



Sumitomo Mitsui DS Asset Management

Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors

SFDR Disclosure Statement Entity Level – Article 4, Annex 1 of SFDR

May 2024

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Statement on Principal Adverse Impacts of investment decisions on sustainability factors

Financial market participant:

Sumitomo Mitsui DS Asset Management Company, Limited

LEI: 254900C25L1TSXU7JS68

Summary

This document is made pursuant to the requirements of SFDR, namely Article 4 of Regulation (EU) 2019/2088, and Articles 4-10 of the Commission Delegated Regulation (EU) 2022/1288. References to “Sumitomo Mitsui DS Asset Management”, the “company”, “SMDAM” and “we” are to the entire “Sumitomo Mitsui DS Asset Management Company, Limited”, references to the “Investment Manager” are to “Sumitomo Mitsui DS Asset Management Company, Limited”, and references to SMDAM (UK) are to “Sumitomo Mitsui DS Asset Management (UK) Limited”.

Sumitomo Mitsui DS Asset Management Company, Limited, (LEI: 254900C25L1TSXU7JS68) considers principal adverse impacts (PAI) of its investment decisions on sustainability factors. The present statement is the consolidated statement on principal adverse impacts on sustainability factors of Sumitomo Mitsui DS Asset Management Company, Limited and its subsidiary, namely, Sumitomo Mitsui DS Asset Management (UK) Limited (LEI: 213800U65SVAMEAI6V90).

This statement on principal adverse impacts on sustainability factors covers the reference period from 1 January to 31 December 2023, based on the average of four calculations to be made as of 31 March, 30 June, 30 September, and 31 December of the calendar year reference period.

We conduct our asset management business, including portfolio management of our clients’ assets, in consideration of sustainability as our corporate management strategy. In our business operations, we, as a responsible investor, strive to fulfil our fiduciary responsibility through the consideration of sustainability risks and principal adverse impacts such as global climate change issues including greenhouse gas (GHG) reductions, as well as social issues including human rights issues in supply chains, board gender diversity and correction of unreasonably unadjusted gender pay gaps and discrimination.

To this end, in addition to our commitment to the United Nations’ Principles for Responsible Investment and the Stewardship Code of Japan and the UK, respectively, we joined the Net Zero Asset Managers Initiative (NZAMI) in March 2022, a global initiative to achieve net zero GHG emissions by the year of 2050, and have been engaged in stewardship activities and ESG integration at our entity-level to reduce the GHG emissions globally.

In addition, in our actual investment process of the portfolio management for our clients, we are reinforcing our PAI due diligence* to identify, prioritize, and mitigate principal adverse impacts on sustainability factors (PAI), particularly focusing on Carbon footprint, Gender diversity, and Human rights issues given the current data availability.

Based on this perception, we conduct due diligence and monitor adverse impacts on sustainability as an important part of our entity-level policy in the operation process of all investment strategies and products.

To summarise the “Explanation” and “Actions taken, and actions planned and targets set for the next reference period” described in Table 2 below, we do not conclude that there are principal adverse impacts regarding any indicators considered and disclosed while we cannot evaluate to what extent our investment decisions have influenced some indicators due to the current limitation of data availability and credibility in the Sustainability PAI Solution.

* For details on the PAI considerations and the due diligence, please see our SMDAM (UK) website for sustainability-related disclosures (<https://www.smd-am.co.uk/sustainability/>) in the Art-4-SFDR-Disclosure-PAI-Considerations-final.pdf

Acronyms

| | |
|---------------------|---|
| ESG | Environmental, Social, and Governance |
| GHG | Greenhouse gas |
| NZAMI | Net Zero Asset Managers Initiative |
| OECD MNE Guidelines | OECD Guidelines for Multinational Enterprises |
| PAI | Principal Adverse Impacts |
| SFDR | Sustainable Finance Disclosure Regulation |
| SBT | Science Based Targets |
| UNGC | United Nations Global Compact |

Description of the principal adverse impacts on sustainability factors

The principal adverse impacts (PAI) table as shown below (Table1) is a list of PAI indicators that we specifically take into consideration in analysing the negative impacts on sustainability. These are a set of PAI indicators which was established and prioritized by ourselves in compliance with the disclosure requirements of SFDR and its delegated act through selection of all compulsory indicators from the 14 mandatory indicators set forth in the Commission Delegated Regulation (EU) 2022/1288, and the 6 additionally selected indicators based on our own Materiality* in our asset management business which our company considers particularly important and from the viewpoint of relevant indicator data which is relatively easy in availability among optional indicators.

Please refer to Table 1 below on the PAI indicators and Table 2 which provides further details against the PAI indicators.

*The Materiality refers to the emphasis we put on material substance rather than proforma standard criteria. For more information on our Materiality in asset management business, please see page 2 in the [policies_for_integrations_2023.pdf](#) (smd-am.co.jp) for SMDAM and [Art-4-SFDR-Disclosure-PAI-Considerations-final.pdf](#) (smd-am.co.uk) for SMDAM (UK), respectively, on our company website.

Table 1: PAI indicators specifically 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) |
| Additional | Climate and other environment-related indicators | E4 | Investing in companies without carbon emission reduction initiatives | |
| | | E6 | Water usage and recycling | |
| | Social and employee, respect for human rights, anti corruption and anti bribery matters | S4 | Lack of a supplier code of conduct | |
| | | S6 | Insufficient whistleblower protection | |
| | | S9 | Lack of a human rights policy | |
| 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 |

Source: SMDAM (Tokyo) as at 1 January 2023

Footnote: Above-shown PAI indicators are 16 mandatory indicators (M) and 6 voluntary indicators we additionally selected on materiality following the SFDR. https://www.smd-am.co.jp/english/corporate/responsible_investment/pdf/policies_for_integrations_2023.pdf

Description of policies to identify and prioritise principal adverse impacts on sustainability factors

(a) The date on which our governing body approved the PAI consideration policies:

For Sumitomo Mitsui DS Asset Management, the identification and approval of the key Materiality corresponds to the basic policies on prioritising the PAI indicators. As mentioned above, the PAI indicator table we commonly use was determined on the basis of the company's key Materiality we have set, which includes Climate Change, Natural Capital, Human Rights in Supply Chain, Human Capital, Effectiveness of Corporate Governance and Corporate Ethics and Organisational Culture with reference to the SFDR requirements and based on the availability of data. The identification of the company's Materiality was approved at the Board of Directors Meeting which was held on 28 February 2022.

In addition, based on the key Materiality, our company developed its PAI consideration policy in which we stipulate the key PAI indicators that are important and commonly used for sustainability and PAI analysis. The policy including the selected PAI indicators table was formally approved by the Executive Officer in charge of the Corporate Sustainability Section on 27 December 2022 after internal consultation with relevant departments at Stewardship/ESG Meeting which was held on 1 December 2022.

(b) How the responsibility for the implementation of those policies is allocated within our organisation

At our company, in order to ensure that the entity-level policies (the policies disclosing the sustainability risk integration and the PAI consideration) are thoroughly incorporated into our portfolio management process of each investment strategy/product, under the leadership of the Head of Investment Management Division, the Investment Department is responsible for the integration of the PAI consideration into its own investment processes, and, the Responsible Investment Section, which manages the ESG evaluation database (including that for the PAI analysis), is responsible for implementing policies into engagement activities and exercise of voting rights.

In addition, the Responsible Investment Section provides guidance, assistance, and support to portfolio managers at the Investment Department and other related departments for ensuring its implementation.

Moreover, for quality control of our products, we have developed our own product classification criteria to internally certify each of our products as a sustainable product and as an SFDR Article 8 financial product, where the PAI consideration is one of the important factors for such certification. Furthermore, we make it a rule to document soft and hard investment guidelines including those relating to ESG integration of each investment strategy/product in the form of “Statement of Investment Standards” (“Unyo Kijunsho”). The statement is to be authorised by the Executive Officer in charge of the investment team who manages that product.

(c) The methodologies to select the PAI indicators

Details of the methodologies are described in our disclosure document: “Policies for integration of sustainability risks into our investment process and consideration of principal adverse environmental and social impacts”, the topic of which includes (i) our PAI consideration policy and framework, (ii) identification and prioritization of actual/potential PAIs, (iii) the Materiality in our asset management business and relevant PAI indicators, (iv) the Table 2: PAI indicators specifically considered in our PAI analysis, and (v) how we consider the PAIs in our investment process.

The document is publicly disclosed on our corporate website at: policies_for_integrations_2023.pdf (www.smd-am.co.jp) and Art-4-SFDR-Disclosure-PAI-Considerations-final.pdf (www.smd-am.co.uk).

(d) Associated margin of error within the methodologies

We have formulated our company initiatives which are relevant to the indicators of (M2) Carbon footprint and (M13) Board gender diversity.

However, due to the current limitations of data availability and/or credibility in the Sustainalytics PAI Solution, there are some indicators for which any specific target value of criteria is not set, as it is difficult to evaluate precisely to what extent our investment decisions have impacted these indicators at this point of time. Details of the data limitations are stated specifically on the PAI Indicators table (Table 2) on the next page.

(e) The data sources used

While we use both of our internal resources (such as our proprietary ESG evaluation rating scores) and multiple external databases for the PAI analysis, the data used in this disclosure of the PAI metrics and impacts relies on the calculation algorithm and identifier cascade of Sustainalytics Portfolio Management and Monitoring. More specifically, the coverage, the impact (year n) and the impact (year n-1) are based on the Sustainalytics Principal Adverse Impact Portfolio Report produced as of May 2nd 2024 12:08 UTC and the Report as of June 9th 2023 12:07 UTC.

Sustainalytics defines three levels of “Fit” to the definition under SFDR.

The definition for each level:

- Exact Fit: Denotes a case where the data point fully satisfies the PAI requirements.
- Partial Fit: Denotes a case where the data point meets the EU requirement to a significant extent, but not completely.
- Minimum Fit: Denotes a case where the data point covers it to a minimum extent.

Estimation by Sustainalytics may be included in:

- M1. GHG emissions
- M2. Carbon footprint
- M3. GHG intensity of investee companies
- M9. Hazardous waste and radioactive waste ratio
- M15. GHG Intensity
- E6. Water usage and recycling.

(f) Our measures against the data limitations

Due to the limitation of data availability caused by a shortage of non-financial information disclosure by some investee companies, perfect data coverage is in practice impossible at this point of time. We made best efforts to cover the missing parts in collaboration with third party data providers like Sustainalytics to partially use their algorithm for supplementary information, however, even after the supplement, perfect filling in of the missing parts is unfortunately currently possible.

In our usual PAI analysis, on top of the data, we utilise information accumulated through direct contacts/repeated dialogue with many of the investee companies for our PAI due diligence.

Table 2: PAI Indicators

| PAI Indicators | | | | | | | |
|---|------------------|-----------------------|-----------------|-------------------|-------------|--|---|
| Adverse sustainability indicator | Metric | Coverage | Impact [year n] | Impact [year n-1] | Explanation | Actions taken, and actions planned and targets set for the next reference period | |
| Indicators applicable to investments in investee companies | | | | | | | |
| CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS | | | | | | | |
| Greenhouse gas emissions | 1. GHG emissions | Scope 1 GHG emissions | 71.89 | 2,807,950.48 | 2,076,273 | <p>The Investment Manager considers GHG emissions, which are attributable to the portfolio based on the proportion of ownership in each corporate investment, including of Scope 1 GHG emissions in summation with Scope 2, or further with Scope 3, increased in 2023 compared to the previous year.</p> <p>The data points cover GHG emissions as reported by corporates or as estimated by Morningstar Sustainability, measured in terms of tonnes of CO2 equivalents. The details of the estimation models applied are elaborated in the corresponding methodologies by the data provider.</p> <p>The Investment Manager relies on the methodology of Sustainability Principal Adverse Impact Data Solution, in its disclosures for the sake of transparency and comparability, while it considers</p> | <p>The Investment Manager supports the global efforts to achieve Net Zero GHG emissions by 2050 or earlier and became a signatory of the NZAMI in its March 2022, committing to manage domestic and foreign equity and corporate bonds portfolio in line with Net Zero target by 2050. In its February 2023, it announced the 2030 interim targets for GHG emissions which aims to reduce the carbon footprint of the AUM as of the end of March 2021 by 50% by 2030 calculated based on of portfolio Scope 1 & 2 emissions.</p> <p>More recently, in 2023 the Investment Manager expanded its scope in terms of GHG related disclosures to include bond issued by sovereign and supranational held in its portfolio.</p> <p>The Responsible Investment Section, research teams, and investment teams have conducted exclusive and collaborative engagements focusing</p> |
| | | Scope 2 GHG emissions | 71.89 | 879,056.09 | 730,344 | | |
| | | Scope 3 GHG emissions | 71.89 | 31,198,785.38 | 24,003,455 | | |
| | | Total GHG emissions | | 34,882,190.83 | 26,816,986 | | |
| | | [Exact Fit] | | | | | |

| PAI Indicators | | | | | | |
|--|--|----------|-----------------|-------------------|--|---|
| Adverse sustainability indicator | Metric | Coverage | Impact [year n] | Impact [year n-1] | Explanation | Actions taken, and actions planned and targets set for the next reference period |
| | | | | | GHG emissions with reference to more data points to the extent appropriate. | on climate change across the globe. In the dialogues, the Investment Manager has encouraged investee companies to disclose in higher-quality with reference to best practices, to acquire a CDP score, and to be validated by the Science Based Target initiative. |
| 2. Carbon footprint | Carbon footprint [Exact Fit] | 71.89 | 771.87 | 663.00 | The Investment Manager does not conclude that the indicator implies its significant adverse impacts on sustainability factors while Carbon footprint in 2023 is 16% higher than in 2022, against the backdrop of a general recovery in economic activity after the peak of the pandemic. In general, Carbon footprint is considered as an important factor for sector allocation and stock selection. However, Carbon footprint of a portfolio could be higher than the benchmarks or in a YoY basis as a result of comprehensive investment decisions considering other financial and non-financial information. This never suggests that the Investment Manager disregards PAIs including GHG emissions in the portfolio construction process. | The Investment Manager will continue to consider and mitigate PAI typically regarding GHG emissions, through appropriate due diligence, alongside the relevant financial and sustainability risks, taking due account of its business size, the nature and scale of its activities as well as the types of financial products the Investment Manager manages for its clients. Given that it's common issue on earth, actions are to be prioritized in the order of: 1) Entity-level business conducts 2) Individual-investee-level consideration and engagement 3) Product-level metrics monitoring |
| 3. GHG intensity of investee companies | GHG intensity of investee companies [Exact Fit] | 91.35 | 1114.97 | 980.04 | The impact of GHG intensity has increased by 14%. While GHG intensity has been considered as relatively familiar and intuitively understandable, the Investment | To achieve Net Zero GHG emissions targets (Scope 1 & 2) by 2030, the Investment Manager aligns its business strategies and operations, |

| PAI Indicators | | | | | | |
|---|--|----------|---|---|---|--|
| Adverse sustainability indicator | Metric | Coverage | Impact [year n] | Impact [year n-1] | Explanation | Actions taken, and actions planned and targets set for the next reference period |
| | | | | | Manager more focuses on Carbon footprint in line with its 2030 interim target under NZAMI. | develops products accommodating clients' needs, and considers these factors in investment process, as further elaborated in its disclosure based on TCFD recommendation. |
| 4. Exposure to companies active in the fossil fuel sector | Share of investments in companies active in the fossil fuel sector [Exact Fit] | 92.61 | 6.89 | 7.04 | Share of investments in companies active in the fossil fuel sector has remained almost unchanged in the past year. Japan's trading companies, which are the largest portfolio constituents with fossil fuel exposure, are involved with distribution of Oil & Gas and Thermal Coal electric generation among broad business lines. Therefore, substantial exposure to fossil fuel sector shall be much lower than it looks like. Given such an analysis, the Investment Manager concludes that there are no significant negative impacts. | The Investment Manager selectively excludes some companies in the fossil fuel sector from the relevant investment universe through the product-level sectoral exclusions. |
| 5. Share of non-renewable energy consumption and production | Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy | 37.72 | Non-Renewable Energy Consumption 74.23 Non-Renewable Energy Production 13.90 | Non-Renewable Energy Consumption 78.20 Non-Renewable Energy Production 12.50 | Due to the current limitation of data availability in the Sustainability PAI Solution, the Investment Manager cannot evaluate to what extent its investment decisions have influenced this indicator. | The Investment Manager considers share of non-renewable energy consumption as a factor in its assessment of Climate Change risks and impacts. Nevertheless, a higher share alone does not imply significant adverse impacts. "Share of non-renewable energy production" may be more acknowledged in its research on |

| PAI Indicators | | | | | | |
|--|---|----------|--|--|---|---|
| Adverse sustainability indicator | Metric | Coverage | Impact [year n] | Impact [year n-1] | Explanation | Actions taken, and actions planned and targets set for the next reference period |
| | sources, expressed as a percentage of total energy sources [Exact Fit] | | | | | <p>sustainable opportunities and/or positive impacts. Even in such cases, however, the “share” compared to renewable energy sources might not be a primary data point to be focused (as direct observation of renewable energy production is simpler and more reasonable). Furthermore, momentum in general may be more appreciated in its consideration.</p> <p>Aiming to contribute to the transition to a low-carbon society, the Investment Manager launched a Infrastructure Debt Strategy that invests in renewable energy projects such as solar and wind power, and is preparing for a new fund that invests in companies and assets to promote the popularization of hydrogen in Japan.</p> |
| 6. Energy consumption intensity per high impact climate sector | Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector [Partial Fit] | 50.23 | Agriculture, Forestry & Fishing 1.27 Construction 0.06 Electricity, Gas, Steam and Air | Agriculture, Forestry & Fishing 5.25 Construction 0.05 Electricity, Gas, Steam and Air | Due to the current limitation of data availability and credibility in the Sustainability PAI Solution, the Investment Manager cannot evaluate to what extent its investment decisions have influenced this indicator. | Instead of the nine high impact climate sectors defined under the Commission Delegated Regulation (EU) 2022/2018, the Investment Manager has identified granular subindustries as more useful in the assessment. The Investment Manager considers these subindustries in its operations and investments as one of the key |

| PAI Indicators | | | | | | | |
|----------------------------------|---|--|----------|--|---|--|---|
| Adverse sustainability indicator | | Metric | Coverage | Impact [year n] | Impact [year n-1] | Explanation | Actions taken, and actions planned and targets set for the next reference period |
| | | | | Conditioning Supply 4.48 Manufacturing 0.53 Mining & Quarrying 1.54 Real Estate Activities 0.46 Transportation & Storage 1.90 Water Supply, Sewerage, Waste Management & Remediation 0.66 Wholesale & Retail Trade & Repair of Motor Vehicles & Motorcycles 0.12 | Conditioning Supply 87.90 Manufacturing 7.70 Mining & Quarrying 1.95 Real Estate Activities 0.96 Transportation & Storage 1.86 Water Supply, Sewerage, Waste Management & Remediation 0.64 Wholesale & Retail Trade & Repair of Motor Vehicles & Motorcycles 0.33 | | elements of its PAI due diligence, regarding GHG emissions. |
| Biodiversity | 7. Activities negatively affecting biodiversity-sensitive areas | Share of investments in investee companies with sites/operations located in or near to | 92.61 | 3.72 | 4.29 | Due to the current limitation of data credibility in the Sustainability PAI Solution, the Investment Manager cannot evaluate to what extent its investment decisions have influenced this indicator. | The Investment Manager has endorsed the Taskforce on Nature-related Financial Disclosures (TNFD) and have completed the registration process as an adopter institution (TNFD Adopter) accepting the |

| PAI Indicators | | | | | | | |
|----------------------------------|--|--|----------|-----------------|-------------------|-------------|---|
| Adverse sustainability indicator | | Metric | Coverage | Impact [year n] | Impact [year n-1] | Explanation | Actions taken, and actions planned and targets set for the next reference period |
| | | biodiversity-sensitive areas where activities of those investee companies negatively affect those areas [Partial Fit] | | | | | <p>guidance recommended by the task force, which is included in the inaugural cohort of Early Adopters announced by the TNFD on the 16th of January 2024.</p> <p>The Investment Manager is also on the Endorsers List of PRI's Spring stewardship initiative for nature, as of January 2024.</p> <p>Currently the Investment Manager focuses more on the financial materiality of investee companies while environmental and social adverse impacts are taken into consideration and reflected in investment decisions whenever needed.</p> <p>The Responsible Investment Section and the investment teams are intended to promote sustainability by encouraging more disclosure of relevant investees especially where financially material.</p> <p>There are no quantitative binding targets to be set due to the lack of data availability and credibility at this point of time. However, the Investment Manager reviews the development with the "partial fit" status and its relevance as the primary indicator regarding biodiversity, against the backdrop of</p> |

| PAI Indicators | | | | | | | |
|----------------------------------|--|---|----------|-----------------|-------------------|---|---|
| Adverse sustainability indicator | | Metric | Coverage | Impact [year n] | Impact [year n-1] | Explanation | Actions taken, and actions planned and targets set for the next reference period |
| | | | | | | | the progress in corporate disclosures in line with the TNFD Framework to report and act on evolving nature-related risks. |
| Water | 8. Emissions to water | Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average [Exact Fit] | 0.46 | 0.00 | 0.40 | Due to the current limitation of data availability in the Sustainalytics PAI Solution, the Investment Manager cannot evaluate to what extent its investment decisions have influenced this indicator. | Currently the Investment Manager focuses more on financial materiality of investee companies while environmental and social adverse impacts are taken into consideration and reflected in investment decisions whenever needed. The Responsible Investment Section and the investment teams are intended to promote sustainability by encouraging more disclosure of relevant investees particularly where financially material. There are no quantitative binding targets to be set due to the lack of data availability at this point of time. However, the Investment Manager reviews the development of data availability against the backdrop of the progress in corporate disclosures in line with the TNFD Framework to report and act on evolving nature-related risks. |
| Waste | 9. Hazardous waste and radioactive waste ratio | Tonnes of hazardous waste and radioactive waste generated by investee companies | 71.89 | 0.89 | 1.17 | Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested has slightly declined low in the past year. | Currently the Investment Manager focuses more on financial materiality of investee companies while environmental and social adverse impacts are taken into consideration |

| PAI Indicators | | | | | | |
|--|---|----------|-----------------|-------------------|---|---|
| Adverse sustainability indicator | Metric | Coverage | Impact [year n] | Impact [year n-1] | Explanation | Actions taken, and actions planned and targets set for the next reference period |
| | per million EUR invested, expressed as a weighted average [Exact Fit] | | | | | and reflected in investment decisions whenever needed. The Responsible Investment Section and the investment teams are intended to promote sustainability by encouraging more disclosure of relevant investees particularly where financially material. There are no quantitative binding targets to be set at this point of time. |
| INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS | | | | | | |
| Social and employee matters | 10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises [Exact Fit] | 92.61 | 0.48 | 0.65 | Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises remains considerably lower, at less than 1%. | The Investment Manager excludes potential investee companies through the firm-wide norm-based screening and exclusion, in light of UNGC and OECD MNE Guidelines. In addition to the exclusion, the Investment Manager will seek further engagement with the issuers potentially violating the international norms, occasionally leveraging Sustainability Global Standards Screening and Global Standards Engagement. For investment products and strategies actively managed, the Investment Manager sets its target at 0%. To this end, the Investment Manager designates names under the firm-wide norm-based screening and maintain its exclusion list. |

| PAI Indicators | | | | | | | |
|----------------------------------|---|---|-----------------|-------------------|-------------|---|---|
| Adverse sustainability indicator | Metric | Coverage | Impact [year n] | Impact [year n-1] | Explanation | Actions taken, and actions planned and targets set for the next reference period | |
| | 11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises | Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises [Exact Fit] | 92.01 | 55.57 | 58.96 | Share of investments in investee companies without policies to monitor compliance with UNGC principles or OECD MNE Guidelines investee companies has slightly declined but remained high in the past year. This may indicate many companies have rooms to improve their compliance mechanism, but the Investment Manager concludes there are no significant negative impacts as share of investee companies involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises is below 1%. | While this indicator provides qualitative information taken into consideration in the ESG assessment process, the Investment Manager puts more emphasis on the outcome of its norm-based negative screening which is partially quantitative and more in a rule-based manner. The Investment Manager develops and maintains the list whose criteria explicitly include violations of global standards. The Investment Manager facilitates companies on that list to take corrective actions through one-on-one engagement or collaborative engagements arranged by global initiatives or Sustainalytics. The Investment Manager's engagement activities are conducted based on its target lists whose criteria explicitly include global standards violations. |
| | 12. Unadjusted gender pay gap | Average unadjusted gender pay gap of investee companies [Exact Fit] | 0.98 | 22.19 | 21.14 | Due to the current limitation of data availability in the Sustainalytics PAI Solution, the Investment Manager cannot evaluate to what extent its investment decisions have influenced this indicator. | Despite the limitation of data availability, some of investment professionals at the Investment Manager do consider it even more than Board diversity. As the rules requiring companies to disclose gender pay gap is in place, the Investment Manager expects to engage with investee companies on this issue. |

| PAI Indicators | | | | | | |
|--|--|----------|-----------------|-------------------|---|---|
| Adverse sustainability indicator | Metric | Coverage | Impact [year n] | Impact [year n-1] | Explanation | Actions taken, and actions planned and targets set for the next reference period |
| 13. Board gender diversity | Average ratio of female to male board members in investee companies, expressed as a percentage of all board members [Exact Fit] | 90.33 | 24.20 | 22.41 | Average ratio of female board members in investee companies has slightly increased in the past year. | While the Investment Manager believes diversity in a broader sense is a factor to maximize shareholders' value by enhancing the medium- to long-term corporate value of its investee companies, as a member of the 30% Club Japan Investor Group, the Investment Manager strives to improve gender diversity of investee companies. To this end, the Investment Manager stipulated in its voting standard that the company may vote against directors' election in case a company listed on Tokyo Stock Exchange prime market has 10% or less female directors on its board. |
| 14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons) | Share of investments in investee companies involved in the manufacture or selling of controversial weapons [Exact Fit] | 92.61 | None | 0.00 | Exposure to controversial weapons was none in 2023 while the Investment Manager had an exposure of less than 0.0001% of the portfolio to a company in Turkish Aerospace & Defense industry in 2022, held for passive-investment products. | The Investment Manager has an exclusion policy at the entity-level where controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons) are deemed inappropriate from an ESG perspective and investments in companies involved in the manufacture or selling of controversial weapons are restricted for all the actively-managed mandates. In addition to the exclusion based on Sustainability Product Involvement and PAI Data Solution, the Investment Manager shall make |

| PAI Indicators | | | | | | | |
|---|---|--|----------|-----------------|-------------------|--|--|
| Adverse sustainability indicator | | Metric | Coverage | Impact [year n] | Impact [year n-1] | Explanation | Actions taken, and actions planned and targets set for the next reference period |
| | | | | | | | reasonable efforts to obtain the relevant information. The Investment Manager sets its target at zero exposure to the designated names under its entity-level exclusion. |
| Indicators applicable to investments in sovereigns and supranationals | | | | | | | |
| Adverse sustainability indicator | | Metric | | Impact [year n] | Impact [year n-1] | Explanation | Actions taken, and actions planned and targets set for the next reference period |
| Environmental | 15. GHG intensity | GHG intensity of investee countries [Partial Fit] | 97.98 | 0.34 | 0.24 | Due to the current limitation of data credibility in the Sustainalytics PAI Solution, the Investment Manager cannot evaluate to what extent its investment decisions have influenced this indicator. | In its February 2023, the Investment Manager announced the 2030 interim targets for GHG emissions under the NZAMI. A year later, the Investment Manager expanded the scope to include investments in sovereigns and supranationals as globally agreed standards for calculating GHG emissions for those assets became in place. |
| Social | 16. Investee countries subject to social violations | Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international | 98.09 | 4 | None | Due to the current limitation of data credibility in the Sustainalytics PAI Solution, the Investment Manager cannot evaluate to what extent its investment decisions have influenced this indicator. Four countries classified as countries subject to social | Through the firm-wide exclusion policy (“Rules on Managing Unsuitable Investee Companies”), the Investment Manager restricts investments in sovereign assets issued by countries subject to social violations for actively-managed products. The Investment Manager added Russia and Belarus to its |

| PAI Indicators | | | | | | | |
|--|---|--|----------|-----------------|-------------------|---|--|
| Adverse sustainability indicator | | Metric | Coverage | Impact [year n] | Impact [year n-1] | Explanation | Actions taken, and actions planned and targets set for the next reference period |
| | | treaties and conventions, United Nations principles and, where applicable, national law [Minimum Fit] | | | | violations are Ecuador, Russian Federation, Ukraine and Venezuela and portfolio wight of each country is 0.01% or less. | restriction list upon Russian invasion of Ukraine. The Investment Manager aims to remain prudent with zero exposure to the designated countries and regions in its actively managed portfolios. |
| Indicators applicable to investments in real estate assets | | | | | | | |
| Adverse sustainability indicator | | Metric | | Impact [year n] | Impact [year n-1] | Explanation | Actions taken, and actions planned and targets set for the next reference period |
| Fossil fuels | 17. Exposure to fossil fuels through real estate assets | Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels | NA | NA | NA | NA | NA |
| Energy efficiency | 18. Exposure to energy-inefficient real estate assets | Share of investments in energy-inefficient real estate assets | NA | NA | NA | NA | NA |

| PAI Indicators | | | | | | | |
|---|---|--|-----------------|-------------------|-------------|---|--|
| Adverse sustainability indicator | Metric | Coverage | Impact [year n] | Impact [year n-1] | Explanation | Actions taken, and actions planned and targets set for the next reference period | |
| Other indicators for principal adverse impacts on sustainability factors | | | | | | | |
| CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS | | | | | | | |
| Adverse sustainability indicator | Metric | | Impact [year n] | Impact [year n-1] | Explanation | Actions taken, and actions planned and targets set for the next reference period | |
| Emissions | 4. Investments in companies without carbon emission reduction initiatives | Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement [Exact Fit] | 92.34 | 39.05 | 45.89 | Share of investments in investee companies without carbon emission reduction initiatives in the portfolio has declined from 46% to nearly 40%. This change may indicate an increased attention of corporates to reducing GHG emissions and their progress in specific measures. | The Investment Manager considers the specific indicator whether a company is with carbon emission reduction initiatives as a part of its comprehensive analysis on climate change. Therefore, the lack of initiatives alone does not necessarily impact its investment decision. The Investment Manager encourages investee companies to make further effort to reduce carbon emission through a continuous dialogue while it communicates with ESG data providers so that the relevant initiatives are appropriately captured in their database. Specifically to this indicator, no quantitative binding targets to be set while interim targets have been set as a part of commitments as a member of Net Zero Asset Manager Initiative. |
| Water, waste and material emissions | 6. Water usage and recycling | 1. Average amount of water consumed by the investee companies (in cubic meters) per million | NA | NA | NA | Due to the current limitation of data availability in the Sustainalytics PAI Solution, the Investment Manager cannot evaluate to what extent its | Currently the Investment Manager focuses more on financial materiality of investee companies while environmental and social adverse impacts are taken into consideration |

| PAI Indicators | | | | | | | |
|--|---------------------------------------|--|----------|-----------------|-------------------|---|---|
| Adverse sustainability indicator | | Metric | Coverage | Impact [year n] | Impact [year n-1] | Explanation | Actions taken, and actions planned and targets set for the next reference period |
| | | EUR of revenue of investee companies 2. Weighted average percentage of water recycled and reused by investee companies [Exact Fit] | 18.84 | 82.38 | 102.89 | investment decisions have influenced this indicator. | and reflected in investment decisions whenever needed. The Responsible Investment Section and the investment teams are intended to promote sustainability by suggesting more disclosure of relevant investees especially where financially material. There are no quantitative binding targets to be set due to the lack of data availability at this point of time. However, the Investment Manager reviews the development of data availability against the backdrop of the progress in corporate disclosures in line with the TNFD Framework to report and act on evolving nature-related risks. |
| INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS | | | | | | | |
| Adverse sustainability indicator | | Metric | | Impact [year n] | Impact [year n-1] | Explanation | Actions taken, and actions planned and targets set for the next reference period |
| Social and employee matters | 4. Lack of a supplier code of conduct | Share of investments in investee companies without any supplier code of conduct (against unsafe working conditions, precarious work, child labour and forced labour) | 92.26 | 11.42 | 16.06 | Share of investments in investee companies without supplier code of conduct in the portfolio has declined from 16% to nearly 11%. | Fully aligned with the Investment Manager's Human Rights Policy, the Investment Manager considers in its investment process investee companies' human rights policies and business practices over their supply chains. The Investment Manager has established the process of human rights due diligence, which is |

| PAI Indicators | | | | | | |
|--|--|----------|-----------------|-------------------|---|--|
| Adverse sustainability indicator | Metric | Coverage | Impact [year n] | Impact [year n-1] | Explanation | Actions taken, and actions planned and targets set for the next reference period |
| | [Exact Fit] | | | | | conducted continuously to identify any human rights risk items in its business activities. Through this process the Investment Manager prevents or mitigates adverse impacts on human rights. While no binding targets in the portfolio average of the metric, investment teams continue to consider it through an ESG evaluation in the absence of the code and broader responsibility in its supply chain. |
| 6. Insufficient whistleblower protection | Share of investments in entities without policies on the protection of whistleblowers [Exact Fit] | 92.45 | 2.40 | 3.93 | Share of investments in investee companies without sufficient whistleblower protection in the portfolio has further declined from 4% to 2%. | Fully aligned with the Investment Manager's Human Rights Policy, the Investment Manager considers in its investment process investee companies' human rights policies and business practices over their supply chains. The Investment Manager has established the process of human rights due diligence, which is conducted continuously to identify any human rights risk items in its business activities. Through this process the Investment Manager prevents or mitigates adverse impacts on human rights. While no binding targets in the portfolio average of the metric, investment teams continue to consider it through an ESG |

| PAI Indicators | | | | | | |
|---|---|--|-----------------|-------------------|-------------|--|
| Adverse sustainability indicator | Metric | Coverage | Impact [year n] | Impact [year n-1] | Explanation | Actions taken, and actions planned and targets set for the next reference period |
| | | | | | | evaluation on the insufficient whistleblower protection in the scope of misconduct prevention and response. |
| Human Rights | 9. Lack of a human rights policy | Share of investments in entities without a human rights policy [Exact Fit] | 92.38 | 8.31 | 11.97 | Share of investments in investee companies without human rights policy in the portfolio has declined from 12% to 8%. Fully aligned with the Investment Manager's Human Rights Policy, the Investment Manager considers in its investment process investee companies' human rights policies and business practices over their supply chains. The Investment Manager has established the process of human rights due diligence, which is conducted continuously to identify any human rights risk items in its business activities. Through this process the Investment Manager prevents or mitigates adverse impacts on human rights. While no binding targets in the portfolio average of the metric, investment teams continue to consider it through an ESG evaluation on the lack of human rights policy in the scope of misconduct prevention and response. |
| Anti-corruption and anti-bribery | 15. Lack of anti-corruption and anti-bribery policies | Share of investments in entities without policies on anti-corruption and anti-bribery consistent | 92.45 | 6.86 | 9.09 | Share of investments in investee companies without anti-corruption and anti-bribery policy in the portfolio has declined from 9% to nearly 7%. The Investment Manager conducts the entity-level norm-based negative screening to identify companies having anti-corruption and anti-bribery issues. |

| PAI Indicators | | | | | | | |
|----------------------------------|--|--|----------|-----------------|-------------------|-------------|---|
| Adverse sustainability indicator | | Metric | Coverage | Impact [year n] | Impact [year n-1] | Explanation | Actions taken, and actions planned and targets set for the next reference period |
| | | with the United Nations Convention against Corruption [Exact Fit] | | | | | <p>Meanwhile, the Investment Manager believes having an anti-corruption and anti-bribery policy in place is a core element of its consideration in ESG evaluation on Business Ethics and Controversies.</p> <p>To determine to put a controversial company in the exclusion list, the Investment Manager occasionally has engagement with that company.</p> <p>While no binding targets in the portfolio average of the metric, investment teams continue to consider it through ESG evaluation in the absence of the policies and those prevention and response.</p> |

Notes on the PAI indicator table

1. Scope of the investments covered by the PAI statement is based on the data available in the Sustainalytics PAI solution for the assets managed in-house by SMDAM or externally-consigned. The following asset classes are covered by this PAI Statement:

- Japanese equities
- Global equities
- Japanese bonds
- Global bonds

Cash positions and derivatives are not included in the calculation of PAI.

2. Data source: Sustainalytics PAI Solution

The data used in the disclosure of PAI metrics and impacts are based on the calculation algorithm and identifier cascade of Sustainalytics Portfolio Management and Monitoring. The Investment Manager lists the exact numbers provided by Sustainalytics in Table 2, except for Coverage. Sustainalytics defines "coverage" as part of an overall portfolio that includes both corporate and sovereign/supranational, while our company defines "coverage" as part of a corporate or sovereign/supranational portfolio.

3. At this point of time, due to the lack or shortage of disclosure of non-financial information by investee companies, even major global ESG evaluation data vendors such as Sustainalytics seem to be unable to provide complete ESG metrics and perfect PAI indicators dataset of all companies for asset management companies like ourselves to accurately assess and reasonably judge the impacts of our investments. Therefore, due to the current limitations of data availability, please note that the table above (Table 2) only shows the aggregated value or weighted average value by investment weight of the PAI metrics for the assets for which data can be collected at this time.

With regard to the target values for PAI indicators, in view of the current limited availability of fully reliable data, we believe that it is difficult though not impossible at this time to set a reasonable specific target value for each individual PAI indicator.

Please also note that the PAI disclosure table (Table 2) does not set targets for all aggregate figures though showing actual total figures, as this entity-level disclosure just shows the sum of all accounts/funds of various and diverse products, and, of which product weights are variable as a result of our strategic intentions, market fluctuations, and clients' needs.

4. However, having that stated, with or without setting the target of aggregates, we are taking the following actions through monitoring and considering each PAI indicator for the portfolios:
 - (1) We may prohibit or restrict investment in a company that is found to be in violation of international norms such as UNGC Principles/OECD MNE Guidelines or in significant violation of laws and regulations which are related to the compliance violation indicators, and if effective preventive measures are not taken. (Related indicators: M10, M11, M14).
 - (2) For sectors in which business risk related to a PAI indicator is relatively high or where business is deemed to have a significant negative impact on the environment and society, we shall request the investee company for identification of the related sustainability risks and negative externalities through our provision of relevant information, having opportunities of constructive dialogue or engagement, making a request for formulating its risk reduction dealing strategies (coping policy and measures) and its information disclosure.
5. At this point in time, the data coverage and availability of the PAI indicators is less than desired. However, looking forward to the future, we shall continue to seek for an improvement in effectiveness of our PAI analysis through monitoring the evolution of our own data coverage and availability of each

PAI indicator, encouraging data vendors to improve their coverage and reviewing an improvement in the data availability, as we anticipate the further enhancement in non-financial contents disclosure by the investee companies.

6. It should be noted that the figures in the entity-level PAI indicator disclosure table are the total sum of those of our diverse products that we are managing, and these figures may vary based on the overall product mixtures and asset mix in the portfolios that the company manages, and not just due to changes in the PAI evaluation in each account or fund in historical comparison analysis.

In addition, PAI considerations for individual portfolios are in principle conducted in accordance with our company's own policy, although some accounts may exceptionally follow customer-specified individual investment guidelines.

Description of policies to identify and prioritise PAI on sustainability factors

It is the responsibility of the Investment Manager to consider and mitigate, through appropriate due diligence, the Principal Adverse Impacts of investment decisions on sustainability factors alongside the relevant financial and sustainability risks, making appropriate disclosures, taking due account of its business size, the nature and scale of its activities and the types of financial products the Investment Manager makes available.

Further details are elaborated in II. Consideration of Principal Adverse Impacts ("PAIs") on the environment and society (page 15 and onwards).

https://www.smd-am.co.jp/english/corporate/responsible_investment/pdf/policies_for_integrations_2023.pdf#page=16

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

Engagement Policies

Engagement Policy

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

If, despite its repeated engagement, no improvement is seen in investee company sustainability issues, including those that have a significant negative impact on the environment and society, or if there are undesirable actions affecting social credibility with no respect to stakeholder relationships, we will utilise an escalation process in exercising voting rights on the investee companies.

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

Engagement on Climate Change

In March 2022, the Investment Manager 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 the requirements of the Paris Agreement, and we will urge them to improve their CDP climate change scores, while considering investment exclusion as an option, focusing on sectors with high GHG emissions. Meanwhile, we will participate even more actively than we did in the past in collaborative engagements organized by domestic and global initiatives.

References to International Standards

The Investment Manager has signed and endorsed a variety of domestic and global initiatives and is participating in collaborative engagement to co-work with other institutional investors, etc., which helps us to improve effectiveness and efficiency of its engagement activities.

For more details, please refer to Part I - 10. Collaborative Engagement and Initiatives (page 13) on the website: https://www.smd-am.co.jp/english/corporate/responsible_investment/pdf/policies_for_integrations_2023.pdf.

Page 32 in the SMDAM Sustainability Report 2023-2024 on the website: <https://www.smd-am.co.uk/sustainability/>

Disclaimer

The disclosures in this document are designed to comply with Article 4 of the Sustainable Finance Disclosure Regulation ((EU) 2019/2088) (“SFDR”) and Articles 4-10 of the Commission Delegated Regulation (EU) 2022/1288. The information disclosed is required by law to help you understand the principal adverse impacts of our investment decisions on sustainability factors. This document contains firm-wide specific information regarding the principal adverse impacts of our investment decisions on sustainability factors.