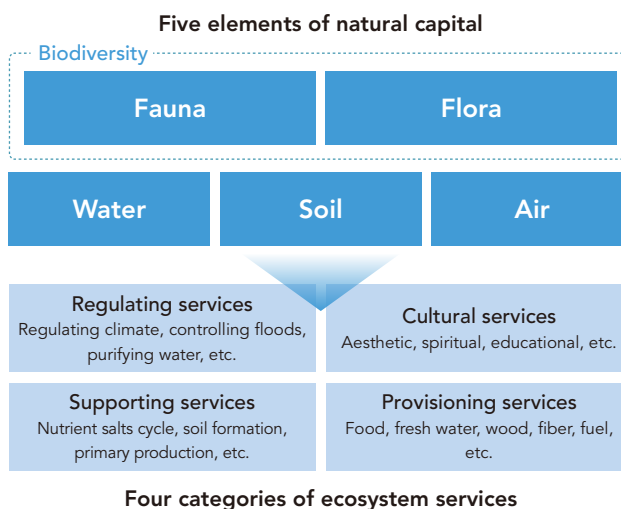


Natural Capital (Biodiversity Issues)

The global environment is the foundation for sustaining the life of various living creatures. It comprises of natural capital, such as water, air, soil, as well as marine and terrestrial fauna and flora that are grown in such resources under the blessings of the sun. Humans also depend on natural capital and have utilized it to build social systems and develop the economy. In this process, however, humans have also caused significant consequences.

Natural capital is not inexhaustible. Supplies may be exhausted sooner or later unless we accurately track and manage our dependence and impacts on natural capital. This is closely interlinked with humans' day-to-day activities. For this reason, all SDGs are connected with natural capital. Primarily from the perspective of corporate activities, the Group focuses on natural capital in Japan, where we lay our business foundation, as well as natural capital outside Japan, where we rely on highly for the procurement of raw materials and parts. We have selected goals that contribute to proper dependence on and management of such natural capital.



Sumitomo Mitsui Trust Holdings Action Guidelines for Preserving Biodiversity

1. Implementing Measures and Providing Support for Biodiversity Preservation

We will strive to actively protect rare and native species. In our role as a corporate citizen, we will work to support activities for the preservation of biodiversity.

2. Providing Products and Services

We will endeavor to develop and provide products and services that contribute to the preservation of biodiversity, by conducting appropriate economic and social evaluations of the ecosystem and encouraging the sustainable use of living resources through our financial functions.

3. Collaboration with Stakeholders

We will engage in dialogue and cooperation with our stakeholders while working to preserve biodiversity.

4. Education and Training

We will ensure thorough implementation of these action guidelines at all Group companies and will work to provide education and training aimed at the preservation of biodiversity.

5. Information Disclosure

We will actively disclose information about our efforts to preserve biodiversity.

KPIs for Solving the Challenges

2020/2021	Target	Result	2021/2022	Target
Promotion through proposals to clients, seminars, school education, etc.	20 times or more	56 times	More advanced management system	Establishment of internal system
More advanced information disclosure	Issuing TNFD reports	Start consideration (framework to be released in 2023)	Enhancement of information disclosure	Participating in TNFD forums and information gathering
More advanced sector-specific policies	To be implemented within fiscal year 2021	Revise in fiscal year 2021 4Q	Promotion of related business	Accelerate inclusion in policy on investments and loans

Target SDGs for Natural Capital Initiatives



Also refer to Natural Capital, a separately published version of this report.
 URL: <https://www.smth.jp/en/csr/report/2020/NC-E-all.pdf>



Natural Capital Finance Alliance (formerly the Natural Capital Declaration)

SuMi TRUST Holdings became a signatory to the Natural Capital Declaration (NCD) proposed by the United Nations Environment Programme Finance Initiative (UNEP FI) at the United Nations Conference on Sustainable Development “Rio+20” held in Rio de Janeiro in June 2012. SuMi TRUST Holdings is the only financial institution in Japan to have signed the declaration when it originally promulgated.

The initiatives of NCD signatories have been expanded through NCD’s reorganization into Natural Capital Finance Alliance (NCFA).



Status of Business and Biodiversity Initiative “Biodiversity in Good Company”: Leadership Commitment

At the ninth meeting of the Conference of the Parties (COP 9) to the Convention on Biological Diversity held in May 2008 in Bonn, Germany, SuMi TRUST Holdings signed the Leadership Commitment under the Business and Biodiversity Initiative “Biodiversity in Good Company,” which was led

by the German government. Since then, we have continued to use this commitment as a guideline for our activities.



Leadership Commitment	Initiatives in 2020-2021
1. Analyze impacts of corporate activities and current operational dependencies with regards to biological diversity.	We provided environmental rating loans with natural capital evaluation and Positive Impact Finance (PIF) solutions that comprehensively analyzes economic, social, and environmental impact of corporate activities, and also analyzed investee initiatives during our asset management company engagements.
2. Integrate the protection of biological diversity, the sustainable use of components and the equitable sharing of benefits derived from use (the three objectives of CBD) into sustainability management systems.	In our Sustainability promotion system, we draw up a plan for each fiscal year on efforts related to natural capital and review their performance semiannually.
3. Appoint a responsible individual within the company to steer all activities in the biodiversity sector and report to the Managing Board.	The head of the Sustainability Management Department steers all activities and reports to the Executive Committee.
4. Define realistic and measurable objectives to improve the protection of biological diversity and its sustainable utilization, to be monitored and adjusted every two to three years, and identify challenges.	We set targets based on the challenges for achieving SDG goals (see page 74).
5. Publish activities and achievements related to biological diversity in the company’s annual, environmental or sustainability report.	We publish the Natural Capital Report on an annual basis. Initiated research with a view to preparing a report in compliance with TNFD (Taskforce on Nature-related Financial Disclosures).
6. Inform suppliers about the company’s biodiversity objectives and integrate suppliers accordingly and step by step.	We continue to pay attention to procurement of copier paper and office supplies linked to illegal logging in tropical rain forests, which has large detrimental impacts on biodiversity. In the asset management business, we also engaged as an investor in tropical rainforests. In the PIF solutions business, we continued to set and monitor nature-related KPIs with our borrowers.
7. Explore the potential for cooperation with scientific institutions, non-governmental organizations and/or governmental institutions with the aim of deepening dialogue and continuously improving the corporate biodiversity management system.	Sumitomo Mitsui Trust Asset Management participates in working group TNFD.

Major Initiatives in the Group’s Business to Date

2000	SuMi TRUST Bank is entrusted with the Keidanren Nature Conservation Fund, a charitable trust from the Keidanren Committee on Nature Conservation
2008	SuMi TRUST Holdings signs the Leadership Declaration of the Business and Biodiversity Initiative SuMi TRUST Holdings establishes the Basic Policy for Addressing Biodiversity Issues (currently Action Guidelines for Preserving Biodiversity) SuMi TRUST Bank translates the TEEB (The Economics of Ecosystems and Biodiversity) Interim Report
2010	Asset management company develops Ikimonogatari, a Japanese equity investment trust specializing in biodiversity
2012	SuMi TRUST Holdings signs the Natural Capital Declaration (now the Natural Capital Finance Alliance) proposed by UNEP FI at the United Nations Conference on Sustainable Development (Rio+20)
2013	SuMi TRUST Bank develops environmental rating loans with natural capital evaluation; SuMi TRUST Bank forms the the Natural Capital Study Group
2016	SuMi TRUST Bank signs the Equator Principles
2018	Asset management company joins Farm Animal Investment Risk & Return (FAIRR), an engagement organization working primarily with the fisheries and livestock industries
2019	SuMi TRUST Bank develops Positive Impact Finance (PIF)
2020	SuMi TRUST Bank establishes financing policies for specific sectors SuMi TRUST Bank is entrusted with a forestry trust by Okayama Prefecture’s Nishiwakura Village
2021	Asset management company participates in working group TNFD (Task force for Nature-related Financial Disclosures)

Natural Capital (Biodiversity Issues)

Positive Impact Finance

SuMi TRUST Bank is working on Positive Impact Finance (PIF), which considers not only the relationship with clients but also the relationship between clients and society, and helps transition to a sustainable society by ensuring an optimal relationship (see page 54). Many companies have some

level of exposure to natural capital in their supply chain. SuMi TRUST Bank supports client initiatives by identifying these impacts, setting KPIs for reducing negative impacts and increasing positive impacts, and monitoring them.

Example of Monitoring of KPIs and Results Set on the Theme of Natural Capital in PIF (Client) Fuji Oil Group Headquarters (From March 2019)

Theme	Target	KPI	Result	
Biodiversity and ecosystem services	Sustainable sourcing that considers the environment and human rights Supply chain improvement activities and RSPO initiatives aimed at NDPE (No Deforestation, No Peatland development, No Exploitation) in the sourcing process	Traceability scores for palm oil all the way back to the oil extraction plant	Fiscal year 2018 First half: 98% Second half: 99%	Fiscal year 2019 First half: 99% Second half: 100%

(Client) Sumitomo Forestry Co., Ltd. (From March 2020)

Theme	Target	KPI	Fiscal year 2019 result
Sourcing that considers sustainability and biodiversity	<ul style="list-style-type: none"> Forest management that balances global warming prevention and biodiversity conservation Expansion of sustainable use of forest resources Environment creation that considers biodiversity 	Raise domestic and overseas forest certified area to 221,467 ha by fiscal year 2021	221,101 ha
		Reach company-made tree sapling planted area of 7,920 ha and supplied volume of 7.26 million trees by fiscal year 2021	7,770 ha, 4.14 million trees
		Achieve chips and pellets for main fuel use handling volume of 1,363,930 tons by fiscal year 2021	1,112,224 t
		Raise percentage of sustainable timber and timber products handled to 100% by fiscal year 2021	89.8%
		Achieve company-made seedling unit sales of 500,000 in fiscal year 2021	424,000 trees

Initiatives in the Real Estate Business

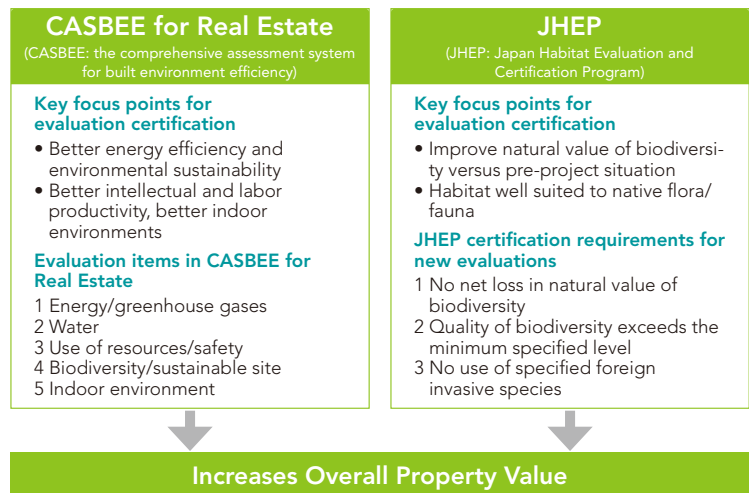
Construction Consulting on How to Foster Biodiversity and Ecosystems

Through the use of CASBEE for Real Estate*1 and JHEP*2 together, the environmental performance of properties can be improved across many dimensions, helping to increase overall property value.

At SuMi TRUST Bank, biodiversity considerations are included in our menu of construction consulting services.

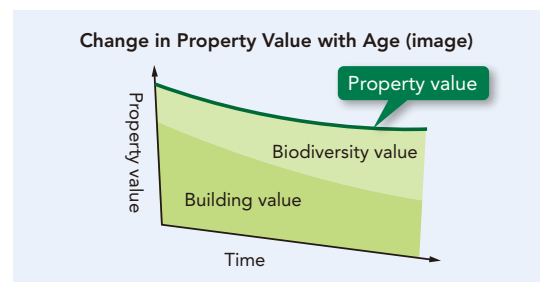
*1 CASBEE for Real Estate: The comprehensive assessment system for built environment efficiency (CASBEE) certification is an environmental performance evaluation system for buildings being developed and promoted in Japan under the guidance of the Ministry of Land, Infrastructure, Transport and Tourism (MLIT). SuMi TRUST Bank is involved in the establishment of criteria.

*2 JHEP: Japan Habitat Evaluation and Certification Program is a system is a system developed by the Ecosystem Conservation Society-Japan to quantitatively evaluate and certify efforts to contribute to the conservation and restoration of biodiversity.



A building's environmental performance is evaluated on many dimensions such as energy savings, global warming mitigation measures, biodiversity, durability, and resource efficiency.

The value of buildings decline with age but the biodiversity value increases every year as the ecosystem surrounding it forms. These offsetting lifecycle patterns can maintain the combined value of the building and site together as a whole. Ecological networks can be created through the connection of local communities, neighboring buildings and green nature reserves.



Initiatives in Asset Management

Sumitomo Mitsui Trust Asset Management (SMTAM) has set “natural capital/resource conservation” as one of the top-down engagement ESG 12 topics, and has been engaged in engagement activities related to palm oil production, as well as engagement activities and proposals to the governments of Brazil and Indonesia regarding tropical rainforest conservation. In addition, we have been participating in the Task Force on Nature-related Financial Disclosures (TNFD), which was officially launched in June 2021, since the informal working group started in the previous year (as the only company from Japan participating), and have been contributing to the development of frameworks.

Activities through the Principles for Responsible Investment (PRI) Palm Oil Working Group—Engagement Toward Financial Institutions

As a PRI signatory, SMTAM joined the PRI Palm Oil Working Group in 2016 as a lead manager and has since been continually active. The working group is the oldest of those of PRI, which was established in 2011. It was established in response to the massive loss of rainforests and biodiversity caused by

palm oil production, the poor conditions for workers, and conflicts with local residents over land development, which became major social issues.

In 2018, the working group decided to strengthen its engagement activities with ASEAN financial institutions. The main aim is to encourage strengthened monitoring of compliance of palm oil producers, etc., among financial institutions, which play the important role of supplying funds in the palm oil supply chain. In November 2018, members of the working group, including SMTAM, visited financial institutions in the ASEAN region, and conducted engagement to request clarification of the role of the financial industry in the transition to a sustainable palm oil sector and to strengthen monitoring among financial institutions.

Multi-Engagement Activities—Engagement Toward the Indonesian Government

In November 2020, the Indonesian government established the Omnibus Law with the aim of simplifying laws and regulations to speed up business and achieve economic benefits. From the draft bill stage, SMTAM was concerned that the enactment of this law would lead to deforestation. In order to solve social issues, we determined that it is essential for governments and public policy organizations to collaborate with private companies and public entities, and that it is necessary to engage multi-stakeholders other than investee companies.

In September 2020, SMTAM joined forces with 35 overseas asset managers to send a letter to the Indonesian government saying that there is the risk that economic stimulus packages under the law could lead to deforestation. The letter subsequently was sent individual responses by the Indonesian Deputy Foreign Minister and the Environment and Forestry Minister. At the same time, SMTAM worked of its own accord to engage with the Indonesian Ambassador to Japan, expressing the opinions that: (1) Long-term investors are not concerned about the law itself, but want transparency in how it is applied and (2) we would like particular care taken not to damage forest conservation. As the Indonesian government’s view, it was mentioned that the government is conscious of various stakeholders, including investors and environmental groups in implementing the law, and that the government would give due consideration to the balance between economic stimulus and environmental conservation, especially with regard to measures to prevent deforestation, in the implementation rules.

Commitment Letter to Prevent Deforestation Caused by Grain Production

In November 2021, SMTAM endorsed the Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation, which was endorsed by over 30 global asset managers (total assets of \$8.7 trillion).

Examples of Engagement Activities Through the PRI Palm Oil Working Group

Target Company Malaysia: CIMB Group (Finance)

Deciding to Strengthen Engagement Toward ASEAN Financial Institutions

In 2018, the working group decided on a policy to strengthen engagement activities toward ASEAN financial institutions. This was to encourage strengthened monitoring of compliance of palm oil producers, etc., among financial institutions, which play the important role of supplying funds in the palm oil supply chain.

Engagement with CIMB

We started engagement with CIMB, which is a leading Asian financial group and has the biggest presence in ASEAN, by requesting: (1) Clarification of the role of financial institutions in the transition to a sustainable palm oil sector; and (2) Strengthened monitoring of compliance by palm oil producers, etc.

Corporate Action

- Amid repeated engagement, the company formulated a policy to: (1) Be the first financial institution in the region to incorporate EES (environmental, economic, and social) into its risk assessment; (2) Incorporate sustainable finance policies into the screening process for lenders; and (3) Promote enhanced monitoring of palm oil producers for compliance.
- Declared in December 2020 that coal-related financing will be phased out by 2040. This marked the first time that a Malaysian financial institution declared a withdrawal with a clear timeframe.

Future Policy

As the scope of engagement has expanded to include other ASEAN financial institutions, the top ASEAN groups have begun to respond positively to sustainability initiatives. However, with regard to medium-sized and smaller enterprises, we are still at the stage of promoting understanding about sustainability activities of financial institutions. To solve the palm oil problem, we plan to widely conduct engagement toward financial institutions throughout the ASEAN region.

Forestry Trust

Japan is one of the most forested countries in the world, and half of the forests that were planted after the war are now in full-scale use. However, their use has not progressed and is, on the contrary, causing a negative impact. The main reasons for the lack of appropriate use of forests are the small-scale ownership structure of forests, the increase in the number of landowners outside of villages due to the concentration of population in urban areas, and the emergence of forests with unknown owners.

In order to help solve these social issues, SuMi TRUST Bank developed the forestry trust. The forestry trust is the kind of SDGs initiative that only a trust can provide, promoting forestry and regional revitalization.

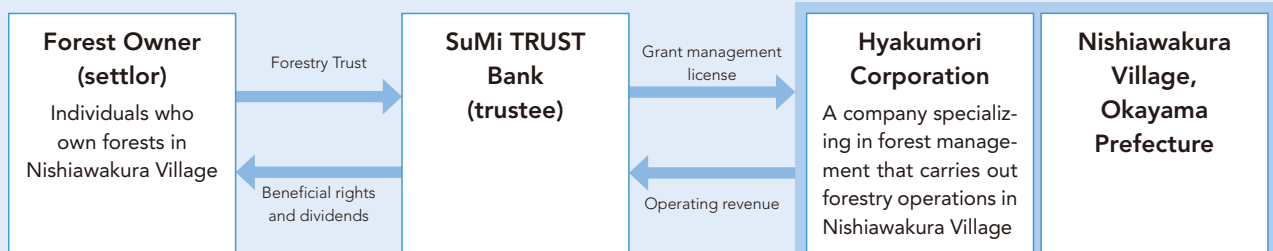


Forestry Trust Business

In August 2020, SuMi TRUST Bank was entrusted with a forestry trust with a trust property of approximately 10 ha of forest from an individual client (hereinafter “owner”) who owns forest in Okayama Prefecture’s Nishiawakura Village, as the first commercial trust in Japan. SuMi TRUST Bank will entrust management activities to forestry entities on behalf

of the owner, manage revenues, and distribute dividends. The forestry entity that performs the work combines multiple forests to ensure more efficient forestry management and prevent the situation where the owner of the land becomes unclear due to inheritance and other factors.

Forestry Trust Scheme



Thinning of Forests

In the summer of 2021, thinning work was carried out in Okayama Prefecture’s Nishiawakura Village. Forest maintenance and conservation are carried out by repeating the cycle of thinning at intervals of five years or more, followed by clear-cutting and reforestation. Appropriate maintenance can help prevent disasters such as landslides and increase carbon dioxide absorption.

This thinning has created a healthy environment for the forest to grow by creating adequate space between the trees and allowing sunlight to shine through.

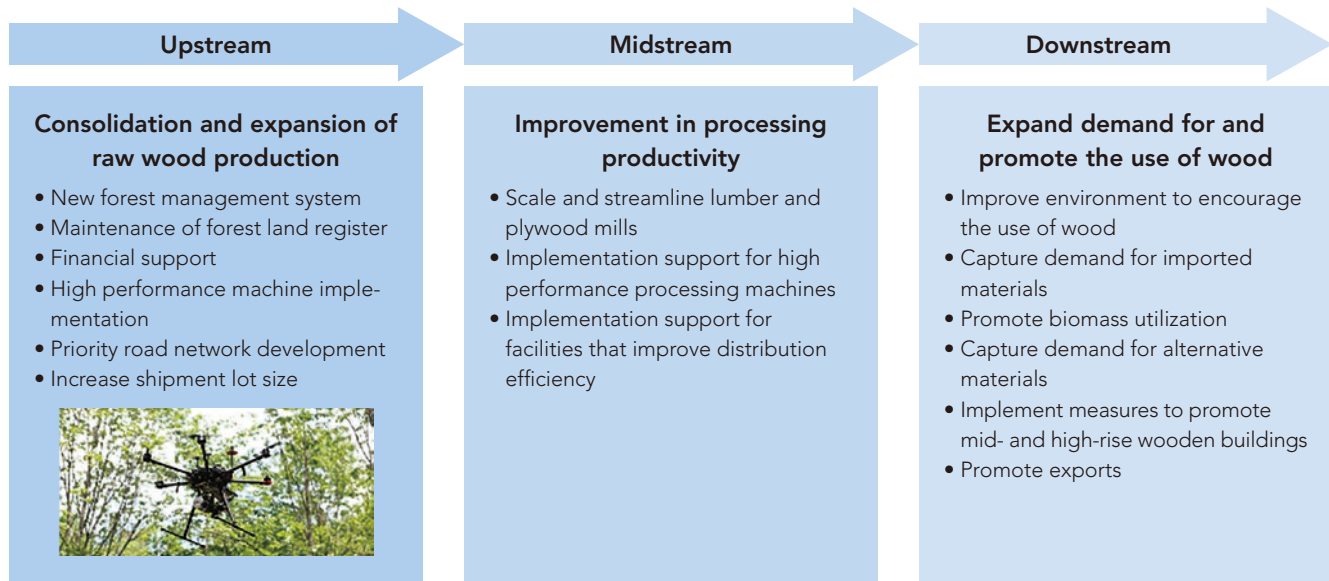
Thinning materials used included construction materials, furniture materials, and woody biomass (chips) for boilers, etc., which were utilized without waste in the local ecosystem and generate profit.



Smart Precision Forestry Initiatives

To further improve the productivity of the forestry industry, SuMi TRUST Bank is supporting the realization of smart precision forestry utilizing drones and ICT in collaboration with Shinshu University and other organizations. In addition, to

revitalize the forestry industry, we are working with related parties to improve the entire supply chain in order to boost efficiency and add value not only upstream, but also mid-stream and downstream.



ICT-driven Smart Precision Forestry

Awarded the Ninth Platinum Vision Award: Grand Prize / Economy, Trade and Industry Minister's Award

At the Ninth Platinum Vision Award (organizer: Platinum Society Network), held on October 21, 2021, SuMi TRUST Bank received the highest Grand Prize / Economy, Trade and Industry Minister's Award for its forestry trust initiatives.

The award was given in recognition of the fact that the Company has created new value by combining the power of trust, which is responsible for asset management, with the latest digital technology, with the aim of solving the social issues facing Japan's forests.



Award ceremony

About Platinum Society Network and Platinum Vision Award

With Hiroshi Komiyama as representative founder, Platinum Society Network is a nationwide collaborative organization that promotes "Platinum Society," a higher level of community development that aims to create a comfortable society that is eco-friendly, where the elderly can participate, and where people can grow and find employment in the community. The Platinum Vision Award was established to honor outstanding models for a "Platinum Society" and to communicate them widely to society.

