

ESG-themed Initiatives in Our Asset Management Businesses

With the aim of strengthening its asset management business and seeking to become an asset manager in step with the times, Sumitomo Mitsui Trust Asset Management (SMTAM) integrated the investment management function of Sumitomo Mitsui Trust Bank into its organization on October 1, 2018. In doing so, it became Japan's largest asset manager with AUM of ¥60 trillion. As a responsible institutional investor, SMTAM will continue to pursue initiatives befitting of this position for its clients in the area of ESG investment.

Website:
<https://www.smth.jp/en/csr/report/index.html>

Topics of focus for ESG activities (FY2019-2020)

Topics	Specific activities	Relevant SDGs
Climate change	<ul style="list-style-type: none"> Pursuit of engagement activities through the framework of the CA100+ initiative. Pursuit of engagement activities in collaboration with LGIM. Continued engagement with major greenhouse gas-emitting companies both in Japan and overseas. 	  
Water resources and marine pollution	<ul style="list-style-type: none"> Continued call for policies aimed at addressing marine plastic pollution. Explanation of the need for greater awareness of water resource risks and for publicly disclosing a water resource management code of conduct, along with encouragement for action in line with the code of conduct. 	   
Backing governance reforms	<ul style="list-style-type: none"> Support for higher levels of independence on company boards and the promotion of diversity, such as higher ratios of female directors. Pursuit of engagement activities in collaboration with LGIM. Promotion of efforts to disclose information and prevent conflicts of interest with regard to the issues of publicly listed parent/subsidiary pairs and cross-shareholding. Promotion of sustainable improvements in "earnings power" and appropriate capital allocation (balance between growth investments and surplus cash returns). 	  
Promoting ESG information disclosure	<ul style="list-style-type: none"> Encouragement of companies to disclose information regarding the attainment of the SDGs (i.e., their contributions to solving ESG issues and how those, in turn, contribute to earnings). Promotion of identification of materiality and disclosure via integrated reports as information for investors (engagement activities through IICF). As an asset management corporate supporter of the TCFD (see the next page for more information), promotion of effective corporate information disclosure as well as initiatives aimed at appropriately linking this information disclosure with investment decision-making. 	

Stewardship Activity Initiatives

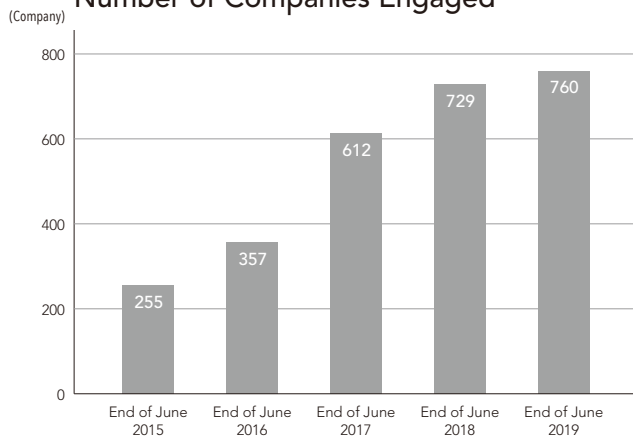
Improving Investee Corporate Value and ROE via Engagement

By this point, we have engaged with a broad range of companies representing roughly 90% of the total market capitalization of TSE1. This fiscal year, our challenge is to further expand the scope of companies with which we engage and to qualitatively deepen those engagements. We are working to achieve this in a variety of ways, including applying a top-down approach to engagement on prescribed focus topics and conducting in-depth analyses on companies with which we have ongoing engagement.

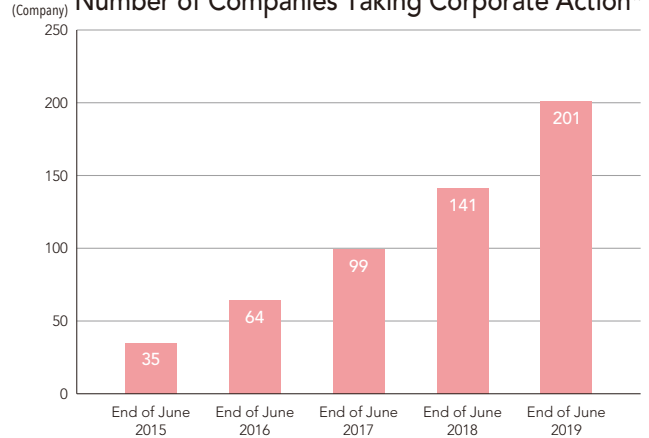
Moving forward, we will continue to pursue activities which contribute to better medium-to-long-term corporate value and ROE, thereby improving the overall market and securing excess returns which will help us in

maximizing medium-to-long-term investment returns for our clients. We are also focused on making our engagement activities more efficient and effective by identifying the challenges that each of our investee companies faces. Improving the ROE of investee companies requires helping them rethink capital allocation, restructure business portfolios and improve corporate governance; at the same time, it requires helping them focus on challenges which could undermine ROE in the future, such as climate change or labor practices that need to be addressed. At SMTAM, we comprehensively ascertain each and every "E," "S" and "G" challenge trustee companies face before pursuing engagement activities.

Number of Companies Engaged



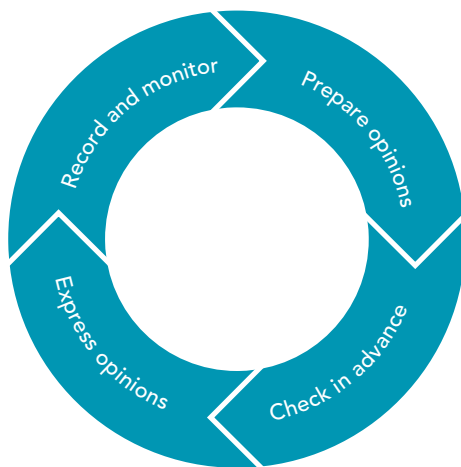
Number of Companies Taking Corporate Action*



Company numbers are cumulative

*Corporate action aligning with opinion expressed by SMTAM

SMTAM Engagement Process



Activities conducted in line with the above process are counted in our total number of engagements

(simply being in contact with a company is not counted as an engagement)

Prepare opinions

To achieve effective engagement, our analysts use non-financial information analysis results and the like to help them identify management issues and formulate effective and coherent opinions.

Check in advance

We first submit the opinions formulated by each analysts to an internal review. This both helps improve and standardize opinion quality among the analysts.

Express opinions

Our analysts meet with investee company executives and express their opinions. At each meeting, a written oath stating the analysts will not make any material proposals nor acquire insider information is signed and mutually recognized.

Record and monitor

After the meetings, we record investee companies' responses to the analysts' opinions. We monitor the companies for any changes in management and then utilize this information when identifying management issues for the next engagement.

Engagement Example Cases - Domestic

CASE 1

Non-manufacturing
Company A

Climate Change

- Greenhouse gas emissions reduction
- Business strategy

Analyst's Perspective

As a logistics company whose business expansion is highly likely to create an increased environmental load, it is essential that environmental targets be included as mid-term planning KPI in order to enhance the sustainability of corporate value improvement. Also, with a growing, quantitative contraction in materials handling taking place over the medium-to-long-term in Japan, limiting the risk this poses to profitability (when Japanese business accounts for a high proportion of business assets and sales) will be a key challenge.

Opinion from SMTAM

The truck-centric transportation sector accounts for a large portion of CO₂ emissions volume by industry. With the company currently in discussion over its medium-term business plan, it seems to us that the required course of action is for it to capitalize on its expertise with various shipping modes (including trains, ships and airplanes) so it can set Scope 3-focused (i.e., emissions volume encompassing manufacturing, shipping, etc.) medium-to-long-term CO₂ reduction targets while also actively expanding sales to customers.

We view the medium-to-long-term contraction in materials handling to be the largest business risk facing the domestic logistics segment, which accounts for 60% of consolidated sales. In our opinion, the company needs to perform a detailed revision of its business portfolio to reduce business in less populated regions and increase it in the three major metropolitan areas.

Company Response

Although there are a variety of different environment-related indicators, medium-to-long-term CO₂ reduction is a priority for which we are committed to investing the necessary costs to achieve. We will look into incorporating it into our next medium-term business plan.

As you have pointed out, we need to perform a revision of our medium-to-long-term business portfolio for the domestic logistics segment. In less populated areas we will undertake a balanced contraction of business tailored to the local characteristics of each area, and, in turn, we will make the three major metropolitan areas of Japan our primary focus. Towards this end, we are discussing making revisions to our corporate group personnel system to allow personnel transfers between areas, and we are considering introducing ROIC targets for each area.

Company Action

With a view towards realizing its long-term vision, the company announced specific CO₂ emissions reduction targets as KPI to be achieved by fiscal year 2023.

In its mid-term business plan released in February 2019, the company announced that it would fundamentally reform its less profitable business by strengthening its Japanese business and revising its business portfolio.

Evaluation by SMTAM

We approve of the company's announcement of specific CO₂ emissions reduction targets.

Moving forward, we will monitor the progress being made to reduce CO₂ and to improve the profitability of domestic logistics business.

CASE 2

Manufacturing Company B1
Manufacturing Company B2

Water Resources and Marine Pollution

- Addressing marine plastic pollution
- Business strategy

Analyst's Perspective

Asia is at the center of the marine plastic pollution problem, particularly because of the large volume of PET bottles, straws and other disposable plastics. Ideally, the problem would be handled with the establishment of a recycling system in Asia, but because Asia takes in garbage from developed countries, including Japan, this problem is not just the responsibility of Asia. It is becoming increasingly important that Japanese companies, particularly the chemical companies that produce the plastic and the food companies that utilize it, get involved in addressing this problem.

Opinion from SMTAM

<Chemical Manufacturer B1 (plastic producer)>
Because it is disposable plastics that are the problem when it comes to marine plastic pollution, we predict the impact on business performance would be negligible. On the other hand, we believe that in order to avoid having an environmental stigma also applied to automotive industrial plastics and other plastics we are focusing on (as there is growing business potential), the chemical industry as a whole needs to take action.

<Beverage Manufacturer B2 (plastic user)>
Marine plastic pollution is a problem that gets talked about, but plastic usage remains high, including among beverage manufacturers that use it to manufacture PET bottles. Although a growing number of companies are switching from plastic to paper straws, are similar alternatives being explored for PET bottles? Also, similar to the situation in the logistics field, is collaboration with competitors needed in order to catalyze action to address this problem?

Company Response

We feel that the impact on business performance accompanying a reduction in the usage of disposable plastics would be negligible. As for measures to address the risk of an unfounded souring of public opinion with regard to industrial plastics, the chemical industry as a whole, through the industry groups which represent it, is committed to combating marine plastic pollution. Furthermore, we recognize that the lack of established recycling systems in Asia presents a fundamental challenge to any effort to address the marine pollution problem.

- Although complete elimination of PET bottles is an unrealistic goal, the question is how much reduction is achievable? We are aware of biodegradable plastic technology, but applying this technology will require an industry-wide effort.
- First, the recycling rate needs to be brought as close to 100% as possible. A new office has been established to study the feasibility of switching to paper containers. Also, similar to the situation in the logistics field, we think of containers as an area of non-competition for manufacturers. The industry as a whole needs to review and revise the supply chain.

Company Action

The "Japan Initiative for Marine Environment" has been established by five organizations representing the chemical industry. In order to address the marine plastic problem, the company adopted an approach involving (1) organizing and disseminating information, (2) responding to trends within Japan, (3) engaging with Asia, and (4) accumulating scientific findings.

Evaluation by SMTAM

We will monitor bioplastic and recycling technology development trends as well as the status of chemical industry group-led initiatives to address the marine plastic problem. Additionally, we will continue to pursue dialog with beverage manufacturers and other plastic users to encourage them to address the marine plastic problem.

CASE 3**Promotion of ESG Information Disclosure****Manufacturing
Company C**

- Social issues
- Capital productivity

Analyst's Perspective

With drug-resistant bacteria-related problems such as nosocomial infection becoming more severe worldwide, major antibiotics manufacturers have an opportunity to contribute to society by actively addressing these problems rather than treating them as social responsibility-related risks to avoid. Also, another issue is the reduction of cross-shareholdings, primarily those with wholesalers, which are a legacy of past business practices implemented as part of efforts to increase capital efficiency.

Opinion from SMTAM

Drug-resistant bacteria are becoming a serious problem worldwide within the field of infectious agents which the company puts extra focus on. Given how little awareness there is in Japan about this growing danger, we feel a more proactive and visible stance in addressing this problem is needed.

Regarding cross-shareholdings with client pharmaceutical wholesalers, it is our opinion that, from the standpoint of capital efficiency, these need to be reduced further.

Company Response

Addressing the problem of drug-resistant bacteria is our mission. And we are committed to actively communicating our intentions and specific initiatives for addressing it as a company.

Regarding our cross-shareholdings policy, a rapid and substantial sell-off is made difficult by the impact that the gains from such a sell-off would have on our profit and loss statement; nevertheless, we intend to continue reducing our cross-shareholdings with wholesalers.

Company Action

In May 2019, the company issued a public commitment and plan of action for addressing the problem of drug-resistant bacteria. It declared that, at a time when numerous other pharmaceutical companies were diverting resources away from research and development in the field of infectious disease, the company was looking to the future by taking on a leading role in the development of antibacterial agents and the promotion of their correct usage and distribution.

The annual securities report released by the company in June 2019 for the financial year ending March 2019 confirmed that the company reduced its cross-shareholdings by 20% compared with the end of the previous financial year.

Evaluation by SMTAM

We approve of the company's public commitment and plan of action for addressing the problem of drug-resistant bacteria, which has been backed up by its proactive and visible stance.

We also approve of the reduction in cross-shareholdings which has been undertaken by the company but will continue to engage in dialog with it to encourage even further reductions.

Engagement Example Cases - Global

At SMTAM, our emphasis on ESG engagement activities extends worldwide. We focus on (1) engagement activities that are based on action principles or guidelines, such as the PRI, (2) activities aimed at addressing misconduct and other problems in accordance with international norms, and (3) independent activities aimed at promoting greater efficiency in corporate management

CASE 4

Glencore Switzerland Resource Mining Company (CA100+ target company)

Climate Change

- Greenhouse gas emissions reduction

Engagement Specialist's Perspective

Among mining and resource extraction companies, those whose business involves coal mining have financial exposure which requires mitigation. Scenario-based business planning, such as for future capital rationing or stranded asset risk avoidance, needs to be disclosed.

Opinion from SMTAM

Globally speaking, this company is seen as having a major impact on greenhouse gas emissions and is a target company of the CA100+ initiative. It is our view that (1) disclosure and implementation of plans to reduce greenhouse gas emissions to the levels set under the Paris Agreement; (2) disclosure of information in line with the recommendations of the TCFD (Task Force on Climate-related Financial Disclosures); and (3) creation of climate-change related governance systems and structures are needed.

Company Response

As you have pointed out, we have significant exposure to the coal industry and are aware of the risks presented by a transition to a low-carbon society, particularly the potential stranding of coal assets. Our intention is to put greater emphasis on high-quality coal, whereby we can increase our profitability without increasing our production volume, while at the same time reducing our contribution to global warming.

Company Action

In February 2019, the company announced limits on the size of its coal production.

Evaluation by SMTAM

We approve of the company's expressed intentions to optimize its coal business and assets. We will continue to engage the company in dialog about measures it can take to help mitigate climate change.

and the establishment of outstanding corporate governance. For example, our (1) engagement activities that are based on action principles or guidelines, like the PRI, include active efforts to help companies with ESG issues limit their risk, such as by serving as the lead manager handling PRI working group promotion.

CASE 5

Copart USA Low-quality used vehicle online auction company (Thirty Percent Coalition target company)

Backing Corporate Governance Reform

- Diversity

Engagement Specialist's Perspective

As the company works to expand its business operations, having a diverse Board of Directors will help ensure the effectiveness of business management decisions and requires hiring a broad range of human resources.

Opinion from SMTAM

Of the S&P 500 Index companies, Copart is the only company without any female directors on its Board of Directors. We believe that hiring more women and increasing diversity in general will contribute to better management efficiency and more effective personnel hiring and business decision-making. We recommend making concerted efforts to expand diversity.

Company Response

Our personnel hiring is handled primarily on the basis of merit. Although we cannot provide a specific time-frame, we are aware of this issue and will announce our diversity enhancement plans at an appropriate point in the future.

Company Action

In July 2019, the company appointed a woman to the position of Outside Director.

Evaluation by SMTAM

While this issue is not one which can be evaluated with a one-size-fits-all approach, Copart's response addresses it only at a bare minimum and does not meet the ideal level of at least 30% female representation among directors. We will continue to engage Copart in dialog about expanding its hiring of female personnel and improving the diversity of its Board of Directors.

CASE 6**Elbit Systems** Israel Military and defense-related company**Promotion of ESG Information Disclosure**

- Information disclosure related to concerns about cluster bomb manufacturing

Engagement Specialist's Perspective

Because of the exposure to humanitarian concern-related reputational risks that cluster bomb manufacturing presents, it would be preferable that the company withdraw from this line of business.

Opinion from SMTAM

Cluster bombs are classified as inhumane weapons under the Oslo Convention and other international conventions, and their manufacture and use is prohibited. We are concerned that the purchase of national defense companies risks exposing Elbit Systems to cluster bomb-related business. We feel that the corporate reputational risks are too great to justify any involvement in cluster bomb manufacturing. At the very least, Elbit Systems needs to clarify and disclose its risk and future plan of action with regard to this line of business.

Company Response

With regard to having no involvement in cluster bomb-related business or any business which conflicts with international conventions, we intend to make a clear and open announcement of our policies moving forward.

Company Action

In January 2019, Elbit Systems announced a policy of having no exposure to this line of business.

Evaluation by SMTAM

We approve of Elbit Systems' prompt approval and disclosure of this policy. We have removed it from our ESG screening list of investment exclusion stocks.

CASE 7**BAYER** Germany Agrochemical and Pharmaceutical Company**Social Issues**

- Handling of lawsuit risks

Engagement Specialist's Perspective

Bayer needs to implement measures to mitigate the risks of and effects from potential lawsuits related to the agrochemical products of a purchased company.

Opinion from SMTAM

Following its purchase of an agrochemical business that was announced in 2015 and concluded in 2018, lawsuits over the issue of weedkiller carcinogenicity were launched against Bayer. Because of this, we think it is essential that Bayer disclose relevant information to investors, such as the maximum anticipated compensation, in order to dispel any lingering uncertainty.

Company Response

At the time that we made our purchase, we determined that we would be able to adequately manage the risk of lawsuits, and we do not believe that the law suits are indicative of management problems. Because this matter is still being dealt with in court, it would be inappropriate to disclose monetary amounts at this time.

Company Action

In August 2019, Bayer held an investors' meeting to try and dispel any lingering uncertainty, and among the information provided was that pertaining to Bayer's settlement with the weedkiller-related victims.

Evaluation by SMTAM

Given how rigidly Bayer responded to investors previously, this clarification of the company's handling with regard to areas of lingering uncertainty, including lawsuit settlements, is a step in the right direction and shows that it is listening to shareholders' concerns. We will continue to encourage Bayer to take action to dispel investors' concerns about the company, including the status of the ongoing legal situation.

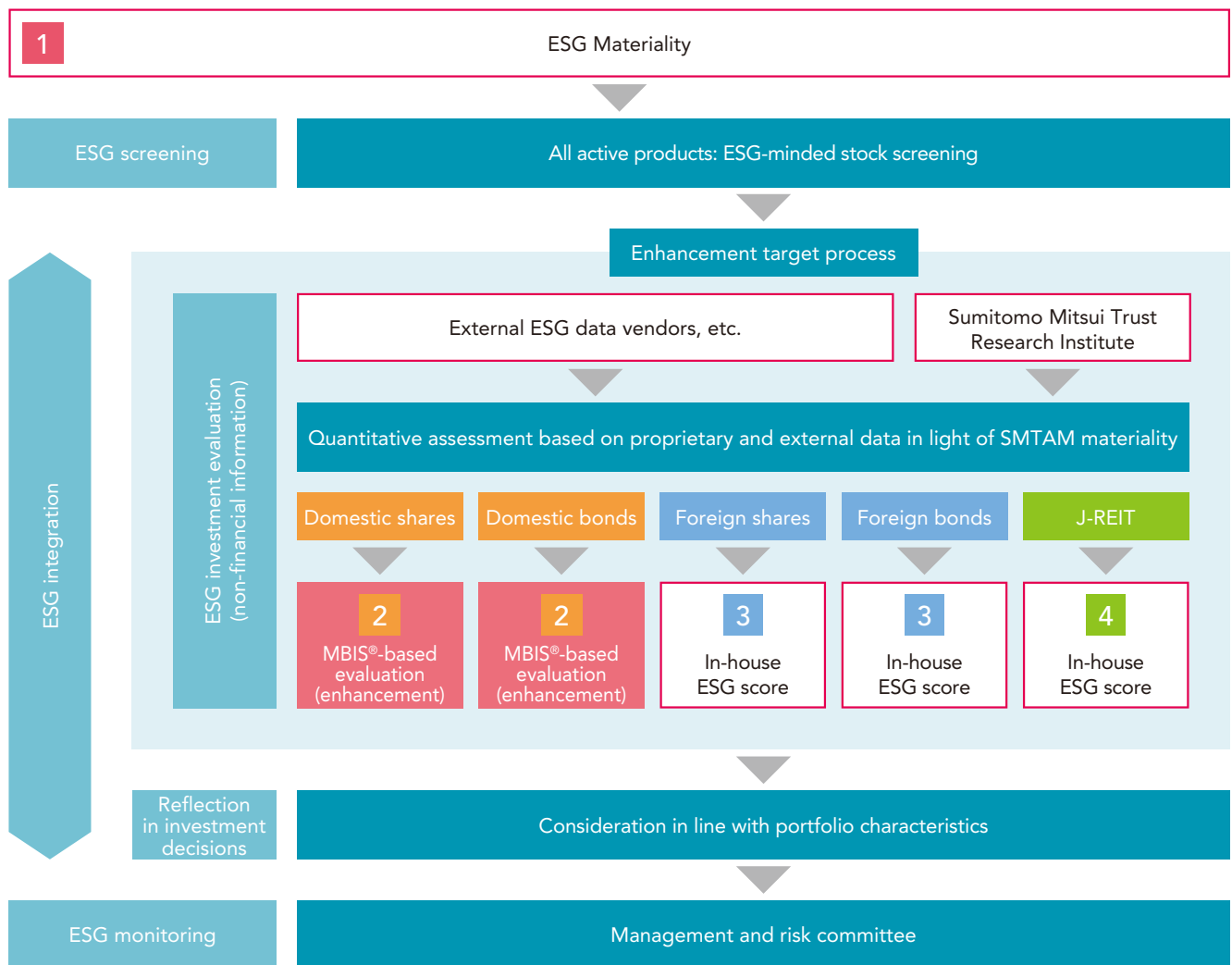
ESG Integration Enhancement

Since 2015, we have sought to apply ESG integration to the active management of domestic shares, domestic corporate bond investments and other operations by incorporating MBIS®, our proprietary developed non-financial information evaluation tool, into traditional investment methods. As soon as these efforts got on track, they immediately started producing results; so, in order to further accelerate them, we have worked to enhance ESG integration by expanding our methods and target assets (see Figure 1-4 below).

We are currently also revising our approach to ESG-minded stock screening. With regard to the stock of

companies which manufacture Controversial Weapons, specifically cluster bombs and anti-personnel mines, it has always been our policy to remove them as active fund investment candidates when their corporate situation does not make engagement possible. We have added biological and chemical weapons as reasons for exclusion, and this now extends not only to the companies' stocks but also bonds. Japan has signed and ratified conventions prohibiting the development, production and stockpiling of these four categories of weapons, as well as governing their destruction.

□ New initiative ■ Revision (updated)



1 Identification of ESG Materiality

We have performed identification of ESG materiality. Previously, we have used the UN Global Compact as our ESG guidelines when developing our response policies for ESG issues; however, based on a review of the SDGs, the SASB (Sustainability Accounting Standards Board), etc., we have reorganized our ESG investment evaluation items and response policies within a framework of “ESG materiality.”

	E (Environmental)	S (Social)	G (Governance)
Risks	Climate Change	Human Rights & Community	Behavior
	Natural Capital	Human Capital	Structure
	Pollution & Waste	Security & Liability	Stability & Justice
Opportunities	Environmental Opportunities	Social Opportunities	Governance Improvement

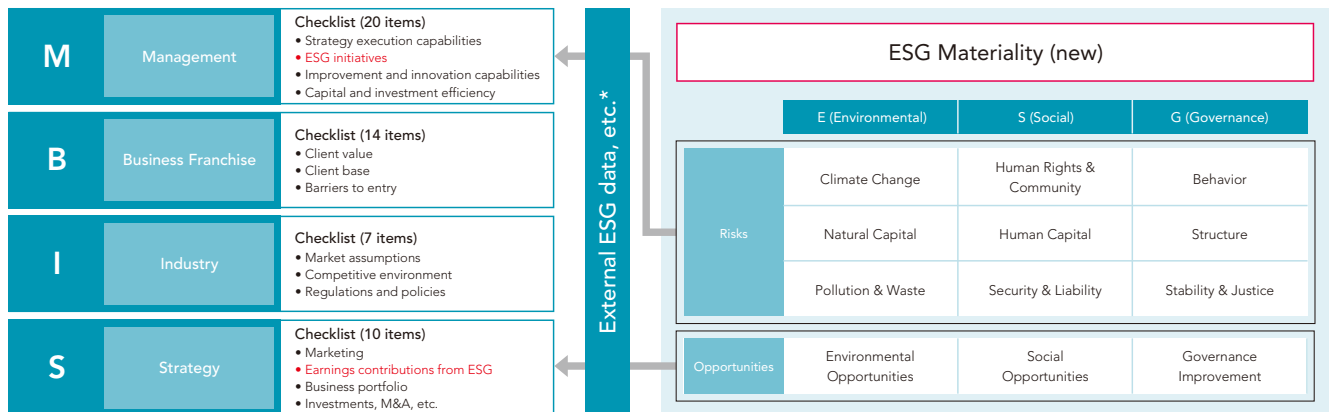
2 MBIS® Evaluation Enhancement

The MBIS® is our proprietary, non-financial information evaluation tool which we have used since 2015 to evaluate domestic shares and bonds. Our analysts use MBIS® to help them gather, analyze and evaluate non-financial information which cannot be expressed in terms of financial data for the companies they cover; such information includes the level and sustainability of added value for a company’s products and services, the governance system which supports the added value the company provides, and the company’s impact on the societal and environmental foundations which sustain its growth.

MBIS® is an acronym which stands for “Management” (M), “Business Franchise” (B), “Industry” (I) and “Strategy” (S). It is the “M” which comes into play when evaluating

efforts aimed at risks associated with ESG issues, and it is the “S” which comes into play when evaluating efforts aimed at commercializing and capitalizing the opportunities associated with ESG issues.

Now, in line with the newly established ESG materiality framework, we are reorganizing and revising the MBIS® evaluation items pertaining to ESG issues and are working to enhance MBIS® evaluation through, among other means, the use of external ESG data vendor-driven ESG evaluations. Although the concept of the SDGs has already been a part of our evaluations, we are working to bolster it further so that we incorporate the 17 goals more fully into our engagement and evaluation.



Strengthen Connection with SDGs



<https://www.un.org/sustainabledevelopment/>

3 Utilization for In-house ESG Scoring and Stock Selection

Clarifying core ESG evaluation factors as part of establishing ESG materiality has made it possible to perform in-house ESG scoring, even in regards to the stocks of foreign companies and other assets outside the scope of MBIS® evaluation. Using ESG materiality as a base, we identify the ESG issues of investee companies and then utilize external ESG data and other resources to perform three-tiered, in-house ESG scoring. This score is taken into account when qualitatively assessing earnings

and valuation in the case of shares, or creditworthiness or spread in the case of corporate bonds, and it is thus reflected in stock selection.*

Also, amongst domestic shares, in-house ESG scoring enables ESG evaluation of companies not covered by our analysts. For domestic corporate bonds as well, in-house ESG scoring is used for stock selection in addition to the traditional MBIS® evaluation.

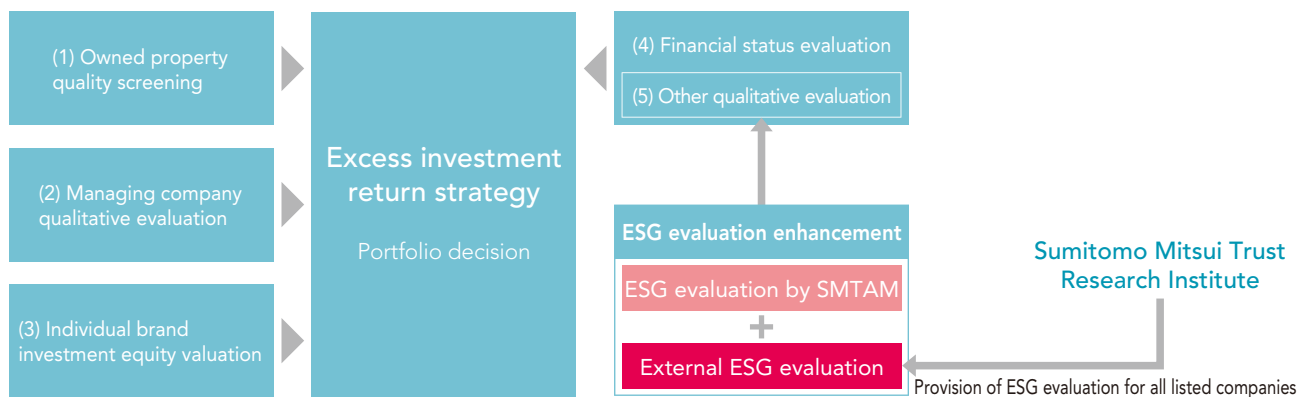
* Evaluations conducted by analysts using external ESG data and other resources for reference

4 ESG Integration Enhancement in J-REIT Funds

ESG Integration Enhancement

In order to maximize medium-to-long-term investment return for our customers, we prioritize sustainable growth in the value of investment shares. In the area of J-REIT management, it has been our practice to independently evaluate each investment corporation's ESG efforts, such as the environmental-friendliness of owned properties, and to then make investment decisions with results of this

evaluation in mind. There has been remarkable progress in the ESG efforts of the various investment corporations, and the Sumitomo Mitsui Trust Research Institute, which advises us on J-REIT management, has also developed an ESG evaluation system which provides us with ESG scores that have allowed us to enhance ESG integration in J-REIT management.



J-REIT ESG Evaluation by Sumitomo Mitsui Trust Research Institute

The Sumitomo Mitsui Trust Research Institute (SMTRI) is a think-tank established in 1988 which specializes in urban and real estate-related research and consulting. Thanks to the firm foundation which it has built after many years of research and study in these areas, SMTRI not only provides real estate investment evaluation-related research services but also robust consulting services for the domestic and foreign real estate markets, real estate finance and infrastructure and PPP.

With regard to J-REIT analysis, SMTRI has served as an investment advisor to institutional investors since the start of J-REIT in March 2004.

Now, SMTRI uses the J-REIT-related knowledge it has cultivated over many years to enable it to evaluate the

appropriateness of individual investor corporations' handling of ESG issues, which is based on publicly available documentation, and to provide investors with ESG scores for J-REIT.

Evaluations look at four major considerations: the ESG promotion framework and initiatives related to the environment, society and governance. Each item has its own checklist by which it is scored. The checklists are developed based on a comprehensive survey of the various initiatives disclosed by the individual investment corporations and then they are selected in consideration of how well they address SDGs as well.

* Scheduled to be completed by December 2019

Active Involvement in the Principles for Responsible Investment (PRI)

Established with the support of the United Nations, the Principles for Responsible Investment (PRI) encourage institutional investors to incorporate environmental, social and governance (ESG) factors into their investment decision-making processes. The 100 signatory institutions to the PRI at the time of its launch in April 2006 represented total assets under management (AUM) of US\$6.5 trillion, but as of March 2019, the number of signatories had increased to 2,372, representing total AUM of around US\$82 trillion and a strong indication of the growing importance of responsible investment. Since becoming a signatory to the PRI in May 2006, we have drafted policies in accordance with the six principles and implemented initiatives in light of the latest developments.

The PRI evaluates each signatory with respect to their commitment to and progress on implementing the six principles based on their reports. A score of A+ is the highest, while E is the lowest. As shown in the table to the right, we have collected favorable scores on the whole and received a comprehensive assessment score of A+ for the fifth year in a row. We will continue with our active involvement in the PRI going forward and will make every effort to maintain and improve our ratings.

PRI Assessment of SMTAM 2019	
Strategy and governance (comprehensive assessment)	A+
Integration status of listed equity into responsible investment	A+
Active ownership in listed equity	A+
Engagement	A+
Exercise of voting rights	A+
Fixed income investment (e.g., government bonds)	A
Fixed income investment (e.g., corporate bonds)	A

Principle 1 We will incorporate ESG issues into investment analysis and decision-making processes.

We analyze and evaluate non-financial information, such as management thoroughness, strategy execution capabilities, and capacity for reform, with the aim of identifying improvements in or maintenance of sustainable corporate value at investee companies. Furthermore, we seek to implement initiatives (ESG integration) that utilize the knowledge gained from our analyses and evaluations in our investment management operations.

Principle 2 We will be active owners and incorporate ESG issues into our ownership policies and practices.

We conduct engagements and exercise voting rights with ESG issues in mind; through these activities, we encourage investee companies to implement appropriate initiatives to tackle ESG challenges.

Principle 3 We will seek appropriate disclosures on ESG issues by the entities in which we invest.

We seek appropriate disclosure of ESG issues from investee companies.

Principle 4 We will promote acceptance and implementation of the Principles within the asset management industry.

We actively promote engagement and awareness-raising activities with investee companies so these Principles gain acceptance and are implemented in the asset management industry.

Principle 5 We will work together to enhance our effectiveness in implementing the Principles.

We collaborate with investment institutions in Japan and overseas through participation in PRI-sponsored working groups and involvement in signatory bodies established with the aim of resolving ESG issues in order to improve effectiveness in implementing the Principles.

Principle 6 We will report on our activities and progress towards implementing the Principles.

We implement these Principles and produce and issue reports that meet the requirements for signatories to disclose their activities and progress towards implementing them.