

# sustainable japan

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## Sumitomo Mitsui: The power of trust is a curious thing

### Unraveling Japanese companies

HIROKO NAKATA  
CONTRIBUTING WRITER

The Japanese financial industry got caught off guard a few years ago when Sumitomo Mitsui Trust Holdings Inc. made a radical turn in its business policy — ending cross-shareholding, a common practice among Japanese banks.

The group announced in May 2021 that it would eventually sell off all of its shares in its corporate partners. Such holdings were then worth about ¥14 trillion (\$12.8 billion).

"It was our pledge not to hold shares for policy purposes as a stable shareholder like in the past," President Toru Takakura said in a recent interview, part of a monthly series by Naonori Kimura, a partner for the consulting firm Industrial Growth Platform Inc. (IGPI). "Cross-shareholding has a history of building trust with our customer companies, but we decided not to carry over the business practice," he said. Ending it would require time, however, because consensus with the other firms was needed, he added. The announcement of the new policy came the month after his appointment as president.

The decision was one of a number of symbolic actions taken in the changing global business environment, where financial institutions and companies are

required to take a bigger role in social and environmental issues to stay sustainable. It shows that the trust banks, which conduct a wider range of business and have longer-term commitments with customers than ordinary Japanese commercial banks, are shifting their core business from conventional interest income to a combination of financing, asset management and advisory services that require high expertise.

The drastic policy change also means the 100-year-old banking group has taken a step to stimulate the dynamism of the Japanese stock market. "Such reduction in cross-shareholdings will not only improve the capital efficiency of our finance but also contribute to a better circulation in Japan's capital market," the May 2021 press release said.

Historically, Japanese banks and their customer companies have held shares in each other to bolster their business ties. The strategy has helped to cement relations and at the same time protect against hostile takeovers. But that insulation from outside parties has also been criticized by financial experts and overseas investors as limiting shareholder-led governance, and mutual shareholding has gradually declined in the past decades.

The release said the group wanted to contribute to a positive circulation of funds, assets and capital and to the improvement of customers' corporate values. The group would utilize the capital generated by selling its mutually held shares, partly



Toru Takakura, president of Sumitomo Mitsui Trust Holdings Inc. HIROMICHI MATONO

by directing ¥500 billion through the business year ending in March 2031 into impact equity investments to help address social issues.

In 2022, Sumitomo Mitsui Trust also made a strategic partnership with the New York-based alternative asset manager Apollo Global Management Inc., aiming to help individual investors and pension funds invest in private assets and for such asset movements to accelerate the trend of shifting money from savings into investments.

These decisions were based on the group's corporate purpose, set in 2020. "Trust for a flourishing future," making it one of the country's first financial groups to introduce the concept of a corporate purpose into business management.

In addition to the drastic policy shift, Sumitomo Mitsui Trust pledged three

numerical targets in its mid-term management plan for the three years to March 2026. The first was to lift its return on equity to 10% or higher. The second was to generate a net profit of ¥300 billion or more. The third aimed for ¥800 trillion in "assets under fiduciary" — its term for the balance of assets under management plus the balance of assets under administration plus proprietary investments — so it could improve its price-to-book ratio (PBR) to above 1.0. A ratio under 1.0 means a share price is below the value it would have if the company were liquidated. The low ratios of many Japanese businesses is a long-term problem.

In order to break away from the past, Sumitomo Mitsui Trust started something different. One example of its new types of business is called "positive impact finance," in which the group evaluates the posi-

tive and negative impacts of a company's business on the environment, society and the economy and extends loans in such a way that the company maximizes its positive impacts and limits negative ones. The group's technology-based finance team, which was launched in 2021, used its expertise in hydrogen, batteries, chemicals and other crucial areas in this process. Then it monitors the company's business activities by checking disclosed data. In this business, Sumitomo Mitsui Trust collects not only the interest on the loans but also service fees.

Last April, the group established the joint venture MFA Inc., which carries out ownership engagement activities on behalf of institutional investors and shareholding financial institutions. It is owned 36% by Sumitomo Mitsui Trust Bank, 25% by the consulting firm Corporate Directions Inc., 20% by IGPI and 15% by Misaki Federation Inc.

One reason for the banking group to back the new business is the increasing number of passive investments in the country, where stakeholder engagement is becoming just a formality and few actively support boosting corporate values with a long-term perspective.

"I believe real engagement activity is necessary in this country, and this thought is the base of our joining the joint venture," Takakura said. "We'll support companies to boost corporate values. If there is a mediator to help their engagement, it will probably be beneficial for them."

Over the century since the Trust Act was enacted in 1922 to rid Japan of hundreds of bogus funds, after which the Mitsui Trust and Sumitomo Trust were established in 1924 and 1925, trust banks have reinforced their function to pass on individual and corporate wealth to the next generation. "Our mission is to realize what we are entrusted to by thinking about the future with our customers and beneficiaries. We want to start the next century by sharing this belief with our employees," Takakura said.

NAONORI KIMURA  
INDUSTRIAL GROWTH PLATFORM INC.  
(IGPI) PARTNER



Sustainable management supports not only engagement activities from a long-term perspective but also a flexible corporate structure.

Sumitomo Mitsui Trust Holdings Inc., whose earliest predecessor was founded 100 years ago, has set "Paving the Way for the Next 100 Years with the Power of Trust" as the core policy of its new medium-term management plan and is carrying out activities for the sake of the future. The company has broken new ground: taking a "backcasting" approach by outlining where it wants to be in 2030, pledging to sell all its cross-shareholdings and setting numerical targets including a 10% return on equity.

Of particular note is that it has set up a sustainability committee geared toward the creation of social and economic value. It also has pledged to contribute to carbon neutrality and strong supply chains. As for human well-being, it actively invests in human capital, recruiting and training diverse people with high expertise. Meanwhile, it is taking progressive steps matched by few other banks, such as launching the joint venture MFA Inc., which carries out long-term investor engagement activities.

The source of the company's sustainable management is the power of engagement, which builds long-term trust with its customers in the trust banking business, and a corporate structure that has never been rigid, making it possible to evolve and transform ahead of changes in the business environment.



"It was our pledge not to hold shares for policy purposes as a stable shareholder like in the past," said Takakura. HIROMICHI MATONO

## Casa del Cibo

Italian cuisine that conveys the appeal of Hachinohe



TAKEO TERAO  
CONTRIBUTING WRITER

The Italian restaurant Casa del Cibo is located in Hachinohe, Aomori Prefecture, which despite its northeastern location enjoys much sunshine and has relatively little snow. The city also has a thriving fishing industry and a morning market that has become quite popular with tourists.

Casa del Cibo's owner-chef, Ryohei Ikemi, was born in Kanagawa Prefecture and trained at restaurants in Tokyo, but the abundance of high-quality local ingredients inspired him to open a restaurant in Hachinohe, the hometown of his wife, Etsuko.

When the Tohoku earthquake and tsunami of March 11, 2011, happened, the building housing Ikemi's home and restaurant remained intact thanks to its elevated location, but an area on lower ground just a few minutes' drive away suffered extensive damage from it. It was in these difficult circumstances that Casa del Cibo opened its doors at the end of April that year.

Offering lunch and dinner at ¥1,500 and ¥2,800 (\$10 and \$18), the restaurant got off to a promising start, drawing many customers in its first year. But this changed completely in year two, when business faltered to the point of near-bankruptcy.



Address  
Casa del Cibo  
1-19-6, Minatotakadai,  
Hachinohe, Aomori  
<http://www.casa-del-cibo.com>

At that time Casa del Cibo took part in an event featuring around 20 of the city's hotels and restaurants. During the two-month event period, Ikemi served bouillabaisse made with Hachinohe seafood, thus bringing his restaurant to the attention of many locals. From that time on, the restaurant steadily gained fans, mainly from nearby areas, while

simultaneously reinforcing its fine-dining side and gradually raising its prices.

Guests are served by Etsuko — Casa del Cibo's sommelier — and staff. Ikemi prepares all the dishes by himself. Combined with house-made desserts prepared by Etsuko, who is also a pastry chef, the cuisine is truly refined and elegant.

SOICHIRO MIYASHITA  
GOVERNOR OF AOMORI PREFECTURE



I would like to congratulate Casa del Cibo on being selected for the Destination Restaurants List 2023. Aomori Prefecture — and Hachinohe in particular — is blessed with an abundance of sea produce. Chef Ryohei Ikemi uses an extensive variety of local ingredients, and uses his excellent technique to serve Italian cuisine that conveys the flavors of the ingredients, widely promoting the appeal of Aomori Prefecture's food. I hope that this award will encourage more people to visit Aomori Prefecture and experience its delights.

YUICHI KUMAGAI  
MAYOR OF HACHINOHE



I am very honored that Casa del Cibo in our city has been selected as one of the Destination Restaurants 2023. Bordered by the Pacific Ocean, Hachinohe is blessed with a wide variety of fresh seafood and other ingredients from its thriving agricultural, livestock and fishing industries. It is my hope that this award will be an opportunity for many people to visit Hachinohe and enjoy the city's rich culinary scene, including chef Ryohei Ikemi's excellent creations featuring local ingredients.

## New geopark museum, cycle park showcase Tsukuba's attractions

### ESG/SDGs

MAIKO MURAOKA  
CONTRIBUTING WRITER

The Ibaraki city of Tsukuba in November launched a new facility, Mt. Tsukuba Gate Park, that focuses on promoting the charms of the Mt. Tsukuba Area Geopark and supporting Japan's cycling culture. City officials stationed there explained what the facility offers and how they aim to nurture the civic pride of local residents and their children.

Mt. Tsukuba Gate Park comprises Tsukuba Geo Museum and Cycle Park Tsukuba. The museum, housed in the building of the former Tsukuba Higashi Junior High School, which was closed six years ago, showcases local products and industries that are supported by the area's natural, geographical and geological characteristics.

Ibaraki is known for the Mt. Tsukuba Area Geopark, which extends across six cities, including Tsukuba. It is one of the 46 Japanese geoparks certified by the Japan Geopark Committee. Three distinctive features of the geopark — Mount Tsukuba, Lake Kasumigaura and the Kanto Plain — provide scenic beauty and abundant natural resources.

In the main exhibition room of the museum, visitors receive three cards at random, each with a question related to the geopark, such as "What was constructed on Mount Tsukuba to prevent landslides?" All the answers to the 39



The Tsukuba Gate Park was created at an abandoned school. TSUKUBA

cards are hidden somewhere in the six installations displayed in the room. The installations are interactive, with gamification features such as a board game and pinball. A three-dimensional puzzle represents the rock composition and vegetation distribution of Mount Tsukuba, and a sandbox with kinetic sand helps visitors understand the shape and depth of Lake Kasumigaura. Some exhibits also show locally produced crops such as lotus roots and oranges, or tell the history of the area — for example, the fact that the wide area that is now Lake Kasumigaura and the Kanto Plain were undersea in ancient times.

"The playful features of the installations allow children to concentrate and learn while playing," said Mt. Tsukuba Area Geopark Promotion Council staff member Tetsuya Ono.

There are also rooms that show a video about the charms of the area and display archaeological objects unearthed in the city. Another room is for seminars, workshops and events. "We are planning to hold a series of seminars to train guides who can engage in activities with us to share and promote the attractions of the geopark," said Rie Kamezawa, the manager of the city's Geopark Office.

The facility has been the destination of visits from many elementary schools in the area and is especially focused on raising kids' awareness about their hometown. "Learning good points about their town is a starting point for efforts to preserve its environment and revitalize the area. This museum is an ideal place for doing that, and I feel much closer to the local people than when I was working inside the city hall building," Kamezawa said.

Geopark Office staff Yuri Nagashima said the facility is a friendly place for local residents. "I am a graduate of this junior high school. So I was happy when this place was given a new purpose instead of being torn down. I think that many people in this area feel the same way," she said.



The Tsukuba Geo Museum is a hands-on exhibition facility. TSUKUBA

There will also be an event on Feb. 24 involving various activities including craft workshops and a cycling tour.

The old schoolyard is now Cycle Park Tsukuba, featuring a 380-meter BMX racing course with a 5-meter start ramp that meets international standards, based on a partnership agreement that the city signed with the Yowamushi Pedal cycling team, headed by Wataru Watanabe, the author of the manga series Yowamushi Pedal.

The park is equipped with a shower room, a maintenance area, a rest area and a spacious parking lot. This fulfilled a long-standing hope of many cyclists who ride on the Tsukuba Kasumigaura Ring Ring Road, a scenic 180-kilometer route designated as one of the six National Cycle Route. Riders had longed for a parking lot and a place where they could change. Visitors can also rent bicycles to travel outside the facility for ¥500 (\$3.50) per day.

Cycle Park Tsukuba is open from Friday through Monday as well as national holidays. The fee for using the racing course is ¥2,000 per day for an adult who is not a Tsukuba resident. Tsukuba Geo Museum is closed on Tuesdays and admission is free.

Tsukuba is a member of the Sustainable Japan Network, a group of companies that cooperate with this newspaper to spread information about sustainability in Japan. You can also be part of the network; scan the QR code for more details.

