

Sumitomo Mitsui Trust Asset Management Co., Ltd.

Sustainability Report 2025/2026





Corporate Philosophy

At Sumitomo Mitsui Trust Asset Management, we maintain a broad, global perspective, sharing diverse aspirations with a wide range of stakeholders. We continuously explore possibilities that lead to a better future and strive to create a truly enriched society that goes beyond economic value alone.

Guided by this spirit, we have defined our ideal vision as our **Vision**, our mission to fulfill in achieving it as our **Mission**, and the principles guiding our actions as our **Values**. Together with our stakeholders, we pursue forms of asset management that are relevant to the times.

Mission

Your goals are our goals. Your success is our success. We strive to create **the new standard of asset management that acknowledges the aspirations of all our investors and stakeholders and work with each of you every step of the way.**

We believe our mission is to help each of our clients realize their envisioned goals and ideals for the future through asset management.

To that end, we stand by our clients, engage in dialogue with our stakeholders to seek the best outcomes, unceasingly pursue innovation with sincerity, and continue striving to create forms of asset management befitting the times.

Value

Stand in the shoes of others and engage in dialogue with empathy

At all times, we will never forget to be considerate of others.

By always putting ourselves in the shoes of others, we will build relationships of mutual trust through ongoing dialogue based on empathy and consideration.

Have self-awareness and seek constant self-improvement

Growth is possible at any age.

To achieve personal growth, we must consider what we can do for the society in which we live, first looking carefully at ourselves and continuing to pursue self-improvement to achieve even greater heights.

Expand curiosity and transform awareness into action

Going beyond our own specialized fields, we will keep our sense of curiosity alive, connecting the insights and ideas we gain from this curiosity to the actions we take.

Create synergies by bringing unique personalities together

Each individual among us brings different strengths to the table.

By respecting talents and personalities that differ from our own, and by proactively multiplying each other's strengths, we will create innovative synergies.

Vision

Realizing opportunities today to ensure sustainable prosperity for tomorrow.

With an entrepreneurial spirit at all times, we aspire to face every possibility with sincerity and to open the path toward a better future. Together with all our stakeholders, we aim to nurture a truly “prosperous” society, not only economically abundant, but one that warmly cultivates the diverse visions of fulfillment held by each individual.

Vision

Our Ideal for the Future

Mission

Our Purpose to Fulfill

Value

Our Guidelines



Pursue quality and value that goes one step ahead

We will continue pursuing quality and value one step ahead of the rest: this is our DNA. “How can we exceed our clients’ expectations?” “How can we become their best partner?” With these questions in mind, every small step taken by each of us will lead to a major step forward for the company.

Look ahead to the future, continuously challenging ourselves

We will not only respond to the voices of our clients and the changing times, but also recognize current trends and create new value that is not merely an extension of what we have provided in the past. Moreover, we will continue to take on the never-ending challenge of creating products and services that engender both inspiration and excitement.

As the first step toward realizing our Vision and Mission, each of our employees upholds these six Values as their guiding principles in daily actions.

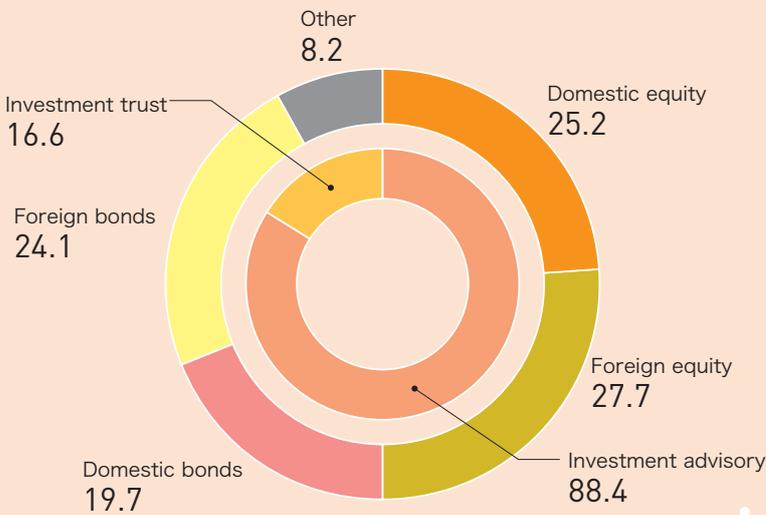


SMTAM in Numbers (Figures in parentheses represent the previous year)



Balance of assets under management

104.9 trillion yen
(94.8 trillion yen)



Balance of DC-exclusive investment trusts*

2.8 trillion yen
19.9% of market share
(2.8 trillion yen — 20.2%)



Balance of ESG investment

45.6 trillion yen
(36.3 trillion yen)

Number of engagement meetings

Number of companies with which we can exercise voting rights

In Japan: Approx. **1,600**
(1,600)

In Japan: Approx. **1,900**
(2,500)

Outside Japan: Approx. **410**
(460)

Outside Japan: Approx. **2,700**
(2,600)

Weighted average carbon intensity (WACI) of investment portfolio

(GHG emissions per unit of sales, excluding sovereign bonds)

98.1 tCO₂e/million USD
(97.3tCO₂e/million USD)



Licensed securities analysts
(CMA: Certified Member Analyst of the
Securities Analysts Association of Japan)

260 people
(253 people)



**Average number of
paid leave days taken***

23.1 days
(17.5 days)



**Percentage of
female employees***

32.8%
(32.2%)



**Percentage of female
workers in manager positions***

11.9%
(13.8%)



Parental leave utilization rate*

Male: **100**%
(Male: 63%)



**Employment rate of
persons with disabilities***

3.13%
(2.56%)

Data as of the end of June 2025 or for the period from July 2024 to June 2025.
However, data marked with * is as of the end of March 2025 or for the period from April 2024 to March 2025.

CONTENTS

SMTAM's Corporate Sustainability

- 1 Corporate Philosophy
- 3 SMTAM in Numbers
- 5 Contents
- 6 Message from the CEO
- 9 Value Creation Process and Materiality
- 13 Corporate Governance Framework
- 15 SMTAM Executive Roundtable: SMTAM's Sustainability from the Perspective of Outside Directors
- 19 Fiduciary Duty and Client-oriented Business Operations
- 21 Product Governance Framework
- 23 Human Capital Management
- 27 Enhancement of Financial Literacy
- 29 Information Transmission Activities
- 31 Addressing Climate Change Issues
- 32 Social Contribution Activities
- 33 Internal Control
- 34 Compliance Framework
- 35 Risk Management System

SMTAM's Stewardship Activities

- 39 SMTAM's ESG Materiality and Key Activity Items
- 41 Progress of SMTAM's Stewardship Activities
- 43 Message from the Executive Officer in Charge of Stewardship Development Department and the General Manager of Stewardship Development Department
- 45 Value Creation Through Our Stewardship Activities
- 49 Special Feature 1: Changes in the Sustainability Landscape in the U.S. and Europe
- 51 Stewardship Activities Promotion Framework
- 53 Special Feature 2: Capacity Building for Stewardship Activities
- 55 Conflict of Interest Management for Stewardship Activities
- 57 2024/2025 Stewardship Activity Focus Topics
- 59 Evaluation of SMTAM's Stewardship Activities

Engagement

- 67 Domestic Equity Engagement
- 71 Domestic Equity Engagement Case Studies
- 75 Bond Engagement
- 77 Bond Engagement Case Studies
- 79 Foreign Equity Engagement
- 81 US New York Office Activity Report
- 83 UK London Office Activity Report
- 85 Foreign Equity Engagement Case Studies
- 91 Collaborative Engagement
- 99 Special Feature 3: Collaborative Engagement by Participating in the Institutional Investors Collective Engagement Forum
- 107 Special Feature 4: "Engagement and Stewardship Activities as Envisioned by SMTAM"
—Roundtable Discussion with Investment Specialists—
- 115 Special Feature 5: SMTAM's Engagement on Intellectual Property and Intangible Assets
- 117 Special Feature 6: The Current Status of Decarbonization in Emerging Markets and SMTAM's Engagement
- 121 Special Feature 7: SMTAM's Vendor Engagement

Exercise of Voting Rights

- 123 Basic Policy/Overview of the Exercise of Voting Rights Operation Process
- 125 Revisions to the Guideline on the Exercise of Voting Rights and Trends in Opposition Ratios for Management Proposals
- 127 Cases Where the Exercise of Voting Rights was Determined Based on Engagement
- 129 Cases of Decision Regarding Emergency Takeover Defense Measures
- 130 Voting Results

ESG Integration

- 131 ESG Investment
- 133 SMTAM's ESG Investment Strategy Map
- 135 Incorporating ESG Factors into Investment Decision-making
- 137 Domestic Equity Integration/J-REIT Integration
- 138 Bond Integration
- 139 Climate Change and Natural Capital
- 147 SMTAM's ESG Investment Policy

Editorial Policy of This Report

This report has been prepared as a communication tool to report and promote understanding among our stakeholders regarding the sustainability activities undertaken by Sumitomo Mitsui Trust Asset Management Co., Ltd. (hereinafter "SMTAM" or the "Company") as a corporation. The period covered is from July 1, 2024 to June 30, 2025 (including some contents not within this date range). Statements regarding outlook, targets, and plans are based on the Company's judgment at the time of report preparation but contain uncertainties that may result in outcomes different from those described due to various changing factors. Data and figures sourced from the Company are not individually cited within this report.

Efforts made throughout Sumitomo Mitsui Trust Group include striving to provide stakeholders with value and collaborating on sustainability activities with scope to boost the long-term corporate value of the Group over time based on transparency. For more details, visit the [website of Sumitomo Mitsui Trust Group, Inc.](#)

Message from the CEO

Sustainability: Pioneering the Future for an Enriched Society

Representative Director and President
Takahiro Kobayashi



Sumitomo Mitsui Trust Asset Management has issued a “Sustainability Report” for the second year running.

This report presents our initiatives aimed at enhancing sustainability for our clients, stakeholders, and society as a whole in a structured and comprehensive manner.

In the “SMTAM’s Corporate Sustainability” section, we outline the Company’s efforts as an asset management company in response to the materiality issues identified as key factors affecting corporate value. We highlight how we create social and economic impacts through our business, such as supporting clients’ long-term asset formation in this age of 100-year life spans and enhancing stewardship activities to promote the spread of ESG and sustainable management. We also focus on initiatives to strengthen corporate governance, product governance, and human capital management as organizational foundations supporting these goals.

The sections following “SMTAM’s Stewardship Activities” in this report introduce a range of investment initiatives we have undertaken. Based on our ESG materiality concept, which forms the core of our stewardship activities, we provide detailed information, along with our engagement initiatives, exercise of voting rights, and ESG integration efforts.

Looking at the broader business environment, challenges such as natural disasters driven by global warming and severe heatwaves worldwide clearly show that environmental concerns remain a critical social issue. At the same time, geopolitical risks such as Russia’s invasion of Ukraine and ongoing conflicts in the Middle East have intensified, while global uncertainty has expanded due to factors such as the potential impact of tariff policies under the Second Trump Administration. In Japan, the Bank of Japan has shifted its monetary policy, and the Japanese market is moving toward a “world with interest rates,” marking a new stage where both prices and wages are rising. Meanwhile, rapid advancements in the internet and generative AI are impacting society in various ways, an important facet of the rapid and ongoing changes rippling through both society and the economy.

Amid these circumstances, SMTAM recognizes the growing importance of sustainable corporate management that not only pursues its own growth but also contributes to sustainable economic development and the creation of a prosperous society by addressing diverse environmental and social issues.

In the asset management industry, momentum is steadily shifting from savings to investment following the Japanese government’s announcement of the Policy Plan for Promoting Japan as a Leading Asset Management Center in December 2023 and the launch of the new NISA (Nippon Individual Savings Account) in January 2024. This trend has become even more evident in 2025, with the revision of Japan’s Stewardship Code in June and the establishment of the Asset Management Business Division within the Financial Services Agency in July. From the fiscal year ending March 2027, companies listed on the Tokyo Stock Exchange Prime Market will be required to gradually disclose sustainability information based on international standards, underscoring the growing importance of sustainability initiatives.

As a trust group with various functions, the Sumitomo Mitsui Trust Group has earnestly addressed our clients’ needs and social issues, creating solutions to meet expectations, which has driven our growth and contributed to the broader development of society and the economy. Building on this legacy, the Company upholds the vision of “Realizing opportunities today to ensure sustainable prosperity for tomorrow.” We aim to enhance our sustainability and corporate value by actively contributing to a sustainable society and striving to create the new standard of asset management as one of Japan’s largest asset management companies.

Human capital management has been growing in importance in recent years, so our focus on ensuring employees can feel that they contribute not only to economic value but also to social value will undoubtedly form the foundation of sustainability and become a driver of growth. As an asset management company, we consider people our greatest assets. By empowering professionals with diverse expertise to enhance their motivation, expand their scope of



contribution, and dedicate themselves to serving a broad range of stakeholders, we create prosperity and open paths to the future. At the same time, the global sustainability landscape is undergoing visible shifts. In the United States, differing values surrounding sustainability have begun to emerge, while in Europe and other regions, there are signs of pragmatic revisions to sustainability-related policies. However, these changes do not signify a fundamental shift in the core direction of sustainability. The shared goal of ensuring humanity's coexistence on this planet remains unchanged. Rather, we have reached a point where it is necessary to consider more pragmatic strategies when it comes to ESG principles and initiatives toward building a sustainable society,

requiring greater flexibility than ever before. We will continue to advance initiatives that address ESG issues and enhance sustainability, guided by a multifaceted perspective grounded in diversity.

As an asset management company, we are committed to maximizing returns on the assets entrusted to us by our clients, while continuously striving to seize opportunities today to ensure sustainable prosperity for tomorrow based on our corporate philosophy. As we continue to take on new challenges together with all our stakeholders, we hope this report will serve as a helpful resource in deepening your understanding of our company. We greatly appreciate your continued understanding and support of our activities.

Value Creation Process and Materiality

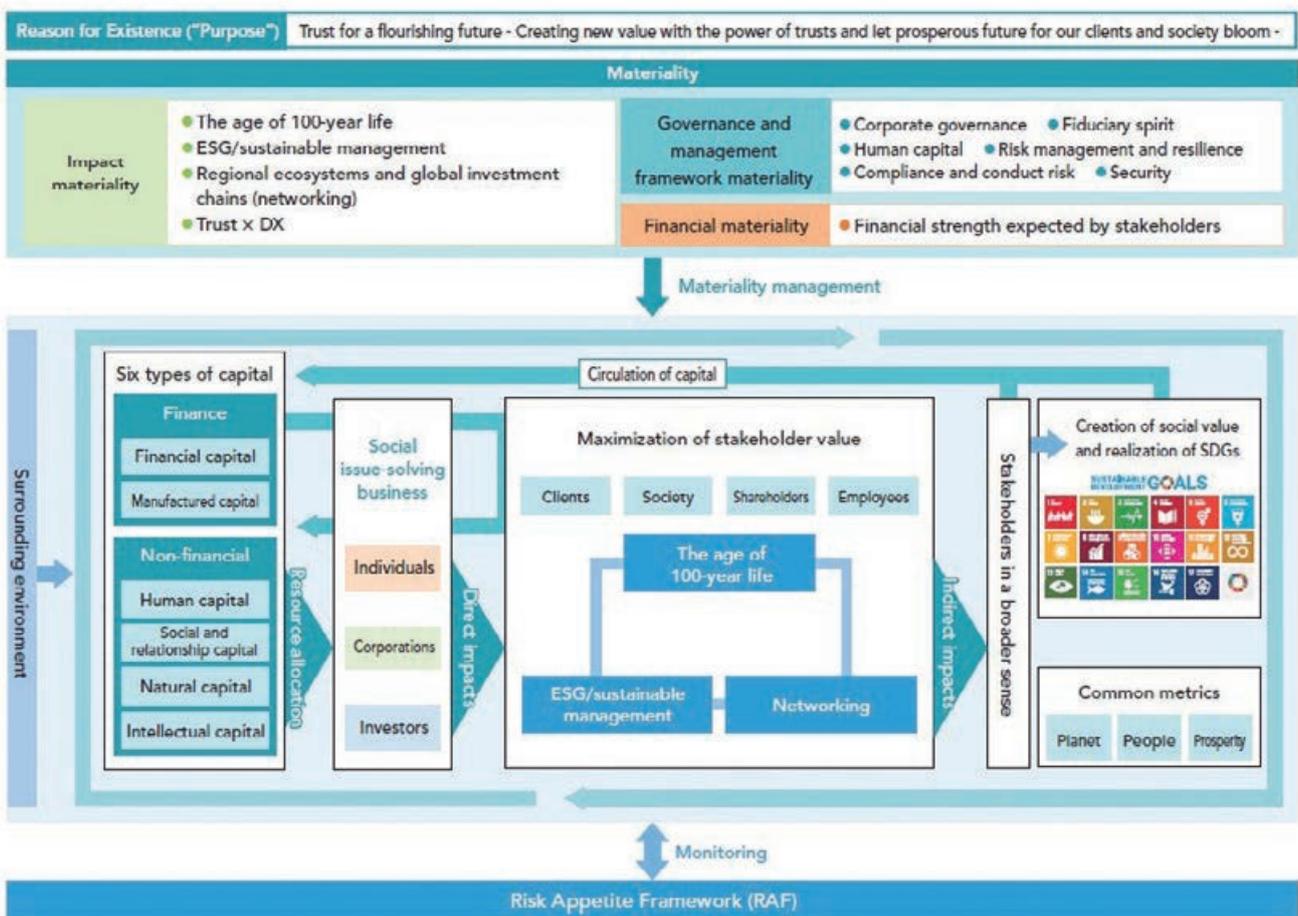
Sumitomo Mitsui Trust Group's Value Creation Process and Materiality

The Sumitomo Mitsui Trust Group defines its purpose as “Trust for a flourishing future—Creating new value with the power of trusts and let prosperous future for our clients and society bloom” and places “balanced creation of both social value and economic value” at the core of its management.

The mechanism of balanced creation of both social value and economic value is structured as a value creation process, with critical issues influencing medium- to long-term value creation identified as materiality. Materiality is categorized into three types: (1) Impact Materiality, which encompasses elements of our corporate activities that affect the economy, society, and the environment (positive/negative impacts); (2) Governance and Management Framework Materiality, which supports impact materiality and influences the core of value creation; and (3) Financial Materiality, which directly affects financial performance.

Figure 1: Sumitomo Mitsui Trust Group's value creation process

Value Creation Process



(Source: Sumitomo Mitsui Trust Group's "Integrated Report 2025," page 23)

Figure 2: Sumitomo Mitsui Trust Group's materiality

Classification	Definition	Materiality
Impact Materiality	Items in which the Company's* corporate activities have impacts (both positive and negative impacts) on the economy, society, or the environment. Items that are in a phase where we can take concrete steps toward achieving both social value and economic value.	The age of 100-year life
		ESG/Sustainable management
		Regional ecosystems and global investment chain (networking)
		Trust × digital transformation
Governance and Management Framework Materiality	Non-financial items where environmental or social issues do not immediately affect the Company's corporate value but are likely to affect its finance over the long term, so they are highly defensive.	Corporate governance
		Fiduciary spirit
		Human capital
		Risk management and resilience
		Compliance and conduct risk
Financial Materiality	Items where environmental or social issues affect the Company's finance.	Security
		Financial strength expected by stakeholders

* The "Company" in this diagram refers to Sumitomo Mitsui Trust Group, Inc.

(Source: Compiled by SMTAM based on [Sumitomo Mitsui Trust Group's Integrated Report 2025](#), page 31)

SMTAM's Materiality

As a core subsidiary of the Sumitomo Mitsui Trust Group, we aim for balanced creation of both social value and economic value. To achieve our Vision, we have identified our materiality items in FY2023 through discussions among management, based on the Group's value creation process and materiality.

Figure 3: SMTAM's materiality

	Materiality	Overview
Impact Materiality	The age of 100-year life	In a super-aging society, addressing social issues such as changes in pension and social security systems and extending healthy life expectancy by providing asset management products and services that support a prosperous life and meet the needs of investors both domestically and internationally.
	ESG/Sustainable management	Supporting environmentally, socially, and governance-conscious management at investee companies to address challenges such as climate change, biodiversity, resource recycling and the circular economy, and pollution of air, water, and soil.
	Global investment chain	Strengthening the investment chain and providing investment opportunities through collaboration with leading international players.
	Digital transformation (DX)	Aligning IT strategies with management strategies to achieve a virtuous cycle of funds, assets, and capital through the power of DX.
Governance and Management Framework Materiality	Corporate governance	Establishing a management framework for balanced creation of both social value and economic value.
	Fiduciary spirit	Realizing the best interests of our clients.
	Human capital	Securing, promoting, and building a workforce with diverse values. Creating an environment where individuals can leverage their value and strengths while being physically and mentally healthy, empathizing with the Group's purpose, and fostering mutual respect for diversity.
	Risk management and resilience	Ensuring sound management and sustainable growth through precise identification of risk conditions and necessary measures, supporting revenue generation through risk-taking aligned with management strategies.
	Compliance and conduct risk	Adhering to market rules, internal regulations, and broader societal norms. Ensuring that the actions of executives and employees do not breach professional ethics or fail to meet stakeholder expectations of trust, thereby avoiding adverse impacts.
Financial Materiality	Financial strength expected by stakeholders	Security
		Maintaining financial soundness, achieving sustainable growth, and securing stable revenues.

(1) Impact Materiality

■ The Age of 100-Year Life

The age of 100-year life is considered a foundational materiality item that underpins our Purpose. We address social issues in a super-aging society, such as changes in social systems and extending healthy life expectancy, by providing asset management products that support a prosperous life. Specifically, we offer financial products through various channels, including investment trusts via sales companies, asset management products for defined contribution pensions, and managing assets entrusted by corporate pensions. Additionally, we promote financial literacy aimed at cultivating future investors by disseminating a variety of investment-related information. In selecting investee companies for asset management products, we also consider the sustainability of the social infrastructure that supports our clients.

■ ESG/Sustainable Management

To address ESG challenges, we focus on investment decisions that prioritize environmental, social, and governance factors at investee companies, as well as on engagement and the exercise of voting rights that emphasize sustainable management. As a responsible investor, we have established a specialized ESG organization to integrate environmental, social, and governance challenges of investee companies and investment opportunities into company evaluations for investment decision-making. Through engagement and the exercise of voting rights with investee companies, we contribute to enhancing their value and promoting sustainable growth, thereby improving fund performance and achieving a balance between solving social issues and generating investment returns. Through this, we fulfill our role as an asset management company within the investment chain, practicing fiduciary duty and meeting social responsibilities. For details, please refer to the sections following “SMTAM’s Stewardship Activities” in this report. Other activities include supporting the Plan for Nurturing a Watershed Forest Together Project by the Tokyo Metropolitan Government Bureau of Waterworks and engaging in water source forest conservation efforts. Through these corporate citizenship initiatives, we aim to increase recognition in the local community and foster employee awareness of contributing to social sustainability.

■ Global Investment Chain

To enhance sustainability on a global scale, we invest in overseas companies and provide investment opportunities to international clients. Our assets under management from overseas investors have remained around 5 trillion yen since FY2023, making us one of the largest domestic asset management companies. We are also strengthening the investment chain through collaborations with leading international asset management companies and participating in various initiatives led by international ESG advocacy groups, expanding our global activities.

■ Digital Transformation (DX)

To further enhance and expand our asset management operations, we are introducing highly connected asset management systems and building a robust technology utilization framework. Internally, we have established a training program for developing digital talent and are promoting the use of generative AI to align IT strategies with management strategies.

(2) Governance and Management Framework Materiality

■ Corporate Governance

Establishing a management framework is essential to achieving our Vision. We have adopted a company structure with an audit and supervisory committee, where independent outside directors with diverse backgrounds make up the majority of the Board of Directors. Additionally, we have established voluntary Advisory Committee that includes external experts. Through annual evaluations of the Board’s effectiveness, we are continuously enhancing our governance system to build a framework suited to creating a prosperous future.

■ Fiduciary Spirit

To realize the best interests of our clients, it is essential to establish an effective framework for practicing fiduciary spirit. The Company has developed a product governance system to deliver superior products to our clients. This includes monitoring frameworks at both the product formation and post-formation stages. We continuously enhance this system by incorporating external expert opinions and adhering to regulations to pursue higher levels of client benefit realization.

Through training and internal communication initiatives, we deepen employee and officer understanding of fiduciary duty and strive to implement client-oriented business operations.

■ Human Capital

As an asset management company, we recognize the importance of building a talent portfolio centered on expertise to sustainably create corporate value and focus on acquiring, deploying, and developing optimal talent aligned with our management strategies. We also strive to enhance human capital by promoting Diversity, Equity & Inclusion (DE&I), recognizing diverse experiences and expertise, and fostering asset management practices suited to the times.

■ Risk Management, Resilience, Compliance, Conduct Risk, and Security

Risk management challenges are becoming increasingly complex each year. The Company implements an action plan for risk management that balances offensive and defensive measures: securing profits through strategic risk-taking while improving resilience against unforeseen circumstances. This includes adapting to domestic and international compliance requirements, managing conduct risks across all levels, and continuously reviewing and enhancing system risk management frameworks in response to the latest cyber threats.

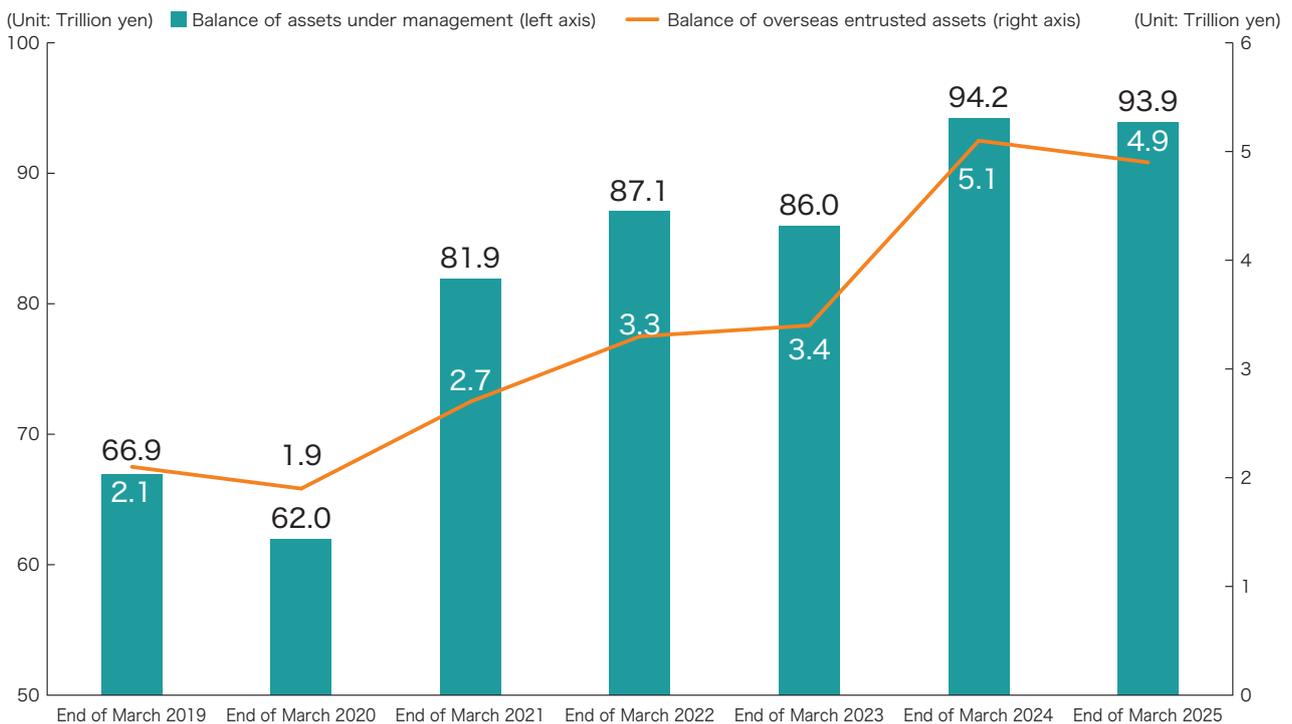
(3) Financial Materiality

Asset management companies must establish a financial foundation to sustainably provide value to society over the long term by achieving stable and sustained growth in the balance of assets under management and revenues based on long-term strategies. We aim to strengthen our financial health to meet the expectations of all stakeholders—clients, employees, and shareholders—as we work toward realizing our Vision.

■ Results of Business Initiatives, Including Responses to Materiality/Trends in Business Scale as an Asset Management Company

Since integrating the asset management functions of Sumitomo Mitsui Trust Bank, Limited in October 2018, we have steadily expanded its balance of assets under management and overseas entrusted assets through business development that incorporates responses to identified materiality. Although temporary fluctuations may occur due to market conditions at the time of evaluation, overall growth has been solid.

Figure 4: Balance of assets under management and overseas entrusted assets



Corporate Governance Framework

As one of Japan's largest asset management companies, we strive to pursue our clients' best interests and fulfill our role as a responsible investor. To this end, we adhere to Sumitomo Mitsui Trust Group's corporate governance principles and work to enhance our governance framework.

Sumitomo Mitsui Trust Group's Approach to Corporate Governance

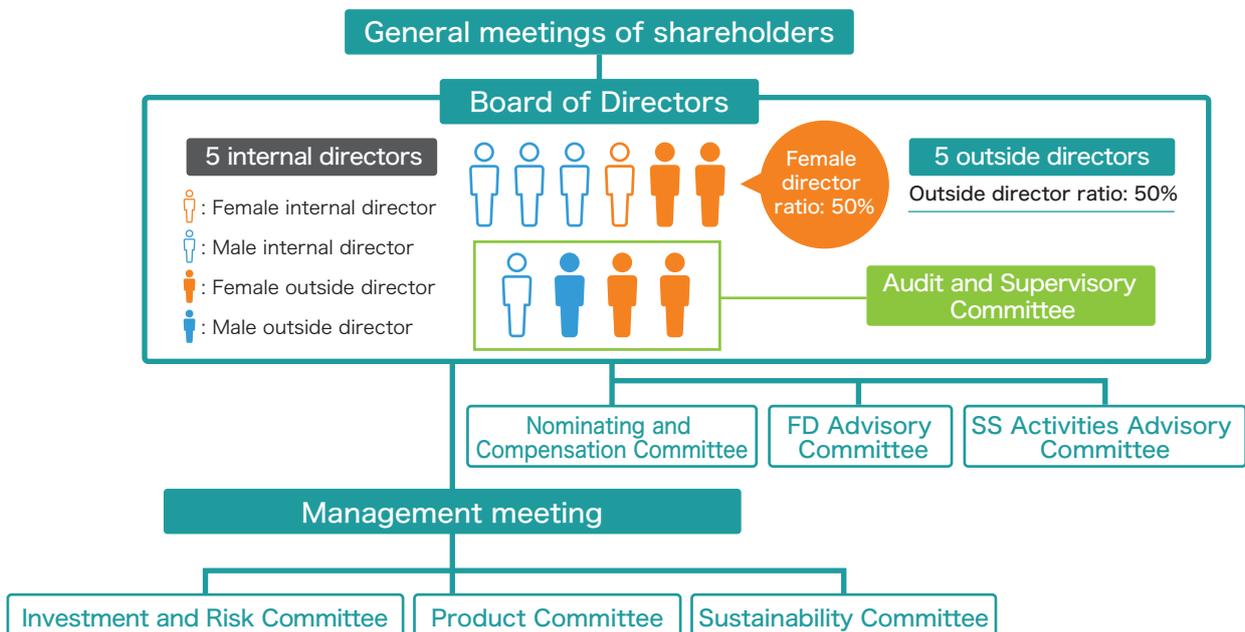
The Sumitomo Mitsui Trust Group has established a corporate governance framework tailored to its various business models, such as banking, asset management, and asset administration. To achieve sustainable growth and enhance the Group's medium- to long-term corporate value, the Group is committed to improving corporate governance based on the following fundamental principles.

Sumitomo Mitsui Trust Group's Basic Philosophy

- We (Sumitomo Mitsui Trust Group, Inc., hereinafter the same in this table) shall respect shareholder rights, and endeavor to develop an environment in which shareholders can exercise their rights appropriately and effectively, and to secure the effective equal treatment of shareholders.
- By recognizing the importance of our social responsibilities and public mission, we shall endeavor to appropriately cooperate with our stakeholders, including shareholders, clients, employees, business partners, and local communities, and to develop a corporate culture and climate in which we conduct sound business operations based on a high degree of self-discipline.
- In order to establish a basis for constructive dialogue with our stakeholders, we shall separately set out our Disclosure Policy, and endeavor to appropriately disclose corporate information, including non-financial information, and ensure the transparency of our corporate management.
- As the financial holding company that assumes the corporate management function of the Group (Sumitomo Mitsui Trust Group), we shall adopt the institutional design of the Company with a Nominating Committee, etc. and, by separating the execution and monitoring of business, shall endeavor to ensure the Board of Directors' role of effective monitoring.
- We shall engage in constructive dialogue with our stakeholders in order to contribute to sustainable growth, as well as the medium- to long-term enhancement of our corporate value.

(Source: Compiled by SMTAM based on [Sumitomo Mitsui Trust Group's Corporate Governance](#))

Figure 1: Corporate governance framework



■ Board of Directors

- The Board of Directors deliberates and decides on key management policies and other important matters based on Group policies established by the holding company, and oversees their execution.
- Of the ten directors, five are independent outside directors with diverse backgrounds, including experience in asset management, investment banking, executive roles at major IT corporations, and the legal profession. The Board of Directors' diversity is also reflected in its composition, which includes two foreign directors and five female directors. By incorporating diverse perspectives and extensive experience, we aim to drive the Company's growth and innovation.
- Since FY2022, we have continuously conducted evaluations of the Board of Directors' effectiveness as part of efforts to improve and enhance its operations. We also continue to strengthen governance by allocating more time for discussion of key management policies and other important matters.
- As a company with an audit and supervisory committee, we have appointed three outside directors and one internal director as Audit and Supervisory Committee members, with an outside director serving as chair, ensuring independence and objectivity in the audit framework.
- Additionally, the Nominating and Compensation Committee, the Fiduciary Duty (FD) Advisory Committee, and the Stewardship (SS) Activities Advisory Committee have been established under the Board of Directors, with outside directors and members appointed to these committees. These committees function with independence and expertise, contributing to a sounder and more transparent management framework.

Nominating and Compensation Committee

Provides advice and recommendations on matters related to executive appointments and compensation, taking into account the business characteristics of an asset management company. To enhance transparency and governance, the majority of committee members are outside directors.

FD Advisory Committee

Provides advice on the appropriateness of business operations under the FD Action Plan and submits recommendations to the Board of Directors. A majority of the committee members are external advisers, ensuring an independent structure.

SS Activities Advisory Committee

For more details, please see "[Conflict of Interest Management for Stewardship Activities.](#)"

■ Management Meeting

- The management meeting discusses and decides on important matters related to business execution, based on the basic management policies established by the Board of Directors.
- Members of the management meeting include the Representative Director and directors and executive officers designated by the President. They utilize their expertise and experience to formulate various strategies, plans, and measures.
- Under the management meeting, we have established the Investment and Risk Committee, Product Committee, and Sustainability Committee to support business execution grounded in the deep expertise of an asset management company.

Investment and Risk Committee

Discusses and decides on policies related to investment strategies, key matters concerning risk management, and various monitoring activities.

Product Committee

Discusses and decides on matters related to the establishment and redemption of investment trusts, as well as various monitoring activities.

Sustainability Committee

Plans and monitors all sustainability-related activities in asset management, aiming to advance stewardship activities, such as engagement, exercise of voting rights, and ESG considerations in investment decision-making.

SMTAM Executive Roundtable

SMTAM's Sustainability from the Perspective of Outside Directors

Outside Director
Yoshinori Inoue



Outside Director
Royanne Doi



Managing Executive Officer
Yuji Shiomi



Asset Management Company and Sustainability

Shiomi: What do you think sustainability should mean for asset management companies, whilst it becomes an unavoidable issue for all economic entities to pursue sustainable economic development while giving due consideration to the global environment and social issues?

Inoue: For asset management companies, maximizing investment returns on the assets entrusted by our clients is the ultimate challenge and goal. To achieve this, it is essential to focus on enhancing the value of the companies in which we invest. From an investor's standpoint, an asset management company should focus on supporting value enhancement through constructive dialogue, which we call engagement, with investee companies. While there may still be room for debate regarding the extent to which ESG initiatives directly contribute to the medium- to long-term value of a company, it is clear that ignoring environmental and social issues and focusing solely on sustainable economic growth carries significant risks including litigation. This approach is not the best choice for companies as well as asset management companies which invest in them.

Doi: As asset management companies seek to encourage investee companies to change their own behavior through engagement and the exercise of voting rights, it becomes necessary to establish responsible initiatives and governance structure as a company itself, and to take solid responsibility toward all stakeholders. In that sense, I believe it would be a positive step to reposition the Board of Directors as the final decision-making body for sustainability matters, and to rebuild our governance framework for sustainability as an asset management company, including defining our corporate materiality. This has led to enable us to become a signatory to the UK Stewardship Code, one of the few asset management companies in Japan.

Shiomi: While we have found the emergence of diverse values regarding sustainability in the U.S., how do you think we should respond to this situation?

Inoue: For example, U.S. banks have been withdrawing from the NZBA, an international



Managing Executive Officer

Yuji Shiomi

organization of financial institutions committed to achieving net zero greenhouse gas emissions across their investment and lending portfolios, due to concerns about litigation risks and the loss of business opportunities in the U.S. market. While it is important to compare the benefits and risks, based on the knowledge available at this point, I believe that we should avoid acting with a short-term perspective, and instead take a medium- to long-term perspective, considering the importance of promoting sustainability. In other words, we believe that avoiding greenwashing—which temporarily and superficially mimics ESG principles—and taking sincere actions that capture the essence of environmental, social, and governance issues is the key to sustainability.

Doi: In the U.S., there has been a significant backlash not only against climate change issues but also against the promotion of diversity, and anti-globalization and anti-intellectualism movements have become prominent. However, this does not necessarily mean that the majority of Americans support this trend, and there are also significant divisions in political and social issues. Since these issues are systemic in nature, I believe that we should maintain our stance as an asset management company that prioritizes sustainability, without being influenced by the actions of other competitors, and instead taking a medium- to long-term perspective.

Strengths and Weaknesses as an Asset Management Company

Shiomi: We believe that our strengths lie in our comprehensive capabilities, including active investment based on robust stewardship and research activities, as well as the quality of our index investment. On the other hand, could you point out what our weaknesses are?

Inoue: As a subsidiary of a trust bank, we provide comprehensive asset management services based on the trust bank's business, leveraging our comprehensive asset management capabilities cultivated over many years in areas such as pension fund management. On the other hand, due to the high weight of institutional investor business in Japan, profitability is relatively low, and I feel that the company has not been able to sufficiently develop its in-house asset management capabilities and product development capabilities, which are necessary to develop some flagship businesses. It is necessary to further refine and enhance our sustainability-focused perspective, including the stewardship activities we have accumulated to date, while clearly identifying and developing profitable areas of expertise as an asset management company.

Doi: While enhancement of core investment capabilities would be essential, I believe it is necessary to strengthen marketing capabilities and establish the company's brand power. While effectively utilizing inorganic strategies*¹, I believe it is also integral to break away from the image of a passive investment company affiliated with a trust bank by expanding market share in new markets and developing quality investment products.

Shiomi: As an asset management company with money entrusted by our clients, we require our investee companies to have a strong governance structure. At the same time, as Ms. Doi mentioned earlier, we also need to have a strong governance structure in place within our own company. What are your thoughts on our current initiatives?

Inoue: Corporate governance issues generally include the establishment of governance structures, diversity and independence of outside directors, and evaluation of the effectiveness of the board of directors. I was appointed as an outside director last year, but since October 2022, half of the board members have been outside directors, so I believe that objective discussions are already taking place. In addition, with regard to effectiveness evaluations, we often receive feedback that differs from our initial expectations, which leads us to discover new perspectives. We believe that repeating this cycle will strengthen governance.

Doi: As for female members, four of the eight directors are currently women², and in addition, I am a native English speaker, so I believe we have a high level of diversity. In addition, because of the diverse expertise of the directors, we're able to have very meaningful discussions not only on investment but also in areas such as IT and DX. I believe that the governance structure, diversity, and independence of outside directors are at a good level. What remains is the emergence of younger directors in their 30s and 40s.



Outside Director
Royanne Doi

*1 A management strategy aimed at corporate growth through acquisitions or alliances with other firms.

*2 Discussion held in July 2025.



Outside Director
Yoshinori Inoue

Our Challenges and Keys to the Future

Shiomi: In the investment chain, where value is created through the circulation of funds, it is essential that our officers and employees perform to the best of their abilities in order for our company to become indispensable to society. Could you please advise us on how we can achieve this?

Doi: First, it is necessary to recognize that human capital is the main source of corporate value enhancement. As an asset management business, which is a service industry, each employee's activities will generate added value. We have recently introduced a talent management system. With approximately 700 employees, we aim to utilize the system to better understand individuals' strengths and suitability, thereby supporting their performance and enhancing job satisfaction. However, simply utilizing the system is not sufficient. We also request that executives implement communication that promotes and fosters mutual respect among all employees.

Inoue: We also conduct employee engagement surveys. The results are shared throughout the company, so I hope that everyone will focus on creating a good working environment through open discussions. I'm sure there are some harsh evaluations in the survey results for executives, but the employees are aware of those results. So please don't shy away from them and work

to make the company even better. Human capital is the foundation of corporate strategy and the source of competitive advantage. While discussion caravans, which management-related departments and mid-level/junior employees join based on the survey feedback, are conducted, I believe it is extremely important to share common values such as the company's Value, culture, and the purpose of undertaking work across the company. These activities provide employees with valuable opportunities to learn about management information and understand the approach of management-related departments, so please continue them. Another important issue is promoting the utilization of women and the senior population. I'm particularly concerned about the limited number of women engaged as portfolio managers and analysts.

Shiomi: This fiscal year is the year when we will formulate a three-year medium-term management plan. Top management and the Corporate Planning Department are currently engaged in discussions on the necessary measures to be taken based on our vision for the future. We are also preparing to introduce a new core system. Based on our challenges, I would be grateful if you could suggest for the future of our company, so that we can establish a solid position as a sustainable international asset management company.

Inoue: I believe it is necessary to discuss within our group whether it is possible to achieve the desired scale and profitability as a sustainable international asset management company by extending our existing business model, which is to provide comprehensive asset management services based on the business model of trust banks. As a group, I believe it would be better to review our business allocation in a more strategic manner, including inorganic strategies, and strategically reallocate management resources.

Doi: Our company has a corporate philosophy, materiality, and a vision of our group's value creation process, but I believe it is necessary to establish a brand story in order to share our value proposition more deeply internally and to clearly communicate our brand image to the outside world. Within this framework, I think we need to consider how to incorporate sustainability and materiality.

Fiduciary Duty and Client-oriented Business Operations

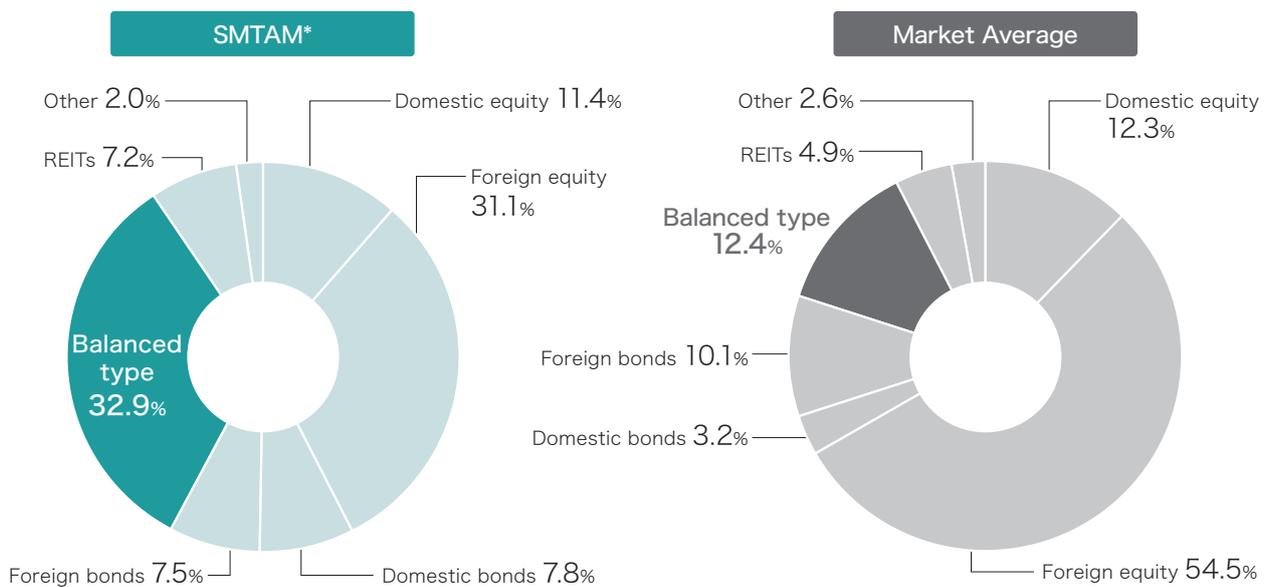
Based on the “Policies regarding the Fiduciary Duties of the Sumitomo Mitsui Trust Group* established by Sumitomo Mitsui Trust Group, Inc.,” we are committed to practicing client-oriented business operations to develop and provide financial products and services that are optimal for our clients. To pursue our clients’ best interests, each officer and employee will continue to demonstrate a high level of professionalism while thoroughly and consistently implementing fiduciary duty (FD) practices.

[* Policies regarding the Fiduciary Duties of the Sumitomo Mitsui Trust Group](#)

The Company has established the FD Promotion Office within Corporate Planning Department to promote initiatives aligned with the “Principles for Customer-Oriented Business Conduct” published by Japan’s Financial Services Agency. An FD Action Plan is formulated each year by business area, and progress is regularly reviewed and updated.

The FD Action Plan is reviewed by the FD Advisory Committee, a consultative body established under the Board of Directors, to ensure its validity and the appropriate execution of business operations. The FD Advisory Committee is structured to ensure independence, with external members forming the majority. We disclose our progress on the FD Action Plan under the title “Policy and Progress on Client-oriented Business Operations” annually. This includes a detailed explanation of our activities over the year and visualized progress using graphs, such as KPIs that measure the implementation and outcomes of client-oriented operations. In line with the adoption of the “Supplementary Principles for Product Governance” published in September 2024, we revised our FD Action Plan. SMTAM will continue to implement its FD Action Plan to provide client-oriented products and services that ensure client satisfaction.

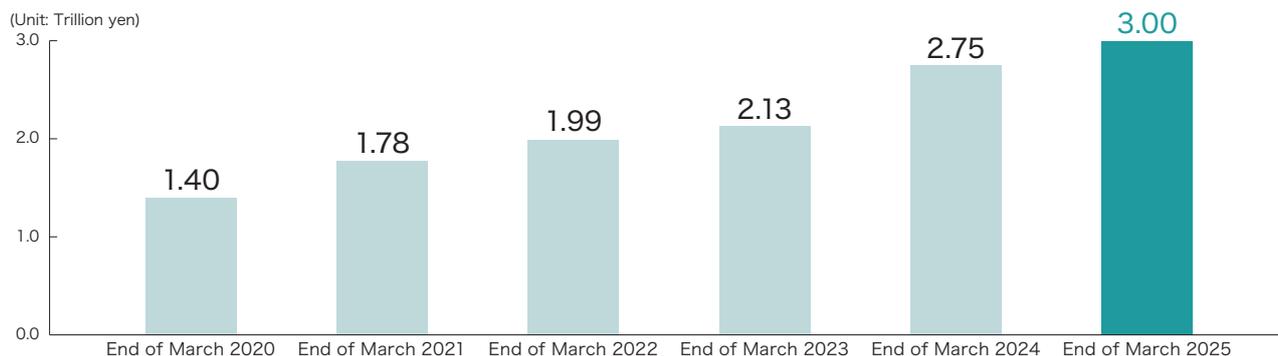
Figure 1: Example of KPI (Proportion of balanced funds in SMTAM’s product lineup)



(As of the end of March 2025)

(Source: The “SMTAM” chart shows aggregated data on equity investment trusts (open and unit-type, excluding ETFs) compiled by SMTAM. The “Market Average” chart is independently calculated and aggregated by SMTAM based on data from the Investment Trusts Association and other sources.)

* Total may not equal 100% due to rounding.

Figure 2: Example of KPI (Trends in balances of products for periodic investment)

(As of the end of March 2025)

(Source: Balance of DC-exclusive funds and My SMT Series calculated and aggregated independently by SMTAM)

Sumitomo Mitsui Trust Asset Management's FD Action Plan

I Advancement of Asset Management

1. Maintain an appropriate asset management framework through the formulation of clear and rational investment policies and the effective implementation of the PDCA cycle.
2. Aim to maximize client benefits through initiatives such as engagement based on Japan's Stewardship Code and ESG efforts.
3. Execute transactions under the best possible conditions for clients.

II Development and Provision of Products and Services to Meet Diverse Client Needs

1. Continue developing and providing asset management products and services that support clients' asset formation by efficiently utilizing expertise, functions, and networks within and outside the Group to meet the increasingly diverse needs of our clients.
2. Implement product governance covering the processes of product formation, provision, and management.
3. Utilize evaluations and feedback from clients and sales companies regarding SMTAM's asset management services to enhance services and strengthen frameworks.

III Client-oriented and Clear Information Provision

1. Continue providing information that supports clients' investment decision through enhanced seminars for clients, support for sales companies, and timely, appropriate updates on market information and trends.
2. Provide explanations that consider product characteristics, risk profiles, and fee transparency to aid clients' investment decisions. Offer understandable information on our investment management and product governance structures that underpin these efforts.

IV Enhancement of Expertise

1. Continuously and sustainably develop professionals in asset management to ensure talent retention and the continuity and reproducibility of investments.
2. Promote understanding and practice of fiduciary duty among all officers and employees.

V Establishment and Strengthening of Governance to Ensure Management Independence

1. Continue building and strengthening frameworks to ensure independence from the holding company and affiliated sales companies.
2. Incorporate recommendations from the Fiduciary Duty Advisory Committee (FD Advisory Committee) in SMTAM's management.
3. Continue enhancing the management of conflicts of interest within the Group, including the exercise of voting rights.
4. Establish a clear policy on the philosophy of product governance to provide clients with better products, and build and implement a product governance framework based on that policy.

Product Governance Framework

SMTAM has formulated its “Product Governance Policy” in line with the “Supplementary Principles for Product Governance” published by Japan’s Financial Services Agency, aiming to deliver optimal investment management services through continuous improvement of product quality. Based on the same policy, we have established a product governance framework in which management accurately grasps the actual conditions of the products we offer and takes responsibility for providing better products to our clients, guided by fiduciary spirit and in pursuit of our clients’ best interests.

We consider product governance from the perspective of whether the products we provide to clients can achieve stable returns in the medium to long term, whether the envisioned management at the time of formation is being implemented and delivering returns commensurate with costs, and whether this management can be sustained. As an asset management company, we have developed an effective verification process to appropriately manage quality at each stage of formation, offering, and management from a client-oriented perspective. We also continue to enhance the clarity of information provided to support clients in making informed investment choices.

Monitoring and Verification

■ Product Formation

Product governance initiatives begin at the product formation stage. SMTAM verifies that products meet client needs, are sustainable over the medium to long term, and are reasonable as financial instruments. Specifically, we check whether product characteristics, schemes, revenue sources, management policies, and various risks are clearly presented to clients, whether excessive risks are avoided, and whether cost levels are appropriate in relation to product characteristics. Depending on product complexity and risk characteristics, SMTAM identifies the appropriate target client segment from the standpoint of clients’ best interests and works closely with sales companies of its products to ensure proper understanding through information sharing and status monitoring.

■ After Product Formation

SMTAM continuously verifies that each product maintains the characteristics assumed at the time of formation. It uses the results to improve or revise products and to review the overall product governance framework, including formation, offering, and management processes. To serve clients’ best interests, the company also leverages information sharing with sales companies to enhance investment management, improve product offerings, and support product development.

■ Monitoring of Management Quality

Fund management is carried out based on investment plans, with the Business Planning Department independently monitoring performance from the investment departments and reporting monthly to the Investment and Risk Committee (chaired by the Executive Officer in charge of the Business Planning Department). Monitoring results and discussion content are promptly fed back to portfolio managers by the heads of investment departments (committee members) and incorporated into fund management.

■ Compliance Monitoring

Risk management and compliance with laws and regulations related to investments are monitored by the Investment Risk Management Department, which operates independently from the investment division and reports to the Investment and Risk Committee. Significant reports from the Investment and Risk Committee are also reported to management meetings.

■ Point-in-Time Verification

To strengthen product governance, we conduct semi-annual verification of all investment trusts under our management. In these verifications, we establish quantitative and qualitative standards, compare with competitors’ funds, and take corrective actions such as revising investment processes or portfolios for funds that fail to achieve expected performance. For funds where improvement is difficult, we implement measures such as revising cost levels or early redemption. We also strive to continuously enhance verification methods to further improve their effectiveness.

Management Involvement

Semi-annual verification results and various product governance initiatives are regularly reported to management meetings to ensure effective management involvement. Additionally, an FD Advisory Committee, including external experts, has been established under the Board of Directors to provide recommendations on the appropriateness of the product governance framework, thereby building an objective oversight structure.

Clear Information Provision for Clients

To enable clients to make better informed financial product choices, SMTAM enhances the explanation and introduction of its investment products while providing easy-to-understand information about its investment management and product governance frameworks. In addition to prospectuses and investment reports, the company has included fund performance and balance trends in monthly reports. Furthermore, SMTAM has strengthened its information dissemination according to fund characteristics, for example, by having portfolio managers explain investment environments and performance on YouTube.

On our website, SMTAM has also created a page that clearly explains its team-based investment approach, emphasizing collaboration between research analysts and portfolio managers and highlighting the company's distinctive strengths underlying each product. The names of the heads of investment divisions are also disclosed.

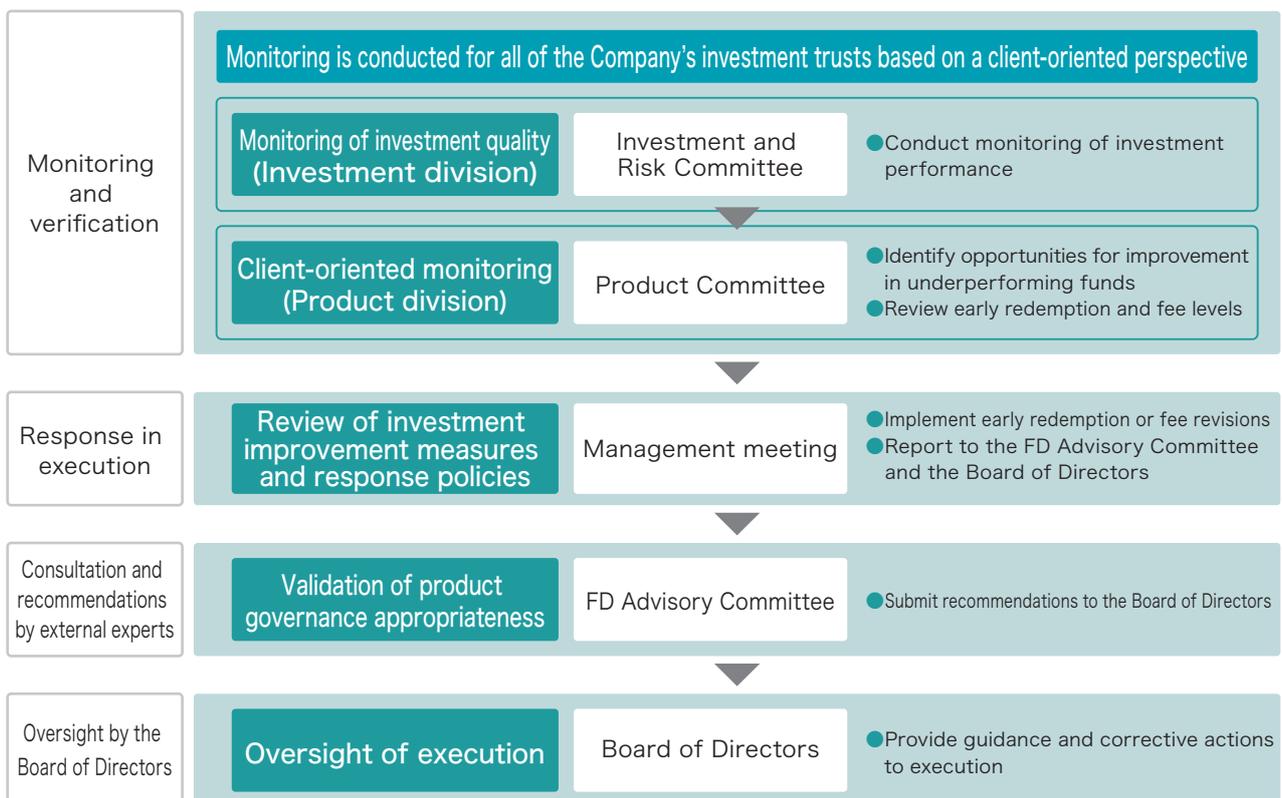
Moreover, the results of annual fixed-point verifications and the Company's product management status are summarized as an overview of the product governance framework and published in the annual report titled Policy and Progress on Client-oriented Business Operations.

Moving forward, the Company will continue advancing product governance to meet client trust and deliver products aligned with their best interests.

Figure 1: Product governance perspectives

Perspectives	Are the products provided capable of delivering stable returns in the medium to long term?
	Is the investment envisioned at the time of formation being executed, and are returns commensurate with costs delivered to clients?
	Can the investment envisioned at the time of formation be sustained?

Figure 2: Product governance framework



Human Capital Management

Our Fundamental Approach to Human Capital Management

To realize our Vision of “Realizing opportunities today to ensure sustainable prosperity for tomorrow,” as outlined in our corporate philosophy structure, we regard human capital as a materiality item and our employees as the Company’s most important asset.

To deliver not only economic value but also sustainably prosperous social value to our stakeholders, it is critically important to foster an environment and corporate culture where employees with diverse expertise, experience, and values can work in a physically and mentally healthy state, fully express their individuality and creativity, and feel a sense of purpose in their work.

SMTAM actively invests in creating such an environment, pursuing a value creation cycle where motivated and engaged employees provide high-quality, innovative services to clients and stakeholders, driving the Company’s growth and increasing corporate value.

SMTAM’s Human Resource Strategy

In a rapidly changing business environment, sustaining the value creation cycle requires building a flexible talent portfolio and recruiting, deploying, and developing the right talent accordingly.

Additionally, aligning these efforts with employees’ individuality, strengths, and personal life or career aspirations fosters a sense of purpose and engagement, allowing them to feel that their growth contributes to the company’s success and societal impact.

SMTAM particularly focuses on human resource development measures, fostering a corporate culture that respects diversity and promotes inclusion. We strive to create a work environment where employees can fully realize their potential and independently develop career plans that leverage their individuality and strengths.

Support for Autonomous Skill Development and Career Formation

We encourage each employee’s autonomous career development while aiming to build a professional workforce with diverse talents, advanced expertise, and rich experience, strengthening our investment in human capital.

■ Support for Skill Development

In addition to offering various training programs to enhance expertise in asset management, SMTAM provides programs designed to improve and acquire business skills. We actively support certifications, offering incentives and exam fee subsidies for qualifications like the CMA (Certified Member Analyst of the Securities Analysts Association of Japan) and CFA (Chartered Financial Analyst certified by the CFA Institute). For the CFA qualification, we subsidize not only exam fees but also reference materials.

■ Support for Career Formation

We are working to improve operational capabilities using IT and digital transformation (DX) and strengthen global business. These are efforts in part to introduce a talent bank system to provide employees interested in acquiring such skills with opportunities for self-directed learning.

For example, in the digital field, we offer programs to dispatch employees to overseas business schools to acquire IT literacy. In the global business field, we conduct various training programs to improve language skills and cultivate a global mindset, provide practical experience in related tasks, and send trainees to overseas offices.

Additionally, we have introduced a night graduate school dispatch program as an opportunity for employees to acquire advanced knowledge and skills in asset management, supporting motivated employees in their challenges. Furthermore, we have established an internal job posting system that allows employees to apply for desired roles, encouraging them to take on new challenges and supporting the realization of their career plans.

Column 1 Internal Job Posting System (Job Challenge) Supporting Proactive Career Development

SMTAM operates an internal job posting system (Job Challenge) to provide talented and hard-working employees with opportunities to take on new challenges, pursue their career goals, make proactive career transitions, and grow together with the company. We also hold an internal event (Job Fair) annually in conjunction with the job posting system, where each department introduces its operations, providing employees with opportunities to deepen their understanding of other departments.

Comments from employees who utilized the internal job posting system

An employee from Stewardship Development Department said that "I was interested in changes taking place in Japan's capital markets and wanted to observe those developments from the perspective of an institutional investor while engaging in initiatives to influence investee companies. That inspired me to take on the challenge through the internal job posting system. After transferring, I've had valuable opportunities to engage directly with companies in areas aligned with my interests, allowing me to learn a great deal and work with a strong sense of intellectual curiosity and fulfillment."

Figure 1: Overview of skill development and career formation support

Tiered training	Training at the time of appointment to managerial or leadership positions to deepen understanding of the roles and expectations required and build a foundation for high-level performance through leadership and management skill acquisition.
Skill enhancement support	Business skill training Training programs are available to acquire and improve business skills such as project management, presentation, process-oriented thinking, and decision-making.
	Specialized asset management skills training We provide opportunities to hone specialized skills in asset management operations, cutting-edge investment techniques, and finance theories through external courses and graduate school dispatch programs.
	Qualification acquisition support system We offer incentives and exam fee subsidies for qualifications like the CMA (Certified Member Analyst of the Securities Analysts Association of Japan) and CFA (Chartered Financial Analyst certified by the CFA Institute). We also provide support for study material costs for the CFA qualification.
Digital talent development	We offer a wide range of digital talent development programs, from acquiring basic IT skills to advanced IT literacy through dispatch to overseas business schools, nurturing talent proficient in AI and fintech to support advanced asset management.
Global talent development	We implement training programs to enhance language skills and cultivate a global mindset, along with providing practical experience in related tasks and trainee dispatch to overseas offices, fostering talent to advance the expanding global business.
Internal job posting system	We operate an internal job posting system allowing employees to apply for desired roles, promoting a spirit of challenge and supporting career plan realization. We also hold in-house events for departments to introduce their operations.

Initiatives to Promote Diversity, Equity & Inclusion (DE&I)

SMTAM believes that promoting DE&I enhances employees' creative potential and fosters our medium- to long-term growth. With this in mind, we strive to cultivate a corporate culture that respects individuality and values diverse talents.



■ Promoting Women's Empowerment and Work-Life Balance

We support the career development of female employees through initiatives such as the introduction of mentorship programs, in-house seminars, and networking opportunities. We have established various systems and support structures to help employees balance work with life events such as childbirth, childcare, and caregiving, enabling them to maximize their potential.

We also promote paternity leave for men by conducting training for managers and in-house seminars on parental leave, fostering a workplace environment that encourages its use.

■ Promoting the Inclusion of Employees with Disabilities

We are committed not only to meeting the statutory employment rate for persons with disabilities but also to expanding employment opportunities based on the belief that enabling individuals with disabilities to demonstrate their individuality and strengths and to work with a sense of purpose as members of our company will further drive our growth and enhance our corporate value.

■ Respect for Human Rights and Promoting Understanding of LGBTQ Issues

Based on the Sumitomo Mitsui Trust Group's human rights policy, SMTAM respects the human rights of all stakeholders involved in our business activities. The human rights policy explicitly prohibits discrimination against LGBTQ individuals. We conduct awareness activities such as workplace training and seminars by external speakers.

Additionally, we participate in the PRIDE Index, operated by Work with Pride, an organization supporting LGBTQ diversity management, and earned a Gold rating in FY2024. To ensure LGBTQ individuals feel safe and supported at work, we actively promote LGBTQ Ally initiatives that encourage understanding and advocacy.

Creating a Comfortable Work Environment

SMTAM prioritizes employee health and work-life balance by fostering a comfortable workplace environment. We enhance work systems and leave policies to promote employee engagement through flexible and diverse working styles.

■ Flexible Work Systems

We have implemented various systems to enable flexible and diverse work styles, such as a remote work system, staggered working hours, and hourly paid leave, which improve productivity and support employees in achieving a work-life balance.

■ Diverse Leave Policies

In addition to annual paid leave, consecutive leave, and refresh leave, we strive to offer accessible leave policies that are easy to use tailored to employees' diverse needs. In particular, we have enriched leave and support systems for those requiring significant time for caregiving or childcare. This creates an environment where employees can work with peace of mind and sustain long-term employment.

Figure 2: Examples of diverse leave policies

Type of leave	Overview
Marriage Leave	Up to five business days of leave may be taken upon marriage.
Childbirth Leave	Up to two business days of special leave may be taken to accompany or assist with childbirth.
Kids' Leave	Up to five business days of special leave annually may be taken for childcare of children up to the start of junior high school, such as medical visits, vaccinations, or school events. Leave can also be taken in one-hour increments.
Caregiver Leave	Up to five business days of special leave annually may be taken to provide care for family members. Leave can also be taken in one-hour increments.
Family Support Leave	Up to five business days of special leave annually may be taken for caring for or attending to family members, including children of junior high school age or older.
Medical Care Leave	Up to six business days of special leave annually may be taken for hospital visits or hospitalization due to long-term treatment or recuperation.
Examination Preparation Leave	Up to two business days of paid leave annually may be taken to focus on studying for external qualification exams.

Column 2 Initiatives to Enhance Internal Communication

SMTAM has launched the “Hitozukuri Kiban Project Team” as a cross-functional initiative to promote internal communication, human resource development, and related activities.

Enhancing internal communication

- Self-introductions cards: To foster mutual understanding, promote communication among employees, and support internal networking, employees create “self-introduction cards” listing their backgrounds and hobbies, which are shared on the Company portal.
- Tea time with the President: To cultivate an open corporate culture, we hold tea time events where employees can select topics they like and engage in casual conversations with the President.
- Internal events: The company organizes accessible and enjoyable events, such as walking events and boccia experience events, to encourage employee interaction and connection.



Human resource development

- In-house study sessions: We host internal seminars led by in-house experts on topics such as “ESG and Sustainability” and “Climate Change.” Recognizing the importance of mutual learning and understanding, we promote company-wide knowledge sharing that transcends departmental boundaries.

Employee engagement

- Family day: Held once a year, this event invites employees’ families to the office to interact with staff and learn about their workplace and work. This event aims to boost employee motivation and strengthen connections among employees.



In addition, the Well-Being Association, a voluntary community formed by employees who helped develop the company’s corporate philosophy, engages in activities aimed at promoting the philosophy and fostering internal communication and unity. Through the use of online tools, the group disseminates internal information and encourages open interaction among employees.

Figure 3: Human capital data

Item	Data	FY2023 results*7	FY2024 results*8
Human resource development	Certified Member Analysts of the Securities Analysts Association of Japan (CMAs)	254 people	255 people
	Chartered Financial Analysts certified by the CFA Institute (CFAs)	20 people	19 people
	Education and training expenses per employee	93,961 yen	71,705 yen
Promoting women’s empowerment and work-life balance	Percentage of female employees	32.2%*1	32.8%
	Percentage of female workers in manager positions	13.8%*2	11.9%
	Gender pay gap	71.1*3	70.7%
	Parental leave utilization rate (men/women)	Male: 63% Female: 100%	Male: 100% Female: 100%
	Average number of parental leave days taken by men	7.0 days	8.0 days
Employment of persons with disabilities	Employment rate of persons with disabilities	2.56%	3.13%
Employee engagement	Engagement score*4	63.6	64.6
	Satisfaction score*5	64.2	62
Health management	Overall health risk*6	82	82
	Proportion of high-stress employees	9.4%	7.9%
Leave and working hours	Average number of paid leave days taken	17.5 days	23.1 days
	Average overtime hours	21 hours 18 minutes	18 hours 59 minutes

*1–3: Actual values updated following revision of employee categories.

*4, *5: In the employee engagement survey, “Engagement” measures motivation and enthusiasm for work, while “Satisfaction” assesses a sense of fulfillment in work, both evaluated on a 100-point scale. A score of 60 is considered the benchmark for passing.

*6: The average score for a standard population is 100, and lower scores indicate better results.

*7: As of the end of March 2024.

*8: As of the end of March 2025.

Enhancement of Financial Literacy

Developing Future Investors

We aim to create an environment where many people can contribute to society through investment and experience genuine prosperity.

We believe that experiencing a sense of achievement in investment activities and the dynamism of a capitalist economy is essential to broadening investors' long-term perspective and cultivating proactive initiative.

The Financial Literacy Promotion Office provides financial information in a variety of formats, creating opportunities for more people to begin investing and broadening the base of investors.

■ Hosting Onsite Financial Lectures for Elementary, Junior High, and High School Students

Between 2022 and 2024, we conducted 21 onsite financial lectures, attended by approximately 1,700 students. The lectures convey concepts such as the "positive cycle of capital," where invested money benefits society through companies and contributes to individuals' lives and the environment, along with practical fundamentals of investment. In 2024, 820 students participated, representing a 41% increase from the previous year (581 students in 2023). In 2025, we are expanding our initiatives by adding a new segment to the existing two class programs and beginning to offer sessions for high school and university students.

Elementary and junior high school students: Two class programs

Learn about Investment for the Future!
The relationship between investment, society, and SDGs

Key Points

- ▶ Understand the importance of money for the future and ways to earn it.
- ▶ Learn how investment can enrich both you and society.
- ▶ Understand how investment supports companies addressing challenges with the SDGs.

(1) SDGs focused program

Duration		Lesson content	Activities and details
Part One	10 minutes	Let's Think about the Importance of Money and How to Earn It ·What can you do to prepare to achieve the future you want? ·How do you earn money? By working yourself or making your money work for you?	
Part Two	10 minutes	Let's Learn about How Investment Can Enrich Yourself and Society ·What do you think of investing in general? ·Is investing in yourself a form of investment? ·Companies that gain funding through investment enrich both you and society!	■ True-False Quiz
Part Three	20 minutes	Let's Learn about the Connection between the SDGs and Investment ·How do companies with investment funding address societal challenges? ·Let's take a look at real companies tackling real issues!	■ Activity (Use tablets for learning) ■ Presentation
Part Four	15 minutes	Why Do Companies Engage with the SDGs? ·When companies work toward the SDGs, everyone's future improves and the company grows too! ·Real-world examples of companies addressing social issues	■ Experiential learning
Part Five	5 minutes	Today's Summary ·Investment brings joy and prosperity to everyone.	

FY2025 NEW

Learn about Investment for the Future!
Investment methods and risks

Key Points

- ▶ Understand the importance of money for the future and ways to earn it.
- ▶ Learn how investment can enrich both you and society.
- ▶ Gain knowledge about basic investment products and their risks.

(2) Basic investment focused program

Duration		Lesson content	Activities and details
Part One	10 minutes	Let's Think about the Importance of Money and How to Earn It ·What can you do to prepare to achieve the future you want? ·How do you earn money? By working yourself or making your money work for you?	
Part Two	10 minutes	Let's Learn about How Investment Can Enrich Yourself and Society ·What do you think of investing in general? ·Is investing in yourself a form of investment? ·Does investment in companies enrich you and society and help solve SDG issues?	■ True-False Quiz
Part Three	20 minutes	Practices of Growing Companies ·What areas are attracting attention right now? Growing markets and their backgrounds ·Examples of companies thriving in growth markets	
Part Four	15 minutes	Let's Learn How to Invest in Companies ·Learn about stocks, bonds, and investment trusts. ·Learn about the risks of investment.	
Part Five	5 minutes	Today's Summary ·Investment brings joy and prosperity to everyone.	

FY2025 NEW

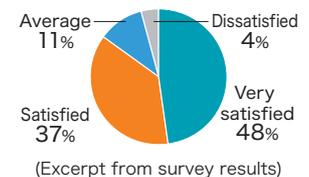
Enhancing SMTAM's Recognition and Gathering Direct Feedback on Investment Through External Collaboration

Collaboration with SBSL* of Aoyama Gakuin University

Our collaboration with SBSL*, a volunteer student organization from Aoyama Gakuin University's School of Business, entered its second year in 2024, during which we again conducted an asset management lecture and workshop. Building on last year's theme, "methods to make investment common for Gen Z," this year's program took a more practical approach as students explored the steps leading up to starting investment. More than 30 students participated in both the online lecture and the in-person event. Assuming they would invest using NISA, students learned to (1) develop a money plan, (2) select financial institutions, (3) understand how to utilize NISA accounts, and (4) gain knowledge and skills on investment types, management styles, and product selection. In the workshop, many students proactively used advanced filters in investment trust search tools to select investment products. The students demonstrated strong skills and enthusiasm for learning. During the workshop, groups compared their chosen investment trusts with trending products on social media, engaging in lively discussions about their differences.



Q. How satisfied were you with today's event overall?



* School of Business Student Leaders (at Aoyama Gakuin University)

Participation in the Ministry of Education, Culture, Sports, Science and Technology's Children's Kasumigaseki Tour Day program

In 2024, SMTAM participated in the Ministry of Education, Culture, Sports, Science and Technology's annual August event, "Children's Kasumigaseki Tour Day," by providing an on-demand educational program.



(Mascot character: Raku-kun)



(From the video "Learn about Investment for the Future!")

We provided a video titled "Learn about Investment for the Future!" featuring our Financial Literacy Promotion Office's mascot character Raku-kun, aimed at elementary and junior high school students nationwide. The video gently explains to children the importance of money and how investment can bring prosperity.

Promotional Activities Utilizing Web Content

Hosting a Collaborative Seminar with Sankei Shimbun

In July 2024, we co-hosted an online seminar with Sankei Shimbun Co., Ltd. focused on how beginner investors can make use of NISA. The seminar drew 44 participants ranging in age from their 20s to 60s. Post-seminar surveys showed that many participants found the explanations on age-based asset allocation and product selection based on investment styles, particularly memorable. Many participants also expressed a desire to learn practical asset management suited to their life stage, demonstrating strong participant engagement and interest.

Participation in "Tosho Mane-Bu" Operated by the Japan Exchange Group (JPX)

We have participated as a supporting company in the column website "Tosho Mane-Bu," operated by JPX to promote financial literacy among the general public, contributing articles continuously since 2020. "Tosho Mane-Bu" provides a wide range of finance-related columns for beginner investors, and we utilize our professional expertise to deliver clear and practical information.

Our desire is to help as many people as possible understand the importance of investment through these activities and help people find companies they want to support, and support these companies through investment activities.

We believe that by continually communicating the appeal and potential of investing through initiatives to promote financial literacy, more people will resonate with our mission, participate in investing, and help solve many of society's challenges.

Information Transmission Activities

Alongside direct dialogue with individual companies as part of our stewardship activities, we also actively participate in international conferences, symposia, and other events, including collaborations with global initiatives. Through these efforts, we engage in communication and initiatives with the aim of enhancing our international presence as one of Asia's largest asset management companies.

■ First Annual Meeting of the Japan Asset Management Forum: (then) Representative Director and President Yoshio Hishida

On October 3, 2024, the first annual meeting of the Japan Asset Management Forum*¹ was held, organized by the Financial Services Agency (FSA) and Bloomberg. The meeting opened with a video message from Prime Minister Ishiba, followed by remarks from the Minister of State for Financial Services and a keynote speech by the Commissioner of the FSA. Subsequent panel discussions covered themes such as the Emerging Managers Program (Japan's EMP), alternative investments, transition finance, Japanese equities as an investment destination, and gender diversity. Our then Representative Director and President Yoshio Hishida joined the panel discussion on promoting EMP, where he introduced initiatives by the Sumitomo Mitsui Trust Group and discussed the importance of building a sustainable asset management ecosystem that fosters the growth of emerging managers.



*¹ The Japan Asset Management Forum was established based on the "Japanese government's Policy Plan for Promoting Japan as a Leading Asset Management Center," announced in December 2023. It serves as a key dialogue platform among domestic and international market participants, with the involvement and collaboration of relevant business operators, primarily asset management firms, to promote Japan as an asset management hub and international financial center. In addition to being a member of the forum, we have participated since its inception as part of the preparatory committee.

■ FinCity.Tokyo's Sustainable Finance Forum: Representative Director and Chairperson David Semaya

On October 4, 2024, our Representative Director and Chairperson, David Semaya, delivered the opening remarks at the "Tokyo Sustainable Finance Forum 2024." The event was part of Tokyo Sustainable Finance Week, hosted by the Organization of Global Financial City Tokyo (branded as FinCity.Tokyo)*², and the core week of Japan Weeks*³ organized by the Japanese government.

"Sustainable finance is a vital means of building a sustainable future, and its continued development is increasingly necessary. Our Group company, Sumitomo Mitsui Trust Bank, Limited, was the first in Japan to engage in 'transition finance' in 2021. Through the exchanges at this forum, we hope to generate new ideas and partnerships," he stated.



*² FinCity.Tokyo was established in April 2019 as part of the Tokyo Metropolitan Government's "Global Financial City: Tokyo" Vision. Its mission is to enhance Tokyo's appeal as a financial market and position it among the world's top international financial centers. Sumitomo Mitsui Trust Group, Inc. is a participating member.

*³ Japan Weeks is an annual event, held since 2023, designed to promote the appeal and potential of Japan's financial markets to overseas financial institutions and investors.

■ Seminar on Natural Capital Hosted by the Indonesia Stock Exchange (IDX): Global Initiative Fellow Seiji Kawazoe

On February 18, 2025, Seiji Kawazoe, Global Initiative Fellow of our Stewardship Development Department's ESG Research and Development Office, participated as one of three representatives from IPDD*⁴ in a seminar on natural capital hosted by the Indonesia Stock Exchange. He explained the outline of TNFD disclosure*⁵, the scale of forest-related risks in Indonesia's financial sector, and the desired scope and indicators for disclosure. A representative from Indonesia's largest power company also presented an overview of its published TNFD report.

*⁴ IPDD (Investors Policy Dialog on Deforestation) was established in July 2020 as an initiative to promote policy engagement with governments around the world on forest conservation. Our Company has participated since its inception.

*⁵ TNFD disclosure refers to the framework established by the Taskforce on Nature-related Financial Disclosures, which issued its final recommendations in September 2023, outlining standards for companies to disclose risks and opportunities related to natural capital.



Kawazoe: Third from the left

■ Participation in Other International Exchange Events

● Japan's Financial Future: Elevating Asset Management (Event hosted by Bloomberg in New York on September 23, 2024)

Our then Representative Director and President, Yoshio Hishida, participated alongside the heads of major asset management firms from Japan and the United States. Then Prime Minister Kishida also attended the event and delivered a speech.

● Connectivity and Competitiveness: Perspectives from Europe (PPI*⁶ Summer Roundtable held in Amsterdam, July 10 to 12, 2024)

Our Representative Director and Chairperson, David Semaya, participated in the discussions, which covered European trade, investment, geopolitical developments, and future potential as an investment destination.

*⁶ PPI (Pacific Pension & Investment Institute) is a non-profit organization established in 1998 and based in San Francisco, USA. It is composed of asset owners of major pension funds, asset management companies, and investment professionals, and serves as a platform for dialogue and knowledge sharing on issues faced by long-term institutional investors in Asia and the broader Asia-Pacific region.



Addressing Climate Change Issues

Climate change is one of the most critical environmental issues threatening the sustainability of the global economy and society. In recent years, the impacts of climate change, including global warming, frequent extreme weather events leading to natural disasters, and biodiversity loss, have become increasingly severe. These changes significantly affect the economy and society, posing a threat to a sustainable future. Amid these developments, there has been a rapid rise in interest in addressing climate change issues among individuals, nations, and companies worldwide.

The asset management industry is no exception, with a growing responsibility to contribute to the realization of an environmentally conscious society through investment activities. As an asset management company, we recognize that we must not only manage the important assets entrusted to us by our clients but also actively address climate change issues that we are expected to tackle in today's era as part of our business operations.

The Sumitomo Mitsui Trust Group, under its common principles (action principles) known as the Action Guidelines for Mitigating Climate Change, appropriately recognizes the risks and opportunities posed by climate change. The Group is committed to minimizing negative impacts and maximizing positive impacts through its diverse trust banking business.

Figure 1: Sumitomo Mitsui Trust Group's Action Guidelines for Mitigating Climate Change

1. Implementation of Measures and Support to Help Mitigate Climate Change
In addition to actively taking measures to reduce greenhouse gas emissions in our own business operations, we are making efforts, as a corporate citizen, to support activities that mitigate and adapt to climate change.
2. Provision of Products and Services
We are working on developing and providing products and services that help mitigate climate change. Our financial functions are being leveraged to promote energy conservation and encourage the use of renewable energy.
3. Collaboration with Stakeholders
We engage in dialogue and cooperation with our stakeholders as we work to mitigate climate change.
4. Education and Training
We will ensure that these guidelines are fully implemented at group companies, and will actively conduct education and training to mitigate climate change.
5. Information Disclosure
We will actively disclose information related to our efforts to mitigate climate change.

(Source: Compiled by SMTAM based on [Sumitomo Mitsui Trust Group's Action Guidelines for Mitigating Climate Change](#))

SMTAM also considers the impact on the sustainability of investment target companies while implementing climate change initiatives internally. We believe that small, incremental efforts are critically important in today's era, contributing to the sustainability of the entire industry and fulfilling our responsibility to the future of a society as a whole.

Figure 2: Our approach against climate change issues

1. Promoting Climate Change Measures Through Dialogue with Investee Companies
While advancing our internal initiatives, we leverage our influence as an asset management company to encourage investee companies to address sustainability and climate change. We believe that every additional initiative, no matter how small, contributes to a sustainable future for the planet.
2. Enhancing Energy Efficiency in Office Operations
We aim to improve energy efficiency in office operations by introducing energy-saving equipment and transitioning to renewable energy sources. We utilize LED lighting and motion sensor lighting.
3. Promoting Digitization and Paperless Operations
By digitizing internal documents such as reports and meeting materials, as well as external documents like contracts and prospectuses, we reduce paper usage and contribute to forest conservation. We are also transitioning to delivering client reports digitally via email and online portals.
4. Supporting Green Procurement and Greening Projects
We recommend green procurement for office supplies to help curb deforestation. Additionally, we actively participate in and support greening projects to help preserve the environment locally and globally. For more details, please refer to the social contribution activities described on the right page.
5. Raising Awareness Among Employees
Alongside the initiatives above, we properly manage, recycle, and dispose of office waste, including paper waste, to raise employee awareness about the importance of addressing climate change even through the smallest of actions at the Company.
6. Measuring and Reporting Greenhouse Gas Emissions
Regarding greenhouse gases, identified as a primary cause of global warming, we regularly measure emissions from office operations and strive for continuous improvement. The Sumitomo Mitsui Trust Group aims to achieve net-zero CO ₂ emissions (Scope 1 + 2*) by 2030. SMTAM is also working to reduce greenhouse gas emissions within this framework.

* Scope 1: Greenhouse gas emissions from fuel combustion by companies

Scope 2: Greenhouse gas emissions from electricity usage by companies

Scope 3: Greenhouse gas emissions from purchased goods and services, transportation and distribution, employee travel and daily commutes, and the use of sold products

Social Contribution Activities

■ Collaboration with the Tokyo Metropolitan Government on the Conservation and Cultivation of Water Conservation Forests

On July 1, 2019, SMTAM endorsed the Plan for Nurturing a Watershed Forest Together Project by the Tokyo Metropolitan Government Bureau of Waterworks and signed an agreement for the Tokyo Waterworks - Corporate Forest (Naming Rights)*1 initiative.

A dedicated area of 3.01 hectares of forest, which serves as a water source for the Ogouchi Reservoir (Lake Okutama) and is 2.4 times the size of the Tokyo Dome's field area, has been named the SMTAM's Forest, where we carry out conservation activities for the water conservation forest upstream of the Tama River. This initiative contributes to four of the 17 SDGs: (3) Good health and well-being, (4) Quality education, (15) Life on land, and (17) Partnerships for the goals.

Each year, as part of new employee training, our officers and staff receive an explanation from the Tokyo Metropolitan Government Bureau of Waterworks on the role and objectives of water conservation forest activities. Under the guidance of members of the Tokyo Prefectural Forest Owners' Cooperative, participants engage in activities such as site preparation, planting, and undergrowth clearing (Photo). We will continue these activities to conserve local water and forest resource and contribute to achieving the SDGs through biodiversity conservation.

*1 This initiative involves agreements with participating companies, granting naming rights to sections of the water conservation forest. Funds from these companies are used by the Bureau of Waterworks for conservation and cultivation, ensuring proper management of water conservation forests into the future.



Photo: Conservation activities at the SMTAM's Forest



■ Creation of a Mascot

Young employees created a mascot symbolizing the rich water conservation forest and the bright future of its water, represented by raindrop and leaf motifs. The mascot was named Tamutama-chan, combining "Tamu" from SMTAM and "Tama" from the Tama River.



■ Making of Smartphone Stands Using Wood from Forest Thinning

We made smartphone stands using wood from thinning the water conservation forest. These stands feature illustrations of the original character Tamutama-chan and were distributed to all officers and employees. With the rise of online meetings during the COVID-19 pandemic, these stands have seen some heavy use.



■ Registered as a Tokyo Green Biz Collaboration Partner

SMTAM is registered as a collaborative partner for Tokyo Green Biz*2, an initiative promoted by the Tokyo Metropolitan Government. Based in Tokyo, we support the goals of Tokyo Green Biz to protect, nurture, and utilize Tokyo's greenery, and we actively promote various initiatives to realize a greenery city and disseminate the results of these initiatives.



*2 A project looking 100 years ahead, aiming to evolve Tokyo into a "sustainable city in harmony with nature" with the participation of residents, businesses, and other stakeholders

Internal Control

■ Corporate Governance and Internal Control

Corporate governance refers to the framework that ensures fair, prompt, and decisive decision-making, with the primary aim of maintaining management transparency for a wide range of stakeholders, including clients and shareholders, and achieving sustainable corporate growth and medium- to long-term value enhancement. Internal control, meanwhile, is the set of processes embedded in operations and carried out by all members of the organization to ensure operational effectiveness and efficiency, reliability of reporting, compliance with laws and regulations related to business activities, and the safeguarding of assets.

■ Our Basic Policy, Structure, and Management of Internal Control

Under the management framework of the Sumitomo Mitsui Trust Group, our Board of Directors has established a basic policy covering the systems necessary to ensure that directors perform their duties in compliance with laws, regulations, and the Articles of Incorporation, as well as systems required to ensure appropriateness of SMTAM's operations, as outlined in the following figure. Each fiscal year, we conduct a self-assessment of the structure and operation of our internal control system, including consideration of whether revisions to the basic policy are necessary, and report the results to the Board of Directors and shareholders.

■ Verification Results of the Internal Control System in FY2024

In FY2024, we examined the structure and operation of our internal control system and confirmed that it was functioning effectively across all areas, with no need to revise the basic policy. Necessary reports were submitted to the Board of Directors and shareholders accordingly.

Figure: Key items and development status of the basic policy on internal control

Development of a compliance framework	See "Compliance Framework" below for details.
Development of risk management system	See "Risk Management System" below for details.
Development of an operational execution framework	Establishment of management meetings, organizational and authority regulations, and compliance of internal rules with laws and regulations.
Ensuring management transparency	Internal control over financial reporting and proper management of business-related information.
Development of a management framework for subsidiaries and affiliates	Establishment of compliance frameworks and risk management systems for subsidiaries and affiliates, verification of intra-Group transactions under the arm's length principle, regular reporting on operational and financial status, and oversight of the appropriateness and efficiency of their business operations.
Development of systems to ensure proper operations within the Sumitomo Mitsui Trust Group	Promoting the sharing of issues and challenges across the Group.
Development of an information preservation and management framework	Preparation and retention of minutes for important meetings and establishment of basic rules for information storage and management.
Development of an internal audit framework	Establishment of an internal audit department and implementation and reporting of internal audits.
Development of an audit framework under the Audit and Supervisory Committee, etc.	Establishment of an Audit and Supervisory Committee Office to support the committee's functions, reporting by directors, executive officers, and employees (including those of subsidiaries) to the committee, and cooperation to ensure the effectiveness of committee audits.

Compliance Framework

■ Overview

We regard strict compliance as one of the most important management priorities and have established the “Compliance Rules” as our basic policy on compliance. The Board of Directors oversees the establishment of our compliance framework, while the management meeting deliberates and decides on key matters, including those related to compliance resolutions and reports to the Board of Directors.

In addition, we have established a Compliance Department as an independent division responsible for Company-wide compliance oversight. Under this framework, the Compliance Department oversees all compliance-related activities, including formulating and monitoring the progress of the “Compliance Program”—our annual implementation plan for company-wide compliance promotion activities—updating regulations, implementing initiatives and providing guidance, addressing issues, and enhancing training systems.

Furthermore, each department has an internal control coordinator who works in cooperation with the Compliance Department to implement and oversee department-specific compliance initiatives.

Figure: Roles of each organizational body

Board of Directors	Considers rigorous compliance a top management priority and oversees the establishment of the compliance framework.
Management meeting	Discusses and decides on important matters, including compliance-related resolutions and reports to the Board of Directors.
Compliance Department	Oversees company-wide compliance through activities such as developing and monitoring the “Compliance Program,” updating internal regulations, implementing initiatives and providing guidance, and improving training programs.
Departmental internal control coordinators	Collaborate with the Compliance Department to implement and oversee compliance initiatives within each department.

■ Initiatives to Enhance Compliance Awareness

To enhance compliance awareness, the Compliance Department has established a “Compliance Manual” for officers and employees, and also produces supplementary materials such as the “Compliance Handbook,” which summarizes key points of the manual, and the “Quick Compliance Guide,” which highlights important compliance topics. The department continuously conducts compliance education and training. Each fiscal year, e-learning training programs on timely compliance-related topics are provided to all officers and employees.

While the Compliance Department takes the lead in planning Company-wide training sessions, internal control coordinators in each department also conduct departmental training and provide daily guidance to strengthen and reinforce compliance awareness. The Compliance Department also provides regular training sessions for internal control coordinators.

To gauge the effectiveness of these initiatives, we conduct a Group-wide employee awareness survey every year. The results of the compliance-related items in the Group-wide employee awareness survey conducted in FY2024 indicated a favorable level of awareness.

■ Hotline System

We require all officers and employees to report any violations of laws or regulations related to Company operations, and have established a Compliance Hotline System that allows them to report directly to internal or external contact points. The system ensures full protection for whistleblowers and provides simple reporting channels, such as telephone and web-based systems. Additionally, the Sumitomo Mitsui Trust Group operates an Accounting Hotline for reports related to accounting irregularities or deficiencies in accounting procedures and audits within the Group.

Risk Management System

■ Basic Policy for Risk Management

Our risk management policy is to ensure sound operational management, secure profits, and support sustainable growth through risk-taking aligned with our management strategy. This involves accurately identifying, evaluating, monitoring, controlling, and mitigating risks, as well as evaluating advancements in these risk actions, through a series of activities, as well as implementing necessary measures to address risks. Crisis management is also critical. We have established a business continuity plan (BCP) with regular training to mitigate and avoid risks during crises. Furthermore, we aim to enhance operational resilience to minimize the impact of business interruption caused by unexpected events (e.g., cyberattacks or natural disasters) from the client's perspective by establishing comprehensive frameworks for business processes, including outsourced operations.

■ Risk Categories

Risks that should be managed are categorized by cause, and each risk is appropriately managed according to its characteristics.

(1) Fund management risk

Credit risk, market risk, and funding liquidity risk

(2) Operational risk

Business processing risk, system risk, information security risk, legal & compliance risk, conduct risk, human resource risk, reputational risk, and event risk

■ Risk Management Framework for Sustainability

Sustainability-related risks are defined as factors arising from medium- to long-term challenges in environmental, social, economic, and governance domains that act as risk drivers. They exert cross-cutting impacts on the existing risk categories mentioned above, potentially causing adverse effects on SMTAM or influencing our stakeholders in ways that could negatively impact them. We establish specific risk management policies for sustainability, including climate change, by considering the impact of international norms on environmental and social issues, as well as material issues in environmental, social, economic, and governance areas, on our value creation activities from a medium- to long-term perspective.

We identify "ESG and sustainability-related risks" as one of our top risks. Under a risk scenario where inadequate responses to or disclosure of sustainability-related risks, including climate change, could lead to a loss of stakeholder trust, we have strengthened monitoring of stewardship activities, including responses to key external environmental changes such as domestic and international regulatory trends and the actions of industry peers. Furthermore, we actively engage with investee companies and manage our exercise of voting rights appropriately in accordance with client guidelines.

In managing sustainability-related risks, we address opportunities and risks concerning sustainability challenges by aligning with materiality and employing two key risk mitigation strategies: an action strategy to adapt our organization to environmental changes and an engagement strategy to address issues through communication with stakeholders. The sustainability-related risk management framework is periodically reviewed to incorporate new insights, practices, internal and external trends, and stakeholder perspectives.

● The Three Lines of Defense Model

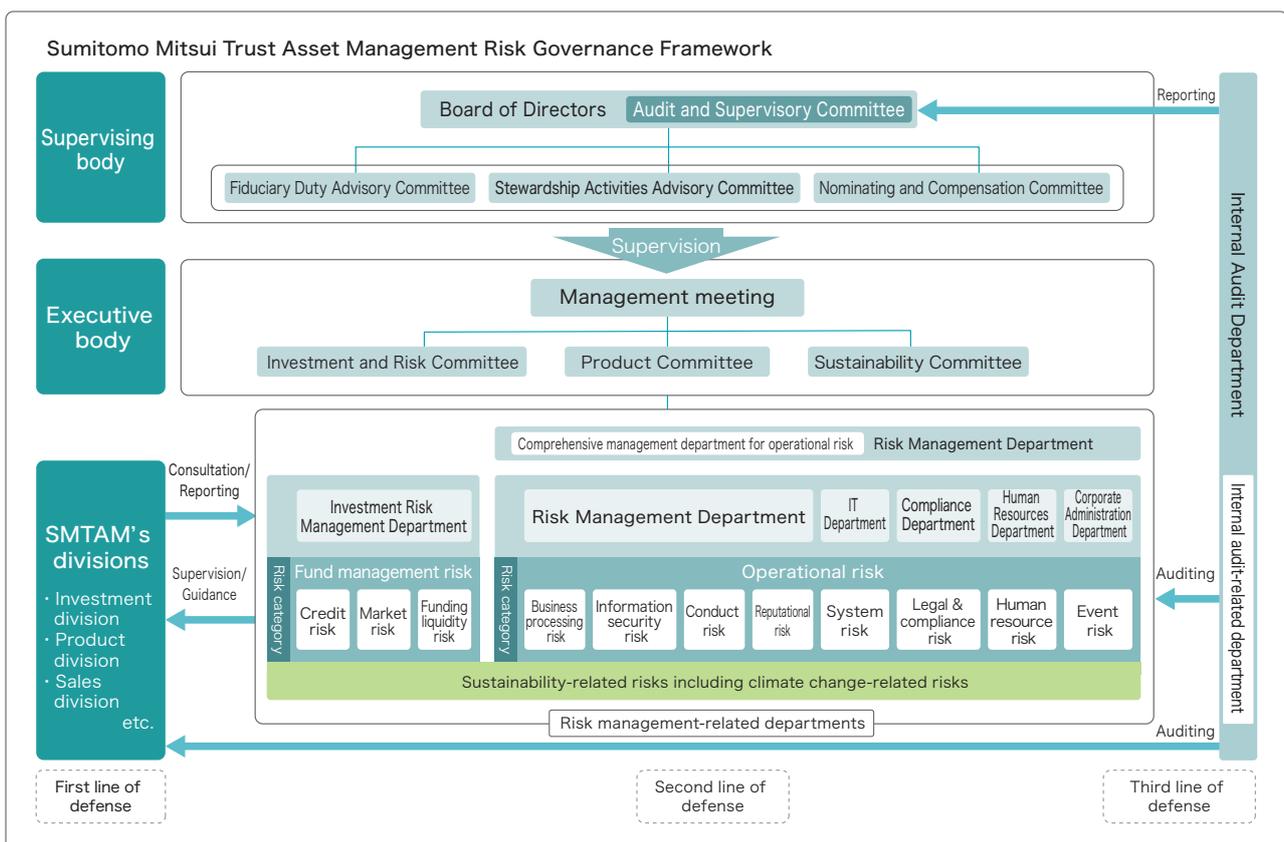
The Three Lines of Defense model, implemented across all risk management processes, is also applied to sustainability-related risks, including climate change risks. The first line of defense consists of departments directly conducting operations. They are tasked with understanding sustainability-related risks faced by stakeholders, including clients and employees, from a medium- to long-term perspective. Additionally, they

collaborate with stakeholders to identify responses to these risks (engagement) and explore opportunities related to sustainability, focusing on product development and expanding the client base. Departments take the lead in risk-taking, risk identification, risk evaluation, and risk control, based on our risk appetite and policies for climate change risks. They also report the status of risk management operations to the second line of defense. The second line of defense establishes management policies for sustainability-related risks, formulates risk management plans, and reports to the management meeting. Operating independently from the first line, the second line of defense monitors, checks, and advises on the first line's identification, evaluation, and control of sustainability-related risks while also supporting their control activities. The third line of defense operates independently of the first and second lines and conducts internal audits to assess the effectiveness of the sustainability-related risk management framework.

● **Monitoring by the Sustainability Committee**

The Sustainability Committee deliberates and monitors stewardship activities related to asset management. The committee conducts quarterly monitoring of the integration of ESG factors, including climate change risks, into investments. It also oversees and receives reports on specific key external disclosures related to stewardship activities, such as climate-related and nature-related financial disclosures, ensuring robust governance over these matters. The Sustainability Committee includes members from first-line departments, such as the investment division including the Stewardship Development Department, as well as the second-line Investment Risk Management Department, an independent monitoring unit separate from the investment division. The committee's deliberations are reported, as necessary, to the management meeting, which includes the President and other senior executives, thereby establishing a comprehensive and multi-layered risk management framework company-wide.

Figure: Risk governance framework





Sustainability Report 2025 / 2026

Stewardship Activities



SMTAM's ESG Materiality and Key Activity Items

We have identified 12 key ESG issues as our ESG materiality, which we consider critical for supporting the enhancement of investee value and sustainable growth. These material issues are key factors in assessing ESG at investee companies and in making decisions regarding engagement and the exercise of voting rights. The ESG materiality serves as the foundation for formulating and promoting our stewardship activities.

Figure 1: SMTAM's ESG materiality



Key Activity Items Linked to ESG Materiality

Figure 2: Evaluation process of ESG materiality and key activity items



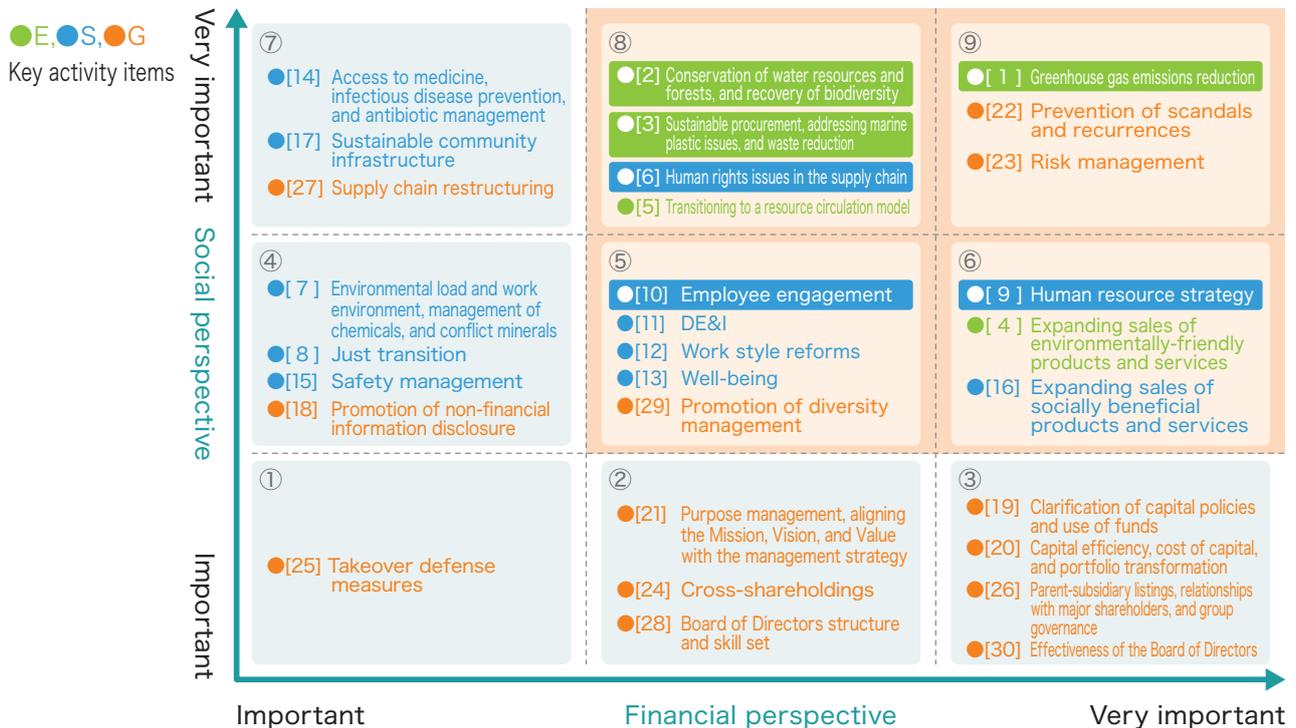
We identify key activity items linked to our ESG materiality. This process extracts, from among all engagement agendas based on our ESG materiality, those that are highly important and should be prioritized from both social and financial perspectives. These items are reviewed periodically based on internal and external information gathering and stakeholder feedback. The results of the July 2024 review are shown in Figures 3 and 4.

Following the U.S. presidential election and change of administration in November 2024, differing perspectives and mixed information on certain ESG materiality and key activity items, particularly climate change (GHG emissions reduction) and human capital (DE&I), have sparked considerable debate. We plan to assess the need for reviewing these representative cases of materiality and key activity items in accordance with our evaluation process (Figure 2).

Figure 3: SMTAM's ESG materiality and key activity items (FY2024)

ESG materiality items		Key activity items	
E	Climate Change	1.	Greenhouse gas emissions reduction
	Natural Capital	2.	Conservation of water resources and forests, and recovery of biodiversity
	Pollution & Waste	3.	Sustainable procurement, addressing marine plastic issues, and waste reduction
	Environmental Opportunities	4.	Expanding sales of environmentally-friendly products and services
S	Human Rights & Community	5.	Transitioning to a resource circulation model
		6.	Human rights issues in the supply chain
		7.	Environmental load and work environment, management of chemicals, and conflict minerals
		8.	Just transition
	Human Capital	9.	Human resource strategy
		10.	Employee engagement
		11.	Diversity, Equity & Inclusion (DE&I)
	Safety & Responsibility	12.	Work style reforms
		13.	Well-being
	Social Opportunities	14.	Access to medicine, infectious disease prevention, and antibiotic management
15.		Safety management	
16.		Expanding sales of socially beneficial products and services	
G	Corporate Behavior	17.	Sustainable community infrastructure
		18.	Promotion of non-financial information disclosure
		19.	Clarification of capital policies and use of funds
		20.	Capital efficiency, cost of capital, and portfolio transformation
	Stability & Fairness	21.	Purpose management, aligning the Mission, Vision, and Value with the management strategy
		22.	Prevention of scandals and recurrences
		23.	Risk management
		24.	Cross-shareholdings
		25.	Takeover defense measures
		26.	Parent-subsidary listings, relationships with major shareholders, and group governance
	Organizational Structure	27.	Supply chain restructuring
		28.	Board of Directors structure and skill set
	Improvement in Governance	29.	Promotion of diversity management
		30.	Effectiveness of the Board of Directors

Figure 4: Current state of mapping the key activity items (FY2024)



Progress Evaluation of Top Priority Items within ESG Materiality and Key Activity Items

For ESG materiality and key activity items of particular importance, we establish long-term (3 to 5 years) and short-term (1 to 2 years) activity plans, and report their progress and future plans to the Sustainability Committee. We also implement a PDCA cycle for selecting key activity items, formulating and executing activity plans, and reviewing and improving them. In fulfilling our mission to maximize returns on clients' entrusted assets and continuing to explore possibilities for a better future while striving to build a truly prosperous society, we will further enhance our stewardship activities through long-term initiatives that take into account changes in the external environment.

Progress of SMTAM's Stewardship Activities

While ESG issues change over time, the response to such issues and the priority on sustainability are constant from our perspective while considering such changes. As a responsible institutional investor that supports Japan's Sustainable Development Goals (SDGs), we are committed to effectively and advancing the balance between solving social issues and gaining a return on investments through our stewardship activities.

2000s

2010s

Broader social trends	<p>2006 Presented the concept of ESG in PRI (Principles for Responsible Investment) for the first time in the world</p>	<p>2015 Adopted the Sustainable Development Goals (SDGs) at the UN (United Nations) Summit</p>
External organization activities	<p>2006 Signed PRI (Principles for Responsible Investment)</p>	<p>2014 Signed Japan's Stewardship Code (SSC)</p> <p>2017 Signed Climate Action 100+</p> <p>2019 Endorsed and Joined the UN Global Compact</p>
Products introduced	<p>2003 Publicly offered investment trusts of Japan equity SRI for individual investors</p> <p>2004 SRI funds to DC (Defined Contribution)</p>	<p>2010 Publicly offered investment trusts of Chinese equity SRI</p> <p>2015 Japan Quality Growth Strategy (Research, ROE Enhancement)</p>
Investment-related initiatives		<p>2015 Introduced MBIS®, a framework for non-financial information assessment</p> <p>2017 Established the Stewardship Department</p> <p>2017 Established the Stewardship Action Plan</p> <p>2017 Issued the industry's first Stewardship Report</p> <p>2019 Revised the Stewardship Action Plan into the Stewardship Policy</p> <p>2019 Introduced the Stewardship Policy</p>
Awards		<p>2019 Received the Best ESG Award from the Tokyo Metropolitan Government</p>

ESG invest

es

stant. Moreover, it will become ever more important to carefully consider and respond from a long-term Stewardship Code and a signatory institution to the PRI, we are committed to capturing these changes through our support for investee companies.

2020s

and TCFD Recommendations
of the TCFD Consortium

stment

2021 Participated in the TNFD Forum

2021 Took part in the Net Zero Asset Managers Initiative

2024 Declared to become a TNFD Early Adopter

2023 Participated as a sponsor in PRI in Person 2023 Tokyo

2024 Participated as a sponsor in PRI in Person 2024 Toronto

2024 Approved as a signatory institution to the UK Stewardship Code

2021 Awarded a mandate from GPIF for the Engagement-Enhanced Passive Investment fund

2021 Listed SMT ETF Carbon Efficient Index Japan Equity

2022 Bloomberg MSCI Global Aggregate Sustainability A+ Index-Linked Setting Fund (Bonds)

2022 High-return, low-beta strategy (Japanese equity, ESG consideration type)

2022 Acquired Article 8 fund certification under the SFDR

al

Development Department

Activities Advisory Committee

Stewardship Report

the ESG Engagement Policy
ESG Investment Policy

ed in-house ESG scoring system

the Tokyo Financial
ESG Investment hosted by
Metropolitan Government

2023 Reorganized the Stewardship Committee into the Sustainability Committee

2024 Published the TCFD/TNFD report (TNFD issued ahead of the industry)

2022 Received Asia Asset Management magazine's Best of the Bests Country Awards (Japan Category) for Best ESG Engagement Initiative

2025 Received the 1st Nikkei Institutional Investor Report Award (Excellence Award)

*Message from the Executive Officer
in charge of Stewardship Development
Department and the General Manager of
Stewardship Development Department*

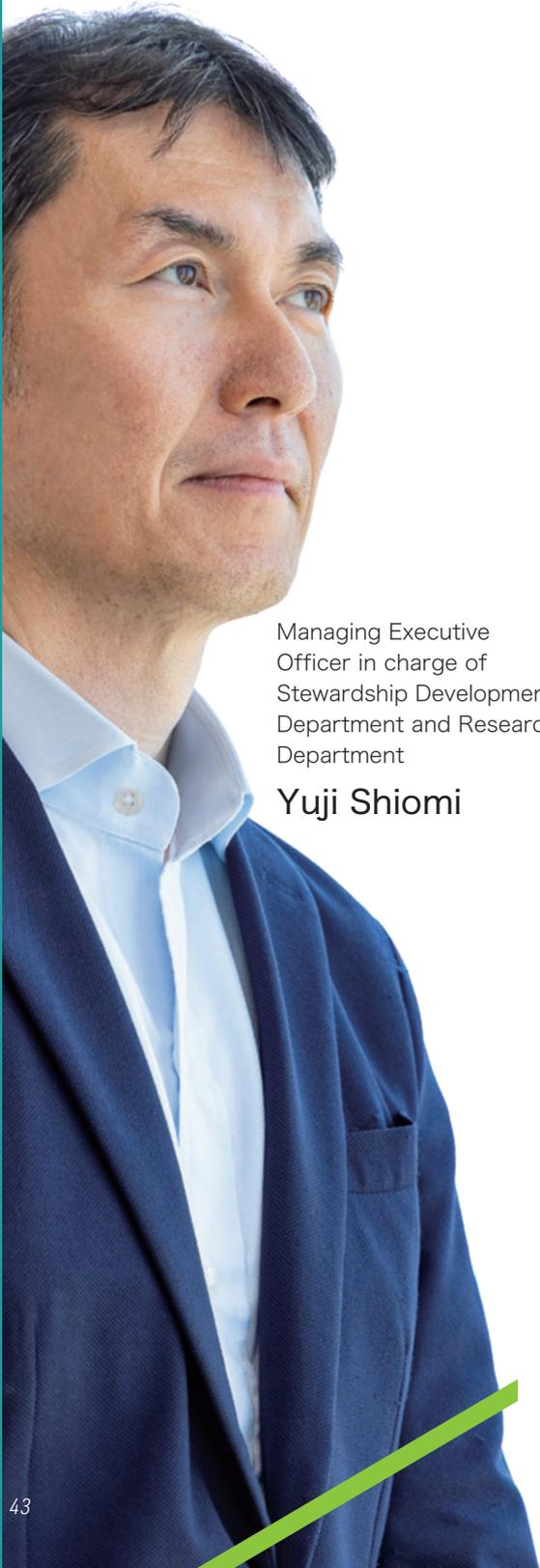
Fulfilling our Stewardship Res Sustainability with a Multifac

Thank you very much for taking the time to read our Sustainability Report.

Recently, there has been a notable rise in the anti-ESG movement, particularly in the U.S. This is driven not only by economic factors, such as the rapid push for decarbonization leading to instability in energy supply, but also by perceptions that ESG promotion represents the imposition of certain values. In Europe as well, we are seeing pragmatic revisions to ESG policies, such as the decision to include natural gas and nuclear power as “transitional measures” within sustainable investment categories.

While the idea that addressing ESG issues and enhancing sustainability is important has taken root among society, companies, and investors in general terms, when it comes to implementation of specific initiatives, various constraints and dilemmas often arise, where a solution to one problem creates another. For this reason, we have long advocated for thinking and acting with a “multifaceted perspective,” and not trying to look through a “single lens.” Now, we find ourselves reaffirming that belief. Companies must reexamine their ESG principles and initiatives to build a sustainable society, developing more realistic and enduring growth strategies. At the same time, asset management companies must provide flexible support for such efforts. As a long-term shareholder, we aim to contribute to the interests of our beneficiaries by continuously and steadily supporting the sustainable growth strategies of our investee companies, thereby helping to expand their corporate value.

Meanwhile, Japan’s Stewardship Code was revised for the first time in about five years. The latest revision stipulates that (1) institutional investors should explain their shareholding status to investee companies and disclose their policy for doing so, and (2) collaborative engagement is also an important option in dialogues with companies.

A portrait of Yuji Shiomi, a middle-aged man with dark hair, wearing a dark blue suit jacket over a light blue shirt. He is looking slightly to the right of the frame with a neutral expression.

Managing Executive
Officer in charge of
Stewardship Development
Department and Research
Department

Yuji Shiomi

Responsibilities by Approaching Diverse Perspectives

At SMTAM, we have already been open to explaining our shareholding status to investee companies upon their request. We have done so in recognition of the importance of information disclosure to investee companies, and our policy on this matter has already been disclosed on our website. We plan to continue this practice, while also closely monitoring development in the ongoing discussions regarding revisions to the Companies Act aimed at establishing a beneficial ownership identification system. Our collaborative engagement began globally following our 2006 signing of the PRI, and in Japan, it gained momentum after we joined the establishment of the Institutional Investors Collective Engagement Forum (IICEF) in 2017. When participating in collaborative engagements, we do so under three conditions: alignment with our ESG materiality, the potential to generate synergies with our own engagement activities, and the expectation of gaining new knowledge. We also actively engage by taking leadership roles within such initiatives where appropriate. In the immediate future, we will be participating as a sponsor of the PRI Annual Conference (PRI in Person) for the third consecutive year, following Tokyo and Toronto. The event is scheduled to be held in São Paulo, Brazil, in November 2025. Through these activities, we strive to stay attuned to global sustainability trends while contributing to the advancement of responsible investment in Japan and worldwide.

These efforts are vital to the implementation of our stewardship activities and enhancement of their quality. As a responsible institutional investor and a trusted partner to investee companies, we will continue contributing to corporate value creation and the advancement of the investment chain.

This is our second publication since transitioning from what was once our Stewardship Report to the Sustainability Report. The section titled “SMTAM's Stewardship Activities” provides a report on our stewardship efforts of the past year, intended to help readers understand our initiatives. This year's edition includes our perspectives on the anti-ESG movement mentioned earlier, as well as content related to our collaborative engagement activities in Japan. We hope this report helps deepen your understanding of our activities.

A portrait of Keisuke Fukunaga, a middle-aged man with glasses, wearing a dark blue suit jacket over a light blue shirt. He is looking slightly to the left of the camera with a neutral expression. The background is a plain, light color.

General Manager
of Stewardship
Development
Department

**Keisuke
Fukunaga**

Value Creation Through Our Stewardship

Investors, their investee companies, and each stakeholder work together based on common values. Sustainable investment benefit household economies, which in turn, leads to the economy as a whole. All of this together is known as the investment chain to support our investee companies create corporate value, leading to maximum returns.



Activities

able returns and increased corporate value along with growth in dividends and wages will ultimately
n as the investment chain. At SMTAM, we actively utilize our role as an asset management company in the
for our clients, while at the same time helping to resolve social problems.

Output

Outputs of stewardship activities

Addressing
ESG issues

Positive actions by
investee companies

Number of engagement
meetings in Japan
Approx. **1,600**

Target exercise of voting rights
for listed companies in Japan
Approx. **1,900** companies

Target exercise of voting rights for
listed companies outside Japan
Approx. **2,700** companies

Number of engagement
meetings outside Japan
410 cases

Maximizing
investment return

Investment chain
enhancement

Increasing
corporate value
for investee
companies

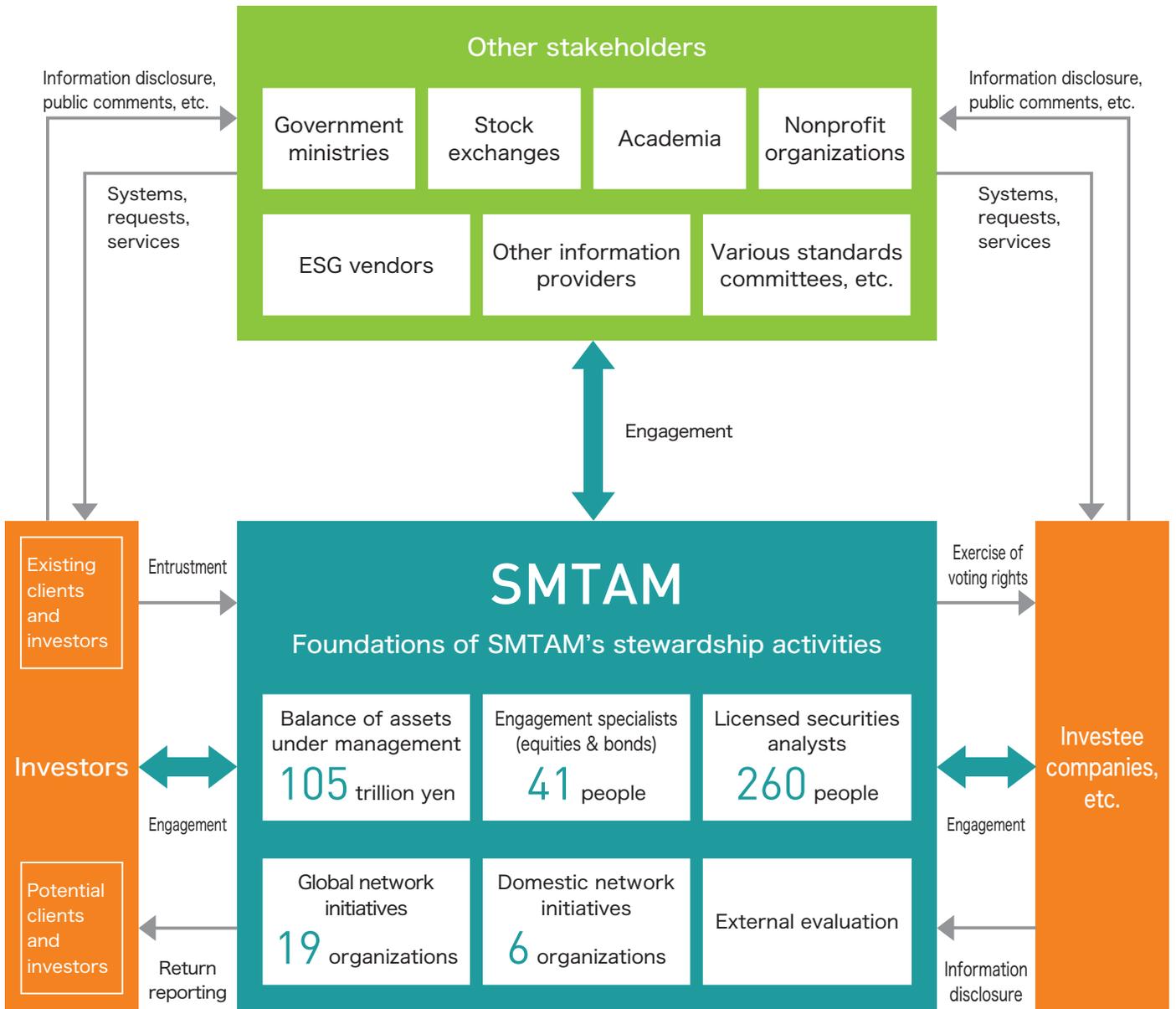
Improving social
value

Increasing the
wealth of
stakeholders



Engagement

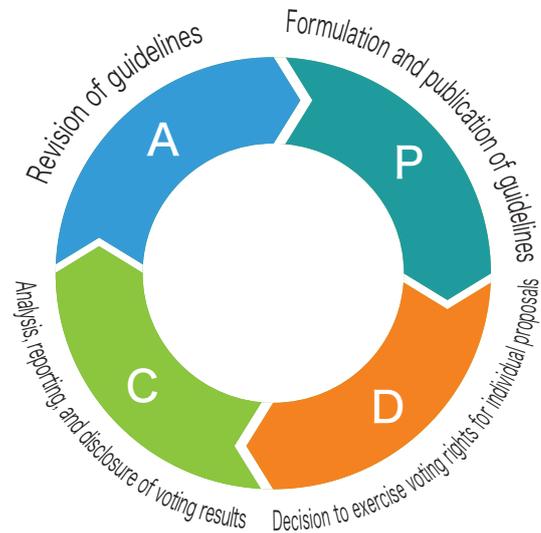
At SMTAM, we view engagement activities as opportunities to seek best practices from investee companies, and we communicate our views so as to contribute to the enhancement of corporate value over the medium to long term. The ESG experts in our Stewardship Development Department work together with industrial corporate analysis professionals in the Research Department to conduct in-depth engagement from both an ESG and business perspective, utilizing our proprietary MBIS® non-financial information assessments. We use our global networks in Tokyo, New York, and London to have our own engagement with investee companies. We also conduct various activities through a wide variety of initiatives and engage with stakeholders outside our investee companies.





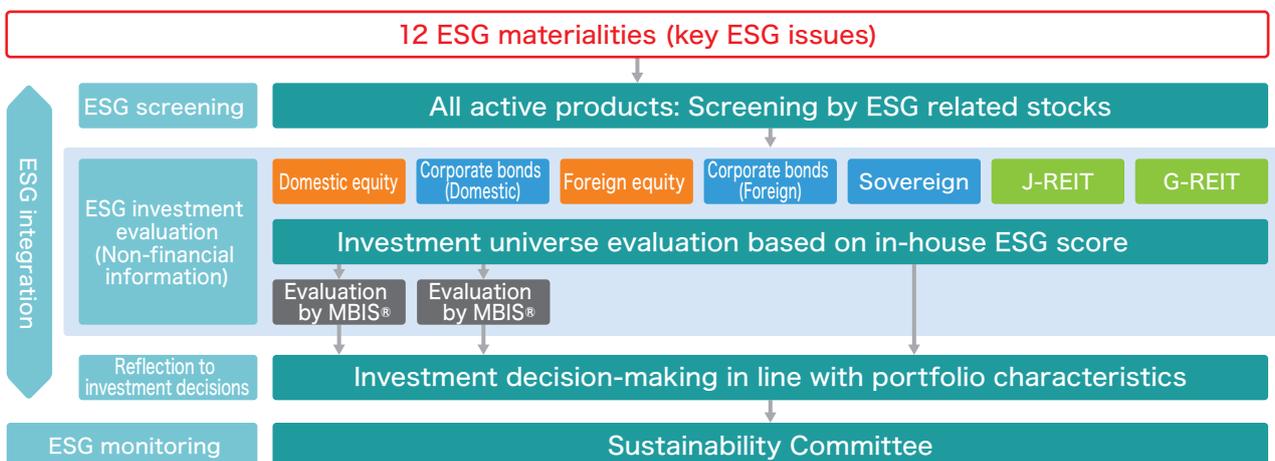
Exercise of Voting Rights

At SMTAM, we view the exercise of voting rights as an opportunity to call for a minimum standard of governance and consider it to be one method of governance-related engagement. We emphasize three key points when exercising voting rights: (1) high-quality governance that respects shareholders' benefit; (2) efficient utilization of shareholders' capital for sustainable growth; and (3) appropriate action in the event an incident occurs that damages corporate value. We disclose our Guideline on the Exercise of Voting Rights based on these criteria. We also take into account engagement with companies when exercising voting rights.



Incorporating ESG Factors into Investment Decision-making

ESG considerations in investment decision-making are one of the three pillars of our stewardship activities as a responsible institutional investor. By encouraging investee companies to address ESG issues, we aim to support their creation of social value (solving social issues and contributing to society) and generation of economic value/profits. Additionally, by factoring this into investments, we aim to maximize the medium- to long-term investment returns for our clients and mitigate downside risks. We believe this is a crucial role of asset management companies within the investment chain.





Changes in the Sustainability Landscape

■ United States of America

Changes in regulations and policies

In the U.S., the rise of diverse values has led to an active movement to scale back or repeal measures related to climate change and diversity, affecting private companies as well.

Regarding climate change, the U.S. declared its withdrawal from the Paris Agreement in January 2025, and in March, the U.S. Securities and Exchange Commission (SEC) halted efforts to implement disclosure regulations for listed companies on climate-related matters. The One, Big, Beautiful Bill Act that was enacted in July included provisions for a gradual reduction of financial support programs for renewable energy. In contrast to the federal government, states such as California plan to introduce mandatory climate-related information disclosures for businesses of a certain size, highlighting policy disparities between federal and state levels.

In terms of diversity, the federal government has abolished diversity, equity, and inclusion (DE&I) initiatives within federal agencies, and has instructed private companies to take appropriate action, citing possible violations of the Civil Rights Act in their DE&I efforts.

Response from corporations

In response, some U.S.-based financial institutions have withdrawn from net-zero alliances, mainly due to concerns over business risks and potential litigation risks, such as antitrust violations. However, most of these institutions have maintained their commitment to supporting companies' transition to clean energy through sustainable finance. Power companies actively expanding renewable energy generation continue to view it as lower-cost and faster to deploy than gas-fired generation, which faces component and labor shortages amid rising structural electric demand from data centers. They have therefore maintained their long-term targets for decarbonized power generation. Furthermore, the support program for carbon capture and storage under the Inflation Reduction Act remains in place, and major energy companies are working to commercialize those projects using existing technologies. Thus, despite policy shifts, companies continue to pursue energy transitions grounded in economic rationality.

Regarding diversity, at the 2025 general meetings of shareholders, shareholder proposals calling for a review of DE&I initiatives drew attention, but most were rejected, with shareholders supporting company policies. While some companies have modified or scaled back DE&I measures, many continue substantive initiatives under alternative terms and strategies, balancing legal risk and political pressure, avoiding explicit use of the term "DE&I." For example, Apple and Costco have both stated their intention to maintain DE&I efforts. Disney has introduced a broader concept called "Talent Strategy" in place of DE&I. The company maintains that recruiting and utilizing diverse talent is vital for creativity and business success, but positions these efforts as part of an overall "talent strategy" rather than diversity as a standalone goal.

■ Europe

Changes in regulations and policies

The 2024 report, The Future of European Competitiveness (known as the "Draghi Report"), pointed out that excessive reporting and information disclosure requirements under sustainability policies are increasing burdens on companies and may reduce global competitiveness. In response, efforts are emerging to balance sustainability regulations and policies with the need to maintain competitiveness. The European Commission has published a "competitiveness compass" in 2025, outlining flexible and pragmatic strategic guidance aimed at enhancing industrial competitiveness and achieving both sustainability and economic growth. For instance, due to the slow uptake of electric vehicles, some automakers have been compelled to reinvest in internal combustion engine vehicles, prompting a relaxation of CO₂ emissions regulations. The rapid expansion of renewable energy has increased pressure on power grids, while

Europe in the U.S. and Europe

demand for fossil fuels remains persistent. To address this, support measures such as subsidies have been introduced to encourage transition. Additionally, the “Omnibus proposals” have been announced to simplify and delay the implementation of key sustainability regulations such as the Corporate Sustainability Reporting Directive (CSRD), Corporate Sustainability Due Diligence Directive (CSDDD), and EU Deforestation Regulation (EUDR).

Response from corporations

Amid these regulatory and policy changes, differences in corporate strategy and adaptability have led to varied business outcomes.

In the food industry, major companies that introduced traceability initiatives early have been able to comply smoothly with regulations such as the EUDR. In the cement industry, some large companies have achieved their GHG reduction targets ahead of schedule and are leveraging environmental measures as new business opportunities to strengthen competitiveness. However, suppliers to these major food and cement companies are struggling with compliance due to resource constraints, leading some to postpone their previously set target achievement dates.

These challenges do not stem merely from a lack of corporate effort but are also heavily influenced by a combination of external factors such as market conditions, consumer demand, and changes in regulatory frameworks.

SMTAM's Response

We view the changes in the sustainability landscape including diversification of values in the U.S. and the regulatory and policy shifts in Europe and the U.S. as opportunities to further advance our stewardship activities. Through our three-pillar framework across Japan, Europe, and the U.S., we evaluate and support companies with consideration for each region's characteristics. We also accumulate insights on topics such as climate change, natural capital, human rights, and supply chain management by participating in global initiatives and gathering information, thereby supporting companies in their transition efforts.

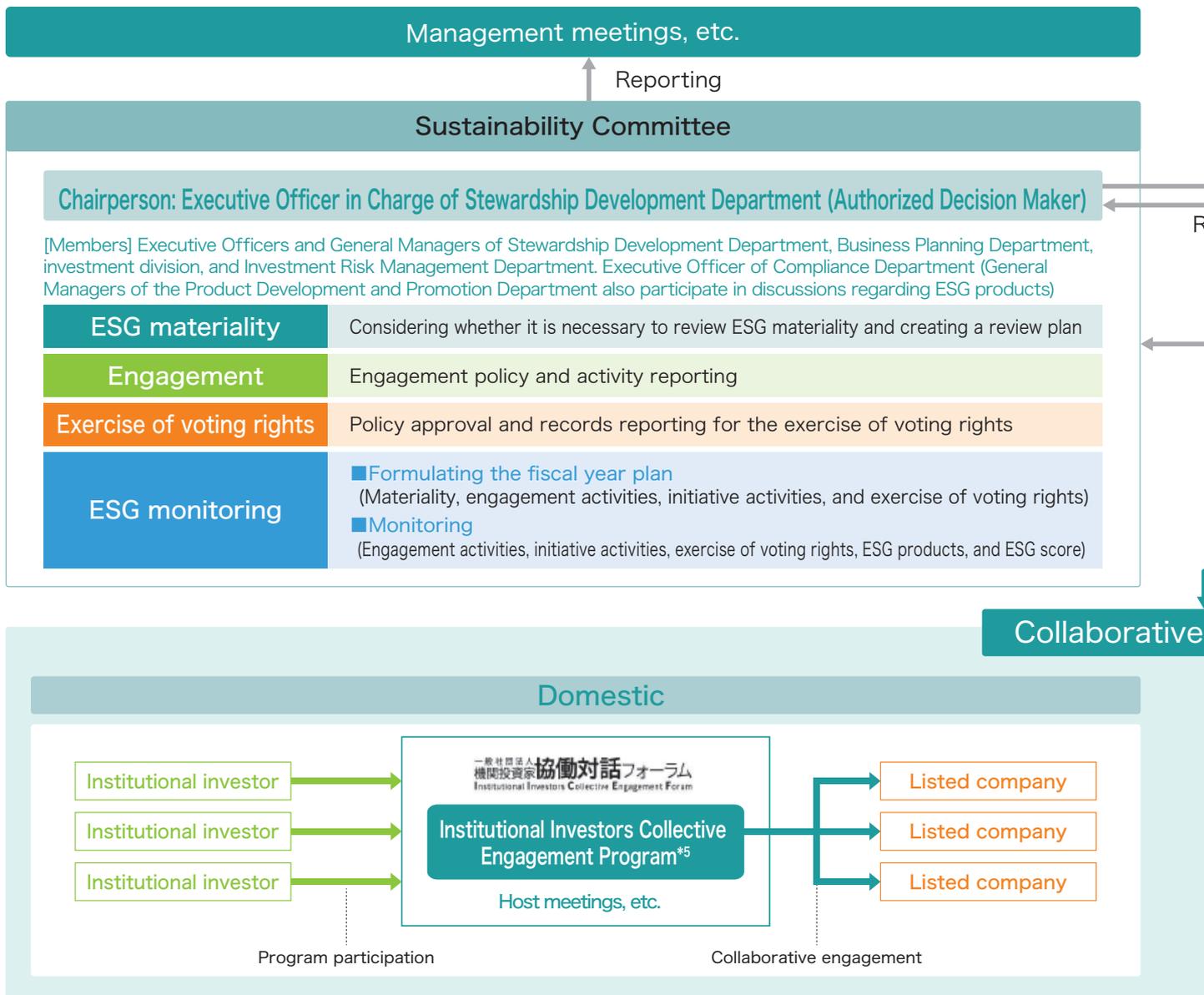
In the U.S., companies have become more cautious about declaring ambitious climate targets, making it more difficult to clarify their commitments. However, we do not believe this necessarily indicates a retreat from climate action. We believe companies will maintain their substantive efforts, including those in DE&I, as essential measures to enhance competitiveness. This means that for investors like us, the ability to discern the genuine substance of corporate efforts through engagement, rather than focusing on superficial changes, has become even more important.

The simplification of disclosure regulations in Europe aims to strengthen competitiveness by reducing corporate burdens and does not negate the importance of sustainability information disclosure. Going forward, we expect the focus to shift from legally mandated disclosure toward investor-driven engagement that communicates disclosure needs to investee companies and tests investors' ability to evaluate them effectively.

While staying aligned with our clients' intentions, we will continue to emphasize constructive and pragmatic dialogue based on our understanding of these environmental changes, the characteristics of each investee company, and their competitive landscapes. Through collaboration among our global offices, we aim to further enhance the effectiveness of our engagement activities.

Stewardship Activities Promotion Frame

Stewardship activities promotion is principally the responsibility of the Stewardship Development Department. Within Japan, we execute in-house stewardship, and join the platform provided by the Institutional Investors Collective Engagement Forum (IICEF) to dispatch representatives from Tokyo to meet with overseas companies, as well as rely on the in-house engagement through global initiatives and undertake collaborative activities. All stewardship activities are approved by the Stewardship Development Department's Stewardship Activities Advisory Committee (hereinafter the "SS Activities Advisory Committee"), the majority of whose members are external experts. The Exercise of Voting Rights are also considered. Sustainability Committee meetings are held every month, and stewardship activities are also made to the Board of Directors, management meeting, and FD Advisory Committee.



*1 For past meeting minutes, please refer to [our website](#).

*2 For a list, see [pages 93-98](#).

*3 A wholly-owned subsidiary of SMTAM.

*4 The 26 employees who engaged in stewardship promotion (including those in London and New York) mainly include analysts, portfolio managers, and overseas expatriates.

*5 For more information, please refer to the [Institutional Investors Collective Engagement Forum](#) website.

Network

Department, which works in conjunction with highly experienced analysts in the Research Department. Investors Collective Engagement Forum (IICEF) to pursue collective engagement. Outside Japan, we use engagement efforts of our New York and London offices; additionally, we carry out cooperative efforts. These efforts are reviewed and reported to the Sustainability Committee and to the Stewardship Activities Advisory Committee. Committee members are independent, outside experts. At these committee meetings, revisions to the Guideline on Stewardship Activities are reviewed every month, and SS Activities Advisory Committee meetings are held every quarter. Reports on Stewardship Activities are submitted to the Sustainability Committee once a year.



engagement

Global*2

Signatory of:



*2. They have an average of 20 years of investment experience.



Capacity Building for Stewardship A

■ The Environment Surrounding Sustainable Investment and the Importance of Capacity Building

The environment surrounding sustainable investment is undergoing major changes. These changes are both rapid and complex, making it increasingly difficult not only to keep up with but also to interpret the developments themselves.

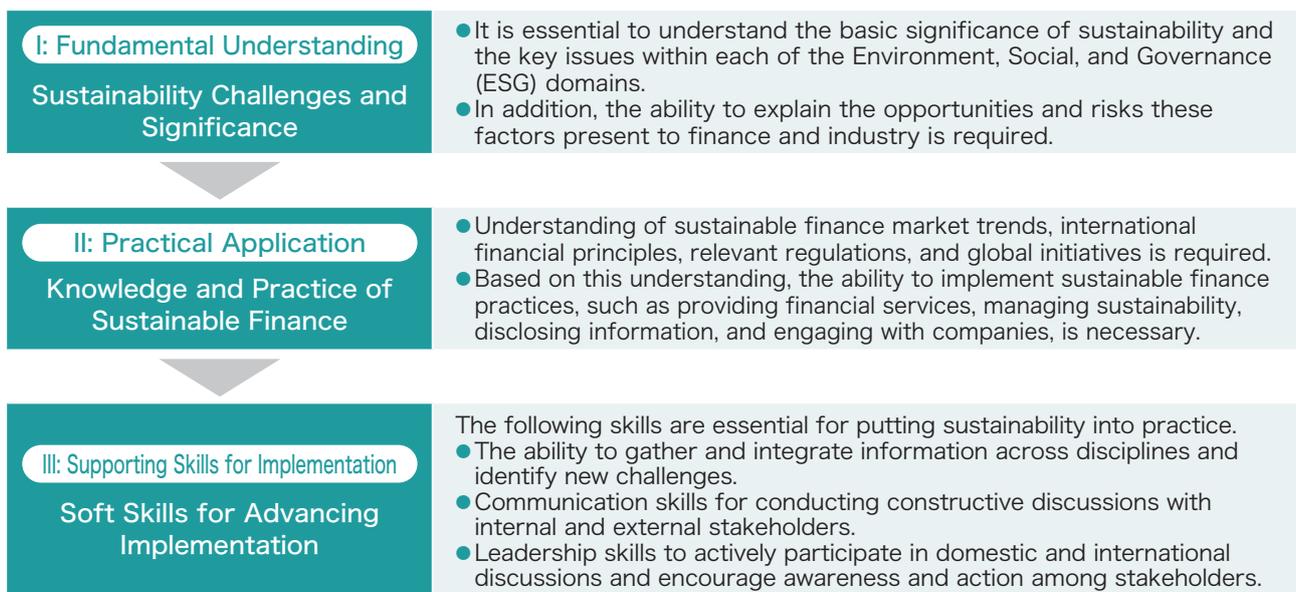
Sustainability-related regulations are becoming more complex. In Japan, non-financial information disclosure requirements are being strengthened, while in the U.S. and Europe, where numerous overlapping regulations exist, efforts are underway to simplify disclosure from the perspective of maintaining corporate competitiveness. The issues that must be addressed have expanded from climate change to natural capital, and further to social issues such as human rights, equality, and supply chain management. These discussions are no longer limited to developed nations but are increasingly involving emerging economies, calling for more comprehensive approaches. In addition, rising geopolitical risks and shifting political trends around the world are driving greater diversity in values and approaches to balancing sustainability with national security.

These shifts provide investors with opportunities to deepen their understanding of sustainability. However, as the expectations and demands placed on investors increase, so too does the importance of capacity-building efforts—such as continuous knowledge development, organizational reinforcement, and human resource training.

■ Trends in Capacity Building Initiatives

Principle 7 of Japan’s Stewardship Code (Third Revision) continues to emphasize the need for institutional investors to develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities. The Fourth Report on the Expert Panel on Sustainable Finance also highlights the importance of developing and strengthening sustainability-related talent, and it references the “Skills Map for Human Resources” published by Japan’s Financial Services Agency (see Figure 1).

Figure 1: Overview of the “Skills Map for Human Resources”



(Source: Created by SMTAM based on the Financial Services Agency’s “Skills Map for Human Resources”)

Similar discussions and initiatives are gaining momentum overseas as well. At the PRI Annual Conference held in Toronto in October 2024, participants discussed the initiatives necessary to foster a sustainability-oriented corporate culture and integrate it into business operations. In Singapore, the Monetary Authority of Singapore (MAS) and the Institute of Banking and Finance Singapore (IBF) have jointly developed the Sustainable Finance Jobs Transformation Map to support financial professionals in upskilling and job redesign.

Activities

■ SMTAM's Initiatives for Capacity Building

At SMTAM, we are actively working to expand our human resources while fostering the acquisition of new skills and expertise.

1. Utilization of External Organizations

- **Participation in the PRI Academy**

Employees, including management, have participated in the learning platform provided by the PRI, which offers specialized knowledge and industry insights.

- **Completion of AIGCC online courses**

Employees have taken online courses offered by the AIGCC, an investor network addressing climate change, focused on climate change and investment risk.

- **Participation in the ESG Information Disclosure Study Group (EDSG)**

We have collaborated with listed companies, institutional investors, and public institutions to explore ESG information disclosure frameworks, accumulate practical examples, and promote mutual understanding among stakeholders. We also have participated in the Subcommittee on Sustainability Human Resource Development to further build knowledge and skills.

- **In-house seminars led by external experts**

We have hosted seminars featuring the World Benchmarking Alliance (WBA) and PRI on natural capital engagement, as well as a session led by the Japanese Red Cross Society on humanitarian issues and investment. Additionally, we invited legal professionals to conduct training sessions on the latest regulatory developments, including the Revised Japan's Corporate Governance Code and TOB and Large Shareholding Reporting System Amendments.

2. Sharing Knowledge Internally

- **Provision of in-house e-learning**

All officers and employees participate in the program, through which the Stewardship Development Department shared the latest sustainability trends identified through its activities.

- **In-house seminars led by internal experts**

Employees with experience working at international organizations give lectures on climate change issues. In addition, engagement practitioners deliver lectures on real-world engagement practices and case studies.

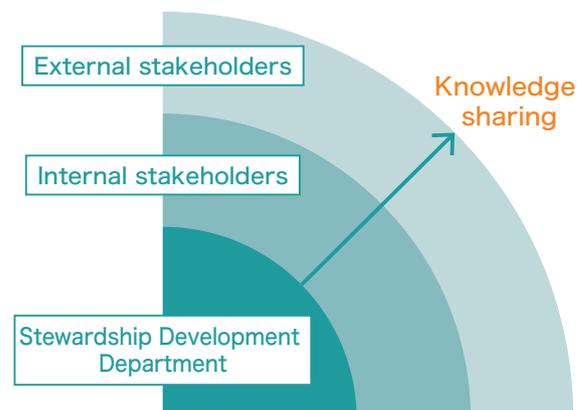
3. Expanding Human Resources through HR Systems and Other Initiatives

- **Internal job posting system**

We identify employees with a strong interest in stewardship-related work to revitalize and sustain these activities while enhancing employee motivation. Through Company-wide job introductions and short-term job rotations under this system, we promote the sharing of internal knowledge.

Furthermore, we believe that capacity building across the entire investment chain, not just within the company, is equally important. To share knowledge with external stakeholders involved in stewardship activities, we engage in the following initiatives.

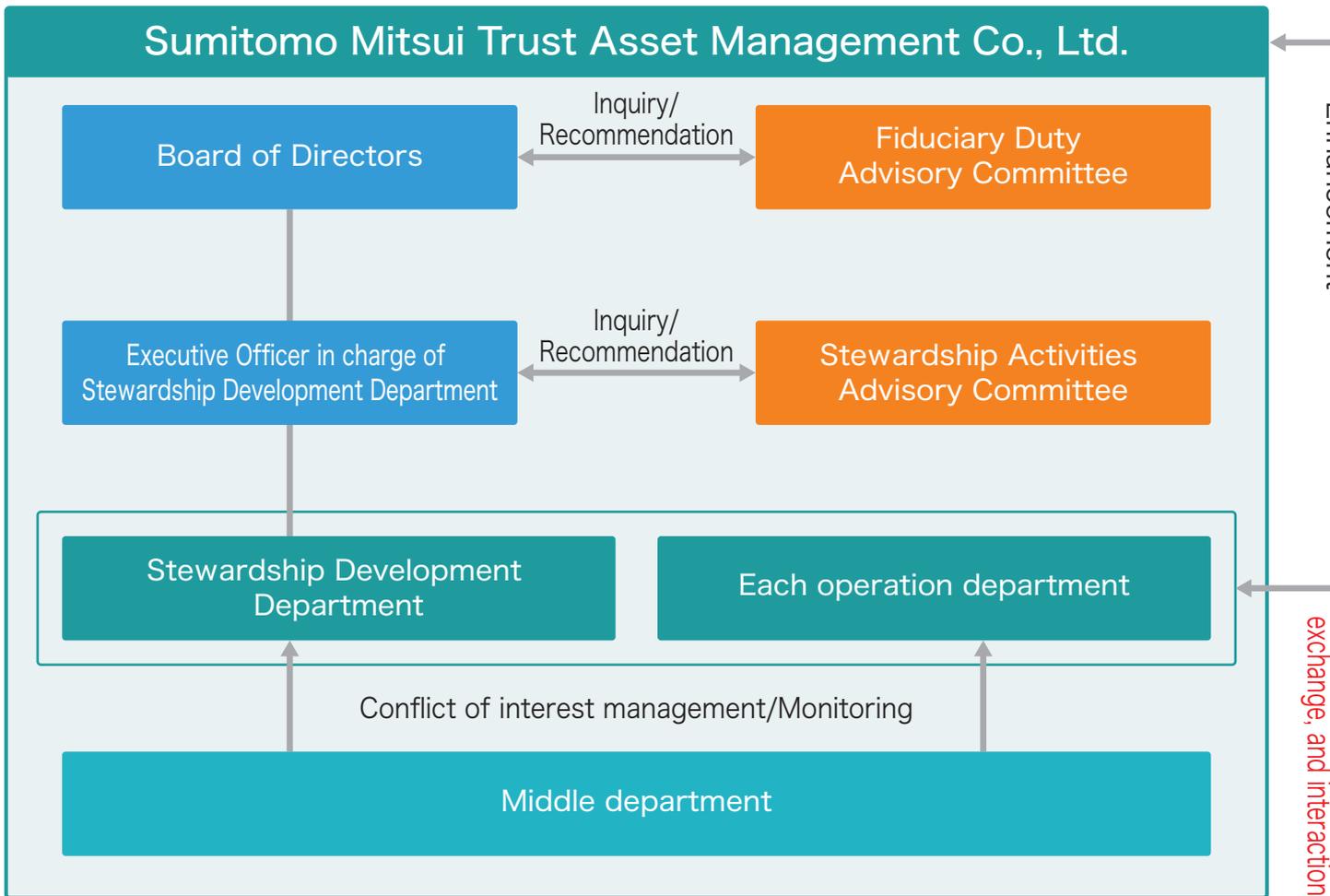
- Participated in developing "A Guide to 'Business and Human Rights' for Institutional Investors," a joint project between the International Labour Organization (ILO) and PRI.
- Planned and participated in a webinar hosted by The Investment Trusts Association, Japan, aimed at expanding knowledge of human rights across the asset management industry, with speakers from the Ministry of the Environment and SMTAM.
- Delivered presentations at conferences hosted by PRI, AIGCC, CDP, ICGN, IPDD, TNFD, GFANZ, Bloomberg, S&P, ESG Information Disclosure Study Group, and Intellectual Property and Intangible Asset Governance Promotion Association (IPIAGPA), as well as guest lectures at universities.



Conflict of Interest Management for Ste

The Sumitomo Mitsui Trust Group has established and publicly released its Policies regarding the Fiduciary oriented products and services in line with these policies. As we step up our stewardship activities, we aim to deeply embedding fiduciary duties into the way we do business; hence, we have put in place a conflict of interest management system.

● Conflict of Interest Management System

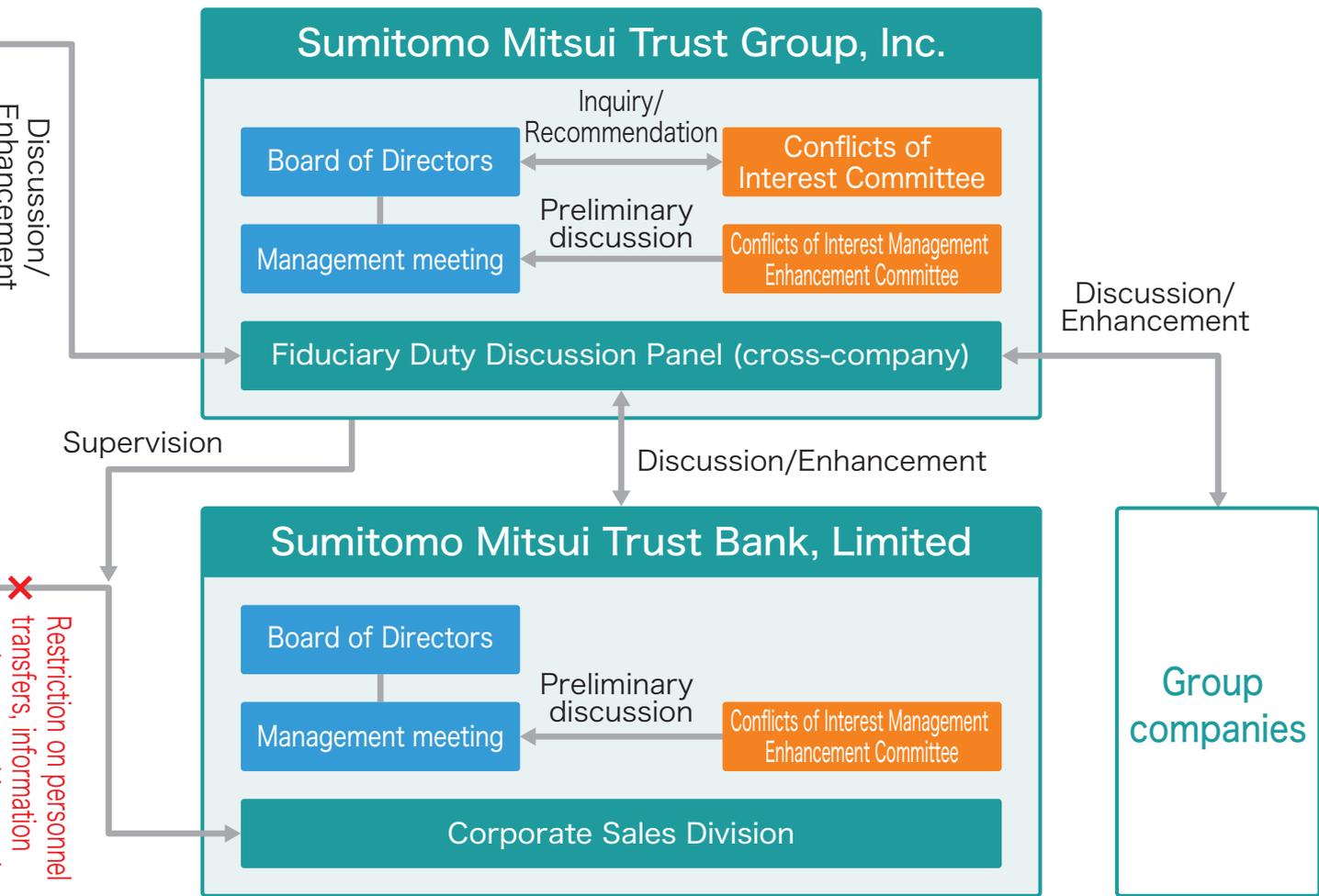


Regarding potential conflicts of interest related to stewardship activities, we will conduct strict management according to our policies and other related rules in order to put the interests of clients (beneficiaries) first. We have also disclosed [an overview of our conflict of interest management system](#).

At SMTAM, the Executive Officer in charge of Stewardship Development Department has exclusive authority over the management of potential conflicts of interest regarding the exercise of voting rights. Specifically, conflicts of interest include other business partner or the size of transactions. The SS Activities Advisory Committee consists mainly of external experts. The Executive Officer in charge of Stewardship Development Department, and then makes a report. They establish, amend, or abolish our policies and determine the appropriateness of interpreting the guideline in individual proposals, and verify or improve the process. The Executive Officer in charge of Stewardship Development Department makes decisions on various matters while respecting reports from the SS Activities Advisory Committee. Improvements to the exercise of voting rights, prompt necessary corrective and improvement measures are taken within the Sumitomo Mitsui Trust Group, Inc., and to all companies related thereto, and regarding proposals for candidates as officers of investment companies (e.g., in important positions, etc.), in order to manage conflicts of interest, we consider the recommendation of proxy advisors. Confirmation is made by the SS Activities Advisory Committee before exercising voting rights. At general meetings of shareholders,

Stewardship Activities

Fiduciary Duties of the Sumitomo Mitsui Trust Group. We promote initiatives aimed at providing client-... We believe that proper management of conflicts of interest relating to these activities will contribute to a robust conflict of interest management system.



ing to company rules including conflict of interest management rules, investment management business rules, and of the policies determined in these conflict of interest management rules.

the exercise of voting rights independent of the executive authority of other departments, which eliminates any departments exercising influence on the investment department based on, for example, the importance of a parts with guaranteed independence. This organization deliberates on various inquiries made by the Executive Officer Guideline on the Exercise of Voting Rights, approve or disapprove proposals not stipulated in the guideline, ss for determining whether to implement a proposal that could cause a conflict of interest. The Executive Officer in the SS Activities Advisory Committee to the maximum extent, and if the committee submits a report on while respecting the report to the extent possible. Regarding all proposals to our parent company, Sumitomo Mitsui ee companies who have a close relationship with SMTAM or our parent company (active officers, persons who were isors based on the Guideline on the Exercise of Voting Rights, and properly deal with conflicts of interest after held from July 2024 to June 2025, determinations were made using the above process for 14 companies.

2024/2025 Stewardship Activity Focus Topics

2024

2025

July

Aug.

Sept.

Oct.

Nov.

Dec.

Jan.

Participated as a Bronze Sponsor at the PRI in Person Toronto Conference

Spoke as a panelist at the NZAM Bi-Annual Signatories Meeting

Spoke as a panelist at the “Seminar on a Guide to ‘Business and Human Rights’ for Institutional Investors” hosted by The Investment Trusts Association, Japan

Participated as a panelist at the “Seminar on a Guide to ‘Business and Human Rights’ for Institutional Investors” co-hosted by PRI and the International Labour Organization (ILO), held at The Investment Trusts Association, Japan. We shared examples of asset management initiatives related to business and human rights, such as engagement on natural rubber plantation operations.

Spoke as a panelist at the Industry-Academia Diversity Symposium

Conducted engagement with the Rubber Authority of Thailand (RAOT) as part of our policy engagement initiatives



We attended the Roundtable on Sustainable Palm Oil (RSPO) held in Bangkok, Thailand, and conducted engagement with the Rubber Authority of Thailand (RAOT) as part of our policy engagement activities. We exchanged views on the need for and methods to improve traceability in Thailand’s natural rubber market in response to the EU Deforestation Regulation (EUDR).

Spoke as a panelist at the CDP Japan Club



At the quarterly CDP Japan Club meeting (for CDP member companies), we presented our initiatives on natural capital conservation, as well as examples of corporate evaluations and engagement. We also participated as an observer in discussions among participating companies.

Invited members of the International Labour Organization (ILO) to hold an in-house workshop on “Business and Human Rights”



As a member of the Working Group for Developing Awareness Raising Materials on Business and Human Rights for Institutional Investors, we contributed to the development of “A Guide to ‘Business and Human Rights’ for Institutional Investors,” published by the ILO. On this occasion, we invited ILO members to conduct a study session and exchange of opinions with our portfolio managers, analysts, and personnel from Stewardship Development Department.

CS



Feb.

Mar.

Apr.

May

June

July

Participated as a panelist in a public seminar on natural capital co-hosted by IPDD and the Indonesia Stock Exchange



The Indonesia Working Group of IPDD, where we serve as co-chair, partnered with the Indonesia Stock Exchange to hold a public seminar on information disclosure related to natural capital. Together with other global investors, we delivered presentations emphasizing the importance of natural capital disclosure.

Spoke as a panelist at Astellas Pharma's Sustainability Week 2024



We participated as a panelist at Astellas Pharma's internal workshop, Sustainability Week 2024. We commended Astellas' initiatives to improve healthcare access and employee engagement, and exchanged views on sustainability activities with participants attending both in person and online.

Spoke as a panelist at the AIGCC seminar "In Depth Investor Briefing: AIGCC Investor Climate Transition (Tokyo)"

Hosted the WBA Nature Benchmark Workshop at SMTAM and participated as a panelist

Hosted the WBA Nature Benchmark Workshop, co-organized by PRI and WBA*, at our offices. We participated as a panelist, presenting examples of our engagement activities in the area of natural capital.

* The World Benchmarking Alliance (WBA) develops benchmarks to assess corporate progress toward the SDGs and publicly ranks approximately 2,000 leading global companies.

Spoke as a panelist at the IPIAGPA Awards Ceremony



We participated in a panel discussion at the Intellectual Property and Intangible Asset Governance Promotion Association (IPIAGPA) Awards Ceremony alongside award-winning companies, investors, and academic representatives, including the Vice Chair of the IPIAGPA. We exchanged views on the achievements and challenges of the award-winning companies.

Evaluation of SMTAM's Stewardship Act

SMTAM conducts an annual review of our stewardship activities in accordance with the principles activities are reviewed by the SS Activities Advisory Committee and reported to the management Plans (ICAP). There was no Principles for Responsible Investment (PRI) assessment during this rep

Self-Assessment

Compliance with Japan's Stewardship Code | Target period: July 2024 to June 2025

Principle 1

Policy Formulation and Disclosure

Institutional investors should formulate and disclose a clear policy to fulfill their stewardship responsibilities.

We have formulated and disclosed our Policy for Addressing the Principles of Japan's Stewardship Code and, as a responsible institutional investor, have promoted stewardship activities and strengthened related structures. In August 2025, we announced our acceptance of the revised Stewardship Code and disclosed on our website that we are in full compliance with all its principles and guidelines.

Principle 2

Conflict of Interest Management

Institutional investors should formulate and disclose a clear policy for managing conflicts of interest in fulfilling their stewardship responsibilities.

As the asset management company within the Sumitomo Mitsui Trust Group, we have put in place an essential conflict of interest management system. The SS Activities Advisory Committee, with a majority of external members, verifies the appropriateness of the decision-making process for proposals with potential conflicts of interest and discloses summaries of its discussions as needed.

For all proposals from the general meeting of shareholders of our parent company, Sumitomo Mitsui Trust Group, Inc., and its affiliates, as well as cases where individuals from SMTAM or our parent company (active officers, persons who were in important positions, etc.) are nominated as officer candidates of investee companies, we utilize recommendations from proxy advisors to exercise voting rights based on our Guideline on the Exercise of Voting Rights. At general meetings held from July 2024 to June 2025, 14 companies were subject to this process.

Activities

and guidelines of Japan's Stewardship Code. The content and self-assessment of our stewardship meeting. Globally, we disclose information in line with the framework of the Investor Climate Action reporting period. As such, new evaluation results will be reported in the next cycle.

Principle 3

Accurate Understanding

Institutional investors should accurately understand the circumstances of investee companies to appropriately fulfill their stewardship responsibilities for the investee companies' sustainable growth.

Among top greenhouse gas-emitting companies in Japan and overseas, we continued to investigate, analyze, and score the companies' initiatives on climate change issues, incorporating this information into engagement and our exercise of voting rights. We also reviewed our engagement targets and continued evaluating corporate initiatives on three key themes: climate change, water resources and natural rubber.

Principle 4

Dialogue with Companies

Institutional investors should aim to share understanding with investee companies and work to address issues through constructive, "purposeful dialogue."

Engagement efforts focused on ESG materiality and key items, with approximately 1,600 engagements conducted domestically and approximately 410 overseas. Globally, we actively addressed agendas such as climate change and natural capital, while domestically, after the disclosure of the Tokyo Stock Exchange's "Action to Implement Management that is Conscious of Cost of Capital and Stock Price," we have actively pursued engagement centered around our business strategy and capital productivity. In addressing this agenda, we also promoted activities utilizing collaborative engagement.

Self-Assessment

Compliance with Japan's Stewardship Code | Target period: July 2024 to June 2025

Principle 5

Exercise of Voting Rights

Institutional investors should have a clear policy on the exercise of voting rights and the disclosure of voting outcomes. The voting policy should go beyond formal criteria and contribute to the sustainable growth of investee companies.

In the December 2024 revision of our Guideline on the Exercise of Voting Rights, we raised (tightened) the ROE threshold for director appointment proposals and adopted a combined evaluation approach using P/B ratio. When board composition standards are not met, the scope of opposition was changed from all director candidates to only incumbent directors seeking reappointment. Similarly, when performance standards are not met, the scope was narrowed from all directors with three years or more of service to current representative directors who have served as directors for three years or more. In addition, we adopted a policy of generally supporting shareholder proposals requesting individual disclosure of executive remuneration.

Principle 6

Reporting to Clients and Beneficiaries

Institutional investors should, in principle, report regularly to clients and beneficiaries on how they are fulfilling their stewardship responsibilities, including the exercise of voting rights.

We provided reports on stewardship activities directly to clients and more broadly to stakeholders through our Sustainability Report 2024/2025. We continued to proactively share information via "Tosho Mane-Bu" as in the previous year. We also disclosed our voting records for all holdings and proposals on a quarterly basis.

Principle 7

Development of Skills

Institutional investors should enhance their competence to appropriately engage with investee companies and make informed decisions in stewardship activities, by deeply understanding the companies, their operating environments, and sustainability considerations tailored to their investment strategies to contribute to the sustainable growth of those companies.

We strengthened our ESG knowledge through participation in the PRI Academy learning platform, online courses offered by the Asia Investor Group on Climate Change (AIGCC), and in-house e-learning programs. We participated in the Subcommittee on Sustainability Human Resource Development of the ESG Information Disclosure Study Group to further build expertise and skills. We actively participated in global initiatives, research groups, and engagements with government agencies, academia, and related organizations to acquire, share, and deepen knowledge.

Information Disclosure According to the ICAP (Investor Climate Action Plans) Framework

Target period: July 2024 to June 2025

Investor Climate Action Plans (ICAP)*1 is a framework for self-assessing the stewardship activities of asset management companies, published by The Investor Agenda. As shown in the table below, it defines expected achievement levels for engagement activities with investors across four interrelated focus areas and governance, and recommends that asset management companies use ICAP for information disclosure. Since 2022, SMTAM has continued information disclosure according to this framework.

Focus areas	Expected achievement level	SMTAM's stewardship activities*2
(1) Investment		
Goal setting	Managing systemic climate risks in investor portfolios and enabling the transition by shifting capital to value-creating businesses set to succeed in a net zero future.	In 2021, we joined NZAM. We announced our efforts to achieve net zero greenhouse gas emissions from investee companies by 2050, and to reach interim targets by 2030.
Risk management		We conducted portfolio evaluations, including (1) baseline analysis and (2) transition pathway analysis based on future climate change scenarios.
Asset allocation		SMT ETF Carbon Efficient Index Japan Equity listed on the Tokyo Stock Exchange in 2021.
Additional goal setting		We opposed director appointment proposals if there was no improvement after engagement.
(2) Engagement with Investee Companies		
Collective/ collaborative engagement	Being engaged with companies to drive and demonstrate real progress in line with a 1.5°C future.	We served as Co-Chair of the Asia Advisory Group for Climate Action 100+ in the Asia-Pacific region and participated as the Asia Representative Member of NZAM's Advisory Committee. Participated in discussions on phasing-out of greenhouse gas emissions by high-emission Asian companies through AIGCC's AUEP.
Bilateral engagement		We are promoting effective initiatives for approximately 100 of the world's largest greenhouse gas emitters. As part of our efforts to address deforestation, we conduct assessments and engagements in the natural rubber sector.
Corporate escalation		We opposed director appointment proposals if there was no improvement after engagement.
(3) Policy Advocacy		
Investor statements	Advocating for policies aligned with delivering a just transition to a net zero economy by 2050 or sooner.	Through the PRI Collaborative Sovereign Engagement (Australia), we participated in joint engagement with the Australian federal government on climate change policy and green bond issuance.
Lobbying activities		We engaged in dialogues on topics such as climate-related disclosures with the Ministry of Economy, Trade and Industry, Financial Services Agency, and Ministry of the Environment. We exchanged views with the Central Research Institute of Electric Power Industry on Japan's Strategic Energy Plan.
Advocacy		We conducted climate change dialogues with overseas policy authorities including the Central Bank of Brazil (Banco Central do Brasil) and the Indonesian government, as well as with overseas exchanges in Indonesia, Thailand, and Malaysia.
(4) Investor Disclosure		
Commitment, purpose, and goals	Enhancing investor disclosure to help stakeholders track investor action in line with a 1.5°C pathway.	We were approved as a signatory institution to the UK Stewardship Code 2020. As a step toward achieving net zero by 2050, we disclosed in our Sustainability Report information aligned with the ICAP framework and an evaluation of investee companies' alignment with net zero scenarios based on the Net Zero Investment Framework (NZIF). We enhanced our TCFD reporting in line with overseas regulations and disclosed information globally.
Carbon emissions and portfolio evaluation		We disclosed portfolio figures and benchmarks for weighted average carbon emissions (emissions per unit of sales).
Alignment with TCFD		We conducted portfolio evaluations, including (1) baseline analysis and (2) transition pathway analysis based on future climate change scenarios.
Evaluation of disclosure		We posted engagement example cases from inside and outside Japan through Sustainability Report issued once a year, etc.

SMTAM's stewardship activities were uniquely featured as a case study for a Japanese asset management company in the first installment in January 2022 and again in the fourth installment in September 2023. Our self-assessment on the Expectations Ladder across four key focus areas received predominantly Tier 1 or Tier 2 ratings from The Investor Agenda. For this reporting period, we updated our information accordingly. The highlights of the high evaluation from our self-assessment by key focus areas are as follows:

- As an example of collective and collaborative engagement in "Engagement with Investee Companies," we participated in Climate Action 100+ as Co-Chair of the Asia Advisory Group for the Asia-Pacific Region and served as the Asia Representative Member of NZAM's Advisory Committee.
- As an example of investor advocacy in "Policy Advocacy," we participated in joint engagement with the Australian federal government on climate change policy and green bond issuance through the PRI Collaborative Sovereign Engagement (Australia).
- As an example of "Investor Disclosure" covering commitments, objectives, and targets, we newly conducted an analysis of investee companies using the Net Zero Investment Framework (NZIF) and disclosed the results in our Sustainability Report 2024/2025.

We plan to continue making efforts to improve and enhance the transparency of our stewardship activities through information disclosure by means of ICAP.

*1 Published in May 2021. Subsequently in July 2023, the Investor Climate Action Plan (ICAP) Expectation Ladder was partially revised to significantly strengthen aspects related to deforestation.

*2 For details on each initiative, please refer to [pages 93-98](#).

External Evaluation

PRI Assessment Results | Target period: January 2024 to December 2024

Active Involvement in the Principles for Responsible Investment (PRI), and Maintaining/Improving Evaluations

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. There were 100 signatory institutions when it launched in April 2006, and has increased greatly to 5,280 by the end of March 2025, which made the positioning more important. In addition to becoming a signatory institution 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.

PRI Assessments are evaluations done on the commitment and progress of signatory institutions toward the six principles of the PRI. These are conducted according to reports made by signatory institutions. At SMTAM, we carefully review the results of the PRI Assessment and use them as opportunities to maintain and improve our evaluations through necessary enhancements.

PRI Assessment Results (2024)	
Policy, governance, strategy*	★★★★★
Listed equity	
Active - Quantitative	★★★★★
Active - Fundamental	★★★★★
Passive	★★★★
Fixed income investment	
SSA	★★★★★
Corporate	★★★★★
Hedge fund (HF)	
Multiple strategies	★★★★
Long/short equity	★★★★★
Management company selection, appointment, and monitoring (SAM)	
Listed equity - Active	★★★★
Fixed income - Active	★★★★
Confidence index	★★★★

* Including engagement activities. (Source: PRI)

In October 2023, the PRI Annual Conference (PRI in Person) was held in Tokyo, Japan for the first time, where we participated as the only Gold Sponsor among the signatory institutions in Japan. Additionally, we participated as a Bronze Sponsor at the October 2024 conference in Toronto, Canada. We also plan to participate as a Bronze Sponsor at the São Paulo, Brazil conference in November 2025. By participating as a sponsor at the PRI Annual Conference, we demonstrate our commitment to PRI and contribute to the advancement of responsible investment worldwide.

Principle 1	<p>We will incorporate ESG issues into investment analysis and decision-making processes. With SMTAM's aim of maximizing medium- to long-term investment return to our clients (beneficiaries) and suppressing downside risk, we analyze and evaluate non-financial information including ESG, and promote initiatives that utilize knowledge acquired from this analysis and evaluation for investment (ESG integration).</p>
Principle 2	<p>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.</p>
Principle 3	<p>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.</p>
Principle 4	<p>We will promote acceptance and implementation of the Principles within the asset management industry. By proactively promoting stewardship activities and educational activities, we help capital market participants to accept and implement the Principles.</p>
Principle 5	<p>We will work together to enhance our effectiveness in implementing the Principles. We collaborate with institutional investors 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.</p>
Principle 6	<p>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.</p>

(Source: PRI)

The UK Stewardship Code | Target period: July 2023 to June 2024

The UK Stewardship Code 2020 (hereinafter the “Code”) is a globally recognized framework that attracts a wide range of participants, including asset management firms, asset owners, and service providers both within and outside the United Kingdom. The Code required institutional investors, who invest on behalf of beneficiaries such as pension holders, to conduct stewardship activities at a high standard. Signatories are required to report annually to the Financial Reporting Council (FRC) on their activities in line with the Code. In July 2024, we were approved by the FRC as a signatory institution to the Code, and this approval was renewed in August 2025. We believe this demonstrates that our stewardship activities and their outcomes meet the globally recognized highest standards defined by the Code.

The FRC had previously announced plans to revise the structure of the Code's principles for submissions beginning in 2026. The proposed revisions were released in October 2024, and after a public consultation process, the final content was confirmed in June 2025.

These revisions were aimed at reducing the reporting burden on signatories, simplifying the Code's principles, and adjusting the frequency of required reports. Specifically, the previous 12-chapter structure was reorganized into 11 chapters, grouped under two main categories: (1) Policy and Context Disclosure, and (2) Principles (Activities and Outcomes Report). Under the revised system, (1) is now required only once every four years unless major changes occur (previously annually), while (2) will continue to be reported annually.

The revised Code reaffirms the concept of stewardship responsibility as a means of creating value for clients and beneficiaries. We have long believed that achieving long-term value creation for clients and beneficiaries requires a balanced consideration of economic, environmental, and social factors. Going forward, as a responsible institutional investor, we will pursue our three key pillars of stewardship activities that are built around engagement, the exercise of voting rights and incorporating ESG factors into investment decision-making.



Comparison of the UK Stewardship Code before and after the revision

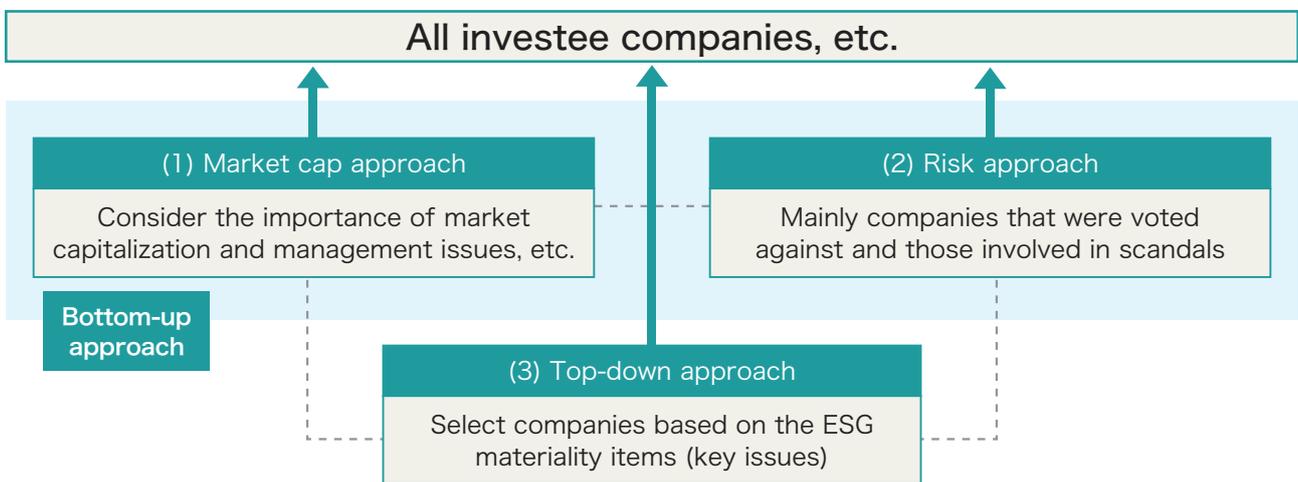
The UK Stewardship Code 2026		The UK Stewardship Code 2020	
Policy and Context Disclosure		1	Purpose, strategy and culture
A	Organisation, investment beliefs and stewardship approach	2	Governance and resources
B	Governance and resources	3	Conflicts of interest
C	Policies, processes and review	4	Market-wide and systemic risks
D	Conflicts of interest	5	Review and assurance
E	Dialogue with clients and/or beneficiaries	6	Client and beneficiary needs
Principles (Activities and Outcomes Report)		7	Integration of stewardship and investment
1	Integrating stewardship and investment	8	Monitoring managers and service providers
2	Promoting well-functioning markets	9	Engagement
3	Engagement	10	Collaboration
4	Exercising rights responsibilities	11	Escalation
5	Selection and oversight of managers	12	Exercising rights and responsibilities
6	Monitoring service providers		

(Source: FRC)

SMTAM's Engagement

Engagement is positioned as one of the three pillars of our stewardship activities. In our engagement with investee companies, the importance of engagement applies equally to bonds, where the exercise of voting rights is not applicable. Our engagement extends beyond investee companies, etc. to a wide range of stakeholders, including public investors. While something we can do on our own, it is also done in collaboration with other investors who share the same goals. To expand the base of investors. Collectively, we refer to these activities as “multi-engagement,” with the goal of maximizing return on investment. We describe these engagement activities in more detail.

Three Approaches to Engagement with Investee Companies, etc.



All investee companies, etc. are potential subjects of our engagement. Our mission is to maximize medium- to long-term return on investment for clients by improving corporate value over a medium- to long-term period for investee companies, etc. and acquiring excess return through investment while raising the market as a whole. To accomplish these goals, we identify issues with each investee company, etc. and conduct effective and efficient engagements.

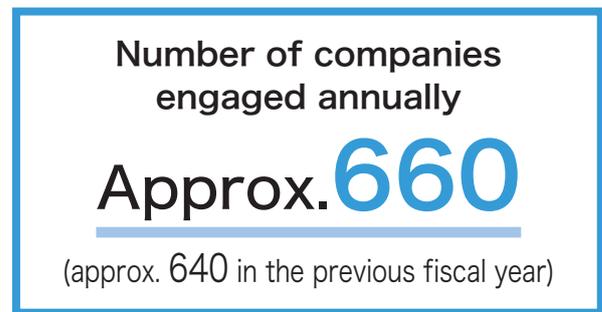
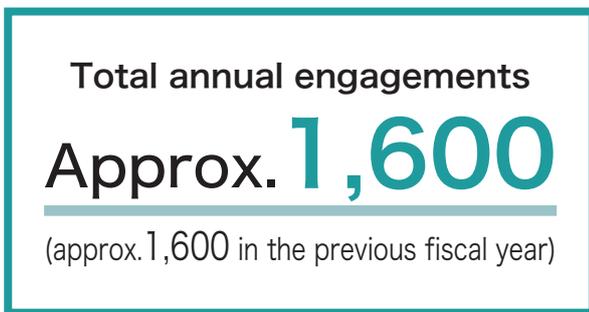
We employ the following three approaches to engagement. For all approaches, agendas are set based on our ESG materiality.

<p>(1) Market cap approach</p>	<p>This approach targets companies with large market capitalizations. In Japan, it primarily covers companies analyzed by our Research Department. This approach is mainly applied to active investment strategies.</p>
<p>(2) Risk approach</p>	<p>This method targets companies with low asset efficiency (low ROE), those involved in scandals, or those with issues in information disclosure. It is mainly applied to passive investments, often in combination with the market cap approach. It is primarily conducted by staff from the Stewardship Development Department.</p>
<p>(3) Top-down approach</p>	<p>This top-down method selects target companies based on our ESG materiality items (key issues). It primarily targets large-scale companies with significant market capitalization or influence on markets, society, or the environment. In Japan, analysts from the Research Department and staff from the Stewardship Development Department collaborate to conduct this engagement and manage its progress. While primarily used for passive investment, it also applies to active investment.</p>

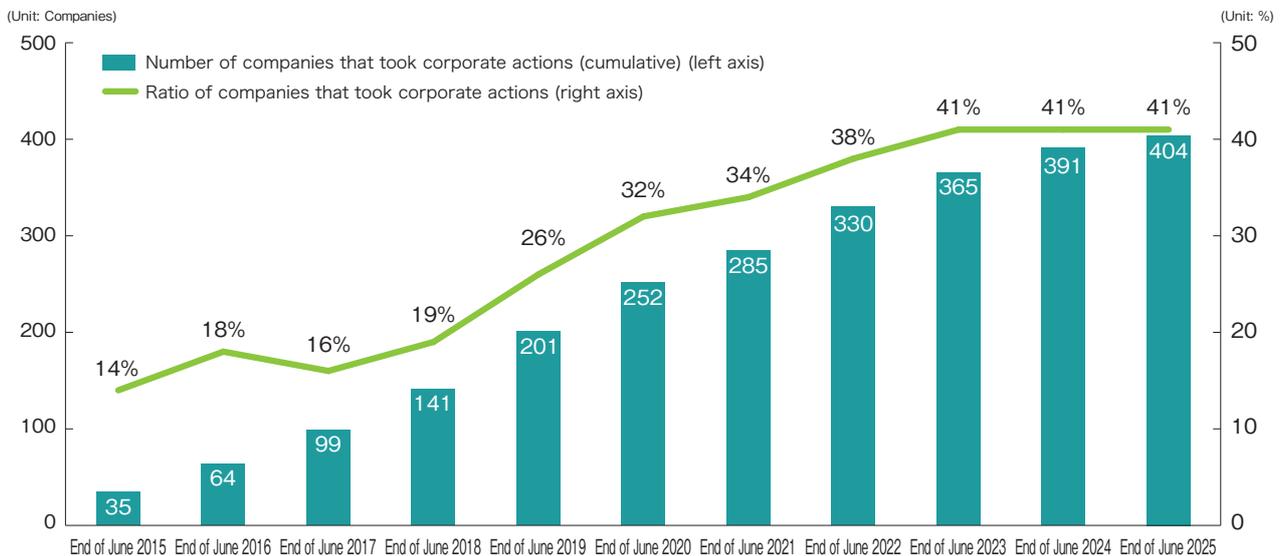
There are also cases where we engage with companies by combining multiple approaches. To date, we have conducted engagements covering over 90% of the total market capitalization of companies included in the TOPIX index.

th investee companies, etc., we select discussion agendas based on our ESG materiality. The e, and we conduct engagement broadly with investee companies, etc. blic agencies, exchanges, industry associations, NGOs, and academic institutions. While engagement is e beliefs, or what we like to call “collaborative engagement.” Engagement also includes activities that oal of enhancing market beta (the overall market). In this section, “SMTAM’s Engagement,” we explain

Results of Domestic Equity Engagement



Trends in the number of companies taking corporate action and the ratio to companies engaged (after removing duplicates)



The number of engagement meetings continues to show an upward trend. We believe this trend is driven by the spread of remote engagement following the COVID-19 pandemic, as well as the growing number of companies responding to the Tokyo Stock Exchange’s call for “Action to Implement Management that is Conscious of Cost of Capital and Stock Price.” The cumulative number of companies that have taken corporate actions aligned with our expressed views has reached 404, exceeding 40% of the 984 companies we have engaged with cumulatively (both figures exclude delisted companies and duplicates).

Please refer to the following page for the status of stage management in the top-down approach. We record engagement cases only when conducted by staff from the Stewardship Development Department or analysts from the Research Department.

Domestic Equity Engagement

Masayoshi Souma

Senior Stewardship Officer
Head of ESG Research and Development Office,
Stewardship Development Department



■ Top-Down Approach Engagement

Using ESG data based on our ESG materiality, we screen and identify high-priority investee companies for engagement via a top-down approach. Among these, we select approximately 100 companies with significant ESG issues that we believe are also important for the companies themselves. Engagement is then conducted using the top-down approach.

Based on each company's ESG issues and the level of penetration of ESG management, we set long-term goals and interim targets linked to our ESG materiality to advance engagement. Utilizing our engagement history, deep understanding of company and industry trends, and insights into global ESG trends gained through domestic and international initiatives, we set effective goals and targets for practical engagement. We manage engagement progress in four stages for each target set for individual companies and continue monitoring even after target achievement, ensuring implementation of measures and issue resolution.

Figure 1: Engagement target company selection process

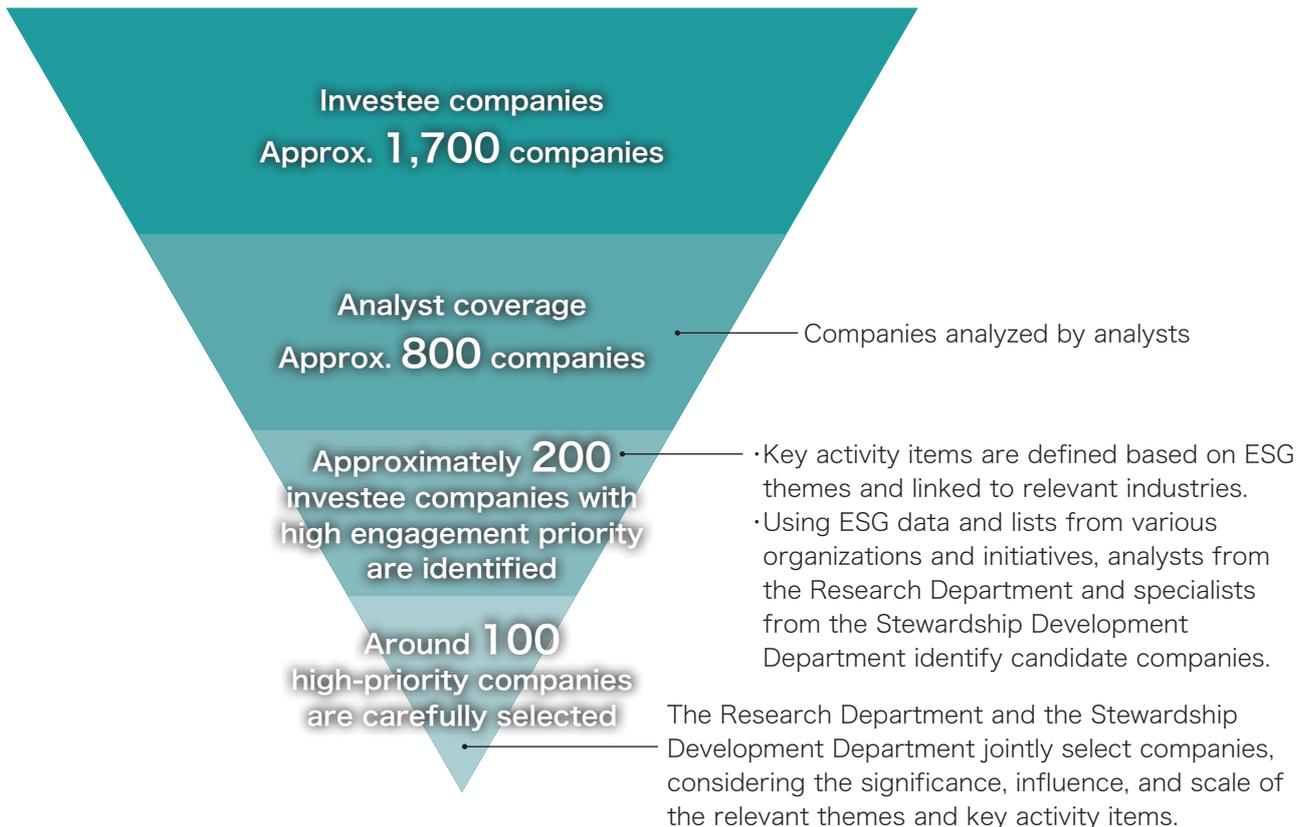
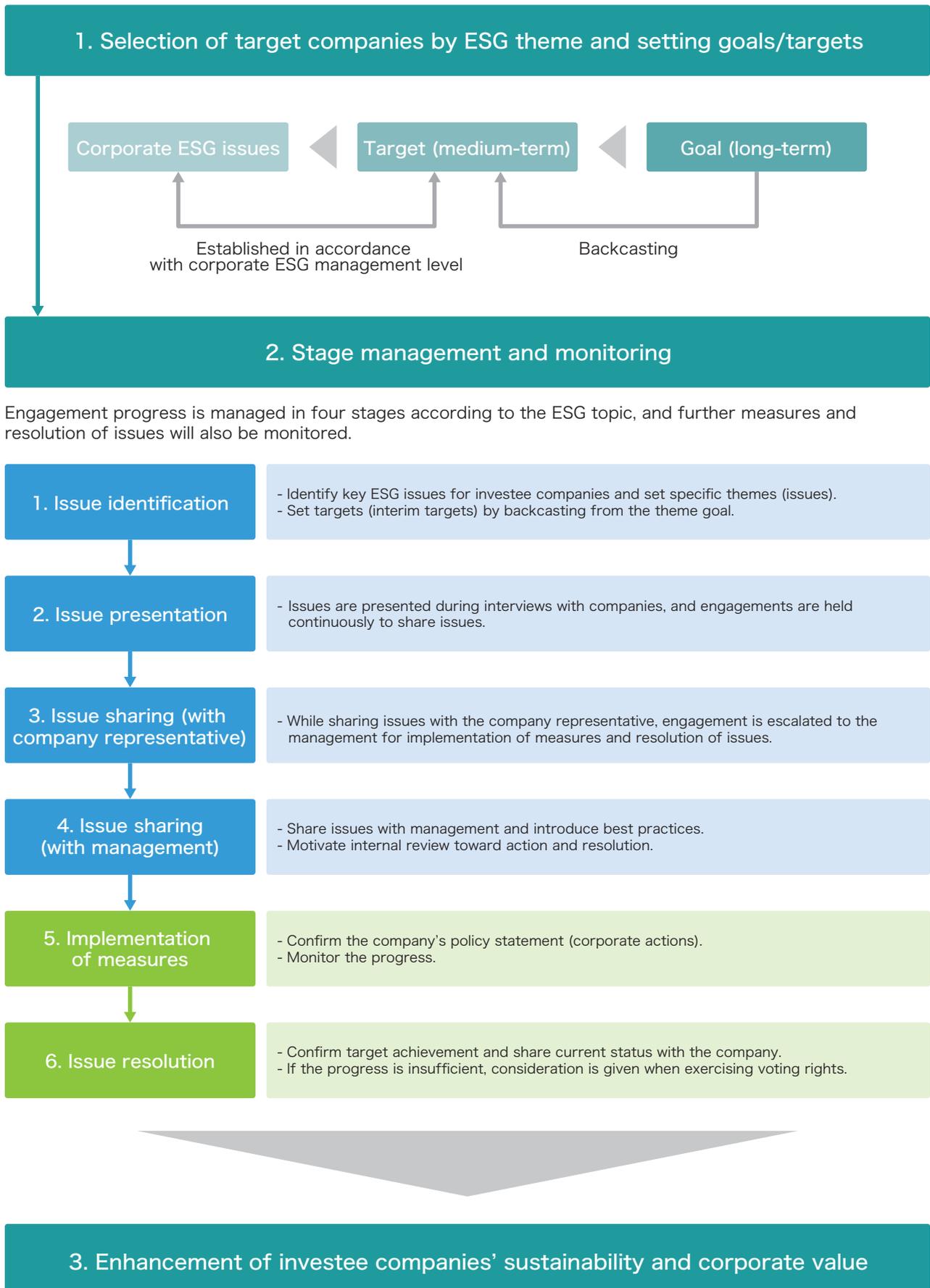
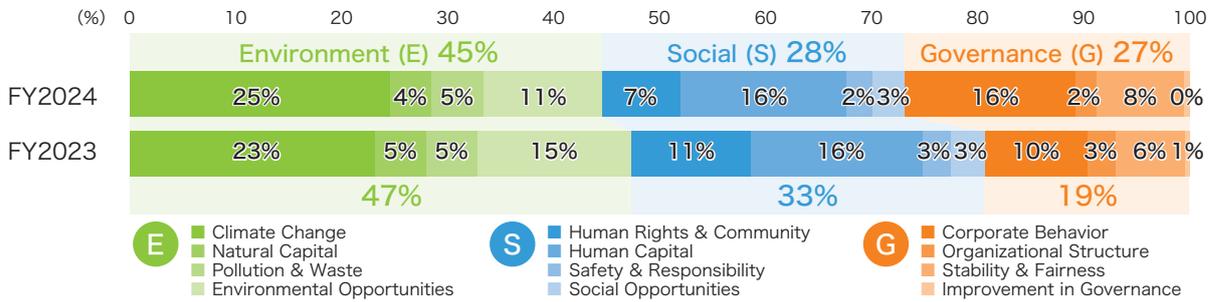


Figure 2: Flow of the top-down approach



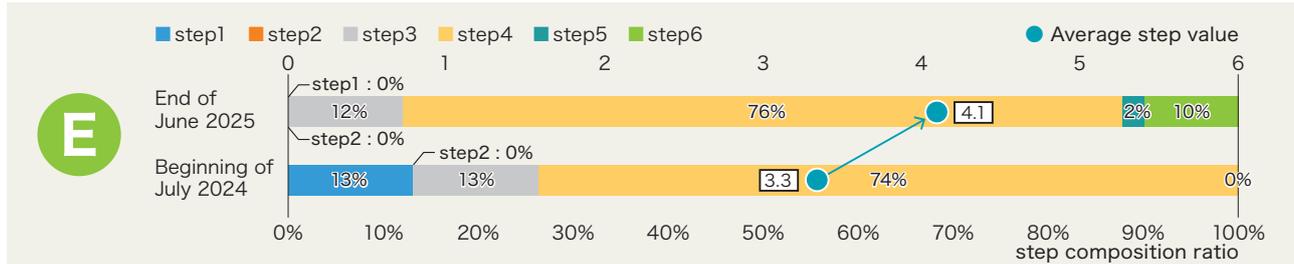
Top-Down Approach: Performance Results for FY2024 (July 2024 to June 2025)

Engagement Composition by Materiality*

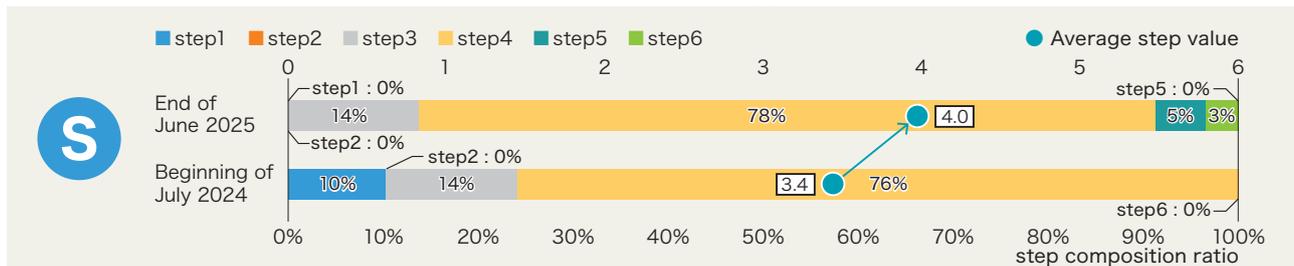


- In FY2024, the composition of engagements under this approach by materiality was 45% Environment (47% in the previous year), 28% Social (33% in the previous year), and 27% Governance (19% in the previous year).
- Within the Environment category, “Environmental Opportunities” decreased by 4 percentage points year on year; within the Social category, “Human Rights & Community” decreased by 4 percentage points; while within the Governance category, “Corporate Behavior” increased by 6 percentage points.
- The increase in “Corporate Behavior” resulted from strengthened engagement with companies in response to the Tokyo Stock Exchange’s recommendation to “Action to Implement Management that is Conscious of Cost of Capital and Stock Price.”
- The decline in “Environmental Opportunities” and “Human Rights & Community” was due to the large number of companies that had achieved (or partially achieved) their targets in the previous fiscal year.

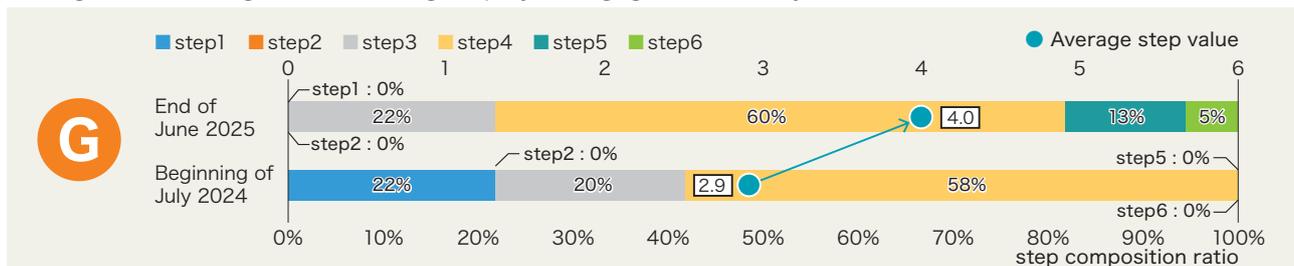
Status of Step Progress (Year-on-Year Comparison)*



Cases reaching step 6 were observed in areas such as improving the sustainability of raw material procurement, reducing business risks through TNFD disclosure and through compliance with EU regulations, and initiatives related to environmental business opportunities.



Progress in issue sharing and advancement through the steps was observed at some companies, particularly in areas such as setting and disclosing KPIs for human resource strategies aligned with management strategies and utilizing employee engagement surveys.



Progress to steps 5 and 6 was observed in areas such as business portfolio review, promotion of ROIC-based management, and reduction of cross-shareholdings.

* Simple comparisons between the composition by materiality at the end of June 2024 and at the end of June 2025, and between steps at the end of June 2024 and the beginning of July 2024, are not feasible.
 - Brands and themes are replaced as part of the annual plan at the beginning of July 2024.
 - Themes that achieved targets by the end of June 2024 (steps 5 and 6) are excluded.

Engagement with a Wide Range of Stakeholders

Our engagement extends beyond investee companies, etc. to a wide range of stakeholders, including public agencies, exchanges, industry associations, NGOs, and academic institutions. The main engagement achievements over the past year (July 2024 to June 2025) are summarized in the table below.

Engagement targets	Engagement content (timing)
ISS	Dialogue on exercise of voting rights policy (August 2024)
Sustainalytics	Dialogue regarding research services on breaches of international norms (August 2024)
Central Research Institute of Electric Power Industry	Exchange of opinions on climate change response (decarbonization, the Seventh Strategic Energy Plan, emissions trading) (October 2024)
Financial Services Agency	Dialogue on the reduction of cross-shareholdings (February 2025)
Ministry of Economy, Trade and Industry	Dialogue on promoting women's participation in corporations, focusing on "Nadeshiko Brand companies" (April 2025)
Banco Central do Brasil	Exchange of information and opinions on economic conditions, sustainability disclosure, and finance in Japan and Brazil (April 2025)
WWF Japan	Exchange of opinions on TNFD disclosure (May 2025)
The Institute of Energy Economics, Japan	Exchange of opinions on the Japanese government's Strategic Energy Plan (June 2025)

Domestic Equity Engagement Case Studies

Domestic Manufacturing Company A

Reducing the risk of corporate value impairment by formulating greenhouse gas reduction plans with targets on a consolidated basis

E: Climate Change

Reduction of Greenhouse Gas Emission

Top-Down Approach

SMTAM's View and Opinion

Company A's business strategy aims to maintain and expand production through a global production framework and includes overseas investments to ensure stable procurement of raw materials. However, its 2030 greenhouse gas reduction targets do not include overseas subsidiaries or equity-method affiliates. We believe the company should establish targets aligned with international standards on a consolidated basis.

Response from Company A

In managing both domestic and overseas operations, we determine which group companies and scopes (Scopes 1 to 3, etc.) to include in our greenhouse gas reduction targets based on international trends, local regulations, and discussions regarding information disclosure systems and standards. However, setting uniform targets that include equity-method affiliates is not considered practical.

Responsible staff from Stewardship Development Department at SMTAM



Associate Director, Company A



Engagement Outcomes

As a result of continued engagement, Company A disclosed emission data for its overseas equity-method affiliates, clarifying that even with targets set on a domestic consolidated subsidiary basis, the majority of emissions under the company's consolidated total were covered. Later, Company A disclosed the emission reduction targets of each overseas equity-method affiliate in its presentation materials. However, it merely published the targets submitted by those affiliates without additional analysis or integration.

Evaluation and Future Policy

While we commend Company A for disclosing consolidated emissions and reduction targets, the approach to disclosing the goals of equity-method affiliates lacks sufficient governance consideration, even when accounting for regional differences. From a climate change governance perspective, the company needs to align its targets with the overall group business strategy and review its framework and approach accordingly. Disclosing the amount of investment required to achieve reduction targets would also help improve the effectiveness of its reduction plan. Over the medium to long term, we intend to encourage the introduction of remuneration systems for executives linked to greenhouse gas reduction incentives.



Engagement

Domestic Non-Manufacturing Companies B and C (C is a listed subsidiary of B) Encouraging consideration of improving capital efficiency, including dissolution of parent-subsidary listings

G: Corporate Behavior,
Stability & Fairness

Capital Efficiency, Dissolution
of Parent-Subsidiary Listings

Top-Down Approach

SMTAM's View and Opinion

[Company B] In its medium-term management plan, Company B has set a target ROE of 7% or higher, but the process for achieving it remains unclear. The company claims that its ROIC, calculated on an operating profit basis, exceeds its WACC. However, given the significant outflow of profits to minority shareholders, we believe it is essential that its net profit-based ROE exceed its cost of equity capital. To achieve its ROE target, three measures appear effective: improving capital efficiency in business segments with high ownership ratios, exiting unprofitable businesses, and curbing profit outflows to minority shareholders in listed subsidiaries. However, the company needs to present a clear roadmap for implementing these measures.

[Company C] As a listed subsidiary of Company B, Company C should clearly explain that intra-group transactions do not hinder capital efficiency, and articulate the group synergies, benefits of being listed, and its independence from the parent company.

Responses from Companies B and C

[Company B] We acknowledge the three suggested approaches for achieving the ROE target of 7% or higher, but we currently assume maintaining our existing ownership ratios in listed subsidiaries. To clarify our path to achieving this goal, we are considering developing a logic tree that outlines how to reach an ROE of 7% or higher.

[Company C] Intra-group transactions are not a hindrance to improving capital efficiency. We plan to enhance information disclosure as an independent listed subsidiary.

Equity analyst and
responsible staff
from Stewardship
Development
Department at
SMTAM



Representative Director and
President, Company B
Representative Director and
President, Company C



Engagement Outcomes

Company B announced the full acquisition of two listed subsidiaries, including Company C. Company B decided to shift toward a growth strategy leveraging the group's scale and to expand its business domains. As part of its consolidated financial strengthening measures, the company declared its intention to enhance corporate value by reintegrating externally leaked profits, reinforcing capital, generating stable cash flows, and promoting growth investments within the group.

Evaluation and Future Policy

Previously, the outflow of profits to minority shareholders prevented operating profit growth from translating into net profit growth, which serves as the basis for shareholder returns. Moreover, concerns over minority shareholder protection had prevented the group from fully realizing the benefits of its scale, hindering improvements in capital efficiency. Thus, this move is evaluated positively as an effort to enhance overall group corporate value. However, there remains room for reviewing the business portfolio. Alongside efforts to achieve profit growth by leveraging group scale, we will continue encouraging further improvements in capital efficiency.



Engagement

Domestic Non-Manufacturing Company D

Encouraging companies highly dependent on natural capital to improve the sustainability of key raw material procurement

E: Pollution & Waste

Sustainable Procurement

Top-Down Approach

SMTAM's View and Opinion

Company D is working to improve traceability in sustainable raw material procurement, but its global sustainability ratings referenced by investors remain relatively low. As the company positions overseas business expansion as a core growth strategy, compliance with sustainability standards is essential. The company should disclose progress on improving traceability in raw material procurement in line with sustainability-related regulations, along with KPIs and KGLs. We have shared examples of best practices from other companies for their reference.

Response from Company D

We understand that developing systems capable of meeting strict overseas sustainability regulations will soon become a prerequisite for overseas business growth. However, our traceability framework is still under development, and there remains room for improvement to fully comply with sustainability-related regulations. We would like to use the best practices shared as a reference.

Equity analyst and responsible staff from Stewardship Development Department at SMTAM



Managing Executive Officer and Head of SDGs Promotion Office, Company D



Engagement Outcomes

Company D announced its group environmental vision toward 2050. It also set an interim target for FY2030 to ensure that 100% of raw materials are procured with environmental and social consideration in mind.

Evaluation and Future Policy

We commend Company D for not only setting sustainable procurement targets but also disclosing the scope of covered materials, evaluation criteria, and distribution of supplier ratings. Going forward, we will continue to monitor efforts to expand the coverage scope and encourage suppliers to achieve higher sustainability ratings, thereby strengthening the value chain, ensuring sustainable overseas business growth, and reducing environmental impact.



Engagement

Domestic Manufacturing Company E

Encouraging accelerated reduction of cross-shareholdings integrated with the exercise of voting rights and greater transparency in cash allocation

G: Stability & Fairness,
Corporate Behavior

Cross-Shareholdings,
Clarification of Capital Use

Top-Down Approach

SMTAM's View and Opinion

Through ongoing engagement with top management, we share the understanding that Company E's excessive cross-shareholdings are one of the causes of its low ROE. This situation conflicts with our Guideline on the Exercise of Voting Rights, and unless improvements are made, it may affect our voting decisions at the general meeting of shareholders. The current reduction target is insufficient. Company E should present a more ambitious reduction plan and a clear strategy for effectively utilizing the proceeds from share sales. Given the limited returns from past M&A and investment activities, a clear strategy for enhancing corporate value is needed.

Response from Company E

Relationships with the companies in which we hold cross-shareholdings are changing, and the necessity of maintaining these holdings is diminishing. Agreements toward selling these shares are nearly finalized. As significant capital will be required for future investment plans, we intend to review our cross-shareholding reduction plan accordingly.

Equity analyst and responsible staff from Stewardship Development Department at SMTAM



Representative Director and President, Company E



Engagement Outcomes

Initially, Company E announced plans to sell about one-third of its cross-shareholdings over five years. Three months later, the company revised its plans to complete the sale within two years and continue reducing holdings until the ratio falls below 20% of net assets.

Evaluation and Future Policy

We have engaged with Company E on improving ROE through both the reduction of cross-shareholdings and effective use of sale proceeds. We commend the company for clarifying its target reduction level, timeline, and for reaching general agreement with investee firms. The next challenge is to translate these efforts into tangible ROE improvement, and we will continue to encourage the company to make effective use of funds through strategic investments.



Engagement

Bond Engagement

Yasuhiro Nakamoto

Senior Analyst, Credit Research Team, Corporate Research Unit,
Research Department



■ Basic Principles and Significance

We place great importance on sustainable value creation and the stability of corporate creditworthiness, and aim to help realize both through engagement. While bondholders do not possess voting rights like shareholders, they provide direct financing to companies, and we recognize that they thus hold a form of substantive influence over management. Therefore, we believe bondholders have both the legitimate right to request sustainable growth and risk control from companies, and the responsibility to help sustain the broader economy and society.

To fulfill this responsibility, an approach tailored to the characteristics of the bond market is essential. In the bond market, governance failures or financial weaknesses often have a direct and significant impact on credit evaluation, bond prices, and funding conditions. Taking these factors into account, we actively utilize engagement opportunities such as one-on-one meetings and roadshows prior to bond issuance to conduct ongoing and constructive dialogue with issuers.

■ Scope and Priority Themes

Our bond engagement addresses a wide range of issues across the areas of environment, society, and governance, with a particular focus on identifying and addressing risk factors that may affect issuer creditworthiness. While leveraging dialogue frameworks common to other asset classes such as equities, our bond engagement approach incorporates bond-specific perspectives such as credit risk management and market stability.

Since governance failures often have a direct impact on corporate creditworthiness and bond pricing, we position governance as our highest-priority engagement theme. We believe environmental and social initiatives can only be effective when supported by sound governance structures, and we conduct engagement on these themes with awareness of their interrelationship with governance.

Maintaining a prudent balance between financial soundness and capital efficiency is another critical issue. Excessive pursuit of financial stability can lead to declining capital efficiency and, in turn, activist intervention and financial deterioration. We therefore conduct engagement with an emphasis on maintaining a balance that includes capital efficiency.

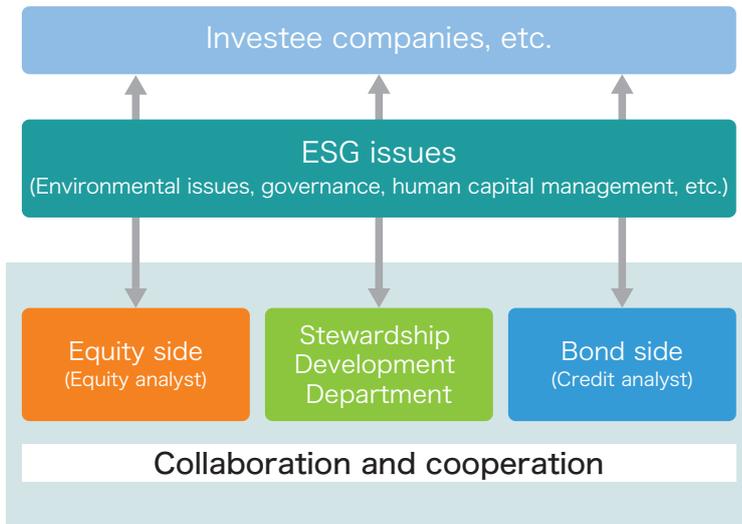
We also actively promote sustainable finance. We view corporate engagement in sustainable finance as a way not only to link funding and business activities with social issue resolution, but also to align behavioral transformation with risk reduction.

Such initiatives contribute to more advanced sustainability management and greater market credibility, ultimately stabilizing corporate creditworthiness.

■ Approach and Structure

For issues common across asset classes, engagement is carried out collaboratively by the Stewardship Development Department and equity analysts. For bond-specific issues, credit analysts and other Fixed-Income Specialists take the lead, engaging in dialogue in cooperation with equity analysts when necessary. In particular, when addressing the balance between financial soundness and capital efficiency, integrating both perspectives is considered effective.

Figure 1: Collaboration with equity analysts and the Stewardship Development Department



Under this framework, our bond engagement emphasizes practical dialogue that reflects the specific characteristics of the bond market. Engagement typically takes place through one-on-one meetings prior to bond issuance. In these discussions, we take a multifaceted approach that reflects a bond investor’s perspective, covering topics such as funding policies, information disclosure quality, covenant design, risk management systems, transparency in use of proceeds, impact reporting, and external review acquisition status. Strengthening relationships with issuers is also essential to achieving these objectives. Since the bond market is less sensitive to corporate behavior changes

than the equity market, fostering stronger relationships with investors and enhancing visibility directly contributes to reinforcing a company’s funding base. We proactively propose strategic communications for expanding the investor base, improving information dissemination, and diversifying funding methods.

Effectiveness and Evaluation of Engagement

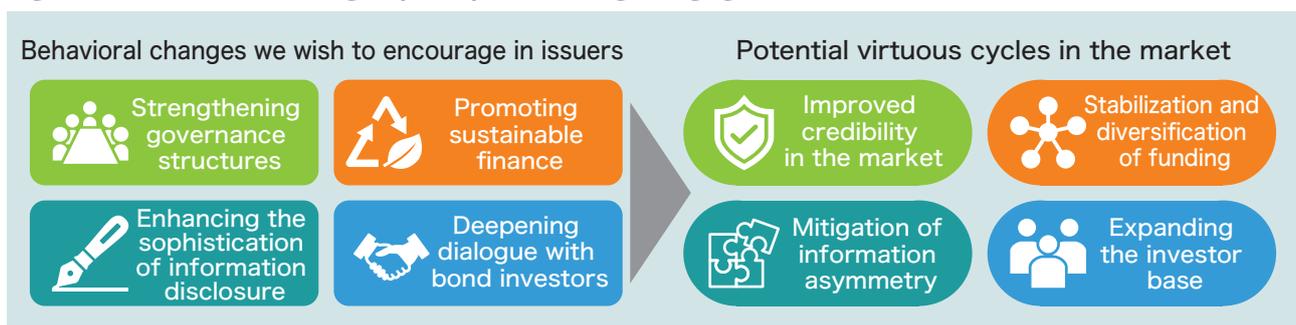
Through engagement in bond investment, we aim to drive changes in corporate behavior, enhance creditworthiness, and ensure market soundness. Improvements in corporate governance, financial soundness, and information disclosure quality not only strengthen issuer creditworthiness but also contribute to greater liquidity in the corporate bond market. As a result, we expect tighter spreads and a more stable investment environment, driven by improved supply and demand dynamics in the primary and secondary markets.

That said, behavioral change at companies is not achieved through a single dialogue. It is encouraged step by step through ongoing engagement, and it takes time before such change is recognized by the market. We regard supporting the entrenchment of these changes and their diffusion into the market as part of our responsibility as bond investors.

Appropriate evaluation of outcomes is also essential. We review credit spreads, ratings, investor distributions for new issues, and spread volatility. We also place importance on disclosure stance, governance improvements, sustainable finance track records, impact indicators, and external reviews. If a company shows insufficient change, we consider reflecting this in our investment decisions, including continuing dialogue, requesting enhanced information disclosure, not investing in new bond issues, or requesting revised terms.

Through these initiatives, we aim to strengthen issuer credibility in the market, stabilize the investment environment, and achieve sustainable investment outcomes.

Figure 2: Behavioral changes prompted through engagement



Bond Engagement Case Studies

Domestic Non-Manufacturing Company F

Encouraging early redemption of bonds after delisting to avoid deterioration of existing bondholder rights

G: Corporate Behavior

Capital Policy

Risk Approach

SMTAM's View and Opinion

A tender offer by an investment fund followed by going private would significantly raise financial leverage, and we are concerned about reduced frequency and quality of management information disclosure and the effective subordination of existing bonds due to collateral pledged for LBO loans. The impact on existing bondholders would be substantial. Given that bonds were issued while delisting was under consideration, we believe early redemption after the tender offer would be appropriate. If early redemption is decided internally, we request a prompt public release to dispel investor concerns.

Response from Company F

We fully understand the situation and disadvantage faced by bondholders, as well as the importance of maintaining access to the bond market in the event of a future relisting. We appreciate your valuable comments and will discuss them with the investment fund that will become the shareholder after delisting.

Credit analyst at SMTAM



Senior Executive Officer, Company F



Engagement Outcomes

After the tender offer was completed, the issuer released a statement that it was considering early redemption of the bonds. The company implemented measures consistent with our requests, including conducting early redemption and issuing an early notice regarding it.

Evaluation and Future Policy

As a result of our dialogue, Company F indicated its policy for early redemption, avoiding deterioration of bondholder rights and damage to fund performance. With more LBO and MBO delisting cases, in addition to post-announcement dialogues like this one, we plan to request change-of-control clauses* and other bondholder protections during pre-issuance meetings.



Engagement

* A clause that, in the event of a change or transfer of control due to M&A and similar events, places restrictions on contract terms or allows the other partner to terminate the contract.

Domestic Manufacturing Company G

Deploying multifaceted engagement through collaboration with equity analysts and the Stewardship Development Department

G: Corporate Behavior

Capital Policy and Portfolio Transformation

Risk Approach

SMTAM's View and Opinion

We believe the market's assessment is harsher than quantitative metrics due to a strong sense of uncertainty regarding the concreteness of structural reforms and the long-term vision beyond them. For structural reforms, in addition to clarifying business strategy such as "defining market and model rollout targets," it is essential to present "cash flow and balance sheet plans for core businesses," which are key to planning ongoing business investment. Governance, long considered a factor behind stalled or ineffective structural reforms, also requires more detailed reforms and explanations at this juncture.

Response from Company G

We recognize the need for a concrete and executable plan and will address this. SMTAM's point on governance is valid. To be candid, dissatisfaction and distrust toward management are rising internally, and we are concerned about how much the voices on the ground will be reflected.

Credit analyst, equity analyst, and responsible staff from Stewardship Development Department at SMTAM



General Manager of IR Department, Company G



Engagement Outcomes

In the structural reform plan announced with the FY2024 year-end results, Company G presented the core business cash flow plan we had requested. The market also noted that "the plan is more concrete than before." A partial review of the management structure was announced at the same time.

Evaluation and Future Policy

We have been working collaboratively with the Stewardship Development Department and equity analysts on IR and engagement, and we recognize that deep-rooted governance issues are a major reason why structural reforms have not progressed. There were moments when expectations rose for overcoming difficulties through merger talks with a peer, but we recognized the risk that the situation could worsen given the governance problems. In practice, we sold all our holdings of Company G bonds before the talks collapsed, thereby avoiding subsequent damage to fund performance. As corporate actions increase due to governance and capital reforms, we believe it is necessary to continue deploying multifaceted bond engagement in collaboration with the Stewardship Development Department and equity analysts.



Engagement

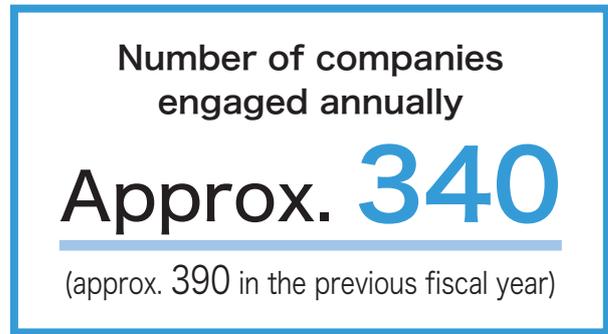
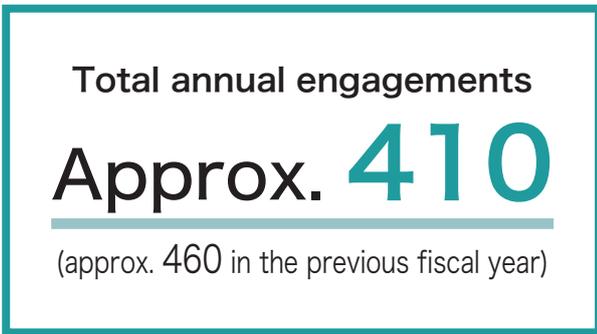
Foreign Equity Engagement



Takeshi Wada

Senior Stewardship Officer, ESG Research and Development Office, Stewardship Development Department

■ Results of Foreign Equity Engagement



■ Process for Selecting Engagement Targets

While the engagement process is common across all asset classes, foreign equity engagement involves a larger number of investee companies and a broader regional scope than domestic equities. This requires greater efficiency to ensure effective engagement. To achieve this, our three global bases in Japan, the UK, and the US collaborate to strengthen direct dialogue with overseas companies while leveraging external resources and participating actively in global initiatives, thereby enhancing both the efficiency and sophistication of our stewardship activities.

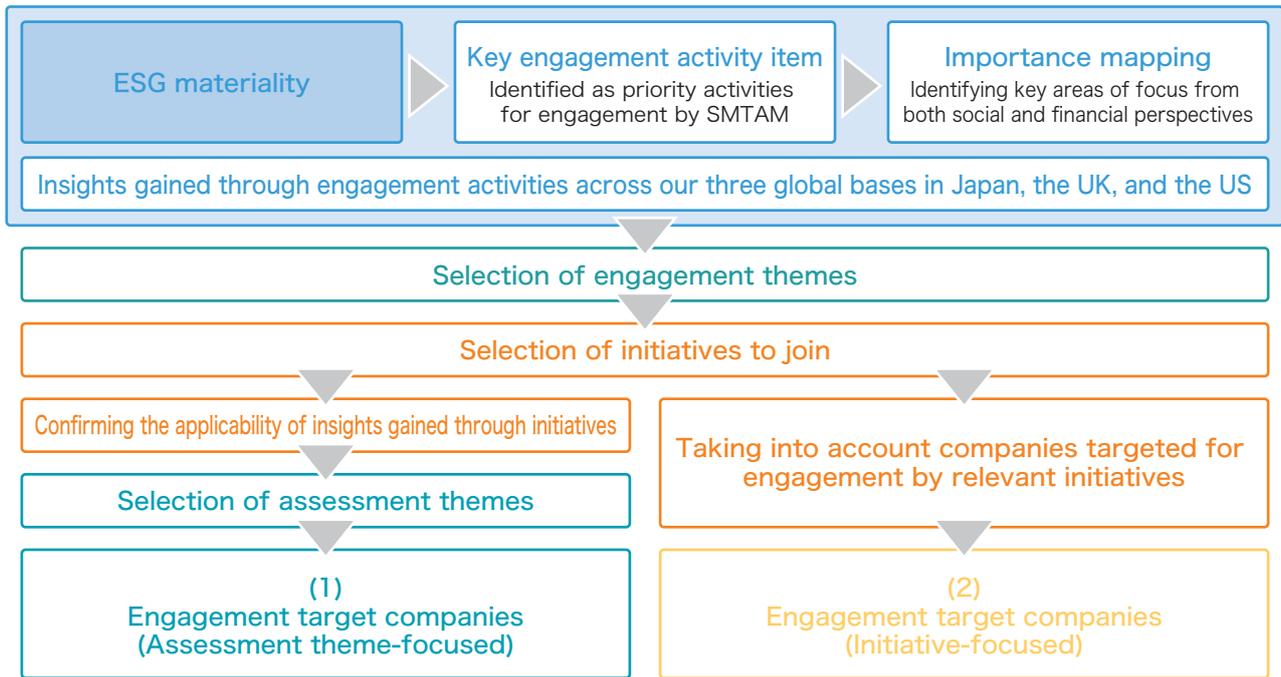
Based on these characteristics, our foreign equity engagements primarily employ a “top-down approach,” while also considering a “risk approach” that emphasizes compliance with international standards and rules and the improvement of corporate governance in selecting engagement targets. Below, we outline the process for selecting engagement themes and target companies under the “top-down approach,” as well as the methods used for engagement.

■ Selection of Engagement Themes and Target Companies

In addition to mapping the importance of key activity items in engagement based on ESG materiality items, we select engagement themes for the top-down approach and determine relevant initiatives to join, drawing on the deep insights and knowledge on companies and industry trends accumulated through ongoing engagement by our three global bases.

Engagement target companies are then selected based on two main criteria: (1) alignment with assessment themes for which initiative-based company evaluation frameworks and data can be effectively utilized, and (2) inclusion among the engagement targets of those initiatives. The final selection of target companies includes not only large firms representing their industries but also smaller, specialized companies relevant to each theme, while maintaining a balanced geographic distribution.

Process for selecting engagement themes and target companies for foreign equities under the top-down approach



■ Engagement Methods

Engagement with overseas companies is conducted directly by dedicated stewardship professionals stationed at our three global bases. Japan primarily covers the Asia-Pacific region, the UK covers Europe, and the US covers the Americas.

For companies selected through the top-down approach based on assessment themes (assessment theme-focused), we utilize the sustainability evaluation frameworks of initiatives in which we participate, supplemented by our proprietary scoring, to identify specific engagement agendas. For companies selected from initiative-targeted lists (initiative-focused), in addition to individual engagements, we often serve as lead managers in collaborative engagements, taking an active role in driving the engagement process. Furthermore, by serving in leadership positions within certain initiatives, we contribute to enhancing the effectiveness of their overall activities.

■ Engagement Approaches and Key Activity Examples

Top-down approach	
Climate change	<ul style="list-style-type: none"> ● We participate in Climate Action 100+ (CA100+), where we promote initiatives aimed at reducing greenhouse gas emissions and improving disclosure among high-emitting companies. Since 2024, we have been actively involved in the initiative's management as Co-Chair of the Asia Advisory Group. ● We participate in the Asia Investor Group on Climate Change (AIGCC), promoting initiatives aimed at reducing greenhouse gas emissions and improving disclosure among Asian companies not included in CA100+. We also serve as Co-Chair of the Forest and Land Use Working Group.
Natural capital	<ul style="list-style-type: none"> ● We participate in Spring and Nature Action 100, which are collaborative engagement initiatives led by PRI, where we encourage companies to disclose information related to natural capital. ● We participate in the Valuing Water Finance Initiative led by Ceres, where we act as lead or collaborative manager in collaborative engagements with domestic and international companies concerning water resource management.
Risk approach	
Human rights Scandals	<ul style="list-style-type: none"> ● We participate in PRI Advance, promoting corporate action to address human rights issues such as the protection of workers' rights in supply chains. ● We utilize ISS ESG - Norm Based Engagement to engage with companies that violate international norms on environment, human rights, labor, and anti-corruption, urging corrective action. ● We engage with companies involved in corporate misconduct or systemic illegal activity to address root causes and preventive measures. We select targets based on Sustainalytics scores and other relevant indicators.
Market cap approach	
—	<ul style="list-style-type: none"> ● We cover activities across all global initiatives.

* Items in red refer to initiatives and external resources (see pages 93 to 98 for details).

US New York Office Activity Report

Sumitomo Mitsui Trust Asset Management
Americas, Inc.

Masaru Okubo

Senior Stewardship Officer
Sumitomo Mitsui Trust Asset Management Americas, Inc. (US subsidiary)



Sumitomo Mitsui Trust Asset Management Americas (SuMiTAMA) is a wholly-owned subsidiary of SMTAM located in New York City, US. As a responsible institutional investor in the Americas, SuMiTAMA conducts stewardship activities to enhance corporate value and address environmental and social issues. In addition, we provide client services to US-based pension funds, foundations, and high-net-worth individuals by offering Japanese equity investment products managed by our firm. We also conduct research on US investment products offered to clients in Japan and perform due diligence on asset management companies.

■ Engagement Activities at SuMiTAMA

The core of SuMiTAMA’s stewardship activities lies in engagement with investee companies across the Americas. We focus on key issues identified as priorities by our firm: climate change, natural capital, human capital (including diversity and work environment), and corporate governance structures (including AI governance). As part of our initiatives related to natural capital, we participated in the Valuing Water Finance Initiative launched by US-based Ceres and in the Principles for Responsible Investment (PRI) collaborative engagement program, conducting over 100 engagements, both individual and collaborative, between July 2024 and June 2025. Beyond corporate engagement, we also participate in the Investor Policy Dialogue on Deforestation (IPDD) and conduct our own initiatives to engage with government authorities in Brazil and other stakeholders on eliminating deforestation. Furthermore, SuMiTAMA participates in meetings organized by initiatives such as the Council of Institutional Investors and Nature Action 100, where we share insights through panel discussions on trends in Japanese companies’ corporate governance and our efforts toward natural capital conservation.

Photo 1: Panel discussion at the Council of Institutional Investors Spring Conference



■ Examples of Corporate Engagement and Utilization of Initiatives

(1) Climate Change (JPMorgan Chase & Co., US - Banking)

In the context of climate change transition, financial institutions are required to provide solutions tailored to client needs and to engage in complex initiatives such as comprehensive risk management. Disclosure of Scope 3 emissions associated with lending portfolios and investment banking operations serves as the foundation for such efforts. As one of the leading US banks, the JPMorgan Chase & Co. has shown leadership in addressing climate change and enhancing disclosure by setting sector-specific 2030

reduction targets for financed emissions^{*1}, expanding coverage to power, oil and gas, automotive, steel, cement, aviation, and shipping sectors. We have been engaging with JPMorgan Chase & Co. since 2020. Through Ceres' Banks Working Group, we facilitate discussions among institutional investors and contribute our research and insights regarding how North American banks are addressing climate-related issues, thereby deepening dialogue. In terms of disclosure, we have discussed the need for transparency around financed emissions and facilitated emissions^{*2}. Subsequently, JPMorgan Chase & Co. began disclosing figures for these categories within key sectors, expanding the scope of climate-related disclosures in its financing operations. Moreover, it improved transparency by introducing and disclosing a new climate-related metric, the Energy Supply Financing Ratio^{*3}, which includes financing for decarbonized energy. Although JPMorgan Chase & Co., like other major US banks, withdrew from the Net-Zero Banking Alliance^{*4}, it has maintained its commitment to addressing climate change. We continue to place high importance on engagement with climate risk management and opportunity creation.

(2) Natural Capital and Water Resources (Domino's Pizza Inc., US - Restaurant)

For fast-food restaurant chains, sustainable water resource use across the value chain represents a key business risk factor. It is therefore essential to conduct comprehensive water resource risk assessments and develop appropriate response measures. Issues related to natural capital within agricultural supply chains are closely linked to climate change challenges. Engagement focused on reducing greenhouse gas emissions, conserving water, and protecting biodiversity across the supply chain began in 2020 and has been conducted through collaborative engagement programs such as Ceres' Global Meat Sourcing (jointly with FAIRR) and the Valuing Water Finance Initiative. Domino's Pizza Inc. views sustainability efforts as a source of brand value and competitive advantage. It formulated a reduction plan including Scope 3 emissions and obtained Science Based Targets (SBT) certification^{*5} in 2024, covering land use and agriculture. In its risk assessment, Domino's Pizza Inc. identified high-risk areas within its own operations and supply chain and began developing response plans and engaging with key suppliers. Going forward, the company plans to broaden its agenda to areas closely linked to business sustainability, such as water quality management, biodiversity protection, and policy advocacy, to support supplier engagement and risk mitigation.

■ Plans for the Future

In the US, the rollback of ESG policies implemented by the previous administration is accelerating under the Trump administration. Meanwhile, ESG policies have become increasingly polarized at the state level, widening differences in stance among state governments. In addition to political complexities, economic uncertainty is growing due to tariff issues and concerns over fiscal deterioration. Against this backdrop, the importance of dialogue that balances the interests of conflicting stakeholders from a medium- to long-term perspective, as well as engagement that enhances corporate value and resilience, is increasing. At the same time, supporting companies that view environmental and social challenges as opportunities is also an important aspect of engagement. In the US, energy companies such as Occidental Petroleum are developing carbon capture projects. These projects utilize certain tax credits established under the Inflation Reduction Act. Although opinions differ on whether captures and stored greenhouse gases should be considered as emission reductions, we continue to engage with companies pursuing such initiatives to understand and support strategies that contribute to addressing these challenges.

Photo 2: Engagement with Occidental Petroleum



We will continue to focus key themes such as climate change, human capital (including diversity), and natural capital, promoting engagement as a responsible investor to enhance the sustainable value of American and South American investee companies, aiming to increase our clients' investment returns.

^{*1} Total greenhouse gas emissions associated with the entire investment and lending portfolio.

^{*2} Greenhouse gas emissions generated by investment or financing projects intermediated by securities firms or investment banks.

^{*3} A metric indicating the amount of clean energy financing relative to fossil fuel financing (with fossil fuel financing set at 1)

^{*4} An international framework under which banks aim to achieve net-zero greenhouse gas emissions in their investment and lending portfolios by 2050

^{*5} Certification by the Science Based Targets initiative (SBTi), which supports and validates companies in setting scientifically grounded greenhouse gas reduction targets aligned with the goal of limiting global temperatures rise to 1.5°C above pre-industrial levels.

UK London Office Activity Report

Sumitomo Mitsui Trust International Limited

Satoshi Takei

Senior Stewardship Officer
Sumitomo Mitsui Trust International Limited (UK subsidiary)



Sumitomo Mitsui Trust International Limited (SuMiTI), our wholly-owned subsidiary, is in the City district of London, UK. We contribute to engagement strategies both in Japan and overseas through stewardship activities with European companies and by tracking policy trends in ESG, that is, environment, society, and governance. We also provide investment products to pension funds and sovereign wealth funds (SWF) in Europe and the Middle East. In addition, we play an important hub role in sourcing investment opportunities that meet diverse client needs, such as conducting manager research to offer overseas investment products to investors in Japan.

Engagement Activities at SuMiTI

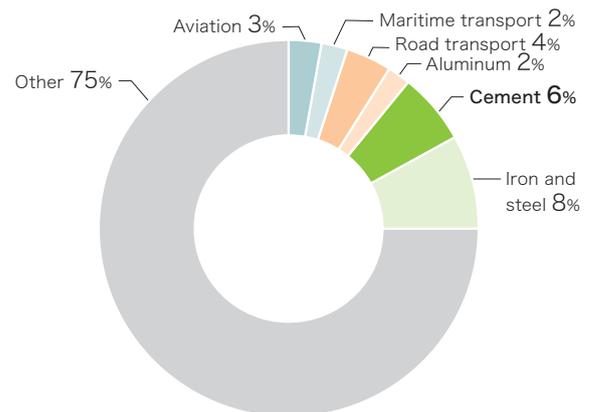
At SuMiTI, we engage with European companies to help realize a sustainable society, enhance corporate value, and expand entrusted assets. Over the past year, in addition to themes such as climate change and human rights, we have broadened our activities to address the growing range of ESG issues, including natural capital and supply chain sustainability. By focusing our engagement with more than 100 companies per year on practical, on-the-ground issues, we have seen changes in corporate behavior and improvements in disclosure. Since 2024, we have participated in Spring, a natural capital initiative established by the Principles for Responsible Investments (PRI), and have stepped up dialogue on biodiversity and forest conservation. We also contribute to enhancing our Group's corporate evaluation methodologies in line with developments in European ESG regulation. We will continue to emphasize effectiveness in our activities and contribute to the sustainable growth of investee companies and to improving sustainability across society.

Examples of Corporate Engagement and Utilization of Initiatives

(1) Climate Change Issues (Holcim, Switzerland - Cement Manufacturing and Sales)

Solving climate change issues requires bold action even in sectors that are considered hard to decarbonize, and the cement industry is a prime example. Despite manufacturing processes where CO₂ emissions are difficult to avoid, Holcim, a leading Swiss cement company, has taken an industry-leading stance by setting a net zero target and advancing science-based measures. Since 2019, we have engaged with Holcim to encourage disclosure on key measures and achievement of targets across the supply chain, including developing low-carbon cement, utilizing renewable energy, and expanding investment in carbon capture, utilization, and storage (CCUS).

CO₂ emissions from the cement industry account for about 6% of the global total



(Source: World Economic Forum Insight Report 2024)

Through engagement, the quality of their medium-term plan toward the net zero goal improved, and specific metrics were introduced, notably quantitative targets for carbon capture and for production volumes of net zero cement. Holcim has also clarified a strategy that balances sustainability and business growth, presenting plans to cut costs and reduce greenhouse gas emissions by increasing in-house sourcing of alternative raw materials.

Going forward, we plan to monitor progress on strategies such as increasing the sales ratio of low-carbon cement, reusing construction waste, and deploying CCUS, as well as their impact on performance. Even in sectors that are difficult to decarbonize, the number of companies driving change is steadily increasing. We will continue contributing to a sustainable future through collaboration among our offices and with initiatives.

(2) Natural Capital (BASF, Germany - Chemicals)

As a theme, the conservation and sustainable use of natural capital is as important as climate change, and assessing and managing environmental impacts across the full product life cycle has become essential for evaluating corporate responsibility. The chemical industry is highly dependent on natural capital in raw material procurement and exerts significant impacts in disposal stages, so improved disclosure and more advanced risk management are required.

Since 2018, we have engaged with BASF, one of the industry's leading companies, on climate change and natural capital, focusing on enhanced disclosure of Scope 3 emissions, expanded scope and criteria in product portfolio-level sustainability assessments, and disclosure of biodiversity impacts and risks. Through engagement, the BASF set a Scope 3 reduction target and disclosed "Triple S," its proprietary framework that evaluates its products along environmental, social, and economic dimensions. It has also expanded coverage of assessed products, refreshed the framework, and set a goal for more than 50 percent of sales by 2030 to come from products in the top two sustainable categories, Pioneer and Contributor. Triple S applies criteria aligned with EU policy and has been embedded from the early stages of new product development, strengthening governance and transparency.

Global initiatives such as PRI Spring also play an important role in our dialogue with BASF. By incorporating competitive benchmarking and alignment with external frameworks, our approach promotes not only better disclosure but also the deepening of sustainability strategy. Natural capital is a domain where quantitative assessment and integration with business strategy are challenging, but we will continue engagement that leverages our expertise and collaboration with initiatives.

Engagement with PRI



■ Plans for the Future

ESG policy in Europe has entered a new phase, with a transition underway from tighter regulation to more flexible and pragmatic implementation against a backdrop of rising geopolitical risk and economic instability. Amid these changes, more companies are seeking to treat ESG not merely as risk management but as a source of competitive advantage.

We are strengthening collaboration with initiatives such as PRI Spring, particularly on natural capital, and advancing engagement with companies on TNFD alignment and biodiversity risk disclosure. Going forward, we will further support the balance of competitiveness and sustainability, taking into account local policy trends and industry structures.

Foreign Equity Engagement Case Studies

Case 1 | Overseas | Sika AG (Switzerland, Chemical and Construction Materials)

Sika AG has identified its Scope 3 emissions, but its reduction plan remains insufficient. In addition, sustainability assessments of its products are limited, and disclosure of alignment with its business strategy remains a challenge.

E: Climate Change

Greenhouse gas emissions reduction

G: Improvement in Governance

Board of Directors effectiveness (executive compensation system)

Top-down approach

<p>SMTAM's View and Opinion</p>	<p>Sika AG should: (1) disclose a roadmap for Scope 3 emission reductions, (2) clearly define the framework and scope of its product sustainability assessments and integrate them with its business strategy, and (3) incorporate ESG elements into both short- and long-term management incentive plans.</p>
<p>Company Response</p>	<p>We aim to obtain SBT certification within the next two years. We have introduced and disclosed a Sustainability Portfolio Management (SPM) framework for assessing product sustainability, but the current product coverage is limited. We intend to expand this scope and improve disclosure going forward. Regarding the executive compensation system, ESG indicators have been incorporated only into short-term incentive plans so far, and we are considering including them in long-term incentive plans as well.</p>
<p>Engagement Outcomes</p>	<p>(1) Interim reduction targets for Scope 1, 2, and 3 emissions were certified by the SBT initiative. (2) Sika AG published its SPM framework, which evaluates products using 12 sustainability and 6 performance criteria, expanded disclosure coverage, and enhanced transparency regarding environmental assessments by product. (3) The executive compensation system was revised to include ESG indicators as part of the performance criteria for 20% of long-term incentives.</p>
<p>Evaluation by SMTAM / Future Policy</p>	<p>Items (1) and (3) have been achieved. Engagement efforts that leveraged evaluations and insights from external initiatives in which we participate, as well as peer benchmarking and examples of industry best practices, contributed to these positive developments. While there has been progress on item (2), the range of products covered under the SPM framework remains limited. We will continue our engagement to encourage broader product coverage within the SPM framework and enhanced disclosure regarding its integration of their business strategy.</p>

Case 2 | Overseas | BASF SE (Germany, Chemical)

Expansion of product evaluation scope related to environmental impact and improved disclosure regarding biodiversity impacts

E: Climate Change, Natural Capital

Expansion of sales for environmentally beneficial products and services, and restoration of biodiversity

Top-down approach

<p>SMTAM's View and Opinion</p>	<p>Regarding climate change initiatives, BASF SE should: (1) disclose its Scope 3 emissions reduction targets, (2) expand the scope of product evaluations related to environmental impact, and (3) improve disclosure regarding its biodiversity impacts.</p>
<p>Company Response</p>	<p>(1) Regarding the establishment of targets for reducing Scope 3 emissions, we are currently in discussion with assessment organizations such as the SBTi on methodologies for establishing reduction targets in the chemical industry and are also working with suppliers to build a data platform.</p> <p>(2) We are expanding the scope of our sustainability assessments for our products and are in the process of implementation.</p> <p>(3) For natural capital, we intend to adopt a process similar to that used for climate change initiatives and are currently in the analytical phase.</p> <p>Going forward, we aim to gather accurate data, set effective targets, and develop concrete measures.</p>
<p>Engagement Outcomes</p>	<p>(1) BASF SE disclosed its Scope 3 emission reduction targets.</p> <p>(2) BASF SE completed the evaluation of nearly all its products under its new framework, "Triple S 3.0," which assesses products across three dimensions: environmental, social, and economic. In addition, it disclosed the profitability improvement effects of expanding sales for top-rated products under Triple S 3.0 and further advanced the integration of these assessments into its financial strategy.</p> <p>(3) BASF SE published a double materiality assessment* and, using tools such as WWF's Biodiversity Risk Filter, disclosed analysis results regarding the impacts and dependencies of its production sites on biodiversity.</p>
<p>Evaluation by SMTAM / Future Policy</p>	<p>BASF SE successfully achieved all three targets we requested, (1), (2), and (3). Especially in regard to (3), the disclosure of the double materiality assessment led to the identification of biodiversity-related risks. The company was included among our top 100 global greenhouse gas emitters, with engagement conducted across multiple dimensions, including biodiversity. Their approach, incorporating insights from external initiatives, as well as peer comparisons and benchmarking, contributed significantly to these results.</p> <p>We plan to continue engagement on topics such as product evaluations under Triple S 3.0, disclosure of the financial impact from expanding the proportion of top-tier sustainable products in total sales, and the establishment of KPIs aimed at reducing biodiversity impacts.</p>

* Refers to ESG assessments aligned with the "double materiality" principle mandated for reporting under the EU's new Corporate Sustainability Reporting Directive (CSRD). This framework identifies and prioritizes climate-related impacts that could affect a company's performance, value creation, reputation, or legal standing, while clarifying the company's overall ESG impact.

Case 3 | Overseas | JPMorgan Chase & Co. (USA, Finance)

Enhanced disclosure of greenhouse gas emissions and reduction measures related to financial operations, and disclosure of facilitated emissions*¹ in investment banking operations

E: Climate Change
Greenhouse gas emissions reduction

Top-down approach

SMTAM's View and Opinion	JPMorgan Chase & Co. has expanded the sectors subject to financed emissions* ² management and reduction to include electric power, oil and gas, automobiles, steel, cement, aviation, and shipping, and has set medium-term reduction targets for 2030. However, the coverage ratio for the overall portfolio remains unclear. Moreover, improvements in accountability are needed through disclosure that also includes facilitated emissions.
Company Response	Due to unstructured data and the fact that some industries have yet to establish decarbonization pathways, it is difficult to extend reduction targets to the entire portfolio. We have conducted scenario analysis as the basis for setting targets, and plan to form a specialized team to support client companies in their decarbonization transitions.
Engagement Outcomes	In 2023, JPMorgan Chase & Co. added absolute emissions values, in addition to intensity figures, in its disclosure of financed emissions for priority sectors. In its 2024 Climate Report, the company also disclosed facilitated emissions, thereby expanding the scope of its emission reduction disclosures. The company also took the lead among peers by disclosing KPIs such as clean energy finance that highlight growth opportunities.
Evaluation by SMTAM / Future Policy	While the full disclosure or target-setting for total greenhouse gas emissions across all financial operations has not yet been achieved, the range of covered industries and business divisions is expanding. Challenges remain in addressing climate change across the overall investment and lending portfolio, including data management and the establishment of decarbonization pathways. The company also needs to focus on disclosing transition plans and strengthening efforts for a just transition. Although JPMorgan Chase & Co. has withdrawn from the Net-Zero Banking Alliance (NZBA), it has maintained its commitment to addressing climate change issues, and we plan to continue engagement to ensure that this commitment remains in place.

*1 Greenhouse gas emissions generated by investment or financing projects intermediated by securities firms or investment banks.

*2 Total greenhouse gas emissions associated with the entire investment and lending portfolio.

Case 4 | Overseas | Domino's Pizza, Inc. (USA, Restaurant Chain)

Encouraging stronger responses to climate change and water resource management within the agricultural supply chain

E: Climate Change, Natural Capital

Greenhouse gas emissions reduction, water resources

Top-down approach

**SMTAM's
View and
Opinion**

Domino's Pizza, Inc.'s efforts to address climate change issues, which we have long encouraged through engagement, have rapidly progressed with the establishment of Scope 3 reduction targets and acquisition of SBT certification. However, the company's water resource risk assessment remains limited to its own operations. Agricultural products are key raw materials for the business, and some of its main procurement regions in the United States face high water resource risks. Therefore, a comprehensive assessment, disclosure, and establishment of management targets are needed.

**Company
Response**

We position our response to sustainability issues as a source of brand value and competitive advantage, and are working to enhance these efforts. We recognize that most of our water usage occurs within the supply chain, but until now, we have prioritized addressing other management issues deemed higher in importance. Going forward, we intend to strengthen initiatives of the kind that were suggested.

**Engagement
Outcomes**

Progress was made on climate action, including setting greenhouse gas reduction targets that include Scope 3 and obtaining SBT certification. A comprehensive risk assessment on water resources has also been initiated. In its November 2024 Corporate Stewardship Report, Domino's Pizza, Inc. disclosed identification of high-risk areas for water resources, formulation of mitigation plans, and the status of dialogues with key suppliers. It also obtained SBT certification covering land use and agriculture.

**Evaluation
by SMTAM /
Future
Policy**

Domino's Pizza, Inc. has completed a comprehensive water resource risk assessment and disclosure, and is now working to establish internal systems to implement its plans. Going forward, we plan to conduct engagement to support the development of risk mitigation measures and supplier initiatives.

Case 5 | Overseas | The Walt Disney Company (USA, Media and Amusement)

Encouraging the strengthening of diversity and human capital management

S: Human Capital

Diversity, equity & inclusion

Top-down approach

<p>SMTAM's View and Opinion</p>	<p>With its wide range of contact points with consumers across businesses such as theme parks and media content creation, The Walt Disney Company recognizes diversity as a key issue and has taken appropriate measures to address it. While this is commendable, other leading companies disclose not only their results regarding diversity gaps* in turnover, promotion, and hiring rates, but also their progress in narrowing these gaps. Such disclosures could help foster an inclusive corporate culture and develop diverse next-generation leaders, thereby enhancing the company's appeal to consumer and its competitiveness in talent acquisition.</p>
<p>Company Response</p>	<p>We recognize the suggested KPIs as effective indicators but have yet to commit to their disclosure. We intend to consider doing so in the future.</p>
<p>Engagement Outcomes</p>	<p>In fiscal 2024, The Walt Disney Company disclosed its diversity gap indicators on its website and further explained the disclosure status in the presentation materials for its 2025 shareholder's meeting.</p>
<p>Evaluation by SMTAM / Future Policy</p>	<p>Going forward, we plan to engage with The Walt Disney Company to ensure that inclusive human capital initiatives, supported by time-series analysis of KPIs, contribute to strengthening organizational capability.</p>

* A state in which diversity is not sufficiently secured or realized within a company, organization, or society.

Case 6 | Overseas | POSCO Holdings Inc. (South Korea, Iron Manufacturing Group)

Encouraging the resolution of human rights and labor dispute issues at subsidiaries

G: Stability & Fairness

Prevention of scandals and recurrences (product and service safety, organizational culture reform)

Risk approach

<p>SMTAM's View and Opinion</p>	<p>In general, companies in the resources and materials industries often face human rights and labor issues such as labor disputes due to the nature of their working environments. In POSCO Holdings Inc.'s case as well, it is important to share awareness of these issues across the entire group, formulate and disclose a human rights policy, and strengthen human rights governance on a group-wide basis.</p>
<p>Company Response</p>	<p>Until now, we have sought to have subsidiaries resolve their own issues internally, but going forward, we intend to consider taking a more proactive role as the parent company.</p>
<p>Engagement Outcomes</p>	<p>POSCO Holdings Inc. established a group-wide ESG committee and adopted the UN Guiding Principles on Business and Human Rights as its framework for human rights.</p>
<p>Evaluation by SMTAM / Future Policy</p>	<p>POSCO Holdings Inc. has achieved the goals we requested regarding the formulation of group human rights principles and the strengthening of its governance framework. Going forward, we plan to monitor the effective implementation of their enhanced group human rights governance structure.</p>

Case 7 | Overseas | PTT Public Company Limited (Thailand, Energy)

Encouraging a more proactive group-wide response to climate change issues

E: Climate Change

Greenhouse gas emissions reduction

Top-down approach

SMTAM's View and Opinion	As a fully integrated energy company, PTT Public Company Limited operates across the entire value chain, from the exploration, refining, and production of natural gas and oil to their sale. Given the rapidly growing energy demand in Asia, the company should disclose group-wide policies and plans on greenhouse gas reduction, effective transition strategies, and related financial and environmental impacts.
Company Response	As the region experiences strong economic growth, it is currently difficult to disclose long-term and effective plans for reducing greenhouse gas emissions.
Engagement Outcomes	Following our engagement and the announcement of Thailand's new Nationally Determined Conditions (NDCs) under the Paris Agreement, PTT Public Company Limited formulated and disclosed a group-wide management policy targeting carbon neutrality by 2050, and announced the establishment of a climate change governance structure headed by a group vice president. In addition, the company disclosed an effective transition plan that includes capital policy measures.
Evaluation by SMTAM / Future Policy	PTT Public Company Limited made a positive commitment on group-wide climate change issues, thereby achieving nearly all of our requested goals. As the company operates extensively in fossil fuel-related businesses, we will encourage it to set Scope 3 emissions reduction targets in the future. We also plan to monitor the company's plans and progress on initiatives such as methane leakage prevention in natural gas extraction and chemical operations, advancement of carbon capture and storage (CCS) projects, and the operation of charging stations.

Case 8 | Overseas | Banco do Brasil S.A. (Brazil, Finance)

Encouraging the strengthening of management systems for preventing illegal deforestation among borrowers

E: Natural Capital

Conservation of water resources and forests, and recovery of biodiversity

Top-down approach

SMTAM's View and Opinion	While agricultural policy loans formally require that the proceeds not be used for illegal deforestation, in practice, borrowers have engaged in illegal logging and farmland clearing. Banco do Brasil S.A. should: (1) develop management systems and establish governance frameworks to prevent misconduct, (2) clarify policies on legal land conversion, and (3) strengthen information disclosure.
Company Response	We have begun using agricultural environmental registration certificates to verify the risk of illegal deforestation when executing loans. To address data deficiencies and misconduct, we plan to strengthen due diligence through third-party certification of traceability, in addition to using satellite imagery and monitoring livestock producers.
Engagement Outcomes	Government data indicate that illegal deforestation has declined, and we are now awaiting Banco do Brasil S.A.'s disclosure of progress on its initiatives.
Evaluation by SMTAM / Future Policy	Starting in 2025, we plan to use the new collaborative engagement program (PRI Spring) to further encourage Banco do Brasil S.A. to strengthen its response to forest conservation issues.

Collaborative Engagement

■ SMTAM's Collaborative Engagement

Certain social issues, such as climate change, are global concerns shared across borders. Collaborative engagement is a method of working jointly with like-minded institutional investors to address such issues. Of course, these activities are not limited to global initiatives; they may also involve regional or domestic efforts. SMTAM actively promotes collaborative engagement to support individual engagements, recognizing its potential to deliver an effect that exceeds the sum of individual institutional investors' actions and contributes to our activities' sophistication and efficiency. There are various initiatives for such collaborative engagement. The initiatives listed on the right serve as platforms for collaborative engagement. As of June 2025, we are participating in 25 initiatives systematically aligned with and mutually complementary to our ESG materiality. We carefully select initiatives based on these considerations.

Criteria for SMTAM's Participation in Initiatives

- Alignment with our ESG materiality
- Potential for synergies with individual engagements
- Opportunity to acquire new knowledge

When SMTAM Participates in Initiatives

We actively engage in their administration by assuming key positions. For example:

- Member of the management committee overseeing IPDD activities
- Governor of the International Corporate Governance Network (ICGN)
- Member of the Signatory Advisory Committee for PRI Spring
- Director of the ESG Information Disclosure Study Group (EDSG)

Expected Additional Benefits for SMTAM

We consider a key benefit of participating in these initiatives to be acquiring insights into global trends related to ESG issues and responses. By circulating this information, we elevate our entire stewardship activity. In recent years, we have also joined initiatives focused on natural capital and human rights, utilizing them for engagement with investee companies and information sharing.

Objectives	Initiative names ¹	SMTAM's materiality								No. ²
		E		S			G		Other	
		Climate Change	Natural Capital	Human Rights & Community	Human Capital	Safety & Responsibility	Organizational Structure	Improvement in Governance	Market Development/ Reports	
Support pledge	United Nations GC (Global Compact)	●	●	●	●	●		●	●	3
Awareness, information sharing, and activity promotion	PRI	●	●	●	●	●	●	●	●	1
	30% Club (UK)				●		●			7
	Invest Ahead (North America)				●		●			7
	30% Club (Japan)				●		●			22
	AMR					●				9
	ICGN						●	●		17
	CII (US)			●		●		●		15
Collaborative engagement	Climate Action 100+	●								2
	PRI spring		●							1
	PRI Advance			●						1
	ATM					●				8
	FSDA		●							12
	AIGCC (Asia)	●								16
	NA100		●							13
	Ceres (US)	●	● (Water)	● (Human rights)						14
	FAIRR	●	● (Environmental pollution)	● (Labor issues)						5
	Institutional Investors Collective Engagement Forum (Japan)	●	●	●	●	●	●	●	●	23
Policy engagement	The Investor Agenda	●								18
	PRI Collaborative Sovereign Engagement	●								1
	IPDD		●							11
Information disclosure and analysis	CDP	●	● (Water and forests)							4
	SPOTT		●							6
	TCFD Consortium (Japan)	●								20
	TNFD Forum		●							10
Other (e.g., Asset management company groups)	ESG Information Disclosure Study Group (Japan)	●	●	●	●	●	●	●		21
	Net Zero Asset Managers initiative	●								19
	JSIF (Japan)								●	24
	JSI (Japan)								●	25

¹ Initiatives without a region such as (Japan), (UK), (US), or (Asia), are global.

² The "No." in the table corresponds to initiative numbers in the list ([pages 93-98](#)).

Collaboration with Various Initiatives (as of

		Title	Date signed	Initiative details		
United Nations / Climate-related	1	 Signatory of: PRI Principles for Responsible Investors	PRI* ²	May 2006	This was established under the United Nations Environment Programme (UNEP) (Principles for Responsible Investment (PRI)). PRI aims to promote responsible investment and stewardship by investors, based on the Principles for Responsible Investment (PRI) endorsed by the UN. SMTAM has been participating in the initiative since its inception, which is essential for global investment managers.	
	2	 Climate Action 100+ Global Investors Driving Business Transition	Climate Action 100+	December 2017	The objective is to align target companies with the Paris Agreement to reduce greenhouse gas emissions, improve climate change risk disclosure of climate-related information. It is operated by Ceres, IIGCC, and IIGCC. It promotes collaborative engagement with companies with high greenhouse gas emissions.	
	3	 United Nations GC (Global Compact)	United Nations GC (Global Compact)	July 2005	All Ten Principles of the four areas defined by the United Nations (human rights, labour, environment, and anti-corruption) are recognized values adopted and agreed globally. Signatory members are required to make continuous efforts to achieve these based on the principles. Executives from their companies and organizations.	
	4	 CDP	CDP	April 2014	They aim to address climate change and protect and restore natural capital. They send questionnaires to companies about disclosure responses, and provide participating investors with environmental scores.	
Global	Specific topic-related	5	 FAIRR A COLLIER INITIATIVE	FAIRR* ³	October 2018	Their purpose is to raise awareness of risks and opportunities in the food sector. It focuses on sustainability issues related to intensive agriculture, environmental pollution, labor issues, antimicrobial resistance, and food safety. SMTAM participates in collaborative engagement with the aim of mitigating risks and identifying business opportunities.
		6	 SPOTT a ZSL conservation initiative	SPOTT	February 2020	It was established by the Zoological Society of London (ZSL) to address the impact of palm oil, timber, and natural rubber companies to monitor land use change and sector-specific challenges. It also gives asset management and investors a platform for risk management, stakeholder engagement, and increased transparency in the palm oil, timber, and rubber industries.
		7	 INVEST AHEAD Investors for Board Diversity	30% Club UK Investor Group (UK) Invest Ahead (USA)	April 2017	The 30% Club UK Investor Group is a working group consisting of investors and UK engaged in a global campaign aiming to increase the percentage of women on boards of directors. The 30% Club (formerly Thirty Percent Coalition) is to increase the diversity of companies in the US. Both aim to achieve the best practices and participating in joint campaigns with the aim of increasing diversity just in regard to gender but also race and ethnicity.
		8	 access to medicine FOUNDATION	Access to Medicine	April 2018	This was established with funding from the Bill & Melinda Gates Foundation and Dutch governments. Its purpose is to encourage major pharmaceutical companies to provide medicines and medical services to develop and improve medical infrastructures so that public health can be improved.
		9	 Investor Action on AMR	Investor Action on AMR	November 2020	This was established by Access to Medicine, FAIRR, and the Social Care at the World Economic Forum Annual Meeting (WEF). It encourages investors to address the global antimicrobial resistance (AMR) challenge, which is a social, economic, and long-term portfolio value and raise so

*2 Affiliated working groups (years indicate the year of participation, unless otherwise noted; same below): ①PRI advance (2022), ②PRI Collaborative

*3 Affiliated working groups: ①Sustainable Proteins (2021), ②Working Conditions in Global Meat Supply Chains (2021), ③ Seafood Traceability E

March 2025*1)

*1 Unless otherwise stated, numerical data in the table reflects the status as of March 2025.

Main accomplishments from activities in the past year (July 2024 to June 2025 in principle) Numbers in parentheses indicate the corresponding working groups.	
Programme Finance Initiative (UNEP Stewardship activities among asset owners, in order to achieve a sustainable investment since its launch. Participation is	<p>The Progress Report, which outlines the activities of PRI advance, was released, highlighting our engagement with POSCO Holdings Inc., where we serve as a collaborative manager, as a successful case study (1).</p> <ul style="list-style-type: none"> - Following national elections in Australia and Canada, engagement target countries, climate policies are expected to be reinforced. Sovereign engagement with these countries will continue to encourage the promotion and strengthening of policies aligned with the Paris Agreement (2). - We joined the Signatory Advisory Committee (SAC) and initiated collaborative engagement activities (3).
Agreement standards, promote the governance, and enhance the investor networks: PRI, AIGCC, on approximately 170 global	<ul style="list-style-type: none"> - As Co-Chair of the Asia Advisory Group, we have been actively involved in managing the initiative. - As a lead manager, promoting collaborative engagement with major companies facing challenges in the region of Asia, including Japan, Indonesia, South Korea, Thailand, etc. - Although several financial institutions withdrew due to changes in the ESG landscape in the US, we maintained an active presence by serving as collaborative manager for collaborative engagement with Australian companies, thereby compensating for the gap.
United Nations Global Compact (human rights, environmental, and labor) aligned with the 10 principles and are based on the commitment of top	—
to preserve natural capital by promoting areas like water security and disclosures regarding these matters, engagement reference information.	<ul style="list-style-type: none"> - We presented at the 3rd CDP Japan Club meeting in fiscal 2024, titled "Corporate Evaluation on Nature from an Investor's Perspective," introducing our stewardship activities and corporate evaluations related to natural capital.
Active Sovereign Engagement (2023), (3) PRI Spring (2023)	
Issues related to ESG in the global food and livestock farming, including food security, and climate change issues, and minimizing systemic risks over the long term by encouraging responses to related	<ul style="list-style-type: none"> - As part of awareness-raising activities on the issue of sustainable food supply (protein resources), we participated in a PRI side event held in Toronto, where we built networks and shared insights with other investors and target companies. We also exchanged opinions with a US food manufacturer on promoting diversification of protein resources (1). - We participated in the roundtable session of the 12th World Ocean Summit, where we discussed and deepened our understanding of the importance of traceability from the standpoint of marine resource sustainability. - We joined the Seafood Traceability Engagement program launched in 2023. We began collaborative engagement with fisheries-related supply chain companies on issues such as illegal fishing and forced labor (3).
Investment (Investment). It assigns ESG-specific scores to companies scores to support ESG transparency across multiple	<ul style="list-style-type: none"> - Using natural rubber data published by SPOTT and Forest IQ, we evaluated major domestic and international rubber-related companies from the perspectives of preventing deforestation in supply chains, addressing human rights issues, and improving traceability, while sharing challenges and encouraging improvement. - We exchanged views with the FAIRR Initiative regarding the advancement of assessments for natural rubber supply chains and effective utilization of Forest IQ data.
Engagement of institutional investors in the percentage of women in decision-making positions. The purpose of Invest Ahead is to increase the diversity of boards of directors and senior management in companies by sharing best practices and promoting the goal of hiring diverse directors not	<ul style="list-style-type: none"> - We participated in the 30% Club UK Investor Group meeting, gathering insights on best practices and engagement approaches for improving ethnic diversity and increasing the proportion of women in key positions, including executive roles. - We took part in the investor meeting of Invest Ahead. Through the annual member survey, we voiced our views on the importance of visualizing and disclosing DE&I-related outcomes in US companies, such as diversity in board of directors composition, pay gaps, turnover rates, and promotion disparities.
Investment Foundation and the UK and Japanese pharmaceutical companies around the world, and to improve their ESG performance in these countries.	<ul style="list-style-type: none"> - Through individual engagement meetings with the management of four Japanese companies included in the ATM Index, we encouraged stronger participation in ATM initiatives. - In the ATM Index published in November 2024, one of the companies for which we serve as lead manager improved its ranking. We also exchanged opinions on ATM initiatives in a workshop held within that company.
Engagement with the UK's Department of Health and Human Services (DHHS) at the World Economic Forum (Davos) held in January 2020. It addresses the antimicrobial resistance (AMR) issue to protect global societal awareness of this threat.	<ul style="list-style-type: none"> - Through individual dialogues with companies engaged in infectious disease treatments and antimicrobial resistance (AMR) countermeasures, we encouraged support for new antibiotic development, stronger awareness-raising on AMR, and enhanced efforts to address global infectious diseases such as tuberculosis. We also deepened discussions with corporate management on building sustainable AMR research and development systems.

Engagement (2025)

		Title	Date signed	Initiative details
Specific topic-related	10	 TNFD Forum	June 2021	This initiative, modeled after the TCFD framework for climate disclosure, promotes corporate disclosure regarding natural capital. It released its final recommended disclosure framework, version 1.0.
	11	 IPDD*4	July 2020	Its purpose is to promote policy engagement on forest conservation in each country. Since forest resources play an important role in the economy, it promotes collaborative engagement with the government to protect large areas of tropical rainforest, to encourage stronger policies.
	12	— FSDA	November 2021	At COP26 held in 2021, we agreed and signed the Financial Markets Foundation for Nature's Financial Markets Foundation for Nature (FSDA). This was the first time that financial institutions to prevent deforestation in the soft commodity supply chain. Engagement has been promoted throughout the world with companies that are deeply involved in deforestation.
	13	 Nature Action 100 NA100	September 2023	Recognizing that more than half of the global GDP depends on nature, the depletion of natural capital will negatively impact the global economy and reverse the loss of nature and biodiversity (nature-positive). We are engaged with the world's top 100 companies with significant natural capital, encouraging enhanced disclosure, governance, and engagement.
*4 Affiliated working groups: ①Brazil Engagement Group (2020), ②Indonesia Engagement Group (2021), ③Consumer Countries Group (2022)				
Global Investor group-related	14	 Ceres*5	April 2017	Ceres aims to address sustainability challenges related to climate change, human rights issues through a broad global collaborative effort with corporations, and non-profits. It promotes collaborative engagement, analysis, solution proposals, and policy advocacy to support sustainable capital market development.
	15	 CII	June 2018	CII focuses on effective corporate governance, substantial financial regulation to foster fair and vibrant capital markets, and financial owners and asset management companies to support investor governance, policy advocacy, and stakeholder engagement.
	16	 AIGCC*6	December 2017	It aims to encourage Asian companies to reduce greenhouse gas emissions, enhance climate-related disclosures. As the largest group of 100+ in Asia, AIGCC leads the Asian Utilities Engagement Program, an engagement program targeting major utility companies across Asia.
	17	 ICGN	September 2017	ICGN strives to establish global standards in corporate governance, policy advocacy and collaborative engagement with policymakers worldwide.
	18	 The Investor Agenda	June 2019	It aims to issue investor statements calling for more robust climate-related and international meetings, including G7 and G20. AIGCC (Investor Climate Action Plans), a new framework for asset owners to self-assess their climate change stewardship activities and disclosures.
	19	 NZAM	July 2021	This is a group of international asset management companies committed to reducing greenhouse gas emissions from their managed assets in line with the goal of limiting the global average temperature rise to below 1.5°C. The goal is to limit the increase to 1.5°C above pre-industrial levels.

*5 Affiliated working groups: ①Valuing Water Finance Initiative (formerly Investor Water Hub, name changed in 2022), ②Biodiversity Working Group

*6 Affiliated working groups: ⑦Energy Transition Working Group (2023), ⑧Forest and Land Use Working Group (2023), ⑨Natural Capital Committee

Main accomplishments from activities in the past year(July 2024 to June 2025 in principle)
Numbers in parentheses indicate the corresponding working groups.

<p>Climate change-related information on natural capital. In September 2023, TNFD released its Natural Capital Standard on 1.0.</p>	<ul style="list-style-type: none"> - Published our first TCFD/TNFD Report in autumn 2024. - Held an internal study session in collaboration with WWF to deepen organizational understanding of natural capital-related disclosures.
<p>Collaborative engagement with the governments of Indonesia and Brazil, which have policies on land usage.</p>	<ul style="list-style-type: none"> - Continued policy engagement with the government of Indonesia, where palm oil production poses deforestation risks, and Brazil, where livestock and soybean production are accelerating the loss of Amazonian primary forests (1 2 3). - Engaged with the Indonesia Financial Services Authority (OJK) to promote climate change- and natural capital-related disclosures. We also co-hosted a seminar with Indonesia Stock Exchange (IDX) to build corporate capacity for such disclosures (2).
<p>Climate Change Sector Commitment Letter on natural capital established mainly by signatory companies in supply chains. Collaborative engagement with approximately 70 companies that are exposed to natural capital.</p>	<ul style="list-style-type: none"> - Continued engagement with companies and financial institutions exposed to Indonesia and Brazil, where forest conservation is essential, emphasizing that forest loss contributes to heightened climate-related risks.
<p>Initiative on natural capital and that aims to halt (and reverse) by 2030. It drives collaborative engagement with significant dependence on and impact on natural capital, and behavioral change.</p>	<ul style="list-style-type: none"> - Conducted collaborative engagement based on the "Nature Action 100 Company Benchmark Key Findings 2024" released in October 2024, which assessed target companies' efforts to prevent nature and biodiversity loss and improve disclosure. Participated in a working group focused on Japanese companies, highlighting gaps from the TNFD framework and encouraging corrective action.
<p>Initiative on climate change, water resources, and biodiversity. Collaboration network among investors, companies, and science-based issue experts to promote sustainable economic growth and resilience.</p>	<ul style="list-style-type: none"> - Conducted collaborative engagement on water resource management as a lead manager for a US fast-food company and as a collaborative manager for a Japanese semiconductor manufacturer (1). - Published an article in the online media outlet SUSTAINABLE INVESTOR, introducing our initiatives related to water resource management (1). - Participated in a steel industry roundtable in the Americas and expressed our perspectives as an investor. - Introduced our proprietary global engagement scoring system based on the initiative's corporate scoring. Also participated in discussions on future activity plans within the newly launched high-tech sector working group (1).
<p>Initiative on shareholder rights, and prudent investing. It primarily engages US asset owners and provides education on corporate governance.</p>	<ul style="list-style-type: none"> - Attended both autumn and spring regular conferences to gather the latest information on corporate governance and participated in a panel discussion on global governance trends at the spring conference. - Joined webinars in the US covering SEC guidelines on large-shareholding reports and regulations on proxy advisory firms, sharing the insights gained with our Tokyo and European offices.
<p>Initiative to reduce greenhouse gas emissions, improve climate resilience, and support the Just Energy Transition Program (AUEP), a collaborative program across Asia, including Japan.</p>	<ul style="list-style-type: none"> - We serve as Co-Chair of the Forest and Land Use Working Group (8). - Appointed as the lead manager for JERA (Japan), newly added under AUEP, and initiated collaborative engagement with the bond issuer. - Participated in the Policy Roundtable on Japan's Energy Plan held in autumn 2024 and exchanged views with Japanese policymakers. - Joined the Kitakyushu clean energy site tour organized by AIGCC, visiting hydrogen infrastructure and offshore wind facilities, and exchanged opinions on the progress of public-private decarbonization initiatives in Fukuoka Prefecture. - Contributed to the drafting of policy recommendations to the Japanese and Indonesian governments prepared by AIGCC.
<p>Initiative on corporate governance. It promotes policy engagement with relevant organizations and stakeholders.</p>	<ul style="list-style-type: none"> - We serve as a member of the Board of Governors and participate in the newly established Global Policy Committee. - Conducted policy engagement and submitted public comments on corporate governance challenges in various regions. - Engaged with major auditing firms on challenges associated with assurance for sustainability disclosures.
<p>Initiative to promote climate change policies at climate-related events. Additionally, in 2022, it announced a program to encourage asset management companies to encourage disclosures based on this initiative.</p>	<ul style="list-style-type: none"> - Signed the 2024 Global Investor Statement to Governments on the Climate Crisis. This statement outlined economy-wide policy recommendations that take into account not only climate change but also natural capital, along with sector-specific actions, and was formally announced at COP29.
<p>Initiative to encourage companies working to reduce greenhouse gas emissions in line with the Paris Agreement's goal of limiting global warming to below 2°C, while pursuing efforts to limit the increase to 1.5°C.</p>	<ul style="list-style-type: none"> - Presented as the Asia regional representative at the NZAM APAC Bi-annual meeting, presenting our case study on the Net Zero Roadmap as part of awareness-raising activities.

(1)Climate Change Working Group (2020), (2)Food Emission 50 (2021), (3)Paris Aligned Investment (2021), (4)Investor Network Policy Working Group (2024), (5)Banks Working Group (2024), (6)Policy Oversight Committee (2021), (7)Policy Oversight Committee (2021), (8)Global Investor Statement to Governments on the Climate Crisis (2024)

		Title	Date signed	Initiative details
Domestic	Climate-related	 TCFD Consortium	May 2019	It aims to create a forum for companies and financial institutions to discuss adequate information disclosure recommendations to guide appropriate investment and financing decisions. The discussions on effective disclosure practices and participation in these efforts to ensure these efforts are re
	Specific topic-related	 ESG Information Disclosure Study Group	June 2020	It aims to create a framework harmonizing sustainable social growth and value enhancement. Listed companies, institutions collaborate to explore effective and efficient ESG information, accumulate practical examples (evidence), and promote mutual stakeholders to enable better decision-making. The results are internationally, along with recommendations to organization sustainability disclosure standards. Additionally, it aims to provide a reference for companies looking to enhance their ESG information of June 2025, it comprises 121 listed companies, institutional organizations. It shares information through the subcommittee on the subcommittee on human capital, and expert study sessions
		 30% Club Japan Investor Group	May 2019	This is the Japan branch of the 30% Club, which was established as a campaign designed to increase the proportion of women in companies including boards of directors. A common goal is to have women on the boards of directors at TPX100 companies to share the importance of gender diversity with constructive engagement with boards of directors and senior companies to contribute to their achievements. Within the investor group works to build and share best practices for achieving leadership level, enhancing the overall dialogue capacity of
	Investor group-related	 Institutional Investors Collective Engagement Forum	October 2017	Their purpose is to support proper stewardship activities by contributing to a positive economic cycle. They support companies (collective engagement) by institutional investors through which the Forum operates the Institutional Investors Collective Engagement practice collective engagement for allowing participation by the end of June 2025, participants include six asset management owner organization. They currently have six agendas: (1) Ide disclosure of non-financial information (Addressing ESG issues), (2) Scandal handling, (3) Responding to proposals with many "a shareholders meetings, (4) Explanation of the necessity of the Reduction of cross-shareholdings, and (6) Request for dialogue implementation of management that is conscious of cost of
		 Japan Sustainable Investment Forum (JSIF)	March 2005	Their purpose is to promote and develop sustainable investment actively adopted in Europe and the US. They provide a forum study for people and institutions involved in SRI/ESG investment. Their goal is to encourage companies to publish information sustainable society through the healthy development of sus
		 Japan Stewardship Initiative	November 2019	It aims to enhance communication and mutual understanding management companies. It focuses on operating and revising (Formats), collecting and sharing information on best practices dialogue among members. It also serves as a platform for s these activities with the entire stewardship community.

Main accomplishments from activities in the past year (July 2024 to June 2025 in principle) Numbers in parentheses indicate the corresponding working groups.	
<p>stitutions that endorse TCFD policies and use such information to TCFD Consortium promotes active roles in international discussions and recognized globally.</p>	<ul style="list-style-type: none"> - Participated in a roundtable facilitating dialogue between companies disclosing TCFD information and investor users, providing advice and exchanging views on transition plan, Scope 3 emission disclosures, and responses to European regulations.
<p>al development with corporate onal investors, and public institutions on disclosure frameworks, tual understanding among are shared both domestically and is responsible for setting provide information that can serve as information disclosure. As of the end nal investors, and 13 other tee on improving integrated reports, ions.</p>	<ul style="list-style-type: none"> - Participated as a corporate member, with Hiroyuki Horii from our company serving as a Director. - Participated in the subcommittee on improving integrated reports and provided feedback to three companies. - We participated in the Subcommittee on Sustainability Human Resource Development (a total of 10 sessions), and enhanced our knowledge and skills in stewardship through lectures and Q&A sessions with listed companies, major asset owners, and audit firms. - Submitted a comment letter on the public exposure draft of sustainability disclosure standards issued by the Sustainability Standards Board of Japan (SSBJ).
<p>ished in the UK. It has a global decision-making bodies at to increase the proportion of to 30% by 2030, and their activities with top management through or management at investee institutional investor community, the g gender diversity at the corporate institutional investors.</p>	<ul style="list-style-type: none"> - Published "Good Example of Disclosure of DE&I Information from Investor's Perspective" (2024 version) in November 2024 and a Progress Report including best practices in engagement in December 2024. - Hosted the third session of the Next Generation's Leader Development Program, targeting senior leaders of TOPIX-listed companies, which are members of the initiative. Through keynote speeches and panel discussions, participants shared experiences and corporate initiatives promoting women's empowerment. Also held awareness-raising events, including dialogue sessions with outside directors from the Japanese Institute of Certified Public Accountants.
<p>y institutional investors for constructive and purposeful dialogues working with companies. In particular, engagement Program as a way to each institutional investor. As of ement companies and one asset entification of materiality and ues for business sustainability), (2) against" votes at general takeover defense measures, (5) logue with investors toward the f capital and stock price.</p>	<ul style="list-style-type: none"> - Served as a joint lead manager for the agenda "Request for Dialogue with Investors Toward the Implementation of Management That Is Conscious of Cost of Capital and Stock Price," overseeing target company selection (criteria setting) and conducting collaborative engagements. - Served as a lead manager for one company under the misconduct agenda.
<p>ment in Japan, following practices m for interactive exchange and ments, as well as those interested in ormation to help establish a ustainable investment.</p>	<ul style="list-style-type: none"> - Hiroyuki Horii from our company serves as an Executive. - Published an article in the White Paper on Sustainable Investment in Japan.
<p>ng between asset owners and asset ng reporting formats (Smart ces, and facilitating broad and open haring achievements gained through</p>	<ul style="list-style-type: none"> - Reported our stewardship activities to clients in accordance with the initiative's prescribed reporting format ("Smart Format").

Special
Feature

3

Collaborative Engagement by Participating in the Institutional Investors Collective Engagement Forum



Daiji Ozawa

Executive Director,
Institutional Investors
Collective Engagement Forum

Naomi Yamazaki

Representative Executive Director
(Administration Manager), Institutional
Investors Collective Engagement Forum

In the June 2025 revision of Japan's Stewardship Code, the wording regarding collaborative engagement ("collaborative engagement" as necessary" to engagement) is also an important option." Since its establishment in 2017, SMTAM has participated in the engagement. The following is an overview of these activities in the form of a roundtable discussion with

Nishiyama > Thank you all for gathering today. Today, we would like to look back on the background and activities of IICEF since its establishment, and have you share your thoughts on its future direction. IICEF was established in October 2017. Could you tell us what issues or awareness of problems led to its formation?

Kimura > Discussions were held at the Expert Panel on the Stewardship Code starting in January 2017, and among them, the concept of collaborative dialogue—then called "collective engagement"—was newly included as "collaborative dialogue would be beneficial." The revised version of the Stewardship Code was finalized in May 2017, and several institutional investors who were members of that expert panel commented that since "collective engagement" had been added to the Code, Japan would also need an organization to promote collaborative

dialogue. Meanwhile, around 2016, people working in exercise of voting rights and related areas among institutional investors had begun discussing the idea that institutional investors could achieve more if they collaborated. Mr. Yamazaki here was involved in that effort, and the two of us decided to work together to establish such an organization. We began by speaking with the initiators of the idea as well as executives of major asset management companies, including Sumitomo Mitsui Trust Bank at the time, and institutional investors who agreed with the concept joined us—thus marking the start of IICEF.

Yamazaki > Yes, that's right. The initial idea came from four or five of us—ourselves and some institutional investors—who wanted to create a place for such discussions. We decided to explore the idea of creating a platform for

Hiroyuki HoriiSumitomo Mitsui Trust Asset
Management Co., Ltd.**Hiroki Sawashima**Sumitomo Mitsui Trust Asset
Management Co., Ltd.**Masahiko Nishiyama**Sumitomo Mitsui Trust Asset
Management Co., Ltd.**Yuki Kimura**Representative Executive Director
(Chairman), Institutional Investors
Collective Engagement Forum**Hiromitsu Kamata**Executive Director, Institutional
Investors Collective Engagement
Forum**Ryusuke Ohori**Executive Director,
Institutional Investors
Collective Engagement Forum

It was changed from “it would be beneficial for institutional investors to engage with investee” to “engaging with investee companies in collaboration with other institutional investors (collaborative) through the [Institutional Investors Collective Engagement Forum](#) (IICEF) and has been promoting collaborative dialogue with IICEF executive directors and members of SMTAM.

collaborative dialogue, and then, through grassroots efforts, around 15 or 16 volunteers gathered and held discussions over the course of about a year to a year and a half. We focused on how to make it work in practice.

Horii > As Mr. Kimura mentioned, around that time, I remember that an institutional investor approached major asset management companies engaged in passive investment about “the possibility of collective-style engagement,” and one of those firms was Sumitomo Mitsui Trust Bank.

Nishiyama > At the time of its launch, the forum started with six agenda items. “Identification and disclosure of material issues related to business model sustainability,” “Disclosure and collaborative dialogue with outside directors at companies where misconduct has occurred,” “Analysis of causes and responses to agenda

items that received a significant number of opposing votes at shareholders’ meetings,” “Disclosure of the necessity of takeover defense measures in light of risks that lower capital market evaluations,” “Governance issues in parent-subsiary listings,” and “Policies concerning cross-shareholdings.” Could you share any challenges you faced or memorable experiences from these activities?

Kimura > The most difficult and heavily discussed issue when establishing this organization was whether acting together would constitute joint ownership under disclosure rules for large shareholdings. We spent a great deal of time debating how the large shareholding reporting system and joint ownership would apply. That was probably the biggest sticking point.

Nishiyama > I agree. I remember that there was a lot of discussion of that issue.



Kimura > We received support from lawyers who were deeply knowledgeable about institutional investor activities and well-versed in this area, and we decided on the current organizational form. Instead of investors directly investing in the organization, it would be structured as a general incorporated association providing programs in which investors participate. For each agenda item, we carefully examined whether it would fall under joint ownership or a material proposal act before proceeding. That was one of the most important points at the beginning. So far, we have carried out our activities without tripping over those issues. In recent years, the Financial Services Agency has also been making institutional adjustments regarding these matters, which I believe reflects this ongoing evolution.

Nishiyama > Thank you. Can you share how more about the process for setting each agenda item?

Kimura > We place importance on the consensus of participating institutional investors. Participating investors propose agenda items that they consider to be current issues in the Japanese market, and those that receive broad agreement are selected. The coordinator/secretariat does not decide unilaterally. Instead, topics that participating investors regard as important or of high interest are proposed, discussed collectively, and decided upon.

A distinctive feature of our approach is that the common views of institutional investors are compiled into written letters that are sent or presented to companies. This is not merely a gathering of investors. By presenting the shared views of many institutional investors, companies find it easier to accept them. The process of forming a common view also helps deepen the understanding of the participating investors themselves.

Yamazaki > Even among institutional investors

engaged in passive investment, there is no single uniform approach, and our discussions often lead to new insights. The agendas are not designed to demand superficial structural changes or formal compliance; rather, they aim to prompt in-depth discussions within the target companies. The goal is not for companies to simply comply with what investors say, but for them to truly understand and internalize the necessity of reform—only then can genuine progress be made.

Ohori > For example, our activities on the parent-subsidary listings agenda began in 2018, with Sumitomo Mitsui Trust Asset Management (hereafter, SMTAM) as the lead investor, and I served as the initial point of contact on the coordinator/secretariat side. What struck me most at the time was that while the final letter focused mainly on corporate governance issues, the earlier discussions centered on more fundamental questions: what a parent-subsidary listing actually is, and what the underlying problems are. For example, we discussed various issues beyond corporate governance, such as whether distortions might arise in stock price valuations. At the time, there was little organized discussion or analysis from investors' perspectives of this issue, so as someone who had been on the institutional investor side myself, I found those debates extremely meaningful. I found that engaging in deep discussions and identifying key issues around a specific agenda was very rewarding.

Nishiyama > I agree. The discussions we held while preparing the agenda sheets and explanatory materials for companies were very productive, and the insights gained there have been applied to subsequent agenda discussions as well. As mentioned earlier, of the six original agenda items, our Company served as the leader among investors for "governance issues in parent-subsidary listings."

Ohori > The process of creating the agenda begins with a draft prepared jointly by the lead investors and the coordinators/secretariats. That draft is then reviewed and discussed by all participating institutional investors. Our starting point for this particular agenda was the fundamental question of what were the real issues in parent-subsidary listings. Since then generally speaking, the issue was seen as one of preventing conflicts of interest between parent and subsidiary. Through discussion, we concluded that companies must also consider the responsibilities of controlling shareholders and potential distortions in stock price valuation.

Yamazaki > In 2019, we began holding meetings

with several companies and conducting interviews with firms recognized for best practices, which led to the formulation of the final agenda. The preliminary research revealed that, simply put, when the parent and subsidiary are aligned and generating synergies in normal times, there may be no major problems and minority shareholders of the subsidiary may even share in the benefits. However, in times of conflict—particularly when the parent prioritizes its own situation and exercises its controlling rights without regard for the subsidiary's interests—both entities can suffer a discount in corporate value. Based on these findings, we finalized the agenda and began engagement with major companies. While many companies initially expressed positions such as “a subsidiary's listing signifies its maturity,” “being listed helps attract human resource talent,” and “it is important for corporate brand value,” we believe that growing corporate understanding has contributed to the recent increase in cases where parent-subsidiary listings are being unwound. Dedicating discussion for an hour to an hour and a half to a specific agenda item, which is difficult to do in regular one-on-one engagements, has proven highly beneficial.

Sawashima > Regarding the parent-subsidiary listing agenda item, when the Institutional Investors Collective Engagement Forum was first established, participating institutional investors each proposed several corporate or market issues to be addressed. I believe our Company submitted four or five possible topics. Among them was this parent-subsidiary listing issue, which we ultimately took the lead on as the coordinating investor.

Horii > Our Company had long recognized parent-subsidiary listings as a key governance challenge. Just before this agenda was opened, I chaired a session at the Tokyo conference of the International Corporate Governance Network (ICGN), where we invited a prominent governance scholar and a corporate chairman to discuss the issue. Given this background, and the fact that the topic was complex and required time to resolve, we chose to address it among several potential agenda options.

Nishiyama > Thank you. In addition to the six main agenda items, there was also a time-limited one titled “Emergency COVID-19 response and post-COVID measures.” In September 2023, we launched the agenda item “Action to Implement Management that is Conscious of Cost of Capital and Stock Price” in response to the Tokyo Stock Exchange's request for action aimed at that issue. For this agenda item, our Company serves as co-lead

investor together with another institution.

Kamata > This item, just launched in September 2023, is relatively new. From the outset, SMTAM has been actively involved as one of the co-lead investors. By June 2025, we had sent letters to approximately 390 companies—some twice, totaling around 580 letters—and conducted collaborative engagements with those that expressed interest. As of that same month, we had engaged with around 40 companies. SMTAM is playing a central role not only in drafting letters and conducting engagements, but also in data processing and screening, for which we are deeply grateful.

Nishiyama > This new agenda item represents a fresh format: engagements conducted jointly by two institutional investors plus the coordinator/secretariat, and my honest impression is that the discussions have been highly substantial and productive. We've been able to engage in diverse discussions with companies, fostering a shared understanding of challenges and achieving positive dialogue for both sides.

Kamata > As Mr. Nishiyama mentioned, through this engagement, institutional investors gain deeper insight into the companies, while companies themselves provide feedback indicating that they've also gained new understanding. Another important aspect is that this item focuses on mid-sized companies that previously experienced few opportunities for engagement with institutional investors. These sessions provide a valuable opportunity for both sides to better understand each other—what each is thinking and what direction would be optimal—and I find that extremely meaningful.

Ozawa > As Mr. Kamata pointed out, during our focus on this agenda item, I was strongly reminded that there are many companies that have experienced little or no opportunity to engage with long-term or institutional investors. For companies that have been approached or may be approached by activist investors,



dialogue with long-only institutional investors can be particularly valuable. In other words, understanding what long-only investors are thinking provides a valuable opportunity to grasp how significantly their perspectives—and the opinions derived from them—differ from those of activist and short-term investors who are more focused on reaping immediate returns. For example, when activists or short-term investors demand share buybacks, being able to discuss with long-term investors “how funds should be allocated from a long-term perspective” can serve as vital support for the company. Such dialogue also motivates companies to think seriously about capital allocation. For many companies, considering capital allocation itself is quite new and their understanding is often limited. Simply using excess cash for share buybacks is too simplistic. The essential first step is to clarify what is truly needed for sustainable growth. What matters most for companies is to use their cash effectively toward their long-term goals. This means determining their cash position from the perspectives of capital cost and balance sheet optimization, and only then considering options such as share buybacks or dividend increases as part of a strategic thinking process. Long-term investors can explain this approach, giving companies a chance to reflect and learn. Short-term investors, in contrast, often begin by demanding immediate cash returns, which can lead companies to resist and pursue unwise investments or M&A. These demands often lead to a situation where companies suffer impairment losses a few years later. In contrast, our role is to communicate the importance of using free cash flow for growth, defining an optimal balance sheet, and then considering share buybacks only after those needs are met. We hope to continue conveying these ideas and, by doing so, help Japanese companies move in a better direction overall.



Kimura > I found all of the meetings to be very meaningful and productive. However, as Mr. Nishiyama mentioned earlier, the starting point for this particular agenda item was the Tokyo Stock Exchange’s request for all listed companies to implement management that is conscious of cost of capital and stock prices. Large-cap companies are generally capable of taking proactive steps on their own initiative, but mid-sized and smaller companies seemed uncertain about how to respond. To help companies that were unsure of how to proceed understand the perspective of long-term investors and provide guidance on what kind of information should be disclosed, we compiled a paper and sent letters to nearly 400 companies. Although we engaged directly with about 40 of them, the remaining roughly 350 companies also received the paper, which I believe gave many opportunities to reflect on capital cost and investor dialogue. As a method of collaborative engagement, we did not limit ourselves to meetings alone. We sent letters as a preliminary step to communicate investor perspectives to a broader range of companies—and I believe this process proved highly meaningful.

Kamata > I also think sending the IICEF letters played a very significant role in helping many companies understand how institutional investors think. Rather than having all seven participating institutional investors join every dialogue, we divided responsibilities to engage with as many companies as possible, one of the key advantages of collaborative engagement.

Nishiyama > We’ve recently seen an increase in companies—those with whom we previously had no contact—seeking dialogue in response to the TSE’s request. Engaging with these new companies requires considerable resources from each institutional investor, but as Mr. Kimura mentioned, using the IICEF framework to send letters and then dividing engagement among investors based on the responses has



made the process highly efficient and very beneficial.

Sawashima > As mentioned, we sent letters for this agenda item twice: first in September 2023 and again in September 2024. Those letters contained many valuable hints, especially for companies with little prior experience in dialogue with institutional investors. When we sent the first letter in September 2023, the response wasn't particularly strong. However, around the time we sent the second letter, the response began to become noticeable, and we saw an increase in collaborative engagements with IICEF, as well as new engagements for our Company individually. That was likely due in part to how clearly the key messages were summarized in the letters. In meetings with companies we had never engaged with before—both through IICEF and individually—we found several that possessed excellent intangible assets and strong business models, yet had not been communicating them effectively. In that sense, I feel this agenda item provides significant insights for companies on what messages will attract greater market attention or spark interest, and for institutional investors on how to recognize companies with strong potential for value creation. Personally, I've found this extremely fulfilling to work on. At the same time, the number of engagements conducted by our own Company continues to increase, and I assume other participating institutions are experiencing similar growth. Ideally, we'd like to shift as many of these company-specific engagements as possible into collaborative engagements to improve efficiency. At present, both types are increasing simultaneously, stretching our capacity. This is likely a transitional phase, and I hope that eventually a better balance will be found.

Nishiyama > Changing topics, the recent amendment to the Financial Instruments and Exchange Act (FIEA) has clarified the scope of joint holders. In addition, the latest revision of

Japan's Stewardship Code elevated the position of collaborative engagement, changing the language from "it would be beneficial for institutional investors to engage with investee companies in collaboration with other institutional investors (collaborative engagement) as necessary" to "engaging with investee companies in collaboration with other institutional investors (collaborative engagement) is also an important option." In light of these developments, I'd like to discuss what actions IICEF should take going forward and what direction we should aim to pursue. I believe this also relates to the aspect of gaining new members, so please touch on that point as well.

Kimura > Previously, the criteria for joint holding and material proposal acts were quite strict. For that reason, in drafting our letters, we deliberately avoided phrasing such as "investors think companies should do X," as this could risk breaching the law. Instead, we adopted the style of posing questions—"Institutional investors think this way; how does your company view this issue?" With the recent amendments to the FIEA and related regulations, we'll need to see exactly how things will change, but I expect we'll be able to communicate investor views more directly and clearly to companies in future letters. Of course, we'll continue to consult legal experts when drafting, but greater clarity in expressing our perspective will be a key improvement. The Financial Services Agency has consistently promoted collaborative engagement over the past two years in various advisory councils. Consequently, collaborative engagement has gained recognition among the public, companies, and investors alike. And awareness of its benefits and importance has been spreading alongside this recognition. I expect these changes will have positive effects, such as invigorating collaborative engagement, increasing investor participation, and encouraging more active responses from companies.





Ohori > As Mr. Kimura mentioned earlier, since IICEF's establishment, we've been very careful to ensure our activities did not fall under joint holding or material proposal acts. In that process, we also studied overseas examples—particularly the Investor Forum in the UK. Although collaborative engagement is far more developed in the UK and the rules are relatively clear, even there, investors remain cautious to avoid being considered joint holders and refrain from overly prescriptive messages to companies. Even with Japan's recent regulatory changes, I don't think IICEF's approach or the tone of our letters will undergo a sudden shift from "black" to "white." However, the scope of what used to be "gray" has been significantly reduced, and the boundaries of what is permissible are becoming much clearer. Discussions are moving in that direction more than ever before, so we will begin expressing institutional investor opinions more clearly and transparently in collaborative engagement settings, going beyond merely stating very safe and cautious positions. Ultimately, I think that this will be how things shakeout after this change to the legal wording.

Horii > The coordinator/secretariat and participating representatives all have extensive engagement experience, and I believe our dialogues are resonating effectively with companies. That said, with the reduction of gray areas following the amendments to the FIEA, we'll be able to take a wider range of approaches with greater confidence. I expect that each participating institution will feed the insights and skills gained through these more flexible collaborative engagements back into their own organizations, fostering further mutual learning and improvement.

Nishiyama > Finally, if anyone has comments on the future direction of IICEF—what we aim to become, the kind of organization we want to be, or ideas for new agendas—please share your thoughts.



Yamazaki > Since our establishment, over the past seven years we've addressed eight agendas items. Looking back, these were years in which the Corporate Governance Code and sustainability became widely recognized and deeply rooted in practice. With the latest revision of the Stewardship Code marking a natural milestone, I believe it's also time for our own activities to evolve to the next stage. In other words, the Corporate Governance Code has now become firmly established among listed companies—"the form" is in place. The challenge from here is how to further enhance the quality of management. We have reached a stage where sustainability must be thoroughly integrated not only as a response to social challenges, but also as a means to translate these efforts into future financial value for the Company. Our next phase of collaborative engagement should center on how to raise the quality of corporate management itself. I see outside officers, particularly outside directors, as key figures in making this a reality. Most outside directors of Japanese companies possess rich experience, strong skills, and deep insight. We'd like to support them in fully applying those strengths, especially in the field of corporate governance. We intend to explore an agenda item that clearly communicates necessary information, investor perspectives and market demands to outside directors, while also providing support.

Ozawa > I also recognize that improving the quality of management is a critically important next step. Another major challenge is how to reach mid-sized and smaller companies, as highlighted in the capital cost agenda. This is an issue Japan as a whole faces, and in a sense, one of the areas where collaborative engagement is most needed. Many of these companies have never had direct discussions with institutional investors, receive advice only from their lead securities firm, or have had little opportunity to discuss deeper management or strategic issues with investors. One of IICEF's strengths is that it allows for in-depth discussion on a single agenda item over a full hour to an hour and a half. Experienced institutional investors and the coordinator/secretariat participate in these dialogues, so both sides can gain significant value from them. IICEF can stand alongside mid-sized and smaller companies and help them enhance management quality, including that of outside directors.

Kamata > As Mr. Ozawa and others have mentioned, I also believe external perspectives are extremely important. There are insights that come from hearing the voices of institutional



investors, and as Mr. Yamazaki pointed out, while the proportion of outside directors has increased, there are still areas where quality is lacking. For companies, outside directors serve as a key window to the outside world—both in terms of viewing external perspectives and listening to external opinions. Improving the quality of outside directors will further transform Japan's corporate governance and encourage companies to open themselves more actively to the outside. I also have high expectations for the role of SMTAM in this regard.

Kimura > It has been disclosed that four asset management companies including SMTAM, have been selected for the GPIF's engagement-enhanced passive investment mandate. What

stands out to me is that SMTAM is the only one that publicly states it engages broadly with a wide range of market stakeholders through various initiatives. Our coordinator/secretariat also conducts activities to convey investor perspectives, such as sending letters to all listed companies to communicate institutional investors' views, and engaging frequently with IR consulting firms, stock transfer agencies, and other corporate partners. We also engage with the Financial Services Agency and the Tokyo Stock Exchange, submitting proposals for improvements and reforms to institutional frameworks. By pursuing these broad activities, we aim to make Japan's overall market better. I find it very encouraging that SMTAM also declares such wide-ranging engagement. If more investors participate in our initiatives along these lines, we will be able to deliver the collective voice of Japan's institutional investors to the market in a stronger and more unified way.

Nishiyama > Thank you all very much for your time today. As one of the institutional investors forming part of the investment chain, our Company intends to contribute to advancing engagement both through our own activities and as a member of IICEF. We look forward to your continued cooperation.
(Held on June 30, 2025)



1 Hiroki Sawashima

Sumitomo Mitsui Trust Asset Management Co., Ltd.
Senior Stewardship Officer
ESG Research and Development Office,
Stewardship Development Department

2 Hiroyuki Horii

Sumitomo Mitsui Trust Asset Management Co., Ltd.
General Manager, Stewardship Development
Department
(Senior Advisor in charge of sustainability)

3 Daiji Ozawa

Executive Director, Institutional Investors
Collective Engagement Forum
Joined The Bank of Tokyo, Ltd. in 1985. After working at Nissay Asset Management Corporation and other institutions, served at Cititrust & Banking Corporation, Morgan Stanley Investment Management, and Invesco. Has 37 years of experience in Japanese equity investment. At Invesco, served as Managing Director and Chief Investment Officer from 2014. Retired at the end of June 2024 and assumed current position. Served as a board member of the CFA Society Japan from 2013 to 2021. Appointed Outside Director of Mizuho Bank, Ltd. in June 2025.

4 Ryusuke Ohori

Executive Director, Institutional Investors
Collective Engagement Forum
Joined Nomura Securities in 1987 and engaged in sell-side analyst operations.
Joined JP Morgan's Asset Management Division in 1996 as a buy-side analyst, later serving as Head of Investment Research and Fund Manager, and appointed Chief Investment Officer for Japanese Equities in 2009. Retired from JP Morgan in 2017 and assumed current position. Currently serves as Outside Director of Maeda Road Construction Co., Ltd and LIXIL Corporation.

5 Naomi Yamazaki

Representative Executive Director
(Administration Manager), Institutional
Investors Collective Engagement Forum
Joined Shiseido Company, Limited in 1985. Worked in sales, product development, marketing, and corporate planning, before taking charge of corporate governance, disclosure, and shareholder relation from 2003. As a group leader, promoted IR/SR initiatives. Retired from Shiseido in 2014. In the same year, established the ESG Network for Shareholders & Companies, serving as Representative Director. Assumed current position in 2017.

6 Yuki Kimura

Representative Executive Director (Chairman),
Institutional Investors Collective Engagement Forum
Engaged in securities analyst work at Nomura Research Institute, Ltd. After serving as Head of Corporate Research Department of Nomura Asset Management Co., Ltd., Head of Corporate Governance at Pension Fund Association, and Deputy Chief at Corporate Accounting and Disclosure Division of Planning Coordination Bureau of the Financial Services Agency, he was appointed Representative Director of Japan Stewardship Forum in 2014 (current position). Assumed current position in 2017.

7 Hiromitsu Kamata

Executive Director, Institutional Investors
Collective Engagement Forum
After working in a branch office, an overseas subsidiary and on trading desks at Yamaichi Securities Co., Ltd., he was transferred to Yamaichi Investment Advisory. He then continued to engage in active Japanese equity management at Societe Generale Asset Management and Amundi Japan, Ltd. Assumed current position in 2020.

8 Masahiko Nishiyama

Sumitomo Mitsui Trust Asset Management Co., Ltd.
Senior Stewardship Officer
Stewardship Development Department, Stewardship Operations Team



“Engagement and Stewardship Activities as Envisioned by SMTAM”

—Roundtable Discussion with Investment Specialists—

Yuki Ohashi

Portfolio Manager
Bottom-up Equity Team,
Equity and REIT Investment Unit
Active Investment Department



Takuya Sukegawa
Senior Analyst
Credit Research Team,
Corporate Research Unit,
Research Department

With the introduction of Japan’s Stewardship Code, the expected role of institutional investors has changed dramatically.

Institutional investors are now expected not only to forecast performance or determine stock prices, but also to “express their views” to promote the sustainable growth and corporate value enhancement of investee companies.

In this roundtable discussion, five investment specialists who regularly interact with investee companies exchanged opinions on engagement, sustainability disclosure, and stewardship activities from the perspective of their respective responsibilities.

We hope this discussion will help readers gain a deeper understanding of our Company’s initiatives.

Engagement as the core of our investment specialists’ activities

Souma Today, we have gathered investment specialists who interact with investee companies. I would like to hear everyone’s views on engagement, sustainability disclosure, and stewardship activities in daily operations. We are aware that these activities may be

somewhat difficult for external stakeholders to fully grasp, and this roundtable is intended to enhance understanding of our efforts. My first question is for Mr. Arai, a domestic equity analyst, and Mr. Ohashi, a domestic equity portfolio manager. Engagement refers to constructive dialogue with investee companies, but how do you define and conduct it in practice? How do you distinguish engagement from regular interviews or opinion exchanges in the context of IR (Investor Relations)?

**Koki Arai**

Analyst
Technology Team,
Corporate Research Unit,
Research Department

Masayoshi Souma

Senior Stewardship Officer
Head of ESG Research and Development Office
Stewardship Development Department

Taisuke Nakamura

Assistant Chief
ESG Research and
Development Office,
Stewardship Development
Department

Arai I define engagement as dialogue aimed at enhancing corporate value, and I actively pursue it even during IR meetings. Depending on the company's situation, the balance between engagement and regular interviews or opinion exchanges varies. For companies that are undervalued compared with their peers, I allocate more time to engagement. Recently, opportunities for engagement have increased, and more companies are seeking discussions about stock valuation. While I distinguish between engagement and regular interviews or opinion exchanges, meetings with senior management are often engagement-centered. For these cases, I hope our discussions will serve as valuable input for management decisions.

Ohashi Even engagement with IR representatives is expected to ultimately reach senior management. Engagement with executives, particularly CEOs, allows for in-depth discussions on company-wide issues, relations with capital markets, and factors behind stock price discounts, which may then

influence management decisions. However, dialogue does not end with the CEO. It is essential to hear diverse perspectives from the CFO, other executives, outside directors, and regular employees to fully understand a company. We evaluate companies from a long-term perspective, but the typical three-year time frame of a medium-term management plan serves as the axis for management evaluation. During engagement, we seek to identify where gaps exist between market valuations and the company's intrinsic value and confirm whether our recognition aligns with that of senior management.

Souma Mr. Sukegawa, a bond (corporate bond) analyst, and Mr. Nakamura from Stewardship Development Department, you also participate in IR meetings. Do you see any differences between engagement in debt IR (communications with financial institutions, bond investors, and other creditors) and SR (Shareholder Relations)?

Sukegawa In IR and SR settings, we often conduct joint engagement on shared issues



such as environmental regulation responses and transition strategies, as well as collaborate on discussions about corporate governance, which significantly affects bond evaluation. In terms of time horizon, a slightly longer-term perspective is needed compared with equities. Our engagement counterparts for bonds are mainly the CFO or finance officers, so the discussions focus on ESG finance and financial strategy, but the goal of engagement—corporate value creation—is the same. We do not consciously differentiate between interviews and engagement, but investees that facilitate in-depth discussions on ESG finance tend to be attractive in the bond market as well, given the credibility of their medium- to long-term strategies.

Nakamura>Participating in IR meetings for the companies I oversee allows me to first deepen my understanding of their financial conditions and challenges, then analyze the relationship between sustainability initiatives and corporate value. Based on that analysis, I conduct engagement in SR and other settings. IR tends to focus on our questions, while SR involves two-way discussions. SR also includes more long-term topics, with time horizons that may extend beyond five to ten years depending on the agenda. In engagement, I align short- and long-term perspectives together with analysts. When engaging on short- to medium-term topics, I make sure to present our long-term expectations for the investee company and communicate short- to medium-term issues through long-term backcasting to avoid misalignment in goals for varied time frames.

Souma>Engagement with outside directors has also been increasing recently. What perspectives do you bring to such meetings?

Arai>Indeed, opportunities for engagement with outside directors are increasing. Outside directors represent general investors, and engagement opportunities are essential to communicate our views directly. However, companies that are proactive in arranging meetings with outside directors tend to already have well-established governance frameworks. Therefore, we do not necessarily get engagement opportunities with those companies with which we most wish to discuss corporate governance improvements.

Ohashi>We are increasingly initiating requests ourselves. If the opportunity arises, we even travel to meet outside directors in person. In engagement, we focus on discussing whether outside directors are conscious of the company's stock performance, their approach toward minority shareholders, their recognition of gaps between stock price and corporate reality, and how they believe executive talent and compensation systems contribute to enhancing corporate value.

Nakamura>Specific discussions within the Board of Directors and the effectiveness of corporate governance and senior management quality are often difficult to observe from the outside. Through engagement with outside directors, we seek to understand how they evaluate the company and management, and whether the monitoring function is working effectively.

Sukegawa>For bonds, meetings with outside directors are infrequent. However, it is true that the importance of discussions on governance structures and oversight systems has been increasingly recognized in the bond market as well.

Souma>The relative rarity of meetings with outside directors in bond investment—does that stem from companies believing that outside directors don't need to engage with bond investors, or from bond investors themselves not seeking such engagement?

Sukegawa>I think both factors play a role. Discussions of corporate value have traditionally been considered matters for equity investors, so engagement between outside directors and bond investors has been limited. However, given the growing discourse around corporate governance reform, both investors and companies now recognize the

need for multidimensional engagement. Opportunities for engagement, including collaboration with equity investors, will likely increase going forward.

Souma›Our Sustainability Report for the last year featured a bond-side engagement case emphasizing that unlisted companies also need outside directors. It seems that recognition is spreading that outside directors play an important role in enhancing corporate governance and functioning as a monitoring mechanism.

Emphasizing the link between sustainability disclosure and corporate value enhancement

Souma›Let's move on to the second topic: sustainability information disclosure. While more companies are proactively disclosing such information, what aspects do you, as investors, place the greatest importance on? Also, could you share your expectations regarding disclosure materials and their content?

Ohashi›The integrated report is an essential tool for gaining a deep understanding of investee companies. Personally, I use it as my primary information source, supplementing it with corporate governance reports and sustainability reports as needed. Within the integrated report, I pay particular attention to messages from outside directors. These reveal which aspects of the company they value and what challenges they recognize, clearly reflecting the company's stance toward the capital markets. When it is evident that outside directors are offering candid, critical opinions without deference to management, I take it as positive evidence that they are functioning effectively. The integrated report is also extremely useful when learning about a company from scratch. Although preparing it requires time and effort on the company's part, in the medium to long term, it helps reduce communication costs with investors.

Arai›Non-financial information disclosure has progressed considerably in recent years, and we actively use such data to assess corporate value. When determining usefulness, we look at what drives a company's value creation and how it ensures competitiveness and sustainability. In labor-intensive industries,

metrics such as turnover rate and employee satisfaction are key, while in manufacturing, intellectual property such as patent numbers, as well as dependence on and impact on natural capital, are important factors. Not all companies need to disclose the same non-financial indicators; what matters is whether they can identify and articulate their own sources of value creation. Failing to do so creates a gap between how companies view themselves and how investors understand them. If companies share indicators that demonstrate the sustainability and resilience of their value creation process in a way that allows for time-series observation, investor utilization will likely increase.

Sukegawa›Since ESG factors are considered when evaluating creditworthiness and spreads, non-financial information is highly important.



Such information is difficult to quantify, so many companies cannot fully convey their message through disclosure materials alone. We see many cases where we only gain real understanding through direct engagement. To enhance investor understanding, we expect companies to disclose the information investors need in a timely and appropriate manner.

Nakamura›Non-financial data disclosure still faces issues of completeness and comparability. While we hope that ongoing standardization of disclosure frameworks will help resolve these issues, we also recognize that excessive disclosure burdens could prevent companies from dedicating sufficient resources to other important matters. Investors focus primarily on indicators closely linked to corporate value, which differ by company. During engagement, we encourage



firms to make disclosures that give investors confidence in the visibility of their initiatives to enhance their competitiveness and mitigate risks, as well as in the effectiveness of management strategies. We also urge them to set KPIs for non-financial information that function as leading indicators of financial performance. While companies should meet the mandatory international disclosure standards (compulsory routines), we also hope they voluntarily engage in free routines, addressing material issues directly tied to their own value creation and competitiveness.

Souma> Given recent anti-ESG sentiment, do you have any concerns about companies pulling back from information disclosure?

Arai> I see two key takeaways from this anti-ESG movement. First, given the reasons for opposition to traditional ESG, unless companies can demonstrate a virtuous cycle that links tangible outcomes for ESG challenges to enhanced corporate value, society may continue oscillating between pro- and anti-ESG attitudes. Second, although there is pushback against the “E” (environmental) and “S” (social) aspects, among Japanese companies, the move toward strengthening “G” (governance) has actually intensified improving overall responsiveness. Among the companies I oversee, I have not observed a decline in information disclosure, though many are struggling to determine the best approach.

Ohashi> Some degree of recalibration in the pace of ESG initiatives is a natural development and not something to view too negatively. The need for ESG remains unchanged, as it is crucial for long-term corporate value creation. ESG advancement must be integrated with business strategy, and

since governance underpins ESG as a whole, institutional investors have a responsibility to monitor how governance is being exercised.

Sukegawa> While anti-ESG trends have influenced global ESG finance and investor behavior to some extent, ESG itself is not a passing trend. It lies at the core of corporate sustainability. Companies understand this well, and we have not observed any retreat in disclosure. We intend to continue engagement efforts as before.

Nakamura> If engagement helps companies understand that timely, appropriate disclosure enhances market valuation, they will likely strengthen their disclosure efforts voluntarily. Even if companies streamline disclosure through rational decisions, that may allow them to allocate resources to more fundamental and material issues, and such a shift should not be seen as regression. That said, we must remain vigilant in monitoring the various facets of the anti-ESG movement.

Souma> To borrow your earlier phrasing, even if the international compulsory routines do not demand higher standards, companies will likely continue voluntarily disclosing indicators that contribute to corporate value creation in free routines.

Pursuing corporate value enhancement together and fulfilling stewardship responsibilities

Souma> The third topic concerns overall stewardship activities. Some companies claim that equity analysts and portfolio managers tend to have a short-term focus and are negative toward growth investments. What is your view on this?

Arai> I think it's not about prioritizing between short-term or long-term focus—balance is what matters. If short-term performance, which underpins long-term results, is unstable, it's natural for investors to hesitate to focus solely on the long term. That said, I understand that growth investments for the future can pose short-term risks that some investors may not tolerate. If a company can manage those risks and turn them into returns, those investors will eventually come back. For instance, large-scale M&A transactions often

face initial criticism, but with persuasive explanations and steady delivery of results, they can lead to higher stock valuations.

Ohashi Since investment horizons vary across investors and clients, we have a fiduciary duty to offer investment strategies and returns that match their needs. Therefore, we don't categorically reject short-term-oriented investors outright. As an institutional investor, our funds emphasize engagement with investee companies, sharing a common value with clients: pursuing corporate value enhancement together from a medium- to long-term perspective. As investment specialists, we keep an eye on short- and medium-term results while seeking companies that can work with us toward long-term value creation. Regarding capital allocation, we hope companies will use excess funds not simply for shareholder returns without a clear capital policy, but for medium- to long-term growth investments that consider future balance sheets and capital costs.

Souma Since the Tokyo Stock Exchange issued its request to take "Action to Implement Management that is Conscious of Cost of Capital and Stock Price," have you noticed any changes in corporate communication? Also, given that many companies still trade below a P/B ratio of 1, what are your thoughts on this?

Ohashi Since the TSE's request, Japanese companies have rapidly advanced their management and disclosures with an awareness of cost of capital and stock price. Looking back, we can clearly see differences in investment returns between companies that proactively engaged with the capital markets and those that did not, even if their business performance was similar. We're seeing more cases where explanations of business strategy and capital cost-conscious management fail to align, hindering value enhancement. Engaging with the capital markets doesn't necessarily mean increasing shareholder returns. If companies can rationally explain their capital allocation, they can enhance medium- to long-term value without expanding dividends or buybacks. For example, explaining how much they plan to invest, how much internal reserves they need, and then returning surplus funds to shareholders. While the existence of many companies with P/B ratios below 1 partly reflects tough industry conditions, I believe insufficient efforts in structural reform and

communication—efforts needed to earn the market's trust—also play a major role.

Arai Since the TSE's request, the mindset of many listed companies has clearly changed, and the quality of disclosure has improved. However, there are still companies whose valuations remain low. I believe there are three main reasons for this. First, even if a company discloses information and sets goals, its valuation will not improve unless it delivers actual results. Second, from the standpoint of size and liquidity, not all asset management companies can research or invest in every listed company. Third, some companies are unable to maintain a certain level of capital profitability on a sustainable basis.

Souma Mr. Sukegawa, from a fixed income investment perspective, how do you view management that is conscious of cost of capital and stock price? Factors such as capital allocation and the reliability of future cash flows also seem to affect credit assessments for bonds. In terms of stewardship activities, there is sometimes concern about potential conflicts of interest between bonds and equities. What is your view on this?

Sukegawa Initially, management that is conscious of cost of capital and stock price was regarded as an issue only for the equity market. However, there is now a growing understanding that companies capable of discussing and explaining appropriate capital costs also help reduce downside volatility in corporate value from a bondholder's perspective, thereby gaining advantages in financing. While conflicts of interest between bonds and equities are often mentioned, pursuing excessive financial stability can lower





capital efficiency, invite activist intervention, and ultimately deteriorate financial conditions. In discussions about capital allocation, it is important to strike a balance between equity holders' growth expectations and bondholders' desire to limit downside risk. In such cases, we collaborate with equity analysts or the dedicated staff from Stewardship Development Department to conduct engagement when necessary. For topics such as transition finance for companies in the process of decarbonization, I believe the bond side should take the lead. In this way, we conduct engagement from both the equity and bond perspectives with the shared goal of enhancing corporate value.

Souma > Mr. Nakamura, how do you view this discussion in relation to the exercise of voting rights?

Nakamura > From the standpoint of stewardship responsibility, our Company publishes guidelines for the exercise of voting rights to ensure objectivity and consistency, while also taking into account the content of engagement with investee companies when making voting decisions. We believe that it is fundamentally important to exercise voting rights in such a way as to contribute to the sustainable growth of investee companies. Even when proposals conflict with our criteria—such as those related to disposal of surplus, cross-shareholdings, or performance—we confirm the validity and rationale of the company's capital allocation plan, cross-shareholding reduction plan, or post-restructuring profit recovery plan through engagement, and reflect that understanding in our voting decisions.

Souma > From the perspective of fulfilling

stewardship responsibilities, the Stewardship Code—which serves as the behavioral standard—was revised this year. The main revisions involve promoting collaborative engagement and improving transparency regarding beneficial ownership. How do you plan to respond to these changes?

Nakamura > We have long participated in the Institutional Investors Collective Engagement Forum (IICEF), engaging collaboratively on specific themes such as management that is conscious of cost of capital and stock price, alongside one-on-one engagement with individual companies. We already had in place systems for disclosing our shareholdings upon request from investee companies to ensure transparency of beneficial ownership. Although we cannot predict how much such inquiries will increase due to the latest revision, we are preparing to respond promptly to any requests.

Souma > Lastly, could each of you share any closing thoughts or perspectives on future engagement activities?

Ohashi > Through our focus on engagement with companies, it has become apparent to me that the prolonged stagnation of Japanese equities was not only due to deflation or demographic factors, but also partly to investors themselves. Institutional investors should not merely benefit from corporate value enhancement; they should act as partners working together with companies to achieve it. In that sense, initiatives such as corporate governance reform, the revision of the Stewardship Code, and the TSE's recent requests are all very positive developments. Amid these changes, I find great fulfillment in supporting corporate value enhancement and delivering investment returns to our clients as a result.

Arai > Our Company employs many portfolio managers and analysts, and all of them seriously consider how companies can be appropriately valued. I believe maintaining a structure that allows us to respond to engagement requests from companies is of utmost importance.

Nakamura > Although trends surrounding ESG investment and sustainability are becoming increasingly diverse, the importance of engagement remains unchanged for both

companies and investors in their pursuit of corporate value enhancement. As a sustainability professional within an institutional investor, I intend to continue strengthening the quality of our engagement while fulfilling our stewardship responsibilities.

Sukegawa In the past, equities and bonds were sometimes described as being like the accelerator and brake of a car—not necessarily in conflict, but functioning in opposition. As times change and engagement and TSE reforms advance, I believe equities and bonds must now function as the two wheels that together drive corporate sustainability. Our Company's strength lies in combining these two perspectives with our stewardship function, enabling effective collaboration among the three. By using stewardship activities as the engine, we aim to build win-win relationships with companies. Lastly, on a personal note, although this roundtable was held among our Company's younger and mid-career members, I would very

much like to engage directly with the next generation of young and mid-career employees at investee companies as well during our engagement or stewardship activities. Looking ahead 10 or 20 years, I want to hear how these future leaders view their companies' policies and initiatives, and what they expect from us as investors. There are many potential themes, such as how they perceive investment in human capital, which has become a major topic recently.

Souma Today's discussion gave me a true sense of your passion and commitment toward engagement and stewardship activities. Thank you all very much for your time.

(Held on July 14, 2025)





SMTAM's Engagement on Intellectual Property and Intangible Assets

Hiroki Sawashima

Senior Stewardship Officer
ESG Research and Development Office, Stewardship Development Department



Background to Emphasizing Intellectual Property and Intangible Assets

The requirement for “information disclosure on corporate intellectual property investment and oversight by the Board of Directors” emerged with the revision of the Corporate Governance Code in June 2021. Subsequently, the Cabinet Office released the Intellectual Property and Intangible Assets Governance Guidelines Ver. 1.0 in 2022, followed by Ver. 2.0 in 2023. These guidelines clarified the five principles and seven actions expected of companies, the communication framework between companies, investors, and financial institutions, and the roles of investors and financial institutions.

Figure 1: Framework shown in the Intellectual Property and Intangible Assets Governance Guidelines Ver. 2.0 “Communication Framework” to Realize Corporate Value

The Guidelines Ver. 2.0 presents a shared “Communication Framework” between companies and investors/ financial institutions to further accelerate value co-creation.

- (1) **The “Story”**—How a company will move from its current position (As Is) within its business portfolio to its desired future state (To Be), under what scenarios, and how it should reform its intellectual property and intangible asset investment strategy to reach that state.
- (2) **The “Planned Causal Path”**—How the company intends to link its intellectual property and intangible assets (both existing and newly acquired) to the strengths of its new or restructured business model in order to realize the “Story.”
- (3) Visualizing investments in and utilization of intellectual property and intangible assets by linking them to corporate-level management indicators (**ROIC Reverse Tree, etc.**), thereby enabling effective disclosure and dialogue to clarify their contribution to enhanced corporate value.



(Source: Created by SMTAM based on Intellectual Property and Intangible Assets Governance Guidelines Ver. 2.0)

Behind this series of developments lies a recognition that one reason for the stagnation of profitability among Japanese companies may be insufficient utilization of intellectual property and intangible assets (broadly defined to include not only patents but also brands and business models). In practice, a limited number of companies recognize the importance of investing in and utilizing intellectual property and intangible assets, with top management actively engaging in strategy formulation and disclosure. Even when companies disclose the number of patents held or R&D investment amounts as intellectual property and intangible assets, they have often failed to visualize how these contribute to differentiation from competitors or to their own profitability.

■ The Growing Importance of Differentiation Strategy and Pricing Power

As Japan moves away from deflation, shifting from a focus on low prices and cost reductions toward differentiation and appropriate price pass-through, corporate managers are increasingly aware of the need to leverage intellectual property and intangible assets to enhance the differentiation and added value of products and services. To accelerate risk-taking in areas with high potential, companies must appropriately assess the value of their accumulated intellectual property and intangible assets, utilize them to create high-value-added products and services, and establish and maintain fair prices. This approach is critical for expanding corporate profitability. In this sense, the environment is increasingly demanding greater disclosure of intellectual property strategies.

Moreover, one new incentive for management is the tax deduction for innovation bases (Innovation Box Tax Regime), enacted in April 2025, which allows for a 30% income deduction on earnings derived from intellectual property to encourage investment. To apply this system, companies must have information management frameworks that can trace: “which R&D activities led to the creation of intellectual properties” and “to what extent each intellectual property contributed to profit growth.” Such information directly visualizes the “causal path” between intellectual property, intangible assets, and the enhancement of corporate value that investors seek.

■ IPX as Outlined in the Intellectual Property Strategic Program 2025

The Intellectual Property Strategic Program 2025, released by the Intellectual Property Strategy Headquarters of the Cabinet Office in June 2025, features the subtitle “IP Transformation.”

While initiatives such as DX (Digital Transformation) and SX (Sustainability Transformation) have received attention as drivers of corporate transformation, this new program calls for building a “new cycle of intellectual creativity,” IPX (IP Transformation), through the creation, protection, and utilization of intellectual property to solve social issues.

■ SMTAM’s Activities and Engagements Related to Intellectual Property and Intangible Assets

Given the increasing importance of intellectual property and intangible asset strategies, SMTAM is engaged in a wide range of activities, including participation in public and private meetings and organizations related to intellectual property, as well as engagements with investee companies on these themes.

■ Case Studies for Activities Related to Intellectual Property and Intangible Assets

Organizations/Bodies/Events	Details
Cabinet Office	Participated in discussions and delivered presentations on effective disclosure and governance of intellectual property investment and utilization strategies.
Ministry of Economy, Trade and Industry / Japan Patent Office	Joined support initiatives and provided comments for the guidebook Pathway to Corporate Growth.
IP Governance Study Group	Appointed as an advisor to a study group led by intellectual property division personnel.
Judging Committee for the Intellectual Property and Intangible Asset Governance Awards	Appointed as a member of judging committee and criteria review committee; presented at the award ceremony panel.
Intellectual Property and Intangible Asset Management Forum	Appointed as organizing member and subcommittee chair.
Human Resource Development Program on Intellectual Property and Intangible Assets	Appointed as a lecturer on communication between investors and companies.

■ Case Studies for Engagement on Intellectual Property and Intangible Assets

	Company A	Company B	Company C	Company D
Issue	The company delivered a presentation on intellectual property at an investor briefing, introducing case studies on the relationship between patent value and business profitability, but disclosure was limited to certain business areas.	The medium-term management plan emphasizes strengthening technology and human resources to achieve differentiation, but systems and frameworks for talent development could be further improved.	The company promotes management focused on intellectual property and intangible assets, holding IP briefings and explaining IP strategy in its medium-term management plan. While the efforts are commendable, contributions to earnings remain unclear.	The company publishes IP reports continuously and conducts quantitative analyses of cost-reduction effects through IP utilization. However, strong uniqueness makes peer comparison difficult.
Discussion	The presentation on intellectual property at the IR Day was a valuable example, but the scope was limited. Requested broader coverage and deeper analysis of causal links to corporate value.	Confirmed that close collaboration between IP and technology development teams, co-located on the same floor, is a strength. Discussed challenges and future plans for human resource development.	Although the company advocates a business model centered on intangible assets such as IP skills, digital talent, and M&A expertise, the degree of their contribution remains unquantified.	The fact that over 40% of all employees are inventors is impressive, and the quantitative evaluation disclosures are insightful. However, the unique framework reduces comparability.
Company response	The company recognized ample room for improvement in the precision of the story and the causal links to corporate value. We will continue improving with reference to the Intellectual Property and Intangible Assets Governance Guidelines.	Patent applications tend to be concentrated among a limited group; strengthening the development of younger talent is necessary. We will enhance incentives through IP education and recognition programs.	In the medium-term management plan through FY2027, the company plans to enhance solution-based and licensing businesses to realize intangible asset value as financial value.	Having achieved both quantitative expansion and qualitative improvement of patents, we now aim to enhance competitiveness and contribute to the business strategy. Standardization of the quantitative evaluation framework has not yet been achieved.
Outcome and plans for the future	Support the company in enhancing investor understanding of its initiatives.	Monitor continuous improvement of IP value through the development and structuring of young talent programs.	Confirm specific business developments that translate IP and intangible asset value into financial results.	Expect continued efforts toward developing a quantitative evaluation framework that can serve as an industry-wide standard.



The Current Status of Decarbonization in Emerging Markets and SMTAM's Engagement

Shinji Ayuha

Senior Stewardship Officer
Stewardship Development Department



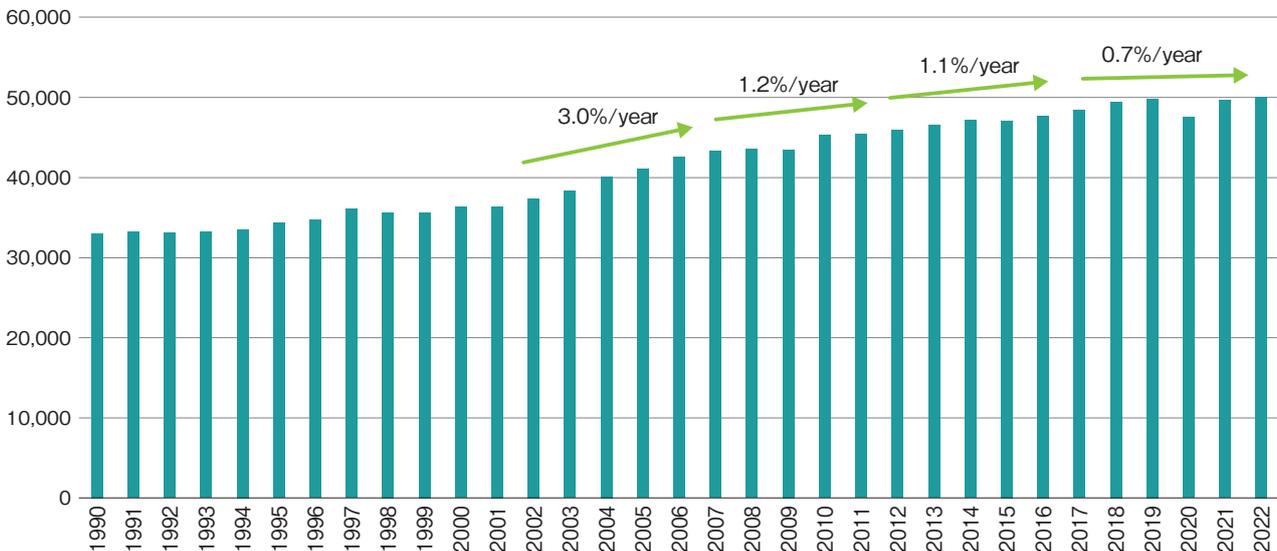
The World Meteorological Organization (WMO) announced in January 2025 that “the global average temperature in 2024 rose by 1.55°C compared with pre-industrial levels,” indicating that global warming continues to intensify. The Intergovernmental Panel on Climate Change (IPCC), in its Sixth Assessment Report released in March 2023, stated that “global warming is caused by human activities, and efforts to reduce greenhouse gas emissions over the next decade are critical to limiting temperature rise to within 1.5 °C by 2100.” The IPCC also warned that a 2°C rise in global average temperature could “reduce crop yields in some regions,” while a 3°C rise could “cause widespread loss of biodiversity,” showing that even small temperature increases can have significant impacts on the global environment.

1. Global Trends in Greenhouse Gas Emission Reductions

Figure 1 shows long-term global emission trends based on national greenhouse gas emission statistics (Climate Analysis Indicators Tool (CAIT) data) compiled by Climate Watch, an integrated information platform operated by the World Resources Institute (WRI). Emissions temporarily declined in 2020 due to reduced economic activity during the COVID-19 pandemic, but have since rebounded as economic activity resumed. According to the latest survey, global emissions reached 50.1 billion tCO₂e in 2022.

Figure 1: Global greenhouse gas emission trends

(Unit: Million tCO₂e)



(Source: Compiled by SMTAM based on CAIT data)

However, in the long term, the rate of increase in global emissions has been gradually slowing, and more recently, emissions have plateaued. When looking at the five-year average annual growth rate in global emissions since 2002, the pace has significantly decelerated over the past two decades. The main reasons include the reduction in emissions in developed countries and regions like Japan and the EU, as well as a slowdown in the rate of increase in emerging and developing countries. While global emissions increased by about 1.3 times between 2002 and 2022, global nominal GDP grew about threefold during the same period. This suggests that the global push toward decarbonization, including the introduction of renewable energy, has begun to decouple economic growth from emissions.

2. Current Status of Decarbonization in Emerging and Developing Countries

Achieving global decarbonization requires significant efforts from emerging and developing countries. Based on CAIT data, when global emissions are divided between OECD and non-OECD countries, the ratio is approximately 1:3, indicating that the majority of emissions originate from emerging and developing countries. Using IMF data, if the world's nominal GDP is divided along the same lines, the ratio is about 6:4. In other words, greenhouse gas emissions are concentrated in emerging and developing countries whose economies are smaller than those of developed nations. In many of these countries, coal-fired thermal power generation remains the primary source of emissions, and rapid economic growth continues to strain energy supply and demand. Given these circumstances, it is easy to see that pursuing decarbonization poses a major economic burden for emerging and developing countries. While the use of renewable energy has rapidly expanded in developed countries, this has been largely driven by proactive fiscal support from their governments. Accelerating the phase-out of coal-fired thermal power generation in emerging and developing countries requires massive financial support, which has become a major global issue. However, at present, there is still insufficient funding worldwide to achieve full-scale decarbonization.

3. SMTAM's Engagement in Emerging Countries in Asia

Among the emerging and developing countries facing such challenges, SMTAM is engaged in initiatives aimed at contributing to the decarbonization of Asian emerging countries with high greenhouse gas emissions, particularly India and Indonesia.

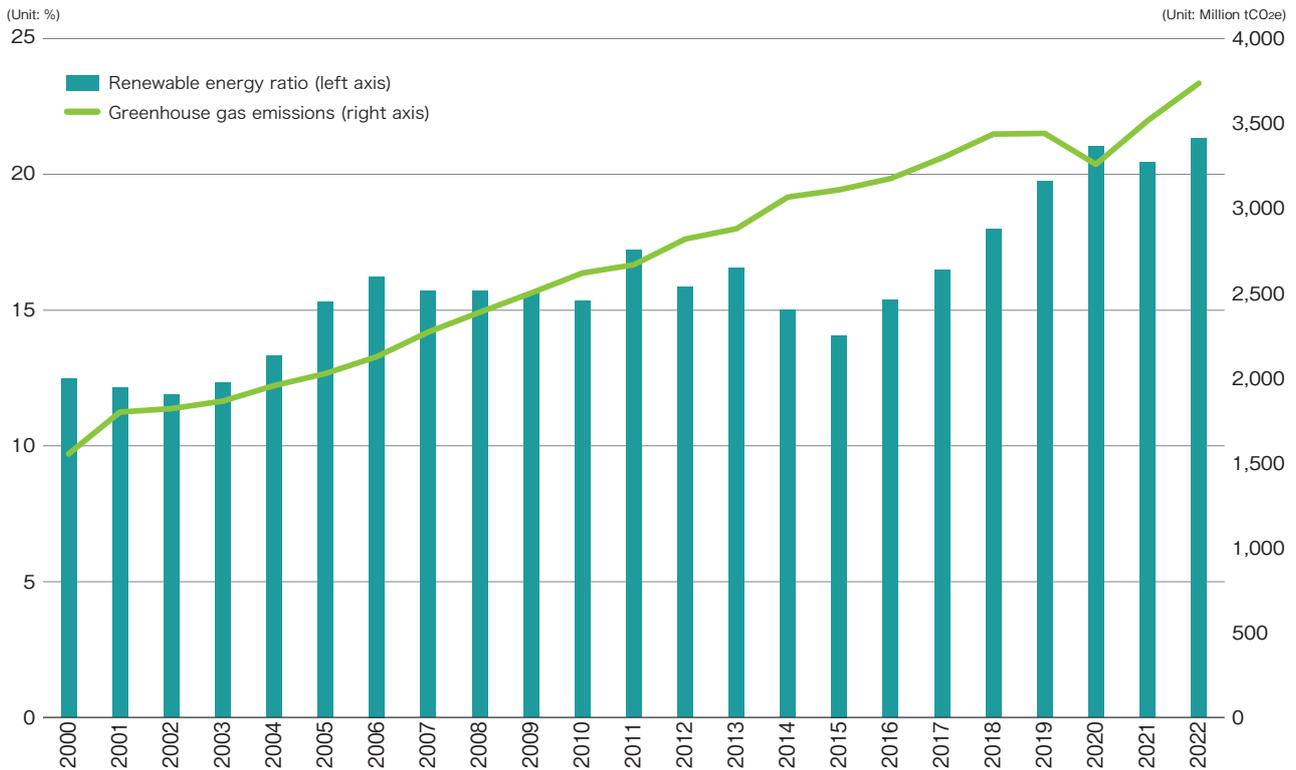
(1) India

India has grown into a global power, ranking fifth in nominal GDP (2024) and third in greenhouse gas emissions (2022). Reflecting its growing global influence, the Indian government declared its commitment to achieving carbon neutrality by 2070 at COP26 in November 2021. As part of its nationally determined contribution, India has set goals to reduce emissions intensity (per GDP) by 45% from 2005 levels by 2030 and to increase the share of non-fossil fuel power generation capacity, including renewable energy, to 50% of total installed capacity.

Since India's power mix remains heavily dependent on coal-fired thermal power generation, the government has been actively promoting the introduction and expansion of renewable energy even prior to the carbon neutrality declaration. In February 2024, the Reserve Bank of India (RBI) announced a plan to require domestic banks to disclose climate-related information based on the TCFD framework by 2027, showing growing momentum toward supporting decarbonization through information disclosure. However, while the expansion of renewable energy generation has shown signs of plateauing, emissions are continuing to rise (see Figure 2). Notably, of the 470 million tCO₂e year-on-year increase in global emissions in 2022, India accounted for approximately 220 million tCO₂e, or nearly half of the global increase. This underscores how crucial it is to reduce India's emissions in order to advance global decarbonization.

To support India's decarbonization progress, SMTAM conducts both collaborative engagements through CA100+ and independent engagements using its own networks with a broad range of Indian companies. For example, we have engaged with high-emission companies such as thermal power producers, gas and oil companies, coal companies, and cement manufacturers, discussing enhanced climate-related disclosure, the formulation and publication of transition plans, and the importance of renewable energy. While companies were initially reluctant, many have begun to consider decarbonization strategies following the government's carbon neutrality declaration, and an increasing number have started climate-related disclosures aligned with the TCFD framework. Furthermore, there has been progress in promoting decarbonization through the application of currently available technologies, such as improving energy efficiency. SMTAM will continue its persistent engagement efforts to encourage further decarbonization initiatives among Indian companies.

Figure 2: Trends in India's renewable energy ratio and greenhouse gas emissions



(Source: Compiled by SMTAM based on CAIT and IEA data)

(2) Indonesia

Since the 2000s, Indonesia's economy has maintained a high level of growth, making it the largest economy in ASEAN and the world's 16th largest by nominal GDP (2024). While Indonesia's nominal GDP is about one-third that of Japan, its greenhouse gas emissions are approximately 1.5 times higher. Similar to India, Indonesia's energy mix relies heavily on coal-fired thermal power generation, posing significant challenges for decarbonization. In July 2021, recognizing its position as one of the world's largest greenhouse gas emitters, the Indonesian government officially announced its goal to achieve carbon neutrality by 2060. Initially, the target year for carbon neutrality had been set for 2070, but it was brought forward by 10 years in response to strong requests from various stakeholders.

A major obstacle to achieving decarbonization is deforestation. Tropical rainforests, often referred to as carbon sinks, play a crucial role in absorbing and storing carbon dioxide emitted into the atmosphere. Deforestation reduces this capacity for absorption and leads to the re-release of carbon, significantly undermining global greenhouse gas reduction efforts. Consequently, forest conservation has become a critical global concern. Sharing this awareness, SMTAM participates in multiple natural capital-related initiatives focusing on forest conservation and is involved in collaborative engagements with companies and government agencies that face high deforestation risks.

Among these activities, we consider our initiatives in Indonesia particularly important due to the country's high deforestation risk. According to Global Forest Watch, an NGO advocating forest conservation, Indonesia's forest area totaled 94 million hectares, more than half of its land area, as of 2020. However, it is estimated that 11 million hectares of forest were lost between 2002 and 2024 due to deforestation. Recognizing that resolving such large-scale issues requires government dialogue, SMTAM participates in the Investors Policy Dialogue on Deforestation (IPDD) and proactively engages with Indonesian government authorities. IPDD is a collaborative initiative that conducts policy engagement on forest conservation with the governments of countries facing high deforestation risks. Many institutional investors from around the world, primarily in Europe, participate, but SMTAM is the only participant from Japan. Notable outcomes of activities in Indonesia include the introduction of deforestation prevention policies through the establishment of sustainable finance guidelines. Recent activities include the following:

- Hosted a public seminar on natural capital in cooperation with the Indonesia Stock Exchange, where SMTAM presented as a panelist alongside other overseas institutional investors, emphasizing the importance of disclosure related to natural capital, including forest conservation.
- Engaged with Bank Indonesia and financial regulatory authorities to advocate the importance of natural capital-related disclosure.
- Collaborated with local chambers of commerce and banking associations to host a public seminar aimed at raising awareness among Indonesian companies about natural capital-related disclosure.

At the corporate level, SMTAM also conducts activities under the Financial Sector Deforestation Action (FSDA) initiative, which aims to prevent deforestation in grain production supply chains.

- Engaged with major financial institutions and feed production companies in Indonesia regarding the importance of TNFD-aligned disclosure and enhancing supply chain traceability.
- Collaborated with WWF and other organizations to help organize study sessions for local companies on the importance of supply chain traceability.

Through these activities, SMTAM has observed a growing awareness among both government bodies and corporations in Indonesia regarding decarbonization through forest conservation.

Figure 3: Examples of SMTAM's collaborative engagements on natural capital in emerging countries*

Initiative names	Case studies of specific initiatives in emerging countries
The Investors Policy Dialogue on Deforestation (IPDD)	In addition to activities in Indonesia, we have engaged with government agencies and cabinet members in Brazil, focusing on reducing deforestation related to the livestock industry and the associated feed production. The engagement has contributed to the introduction of restrictions on slash-and-burn land clearing. Recently, SMTAM has also engaged with the Ministry of Environment, the Ministry of Finance, and the Securities Commission in Brazil.
Financial Sector Deforestation Action (FSDA)	<ul style="list-style-type: none"> · Conducts regular engagement with Malaysian palm oil companies on enhancing supply chain traceability in palm oil production to prevent tropical rainforest destruction, as well as on exploring nature-based solutions to address various social issues. · Conducts regular engagement with South Korean food companies regarding enhanced traceability in supply chains for Brazilian soybeans.
Nature Action 100 (NA100)	Engages with South Korean chemical companies, food companies in Hong Kong, Singapore, Indonesia, and Brazil, Malaysian palm oil companies, and Chilean non-ferrous metal companies to enhance supply chain traceability and advance nature-based solutions.
PRI Spring	<ul style="list-style-type: none"> · Engaged with a Hong Kong company owning palm oil plantation subsidiaries to strengthen group governance. · Engaged with Chinese automobile and food companies on adopting TNFD-aligned disclosure and improving environmental and social risk management in their supply chains.

* For the overview of each initiative, please refer to [pages 93-98](#).
(Source: Compiled by SMTAM from various materials)

4. Summary

SMTAM believes that climate change poses a medium- to long-term threat that could irreversibly degrade the global environment and significantly impact the value of investee corporations over time. Therefore, it is essential to address not only climate change but also natural capital issues flexibly and over the long term. Additionally, similar forest conservation challenges exist not only in Indonesia and other parts of Asia but also in South American countries such as Brazil, making global action indispensable. Leveraging its offices in Tokyo, the United States, and Europe, SMTAM aims to promote behavioral change among investee companies by engaging directly and in person with them and their surrounding stakeholders, thereby pursuing both the resolution of social issues and the maximization of investment returns.



SMTAM's Vendor Engagement

Importance of Vendor Engagement

Engagement with index providers and information service providers (vendor engagement) is a highly important activity for institutional investors.

Given the scale of SMTAM's assets under management and the number of investee companies, the impact of fluctuations across the capital markets is unavoidable. From this perspective, indices that reflect market movements are essential for improving long-term investment performance. Furthermore, as investment through ESG indices becomes more widespread and diversified, enhancing the quality of such indices has become increasingly important. In addition, both the Progress Report on Enhancing Asset Management Business 2022, published by Japan's Financial Services Agency, and the UK Stewardship Code call on asset management companies to conduct appropriate verification of ESG ratings and data providers. We have therefore established internal rules mandating regular monitoring and conducting vendor engagement accordingly.

Engagement with S&P Dow Jones Indices

In 2025, SMTAM engaged with "S&P Dow Jones Indices" during its consultation process (gathering opinions from index users, etc.) on improvements to the S&P/JPX Carbon Efficient Index, which SMTAM utilizes in its asset management.

The index is designed to encourage companies to improve both information disclosure related to greenhouse gases and carbon efficiency (i.e., lower carbon emissions per unit of sales) by assigning higher weights to companies with strong disclosure and superior efficiency.

The consultation mainly focused on (1) changes to weighting at the time of index rebalancing and (2) the introduction of quarterly rebalancing. These changes are expected to further reduce the divergence in price movement relative to the benchmark TOPIX while improving returns, thereby helping to control risks associated with ESG investing (Figures 1 and 2). We also confirmed that the index's characteristic improvement in carbon efficiency relative to TOPIX would be maintained (Figure 3). These enhancements are anticipated to improve the usability of ESG investments for institutional investors managing large amounts of capital and for individual investors highly attuned to climate change issues. SMTAM provided comments regarding the potential introduction of KPIs and the incorporation of companies' greenhouse gas reduction initiatives into the index.

We began passive investment in this index when it was first launched in 2018 and listed the ETF tracking it (Securities Code: 2642) on the Tokyo Stock Exchange in 2021. As of March 2025, the total balance of assets under management linked to the index was approximately 2.8 trillion yen.

Figure 1: Index risk relative to TOPIX

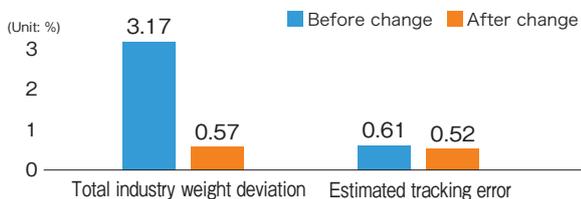
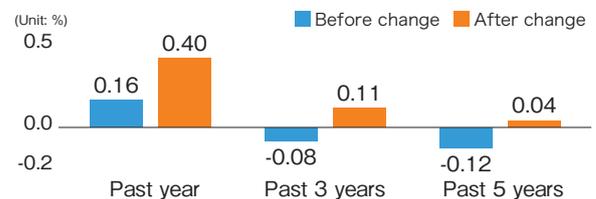
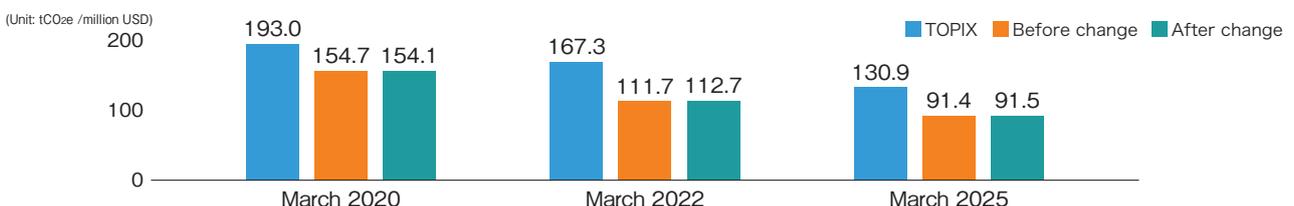


Figure 2: Index return relative to TOPIX



(Both Figures 1 and 2 are as of the end of May 2025.)

Figure 3: Carbon efficiency of TOPIX and the index



(Source: S&P Dow Jones Indices)

■ Engagement with Japan Exchange Group

SMTAM engages with JPX Market Innovation & Research, Inc., which is responsible for index calculation within the Japan Exchange Group (JPX). This engagement takes place through participation in “the Index Advisory Panel,” established to promote continuous index improvement through dialogue with index users, as well as through consultations organized by the company. Specifically, we proposed improving the liquidity of index constituents, reviewing how subsidiaries of parent companies listed on the same market and cross-shareholdings are handled within indices to protect minority shareholders, and further promoting information disclosure. Some of these proposals have subsequently contributed to improvements in index operations.

(Main discussion topics in the Index Advisory Panel)

- Direction of revisions to TOPIX and new market segment indices
- Awareness of issues related to sustainable investment and future ESG index development initiatives
- Expectations for index vendors and the relationship between index vendors and the asset management industry
- Approaches to expanding or streamlining index lineups
- Methods of promoting indices and disseminating information

In addition, SMTAM actively participates in public comments on revisions to market segments and other listing rules implemented by the Tokyo Stock Exchange to improve the capital markets. We also engage in exchanges of opinions on governance reform initiatives for listed companies promoted by the exchange.

■ Engagement on ESG Ratings and Recommendations for Exercising of Voting Rights

In our engagement on the consultation with MSCI on changes to its ESG rating model, we expressed opinions on advancing the model to place greater emphasis on financial materiality, strengthening validation of ESG rating effectiveness, incorporating regional characteristics into ESG assessments, and addressing AI governance issues. SMTAM also engages with proxy advisory firms. This year, discussions focused on Diversity, Equity, and Inclusion (DE&I), including whether any changes had been made to advisory policies, the rationale behind these changes, and suggestions for improving transparency when revisions occur.

Engagement with S&P Dow Jones Indices



SMTAM's Exercise of Voting Rights

As a “responsible institutional investor,” we position the exercise of voting rights on entrusted assets (h the exercise of voting rights is to maximize the medium- to long-term investment returns for clients (be

■ Basic Policy

■ The objective of the exercise of voting rights must be to contribute to the sustainable growth of investee companies, which in turn maximizes medium- to long-term investment returns for our clients (beneficiaries). We exercise our voting rights based on a comprehensive judgment, considering the circumstances of the investee companies and the content of our engagement with them, rather than merely adhering to formal criteria. The priority is to support items that contribute to the sustainable growth of the investee companies, ultimately maximizing our clients' (beneficiaries') medium- to long-term investment returns. When multiple amendments are included in a proposal, we prioritize items contributing to sustainable growth in our voting decisions.

■ We require investee companies to proactively establish a corporate governance structure that respects shareholder interests. This includes the efficient use of shareholders' equity for sustainable growth, separation of oversight functions from management, and securing the independence of outside directors. Additionally, we expect companies to engage in appropriate corporate activities under high-quality corporate governance while considering environmental and social factors.

■ If companies or their management disregard shareholders' interests, or if misconduct or medium- to long-term poor performance damages corporate value, we regard these as critical governance issues. In such cases, we exercise our voting rights to contribute to improvements in corporate governance. We also require companies that have engaged in misconduct to provide adequate explanations of their preventive measures, corrective actions, and efforts to improve corporate governance. Our voting decisions are made based on these explanations.

■ Overview of the Exercise of Voting Rights Operation Process

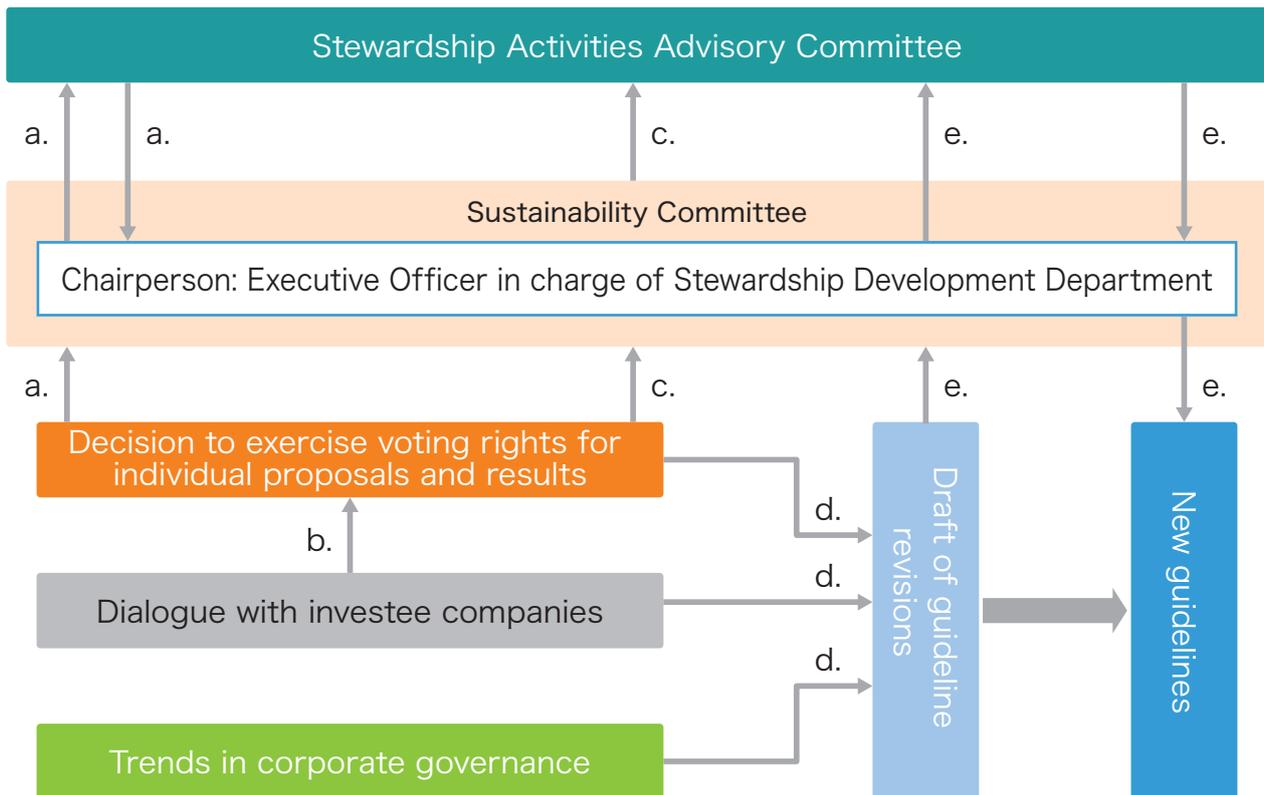
From the perspective of prioritizing the interests of our clients (beneficiaries), we strictly manage potential conflicts of interest in the exercise of voting rights by adhering to internal rules, including the conflict of interest management rules, investment management business rules, and other related rules. We have established a Stewardship Activities Advisory Committee consisting primarily of external experts, and we aim for transparent exercise of voting rights by fully respecting the committee's recommendations. The overview of the exercise of voting rights operation process is shown in the figure to the right.

■ 2025 Guideline on the Exercise of Voting Rights Revision – Encouraging “Management that is Conscious of Cost of Capital and Stock Market Evaluations” Through Stricter Performance Criteria

The main revisions to the Guideline on the Exercise of Voting Rights in 2025 were made to encourage management that is conscious of cost of capital and stock market evaluations. Key changes include tightening performance criteria for director election proposals and adopting a new approach that evaluates companies based on both these criteria and the P/B ratio standard. Please see [pages 125 to 126](#) for more details.

hereinafter “exercise of voting rights”) as one of our important stewardship activities. The purpose of (beneficiaries) by improving the corporate value of investee companies and promoting sustainable growth.

Overview of the exercise of voting rights operation process



a. Decision-making on exercising voting rights for proposals requiring individual review that are not specified in the Guideline on the Exercise of Voting Rights

The Sustainability Committee will conduct an individual review, followed by recommendations from the Advisory Committee, and finalize with the approval of the Executive Officer in charge of the Stewardship Development Department.

b. Decision to exercise voting rights for individual proposals

They will be conducted per the Guideline on the Exercise of Voting Rights but not solely based on formal judgments. Engagement content will also be considered.

(Past examples) The application of exception criteria for companies that have violated performance criteria for three consecutive fiscal years or companies that have violated the disposition of surplus criteria will be based on engagement.

c. Reporting on the record of the exercise of voting rights

Reported to the Sustainability Committee, the Executive Officer in charge of the Stewardship Development Department, and the Stewardship Activities Advisory Committee

d. Drafting of revision proposals for the Guideline on the Exercise of Voting Rights

Based on the record of the exercise of voting rights, dialogue with investee companies, and societal trends (Past examples)- Reflected the opinion from the Advisory Committee to tighten criteria on surplus disposal proposals during voting rights exercise reporting

- Added exception criteria for granting stock remuneration compensation to outside directors based on dialogue with investee companies.
- Reflected content deemed necessary in response to requests from the Stewardship Code, Corporate Governance Code, and Tokyo Stock Exchange towards companies.

e. Revisions to the Guideline on the Exercise of Voting Rights

The Sustainability Committee will conduct a review, followed by recommendations from the Advisory Committee, and finalize with the approval of the Executive Officer in charge of the Stewardship Development Department.

■ Revisions to the Guideline on the Exercise of Voting Rights and Trends in Opposition Ratio

Regular revised contents are published every December and applied starting from the annual general meeting (AGM) of 2019 and the trends in opposition ratios for management proposals are as follows:

	Revised contents
	Composition of the board of directors, appointment of directors
2019	<ul style="list-style-type: none"> ● Established a new criterion requiring the ratio of independent outside directors to be one-third or more (Target: Nomination Committee- or Audit and Supervisory Board-based companies that have violated performance (ROE) criteria for three consecutive fiscal years).
2020	<ul style="list-style-type: none"> ● Expanded the criterion requiring the ratio of independent outside directors to be one-third or more to companies that have violated performance (ROE) criteria for three consecutive fiscal years. ● Revised to require companies with a parent company, etc., to ensure a structure that guarantees independent decision-making.
2021	<ul style="list-style-type: none"> ● Added key ESG issues and excessive cross-shareholdings as agenda items that we may oppose depending on engagement content.
2022	<ul style="list-style-type: none"> ● Revised to require companies with a parent company, etc., to have a majority of independent outside directors. ● Expanded the criterion requiring the ratio of independent outside directors to be one-third or more to all companies listed on the Prime Market. ● Established a new criterion for appointing female directors (requiring the appointment of at least one female director) (Target: TOPIX100 constituent companies). ● Added climate change response criteria. ● Added a perspective on the number of concurrent positions held by outside directors.
2023	<ul style="list-style-type: none"> ● Expanded the criterion for appointing female directors to include TOPIX500 constituent companies. ● Clarified the criteria for cross-shareholdings (excessive holding criterion: regarded as investment stocks for purposes other than pure investment, with the total amount of held stocks exceeding approximately the top 10% of TOPIX constituent stocks' net assets).
2024	<ul style="list-style-type: none"> ● Added perspective on appointing multiple female directors. ● Added perspective on management considering capital costs and stock market evaluations. ● Expanded the criterion for appointing female directors to include companies listed on the Prime Market. ● Tightened exception criteria for cross-shareholdings.
2025	<ul style="list-style-type: none"> ● Tightened the ROE performance benchmark from the top 75th percentile to the top two-thirds percentile among TOPIX-listed companies. ● Revised from "three consecutive fiscal years of violating performance criteria" to "three consecutive fiscal years of violating performance criteria and a P/B ratio below 1.0." ● Regarding opposition targets in director appointment proposals: (1) For noncompliance with board of directors composition and related standards, the scope was revised from "all directors" to "directors up for reappointment," and (2) for noncompliance with performance or related criteria, the scope was revised from "directors who have served for three years or more" to "the current representative director who has served as a director for three years or more."

In addition to the above, the following revisions were made in 2025:

- Specified the individuals subject to opposition in cases where "serious governance incompetence is identified" in director
- Categorized types of shareholder proposals and clarified our stance and exercise policies for each.
- Deleted the term "dividend standard" and revised the expression to "dividend payout ratio below 30%."

The ratio of opposition to management proposals in 2025 decreased year-on-year due to changes in investee companies performance standards, and improvements in corporate governance, such as an increase in companies appointing female

Proposals for Management Proposals

shareholders in January of the following year. The main revisions to the Guideline on the Exercise of Voting Rights since

Other	Opposition ratio	
	Management proposal	(Reference) Shareholder proposal
<ul style="list-style-type: none"> ● Revised the independence criteria for outside directors to be based on whether they have been reported as independent directors to the stock exchange. ● Revised to generally oppose proposals for payment of retirement benefits. 	19.4%	93.3%
<ul style="list-style-type: none"> ● Added "governance incompetence" as a category under the misconduct criteria. ● Tightened criteria for surplus disposal proposals, particularly for cash-rich companies. 	20.1%	81.0%
	18.8%	95.2%
<ul style="list-style-type: none"> ● Added a term of office to the independence criteria for external officers (including supplementary provisions). ● Revised the timing for the sale of shares in the stock remuneration compensation system to after three years. ● Added exception criteria for granting stock remuneration compensation to outside directors. ● Added criteria for takeover defense measures in times of emergency. ● Added criteria for determining shareholder proposals regarding amendments to the Articles of Incorporation related to specific business execution and demands for climate change response. 	19.9%	94.7%
<ul style="list-style-type: none"> ● Deleted the supplementary provision related to the term of office under the independence criteria for external officers. ● Revised to generally oppose pre-warning-type takeover defense measures. 	19.8%	90.3%
<ul style="list-style-type: none"> ● Introduced P/B ratio criteria and implemented stricter standards for surplus disposal proposals targeting cash-rich companies. 	22.1%	91.1%
<ul style="list-style-type: none"> ● Added a provision allowing opposition to companies with excessive cross-shareholdings if they are found to hinder reduction efforts. ● Changed the stance to generally support shareholder proposals requesting individual disclosure of executive remuneration. 	15.1%	93.8%

* The items in green have significantly impacted the change in opposition ratio.

tor appointments.

s resulting from revision to the TOPIX constituents, updates to opposition targets related to board composition and the directors.



■ Cases Where the Exercise of Voting Rights was Determined Based on Engagement

We exercise voting rights based on a comprehensive assessment of whether they contribute to the sustainable growth of formal criteria.

Example of considering profitability improvement in a new business

Case study 1	Rakuten Group, Inc.
Issues	Due to the investment burden from its new mobile business, Rakuten Group continued to fall short of our ROE standards from the fiscal year ended December 2019 onward. Other segments achieved double-digit ROE, and the company's ecosystem continued to expand. Since the mobile business was launched with the assumption it would take ten years to become profitable, opposing the reappointment of directors under our "three consecutive fiscal years of violating ROE criteria" rule would have contradicted our positive evaluation of the company's overall management strategy.
Engagement	The analyst and voting rights officer worked together to hold regular, constructive dialogues with management. We recognized that the mobile business complements existing operations such as e-commerce and financial services, contributes to further expansion of the company's ecosystem and sustainable enhancement of corporate value, and helps address high mobile fees in Japan while driving technological advancement. We provided feedback on our voting decision, monitored progress on revised profit improvement measures in response to changing business environment, and encouraged consistent efforts to reduce losses.
Voting action	At the March 2022 shareholders' meeting, following deliberations by our Sustainability Committee and Stewardship Activities Advisory Committee, we applied exception criteria to support the reappointment of directors who had served for over three years, on the conditions of confirming engagement progress and annual monitoring indicator improvements. We supported Rakuten Group's bold management strategy, and as a result, the company achieved positive EBITDA in the mobile segment in Q4 of the fiscal year ended December 2024, returned to full-year operating profit, and exceeded a P/B ratio of 1.0, resolving its noncompliance with our Guideline on the Exercise of Voting Rights.

Example of supporting the adoption of an emergency takeover defense measure

Case study 2	JANOME Corporation
Issues	MM Investments Co., Ltd. (hereinafter "MM"; a subsidiary of Mitsui Matsushima Holdings Co., Ltd., or "Mitsui Matsushima HD") had been accumulating shares of JANOME, increasing its stake from 5.42% on November 29, 2024, to 8.54% as of March 26, 2025 (based on voting rights). In response, JANOME's Board of Directors resolved on May 22, 2025, to introduce a takeover defense measure limited to MM, and submitted a proposal to renew the measure at its June 2025 shareholders' meeting.
Engagement	During our engagement with JANOME, it was explained that in a meeting between JANOME and MM, there was mention of a potential future plan to bring JANOME under the umbrella of Mitsui Matsushima HD. We also confirmed that JANOME had obtained a legal advisor's opinion deeming the takeover defense measure appropriate as an emergency response. However, we were skeptical of the potential synergies expected under Mitsui Matsushima HD and were also concerned about uncertainty surrounding MM's intentions in accumulating shares.
Voting action	The purpose of this takeover defense measure was to give shareholders sufficient time to review and consider the situation. If share accumulation were to continue unchecked, there was a risk of a takeover under unfavorable terms for shareholders, such as a partial tender offer or a low-premium bid. Taking into account that shareholders would still be able to express opposition to any countermeasure activation at a shareholders' will confirmation meeting if MM's acquisition proved beneficial to general shareholders, we voted in favor of the takeover defense measure.

of investee companies, taking into account their situation and engagement content rather than merely adhering to

Example of exercising voting rights in response to corporate misconduct

Case study 3	KOBAYASHI PHARMACEUTICAL CO., LTD.
<p>Details of the misconduct</p>	<p>On March 22, 2024, KOBAYASHI PHARMACEUTICAL announced a voluntary recall of its red yeast rice-based product Beni-koji Choleste-Help, following reports of health hazards. More than two months elapsed between the first report from a doctor and KOBAYASHI PHARMACEUTICAL's public disclosure. According to the investigation committee's report, the delay and the scale of harm were due to a lack of leadership and a negative attitude toward information disclosure by management. Consequently, the Representative Director and Chairman resigned. The Representative Director and President stepped down from that role but remained as a director as an officer in charge of compensation-related matters.</p>
<p>Our view and decision</p>	<p>We determined that the main cause of the escalation of health hazards was a failure of the Board of Directors' function. Upon receiving the initial report from a physician, executive management should have promptly communicated with outside directors, responded to the issue swiftly as a board, and disclosed and explained the situation appropriately. The delay in decision-making by the board, particularly by the Representative Director, was judged to have worsened the situation.</p>
<p>Voting action</p>	<p>We voted against the reappointment of the former Representative Director and President due to their responsibility in the misconduct. However, we voted in favor of other director candidates, expecting them to take leading roles in restoring trust, preventing recurrence, and promoting management reforms.</p>

Example of exercising voting rights on shareholder proposals

Case study 4	Fuji Media Holdings, Inc.
<p>Proposal content</p>	<p>At the June 2025 shareholders' meeting, Nippon Active Value Fund plc submitted a shareholder proposal to elect 12 outside director candidates who would not serve as Audit & Supervisory Committee members.</p>
<p>Our view and decision</p>	<p>While we had been engaging with the company regarding measures to prevent a recurrence of the (former) Johnny's scandal, a new human rights and compliance issue emerged. The inadequate response of the management at that time allowed the problem to worsen and persist, leading to significant loss of advertising revenue and a decline in corporate value. We regarded revitalization of the management structure, enhanced monitoring of the new management team, and early restoration of corporate value as top priorities. Accordingly, we held meetings with both the company and the shareholder proponent for comparison and evaluation.</p>
<p>Voting action</p>	<p>We voted in favor of the management proposal and against the shareholder proposal. For the management's internal director candidates, we confirmed through an external legal investigation that they had no direct or indirect involvement in human rights or compliance issues. We also verified that the company's Management Advisory Committee had conducted individual interviews with both sets of candidates and selected the management's nominees through an appropriate process. We found that the management's nominees possessed the necessary skills, experience, and independence reflecting stakeholder perspectives, while concerns remained about the shareholder nominees' selection process and narrow focus on specific issues. We therefore determined that a board composed solely of the management's proposed candidates would best serve the common interests of shareholders and protect the rights of minority shareholders.</p>

■ Cases of Decision Regarding Emergency Takeover Defense Measures

In recent years, while more companies have abolished pre-warning type takeover defense measures, there has been a rise in the adoption or activation of emergency takeover defense measures. As introduced on [page 127](#), we present below several cases from recent years and our corresponding decisions.

Toshiba Machine Co., Ltd. (now Shibaura Machine Co., Ltd.)	For	March 2020 shareholders' meeting
Details	<ul style="list-style-type: none"> ■ In January 2020, City Index Eleventh Co., Ltd. announced the launch of a takeover bid (TOB). ■ Toshiba Machine's management reform plan set targets of ¥10.8 billion in operating profit and an ROE of 8.5% for the fiscal year ended March 2024, explaining these goals as management commitments. ■ We determined that if Toshiba Machine met the acquirer's long-standing demand for shareholder returns (a ¥30 billion share buyback), structural reforms and capital investments essential to the management reform plan might be abandoned, undermining efforts to enhance corporate value. ■ Taking these factors into account, we voted in favor of introducing and activating the takeover defense measures. 	
Fuji Kosan Co., Ltd.	For	June 2021 shareholders' meeting
Details	<ul style="list-style-type: none"> ■ In April 2021, Aslead Capital Pte. Ltd. announced the commencement of a TOB. ■ Fuji Kosan's medium-term management plan set goals of ¥1.0 billion or more in ordinary profit and an ROE of 8% or higher for the fiscal year ended March 2024, explaining that achieving these would enable a future share price above the TOB offer price. ■ However, since the acquirer provided no specific management plan and ENEOS Corporation, a key business partner, expressed concerns about the TOB, we viewed the acquisition as potentially harmful to existing business relationships if control were transferred. ■ Taking these factors into account, we voted in favor of introducing and activating the takeover defense measures. 	
Tokyo Kikai Seisakusho Co., Ltd.	For	October 2021 shareholders' meeting
Details	<ul style="list-style-type: none"> ■ Asia Investment Fund and others were accumulating the company's shares. ■ As the acquirer held roughly 40% of the shares without launching a TOB, we judged the situation as potentially coercive for general shareholders and decided to assess it from the perspective of possible corporate value impairment if holdings were maintained or increased. ■ The acquirer provided no detailed explanation of its management plan. ■ As a result, some customers deferred orders and deliveries of newspaper printing presses. ■ Although the company itself had not disclosed a medium-term plan and its value enhancement measures were unclear, we judged that the risk of corporate value loss from acquirer control outweighed these uncertainties. 	
Shinsei Bank, Limited (now SBI Shinsei Bank, Limited.)	Against	November 2021 shareholders' meeting (proposal withdrawn)
Details	<ul style="list-style-type: none"> ■ We evaluated the acquirer, SBI Holdings, Inc., as having appropriately addressed information disclosure and consideration for minority shareholders for the following reasons: <ul style="list-style-type: none"> • The TOB process was conducted with consideration for general shareholders, including extending the tender offer period. • At the board meeting after the acquisition, SBI Holdings explained that it would establish a board with a majority of independent outside directors, demonstrating consideration for minority shareholders. ■ Despite having ample time in the past, the target company had failed to improve its corporate value. ■ Given that the TOB included a reasonable premium and that the acquisition offered the opportunity for new growth under SBI Holdings' strategy, we judged the takeover to be rational and voted against the company's proposed defensive measures. 	

Voting Results

Record of exercising voting rights for Japanese equity (July 2024 to June 2025)

Management proposals

		For	Against	Abstention	Total	Opposition ratio
Proposals concerning company systems	Appointment/dismissal of directors	13,739	2,639	0	16,378	16.1%
	Appointment/dismissal of corporate auditors	1,078	106	0	1,184	9.0%
	Appointment/dismissal of accounting auditors	63	0	0	63	0.0%
Proposals concerning remuneration for executives	Remuneration for executives* ¹	662	108	0	770	14.0%
	Payment of retirement benefits for resigning executives	0	61	0	61	100.0%
Proposals concerning capital policies (Excluding proposals concerning articles of incorporation)	Disposal of surplus funds	1,205	112	0	1,317	8.5%
	Restructuring-related* ²	24	0	0	24	0.0%
	Introduction/renewal/abolishment of takeover defense measures	1	38	0	39	97.4%
	Other proposals concerning capital policies* ³	72	0	0	72	0.0%
Proposals concerning articles of incorporation		440	18	0	458	3.9%
Other proposals		10	0	0	10	0.0%
Total		17,294	3,082	0	20,376	15.1%

*1 This includes amendments to remuneration for executives, issuance of stock options, introduction/alteration of performance-linked remuneration systems, and executive bonuses

*2 This includes mergers, business transfers and acquisitions, share swaps, share transfers, and corporate splits

*3 This includes treasury share acquisitions, decrease in statutory reserves, new share allocations to third parties, decrease in capital, reverse stock splits, and issuance of class shares

Shareholder proposals

	For	Against	Abstention	Total	Opposition ratio
Total	24	361	0	385	93.8%

With regard to stock lending transactions, we set loan limits for securing voting rights. For voting rights secured in shares outside of the loan limits, we exercise said rights in accordance with our policy on the exercise of voting rights. In daily processes, our portfolio managers confirm positions such as the number of lent stock.

Record of exercising voting rights for foreign equity (July 2024 to June 2025)

Management proposals

		For	Against	Abstention	Total	Opposition ratio
Proposals concerning company systems	Appointment/dismissal of directors	14,828	1,937	0	16,765	11.6%
	Appointment/dismissal of corporate auditors	540	63	0	603	10.4%
	Composition of board of directors (limits on number of directors, etc.)	389	25	0	414	6.0%
	Appointment of accounting auditors	2,650	39	0	2,689	1.5%
Proposals concerning remuneration for executives	Remuneration for executives	3,624	578	0	4,202	13.8%
	Stock options	577	249	0	826	30.1%
	Presentation of retirement benefits	6	3	0	9	33.3%
Proposals concerning capital policies (Excluding proposals concerning articles of incorporation)	Shareholders' equity	2,817	515	0	3,332	15.5%
	Profit disposal and loss disposition plans	1,795	6	0	1,801	0.3%
	Establishment of share buyback frameworks	1,262	47	0	1,309	3.6%
	Mergers, corporate splits, conversions to holding company, business transfers, etc.	781	217	0	998	21.7%
	Takeover defense measures	258	13	0	271	4.8%
Proposals concerning articles of incorporation		1,137	276	0	1,413	19.5%
Other		9,323	998	0	10,321	9.7%
Total		39,987	4,966	0	44,953	11.0%

Shareholder proposals

	For	Against	Abstention	Total	Opposition ratio
Total	969	720	0	1,689	42.6%

ESG Investment

Sayaka Takano

Assistant Chief, Business Planning Team,
Business Planning Department



■ SMTAM's Approach to ESG Investment

As calls for sustainability grow and the influence of shareholders and other stakeholders increases, companies are expected to play a proactive role in sustainable management and solving social issues. Asset management companies, which have the opportunity to express opinions through engagement and voting rights, are also expected to take a more active role in promoting the resolution of social issues. In this context, we aim to contribute to the realization of a sustainable economy and society by promoting initiatives that enhance corporate value through supporting investee companies in addressing environmental, social, and governance (ESG) challenges, as well as by advancing investment activities that focus on ESG-related risks and opportunities (ESG investments) as a responsible institutional investor. With ESG investment, we believe that fulfilling the role as an asset management company in an investment chain through investment activities will make contributions in value improvement and sustainable growth in investee companies, maximizing the investment return (gain on investments) of clients (beneficiaries) over a medium to long term, reducing downside risks, and achieving a sustainable society. Therefore, we incorporate ESG investment considerations into all of the products we manage. To fulfill our responsibility to maximize client investment returns—our stewardship responsibility—and to achieve a sustainable economy and society, we engage in ESG investment and conduct appropriate monitoring and disclosure. In making ESG investments, we take ESG materiality into consideration. For more details, please refer to [“SMTAM's ESG Materiality and Key Activity Items.”](#)

Figure 1: ESG investment methods

Classification		ESG investment method	Definition
ESG investment	ESG integration	1. ESG negative screening	Under certain criteria, we exclude companies from our investment universe who have significant problems from the perspective of ESG, such as those that manufacture inhumane weapons and that conflict with international codes.
		2. ESG positive screening	We actively invest in companies with high ESG ratings within each sector.
		3. Integration of ESG-related information	We incorporate knowledge obtained from analyzing/evaluating non-financial information including ESG into processes regarding selecting brands of each fund and building portfolios in an explicit and systematic manner.
		4. Topic investment	We establish topics regarding ESG and form and manage funds that mainly incorporate companies related to it.
		5. Impact investment	We form and manage funds with an explicit purpose of having a positive impact on society from the ESG perspective, as well as producing economic gain on investments.
	Active ownership	6. Engagement	We hold constructive dialogues on ESG topics with investee companies as an opportunity to seek best practices from companies and improve their value over a medium to long term.
		7. Exercise of voting rights	We call for minimum standards and value improvement in investee companies by reflecting ESG factors in voting “for” or “against” a proposal in the exercise of voting rights of investee companies.

■ ESG Investment Methods

In ESG investment, we utilize and promote seven ESG investment methods classified under “ESG integration” and “Active ownership.” ESG integration refers to a direct investment method for portfolio management that involves analyzing and evaluating non-financial information, including ESG factors, and applying the insights gained to management. On the other hand, Active ownership refers to activities that fulfill the responsibilities and rights of investors, forming the foundation of stewardship activities.

■ ESG Product Certification and Product Governance

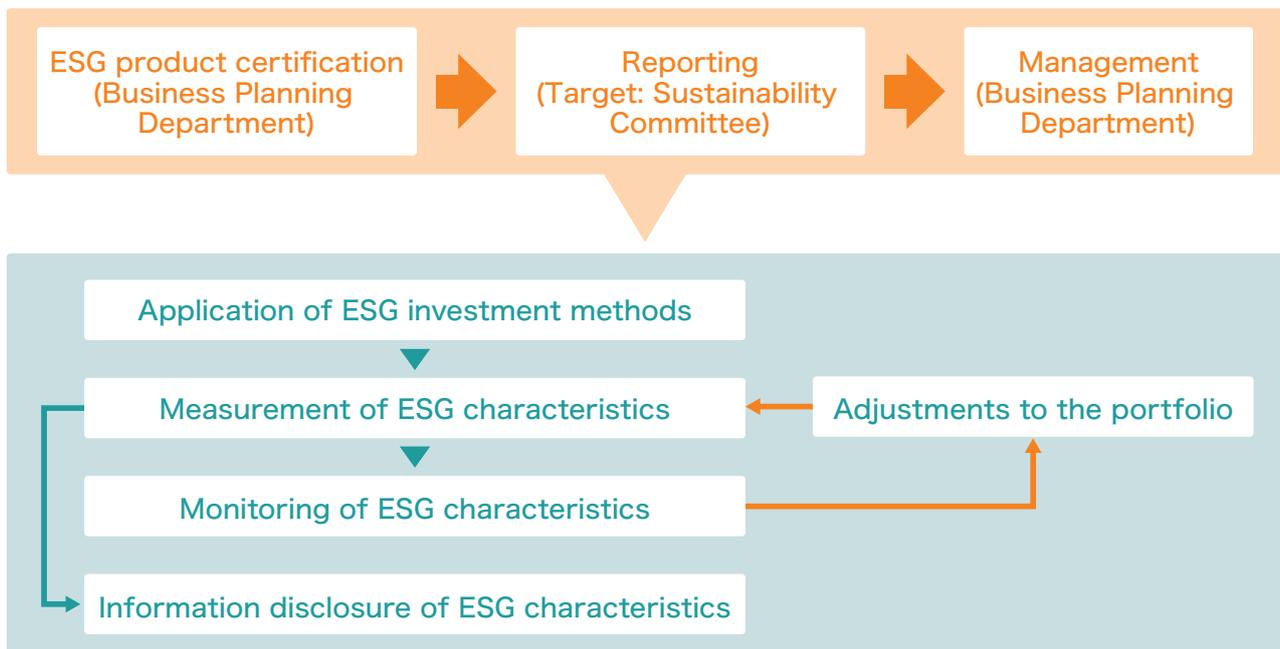
We certify “ESG products” to enhance our product governance. ESG products are those that meet three criteria: “Application of ESG investment methods,” “ESG characteristics and their measurement,” and “Appropriate ESG disclosure.” For certified products, the monitoring results are reported to the Sustainability Committee and other relevant bodies, which oversee and manage the process. Specifically, our managed portfolios are operated under a range of investment strategies tailored to each client’s investment objectives, with ESG investment methods applied according to their respective characteristics. We therefore monitor ESG characteristics and the status of ESG integration within portfolios on a regular basis and make adjustments as appropriate. In addition, we disclose relevant ESG information appropriately, including the results of measurements of these ESG characteristics. As an escalation of ESG investment methods, if engagement with investee companies alone is deemed insufficient to enhance the effectiveness of ESG investments, we consider voting against management proposals or supporting shareholder proposals at the investee company’s general meeting of shareholders. To enhance the effectiveness of ESG investments, we strive to refine and understand the objectives, methods, and limitations of ESG evaluations and data for investee companies, making improvements as necessary.

Figure 2: ESG product certification

ESG products must meet the following three criteria.

	Classification	Definition
Three criteria	Application of ESG investment methods	Using appropriate ESG investment methods suited to the portfolio’s characteristics and explicitly and systematically integrating them into the management process.
	ESG characteristics and their measurement	Ensuring the portfolio possesses ESG characteristics that are measurable.
	Appropriate ESG disclosure	Providing appropriate ESG disclosures for the portfolio, including the results of ESG characteristic measurements.

Figure 3: ESG product governance



SMTAM's ESG Investment Strategy Map

We believe that providing a wide range of ESG investment products, whether through active or passive investment, plays a vital role in stewardship activities by encouraging behavioral change among investee companies.

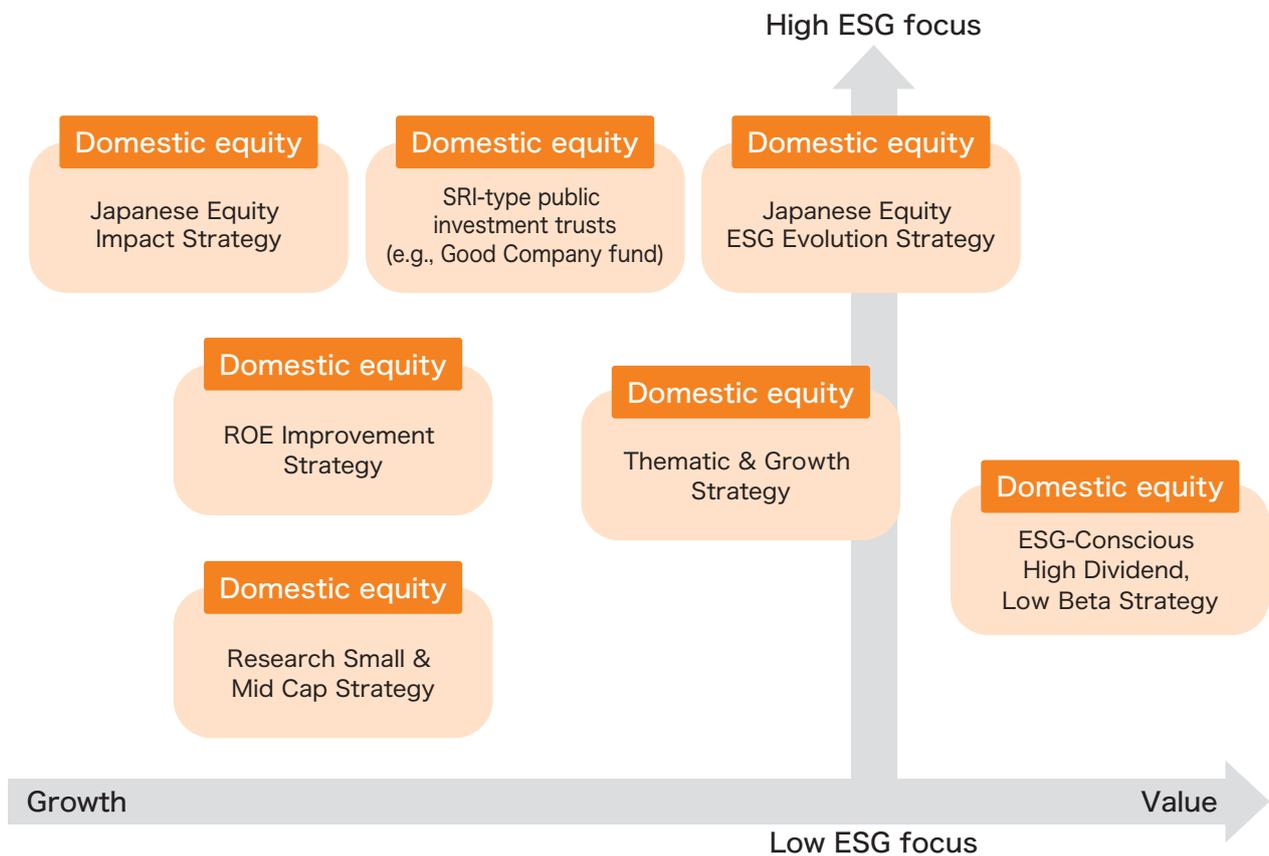
- Plays a vital role in stewardship activities by encouraging behavioral change among investee companies
- Enables our clients to contribute to the enhancement of social and corporate sustainability while pursuing their business goals

From this perspective, we regard providing these ESG investment products as a highly important responsibility.

In active investment, we support investee companies in addressing social challenges, which in turn fosters the growth of a select number of companies. In passive investment, we invest in a broad range of securities and promote the growth of the market.

Active Investment Strategy

■ SMTAM's ESG Active Investment Strategy Map (Equities)*1



*1 The position of each strategy represents the relative level of ESG integration and the degree of growth/value orientation.

■ SMTAM's ESG Active Investment Strategy Map (Bonds)

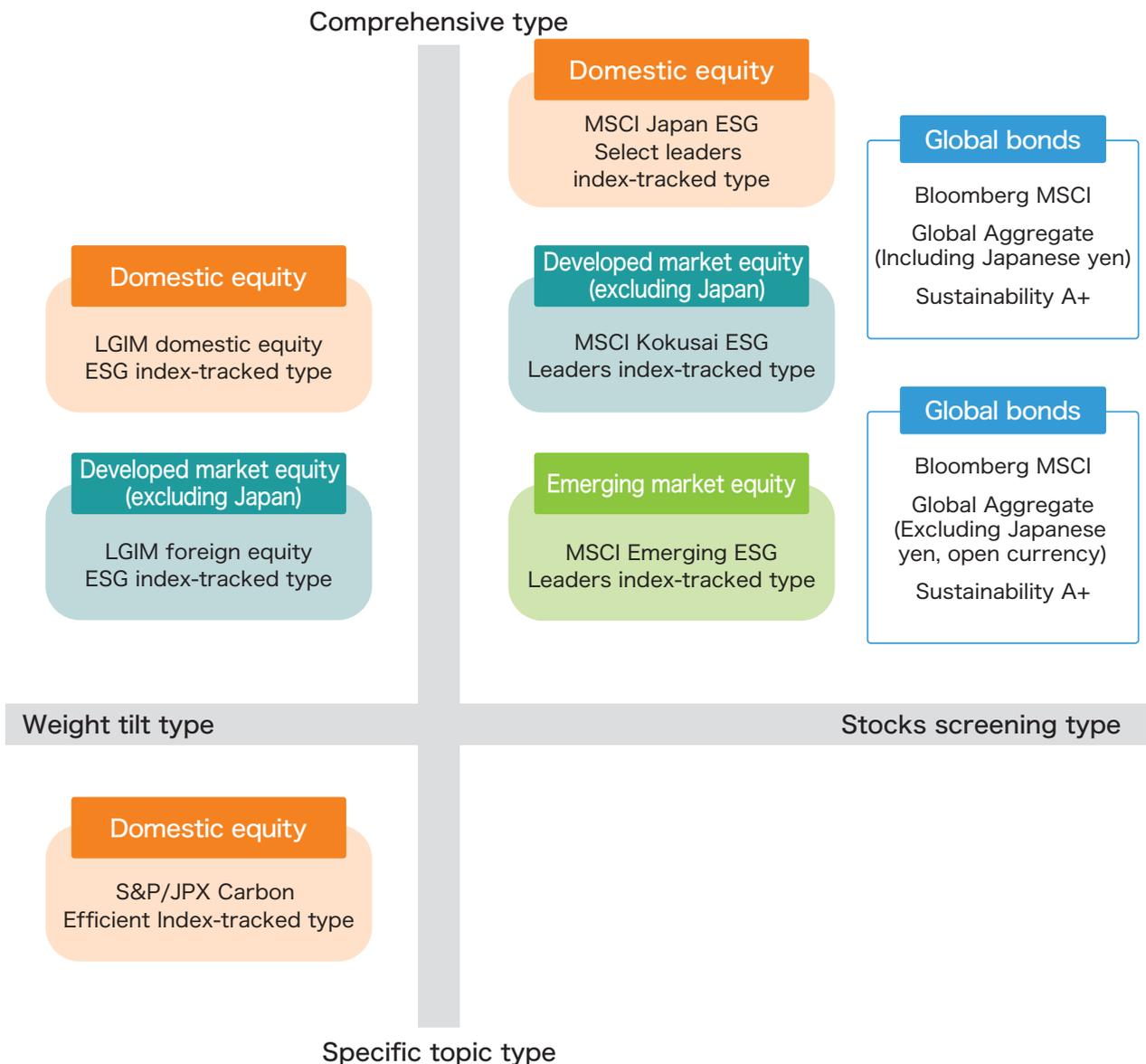


investment and across all asset classes:
 es through ESG investments; and
 uing investment returns through diverse investment opportunities.
 nsibility as a “responsible investor.”

ers growth in ROE, EPS, and corporate value, while pursuing a concentrated investment approach in a
 e multi-engagement to elevate the market value as a whole and contribute to solving social issues.

Passive Investment Strategy

■ SMTAM’s ESG Passive Investment Strategy Map*2

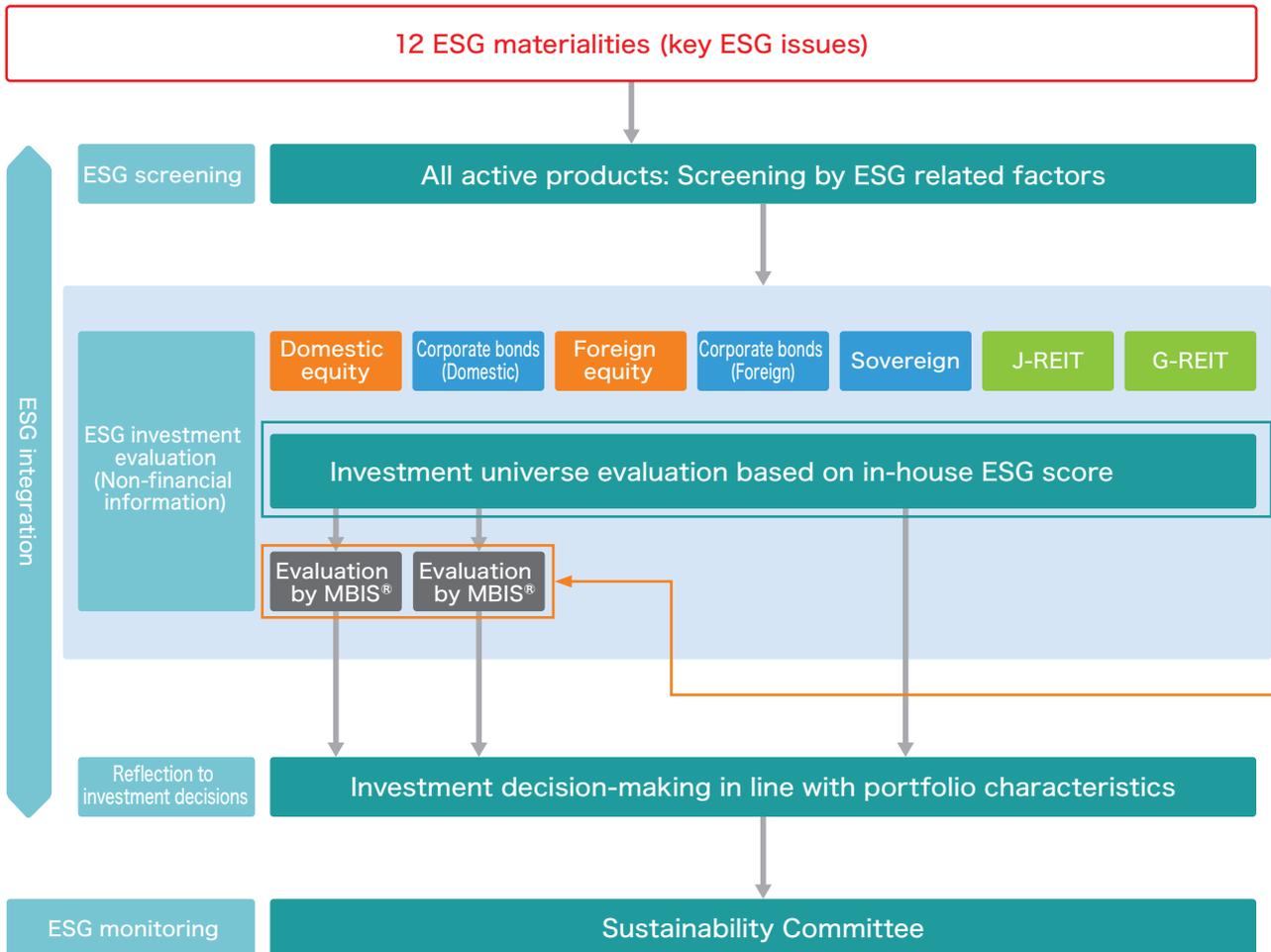


*2 Quadrant using the vertical axis and horizontal axis to show the different types. The position does not indicate the degree of each characteristic of each type.

Incorporating ESG Factors into Investment Decision-making

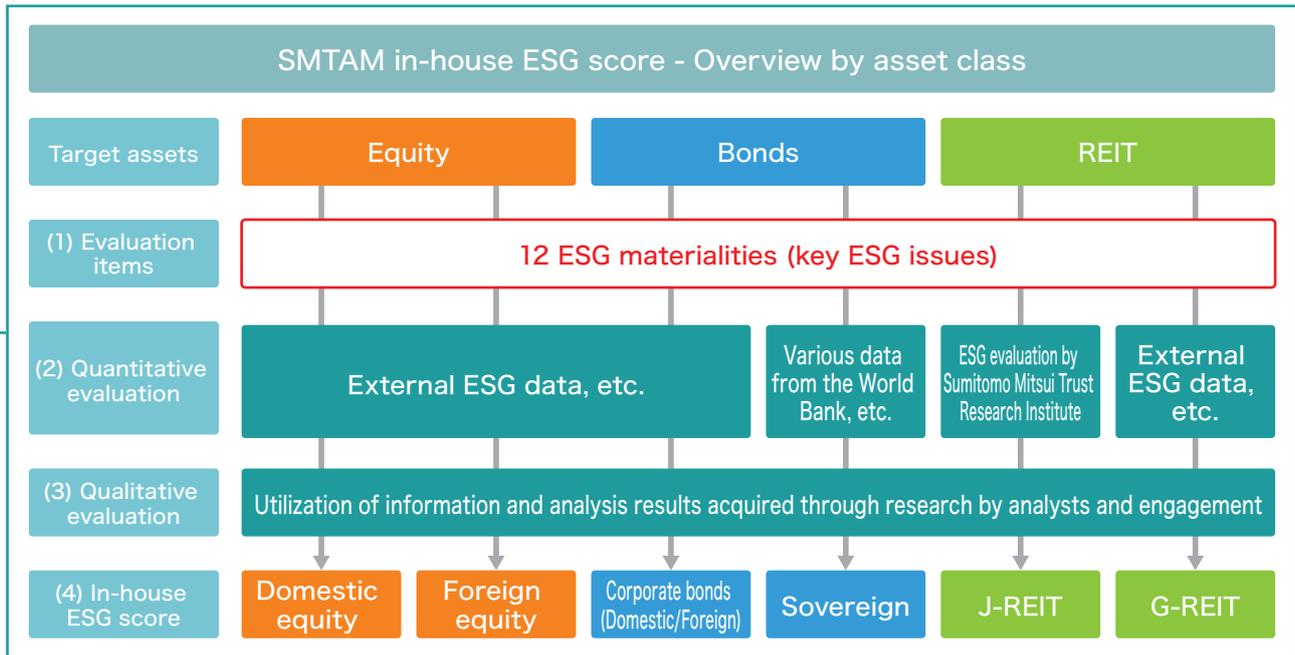
ESG considerations in investment decision-making are one of the three pillars of our stewardship activities as “a responsible institutional investor.” By encouraging investee companies to address ESG issues, we aim to support their creation of social value (solving social issues and contributing to society) and generation of economic value. Additionally, by factoring this into investments, we aim to maximize the medium- to long-term investment returns for our clients and mitigate downside risks. We believe this is a crucial role of asset management companies within the investment chain. Here, we explain overview of “incorporating ESG factors into investment decision-making” and provide representative examples in major assets under management.

Reflection to Investment Decisions



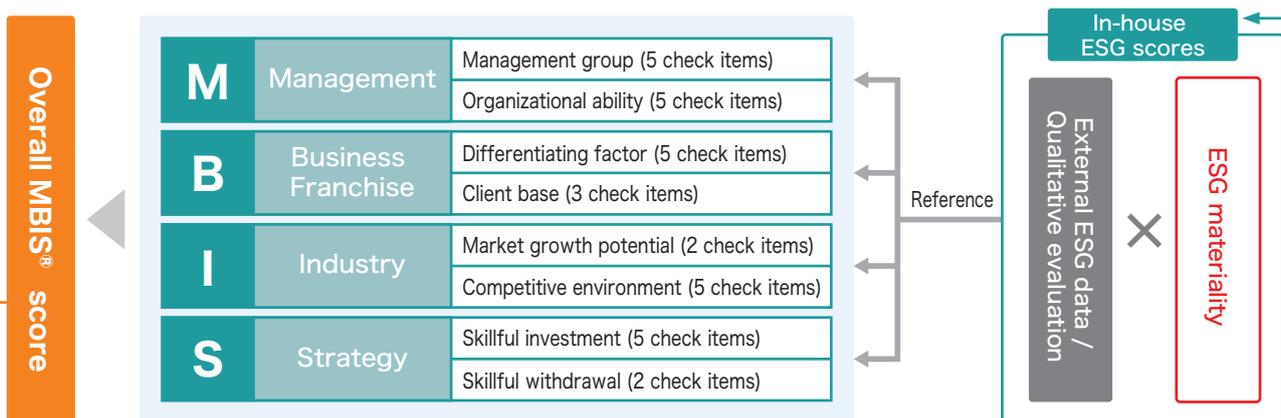
- Regarding materiality, for companies involved in controversial weapons (cluster bombs, anti-personnel mines, biological and chemical weapons) where engagement is not possible due to company circumstances, such equities will be excluded from active funds (equity and bonds).
- Subsequently, the investment decisions incorporate MBIS® and our in-house ESG scores according to the characteristics of each asset and investment strategy.

Evaluation of Investee Companies (1): In-house ESG Score



- The in-house ESG score is our investment evaluation index given from the perspective of investors after analyzing the impact of opportunities and risks resulting from ESG issues on nations, companies, etc.
- Principally, we give an in-house ESG score on the investment universe for all assets.
- We calculate this score based on our ESG materiality, using external ESG data and incorporating information and analysis results obtained through analyst research and engagement.

Evaluation of Investee Companies (2): MBIS®



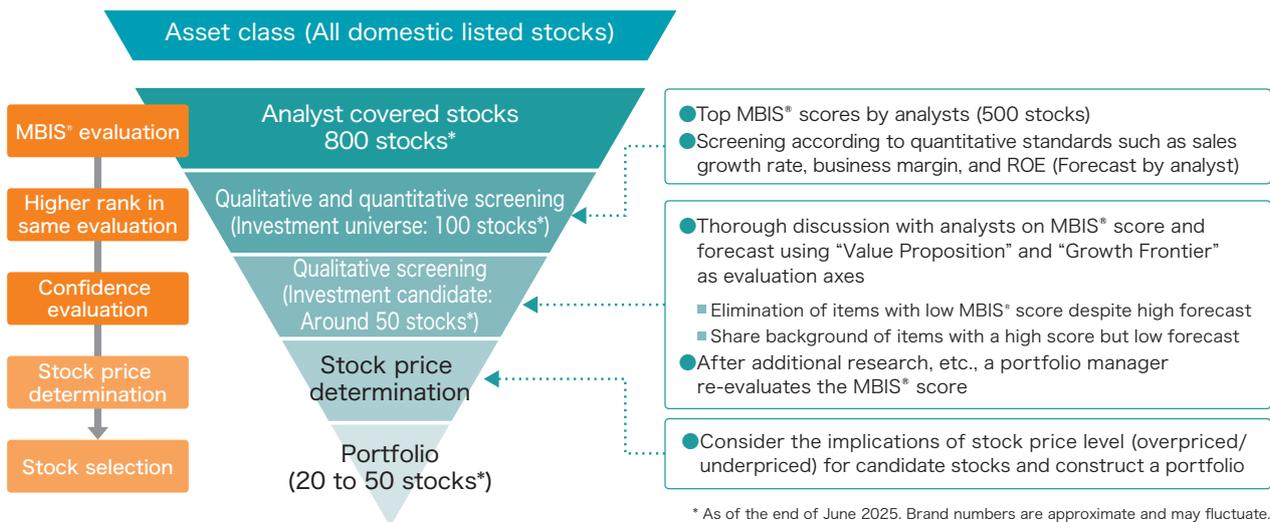
- MBIS® is our proprietary system that utilizes non-financial information, including ESG factors, to assess companies' medium- to long-term sustainable growth potential.
- It is applied in managing domestic equities and bonds.
- For companies covered by analysts, we consider how investment opportunities (such as commercialization and monetization by creating new markets or business models through addressing ESG issues) and risks impact their medium- to long-term sustainable growth.
- MBIS® stands for Management (M), Business Franchise (B), Industry (I), and Strategy (S).
- Each evaluation factor incorporates assessments from our in-house ESG score. We incorporate the concept of the SDGs and the 17 goals into our evaluation.

Domestic Equity Integration

Japan Quality Growth Strategy (Research, ROE Improvement)

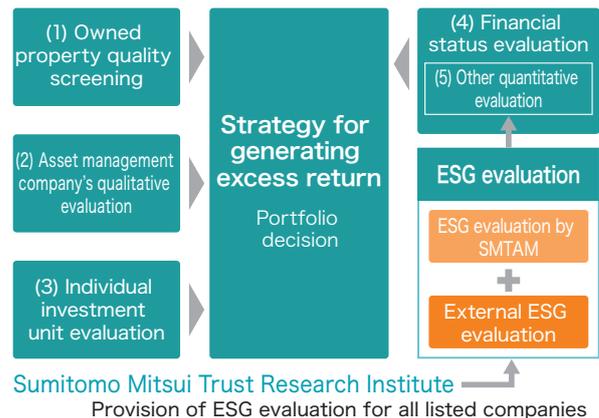
The following will explain Japan Quality Growth Strategy (Research, ROE Improvement) as examples of domestic equity ESG integration. This fund uses an investment universe of about 500 stocks covered intensively by our analysts. These were narrowed down to about 100 stocks based on (1) stocks with the highest MBIS[®] score, and (2) 5-year performance forecasts by analysts (future trends of sales, business margins, and ROE). Portfolio managers thoroughly discuss the MBIS[®] score and future forecasts with analysts based on “the Value Proposition,” which is the source of the added value, and “the Growth Frontier,” which indicates market development and creativity, as evaluation axes. Items with a low MBIS[®] score are eliminated from the investment universe even if these have a high future forecast, and items with a high MBIS[®] score are kept in the investment universe even if these have a low future forecast. After conducting interviews with management and business representatives, together with analysts, portfolio managers re-evaluate the MBIS[®] score to narrow it down to around 50 potential stocks. During discussions with analysts, priority is given to “ideal corporate value.” Company potential indicated by the MBIS[®] score such as the possibility of the investment candidate’s market capitalization doubling over the next three to five years, room for improving their position in the industry, and expectations for improved profit margin by reforming the earnings structure are shared.

Portfolio construction process



J-REIT Integration

In J-REIT investment, we conduct ESG integration utilizing ESG scoring granted by Sumitomo Mitsui Trust Research Institute. The ESG scoring by the company assesses four major aspects, which are the ESG promotion framework and initiatives related to the environment, society, and governance. Each item has its own checklist by which it is scored.



Bond Integration (Integration in Corporate Bond Investment)

Although bondholders do not have voting rights, as a direct funder, we believe that we have an important position for corporate management. Therefore, as a bondholder, while we have the right to ask investee companies to take measures for medium- to long-term growth and to reduce downside risk, we also believe we have responsibilities to request social contribution.

ESG is taken into consideration for investment of corporate bonds based on the credit evaluation and spread evaluation.

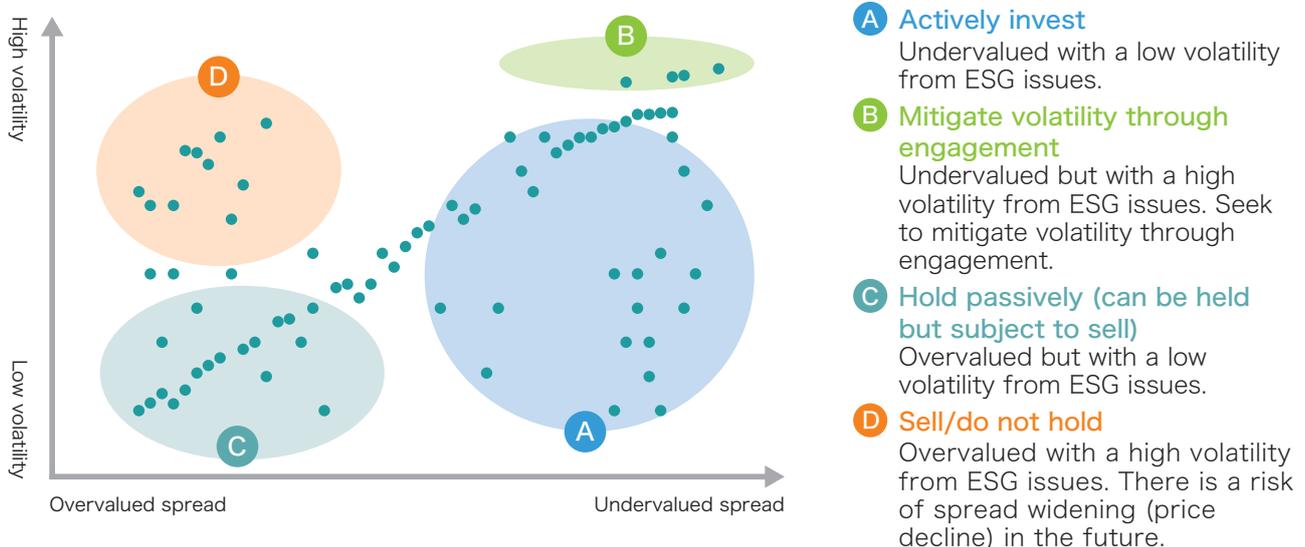
We feature collaboration between credit analysts, equity analysts, and officers in charge of Stewardship Development Department. This is because the goals of enhancing the sustainability of investee companies and society and increasing corporate value remain consistent.

Figure 1: Process of ESG integration in bond investment



If there is a security with an undervalued spread that is attractive for investment, we may decide to invest even if it shows elevated volatility at the time of investment due to governance or other ESG-related issues, provided we determine that such issues are improvable. In such cases, the investment is made on the premise that subsequent engagement will help mitigate the volatility (See Area B in Figure 2).

Figure 2: Relationship between “Spread evaluation in investment decisions” and “Volatility arising from ESG issues”



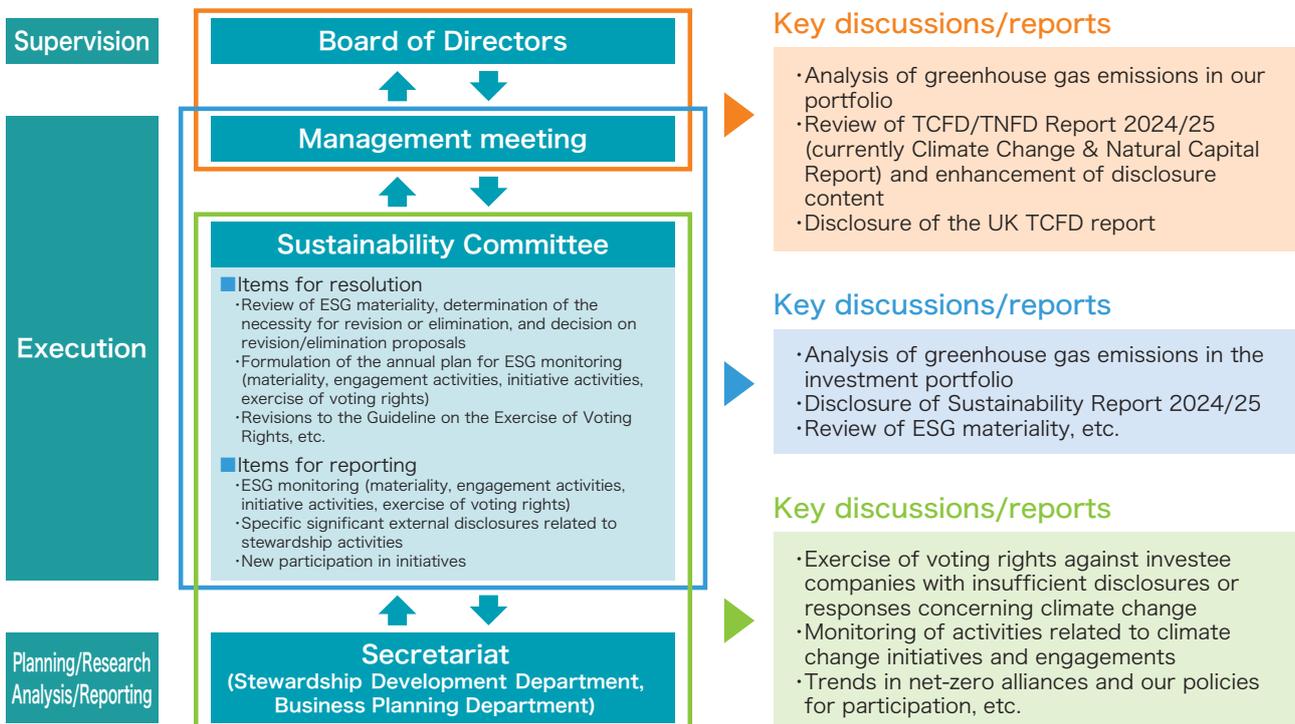
Climate Change and Natural Capital

Since February 2019, SMTAM has supported the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and has disclosed information based on that framework. Additionally, we participated in the preparatory activities of the Taskforce on Nature-related Financial Disclosures (TNFD) and joined the initiative upon its launch in 2021. In January 2024, we declared our commitment as a TNFD Early Adopter and conducted TNFD disclosure in October of the same year. In addition to these disclosure efforts, we emphasize an integrated approach to addressing social issues across all our stewardship activities. We have identified 12 ESG materialities encompassing social issues and address key activity items based on these, applying them in combination according to each investee company's own materiality. This section outlines our efforts on climate change and natural capital based on the information disclosure frameworks recommended by TCFD and TNFD. (The portfolio described below refers to our self-managed assets, excluding domestic and foreign sovereign bonds. For further details, please refer to the separate publication [Climate Change & Natural Capital Report 2025/26.](#))

1. Governance (Climate Change/Natural Capital)

As a Sumitomo Mitsui Trust Group member, we have established policies and related regulations regarding sustainability, including climate change and natural capital, per the Group's Sustainability Policy, and are continuously working to strengthen our organizational structures and systems. We recognize that sustainability-related issues, including climate change and natural capital, represent risks and opportunities that can significantly impact our operations and investee companies. These issues are managed with the same level of importance as other critical management challenges, with oversight by the Board of Directors. The management meeting, an executive body comprising members including the President, is responsible for formulating plans and initiatives related to sustainability issues, setting up operational structures, and managing and promoting these initiatives. Under this framework, our entire company advances sustainability efforts. In particular, in our asset management operations, the Sustainability Committee is responsible for planning and monitoring all sustainability activities. Additionally, the Sustainability Committee reviews matters to be discussed at or reported to the management meeting in advance.

Figure 1: Our governance structure for sustainability and key discussions/reports during the reporting period



2. Strategy

■ (1) Risks and Opportunities (Climate Change/Natural Capital)

Risks: We recognize that climate change and natural capital risks can impact our business through three channels: (1) deterioration in the value of investee companies, (2) loss of existing clients and missed opportunities to attract potential clients, and (3) decline in business continuity. These factors ultimately affect our financial performance and corporate sustainability.

Opportunities: We view climate change and natural capital opportunities as ways to fulfill our fiduciary duties. Leveraging these opportunities through strategic actions can lead to the expansion of our assets under management and enhance our business continuity and sustainability. We identify engagements, among other strategies, opportunities to turn climate change and natural capital risks into drivers of investee corporate value enhancement and our business growth.

■ (2) Strategy

Climate change: Based on the risks and opportunities described above, we have formulated and implemented strategies across six areas, “Implementation and enhancement of engagements with investee companies,” “Implementation and enhancement of stakeholder engagements,” “Enhancement of voting guidelines and linkage with engagement,” “Reflecting climate change factors according to individual fund styles, and taking climate change factors into account in investment decisions on individual securities,” “Supporting actions to address climate change issues by providing investment opportunities,” and “Enhancing customer awareness of climate change issues, engaging potential clients” (Figure 2).

Figure 2: SMTAM's strategy and implementation based on risks and opportunities related to climate change

Strategy	Target	Implementation of strategies
Implementation and enhancement of engagements with investee companies	Investee companies	<ul style="list-style-type: none"> Promote top-down approach engagement with high greenhouse gas-emitting companies Share best practices with investee companies Actively utilize agenda items in bottom-up engagement approaches
Implementation and enhancement of stakeholder engagements	Government agencies, industry groups, NGOs, academia, etc.	<ul style="list-style-type: none"> Engage in dialogues on topics such as climate-related disclosures with the Ministry of Economy, Trade and Industry, Financial Services Agency, and Ministry of the Environment Exchange views with the Central Research Institute of Electric Power Industry on Japan's Strategic Energy Plan Participate in discussions on phasing-out of greenhouse gas emissions by high-emission Asian companies through AIGCC's AUEP Engage in dialogues with overseas authorities (e.g., Central Bank of Brazil (Banco Central do Brasil), Government of Indonesia) and with overseas stock exchanges (Indonesia, Thailand, Malaysia) on climate change Exchange views with PRI on sovereign engagement (e.g., Australia) Submit public comments on the SSBJ disclosure draft Appointment to an Asian committee member of TISFD, declaration as a TNFD Early Adopter, disclosure of the TNDF Report
Enhancement of voting guidelines and linkage with engagement	Investee companies	<ul style="list-style-type: none"> Conducted assessments on the climate change responses by high-emission companies and, in accordance with the Guideline on the Exercise of Voting Rights, exercising opposing votes on director appointment proposals for underperforming companies while taking the engagement results into consideration and providing feedback on results
Reflecting climate change factors according to individual fund styles, and taking climate change factors into account in investment decisions on individual securities	SMTAM (Clients)	<ul style="list-style-type: none"> Report the quarterly ESG monitoring results of each fund to internal committees.
Supporting actions to address climate change issues by providing investment opportunities	Clients	<ul style="list-style-type: none"> Set S&P/JPX Carbon Efficient Index-tracked type strategy (Domestic equity) Set Bloomberg MSCI Global Aggregate Sustainability A+ Strategy (Global bonds)
Enhancement of customer awareness of climate change issues, engagements with potential clients	Clients (Including potential clients)	<ul style="list-style-type: none"> Publish online articles Promote onsite financial lectures Former President Hishida exchanged views in New York with U.S. asset management companies on Japan's financial initiatives supporting a virtuous economic cycle Continued sponsorship of PRI annual conference to demonstrate commitment to the Principles for Responsible Investment and support for sustainable finance
The following are considered to be essential items for acquiring a growth base and opportunities; as a broad definition, "strategies."		
Appropriate response to climate change-related regulations	SMTAM (Clients)	<ul style="list-style-type: none"> Enhance TCFD reports in line with overseas regulations and publication for global audiences Approved as a Signatory Institution to the UK Stewardship Code Disclose information according to the ICAP (Investor Climate Action Plans) framework
Enhancement of personnel development and resources for addressing climate-related response	SMTAM (Clients)	<ul style="list-style-type: none"> Participation by employees in PRI Academy and AIGCC online training courses on forest conservation and natural capital Provide in-house e-learning Held internal study sessions on climate change, decarbonization trends, and ESG investment Held internal study sessions on natural capital in collaboration with WWF Japan
Active engagement across the value chain	Data vendors, index providers, and others	<ul style="list-style-type: none"> Held dialogues with ISS, Bloomberg, and Sustainalytics regarding data on assessments of investee companies' alignment with net-zero scenarios Held dialogues with ISS on clarifying voting guidelines and recommendations for climate-related issues, and enhancing the climate change-related database Held dialogue with MSCI regarding changes to ESG scoring processes and submitted public comments Provided input to the GFANZ Index Investing Workstream

Natural capital: TNFD requires disclosing companies to understand the “dependency” and “impact” on natural capital related to their business when constructing strategies and to identify and disclose risks and opportunities. We utilized ENCORE*¹, recommended by TNFD, to analyze our portfolio’s “dependency” and “impact” on natural capital.

“Dependency” refers to how corporate activities rely on the benefits derived from natural capital through “ecosystem services.” “Ecosystem services” are the essential benefits derived from natural capital that are crucial for business operations. Figure 3 shows a heatmap illustrating the “dependency” of corporate activities across 21 sectors on natural capital through “ecosystem services.” The redder the cell, the higher the sector’s “dependency” on natural capital. The analysis found that the natural capital elements on which our portfolio shows the highest dependency are structural and biotic integrity (indicating the extent to which ecosystems maintain their natural state), species, and water.

Figure 3: Sectoral dependency on natural capital (The darker the orange cell, the greater the “dependency,” and the darker the green cell, the smaller the “dependency.”)

Sector / Natural capital	Atmosphere	Land geomorphology	Minerals	Ocean geomorphology	Soils and sediments	Species	Structural and biotic integrity	Water	Investment allocation ratio (%)
Manufacturing	Orange	Orange	Light Green	Orange	Light Green	Orange	Orange	Orange	41.1%
Financial and insurance activities	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	17.7%
Information and communication	Orange	Light Green	Light Green	Light Green	Light Green	Orange	Orange	Orange	11.7%
Wholesale and retail trade; repair of motor vehicles and motorcycles	Orange	Orange	Light Green	Light Green	Light Green	Orange	Orange	Orange	9.0%
Real estate activities	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Orange	Light Green	3.8%
Mining and quarrying	Orange	Light Green	Light Green	Light Green	Light Green	Orange	Orange	Orange	3.2%
Transportation and storage	Orange	Orange	Light Green	Light Green	Light Green	Orange	Orange	Orange	2.5%
Electricity, gas, steam and air conditioning supply	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Orange	Orange	2.2%
Arts, entertainment and recreation	Orange	Orange	Light Green	Orange	Light Green	Orange	Orange	Orange	2.2%
Professional, scientific and technical activities	Orange	Orange	Light Green	Orange	Light Green	Orange	Orange	Orange	1.4%
Agriculture, forestry and fishing	Orange	Orange	Light Green	Orange	Light Green	Orange	Orange	Orange	1.3%
Accommodation and food service activities	Orange	Orange	Light Green	Orange	Light Green	Orange	Orange	Orange	1.3%
Administrative and support service activities	Orange	Orange	Light Green	Orange	Light Green	Orange	Orange	Orange	1.2%
Human health and social work activities	Orange	Orange	Light Green	Orange	Light Green	Orange	Orange	Orange	0.7%
Construction	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Orange	Orange	0.5%
Water supply; sewerage, waste management and remediation activities	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Orange	Orange	0.3%
Education	Orange	Orange	Light Green	Orange	Light Green	Orange	Orange	Orange	0.0%
Public administration and defence; compulsory social security	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	0.0%
Activities of extraterritorial organizations and bodies	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	0.0%
Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	0.0%
Other service activities	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green	0.0%
SMTAM's total portfolio (weighted average by investment amount)	Orange	Orange	Light Green	Light Green	Light Green	Orange	Orange	Orange	100.0%

(Source: Compiled by SMTAM based on ENCORE website)

“Impact” refers to the positive or negative changes in natural capital caused by corporate activities through “impact drivers.” ENCORE defines “impact drivers” as “factors that affect the state of nature.” The more significant the “impact,” the more natural capital is degraded, leading to increased business risks. Figure 4 illustrates the degree of “impact” on natural capital by corporate activities across 21 sectors through “impact drivers.” Our portfolio was found to have relatively high “impact” on structural and biotic integrity, species, water, and soils and sediments.

*1 ENCORE stands for “Exploring Natural Capital Opportunities, Risks and Exposure,” a free online tool that helps understand dependencies and impacts on nature. Analysis conducted using ENCORE data as of June 2025.

Figure 4: Sectoral impact on natural capital (The darker the orange cell, the more significant the "impact," and the darker the green cell, the smaller the "impact.")

Sector / Natural capital	Atmosphere	Land geomorphology	Minerals	Ocean geomorphology	Soils and sediments	Species	Structural and biotic integrity	Water	Investment allocation ratio (%)
Manufacturing	Orange	Orange	Orange	Orange	Orange	Orange	Orange	Orange	41.1%
Financial and insurance activities	Green	Green	Green	Green	Green	Green	Green	Green	17.7%
Information and communication	Green	Green	Green	Green	Green	Green	Green	Green	11.7%
Wholesale and retail trade; repair of motor vehicles and motorcycles	Green	Green	Green	Green	Green	Green	Green	Green	9.0%
Real estate activities	Green	Green	Green	Green	Green	Green	Green	Green	3.8%
Mining and quarrying	Orange	Orange	Orange	Orange	Orange	Orange	Orange	Orange	3.2%
Transportation and storage	Orange	Orange	Orange	Orange	Orange	Orange	Orange	Orange	2.5%
Electricity, gas, steam and air conditioning supply	Orange	Orange	Orange	Orange	Orange	Orange	Orange	Orange	2.2%
Arts, entertainment and recreation	Green	Green	Green	Green	Light Orange	Green	Green	Green	2.2%
Professional, scientific and technical activities	Green	Green	Green	Green	Green	Green	Green	Green	1.4%
Agriculture, forestry and fishing	Orange	Orange	Orange	Orange	Orange	Orange	Orange	Orange	1.3%
Accommodation and food service activities	Light Orange	Light Orange	Light Orange	Light Orange	Light Orange	Light Orange	Light Orange	Light Orange	1.3%
Administrative and support service activities	Light Orange	Light Orange	Light Orange	Light Orange	Light Orange	Light Orange	Light Orange	Light Orange	1.2%
Human health and social work activities	Green	Green	Green	Green	Green	Green	Green	Green	0.7%
Construction	Orange	Orange	Orange	Orange	Orange	Orange	Orange	Orange	0.5%
Water supply; sewerage, waste management and remediation activities	Orange	Orange	Orange	Orange	Orange	Orange	Orange	Orange	0.3%
Education	Green	Green	Green	Green	Green	Green	Green	Green	0.0%
Public administration and defence; compulsory social security	Green	Green	Green	Green	Green	Green	Green	Green	0.0%
Activities of extraterritorial organizations and bodies	Green	Green	Green	Green	Green	Green	Green	Green	0.0%
Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use	Light Orange	Light Orange	Light Orange	Light Orange	Light Orange	Light Orange	Light Orange	Light Orange	0.0%
Other service activities	Green	Green	Green	Green	Green	Green	Green	Green	0.0%
SMTAM's total portfolio (weighted average by investment amount)	Light Orange	Light Orange	Light Orange	Light Orange	Light Orange	Light Orange	Light Orange	Light Orange	100.0%

(Source: Compiled by SMTAM based on ENCORE website)

Based on the ENCORE analysis and related findings, we include investee companies with high “dependency” on structural and biotic integrity, species, and water, as well as companies that have a significant “impact” on structural and biotic integrity, species, water, and soils and sediments, as targets for engagement. Through this approach, we encourage investee companies to recognize natural capital risks and opportunities and to take appropriate action.

3. Risk Management

■ (1) Risk Management Process (Climate Change/Natural Capital)

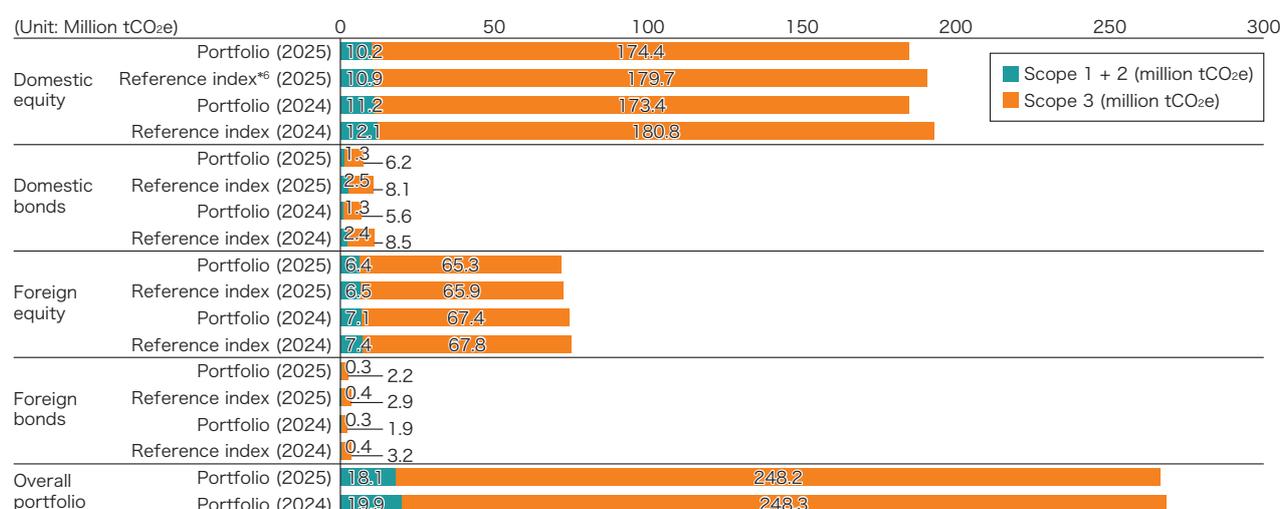
At SMTAM, we define a sustainability risk management policy within the Risk Management Policy, including concepts of climate change and natural capital risks. This policy clarifies the basic principles of sustainability risk management, defines various risks, and outlines the importance of managing sustainability-related risks. It also specifies the roles and responsibilities of the Board of Directors, management meeting, and officers, as well as the organizational structure and three lines of defense. We classify sustainability-related risks, including climate change and natural capital, as risk drivers that can increase or decrease risks within existing categories. By setting 12 ESG materiality items including climate change and natural capital, we ensure that these items are considered in engagements, exercising of voting rights, and investment decision-making, thus enabling the identification and management of climate change and natural capital risks.



(2) Risk Assessment of Our Portfolio

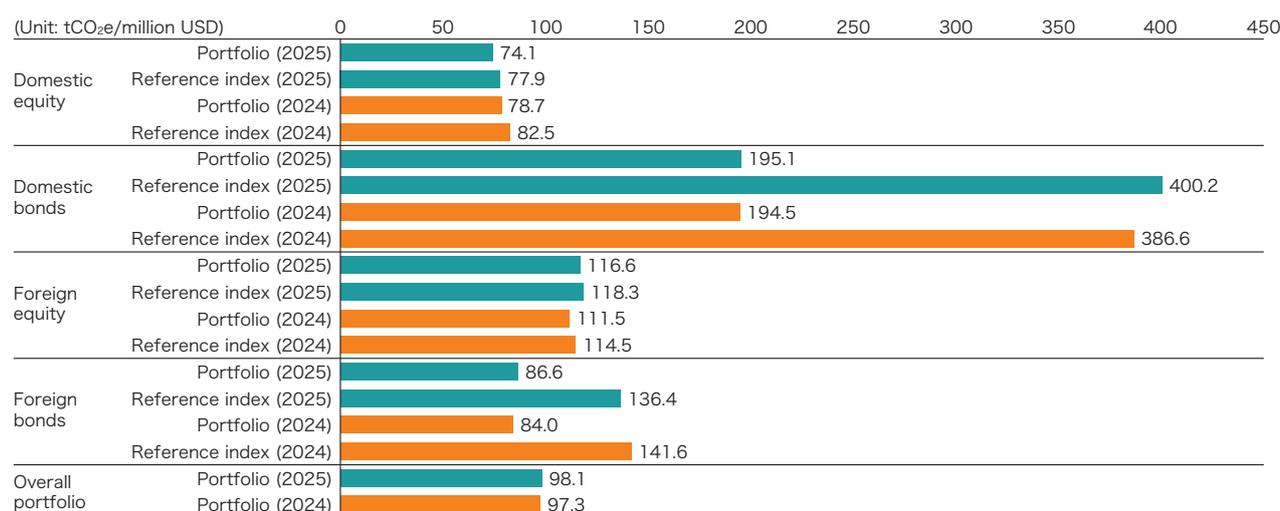
Climate change: As of 2025*², our portfolio's total greenhouse gas emissions (Scope 1 and 2 combined*³) were 18.1 million tCO₂e (compared to 19.9 million tCO₂e in 2024*⁴), showing a decrease from the previous year. On a Scope 3*⁵ basis, portfolio-wide emissions were 248.2 million tCO₂e (compared with 248.3 million tCO₂e in the previous year), remaining largely unchanged (Figure 5). The weighted average carbon intensity (WACI) in 2025, calculated as investee companies' carbon emissions per unit of sales weighted by their investment proportion in the portfolio, stood at 98.1 tCO₂e per million USD of sales (compared with 97.3 tCO₂e per million USD in 2024), showing a slight increase (Figure 6). We have calculated financial emissions related to sovereign bonds using methods recommended by the Partnership for Carbon Accounting Financials (PCAF). Further details are provided in the separate publication [Climate Change & Natural Capital Report 2025/26](#).

Figure 5: Greenhouse gas emissions by asset class



(Source: Compiled by SMTAM based on ISS data)

Figure 6: Weighted average carbon intensity (WACI) by asset class (emissions per unit of sales)



(Source: Compiled by SMTAM based on ISS data)

*2 As of the end of March 2025.

*3 Scope 1 refers to greenhouse gas emissions from fuel combustion by companies, while Scope 2 refers to greenhouse gas emissions from electricity usage by companies. These are defined by the GHG Protocol, an international standard for calculating and reporting greenhouse gas emissions for corporations.

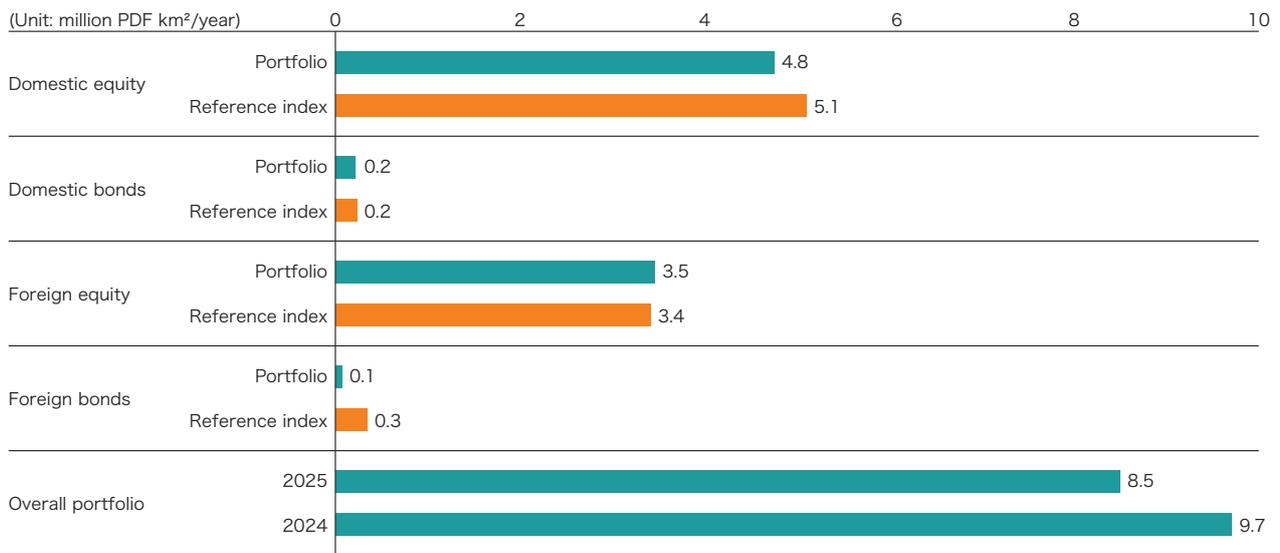
*4 As of the end of March 2024. The 2024 data have been recalculated using updated carbon emission data and, therefore, may not correspond exactly to the figures presented in the TCFD/TNFD Report 2024/25.

*5 Scope 3 refers to greenhouse gas emissions from purchased goods and services, capital goods, upstream and downstream transportation and distribution, waste, employee travel and daily commutes, and product usage, as defined by the GHG Protocol.

*6 Domestic equity: TOPIX (Tokyo Stock Price Index); Domestic bond: Nomura Bond Performance Index (corporate bonds only); Foreign equity: MSCI ACWI (ex Japan); Foreign bond: Bloomberg Global Aggregate (ex Japan, corporate bonds only).

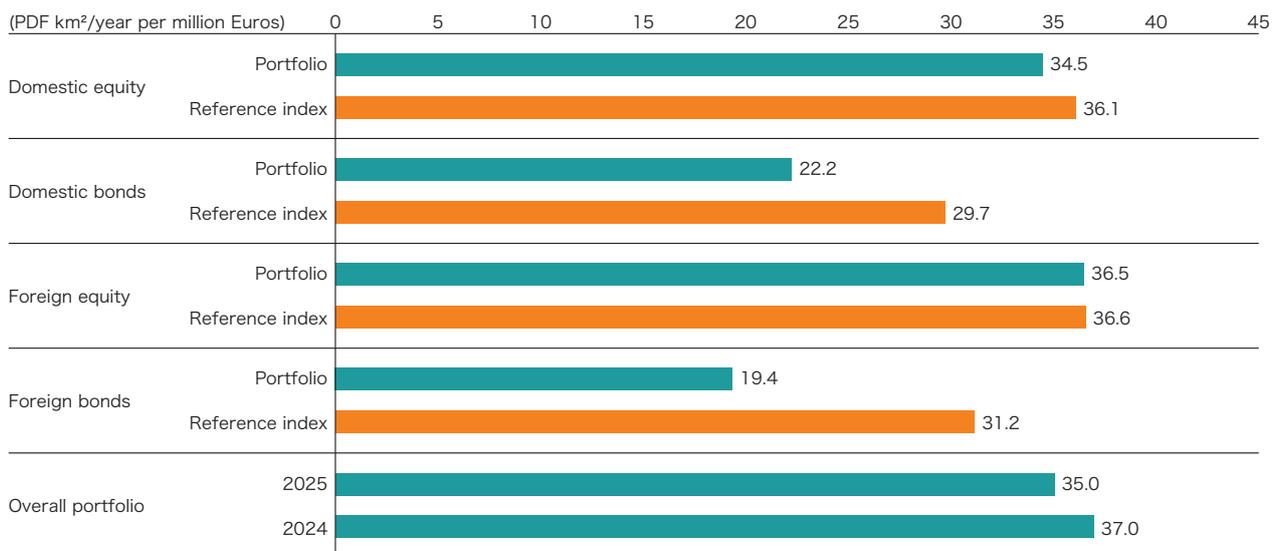
Natural capital: We utilize ISS's*⁷ Biodiversity Impact Assessment Tool (BIAT)*⁸ to analyze the impact of our portfolio on natural capital using the Potentially Disappeared Fraction of Species (PDF)*⁹ as a quantitative indicator. PDF is a metric expressed in km²/year, indicating the extent of the impact on natural capital. A value of 100 PDF km²/year means that biodiversity in a 100 km² area on Earth could be completely lost within a year. The higher the value, the greater the impact on natural capital. The total impact on natural capital from our entire portfolio for 2025 is 8.5 million PDF km²/year, which has decreased from 9.7 million PDF km²/year in 2024 (Figure 7). In addition, the weighted average PDF intensity of our total portfolio in 2025 was 35.0 PDF km²/year per million euros, down from 37.0 PDF km²/year per million euros in 2024 (Figure 8).

Figure 7: Analysis of impact on natural capital (PDF) by asset



(Source: Compiled by SMTAM based on BIAT)

Figure 8: Analysis of weighted average PDF intensity by asset



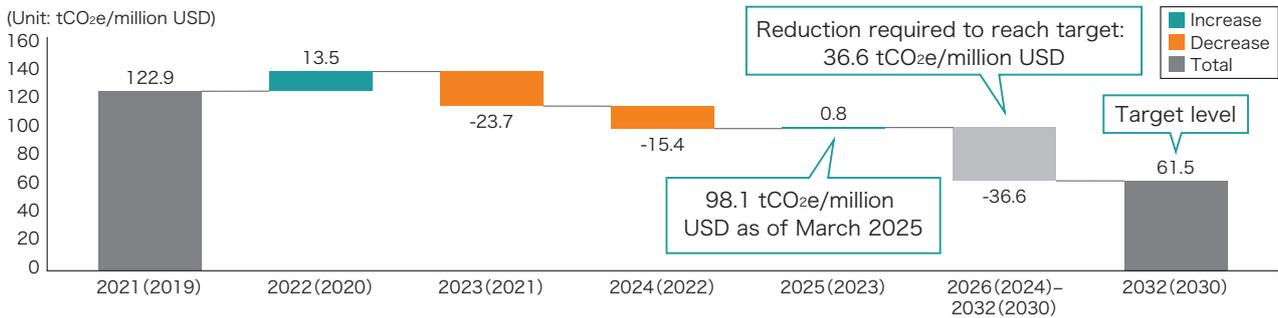
(Source: Compiled by SMTAM based on BIAT)

*⁷ ISS provides proxy voting advisory services for institutional investors as well as data and analytical tools related to climate and natural capital.
 *⁸ BIAT provides indicators such as PDF based on corporate natural capital data.
 *⁹ An indicator reflecting biodiversity impact (PDF km²/year). Calculated by multiplying the holdings of constituent stocks by their PDF km²/year.

4. Metrics and Targets

Climate change: Our interim target for reducing greenhouse gas emissions is to halve them by 2030 compared to 2019 levels, for approximately half of the balance of assets under management (excluding sovereign bonds, around 43 trillion yen) out of a total of approximately 85 trillion yen as of the end of June 2021. The ultimate goal is to achieve net zero for all assets under management by 2050. We use WACI as an indicator to measure decarbonization progress in our target portfolio. Comparing the base year (2019) WACI of 122.9 tCO₂e/million USD with the WACI of 98.1 tCO₂e/million USD measured in 2025 (for 2023 data), we have achieved a 20.2% reduction. To reach the 2030 target of halving greenhouse gas emissions, a further reduction of 36.6 tCO₂e/million USD is required (Figure 9).

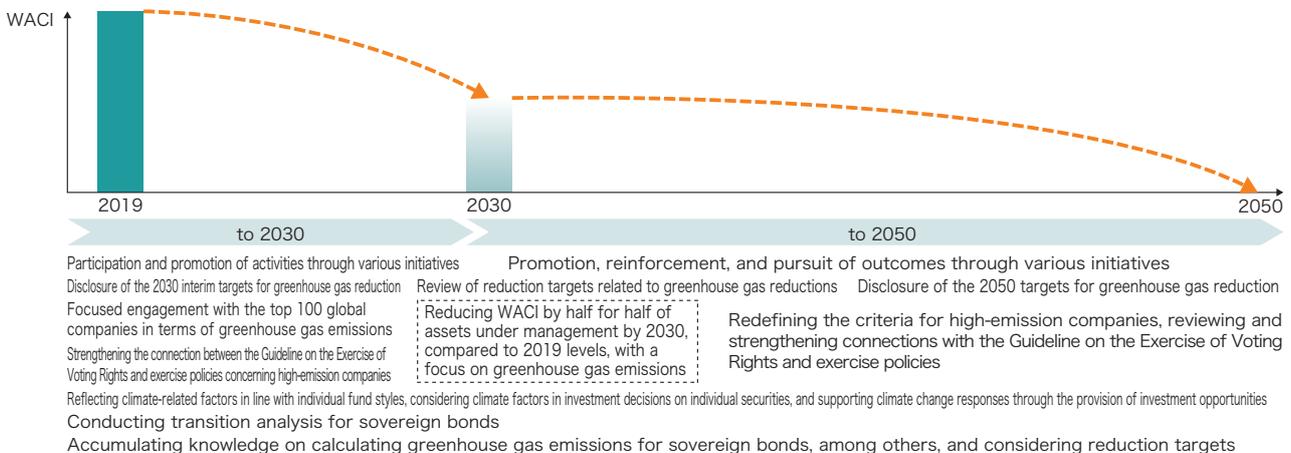
Figure 9: Progress toward WACI reduction in target portfolio for interim target



SMTAM's transition plan is as shown in Figure 10. We aim to steadily implement the initiatives outlined thus far to achieve the interim targets for 2030 and the ultimate goal for 2050.

Figure 10: SMTAM's transition plan

Governance	Strategy	Risk management	Metrics and targets
<ul style="list-style-type: none"> The Board of Directors sets, approves, and discloses the 2030 interim emission reduction targets for greenhouse gas emissions. President compensation KPI includes items related to reduction of greenhouse gas emissions. Report progress of the plan to the Sustainability Committee, management meeting, and Board of Directors. Disclose performance in TCFD disclosures. 	<ul style="list-style-type: none"> Participate in climate change initiatives like CA100+ and AIGCC. Engage with the top 100 global high-emission companies (covering approximately 40% of our equity holdings) to monitor their reduction plans. Strengthen connections between the Guideline on the Exercise of Voting Rights and exercise policies. Update knowledge on calculation methods and disclosure rules for greenhouse gas emissions. 	<ul style="list-style-type: none"> Conduct annual monitoring of carbon budget consumption. Measure and monitor transition VaR and physical VaR. Discuss management impacts and the need for plan revisions. Disclose if revisions are made. 	<ul style="list-style-type: none"> 2030 interim target for greenhouse gas reduction: Halve the WACI of 50% of asset under management (about 85 trillion yen as of June 2021), which is equivalent to about 43 trillion yen, excluding sovereign bonds. Future consideration of targets for reducing greenhouse gas emissions from sovereign bonds, which are currently excluded.



Natural capital: Since last year, SMTAM has been managing natural capital risks in its portfolio using various indicators such as ENCORE and PDF, in line with the TNFD's recommended strategy and risk management process. However, we consider these indicators to still be in a developmental stage. We will continue discussions and preparations for future disclosures regarding portfolio-related indicators and targets.

Column Transition Analysis on Sovereign Bonds and Engagement Strategy

To enhance the effectiveness of policy engagement with government authorities and related institutions, we utilized information from ASCOR (Assessing Sovereign Climate-related Opportunities and Risks) to conduct analyses on climate change responses and the transition to a decarbonized economy in each country, targeting our sovereign bond portfolio and held sovereign bonds.

ASCOR

ASCOR is an evaluation framework designed to support decision-making in sovereign bond investment. In addition to institutional investors, participation also includes academic institutions such as the PRI and the Transition Pathway Initiative (TPI) Centre at the London School of Economics and Political Science. ASCOR assesses how effectively each national government addresses climate change. Assessments are based on publicly available information and are conducted from three perspectives: (1) Emissions Pathways (EP), (2) Climate Policies (CP), and (3) Climate Finance (CF), comprising a total of 13 indicators.

Transition Analysis Results for the Sovereign Bond Portfolio

Figure 11: Transition analysis results for the sovereign bond portfolio*¹⁰ using ASCOR

		Overall portfolio	Developed countries ^{*11}	Emerging countries ^{*11}	Other ^{*11}
Basic information	Number of countries	64	23	21	20
	(Composition ratio)	100.0%	35.9%	32.8%	31.3%
	Market value	196,339	190,964	5,174	201
	(Composition ratio)	100.0%	97.3%	2.6%	0.1%
Overall evaluation ^{*11, *12, *13, *14}		48.5%	48.7%	43.3%	28.7%
Evaluation via three categories	Emissions Pathways (EP)	50.2%	50.5%	39.2%	35.3%
	Climate Policies (CP)	50.1%	50.4%	40.2%	41.5%
	Climate Finance (CF)	45.2%	45.1%	50.4%	9.5%
Emissions Pathways (EP)	EP1: Emission trends	48.4%	49.7%	2.2%	25.2%
	EP2: 2030 targets	50.0%	50.0%	49.8%	50.3%
	EP3: Net zero targets	52.1%	51.8%	65.7%	30.3%
Climate Policies (CP)	CP1: Climate legislation	71.7%	71.9%	64.6%	14.7%
	CP2: Carbon pricing	51.7%	51.8%	46.6%	44.8%
	CP3: Fossil fuels	7.7%	7.9%	0.3%	30.9%
	CP4: Sectoral transitions	50.0%	50.0%	48.5%	47.9%
	CP5: Adaptation	95.0%	96.2%	50.8%	71.3%
	CP6: Just transition	24.5%	24.4%	27.8%	39.4%
Climate Finance (CF)	CF1: International climate finance	34.1%	35.1%	—	0.1%
	CF2: Transparency in climate costing	1.2%	0.0%	46.3%	5.1%
	CF3: Transparency in climate spending	55.1%	55.2%	54.0%	11.9%
	CF4: Renewable energy opportunities	—	—	—	—

*10 As of the end of March 2025.

*11 Country classification by MSCI: Developed and Emerging; Others are those not included in either category.

*12 Percentages shown under "Overall evaluation" and below represent scores converted to a 100-point scale based on ASCOR's three-level rating.

*13 Each evaluation below "Overall evaluation" represents a weighted average by sovereign bond weight within each category, such as "Developed country."

*14 "—" indicates exempt items (not evaluated).

(Source: Compiled by SMTAM based on ASCOR assessment data conducted in August 2024)

The overall transition progress of the portfolio was 48.5%, remaining below the halfway mark. This highlights the importance of accelerating national transitions toward decarbonization.

From the EP perspective, the results suggest a need for further advancement in emission reduction efforts, particularly among emerging economies. In terms of CP, while both developed and emerging countries show progress in "CP1: Climate legislation," there are notable delays in "CP3: Fossil fuels" underscoring the necessity of policy engagement regarding fossil fuel measures. Furthermore, "CP6: Just transition" remains insufficiently advanced in both developed and emerging markets, indicating the need to strengthen policy engagement in this area as well.

From the CF perspective, challenges were also identified in developed countries. Specifically, "CF1: International climate finance" received low scores, reaffirming that mobilizing and supporting transition finance for emerging economies is a critical issue.

Additionally, the low ratings for "CF2: Transparency in climate costing" suggest that clearly disclosing expenditures such as disaster response and transition costs could help stimulate investment in climate change measures.

We intend to utilize the findings from this analysis to enhance the effectiveness of future policy engagement efforts.



SMTAM's ESG Investment Policy

I Basic Policy

1 Purpose and significance of ESG investment

As a signatory investment manager of the United Nations Principles for Responsible Investment, SMTAM engages in investment activities focused on the medium- to long-term aspects of Environment, Social, and Governance (hereinafter "ESG investment"). We are guided by the values outlined in the United Nations Global Compact and the SDGs while adhering to the spirit of international treaties and legal systems, including humanitarian concerns. We believe that fulfilling the role as an investment manager in an investment chain through ESG investment will make contributions in value improvement and sustainable growth in investee companies, maximizing the investment returns (investment profits) of clients (beneficiaries) over a medium to long term, reducing downside risks, and achieving a sustainable society. This policy clarifies SMTAM's basic principles and approach to conducting ESG investments, integrating them into our investment decision-making processes, and promoting consistent and continuous ESG investments in a structured manner.

2 Positioning

- 1) ESG investment refers to general investment activities as an institutional investor with a focus on challenges and investment opportunities related to the environment (E), social (S), and governance (G).
- 2) ESG investment is part of the effort to fulfill stewardship responsibilities as a responsible institutional investor.
- 3) ESG investment is promoted by utilizing direct ESG investment methods for portfolio management determined in "III. ESG Investment Methodology and In-house ESG Scores," and other ESG investment methods including engagement and exercise of voting rights, which are the core of stewardship activities.
- 4) ESG integration refers to actions including analyzing and evaluating non-financial information including ESG, and utilizing knowledge acquired from this analysis and evaluation for investment to maximize medium- to long-term investment returns (investment profits) to our clients (beneficiaries) and reducing downside risk. In particular, we use ESG investment methods from 1) to 5) that are directly related to portfolio management as determined in "1. ESG investment methodology for in-house investment products" of "III. ESG Investment Methodology and In-house ESG Scores."
- 5) ESG products are products that incorporate proper ESG investment methods into the management process and that meet the requirements determined separately in related Company rules.

3 Commitment

- 1) We take ESG investment into consideration to the maximum extent for all products under our management.
- 2) We make ESG investments in order to fulfill our responsibility (stewardship responsibility) to increase investment returns (investment profits) to our clients (beneficiaries) while carrying out proper monitoring and disclosure.
 - (1) ESG-related issues fall into the non-financial realm and are not reflected in financial information; however, they can significantly impact the value of companies, etc., as business opportunities or risks over time.
 - (2) Actively investing in companies that positively address ESG-related issues and seeking best practices from companies will lead to the pursuit of a medium- to long-term investment returns (investment profits) upside potential.
 - (3) Limiting investments in companies with ESG concerns and addressing ESG issues that may impair company value helps reduce the downside risk of investment returns (investment profits).
- 3) In making ESG investments, we take "II. ESG Materiality" into consideration.
- 4) We manage portfolios for various investment strategies, and are consistent with each client's investment purposes. For ESG investment, we use properly combined ESG investment methods determined in "III. ESG Investment Methodology and In-house ESG Scores" according to characteristics such as the investment purpose, investment target, and investment strategy.
- 5) As an escalation measurement of ESG investment methodology, if it becomes difficult to raise the ESG investment effect through engagement activities with investee companies, we consider voting against company proposals or agreeing to shareholder proposals in the relevant investee company.
- 6) In order to improve the effect of ESG investments, we examine and try to understand the evaluation purpose, method, and restrictions for ESG evaluation and data used to allow us to perform ESG evaluations and ESG investments for investee companies, and take necessary measures.

II ESG Materiality

1 Definition of ESG materiality

ESG materiality refers to the ESG issues that SMTAM deems crucial for enhancing the value and promoting sustainable growth of investee companies. We consider ESG materiality when performing ESG investment including ESG evaluation of investee companies, engagement activities, and decisions for exercise of voting rights. In addition, we have positioned ESG materiality as the basis for planning and promoting various stewardship activities, and have set it as the basis for formulating implementation plans related to engagement activities, various initiative activities, and the exercise of voting rights. Given the numerous challenges and themes present within the ESG perspectives, which vary by external evaluators, we define our own ESG materiality and set the main evaluation items and content for ESG investments as outlined in sections 3 to 5.

2 Review of ESG materiality

ESG materiality is reviewed annually, considering information gathered through dialogues with various stakeholders.

3 Environment

Overview

All economic activities depend on the natural environment, but human activities since the Industrial Revolution have significantly burdened the environment, threatening humanity's sustainable prosperity. Ensuring sustainable social development and securing the medium- to long-term investment returns of client assets requires considering environmental factors, including impacts on indigenous peoples and local communities, and promoting efforts to support a circular society that includes investee companies and the entire supply chain.

1) Climate Change

The accumulation of greenhouse gases, such as carbon dioxide, leading to global warming and associated extreme weather events, is not a future threat but a present reality. We consider climate change as the most important issue affecting society and economic activities as a whole, and reflect measures for mitigating and adapting to it in ESG investment decisions by considering matters such as international frameworks.

2) Natural Capital

Economic activities depend greatly on natural capital. Misuse of natural capital, which mainly includes raw materials, makes it impossible to use such resources sustainably, and is also a threat to the continuous prosperity of society. Therefore, it is necessary not just to put a stop to their depletion, but to restore natural capital in order to maintain a sustainable society. We especially recognize the importance of conserving forests that act as a carbon sink, which helps with biodiversity as the foundation of ecosystem services that support society and the economy, and addresses climate change. We also understand that such issues can occur anywhere in the supply chain. We will reflect the status of biodiversity and the sustainable use of natural capital and resources such as forests, water, minerals, and agriculture, forestry, and fisheries into our ESG investments.

3) Pollution & Waste

If nations or corporations do not appropriately manage various wastes generated as by-products of economic activities, it could lead to environmental degradation, pollution, and the depletion of valuable resources. Our ESG investments reflect nations' and companies' adherence to laws, regulations, and standards and efforts to reduce waste and promote resource circulation throughout product lifecycles.

4) Environmental Opportunities

The above environmental issues 1) to 3) can drive the creation of new markets and business models, exemplified by renewable energy and resource circulation, through international initiatives, policy changes at the government level, and shifts in consumer awareness. We view these as investment opportunities, leveraging them to support the transition to a sustainable society while driving the growth of client assets and incorporating these aspects into our ESG investments.

4 Social

Overview

As a signatory investment manager of the United Nations Principles for Responsible Investment, we require our investee companies to comply with internationally supported laws and standards, consider the interests of various stakeholders, such as customers, employees, local communities, and members of globally dispersed supply chains, and act fairly and justly. Furthermore, as demographic shifts and awareness of diversity deepen, the standards expected of companies are continuously rising. It is essential to ensure that companies maintain a high level of commitment to secure a sustainable society and medium- to long-term investment returns for clients' assets.

1) Human Rights & Community

We prioritize investee companies' compliance with international standards. In supply chains, improper practices such as neglecting labor conditions and violating workers' rights are risks. Thus, we assess investee companies' human rights due diligence efforts based on international labor and human rights standards and incorporate this understanding into ESG investments, also considering aspects like "Just Transition."

2) Human Capital

As the service economy advances, securing talent, fostering human resources, and engaging employees are increasingly vital factors for the performance of investee companies. We consider initiatives to enhance the value of investee companies through diversity, inclusion, equality, investment in human capital, well-being, and motivation improvement. We reflect this in ESG investments.

3) Safety & Responsibility

As globalization and digitalization of supply chains accelerate, economic activities become more complex, increasing the risk of tangible and intangible harm to customers and other stakeholders due to products and services that result from corporate activities. The social responsibility of nations and companies regarding labor safety is also growing. In our ESG investments, we consider companies' vulnerability to such risks and the measures they take to address them.

4) Social Opportunities

Initiatives through international frameworks and government-level policies are implemented for the social issues in the above 1) to 3), so the process where economy and social disparity are eliminated results in social opportunities. Specifically, the spread of essential services for achieving SDGs such as healthcare, ICT, and finance to underserved regions and populations can create new markets and business models. We view these as investment opportunities, leveraging them to support the transition to a sustainable society while driving the growth of client assets and incorporating these aspects into our ESG investments.

5 Governance

Overview

Investment returns are realized when the investing countries and companies align their objectives with stakeholders' interests, particularly investors. Governance is the most fundamental mechanism for achieving this, and it must be considered a common priority for all investee companies to secure medium- to long-term investment returns for clients' assets.

1) Corporate Behavior

The extent to which companies operate with stakeholders' interests in mind is reflected in their concrete actions. We consider capital efficiency and information disclosure factors in our ESG investment decisions. Information disclosure, spanning all ESG themes, is vital as it is the starting point for these activities.

2) Organizational Structure

Governance should primarily be expressed objectively through national regulations and corporate organizational structures. SMTAM assesses the appropriateness of corporate governance, considering factors such as board composition and diversity, compensation structures, takeover defense measure, shareholder structure, and industry or regional characteristics, and reflect this in our ESG investments.

3) Stability & Fairness

Nations and companies may face situations ranging from corruption and intentional legal violations to accidental incidents that can have negative impacts both inside and outside the organization. Additionally, advancements in AI may increase risks related to information security. If these issues are inadequately addressed in terms of content or speed, it could harm society, national creditworthiness, and corporate value. In order to deal with such risks properly, we consider political stability and fairness, a company's code of conduct, their risk management system including preventive measures, and company climate regarding compliance, etc., and reflect these to our ESG investments.

4) Improvement in Governance

Governance is fundamental to the social and economic activities of nations and corporations. Enhancing and advancing governance serves as a driving force for nations and corporations to achieve sustainability and new business opportunities, leading to improved investment returns. We view this as an investment opportunity, integrating it into our ESG investments to achieve the growth of clients' assets.

III ESG Investment Methodology and In-house ESG Scores

1 ESG investment methodology for in-house investment products

The ESG investment method for carrying out ESG investments is defined in the following 1) to 7).

1) ESG negative screening

Based on specific criteria, we exclude companies with significant issues from an ESG perspective, such as the manufacture of inhumane weapons or violations of international norms, from the investment universe.

2) ESG positive screening

We actively invest in companies with high ESG evaluations within each sector.

3) Integration of ESG-related information

We analyze and evaluate non-financial information, including ESG data, and explicitly and systematically incorporate the insights gained into each fund's stock selection and portfolio construction processes.

4) Topic investment

We establish funds centered around companies related to specific ESG themes and manage them based on those themes.

5) Impact investment

We form and manage funds with the explicit goal of generating a positive social impact from an ESG perspective and achieving economic investment returns.

6) Engagement

We engage in constructive dialogue with investee companies to seek best practices on ESG themes and enhance medium- to long-term value.

7) Exercise of voting rights

We call for minimum standards and value improvement in investee companies by reflecting ESG factors in voting "for" or "against" a proposal in the exercise of voting rights of investee companies.

2 In-house ESG score

The in-house ESG score refers to our proprietary investment evaluation metric assigned from an investor's ESG perspective. It aims to maximize medium- to long-term investment returns (investment profits) and reduce downside risk for clients (beneficiaries). This score analyzes the opportunities and risks posed by ESG issues for countries and companies. Using the ESG evaluations based on our defined ESG materiality, we assign in-house ESG scores to the investment universe and other entities, with continuous upgrades for improvement. Details related to in-house ESG score are determined separately in SMTAM's regulations, etc.



SUMITOMO MITSUI TRUST ASSET MANAGEMENT

