

**The strategies of Sumitomo Trust  
for Biodiversity and Ecosystem Services (BES)**

**The role of the financial sector for BES**

**15th of October 2009**



**SUMITOMO  
TRUST**

**住友信託銀行**

*“Invites businesses and relevant organizations and partnerships, such as the Finance Initiative of the United Nations Environment Programme(UNEP FI), to develop and promote the business case for biodiversity...”*

Decision VIII/17 of the CBD CoP8

*“We will approach the financial sector to effectively integrate biodiversity into its decision making and welcome the Equator Principles as an important benchmarking initiative.”*

Potsdam Initiative - Biological Diversity 2010 (2007 G8 Potsdam)



In response to Decision VIII/17 of the CBD CoP8, UNEP FI :

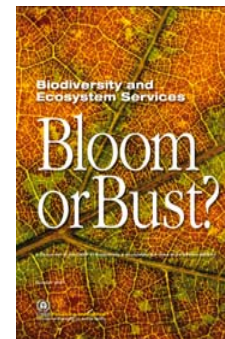
Established The Biodiversity & Ecosystem Services Work Stream (BESW) in 2006.

→Nikko Asset Management, a subsidiary company of the Sumitomo Trust & Banking, joined the Workstream.

Published a first report “Bloom or Bust?” in 2008.

### **(Workstream objectives)**

- Raise awareness of the business implications of loss or degradation of ecosystems and the services they provide
- Strengthen the business case for action and provide the financial sector with information and analysis tools for adequate management of ecosystem services
- Open dialogue between financial institutions (both public and private) and policy makers to identify and act upon areas where the framework conditions under which business operates can be better aligned with ecosystems stewardship



# The Equator Principles

Figure 4 Attribution of Financing and Investment Risks to Selected Financial Services

Products/ Services	Characteristics	Risk Attribution	Leverage Potential
<b>Project Finance</b>	<ul style="list-style-type: none"> <li>Site-specific and known use of funds;</li> <li>Often considerable information available from environmental and social impact assessments.</li> </ul>	<b>High</b> <ul style="list-style-type: none"> <li>Clear causal relationship between project financing and biodiversity impacts and ecosystem services risks (such as water scarcity);</li> <li>Clear materiality links between financing impacts.</li> </ul>	<b>Good</b> <ul style="list-style-type: none"> <li>Duration of loan often long;</li> <li>Leverage can be effected through financing terms, disbursement schedules and the integration of BES into covenants, disbursement conditions and project completion tests.</li> </ul>
<b>Corporate Loans</b>	<ul style="list-style-type: none"> <li>Use of proceeds may be unknown;</li> <li>Requires greater understanding of general BES risks related to the sector, and client commitment, capacity and track record to manage BES risks;</li> <li>Supply chain risks may require particular attention.</li> </ul>	<b>Variable but can be high</b> <ul style="list-style-type: none"> <li>Level of attribution depends on whether use of proceeds is known.</li> </ul>	<b>Variable</b> <ul style="list-style-type: none"> <li>Limited direct leverage if use of proceeds is unknown. Potentially more significant leverage where use of proceeds is known;</li> <li>Reliance on client environmental and social management systems is often important.</li> </ul>
<b>Investment Banking</b>	<ul style="list-style-type: none"> <li>Use of proceeds may be for non-specific corporate development activities;</li> <li>Disclosure of environmental and social risks required, to varying extent, by stock exchanges and regulators.</li> </ul>	<b>Limited but growing</b> <ul style="list-style-type: none"> <li>Attribution of an institution's role in financing/ enabling potentially BES-damaging activities difficult, but this does not prevent civil society groups from targeting institutions that they perceive as supporting companies that have questionable BES records.</li> </ul>	<b>Variable but often good</b> <ul style="list-style-type: none"> <li>Good leverage especially if relationship with client is long-term;</li> <li>Risk of client migration to institutions with less demanding environmental requirements;</li> <li>Short turn around times for transactions may make it difficult to establish a good understanding of BES risk where information is incomplete.</li> </ul>
<b>Fund Management</b>	<ul style="list-style-type: none"> <li>Portfolio selection, engagement and proxy voting are increasingly important;</li> <li>Proxy voting outcome is publicly available in many jurisdictions and hence there is greater transparency at least for publicly traded companies.</li> </ul>	<b>Limited but growing</b> <ul style="list-style-type: none"> <li>Attribution of fund managers' accountabilities to BES have traditionally been weak;</li> <li>Principles for Responsible Investment (PRI) appear likely to drive change significantly.</li> </ul>	<b>Variable but can be good</b> <ul style="list-style-type: none"> <li>Leverage influenced by volume of shares held and capacity/ appetite of fund managers to engage;</li> <li>PRI (and SRI tools and experiences) provide a platform for scale up of engagement;</li> <li>Large size and long-term horizon for pensions investments means they wield considerable influence and have inherent interest in long term performance of companies.</li> </ul>

- Risk attribution (i.e. the extent a financial institution can be held accountable for the BES impact of a transaction) is high.
- Leverage potential (i.e. how much can a financial institution influence a client's behavior) is good.

## The Equator Principles

- Common standards employed by financial institutions to confirm that finance project schemes take their environmental and social impact into consideration since 2003.
- Require project sponsors to assess a project's impact on biodiversity (including specifically, impact on ecosystem services and natural habitats, introduction of invasive alien species, sustainable use, and social impact).
- Mizuho Corporate Bank, Bank of Tokyo-Mitsubishi UFJ and Sumitomo Mitsui Banking Corporation adopted these Principles, among Japanese banks.

## Signing the Leadership Declaration under the Business and Biodiversity Initiative (May 2008)



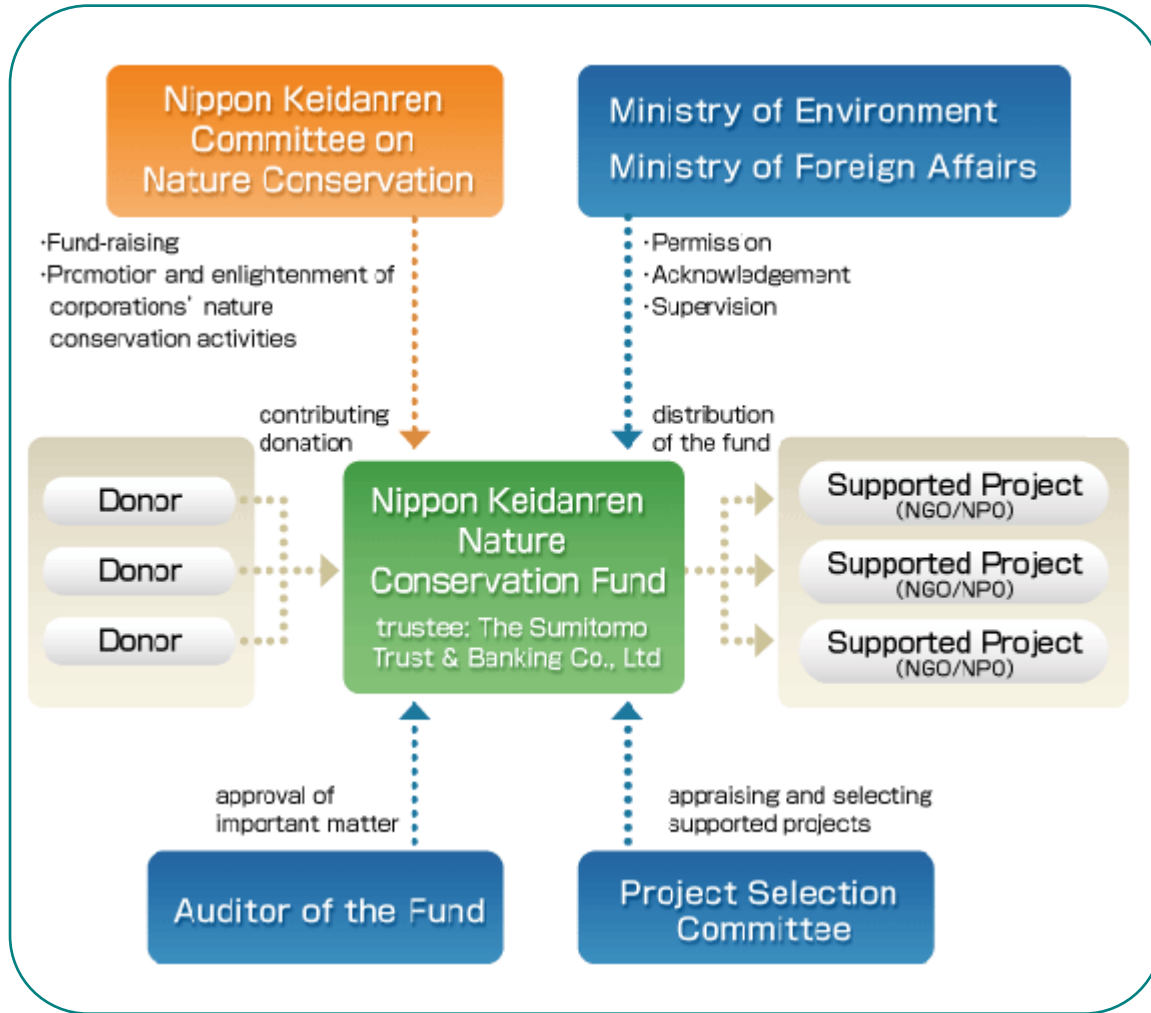
## Adoption of The Basic Policy on Biodiversity-Related issues (June 2008)

- 1. Active Participation in Activities to Preserve Biodiversity**  
Sumitomo Trust will strive to actively participate in and provide support for activities to protect endangered species and preserve biodiversity.
- 2. Appropriate Evaluation of Ecosystems**  
Sumitomo Trust will support the creation and preservation of ecosystems, by providing appropriate economic and social evaluation of ecosystems.
- 3. Provision of Products and Services Taking Advantage of Financial Functions**  
Sumitomo Trust will strive to develop and provide products and services that contribute to the preservation and sustainable utilization of biodiversity, through cooperation with its stakeholders.
- 4. In-House Education and Training**  
Sumitomo Trust will educate and train its officers and employees, in ways to give them accurate knowledge about biodiversity and enable them to engage in activities to preserve it.
- 5. Information Disclosure**  
Sumitomo Trust will make active public disclosure of information regarding its efforts to preserve biodiversity.

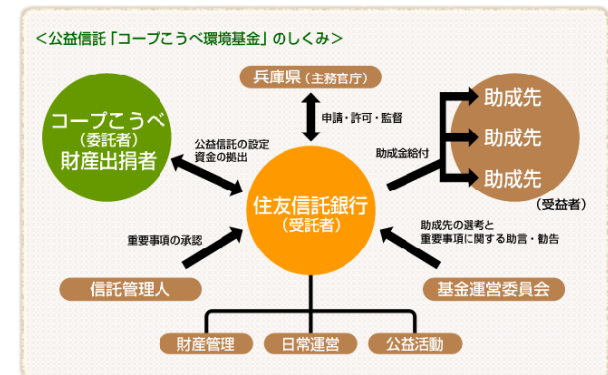
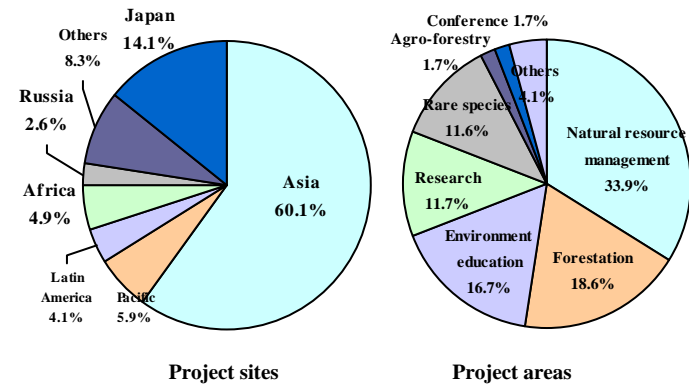
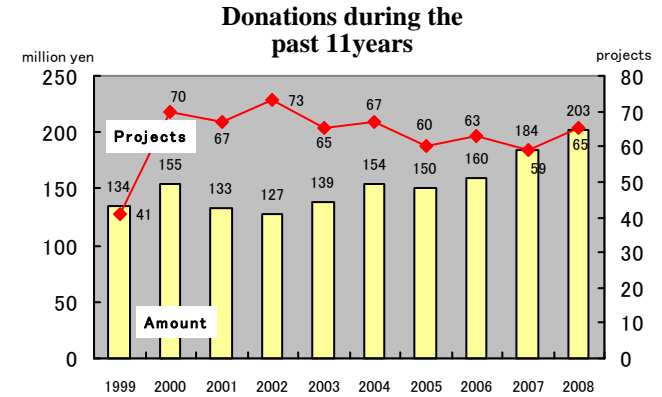


**Companies which implement this basic policy are expected to define their own steps and objectives regarding the integration of biodiversity within their corporate policy and activities**

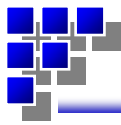
# 1. Charitable Trusts



From the homepage of The Keidanren Nature Conservation Fund



From the homepage of The Consumer Co-operative Kobe



### Development/Architecture Consulting for Environmentally Friendly Buildings

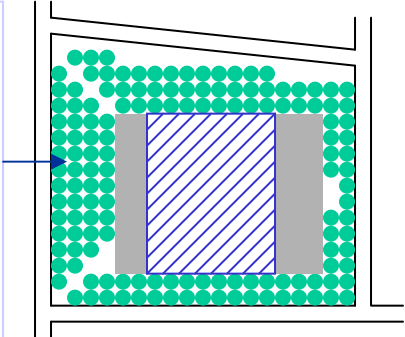
- **Energy conservation**
- **Landscaping**
- **Lengthening building life**
- **Adoption of a recycling system, etc.**

**Encourage property owners to make their buildings environmentally-friendly to enhance their value**

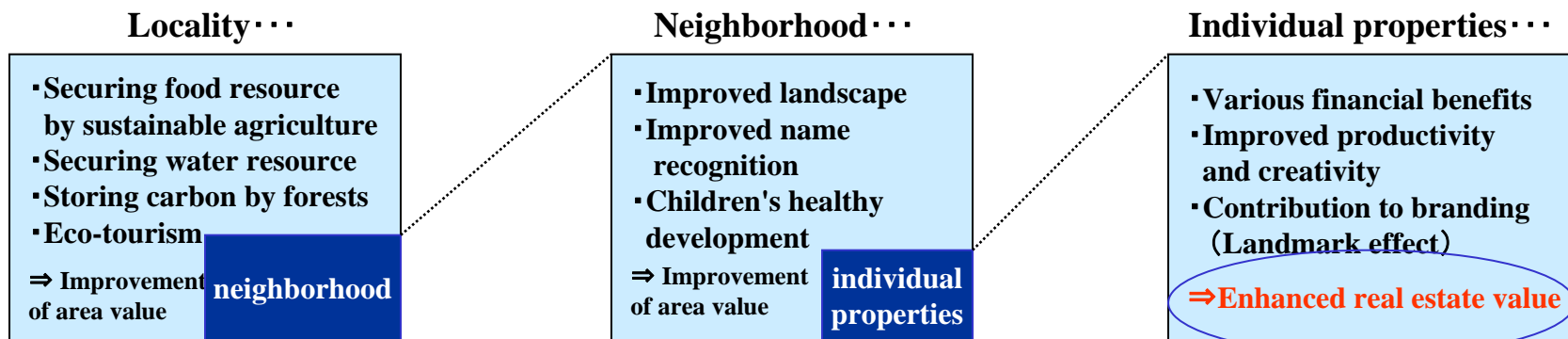
### Start providing advice concerning BES

An example of BES advice to a property owner

- Increase the planting of native species in green areas adjacent to the building.
- Make the result visible by obtaining a third party's quantitative evaluation (J-Hep of the Ecosystem Conservation - Japan) to connect BES with the future value of the building.

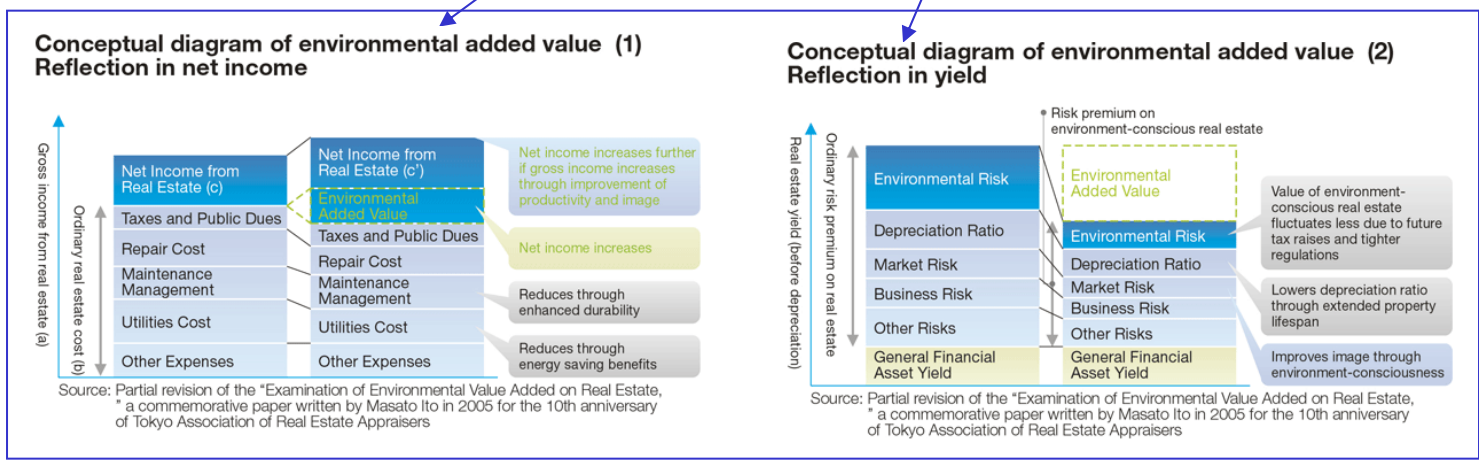


# Eco-consciousness Enhances the Value of Property



$$\text{Value of Property (In the case of direct capitalization)} = \frac{\text{Net income generated by real estate}}{\text{Capitalization rate}}$$

This concept was presented to the UNEP FI Property Working group



Source: Partial revision of the "Examination of Environmental Value Added on Real Estate," a commemorative paper written by Masato Ito in 2005 for the 10th anniversary of Tokyo Association of Real Estate Appraisers

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# 3. Socially Responsible Investment Fund

Analyzing activities concerning biodiversity and ecosystem services of corporations

**Business Opportunities**

**Managing Biodiversity Risk**

**Differentiation and Branding**

- Competitive edge of financial products
- Development of new technologies

- Management of natural resources
- Dealing with new regulations
- Dealing with lawsuits

- Reputation on capital markets
- Winning trust from the public

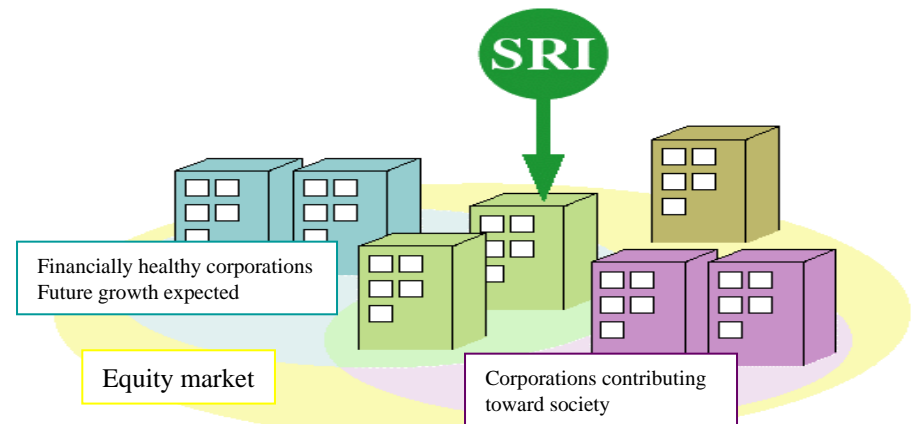
Contribute to enhancing corporate value

Planning to launch a new socially responsible investment (SRI) fund to invest in Japanese equities selected by evaluating the BES management of companies

Risks relating to BES for specific industry sectors

Industry Sectors	Impacts to BES				
	Habitat Loss and	Pollution	Climate Change	Invasive Species	Over-harvesting
X indicates major biodiversity risk x represents biodiversity risk					
Agriculture	X	X	X	x	
Biofuels	X	x	X	x	
Food and Beverages (including supply chains)	X	X	X		x
Construction and Building Materials	x	x	X		x
Waste Management		x	x		
Forestry and Paper	X	x	X		x
Leisure and Tourism	X	x	x	x	
Oil and Gas	X	X	X	X	
Mining	X	X	X		
Electricity Generation and Supply	X	X	X		

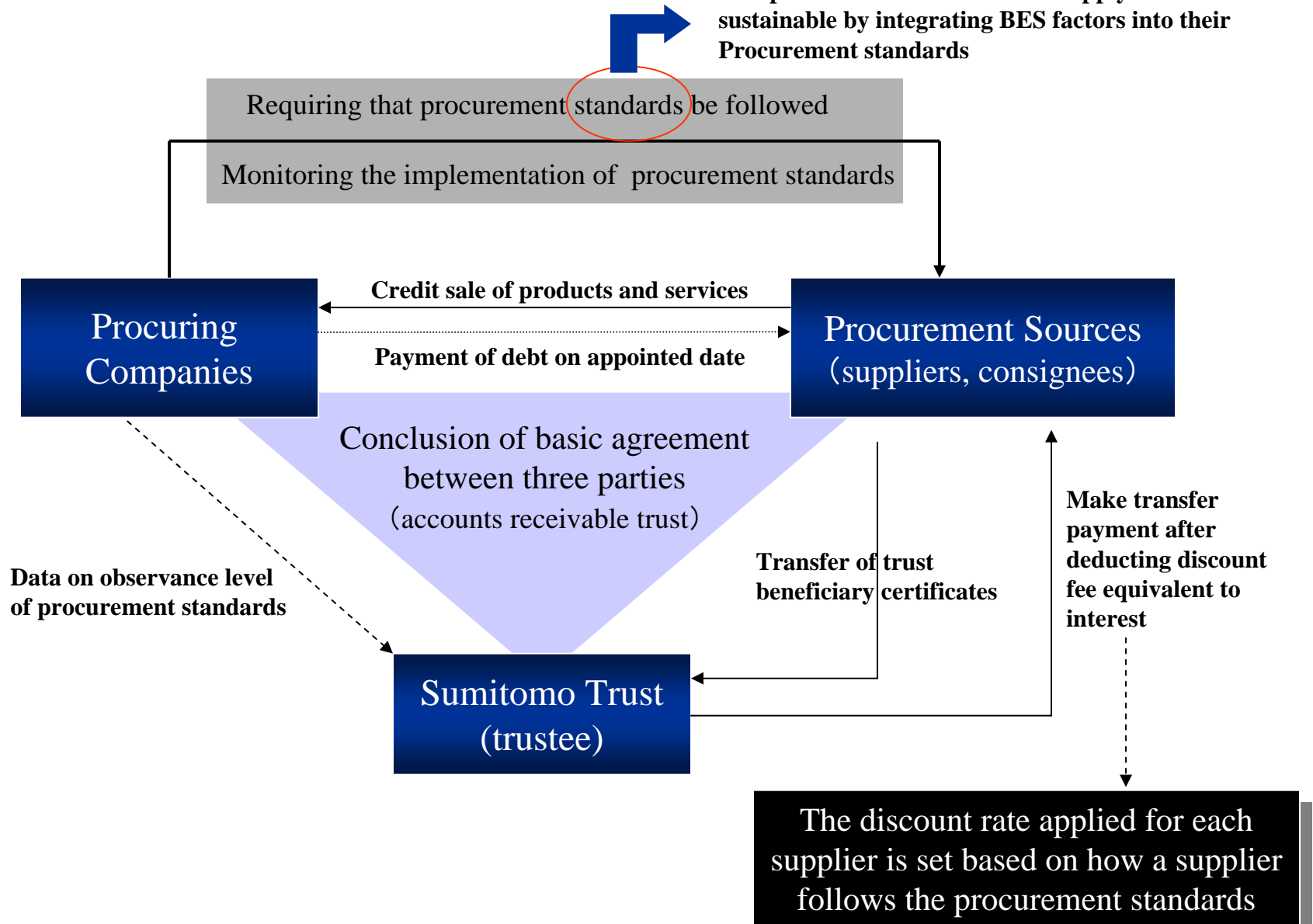
From UNEP FI "Bloom or Bust?"



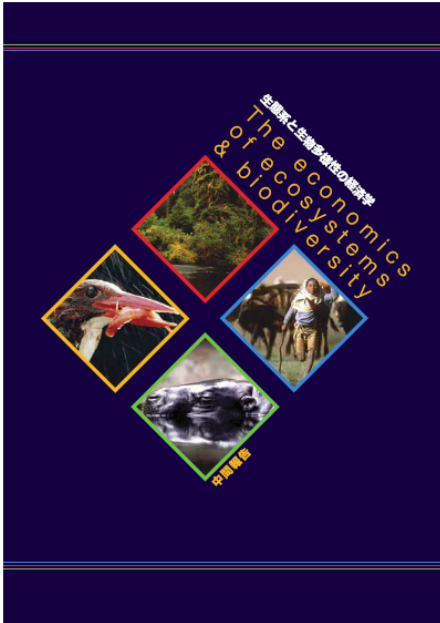



# 4. Collective Trust for Accounts Receivables

Companies can make the entire supply chain more sustainable by integrating BES factors into their Procurement standards



# Providing the Public with Information Concerning BES




**Took the initiative to publish the TEEB Interim Report (2008). Japanese edition translated by Sumitomo Trust with Ecosystem Conservation-Japan and the Japan Research Institute**


**Sponsoring Green TV Japan and providing our own films**

**Green TV Japan is the broadband TV channel for environmental films providing over 400 films to-date**



**The newly launched site for COP10**


**Displayed panels and videos at the biodiversity corner of “Eco-Products 2008” the largest environment-related exhibition in Japan, in collaboration with Ecosystem Conservation-Japan**





*End of  
Presentation*