

Messages from subsidiary management



**With the “power of trust,”
creating social infrastructure that
promotes a virtuous circulation
of funds, assets and capital**

President
Sumitomo Mitsui Trust Bank, Limited

Kazuya Oyama

(1) My hope for creating a virtuous circulation

In response to the Sumitomo Mitsui Trust Group's new Medium-Term Management Plan, our new Medium-Term Management Plan has defined its key concept as “With the power of trust, to become social infrastructure that promotes a virtuous circulation of funds, assets and capital.”

In Japan, personal assets, composed of financial assets and real estate, are said to total roughly 3,000 trillion yen. The country's longstanding financial and social issue is that these assets and companies' retained earnings remain stagnant, not being used for investment or consumption.

We are not only a trust bank involved in the financial markets but also an essential provider of financial and social infrastructure centered on asset management and asset administration for all markets where funds, assets and capital move, including tangible asset markets such as real estate as well as capital markets such as securities markets. In other words, we are not just a company that passively provides infrastructure in investment chains, but a company entrusted by various stakeholders to proactively and earnestly promote a virtuous circulation of capital and create new value for society.

There are five points that I consider essential for the realization of a virtuous circulation.

First, we need to create a safe and secure investment environment.

One of the reasons for the stagnation of funds is that, people have vague anxieties about the future, including their future

pension benefits. If private pension systems, namely corporate and personal pension plans, are vitalized, they can serve as the backbone for both households and companies to invest with confidence and security. We believe that we have a significant role to play in pension systems design as we have extensive experience in this business.

Second, we will take the lead in the investment business and encourage our clients to change their behavior.

In order to encourage the movement of clients' funds, we have to do more than merely respond to our clients' needs. We believe that we need to take the lead in investments and create new markets. By doing so, we shall encourage our clients to change their behavior and ultimately transform the mindset of society. We have a history and track record of forming trends in alternative investments in the field of pension fund management.

Third, we will change corporate and industrial structures.

In the Showa era (1926–1989), trust banks played a vital role in the field of industrial finance by channeling funds collected through loan trusts to mainstay industries, contributing to the achievement of Japan's rapid economic growth. During the Reiwa era (2019–), in order to realize a green society, we will strongly support corporate transitions and lead the transformation of industrial structures through impact equity investments.

Fourth, we will enhance our ability as a responsible investor.

The role of responsible investors, such as financial institutions or institutional investors, is to promote long-term value growth

of investee companies. We will practice fruitful dialogue with investee companies for the benefit of all shareholders and establish a culture of engagement in Japan's business establishment.

Finally, we will “democratize and socialize investment.”

The financial market is increasingly becoming polarized. Specifically, individual investors investing small amounts of money for short periods of time, rely on passive investment, while a growing number of investment funds with the ability to

provide substantial long-term capital benefit from high returns. We believe that due to this polarization, capital markets are not completely fulfilling their intrinsic role, which should allow a wide range of investors to actively select their investee companies, and enable the companies to grow in response to the investors' selection. Through our endeavors to democratize and socialize investments where everyone can have access to valuable investment opportunities, we shall strive to mobilize stagnant funds and realize a virtuous circulation.

(2) Taking on the challenge to develop a new client base through collaboration and integration across businesses

Thus far, we have excelled in serving large corporations as well as personal clients around retirement age to seniors. Going forward, we will also take on the challenge of building long-term relationships of trust with fast-growing startups that solve social issues through innovation, and with the asset-formation generation who are making early preparations in the age of 100-year life. What makes this challenge possible are our unique characteristics and strengths, namely collaboration and integration across our businesses.

The Japanese government has been advancing its initiative to nurture and support startups as part of Japan's growth strategy. In response to this movement, we have the ability to provide diverse services to support startups that are aiming for significant growth. These services include capital allocation strategies and business owner support through collaboration

between Corporate Business and Private Banking as well as equity finance and asset administration services such as stock transfer agency services and pension management and the like through collaboration between Corporate Business and Investor Services Business.

The point is that digital technology is the key to accelerating such collaboration and integration. Digital technology has the potential power to integrate disparate elements at an extraordinary speed and scale. For example, the smartphone app “Smart Life Designer” released in April 2022, was created by combining, through digital technology, the know-how of the retail business, pension business and workplace business. The app has dramatically expanded opportunities to make online or non-face-to-face contact with the asset-formation generation, who were used to face-to-face services in the past.

(3) In conclusion

The agenda of realizing a virtuous circulation is the declaration of my personal commitment to “squarely tackle Japan's financial and social challenges,” and “not to postpone them to future generations, but to resolve them in our generation.”

By creating a large ecosystem together with stakeholders who concur with our concept of creating a virtuous circulation, we will take on the challenge of enlarging the economic and social pie as a whole, and contribute to the creation of a prosperous

and bright future. We believe that if such a virtuous circulation is realized, it will lead to the sustainable growth of the national economy, and, in turn, to our sustainable and stable growth, thereby enhancing the well-being of our clients as well as our other stakeholders in society.

Inheriting our history of “challenge” and “pioneering spirit,” we will take a strong first step into the next 100 years toward realizing a prosperous and bright future.





SUMITOMO MITSUI TRUST ASSET MANAGEMENT



Contributing to realization
of future goals and ideals
through asset management

Yoshio Hishida

Representative Director and President
Sumitomo Mitsui Trust Asset Management

The spread of COVID-19 and Russia's invasion of Ukraine have had profound global impact on society, economy, politics and other areas, transforming people's lives. There seems to be a view that actions for addressing ESG issues will suffer setbacks in such emergency or extraordinary situation, however we believe that the opposite is true.

It is the mission of Sumitomo Mitsui Trust Asset Management to assist clients realize their future goals and ideals through asset management as a responsible institutional investor.

For this mission, stewardship activities, such as contributing to the enhancement of corporate value through dialogue with investee companies and promoting activities in the ESG field, are extremely important, and we will continue to work tirelessly and sophisticate our activities.

Sumitomo Mitsui Trust Asset Management has been a signatory of the United Nations Principles for Responsible Investment (PRI) since its inception in 2006, and over the years, we have engaged with corporations and society. We also actively participated in overseas engagement activities from an early stage.

Here is a recent example. At the 26th session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP26), about 30 global financial institutions and asset managers established FSDA (Finance Sector Deforestation Action Initiative), issuing a

commitment letter to use best efforts to eliminate agriculture-driven deforestation from their investment and lending portfolios. Sumitomo Mitsui Trust Asset Management is the only asset manager that participated from Japan and is a member of the collaborative engagement of the 30 institutions mentioned above. In addition, since October 2022, we have selected 78 companies with significant impact on the agricultural supply chain and have been making proposals to promote traceability and other measures aimed at strengthening supply chain management.

While working with overseas asset owners and asset management companies, in addition to expressing our opinion as a Japanese asset management company, we will also continue to incorporate the knowledge gained through advanced overseas ESG activities into our engagement activities with Japanese companies.

The philosophy of Sumitomo Mitsui Trust Asset Management is "Realizing opportunities today to ensure sustainable prosperity for tomorrow." In order to make this a reality, we will continue to provide solutions from a long-term perspective as a member of a trust group. At the same time, as an independent asset management company that is indispensable to our clients, we shall dedicate our full efforts to grow the valuable assets entrusted to us over the long term.

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Offering optimal solutions for
diverse investment needs

Stefanie Drews

President
Nikko Asset Management

Nikko Asset Management is a global asset manager headquartered in Japan, with investment management capabilities and business operations spanning 11 countries and territories. This globally interconnected mesh enables the most effective collaboration between our Tokyo headquarters and overseas offices to provide highly distinctive and innovative investment products, and deliver excellent investment performance.

Our global investment management framework covers all asset classes and provides optimal solutions for the diverse needs of investors around the world, including Japan. Every day, we work to enhance and expand these capabilities.

In recent years, we have seen a worldwide shift in the complexity of ESG (Environment, Social and Governance) investment needs. In order to meet the various needs around the world, we have established a Global Sustainable Investment Team comprising the experts in our Singapore, Tokyo, New York and London offices. This allows us to take an integrated approach with the highest global standards in tasks such as ESG data analyses and responding to regulations. The team is asset class agnostic, and provides its expertise to our investment management, product development and sales functions to support the foundation for the ESG solutions we deliver to investors.

In 2022, Nikko Asset Management also became one of the first asset managers based in Asia to be recognised as a signatory to the UK Stewardship Code. In addition, as a

member of the Net Zero Asset Managers initiative (a global initiative by asset managers aiming to achieve net zero greenhouse gas emissions by 2050) we have set an interim target for cutting our greenhouse gas emissions by 2030.

In the field of sales and distribution, we are redoubling our focus on providing product development capabilities and sales support solutions that match the needs of various distributors. This flexibility is one of our core strengths. The network of strong relationships we have built over many years with a wide range of distributors, including megabanks, regional banks, broker-dealers with strengths in over-the-counter sales, and online brokers enables us to thoroughly address the diverse challenges each type of distributor faces. We are now leveraging this to provide the best investment solutions to individual investors in anticipation of the launch of the new Nippon Individual Savings Account (NISA) tax exemption system for small investments, to take effect in January 2024. The positive response we receive for these efforts has secured us the top spot in an industry survey of distributor satisfaction for four consecutive years.

Based on the Global Growth strategy we formulated in 2022, we aim to realise high-quality AUM growth through all our channels in Japan and around the world.

We look forward to continuing our work to fulfil our fiduciary duty as an asset manager, as well as our intensive efforts to contribute to clients' long-term asset building and making the world a better place.