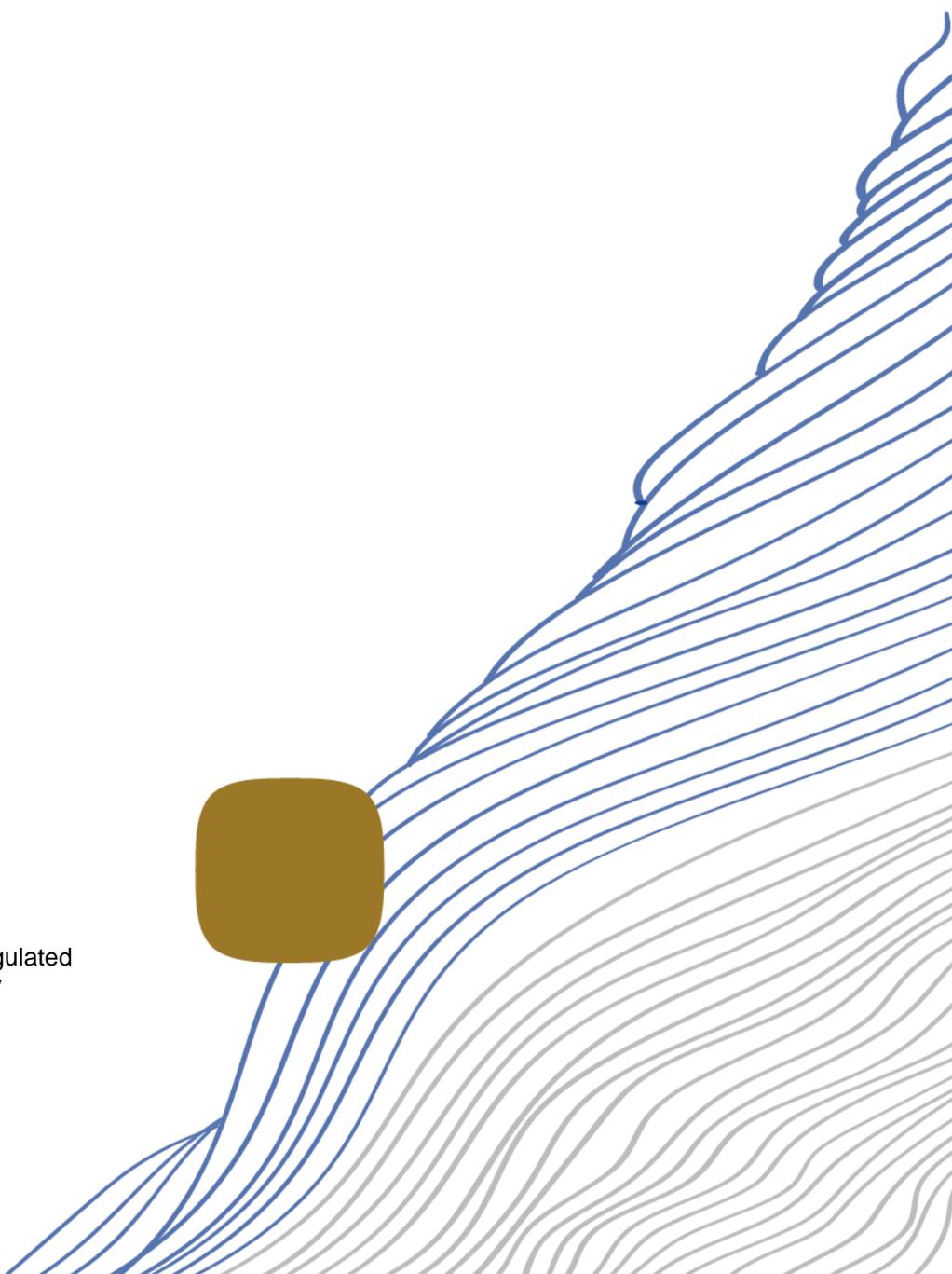


# **SFDR Entity-level disclosure for Article 4 Consideration of Principal Adverse Impacts ("PAIs") on environment and society**

**April 2025**

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# Policy, Procedures, and Descriptions on our PAIs Consideration

## Introduction

The Mission & Vision of Sumitomo Mitsui DS Asset Management Company, Limited includes;

- We, as investment professionals and as a corporate citizen, focus on contributing to a diversified and sustainable society through asset management business.
- We commit ourselves to aiming for a collective growth, based on a respectful understanding of our all stakeholders.

We believe it is our responsibility to consider and mitigate, through appropriate due diligence, the Principal Adverse Impacts (“PAIs”) of investment decisions on sustainability factors (\*) alongside the relevant financial and sustainability risks, making appropriate disclosures, taking due account of our business size, the nature and scale of our activities and the types of financial products we make available.

\*It includes the concept defined under the European Sustainable Finance Regulation (“SFDR”) which has a broad and evolving definition. The PAIs in the SFDR regime, are principal adverse impacts of our business operations and investment decisions on sustainability factors; environmental, social and employee issues, respect for human rights, anti-corruption and anti-bribery issues. They are typically and partly observed with, but not limited to the indicators defined under SFDR, in SMDAM’s understanding.

Based on our conception, we have identified a set of materialities as key management issues, consisting of “Materiality in asset management business” and “Materiality as a corporate entity”, both taking into account the characteristics of our asset management business.

We are committed to improve the QOL (Quality of Life) of our clients with our investment management products and services, and of stakeholders through our good governance practices including reduction of GHG (Greenhouse Gas) emissions, sustainable procurement, and human rights due diligence based on our own Human Rights Policy.

The consideration of sustainability factors in the investment decision - making processes and engagement activities can realize benefits beyond financial markets, enhancing the stability of the natural environment and society as the foundations of the real economy, which in turn contribute to increasing the resilience of the real economy and the stability of the financial system, ultimately impacting on the risk - return of financial products.

It is therefore essential for us to consider PAIs of investee companies, in order to deliver quality investment returns to our clients over the long term.

All professionals in our investment teams consider the PAIs throughout comprehensive investment actions at least within the scope of single materiality, alongside the relevant financial risks and relevant sustainability risks. While we embrace dynamic materiality to focus on information material or likely to be material, some strategies adopt double materiality depending on their philosophy and product design. For sustainable investments, this means to ensure the investments do not significantly harm to any environmental or social objectives.

“PAI Due Diligence” \*\* is the essential foundational process across all of our investment products, to be systematically carried out throughout the entire life-cycle of investment operations, which is an on-going, proactive and reactive, and process-oriented activity of firm-wide stewardship activities with active ownership.

\*\*The PAI Due Diligence is aligned with our “Responsible business conduct for institutional investors: Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises”

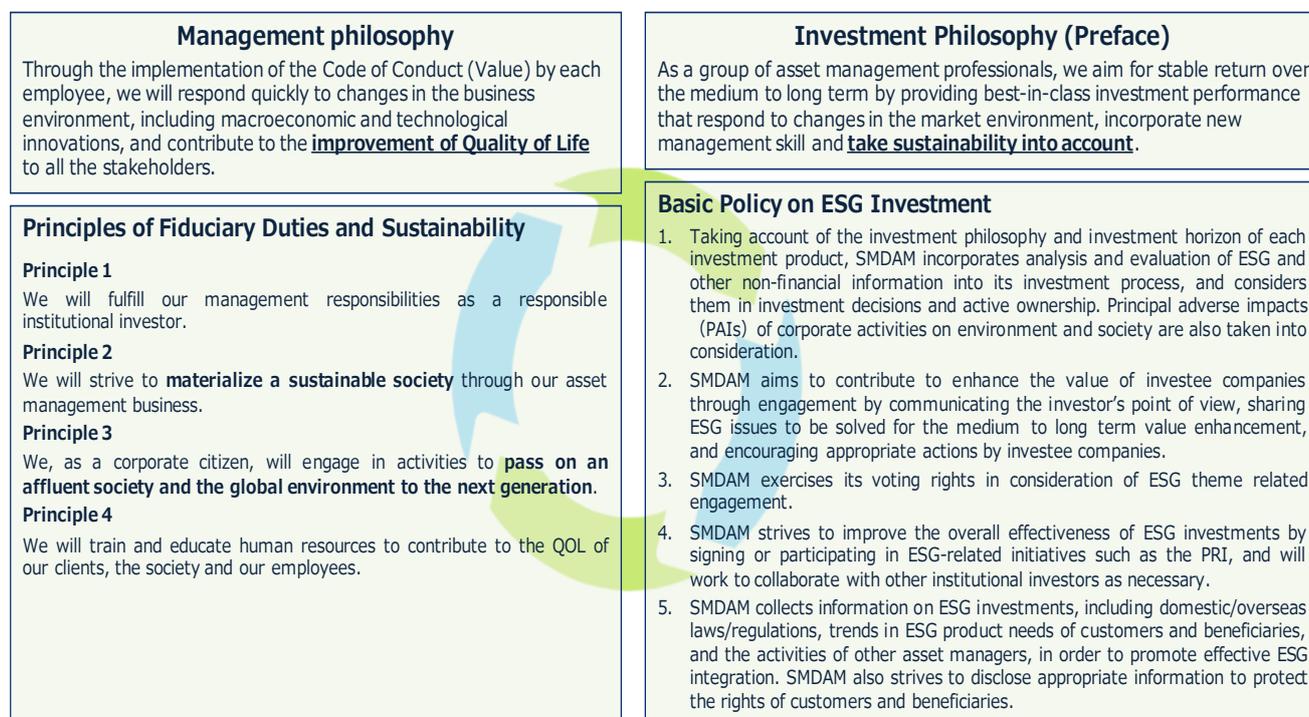
The “PAI Due Diligence” process for our comprehensive investment activities, consists of the following 6 elements to be further elaborated below;

1. **Policy Framework**
2. **Identification and Prioritization of Actual/Potential Adverse Impacts**
3. **Consideration of PAIs in Investment Processes**
4. **Engagement and Escalation**
5. **Collaborative Engagement and References to International Standards**
6. **Monitoring and Disclosure/Reporting**

## 1. Policy Framework

In our "Management Philosophy" and "Principles of Fiduciary Duties and Sustainability", which are the basic policies of our corporate activities, we declare that we will contribute to improving the "Quality of Life" of our clients, investee companies, and society as a whole. In addition, in order that each executive and employee can more effectively put these principles into practice in their daily work, we established a Human Rights Policy and a Sustainable Procurement Policy in 2021, and we have identified “Materiality in asset management business” and “Materiality as a corporate entity” in 2022.

In the asset management business, in the "Basic Policy on ESG Investment", we consider the impacts of environmental and social sustainability on investee companies (sustainability risk) and the principal adverse impacts (PAIs) of investee company activities on the environment and society. Laws, regulations, and international norms regarding sustainable investment continue to evolve. Based on global trends, we will periodically review the appropriateness of the policy and flexibly review it if necessary.



SMDAM (Tokyo) as at 1 January 2025.

## 2. Identification and Prioritization of Actual/Potential PAIs

As “Materiality in Asset Management Business”, the following six materiality themes with particularly significant impacts have been identified from the perspectives of “importance for realization of a sustainable society” and “importance in long-term investment performance”.

With focuses on sectors and entities more relevant to the materiality themes, we undertake due diligence to identify, prevent and mitigate sustainability risks and negative impacts in our portfolios, leveraging to influence investees companies causing principal adverse impacts through our constructive dialogues for engagement as well as investment actions.

- Climate Change
- Natural Capital
- Human Rights in Supply Chain
- Human Capital
- Effectiveness of Corporate Governance
- Business Ethics and Corporate Culture

We have prioritized and identified the below-listed PAI indicators (including 16 mandatory items and 6 additional important items we selected from voluntary indicators the SFDR stipulates) in consideration of the regulation, their relations to our key materiality themes as well as practical availability and credibility of the data), while we consider PAIs comprehensively beyond the proposed indicators and the explicit scope under SFDR. These key PAI indicators will be periodically reviewed and authorised at the firm-wide Stewardship/ESG Meeting and shall be constantly monitored and periodically disclosed.

### “Materiality in asset management business” and relevant PAI indicators

| Key Materiality              | Rationales of Materiality   | PAI Indicators             |
|------------------------------|---|----------------------------|
| Climate Change               | <p>Climate change issues are common risks a wide range of industries are exposed to and have been one of the most critical focuses in the global society, triggered by the Paris Agreement.</p> <p>Governments around the world have been taking environmental actions; introduction and deliberation of environmental regulations and carbon tax, and subsidies for products of reduced environmental impact, etc.</p> <p>Climate change countermeasures have been one of the most important management issues for businesses.</p> | M1, M2, M3, M4, M5, M6, E4 |
| Natural Capital              | <p>Natural capital - water, air, soil, minerals, and biodiversity - is a fundamental and principal factor of economic activities.</p> <p>Its existence has been occasionally taken for granted, but it is now pointed out that human economic activities are consuming it at a rate that makes it impossible to reproduce.</p> <p>In light of this situation, given such circumstances, we believe that mitigating the burden on natural capital will lead to corporate sustainability.</p>   | M7, M8, M9, E6             |
| Human Rights in Supply Chain | <p>Globalization has brought rapid economic development, whereas the adverse impacts of corporate activities on human rights have raised serious concerns.</p>  | S4, S9                     |

SFDR DISCLOSURE STATEMENT  
 ENTITY LEVEL ARTICLE 4 – CONSIDERATION OF PAIs ON ENVIRONMENT AND SOCIETY

| Key Materiality                       | Rationales of Materiality  | PAI Indicators |
|---------------------------------------|--|----------------|
|                                       | <p>The human rights issues have recently drawn increasing attention, particularly in Europe and the U.S., with initiatives to legislate human rights due diligence, and also in Japan, with the formulation of a guideline and action plan on "business and human rights" as a part of humanitarian diplomacy.</p> <p>Once a company's human rights issues are exposed, reputation may be damaged with the risk of boycotts of the company's products and services.</p>  |                |
| Human Capital                         | <p>We believe that human capital is the foundation underpinning corporate operations. Continuous retention and attraction of excellent management executives and human resources is a key for the sound management issue.</p> <p>Diversity is another essential managerial issue in terms of sources of innovation, risk management from various perspectives, and talent sourcing.</p>  | M12, M13       |
| Effectiveness of Corporate Governance | <p>Establishment of effective corporate governance is positioned as the cornerstone of sound enterprise management.</p> <p>Corporate governance is a business management system that, we believe, leads to increased corporate value over the long term, yet its dysfunction may entail serious misconduct risks.</p> <p>Equipment of an effective corporate governance system enables corporates to maintain stable operations over the long term, and helps to control conflicts of interest between shareholders and the company management.</p> <p>Furthermore, its establishment is also tightly linked to the promotion of "E (Environment)" and "S (Social)" characteristics.</p> | M10, M11       |
| Business Ethics and Corporate Culture | <p>Business Ethics and Corporate Culture are forged by the founder, successive executives, and daily activities of the employees. Robust Ethics and Corporate Culture are shared within the organization over time, and serve as the source of its competitive edge and function as governance. In contrast, weak ones may result in negative consequence, such as a lack of compliance awareness or an attitude of "Playing things safe".</p>   | M14, S6, S15   |

SMDAM (Tokyo) as at 1 January 2025

PAI indicators specially considered in our PAI analysis

| Investee  | Mandatory /Additional | Theme   | PAI Indicator | PAI Name (Adverse Sustainable Indicator)  |
|-----------|-----------------------|---|---------------|---|
| Corporate | Mandatory             | Climate and other environment-related indicators  | M1            | GHG emissions   |
|           |                       |   | M2            | Carbon footprint  |
|           |                       |   | M3            | GHG intensity of investee companies   |
|           |                       |   | M4            | Exposure to companies active in the fossil fuel sector  |
|           |                       |   | M5            | Share of non-renewable energy consumption and production  |
|           |                       |   | M6            | Energy consumption intensity per high impact climate sector   |
|           |                       |   | M7            | Activities negatively affecting biodiversity-sensitive areas  |
|           |                       |   | M8            | Emissions to water  |
|           |                       |   | M9            | Hazardous waste and radioactive waste ratio   |
|           |                       | Social and employee, respect for human rights, anti corruption and anti bribery matters | M10           | Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises  |
|           |                       |   | M11           | Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises |
|           |                       |   | M12           | Unadjusted gender pay gap   |

|  |            |  |     |  |   |  |     |   |
|--|------------|--|-----|--|---|--|-----|---|
|  |            |  | M13 | Board gender diversity   |   |  |     |   |
|  |            |  | M14 | Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons) |   |  |     |   |
|  |            |  | E4  | Investing in companies without carbon emission reduction initiatives   |   |  |     |   |
|  |            |  | E6  | Water usage and recycling  |   |  |     |   |
|  | Additional | Climate and other environment-related indicators   |     | S4   | Lack of a supplier code of conduct                |  |     |   |
|  |            |  |     | S6   | Insufficient whistleblower protection             |  |     |   |
|  |            | Social and employee, respect for human rights, anti-corruption, and anti-bribery matters |     | S9   | Lack of a human rights policy                     |  |     |   |
|  |            |  |     | S15  | Lack of anti-corruption and anti-bribery policies |  |     |   |
|  |            |  |     | Sovereign & Supranational  | Mandatory   | Climate and other environment-related indicators   | M15 | GHG intensity                                   |
|  |            |  |     |  |   | Social and employee, respect for human rights, anti-corruption, and anti-bribery matters | M16 | Investee countries subject to social violations |

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Note: The table sets out the quantitative impacts of the investment decisions made in relation to the products managed by SMDAM UK on PAIs, measured against 16 mandatory and 6 additional voluntary PAI indicators. It also sets out our approach to identifying and prioritising PAIs and our approach to engagement and international standards.

### 3. Consideration of PAIs in Investment Processes

#### (1) Norm-based Negative Screening

A fundamental step of our PAI Due Diligence is the firm-wide screening of potential violations against international standards including UN Global Compact and OECD Guidelines for Multinational Enterprises. For investment exclusion, we shall designate the entities as "inappropriate for investment from an ESG perspective", if they meet the quantitative criteria of both (1) and (2) in the following table and do not have any idiosyncratic issues to be taken into consideration in our qualitative judgment as shown in (3).

#### Negative Screening and Investment Exclusion Criteria

| Viewpoints for Entity-Level Exclusion   | External Database to Use   | Threshold Criteria          |
|---|--|-----------------------------|
| International norm-based exclusion  | Sustainalytics Global Standards <u>Screening</u>                     | Non-compliant               |
| Materiality   | Sustainalytics <u>Controversy</u> Rating                             | Category 5                  |
| Qualitative judgement (by each Investment Group)                              | Qualitative discussions by Executive Officer (Investment Department) | Idiosyncratic circumstances |
| Decision by Executive Officer in charge of the Responsible Investment Section | Decision by Executive Officer (Responsible Investment Section)       | Comprehensive judgement     |

SMDAM (Tokyo) as at 1 January 2025.

## **(2) Consideration of PAI Indicators**

PAI indicators listed under the SFDR are prudently considered in stock selection, portfolio-level monitoring, and dialogue with investee companies.

Believing it can ultimately impact on the risk-return profile of financial instruments, all of our actively managed products consider PAIs, i.e. negative externalities, in addition to financial and sustainability risks to the extent material and permitted by relevant laws, regulations and mandates.

As a company causing significant negative impacts on environment and/or society may result in its corporate value destruction in the future potentially triggered by regulatory penalties and/or reputational damages, we seek its prompt rectification through our engagement activities in order to avoid such risk.

## **(3) Continuous PAI updating for process-oriented activity**

We will update on a continual basis sustainability risks and PAIs of investee companies in our portfolios through exclusive or collaborative engagement with other institutional investors, and communication with stakeholders including relevant NGOs.

Systematically and across the organizations, the observations of sustainability risks and PAIs are shared in the forms of analyst reports and ESG scores, to support our investment decisions.

# **4. Engagement and Escalation**

## **(1) Engagement Policy**

We have engaged and will engage in constructive dialogue with investee companies to contribute to their medium-to-long term sustainable growth and improvement in their corporate value or, alternatively, to help mitigate damage to them, encouraging their formulation, execution, and information disclosure of appropriate business strategies/visions in consideration of sustainability-related issues.

If, despite our repeated engagement, no improvement is seen in investee company sustainability issues, including those that have a significant negative impact on environment and society, or if there are undesirable actions affecting social credibility with no respect to stakeholder relationship, we will take a strict stance when exercising voting rights on the companies.

The matter may be further escalated to firm-wide investment exclusion/restriction in case of critically significant situations where no improvement is observed. Such matters will be decided by the Executive Officer in charge of the Responsible Investment Section, based on our “Rules on Managing Unsuitable Investee Companies”. (Escalation)

## **(2) Engagement on Climate Change**

In March 2022, we became a signatory of the Net Zero Asset Managers Initiative, a global initiative of asset managers aiming to achieve net-zero GHG emissions by 2050.

To this end, we will encourage investee companies to obtain SBT (Science Based Targets) certification, which is granted to companies with long-term plans consistent with requirements of the Paris Agreement, and will urge them to improve their CDP climate change scores, while considering investment exclusion as an option, focusing on sectors with high GHG emissions. Meanwhile, we will participate even more actively than we did in the past in collaborative engagements organized by domestic and global initiatives.

## 5. Collaborative Engagement and References to International Standards

We have signed and endorsed a variety of domestic and global initiatives and are participating in collaborative engagement to co-work with other institutional investors, etc., which helps us to improve effectiveness and efficiency of our engagement activities.

For more information please refer separately to: SFDR Article 3 Disclosure; Integration of Sustainability Risks; Section: 10. Collaborative Engagement and Initiatives, which provide more in-depth information on our active participation in this area.

This Article 3 disclosure is available at <https://www.smd-am.co.uk/legal-and-compliance/sustainability-related-disclosures>

## 6. Monitoring and Disclosure/Reporting

### (1) Monitoring of PAIs

We focus on and will disclose the following PAIs in the format of the weighted average of the portfolio, both at an entity-level and a product-level. In addition to the Mandatory indicators, 6 “Opt-in” additional indicators are selected in line with SMDAM’s key Materiality and according to data availability.

We shall make reasonable efforts to obtain the required data directly or through third parties (data providers). Where this is not possible, we shall make a best estimate.

Separately from the consideration of financial material sustainability risks, the investment team considers Principal Adverse Impacts of its investment decisions in stock selection. The PAIs do not constitute binding investment limits for a portfolio’s composition of a financial product.

By identifying investee companies with poor PAI indicators, it enables us to continue dialogue and engage with them to improve their corporate sustainability while continuing to hold their stocks in our portfolios. These activities are essential in realizing a sustainable society.

### (2) Reporting and Disclosure

For funds and discretionary accounts under our management subject to the SFDR, we will disclose and report the mandatory items related to the PAIs on our company’s website, in pre-contractual disclosure documents (such as fund prospectuses), and periodic disclosure reports pursuant to the regulations and relevant guidelines.

In addition, regardless of the scope of entity or a fund’s domicile covered by the SFDR, we will periodically disclose PAI indicators that we consider important, including mandatory items, for ourselves (entire company) in addition to each fund/account.

**Further information will be available at:**

[Responsible Investment | Sumitomo Mitsui DS Asset Management \(smd-am.co.jp\)](#)

[Sustainability Related Disclosures – Sumitomo Mitsui DS Asset Management \(smd-am.co.uk\)](#)

### Change Log

| Version | Date         | Details of change    |
|---------|--------------|----------------------|
| 1.0     | January 2023 | Initial document     |
| 2.0     | April 2025   | Annual update/review |

## Disclaimer

Definitions referred to within this document are detailed below:

|                                   |  |
|-----------------------------------|--|
| “SMDAM”<br>“Our” / “We” / “Group” | These references relate to the entire “Sumitomo Mitsui DS Asset Management Company, Limited” organisation and will generally be used when referring to matters such as investment philosophy, style, company structure and other policies, which are consistent across the group.  |
| “SMDAM Tokyo” / “SMDAM (Tokyo)”   | This refers to Sumitomo Mitsui DS Asset Management Company, Limited., the head office of the SMDAM group based in Tokyo, Japan. Our Japanese investment team is based in Tokyo and will perform day-to-day management of client portfolios.  |
| “SMDAM UK”<br>“SMDAM (UK)”        | This refers to Sumitomo Mitsui DS Asset Management (UK) Limited, the UK-based subsidiary of SMDAM (Tokyo). SMDAM (UK) will typically be appointed as investment manager and will delegate day-to-day management of client portfolios to SMDAM (Tokyo), SMDAM (Hong Kong) and SMDAM (Singapore), but will retain responsibility for the management, control and servicing of the client portfolios and relationship. Some responses within this document will refer specifically to practices and procedures undertaken within the SMDAM (UK) office. |

This is a disclosure issued by Sumitomo Mitsui DS Asset Management (UK) Limited. Registered in England and Wales. Registered office 100 Liverpool Street, London, EC2M 2AT; registered number 1660184. Authorised and regulated by the Financial Conduct Authority.

The disclosures in this document are designed to comply with Article 4 of the Sustainable Finance Disclosure Regulation ((EU) 2019/2088) (“SFDR”) regarding the principal adverse impacts (“PAIs”) of investment decisions on sustainability factors.

The information disclosed details our policies and procedures for assessing, integrating, and disclosing PAIs, sets out our approach to identifying, prioritising, and considering PAIs in our investment process, and our approach to engagement and international standards.

This disclosure document contains firm-wide information on sustainability-related aspects. It is not a financial promotion and should not be construed as an investment advice or an offer or solicitation to buy or sell securities.