

## IR Day (August 19, 2022) Questions and Answers

(Respondent: Kengo Noguchi, Executive Officer of SuMi TRUST Holdings, Inc.)

Q.1	As a KPI for the Businesses for Investor Clients, you indicate that net business profit before credit costs in FY2030 will increase by approximately 60 billion yen compared to FY2021. What will be the driver of this growth?
A.1	There are three major revenue categories in our businesses for investor clients: gatekeeper, in-house management and asset management, and we believe that in-house management, in particular, will be the driver of the growth toward March 2031. We are looking to increase AUM by approximately 100 trillion yen from the end of March 2022, of which approximately 20 trillion yen is expected to come from private assets. Although it remains to be seen how much of this ¥20 trillion can be managed in-house, we believe that an increase of approximately ¥60 billion in net business profit before credit costs can be achieved, assuming a ¥20 trillion increase in private assets. We also assume that AUC will increase by approximately 200 trillion yen from the end of March 2022, and if private asset management is also included in this increase, we believe that even larger fees can be expected.

Q.2	What is the background and objectives of the strategic partnership with Apollo?
A.2	Through the strategic partnership with Apollo, we aim to support investors' understanding of private asset investment and expand the market by educating domestic investors about private asset investment. We also believe that we can meet the long-term fund management needs of life insurance companies in Japan by drawing on the portfolio construction know-how that Athene, a subsidiary of Apollo, has cultivated in the corporate pension field. We do not intend to limit our business partnership exclusively to Apollo, and we are open to considering other partnerships that will lead to optimal investment proposals for investors.

Q.3	You have stated that you plan to increase private asset AUM by 20 trillion yen by FY2030 compared to FY2021. What areas will drive such a growth? In addition, I would like to ask how you view the difference in growth potential between Japan and overseas, and whether the medium- to long-term return levels will also change between internal and external of Japan.
A.3	In Japan, investments in public social infrastructure such as gas and water supply have lower returns than ones in Europe, so they are less likely to become investment products. Therefore, we will expand businesses by mixing investments in private projects such as data centers, sports facilities and private equity investments where returns are expected. A growth will likely be driven by private projects in the energy, real estate and data center sectors. In addition to such projects, we also plan to invest in companies with new technologies, such as asphalt technology that absorbs CO2, technology that can generate electricity on roof tops similar to solar panels, and technology that can automate the rehabilitation of water pipes, with "infrastructure" as the keyword. This is precisely what impact equity investment is all about. <p style="text-align: right;">(Continued to the next page)</p>

	<p>Next, regarding the difference in growth potential between Japan and overseas, it can be said that Japan's origination market is still evolving. On the other hand, regarding overseas markets, in addition to the partnership with Apollo, we have a wealth of knowledge and experience from our own investments, so we are taking a more proactive approach than in Japan. However, we consider it our goal and responsibility to create a virtuous circulation of funds in Japan, and in the future, we would like to see our domestic private assets account for more than half of our total AUM. Finally, with regard to the medium- to long-term return level in mind, the source of our revenues is related to gatekeeper services and in-house management. In particular, the gatekeeper fee level for private assets is reasonable, generally around 30-50 basis points, and we do not expect this rate to decrease significantly in the future due to the highly specialized nature of the business and the limited number of competitors. We see no major differences in this regard between Japan and overseas.</p>
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Q.4	<p>Regarding the same-boat investments listed on page 11 of the presentation material, I would like to ask to what extent you intend to utilize investments from your own account.</p>
A.4	<p>Although we cannot give a specific figure for the amount of same-boat investment at this time, there are several styles of same-boat investment. The first is an investment style that we call as an upfront investment. In case it is too early to introduce an investment product to our clients, we invest our own money in the product for the purpose of accumulating a track record for the future investor clients. It can be positioned as research and development. The second style is what we call a "showcase," in which we provide investors with a look into the contents of our well-diversified portfolio, and we build good relationships with portfolio managers, for whom we perform due diligence and reporting. The third is when we invest in assets for which we act as a gatekeeper. For example, when an investor client invests in a private asset in which we act as a gatekeeper, we are sometimes asked to participate as a same-boat investor. The percentage of our investment depends on the overall investment scale, but if we assume that 1% of the ¥20 trillion increase in private assets is invested in 200 billion yen, or 5% of the ¥20 trillion increase in private assets, we would be going to invest about 1 trillion yen on our own account. We would like to work on this issue with the effective use of the balance sheet on our mind.</p>

Q.5	<p>I would like to ask you about your strengths and weaknesses compared to your overseas competitors.</p>
A.5	<p>When Japanese clients consider investing in overseas assets, our greatest strength and advantage is that we have the knowledge and network of overseas markets and businesses, hence we receive their request for consultation on their final investment decisions and the related services they require. Specifically, unlike the uniform service provision offered by global big firms, we would meet the needs of each client and provide detailed services, including those that are not directly related to the front-line operations of the asset management business, such as language support and response to time differences with overseas locations.</p> <p style="text-align: right;">(Continued to the next page)</p>

	In the future, we aim to build a data ecosystem in the asset administration business by utilizing DX. We believe that if we can create a mechanism to collect, analyze, and return investment-related data on a platform, including data from clients with whom we do not have direct transactions, this will become a new strength of ours.
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Q.6	In creating a domestic private asset market, please tell us about the points to keep in mind regarding the development and securing of human resources. Is there any concern about an exodus of specialized human resources?
A.6	About half of the employees engaged in operations related to private assets are mid-career employees, and we are actively recruiting them from the various labor markets and promoting such employees. Currently, the demand for personnel with expertise in private assets is extremely strong, and while there are some employees who leave our company. However, there are also cases where people change their position to that of an investor and maintain relationship with us, so we view this as a positive sign which brings us a broader human resource network. In addition, we are also working with our HR Department to examine the appropriate evaluation of personnel with specialized skills, while comparing our performance with that of asset management companies, Japanese general trading companies (Sogo Shosha), and other companies outside of the banking industry. In terms of human resource development, from the perspective of building a human resource network in a broad sense, we intend to firmly nurture human resources who can play an active role not only in our company but also in other companies.

Q.7	How many people do you expect the project to be staffed by FY2030? Will the number of employees increase in line with the growth of the KPI figures shown in the presentation material?
A.7	Currently, the investor services business has more than 1,500 employees, of which nearly 200 are involved in private asset-related operations, including those at overseas offices. Naturally, a certain level of increase in the workforce is necessary for future business expansion, but if we continue to deploy additional manpower, we will eventually reach a limit. What is important is the level of expertise of each person, and in a view of the utilization of the platforms mentioned earlier, we do not intend to simply increase the number of employees. We would like to focus on profitability per employee, and this does not necessarily mean that the number of employees will increase in proportion to the growth in AUM, AUC and revenue, which we have indicated as KPIs this time.

Q.8	The reasons for the lack of widespread investment in private assets may be the J-curve effect (much less return expected in the early stages of investment) and low liquidity (need to put funds aside for a long period of time because of the inability to recover invested funds). Given these issues, I would appreciate a more detailed explanation of how the intervening trust function would contribute to lowering the investment hurdle for investors.
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A.8	<p>As you have pointed out, private asset investments have features such as the J-curve effect and low liquidity, on the flip side, low volatility.</p> <p>Although not a function of the "trust," one way to promote investment in private assets would be to first approach institutional investors with long-term investment needs, such as life insurance companies or pension funds, and individual clients who have no choice but to place their funds for the long term, such as defined contribution pension plans.</p> <p>Second, in terms of utilizing the trust function, it is possible to remove the J-curve effect from the form of investing in specific assets through structuring, and to provide products in a form suitable for the expected returns and liquidity demanded by investors.</p> <p>On the other hand, for individual clients, "security and peace," "high liquidity," and "easy procedures" are more important, so it is conceivable to create products that are easy for individual clients to invest in, using trust instruments such as joint money trusts.</p> <p>The reason why we believe it is possible for us to realize these initiatives is because of the depth of experience and understanding we have gained over the years while investing in private assets for our own account and performing gatekeeper functions.</p> <p>In addition, we believe that it is important to create a secondary market. Other financial institutions have expressed interest in creating such a market, and we would like to work with those financial institutions with diverse risk appetites to make this happen.</p>
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Q.9	<p>Given that the capital market is shrinking, IPOs and M&amp;A transactions are declining, and dollar interest rates are on the rise, it seems like a difficult time to start a new private asset investment. What is your consideration on this point?</p>
A.9	<p>It is true that the volatility of public assets has increased in the current environment, but the relative intrinsic value of private assets does not fluctuate significantly in the short term. If we view long-term investment as an investment period of about five years, we believe that the current timing is not a bad time to invest, even though it may or may not be the best time to invest.</p>

Q.10	<p>What are the conditions necessary for investment in private assets to spread in Japan? The percentage of private assets in the group's total AUM, which is shown as the goals for FY2030, is about 10%. This figure seems conservative compared to the overseas private asset market, which is said to be doubling in size in the future. Does this mean that market growth in Japan is more difficult than overseas?</p>
A.10	<p>Investor clients in pension investment in Japan have so far been satisfied if they could secure returns that could cover the policy asset mix, which was fixed to some extent, and the level of expected returns required for pension liabilities, which was also low. As for the future, we understand there is a view that if interest rates rise, yields on liquid assets will improve accordingly, and thus illiquid assets such as private assets will be at a disadvantage and will not be widely used.</p> <p style="text-align: right;">(Continued to the next page)</p>

	<p>However, given the common issues such as carbon neutrality that need to be solved by society as a whole, we believe that in the future, not only the actions of companies with regard to social issues, but also the way in which pension funds managed by these companies are required to be consistent with the resolution of social issues. In fact, in the U.S., investors have begun to check even the investment destination of the pension funds of the companies in which they invest. In Japan, investment performance has been good over the past few years, so there has been little need to take risks aggressively, and there has been no major revision of the policy asset mix. However, we will take a proactive approach to this trend and enhance our proposals and reporting content with an awareness of the need to change the axis of our clients' investment behavior, not only from the perspective of investment returns.</p> <p>The main point is that there is an increasing need to effectively circulate funds to solve social issues such as ESG or super-aging society. In addition, through the partnership with Apollo, we would like to learn their know-how on how they educate investors. Based on an overseas precedent, we believe that if such efforts prove effective, it would not be surprising if the ratio of private assets to total AUM increase to around 20-30%.</p>
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Q.11	Among the KPIs listed on page 14 of the presentation material, your total AUM and AUC are expected to increase by about 70% by the end of March 2031 (compared to the end of March 2022). On the other hand, net business profit seems to increase by only less than 20% compared to FY30, which seems small compared to the increase in AUM and AUC.
A.11	Net business profit for FY21 included additional contribution by favorable market conditions and other factors as a tailwind. It will increase by approximately 60 billion yen in FY2030 compared to the level excluding these factors. It means we expect net business profit to increase in line with the increase in AUM and AUC.

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