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Being the “Best Partner” most trusted by our clients

Given the divergence of values in society and increased uncertainties regarding the future, as a provider of trust schemes that facilitates a safe and secure society, we aspire to contribute to the development of society and also achieve sustainable and stable growth of the SuMi TRUST Group.

Introduction

The COVID-19 global pandemic is inflicting an enormous strain on societies, economic activity and our personal lives. I offer my deepest condolences to the families who have lost their loved ones to the COVID-19 and express my heartfelt sympathy to those afflicted, as well as to the many people whose livelihoods and businesses have been deeply scarred by the pandemic.

This fiscal year we unveiled the Group’s new Medium-Term Management Plan. However, the commencement of the plan happened to exactly coincide with the spread of COVID-19.

As a response to the COVID-19 crisis, we have deployed our banking functions to assure clients with smooth supply of funds and as a financial institution responsible for providing key social infrastructure such as pensions, stock transfer agency services, real estate, and asset management & administration, the entire Group has strived to ensure stable continuity of our businesses.

In this environment, I was strongly reminded of our role and responsibility in society as a financial group specialized in trust banking. I can also state with confidence that balanced creation of both social value and economic value—the core management philosophy of our new Medium-Term Management Plan—is the correct approach to take.

That said, irrespective of the effects of the COVID-19, societies and environments around the world are changing. Japan is no exception and the structure of society continues to be transformed by a lower birthrate, an aging population, rapid digitalization and ESG management for companies, particularly with regard to how they can co-exist with society, is becoming increasingly important. Going forward, all our clients, whether they be individuals or corporations, will likely seek solutions to new issues caused by changes in values and behavior in an environment where the future outlook remains clouded.

Our Group’s mission is to assist solving such issues for our clients. We also hope to achieve further growth by leveraging the various functions of the Group to earn the trust of our clients as their “Best Partner” and implement initiatives that would fulfill their needs.

Reminiscing on our past, we have continued to meet the demands of the changing times to solve various social issues and contribute to Japan’s development with the power of trusts. For example, our loan trusts supported the country’s recovery in the aftermath of World War II and our pension trusts helped stabilize people’s lives and improve their wellbeing.

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In our endeavor to help build a sustainable society for the future, we shall continue to draw on the power of trusts, or in other words, the significant expertise, comprehensive capabilities and wide array of functions of a financial group specialized in trust banking. To ensure that Group employees can keep this goal close to heart, we aspire to “creating new value with the power of trusts and let prosperous future for our clients and society bloom.” This ideal defines our reason for existence, or “purpose.”

With all Group employees committed to this purpose, we shall endeavor to progress steadily towards the sustainable development of society and the sustainable growth of the Group.

Refer to page 22 for more information about our “purpose.”

Medium-Term Management Plan

In our previous Medium-Term Management Plan (FY2017–2019) that called for a “second foundation” of the Group, we steadily enhanced profitability mainly by bolstering our fee businesses and improving net interest income. In the final year of the plan, excluding the recognition of special loan loss provisions in preparation for the anticipated impact of the COVID-19 going forward, most of our targets for KPIs were attained, such as net business profit before credit costs, net income attributable to owners of the parent and shareholder ROE.

Meanwhile, as the environment surrounding financial institutions has become increasingly challenging due mainly to persistently low interest rates and intense competition that transcends industries, the issues that needs to be addressed and their solutions have become clearer in order to further enhance our competitive edge as a financial group specialized in trust banking to achieve better feedback from clients.

In our new Medium-Term Management Plan spanning FY2020 through FY2022, balanced creation of both social value and economic value rests at the core of our management approach and we intend to tackle a variety of social issues in our various business domains in order to sustain growth throughout the Group.

Refer to page 22-27 for more information about our Medium-Term Management Plan (FY2020-22).

In particular, we shall push ahead with initiatives designed to address mainly the following challenges that our clients and society at large, currently face.

Individuals: Asset administration suited for Japan’s aging society and asset formation of individuals.

Corporations: Sustainable growth of the Japanese economy and corporations (addressing both financial and non-financial issues).

Investors: Diverse range of investment opportunities and development of the investment chain.

Owing to the heightened risk of dementia and other conditions associated with Japan’s super-aged society, an increasing number of individual clients want their personal assets to be managed appropriately so they can be used meaningfully on themselves or the next generation. Our Group shall steadily respond to this demand with the power of trusts by harnessing our hitherto accumulated know-how alongside digital technology. For clients of the working generation, we hope to provide suitable products, services and consulting so as to support their asset formation in the age of 100-year life.

For our corporate clients, addressing non-financial issues that drive company growth is an urgent matter. Such issues might include fostering a work environment in which employees feel that their work is rewarding, or sustainability initiatives aimed at further

Under our new Medium-Term Management Plan, we shall endeavor to tackle a variety of social issues, guided by our core management philosophy of balanced creation of both social value and economic value.



promoting co-existence with society. In order to fulfill the financial needs of our clients, we aim to provide high value-added non-financial services. For example, the enhancement of pensions and other employee benefit schemes, supporting communication with investors and shareholders, and environment-related consulting regarding real estate and other assets.

In addition to traditional asset classes such as stocks and bonds, we shall strive to provide loan receivables, real estate, and other novel investment instruments that fully draw upon our Group's characteristics so that we can meet the increasingly diverse investment needs of our investor clients in an ultra-low interest rate environment. We also intend to provide more than just products—we will support the entire investment chain with efficient and high value-added services in a number of processes related to investment, from information provision and consulting right through to custody services.

By steadily advancing these initiatives in our new Medium-Term Management Plan, we hope to consolidate our business platform over the next three years with the aim of realizing the sustainable development of society and sustainable and stable growth for the Group.

Development of human resources and diversity & inclusion

Our employees are the driving force behind the execution of our Medium-Term Management Plan. They also underpin the Group's sustainable growth, which is why our staffs' skill development and the provision of opportunities through which they can excel are of utmost importance.

One of the Group's management principles, or "mission," is to offer a workplace where the diversity and creativity of our employees are fully utilized to add value to the organization and where employees have pride and be highly motivated in fulfilling their missions.



■ Awarded the New Diversity Management Selection 100
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■ Selected as a "Nadeshiko Brand"
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Our approach to diversity and inclusion, which entails the creation of unique added value through interaction among our diverse employees, is without doubt, part of our DNA.

We believe it will be more important than ever before to incorporate and make use of different sets of values in management in order to create new businesses that assist in solving social issues, all the while imagining an unpredictable future.

We have actively appointed female employees to managerial positions and supported their career planning and we have also implemented specific measures to strengthen our initiatives on changing the mindset of employees. For example, we aim to select talented young employees for special roles, expand opportunities afforded to senior employees who possess expert skills, further the understanding of LGBT issues, support the work-life balance of employees engaged in childcare or nursing care and develop a more accommodating workplace environment.



■ Awarded the highest rating of “Gold” in Pride Index for LGBT initiatives
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Promoting sustainability management

The SuMi TRUST Group has actively addressed the following issues through its business activities: climate change, natural capital (biodiversity), environmentally friendly property, sustainable investment (ESG investment) and the super-aged society.

As one example of our initiatives, in March 2019 we concluded the world’s first Positive Impact Finance (PIF) loan agreement with a business in which the use of loaned funds is unspecified. Through PIF we comprehensively analyze and assess the impact of a client’s corporate activities on the environment, society and economy. We then work together with the client to set goals that they commit to achieving so that both parties can overcome various social issues and work towards realizing a sustainable society. Many clients have expressed a keen interest in this solution and we are steadily building a track record of transactions. In this way we will continue to create positive impact on society through the corporate activities of our clients.

Of the many challenges faced by society, the issue of climate change is the most pressing. We feel that we must further demonstrate the functions of our Group in the areas of both banking and trusts.

As a founding signatory, we were the first financial institution in Japan to sign on to the Principles for Responsible Banking (PRB) that came into effect in September 2019. The PRB calls on banks to align their business strategies with the goals of the Paris Agreement on climate change and the UN Sustainable Development Goals (SDGs). We have in place an environmentally-friendly and socially-acceptable financing policy that is geared towards the establishment of a society with net zero carbon emissions and we aim to support the creation of new business models by our clients mainly through the financing of renewable energy. Furthermore, our Group asset management companies are fulfilling their role as responsible investors by actively taking part in the Climate Action 100+ and a number of other partnerships concerning climate change.

Refer to page 46 for more information about Positive Impact Finance (PIF).

Refer to page 84-87 for more information about climate change issue (TCFD).

Returns to shareholders

In line with the Group’s sustainable and stable growth, we hope to steadily expand returns to our shareholders going forward.

In particular, after revising our shareholder return policy in accordance with the new Medium-Term Management Plan, we shall place greater emphasis on dividends as a means of returning shareholders' profit commensurate with earnings. We therefore shall aim for a consolidated dividend payout ratio of around 40% in or around FY2022. We may also repurchase our own shares flexibly in order to improve capital efficiency while simultaneously confirming that we maintain an optimal balance with growth seeking investments.

In conclusion

Considering the current assortment of numerous risks and growth opportunities, we need to conduct our business operations while paying special attention to changes in the business environment. That said, the direction our Group is headed shall remain unchanged.

We believe the diversification of values and the growing number of uncertainties in society present us an opportunity to come into our own with trust schemes that can ensure a safe and secure society. We will take steps to overcome the COVID-19 crisis at hand and aim to achieve sustainable and stable growth by steadily executing our new Medium-Term Management Plan.

We appreciate your continued understanding and cooperation.

July 2020

Sumitomo Mitsui Trust Holdings, Inc.
Director, President

