

Consideration of Environmental and Social Impact of Investment and Financing Targets

1. Framework of Our Initiatives

(1) Basic Policy on Environmental and Social Considerations

The SuMi TRUST Group identifies “consideration of environmental and social impact of investment and financing targets” as one of its most important (materiality) issues from the standpoints of both the impact on the Group’s corporate value and the Group’s impact on society.



Please refer to the SuMi TRUST Holdings’ website for further details, etc. of each of the above policies.

Under the “Basic Policy on the Social Responsibility of the Sumitomo Mitsui Trust Group,” the Group provides products and services that contribute to solving environmental problems through its business. The Group has also established the “Environmental Policy” to reduce the environmental burden arising from its business activities. Furthermore, it has established the “Action Guidelines for Mitigating Climate Change” and the “Action Guidelines for Preserving Biodiversity” to promote initiatives to address the two globally important environmental issues, and has been making efforts to engage in dialogue and cooperation with various stakeholders. In terms of social issues, with the aim of respecting each individual’s human rights and diverse values and rejecting unjustifiable acts of discrimination, the Group has established the “Human Rights Policy” and gathers information regarding how the investment and financing targets negatively impact human rights. In addition, the Policy provides that the Group takes necessary countermeasures in cases where legal norms, etc. are violated.

In asset management, the SuMi TRUST Bank, as a “responsible institutional investor,” has established the “ESG guidelines.” These guidelines are based on the United Nations Global Compact, a global corporate code of conduct, and articulate the Group’s expectations of investee companies, namely to minimize the impact on the environment, adhere to international labor rights, prohibit discrimination in employment, prohibit child labor, eradicate forced labor and avoid all forms of corruption including bribery and extortion, among others.

(2) Initiatives That Consider the Environmental and Social Impacts of Investments and Loans

Signing of the Equator Principles and Initiatives

SuMi TRUST Bank is a signatory to the Equator Principles, a set of international guidelines for private financial institutions that requires project proponents to give due consideration to the impact on the natural environment and the regional community when approving project finance.

When making decisions on loans, we review the environmental and social impact of the project and conduct a comprehensive risk assessment. Since becoming a signatory in February 2016, SuMi TRUST Bank has implemented 49 projects subject to the Equator Principles as of March 2018.

Environmental and Social Considerations in Asset Management

SuMi TRUST Bank and Nikko Asset Management have become signatories to the Principles for Responsible Investment (PRI), which was established in 2006. The PRI calls on institutional investors to take into account environmental, social, and governance (ESG) factors in their investment decision-making processes.

In accordance with the ESG guidelines, SuMi TRUST Bank is involved in numerous engagements (dialogue) with investee companies regarding ESG issues. SuMi TRUST Bank carries out such engagements through its analysts and the dedicated members of the Stewardship Development Department, as well as joint engagements with domestic and overseas organizations involving specific themes, such as palm oil and forest resources.

Establishment of Policies for Specific Sectors

The Group has established policies for specific sectors that promote business activities with significant environment and social impacts and restricts loans and investments to companies and projects with negative impact.

In specific terms, SuMi TRUST Bank does not provide loans to companies that manufacture cluster bombs, regardless of whether they are located in Japan or overseas. In asset management, we prohibit active investment, actively conduct engagements to demand the suspension of manufacturing of cluster bombs in passive investment, and publicize such engagements.

The Group also intends to establish a policy for sectors that are considered to be involved in the manufacture of palm oil and the destruction of tropical rainforests during fiscal year 2018 (see page 77 for project financing for coal-fired power plants).

2. Initiatives Related to Climate Change

Risks and Business Opportunities Associated with Climate Change

Risk Categories	Outline of Risk
Transition Risk	<ul style="list-style-type: none"> • Risk that stricter regulations and technological innovations lead to value impairment of the Group's loan assets and shares owned, etc. • Risk that economic measures such as climate-related taxation impact the business performance of our business affiliates • Risk that a low carbon-oriented market leads to volatility in supply-demand relationships for products and services, corporate earnings, etc.
Physical Risk	<ul style="list-style-type: none"> • Risk that natural disasters damage the assets of the Group or investment and financing targets and put business continuity at risk • Risk that climate change affects land use, resource procurement, the productivity of primary industries, etc.
Business Opportunity Categories	Outline of Business Opportunities
Opportunities in Resource Efficiency, Energy Sources, Products and Services, Markets and Resilience	<ul style="list-style-type: none"> • Increase in opportunities to offer financing to companies and projects that contribute to the mitigation of climate change • Increase in profit opportunities due to social infrastructure shifts, such as the spread of renewable energy • Increase in profit opportunities due to an enhanced social reputation as a company that contributes to climate change issues

Please refer to the 2017 ESG/CSR Report for further details. <https://www.smth.jp/en/csr/report/2017/CC-E-all.pdf>

(1) Risk Management in Relation to Climate Change

The Company has established the Action Guidelines for Mitigating Climate Change, and fully carries out risk management in relation to climate change. We also support the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) set forth by the Financial Stability Board, and promote initiatives in line with these recommendations.

Action Guidelines for Mitigating Climate Change

1. Implementation of Initiatives and Support for Climate Change Mitigation, etc.
2. Provision of Products and Services
3. Cooperation with Stakeholders
4. Education and Training
5. Information Disclosure

(2) Dealing with Climate Change Issues in Asset Management

As a "responsible institutional investor" that embraces Japan's Stewardship Code and a signatory to PRI, SuMi TRUST Bank conducts engagements, calling on investee companies to disclose information on climate change challenges and assess climate-related risks. In Japan, the Bank has conducted engagements with companies in the electric power, materials and machinery sectors, which are large greenhouse gas emitters, primarily to address the issue of coal-fired power generation. Overseas, the Bank, for example, voted for shareholder proposals that called on U.S.-based Exxon Mobil to disclose information related to climate change and also carried out activities urging U.S.-based Andarko Petroleum to disclose information related to climate change.

SuMi TRUST Bank is also a member of Climate Action 100+, a five-year initiative to implement joint engagement for agreement on a list of at least 100 of the world's top greenhouse gas (GHG) emitters, through a global collaboration of institutional investors. This initiative aims to encourage GHG emitters to reduce greenhouse gas emissions through engagement, disclose climate-related financial information, and improve governance regarding climate change. By leveraging the experience and expertise acquired while serving on various PRI working groups, SuMi TRUST Bank has been playing an active role by accepting, for example, the role of lead manager not only for Japanese companies but also for overseas companies.

(3) Project Finance for Coal-fired Power Generation

Regarding the issue of climate change, which has become a major global issue, SuMi TRUST Bank has always made careful decisions regarding coal-fired power generation projects, which emit a relatively large amount of CO₂, by setting certain internal criteria on factors including power generation efficiency and environmental impact. As initiatives for realizing a low-carbon society are crucial management issues for financial institutions in the industrialized world, SuMi TRUST Bank has decided, in principle, not to engage in new projects for the construction of coal-fired power plants. However, in cases where exemptions are considered, lending decisions will be made carefully, with a comprehensive consideration of backgrounds and characteristics undertaken on a case-by-case basis, under strict standards that address the environmental impact, such as the OECD Guidelines and the energy efficiency of the specific projects.