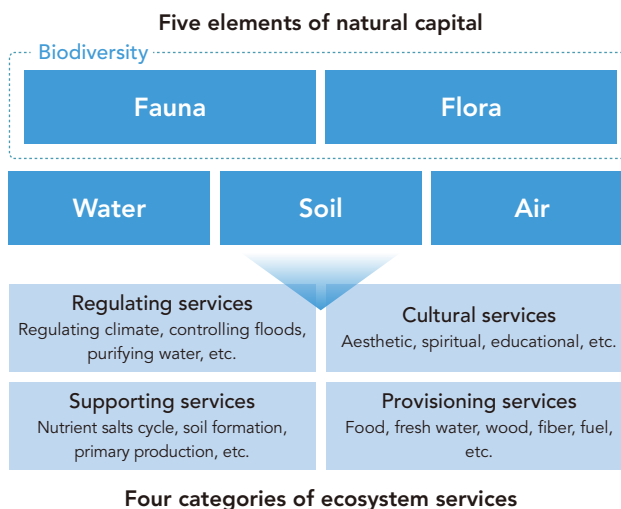


# Natural Capital (Biodiversity Issues)

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

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



## Natural Capital Finance Alliance (formerly the Natural Capital Declaration)

SuMi TRUST Holdings became a signatory to the Natural Capital Declaration (NCD) proposed by the United Nations Environment Programme Finance Initiative (UNEP FI) at the United Nations Conference on Sustainable Development "Rio+20" held in Rio de Janeiro in June 2012.

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



## Major Initiatives in the Group's Business to Date

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

## SuMi TRUST Bank Initiatives to Address Natural Capital Issues

### Forestry Trust

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

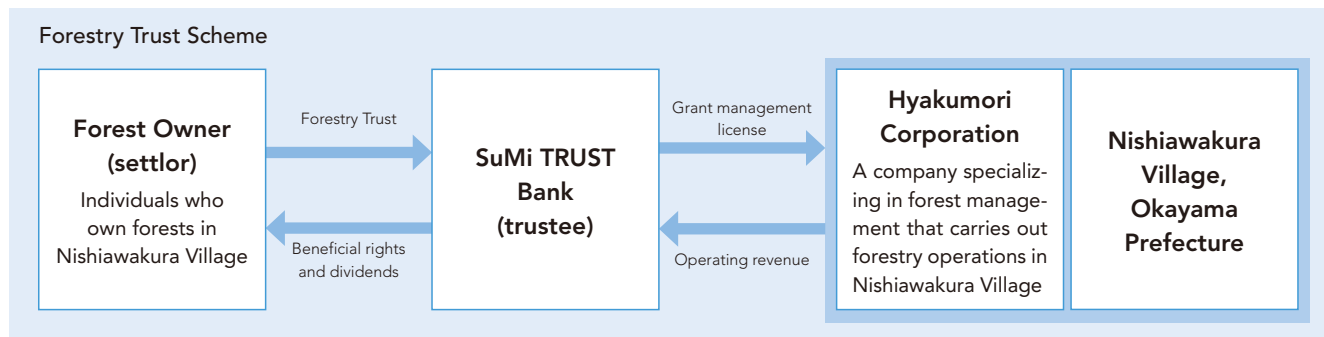
In order to help solve these social issues, SuMi TRUST Bank developed the forestry trust. The forestry trust is the kind of SDGs initiative that only a trust can provide, promoting forestry and regional revitalization.

### Forestry Trust Business

In August 2020, SuMi TRUST Bank was entrusted with a "Forestry Trust" as a commercial trust from individual clients (hereinafter the Owners) that own approximately 10 hectares of forest in Nishiwakura Village, Okayama Prefecture. SuMi TRUST Bank has entrusted management activities to forestry entities on behalf of the owner,



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



### Thinning of Forests

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

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

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



## Sumitomo Mitsui Trust Asset Management's Initiatives to Address Natural Capital Issues

### Issues Associated with Natural Capital

Much like climate change, environmental degradation poses a significant potential risk to businesses and finance. The various benefits provided by nature support economic and social activities, and the term natural capital refers to the concept of treating resources such as forests, water, soil, the atmosphere, and biodiversity as capital. According to the 2020 report by the World Economic Forum, it is estimated that economic activities equivalent to more than half of the world's GDP, US\$44 trillion, are dependent on natural capital, and environmental

degradation is considered a barrier to the sustainable growth of society and the economy. Biodiversity, the part of natural capital that supports ecosystems, has been rapidly decreasing in recent years. The World Wide Fund for Nature (WWF), an NGO active in environmental issues, estimates that biodiversity decreased by 69% over the approximately 50 years from 1970 to 2018. According to a report from the British government, compared to other types of economic capital, natural capital as a whole has significantly decreased.

### Domestic and International Frameworks for Natural Capital Protection and the TNFD

Efforts are underway to establish global frameworks to prevent the destruction of ecosystems and loss of natural capital, as well as work toward their restoration. In December 2022, the Kunming-Montreal Global Biodiversity Framework (GBF), a new global target for biodiversity, was adopted. This framework established 23 targets aimed at stopping and reversing the loss of biodiversity by 2030. By 2050, the goal is to achieve a world "in harmony with nature," with goals for the year 2050 established for the recovery of ecosystem health, maintaining genetic diversity, fair and equitable sharing of benefits arising from the use of genetic resources, and narrowing the funding gap. In Japan, based on the GBF, the national biodiversity strategy derived from the Basic Act on Biodiversity was revised in March 2023.

In response to these developments, there is growing momentum for businesses to disclose the impact of their activities on natural capital and the impact of natural capital on their business activities as part of their business strategy. The Task Force on Nature-related Financial Disclosures (TNFD), which was launched in June 2021, aims to establish a disclosure framework by 2023, following in the footsteps of the Task Force on Climate-related Financial Disclosures (TCFD) climate change disclosure framework.

The operation of the TNFD is different from the TCFD, which was led by financial regulators. It was voluntarily established on the initiative of the private sector, with the Secretariat consisting of the UNEP Finance Initiative

(UNEP FI), the United Nations Development Programme (UNDP), Global Canopy (a UK NGO), and the WWF. Starting in September 2020, Sumitomo Mitsui Trust Asset Management (SMTAM) participated in the informal working group that laid the groundwork for the establishment of the TNFD, and it contributed to the launch of the TNFD by discussing the framework and future operation methods. The TNFD, in line with the recommendations of the TCFD, is designed to reveal and perform scenario-based evaluations of the physical risks a company faces when the natural capital it relies on for economic activities is lost, the transition risks resulting primarily from strengthened regulations, the systemic risks stemming from destruction of ecosystems, and the environmental and financial impact a company experiences due to changes in the natural environment.

Furthermore, this framework aims to disclose and verify the overall impact on natural capital, and it is characterized by a gradual disclosure process and prioritized disclosure for businesses believed to have a significant impact. For the time being, it is anticipated that there will be considerable interest in the disclosure status of sectors involved in agricultural supply chains (such as the consumer goods and retail sectors), which have a large environmental impact. It is hypothesized that the impact on the value chain's natural capital will be significant across the entire market, so it is believed that there will be a high demand for corporate disclosure irrespective of the sector.

### Policy and Plans for SMTAM Initiatives

At SMTAM, we have been engaged in the preservation and regeneration of natural capital as a key environmental issue, and we have conducted engagement activities related to palm oil production and made recommendations through government engagement activities aimed at the governments of Brazil and Indonesia regarding

tropical rainforest conservation. Going forward, in addition to these activities, we will promote activities that encourage investee companies to disclose information in line with the TNFD, as well as participate in global collaborative engagement activities.