



Sumitomo Mitsui DS Asset Management

# **II. Consideration of Principal Adverse Impacts ("PAIs") on Environment and Society**

## **SFDR Disclosure Statement (Entity Level – Article 4)**

January 2023

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## Introduction

### Policy, Procedures, and descriptions on our PAIs consideration

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 realise 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”

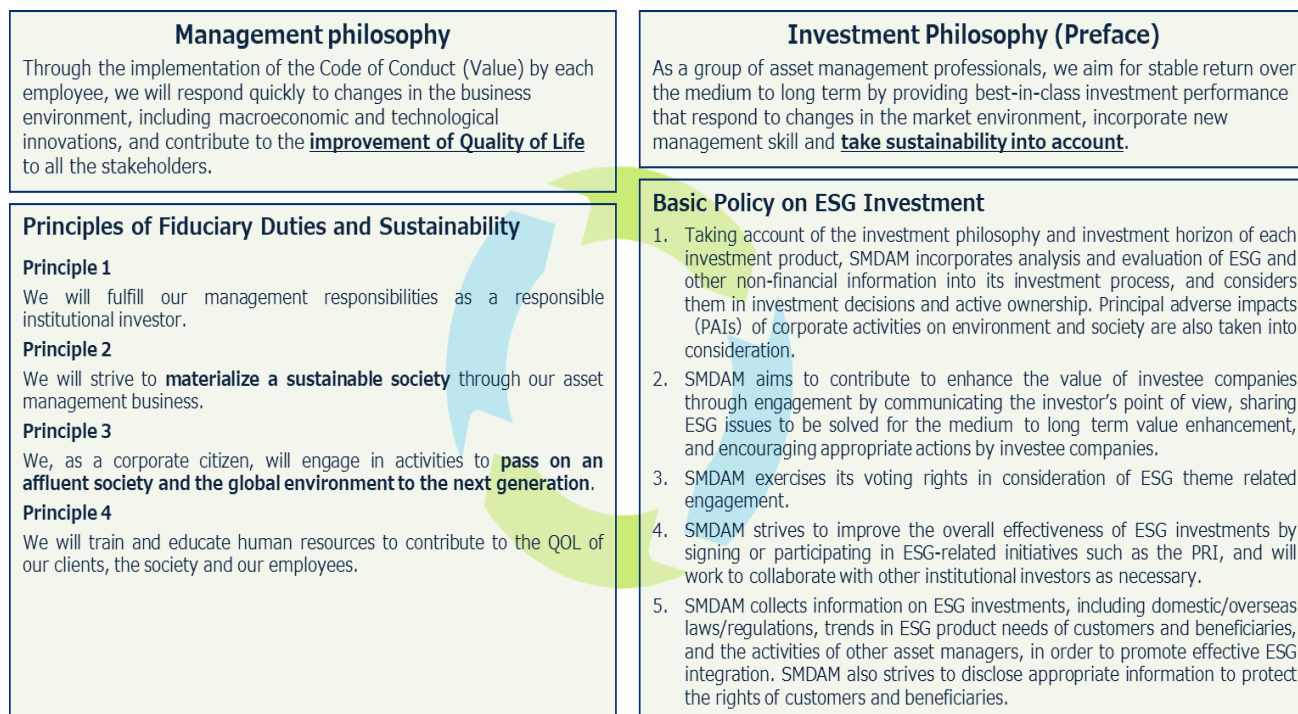
The “PAI Due Diligence” process for our comprehensive investment activities, consists of the following 6 elements to be further elaborated below;

- 1) Policy Framework
- 2) Identification and Prioritisation 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 impact of environmental and social sustainability on investee companies (sustainability risk) and the negative impact of investee company activities on the environment and society (PAI). 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.



Source: SMDAM (Tokyo) as at 31 October 2022

(restated)

## 2. Identification and Prioritisation 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 realisation 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 prioritised 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

|                              | 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>Globalisation has brought rapid economic development, whereas the adverse impacts of corporate activities on human rights have raised serious concerns.</p> <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> | S4, S9                     |

| Rationales of Materiality             |  | PAI Indicators |
|---------------------------------------|--|----------------|
| 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 organisation 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 “Play things safe”.</p>  | M14, S6, S15   |

Source: SMDAM (Tokyo) as at 31 October 2022

### 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   |
|   | Additional            | 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)                                  |
|   | Mandatory             | Climate and other environment-related indicators  | E4  | Investing in companies without carbon emission reduction initiatives  |
|   |                       |   | E6  | Water usage and recycling   |
| S4  |                       |   | Lack of a supplier code of conduct                |   |
| Social and employee, respect for human rights, anti corruption and anti bribery matters |                       | S6  | Insufficient whistleblower protection             |   |
|   |                       | 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   |

(Footnote) Above-shown PAI indicators are 16 mandatory indicators (M) and 6 voluntary indicators we additionally selected on materiality following the SFDR.

Source: SMDAM (Tokyo) as at 1 January 2023

## 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 <b>Screening</b>                     | Non-compliant               |
| Materiality   | Sustainalytics <b>Controversy</b> 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     |

Source: SMDAM (Tokyo) as at 31 October 2022

(restated)

### (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 for 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 organisations, 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 any possible damage caused 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 to 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 organised 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 details, refer to Section J – Collaborative Engagement and Initiatives in the ‘SFDR Disclosure Statement (Entity Level – Art. 3.1 & 4.1) - Sustainability Risk Integration Policy’ on the website. See: <https://www.smd-am.co.uk/sustainability/>

## 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 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 financially 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, 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 realising 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's/account.

### Further information is available at:

Sustainability Related Disclosures – Sumitomo Mitsui DS Asset Management ([smd-am.co.uk](https://www.smd-am.co.uk))

See: <https://www.smd-am.co.uk/sustainability/>



## Disclaimer – SMDAM (UK)

Definitions referred to within this document are detailed below:

|  |   |
|--|---|
| “SMDAM”<br>“Our” / “We” / “Group”<br>“SMDAM Tokyo” / “SMDAM (Tokyo)” | <p>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.</p> <p>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.</p>                 |
| “SMDAM UK”<br>“SMDAM (UK)”   | <p>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.</p> |

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For detailed information about the Fund please refer to the sales prospectus and the key investor information document (KIID). Financial information about the fund is provided in the latest audited annual report or interim, whichever is newest. The KIID, the sales prospectus and the most recent annual report and the latest semi-annual report, if published thereafter, are the only binding basis for the purchase of shares and investment decisions should be based solely on this. Documents can be obtained free of charge at Sumitomo Mitsui DS Asset Management, BBH, the paying agents, at Duff & Phelps (Luxembourg) Management Company S.a.r.l. and on [www.smd-am.co.uk](http://www.smd-am.co.uk)

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To be compliant with the Swiss law please note that the representative in Switzerland is 1741 Fund Solutions Ltd, Burggraben 16, CH-9000 St. Gallen. Swiss Paying Agent in Switzerland is Telco Ltd, Bahnhofstrasse 4, 6430 Schwyz, Switzerland. Fund prospectus, the Key Investor Information Document, the articles of association as well as the annual and semi-annual reports may be obtained free of charge from the representative. In respect of the units distributed in and from Switzerland, the place of performance and jurisdiction is the registered office of the Representative.

**Risk warning: Investments in the Fund can both increase and decrease in value due to market fluctuations, the fund's risk and costs associated with subscription and redemption, administration, etc., and you can lose the entire amount invested. The Fund's historical development should not be considered a reliable indicator of future returns.**

**Risk warning: On 1 January 2021 the UK left the EU transitional arrangements and no longer benefits from passporting rights into EEA countries. Kroll (Luxembourg) Management Company S.à.r.l., is authorised and regulated by La Commission de Surveillance du Secteur Financier, and since 1st of July 2021 is the only Marketing Entity of SMD-AM Funds SICAV in the European Economic Area.**

This is a marketing communication. Please refer to the prospectus of the UCITS and to the KIID before making any final investment decisions.