



SUMITOMO MITSUI TRUST ASSET MANAGEMENT

# STEWARDSHIP REPORT 2018/2019



# Introduction

In aiming to strengthen our asset management business and pursue how our asset management should be in order to fit with the times, Sumitomo Mitsui Trust Asset Management (“SMTAM” or “the Company”) integrated the investment management function of Sumitomo Mitsui Trust Bank (SMTB) into its organization on October 1, 2018.

Growing the precious assets entrusted to us by our clients over the medium- to long-term is our most important mission. We will continue to pursue maximum investment returns over the medium- to long-term for our clients by actively promoting stewardship activities, including engagement (constructive and purposeful dialogue), the exercise of voting rights, and initiatives that encourage companies to improve their responses to ESG issues. In this Stewardship Report 2018/2019, we systematically report on these stewardship activities, along with our views and the presentation of relevant case studies.

We will continue to squarely focus on the basics of devoting all of our energies to the growth of client assets with which we have been entrusted and will do our utmost to contribute to long-term asset formation of our clients and the development of society by working to secure excess returns and boosting the overall market.

Representative Director and President

**Yoshio Hishida**

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“Building a closer asset management relationship with our clients.”

#### **Editorial policy**

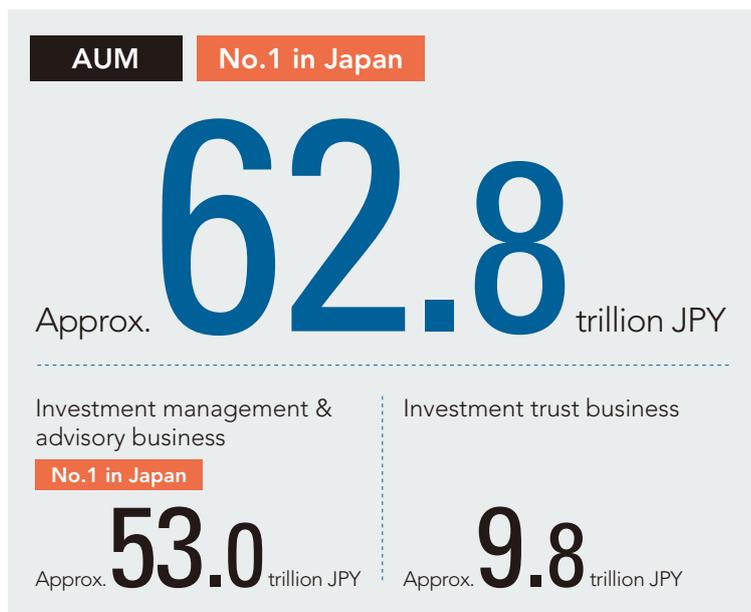
The Sumitomo Mitsui Trust Group's ESG report for fiscal year 2018 consists of our full CSR report and features booklets on the themes of climate change, natural capital, stewardship, environmentally friendly property and a digest report for seniors. We publish these reports so readers can gain a deeper understanding of our Group's proactive initiatives. This booklet provides information about the business of Sumitomo Mitsui Trust Asset Management. For more information about our Group's other ESG initiatives, we refer you to the following website.

#### **Web URL:**

<https://www.smth.jp/en/csr/index.html> (Sumitomo Mitsui Trust Bank, Limited)

## As a responsible institutional investor for our clients

Growing the precious assets entrusted to us by our clients over the medium- to long-term is our most important mission. We have established relationships with our clients and faithfully engaged in the management of their assets over many years. We believe that our assets under management (AUM) of approximately ¥60 trillion and high market share in defined contribution (DC) pension funds owes to the trust hitherto placed in us by our clients.



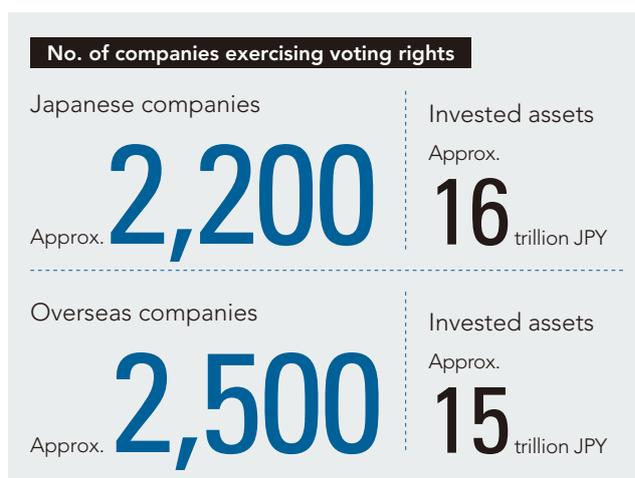
Source: In-house calculation based on Newsletter on Pensions & Investment (16 July 2018 issue) issued by Rating and Investment Information, Inc. and Fundmark data by Nomura Research Institute, Ltd.

Source: Combined figures for Sumitomo Mitsui Trust Bank and Sumitomo Mitsui Trust Asset Management as of the end of June 2018.



\*Total number of contacts includes meetings, briefings, factory visits, teleconferences, phone calls, etc.

Source: Figures for Sumitomo Mitsui Trust Bank for the period July 2017 through June 2018.



Source: Combined figures for Sumitomo Mitsui Trust Bank and Sumitomo Mitsui Trust Asset Management as of the end of June 2018.

## Collaboration with global initiatives

Since becoming a signatory to the Principles for Responsible Investment (PRI) in May 2006, we have participated in many global initiatives and conducted engagement activities for the purpose of addressing ESG issues (please see page 41 for more details).

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Signatory of:



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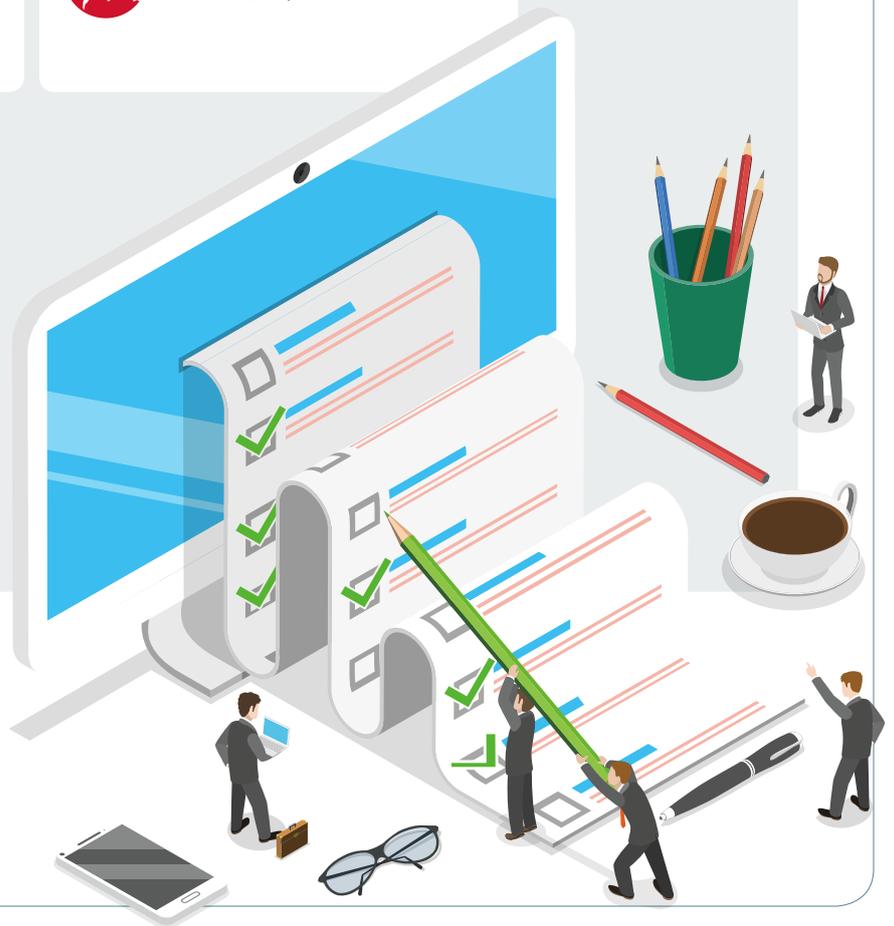
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# Purpose of Stewardship Activities

## Supporting value creation in the investment chain

The Japan Revitalization Strategy under “Abenomics” is premised on the nation’s rapidly aging population and overall population decline, and recognizes that in view of these trends Japan must make the most of its limited resources to foster and maintain its wealth over the medium- to long-term and to bolster the earnings power of its companies and increase their sustainable corporate value.

Japan’s Stewardship Code calls on institutional investors to contribute to the sustainable growth of companies, while the Corporate Governance Code enumerates principles by which companies follow to strengthen their corporate governance. The aim of this two-pronged approach is to streamline the entire investment chain—the channel through which funds are provided and ultimately used by companies for business activities, as well as the links between each function—through governance reforms. We aim to support the creation of value by actively fulfilling our role as an asset manager in the investment chain.

At the same time, addressing ESG challenges is also key because they can have an impact on sustainable growth. ESG issues reside in non-financial domains and do not manifest themselves in financial

reporting but they can have a considerable impact on corporate value over time. We have continued to actively address ESG issues and became a signatory to the Principles for Responsible Investment (PRI) in May 2006 when they were established to call on institutional investors to factor ESG considerations into their investment decision-making processes. We have also participated in various global initiatives that have their origins in the PRI to carry out trailblazing ESG activities on a global basis.

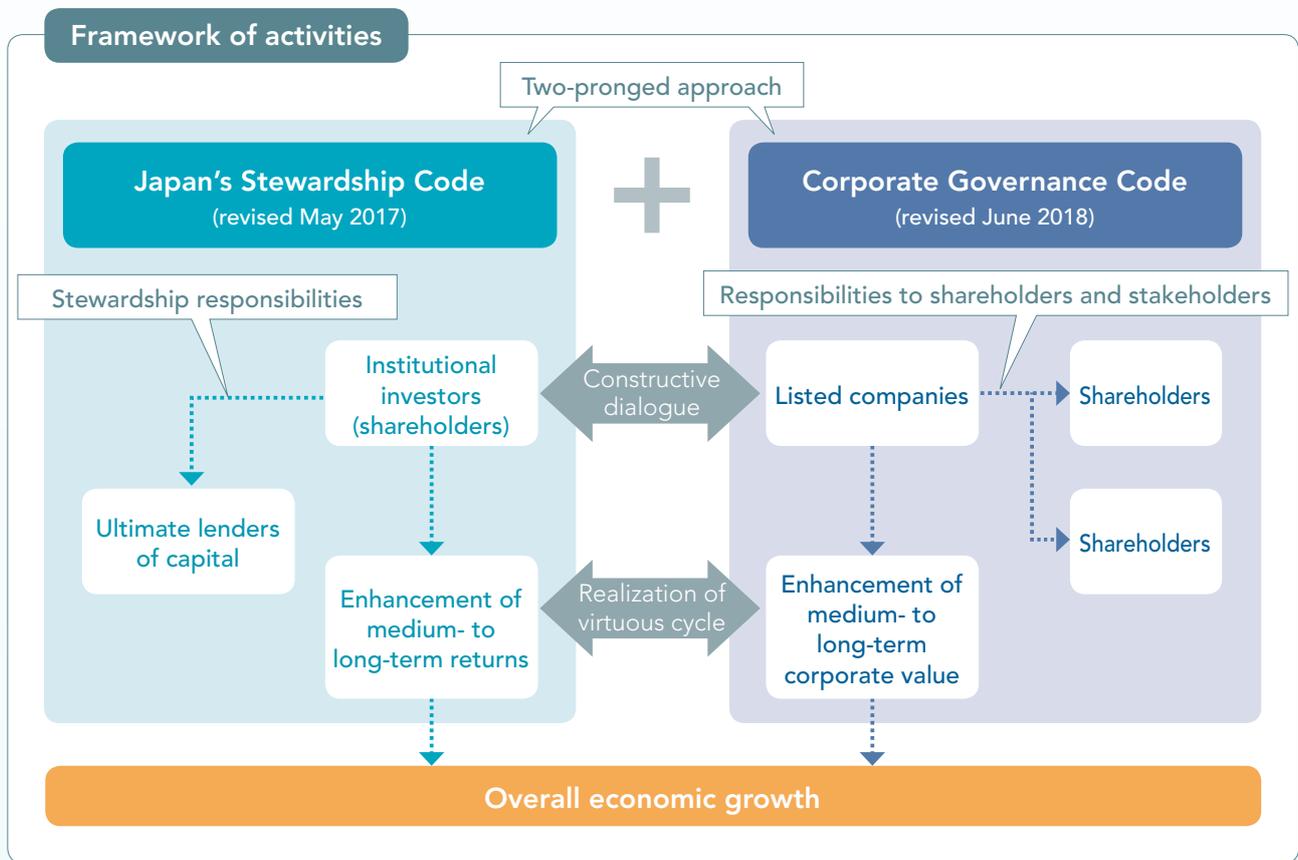
In 2019 our ESG activities will revolve around four key topics: (1) climate change; (2) water resources and marine pollution; (3) backing governance reforms; and (4) promoting ESG information disclosure. We intend to share our awareness of these ESG issues with companies and step up our efforts that contribute to their improvement by encouraging companies to draw up and disclose timeline-based measures.

As a responsible institutional investor, we aim to maximize medium- to long-term investment returns on the assets of our clients through engagement, the exercise of voting rights, measures for addressing ESG challenges, and other stewardship activities that contribute to the enhancement of corporate value.

### Our topics of focus for ESG activities in 2019

Topics	
	1 Climate change
	2 Water resources and marine pollution
	3 Backing governance reforms
	4 Promoting ESG information disclosure





Specific activities	Relevant SDGs
<ul style="list-style-type: none"> <li>Independent engagement with the major greenhouse gas-emitting industries (cement, paper &amp; pulp, electricity, petroleum, etc.)</li> <li>Full-fledged initiatives for the global climate change initiative CA100+*1 (engagement with Japanese and other Asian companies)</li> </ul> <p>*1 Climate Action 100+. Please refer to pages 18 and 41 for more details.</p>	
<ul style="list-style-type: none"> <li>Addressing ocean plastic pollution (engagement with chemicals, food, and retail industries, etc.)</li> <li>Requesting greater awareness of water resource risks and improved measures (engagement with beverages, food, and apparel industries, etc.)</li> </ul>	
<ul style="list-style-type: none"> <li>Supporting higher levels of independence on company boards and the promotion of diversity, such as higher ratios of female directors</li> <li>Sustainable improvements in "earnings power" and appropriate capital allocation (balance between growth investments and surplus cash returns)</li> </ul>	
<ul style="list-style-type: none"> <li>Encouraging companies to disclose information reflecting the attainment of SDGs (contributions to solving ESG issues and earnings contributions)</li> <li>Strengthening involvement in the TCFD*2 information disclosure rules (collaboration with relevant government agencies)</li> </ul> <p>*2 Task Force on Climate-related Financial Disclosures. Please refer to pages 37 and 41 for more details.</p>	

# Everything for the growth of our clients' assets





# Engagement



## Our views on engagement

At SMTAM, we view engagement activities as an opportunity 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.

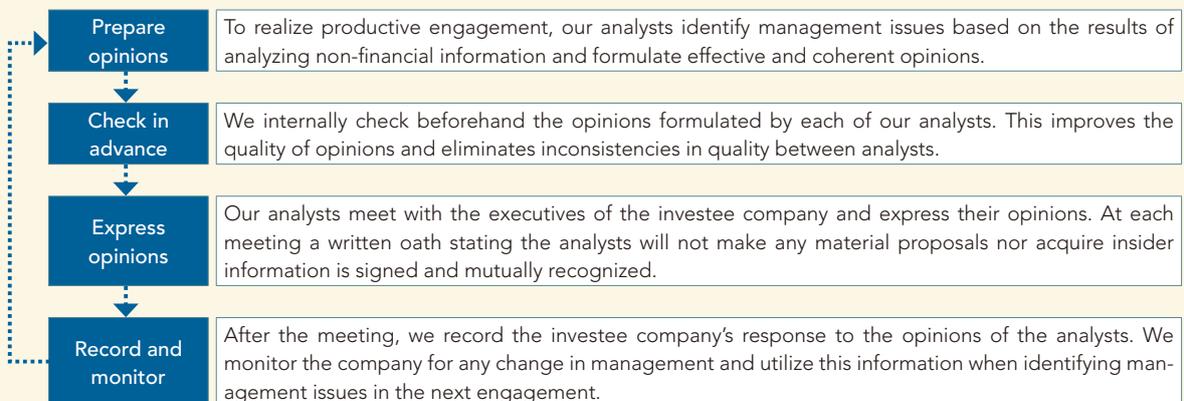
Gaining a proper understanding of a company's state of management and business situation is crucial to engagement. The ESG experts in our Stewardship Development Department work together with analysts in the Investment Research Department, who are professionals in industrial enterprise analysis, to carry out in-depth engagement activities from both ESG and business perspectives.

During engagement, we identify management issues based on analyses of the investee company's competitive strengths within its own industry, across other industries,

and globally, as well as management issues based on how the company addresses ESG issues as part of its corporate social responsibility. We then formulate our opinions about how such issues can be improved. We also internally check the appropriateness of our opinions beforehand in an effort to improve quality. Although we are in contact with investee companies on more than 8,000 occasions annually, for our engagement records we only count the cases where we express our views in order to contribute to the enhancement of corporate value. Last year we conducted roughly 570 engagements.

There have been few cases of engagement leading to immediate corporate action, but we have seen that a continuous approach can generate results. We will continue to carry out engagement activities as a responsible investor.

### Our engagement process



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



# 2 Exercising Voting Rights



## Our views on the exercise of voting rights

At SMTAM, we view the exercise of voting rights as an opportunity to call for the minimum standard of governance and consider it as one method of governance-related engagement.

We emphasize three key points when exercising voting rights: (1) high-quality governance that respects shareholder interests; (2) efficient utilization of shareholders' equity for sustainable growth; and (3) appropriate action in the event an incident occurs that damages corporate value. We disclose our guidelines for the exercise of voting rights based on these criteria, and also actively conduct engagement with companies with respect to the exercise of voting rights.

We make every effort to ensure transparency in our exercise of voting rights by preparing the guidelines, which serve as voting standards, making appropriate voting decisions in line with the guidelines,

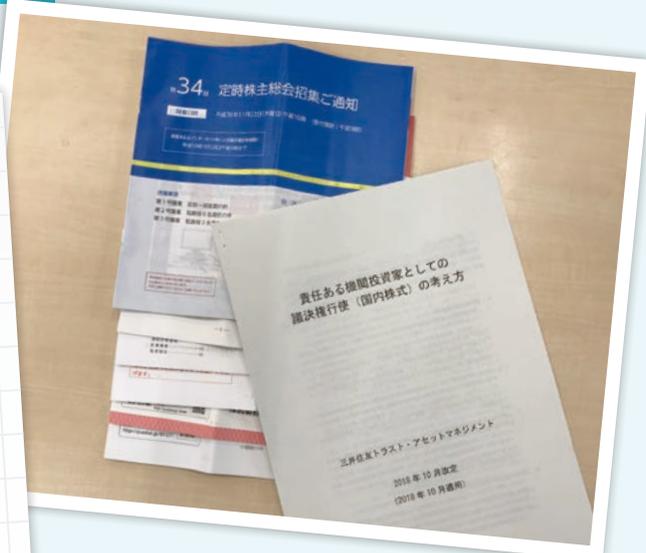
and disclosing the results of voting. The guidelines were established following deliberation by the third-party Stewardship Activities Advisory Committee and in addition to voting principles, we also disclose numerical criteria for voting decisions and standards for exceptions. This Advisory Committee also debates the objectivity of our voting decisions. For the results of voting, we disclose individual voting records on all proposals every quarter and also cite the reasons for voting for or against.

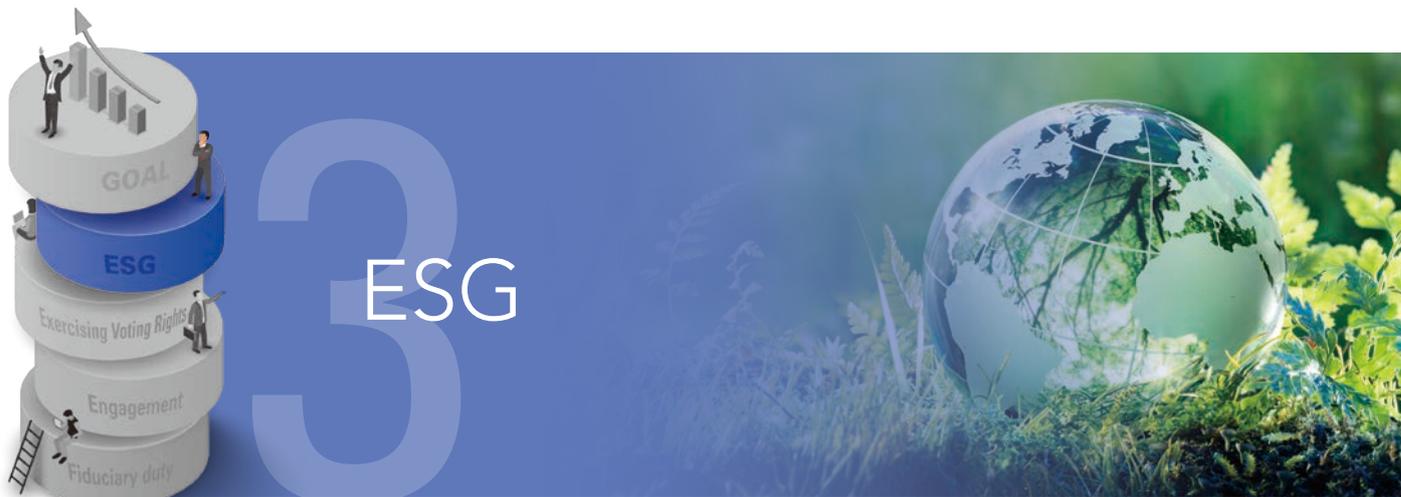
Owing to the establishment and revision of the Corporate Governance Code (CGC), gradual progress is being made on corporate governance in Japan. In view of the current situation, we aim to raise the minimum standard through changes to our guidelines and call on investee companies to establish appropriate governance frameworks.

### Key points we emphasize as a shareholder

#### Point

- (1) High-quality governance that respects shareholder interests
- (2) Efficient utilization of shareholders' equity for sustainable growth
- (3) Appropriate action in the event an incident occurs that damages corporate value





## Incorporating ESG into investments

As a signatory to the PRI, we endeavor to pursue upside potential and curb downside risk by incorporating ESG factors into our investment decision-making process and aim to maximize medium- to long-term returns for our clients.

Various methodologies are employed for ESG-related investment decision making. At SMTAM, we promote the use of ESG integration by incorporating MBIS<sup>®\*</sup>, our proprietary developed non-financial information evaluation tool, into traditional investment methods.

Moreover, in addition to adopting a bottom-up engagement approach for each company fusing both ESG and business perspectives, we concurrently use a top-down engagement approach based on ESG themes leveraging the longstanding insight of global activities conducted by the PRI in an attempt to secure excess investment returns and boost the overall market.

We will continue to position ESG initiatives at the center of our asset management operations as we seek to reinforce our investment capabilities.

\*Please refer to page 19 for more details.

### Our themes and investment viewpoints





# Fiduciary duty & Conflict of Interests

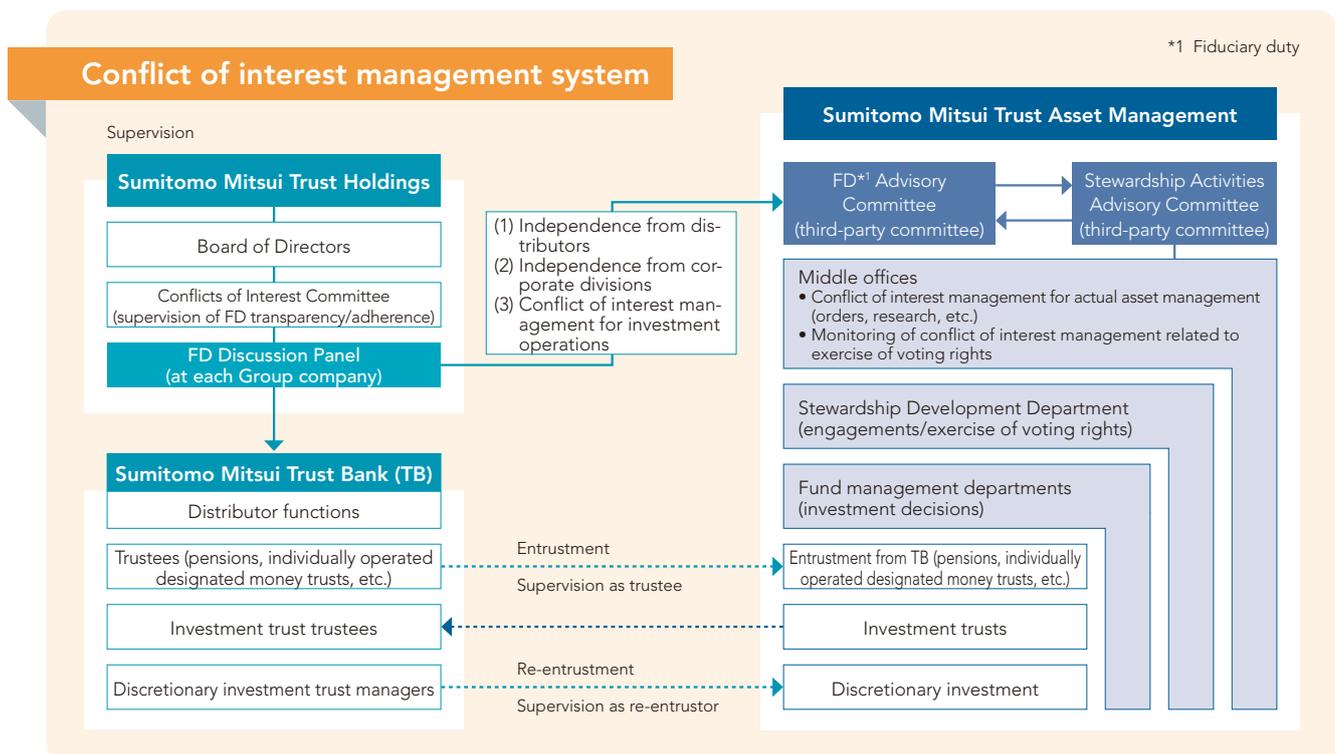
## Our fiduciary duties and conflict of interest management

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. For this reason we are further enhancing our conflict of interest management.

Following the integration of SMTB's investment management function, we raised the number of independent external directors at SMTAM, adopted a company with an Audit and Supervisory Committee

system, and beefed up our middle office operations. The integration means SMTAM has more independence from the Group's corporate divisions (sales, lending, etc.) and our conflict of interest management is much more transparent.

Given that the management of conflicts of interest is particularly important to the exercise of voting rights, we have established the Stewardship Activities Advisory Committee comprised mostly of external experts. The officer in charge of the Stewardship Development Department—the person responsible for the exercise of voting rights—exercises voting rights in a highly transparent manner by giving the fullest possible consideration to the recommendations of the Advisory Committee.



# Initiatives for Stewardship Activities

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# Overall Review of Stewardship Activities

Established in February 2014 and revised in May 2017, Japan's Stewardship Code calls on institutional investors to contribute to the sustainable growth of companies. Based on the principles of the revised Code, we drafted revised versions of our Guidelines on Stewardship Responsibilities and Guidelines on the Principles of Japan's Stewardship Code.

The Code defines "stewardship responsibilities" as the duty of institutional investors to maximize the medium- to long-term investment returns for clients and beneficiaries (including ultimate beneficiaries) through constructive engagement, or purposeful dialogue, aimed at improving corporate value and encouraging sustainable growth of investee companies based on in-depth knowledge of the companies and their business environment.

Meanwhile, the Corporate Governance Code applies to listed companies in Japan. This Code was established to be a norm for both the public and private sectors to strengthen corporate governance, a specific measure of the Industry Revitalization Plan—one of the three action plans for growth set out in the Japan Revival Strategy approved by the Cabinet in 2013 and later revised in 2014. The Code came into force in June 2015 and was partially amended in June 2018. The Corporate Governance Code is broadly comprised of five general principles and enumerates

guidelines relating to (1) securing the rights and equal treatment of shareholders, (2) appropriate cooperation with stakeholders other than shareholders, (3) ensuring appropriate information disclosure and transparency, (4) responsibilities of the board, and (5) dialogue with shareholders. In light of its recent amendment, we are currently considering revising our selection of engagement themes and guidelines for the exercise of voting rights in order to further encourage medium-term growth at companies owing to stronger corporate governance.

Since autumn 2017 we have steadily expanded the scope of our engagements, pursued joint engagements, and revised our guidelines for the exercise of voting rights in Japan. Overseas, we became a signatory to the CA100+ initiative and conducted engagements as part of that program. We have also steadily honed our ESG engagement skills and consulted with the Stewardship Activities Advisory Committee as our common platform activities in and outside of Japan (details to follow later on).

As a responsible institutional investor tasked with playing a key role in the investment chain, we will continue to afford our fullest consideration to the purposes of both codes and properly fulfill our stewardship responsibilities through activities such as engagement and the exercise of voting rights.

## Key revision points in Japan's Stewardship Code

Guidance 2-2	Policy for asset managers to manage conflicts of interest
Guidance 2-3	Establishment of third-party committees
Guidance 2-4	Management team at asset managers addressing conflicts of interest
Guidance 4-2	Addressing passive management
Guidance 4-4	Addressing joint (collective) engagement
Guidance 5-3	Disclosure of voting records for each investee company
Guidance 7-2	Management of asset managers
Guidance 7-4	Self-evaluations of stewardship activities

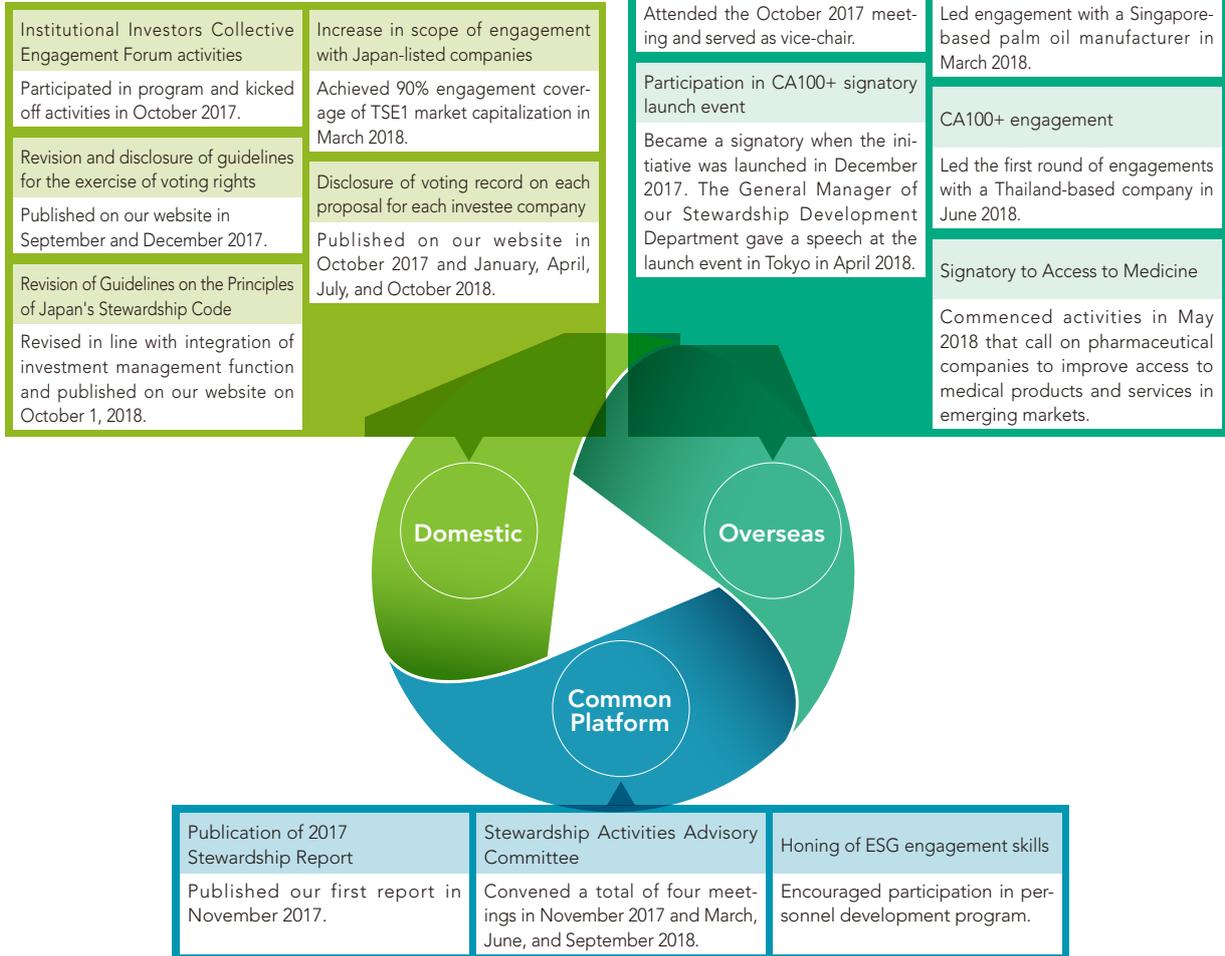
We have addressed all of the above revisions

## Key revision points in Japan's Corporate Governance Code

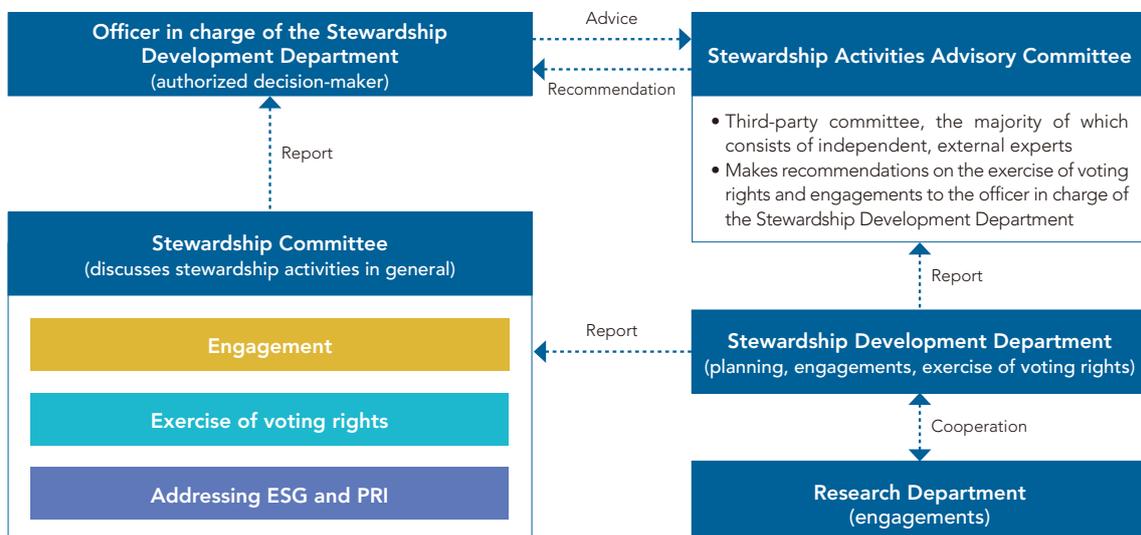
Principle 1-4	Disclosure of policies regarding reduction of cross-shareholdings and their purpose
Principle 2-6	Roles of corporate pension funds as asset owners
Principle 4-1	Establishment, implementation, involvement, and supervision of succession plan for the CEO and other top executives
Principle 4-2	Objective and transparent management remuneration systems
Principle 4-3	CEO appointment/dismissal
Principle 4-8	Effective use of independent external directors (at least one-third as external directors when required)
Principle 4-11	Diversity of board members
Principle 5-2	Establishing and disclosing business strategies and plans after accurately identifying the cost of capital

Reflected in our engagement activities

## Review of our stewardship activities over the past one year



## Stewardship Activities Promotion Framework



# 2 Review of Engagement Activities

## Exclusive engagement activities

By March 2018 we had reached our goal of expanding engagements to cover 90% of the TSE1 market capitalization.

We targeted 90% in order to improve the quality of our engagements by sharing the process of resolving company issues and accumulating know-how through dialogue with even more companies.

Now that we have achieved this goal of volume growth, we will maintain a certain level of quantitative expansion up ahead and endeavor to improve the quality of our engagements.

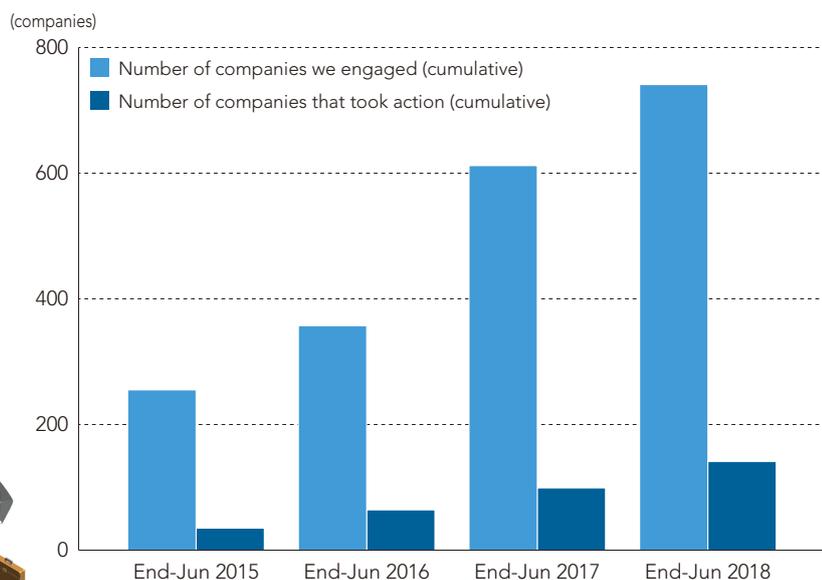
The result of ramping up our engagement efforts has also contributed to a steady increase in concrete actions by companies. Going forward, we aim to maximize the investment returns of our clients over the medium- to long-term by working to secure excess returns while boosting the overall market. To this end, we will continue to closely examine issues around sustainable growth at investee companies and engage in activities that contribute to enhancing medium- to long-term corporate value and ROE.

If a company targets ROE improvement, then we



think the best processes for this are the rethinking of capital allocation and restructuring of business portfolios, which is why we conduct engagements that support the realization of these measures. In terms of ESG factors, this kind of engagement corresponds to the “governance” aspect, but we also need to broach the topics of addressing climate change (“environmental”) and redressing labor practices (“social”), both of which could undermine ROE. SMTAM will continue to engage with companies on solving ESG issues for the purpose of enhancing corporate value and ROE.

### Engagements and corporate action

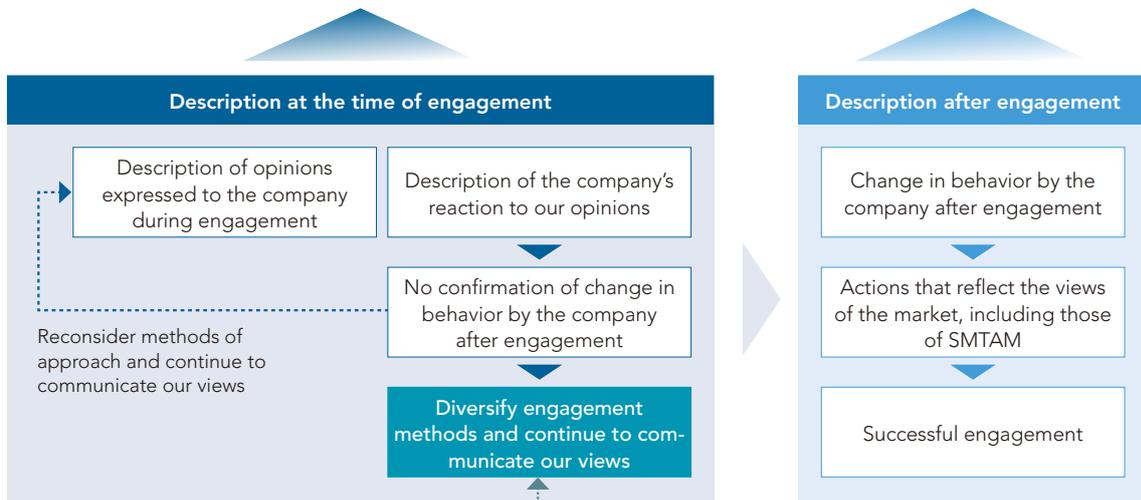


## Column1 Exclusive engagements

We keep a record every time we conduct an engagement and whenever the company in question takes action. We revisit our methods of approach when our engagements lead to no action, which is why we have established various types of engagements.

### PDCA cycle for our engagements

Company	Topic	Dialogue overview	Company reaction	Corporate action
Company A (Japan-listed)	Business model for improving corporate value	If Company A is to expand its capabilities in its mainstay product...	While we require capital for growth strategies...	Company A...



Types of engagement
1. Business model for improving corporate value (management philosophy & vision, specific businesses)
2. Governance structure (supervision of business execution by board of directors, etc.)
3. Consideration of long-term capital productivity
4. Risk responsiveness (including risks relating to social and environmental issues)
5. Prevention of anti-social conduct
6. Other (including issues relating to voting rights)

Key points in each type of engagement
1. Business portfolio (improvement of unprofitable businesses, new businesses, M&A, regional (area) strategies, etc.)
2. Capital allocation (growth investment in facilities, R&D, HR, or M&A, and shareholder returns, etc.)
3. Business strategy (medium- to long-term growth strategies, brand value enhancement, etc.)
4. Other (setting of KPIs, capacity for dealing with environmental changes, etc.)
1. Governance (encouragement of dialogue with investors, protection of minority shareholders, succession planning, etc.)
2. External directors (dialogue with investors, independence, contributions to board of directors, etc.)
3. Other (governance of subsidiaries, corporate governance structure, etc.)



2. Review of Engagement Activities

Cases of our exclusive engagements led to corporate action

CASE1

**Governance**  
**Board independence**  
**and diversity**

Dialogue overview

At the June 2017 general shareholders meeting of Company A, a manufacturer of transportation equipment, we voted against the appointment of directors because the company only had one external director. We expressed our view that placing at least two independent external directors is preferable if the management supervision function of the Board of Directors is to be enhanced, and that from a diversity standpoint too, there was still room for improvement. We confirmed that the company was considering an increase in the number of independent external directors, an issue that had been left unaddressed since December 2015.



Company reaction

While we have confirmed the intention of institutional investors for an increase in external directors, we are not considering any formal increase. However, at this juncture, we have been unable to appoint a qualified person which means there has been no increase in directors. That said, we take special note of the fact that approval of our chairman and president in the director appointment proposals dropped to less than 80% at the June 2017 general shareholders meeting. We will therefore consider increasing the number of independent directors without waiting for the two-year term of appointment for directors to end.



Corporate action

The company announced in April 2018 it would add two more external directors (one of whom is female) and reduce the number of internal directors by the same. The company's Board of Directors now comprises six internal directors and three external, helping to improve its governance structure.

CASE2

**Capital productivity**  
**Capital allocation**

Dialogue overview

Company B, a chemicals manufacturer, posted record profits in FY2016, while its financial indicators also improved sharply. By successfully strengthening its businesses that are resilient to market prices, earnings and cash flow became more stable. However, its policy on shareholder returns is unclear and its payout ratio remains low at around 20%. We confirmed management's views after expressing our opinion that its next medium-term business plan starting next fiscal year should provide clearer explanations about capital allocation, including shareholder returns.



Company reaction

In the past, our earnings depended heavily on our businesses that are susceptible to market conditions and cash flow would fluctuate sharply every fiscal year. There is no denying that because of this we prioritized the enhancement of corporate value through structural reforms and growth investments and held back on shareholder returns to some degree. However, in the last few years we have started to see the effects of strengthening our businesses that are impervious to market conditions and implementing structural reforms. Overseas investors have also pointed out that our policy on shareholder returns is unclear. We hope to make improvements in our next medium-term plan as a way of responding to the views of our investors.



Corporate action

In November 2017 the company announced a share buyback equivalent to 1.2% of outstanding shares. It also appears that management has made progress on shareholder returns by announcing a dividend hike in tandem with an upward revision to earnings at 3Q results.

## CASE3

### Business strategy Revamping and streamlining of business

#### Dialogue overview

Company C, a machinery manufacturer, booked net losses for two straight years through FY3/18. While earnings have expanded in the Y segment, the X segment recorded an operating loss in four of the past five fiscal years. Considering that management announced an impairment loss at the end of last fiscal year, we surmise that the company has not been in a prospect of returning to the black. While we fully understand that the poor performance of the X segment began with an incident the company had no control over, we confirmed management's views after expressing our opinion that additional measures aimed at improving profitability are required.



#### Company reaction

We recognize the need to eliminate losses in the X segment. We are taking steps to address this by reassigning employees and securing operation through business tie-ups, among other measures, but if we still cannot generate profits, we will need to take additional steps, such as reducing our headcount. From a longer-term perspective, we are considering the development of new applications that apply our technological expertise.



#### Corporate action

In May 2018 the company announced an alliance with another company in the manufacturing field and measures to reduce fixed costs, such as job cutbacks. We therefore expect a return to operating profitability in the X segment.

## CASE4

### Social issues Dialogue with a cluster bomb manufacturer

#### Dialogue overview

South Korea-based Hanwha is one of only a handful of companies that is a benchmark index constituent stock and involved in the manufacturing of cluster bombs. Since June 2016 we have continued to engage with Hanwha, expressing our concerns about its operations. And more recently, in light of easing tensions on the Korean peninsula, we urged the company to review its business operations, taking into the current diplomatic climate. We recognize the concerns of our investors and the withdrawal from this business may be a part of the solution.



#### Company reaction

Previously:  
While we understand the views of our investors, going so far as to contravene state policy and withdraw from this business would be difficult.  
September 2018:  
We recognize the concerns of our investors and the withdrawal from this business is being considered.



#### Our policy

There are signs that the company's stance is changing, albeit slowly. We will continue to engage with the company and urge their withdrawal from the business of manufacturing cluster bombs.

2. Review of Engagement Activities

Joint engagements

The Institutional Investors Collective Engagement Forum (IICEF) was established in October 2017 for the purpose of helping multiple institutional investors carry out constructive joint engagements with companies in light of the revisions to guidance 4-4 in Japan's Stewardship Code in May 2017. SMTAM has participated since the forum's initial establishment.

The IICEF presides over the Institutional Investors Collective Engagement Program through which the participating institutional investors conduct joint



engagement by discussing the issues of investee companies, deciding on a shared agenda that contributes to constructive dialogue, and sending letters to investee companies for each agenda item. We intend to actively participate in the program up ahead as a way of supplementing our exclusive engagements.



Unveiled by the United Nations in 2006, the Principles for Responsible Investment (PRI) are a set of investment principles signed by participating institutional investors that aim to address basic issues in investment portfolios. Six principles set out what is required of investors that play a significant role in the global economy when assuming responsibility for environmental, social, and governance issues through their investments. SMTAM became a signatory in 2006 and we served as vice-chair of the PRI Japan Network meeting held in October 2017. Also, in March 2018 we led engagement with a Singapore-based palm oil producer.

At the One Planet Summit in December 2017, 225 of the world's institutional investors took part in the newly launched Climate Action 100+ initiative, led by the PRI and institutional investor organizations from four global regions. We are a signatory to this initiative and utilize its framework to actively pursue global ESG engagements related to climate change. A launch event was held in Tokyo in April 2018 at which Hiroyuki Horii, the General Manager of our Stewardship Development Department, gave a speech, and in June 2018 we led the first round of engagement with a government-run petroleum company in Thailand.



## Column2 MBIS®—our non-financial information evaluation tool

Our proprietary MBIS® tool is a framework we use to evaluate non-financial information (the strengths of companies and the challenges they face in achieving sustainable growth).

The use of a comprehensive check list reduces discrepancies between the assessments of each analyst, thus ensuring uniformity. And in order to prevent the company's strengths from being

obscured, we employ a scoring method that emphasizes on the perspective of "in which items the company excels over its peers."

Moreover, we have incorporated the concept of the SDGs into MBIS® with the understanding they will facilitate sustainable growth and future business opportunities for companies. We engage with companies with the 17 goals of SDGs in mind.

<b>M</b>	<b>Management</b>	<p><b>Check list (20 items)</b></p> <ul style="list-style-type: none"> <li>• Strategy execution capabilities</li> <li>• Improvement and innovation capabilities</li> </ul> <ul style="list-style-type: none"> <li>• ESG initiatives</li> <li>• Capital and investment efficiency</li> </ul>
<b>B</b>	<b>Business Franchise</b>	<p><b>Check list (14 items)</b></p> <ul style="list-style-type: none"> <li>• Client value</li> <li>• Client base</li> </ul> <ul style="list-style-type: none"> <li>• Barriers to entry</li> </ul>
<b>I</b>	<b>Industry</b>	<p><b>Check list (7 items)</b></p> <ul style="list-style-type: none"> <li>• Market assumptions</li> <li>• Competitive environment</li> </ul> <ul style="list-style-type: none"> <li>• Regulations and policies</li> </ul>
<b>S</b>	<b>Strategy</b>	<p><b>Check list (10 items)</b></p> <ul style="list-style-type: none"> <li>• Marketing</li> <li>• Business portfolio</li> </ul> <ul style="list-style-type: none"> <li>• Earnings contributions from ESG</li> <li>• Investments, M&amp;A, etc.</li> </ul>

Evaluation centering on ISO26000 also ensures alignment with the SDGs



Evaluation centering on ISO26000 (seven core subjects)

1. The environment (E)	
Society (S)	
2. Human rights	3. Fair operating practices
4. Labor practices	5. Consumer issues
6. Community involvement and development	
7. Organizational governance (G)	



2. Review of Engagement Activities

Cases of joint engagements

CASE5

Climate change  
Responding to  
the Paris Agreement

Dialogue overview

US based Occidental Company Corporation is chemical manufacturer which has upstream E&P businesses. In May 2018 we confirmed management's views after informing the company that we voted in favor of the shareholder proposal that the company discloses how it addresses the aim of the Paris Agreement to keep global warming to below 2°C above pre-industrial levels, as well as information about reducing methane gas emissions and combustion generated by its production activities.



Company reaction

For tackling global warming, management holds regular meetings with external experts. We are currently formulating our policy on climate change and plan to disclose it by the end of the year. As for methane gas, we are investing in facilities to ensure there are no major emissions when we drill for natural gas, and there are no concerns at our existing project sites. At new mining sites a certain amount of gas needs to be released but we have standards in place to control these emissions.



Our policy

Even though we confirmed the company's stance on both of these issues, we expressed the view that the fact the company's information disclosure is insufficient is why a shareholder proposal was submitted and adopted with 65.7% of shareholders voting in favor. We also expressed our opinion that enhancing information disclosure up ahead will be important.

CASE6

Climate change  
Complying with  
palm oil production regulations

Dialogue overview

Singapore-based Wilmar is a palm oil producer. In March 2018 we confirmed management's views after participating in a joint engagement through a PRI working group and expressing our opinions that there is a risk that exports will grind to a halt due to tighter restrictions in Europe, and that the company should be more proactive in disclosing information by involving another company in the industry in order to continue production.



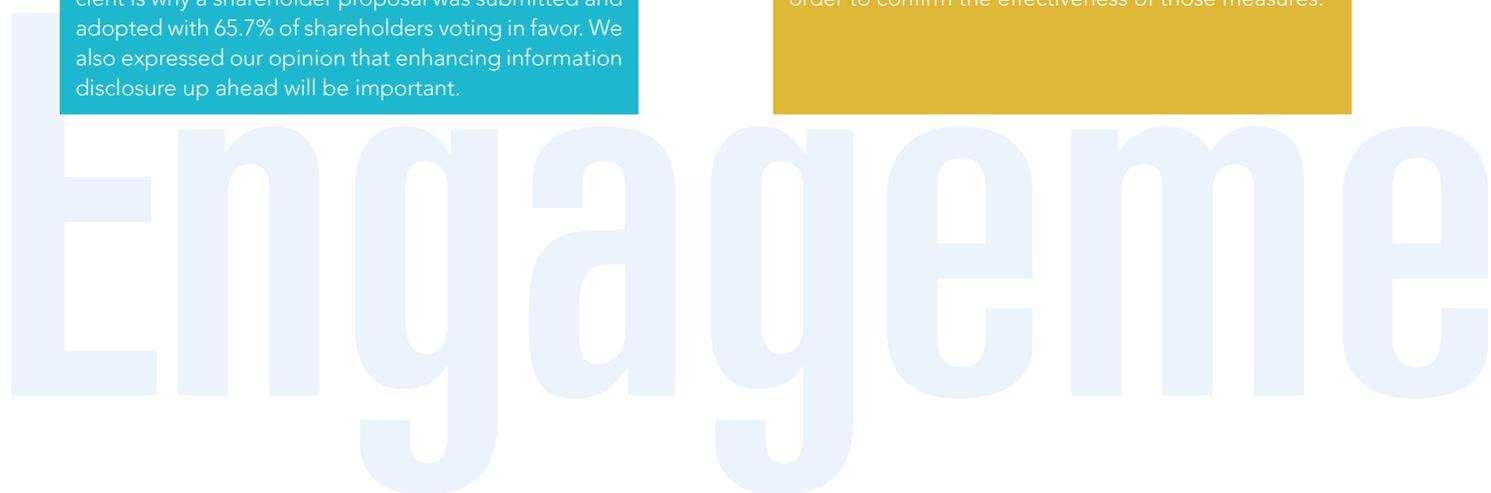
Company reaction

With the goal of improving the working environment at our production sites, we will participate in activities hosted by the Malaysian Palm Oil Certification Council and the Decent Rural Living Initiative (convened by the NGO Forum for the Future). With respect to the latter, other leading companies in the industry are also taking part. In particular, we recognize the pivotal issues of child labor and the withholding of migrant worker passports and plan to engage in activities aimed at solving these issues in consultation with the PRI Secretariat.



Our policy

We confirmed the company's measures for improving working environments and by extension, business continuity. We will continue to engage with the company in order to confirm the effectiveness of those measures.



## CASE7

### Information disclosure Identification and disclosure of materiality related to business model sustainability (engagement activities through IICEF)

#### Dialogue overview

Some Japanese companies actively tackle CSR and ESG issues and employ integrated approaches to disclosing non-financial information regarding ESG in an advanced manner. We conducted engagement activities by sending letters to those that have the potential to further deepen the belief of long-term investors in the sustainable growth of their business by enhancing the process for identifying and disclosing materiality related to business model sustainability.

#### Our policy

We are able to conduct thought-provoking engagement with regards to how information is disclosed in integrated reports and other materials. We plan on leveraging joint engagements while bearing in mind how they relate to our exclusive engagements, as well as considering tailored approaches for each agenda or for each investee company.



Engaging with companies

# 3 Exercise of voting rights

## Initiatives for increasing shareholder value through the exercise of voting rights

As a responsible institutional investor, we consider the exercise of voting rights an important part of our stewardship activities. To maximize the medium- to long-term investment returns of clients and beneficiaries, we vote appropriately from the perspective of

enhancing corporate value and boosting the interests of shareholders after considering the circumstances of investee companies and the details of our engagements with them.

We have also established our own guidelines for the exercise of voting rights—we first released the details of these guidelines for domestic shares in February 2017 and for foreign shares in May 2017. Particularly for domestic shares, we are increasing the transparency of our voting decisions by disclosing voting records on all proposals for each company every quarter.

We consider reviewing our guidelines for the exercise of voting rights at least once a year. Last year during the period July 2017 through June 2018 we amended the guidelines pertaining to domestic shares on two occasions (Sep and Dec). The main points of revision are shown below.

### Key points of revision in our guidelines for the exercise of voting rights for domestic shares during July 2017 through June 2018

#### Appointment of directors and auditors

Criteria	Before	After	Our view
Ratio of external directors at companies with a parent company	(new)	Opposed to appointment of all directors if independent external directors do not make up one-third or more of all directors.	A higher level of governance is required at companies with a parent company.
Independence of external directors and external auditors hailing from a business affiliate	Opposed to directors/auditors hailing from a major business affiliate.	Opposed to directors and auditors hailing from a business affiliate, unless the business transactions are deemed to be insignificant.	A higher level of independence is required with respect to external directors and external auditors.
Independence of external directors and external auditors hailing from a major lender	Opposed to directors/auditors hailing from the financial institution group that lends the most among those companies with high borrowing ratio.	Opposed to directors and auditors hailing from the financial institution group that lends the most, or a financial institution group that is a major lender and listed among the top 10 shareholders.	A higher level of independence is required with respect to external directors and external auditors.

#### Remuneration for executives

Criteria	Before	After	Our view
Eligibility for bonuses	(new)	Opposed if persons eligible for bonuses include external directors, directors that are Audit Committee members, auditors, or external auditors.	From the viewpoint of demonstrating appropriate supervisory functionality, we judge the payment of remuneration linked to short-term earnings to executives such as external directors to be undesirable.

#### Takeover defense measures

Criteria	Before	After	Our view
Introduction or renewal	Criterion for voting in favor is that the board must have two or more independent external directors	Criterion for voting in favor is that the board must have a majority of independent external directors	A higher level of independence on the board of directors is required.

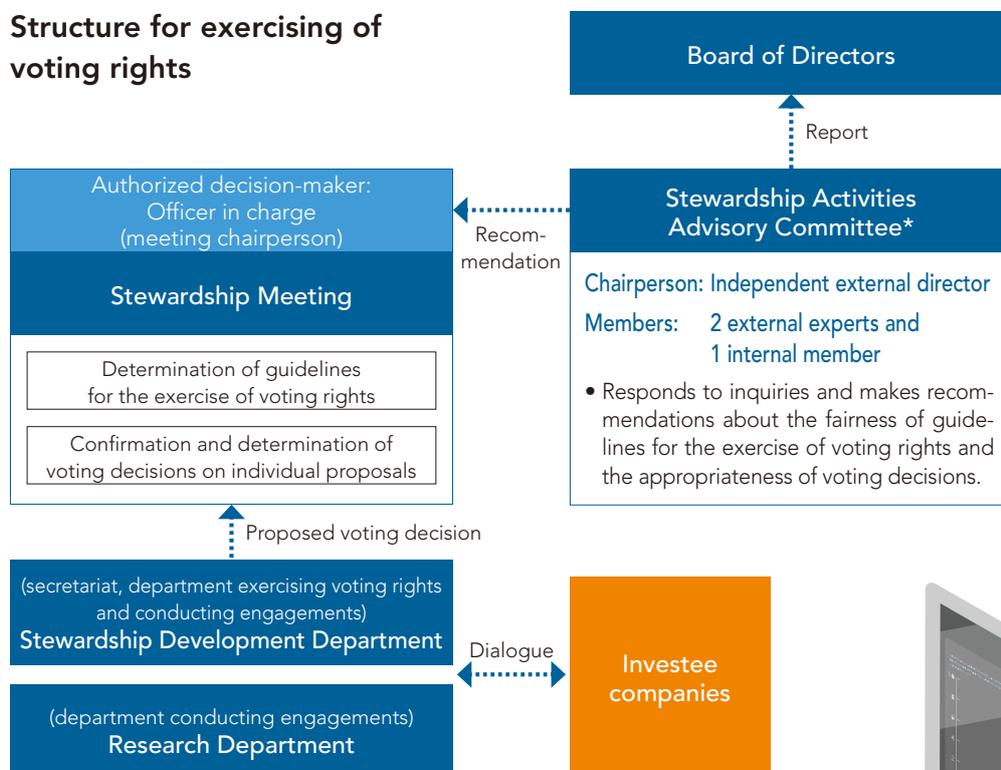


## Conflict of interest management system for the exercise of voting rights process

With the establishment of the Stewardship Activities Advisory Committee comprising mainly independent external experts, we have in place a process for checking (recommending) whether any issues exist from a conflicts of interest standpoint when revising our guidelines for the exercise of voting rights and

when applying the guidelines for making voting decisions on individual proposals. We publish a summary of the minutes of the Stewardship Activities Advisory Committee meetings on our website (summaries for meetings held before October 2018 are published on Sumitomo Mitsui Trust Bank's website).

### Structure for exercising of voting rights



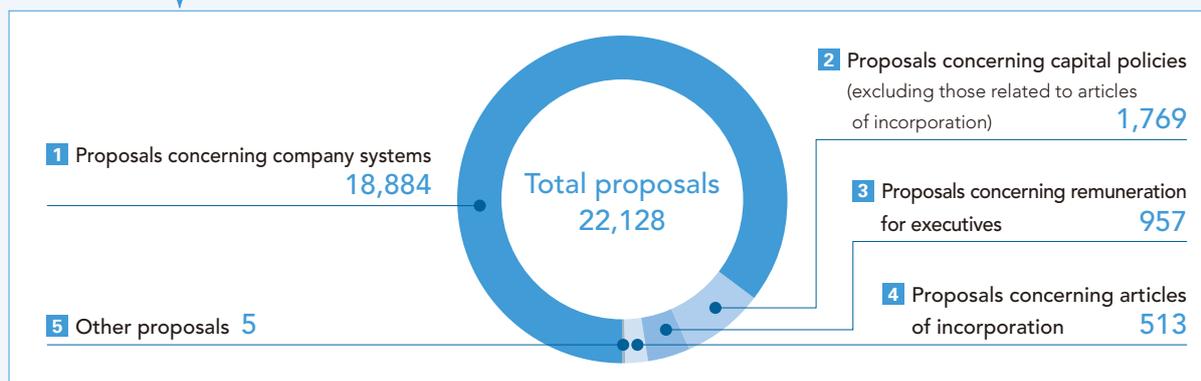
\*Please refer to our website for previous meeting minutes (available only in Japanese).  
[http://www.smtam.jp/company/policy/stewardship/activity\\_status/](http://www.smtam.jp/company/policy/stewardship/activity_status/)



3. Exercise of voting rights

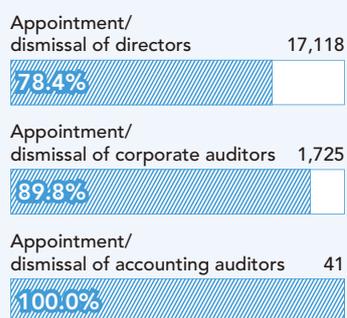
Record of exercising voting rights for Japan-listed companies (by SMTB)

Company proposals over the period July 2017–June 2018	Voting record (all company proposals)			
	For	Against	Abstention	Opposition %
	17,862	4,266	0	19.3%

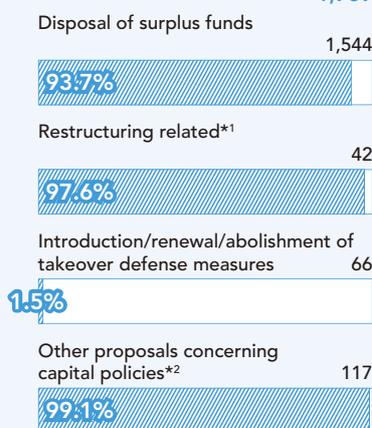


Breakdown of voting record on company proposals

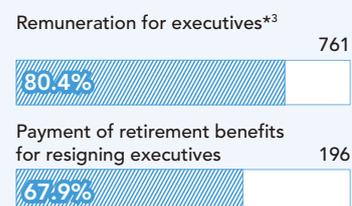
1 Proposals concerning company systems  
18,884



2 Proposals concerning capital policies (excluding those related to articles of incorporation)  
1,769



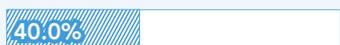
3 Proposals concerning remuneration for executives  
957



4 Proposals concerning articles of incorporation  
513



5 Other proposals  
5



\*1 This includes mergers, business transfers and acquisitions, share swaps, share transfers, and corporate splits.

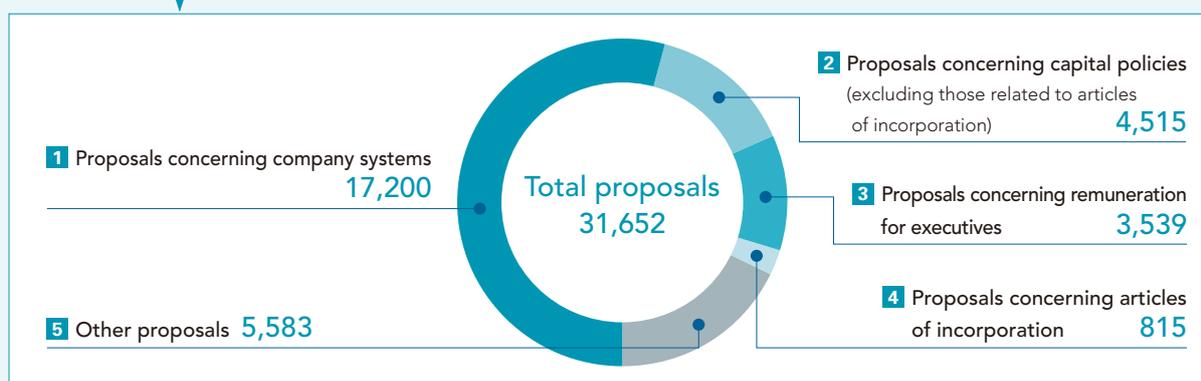
\*2 This includes treasury stock acquisitions, decrease in statutory reserves, new share allocations to third parties, decrease in capital, reverse stock splits, and issuance of classified shares.

\*3 This includes amendments to remuneration for executives, issuance of stock options, introduction/alteration of performance-linked remuneration systems, and executive bonuses.

Shareholder proposals	For	Against	Abstention	Opposition %
	15	149	0	90.9%

## Record of exercising voting rights for foreign-listed companies (by SMTB)

Company proposals over the period July 2017–June 2018	Voting record (all company proposals)			
	For	Against	Abstention	Opposition %
	28,270	3,382	0	10.7%



### Breakdown of voting record on company proposals

For Against

#### 1 Proposals concerning company systems 17,200

Appointment/dismissal of directors 14,305



Appointment/dismissal of accounting auditors 1,981



Appointment/dismissal of corporate auditors 702



Board of Directors (limits on number of directors, etc.) 212



#### 2 Proposals concerning capital policies (excluding those related to articles of incorporation) 4,515

Shareholders' equity 2,136



Profit disposal and loss disposition plans 1,210



Establishment of share buyback frameworks 665



Mergers, corporate splits, conversions to holding company, business transfers, etc. 312



Takeover defense measures 192



#### 3 Proposals concerning remuneration for executives 3,539

Remuneration for executives 2,945



Stock options 585



Presentation of retirement benefits 9



#### 4 Proposals concerning articles of incorporation 815

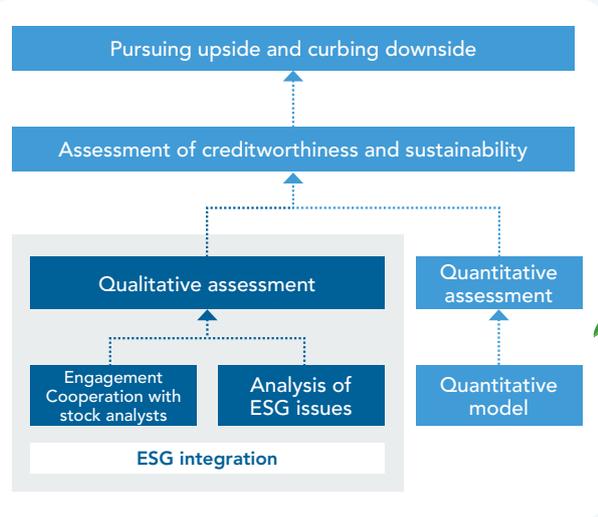


#### 5 Other proposals 5,583



Shareholder proposals	For	Against	Abstention	Opposition %
		653	339	0

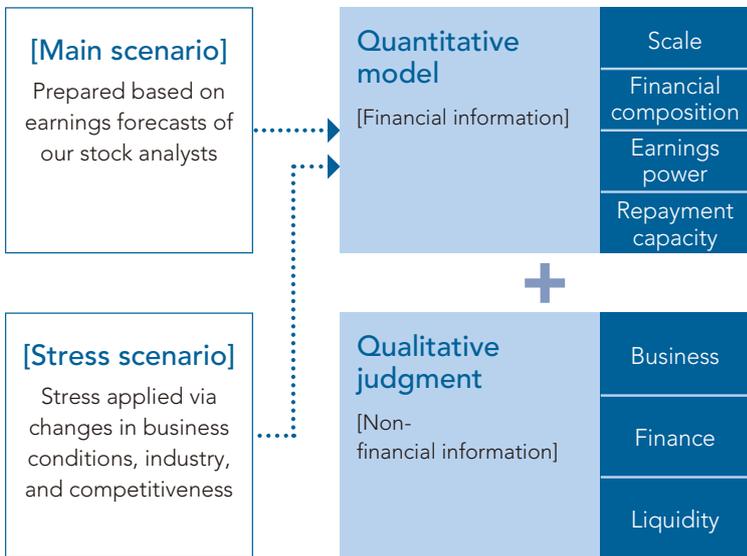
# 4 Stewardship Activities for Fixed Income Investments



At SMTAM, we incorporate ESG factors into our investment processes for fixed income fund management. We believe the consideration of ESG factors in the investment process leads to the pursuit of upside potential over the medium to long term and limits downside risk.



## Framework for applying our internal ratings



## Use of MBIS® to evaluate business risk (factoring in ESG concepts)

### Examples of qualitative judgments

Carefully analyze factors that cannot be factored into quantitative models and reflect findings

Business risk **+**

Some materials manufacturers, for example, have robust global market share and competitiveness despite having a small business scale

Business risk **-**

Compliance risks such as quality issues

Financial risk **+**

Ample unrealized gains on real estate and disposable investment securities

Financial risk **-**

Excessive goodwill and deferred tax assets

Liquidity risk **+**

Robust financial institution transactions, substantial financing system for investment

Liquidity risk **-**

Risk of concerns arising from pledging of collateral

## ESG integration in corporate bond investment

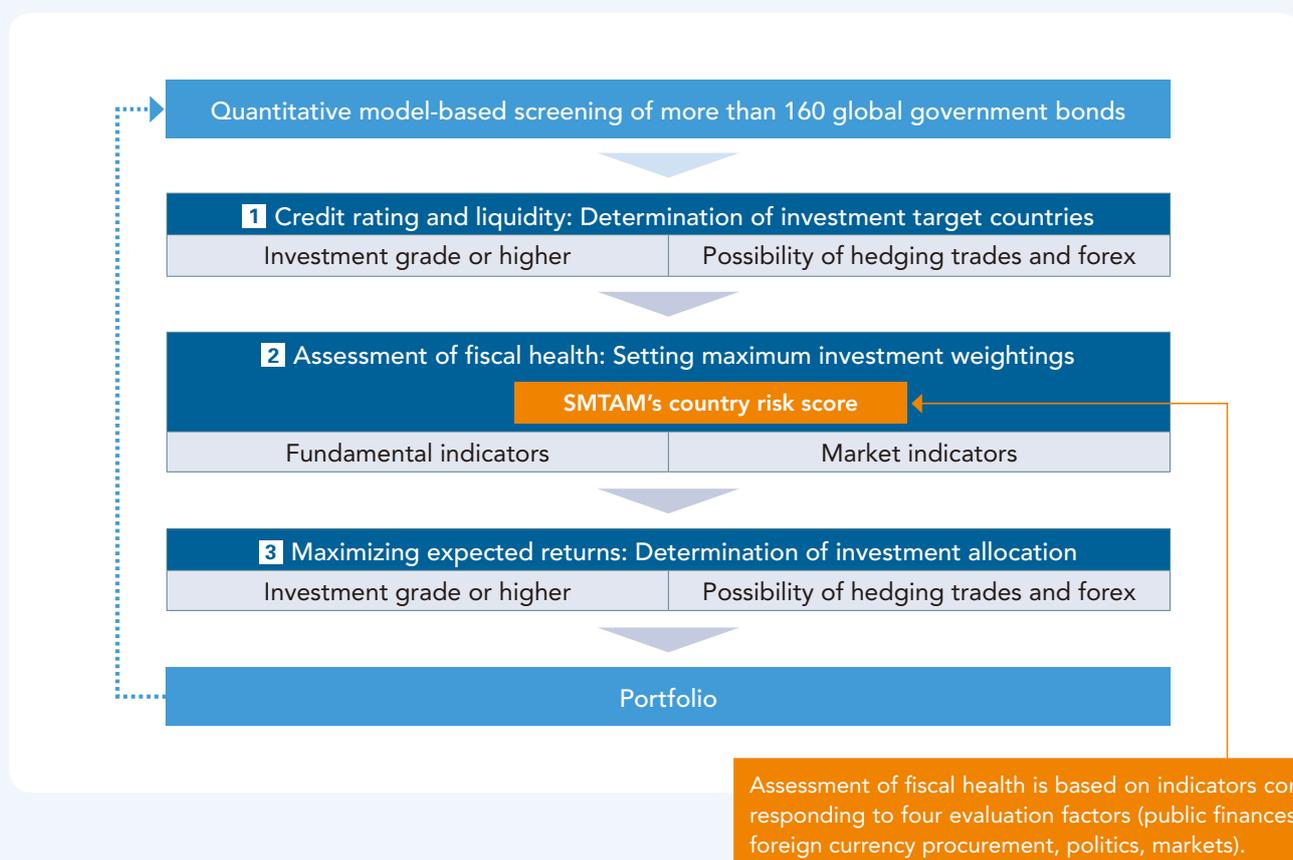
For example, we take ESG factors into consideration from a qualitative perspective in order to assess the creditworthiness of corporate bonds. We enhance our creditworthiness assessments by adding a qualitative judgment component incorporating ESG factors to our underlying quantitative model that focuses on scale, financial composition, earnings power, and repayment capacity. We believe that factoring ESG issues into our

asset management encourages the sustainable growth of companies and is conducive to maximizing investment returns for our clients. Although the product attributes of stocks and bonds may differ, we apply a common policy to both. Our credit (bond) and stock analysts separately research the ESG issues of investee companies but closely share their research and engagement results with each other at the same time.

## ESG integration in government bond investment

In addition to corporate bonds, we also integrate governance-focused evaluations into our government bond investments. In our opinion, governance can significantly impact the creditworthiness of government bonds and we believe a close focus on governance is key. In one of our funds we factor in sovereign risk consideration type and high income switching strategy to generate high income returns from sovereign bonds. While we manage this fund by taking into account

sovereign risk, we also incorporate a system for scoring the "governance" of national governments as part of our qualitative assessment of the risk. Specifically, we calculate a governance score based on seven indicators and combine it with three other evaluation factors to derive an overall assessment. These fund management initiatives lead to the pursuit of upside potential over the medium term for client returns and limit downside risk.



# 5 2019 Activities Policy

## Our policy on stewardship activities

We at SMTAM have integrated the investment management function of Sumitomo Mitsui Trust Bank into our organization. This not only reinforces our framework around stewardship activities, but further enhances our activities as one of the largest asset management companies in Japan and Asia. We will do our utmost to contribute to long-term asset formation for our clients (beneficiaries) and the development of society by steadily fulfilling our role in the investment chain.

For 2019 we have formulated a course of action centering on (1) climate change, (2) water resources and marine pollution, (3) backing governance reforms, and (4) promoting ESG information disclosure.

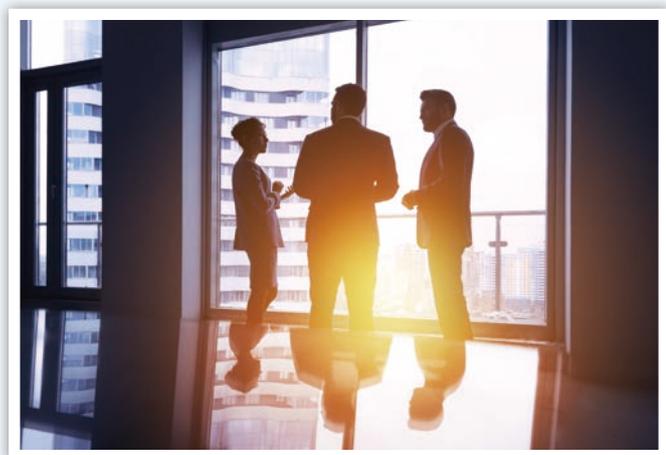
We will offer our support for consolidating initiatives in unison with the international community with respect to **climate change** and **water resources**—pressing issues that transcend national borders and threaten human security in both developed and





emerging countries. Premised on social, economic, and corporate activity, we especially think tackling climate change issues is a matter of urgency and currently a key ESG issue. We aim to make contributions towards solving these issues not only by engaging exclusively with companies, but also through engagement via signatory groups in Japan and overseas.

As for **the backing of governance reforms**, we place importance on engagements that contribute to the enhancement of independence and diversity of company boards. We do this because we believe the management team centering on the CEO should be able to execute appropriate business decisions with perpetual foresight and that throwing our support behind the participation of women—seen as a lagging issue in Japan—and the establishment of boards of directors armed with diverse skill sets will ultimately lead to sustainable corporate growth and more robust earnings power.



**Promoting ESG information** disclosure means we encourage companies to disclose information regarding the attainment of the SDGs, or in other words, their initiatives on solving ESG issues and information that reflects the contributions those initiatives make to earnings.

The SDGs were established in 2015 by the United Nations and comprise 17 specific goals and 169 targets from the standpoints of social inclusion, economic growth, environmental protection, and partnership. The Japan Business Federation, also known as the Keidanren, revised its Charter of Corporate Behavior in 2017 with the core focus of achieving the SDGs through the realization of “Society 5.0,” a concept it designates as a new society to succeed those that came before, such as hunting, farming, industry, and the information society. We hope to support the efforts of companies to disclose ESG information as they seek to generate earnings growth by achieving the SDGs.

On the exercise of voting rights, we aim to revise our guidelines for the exercise of voting rights and maintain and enhance the transparency of our voting process and results. In light of the June 2018 amendment to Japan’s Corporate Governance Code, we are currently considering revising our guidelines for the exercise of voting rights in order to further encourage medium- to long-term growth at companies owing to stronger corporate governance. Our policy is to perform in-depth analyses of a number of topics, hold study sessions, engage in discussions, and reflect the results in our guidelines for the exercise of voting rights. As a responsible institutional investor tasked with playing a key role in the investment chain, we aim to afford our fullest consideration to the purposes of Japan’s Stewardship Code and Corporate Governance Code and enhance the transparency of our process for exercising voting rights.

5. 2019 Activities Policy

## Expanding integration of ESG information into fixed income investment

While steady progress is being made to integrate ESG information into the area of fixed income investment, the hitherto focus has been on corporate governance because of the likelihood of it directly affecting creditworthiness. We think an emphasis on the creditworthiness, or repayment capacity, of issuers is the primary factor behind this trend.

That said, signs are emerging that environmental and social problems are driving changes in the attitude of creditors, including corporate bond investors. For

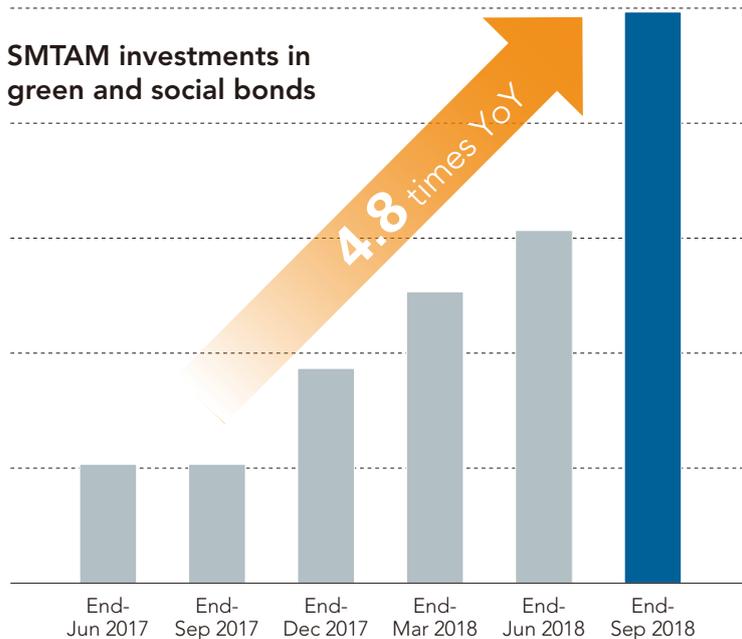
example, there is a growing trend mainly among financial institutions in Europe and the US to neutralize investments in and loans to coal-fired power plants seen as problematic in terms of greenhouse gas emissions.

In 2018 a similar trend also arose among the major Japanese financial institutions. This movement is one example of stewardship activities, which can be implemented because they are “creditors” and not “shareholders.” Considering that at Japan’s foremost rating agencies too there are moves to clarify the links between being a signatory to the PRI, credit ratings, and ESG information, we think the trend of incorporating ESG information into fixed income investment will gain momentum up ahead.

At SMTAM we continually pursue upside potential on medium-term returns for our clients and aim to curb downside risk by furthering our engagements with bond issuers, ramping up ESG integration, and even investing in green bonds and the like.



SMTAM investments in green and social bonds



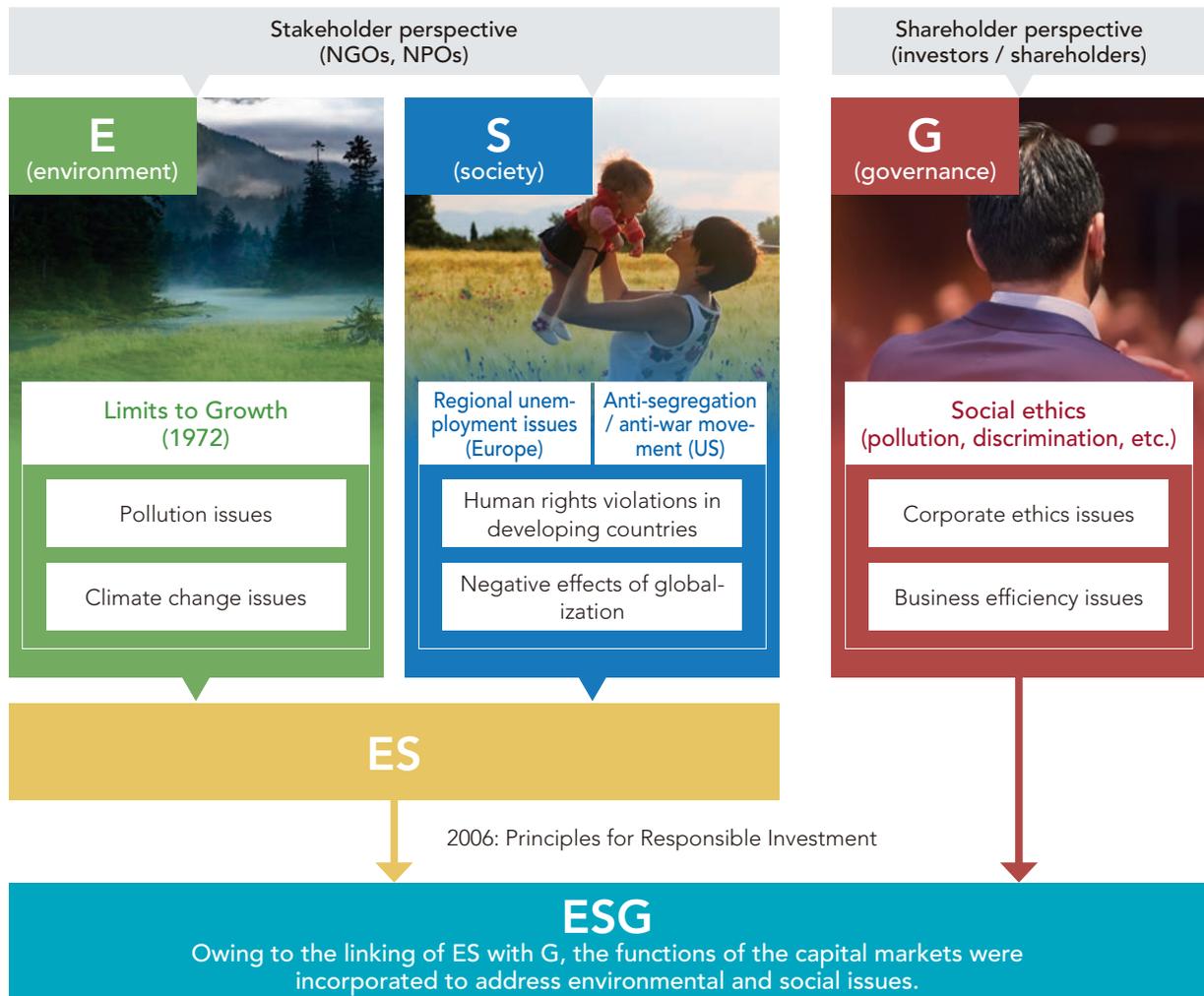
# 6 Global ESG Activities

## Trends in ESG activities

The notion that the adoption of global ESG activities into corporate management leads to sustainable company growth has been the mainstream thinking so far among overseas asset managers and asset owners. Activities included those implemented from a stakeholder perspective (pursuit of social value) mainly involving NGOs and NPOs with the aim of realizing a sustainable society, and those carried out from a shareholder perspective (pursuit of corporate value) to address governance issues. These trends laid the foundations for the action policy of the PRI.



### ESG trends



6. Global ESG Activities

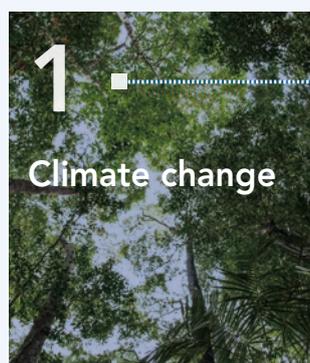
Global ESG Engagements

We conduct various engagement activities on a global scale to address ESG issues.

While our highly experienced research analysts and specialists in the Stewardship Development Department conduct exclusive bottom-up engagements with companies, we also make effective use of top-down joint engagements through PRI signatory bodies, ISS-Ethix, and the Institutional Investors Collective Engagement Forum (IICEF) to encourage investee companies to address key ESG issues.

Our topics of engagement revolve around (1)

activities based on the PRI, (2) activities to address misconduct in accordance with international norms, and (3) activities that call for efficiency in corporate management and the establishment of outstanding corporate governance. The table below shows our engagement topics and activities. We actively participate in these activities, working to effectively and efficiently limit the risk that companies face through their exposure to ESG issues by accepting, for example, the role of lead manager for working groups when conducting engagements in fields in which we have a certain level of expertise.



1 Climate change



2 Water resources and marine pollution



4 Promoting ESG information disclosure

Activities based on the PRI

Engagement topic	Specific activities	Relevant SDGs
<b>Palm oil</b>	With the aim of improving environmental and human rights issues concerning palm oil production, we encourage information disclosure and periodically carry out progress monitoring. We act as lead manager of the working group.	
<b>Forest resources conservation</b>	We call for companies in the forestry, natural rubber, livestock, and grain industries to disclose and improve their impacts on rainforests. We are a member of a leading advisory committee.	
<b>Climate Action 100+</b>	We call for the 100 biggest greenhouse gas-emitting global companies to adopt measures to combat climate change. We utilize our experience and know-how as a lead manager for the PRI to engage with Japanese and foreign corporations.	
<b>Water resources risks</b>	We encourage global consumer goods companies (beverages, food, apparel, etc.) to address the risks associated with water resources (establishment of water stewardship). We act as lead manager.	
<b>Initiatives concerning fisheries and farming (FAIRR)</b>	We call for major food companies and retailers to address environmental, social, and health issues in food supply chains.	

The topics of engagement are closely related to the globally recognized agenda of Sustainable Development Goals (SDGs).

At SMTAM we predominantly focus on the topics we think have serious impacts on corporate activities. Climate change and water resources are the key environmental topics we are concerned with—for the former we are working on urging companies to disclose their impacts on climate change under the framework of the TCFD. As for the promotion of governance reforms, initiatives related to diversity are our main focus for the time being.



### Activities to address misconduct in accordance with international norms

Engagement topic	Specific activities	Relevant SDGs
<b>Engagement activities utilizing ISS-Ethix</b>	We urge companies contradicting international norms on human rights, labor or corruption to improve their practices.	       

### Activities that call for efficiency in corporate management and the establishment of outstanding corporate governance

Engagement topic	Specific activities	Relevant SDGs
<b>Diversity 30% Club (UK) Thirty Percent Coalition (US)</b>	We support the social advancement of women through initiatives that aim to lift the ratio of female directors on company boards to 30% and in a broader sense, the promotion of diversity from a human resources standpoint.	   
<b>Access to medicine</b>	We call for the major global pharmaceutical companies to improve access to medicine in developing nations. We encourage business expansion in these areas to raise awareness of medical services.	   

6. Global ESG Activities

Addressing climate change issues



Climate change initiatives

Under the Paris Agreement that came into force in November 2016, signatory nations globally agreed to “hold the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels,” in order to ensure sustainability.

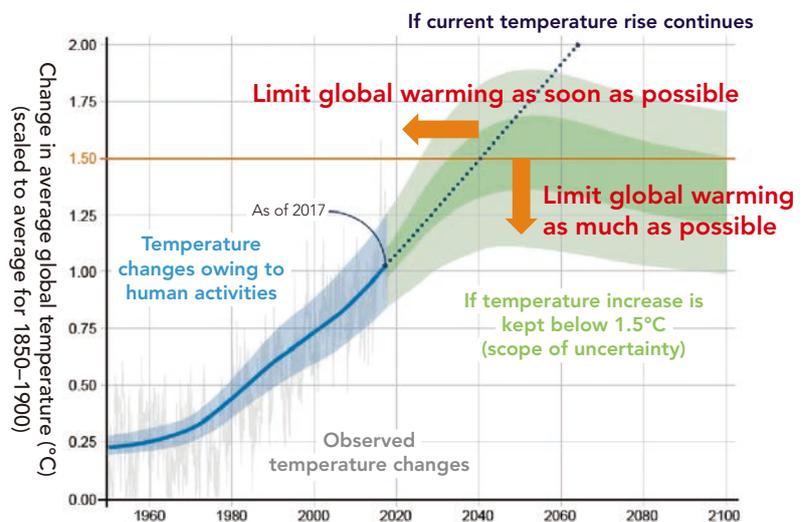
Furthermore, the Intergovernmental Panel on Climate Change (IPCC) published its Special Report on Global Warming of 1.5°C in October 2018, which calls for the reduction of greenhouse gas emissions to net zero as soon as possible.

The use of fossil fuels must be significantly phased out if these goals of bringing global warming under control are to be met.

At SMTAM, we are concerned that businesses that consume a lot of energy, especially coal, run the risk of ending up with stranded assets in the future, while we see promising investment opportunities in companies that make environmentally sound investments to reduce greenhouse gas emissions and possess energy-saving technology.

In addition, the conservation of natural capital like rainforests to help ease the greenhouse effect is also a key countermeasure. A code of conduct for the conservation of natural capital is required for industries in which the exploitation of forests has a considerable impact on natural capital, such as forestry, plantations (natural rubber and palm oil), soybeans, and paper/pulp, as well as for the companies that are part of these industry supply chains.

At SMTAM we properly assess the risks and opportunities related to climate change and through our engagements we hope to contribute to the smooth transition to a society with low or net-zero carbon emissions.



Source: IPCC Special Report on Global Warming of 1.5°C; corrections to frequently asked questions

## Addressing water resources and marine pollution issues

### Water risk initiatives

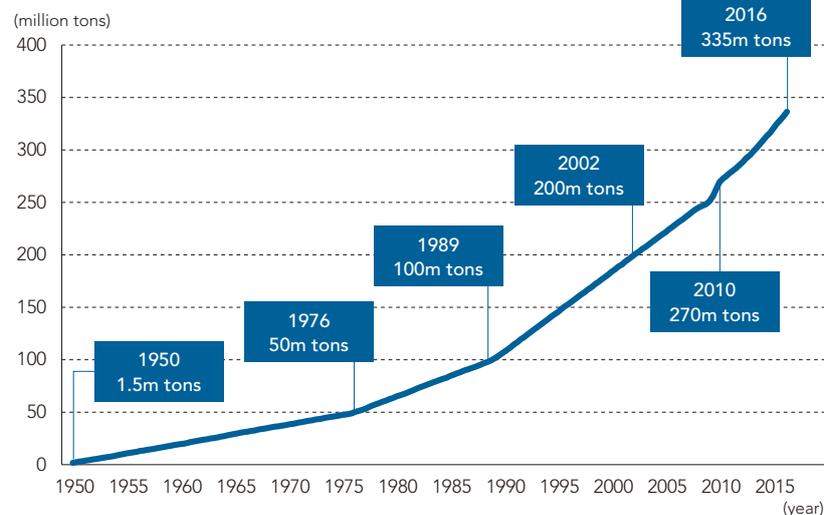
In addition to the stable securement of water resources, water risks refer to the various water-related problems that affect corporations, such as contamination of water quality, marine plastic pollution, and even the flooding of riverways. A corporate code of conduct for addressing water risks is known as “water stewardship,” but at SMTAM we call on companies to disclose an integrated code of conduct for water resources management.

OECD anticipates global water demand will increase 55% by 2050 if the use of water continues at its current pace. As such, the lack of global water resources and the problem of water resources management are garnering much interest as one of the foremost important environmental issues for society as a whole.

As for marine pollution, plastic rubbish in the world’s oceans is having a harmful effect on marine ecosystems. According to PlasticsEurope, a leading European trade association, annual global plastic production reached 340 million tons in 2016 and continues to rise exponentially, as shown in the graph below. We know that plastic products disposed of inappropriately end up in the world’s oceans and remain there for extended periods, polluting the water and seriously harming marine life and ecosystems.

Not only do fishery industries bear the brunt of marine plastic pollution, but the companies that manufacture and use plastics are also exposed to reputational risk and even their business operations can be negatively affected. At SMTAM we will continue to urge the entire supply chain to deploy countermeasures against the problem of marine plastics which also affects Japanese companies significantly.

**Global plastic production output**



Source: SMTAM compiled based on PlasticsEurope data

6. Global ESG Activities

Backing governance reforms

Diversity and governance reforms



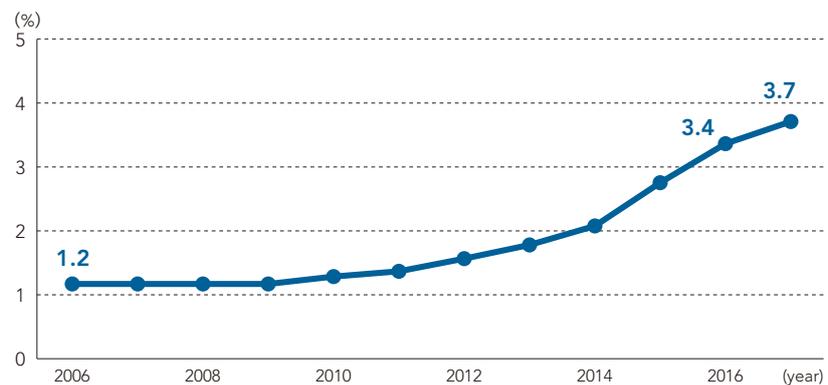
At SMTAM we call on companies to establish corporate governance systems capable of adapting to global business expansion and changes in business environments, but we also actively engage in activities urging them to guarantee independence on their Board of Directors, make effective use of human capital, and respect diversity.

Especially with respect to diversity, we are a signatory to initiatives in the UK (30% Club) and the US (Thirty Percent Coalition) and harness that knowledge to promote the incorporation of diversity into corporate management to facilitate efficient decision making.

In Japan in 2017 the ratio of female directors at listed companies was only 3.7%—clear evidence of a sizeable gender gap compared to Western countries. Meanwhile, the World Economic Forum views the advancement of women in society as a marker on how governments and companies utilize human resources and evaluates diversity as one indicator of competitiveness.

Companies that operate globally need to work to bolster their competitiveness by recruiting and harnessing talented personnel regardless of their race or gender. At SMTAM we will continue to ask companies to promote effective utilization of their human resources with diversity in mind.

Percentage of female officers at listed companies



Source: 2018 White Paper on Gender Equality of Ministry of Internal Affairs and Communications

Gender Gap Index

An index created by the World Economic Forum in 2017 to assess and rank gender equality in each country.



## Promoting ESG information disclosure

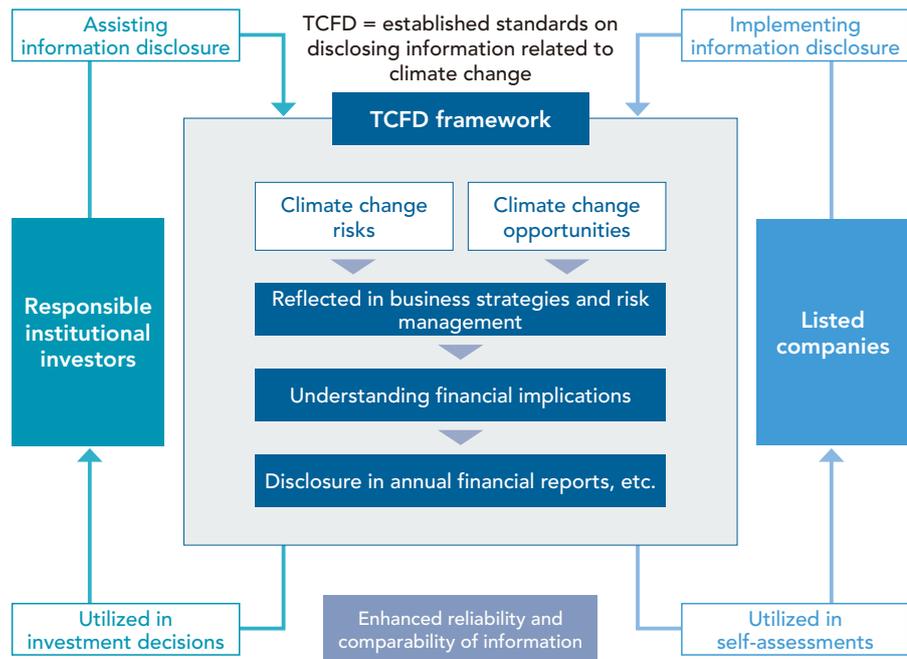
### Encouraging information disclosure under the framework of the TCFD

The Task Force on Climate-related Financial Disclosures (TCFD) is an organization set up by the Financial Stability Board (FSB). Its goal is to deliberate how the financial industry should consider climate change issues; in its recommendations report published in June 2017 it calls for all issuers of shares and corporate bonds to gauge the risks, opportunities, and financial implications of climate change and incorporate them into their annual financial reports and other documents. In other words, the TCFD has established standards on disclosing information related to climate change.

There are four core elements in the TCFD's recommendations: governance, strategy, risk management, and metrics & targets. And investors require reliability, comparability, consistency, and clarity to help them make accurate decisions. At the same time, it is thought that the disclosure of this information will also help issuers make business decisions that enhance sustainability because it validates not only financing matters, but their own capabilities to combat climate change as well as their relative position.

Given that this movement encourages the integration of ESG information into financial reports, we think it is a change that cannot be reversed. At SMTAM we conduct engagements aimed at encouraging companies to disclose climate change information and at the same time urge companies to smoothly transition to a low-carbon society.

#### Relationship between TCFD and companies/institutional investors



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# Responding to Japan's Stewardship Code

At SMTAM we are addressing the principles of Japan's Stewardship Code, as described in the table below. We will continue to actively implement initiatives up ahead in an effort to fulfill our stewardship responsibilities.

Principle	Initiative	Self-assessment
<b>Principle 1</b> <b>Policy formulation and disclosure</b>	<p>Upon integrating the investment management functions of Sumitomo Mitsui Trust Bank, we updated SMTAM's Guidelines on the Principles of Japan's Stewardship Code.</p>	<ul style="list-style-type: none"> <li>• Both companies are actively responding to Japan's Stewardship Code.</li> <li>• We think our response at present is appropriate but we will review our response from time to time when we deem it necessary.</li> </ul>
<b>Principle 2</b> <b>Conflict of interest management</b>	<p>We publish summaries of the discussions of the Stewardship Activities Advisory Committee, our third-party committee, in an effort to enhance the transparency of its operations.</p>	<ul style="list-style-type: none"> <li>• In line with the recommendations of the Advisory Committee, we are enhancing our conflict of interest management for asset management operations and strengthening our stewardship activities.</li> <li>• We think our response at present is appropriate but we will work to further refine our conflict of interest management.</li> </ul>
<b>Principle 3</b> <b>Accurate understanding</b>	<ul style="list-style-type: none"> <li>• We expanded the number of companies we engage with in aiming to reach our goal of covering 90% (cumulative) of the TSE1 market capitalization.</li> </ul>	<ul style="list-style-type: none"> <li>• We achieved our coverage goal in March 2018.</li> <li>• We conducted engagements irrespective of size of market capitalization.</li> </ul>
<b>Principle 4</b> <b>Dialogue with companies</b>	<ul style="list-style-type: none"> <li>• In addition to our exclusive engagements, we conducted joint engagements through the Institutional Investors Collective Engagement Forum (IICEF).</li> </ul>	<ul style="list-style-type: none"> <li>• We effectively utilize collective engagements to address issues common to institutional investors and medium- to long-term topics.</li> </ul>
<b>Principle 5</b> <b>Exercise of voting rights</b>	<ul style="list-style-type: none"> <li>• We disclosed our voting records on all proposals for all issues we hold (in Oct 2017 and Jan, Apr, Jul, and Oct 2018).</li> <li>• We revised and published our guidelines for the exercise of voting rights (in Sep and Dec 2017).</li> </ul>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• We intend to revise our guidelines for the exercise of voting rights with the aim of contributing to growth at investee companies.</li> </ul>
<b>Principle 6</b> <b>Reporting to clients and beneficiaries</b>	<ul style="list-style-type: none"> <li>• We provided timely and appropriate explanations about our stewardship activities to asset owners.</li> <li>• We released our 2017 Stewardship Report in November 2017.</li> </ul>	<ul style="list-style-type: none"> <li>• We think our response at present is appropriate, considering our reporting to asset owners, our hosting of client seminars, the release of our Stewardship Report, and the enhancement of information disclosed on our website.</li> <li>• Going forward, we will endeavor to report in a timely and appropriate manner and also improve the content of our activity reports.</li> </ul>
<b>Principle 7</b> <b>Development of skills</b>	<ul style="list-style-type: none"> <li>• We enhanced the ESG knowledge of employees and officers by attending lectures hosted by the PRI as part of its educational program (PRI Academy).</li> <li>• We enhanced knowledge about ESG investments through our in-house e-learning course.</li> </ul>	<ul style="list-style-type: none"> <li>• We think our response at present is appropriate but we will continue to implement activities aimed at strengthening our engagement skills.</li> <li>• In addition to acquiring and deepening our knowledge about foreign companies, we will identify topics appropriate for Japanese companies when conducting engagements.</li> </ul>

# 2 Policy on Addressing the PRI

## Active involvement in the PRI

Established with the support of the United Nations, the Principles for Responsible Investment (PRI) encourage institutional investors to incorporate environmental, social, and governance (ESG) factors into their investment decision-making processes. The 100 signatory institutions to the PRI at the time of its launch in April 2006 represented total assets under management (AUM) of US\$6.5 trillion, but as of April 2018 the number of signatories had increased to 1,918 representing total AUM of around US\$82 trillion—a strong indication of the growing importance of responsible investment.

Since becoming a signatory to the PRI in May 2006, we have drafted policies in accordance with the six principles and implemented initiatives in light of the latest developments. The PRI evaluates each signatory with respect to their commitment to and progress on implementing the six principles based on their reports. A score of A+ is the highest, while E is the lowest. As shown in the table to the right, we have collected favorable scores on the whole and received a comprehensive assessment score of A+ for the fourth year in a row.

We will continue with our active involvement in the PRI going forward and make every effort to maintain and improve our ratings.

### PRI assessment of SMTAM

		2018
Approach to responsible investment (comprehensive assessment)		A+
Integration status of listed equity into responsible investment		A+
Active ownership in listed equity		A
	Engagement	A+
	Exercise of voting rights	A
Responsible investment in fixed income		A
	Government bonds, etc.	A
	Corporate bonds, etc.	A



<b>Principle 1</b>	<b>We will incorporate ESG issues into investment analysis and decision-making processes.</b> We analyze and evaluate non-financial information such as management thoroughness, strategy execution capabilities, and capacity for reform with the aim of identifying improvements in or maintenance of sustainable corporate value at investee companies. Furthermore, we seek to implement initiatives (ESG integration) that utilize the knowledge gained from our analyses and evaluations in our investment management operations.
<b>Principle 2</b>	<b>We will be active owners and incorporate ESG issues into our ownership policies and practices.</b> 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.
<b>Principle 3</b>	<b>We will seek appropriate disclosures on ESG issues by the entities in which we invest.</b> We seek appropriate disclosure of ESG issues from investee companies.
<b>Principle 4</b>	<b>We will promote acceptance and implementation of the Principles within the asset management industry.</b> We actively promote engagement and awareness-raising activities with investee companies so these Principles gain acceptance and are implemented in the asset management industry.
<b>Principle 5</b>	<b>We will work together to enhance our effectiveness in implementing the Principles.</b> 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.
<b>Principle 6</b>	<b>We will report on our activities and progress towards implementing the Principles.</b> We implement these Principles and produce and issue reports that meet the requirements for signatories to disclose their activities and progress towards implementing them.

## Cooperating with global initiatives

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

### 1 Signatory to the Principles for Responsible Investment

SMTAM became a signatory to the UN-supported Principles for Responsible Investment (PRI) in May 2006 when it was established as a spin-off from the UN Global Compact and United Nations Environment Programme Finance Initiative (UNEP FI). The principles encourage institutional investors such as pension funds and asset managers to incorporate environmental, social, and governance (ESG) factors into investment decision-making processes. In 2018, in addition to the water risk and palm oil working groups, SMTAM participated in the forest conservation working group and engaged with investee companies regarding these issues.

### 2 Signatory to Ceres

The Coalition for Environmentally Responsible Economies (“Ceres”) is an NGO promoting corporate initiatives relating to environmental issues such as global warming. Ceres actively carries out engagements through its network of 150 institutional investors mainly in North America.

### 3 Signatory to the United Nations Global Compact

Proposed by former UN Secretary-General Kofi Annan, the UN Global Compact is a set of principles for business conduct regarding human rights, labor, the environment, and anti-corruption. Signatory companies are called on to take measures toward implementing the principles. In July 2005, the Sumitomo Mitsui Trust Group signed the compact, becoming the first Japanese bank to do so, and declared its resolve to act as a good corporate citizen by complying with and promoting the compact. The Group also became a member of the Global Compact Network Japan (GCNJ), in which signatory companies of the UN Global Compact participate.

### 4 Signatory to Climate Action 100+

Climate Action 100+ is a five-year joint engagement initiative that started in December 2017. It targets companies thought to be major greenhouse gas emitters. This initiative is based on the Task Force on Climate-related Financial Disclosures (TCFD) and through joint engagements with signatory bodies such as the PRI and Ceres, it calls on the world’s top 100 greenhouse gas emitters to disclose information. SMTAM is responsible for the Asia-Pacific region in conducting its engagements.

### 5 Signatory to AIGCC

The Asia Investor Group on Climate Change (AIGCC) is an initiative that aims to create awareness among asset owners and financial institutions in Asia about the risks and opportunities pertaining to climate change and low-carbon investments. SMTAM actively participates in engagements through the AIGCC.

### 6 Signatory to CDP

Formerly the Carbon Disclosure Project, the CDP is an international NGO founded in 2000 to address environmental issues such as

climate change. Every year this project sends questionnaires to the biggest companies by market capitalization in major countries and the response rate is gradually increasing over the years. The responses are usually made public and the CDP also releases its scoring of company initiatives. This scoring is increasingly being used as a key measure of corporate value.

### 7 Signatory to FAIRR

SMTAM participates in the Farm Animal Investment Risk & Return (FAIRR) initiative, a joint engagement organization that addresses issues mainly in the fishery and livestock industries. SMTAM also takes part in FAIRR’s collaborative engagement program “Sustainable Protein Supply Chains.” The FAIRR initiative raises awareness of material ESG risks and opportunities caused by fishery and farming products and contributes to the improvement of corporate activities. SMTAM aims to globalize its engagement activities and by doing so, acquire knowledge and establish its presence.

### 8 Signatory to Access to Medicine

Access to Medicine is a foundation that brings together leading asset managers and asset owners from Europe and the US. These signatories call for the major global pharmaceutical companies to raise awareness about medical services and improve access to medicine in developing nations. SMTAM is stepping up its engagements with global pharmaceutical companies.

### 9 Signatory to Thirty Percent Coalition (US) and 30% Club (UK)

These investor networks promote greater diversity on the boards of directors at investee companies. SMTAM is a signatory to both the US-based Thirty Percent Coalition and the UK-based 30% Club and urges investee companies to incorporate diversity into their organizations.

### 10 Signatory to ICGN

The International Corporate Governance Network (ICGN) exchanges information and views related to corporate governance issues on a global scale and provides various support and consultation services so that companies can execute outstanding corporate governance practices. SMTAM (SMTB at the time) was a bronze sponsor of the ICGN’s Tokyo conference held in February 2018.

### 11 Signatory to CII

The Council of Institutional Investors (CII) is an NPO established in 1985 by mainly major institutional investors for the purpose of sharing information and views about corporate governance and shareholder rights. Twice a year SMTAM attends the CII’s global conferences of signatory organizations in the US and internally shares the high value-added information it gleans from the conferences to enhance its stewardship activities.

## 3

# Our Lineup of ESG Investment Products

## Japan equity responsible investment management strategy

First launched in 2003, our Japanese equity responsible investment management strategy is one of the oldest responsible investment strategies in Japan. With a focus on ESG in selecting investment stocks, the strategy takes into account the degree of contribution from ESG to improving financial returns. It is characterized by the use of our fund management team's knowledge and fundamental research performed by the Japan Research Institute (JRI).

### 1. JRI selects best-in-class universe of stocks

JRI, one of the most influential think tanks in Japan, selects best-in-class companies as candidates for the investment universe by surveying 2,000 companies. The evaluation consists of E (environmental), S (social), and G (governance) themes and in fiscal year 2013, V (value, or valuation of growth prospects) was also added. The V evaluation is to evaluate the links between ESG initiatives and company's earnings.

### 2. SMTAM decides on SRI fund universe

We exclude companies with high credit risk from the list of universe candidates selected by JRI. A monthly committee, chaired by the Head of the Equity Business Unit, decides on the SRI fund universe.

### 3. Our fund managers select stocks

Our fund managers evaluate the stocks in our SRI fund universe based on 1) valuation of growth prospects owing to ESG initiatives, and 2) share price valuation and earnings momentum derived from the earnings forecasts of our Japanese stock analysts, and seek excess returns versus the benchmark TOPIX.

#### Investment management process



Source: Sumitomo Mitsui Trust Asset Management (as of Oct 2018)

## Investment trust funds that leverage the Japanese equity responsible investment management strategy



Product name **SRI Japan Open**



Product name **Japanese Equity SRI Fund**

## Other SRI-related investment trust funds



Product name **Biodiversity Companies Support Fund**



Product name **China Good Company**

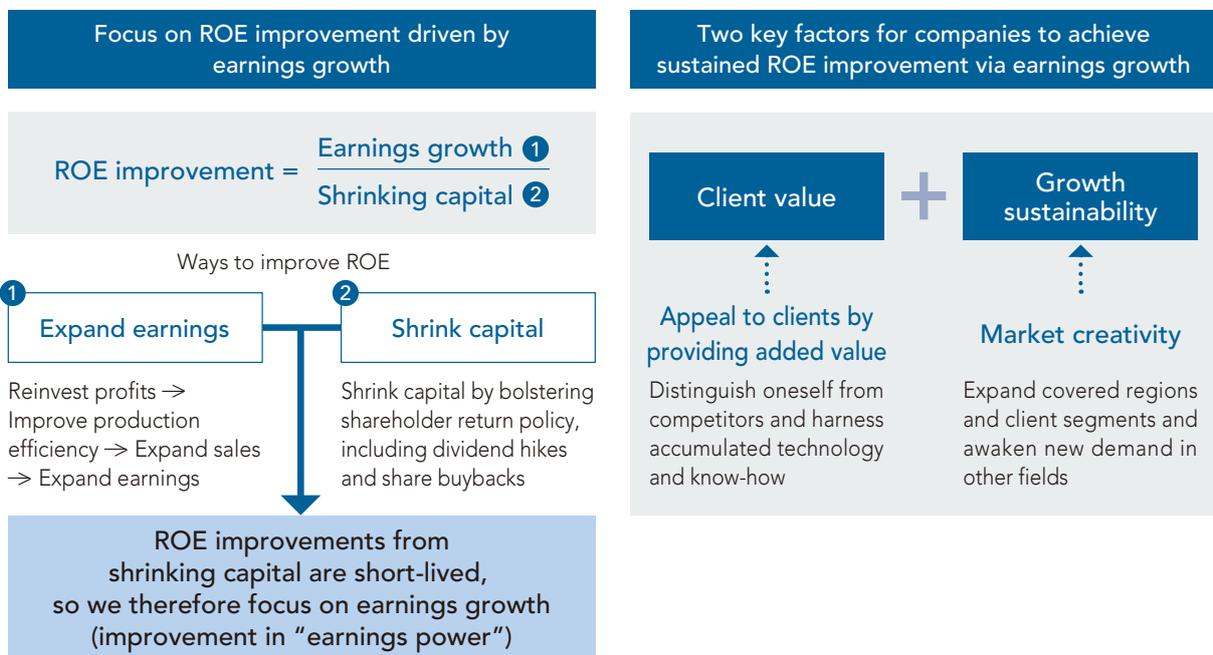
### 3. Our Lineup of ESG Investment Products

## Quality growth Japanese equity investment management strategy (research, ROE improvement)

In 2015 we launched our quality growth Japanese equity investment management strategy, which focuses on company “earnings power” and concentrates investments in stocks expected to achieve sustained improvement in ROE based on MBIS® company analysis of non-financial information.

### Focus on sustained ROE improvement

Under our quality growth Japanese equity investment management strategy, investments are concentrated in stocks expected to achieve sustained ROE improvement based on company analysis using non-financial information.



Identify improvements in and the sustainability of company earnings by leveraging non-financial information such as management and business platforms

#### 1. Focus on “earnings power”

With a focus on business margins, a component of ROE, we select stocks based on the evaluation factors of client value and sustainability.

#### 2. Use of proprietary evaluation tool

We utilize MBIS®, our proprietary evaluation tool, to assess non-financial information and “earnings power” of companies.

#### 3. Hand-picked stock selection

Our fund managers ultimately select 20-50 stocks for investment following quantitative and qualitative screening of the stocks in our analyst coverage.



# 4 Our ESG Guidelines

## Environment

Companies are expected to be responsible for the impact of their products and activities on the environment in the following ways:

- 1) Comply with all environmental laws and regulations; and
- 2) Minimize impact on the environment.

SMTAM expects companies to clearly articulate to shareholders their policies and guidelines for fulfilling the obligations that derive from their responsibilities for the impact on the environment. SMTAM expects companies to prevent or minimize environmental impact and strive to develop and disseminate technologies that encourage environmental preservation.

## Society and Labor

Companies are expected to adhere to international labor rights and create safe and sound work environments in the following ways:

- 1) Adhere to all labor laws and regulations;
- 2) Ensure proper procedures are followed to maintain sound labor standards;
- 3) Prescribe health and safety management methods and make sure they are adopted into practice;
- 4) Provide employment opportunities to employees in ways that are fair;
- 5) Prepare plans and policies relating to self-development and training;
- 6) Recruit highly capable employees and encourage them to follow the policies and direction the company sets; and
- 7) Adopt measures to ensure internationally recognized human rights are not violated, and establish guidelines on order placement and suppliers for countries where there is a high risk of human rights violations.

SMTAM does not tolerate human rights violations by companies. Companies are expected to observe international labor standards and provide safe and sound work environments for their employees. In particular, we think it is important for companies to prohibit discrimination in employment, prohibit child labor, eradicate forced labor, and ensure the collective bargaining rights of workers.

## Governance

Companies are not only expected to fulfill their obligation to avoid corruption such as bribery and extortion but they are also expected to embrace their responsibility to establish policies and specific programs to address and prevent corruption in the following ways:

- 1) Endeavor to prevent all forms of corruption, including bribery and extortion; and
- 2) Uphold business ethics and observe internationally accepted norms of morals, and work to ensure their image and reputation are not harmed.

SMTAM expects companies to prevent corruption and adhere to business ethics, and with regards to corporate activities, it expects the Board of Directors to set the direction and monitor compliance with anti-corruption efforts.



# Our Lineup of SRI Funds

## SRI Japan Open

### Fund overview

Invests in companies actively fulfilling their corporate social responsibility (CSR)

### Fees and expenses

Fee upon purchase: Calculated by multiplying the net asset value (NAV) as of the purchase application date by **no more than 3.24% (3.0% before tax)**.

Exit charge upon redemption: Calculated by multiplying the NAV as of the redemption application date by **0.3%**.

Asset management fee (trust fee) during holding period: **1.728% (1.6% before tax)** per annum of total net assets.

Other expenses and fees during holding period:

Audit costs, securities trading and deposits, and various expenses related to trust administration shall be borne by the fund each time (daily for audit costs). Rates, maximum amounts, and other such details for these expenses and fees cannot be indicated in advance because they vary depending on investment performance and other factors.

\*The maximum amount for the total fees listed above cannot be indicated in advance because they vary depending on the length of the holding period and other factors.

Main investment risks				
Share price fluctuation risk	Currency fluctuation risk	Credit risk	Country risk	Liquidity risk

## Japanese Equity SRI Fund

### Fund overview

Invests in companies actively fulfilling their corporate social responsibility (CSR)

### Fees and expenses

Fee upon purchase: Calculated by multiplying the net asset value (NAV) as of the purchase application date by **no more than 3.24% (3.0% before tax)**.

Exit charge upon redemption: Calculated by multiplying the NAV as of the redemption application date by **0.3%**.

Asset management fee (trust fee) during holding period: **1.728% (1.6% before tax)** per annum of total net assets.

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\*The maximum amount for the total fees listed above cannot be indicated in advance because they vary depending on the length of the holding period and other factors.

Main investment risks				
Share price fluctuation risk	Currency fluctuation risk	Credit risk	Country risk	Liquidity risk

## Biodiversity Companies Support Fund

### Fund overview

Invests in companies actively addressing the conservation and sustainable use of biodiversity

### Fees and expenses

Fee upon purchase: Calculated by multiplying the net asset value (NAV) as of the purchase application date by **no more than 3.24% (3.0% before tax)**.

Exit charge upon redemption: Calculated by multiplying the NAV as of the redemption application date by **0.3%**.

Asset management fee (trust fee) during holding period: **1.728% (1.6% before tax)** per annum of total net assets.

Other expenses and fees during holding period:

Audit costs, securities trading and deposits, and various expenses related to trust administration shall be borne by the fund each time (daily for audit costs). Rates, maximum amounts, and other such details for these expenses and fees cannot be indicated in advance because they vary depending on investment performance and other factors.

\*The maximum amount for the total fees listed above cannot be indicated in advance because they vary depending on the length of the holding period and other factors.

Main investment risks				
Share price fluctuation risk	Currency fluctuation risk	Credit risk	Country risk	Liquidity risk

## China Good Company

### Fund overview

Invests in Chinese companies to be listed on the stock markets of mainland China and Hong Kong that have prospects for sustained growth

### Fees and expenses

Fee upon purchase: Calculated by multiplying the net asset value (NAV) as of the next business day after the purchase application date by **no more than 3.78% (3.5% before tax)**.

Exit charge upon redemption: Calculated by multiplying the NAV as of the next business day after the redemption application date by **0.3%**.

Asset management fee (trust fee) during holding period: **1.944% (1.8% before tax)** per annum of total net assets.

Other expenses and fees during holding period:

Audit costs, securities trading and deposits, and various expenses related to trust administration shall be borne by the fund each time (daily for audit costs). Rates, maximum amounts, and other such details for these expenses and fees cannot be indicated in advance because they vary depending on investment performance and other factors.

\*The maximum amount for the total fees listed above cannot be indicated in advance because they vary depending on the length of the holding period and other factors.

Main investment risks				
Share price fluctuation risk	Currency fluctuation risk	Credit risk	Country risk	Liquidity risk

## Investment risks of each fund

The funds invest in assets subject to price fluctuation, such as securities, therefore the net asset value (NAV) will fluctuate. Accordingly, **the investment principal of investors is not guaranteed and may incur losses and fall below the initial amount due to a fall in the NAV. All profits and losses accrued on trust assets belong to the investors. Investment trusts differ from bank deposits.**

Risks	Description
Share price fluctuation risk	Share prices fluctuate according to changes in earnings, management, or financial situations of issuers, as well as changes in external evaluations and economic conditions in Japan and overseas. Share price declines can cause a depreciation in the fund's NAV.
Currency fluctuation risk	Exchange rates fluctuate according to various factors such as economic conditions and political situations of the respective countries. A strong yen versus the currency of the investment target assets can cause a depreciation in the fund's NAV.
Credit risk	In the event the fund is unable to pay, or expects to be unable to pay interest, redemption proceeds, or borrowings because of financial difficulties, business downturn, or other reasons affecting the securities issuer, the price of securities may decline and could cause a depreciation in the fund's NAV.
Country risk	In the event of changes in political and economic circumstances or changes in foreign exchange restrictions, capital controls, or taxation systems in the investment target country or region, or if such changes are anticipated to occur, the fund may not be managed according to policy, which could cause a depreciation in the fund's NAV. When the fund invests in emerging markets, it tends to be more susceptible to the aforementioned risks compared to investments in developed countries.
Liquidity risk	In the event the fund trades securities in markets with low liquidity, for example, when the market size or trading volume is small, or in markets where liquidity has declined due to trading restrictions and the like, their value may diverge significantly from prevailing market rates and could cause a depreciation in the fund's NAV.

\*Factors for NAV fluctuation are not limited to those explained above. For more information, please refer to the written explanation of the investment trust (prospectus for issuance).

[Matters to consider]

● This report was prepared by Sumitomo Mitsui Trust Asset Management and does not constitute disclosure material under the Financial Instruments and Exchange Act. ● Please make sure to read the contents of the latest written explanation of the investment trust (prospectus for issuance) and make your own decision when submitting an application for purchase. ● Investment trusts invest in assets subject to price fluctuation, such as securities (foreign currency-denominated assets bear currency fluctuation risk), therefore the net asset value (NAV) will fluctuate. Accordingly, neither the principal nor investment returns are guaranteed. All profits and losses from the management of the fund belong to the investor. ● Unlike bank deposits or insurance policies, investment trusts are not protected by the Deposit Insurance Corporation of Japan or the insurance policyholders protection corporations. In addition, when purchased from a distributor other than a securities company, investment trusts are not protected by the Investor Protection Fund. ● The information in this report is prepared based on what is considered to be reliable information but the accuracy and integrity of it is not guaranteed by Sumitomo Mitsui Trust Asset Management. The information is also subject to change without notice. ● The graphs, figures, and other data contained in this report were prepared based on back-dated data and make no indication nor promise of future investment returns. Investment policies are also subject to change depending on future changes in market environments. ● The copyrights, intellectual property rights, and all other rights pertaining to the indexes used in this report are the property of their respective developers or publishers. ● The provisions of paragraph 6, Article 37 (so-called "cooling-off") of the Financial Instruments and Exchange Act do not apply to fund transactions.

Please make sure to read the contents of the written explanation of the investment trust (prospectus for issuance) and make your own decision when submitting an application for purchase.

For more information on investment and inquiries on the written explanation of the investment trust (prospectus for issuance):



Sumitomo Mitsui Trust Asset Management  
 Registration Number: Director of the Kanto Local Financial Bureau (Financial instruments firms) No. 347  
 Member Associations: Investment Trusts Association, Japan and Japan Investment Advisers Association

Inquiries:

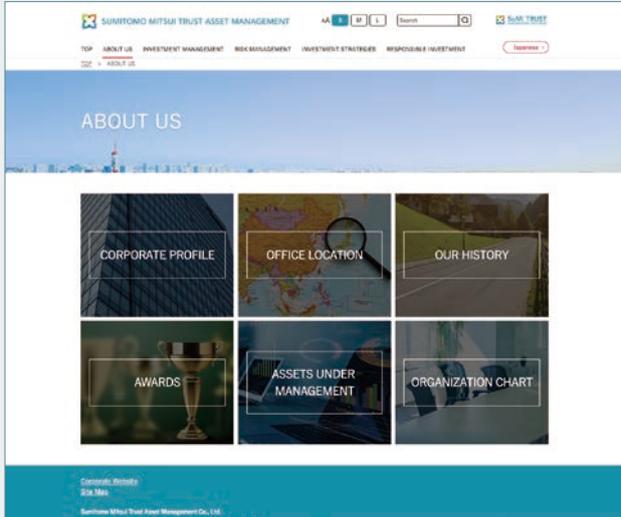
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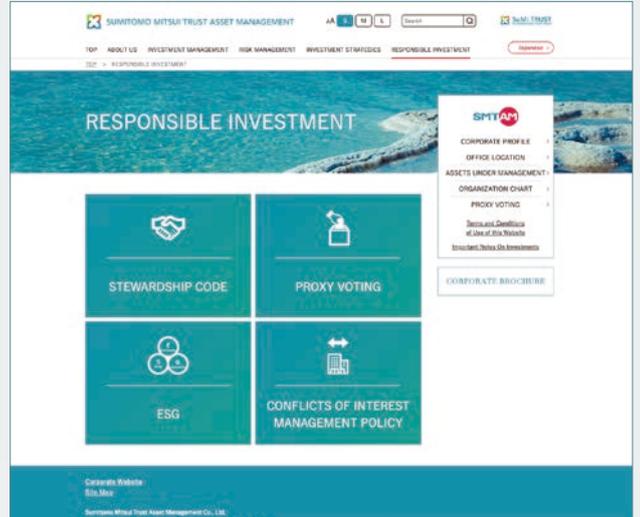


## Website

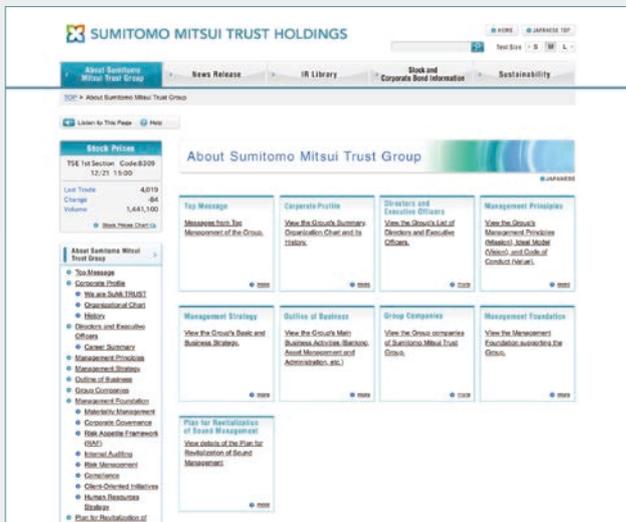
Please visit our website for more information about the Sumitomo Mitsui Trust Group.



For Sumitomo Mitsui Trust Asset Management:  
<http://www.smtam.jp/english/company/>



For Stewardship Activities:  
<http://www.smtam.jp/english/responsible/>



For the Sumitomo Mitsui Trust Group:  
[https://www.smth.jp/en/about\\_us/index.html](https://www.smth.jp/en/about_us/index.html)

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SUMITOMO MITSUI TRUST ASSET MANAGEMENT



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