

Sumitomo Mitsui Trust Asset Management Co., Ltd.

Sustainability Report 2024/2025



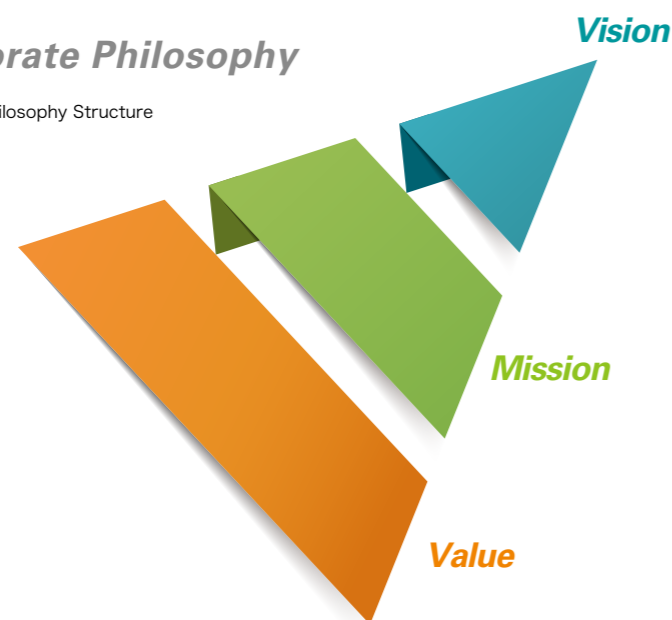
Our Vision and Mission

Realizing opportunities today to ensure sustainable prosperity for tomorrow.

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

Corporate Philosophy

Corporate Philosophy Structure



Our Value

- Stand in the shoes of others and engage in dialogue with empathy
- Have self-awareness and seek constant self-improvement
- Expand curiosity and transform awareness into action
- Create synergies by bringing unique personalities together
- Pursue quality and value that goes one step ahead
- Look ahead to the future, continuously challenging ourselves

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Editorial Policy of This Report

This report has been prepared as a communication tool to report and promote understanding among our stakeholders regarding the sustainability activities undertaken by Sumitomo Mitsui Trust Asset Management Co., Ltd. (hereinafter "SuMi TRUST AM" or the "Company") as a corporation. The period covered is from July 1, 2023 to June 30, 2024 (including some contents not within this date range). Statements regarding outlook, targets, and plans are based on the Company's judgment at the time of report preparation but contain uncertainties that may result in outcomes different from those described due to various changing factors. Efforts made throughout Sumitomo Mitsui Trust Group, Inc. include striving to provide stakeholders with value and collaborating on sustainability activities with scope to boost the long-term corporate value of the Group over time based on transparency. For more details, visit the Sumitomo Mitsui Trust Group website.

Message from the CEO

Sustainable Asset Management in Partnership with Clients and Society

Representative Director and President Yoshio Hishida

This is the first time Sumitomo Mitsui Trust Asset Management Co., Ltd. has ventured into publishing a Sustainability Report. The Sustainability Report presents an overview and framework of our initiatives aimed at enhancing sustainability for our clients, stakeholders, and society as a whole. Expanding on the materiality that impacts our corporate value, we believe this report provides a clearer explanation of our value creation process and its sustainability by detailing our stewardship activities previously introduced in the Stewardship Report, along with our efforts related to governance and management foundation, which are the core of our business as an asset management company.

Turning our attention to the business environment, environmental issues, such as natural disasters and intense heat waves worldwide linked to global warming, continue to be critical social issues. Additionally, heightened geopolitical risks, including the Russian invasion of Ukraine and conflicts in the Middle East, along with global inflation and gender-related issues, remain grave challenges. On the other hand, rapid technological advancements, such as generative AI, are accelerating industrial transformations and driving significant changes across society and economic landscapes. This includes Japan's shift from large-scale monetary easing to a "world with interest rates." It is under these conditions that companies are expected to engage in sustainability management that addresses a wide range

of global environmental and social issues, contributing to both their sustainable growth and the growth of the overall economy.

In the asset management industry, the shift from savings to investment is gathering momentum, marked by the Japanese government's Policy Plan for Promoting Japan as a Leading Asset Management Center announced in December 2023, the launch of the new NISA in January 2024, and the record-high Nikkei 225 in July. Additionally, as the Tokyo Stock Exchange Prime Market considers mandating sustainability information disclosure for listed companies starting in March 2027, social and environmental considerations have become critical issues that cannot be ignored.

Amid these developments, the Sumitomo Mitsui Trust Group celebrates its 100th anniversary in 2024. Over the past century, as a trust bank Group, we have earnestly addressed our clients' needs and social issues, creating solutions to meet expectations, which has driven our growth and contributed to the broader development of society and the economy.

Building on this legacy as one of Japan's largest asset management companies, we aim to enhance our sustainability and corporate value by actively contributing to a sustainable society and striving to create the new standard of asset management applicable to our modern times.

In recent years, we have focused on creating social and economic impacts through our business, such as contributing to our clients' long-term asset formation in this age of 100-year life spans and enhancing stewardship activities to promote ESG and sustainable management. We are also advancing our organizational frameworks by

strengthening corporate and product governance and enhancing human capital management.

The first part of this report, the SuMi TRUST AM's Sustainability Management section, outlines our approach and initiatives related to governance and management foundations, alongside an overview of materiality. We aim to present a clear summary of our value creation process, including our corporate governance system designed to support an affluent future, product governance to ensure continuous delivery of quality products to clients, and approaches to human capital management that drive sustained high value. Additionally, we have highlighted various sustainability activities. In the latter section, SuMi TRUST AM's Stewardship Activities, we introduce a range of investment initiatives we have undertaken. Specifically, we describe our stewardship activities in detail, grounded in our core ESG materiality principles. We also cover collaborations with various initiatives and organizations, as well as multi-stakeholder engagements with government bodies and regulatory authorities.

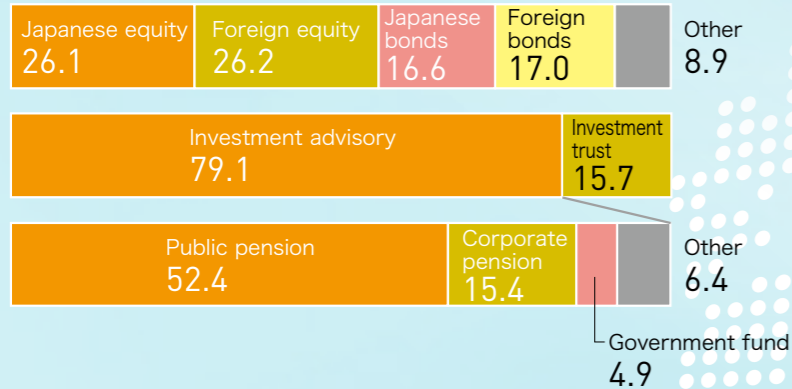
As an asset management company, we are committed to maximizing returns on the assets entrusted to us by our clients, while continuously striving to realize opportunities today to ensure sustainable prosperity for tomorrow. We hope this report will provide an understanding of the Company's activities and act as a bridge to the future for all stakeholders, including our readers. We welcome your feedback on our initiatives, philosophies, and frameworks, as we strive to further enhance and refine them. We greatly appreciate your continued understanding and support of our activities.

SuMi TRUST AM in Numbers



Balance of assets under management

94.8 trillion yen



Balance of DC-exclusive investment trusts*

2.8 trillion yen
20.2% of market share



Balance of ESG investment

36.3 trillion yen



Licensed securities analysts (CMA: Certified Member Analyst of the Securities Analysts Association of Japan)

253 people



Percentage of female employees*

32.6%



Average number of paid leave days taken*

17.5 days



Percentage of female workers in manager positions*

12.8%

Number of engagement meetings

In Japan: Approx. 1,600

Outside Japan: Approx. 460

Number of engaged companies

In Japan: Approx. 630

Outside Japan: Approx. 390

Number of contacts with companies (Domestic)

In Japan: Approx. 7,700

Number of companies with which we can exercise voting rights

In Japan: Approx. 2,500

Outside Japan: Approx. 2,600

Number of initiatives we are in participation

In Japan: 6 organizations

Global: 19 organizations

Data as of the end of June 2024 or for the period from July 2023 to June 2024. However, data marked with * is as of the end of March 2024 or for the period from April 2023 to March 2024.

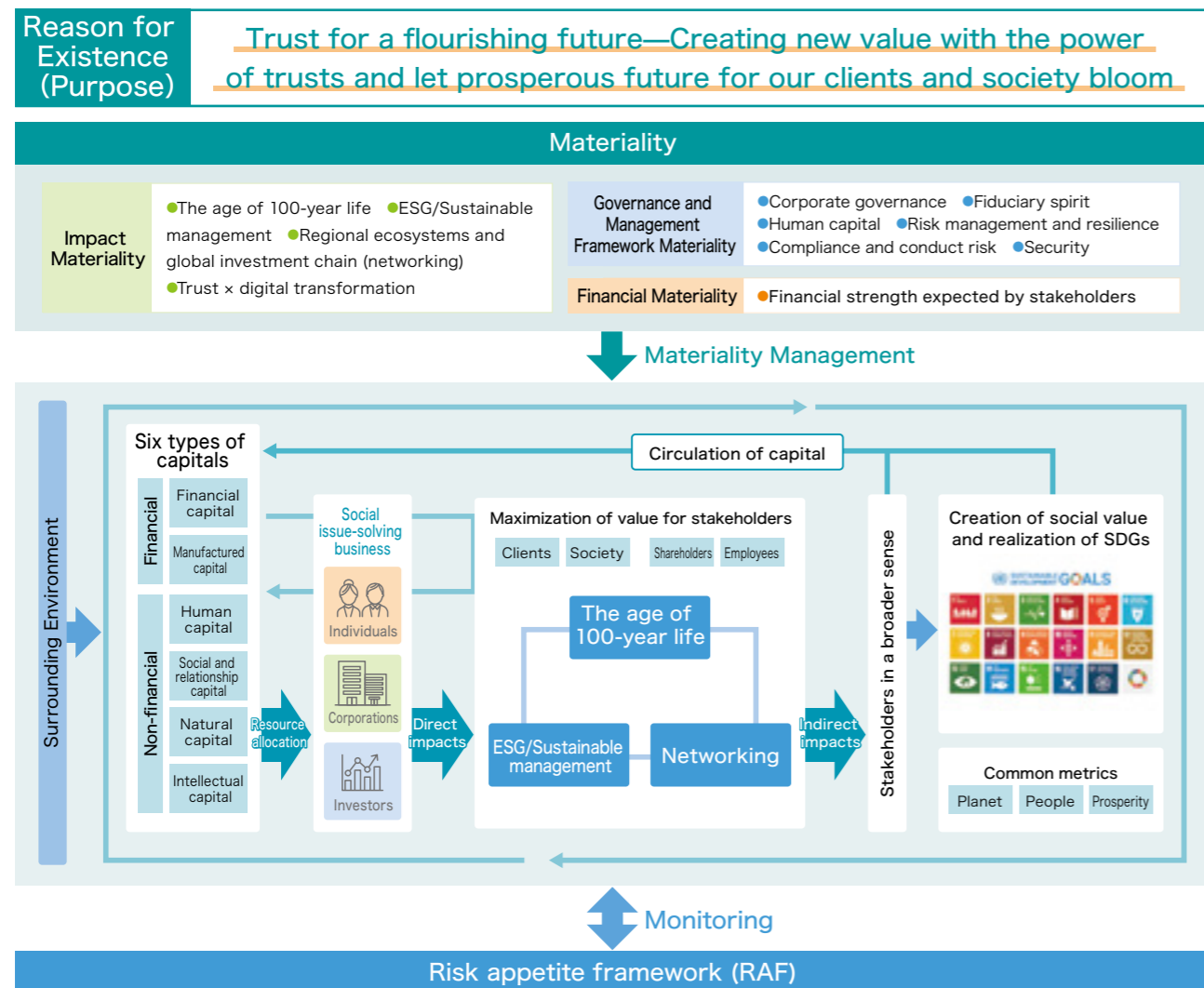
Value Creation Process and Materiality

Sumitomo Mitsui Trust Group's Value Creation Process and Materiality

The Sumitomo Mitsui Trust Group defines its purpose as “Trust for a flourishing future—Creating new value with the power of trusts and let prosperous future for our clients and society bloom” and places “balanced creation of both social value and economic value” at the core of its management.

The mechanism of balanced creation of both social value and economic value is structured as a value creation process, with critical issues influencing medium- to long-term value creation identified as materiality. Materiality is categorized into three types: (1) Impact Materiality, which encompasses elements of our corporate activities that affect the economy, society, and the environment (positive/negative impacts); (2) Governance and Management Framework Materiality, which supports impact materiality and influences the core of value creation; and (3) Financial Materiality, which directly affects financial performance.

Figure 1: Sumitomo Mitsui Trust Group's value creation process



(Source: Compiled by SuMi TRUST AM based on Sumitomo Mitsui Trust Group's Integrated Report 2024, page 16)

Figure 2: Sumitomo Mitsui Trust Group's materiality

Classification	Definition	Materiality
Impact Materiality	Items in which the Company's* corporate activities have impacts (both positive and negative impacts) on the economy, society, or the environment. Items that are in a phase where we can take concrete steps toward achieving both social value and economic value.	The age of 100-year life
		ESG/Sustainable management
		Regional ecosystems and global investment chain (networking)
		Trust x digital transformation
Governance and Management Framework Materiality	Non-financial items where environmental or social issues do not immediately affect the Company's corporate value but are likely to affect its finance over the long term, so they are highly defensive.	Corporate governance
		Fiduciary spirit
		Human capital
		Risk management and resilience
		Compliance and conduct risk
Financial Materiality	Items where environmental or social issues affect the Company's finance.	Security
		Financial strength expected by stakeholders

* The "Company" in this diagram refers to Sumitomo Mitsui Trust Group, Inc. (Source: Compiled by SuMi TRUST AM based on Sumitomo Mitsui Trust Group's Integrated Report 2024, page 19)

SuMi TRUST AM's Materiality

As a core subsidiary of the Sumitomo Mitsui Trust Group, we aim for balanced creation of both social value and economic value. To achieve our Vision, we have identified our material issues through discussions among management, based on the Group's value creation process and materiality.

Figure 3: SuMi TRUST AM's materiality

Materiality	Overview
Impact Materiality	The age of 100-year life In a super-aging society, addressing social issues such as changes in pension and social security systems and extending healthy life expectancy by providing asset management products and services that support a prosperous life and meet the needs of investors both domestically and internationally.
	ESG/Sustainable management Supporting environmentally, socially, and governance-conscious management at investee companies to address challenges such as climate change, biodiversity, resource recycling and the circular economy, and pollution of air, water, and soil.
	Global investment chain Strengthening the investment chain and providing investment opportunities through collaboration with leading international players.
Governance and Management Framework Materiality	Digital transformation (DX) Aligning IT strategies with management strategies to achieve a virtuous cycle of funds, assets, and capital through the power of DX.
	Corporate governance Establishing a management framework for balanced creation of both social value and economic value.
	Fiduciary spirit Realizing the best interests of our clients.
	Human capital Securing, promoting, and building a workforce with diverse values. Creating an environment where individuals can leverage their value and strengths while being physically and mentally healthy, empathizing with the Group's purpose, and fostering mutual respect for diversity.
	Risk management and resilience Ensuring sound management and sustainable growth through precise identification of risk conditions and necessary measures, supporting revenue generation through risk-taking aligned with management strategies.
Financial Materiality	Compliance and conduct risk Adhering to market rules, internal regulations, and broader societal norms. Ensuring that the actions of executives and employees do not breach professional ethics or fail to meet stakeholder expectations of trust, thereby avoiding adverse impacts.
	Security Preventing cyberattacks on critical infrastructure operators and responding effectively to incidents when they occur. Continuously reviewing and improving system risk management frameworks. Acquiring and using customer information in compliance with regulations and ensuring strict management.
Financial Materiality	Financial strength expected by stakeholders Maintaining financial soundness, achieving sustainable growth, and securing stable revenues.

(Source: SuMi TRUST AM)

(1) Impact Materiality

■ The Age of 100-Year Life

The age of 100-year life is considered a foundational materiality item that underpins our Purpose. We address social issues in a super-aging society, such as changes in social systems and extending healthy life expectancy, by providing asset management products that support a prosperous life. Specifically, we offer financial products through various channels, including investment trusts via sales companies, asset management products for defined contribution pensions, and managing assets entrusted by corporate pensions. Additionally, we promote financial literacy aimed at cultivating future investors by disseminating a variety of investment-related information. In selecting investee companies for asset management products, we also consider the sustainability of the social infrastructure that supports our clients.

■ ESG/Sustainable Management

To address ESG challenges, we focus on investment decisions that prioritize environmental, social and governance considerations in investee companies and engagement that emphasizes sustainable management. We have established a specialized ESG organization to integrate environmental, social, and governance challenges and investment opportunities into company evaluations through engagement as a responsible investor. ESG investment improves fund performance by contributing to the value enhancement and sustainable growth of investee companies through stewardship activities, achieving the balance between solving social issues and gaining a return on investments. Through this, we fulfill our role as an asset management company within the investment chain, practicing fiduciary duty and meeting social responsibilities. For details, please refer to the latter section of this report, "SuMi TRUST AM's Stewardship Activities." Other activities include supporting the Plan for Nurturing a Watershed Forest Together Project by the Tokyo Metropolitan Government Bureau of Waterworks and engaging in water source forest conservation

efforts. Through these corporate citizenship initiatives, we aim to increase recognition in the local community and foster employee awareness of contributing to social sustainability.

■ Global Investment Chain

To enhance sustainability on a global scale, we invest in overseas companies and provide investment opportunities to international clients. In FY2023, our assets under management from overseas investors exceeded 5 trillion yen, making us one of the largest domestic asset management firms. We are also strengthening the investment chain through collaborations with leading international management companies and participating in various initiatives led by international ESG advocacy groups, expanding our global activities.

■ Digital Transformation (DX)

To further enhance and expand our asset management operations, we are introducing highly connected asset management systems and building a robust technology utilization framework. Internally, we have established a training program for developing digital talent and are promoting the use of generative AI to align IT strategies with management strategies.

(2) Governance and Management Framework Materiality

■ Corporate Governance

Establishing a management framework is essential to achieving our Vision. We have adopted a company structure with an audit and supervisory committee, where independent outside directors with diverse backgrounds make up the majority of the Board of Directors. Additionally, we have established voluntary advisory committees that include external experts. Through annual evaluations of the Board's effectiveness, we are continuously enhancing our governance system to build a framework suited to creating a prosperous future.

■ Fiduciary Spirit

To realize the best interests of our clients, it is essential to establish an effective framework for practicing fiduciary spirit. The Company has

developed a product governance system to deliver superior products to our clients. This includes monitoring frameworks at both the product formation and post-formation stages. We continuously enhance this system by incorporating external expert opinions and adhering to regulations to pursue higher levels of client benefit realization. Through training and internal communication initiatives, we deepen employee and officer understanding of fiduciary duty and strive to implement client-oriented business operations.

■ Human Capital

As an asset management company, we recognize the importance of building a talent portfolio centered on expertise to sustainably create corporate value and focus on acquiring, deploying, and developing optimal talent aligned with our management strategies. We also strive to enhance human capital by promoting Diversity, Equity & Inclusion (DE&I), recognizing diverse experiences and expertise, and fostering asset management practices suited to the times.

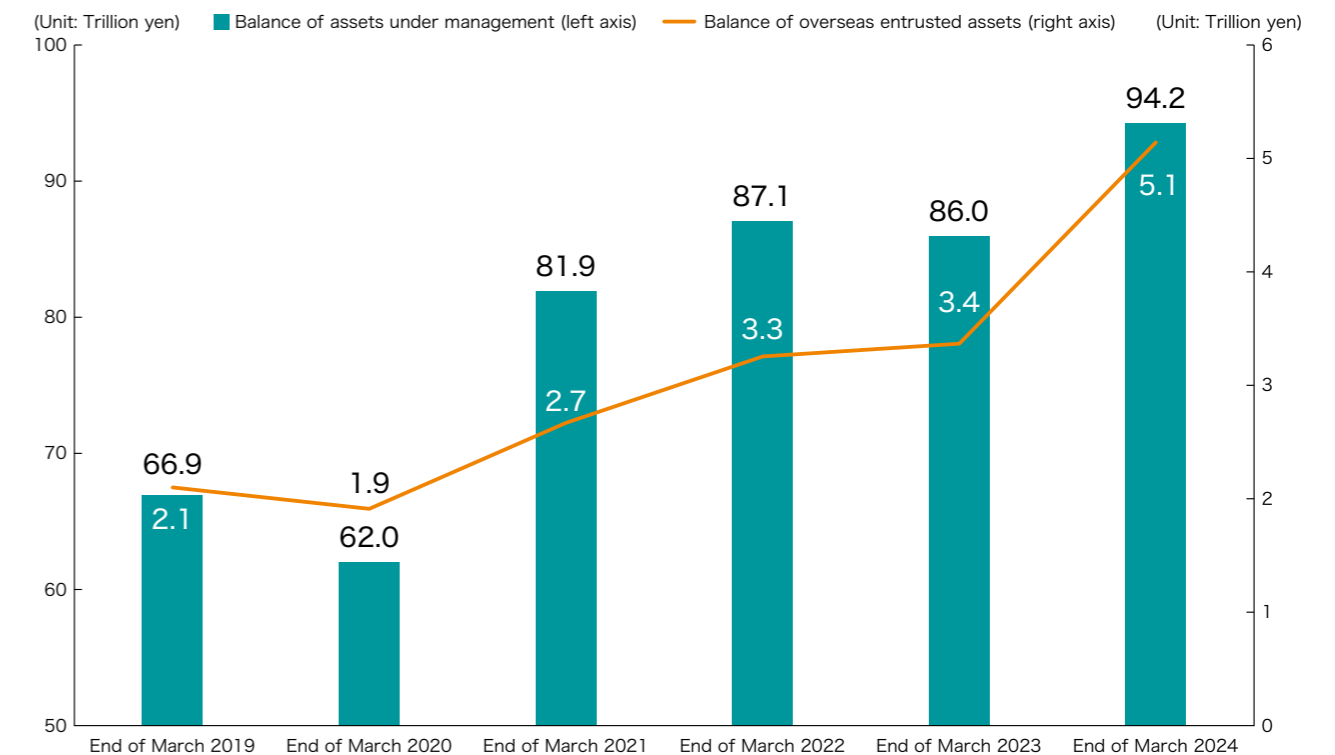
■ Risk Management, Resilience, Compliance, Conduct Risk, and Security

Risk management challenges are becoming increasingly complex each year. The Company implements an action plan for risk management that balances offensive and defensive measures: securing profits through strategic risk-taking while improving resilience against unforeseen circumstances. This includes adapting to domestic and international compliance requirements, managing conduct risks across all levels, and continuously reviewing and enhancing system risk management frameworks in response to the latest cyber threats.

(3) Financial Materiality

Asset management companies must establish a financial foundation to sustainably provide value to society over the long term by achieving stable and sustained growth in assets under management and revenues based on long-term strategies. We aim to strengthen our financial health to meet the expectations of all stakeholders—clients, employees, and shareholders—as we work toward realizing our Vision.

Figure 4: Balance of assets under management and overseas entrusted assets



(Source: SuMi TRUST AM)

Fiduciary Duty and Client-oriented Business Operations

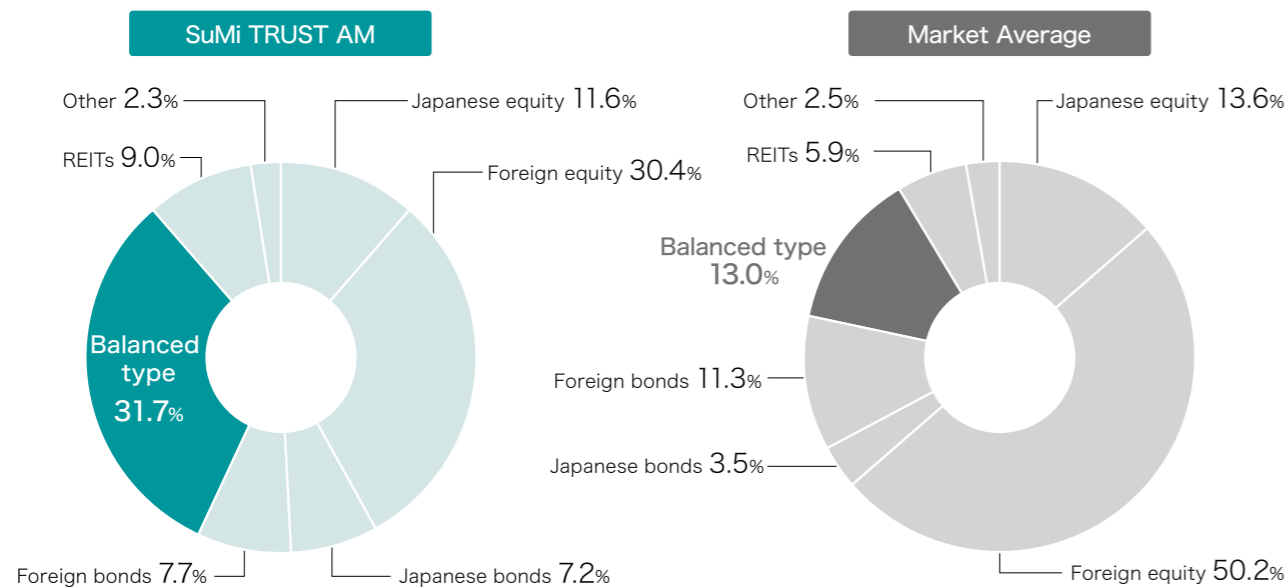
Based on the Policies regarding the Fiduciary Duties (FD) of the Sumitomo Mitsui Trust Group* established by Sumitomo Mitsui Trust Group, Inc., we are committed to ensuring client-oriented business operations to provide financial products and services that satisfy our clients.

[* Policies regarding the FD of the Sumitomo Mitsui Trust Group](#)

The Company has established FD Promotion Office within the Corporate Planning Department and annually formulate an FD Action Plan outlining initiatives for client-oriented business operations in each area, with regular reviews and evaluations of implementation progress. The FD Action Plan is reviewed by the FD Advisory Committee, a consultative body established under the Board of Directors, to ensure its validity and the appropriate execution of business operations. The FD Advisory Committee is structured to ensure independence, with external members forming the majority. We disclose our progress on the FD Action Plan

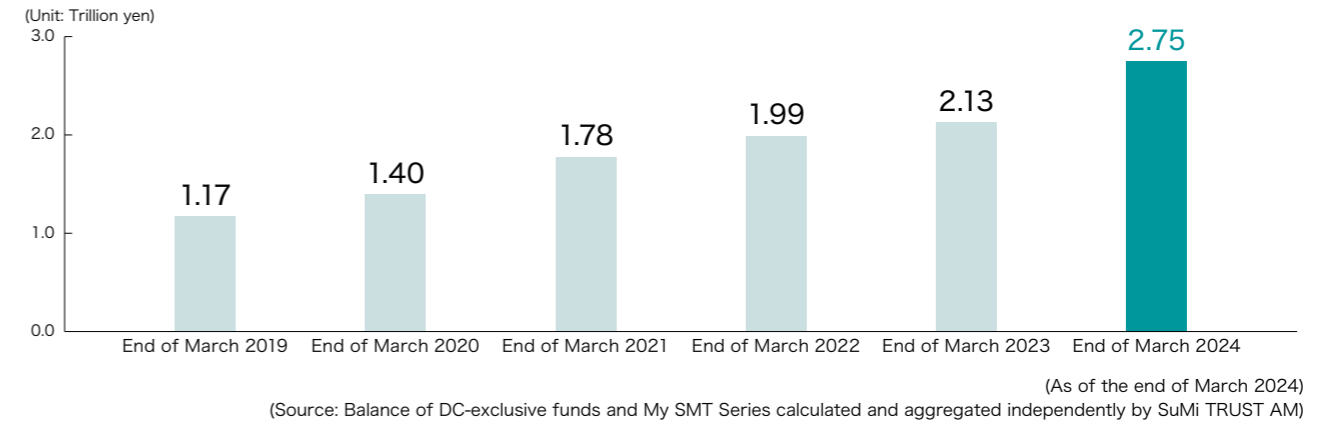
under the title "Policy and Progress on Client-oriented Business Operations" annually. This includes a detailed explanation of our activities over the year and visualized progress using graphs, such as KPIs that measure the implementation and outcomes of client-oriented operations. SuMi TRUST AM will continue to implement its FD Action Plan to provide client-oriented products and services that ensure client satisfaction.

Figure 1: Example of KPI (Proportion of balanced funds in SuMi TRUST AM's product lineup)



(Source: The "SuMi TRUST AM" chart shows aggregated data on equity investment trusts (open and unit-type, excluding ETFs) compiled by SuMi TRUST AM. The "Market Average" chart is independently calculated and aggregated by SuMi TRUST AM based on data from the Investment Trusts Association and other sources.)

Figure 2: Example of KPI (Trends in balances of products for periodic investment)



SuMi TRUST AM's FD Action Plan

I Advancement of Asset Management

- 1 Maintain an appropriate asset management framework through the formulation of clear and rational investment policies and the effective implementation of the PDCA cycle.
- 2 Aim to maximize client benefits through initiatives such as engagement based on Japan's Stewardship Code and ESG efforts.
- 3 Execute transactions under the best possible conditions for clients.

II Development and Provision of Products and Services to Meet Diverse Client Needs

- 1 Continue developing and providing asset management products and services that support clients' asset formation by efficiently utilizing expertise, functions, and networks within and outside the Group.
- 2 Expand a high-quality lineup of asset management products that address clients' diversifying needs and societal changes, such as aging populations.
- 3 Utilize evaluations and feedback on SuMi TRUST AM's asset management services to enhance services and strengthen frameworks.

III Client-oriented and Clear Information Provision

- 1 Continue providing information that supports clients' investment decision through enhanced seminars for clients, support for sales companies, and timely, appropriate updates on market information and trends.
- 2 Provide explanations that consider product characteristics, risk profiles, and fee transparency to aid clients' investment decisions.

IV Enhancement of Expertise

- 1 Continuously and sustainably develop professionals in asset management to ensure talent retention and the continuity and reproducibility of investments.
- 2 Promote the understanding and implementation of fiduciary duty among officers and employees.

V Establishment and Strengthening of Governance to Ensure Management Independence

- 1 Continue building and strengthening a framework to ensure independence from the holding company and affiliated sales companies.
- 2 Incorporate recommendations from the FD Advisory Committee into SuMi TRUST AM's management practices.
- 3 Continue enhancing the management of conflicts of interest within the Group, including voting rights execution.

Product Governance Framework

Guided by fiduciary spirit, the Company has established a product governance framework in which management accurately understands the details of the products the Company offers and takes responsibility for delivering better products to its clients.

We consider product governance from the perspective of whether the products we provide to clients can achieve stable returns in the medium to long term, whether the envisioned management at the time of formation is being implemented and delivering returns commensurate with costs, and

whether this management can be sustained. As an asset management company, we have developed an effective verification process to appropriately manage quality at each stage of formation, offering, and management from a client-oriented perspective.

Monitoring and Verification

Product Formation

Product governance initiatives begin at the product formation stage. Specifically, we check whether product characteristics, schemes, revenue sources, management policies, and various risks are clearly presented to clients, whether excessive risks are avoided, and whether cost levels are appropriate in relation to product characteristics.

Monitoring of Management Quality

Fund management is carried out based on investment plans, with the Business Planning Department independently monitoring performance from the investment departments and reporting monthly to the Investment and Risk Committee (chaired by the Executive Officer in charge of the Business Planning Department). Monitoring results and discussion content are promptly fed back to portfolio managers by the heads of investment departments (committee members) and incorporated into fund management.

Compliance Monitoring

Risk management and compliance with laws and regulations related to investments are monitored by the Investment Risk Management Department, which operates independently from the investment division and reports to the Investment and Risk Committee. Significant reports from the Investment and Risk Committee are also reported to management meetings.

Point-in-Time Verification

To strengthen product governance, we conduct semi-annual verification of all investment trusts under our management. In these verifications, we establish quantitative and qualitative standards, compare with competitors' funds, and take corrective actions such as revising investment processes or portfolios for funds that fail to achieve expected performance. For funds where improvement is difficult, we implement measures such as revising cost levels or early redemption. We also strive to continuously enhance verification methods to further improve their effectiveness.

Management Involvement

Semi-annual verification results and various product governance initiatives are regularly reported to management meetings to ensure effective management involvement. Additionally, an FD Advisory Committee, including external experts, has been established under the Board of Directors to provide recommendations on the appropriateness of the product governance framework, thereby building an objective oversight structure.

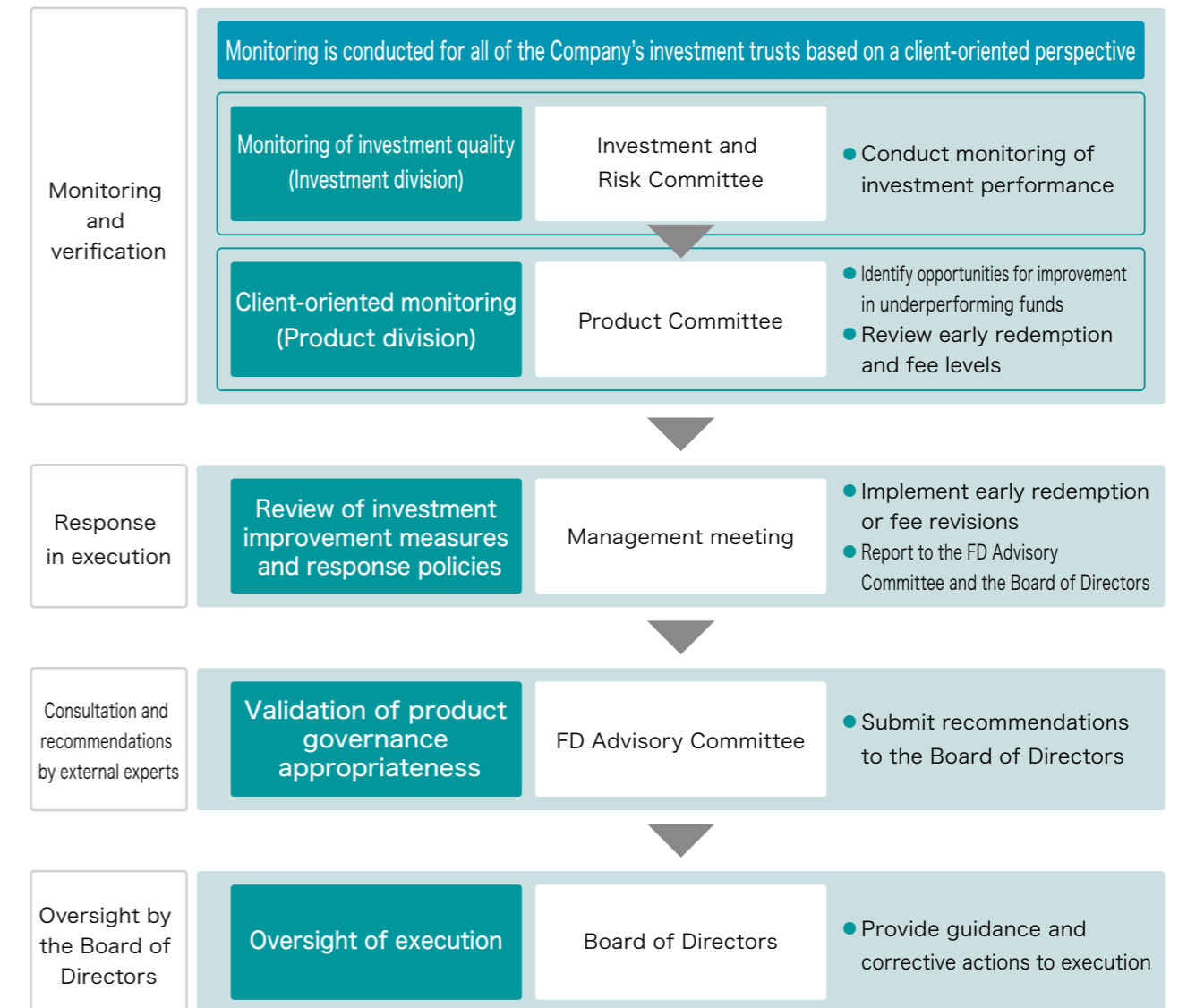
Moving forward, the Company will continue advancing product governance to meet client trust and deliver products aligned with their best interests.

Figure 1: Product governance Perspectives

Perspectives	Are the products provided capable of delivering stable returns in the medium to long term?
	Is the investment envisioned at the time of formation being executed, and are returns commensurate with costs delivered to clients?
	Can the investment envisioned at the time of formation be sustained?

(Source: SuMi TRUST AM)

Figure 2: Product governance framework



(Source: SuMi TRUST AM)

ESG investment

Social Trends

The importance of sustainability is closely tied to the growing awareness of the limits of human activity on the Earth's environment. Since the Industrial Revolution, economic activity has relentlessly pursued growth under continuous technological innovation. However, this has resulted in direct negative impacts, such as the depletion of natural resources and environmental degradation, as well as indirect effects, such as rising resource prices and deteriorating labor conditions. These have emerged as pressing issues for society as a whole. Given the limits to maintaining the Earth's environment and the confirmed negative impacts of global economic activity, all economic entities must act toward the sustainability of the economy and society in the medium to long term.

Changes in the capital market environment are also a critical factor. Until the latter half of the 20th century, most funding for corporate activities, such as capital investments, came from bank loans, resulting in a long period where creditors, particularly commercial banks, held significant influence. However, advancements in financial technology, economic and social maturity, and interest rate liberalization have expanded the role of capital markets, shifting corporate funding from indirect to direct financing.

As calls for sustainability grow and the influence of shareholders and other stakeholders increases, companies, as key economic players, are expected to play a proactive role in sustainable management and problem-solving. Asset management companies, which have the opportunity to express opinions through voting rights, are also expected to take a more active role in addressing social issues.

SuMi TRUST AM's Approach to ESG Investment

Under such circumstances, we aim to address environmental, social, and governance (ESG) issues through investee companies. We conduct investment activities as an institutional investor focused on medium- to long-term ESG risks and opportunities, cultivated through years of asset management experience, combined with a forward-looking sustainable management

perspective. We also strive to support ESG-conscious management at investee companies to help realize a sustainable economy and society while enhancing corporate value.

With ESG investment, we believe that fulfilling the role as an asset management company in an investment chain through investment activities will make contributions in value improvement and sustainable growth in investee companies, maximizing the investment return (gain on investments) of clients (beneficiaries) over a medium to long term, reducing downside risks, and achieving a sustainable society. Therefore, we incorporate ESG investment considerations into all of the products we manage. To fulfill our responsibility to maximize client investment returns—our stewardship responsibility—and to achieve a sustainable economy and society, we engage in ESG investment and conduct appropriate monitoring and disclosure. In making ESG investments, we take into consideration the ESG materiality described later in this report. (For more details, please refer to "SuMi TRUST AM's ESG Materiality" described later in this report).

ESG Investment Methods

In ESG investment, we utilize and promote seven ESG investment methods classified under ESG integration and active ownership. ESG integration refers to a direct investment method for portfolio management that involves analyzing and evaluating non-financial information, including ESG factors, and applying the insights gained to management. On the other hand, active ownership refers to activities that fulfill the responsibilities and rights of investors, forming the foundation of stewardship activities.

ESG Products

To enhance product governance, we certify ESG products while considering global ESG investment-related regulations. ESG products are those that meet three criteria: application of ESG investment methods, ESG characteristics and their measurement, and appropriate ESG disclosure.

Figure 1: ESG investment methods

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

(Source: SuMi TRUST AM)

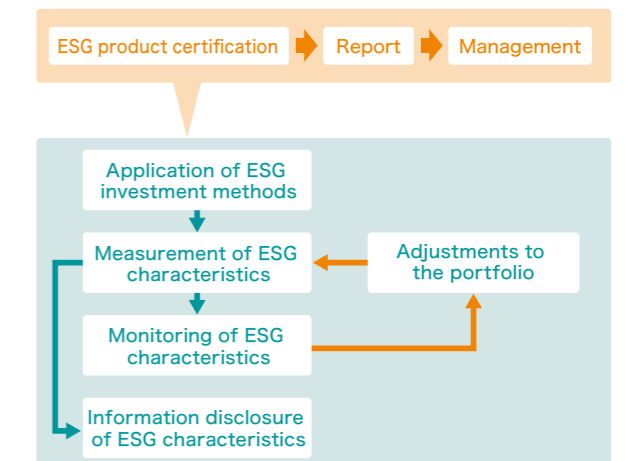
Figure 2: ESG product certification

ESG products must meet the following three criteria.

Classification	Definition
Application of ESG investment methods	Use appropriate ESG investment methods suited to the portfolio's characteristics and explicitly and systematically integrate them into the management process.
ESG characteristics and their measurement	Ensure the portfolio possesses ESG characteristics that are measurable.
Appropriate ESG disclosure	Provide appropriate ESG disclosures for the portfolio, including the results of ESG characteristic measurements.

(Source: SuMi TRUST AM)

Figure 3: ESG product governance



(Source: SuMi TRUST AM)

We manage portfolios for various investment strategies, and are consistent with each client's investment purposes. ESG investment methods are appropriately combined according to their characteristics. Furthermore, as an escalation of ESG investment methods, if engagement with investee companies alone is deemed insufficient to enhance the effectiveness of ESG investments, we consider voting against management proposals or supporting shareholder proposals at the investee company's general meeting of shareholders. To enhance the effectiveness of ESG investments, we strive to refine and understand the objectives, methods, and limitations of ESG evaluations and data for investee companies, making improvements as necessary.

Corporate Governance Framework

As one of Japan's largest asset management companies, we strive to pursue our clients' best interests and fulfill our role as a responsible investor. To this end, we adhere to Sumitomo Mitsui Trust Group's corporate governance principles and work to enhance our governance framework.

Sumitomo Mitsui Trust Group's Approach to Corporate Governance

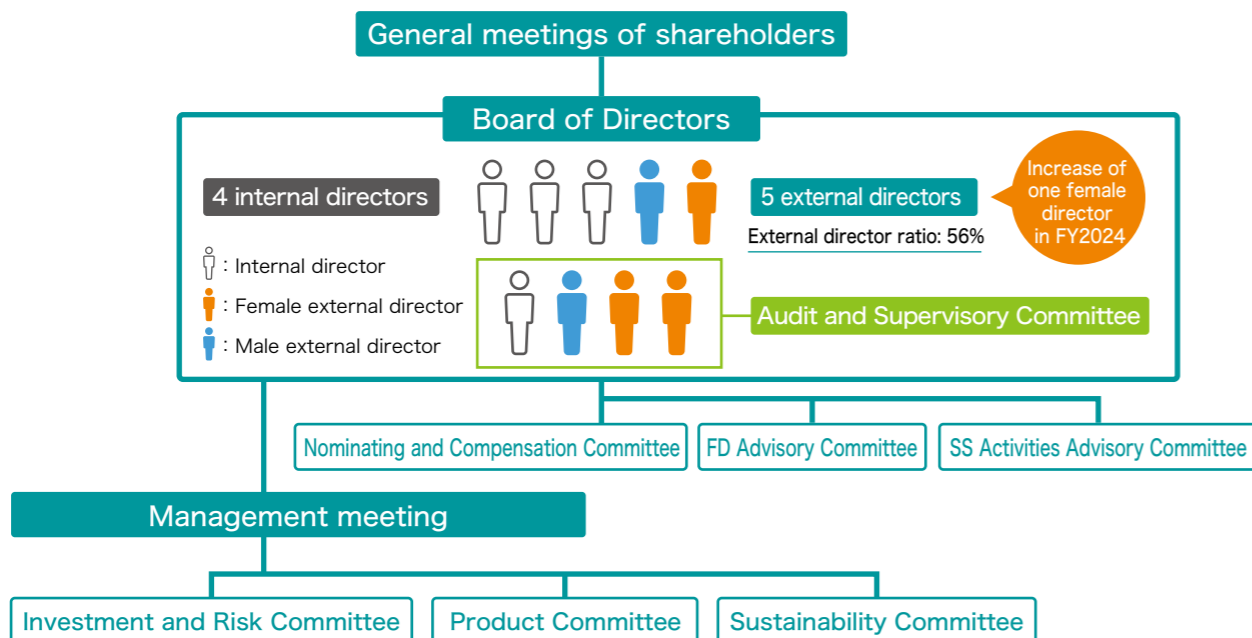
The Sumitomo Mitsui Trust Group has established a corporate governance framework tailored to its various business models, such as banking, asset management, and asset administration. To achieve sustainable growth and enhance the Group's medium- to long-term corporate value, the Group is committed to improving corporate governance based on the following fundamental principles.

Sumitomo Mitsui Trust Group's Basic Philosophy

- We (Sumitomo Mitsui Trust Group, Inc., hereinafter the same in this table) shall respect shareholder rights, and endeavor to develop an environment in which shareholders can exercise their rights appropriately and effectively, and to secure the effective equal treatment of shareholders.
- By recognizing the importance of our social responsibilities and public mission, we shall endeavor to appropriately cooperate with our stakeholders, including shareholders, clients, employees, business partners, and local communities, and to develop a corporate culture and climate in which we conduct sound business operations based on a high degree of self-discipline.
- In order to establish a basis for constructive dialogue with our stakeholders, we shall separately set out our Disclosure Policy, and endeavor to appropriately disclose corporate information, including non-financial information, and ensure the transparency of our corporate management.
- As the financial holding company that assumes the corporate management function of the Group (Sumitomo Mitsui Trust Group), we shall adopt the institutional design of the Company with a Nominating Committee, etc. and, by separating the execution and monitoring of business, shall endeavor to ensure the Board of Directors' role of effective monitoring.
- We shall engage in constructive dialogue with our stakeholders in order to contribute to sustainable growth, as well as the medium- to long-term enhancement of our corporate value.

(Source: Compiled by SuMi TRUST AM based on [Sumitomo Mitsui Trust Group Corporate Governance](#))

Figure 1: Corporate governance framework



(Source: SuMi TRUST AM)

Board of Directors

- The Board of Directors deliberates and decides on key management policies and other important matters based on Group policies established by the holding company, and oversees their execution.
- Of the nine directors, five are independent external directors with diverse backgrounds, including extensive experience in asset management within and outside the Company, executive roles at major IT companies, academia, and law. The Board of Directors emphasizes diversity, with two foreign directors (one internal) and three female directors. By incorporating diverse perspectives and extensive experience, we aim to drive the Company's growth and innovation.
- Since FY2022, we have continuously conducted evaluations of the Board of Directors' effectiveness as part of efforts to improve and enhance its operations.
- As a company with an audit and supervisory committee, we have appointed three external directors and one internal director as Audit and Supervisory Committee members, with an external director serving as chair, ensuring independence and objectivity in the audit framework.
- Additionally, the Nominating and Compensation Committee, the Fiduciary Duty (FD) Advisory Committee, and the Stewardship (SS) Activities Advisory Committee have been established under the Board of Directors, with external directors and members appointed to these committees. These committees function with independence and expertise, contributing to a sounder and more transparent management framework.

Nominating and Compensation Committee

Provides advice and recommendations on matters related to executive appointments and compensation, taking into account the business characteristics of an asset management company. To enhance transparency and governance, the majority of committee members are external directors.

FD Advisory Committee

Provides advice on the appropriateness of business operations under the FD Action Plan and submits recommendations to the Board of Directors. The committee is composed predominantly of external advisors, ensuring independence from company management.

SS Activities Advisory Committee

For more details, please see ["Conflict of Interest Management for Stewardship Activities."](#)

Management Meeting

- The management meeting discusses and decides on important matters related to business execution, based on the basic management policies established by the Board of Directors.
- Members of the management meeting include the Representative Director and directors and executive officers designated by the President. They utilize their expertise and experience to develop various strategies, plans, and measures.
- Under the management meeting, we have established the Investment and Risk Committee, Product Committee, and Sustainability Committee to support business execution grounded in the deep expertise of an asset management company.

Investment and Risk Committee

Discusses and decides on policies related to investment strategies, key matters concerning risk management, and various monitoring activities.

Product Committee

Discusses and decides on matters related to the establishment and redemption of investment trusts, as well as various monitoring activities.

Sustainability Committee

Plans and monitors all sustainability-related activities in asset management, aiming to advance stewardship activities, such as engagement, exercise of voting rights, and ESG considerations in investment decision-making.

Human Capital Management

Our Fundamental Approach to Human Capital Management

To realize our Vision of "Realizing opportunities today to ensure sustainable prosperity for tomorrow," as outlined in our corporate philosophy structure, we regard human capital as a material issue and our employees as the Company's most important asset. To deliver not only economic value but also sustainably prosperous social value to our stakeholders, it is critically important to foster an environment and corporate culture where employees with diverse expertise, experience, and

values can work in a physically and mentally healthy state, fully express their individuality and creativity, and feel a sense of purpose in their work. SuMi TRUST AM actively invests in creating such an environment, pursuing a value creation cycle where motivated and engaged employees provide high-quality, innovative services to clients and stakeholders, driving the Company's growth and increasing corporate value.

SuMi TRUST AM's Human Resource Strategy

In a rapidly changing business environment, sustaining the value creation cycle requires building a flexible talent portfolio and recruiting, deploying, and developing the right talent accordingly. Additionally, aligning these efforts with employees' individuality, strengths, and personal life or career aspirations fosters a sense of purpose and engagement, allowing them to feel that their growth contributes to the company's

success and societal impact. SuMi TRUST AM particularly focuses on human resource development measures, fostering a corporate culture that respects diversity and promotes inclusion. We strive to create a work environment where employees can fully realize their potential and independently develop career plans that leverage their individuality and strengths.

Support for Autonomous Skill Development and Career Formation

We encourage each employee's autonomous career development while aiming to build a professional workforce with diverse talents, advanced expertise, and rich experience, strengthening our investment in human capital.

Institute). For the CFA qualification, we subsidize not only exam fees but also preparation costs, such as reference materials.

Support for Skill Development

In addition to offering various training programs to enhance employees' expertise in asset management, we also provide programs to acquire and improve business skills such as project management, presentation, process thinking, and decision-making. We actively support certifications, offering incentives and exam fee subsidies for qualifications like the CMA (Certified Member Analyst of the Securities Analysts Association of Japan) and CFA (Chartered Financial Analyst certified by the CFA

Support for Career Formation

We are working to improve operational capabilities using IT and digital transformation (DX) and strengthen global business. These are efforts in part to introduce a talent bank system to provide employees interested in acquiring such skills with opportunities for self-directed learning. For example, in the digital field, we offer programs to dispatch employees to overseas business schools to acquire IT literacy. In the global business field, we conduct various training programs to improve language skills and cultivate a global mindset, provide practical experience in related tasks, and send trainees to overseas offices.

Figure 1: Overview of skill development and career formation support



(Source: SuMi TRUST AM)

Additionally, we have introduced a night graduate school dispatch program as an opportunity for employees to acquire advanced knowledge and skills in asset management, supporting motivated employees in their challenges.

Furthermore, we have established an internal job posting system that allows employees to apply for desired roles, encouraging them to take on new challenges and supporting the realization of their career plans.

Initiatives to Promote Diversity, Equity & Inclusion (DE&I)

SuMi TRUST AM believes that promoting DE&I enhances employees' creative potential and fosters our medium- to long-term growth. With this in mind, we strive to cultivate a corporate culture that respects individuality and values diverse talents.

Promoting the Inclusion of Employees with Disabilities

We are committed to expanding employment opportunities for individuals with disabilities, believing that their contributions as valued team members drive our growth and add value to the Company.

Promoting Women's Empowerment and Work-Life Balance

We support the career development of female employees through initiatives such as the introduction of mentorship programs and in-house seminars. We have established various systems and support structures to help employees balance work with life events such as childbirth, childcare, and caregiving, enabling them to maximize their potential. We also promote paternity leave for men by conducting training for managers and in-house seminars on parental leave, fostering a workplace environment that encourages its use.

Promoting Understanding of Human Rights and LGBTQ Issues

Based on the Sumitomo Mitsui Trust Group's human rights policy, SuMi TRUST AM respects the human rights of all stakeholders involved in our business activities. The human rights policy explicitly prohibits discrimination against LGBTQ individuals. We conduct awareness activities such as workplace training and seminars by external speakers. Additionally, we participate in the PRIDE Index, operated by Work with Pride, an organization supporting LGBTQ diversity management, and earned a Gold rating in FY2023. To ensure LGBTQ individuals feel safe and supported at work, we actively promote LGBTQ Ally initiatives that encourage understanding and advocacy.

Creating a Comfortable Work Environment

SuMi TRUST AM prioritizes employee health and work-life balance by fostering a comfortable workplace environment. We enhance work systems and leave policies to promote employee engagement through flexible and diverse working styles.

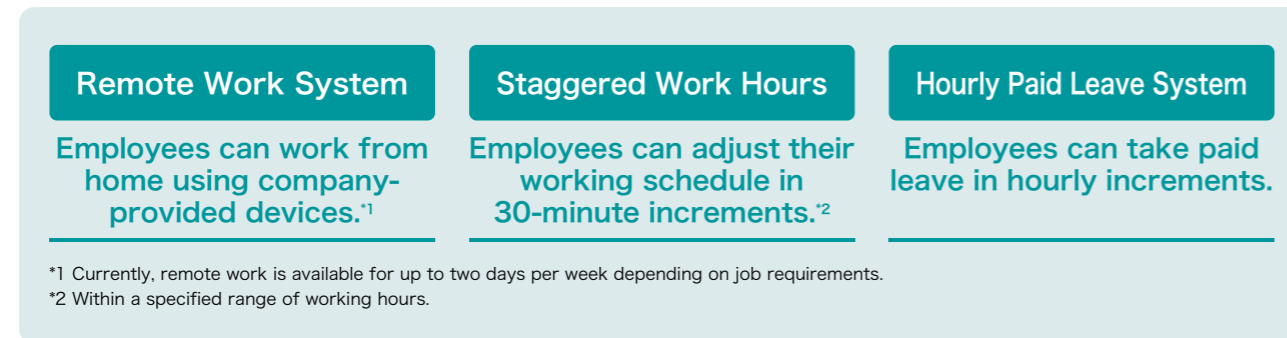
Flexible Work Systems

We have implemented various systems to enable flexible and diverse work styles, improving productivity while supporting employees in achieving a work-life balance.

Diverse Leave Policies

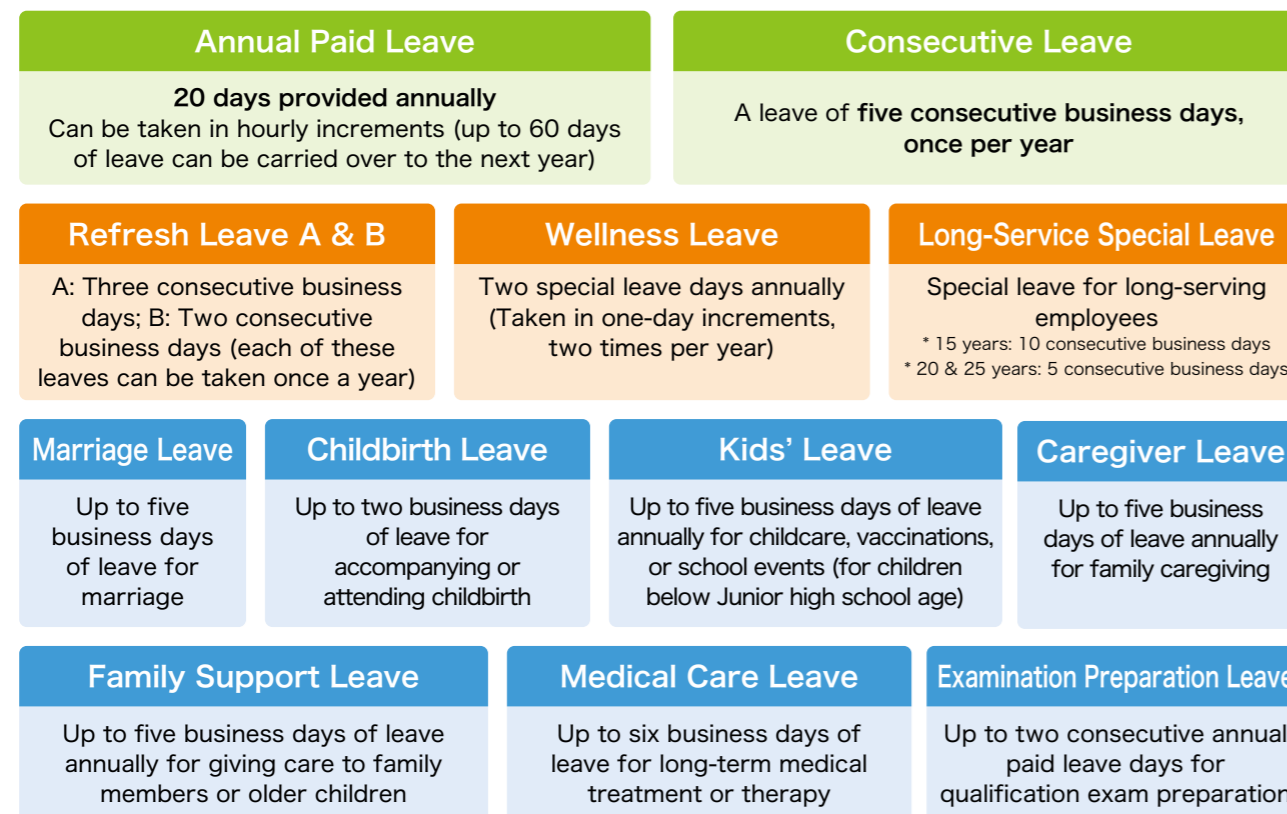
We strive to offer accessible leave policies that are easy to use tailored to employees' diverse needs. In particular, we have enriched leave and support systems for those requiring significant time for caregiving or childcare. This creates an environment where employees can work with peace of mind and sustain long-term employment.

Figure 2: Work systems supporting flexible work styles



(Source: SuMi TRUST AM)

Figure 3: Leave policy overview



(Source: SuMi TRUST AM)

Column Initiatives to Enhance Internal Communication

SuMi TRUST AM has launched the "Hitozukuri Kiban Project Team" as a cross-functional initiative to promote internal communication, human resource development, and related activities.

Enhancing Communication

- Self-introductions cards: To foster mutual understanding, promote communication among employees, and support internal networking, employees create "self-introduction cards" listing their backgrounds and hobbies, which are shared on the Company portal.
- Tea time with the President: To cultivate an open corporate culture, we hold tea time events where employees can select topics they like and engage in casual conversations with the President.



Human resource development

- Job fair: We hold a job fair annually alongside the internal job posting system, allowing departments to introduce their work, providing employees with an opportunity to better understand other departments.

Employee engagement

- Family day: Held once a year, this event invites employees' families to the office to interact with staff and learn about their workplace and work. This event aims to boost employee motivation and strengthen connections among employees.



Figure 4: Human capital data

Item	Data	FY2023 results ⁴
Human resource development	Certified Member Analysts of the Securities Analysts Association of Japan (CMAs)	254 people
	Chartered Financial Analysts certified by the CFA Institute (CFAs)	20 people
	Education and training expenses per employee	93,961 yen
Promoting women's empowerment and work-life balance	Percentage of female employees	32.6%
	Percentage of female workers in manager positions (Including supervisors)	12.8%
	Gender pay gap	71.2%
	Parental leave utilization rate (men/women)	Men: 63%; Women: 100%
Employment of persons with disabilities	Average number of parental leave days taken by men	7.0 days
	Employment rate of persons with disabilities	2.56%
Employee engagement	Engagement score ¹	63.6
	Satisfaction score ²	64.2
Health management	Overall health risk ³	82
	Proportion of high-stress employees	9.4%
Leave and working hours	Average number of paid leave days taken	17.5 days
	Average overtime hours	21 hours 18 minutes

(Source: SuMi TRUST AM)

¹1, ²2 In the employee engagement survey, "Engagement" measures motivation and enthusiasm for work, while "Satisfaction" assesses a sense of fulfillment in work, both evaluated on a 100-point scale. A score of 60 is considered the benchmark for passing.

³3 The average score for a standard population is 100, and lower scores indicate better results.

⁴4 As of the end of March 2024.

Risk Management System

Basic Policy for Risk Management

Our risk management policy is to ensure sound operational management, secure profits, and support sustainable growth through risk-taking aligned with our management strategy. This involves accurately identifying, evaluating, monitoring, controlling, and mitigating risks, as well as evaluating advancements in these risk actions, through a series of activities, as well as implementing necessary measures to address risks. Crisis management is also critical. We have established a business continuity plan (BCP) with regular training to mitigate and avoid risks during crises. Furthermore, we aim to enhance operational resilience to minimize the impact of business interruption caused by unexpected events (e.g., cyberattacks or natural disasters) from the client's perspective by establishing comprehensive frameworks for business processes, including outsourced operations.

Risk Categories

Risks that should be managed are categorized by cause, and each risk is appropriately managed according to its characteristics.

- (1) Fund management risk
Credit risk, market risk, and funding liquidity risk
- (2) Operational risk
Business processing risk, system risk, information security risk, legal & compliance risk, conduct risk, human resource risk, reputational risk, and event risk

Risk Management Framework for Sustainability

Sustainability-related risks are defined as factors arising from medium- to long-term challenges in environmental, social, economic, and governance domains that act as risk drivers. They exert cross-cutting impacts on the existing risk categories mentioned above, potentially causing adverse effects on SuMi TRUST AM or influencing our stakeholders in ways that could negatively impact them. We establish specific risk management policies for sustainability, including climate change, by considering the impact of international norms on environmental

and social issues, as well as material issues in environmental, social, economic, and governance areas, on our value creation activities from a medium- to long-term perspective. We identify ESG and sustainability-related risks as one of our top risks. Under a risk scenario where inadequate responses to or disclosure of sustainability-related risks, including climate change, could lead to a loss of stakeholder trust, we have strengthened monitoring of stewardship activities, including responses to key external environmental changes such as domestic and international regulatory trends and the actions of industry peers. Furthermore, we actively engage with investee companies and manage our exercise of voting rights appropriately in accordance with client guidelines. In managing sustainability-related risks, we address opportunities and risks concerning sustainability challenges by aligning with materiality and employing two key risk mitigation strategies: an action strategy to adapt our organization to environmental changes and an engagement strategy to address issues through communication with stakeholders. The sustainability-related risk management framework is periodically reviewed to incorporate new insights, practices, internal and external trends, and stakeholder perspectives.

The Three Lines of Defense Model

The Three Lines of Defense model, implemented across all risk management processes, is also applied to sustainability-related risks, including climate change risks. The first line of defense consists of departments directly conducting operations. They are tasked with understanding sustainability-related risks faced by stakeholders, including clients and employees, from a medium- to long-term perspective. Additionally, they collaborate with stakeholders to identify responses to these risks (engagement) and explore opportunities related to sustainability, focusing on product development and expanding the client base. Departments take the lead in risk-taking, risk identification, risk evaluation, and risk control, based on our risk appetite and policies for climate change risks. They also report the status of risk management operations to the second line of

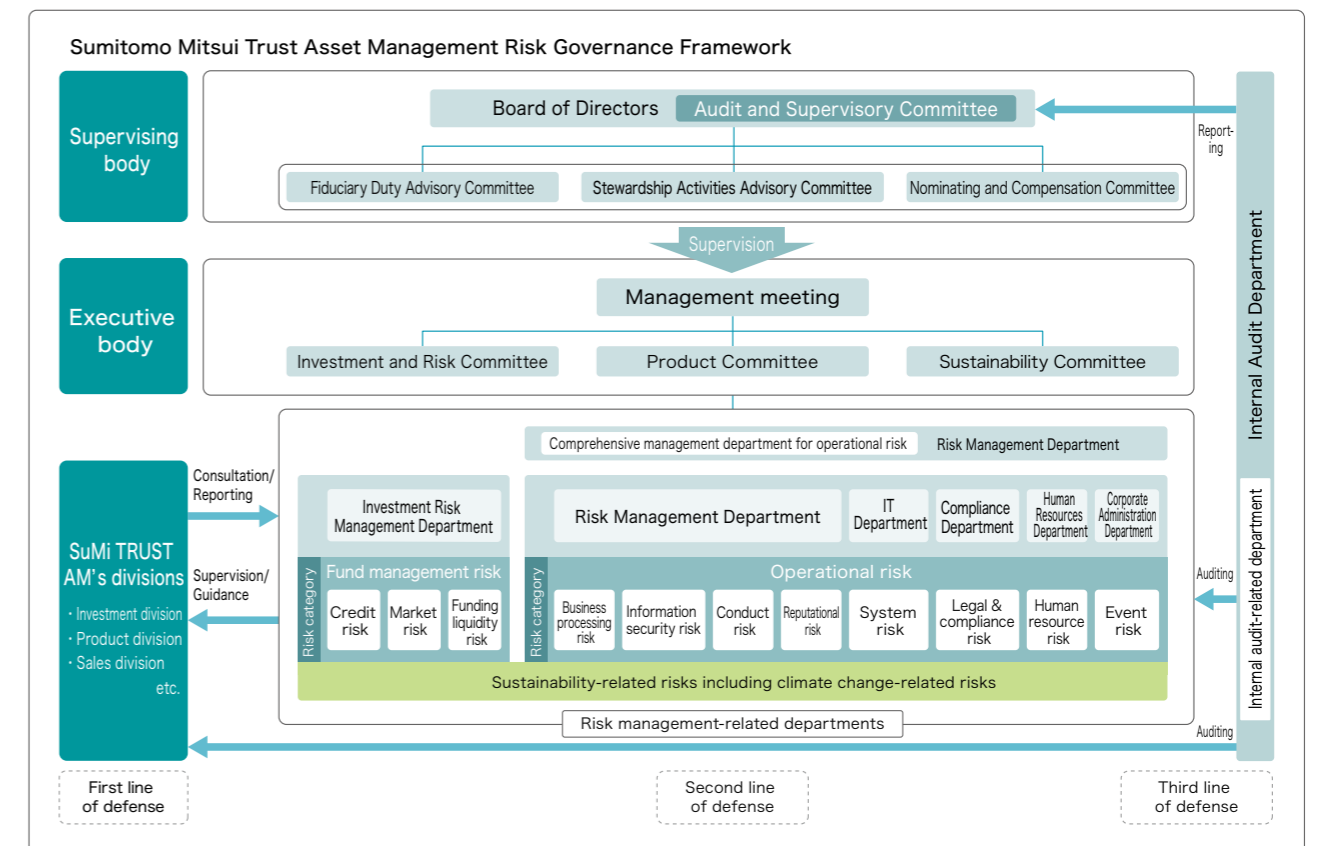
defense. The second line of defense establishes management policies for sustainability-related risks, formulates risk management plans, and reports to the management meeting. Operating independently from the first line, the second line of defense monitors, checks, and advises on the first line's identification, evaluation, and control of sustainability-related risks while also supporting their control activities. The third line of defense operates independently of the first and second lines and conducts internal audits to assess the effectiveness of the sustainability-related risk management framework.

Monitoring by the Sustainability Committee

The Sustainability Committee deliberates and monitors stewardship activities related to asset management. The committee conducts quarterly monitoring of the integration of ESG factors,

including climate change risks, into investments. It also oversees and receives reports on specific key external disclosures related to stewardship activities, such as climate-related and nature-related financial disclosures, ensuring robust governance over these matters. The Sustainability Committee includes members from first-line departments, such as the Investment Department and the Stewardship Development Department, as well as the second-line Investment Risk Management Department, an independent monitoring unit separate from the investment division. The committee's deliberations are reported, as necessary, to the management meeting, which includes the President and other senior executives, thereby establishing a comprehensive and multi-layered risk management framework company-wide.

Figure 1: Risk governance framework



(Source: SuMi TRUST AM)

Enhancement of Financial Literacy

Developing Future Investors

We believe that contributing to social development through investment, and experiencing the sense of accomplishment and dynamism of a capitalist economy in the process, is crucial for fostering long-term perspectives and proactiveness among investors. To this end, we provide necessary financial information in various forms and aim to broaden the base of investors.

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

Since our activities started in 2022, a total of over 1,000 students from 13 schools have participated. We are teaching how investment is a way to support companies based on the theme, "Understanding how investing promotes a peaceful and sustainable society." To help the students understand the unfamiliar concept of investment, we tried a number of methods, including using the Raku-kun mascot character and starting with the topic of SDGs. In FY2024,

we took a step further by adding a program focused on foundational investment education, challenging students to acquire practical investment knowledge.

► Mascot character: Raku-kun

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



Overview of two educational programs for FY2024 (Adjustable from 45 to 90 Minutes)

Learn about Investment for the Future!
The relationship between investment, society, and SDGs

Key Points

- Understand the importance of money for the future and ways to earn it.
- Learn how investment can enrich both you and society.
- Understand how investment supports companies addressing challenges with the SDGs.

SDGs focused program

Duration	Lesson Content	Activities and Details
Part One 15 minutes	Let's Think about the Importance of Money and How to Earn It ·What can you do to prepare to achieve the future you want? ·How do you earn money? By working yourself or making your money work for you?	■ Activity What can you do to prepare for the future? ■ Presentation
Part Two 10 minutes	Let's Learn about How Investment Can Enrich Yourself and Society ·What do you think of investing in general? ·Is investing in yourself a form of investment? ·Companies that gain funding through investment enrich both you and society!	■ True-False Quiz
Part Three 20 minutes	Let's Learn about the Connection between the SDGs and Investment ·How do companies with investment funding address societal challenges? ·Let's take a look at real companies tackling real issues! ·Investment brings joy and prosperity to everyone.	■ Activity Let's take a look at real companies tackling real issues! (Use tablets for learning) ■ Presentation

Learn about Investment for the Future!
Investment methods and risks

Key Points

- Understand the importance of money for the future and ways to earn it.
- Learn how investment can enrich both you and society.
- Gain knowledge about basic investment products and their risks.

Basic investment focused program

Duration	Lesson Content	Activities and Details
Part One 15 minutes	Let's Think about the Importance of Money and How to Earn It ·What can you do to prepare to achieve the future you want? ·How do you earn money? By working yourself or making your money work for you?	■ Activity What can you do to prepare for the future? ■ Presentation
Part Two 10 minutes	Let's Learn about How Investment Can Enrich Yourself and Society ·What do you think of investing in general? ·Is investing in yourself a form of investment? ·Does investment in companies enrich you and society and help solve SDG issues?	■ True-False Quiz
Part Three 20 minutes	Let's Learn How to Invest in Companies ·Learn about stocks, bonds, and investment trusts. ·Learn about the risks of investment. ·Investment brings joy and prosperity to everyone.	

(Source: SuMi TRUST AM)

Enhancing SuMi TRUST AM's Recognition and Gathering Direct Feedback on Investment Through External Collaboration

● Collaboration with the Union of Student Investment Clubs (USIC)^{*1}

This is our fourth year collaborating with the USIC. We have regular exchanges with core student members and hold study sessions with members. At the study session held in May 2024 on the theme of overseas business, students provided feedback such as, "I gained deeper interest by learning about activities that consider not only Japan but also international investors," and "My understanding of the role and operations of asset management companies has greatly improved." The students were able to spend a meaningful time at this session. We sponsor USIC's financial magazine SPOCK, which features discussions with students and announcements about collaborative events.

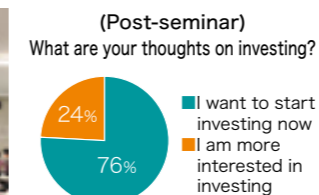
^{*1} The Union of Student Investment Clubs (USIC) is the largest student organization in Japan related to finance with over 1,100 students from 33 universities (as of August 2024). Founded in 2008, the initiative has been committed to advancing the financial literacy of students, with the vision of turning Japan into a financial power through the investment activities of its students. Its main activities include organizing study sessions and seminars in collaboration with domestic and international financial companies. Recently, it has also focused on media outreach and advocating for policy changes to create an environment conducive to youth investing.



(Source: USIC website)

● Collaboration with SBSL² of Aoyama Gakuin University

Through the alumni association of Aoyama Gakuin University, SBSL reached out with concerns about "interest in investment but a lack of learning opportunities," prompting us to hold an asset management seminar at the university in November 2023. The seminar covered the importance of investment and basic explanations of NISA, followed by group work on methods to make investment common for Gen Z. Common issues identified included "complicated procedures" and "a lack of opportunities to learn about investment in school," along with the observation that "Gen Z tends to be passive, so support with choosing financial institutions and opening accounts is needed." Proposed ways to rouse interest included leveraging investment



(Source: SuMi TRUST AM)

platforms and apps. According to post-seminar surveys, approximately 80% of participants responded that they "decided to start investing," making this seminar a valuable opportunity for students to consider future asset building with their peers while providing us with firsthand insights into Gen Z.

^{*2} School of Business Student Leaders (at Aoyama Gakuin University)

● Participation in the Ministry of Education, Culture, Sports, Science and Technology's Children's Kasumigaseki Tour Day program

SuMi TRUST AM participated in the Ministry of Education, Culture, Sports, Science and Technology's Children's Kasumigaseki Tour Day program held in August 2023. The event offered various programs and activities designed to help children gain a broader understanding of society. We provided children with an opportunity to learn about investment through panel displays and videos showcasing the activities of asset management companies and our outreach class programs.

Promotional Activities Utilizing Web Content

● Hosting a Collaborative Seminar with Sankei Shimbun

In March 2024, we collaborated with Sankei Shimbun Co., Ltd. to host an online seminar for beginner investors, focusing on the structure of the new NISA and basic investment principles. Participants ranged from their 30s to 60s, representing a wide age demographic. According to survey results, common reasons for not starting investment included "not knowing how to choose financial products" and "finding it difficult to select from multiple stock options."

● Participation in "Tosho Mane-Bu" Operated by the Japan Exchange Group (JPX)

Since 2022, we have contributed as a supporting company to "Tosho Mane-Bu" (TSE Financial Literacy Enhancement Website) by writing columns for its website. Tosho Mane-Bu provides various financial columns and information targeting beginner investors.

Conclusion

Through investment activities in financial products such as mutual funds, connecting investors with companies tackling societal issues can contribute to individual wealth building and solving social challenges. Our desire is to help as many people as possible understand the importance of such investment and help people find companies they want to support, and support these companies through investment activities. By continuing to promote the appeal and potential of investment through outreach classes and events, we hope to inspire many people to resonate with our ideas and participate in investment activities, thereby helping to address numerous challenges.

Information Transmission Activities

Alongside dialogue with individual companies as part of our stewardship activities, we utilize various channels, such as international conferences and symposiums attended by global financial institutions, to communicate our management policies, investment strategies, and initiatives as an asset management company.

■ Tokyo Summit Hosted by the Institute of International Finance: Representative Director and Chairperson David Semaya

An international conference organized by the Institute of International Finance (IIF)* was held in Tokyo over two days starting April 5, 2023, with sponsorship from Japan's Financial Services Agency. This summit marked the first in-person event in three years following the COVID-19 pandemic, with approximately 200 participants from Japan, the U.S., Asia, and other regions, including financial and government representatives. The main theme was "Transition Finance: Asia and Technology," and participants, including stakeholders and experts, engaged in active discussions about the role of financial institutions and the challenges to be addressed in achieving decarbonization in Asia, including Japan. SuMi TRUST AM's Representative Director and Chairperson, David Semaya,

participated as a panelist in the discussion "Ensuring Credibility in Transition Finance and Investment."

* The IIF (<https://www.iif.com/>) is a financial industry organization founded in 1983 and based in Washington, D.C. Its membership comprises over 400 financial institutions across 60 countries, including commercial and investment banks, asset management companies, insurance companies, government funds, central banks, and development banks. It supports prudent risk management in the financial industry, promotes healthy sector development, and provides regulatory and financial and economic policy recommendations for financial stability and sustainable economic growth.

< Summary of David Semaya's Remarks >

- Facilitating capital flows to small-scale projects by companies in emerging markets is key to the success of transition finance, and it is a field requiring investors' engagement.
- The most critical factor in transition finance and investment is the reliability of data; however, much of the disclosed data is inconsistent in methodology and subjective, leaving significant room for improvement.
- While we have avoided a heavy-handed approach in our engagement activities, we have adopted a policy of opposing board member nominations at companies that show little progress in climate change disclosures.



■ Asian Financial Forum: Senior Managing Director Hiroyuki Horii

The 16th Asian Financial Forum (AFF), hosted by the Government of the Hong Kong Special Administrative Region (HKSAR) and the Hong Kong Trade Development Council (HKTDC), was held on January 11 to 12, 2023, at the Hong Kong Convention and Exhibition Centre (HKCEC) in a hybrid format. The forum marked the first major business exchange event in Hong Kong in 2023, following significant regulatory easing that reopened interactions with mainland China and the global community for the first time in nearly three years. More than 140 influential figures from the global financial and business sectors, including financial leaders, government representatives, economists, and investment officers, gathered at one of the world's leading international financial hubs—Hong Kong. From Japan, SuMi TRUST AM's Senior Managing Director Hiroyuki Horii participated in the CIO Insights session, where he exchanged diverse opinions with investment leaders from some of the world's top asset management companies on

challenges and opportunities in Asia, asset allocation, investment approaches, and risk mitigation in the current macroeconomic environment. Horii stated that "amid global inflation challenges, Japan is seeing steady trends in corporate wage increases and consumption, with a growing focus on corporate sustainability and governance," emphasizing the importance of sustainable investment.



Horii: Middle; On-screen

■ PRI* Side Event Hosted by Nikkei: First NIKKEI IP and Intangible Assets Symposium/Global Institutional Investor Trends - Senior Managing Director Shigeki Moriki

On October 2, 2023, the First NIKKEI IP and Intangible Assets Symposium/Global Institutional Investor Trends, part of the Japan Weeks Nikkei Sustainable Forum, was held. Experts and thought leaders engaged in dynamic discussions on building business models leveraging intellectual property and intangible assets, investments for sustainable growth, and circular management for sustainable business creation. Numerous insights were provided on revitalizing Japan's economy. Representing Japan, (then) Prime Minister Fumio Kishida delivered a speech addressing initiatives to connect household funds to growth investments, thereby facilitating household asset formation and achieving sustainable development for Japan and the world, as well as highlighting Japan's attractiveness as an investment destination. SuMi TRUST AM's Senior Managing Director Shigeki Moriki participated in the Asset Manager Panel Discussion. Following an explanation of the global shift from tangible to intangible assets as the source of corporate value, discussions were held

on recent trends, efforts to enhance the value of Japanese companies, and what is expected of Japanese companies globally. Moriki emphasized the responsibilities of an asset management company, stating, "It is essential not only to hold stocks and bonds of good companies but also to invest in companies with room for improvement, engage in dialogue to promote progress, and contribute to the betterment of the entire capital market."

* See pages 75-76.



Addressing Climate Change Issues

Climate change is one of the most critical environmental issues threatening the sustainability of the global economy and society. In recent years, the impacts of climate change, including global warming, frequent extreme weather events leading to natural disasters, and biodiversity loss, have become increasingly severe. These changes significantly affect the economy and society, posing a threat to a sustainable future. Amid these developments, there has been a rapid rise in interest in addressing climate change issues among individuals, nations, and companies worldwide. The asset management industry is no exception, with a growing responsibility to contribute to the

realization of an environmentally conscious society through investment activities. As an asset management company, we recognize that we must not only manage the important assets entrusted to use by our clients but also actively address climate change issues as part of our business operations. The Sumitomo Mitsui Trust Group, under its common principles (action principles) known as the Action Guidelines for Mitigating Climate Change, appropriately recognizes the risks and opportunities posed by climate change. The Group is committed to minimizing negative impacts and maximizing positive impacts through its diverse trust banking business.

Figure 1: Sumitomo Mitsui Trust Group's Action Guidelines for Mitigating Climate Change

<p>1. Implementation of Measures and Support to Help Mitigate Climate Change</p> <p>In addition to actively taking measures to reduce greenhouse gas emissions in our own business operations, we are making efforts, as a corporate citizen, to support activities that mitigate and adapt to climate change.</p>	<p>3. Collaboration with Stakeholders</p> <p>We engage in dialogue and cooperation with our stakeholders as we work to mitigate climate change.</p>
<p>2. Provision of Products and Services</p> <p>We are working on developing and providing products and services that help mitigate climate change. We leverage our financial functions to promote renewable energy and the use of carbon offset products.</p>	<p>4. Education and Training</p> <p>We will ensure that these guidelines are fully implemented at Group companies, and will actively conduct education and training to mitigate climate change.</p>
	<p>5. Information Disclosure</p> <p>We will actively disclose information related to our efforts to mitigate climate change.</p>

(Source: Compiled by SuMi TRUST AM based on [Sumitomo Mitsui Trust Group's Action Guidelines for Mitigating Climate Change](#))

SuMi TRUST AM also considers the impact on the sustainability of investment target companies while implementing climate change initiatives internally. We believe that small, incremental

efforts are critically important in today's era, contributing to the sustainability of the entire industry and fulfilling our responsibility to the future of a society as a whole.

Figure 2: Our approach against climate change issues

<p>1. Promoting Climate Change Measures Through Dialogue with Investee Companies</p> <p>While advancing our internal initiatives, we leverage our influence as an asset management company to encourage investee companies to address sustainability and climate change. We believe that every additional initiative, no matter how small, contributes to a sustainable future for the planet.</p>	<p>4. Supporting Green Procurement and Greening Projects</p> <p>We recommend green procurement for office supplies to help curb deforestation. Additionally, we actively participate in and support greening projects to help preserve the environment locally and globally. For more details, please refer to the social contribution activities described on the right side.</p>
<p>2. Enhancing Energy Efficiency in Office Operations</p> <p>We aim to improve energy efficiency in office operations by introducing energy-saving equipment and transitioning to renewable energy sources. We utilize LED lighting and motion sensor lighting.</p>	<p>5. Raising Awareness Among Employees</p> <p>Alongside the initiatives above, we properly manage, recycle, and dispose of office waste, including paper waste, to raise employee awareness about the importance of addressing climate change even through the smallest of actions at the Company.</p>
<p>3. Promoting Digitization and Paperless Operations</p> <p>By digitizing internal documents such as reports and meeting materials, as well as external documents like contracts and prospectuses, we reduce paper usage and contribute to forest conservation. We are also transitioning to delivering client reports digitally via email and online portals.</p>	<p>6. Measuring and Reporting Greenhouse Gas Emissions</p> <p>Regarding greenhouse gases, identified as a primary cause of global warming, we regularly measure emissions from office operations and strive for continuous improvement. The Sumitomo Mitsui Trust Group aims to achieve net-zero CO₂ emissions (Scope 1+2) by 2030. SuMi TRUST AM is also working to reduce greenhouse gas emissions within this framework.</p>

(Source: SuMi TRUST AM)

Social Contribution Activities

■ Collaboration with the Tokyo Metropolitan Government on the Conservation and Cultivation of Water Conservation Forests

On July 1, 2019, SuMi TRUST AM endorsed the Plan for Nurturing a Watershed Forest Together Project by the Tokyo Metropolitan Government Bureau of Waterworks and signed an agreement for the Tokyo Waterworks - Corporate Forest (Naming Rights)*1 initiative.



A dedicated area of 3.01 hectares of forest, which serves as a water source for the Ogouchi Reservoir (Lake Okutama) and is 2.4 times the size of the Tokyo Dome's field area, has been named the SuMi TRUST AM's Forest, where we carry out conservation activities for the water conservation forest upstream of the Tama River. This initiative contributes to four of the 17 SDGs: (3) Good health and well-being, (4) Quality education, (15) Life on land, and (17) Partnerships for the goals.

Photo 1: Conservation activities at the SuMi TRUST AM's Forest (FY2024)



Each year, as part of new employee training, our officers and staff receive an explanation from the Tokyo Metropolitan Government Bureau of Waterworks on the role and objectives of water

conservation forest activities. Under the guidance of members of the Tokyo Prefectural Forest Owners' Cooperative, participants engage in activities such as site preparation, planting, and undergrowth clearing (Photo 1). We will continue these activities to conserve local water and forest resource and contribute to achieving the SDGs through biodiversity conservation.

*1 This initiative involves agreements with participating companies, granting naming rights to sections of the water conservation forest. Funds from these companies are used by the Bureau of Waterworks for conservation and cultivation, ensuring proper management of water conservation forests into the future.

■ Creation of a Mascot

Young employees created a mascot symbolizing the rich water conservation forest and the bright future of its water, represented by raindrop and leaf motifs. The mascot was named Tamutama-chan, combining "Tamu" from SuMi TRUST AM and "Tama" from the Tama River.



■ Making of Smartphone Stands Using Wood from Forest Thinning

We made smartphone stands using wood from thinning the water conservation forest. These stands feature illustrations of the original character Tamutama-chan and were distributed to all officers and employees. With the rise of online meetings during the COVID-19 pandemic, these stands have seen some heavy use.



■ Registered as a Tokyo Green Biz Collaboration Partner (July 2024)



SuMi TRUST AM is registered as a collaborative partner for Tokyo Green Biz*, an initiative promoted by the Tokyo Metropolitan Government. Based in Tokyo, we support the goals of Tokyo Green Biz to protect, nurture, and utilize Tokyo's greenery, and we actively promote various initiatives to realize a greenery city and disseminate the results of these initiatives.

*2 A project looking 100 years ahead, aiming to evolve Tokyo into a "sustainable city in harmony with nature" with the participation of residents, businesses, and other stakeholders.

PRI in Person Tokyo 2023

From October 3 to October 5, 2023, the PRI annual conference, PRI in Person, was held in Japan for the first time. The event took place at Grand Prince Hotel Shin Takanawa, with approximately 1,400 attendees (a full house), about 70% of whom were international asset owners, asset managers, and policy experts.

The theme for this year was “Moving from Commitment to Action.” The key message emphasized moving from the commitment phase to taking actionable steps and producing outcomes on climate change issues, with an inspiring call to become Future Makers rather than Future Takers in creating a sustainable society through investment power. The conference especially highlighted the critical need to address not only climate change but also natural capital to achieve net-zero greenhouse gas emissions by 2050.

Panel Discussions Featuring SuMi TRUST AM President Yoshio Hishida

On the second day, our President, Hishida, participated in a panel discussion titled “Climate and nature: where are we now, and what action can investors take?” to highlight the importance of addressing climate change and natural capital and the leadership of our stewardship activities (Photo 1).

Photo 1: At the panel discussion



(Hishida is third from the left, also displayed on the screen above)

The main remarks made during the panel discussion are as follows.

Q1 In response to the “planet crisis” and scientists’ warnings that we are nearing the Paris Agreement’s*1 1.5°C global warming target, how is SuMi TRUST AM addressing this?

- As one of Asia’s largest asset management firms, we play a leading role in various global initiatives.

- For instance, we serve on the Steering Committee of Climate Action 100+ (CA100+)*2, a global investor initiative led by PRI on climate change issues, where we promote collaborative engagement as lead managers. We are also the only Japanese participant in the Investor Policy Dialogue on Deforestation (IPDD)*2.
- Urgent action on climate change is necessary to halve greenhouse gas emissions by 2030. We are advancing our stewardship activities as we recognize the critical importance of the coming years.
- I would like to say that the time for action is now!

*1: Adopted at COP21 in 2015 and effective in 2016, the Paris Agreement is an international framework addressing climate change. It established global commitments for reducing greenhouse gas emissions post-2020, setting the shared global target of keeping temperature increases below 2°C, with an aspirational goal of keeping temperature increases below 1.5°C above pre-industrial levels.

Q2 What actions should responsible investors prioritize?

- We contribute to initiatives such as CA100+ and the Asia Utility Engagement Program, led by the Asia Investor Group on Climate Change (AIGCC)*2, which focuses on collaborative engagement with major utility companies in Asia.
- Regarding our engagement with a South Korean steel company, we have undertaken direct engagement activities as well as collaborative engagement and proposals to South Korean policymakers. As a result, the company announced a new plan aligned with the Paris Agreement’s 1.5°C scenario, aiming for net-zero greenhouse gas emissions.

- Additionally, in exercising voting rights, we have adopted a policy of reflecting our stance in director appointment proposals for investee companies that emit significant greenhouse gases but are reluctant to disclose climate-related information or set targets.
- Through integrated engagement and voting rights practices, we demonstrate leadership in reducing emissions at investee companies and achieving a net-zero society.

Q3 What initiatives are being undertaken regarding natural capital to achieve the Paris Agreement goals?

- Climate change and natural capital are interrelated, with addressing natural capital a pressing issue for achieving net-zero by 2050.
- We focus on the field of natural capital as an advisory committee member of PRI’s Spring Working Group*2. Additionally, we participate in NA100*2, an initiative established in December 2022 to combat the loss of nature and biodiversity.

Q4 What are your views on optimism about the global community achieving the Paris Agreement, and what actions do you urge responsible investors to take?

- The challenge lies in Asia. While continuing growth, reducing greenhouse gas emissions is not easy, necessitating collaboration and coordination with governments, NGOs, and corporate engagement.
- We are one of the founding members of PRI. I vividly remember attending PRI’s first annual meeting in 2006 in Geneva, where we were the only representative from Japan.
- We will exhibit clear leadership and tackle various issues. Through this, I believe that we can make a difference.

*2: See pages 75-78.

For the first time, SuMi TRUST AM participated as the sole Japanese company to serve as a Gold Sponsor, setting up our own standalone booth at the venue alongside major Western companies. (Photos 2 and 3)

At our booth, we exchanged information and strengthened collaboration not only with PRI representatives, media, and industry peers but also with executives from major Japanese listed companies, representatives of the Government Pension Investment Fund (GPIF), and leaders from globally renowned pension funds like California Public Employees’ Retirement System (CALPERS).

The next PRI in Person is scheduled to take place in Toronto, Canada, from October 8 to October 10, 2024. We plan to participate as a sponsor again. Our sponsorship of the PRI annual conference demonstrates our commitment to the Principles for Responsible Investment. Through sponsorship participation, we will continue to contribute to advancing responsible investment.

Photo 2: SuMi TRUST AM’s booth

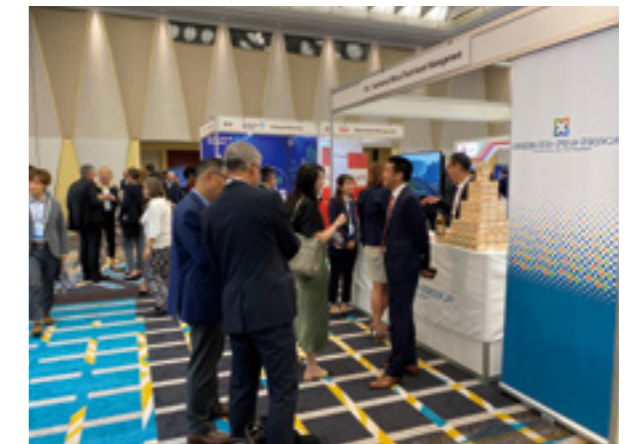


Photo 3: SuMi TRUST AM’s towering block advertisement



Message from
the Executive Officer in charge of the Stewardship Development Department and
the General Manager of the Stewardship Development Department

Continuing to Strive toward the Meaningful Implementation of Stewardship Activities

Managing Executive Officer
in charge of the Stewardship
Development Department and
Research Investment
Department

Yuji Shiomi



General Manager of
the Stewardship
Development
Department

Keisuke
Fukunaga

In April 2023, following discussions at the meeting of the Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code, the Action Program for Accelerating Corporate Governance Reform was established. This program emphasizes that, beyond formal structural improvements, genuine corporate governance reform requires an autonomous shift in mindset by both companies and investors to foster sustainable growth and enhance medium- to long-term corporate value. This approach has gained broad recognition. In June 2024, follow-up on the main initiatives outlined in the Action Program and the direction of policies for the future were consolidated into the Action Program for Corporate Governance Reform 2024: Principles into Practice (hereinafter referred to as "Action Program 2024").

The document calls for a return to the goals of the Stewardship Code and Corporate Governance Code—sustainable growth and medium- to long-term value enhancement. It focuses on efforts to achieve profitability and growth-driven management, encourages the practical implementation of stewardship activities, and supports measures for "practicing" corporate governance reform

based on an autonomous shift in mindset among companies and investors.

Making stewardship activities more impactful has been a long-standing commitment for SuMi TRUST AM. As a responsible institutional investor, we aim to maximize returns for our clients by enhancing the value of the companies in which we invest. Our stewardship activities are driven by three key pillars: engagement, the exercise of voting rights, and incorporating ESG factors into investment decision-making. Engagement is viewed as an opportunity to encourage best practices at our investee companies, while our exercise of voting rights reflects both the outcomes of engagements and our minimum standards. These efforts are also reflected in our investment decisions, ensuring alignment with ESG considerations. By integrating these pillars in a continual cycle, we ensure that our stewardship activities become increasingly impactful. To support these initiatives structurally, we have established an integrated framework involving research analysts who are experts in the corporate and industry sectors, along with stewardship officers with extensive experience in research and asset management (including ESG specialists and voting rights officers). Additionally, Action Program 2024

advocates for collaborative engagements, and the Company has been strengthening its role as a lead manager in focused dialogues on specific themes both domestically and internationally, progressively enhancing our capabilities.

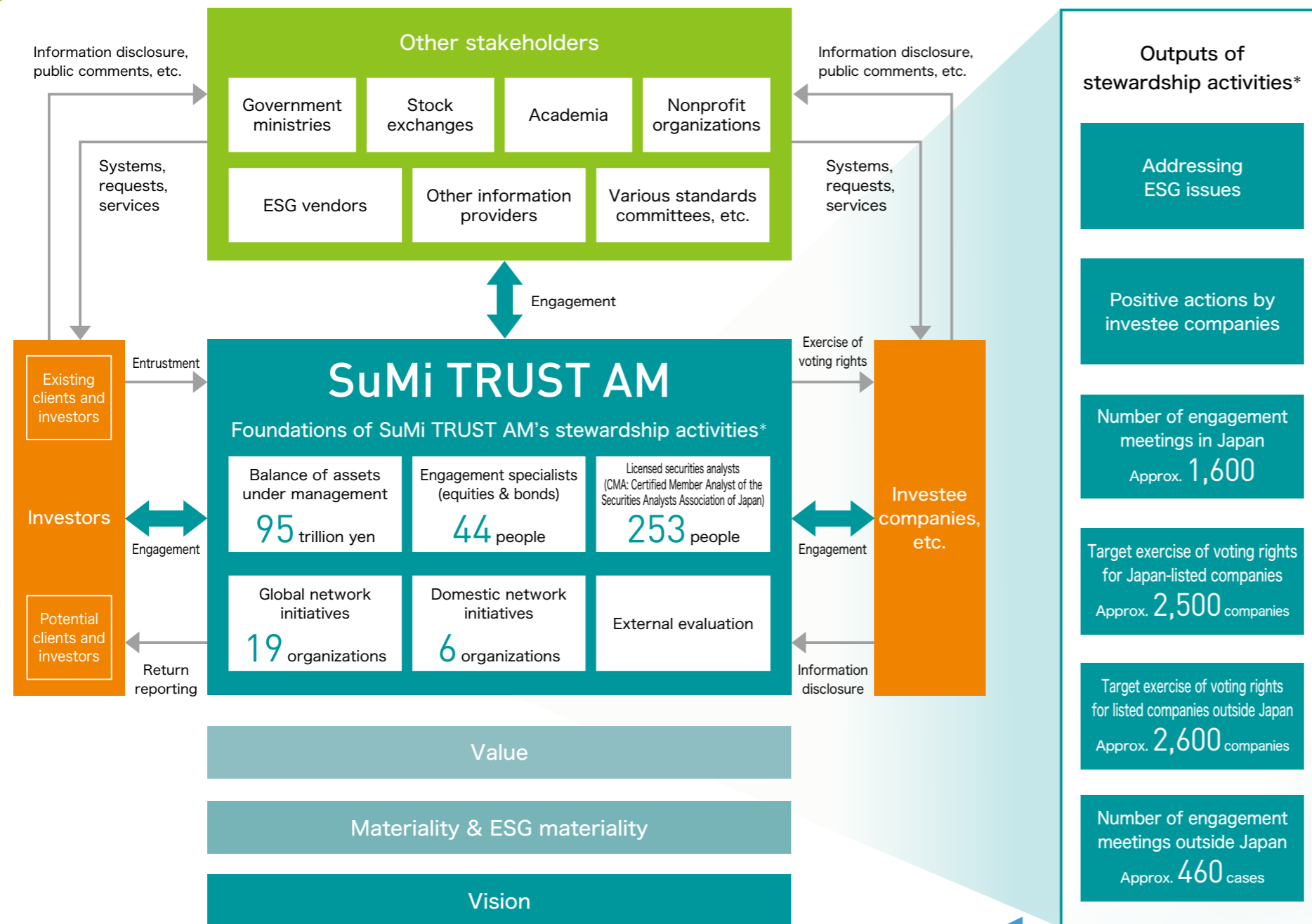
These efforts reflect our Vision and the six core Values that guide our journey toward achieving it. For example, our Value: "Create synergies by bringing unique personalities together" is embodied in constructive dialogues that blend the business insights of research analysts with deep industry knowledge and the ESG perspective of stewardship officers. Practicing the Value: "Stand in the shoes of others and engage in dialogue with empathy" involves understanding the conditions of investee companies, sharing challenges, and conducting purpose-driven dialogues that foster positive changes in corporate behavior. The Value: "Expand curiosity and transform awareness into action" is embodied by establishing research and asset management experts as stewardship officers in Japan and abroad, fostering a broader skillset, sharing insights from diverse perspectives, and conducting effective engagements. However, information

asymmetries and perception gaps persist both inside and outside the organization. The Value: "Have self-awareness and seek constant self-improvement" encourages acknowledging one's own knowledge gaps and striving to enhance analytical skills by identifying truly essential information and missing elements in hypothesis building. Furthermore, the Values: "Pursue quality and value that goes one step ahead" and "Look ahead to the future, continuously challenging ourselves" guide our active participation in global initiatives, enabling us to understand and stay abreast of global sustainability trends, which serve as the foundation for advancing our stewardship activities.

Moving forward, we will continue to pursue these activities and efforts to improve quality, aspiring to be a supportive partner to our investee companies and contribute to realizing their value creation journey. While we have renamed our traditional Stewardship Report to the Sustainability Report starting this year, the **SuMi TRUST AM's Stewardship Activities** section remains a yearly update on our stewardship activities, designed to enhance stakeholders' understanding. We hope this report helps deepen your understanding of our activities.

Purposes of Stewardship Activities

Investors, their investee companies, and each stakeholder work together based on common values. Sustainable growth and increased corporate value along with growth in dividends and wages will ultimately benefit household economies, which in turn, leads to the economy as a whole. All of this together is known as the investment chain. At SuMi TRUST AM, we actively utilize our role as an asset manager in the investment chain to support our investee companies create corporate value, leading to maximum returns for our clients, while at the same time helping to resolve social problems.

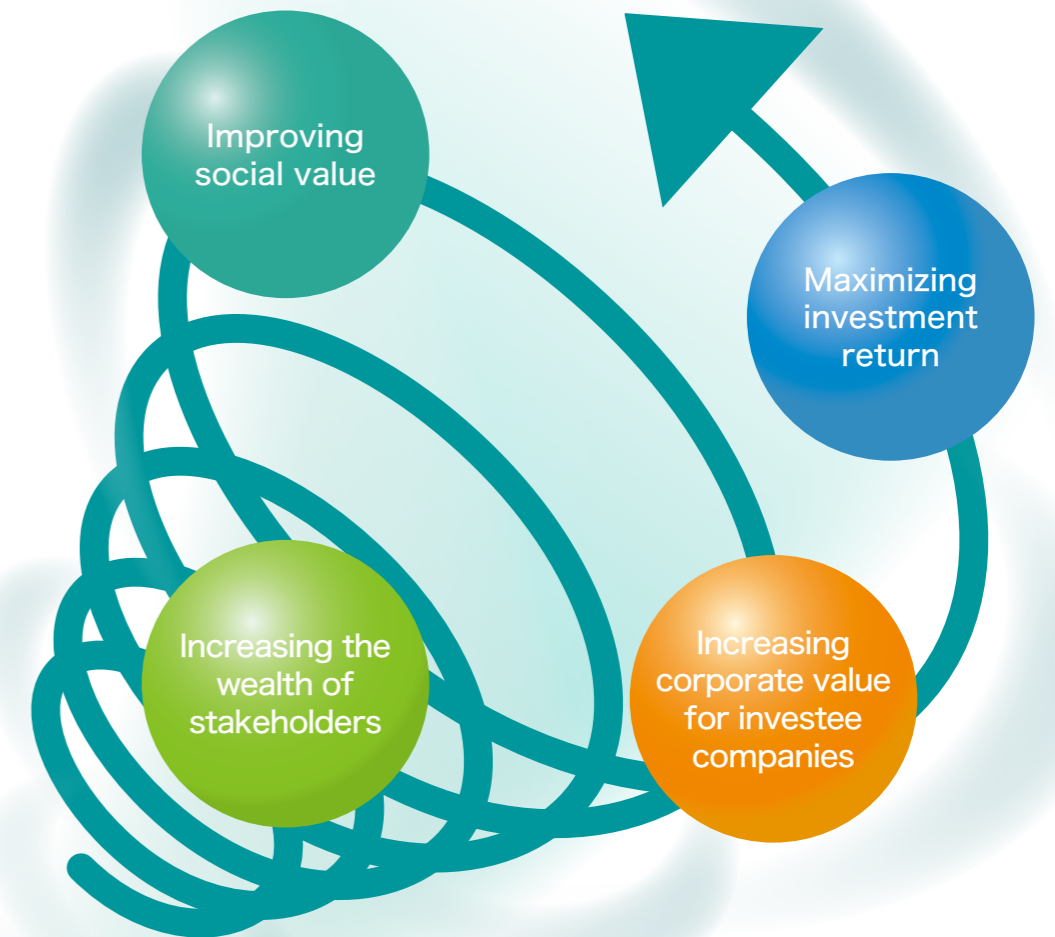


Output



Outcome

Supporting Value Creation in the Investment Chain



Investment Chain Enhancement

(Source: SuMi TRUST AM)
* Figures represent results from July 2023 to June 2024 or as of the end of June 2024.

Evolution of ESG Investments and SuMi TRUST AM's Initiatives

While ESG issues change over time, the response to such issues and the priority on sustainability are constant. Moreover, it will become ever more important to carefully consider and respond from a long-term perspective while considering such changes. As a responsible institutional investor that supports Japan's Stewardship Code and a signatory institution to the PRI, we are committed to capturing these changes effectively and advancing the balance between solving social issues and gaining a return on investments through our support for investee companies.

ESG Investment

1920

Since the 1920s

Initial ethical investment

- Choice of investees based on religious and ethical motives

1960

1960s

SRI as a social movement

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

1990

1990s to 2000s

Both financial and non-financial assessments

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

2000

2003 SRI

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

2004

- Started offering SRI funds to DC (Defined Contribution)

2006

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



2010

2010s

Integrating the environmental and social impact of investments

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

2010

- Started offering publicly offered investment trusts of Chinese equity SRI

2014

- Signed Japan's Stewardship Code (SSC)

2015

- Introduced MBIS® for non-financial information assessment
- Started offering Japan Quality Growth Strategy (Research, ROE Improvement)

2017

- Established the Stewardship Development Department
- Established the Stewardship Activities Advisory Committee
- Signed the revised SSC
- Signed Climate Action 100+

2019

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

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

- Endorsed TCFD Recommendations and joined the TCFD Consortium
- Comprehensively revised our ESG Engagement Policy and established the ESG Investment Policy



2015 ESG

- Adopted the Sustainable Development Goals (SDGs) at the UN (United Nations) Summit

2020

2019 Impact

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

2020

- Set Global Equity Impact Fund Seeds
- Signed the revised SSC

2021

- Listed SMT ETF Carbon Efficient Index Japan Equity
- Participated in the TNFD Forum

2022

- Launched the Bloomberg MSCI Global Aggregate Sustainability A+ Index-Linked Setting Fund (Bonds)
- Started high-return, low-beta strategy (Japanese equity, ESG consideration type) for pension trust
- Revised our ESG Investment Policy

● Received Asia Asset Management magazine's Best of the Bests Country Awards (Japan Category) for Best ESG Engagement Initiative

2023

- Reorganized the Stewardship Committee into the Sustainability Committee
- Revised our ESG Investment Policy

2024

- Declared to become a TNFD Early Adopter
- Approved as a signatory institution to the UK Stewardship Code

SuMi TRUST AM's Initiatives

Evaluation of SuMi TRUST AM's Stewardship Activities

SuMi TRUST AM conducts an annual review of our stewardship activities in accordance with the principles and guidelines of Japan's Stewardship Code. The content and self-assessment of our stewardship activities are reviewed by the Stewardship Activities Advisory Committee and reported to the Management Meeting. Globally, we disclose information in line with the framework of the Investor Climate Action Plans (ICAP).

Self-Assessment

Compliance with Japan's Stewardship Code | Target period: July 2023 to June 2024

Principle 1

Policy Formulation and Disclosure

Institutional investors should formulate and disclose a clear policy to fulfill their stewardship responsibilities.

We have formulated and disclosed our Policy for Addressing the Principles of Japan's Stewardship Code and, as a responsible institutional investor, have promoted stewardship activities and strengthened related structures. In October 2023, to enhance the governance and execution of stewardship activities, we restructured and expanded the role of the existing Stewardship Committee, reorganizing it into the Sustainability Committee.

Principle 2

Conflict of Interest Management

Institutional investors should formulate and disclose a clear policy for managing conflicts of interest in fulfilling their stewardship responsibilities.

As the asset management company within the Sumitomo Mitsui Trust Group, we have put in place an essential conflict of interest management system. The Stewardship Activities Advisory Committee, with a majority of external members, verifies the appropriateness of the decision-making process for proposals with potential conflicts of interest and discloses summaries of its discussions as needed.

For all proposals related to our parent company, Sumitomo Mitsui Trust Group, Inc., and its affiliates, as well as cases where individuals closely associated with SuMi TRUST AM or our parent company (active officers, persons who were in important positions, etc.) are nominated as officer candidates of investee companies, we utilize the recommendation from proxy advisors to exercise voting rights based on our Guideline on the Exercise of Voting Rights. At general meetings held from July 2023 to June 2024, 20 companies were subject to this process.

Principle 3

Accurate Understanding

Institutional investors should accurately understand the circumstances of investee companies to appropriately fulfill their stewardship responsibilities for the investee companies' sustainable growth.

We reviewed our material ESG issues and the key activity items for each materiality area, and conducted a reassessment of priorities through activity mapping. Among top greenhouse gas-emitting companies, we investigated, analyzed, and scored domestic companies' initiatives on climate change issues, incorporating this information into engagement and our exercise of voting rights. Additionally, we conducted assessments of investee companies' alignment with net-zero scenarios using the Paris Aligned Investment Initiative's Net Zero Investment Framework (NZIF) for over 5,000 companies globally as of March 2024.

Principle 4

Dialogue with Companies

Institutional investors should aim to share understanding with investee companies and work to address issues through constructive, "purposeful dialogue."

Engagement efforts focused on material ESG issues and key activity items, with approximately 1,600 engagements conducted domestically and approximately 460 overseas. Globally, we actively addressed agendas such as climate change and natural capital, while domestically, we pursued engagement in response to the Tokyo Stock Exchange's "Action to Implement Management that is Conscious of Cost of Capital and Stock Price." For the latter, we also promoted activities utilizing collaborative engagement.

Self-Assessment

Compliance with Japan's Stewardship Code | Target period: July 2023 to June 2024

Principle 5 | Exercise of Voting Rights

Institutional investors should have a clear policy on the exercise of voting rights and the disclosure of voting outcomes. The voting policy should go beyond formal criteria and contribute to the sustainable growth of investee companies.

In the December 2023 revision of our Guideline on the Exercise of Voting Rights, we expanded the scope of companies targeted for opposing director appointment proposals due to the absence of female directors from TOPIX 500 constituent companies to all Prime Market-listed companies, further promoting gender diversity. We also added the price-to-book ratio (P/B ratio) as a criterion for disposition of surplus proposals and tightened the standards for cash-rich companies. Voting records for all holdings and proposals were disclosed on a quarterly basis.

Principle 6 | Reporting to Clients and Beneficiaries

Institutional investors should, in principle, report regularly to clients and beneficiaries on how they are fulfilling their stewardship responsibilities, including the exercise of voting rights.

We provided reports on stewardship activities directly to clients and more broadly to stakeholders through the Stewardship Report 2023/2024. We expanded ESG-related information on our website and enhanced communications efforts through the Tosho Mane-Bu platform. We also disclosed our voting records for all holdings and proposals on a quarterly basis.

Principle 7 | Development of Skills

Institutional investors should enhance their competence to appropriately engage with investee companies and make informed decisions in stewardship activities, by deeply understanding the companies, their operating environments, and sustainability considerations tailored to their investment strategies to contribute to the sustainable growth of those companies.

We utilized an external organization (PRI Academy) and in-house e-learning to strengthen ESG knowledge. We actively participated in global initiatives, research groups, and engagements with government agencies, academia, and related organizations to acquire, share, and deepen knowledge. In the fall of 2023, we received the top rating as an asset manager practicing the most effective stewardship activities by an outside evaluation survey.

Information Disclosure According to the ICAP (Investor Climate Action Plans) Framework | Target period: July 2023 to June 2024

Investor Climate Action Plans (ICAP)* is a framework for self-assessing the stewardship activities of asset management companies, published by The Investor Agenda. As shown in the table below, it defines expected achievement levels for engagement activities with investors

across four interrelated focus areas and governance, and recommends that asset management companies use ICAP for information disclosure. Since 2022, SuMi TRUST AM has continued information disclosure according to this framework.

Focus areas	Expected achievement level	SuMi TRUST AM's stewardship activities
(1) Investment		
Goal setting	Managing systemic climate risks in investor portfolios and enabling the transition by shifting capital to value-creating businesses set to succeed in a net zero future.	In 2021, we joined NZAMI. We announced our efforts to achieve net zero greenhouse gas emissions from investee companies by 2050, and to reach interim targets by 2030.
Risk management		We conducted analyses on domestic and international equities and bonds under our management ((1) baseline analysis, (2) transition pathway analysis based on future climate change scenarios, and (3) resilience analysis for climate change), along with sovereign bond portfolio analysis.
Asset allocation		SMT ETF Carbon Efficient Index Japan Equity listed on the Tokyo Stock Exchange in 2021.
Additional goal setting		We opposed director appointment proposals for investee companies showing no improvement after engagement.
(2) Engagement with Investee Companies		
Collective/collaborative engagement	Being engaged with companies to drive and demonstrate real progress in line with a 1.5°C future.	We served as Co-Chair of the Asia Advisory Group for Climate Action 100+ in the Asia-Pacific region and participated as the Asia Representative Member of NZAMI's Advisory Committee.
Bilateral engagement		We are promoting effective activities with about 100 companies that have a major impact on reducing total greenhouse gas emissions. We also focused on addressing deforestation issues by assessing and engaging with natural rubber sector companies.
Corporate escalation		We opposed director appointment proposals for investee companies showing no improvement after engagement.
(3) Policy Advocacy		
Investor statements	Advocating for policies aligned with delivering a just transition to a net zero economy by 2050 or sooner.	We discussed the utilization policy of Brazil's Amazon Fund and exerted influence on forest conservation with the Norwegian Embassy in Brazil.
Lobbying activities		We are engaging in dialogue with policymakers in Japan on 2030 power generation mix determined in the Sixth Strategic Energy Plan and future prospects.
Advocacy		We provided recommendations on forest conservation to the Environment Minister (Lord Goldsmith) of the UK, which was the host country for COP26.
(4) Investor Disclosure		
Commitment, purpose, and goals		We were approved as a signatory institution to the UK Stewardship Code. We provided information disclosure in accordance with ICAP through our Stewardship Report as a step toward achieving net zero by 2050.
Carbon emissions and portfolio evaluation	Enhancing investor disclosure to help stakeholders track investor action in line with a 1.5°C pathway.	We disclosed portfolio figures and benchmarks for weighted average carbon emissions (emissions per unit of sales).
Alignment with TCFD		We conducted analyses on domestic and international equities and bonds under our management ((1) baseline analysis, (2) transition pathway analysis based on future climate change scenarios, and (3) resilience analysis for climate change), along with sovereign bond portfolio analysis.
Evaluation of disclosure		We posted engagement example cases from inside and outside Japan through Stewardship Report issued once a year, etc.

(Source: SuMi TRUST AM)

SuMi TRUST AM's stewardship activities were uniquely featured as a case study for a Japanese asset management company in the first installment in January 2022 and again in the fourth installment in September 2023. Our self-assessment on the Expectations Ladder across four key focus areas received predominantly Tier 1 or Tier 2 ratings from The Investor Agenda. The highlights of the high evaluation by key focus areas are as follows:

In (1) Investment, high marks were given for goal-setting activities, including serving as an Asia Representative Member of the Advisory Committee for the Net Zero Asset Managers Initiatives (NZAM).

In (2) Engagement with Investee Companies, high marks were given for collective/collaborative engagement, including assuming the role of Co-Chair of the Asia Advisory Group for Climate Action 100+ in the Asia-Pacific region in 2024. Additional recognition was received for bilateral engagement efforts, such as assessments and engagements with natural rubber sector

companies which address deforestation issues. In (3) Policy Advocacy, high marks were awarded for investor statements, including discussions on the utilization policies of Brazil's Amazon Fund and the exerting influence on forest conservation in collaboration with the Norwegian Embassy in Brazil. In (4) Investor Disclosure, high marks were received for commitments, objectives, and goals, including recognition as a signatory institution to the UK Stewardship Code in July 2024. Furthermore, in March 2024, we participated as a panelist in the seminar "Developing a climate action transition plan for investors," jointly hosted by the Stock Exchange of Thailand and the Asia Investor Group on Climate Change (AIGCC). We showcased our efforts to utilize ICAP as a case study. We will continue to make efforts to improve and enhance the transparency of our stewardship activities through information disclosure by means of ICAP.

* Published in May 2021. Subsequently in July 2023, the Investor Climate Action Plan (ICAP) Expectation Ladder was partially revised to significantly strengthen aspects related to deforestation.

External Evaluation

PRI Assessment Results | Target period: January 2023 to December 2023

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

Established with the support of the United Nations, the Principles for Responsible Investment (PRI) encourage institutional investors to incorporate environmental, social and governance (ESG) factors into their investment decision-making processes. There were 100 signatory institutions when it launched in April 2006, and has increased greatly to 5,345 by the end of March 2024, which made the positioning more important. In addition to becoming a signatory institution to the PRI in May 2006, we have drafted policies in accordance with the six principles and implemented initiatives in light of the latest developments.

PRI Assessments are evaluations done on the commitment and progress of signatory institutions toward the six principles of the PRI. These are conducted according to reports made by signatory institutions. At SuMi TRUST AM, we carefully review the results of the PRI Assessment and use them as opportunities to maintain and improve our evaluations through necessary enhancements.

PRI Assessment Results (2024)	
Policy, governance, strategy*	★★★★★
Listed equity	
Active - Quantitative	★★★★★
Active - Fundamental	★★★★★
Passive	★★★★
Fixed income investment	
SSA	★★★★★
Corporate	★★★★★
Hedge fund (HF)	
Multiple strategies	★★★★
Long/short equity	★★★★★
Management company selection, appointment, and monitoring (SAM)	
Listed equity - Active	★★★★
Fixed income - Active	★★★★
Confidence index	★★★★

* Including engagement activities. (Source: PRI)

In October 2023, the PRI Annual Conference (PRI in Person) was held in Tokyo, Japan for the first time, where we participated as the only Gold Sponsor among the signatory institutions in Japan. Additionally, we participated as a Bronze Sponsor at the October 2024 conference in Toronto, Canada. By sponsoring the PRI Annual Conference, we demonstrate our commitment to PRI and contribute to the advancement of responsible investment worldwide.

Approved as a Signatory Institution to the UK Stewardship Code | Target period: July 2022 to June 2023

SuMi TRUST AM has been approved by the Financial Reporting Council (FRC) as a signatory institution to the UK Stewardship Code 2020 (hereinafter the "Code"). The Code includes a wide range of participants, such as asset management companies, asset owners, and service providers. Additionally, many non-UK companies participate, garnering significant global attention. The Code defines stewardship as the "responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society." It calls for a high level of stewardship activities from institutional investors who invest on behalf of pension beneficiaries and others. To date, we have established a global three-pillar system, centered in Tokyo and supported by dedicated stewardship personnel in New York and London. This structure facilitates engagement with overseas investee companies and direct communication with international



initiative organizations, allowing us to continuously enhance our stewardship activities while staying abreast of the latest ESG trends. To be approved as a signatory institution to the Code, a company must submit a report on their stewardship activities over the past 12 months to the FRC. Being approved as a signatory institution demonstrates that our past stewardship activities and their outcomes objectively meet the 12 principles of the Code, which is regarded as a global gold standard. As a responsible institutional investor, we will continue to promote stewardship activities based on the principles of fulfilling fiduciary duties and managing conflicts of interest, with the three pillars of engagement, the exercise of voting rights, and incorporating ESG factors into investment decision-making. Going forward, we will strive to maximize the medium- to long-term investment returns of the assets entrusted to us by our clients by enhancing the corporate value of investee companies, thereby working toward our Vision of "Realizing opportunities today to ensure sustainable prosperity for tomorrow."

The 12 Principles of the UK Stewardship Code 2020

Principle	Details
1. Purpose, strategy and culture	Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
2. Governance, resources and incentives	Signatories' governance, resources and incentives support stewardship.
3. Conflicts of interest	Signatories manage conflicts of interests to put the best interests of clients and beneficiaries first.
4. Promoting well-functioning markets	Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.
5. Review and assurance	Signatories review their policies, assure their processes and assess the effectiveness of their activities.
6. Client and beneficiary needs	Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.
7. Stewardship, investment and ESG integration	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.
8. Monitoring managers and service providers	Signatories monitor and hold to account managers and/or service providers.
9. Engagement	Signatories engage with issuers to maintain or enhance the value of assets.
10. Collaboration	Signatories, where necessary, participate in collaborative engagement to influence issuers.
11. Escalation	Signatories, where necessary, escalate stewardship activities to influence issuers.
12. Exercising rights and responsibilities	Signatories actively exercise their rights and responsibilities.

- Principle 1** We will incorporate ESG issues into investment analysis and decision-making processes. With SuMi TRUST AM's aim of maximizing medium- to long-term investment return to our clients (beneficiaries) and suppressing downside risk, we analyze and evaluate non-financial information including ESG, and promote initiatives that utilize knowledge acquired from this analysis and evaluation for investment (ESG integration).
- Principle 2** We will be active owners and incorporate ESG issues into our ownership policies and practices. We conduct engagements and exercise voting rights with ESG issues in mind; through these activities, we encourage investee companies to implement appropriate initiatives to tackle ESG challenges.
- Principle 3** We will seek appropriate disclosures on ESG issues by the entities in which we invest. We seek appropriate disclosure of ESG issues from investee companies.
- Principle 4** We will promote acceptance and implementation of the Principles within the asset management industry. By proactively promoting stewardship activities and educational activities, we help capital market participants to accept and implement the Principles.
- Principle 5** We will work together to enhance our effectiveness in implementing the Principles. We collaborate with institutional investors in Japan and overseas through participation in PRI-sponsored working groups and involvement in signatory bodies established with the aim of resolving ESG issues in order to improve effectiveness in implementing the Principles.
- Principle 6** We will report on our activities and progress towards implementing the Principles. We implement these Principles and produce and issue reports that meet the requirements for signatories to disclose their activities and progress towards implementing them.

SuMi TRUST AM's ESG Materiality

We have identified 12 material ESG issues, which we consider critical for supporting the enhancement of investee value and sustainable growth. These material issues are key factors in assessing ESG at investee companies and in making decisions regarding engagement and the exercise of voting rights. They serve as the foundation for planning and driving our stewardship activities.

Review and Reassessment Process for Material ESG Issues and ESG Activities

SuMi TRUST AM has implemented a regular review process (in principle, annually) for regulations related to material ESG issues in stewardship activities and asset management. This process includes a review of material ESG issues and their associated key activity items, as well as a reassessment of their priority through mapping. Below, we report on the FY2024 review outcomes.

The review and reassessment of material ESG issues and activity items within our Company begin with discussions at the engagement level and progress through submission to the Sustainability Committee and the Management Meeting for deliberation and approval. This framework strengthens governance and checks-and-balances,

enabling us to enhance our stewardship activities, including engagement.

Specifically, we start by gathering input from a broad range of stakeholders, including clients, regarding material ESG issues and key activity items. Internally, we solicit opinions from members of the Stewardship Development Department, which leads stewardship activities, and the Research Investment Department regarding additions or modifications. The 24 opinions collected were individually discussed by the two departments, and the results were deliberated upon by the Sustainability Committee and the Management Meeting. We reconfirmed that the current 12 material ESG issues and 30 key activity items comprehensively cover the most critical aspects of our engagement activities at this point in time (no changes were made).

Figure 1: Review and reassessment process for material ESG issues and ESG activities at SuMi TRUST AM



(Source: SuMi TRUST AM)

Figure 2: SuMi TRUST AM's material ESG issues and key activity items

ESG materiality items		Key activity items
Environment	Climate Change	1. Greenhouse gas emissions reduction
	Natural Capital	2. Conservation of water resources and forests, and recovery of biodiversity
	Pollution & Waste	3. Sustainable procurement (palm oil, natural rubber, timber, etc.), addressing marine plastic issues, and waste reduction
	Environmental Opportunities	4. Expanding sales of environmentally-friendly products and services 5. Transitioning to a resource circulation model
Social	Human Rights & Community	6. Human rights issues in the supply chain
		7. Environmental load and work environment, management of chemicals, and conflict minerals
		8. Just transition
	Human Capital	9. Human resource strategy (Human resource development, recruitment, placement, and evaluation)
		10. Employee engagement
		11. Diversity, Equity & Inclusion
		12. Work style reforms
	Safety & Responsibility	13. Well-being
		14. Access to medicine, infectious disease prevention, and antibiotic management
		15. Safety management
Social Opportunities	16. Expanding sales of socially beneficial products and services	
	17. Sustainable community infrastructure	
Governance	Corporate Behavior	18. Promotion of non-financial (ESG) information disclosure
		19. Clarification of capital policies and use of funds
		20. Capital efficiency, cost of capital, and portfolio transformation
	Stability & Fairness	21. Purpose management, aligning the Mission, Vision, and Value with the management strategy
		22. Prevention of scandals and recurrences (product and service safety, organizational culture reform)
		23. Risk management (information security)
		24. Cross-shareholdings
		25. Takeover defense measures
		26. Parent-subsidary listings, relationships with major shareholders, and group governance
		27. Supply chain restructuring (addressing geopolitical and geographic risks)
	Organizational Structure	28. Board of Directors structure and skill set
		29. Promotion of diversity management
		Improvement in Governance

(Source: SuMi TRUST AM)

Reevaluation of Importance of Key Activity Items and Identification of Top-Pick Items

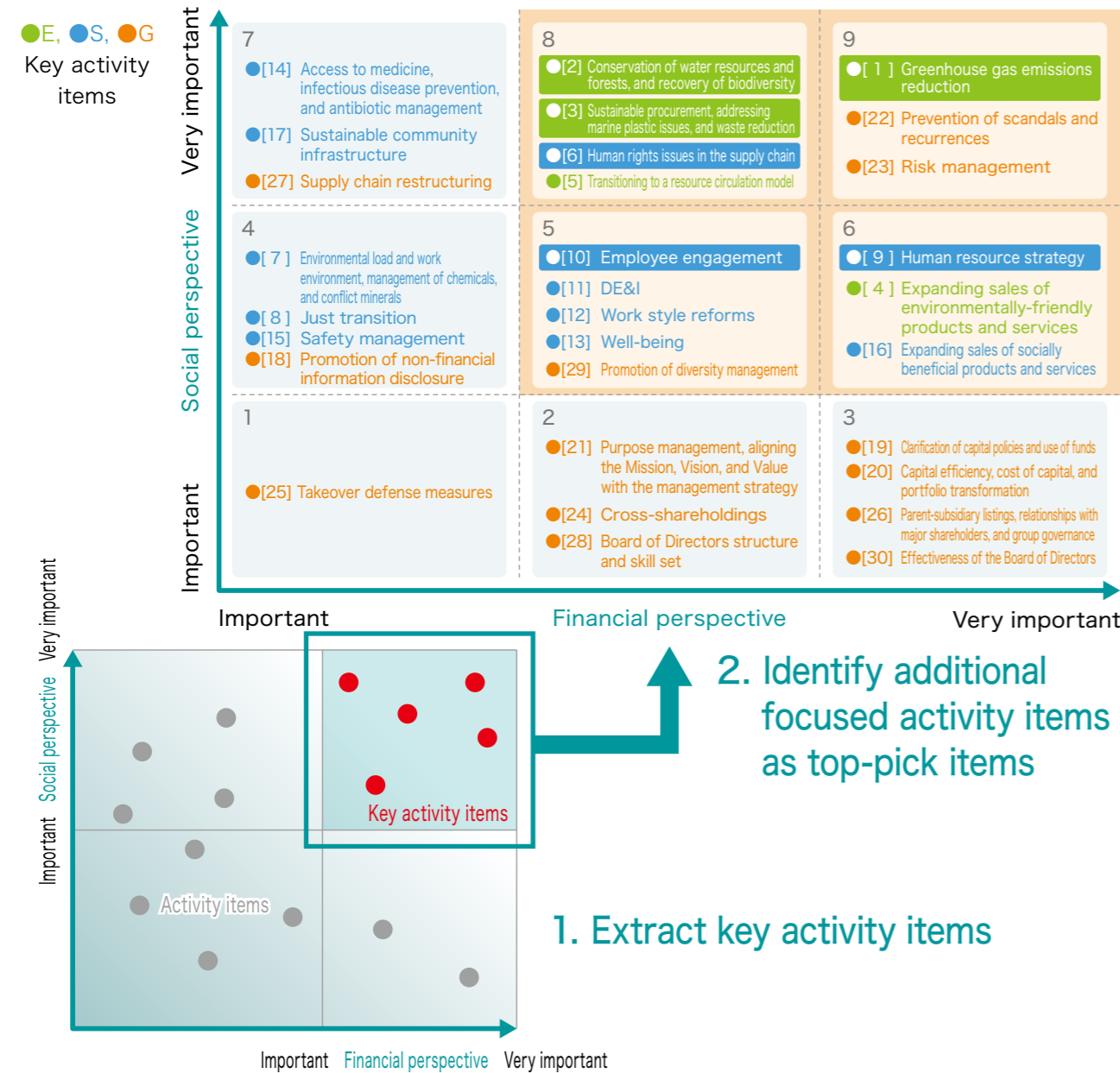
The key activity items represent 30 selected initiatives prioritized for engagement efforts, from which additional focused initiatives are identified as top-pick items. To achieve this, reevaluation is conducted based on two axes: the social perspective and financial perspective. The specific methods are as follows:

- a. Quantitative evaluation from a social perspective: We evaluate, analyze, and organize risks and opportunities posed by corporate activities to society, based on

- information from multiple publicly-oriented organizations, considering the breadth of external interest (importance) and impact.
- b. Quantitative evaluation from a financial perspective: We assess, analyze, and organize the financial impact of risks and opportunities associated with assets under management (investment portfolios) using ESG vendor data while considering industry characteristics.
- c. Additionally, we conduct qualitative evaluation of items emphasized and focused on by engagement staff and map them into nine groups based on the two axes.

The results are as shown in Figure 3.

Figure 3: Priority mapping of engagement key activity items (FY2024)



(Source: SuMi TRUST AM)

Items rated important from both social and financial perspectives are located toward the upper-right of the figure. From those (Groups 5, 6, 8, and 9 in Figure 3), the following six items (white text in the figure) were deemed particularly important as engagement topics with investee companies have been identified as top-pick items for FY2024 (July 2024 to June 2025).

- Greenhouse gas emissions reduction
- Sustainable procurement, addressing marine plastic issues, and waste reduction
- Conservation of water resources and forests, and recovery of biodiversity
- Human rights issues in the supply chain
- Human resource strategy
- Employee engagement

Meanwhile, Groups 1, 2, and 3 contain many governance-related activity items. This is due to the exclusion of governance-related evaluation items in the data used for the quantitative evaluation from a social perspective, resulting in relatively lower ratings for governance-related

items. Our fundamental view is that better governance (G) is the foundation for addressing challenges aimed at achieving a better environment (E) and society (S). We will continue actively addressing governance-related items in engagements.

Conducting Discussions with New Perspectives for Future Application

While this review did not lead to additions or changes to our material ESG issues and activity items, discussions were held on a wide range of topics, including supply chains, artificial intelligence (AI), humanity, and indigenous peoples. Some of these have been newly reflected in the "Perspectives" section of our ESG Investment Policy*, which defines our ESG materiality. Through these activities, we strive to maintain the relevance and timeliness of themes in engagements with investee companies.

Figure 4: Newly discussed material ESG issues and activity items and their overview

Item	Reason for adoption	Discussion, deliberation results, and actions
1. Supply Chains	Supply chains are increasingly critical to corporate value in addressing both risks and opportunities in environmental and social issues.	Linked to broad themes in Environment and Society. Although supply chains are mentioned under the Society perspective in the ESG Investment Policy, they are not included under Environment. This has now been reflected in the Environment perspective.
2. AI and Information Security	The increasing risks related to information security, such as misinformation and disinformation caused by AI, can no longer be ignored in terms of societal and corporate value.	Already included under Risk management (key activity item). Reflected under the Governance perspective in the ESG Investment Policy.
3. Humanity	Rising geopolitical risks stemming from political and military tensions cannot be fully addressed under traditional human rights frameworks.	Practically difficult to accumulate engagement activity records for this. Reflected in the Significance of ESG Investment section of the ESG Investment Policy.
4. Indigenous Peoples	As interest in protecting indigenous cultures grows, traditional human rights frameworks are insufficient. Additionally, NA100*, in which we participate, recommends it as a theme for engagement under the natural capital framework.	Practically difficult to accumulate engagement activity records for this. Reflected under the Environment perspective in the ESG Investment Policy.
5. Corruption and Bribery	With scandals occurring in nations, governments, and investee companies, societal attention to these issues is growing.	Conceptually covered by existing key activity items. Reflected under the Governance perspective in the ESG Investment Policy.
6. Fairness and Equity	Social and economic inequalities have intensified globally, such as during the COVID-19 pandemic. Demanding fair and equitable practices from companies has become common.	Addressed as a topic linked to broad themes in Society. Reflected under the Society perspective in the ESG Investment Policy.

(Source: SuMi TRUST AM)

*1 See pages 127-128.

*2 See pages 75-76.

Engagement in the Water Resource Problem

What is the Water Resource Crisis?

Water is an indispensable resource for human life and economic activity. Water, which connects forests, rivers, residential areas, and coastal regions, circulates across the Earth and greatly benefits diverse ecosystems. However, the portion available for human use is limited. According to the United Nations, economic growth, climate change, and shifts in human lifestyles will result in a 40% global water supply shortage by 2030. The World Meteorological Organization (WMO), in its 2021 State of Climate Services: Water, warned that 2.3 billion people currently live in water-stressed regions, and by 2050, 5 billion people will face water shortages. In terms of economic activities, 70% of global freshwater withdrawals are used in agricultural supply chains, and 19% in mining and manufacturing industries. Risks related to water

resources—such as declining freshwater availability, distribution network disruptions caused by floods, and stricter regulations on water pollution—hinder sustainable production activities and raw material procurement for companies, while also impacting revenues. Real-world examples include disputes over water resources between beverage companies and local residents in water-scarce regions like India and Mexico, the disruption of automotive and electronic component supply chains caused by Thailand's 2011 floods, and the semiconductor production crisis in Taiwan due to water shortages in 2021. Recognizing water resources as a factor that can evolve into financial risk, we believe it is critically important for responsible institutional investors to promote efforts by investee companies to conserve resources and implement risk mitigation measures to enhance their operational sustainability.

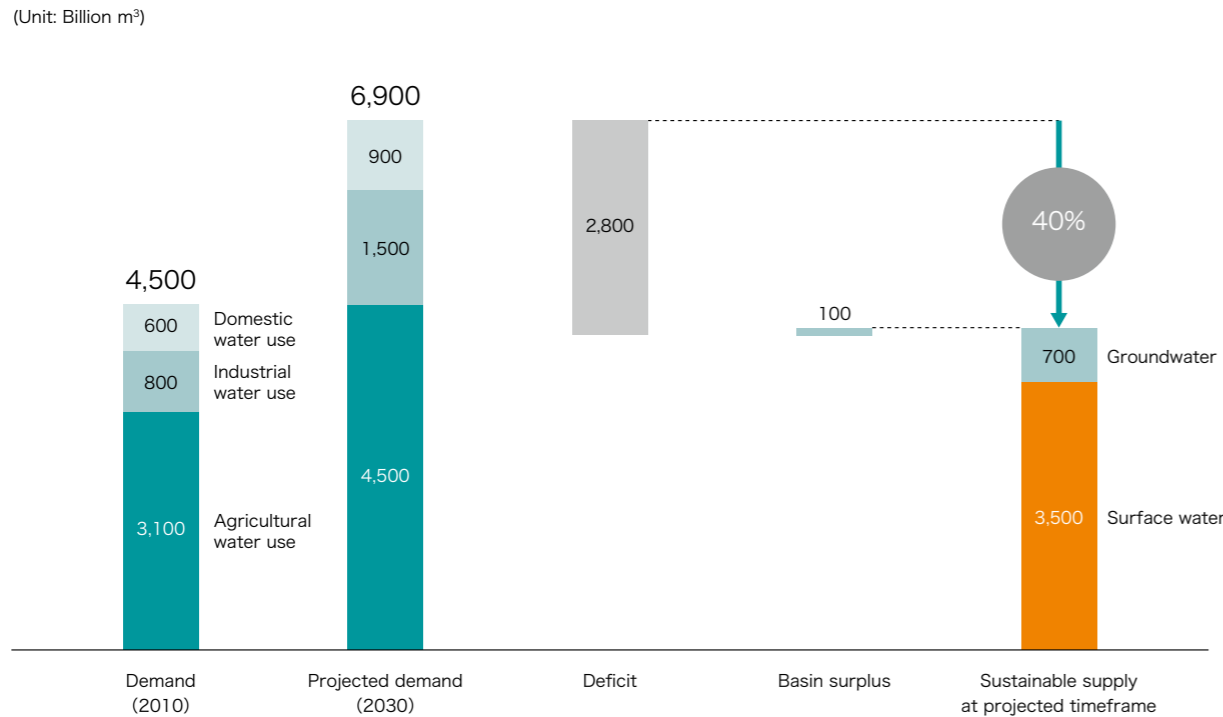
Growing Awareness of Water Resource Risks

There is an increasing awareness of water resource risks. In March 2023, the UN Water Conference was held for the first time in 46 years, during which governments, corporations, and civil organizations reaffirmed the promotion of the Water Action Agenda and declared access to safe drinking water and sanitation as a global human right. It also emphasized the need to accelerate efforts in financial support, information technology, innovation, and governance as a blueprint for achieving the water-related Sustainable Development Goal (SDG 6: Clean water and sanitation). The Japanese government, aiming to demonstrate leadership in the Asia-Pacific region, advocated the importance of water resources through the Kumamoto Initiative for Water, which promotes digital innovation and sustainable economic

growth through public-private cooperation. As part of a UN Water Conference-related event, we participated in a water conference hosted by CDP*1 in Singapore, engaging in discussions on water security with ASEAN governments and corporations. Corporate awareness of these issues is also growing, as seen in the number of companies responding to the CDP Water Security 2023 Questionnaire, which reached 4,815 globally—a 127% increase over five years. Japanese companies, in particular, show high awareness of water resources, with 36 companies receiving an “A” rating in the 2023 questionnaire, far surpassing Taiwan in second place (10 companies) and the United States in third place (9 companies).

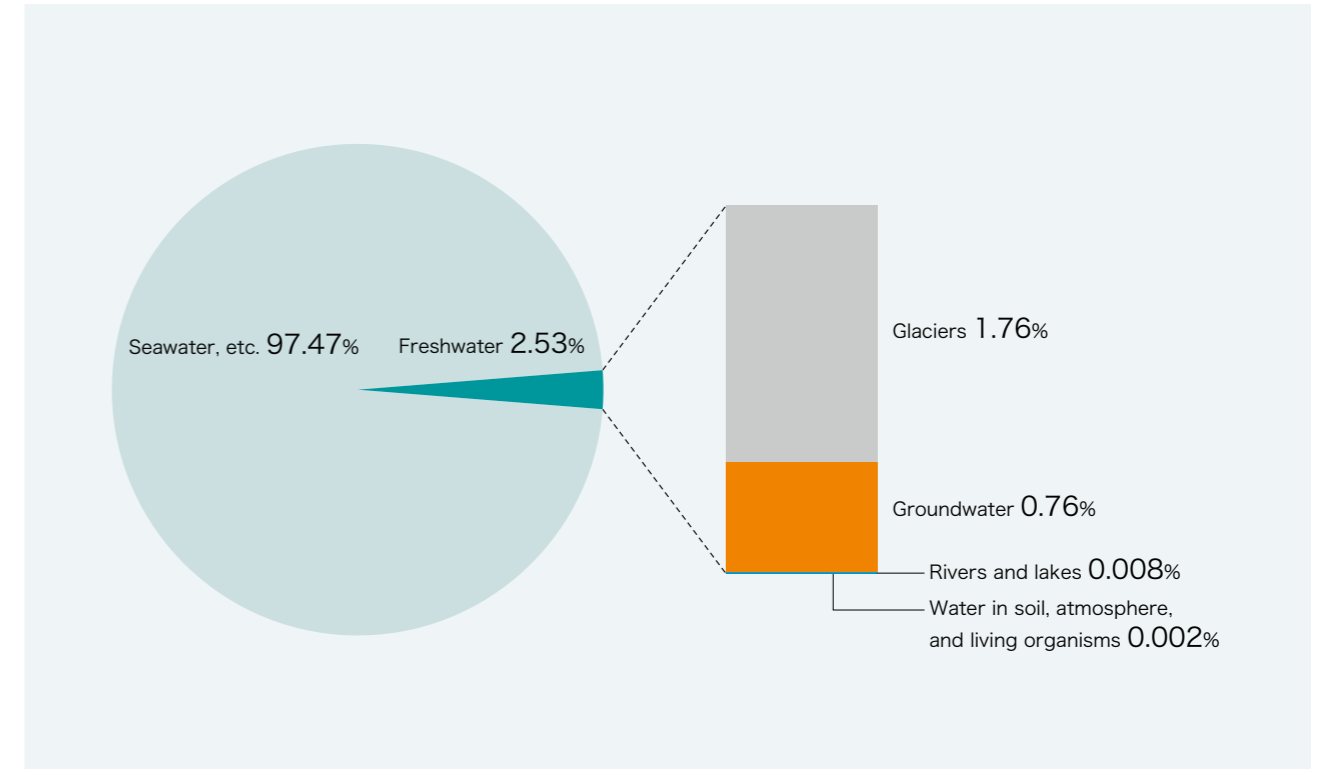
*1 See pages 75-76.

Figure 1: Global water supply and projected demand in 2030



(Source: Charting Our Water Future, The 2030 Water Resources Group)

Figure 2: Composition and volume of water on earth



(Source: World Water Resources at the Beginning of the 21st Century; UNESCO, 2003 (excludes groundwater in Antarctica))

Case Studies on Engagement Regarding Water Resources

Since 2022, SuMi TRUST AM has been using publicly available information such as CDP Water Security to select representative companies from water resource-intensive industries, such as food and beverage, from our global portfolio and conducting scoring on evaluation items including corporate governance, risk management, and business strategies. The evaluation results are shared among our global stewardship teams and utilized for engagement with investee companies in each region. As water resource issues are highly localized, evaluations are conducted while

considering region-specific factors such as intake and discharge quality, promoting engagement on responses to these issues and related disclosures. We are also participating in the Valuing Water Finance Initiative organized by Ceres*2, a U.S.-based environmental NGO. We are conducting issue analysis and corporate evaluation primarily for water-intensive sectors such as food, beverages, apparel, and IT, leveraging these insights for global engagement. Below, we introduce case studies of our engagement activities.

*2 See pages 77-78.

Case Study 1

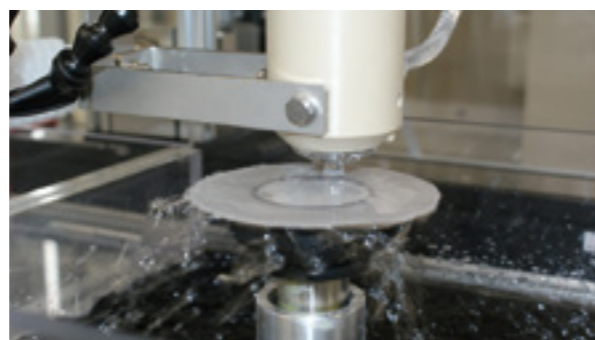
Engagement with Semiconductor Manufacturers

Semiconductor demand is expected to grow rapidly due to increased use of AI and digitalization, but significant volumes of water are consumed in ultrapure water cleaning during various stages of ultrafine circuit fabrication. Through collaboration with initiatives and independent engagement, we engage with global semiconductor manufacturers on coexisting with local communities and sustainable water resource use. In the U.S., industrial policy has spurred efforts to strengthen domestic production, but Arizona, where many manufacturers are concentrated, is a high water-stress area with significant depletion risks. Intel, a leading U.S. manufacturer, has set a goal of becoming net positive water*3 by 2030, implementing efficiency measures, recycling, and water restoration projects. For example, they collaborate with environmental groups on restoration projects in the Colorado River Basin. During engagement, they verify water resource conservation efforts at their operational sites and stress the importance of supply chain risk management and mitigation. In 2022, they achieved net positive status company-wide, and in 2023, achieved net positive status in countries including the U.S., India, Costa Rica, and Mexico. Additionally, they have advanced regional-specific information disclosure in Vietnam, Malaysia, and Costa Rica. Regarding suppliers, they are working on disclosure of a code of conduct and progressing in sharing information on high water-risk business partners. We look

forward to more comprehensive explanations on risk mitigation measures in the future. For a domestic semiconductor manufacturer, Company A, we participated in Ceres' initiative to conduct collaborative engagement with their internal specialized departments, while also conducting independent engagement with their management team. We shared recognition of efforts and disclosures related to water resource risks in their semiconductor business for the former, and of issues related to company-wide management and monitoring of water resource risks for the latter. Delivering consistent messages to both specialized departments and management was intended to enhance the effectiveness of our dialogue. Additionally, we engaged with Apple, a major customer of Company A, to address water resource issues throughout the value chain.

*3 A state in which more fresh water is returned to the water system than is consumed.

Figure 3: An example of water usage in semiconductor manufacturing processes



Case Study 2

Engagement with Beverage Manufacturers

Beverage manufacturers have limited capacity for resource conservation through recycling as they turn water into products. Additionally, changes in natural and social environments pose the risk of competition for water resources with local communities. For example, in the U.S., through Ceres' collaborative engagement program, we worked with a major alcoholic beverage company (Constellation Brands) on water quantity and quality risk assessments throughout their supply chain, setting goals that consider local conditions, and engaging on community relations and governance. They, having previously abandoned a factory construction project in Mexico due to local opposition, have since strengthened dialogue with communities and collaborated with municipalities and environmental organizations on reservoir and irrigation system construction and forest restoration. By making water restoration exceeding water intake a medium-term goal, they succeeded in expanding operations in other regions of Mexico. In Europe, we have engaged with major beverage manufacturers (e.g., Netherlands-based HEINEKEN and Denmark-based Carlsberg) on identifying water resource risks, setting mitigation goals, and supporting and

collaborating with farmers. Each company demonstrates a strong sense of urgency regarding water resource risks, working on identifying high water-risk regions and setting goals related to water usage during production. However, we observe variability among companies in their approaches to addressing water resource risks in agriculture and soil health as well as other supply chain challenges related to sustainable raw material procurement. To address these challenges, we leverage evaluations from initiatives such as Ceres and engagement activities in Japan and the U.S. to promote improvement, while also working to enhance SuMi TRUST AM's engagement by sharing best practices from European companies. Additionally, we have engaged with domestic beverage manufacturer Company B regarding alignment with business strategies and understanding water resource risks. They acknowledged that insufficient disclosure of water resource risk management in business strategy and delays in assessing water risks around factory sites have impacted their CDP evaluation, and we shared recognition of these as priority areas for future action.

Plans for the Future

Agriculture within the supply chains of food and beverage manufacturers presents not only significant water resource risks but also high greenhouse gas emissions, necessitating proactive engagement. Fortunately, solutions such as regenerative agriculture can simultaneously enhance soil water retention and

carbon sequestration capabilities. While it is challenging for companies to assess environmental risks in this area, facilitating effective solutions not only achieves impactful engagement but also contributes to food security, making it a critical theme for action.

SuMi TRUST AM's Initiatives in Business and Human Rights

— Enhancing Corporate Value Through Respect for Human Rights

Human rights are the fundamental rights inherent to all individuals, regardless of gender, nationality, or age. These are universal values shared by all people and must be equally enjoyed by everyone. A peaceful and free society is built when the human rights of all individuals are protected and respected.

Since corporate activities significantly impact society, companies bear the responsibility to respect human rights. This section outlines our efforts concerning business and human rights.

Business and Human Rights

The Universal Declaration of Human Rights was adopted at the 3rd United Nations General Assembly in 1948, marking global recognition of the importance of human rights. The Universal Declaration of Human Rights proclaims “a common standard of achievements for all peoples and all nations” to respect and secure human rights and freedoms. Article 11 of the Japanese Constitution defines fundamental human rights as “eternal and inviolable rights,” making them one of the three basic principles alongside Popular Sovereignty and Pacifism. With the progress of economic globalization, corporate activities have increasingly impacted society. As a result, not only states but also corporations are now expected to take responsible actions to respect human rights. In 1976, the Organisation for Economic Co-operation and Development (OECD) established the Guidelines for Multinational Enterprises on Responsible Business Conduct, urging corporations to act responsibly on a voluntary basis. In 1977, The International Labour

Organization (ILO) adopted the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, providing guidelines on employment, training, working and living conditions, and labor-management relations. This laid the foundation for a global framework governing corporate activities. In 1999, the World Economic Forum proposed the UN Global Compact, urging corporations and organizations to adhere to 10 principles across four areas—human rights, labor, environment, and anti-corruption—to achieve sustainable growth. In 2011, the United Nations Human Rights Council unanimously endorsed the Guiding Principles on Business and Human Rights. These guiding principles consist of three pillars: (1) The State Duty to Protect Human Rights, (2) The Corporate Responsibility to Respect Human Rights, and (3) Access to Remedy. While the principles themselves are not legally binding, they have been adopted as guidelines for respecting human rights in corporate activities across various countries. In Japan, the National Action Plan on Business

and Human Rights (2020 - 2025) was formulated in 2020 based on these principles, aligning with the global framework.

Ignoring human rights risks can expose companies to lawsuits, administrative penalties, strikes, employee turnover, boycotts, and social media backlash, potentially damaging corporate value. Conversely, proactive efforts to respect human rights in business can strengthen supply chains, enhance psychological safety and motivation among employees, attract top talent, and support sustainable growth. Achieving the Sustainable Development Goals (SDGs) and protecting and promoting human rights are inherently connected, making respect for human rights essential for any corporate SDG initiatives. As a responsible institutional investor endorsing Japan's Stewardship Code and a signatory institution to the UN Principles for Responsible Investment (PRI), we encourage ESG issue resolution through engagement with companies. Specifically, we promote engagement based on 12 material ESG issues, with human rights being one of the key material issues. Additionally, since 2022, we have participated in PRI Advance*, conducting collaborative engagement activities with companies on human rights.

* See pages 75-76.

SuMi TRUST AM's Engagement Activities Urging Respect for Human Rights

In Japan, the Corporate Governance Code was revised in June 2021 to include “respect for human rights” as a key issue for corporate boards, making it increasingly important for companies to address human rights in business. Through engagement, we work to help companies avoid human rights risks that could harm corporate value while also encouraging them to pursue respect for human rights that enhances corporate value. Specifically, we call on companies to address human rights through the processes of establishing and disclosing human rights policies, conducting human rights due diligence, and remediation.

For establishing and disclosing human rights policies, we require management to communicate their commitment to respecting human rights to both internal and external stakeholders as part of corporate policy, ensure the policy is embedded throughout the organization, and implement it concretely in business activities.

For conducting human rights due diligence, we require companies to establish a due diligence framework and regularly repeat a series of processes to avoid human rights violation risks (negative impacts). First, companies should identify human rights violation risks they are or may become involved in, assess their severity, and consider prioritization. Stakeholder dialogue, including with employees and suppliers, is crucial during this identification and assessment. Second, companies should work to prevent and mitigate human rights violation risks to fulfill their responsibility to respect human rights. This requires clear identification of responsible departments and individuals under the leadership of top management. Third, companies should evaluate whether these efforts have effectively mitigated human rights violation risks and pursue continuous improvement based on the results. To institutionalize these efforts, companies should integrate effectiveness evaluation procedures into related internal processes. Ultimately, companies must disclose the status of human rights due diligence to stakeholders, demonstrating ongoing improvement processes. Rather than expecting zero human rights risks, we emphasize the need for transparent disclosure of actual human rights efforts.

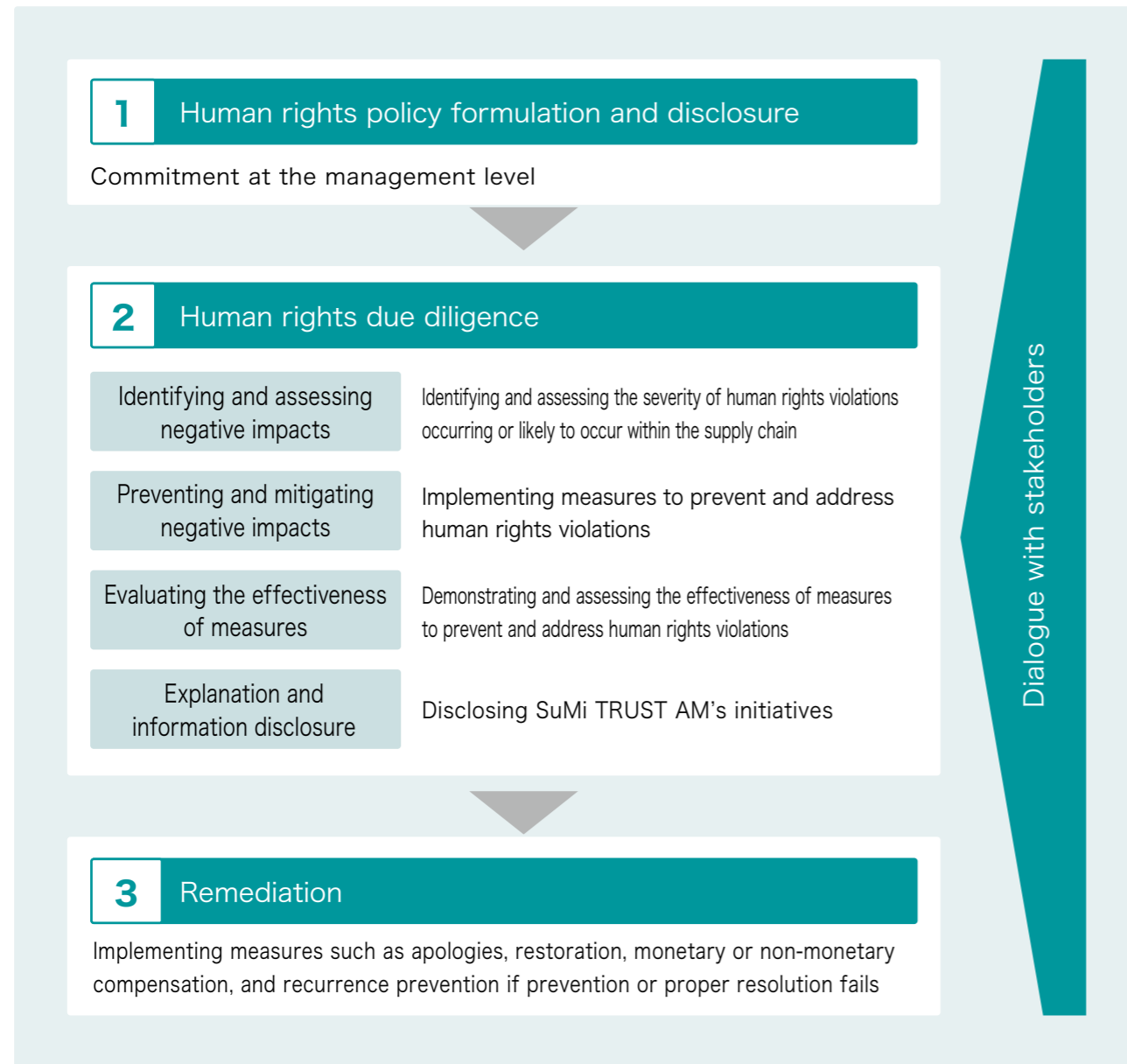
For remediation, in addition to preventing human rights violations, we expect companies to take measures such as issuing apologies, restoring the status quo, providing monetary or non-monetary compensation, and implementing recurrence prevention when human rights violations are not adequately addressed. Specifically, companies should establish and operate grievance mechanisms to address stakeholder concerns about human rights violations, and disclose the operational status of these mechanisms.

Figure 1: International principles on business and human rights

OECD	Guidelines for Multinational Enterprises on Responsible Business Conduct (1976)
ILO	Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (1977)
United Nations	Guiding Principles on Business and Human Rights (2011)

(Source: Compiled by SuMi TRUST AM)

Figure 2: Human rights response process



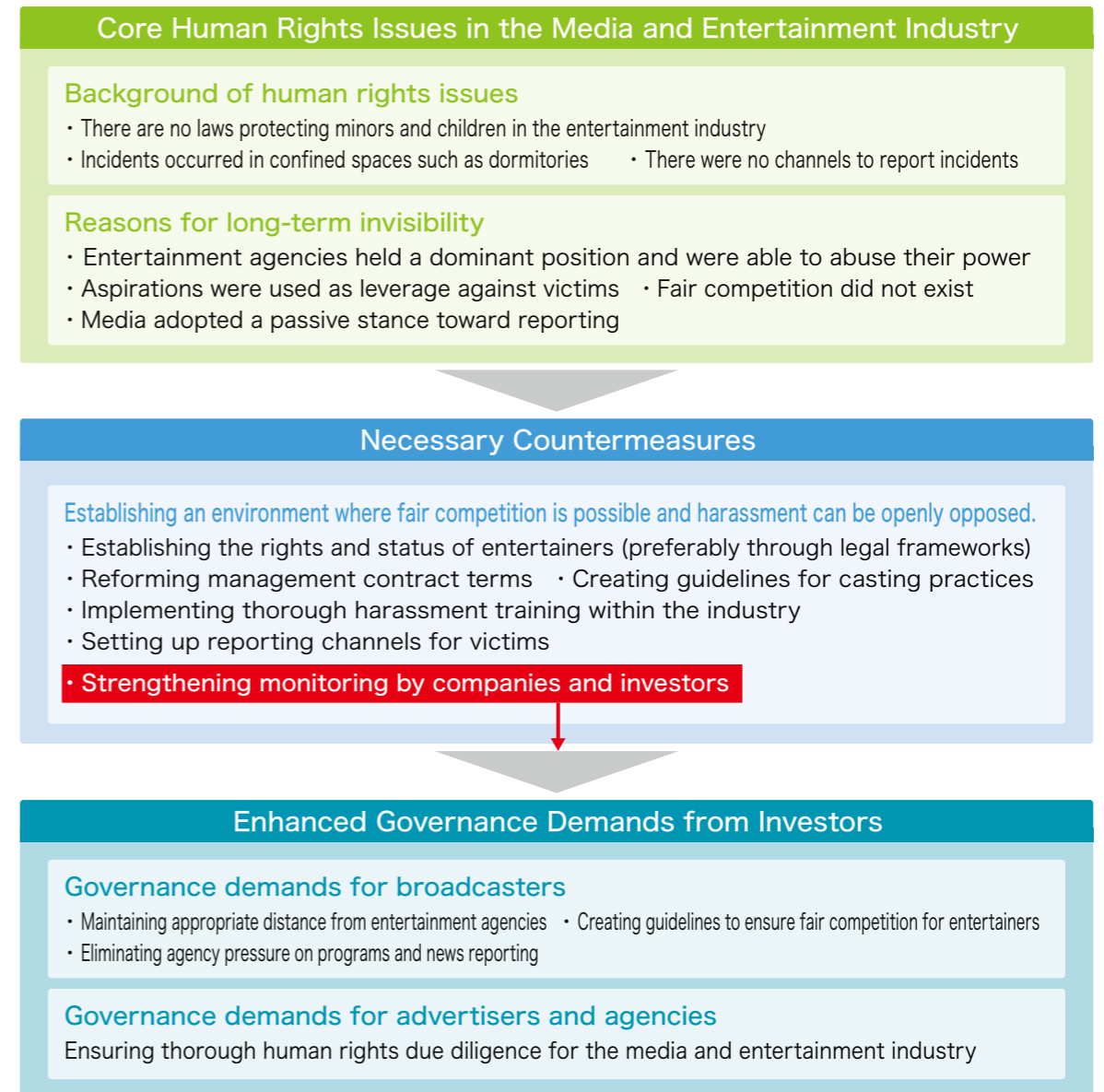
(Source: Compiled by SuMi TRUST AM)

Japan-specific Human Rights Issues and Our Response

From the perspective of respecting human rights, we encourage companies to ensure rigorous management of global supply chains, aiming to eliminate child labor and forced labor among migrant workers, and to protect the rights of surrounding communities. Recently, however, Japan-specific issues have surfaced, with a series of human rights violations in the media and entertainment industries coming to light. In May 2024, the United Nations Human Rights Council Working Group on Business and

Human Rights pointed out that the industry's environment has fostered a "culture of impunity," exacerbating sexual violence and harassment. SuMi TRUST AM is calling on publicly listed media companies in Japan to establish and disclose human rights policies, build human rights due diligence frameworks, set up and operate grievance mechanisms, and implement and disclose measures for recurrence prevention. At the same time, we are urging advertisers, including business corporations and advertising agencies, to ensure thorough human rights due diligence concerning the media and

Figure 3: Core human rights issues, necessary countermeasures, and investor demands in the media and entertainment industry



(Source: Compiled by SuMi TRUST AM)

entertainment industries. With the enactment of the Act on Ensuring Proper Transactions Involving Specified Entrusted Business Operators in November 2024, we hope that such engagement will help foster a business environment that respects human rights within the media and entertainment industries. Moreover, as businesses expand globally, they must address human rights regulations in various countries, while also dealing with issues like Just Transition necessitated by industrial restructuring in response to environmental issues and emerging human rights risks from

technologies like generative AI. Through participation in various global initiatives, we are preparing to swiftly address these evolving human rights risks while encouraging investee companies through engagements to adopt practices that consider both current and future human rights challenges. Our engagement efforts aim to contribute to the promotion of human rights protection and respect across stakeholders and the global community, while enhancing the corporate value of investee companies.

ESG Points to Consider with Quickly Spreading AI and SuMi TRUST AM's Initiatives

— Relationship with Our Material ESG Issues and the Importance of engagement from an AI Governance Perspective

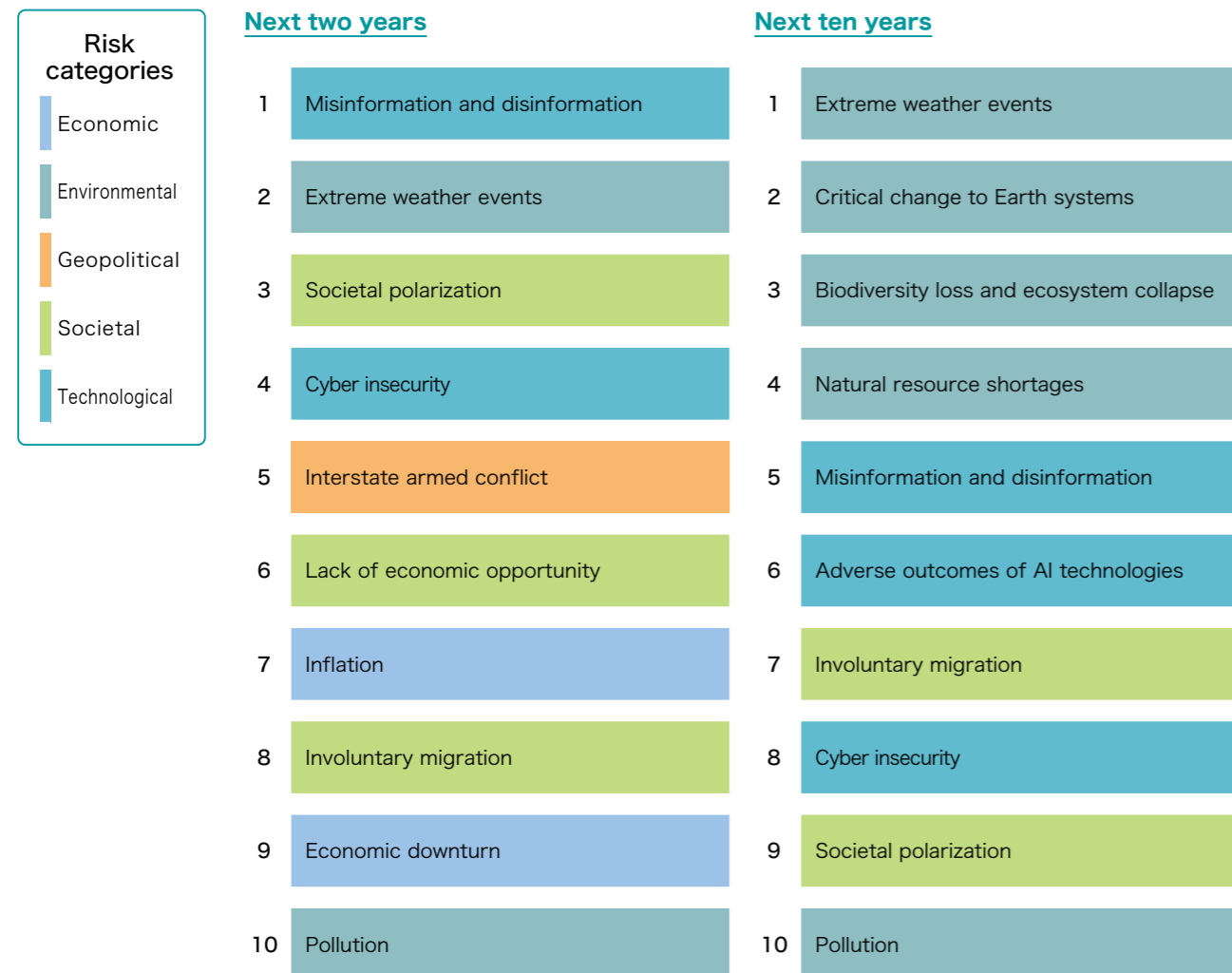
■ Background to the Growing Focus on AI Governance

Recently, AI and generative AI (hereinafter collectively "AI"), whose social adoption is rapidly expanding, are expected to improve convenience across a wide range of fields. However, concerns remain about risks such as the spread of disinformation, misuse in crimes, promotion of discrimination, and human rights violations.

To create a society where AI is utilized correctly, efforts to establish operational rules are underway not only at the corporate level but also at the national level.

In this section, we introduce global trends and developments in Japan concerning AI, along with SuMi TRUST AM's engagement policies and case studies related to AI governance with investee companies.

Figure 1: Global risk rankings by short-term and long-term importance



(Source: World Economic Forum Global Risks Perception Survey 2023-2024)

■ A Message from the World Economic Forum

The World Economic Forum (WEF) released its annual Global Risks Report 2024 in January, 2024. This year's report highlights, alongside perennial top risks like climate change and biodiversity loss, heightened concerns among global executives regarding misinformation, fake news, and information security amidst the rapid societal adoption of AI. As shown in Figure 1, AI-related risks such as misinformation, disinformation, cybersecurity, and negative impacts of AI technologies rank highly among future risks—placing 5th, 6th, and 8th for long-term (ten-year) risks and 1st and 4th for short-term (two-year) risks. (Refer to the Technological category in Figure 1.)

■ Movements Toward Establishing Domestic and International Guidelines

Amidst this, international conferences involving both domestic and international institutional investors are increasingly dedicating sessions to discussions on AI governance, with regulatory authorities actively contributing to proposals, guidelines, and rulemaking efforts. In March 2024, the International Corporate Governance Network (ICGN), an international organization promoting corporate governance, released its Artificial intelligence: An engagement guide for institutional investors. In May 2024, the Organisation for Economic Co-operation and Development (OECD) revised its AI Principles, emphasizing enhanced measures to address misinformation dissemination and intellectual property violations in response to the rapid evolution of generative AI. Against this backdrop of global trends in AI utilization, the Japanese government, serving as the G7 chair in 2023, proposed the Hiroshima AI Process. In April 2024, the Ministry of Internal Affairs and Communications and the Ministry of Economy, Trade, and Industry jointly issued the AI Guidelines for Business. The AI Guidelines for Business provide directives for businesses handling AI technologies, covering key aspects such as ethical standards, ensuring transparency, protecting user privacy, and

properly managing data. The guidelines also include directives on fairness in AI systems and preventing discrimination, offering fundamental principles for businesses to develop and operate AI technologies responsibly within society.

■ Integration into SuMi TRUST AM's ESG Investment Policy

SuMi TRUST AM's ESG investment policy outlines our fundamental principles, material ESG issues, and methods for ESG investment based on our belief that incorporating ESG considerations into investment decision-making maximizes medium- to long-term investment returns for our clients, in line with our commitment as a signatory investor to the UN Principles for Responsible Investment (PRI). Reflecting the domestic and international developments in guideline creation for responsible AI utilization, we incorporated considerations related to AI into our ESG materiality framework in September 2024. Our ESG materiality consists of 12 ESG issues we consider essential for enhancing the value and sustainable growth of investee companies. It serves as the foundation for our engagement and decisions of exercising our voting rights. While AI relates to all three ESG pillars—E (Environment), S (Social), and G (Governance)—we have integrated it into the governance materiality item Stability & Fairness, reflecting our belief that strong governance forms the foundation for achieving better environmental and social outcomes.

Relationship Between AI Governance and SuMi TRUST AM's ESG Materiality

Meanwhile, in considering the adoption of AI governance as an engagement agenda item, we referred to the ICGN's Artificial intelligence: An

engagement guide and organized its relationship with our material ESG issues as follows. Here, AI is recognized as having interconnectivity with all three parts of ESG: Environment, Social, and Governance.

Figure 2: AI governance and SuMi TRUST AM's ESG materiality/activity themes

	ESG materiality items	Item	Key considerations
AI Governance	Stability & Fairness	AI governance policy	• Formulate and disclose an AI governance policy at the Board of Directors level
		AI governance structure and process	• Appoint executives responsible for AI governance and establish advisory bodies • Discuss AI-related matters in Board of Directors meetings • Engage in dialogue with stakeholders • Update rules based on risk assessments
		AI expertise and competence	• Ensure the board has the skills necessary to oversee AI risks and opportunities • Enhance skill development initiatives
		Transparency and accountability	• Verify AI development and usage ethics, and ensure external transparency • Develop short-, medium-, and long-term plans to integrate AI into business models
		Integration into relevant policies	• Reflect "Responsible AI" considerations in existing relevant policies*1 impacted by AI utilization
		AI risk monitoring	• Monitor various AI risks*2 • Conduct due diligence on externally developed AI tools • Address risks arising from AI utilization • Comply with domestic and international laws and regulations
	Human Capital	Talent development	• Develop talent capable of effectively utilizing AI
		Human resource strategy	• Evaluate the impact of AI utilization on employees*3
	Human Rights	AI ethics and human rights	• Prevent discrimination, bias, and privacy violations as part of human rights initiatives • Conduct human rights due diligence and establish grievance mechanisms
		Just transition	• Address employment displacement due to AI utilization
Climate Change Natural Capital	Response to environmental impacts	• Address environmental impacts, including climate change and natural capital, associated with AI utilization	

*1 Information security, data ethics, data privacy, vendor evaluation, and human rights, among others.

*2 Promotion of discrimination and bias, privacy violations, intellectual property infringement, data security issues, and harmful dissemination of inaccurate or outdated data.

*3 Newly created jobs and jobs that may be displaced.

(Source: Compiled by SuMi TRUST AM based on various materials, including ICGN materials)

To achieve responsible AI utilization, it is essential for value chain stakeholders (data providers, AI product developers, AI service providers, and AI users) to collaborate and work continuously towards improving transparency and ensuring accountability. Given the rapid pace of technological development, updating processes and rules is also critical.

To realize these goals, establishing an AI governance policy, developing systems, processes, and rules, and integrating AI-related provisions into various policies are considered urgent priorities. From a risk management perspective, it is important to identify risks not only from a financial standpoint but also from

environmental and social perspectives, assess their impacts, prioritize mitigation efforts, and disclose progress.

Since the impacts of AI utilization span multiple material ESG issues, it is necessary to align discussion on AI utilization with several material ESG issues based on the role of the investee company within the value chain.

Advanced cases include companies that define AI and human rights as a fundamental material issue, set indicators and goals, and disclose progress. Other companies clarify responsibilities by appointing officers in charge of AI governance and disclose opinions from advisory committees that include external experts.

However, we recognize that for most investee companies, AI utilization is advancing ahead of efforts to establish AI governance, which remains limited.

Engagement Policy and Dialogue Examples on AI Governance

Based on the above, we aim to engage with investee companies to mitigate the risks posed by AI to a socially acceptable level while maximizing the benefits derived from its utilization, focusing on:

- Strengthening efforts primarily from a Governance (G) perspective to ensure Stability & Fairness in governance through the establishment of AI governance policies and guidelines for AI utilization
- Encouraging responsible AI utilization and ensuring AI ethics from a Social (S) perspective within ESG, particularly regarding human capital and human rights

We plan to conduct engagement to promote these initiatives.

Although currently at an early stage of dialogue with an eye on regulatory developments, below, we present specific recent engagement examples with domestic and international companies related to AI governance. As a new perspective in considering ESG, AI governance relates to multiple material ESG issues and serves as a crucial agenda item for contributing to the sustainable enhancement of corporate value for investee companies. We aim to address this actively in future engagements.

Case Study 1

Company : Hewlett Packard Enterprise (USA)
Discussion Topic : Enhancing AI Competency at the Board of Directors Level

[Feedback from SuMi TRUST AM]

- We understand that the acquisition of Juniper Networks aims to expand your AI business. AI involves ethical and social impacts; what business risks do you foresee in the AI services provided to customers?
- We believe it is worth considering enhancing the AI competency of your Board of Directors. For instance, establishing an ethics committee within the board to monitor and evaluate the use of AI could be beneficial.

[Their Response]

- We consider AI service expansion essential, and we view this acquisition as a good opportunity for business growth. While business expansion inherently carries risks, we recognize that unforeseen circumstances may arise due to the advanced nature of AI technology.
- Currently, our sustainability committee conducts evaluations based on the product lifecycle of our services and strengthens executive monitoring. Establishing an ethics committee is an intriguing idea. It could help the board of directors delve deeper into key issues. We will take this back for consideration.

Case Study 2

Company : Service Industry Company A (Japan)
Discussion Topic : Strengthening AI Risk Monitoring

[Feedback from SuMi TRUST AM]

- From an AI governance perspective, we believe there are various risk aspects, including eliminating human bias and ensuring ethical usage.
- Your company monitors data security and privacy as top group risks through a risk management committee, but considering AI, broader risks may arise. As a prerequisite for advancing AI utilization, is it not necessary to disclose monitoring efforts according to the priority levels of AI risks?

[Their Response]

- Our company considers data privacy and information security as top group risks and material issues for risk management. Meanwhile, AI is a tool that affects not only governance but also human rights, human capital, and virtually every other theme, making its impact on all material issues unavoidable.
- We acknowledge the necessity of identifying, addressing, and disclosing risks that AI poses to our business and will consider it further.

The Three Pillars of SuMi TRUST AM's Stewardship

As a responsible institutional investor, we pursue our three key pillars of stewardship activities that are built around engagement, the exercise of voting rights, and incorporating ESG factors into investment decision-making. Our aim is to use stewardship activities as a means of helping investee companies improve their corporate value, thereby helping us to maximize medium- to long-term investment return on the assets of our clients. The foundation of the three pillars is SuMi TRUST AM's ESG materiality items, which is considered in all activities. Underlying all of this is our commitment to uphold our fiduciary duties. We believe that appropriate management of conflicts of interest related to stewardship activities helps us better fulfill our fiduciary duties. With this in mind, we are constantly working to manage our conflict of interest management capabilities.



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



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

* See page 106.

Maximizing Investment Return

Supporting the Enhancement of Corporate Value for Investee Companies



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

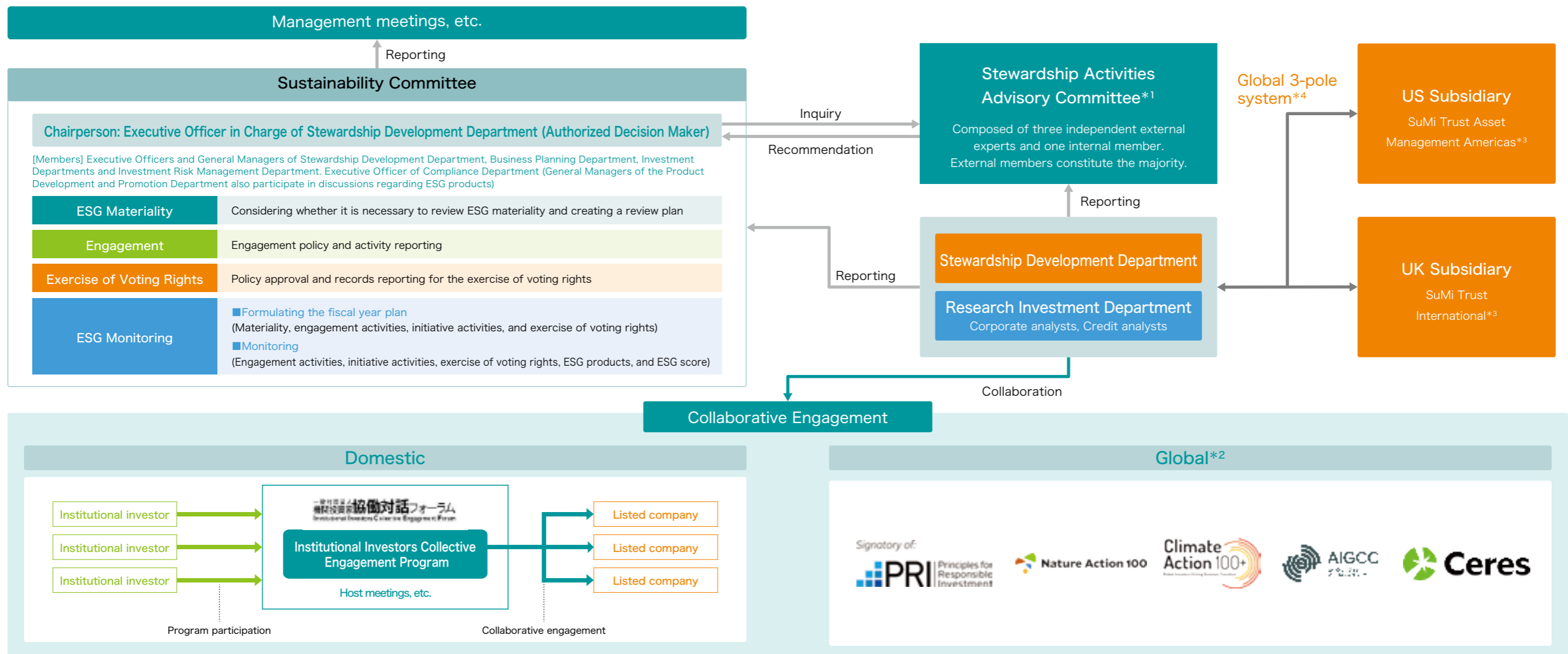
Upholding Our Fiduciary Duties (Conflict of Interest Management)

We promote initiatives aimed at providing client-oriented products and services in line with the Policies regarding the Fiduciary Duties of the Sumitomo Mitsui Trust Group.

SMTAM Stewardship

Stewardship Activities Promotion Framework

Stewardship activities promotion is principally the responsibility of the Stewardship Development Department, which works in conjunction with highly experienced analysts in the Research Investment Department. Within Japan, we execute in-house stewardship, and join the platform provided by the Institutional Investors Collective Engagement Forum (IICEF) to pursue collective engagement. Outside Japan, we dispatch representatives from Tokyo to meet with overseas companies, as well as rely on the in-house engagement efforts of our New York and London offices; additionally, we carry out cooperative engagement through global initiatives and undertake collaborative activities. All stewardship activities are reviewed and reported to the Sustainability Committee and to the Stewardship Activities Advisory Committee (hereinafter the "Advisory Committee"), the majority of whose members are independent, outside experts. At these committee meetings, revisions to the Guideline on the Exercise of Voting Rights are also considered. Sustainability Committee meetings are held every month, and Advisory Committee meetings are held every quarter. Reports on stewardship activities are also made to the Board of Directors, management meeting, and FD Advisory Committee once a year.



*1 For past meeting minutes, please refer to [our website](#).

*2 For a list, see pages 75-78.

*3 A wholly-owned subsidiary of SuMi TRUST AM.

*4 The 25 employees who engaged in stewardship promotion (including those in London and New York) mainly include analysts, portfolio managers, and overseas expatriates. They have an average of 20 years of investment experience.

(Source: SuMi TRUST AM)

2023/2024 Stewardship Activity Focus Topics

● Participated as a speaker at the Diversity Symposium, Keio University & Waseda University

● Took the stage as a representative of the Asia region at the NZAM Bi-Annual Signatories Meeting.

● Exchanged views with GFANZ Co-Chair Mark Carney during his visit to attend the GFANZ Japan Chapter meeting.

● Declared to become an Early Adopter of the TNFD. We support the TNFD disclosure framework and will make our commitment to proactive disclosure as an asset management company.

● Recognized as a signatory institution to the UK Stewardship Code 2020 by the Financial Reporting Council (FRC) of the UK.

● Joined Nature Action 100. Began collaborative engagements with Asian companies on natural capital.



We have been appointed as part of the Advisory Group for NZAM. Representing the Asia region, we presented at the NZAM Bi-Annual Signatories Meeting held online for both the Europe/Americas and Asia/Oceania regions, explaining our Asia-focused engagement strategy with practical examples.

As a core working group member of the Glasgow Financial Alliance for Net Zero (GFANZ) Japan Chapter, we collaborate with alliance members such as banks, asset managers, asset owners, and insurance companies to promote cooperation with investee companies aimed at achieving net-zero greenhouse gas emissions in Japan. During the Japan Chapter meeting, we exchanged views with GFANZ Co-Chair Mark Carney, who visited Japan for the occasion.

● Participated as a panelist at the seminar "Summary of PRI in Person 2023 and Future Initiatives Based on It," hosted by the Principles for Financial Action for the 21st Century.

● Participated in the panel discussion "Current Status of Sustainably Investing: How the Global IFRS Accounting Standards Could Impact Investors" at the S&P Dow Jones ETF Conference.

● Participated as a panelist at the ICAP seminar "Developing a Climate Action Transition Plan for Investors," hosted by AIGCC and Thailand SEC.

2023

2024

Stewardship Activity Topics



● Participated as the only Gold Sponsor from Japan at PRI's annual conference, PRI in Person.



The PRI annual conference, PRI in Person, was held in Japan for the first time. The theme for this year was "Moving from Commitment to Action!" The key message emphasized moving from the commitment phase to taking actionable steps and producing outcomes on climate change issues. SuMi TRUST AM President, Yoshio Hishida, participated in a panel discussion to highlight the importance of addressing climate change and natural capital and the leadership of our stewardship activities.

● Participated in the 1st Study Session on Water Cycles—From the Perspective of Sustainable Finance, hosted by the Basic Act on the Water Cycle Follow-Up Committee, a subcommittee of the Japan Parliamentary League for Water Policy Reform.



This session was held to deepen understanding of global trends surrounding water cycles and to explore solutions to various issues in Japan. SuMi TRUST AM's Senior Managing Director, Hiroyuki Horii, joined as a panelist alongside legislators, ESG evaluation firms, businesses, and academia. He emphasized the importance of engagement activities that align with the perspectives of investee companies, the need for enhanced corporate information disclosure, and the necessity of institutional support.

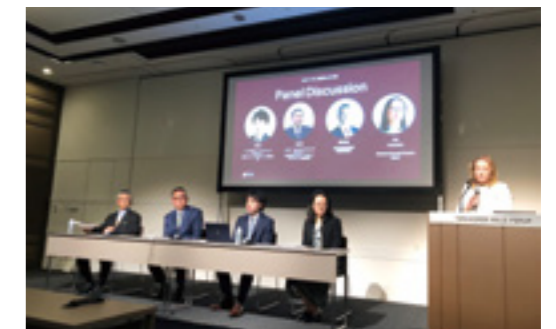
● SuMi TRUST AM's Senior Managing Director, Shigeki Moriki, participated as a panelist in the First NIKKEI IP and Intangible Assets Symposium/Global Institutional Investor Trends at the Japan Weeks Nikkei Sustainable Forum.

● SuMi TRUST AM Chairperson, David Semaya, appeared at the World Climate Summit, which was a major side event of the 28th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP28) held in Dubai.



Known as the Investment COP, the World Climate Summit is held annually as a side event to COP. Semaya, as the sole financial sector representative from Asia, highlighted the unique characteristics of the region and advocated for persistent engagement in decarbonization efforts and broader dialogue, including with governments.

● Participated as a panelist at AIGCC - Driving Investor's Action on Nature in Japan.

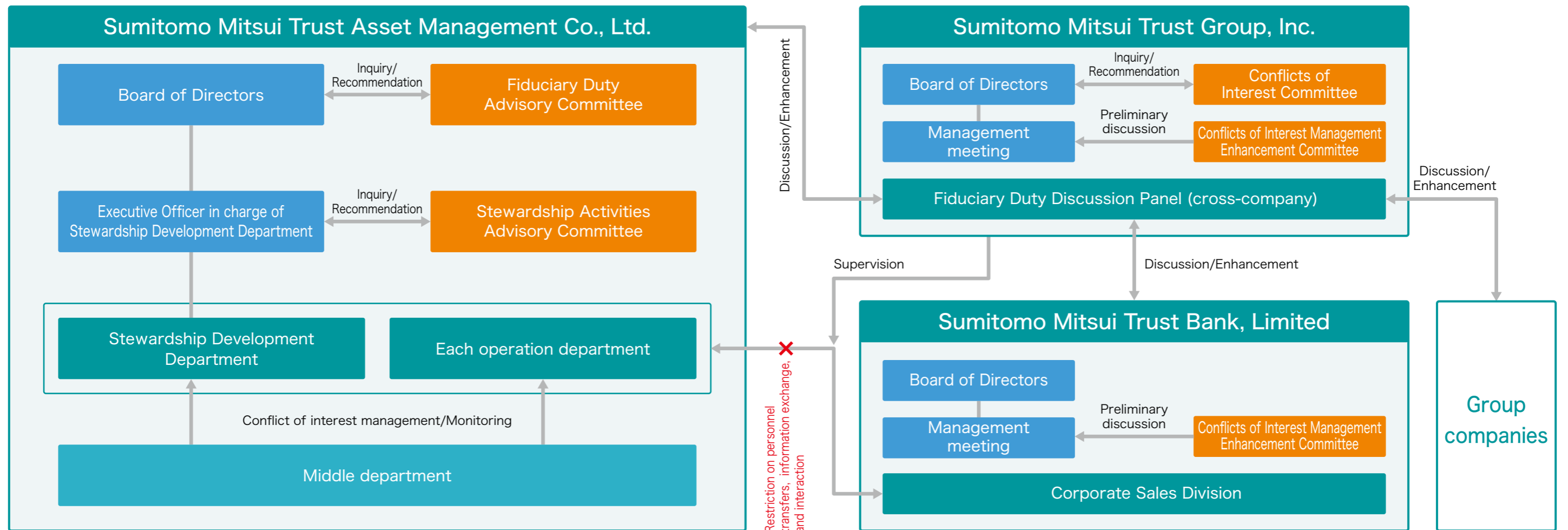


We participated as a panelist at AIGCC - Driving Investor's Action on Nature in Japan. There, we explained how SuMi TRUST AM evaluates the relationship between investee companies' economic activities and natural capital and how these evaluations are integrated into the investment process.

Conflict of Interest Management for Stewardship Activities

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

● Conflict of Interest Management System



(Source: SuMi TRUST AM)

Regarding possible conflicts of interest related to stewardship activities, we will conduct strict management according to company rules including conflict of interest management rules, investment management business rules, and other related rules in order to put the interests of clients (beneficiaries) first. We have also disclosed [an overview of the policies determined in these conflict of interest management rules](#).

At SuMi TRUST AM, the Executive Officer in charge of the Stewardship Development Department has exclusive authority over the exercise of voting rights independent of the executive authority of other departments, which eliminates any possible conflicts of interest regarding the exercise of voting rights. Specifically, conflicts of interest include other departments exercising influence on the investment department based on, for example, the importance of a business partner or the size of transactions. The Advisory Committee consists mainly of external experts with guaranteed independence. This organization deliberates on various inquiries made by the Executive Officer in charge of the Stewardship Development Department, and then makes a report. They establish, amend, or abolish our Guideline on the Exercise of Voting Rights, approve or disapprove proposals not stipulated in the guideline, determine the appropriateness of interpreting the guideline in individual proposals, and verify or improve the process for determining whether to implement a proposal that could cause a conflict of interest. The Executive Officer in charge of the Stewardship Development Department makes decisions on various matters while respecting reports from the Advisory Committee, and if the committee submits a report on improvements to the exercise of voting rights, prompt necessary corrective and improvement measures are taken while respecting the report to the extent possible. Regarding all proposals to our parent company, Sumitomo Mitsui Trust Group, Inc., and to all companies related thereto, and regarding proposals for candidates as officers of investee companies who have a close relationship with SuMi TRUST AM or our parent company (active officers, persons who were in important positions, etc.), in order to manage conflicts of interest, we consider the recommendation of proxy advisors based on the Guideline on the Exercise of Voting Rights, and properly deal with conflicts of interest after confirmation is made by the Advisory Committee before exercising voting rights. At general meetings held from July 2023 to June 2024, determinations were made using the above process for 20 companies.

Engagement that Contributes to Improving the Corporate Value of Investee Companies

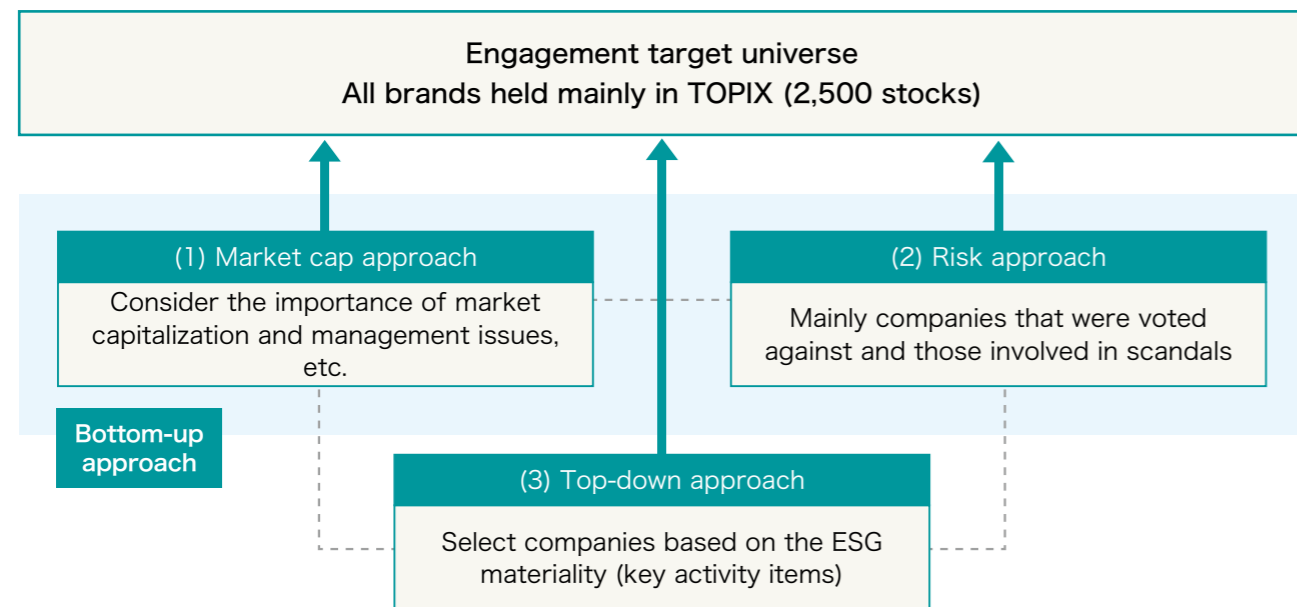
Engagement is one of the three pillars of our stewardship activities. We select dialogue agendas (key activity items) based on our ESG materiality.

Our engagement extends beyond investee companies to a wide range of stakeholders, including public agencies, exchanges, industry associations, NGOs, and academic institutions. While engagement is something we can do on our own, it is also done in collaboration with other investors who share the same beliefs.

Engagement also includes activities that expand the base of investors. This Engagement section will go into detail on our engagement activities.

Individual Company Engagement by SuMi TRUST AM

Three Engagement Approaches



(Source: SuMi TRUST AM)

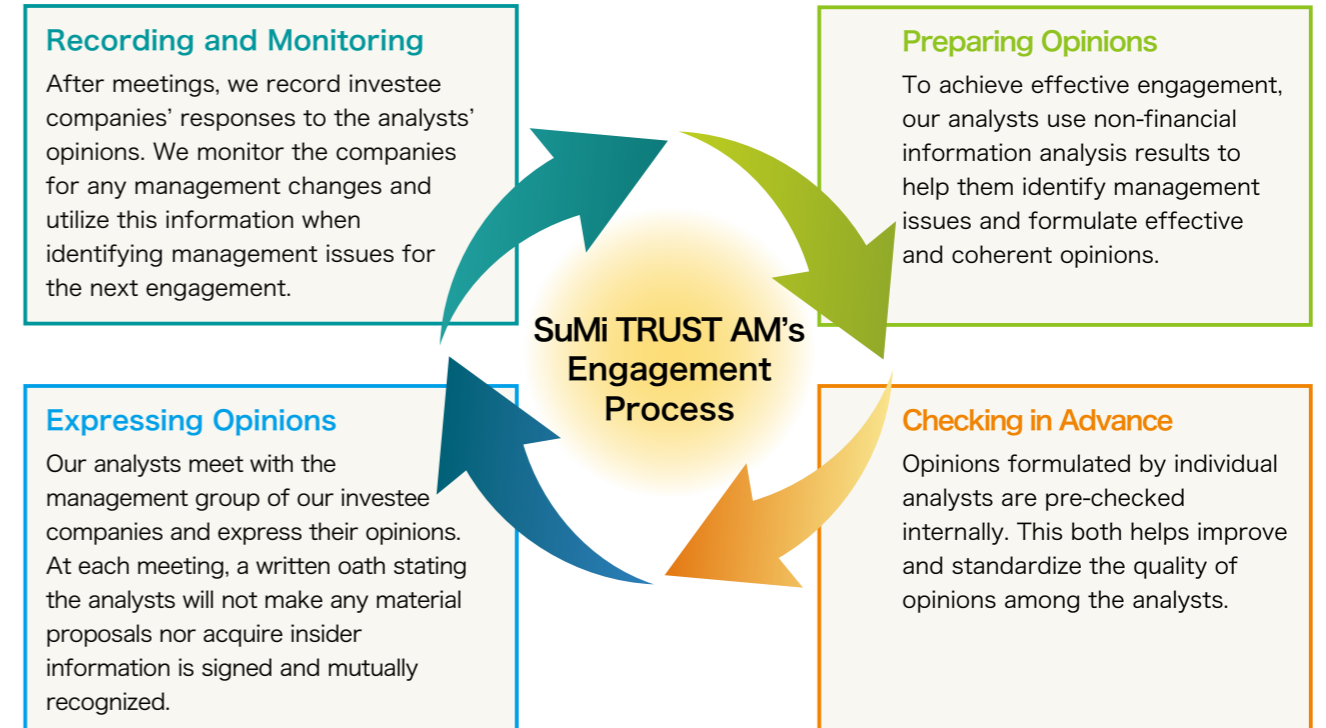
Our engagement targets for Japanese equity are all brands held mainly in TOPIX (Tokyo Stock Price Index). Up to this time, we have engaged with a broad range of companies representing roughly 90% of the market capitalization of TOPIX companies. Our mission is to maximize medium- to long-term return on investment for clients by improving corporate value over a medium- to long-term period for investee companies and acquiring excess return through investment while raising the market as a whole. To accomplish these goals, we identify issues with each investee company, and conduct effective and efficient engagements.

Our engagement approaches include: (1) a market cap approach targeting companies with large market capitalizations, (2) a risk approach primarily targeting companies with scandals or low asset efficiency, and (3) a top-down approach that selects target companies based on ESG issues. In all approaches, agendas are set under our ESG materiality. Particularly in the top-down approach, target companies are selected from our 12 ESG materialities (key activity items), and engagement stages are managed accordingly. There are also cases where we engage with companies by combining multiple approaches.

Engagement Process

At SuMi TRUST AM, we count engagements only when they are conducted by the Stewardship Development Department and Research analysts, following the processes of Preparing Opinions,

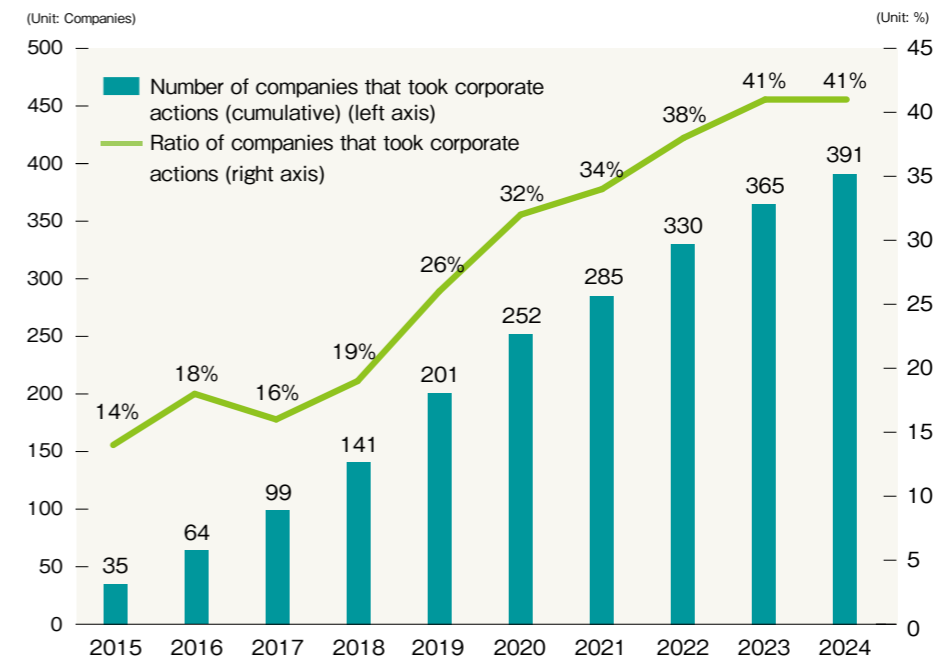
Checking in Advance, Expressing Opinions, and Recording and Monitoring (engagements conducted by the management level are counted separately).



(Source: SuMi TRUST AM)

Engagement Outcomes

Transition of ratio of companies that took corporate actions and the number of companies engaged (cumulative)



(Source: SuMi TRUST AM)

The number of corporate actions taken in line with our stated opinions and the number of companies implementing these actions are recognized as one of our achievements. The running total of companies taking such actions exceeds 390 (without duplication), with the ratio of engaged companies exceeding 40%. Please refer to pages 71-72 for the status of stage management in the top-down approach.

Individual Company Engagement by SuMi TRUST AM

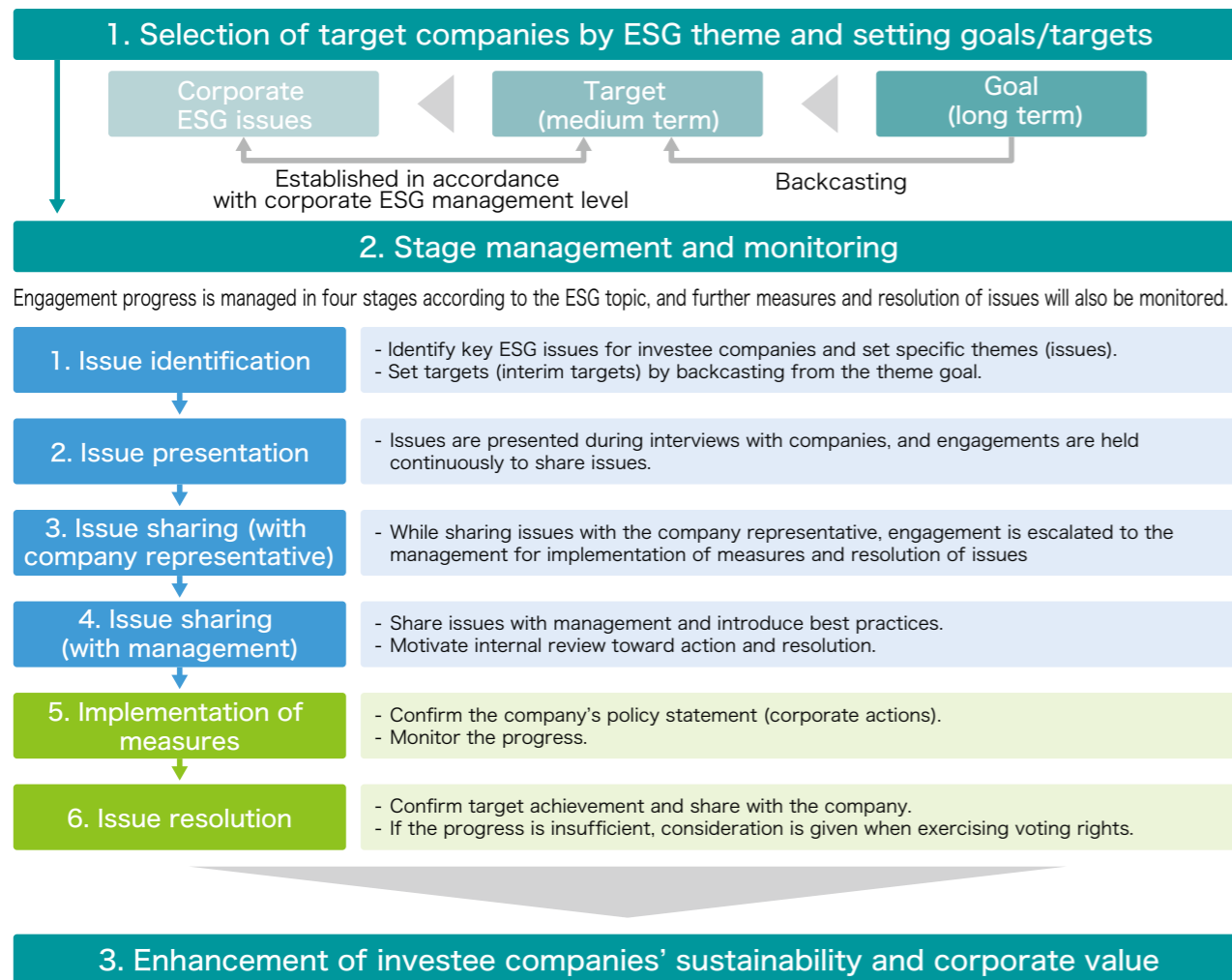
Top-Down Approach Engagement

Using ESG data relevant to our ESG materiality, we screen and identify high-priority investee companies for engagement via a top-down approach. Among these, we select approximately 100 companies with significant ESG challenges that we believe are also important for the companies themselves. Engagement is then conducted using the top-down approach. Based on each company's ESG issues and the level of penetration of ESG management, we set long-term goals and medium-term targets linked to our ESG materiality to advance engagement.

Utilizing our extensive engagement history, understanding of company and industry trends, and insights into global ESG trends gained through domestic and international initiatives, we set effective goals and targets for practical engagement.

We manage engagement progress in four stages for each target set for individual companies and continue monitoring even after target achievement, ensuring implementation of measures and issue resolution.

Figure 1: Flow of the top-down approach

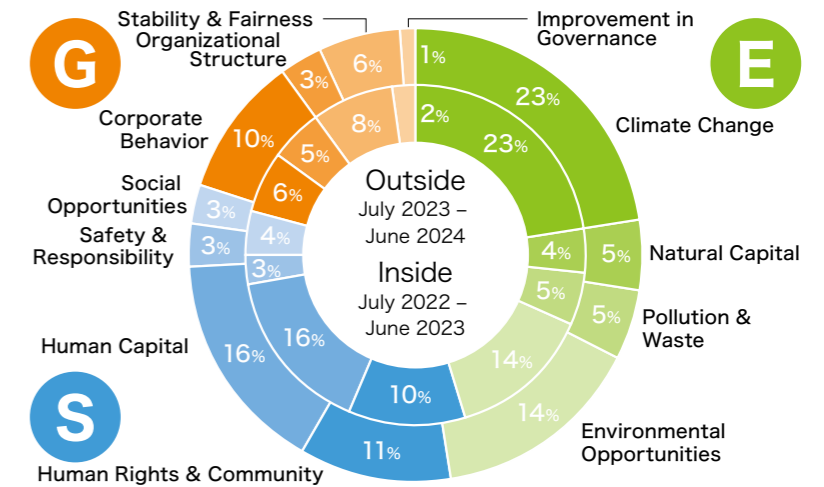


(Source: SuMi TRUST AM)

Activities for FY2023 (July 2023 – June 2024)

Engagement Composition by Materiality*

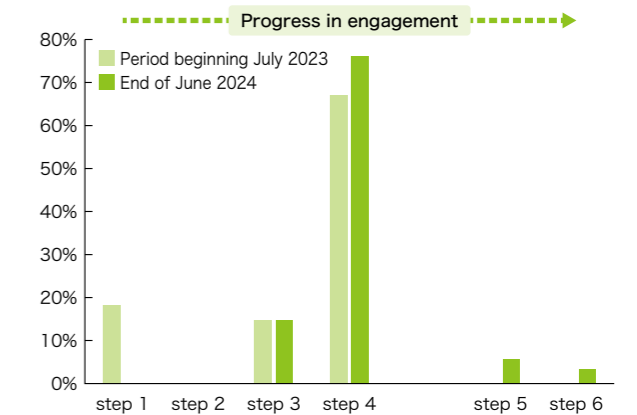
The composition ratio by materiality for FY2023 was as follows: Climate Change 23%, Environmental Opportunities 14%, Human Capital 16%, Human Rights & Community 11%, and Corporate Behavior 10%. In particular, active dialogues on Corporate Behavior were conducted to eliminate the P/B ratio below 1x, covering topics such as capital efficiency improvement, business portfolio restructuring, and capital policy.



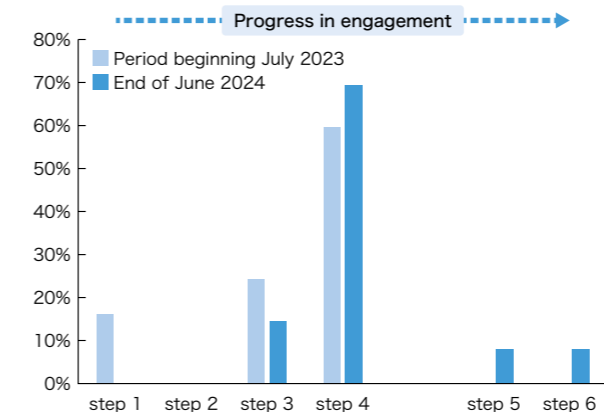
Status of Step Progress (Year-on-Year Comparison)*

As of the end of June 2024, excluding the impact of new themes added in April 2024, the average dialogue stages stand at 4.0 for E and 4.1 for G, reflecting steady progress. However, although Step 4 (issue sharing with management) increased compared to the previous year, the number of cases reaching Steps 5 and 6 related to corporate behavior fell below last year's figures, indicating a recognized challenge. Our analysis suggests that while some corporate behaviors have occurred, the primary factor is that higher-level targets have been set as the goal. For FY2024, we will support companies in their efforts to resolve issues alongside management, with the goal of advancing to Steps 5 and 6.

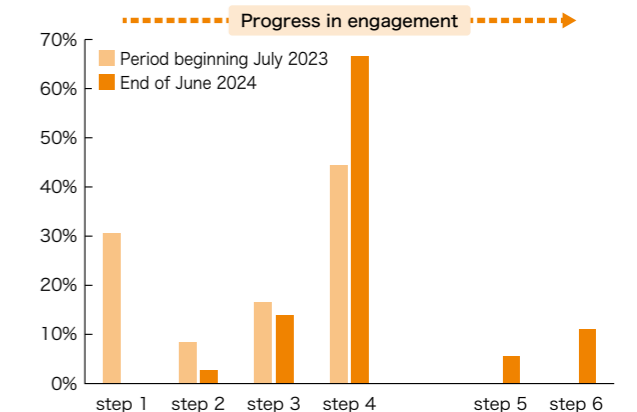
E Average progress
 Period beginning July 2023: 3.1 steps
 End of June 2024: 4.0 steps



S Average progress
 Period beginning July 2023: 3.1 steps
 End of June 2024: 4.1 steps



G Average progress
 Period beginning July 2023: 2.4 steps
 End of June 2024: 4.1 steps



(Source: SuMi TRUST AM)

* Simple comparisons between the composition by materiality at the end of June 2023 and at the end of June 2024, and between steps at the end of June 2023 and the beginning of July 2023, are not feasible.
 - Brands and themes are replaced as part of the annual plan for the period beginning July 2023.
 - Themes that achieved targets by the end of June 2023 (steps 5 and 6) are excluded.

SuMi TRUST AM's Collaborative Engagement

SuMi TRUST AM's Collaborative Engagement

Certain social issues, such as climate change, are global concerns shared across borders. Collaborative engagement is a method of working jointly with like-minded institutional investors to address such issues. Of course, these activities are not limited to global initiatives; they may also involve regional or domestic efforts. SuMi TRUST AM actively promotes collaborative engagement to support individual engagements, recognizing its potential to deliver an effect that exceeds the sum of individual institutional investors' actions and contributes to our activities' sophistication and efficiency. There are various initiatives for such collaborative engagement. The initiatives listed on the right serve as platforms for collaborative engagement. As of June 2024, we are participating in 25 initiatives systematically aligned with and mutually complementary to our ESG materiality. We carefully select initiatives based on these considerations.

Criteria for SuMi TRUST AM's Participation in Initiatives

- Alignment with our ESG materiality
- Potential for synergies with individual engagements
- Opportunity to acquire new knowledge

When SuMi TRUST AM Participates in Initiatives

We actively engage in their administration by assuming key positions. For example:

- Member of the management committee overseeing IPDD activities
- Member of the Board of Governors for the International Corporate Governance Network (ICGN)
- Member of the advisory group for the Net Zero Asset Managers Initiative (NZAMI)
- Director of the ESG Information Disclosure Study Group (EDSG)

Expected Additional Benefits for SuMi TRUST AM

We consider a key benefit of participating in these initiatives to be acquiring insights into global trends related to ESG issues and responses. By circulating this information, we elevate our entire stewardship activity. In recent years, we have also joined initiatives focused on natural capital, utilizing them for engagement with investee companies and information sharing.













Objectives	Initiative names ¹	SuMi TRUST AM's materiality								No. ²
		E		S			G		Other	
		Climate Change	Natural Capital	Human Rights & Community	Human Capital	Safety & Responsibility	Organizational Structure	Improvement in Governance	Market Development/ Reports	
Support pledge	United Nations GC (Global Compact)	●	●	●	●	●		●	●	3
	PRI	●	●	●	●	●	●	●	●	1
Awareness, information sharing, and activity promotion	30% Club (UK)				●		●			7
	Thirty Percent Coalition (North America)				●		●			7
	30% Club (Japan)				●		●			22
	AMR					●				9
	ICGN						●	●		17
	CII (US)			●		●		●		15
	Climate Action 100+	●								2
Collaborative engagement	PRI Spring		●							1
	PRI Advance			●						1
	ATM					●				8
	FSDA		●							12
	AIGCC (Asia)	●								16
	NA100		●							13
	Ceres (US)	●	● (Water)	● (Human rights)						14
	FAIRR	●	● (Environmental pollution)	● (Labor issues)						5
	Institutional Investors Collective Engagement Forum (Japan)	●	●	●	●	●	●	●	●	23
	Policy engagement	The Investor Agenda	●							
PRI Collaborative Sovereign Engagement (Australia)		●								1
IPDD			●							11
Information disclosure and analysis	CDP	●	● (Water and forests)							4
	SPOTT		●							6
	TCFD Consortium (Japan)	●								20
	TNFD Forum		●							10
Other (e.g., Asset management company groups)	ESG Information Disclosure Study Group (Japan)	●	●	●	●	●	●	●		21
	Net Zero Asset Managers initiative	●								19
	JSIF (Japan)								●	24
	JSI (Japan)								●	25

¹ Initiatives without a region such as (Japan), (UK), (US), or (Asia), are global.
² The "No." in the table corresponds to initiative numbers in the list (pages 75-78).













(Source: SuMi TRUST AM)

Collaboration with Various Initiatives (as of March 2024*)

* Unless otherwise stated, data in the table reflects the status as of March 2024.

Title		Date signed	Initiative details	Affiliated working groups (Years indicate participation year in principle)	Main accomplishments from activities in the past year (July 2023 to June 2024 in principle) Numbers in parentheses indicate relevant working groups.			
United Nations / Climate-related	1	 PRI	May 2006	This was established under the United Nations Environment Programme Finance Initiative (UNEP FI). It aims to promote investment and stewardship activities to institutional investors, based on the Principles for Responsible Investment, in order to achieve a sustainable society envisioned by the UN. SuMi TRUST AM has been participating since its launch. Currently, 5,345 asset management companies, asset owners, and data service companies have signed on, with a total managed asset value of 128 trillion USD. Participation is essential for global asset management companies.	a. PRI Advance (2022) b. PRI Collaborative Sovereign Engagement (Australia) (2023) c. PRI Spring (2023)	- We were a collaborative manager to promote engagement with companies in Korea and China, with the results included in the Advance secretariat's assessment report (a). - Participated in collaborative engagement with the Australian federal government on climate change policy and green bond issuance. The Australian government issued a roadmap towards the 1.5°C goal, reflecting the working group's views, and the Treasury announced a response policy on green bonds (b). - Participated as an advisory group member from the initiative's launch. We began collaborative engagement on biodiversity as the lead and collaboration manager for Asian companies (c).		
	2	 Climate Action 100+	December 2017	The objective is to align target companies with the Paris Agreement standards, promote the reduction of greenhouse gas emissions, improve climate change governance, and enhance the disclosure of climate-related information. It is operated by five institutional investor networks: PRI, AIGCC, Ceres, IGCC, and IIGCC. Over 700 institutional investors participate, focusing collaborative engagement on approximately 170 global companies with high greenhouse gas emissions.		- Appointed as Co-Chair of the Asia Advisory Group in the Asia-Pacific region. - As a lead manager, promoting collaborative engagement with major Asian companies facing challenges in Japan, Indonesia, South Korea, Thailand, etc.		
	3	 United Nations GC (Global Compact)	July 2005	All Ten Principles of the four areas defined by the United Nations Global Compact (human rights, labour, environment, and anti-corruption) are recognized internationally as universal values adopted and agreed globally. Signatory members agree with the 10 principles and are required to make continuous efforts to achieve these based on the commitment of top executives from their companies and organizations.		-		
	4	 CDP	April 2014	They aim to address climate change and protect and restore natural capital by promoting corporate disclosure on climate change and natural capital areas like water security and forests. They send questionnaires to companies about disclosures regarding these matters, score responses, and provide participating institutional investors with engagement reference information.		- Participated in CDP Japan's Nature SBTs Project as the only domestic asset management company. We promote the adoption of science-based targets for nature (SBTs for Nature) in Japanese companies through this project.		
Global initiatives	Specific topic-related	5	 FAIRR	October 2018	Their purpose is to raise awareness of risks and opportunities related to ESG in the global food sector. It focuses on sustainability issues related to intensive livestock farming, including environmental pollution, labor issues, antimicrobial resistance, and climate change issues, and participates in collaborative engagement with the aim of minimizing systemic risks over the long term from a broad perspective in the food value chain while encouraging responses to related business opportunities.	a. Sustainable Proteins (2021) b. Working Conditions in Global Meat Supply Chains (2021)	- As a lead manager, continued collaborative engagement with a US food manufacturer on sustainable food supply (protein sources) and a Brazilian meat manufacturer on labor conditions (a., b.). - Participated in food policy discussions for soft commodity-producing nations as part of policy engagement activities, contributing to a roadmap for 2050 created by the FAO (Food and Agriculture Organization of the United Nations) and provided recommendations on food protein production and climate change response.	
		6	 SPOTT	February 2020	It was established by the Zoological Society of London (ZSL). It assigns ESG-specific scores to palm oil, timber, and natural rubber companies to monitor long-term progress in addressing sector-specific challenges. It also gives asset management companies scores to support ESG risk management, stakeholder engagement, and increased transparency across multiple industries.		- We conducted our unique global comparative assessment of 13 domestic and international rubber-related companies using natural rubber data published by SPOTT. We shared our findings via engagement, discussing issues such as preventing deforestation and addressing human rights within supply chains.	
		7	 30% Club UK Investor Group and Thirty Percent Coalition	April 2017	The 30% Club UK Investor Group is a working group consisting of institutional investors in the UK engaged in a global campaign aiming to increase the percentage of women in decision-making bodies at companies including the boards of directors. The purpose of the Thirty Percent Coalition is to increase the diversity of boards of directors and senior management of companies in the US. Both aim to achieve diversity in companies by sharing best practices and participating in joint campaigns with the goal of hiring diverse directors not just in regard to gender but also race and ethnicity.		- Participated in the Thirty Percent Coalition annual meeting to gather information on US corporate diversity initiatives by engaging with the U.S. Securities and Exchange Commission (SEC), Colorado State Treasurer, and US corporate women and minority directors. - Attended the Thirty Percent Coalition study session to gather insights on disability inclusion initiatives in US companies. - Participated in the quarterly 30% Club UK's institutional investors group meeting. Tracked gender diversity initiatives and gathered insights on engagement approaches.	
		8	 Access to Medicine	April 2018	This was established with funding from the Bill & Melinda Gates Foundation and the UK and Dutch governments. Its purpose is to encourage major pharmaceutical companies around the world to provide medicines and medical services to developing countries, and to improve their medical infrastructures so that public health can be improved in these countries.		- Conducted individual dialogues with executives from four companies included in the ATM Index to encourage improvements in ATM scores through discussions on activities related to access to medicine. - For a Japanese pharmaceutical company where we served as lead manager, communicated the ATM Office's observations to encourage improvement and relayed dialogue content and the company's feedback to the ATM Office through our European engagement representatives, fostering mutual understanding between the ATM Office and the target company.	
		9	 Investor Action on AMR	November 2020	This was established by Access to Medicine, FAIRR, and the UK's Department of Health and Social Care at the World Economic Forum Annual Meeting (Davos) held in January 2020. It encourages asset management companies to address the global antimicrobial resistance (AMR) issue to protect social, economic, and long-term portfolio value and raise societal awareness of this threat.		- Engaged with companies in infectious disease treatment to encourage AMR awareness initiatives post-COVID and activities supporting sustainable research and development through pull incentives (systems that separate sales volumes from revenues to support the launch of new antibiotics after approval). - Signed the public statement from Investor Action on AMR ahead of the UN High-Level Meeting on AMR.	
		10	 TNFD Forum	June 2021	This initiative, modeled after the TCFD framework for climate change-related information disclosure, promotes corporate disclosure regarding natural capital. Over 1,500 stakeholders, including financial institutions and government officials, are participating. In September 2023, TNFD released its final recommended disclosure framework, version 1.0.		- Participated in discussions as a forum member in preparation for the release of TNFD's final disclosure framework recommendations. - Announced a declaration to become an Early Adopter for early disclosure application in January 2024.	
		11	 IPDD	July 2020	Its purpose is to promote policy engagement on forest conservation with the governments of each country. Since forest resources play an important role in climate change as carbon sinks, it promotes collaborative engagement with the governments of Brazil and Indonesia, which have large areas of tropical rainforest, to encourage stricter policies on land usage.	a. Brazil Engagement Group (2020) b. Indonesia Engagement Group (2021) c. Consumer Countries Group (2022)	- Sent letters and engaged in discussions with Brazilian policymakers, including members of parliament and the Ministry of Finance, advocating for effective forest conservation policies (a.). - Conducted dialogues with local stakeholders, such as stock exchanges, to establish sustainable forest conservation investments and loans in Indonesia despite slower discussions with policymakers during the presidential election period (b.). - Held discussions with policymakers in the US, a consumer country, regarding potential regulatory measures on forest conservation similar to the EU's EUDR framework (c.).	
		12	-	FSDA	November 2021	At COP26 held in 2021, we agreed and signed the Financial Sector Commitment Letter on Eliminating Commodity Driven Deforestation. Later, this was established mainly by signatory institutions with the purpose of stopping the destruction of forests in the soft commodities supply chain. Collaborative engagement has been promoted throughout the world with more than 70 companies that are deeply involved in deforestation.		- Acted as a lead manager in a collaborative engagement with financial institutions funding grain producers and related companies in Asia, including Japan, to develop actionable forest conservation plans to mitigate deforestation risks by 2025, and to encourage disclosure and steady implementation of these plans.
		13	 Nature Action 100	NA100	September 2023	Recognizing that more than half of the global GDP depends on natural capital and that depletion of natural capital will negatively impact the global economy, this initiative aims to halt and reverse the loss of nature and biodiversity (nature-positive) by 2030. It drives collaborative engagement with the world's top 100 companies with significant dependence on and impact on natural capital, encouraging enhanced disclosure, governance, and behavioral change. More than 220 institutional investors have signed on, collectively managing assets totaling 28.8 trillion USD.		- Initiated collaborative engagement with Asian companies, including Japanese corporations, advocating for adopting TNFD's natural capital disclosure framework and enhanced governance.

(Source: SuMi TRUST AM)

		Title	Date signed	Initiative details	Affiliated working groups (Years indicate participation year in principle)	Main accomplishments from activities in the past year (July 2023 to June 2024 in principle) Numbers in parentheses indicate relevant working groups.
Global initiatives	Investor group-related	 Ceres	April 2017	Ceres aims to address sustainability challenges related to climate change, water resources, and associated human rights issues through a broad global collaboration network among institutional investors, corporations, and non-profits. It promotes collaborative engagement, science-based issue analysis, solution proposals, and policy advocacy to support sustainable economic growth and capital market development.	a. Investor Water Hub (2019) b. Biodiversity Working Group (2020) c. Food Emission 50 (2021) d. Paris Aligned Investment (2021) e. Investor Network Policy Working Group (2024) f. Banks Working Group (2024)	- Conducted collaborative engagements as a lead manager with US fast-food companies and as a collaboration manager with a Japanese electrical equipment manufacturer on water resource risk dialogue programs under the Valuing Water Finance Initiative (a). - Participated in a panel discussion for the Paris Aligned Investment meeting, introducing an engagement approach integrating water resource and climate issues (d). - Attended a roundtable with the US Department of the Treasury and Department of Energy in Washington, DC, to exchange views on using climate transition policies (e). - Engaged in multi-stakeholder discussions with major US banks on climate information disclosure, focusing on applying IFRS's new standards to enhance the bank's disclosures (f).
		 CII	June 2018	CII focuses on effective corporate governance, substantial shareholder rights, and prudent financial regulation to foster fair and vibrant capital markets. It primarily engages US asset owners and asset management companies to support investor education on corporate governance, policy advocacy, and stakeholder engagement.		- Participated in discussions with activist institutional investors and the management of a US railroad company involved in proxy battles during the 2024 shareholders' meeting. - Attended the CII Fall and Spring Conferences to gather information on the SEC regulations, workers' rights, and AI governance.
		 AIGCC	December 2017	It aims to encourage Asian companies to reduce greenhouse gas emissions, improve climate change governance, and enhance climate-related disclosures. As the coordinator for Climate Action 100+ in Asia, AIGCC leads the Asian Utilities Engagement Program (AUEP), a collaborative engagement program targeting major utility companies across Asia, including Japan.	a. Energy Transition Working Group (2023) b. Forest and Land Use Working Group (2023)	- Acted as a lead manager with a major Japanese electric utility and a collaboration manager with a large Asian utility, promoting collaborative engagement on exiting coal-fired thermal power generation and increasing renewable energy investments. - Featured our natural capital strategy as a case study in an online learning module for AIGCC members, providing asset owners and managers with insights into our approach. - Participated as a panelist at the AIGCC Japan Nature Positive Strategy Roundtable held in Japan, where we discussed and actively engaged in our natural capital initiatives.
		 ICGN	September 2017	ICGN strives to establish global standards in corporate governance. It promotes policy advocacy and collaborative engagement with policymakers and relevant organizations worldwide.	a. Natural Capital Committee (2021) b. Policy Oversight Committee (2021)	- We serve on the Board of Governors. - Advocated for Japanese corporate governance reforms, including early disclosure of annual reports before general meetings, and engaged with the U.S. Securities and Exchange Commission (SEC) to promote alignment of US climate-related disclosures with global standards. - Issued an updated policy guidance (Viewpoint) on natural capital from the Natural Capital Committee (a). - Released governance recommendations on AI from the Policy Oversight Committee (b).
		 The Investor Agenda	June 2019	It aims to issue investor statements calling for more robust climate change policies at climate-related and international meetings, including G7 and G20. Additionally, in 2022, it announced ICAP (Investor Climate Action Plans), a new framework for asset management companies to self-assess their climate change stewardship activities and encourage disclosures based on this framework.	Global Investor Statement to Governments on the Climate Crisis (2024)	- Signed the 2024 Global Investor Statement to Governments on the Climate Crisis, emphasizing the need for a "Whole of Government Approach" to achieve the 1.5°C target for climate change. - Conducted a self-assessment of climate change-related stewardship activities in line with ICAP, with findings disclosed in the Stewardship Report 2023/2024.
		 NZAMI	July 2021	An international group of asset management companies committed to reducing greenhouse gas emissions from managed assets to net zero by 2050, aligned with the global initiative to limit average temperature rise to 1.5°C above pre-industrial levels.		- Appointed as a member of the Advisory Group. - Participated as a representative for Asia in the NZAM Bi-Annual Signatories Meeting held in Europe and the US and Asia/Oceania regions, where we presented engagement cases focused on Asia as part of an awareness-raising effort.
Domestic	Climate-related	 TCFD Consortium	May 2019	It aims to create a forum for companies and financial institutions that endorse TCFD recommendations to discuss adequate information disclosures and use such information to guide appropriate investment and financing decisions. The TCFD Consortium promotes active discussions on effective disclosure practices and contributes to international discussions and dissemination of information to ensure these efforts are recognized globally.		- Participated in the TCFD roundtable with institutional investors and securities issuers, providing advice and exchanging views on disclosures desired by institutional investors. - Contributed as a lecturer in TCFD Consortium's first-ever video training, Introductory Mock Roundtable, explaining critical points of TCFD disclosure desired by institutional investors.
	Specific topic-related	 ESG Information Disclosure Study Group	June 2020	It aims to create a framework harmonizing sustainable social development with corporate growth and value enhancement. Listed companies, institutional investors, and public institutions collaborate to explore effective and efficient ESG information disclosure frameworks, accumulate practical examples (evidence), and promote mutual understanding among stakeholders to enable better decision-making. The group also focuses on the global dissemination of results and making statements to standardization organizations on information disclosure. Additionally, it aims to provide information that can serve as a reference for companies looking to enhance their ESG information disclosure. As of the end of June 2024, it comprises 115 listed companies, institutional investors, and 13 other organizations, and it shares information through the subcommittee on improving integrated reports, the subcommittee on human resource development, and expert study sessions.		- Participated as a corporate member, with our Senior Managing Director Hiroyuki Horii serving as a director. - Five young employees participated in the Subcommittee on Sustainability Human Resource Development (a total of 10 sessions), enhancing their knowledge and skills in stewardship through lectures and Q&A sessions with listed companies, major asset owners, and audit firms. - Comments were submitted through the study group on the public draft of the SSBJ framework issued by the Sustainability Standards Board of Japan (SSBJ).
		 30% Club Japan Investor Group	May 2019	This is the Japan branch of the 30% Club, which was established in the UK. It has a global campaign designed to increase the percentage of women in decision-making bodies at companies including boards of directors. A common goal is to increase the percentage of women on the boards of directors at TPX100 companies to 30% by 2030, and their activities are designed to share the importance of gender diversity with top management through constructive engagement with boards of directors and senior management at investee companies to contribute to their achievements. Within the institutional investor community, the group works to build and share best practices for achieving gender diversity at the corporate leadership level, enhancing the overall dialogue capacity of institutional investors.		- Our President, Yoshio Hishida, stepped down as a chair of the Investor Group in March 2024 but continues to serve on the board and lead operations. - Issued a progress report in June 2023 and May 2024 featuring best practice examples of engagement and published "Good Examples of D&I Disclosure from an Investor's Perspective" in October 2023. - Held the second event in December 2023 for senior women leaders from TOPIX companies that are members of the initiative, continuing awareness-raising activities.
	Investor group-related	 Institutional Investors Collective Engagement Forum	October 2017	Their purpose is to support proper stewardship activities by institutional investors for contributing to a positive economic cycle. They support constructive and purposeful dialogues (collective engagement) by institutional investors through working with companies. In particular, the Forum operates the Institutional Investors Collective Engagement Program as a way to practice collective engagement for allowing participation by each institutional investor. As of the end of June 2024, participants include six asset management companies and one asset owner organization. Additionally, they currently have six agendas: (1) Identification of materiality and disclosure of non-financial information (Addressing ESG issues for business sustainability), (2) Scandal handling, (3) Responding to proposals with many "against" votes at general shareholders meetings, (4) Explanation of the necessity of takeover defense measures, (5) Reduction of cross-shareholdings, and (6) Request for dialogue with investors toward the implementation of management that is conscious of cost of capital and stock price.		- Served as a joint lead manager for the agenda of Request for dialogue with investors toward the implementation of management that is conscious of cost of capital and stock price, promoting the dialogue and contributing to company selection (criteria setting) as one of the joint leads.
		 Japan Sustainable Investment Forum (JSIF)	March 2005	Their purpose is to promote and develop sustainable investment (such as socially responsible investment (SRI) and ESG investment), which has been actively practiced in Europe and the US, in Japan. They provide a forum for interactive exchange and study for people and institutions involved in SRI/ESG investments, as well as those interested in them. Their goal is to encourage companies to publish information to help establish a sustainable society through the healthy development of sustainable investment.		- SuMi TRUST AM Senior Managing Director Hiroyuki Horii is a director. - Participated in the NextGen Talent Development Project, held five times in 2024, where young professionals from JSIF member companies discussed sustainability initiatives and presented policy recommendations to industry veterans.
 Japan Stewardship Initiative		November 2019	It aims to enhance communication and mutual understanding between asset owners and asset management companies. It focuses on operating and revising reporting formats (Smart Formats), collecting and sharing information on best practices, and facilitating broad and open dialogue among members. It also serves as a platform for sharing achievements gained through these activities with the entire stewardship community.		-	



US, New York Office Activity Report

Sumitomo Mitsui Trust Asset Management Americas, Inc.

Masaru Okubo

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

Involved in foreign equity management since 1998, with 16 years of experience stationed in New York, Silicon Valley, and Edinburgh, UK.

He has gained important insights through discussions with numerous overseas companies.

Sumitomo Mitsui Trust Asset Management Americas (SMTAMA) is a wholly-owned subsidiary of SuMi TRUST AM located in New York City. As a responsible institutional investor in the Americas, SMTAMA conducts stewardship activities to enhance corporate value and address environmental and social issues. It also offers investment products to US clients such as pension funds and high-net-worth individuals, and conducts due diligence on US investment products and asset management companies for Japanese clients.

■ Engagement Activities at SMTAMA

Stewardship activities at SMTAMA focus on engagement with investee companies in the Americas. Key themes include climate change, natural capital, human capital (including diversity and labor conditions), and, more recently, AI governance. SMTAMA participates in collaborative engagements led by initiatives such as NA100*¹ and conducted 88 engagements (solo and collaborative) between July 2023 and June 2024. For issues beyond the scope of private companies alone, SMTAMA collaborates with entities like the Ceres Policy Working Group*¹ and IPDD*¹ to engage with government bodies in the US and Brazil, broadening and deepening the impact of its stewardship activities.

■ Engagement Examples

(1) Water resource conservation (Intel Corporation, Texas Instruments Incorporated)

Engagement in natural capital focuses on water resource conservation. Semiconductor production uses large amounts of water for ultra-pure water cleaning at each stage of micro-circuit formation, and semiconductor manufacturers have production sites in the US and Taiwan, where water resources are at high

risk of depletion. SMTAMA believes that comprehensive measures to address water resource risks are essential for conserving natural capital and the sustainable growth of semiconductor manufacturers. Therefore, we actively engage in dialogue with semiconductor manufacturers regarding water resource conservation. In our engagement with Intel (see pages 51 and 88), we have encouraged initiatives that consider local characteristics such as the natural environment and residents. By 2023, Intel had achieved net positive water in the US, India,



Malaysia, Costa Rica, and the Company overall. Building on this best practice, we also engage with other US semiconductor companies and companies within the semiconductor supply chain regarding water resource conservation. In December 2023, we visited and inspected Texas Instruments' semiconductor manufacturing plant to confirm the status of their water conservation efforts (photo). The company is working on short-term water use reduction and recycling. However, taking into account the entire watershed, we are stressing the importance of setting region-specific medium-term targets and encouraging stakeholder collaboration to restore water resources. Through the collaborative engagement program (Valuing Water Finance Initiative) operated by the US environmental NGO Ceres*¹, we are also participating in conversations with Japanese semiconductor manufacturers and aim to enhance the effectiveness of engagement using Intel and other cases as references.

(2) Climate change issue (Marathon Petroleum Corporation)

We have identified climate change as a critical ESG issue and have selected the top 100 domestic and foreign investee companies with high greenhouse gas emissions as priority engagement targets. For these target companies, we are conducting engagements to request medium- to long-term target setting and transition plan formulation for greenhouse gas reduction. Here, we introduce an example where engagement was implemented through the exercise of voting rights to enhance its effectiveness.

As a major oil refining and marketing company*², Marathon Petroleum aims to balance stable energy supply with decarbonization. However, it has not set long-term targets for greenhouse gas reduction, and in engagements since 2022, we have conveyed the importance of target setting. While we acknowledge the company's transition plan, which targets financial benefits through biofuel production and refinery efficiency improvements alongside greenhouse gas reduction, progress in emissions reduction is advancing faster than their medium-term (2030) goals. On the other hand, although the company's

involvement in biofuels and hydrogen, which play a crucial role in economic transition, would increase effectiveness through long-term target setting, Marathon Petroleum remains reluctant, citing the lack of clarity in disclosure rules regarding technology and climate change. As of January 2024, as a means of escalating engagement, our policy includes opposing director nominations at high-emission companies that fail to meet minimum climate change response standards, such as setting long-term goals. We communicated this policy to Marathon Petroleum in our engagement in April 2024, before their shareholders' meeting.

■ Plans for the Future

In the US, discussions about ESG topics such as climate change response and diversity promotion are polarized along political lines. However, many companies see transitioning to a low-carbon economy as a business opportunity and are executing strategies to address these issues. Regarding diversity, our institutional investor initiative, the Thirty Percent Coalition*¹, in which we participate, is refining discussions that link corporate financial performance to diversity. Despite political complexities, there remain opportunities to promote constructive engagement with companies. Additionally, we have initiated engagement in forest and water conservation in South America in collaboration with NA100 mentioned above. In areas such as climate change, diversity and human capital, and natural capital, we will continue engaging as responsible institutional investors to enhance the sustainable value of American and South American investee companies, aiming to increase our clients' investment returns.

*1 See pages 75-78.

*2 In addition, it operates gas stations and manages associated convenience stores.



UK, London Office Activity Report Sumitomo Mitsui Trust International Limited (SMTI)

Satoshi Takei

Sumitomo Mitsui Trust International (UK subsidiary)
Senior Stewardship Officer

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

The Frontier of ESG Change and a Hub for Global Investment Opportunities

Sumitomo Mitsui Trust International Limited (SMTI), our wholly-owned subsidiary, is in the City district of London, UK. In ESG-related work, SMTI conducts stewardship activities for European companies and addresses ESG (Environmental, Social, and Governance) related regulations. Additionally, it functions as an essential hub for meeting asset management needs by providing investment products to pension funds, sovereign wealth funds (SWF), and other asset owners in Europe and the Middle East, and by conducting manager research to offer unique overseas investment products to domestic investors.

Engagement Activities at SMTI

At SMTI, we engage with investee companies in Europe to promote a sustainable society, enhance corporate value, and expand entrusted assets. Additionally, we actively participate in collaborative engagements with various initiatives to stay abreast of the latest ESG issues across various industries. The number of engagements with investee companies exceeds 100 annually, providing opportunities to foster sustainable value creation through support and suggestions for better addressing ESG issues. We are also broadening our activities within each ESG theme. For example, in the environmental domain, we actively promote corporate activities that consider not only "climate change" but also "natural capital," and we also nurture collaborations with related initiatives. In 2023, for instance, we joined Spring, an engagement initiative on natural capital established by the

Principles for Responsible Investment (PRI). As part of an institutional investor group targeting European companies, we aim to contribute to the sustainable enhancement of corporate value among investee companies by fostering substantive change through individual company engagement.

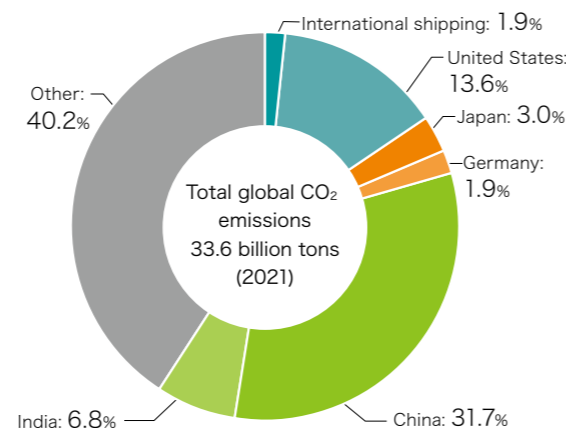
Our activities also encompass monitoring rapidly evolving ESG-related regulations in Europe, supporting SuMi TRUST AM's global compliance efforts.

Examples of Corporate Engagement and Utilization of Initiatives

(1) Climate change issue (A.P. Moller-Maersk)

Addressing climate change requires unified efforts from society as a whole. In the shipping industry, greenhouse gas emissions from freight transport pose a significant issue, necessitating the development and promotion of sustainable fuels (sustainable maritime fuels). Expanding

Figure 1: CO₂ emissions from international shipping comparable to Germany's



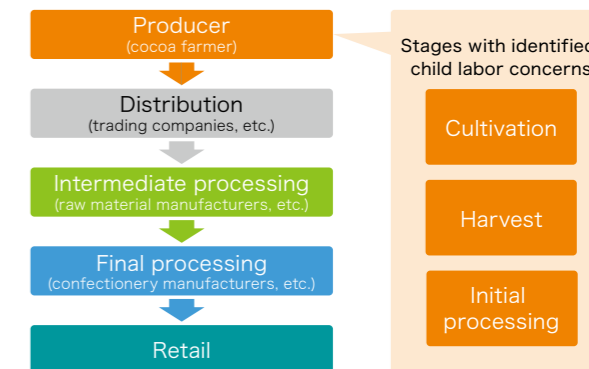
(Source: IEA (2023), GHG Emissions from Energy)

biofuel production by energy companies is essential, but there are also other challenges. Currently, biofuel prices are high, and customer understanding and cooperation are also required to adopt these biofuels for transport services. In this context, we have continued our dialogue with A.P. Moller-Maersk, a leading Danish shipping company, to promote disclosures that enhance the effectiveness of its greenhouse gas reduction plan. The company has announced a goal to reach net zero by 2040, and its efforts to achieve this target have gained attention. SMTI has engaged in extensive discussions with the company regarding technological innovation, operational efficiency improvement, and sustainable fuel expansion. As a result, the company significantly improved the effectiveness of its disclosures by providing future contract details with suppliers of sustainable fuels that are essential to the net-zero target and projections regarding customer acceptance. Recently, the company has also strengthened its engagement in policy areas, advocating for systems that promote sustainable fuel use and encouraging cooperation across customers and the supply chain. As this shows, addressing climate change requires collaboration both within a single company and across industries and society at large. SMTI will continue actively promoting engagement activities not only within its investee companies but across its entire supply chain, utilizing initiatives to achieve a sustainable future.

(2) Human rights issues (Barry Callebaut)

We actively address human rights issues as part of our focus on social themes and engage in collaborative activities with initiatives to increase our expertise. For example, we have been members of SPOTT, a UK initiative that addresses ESG issues related to companies involved in palm oil and natural rubber, since 2020, and we are gathering information. We leverage SPOTT's approach to deepen our knowledge of support for small farmers and supply chain management. SMTI has applied this knowledge, for example, in our dialogue with Barry Callebaut. They are a Swiss-based global manufacturer of chocolate and cocoa goods; however, SMTI has engaged with the company on the necessity of setting practical goals for eliminating child labor in the supply chain and

Figure 2: Cocoa supply chain



(Source: Compiled by SuMi TRUST AM from various materials)

supporting farmers' self-sufficiency. As a result, in 2023, the company established child protection committees throughout the producer community, set quantifiable targets, and disclosed programs to enable cocoa farmers to escape poverty by 2030. Thus, activities within the initiative are not only conducted collaboratively but are also leveraged to facilitate dialogue with other companies facing similar issues, positioning them as opportunities for our group's knowledge accumulation and advancement.

Plans for the Future

As an ESG-leading region, Europe is simultaneously advancing corporate initiatives, enhancing disclosure quality, and expanding the ESG investment market. Recently, companies have progressed from merely setting targets to demonstrating execution capabilities that bring about substantive changes. Increasingly, it is essential to influence the entire value chain with unified public and private sector efforts rather than relying solely on individual corporate efforts.

SMTI plans to strengthen engagement with related companies and the entire supply chain by collaborating with Spring, a new natural capital initiative mentioned earlier. In addition, by incorporating European best practices and promoting the sharing of information on themes such as climate change, water resource management, and human rights violation prevention, we aim to strengthen our global engagement capabilities, ultimately contributing to the realization of a sustainable society.

Engagement Case Studies

Case 1 | Domestic | Company A, non-manufacturing sector

Promoting avoidance of corporate value deterioration through the realization of greenhouse gas reduction plans and the introduction of incentives

	E: Climate Change Greenhouse gas reduction Top-down approach & Risk approach	G: Improvement in Governance Remuneration for executives Market cap approach
SuMi TRUST AM's View and Opinion	Regarding greenhouse gas reduction, a reduction plan for the 2030 target is not clearly defined. Although various measures such as introducing renewable energy, zero-emission of existing plants, and operating new plants have been proposed, they lack prioritization and a funding plan, making it difficult to assess the likelihood of executing the plans.	The design for executive remuneration is highly weighted toward fixed components, with weaker corporate value enhancement incentives than those of industry peers. Additionally, despite being a company with high greenhouse gas emissions, there is no linkage to reductions, which is seen as an issue.
Company Response	They recognize the issue that a granularity of roadmap and investment/funding plans for a concrete transition plan for the 40% reduction target by 2030 (compared to 2013 levels) has yet to be presented. They are currently considering multiple scenarios on-site. They are aware that failing to accelerate the establishment of the transition plan soon risks not achieving the 2030 target, so they will not delay formulating the plan.	Although they have decided to introduce a stock remuneration compensation system with the change in the executive remuneration system, the fixed portion still accounts for 80%, and they recognize the concern about the high fixed ratio. They have also heard that stakeholders consider designing a remuneration system linked to the greenhouse gas reduction targets in non-financial indicators highly important. The company would like to consider the best way to incorporate this into the system.
Engagement Outcomes	The 2030 reduction target was raised from 40% to 46%; however, the breakdown was not initially disclosed. Subsequently, at the financial results briefing in May 2024, they disclosed specific plans, such as suspending inefficient plants, converting them to standby plants, and increasing the efficiency of existing facilities. In addition, the company disclosed an ambitious plan, stating that approximately 40% of the strategic investment amount through 2030 will be allocated to renewable energy and related areas during the medium-term management plan period (up to FY2026).	At the annual general meeting following the dialogue, the ratio of performance-linked compensation was increased to 70% fixed and 30% variable. The following year, they also revised the remuneration for executives to include financial and non-financial indicators, incorporating the company's materiality items as non-financial indicators.
Evaluation by SuMi TRUST AM / Future Policy	The newly presented transition plan with specific reduction targets has clarified the company's initiatives. Moving forward, we will monitor whether reductions proceed according to the 2030 transition plan. We will also request further disclosures on the effectiveness of the initiatives, such as the acceleration and expansion of the introduction of renewable energy in response to changing customer demands and the need for additional measures to secure funding.	By reducing the fixed portion to 70%, the executive remuneration system was adjusted to better align with shareholder interests, which is commendable. However, the inclusion of multiple materiality items in the non-financial indicators has resulted in the composition ratio for the highly critical metric of greenhouse gas emission reductions not being sufficiently significant. We will continue engaging to clarify greenhouse gas reduction incentives and increase linkage.

(Source: SuMi TRUST AM)

Case 2 | Domestic | Company B, non-manufacturing sector

Promoting corporate value enhancement by disclosing transition plans for greenhouse gas reduction and the mitigation of human rights risks in the supply chain

	E: Climate Change Greenhouse gas reduction Top-down approach & Risk approach	S: Human Rights and Community Human rights in the supply chain Top-down approach
SuMi TRUST AM's View and Opinion	The transition plan for greenhouse gas reduction has yet to be concretely presented. The business portfolio that they should aim for needs to be clearly defined, ensuring alignment between the greenhouse gas reduction plan and the management strategy. With the increasing momentum of shareholder proposals addressing climate change, delaying action may present a significant management risk and challenge.	Both domestic and international supply chains are complex and multi-layered, containing potential human rights risks, including labor conditions. Although they have established a human rights policy and conducted due diligence for certain businesses, there are challenges regarding the need for early coverage expansion and insufficient external disclosure of information on initiatives for continuous evaluation and guidance for improvement.
Company Response	They recognize challenges in disclosing the social impact including business portfolio aimed at achieving decarbonization, the proportion of green assets and the contribution to greenhouse gas reductions. They have acknowledged the deficiencies in lacking external evaluation on their progress toward reduction targets evaluated externally. They are advancing internal discussions on business strategies aligned with environmental strategies, breakdowns of reduction plans, action plans, and disclosures on Scope 3 categories 11 and 15, referencing other companies' practices.	Some operations have already started working on human rights due diligence and plan to complete it across all operations by FY2025. However, they also recognize the challenges in mapping human rights responses and providing detailed disclosures on due diligence results. By setting milestones, they understand the need to visualize progress through KPIs, which will be considered for future improvements in information disclosure.
Engagement Outcomes	In FY2023, they disclosed critical environmental performance indicators as non-financial impacts in their major businesses. Furthermore, they have linked their climate change response to their management strategy by disclosing the cumulative investment amount through FY2026 and profit targets for FY2030 as financial impacts. They also disclosed the breakdown of emissions reductions, establishing milestones for carbon neutrality.	A grievance-handling system was established for external value chains. Additionally, they announced that they would prioritize human rights due diligence in business divisions identified as having high human rights risks. While the goal of completing all business divisions' actions by the end of FY2025 remains unchanged, the disclosure now includes a thorough explanation of past implementation progress, initiative self-assessment, and future measures. This has improved external understanding through enhanced transparency.
Evaluation by SuMi TRUST AM / Future Policy	The targets for climate change initiatives defined during engagements with them have been achieved. Moving forward, monitoring will ensure that effective initiatives continue to progress, balancing business-driven corporate value improvement with greenhouse gas reductions. We will encourage further refinement in climate change efforts, particularly from the perspective of exercising voting rights, while conducting evaluations that are aligned with our standards.	Regarding human rights due diligence in the supply chain, they have clarified milestones by presenting a progress evaluation by division and outlining future action plans. We will continue to monitor progress, ensuring necessary improvements are being made in external information disclosure and responses. This will help mitigate potential risks and strengthen organizational resilience through proactive engagement.

(Source: SuMi TRUST AM)

Case 3 | Domestic | Company C, non-manufacturing sector

Enhancing corporate value through strengthening value chain resilience and human resource strategies

	S: Human Rights and Community	S: Human Capital
	Value chain resilience	Human resource development and strategy
	Top-down approach & Market cap approach	Top-down approach & Market cap approach
SuMi TRUST AM's View and Opinion	Business partners' profitability has declined compared to the past, lowering the business model's sustainability. In particular, they need to address business model challenges in the manufacturing and logistics value chains, such as long working hours, succession planning, and waste reduction.	While they have announced a plan to expand their core businesses overseas and their EC operations while downsizing low-margin businesses, the transformation of the business portfolio requires human resource strategies aligned with their management strategy. However, insufficient explanation is provided regarding upskilling, appropriate workforce allocation, and evaluations aimed at human capital management, raising doubts about the effectiveness of management reform and corporate value enhancement.
Company Response	They acknowledge that external constraints such as the logistics challenges of 2024 and securing labor for manufacturing plants make it difficult to sustain a timely and adequate product distribution system aligned with domestic business expansion. Additionally, they recognize the need to overhaul their business model and restructure their value chain both domestically and internationally. They have also acknowledged that the explanations of these challenges have been insufficient. They are considering expanding actions trialed in specific regions and plan to address these challenges.	The medium- to long-term management strategy outlined the path for business portfolio transformation, such as strengthening overseas and EC businesses and reviewing existing business models. However, they recognized the challenge of not presenting a human resource strategy to respond to changes, such as skills, hiring experienced personnel, training, and promotion. This fiscal year's personnel system changes included formulating career plans, abolishing seniority-based treatment, and establishing a specialized professional system, but they recognized that the current human resource strategy is not systematically organized and lacks disclosure and explanation. By demonstrating a human resource strategy with a medium- to long-term perspective, they aim to enhance the effectiveness of their management strategy.
Engagement Outcomes	In March 2024, they announced new merchandise to reduce environmental and social impact, with plans for nationwide rollout by the summer of 2024. This is expected to lead to initiatives that strengthen the value chain's resilience and enhance the business model's sustainability, such as reducing waste, on-site operational burden, delivery frequency, and night shifts at factories.	They disclosed the progress of projects that cross the boundaries between domestic business units and began considering further human resource exchanges. While reducing the scale of their core businesses as outlined in their medium-term management plan, they also started initiatives for new businesses that contribute to talent development and promotion. Regarding human resource strategies aligned with the management strategy, the company set targets for improving employee engagement and promoting D&I to transform corporate culture. They transitioned to a CHRO (Chief Human Resource Officer) system to accelerate the penetration of the corporate philosophy and the establishment and execution of human resource strategies aligned with the management strategy.
Evaluation by SuMi TRUST AM / Future Policy	The engagement goal of reducing environmental and social impact in the value chain and improving the business model's sustainability was met. Moving forward, we will monitor whether the intended effects of their initiatives are being realized, focusing on the speed of nationwide rollout and the effectiveness of these measures while continuing dialogue to explore further areas for improvement.	The engagement goal of presenting a human resource strategy aligned with the business portfolio was achieved. Going forward, we will monitor whether the implementation of the human resource strategy expands group synergies and leads to successful business restructuring while continuing dialogue to ensure the impact of these measures.

(Source: SuMi TRUST AM)

Case 4 | Domestic | Company D, manufacturing sector

Promoting business portfolio reform to improve capital efficiency and address human rights to enhance corporate value

	G: Corporate Behavior	S: Human Rights and Community
	Revenue management by business segment	Human rights in the supply chain
	Top-down approach & Market cap approach	Top-down approach & Market cap approach
SuMi TRUST AM's View and Opinion	We believe their low valuation relative to their peers is partly due to weaker free cash flow (FCF) generation and profitability metrics, such as ROIC. In addition to solving challenges in individual businesses, improving ROIC and FCF through business portfolio transformation and presenting a long-term vision are necessary.	In response to the long-term risk of rising raw material costs in core businesses, they have established several joint ventures with overseas companies, resulting in a more complex supply chain and increased potential human rights risks. It is unclear how they intend to manage and mitigate these human rights risks. Additionally, there are issues in disclosing efforts to strengthen the supply chain for long-term stability.
Company Response	Currently, they are in the process of preparing a new medium-term management plan. They plan to announce a new medium-term plan next fiscal year, with explanations provided in the integrated report. They acknowledge that, as pointed out, they will not meet investor expectations if they do not disclose business-specific ROE, ROIC, and FCF. They recognized the need to enhance their level of disclosure.	Regarding supply chain and human rights, they acknowledged the need to provide detailed explanations and add a narrative to help stakeholders understand the rationale behind the figures, thereby improving corporate value. They are currently considering what content should be included in future disclosures.
Engagement Outcomes	In the new medium-term management plan announced in May 2024, the following strategies were outlined: a. Strengthening cash flow management, b. Enhancing business portfolio management (business-specific ROA/ROIC > WACC), and c. Establishing a capital allocation policy. This clarified their commitment to secure profit levels that exceed capital costs through actions in each business division.	They ensured a certain level of disclosure regarding the stability of raw material procurement. In the integrated report for FY2024, the results of the materiality reassessment highlighted this as one of the priority issues. While the management team is aligned on supply chain and human rights issues, no specific progress has been confirmed.
Evaluation by SuMi TRUST AM / Future Policy	The engagement goal of disclosing ROIC by the business division and associated improvement measures was achieved. Going forward, we will monitor the progress of revenue management by business segment and the outcomes of portfolio management, particularly efforts to improve low-profit businesses and the results of these efforts.	The disclosures on supply chain and human rights risk management in the integrated report have been enhanced. Implementation and progress disclosure of preventive and mitigating measures are still in their early stages. Moving forward, we will continue periodic reassessments, deepen our understanding of risk resilience through engagement with their specialized departments, and support improvements by comparing the disclosure status of other companies facing similar risks.

(Source: SuMi TRUST AM)

Case 5 | Overseas | Holcim (Switzerland, Cement Manufacturing & Sales) |

Strengthening industry leadership through advanced carbon neutral initiatives and improved transparency in information disclosure

E: Climate Change	
Carbon neutrality	
Perspective of Engagement Specialist	As a global building materials manufacturer, they handle not only cement, aggregates, and clinker production but also construction solutions. In an industry like cement, which is said to be hard to abate, they have taken the lead by setting a net-zero target early on and have proactively addressed climate change issues. While confirming the progress of existing initiatives, it was necessary to prove additional measures to enhance the likelihood of achieving targets.
SuMi TRUST AM's Opinion	To enhance the effectiveness of ambitious targets, further promotion of the development of low-carbon cement, utilization of greenhouse gas capture technology, and expansion of renewable energy use may be necessary. This includes engaging the supply chain in these measures and improving the clarity and scope of information disclosure regarding these initiatives.
Company Response and Actions	In March 2023, they raised their targets for Scope 1 and 2*1 by 2030 and expanded the target scope to cover all 15 categories of Scope 3*1. The scientific approach, such as receiving SBT*2 certification under the 1.5°C scenario, was highly evaluated, and in May 2023, they were selected as one of the 17 pilot companies worldwide for SBTs for Nature*3. In July 2023, the EU Innovation Fund also selected their Carbon Capture, Utilization, and Storage (CCUS) project for funding.
Evaluation by SuMi TRUST AM / Future Policy	<ul style="list-style-type: none"> - Since 2019, we have engaged in continuous dialogue with Holcim, one of our target 100 companies, to address climate change issues using emails, online meetings, and in-person interactions. - In December 2023, at COP28, their CCUS project in Germany was recognized as an Outstanding project, which increased the credibility of their net-zero plans and improved information disclosure. - Moving forward, we plan to continue dialogues on implementing and disclosing specific measures to achieve net-zero targets for 2030-2050, encouraging active efforts to maintain industry leadership.

(Source: SuMi TRUST AM)

*1 Scope 1: Direct emissions; Scope 2: Indirect emissions from electricity, etc.; Scope 3: Emissions from other companies, included in the supply chain
 *2 Abbreviation for Science Based Targets initiative. This is an initiative requesting companies to set greenhouse gas reduction targets aligned with scientific scenarios to achieve the goals of the Paris Agreement.
 *3 Scientific, evidence-based target setting and methodology for protecting nature, such as terrestrial and freshwater areas, announced by the SBT.

Case 6 | Overseas | Intel Corporation (USA, Information Technology) |

Promoting enhanced water resource risk management and transparency in the semiconductor manufacturing processes

E: Natural Capital, Pollution & Waste	
Water resource conservation actions	
Perspective of Engagement Specialist	In the semiconductor industry, large amounts of water are required in both manufacturing and the supply chain. For a major semiconductor manufacturer, we believe that to achieve sustainable growth, it is necessary to identify high-risk areas and enhance water resource risk management across the entire supply chain.
SuMi TRUST AM's Opinion	While they aim to achieve net positive water by 2030 through reducing consumption, recycling, and watershed restoration projects, we wanted to hear their thoughts on the identification of high-risk areas, given that water resource risks are closely tied to the local natural environment, economy, and society, and on their continued collaboration with local communities sharing the same resources.
Company Response and Actions	From a risk management perspective, they promote resource conservation, collaboration with local communities on watershed restoration, and problem-solving through technology. In 2022, they achieved net positive water* of 107% across the entire company. In 2023, they improved this to 110% and achieved net positive water in countries such as the US, India, Costa Rica, and Mexico. Additionally, they have enhanced region-specific information disclosures in countries like Vietnam, Malaysia, and Costa Rica. In July 2023, they announced that they had obtained Platinum certification from the Alliance for Water Stewardship (AWS) for their water conservation efforts in Arizona.
Evaluation by SuMi TRUST AM / Future Policy	<ul style="list-style-type: none"> - The AWS certification, endorsed by their major customer (Apple Inc.), reflects their commendable efforts in conservation, including support for the local community. - They continue to steadily improve information disclosure regarding reductions in water usage, recycling, and restoration efforts. - In the future, we plan to promote the enhancement of comprehensive risk management across their entire supply chain, utilizing dialogues with domestic and international companies possessing technologies to improve water consumption efficiency.

(Source: SuMi TRUST AM)

* An initiative aiming to replenish or generate more water than the amount consumed by companies or organizations.

Case 7 | Overseas | Jardine Matheson Holdings Ltd (Hong Kong, Holding Company)

Rapid improvements achieved through engagement with parent company on human rights and sustainability issues

S: Human Rights and Community	G: Improvement in Governance
Strengthening human rights response as parent company	Group governance

Perspective of Engagement Specialist	<ul style="list-style-type: none"> - A British-based holding company headquartered in Hong Kong, they are one of the largest international conglomerates in Asia. - We believed it necessary to review the group's policies regarding human rights issues at their Indonesian subsidiary, PT Astra Agro Lestari Tbk (AAL), which operates palm oil plantations. AAL is not a member of the RSPO*1.
SuMi TRUST AM's Opinion	<p>The subsidiary AAL owns 287 kha of plantations (the second-largest in Indonesia) but is not a member of the RSPO.</p> <p>Multiple human rights issues have been reported at plantations, particularly on Sumatra, so we believe there is an urgent need to address these concerns and promptly join the RSPO. Additionally, while subsidiaries such as Mandarin Oriental and Hongkong Land are considered higher tier, AAL should be managed with the same level of oversight.</p>
Company Response and Actions	<p>AAL is a member of Indonesia's ISPO*2 and they had previously considered that sufficient. However, recognizing the recent demand for higher global management standards for palm oil businesses, they are now positively considering RSPO membership.</p> <p>An independent third-party committee has been established to investigate AAL's human rights issues.</p> <p>In July 2024, AAL applied for RSPO membership*3.</p>
Evaluation by SuMi TRUST AM / Future Policy	<ul style="list-style-type: none"> - While direct engagement with AAL had been challenging and unachieved, we shifted our focus to engage with the parent company to emphasize the importance of strengthening their human rights response, resulting in a commitment to improve and prompt actions. - As a member of SPOTT's*4 advisory group, we plan to support AAL after joining the RSPO. - Furthermore, multiple higher tier subsidiaries under the group also face human rights issues, and we plan to encourage both the parent company and subsidiaries to address these concerns.

(Source: SuMi TRUST AM)

*1 Abbreviation for Roundtable on Sustainable Palm Oil. This is an international non-profit organization established in 2004 for promoting the production and use of sustainable palm oil.
 *2 Abbreviation for Indonesia Sustainable Palm Oil, Indonesia's national certification system for sustainable palm oil.
 *3 Direct communication received from Jardine Matheson Holdings.
 *4 Established by the Zoological Society of London (ZSL). They evaluate companies related to palm oil, timber, and natural rubber based on sector-specific ESG information and provide independent scores.

Case 8 | Overseas | Norfolk Southern Corporation (USA, Railway Company)

Concrete measures for safe operations and governance strengthening based on experience

G: Improvement in Governance
Human capital, safety, and responsibility

Perspective of Engagement Specialist	<p>Norfolk Southern Corporation is a major railway company owning a network on the east coast of the United States.</p> <p>Since 2020, they have continuously engaged in dialogue on human capital utilization and climate/environmental responses.</p> <p>In 2023, a train derailment incident in Ohio resulted in a chemical spill, causing significant harm to the local community. We believe effective safety measures must be implemented to prevent recurrence.</p>
SuMi TRUST AM's Opinion	<p>The accident led to the payment of compensation for clean-up to local residents and fines were imposed by authorities.</p> <p>Although they have responded to labor shortages post-COVID-19, labor unions have criticized the automation of maintenance through technology. While efficient utilization of human capital is crucial, safety should be prioritized. They should also address challenges such as securing the necessary skilled personnel and strengthening their governance system.</p>
Company Response and Actions	<p>The cause of the derailment was attributed to a vehicle owned by another company. However, to ensure safe operations—a top priority—they implemented inspection systems and measures to enhance employee skills.</p> <p>Immediately following the accident, they formulated and disclosed a six-point safety improvement plan, which includes enhancing defect detection accuracy, accelerating digital inspections, and fostering a culture of safety. In parallel with the safety plan, they also undertook initiatives such as compensating affected residents and restoring the natural environment. For structure, the company appointed a Vice President of Safety and Responsibility. At the board level, they strengthened safety expertise and established an independent committee, thereby leading governance standards among peers in the US.</p> <p>In 2024, activists demanding a balance between safety management and operational efficiency nominated their board candidates, leading to a proxy battle. As a result, three directors were appointed from the activist side.</p>
Evaluation by SuMi TRUST AM / Future Policy	<ul style="list-style-type: none"> - Through the US Council of Institutional Investors (CII), of which we are a member, we have been engaging in dialogue with the relevant activists and gathering information from labor unions. - We plan to monitor the implementation and effectiveness of the company's post-accident measures and the management changes brought by the participation of the activist-appointed directors to confirm the enhancement of safe operations.

(Source: SuMi TRUST AM)

SuMi TRUST AM's Exercise of Voting Rights

As a “responsible institutional investor,” we position the exercise of voting rights on entrusted assets (hereinafter “exercise of voting rights”) as one of our important stewardship activities. The purpose of the exercise of voting rights is to maximize the medium- to long-term investment returns for clients (beneficiaries) by improving the corporate value of investee companies and promoting sustainable growth. The basic policy is as follows:

- The objective of the exercise of voting rights must be to contribute to the sustainable growth of investee companies, which in turn maximizes medium- to long-term investment returns for our clients (beneficiaries). We exercise our voting rights based on a comprehensive judgment, considering the circumstances of the investee companies and the content of our engagement with them, rather than merely adhering to formal criteria. The priority is to support items that contribute to the sustainable growth of the investee companies, ultimately maximizing our clients’ (beneficiaries’) medium- to long-term investment returns. When multiple amendments are included in a proposal, we prioritize items contributing to sustainable growth in our voting decisions.
- We require investee companies to proactively establish a corporate governance structure that respects shareholder interests. This includes the efficient use of shareholders’ equity for sustainable growth, separation of oversight functions from management, and securing the independence of outside directors. Additionally, we expect companies to engage in appropriate corporate activities under high-quality corporate governance while considering environmental and social factors.
- If companies or their management disregarded shareholders’ interests, or if misconduct or medium- to long-term poor performance damages corporate value, we regard these as critical governance issues. In such cases, we exercise our voting rights to support improvements in corporate governance. We also require companies that have engaged in misconduct to provide adequate explanations of their preventive measures, corrective actions, and efforts to improve corporate governance. Our voting decisions are made based on these explanations.

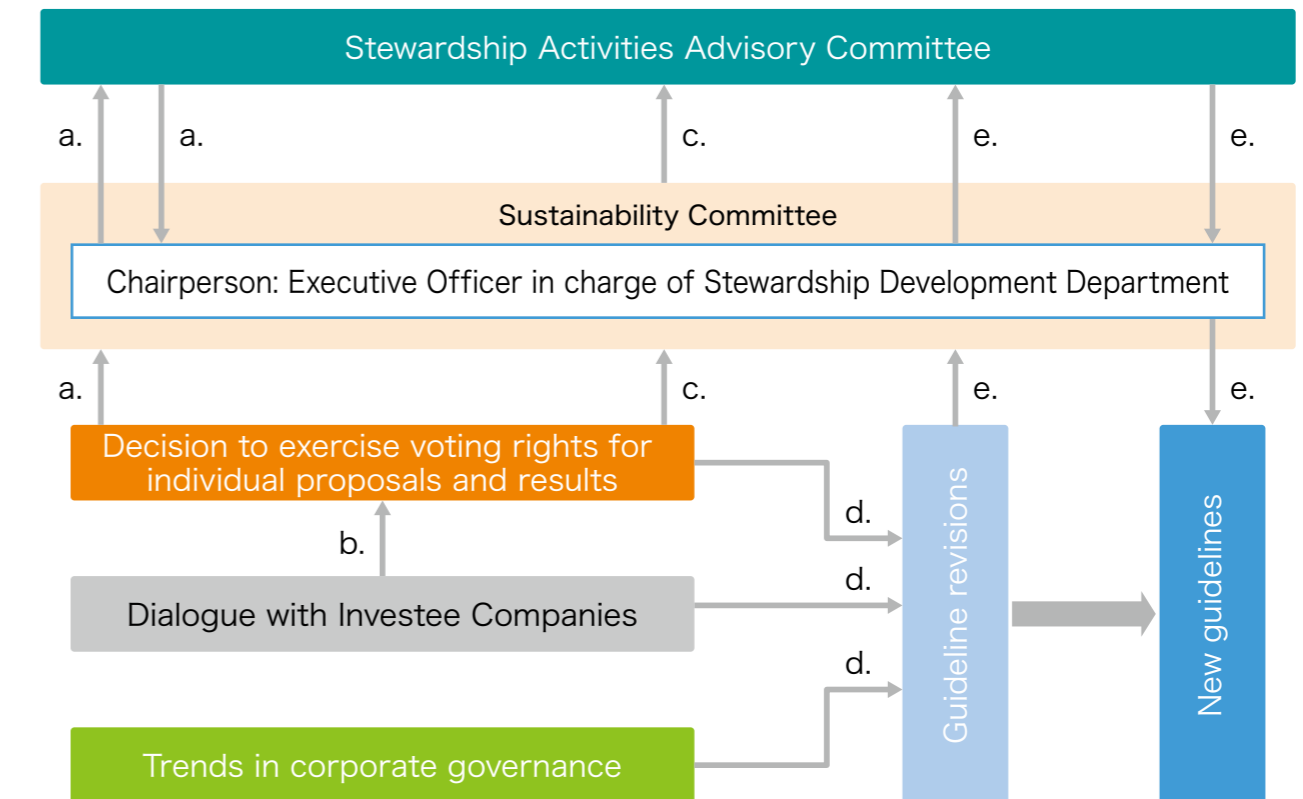
Overview of the Exercise of Voting Rights Process

From the perspective of prioritizing the interests of our clients (beneficiaries), we strictly manage potential conflicts of interest in the exercise of voting rights by adhering to internal rules, including the conflict of interest management rules, investment management business rules, and other related rules. We have established a Stewardship Activities Advisory Committee consisting primarily of external experts, and we aim for transparent exercise of voting rights by fully respecting the committee’s recommendations. The overview of the exercise of voting rights process is shown in Figure 1.

2024 Guideline on the Exercise of Voting Rights Revision – Statement on “Appointing Multiple Female Directors” and “Management Considering Capital Costs and Stock Market Evaluations”

The main revisions to the 2024 Guideline on the Exercise of Voting Rights are outlined in Figure 2. Regarding our approach to proposals related to the composition of the board of directors and director appointments, we have added that multiple female directors are necessary in the long term and that internal talent development is essential to achieve this. We also emphasized the need to consider capital costs and stock market evaluations.

Figure 1: Overview of the exercise of voting rights process



- a. Decision-making on exercising voting rights for proposals requiring individual review that are not specified in the Guideline on the Exercise of Voting Rights**
The Sustainability Committee will conduct an individual review, followed by recommendations from the Advisory Committee, and finalize with the approval of the Executive Officer in charge of the Stewardship Development Department.
- b. Decision to exercise voting rights for individual proposals**
They will be conducted per the Guideline on the Exercise of Voting Rights but not solely based on formal judgments. Engagement content will also be considered.
(Past examples) - The application of exception criteria for companies that have violated performance criteria for three consecutive terms or companies that have violated the disposition of surplus criteria will be based on engagement.
- c. Reporting on the record of the exercise of voting rights**
Reported to the Sustainability Committee, the Executive Officer in charge of the Stewardship Development Department, and the Stewardship Activities Advisory Committee
- d. Drafting of revision proposals for the Guideline on the Exercise of Voting Rights**
Based on the record of the exercise of voting rights, dialogue with investee companies, and societal trends
(Past examples) - Reflected the opinion from the Advisory Committee to tighten criteria on surplus disposal proposals during voting rights exercise reporting
- Added exception criteria for granting stock remuneration compensation to outside directors based on dialogue with investee companies.
- Reflected content deemed necessary in response to requests from the Stewardship Code, Corporate Governance Code, and Tokyo Stock Exchange towards companies.
- e. Revisions to the Guideline on the Exercise of Voting Rights**
The Sustainability Committee will conduct a review, followed by recommendations from the Advisory Committee, and finalize with the approval of the Executive Officer in charge of the Stewardship Development Department.

(Source: SuMi TRUST AM)

Figure 2: Main revisions to the 2024 Guideline on the Exercise of Voting Rights

Revised items	Revised contents
Composition of the board of directors, appointment of directors	<ul style="list-style-type: none"> ● Added perspective on appointing multiple female directors. ● Added perspective on management considering capital costs and stock market evaluations. ● Expanded the target companies for appointing female directors to those listed on the Prime Market. ● Tightened exception criteria for cross-shareholdings.
Disposal of surplus & returning profits to shareholders	<ul style="list-style-type: none"> ● Introduced criteria for P/B ratio. ● Tightened criteria for cash-rich companies.

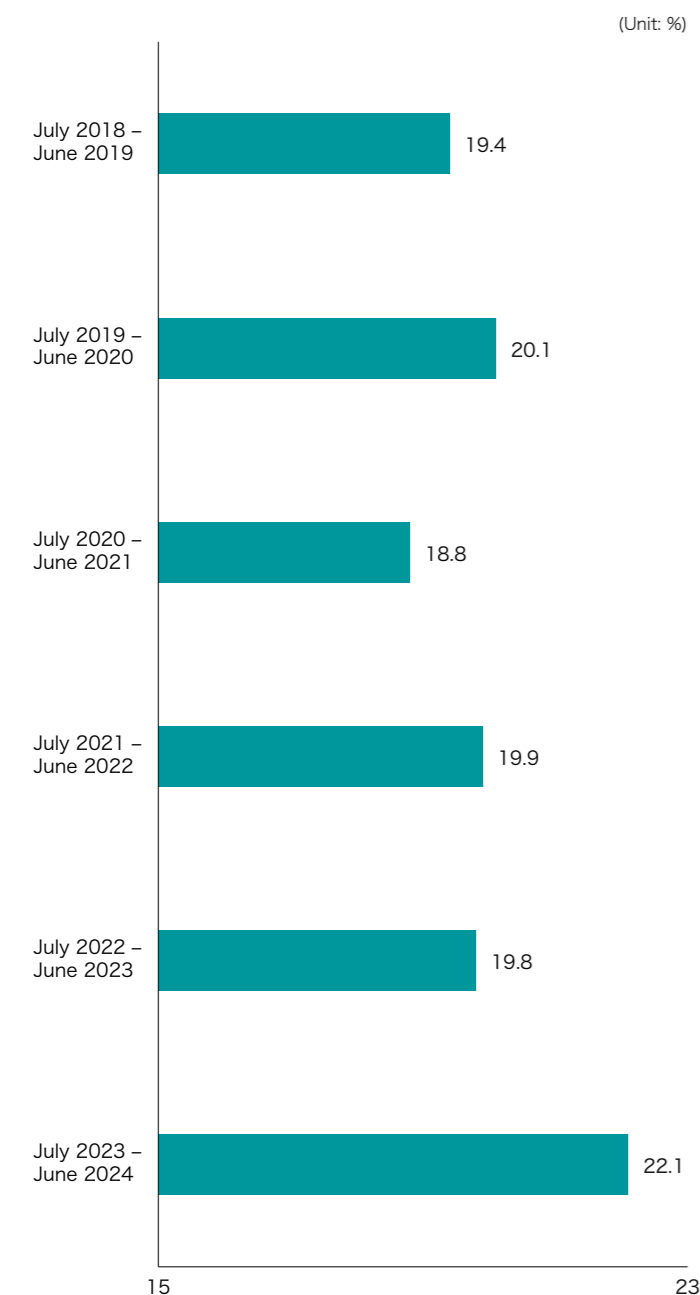
(Source: SuMi TRUST AM)

Revisions to the Guideline on the Exercise of Voting Rights and Trends in Opposition Ratios for Company Proposals

Regular revisions are published every December and applied starting from the general meeting of shareholders in January of the following year. The main revisions to the Guideline on the Exercise of Voting Rights since 2019 and the trends in opposition ratios for company proposals are as follows:

Figure 3: Main revisions to the Guideline on the Exercise of Voting Rights and trends in opposition ratios for company proposals

Opposition ratio to company proposals*1

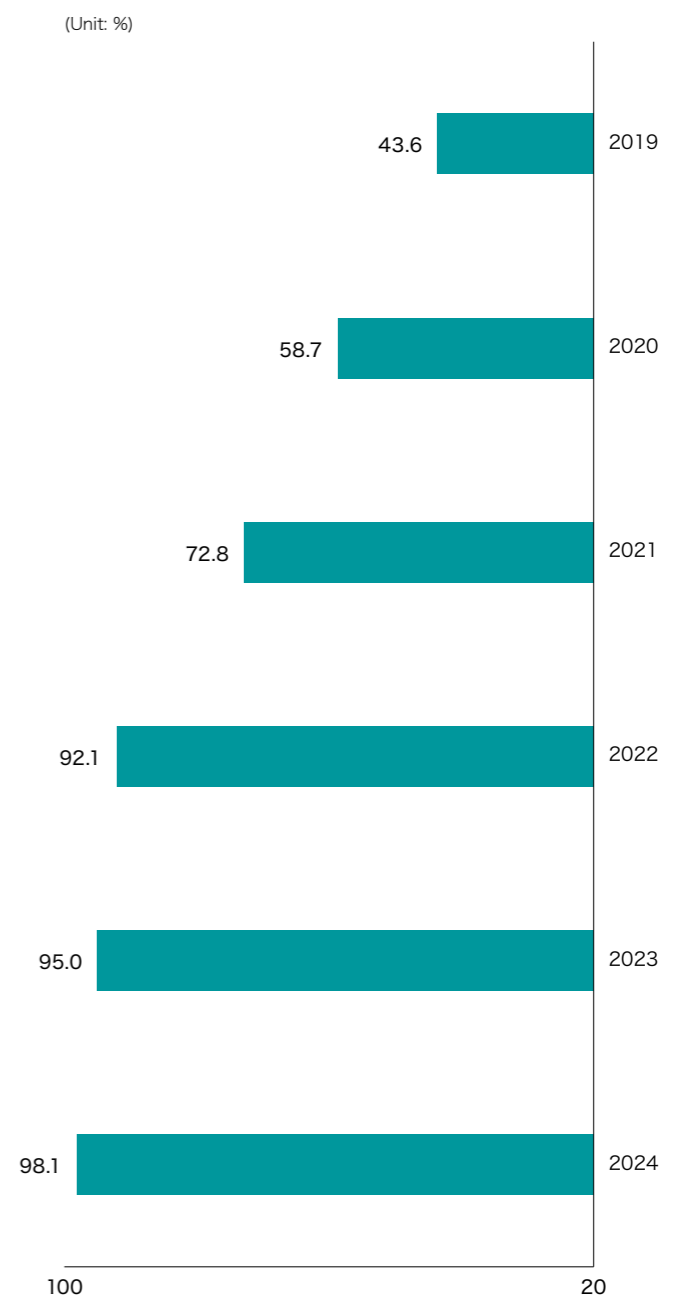


Factors leading to increased opposition ratio: Revision of the Guideline on the Exercise of Voting Rights*2

Year	Main contents of guideline revisions	
	Director appointments	Other than director appointments
2019	<ul style="list-style-type: none"> Established a new criterion requiring the ratio of independent external directors to be one-third or more (Target: Nomination Committee- or Audit and Supervisory Board-based companies that have violated performance (ROE) criteria for three consecutive terms). 	<ul style="list-style-type: none"> Revised the independence criteria for external directors to be based on whether they have been reported as independent directors to the stock exchange. Revised to generally oppose proposals for payment of retirement benefits.
2020	<ul style="list-style-type: none"> Expanded the criterion requiring the ratio of independent external directors to be one-third or more to companies that have violated performance (ROE) criteria for three consecutive terms.*3 Revised to require companies with a parent company, etc., to ensure a structure that guarantees independent decision-making.*4 	<ul style="list-style-type: none"> Added governance incompetence as a category under the misconduct criteria. Tightened criteria for surplus disposal proposals, particularly for cash-rich companies.
2021	<ul style="list-style-type: none"> Added key ESG issues and excessive cross-shareholdings as agenda items that we may oppose depending on engagement content. 	
2022	<ul style="list-style-type: none"> Revised to require companies with a parent company, etc., to have a majority of independent external directors. Expanded the criterion requiring a ratio of independent external directors of at least one-third to companies listed on the Prime Market. Established a new criterion for appointing female directors (requiring the appointment of at least one female director) (Target: TOPIX100 constituent companies). Added climate change response criteria. Added a perspective on the number of concurrent positions held by external directors. 	<ul style="list-style-type: none"> Added a term of office to the independence criteria for external officers (including supplementary provisions). Revised the timing for the sale of shares in the stock remuneration compensation system to after three years. Added exception criteria for granting stock remuneration compensation to external directors. Added criteria for takeover defense measures in times of emergency. Added criteria for determining shareholder proposals regarding amendments to the Articles of Incorporation related to specific business execution and demands for climate change response.
2023	<ul style="list-style-type: none"> Expanded the criterion for appointing female directors to include TOPIX500 constituent companies. Clarified the criteria for cross-shareholdings (excessive holding criterion: regarded as investment stocks for purposes other than pure investment, with the total amount of held stocks exceeding approximately the top 10% of TOPIX constituent stocks' net assets). 	<ul style="list-style-type: none"> Deleted the supplementary provision related to the term of office under the independence criteria for external officers. Revised to generally oppose pre-warning-type takeover defense measures.
2024	<ul style="list-style-type: none"> Added perspective on appointing multiple female directors. Added perspective on management considering capital costs and stock market evaluations. Expanded the criterion for appointing female directors to include companies listed on the Prime Market. Tightened exception criteria for cross-shareholdings. 	<ul style="list-style-type: none"> Introduced P/B ratio criteria and implemented stricter standards for surplus disposal proposals targeting cash-rich companies.

Examples that contributed to a decrease in the opposition ratio

Trends in the ratio of listed companies with at least one-third independent outside directors*5



*1, *2 Source: SuMi TRUST AM
 *3 The items in green have significantly impacted the increase in opposition ratios.
 *4 Applies to companies where independent external directors make up more than half of the total number of directors or where independent external directors constitute at least one-third of the total number of directors and meet either of the following conditions:
 - Independent external officers make up the majority in the Nomination Committee, etc. (including voluntary advisory committees).
 - Half of the committee members are independent external officers, with the chairperson being an independent external officer.
 *5 Prepared by SuMi TRUST AM based on "Appointment of Independent Directors / Establishment of Nomination and Remuneration Committees by TSE-Listed Companies (as of July 24, 2024)" by the Tokyo Stock Exchange. (For 2021, it covers companies listed on the TSE First Section; from 2022 onward, it covers companies listed on the Prime Market.)

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

We exercise voting rights based on a comprehensive assessment of whether they contribute to the sustainable growth of investee companies, taking into account their situation and engagement content rather than merely adhering to formal criteria.

Figure 4: Cases where the exercise of voting rights was determined based on engagement

	Toyota Motor Corporation	Resona Holdings, Inc.
1. Issues	They are among the top emitters of greenhouse gases, yet their disclosure of a transition strategy aligned with their business strategy is insufficient. A shareholder proposal requesting disclosure of their public relations activities was submitted during the Ordinary General Shareholders' Meeting for FY2023. Despite our continued engagement, no improvement in disclosure was observed, leading us to support the shareholder proposal.	They hold excessive cross-shareholdings. In the Ordinary General Meeting of Shareholders for FY2024, it was found to violate our Guideline on the Exercise of Voting Rights for the criteria for director appointments. Although the plan they announced in May 2022 to reduce book value holdings progressed as scheduled, the plan to reduce the ratio of market value to net assets below 20% has not made satisfactory progress.
2. Engagement	We explained the reasons and perspectives behind our decision regarding the shareholder proposal at the Ordinary General Shareholders' Meeting for FY2023. We continued dialogue on the effectiveness of plans for carbon neutrality, including Scope 3 emissions. We highlighted that investor focus has shifted from simply setting targets to evaluating their effectiveness and emphasized the need to integrate climate change response toward the target year with business strategies, encouraging enhanced disclosure.	In engagements with their management, including the President, we pointed out the potential violation of the criteria for director appointments. Regarding reduction plans, we urged the company to progress in reducing emissions by presenting a comprehensive reduction plan that not only meets our standards, but also presents a reduction pace by including a reduction policy and specific reduction levels over the long term. They responded that while not initially considering revising the reduction plan established in FY2022, they would review and reconsider their approach.
3. Voting decision	Through the integrated report issued in FY2023 and engagement activities, we confirmed significant improvements in their stance on disclosures over the past year. Continued engagement increased confidence that further improvements would occur, so we opposed the shareholder proposal at the Ordinary General Shareholders' Meeting for FY2024.	The plan to reduce cross-shareholdings was revised, and the financial report disclosed that the reduction would exceed two-thirds on a book-value basis by the end of March 2030 (compared to end of March 2024) and reduce the ratio of market value to net assets to about 10%, down from 37%. They aim to reach the 20% level in as quickly as three years. Based on the engagement content and the revised reduction plan, we applied an exception criterion and supported the director appointment proposal at the Ordinary General Meeting of Shareholders for FY2024.
4. Future actions	We believe there is room for improvement in the disclosure of concrete measures aligning environmental strategies with management strategies in plans to achieve targets in line with the Paris Agreement. We will continue to encourage improvements in these areas through engagement.	In our revised Guideline on the Exercise of Voting Rights effective from January 2024, we have tightened exception criteria for companies with excessive cross-shareholdings in director appointment proposals, requiring reduction targets and progress towards those targets. We will continue to promote the implementation of these reduction plans through engagement.

(Source: SuMi TRUST AM)

Voting Results

Record of exercising voting rights for Japanese equity (July 2023 to June 2024)

Company proposals

		For	Against	Abstention	Total	Opposition ratio
Proposals concerning company systems	Appointment/dismissal of directors	14,258	4,595	0	18,853	24.4%
	Appointment/dismissal of corporate auditors	1,758	249	0	2,007	12.4%
	Appointment/dismissal of accounting auditors	56	0	0	56	0.0%
Proposals concerning remuneration for executives	Remuneration for executives*1	713	143	0	856	16.7%
	Payment of retirement benefits for resigning executives	0	89	0	89	100.0%
Proposals concerning capital policies (Excluding proposals concerning articles of incorporation)	Disposal of surplus funds	1,368	160	0	1,528	10.5%
	Restructuring-related*2	30	0	0	30	0.0%
	Introduction/renewal/abolishment of takeover defense measures	0	44	0	44	100.0%
	Other proposals concerning capital policies*3	66	0	0	66	0.0%
Proposals concerning articles of incorporation		477	15	0	492	3.0%
Other proposals		4	5	0	9	55.6%
Total		18,730	5,300	0	24,030	22.1%

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

*2 This includes mergers, business transfers and acquisitions, share swaps, share transfers, and corporate splits

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

Shareholder proposals

	For	Against	Abstention	Total	Opposition ratio
Total	35	357	0	392	91.1%

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

Compared to the same period of the previous year, the opposition ratio for company proposals increased due to the expansion of target companies lacking female directors and stricter guidelines on surplus disposition criteria.

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

Record of exercising voting rights for foreign equity (July 2023 to June 2024)

Company proposals

		For	Against	Abstention	Total	Opposition ratio
Proposals concerning company systems	Appointment/dismissal of directors	13,269	1,699	0	14,968	11.4%
	Appointment/dismissal of corporate auditors	631	103	0	734	14.0%
	Composition of board of directors (limits on number of directors, etc.)	343	16	0	359	4.5%
Proposals concerning remuneration for executives	Appointment of accounting auditors	2,063	20	0	2,083	1.0%
	Remuneration for executives	3,320	472	0	3,792	12.4%
	Stock options	511	338	0	849	39.8%
Proposals concerning capital policies (Excluding proposals concerning articles of incorporation)	Presentation of retirement benefits	16	1	0	17	5.9%
	Shareholders' equity	2,154	436	0	2,590	16.8%
	Profit disposal and loss disposition plans	1,600	10	0	1,610	0.6%
	Establishment of share buyback frameworks	947	23	0	970	2.4%
Proposals concerning articles of incorporation	Mergers, corporate splits, conversions to holding company, business transfers, etc.	481	64	0	545	11.7%
	Takeover defense measures	171	8	0	179	4.5%
	Total	1,330	453	0	1,783	25.4%
Other		8,956	1,400	0	10,356	13.5%
Total		35,792	5,043	0	40,835	12.3%

Shareholder proposals

	For	Against	Abstention	Total	Opposition ratio
Total	1,182	613	0	1,795	34.2%

(Source: SuMi TRUST AM)

Climate Change Issues and Engagement: Exercise of Voting Rights

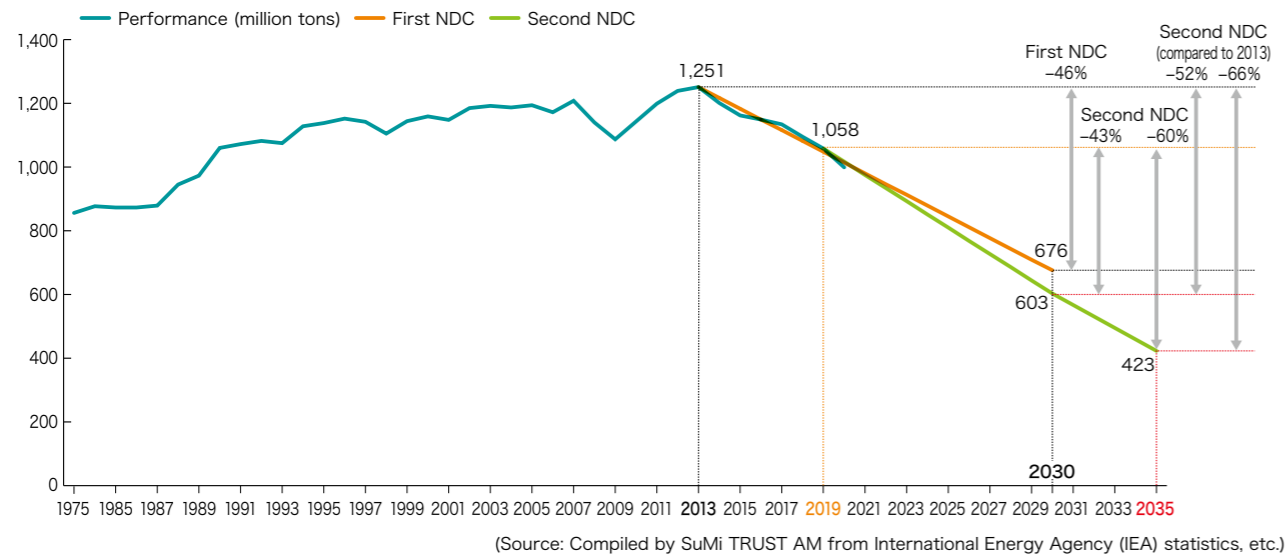
Global Trends Related to Climate Change Issues

COP28 and the Global Stocktake

COP28, a forum for intergovernmental discussions on addressing climate change, was held in Dubai, United Arab Emirates, from November 30, 2023, for roughly two weeks. COP stands for Conference of the Parties. It is based on the United Nations Framework Convention on Climate Change, concluded in 1992. The conference has been held annually since its first

session in 1995, making this the 28th session. In the resolution related to the Global Stocktake (hereinafter "GST"), which evaluates each country's achievements in reducing greenhouse gas emissions, the main theme of COP28, it was stated that "to achieve net-zero emissions by 2050, it is necessary to reduce carbon dioxide (CO₂) emissions by 43% by 2030 and 60% by 2035, compared to 2019 levels."

Figure 1: Japan's CO₂ emissions performance and reduction forecasts based on GST



The target of a 43% reduction by 2030 may appear lower than Japan's reduction target of nationally determined contribution (hereinafter "NDC") of 46% by FY2030 (compared to FY2013 levels) submitted to the United Nations in 2021. However, when this reduction target is converted against the current NDC baseline year (FY2013), it equates to a 52% reduction (Figure 1). Therefore, the Japanese government will need to consider a more ambitious reduction plan in the next NDC submission scheduled for February 2025.

Next NDC Submission and the Seventh Strategic Energy Plan

The Japanese government is currently developing the Seventh Strategic Energy Plan to coincide with this next NDC submission. The Strategic Energy Plan outlines the direction of

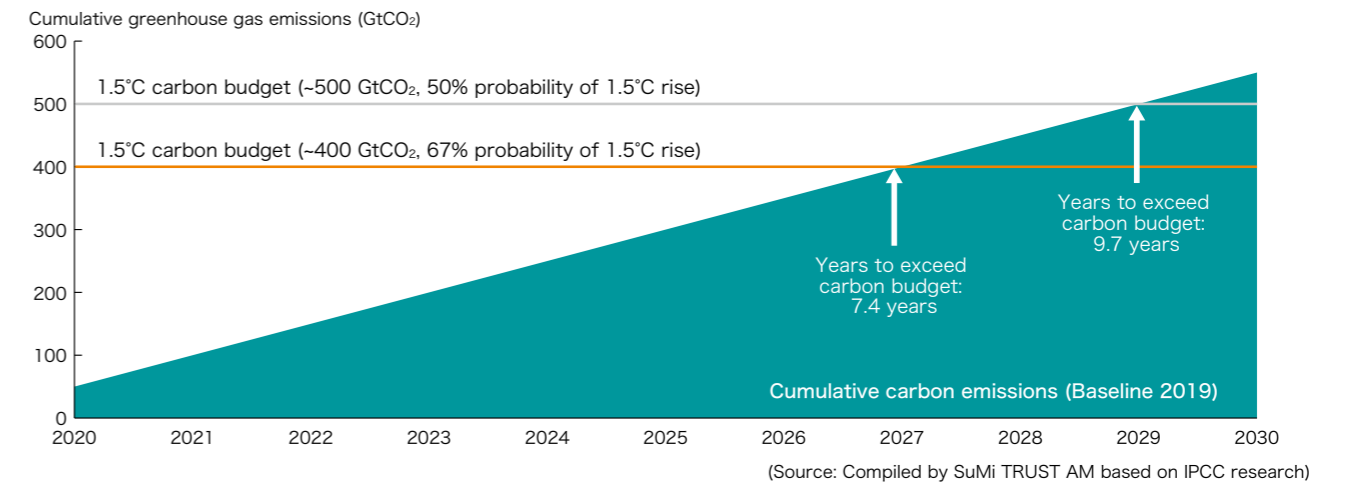
the country's medium- to long-term energy policies and significantly impacts Japan's decarbonization efforts. This plan has been revised approximately every three years since the first edition was established in 2003. The current Sixth Strategic Energy Plan sets government targets for 2030, stating a substantial expansion of renewable energy and a significant reduction of fossil fuels. The Seventh Strategic Energy Plan is expected to present a more detailed and in-depth pathway to decarbonization. Changes in national targets also imply changes in corporate targets. Many Japanese companies have set decarbonization goals to reduce emissions by 46% by FY2030, which aligns with Japan's NDC, but further decarbonization efforts are anticipated.

The Relationship Between Temperature Rise and Carbon Emissions

The tightening of reduction targets is driven by the ongoing rise in temperatures. According to research by the Intergovernmental Panel on Climate Change (hereinafter "IPCC")^{*1}, the global

average temperature has already increased by 1.1°C compared to pre-industrial levels. The Paris Agreement's^{*2} goal of "limiting the increase in global average temperature to 1.5°C compared to pre-industrial levels" leaves only a 0.4°C margin.

Figure 2: Concept of carbon budget



*1 The Intergovernmental Panel on Climate Change (IPCC) is an intergovernmental organization established in 1988 by the World Meteorological Organization (WMO) and the United Nations Environment Programme (UNEP), with 195 participating countries and regions.
*2 The Paris Agreement is an international framework adopted at COP21 in Paris in 2015 to address climate change issues post-2020.

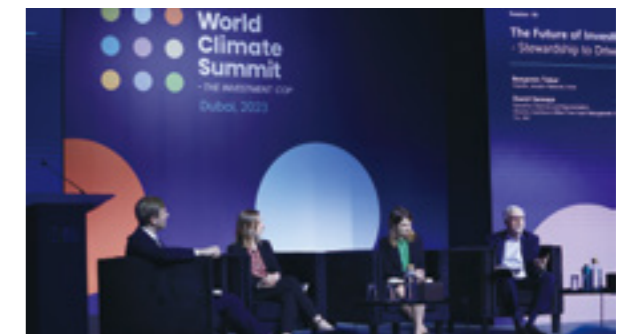
Furthermore, the IPCC estimates that cumulative carbon emissions (carbon budget) required to limit the global average temperature rise to 1.5°C by 2100 is about 400 to 500 GtCO₂ (baseline 2019). If the current global greenhouse gas emissions (including CO₂ at about 50 Gt/year) are maintained, this carbon budget will be exhausted in approximately 8 to 10 years (baseline 2019). This implies that unless further reduction measures are implemented, the goal of limiting the global temperature rise to 1.5°C will become unattainable by around 2030 (Figure 2).

Importance of Engagement on Climate Change Issues

As financial institutions work towards decarbonizing their portfolios, they can either divest from investee companies or engage with them to support their decarbonization efforts. Divestment does not contribute to decarbonization for society as a whole; therefore, SuMi TRUST AM focuses on engagement to promote decarbonization among its domestic and overseas investee companies. Over the past year (July 2023 to June 2024), SuMi TRUST AM conducted climate change-related engagements with approximately 420 companies. SuMi TRUST AM recognizes engagement as a crucial tool to drive behavioral change among stakeholders and emphasizes its

importance through various opportunities. Here, we introduce an example of our Chairman, David Semaya, participating in a panel discussion titled "The Future of Investor Engagement—Stewardship to Drive Net-Zero" at the World Climate Summit (hereinafter "WCS"), which coincided with COP28. WCS, also known as The Investment COP, is a major event attended by experts in climate change and finance and corporate leaders from around the world. As the only panelist from the financial sector representing the Asia region, Semaya emphasized the necessity of broad and persistent engagement, including with governments, because the region accounts for about 50% of the world's greenhouse gas emissions and many high-emission companies are state-owned enterprises.

Photo from the WCS panel discussion



(David Semaya on the far right)

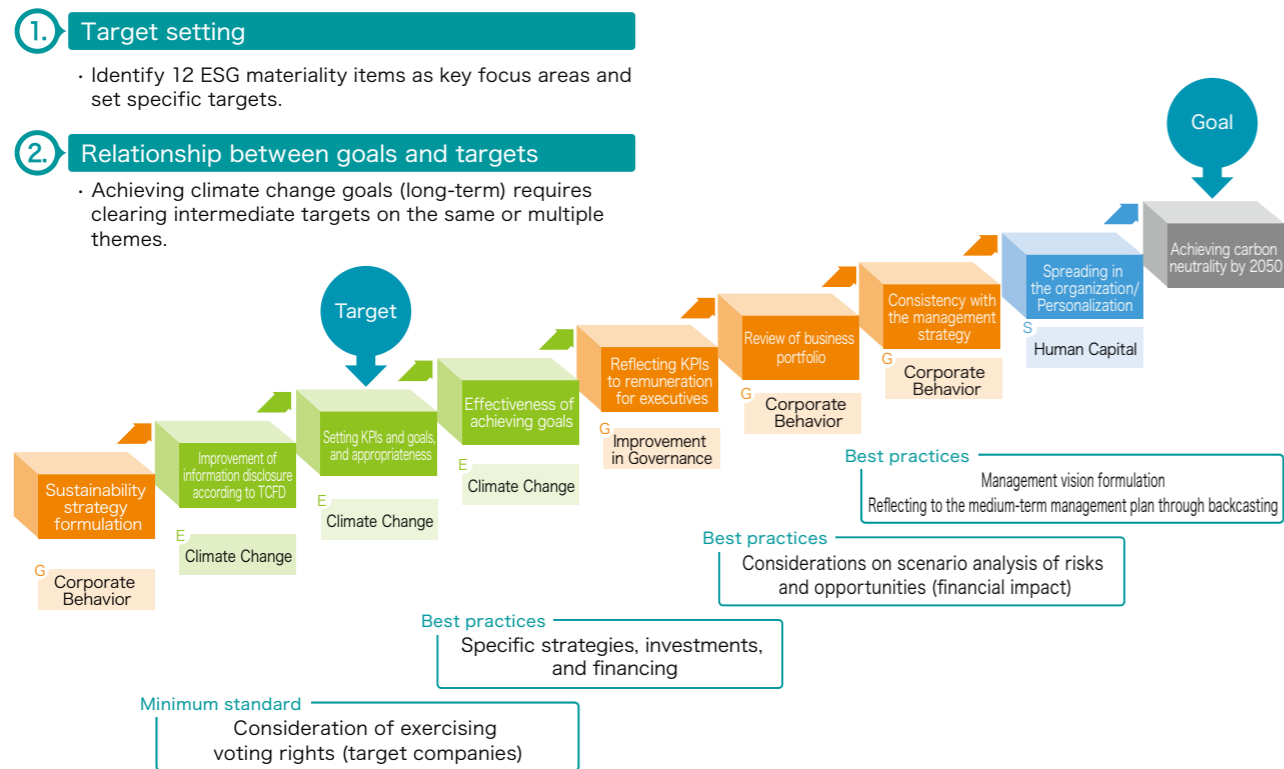
Engagement and Exercise of Voting Rights on Issues of Climate Change

Integrated Operation of Engagement and Voting Rights

SuMi TRUST AM integrates engagement and exercise of voting rights. Regarding climate change issues, the December 2020 revision of our Guideline on the Exercise of Voting Rights (hereinafter the "Guideline") (applicable from January of the following year), with the aim of encouraging investee companies to address climate change issues, specified that "if companies facing ESG issues do not respond to engagement requests or show no improvement despite continued engagement, we will consider opposing director appointment proposals." Since

2021, we have developed an engagement plan targeting companies with high greenhouse gas emissions, promoting setting reduction targets aligned with the Paris Agreement and obtaining SBT certification^{*1}. This has led to some progress, particularly in information disclosure. To further accelerate initiatives across investee companies, we introduced climate change standards^{*2} applicable to director appointment proposals in the December 2021 Guideline revision and communicated these standards to high-emission companies. We also began applying these criteria when making decisions on shareholder proposals related to climate change.

Figure 3: Example of climate change problem-solving process setting in engagement



(Source: Compiled by SuMi TRUST AM)

Scoring Climate Change Standards for Application to Director Appointment Proposals

To visualize the alignment between the climate change standards required by our Guideline on the Exercise of Voting Rights and the initiatives of investee companies, we began scoring companies with high greenhouse gas emissions based on five criteria related to climate change standards starting in September 2023. Following three years of engagement and raising

awareness, we started opposing the director appointment proposals of companies with lower scores. This engagement, integrated with exercising voting rights, targets companies with high greenhouse gas emissions. While some companies have acknowledged climate change as a critical management issue, there are cases where management remains reluctant to engage, indicating varying responses among low-scoring companies.

Examples of Integrated Operation of Engagement and Voting Rights

Energy Company A

For instance, with Energy Company A, we engaged with key executives responsible for addressing climate change issues. As a result, their medium- to long-term approach to climate change became more evident, allowing for an increased score, and we approved^{*3} a director appointment proposal that would have otherwise been opposed.

Energy Company B

Again, the scoring process clarified the visibility of efforts and disclosure levels, allowing low-scoring companies to recognize to what extent improvements are needed in each area. For Energy Company B, where we had supported climate-related shareholder proposals for two consecutive years, we repeatedly engaged with management regarding deficiencies identified by climate change standards. As a result, in May 2024, they disclosed various specific measures in their TCFD report, which allowed for a higher score. Specific measures included: (1) Quantitative disclosure of greenhouse gas emissions reduction details for 2030 and 2035, (2) Efforts aligned with the SBT certification requirement of a 4.2% annual reduction (1.5°C target), (3) Presentation of a concrete roadmap for reducing emissions from five coal-fired thermal power plants by 2030, including the phase-out of those plants. These align with the content we encouraged through dialogue, enabling Energy Company B to rise out of the low-scoring category. Furthermore, there were no climate-related shareholder proposals at the June 2024 shareholders' meeting, and we supported the company's director appointment proposals.

Automobile Companies C and D

For low-scoring companies like Automobile Companies C and D, the Guideline would generally result in opposing their director appointment proposals. However, during the engagement, we recognized positive signs of progress in their management's approach to addressing climate change issues. As a result, we approved^{*3}, as an exception, their director appointment proposals while monitoring the progress of their efforts for the next fiscal year.

Plans for the Future

In the June 2024 domestic shareholders' meetings, there were three companies where we opposed director appointment proposals based on climate change standards. Our policy clearly demands a minimum standard in voting rights exercise and seeks best practices through engagement. Opposing director appointment proposals based on climate change standards is not the objective in itself. The foundation of our approach to voting rights is to drive sustainable corporate value enhancement. For companies with high greenhouse gas emissions and future financial risks, our goal is to encourage more sincere discussions on climate change issues at the board level, the formulation of effective plans, and concrete actions. We will continue to express our stance as an asset management company through careful engagement.

Looking ahead, we plan to revisit the scores and engage with top greenhouse gas emitters in preparation for the 2025 shareholders' meetings. We will strengthen engagement with low-scoring companies to raise the bar for addressing climate change issues across top emitters. In the semi-long term, the actions of top emitters and their progress in reducing emissions may necessitate a review of our climate change standards. Through this integrated engagement and voting rights exercise, we aim to reduce greenhouse gas emissions from our managed portfolios further.

^{*1} SBT: Science Based Targets. Targets for reducing greenhouse gas emissions set by companies with a target year of 5 to 15 years in the future in harmony with the standards stipulated in the Paris Agreement. Numerical values must be aligned with the latest indicators from meteorological science. These are implemented as WMB (We Mean Business) initiatives, and are established and carried out by WMB constituent organizations such as the World Resources Institute (WRI) and CDP. SBT certification indicates that goals are certified based on the above.
^{*2} The three climate change standards for director appointments If companies with relatively high greenhouse gas emissions do not meet any of the following criteria and fail to provide reasonable explanations, we will generally oppose their director election proposals:
 (1) Insufficient disclosure based on the Task Force on Climate-related Financial Disclosures (TCFD) or equivalent frameworks.
 (2) Lack of medium- and long-term target setting and specific measures aligned with the Paris Agreement.
 (3) No progress in reducing greenhouse gas emissions (Note).
 (Note) Currently, the exercise decision is based on criteria (1) and (2). Criterion (3) will be applied once the impact of the COVID-19 pandemic subsidies and actual emissions can be adequately assessed.
^{*3} Through the Sustainability Committee and the Stewardship Activities Advisory Council, which is comprised of a majority of external experts.

Advisory Resolution and Engagement: Exercise of Voting Rights

The number of shareholder proposals on which we exercised voting rights at the June shareholders' meetings, which are concentrated during this period, has been increasing: 36 companies in 2021, 58 in 2022, and 73 in 2023. However, it remained roughly flat at 72 companies in 2024. During the proxy season of June 2024, shareholder proposals specifically seeking advisory resolutions attracted attention, so we will introduce our approach and initiatives regarding them.

Procedure of Advisory Resolutions at Shareholders' Meetings

An advisory resolution refers to a matter submitted to a shareholders' meeting despite not being an item that should be decided by the meeting. Even if approved, it only clarifies the will of a majority of shareholders without creating any legal obligations. Under the Companies Act, items that cannot be decided by a shareholders' meeting need not be taken up. Thus, if a shareholder proposal seeking an advisory resolution is made, the prevailing view in Japan has been that it is not included in the rights of shareholders to propose such matters. Therefore, when listed companies receive shareholder proposals that are not based on laws, regulations, or articles of incorporation—such as proposals for partial amendments to the articles, the appointment and dismissal of directors, or the acquisition of treasury shares—they are generally deemed invalid and not included as agenda items for the shareholders' meeting.

In the past, it was unthinkable to put non-decision matters on the agenda of a shareholders' meeting, but in recent years, cases have been seen where advisory resolutions are submitted to shareholders' meetings. Triggered by the BULL-DOG SAUCE Case*, advisory resolutions have been adopted in the context of implementing hostile takeover defense measures or initiating countermeasures.

Position of Advisory Resolutions at US Shareholders' Meetings

In contrast, advisory resolutions are commonly submitted at US shareholders' meeting. The resolution items are limited to the appointment of directors, approval of accounting auditors, amendments to articles of incorporation, etc. Matters outside the scope of decisions specified by corporate law and articles of incorporation are treated as advisory resolutions. For example, the Say-on-Pay, introduced by the U.S. Securities and Exchange Commission (SEC) in 2011, requires listed companies to submit an executive remuneration proposal at the shareholders' meeting at least once every three years, but it is a non-binding advisory resolution. Even though it

is an advisory resolution, it conveys a strong message to management and the board of directors, helps ensure transparency and accountability in remuneration, and aims to enhance shareholder involvement and strengthen the board's accountability. Recently, shareholder proposals from environmental groups calling for information disclosure on climate change have also been made. These seek opportunities for advisory votes at shareholders' meetings without a legal requirement for such resolutions. In US shareholders' meetings, the requirements for shareholders to submit proposals are stricter than in Japan. To prevent abuse and undue burden on companies, there are provisions that allow companies to reject shareholder proposals based on exclusion grounds. However, beyond just executive remuneration and climate change, a wide range of ESG-related themes, such as policies to reduce plastic usage, the formulation and enhancement of information disclosure on policies related to human rights in supply chains and for workers, and the separation of the CEO and chairperson of the board, are being taken up as advisory resolutions in many cases (Figure 1). In Japan, shareholder proposals related to climate change are typically taken up as agenda items to amend parts of the articles of incorporation to be decided at shareholders' meetings. The standard approach among domestic asset management companies regarding the exercise of voting rights is to oppose shareholder proposals involving specific business execution or amendments to the articles of incorporation that impose operational restrictions, as they are deemed inappropriate for inclusion in the articles. However, concerning climate change issues, there are cases where companies support proposals after comprehensively considering the status of the company's information disclosure and the formulation of specific action plans and goals.

* In June 2007, BULL-DOG SAUCE CO., LTD., a sauce manufacturer and distributor, introduced a takeover defense measure by issuing share acquisition rights to reduce the shareholding ratio of Steel Partners, a US investment fund attempting a hostile takeover, to one-quarter. This was to protect corporate value and the shared interests of shareholders. The measure was approved by a special resolution at the shareholders' meeting, and ultimately, in August of the same year, the Supreme Court recognized the validity of the advisory resolution regarding the activation of the takeover defense measure.

Figure 1: Examples of advisory resolutions at US shareholders' meetings

ESG classification	Proposal content	Meeting date	Corporate issuer
Environment	Establishment of policies and targets for reducing greenhouse gas emissions	May 2024	Berkshire Hathaway Inc.
	Disclosure of the ratio of financing for clean energy businesses versus fossil fuel businesses	April 2024	Bank of America Corporation
	Establishment of policies and enhancement of disclosures related to reducing plastic usage	May 2024	Amazon.com, Inc.
	Enhancement of disclosures related to climate change lobbying activities	May 2024	The Boeing Company
Social	Enhancement of disclosures on wage disparities based on gender and race	May 2024	Amazon.com, Inc.
	Establishment of diversity policies and enhancement of disclosure of quantitative data	May 2024	United Parcel Service, Inc.
	Establishment of policies and enhancement of disclosure on animal welfare	May 2024	McDonald's Corporation
	Establishment of policies and enhancement of disclosure on human rights related to supply chains and workers	June 2024	Walmart Inc.
Governance	Establishment of policies and enhancement of disclosures related to AI usage	February 2024	Apple Inc.
	Enhancement of skills matrices for directors related to diversity	May 2024	NextEra Energy, Inc.
	Separation of CEO and chairperson roles; request for an independent chair	May 2024	JPMorgan Chase & Co.
	Reduction of stock ownership thresholds required to convene a special shareholders' meeting	September 2023	General Mills, Inc.
	Enhancement of disclosures related to lobbying activities	April 2024	The Goldman Sachs Group, Inc.
	Amendment of clawback (executive remuneration repayment) policies	September 2023	FedEx Corporation
	Elimination of unequal voting rights structures	May 2024	Meta Platforms, Inc.

(Source: Compiled by SuMi TRUST AM based on published information)

Shareholder Proposal Case for a Domestic Company

Here, we introduce a case of a shareholder proposal for domestic company A. At the annual general meeting of shareholders in June 2024, the shareholder proposal submitted by UK-based asset management company B to company A was a non-binding advisory resolution. Initially (in April 2024), the proposal aimed to have A's board formulate and publish a capital allocation plan to allow general shareholders to vote on it. Therefore, company B requested through an open letter that company A include the following as company proposals: (1) a shareholder return plan, and (2) a reduction plan for the equity stake in company C, which is an equity-method affiliate of A. However, since A's board decided not to consider these proposals without explanation, B was compelled to submit a legally binding proposal to amend the articles of incorporation.

Our Engagement with Company A

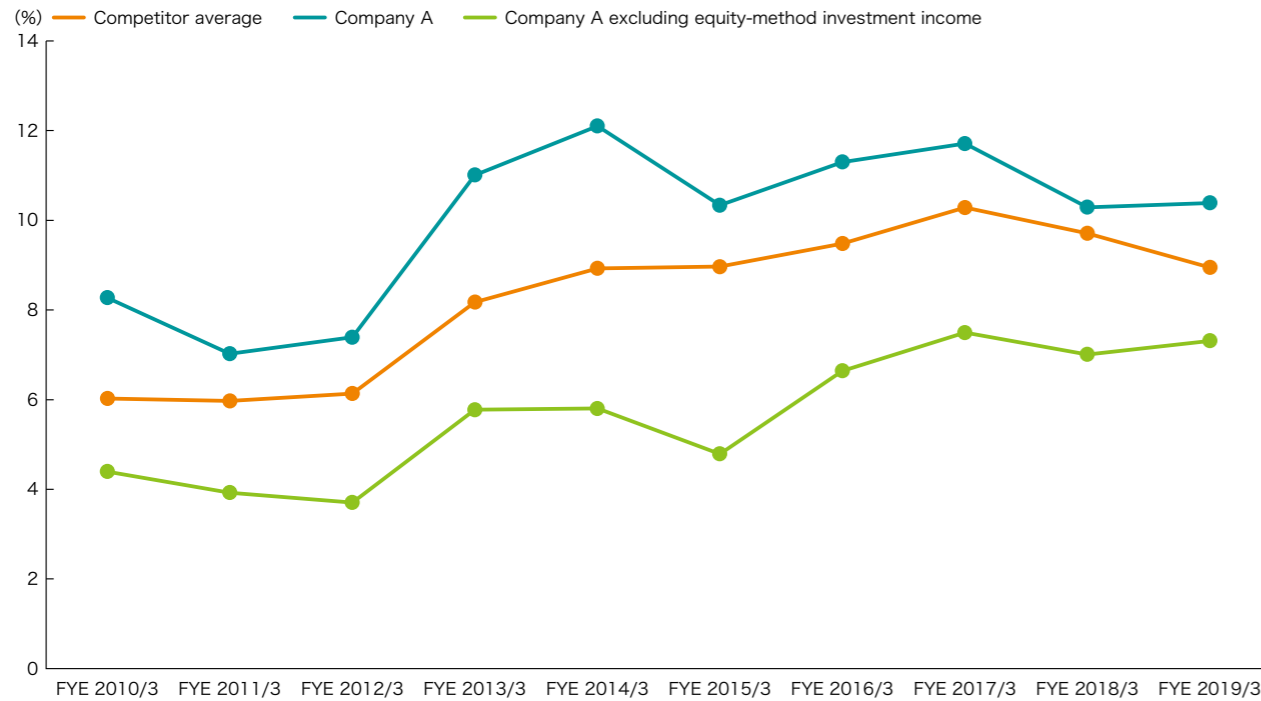
Since 2018, we have been engaging with company A through meetings with its executives to enhance

corporate value. The content of our engagement focused on efficiently utilizing investment securities with little synergy to the core business and clarifying shareholder return policies while being conscious of capital costs. This was closely aligned with the purpose of company B's proposal.

1. Ambiguity in Capital Allocation Policy

The Return on Equity (ROE), excluding equity-method investment income, remained in the 5% range over the past decade up to fiscal year ended March 2019, even before the spread of COVID-19, which was relatively low compared to its peers (Figure 2). We analyzed that this was due to the ineffective utilization of shares in company C, which were recorded on a book-value basis, as well as the insufficient growth investments in core businesses and expansion into new businesses. Additionally, despite a clear shareholder return policy aiming for a consolidated payout ratio of 10% announced in the medium-term management plan published in May 2019, there was no significant progress in capital allocation discussions, and efforts to enhance corporate value remained insufficient.

Figure 2: ROE trend of company A



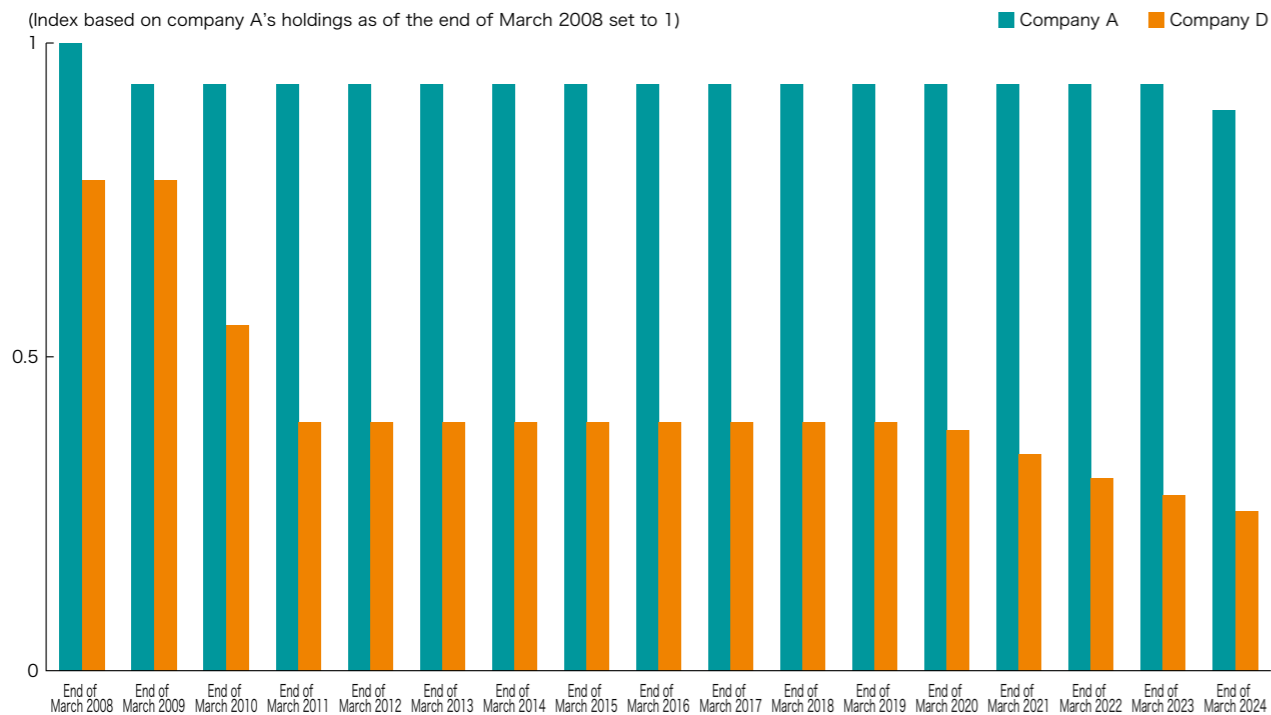
(Source: Created by SuMi TRUST AM based on company materials and Bloomberg data. Competitor average refers to the average of 17 major domestic companies.)

2. Excessive Holding of Company C's Shares

In March 2024, company A announced the partial sale of its shares in company C and a special dividend for the first time in over a decade while maintaining a holding ratio that allows for equity-method accounting. In contrast,

company D, which held a similar number of shares in company C, has consistently sold them every year since 2020, indicating that company A has not effectively utilized these shares over the long term (Figure 3).

Figure 3: Trends in the number of shares held by company A and company D in company C



(Source: Created by SuMi TRUST AM based on securities reports. Adjusted for stock splits of 1:4 on April 1, 2015, and 1:5 on April 1, 2023.)

Engagement Just Before the Shareholders' Meeting and Actions by Company A

Up to the shareholders' meeting in June 2024, we conducted engagement with company A, focusing on the following four critical themes aimed at enhancing corporate value:

1. Retaining shares in company C gives an outward appearance of higher capital efficiency, which reduces the incentive to enhance corporate value.
2. Compared to peers, investments in growth for core businesses and efforts to expand into new businesses are insufficient.
3. The capital allocation policy lacks clarity from a long-term perspective.
4. There are governance issues, such as the composition of outside directors.

From our side, we expressed the opinion that: (1) Excluding the equity-method investment income, company A's ROE has been lagging behind its peers for the long term, hence it is necessary to work on improving ROE without relying on equity-method investment income; (2) As capital allocation, it is essential to clarify the policy on long-term growth investments and shareholder returns using the proceeds from the sale of company C shares as a source.

In response, company A, at the financial results briefing held in May 2024, merely presented an image in which the composition ratio of operating profit from its core business would fall below half by the final year of the long-term management plan (FYE 2031/3). Despite receiving shareholder proposals, the reference to plans contributing to medium- to long-term corporate value enhancement was insufficient. Subsequently, we continued discussions with company A on central themes for enhancing corporate value, but there was no significant change in its stance. Additionally, we did not receive sufficient explanations regarding the reasons behind denying the acceptance of company B's proposal as an advisory resolution and instead presenting it as a proposal to amend

the articles of incorporation at the shareholders' meeting.

Our Decision on This Voting and Our Perspective

In principle, we oppose articles of incorporation amendment proposals related to business execution. However, in this case:

- The sluggish movement by company A towards improvement despite years of engagement.
- The fact that company B's proposal content largely overlaps with the management issues we believe company A faces.

As an exception, we agreed to support company B's shareholder proposal, believing it would contribute to enhancing company A's medium- to long-term corporate value (Note: this matter went through a decision-making process involving the Stewardship Activities Advisory Committee*, which deliberates and advises on the appropriateness of interpreting guidelines for proposals not stipulated in our Guideline on the Exercise of Voting Rights and individual proposals).

Generally, domestic listed companies do not consider advisory resolutions part of shareholder proposal rights; hence, it has become customary not to include them as shareholders' meeting agenda items. Moreover, as mentioned earlier, we understand that domestic asset management companies also tend to oppose shareholder proposals that involve amendments to the articles of incorporation, citing restrictions on business execution as the reason. We believe that advisory resolutions can deepen the dialogue between companies and investors and effectively prompt corporate behavior change. Therefore, they should be utilized at shareholders' meetings. On the other hand, we also believe the system needs to be reviewed to prevent misuse.

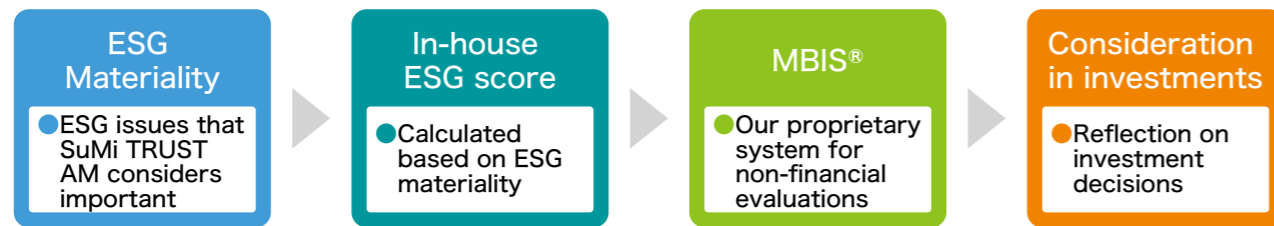
Regarding shareholder proposals seeking advisory resolutions, we will continue to judge based on our voting principles, evaluating whether they contribute to enhance the medium- to long-term corporate value of the investee companies.

* See page 92.

Incorporating ESG Factors into Investment Decision-making

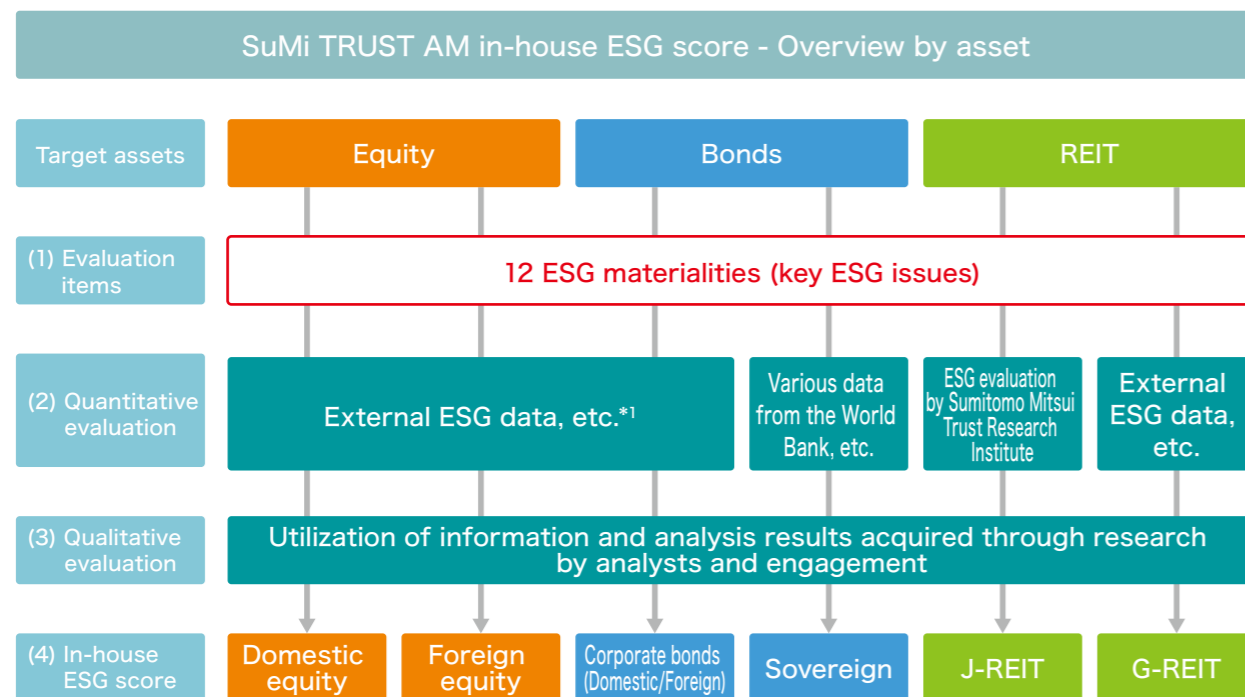
ESG considerations in investment decision-making are one of the three pillars of our stewardship activities as a responsible institutional investor. By encouraging investee companies to address ESG issues, we aim to support their creation of social value (solving social issues and contributing to society) and generation of economic value/profits. Additionally, by factoring this into investments, we aim to maximize the medium- to long-term investment returns for our clients and mitigate downside risks. We believe this is a crucial role of asset management companies within the investment chain. Here, we explain overview of incorporating ESG factors into investment decision-making and provide representative examples in major asset classes.

The Flow of Incorporating ESG Factors into Investment Decision-making



(Source: SuMi TRUST AM)

Evaluation of Investee Companies (1): In-house ESG Score

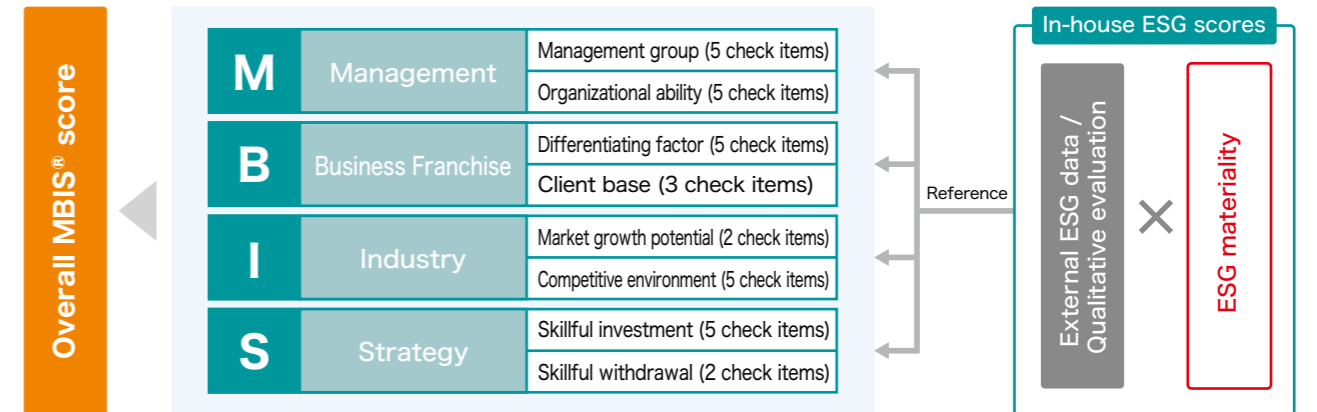


(Source: SuMi TRUST AM)

Principally, we give an in-house ESG score on the investment universe for the whole asset. The in-house ESG score is our investment evaluation index given from the perspective of investors after analyzing the impact of opportunities and risks resulting from ESG issues on nations,

companies, etc. We calculate this score based on our ESG materiality, using external ESG data and incorporating information and analysis results obtained through analyst research and engagement.

Evaluation of Investee Companies (2): MBIS®*2

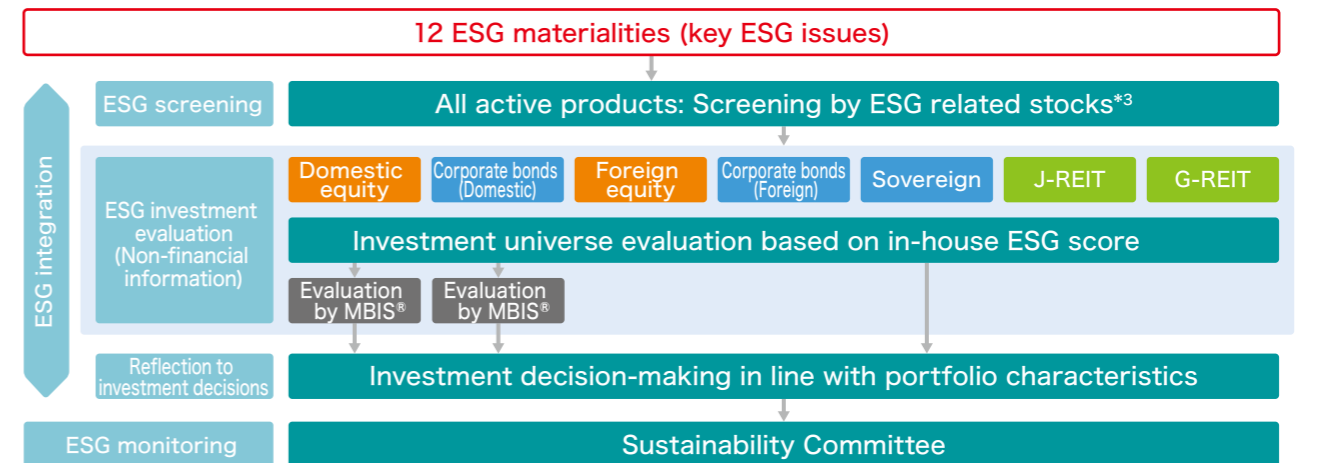


(Source: SuMi TRUST AM)

MBIS® is our proprietary system that utilizes non-financial information, including ESG factors, to assess companies' medium- to long-term sustainable growth potential. It is applied in managing domestic equities and bonds. For companies covered by analysts, we consider how investment opportunities (such as commercialization and monetization by creating

new markets or business models through addressing ESG issues) and risks impact their medium- to long-term sustainable growth. MBIS® stands for Management (M), Business Franchise (B), Industry (I), and Strategy (S). Each evaluation factor incorporates assessments from our in-house ESG score. We incorporate the concept of the SDGs and the 17 goals into our evaluation.

Reflection to Investment Decisions



(Source: SuMi TRUST AM)

Regarding materiality, for companies involved in controversial weapons (cluster bombs, anti-personnel mines, biological and chemical weapons) where engagement is not possible due to company circumstances, such stocks will be excluded from active funds (equity and bonds).

Subsequently, the investment decisions incorporate MBIS® and our in-house ESG scores according to the characteristics of each asset and investment strategy. Representative examples are introduced on the next page.

*1 We use data such as from external ESG data vendors as references for our own ESG quantitative evaluations. We conduct at least one dialogue annually with vendors and, if necessary, discuss adjustments to the services used by our company (e.g., expanding the universe, improving data accuracy, enriching incident reports).
 *2 MBIS® is the registered trademark of Sumitomo Mitsui Trust Asset Management Co., Ltd.
 *3 The screening results were limited to 8 companies, one less than the previous year (as of June 2024). Anhui Great Wall Military Industry Co., Ltd., LIG Nex1 Co., Ltd., Poongsan Corp., POONGSAN HOLDINGS Corp., SNT DYNAMICS Co., Ltd., SNT Holdings Co., Ltd., China Aerospace Science & Technology Group Co., Ltd., Israel Aerospace Industries Ltd.

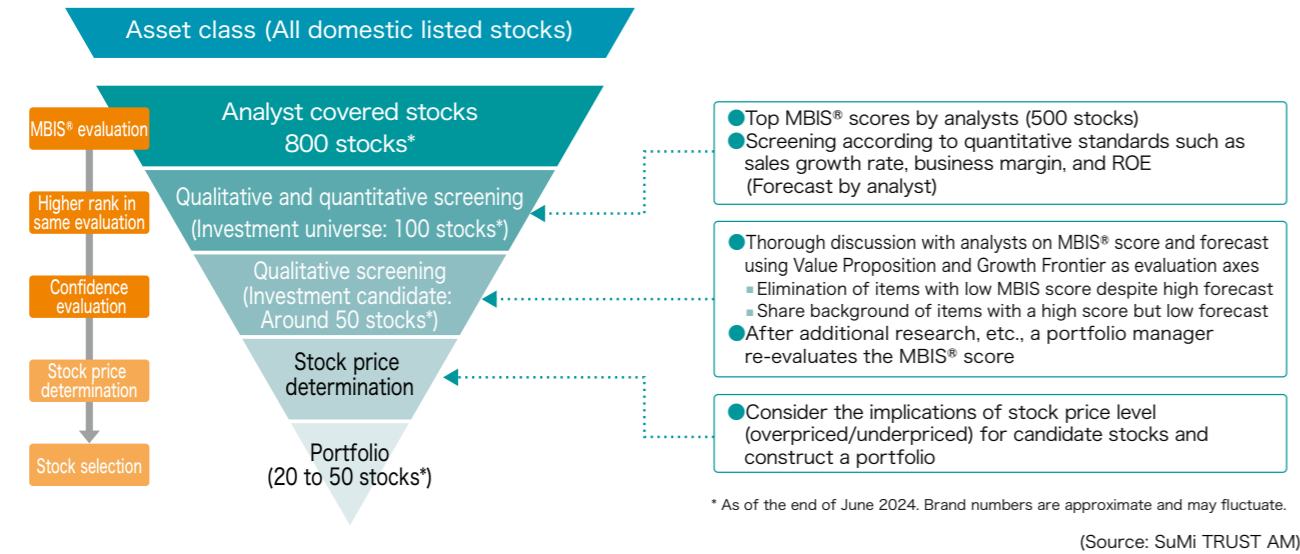
Domestic equity

Japan Quality Growth Strategy (Research, ROE Enhancement)

The following will explain Japan quality growth strategy (research, ROE enhancement) as examples of domestic equity ESG integration. This fund uses an investment universe of about 500 stocks covered intensively by our analysts. These were narrowed down to about 100 stocks based on (1) stocks with the highest MBIS® score, and (2) 5-year performance forecasts by analysts (future trends of sales, business margins, and ROE). Portfolio managers thoroughly discuss the MBIS® score and future forecasts with analysts based on the Value Proposition, which is the source of the added value, and the Growth Frontier, which indicates market development and creativity, as evaluation axes. Items with a low MBIS® score are eliminated from the investment universe even if these have

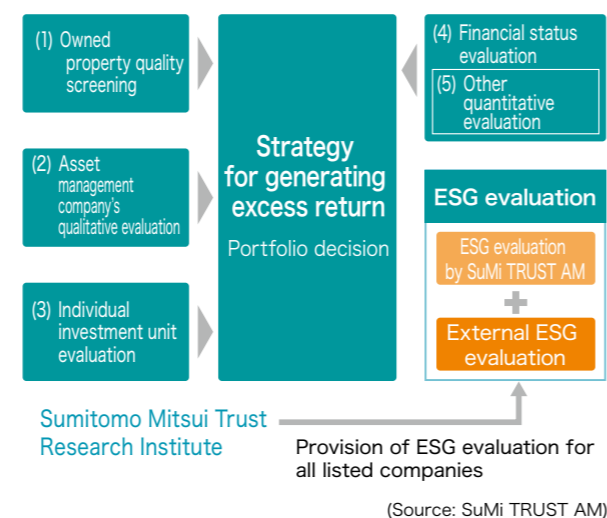
a high future forecast, and items with a high MBIS® score are kept in the investment universe even if these have a low future forecast. After conducting interviews with management and business representatives, together with analysts, portfolio managers re-evaluate the MBIS® score to narrow it down to around 50 potential stocks. During discussions with analysts, priority is given to ideal corporate value. Company potential indicated by the MBIS® score such as the possibility of the investment candidate's market capitalization doubling over the next three to five years, room for improving their position in the industry, and expectations for improved profit margin by reforming the earnings structure are shared.

Portfolio construction process



J-REIT

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

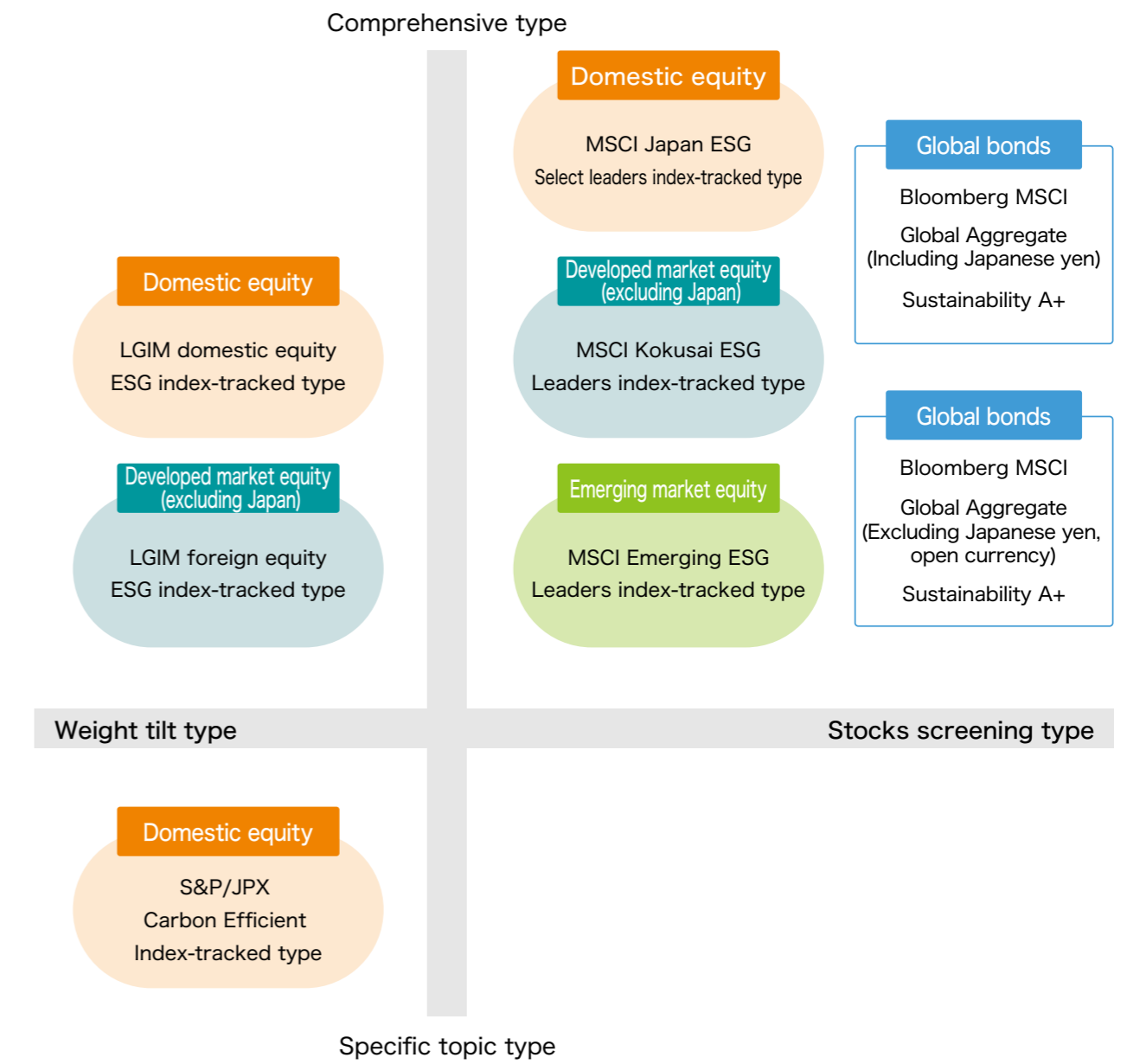


Passive Investment Strategy

SuMi TRUST AM provides a wide range of ESG investment products for all assets, even with passive investment, from two perspectives: (1) providing a variety of investment opportunities for clients ensures return on investment while

also helping to improve the sustainability of society and companies, and (2) this contributes to stewardship activities since ESG investment leads to changes in corporate behavior.

SuMi TRUST AM's ESG passive investment strategy map





SuMi TRUST AM's Japanese Equity ESG Evolution Strategy

Kuniyuki Sugihara

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

What is the Japanese Equity ESG Evolution Strategy?

In order to achieve a sustainable world, the entire corporate sector, not just specific companies or industries, must address the increasingly serious global challenges. To accomplish this, it is essential not only for companies with strong ESG initiatives to contribute to solving social and environmental issues but also for companies that have lagged behind in addressing these issues to confront their own ESG issues and improve. In fact, as the concept of ESG becomes more widely accepted, the need to address ESG issues is being increasingly recognized. In Japan, too, there is a growing movement among companies to seriously face environmental and social issues and governance challenges and evolve themselves.

We developed this strategy based on the belief that an asset management company's key role is to fully capture the investment opportunities created by corporate transformation aimed at realizing a sustainable world and to support such transformations through engagement, thus pursuing better investment outcomes and contributing to the realization of a sustainable world. There are numerous ESG-related investment strategies, but this strategy differentiates itself in the following ways: (1) it allows us to benefit from the sustainable growth of companies that excel in addressing ESG issues and contribute to solving social and environmental challenges through their businesses, (2) it diversifies investment opportunities by including companies that are about to transform to strengthen their response to ESG issues into our investment target, thereby enjoying the improvement in corporate value through overcoming ESG issues, and (3) we expect additional investment returns by supporting corporate transformation to overcome ESG issues through engagement.

Investment Philosophy

The Japanese Equity ESG Evolution Strategy (hereinafter "ESG Evolution Strategy") is based on the following concepts:

- We are currently facing numerous social and environmental challenges that must be resolved if the world is to continue developing, such as global warming, resource depletion, widening inequality, and health threats.
- These challenges are long-term risks for companies but also opportunities for corporate value creation and investment opportunities. As the world transforms to address various social and environmental challenges, companies that confront these challenges and contribute to solving them through their businesses will be able to grow by capturing structurally expanding global demand. In contrast, companies with business lines facing social and environmental issues or those with governance challenges can enhance their corporate value by confronting their issues and transforming into entities that align with a sustainable world. On the other hand, companies that cannot transform themselves will fail to address global challenges and changes, continue incurring costs, and eventually erode their corporate value and viability.
- We focus on companies that can contribute to overcoming global ESG issues and creating a better future, as well as those willing to transform themselves. These companies can potentially create value that is not yet recognized by the market.
- There are opportunities to support companies' efforts to address long-term global challenges and their own issues, thereby fostering the growth and transformation of investee companies. Through stock selection and support for investee companies, we aim to achieve above-market-average investment returns over the medium- to long-term.

Stock Selection Process and Portfolio Overview

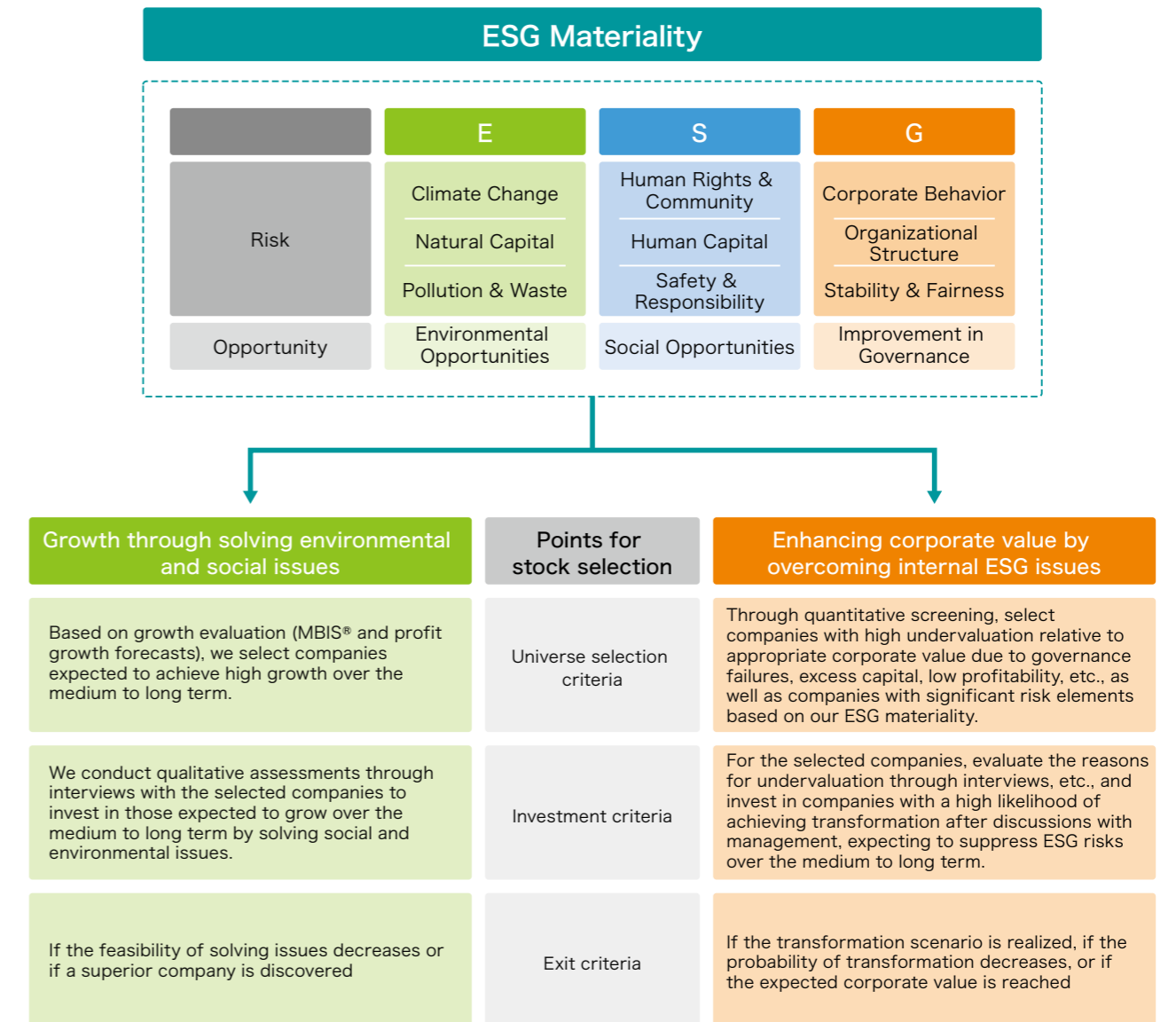
The investment process is as follows:

- First, we exclude some stocks from among all domestically listed companies based on market capitalization, stock liquidity, and credit assessment.
- Next, using our proprietary company evaluation framework MBIS®, our analysts' earnings forecasts, and quantitative screening, we select companies deemed undervalued relative to their fair value or with high growth potential.

We also identify companies facing significant ESG issues through ESG evaluations based on our specified ESG materiality.

- We conduct qualitative evaluations of these selected companies through meetings with management, investing in companies that are highly likely to overcome their own ESG issues or those expected to grow over the medium to long term by solving social and environmental challenges through their businesses.

Figure 1: ESG Evolution Strategy investment process chart



(Source: SuMi TRUST AM)

Figure 2 shows the distribution comparison of SuMi TRUST AM's ESG scores (hereinafter "ESG scores") for the ESG Evolution Strategy and TOPIX (Tokyo Stock Price Index) as of the end of June 2024. The ESG score is comprehensively evaluated for each company on both quantitative and qualitative aspects based on evaluation items set in line with our ESG materiality, expressed on a scale of 1 (lowest) to 5 (highest).

The average ESG score per stock for the ESG Evolution Strategy is slightly higher than that for TOPIX, but there are significant differences in the score distribution. Specifically, while there is no significant difference in the total composition ratio of stocks rated 4 or above, i.e., highly rated stocks, the total composition ratio of stocks rated 3 to less than 4, i.e., medium-rated stocks, is more than five percentage points lower for the ESG Evolution Strategy. This

implies that companies with relatively lower ESG evaluations, such as companies with ESG issues (risks), are included in relatively large numbers. Companies with low ESG scores currently lag behind in ESG initiatives. However, these companies can also be seen as having the potential to improve corporate value by driving their own transformation. The gap compared to TOPIX is currently as shown in Figure 2 and as described above, but the investment philosophy of ESG Evolution and the stock selection framework suggest that the proportion of medium-rated and low-rated stocks is likely to remain high. By supporting the transformation of these companies through engagement, we aim to enhance corporate value and achieve investment results.

On the other hand, companies with relatively high ESG scores are those leading in ESG initiatives. These companies have a high

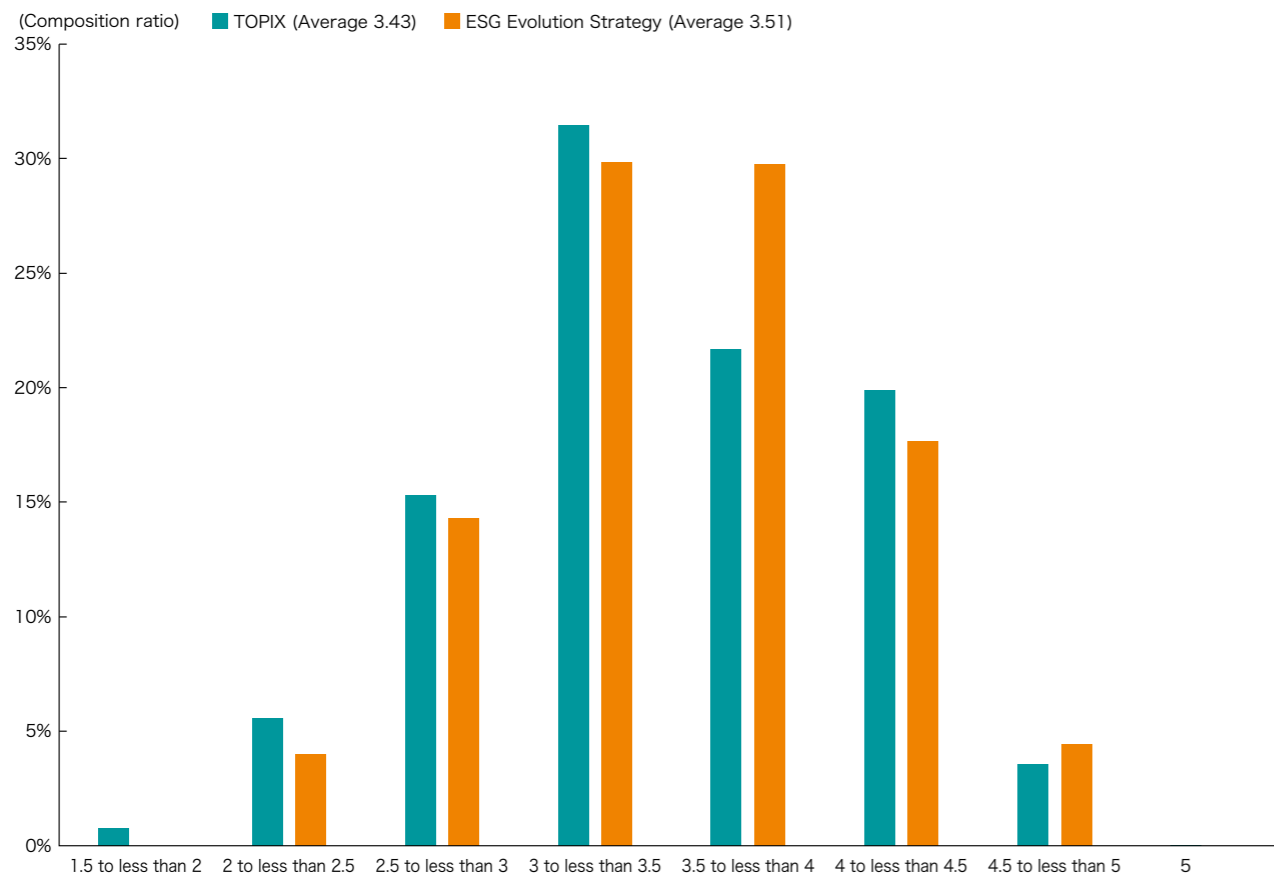
potential for medium- to long-term growth by contributing to the resolution of social and environmental issues through their businesses, and are expected to generate high investment returns. They will consistently occupy a certain proportion of the portfolio.

Future Outlook

The belief that addressing ESG issues and promoting sustainability improvements is important has undoubtedly permeated and become established among society, investors, and companies, even though once you dive into specific issues, there are various limitations, dilemmas where solving one problem may cause another, and country-specific circumstances that can lead to debates polarized into support and opposition. Many companies share the collective and increasingly strong belief that "We want to improve ourselves," "Ignoring social and environmental challenges affects our own sustainability," and "We want to enhance social and environmental value along with corporate value through our business."

The purpose of the ESG Evolution Strategy is no different from previous or other investment strategies in aiming for superior investment returns. However, we strongly believe in pursuing investment opportunities that harmonize the efforts of companies aiming to improve society, the environment, and themselves with enhancing corporate value. We consider engagement with companies to be an extremely crucial tool. By building on such efforts, we aim to enhance our engagement skills and, together with investee companies who share the same vision, contribute to creating a better society while simultaneously providing better investment returns to clients who share this vision.

Figure 2: Comparison of ESG score distribution between ESG Evolution Strategy and TOPIX



(Source: SuMi TRUST AM, as of the end of June 2024)

ESG Integration in Bond Investment

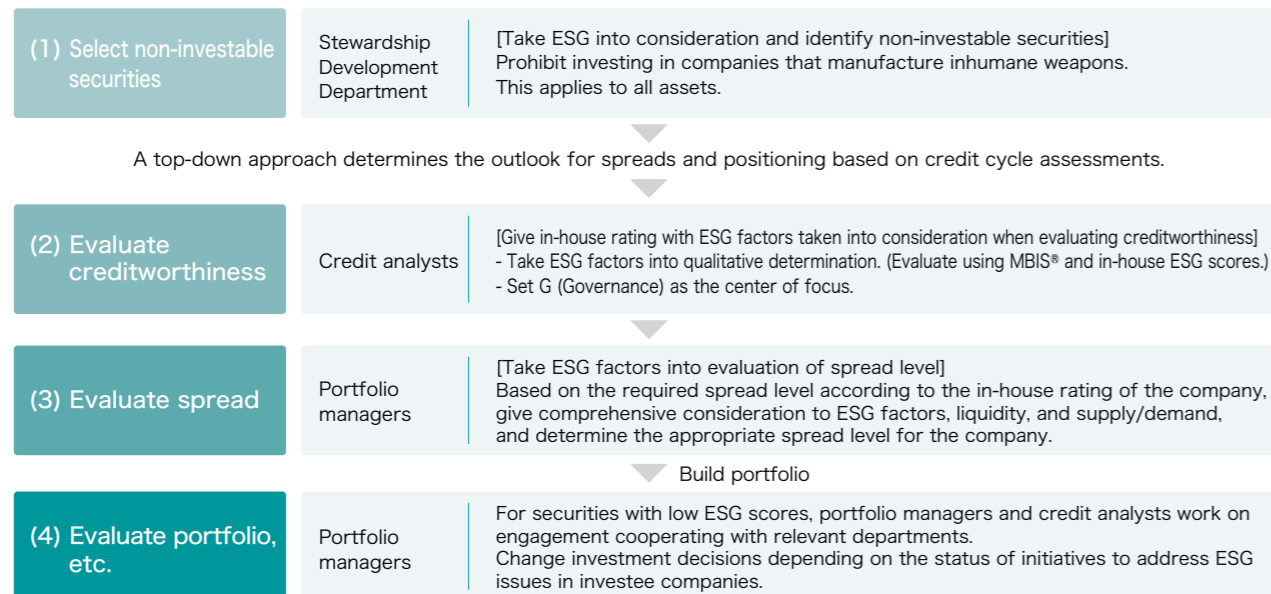
We believe that ESG integration in bond investment is crucial to a sustainable investment strategy. ESG integration enhances long-term risk management and enables the fulfillment of social responsibility. In particular, corporate governance risks can directly affect bond values, and considering these factors is essential for maximizing investment performance. Additionally, ESG integration in bond investment contributes to the social value creation of issuers, such as companies and governments, which in turn enhances brand value and competitiveness in the market. Furthermore, it encourages greater visibility and disclosure by issuers, which is expected to strengthen the trust relationship between investors and issuers. This approach to bond investment also contributes to developing new financial products, such as green bonds and sustainability bonds, which fund specific environmental and social projects. While the most critical factor in bond investment is the spread based on the issuer's creditworthiness, these bonds are attractive options for investors and serve as financing tools for issuers to contribute to Sustainable Development Goals (SDGs). The importance of ESG in the bond market is increasing, bolstered by the progress in international investment standards and regulations.

ESG Integration in Corporate Bond Investment

Although bondholders do not have voting rights, as a direct funder, we believe that we have an important position for corporate management. Therefore, as a bondholder, while we have the right to ask investee companies to take measures for medium- to long-term growth and to reduce downside risk, we also believe we have responsibilities to request social contribution. We feature collaboration between credit analysts, equity analysts, and officers in charge of the Stewardship Development Department. The goals

of enhancing the sustainability of investee companies and society and increasing corporate value remain consistent. Both sides perform research and engagement from different perspectives for the same investee company, which makes it possible to add value to activities and to strengthen support, allowing companies to address ESG issues. ESG is taken into consideration for investment based on the credit evaluation and spread evaluation.

Figure 1: Process of ESG integration in bond investment



ESG Integration in Sovereign Bond Investment

Investing in sustainable government bonds can be a way to reduce future risks while pursuing stable return, and it is believed that investment that takes ESG into consideration is important when considering government bonds (hereinafter "sovereigns"). Incidents such as Russia's invasion

of Ukraine have greatly affected the order of international society, and have reminded us of the importance of considering ESG factors when investing in sovereigns. To meet the needs of our clients, we also provide funds that integrate sovereign ESG evaluations.

Sovereign ESG Score

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

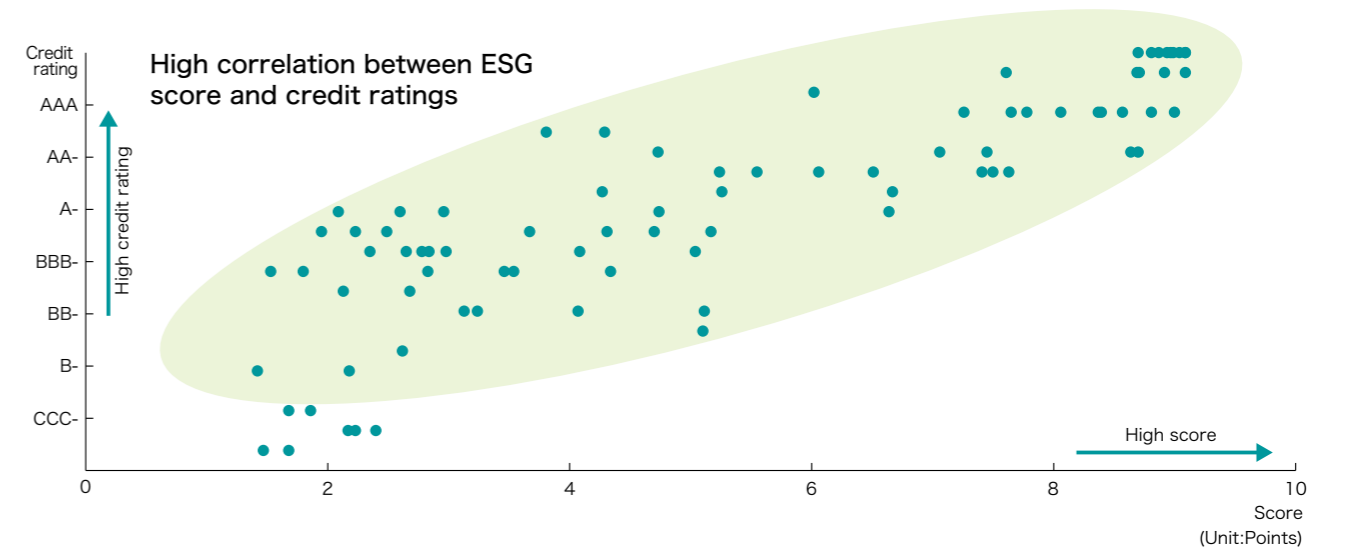
While sovereign ESG scores are based on quantitative data, qualitative judgments are added when unforeseen events arise that cannot be captured in the data promptly (e.g., delays in data incorporation). For example, when Russia invaded Ukraine in February 2022, our quantitative data could not quickly incorporate this event, so we also used qualitative judgment to lower scores.

Figure 2: Key evaluation items of sovereign ESG scores and our ESG materiality

ESG classification	ESG materiality item	Sovereign ESG score breakdown
E Environment	Climate change	Climate change
	Natural capital	Biodiversity and habitat, water resources, etc.
	Pollution & Waste	Air quality, air pollution, etc.
	Environmental Opportunities	Waste management, etc.
S Social	Human Rights & Community	Internet availability, etc.
	Human Capital	Average life expectancy, income distribution, etc.
	Safety & Responsibility	Global Peace Index, etc.
G Governance	Corporate Behavior	Ease of doing business
	Organizational Structure	Quality of regulations, legal system, etc.
	Stability & Fairness	Prevention of corruption, government efficiency, etc.

(Source: SuMi TRUST AM)

Figure 3: ESG score and credit ratings



(Source: SuMi TRUST AM)

Engagement in Corporate Bonds (Credit)

Principally, company ESG issues such as the inclusion of environmental response and resolution of social issues are the same for equity and bonds, so we also promote engagement activities for bonds based on our 12 ESG materialities. For this, we utilize our strengths as a multi-asset manager, and

collaborate with equity analysts and the Stewardship Development Department. In addition to common issues, we also focus on engagement activities based on our unique approach to the bond field. The following will introduce some examples.

Figure 4: Conceptual diagram of the relationship between SuMi TRUST AM's ESG materiality and unique approaches to bond field



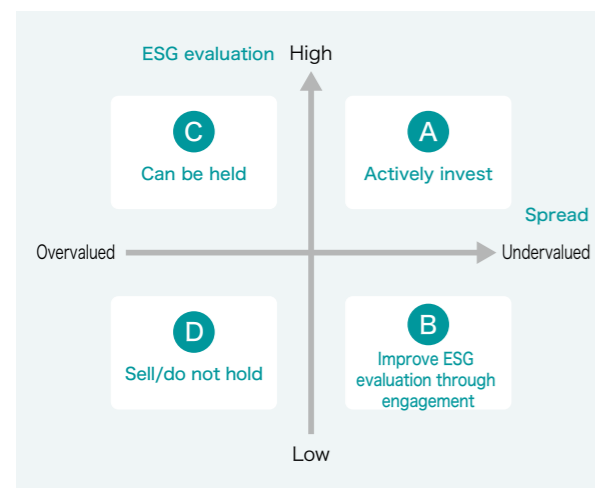
(Source: SuMi TRUST AM)

Integration

If there is a security with an undervalued spread that is highly attractive for investment, investment may be done based on later

engagement conditions even if the ESG evaluation is low at the time of investment but could improve later (Area B in Figure 5).

Figure 5: Relationship between spread evaluation and ESG rating in investment decisions



- A Actively invest**
Undervalued with a high ESG rating, making it highly likely to invest actively (purchase/hold)
- B Improve ESG evaluation through engagement**
Undervalued but with a slightly lower ESG rating. Aim to improve the ESG rating through engagement
- C Can be held (Possible to hold but subject to sell (Not held))**
Overvalued but with a high ESG rating, making holding possible
- D Sell/do not hold**
Overvalued with a low ESG rating, with the potential for future spread widening (price decline), making it a candidate for sale (Not held)

(Source: SuMi TRUST AM)

Recommendations on Financing Methods

Efforts for SDGs bonds

Since the issuing of SDGs-related bonds is becoming common in various industries, we continue to engage in discussions based on EU taxonomy, etc., and dialogue on

enhancing the use of funds and setting goals. We also focus on follow-up after investing in SDGs-related bonds.

Figure 6: Types of SDGs bonds, funding use, and the relationship with ESG elements

	Funding methods	Use of funds
	Transition bonds	Projects that do not qualify as green projects but increase the likelihood of future transitions.
	Green bonds	New or existing green projects that contribute to climate change mitigation and adaptation, conservation of natural resources, biodiversity conservation, pollution prevention, and other environmental objectives
	Sustainability bonds	Projects that qualify for both green and social objectives
	Social bonds	New or existing social projects aimed at addressing or mitigating specific social issues or achieving positive social outcomes for certain groups or society as a whole
	Sustainability-linked bonds	Funds can be used for any purpose, but they must be linked to predefined, ambitious, and meaningful sustainability performance targets tied to funding conditions like interest rates.

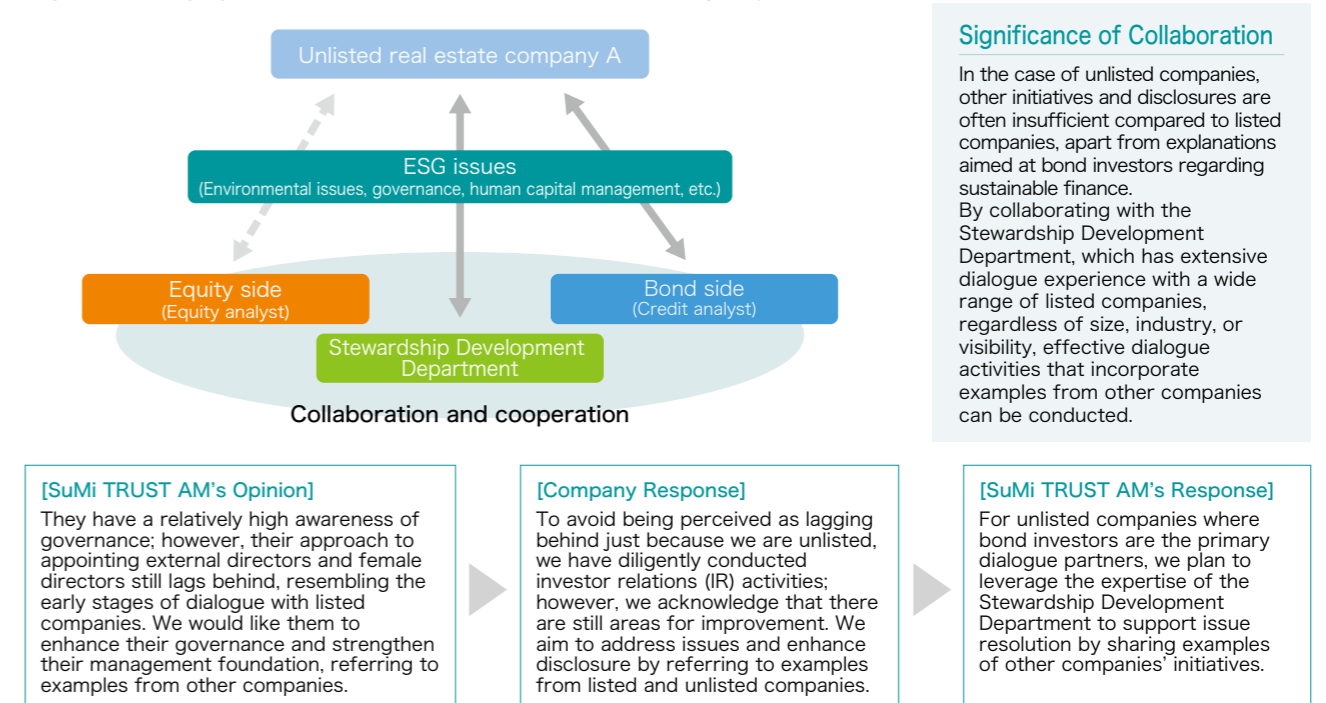
(Source: SuMi TRUST AM)

Collaboration with Equity Analysts and Stewardship Development Department

For companies in industries that emit a large amount of greenhouse gases, a transition strategy is an urgent issue requiring a large amount of capital. However, this can also be considered a business opportunity for future growth and social value creation. Regarding this point, we believe that more effective dialogue is possible with the company in collaboration with

equity analysts, and we continue to focus on this. Furthermore, for unlisted companies, which tend to have less dialogue with the market than listed companies, we collaborate with the Stewardship Development Department, which has extensive expertise, to engage in dialogues that support the resolution of ESG issues for investee companies.

Figure 7: Engagement with unlisted real estate company A



(Source: SuMi TRUST AM)

Engagement Case Studies

Case study 1	Used car sales company A	Risk of scandals	Governance structure
SuMi TRUST AM's Opinion	They have a certain level of competitiveness and business foundation within the industry. Their conservative financial management approach limits the risk to their creditworthiness from a quantitative perspective. However, the recent insurance fraud incident in the same industry, past abrupt expansions and withdrawals from overseas markets, and the unique management structure with two brothers as co-CEOs suggest potential governance risks related to scandal occurrence and unstable business strategy. We would like to confirm these points in detail when considering an investment.		
Company Response	Regarding the insurance fraud incident in the industry, their incentive structure for sales personnel is more conservative compared to peers, and the mechanics responsible for the incident are not incentivized at them.		The two-CEO structure has functioned as a mutual monitoring system over many years, allowing them to steadily implement their business strategy in line with their medium-term plan.
SuMi TRUST AM's Opinion	We judge the likelihood of similar incidents occurring to be relatively low.		Considering the current situation, no significant issues are observed in management control at this point.
Plans for the Future	Although there are still governance issues to consider, we believe investment is possible provided dialogue and monitoring continue. We decided to invest, assuming a high spread level compared to the credit rating. If governance risks that significantly damage the business foundation or creditworthiness emerge, we will consider selling.		

Case study 2	Metal products company B	Disclosure of capital allocation	Information disclosure
SuMi TRUST AM's Opinion	The IR materials do not disclose capital allocation, making it unclear how investments and shareholder returns are approached and the sources and certainty of cash generation that support them. Explicitly disclosing capital allocation would be necessary to better inform investors about the company's financial policies.		The financial foundation could be at risk depending on how activists' demands for shareholder proposals are handled. They should adopt a proactive financial management approach and enhance information disclosure to avoid activist intervention while responding to existing demands on a case-by-case basis.
Company Response	They recognize the need for further consideration to enhance investor understanding.		They will assess which demands can be addressed and which cannot. While some shareholder returns are necessary, they will not meet all demands, such as achieving a 100% dividend payout ratio. They will consider enhanced disclosure of overseas business information, which activists and SuMi TRUST AM have requested.
Company Action	In the explanatory materials for the new medium-term management plan, they provided detailed disclosures on capital allocation, thereby enhancing the visibility of their business and financial strategies.		Financial results briefing materials and new medium-term management plan materials after the meeting achieved enhanced disclosure on overseas business.
SuMi TRUST AM's Opinion / Future Policy	From our perspective, promoting clear disclosure of capital allocation to corporate bond issuers will help deepen investor understanding of business and financial strategies, streamline and elevate dialogue, and prevent sudden downgrades or unnecessary market confusion during major investments or acquisitions. Additionally, while conservative financial management is desirable from a credit strength perspective, it does not always maximize corporate value. In some cases, activist interventions could lead to significant financial deterioration. Therefore, we encourage appropriate financial management and disclosure to avoid such interventions.		

Case study 3	Electric power company C	Handling of misconduct and information disclosure
SuMi TRUST AM's Opinion	Regarding the series of inappropriate incidents (e.g., antitrust violations in special/high-voltage services, improper viewing of customer information managed by the transmission and distribution business), regular updates on the progress and effectiveness of preventive measures should be disclosed for investor verification.	
Company Response	They acknowledged that one reason for these incidents is the inability to break away from old practices, even after the liberalization of the electricity sector. They plan to drive a mindset change and cultural transformation among all employees through preventive measures. However, the method for disclosing the progress and establishment of these measures is yet to be determined and remains a future consideration.	
Company Action	Following our meeting, the financial results announcement included a release regarding the implementation status of preventive measures. Upon inquiry, they confirmed, "The engagement content, including with your firm, was fed back to top management, including the president, which led to a recognition of the need to communicate the progress to investors and regional customers."	
SuMi TRUST AM's Opinion / Future Policy	In addition to the above case, they have significantly improved their disclosure levels over the past few years, including their transition roadmap and capital allocation, standing out among their peers in the electric power sector. This improvement is partly due to the financial officer's proactive stance towards dialogue with bond investors, and we recognize that engagement from our firm and other bond investors has been effective.	

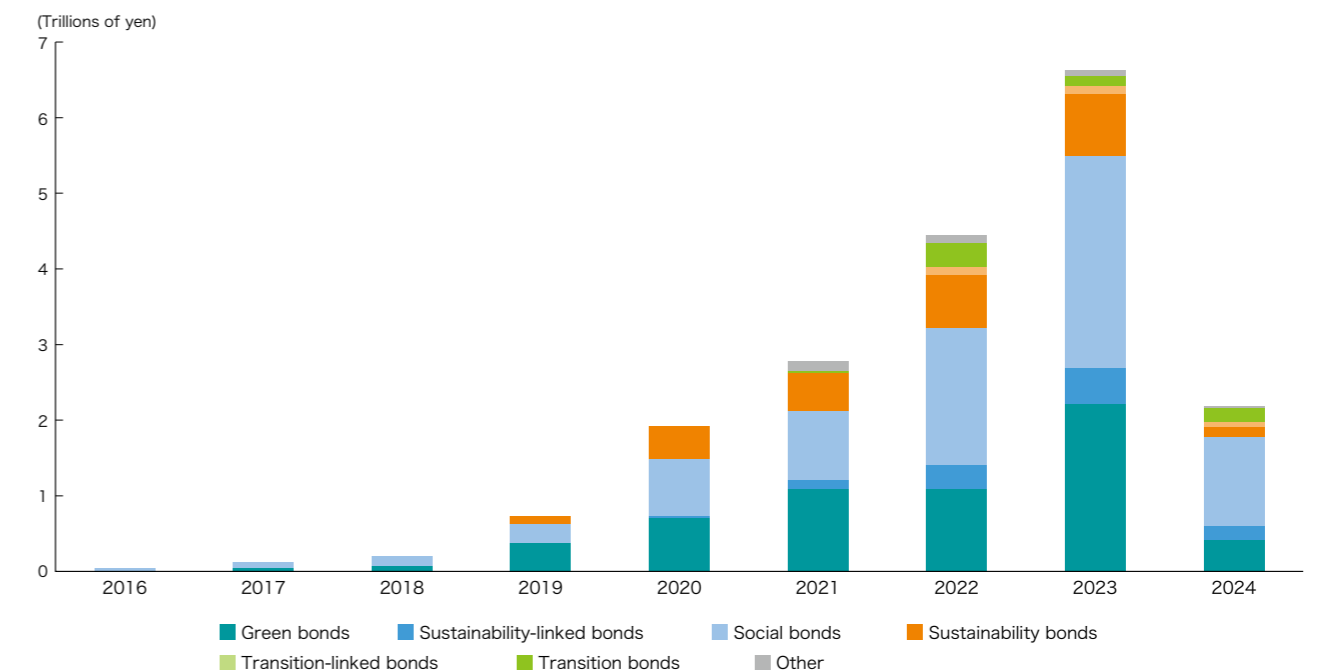
Expansion of the Transition Bond Market

SDGs-related bonds have seen increased issuance and widespread adoption. Recently, discussions on the expansion of the transition bond market and the use of funds have become more active, with SuMi TRUST AM engaging in various dialogues with issuers. As a member of the Ministry of Finance's Meeting of JGB Investors, we have expressed opinions on new issuances of Green Transformation Economy Transition Bonds, especially Climate Transition Bonds (CT Bonds), which have obtained certification from evaluation agencies for compliance with international standards. Most investors, including ourselves, have expressed generally positive opinions on the new issuance in February 2024, subsequently leading to its issuance. SuMi TRUST AM believes that CT Bonds and transition bonds, in the broad sense, represent a practical solution for Japan to achieve greenhouse gas emission reductions. We have actively discussed with the Ministry of Finance and corporate issuers. We acknowledge that some investors may not consider transition bonds purely green bonds. However, from our perspective, they are bonds that contribute to reducing greenhouse gases, which aligns with

our investment goals. Initially, transition bonds were primarily issued by Japanese entities, but recently, we've also seen issuances by overseas companies. We believe reducing emissions from high-emission assets contributes more to greenhouse gas reduction than issuing green bonds to finance certain green assets of high-emission companies. During a dialogue with a high-emission company, we heard concerns that many institutional investors, committed to achieving net-zero emissions, might find it increasingly challenging to raise funds through bonds from financial institutions participating in initiatives such as NZAMI*. In response, we emphasized that our goal, along with other participating institutional investors, is global greenhouse gas emissions reduction. We stated that transition bonds are not brown bonds*2 but are a practical financing method contributing to emission reductions. Our engagements and efforts may contribute to expanding the transition bond market. As shown in Figure 8, transition bonds in the Japanese market have been on the rise.

*1 See pages 77-78.
*2 Bonds that do not meet the standards to be recognized as green bonds.

Figure 8: Transition bonds and other issuance trends



(Source: Created by SuMi TRUST AM from the Japan Exchange Group website)

Climate Change and Natural Capital

Since February 2019, SuMi TRUST AM has supported the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and has been disclosing information based on that framework. Additionally, we have been involved in the preparatory activities of the Taskforce on Nature-related Financial Disclosures (TNFD) since its inception in 2021. In January 2024, we officially declared our commitment as a TNFD Early Adopter to implement early disclosures based on these recommendations. This section outlines our efforts on climate change and natural capital using the disclosure frameworks recommended by TCFD and TNFD. (The portfolio described below refers to our self-managed assets, excluding domestic and foreign sovereign bonds. For details, please refer to the supplementary [TCFD/TNFD Report 2024/2025](#).)

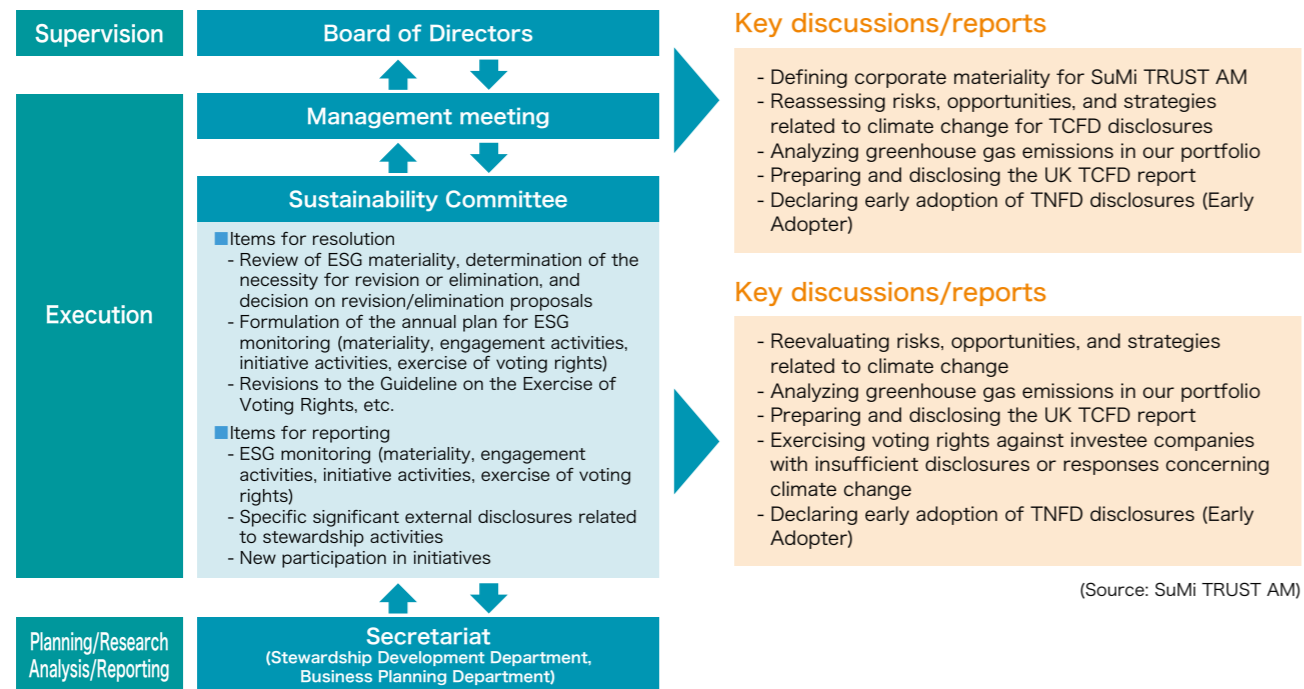
1. Governance (Climate Change/Natural Capital)

As a Sumitomo Mitsui Trust Group member, we have established policies and related regulations regarding sustainability, including climate change and natural capital, per the Group's Sustainability Policy, and are continuously working to improve our organization.

We recognize that sustainability-related issues, including climate change and natural capital, represent risks and opportunities that can significantly impact our operations and investee companies. These issues are managed with the same level of importance as other critical management challenges, with oversight by the Board of Directors. Since 2020, we have formalized the reporting of significant sustainability issues to the Board of Directors by including it in the board of directors regulations

to enable more direct oversight. The management meeting, an executive body comprising members including the President, is responsible for formulating plans and initiatives related to sustainability issues, setting up operational structures, and managing and promoting these initiatives. Under this framework, our entire company advances sustainability efforts. In particular, in our asset management operations, the Sustainability Committee is responsible for planning and monitoring all sustainability activities including climate change and natural capital responses. Additionally, the Sustainability Committee reviews matters to be discussed at or reported to the management meeting in advance.

Figure 1: Our governance structure for sustainability and key discussions/reports during the reporting period



2. Strategy

(1) Risks and Opportunities (Climate Change/Natural Capital)

Risks: We recognize that climate change and natural capital risks can impact our business through three channels: (1) deterioration in the value of investee companies, (2) loss of existing clients and missed opportunities to attract potential clients, and (3) decline in business continuity. These factors ultimately affect our financial performance and corporate sustainability.

Opportunities: We view climate change and natural capital opportunities as ways to fulfill our fiduciary duties. Leveraging these opportunities through strategic actions can lead to the expansion of our

assets under management and enhance our business continuity and sustainability. We identify engagements, among other strategies, as opportunities to transform climate change and natural capital risks into business growth.

(2) Strategy

Climate change: Based on the risks and opportunities mentioned above, we have developed strategies across six areas: (1) Engagement, (2) Exercise of voting rights, (3) Investment considerations, (4) Providing investment opportunities to clients, (5) Engagement with clients, and (6) Enhancing SuMi TRUST AM's response to climate change (Figure 2).

Figure 2: SuMi TRUST AM's strategy based on risks and opportunities related to climate change

Strategy	Target	Actions
Engagement with investee companies	Investee companies	<ul style="list-style-type: none"> - Promote top-down approach engagement with high greenhouse gas-emitting companies - Share best practices with investee companies - Actively utilize agenda items in bottom-up engagement approaches
Engagement with various stakeholders, including government agencies	Government agencies, industry groups, NGOs, academia, etc.	<ul style="list-style-type: none"> - Engage in dialogues on topics such as climate-related disclosures with the Ministry of Economy, Trade and Industry, Financial Services Agency, and Ministry of the Environment - Exchange views with the Central Research Institute of Electric Power Industry and The Institute of Energy Economics, Japan - Contribute to statements by the Japan Chapter of GFANZ - Participate in discussions on phasing-out of greenhouse gas emissions by high-emission Asian companies through AIGCC's AUEP - Engage in discussions on Asia's transition at ADB-hosted meetings (ABMF)
Strengthening guidelines related to climate change issues in our Guideline on the Exercise of Voting Rights	Investee companies	<ul style="list-style-type: none"> - Introduced climate change-related criteria into the Guideline on the Exercise of Voting Rights. - Conducted assessments on the climate change response of high-emission companies and started voting against the director appointment proposals for companies with low scores and supporting shareholder proposals related to climate change.
Reflecting climate change factors according to individual fund styles, and taking climate change factors into account in investment decisions on individual securities	SuMi TRUST AM (Clients)	<ul style="list-style-type: none"> - Report the quarterly ESG monitoring results of each fund to internal committees.
Supporting actions to address climate change issues by providing investment opportunities	Clients	<ul style="list-style-type: none"> - Set S&P/JPX Carbon Efficient Index-tracked type strategy (Japanese equity) - Set Bloomberg MSCI Global Aggregate Sustainability A+ Strategy (Global bonds)
Enhancing customer awareness of climate change issues, engaging potential clients	Clients (Including potential clients)	<ul style="list-style-type: none"> - Publish online articles - Promote onsite financial lectures - President Yoshio Hishida gave a presentation at PRI Tokyo. - Chairman David Semaya participated as a panelist at a COP28 side event (World Climate Summit).
The following are considered to be essential items for acquiring a growth base and opportunities as a broad definition, strategies.		
Appropriate response to climate-related regulations	SuMi TRUST AM (Clients)	<ul style="list-style-type: none"> - Conduct climate-related risk disclosures in line with SFDR disclosure regulations. - Enhance TCFD disclosures
Improving personnel development and resources for climate-related response	SuMi TRUST AM (Clients)	<ul style="list-style-type: none"> - Employees take classes at the PRI Academy - Provide in-house e-learning - Hold in-house workshops on TCFD disclosures
Engagement with the value chain	Data vendors, index providers, and others	<ul style="list-style-type: none"> - Engaged in discussions with Sustainalytics regarding research services on breaches of international norms. - Held dialogues with ISS on clarifying voting guidelines and recommendations for climate-related issues, and enhancing the climate change-related database. - Held dialogues with MSCI on changes to the ESG score calculation process. - Provided input to the GFANZ Index Investing Workstream.

(Source: SuMi TRUST AM)

Natural capital: TNFD requires disclosing companies to understand the “dependency” and “impact” on natural capital related to their business when constructing strategies and to identify and disclose risks and opportunities. We utilized ENCORE^{*1}, recommended by TNFD, to analyze our portfolio’s “dependency” and “impact” on natural capital. “Dependency” refers to how corporate activities rely on the benefits derived from natural capital

through “ecosystem services.” “Ecosystem services” are the essential benefits derived from natural capital that are crucial for business operations. Figure 3 shows a heatmap illustrating the “dependency” of corporate activities across 11 sectors on natural capital through “ecosystem services.” The redder the cell, the higher the sector’s “dependency” on natural capital. Our portfolio’s high “dependency” on natural capital is found in “species,” “habitats” and “water.”

Figure 3: Sectoral dependency on natural capital

(The darker the orange cell, the greater the “dependency,” and the darker the green cell, the smaller the “dependency.”)

Natural capital	(1) The atmosphere	(2) Habitats	(3) Land	(4) Minerals	(5) Oceans	(6) Soil & sediments	(7) Species	(8) Water	Investment allocation ratio (%)
1. Consumer discretionary	Orange	Orange	Light Green	Light Green	Light Green	Light Green	Orange	Orange	13.9
2. Consumer staples	Orange	Orange	Light Green	Light Green	Light Green	Light Green	Orange	Orange	6.0
3. Energy	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	2.8
4. Financials	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	15.4
5. Healthcare	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	8.8
6. Industrials	Orange	Orange	Light Green	Light Green	Light Green	Light Green	Orange	Orange	16.3
7. Information technology	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	13.2
8. Materials	Orange	Orange	Light Green	Light Green	Light Green	Light Green	Orange	Orange	4.9
9. Real estate	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	4.1
10. Communication service	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	7.0
11. Utilities	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	2.1

(Source: SuMi TRUST AM)

“Impact” refers to the positive or negative changes in natural capital caused by corporate activities through “impact” drivers. The more significant the “impact,” the more natural capital is degraded, leading to increased business risks.

Figure 4 illustrates the degree of “impact” on natural capital by corporate activities across 11 sectors. Our portfolio shows a high degree of “impact” on “species” and “water.”

Figure 4: Sectoral impact on natural capital

(The darker the orange cell, the more significant the “impact,” and the darker the green cell, the smaller the “impact.”)

Natural capital	(1) The atmosphere	(2) Habitats	(3) Land	(4) Minerals	(5) Oceans	(6) Soil & sediments	(7) Species	(8) Water	Investment allocation ratio (%)
1. Consumer discretionary	Orange	Orange	Light Green	Light Green	Light Green	Light Green	Orange	Orange	13.9
2. Consumer staples	Orange	Orange	Light Green	Light Green	Light Green	Light Green	Orange	Orange	6.0
3. Energy	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	2.8
4. Financials	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	15.4
5. Healthcare	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	8.8
6. Industrials	Orange	Orange	Light Green	Light Green	Light Green	Light Green	Orange	Orange	16.3
7. Information technology	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	13.2
8. Materials	Orange	Orange	Light Green	Light Green	Light Green	Light Green	Orange	Orange	4.9
9. Real estate	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	4.1
10. Communication service	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	7.0
11. Utilities	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	2.1

(Source: SuMi TRUST AM)

Based on the above ENCORE analysis, as part of our strategy, we include investee companies with significant “dependency” on “species,” “habitats” and “water,” or investee companies that have

substantial “impact” on “species” and “water” as targets for engagement. This approach aims to raise awareness of natural capital risks and opportunities and encourage appropriate actions.

*1 Analysis conducted using ENCORE data as of June 2024.

3. Risk Management

(1) Risk Management Process (Climate Change/Natural Capital)

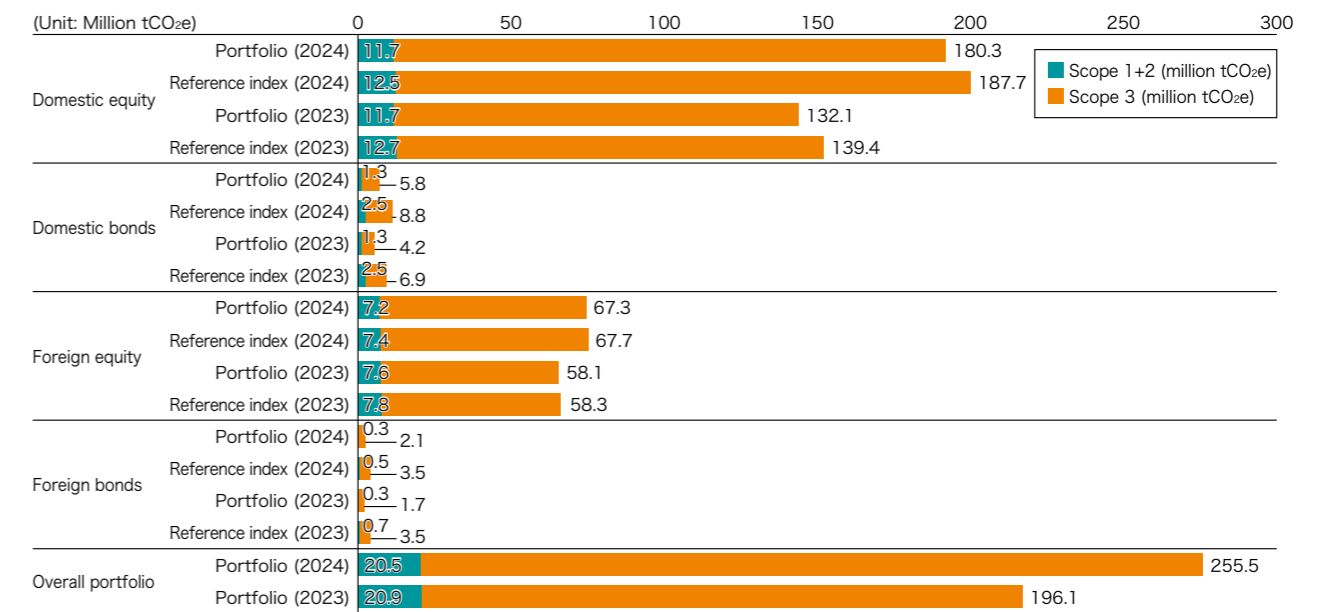
At SuMi TRUST AM, we define a sustainability risk management policy within the Risk Management Policy, including concepts of climate change and natural capital risks. This policy clarifies the basic principles of sustainability risk management, defines various risks, and outlines the importance of managing sustainability-related risks. It also specifies the roles and responsibilities of the Board of Directors, management meeting, and officers, as well as the organizational structure and three lines of defense.

We classify sustainability-related risks, including climate change and natural capital, as risk drivers that can increase or decrease risks within existing categories. By setting 12 ESG materiality items including climate change and natural capital, we ensure that these items are considered in engagements, exercising of voting rights, and investment decision-making, thus enabling the identification and management of climate change and natural capital risks.

(2) Risk Assessment of Our Portfolio

Climate change: As of 2024^{*2}, our portfolio’s total greenhouse gas emissions (Scope 1 and 2 combined^{*3}) were 20.5 million tCO₂e (compared to 20.9 million tCO₂e in 2023^{*4}), showing a decrease from the previous year. However, as shown in Figure 5, due to the expanded measurement range of some investee companies in Scope 3^{*5}, the overall portfolio’s emissions increased significantly to 255.5 million tCO₂e (from 196.1 million tCO₂e in 2023). Additionally, as depicted in Figure 6, the weighted average carbon intensity (WACI, emissions per unit of sales) for our entire portfolio in 2024, calculated as the carbon emissions per unit of sales for each investee company weighted by their investment weight in the portfolio, was 97.0 tCO₂e per million USD (down from 112.7 tCO₂e per million USD in 2023), indicating continued improvement. (The analysis is based on the portfolio as of March 31, 2024, using ISS data as of August 9, 2024.) We have calculated financial emissions related to sovereign bonds using methods recommended by the Partnership for Carbon Accounting Financials (PCAF). Please refer to the [TCFD/TNFD Report 2024/2025](#) for detailed information.

Figure 5: Greenhouse gas emissions by asset class



(Source: SuMi TRUST AM)

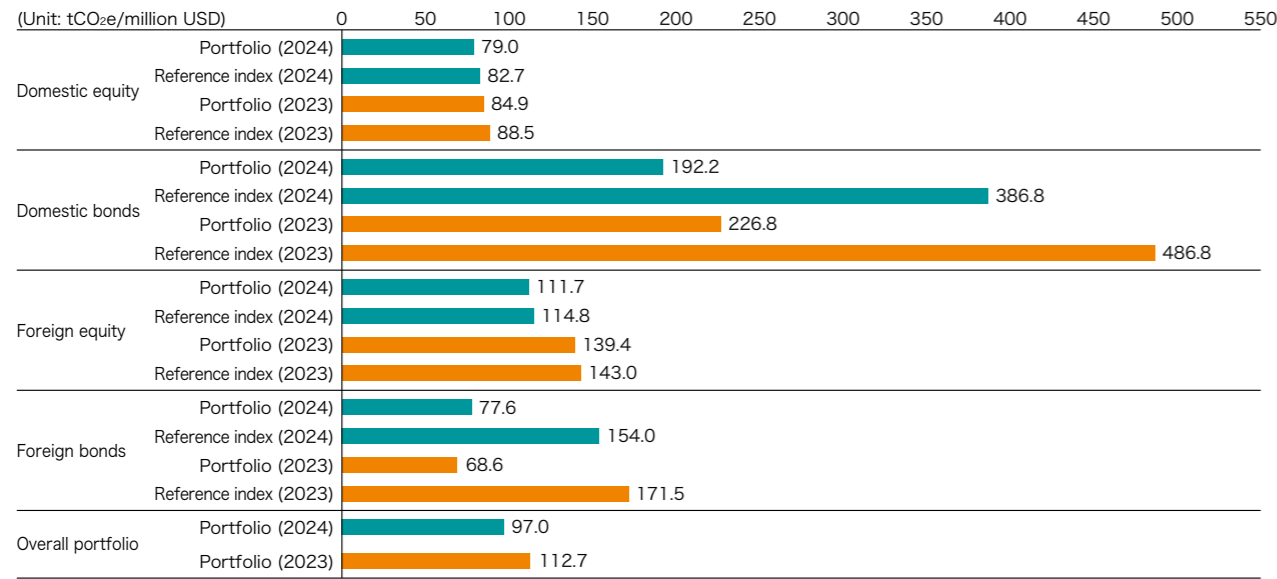
*2 As of the end of March 2024.

*3 Scope 1 refers to greenhouse gas emissions from fuel combustion by companies, while Scope 2 refers to greenhouse gas emissions from electricity usage by companies. These are defined by the GHG Protocol, an international standard for calculating and reporting greenhouse gas emissions for corporations.

*4 As of the end of June 2023. These figures have been recalculated with updated carbon emission data, so they may not match the figures from the Stewardship Report 2023/2024.

*5 Scope 3 refers to greenhouse gas emissions from purchased goods and services, capital goods, upstream and downstream transportation and distribution, waste, employee travel and daily commutes, and product usage, as defined by the GHG Protocol.

Figure 6: Weighted average carbon intensity (WACI) by asset class (emissions per unit of sales)

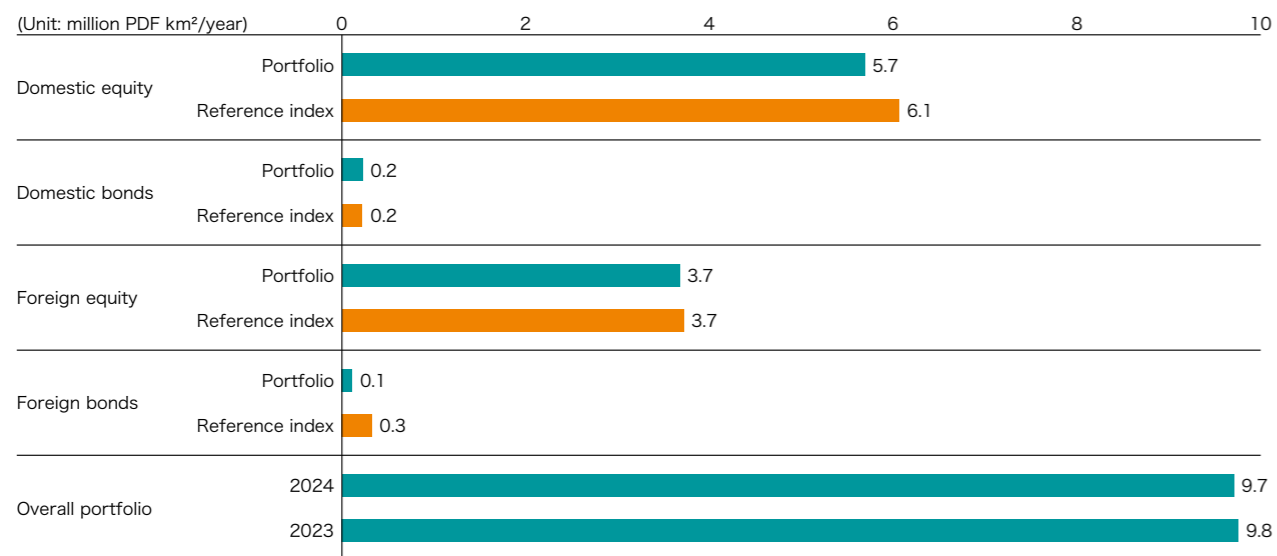


(Source: SuMi TRUST AM)

Natural capital: We utilize ISS's*6 Biodiversity Impact Assessment Tool (BIAT)*7 to analyze the impact of our portfolio on natural capital using the Potentially Disappeared Fraction of Species (PDF)*8 as a quantitative indicator. PDF is a measure expressed in km²/year, indicating the extent of the impact on natural capital. A value of 100 PDF km²/year means that biodiversity in a 100 km² area on Earth may be completely lost within a year. The larger the value, the greater the impact on natural capital. The total impact on

natural capital from our entire portfolio for 2024, as shown in Figure 7, is 9.7 million PDF km²/year, which has slightly decreased from 9.8 million PDF km²/year in 2023. Furthermore, the weighted average PDF intensity for our entire portfolio in 2024, as displayed in Figure 8, is 37.0 PDF km²/year per million Euros, down from 39.4 PDF km²/year per million Euros in 2023 (analyzed based on the portfolio as of March 31, 2024, using ISS data as of September 9, 2024).

Figure 7: Analysis of impact on natural capital (PDF) by asset



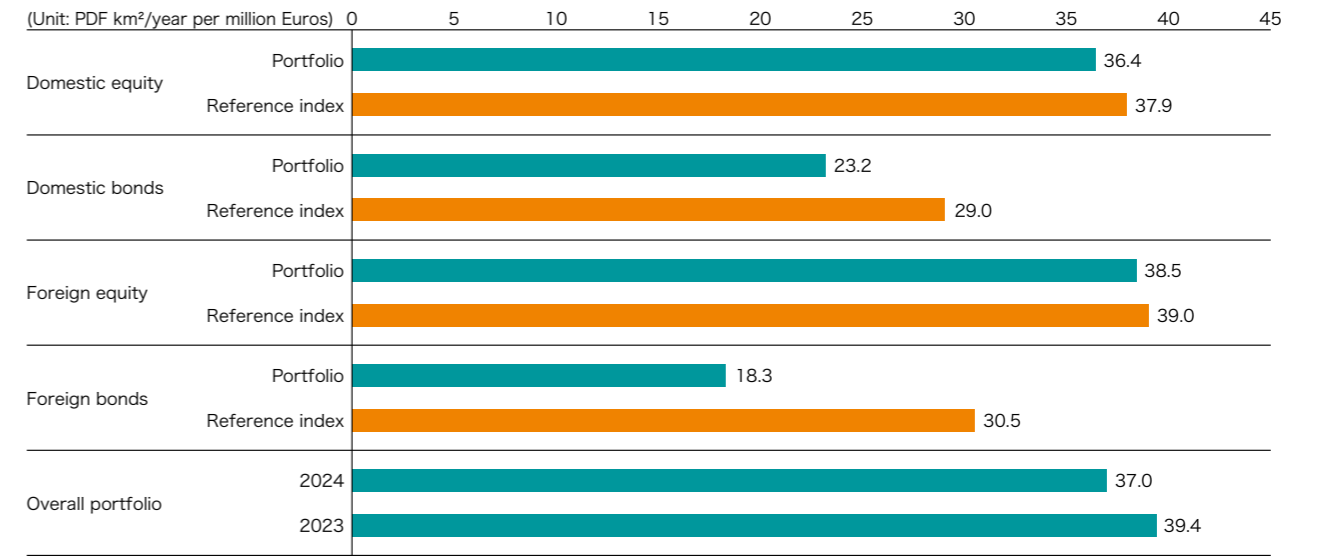
(Source: SuMi TRUST AM)

*6 Institutional Shareholder Services

*7 BIAT covers over 17,000 companies globally (including over 2,000 Japanese companies) and has over 600 data items related to natural capital, and can be utilized for dependency and impact analysis required for TNFD disclosures.

*8 An indicator reflecting biodiversity impact (PDF km²/year). Calculated by multiplying the holdings of constituent stocks by their PDF km²/year.

Figure 8: Analysis of weighted average PDF intensity by asset



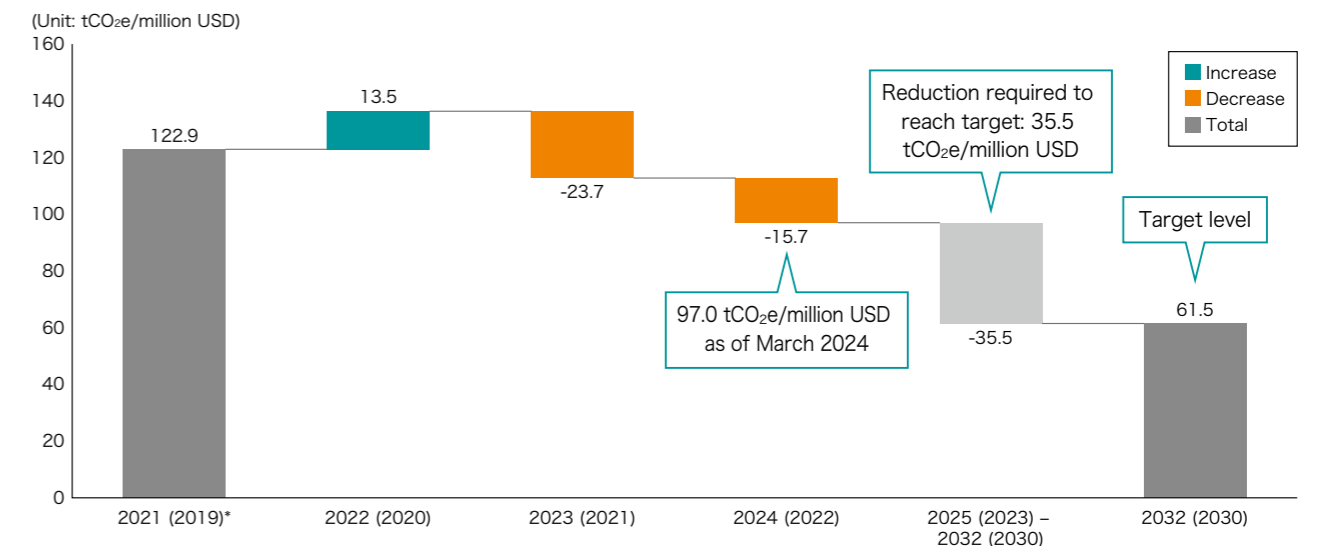
(Source: SuMi TRUST AM)

4. Metrics and Targets

Climate change: The interim target committed by our participation in the NZAMI*9 is to halve emissions by 2030 compared to 2019 levels for approximately half of the balance of assets under management (excluding sovereign bonds, around 43 trillion yen out of a total of 85 trillion yen as of the end of June 2021). The ultimate goal is to achieve net zero for all assets under management by 2050. We use WACI as an

indicator to measure decarbonization progress in our target portfolio. Comparing the base year (2019) WACI of 122.9 tCO₂e/million USD with the WACI of 97.0 tCO₂e/million USD measured in 2024 (for 2022 data), we achieved a 21.1% reduction. To reach the 2030 target of halving greenhouse gas emissions, a further reduction of 35.5 tCO₂e/million USD is required (Figure 9).

Figure 9: Progress in reducing WACI for NZAMI target portfolios



(Source: SuMi TRUST AM)

* The year in parentheses indicates the data year for greenhouse gas emissions, two years before the base year of the portfolio balance.

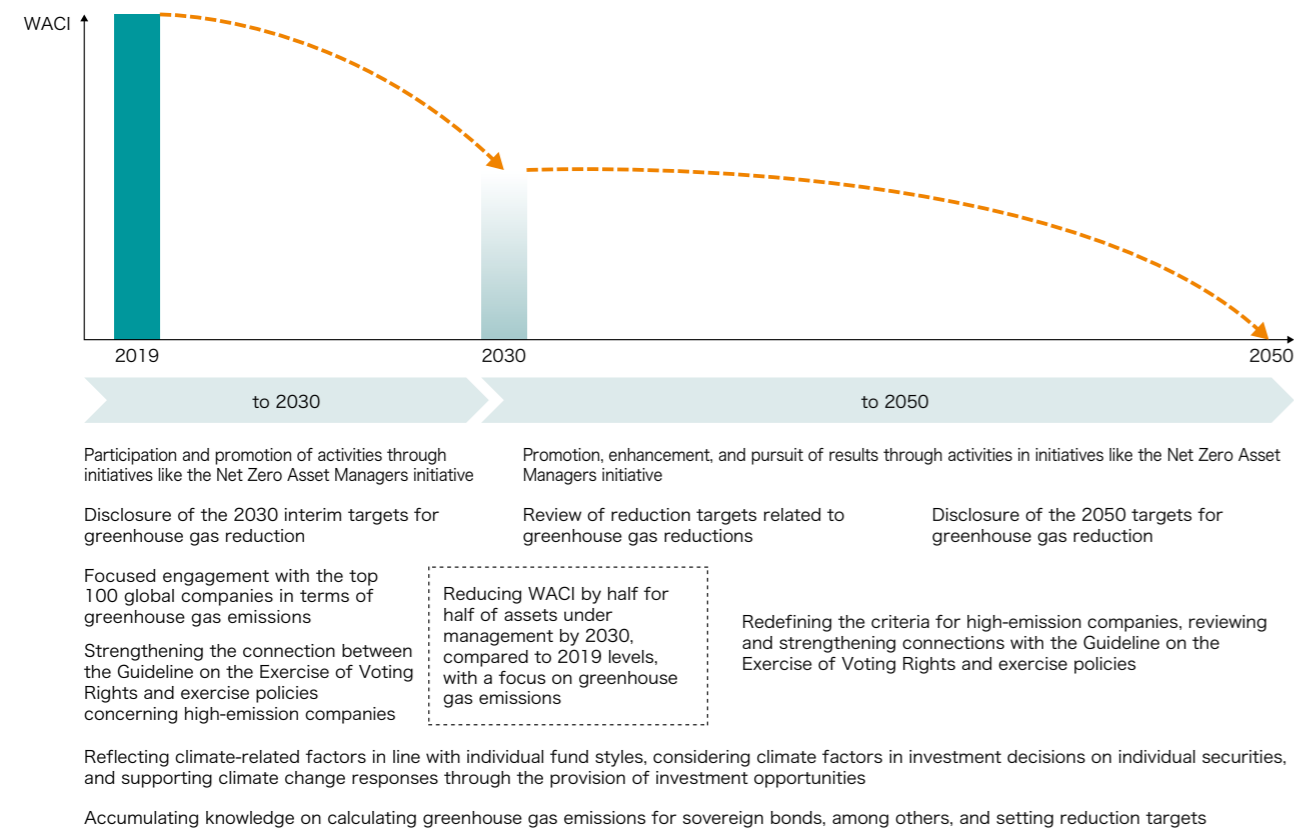
*9 Net Zero Asset Managers initiative

SuMi TRUST AM's transition plan is as shown in Figure 10. We aim to steadily implement the

initiatives outlined thus far to achieve the interim targets for 2030 and the ultimate goal for 2050.

Figure 10: SuMi TRUST AM's transition plan

Governance	Strategy	Risk management	Metrics and targets
<ul style="list-style-type: none"> The Board of Directors sets, approves, and discloses the 2030 interim emission reduction targets for greenhouse gas emissions. President compensation KPI includes items related to reduction of greenhouse gas emissions. Report progress of the plan to the Sustainability Committee, management meeting, and Board of Directors. Disclose performance in TCFD disclosures. 	<ul style="list-style-type: none"> Participate in climate change initiatives like CA100+ and AIGCC. Engage with the top 100 global high-emission companies (covering approximately 40% of our equity holdings) to monitor their reduction plans. Strengthen connections between the Guideline on the Exercise of Voting Rights and exercise policies. Update knowledge on calculation methods and disclosure rules for greenhouse gas emissions. 	<ul style="list-style-type: none"> Conduct annual monitoring of carbon budget consumption. Measure and monitor transition VaR and physical VaR. Discuss management impacts and the need for plan revisions. Disclose if revisions are made. 	<ul style="list-style-type: none"> 2030 interim target for greenhouse gas reduction: Halve the WACI of 50% of asset under management (85 trillion yen as of June 2021), which is equivalent to about 43 trillion yen, excluding sovereign bonds. Set future targets for reducing greenhouse gas emissions from sovereign bonds, which are currently excluded.



(Source: SuMi TRUST AM)

Natural capital: In alignment with TNFD's strategic and risk management processes, we have begun managing natural capital risks in our portfolio using tools like ENCORE and various indicators like PDF. However, we consider these

indicators to still be in a developmental stage. We will continue discussions and preparations for future disclosures regarding portfolio-related indicators and targets.

Column

Assessment of Investment Portfolio Alignment with Net Zero Scenarios Based on the Net Zero Investment Framework

What is the Net Zero Investment Framework (NZIF)? NZIF is a framework established by the PAII*10, offering methodologies and actions for institutional investors to align their portfolios' greenhouse gas emissions with net-zero goals by 2050. This framework comprises seven evaluations (see Figure 11), including elements such as a commitment to achieving net zero by 2050 (Ambition) and short- to medium-term goals (Targets). It allows institutional investors to assess the alignment of their investee companies with net-zero scenarios based on responses from information providers' questionnaires.

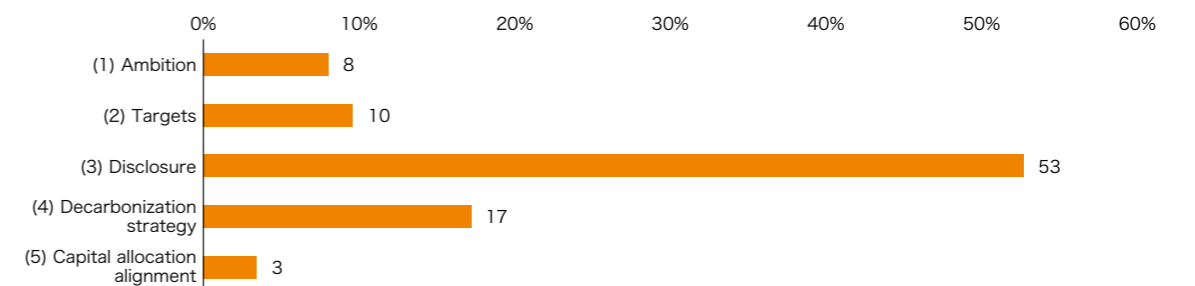
Figure 11: Evaluation items in the NZIF

NZIF evaluation items	Description
(1) Ambition	Commitment to achieving net zero by 2050
(2) Targets	Short- and medium-term goals, including Scope 1 and 2 reductions
(3) Disclosure	Disclosure of emissions, including Scope 1 and 2
(4) Decarbonization strategy	Quantitative and qualitative plans for greenhouse gas reduction and increasing green revenue
(5) Capital allocation alignment	Capital expenditure plans aligned with achieving net zero by 2050
(6) Emissions performance	Performance aligned with set targets for greenhouse gas reduction (not analyzed this time)
(7) Net-zero achievement of carbon intensity standards	Alignment with pathways achieving net-zero carbon intensity by 2050 (not analyzed this time)

(Source: Net Zero Investment Framework)

Evaluation of investee companies using NZIF: Using this framework, we analyzed approximately 5,000 domestic and international investee companies as of March 2024. For example, regarding (1) Ambition, only 8% of investee companies have committed to this goal (see Figure 12), revealing that about 90% of companies have either not committed to net zero by 2050 or did not respond to the questionnaire. Additionally, our analysis revealed that items (6), Emissions performance, and (7), Net-zero achievement of carbon intensity standards, lack sufficient corporate data for proper evaluation. Similarly, other evaluation items also show low ratios due to non-responses or insufficient applicable data from the companies. A commitment to net zero is a highly significant managerial decision for companies and marks the first step in the journey. For institutional investors, data to assess investee companies' net zero efforts is crucial. Through continued engagement, we will encourage investee companies to commit to net zero and set corresponding targets, formulate strategies, reduce emissions, and enhance disclosures. This approach aims to enhance corporate value. Furthermore, by advocating for data enrichment through data vendors, we will work to refine the evaluation of investee companies' alignment with net-zero scenarios, thereby enhancing the effectiveness of engagements. This will ultimately contribute to achieving net zero for both our investment portfolio and society as a whole.

Figure 12: Evaluation of investee companies' alignment with net zero scenarios



(Source: Net Zero Investment Framework, compiled by SuMi TRUST AM)

*10 Paris Aligned Investment Initiative: An initiative to develop a framework for institutional investors to align their portfolios with the Paris Agreement

SuMi TRUST AM's ESG Investment Policy

I. Basic Policy

1. Purpose and significance of ESG investment

As a signatory investment manager of the United Nations Principles for Responsible Investment, the Company engages in investment activities focused on the medium- to long-term aspects of Environment, Social, and Governance (hereinafter "ESG investment"). We are guided by the values outlined in the United Nations Global Compact and the SDGs while adhering to the spirit of international treaties and legal systems, including humanitarian concerns. We believe that fulfilling the role as an investment manager in an investment chain through ESG investment will make contributions in value improvement and sustainable growth in investee companies, maximizing the investment returns (investment profits) of clients (beneficiaries) over a medium to long term, reducing downside risks, and achieving a sustainable society. This policy clarifies SuMi TRUST AM's basic principles and approach to conducting ESG investments, integrating them into our investment decision-making processes, and promoting consistent and continuous ESG investments in a structured manner.

2. Positioning

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

3. Commitment

- We take ESG investment into consideration to the maximum extent for all products under our management.
- We make ESG investments in order to fulfill our responsibility (stewardship responsibility) to increase investments (investment profits) to our clients (beneficiaries) while carrying out proper monitoring and disclosure.
 - ESG-related issues fall into the non-financial realm and are not reflected in financial information; however, they can significantly impact the value of companies, etc., as business opportunities or risks over time.
 - Actively investing in companies that positively address ESG-related issues and seeking best practices from companies will lead to the pursuit of a medium- to long-term investment returns (investment profits) upside potential.
 - Limiting investments in companies with ESG concerns and addressing ESG issues that may impair company value helps reduce the downside risk of investment returns (investment profits).
- In making ESG investments, we take "II. ESG Materiality" into consideration.
- We manage portfolios for various investment strategies, and are consistent with each client's investment purposes. For ESG investment, we use properly combined ESG investment methods determined in "III. ESG Investment Methodology and In-house ESG Scores" according to characteristics such as the investment purpose, investment target, and investment strategy.
- As an escalation measurement of ESG investment methodology, if it becomes difficult to raise the ESG investment effect through engagement activities with investee companies, we consider voting against company proposals or agreeing to shareholder proposals in the relevant investee company.
- In order to improve the effect of ESG investments, we examine and try to understand the evaluation purpose, method, and restrictions for ESG evaluation and data used to allow us to perform ESG evaluations and ESG investments for investee companies, and take necessary measures.

II. ESG Materiality

1. Definition of ESG materiality

ESG materiality refers to the ESG issues that SuMi TRUST AM deems crucial for enhancing the value and promoting sustainable growth of investee companies. We consider ESG materiality when performing ESG investment including ESG evaluation of investee companies, engagement activities, and decisions for exercise of voting rights. In addition, we have positioned ESG materiality as the basis for planning and promoting various stewardship activities, and have set it as the basis for formulating implementation plans related to engagement activities, various initiative activities, and the exercise of voting rights. Given the numerous challenges and themes present within the ESG perspectives, which vary by external evaluators, we define our own ESG materiality and set the main evaluation items and content for ESG investments as outlined in sections 3 to 5.

2. Review of ESG materiality

ESG materiality is reviewed annually, considering information gathered through dialogues with various stakeholders.

3. Environment

Overview

All economic activities depend on the natural environment, but human activities since the Industrial Revolution have significantly burdened the environment, threatening humanity's sustainable prosperity. Ensuring sustainable social development and securing the medium- to long-term investment returns of client assets requires considering environmental factors, including impacts on indigenous peoples and local communities, and promoting efforts to support a circular society that includes investee companies and the entire supply chain.

1) Climate Change

The accumulation of greenhouse gases, such as carbon dioxide, leading to global warming and associated extreme weather events, is not a future threat but a present reality. We consider climate change as the most important issue affecting society and economic activities as a whole, and reflect measures for mitigating and adapting to it in ESG investment decisions by considering matters such as international frameworks.

2) Natural Capital

Economic activities depend greatly on natural capital. Misuse of natural capital, which mainly includes raw materials, makes it impossible to use such resources sustainably, and is also a threat to the continuous prosperity of society. Therefore, it is necessary not just to put a stop to their depletion, but to restore natural capital in order to maintain a sustainable society. We especially recognize the importance of conserving forests that act as a carbon sink, which helps with biodiversity as the foundation of ecosystem services that support society and the economy, and addresses climate change. We also understand that such issues can occur anywhere in the supply chain. We will reflect the status of biodiversity and the sustainable use of natural capital and resources such as forests, water, minerals, and agriculture, forestry, and fisheries into our ESG investments.

3) Pollution & Waste

If nations or corporations do not appropriately manage various wastes generated as by-products of economic activities, it could lead to environmental degradation, pollution, and the depletion of valuable resources. Our ESG investments reflect nations' and companies' adherence to laws, regulations, and standards and efforts to reduce waste and promote resource circulation throughout product lifecycles.

4) Environmental Opportunities

The above environmental issues 1) to 3) can drive the creation of new markets and business models, exemplified by renewable energy and resource circulation, through international initiatives, policy changes at the government level, and shifts in consumer awareness. We view these as investment opportunities, leveraging them to support the transition to a sustainable society while driving the growth of client assets and incorporating these aspects into our ESG investments.

4. Social

Overview

As a signatory investment manager of the United Nations Principles for Responsible Investment, we require our investee companies to comply with internationally supported laws and standards, consider the interests of various stakeholders, such as customers, employees, local communities, and members of globally dispersed supply chains, and act fairly and justly. Furthermore, as demographic shifts and awareness of diversity deepen, the standards expected of companies are continuously rising. It is essential to ensure that companies maintain a high level of commitment to secure a sustainable society and medium- to long-term investment returns for clients' assets.

1) Human Rights & Community

We prioritize investee companies' compliance with international standards. In supply chains, improper practices such as neglecting labor conditions and violating workers' rights are risks. Thus, we assess investee companies' human rights due diligence efforts based on international labor and human rights standards and incorporate this understanding into ESG investments, also considering aspects like "Just Transition."

2) Human Capital

As the service economy advances, securing talent, fostering human resources, and engaging employees are increasingly vital factors for the performance of investee companies. We consider initiatives to enhance the value of investee companies through diversity, inclusion, equality, investment in human capital, well-being, and motivation improvement. We reflect this in ESG investments.

3) Safety & Responsibility

As globalization and digitalization of supply chains accelerate, economic activities become more complex, increasing the risk of tangible and intangible harm to customers and other stakeholders due to products and services that result from corporate activities. The social responsibility of nations and companies regarding labor safety is also growing. In our ESG investments, we consider companies' vulnerability to such risks and the measures they take to address them.

4) Social Opportunities

Initiatives through international frameworks and government-level policies are implemented for the social issues in the above 1) to 3), so the process where economy and social disparity are eliminated results in social opportunities. Specifically, the spread of essential services for achieving SDGs such as healthcare, ICT, and finance to underserved regions and populations can create new markets and business models. We view these as investment opportunities, leveraging them to support the transition to a sustainable society while driving the growth of client assets and incorporating these aspects into our ESG investments.

5. Governance

Overview

Investment returns are realized when the investing countries and companies align their objectives with stakeholders' interests, particularly investors. Governance is the most fundamental mechanism for achieving this, and it must be considered a common priority for all investee companies to secure medium- to long-term investment returns for clients' assets.

1) Corporate Behavior

The extent to which companies operate with stakeholders' interests in mind is reflected in their concrete actions. We consider capital efficiency and information disclosure factors in our ESG investment decisions. Information disclosure, spanning all ESG themes, is vital as it is the starting point for these activities.

2) Organizational Structure

Governance should primarily be expressed objectively through national regulations and corporate organizational structures. SuMi TRUST AM assesses the appropriateness of corporate governance, considering factors such as board composition and diversity, compensation structures, takeover defense measure, shareholder structure, and industry or regional characteristics, and reflect this in our ESG investments.

3) Stability & Fairness

Nations and companies may face situations ranging from corruption and intentional legal violations to accidental incidents that can have negative impacts both inside and outside the organization. Additionally, advancements in AI may increase risks related to information security. If these issues are inadequately addressed in terms of content or speed, it could harm society, national creditworthiness, and corporate value. In order to deal with such risks properly, we consider political stability and fairness, a company's code of conduct, their risk management system including preventive measures, and company climate regarding compliance, etc., and reflect these to our ESG investments.

4) Improvement in Governance

Governance is fundamental to the social and economic activities of nations and corporations. Enhancing and advancing governance serves as a driving force for nations and corporations to achieve sustainability and new business opportunities, leading to improved investment returns. We view this as an investment opportunity, integrating it in to our ESG investments to achieve the growth of clients' assets.

III. ESG Investment Methodology and In-house ESG Scores

1. ESG investment methodology for in-house investment products

The ESG investment method for carrying out ESG investments is defined in the following 1) to 7).

1) ESG negative screening

Based on specific criteria, we exclude companies with significant issues from an ESG perspective, such as the manufacture of inhumane weapons or violations of international norms, from the investment universe.

2) ESG positive screening

We actively invest in companies with high ESG evaluations within each sector.

3) Integration of ESG-related information

We analyze and evaluate non-financial information, including ESG data, and explicitly and systematically incorporate the insights gained into each fund's stock selection and portfolio construction processes.

4) Topic investment

We establish funds centered around companies related to specific ESG themes and manage them based on those themes.

5) Impact investment

We form and manage funds with the explicit goal of generating a positive social impact from an ESG perspective and achieving economic investment returns.

6) Engagement

We engage in constructive dialogue with investee companies to seek best practices on ESG themes and enhance medium- to long-term value.

7) Exercise of voting rights

We call for minimum standards and value improvement in investee companies by reflecting ESG factors in voting "for" or "against" a proposal in the exercise of voting rights of investee companies.

2. In-house ESG score

The in-house ESG score refers to our proprietary investment evaluation metric assigned from an investor's ESG perspective. It aims to maximize medium- to long-term investment returns (investment profits) and reduce downside risk for clients (beneficiaries). This score analyzes the opportunities and risks posed by ESG issues for countries and companies. Using the ESG evaluations based on our defined ESG materiality, we assign in-house ESG scores to the investment universe and other entities, with continuous upgrades for improvement. Details related to in-house ESG score are determined separately in SuMi TRUST AM's regulations, etc.



SUMITOMO MITSUI TRUST ASSET MANAGEMENT

