



Sumitomo Mitsui DS Asset Management

# RESPONSIBLE INVESTMENT REPORT (Including ESG Investments)

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# Responsible Investment

As a responsible institutional investor, Sumitomo Mitsui DS Asset Management actively endeavors to engage in responsible investment, including stewardship and ESG activities from the perspective of fulfilling its fiduciary duty to provide good investment returns to customers and the ultimate beneficiaries.

For information on our company's policies regarding impacts of environmental and social sustainability on financial condition of investee companies and environmental and social impacts derived from investee companies' business activities, please click the link below.

["Policies for integration of sustainability risks into our investment process and consideration of principal adverse environmental and social impacts"](#)

["Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors"](#)

## A) Acceptance of Japan's Stewardship Code

The company accepts Japan's Stewardship Code, which sets out the principles of a "responsible institutional investor."

The company publishes the results of its "engagement activities" for improving corporate value and self-assessments on the implementation status of the stewardship code, which it is currently reinforcing.

A-1 Acceptance of "Japan's Stewardship Code"

A-2 Self-evaluation of the implementation status of Japan's Stewardship Code

A-3 Engagement activity performance

## B) Exercise of Voting Rights

Please see the basic concepts and processes, etc. concerning the exercise of voting rights.

B-1 Basic Policy on Exercise of Voting Rights

B-2 Criteria for Determining the Exercise of Voting Rights

B-3 Results of Exercise of Proxy Voting Rights (Japanese stocks)

## C) ESG Investments

The company has signed the United Nations' Principles for Responsible Investment (PRI) and engages in investment that takes into account the environment, society, and governance (ESG).

The company publishes its ESG investment policies and approaches.

C-1 Our Basic Policy and Initiatives for ESG Investment

C-2 ESG integration for Investment Products

C-3 Sustainable Products Classification

## D) Contact details for dialogue on exercise of voting rights and ESG

The company publishes contact details for parties who wish to engage in dialogue regarding the company's exercise of its voting rights and ESG.

D-1 Contact details for dialogue on exercise of voting rights and ESG

## A. Acceptance of Japan's Stewardship Code

The company accepts Japan's Stewardship Code, which sets out the principles of a "responsible institutional investor."

The company publishes the results of its "engagement activities" for improving corporate value and self-assessments on the implementation status of the stewardship code, which it is currently reinforcing.

### A-1 Acceptance of "Japan's Stewardship Code"

Sumitomo Mitsui DS Asset Management (SMDAM) hereby agrees to Japan's Stewardship Code, a set of principles for responsible institutional investors, and announces the following policies in this regard.

SMDAM will carry out responsible investment (stewardship activities and environmental, social and governance [ESG] activities) to fulfill its fiduciary responsibilities to provide customers and final beneficiaries with good quality returns on investments, as well as to contribute to the sound development of Japan's capital markets and economic expansion by playing an instrumental role in the virtuous cycle of the investment chain, thereby achieving its social mission as a responsible institutional investor.

#### Principle 1: Policy on fulfilling stewardship responsibilities

To fulfill its fiduciary responsibilities, depending on the status of investment assets held, SMDAM will aim to improve the value of and mitigate any damage to investee companies and J-REIT (Note 1) investment firms (Note 2) that are issuers of investment assets (hereinafter referred to as "investee companies, etc.") by conducting evaluation and analysis incorporated into the asset management process corresponding to its investment philosophy, appropriately engaging with investee companies, etc., and otherwise conducting stewardship activities based on evaluation/analysis rooted in a medium- to long-term perspective on the sustainability and other aspects of the investee companies, etc. To this end, SMDAM will make every effort to establish and enhance systems focused predominantly on analysts and fund managers, etc. to accumulate know-how, and will make ongoing efforts to improve its capabilities to realize growth in medium- to long-term investment returns for customers and final beneficiaries.

(Note 1) "J-REIT" refers to a Japanese Real Estate Investment Trust (REIT).

(Note 2) "REIT investment firms" refers to investment firms that hold REIT assets.

#### Principle 2: Policy on managing conflicts of interest to fulfill stewardship responsibilities

For a general summary of SMDAM's policy on conflicts of interest, please refer to ["Overview of conflict of interest management policy"](#).

In terms of initiatives for responsible investment, SMDAM's primary concern is for the interests of customers and final beneficiaries, and SMDAM will take the measures specified below to try to avoid conflicts of interest, while appropriately managing any conflict of interest that does arise. In addition, the "Responsible Investment Committee" will oversee the management of conflicts of interest, further enhancing SMDAM's governance structure.

Commissioned by the Board of Directors, the Responsible Investment Committee consists of outside directors, the Responsible Investment Officer, and the officer in charge of the Legal & Compliance Department, and its purpose is not only to review the system established to ensure that SMDAM properly fulfils its fiduciary duties including initiatives for responsible investment and check that there is proper understanding/management of the potential for conflicts of interest, but also to make recommendations to the Board of Directors for further improvements.

##### (1) Conflicts of interest related to investment activities

Considerations of SMDAM's own interests as well as those of other companies with which it has close connections (group companies including shareholder companies, companies that sell SMDAM's investment trust products, parent companies that have entrusted their pension funds to SMDAM, etc.) will never distract SMDAM from conducting proper investment activities that should be undertaken.

(2) Conflicts of interest related to the exercise of voting rights

When SMDAM exercises its voting rights in companies with which it has close ties and in affiliated parties, etc. as in (1) above, it will act in the best interests of customers and final beneficiaries and vote to improve the value of, or mitigate damage to, the investee company, etc. In general, SMDAM will itself exercise its voting rights in companies that present the potential for a conflict of interest in accordance with the "[Criteria for Determining the Exercise of Voting Rights](#)" as it does for other companies, etc., but for resolutions at SMDAM's shareholder companies and other parties for which management of conflicts of interest is especially important, SMDAM will exercise its voting rights with reference to the recommendations of an independent external proxy advisory firm (currently Institutional Shareholder Services). Furthermore, the results of voting will be periodically monitored by the Responsible Investment Committee and transparency will be further increased through the public disclosure of the results of voting (affirmative/negative) for each investee company, etc., and each proposal.

Note: The investee company, etc. includes an issuer of stocks/bonds and investment corporation of REITs.

### Principle 3: Policy on understanding a company's situation

SMDAM emphasizes research on investments as a source of added value and has in place a system whereby analysts and fund managers collect various types of information to allow a proper understanding of the situation of an investee company, etc. More specifically, SMDAM not only conducts a general dialogue regarding the policies, financial status, management strategy, and other aspects of investee companies, etc., but also strives to deepen its understanding and to fully grasp the situation at investee companies, etc., for the purpose of promoting sustainable growth, value enhancement, and damage mitigation.

To this end, SMDAM collects and analyses not only financial data but also non-financial data including environmental, social and governance (ESG) information, and reflects these in its management process in line with the investment philosophy, etc. for individual products.

SMDAM's policy of incorporating evaluations and analysis of sustainability into the investment process will apply not only to Japanese stocks, but also to J-REIT, foreign stocks, domestic and foreign bonds, and a variety of other investment assets.

### Principle 4: Policy on engagement (constructive "goal-oriented dialogue")

SMDAM will engage with investee companies, etc., in a variety of ways to contribute to the medium- to long-term improvement in the value of investee companies, etc. or, alternatively, to help mitigate damage to such companies, to provide customers and final beneficiaries with good quality investment returns.

SMDAM will work to contribute to improvement of the value of or mitigation of damage to investee companies, etc. through engagement that promotes the creation and implementation of appropriate business strategy and vision from a medium- to long-term perspective based on issues in the global business environment, the industry as a whole, a specific sector, or an individual company, and promotes disclosure.

SMDAM will promote efficient investment based on capital cost as well as appropriate financial and capital profiles, the formulation of policies on shareholder (or investor) returns, and the full disclosure of information. Furthermore, SMDAM will strive to conduct engagement pertaining to the possession of domestic securities (including J-REIT) from a perspective focused on both sustainability and the improvement of capital efficiency, while for other investment assets, engagement will be based on a sustainability perspective that considers the characteristics, legal framework, and status of the relevant assets and countries.

Engagement will also focus on issues with the exercise of voting rights, such as increasing awareness of climate change risks, the permeation of the sustainable development goals (SDGs), and other ESG issues that affect sustainability.

Note that SMDAM will participate in cooperative engagement under appropriate conditions if, in dialogue with investee companies, etc., collaboration with other institutional investors is deemed effective.

In dialogue with investee companies, etc., SMDAM will make every effort to avoid receiving unpublished material information. In the rare event that SMDAM is the recipient of insider information, SMDAM will encourage the investee company, etc. in question to publicly disclose the information as soon as possible, and

SMDAM's designated person in charge of information management will ensure that the information is properly managed and that no improper transactions are made. SMDAM will not engage in illicit investment decision-making or transactions based on insider information, etc.

### **Principle 5: Policy on exercise of voting rights, disclosure of voting results**

For details, please see the [“Basic Policy on Exercise of Voting Rights”](#).

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 will engage 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. The way that SMDAM exercises its voting rights will then properly reflect these factors.

Further to this, SMDAM publishes how it votes on all proposals on its website, along with aggregated results by proposal category. Voting results and the reasoning behind votes are compiled at three-month intervals, in principle on the last day of March, June, September and December, and the aim is to make them public around two months after the respective month end.

Note that, in light of its management process, SMDAM believes there to be no issues with so-called "empty voting" (whereby votes are simply exercised with no economic benefits or risk assumed, usually as a result of stock lending operations or similar).

### **Principle 6: Policy on reporting the status of initiatives regarding stewardship activities**

SMDAM will amass a database of the necessary records on the details and status of its stewardship activities, including its dialogue with investee companies, etc. and the exercise of its voting rights, which will be made available to customers and final beneficiaries in the form of reports and similar in order to work towards more constructive and effective dialogue.

In principle, SMDAM will publish its reports on responsible investing activities that include examples of such engagements on its website once per year.

In addition, SMDAM will report to bodies such as pension funds in an efficient and effective format.

### **Principle 7: Policy on maintaining and improving SMDAM's capabilities to fulfil stewardship responsibilities**

In order to properly fulfill its stewardship responsibilities, SMDAM believes it is crucial to conduct analysis and evaluations from a medium- to long-term perspective that includes the sustainability of investee companies, etc., and to reflect those analysis and evaluations in investment asset and product management strategies that also consider market conditions.

To that end, SMDAM has established a specialized “Responsible Investment Section” focused on engagement and sustainability analysis to properly strengthen such systems by increasing personnel and other measures. Further to this, SMDAM will hold the “ESG Board” and the “Stewardship Board” meetings every month that consist of chief personnel from the Responsible Investment Section, the Corporate Research Department, and various investment management departments to share good practices, exchange opinions on analysis and evaluations of investee companies, etc., and create policies to direct the exercise of voting rights, thereby working to build the organization's capacity for conducting dialogue.

SMDAM has accumulated asset management know-how over many years and has personnel with a wealth of experience. SMDAM's Board of Directors, which includes three external directors, is diverse, with a range of skills and experience, having sufficient independence and providing strong oversight. It is believed that the consolidation of the responsible institutional investors' management resources required to create value will also make a significant contribution to improving the company's capacity to fulfill its stewardship responsibilities. SMDAM aims to be a top-tier asset management company that contributes to “quality of life,” and to that end works continuously to strengthen its systems by “continually striving ahead to new challenges

as true professionals.” In the Responsible Investment Committee and the Board of Directors, SMDAM strives to test the effectiveness of its stewardship activities in continually improving the value of investee companies, etc., and strengthen its preparedness by conducting regular self-evaluations on how each principle of this code is being implemented and the results will generally be published once a year on its website.

### **Principle 8: Policy on Service Providers for Institutional Investors**

As specified in Principle 2 above with respect to domestic securities, SMDAM will make use of an independent external proxy advisory firm to help eliminate conflicts of interest.

SMDAM will assess the suitability of the contracting independent external proxy advisory firm from the perspective of whether it is contributing to the improved functioning of the entire investment chain, conducting an investigation when doubts arise regarding the firm’s understanding of guidelines governing the exercise of voting rights.

SMDAM will continue to promote the proper fulfillment of stewardship responsibilities by contracting independent external proxy advisory firms in the future.

### **Japan's Stewardship Code - Principles for Responsible Institutional Investors**

So as to promote sustainable growth of the investee company and enhance the medium- and long-term investment return of clients and beneficiaries,

- 1) Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.
- 2) Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.
- 3) Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies.
- 4) Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.
- 5) Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies.
- 6) Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.
- 7) To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.
- 8) Service providers for institutional investors should endeavour to contribute to the enhancement of the functions of the entire investment chain by appropriately providing services for institutional investors to fulfill their stewardship responsibilities.



## A-2 Self-evaluation of the implementation status of Japan's Stewardship Code

### **FY2022**

[Self-evaluation of the stewardship activities in FY2022](#)

### **FY2021**

[Self-evaluation of the stewardship activities in FY2021](#)

### **FY2020**

[Self-evaluation of the stewardship activities in FY2020](#)

### **FY2019**

[Self-evaluation of the stewardship activities in FY2019](#)

## A-3 Engagement Activity Results

At Sumitomo Mitsui DS Asset Management (SMDAM), the fund managers and analysts engage in constructive dialogue with investee companies and other entities with the objectives of (1) enhancing the sustainability of investee companies and their ecosystems, and (2) enhancing the value of investee companies and avoiding impairment (and thereby providing customers and ultimate beneficiaries with high-quality investment returns).

Please see the following links concerning engagement activity results.

[Apr, 2022-Mar. 2023 Engagement Activity](#)

[Apr, 2021-Mar. 2022 Engagement Activity](#)

[Apr, 2020-Mar. 2021 Engagement Activity](#)

[Apr, 2019-Mar. 2020 Engagement Activity](#)



## B. Exercise of Voting Rights

Please see the basic concepts and processes, etc. concerning the exercise of voting rights

### B-1 Basic Policy on Exercise of Voting Rights

#### 1. Fundamental ideas on the exercise of voting rights

In fulfilling its stewardship responsibilities, Sumitomo Mitsui DS Asset Management (SMDAM) will exercise voting rights with the aim of raising value in, or mitigating damage to, investee companies and REIT investment firms, etc. (see \*1 & \*2) (hereinafter referred to as “investee companies, etc.”) for the benefit of customers and final beneficiaries.

Voting rights are important rights that can impact corporate management and REIT management, and change the value of an investee company, etc., depending on exactly how they are exercised. SMDAM strives to exercise voting rights so as to prevent management, etc. from damaging shareholder (or investor) interests and to motivate management, etc. to create the greatest value by making effective use of the resources available within the company or REIT properties.

When managing assets, SMDAM invests in assets that are expected to have higher investment returns and, rather than simply continuing to hold assets, it believes that it is possible to promote sound development and improved value in investee companies, etc. through goal-oriented dialogue (engagement) and the assertive exercise of voting rights.

SMDAM utilizes voting rights in an assertive manner to ensure that good governance systems are established in investee companies, etc. and that capital markets are soundly managed, and also to develop desirable conditions for investors, taking the shareholder's (or investor's) position into account.

(\*1) "REIT" refers to Real Estate Investment Trust; and "J-REIT" to Japanese REIT.

(\*2) "REIT investment firms, etc." refers to investment firms that hold REIT assets, as well as asset management companies sub-contracted by investment firms to manage assets.

#### 2. The structure and process followed in the exercise of voting rights

SMDAM's in-house regulations, which form the basis for the Basic Policy on Exercise of Voting Rights, are either determined by resolution of the Board of Directors or deliberated on by the Management Committee, which is composed of directors and executive officers, and then finalized by the CEO.

In accordance with the finalized in-house regulations, the Stewardship Committee deliberates on the formulation of the Basic Policy and specific criteria for the exercise of voting rights (hereinafter referred to as "[Criteria for Determining the Exercise of Voting Rights](#)") the development of practical execution processes, and the creation of a structure, etc. to handle instructions for the exercise of voting rights, whereupon the matter is then approved by the Responsible Investment Officer.

The decision on whether to vote in favor or against individual proposals on Japanese stocks/J-REIT is made by the officer in charge in accordance with the Rules on Instructions for the Exercise of Voting Rights, etc., Practical Guidelines on the Exercise of Voting Rights for Japanese Stocks, Practical Guidelines on the Exercise of Voting Rights for J-REIT, and "[Criteria for Determining the Exercise of Voting Rights](#)", whereupon the decision is approved by the head of the Responsible Investment Office. In principle, SMDAM never issues a blank proxy and it will choose to either vote for, against, or to abstain from all agenda proposals and then issue the appropriate voting instructions. SMDAM carefully examines agenda proposals from investee companies, etc. based on the belief that voting rights are important rights for shareholders (or investors) and that they are a key means of improving value in, or mitigating damage to, an investee company, etc.

When SMDAM exercises its voting rights in companies with which it has close ties and affiliated parties, etc. (such as a shareholder company), it will act in the best interests of customers and final beneficiaries and vote to improve the value of, or mitigate damage to, the investee company, etc. In general, SMDAM will itself exercise its voting rights in companies that present the potential for a conflict of interest in accordance with the "[Criteria for Determining the Exercise of Voting Rights](#)" as it does for other companies, etc., but for resolutions

at SMDAM's shareholder companies and other parties for which management of conflicts of interest is especially important, SMDAM will exercise its voting rights with reference to the recommendations of an independent external proxy advisory firm (currently Institutional Shareholder Services). Furthermore, the results of voting will be periodically monitored by the Responsible Investment Committee and transparency will be further increased through the public disclosure of the results of voting (affirmative/negative) for each investee company, etc., and each proposal.

SMDAM will undertake particularly detailed research and analysis before deciding how to vote if there has been an act affecting social credibility, or if an investee company, etc. has any agenda proposals that are considered likely to have a significant impact on value. This includes proposals to be raised at an extraordinary general meeting, shareholder (or investor) proposals, capital reductions, capital increases allocated to third parties or mergers/business transfers, etc.

Note that when exercising voting rights in investee companies, etc. that have participated in the engagement, SMDAM will consider the content of the dialogue and apply the ["Criteria for Determining the Exercise of Voting Rights"](#) more flexibly, making judgments from a medium- to long-term perspective based on individual circumstances.

In principle, for foreign stocks and foreign REITs, SMDAM exercises voting rights in line with conditions pertaining to the fund and the issuing country. However, to exercise voting rights more efficiently, SMDAM may commission an external company to study the agenda proposals or use the services of an external proxy advisory firm.

### 3. CSR (Corporate Social Responsibility) and the Exercise of Voting Rights

SMDAM believes that investee companies, etc., need to fulfil their social responsibilities to improve their value or mitigate damage in the medium to long term. 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 stakeholders besides shareholders (or investors) such as consumers, business partners, local communities, and society as a whole. Moreover, SMDAM takes the view that any acts affecting social credibility have significant potential to damage the value of investee companies, etc., regardless of whether such acts are short term or long term.

SMDAM takes a tough stance on any acts affecting social credibility and takes in to account whether or not the value of the investee company, etc. will improve, or damage to the investee company, etc. will be mitigated, when exercising voting rights.

SMDAM believes it is also important in terms of fulfilling CSR that an outside director (in the case of stocks) or an executive officer/supervisory director (in the case of J-REIT) who fulfils the ["Criteria for Determining the Exercise of Voting Rights"](#) be appointed to carry out supervisory and monitoring functions with regard to the decision-making, management and operations of an investee company, etc., from the shareholder's (or investor's) standpoint.

### 4. Disclosure of voting results

On its website SMDAM publishes how it votes on all proposals as well as aggregated results by proposal category. The voting results are compiled at three-month intervals, in principle on the last day of March, June, September and December, and the aim is to make them public around two months after the respective month end.

## B-2 Results of Exercise of Proxy Voting Rights (Japanese stocks)

On its website SMDAM publishes how it votes on all proposals as well as aggregated results by proposal category. The voting results are compiled at three-month intervals, in principle on the last day of March, June, September and December, and the aim is to make them public around two months after the respective month end.

### **FY2022**

Please see the following links concerning voting results.

[Results of Exercise of Proxy Voting Rights at general meetings from January to March 2023](#)  
[Results of Exercise of Proxy Voting Rights at general meetings from October to December 2022](#)  
[Results of Exercise of Proxy Voting Rights at general meetings from July to September 2022](#)  
[Results of Exercise of Proxy Voting Rights at general meetings from April to June 2022](#)

### **FY2021**

Please see the following links concerning voting results.

[Results of Exercise of Proxy Voting Rights at general meetings from January to March 2022](#)  
[Results of Exercise of Proxy Voting Rights at general meetings from October to December 2021](#)  
[Results of Exercise of Proxy Voting Rights at general meetings from July to September 2021](#)  
[Results of Exercise of Proxy Voting Rights at general meetings from April to June 2021](#)

### **FY2020**

Please see the following links concerning voting results.

[Results of Exercise of Proxy Voting Rights at general meetings from January to March 2021](#)  
[Results of Exercise of Proxy Voting Rights at general meetings from October to December 2020](#)  
[Results of Exercise of Proxy Voting Rights at general meetings from July to September 2020](#)  
[Results of Exercise of Proxy Voting Rights at general meetings from April to June 2020](#)

\*This material has been prepared by SMDAM using data from sources believed to be reliable, but SMDAM cannot and does not guarantee the completeness, accuracy or timeliness of those data. SMDAM cannot be held responsible for any damages and losses incurred based on this material.

\*It is strictly prohibited from using this material for investments or businesses, reproducing/copying this material, or from disclosing this material to a third party.

## C. ESG Investments

The company has signed the United Nations' Principles for Responsible Investment (PRI) and engages in investment that takes in to account the environment, society, and governance (ESG).

The company publishes its ESG investment policies and approaches.

### C-1 Our Basic Policy and Initiatives for ESG Investment

#### Basic Policy on ESG Investment

In light of the changing global environment as well as societal demand evolving from Sustainable Development Goals (SDGs), Sumitomo Mitsui DS Asset Management (SMDAM) considers non-financial information including environmental, social, and governance (ESG) information to be as important as financial information to evaluate sustainability of issuers of stocks/bonds and investment corporations of REITs (hereinafter referred to as "investee companies"). We believe ESG analysis enables us to foresee the enhancing or damaging value of investee companies in the medium- to long-term. In this context we will proactively take the following measures.

- 1) Taking account of the investment philosophy and investment horizon of each investment product, SMDAM incorporates analysis and evaluation of ESG and other non-financial information into the investment process, and considers them in making investment decisions. Principal adverse impacts of corporate activities on the environment and society are similarly subject to analysis and evaluation.
- 2) SMDAM aims to contribute to enhance the value of investee companies through engagement by communicating the investor's point of view, sharing ESG issues to be solved for the medium- to long-term value enhancement, and encouraging them to take more appropriate actions.
- 3) SMDAM exercises its voting rights in consideration of ESG theme related engagement.
- 4) SMDAM strives to improve the overall effectiveness of ESG investments by signing or participating in ESG-related initiatives such as the PRI, and will work to collaborate with other institutional investors as necessary.
- 5) SMDAM collects information on ESG investments, including domestic/overseas laws/regulations, trends in ESG product needs of customers and beneficiaries, and the activities of other asset managers, in order to promote effective ESG integration. SMDAM also strives to disclose appropriate information to protect the rights of customers and beneficiaries.

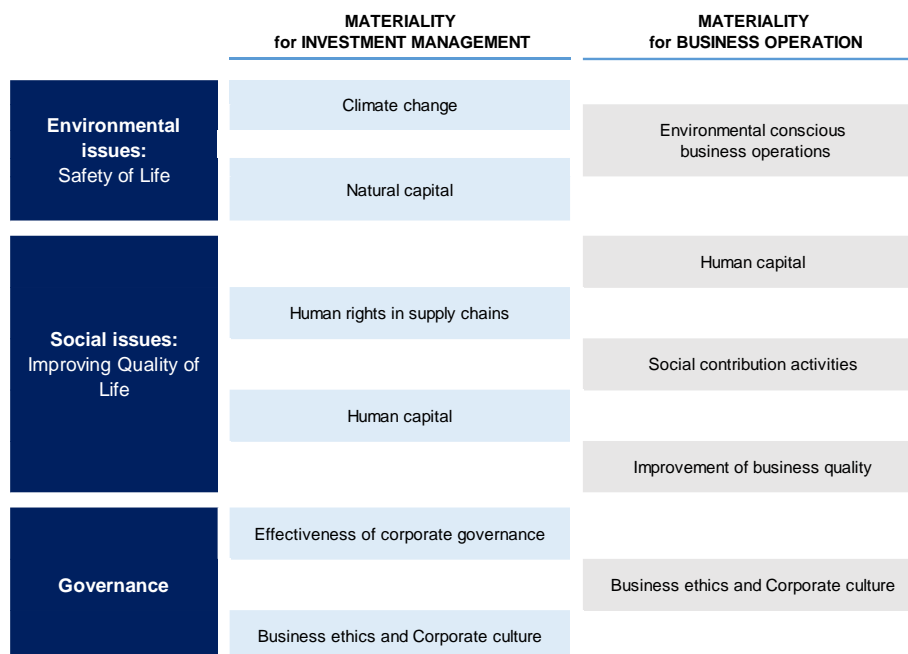
In March 2010, we became a signatory of the PRI. As a responsible institutional investor, we will provide high quality investment returns to our clients and beneficiaries through the multifaceted utilization of ESG and other non-financial information. We will also contribute to the realization of a sustainable society by helping to solve environmental issues such as climate change and environmental conservation, social issues such as human rights and the aging of society, and governance issues that enable investee companies to appropriately incorporate these ESG issues into their management.

#### Our Materiality

With our corporate philosophy "Towards the Best Asset Management Firm for Your Better Quality of Life.", we provide high-quality asset management services to our clients and as a responsible institutional investor that plays a role in the investment chain we are actively engaged in stewardship activities.

In order to accelerate such efforts and further contribute to the realization of a sustainable society, we have identified a set of materiality as key management issues fundamental to sustainability. Taking in to account the characteristics of the asset management business, our materiality categories consist of "Materiality for Investment Management" and "Materiality for Business Operation". The material issues are identified across three areas: "Environment issues: Safety of Life", "Social issues: Improving Quality of Life" and "Governance."

## Materiality for Sumitomo Mitsui DS Asset Management



Source: SMDAM, as at 30 June 2023

Going forward, we will disclose our achievements with regard to materiality on our corporate website and in the annual Sustainability Report, which is published around November.

Upon the identification of materiality, our "ESG Priority Themes" announced in November 2020 was integrated into "Materiality for investment management".

### A process to identify materiality

To identify our materiality, the management team held repeated discussions taking into consideration opinions of a wide range of stakeholders, including employees, external experts, customers and rating agencies, and identified environmental, social, and governance issues among a wide range of issues.

#### STEP 1: Create an issue list

We have made a list of issues for each element of ESG, referring to the Global Reporting Initiative (GRI) Standard, the international standard for preparing corporate social responsibility (CSR) reports.

#### STEP 2: Gather Stakeholder Voices

- Employee Questionnaire Survey

We conducted a survey using a list of issues and received responses from approximately 700 employees, or nearly 80% of employees in offices based in Japan. The results of the survey were analyzed from various perspectives, such as age groups and job roles.

- Hearings with external experts

We listened to the opinions of ESG, legal, and accounting experts as well as external peer experts with management experience at global asset management companies.

- Due Diligence Questionnaires from customers and evaluators

We scrutinized the questions we answered to our customers and rating agencies to identify their expectations and requests for our company.

## STEP 3: Review by Management and Board of Directors

We held lively discussions led by executive officers in charge of each division who play important roles in the company's management. Thereafter, the Board of Directors finally approved our company's materiality and also set out important initiatives for each material issue.

### (1) Materiality for investment management

From the two perspectives, that is "importance in the realization of a sustainable society" and "importance in long-term investment performance," we have identified six particularly important issues as our materiality in the course of investment management.

We will incorporate issues identified as materiality into our proprietary ESG evaluation while we make our engagement activities truly valuable to stakeholders by focusing more on substance than external criteria with targeting key sectors and companies relevant to each material issue. Furthermore, in exercising voting rights, we will encourage investee companies to make broader and more informative disclosure of ESG activities. In situations that disclosure is deemed insufficient and there is no intention of improvement, we may oppose the election of directors at the shareholders' meeting of such companies.

## ENVIRONMENTAL ISSUES: SAFETY OF LIFE

### Climate Change

#### Our view on the issue

To achieve net-zero greenhouse gas (GHG) emissions by 2050, a growing number of large companies are demanding their suppliers to reduce their emissions. Responding to such demands has become an urgent issue for companies such as parts manufacturers and other industrials. On the other hand, the shift to renewable energy has adverse effects such as price increases and environmental damage and the capacity to increase renewable energy is not unlimited. Therefore, technological innovation is essential to achieve the 2050 GHG net zero target. In addition to reducing GHG emissions, it is equally important to conserve the forest and marine environment and increase carbon dioxide absorption.

#### Our efforts

- As we support the international community's efforts to achieve net-zero GHG emissions by 2050 as well as the Paris Agreement, a common long-term global goal related to climate change, in March 2022 we became a signatory of the Net Zero Asset Managers Initiative, a global initiative of asset managers aimed at achieving this goal.
- 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 to improve their CDP climate change scores, while considering divestment as an option for sectors with high GHG emissions. Meanwhile, we will participate even more actively in collaborative engagements organized by domestic and international initiatives.
- Our analysts will develop GHG emission forecasts for the companies within their coverage and these forecasts will be taken in to account within the investment process.



## Natural Capital

### Our view on the issue

The increase in the world's population and changes in dietary habits are considered as indirect causes of environmental destruction. We believe that the enhancement of food sustainability and the reduction of environmental impact driven by the circular economy are the key to passing on the rich global environment to the next generation.

### Our efforts

- Through engagement activities, we will facilitate investee companies in their efforts to reduce their environmental impact by various means such as effective use of resources and contribution to the circular economy.
- In particular, we will encourage companies in the value chain ranging from agriculture, forestry and fisheries to retail and dining out to reduce food loss and enhance food sustainability.
- We will consider participation in related initiatives as an effective means to gain domestic and overseas trends in a timely manner.

## SOCIAL ISSUES: IMPROVING QUALITY OF LIFE

## Human Rights in Supply Chain

### Our view on the issue

As we observe more countries are moving towards legalizing the human rights due diligence by companies, Japanese companies have been slow to respond, and some companies with global supply chains have not been able to fully grasp the actual situation. In some cases, this is an imminent issue that requires restructuring of the supply chain and other necessary actions promptly.

### Our efforts

- In October 2021, we formulated our Human Rights Policy to explicate our views regarding human rights and to address human rights issues more comprehensively.
- Based on this policy, we will encourage investee companies to appropriately manage human rights risks in their supply chains through ongoing human rights due diligence.
- We will consider participation in related initiatives as an effective means to gain domestic and overseas trends in a timely manner.

Click [here](#) for more about our approach on Human Rights Issues.

## Human Capital

### Our view on the issue

We believe the recruitment and development of highly skilled staff account for a company's competitiveness to a great extent. In addition, as the liquidity of labour market increases, it is important for companies to improve the work environment and increase their employees' engagement so that each employee can demonstrate his or her abilities and fulfill their potential.



### Our efforts

- We will encourage investee companies to have a human resource strategy consistent with their medium to long-term business strategy in place which guides activities to recruit and develop human resources.
- We will also encourage investee companies to make their workplace more attractive to unleash employees' capabilities.

## GOVERNANCE

### Effectiveness of Corporate Governance

#### Our view on the issue

It has been a long-standing agenda for the Japanese stock market to raise its P/E ratio to the level of markets in major countries. To this end, we believe it is essential to raise management's awareness of the need to enhance corporate value as well as to have a corporate governance that encourages the risk-taking necessary for medium- to long-term growth.

#### Our efforts

To enhance the effectiveness of corporate governance, we will encourage investee companies to diversify their board of directors in terms of not only visible attributes but also expertise and skills.

We recently updated our standard of exercising voting rights where we make our decisions on the election of directors taking in to account not only Return on Equity (ROE) but Total Shareholder Return (TSR) standard aiming to raise investee companies' awareness of enhancing corporate value and to encourage the implementation of specific strategies.

### Business Ethics and Corporate Culture

#### Our view on the issue

There is no end to scandals such as inspection irregularities and quality falsification by Japanese companies. Among others, closed corporate culture is considered one of the root causes behind such scandals. Meanwhile, in today's rapidly changing business environment, it is necessary to respond quickly and flexibly to changes. We believe it is extremely important for companies to have not only hard aspects such as governance structures and written rules but also soft aspects such as business ethics and corporate culture so that companies can prevent such scandals and take advantage of opportunities brought by changes in their business environment.

#### Our efforts

- Through engagement activities, we will encourage investee companies which committed scandals to create an open organizational culture so that they prevent negative impact and their employees can demonstrate their creativity.
- We will conduct research on ways to further incorporate soft aspects such as business ethics and corporate culture into our proprietary ESG evaluations to improve its effectiveness.

## (2) Materiality for Business Operation

From the two perspectives, that is "importance in the realization of a sustainable society" and "importance in our corporate sustainability," we have identified five items of particular importance as "materiality for business operation." Built on ongoing activities aiming to improve the quality of life of society, customers and employees, we will make further efforts to develop our human resources and create a sound corporate culture for a medium- to long-term perspective.

### ENVIRONMENTAL ISSUES: SAFETY OF LIFE

<p><b>Environmentally Conscious Business Operations</b></p>	<p><b>Our efforts</b></p> <p>Our company is implementing various initiatives to reduce the environmental impact of its business operations.</p> <ul style="list-style-type: none"> <li>■ We aim to achieve net zero GHG emissions (Scope 1 and 2) by 2030 by reducing office space, relocating to energy-efficient buildings, and switching to electricity derived from renewable energy.</li> <li>■ Although we have been promoting paperless workstyle through digitalization, we will promote the use of Forest Stewardship Council (FSC)-certified paper made from responsible wood resources for printed materials that are difficult to be paperless.</li> </ul>
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### SOCIAL ISSUES: IMPROVING QUALITY OF LIFE

<p><b>Human Capital</b></p>	<p><b>Our efforts</b></p> <p>As an asset manager, there is no doubt that people are our company's most important asset. We are committed to fostering our people's spirit of self-sufficiency and continually improving the working environment so that our diverse employees can fully demonstrate their abilities and fulfill their potential.</p> <ul style="list-style-type: none"> <li>■ In fiscal year 2022, we are introducing an educational initiative whereby the company will extend financial support to employees who plan training programs by their own.</li> <li>■ We will update the existing in-house recruitment system so as to provide more opportunities where employees can consider their career development.</li> <li>■ We will continually improve related policies and procedures to enable employees to work flexibly according to their life stage and various circumstances, as well as work environment where employees can maintain good health and maintain appropriate work-life balance.</li> </ul>
<p><b>Social Contribution Activities</b></p>	<p><b>Our efforts</b></p> <p>We are engaged in social contribution activities as an asset management company and as a corporate citizen in local communities. In the future, we will focus even more on activities that involve employees in order to deepen their understanding of environmental and social issues.</p>

- We are engaged with financial education activities that emphasize the importance of asset building from an early stage in life as Japan's population ages and the birth rate continues to decline.
- We will contribute a portion of the profits earned from specified investment trusts to several research institutions and other organizations engaged in activities that contribute to the resolution of environmental and social issues.
- Centering on “The QOL Donation Fund”, which is operated with money donated from our employees, we will encourage employee to participate in social contribution activities.

## Improvement of Business Quality

### Our efforts

While responding to changes in market conditions and diverse information disclosure requirements by domestic and foreign regulatory authorities, we will strive to improve the quality of our operations to meet renewed expectation from our customers. At the same time, we will redesign our business processes using digital technology to prevent employees from working long hours and maintain a work-life balance.

- We will promote operational efficiency through the use of IT tools, such as artificial intelligence (AI) and robotic process automation (RPA) in research work and the creation of a database of various information.
- From the viewpoint of improving operational efficiency and ensuring smooth compliance with regulations in the future, we outsourced in September 2021 a part of back office operations to the trust bank with expertise in fund operations. Meanwhile, we have retained our capabilities so as to deliver services helping us differentiate ourselves and meet unique customers' requirements while aiming for even higher quality operations.
- With regard to ESG-related funds, we will further improve our information disclosure so as not to be suspected of "ESG wash."
- In particular, during the COVID-19 pandemic, we will work to revitalize internal communication to promote knowledge sharing and to prevent the working in silos that may cause clerical errors.

## GOVERNANCE

### Business Ethics and Corporate Culture

#### Our efforts

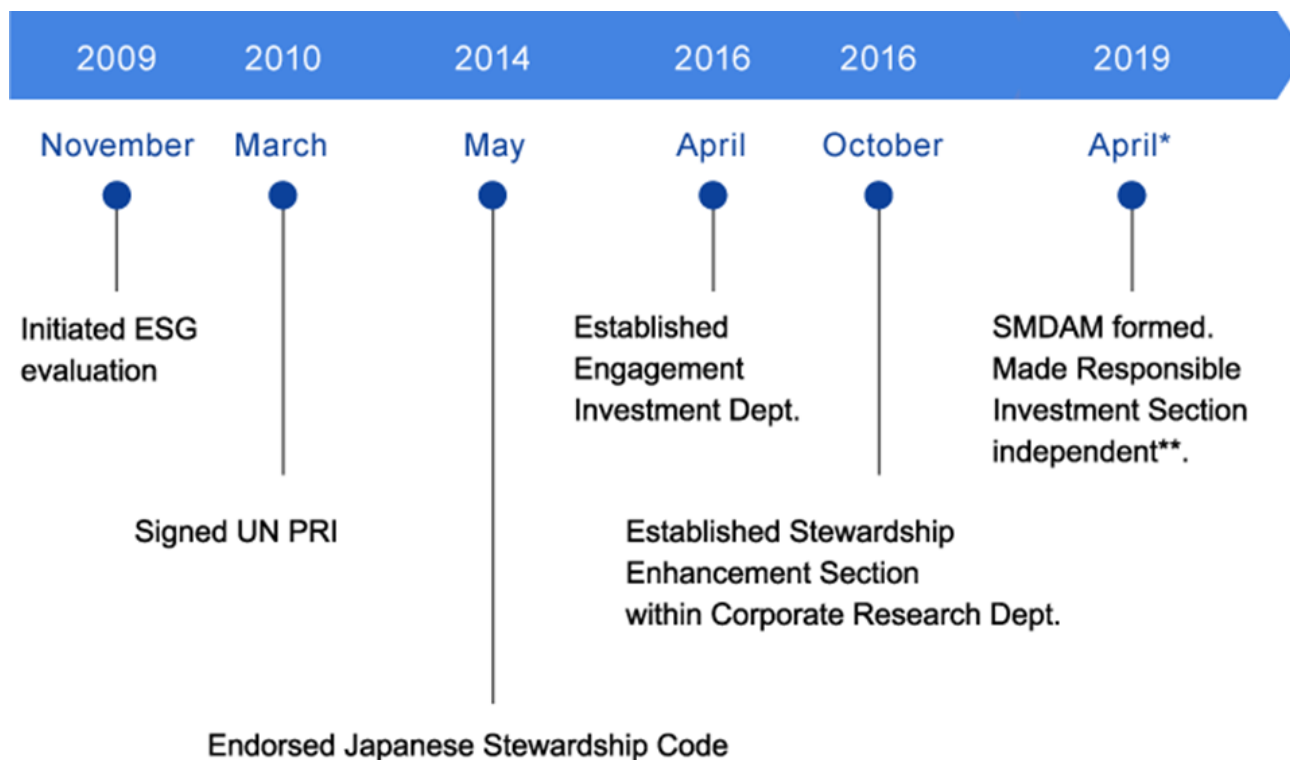
To fulfill our fiduciary responsibility, we will strive to foster corporate culture in which every executive and employee has a high sense of ethics as a professional, a desire to contribute to society, and the ability to take on challenges to achieve their goals.

- In addition to the quarterly compliance training mandatory for all officers and employees, we will provide opportunities so that each department can discuss not only legal compliance but also business ethics and fiduciary responsibilities, in an effort to foster a high ethical awareness.
- We will conduct sustainability training to deepen the understanding and awareness of officers and employees about environmental and social issues.

- We will annually conduct an organizational culture survey to ascertain the awareness of executives and employees and the condition of the organization, and to help create a healthy and open organizational culture.

## Initiatives for ESG Investment

We initiated ESG evaluation in 2009. Since then, we have continuously enhanced our capabilities of ESG research by various means including set-up of dedicated section in 2016.



Source: SMDAM, as at 30 June 2023

\* Events prior to merger as of April 2019 were those of Sumitomo Mitsui Asset Management.

\*\* Stewardship Enhancement Section was renamed to Responsible Investment Section upon being independent.

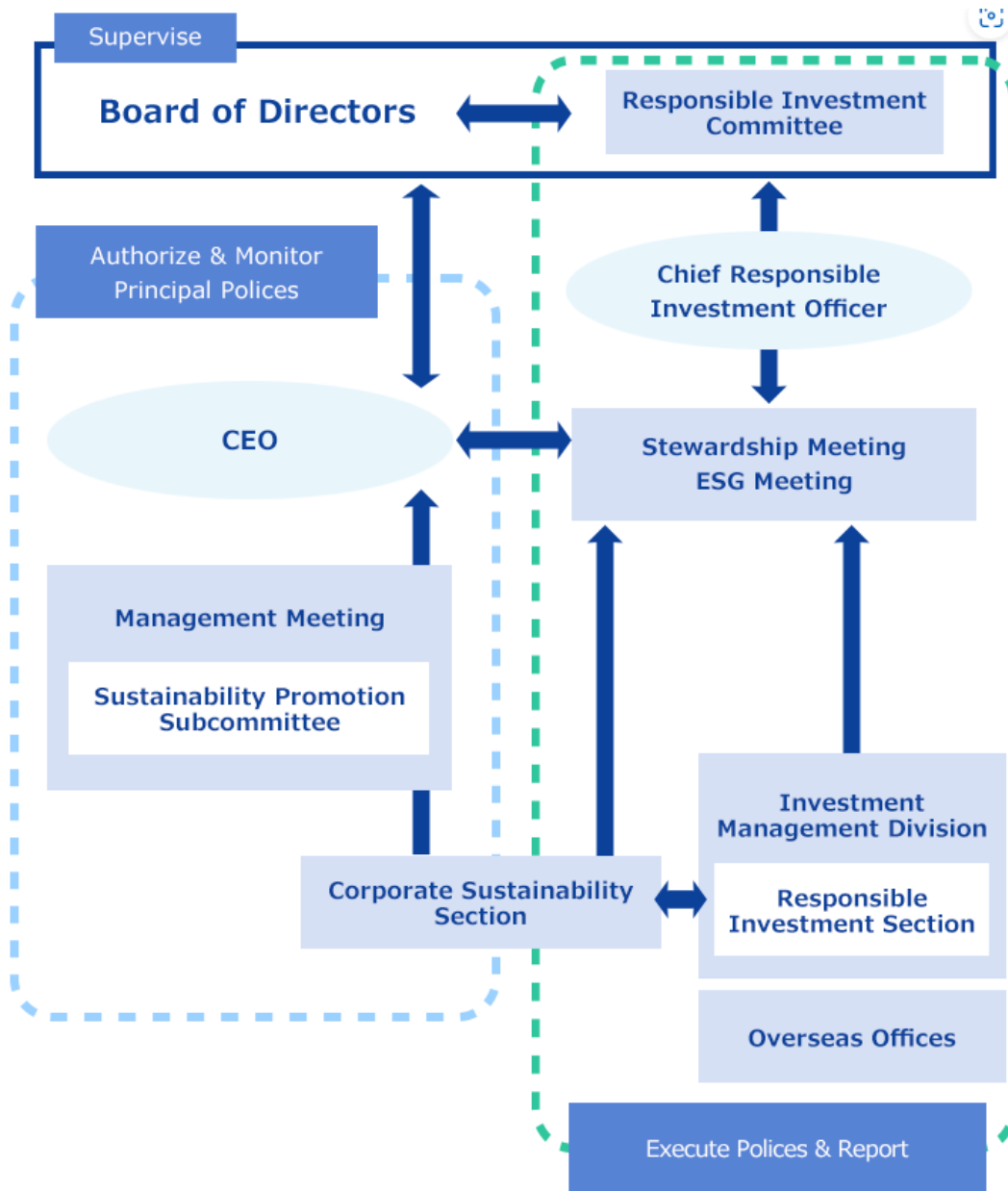
Policy development and ongoing monitoring with regard to ESG investment activities are deliberated at ESG Meeting/Stewardship Meeting, Management Meeting as well as Board of Directors' Meeting and Responsible Investment Committee, internal body of the Board Meeting.

ESG Meeting/Stewardship Meeting are working-level talks and their role is to support investment teams engaging ESG activities based on a firm-wide policy as well as to monitor those activities for continuing reinforcement.

Management Meeting is attended by the CEO and executive officers and its role is to discuss the Company's basic policy on ESG investments taking in to account outcomes of Sustainability Promotion subcommittee and take appropriate measures whenever their monitoring finds it necessary.

The Responsible Investment Committee is organized under the board of directors and it consists of independent directors. The role of the committee is to monitor fulfillment of fiduciary duties including responsible investments as well as controls over conflict of interest. The committee makes a proposal to the board whenever needed. The FD Sustainability Meeting is an advisory body to the CEO and it consists of external experts. The Meeting makes a recommendation to the CEO across company-wide activities relating to fiducial duties.

## Organization chart in charge of ESG investment



Source: SMDAM, as at 30 June 2023

We have explicitly expressed our support or commitment to international frameworks for the global environment such as the Paris Agreement and the Convention on Biological Diversity, as well as global initiatives such as the PRI. In addition to our own efforts to identify and address material ESG issues, we anticipate global changes ahead of time through participating in domestic and international initiatives such as the "Asian Corporate Governance Association (ACGA)", "PRI", "Principles for Financial Action toward a Sustainable Society (Principles for Financial Action for the 21st Century)", "30% Club Investor Group", "Task Force on Climate-related Financial Disclosures (TCFD) and the TCFD Consortium", and "Climate Action 100 +". Accordingly, not only do we actively utilize our ESG-related knowledge and insights which have been accumulated through the aforementioned activities into our investment activities. But also support the efforts of investee companies to realize a sustainable society.

## United Nations Principles for Responsible Investment (UN PRI)

UN PRI were published in April 2006 by the then Secretary-General Kofi Annan with the aim of improving long-term investment results for customers and final beneficiaries, the idea being that institutional investors should first establish a good understanding of ESG issues and then incorporate them into the investment process.

### Principles for Responsible Investment

- 1) We will incorporate ESG issues into investment analysis and decision-making processes.
- 2) We will be active owners and incorporate ESG issues into our ownership policies and practices.
- 3) We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- 4) We will promote acceptance and implementation of the Principles within the investment industry.
- 5) We will work together to enhance our effectiveness in implementing the Principles.
- 6) We will each report on our activities and progress towards implementing the Principles.



## C-2 ESG integration for Investment Products

### Incorporation of ESG factors in the course of investment process

In accordance with its basic policy on ESG investment, Sumitomo Mitsui DS Asset Management (SMDAM), in principle (\*), invites all of fund managers and analysts engaged with active investment management products to take into account ESG, which is an important factor for the sustainability of the companies in which they invest.

\*This principle may not apply to passive investment management products and others such as long/short products that are technically difficult to accord with the principle.

#### **1) Investment restrictions/engagement (responses to investee companies with sustainability issues/concerns)**

When we entertain doubts about sustainability of corporations identified in the outcome of our internal ESG research or acknowledgement of any investee company's misconducts, we will examine materiality of the incident and difficulty to recover through various means such as interviews and decide to add to negative list if necessary.

In addition, we will use the exercise of voting rights and other means to address issues and concerns and encourage improvements.

#### **2) Sustainability considerations in investment decisions**

We take ESG factors into consideration as a material element to evaluate sustainability when making investment decisions. In particular, we incorporate analysis and evaluation of ESG factors into the security selection process to the extent suitable for characteristics of each investment product so that we are able to deliver stable return in the medium- to long-term.

#### **3) Measurement and response to sustainability indicators**

We continuously monitor ESG related indicators including greenhouse gas emissions at a portfolio level. Measuring results is evaluated and reflected into the investment process going forward if necessary.

#### **4) Risk monitoring and reporting**

To ensure the effectiveness of investment, ESG-related monitoring indicators are established and monitored by the Risk Management Department. We also strive to disclose appropriate ESG information from the perspective of investor protection.

#### **5) Sophistication and expansion of methods to consider sustainability**

We continuously enhance various ESG integration methods including security screening, engagement activity and the extent of ESG evaluation considered in portfolio construction. With these efforts, we will try to increase the number of products with deeply integrated ESG elements and monitor and improve the effectiveness of ESG integration.



## C-3 Sustainable Products Classification

We certify sustainable products based on the following two criteria:

- 1) method of considering sustainability factors and how it is embedded into the investment decisions  
and
- 2) the degree of importance of sustainability factors in investment strategies.

Of these, products\* classified into "positive screening," "ESG-themed," and "impact" are defined as "ESG products". In particular, we will monitor the actual operation of "ESG products" to ensure that there are no discrepancies with the definition of classification based on the certification standards, while we strive to enhance information disclosure so that fund beneficiaries and customers can better understand how we incorporate ESG elements into our investment decision process.

**\* Note: These products may/may not be promoted as having ESG factors or objectives under the EU Sustainable Finance Disclosure Regulation (SFDR).**

Classification	Definitions	ESG Products
Standard	Employ company-wide stewardship initiatives and negative screening	-
Integration	Consider sustainability elements and incorporate ESG evaluation into the investment decision process	-
Integration Plus	Recognize sustainability as one of the key sources of excess returns and the use of ESG evaluation quantitatively and systematically	-
Engagement Plus	Incorporate fund managers' active engagement in dialogue on ESG themes that contribute to enhancing corporate value	-
Positive Screening	Incorporate specific quantitative screening criteria to create an investable universe with companies with good ESG practices	✓
ESG themed investing	Set specific sustainability issues and themes and invest in companies that contribute to resolving such issues	✓
Impact investing	Handpick companies that provide environmental or social impacts through their businesses while pursuing investment return objectives	✓

Source: SMDAM, as at 30 June 2023

\* The funds managed by external investment managers may not partially be relevant due to the managers' investment methods.

## Evaluation of ESG factors

We have developed and utilized multiple ESG evaluation methods, taking in to account the asset class, the attributes of the company, the availability of ESG data, and the materiality.

In addition, we leverage ESG-related data provided by external ESG vendors to complement in-house ESG information. A broader range of information enables us to create a framework for multifaceted analysis of the ESG characteristics of each portfolio.

Evaluation items and evaluation weights are determined primarily by the Responsible Investment Section and are reviewed regularly to ensure the effectiveness of the evaluation method.

## **D. Contact details for dialogue on exercise of voting rights and ESG**

### **D-1 Contact details for dialogue on exercise of voting rights and ESG**

The company publishes contact details for parties who wish to engage in dialogue regarding the company's exercise of its voting rights and ESG.

#### **Contact details for dialogue on exercise of voting rights and ESG**

Please use the e-mail address below if you wish to engage in dialogue concerning the company's voting and ESG. Please note that we will respond only to staff of listed companies.

When you contact us, please state the points you wish to discuss (see the items below), your company's name, and your contact details. Our response will be based on the content of your inquiries and the status of our company's holdings. Please understand that we may not be able to meet all of your requirements.

- 1) Voting (appropriation of surplus, election and dismissal of directors/auditors, amendment of articles of incorporation, etc.)
- 2) ESG
- 3) Integrated report, corporate governance report, annual report, etc.
- 4) Other (please state the specific details)

Email address: [stewardship@smd-am.co.jp](mailto:stewardship@smd-am.co.jp)

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“SMDAM” “Our” / “We” / “Group” “SMDAM Tokyo” / “SMDAM (Tokyo)”	These references relate to the entire “Sumitomo Mitsui DS Asset Management Company, Limited” organization 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.  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.
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