

Technology-Based Finance (TBF) Team Initiatives

At SuMi TRUST Bank, we established the Technology-Based Finance (TBF) team in April 2021 as an organization that approaches various issues such as energy, environment, and resources from a technological perspective. The team is composed of researchers and specialists from a diverse array of fields including hydrogen, batteries, electric power, organic chemistry, inorganic chemistry, machinery, agriculture, urban areas, and more.

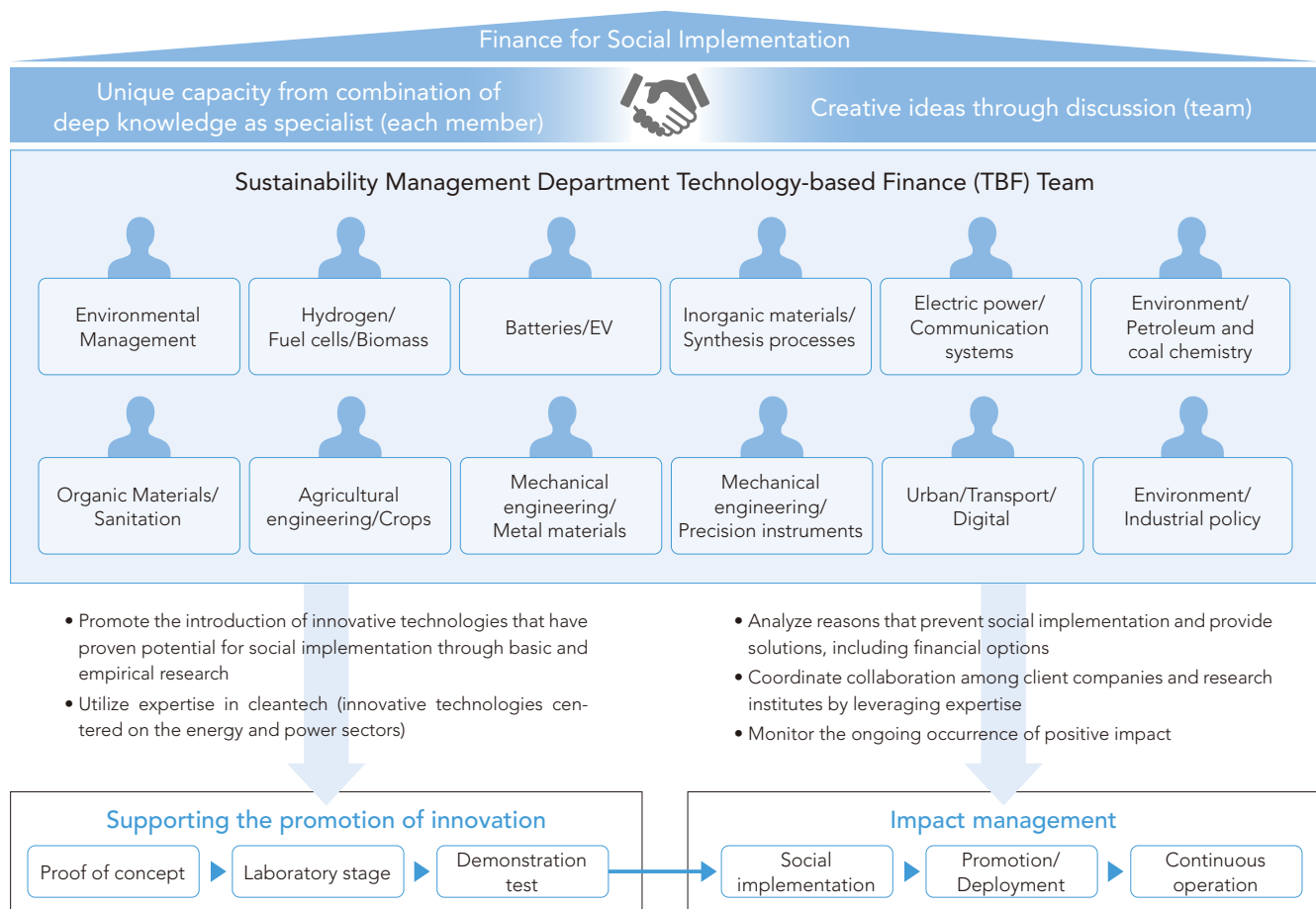
The TBF team incorporates technical insights into the impact evaluation process, striving to increase positive impacts and mitigate negative ones by promoting the deployment of innovative technologies, thus aiming to contribute to the resolution of social issues. To solve issues such as climate change, resource circulation, and biodiversity, we need to aim for the deployment of innovative technologies while making full use of existing ones through research and development. The establishment of the TBF team was based on the belief that we need to understand the latest technologies, deepen dialogue with our clients,

and approach finance from a scientific perspective.

The fusion of technology, policy, and finance is crucial to the deployment of technology. The TBF team, in addition to initiatives for impact investments and loans from a technological perspective and the generation of impact businesses, is advancing collaboration with various stakeholders. Its involvement has expanded to include joint research with universities and companies, and exchanges with members of academia, and it has made policy recommendations to government agencies, launched demonstration and model projects in coordination with the policies of various agencies, generated regional support through ESG community finance, and developed financial schemes with local governments and regional banks.

Through technological innovation and the deployment technology, we aim to address social issues and promote the "virtuous circulation of funds, assets, and capital" by creating new businesses and expanding business opportunities.

Technology Based Finance (TBF) Initiatives



Individual Initiative Themes

Contributing to Building a Carbon-Free Society

To achieve a carbon-free society, it is necessary to introduce existing technologies on a large scale during the transition period and to develop and deploy new technologies in a shift towards carbon neutrality. Moreover, mitigation of and adaptation to climate change are intertwined with resource circulation, biodiversity issues, and political and economic issues such as energy and resource issues. According to a report from the IPCC, it is said that temperatures will rise by 1.5 degrees within the next 10

to 20 years, and addressing this will require both urgency and a significant amount of money.

The TBF team will accelerate initiatives aimed at achieving carbon neutrality through a number of efforts, including demonstrations and joint research directed at decarbonization, support for the formation of regional carbon-free societies, and global initiatives supported through funds, among others.

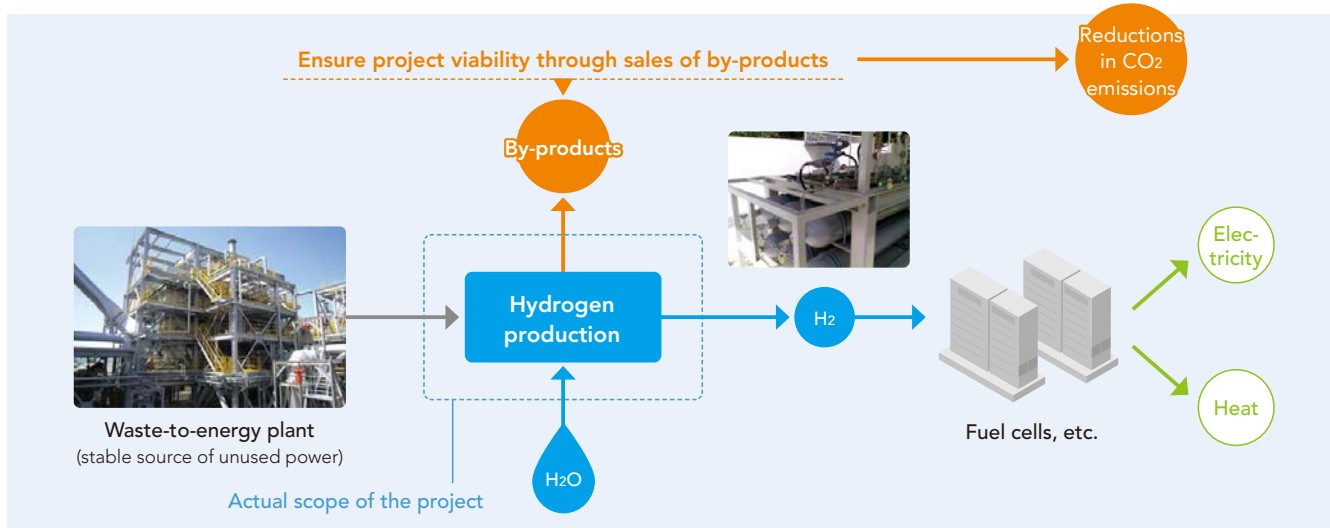
Theme #1: Establishing a Green Hydrogen Supply Chain (Ministry of the Environment Demonstration Project)

Asahi Pretec Corp., FC Development Co., Ltd., X-Scientia Co., Ltd., and SuMi TRUST Bank have started developing systems and carrying out verification tests on building a green hydrogen supply chain through the effective use of by-products. The parties proposed the “Development of a system for building a green hydrogen supply chain through the effective use of by-products” project for consideration as part of the “2021 Low Carbon Technology Research, Development and Demonstration Project,” promoted by the Ministry of the Environment’s Global Environment Bureau, and have been awarded a partial subsidy.

The project seeks to develop hydrogen co-production systems capable of utilizing unused electricity from waste-to-energy plants to jointly produce both hydrogen and by-products, with the goal of significantly reducing

hydrogen production costs. After the completion of the project, the parties will discuss utilizing renewable energy and unused regional energy; their goal is to contribute to regional decarbonization by producing affordable hydrogen, and creating a green hydrogen supply chain that uses both hydrogen and any valuable by-products locally.

In April 2021, SuMi TRUST Bank established a technology-based finance (TBF) team—a group of experts in the fields of environment and energy—with the aim of financing the social implementation of decarbonization technologies. This project is the first case being handled by the team, and it has been working with X-Scientia to achieve its business plan. In this project, the team was in charge of developing demand with a view to commercialization and establishing a business scheme.



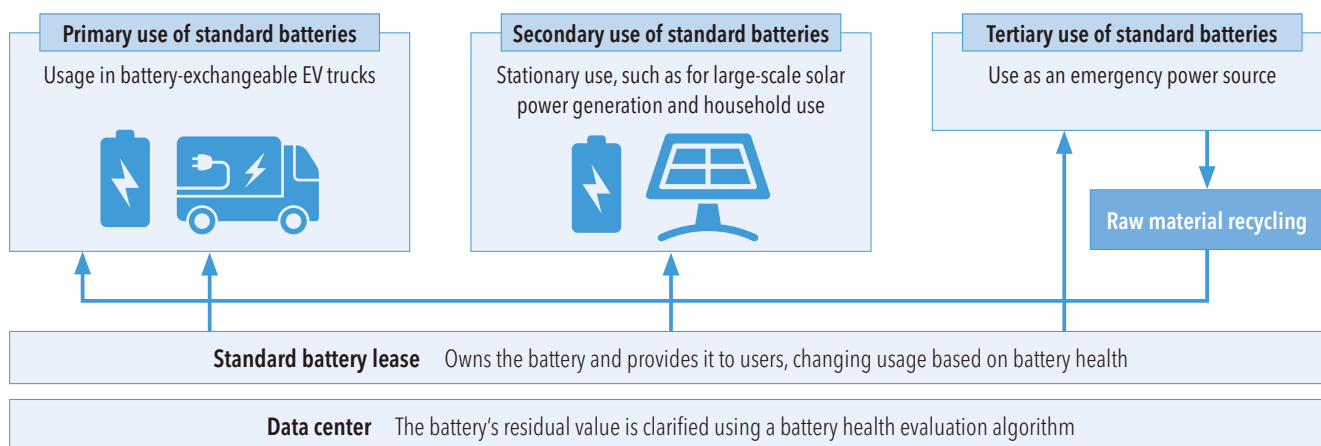
Theme #2: Cost Reduction Strategy Based on Battery Multi-Use (Ministry of the Environment Demonstration Project)

SuMi TRUST Bank and ACR Co., Ltd will begin discussions with a major battery manufacturer and a major logistics company regarding the standardization of detachable batteries and secondary use of battery packs (hereinafter standard cells) to reduce initial costs and battery costs.

It is anticipated that introducing commercial electric vehicles (BEVs) will increase the burden on society and businesses compared to vehicles with conventional internal combustion engines. This includes longer battery charging times, leading to an increase in non-operational vehicle time and in peak facility power due to concentrated charging timings. Introducing detachable batteries is expected to reduce non-operational time resulting from battery replacements, as well as peak power from standard charging of replacement batteries during vehicle operation.

Furthermore, establishing a system to monitor the health of battery packs and repurposing them from vehicle use to stationary use or for social infrastructure depending on the degree of degradation enables batteries to be used effectively. This demonstration will prove the potential for reducing vehicle battery costs, or initial costs through subscriptions, as well as effective utilization of batteries and energy through cooperation with local governments and regional financial institutions.

SuMi Trust Bank is committed to promoting the formation of a sustainable society through the construction of a regional economic ecosystem in cooperation with regional financial institutions, local governments, and businesses, with the aim of achieving carbon neutrality by 2050.

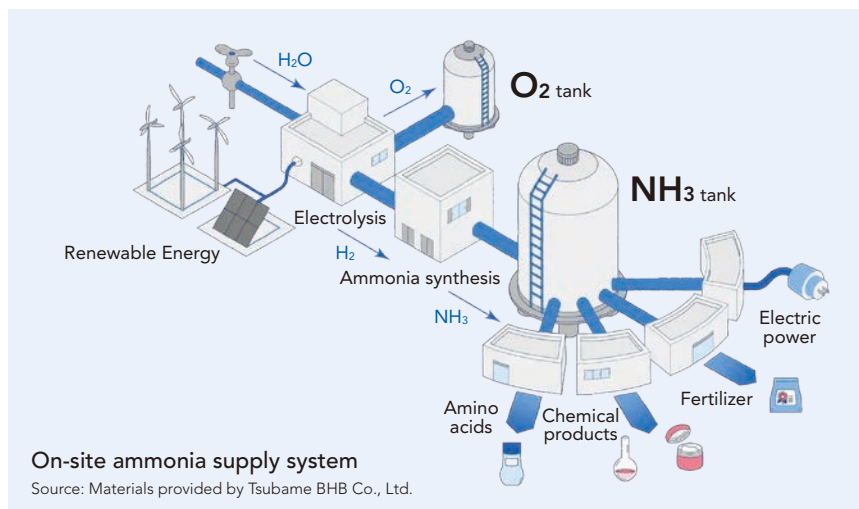


Theme #3: Investment in Tsubame BHB Co., Ltd. to advance the practical application of an ammonia synthesis system for local production and consumption

Since 2021, SuMi Trust Bank has been working on the development and demonstration testing of a system that manufactures hydrogen cheaply from unused regional energy, and it is promoting initiatives to build a green hydrogen supply chain that utilizes manufactured hydrogen in the region. The investment in Tsubame BHB Co., Ltd. is part of the initiatives promoted by SuMi Trust Bank to build a green hydrogen supply chain, such as by adding nitrogen to the manufactured green hydrogen and causing a reaction to allow for the synthesis of even greener ammonia.

By investing in Tsubame BHB and positioning the company as a strategic partner in building a green hydrogen supply chain, as well as promoting collaboration that includes supporting

the sourcing of sites for ammonia synthesis systems, we will contribute to generating impacts geared towards achieving our 2050 Carbon Neutral Commitment.



Theme #4: Capital participation in EV Motors Japan Co., Ltd., which is committed to domestic commercial EVs

In September 2022, SuMi Trust Bank began capital participation in EV Motors Japan Co., Ltd., a start-up that deploys commercial EV vehicles and related equipment to contribute to decarbonization in the transport sector. EV Motors Japan is committed to addressing social issues such as decarbonization, phasing out fossil fuels, enhancing disaster prevention, and promoting the battery industry, all through the deployment of domestic commercial EVs. The bank will support the company in increasing its corporate value and generating/expanding impacts not only through financial support, but also through the expertise of its technology-based finance team. They are also working together toward comprehensive business development, such as creating a local production for local consumption system for energy and developing related charging and discharging infrastructure for the purpose of regional decarbonization and encouraging the use of commercial EVs.



EV community bus deployed by EV Motors Japan
Source: EV Motors Japan website

Theme #5: Supporting the creation of an impact report on local production for local consumption of energy

SuMi Trust Bank has developed a “Odawara City Local Energy Production for Local Consumption Impact Report” that summarizes the results of an impact evaluation of local energy production and consumption in Odawara City. This report elucidates the concrete path (logic model) of the impact that the local energy production for local consumption business, which the city has established as a future goal, will have on the environment, society, and economy. By setting KPIs (Key Performance Indicators), we have built a system to monitor the status of initiatives. SuMi TRUST Bank, in collaboration with Yokohama Bank, a core regional financial institution, and its think tank, Hamagin Research Institute, has identified and evaluated the impact this project will have on the regional economy, society, and environment in

the city, which is working alongside businesses to promote the construction of a local production for local consumption-type regional microgrid.

The impact evaluation was conducted by the Technology-Based Finance Team and involved an impact analysis of the environment and society based on scientific and technical expertise. Odawara City considers the impact evaluation initiative to be highly significant not only for making the project’s connection to the regional contributions valued by the city visible, but also for improving the value of companies working towards a carbon-free society, creating and expanding new companies that offer carbon-free services, and promoting financing in the carbon-free field in collaboration with financial institutions.

Title	Partnership Agreement to Assess the Impact of the Local Production for Local Consumption of Energy Project in Odawara City
Target	<ul style="list-style-type: none"> • Establish a platform for cooperating with The Bank of Yokohama, Ltd., Hamagin Research Institute, Ltd., and Odawara City, with the goal of carrying out impact evaluations and formulating impact finance methods for the Local Production for Local Consumption of Energy Project • Carry out impact evaluations on renewable energy management, including the use of primarily solar-based distributed power supplies, and the multi-purpose use of electric vehicles (for transport, BCP, and adjusting supply and demand) • Select groups of companies to promote the project, and carry out impact evaluations on them; construct a logic model for understanding the collective impact of the initiatives of each company group
The role of SuMi TRUST Bank	<ul style="list-style-type: none"> • Identify businesses and projects to undergo impact evaluations • Carry out practical affairs related to impact evaluations • Provide know-how and support for the execution of practical affairs related to impact evaluations, including conducting interviews with Odawara City and companies involved in the project; managing changes in external environments; and tracking both the quantitative and qualitative effects of the project on regional finance • Provide support for understanding the technologies required for Odawara City’s local production for local consumption of energy model • Provide support for minimizing negative impacts and for creating and enhancing positive impacts

Theme #6: Joint research with the University of Tokyo that aims to maximize the impact of introducing battery storage

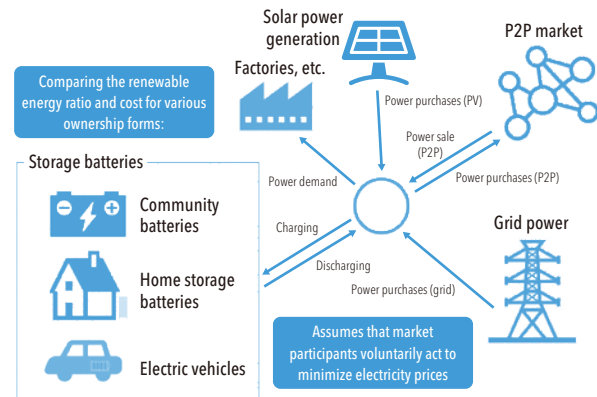
SuMi TRUST Bank and the Graduate School of Engineering at the University of Tokyo are conducting joint research on decarbonization policies tailored to the characteristics of urban spaces.

Many cities have declared their commitment to decarbonization, which entails reducing carbon dioxide emissions to virtually zero by 2050, and they are trying to foster virtuous circulation within the local economy through local production of renewable energy for local consumption. However, in terms of expanding local production of renewable energy for local consumption, there are challenges when it comes to securing a balance between regional supply and demand. Moreover, it is necessary to formulate policies for each city tailored to differences in climate, population, industrial composition, and land use.

For this joint research initiative, we believe that a mechanism for collectively and effectively utilizing small-scale surplus power in distributed renewable energy installations is effective, and we are investigating the optimal ownership structure for storage batteries, taking into consideration cities' characteristics and the incentives of residents and industries. By comparing power costs for consumers and the effect of increasing

the ratio of renewable energy, we aim to propose measures on allocation methods for storage battery resources to allow for efficient decarbonization to be achieved.

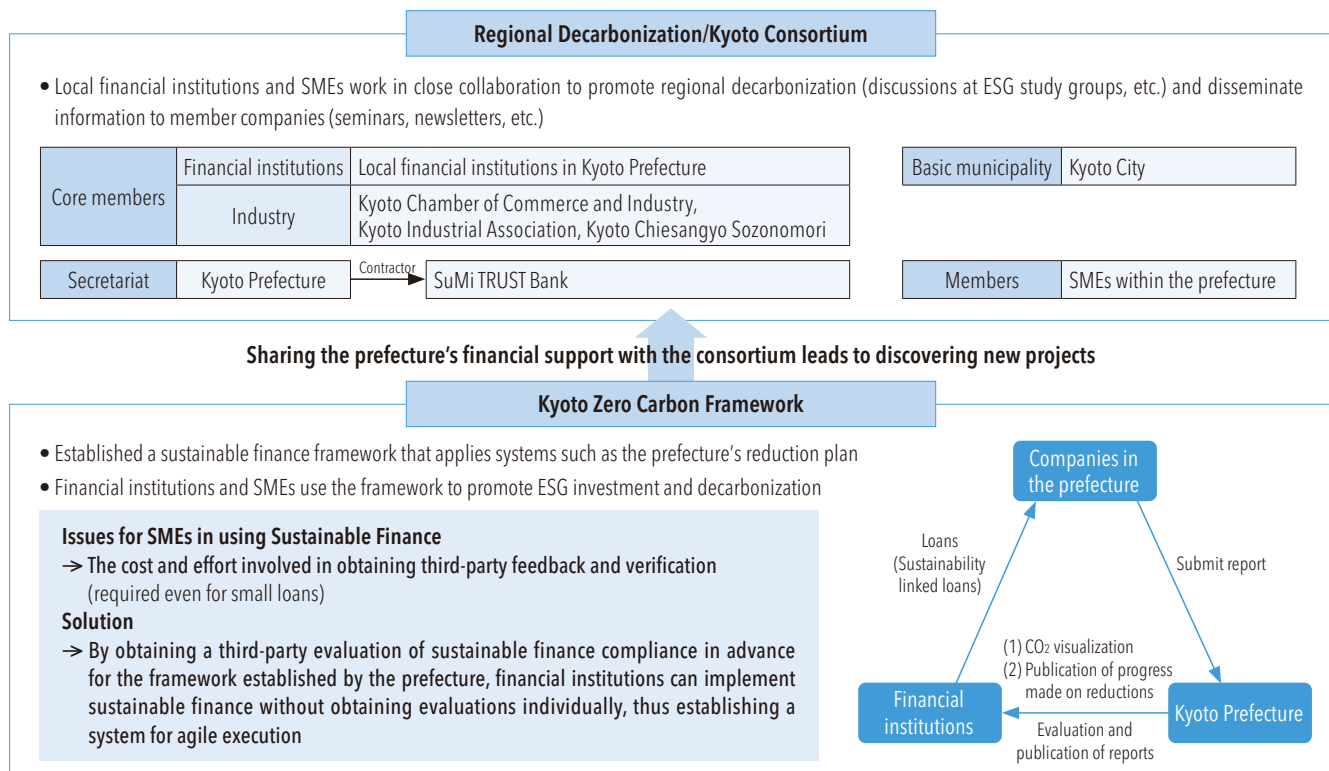
The company will promote the formation of a sustainable society through scientifically based policy proposals and deployment to achieve its 2050 Carbon Neutrality Commitment.



Theme #7: Supporting the construction of Kyoto Prefecture's unique sustainable finance framework

SuMi Trust Bank was entrusted by Kyoto Prefecture with the task of supporting the construction of the Kyoto Zero Carbon Framework, a finance framework allowing small- and medium-sized enterprises (SMEs) and other entities in Kyoto Prefecture to promote decarbonization with the support of local financial institutions. This scheme supports SMEs that have ambitious greenhouse gas emission reduction targets

set by Kyoto Prefecture using sustainability-linked loans from local financial institutions. This framework is a cooperative support system between financial institutions and the policies led by local governments. It was selected as part of the "FY2022 Green Finance Model Case Creation Project" operated by the Ministry of the Environment.



Source: Prepared by the company based on materials created by Kyoto Prefecture

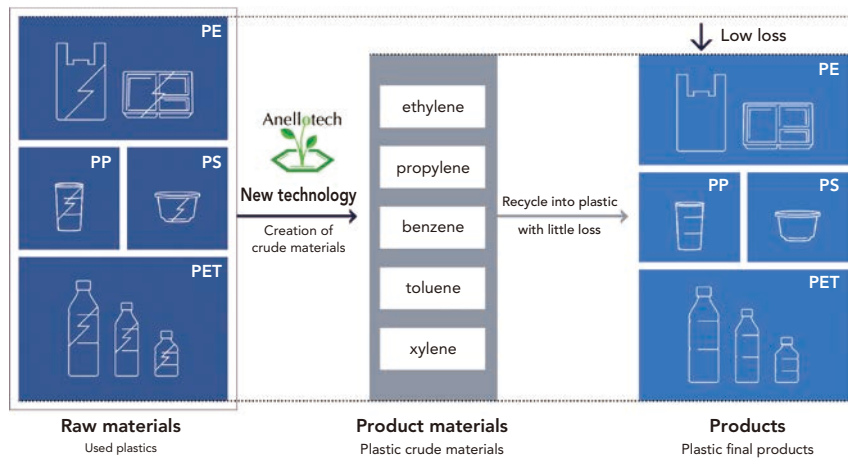
Assisting the Transition to a Circular Economy

We are taking steps towards building a circular economy, which is becoming increasingly important from social perspectives such as decarbonization, natural capital, and well-being, not only because of the severe depletion of resources. It is essential to create a supply chain for the circular economy and have stakeholders in various roles

work together to solve problems in a comprehensive manner. SuMi Trust Bank contributes to the transition to a circular economy by collaborating with numerous companies, local governments, and financial institutions, participating in partnerships and alliances, and engaging in university research projects.

Theme #1: Capital participation in R Plus Japan

In February 2022, SuMi Trust Bank made a capital investment in R Plus Japan Co., Ltd. (RPJ), with the goal of helping to solve plastic issues and achieve a sustainable society through the recycling of used plastic. RPJ, in collaboration with Anellotech Inc., a U.S. biochemistry venture company, is advancing the development of efficient recycling technology for used plastics with a lower environmental impact. To contribute to the global solution of plastic issues, we aim to recycle 200,000 tons of plastic annually in Japan by 2030 through cross-industry collaboration (40 companies participating as of March 2023) involving the sorting and processing of collected plastics, monomer manufacturing, polymer manufacturing, and container manufacturing, along with trading companies, beverage and food manufacturers, and others.



Source: R Plus Japan Co., Ltd. website

Theme #2: Impact evaluation of mutual aid community-type resource collection

In November 2022, SuMi Trust Bank signed a memorandum of understanding with Amita Holdings Co., Ltd. (hereinafter Amita HD) to carry out a joint impact evaluation of MEGURU STATION® (hereinafter the Station), a mutual aid community-type resource collection station. The station promotes a regional circular economy based on residents separating their household waste and bringing in resources. It provides both a “resource collection function” and a “community development function” that allows residents to interact with each other across generations. Amita HD has been working with local governments and residents in Minamisanriku Town, Miyagi Prefecture; Ikoma City, Nara Prefecture; Kobe City, Hyogo Prefecture; and Tachiarai Town, Fukuoka Prefecture to demonstrate the station. Through this impact evaluation, we will visualize the positive impact (social, environmental, and economic) that the station has



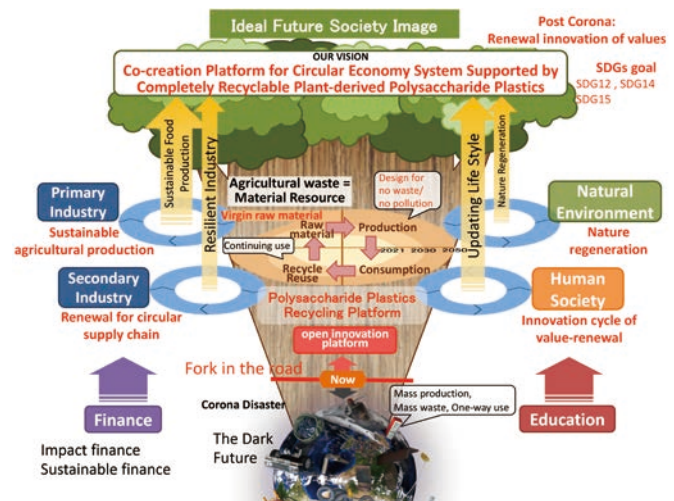
Source: Amita HD website

on society, accelerate collaboration with local governments and companies, and increase the pace at which the circular economy project is deployed.

Theme #3: Participation in “Co-creation Platform for Circular Economy System Supported by Completely Recyclable Plant-derived Polysaccharide Plastics”

In December 2021, SuMi Trust Bank joined the “Co-creation Platform for Circular Economy System Supported by Completely Recyclable Plant-derived Polysaccharide Plastics” project represented by Kanazawa University, which was selected as part of the “Program on Open Innovation Platforms for Industry-academia Co-creation (COI -NEXT)” by the Japan Science and Technology Agency (JST) in FY2021.”

At this research center, polysaccharide agricultural waste is regarded as a resource, and we aim to build a cyclical bioplastic platform that redesigns bioplastic products that do not produce plastic waste in accordance with their applications, produces only the right amount, collects them after use, and continues to use them without producing waste. The TBF team at SuMi Trust Bank is working on building a logic model that generates the impact that research results have on the environment and society. It is also pursuing impact evaluations and technical collaboration with participating companies.

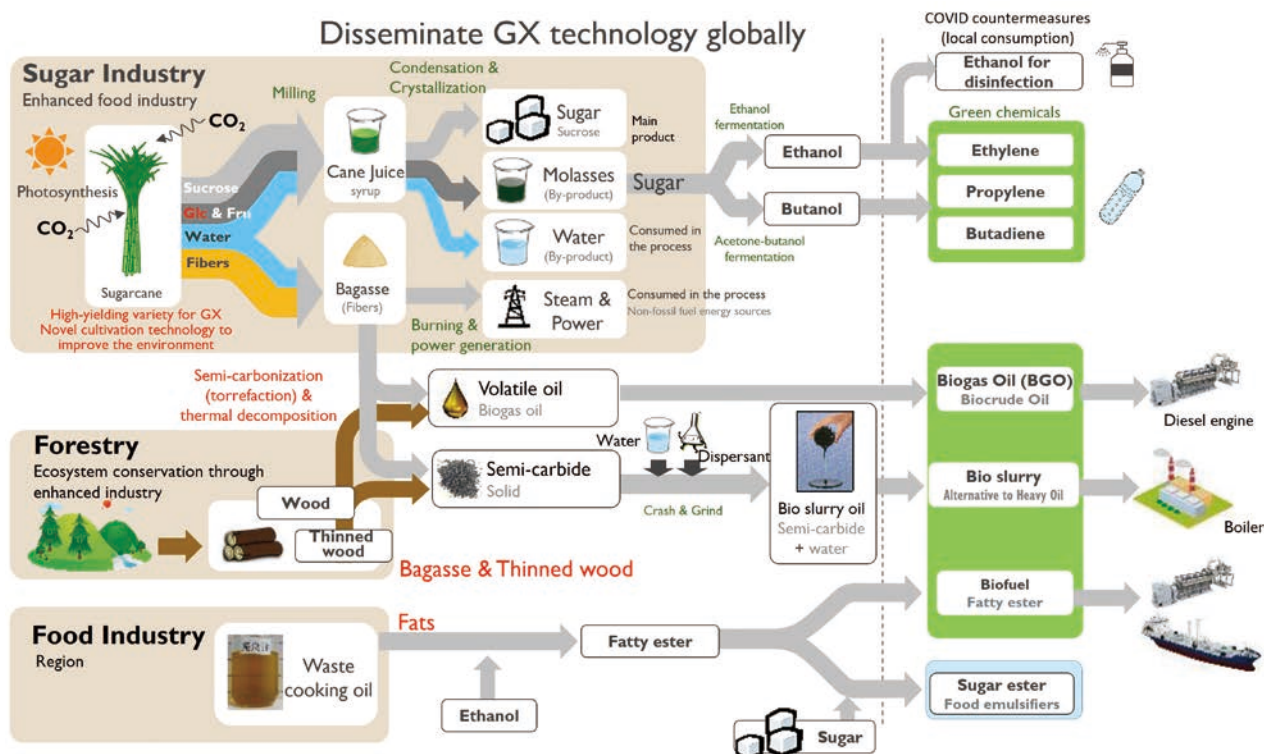


Source: Materials created by Kanazawa University

Theme #4: Participation in the “Co-JUNKAN Platform that Goes Beyond ‘Zero Carbon’” Research Center

In September 2022, SuMi Trust Bank joined the “Co-JUNKAN Platform that Goes Beyond “Zero Carbon” represented by the Tokyo University Institute for Future

Initiatives, an advanced project part of the “FY2022 JST Full-scale Co-creation Site Formation Support Program (COI-NEXT).”



Source: Tokyo University Institute for Future Initiatives, The University of Tokyo (COI-NEXT) website



Please also refer to the separate edition of this report, "ESG Real Estate."

[PDF https://www.smth.jp/english/-/media/th/english/sustainability/report/2022/esg-real-estate.pdf](https://www.smth.jp/english/-/media/th/english/sustainability/report/2022/esg-real-estate.pdf)

ESG Real Estate: New Initiatives

Factors behind demand for ESG in real estate

ESG considerations are indispensable to the attainment of the Sustainable Development Goals (SDGs) and carbon neutrality by 2050. Companies are also required to take concrete action.

The amount of CO₂ emitted from the construction and management of buildings is said to account for approximately 40% of all CO₂ emissions in Japan, including indirect emissions. And given that humans spend a lot of time indoors, indoor environments affect the health and productivity of occupants. As such,

real estate is the foundation that supports all kinds of activities in society, as well as people's lives, and has a significant impact on the three aspects of environment, society, and economy.

The Group aims to further promote the spread of environment-friendly real estate, such as energy- and resource-efficient cities and buildings, and buildings that contributes to improvements in productivity.

POINT

What is environment-friendly real estate?

It refers to real estate that takes environmental considerations into account and "delivers environmental value brought about by exceptional environmental performance and sound management."

As calls in society for environmental considerations and well-being have grown louder in recent years, environment-friendly real estate that provides comfortable spaces to users, is environmentally friendly, and is resilient enough to ensure business continuity even in the event of a disaster, is growing increasingly important in the real estate industry.

High level of environmental quality

High levels of comfort and productivity in places where people live or work

Low levels of environmental impact

Reduced burdens on the environment from, for example, global warming, resource exhaustion, heat island phenomenon, ozone layer depletion, air pollution, noises, vibrations, and offensive odors, loss of traditional streetscapes, and loss of biodiversity

Strong resilience

Enough sturdiness for a building to bounce back and recover from a disaster caused by a giant earthquake or abnormal weather event

ESG initiatives in the real estate sector and expected benefits

Tackling ESG issues in the real estate sector is expected to enhance corporate value and asset value for clients and solve management issues.



Study on economic incentives of acquiring environmental certification

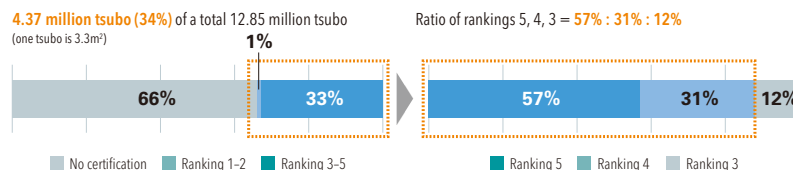
In a joint study with Sumitomo Mitsui Trust Research Institute, we examined the state of environmental certifications in the rental office market in Tokyo's five central wards.

Percentage of environmental certifications obtained

We learned that 34% (GFA basis) of all rental office buildings in Tokyo's five central wards have obtained an environmental certification and that the evaluation rankings are particularly high.

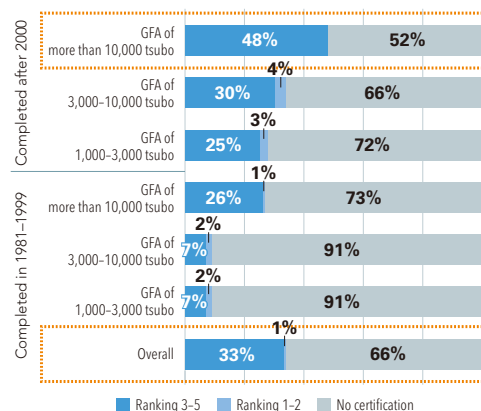
The study focused on an area in Japan where obtaining an environmental certification is relatively common. We think it could serve as an example of the ranking that companies should aim for when they consider acquiring an environmental certification in the future.

34% of all buildings have an environmental certification and the higher rankings of 5 and 4 make up 88%



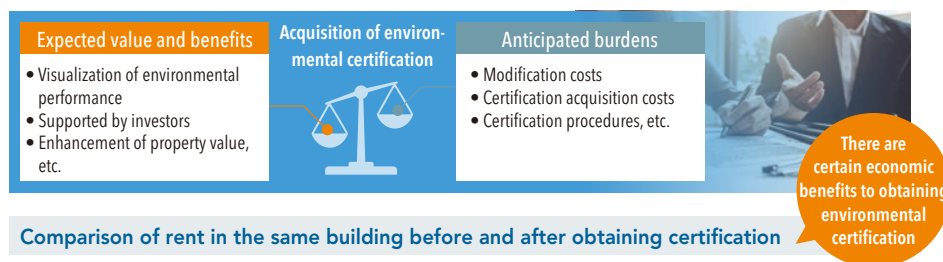
Source: Prepared by Sumitomo Mitsui Trust Research Institute and partially modified by SuMi TRUST Group, based on the Office Building Database of Nikkei Business Publications and publicly available information

The percentage of environmental certifications tends to be higher among large scale buildings completed after 2000



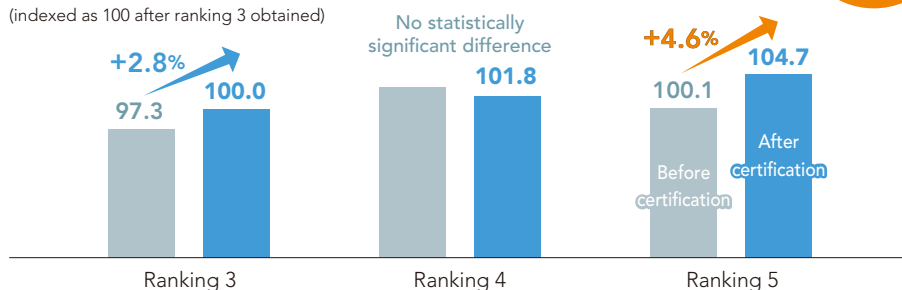
Economic benefits of environmental certification

Taking the environment into consideration does incur extra costs and requires more effort, but on the other hand, it is estimated that there are some economic benefits for properties certified with a high level of environmental performance.



Comparison of rent in the same building before and after obtaining certification

(indexed as 100 after ranking 3 obtained)



It is estimated that rent is boosted by 4.6% when comparing before and after an environmental certification (ranking 5) is obtained for the same building.

Going forward, we hope to conduct further research to demonstrate the economic benefits that an environmental certification can have on rent and contribute in some way to promoting the acquisition of environmental certification.

Survey overview

- Survey targets: Rental office buildings completed after 1981 in Tokyo's five central wards (Chiyoda, Chuo, Minato, Shinjuku, and Shibuya) with a minimum total GFA of 10,000 tsubo
- Rents: Expected rents for new contracts in SMTRI's office building data
- Environmental certifications: Collection and analysis of publicly announced certification results up until the end of December 2021 under the following three certification schemes: CASBEE (Comprehensive Assessment System for Built Environment Efficiency), DBJ Green Building Certification, and BELS (Building-Housing Energy-efficiency Labeling System)
- Rankings: Under the CASBEE for Real Estate scheme, a ranking of 5 corresponds to S rank, 4 corresponds to A rank, and 3 corresponds to B+ rank

ESG Real Estate: New Initiatives

2022 survey of ESG in real estate

ESG measures in the field of real estate investment management are wide-ranging and the stances and priorities of each company's initiatives vary. The purpose of this survey was to shed light on the state of ESG initiatives undertaken by property owners as part of their investment and management practices, and by aggregating the results, it

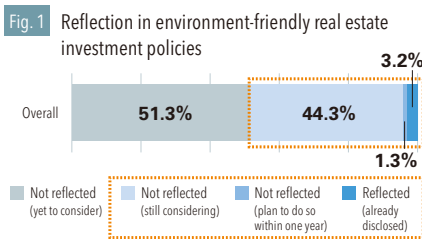
will give us a better understanding of current ESG trends in real estate.

We have plans to conduct surveys on a regular basis up ahead so that we can grasp the changes in how ESG measures in real estate are implemented over time.

Key point 1 More than 40% of respondents answered that they are thinking about evaluating prices of environment-friendly real estate more highly

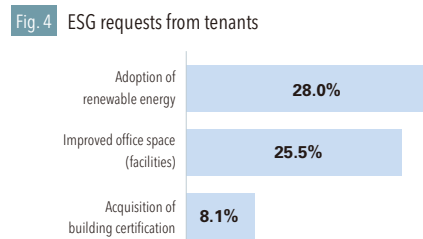
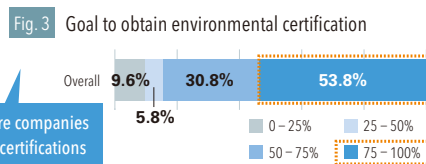
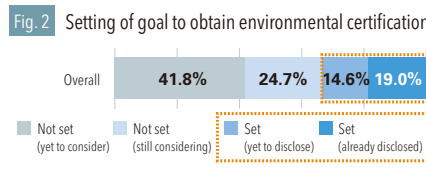
Key point 2 Companies that seek to obtain environmental certification set themselves ambitious targets

Key point 3 Approximately 30% of respondents have been asked by tenants to switch to renewable energy



Companies are reviewing their investment policies

More and more companies are acquiring certifications



ESG requests from tenants are growing

Survey overview

- Survey period: Wednesday July 13, 2022 to Wednesday August 24, 2022
- Number of questions: 46
- Participating companies: 161 (major property holders in the real estate market, including asset managers, real estate firms, construction companies, and insurance companies)

Supporting the decarbonization of entrusted properties

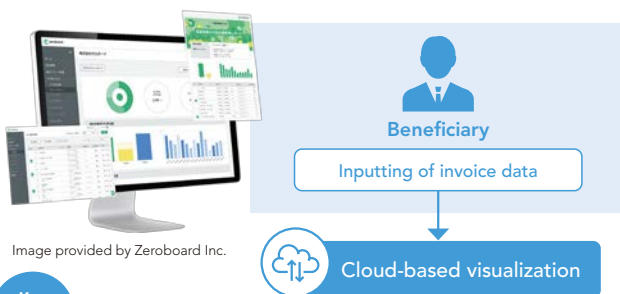
As the trustee of one of Japan's largest real estate securitization trusts, we started offering some new support services to promote the decarbonization of real estate together with our clients.

From the visualization of GHG emissions, the entry point

to achieving decarbonization, right through to renewable energy conversion with the purchasing of non-fossil fuel energy certificates, we will support carbon-neutrality efforts at held and managed properties while reducing costs and time for beneficiaries.

Support on calculating GHG emissions

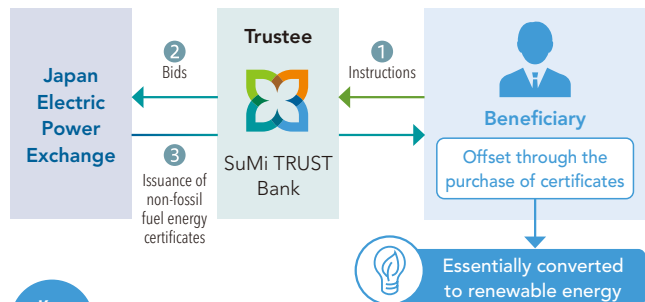
Supporting the "easy" calculation of GHG emissions of property holdings for beneficiaries



Key point Streamlining aggregation tasks and supporting the reduction of GHG emissions

Service for beneficiaries to purchase non-fossil fuel energy certificates

Purchasing certificates at the instruction of beneficiaries and supporting their conversion to renewable energy



Key point Easy conversion to renewable energy without amending electric power contracts

*Both services are provided to the properties entrusted to SuMi TRUST Group

ESG Real Estate: Enhancing and Visualizing the Environmental Performance of Properties

Visualization of environmental performance

Through our consulting services that support the acquisition of environmental certifications, we are supporting the enhancement and visualization of the environmental performance of properties.

Scope of services	Environmental considerations in buildings	Environmental considerations in urban development	Focused on health and comfort of buildings	
	CASBEE for Real Estate	CASBEE for Urban Development	CASBEE-WO (Wellness Office)	WELL Building Standard™*

*Clients are referred to a partner company that supports the acquisition of this certification

About CASBEE (Comprehensive Assessment System for Built Environmental Efficiency)

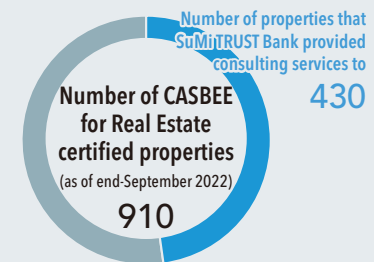
CASBEE is currently gaining traction in Japan as a system for evaluating the overall environmental performance of buildings. It was developed in 2001 under the auspices of the Ministry of Land, Infrastructure, Transport and Tourism (MLIT). Various tools have been released thus far—for example, CASBEE for New Construction, which can assist designers in the environmentally friendly design process or be utilized in reports submitted to local governments, and CASBEE for Real Estate, which is used widely in the property market mainly as a labelling tool.

To help with corporate initiatives aimed at solving sustainability issues, SuMi TRUST Bank offers consulting to support applications for CASBEE for Real Estate certification.

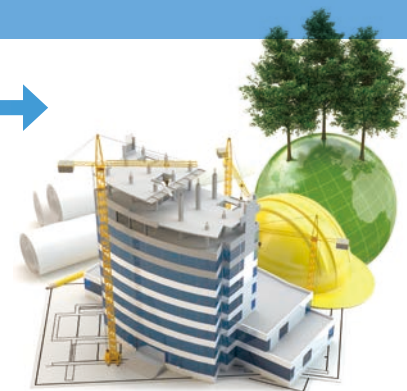
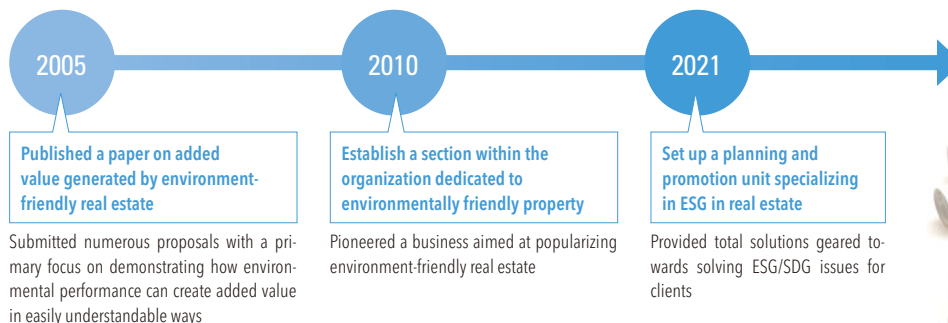
Number of CASBEE for Real Estate certified properties (as of end-September 2022): 910

Of these, the number of properties that SuMi TRUST Bank provided consulting services to: 430

(of which, 367 were for listed real estate investment corporations (J-REITs), 32 for private J-REITs, 14 for special purpose companies and the like, 11 for business corporations, and 6 for life insurers)



SuMi TRUST Bank—a pioneer of environmentally friendly property



Main initiatives

<p>▶ Inception</p> <p>A commemorative paper entitled "A Note on Environmental Value Added for Real Estate" for the 10th anniversary of the Tokyo Association of Real Estate Appraisers received a prize for excellence in 2005</p>	<p>▶ Initiatives related to CASBEE</p> <p>Lead organizer of a subcommittee examining CASBEE property appraisal since 2007 and chairperson since 2022; launched "CASBEE for Real Estate" certification system in 2013</p>
<p>▶ Organizing study groups</p> <ul style="list-style-type: none"> Lead organizer of a sustainable real estate study group since 2007; released results of studies in 2009 and 2016 Lead organizer of a smart city study group in 2013; released results of studies in 2016 	<p>▶ Initiatives related to real estate appraisal and evaluation</p> <ul style="list-style-type: none"> Chair of a working group on environmental added value, organized by the Japan Association of Real Estate Appraisers (JAREA), since 2007 Member of an office building performance evaluation and display manual committee; released a manual on office building performance evaluation and display in 2017 Released a report on examining assessments concerning ESG considerations in real estate appraisals (MLIT) in 2021
<p>▶ Initiatives linked to UNEP</p> <p>Member of a property working group organized as part of the United Nations Environment Programme Finance Initiative (UNEP FI) since 2007; successively released a collection of case studies and a handbook for Responsible Property Investment (RPI)</p>	<p>▶ Initiatives with national and local authorities</p> <ul style="list-style-type: none"> Member of an MLIT-sponsored study committee on the promotion and spread of environmentally friendly property; the committee was established in 2008 Member of the Tokyo Metropolitan Government's low carbon partnership committee for small and medium-sized buildings; the committee was established in 2012 by the Tokyo Bureau of Environment Member of the Smart Wellness Office Research Committee, sponsored by the Japan Sustainable Building Consortium; announced results of a study on economic impact of buildings with CASBEE evaluations in 2015; discussed CASBEE-Wellness Office system, which started offering certifications in 2019 Member of an MLIT-sponsored study committee on the promotion of ESG investment for addressing social issues in the real estate sector since 2021

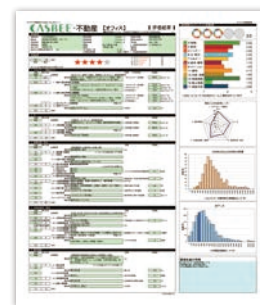
ESG Real Estate: Enhancing and Visualizing the Environmental Performance of Properties

Consulting in support of CASBEE for Real Estate certification applications

We provide support at every stage of the certification process, from the selection of properties through to the evaluation and submission of applications to the certification body.

About CASBEE for Real Estate

CASBEE for Real Estate was developed in 2012 for the purpose of promoting the broader adoption in the property market of environmental performance assessments of managed buildings (offices, commercial facilities, logistics, apartment complexes). The items of assessment in CASBEE for Real Estate have been considerably narrowed down so they remain compatible with environmental performance assessments overseas whilst also remaining consistent with other tools in the CASBEE family, such as CASBEE for New Construction. Since 2021 it has been able to optionally assess the initiatives of buildings with regard to the SDGs. Owing to the fact that CASBEE for Real Estate can also be used in GRESB assessments, its use is quickly gaining momentum mainly among REITs and real estate companies that are sensitive to sustainability.



CASBEE for Real Estate evaluation sheet

Identifying problems with CASBEE for Real Estate and suggesting improvements

In addition to using CASBEE for Real Estate for property evaluations, we also make suggestions about how to identify problems and make improvements to environmental performance.

Table Evaluation items in CASBEE for Real Estate (In the case of office buildings)

Energy/Greenhouse gases	<u>Target setting and monitoring/energy saving standards/O&M^{*3} system</u> , usage and emissions intensity (calculated values), usage and emissions intensity (actual values) , natural energy forms
Water	<u>Target setting and monitoring/O&M system</u> , water usage volume (calculated values), water usage volume (results)
Use of resources/Safety	<u>Conforms to new earthquake resistance standards</u> , high earthquake resistance/seismic isolation and vibration damping, etc., usage of recycled materials , service life of structure materials, necessary renewal interval for main equipment functions, higher self-sufficiency ratio (electricity, etc.), operation and maintenance
Biodiversity/Sustainable site	<u>No use of invasive alien species</u> , enhancement of biodiversity , soil environment quality, public transportation access, measures in preparation for natural disaster risks
Indoor environment	<u>Attainment of building sanitation and environmental management standards</u> , use of daylight, natural ventilation function, view

*1 Underlined items are prerequisites (they must be met to pass an evaluation). *2 Items in red are related to universal metrics the United Nations Environment Programme's Sustainable Buildings and Climate Initiative (UNEP SBCI) is studying.
*3 O&M: operation and maintenance

Examples: Consulting to Support Applications for CASBEE for Real Estate Certification

Owners	Property	Rank	Certification date
Isetan Mitsukoshi Holdings Ltd.	Isetan Shinjuku Main Store	S	2021/7/9
AEON REIT Investment Corporation	AEONMALL YAMATOKORIYAMA	S	2022/3/15
DREAM Private REIT Inc.	MCUD Zama	S	2022/3/18
Suarez TMK	River Side SUMIDA	S	2022/4/28
Keyaki TMK and Kajima Private REIT, Inc.	World Business Garden	S	2022/5/23
Nippon Prologis REIT, Inc.	Prologis Park Osaka 2	S	2022/6/30
Japan Prime Realty Investment Corporation	Shinjuku Square Tower	S	2022/6/30
Nippon Building Fund Inc.	G-BASE TAMACHI	S	2022/7/29
Comforia Residential REIT, Inc.	COMFORIA OMIYA	S	2022/7/29
Sekisui House Asset Management, Ltd.	Prime Maison Shirokanedai Tower	S	2022/8/15
Otsuka Warehouse Co., Ltd.	CROSS DOCK HARUMI	S	2022/8/31
Japan Metropolitan Fund Investment Corporation	Machinoma Omori	S	2022/8/31
Starts Proceed Investment Corporation	Proceed Nishiarai (Artier)	S	2022/10/31

Supporting applications for two certifications concerning the health and comfort of buildings

CASBEE-Wellness Office

Consulting in support of certification applications

We were involved in the development of CASBEE-Wellness Office through an MLIT study group tasked with promoting ESG investment and by sitting on its Smart Wellness Office Research Committee. We currently provide consulting services in support of certification applications.

About CASBEE-Wellness Office (WO)

Given the need for reforms aimed at improving health and productivity management and intellectual productivity, this new office model assessment system focuses on evaluating buildings in terms of health and comfort for office workers. More and more corporations are using it to promote their own positive impacts.

Consulting in support of applications for the WELL Building Standard™ certification

Developed by US-based Delos in 2014, the WELL Building Standard™ is a certification system for evaluating the performance of buildings and urban spaces with a focus on the health and well-being of people. We leverage a business alliance with Panasonic to provide support on WELL Building Standard™ applications.

Differences between CASBEE-WO and WELL Building Standard™

	CASBEE-WO	WELL Building Standard™
Regions	Within Japan	Worldwide
Building use	Offices	All uses
Assessment items	51	119 (selection options)
Certification period	5 years	3 years

Consulting in support of CASBEE for Urban Development certification applications

We carry out environmental performance evaluations using CASBEE for Urban Development, and offers support services such as certification application advisory and review handling services.

About CASBEE for Urban Development

This tool assesses the environmental performance of urban development, including residential and commercial areas. It evaluates the quality of urban development environments from three angles—environment, society, and economy—and also assesses how well environmental impacts are minimized. It comprises assessment items that readily reflect initiatives related to the SDGs or ESG.

Visualizing the value of smart towns and cities and supporting concept formulation

The development of smart towns and cities incorporating next-generation social systems at the regional level, with a complex combination of not only the effective use of electricity, but also the area-wide use of thermal and underutilized energy and the transformation of regional transportation systems and citizens' lifestyles, has become a key point in community development in recent years.

In order to make smart towns and cities a reality, economic added value commensurate with higher costs must be created

whilst establishing clear targets from the basic planning stage onward for environmental, social, and governance issues.

We support projects for smart towns and cities on many fronts, such as devising frameworks that link various initiatives on environmental contributions to economic added value and formulating project concepts. Through our provision of financial functions such as home mortgages, we also help projects get executed.

Concept Diagram for Making the Value of Smart Towns Visible



ESG Real Estate: Enhancing and Visualizing the Environmental Performance of Properties

Helping clients make environmental considerations of construction

Construction consulting

We commercialized Japan’s first land trust system in the 1980s and have been involved in developing and managing many building and condominium projects. As an expert on the client side, we leverage this business owner experience to provide advice about environmental considerations, such as a building’s entire life cycle costs, the installation of energy-saving systems, ways to take into

account landscapes and ecosystems, and extending building lifespans.

In recent times, there has been an increase in the number of properties aimed at acquisition of environmental performance certifications like ZEB*1 (net-zero energy building), as well as projects aimed at adoption in MLIT’s leading projects program for sustainable buildings or in METI’s net-zero energy building proof-of-concept pilot program.

Examples: Construction-phase support for environmental considerations

Company Name	Location	New construction/renovation	Use	Number of Floors	GFA	CASBEE rank
Toyo Seikan Group Holdings, Ltd.	Tokyo	New construction	Office*2	2 basement floors, 21 floors above ground, 1 rooftop floor	Approx. 72,400 m ²	S (acquired)
DAIKIN INDUSTRIES, LTD	Osaka	New construction	Office, R&D facility*2	1 basement floor, 6 floors above ground	Approx. 48,000 m ²	S (self-evaluated)
HIROSHIMA MAZDA CO., LTD	Hiroshima	Renovation	Office, observation deck, product sales and dining facilities*2	2 basement floors, 14 floors above ground	Approx. 11,500 m ²	A (notified)
Chugoku Labour Bank	Hiroshima	New construction	Office	14 floors above ground	Approx. 9,700 m ²	S (acquired)
ANRITSU CORPORATION	Kanagawa	New construction	Office*3	7 floors above ground	Approx. 28,000 m ²	S (self-evaluated)
THE SHIMANE BANK, LTD	Shimane	New construction	Central branch*2	1 basement floor, 13 floors above ground	Approx. 12,000 m ²	S (self-evaluated)
Hamamatsu Iwata Shinkin Bank	Shizuoka	New construction	Office*2	Head office: 10 floors above ground; Main branch: 4 floors above ground	Approx. 16,000 m ²	Head office: S (self-evaluated); Main branch: A (self-evaluated); WO: S (self-evaluated)

*1 Buildings aimed at realization of a comfortable indoor environment whilst balancing out the amount of primary energy used annually by the building to zero

*2 Selected for the MLIT-led “leading projects” program for sustainable buildings

*3 Selected for the METI-led “net zero energy building” proof-of-concept pilot program

Case Study A

HIROSHIMA ORIZURU TOWER

Ministry of Land, Infrastructure, Transport and Tourism’s Leading Projects Program for Sustainable Buildings: Example of Selection

Situated adjacent to the Atomic Bomb Dome (Hiroshima Peace Memorial), this office building underwent full-scale renovations.

The existing framework was reused and the building enlarged to accommodate a higher level of earthquake resistance. A large canopy, louvers, and a “spiral slope” walking ramp were also built into the newly expanded sections. The building reduces its CO₂ footprint by utilizing various energy-saving features, including solar shading and cross ventilation.



Visitors to the building can access the HIROSHIMA HILL observation deck under the giant canopy on the roof, enjoy numerous activities in ORIZURU Square, and learn about its CO₂ reduction initiatives.

Case Study B

Global head office of Anritsu

(case example of selection in METI’s net-zero energy building proof-of-concept pilot program)

With the aim of contributing to global decarbonization and the creation of a sustainable society, the Anritsu Group has plans to turn its head office and R&D site into a net-zero energy building (ZEB).

By improving heat insulation efficiency of exterior walls and windows, combined with the use of natural energy, such as natural lighting and ventilation, and the installation of highly efficient lighting fixtures and air-conditioners, Anritsu is endeavoring to achieve ZEB status by reducing energy consumption and generating its own energy with solar power.

In addition, the adoption of energy that can be visualized is also helping foster an awareness of energy-saving among its users (employees).



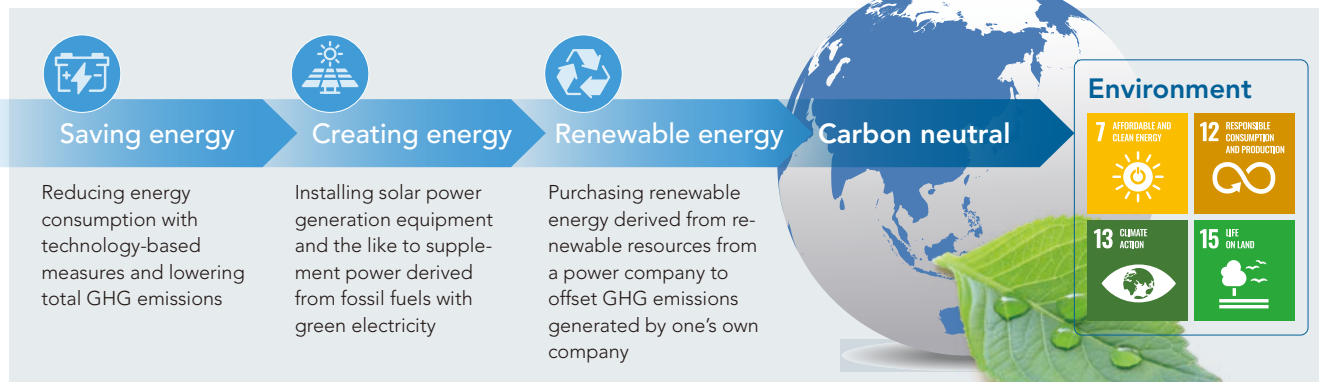
ESG Real Estate: Achieving Carbon Neutrality in Energy Use

Using less energy in existing buildings

Energy-saving consulting

We offer an energy-saving consulting service that entails the planning of measures designed to reduce GHG emissions from buildings as part of our property administration business that supports the business activities of clients.

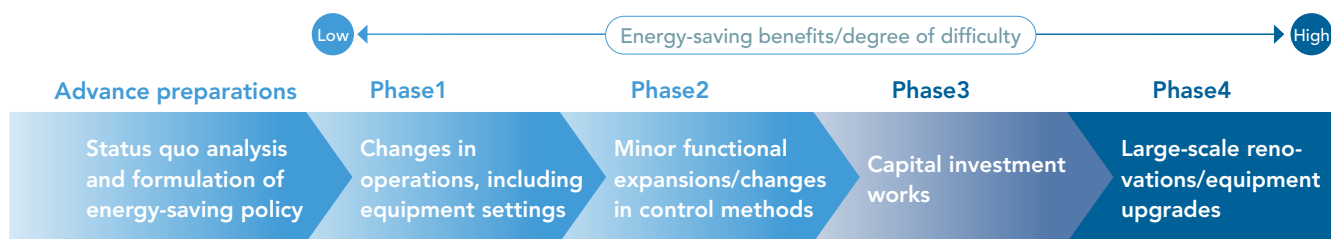
We aim to strike the right balance between higher profitability stemming from revised capex plans with reductions in total GHG emissions, lower utility costs, and limiting deterioration in equipment by achieving greater energy savings in existing buildings.



We gain an understanding of a building's energy performance by firstly analyzing its status quo. In other words, we conduct a building "health check." We can then establish some targets for reducing GHG emissions and the consumption of utilities and formulate an energy-saving

policy. The extent of energy-saving benefits is more or less proportional to the degree of difficulty (investment costs, time, degree of impact on tenants, etc.). That is why it is important to undertake examinations beforehand when devising a plan.

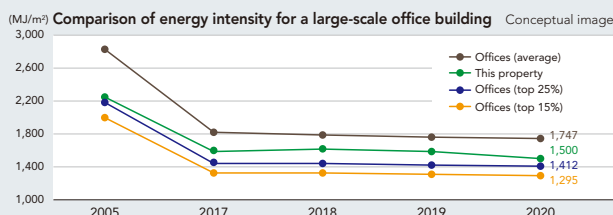
Conceptual image of formulating and implementing an energy-saving policy



Advance preparations

Example of a comparison with benchmarks for an office building

After obtaining the emissions intensity for the client's building from the amount of energy it consumes, we compare and analyze it against benchmarks that match the building's characteristics, from figures such as published by the Tokyo Metropolitan Government's Bureau of Environment. Measuring the building's energy-saving performance gives a rough idea of its energy-saving potential.



Case example of a client proposal

Energy-saving proposal for a production plant in the manufacturing industry

We analyzed the details of annual and daily fluctuations in the amount of energy consumed by equipment (excluding manufacturing equipment) incidental to production equipment at a client's production plant and proposed energy-saving operational approaches without the need for additional capital investment.

We also examined the impact it would have on production lines, the amount of reduced energy use if such measures were to be taken, and the possibility of cost reductions in an effort to help the client make a decision on whether or not they adopt our proposal.



ESG Real Estate: Achieving Carbon Neutrality in Energy Use

Introduction of renewable energy sources

More and more clients are proactively considering the introduction of renewable energy in an effort to decarbonize their buildings.

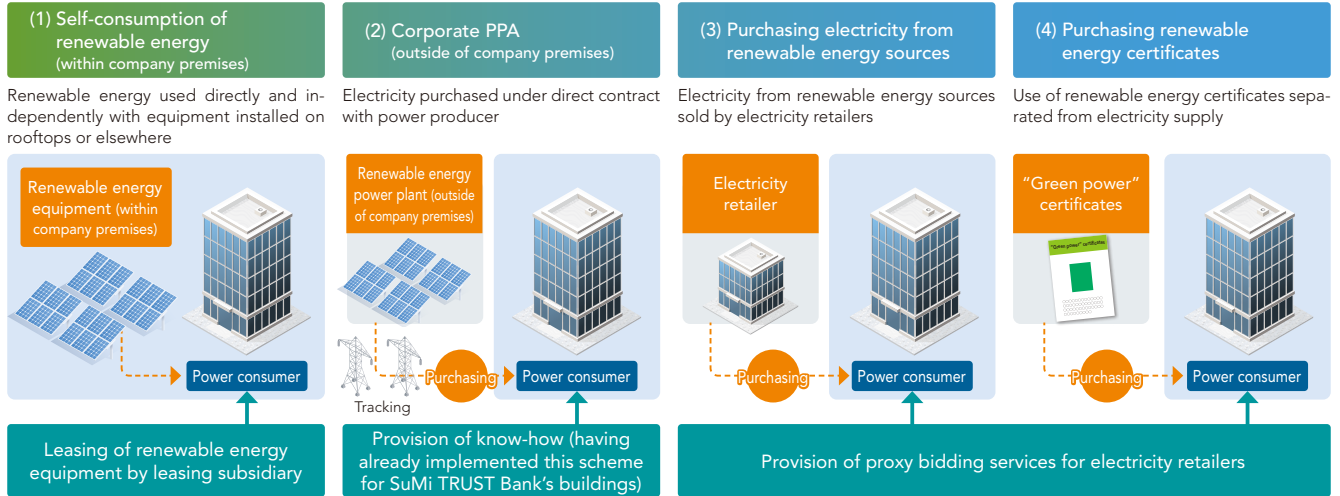
SuMi TRUST Bank appropriately gauges the decarbonization strategies of its clients (power consumers) and helps them select procurement methods that balance both

environmental and economic performance.

In addition to collecting electricity retailers' bids on behalf of clients, the Bank supports the long-term, stable procurement of renewable energy by participating in more direct renewable energy creation models, such as captive consumption-type transactions and corporate PPA transactions.

Direct renewable energy procurement

Indirect renewable energy procurement



Energy support with the use of leasing schemes

ESCO services

An ESCO (energy service company) provides a comprehensive range of services to achieve energy savings, from the installation of energy saving equipment through its maintenance and management.

Sumitomo Mitsui Trust Panasonic Finance is partnering with ESCOs to offer energy-saving equipment leasing. The utilization of leasing means the upfront investment cost of replacing equipment can be eliminated, and in cases where certain conditions are met, subsidies can also be applied. With this service, Sumitomo Mitsui Trust Panasonic Finance can offer proposals that seek to protect the environment by saving energy whilst also lowering utility and maintenance costs.

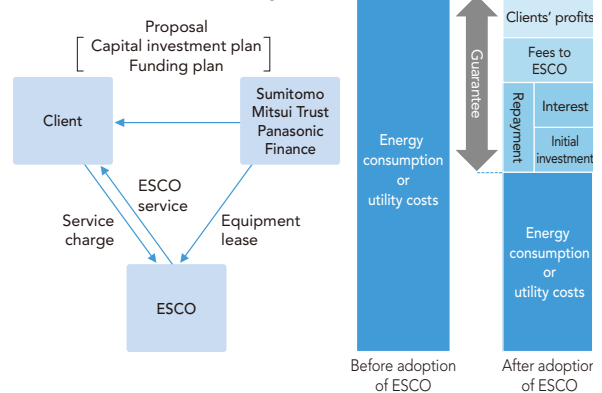
Home renovation loans for smart homes

A smart home is a residence in which overall power consumption can be optimally controlled and utilized by having home appliances and equipment connected to solar power generation or storage battery/thermal storage systems centering on a home energy management system (HEMS).

Sumitomo Mitsui Trust Panasonic Finance is supporting smart home conversions through the provision of home renovation loans. In partnership with construction contractors and vendors, we are helping households fight climate change mainly by promoting the uptake of household solar power generation equipment and the like.

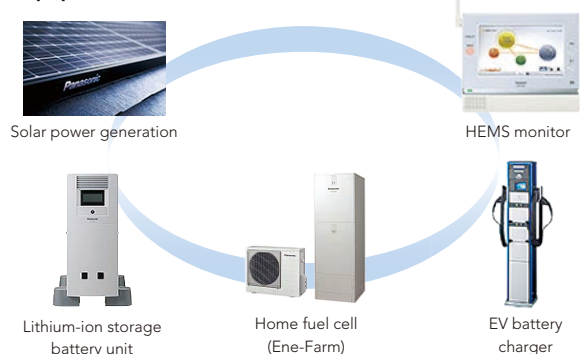


Outline of ESCO Concept



*Case where a client adopts "Shared Model," one form of an ESCO scheme

Equipment needed for a smart home



Asset Management Initiatives

Sumitomo Mitsui Trust Asset Management initiatives

Sumitomo Mitsui Trust Asset Management (SMTAM) has identified climate change as an ESG materiality item and strives to engage with domestic and foreign companies, exercise voting rights for them, and develop and provide investment products, based on various risks and opportunities related to climate change.

In addition, SMTAM considers engagement and the exercise of voting rights to be a direct opportunity to require that investee companies, etc. make management decisions and build systems based on climate change risks, and—by actively implementing the above—SMTAM strives to maximize its assets under management and control asset management risks. In terms of engagement, SMTAM conducts activities

both independently and through the PRI,^{*1} CA100+,^{*2} etc.

In terms of collaboration with stakeholders related to climate change, SMTAM engages with industry bodies and conducts policy recommendation activities through the Investor Agenda.^{*3}

SMTAM also provides investment opportunities considering climate change risks and opportunities through passively/active investment products with consideration of climate change issues.

^{*1} The Principles for Responsible Investment, which require that institutional investors consider ESG when making investment decisions.

^{*2} A collaborative engagement organization group that requires companies with high GHG emissions based on TCFD to disclose information.

^{*3} An institutional investor initiative that promotes low-carbon acts related to climate change.

Examples of Sumitomo Mitsui Trust Asset Management engagement

CASE 1

Nextera Energy Inc.

(USA/power)

- Climate change issues
- Promotion of information disclosure (environment)

Engagement manager's perspective

In spite of having high GHG emissions, the company has not disclosed any specific long-term measures. Related improvements therefore seem necessary.

SMTAM's opinion

Although it is admirable that your company leads the industry in terms of investment in renewable energy and has disclosed GHG reduction results and set specific short-term targets, you are not committed to achieving net-zero emissions in the long term. The consistency of your approach with scenarios in which the temperature rises by 1.5 degrees is unclear as well. It therefore seems necessary for you to express your commitment to achieving net-zero emissions in the long term and to present a roadmap for doing so.

Company's response

- Although the long-term transition is important for achieving net-zero GHG emissions, we are also considering the need to maintain a stable supply of power and to set acceptable prices as we proceed.
- Our business base in Florida has a power mix that consists of 60% gas power and 20% nuclear power, with the rest consisting of solar/power storage. Given that solar power output is affected by sunlight and nuclear power requires us to maintain a certain level of operation—and therefore lacks the flexibility to deal with demand fluctuations—gas power is extremely important as a cushion.
- It will also become possible to switch to hydrogen in the future.

Company's actions

- In June 2022, the company announced its long-term (2045) target of achieving net-zero emissions.
- The company also set comprehensive targets—including expected economic effects, such as the creation of jobs to achieve a Just Transition—related to the accelerated introduction of renewable energy and the promotion of power storage/hydrogen technologies to help achieve carbon neutrality.

SMTAM's evaluation and future policy

- Business-related dialogues based on an awareness of the management environment, including technology, regulations, and politics, have been held to achieve a deeper mutual understanding with the company side.
- At the same time, effective engagement has been achieved, including the submission of letters to the chairman (written opinions) that used CA100+ and other collaborative initiative tools as a reference.
- We will continue with efforts to implement long-term action plans, investment plans, and plans that consider the social impact and other details of transitioning to carbon neutrality as well as PDCA-based monitoring.

CASE 2

TotalEnergies

(France/energy)

- Climate change issues

Engagement manager's perspective

Although the company has been promoting active, advanced climate change initiatives since 2021, further enhancement and acceleration seem necessary given the company's position as an industry leader.

SMTAM's opinion

Given that your energy company is a major representative of Europe and a key CA100+ brand, investors pay close attention to you. It therefore seems necessary for you to further enhance various initiatives aimed at achieving net-zero GHG emissions. More specifically, you are expected to disclose information on your progress in terms of renewable-energy investment projects and to promote an industry-leading strategy in terms of implementing more comprehensive Scope 3 initiatives, etc.

Company's response

Following the announcement of our commitment to achieving net-zero emissions by 2020, we disclosed specific details of our renewable energy investment projects, and we have announced our specific Scope 3 initiative policies on an ongoing basis. We also promote thorough dialogues with various stakeholders, and we will continue to do so as we confirm the trends of our competitors as well.

Company's actions

In July 2022, the company engaged in direct dialogues with local stakeholders, describing individual initiative policies for achieving net-zero emissions and expressing its strong commitment to its vision of achieving top-tier performance as an energy-industry leader.

SMTAM's evaluation and future policy

- The company is already promoting advanced GHG reduction initiatives, but SMTAM was able to explain to and gain understanding from them that further refinement of individual measures and steady progress are necessary.
- Through engagement, we will explain SMTAM's approach—such as by sending the company letters—to achieve more detailed discussions and relationship building.
- In the future, we will monitor the company's progress in terms of promoting specific initiatives aimed at achieving net-zero emissions.

Asset Management Initiatives

CASE 3

Domestic Non-Manufacturing Company A

- Business strategy
- GHG reduction

Analyst's perspective

The company's business consists largely of mineral resources. In addition, there is a high likelihood of the risk of ending up with stranded assets due to climate change being incorporated into the share price, which has a PBR of less than 1x. Therefore, it seems necessary to come up with business portfolio strategies linked to addressing climate change issues.

SMTAM's opinion

Although your company conducts scenario analyses by business segment and discloses the resulting information based on the TCFD Recommendations, your business portfolio strategies are not linked strongly enough to addressing climate change issues. We therefore believe it is necessary for your company to include such strategies in your next medium-term plan to show that you are striving to sustainably enhance your corporate value while securing income opportunities and controlling risks.

We believe that the Scope of responsibility for addressing climate change includes the entire supply chain. Therefore, it seems necessary to set medium- to long-term targets that include not only Scope 1 and 2 but also equity method investment as detailed in category 15 of Scope 3.*1 In addition, regarding trading as detailed in category 11,*2 it seems necessary to take steps that include both contributing to GHG reduction by providing business opportunities aimed at achieving carbon neutrality to clients and verifying/disclosing the risk of owned assets becoming stranded.

Company's response

When formulating our medium-term management plan, we categorized each business segment according to its environmental impact and considered how to make business portfolio changes so as to achieve the transition. In addition, we are considering applying internal carbon pricing to each investment project.

We were able to organize our Scope 3 approach. We would also like to consider disclosure pertaining to categories 11 and 15. At the same time, in terms of the SBTi,*3 only carbon removal is recognized as a valid carbon neutrality approach, but we would like to consider responding with offsets, including credit. We are also developing tools to use to visualize the risk of ending up with stranded assets and are promoting risk management specific to each business department. In addition, we are considering reviewing our business portfolios based on consideration of the profitability assuming that internal carbon pricing is applied.

Company's actions

In the new medium-term management plan disclosed by the company with their 2022 financial results, they clearly stated a management strategy consistent with their environmental vision and targets. The company has also disclosed information that includes cross-division initiatives to promote energy-transition investment and the transition itself, a governance system for monitoring the progress of sustainability initiatives, and their composition ratio plans for their green-asset balance sheet. In addition, the company will introduce a mechanism for achieving both the carbon neutrality and resilience of its portfolios.

In October 2021, the company announced that—in terms of its GHG emissions, including affiliated company Scope 1 + 2 emissions (ownership ratio)—it plans to reduce emissions by half by FY2030 (compared to FY2020) and to achieve net-zero emissions by 2050. The company also formulated a roadmap for energy-transition investment on a multi-trillion yen scale up through FY2030.

SMTAM's evaluation and future policy

The dialogue targets with specified issues have been achieved, but SMTAM will continue monitoring the effectiveness of business portfolio strategies linked to actions to address climate change issues in the company's medium-term management plan. In addition, regarding GHG reduction as well, we will continue engaging in dialogues concerning more comprehensive information disclosure based on the TCFD Recommendations, including the breakdown of action and reduction plans aimed at expanding the Scope 3 reduction-target scope (category 11, etc.) and achieving 2030 targets as well as increasing the scenario-analysis sophistication.

CASE 4

Domestic Non-Manufacturing Company B

- GHG reduction
- Corporate governance

Analyst's perspective

Due to the increasing interest in climate change issues and the strict view of companies with high GHG emissions, a quick response is required. In addition, given that the Board of Directors has no female directors and an external-director ratio of less than 1/3, efforts to enhance corporate governance seem necessary.

SMTAM's opinion

Even if shareholder proposals have been obtained from other shareholders in relation to climate change—an ESG materiality issue identified by SMTAM—voting decisions must be made based on whether a clear GHG reduction plan has been presented as well as the consideration of past performance. Your company's reduction plan is based on assumptions that include the achievement of GHG capture and storage, but—based on technical considerations and social conditions—there seem to be risks related to the effectiveness of your approach. It therefore seems necessary to consider and disclose alternative scenarios.

Your independent external director ratio of less than 1/3 does not satisfy the criteria stipulated in SMTAM's guidelines for the exercise of voting rights. It therefore seems necessary to increase the sophistication of your corporate governance, including improving this ratio. In addition, what is your view/analysis of the fact that, at your Ordinary General Meeting of Shareholders, your resolutions regarding the approval of a chairman and president had low approval ratings? It seems necessary to apply this result to the enhancement of your corporate governance as well.

Company's response

Under our GHG reduction plan up through 2030, we are planning to renovate or stop the operations of aging plants, but we have not disclosed our individual plans. Given that the CO₂ reducing effects of new plants will be determined in part by which plants are stopped instead of them, we do not have any clear details on this.

We are currently reviewing and discussing how to get our ratio of independent external directors to 1/3 or more, including institutional design, and we hope to accomplish this before the end of the year. Based on our analysis, reasons for the low approval rate that you pointed out include our low ratio of independent external directors as well as our total lack of female directors. We were not fast enough to make changes this time, but we are promoting initiatives to attract suitable human resources.

Company's actions

In addition to transitioning to become a company with an Audit and Supervisory Committee, the company increased its ratio of independent external directors to at least 1/3 and appointed female directors.

SMTAM's evaluation and future policy

At the Ordinary General Meeting of Shareholders, a shareholder proposal requesting that climate change issues be addressed was submitted, and—given that there were no problems in terms of SMTAM's guidelines for the exercise of voting rights from the perspective of urging the company to pursue initiatives—the proposal was approved. In the future, we will request that the company disclose information on specific, effective measures for achieving its 2030 and 2050 targets. Although we have seen some progress from the perspective of corporate governance, we will engage in dialogues aimed at getting the company to continue pursuing initiatives to enhance its corporate governance, including the selection of successors in the case of independent external directors whose independence might be called into question given the length of their tenure.

*1 One of 15 categories of Scope 3 emissions (other indirect emissions), specifically GHG emissions by investees. Scope 3 is separate from Scope 1 (direct emissions) and Scope 2 (indirect emissions from electricity use, etc.).

*2 A Scope 3 category that covers emissions due to the use of sold products.

*3 An initiative that promotes the setting of corporate reduction targets consistent with scientific knowledge in order to achieve the goal of keeping the rise in the average global temperature due to climate change to 1.5 degrees or less compared to before the industrial revolution.

Nikko Asset Management's initiatives

Nikko Asset Management (hereinafter "Nikko AM") has been proactively engaging in dialogue with investee companies on key ESG themes including climate change, thereby supporting companies' efforts at sustainable value creation. Through these dialogues, Nikko AM deepens its understanding of details that include the management quality and future direction of each company, which enables Nikko AM to appropriately apply such information to corporate value evaluations and adjust its investment decisions accordingly.

Through engagement, the investment teams share an

accurate understanding of the situation of each investee company and the challenges they face, and encourage them to improve their corporate value over the medium to long term. As part of those efforts, Nikko AM also emphasizes dialogues covering corporate management systems and initiatives related to climate change risks and opportunities. In March 2022, Nikko AM disclosed the Nikko Asset Management Group Engagement and Stewardship Strategy. This strategy presents an overview of Nikko AM's engagement objectives and processes as well as its approach to monitoring, escalation, etc.

Examples of engagement related to climate change

Japan Equity team engagement example — Domestic Financial Sector Company C

Company C is committed to achieving net zero GHG emissions in its portfolio of investments and loans by 2050. Nikko AM has a positive view of their proactive attitude towards continuous improvement, along with their high standards for responding to climate change, which include various initiatives such as the enhancement of sustainable finance targets. In its dialogue with Company C, Nikko AM provided the following feedback.

- (1) Interim reduction targets: These targets are ambitious, and we expect the company to set objectively sound KPIs while also emphasizing the perspective of both reducing the environmental impact and achieving business growth.
- (2) Climate-related information disclosure (TCFD disclosure): We expect the company to disclose additional

information on engagement efforts and assessment of the portfolio's climate-related risks which will be drivers for realizing the decarbonization of the portfolio, etc.

In the company's sustainability report disclosed a few months after our dialogue, we confirmed that information disclosure had been enhanced via measures such as the inclusion of examples of engagement that supported transitions by borrowers and investees, as well as the addition of target sectors for scenario analysis. Furthermore, for the interim reduction target set for 2030, a 1.5°C target for the priority sectors was set in accordance with the guidelines set by international initiatives. We have a positive view of Company C's progress with its climate-related countermeasures and information disclosure.

New Zealand Bond team engagement example — Commercial Vehicle Leasing Company D

Nikko AM has been engaged in dialogue with the management team of Commercial Vehicle Leasing Company D in New Zealand (hereinafter "the country"), since purchasing bonds issued by the company.

Company D is aiming to become "the best truck and trailer rental service in the world and bring positive changes to people's lives." It supplies and manages approximately 6,700 large trucks and trailers for domestic industries, equivalent to one in ten vehicles in the country.

Nikko AM purchased bonds from the first and second issuances by Company D. When we made the purchase, in addition to credit ratings and competitive yields, we had a positive view of their clear ESG strategy and initiatives for

eco-friendly trucks, leading the market in electric vehicles and hydrogen vehicles.

In our discussion with Company D's management team, we confirmed their values and corresponding actions, and we thoroughly investigated their alternative fuel initiatives, which is an area of focus for Company D. If alternative fuels are widely adopted for transport vehicles in New Zealand through initiatives such as those being promoted by Company D, the country's CO₂ emissions can be significantly reduced. Through this engagement, Nikko AM confirmed the value of Company D's corporate culture, which is centered around ownership, leadership, integrity, teamwork, work ethic, and continuous improvement.

Sumitomo Mitsui Trust Panasonic Finance Initiatives

Solar Power Generation for Self-Consumption

Sumitomo Mitsui Trust Panasonic Finance formed a partnership with an experienced solar power equipment manufacturer to help companies develop optimal investment plans for solar power generation for self-consumption based on their power utilization records, and reduce their initial costs

through subsidies.

This venture helps companies reduce their CO₂ emissions, reduce their Scope 3 emissions, and participate in SBT and RE100 initiatives; it also contributes to the Japanese government's Low Carbon and Decarbonization initiatives.

Contributing to Decarbonization through Corporate PPAs

Sumitomo Mitsui Trust Panasonic Finance is collaborating with power generation companies to promote the procurement of electricity through corporate power purchase agreements* (PPAs). Corporate PPAs offer three merits to clients: 1) the removal of solar power generation facilities from their

balance sheets; 2) the procurement of renewable energy with no initial investment; and 3) the effectively use of non-operational or idle land.

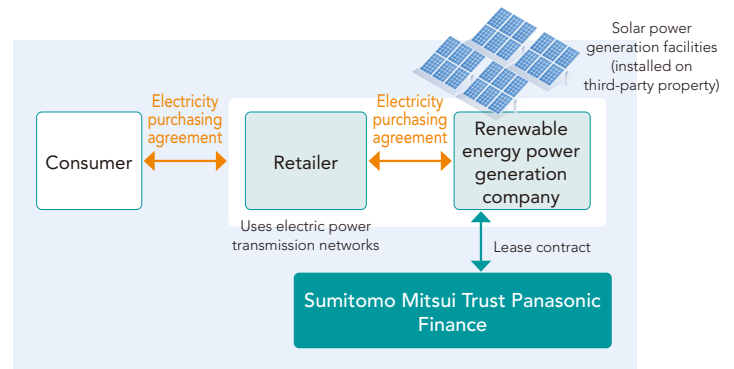
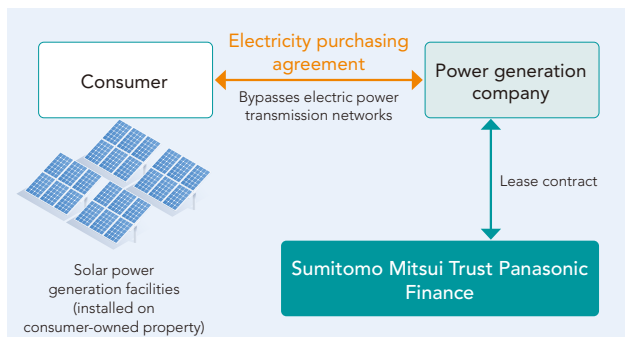
*Corporate PPAs are long-term agreements for consumers to purchase renewable electricity from power generation companies; they are available in various forms. Sumitomo Mitsui Trust Panasonic Finance has practical experience in the provision of subsidized on-site and off-site PPAs.

On-site PPAs

An on-site PPA is an electricity purchasing agreement in which a consumer purchases electricity that has been generated on its own property: the consumer provides a power generation company with use of privately owned property (rooftops, idle land, etc.); the power generation company uses this space to establish, operate, and maintain power generation facilities; the consumer purchases and consumes the electricity generated. This scheme allows for the purchase of power generation and environmental value at a fixed price, thus preventing the impact of increases in electricity rates and allowing consumers to achieve stable power procurement.

Off-site PPAs

An off-site PPA is an electricity purchasing agreement in which a consumer purchases electricity that has been generated on third-party property: power generation facilities are installed on third-party property; electricity is sent from these facilities to the consumer via transmission networks. It is targeted at users who find installation within facilities difficult or who cannot meet demand with on-site capacity only. Costs include trust fees, renewable energy dues, and supply-demand adjustments.



Mega-Solar Installations Using Leases

Leasing power generation facilities helps lower the initial investment cost for construction; projects can also earn stable income by using the feed-in tariff (FIT) system. Leases are therefore an effective method of financing that enhances business planning stability.

In addition to new projects, Sumitomo Mitsui Trust Panasonic Finance also provides lease-based financing options for fully operational projects that have been put up for sale to investors (secondary transactions). And it also started a leasing and installment plan support service for offshore floating mega-solar power plants. The Group will continue to fuse its extensive know-how honed thus far with financial services to offer schemes that best meet the needs of increasingly sophisticated renewable energy projects.



Micro-Power Generation in Water Supply Systems

Sumitomo Mitsui Trust Panasonic Finance proposes ideas for adopting micro-power generation systems in water supply systems across Japan, and promotes global warming mitigation measures and the use of natural energy in the regions.

There is an enormous amount of energy in Japan's water supply facilities that can be used for power generation, such as unused drop-offs from natural flow, excess pump pressure, and pressure reduction due to pressure reduction valves.

The Group leases water supply facilities from local governments and provides a scheme that reduces the burden of the initial investment required for installing a power generation system via leasing.

The high-efficiency power generation system used in this scheme has been adopted by 48 water supply facilities nationwide (including those planned for the future) as of March 2023, and the total power generation capacity comes to 1,861.3 KWh. The annual estimated power generation of the 37 facilities that have installed the system is 8,805 MWh, and the annual CO₂ emission reduction is expected to reach 3,830 t-CO₂*. We will continue to contribute to a sustainable society through the introduction of renewable energy.

*Calculation method for annual CO₂ emission reduction: an estimated value is calculated by multiplying the annual estimated power generation by the emission factor of general power transmission and distribution operators (2023).

*Starting this fiscal year, for each factor, we report the number of installations via the leasing scheme.

Characteristics of micro-power generation systems

High efficiency: Efficient power generation system developed with inverter controls

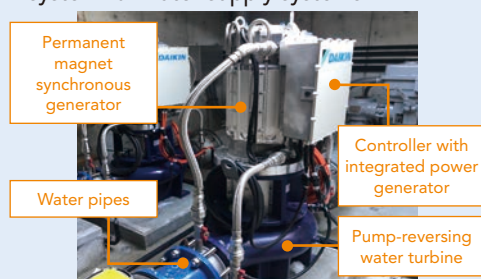
Low cost: System configuration uses general-purpose pumps, low-cost magnets, and standardized parts

Compactness: Power generator and control device are stacked on top of each other to minimize installation space

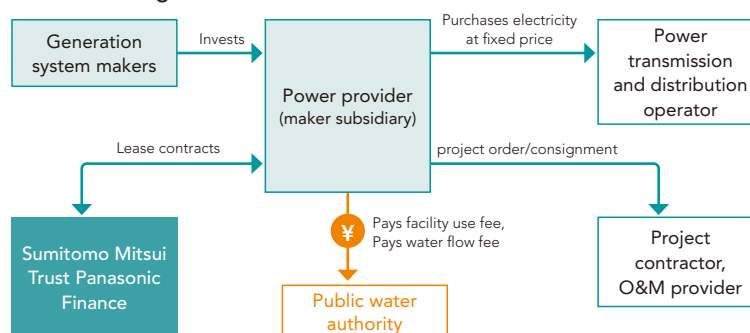
Characteristics of leasing system (advantages for local governments)

- No upfront investment costs on project launch
- Power provider manages and maintains the system
- Stable lease revenue and receipt of property tax

Newly developed micro-power generation system for water supply systems



Schematic Diagram



Home Renovation Loans for Smart Houses

Homes continue to evolve, and are now able to generate electricity on-site, and use this electricity in a smart manner. Through its home renovation loans, Sumitomo Mitsui Trust Panasonic Finance is supporting the conversion of homes into "smart houses." Today, smart houses are capable of efficiently generating and storing power through a combination of solar panels, storage batteries, and household fuel cells. Improved energy-saving functions also enable homeowners to tailor their electricity consumption to their lifestyles and the prevailing weather conditions. The ten-year Excess Electricity Purchasing Scheme for Photovoltaic Power commenced in

2009; as such, since 2019 there has been significant growth in household solar power generation equipment whose feed-in tariff contracts have expired. Going forward, the conversion of existing homes into "smart houses" will be a key topic in the fight against global warming.

Following the liberalization of retail sales of electricity and gas to households in Japan, energy and telecommunication sector services are increasingly being integrated; examples include sales of packages that combine telecommunications or broadcasting services with various forms of electricity. The development of houses, home appliances, and vehicles with multiple functions is also advancing. Through its solar loans, Sumitomo Mitsui Trust Panasonic Finance has contributed to the popularization of household solar panels since the Excess Electricity Purchasing Scheme for Photovoltaic Power was established.

Equipment for Upgrading to a Smart House



A smart house

Going forward, by partnering with equipment vendors and installers, Sumitomo Mitsui Trust Panasonic Finance will continue to support the conversion of homes into "smart houses" via its renovation loans.

Sumitomo Mitsui Trust Panasonic Finance Initiatives

Adoption of JCM Eco Lease in Vietnam

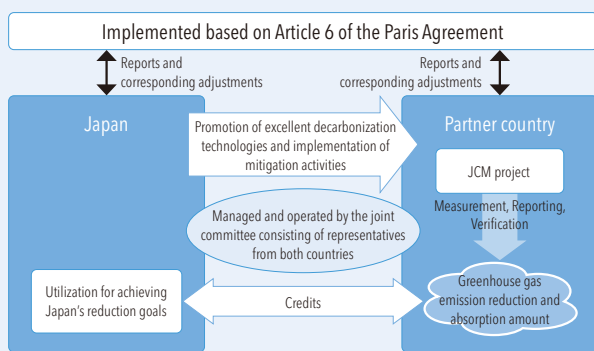
Sumitomo Mitsui Trust Panasonic Finance, together with BIDV-SuMi TRUST Leasing Company, Ltd (hereinafter, BSL), a joint leasing venture between SuMi TRUST Bank and the Bank for Investment and Development of Vietnam, applied and was accepted to the JCM Eco Lease Scheme (hereinafter “scheme”), an equipment subsidy project under the FY2022 bilateral crediting system (Joint Crediting Mechanism; hereinafter “JCM”) Financing Programme, for a rooftop solar power generation system at an aluminum wheel factory in Vietnam.

This scheme is a project that reduces greenhouse gas

(GHG) emissions in developing countries by utilizing superb decarbonization technologies, and it is carried out by a leasing company, which is a Japanese corporation, as the representative operator of the international consortium. The reduction amount is measured, reported, and verified (MRV).

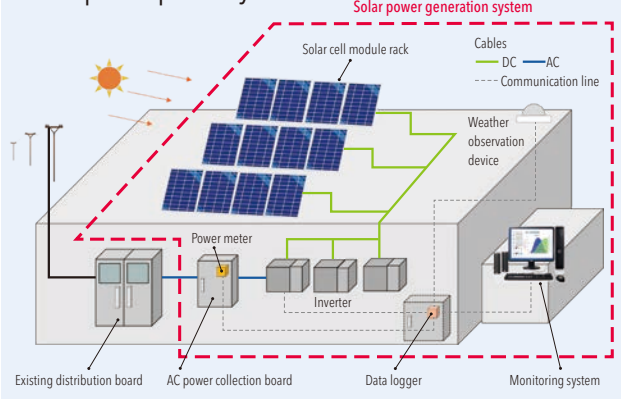
This scheme is being implemented through the cooperation of the Vietnamese government and the Japanese government. Through this scheme, Sumitomo Mitsui Trust Panasonic Finance will continue to help achieve a carbon-free society both at home and abroad.

Scheme Overview



(Source: Ministry of the Environment document: “JCM Equipment Subsidy Project/Co-Innovation Project Public Briefing”)

Rooftop solar power system



Green Bond Allocation Reporting

In September 2021, Sumitomo Mitsui Trust Panasonic Finance established the Green Finance Framework*, and it issued the company’s first green bond in October.

In June 2022, we conducted our first reporting on the status of allocations. The funds raised from the green bonds have been fully allocated to the acquisition funds

for assets such as leases of renewable energy and energy-saving equipment. The company has contributed to solving environmental issues for a wide range of clients, from large corporations to SMEs and individuals, allocating green bonds to over 5,000 projects.

The environmental improvements are as follows.

Category	Eligibility criteria	Number of projects (number of contracts)	Power generated annually (MWh)	Annual CO ₂ emission reduction (t-CO ₂)
Energy efficiency	EcoCute (for individuals)	4,252	—	1,008
	Refrigeration equipment	749	—	231
	LED lighting-related	64	—	1,490
Renewable energy	Solar power generation	2	1,427	618
	Micro hydroelectric power generation	3	599	259
Total		5,070	2,026	3,606

Calculation Method

- The company estimates theoretical values based on the energy-saving effects, output standards, and other factors of the target equipment.

*Click here for Sumitomo Mitsui Trust Panasonic Finance’s Green Finance Framework

[PDF https://www.smtpf.jp/company/csr/pdf/greenfinance_framework.pdf](https://www.smtpf.jp/company/csr/pdf/greenfinance_framework.pdf) (Japanese text only)



Sustainability Linked Loan Initiatives

Sumitomo Mitsui Trust Panasonic Finance has carried out fundraising through Sustainability Linked Loans (hereinafter "SLLs"). As a member of the SuMi Trust Group, we believe that it is our social responsibility to actively contribute to the construction of a sustainable society, and we have established the "Sumitomo Mitsui Trust Panasonic Finance Basic Policy on Social Responsibility (Sustainability Policy)."

The Key Performance Indicators (hereinafter "KPIs") and Sustainability Performance Targets (hereinafter "SPTs") that we have established this time will contribute to the achievement of a sustainable society as part of an initiative that makes use of the company's distinctive features,

with its broad client base ranging from large corporations to individuals and its wide-ranging products.

Moreover, the procurement amount is 10 billion yen, and third-party opinions have been obtained from the Japan Credit Rating Agency with regard to compliance with the SLL principles and the rationality of the KPIs and SPTs.

Overview

Date of execution	January 25, 2023
Arranger and agent	SuMi TRUST Bank
Total amount	10 billion yen
Loaners	10 banks (syndicated loan)

KPI and SPT Overview

No.	KPIs (Evaluation Index)	SPTs (Target)
(1)	Cumulative number of contracts for the "Arigatou" SDGs project (properties that comply with the green or social loan principles are eligible)	More than 120 contracts during the target period
(2)	Cumulative number of contracts for EcoCute	More than 13,500 contracts during the target period
(3)	Reuse/recycle rate of returned PCs (excluding properties for which material extraction was difficult due to contractual disposal designations, chemicals, etc.)	100% reuse/recycle rate for PCs returned during the target period

Target period: From October 2022 to September 2025

Sustainability Linked Loan details

Use the following QR code to view the News Releases. (Japanese text only)

