



**Progress Report of Sumitomo Mitsui Trust Holdings, Inc.
2017/2018
On the Leadership Declaration of the
'Biodiversity in Good Company' Initiative**

Leadership Declaration

All signatory companies acknowledge and support the three objectives of the international "Convention on Biological Diversity":

- Conservation of biological diversity
- Sustainable use of its components
- Fair and equitable sharing of the benefits that arise out of the utilization of genetic resources.

and commit themselves to:

1. Analyzing corporate activities with regard to their impacts on biological diversity;
2. Including the protection of biological diversity within their environmental management system;
3. Appointing a responsible individual within the company to steer all activities in the biodiversity sector and report to the Management Board;
4. Defining realistic, measurable objectives that are monitored and adjusted every two to three years;
5. Publishing activities and achievements in the biodiversity sector in the company's annual, environmental, and/or corporate social responsibility report;
6. Informing suppliers about the company's biodiversity objectives and integrating suppliers accordingly and step by step;
7. Exploring the potential for cooperation with scientific institutions, non-governmental organizations (NGOs) and/or governmental institutions with the aim of deepening dialogue and continuously improving the corporate management system vis-à-vis the biodiversity domain.

To demonstrate ongoing commitment, member companies will provide the Initiative with a progress report every two years.



Sumitomo Mitsui Trust Holdings publishes an ESG Report. In addition, it offers an extra feature booklet especially dedicated to natural capital, which is unique and underlines how much weight the bank gives to this issue. The Progress Report on the Leadership Declaration addresses the seven points of the Leadership Declaration and refers to detailed information contained in the two reports:

ESG Report 2018/2019: <https://www.smth.jp/en/csr/report/2018/all.pdf>

ESG report 2018/2019 – Natural Capital: <https://www.smth.jp/en/csr/report/2018/NC-E-all.pdf>

Declaration	Status of Initiatives for 2017 and 2018
1. Analyzing corporate activities with regard to their impacts on biological diversity	<p>Our main influence on biodiversity and natural capital on the whole is indirect through our products and services.</p> <ul style="list-style-type: none"> ● We continued to provide investment trusts (please refer to ESG report 2018/2019 – Natural Capital p.11) that assess impact on biodiversity and loan products (please refer to ESG report 2018/2019 – Natural Capital p. 9-10) that include impact on natural capital in their assessment criteria. ● We are aware that financing large-scale projects such as mine development, oil and gas development, power plants, petrochemical plants and infrastructure development may indirectly have an adverse effect on natural capital. We also believe it is the responsibility of a sound financial institution to avert or mitigate risks of deterioration in loan receivables due to project suspensions as a result of environmental or social problems. From this point of view, we integrated the use of the Equator Principles, guidelines for private-sector financial institutions, into our decision-making processes for loans in project finance and related fields as a risk management tool in February 2016.
2. Including the protection of biological diversity within their environmental management system	<ul style="list-style-type: none"> ● Regarding biodiversity, we formulated the following policy in 2011 and set this as the standard for activities. <ul style="list-style-type: none"> “Sumitomo Mitsui Trust Holdings Action Guidelines for Preserving Biodiversity” 1. Implementing Measures and Providing Support for Biodiversity Preservation <ul style="list-style-type: none"> We will strive to actively protect rare and native species. In our role as a corporate citizen, we will work to support activities for the preservation of biodiversity.



	<p>2. Providing Products and Services We will endeavor to develop and provide products and services that contribute to the preservation of biodiversity, by conducting appropriate economic and social evaluations of the ecosystem and encouraging the sustainable use of living resources through our financial functions.</p> <p>3. Collaboration with Stakeholders We will engage in dialogue and cooperation with our stakeholders while working to preserve biodiversity.</p> <p>4. Education and Training We will ensure thorough implementation of these action guidelines at all Group companies and will work to provide education and training aimed at the preservation of biodiversity.</p> <p>5. Information Disclosure We will actively disclose information about our efforts to preserve biodiversity.</p> <ul style="list-style-type: none"> ● We became a signatory to the Natural Capital Declaration (NCD) proposed by the United Nations Environment Programme Finance Initiative (UNEP FI) at the United Nations Conference on Sustainable Development “Rio+20” held in Rio de Janeiro in June 2012. We are the only financial institution in Japan to have signed the declaration when it originally promulgated. The initiatives of NCD signatories have been expanded through NCD’s reorganization into Natural Capital Finance Alliance (NCFA). In this commitment, the most important thing for us is the development of financial products and services related to natural capital. ● In 2018, we linked our efforts on natural capital with SDGs (Sustainable Development Goals). The goals we seek to solve are SDGs 14, 15, 2, 6, 7, 13 (especially 14, 15). In order to achieve this goal, we decided what was Challenges and what would be done for it. <p><u>Challenges for Achieving the Goals</u></p> <ul style="list-style-type: none"> ✓ Deepening understanding of the importance of natural capital ✓ Establishing approaches for tracking companies’ dependence and impact on natural capital ✓ Visualization of natural capital risks that lead to damaging corporate value ✓ Expanding financial transactions that contribute to solving companies’ challenges related to natural capital <p><u>Initiatives for Solving the Challenges</u></p> <ul style="list-style-type: none"> ✓ Appeal the concept and importance of natural capital through various opportunities, such as proposals and seminars for clients. ✓ Contribute to establishing methodologies for appropriately managing dependence and impacts on natural capital,
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	<p>such as natural capital protocols.</p> <ul style="list-style-type: none"> ✓ Identify natural capital risks that have serious impacts on the continuation of overseas procurement, businesses, and projects, and incorporate them into investment and loan processes from the ESG perspective. ✓ Taking into account that land is the foundation of natural capital in terrestrial ecosystems, strive to restore ecosystems that are suitable for various areas, ranging from mountainous regions to cities, and contribute to the formation of ecological networks. ✓ Promote related businesses, such as increasing sales of Environmental Rating Loans with Evaluation of Natural Capital Preservation and developing the forestry trust.
3. Appointing a responsible individual within the company to steer all activities in the biodiversity sector and report to the Management Board	The Chief Sustainability Officer in the Corporate Planning Department supervises all activities and reports to the Executive Committee.
4. Defining realistic, measurable objectives that are monitored and adjusted every two to three years;	<p>In 2018, we set several KPIs for solving the challenges about natural capital as follows.</p> <ul style="list-style-type: none"> • Appeal through proposals and seminars for clients: At least 20 activities a year • Credit policy related to natural capital: Introduce in fiscal 2018 • Development of forestry trust: Launch product in fiscal 2019
5. Publishing activities and achievements in the biodiversity sector in the company's annual, environmental, and/or corporate social responsibility report	We have published a yearly natural capital feature report since 2013. We disclose our biodiversity initiatives in our ESG report and at various events. (Please refer to ESG report 2018/2019 – Natural Capital.)
6. Informing suppliers about the company's biodiversity objectives and integrating suppliers accordingly and step by step	<ul style="list-style-type: none"> ● We regard destruction of ecosystems and logging in tropical rainforests to supply raw materials for paper as a serious issue and apply our procurement policy regarding illegal logging in tropical rain forests, which has a large detrimental impact on biodiversity, beyond copier paper to a broader range of office supplies. ● Along with other corporate paper users that share our concern and the World Wide Fund for Nature Japan (WWF Japan), we have been participants in the Consortium for Sustainable Paper Use since November 2013. With the aim of



	<p>promoting the spread of sustainable paper use throughout society, member companies share how their initiatives are progressing and ask their suppliers to supply them paper products that are environmentally and socially sound.</p>
<p>7. Exploring the potential for cooperation with scientific institutions, non-governmental organizations (NGOs) and/or governmental institutions with the aim of deepening dialogue and continuously improving the corporate management system vis-à-vis the biodiversity domain</p>	<p>We strengthen our relationships with NGOs focused on tropical rain forests and biodiversity as a part of our approach to risk management.</p> <ul style="list-style-type: none"> ● We've organized the Natural Capital Study Group since April 2013. Its participants come from all walks of life, ranging from companies and national and local governments to academics, research institutions, and NGOs. In an environment welcoming to open inquiry, participants have so far engaged in a series of lively debates on the research topics of various members. In 2015, the key points and findings of these discussions were organized, documented, and published as an introductory book on natural capital with a focus on the challenges for national governments, local authorities, and companies. The book covers a wide range of themes, ranging from the historical context and global trends informing the growing debate on natural capital to the initiatives of financial institutions, companies, and local authorities in applying natural capital concepts. At the 17th meeting co-organized with the Principles for Financial Action for the 21st Century (PFA21) in April 2018, Mr. Mark Gough, Executive Director at the Natural Capital Coalition, a coalition formed with the objective of promoting natural capital, was invited to deliver an address. He spoke on the theme of natural capital and finance, in view of the content of the finance sector supplement to the Natural Capital Protocol that was to be released in the following week. His speech was followed by a lively discussion. ● Engagement with Investee Companies We are an active participant in engagement activities, collaborating with other PRI signatories to address global ESG challenges. In fiscal 2016, we engaged on several fronts such as participating in the PRI-sponsored Collaboration Platform and taking part as a member in PRI working groups in the two thematic areas of water risk and problems involving tropical rainforest development such as palm oil resource development. With the aim of further improving our engagement activities, we have started from fiscal 2016 to engage investee companies that seem unmotivated about change in light of global norms or rules using the specialist services offered by ISS-Ethix, a consultant offering ESG-related advisory services. ● Engagement with 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 foods but reckless plantation development is contributing to tropical rainforest destruction and biodiversity loss. Therefore, Sumitomo Mitsui Trust Asset Management (SMTAM) is actively engaging the companies in



	<p>question. For example, Wilmar is a Singapore-based company that produces palm oil. In March 2018, in a collaborative engagement via the PRI working group, SMTAM confirmed the company's opinion after expressing the view that there is a risk that exports will grind to a halt due to strengthened regulations in Europe, and that to continue production, more active information disclosure should be undertaken involving other companies in the industry.</p>
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