



Sumitomo Mitsui DS Asset Management

# ENVIRONMENT, SOCIAL AND GOVERNANCE REPORT

## JULY – DECEMBER 2021

31 December 2021

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# 1-1 Policy and Initiatives for ESG Investment

## Basic Policy on ESG Investment

Sumitomo Mitsui DS Asset Management (SMDAM) believes that non-financial information including environmental, social, and governance (ESG) information is equally important as financial information for us to evaluate sustainability of businesses and impact on long-term profitability of corporation and REIT (corporations) given the increasing interest on environmental changes and SDGs. In that context, we proactively take following actions.

- We incorporate analysis and evaluation of non-financial information including ESG information into investment process of every product across variety of asset classes, taking account of characteristics of products. With our commitment to do this, we aim to be a front runner in the field of ESG investment.
- We exercise our voting rights taking in to account engagement activities relating to ESG theme.
- In course of engagement activities with corporations, we aim to enhance their enterprise value by encouraging them to take appropriate actions to address ESG agendas.
- We also encourage corporations to disclose more detailed information of ESG related policies and actions, which we believe leads to favourable reputation among capital market participants.

In March 2010, we became a signatory of the United Nations' Principles for Responsible Investment ("PRI"). As a responsible institutional investor, we will contribute to the realisation of a sustainable society not only by providing high-quality investment returns to our clients and beneficiaries, but also by resolving environmental issues such as climate change and environmental preservation, social issues such as human rights and the aging of society, and governance issues to enable investee companies to appropriately incorporate these ESG issues in their management.

## Our ESG Priority Themes

As an asset management company with its competitive edge in active investments, we naturally and not only conduct thorough research and analyse the material idiosyncratic aspects of each company for investments, but we also encourage these companies to make concrete efforts related to the following three essential and globally generic ESG themes.

1. Environmental Issues: Safety of Lives
2. Social Challenges: Improving the Quality of Life
3. Governance and Disclosure

Through these initiatives, we seek to deliver the "best in quality" performance to our clients while contributing to the sound development of capital markets, and on a further note to materialize a sustainable society with a better quality of lives through achieving the Sustainable Development Goals (SDGs).

### 1. Environmental Issues: Safety of Life

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#### Our Understandings

Environmental problems, such as frequent flooding and droughts, air, water and soil pollution, and biodiversity crises associated with development, are "clear and Present Crisis" that threaten the safety of human life. In order to overcome this crisis and pass on this planet to the next generation, it is essential to re-examine our lifestyles as individuals, and for companies to undertake

technological innovations and reform business models to reduce the burden on the environment. We also recognise that while a firm's ability to respond to environmental issues shall provide growth opportunities, the inability shall also undermine the firm's sustainability and become a major risk factor for the company.

#### Current Hot Topics

- Climate change
- Environmental conservation and circular economy

#### Our Initiatives

We will encourage companies to establish management goals, implement specific measures, and disclose information, in order to reduce emissions of greenhouse gases such as carbon dioxide to net zero or less by 2050 which correspond to the policies of various countries government. In order to realise a sustainable society, we will assess and incorporate the company's capabilities in responding to environmental issues into our evaluation process. The objective of this initiative is to provide "returns of good quality" to our customers and beneficiaries through our investment products that invest in companies that are engaged to the innovation of a wide range of fields, such as green technology and food technology.

## 2. Social Challenges: Improving Quality of Life

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#### Our Understandings

While poverty and access to medical care as well as human rights issues such as forced labour are important social issues in developing countries on a global basis, the rapidly aging society has become a particularly imminent issue to deal with in Japan. In order to overcome these challenges, to improve the quality of life of people, and to achieve sustainable growth for the society, it is extremely important for companies to diversify workers and work styles with the highest respect to human rights, and to create innovative products and services that lead to dramatic improvements in productivity. At the same time, we also recognise that depending on the companies' ability to respond to such challenges may offer opportunities for growth, but it can also become a significant risk for any businesses which may undermine or even impair the sustainability of a company.

#### Current Hot Topics

- Human rights in supply chains
- Aging society with declining birth rate
- Further utilisation of human capital such as women's participation and advancement in the workplace
- Productivity improvement through digital transformation

#### Our Initiatives

Through engagement, we encourage companies to establish a human rights due diligence framework, to harness the diversity of human resources such as promoting women's participation and to enhance flexible work styles. In addition to incorporating capability of investee companies to respond to social issues into our evaluation process, we aim to deliver high-quality investment returns to our customers and beneficiaries with investment products that invest in companies that drive productivity improvements through digital transformation (DX) and automation/labour saving technologies.

### 3. Governance and Disclosure

#### Our Understandings

We believe that a significant factor which would determine a company's sustainability is the management's ability in responding to "environmental issues" and "social challenges". Therefore, the management's ability to promptly respond to changes in the business environment would be a crucial element. In capital markets, in order to properly reflect non-financial information such as ESG policies and initiatives to stock prices, we believe it is inevitable to enhance disclosure further.

#### Our Initiatives

In order to have their enterprise value appropriately assessed by investors, we encourage companies to strengthen their corporate governance, develop policies and initiatives related to TCFD (Task Force on Climate-related Financial Disclosures) and other ESG issues, and to disclose these policies and initiatives in an easy-to-understand strategy. These encouragements shall be conducted through stewardship activities such as engagements and exercising our proxy voting rights. Especially for Japanese companies, we shall exercise proxy voting rights based on the stringent guidelines we internally established with a view not only to improve the value of individual companies but also to enhance the confidence of foreign investors towards the overall Japanese capital market.

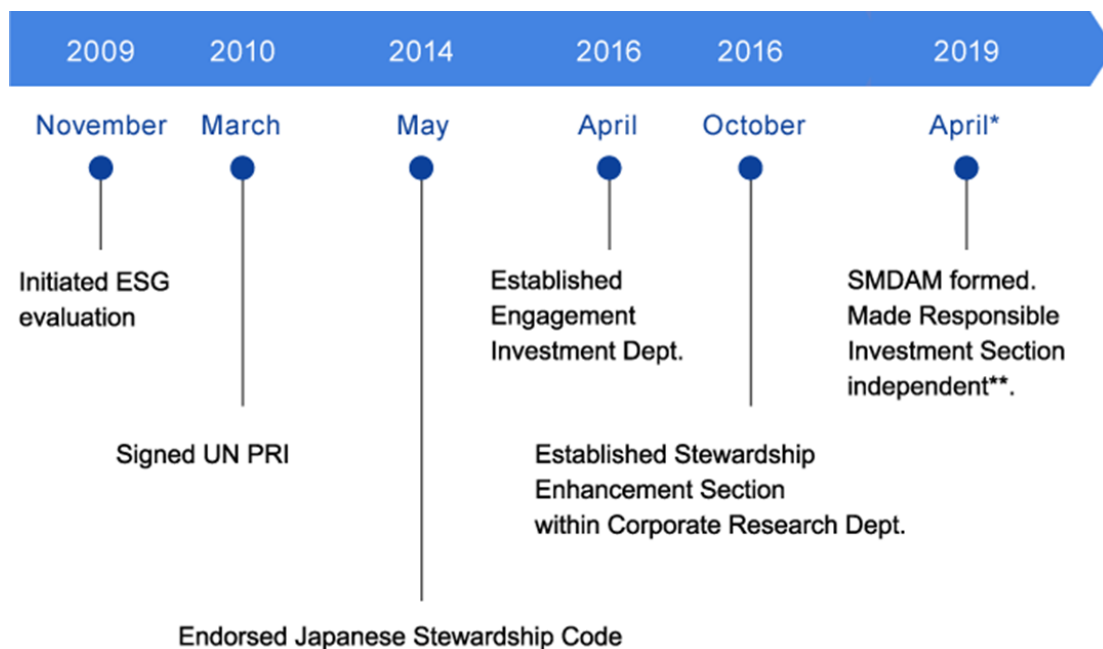
## Sustainability Report

As an asset management company and corporate citizen, our company's sustainability activities and initiatives are summarised in the Sustainability Report which can be accessed on the website URL:

[https://www.smd-am.co.jp/english/corporate/vision/fiduciary/pdf/sustainability\\_report\\_2021\\_en.pdf](https://www.smd-am.co.jp/english/corporate/vision/fiduciary/pdf/sustainability_report_2021_en.pdf)

## Initiatives for ESG Investment

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

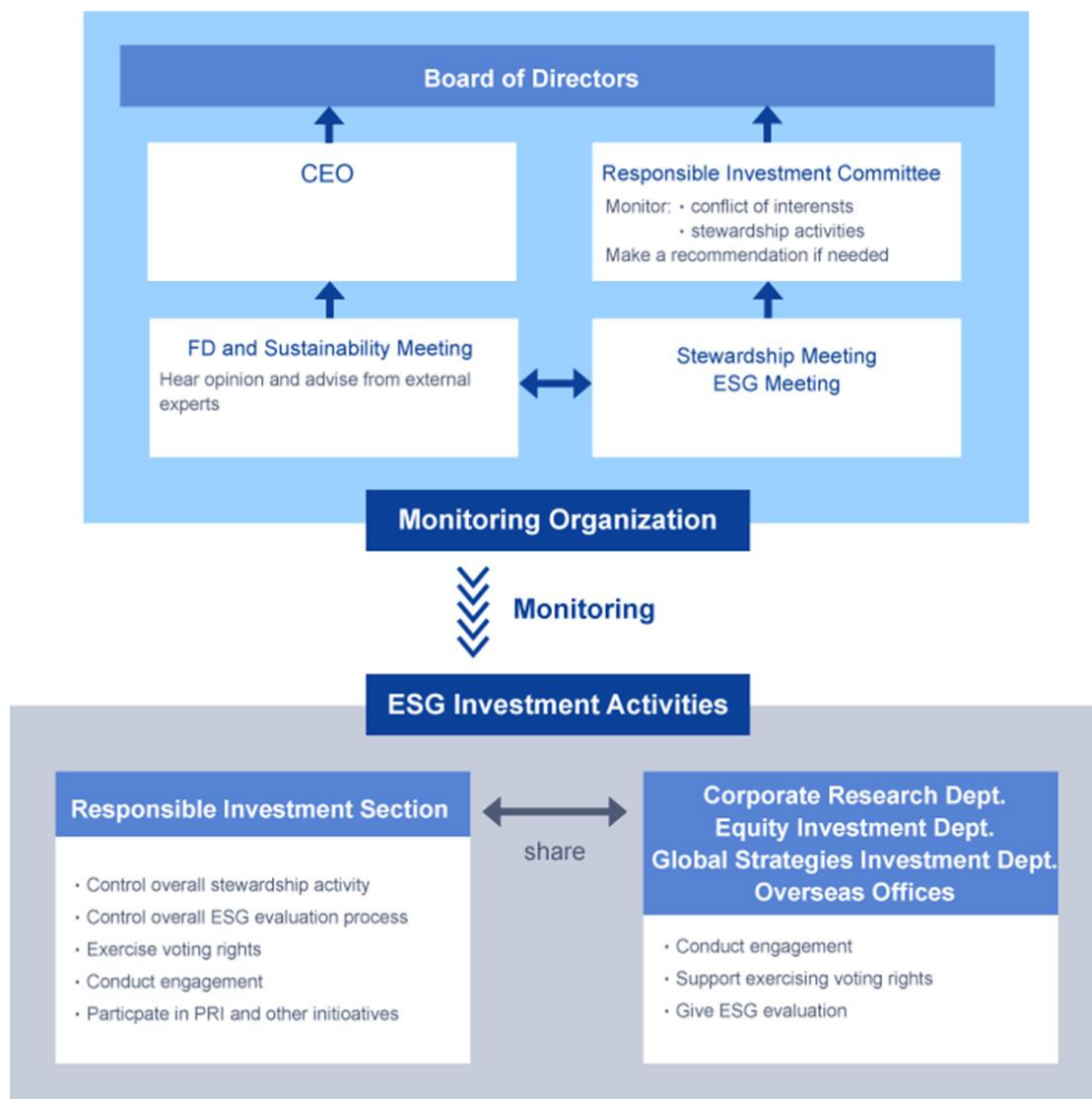


\*Events prior to merger as of April 2019 were those of Sumitomo Mitsui Asset Management.

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

ESG investment activities are monitored by ESG Meeting, Responsible Investment Committee and FD and Sustainability Meeting. ESG Meeting is working-level talks and its role is to monitor if ESG activities are properly implemented and continuously reinforced. Responsible Investment Committee is organised under the board of directors and it consists of independent directors. The role of the committee is to monitor fulfilment of fiduciary duties including responsible investments as well as controls over conflict of interest. The committee makes a proposal to the board whenever needed. FD Sustainability Meeting is an advisory body to CEO and it consists of external experts. The Meeting makes a recommendation to CEO across company-wide activities relating to fiducial duties.

### Organisation chart in charge of ESG investment



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

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

UN PRI were published in April 2006 by the then Secretary-General Kofi Annan with the aim of improving long-term investment results for customers and final beneficiaries, the idea being that institutional investors should first establish a good understanding of ESG issues and then incorporate them into the investment process. We are awarded the highest rating A+ for Strategy & Governance in the annual PRI assessment.

### Principles for Responsible Investment

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





## 1-2 ESG integration for Investment Products

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

In principle, Sumitomo Mitsui DS Asset Management (SMDAM) invites all of fund managers and analysts engaged with active investment management products to take in to account ESG factors, which are material to corporate sustainability, in the course of the investment process\*.

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

- When we entertain doubts about sustainability of corporations due to outcome of our internal ESG research or acknowledgement of any misconducts, we will examine materiality of the incident and difficulty to recover through various means such as interviews and decide to add to negative list if necessary. Such a decision is made by Responsible Investment Officer after deliberation at ESG Meeting. Meanwhile, fund managers and analysts in cooperation with Responsible Investment Section conduct engagements and exercise voting rights to prompt corporations to appropriately address critical issues.
- We take ESG factors into consideration as a material element to evaluate sustainability when we make investment decisions. In particular, we incorporate analysis and evaluation of ESG factors into security selection process to the extent suitable for characteristics of each investment product so that we are able to deliver stable return in the long run.
- We continuously monitor ESG related indicators including greenhouse gas emissions at a portfolio level. Measuring results is evaluated and reflected to investment process going forward if necessary.
- We continuously enhance various ESG integration methods including security screening, engagement activity and the extent of ESG evaluation taken in to account in portfolio construction. With these efforts, we will try to increase a number of products for which ESG factors are deeply integrated. We will also monitor and improve effectiveness of ESG integration.

### Evaluation of ESG factors

A number of corporations our analysts conduct proprietary evaluation analysis on their ESG factors through interviews and engagements exceeds six hundred. Meanwhile, we can access to ESG evaluation provided by third party such as ESG consulting firms, which enable us to cover more than 11,000 corporations/issuers world-wide. Combined with our own ESG evaluation, fund managers utilise these data-sets to assess sustainability of corporations for the products they manage.



## Types of ESG integration

Name		Standard	Sustainability Focus	Social Contribution-Thematic/ Impact Investment
Definition		Manage funds or portfolio with sustainability-related risks and opportunities being as one of important factors in investment decisions. In addition to the case where certain companies and sectors set forth in the investment guidelines are excluded, there are cases where the Company places limits, at its discretion, on holding of companies in which material problems and concerns are raised for sustainability.	Manage funds or portfolio by selecting companies, among extensive investment universes, that excel in the sustainability characteristic by qualitative or quantitative methods or companies that are expected to improve the characteristic through engagement activities.	Manage funds or portfolio by investing in companies that contribute to improvement of sustainability of society such as SDGs.
Factors of ESG Integration*	Screening	Negative screening (Exclude companies restricted by investment guidelines or companies the Company considers ineligible)	Same as on the left (Depending on investment methods for products, may apply some restriction for security selection based on sustainability evaluation)	Positive screening (Apply a certain criteria to define investable universe)
	Engagement	Consider the need for engagement with ESG theme for each investee company, and conduct engagement if necessary	Same as on the left (Depending on investment methods for products, may conduct additional engagement)	Same as on the left
	Consideration of sustainability	Evaluate sustainability as one of important factors in investment decisions	Define how to evaluate sustainability and use the outcome within investment process clearly and specifically.	Same as on the left
Products* (as of the end of August 2020)		In principle, all active investment products (excluding products shown on the right)	<ul style="list-style-type: none"> <li>•Japan Equity New Alpha Fund</li> <li>•Japan Equity Quality Focus Fund</li> <li>•Japan Equity Engagement Strategy</li> <li>•Japan Equity ESG Fund</li> <li>•Japan Bond Credit Active type</li> <li>•Japan Equity Value (TOPIX, Large Cap)</li> </ul>	<ul style="list-style-type: none"> <li>•Japan Impact Fund</li> <li>•Global Impact Fund</li> <li>•Global SDGs Equity Fund</li> <li>•Global SDGs High Income Fund</li> </ul>

Source: SMDAM, as at 31 August 2021.

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

## 2-1 Acceptance of Japan's Stewardship Code

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

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

### Principle 1: Policy on fulfilling stewardship responsibilities

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

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

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

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

For a general summary of SMDAM's policy on conflicts of interest, please refer to "Overview of conflict of interest management policy" on the Homepage.

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

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

#### ■ Conflicts of interest related to investment activities

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

■ Conflicts of Interest related to the exercise of voting rights

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

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

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

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

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

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

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

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

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

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

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

In dialogue with investee companies, etc., SMDAM will make every effort to avoid receiving unpublished material information. In the rare event that SMDAM is the recipient of insider information, SMDAM will encourage the investee company, etc. in question to publicly disclose the information as soon as possible, and SMDAM's designated person in charge of information management will ensure that the information is properly managed and that no improper transactions are made. SMDAM will not engage in illicit investment decision-making or transactions based on insider information, etc.

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

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For details, please see the chapter "Basic Policy on Exercise of Voting Rights."

SMDAM considers the role of executive boards that are properly equipped with the capacity to supervise/monitor corporate management (such as the Board of Directors) to be important, and it will engage in dialogue on the composition of executive boards, compensation and incentives and establishment of education/screening/succession plans for top management, as well as appropriate ESG risk control and dialogue on internal controls, etc. to prevent any improprieties. The way that SMDAM exercises its voting rights will then properly reflect these factors.

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

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

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

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

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

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

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

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

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

SMDAM has accumulated asset management know-how over many years and has personnel with a wealth of experience. SMDAM's Board of Directors, which includes three external directors, is diverse, with a range of skills and experience, having sufficient independence and providing strong oversight. It is believed that the consolidation of the responsible institutional investors' management resources required to create value will also make a significant contribution to improving the company's capacity to fulfil its stewardship responsibilities. SMDAM aims to be a top-tier asset management company that contributes to "quality of life," and to that end works continuously to strengthen its systems by "continually striving ahead to new challenges as true professionals." In the Responsible Investment Committee and the Board of Directors, SMDAM strives to test the effectiveness of its stewardship activities in continually improving the value of investee companies, etc., and strengthen its preparedness by conducting regular self-evaluations on how each principle of this code is being implemented and the results will generally be published once a year on its website.

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

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

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

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

## Japan's Stewardship Code: Principles for Responsible Institutional Investors

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

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

## 2-2 Engagement Activity Results

At Sumitomo Mitsui DS Asset Management, the fund managers and analysts engage in constructive dialogue with investee companies and other entities with the objectives of (1) enhancing the sustainability of investee companies and their ecosystems, and (2) enhancing the value of investee companies and avoiding impairment (and thereby providing customers and ultimate beneficiaries with high-quality investment returns). Recent activities are summarised in the Engagement Activity Results which can be accessed on the website URL

[https://www.smd-am.co.jp/english/corporate/responsible\\_investment/pdf/engagement\\_activity\\_2020.pdf](https://www.smd-am.co.jp/english/corporate/responsible_investment/pdf/engagement_activity_2020.pdf)



## 3-1 Policy on Exercise of Voting Rights (July 2020)

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

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

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

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

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

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

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

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

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

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

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

When SMDAM exercises its voting rights in companies with which it has close ties and affiliated parties, etc. (such as a shareholder company), it will act in the best interests of customers and final beneficiaries and vote to improve the value of, or mitigate damage to, the investee company, etc. In general, SMDAM



will itself exercise its voting rights in companies that present the potential for a conflict of interest in accordance with the [Criteria for Determining the Exercise of Voting Rights](#) as it does for other companies, etc., but for resolutions at SMDAM's shareholder companies and other parties for which management of conflicts of interest is especially important, SMDAM will exercise its voting rights with reference to the recommendations of an independent external proxy advisory firm (currently Institutional Shareholder Services). Furthermore, the results of voting will be periodically monitored by the Responsible Investment Committee and transparency will be further increased through the public disclosure of the results of voting (affirmative/negative) for each investee company, etc., and each proposal.

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

Note that when exercising voting rights in investee companies, etc. that have participated in "deep dialogue (\*3)," SMDAM will consider the content of the dialogue and apply the [Criteria for Determining the Exercise of Voting Rights](#) more flexibly, making judgments from a medium- to long-term perspective based on individual circumstances.

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

(\*3) "Deep dialogue" indicates dialogue that includes not only short-term performance and business strategy but also sustainability of growth and improvement of value in (or mitigation of damage to) the investee company, etc. from a medium- to long-term perspective, as well as the exercise of voting rights, etc. to support these objectives.

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

SMDAM believes that investee companies, etc., need to fulfil their social responsibilities to improve their value or mitigate damage in the medium to long term. In addition to complying with laws and statutory regulations, SMDAM believes that sound management contributes to the value of investee companies, etc., i.e. management that respects cooperative relationships with stakeholders besides shareholders (or investors) such as consumers, business partners, local communities, and society in general. Moreover, SMDAM takes the view that any acts affecting social credibility have significant potential to damage the value of investee companies, etc., regardless of whether such acts are short term or long term.

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

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

## 4. Disclosure of voting results

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

## 3-2 Results of Exercise of Proxy Voting Rights (April - June and July - September 2021)

To appropriately deal with conflicts of interest and further enhance the visibility of its exercise of voting rights, Sumitomo Mitsui DS Asset Management (SMDAM) will individually disclose voting results of all proposals for which it exercises voting rights it holds in investee companies and investment corporations.

### Japanese Equities: April to June 2021

Results of Exercise of Proxy Voting Rights (April - June, 2021)

Nature of Resolution	Total No. of Resolutions	Supported	Opposed	Abstained	Carte Blanche
<b>Management Resolutions</b>	<b>17,963</b>	<b>13,909 (77.4%)</b>	<b>4,054 (22.6%)</b>	<b>0</b>	<b>0</b>
<b>Resolutions Concerning Company Organs</b>					
Appointment and dismissal of directors *1	14,077	10,695 (76.0%)	3,382 (24.0%)	0	0
Appointment and dismissal of auditors *1	1,351	1,049 (77.6%)	302 (22.4%)	0	0
Appointment and dismissal of accounting auditors	61	55 (90.2%)	6 (9.8%)	0	0
<b>Resolutions Concerning Remuneration of Officers</b>					
Executive compensation *2	756	650 (86.0%)	106 (14.0%)	0	0
Payment of retirement benefits	98	9 (9.2%)	89 (90.8%)	0	0
<b>Resolutions Concerning Capital Policy</b>					
Appropriation of retained earnings	1,123	1,010 (89.9%)	113 (10.1%)	0	0
Matters related to restructuring *3	36	36 (100.0%)	0 (0.0%)	0	0
Introduction, renewal, or abolition of takeover defense measures	50	3 (6.0%)	47 (94.0%)	0	0
Other capital policy proposals *4	56	55 (98.2%)	1 (1.8%)	0	0
Partial amendment of the articles of incorporation	351	346 (98.6%)	5 (1.4%)	0	0
Other proposals	4	1 (25.0%)	3 (75.0%)	0	0
<b>Shareholder resolutions</b>	<b>161</b>	<b>23 (14.3%)</b>	<b>138 (85.7%)</b>	<b>0</b>	<b>0</b>
<b>Resolutions Concerning Company Organs</b>					
Appointment and dismissal of directors *1-5	35	0 (0.0%)	35 (100.0%)	0	0
Appointment and dismissal of auditors *1	2	1 (50.0%)	1 (50.0%)	0	0
Appointment and dismissal of accounting auditors	0	0	0	0	0
<b>Resolutions Concerning Remuneration of Officers</b>					
Executive compensation *2-6	12	6 (50.0%)	6 (50.0%)	0	0
Payment of retirement benefits	0	0	0	0	0
<b>Resolutions Concerning Capital Policy</b>					
Appropriation of retained earnings	9	2 (22.2%)	7 (77.8%)	0	0
Matters related to restructuring *3	0	0	0	0	0
Introduction, renewal, or abolition of takeover defense measures	1	1 (100.0%)	0 (0.0%)	0	0
Other capital policy proposals *4	10	1 (10.0%)	9 (90.0%)	0	0
Partial amendment of the articles of incorporation	92	12 (13.0%)	80 (87.0%)	0	0
Other proposals	0	0	0	0	0

\*1 Vote is implemented by candidate

\*2 Amendment of director compensation, issuance of stock options, introduction/revision of performance-linked stock compensation system, and bonuses for officers.

\*3 Mergers, business hand-overs/take-overs, share exchanges, share transfers, and company splits, etc.

\*4 Acquisition of treasury stock, decrease in statutory reserves, increases in capital by third party allotment, capital decrease, reverse stock split, class share issuance, etc.

\*5 Includes audit committee

\*6 Includes disclosure of director compensation

From the perspective of responding to concerns about conflicts of interests, (i) in its exercise of voting rights on all proposals of its major shareholders including Sumitomo Mitsui Financial Group, Daiwa Securities Group, and MS&AD Insurance Group Holdings, SMDAM will vote in favour of resolutions only when recommendations of external advisory bodies and SMDAM standards indicate both in favour; and (ii) as a general rule, for resolutions regarding the appointment of directors and auditors who were either employees/officers of SMDAM or CEOs/Representative Directors of SMDAM's major shareholders, SMDAM will vote in favour of those resolutions only when recommendations of external advisory bodies and SMDAM standards indicate both in favour. The number of resolutions for which voting rights were exercised at shareholder general meetings held from April to June 2021 was 17,963 for company-proposed resolutions and 161 for shareholder-proposed resolutions. With regard to the types of resolutions, "Appointment or dismissal of directors" was the largest in number at 14,077, followed by "Appointment and dismissal of auditors" at 1,351, "Appropriation of retained earnings" at 1,123, "Executive compensation" at 756, and "Partial amendment of the articles of incorporation" at 351.

In light of "Criteria for Determining the Exercise of Voting Rights" and "Current policy and future direction on the exercise of voting rights in Japanese equities", SMDAM judged all resolutions, the objection rate of which resulted in 22.6% for company-proposed resolutions. With regard to the types of resolutions, the objection rate was 24.0% for "Appointment or dismissal of directors," 22.4% for "Appointment and dismissal of auditors," 10.1% for "Appropriation of retained earnings," 14.0% for "Executive compensation," and 1.4% for "Partial amendment of the articles of incorporation."

## Japanese Equities: July to September 2021

### Results of Exercise of Proxy Voting Rights (July -September, 2021)

Nature of Resolution	Total No. of Resolutions	Supported	Opposed	Abstained	Carte Blanche
<b>Management Resolutions</b>	<b>1,393</b>	<b>1,089 (78.2%)</b>	<b>304 (21.8%)</b>	<b>0</b>	<b>0</b>
<b>Resolutions Concerning Company Organs</b>					
Appointment and dismissal of directors *1	1,059	817 (77.1%)	242 (22.9%)	0	0
Appointment and dismissal of auditors *1	69	46 (66.7%)	23 (33.3%)	0	0
Appointment and dismissal of accounting auditors	7	7 (100.0%)	0 (0.0%)	0	0
<b>Resolutions Concerning Remuneration of Officers</b>					
Executive compensation *2	72	56 (77.8%)	16 (22.2%)	0	0
Payment of retirement benefits	13	1 (7.7%)	12 (92.3%)	0	0
<b>Resolutions Concerning Capital Policy</b>					
Appropriation of retained earnings	96	88 (91.7%)	8 (8.3%)	0	0
Matters related to restructuring *3	6	6 (100.0%)	0 (0.0%)	0	0
Introduction, renewal, or abolition of takeover defense measures	1	0 (0.0%)	1 (100.0%)	0	0
Other capital policy proposals *4	13	13 (100.0%)	0 (0.0%)	0	0
Partial amendment of the articles of incorporation	56	55 (98.2%)	1 (1.8%)	0	0
Other proposals	1	0 (0.0%)	1 (100.0%)	0	0
<b>Shareholder resolutions</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Resolutions Concerning Company Organs</b>					
Appointment and dismissal of directors *1-5	0	0	0	0	0
Appointment and dismissal of auditors *1	0	0	0	0	0
Appointment and dismissal of accounting auditors	0	0	0	0	0
<b>Resolutions Concerning Remuneration of Officers</b>					
Executive compensation *2-6	0	0	0	0	0
Payment of retirement benefits	0	0	0	0	0
<b>Resolutions Concerning Capital Policy</b>					
Appropriation of retained earnings	0	0	0	0	0
Matters related to restructuring *3	0	0	0	0	0
Introduction, renewal, or abolition of takeover defense measures	0	0	0	0	0
Other capital policy proposals *4	0	0	0	0	0
Partial amendment of the articles of incorporation	0	0	0	0	0
Other proposals	0	0	0	0	0

- \*1 Vote is implemented by candidate
- \*2 Amendment of director compensation, issuance of stock options, introduction/revision of performance-linked stock compensation system, and bonuses for officers.
- \*3 Mergers, business hand-overs/take-overs, share exchanges, share transfers, and company splits, etc.
- \*4 Acquisition of treasury stock, decrease in statutory reserves, increases in capital by third party allotment, capital decrease, reverse stock split, class share issuance, etc.
- \*5 Includes audit committee
- \*6 Includes disclosure of director compensation

From the perspective of responding to concerns about conflicts of interests, (i) in its exercise of voting rights on all proposals of its major shareholders including Sumitomo Mitsui Financial Group, Daiwa Securities Group, and MS&AD Insurance Group Holdings, SMDAM will vote in favour of resolutions only when recommendations of external advisory bodies and SMDAM standards indicate both in favour; and (ii) as a general rule, for resolutions regarding the appointment of directors and auditors who were either employees/officers of SMDAM or CEOs/Representative Directors of SMDAM's major shareholders, SMDAM will vote in favour of those resolutions only when recommendations of external advisory bodies and SMDAM standards indicate both in favour.

The number of resolutions for which voting rights were exercised at general shareholders meetings held from July to September 2021 was 1,393 for company-proposed resolutions and 0 for shareholder-proposed resolutions. With regard to the types of resolutions, "Appointment and dismissal of directors" was the largest in number at 1,059, followed by "Appropriation of retained earnings" at 96, "Executive compensation" at 72, "Appointment and dismissal of auditors" at 69, and "Partial amendment of the articles of incorporation" at 56.

In light of “Criteria for Determining the Exercise of Voting Rights” and “Current policy and future direction on the exercise of voting rights in Japanese equities”, SMDAM judged all resolutions, the objection rate of which resulted in 21.8% for company-proposed resolutions. With regard to the types of resolutions, the objection rate was 22.9% for “Appointment and dismissal of directors,” 8.3% for “Appropriation of retained earnings,” 22.2% for “Executive compensation,” 33.3% for “Appointment and dismissal of auditors,” and 1.8% for “Partial amendment of the articles of incorporation.”

Note: More detailed information (including results for J-REITs) is available at the following URL:

[https://www.smd-am.co.jp/english/corporate/responsible\\_investment/voting/report/](https://www.smd-am.co.jp/english/corporate/responsible_investment/voting/report/)

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