



SUMITOMO MITSUI TRUST BANK

STEWARDSHIP REPORT

2017-
2018

Introduction

As the core subsidiary of the Sumitomo Mitsui Trust Group (“the Group”), Sumitomo Mitsui Trust Bank (“the Bank”) engages in a wide array of businesses such as banking, asset management and administration, and real estate by harnessing the Group’s significant expertise and comprehensive capabilities, guided by a credo to “adhere to the principles of sound management based on a high degree of self-discipline with the background of fiduciary spirit and establish strong credibility from society.”

Responsible for managing and administering the assets of individual and corporate clients, the Fiduciary Services Business offers client-oriented, high value-added services ranging from pension system design to asset management and administration. We will work to promote greater attentiveness to managing conflicts of interest and strive to be thoroughgoing in upholding our fiduciary duties across all our businesses.

As one of the largest “responsible institutional

investors” in Asia that embraces stewardship responsibilities, the Group updated its stewardship activities policies based on Japan’s revised Stewardship Code, which was published in May 2017. In “Stewardship Report 2017,” we systematically report on our activities and views pertaining to the Code, including the presentation of relevant case studies.


We regard our activities pertaining to the Code as the core of our fiduciary duties, and we look forward to your warm and continued support and cooperation as we fulfill our duties as a “responsible institutional investor” that embraces stewardship responsibilities and puts our clients-first in advancing such endeavors.

Masahiro Tsuchiya

Sumitomo Mitsui Trust Bank, Limited
Senior Managing Executive Officer in charge of
the Fiduciary Services Business

CONTENTS

1 Business Strategy for Asset Management	02	4 ESG Investment Initiatives	24
① Asset Management at Sumitomo Mitsui Trust Bank	02	① Global Expansion of ESG Investment	24
② Asset Management and ESG	03	② Milestones in the Bank’s ESG Activities	25
2 Our View on Stewardship Responsibilities	04	③ MBIS®: Our Non-financial Information Evaluation Tool	26
① Guidelines on Stewardship Responsibilities	04	④ ESG Integration	28
② Fiduciary Duties and Stewardship Responsibilities	04	⑤ Guidelines for ESG Challenges (ESG Guidelines)	32
③ Stewardship Activities Promotion Framework	05	⑥ ESG Engagement around the World	34
3 Guidelines, Initiatives and Self-Assessments under Japan’s Stewardship Code	06	⑦ Participation and Activities based on Global Guidelines for Corporate Conduct, etc.	40
		⑧ Guidelines for Applying Principles for Responsible Investment (PRI)	42



It is the responsibility of institutional investors (stewardship responsibility) to pursue maximum investment returns in the medium- to long-term for their clients (beneficiaries) by promoting sustainable growth and increasing corporate value at investee companies through activities such as exercising voting rights on fiduciary assets and fostering constructive engagement, or purposeful dialogue.

The Bank strives to promote a shared recognition on enhancing corporate value through engagement with investee companies and foster improvement on identified issues. In exercising voting rights, we regard engagement as vital and have structures in place for monitoring our voting procedures such as a third-party committee and disclosure of our voting record on individual companies to enhance transparency in our exercise of voting rights.

The Bank has for many years devoted itself to the study of issues relating to ESG

(environmental, social and governance), and with regards to non-financial information with high relevance to sustainable growth, including ESG, the Bank has adopted a proprietary evaluation methodology to accurately ascertain conditions and is working to factor such assessments into its investment behavior. As a result of such activities, Principles for Responsible Investment (PRI) has awarded the Bank the highest possible rating of “A+” for its overall approach to responsible investment for three successive years.

We discuss our ESG-linked activities in this report, and as we forge ahead in elevating our activities to the next level, we will strive to properly fulfill our stewardship responsibilities to our clients.

Yoshio Hishida

Sumitomo Mitsui Trust Bank, Limited
Managing Executive Officer in charge of
the Asset Management Business

Editorial policy

Our CSR-related reports for fiscal year 2017 consist of our full CSR report and feature booklets on the themes of Climate Change, Natural Capital, Stewardship, Environmentally Friendly Property and a digest report for seniors (available only in Japanese). We publish these reports so readers can gain a deeper understanding of our Group's proactive initiatives. You can visit our website to learn more about our other CSR initiatives.

Web URL:

<http://smth.jp/en/csr/index.html>

*This report introduces various initiatives and activities by our Group, led by Sumitomo Mitsui Trust Bank.

1

Business Strategy for Asset Management

1 Asset Management at Sumitomo Mitsui Trust Bank

A subsidiary of Sumitomo Mitsui Trust Holdings (listed on the Tokyo Stock Exchange, first section), Sumitomo Mitsui Trust Bank ("the Bank") is one of the largest asset management companies in Asia with assets under management of about 51 trillion yen as of March 31, 2017. We offer products that meet the needs of various

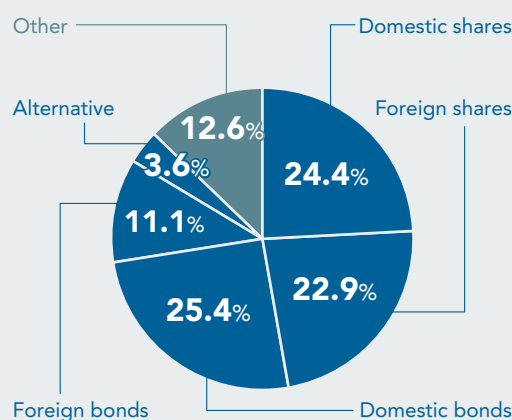
clients in Japan and overseas such as pension funds, mutual aid associations, financial institutions, retail clients, and overseas investors.

The Bank aims to maximize the investment returns of its clients in the medium- to long-term by working to secure above-market returns while boosting the overall market.

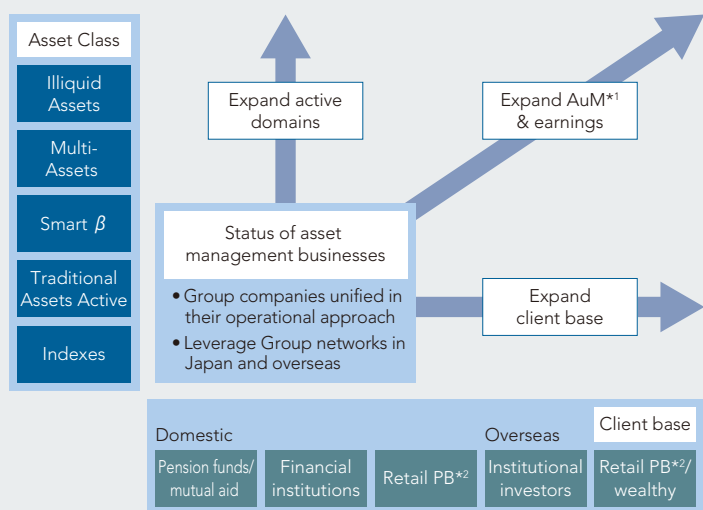
(Unit: Billions of Yen)

Asset class	AuM*
Domestic shares	12,609
Foreign shares	11,827
Domestic bonds	13,115
Foreign bonds	5,752
Alternative	1,886
Other	6,486
Total	51,677

*Assets under management



Strengthening of Asset Management Functions



*1 AuM: Assets under management

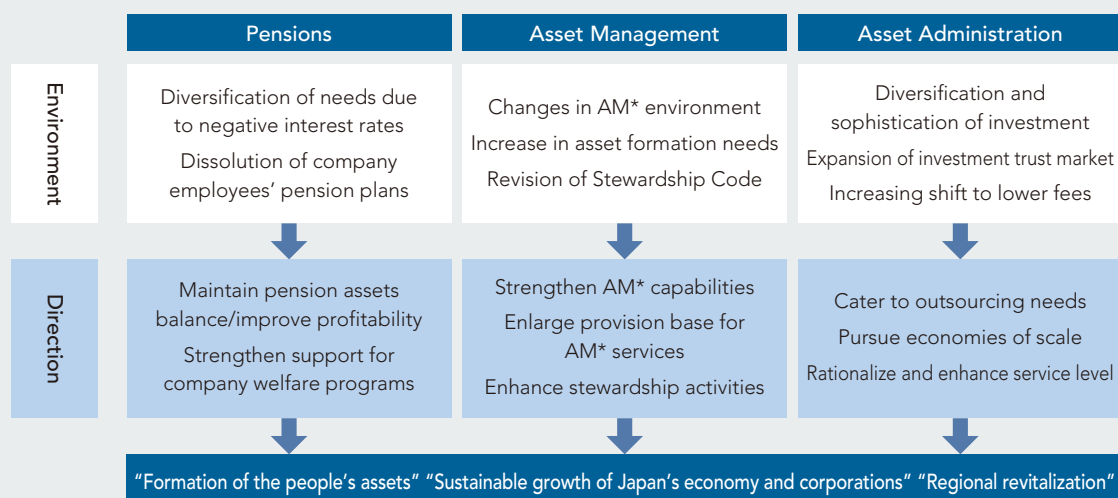
*2 PB: Private banking

Based on its fiduciary spirit and with significant expertise and comprehensive capabilities, the Bank leverages a business model that combines banking, asset management and administration, and real estate businesses to create distinctive values.

With the pension, asset management, and asset administration businesses as its three pillars, the Fiduciary Services Business leads the trend "from savings to investment" and contributes to "formation of the people's assets," "sustainable growth of Japan's economy and corporations," and "regional revitalization" while pursuing profit expansion.

In the asset management businesses, stable, efficient index-based management is a focus in product development, while in active management, the Bank is expanding in domains such as multi-asset funds and illiquid assets from traditional active funds. In client-base development, the Bank is widening its scope to the wealthy, private banking and overseas clients from domestic institutional investors and retail markets.

Target Business Model



*Asset management

2 Asset Management and ESG

The Bank closely examines issues around sustainable growth at investee companies in an effort to maximize investment returns in the medium- to long-term for our clients, and performs activities that contribute to increasing corporate value in the medium- to long-term.

ESG-linked issues reside in non-financial domains that do not manifest themselves in financial reporting but they can have large impacts on corporate value over time. Our response to ESG issues in asset management is linked to our pursuit of upside potential in the medium- to long-term, even as we seek to

limit downside risk. We believe this approach is conducive to maximizing investment returns for our clients.

We became a signatory to PRI* in May 2006 when it was established to call on institutional investors to factor ESG considerations into their investment decision-making processes. The Bank has proactively addressed ESG issues in its asset management businesses since then. ESG considerations continue to be a central focus of our asset management businesses as we seek to bolster our capabilities in this field while advancing pioneering activities.



*What is PRI?

An acronym for Principles for Responsible Investment and developed in a process convened by the United Nations (UN), PRI calls on institutional investors to give consideration to environmental, social and governance (ESG) factors in their investment decision-making processes. The Bank became a signatory when PRI was established in May 2006 and has devised policies in accordance with its six principles. (Please refer to P42-43)

2 Our View on Stewardship Responsibilities

1 Guidelines on Stewardship Responsibilities

The Japan Revitalization Strategy under “Abenomics” is premised on the nation’s rapidly aging population and overall population decline, and recognizes that in view of these trends Japan must make the most of its limited resources to foster and maintain its wealth over the medium- to long-term and so needs to bolster the earnings power of its companies and increase their sustainable corporate value.

Aimed at institutional investors that declare their acceptance of stewardship responsibilities, Japan’s Stewardship Code (hereinafter, “the Code”) calls on institutional investors to contribute to promoting the sustainable growth of companies. Based on the principles enumerated in the revised Code published in May 2017, the Bank revised its “Guidelines on Stewardship Responsibilities” and “Guidelines on the Principles of Japan’s Stewardship Code.”

The Code defines “stewardship responsibilities” as the duty of institutional investors to enhance the medium- to long-term investment returns for their clients and beneficiaries (including ultimate beneficiaries) through constructive engagement, or purposeful dialogue, aimed at improving and fostering the corporate value and sustainable growth of investee companies based on in-depth knowledge of

the companies and their business environment. At the Bank, we properly discharge our stewardship responsibilities through stewardship activities such as engagement and the exercise of voting rights (hereinafter, “the exercise of voting rights”) on fiduciary assets as a “responsible institutional investor” that accepts the stewardship responsibilities that accompany its important role in the investment chain.

Contributing to sustainable growth through our stewardship activities is a challenge we embrace not only in Japan but globally. The harm from climate change, biodiversity loss, problems stemming from immigration, and widening wealth and income inequalities on the globalizing economy is becoming increasingly apparent, as some of these issues descend deeper into crisis. The international community as a whole will need to address such social and environmental problems (ESG issues) to ensure the global economy remains stable and the world stays on track to achieve social sustainability.

As one of the largest institutional investors in Asia, the Bank is reaching out to companies via its stewardship activities, and through its active participation in international initiatives such as PRI, the Bank is working to promote a global response to ESG challenges.

2 Fiduciary Duties and Stewardship Responsibilities

The Group formulated and released its “Policies regarding the Fiduciary Duties of the Sumitomo Mitsui Trust Group” in September 2016. We offer a variety of highly specialized products and services based on a client-oriented spirit, and as a “responsible institutional investor,” we believe fiduciary duties in asset management are synonymous with properly fulfilling our stewardship responsibilities.

As it moves forward with the promotion of stewardship activities, the Bank recognizes that enhancing and elevating proper management of conflicts of interest relating to stewardship activities will contribute to deeply embedding fiduciary duties into the way it does business. The Bank will strive to maximize investment returns over the medium- to long-term for our clients by strengthening such initiatives.

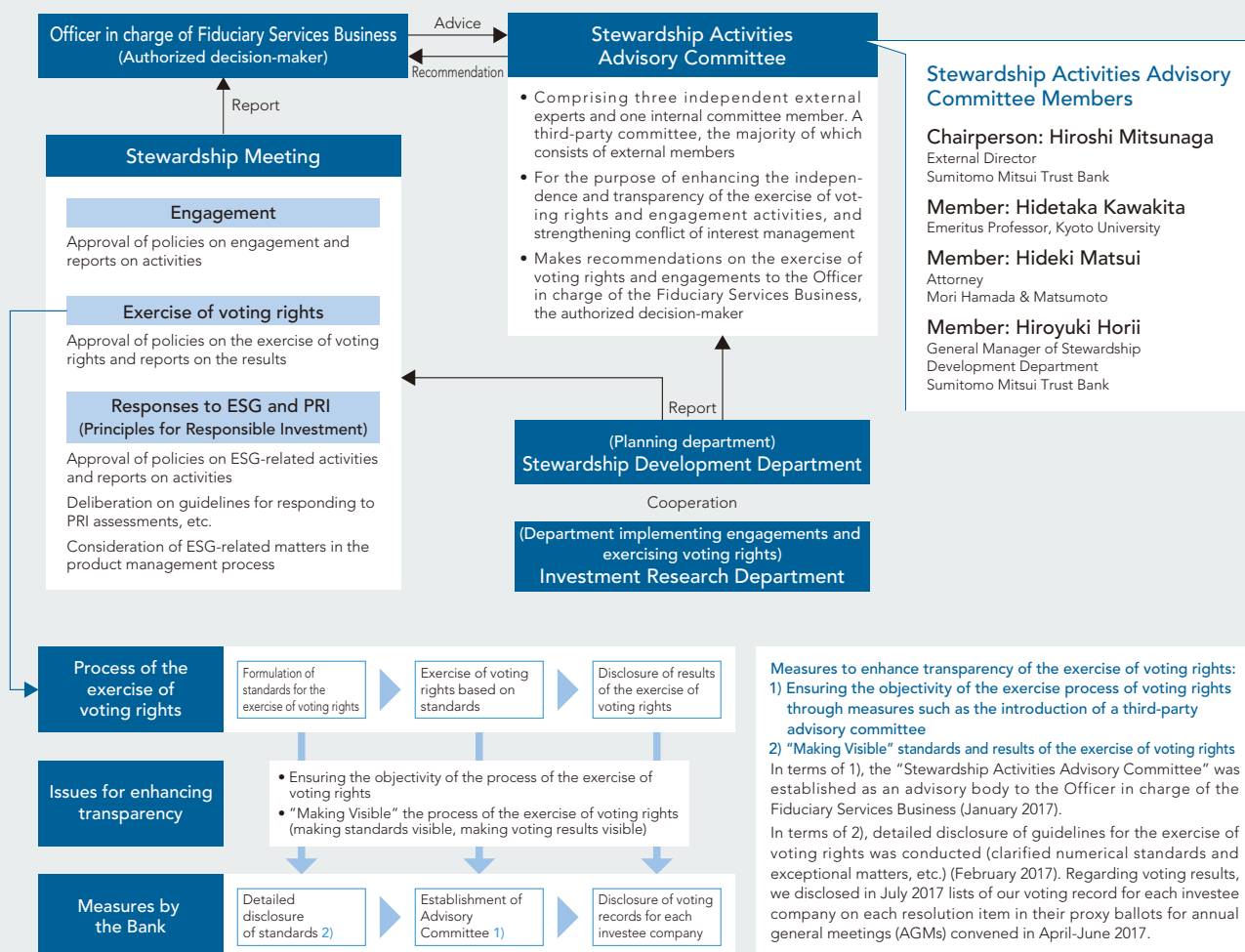
3 Stewardship Activities Promotion Framework

Our framework for promoting stewardship activities is shown in the flow chart below. On engagement and the exercise of voting rights, the Stewardship Development Department works closely with highly experienced analysts in the Investment Research Department on such activities, and as the lead actor, the Stewardship Development Department is responsible for deliberating on and reporting such activities to the Stewardship Meeting.

With the aim of enhancing the transparency

of our stewardship activities and bolstering our management of conflicts of interest, we established the “Stewardship Activities Advisory Committee” as an advisory body comprising three external experts and one internal committee member. The Advisory Committee offers recommendations on the exercise of voting rights and engagement to the Officer in charge of the Fiduciary Services Business, who is the authorized decision-maker.

Stewardship Activities Promotion Framework



3

Guidelines, Initiatives and Self-Assessments under Japan's Stewardship Code

With guidelines drawn up in response to Japan's revised Stewardship Code, which was released in May 2017, the Bank is implementing specific initiatives linked to the revised Code and conducts self-assessments of them.

We outline below our guidelines for each of the Code's seven principles and initiatives linked to each principle, as well as provide self-assessments of our efforts to put these principles into practice.

Principle 1

Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.

Guideline

We will fulfill our stewardship responsibilities under the "Guidelines on Stewardship Responsibilities."

- We have a stewardship responsibility for our assets under management. In order to fulfill our stewardship responsibilities, we will enhance the value and growth of investee companies by gaining a deep understanding of them and their business environment through engagement and the exercise of voting rights, and maximize investment returns in the medium-to long-term for our clients (beneficiaries).
- In addition to analysts in our Investment Research Department with a deep understanding of investee companies and their business structure and industry, we have assigned

experienced senior analysts to our Stewardship Development Department as stewardship specialists. They conduct analysis of financial statements, social and environmental issues, and non-financial information such as ESG factors, including corporate governance, and participate in meaningful engagement meetings and the exercise of voting rights with regards to assets under management.

- As one of Japan's premier institutional investors, we view our stewardship responsibilities as a social responsibility, and by fulfilling them properly, we contribute to Japan's economic growth.

Initiatives Linked to Principle 1

- **Devised a response to Japan's revised Stewardship Code (released in May 2017)**

Progress on Stewardship Activities

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Stewardship Activities Advisory Committee		1st			2nd		3rd	4th		5th	
Declared Acceptance of Revised Stewardship Code						○					
Exercise of Voting Rights	Revised Guidelines		○		○				○		
	Response to Concentrated AGM* Calendar						○				
	Per-company Voting Record Disclosure							○			○

*Annual general meeting (AGM)

Self-Assessment

- **In view of the revised Stewardship Code, the Bank revised its stewardship policies and is assertively advancing its response to the revised Code.**
- **We think our response at present is appropriate but we will review our response from time to time when we deem it necessary.**

Principle 2

Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.

Guideline

As part of our stewardship responsibility, we will appropriately manage conflicts of interest under our "Management Policy Concerning Conflicts of Interest" and "Policy for Enhancement of the Conflict of Interest Management Structure relating to Asset Management Operations."

- Under our mission of "establishing trust by practicing sound management based on a high level of self-discipline and our fiduciary spirit," we will further advance our conflict of interest management structure for the entire group and thoroughly implement our fiduciary duties across all business lines.
- On conflicts of interest arising from stewardship activities, we place our clients' (beneficiaries') interest first, and adhere to strict management practice under our internal conflict of interest management provisions, provisions on conflict of interest management in the Fiduciary Services Business, and regulations and guidelines on asset management. In addition, we have already disclosed the outline of policies defined in provisions on conflict of interest management in the Fiduciary Services Business.
- At the Bank, the Officer in charge of the Fiduciary Services Business exclusively holds all authority relating to our exercise of voting rights, independent from the authority to execute other business activities. We have excluded the exercise of influence, which may arise when exercising voting rights, as a conflict of interest in the Fiduciary Services Business.

We have also established the "Stewardship Activities Advisory Committee" (hereinafter, the Advisory Committee) a majority of which is composed of independent external experts. The Advisory Committee is a body established to make recommendations for various activities under the Code. Regarding our exercise of voting rights, the Committee will make recommendations for the establishment, revision, or abolition of guidelines for the exercise of voting rights, decisions concerning whether to support proposals not stipulated in these guidelines, the appropriateness of interpretation of these guidelines for individual proposals, and verification and improvement of decision-making processes on the exercise of voting rights on proposals in connection with which a conflict of interest may occur. The Officer in charge of the Fiduciary Services Business gives the fullest possible consideration to the recommendations of the Advisory Committee and makes decisions accordingly. Any recommendations for improvement on the exercise of voting rights received from the Advisory Committee shall be given the fullest possible consideration and acted upon immediately.

Initiatives Linked to Principle 2

- Established "Stewardship Activities Advisory Committee," a third-party committee in January 2017
- Established "Stewardship Development Department," a unit dedicated to stewardship initiatives, in January 2017
- Established provisions on conflict of interest management in the Fiduciary Services Business (such as restrictions on personnel transfers, information communication, and in-person contact between fiduciary business and other businesses) in January 2017
- Implemented group-wide e-Learning courses relating to conflict of interest management, and each employee has submitted a signed pledge in July 2017

3 Guidelines, Initiatives and Self-Assessments under Japan's Stewardship Code

About the Stewardship Activities Advisory Committee

The Stewardship Activities Advisory Committee (hereinafter, the Advisory Committee) is a body established to make recommendations for various activities based on Japan's Stewardship Code. Since its launch in January 2017, the Advisory Committee has convened five meetings through September. Three of its four members

are external experts. Not only does it conduct ex-post monitoring of stewardship activities, the Advisory Committee also contributes to improving the transparency of stewardship activities by monitoring the appropriateness of processes through decision-making stages linked to exercising voting rights.



Members of the Advisory Committee

- 1 Chairperson: **Hiroshi Mitsunaga**
External Director, Sumitomo Mitsui Trust Bank
- 2 Member: **Hidetaka Kawakita**
Emeritus Professor, Kyoto University
- 3 Member: **Hideki Matsui**
Attorney, Mori Hamada & Matsumoto
- 4 Member: **Hiroyuki Horii**
General Manager of Stewardship Development
Department, Sumitomo Mitsui Trust Bank

Comments from the Chairperson

The Advisory Committee has offered recommendations relating to stewardship activities at Sumitomo Mitsui Trust Bank since January 2017. Amid an environment of accelerating globalization, stewardship activities are one of the most important issues an asset management business faces in genuinely fulfilling its fiduciary responsibilities. Through stewardship activities, we, asset managers, support sound, sustainable growth at investee companies, and recognize this translates into expectations for higher investment returns that benefit ultimate beneficiaries. On the other hand, it is vital for us to develop an adequate understanding of investee companies, and engagement with various stakeholders, including asset owners, is of appreciably growing importance. The Advisory Committee members regard appropriateness as highly important in looking at conflicts of interest, and we seek to actively offer advice and recommendations from the viewpoint of a third-party committee to ensure based on the aforementioned aims that stewardship activities become even more effective.

Stewardship Activities Advisory Committee (SAAC), Proceedings

	Inquiry themes	Findings and recommendations	Response status
1st SAAC Meeting (January 19, 2017)			
Inquiry	On review of guidelines for the exercise of voting rights	SAAC acknowledges it is appropriate for there to be opposition from other stakeholders when treasury stock contributions to foundations raise concerns about whether they will become stable shareholders, and for there to be a request for specific criteria for independence of directors/officers.	
Inquiry	On decision-making content and typology for specific past cases in exercising voting rights	SAAC deems decisions reached on past cases to be proper and acknowledges it is appropriate to reflect non-standard cases into guidelines based on recommendations.	
2nd SAAC Meeting (April 24, 2017)			
Inquiry	On policy for accepting the revised Stewardship Code	In view of the spirit of the revised Code, the Bank should release its voting records on all proposals for all investee companies to increase visibility into its exercise of voting rights.	Based on SAAC's recommendation, the Bank releases voting records on all proposals for all investee companies.
Inquiry	On disclosure of guidelines for the exercise of voting rights for foreign and domestic shares (English language disclosure of the guidelines)	In exercising voting rights on foreign shares, the Bank should clearly define the basis for preparing and reviewing its original voting plans based on the guidelines.	Based on SAAC's recommendation, the Bank has stated on its guidelines.
Inquiry	On revisions to guidelines for the exercise of voting rights for domestic shares	SAAC acknowledges clarifying standards for contributing treasury stock to foundations is appropriate.	
Report	Report on cases where the Bank exercised voting rights for parties for which it manages conflicts of interest	Report on the exercise of voting rights in Jan.-Apr. 2017 AGMs	

Inquiry themes	Findings and recommendations	Response status
----------------	------------------------------	-----------------

3rd SAAC Meeting (June 7, 2017)

Inquiry	On guidelines for responding to shareholder proposals	From the viewpoint of maximizing shareholder value in the medium-to long-terms, SAAC regards as appropriate the Bank's posture of voting, in principal, in favor of the proposals from the secretariat of SAAC to abolish the advisory system in particular. It also acknowledges as appropriate, however, those cases where the Bank determines based on engagement that the proposals would not harm shareholder value.	Based on SAAC's recommendation, the Bank opposed the shareholder proposal for one company, and supported the shareholder proposal for two companies.
Inquiry	On guidelines for responding to the companies with misconduct	In the event of misconduct such as legal or regulatory violations, SAAC acknowledges it is appropriate to oppose company proposals for director appointments in light of specified criteria.	
Inquiry	On the appropriateness of guideline interpretations	With arbitrariness removed in conflict of interest management for qualitative matters in guidelines, SAAC acknowledges the Bank's decision-making is appropriate.	
Report	Presented key themes that emerged at AGMs	Report noted takeover defense measures and treasury stock contributions to foundations emerged as key themes	

4th SAAC Meeting (July 24, 2017)

Inquiry	On policies for future guidelines revisions	Based on points raised in the 3rd SAAC meeting, it is appropriate to refine guidelines. There was no objection to the Bank moving to adopt stricter criteria for determining conflicts of interest and the independence of external directors. SAAC calls for these issues to be examined from the viewpoint of usefulness to investee company management.	Based on SAAC's recommendation, the Bank revises the guidelines.
Inquiry	On self-assessments of stewardship activities and stewardship report publication policies	SAAC acknowledges self-assessments of stewardship activities and publication of an annual stewardship report are consistent with the Code's core principals and deemed the Bank's response appropriate.	
Report	On refining the exercise of voting rights on foreign shares	Report on the contents in the left column	
Report	On policies for participating in collective engagement		
Report	On PRI Academy		

5th SAAC Meeting (September 28, 2017)

Inquiry	On content in self-assessments of the Bank's stewardship activities	SAAC acknowledges the content in self-assessments were adequate on the whole but it observes that expanding and improving research activities on overseas companies enable the Bank to engage more deeply with Japanese companies. SAAC hopes to see this feedback factored into stepped-up initiatives.	Based in part on this feedback, the Bank will deliberate how to refine and elevate its engagement.
Report	On draft revisions to guidelines for the exercise of voting rights slated for January 2018	Along with opinions received from SAAC members since the 4th SAAC meeting, the report addresses draft revisions to guidelines proposed by the secretariat of SAAC for exercising voting rights based on voting records for June 2017 AGMs. On top of the candid views received in each committee, any additional comments they may have up until the next SAAC meeting to be reported to the secretariat of SAAC.	The secretariat is to devise a proposal that factored in the opinions it received to the fullest extent possible, and SAAC is to review the proposal at its next meeting in November 2017.

Self-Assessment	<ul style="list-style-type: none"> SAAC was held five times through September 30, 2017, and the Bank has refined its conflict of interest management pertaining to asset management in concert with SAAC recommendations and strengthened its stewardship activities. The Bank refined its posture on conflict of interest management structure for the Group as a whole, switching over to a company with Three Committees model in June and establishing the third-party voluntary Conflicts of Interest Committee in July in Sumitomo Mitsui Trust Holdings. The Bank thinks its response at present is appropriate but it will work to further refine its conflict of interest management.
-----------------	---

3 Guidelines, Initiatives and Self-Assessments under Japan's Stewardship Code

Principle 3

Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of companies.

Guideline

In order to fulfill our stewardship responsibilities by ensuring sustainable growth of investee companies, we will monitor and grasp the status of investee companies.

- We believe that it is important to evaluate investee companies from a medium- to long-term standpoint. Thus, we try to accurately grasp and understand company financials, ESG-related information, effectiveness of management, the business foundation, market trends, effectiveness of the business strategy, and non-financial information relating to sustainable growth. By continuously monitoring and researching investee companies, we can effectively grasp the situation that it is placed under.
- In addition, we shall endeavor to identify at an early stage issues that may result in a material loss in the value of investee companies by conducting research on environmental and regulatory changes, and to make every effort to avoid scandals, accounting fraud, and other credit risk events.

Principle 4

Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.

Guideline

Institutional investors shall share and recognize common views with investee companies and resolve issues through constructive and "purposeful dialogue."

- We will endeavor to reach common understandings with investee companies to enhance their sustainable growth through regular, continuous engagement with management, planning and finance officers.
- If any act that disregards the interests of shareholders, misconduct or anti-social behavior by an investee company or its management occurs, or its corporate value is damaged due to problems such as poor medium- to long-term performance, we will consider such act as a serious issue in the investee company's corporate governance, and we will exercise voting rights in a way that would improve the investee company's corporate governance. We require investee companies that have engaged in anti-social behavior to provide a full explanation of their measures to prevent recurrence, progress of their improvement measures, and efforts towards improvement of their corporate governance, and we will arrive at a decision on the exercise of voting rights based on their explanations.
- Analysis of non-financial information is necessary for effective engagement. We believe that bolstering non-financial information analytical capabilities will lead to more productive engagement. We will fulfill our stewardship responsibilities by solving problems through highly effective dialogue, and by the appropriate exercise of voting rights.
- In principle, we engage in independent dialogue with investee companies. However, occasionally we may invite other institutional investors to meetings for effective engagement which can lead to more beneficial results. In such cases, we may conduct collective engagement with other institutional investors.
- We are mindful not to obtain any materials or insider information during our dialogue with investee companies. However, if we receive such information, or where there are such risks, we will abide by our internal guidelines and procedures accordingly.

Initiatives
Linked to
Principles 3
and 4

- Commenced dialogue in January 2017 via dual-effort driven by the sector analysts in the Investment Research Department and the dedicated personnel in the Stewardship Development Department
- Added more companies to the group we are engaging in February 2017, moving closer to our target coverage of 90% of the TSE1* market capitalization
- Revised engagement rules in April 2017 (all written oaths are to be handed over in person)
- Advanced collective engagement efforts, devising participation policies in August 2017 and joining a collective initiative in October 2017

*Tokyo Stock Exchange First Section

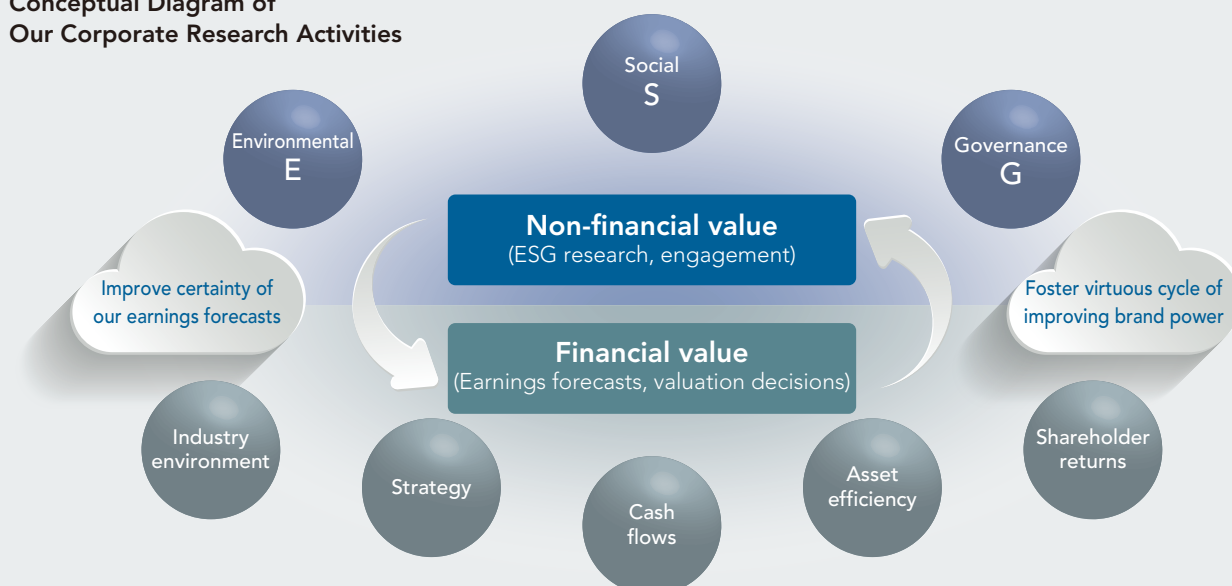
At the heart of our stewardship activities are engagement and dialogue with investee companies and the exercise of voting rights at general shareholders meetings. We seek to achieve balance in our approach, factoring in the laws and regulations, business customs and corporate governance system of the nation where the investee company is located. For example, in Japan, where resolutions determined at general shareholders meetings have considerable binding force, the Bank focuses on the process of dialogue before the exercise of voting rights, whereas in the United States, where shareholders file many non-binding resolutions, the Bank focuses on opportunities to communicate its views through the exercise of voting rights.

The Bank has its own approach to investment research that it believes translates into higher returns. First, it strives for accuracy by integrating near-term earnings forecasts, a medium- to long-term view on the industry cycle, and analysis of each company's corporate strategy; second, it seeks a high frequency of contact with the companies in its investable coverage universe to achieve high-quality earnings forecasts; and third, it elevates its research capabilities by putting an emphasis on teamwork, rather than depending on individual capabilities. Our approach to investment analysis is premised on analysis of financial value, especially earnings (earnings forecasts), and analysis of non-financial value (ESG assessments).

Diagram of the Bank's Stewardship Activities: Engagement (Dialogue) and Exercising Voting Rights

Degree of involvement in engagement	Low High		
Activity methods	Raise issue via letters Solo/collective	Company interviews Employees directly responsible/ management team	Exercise of voting rights Company proposals/ shareholder proposals
Level by region	Emerging markets (Asia)	Japan	Developed markets in Europe/North America

Conceptual Diagram of
Our Corporate Research Activities



3 Guidelines, Initiatives and Self-Assessments under Japan's Stewardship Code

Analysts in the Investment Research Department visit companies as a major part of their research activities. Apart from meeting with personnel in the investor relations section of companies, our analysts dedicate themselves week after week to gathering as much relevant information as possible by, for example, meeting with company executives, conducting on-site surveys of factories and outlets, and conducting supplier

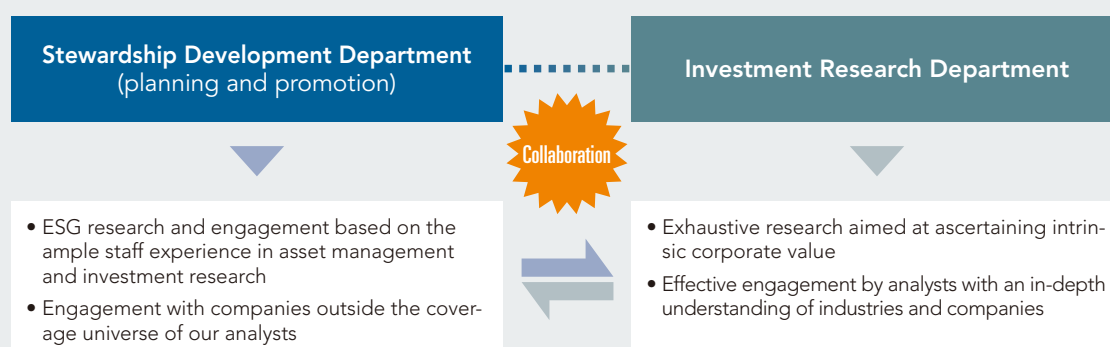
visits and hearings, and they look closely at their field research for indicators of changes in corporate value. Management Business Investment Strategy (MBIS®) is an in-house developed tool for evaluating the sustainable growth prospects of companies based on non-financial information that we use for investment research into companies in Japan and overseas (Please see page 26 for more specifics about MBIS®).

Our Research and Engagement Frameworks

Our analysts in the Investment Research Department are directly responsible for engagement with investee companies, reflecting our view that it is more effective for them to engage with companies in conjunction with their customary role of rigorously researching industries and companies and developing in-depth understandings of them.

Newly established in January 2017, the

Stewardship Development Department has staff with many years of experience in asset management and investment research, involved with planning and promoting the Bank's stewardship activities in Japan and overseas as well as engagement activities with those companies outside the coverage of our analysts in the Investment Research Department.



Status of engagements with Japan-listed companies

440
companies

569
engagements

Number of Engagements (July 2016 to June 2017)

Category	Number of engagements
1. Business model content which improves corporate value (Management principles & vision, specific businesses)	173
2. Governance structure (Supervision of business execution by the Board, etc.)	115
3. Consideration of long-term capital productivity	80
4. Risk responsiveness (Including risks relating to social and environmental issues)	128
5. Forestalling anti-social conduct	13
6. Other (Including issues relating to voting rights)	60
Total for categories 1 to 6	569
Reference: Overall number of contacts with companies	about 9,000

As for engagement, as a general rule we interact with companies on an individual basis but among the provisions put forward in Japan's revised Stewardship Code, which was released in May 2017, is the recognition that it may be useful for institutional investors to have the option to work together with other institutional

investors (collective engagement) to foster dialogue with investee companies. For cases where we cannot confirm post-engagement changes at companies, issues for which institutional investors have formed a shared understanding, medium- to long-term themes, and related situations, we will look to harness collective engagement in an effective manner.

Based on this conception, we decided to join a program sponsored by Institutional Investors Collective Engagement Forum (IICEF). For cases where we determine collective engagement would encourage changes, we will do so through IICEF activities. IICEF was founded with the aim of fostering sustainable growth and improving corporate value over the long-term, and at present disclosure of information concerning the presentation of important proposals, agreements on joint ownership, and plans to exercise voting rights is not included in IICEF activities.



Institutional Investors Participating in IICEF

The main group of institutional investors participating in this program consists of investors who manage passive investment funds such as index investment. A passive investment approach is essentially geared at ongoing share ownership over the very long-term, although the number of shares they own changes daily to reflect factors such as investment money flows.

As of October 2017, the five participants in this program are Sumitomo Mitsui Trust Bank, Japan's Pension Fund Association, Sumitomo Mitsui Asset Management, Mitsubishi UFJ Trust and Banking, and Resona Bank.



For details, see IICEF's website. URL: <http://www.iicef.jp/en/>

3 Guidelines, Initiatives and Self-Assessments under Japan's Stewardship Code

Companies where We Could Confirm Post-Engagement (Dialogue) Changed

Case 1

Company A

Business model content that improves corporate value

Dialogue overview Company A was studying plans to make capital investments in Japan, Thailand, and the United States to expand its production capacity for core products. The Bank's team positively evaluated Company A's plan as a growth strategy that would increase corporate value but was concerned about the effects of raising large sums for this plan would have. At that juncture, Company A had not decided how it would raise the necessary funding but with an already-high debt/equity (D/E) ratio* of nearly 2X, we raised with management our concern this plan could trigger worries among investors about equity financing. We suggested it might be necessary for management to consider issuing subordinated debt which would not create diluted shares, to secure the funding it needed.

The investee company reaction The Bank's team received the following explanation from Company A. It needed funding for its growth strategy but it was concerned about increasing its D/E ratio beyond 2X, and it was aware that other companies secured funding via subordinated debt issuance. Management indicated it would investigate all its options in determining what form of financing it would use to secure the funding it required.

Post-dialogue actions Company A announced in March 2017 a funding plan that combined subordinated loans with a public share offering rather than one entirely reliant on a public share offering.

*Debt Equity Ratio: a measure of the financial soundness of companies, which is calculated by interest-bearing debt divided by equity capital

Case 2

Company B

Consideration of long-term capital productivity

Dialogue overview Company B set an ROE target of 8% in its medium-term management plan without deciding on a target date for attainment. With Company B's earnings in a recovery phase, the Bank's team estimated it would take about five years for Company B to attain 8% ROE. After explaining to management that its biggest challenge would be the effective use of its ample cash and deposits, the team implemented hearings with Company B on its strategy for balance sheet control (denominator) and for earnings growth acceleration (numerator) to achieve its 8% ROE target.

As for the compensation system for directors, the team pointed out disclosure was limited to stating that consolidated ordinary income is regarded as an evaluation indicator in Company B's earnings-linked compensation system, so it was unclear how these would function as an incentive for directors. In its hearings, the team also asked management for specifics on this matter such as the ratio of fixed and variable compensation and the specific method of linking ordinary income to compensation.

The investee company reaction The Bank's team received the following explanation from Company B. It still had not determined its medium-term policy on returning surpluses to shareholders. Its earnings were just getting back on a recovery track thanks to its focus on growth markets but it was also increasingly obvious its stock of plant and equipment was aging rapidly because it had clamped down on capital investment for several years. To support further earnings growth, management thought it would be necessary to step up its focus on growth markets and improve production efficiency by boosting capital investment. Company B was also studying M&A options, so it wanted to keep plenty of cash on hand. That said, given the points the team had raised, management said it recognized its explanation to shareholders on improving ROE had been insufficient.

Regarding the compensation system for directors, it said a sizeable amount of compensation was linked to earnings but in view of the team's suggestions on this matter, management realized an explanation in accordance with the corporate governance code alone was insufficient.

Post-dialogue actions Concurrent with its May 2017 earnings announcement, Company B announced a large dividend increase. It also stated it would not accumulate surplus funds beyond the level it deemed necessary.

Case 3

Company C

Business model content that improves corporate value

Dialogue overview Operating income margins at business X have stayed low and become a factor in depressing Company C's overall profit margins. The Bank's team recommended Company C execute structural reforms at business X and, beyond that, we suggested it might be necessary to further shrink the business or exit it. We confirmed management's views on the issues and scenarios we raised.

The investee company reaction The Bank's team received the following explanation from Company C. The technologies in use at business X derived from the same source as those in use at core businesses, and management was studying possibilities for new value creation. It recognized business X as a low-profit operation but said the impact on aggregate earnings was modest, and it did not think a rapid response was necessary.

Post-dialogue actions Company C announced in November 2016 it would exit business X.

Case 4

Company D

Governance structure (Supervision of business execution by the Board, etc.)

Dialogue overview Company D had named just one outside director but to ensure effective supervision of execution, the Bank's team said it would be preferable to have multiple outside directors, and identified the effective use of financial assets as a challenge to the abolition of its stagnant ROE trend.

The investee company reaction The Bank's team received the following explanation from Company D. It believed having one outside director was adequate to ensure an effective checking function. That said, it did not think it would be prudent to keep its present state forever. As for effective use of financial assets, Company D felt concerned about further accumulating cash under its current policy for returning surpluses to shareholders. It felt the need to further debate the matter of how it should return surpluses to shareholders.

Post-dialogue actions Company D announced in April 2017 it had nominated a second outside director. It also announced a plan to increase dividends twofold versus the previous period.

Self- Assessment

- We had engagements with 440 companies in July 2016-June 2017, bringing our total count to 569 engagements. While the Bank has about 9,000 discreet contacts with companies per year, the total number of engagements only counts the cases where the Bank had expressed its views to companies.
- We will continue to actively add more companies to the group we are engaging, with the aim of increasing our target coverage to 90% of TSE1 market capitalization (coverage ratio attainment of 83% as of end-October 2017).
- We will encourage reforms via continuous expression of our views in cases of engagement with companies where we cannot confirm post-engagement changes. For cases where we determine it would be effective to encourage change via collective engagement, we will study options for active participation in such efforts.

3 Guidelines, Initiatives and Self-Assessments under Japan's Stewardship Code

Principle 5

Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies.

Guideline

As an institutional investor whose goal is the sustainable growth of investee companies, we exercise our voting rights through "Our Principles for Exercising Voting Rights as a Responsible Institutional Investor," and publicly disclose our entire voting record every quarter for each proposal on the ballot of each investee company.

- As a "responsible institutional investor," we consider the exercise of voting rights an important part of our stewardship activities. Our exercise of voting rights must be intended to contribute to the sustainable growth of investee companies thereby maximizing medium- to long-term investment returns for our clients (beneficiaries). In principle, our voting decisions accord with our guidelines for the exercise of voting rights, and moreover, based on investee companies' conditions and details of engagement with them, we will exercise voting rights not only pursuant to a formal criteria for decision-making but after comprehensively considering the extent to which our exercise of voting rights would contribute to the sustainable growth of investee companies (and to maximization of medium- to long-term investment returns for our clients (beneficiaries)). Furthermore, for proposals that contain multiple suggested reforms, we will determine our exercise of voting rights in a way that prioritizes the option that would contribute most to sustainable growth.
- On guidelines for the exercise of voting rights, we disclose our numerical standards and qualitative judgment scores to increase clarity into our voting decisions. We review our guidelines at least once a year, and implement revisions and deletions reflecting the advice and recommendations of the Advisory Committee.
- On top of explicit disclosures on whether the Bank has business relationships with each investee company in question, we publicly disclose every quarter how we voted on each proposal on the ballot for each investee company based on objective information. As it has been our practice, we publicly disclose through our website an aggregation of our voting record every quarter for all investee companies.
- For all proposals on the ballot for Sumitomo Mitsui Trust Holdings, the parent of the Bank, and cases where a person with a close relationship with the Bank or the parent (such as a current director or auditor, or an ex-employee who occupied an important position of the Bank) is proposed as a candidate for appointment to director or auditor at an investee company on a proxy ballot, from the viewpoint of conflict of interest management, we reference the advice of proxy voting advisory firms in such situations based on our guidelines for the exercise of voting rights, and by seeking confirmation from the Advisory Committee, we properly manage conflicts of interest in the exercise of voting rights.
- On stock lending transactions, we are mindful of setting a lending limit to ensure retention of voting rights.

Initiatives Linked to Principle 5

- Disclosed specifics in February 2017 around our standards for the exercise of voting rights in "Our Principles for Exercising Voting Rights as a Responsible Institutional Investor," which serves as our guidelines for the exercise of voting rights.
- Revised our guidelines for the exercise of voting rights and adopted stricter standards for the exercise of voting rights in February, May, and September 2017.
- Disclosed in July 2017 our voting records on all proposals in proxy ballots for each stock we own.

Our Principles for Exercising Voting Rights

The Bank, as a “responsible institutional investor,” considers its exercise of voting rights in connection with entrusted assets to be one of the most important elements of its stewardship activities, and through its exercise of voting rights, it aims to encourage investee companies to increase their corporate value and pursue sustainable growth to maximize medium- to long-term investment returns for its clients (beneficiaries).

I. Basic Policy on the Exercise of Voting Rights

1. Our exercise of voting rights must be intended to contribute to the sustainable growth of investee companies thereby maximizing medium- to long-term investment returns for our clients (beneficiaries). Based on investee companies’ conditions and details of engagement with them, we will exercise voting rights not only pursuant to formal criteria for decision-making, but after comprehensively considering the extent to which our exercise of voting rights would contribute to the sustainable growth of investee companies (and to maximization of medium- and long-term investment returns for our clients (beneficiaries)). Furthermore, for proposals that contain multiple suggested reforms, we will determine our exercise of voting rights in a way that prioritizes the option that would contribute most to sustainable growth.
2. In exercising voting rights, we encourage investee companies to make progress in developing appropriate corporate governance systems that respect the interests of shareholders by efficiently utilizing shareholders’ equity for sustainable growth and ensuring separation of management supervisory functions and the independence of external directors and auditors, among other items. In addition, based on high-quality corporate governance systems, we encourage investee companies to conduct corporate activities appropriately by fully considering the environment and society.
3. If any act that disregards the interests of shareholders, misconduct or anti-social behavior by an investee company or its management occurs, or its corporate value is damaged due to problems such as poor medium-to long-term performance, we will consider such act

as a serious issue in the investee company’s corporate governance, and we will exercise voting rights in a way that would improve the investee company’s corporate governance. We require investee companies that have engaged in anti-social behavior to provide a full explanation of their measures to prevent recurrence, progress of their improvement measures, and efforts toward improvement of their corporate governance, and we will arrive at a decision on the exercise of voting rights based on their explanations.

II. Management of Conflicts of Interest in the Exercise of Voting Rights

1. With the view of prioritizing the interests of clients (beneficiaries), we strictly manage conflicts of interest that could arise in connection with our exercise of voting rights in accordance with our internal conflict of interest management provisions, regulations and guidelines on asset management, and other relevant internal rules. Since conflict of interest management systems must be independent in particular when exercising voting rights, we have established the “Stewardship Activity Advisory Committee” (the “Advisory Committee”), which mainly consists of external experts, and the Bank will strive to exercise voting rights with high transparency by respecting the Advisory Committee’s recommendations.
2. In order to enhance visibility into whether our exercise of voting rights is carried out appropriately, we will improve the disclosure of information regarding our exercise of voting rights, for example by publishing guidelines for the exercise of voting rights that contain clearly defined criteria to guide decision-making.

3 Guidelines, Initiatives and Self-Assessments under Japan's Stewardship Code

III. Structure for the Exercise of Voting Rights

1. At the Bank, the Officer in charge of the Fiduciary Services Business exclusively holds all authority relating to our exercise of voting rights, independent from the authority to execute other business activities. In addition, in order for the Officer in charge of the Fiduciary Services Business to appropriately exercise voting rights, we have established the Stewardship Meeting that deliberates on our exercise of voting rights, and we have established the Advisory Committee as an advisory body to the Officer in charge of the Fiduciary Services Business.
2. The Stewardship Meeting is a meeting to deliberate on our exercise of voting rights, engagements, ESG-related activities and various other activities under Japan's Stewardship Code. In relation to our exercise of voting rights, the Stewardship Meeting will formulate original plans for the establishment, revision, or abolition of guidelines for the exercise of voting rights and original plans to individually exercise voting rights for a proposal not stipulated in the guidelines. The Stewardship Meeting will consist of the chair (General Manager of the Stewardship Development Department), members (General Managers of the Equity Investment Department, the Investment Research Department, and the

Index Investment Department), the monitoring unit (General Manager of the Fiduciary Risk Management Department), and the secretariat (the Stewardship Development Department).

3. The Advisory Committee is a body established to make recommendations for various activities under Japan's Stewardship Code to the Officer in charge of the Fiduciary Services Business. Regarding our exercise of voting rights, the Committee will make recommendations for the establishment, revision, or abolition of the guidelines for the exercise of voting rights, decisions concerning whether to support a proposal not stipulated in these guidelines, appropriateness of interpretation of these guidelines for an individual proposal, and verification and improvement of the decision-making process on the exercise of voting rights on a proposal in connection with which a conflict of interest may occur. The Committee will consist of external advisory members (external experts) and the General Manager of the Stewardship Development Department as a member, the monitoring unit (General Manager of the Fiduciary Risk Management Department), and the secretariat (the Stewardship Development Department).
4. The Officer in charge of the Fiduciary Services Business will make decisions on various matters that, to the maximum extent, respect the Advisory Committee's recommendations. If the Officer receives a recommendation from the Advisory Committee regarding improvement of its exercise of voting rights, the Officer will promptly take measures necessary for correction or improvement that, to the maximum extent, respect the recommendation.
5. The operations relating to our exercise of voting rights will be performed as follows:
 - (1) the guidelines for the exercise of voting rights shall be established, revised, or abolished with the approval of the Officer in charge of the Fiduciary Services Business after deliberating at the Stewardship Meeting and after obtaining recommendations from the Advisory Committee;
 - (2) a decision to exercise voting rights for an individual proposal within the scope stipulated in the guidelines for the exercise of voting rights shall be made with the approval of the General Manager of the Stewardship



- Development Department;
- (3) a decision to exercise voting rights regarding a proposal that is not stipulated in the guidelines for the exercise of voting rights and that requires individual deliberation shall be made with the approval of the Officer in charge of the Fiduciary Services Business after

- individual deliberation at the Stewardship Meeting and after obtaining recommendations from the Advisory Committee; and
- (4) our record of exercising voting rights shall be reported to the Stewardship Meeting and the Officer in charge of the Fiduciary Services Business.

Record in Exercising Voting Rights on Domestic Shares

For the 1,710 investee companies in our portfolios, there were 18,709 proposals submitted for April-June 2017 general shareholders meetings, which accounted for about 80% of proposals listed on proxy ballots in the year. Of the 18,497 company proposals, 16,239 were voted for, while 2,241 were voted against (an opposition ratio of 12.1%). Of the 212 shareholder proposals, five were voted for, and 207 were voted against (an opposition ratio of 97.6%). The Bank abstained on all proposals for Sumitomo Mitsui Trust Holdings, Inc., the parent holding company of the Bank. In our individual voting records, we identified companies for which we are the largest lender and for which the shareholder registry administrator is a Group company based on data provided by a third-party information vendor and displayed the client flag. The opposition ratio for the Bank's client

company proposals was 12.3%, about in line with the opposition ratio of 12.1% for company proposals as a whole.

Our aggregation of proposals for the quarter took into account secondary or sub-proposals that count one candidate per proposal in concert with our disclosure of our voting record on a per-company and per-candidate basis. An aggregation of proposals on a primary proposal basis, which was the standard until last year, showed the opposition ratio of 14.5% in the April-June general shareholders meetings (13.7% last year).

We explain below our voting policy and results by major proposal categories, such as the appointment of directors with high opposition votes, retirement bonus proposals with a high opposition ratio, and takeover defense measure proposals.

Voting Record on Major Proposals in April-June 2017 General Shareholders Meetings

Director appointment proposals	We voted against directorship candidates in cases where a company did not have a minimum of two external directors, had not met the business performance criteria in our guidelines, had adopted or updated takeover defense measures by a resolution of the Board of Directors, or where a directorship candidate was a major shareholder or was from a business client or affiliate and thus raised concerns in our minds about director independence. As a result, we voted against 13.1% of company proposals in this category.
Retirement bonus proposals	We voted against retirement bonus proposals where external directors or auditors were included as recipients and/or where the company did not meet our business performance criteria. We voted against 68 proposals (an opposition ratio of 38.9%).
Takeover defense measure proposals	In principle, we voted against any proposal unless all conditions below were met (opposition ratio of 35.8%). (1) The proposed takeover defense measures are designed to be neutral and fair to both the acquirer and acquiree; (2) Corporate governance is ensured by the appointment of two or more independent, external directors, and as a result, the relevant company's capital efficiency is maintained at an appropriate level for the medium term; (3) The proposed takeover defense has a mechanism to ensure that in the event takeover defense measures are to be invoked, an independent committee comprising members with acknowledged independence will give prior consideration to the invocation, or it has a mechanism to confirm shareholders' intention by submitting a proposal for invocation of measures at a general shareholders meeting. (4) The period of takeover defense measures is limited (effective period, review period).
Other company proposals	<ul style="list-style-type: none"> On treasury stock contributions to foundations, in principle, we voted against them unless all the conditions listed below were met (opposition ratio of 75.0%). (1) Does not invite substantial dilution of shareholder value (2) The foundation's social engagement activities are deemed to contribute to the improvement of the company's enterprise value (3) The voting rights exercise guidelines are clearly stated and are exercised or not exercised independently of the company. Advisory system: In principle, we voted against the establishment of a new advisory system, and, in principle, we voted for abolition of the advisory system proposed by shareholders. Of the six proposals, we determined five in accordance with our principles, and one based on our engagement. Anti-social behavior: We voted against 26 proposals, including those for appointment of directors, retirement bonus payments, and executive remuneration revision, by 15 companies which we deemed responsible for inappropriate accounting, antitrust violations, or other matters.

Please confirm at our website our latest guidelines for the exercise of voting rights.

3 Guidelines, Initiatives and Self-Assessments under Japan's Stewardship Code

Voting Record for April-June 2017 General Shareholders Meetings (Domestic Shares)

1 Company Proposals

Proposal categories	Voted for	Voted against	Abstention*3	Total	Opposition %	
					(% in April-June 2016)	
Surplus disposal plans	1,115	73	1	1,189	6.1%	3.5%
Appointment of directors	12,245	1,855	15	14,115	13.1%	11.1%
Appointment of auditors	1,337	129	0	1,466	8.8%	9.6%
Changes to Articles of Incorporation	448	25	1	474	5.3%	2.0%
Payments of retirement bonuses	107	68	0	175	38.9%	45.7%
Executive remuneration revision	515	32	0	547	5.9%	2.1%
Issuance of stock options	59	16	0	75	21.3%	24.2%
Appointment of accounting auditor	35	0	0	35	0.0%	0.0%
Restructuring-related*1	21	0	0	21	0.0%	0.0%
Other company proposals*2	357	43	0	400	10.8%	17.9%
Of which, takeover defense measures	70	39	0	109	35.8%	39.3%
Totals	16,239	2,241	17	18,497	12.1%	10.2%

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

*2 This includes treasury stock acquisitions, decrease in statutory reserves, new share allocations to third parties, decrease in capital, reverse stock splits, and takeover defense measures.

*3 The Bank abstained from exercising voting rights only for shares in Sumitomo Mitsui Trust Holdings.

Number of proposals voted against	2,241
Opposition %	12.1%

2 Shareholder Proposals

	Voted for	Voted against	Abstention	Total	Opposition %	
					(% in April-June 2016)	
Totals	5	207	0	212	97.6%	98.5%

[Reference: Proposals from July 1, 2016 to June 30, 2017 (primary proposal basis)]

Company proposals

	Voted for	Voted against	Abstention	Total
Totals	6,375	1,064	3	7,442

Self-Assessment

- From the viewpoint of further increasing transparency in the exercise of voting rights, we have sequentially disclosed the specifics around our standards for the exercise of voting rights, conducted appropriate deliberation on the exercise of voting rights by the Stewardship Activities Advisory Committee, and disclosed our voting record on each proposal for each investee company.
- On the disclosure of specifics around our standards for the exercise of voting rights, we disclosed exceptions based on numerical criteria for voting decisions and examples of past decisions, in addition to the voting principles we had already applied. On disclosure of our voting record on each proposal for each investee company, we cited our reasons for voting for or against proposals and we identified business affiliates and clients of the banking business and the stock transfer agency business in an effort to clarify our relationships with investee companies. Through implementation of such measures, we believe we have been successful in raising transparency in the exercise of voting rights.
- On revisions to our guidelines in the future, we will implement them with the aim of contributing to the sustainable growth of investee companies.

Record in Exercising Voting Rights on Foreign Shares

We exercise voting rights on all the shares we own in the about 2,500 foreign-listed companies.

Of the 29,093 company proposals on which we voted from July 2016 through June 2017, we voted against 2,891 proposals for an opposition ratio of 9.9%.

Of the 1,174 shareholder proposals in the same period, we voted for 645 for an approval ratio of 54.9%.

The table below presents an aggregation for each proposal category.

1 Company Proposals

Proposal categories	Voted for	Voted against	Abstention	Total
Profit disposal, loss disposition plans	1,144	12	0	1,156
Composition of Board of Directors (limits on the number of directors, etc.)	179	6	0	185
Appointment and dismissal of directors	12,530	1,186	0	13,716
Appointment and dismissal of auditors	492	97	0	589
Executive remuneration	2,468	453	0	2,921
Stock options	8	2	0	10
Establishing share buyback frameworks	457	177	0	634
Shareholders' equity (excludes proposals relating to changes to AoI*)	593	32	0	625
Changes to Articles of Incorporation (authorized capital stock, other AoI changes)	1,863	386	0	2,249
Mergers, corporate splits, conversions to a holding company, business transfers, etc.	766	83	0	849
Other	417	21	0	438
Takeover defense measures	5,103	391	0	5,494
Appointment of accounting auditor	182	45	0	227
Totals	26,202	2,891	0	29,093

*Articles of Incorporation

Number of proposals voted against	2,891
Opposition %	9.9%

2 Shareholder Proposals

	Voted for	Voted against	Abstention	Total
Totals	645	529	0	1,174

3 Guidelines, Initiatives and Self-Assessments under Japan's Stewardship Code

Principle 6

Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.

Guideline

We will periodically report to our clients and beneficiaries on our initiatives aimed at fulfilling our stewardship responsibilities, including our voting responsibilities.

- We will report periodically via our website and other means on the status of activities aimed at fulfilling our stewardship responsibilities such as the status of our exercise of voting rights, dialogue with companies, and meeting minutes of the Advisory Committees. We maintain records on all matters involving

stewardship activities such as cases of dialogue with companies and the status of our exercise of voting rights. On the formats and content of reports for clients and beneficiaries, we will discuss their requirements and make appropriate changes accordingly.

Initiatives Linked to Principle 6

- Provide explanations about our stewardship activities to asset owners, and enhance disclosure via our website.

Self-Assessment

- Our reports for asset owners regarding our stewardship activities are provided appropriately in a timely manner through seminars for clients and specific periodic reports, and disclosure content available on our website has been improved.
- The Bank will improve and expand the content of activity reporting via quarterly disclosures of our voting record on each proposal for each investee company, the timely publication of meeting minutes of the Stewardship Activities Advisory Committee, and publication of an annual report on our stewardship activities.



Principle 7

To contribute positively to the sustainable growth of investee companies, institutional investors should have in-depth knowledge of the investee companies and their business environment and skills and resources needed to appropriately engage with companies and make proper judgments in fulfilling their stewardship activities.

Guideline

To contribute positively to the sustainable growth of investee companies based on in-depth knowledge of investee companies and their business environment, we will strive to improve our systems and capabilities for appropriately engaging in dialogue with investee companies and making proper judgments in fulfilling our stewardship activities.

- We will fulfill our stewardship responsibilities through constructive dialogue with investee companies in order to contribute to sustainable growth. For this, we believe it is important to develop the skills and knowledge required to appropriately fulfill our stewardship activities.
- We believe the management of institutional investors should have adequate capabilities and experience to fulfill their stewardship responsibilities effectively, and we will continue to commit to the advancement of our capabilities. The Bank's management understands it has an important role in constructing the appropriate organizational structure and training staff. On these fronts, the Officers of the Fiduciary Services Business will make every effort.
- The Stewardship Development Department was established in January 2017. Stewardship activities are a core element of our asset management business. The sophistication of such activities enhances the medium- to long-term corporate value of investee companies, supporting the fulfillment of our social

responsibilities as a responsible institutional investor. The Stewardship Development Department conducts planning, public relations and client services in addition to performing a coordinating role for such activities across our entire asset management business. With the Stewardship Development Department now in place, the Bank will further solidify and enhance its sophistication in exercising voting rights on shares it owns and engaging companies, which were until recently managed by the asset management function.

- We believe that it is vital as a fiduciary to improve our stewardship activities, and enhance our corporate governance structure and conflict of interest management. As a "responsible institutional investor" who embraces our stewardship responsibilities, we will periodically review and conduct self-evaluations of our activities and adherence to the Code's principles, consult with the Advisory Committee, and publicly disclose the results of our evaluations in order to promote visibility.

Initiatives Linked to Principle 7

- Improved and expanded engagement content by harnessing MBIS®, our in-house developed method for evaluating non-financial information
- Expanded in April 2017 the ESG items in MBIS®
- Bolstered in August 2017 the ESG knowledge and perception using PRI Academy, an external educational organization

Self-Assessment

- We promote company evaluation using non-financial information (ESG data) rather than relying solely on financial information. We are working so we can evaluate the sustainable growth prospects of the entire organization of companies in a homogenous manner using MBIS®, our in-house developed method for evaluating non-financial information.
- We focus on ESG engagement along with bolstering our ESG-based evaluations by adding ESG items in April 2017 to our MBIS® evaluation process.
- We use, moreover, education program sponsored by PRI Academy as a way to further reinforce the ESG knowledge and perception of directors, officers and employees involved in our asset management business.
- We will continuously implement activities aimed at bolstering our engagement capabilities across our entire organization, including further improvements in MBIS®.

4

ESG Investment Initiatives

As a “responsible institutional investor,” we strive to manage stocks and bonds in ways that take into account ESG information as a factor that affects corporate value via medium- to long-term business opportunities and risks, in addition to financial information such as corporate earnings that affects near-term share price trends. We regard stewardship activities such as engaging with companies and exercising voting rights as vital to addressing ESG challenges.

ESG challenges not reflected in financial information are the challenges in non-financial

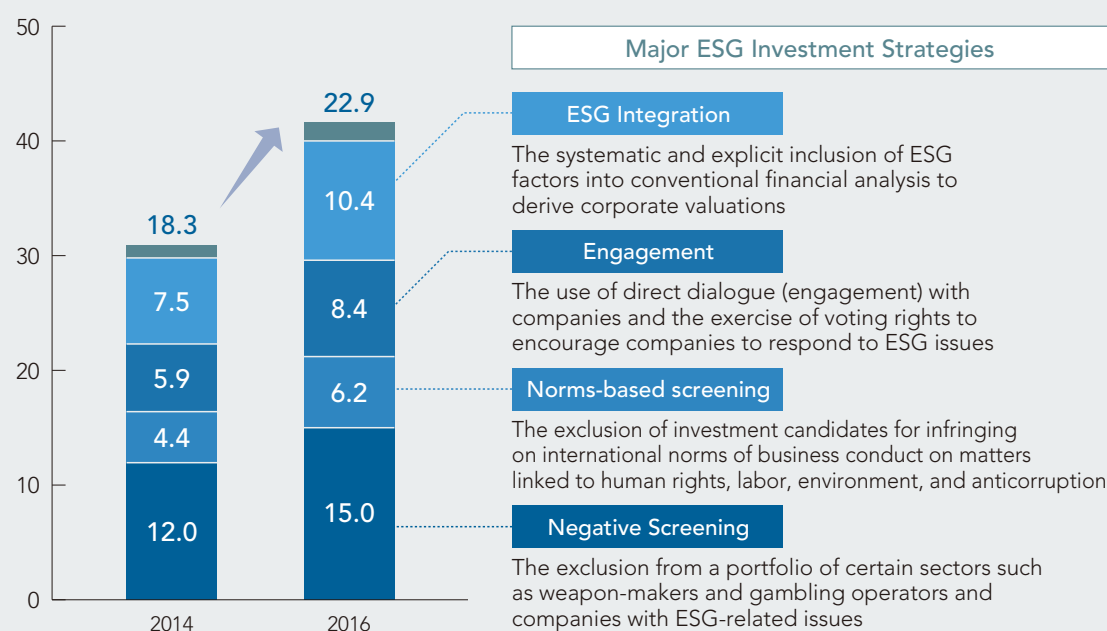
domains, which may give a significant impact on corporate value over time. We believe the Bank's responses to ESG challenges lead to upside potential while limiting downside risk over the medium- and long-term, and actively responding to ESG challenges will enable us to meet our responsibility to expand investment returns for our clients, one of our stewardship responsibilities.

Regarding our initiatives in ESG investment, we report on the status of our response to ESG challenges and the specifics of our activities in the following paragraphs.

1 Global Expansion of ESG Investment

Global ESG Investment by Investment Strategy

(Trillions of Dollar)



Note: Some investment funds use multiple ESG investment strategies concurrently, and so they cannot simply be aggregated.

Source: Prepared by Sumitomo Mitsui Trust Bank based on data in Global Sustainable Investment Review 2016

ESG Investment by Region (Billions of Dollar)

	Europe	U.S.	Canada	Oceania-Asia*1	Japan	Global
2014	10,775	6,572	729	193	7	18,276
2016	12,040	8,723	1,086	568	474	22,890
Growth Rate*2	11.7%	32.7%	49.0%	194.3%	67.71 times	25.2%

*1 Total for Australia, New Zealand and Asia excluding Japan

*2 Growth rate for 2014-2016

Global ESG investment increased to \$22.9 trillion in 2016 from \$18.3 trillion in 2014. Europe is the region where the most assets are managed under ESG strategies. While the scale of ESG investment in Japan is well below that of leading regions, the growth rate has increased vertiginously, and this upward momentum continues to persist into 2017. The scale of ESG investment in Japan grew substantially, standing at 2.4 times when compared to the previous year, according to a 2017 survey by Japan Sustainable Investment Forum (JSIF), and now accounts for 35.0% of total assets

under management.

ESG investment strategies include ESG integration, engagement, norms-based screening, and negative screening. We apply these either singularly for one-strategy funds or in combination for multi-strategy funds in our efforts to integrate ESG factors into asset management. Assets allocated to each of these strategies continue to grow but ESG integration, which combines conventional financial analysis with ESG perspectives, and engagement, which appeals to companies via dialogue to address ESG challenges, are attracting the most attention.

2 Milestones in the Bank's ESG Activities

Amid this rapid global increase in ESG investment, the Bank is actively promoting initiatives on a host of ESG-related issues and advancing activities which contribute to the interests of its clients.

We ramped up our ESG activities in earnest from 2003, when we launched a Japanese equity SRI fund. The Bank has been a signatory to the Principles for Responsible Investment (PRI) since PRI's launch in May 2006. Our PRI initiatives are based on the latest trends, with policies we have

formulated and put into place based on the six PRI principles (see pages 42-43).

In April 2015, as a mechanism for looking carefully at the earnings power of companies, we introduced MBIS®, an in-house developed tool for analyzing and evaluating ESG and other non-financial information. We also launched a "quality growth" Japanese equity fund, which harnesses MBIS® as a driving force of corporate engagement.

Milestones in the Bank's ESG Activities

2003	Launched a Japanese equity SRI fund for corporate pensions, the first of its kind in Japan
2004	Launched a SRI fund for defined contribution pension plans
2006	The Bank became a signatory to the Principles for Responsible Investment (PRI)
2008	Launched a SRI fund with a major public sector mutual aid association
2010	Launched a Chinese equity SRI fund as a publicly offered investment trust
2014	Declared acceptance of Japan's Stewardship Code
2015	Introduced MBIS®, a tool for evaluating non-financial information Launched a "quality growth" Japanese equity fund Started factoring ESG concepts into business risk evaluations for corporate bond management Awarded an Outstanding Prize*1 in 2015 Sustainable Finance Awards*2
2016	Awarded an Outstanding Prize for second consecutive year in 2016 Sustainable Finance Awards*3
2017	Declared acceptance of Japan's revised Stewardship Code and established the Stewardship Activities Advisory Committee and Stewardship Development Department

*1 ESG integration into active domestic equity investment

*2 Research Institute for Environmental Finance (RIEF) selects award recipients for its annual Sustainable Finance Awards program

*3 Global engagement activities based on international norms and rules



4 ESG Investment Initiatives

3 MBIS®: Our Non-financial Information Evaluation Tool

To closely assess the basis for sustainable growth at investee companies, the Bank collects non-financial information (ESG information) that does not often appear in quantitative financial information such as the scale and sustainability of value added from services and products companies supply, their governance systems, which support the provision of added value, and their degree of impact on society and the environment, which are the foundations of sustainable growth. We tabulate this data for analysis and evaluation.

Drawing on these kinds of non-financial information, our in-house developed MBIS® tool is a framework we use to evaluate the strengths companies bring and the challenges

they face in achieving sustainable growth.

M is for "management," B is for "business franchise," I is for "industry," and S is for "strategy." Evaluation of a company's ESG initiatives is included in "M," whereas evaluation of the net contribution to income generation and new business creation from ESG is included in "S."

ESG initiatives are evaluated based on the seven core subjects of ISO26000, an international standard that offers guidance on social responsibility developed by the International Organization for Standardization. Through ISO26000, we strive to ensure ESG initiatives are aligned with Sustainable Development Goals (SDGs).

M	Management	 <p>Items to check (20 items)</p> <ul style="list-style-type: none"> • Strategy execution capabilities • Improvement and reform capabilities • ESG initiatives • Capital and investment efficiency
B	Business Franchise	 <p>Items to check (14 items)</p> <ul style="list-style-type: none"> • Client value • Client base • Barriers to entry
I	Industry	 <p>Items to check (7 items)</p> <ul style="list-style-type: none"> • Market assumptions • Competitive environment • Regulation and public policy
S	Strategy	 <p>Items to check (10 items)</p> <ul style="list-style-type: none"> • Marketing • Business portfolio • Net contribution to income generation from ESG • Investment and M&A, etc.

MBIS® is a tool which our highly experienced analysts in the Investment Research Department provide. MBIS® score is the aggregate of the scores granted for each of M, B, I, and S subjects. Each of M, B, I, and S subjects is based on a comprehensive set of items to check we developed for forming an in-depth understanding of the strengths companies have and the challenges they face. In cases where the score granted reflects an outsized impact from specific items linked to strengths or challenges, it is possible to derive a score based solely on evaluation of those items alone.

The purpose of MBIS® is to enable analysts to form an in-depth understanding of the strengths companies bring and the challenges they face in transitioning to sustainable growth, and it is to ensure analysts do not lose sight of specific items linked to strengths and challenges amid their evaluation of other items.

In order to improve MBIS® we perform appropriateness verifications of MBIS® scores via regular monitoring, as well as regular reviews and updating of MBIS® check items based on discussions with external experts and other consultants.

Application of SDGs in ESG Investment

The Sustainable Development Goals (SDGs) are global goals listed in the 2030 Agenda for Sustainable Development, which were adopted at a United Nations Summit in 2015. The SDGs are derived from the purposes and principles of the UN Charter, including recognition of the importance of international law, for responding directly to ESG challenges on a global scale. SDGs are composed of 17 goals with 169 targets for realizing a sustainable planet.

The SDGs call on all businesses to apply their creativity and innovation to solve sustainable development challenges, and awareness of the SDGs among companies has been growing. The Bank has adopted SDG concepts into MBIS® with the understanding they will facilitate sustainable growth and future business opportunities for companies. With the 17 goals in mind, we are engaging with companies.

ISO26000 (Evaluation based on seven core subjects)

1.The environment (E)

Society (S)

2.Human rights

3.Fair business practices

4.Labor practices

5.Consumer issues

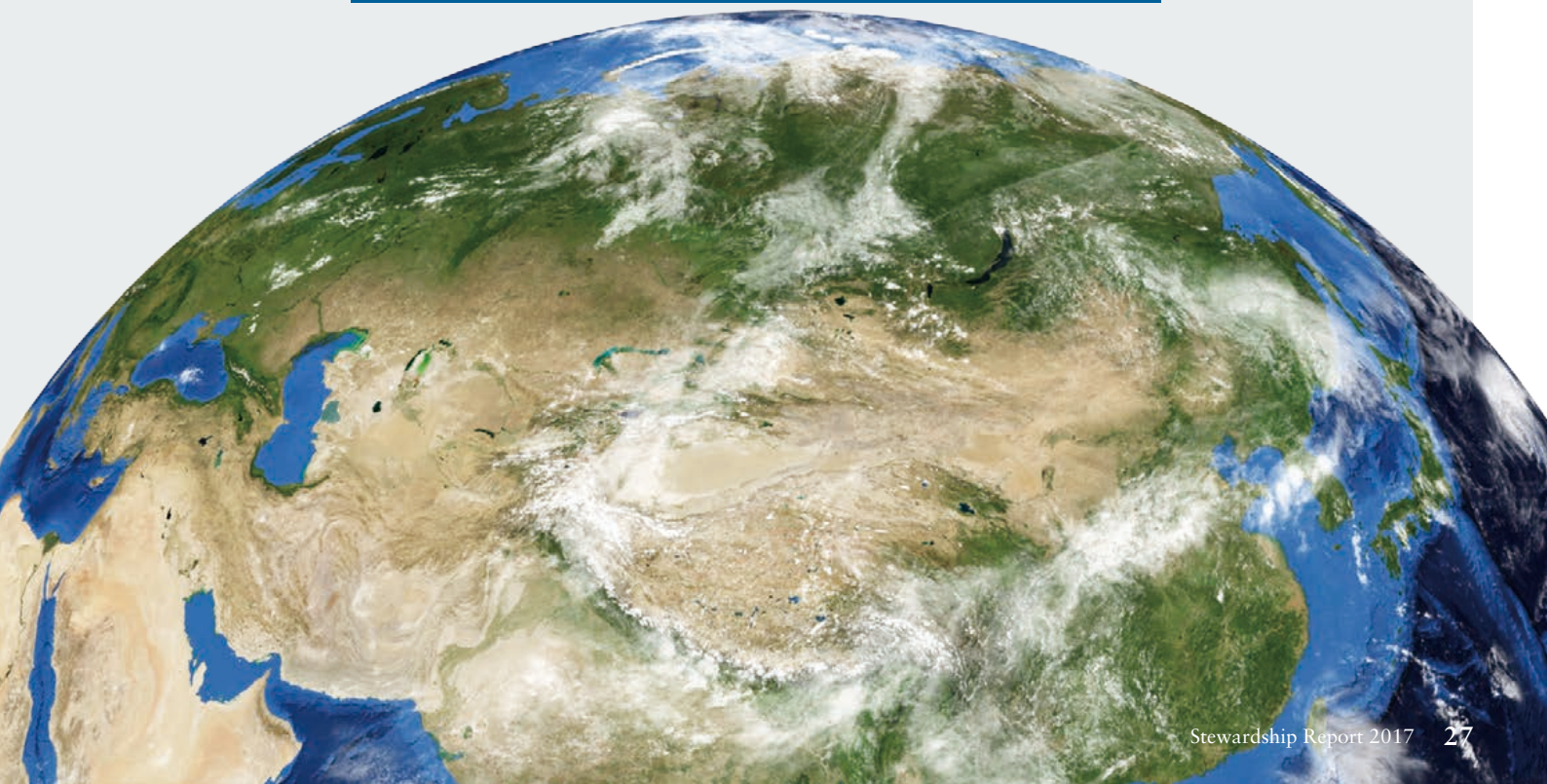
6.Community involvement and development

7.Organizational governance (G)

SUSTAINABLE DEVELOPMENT GOALS
17 GOALS TO TRANSFORM OUR WORLD



Evaluation via ISO26000 subjects also ensures alignment with SDGs



4 ESG Investment Initiatives

4 ESG Integration

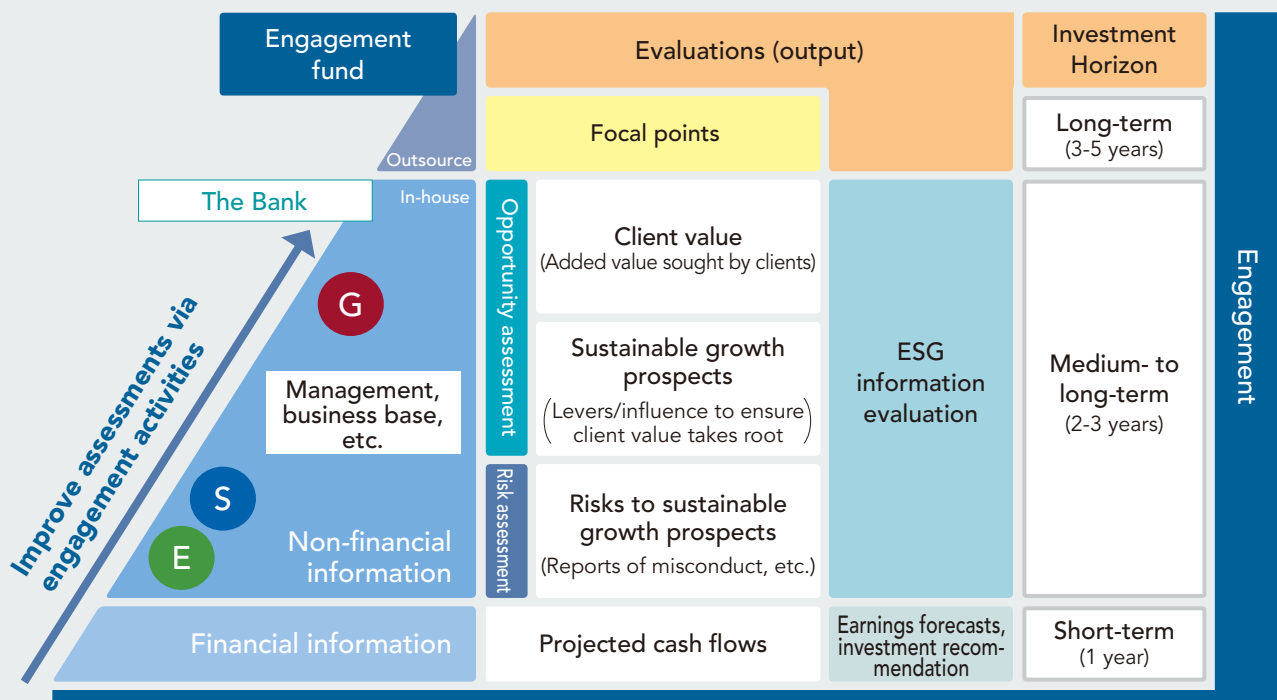
In addition to the normal schedule of financial disclosures released over the fiscal year, we also use ESG information (non-financial information) in our process of evaluating investee companies. While financial information such as earnings reports are important in the short-term in evaluating companies as investments, we think assessments relating to the sustainable growth prospects of investee companies are important in the medium- to long-term.

As a result, with the aim of identifying ways to improve and support sustainable earnings at investee companies, we gather ESG information such as how much value added derives from the products and services of companies and whether this value added is sustainable, and the resilience of their governance systems, which support the provision of added value. We assess this ESG information with MBIS®, our in-house

developed non-financial information evaluation tool and apply our analysis to stock selection as a way to improve active returns on equity investments while reducing downside risk.

This is the Bank's approach to ESG integration. We commenced application of this strategy in 2015, and all our actively managed domestic equity funds now factor in ESG considerations. In addition, some of our actively managed domestic fixed income funds also apply this kind of approach (total assets under management in this category using this strategy stands at about ¥2.4 trillion).

The way ESG ratings are applied differs according to the investment style of each fund. In equity investments, for example, ESG ratings are used for screening in the selection of stock universes, or they can be used to narrow down stocks deemed investable (see pages 29-31 for examples of ESG integration at the Bank).



SRI Fund: Flagship Japanese Equity Responsible Investment Fund

Overview

One of the oldest socially responsible investment funds in Japan, SRI Fund was launched in 2003. With a focus on ESG in selecting investment stocks, the fund takes into account the degree of contribution from ESG to improving financial returns. Its defining features are the knowledge of our SRI fund management team, and its use of basic research performed by the Japan Research Institute (JRI).

JRI, one of the most influential think tanks in Japan, selects “best-in-class” companies as candidates for its SRI universe using a survey it conducts covering 2,000 companies. The evaluation consists of E (environmental), S (social), and G (governance) themes, and since fiscal year 2013, V (Value, or valuation of growth prospects) theme has been added. The V evaluation

links the contribution of ESG initiatives to a company’s earnings.

We exclude companies with high credit risks from the list of SRI universe candidates selected by JRI. A monthly committee, chaired by the General Manager of the Equity Investment Department, decides candidate stocks for our SRI universe. Fund managers evaluate stocks among our SRI universe based on 1) valuation of the growth prospects of prospective investee companies stemming from ESG initiatives, and 2) equity valuation and earnings momentum derived from the earnings forecasts of our Japanese stock analyst teams. The SRI Fund seeks excess returns versus the benchmark TOPIX.

Combining JRI’s Breadth and the Bank’s Stock Selection Capabilities

From among the SRI fund universe the Bank prepares together with JRI, the fund management team at SRI fund selects stocks based on growth prospects from ESG initiatives, equity valuation, and earnings momentum.

Investment Management Processes

JRI Survey

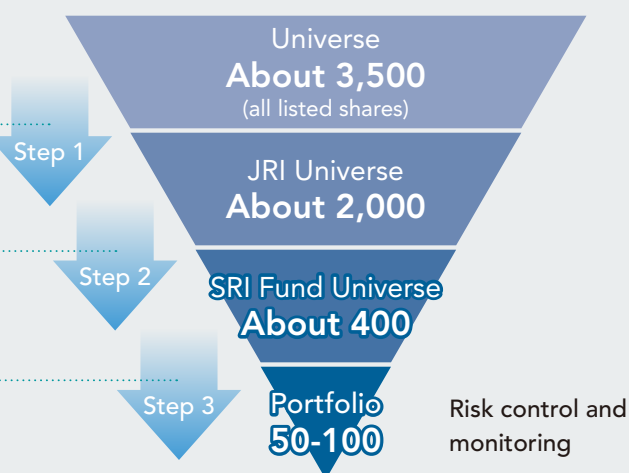
- High-quality ESG survey

Screening

- Survey information
- Credit risk

Portfolio Construction

- ESG evaluation
- Share price valuation



Source: Sumitomo Mitsui Trust Bank, Ltd. (as of October 31, 2017)

4 ESG Investment Initiatives

Quality Growth Japanese Equity Fund (Research, ROE Improvement)

Overview

With a focus on the earnings power of companies, the “quality growth” Japanese equity fund (Japan Quality Growth Fund), which we launched in 2015, holds a portfolio concentrated in stocks expected to achieve sustained ROE improvement based on company analysis using MBIS®, which harnesses non-financial information.

The fund’s approach is focused on business margins, an ROE composition factor, and for stock selection purposes, the fund assesses companies likely to realize earnings growth on the two factors of client value and sustainable growth prospects. ROE improvements that derive from

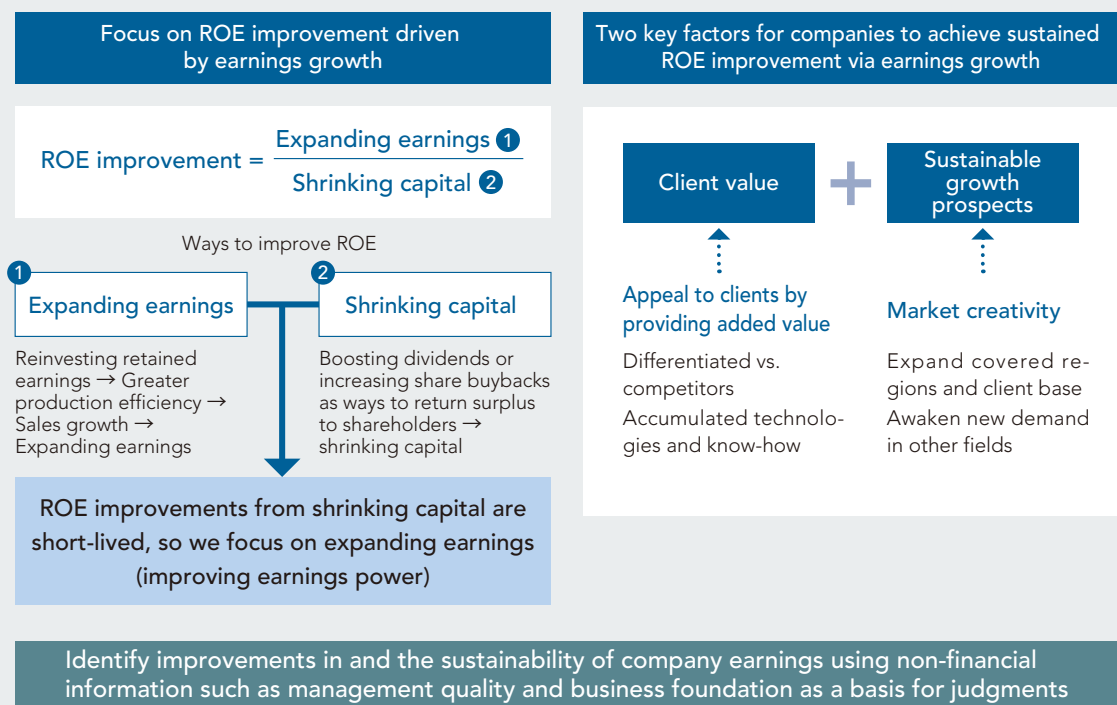
shrinking the capital base are short-lived, so the fund focuses on improvements that come from expanding earnings (improving earnings power).

The share prices of companies with consistently high ROE outperform the market. The fund selects companies where we expect ROE to improve driven by earnings growth from top-line growth.

The fund applies quantitative and qualitative screenings on stocks in our analyst coverage in an investment process designed to enable our fund managers to ultimately construct a portfolio of 20-50 stocks.

Focus on Sustained ROE Improvement

Based on company analysis using non-financial information, the “quality growth” Japanese equity fund holds a portfolio concentrated in stocks expected to achieve sustained ROE improvement.



Fixed Income Investment and ESG Integration

In our process of selecting corporate bonds for investment, we apply our internal ratings to form our own judgments about creditworthiness in evaluating the creditworthiness of relevant companies.

Our internal ratings determine creditworthiness based on a quantitative model that focuses on scale, financial composition, earnings power, and repayment capacity, which has high

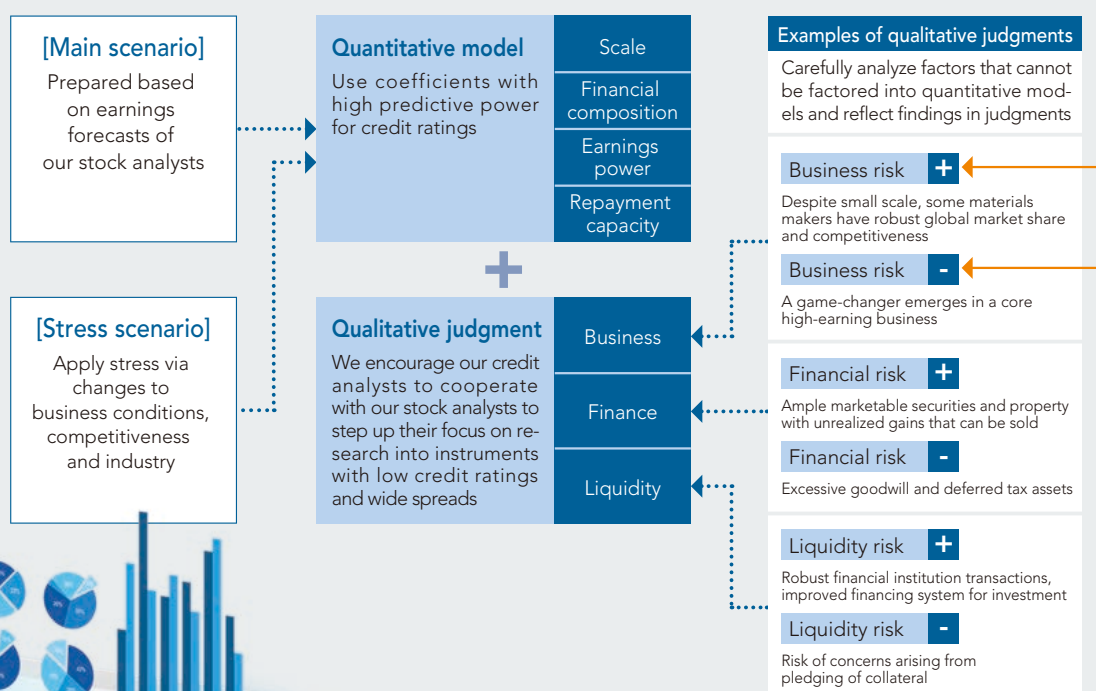
predictive power for credit ratings. In addition, we add a qualitative judgment that addresses concerns our quantitative model cannot.

We strive to implement ESG integration into fixed income investment by embedding ESG concepts into our business risk evaluations, which are an important element in qualitative judgments.

Application of Our Internal Ratings

- We apply our internal ratings (in-house ratings) to form our own judgments about creditworthiness (judgment on reliability of debt repayment), and on this basis, we evaluate the creditworthiness of relevant companies.
- Our internal ratings are based on the signal from our quantitative model, along with a qualitative judgment that addresses concerns our quantitative model cannot.
- Our system enables swift investment action to avert steep price declines in response to top-down changes and news flow and earnings volatility at individual companies by keeping in mind stress scenarios that evaluate downside risk from factors such as business conditions and the competitiveness of individual companies.

Framework for Applying Our Internal Ratings



4 ESG Investment Initiatives

5 Guidelines for ESG Challenges (ESG Guidelines)

Our Guidelines

Institutional investors have an important role to play in putting global ESG challenges into the spotlight and encouraging improvements. One aspect of this role is performing accurate analysis of non-financial information concerning investee companies and identifying ESG challenges and risks that they may face in the future. On this basis, global institutional investors should regard as a vital priority the implementation of activities that encourage companies to improve their responses to such challenges and issues.

As a “responsible institutional investor” that

embraces Japan’s Stewardship Code and a signatory to the Principles for Responsible Investment (PRI), the Bank actively seeks to work with investee companies on ESG challenges via engagement and the exercise of voting rights. Through efforts to promote solutions to challenges and issues, we aim to facilitate sustainable growth for companies and society as a whole.

Based on this viewpoint, the Bank has formulated the following ESG guidelines. Our guidelines respect the basic framework that has been ratified internationally and are based on the principles in the UN Global Compact (shared recognition).

Full Text of the Bank’s ESG Guidelines

(Environment)

Companies are expected to be responsible for the impacts of their products and activities on the environment in the following ways:

- 1) Comply with all environmental laws and regulations; and
- 2) Minimize impacts on the environment.

The Bank expects companies to clearly articulate to shareholders their policies and guidelines for fulfilling the obligations that derive from their responsibilities for the impacts on the environment. The Bank expects companies to prevent or minimize environmental impacts and strive to develop and disseminate technologies that encourage environmental preservation.

(Social and Labor)

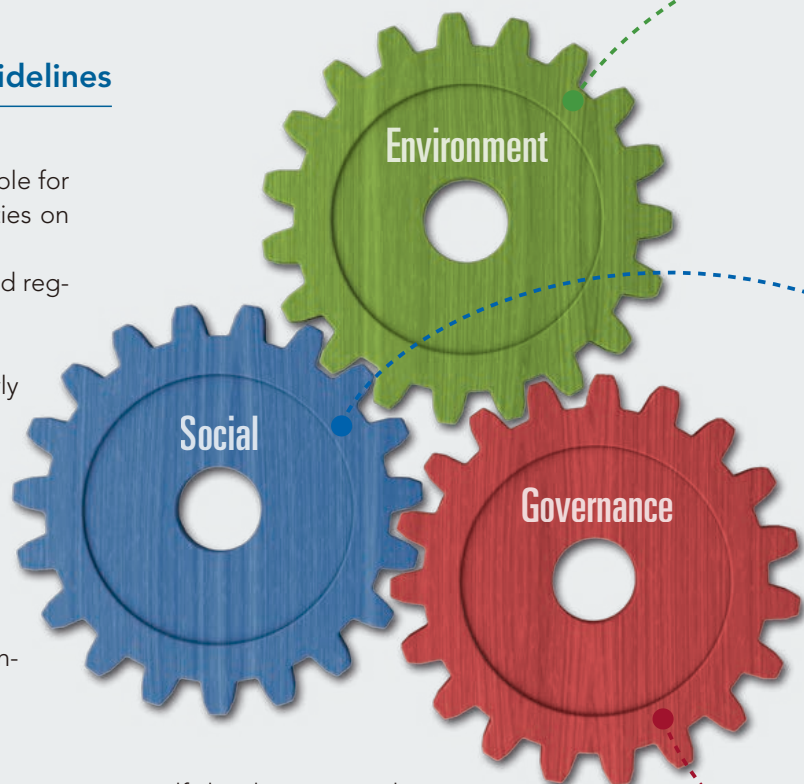
Companies are expected to adhere to international labor rights and create safe and sound work environments in the following ways:

- 1) Adhere to all labor laws and regulations;
- 2) Ensure proper procedures are followed to maintain sound labor standards;
- 3) Prescribe health and safety management methods and make sure they are adopted into practice;
- 4) Provide employment opportunities to employees in ways that are fair;
- 5) Prepare plans and policies relating to

self-development and training;

- 6) Recruit highly capable employees and encourage them to follow the policies and direction the company sets; and
- 7) Adopt measures to ensure internationally recognized human rights are not violated, and establish guidelines on order placement and suppliers for countries where the risk of human rights violations is high.

The Bank does not tolerate human rights violations by companies. Companies are expected to observe to international labor



standards and provide safe and sound work environments for their employees. In particular, we think it is important for companies to prohibit discrimination in employment, prohibit child labor, eradicate forced labor, and ensure the collective bargaining rights of labor.

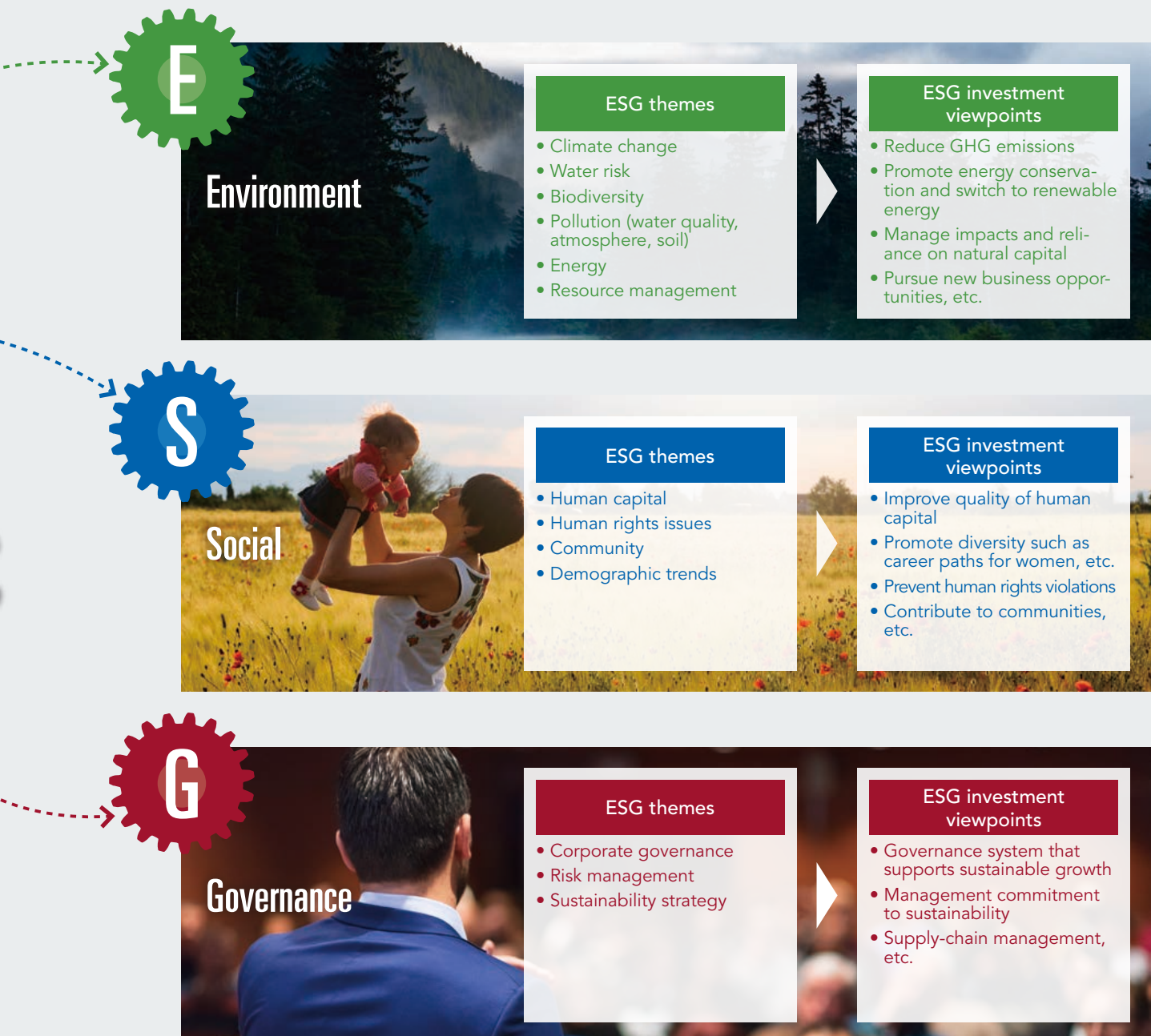
(Governance)

Companies are not only expected to fulfill their obligation to avoid corruption such as bribery and extortion but they are also expected to embrace their responsibility to establish policies and specific programs to address and

prevent corruption in the following ways:

- 1) endeavor to prevent all forms of corruption, including bribery and extortion; and
- 2) uphold business ethics and observe internationally accepted norms of morals, and work to ensure their image and reputation are not harmed.

The Bank expects companies to prevent corruption and adhere to business ethics, and with regards to corporate activities, it expects the Board of Directors to set the direction and monitor compliance with anti-corruption efforts.



4 ESG Investment Initiatives

6 ESG Engagement around the World

Based on our aforementioned ESG guidelines, the Bank conducts a variety of engagements on ESG challenges with companies around the world.

In Japan, our highly experienced research analysts and the specialists in the Stewardship Development Department conduct their own engagements with companies, and we also intend to make effective use of collective engagement through the Institutional Investors Collective Engagement Forum (IICEF) to encourage investee companies to improve their response to ESG challenges.

Overseas, we have specialists who conduct their own engagements, and the Bank also carries out initiatives harnessing a variety of international frameworks.

In particular, we engage on three fronts 1) activities based on PRI, etc., 2) activities to address misconduct, etc. based on international norms, and 3) activities that call for building high-quality corporate governance structures and efficient corporate management. We participate actively in such activities, working to effectively and efficiently limit the risks facing companies in their exposures to ESG challenges by accepting, for example, the role of lead manager for working groups in some international frameworks.

In following paragraphs, we report on our ESG engagements across the world while also focusing on points that are in the spotlight internationally.



Concept of Climate Change

Action 1

Paris Agreement

Of the many risks relating to the environment and society facing the world, climate change is a vital challenge confronting international society that permits no delay. While the international community has put forward many frameworks to address this challenge, in December 2015, the Paris Agreement was adopted, establishing for signatories a framework on climate change with goals for addressing global warming.

Action 2

Final TCFD Recommendations Report on Climate-related Financial Disclosures

In response to the above, the Financial Stability Board (FSB), a global body of world's financial authorities formed the Task Force on Climate-related Financial Disclosures (TCFD) to study what information disclosures investors, lenders, and insurers require and how to make visible the financial impacts of climate change on financial markets. In June 2017, TCFD released its final recommendations report as guidelines for climate-related financial disclosures. With this, financial institutions will face calls to monitor emissions from investee companies and projects with versatility, disclose climate-related information, and avoid and reduce their climate-related risk exposures.



Climate Change and Engagement

The Bank conducts engagements, calling on companies to disclose information on climate change challenges and assess climate-related risks. The Bank calls on energy companies and electricity utilities, where climate change is expected to have large impacts on shareholder value, to make disclosures on governance, strategy, risk management, and risks and opportunities required by the aforementioned TCFD.

In Japan, since 2016, the Bank has conducted 18 engagements with companies in the electric power, materials, and machinery sectors, which are large CO₂ emitters. Overseas, in 2017, the Bank, for example, voted for shareholder proposals that called on U.S.-based Exxon Mobil to disclose information related to climate change at the time of year when institutional investors

exercise proxy voting rights, and the Bank also carried out activities urging Anadarko Petroleum, a U.S.-based petroleum and natural gas exploration and production company, to disclose information related to climate change.

Promotes Disclosures on Water Risk and Forest Resources-related Information at Investee Companies via CDP Participation

Carbon Disclosure Project (CDP) is an international non-governmental organization (NGO) that enables institutional investors to coordinate their efforts to call on companies to disclose environmental information such as their climate change strategies. CDP started out focused mainly on climate change but has since added water risk and forest resources as new themes, and these three themes are now the primary domains of its activities. In CDP's 2017 survey, of the 1,461 companies to which it sent questionnaires on water risk, 764 companies responded, and of the 838 companies to which it sent questionnaires on forest resources, 211 companies responded. While response rates remain low, they are gradually increasing.

The Bank participates in CDP, and uses information CDP discloses in its ESG engagements and asset management processes. Through working groups on palm oil and water risk of PRI in which the Bank is a member, we strive to promote engagement on these issues with investee companies based on CDP survey results.

Participation in Climate Action 100+

The Bank has become a member of Climate Action 100+, a five-year initiative that commenced in December 2017 to urge companies through a joint-engagement effort to reduce greenhouse gas emissions. This initiative is based on TCFD, brings together partner organizations such as PRI and CERES in a collaborative engagement effort with the listed world's top 100 greenhouse gas emitters, requiring climate-related information disclosure. Responsible for the Asia-Pacific region, the Bank is engaging with Japanese companies in this effort.

Examples of Engagement with Large CO₂ Emitters in Japan

Sector	No of engagements	Engagement content
Electricity and gas	8	Confirmed initiatives policies to reduce CO ₂ emissions at power utilities with high dependence on coal-fired power generation
Materials	6	Requested disclosure improvement of environment-related information such as CO ₂ emission and reduction status to those companies like steelmakers, cement makers, and paper mills
Machinery	4	Confirmed medium-term risk recognition about company-owned coal-fired power generators and coal businesses of overseas acquisitions



Water Risk

764
companies responded



Forest Resources

211
companies responded

4 ESG Investment Initiatives



Natural Capital and Engagement

Natural capital is one of the six capitals on which legal corporations and other organizations depend in creating value. In the abstract, natural capital is defined as all the renewable and non-renewable environmental resources and processes that enable the provision of goods and services that are the basis of the past, present, and future success of organizations. In concrete terms, natural capital as a concept includes air, water, soil, mineable minerals, forests, biodiversity, and healthy ecosystems.

Human life is made up of natural capital and the ecosystem services it provides. We thus feel wise use of natural resources which make up natural capital over the long run goes beyond mere environmental conservation. It extends to putting communities on a solid social foundation to enable sustainable economic development. In contrast, like the impacts arising from climate change, the destruction of natural capital results in negative external economy effects.

The Bank urges investee companies in its engagement to devise policies and guidelines on the state of their natural capital use and risks, including supply chains, and asks them to control risks from a long-term perspective.



Engagement based on International Norms and Rules

For corporate conduct we determine is in need of correction in light of international norms such as the UN Global Compact and the OECD Guidelines for Multinational Enterprises, the Bank collaborates with the responsible investment team at ISS-Ethix* to engage with investee companies in a discussion toward resolving such issues and verifying their implementation of counter-measures. This investment strategy is aimed at unlocking and increasing latent value by resolving problems at investee companies. We seek to promote progress based on the view that the global stock market is a microcosm of the international community (see Cases A, B, and C).

*Institutional Shareholder Services Inc., a leader in proxy voting advisory services, acquired Sweden-based Ethix SRI Advisors and renamed it ISS-Ethix, to provide ESG-related advisory services.

Case A

Genting (Head office is in Malaysia)

Dialogue overview Genting Plantations (GP), a subsidiary of Genting Berhad, owns palm oil plantations in Malaysia where water pollution concerns surfaced. People living in local communities brought up the issue to the Roundtable on Sustainable Palm Oil (RSPO). While working to confirm evidence relating to the case, we conducted hearings on the state of initiatives aimed at improving the situation at relevant sites.

The investee company reaction Genting Plantations acknowledged its sites did not satisfy the principles and criteria for sustainable palm oil production and so it carried out an environmental assessment aimed at ameliorating the issues raised. The Bank was informed that Genting had reached an agreement on its future guidelines with local communities, and with RSPO as a relevant party.



Case B

BHP Billiton (Head office is in Australia)

Dialogue overview Samarco Mineração S.A., a 50/50 joint venture between Australia's BHP Billiton Ltd. and Brazil's Vale S.A., operates the Samarco iron ore mine in Brazil, where at least 11 people died as a result of the collapse of a tailings dam. Samarco has rebuilt the tailings dam but Brazil's federal environment agency IBAMA continues to question whether the tailings dam has been adequately reinforced. While Samarco has disclosed information about the environmental impact caused by the dam's bursting, it has not disclosed its findings on the causes of the dam's collapse nor whether it had adequate preventive measures in place, therefore, a hearing has been convened on the state of initiatives aimed at improving relevant sites.



The investee company reaction The Bank received from BHP Billiton a report on the cleanup of environmentally damaged sites prepared by Fundacao Renova, a foundation established with the aim of restoring sites harmed by the collapsed dam.

Post-dialogue actions While the Fundacao Renova report confirms some progress has been made in environmental recovery work, the Bank has mentioned there might be problems in how BHP Billiton responded to the environmental disaster as it did not prepare the report. In addition, the Bank also urges BHP Billiton to remain responsive to the concerns raised by regulator IBAMA, as BHP Billiton's response to matters raised remains incomplete.

Case C

Engaging Palm Oil Companies

Widely used in industrial goods and everyday consumer products, palm oil is refined from oil derived from oil palm trees grown in plantations. Demand for palm oil is surging owing to its ease of use and the growing preference for health products but reckless plantation development is contributing to tropical rainforest destruction and biodiversity loss. The Bank asks major palm oil companies such as Malaysia's Sime Darby Berhad to refrain from development on high conservation value (HCV) forests, high carbon stock (HCS) forests,

and peat land, abstain from clearing forested land using slash-and-burn method to prepare sites for development, ban practices that exploit indigenous or aboriginal peoples or laborers, reduce greenhouse gas emissions at existing plantations in a phased manner, comply with local and relevant overseas laws and regulations, and adopt best practices.



4 ESG Investment Initiatives



Engagement on Social Issues and Human Rights

With corporate activities growing on a global scale, markets are making the issues facing an increasingly borderless international community more complicated, and so how companies are run has multiple impacts. In step with the globalization of business, companies are facing increasing pressure to address social issues and human rights beyond the workplace, where they have focused to date, to encompass concerns such as

human rights issues in their supply chains and the rights of local communities. As an international community-led initiative, the UN Human Rights Council endorsed the UN Guiding Principles on Business and Human Rights in 2011, setting expectations for how companies ought to think about their involvement in addressing the impact of businesses on human rights.

The Group's Policy on Initiatives involving Human Rights

Under the "Basic Policy on the Social Responsibility of Sumitomo Mitsui Trust Group (Sustainability Policy)," the Group respects the values of diversity and human rights for individuals in all its corporate activities and rejects unjustifiable acts of discrimination in all its activities. To ensure the execution of the aforementioned basic policy, the Group formulated in December 2013 its human rights policy, which serves as a standard for acts and judgments concerning human rights.

Based on the aforementioned policy, the Bank not only seeks to steer clear of activities and cases in its corporate endeavors that directly raise concerns about human rights violations, social issues, and inhuman conduct but also strives to avoid risk in its supply chain, and thus seeks compliance with related laws, regulations and standards (see Case D).

Case D

Engaging Companies Involved with Anti-personnel Mines and Cluster Bombs

The issues of anti-personnel mines and cluster bombs are being addressed on an international level and from a humanitarian viewpoint. These weapons undermine peace and stability, and disrupt recovery and development in affected regions. To avoid aiding companies involved in such businesses, an effort by the global financial industry to end their access to financial services such as loans and investment banking services and end investment in their stocks and bonds is gathering steam as a way to discourage production of these weapons.

The Bank actively engages with companies* producing cluster bombs to urge them to stop production, and it publicizes its actions. For example, the Bank continued to engage with Textron, a U.S.-based manufacturer of cluster bombs to urge it to stop production, and after Singapore Technologies Engineering declared its intent to exit this business in November 2015, Textron also declared its withdrawal in August 2016. A Dutch NGO maintains a list* of financial institutions that ban loans and investment in businesses involved in cluster munitions, and in recognition of our efforts, the Bank was included in the runners-up list (46 companies)* as the only domestic financial institution to make the cut.

*We reference the aforementioned list of companies maintained by Dutch NGO PAX CHRISTI in a report series entitled "Worldwide Investments in Cluster Munitions: a shared responsibility."

Engagement relating to Diversity Initiatives

Companies that are active globally need to work to bolster their competitiveness by recruiting and harnessing capable people regardless of their ethnicity or gender. In corporate governance, this trend can be seen in many nations in membership diversity on corporate boards, and increasingly there are calls around the world for companies to promote diversity on their boards. In concert with this trend and relevant laws, regulations and norms, the Bank has strengthened engagement initiatives globally to promote diversity, with a particular focus on appointing female directors to boards.

In countries such as France, the Netherlands, and Norway where there are clear laws, regulations and norms^{*1} on gender diversity quotas, the Bank confirms progress toward target ratios for female representation on company boards through materials such as disclosure reports and materials prepared for general shareholders meetings. In France, quotas aim that at least 40% of board members to be female by 2017 against a ratio of 34.4% as of 2016^{*2}.

In contrast, normative frameworks are not in place in the United Kingdom and United States,

so this kind of efforts relies on voluntary initiatives such as organizations that promote new initiatives at companies to boost female representation on boards. In the United Kingdom, the "30% Club" promotes gender diversity on boards, and in nine countries led by the United States, the "Thirty Percent Coalition" does the same. The 30% Club was launched in 2010 with the aim of increasing female representation on the boards of FTSE100^{*3} companies to at least 30%. Founded after the 30% Club, the Thirty Percent Coalition is committed to promoting female empowerment in the workplace, including the goal of increasing female representation on company boards to 30%.

The Bank became a signatory to these two initiatives in February 2017. Through these activities, we conducted a total of six engagements from April to September 2017. The Bank plans to further increase its activities in this field in the years to come.

^{*1} Nations that make attaining quotas for female board appointments (or efforts) mandatory.

^{*2} European Women on Boards, Gender Diversity on European Boards, 2016

^{*3} FTSE100 Index is seen as representative of large-cap companies listed on the London Stock Exchange.



4 ESG Investment Initiatives

7 Participation and Activities based on Global Guidelines for Corporate Conduct, etc.

As a signatory to international guidelines for corporate conduct and principles, the Bank engages with investee companies while cooperating with the United Nations, other overseas companies, NGOs, and other organizations as it implements activities in keeping with its signatory commitments.

Global Collaboration Framework

1 Signatory to Principles for Responsible Investment (PRI)

The Bank became a signatory to the UN-supported Principles for Responsible Investment (PRI) in May 2006 when it was established as a spin-off from the UN Global Compact and United Nations Environment Programme Finance Initiative (UNEP FI). These principles encourage institutional investors such as pension funds and asset managers to incorporate environmental, social, and governance (ESG) factors into investment decision-making processes.

In 2016, in addition to the water risk working group, we participated in the palm oil working group and have been engaging with investee companies on the issues.

2 Signatory to United Nations Global Compact (UN Global Compact)

The UN Global Compact, proposed by former UN Secretary-General Kofi Annan, is a code of conduct regarding human rights, labor, the environment, and anti-corruption. Signatory companies are called on to take measures to implement the compact. In July 2005, the Group signed the compact, becoming the first Japanese bank to do so, and declared its resolve to act as a good corporate citizen by complying with and promoting the compact. The Group also became a member of the Global Compact Network Japan (GCNJ), in which signatory companies of the UN Global Compact participate.

3 Signatory to CERES

Coalition for Environmentally Responsible Economies (CERES) is an NGO promoting corporate initiatives relating to environmental issues such as global warming. CERES actively advances collaborative engagement in the investors' network where 150 institutional investors participate mainly from North America.

4 Participant in CDP

CDP, formerly the carbon disclosure project, is an international NGO that was founded in 2000 to address environmental issues such as climate change. CDP sends questionnaires every year to listed companies that are market capitalization leaders in major countries, and the response rate of companies has gradually increased over the years. As a general rule, the data in the questionnaires CDP receives from companies go public. CDP also publicizes globally a letter grade for corporate respondents based on scores for their initiatives toward disclosures and actions related to environmental impacts. This letter grade is becoming a key indicator in measuring corporate value.

5 Signatory to Thirty Percent Coalition (U.S.) and 30% Club (U.K.)

These investor networks promote greater diversity on the boards of directors at listed companies. A signatory both to the US-based Thirty Percent Coalition and the UK-based 30% Club, the Bank urges investee companies to promote diversity.



Active Involvement in Principles for Responsible Investment (PRI)

Principles for Responsible Investment (PRI), developed in a process convened by the United Nations (UN), encourages institutional investors to incorporate environmental, social, and governance (ESG) factors into investment decision-making processes. Since the Bank became a signatory to PRI in May 2006, it has devised policies in accordance with the six principles and implemented initiatives based on the latest PRI-linked trends. The PRI assessment team evaluates reports from signatories on their commitments relating to the six principles and progress in meeting them on a scale ranging from A+ (the highest possible score) to E (the lowest). As shown in the table below, the Bank received an A+ for a third successive year for the comprehensive assessment category, while receiving favorable scores on the whole. We will strive to improve our score in areas such as ESG integration into fixed-income investment.

The Bank's Annual Assessment by PRI

		2017
Overall Approach to PRI (comprehensive assessment)		A+
Listed Equity—PRI Incorporation		A+
Listed Equity—Active Ownership		A
	Engagement	A+
	Proxy voting rights	B
Fixed Income—PRI Incorporation		C
	Government bonds	C
	Corporate bonds	B



4 ESG Investment Initiatives

8 Guidelines for Applying Principles for Responsible Investment (PRI)

Principles for Responsible Investment (PRI) calls on institutional investors such as global pension funds and asset managers as well as related organizations to incorporate environmental, social, and governance (ESG) factors into investment decision-making processes. PRI and what it represents has grown in importance from when it launched in April 2006 with 100 original signatory institutions representing collective assets under management of US\$6.5 trillion to 1,830 institutions as of October 2017 with collective assets under management of about US\$70 trillion.

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

The Bank analyzes and evaluates non-financial information such as management thoroughness, strategy execution capabilities and capacity for reform with the aim of identifying improvements in or maintenance of sustainable corporate value at investee companies.

- Specifically, the Bank aims to reduce investment risk and identify investment opportunities through active engagement regardless of investment strategy, whether passive or active, or investment destination, whether foreign or domestic, by using its in-house developed MBIS® evaluation tool for analyzing investment risk and opportunities.

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

The Bank engages in ways that integrate ESG issues and exercises voting rights; through these activities, it encourages suitable initiatives that are responsive to ESG issues at investee companies.

- With regards to ESG issues, the Bank encourages investee companies to address issues by presenting future targets through engagement. In cases where no plan nor path toward a desirable solution is apparent, we will give expression to our position or opinion through the exercise of voting rights after a specified period of time has elapsed.

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

The Bank seeks appropriate disclosure on ESG issues at investee companies.

- The Bank seeks disclosure from investee companies on risks and ESG challenges involved in external factors such as climate change and water risk.

Principle 4

We will promote acceptance and implementation of the principles within the asset management industry.

The Bank actively promotes engagement and awareness-raising with investee companies so these principles gain acceptance and are implemented in the asset management industry.

- The Bank actively conducts activities to raise ESG awareness by harnessing its experience as a founding PRI member, and in the PRI Japan network, it plays a leadership role. The Bank also raises awareness about ESG challenges by participating in seminars sponsored by various industry bodies and media-sponsored conferences such as RI Asia as a presenter or panelist.

Principle 5

We will work together to enhance our effectiveness in implementing the principles.

The Bank collaborates with investment institutions in Japan and overseas through participation in PRI-sponsored working groups and involvement in signatory groups established with the aim of resolving ESG issues to improve effectiveness in implementing the principles.

- The Bank is actively involved in PRI-sponsored working groups and plays leadership roles.

Principle 6

We will report on our activities and progress towards implementing the principles.

The Bank implements these principles; prepares and issues reports that meet the requirements for signatories to disclose their activities and progress towards implementing them.

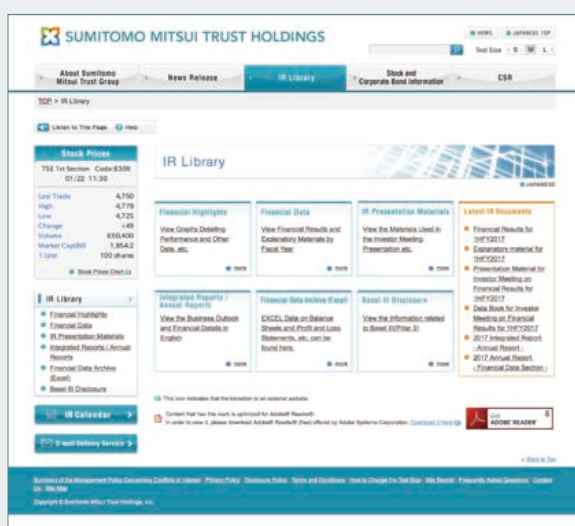




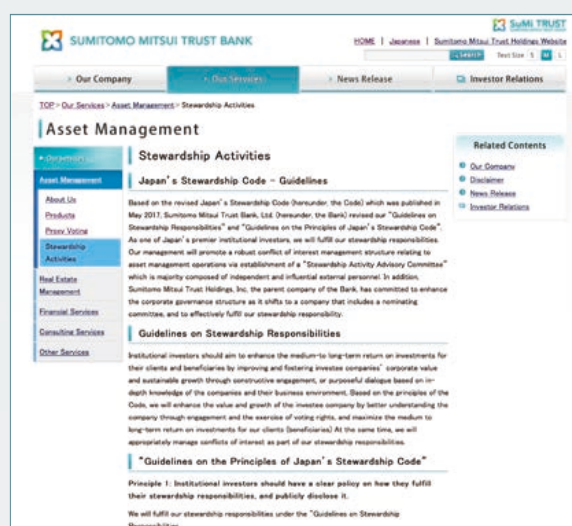
Web

Website

For more specifics, please visit our website.



About the Sumitomo Mitsui Trust Group
<http://smth.jp/en/ir/index.html>



About Stewardship Activities
<http://www.smtb.jp/tools/english/asset/stewardship.html>



Contact

Sumitomo Mitsui Trust Bank, Limited

Stewardship Development Department (e-mail: stewardship@smtb.jp)

Please direct inquiries regarding matters in this report to the e-mail address above.



SUMITOMO MITSUI TRUST BANK

