



# Sustainability Report

2023-2024

## Our Mission & Vision

# Towards The Best Asset Management Firm For Your Better Quality of Life

We, as professionals, focus on:

- Delivering best-in-class investment performance while maintaining the highest standards of fiduciary responsibility to our clients,
- Contributing to a diversified and sustainable society through our investment activities.

To these ends, we commit ourselves to:

- Aiming for collective growth, based on a respectful understanding of all stakeholders,
- Creating a flexible working environment that allows all employees to reach their full potential.

## Our Values



## Materiality







### Materiality for Business Operation

Social Challenges: Improving Quality of Life	 <b>Human capital</b> We will eradicate discrimination and harassment, enhance the workplace environment, and develop human resources
	 <b>Social contribution activities</b> We will contribute to solving environmental and social issues through donations and volunteer activities
	 <b>Improvement of business quality</b> We will utilize digital technology to revise and improve our operational processes

Environmental Issues: Safety of Life	 <b>Environmentally-friendly business management</b> We will endeavor to reduce energy usage and our impact on the environment by revising our operations
--------------------------------------	--

Enhanced Governance and Better Disclosure	 <b>Business ethics and corporate culture</b> We will aim to be an organization where all employees are conscious of being professionals, have an appetite to contribute to society, and maintain a spirit of taking on new challenges
---	--

### Materiality for Investment Management

 <b>Human rights in supply chains</b> We will work to appropriately manage human rights risks through due diligence related to human rights
 <b>Human capital</b> We will implement human resource strategies that are consistent with management strategy and work to create an attractive workplace environment
 <b>Climate change</b> We will work to reduce GHG emissions across the supply chain
 <b>Natural capital</b> We will work to promote a circular economy and reduce environmental impact by cutting food loss
 <b>Effectiveness of corporate governance</b> We will work to ensure the diversity of the Board of Directors and implement measures to enhance corporate value
 <b>Business Ethics and Corporate Culture</b> We will foster corporate ethics and our corporate culture, and ensure thorough compliance with laws and regulations and risk management



## Contents

Our Mission & Vision	1	Due Diligence on Human Rights	20	<b>Progress in Sustainable Investment Management</b>	SMDAM ESG Evaluation and Utilization	36
Contents, Editorial Policy, and Information About the Cover Picture (Artist and Work)	2	Social Contribution Activities	21		Message from the Head of Investment Management Division	37
Medium-Term Management Plan “Challenge and Change for 2030”	3	School Visits to Develop Financial Literacy	22		Aiming to Provide Sustainable Added Value	39
CEO Message	5	Governance	23		JP Equity Value +a Group Initiatives	40
Materiality Initiatives in FY2022	7	Information Dissemination	24		ESG Evaluations for SMEs	41
Achievements Related to the Principles of Fiduciary Duties and Sustainability in FY2022	9	<b>Stewardship Activities</b>			2030 Vision for the Investment Development Group	42
Self-evaluation of the Implementation Status of Japan’s Stewardship Code	10	Message from the Responsible Investment Officer	26		ESG Integration in Japanese Fixed Income	43
<b>Progress in Sustainable Business Operation</b>		Engagement Activities	27		ESG Integration in Global Fixed Income	44
Message from our Officer	12	Climate Change / Natural Capital	28		ESG Dialogue in the Engagement Investment Group	45
Why is Human Resource Strategy Necessary?	13	Human Capital / Human Rights in Supply Chains	29		Sustainable Product Development in the Alternative Investment Department	46
Enhancement of Human Resource Value	15	Effectiveness of Corporate Governance / Business Ethics and Corporate Culture	30		Day in the Life of a Fund Manager	47
Creating a Sound Corporate Culture	16	Examples of Engagement	31	Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors	49	
Young Employees Roundtable Discussion	17	SMDAM Activities Under Initiatives	32	Disclosure Based on TCFD recommendations	51	
DEIB	19	Exercise of Voting Rights Flowchart	33	Important Precautions	53	
		Exercise of Voting Rights Case Studies	34			

### Editorial Policy

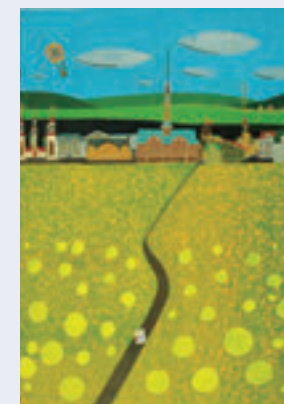
1. Present specific measures under the medium-term management plan
2. Further strengthen the creation of pages that show our employees’ faces, to effectively indicate the investment, sales and marketing capabilities of teams that utilize the individual characteristics of each member
3. Be inventive with visual expression and improve readability

### About the cover

As a part of our CSR activities, we are active supporters of the ParaArt project run by Nippon Charity Kyokai to promote the art and culture of people with disabilities. The ParaArt work on the cover is Kogen no Machinami (“Town in the Highlands”), by Takahiro Kubo. Mr. Kubo explained the work as follows: “I saw a beautiful town at the end of a slow climb up a gentle hill that lay over the peaceful highlands, where canola flowers bloomed as far as the eye could see.”

#### Takahiro Kubo’s career summary

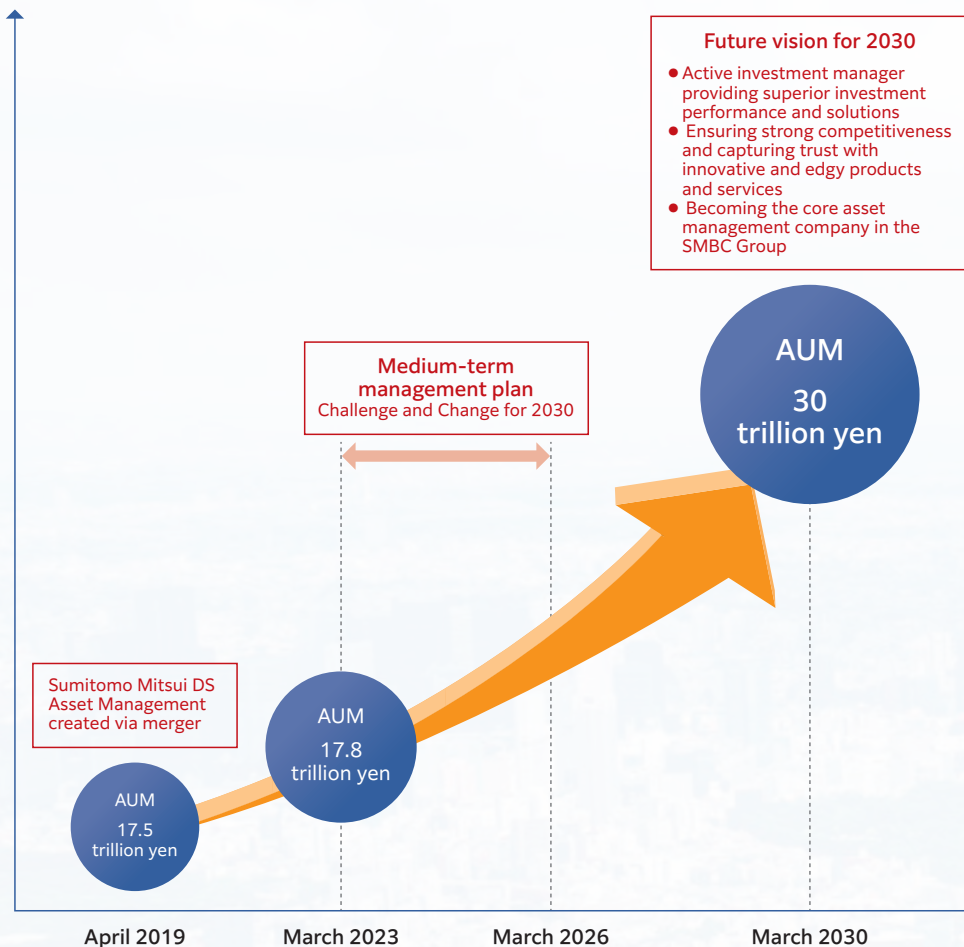
Born in 1970 (from Tokyo). From around the age of two, he began drawing many pictures that expressed a mysterious and heartwarming atmosphere in an unusual style. He began taking art classes in his first year of junior high school at Musashino-Higashi Gakuen, before specializing in art at the high school of the same institution. After graduating, while studying on the Picture Book Course at the Japan Juvenile Education College, he continued his creative activities while receiving instruction at the ParaArt School of Nippon Charity Kyokai.



# Medium-Term Management Plan “Challenge and Change for 2030”

Our company aims to become an “asset management company that offers the best investment performance and solutions” by 2030. As a step to achieving that target, we have formulated our medium-term management plan “Challenge and Change for 2030” to cover the period from FY2023 to FY2025.

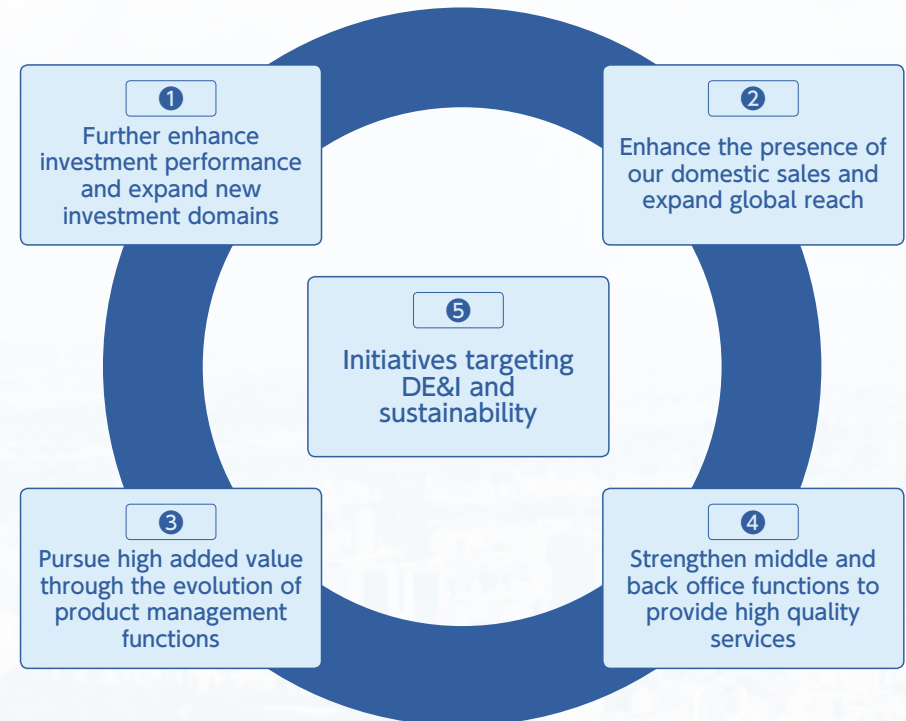
## Roadmap to 2030



## Four basic policies in the medium-term management plan

- Establish solid foundations for domestic profits, driven by group synergies
- Take on the challenge of “globalization” across the company as whole, to achieve sustainable growth
- Build middle and back office functions, as well as corporate functions, that are both flexible and robust, to provide stable and high-quality services
- Continuously form groups of professionals that enhance QOL for stakeholders

## Five pillars to achieve the medium-term management plan



**1 Further enhance investment performance and expand new investment domains**

- ✔ Maintain our strong competitiveness in domestic equities and fixed income investment while shifting management resources with global assets as a priority domain
- ✔ Expand in-house management of alternative assets while collaborating with shareholder companies, etc.

Expand in-house management of alternative assets

	JP	Asia	Global
Infrastructure	Focus on expanding in-house management		
PE			
Real Estate			
Other	Mainly providing excellent outsourced asset management		

**2 Enhance the presence of our domestic sales and expand global reach**

- ✔ Be rated highly by our customers thanks to more sophisticated solution sales
- ✔ Expand our global reach by strengthening our overseas sales and marketing system and enhancing our product lineup for overseas customers

**Strengthen our overseas sales and marketing system**



**3 Pursue high added value through the evolution of product management functions**

- ✔ Established the Product Management Department in April 2023
- ✔ Collaborate within the company and externally, and with related companies in Japan and overseas to provide attractive investment products

**Role of the Product Management Department**



**4 Strengthen middle and back office functions to provide high quality services**

- ✔ Integrated product development and management, as well as middle and back office functions into the “Product and Administration Division” in April 2023, as part of efforts to promote efficient operations
- ✔ Promoting more efficient operations by cutting the number of funds, utilizing digital technologies, etc., thereby creating excess capacity to allot to future growth fields

**Initiatives aimed at strengthening middle and back office functions**



Create excess capacity for growth and focus fields

**5 Initiatives targeting DE&I and sustainability**

- ✔ Focus on developing, maintaining, and securing human resources to act as future leaders, as well as the creation of a working environment and fostering of a corporate culture that allows employees to exercise their diversity
- ✔ Secure empathy and trust from customers in Japan and overseas by contributing to the achievement of a sustainable society
- ✔ Enhance employee engagement

**Initiatives to create a working environment that allows employees to exercise their diversity**

- Actively hire female employees
- Strengthen support for newly appointed employees in managerial roles
- Strengthen initiatives to eliminate harassment
- Incorporate employee engagement in HR evaluations
- Enhance the fluidity of human resources by utilizing internal recruitment, etc.







Representative Director, President and CEO

**Takashi Saruta**

## CEO Message

# Enhancing QOL For All Stakeholders

Japanese equities have been rising since the introduction of Abenomics. Going into 2023, the Nikkei index broke 33,000 yen a number of times, trading at 33-year highs. In addition to a base of forecasts of robust corporate earnings, investors also demanded that companies listed on the TSE with P/B ratios of less than one disclose and execute measures to improve their management, resulting in the market attracting the attention of overseas investors. Factors such as the end of zero interest rates, the selling of ETFs, and policy interest rate hikes, which the Bank of Japan is expected to implement as future financial policies, will have a negative impact on share prices. On the other hand, from a long-term perspective, the normalization of capital markets is a good thing, and it is expected that Japanese equity markets will sufficiently absorb the impact. In the Basic Policy announced in June 2023, the government set forth its aim to “open up 2,000 trillion yen in household financial assets, and achieve an ‘asset management nation’ that will contribute to sustainable growth.” In addition to the new NISAs announced in 2022, we are eagerly waiting to see what measures are unveiled in the future.

Additionally, in its Progress Report announced in 2023, the Financial Services Agency is promoting initiatives aimed at addressing and resolving issues among the parties that constitute the investment chain. This is a request for investors, investment companies, sales companies, the market, and others to engage in activities that are more substantial and of higher quality than before.

The environment for asset formation in Japan is on the cusp of major change. At the same time, the mission of an asset management firm is

ultimately the provision of high-quality investment returns to investors. Our view is that together with making investment decisions based on multisided analysis that includes ESG elements, endeavoring to enhance the corporate value of investee companies through engagement and the exercise of voting rights also contributes to the resolution of both environmental and social issues. In our “Sustainability Report 2023-2024” as well, we have featured numerous activities that we are conducting on a routine, constant basis. We highly encourage you to read this report. Our belief is that continuing these fundamental activities will result in the smooth circulation of our investment chain and the enhancement of sustainability.

In April 2023, our company initiated its new medium-term management plan. In addition to elevating our asset management capability, which directly affects investment returns, we reestablished human capital development, which forms a backbone of the asset management firm’s development, as one of our priority measures. A component of our management philosophy is “Aiming for collective growth, based on a respectful understanding of all stakeholders.” Our employees are also included among those stakeholders. Our goal is to improve the Quality of Life (QOL) not only for our clients but also for our employees and other stakeholders. We believe that boosting engagement with our officers and employees and promoting the growth of human capital links to the growth of our organization and constitutes the path to realizing our mission and vision of “Towards The Best Asset Management Firm For Your Better Quality of Life.”





# Materiality Initiatives in FY2022


Our materiality constitutes challenges that we believe to be vital in our endeavors to realize a sustainable society as a company that aims to become "The Best Asset Management Firm For Your Better Quality of Life."

Go here for a detailed explanation of SMDAM's materiality <https://www.smd-am.co.jp/english/corporate/vision/fiduciary/01/>




The ■ in the figure indicates our materiality for investment management. The ■ in the figure indicates our materiality for business operation.

### Business Ethics and Corporate Culture



We conducted 28 instances of engagement activities to promote measures to prevent the reoccurrence of scandals, primarily at investee companies where a scandal had occurred (41 instances last fiscal year).

### Environmentally-Friendly Business Management




Through means such as reducing office space usage, relocating to buildings with high energy efficiency and switching over to power derived from renewable energy, we reduced greenhouse gas (GHG) emissions (Scopes 1 & 2). Conversely, GHG emissions pertaining to business travel, which fall under the main category of Scope 3, increased.

### Human Rights in Supply Chains




We conducted 47 instances of engagement activities aimed at investee companies to promote the reduction of human rights risks (eleven instances last fiscal year).

### Human Capital



We conducted 173 instances of engagement activities in which we encouraged investee companies to engage in the development of human capital and the creation of attractive workplace environments where employees can demonstrate their abilities (32 instances last fiscal year).

### Business Ethics and Corporate Culture



We carried out corporate culture surveys in order to form a grasp of the awareness of our officers and employees our organizational condition as well as to put that information to beneficial use in the creation of a sound organization with open communication.

We held four quarterly internal training sessions on compliance that were mandatory for all officers and employees as well as four internal training sessions related to sustainability.



## Human Capital



We revised its HR systems into convincing ones by doing away with elements of seniority based on age. We reorganized our DE&I Promotion Meeting into a Human Capital Strategy Meeting at which the CEO, departmental heads and other attendees discuss human capital in general.

The number of examples of the utilization of our internal open recruitment system for assisting employees with their autonomous career design came to nine.

## Natural Capital



We conducted 538 instances of engagement activities aimed at investee companies to promote the reinforcement of initiatives geared towards environmental issues, including the protection of natural capital (694 instances last fiscal year).

## Improvement of Business Quality



As an example of utilizing AI and RPA in its research and other operations, we incorporated a natural language analysis system that covers emerging countries to realize a more advanced level of investment processes, among other successes.

## Social Contribution Activities



The total number of employees participating in volunteer activities came to 433 (an increase of 151 employees over last fiscal year).

The number of participants in the "Sumitomo Mitsui DS Asset QOL Fund", operated through donations by employee volunteers, came to 202 at the end of March (an increase of 36 participants over last year).

## Governance



We conducted 663 instances of engagement activities to promote the effectiveness of corporate governance at investee companies and other entities (420 instances last fiscal year, including activities related to the exercise of voting rights).

## Climate Change



We set medium-term targets for 2030 with a view to realizing zero GHG emissions by the year 2050.

<https://www.netzeroassetmanagers.org/signatories/sumitomo-mitsui-ds-asset-management-company/>



We supported and participated in joint engagement efforts such as the acquisition of Science-Based Target (SBT) certification and the improvement of CDP climate change scores for investee companies.

## Achievements Related to the Principles of Fiduciary Duties and Sustainability in FY2022

As it aims to become “The Best Asset Management Firm For Your Better Quality of Life” as outlined in its Management Vision, our company has clearly defined the roles it should fulfill in the sustainability sector through its “Principles of Fiduciary Duties and Sustainability.” In addition, our company is dedicated to thoroughly implementing client-centered business operations.

### Principle 1 We will fulfill our management responsibilities as a responsible institutional investor

Advanced Technology

Leveraging advanced technology, our company analyzes multilingual news in emerging countries and extracts investment candidate issues through natural language processing. Utilizing AI and other advanced technologies enhances the sophistication of asset management.

Enhancement of information

Our company displays facial photographs of its sales and marketing personnel on dedicated pages for institutional investor clients. Enhancing announcements and stewardship activity-related video sections, including market reports and the exercise of voting rights, our company ensures the timely provision of information.

Environment/Society

On January 2023, we publicly released its “Policy on the Integration of Sustainability Risk in Investment Processes and the Consideration of Principal Adverse Impacts (PAI) on the Environment and Society.”

#### Implementation Process for PAI Due Diligence

1. Management Philosophy and Various Policies
2. Identification of PAI and Assignment of Priority Order
3. Consideration PAI in Investment Processes
4. Engagement and Escalation
5. Cooperative Engagement and Initiative
6. Monitoring and Disclosure/Reporting

### Principle 2 We will strive to help build a sustainable society through our investment management business

ESG

We revised our “Sustainable Product Certification Standards” that apply to all funds and products that we operate and defined “ESG products” at our company. Simultaneously, we built a comprehensive framework for operations and management to ensure the quality of these products.

Classification	Overview	ESG Products
Standard	Stewardship activities and negative screening are applied across all companies	
Integration	Sustainability is taken into consideration, and ESG evaluations are incorporated into investment decision processes.	
Integration Plus	Sustainability is positioned as a vital source of excess returns and ESG evaluations are utilized in a quantitative and systematic manner	
Engagement Plus	Persons responsible for investment actively engage in dialogue related to ESG themes that will contribute to enhancing corporate value	
Positive Screening	Specific quantitative screening standards for investment in companies with excellent ESG factors	○
ESG Thematic	Specific sustainability issues and themes are set and companies that contribute to those issues and themes are considered for investment	○
Impact	In addition to investment returns, investee companies are also selected for their contribution to solving sustainability issues	○

Initiatives

Our company is a participant in “Advance,” a human rights-related initiative newly started up by the U.N. Principles for Responsible Investment (PRI), as a collaborating investor. Based on our commitment upon joining the Net Zero Asset Managers Initiative (NZAMI), we set medium-term targets for 2030 related to GHG emissions.

School Visits

As part of our training and education activities for developing financial literacy, we conduct school visits with the use of the “Economica” card game at multiple elementary schools and other institutions.



## Self-evaluation of the Implementation Status of Japan's Stewardship Code

With the aim of increasing medium- to long- term investment returns that serve as the interests of customers and beneficiaries, our company has been proactively working on stewardship activities aiming to encourage investee companies to enhance their corporate. We have also focused on ESG investment, incorporating analysis and assessments of medium- to long-term non-financial elements of investee companies into the investment process.

### Principle 3 We, as a corporate citizen, will engage in activities to pass on an affluent society and rich global environment to the next generation

**Donations to Organizations** Our company donated approx. 250 billion yen of its trust fees from funds to organizations and entities tacking the realization of a decarbonized society, cultural preservation and other social challenges.

**CO2 Reductions** The power supplied at the building where our headquarters is located was switched over to renewable energy in October 2022. This is resulting in significant reductions in real CO2 emissions at our company.

#### KPI regarding protection of the global environment

KPI		FY2020		FY2021		FY2022	
		Actual	Ratio	Actual	Ratio	Actual	Ratio
Greenhouse gas (GHG) emissions at office building used	Ratio relative to FY2019	1,139 tCO2e	84.7%	923 tCO2e	68.7%	598 tCO2e	44.5%
		4,040 thousand sheets	39.2%	2,608 thousand sheets	25.4%	2,143 thousand sheets	20.9%

### Principle 4 We will train and educate human resources to contribute to the QOL of our clients, the society and our employees

**Training and Education** We systemized education and training for our employees and conduct training according to hierarchy and skills that they should master. These efforts include the development of global and DX human capital and training for specific age groups as well as that for specialized and managerial positions.

**Internal Open Recruitment** As part of our employee career support initiatives, we expanded the number of positions filled through internal open recruitment from last year's figure of two to nineteen. Nine employees were successfully reassigned to their desired positions as a result.

**Recruitment** Beginning with new employees hired in April 2023, we initiated investment course-specific recruitment in order to develop investment professionals (Six out of twenty new employees hired in April 2023 were recruited for specific investment courses.).

Please refer to our website for details.

[https://www.smd-am.co.jp/corporate/vision/fiduciary/index\\_01/](https://www.smd-am.co.jp/corporate/vision/fiduciary/index_01/)



**Policies** We employ analysis and assessments of the environment and society from a medium- to long-term perspective in our investment processes.

**Managing Conflicts of Interest** We invited one (female) independent Outside Director and enhanced the poise of our Responsible Investment Committee.

**Ascertaining the Situation** We contribute to the ESG evaluation of over 2,400 companies encompassing overseas and domestic individual companies and REIT.

**Managing Dialogue** Engagement progress is segmented into eight steps and dialogue is managed for each theme in order to adequately share awareness with investee companies and encourage problem-solving.

**Exercise Criteria** We updated and disclosed judgment criteria for the exercise of voting rights for Japanese equities based on the initiation of new market categories at the Tokyo Stock Exchange and the trend of steady improvements in the enhancement of governance frameworks and awareness at investee companies.

**Reporting on Activities** We disclose engagement activity results to our clients and final beneficiaries.

**Improvement of Real Capability** We signed the "Japan Impact-driven Financing Initiative," an initiative to facilitate the practice of impact-driven investments and loans, with a view to successfully striking a balance between environmental/social value and corporate value.

Please refer to our website for details.

[https://www.smd-am.co.jp/english/corporate/responsible\\_investment/stewardship/self\\_evaluation/](https://www.smd-am.co.jp/english/corporate/responsible_investment/stewardship/self_evaluation/)



# Progress in Sustainable Business Operation

SMDAM aims to contribute to the realization of an abundant and sustainable society through the investment management business. In order to achieve this aim, we are focusing on improving quality of life for all stakeholders, including employees and regional communities, through our promotion of DEIB(\*1) and efforts to develop an environment where it is easy to work, as well as various social contribution activities.

\*1 Diversity, Equity, Inclusion, and Belonging

## Contents

Message from our Officer	12
Why is Human Capital Strategy Necessary?	13
Enhancement of Human Capital Value	15
Creating a Sound Corporate Culture	16
Young Employees Roundtable Discussion	17
DEIB	19
Human Rights Due Diligence	20
Social Contribution Activities	21
School Visits to Improve Financial Literacy	22
Governance	23
Information Disclosure	24

## Related Indicators DEIB

	FY2021 Actual	FY2022 Actual	FY2025 Target
Percentage of female managers	13.7%	15.9%	35%
Male employee childcare leave take-up rate	108.3%	76.4%	100%
Male employee childcare leave days taken*2	8.41 days*3	11.8 days	28 days
Percentage of employees with disabilities	2.1%	2.0%	2.5%
Gender pay gap (all workers)	56.2%	59.0%	—
Gender pay gap (permanent employees)	54.7%	57.4%	65%
Gender pay gap (fixed-term employees)	66.5%	56.1%	—

\*2 Actual result for male employees with children aged one year or younger who took childcare leave in the relevant fiscal year

\*3 In order to ensure the value reflects current circumstances at the Company, one employee who took 170 days or more has been excluded from the value. If all male employees who took childcare leave are included, the figure is 21.3 days.

### [Additional information related to the gender pay gap]

- Permanent employees: Includes persons seconded outside the Company
- Fixed-term employees: Covers contract employees, temporary employees, and part-time employees
- Wages: Excludes commuting allowance, living allowance, meal allowance, etc.

## Creation of an environment where it is easy to work

	FY2021 Actual	FY2022 Actual	FY2025 Target
Overtime hours (monthly average)	25.2 hours	22.9 hours	20 hours
Paid leave take-up rate	61.4%	65.5%	80%
Continued employment rate for new graduate hires (around 10 years after hiring)	61.1%	55.5%	58%
Employee engagement score	—	67.8%*4	75%
Stress check taking rate	92%	91%	100%
Proportion of employees with high stress in stress checks	13.2%	10.5%	10%

\*4 Of the 695 respondents, the proportion that answered that they "feel pride and a sense of purpose in their work, and are able to work with passion and vitality" in the corporate culture survey.

## Social Contribution Activities

	FY2021 Actual	FY2022 Actual	FY2025 Target
Number of employees who participated in social contribution activities	282	433	450
Number of participants in school visits, financial literacy improvement seminars, etc.	3	618	1,100



## Message from our Officer

To enable us to contribute to the achievement of a sustainable society, we have identified key management issues as our “materiality.” We are promoting initiatives centered around our five “materialities for business operations” (see P01), which we have selected from the two perspectives of “importance in the realization of a sustainable society” and “importance in our corporate sustainability,” as an operating company.

### Focus on Developing Human Capital

With respect to human capital, we have formulated policies on human rights, and are pursuing human rights due diligence based on these policies. In our social contribution activities, we have established a “QOL Fund” for donations, which are automatically deducted from participating employees’ salaries. Additionally, we have participated in clean-up volunteer activities in the area around our offices. In the future, we will not limit ourselves to opportunities provided by the company, and we intend to increase our initiatives supporting volunteer activities, etc., that employees participate in independently.

We introduced a new HR system in April. This is a hybrid system that combines job-type and membership-type aspects to ensure that employees are appropriately evaluated in accordance with their respective duties. We have also integrated our separate occupational ladders for career-track and general positions into a single ladder for career-track positions, allowing all employees to work within the same framework.

Our next step will be a greater focus on the development of human capital. As an asset management company, human capital is the source of all our value creation, and we believe we have maintained our focus on human capital development throughout our history. Looking back, however, our programs were not always based on clear objectives and systems. We are renewing our efforts to share our vision for the company we aim to be, clarify our image of the ideal personnel characteristics we want, and build programs for developing and hiring human capital.

In the future, we will further accelerate our initiatives to achieve a sustainable society. In order to achieve this, we ourselves must be a company that embodies sustainability. Human capital is the most important foundation for asset management companies, so I believe that human resource development plays a central role in our companies and will be strongly promoted going forward.

### Environmentally-Friendly Business Management

While our initiatives themselves are not new, we have steadily implemented initiatives that align with those of many other companies, such as reducing greenhouse gas (GHG) emissions and limiting our use of plastic. Over the year from 2022 to 2023, the office building where we operate switched its electric power supply to renewable energy, resulting in a significant reduction in GHG emissions. Still, initiatives other than electric power are crucial for achieving zero GHG emissions. From the perspective of reducing the use of plastic, we have gradually initiated measures such as replacing PET bottles with cartons for water provided to visitors. We are also adhering to our basic principle of paperless operations, and in cases where the use of paper is unavoidable, we promote the use of FSC\*-certified paper.

\* A certification system by the FSC (Forest Stewardship Council)



**Tsuyoshi Imai**

Director and  
Senior Managing Executive Officer

## Why is Human Resource Strategy Necessary?

From an age where companies select employees, to one where employees select companies. Now is the time when, I believe, we should shift to “management that values and invests in human capital,” as we work to improve our corporate culture.



**Takayuki Sawano**

Representative Director and Deputy President Executive Officer,  
Head of International Business Division

### Japanese Companies Need to Redefine their Relationships with Employees

From the past to the present, many Japanese companies have advocated that “human capital is everything.” People looking from outside Japan, however, often question whether that is true, and I have heard that locally hired staff also have doubts about many points. In terms of the relationship between employees and the company also, in Japan, there is a tendency for it to be taken as a given that employees will obediently follow relocation orders issued by the company. On the other hand, in the US, when companies need employees to relocate, they generally first disclose their intention to the employees, and ask them to get approval after talking about it with their family. Recently, as the issue of “low wages” in Japan has gained increasing attention, Japanese people belatedly have become aware of that their wages are relatively low.

Comparing levels of investment in capital, in the US, approximately 2% of GDP is invested in capital, whereas that figure is just 0.1% in Japan. Since the collapse of the bubble economy in the early 1990s and through the financial crisis, the birth rate in Japan has been declining, and soon the working age population will decline at an accelerated rate. Going forward, Japan will likely enter an age where companies must ensure that they are selected by human resources, instead of being in the position to select human resources by examining applications carefully prepared by students about to graduate. Now is precisely the time when Japanese companies must correctly understand changes in the times, reaffirming that “company-centered ‘human capital is everything’ as a basic corporate principle,” they shall shift to management styles and corporate cultures that “value and invest in human resources.”

Of course, SMDAM is no exception. Shortly after the merger of Sumitomo Mitsui Asset Management and Daiwa SB Investments in 2019, the company soon realized the importance of developing human capital, and established the Human Capital Development Office within the Human Resources Department in 2021. Human capital, however, has continued to grow in importance since then. To

respond to this trend, we needed to further accelerate the speed at which we execute related measures, and so we have now emphasized the importance of human capital management in SMDAM, as well as specific policies. In terms of expressing our additional management commitment, both within the Company and externally, we upgraded the Human Capital Development Office to the Human Capital Development Department, with direct participation from the CEO, and significantly increased our budget for investing in human capital development. We will actively allocate management resources in areas such as wide-ranging training programs and support for study in highly specialized fields, as well as providing opportunities for employees to gain the experience necessary to develop people who can compete in the global business arena. In this way, we will support the growth of human capital who will act as leaders in a sustainable asset management company.

### Image of Human Resources that We Want ~ Risk-taking, accepting of diversity, with an ability to take action that energizes people around them ~

Going forward, as professionals at an asset management company, the acquisition of advanced expertise and digital technical expertise will be prioritized, even outside of the Investment Management Division. Furthermore, more fundamental competencies are considered to be those who can think for themselves and propose and execute planned risk-taking, and those who have the passion to aim higher and are able to engage others in action. Of course, it goes without saying that we will need to develop managers who are able to evaluate comprehensively the results and execution processes of employees, while also fostering a sense of tolerance to accept differing opinions, and a corporate culture where employees don’t hesitate to express their ideas free from existing norms.

It is fair to say that more diverse human capital across our organization will be essential for SMDAM to take another leap forward. Among others, the active assignment of female employees and globalization are both our imminent



issues. While we have long been making efforts on these issues, we are now entering a phase where it will be important to show results. In order to increase the number of women in managerial roles, we will not rely on existing methods such as copying external role models. Instead, it will be essential that we provide support tailored to the individual characteristics and circumstances of each employee, and we will thus promote appointments in a manner where we provide parallel support, instead of merely support from behind.

In our International Business Department, we have lowered the average age by approximately nine years in just over two years, through active recruitment and the optimization of the allocation of human capital. The number of officers and employees with differing nationalities, languages, and backgrounds is also increasing, indicating our progress in globalization. In the future, we will gradually make additional local hires at our overseas offices, and we can expect that our head office in Tokyo will become more globalized as we focus on strengthening our sales capabilities and presence overseas.

There is not enough space here to list all of our personnel measures, but I intend to think carefully about each one and drive our evolution into a better company.



### Questioning the Level of Commitment of Senior Management

As a member of the senior management team of SMDAM, I believe that we must ensure that this “human capital management” is not a passing fad. It is the responsibility of the management team to develop human capital and ensure that the technical skills and expertise that have been developed are properly passed onto the next generation. I will actively promote the transfer of authority, while we aim to further enhance the sophistication and skills of our management. At the same time, in consideration of the well-being of our employees, we will promote measures to enhance networking between employees, reduce overworking through more efficient operations, and provide better support particularly from a mental health perspective.

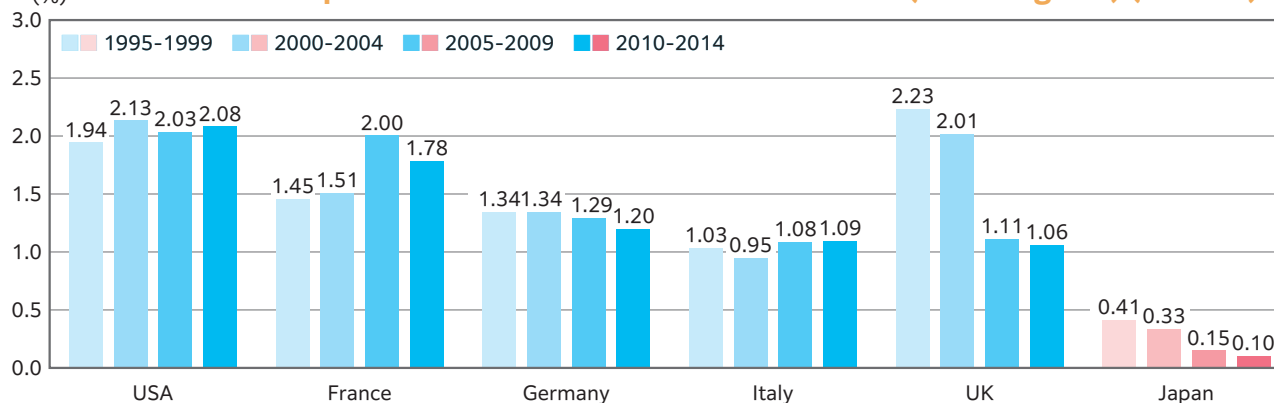
From my experience of working in Europe and the United States for many years, I feel Japanese companies, where the vast majority of employees are Japanese, are sometimes like a comfortable place to work, and sometimes strange. The thing that I feel is most strange about Japanese companies is the “homogenization.” All companies have unspoken rules and customs. That in itself is not a problem, but if these practices do not change with the times, unexpected homogenization occurs. Once this happens, things are only understood in specific industries and companies and people working there think “they have somehow always been like that.” In the future, we will enhance the diversity, not the homogeneity, of our officers

and employees, and pursue new value criteria and actions with additional value. In addition, we will focus on creating a corporate culture where each member of our organization enjoys thinking for themselves and sharing their thoughts with others, and where existing common knowledge is continuously updated and advanced. Surely that is what constitutes true professionalism?

The Ministry of Internal Affairs and Communications has announced that in 2023, the proportion of the Japanese population aged 80 years or older exceeded 10% for the first time. The Ministry of Economy, Trade and Industry also forecasts that by 2050, the working age population of Japan will be two-thirds of what it is now, while the Ministry of Health, Labour and Welfare projects that in 50 years’ time, 10% of the population of Japan will be foreign nationals. Under these circumstances, it is of vital importance to SMDAM that we invest in human capital in a way that is linked to our management strategies, aiming to ensure that we are the asset management company of choice for customers, and that we attract both top-class Japanese people and foreign nationals as employees.

As a member of asset management industry, which is also positioned as the subject of a national policy in Japan, we believe that it is our responsibility to pass the torch to the next generation. As a company that will pass on a better future to later generations, we will continue contributing to a better quality of life for customers in Japan and overseas, and all of our employees.

International comparison of investment in human resources (excluding OJT) (vs. GDP)



Source: Prepared by SMDAM based on “September 2022 Ministry of Economy, Trade and Industry Initiatives” (Ministry of Economy, Trade and Industry)

## Enhancement of Human Capital Value ~ Introducing a new personnel system that promotes the development and exercise of capabilities by employees ~

In FY2023, we introduced a new personnel system, with the aim of strengthening our competitiveness driven by human capital development, while also reforming our corporate culture, and employee mindset and behaviors. We will promote autonomous capability development and the acceptance of new challenges on employees' own initiative, thereby further supporting the growth of each employee and facilitating the transformation of each and every one of our employees more than ever.

### Three Steps to Enhance Our Human Capital Value

We define the enhancement of our human capital values as consisting of "improving each employee's abilities," "demonstrating each employee's abilities," and "uniting individual abilities to demonstrate team strength." Given this framework, we consider it the role of our personnel system to support the actions of our employees at each of these three steps.

#### < Three steps to enhance human capital value >



### Concept of Our New HR System: "Challenge, Fair, Active"

With our previous system, however, we were unable to respond sufficiently to changes in the environment surrounding our human capital, such as increasingly diverse views on careers, and the increasing need to take on challenges in new domains as an asset management company. Based on these circumstances, we made the concept of our new system "Challenge, Fair, Active." Our aims with this system are to facilitate employees taking on the challenge of new work, ensure higher satisfaction among employees in relation to their treatment, and promote the autonomous development of capabilities by employees.

As one major change from the old system, we have abolished job categories and ranks. At present, we have moved to a framework for performance appraisal in accordance with capabilities, roles, responsibilities, and other factors, regardless of attributes such as gender, age, and previous job experience. With this new system, we aim to ensure that our salary levels reflect the actual capabilities of individual employees. In specialist roles, to which many employees belong, compensation and benefits are also

determined in accordance with the difficulty level of operations that employees are responsible for and their level of achievement. These reforms to our system are not a simple shift to "job-type employment." In addition to the "job-type" aspect, which is based on tasks, we have also added a "membership-type" aspect. We evaluate our employees for their contributions such as "teamwork," "collaboration with other departments," and the "development of juniors," in addition to evaluation of individual tasks.

#### < New personnel system concept >

##### Challenge

Employees who take on the challenge of more advanced work can play an active role

##### Fair

Employees can expect fair evaluations, salary, and benefits commensurate with their work

##### Active

Employees who actively work to enhance their capabilities and skills can play an active role

### Further Supporting Autonomous Career Development

At SMDAM, while providing incentives based on the new HR system, we also ensure that each individual employee is responsible for their own career, and support them in their autonomous efforts to develop their capabilities. In October 2023, we established our Human Capital Development Department, enhancing the organizational posture for actively supporting the development of employees' capabilities more than ever. In the future, this department will play a central role in offering human capital development programs based on the Company's ideal personnel characteristics. The programs include curriculums to enhance capabilities across the company, those for certain classes such as job experiences, specialties, and managerial roles, and those tailored for some specific departments. Through our efforts to reform our HR system and strengthen support for the development of capabilities, we expect that the scope of activities of each employee will expand, resulting in the growth of the organization.

## Wakiko Tadenuma

General Manager of the Human  
Resources Department



## Creating a Sound Corporate Culture

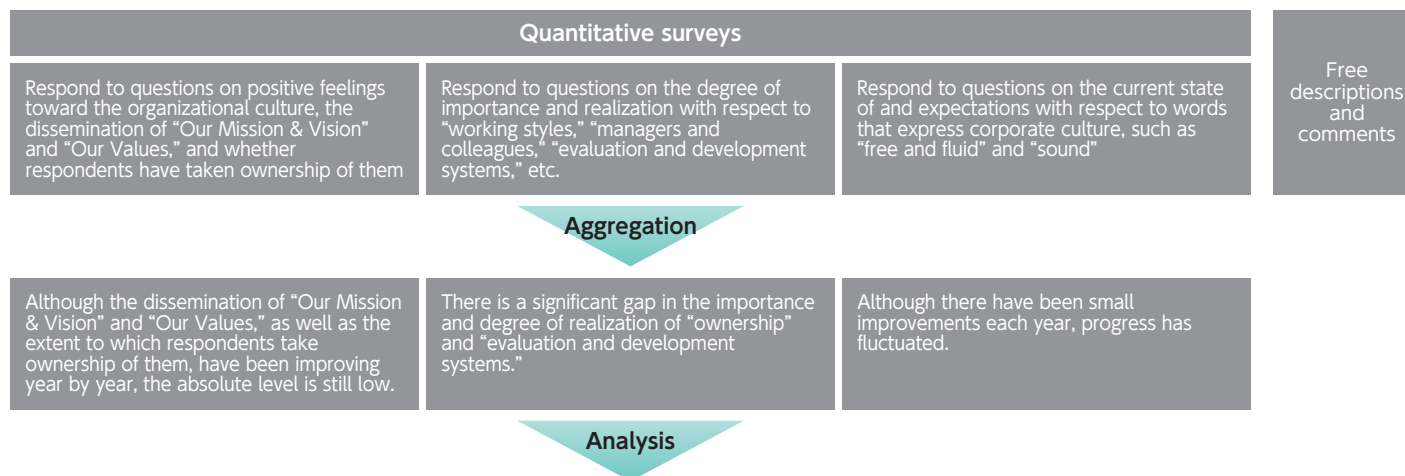
### Initiatives to Create a Sound Corporate Culture

As part of our management philosophy, we have set forth our reason for existence and goals in the form of Our Mission & Vision, as well as how we achieve these in the form of Our Values. We created Our Values based on a corporate culture survey conducted in 2018 ahead of the merger in April 2019.

Our belief is that a sound corporate culture that is free and fluid and has open communication is indispensable for enhancing the engagement of employees and the growth of the organization. Accordingly, we have continued conducting these surveys since 2019. Based on quantitative scores and free comments, we develop an understanding of employees' mindset and the causes of problems. We utilize the results of these surveys to formulate measures in areas such as human resources development and internal communication, as well as reviews of management in each department.



### Corporate Culture Surveys



### Examples of Measures Based on Survey Results

- Insufficient dissemination of management strategy → Hold townhall meetings, not just with the CEO, but also with department heads and Executive Officers
- Nurture a sense of internal unity and taking ownership → Promote the autonomous development of capabilities and the acceptance of new challenges on employees' own initiative by launching a new HR system
- Dissatisfaction with HR evaluations → Conduct management training to study feedback methods

### Implementing a Follow-Up Survey

Based on the four corporate culture surveys conducted since our merger, we have implemented measures for improvement each year. Although we are making small steps toward improvement, there are some areas in which the level of scores is low, and areas where we have been unable to present clear countermeasures. So, in May 2023, we conducted a follow-up survey. We verified "whether or not there is harassment," "whether employees interact with respect for one another," and the "level of psychological safety (Note 1)," as well as the status of the "management actions of superiors" and "employee well-being (Note 2)." We surveyed what is actually taking place within our organization, and the words and actions of people. In addition to developing an understanding of conditions within our organization, respondents also indicated "things that superiors and individual team members should do, and things they should stop, in order to create a better organization." We intend to use the results of our survey in future management training, etc.

(Note 1) Conditions that allow people to voice their own thoughts and feelings to anyone with peace of mind

(Note 2) Conditions where people are completely satisfied, physically, mentally, and socially

## Young Employees Roundtable



**Rintaro Uchimura**

Credit Analyst,  
Credit Research Group,  
Investment Department

**Anna Yazawa**

Investment Department  
Fund Manager, Multi-  
Asset Group

**Hiroko Sasaki**

Outside Director

**Kayu Izumi**

Investment Department  
Global Equities Group  
Fund Manager

**Ryo Tahara**

Manager, Human  
Resources Strategy Team,  
Human Resources  
Department

## What we can do to build our careers, and what we want the company to do

■ Sasaki Where do you see yourselves in ten or fifteen years' time?

■ Yazawa I want to be a professional in the multi-asset field and be active as a "female fund manager with a known face and name," of which there are still few in Japan. To achieve this, I would like to become able to explain things based on various background factors, to ensure our customers feel satisfied with my investment decisions.

■ Tahara I feel that the presence of people and organizations is the most important factor for asset management companies, which sell something that is not tangible. I hope that, through my contributions to the development of our people and organizations, I can help create a company that our employees feel is better than it is now. For me personally, I would like to acquire knowledge and skills related to human resources that will enable me to play an active role in any setting, both internally and externally.

■ Uchimura I would like to sharpen my research and analysis related to non-Japanese corporate bonds, which I am currently overseeing, and my target is to become the type of person that people turn to for a certain sector. I would also like to be posted overseas, where I can deliver the kind of vivid information and analysis that is only possible from the local area.

■ Izumi I would like to manage our own active fund investing in emerging market equities in Asia, particularly China, and develop the fund until we have the most assets under management of any fund in the Company.

■ Sasaki It's wonderful that you are all proud of your current work and aiming to become professionals. Are there any things that you are consciously focusing on to achieve these goals?

■ Izumi There are two things. The first one is to ensure I am hundred percent devoted to the work I am assigned. I believe that if I do not just do the work, but also ensure that thinking about its background and the main reasons for it becomes a habit, I will gain new understanding even from routine work. Another one is to eagerly accumulate a diverse range of knowledge including that related to financial analysis to create unique analysis methods.





- Uchimura In my work, I am always aware of things that impact future forecasts, such as cause-and-effect relationships between performance, bond prices, and various factors. Of course, I am studying to acquire qualifications, but I am also reading as many internal and external reports as I can, and internalizing them as my own knowledge.



- Tahara In order to understand the current status of our organization, I am expanding my internal network, and working to create relationships with other departments. I also focus on developing an advanced perspective toward my work, and thinking about what my superiors need before moving to action.
- Yazawa To enable us to hold discourse in a manner that is easily conveyed to our clients, at our daily morning meetings, we make it a point to start with the conclusion and narrow down the basis for that conclusion to the important elements as we speak. We are mindful to respond to questions after first structuring those responses in our heads. Additionally, in order to become able to hold discourse on the market from a number of perspectives and angles, will aggressively pose questions to economists and strategists until we are satisfied and familiarize ourselves with their thinking methods while also endeavoring to master knowledge of areas such as geopolitics, religion, culture and

politics.

- Sasaki It is important for us to be attuned to what is going on in society for us to have a broad familiarity with it. I find the daily efforts of each of you to become the person you seek to become to be most promising. Is there any aspect of your career-building that you want SMDAM to support you in?
- Uchimura The investment department is highly specialized. Catching up with more experienced employees there is no easy task. In particular, because analysts frequently work on their own rather than as a team, I feel that there are few opportunities to learn about the work methods of more experienced employees through my day-to-day duties. I would be grateful if there were systems that would enable fellow employees to interact with each other and share knowledge.

- Tahara There is a system in place for new employees in their first year through which more-experienced employees in other departments assist them as mentors. It might be a good idea if employees had a mentor in a related department in their second and subsequent years as well with which they could consult about actual business and other areas.

- Sasaki There are some things you can learn by watching others work. However, there are numerous things that fellow employees can gain from each other through conscious communication. Rather than a relationship in which one employee one-sidedly teaches the other, it would be ideal if we could build relationships through which both sides go beyond their age group to engage in friendly rivalry.

- Yazawa I was transferred to my department of choice in my third year after joining SMDAM. Initially, I wanted to join that department as soon as possible. Now, however, I feel that my practical experience in other departments is being put to good use in my duties following my transfer. I think that being able to experience a variety of departments in short spans of about three to six months while one

is still young through means such as concurrently serving in multiple departments results in greater career options and meatier work duties.

- Izumi In the products department where I was initially assigned, I had the opportunity to acquire knowledge of products and learn about the importance of middle and back duties. To conduct investment operations, knowledge of areas such as investment trust and advisory schemes is needed in addition to financial knowledge. Having training in such areas might be ideal.
- Uchimura I would like SMDAM to increase opportunities to undergo training, such as study-abroad and graduate school systems, so that we can study more advanced management strategy and utilize it on the site of investment and research operations.
- Sasaki Employees at asset investment firms, which are entrusted with customers' valuable assets, are expected to have knowledge and skills with a higher level of specialization. I will proceed to monitor the enhancement of training and education in my capacity as Director, from working-level training and education such as OJT to companywide training and global study-abroad programs.



## DEIB

### Diversity, Equity, Inclusion, and Belonging

In our aim to become “The Best Asset Management Firm For Your Better Quality of Life” as outlined in our Management Vision, we are promoting the creation of a workplace where each individual employee can enthusiastically go about their work as a professional. We are fashioning an environment where human capital with diverse backgrounds can play active roles without those backgrounds acting as a constraint on them.

### Assistance with Balance

- Limitations on overtime and late-night work
- Short time shifts

#### [Childrearing]

- Active promotion of taking childcare leave
- Granting of 28 days of paid childcare leave
- Childbirth congratulatory bonus, daycare center expenses and other forms of monetary aid
- Nursing leave
- Enlightenment activities for preventing maternity harassment

#### [Long-term care]

- Long-term care leave
- Establishment of specialized consultation window related to work/long-term care

#### [Recuperation]

- Granting of one hour of recuperation time per day
- Use of reserve work leave for recuperation

### Working Style Reforms

- Application of flexible time
- Establishment of teleworking environment
- Correction of overlong work hours
- Aggressive recommendation of taking of paid work leave

### Health and Productivity Management

- Recommendation of taking regular physical health checkups and implementation of specific health guidance
- Implementation of stress checks, reporting to Board of Directors and recommendation of meetings with industrial physicians to employees with high stress
- Establishment of internal counseling room (once a month)
- Establishment of telephone consultation counter available 24 hours
- Implementation of non-smoking program
- Improvement of employee dietary habits (Sales of lunch menu mindful of nutritional balance in company cafe)

### Promotion of Women's Advancement

- Abolishment of general positions (90% of which are filled by women)
- Active promotion to and development into managerial positions and specialized positions in investment
- Assistance for women who were promoted to managerial positions
- Holding of community meetings for women in managerial positions
- Fostering of companywide awareness (Organization of study sessions by CEO himself based on theme of promotion of women's advancement)



### LGBTQ+

- Application of welfare and benefit programs on same level as those for non-same-sex partners to same-sex partners (Congratulatory and condolence leave, childrearing, long-term care, treatment upon transfer, etc.)



## Human Rights Due Diligence

In its capacity as a responsible institutional investor and corporate citizen, our company has formulated a “Human Rights Policy” as a systemized form of its ideas on respect for human rights. Since FY2022, we have been conducting due diligence (DD) on human rights.

### “Human Rights Policy”

Our Human Rights Policy, which is adhered to by all our officers and employees, conforms to international standards of human rights such as the International Bill of Human Rights (the Universal Declaration of Human Rights and the two Covenants), the UN Guiding Principles on Business and Human Rights, and the Ten Principles of the UN Global Compact. Under the policy, we fulfill our responsibility with respect to areas that include: ① Fostering a corporate culture that allows every individual employee to maximize their potential and work with enthusiasm, ② Respecting human rights through our entire value chain, and ③ Conducting adequate training and education for all officers and employees so that they respect human rights in their business activities.

### Purpose, Evaluation and Monitoring of DD on Human Rights

The purpose of DD on human rights is to identify any negative effects that our business activities may potentially impose on human rights and endeavor to prevent its occurrence and mitigate it. In FY2022, we classified subjects into four categories: “investee companies,” investment consignees,” “non-investment work consignees” and “internal parties.” We set monitoring targets and implemented DD on human rights based on the properties of each category (See the table below). For any inadequacies, we immediately decide on measures at Executive Meetings and implement improvement measures through our Executive Officers. The implementation status of those improvement measures is reported to the Board of Directors and adequately monitored.

### Cycle of DD on human rights for responding to human rights risk (workings)



Category (jurisdiction)	Investee companies (Responsible investment sections)	Investment consignees (Global Partner Investment Department) (Alternative Investment Department)	Non-investment work consignees (Risk Management Department)	Internal parties (Human Resources Department)
<b>Monitoring items</b>	<ul style="list-style-type: none"> <li>Stance of respecting human rights</li> <li>Investment in compliance with labor-related laws and regulations</li> <li>Supply chain management</li> </ul>	<ul style="list-style-type: none"> <li>Formulation of human rights policy</li> <li>Consideration in investment processes</li> <li>Press reports, etc. on human rights issues</li> <li>Questionnaires and hearing on violations of human rights and labor-related laws and regulations</li> </ul>	<ul style="list-style-type: none"> <li>Formulation of human rights policy</li> <li>Compliance with UK Modern Slavery Act and other overseas laws and regulations</li> <li>Press reports, etc. on human rights violations</li> </ul>	<ul style="list-style-type: none"> <li>Harassment</li> <li>Overlong work hours</li> <li>Labor health and safety</li> </ul>
<b>Human rights risks that should be dealt with</b>	High	Same as on the left (For investees of investment consignees, because evaluation is limited to a confirmation of whether investment processes are considered, the same risk evaluations as SMDAM investees shall be adopted for the time being.)	② Excessive/inappropriate working hours ⑭ Discrimination ⑮ Gender	② Excessive/inappropriate working hours
	Medium		③ Labor health and safety ⑤ Harassment ⑩ Child labor ⑪ Human rights pertaining to technology and AI ⑭ Discrimination ⑮ Gender ⑰ Rights of indigenous peoples and community residents ⑳ Bribery and corruption ㉑ Right to access remedy	① Insufficient or non-payment of wages ③ Labor health and safety ⑤ Harassment ⑥ Coercive labor ⑨ Rights of non-Japanese workers ⑪ Human rights pertaining to technology and AI ⑫ Right to privacy ⑱ Human rights pertaining to environment and climate change ㉑ Human rights in supply chains

(Note) Evaluations of “degree of seriousness” and “possibility of occurrence” for the 22 human risk items as well as investee companies and non-investment work consignees were extracted for each category based on business category makeup.

## Social Contribution Activities

SMDAM positions social contribution activities as part of its materiality for business operation. This is because we believe that there is a need to proactively tackle the resolution of diverse social challenges that cannot be reached through our asset management business. We are implementing a number of initiatives to facilitate an increase in number of our employees who take in interest in society and the community as a corporate citizen and are capable of altruistic behavior.

### QOL Fund Activities

In July 2021, we established a donation fund that collects money from employees through automatic debit from their monthly salary, allowing as many employees as possible to participate in social contribution activities. We use the donations from our employees along with the company-matching contributions to support organizations working to solve social problems. We also provide opportunities for our employees to develop problem-awareness of their own accord by personally taking part in activities other than donations.

#### Organizations supported by Sumitomo Mitsui DS Asset QOL Fund

##### Specified NPO JUON NETWORK

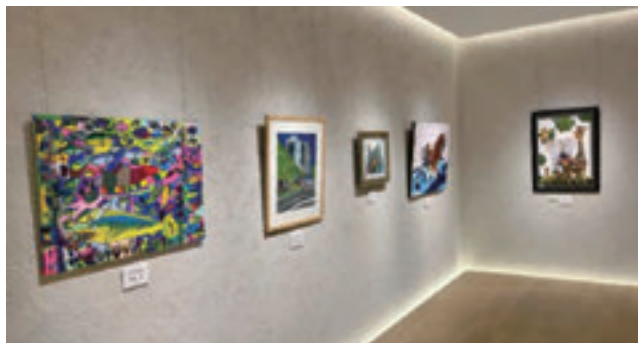
- ① "Mori no Gakko" forest nurturing program
- ② Cooperation with corporate activities to nurture forests
- ③ Encouraging the use of disposable chopsticks made in Japan

##### Specified NPO Learning for All

- ① Comprehensive support for children encountering hardship (learning, place to belong, meals, etc.) and nationwide expansion
- ② Awareness-raising, human capital development and policy recommendations aimed at substantial problem-solving

##### Nippon Charity Kyokai

- ① Hosts Japan's first ParaArt school for those with disabilities
- ② Holds "ParaArt TOKYO" international art exchange exhibition



### Contributions to the Community as a Corporate Citizen

As a means of doing our part to promote initiatives aimed at social contribution activities and revitalize the community as a corporate citizen, once or twice a month, our officers, new employees just arriving from college and other employee volunteers conduct cleanup activities around our offices. In the course of those activities, which last about an hour in the morning, communication is facilitated among fellow employees with little regular contact and with individuals who work in the nearby area, creating a sense of synergy.



### Collaborations with Group companies SMBC Group Pro Bono Work Project

We became a part of the SMBC Group Pro Bono Work Project starting in FY2023.

"Pro bono" originates from the Latin phrase "Pro bono publico," or "for the good of the public." This indicates volunteer activities by working members of society to conduct support from a business perspective that NPOs tend to lack by leveraging the skills and experience those working members of society have cultivated through sales, planning, development, marketing, public relations and other operations.

This fiscal year, approx. 50 members representing nine SMBC Group companies participated in these activities. This endeavor contributes to the acceleration and expansion of social problem-solving through assisting support recipient organizations with their capacity-building and business activities. At the same time, as the people rendering that support, given the working-level nature of these activities and their high degree of involvement, we feel that this endeavor represents a valuable opportunity to deepen our understanding of social issues and gain a sense of satisfaction and accomplishment.

Two participants from our company are providing assistance to HEART FULL FAMILY, a general incorporated association. HEART FULL FAMILY engages in support through which it conducts comprehensive activities to help single parents become independent and enable single-parent families to pursue an active social lifestyle. Our efforts there include reinforcing the appropriate communication of information to tie into the acquisition of donors with a view to bolstering the organization's base, managing support information, and preparing content for HEART BANK, the organization's platform that features useful information for single-parent families.



## School Visits to Improve Financial Literacy: Interview with Principal at School of Implementation

As part of its efforts in financial education, SMDAM conducts school visits with the use of an economy card game called “Economica.” In FY2022, we paid two such visits to Teikyo University Elementary School. We spoke to the principal of that school, Mr. Takayuki Ishii, about the context and meaning of holding a class using Economica.



Principal of Teikyo University Elementary School  
**Takayuki Ishii**

Served as Director of the Guidance Office under the Higashi-Yamato City Board of Education. Became principal at a public elementary school in Minato City, Tokyo in 2015. Has simultaneously served as Associate Professor at Teikyo University Graduate School and Principal of Teikyo University Elementary School, also in Tokyo, since 2019. Is currently promoting entrepreneurship education while striving for “the escape from averageness and the growth of individuality that breaks through with a flash of light.”

### ● Why did you take an interest in Economica?

Our goal at our school is to nurture “the power to live” in which students think, judge and act of their own accord with their own problem-awareness and take responsibility for the consequences of their actions. Our foundation in pursuing this goal is human power cultivated based on “one’s way,” the educational philosophy of the Teikyo University Group. Our hope is that children will not let their takeaways from the classroom stagnate as simple knowledge and understanding, and will instead become able to link it to events in greater society and to their own maturation into working members of society. For that reason, we are very proactive about asking members of companies and organizations to make school visits here. In particular, learning that pertains to finance and the

economy, which cannot be separated from society, is of extreme importance. At the same time, money and investment carries a negative image in Japan. I wanted to conduct classes that make it possible to do away with that image. It was at that time when I received a proposal for a school visit using Economica. I thought, “This is the kind of class I’ve been waiting for.” In addition to having game-like elements and quality visuals, Economica also contains trendy terms such as “NISA.” I felt certain that it would stimulate the interest of children.



### ● What is your opinion after actually conducting classes with Economica?

It worked the way I wanted it to. Children were able to become familiar with and learn about finance and the economy while enjoying themselves. It was excellent. After classes using Economica, I noticed how some children looked up economic terms on their own and talked with their parents about what they discovered. I feel that Economica served as a springboard for making financial and economic events and news, which had been a faraway concept up to now, more familiar for children. Moreover, the classes conducted by specialists provided fantastic stimulation with each additional word they uttered, and definitely helped the children’s appetite for learning grow.

### ● Do you have any ideas for utilizing Economica?

While recent classes were for sixth graders, I hope to have our fifth graders encounter economic terms such as “appreciation of the yen” and “inflation” through Economica classes. Once they become sixth graders and study the meaning of those terms in class, I imagine that we can anticipate even higher learning effects. Events that affect finance and the economy shift according to changes in society and the times. I think that having the children make original event cards might also be an interesting idea. I want children to stimulate their individuality based on such learning and grow into human capital capable of successfully contributing on the world stage.

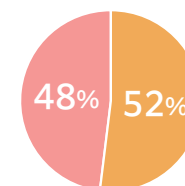
### Overview of Economica

With “Economica,” a competitive card game in that cultivates familiarity with economic concepts over the course of play, the aim is to create opportunities for children to encounter terms such as “economic boom” and “inflation” and take an interest in economic activities around them, events in greater society, and finance and the economy.

### Results of questionnaire following classes using Economica

Were you able to understand “inflation?”

Very well .....	21
Yes .....	19
Can’t say either way .....	0
No .....	0
Not at all .....	0



## Governance

In order to ensure our independence as an asset management company and effective corporate governance, we have four out of the seven Directors who are from organizations other than our shareholders. SMDAM invites three Outside Directors with abundant knowledge in corporate management and financial and economic fields to supervise the status of management execution and conflicts of interest with shareholders from an independent standpoint and give advice to our management team based on their respective experience and expertise.

### Diversity of Board of Directors

In October 2022, we invited Outside Director Hiroko Sasaki as our first female Director. In addition to having involvement in developing female leader personnel and assisting with corporate transformation projects, Sasaki possesses abundant skill and knowledge in human capital management, including that in the employee skill management sector. Since assuming her post, she has contributed to the reinforcement of SMDAM's human capital management functions by providing advice on effective human capital development plans and the promotion of diversity.

### Observations in Board of Directors Effectiveness Evaluations and Action Status

Regarding Board of Directors effectiveness evaluations\*, the Board of Directors of SMDAM is evaluated as effectively implementing the formulation of medium- to long-term growth strategy, making final decisions on execution, and monitoring execution with transparency and reliability.

Similar to 2022, general operation of the Board of Directors of SMDAM was evaluated as being by and large appropriate. At the same time, among challenges that were recognized, important ones that were cited include: ① A further shift to discussions of medium- to long-term strategy, ② Sufficient ensuring of discussion time through the enhancement of materials and advance explanations, and ③ The enhancement of deliberations at meetings of the Nominating Committee of Directors pertaining to personnel plans for officers, including officer terms of service and diversity. The Board of Directors will continue monitoring the steady execution of these measures going forward.

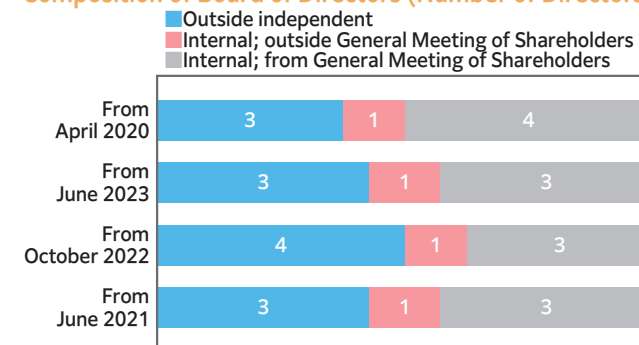
### Independence of Board of Directors

The ratio of our Independent Outside Directors is 43% following the decrease of one Outside Director after the

Annual General Meeting of Shareholders held in June 2023. This represents the establishment of a cushioning period for the sake of the smooth replacement of Outside Directors. There is no change in the evaluation of the Board of Directors as maintaining a high degree of independence.

Main Concurrent Post Status of Outside Director Hiroko Sasaki  
 President & CEO, ChangeWAVE Inc. (current)  
 Representative Director, President and CEO, Lyxis Co., Ltd. (current)  
 Representative Director, Human Capital Management Promotion Association, A General Incorporated Association (current)

### Composition of Board of Directors (Number of Directors)



### Board of Directors Effectiveness Evaluations

	Observations	Actions in FY2022	Scheduled actions for FY2023
<b>Composition</b> of Board of Directors	<ul style="list-style-type: none"> <li>☑ Insufficient Director diversity</li> <li>☑ Enhancement of deliberation of personnel plans for officers</li> </ul>	<ul style="list-style-type: none"> <li>☑ One female Director assumed post</li> </ul>	Enhancement of deliberations at meetings of the Nominating Committee of Directors pertaining to personnel plans for officers, including those on officer terms of service and diversity
<b>Operation</b> of Board of Directors	<ul style="list-style-type: none"> <li>☑ Sufficient securing of discussion time</li> <li>☑ Sense of insufficient discussion of medium- to long-term strategy</li> </ul>	<ul style="list-style-type: none"> <li>☑ Deepened discussion of sustainability</li> <li>☑ Held multiple discussions on formulation of medium-term management plan</li> </ul>	Sufficient securing of discussion time through streamlining of explanations on meeting day and other means Setting of agenda that should be discussed by the Board of Directors and other bodies while hearing opinions of Outside Directors
Free opinions	<ul style="list-style-type: none"> <li>☑ Enhancement of opportunities for dialogue between Outside Directors and stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>☑ Continued regular meetings with shareholders</li> </ul>	Enhancement of opportunities for dialogue between Outside Directors and employees

\*Conducted in June 2023 with June 2022 - May 2023 as the target period. Every year, a Board of Directors Secretariat performs an evaluation of the effectiveness of the Board through Director questionnaires and interviews and reports the results of that evaluation to the Board.



## Information Disclosure

SMDAM discloses a myriad of information in its aim to address social challenges through asset management. Our hope is that these endeavors serve as opportunities for a greater number of people to view investment and a diverse array of sustainability-related issues as matters that concern them as well.

### “Be Active.” Service Brand

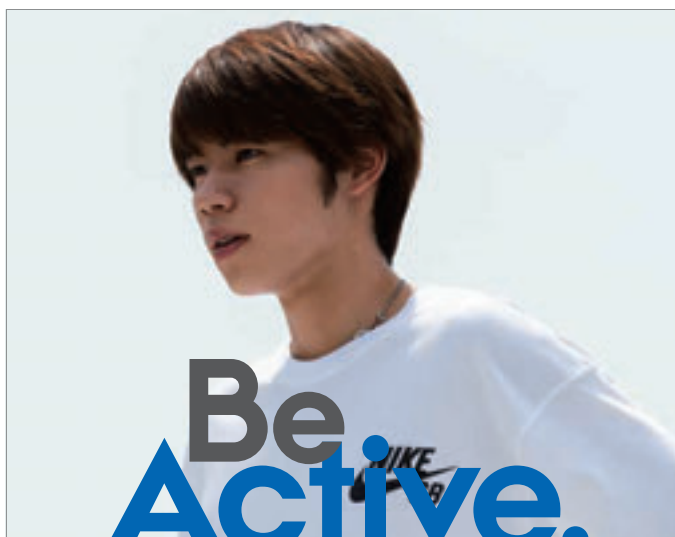
In 2022, we launched the “Be Active.” service brand in order to cultivate closer connections to investment management among people. The phrase “Be Active.” encapsulates the ideas of “waiting to do our part for making society, corporations and people more active through investment” and “wanting to convey the attractiveness and value of active funds.”

Accompanying this tagline is the sub-message of “That one step you take will enable you to change the future.”

In “Note,” we publish employee interviews, dialogues and the like with a particular focus on fund managers. On YouTube, we have uploaded brand movies and interviews featuring professional skateboarder Yuto Horigome as well as how-to videos as content for supporting challenges that involve taking a step forward.

Please refer to our website for details.

<https://www.smd-am.co.jp/beactive/>  
\* Japanese only



その一歩で、未来は変えられる。

あなたの人生も、社会の未来も、  
じっとしてただけじゃ、何も変わらない。  
その一歩を踏み出すだけで、人生だって、社会だって、  
もっともっと良い方向に変えていける。  
私たち三井住友DSアセットマネジメントは、  
投資を通じて、あなたがアクティブになるお手伝いをしたい。  
一歩を踏み出す時も、その先も、  
そばに寄り添ってサポートし続けたい。  
自分を豊かにするために、社会を豊かにするために、  
これからは、アクティブじゃなきゃ。

 三井住友DSアセットマネジメント

### “Institutional Investors” Page

SMDAM has established a system through which its institutional investor clients can download statutory investment reports and various other reports, invoices and so forth at any time from a dedicated page set up for each of those clients. In March 2023, we enhanced the content we offer on these pages to enable us to deliver beneficial information to our clients in an even timelier fashion.

[Enhanced content]

- ① **Established new “What’s New” corner**  
In the “What’s New” corner that we newly set up on the top of the page, we display news on SMDAM, videos, investment environment reports and other content for our institutional investor clients.
- ② **Diversified sustainability-related reports**  
We changed the corner where had exclusively displayed only “Stewardship Activity Reports” to a “Sustainability-Related Report” corner, where we feature a variety of information that includes sustainability newsletters and engagement activity results.
- ③ **Made sales personnel visible**  
Facial photographs and contact information of sales personnel are now published to give clients a greater sense of security and trust.

### “MAKE A CHANGE” Sustainability Newsletter

At SMDAM, we believe it is imperative that each of us faces inconvenient truths head-on and brings forth change of our own accord in order to realize a sustainable society. Based on that idea, we communicate overseas and domestic trends pertaining to various environmental and social issues and our associated views in the form of a newsletter titled “MAKE A CHANGE.”

Please refer to our website for details.

<https://www.smd-am.co.jp/corporate/vision/fiduciary/newsletter/>  
\* Japanese only



# Stewardship Activities

As a responsible institutional investor, SMDAM engages in constructive dialogue with investee companies and appropriately executes voting rights, thereby contributing to the sustainable asset formation of customers.

## Contents

Message from the Responsible Investment Officer	26
Engagement Activities	27
Climate Change / Natural Capital	28
Human Capital / Human Rights in Supply Chains	29
Effectiveness of Corporate Governance / Business Ethics and Corporate Culture	30
Examples of Engagement	31
SMDAM Activities Under Initiatives	32
Exercise of Voting Rights Flowchart	33
Exercise of Voting Rights Case Studies	34

## Results of the exercise of voting rights at general meetings of shareholders from July 2022 to June 2023 (Japanese equities)

Proposals	Total	Supported (percentage of support)	Opposed (percentage of opposition)	Abstention	Blank votes
Total company proposals	24,252	18,499 (76%)	5,753 (24%)	0	0
Proposals on company organization					
Appointment and dismissal of directors*1	18,683	13,853 (74%)	4,830 (26%)	0	0
Appointment and dismissal of audit & supervisory board members*1	2,157	1,799 (83%)	358 (17%)	0	0
Appointment and dismissal of accounting auditors	93	91 (98%)	2 (2%)	0	0
Proposals on executive compensation					
Executive compensation*2	723	648 (90%)	75 (10%)	0	0
Payment of retirement benefits	98	9 (9%)	89 (91%)	0	0
Capital policy proposals					
Appropriation of retained earnings	1,535	1,263 (82%)	272 (18%)	0	0
Matters related to restructuring*3	33	33 (100%)	0 (0%)	0	0
Introduction, renewal, or abolition of takeover defense measures	89	0 (0%)	89 (100%)	0	0
Other capital policy proposals*4	86	83 (97%)	3 (3%)	0	0
Partial amendment of the articles of incorporation	751	719 (96%)	32 (4%)	0	0
Other proposals	4	1 (25%)	3 (75%)	0	0

Proposals	Total	Supported (percentage of support)	Opposed (percentage of opposition)	Abstention	Blank votes
Total shareholder proposals	410	77 (19%)	333 (81%)	0	0
Proposals on company organization					
Appointment and dismissal of directors*1&5	79	16 (20%)	63 (80%)	0	0
Appointment and dismissal of audit & supervisory board members*1	2	0 (0%)	2 (100%)	0	0
Appointment and dismissal of accounting auditors	0	0	0	0	0
Proposals on executive compensation					
Executive compensation*2&6	44	24 (55%)	20 (45%)	0	0
Payment of retirement benefits	0	0	0	0	0
Capital policy proposals					
Appropriation of retained earnings	34	10 (29%)	24 (71%)	0	0
Matters related to restructuring*3	0	0	0	0	0
Introduction, renewal, or abolition of takeover defense measures	2	2 (100%)	0 (0%)	0	0
Other capital policy proposals*4	32	4 (13%)	28 (88%)	0	0
Partial amendment of the articles of incorporation	213	18 (8%)	195 (92%)	0	0
Other proposals	4	3 (75%)	1 (25%)	0	0

\*1 Aggregate support/oppose votes for each candidate

\*2 Revision of executive compensation, issuance of stock options, introduction/revision of performance-linked compensation, executive bonuses, etc.

\*3 Mergers, business transfer and acquisition, stock swaps, stock transfers, corporate splits, etc.

\*4 Acquisition of treasury stock, reduction of legal reserve, capital increase through third-party allotment, capital reduction, reverse stock split, issuance of class shares, etc.

\*5 Including the audit committee

\*6 Including disclosure of executive compensation



## Message from the Responsible Investment Officer ~ The increasing importance of stewardship activities ~

The influence of stewardship activities by asset managers (mainly engagement activities and the exercise of voting rights) is steadily growing year by year. During general meetings of shareholders in June 2023, shareholders submitted proposals at 90 companies, some of which were approved. Notably, there were some examples of a significant decline in approval rates for director candidates in proposals submitted by companies. Our company has long encouraged change in the actions of investee companies through our exercise of voting rights, but overall, it was not realistic to expect that shareholder proposals would be approved or that proposals submitted by companies would be rejected. The situation, however, is changing, with stricter criteria for the exercise of voting rights by asset managers aligned with the Corporate Governance Code, etc., the decline in the proportion of stable shareholders as companies reduce cross-shareholdings, and a growing trend for shareholder proposals by activists to be judged fairly from the perspective of future enhancements in corporate value. Investee companies are feeling increasing pressure concerning their relationships with investors, as senior managers may lose their positions if they do not earnestly consider the views of investors.

From the perspective of enhancing corporate value, the Tokyo Stock Exchange (TSE) is demanding that companies listed on the Prime and Standard Markets focus on more active engagement with investors, in order to improve P/B ratios. For asset managers, stewardship activities aimed at enhancing corporate value over the medium to long term are also becoming increasingly important in order to secure investment returns, which is our core work, and we are keenly aware of the weight of our responsibility in this regard. Looking at the results of our exercise of voting rights at general meetings of shareholders held between April and June 2023, we voted against 24.8% of proposals submitted by companies, somewhat up from 22.4% in the same period of the previous year. This is mainly because as the economic and management environments have normalized, we have applied strict standards for ROE, where we previously gave some companies leeway because of the COVID-19 pandemic, as well as the fact that we have made strict judgments concerning the number of members and composition of boards of directors and audit & supervisory boards from the perspective of effectiveness, in accordance with the guidelines in the Corporate Governance Code. Our approval rate

for proposals submitted by shareholders was 14.4%, somewhat down from 17.9% in the same period of the previous year. This decline was due to the fact that while the total number of proposals submitted by shareholders increased significantly, the number of proposals that we approved did not increase proportionally.

In January 2023, we revised our criteria for the exercise of voting rights to reemphasize our prioritization of the substance of proposals over their form. This revision reflects our intention to make voting decisions that contribute to enhancing the value of investee companies, based on a thorough understanding of their current circumstances. The key to achieving this goal will be careful engagement with investee companies. Starting in 2023, we began identifying important investee companies in our active management where there was a high likelihood that we would submit opposing votes due to their violation of our voting rights criteria in relation to sustainability, misconduct and scandals, cross-shareholdings, and other factors, and we initiated “advance warning engagement” with these companies prior to the exercise of voting rights. We will not simply oppose proposals based on formal criteria. Instead, we will prioritize actual substance and consider approving proposals in cases such as those when we have been able to confirm through engagement that a clear policy has been set in relation to the matter that violates our criteria. Additionally, even when we oppose proposals, we effectively use them as a method for directly communicating investor views to investee companies.

We are strengthening our efforts to encourage investee companies to tackle the six factors that constitute “Materiality for Investment Management” (see P01). Please refer to some actual examples of engagement and our successes described in later sections of this report. In our engagement activities, we carefully communicate the views of investors to investee companies and urge them to set and steadily achieve medium- to long-term targets related to sustainability and other aspects. When we determine that a company’s response is insufficient, we advocate for change in actions by submitting opposing votes to proposals for the election of directors, etc. We will further strengthen the relationship between engagement and the exercise of voting rights as part of our commitment to stewardship activities aimed at securing investment returns, and achieving a sustainable society.



**Junichi Sakaguchi**  
Responsible Investment Officer

## Engagement Activities

Fund managers and analysts engage in constructive dialogue with investee companies with the following objectives.

- ☑ Promote the sustainability of investee companies and their ecosystems
- ☑ Enhance the corporate value of investee companies or avoid loss, and thereby provide high-quality investment returns to our customers and final beneficiaries
- ☑ Address environmental problems, solve social issues, strengthen governance, etc., based on our “Materiality for Investment Management,” which constitutes the issues that we consider crucial for the achievement of a sustainable society

We shall mainly engage in dialogue with key sectors and target companies established for each type of materiality.

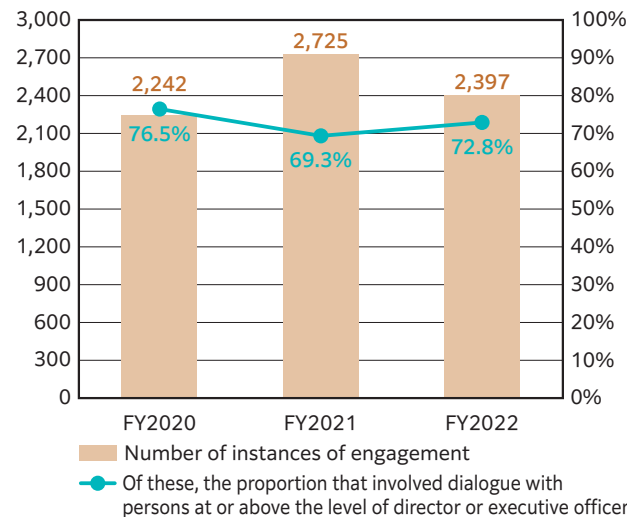
In addition to formal criteria, we will also perform engagement that has true value for stakeholders through prioritizing substantive interactions.

### Summary of Actual Results of Engagement Activities in FY2022

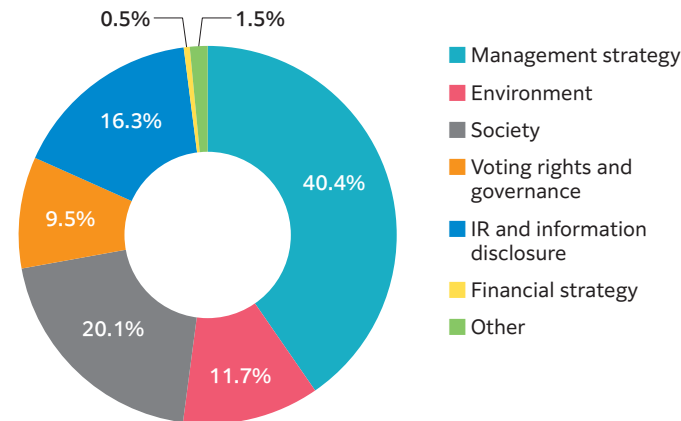
- The number of instances of engagement in FY2022 was 2,397. Of these, the proportion of instances of engagement that involved dialogue with persons at or above the level of director or executive officer was approximately 73%.
- The number of instances of engagement centered on the theme of “society,” particularly human capital and diversity, increased.
- Of our eight levels of engagement progress management milestones, many instances of engagement were at levels two to four, and we have a policy of maintaining ongoing dialogue.

### Results of activities (exclusive engagement)

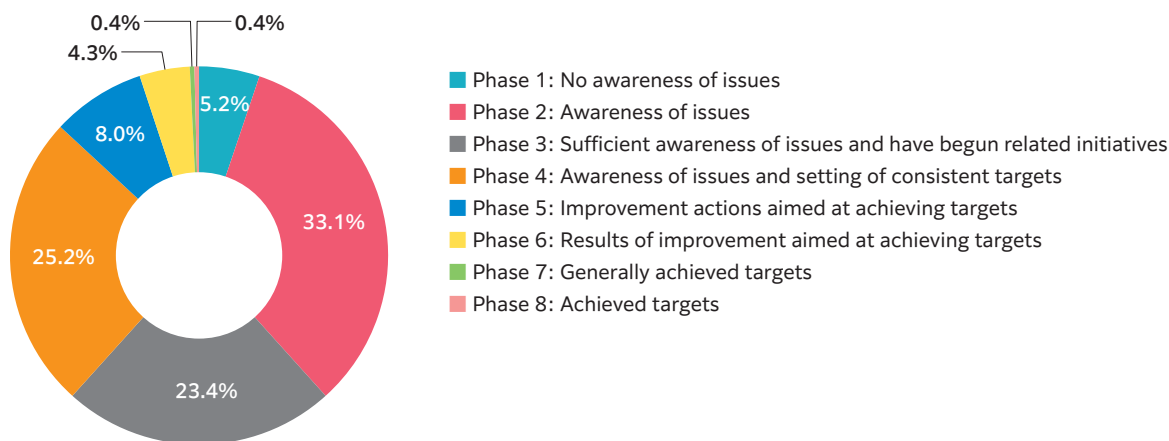
< Number of instances of engagement executed >



< Breakdown by theme > FY2022



< Milestone management > FY2022



### < Engagement target list >

In FY2022, we conducted dialogue with 92 companies from our prioritized target list. At 35 of these 92 companies, there was a noticeable trend toward the improvement of issues.



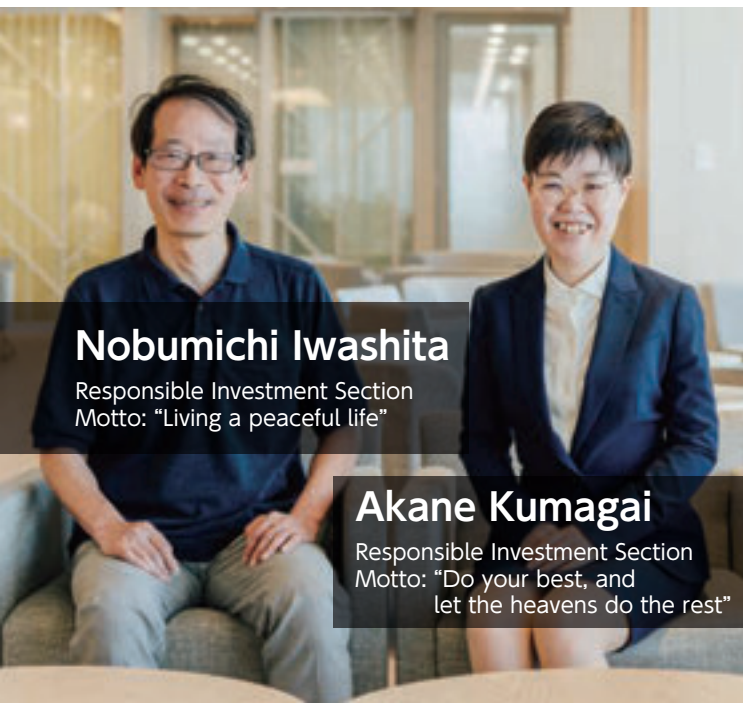
## Climate Change

### Awareness of current conditions and direction we should aim for

Climate change is a global issue that requires a response and solution as soon as possible. The national government, companies, and citizens must work together to achieve the Japanese government's target for a 46% reduction in greenhouse gas (GHG) emissions by 2030 (vs. FY2013) and net zero emissions by 2050. In order to achieve this target, in addition to cutting emissions from corporate activities, including the supply chain, various innovations will be essential, including a shift to renewable energy, the utilization of hydrogen, ammonia, etc., and the creation of practical applications for carbon capture, utilization, and storage (CCUS). As a responsible institutional investor, we believe it is important that we engage in dialogue to share issues and find solutions, not just with investee companies, but also with all types of stakeholders.

### Our initiatives

SMDAM supports the Paris Agreement, which encompasses globally-shared long-term goals, as well as initiatives by the Japanese government and the international community aimed at achieving net zero GHG emissions by 2050. In March 2022, we joined "The Net Zero Asset Managers Initiative," a global initiative by asset management companies aiming to achieve these targets. We strongly encourage investee companies, etc., to disclose information based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and express their support for this initiative, and to respond to CDP questionnaires. We also encourage investee companies to acquire Science Based Targets (SBT) certification, improve their CDP climate change scores, etc. In addition to monitoring progress on plans to cut emissions and companies' approaches to information disclosure, we also work to share issues and support solutions related to short- and long-term technical development for the achievement of targets, internal factors such as funding, and external factors such as the infrastructure environment, etc.



**Nobumichi Iwashita**

Responsible Investment Section  
Motto: "Living a peaceful life"

**Akane Kumagai**

Responsible Investment Section  
Motto: "Do your best, and let the heavens do the rest"



## Natural Capital

### Awareness of current conditions and direction we should aim for

Natural capital refers to all types of capital formed by nature, such as forests, soil, water, air, and bioresources. Companies create a widespread value chain that ranges from primary industries such as agriculture, forestry, fisheries, mining to tertiary industries such as retail and services, and benefit from ecosystem services obtained from natural capital. In order to continue enjoying the benefits of abundant ecosystem services into the future, it is important that we appropriately assess risks and opportunities related to natural capital, mitigate our impact on the environment, and enhance the sustainability of society as a whole.

### Our initiatives

Through engagement with our investee companies, our company aims to contribute to the improvement of the environmental preservation and continuity of biodiversity, water resources, forests, the seas and so forth as well as to promote the circular economy. At the "15th Meeting of the Conference of the Parties to the Convention on Biological Diversity (CBD-COP15)" held in Montreal, Canada in December 2022, the "Kunming-Montreal Global Biodiversity Framework," which sets forth international targets, was adopted, and a policy was presented of being "nature positive," which seeks to halt the loss of biodiversity by 2030 and set the world on a recovery trajectory. There was progress in companies' information disclosure in line with the recommendations of the "Taskforce on Nature-related Financial Disclosures (TNFD)," a framework for corporate risk management and disclosure related to natural capital. We are actively encouraging investee companies to appropriately assess risks and opportunities related to natural capital and enhance their disclosure of related information.





## Human Capital

### Awareness of current conditions and direction we should aim for

Human resources are the greatest capital of companies and the source of their competitiveness. Accordingly, the key to enhancing corporate value lies in linking human resource strategies to corporate strategies, acquiring and developing top-class human resources, and maximizing the capabilities of each and every employee. Improving employee engagement is essential for achieving these goals, meaning this necessitates the development of novel human resource systems based on, for example, “job-focused employment” and “human resources posting system,” to improve the motivation of employees. Under these circumstances, it is surely fair to say that the promotion of “Diversity, Equity, Inclusion, and Belonging” is an important management issue. Companies must create workplaces where each and every employee can respect each other’s diversity, while working together for both the success of the business and their own growth.

### Our initiatives

Based on this belief, we are encouraging investee companies to hire and develop employees in accordance with human resource strategies that are consistent with medium- to long-term corporate strategies, and to develop workplace environments where employees can fully exercise their abilities, thereby augmenting corporate value. In 2023, we focused on dialogue with corporate “Chief Human Resource Officers (CHROs),” and we intend to utilize some of the best practices in our engagement with other companies. It is fair to say that, at present, many Japanese companies have been slow to implement initiatives related to DEIB. Recognizing that promoting DEIB contributes to organizational growth and vitalization, as well as the enhancement of corporate value, we are encouraging companies whose measures have not been sufficient to enhance their information disclosure, establish medium- to long-term targets, etc.



## Human Rights in Supply Chains

### Awareness of current conditions and direction we should aim for

In addition to child labor, forced labor, and labor in poor environments in emerging markets, the treatment of foreign technical interns in Japan is viewed as problematic. Beyond the ethical implications, companies face potential damage to brand value and poor business performance from boycotts if human rights problems materialize, not just in one’s own company but also in supply chains. For this reason, all companies, regardless of scale, industry, etc., must formulate human rights policies that conform to international standards, and execute “human rights due diligence (human rights DD)” as a mechanism for preventing, reducing, and correcting risks related to human rights. Currently, however, there are many companies that have not sufficiently addressed human rights owing to personnel, budget, or other constraints. It is thought that identifying human rights risks in one’s own company or in the supply chain, researching actual conditions, and quickly taking measures to improve the situation if there are any problems will prevent unexpected losses and contribute to sustainable growth.

### Our initiatives

In October 2021, our company established its Human Rights Policy for the purpose of organizing its commitment to respecting human rights and making more comprehensive efforts in that area. Based on this policy, we encourage our investee companies to adequately manage and address human rights risks at their organizations and in their supply chains, and to disclose related information. In December 2022, we joined “Advance,” a human rights-related initiative created by the “U.N. Principle for Responsible Investment (PRI).” Through collective engagement led by this initiative, we motivate investee companies to implement initiatives to solve human rights problems.

### Yasuhisa Kimoto

Responsible Investment Section  
Motto: “Good for everyone”

### Keiko Akuto

Responsible Investment Section  
Motto: “Positive thinking”



## Effectiveness of Corporate Governance

### Awareness of current conditions and direction we should aim for

Price/book ratios (ratio of share price to net assets), P/E ratios, and other valuation indicators remain at low levels in Japanese equity markets. To elevate these indicators to levels on par with other principal countries, enhancing the awareness of managers with respect to corporate value and the establishment of a governance framework to encourage risk-taking needed for medium- to long-term growth are imperative. The substantial number of shares discounted by the market owing to issues with information disclosure and companies trading at a P/B ratio of less than one can also be considered a distinguishing characteristic of the Japanese equities market. Plus, it is true that there are many companies that satisfy formal criteria, but face questions about their executive capabilities. We feel that we can engage in activities to encourage such companies to analyze the associated causes from an investor's perspective and enhance their corporate value through constructive dialogue.



## Business Ethics and Corporate Culture

### Awareness of current conditions and direction we should aim for

There is still no end to the succession of corporate scandals, including inspection fraud, quality falsification, cartels, inappropriate accounting, and information leaks. Although the intentionality and level of organizational involvement differs depending on the incident, business ethics and corporate culture have a major impact. Closed corporate structures not only cause scandals, but can also prevent a prompt and flexible response, resulting in the expansion of the negative impact on corporate value. For companies to prevent scandals and utilize opportunities created by changes in the management environment, it is extremely important that they focus on soft aspects such as employee ethics and corporate culture, as well as hard aspects such as governance structures and rules.

### Our initiatives

Our company has long focused on engagement based on substantive assessments, going beyond formal criteria. As part of our evaluation of the effectiveness of boards of directors, we began actively engaging in dialogue with outside directors in FY2022. We successfully achieved such dialogue at 22 companies, far exceeding our initial expectations. For almost all of these companies, it was the first time their outside directors had engaged in dialogue with an asset management company. We felt strongly that, through these dialogues, companies not only ascertained investors' views, but also began to understand the importance of analyzing management from the perspective of capital providers and absorbing their views. We expect that such dialogue will awaken a healthy spirit of entrepreneurship and contribute to sustainable growth.

### Our initiatives

In relation to scandals, we check for issues with the corporate culture, particularly in relation to: ① identifying the cause, ② clarification of responsibility, and ③ implementing measures to prevent recurrence. We utilize our findings in our exercise of voting rights and investment decisions, and also engage in dialogue aimed at improvement. For example, in measures to prevent recurrence, we focus on the creation of systems to prevent new scandals, not just the events that occurred, such as reforms of corporate culture led by senior management, the creation of operational processes and preparation of systems that leave no room for arbitrariness, systems for checks by third parties, the disclosure of the status of progress on related measures, and the appropriateness of internal reporting systems. From the perspective of leaving behind closed corporate structures, we also believe dialogue with outside directors is important, and actively engage in such dialogues. We are also continuously endeavoring to enhance the effectiveness of ESG evaluations, including utilizing various forms of technology and data to collect information, and reflecting business ethics and organizational culture in ESG evaluations.



**Osamu Koide**

Responsible Investment Section  
Motto: "No success without challenge"

**Yu Hosaka**

Responsible Investment Section  
Motto: "More haste, less speed"

## Examples of Engagement

### Lacto Japan Co., Ltd.

Engagement theme **E: Environment** **S: Society**

#### Sustainability management initiatives

##### Issues at the target company

Lacto Japan Co., Ltd. is a trading company that specializes in dairy ingredients and dairy products. There were calls for the company to enhance the level of its sustainability management, including addressing climate change risks and managing sustainability risks at suppliers.

##### Engagement plan

We began engagement activities in 2020. We suggested that formulating a sustainable procurement policy and disclosing the status of inspections and transactions based on this policy would be effective for mitigating business risk. We also requested that the company perform scenario analysis in line with the TCFD recommendations, considering the impact of climate change on the production volume of dairy products and its raw ingredients.

##### Results of engagement

Initially, management thought that disclosure was not necessary, based on the belief that “naturally, regular onsite inspections at ingredients suppliers overseas should be performed.” As a result of ongoing dialogue with SMDAM and growing social interest in sustainable procurement, however, the senior management team at the company changed their views on sustainability and launched an ESG project. Positive changes ensured, including the disclosure of six materialities related to sustainable management, information in accordance with the TCFD recommendations and the company’s basic approach to procurement, in 2023.

##### Policies for the future

We will encourage the further advancement of sustainable management, including target-setting for reducing CO2 emissions, formulating transition plans, and conducting human rights DD in the supply chain.

### SHIMAMURA Co., Ltd

Engagement theme **S: Society**

#### Strengthening of supply chain management

##### Issues at the target company

SHIMAMURA Co., Ltd. is a major general apparel retailer. There were calls for the company to enhance the level of its risk management in its supply chain environment and human rights concerns.

##### Engagement plan

When we first began engagement with SHIMAMURA in 2019, the company was merely disclosing information as part of its CSR initiatives on its corporate website, and we urged the disclosure on measures to prevent climate change and enhance supply chain management. Subsequently, as the company made progress with the disclosure of ESG information, our dialogue focused on the themes of: ① the expansion of measures to prevent climate change, including Scope 3 emissions, ② stronger measures related to human rights in the supply chain, and ③ the improvement of information disclosure based on improvements to the company’s ESG evaluation.

##### Results of engagement

Senior management began showing a proactive attitude toward dialogue on the theme of supply chain management, partly because in 2020, the “Australian Strategic Policy Institute (ASPI)” published a report related to forced labor in the Xinjiang Uygur Autonomous Region and Japanese companies’ participation in it. As a result, in FY2021, the company created a new ESG promotion system. Subsequently, a supplier audit process was introduced in order to create a sustainable supply chain, and the company began disclosing some audit results in FY2022.

##### Policies for the future

The company does not currently publish an integrated report, but we have confirmed that it aims to enhance its non-financial information and prepare an integrated report in the future. In terms of supply chain management, we will discuss the strengthening of its management systems on an ongoing basis, including the measurement of GHG emissions among suppliers and the formulation of related targets, as well as the enhancement of systems for audits related to human rights.

\* The information above is provided as examples of engagement activities, and does not constitute any form of recommendation of any individual securities.



## SMDAM Activities Under Initiatives

In addition to our own engagement activities, we also collaborate with investors in Japan and overseas to engage in constructive dialogues with investee companies through initiatives that we are a signatory or supporter of. We have also entered into a collective engagement contract with Sustainalytics, through which we participate in dialogue with non-Japanese companies that have infringed international standards, such as the UN Global Compact and the OECD Guidelines for Multinational Enterprises.

### Collective Engagement through Initiatives

#### CDP



- Participated in the Non-Disclosure Campaign and submitted requests as a lead investor to five companies to respond to CDP questionnaires.
- Participated in the Science-Based Targets Campaign and signed a collective letter calling for the acquisition of SBT certification.

#### Institutional Investors Collective Engagement Forum



- As part of engagement with companies where scandals occurred, led dialogue as a lead investor and discussed measures to prevent recurrence.
- We sent a letter in which investors called for the enhancement of initiatives and disclosure related to “ESG materiality” to approximately 1,800 companies.

#### PRI Advance



- As an initiative to solve issues related to human rights and other social issues, the UN Principles for Responsible Investment (PRI) established PRI Advance in December 2022
- We were a signatory at the time of its establishment, and plan to perform engagement with one Japanese company as a collaborative investor.

Initiatives that our company is a signatory or supporter of  
[https://www.smd-am.co.jp/corporate/responsible\\_investment/esg/initiatives/](https://www.smd-am.co.jp/corporate/responsible_investment/esg/initiatives/)



Signatory of:



### Collective Engagement Based on Screening for International Standards

International standards represent a global consensus of the minimum standards that companies, etc., should observe. As a responsible institutional investor, we can say that it is our responsibility to encourage improvements through dialogue with companies where there are fears that the consensus may be violated.

We participate in collective engagement led by Sustainalytics. Our aim is to make our engagement activities more effective by utilizing Sustainalytics' knowledge in areas such as the environment, human rights, and international law, as well as its influence based on the amount of assets under management of institutional investors around the world.



#### [Case study] Collective engagement with US energy-related company A

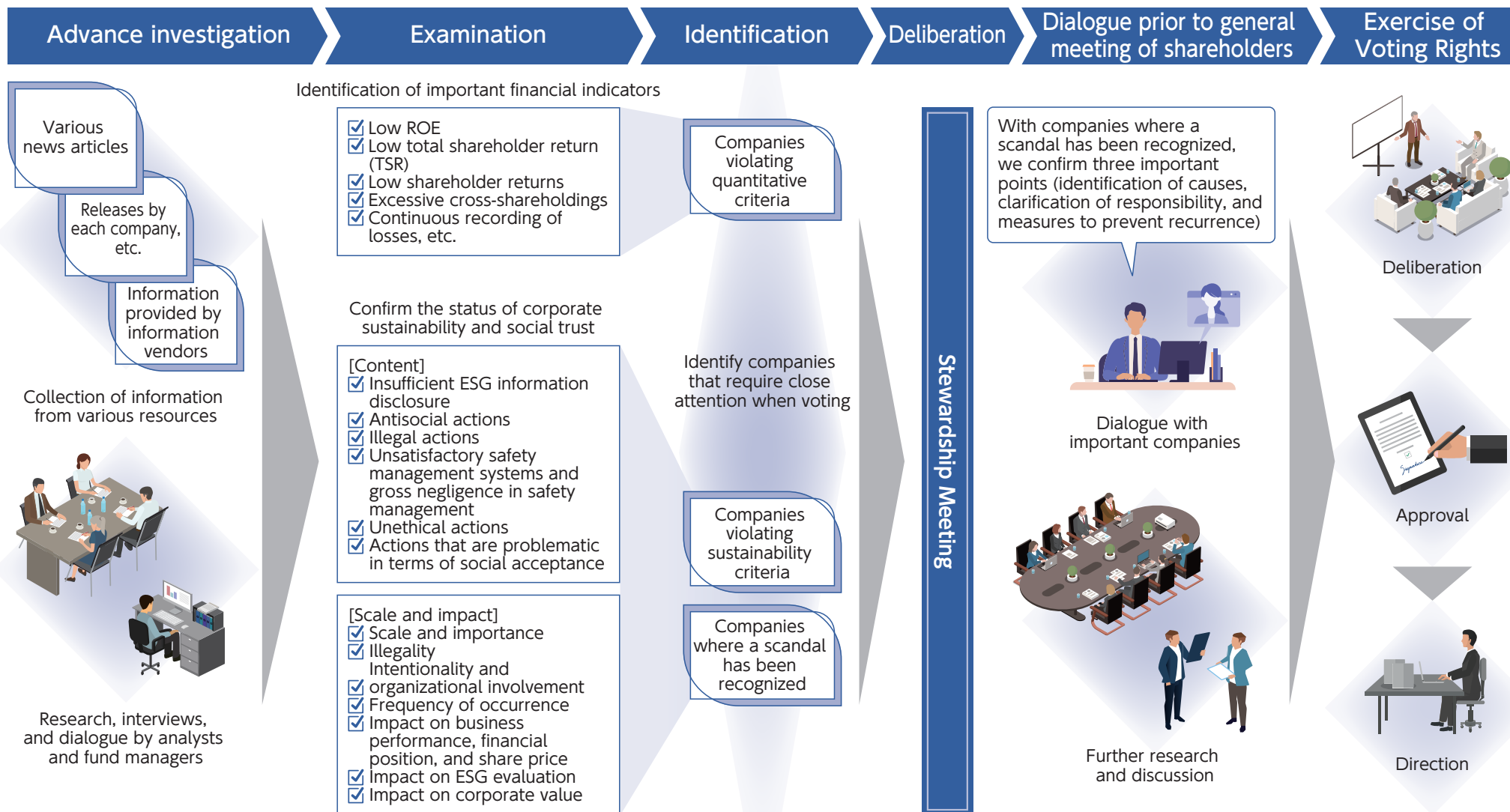
US energy-related company A was the subject of accusations that it had violated the human rights of indigenous people when building a pipeline facility in the US. Through collective engagement, we encouraged the company to solve the problem and take measures to prevent the risk of violating human rights in the future. As a result, it was confirmed that there was improvement in Sustainalytics dialogue milestones.

#### Engagement overview and results

Initial status: May 2018: Began engagement with Sustainalytics  
 December 2021: SMDAM participated in collective engagement led by Sustainalytics

February 2022: Company A received human rights training from Sustainalytics and began formulating a human rights policy  
 September 2022: Company A disclosed information about the monitoring of the status of compliance based on a comprehensive environmental management system, etc., and Sustainalytics strongly praised this development

## Exercise of Voting Rights Flowchart



- In addition to our “Criteria for Judgments Concerning the Exercise of Voting Rights,” we endeavor to exercise voting rights with the objective of enhancing corporate value or avoiding loss from a diverse range of factors
- The Investment Department as a whole receives advance notification of the companies that are violating each standard, and they are discussed at the Stewardship Meeting
- We have transitioned to a process that places more emphasis on the results of dialogue when exercising voting rights, and if it is judged necessary ahead of annual general meetings of shareholders, etc., we will actively engage in pre-general meeting dialogue

## Exercise of Voting Rights Case Studies

### Amendments to Criteria for Judgments Concerning the Exercise of Voting Rights for Japanese Equities

Based on changes in the market's mindset toward governance, we have summarized our requests for investee companies as a responsible institutional investor, and reflected them in the Criteria for Judgments Concerning the Exercise of Voting Rights.

#### Background to amendments

As a responsible institutional investor, we will exercise voting rights with the aim of enhancing the value of or mitigating damage to investee companies for the benefit of customers and final beneficiaries.

In 2015, the Corporate Governance Code was applied to Japan's listed companies, and in April 2022, the Tokyo Stock Exchange launched its new market classifications. During this time, we observed a steady improvement in our investee companies' governance systems and mindsets. Going forward, it will be important not just to prioritize the independence of outside officers, but also to discuss the composition (skills and diversity) of boards of directors and the enhancement of their effectiveness. At the same time, we will also actively engage in dialogue related to quantitative criteria for business performance (ROE, etc.), any incidences of fraud or scandal, issues related to sustainability, issues related to capital policy, etc. We believe that appropriately reflecting the results of such discussions when exercising voting rights will contribute to the enhancement of both corporate value and shareholder value.

#### Overview of amendments

The main points of these amendments to Criteria for Judgments Concerning the Exercise of Voting Rights for Japanese Equities are as follows.

- (1) Transition to a process that places greater emphasis on the results of dialogue when exercising voting rights
- (2) In principle, apply the criteria of securities exchanges for independent officers to assessments concerning the independence of outside officers
- (3) In principle, request that companies listed on the Tokyo Stock Exchange Prime Market appoint at least one female director
- (4) Create stricter criteria related to the composition of boards of directors (reduce the maximum total number of members permitted and object to increases in internal directors or reductions in outside directors or audit and supervisory committee members, in principle)
- (5) In principle, object to advance warning-type takeover defense measures (make judgments on a case-by-case basis for target-specific takeover defense measures)

### Case Study of Dialogue Prior to the General Meeting of Shareholders

#### BIPROGY Inc

**Theme** Management strategy, scandals

#### Issues at the target company

BIPROGY Inc. is a major systems integrator. Valuations of this company remained low because: (1) it was slow to create new businesses, and (2) in a scandal involving the loss of a USB memory stick in Amagasaki, a third-party committee indicated that there was a lack of awareness of compliance among officers and employees.

#### Engagement plan

We decided to request dialogue with outside directors and pointed out that there were problems with the awareness of compliance of officers and employees.

#### Results of dialogue

We confirmed that the outside directors with whom we held dialogue actively provide advice on the company's medium- and long-term growth strategy, purpose management, and the improvement of integrated reports, and that outside directors contribute significantly to sustainable management at the company. Furthermore, our impression was that the company has already created the foundations for innovation, including workstyle reforms led by the CEO from an early stage and sustainability management.



Subsequently, when exercising voting rights, we held separate dialogue prior to the general meeting of shareholders to confirm the status of progress on compliance, and voted to approve a proposal for the election of directors, based on the sufficiency of the company's response to the scandal.



#### Policies for the future

For management strategy, we are monitoring the creation of innovation in the company's business activities, and for scandals, we are monitoring the effectiveness of measures to prevent recurrence, etc., on an ongoing basis.

\* The information above is provided as examples of engagement activities, and does not constitute any form of recommendation of any individual securities.

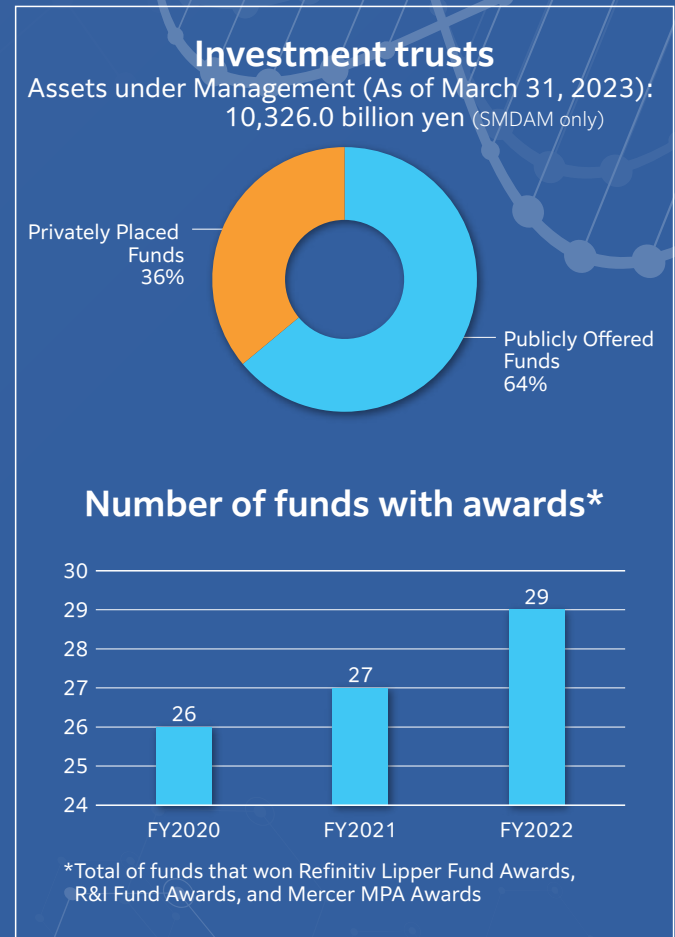
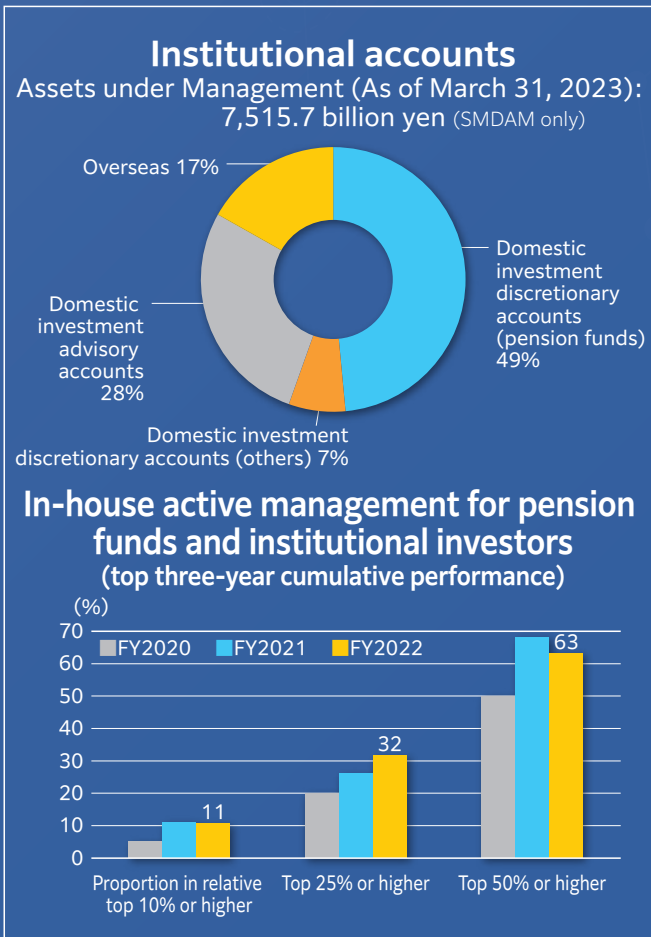


# Progress in Sustainable Investment Management

We are working to enhance our investment management capability, in order to offer good-quality excess returns to our customers on a long-term basis through investment management.

## Contents

SMDAM ESG Evaluation and Utilization	36
Message from the Head of Investment Management Division	37
Aiming to Provide Sustainable Added Value	39
JP Equity Value +a Group Initiatives	40
ESG Evaluations for SMEs	41
2030 Vision for the Investment Development Group	42
ESG Integration in Japanese Fixed Income	43
ESG Integration in Global Fixed Income	44
ESG Dialogue in the Engagement Investment Group	45
Sustainable Product Development in the Alternative Investment Department	46
Day in the Life of a Fund Manager	47
Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors	49
Disclosure Based on TCFD recommendations	51
Important Precautions	53



## Our ESG Evaluation and Utilization Methods

We have multiple ESG scoring systems matched to the investment requirements of each product, in order to enhance our ESG integration. In terms of our perspective for ESG score classifications, our assessments correspond to the characteristics of domestic/overseas, corporation size, and asset class. In this section, we provide some case studies related to our utilization of ESG scores, based on specific examples.

### Overview of ESG Evaluations

There is a tradeoff between detailed evaluations and broad coverage of companies. In order to complement this tradeoff, we have developed multiple ESG scoring systems suited to different applications. One of our strengths is our substantial research system, which we have developed through our experience in active investment. We prioritize detailed ESG scores particularly from an investment perspective.

Comprehensive scores are our representative ESG scores (for companies covered by our research analysts in Japan). A notable characteristic of these scores is that they are detailed evaluations based on two axes, “analyst evaluations,” which incorporate factors such as forecast contributions to earnings from ESG-related products and services by analysts in our Investment Department, and “basic evaluations,” in which analysts from the Responsible Investment Section evaluate the level of corporate ESG promotion systems and information disclosure. Additionally, we have also developed in-house ESG evaluations (Core), based on our strength in investing in SMEs, and we began using these evaluations in FY2021.

### Features and Specific Examples of ESG Evaluations

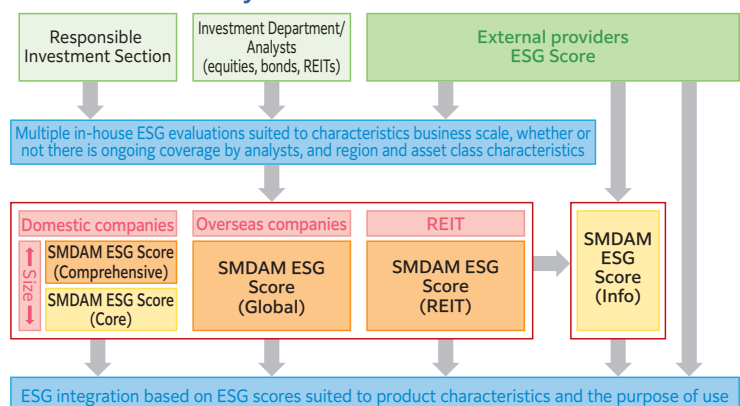
Our evaluations are based on two axes, enabling multifaceted evaluations from combinations of these factors, including evaluations for each of “analyst evaluations” and “basic evaluations,” as well as evaluations based on the total of these evaluations, and comparisons of “analyst evaluations” and “basic evaluations.”

As an example of how we utilize these scores when focusing on the difference between “analyst evaluations” and “basic evaluations,” if the “analyst evaluation” is greater than the “basic evaluation,” we may find that there is room for improvement in the future. “Basic evaluations” are evaluations of current circumstances based on disclosed materials, whereas “analyst evaluations” incorporate future forecasts. As a result, in cases such as those described above, we can predict a future increase in the “basic evaluation.” We support the materialization of an enhancement in corporate value at such companies through an increase in their market recognition, by encouraging active engagement related to information disclosure.

### Our Views and Future Initiatives

We have seen a rapid spread in ESG, and there has been notable progress in corporate initiatives over the past few years. A few years ago, appointing multiple outside directors was a challenge, but now it has more or less become standard for companies to have at least one-third outside directors, and it is anticipated that they will form a majority in the future. Additionally, from the perspective of diversity, we are also seeing progress on the appointment of female directors. Based on these circumstances, it is important that we regularly review our ESG scoring items and levels, in order to ensure our ESG scores remain up to date. In addition, I feel that an issue related to the tradeoff between detailed evaluations and broad coverage of companies, as mentioned at the start of this section, is the creation of a system that can combine both depth and breadth. There has been a notable increase and accumulation of ESG data that can be utilized, thanks to progress on the disclosure of information related to ESG by companies and an expansion in ESG data providers. We aim to balance depth and breadth by effectively utilizing this information.

#### SMDAM ESG Score System



**Hideki Kawanabe**  
General Manager, Responsible Investment Section

## Message from the Head of Investment Management Division

その一歩で、  
未来は変えられる。 **Be Active.**

In FY2023, SMDAM launched “Challenge and Change for 2030,” our new medium-term management plan. Based on our medium-term vision, we are pursuing sustainability in the Investment Management Division, while also working to strengthen our systems from a medium- to long-term perspective and effectively utilize human resources, and thereby enhance our investment management capabilities.

### Sustainability from the Perspective of Head of the Investment Management Division (Three layers of sustainability)

#### 1 Sustainability in the investment management process

The most important requirement for the Investment Management Division in an investment company is the creation of systems that can maintain good quality investment products over a very long timeframe, in other words, the execution of measures to guarantee the sustainability of existing investment processes. Additionally, many good-quality products require sustainability over a period in excess of decades, usually beyond the length of a single person's career. For this reason, I think that securing capable human resources and passing on investment management knowledge are major issues.

#### Challenge and Change to solve issues

- ◆ Ensure detailed descriptions of investment processes and ongoing improvement, as well as the accumulation of those records, for all investment processes
- ◆ Build succession plans for investment professionals. At the same time, also appropriately allocate human resources
- ◆ Appropriate management of investment limits
  - Sustainability refers to important measures to ensure we can continue providing investment excess returns over the long term
- ◆ Spread awareness and share knowledge of existing investment processes
  - Hold fund manager seminars where each fund manager explains their own investment philosophy and processes to young employees

#### 2 Investment Management Division sustainability

A sustainable Investment Management Division is a result of ensuring that each individual investment process is sustainable.

I believe that, in order to achieve this objective, the development of new investment processes and investment strategies is a key issue. Our current main investment processes must have been new in the past, and were created as the result of some new initiative, research, or perspective.

Unfortunately, it has been observed as a rule of thumb that, over time, some investment strategies lose their meaning for some reason or other. The Investment Management Division will eventually decline if we just maintain our existing investment processes.

#### Challenge and Change to solve issues

- ◆ Explore hypotheses and incorporate hypotheses to create new investment strategies
  - Hypotheses created by fund managers and analysts
  - Hypotheses created from investment development research
  - Absorb external knowledge and add our own inventive measures
- ◆ Brush up our existing investment engine
  - Revise it to suit new customer segments and distribution channels
  - Take on the challenge of active ETFs
  - Develop solution-type investment processes suited to specific risk-return profiles required each time

## Wataru Ogihara

Deputy President Executive Officer, Head of Investment Management Division



### 3 Investment company sustainability

A sustainable investment company is a result of ensuring that the Investment Management Division and each individual investment process are sustainable. As a company, we face various issues, many of which are due to our internal culture and accumulation of existing practices, and it is likely that there are also many issues that we are not even aware of internally. This means we may not notice that we face the risk of a decline in efficiency or stagnation.

#### Challenge and Change to solve issues

- ◆ Conduct engagement with senior management of SMDAM by the Responsible Investment Section
  - Utilize knowledge obtained in engagement with listed companies
  - Expect to contribute to our own sustainability by evaluating SMDAM as an operating company

### Viewpoint of the Investment Management Division in the Medium-term Management Plan

**Be Active.**

**We will strengthen our active investment processes, an area where we are already competitive, while also fostering a corporate culture of actively taking on the challenge of new investment domains. In this way, we will build an investment organization is solid and sustainable on a long-term basis.**

In our three-year medium-term management plan, which began in April 2023, we have positioned the “further enhancement of investment performance and expansion of new investment domains” as our first pillar, and we are focusing on further improving the quality of our investment products and enhancing our line-up of good-quality products.

#### Further enhance investment performance and expand new investment domains

- Acquire and maintain performance in the top tenth percentile in areas where we compete, and establish a brand as an asset management company of the highest quality
- Expand investment domains for in-house investment, including global, multi-asset, and alternative assets, while also identifying and offering top-class investment products on a global basis in outsourced investment
- Practice stewardship and ESG activities to balance the acquisition of investment returns and a sustainable society

### 1 Offer top-quality investment products

We aim to offer investment results that exceed the expectations of customers in each domain, and have set forth the target of “acquiring and maintaining performance in the top tenth percentile.”

#### [Main initiatives]

- ◆ Focus on maintaining and improving quality in all investment products and achieve relative superiority within the same domain
- ◆ Enhance our investment process and secure further investment performance through strengthening our global research, developing various types of engines that actively utilize advanced technologies such as AI, and other methods
- ◆ Appropriately manage investment limit amounts to ensure the quality of active investment

### 2 Expansion of investment domains

In each asset class – global, multi-asset, and low liquidity alternative assets – we will focus on expanding the domains where we offer in-house investment, while also working with external partners to identify and offer investment products that are both top-class and scarce.

#### [Main initiatives related to global assets]

- ◆ In global equities, strengthen our capabilities for identifying promising themes and investee companies by restructuring and building systems for equity research in a cross-regional manner
- ◆ In global fixed income, strengthen our systems for investment and research of global credit fixed income, including high yield bonds, in order to enhance our credit risk management capabilities

#### [Main multi-asset initiatives]

- ◆ Provide high-quality products and expand advisory services to educational corporations, individual investors, etc.
  - ▶ Begin offering the “Hirogin Fund Wrap Service ‘MY GOALS’” through The Hiroshima Bank, Ltd.
- ◆ Establish a global macro strategy investment team and create products that aim to generate high absolute returns

#### [Main initiatives in low liquidity alternative assets]

- ◆ In addition to our ability to offer a diverse range of products, strengthen our gatekeeper operation systems by enhancing fund analysis systems and increasing the number of personnel, while also expanding classes of potential customers by further enhancing the products that we handle, enhancing our products for individual investors, etc.
- ◆ Collaborate with shareholder companies and affiliated companies internally and externally to focus on expanding our range of in-house investment products into new domains such as environment-related, overseas infrastructure, and equity crossover investment
  - ▶ Offer in-house infrastructure debt investment products through collaboration with the SMBC Group
  - ▶ Begin considering an investment fund that specializes in the hydrogen field, together with the Japan Hydrogen Association

[https://www.smd-am.co.jp/news/news/2023/news\\_20230324/](https://www.smd-am.co.jp/news/news/2023/news_20230324/)



### 3 Continuously practice stewardship and ESG activities to balance the acquisition of investment returns and a sustainable society

- ◆ For our ESG evaluation methods, we will redevelop our structure to facilitate evaluations across asset classes, market capitalizations, and regions, thereby enhancing the effectiveness of our evaluations in investment decisions
- ◆ For engagement, we will prepare a collection of best practices based on materiality. At the same time, we will ensure thorough management of phases of dialogue with companies, thereby supporting ESG initiatives and promoting the enhancement of corporate value



## Aiming to Provide Sustainable Added Value ~ Product management ~

その一歩で、  
未来は変えられる。 **Be Active.**

In order to accelerate our planning and promotion of business strategy related to investment products, we established the new Product Management Department in April 2023. Ayaka Ishida of the Investment Solution & Marketing Department spoke with Yoshiharu Takeda, General Manager, who manages the Product Management Department, about the background to the establishment of his department and its future initiatives.

### Background and Objectives of the Establishment of the Product Management Department

- Ishida** Please tell us about the background to the establishment of the Product Management Department.
- Takeda** Our Mission & Vision is to contribute to improving the Quality of Life (QOL) of our stakeholders, and we aim to forecast changes in the environment surrounding our customers from a long-term perspective, and continuously provide added value. This department was established to enhance our planning and execution capabilities in relation to these kinds of long-term business and product strategies.

- Ishida** I think the establishment of the Product Management Department has the potential to change the business model of SMDAM. Are there any signs of change in this regard?
- Takeda** Opportunities have increased for long-term discussion of strategy between employees. One role of our department to envision the future and create new things. We are also discussing new business models while forecasting the impact of social, economic, political, and legal changes, as well as technical innovation, on financial markets and our customers.

### Product Management/Project Management/Solution Services

- Ishida** What are the characteristics of product management at SMDAM?
- Takeda** Our target is to continuously offer added value by adopting a comprehensive view of our product portfolio and rearranging it to create a portfolio for the future. Based on this target, we will establish company-wide projects and take on the challenge of developing highly novel in-house investment products. Additionally, we will also participate in product governance to verify the status of individual products.
- Ishida** What kind of initiatives are you implementing in order to develop products from a customer's perspective?
- Takeda** The definition of good performance differs depending on customers' approaches and investment objectives. Accordingly, we clarify our expected customer and results from products when setting investment targets, and emphasize the sharing of this information with the persons responsible for investment. Additionally, we are also focusing on solution services to offer investment services suited to the issues and needs of our individual customers.

### Brand Management ~ Collaboration with the Investment Department ~

- Ishida** How do you come up with strengths for SMDAM's products?
- Takeda** As forms of communication with customers change in line with social and technological changes, we have established the "Be Active" service brand, and are directly communicating the value that SMDAM can offer. To ensure that customers experience our unique value at the product level, we are brushing up the content that we share and the ways that we share it.
- Ishida** Is there anything that you hope for from the Investment Department?
- Takeda** At SMDAM, we have in-house investment products with a great track record. To ensure that our customers trust us and feel attached to SMDAM, we must repeatedly think about and enhance the value of our products. We intend to work together with the Investment Department to explain our focus and sincerity concerning our investment philosophy and investment methods in a way that is easy to understand.

### New Issues and Future Direction

- Ishida** Please tell us about current issues and your future ambitions and direction.
- Takeda** One issue that we face is putting the necessary pieces together to be the "best asset management company contributing to Quality of Life," which is what SMDAM is aiming for. Another role of our department is the creation of new things by connecting things together. We will put the pieces together by connecting things within SMDAM, sometimes with things from outside the Company, and thereby contribute to improving our stakeholders' QOL.
- Ishida** I understood the role of the Product Management Department well. Thank you for your time today.



**Yoshiharu Takeda**

General Manager of the Product Management Department  
Motto: "Karma"

**Ayaka Ishida**

Marketing Promotion Team,  
Investment Solution & Marketing Department  
Motto: "Thank those who help you"



## JP Equity Value +a Group Initiatives ~ Aiming to create new value ~

### Enhancing the Efficiency and Sophistication of In-House AI

The Value +a Group in the Investment Department is applying an original AI engine developed in-house by that department's Investment Development Group to the management of Japanese equity funds (for details, please refer to last year's Sustainability Report).

As an initiative launched in 2022, we first created a system to obtain AI scores (scores from an AI evaluating the text of financial results summaries) as an output. This system features a simple user interface and enables users to easily check historical AI scores for individual stocks and generate charts. We have made improvements as needed, such as fine-tuning methods of obtaining data and displaying moving average charts, as part of our efforts to

enhance the efficiency and sophistication of our AI engine and system. Additionally, we have accumulated a number of successful examples of stock selection utilizing AI scores, so we verified its effectiveness in both quantitative and qualitative terms. We have collaborated internally to prepare documents based on the results of this analysis, and are making proposals to investors in funds that utilize AI scores.

For our next development, we have begun planning a system for analyzing and scoring textual data other than summaries of financial reports. We will continue combining the knowledge of fund managers with AI and promoting the development of highly effective and efficient investment systems.

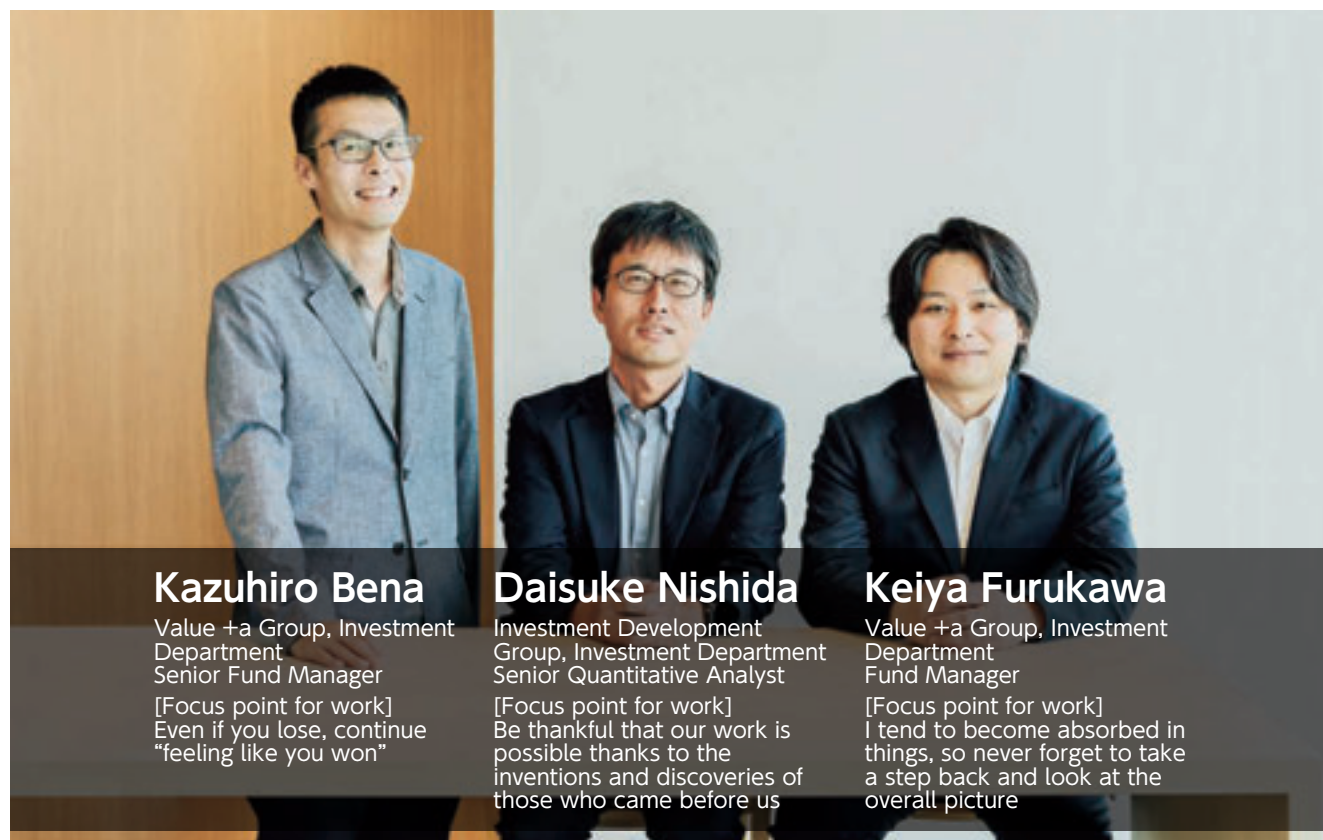
### Enhancing Corporate "Ability to Create Social Value" ~ Impact Investment ~

At the end of March 2023, we issued our first impact report. In addition to explaining our Japan impact investment strategies in a way that is easy to understand, we also focused on the ability to apply impact scores and engagement retroactively, which could be described as key to this process. When listing impact scores, we compare them with the market. We showed the excellent ability of our portfolio to create impact. Additionally, we also provided information on what issues we raised in dialogue as part of engagement activities, and the verification of the results of those activities. We even took care with small details, such as the cover design and illustrations, to communicate information more effectively, so please read it.

The most important thing for impact reports will be that we keep issuing them. This fiscal year, we intend to follow up on changes in companies' creation of impact over the past year, which we introduced in the first issue, from both a negative and a positive perspective. Additionally, we are considering enhancing the content of these reports through, for example, introducing many examples of engagement activities over the past year that are of significant interest for our customers and providing articles about our visits to plants and research laboratories. Please watch out for future developments.

Please view the reports on the SMDAM website.

[https://www.smd-am.co.jp/corporate/responsible\\_investment/esg/integration/table/pdf/2022-2023\\_impact\\_report.pdf](https://www.smd-am.co.jp/corporate/responsible_investment/esg/integration/table/pdf/2022-2023_impact_report.pdf)  
\*Japanese only



**Kazuhiro Bena**

Value +a Group, Investment Department  
Senior Fund Manager

[Focus point for work]  
Even if you lose, continue  
"feeling like you won"

**Daisuke Nishida**

Investment Development Group, Investment Department  
Senior Quantitative Analyst

[Focus point for work]  
Be thankful that our work is possible thanks to the inventions and discoveries of those who came before us

**Keiya Furukawa**

Value +a Group, Investment Department  
Fund Manager

[Focus point for work]  
I tend to become absorbed in things, so never forget to take a step back and look at the overall picture



**Ayako Watanabe**

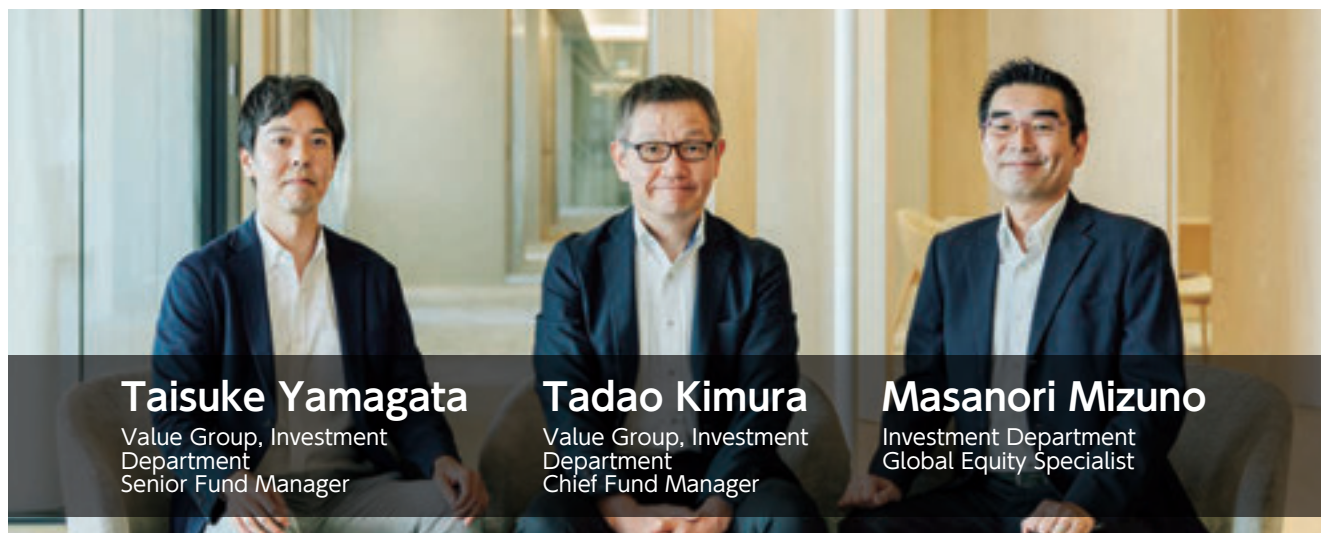
Investment Department  
Value +a Group  
Senior Fund Manager

[Motto]  
Effort, spirit, reward.  
Dawn always comes.



## ESG Evaluations for SMEs

~ Universal “standards” shared around the world are continuing to evolve ~



**Taisuke Yamagata**

Value Group, Investment  
Department  
Senior Fund Manager

**Tadao Kimura**

Value Group, Investment  
Department  
Chief Fund Manager

**Masanori Mizuno**

Investment Department  
Global Equity Specialist

### “The Tide Has Changed” – Experiencing It Through Our Own Evaluations

Over the past year, there has been a clear change in listed companies in Japan, including small and medium-sized growth companies. This is mainly due to the fact that the Tokyo Stock Exchange has shared a clear measure that companies should “work toward management that is conscious of the cost of capital and the share price,” as well as the fact that the disclosure of sustainability information is now required in annual securities reports, etc.

When we began ESG evaluations, they seemed to be polarized, but recently, we feel the scores have been converging. Overall, evaluations appear to be rising, and we are likely seeing a similar trend to the current improvement in the situation related to companies with a P/B ratio of less than one.

### Wanting to Praise Corporate Efforts to Go One Step Further

This is a good trend, but if we are not careful about how we phrase things, we may end up in a situation where companies are “doing the bare minimum and not making

progress.”

Of course, because fund managers themselves are performing ESG evaluations, they are sometimes aware of the efforts of individual companies, and in an increasing number of cases, we sense through our engagement that companies want to grow together with us.

**Kimura** “Going forward, we want to praise companies that aim for a higher level”

We express this hope in dialogue with companies, but we believe that future efforts will be important. It is a similar situation to the situation with P/B ratios, where it is not enough just for companies to regain a ratio of one.

### Want to Actively Increase the Impact on Investment Decisions

We select stocks based on our proprietary corporate valuation models, and also reflect ESG scores in a quantitative manner. Although this information has long been included in comprehensive risk analysis, we have “visualized” risk by clearly taking it into consideration in

We have developed in-house ESG scores (Core), which are granted by fund managers themselves, in partnership with the Responsible Investment Section, mainly for SMEs. These scores are reflected quantitatively in our corporate valuation models, which we depend on for stock selection.

For information about previous developments in this regard, please refer to page 32 of the “Sustainability Report 2022-2023.”

our ESG evaluations.

We are still in the trial-and-error stage, but we would like to actively increase the impact of differences in ESG evaluations on corporate valuations. Initially, we began with fairly low sensitivity to these evaluations, partly because we did not have a solid sense of them, but we have continued our efforts to enhance the accuracy of our evaluations. Companies have also taken the initiative in specializing in specific fields, etc., and through dialogue we have felt that the number of companies that are actively focusing on ESG activities is increasing.

**Yamagata** “I think now is when we will highlight our engagement activities. Responding to ESG will contribute to enhancing corporate value, and I intend to actively encourage companies, to ensure this serves as a source of further motivation.”

Praising “companies that aim for a higher level” reflects our strong desire to take an active investment stance toward such companies.

### Advancing our ESG scores (Core)

- Reflect negative impact in ESG scores (Core)
- Partly revise our evaluation standards for ESG scores (Core), in line with the spread of information disclosure based on the TCFD recommendations

## 2030 Vision for the Investment Development Group

~ Judgments that only a human can make, at a level beyond human capabilities ~

### A Society Where the Utilization of AI is a Common Practice

How to utilize ChatGPT and other AIs has been the subject of debate in many situations. Generative AIs give us the answers that we need when we give them instructions. Accordingly, it seems companies in all industries, even within Japan, are considering the introduction and utilization of AI.

So how can we use the generative AIs for investment? We cannot currently entrust final investment decisions to an AI, but they can provide materials that help us make decisions.

For example, when we asked ChatGPT (GPT-4), “Who is the Prime Minister of Japan?,” the response was that the Prime Minister as of September 2021 was Yoshihide Suga. If we just ask it in a normal way, it will not tell us the name of the current Prime Minister. Sometimes, depending on how we ask it, it will not give the name of the current Prime Minister. This is because, in general, the knowledge (learning) of ChatGPT stops at the point in the past where it was trained in advance. In asset management, we work not just with universal matters and historical facts, but also with information that is changing every moment.

In fact, however, there is already a way to make ChatGPT refer to the latest information. If we make a system that matches the way we use this tool, it will be very powerful.

### Investment Development Group Initiatives

AI technology can be used in various processes, from information gathering to investment decisions. It is important that we consider where we can utilize AI technology in actual investment operations, and also how we can achieve this at low cost.

In the Investment Development Group, we are always considering ways to use this technology that match frontline operations, while listening to the wishes of people responsible for those operations. For example, we have created a system that creates a list of information from various sources that fund managers, etc., want to review for potential investment candidates, then quickly proposes a list of companies to visit for corporate analysis based on accumulated expertise and the latest information. If we use generative AI for such systems, it will increase the accuracy of proposals. Other systems that we offer include one that shares alerts for negative media reports in local languages from around the world, and one



**Takehide Hirose**

Investment Development Group,  
Investment Department  
Group Head

[Motto] Virtue attracts

In recent years, AI has been developing at a pace where it will outstrip the ability of humans to make judgments. In the future, we may enter an age when AI proposes its own investment decisions. In the Investment Development Group, we have been utilizing such AIs to provide support to enable fund managers to concentrate on their own value creation.

that finds stocks related to attractive investment themes. In this way, we are considering ways to advance our operations by utilizing AI technology, while listening to the needs of colleagues in actual operational settings.

In joint research with a university, we are also studying how generative AIs respond to issues in actual operations. Internally, there are a very large number of parameters and structural choices, and we do not know what factors to combine in what ways to make these systems effective. In order to use AI in actual operations, we must decide on AI models that match our reasons for using them through significant trial and error. We are constantly exploring studies and research directions to achieve that aim.

### Future Vision for Asset Management Operations

I believe that systems where generative AIs that reference investment expertise accumulated in actual investment operations interpret new information and teach the necessary information to investors are already at a technically feasible level.

In the future, it appears likely that each fund manager will

be able to enjoy the benefits of some form of AI support on a daily basis. It will still require time, however, until AI makes final investment decisions. AIs must be able to process and understand “new information,” have “specialist financial knowledge (including unique investment expertise),” and be able to understand “signs for the future that link information and actual society.” We intend to work every day to enable us to utilize the latest technologies in actual operations, in order to incorporate technological progress that enhances operational efficiency, and furthermore, to “make judgments that only a human can make, at a level beyond human capabilities.”

## ESG Integration in Japanese Fixed Income

In our fixed income investment, we are focusing on ESG integration, mainly to reduce long-term refinancing risk and enhance the robustness of performance. At SMDAM, we are utilizing a machine learning model that uses ESG scores in the selection of corporate bonds, while also working to enhance the effectiveness of engagement. In the future, we will strengthen our analysis and monitoring of ESG bonds.

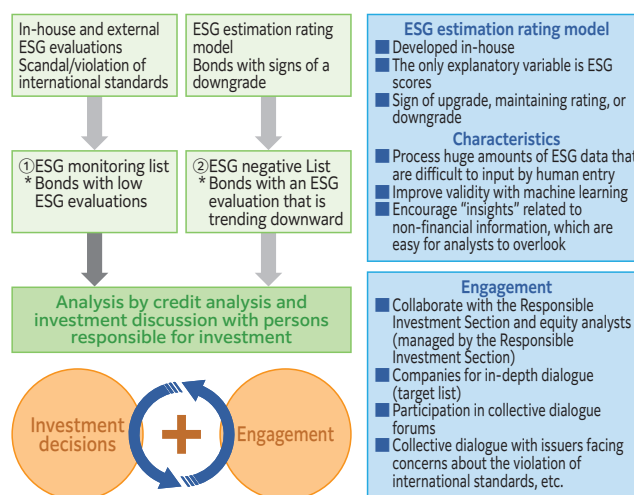
### Security Selection Process Utilizing ESG Estimation Rating Model

One notable characteristic of our domestic credit investment management is the fact that we incorporate quantitative judgements based on an ESG estimation rating model developed in-house in our process for assessing the creditworthiness of individual bonds. In terms of our credit strategy, we believe that detailed monitoring at the individual bond level affects our performance because the prices of bonds for which events have occurred fluctuate in a discontinuous manner. In addition to industry relative valuations, specific factors, and our unique indicators for assessing credit, such as the R rating, which shows the level of tail risk, we also use this model to monitor credit risk by creating regular lists of issuers with signs of a downgrade, and issuers with a low third-party or in-house ESG evaluation.

We position these lists as encouraging “insights” related to non-financial information for credit analysts, who focus on financial information. They only provide materials for use in bond analysis and investment information, and decisions on whether or not the possibility of a downgrade or default will increase are left up to the analyst or person responsible for investment.

In meetings, we use the ESG analysis of responsible analysts as a starting point for determining an investment policy, adjusted for investment professionals’ own analysis and interpretation.

There have been an increasing number of cases when, even though an analyst has judged that the direct financial impact will be limited, persons responsible for investment have contributed to performance by quickly selling bonds based on their prioritization of the wrongfulness of ESG events and the impact on spreads.



### Engagement that is Also Effective for Credit Investment

We regularly verify the validity of our ESG estimation rating model, and endeavor to maintain its accuracy. We believe, however, that engagement is an effective method to maintain and improve the creditworthiness of more long-term investee companies.

The Responsible Investment Section summarizes the status of our engagement activities, and shares this information at “Stewardship/ESG meetings,” cross-departmental meetings with members including the Responsible Investment Section, Investment Department, and responsible officers. In addition to specific examples of dialogue by credit analysts, in FY2022, we began an initiative to encourage improvement in corporate actions by identifying investee companies with significant room for improvement on ESG issues in our domestic credit universe, and conducting in-depth dialogue on specific topics with these companies. We are gradually strengthening dialogue and collective



engagement in partnership with related departments within our company.

### ESG Bond Analysis and Monitoring as Essential Tools for Mitigating Refinance Risk At Maturity

In order to maintain and improve fund returns over the long term, we believe it is vital that we focus more earnestly on ESG bond analysis and monitoring, in addition to improving corporate value through fixed income engagement.

At present, there is no clear academic consensus on the superiority of ESG bonds in terms of performance, and we can say that prioritizing the ratio of investment returns to creditworthiness is a reasonable investment action. We cannot lose sight, however, of the fact that over the past year, there has been an acceleration in the trend among major institutional investors and banks around the world to reflect international standards and decarbonization initiatives in financing policies and criteria for the exercise of voting rights. At present, we have confirmed that there are already some industries where it is not easy for companies to issue ESG bonds, and the risk that long-term refinancing will be difficult if ESG bonds cannot be issued is becoming increasingly likely.

In order to avoid a loss of value in bonds held over the long term, we are developing systems to strengthen our ESG bond analysis and monitoring, in partnership with the Responsible Investment Section. Through such means, we intend to help enhance the robustness of the performance of our investment funds.



## ESG Integration in Global Fixed Income

Noriko Miyoshi  
Chief Investment Officer



### SMDAM ESG Scores (Global) to Reflect Negative Impact, Etc.

One notable characteristic of our overseas credit investment management is that we utilize in-house ESG evaluations. Our ESG scores (Global) are a framework for overseas companies managed by the Responsible Investment Section, in which we perform evaluations based on two axes, “basic evaluations,” which cover a wide range of non-financial information, and “analyst evaluations,” which focus on the factors that we consider important. “Qualitative assessments by analysts,” which are performed by staff working with foreign equities and overseas credit analysts, are our most important source of added value.

Additionally, we take steps to reduce bias and enhance objectivity by incorporating information from multiple external ESG rating institutions, etc., while also reflecting signals, reputational risk, etc., from alternative data, etc. We believe this acts as an input for fund managers, enabling them to quantitatively ascertain the level of ESG risk and changes in ESG risk, in a way that is comparable between industries and countries/regions, meaning it can easily contribute to investment actions.

### Disciplined Investment Process Utilizing ESG Assessments

In addition to ESG scores (Global), we also monitor representative external ESG evaluations, and submit reports concerning any issuers facing ESG issues to the Investment Policy Committee.

#### Examples of issuers that require reports to the “Investment Policy Committee”

- ① Issuers with low SMDAM ESG scores (Global)
- ② Issuers with low representative external ESG evaluations
- ③ Issuers for whom external institutions assess that there is a possibility of a violation of international standards
- ④ Issuers for whom external institutions assess that a material scandal has occurred
- ⑤ Candidates for exclusion from the scope of investment

Credit analysts consider the impact on the creditworthiness of the issuer in detail, and review indicators for assessing creditworthiness, such as internal ratings. Under this system, persons responsible for investment discuss whether or not to invest in the issuer with credit analysts, and reflect the results in their investment decisions.

### Prioritization of Direct Interviews and On-Site Research

Based on my experience of watching global credit markets over many years, I believe that dialogue is meaningful because it enables us to directly confirm issuers’ commitment to their ESG strategy. In order to confirm issuers’ commitment in this way, I myself, as Chief Investment Officer (CIO) have conducted on-site research with credit analysts, not just at issuers’ headquarters, but also at actual clean energy power plants, and I emphasize the implications from such research.

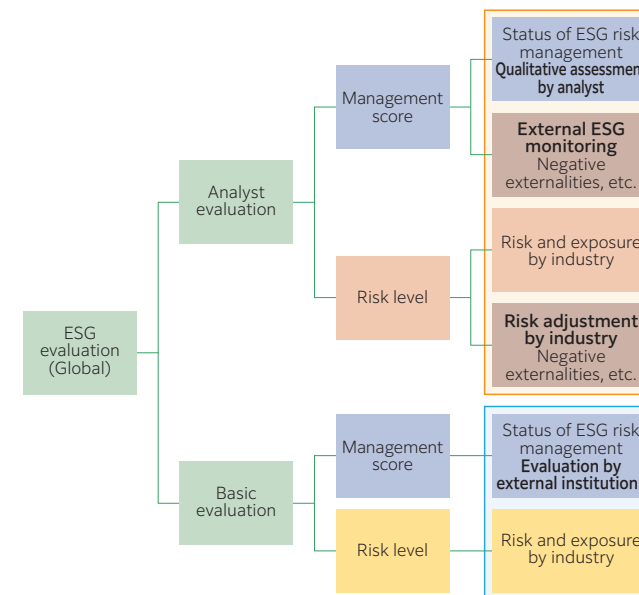
### Looking Closely at Issuers that Violate International Standards, Etc. Priority Engagement

We do not have a simple process for excluding companies where scandals occur and specific sectors from the scope of investment, but we engage in dialogue based on an engagement target list that emphasizes and prioritizes issuers about which there is debate concerning these topics, as well as negative externalities and ESG risk that is expected to be taken into consideration under SFDR. We regularly report the status of progress, etc., in this regard at “Stewardship/ESG meetings.” Working with our equities teams, who have voting rights, enhances our access to senior managers, and we also utilize collective engagement with external institutions, particularly for serious incidents such as violations of international

standards, to ensure there is no room for a conflict of interest. When there is no potential for improvement based on dialogue with an issuer, we may exclude them from the scope of investment across asset classes.

### Focusing on the Consideration of ESG Evaluations and Impact that will Continue to Contribute to Performance

In the US, we have seen a partial increase in opposition to ESG investment by institutional investors, etc., but we believe that even when selecting ESG investments, the importance of integrating ESG as a method for pursuing the “highest performance” remains unchanged. We will continue utilizing a disciplined approach and working to secure performance that meets the expectations of our customers and society.



■ “Analyst evaluation”  
SMDAM focuses on important areas  
: Different ESG issues for each industry  
: Evaluations based on corporate analysis and dialogue  
: Consideration of negative externalities, etc., based on rules

■ “Basic evaluation”  
Covers wide-ranging non-financial information  
: Quantification of financial materiality  
: Comparable across industries and countries/regions  
: Uses multiple ESG rating institutions

## ESG Dialogue in the Engagement Investment Group

~ Creating a “win-win” relationship with proposals that contribute to the sustainable growth of investee companies ~



In the Engagement Investment Group, we have continued engaging in dialogue with a focus on management issues specific to investee companies since we began investing in 2016. Amid such efforts, there has been an increase in the number of companies that are accepting and implementing our engagement proposals.

**Shunpei Yoshimura**

Fund Manager, Engagement Investment Group,  
Investment Department\*

\* At the time of writing. Currently assigned to the Value  
Group, Investment Department

Things valued in work:  
Curiosity. Investigate, look into, and try everything

### Changes in Corporate Actions Contribute to Improvements in Corporate Value

In the Engagement Investment Group (this “Group”), we perform engagement activities, mainly with companies that are highly competitive in their businesses, but are not sufficiently valued by equity markets because of some management issue or a lack of appeal to markets. We aim to secure excess returns by encouraging such companies to change their corporate actions.

In our engagement, we conduct detailed research in advance, then identify any management issues through meetings with the company. Additionally, in this Group, we make proposals that will contribute to sustainable growth and build “win-win” relationships with companies, instead of pursuing unsustainable short-term profits, advocating solely for stronger shareholder returns, or other such proposals.

Our engagement covers a wide range of themes, including business management, organizational management, and information disclosure, but ESG initiatives and their disclosure are major themes.

### “Is ESG Related to Improving Corporate Value ?”

ESG is often described as “non-financial information,” and sometimes we meet managers who think about ESG separately from business strategy. We often receive questions from such managers about the significance of focusing on ESG and its contribution to corporate value. In our view, ESG is “not yet financial information.” We consider it an extremely effective framework for formulating long-term management strategy, and we encourage change in corporate action by informing managers of its effectiveness.

Within ESG, thinking about “E (= Environment)” requires an understanding of megatrends such as decarbonization, problems surrounding waste disposal, and the

conservation of water resources. Accordingly, it contributes to exploring business opportunities and risks. “S (= Social)” also means management resources that support business management and strengthening supply chain management, while “G (= Governance)” refers to appropriate strategy and the creation of systems capable of refining and executing investment projects. Accordingly, ESG refers to medium- to long-term management strategy itself.

When discussing ESG with managers from this perspective, they express us that they want to utilize it because it seems it will be useful for managing their own management resources and formulating strategies, and we are thus promoting engagement on how to incorporate ESG into management, including organizational systems.

### Reconfiguring Information That Already Exists and Incorporating It in Strategy and Corporate Stories

In this Group, we also perform engagement aimed at enhancing the disclosure of ESG information. There are also many companies where the basic elements necessary for ESG disclosure exist in expertise and data accumulated within the company, and qualitative information that has already been disclosed. In some cases, reconfiguring this information and incorporating it in strategies and corporate stories contributes to finding solutions.

Additionally, there are also companies that have not been sufficiently evaluated by ESG rating institutions, despite disclosing ESG information. For such companies, we focus on engagement aimed at improving their evaluation by telling them points where they should improve their disclosure, etc.

Going forward, we will continue engagement to contribute to enhancing the corporate value of investee companies, etc., thus fulfilling our fiduciary responsibility by improving investment performance.

## Sustainable Product Development in the Alternative Investment Department



As efforts to achieve net-zero emissions by 2050 accelerate around the world, the range of potential investments is becoming increasingly diverse. The need for risk avoidance is also growing as climate change risk becomes increasingly pronounced. In this section we introduce some of SMDAM's initiatives related to new social needs.

From image top left

**Akihiro Sato**  
General Manager assigned to the Alternative Investment Department

**Aoi Yokota**  
Project Investment Group, Alternative Investment Department Fund Manager

**Miyu Iwakura**  
Project Investment Group, Alternative Investment Department Assistant Fund Manager

**Nobuhisa Fukumi**  
Project Investment Group, Alternative Investment Department Senior Fund Manager

From image bottom left

**Yukari Hara**  
Project Investment Group, Alternative Investment Department Fund Manager

**Haruhiko Takamoto**  
Project Investment Group, Alternative Investment Department Head

**Masahiro Tobata**  
Project Investment Group, Alternative Investment Department Senior Fund Manager

### Outline of Infrastructure Debt Funds and Recent Initiatives

Our Infrastructure Debt Funds supply funds for infrastructure projects (electric power, gas, transportation, etc.) that are essential for society and the economy, in the form of financing (debt). We offer attractive investment opportunities by linking the asset management needs of investors with the funding needs of infrastructure projects. We invest globally, meaning that we are contributing to the promotion and development of infrastructure projects in various countries around the world. We also invest in renewable energy projects such as solar and wind power, enabling us to contribute to the reduction of CO<sub>2</sub> emissions, a major issue in recent times. Recently, we have been considering a system for visualizing the positive social effects of projects that we invested in. Through such initiatives, SMDAM is pursuing new value for investors.

### Establishment of investment Funds to Popularize Hydrogen

Together with the Japan Hydrogen Association (JH2A), we are preparing to establishment an investment fund that aims to promote the popularization of hydrogen in Japan from a financing perspective. Hydrogen is attracting attention around the world as a form of energy that does not emit CO<sub>2</sub> when used, and investment funds specializing in the hydrogen field have already been established in Europe, resulting in active investment in hydrogen projects. With amendments to the Basic Hydrogen Strategy in June 2023, there has also been an acceleration in efforts to achieve a hydrogen society in Japan, which is expected to result in a further increase in the need for funding in the hydrogen field. Through the establishment of this fund, we intend to contribute to the realization of a hydrogen society in Japan and the achievement of carbon neutrality, by supplying the necessary funds for hydrogen in all stages, including its "creation," "transportation," "storage," and "usage."

### Fund for CAT bonds, the Subject of Growing Focus

Our company has been managing a CAT bond (Catastrophe Bond) fund in-house since 2014, based on investment advice received from Mitsui Sumitomo Insurance. CAT bonds are insurance-linked securities that securitize disaster risk related to natural disasters, pandemics, and other events that have a low probability of occurrence but cause enormous damage when they occur. They provide a mechanism for insurance companies, etc., to transfer their own disaster risk to investors on capital markets, instead of paying insurance premiums. For investors, CAT bonds are attractive for the following reasons.

- They can secure relatively high yield premiums
- They are not very correlated with traditional assets because the acquired risk, which is the source of returns, differs

If a major disaster occurs, part (or all) of the principal of the CAT bond is allocated to the recovery of the region affected by the disaster. This means CAT bonds have an ESG aspect, in that they provide finance in the event of disaster, and have thus been attracting growing attention in recent years.

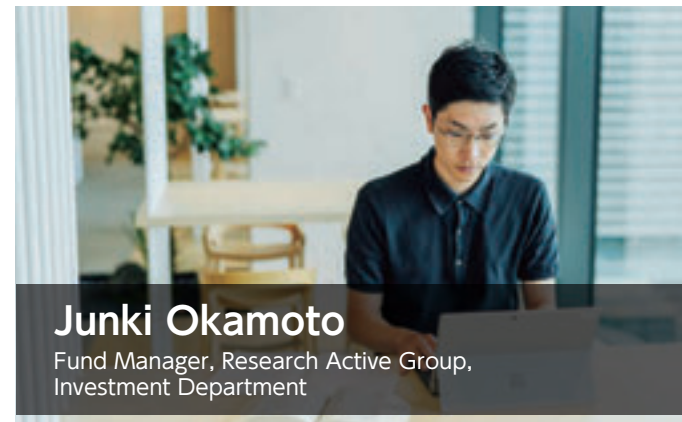


## Day in the Life of a Fund Manager

Four young fund managers told us about their “day-to-day” work and how they spend their time off work.

### Finding small and midcap shares with major potential

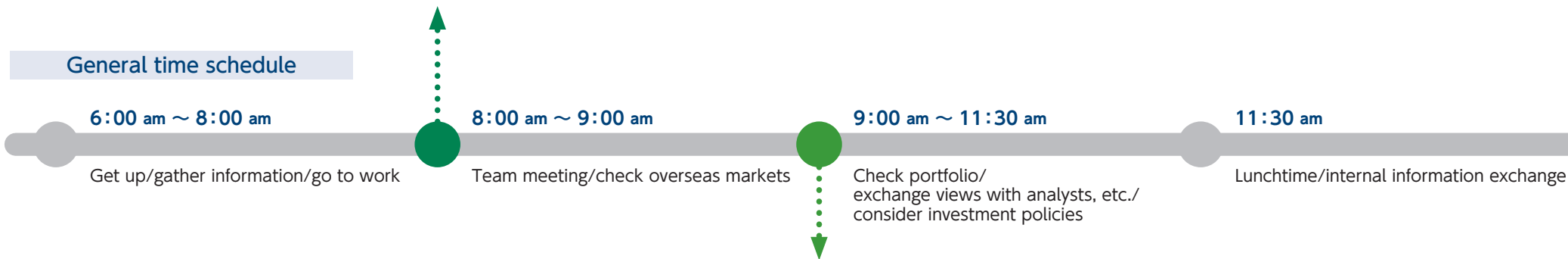
In my team, we invest in small and midcap shares that are currently undervalued but have the potential for major change. In order to find such companies, it is important to quickly notice any unexpected changes in the company or the external environment. We look for signs of change from various perspectives, such as interviews with companies, exchanging views with analysts who are very knowledgeable on industry trends, reading quarterly company handbooks, and finding insights in daily life. At present, we mainly gather information manually, but we aim to leverage IT skills to find opportunities for investment more broadly and efficiently. Additionally, we also oversee investments for overseas customers, so we place importance on initiatives related to ESG and the SDGs. I will further refine this aspect of my work by strengthening dialogue with investee companies and cooperation with the Responsible Investment Section.



**Junki Okamoto**

Fund Manager, Research Active Group,  
Investment Department

### General time schedule



**Rihoko Takanohashi**

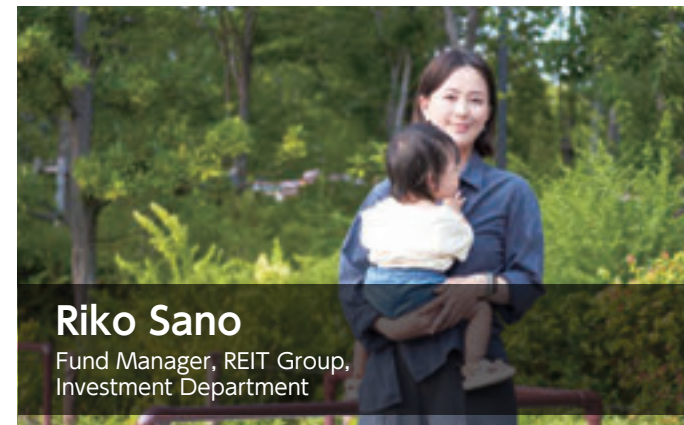
Fund Manager, Equity Quantitative Group,  
Investment Department

### As a passive fund manager

As a passive manager, I am entrusted with primary oversight over a number of funds. In the funds that I am responsible for, I engage in portfolio management, including the formulation of investment policies and cash management. In passive fund investment, I place importance on “staying humble,” and I take care in this regard. The important thing with passive funds is how to limit costs while achieving correlation with the benchmark. In addition to daily checks of funds for divergence from benchmarks, I also endeavor to ensure nothing unexpected happens, particularly by paying close attention when preparing for rebalancing. Additionally, I spend my days endeavoring and exploring how to make choices that contribute as much as possible to funds, while utilizing the characteristics of our team operation, even for a single acquisition or other corporate action. In the future, I intend to utilize the knowledge I have gained in passive fund investment to participate in product development, etc.

## Balancing investment management work and childcare

I work as a REIT fund manager and analyst. In April 2023, I returned to work full-time, and I have daughters aged three and one. I am able to balance home and work thanks to the understanding toward my home environment in the workplace and the fact that I can work flexibly. Both my husband and I were able to take one year of childcare leave, which meant that naturally we shared housework and childcare tasks. Even after returning to work, if one of our children is sick and we are unable to get a reservation for sick child daycare or a babysitter, my husband and I talk about it, and one of us works from home or takes leave. It is likely there will also be times when I need to suddenly go home early because my child is sick, so we always share work within the team to ensure tasks do not become attached to specific people, and I feel like communication between team members has naturally increased as a result. By the way, it is helpful to me that when I take my children out in the stroller, there are barrier-free spaces and diaper changing stations in commercial facilities, etc. Actual experiences such as these have reinforced my feeling that I want to support the social initiatives of REIT companies.



1:00 pm onward

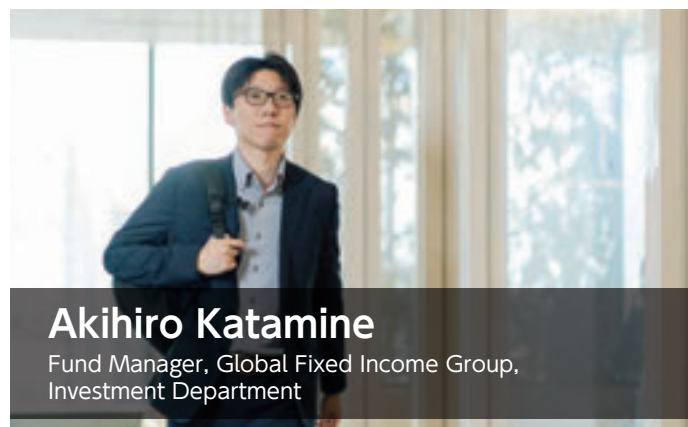
External meetings, check portfolio/  
consider investment policies

3:00 pm

(Use flextime) Go home/  
meet child at daycare/childcare

5:00 pm

Leave work/research activities at graduate school



## Balancing research at graduate school and fund manager work

Since FY2023, I have been attending graduate school after work. At present, I am mainly working on the foundations for research, and I attend classes almost every weekday evening, while also completing assignments and revising topics after I go home and at weekends. The understanding and cooperation of my team helps me balance these activities with work. While working on overnight trades, members of my group have adjusted my work and taken care to ensure I am in time for my classes. There are also almost ten people in the Company who have finished this course, and it is a very reassuring environment, including opportunities for sharing information. At graduate school, I am learning not just traditional finance theories, but also mathematical understanding and verification methods using programming, which will contribute to cutting-edge research. It is not just about developing the ability to make decisions based on a quantitative approach. Instead, by developing an understanding of the latest research by authorities in each country and new academic investment methods, etc., I aim to utilize this knowledge in my actual work.

## Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors

We believe that it is our natural responsibility as an asset management company to consider the Principal Adverse Impacts (PAIs) of companies on the environment and society, as well as sustainability risk on investee companies from the environment and society. In order to fulfill this responsibility, we endeavor to document our approach and policies related to the consideration of PAIs, and promote knowledge-sharing within the Investment Management Division.

### Our Mission & Vision and Basic Policy on ESG Investment

In Our Mission & Vision, we clearly state that Our Mission is to “contribute to a diversified and sustainable society through our investment activities” and “aim for collective growth, based on a respectful understanding of all stakeholders.” In our “Basic Policy on ESG Investment,” we have established that we will consider the impact of investee companies on environmental and social sustainability (sustainability risk) and the PAIs of investee companies, in all investment products in our asset management operations.

### Identification of PAI and Assignment of Priority Order

We have identified six high priority indicators that are deeply related to materiality in our asset management operations and for which it is relatively possible to obtain data, from among the indicators for the voluntary disclosure of PAIs set forth in the EU Sustainable Finance Disclosure Regulation (SFDR). Together with 14 essential indicators, we monitor these 20 indicators and regularly disclose related information.

### Consideration of PAIs in Our Investment Processes

#### ① Negative screen based on international standards

We perform engagement activities with companies that have violated international standards, etc. For details, please refer to P32.

#### ② Consideration of PAI indicators

In relation to sustainability risk and PAIs at investee companies, we believe that taking into consideration both other financial and non-financial factors will contribute to securing long-term risk-adjusted returns. At present, however, many of the indicators that we monitor are only disclosed by a small number of advanced companies. While following the development of international

#### PAI indicators continuously monitored and disclosed by SMDAM

Indicator①	GHG emissions	Indicator⑧	Emissions to water	Indicator⑮	Investment in companies without carbon emission reduction initiatives
Indicator②	Carbon footprint	Indicator⑨	Hazardous waste and radioactive waste ratio	Indicator⑯	Water usage and recycling
Indicator③	GHG emissions intensity of investee companies	Indicator⑩	Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Indicator⑰	Lack of supplier code of conduct
Indicator④	Exposure to companies active in the fossil fuel sector	Indicator⑪	Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Indicator⑱	Insufficient whistleblower protection
Indicator⑤	Share of non-renewable energy consumption	Indicator⑫	Unadjusted gender pay gap	Indicator⑲	Lack of human rights policy
Indicator⑥	Energy consumption intensity per high impact climate sector	Indicator⑬	Board gender diversity	Indicator⑳	Lack of anti-corruption and anti-bribery policies
Indicator⑦	Activities negatively affecting biodiversity sensitive areas	Indicator⑭	Exposure to controversial weapons		

disclosure rules, we request that investee companies enhance their information disclosure.

#### ③ Continuous process

We continuously analyze investee companies' sustainability risk and PAIs based on information obtained through engagement, either independently or collectively with other institutional investors, and dialogue, etc., with NGOs and other stakeholders. The results of analysis are shared internally in the form of analyst reports, ESG scores, etc., thus supporting the investment decisions of investment teams.

### Engagement and Escalation

Companies that have a PAI on the environment and society face the risk of future damage to their corporate value through punishments owing to violations of laws and regulations, a loss of trust of consumers, etc. From the perspective of avoiding such risk, we endeavor to perform engagement that encourages companies to quickly rectify issues.

If there is no prospect for improvement even after continuous dialogue, we adopt a strict stance toward actions related to social trust, such as those that do not respect a harmonious relationship with stakeholders, when exercising voting rights. Furthermore, if no improvement can be confirmed in relation to particularly significant

matters, we may consider excluding the company from the scope of investment based on our Management Rules Concerning Companies Not Suitable for Investment, etc.

### Collective Engagement and Initiative

In order to make engagement more effective and efficient, we perform collective engagement through participation in initiatives in Japan and overseas.

### Knowledge-sharing Initiatives

Following the enactment of the SFDR in the EU, there has been an increased expectation that asset management companies will contribute to the creation of a sustainable society. In response, we have been implementing internal knowledge-sharing initiatives related to PAIs, led by the Responsible Investment Section. Specifically, these initiatives include disclosure for persons responsible for investment, such as an overview of the SFDR and other laws and regulations and information on GHG emissions, water, gender, diversity, and other individual themes, the regular issuance of “PAI reports” that explain practical guidelines, etc., for our investment operations, and seminars with external specialists.



## Monitoring and disclosure/reporting

We have selected seven indicators from among target indicators for corporate monitoring of PAIs related to our portfolio. We have also listed one indicator that covers countries/regions.

Indicator subject	Essential/voluntary	Theme	PAI	Indicator definition	Indicator	Major negative impact	Response measures
Company	Essential item	Climate and other environment-related indicators	GHG emissions	GHG emissions attributable to investment measures based on the percentage held	26.8 million tons	No	Conduct research together with the Responsible Investment Section, while investment teams perform engagement with a focus on climate change, either individually or collectively. Engage in dialogue requesting high-quality disclosure, such as the acquisition of CDP scores or SBT certification. (Note)The indicator on the left refers to Scope 1-3 emissions, calculated based on Sustainalytics data. Disclosure based on the TCFD recommendations differs from the original data.
			Carbon footprint	GHG emissions per million euros of investment	663.00 tons/million euros	No	
		Social and employees, respects for human rights, anti-corruption, and anti-bribery matters	Non-compliance with international standards* *Principles of the UN Global Compact and the OECD Guidelines	Proportion of portfolio of investee companies that violated international standards	0.65%	No	Respond by excluding from the scope of investment based on screening for international standards at the company-wide level. Utilize Sustainalytics international standards engagement to engage in dialogue. For active investment, we have set a target of 0%.
			Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Proportion of portfolio of investee companies that do not monitor international standards	58.96%	No	It is said that many Japanese companies have insufficient monitoring, but many are companies with high external ESG evaluations. Through engagement, either independently or collectively, we promote the disclosure of information related to compliance with international standards by investee companies.
			Board gender diversity	Average of "number of female directors ÷ total number of directors" weighted by market capitalization, for investee companies	22.41%	No	We submit votes opposing proposals for the election of directors for companies listed on the TSE Prime Market with no female directors. Furthermore, because we a member of the "30% Club", we encourage companies to increase the proportion of female directors.
			Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Proportion of portfolio of companies manufacturing and buying/selling inhumane weapons	0.00%	No	We designate companies that engage in the manufacture, purchase, or sale of inhumane weapons, as defined by treaties ratified by Japan, as companies not suitable for investment, etc., and we prohibit the holding of these companies, in principle.
	Voluntary item	Climate and other environment-related indicators	Investments in companies without carbon emission reduction initiatives	Proportion of portfolio of companies with transactions with companies with no relation to initiatives aimed at achieving the Paris Agreement	45.89%	No	The issuers with a lack of measures are all major Japanese companies with high external ESG evaluations. We believe that these companies should execute sufficient measures to eliminate any concerns of major negative impact.
Country/region	Essential item	Social and employees, respects for human rights, and anti-corruption	Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Investee countries that violate international treaties and agreements	0.00%	No	In active investment, we impose limits on investment in sovereigns, etc., that violate social standards. We added Russian and Belarusian government bonds, in relation to the invasion of Ukraine.

## Disclosure Based on TCFD recommendations

### Indicators and Targets

SMDAM has established interim targets for 2030 based on our commitment to NZAMI ("Setting an Interim Targets for 2030 Based on Commitment to the Net Zero Asset Managers Initiative" [https://www.smd-am.co.jp/english/pressrelease/2023/NewsRelease\\_20230227\\_E.pdf](https://www.smd-am.co.jp/english/pressrelease/2023/NewsRelease_20230227_E.pdf)).

In addition to monitoring the status of progress related to interim targets that have been set, we are also endeavoring to expand coverage of our AUM.



#### [NZAMI Targets]

Item	Explanation	Notes
Scope	GHG emissions from the SMDAM portfolio	
Indicator	Carbon footprint	Indicators such as weighted average carbon intensity are also monitored as reference indicators.
Target	Net zero emissions by 2050 Reduce by half compared with end-March 2021 by 2030	Reference date: March 31, 2021; 96tCO <sub>2</sub> e/million USD Measurement date: March 31, 2023; 74tCO <sub>2</sub> e/million USD
Scope	Scopes 1 and 2	We also monitor indicators including Scope 3 emissions at investees. We plan to consider setting targets for Scope 1-3 emissions at investees, based on the progress of data disclosure at investees.
Coverage	Equivalent to 54% of SMDAM AUM (end-March 2022)	If the scope of assets for which GHG emissions can be calculated under international standards grows, SMDAM will appropriately expand the scope of applicable AUM.

#### [Information about TCFD disclosure]

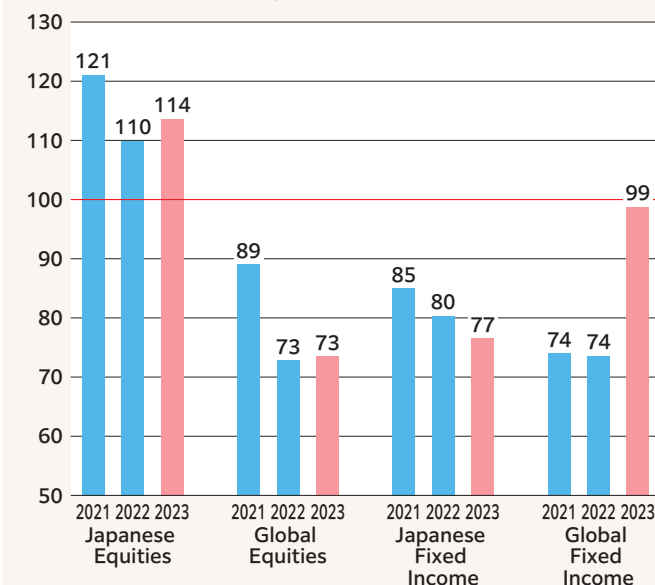
Item	Explanation	Notes
SMDAM portfolio	Japanese equities, global equities, Japanese fixed income, and global fixed income, managed in-house by SMDAM or externally-consigned	From 2023, AUM externally consigned to funds of funds (FOFs) have been added to the scope of applicable assets.
GHGs	Greenhouse gases	Carbon dioxide, methane, dinitrogen monoxide, specified fluorine compounds
Portfolio GHG emissions	Total GHG emissions linked to portfolio	$\Sigma$ [GHG emissions of issuers × (Value of issuer holdings) ÷ {(Issuer market cap) + (Total issuer interest-bearing debt)}]
Carbon footprint	GHG emissions per million USD portfolio value under the TCFD recommendations	Portfolio GHG emissions ÷ Portfolio value Carbon footprint for Japanese and global fixed income excludes government bonds, local government bonds, and government institution-related bonds.
Weighted average carbon intensity	Weighted average by holding weight of carbon intensity of each investee company	$\Sigma$ [(Issuer GHG emissions) ÷ (Issuer net sales)] × [(Value of issuer holdings) ÷ (Portfolio value)]
Carbon intensity	GHG emissions per million USD of net sales of investee companies	Portfolio GHG emissions ÷ $\Sigma$ [(Issuer net sales) × (Value of issuer holdings) ÷ {(Issuer market cap) + (Total issuer interest-bearing debt)}]
Benchmark	TOPIX for Japanese equities, MSCI Kokusai for global equities, Nomura-BPI for Japanese fixed income, and Bloomberg Global Aggregate Ex-Japan for global fixed income	
Scope	Scopes 1-3	

### SMDAM Portfolio Status

#### GHG emissions from the SMDAM portfolio (Figures 1 and 2)

A comparative analysis of our carbon footprint (Scopes 1-3) against benchmarks for each asset class shows that while results for Japanese equities exceeded benchmarks, results for global equities and Japanese fixed income fell below them. This was impacted by the fact that value equities make up a relatively large portion of our Japanese equities portfolio, and we are overweight in capital goods and materials sectors, which emit large amounts of GHGs. The large increase in the carbon footprint of our global fixed income was due to an increase in our investment exposure to India and other emerging markets, in line with the expansion of the scope of calculation to include externally consigned FOFs.

**Figure 1** SMDAM portfolio by asset class  
Carbon footprint (as of March of each year)



The benchmark for each year is set at 100  
(Source) Prepared by Sumitomo Mitsui DS Asset Management based on MSCI data  
Please refer to Disclaimer on page 54.

**2 Analysis of Transition Risks and Physical Risks in Portfolio (Figure 3)**

Using the “CVaR” analysis tool supplied by MSCI, we performed an analysis of the transition and physical risks in our portfolio.

The purpose of this analysis of multiple scenarios is to quantitatively ascertain the potential loss of value in our portfolio from climate change stress. More so than extracting accurate forecast figures, it is designed to enable us to draw up a future image of a scenario in which we subject our portfolio to stress without taking sufficient action.

The changes from the results of last year’s analysis are as follows. We believe that changes to MSCI’s evaluation models had a significant impact.

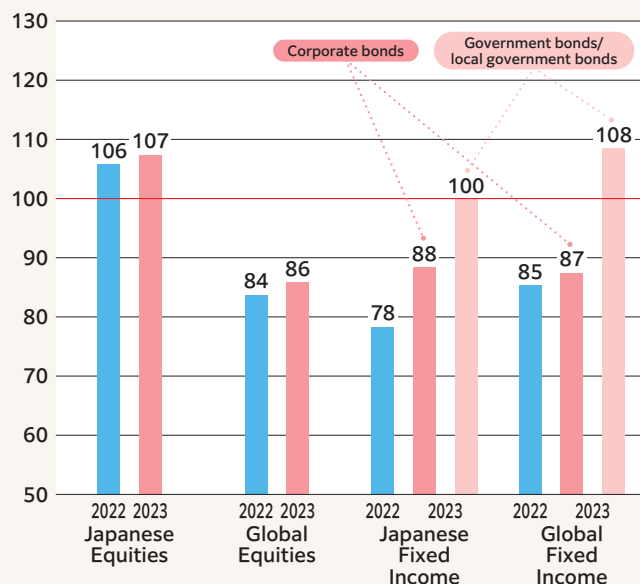
The risk of loss in the value of our portfolio increased compared with the previous year under the strictest scenario, where the rise in temperatures by 2100 is limited to 1.5°C.

Transition risks	Technological opportunities	The result of easing under the 1.5°C was reduced to +2.6% (+9.3% in the previous year).
	Policy risks	The risk of value loss related to Scope 3 emissions (supply chain emissions) under the 1.5°C scenario grew to -7.6% (-4.0% in the previous year).
Physical risks		The risk of value loss related to excessive heat under the 1.5°C scenario grew to -9.1% (-5.7% in the previous year).

**3 Analysis of Conformance of Portfolio with Paris Agreement (Figure 4)**

For the implied temperature rise index, we indicate conformant climate change target estimates in “°C” units based largely on the GHG emission targets that our investee companies have committed to. We have arrived at the result that 64% (49% in the previous year) of our portfolio will be conformant with the 2°C scenario under the Paris Agreement in the future. On the other hand, investee companies that will not be conformant with the Paris Agreement at all under existing plans (the area indicated by the red line graph) constitute just 10% of our portfolio (16% in the previous year). We encourage investee companies to acquire SBT 1.5°C target certification, and this analysis indicates the success of these activities.

**Figure 2** SMDAM portfolio by asset class  
Weighted average carbon intensity (as of March of each year)



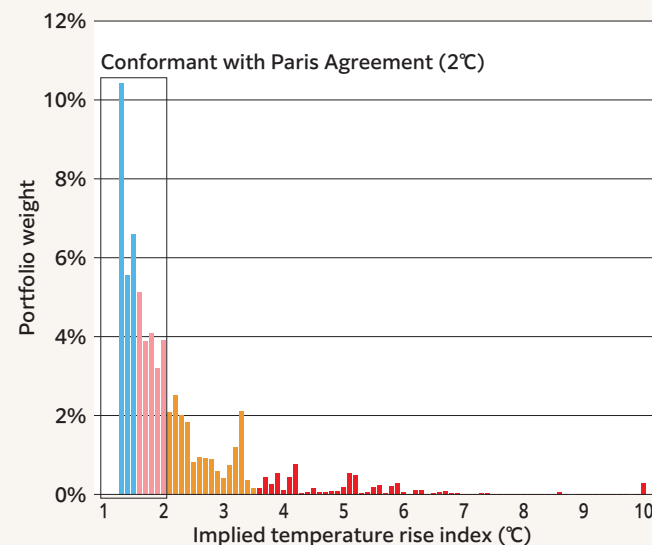
The benchmark for each year is set at 100  
(Source) Prepared by Sumitomo Mitsui DS Asset Management based on MSCI data  
Please refer to Disclaimer on page 54.

**Figure 3** Potential loss of value of portfolio by temperature rise scenario (as of March 2023) (%)

Asset class	Scenario	Companywide portfolio		
		1.5°C	2.0°C	3.0°C
Transition risks		-11.3	-7.8	-2.4
Policy risks	Scope 1	-5.4	-4.8	-2.2
	Scope 2	-0.8	-0.4	-0.2
	Scope 3	-7.6	-3.8	-0.5
Technological opportunities		2.6	1.3	0.5
Physical risks (by cause)		-17.9	-17.9	-22.1
Excessive heat		-9.1	-9.1	-11.1
Coastal flooding		-7.1	-7.1	-8.8
Typhoons		-1.8	-1.8	-4.2
Heavy rain		-1.0	-1.0	-1.5
Flooding		-0.6	-0.6	-0.8
Rivers overflowing		-0.2	-0.2	-1.1

(Source) Prepared by Sumitomo Mitsui DS Asset Management based on MSCI data  
Please refer to Disclaimer on page 54.

**Figure 4** Distribution of implied temperature rise index (°C) (as of March 2023)



(Source) Prepared by Sumitomo Mitsui DS Asset Management based on MSCI data  
Please refer to Disclaimer on page 54.



## Important Precautions

### Precautions Related to Investment Advisory Contracts and Discretionary Investment Management Contracts (Risks and Expenses)

#### Risks related to investment advisory contracts and discretionary investment management contracts

Financial products and financial derivatives products that are invested in under discretionary investment management contracts or for which investment is advised under investment advisory contracts may incur losses due to fluctuations in interest rates, currency values, market prices on financial instruments markets, or other financial indicators.

The variable factors include the risk of price fluctuations in marketable securities and other instruments, the credit risk of issuers and other bodies, the risk of fluctuations in interest rates and financial markets, and liquidity risk, specifically, the inability to execute transactions under conditions of sufficient liquidity. (Foreign denominated assets are also subject to foreign exchange risk.)

The client's investment principal, therefore, is not guaranteed, and a loss of principal may be incurred if the value of financial instruments or other assets declines.

When margin transactions or futures/options transactions (hereunder "derivatives transactions") are used in connection with investment of assets under management, the derivatives transactions amount may exceed the amount of the customer margin or other guarantee money (hereunder "customer margin, etc."), and losses exceeding the customer margin, etc. may be incurred as a result of fluctuations in interest rates, currency values, market prices on financial instruments markets, or other financial indicators.

Customer margin, etc. amounts and calculation methods vary depending on the transaction's circumstances and counterparty, so it is not possible to indicate the ratio of the derivative transactions amount to the customer margin, etc. amount.

#### Fees and commissions on investment advisory contracts and discretionary investment management contracts

##### Investment management fee

A fixed management fee is charged for investment advisory contracts and discretionary investment management contracts. It is calculated by multiplying the contract asset amount (the base amount used to calculate investment advisory fees) by a rate\* set in advance.

\* This rate varies depending on the provisions of the contract with the client, investment conditions, and other factors, so it cannot be stated in advance. The details of contract asset amounts and calculation methods are determined separately in consultation with the client. Depending on the contract's provisions, an incentive fee may also be charged in addition to the aforementioned management fee.

##### Other fees and commissions

The following fees and commissions are charged in addition to the aforementioned investment advisory fees.

- (1) Trading commissions for financial products charged on assets under management
- (2) Reserves for trust assets and the trust fees and trust administrative expenses\* deducted from trust assets when investments are made in investment trusts in accordance with discretionary investment management contracts.
- (3) Management fees and incentive fees to foreign investment managers, management and custodial fees to investment trust management and custodial companies, trustee fees, audit fees, and other investment trust management expenses deducted from trust assets when investments are made in foreign domiciled investment trusts in accordance with discretionary investment management contracts.

\* In the case discretionary accounts invest in investment trusts various expenses include the audit expenses of investment trusts.

As the actual amount of these commissions, etc. are determined based on the specifics of transactions, etc., and are recognized as expenses whenever incurred or billed, or fluctuates depending on the status of investments, etc., the maximum amount and calculation method of these commissions, etc. cannot be stated herein.

The upper limit and calculation method, etc. for the total amount of the aforementioned investment advisory fees and other fees and commissions charged to the client cannot be indicated herein for the reasons stated above.

Note: The above risks, fees, etc. differ depending on the specifics of contracts and the status of investments, etc. Therefore, before entering into a contract, please confirm written documents prior to concluding the contract.

As of September 30, 2023

#### For institutional account clients

- These materials have been prepared for the purpose of introducing information on some of the products that we are capable of providing. They do not constitute a disclosure document in accordance with the Financial Instruments and Exchange Act of Japan.
- The risks and returns described herein are calculated based on historical data, our current outlook for the economy, and other factors, and do not constitute a guarantee of future risks or returns.
- Data on rates of returns not from actual funds, including that from simulations described herein, does not include compensation, transaction fees, rebalancing costs, etc. incurred in actual fund management.
- The investment products and methods described herein do not guarantee future investment performance or principal, and it is possible that investments will incur losses. All investment outcomes, including losses, are attributed to the client.
- Market projections and other forward-looking statements described herein are opinions as of the time these materials were prepared and do not constitute a guarantee of future trends or results. They may not be reflected in current investment policies and may change in the future without notice.
- Third-party evaluations described herein are based on analyses of past performance over a certain period of time and do not constitute a guarantee of future investment results, etc.
- The intellectual property rights and any and all other rights of benchmark indexes described herein belong to their respective issuers and licensors.
- These materials have been prepared based on information believed to be reliable. However, we assume no responsibility for their accuracy or completeness.
- All rights to the contents of these materials are reserved by SMDAM. It is strictly prohibited to use this document for investment purposes and to duplicate or disclose it to third parties without approval.
- Reference may be made to individual stocks herein. However, this is for illustration purposes and may not necessarily indicate that those stocks will be invested in. Additionally, this does not constitute a recommendation of these stocks.

## Precautions Related to Investment Trusts (Risks and Expenses)

### Risks related to investment trusts

The prices of investment trusts fluctuate because they are affected by the price movements of the securities included in them (foreign currency denominated assets are also subject to exchange rate fluctuations). Losses may be incurred when prices decline, and this may result in a loss of principal.

All gains and losses generated by a fund from its investments are attributed to the beneficiary. Unlike bank deposits, investment trusts do not guarantee principal and also do not guarantee any particular investment performance.

### Expenses related to investment trusts

Customers need to pay the following expenses related to investment.

#### ■ Expenses charged directly

Transaction fee: **Up to 3.85% (tax included)** Redemption (cancellation) fee: **Up to 1.10% (tax included)** Redemption fee reserved as part of trust assets: **Up to 0.50%**

#### ■ Expenses incurred indirectly during the holding period of the investment trust

Trust fees: **Up to 2.255% annually (including tax)**

#### ■ Other expenses

The following fees and commissions are also paid out of trust assets: audit fees; brokerage commissions and other charges on traded securities; expenses for derivative transactions (including consumption and other taxes); and charges for the custody of assets overseas, etc. Some investment trusts also set incentive fees, and these fees are paid out of trust assets. If a fund invests in other funds, asset management fees and other expenses from those funds are incurred indirectly. Because these charges depend on the specifics of the transaction and other factors and because they change depending on investment conditions, upper limits and calculation methods cannot be specifically stated in advance.

\* The total amount of the abovementioned fees and commissions borne by clients, and their upper limits and calculation methods, cannot be stated specifically in advance because they vary depending on the client's holding period and other factors.

Caution : The above risks and expenses pertain to investment trusts in general. The rates listed are the highest applicable for their respective fees among the investment trusts we manage. Furthermore, as the risks and charges entailed by an investment trust vary from one trust to another, before making an investment the client is requested to read carefully all relevant items within the investment trust summary prospectus and the other documents provided prior to signing a contract.

Investment Trusts are unlike deposit/saving or insurance contract, not protected by Deposit Insurance/Saving Insurance/Policyholders Protection Corporation. In addition, when purchased through registered financial institutions, they are not covered by the Investor Protection Fund.

Please note that investment trusts cannot be redeemed or canceled during the closed period or on public holidays in Japan or overseas.

As of September 30, 2023

### For investment trust distributors and individual investors

- This document has been prepared by Sumitomo Mitsui DS Asset Management for the purpose of providing information.
- It is not intended to recommend or solicit the purchase or sale of any particular investment trust, life insurance policy, stock, bond, or other investment product.
- Sumitomo Mitsui DS Asset Management bears no liability for the outcome of investment actions taken on the basis of this document.
- The information contained in this document is current as of the date it was prepared and is subject to change without prior notice.
- Data and analysis on market conditions, etc. that may be contained in this document represent past performance and future projections and do not guarantee future market conditions.
- This document has been prepared based on information believed to be highly reliable, but its accuracy and completeness cannot be guaranteed.
- All intellectual property rights and other rights pertaining to indexes and statistical materials, etc. that may be contained in this document belong to their respective issuers and licensors.
- Photographs that may be included in this document are for illustrative purposes only and may be unrelated to the text.
- Reference may be made to individual stocks herein. However, this is for illustration purposes and may not necessarily indicate that those stocks will be invested in. Additionally, this does not constitute a recommendation of these stocks.

This disclosure was developed using information from MSCI ESG Research LLC or its affiliates (the "ESG Parties"). Although the ESG Parties obtain information (the "Information") from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. The Information may not be reproduced or disseminated in any form and may not be used as an index or component of any financial instruments or products. Further, none of the Information can in and of itself be used for any future investment decisions. None of the ESG Parties shall have any liability for any errors or omissions in connection with the Information or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. Note that the English-language version of this disclaimer will take precedence over its Japanese translation should any disparity in content between the two be present.

This disclosure was developed using information from MSCI ESG Research LLC or its affiliates or information providers. Although SUMITOMO MITSUI DS ASSET MANAGEMENT COMPANY, LIMITED'S information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information (the "Information") from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. The Information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for, or a component of, any financial instruments or products or indices. Further, none of the Information can in and of itself be used to determine which securities to buy or sell or when to buy or sell them. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Report current as of November 17, 2023

# Be. Active.

その一歩で、未来は変えられる。

 Sumitomo Mitsui DS Asset Management

Registration number: The Director of Kanto Local Finance Bureau (KINSHO) No. 399

Membership: The Investment Trusts Association, Japan /

Japan Investment Advisers Association /

Type II Financial Instruments Firms Association