



**Resource Mobilization ~ Natural Capital Loans**

**SuMi TRUST**

**Sumitomo Mitsui Trust Bank, Limited**

**CBD COP12 Business and Biodiversity Forum**

**September 2014**



## 1. Corporate Profile

## Who is SuMi TRUST?

### **A leading trust bank with banking, investment and asset management services.**

- ✓ Total AUM of USD 497 billion from institutional investors.
- ✓ Subsidiary of Sumitomo Mitsui Trust Holdings, Inc., a constituent of TOPIX and Nikkei 225.
- ✓ Expanding client base and offering fiduciary services on a global scale.
- ✓ Conducting wide range of financial services in 6 business divisions.

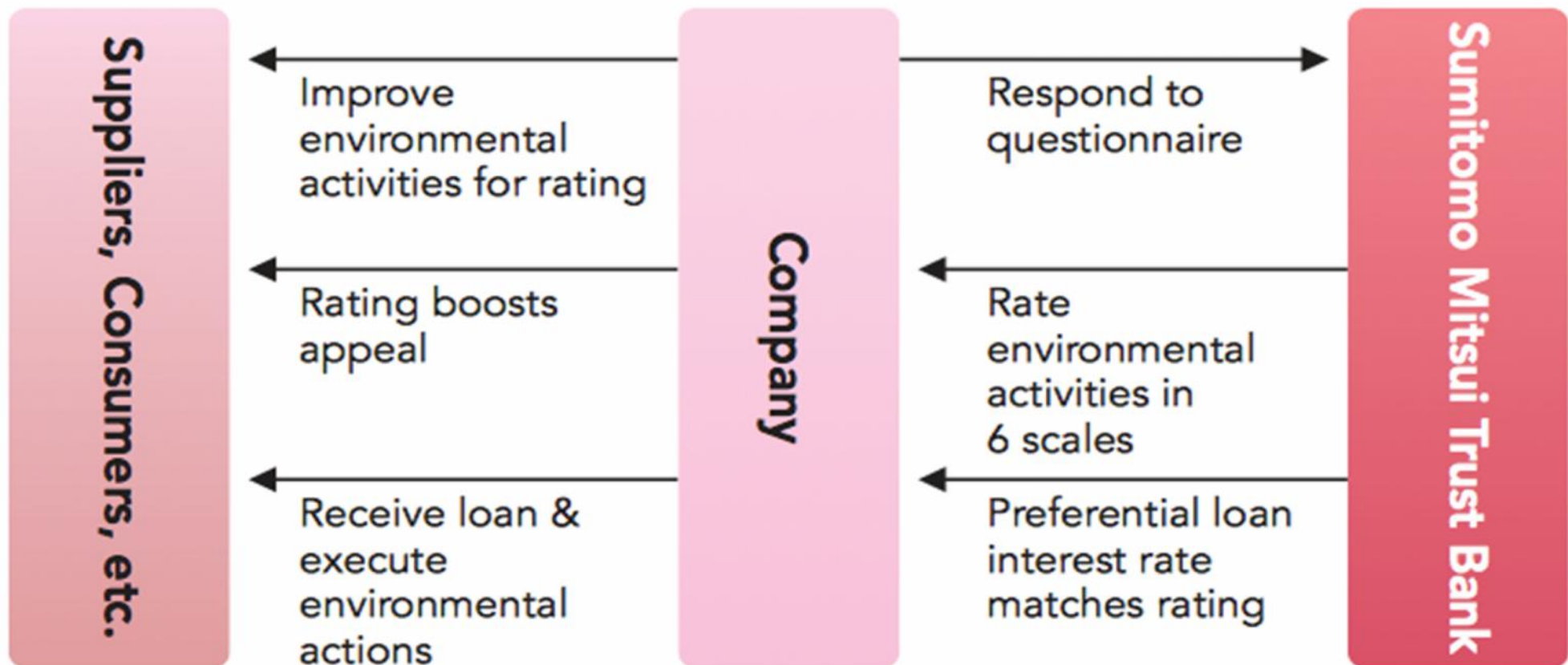
**SuMi TRUST**  
SUMITOMO MITSUI TRUST BANK



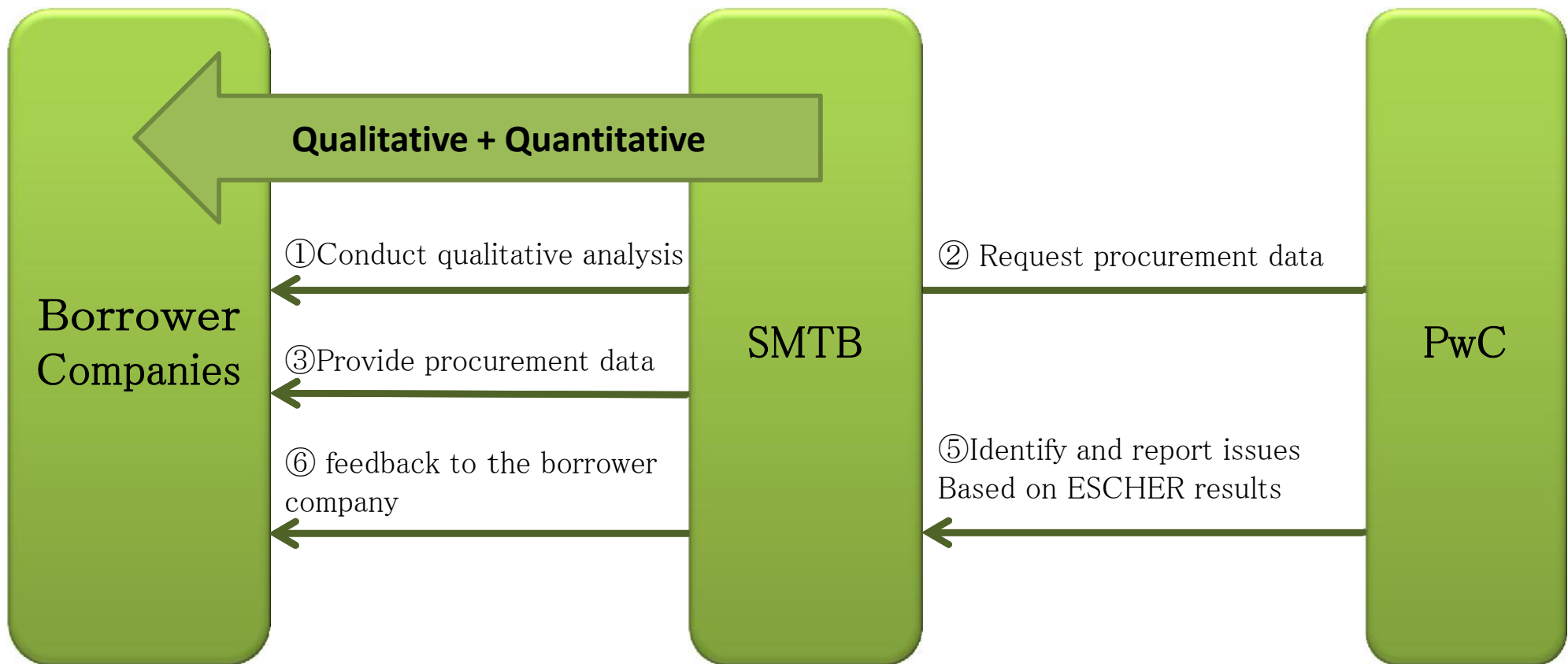
Tokyo, Head office

NB: AUM is for Sumitomo Mitsui Trust Bank only (1USD = 101.31JPY)  
Data source: Sumitomo Mitsui Trust Bank (as of 31 June 2014)

## Sumitomo Mitsui Trust Bank's "Environmental Rating Loan" Flow Chart



## Framework

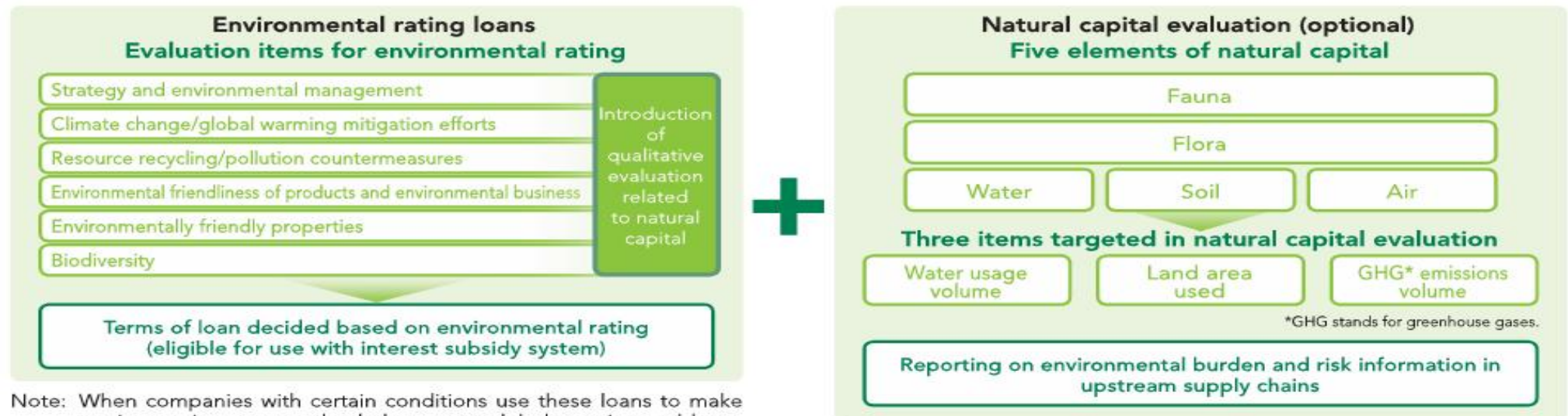


# Environmental Rating Loans with Evaluation of Natural Capital Preservation

## Concept Behind Environmental Rating Loans

The sustainable use of natural capital as resources is vital for a company to continue its business. There is a growing awareness that efforts to address issues related to natural capital across the supply chain as well are an indispensable part of management strategy.

In April 2013, Sumitomo Mitsui Trust Bank launched its Environmental Rating Loans with Evaluation of Natural Capital Preservation, which incorporate the concept of evaluating impact on natural capital and a company's initiatives into the environmental-rating evaluation process that assesses its environmental measures. This is the world's first attempt to incorporate natural capital evaluation into loan criteria.



Note: When companies with certain conditions use these loans to make equipment investments that help counter global warming problems, they can receive interest subsidies under the Japan Environment Association's interest subsidy program.

Note: These options are provided by PricewaterhouseCoopers Sustainability Co., Ltd. and are not available without loan products.

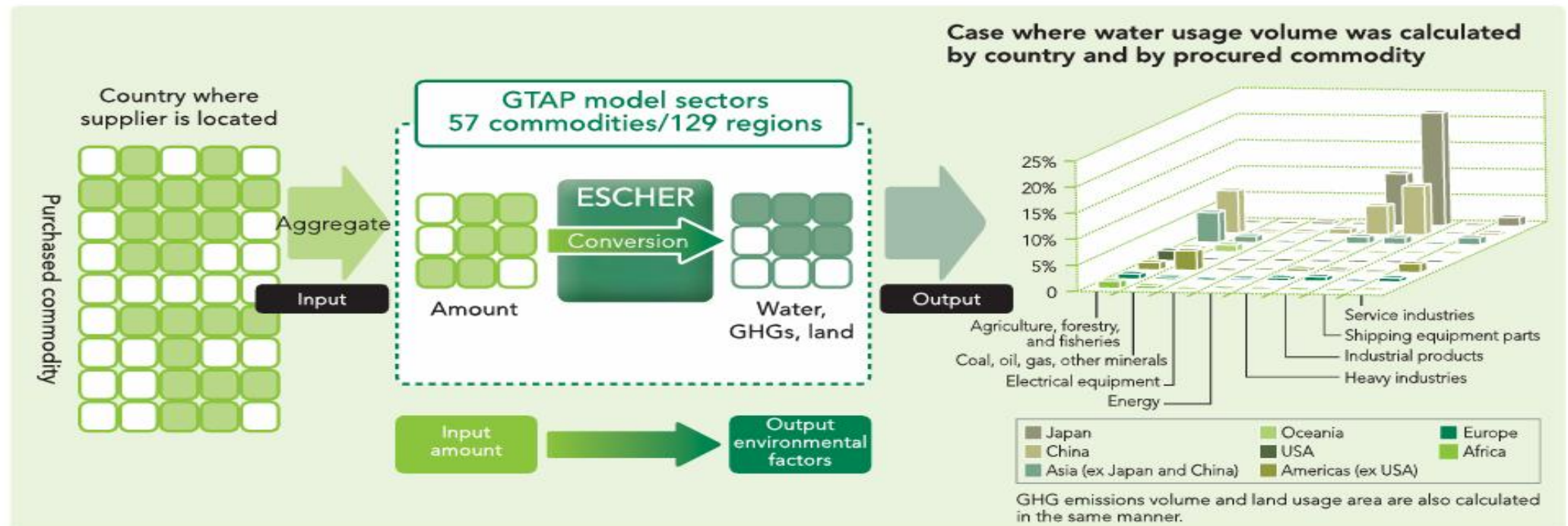
## ESCHER Natural Capital Assessment Tool

ESCHER (Efficient Supply Chain Economic and Environmental Reporting) is a tool developed by PwC Germany that calculates the value of natural capital impacts. Based on procurement data, ESCHER calculations factor in industry-related input-output tables and trade statistics data to retrace the supply chain, and it estimates the degree of dependence and degree of impact on natural capital of each commodity procured, by country or region.

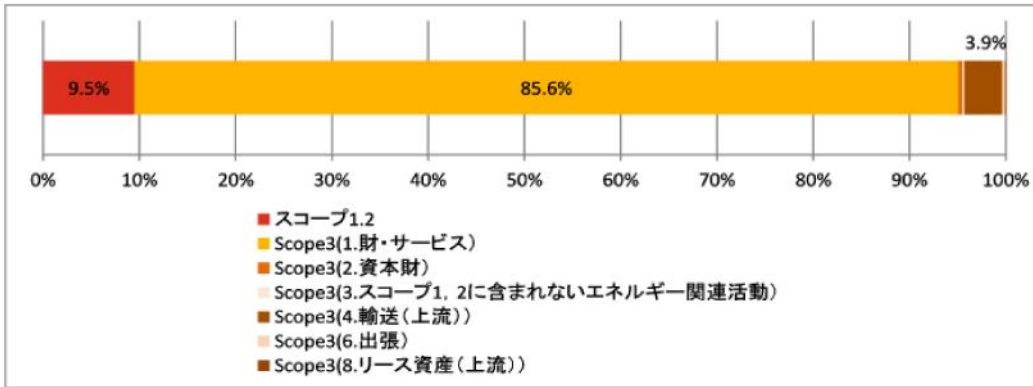
### About ESCHER

Commodity data from mapping 57 GTAP\* commodity sectors and commodity suppliers by location country into 129 regions are input into the ESCHER model for quantitative evaluation, and, as outputs, the model estimates water usage volume, GHG emission volume, and land usage area (environmental factors).

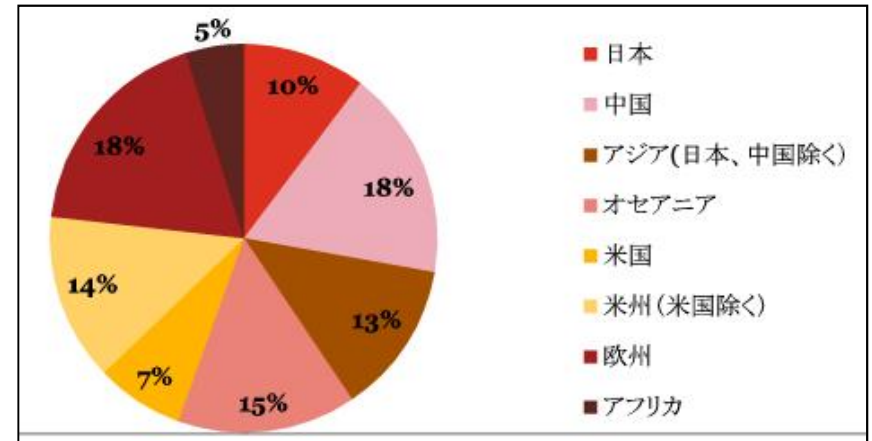
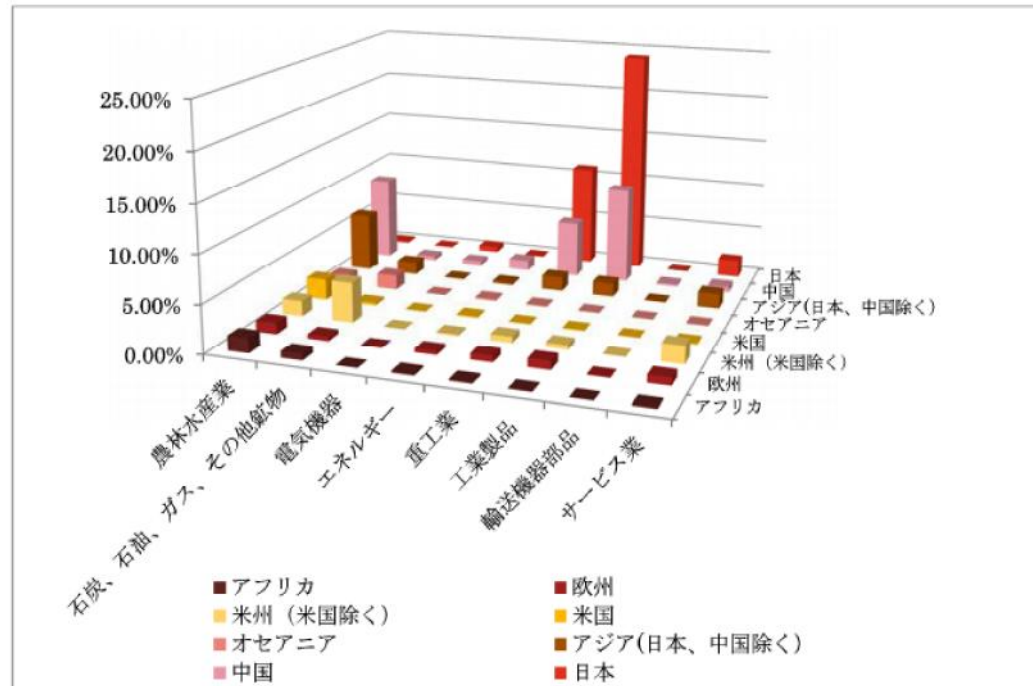
\*The GTAP model is an applied general equilibrium model constructed for the purpose of quantitatively assessing the impact of multilateral trade policies. It was created by the Global Trade Analysis Project (GTAP), which was established in 1992.



# Evaluation Results



GHG Emissions according to activities within its supply chain



Land usage by regions

The level of water usage in regions and sectors



## Benefits of Natural Capital Evaluation

- (1) Gaining quantitative risk data related to the supply chain that can be used for management judgments
  - Can obtain previously hidden risk data related to environmental impacts and the use of resources that are essential to business strategy.
  - Can understand the supply chain risks of clients based on client-specific risk data as well as qualitative and quantitative risk data by country and region calculated on the basis of procurement conditions.
  - Clarifies points that need to be analyzed in greater detail with regard to countries, regions, or procured commodities that present significant risks.
  
- (2) Obtaining quantitative data on environmental impacts that can be used for information disclosure
  - Can obtain results from model calculations that can be used in the Carbon Disclosure Project (CDP) or as “Disclosure of Scope 3 information” for CSR reports.

## For Future Consideration

- We need to evaluate the business risks in the supply chain more than measuring the usage of natural capital. It is necessary to refine the data from ESCHER so that they can be used to accurately judge the credit risks.
- Currently, natural capital excludes Fauna and Flora of 5 elements of natural capital. We need to develop tools to evaluate them.
- Currently, it is packaged as a part of loan product, but our future goal is to be as a part of credit analysis process.

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<Points to Consider>

## ■ Risk of Loss

Under an investment management agreement, based on the investment guideline provided by the client and discussion between the parties regarding the manner of the investment management, securities and other instruments which are subject to price fluctuations, including, without limitation, Japanese equity and fixed income, foreign currency denominated equity and fixed income, investment trusts, shares of collective investment schemes, loans, futures transactions, option transactions, swap transactions and foreign currency transactions, may be included in the investment portfolio. Price fluctuations in such investment assets may result in a loss in principal of the assets under management.

## ■ Price Fluctuations

Assets which are managed by Sumitomo Mitsui Trust Bank, Limited pursuant to an investment management agreement are subject to various risks, including, without limitation:

### (1) Market Risk.

Risk of the price movements in the managed assets due to fluctuations in financial markets and other indices, including (but not limited to) fluctuations in equity markets, interest rate markets, foreign currency markets and financial indices.

### (2) Credit Risk.

Risk of the price movements in the managed assets due to changes in the financial and/or business conditions of issuers, counterparties to a transaction or the counterparties of the issuers.

# Disclaimer

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## (3) Liquidity Risk.

Risk of the trading of the any interests within the managed assets being restricted due to the market environment or the lack of trading volume. Similarly, there is a risk that the value of the managed assets being volatile due to the lack of market liquidity of such assets.

Furthermore, investments of the managed assets into hedge funds and securitized products may contain various risks related to investment approach and structure in of such investment in addition to the any of the risks mentioned above. For further information, please refer to the explanatory documents for each product.

### ■ Restrictions on Purchase and Redemption

To the extent permitted under the investment strategy as set forth in the investment management agreement, the managed assets may invest in other types of investment funds or financial products. Due to factors such as the nature of the target investments and/or investment structure, various restrictions, including, without limitation, restrictions on purchase and redemption, may be imposed in connection with certain investment products such as investments in hedge funds and/or securitized products. In particular, redemption of such investment product may require several months. For further information, please refer to the explanatory documents for each product. In addition, due to such factors as market liquidity, size of the purchase or redemption or other unavoidable reasons, redemptions of investment assets from such target investment funds may take some time, and the timing of the purchase of such investment assets may be limited.

### ■ Company Name and Other Information

Company Name: Sumitomo Mitsui Trust Bank, Limited

Financial Institution Registration Number: No.649 Kanto Finance Bureau of the Ministry of Finance

Participating Associations: Japan Securities Dealers Association, Japan Investment Advisers Association, and The Financial Futures Association of Japan

# Disclaimer

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## ■ Fees and Costs

### (Management fees)

In principle, management fees are calculated on the basis of assets under management. However, the specific method of calculation for each transaction cannot be expressed in advance, as such method is determined through discussions and in consideration of the contents of the investment guidelines and the investment discussions between the parties. When entering into an investment management agreement, please be sure to confirm with our sales representatives the applicable calculation method of the management fee.

### (Trading Costs)

A commission incurred through a trade of securities, overseas custody fees and other costs will be deducted from the entrusted assets under management. When investing in investment trust products organized and managed by other institutions, fees may be charged by the institutions concerned. Specific amounts and/or upper limits of costs cannot be expressed in advance, as such costs are determined, along with calculation methodology, based on type and volume of the assets under management.

### (Securities Lending)

When entering into a security-lending agreement, a fee will be charged. This fee cannot be expressed in advance, as such fee will be determined based on separate discussion between the parties.

### (Termination Fees)

When terminating an investment management agreement, a termination fee may be charged based on the terms and conditions set forth in such agreement.

### (Other Expenses)

In addition to the above costs, other costs related to investment products, such as tax, levy, and/or operational costs may be deducted from the assets under management or be charged directly to the client.

### (Cooling off Period)

A cooling off period, stipulated in Article 37-6 of the Financial Instruments and Exchange Act, does not apply to an investment management agreement.