as well as investment return.

From the next page, two of our company's passive investment strategies will be introduced.

S&P/JPX Carbon Efficient Index-tracked type strategy (Domestic stocks)

We participate in Net Zero Asset Management initiatives. We believe that developing and providing investment products that address climate change issues are an effective way to accomplish net zero greenhouse gas emissions from investee companies by 2050. Regarding this index, in 2018, SMTAM was the first to launch passive product, and in 2021, the tracked ETF was listed in the Tokyo Stock Exchange.

(Introduction to "Ticker 2642: SMT ETF Carbon Efficient Japan Equity" by TSE Money-bu <https://money-bu-jpx.com/news/article031223/>)

(1) Index features

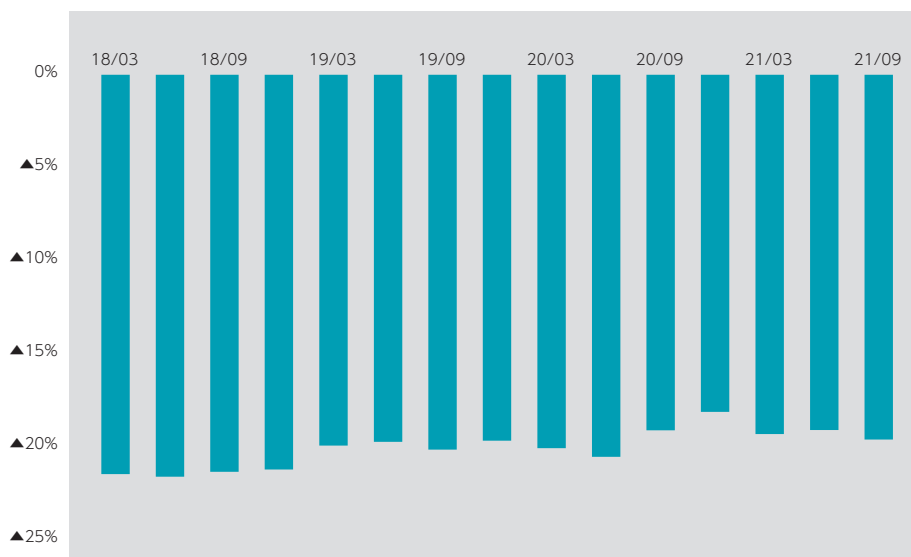
Adopting rules such as increasing the weight of companies who have sufficient information disclosure on greenhouse gasses and companies who have high carbon efficiency (low carbon emissions per sale) can be expected to help promote company information disclosure and carbon efficiency.

(2) Expected impact from investment

Since it is investment to weight tilt type indices where TOPIX constitution stocks are universe, it is limited the gap with TOPIX and aim for the same level of risk/return, and also possible to improve the carbon efficiency of the investment portfolio compared to TOPIX, resulting in visualization of that improvement.

On the other hand, stocks of companies where information disclosure related to greenhouse gas are insufficient or those with low carbon efficiency are also held. Continuing investment in such companies is in harmony with the purpose of our Stewardship Activities, which is engagement and exercise of voting rights as a shareholder to raise the whole market.

Comparison of S&P/JPX Carbon Efficient Index and TOPIX Carbon Efficiency*



Source: S&P Global Ratings

* Carbon emissions / Sales (tCO2e / Million USD)

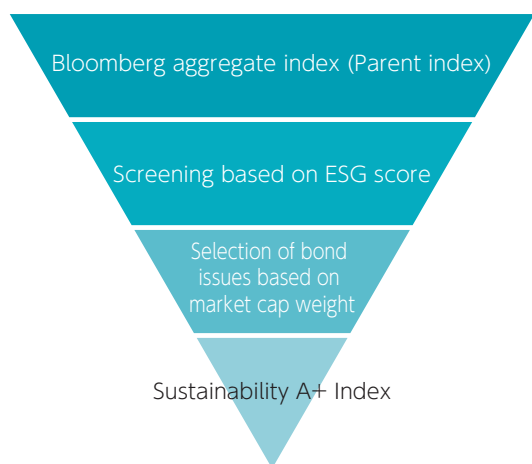
Bloomberg MSCI Global Aggregate Sustainability A+ Strategy (Global bonds)

In recent years, there have been more investments with higher credit risk in order to improve return on bond investment, and it is more important than ever to improve resilience against interest rate hikes (bond price drawdown). Incidents such as Russian invasion of Ukraine have greatly affected the order of international society, and it has become more important to consider ESG factors for making investment decisions on government bonds (Sovereigns).

In order to respond to such clients' needs, we launched and began providing a new ESG bond index-tracked type strategy by adding ESG evaluations to countries, government agencies, and companies in March 2022.

Bloomberg MSCI Global Aggregate Sustainability A+ index is comprised of ESG bond indices where the Bloomberg Global Aggregate is the parent index and where an MSCI ESG score of A or higher is the investment universe including government bonds, agency securities, and corporate bonds. Our aim is to both improve return by incorporating corporate bonds and to improve resilience against bond price drawdown through ESG screening. Regarding ESG screening, in this index, the ESG score threshold is set higher than the original screening threshold of the Bloomberg MSCI Sustainability Index (investment target ESG score is A or higher).

Overview of the Index Construction Process



- ESG scoring of countries and government agencies
Excluding bonds with an ESG Government Score (7 level evaluation from AAA to CCC) of BBB or lower.
Covers 198 countries and regions, and is calculated according to more than 100 items related to the environment, society, and governance (finance/politics)
- ESG scoring of companies
Excluding those with an ESG Score (7 level evaluation from AAA to CCC) of BBB or lower (A or higher are included).
Covers about 8,500 companies, and is calculated according to items related to the environment, society, and governance (corporate governance) across 69 industries
- Company misconduct score
Excluding those with less than "1" in the 11-level evaluation from 10 to 0.
Evaluated when misconduct is found with operations, products, and services related to ESG

Fixed Income ESG

This section will give an overview of ESG integration related to our bond investments.



Significance of ESG integration, in with fixed income investment and equity investment respectively

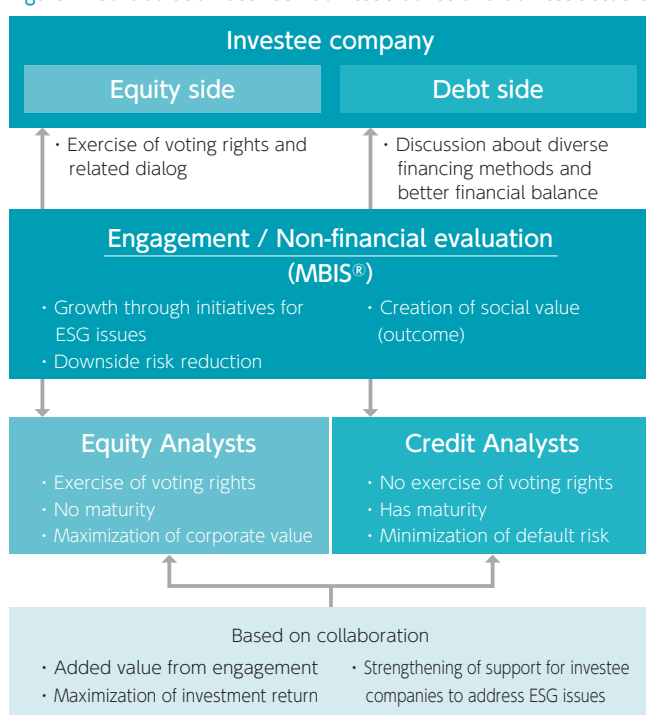
Figure 1: Comparison between bonds and stocks

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

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

Cooperation between credit analysts and equity analysts

Figure 2: Collaboration between domestic bonds and domestic stocks



There are some differences between bonds and stocks, we are unique in that our credit and equity analysts work together. The purpose is the same; 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 integration for fixed income investment

ESG information is used according to the flow in Figure 3 for fixed income management. Details for [Take ESG factors into evaluation of spread level] in (3) Evaluate spread of this flow are shown in Figure 4.

Figure 3: Flow of ESG information utilization for bonds

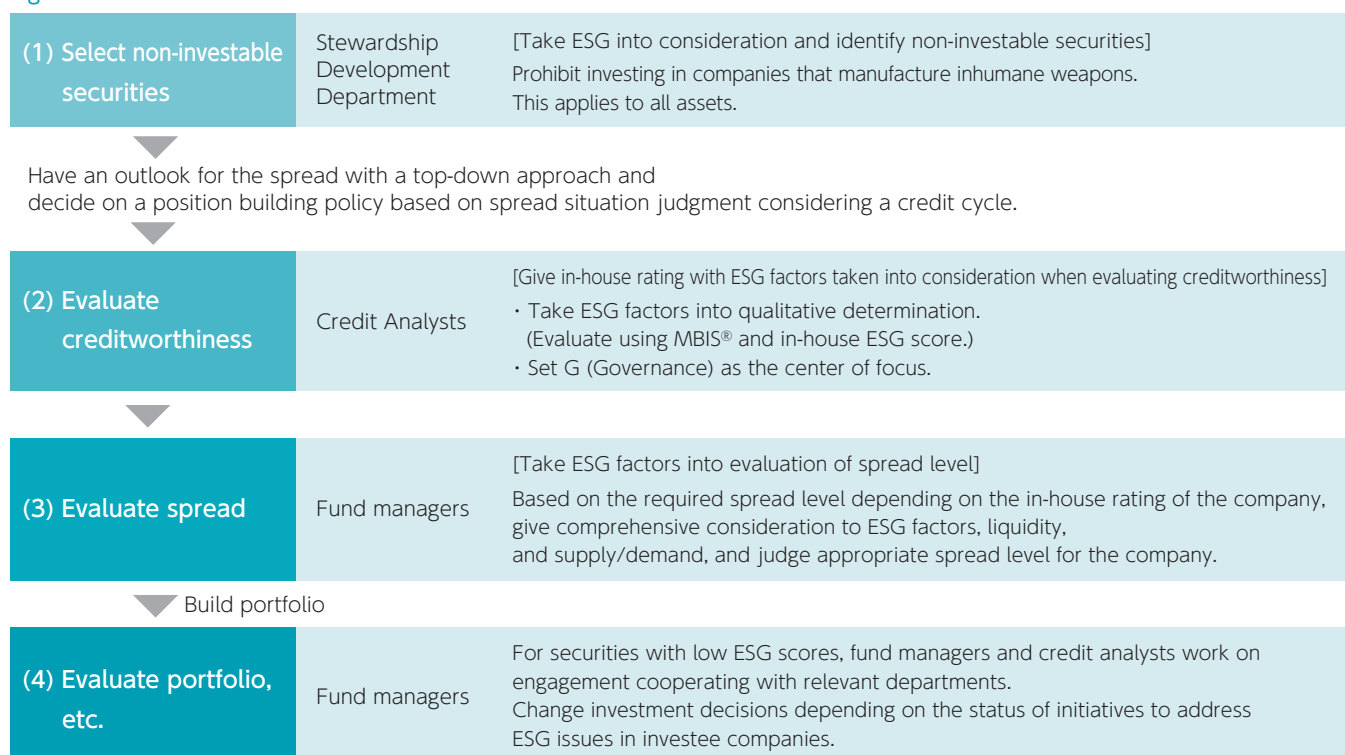
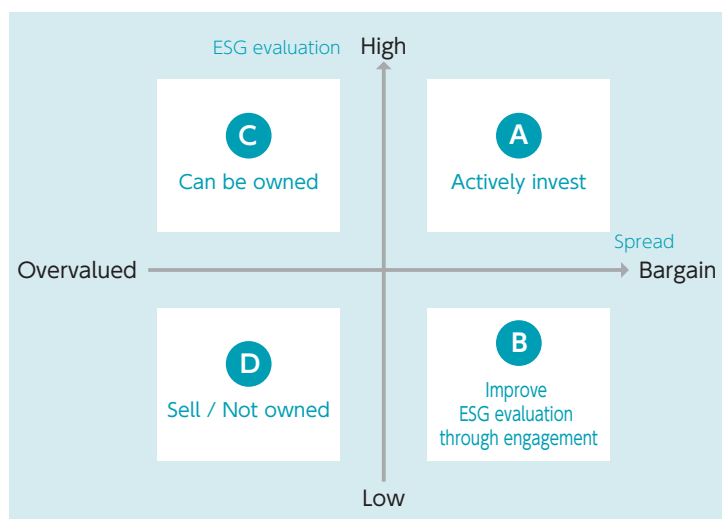


Figure 4: Relationship between spread evaluation and ESG evaluation when making investment decisions



A Actively invest

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

B Improve ESG evaluation through engagement

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

C Can be owned (Possible to own but subject to sell (Not owned))

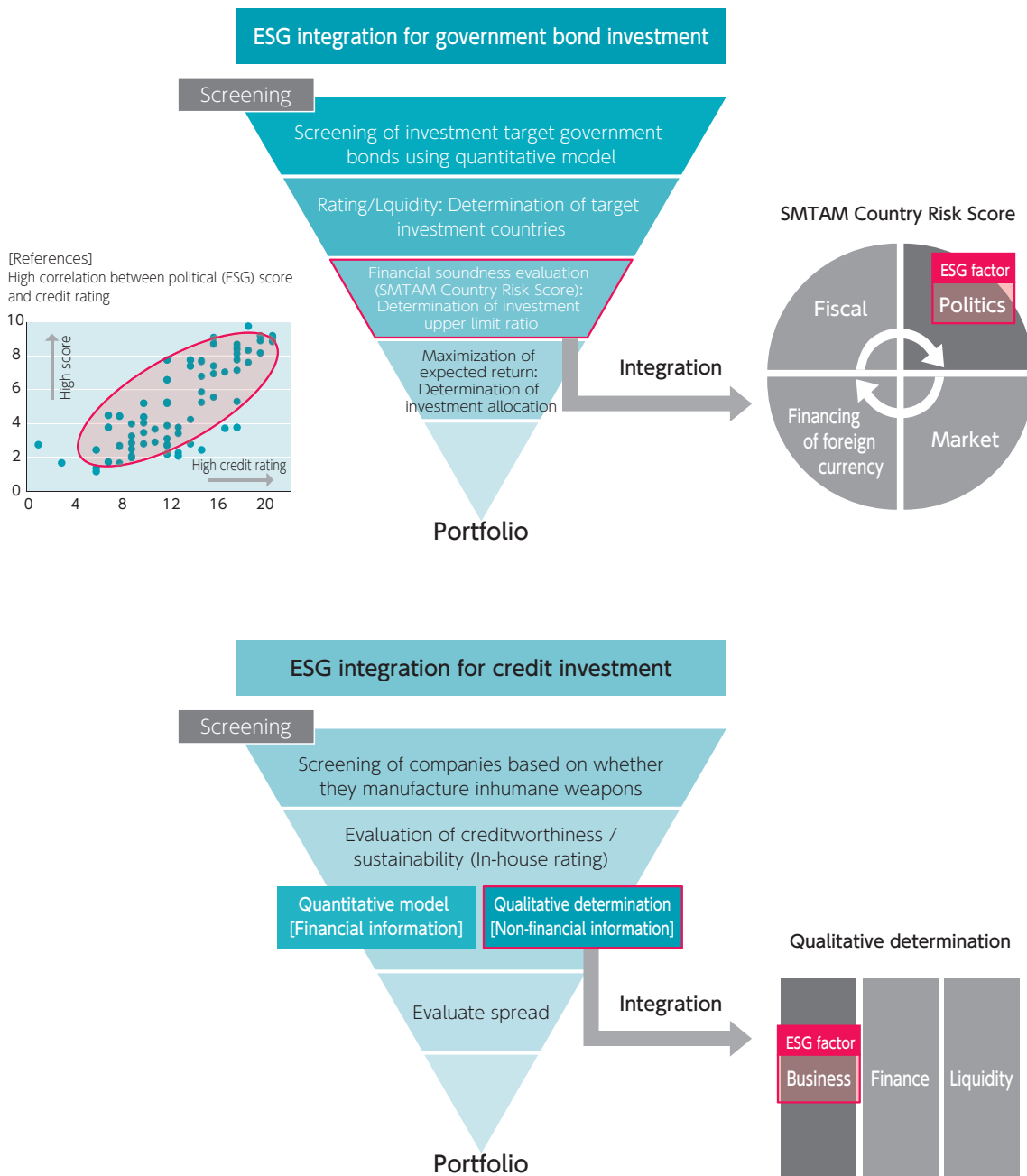
It is overvalued, but the ESG evaluation is high, so it can be owned.

D Sell / Not owned

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

Figure 5 shows the securities selection process and a schematic diagram of ESG integration for government bond investment (Sovereigns) and corporate bond investment (Credit). For government bond investment in particular, financial soundness and politics are scored in the SMTAM country score. For political score, each country is evaluated and given a score on environmental aspects (E) such as climate change, social aspects (S) such as human capital, and governance aspects (G) such as legal system and political stability. This is equivalent to an ESG score. The higher the score, the higher the credit rating.

Figure 5: Securities selection process for government bond investment and corporate bond investment



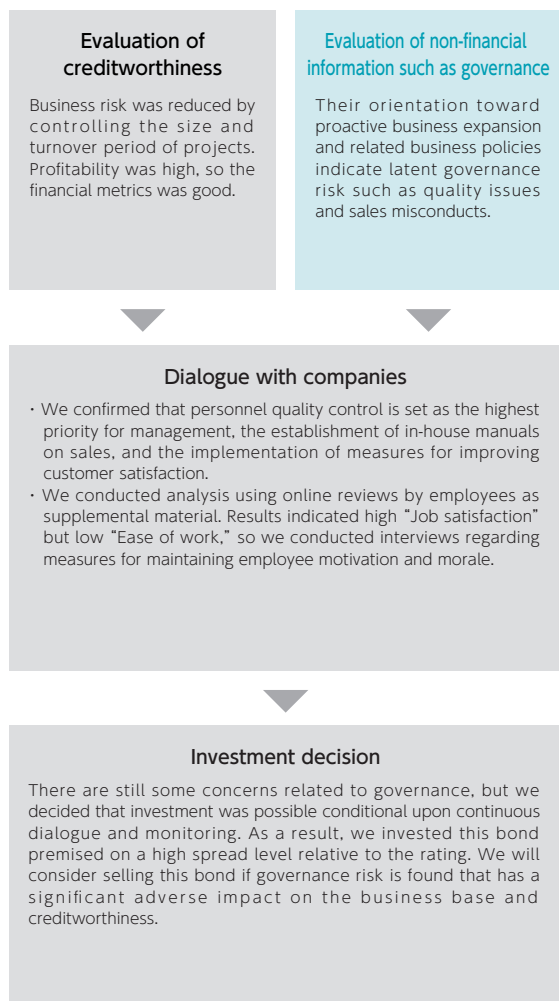
Dialogue on Bond Investment and Examples of Investment Decisions

This section will introduce examples of dialogues with companies about corporate bonds and related decisions on investments and policies.



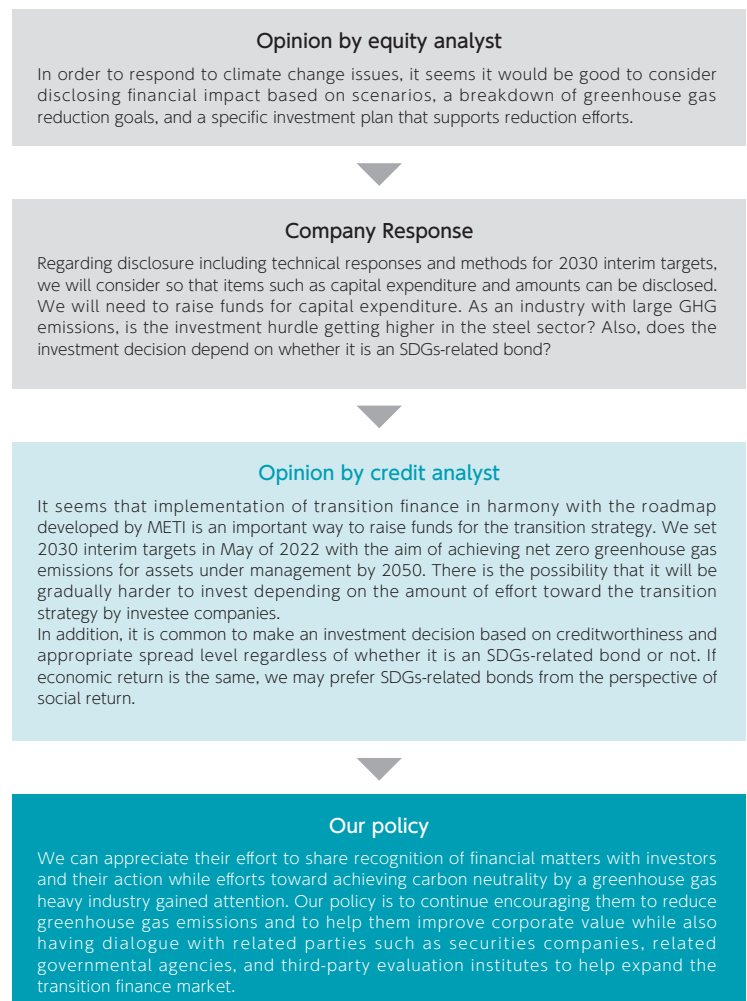
Real estate company A

This was a case where we decided that dialogue was needed since there were governance related concerns while spread was undervalued compared to the rating. This company applied to quadrant B in Figure 4 on page 62, and we believed it was necessary to “Improve ESG evaluation through dialogue” for investment.



Steel Company B

For company B, which belongs to an industry that emits a large amount of greenhouse gases, a transition strategy is an urgent issue requiring a large amount of capital. We believed that more effective dialogue would be possible with the company if we collaborated with an equity analyst.



Disclosure of Climate-related Financial Information under TCFD

We believe that important issues concerning the Environment, Society, and Governance (hereinafter, ESG) will affect the long-term return of assets under management entrusted from our customers. In particular, the effects of climate change have certainly begun to materialize and are beginning to have an impact on the corporate value of our investee companies. We believe it is important to evaluate the potential profit opportunities and risks in these investee companies. As such, we are reflecting the evaluation in investment decision processes and leveraging it in business management.

Based on this concept, SMTAM endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in February 2019. The following is an explanation of the measures taken by our company on climate change issues in accordance with the recommendations.



Representative Director and Chairperson/
Chairperson of the Board of Directors

David Semaya

Our Approach against Climate Change Issues

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

Under the Paris Agreement that came into force in November 2016, signatory nations globally agreed to “hold the increase in the global average temperature to well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5 degrees Celsius above pre-industrial levels,” in order to ensure global sustainability. A forecast released by the Intergovernmental Panel on Climate Change (IPCC) in August 2021 pointed out that the temperature will increase 1.5 degrees between 2021 and 2040, and stated, “It is unequivocal that human influence has warmed the atmosphere, ocean and land.” The 26th UN Climate Change Conference of the Parties (COP26) held in Glasgow, UK in the fall of 2021 gained attention as the first COP during the critical decade until 2030 for avoiding the negative influence of climate change. According to the Glasgow Climate Pact, which includes the essence of the agreement at this conference, 1.5 degrees became a clear target rather than just a non-binding goal by stating the “determination to limit the rise in the global average temperature to 1.5 degrees.” I personally had the opportunity to participate in COP26, which allowed me to join in various meetings and panel discussions. This reminded me of the important role that management companies play in addressing climate change issues.

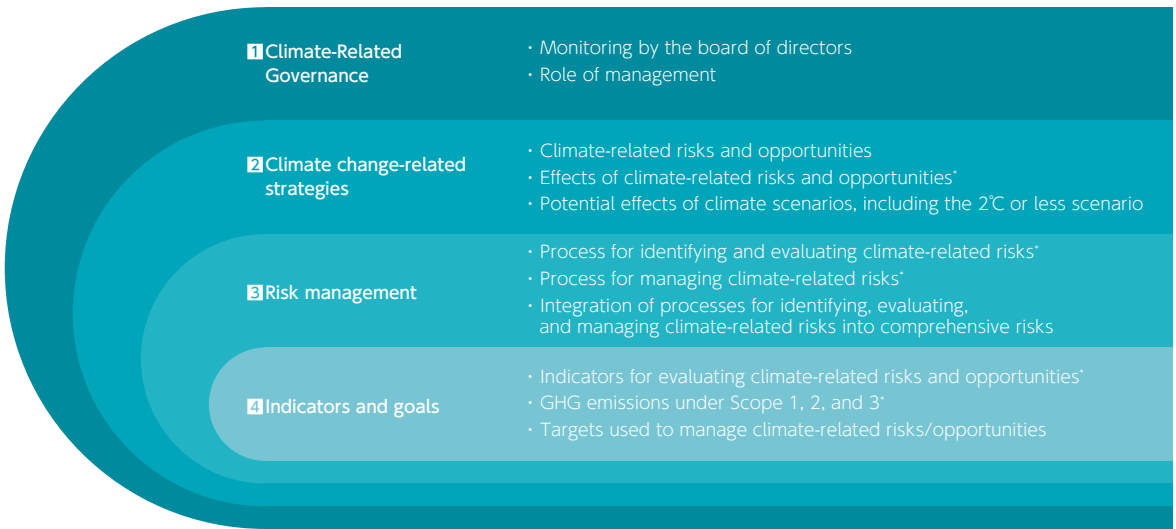
The use of fossil fuels, which are the source of greenhouse gas, must be significantly phased out if these goals of bringing global warming under control are to be met. However, the sharp increase in energy prices caused by the invasion of Ukraine by Russia and the strain on energy supply and demand in Japan are examples indicating the need for a “short-term transition” that is in line with a “long-term transition.” Such transitions are necessary for concepts, perspectives, and methods for both “from now” and “up to now.”

We still firmly believe that climate change has the potential to cause the global environment to deteriorate in an irrecoverable manner in the medium to long term, and have a significant impact on the corporate value of our investees over time. It will become a more important issue from a longer term perspective while responding flexibly to changes. Based on this big picture, we are bolstering various activities and information disclosure on climate change issues in order to solve one of the biggest challenges facing the international community, and to fulfill our fiduciary duty of maximizing the return on medium- to long-term investments entrusted by our customers and to reduce downside risks.

TCFD

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

Information Disclosure Recommended by the Task Force

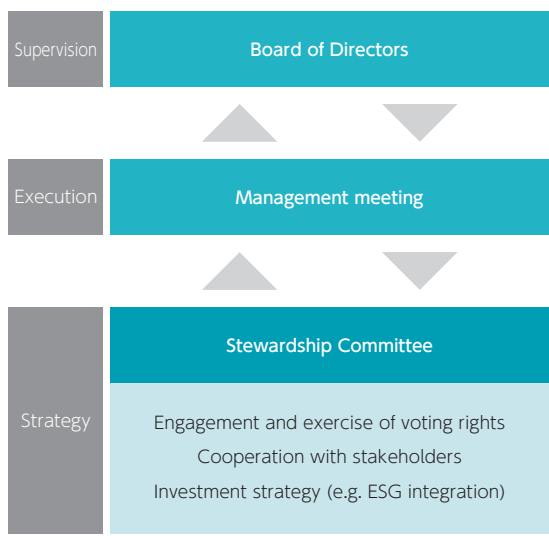


* Items are particularly required for asset managing companies

1 Climate-Related Governance

At SMTAM, the Board of Directors performs a supervisory function on issues related to climate change as well as other important management issues. In 2020, the issues were been clarified as matters to report to the Board of Directors in the board of directors regulations so that more direct oversight can be carried out.

The matters to be reported to the Board of Directors consist of the company's strategies for climate change issues, risk management, and monitoring of indicators and goals. These matters are discussed, planned, and checked by the management meeting chaired by the president and organized by the officers who control each business sector. Under this structure, the stewardship meeting—a cross-company organization acting as a secretariat—promotes administrative work on risk management and strategies related to climate change. The supervision and execution of climate change issues will be primarily carried out through the strategies we describe later (“Engagement and exercise of voting rights,” “Cooperation with stakeholders,” and “Investment strategy.”)



SMTAM is using a remuneration evaluation method of prominent officers such as CEOs determined by the Compensation Committee, which mainly consists of external directors, and KPIs related to the reduction of greenhouse gas emissions from our portfolio are being introduced in the evaluation. For example, a certain percentage of long-term incentives for CEOs are evaluated based on these KPIs. Similar evaluation methods are also used for other major officers.

2 Climate change-related strategies

(1) Common Climate Change Risks and Opportunities

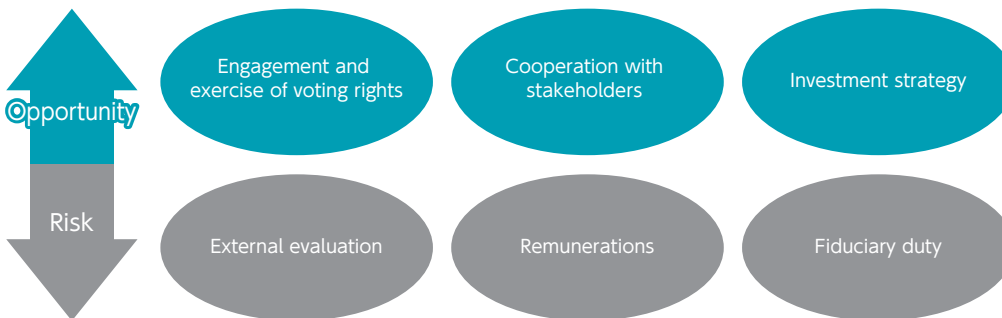
Transition risk	
Regulatory risk	Stricter environmental standards
Technological risk	Obsolescence of existing technology
Market risk	Shift of fossil fuel assets into stranded assets
Reputational risk	Risk of boycotts by consumers

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

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

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

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



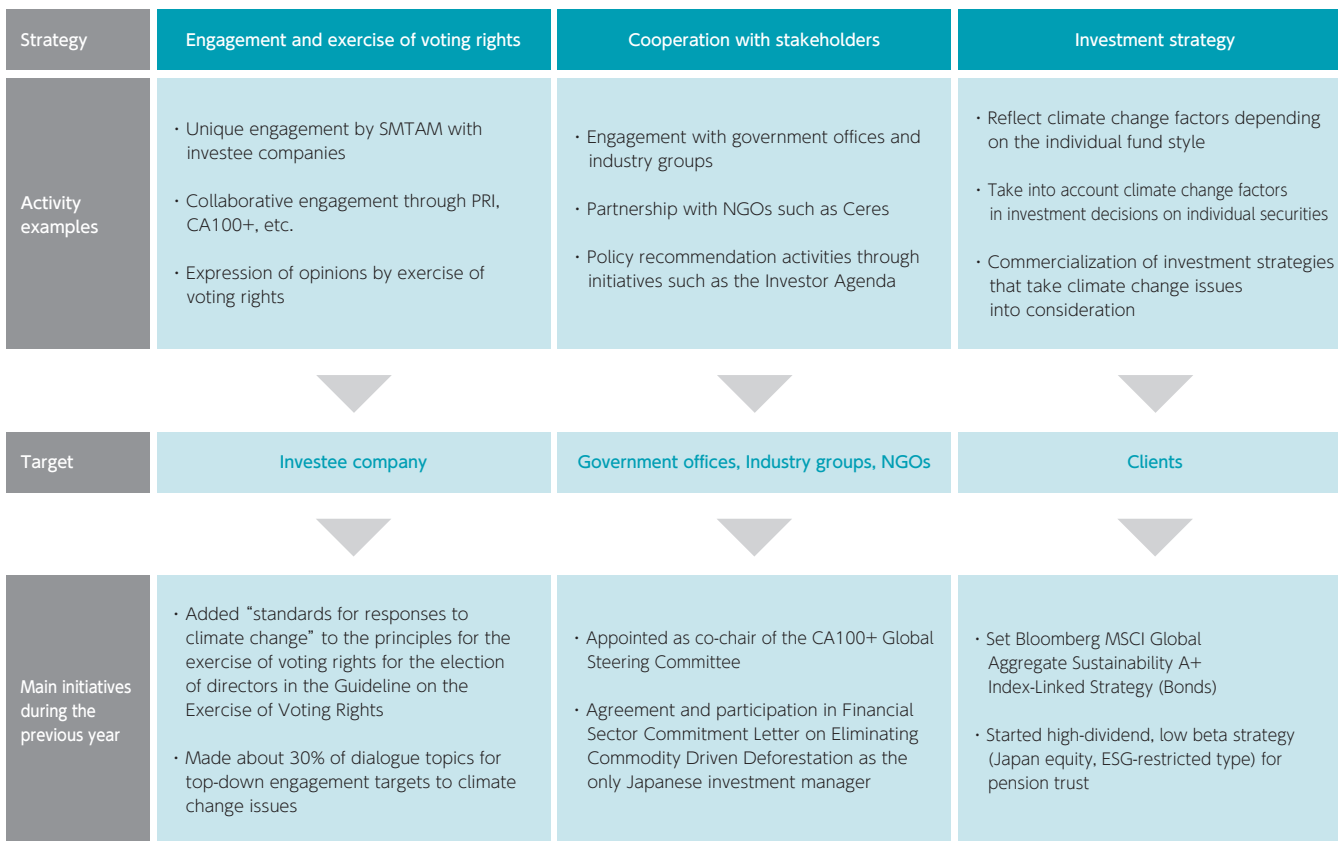
A. Risk

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

B. Opportunity

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

(3) Strategy



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

We view engagement and exercise of voting rights as a direct opportunity to actively ask for investee companies to make management decisions and build structures on the basis of climate change risks, in order to maximize asset under management and reduce investment risk. Engagement may be conducted by SMTAM as its own activities or through initiatives¹ such as PRI and CA100+. Also, for the exercise of voting rights, we added standards for responses to climate change to the principles for the exercise of voting rights for the election of directors. We will not simply withdraw from investment (divestment) to exclude companies with high greenhouse gas emissions from 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 society as a whole.

In cooperation with stakeholders related to climate change, we carry out engagement with government offices and industry groups and offer opinions on policies through such as The Investor Agenda¹.

We aim to reduce investment risks and improve returns by adopting investment strategies based on climate change issues. We reflect climate change factors depending on the client's intentions, investment strategies, and other specific circumstances. We increase or decrease the composition weight of individual securities in consideration of climate change factors in our investment decisions. We also offer our customers investment opportunities related to climate change by providing investment products.

*1. See pages 75 and 76.

List of investment strategies that take climate change issues into consideration

Active/ Passive	Asset Class	Index/Investment strategy name	Details
Passive	Japan Equity	S&P/JPX Carbon Efficient Index ^{*2}	<ul style="list-style-type: none"> S&P Dow Jones Indices, the world's largest independent index provider, builds the index based on carbon emissions data from Trucost, a pioneer in environment evaluation. The index puts heavier investment weight on companies that have high carbon efficiency (low greenhouse gas emissions/sales) and companies that disclose information on greenhouse gas emissions in the same industry. We provide products linked to the index.
Passive	Global Equity (Including Japan Equity)	SMT MIRAI Index Eco Index ^{*2}	<ul style="list-style-type: none"> We use our knowledge of quant active management to formulate the methodology for the FactSet Global Environmental Opportunities Index, which is an environmental-related theme index, and FactSet performs calculations. Investment targets are companies that obtain more than half of their sales from environmental-related business, including "alternative/renewable energy," "energy conservation," "efficient use of resources," "waste disposal," and "water resource conservation," and we offer products linked to the index.
Passive	Global Fixed Income	Bloomberg MSCI Global Aggregate Sustainability A+ Index-Tracked Strategy (Global Fixed Income)	<ul style="list-style-type: none"> Bloomberg MSCI Global Aggregate Sustainability A+ is comprised of ESG bond indices where the Bloomberg Global Aggregate is the parent index and where an MSCI ESG score of A or higher is the investment universe including government bonds, agency securities, and corporate bonds. Our aim is both to improve return by incorporating corporate bonds and resilience against bond price drawdown through ESG screening.
Active	Japan Equity Global Equity	Japan Equity Impact Investment Strategy Global Equity Impact Investment Strategy	<ul style="list-style-type: none"> This is an absolute return-type active investment strategies which aims to achieve social returns as well as economic returns by means of concentrated investment in companies that work on SDGs and other activities to solve social issues. The objective is to engage with companies and increase the probability of earning social and economic returns on the basis of an impact KPIs set for each brand.
Active	Japan Equity	Japan Equity Responsible Investment Management Strategy	<ul style="list-style-type: none"> This is an active investment strategy for achieving an excess return against TOPIX by investing in companies that have a strong commitment to ESG. We select investment stocks on the basis of credit risk judgment, ESG evaluation, and stock price evaluation from SRI universe candidates selected by analysts and ESG specialists.
Active	Japan Equity	Japan Equity High Dividend Low Beta Strategy Fund (ESG-restricted)	<ul style="list-style-type: none"> Investment is made in companies with a high dividend yield that can achieve stable profit growth over the medium- to long-term and increase dividends regardless of business fluctuations. In addition to determination criteria such as "High dividend yield," "Low beta" for identifying resilience to economic fluctuation risk and "High ESG" for determining medium- to long-term sustainability are added and it is strengthened.
Active	Japan and Global Equity	Decarbonization-related Global Equity Strategic Fund (Asset growth type) / (Expected dividend offer type) ^{*2}	<ul style="list-style-type: none"> This is an active management fund where investment stocks are selected from among companies related to decarbonization after verifying growth potential and degree of undervalue on stock by means of fundamental analysis.
Active	Japan and Global Fixed Income	Future Focus Corporate Bond Investment Strategy	<ul style="list-style-type: none"> This is an active management strategy of investing in the bonds issued by companies (including issuers other than companies such as governments, government-affiliated organizations, local governments, and international organizations) that have a track record of issuing bonds, etc., where use of funds is related to the resolving of environmental and social issues, and bonds that incorporate resolving environmental and social issues in the issuance conditions, etc.

*2 See pages 81 and 82.

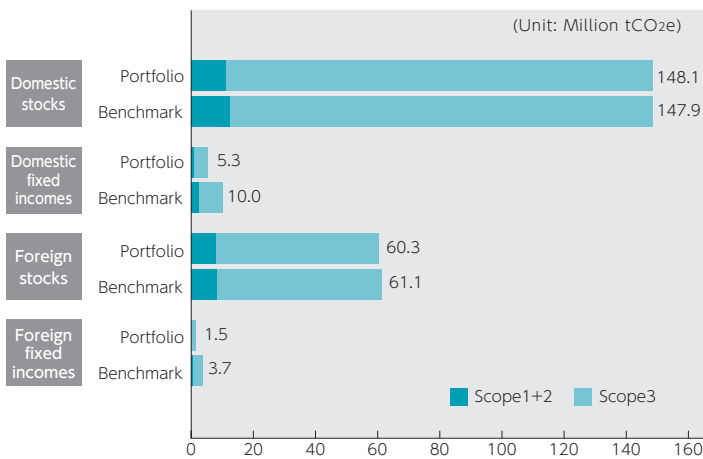
3 Risk management

We evaluate risks for managed assets related to climate change according to the asset class, and then integrate asset classes to evaluate all held assets. Our assessment method involves using (1) fixed point analysis based on the disclosed information disclosure of companies that make up our portfolio, along with their performance figures, and (2) transition pathway analysis based on future climate change-related scenarios. The following is a summarized disclosure of analysis results related to domestic and foreign shares as well as domestic and foreign bonds managed by SMTAM. The analysis was carried out using the data and analysis methods of an outside organization³. (The base date is June 30, 2022.)

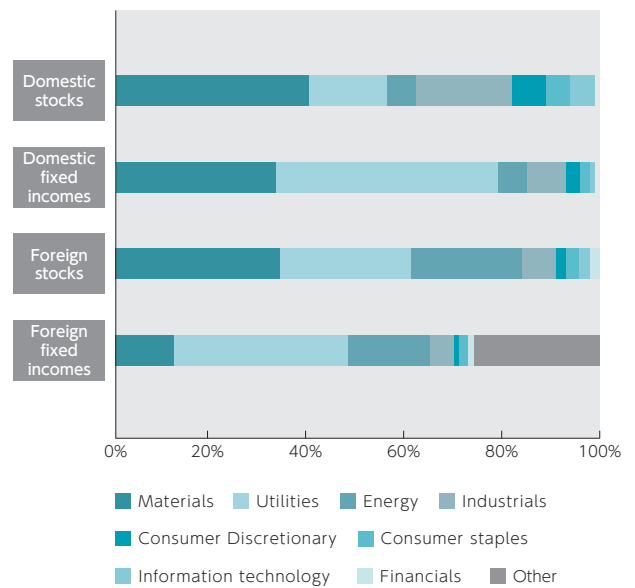
(1) Fixed point analysis (Greenhouse gas emissions, etc.)

This is an attempt to ascertain the status of Greenhouse Gas Emission Exposure and other conditions at a fixed point in time, based on investee company disclosure data and other information. Domestic shares, domestic bonds, foreign shares, and foreign bonds are the targets, and the total carbon emissions for each asset (Scopes 1 and 2) are below the benchmarks, and have decreased compared to the previous year (end of June 2021). However, regarding Scope 3 emissions, changes to the methodology by external institutes (adoption of company published figures that meet the conditions, segmentation of industry classification for stochastic models, and widening of the stochastic target categories) has had a major impact, and three assets excluding foreign fixed incomes increased over the previous year. In particular, there was a significant impact on domestic shares, and total emissions (Scopes 1, 2, and 3) slightly exceeded benchmarks in a reversal from the previous year. Looking at industry-specific emissions, utilities and materials made up a large part of the total for each asset, which means there was no change.

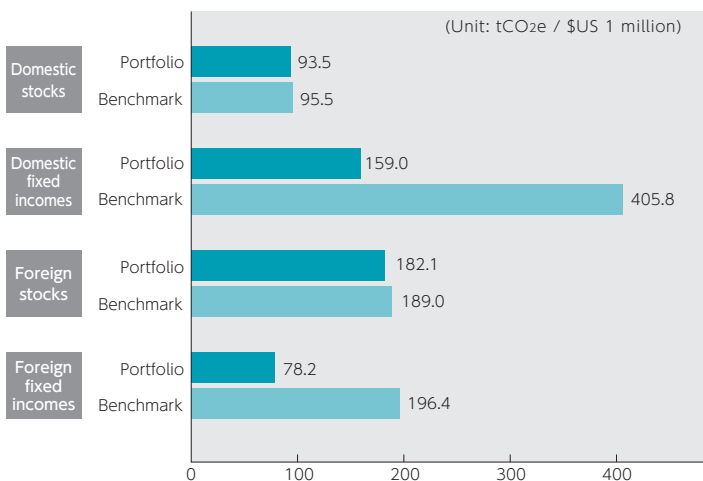
Greenhouse gas emissions by managed assets^{4 *6 *7}



Industry-specific breakdown of greenhouse gas emission^{5 *7}



Weighted average carbon emissions (Emissions per unit sales)^{5 *6 *7}

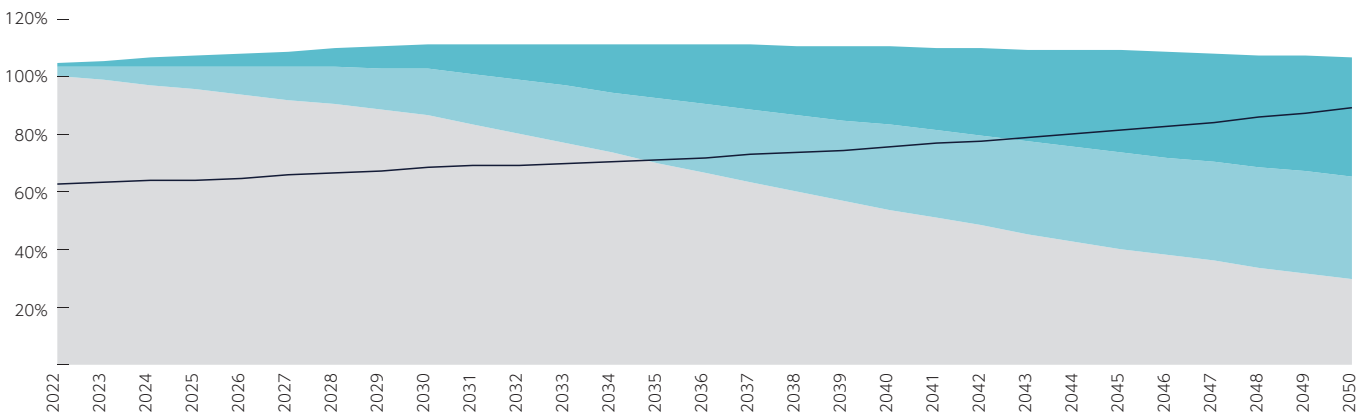


On the other hand, as with the previous year, weighted average carbon emissions (emissions per unit sales, Scopes 1 and 2) are below the benchmarks for each asset. It seems that the value of domestic bonds are high due to the large composition ratio from the utilities sector such as electric power companies. The value of foreign shares is also high, but it is believed that this is due to the relatively large number of held shares issued by companies in the utilities and materials sectors in China and Asia.

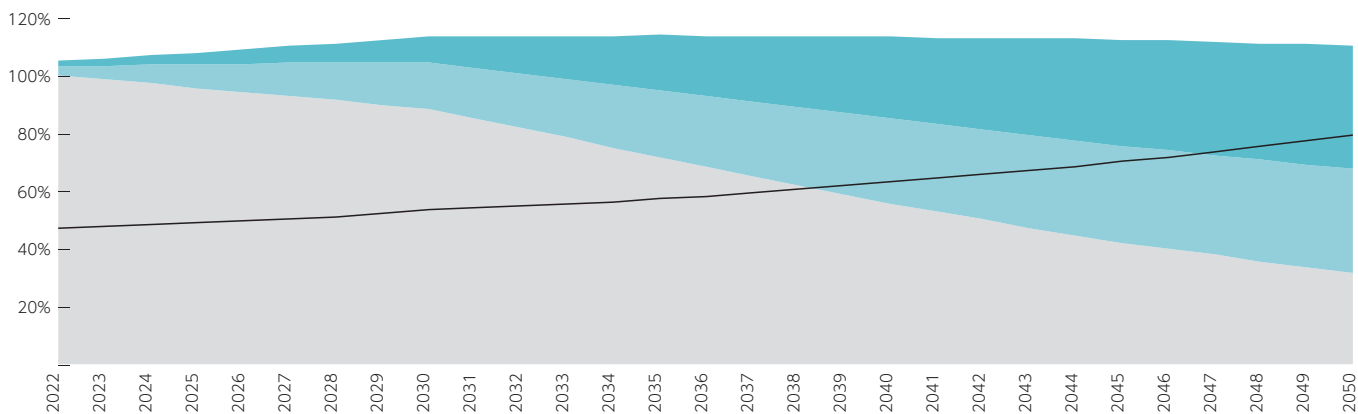
(2) Transition Pathway Analysis

Comparison of the expected pathway for greenhouse gas emissions by all assets managed by SMTAM and emission budgets for each climate change scenario^{7*8*9}

Passive Investment Strategy



Active Investment Strategy



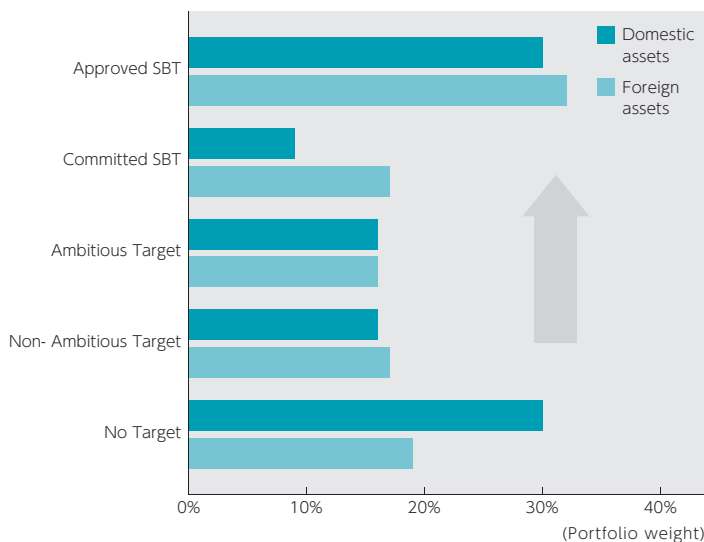
— Portfolio ■ Sustainable Development Scenario (SDS) ■ Announced Pledges Scenario (APS) ■ Stated Policy Scenario (STEPS)

Transition pathway analysis assesses how the portfolio's climate change risk will change in the face of different scenarios for future climate change. The projected greenhouse gas emissions of the portfolio are compared with the projected carbon budgets calculated according to different climate change scenarios, and this produces an assessment of the portfolio's resilience relative to the different scenarios over time. Specifically, evaluation will be based on the three scenarios of the International Energy Agency (IEA), which are the "SDS: Sustainable Development Scenario," "STEPS: Stated Policy Scenario," and "APS: Announced Pledges Scenario."

This time, we decided to disclose the analysis according to the Passive Investment Strategy and Active Investment Strategy. This confirms that the emissions of all assets we manage (all domestic shares, domestic bonds, foreign shares and foreign bonds) are likely to reach the SDS-allowed emissions by 2035 with the Passive Investment Strategy, and by 2039 with the Active Investment Strategy. Last year, it was confirmed that SDS-allowed emissions for all assets under management (Active Investment Strategy + Passive Investment Strategy) will likely be achieved by around 2032, which indicates that improvements were made during that time. It is believed that the reason why the Passive Investment Strategy is relatively subordinated is that the composition ratio of held shares and bonds from the public sectors and the raw materials sectors in Japan and overseas (especially Asia) became higher compared to the Active Investment Strategy.

To summarize these analysis results, we believe that in order to effectively reduce greenhouse gases emitted by assets under management, for domestic shares and foreign shares sorted by asset, as well as for investment with assets across the raw material, public interest, and energy sectors, it is important to encourage the promotion of initiatives for addressing climate change through engagement and the exercise of voting rights, and important to discover investment opportunities by considering climate-change-related risks and opportunities, and then provide these to clients.

Survey on climate-related targets



We recognize that, last year, there are many investee companies in our portfolio of managed assets that are not aggressively addressing climate change issues. We consider increasing the number of investee companies that can set ambitious goals, commit to SBT, and obtain certification¹⁰ to be an important measure, and we will actively work with investee companies. According to the survey results this time, the configuration ratio of companies receiving an SBT Certification increased from 18% last year to 30% for domestic assets, and from 23% to 32% for foreign assets. On the other hand, the configuration ratio of “No Target” decreased from 37% last year to 30% for domestic assets, and from 27% to 19% 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.

*3 ISS (Institutional Shareholder Services)

*4 Based on Scope 1+2+3

*5 Based on Scope 1+2

*6 Benchmarks are:

Domestic shares: Tokyo Stock Price Index (TOPIX)

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

Foreign shares: MSCI-ACWI (ex Japan)

Foreign bonds: Bloomberg Global Overall

(excluding Japan) (Corporate bonds only)

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

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

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

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

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

Scenario for achieving the goals stated by governments (end of this century +2.6 degrees).

APS (Announced Pledges Scenario)

Scenario where ambitious targets set by each government are met (end of this century +2.1).

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

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

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

4 Indicators and goals

After considering matters such as strategies, risk management, and issues related to access to various data mentioned above, we perform fixed point analysis and transition pathway analysis of domestic shares, domestic bonds, foreign shares, and foreign bonds that we manage individually and collectively. As a responsible institutional investor, in order to achieve the global sustainability agreed upon under the Paris Agreement, we will continue to “hold the increase in the global average temperature to well below 2 degrees above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5 degrees above pre-industrial levels,” in order to ensure sustainability, and to continue our “determination to limit the rise in the global average temperature to 1.5 degrees” as stated at COP26.

Plans for the future

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

Corporate Profile

Balance of assets under management

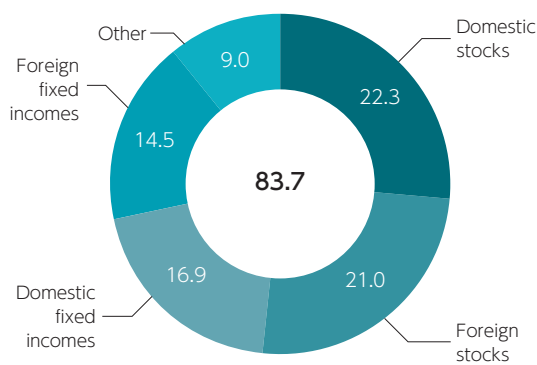
As of the end of June 2022

Approx.
83.7 trillion yen

Investment advisor business: Approx. 69.5 trillion yen

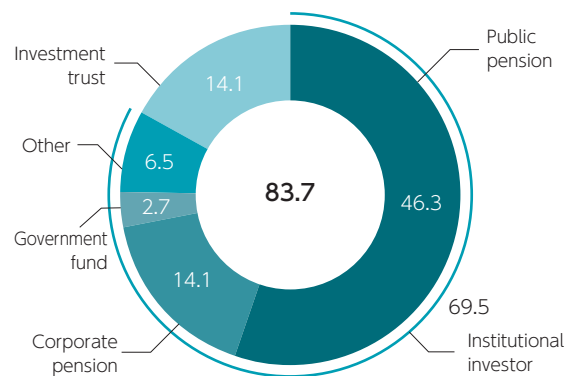
Investment trust business: Approx. 14.1 trillion yen

By asset class (Unit: Trillion yen)



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

By client type (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 customers.
• Most of our customers are in Japan, but foreign customers in the Middle East and Europe have been increasing in recent years.

Companies exercising voting rights

As of the end of June 2022

Number of Japanese companies	Approx. 2,600
Investment balance	Approx. 22 trillion yen
Number of foreign companies	Approx. 2,700
Investment balance	Approx. 21 trillion yen

Stewardship activities

[Number of meetings per year] From July 2021 to June 2022

	Number of engagement meetings	Approx. 1,200
Domestic	Number of engaged companies	Approx. 500 companies
	Number of contacts with companies (Overall*)	Approx. 7,600
Overseas	Number of engagement meetings	Approx. 320
	Number of engaged companies	Approx. 260 companies

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

Responding to the Stewardship Code

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

	Initiative	Self-assessment
Principle 1 Policy formulation and disclosure	We re-endorsed the revised Principles for Responsible Institutional Investors <<Japan's Stewardship Code>>, which was published on March 24, 2020. Sumitomo Mitsui Trust Asset Management has formulated and published a "Policy for Addressing the Principles of the Japan's Stewardship Code."	<ul style="list-style-type: none"> We think our response at present is appropriate, but we will review our response from time to time when we deem it necessary.
Principle 2 Conflict of interest management	<ul style="list-style-type: none"> As the investment managing company of the Sumitomo Mitsui Trust Group, we have put in place an essential conflict of interest management system. We have disclosed summaries as needed of the deliberations of the Stewardship Activities Advisory Committee, which is an independent committee. 	<ul style="list-style-type: none"> We think our response at present is appropriate, but we will continue to review it at correct times as environmental changes and other factors warrant.
Principle 3 Accurate understanding	<ul style="list-style-type: none"> Engagement activities were promoted by means of a top-down approach based on our ESG12 topics, a market cap approach that focuses on the scale of the market price, and a risk approach targeting companies with a low ROE. 	<ul style="list-style-type: none"> We received the Best ESG Engagement Initiative award by the Asia Asset Management as well as other high evaluations for our activities including having our activities being listed as the only good example from Japan of an evaluation framework for ICAPs (Investor Climate Action Plans)*.
Principle 4 Dialogue with companies	<ul style="list-style-type: none"> Engagement activities were carried out through trilateral cooperation among our Tokyo, London, and New York bases. We promoted collective engagement activities in Japan as a member of the Institutional Investor Collective Engagement Forum (IICEF). 	<ul style="list-style-type: none"> Corporate action in harmony with our expressed opinions tends to continue increasing. Through the IICEF, as the lead manager of the parent-subsidiary listing issue agenda, we held collaborative talks with six companies.
Principle 5 Exercise of Voting Rights	<ul style="list-style-type: none"> We disclosed our voting records on all proposals for all brands we hold (in October 2021 and January, April, and July 2022). We disclosed our reasons for voting on each of the proposals which need explanation in light of the guidelines for exercise of voting rights. We disclosed details on voting activity in the Stewardship Report. Standards for responding to climate change and gender diversity were added based on revisions to the Guideline on the Exercise of Voting Rights (January 2022). 	<ul style="list-style-type: none"> We think our response at present is appropriate, but we will work to maintain and enhance the transparency of our exercise of voting rights going forward. In order to increase the value of investee companies through the sophistication of corporate governance and the addressing of environmental and social issues, as a minimum standard, we will continue revising the guidelines for exercising Guideline on the Exercise of Voting Rights in a timely and appropriate manner.
Principle 6 Reporting to clients and beneficiaries	<ul style="list-style-type: none"> We are providing explanations about our stewardship activities to asset owners periodically or non-periodically. We found opportunities at external seminars and workshops for explaining our Stewardship Activities. We released our 2021/2022 Stewardship Report in November 2021. 	<ul style="list-style-type: none"> We think our response at present is appropriate, considering our direct reporting to asset owners, our hosting of seminars, the release of our Stewardship Report, and the enhancement of information disclosed on our website. Moving forward, we will endeavor to report in a timely and appropriate manner and also improve and expand the content of our activity reports.
Principle 7 Development of skills	<ul style="list-style-type: none"> We 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. 	<ul style="list-style-type: none"> While pursuing achievements such as through Global Initiative activities for addressing ESG issues, we will improve our stewardship activities by accumulating skills through these activities. We will continue having engagement with outside parties, and utilize the knowledge acquired in our Stewardship Activities.

* See page 9.

Collaboration with various initiatives (as of the end of July 2022)

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

Global initiatives


Initiatives related to the United Nations and climate change

<p>Signatory of:</p>  <p>PRI Principles for Responsible Investment</p>	<p>PRI</p>	<p>Principles for responsible investment which requires institutional investors to incorporate ESG factors into investment decision-making processes.</p> <p>Serve on the PRI Japan Network Advisory Committee. We have participated in PRI Palm Oil working group, and in IPDD (Investor Policy Dialogue in Deforestation) to engage with policy makers in Brazil and Indonesia.</p>	<p>● Signed in May 2006</p>
 <p>Climate Action 100+</p>	<p>Climate Action 100+</p>	<p>Collaborative engagement initiative to engage with companies with high GHG emissions to disclose information based on TCFD framework.</p> <p>We are the only Japanese investment manager who participates in the Global Steering Committee, and are a lead manager of Asian/Japanese companies.</p>	<p>● Signed in December 2017 (Responsible for the Asia-Pacific region)</p>
 <p>United Nations GC (Global Compact)</p>	<p>United Nations GC (Global Compact)</p>	<p>It is action principles on human rights, labor, environment and anti-corruption, whose signatories are required to align with principles.</p> <p>Engagement is based on action principles on human rights, labor, environment, and anti-corruption concerning ESG materiality.</p>	<p>● Sumitomo Mitsui Trust Group was the first Japanese bank which signed the initiative in July 2005</p>
 <p>CDP</p>	<p>CDP</p>	<p>International NGO to address environmental issues such as climate change (forerunner of the Carbon Disclosure Project).</p> <p>Participated in webinars concerning "Dialogue between investors and companies" held in Indonesia, and introduced our concepts on transitioning sustainable palm oil supply chain.</p>	<p>● Signed in April 2014</p>


Initiatives related to specific topics

 <p>FAIRR</p>	<p>FAIRR</p>	<p>An engagement body focusing on the fishery and livestock industries.</p> <p>We were a lead manager for collaborative engagement for phase 2 collaborative engagement with the livestock supply chain in Brazil, concerning human rights and work environment.</p>	<p>● Signed in October 2018</p>
 <p>SPOTT</p>	<p>SPOTT</p>	<p>An initiative established by the Zoological Society of London (ZSL) to support sustainable commodity products.</p> <p>Participated as a member of TAG (Technical Advisory Group) for SPOTT. Conducted new engagement project engaging with natural rubber producers.</p>	<p>● Signed in February 2020</p>
 <p>30% Coalition, 30% Club</p>	<p>30% Coalition, 30% Club</p>	<p>An investor network that promotes greater diversity on the boards of directors at investee companies.</p> <p>Utilizing knowledge gained from bases in Europe and the United States related to diversity especially about engagement on gender in Japan. In October 2021, became a signatory of a letter to companies in the UK requesting that race be addressed.</p>	<p>● Signed in April 2017</p>
 <p>Access to Medicine Foundation</p>	<p>Access to Medicine</p>	<p>A collaborative initiative in which major asset managers and owners in the United States and Europe seek to improve access to medicine.</p> <p>Led the initiative of engagement as a lead manager with major pharmaceutical companies in Japan, and encouraged to ensure platform to improve access to medicine.</p>	<p>● Signed in April 2018</p>
 <p>Investor Action on AMR</p>	<p>Investor Action on AMR</p>	<p>An initiative which provide collaborative engagement and recommendations to pharmaceutical and agricultural supply chain companies related to the issue of bacteria resistance.</p> <p>Participated in the NIKKEI FT Communicable Diseases Conference as the only investment manager from Japan, and introduced our views and specific initiatives on AMR (antimicrobial resistance).</p>	<p>● Signed in November 2020</p>
 <p>TNFD</p>	<p>TNFD</p>	<p>A working group that handles engagement and makes recommendations on the disclosure of natural capital information.</p> <p>Participated in the TNFD Forum (Stakeholder organization for supporting discussions and framework construction). Held TNFD-related workshops and lectures.</p>	<p>● Signed in September 2020</p>



Investor group related

	Ceres	NGO that promotes corporate initiatives on environmental issues such as global warming. In October 2021, signed an investor letter for the UN Biodiversity Conference. Also participated in an engagement program (Food Emissions 50) related to the reduction of greenhouse gases in agricultural supply chains.	● Signed in April 2017
	CII	A non-profit organization that shares information and views on corporate governance, shareholder rights, and so on. Participated in the CII Fall Conference in September 2021. Collected information on corporate governance, financial markets and regulations, accounting/auditing, and diversity.	● Signed in June 2018
	AIGCC	An Asian investor association on climate change. As an only investment manager from Japan, led collaborative engagement as a lead manager with power companies in Asia in the Asian Utilities Engagement Program.	● Signed in December 2017
	ICGN International Corporate Governance Network	An investor network that provides support and advice for implementing excellent corporate governance practices. Appointed as a board of Governors from Japanese investment manager. Presented recommendations to policy-making agencies such as the Financial Services Agency and international organizations with the view to improve governance.	● Signed in September 2017
	The Investor Agenda	An institutional investor initiative for promoting low carbon economy acting on climate change. Signatory of the "Global Investor Statement to Governments on the Climate Crisis" for COP27 in November 2022.	● Signed in June 2019
	Net Zero Asset Managers Initiative	Initiative by global asset management companies with the goal of achieving net zero greenhouse gas emissions from managed assets by 2050. Appointed as only investment manager from Japan to be an Advisory Group Member. Engaged in initiatives for addressing climate change issues as a representative from Japan and Asia.	● Signed in July 2021

Related to climate change

	TCFD Consortium	Signatory organization for public/private collaborative efforts to promote climate information disclosure under the framework of the TCFD. Proactively exchanged opinions and presented recommendations at a roundtable discussion (small group for exchanging opinions between investors and business firms).	● Signed in May 2019
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Initiatives related to specific topics

	ESG Information Disclosure Study Group	General incorporated association that conducts research on ESG information disclosure in collaboration with listed companies and investors. Listed companies, major audit corporations, and institutional investors, etc., collaborate to promote research activities on ESG information disclosure. Published two-year activity report in June 2022.	● Signed in June 2020
	30% Club Japan Investor Group	An investor network that promotes greater diversity on the boards of directors at Japanese investee companies. Our President serves as the Investor Group chair. Promotion of activities for raising awareness on gender diversity through sharing of best practices and creation of annual reports.	● Signed in May 2019

Investor group related

	Institutional Investors Collective Engagement Forum	General incorporated association whose purpose is supporting collaborative engagement between institutional investors and companies. Promotion of collaborative engagement with seven institutional investors in Japan. Took role as lead manager for engagement with agendas related to parent-subsidiary listing issues.	● Signed in October 2017
	Japan Sustainable Investment Forum (JSIF)	NPO whose goal is to promote sound development of sustainable investment and financing in Japan. Our officers serve as directors. Participated in subcommittee with the role of collecting opinions from the perspective of investors for "Guidelines on Respecting Human Rights in Responsible Supply Chains" being formulated by the Ministry of Economy, Trade and Industry.	● Signed in March 2005
	Japan Stewardship Initiative	Organization that manages and revises reporting formats between asset owners and investment institutions, while collecting and sharing information on related best practices. Contributed as a member company to the spread of smart formats, which are a common platform for reporting stewardship activities to asset owners.	● Signed in November 2019

Active Involvement in the Principles for Responsible Investment (PRI)

Established with the support of the United Nations, the Principles for Responsible Investment (PRI) encourage institutional investors to incorporate environmental, social and governance (ESG) factors into their investment decision-making processes. There were 100 signatories when it launched in April 2006, and has increased greatly to 4,902 by the end of March 2022, 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.

The PRI evaluates each signatory with respect to their commitment to and progress on implementing the six principles based on their reports. We continued to collect overall favorable scores as before despite the fact that evaluation items and contents were renewed and became more strict starting from 2021.

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 stocks	Investment process	Active (Fundamental)	★★★★★
		Active (Quantitative)	★★★★★
		Passive	★★★★
		Investment trusts	★★★★★
		Voting	★★★★
Fixed income	SSA		★★★★
	Corporate		★★★★

*1 Similar to evaluation items and contents, the method of displaying scores was also changed.

(Changed from a six-level ranking of A+ to E (highest to lowest) to a five-level ranking from 5 stars to 1 star)

*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 this principle.

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.

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 the medium- to long-term environmental, social, and governance (ESG), on the basis of the values presented in the United Nations Global Compact and SDGs. We believe that fulfilling the role as an 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 Score," 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 Score."

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 out 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 Score" according to characteristics such as the investment purpose, investment target, and investment strategy.

5) 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 investees, 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 and to promote sustainable growth. We consider ESG materiality when performing ESG investment including ESG evaluation of investees, engagement activities, and decisions for 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 2. to 4. are the main evaluation items and contents for our ESG investment.

2. 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 acts 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 & 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.

3. Society

Overview

As a signatory investment manager for the Principles for Responsible Investment, we must require investees 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 & Community

We consider compliance by investees 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 performance. We consider the efforts made by investees 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 & 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 investees 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 result 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.

4. 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 investees 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 reflect these to ESG investments.

3) Stability & Justice

For countries and companies, events can occur have a negative impact inside and outside the organization, ranging from deliberate violations of laws and regulations, to accidents. If 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 investees by reflecting ESG factors in voting "for" or "against" an agenda item in the exercise of voting rights of investees.

2. In-house ESG Scores

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.

Note on the S&P/JPX Carbon Efficient Index

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Note on the SMT MIRAI Index Eco Index

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Notes on the Bloomberg MSCI Global Aggregate Sustainability Indices

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

■ Fund Overview

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

■ Fund investment risk

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

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

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

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

- With funds, if a large application for liquidation is requested and it is necessary to cover the payment for liquidation within a short time, or if the market environment suddenly changes in markets that mainly trade in incorporated assets, there is the risk that trading cannot be made at the expected price based on market forces due to a temporary decrease in liquidity of incorporated assets, and there is a risk that the trade amount may be limited. This may negatively impact the base price, may suspend or cancel acceptance of requests for liquidation, and payment for liquidation may be delayed.

■ Fund costs

▼ Costs directly borne by customers

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

▼ Costs indirectly borne by customers

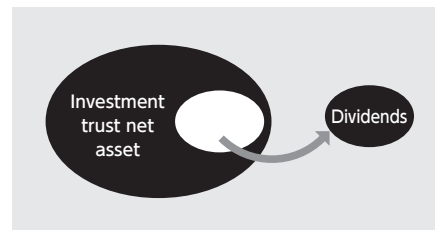
Substantial operation management costs (Trust fee)	Annual rate of up to 1.848% of the total net assets (up to 1.74% excluding tax) This fund invests in other funds. Therefore, substantial operation management costs borne by the customer are calculated by adding the operation and management costs for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

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

■ Note on dividends

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

Diagram of dividends paid by investment trusts



[Notes]

- This document was created by Sumitomo Mitsui Trust Asset Management. It is not intended as a disclosure document based on the Financial Instruments and Exchange Act.
- Be sure to confirm the latest investment trust manual (prospectus for issuance) before making your own decision on applying for a purchase.
- Because investment trusts invest in securities, which have price fluctuations (foreign currency-denominated assets include foreign exchange fluctuation risk), the base price also fluctuates. Therefore, investment principal and yield are not guaranteed. All profit and loss from fund management belong to investors.
- Unlike bank accounts and insurance contracts, investment trusts are not subject to protection by the Deposit Insurance Corporation of Japan and the Policyholders Protection Corporation. In addition, if a purchase is made from a company that is not a securities company, it is not covered by the Investor Protection Fund.
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■ Settings and operation



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

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

Commodity Investment Advisor, License The Minister of Economy, Trade and Industry: #(1) No.25

Member: The Investment Trusts Association, Japan The Japan Investment Advisers Association

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