

Paving the Way for the Next

100 Years with the Power of Trust

We have launched a new Medium-Term Management Plan, returning to the founding principle of creating a sound and prosperous future as our goal. To pursue SuMi TRUST Group’s “Purpose,” we shall continue to work with a strong and renewed awareness of our mission and fulfill our roles and functions as a trust group.

Mission as a trust group

Around 100 years ago, numerous trust companies were founded against the backdrop of the strong industrial financing needs for modernization and the economic boom brought on by World War I. In 1921, there were 488 such companies. On the other hand, under the banner of the “trust business,” many of them engaged in ambiguous activities that were far from the trust business. The Trust Act and the Trust Business Act were enacted in 1922 to correct confusion in the trust industry and to develop a sound trust system.

With a belief that trust companies have a mission of serving the community and must have solid creditworthiness for asset administration to respond to clients’ expectations, the Mitsui Trust Company, Limited was established in 1924 as Japan’s first trust company pursuant to the Trust Business Act, followed by the founding of Sumitomo Trust Co., Ltd. in 1925. This is the origin of SuMi TRUST Group.

Today, to realize a green society, a huge amount of funds is needed, estimated at 150 trillion yen in the public and private sectors in Japan over the next ten years. I observe that there are parallels between the current environment, in which social issues need to be resolved and transition is made to strive for a prosperous future, with the world when the Group was founded. I believe that this is a time when “the Power of Trust” is needed.

The new Medium-Term Management Plan launched this fiscal year has been formulated with a strong and renewed awareness of our mission as a trust group and

① See page 2

② Referenced from “Clean Energy Strategy”, Ministry of Economy, Trade and Industry

③ See page 24

SUMITOMO MITSUI TRUST HOLDINGS



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the roles and functions we serve, returning to the founding principle of the Group with the aim of creating a sound and prosperous future. Based on a long relationship of trust with our clients, we shall utilize “the Power of Trust” to solve social issues and pass on a sustainable and prosperous society to the next generation, while enhancing our corporate value. And also at the same time, we are committed to paving the way for the next 100 years to enhance the well-being of our stakeholders.

At present, the environment surrounding us is becoming increasingly uncertain, with rising global inflation as seen in soaring food and energy prices triggered by the post-pandemic economic recovery and the Ukraine crisis, and growing anxiety about the financial system due to the failure of U.S. and European financial institutions.

These events remind me of the financial crisis in Japan in the 1990s. Globalization is far more advanced than it was then, and how Japan will be affected in the adjustment process of unprecedented monetary easing is unpredictable. We recognize that the financial institutions that survived at that time were supported by a strong client base, accumulated capital and vigilant cash flow management. We are committed to resolving each of these issues, all of which could lead to critical management decisions, with solid business operations and a robust management system.



Review of the previous Medium-Term Management Plan (FY2020–2022)

In the previous Medium-Term Management Plan, under our Purpose, the balanced creation of both social value and economic value was placed at the very core of our management philosophy. Also, our top priority was to realize a “virtuous circulation of funds, assets and capital” that brings the fruits of enhanced corporate value to households, and we strived diligently to achieve sustainable and stable development of the Japanese economy and companies, foster sound capital markets, and enhance the well-being of our clients and society.

Specifically, we announced a policy, in principle, of not holding any strategic shareholdings as a conventional stable shareholder. At the same time, by leveraging the capital created by the reduction of strategic shareholdings, we announced we would invest a cumulative total of 500 billion yen in impact equity investments by fiscal 2030 to help solve social issues, and to raise investors’ demand of 2 trillion yen using our own funds as a catalyst. In addition, we promoted initiatives for the Group’s own sustainable growth by creating a virtuous circulation of funds starting from ourselves, such as forming a business alliance with the Apollo Group, renowned for its world-leading track records in private asset management.

In terms of business performance, we achieved the target of 190 billion yen in net

income attributable to owners of the parent for the final fiscal year of the Medium-Term Management Plan (fiscal 2022), a record high since integration in 2011. In addition, assets under management and assets under custody have more than doubled since the time of the integration, and we have confidence that we have achieved growth that is expected of a trust group.

Thoughts on the new Medium-Term Management Plan (FY2023–2025)

The new Medium-Term Management Plan sets forth its concept as “Paving the Way for the Next 100 Years with the Power of Trust.” We aim to realize our vision under the Group’s Purpose. Here are my five thoughts on the new Medium-Term Management Plan.

[The Aspiration]

- Be a fiduciary that is trusted by stakeholders
- Contribute to enhancing the well-being of all people, including future generations
- Serve as a social infrastructure, creating a virtuous circulation of funds, assets and capital

(1) Expand AUF to help solve social issues and create and expand markets

Our Group shall pursue the best interests of its clients as a fiduciary which is believed in and entrusted by clients and accomplishes the wishes of clients. This is the source of “the Power of Trust,” and we will fulfill our responsibilities. We will further refine our expertise and provide valuable solutions that exceed clients’ expectations, taking advantage of our long-term businesses based on a relationship of trust with our clients, thereby helping to enhance the well-being of our clients and society.

We have defined AUF (Assets Under Fiduciary) as the balance (indicator) that indicates the scale of initiatives by the Group that contribute to solving social issues and creating and expanding markets. We shall expand the AUF balance, which stood at 480 trillion yen at the end of fiscal 2022, to 800 trillion yen in fiscal 2030, focusing on asset management and asset administration businesses. AUF based on long relationship of trust with clients will result in lower capital costs. As an impact on society, AUF can contribute to solving social issues and creating a prosperous future. Through AUF, a quantitative indicator, I hope to achieve balanced creation of both social value and economic value.

(2) Achieve ROE of 10% or above by FY2030

In March, the Tokyo Stock Exchange presented listed companies with “Action on Cost of Capital-Conscious Management and Other Requests.” We understand this as a call to increase capital profitability through such measures as making investments to achieve growth, strengthening business portfolio and appropriate allocation of management resources, and to encourage companies to achieve sustainable growth and medium-to long-term enhancement of corporate value while responding to the expectations of stakeholders.

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We aim to achieve ROE of at least 10% and 300 billion yen in net income attributable to owners of the parent by fiscal 2030 and shall make steady progress toward achieving PBR of at least 1.0x (market capitalization of at least 3 trillion yen) as early as possible. In addition, we will contribute to ensuring that PBR exceeds 1.0x not only for ourselves but also for many listed companies in Japan through the realization of a virtuous circulation of funds, assets and capital.

We have revised the policy of shareholder returns and decided to introduce a formula of progressive dividend per share, aiming for a consolidated dividend payout ratio of 40% or above. We will steadily return the fruits of the growth, obtained through our sustainable rise in earnings, to shareholders over the medium-to long-term.

(3) Contribute to the transformation of social structures and the acceleration of technological innovation, and create a green society

I see sustainability issues, represented by climate change, as a crisis of well-being. From this standpoint, I believe that we need to squarely face conflict and disparities, such as international friction and social division, and work hard to find a balanced solution. I would like to contribute to social structural change and the acceleration of technological innovation without overlooking the needs and concerns of minorities and socially vulnerable people.

Levels of well-being crisis are not uniform. For example, island countries facing the rise of sea-levels, areas exposed to desertification, and areas prone to hurricanes and typhoons have different degrees of risk depending on the countries and regions.

In light of the situation in Japan, for example, there is still plenty of room in various parts of the country for renewable energy development, and this is becoming increasingly important for decarbonization. Taking into account the fact that there is less need for long-distance power transmission, we believe that the benefits of a local-production-for-local-consumption economy are significant from the perspective of overall energy efficiency.

Rich natural resources remain in the countryside. Although there are many community-specific social issues, such as a shortage of workers in forestry management and maintenance, as well as inheritance issues, we believe there are solutions, like building a supply chain from production to sales in each region and introducing renewable energy, including heat supply and small hydropower generation, that can utilize forest resources. Pertinent management and use of forests will not only fulfill the important role of forests such as preventing landslides and other disasters and increasing carbon dioxide absorption, but also lead to the circulation of local resources within the local economy.

We believe that the “transformation of social structures,” in which industries are distributed across Japan and the population is dispersed, can be one of the solutions to enhance the well-being of the entire nation. In addition, in order to accelerate our response to the current energy crisis and industrial revitalization, it is essential to accelerate technological innovation. In order to achieve this, there are demands in the public and private sectors for incubation investment in green tech from the demonstration phase to commercialization, as well as investment of huge amounts of funds for energy and social infrastructure transitions.

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Huge investments can only be made with government, bank and institutional investors’ funds deployed in collaboration with the financial assets of individuals, which are estimated to be around 2,000 trillion yen. By fiscal 2030, we will provide 15 trillion yen of sustainable finance, funded not only by its own balance sheet but also by investors’ funds.

Investment is essential to realize a green society but it cannot be sustainable unless there are appropriate returns (fruits) delivered corresponding to the risks taken by businesses and investors. We shall provide an investment environment that encourages investment in assets from which high return can be expected in the future, including private assets related to the creation of a green society. And we will democratize and socialize investment, in which anyone can take the benefits of valuable investment for granted, and vitalize dormant funds.

However, such goals are difficult to achieve by us alone. We will build a network with leading players who agree with our vision and co-create even greater value through collaboration and cooperation. We will connect Japanese investors, including individuals, to global investment chain by such measures as reducing the size of private asset investments, which are expected to yield high returns.

The realization of a “green society,” a global common understanding, is a challenging theme. We recognize that, in order to support our clients’ technological innovation with “the Power of Trust”, a profound knowledge of technology is also necessary for us. We are expanding the staffing and activities of the team of experts in a wide range of fields, including hydrogen, storage batteries and chemistry. We are determined to pave the way to a prosperous future with the power of solutions originating from innovative technologies as well as investments.

(4) “FINANCIAL WELL-BEING” in the age of 100-year life

Well-being, in which there is a growing interest these days, refers to “the state of being fulfilled physically, mentally and socially.” If we aim to ensure well-being, it’s important not only to have money but also to be able to manage it, which leads to a sense of happiness and fulfillment. “FINANCIAL WELL-BEING” is the state of being able to remove anxiety about money and deal with it in a healthy manner in order to have peace of mind and live a healthy life.

Everyone has their own way of achieving happiness. There are many ways to spend, save, increase, and leave money. There are two aspects to spending money:

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“consumption” and “investment.” If we spend money only for “consumption” in daily life, we will end up going through a repetition of earning and consuming. When thinking of our entire life, if we develop an investment perspective in our life plan, such as “receiving long-term returns” and “using our money to benefit society,” we will be able to take the initiative in our life plan and opens new possibilities for enjoyment. Investment can take the form of not only building assets but also investing in learning that will enhance our ability.

Individual assets in Japan amount to 3,000 trillion yen. Out of this total, 2,000 trillion yen is financial assets and 1,000 trillion yen is real estate. Among the financial assets, 1,000 trillion yen is cash and deposits. The trend from savings to asset formation is gaining momentum across the country. We expect investment needs and funds to expand as a result of supporting measures such as the Doubling Asset-based Income Plan and income increases due to raising wages. In addition, with an eye on the age of 100-year life, there is a growing movement in the working generation toward building assets in their early life stage. Among the financial assets, 1,000 trillion yen not held as cash and deposits is invested in securities and other products, but with greater longevity of the population, the amount of money needed for living is increasing, and vague anxieties about the future are growing, including dealing with dementia. In addition, it is true that many people who experience inheritance in real estate are concerned about the smooth transfer of assets between generations.

We will take advantage of the knowledge gained in pension and real estate operations to increase opportunities for individual clients and corporate employees to invest safely and securely from a long-term perspective with a comprehensive view of future cash flows and assets and liabilities. We will also harness the flexible product design aspects of trust regarding the risks specific to longevity and help people to attain a prosperous “second, post-retirement life”. We aim to enhance our clients’ FINANCIAL WELL-BEING, starting with their own asset formation and development of an environment in which such assets are inherited by the next generation with a sense of security.

(5) Bolster human capital and Diversity Equity and Inclusion (DE&I) for future adaptability

In the spirit of fiduciary duty, we will foster an organizational culture to implement client-oriented business operations and aim to be a company in which employees, who can exercise principle-based ownership by thinking by themselves, making their own judgment and acting on their own, can play a very active role throughout the company.

In 2018, I declared that “I am the manager of my life” in the “IkuBoss Declaration,” a declaration of an organization that supports employees and enable diverse work styles and a good work-life balance. We will create an environment that encourages a circulation of well-being, in which each and every employee develops an independent career and works hard together as a professional, and each employee’s activities contribute to enhancing the well-being of clients and society, which in turn leads to job satisfaction for employees.

In addition, we believe it is important to foster a corporate culture of inclusion of all in a fair and just (equity) manner, including employees with diverse attributes and backgrounds. We will recognize the differences among diverse employees and

provide support corresponding to the competencies and abilities of each individual, without overlooking consideration for minorities.

With regard to the promotion of women’s active participation, SuMi TRUST Bank aims to increase the ratio of female employees in management positions (section managers, team leaders, and above) to at least 20% by October 2024. In terms of corporate governance, the Board of Directors of major subsidiaries consists of members including female and external directors with international backgrounds, but we will make further efforts for diversification.

Toward the next 100 years

Next year, in 2024, SuMi TRUST Group will celebrate its 100th anniversary since its incorporation. Since our founding, guided by our fiduciary spirit and with “the Power of Trust,” we have consistently maintained a “pioneering” attitude, by boldly tackling “challenges” to create new value in response to the needs of clients and the demands of society in each era, and by contributing to the development of our country.

In the years ahead, Japan will face a number of social issues that will require huge investments and a long time to resolve, such as “realizing a green society” and “FINANCIAL WELL-BEING in the age of 100-year life,” which embody my thoughts. Such social issues will be big challenges for corporate and individual clients, but addressing these time-consuming and costly challenges is where we can demonstrate its strengths.

By leveraging the strengths of our Group which has contact points with a wide variety of clients and markets and a business foundation based on long-term relationship of trust with our clients in a wide range of areas, we shall endeavor to make a significant contribution to the virtuous circulation of funds and expansion of investment in Japan. With “the Power of Trust,” we are determined to take strong and steady steps toward the next 100 years so that we can achieve ROE of 10% or above and PBR of 1.0x as early as possible, and even exceed these benchmarks.

I would sincerely appreciate your continued support and understanding.

July 2023

Toru Takakura

Director, President
Sumitomo Mitsui Trust Holdings, Inc.

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16 See our website
Founding Prospectus
https://www.smth.jp/about_us/profile/chronicle/prospectus
(Japanese text only)

13 See page 48