

## COMPANY POLICY

# Adverse Sustainability Impacts

## SFDR Disclosure for Article 4.1

### Determination of impacts

Our analysts conduct proprietary evaluation analysis on sustainability risk through interviews and engagements. We currently assess over seven hundred corporations.

We also have access to ESG evaluations provided by third party providers. This enables us to cover more than 11,000 corporations/issuers world-wide. We combine this data with our own sustainability evaluation.

We assess investment products into primary categories as set out below.

The sustainability factors:

- environmental
- social and employee matters
- respect for human rights
- anti-corruption and anti-bribery matters

are a material element to evaluate sustainability when we make investment decisions. In particular, we incorporate analysis and evaluation of ESG factors into the security selection process, to the extent suitable for each investment product.

We continuously monitor sustainability factors, including greenhouse gas emissions, at a portfolio level. We use a series of metrics which are evaluated and reflected in the investment process.

We are continuously enhancing our sustainability risk assessments for security screening, engagement activity and in portfolio construction. With these efforts, we continue to increase the number of investee company analyses and the development of products for which sustainability and ESG factors are deeply integrated. We have systems in place to monitor and improve effectiveness of sustainability and ESG integration.

Name		Standard	Sustainability Focus	Social Contribution-Thematic/ Impact Investment
Definition		Manage funds or portfolio with sustainability-related risks and opportunities being as one of important factors in investment decisions. In addition to the case where certain companies and sectors set forth in the investment guidelines are excluded, there are cases where the Company places limits, at its discretion, on holding of companies in which material problems and concerns are raised for sustainability.	Manage funds or portfolio by selecting companies, among extensive investment universes, that excel in the sustainability characteristic by qualitative or quantitative methods or companies that are expected to improve the characteristic through engagement activities.	Manage funds or portfolio by investing in companies that contribute to improvement of sustainability of society such as SDGs.
Factors of ESG Integration*	Screening	Negative screening (Exclude companies restricted by investment guidelines or companies the Company considers ineligible)	Same as on the left (Depending on investment methods for products, may apply some restriction for security selection based on sustainability evaluation)	Positive screening (Apply a certain criteria to define investable universe)
	Engagement	Consider the need for engagement with ESG theme for each investee company, and conduct engagement if necessary	Same as on the left (Depending on investment methods for products, may conduct additional engagement)	Same as on the left
	Consideration of sustainability	Evaluate sustainability as one of important factors in investment decisions	Define how to evaluate sustainability and use the outcome within investment process clearly and specifically.	Same as on the left
Products* (as of the end of August 2020)		In principle, all active investment products (excluding products shown on the right)	<ul style="list-style-type: none"> <li>•Japan Equity New Alpha Fund</li> <li>•Japan Equity Quality Focus Fund</li> <li>•Japan Equity Engagement Strategy</li> <li>•Japan Equity ESG Fund</li> <li>•Japan Bond Credit Active type</li> <li>•Japan Equity Value (TOPIX, Large Cap)</li> </ul>	<ul style="list-style-type: none"> <li>•Japan Impact Fund</li> <li>•Global Impact Fund</li> <li>•Global SDGs Equity Fund</li> <li>•Global SDGs High Income Fund</li> </ul>

Source: SMDAM



## 2.1 Screening

We carry out a high-level screening process - negative screening. This eliminates companies involved in high greenhouse gas emissions activities. A further technical screening process is undertaken of the companies that are otherwise eligible in the relevant categories above for inclusion in a fund. We assess the investee company's business activity and determine its contribution to, or avoidance of, significant harm to the environment.

We set out criteria to assess the following sustainability factors:

- environmental
- social and employee matters
- respect for human rights
- anti-corruption and anti-bribery matters

We review these factors taking into account the size, nature and scale of our due diligence activities and explain how we take these factors into account as part of our sustainability assessment.

### (a) Environmental factors

We encourage companies to establish management goals, implement specific measures, and disclose information, in order to reduce emissions of greenhouse gases such as carbon dioxide to net zero or less by 2050, which corresponds to the policies of various countries governments. In order to realize a sustainable society, we will assess and incorporate the company's capabilities in responding to environmental issues into our evaluation process including energy performance and consumption, biodiversity and eco-system preservation practices, deforestation policies, water emissions and water quality and hazardous waste treatment and containment.

### (b) Social and employee matters

Through engagement with investee companies, we encourage companies to harness the diversity of human resources, including promoting women's participation and enhancing flexible work styles. In addition to incorporating the capability of investee companies to respond to social issues into our evaluation process, we seek to confirm the extent of issues related to gender pay gap rates, board gender diversity, whistleblower protections, and CEO pay ratios.

### (c) Respect for human rights

SMDAM believes that investee companies, need to fulfil their social responsibilities in respecting human rights. In addition to complying with laws and statutory regulations, SMDAM believes that sound management contributes to the value of investee companies, etc., i.e. management that respects cooperative relationships with consumers, business partners, local communities, and society in general.

Moreover, SMDAM takes the view that any acts affecting human rights have significant potential to damage the value of investee companies. SMDAM takes a tough stance on any acts affecting human rights and the impact on the investee company and society in general.

SMDAM through its engagement and due diligence processes confirms with investee companies whether they have human rights, anti-trafficking and child labour policies in place and appropriate processes to monitor, report and act on human rights breaches, including by their suppliers.

### (d) Anti-corruption and anti-bribery matters

SMDAM through its engagement policies assesses its investee companies for the quality of its anti-corruption and anti-bribery policies and seeks details of the number of breaches and remedial actions taken including fines and other actions be relevant Governments.

## 2.2 Level 2 Negative Screening Process

When we entertain doubts about sustainability of corporations due to outcome of our internal sustainability risk assessments and shareholder engagement, we will examine the materiality of the incident and undertake additional due diligence through various means such as interviews to determine if such corporations are excluded for a fund product.

Such a decision is made by the Responsible Investment Officer after deliberation at the ESG Meeting. Fund managers and analysts in cooperation with the Responsible Investment Section engage with corporations and exercise voting rights to prompt corporations to appropriately address critical issues.

## 2.3 Sustainability risks on financial products

Our sustainability risk assessment policy also identifies and assesses any principal sustainability impacts on the financial products. This is less likely to impact on the funds in the Sustainability, and Social-Contribution Thematic/Impact investment categories, but is a potential risk for standard funds. Such risks include 'stranded asset' risk (physical, economic and regulatory). We may support investment where corporations are investing in energy transition to decarbonization, although there is some potential for stranded asset risk in the transition phase.

Where we find that there are no sustainability risks relevant to a financial product we will explain the reasons. Where sustainability risks are relevant to a financial product, we will explain in qualitative and/or quantitative terms how such sustainability risks will impact the performance of the financial product. Such sustainability risks assessment will be set out within the relevant fund documentation.

## 2.4 Engagement policies

SMDAM is a signatory to Japan's Stewardship Code. These principles are integrated into our sustainability risk assessment.

SMDAM monitors its investee companies based on a comprehensive evaluation of financial (business strategy, capital structure, performance trends) and non-financial (management policies / plans, competitive advantage, ESG factors).

SMDAM has engagement policies for:

- (a) exercising voting rights and other rights attached to shares;
- (b) cooperating with other shareholders; and
- (c) communicating with relevant stakeholders of investee companies.

SMDAM considers the role of executive boards that are properly equipped with the capacity to supervise/monitor corporate management (such as the Board of Directors) to be important, and it engages in dialogue on the composition of executive boards, compensation and incentives and establishment of education/screening/succession plans for top management, as well as appropriate ESG risk control and dialogue on internal controls, etc. to prevent any improprieties.

Further to this, SMDAM publishes how it votes on all proposals on its website, along with aggregated results by proposal category.

We encourage companies to strengthen their corporate governance, develop policies and initiatives related to TCFD (Task Force on Climate-related Financial Disclosures) and other ESG issues, and to disclose these policies and initiatives in an easy-to-understand way. We exercise proxy voting rights based on internal policies.

SMDAM currently publishes its stewardship activities in reports available to customers. It also publishes those reports on an annual basis on its website.

## **2.5 Partially Screened Investee Companies**

Some funds are managed by external third parties. Those managers will have different sustainability assessment criteria in the determination of investee companies. SMDAM acknowledges that sustainable risk assessment may not apply to passive investment management products and others such as long/short products provided by third party fund managers, marketed by SMDAM.

In principle, Sumitomo Mitsui DS Asset Management (SMDAM) encourages fund managers and analysts engaged with active investment management products to take into account sustainability factors in the course of their investment process.

## Resources

You can find more SFDR information about the Sumitomo Mitsui DS Asset Management policies and strategies:

- SMDAM policies on SFDR – see website
  - <https://www.smd-am.co.uk/sustainability>
  - **SMDAM Tokyo website:** [https://www.smd-am.co.jp/english/corporate/responsible\\_investment/esg/](https://www.smd-am.co.jp/english/corporate/responsible_investment/esg/)
- SICAV Prospectus – see for individual UCITS Funds at <https://www.smd-am.co.uk/wp-content/uploads/2021/03/Prospectus-Daiwa-SBI-Lux-Funds-SICAV-20210201-visaed.pdf>
- Corporate Responsibility 'Sustainability Report 2020' at: [https://www.smd-am.co.jp/english/corporate/vision/fiduciary/pdf/sustainability\\_report\\_2020\\_en.pdf](https://www.smd-am.co.jp/english/corporate/vision/fiduciary/pdf/sustainability_report_2020_en.pdf)
- 'Environment, Social And Governance Report' at: [https://www.smd-am.co.uk/wp-content/uploads/2021/03/SMDAM-ESG-Report-2H-2020\\_02032021.pdf](https://www.smd-am.co.uk/wp-content/uploads/2021/03/SMDAM-ESG-Report-2H-2020_02032021.pdf)

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**Risk warning: On 1 January 2021 the UK left the EU transitional arrangements and no longer benefits from passporting rights into EEA countries.**

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