

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).

Apr. 2020-Mar. 2021 (12 months) Results

(Definition of engagement)

We define "constructive dialogue with management for medium-to long-term investment" or "dialogue focusing on medium-to long-term management issues" as engagement, and "one-on-one dialogue with an investee company" as the solo-engagement.

(Number of engagements)

We conducted 2,242 solo-engagements.

More than 75% of the engagements were conducted with executive officers or higher level executives including directors of the board.

*Notes: The breakdown by topic is as follows; multiple themes may be included for one dialogue, and thus subtotal by theme does not match the total.

- 1) Voting/G (Governance): 1,068
- 2) Management strategy: 1,594
- 3) E (Environment): 145
- 4) S (society): 150
- 5) IR/Disclosure: 916
- 6) Financial strategy: 16
- 7) Others: 16

Example of dialogue

Through the progress of constructive dialogue, we engage in two stages: (1) general dialogue on the sustainability themes; and (2) in-depth dialogue on the specific policies/strategies and our suggestions. Across both types of dialogue, the fund managers and analysts discussed the following topics.

Business Strategy: Decarbonized Management

Company A

During the dialogue on decarbonization, the company expressed its intention to promote and strengthen decarbonization management, such as carbon recycling and hydrogen business, although the profits and ROE depend on the fluctuations of resource prices such as crude oil. SMDAM expressed the opinion that the company should actively promote decarbonisation by focusing on technological development, support and alliances, and reduce its conventional image of fossil fuels and other fuels.

Management Capability: Integrated Report

Company B

Through frank exchange of views on the content of the Integrated Report, SMDAM expressed its view on the following issues: (1) although the bottom line and short-term perspective are clear, the long-term perspective and the future image are not clear enough; (2) there are not adequate policies that contribute to social and environmental issues and no policy statements aligned with the Japanese government's policy of "Net Zero" in 2050; and (3) a sense of speed and a perspective across the industry are required. The company seemed to have recognized the lack of a long-term perspective in the report and have thought the dialogue with SMDAM valuable and insightful.

Financial Strategy: Cross-Shareholdings, Capital Efficiency

Company C

SMDAM had a dialogue on cross-shareholdings with an investee company. In the past, cross-shareholdings helped to promote the business with the client, but now such situation has changed. The company has also shown its view on importance of capital efficiency by steadily reducing the number of share it holds and enhancing shareholder returns through share-buybacks, etc., as well as making efforts to maintain the current dividend for the time being. SMDAM took this positively. Also, SMDAM expressed the opinion that investors are highly interested in an increase in corporate value over the medium to long term in addition to increasing ROE and dividends.

Environment: Disclosure of information on greenhouse gas (GHG) emissions

Company D

SMDAM held a dialogue on greenhouse gas (GHG) emissions and expressed the opinion on the disclosure of company-wide CO₂ and other GHG emissions. The company responded that it had not been able to prepare company-wide emission data after a series of M&A and introductions of new facilities in recent years. However, it would be possible for the company to set the reduction targets at a practical level because GHG emissions can be measured by small unit. SMDAM, as an investor, repeatedly expressed the opinion that company –wide emission data and information disclosure would be required.

Social Responsibility: Human Rights, Women's Participation and Diversity, etc.

Company E

SMDAM had a dialogue on human rights and social responsibilities such as the empowerment of women, and expressed the opinion that further information disclosure would be taken positively for the capital market since respect for human rights and the equitable opportunity of training system would help retain employees. Although the company had recognized the measures taken under the UK Modern Slavery Act, it did not think about the disclosure of employee-related and other internal initiatives. The company appreciated SMDAM's suggestion. Also, the company, at the executive and top management level, is committed to the women's participation and importance of diversity, which would lead to innovation, productivity improvement, and work style reform. SMDAM took it positively.