External Directors Panel Discussion

Dialogue with investors through a panel discussion with External Directors

To remain a company that can meet the expectations of stakeholders

On March 4, 2025, a "Panel Discussion with External Directors" was held at the head office of Sumitomo Mitsui Trust Group, to which approximately 60 institutional investors were invited. Three external directors took the stage to discuss enhancing corporate value, corporate governance, and questions raised by investors.

Q Please tell us about changes and recent initiatives that have been implemented to enhance corporate governance.

Kawamoto First, the Board of Directors at SuMiTG has continued discussions based on the underlying principle of enhancing corporate value and fulfilling the expectations of our stakeholders. In that sense, defining the Purpose of SuMi TRUST Group was a significant milestone in the overall process. Defining our starting point enabled us to clarify the basis for our decision-making regarding where to invest, including our human and IT capital.

As the expectations surrounding corporate governance continue to rise each year, our Group, which provides governance consulting services as a business, has long argued that its own board structure should serve as a model for others. I believe that our ongoing, in-depth discussions about becoming a leader in corporate governance, particularly within committees such as the Nominating Committee and the Compensation Committee, are properly reflected in the current composition of our Board of Directors and its committees. In addition, we have actively utilized an improvement cycle based on the evaluations of the effectiveness of the Board of Directors, with the aim of further enhancing the Group management. In this context, we have recently discussed the roles of the Group and its subsidiary SuMiTB. Previously, the Board of Directors faced issues in meeting operations, including excessive meeting documents and prolonged sessions. However, the content and quality of deliberations have improved each year to become more appropriate for a monitoring board. Furthermore, Japan is making a nationwide effort to become an Asset Management Nation. SuMi TRUST Group, together with its asset management companies, is also striving to transform its business model to focus on asset management, and we are continuously discussing how to seize opportunities in this area.

Q What are the key areas of focus and concern for the Board of Directors regarding the Group's business model?

Ito My primary interest lies in the transformation of our current business portfolio. I have frequently commented at Board of Directors' meetings, "Perhaps we should no longer be in the banking business." We would not actually exit the business, but I feel it is necessary to further clarify the focus of our Group. Lending business is important, but it should not be lending for its own sake, but rather lending to support the businesses we want to grow, such as investment advisory, pensions, and asset administration. I used to work at a bank and have experience in lending business, so I understand its importance very well. The problem is that profitability of lending business in Japanese banking industry is low. In my opinion, the returns are insufficient in relation to the risks because tough price competition is occurring due to oversupply, and plain vanilla lending business alone is a low value-added endeavor, unfortunately. In the case of SuMi TRUST Group, it is essential to conduct high value-added lending business and that contribute to areas that we want to strengthen. I am afraid that this point has not been sufficiently conveyed to investors. SuMi TRUST Group has a different business model from other large Japanese banking groups, and a comparison with companies like Bank of New York Mellon, a leading U.S. trust bank, and Pictet, a major Swiss private bank, should be appropriate. The business model we aspire to build is one that is stable and centered on fees and commissions should generate a higher PER and ROE. Although the management has clearly stated this, it seems that it is not fully understood by investors, so I would like to focus on highlighting the business model this year.

Watanabe I am largely of the same opinion as Mr. Ito. SuMiTG has introduced the concept of Assets Under Fiduciary (AUF), which I consider to be an excellent concept. SuMi TRUST Group currently holds AUF worth 600 trillion yen and plans to expand that to 800 trillion yen in the future. It is not appropriate to compare that directly, but in terms of figures, SuMi TRUST Group is involved in one-fifth of Japan's national wealth, which stands at 4,000 trillion yen. This is unique to our Group, which has an unrivaled network and overwhelming market share in the stock transfer agency services and pension business fields, as demonstrated by the number of shareholders under administration and the balance of corporate pension funds.

From the perspective of improving ROE, general lending business requires a large amount of capital but is suffering from declining profitability. Therefore, it is pivotal to perform high value-added operations. There are still no major investors in the mezzanine or equity markets in Japan, so it would be effective to seek profits in these areas. In my view, SuMiTG's low PER reflects an insufficient explanation of our future prospects, and I believe it is important to enhance the dialogue with investors to gain their understanding. Finally, regarding the overhead ratio (OHR), our Group has a very wide business scope and handles a large number of small-lot products, which tends to result in a high OHR.

SuMiTB is working to streamline administrative processes and reassess inefficient operations under a project named "Future X," and at the recent Board of Directors' meeting, it was pointed out that such progress has been slow thus far. I believe that one of the roles of an external director is to support the management team and encourage bold transformations, because an organization may become filled with operations that are difficult to discontinue if specific details about them are known.

Q Please share your expectations and challenges regarding management strategies, such as capital allocation and business portfolio management.

Watanabe We are aiming to make impact equity investments totaling 500 billion yen by FY2030. High-

risk investments can boost returns, but simply taking risks requires more capital and does not enhance ROE. We aim to attract other investors with a focus on impact equity, which has high social significance. While the upfront investment is significant, our view is that by gradually syndicating our stakes to investors and capturing asset management fees, we can achieve profits that outweigh the risks. One of our strengths is our ability to utilize trust functions as a mechanism for raising funds from investors, and we plan to continue engaging in a myriad of asset management activities in the future.

Additionally, we have set an investment budget of 500 billion yen for strategic investment facility for asset management business by FY2030. The funds are used for strategic alliances necessary for inorganic growth, but the investment itself is not a quota, and the Board of Directors is closely monitoring what kinds of alliances are required.

Ito Although impact equity investment initiatives got started in earnest in April 2022, I felt that the Group was moving very quickly when viewed from the outside. The same is true of our own investment in the alternative asset portfolio managed by U.S.-based Apollo Group and developing investors based on an understanding of the risks involved. I believe that these new initiatives will generate significant businesses in the future. The main difference between our Group and other major financial groups in Japan is that we do not have a securities company. Although this may be seen as a weakness, I consider it a strength, as the absence of securities functions allows us to develop a business model that is entirely focused on investors, creating superior products and investment methods for their benefit. Currently, this business model is still a work in progress, and we are unable to provide clear figures at this time. However, we expect to see results in the future. As an external director, I believe it is important to monitor business execution and change direction accordingly.

Watanabe I believe that one of the challenges in realizing our strategy is that it will be extremely difficult for employees who were responsible for lending business to take on equity investment roles, as this would require a complete change in values. While loans are granted after a thorough screening process that includes collateral and income assessment, equity investments involve taking risks and reaping upsides when things go well. Therefore, the method of evaluating investments must be modified. We are also moving forward with external recruitment, but it will take a certain amount of time for new hires to become familiar with our Group's compliance and values. The role of the external directors is to provide encouragement while business model is being transformed and has not yet produced clear financial results. I also believe it is essential for the executive and supervisory teams to engage in thorough discussions about the challenges ahead.

Ito While SuMiTB's launch of the "Future X" initiative to streamline administrative processes and eliminate unnecessary work is praiseworthy, concrete progress is taking time and I feel it is necessary to improve management speed. Of course, some areas cannot easily be moved forward, but proceeding with urgency is an important factor in determining the quality of management. I would also like to note that I explain to investors that rebalancing a business portfolio generally takes time. For example, in 2014, I wrote a business school case study about Fujifilm and Kodak. Although they were both major players in the camera film industry, Kodak filed for bankruptcy in 2012, whereas Fujifilm continues to thrive. As of 2014, Fujifilm was still in the process of creating new businesses, and no concrete figures were available at that time. However, results have begun to emerge in recent years, and its share price is now seven times what it was then. Hitachi is a similar case. After posting substantial losses in 2009, the company's impressive leaders have been transforming its business portfolios. Although it took over 10 years to see results, Hitachi's share price is experiencing significant growth. Therefore, I believe that it will take time for the current initiatives of the SuMi TRUST Group to bear fruit, while we request patience from our investors. At the same time, I feel it is important to continue working on initiatives that will yield immediate results.

Q How do you rate the initiatives to invest in human capital, such as diversity and utilization of specialized professionals?

Kawamoto Fostering human resources takes a lot of time in any company. Our Group invests intensively in people and has abundant education programs, providing not only the curriculum necessary for promoting DX, but also numerous messages that encourage learning, including from top management that demonstrate their commitment. In terms of fostering an organizational culture, the Board of Directors also discusses the need to create mechanisms that enable employees to feel that initiatives are progressing. In an environment where SuMi TRUST Group's business model is changing, it is essential to engage all employees in building the Company together. This is why we also encourage top management to engage in dialogue that resonates with employees. In recent years, numerous initiatives have been implemented to promote women's active participation, and changes have been made to the composition of the Board of Directors and executive officers throughout the Group. From the perspective of specialized professionals, initiatives to recruit and develop human resources with Ph.D.s in science and engineering have been successful in fields requiring advanced expertise, such as the Technology-based Finance Team. I would like to see these initiatives strengthened and continued, including capital investment.

Q Please share your thoughts on investments in future growth, including in asset management and asset administration.

Ito It is important that we have two asset management companies within our group: Nikko Asset Management and Sumitomo Mitsui Trust Asset Management. These group companies are experiencing significant global expansion, and we have articulated our commitment to pursuing both organic growth opportunities and inorganic investments. In this regard, it is important to carefully consider M&A opportunities, as the key to success lies in acquiring a good partner at a good price. Currently, our Group is diligently pursuing this strategy and has decided to withdraw from unfavorable deals. I believe this will be one of the drivers of our Group's growth.

After the Panel Discussion with Investors

The Board of Directors is discussing plans to further strengthen our unique business model, which integrates banking businesses with asset management and asset administration businesses, with the aim of achieving ROE of 10% or above by FY2030 and PBR of at least 1.0x at an early stage. We are also discussing the need to deepen dialogue with investors regarding our business model. During the discussion, we shared the details of the Board of Directors' deliberations and the challenges we have identified with many investors. Through the many questions we received, we realized once again investors' high level of interest and expectations for SuMiTG. It was also a meaningful opportunity, as I was encouraged by the positive evaluation of SuMiTG's strategic direction. I would like to express my sincere appreciation for this opportunity. Going forward, each external director will contribute to enhancing the corporate value and the sustainable growth of the SuMi TRUST Group by fulfilling their expected roles. This includes providing opinions and support to the executive teams when necessary. Continuously, I would like to increase opportunities for dialogue with our stakeholders, including investors, on a variety of topics.

Hajime Watanabe
External Director
FY2025
Member of the Nominating Committee
Member of the Compensation Committee
Member of the Risk Committee