

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. 2021-Mar. 2022 (12 months) Results

(Definition of engagement)

SMDAM defines “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)

SMDAM conducted 2,725 solo-engagements.

Approximately 70% 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) Management strategy: 1,657
- 2) E (Environment): 694
- 3) S (Society): 220
- 4) Voting/G (Governance): 420
- 5) IR/Disclosure: 363
- 6) Financial strategy: 28
- 7) Others: 72

Example of dialogue

SMDAM conducts dialogues on sustainability with investee companies, and make suggestions as the dialogue progresses. Examples of dialogue with investee companies include the following:

Environment: Climate Change

Company A

SMDAM held a dialogue on climate change, focusing on “Net Zero emission of GHG by 2050 and the interim target by 2030. As the interim target for 2030 was vaguely expressed as "halving," SMDAM pointed out that the current disclosure of information was insufficient should be made clearer and easier to understand, and introduced the best practices of other companies. The company responded positively, saying that it would inquire opinions within the company and promptly improve the disclosure.

Voting and Governance: Effectiveness of the Board of Directors

Company B

SMDAM held a dialogue with an independent director on the effectiveness of the Board of Directors. SMDAM examined (1) whether an effective check-and-balance system was in place, and (2) whether there was a succession plan for the CEO. The independent director responded that they would reject any unfavourable strategies by the CEO that was not in the interests of shareholders and would intend to maintain clear discipline to protect their reputations as independent directors. Those reactions were positive for investors.

Financial Strategy: Cross-Shareholdings, Capital Efficiency

Company C

SMDAM held a dialogue on cross-shareholdings and presented the best practice of other companies that have committed in their governance reports not to prevent their suppliers from selling cross-shareholdings. This case illustrates the positive impact of transparent disclosure on corporate value. The company said it understood the positive effect, but was cautious about clarifying its policy. SMDAM continues to express its opinions.

Voting and Governance: Dealing with Scandals

Company D

SMDAM held a dialogue on the handling of scandals and asked the investee company what the causes are, who are responsible for, and how it can prevent recurrence in the future. The company explained that it had formulated policies to improve management systems and reform corporate culture after receiving advice from outside consultants. SMDAM identified some improvements in the strengthened governance in the wake of the recent scandal, but will be watching closely that similar situations may recur in the future.

Social: Diversity

Company E

SMDAM held a dialogue on women's empowerment and diversity. Although the ratio of women in managerial positions is higher than that of other companies in the same industry, SMDAM expressed the view that more active promotion of women to executive officer positions or higher will contribute to continuous enhancement of corporate value. The company commented that it would continue to strive to achieve the designated target ratio of female managers, and it was also working quickly to realize its plan to appoint women as executive officers. SMDAM has confirmed the progress in efforts for women's empowerment.