

ESG-themed Initiatives in Our Asset Management Businesses



The Sumitomo Mitsui Trust Group started operation of Japan's first responsible investment (RI) fund (Nikko Eco Fund) in 1999. In 2003, we began offering an RI fund for corporate pensions for the first time in Japan. Since then, the Group members have developed various products ahead of competitors to offer to individual and institutional investors. Since 2006, the Group has been a signatory of the United Nations Principles for Responsible Investment and taken a leading role in encouraging the investment industry in Japan to address ESG (environmental, social, and corporate governance) issues actively.

As one of the largest asset management companies in Asia in terms of assets under management, we will promote RI initiatives as the market leader not only in Japan but across Asia.

Trends in Assets under Management at PRI-signatory Institutions



Source: UN PRI

Our Flagship RI Fund Strategy for Japanese Stocks

Three Steps for Our Flagship RI Fund

The Group has developed various responsible investment funds, centering on our flagship fund targeting institutional investors such as pension funds. The investment strategies of the flagship fund are outlined below.

STEP 1 Japan Research Institute (JRI) Chooses "Best-in-class" Candidates for RI Universe

- JRI, one of the most influential think tanks in Japan, conducts a survey covering 2,000 companies.
- JRI evaluates 33 industries separately for their CSR initiatives and chooses "best-in-class" companies as candidates for an RI universe.

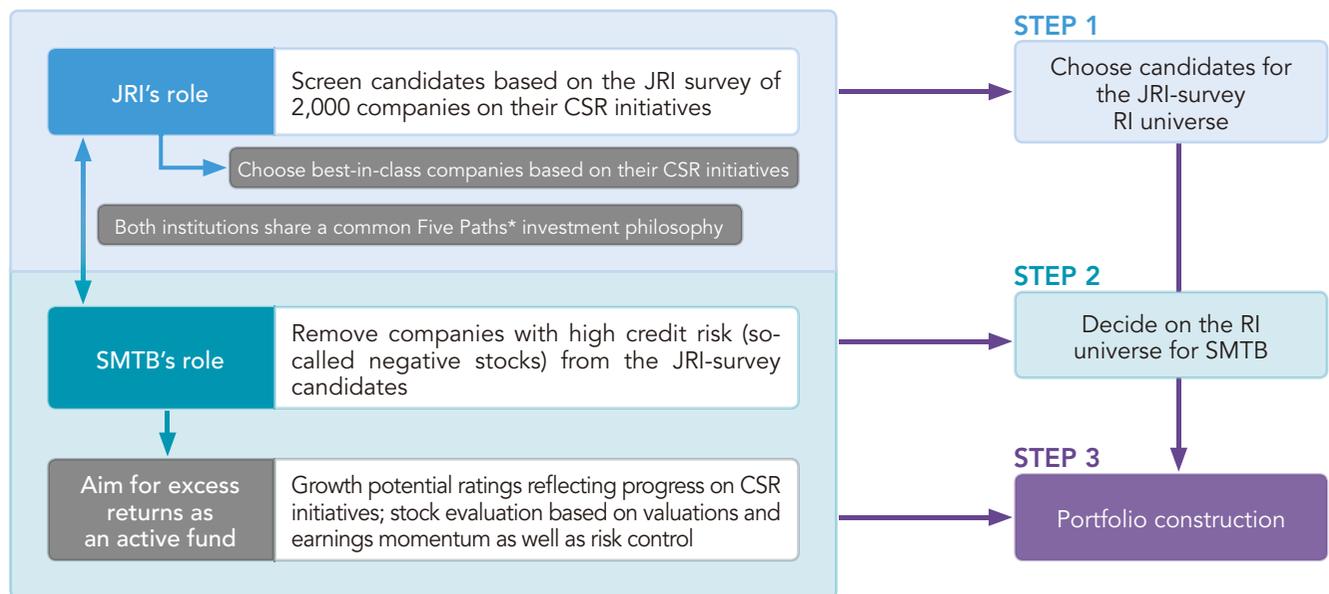
STEP 2 SuMi Trust Investment Team Selects an RI Universe

- We exclude companies with high credit risks "negative stocks" from the JRI list of candidates for an RI universe, and our "SRI universe committee," chaired by the manager of the Equity Investment Department, decides our RI universe.

STEP 3 SuMi Trust Fund Managers Choose Stocks

- Our fund managers choose stocks from among our RI universe based on 1) growth potential ratings reflecting progress on CSR initiatives and 2) equity evaluation methods of valuation and earnings momentum derived from the earnings forecasts of our Japanese stock analyst teams. We create portfolios through this approach, and seek to achieve an excess return versus the benchmark TOPIX.

Relationship between and Roles of Japan Research Institute (JRI) and SMTB (SuMi Trust)

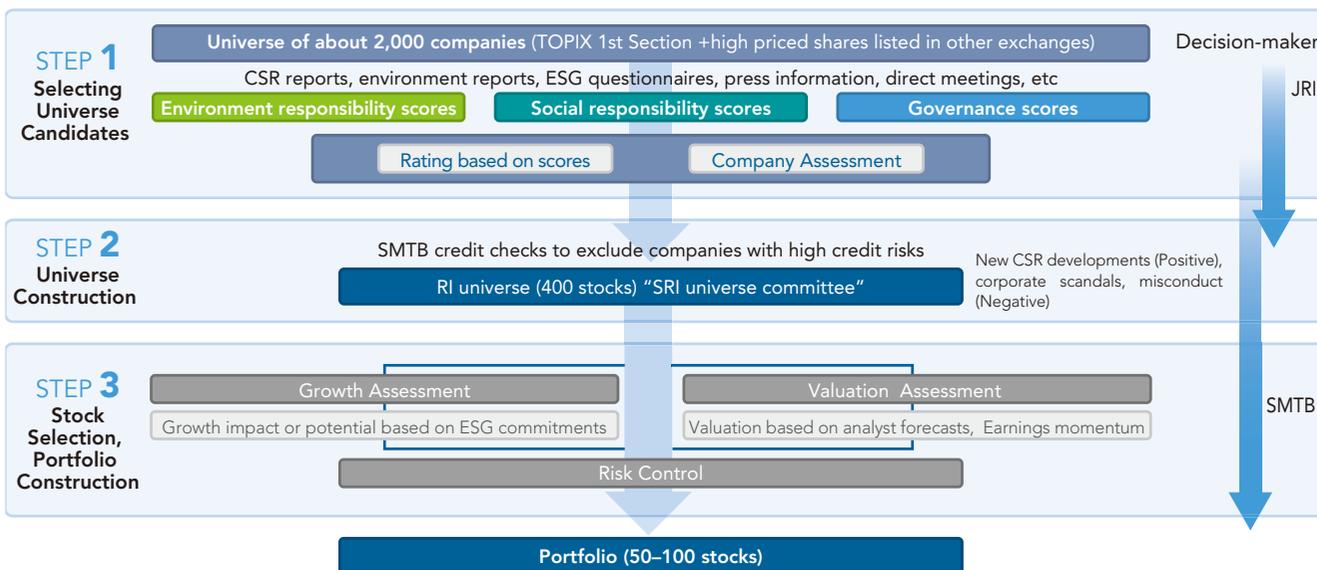


* The Five Paths are processes to enhance corporate value: (1) business innovation, (2) enhancement of corporate brands, (3) better human resources management, (4) cost management and reduction, and (5) stronger risk management.

Summary of Our RI Investment Process

We place a high value on comprehensive research in selecting stocks and constructing portfolios. As a starting point, the Japan Research Institute, Limited (JRI) conducts detailed surveys of 2,000 listed companies on their ESG initiatives to choose universe candidates. SMTB then ap-

plies screens to this stock universe drawing on data from in-house analysts that cover all sectors as well as unique information RI portfolio managers and analysts gather through direct meetings with companies. On this basis we select stocks to construct our RI portfolios.



Performance of Our Flagship RI Fund

Our flagship RI fund is actively managed and focuses on corporate activities related to ESG issues. Our RI stock selection reflects how much we think such activities can contribute to improving financial returns.

Companies that are actively committed to ESG are likely to grow sustainably. As a result, we see an RI approach as likely to generate benefits for shareholders over the long run. We seek stable, favorable performance by investing in companies that abide by relevant laws and regulations, explain their actions and fulfill their responsibilities, run the business focusing on the interests of a variety of stakeholders from both social and environmental perspectives, and are expected to perform well financially.

As you can see in the right chart, Sumitomo Mitsui Trust Bank's flagship RI fund achieved returns well in excess of the benchmark Tokyo Stock Price Index (TOPIX) for the approximately one year from around April 2012 to August 2013.

Cumulative Excess Return vs. TOPIX



Equity Analysts at SuMi Trust

Framework

The Equity Research Department at Sumitomo Mitsui Trust Bank has many analysts with over 10 years experience covering all sectors. They conduct well over 10,000 interviews a year. As research into the Asian market is one of their focal areas, we have built a joint-research framework to work with analysts at the Hong Kong-based subsidiary. In addition, our Japanese stock analysts hold over 100 meetings a year with their clients in order to exchange opinions regarding corporate governance.

Competitiveness of Analyst Activities

High quality company research

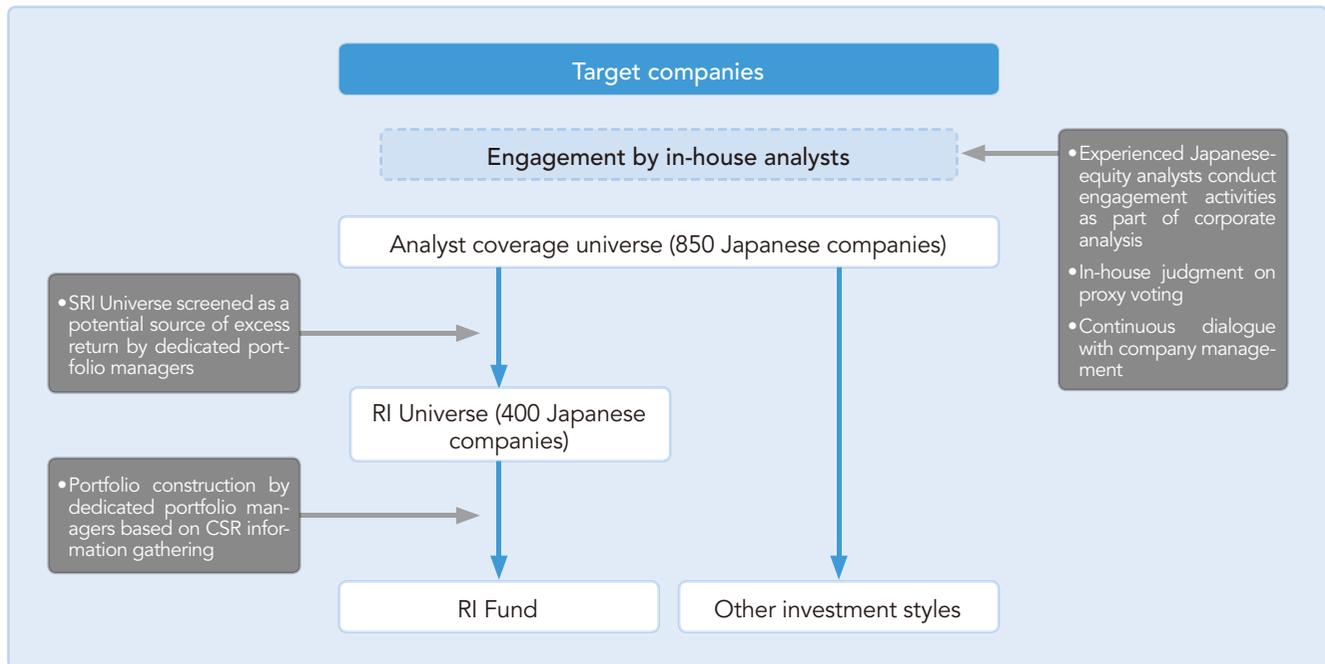
Sumitomo Mitsui Trust Bank provides high value-added information through cross-sector information sharing and the joint research of our Japanese stock team and Asian stock team. What sets us apart is our emphasis on the power of teams, rather than relying on individuals, enabling us to keep our research capabilities at a high level.

Moreover, we open the way to ongoing, quality communication with relevant companies through integration of short-term earnings forecasts with analysis of medium- to long-term industrial activity cycles and corporate strategies. Through such processes, we continue to deliver quality information to portfolio managers.

ESG research by analysts

Our analysts have been proactively tackling the ESG issues on the dual fronts of research and activities, including CSR interviews conducted jointly with RI portfolio managers, ongoing meetings on corporate governance, and in-house decision-making on the exercise of voting rights. We will further improve the precision of our ESG research and enhance our capabilities in analyzing at a finer level of detail the ESG contribution to business results and in assessing ESG risks, while promoting engagement activities with corporations.

Company Analysis and ESG Research by Our Analysts



Our RI Product Line-up (Investment Trusts)

SRI Japan Open (Good Company)

The SMTH Group launched Japan's first RI fund aimed at corporate pension funds in 2003 (flagship RI fund). Using the same RI approach, the "Good Company" mutual fund targets a wide variety of investors, including individuals, and is now regarded as one of Japan's standard-setting RI funds.

The Good Company fund strictly screens for and invests in companies with proactive ESG initiatives aimed at enhancing corporate value. It aims to achieve excess returns compared to the performance of its benchmark, the Tokyo Stock Price Index.

(Investment Manager: Sumitomo Mitsui Trust Asset Management)



China Good Company

The "China Good Company" fund is a RI fund that applies the same methodology as the Japanese flagship RI fund to Chinese stocks. The fund is attracting the attention of US and European investors as the world's first Chinese RI fund developed by an investment manager not owned by a Chinese financial institution (established in 2010).

For stock selection, we draw on Japan Research Institute's (JRI) ESG surveys and research, and we are working with Business for Social Responsibility (BSR), a US-based CSR consultant, to build a structure to gather any negative information about target companies in a timely manner.

(Investment Manager: Sumitomo Mitsui Trust Asset Management)



World Bank Bond Fund

Nikko Asset Management, a group company, developed this fund together with the World Bank in 2010. More than 30% of its portfolio is in green bonds, a fixed income instrument issued by the World Bank. Funds raised with green bonds are in principle used for lending to projects that address climate change in developing countries. This fund is thus recognized globally as a fund through which its investors can feel they are making a social contribution.

(Investment Manager: Nikko Asset Management)



Biodiversity Fund for Supporting Companies

Biodiversity refers to "a wide range of species and creatures" and "the connections among them." The Biodiversity Fund for Supporting Companies invests in Japanese companies that actively commit themselves to biodiversity conservation and sustainable use of biodiversity-reliant resources using the family-fund method. SMTB is an advisor on management of the mother fund.

Few US and European investment funds focus on biodiversity, so this fund is attracting attention in the global investment community.

(Investment Manager: Sumitomo Mitsui Trust Asset Management)



Our ESG Engagement Policy

SMTB has introduced policies to actively engage portfolio companies in the belief that providing solutions to environmental, social, and governance (ESG) issues so as to develop a sustainable society will contribute to upholding

the best interests of the ultimate beneficiaries who entrust their assets to us. This policy is illustrative of the issues and actions that serve as criteria for ESG engagement from the perspective of an asset management company.

SMTB's Actions with Respect to Environmental and Social Issues

- We require portfolio companies to address environmental and social issues from a global perspective, in line with the social good.
- In the event of a non-humanitarian act or other violations of the standards of conduct set out in the United Nations Global Compact, we dialogue with the portfolio company that committed the violation to request improvement.

Our Actions with Respect to Governance Issues

- If it is determined that management discipline at a portfolio company is not working in the interests of shareholders as a whole, we urge the portfolio company to adopt internal governance measures to improve management discipline.
- In the event of management misconduct, such as violations of the law causing impairment to shareholder value, we exercise our voting rights in a way that clarifies management's responsibility and ensures the maintenance of legal compliance. Furthermore, we positively assess compensation systems in which management shares with shareholders the benefit of increasing shareholder value over the medium- to long-term, while demanding from portfolio companies active disclosure and accountability that serves the interests of investors.

Ten principles of the UN Global Compact

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

ESG Monitoring

SMTB has established the ESG Monitoring Committee, which is chaired by an executive officer and is responsible for informing all departments across the company on specific issues set out under the ESG Engagement Policy, as well as monitoring related progress. The Committee is

also responsible for monitoring the status of engagement with portfolio companies on a regular basis. Subject to the importance and circumstances of the relevant issues, the Committee is also to consider such measures as shareholder proposals and the exercise of voting rights.



Engagement with Companies involved in Anti-personnel Mines and Cluster Bombs

The issues of anti-personnel mines and cluster bombs are being addressed on an international basis from a humanitarian point of view, as they disrupt the maintenance of peace and stability as well as restoration and development in affected regions. Accordingly, the Ottawa Convention (1999) on the prohibition of anti-personnel mines and the Oslo Convention (2010) on cluster bombs have been enforced. The global fund management industry, meanwhile, is increasingly acting to cut off financial support for related companies by stopping investment in manufacturers of them in an effort to discourage production of these weapons.

In line with the above trend, SMTB basically excludes companies that manufacture anti-personnel mines and cluster bombs* from the portfolio of active management products. For companies involved in

making such weapons that are held in our passive management products, we are encouraging them through engagement activities to suspend the manufacture of these weapons.

Since this issue is too big for us to resolve on our own, we are urging major pension funds and financial institutions overseas to cooperate with us, and we see enormous importance in reaching out so that we may see the day when anti-personnel mines and cluster bombs are no longer manufactured or used. In fiscal year 2012 alone, we managed to conduct engagement activities on this theme with two companies in the United States and one in Asia.

* On the basis of a list of companies prepared by Dutch NGO IKV Pax Christi in the report "Worldwide Investments in Cluster Munitions: a shared responsibility."

Our Philosophy on the Exercise of Voting Rights

Basic Policy on the Exercise of Voting Rights

In view of the importance of corporate governance, SMTB decides its basic policy on the exercise of voting rights to ensure that the exercise of these rights can make the man-

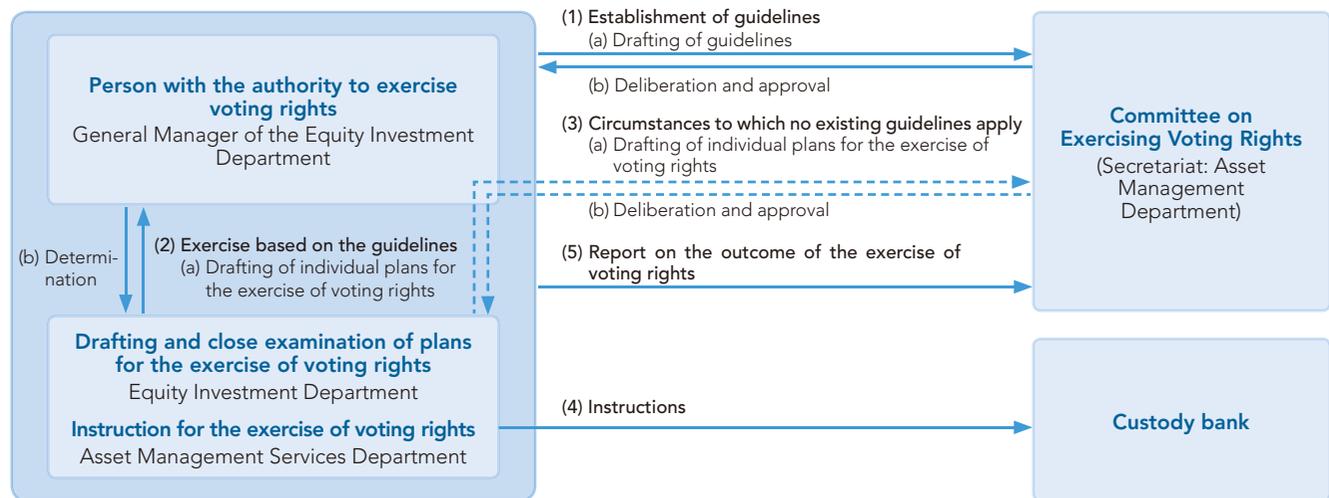
agement of portfolio companies respect the interests of and maximize long-term benefits for shareholders and ultimately benefit customers.

Corporate Governance System and Investment Criteria

We believe that the management policies and decisions of a company should be made not just to reflect the interests of shareholders but should also be based on the reconciliation of interests among various stakeholders including employees, creditors, and clients. As such, we believe that a company's management must actively develop sound corporate governance systems that respect the interests

of shareholders, in which efficient utilization of shareholders' equity and proactive disclosure to stakeholders are realized. The status of a corporate governance system in this broader sense can be a form of investment criterion. Whenever we find companies in our portfolio that do not pay sufficient heed to shareholder interests, we offer them guidance so that they pay proper attention by indicating our intention through the exercise of voting rights.

System for the Exercise of Voting Rights



Our Policies on Misconduct or Anti-social Behavior

We regard misconduct or anti-social behavior by a portfolio company or its management to be a serious breach of

corporate governance, and we endeavor to exercise voting rights in a way that improves the effectiveness of the company's corporate governance.

A View to Strengthening Corporate Governance Systems

In exercising our voting rights, we focus on communicating with portfolio companies, urging development and improvement of their corporate governance system, rather than aggressively getting involved in and posing opposition to management through dissenting opinions and

counter-proposals. On the basis of this philosophy, we examine what methods would be most effective in encouraging companies to strengthen their corporate governance system, with a view to maximizing the interests of shareholders through a range of contacts with those companies.

Our Philosophy on the Exercise of Voting Rights

Directors and Board of Directors

We believe the Board of Directors, as an executive body that governs a company, should comprise members with sufficient competence to make prompt and appropriate management decisions, and dedicate itself to adequately performing management supervision functions as separate from execution functions.

Corporate Auditors and Board of Corporate Auditors

We believe the Board of Corporate Auditors should be structured and operated so that it adequately functions as a body that monitors and supervises the execution of duties by directors.

Returning Profits to Shareholders

We believe that dividend payouts to shareholders should represent an appropriate distribution of profits according to the growth stage of the company, while taking in consideration the balance between returning profits to shareholders and retaining internal reserves based on factors including the company's financial condition and business plan.

Compensation for Officers

We believe that compensation for officers should be set at a level commensurate with the business performance of the company and in line with the distribution of profits to shareholders.

Changes to Financial Strategy and Business Operations

For such issues as changes to the corporate financial structure including the raising of new capital, and readjustments to the scale and lines of business through mergers, transfers, and acquisitions of businesses or corporate splits, we believe that management decisions by the Board of Directors should be respected in principle, unless they damage the interests of shareholders or future business development of the company.

Measures to Deflect Hostile Takeovers

We believe that portfolio companies should adopt measures against hostile takeovers that enhance long-term shareholder value, and that companies adopting such measures must meet the requirements of accountability by disclosing their intended purpose and outlines for their adoption. Such measures should be designed to provide a precise scheme that is neutral and fair to both an acquirer and acquiree, and should be adopted, renewed, and amortized subject to the consent of shareholders.

Other Proposals

Other various measures including amendment to the Articles of Incorporation must also contribute to enhancing shareholder value, ultimately for the long-term growth of the interests of beneficiaries, and accountability must be fulfilled as a prerequisite for the implementation of such measures.

The Exercise of Voting Rights for Foreign Shares

The above philosophy for domestic shares basically applies here. However, we will exercise voting rights for foreign shares based on plans drafted according to the situation in each country, in view of the fact that laws and regulations, commercial practices, and corporate governance have all developed in different economic, political, and social environments nurtured on the basis of different historical contexts in the respective countries.

Status of the Exercise of Voting Rights by Category of Proposal

Our track record on the exercise of voting rights for domestic shares at general meetings of shareholders held in the period from July 2012 to June 2013 is as follows.

1. Proposals Made by Portfolio Companies

	Approving votes	Dissenting votes	Abstention	Blind trust	Total
Appropriation of surplus, etc.	1,375	20	1	0	1,396
Appointment of directors	1,376	407	1	0	1,784
Appointment of corporate auditors	1,268	247	1	0	1,516
Partial amendment to Articles of Incorporation	563	20	2	0	585
Payment of retirement benefits	157	134	0	0	291
Revision of compensation for officers	323	4	0	0	327
Issuance of share warrants	93	44	0	0	137
Appointment of independent auditors	28	0	0	0	28
Matters related to reorganization strategies ^{*1}	60	0	0	0	60
Other proposals by the company ^{*2}	186	31	0	0	217
Total	5,429	907	5	0	6,341

*1 Merger, transfer or acquisition of business, share exchange, share transfer, company split, etc.

*2 Purchase of treasury stock, reduction of statutory reserve, capital increase by allocation of new shares to a third party, capital reduction, consolidation of shares, measures to deflect hostile takeovers, etc.

2. Proposals Submitted by Shareholders

	Approving votes	Dissenting votes	Abstention	Blind trust	Total
Total	1	132	0	0	133

Global Collaboration and Educational Activities

The UN PRI was established in 2006 to evaluate the environmental, social, and governance (ESG) initiatives of companies and promote the use of responsible investment (RI) in the stocks or bonds of such companies. The number of UN PRI signatories has increased year on year to about 1,200 institutions in 2013, with the total assets under management (AUM) of signatories exceeding USD 34 trillion.

This trend stems from energetic outreach by UN PRI, NPOs, and NGOs. The SMTH Group has built strong relationships with three organizations in this

field: UN PRI at the global level, Association for Sustainable and Responsible Investment in Asia (ASrIA) in Asia, and Japan Sustainable Investment Forum (JSIF) in Japan. These relationships have enabled us to contribute to the development of the RI market.

We will strive to continue working on educational activities and expansion of the RI market by leveraging various opportunities as a leading player in financial markets.



Working to Develop a Global RI Market

All of our group companies are UN PRI signatories, and we have co-chaired the UN PRI Japan network since 2010. In October 2013, at the annual UN PRI conference held in Cape Town, South Africa, we introduced Japan's activities.

The SMTH Group is also a member of the Global Compact Japan Network (GC-JN), an organization in which UN Global Compact signatories in Japan participate. We have

co-chaired the "SRI subcommittee" along with Daiwa Institute of Research and Daiwa Securities since 2011, and held a number of seminars. We will continue to participate in ESG workshops, provide information and hold seminars, which are a part of securities services operations to widely distribute RI information with a global perspective.



Participating in GRI Global Conference as a G4 Multi-Stakeholder Committee Member

The Global Conference on Sustainability and Reporting 2013 was held in Amsterdam, Netherlands on May 22-24, 2013, timed to coincide with the release of the Global Reporting Initiative's fourth-generation (GRI/4G) of International Sustainability Reporting Guidelines. More than 1,600 people from 80 countries convened at the conference, with SMTH in attendance as a member of the G4 multi-stakeholder committee.



Activities in Asia

Since joining ASrIA, which promotes SRI in Asia, in July 2004, SMTH has contributed as a member to the advancement of responsible investment. In September 2011, we

participated in a panel discussion, held at a tenth anniversary ASrIA event, entitled "Shareholder activism: How to do it successfully in Asia?" as a panelist.

Leading Japan's RI Market

The RI value chain is a process in which the CSR and ESG activities of companies are evaluated in capital markets, and the shares or bonds issued by such companies to raise funds are purchased by investors via RI strategies. The Group is working on a variety of initiatives to further strengthen the RI value chain in Japan.

We are a core member of JSIF, providing lecturers at study groups and symposiums as well as contributing to JSIF's annual reports as a way to actively disseminate information. Thus, we have contributed to the development of Japan's RI market.

Since the publication of the GRI/G4 sustainability reporting guidelines, the Group has been actively voicing

its opinions from the viewpoint of investors on the importance of non-financial information disclosure as well as the proper role of integrated reports. In December 2013, the Group served as a panelist at a seminar marking the publication of a Japanese (provisional) edition of the G4 guidelines as a member of the G4 multi-stakeholder committee.

At the seminar, the Group emphasized the importance of taking on ESG issues at various stages of asset management by linking the RI value chain to new moves now under way in Japan, including debate on reforming public pension fund management and introducing a Japanese version of the Stewardship Code.

