



SuMi TRUST
SUMITOMO MITSUI TRUST GROUP

Progress of Our Approach to Carbon Neutrality

Oct 31, 2022

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1 Introduction

- SuMi TRUST Group has defined our Purpose as “Creating new value with the power of trusts and let prosperous future for our clients and society bloom” and we have identified the notion of balanced creation of both social value and economic value as our core management philosophy
- We have designated climate change initiatives as a high priority among sustainability issues, and we have strived to achieve the Carbon Neutral Commitment Declaration announced in October 2021. We are honored to report the status of the intermediate target setting for 2030, in line with the frameworks of Net-Zero Banking Alliance (NZBA)*¹ and Net Zero Asset Managers initiative (NZAMI)*², and also the progress of our efforts to achieve carbon neutrality
- We shall continue dialogue and cooperation with our stakeholders toward decarbonization, and aspire to solve social issues through client engagement, making our contribution to achieve a sustainable society

“Balanced Creation of Both Social Value and Economic Value”

Based on SuMi TRUST Group’s Purpose,
to contribute to the development of a sustainable society,
and also sustain our growth

Purpose

Creating new value with the power of trusts and let prosperous
future for our clients and society bloom

Social Issues

Aging Society

Continuation of ultra-low
interest rates

ESG initiatives of
companies

Change of the global
economy

Progress of
digitalization

Change of social norms
after Covid-19 pandemic

Sustainable Development of Society

SuMi TRUST Group Carbon Neutral Commitment

① Contribute to achieving carbon neutrality in society by leveraging the trust banking group’s wide-ranging and flexible functions

② Target net-zero greenhouse gas emissions in investment and loan portfolios by 2050

To achieve net-zero emissions by 2050, an intermediate target for 2030 will be formulated in FY2022 in line with the framework of the NZBA

③ Achieve net-zero greenhouse gas emissions in the SuMi TRUST Group by 2030

*1: A banking industry alliance established by UNEP FI with the aim to achieve net-zero greenhouse gas emissions (hereafter “GHG emissions”) from investment and loan portfolios by 2050.

*2: An asset managers alliance with the aim to achieve net-zero GHG emissions from managing portfolios by 2050.

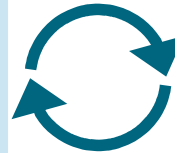
2 Our Approach to Carbon Neutrality

- Focus on engagements to realize Net Zero GHG emissions of our clients, investees and society
- Make SuMi TRUST Group wide commitment to provide and develop products and services that facilitate a steady transition, and contribute to realizing a carbon neutral society

Engagement

A bank or an asset management company independently engages in dialogue with various stakeholders and understands their challenges and needs

- Communicate with various stakeholders (individual and multi stakeholder style)
- Grasp each client's present situation (GHG emissions) and support formulating a plan to realize carbon neutrality
- Acquire new technologies and partners
- Active participation in establishing a regional ecosystem
- Promote information disclosures and discuss governance system



Solution

Develop and provide products/services to realize a carbon neutral society

Banking

- Various sustainable financing
- Impact equity investments
- Decarbonization transition consulting
- Impact evaluations
- Technology-based finance (TBF)

Trust business

- Improve ESG-related reporting
- Support CASBEE^{*1} certification
- Services to support purchasing non-fossil fuel certificates and GHG emissions measurement of entrusted real estates

Investment Management

- Decarbonization-related equity funds^{*2}
- Impact investment funds^{*3}
- Sustainable balanced management^{*4}

Contribution to realizing a carbon neutral society, utilizing SuMi TRUST Group's functions

* 1: Environmental performance evaluation system developed as a joint project with industry, government and academia, and supported by the Ministry of Land, Infrastructure, Transport and Tourism

* 2: Equity funds which invest in global companies active in decarbonization

* 3: Equity funds which aim to realize both measurable environmental/positive impact on the society as well as economic returns

* 4: Investment products for corporate pensions which make diversified investments in domestic and foreign bonds and stocks, while pursuing restraint of CO2 emissions in portfolios

3 Summary (1): Road Map toward Carbon Neutrality

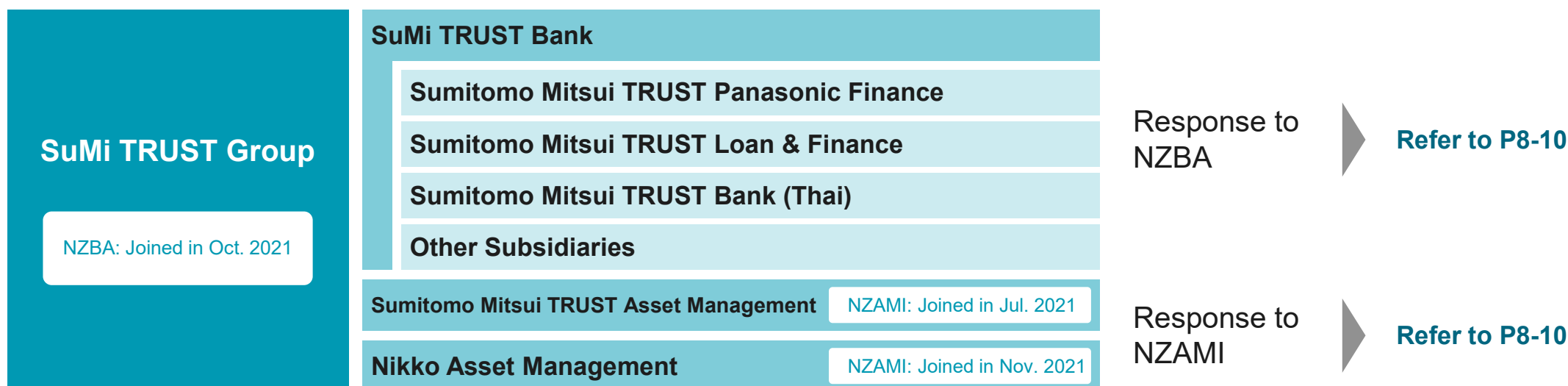
| | FY2020 | FY2021 | FY2022 | ... | FY2030 | FY2040 | FY2050 |
|--|-------------------------|-------------------------------|---|-----|--|--------|----------|
| ① Net zero GHG Emissions in inv. & loan portfolio(NZBA) | | | | | | | Net Zero |
| Electricity(g-CO2eq/kWh) | 249 | | | » | 138~173 | | |
| Oil/Gas | | | Set by Mar. 31, 2023 | | | | |
| Other Highly Carbon Intensive Sectors ^{*1} | | | Successively set by Sep. 2024 | | | | |
| ② Net zero GHG Emissions in investment portfolio (NZAMI) | | | | | | | Net Zero |
| SuMi Trust Asset Management | | | | »» | Halve emission intensity for 50% of managed assets ^{*2} from 2019 | | |
| Nikko Asset Management | | | | »» | Applied to the NZAMI Secretariat for approval of Intermediate targets. | | |
| ③ Total amount of cumulative sustainable financing^{*3} | | 0.83trillion yen | | »» | Total 10 trillion yen | | |
| ④ Loan balance for coal-burning power plants | | | | | | | |
| Loan for projects | | 142.7 billion yen | | »» | Halve from Mar. 2020 | Zero | |
| Corporate loans (new/expansion) | | 20.1 billion yen | | »» | | Zero | |
| ⑤ Net Zero GHG Emissions of SuMi TRUST Group | | | Completed shift to electricity from renewable sources in domestic branch offices of the trust bank | »» | Zero | | |
| ⑥ Strengthen risk control set-up | | | | | | | |
| Scenario analysis | | | | | | | |
| Transition risk | Elect. utilities sector | Shipping sector | <ul style="list-style-type: none"> Simple analysis per sector Detailed analysis of each energy company | | Successively expand targeted sectors for specific analyses | | |
| Physical risk | Mortgage loans | | <ul style="list-style-type: none"> National real estate finance | | Start analysis of national project finances and others successively | | |
| GHG Emissions in loan & investment portfolios | | Initial trial calculation | <ul style="list-style-type: none"> Successively set and update measurement | | Continuous review and enhancement | | |
| Manage portfolio (Revision of Sector Policy) | | Clarify trades banned/to note | <ul style="list-style-type: none"> Partially ban lending to coal-burning power plants Clarify transition supports | | Continuous review and enhancement | | |

* 1 Highly carbon-intensive sectors are 9 sectors to which targets should be set with priority according to the NZBA guideline: agriculture, aluminum, cement, coal, commercial/residential real estate, steel, oil/gas, power generation, transportation
* 2 Targeting 43 trillion yen, 50% of 85 trillion yen of total managing assets as of Jun.30, 2021. Excluded managing assets are sovereign bonds, etc., for which a method to calculate has not been established yet but will be successively added as target assets, when a method is established from now on
* 3 Sustainable financing is a general term for financial services to businesses and clients which contribute to solving environmental/social issues based on international standards such as the Green Bond Principle and the Social Bond Principle. Initially SuMi TRUST Bank set the target to tackle to a total of 5 trillion yen, but has changed to a total of 10 trillion yen including 2.5 trillion yen by impact equities since FY2022, responding to expanding financial needs for accelerated environmental/climate change

Summary (2): Progress of Our Approach to Carbon Neutrality

- SuMi TRUST Group joined NZBA in Oct. 2021 and SuMi Trust Asset Management joined NZAMI in Jul. 2021 and Nikko Asset Management joined in Nov. 2021
- We are in the process of setting an intermediate target for 2030, aiming to achieve net zero GHG emissions in our portfolios by 2050

| Item | Progress of past efforts and future policy |
|---|---|
| ① Net zero GHG emissions in investment and loan portfolio | <ul style="list-style-type: none"> ■ “Electric utilities” and “oil/gas” sectors were selected as the intermediate target for 2030 ■ Set an intermediate target for 2030 to reduce the emission intensity in the electric utilities sector from 249g-CO₂eq/kWh as of Mar. 31, 2021 to 138 - 173g-CO₂eq/kWh in 2030 (Oct. 2022) ■ For the oil/gas sector, an intermediate target for 2030 will be set by Mar. 2023 ■ For other highly carbon-intensive sectors, an intermediate target for 2030 will be successively set by Sep. 2024 |
| ② Net zero GHG emissions in investment portfolio | <ul style="list-style-type: none"> ■ SuMi TRUST Asset Management ^{*1} set an intermediate target for 2030 to halve the GHG emissions intensity from 2019 for 50% of its managed assets. (May, 2022) ■ Nikko Asset Management has applied to the NZAMI Secretariat for approval of intermediate targets. |



*1: Appointed as the Asian representative of the advisory group

4 Summary (2): Progress of Our Approach to Carbon Neutrality (Continued)

- We are carrying out various efforts to achieve net zero GHG emissions in our portfolios by 2050, together with setting an intermediate target for 2030

| Item | Progress so far and future policy |
|---|--|
| ③ Cumulative amount of sustainable finance | <ul style="list-style-type: none"> ■ Expand the target of the cumulative amount for 10 years by FY2030 from 5 trillion yen to 10 trillion yen (including 2.5 trillion yen of impact equities). Achieved the cumulative amount of 0.83 trillion yen, increased by 0.51 trillion yen from Sep. 2021 to Mar. 2022 |
| ④ Loan balance for coal-burning power plants | <ul style="list-style-type: none"> ■ Will not engage in new or expansion financing for coal-burning power plants ■ Set targets to achieve zero by FY2040 for both project lending balances and corporate lending (new/expansion) (Oct. 2022) |
| ⑤ Net zero GHG emissions of SuMi TRUST Group | <ul style="list-style-type: none"> ■ Completed shift to renewable sources for 100% of electricity used in domestic branch offices of the trust bank Consider switching to corporate PPAs, reducing ICE vehicles and switching to low emission vehicles from now on ■ Consider measures to reduce GHG emissions of overseas branches and affiliates to achieve net zero GHG emissions for the entire Group |
| ⑥ Enhance risk management set-up | <ul style="list-style-type: none"> ■ Made an initial trial calculation of GHG emissions in investment and loan portfolios (Jan. 2022) Decide measuring methods successively by Mar. 31, 2023, and update GHG emissions calculation Will continuously review and advance measuring methods after Apr. 2023 ■ Revised the sector policy and added banned trades and those with points to note related to climate change, biodiversity and human rights, etc. (Dec. 2020) While rejecting new or expansion lending for coal-burning power plants, clarify support for transition (Oct. 2022) Will successively revise the sector policy to advance portfolio management, in the future ■ Carried out a transition risk analysis in the electric utilities sector (Dec. 2020) and the shipping sector (Jan. 2022) Carry out a simple trust cost analysis per sector for highly carbon-intensive sectors and assess the affected amount, and carry out a precise analysis of each company in the electric utilities sector and the oil/gas sector, which are required to set targets by Mar. 31, 2023. Successively expand target sectors for each precise analysis from Apr. 2023 ■ Carried out a physical risk analysis of mortgages (Dec. 2020) and domestic real estate financing (Jul. 2022). Carry out additional analysis for properties held by REITs by Mar. 31, 2023, as for domestic real estate financing. Start an analysis of domestic project financing, after Apr. 2023 |

Set Intermediate Target for 2030 (1): SuMi TRUST Bank –Concept of intermediate Target Setting-

- SuMi TRUST Bank selected the electric utilities sector from the 9 highly carbon-intensive sectors for which NZBA encourages target-setting, and set an intermediate target for 2030 for GHG emissions intensity

Process of Setting Target

Step ①

Calculate GHG Emissions

- For GHG emissions in investment and loan portfolios^{*1}, carried out an initial calculation test in Dec. 2021 to grasp the total amount of GHG emissions and survey GHG emissions of each sector for prioritization of sectors to set targets^{*2}

Step ②

Select Target Sector

- The electric utilities sector was selected for setting an intermediate target based on the following reasons
 - The electric utilities sector has relatively large GHG emissions based on the calculation at **Step ①**
 - The electric utilities sector is one of the key industries to promote decarbonization, as the electricity is expected to account for about 49% of final energy consumption and to become the largest energy source in 2050 in Japan^{*3}, and about 32% of CO2 emissions from energy will be derived from electricity in 2030 in Japan^{*4}
 - The electric utilities sector requires the next generation technologies for power generation such as power sources of renewable energy, hydrogen thermal power generation/ammonia thermal power generation in the process of decarbonization, so requirement of funds for R&D and capital investment are expected, thus financial institutions will play a key role

Step ③

Set intermediate Target

- While the electric utilities sector is required to decarbonize through the rapid introduction of next generation technologies, it must continue the stable supply of energy, which is a basis of people's daily life and the economic activity
- Given the sector's feature, we need to support both decarbonization and business development of clients in the electric utilities sector, through setting and achieving targets for emission intensity (GHG emissions per output)
- Set an intermediate target to stay in range between well below 2 degrees Celsius level (hereafter "the 2 degrees Celsius target") and the 1.5 degrees Celsius target

Knowledge gained through examination to set target is reflected in proposal/support for clients



Knowledge of sector and understanding of clients are deepened through engagement, which is reflected in review of target setting process

Engagement

- Provide SuMi TRUST Group's diversified solutions to support transition, in addition to financial support, through engagement with clients in the electric utilities sector
- Not only achieve the intermediate target in investment and loan portfolios, but also contribute to realizing both the clients' decarbonization target and stable supply of electricity

*1: Sum of figures calculated by multiplying GHG emitted from clients by those attributable to SuMi TRUST Group through investments and loans

*2: Calculated by limiting calculation target to major segments and applying simple method for some parts to which calculation method set by PCAF was not applicable

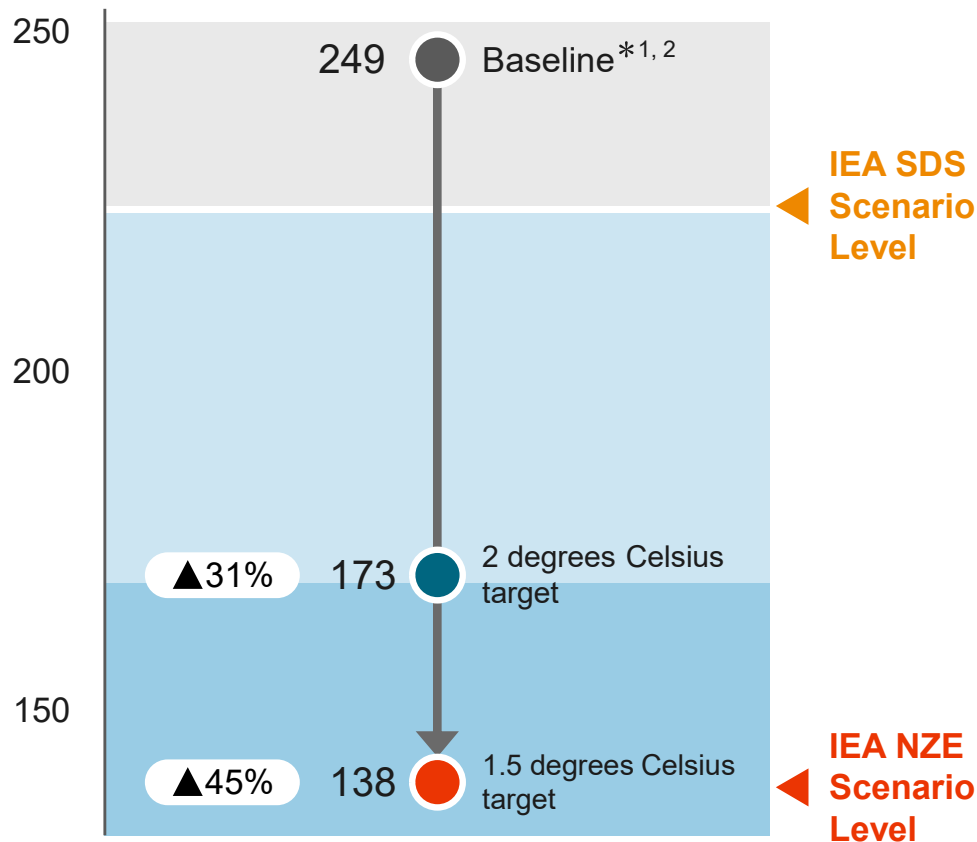
*3: IEA SDS scenario

*4: 6th basic plan for energy

- Achieve 2 degrees Celsius target and promote efforts with the goal of achieving the 1.5 degrees Celsius target, by supporting clients in transitional and technological innovation through engagements

Intermediate Target for 2030

g-CO₂eq/kWh (The value with % is a target reduction ratio from the baseline.)



Concept for Setting Target for 2030

- Well below 2 degrees Celsius level ("2 degrees Celsius target")**
 - In principle, refer to the IEA SDS scenario*³
 - Level well below the IEA SDS scenario in 2030 (229g-CO₂eq/kWh)
- 1.5 degrees Celsius target**
 - Achieve a level well below the IEA SDS scenario mentioned above, and furthermore support clients in transition through engagements and aim to achieve the level (138g-CO₂eq/kWh) which fits the IEA NZE scenario

Major Premise for Calculating GHG Emissions Intensity

- Target Scope**
 - Scope 1 of power generating business which generates the majority of emissions
- Target Investment and Loan**
 - Financing, acceptance and guarantee, corporate bonds and strategic shareholdings(including unused pledged lending)
 - This calculation covers 93% of the target investments and loans

Calculation Method

$$\sum \left(\text{Emission intensity of each client/Project} \times \frac{\text{Balance of investments and loans to each client/Project}}{\text{Balance of investments and loans to target sector}} \right)$$

* 1: "Baseline" means GHG emissions or the emission intensity at the start of working toward the target
 * 2: 249g-CO₂eq/kWh, the baseline emission intensity, is the level below 453g-CO₂eq/kWh, which is the mean emission intensity in Japan in 2020 (IEA World Energy Outlook 2021)
 * 3: Please refer to the baseline emission intensity, as for the domains of investments and loans whose emissions are already well below the IEA SDS scenario

| Outline of premise to set target | | Background and details of premise | Reference guideline | |
|--------------------------------------|---|--|--|------|
| Fiscal year | | | | |
| Year of setting standard | FY2020 (Mar. 31, 2021) | <ul style="list-style-type: none"> In principle, the base date needs to be set within 2 years from the date when the target is set | NZBA | |
| Year of setting target | 2030 | <ul style="list-style-type: none"> The intermediate target needs to be set for 2030 or before | NZBA | |
| Calculation target | | | | |
| Target investments and loans | Lending, acceptance and guarantee, corporate bonds and strategic shareholdings (including unused pledged lending) | <ul style="list-style-type: none"> Targeted the exposure of credit businesses*¹ based on the Recommendation of NZBA (including unused pledged lending) | NZBA | |
| Cover ratio of investments and loans | 93% of target investments and loans | <ul style="list-style-type: none"> It became the calculation object for this target calculation, only if GHG emissions data and the financial data of each client to whom we extended investments and loans were available | PCAF, NZBA | |
| Target business/target Scope | Scope1 of power generating businesses | <ul style="list-style-type: none"> Selected the electricity generating business whose emissions account for the majority of those exhausted from the sector, Scope1 which are directly exhausted from power generation and affected by the introduction of the next generation technologies | SBTi | |
| Calculation method | | | | |
| Measuring indicator | Emission intensity(g-CO₂eq/kWh) | <ul style="list-style-type: none"> Selected emission intensity to realize both the stable supply of electricity and the decarbonization of the electric utilities sector through engagements | NZBA | |
| Calculation formula of indicator | $\sum \left(\text{Emission intensity of each client/Project} \times \frac{\text{Balance of investments and loans to each client/Project}}{\text{Balance of investments and loans to target sector}} \right)$ | <ul style="list-style-type: none"> Applied the method of “PACTA for Banks”, which is the global standard | PACTA, NZBA | |
| Reference scenario | 2 degrees Celsius target 1.5 degrees Celsius target | :IEA SDS scenario*² in general :IEA NZE scenario*³ | <ul style="list-style-type: none"> Referred to the IEA scenario, which was globally approved and is the global standard of the banking industry As for the 2 degrees Celsius target, referred to the baseline emission intensity to identify the domains of investments and loans whose emissions were already well below the IEA SDS scenario | NZBA |
| Data used | Disclosed information of individual client to whom we extend investments and loans, research and statistics of electricity, IEA, etc. | <ul style="list-style-type: none"> Adopted only highly reliable sources such as documents disclosed by clients to whom we extended investments and loans, and those of governments/international organizations and global data vendors | NZBA | |
| Quality of data used | PCAF score 2.5*⁴ | <ul style="list-style-type: none"> Used data, only if its PCAF score was 3 or higher and the emission intensity of each client to which we extend investments and loans was calculable | PCAF, NZBA | |

* 1: Targeting credit transactions of SuMi TRUST Bank, SuMi TRUST Bank (Thai) and SuMi TRUST Panasonic Finance

* 2: IEA scenario which limits the world mean temperature increase to 1.8 degrees Celsius with a probability of 66% or above

* 3: IEA scenario which limits the world mean temperature increase to 1.5 degrees Celsius with a probability of 50% or above

* 4: Original score of PCAF with 5 grades from 1 to 5, which shows the quality of the data. Scores change responding to the degree of estimation, with score 1 being the highest in quality

[2.5] is the mean score of the sector, which is the weighted average using the balance of investments and loans

- Sumitomo Mitsui TRUST Asset Management and Nikko Asset Management clarify the path to achieve net zero GHG emissions by 2050 through the setting of intermediate targets for 2030. By continuous efforts to perform engagement activities and advance investment management, they will contribute to realizing a carbon neutral society

Sumitomo Mitsui TRUST Asset Management 

Nikko Asset Management


Nikko Asset Management

Characteristics

Entrusted with large scale passive/active strategies by public mutual aid/corporate pensions. **Expanding the most large-scale engagements in climate change in Asia**

Strong in unique equities strategies and ETFs in Japan, Asia and other countries around the world. Focuses on **incorporation of decarbonizing related factors into decision processes for investments**

Intermediate targets for 2030

Targeting 50% of about 85 trillion of assets managed*¹, and aims to halve their carbon footprints*² compared to 2019 (May, 2022)

Applied to the NZAMI Secretariat for approval of Intermediate targets.

Efforts after joining NZAMI

Acting as a core member of NZAMI

- Joined the advisory group consisting of 6 companies of the member organizations of NZAMI (Mar. 2022)
- Plans to actively make proposals for creating an international framework on behalf of Japan and other Asian countries

Selection of key engagement targets

- Through close inspection of climate related targets of its investee companies, selects key engagement targets with which Nikko Asset Management performs continuous dialogues
- Also introduced a new climate change-related standard into its voting rights exercise standards (Apr. 2022)

Strength in engagement and investment management method

Leading Climate Action100+*³ activities

- Responsible for co-engagements with Asian companies (lead manager)
- Sole member of a steering committee among Japanese asset managers

Strengthened analysis of responses to climate change of its investee companies

- Added categories to evaluate climate change-related business opportunities/risks to the framework to assess attractiveness of investment
- Utilizes it not only for investment decisions/engagements but for development of managed financial products responding to environment/climate change

*1: As of Jun. 30, 2021

*2: GHG emissions per unit

*3: One of the international initiatives by asset owners and managers around the world. It requires climate change-related information disclosures and governance to companies with a large amount of GHG emissions and implements co-engagements

7 Provide Climate Change Responsive Asset Management Solutions

- SuMi TRUST Group has a long history of providing ESG-related investment products for over 20 years
- We will promote discoveries/provisions of new investment opportunities responding to innovations and changing asset values caused by the tide of decarbonization

1990s to 2000s

Dawn of ESG investments

One of the first in Japan to provide investment products focusing on responses to environmental issues and “Corporate Social Responsibility (CSR)” such as contributions to local communities and employment

~2020s(now)

Investment strategies considering climate change issues

Provide “4 Asset Balance Fund” including equities investments in companies focusing on GHG emissions reduction / elimination and GHG absorption, and controls CO2 emissions in portfolios

Future

Extend to various assets related to carbon neutral

Consider investment products that provide access to renewable energy businesses such as solar power and wind power, CO2 absorptive real assets, and venture companies with advanced environmental technologies



SRI Japan Open, (commonly known as “Good Company”)



Nikko ECO Fund



Japan Equities Impact Investment Fund



Global Hydrogen Equities Fund (popular name: H2)



Sustainable Balanced Management (for company pensions)



Investment Opportunities (examples)



Renewable Energy



Farmland



Forests



Environmentally Friendly Property

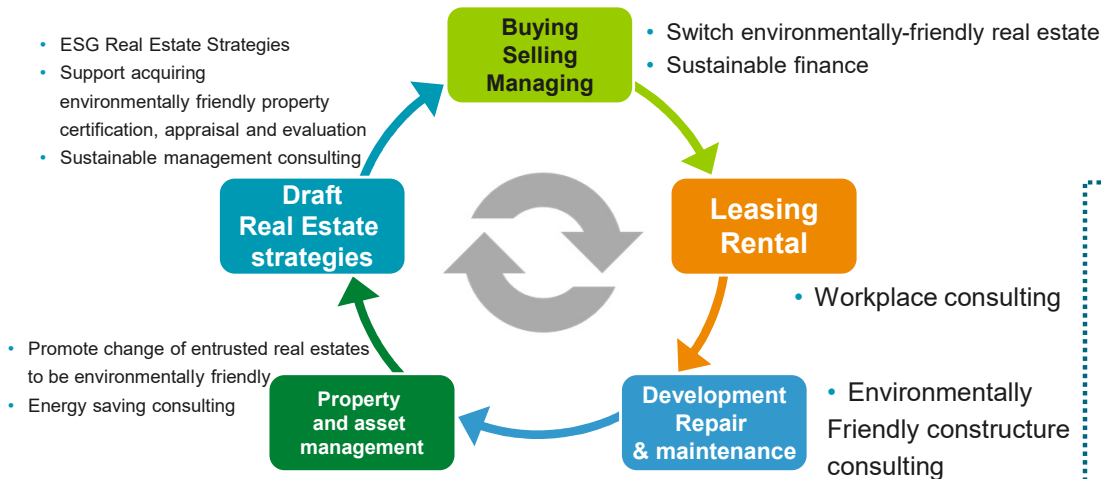


Clean Tech

8 Provide Climate Change Responsive Real Estate Solutions

- SuMi TRUST Group has supported clients to solve issues for “Real Estate ESG” making the most use of our various functions related to real estate
- Going forward, we will continuously support clients in their approach to “Real Estate ESG” needs, and contribute to increasing corporate value and asset value of clients

Provide Real Estate ESG solutions in line with client needs



Efforts to promote decarbonization of real estates(2022)

“Investigate status and economic value of obtaining environmentally friendly certification of real estates” **Draft Strategies**

SuMi TRUST Bank and SuMi TRUST Research Institute jointly announced the results of investigation of economic value of environmentally friendly certification of real estate (Jul. 2022)

“Support service for decarbonization of entrusted real estates” **Operation/ Administration**

Released non-fossil fuel certificate purchase services of entrusted properties/ support of calculation of GHG emissions for entrusted real estates (Sep. 2022)

“Real Estate ESG survey” **Draft Strategies**

Investigated actual status of ESG efforts in investment and management of real estate, and received answers from 161 companies, and have been implementing the feedback since Oct. 2022

Image of supporting ESG emissions calculation

Visualize GHG emissions of holding real estate of beneficiary

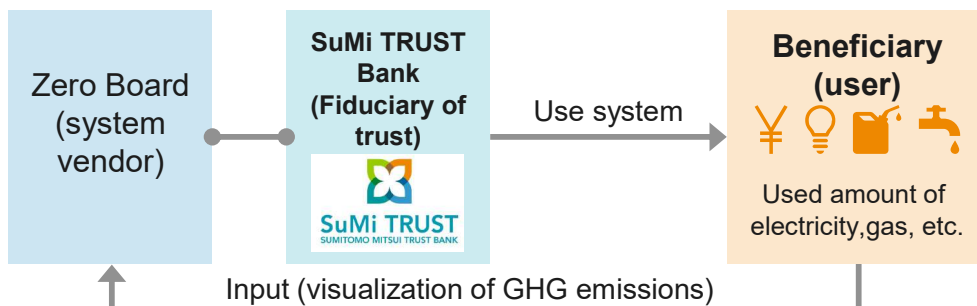


Image of non-fossil fuel certificate purchase services for trustees

Purchase based on each trustee’s order and support the shift to renewable energy

