Sustainability Report 2021

Sumitomo Mitsui DS Asset Management

Hitoribocchi ni shinaidene (*Don’t Leave Me Alone*) by Riho Ochiai

About Sumitomo Mitsui DS Asset Management

Our Mission and Vision

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.

Sustainability

As an asset management firm focused on active investing, while conducting research and analyzing material issues specific to each investee company we identify our priority ESG themes common to various industrial sectors and call on the companies to take concrete actions therefor; those are, the safety of human life (as an environmental issue), improving quality of life (as a social challenge), and appropriate corporate governance and disclosure.

In so doing we fulfill our fiduciary duties by providing good investment returns to clients over the long term while promoting the sound development of capital markets and working to build a more sustainable society.

Pursuit of Investment Returns and Sustainable Society

Our ESG Priority Themes

Supporting Innovation

Environmental Issues:
Safety of Life

- Climate change
- Environmental conservation and circular economy

Social Challenges:
Improving Quality of Life

- Human rights in supply chains
- Aging society with declining birth rate
- Further utilization of human capital
- Raising productivity through digital transformation

Enhanced governance and better disclosure

Social mission as a responsible institutional investor

- **Fulfilling fiduciary duties by providing good investment returns**
- **Contributing to sound development of capital markets and economic growth**
- **Contributing to society's sustainability as a good corporate citizen**

Sumitomo Mitsui DS Asset Management at a Glance

Assets Under Management (as of March 31, 2021)

Institutional accounts	Investment trusts	Assets Under Management with Clear ESG Integration (non-consolidated)
USD 89 billions	USD 89 billions	USD 54 billions

*Figures shown in US dollars are conversions from Japanese yen based amounts, at USD/JPY 110.5.

Engagement Activities (FY2020)

Exclusive engagements	Executive officers or higher
2,242	76%

PRI Assessment (2020)

Strategy and governance	A+
ESG incorporation in listed equities	A+
Active ownership in listed equities	A+

Investment Research Platform (as of April 1, 2021)

Investment professionals	Average years of industry experience	CFA/CIIA certification holders
287	Approx. 16.0 years	95

Contents

Opening Talk For a Sustainable Society

Chikatomo Hodo Outside Director   Takashi Saruta Representative Director, President and CEO

Increasing Importance of Engagement

Mr. Hodo A greater level of transparency has been demanded of companies in Japan since the Corporate Governance Code was compiled in 2015. The code is a call to Japanese companies to cease inward-looking management, establish strong governance practices, and expand their businesses overseas. Another major framework, the Stewardship Code, was created to encourage institutional investors to communicate with companies in capital markets and raise corporate value through the synergy of both codes. Engagement, which is simply constructive dialogue between companies and investors, is a part of this. I personally experienced this process when Accenture became listed on the U.S. market in 2001 and progressively grew as it incorporated perspectives from outside the company. As an outside director at a number of other companies, I've noticed changes these past five or six years in how boards of directors operate. There is momentum building toward sincerely addressing shareholder concerns and instituting reforms. Engagement is key, and there is deep involvement in it here, but I think going forward quality will take precedence over quantity in terms of importance.

Mr. Saruta With the revisions made to the Corporate Governance Code this past April, there is no doubt that engagement quality will be of increasing importance. I attended a meeting recently with CEOs of other asset management firms, and the question came up about whether the code had made a difference. I responded "A good thing for us is that companies became fully aware that bank-affiliated firms like us occasionally object to a proposal at the shareholder' meetings. Going forward, the expectation will be for authentic engagement to raise corporate value and not only on external criteria like the number of outside directors or women serving as directors. If our engagements are limited to superficial ones, companies will not take us seriously. This is why as an asset management firm we must strive to improve our own quality.

Changes Surrounding Sustainability

Mr. Hodo The job of an asset management company is to invest money entrusted by asset owners and generate an investment return for them, but the awareness of asset owners is changing. While the idea that investment returns should not be pursued at the expense of things like climate change and human rights is not new, it is now more clearly recognized and has become a part of expectations placed on capital markets. Moreover, "Do not sacrifice environmental and social issues" is no longer enough. More and more investors think progressively about them and make society a better place. Asset managers need to take these changes into account in their investment and engagement activities.
Meanwhile, companies are forced to undertake heavier responsibility. At a time when they are working to improve governance in ESG so as to catch up with the global standard, they must also now tackle environmental and

social issues all the while continuing to generate profits. There is a saying in Japan, *sanpoyoshi*, which means ideal business relations where everyone among sellers, buyers, and society at large can benefit. This is the mentality Japanese companies should try to visualize and materialize in their businesses.

Mr. Saruta Looking back at the history of ESG in the field of investment management, I recall that it was around 2000 when SRI funds and socially responsible investing became popular. They were started premised on the existence of an alpha, but in the end the funds weren't able to generate the expected excess returns, and the trend did not last long. Thereafter, numerous thematic funds were launched focusing on a particular aspect of the environment, such as water or forests. They drew attention as well, but, similarly, weren't able to generate the expected returns. The current ESG investing approach began after that; it is also now called sustainable investment in a sense that encompasses ESG. I have seen sustainable investing take root and gain real traction in the U.S., where the idea that investment returns are all important is particularly strong, and this has convinced me that it's not a temporary movement like SRI funds; it's here to stay.

While ESG investment has penetrated the industry, the expectations of investors for it are varied, and they can't be met with any single product. Though it is nearly impossible for us to meet the needs of all people completely, we should provide products that give investors what they want to a large extent. There are still no standards for ESG investment on many points, but what we can't do is simply wait for a unified set of global rules; we must consider for ourselves what should be done and then do it.

Mr. Hodo Japanese companies used to think they only needed to look after their customers and employees. Now we live in the multi-stakeholder era. The presence of activist shareholders has also grown stronger as we found in the recent Exxon Mobil case where a shareholder advocating for the environment succeeded in installing directors on the board of the company. And it's not only the environment. The pressure on companies is also mounting with respect to human rights. Of course, they must also work to raise ROE. It is a tough time for corporate executives. As a shareholder, asset management firms must have an accurate grasp of the initiatives of such companies. Both companies and asset management firms in Japan are a little behind the global standard and will need to raise their game in this respect.

Mr. Saruta As an institutional investor, and as a company, we need to tackle sustainability issues with even greater focus. We are not a publicly listed company, but that is no excuse to go easy on ourselves. If we haven't done what we are asking investee companies to do, they will not listen to our voice seriously.

Role of an Asset Management Company

Mr. Saruta The continuous inflows into defined contribution pension plans and the growing AUM of publicly offered funds at online securities companies indicate trends that younger people are becoming more active in investing to build their

assets. Our role, however you measure it, is generating investment returns; without this, there's no reason for us to be here. There are various ways of providing these investment returns. Some clients want to invest in ESG-oriented funds with moderate returns; others want to pursue as high a performance as possible and are fine with using ESG as a minimum screening requirement. Setting a policy and providing investment products in line with client needs is the important role of an asset management company. In addition, going forward, it is likely that we are expected to provide not only investment products but also investment advice on building assets. To make this possible, we must work to further enhance our capabilities as industry professionals.

Mr. Hodo People no doubt have a variety of intentions and expectations for investment products. Assuming that expected return is 5%, some investors accept returns of 2-3% in return for less risk while others aim to pursue specific investment themes. It is my hope that you, as a producer of investment products, will develop products that reflect the desires of as many people as possible. At the same time, the use of technology is essential to prevent management inefficiency due to an increase in the number of products offered.

Speaking more about technology, we should consider the possibility that asset management firms will be rendered unnecessary by the emergence of a disruptive innovation. It is better to think that such a technology or innovation will surely arrive from outside the industry. It is important to scrutinize our own business from this perspective. We should always ask ourselves our reason of being.

Mr. Saruta Both here and globally, in almost every country, there is a fee of around 1.5% between investors and the assets they invest. In the investment trust business in Japan, this fee is split between the asset management company and the distributor, but in the U.S., the IFA takes a substantial fee. Who gets how much fee differs with the country and changes with the times as well. But the fact that investors will pay to get good advice doesn't change. In this sense, we need to be true professionals capable of providing advice that is worth paying for.

Principles of Fiduciary Duties and Sustainability

The Principles of Fiduciary Duties and Sustainability are made up of four basic principles. Principles 1 and 2 set forth our duties as an asset management firm, and Principles 3 and 4, our duties as a corporate citizen. The principles are intended to be a universal and fundamental policy to guide and drive our business operations in line with our corporate philosophy. To evaluate our activities related to the principles from an outside perspective, we hold the quarterly FD and Sustainability Meeting. Here we provide the results of initiatives based on the principles and recommendations on them made by outside committee members. In fiscal 2021 and beyond, we will continue working to conduct more effective activities with reference to these recommendations and other guidance.

For details, please refer to
https://www.smd-am.co.jp/corporate/vision/fiduciary/pdf/fdsustainability20210630.pdf/
(in Japanese).

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

- We will exert ourselves to cultivate investment professionals who will play a central role in asset management business, and work to enhance capabilities of investment management, trading operation and risk management through utilizing state of the art IT technologies and domestic and overseas networks.
- We will incorporate ESG factors into the investment process, and take a progressive approach to stewardship activities including engagement and exercising voting rights in order to encourage companies to enhance their sustainability and eventually contribute to augmentation of the company's enterprise value over the medium- to long-term.
- We will develop and provide the most suitable products and services such as long-term investment products to accumulate assets by identifying the true needs of clients. We will also provide timely information on the investment products using IT technology.
- We will not only establish a rigid corporate governance structure that ensures the appropriate management of conflicts of interest and independence of management, but also endeavor to disclose risks and commissions with a high level of transparency.
- We will strive to maintain our soundness as a company and reinforce our crisis management system to be prepared for various contingencies.

FY2020 Achievements

- We are committed to establish and manage pilot funds as means to further enhance our investment capability and in fiscal 2020, we established five new pilot funds.
- A total of 25 town hall meetings were held to give all employees at domestic offices the opportunity to engage in dialogue with CEO Saruta. The conversations serve to further raise awareness of the importance of ethical standards and morality to officers and employees of a company that is entrusted with client assets.
- Given the restrictions on face-to-face interactions with investment trust distributors and investors due to the pandemic, we actively held seminars and other events online and created and streamed digital content with high-quality audio and video.

Recommendations by committee member

- It will be important to pursue a B2C strategy going forward to get people interested in the firm and products via the Web and other non-face-to-face channels. You need to take the time to contemplate how best to explain your products to customers in a way that is easy for them to understand.
- Conflicts of interest are not limited to the definitions of the Financial Instruments and Exchange Act. You should understand them broadly from the standpoint of fiduciary duty and manage them accordingly.

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

- We recognize the significance and essentials of asset accumulation for individual investors in an aging society with fewer children. Therefore, we will engage in investor education for a wide range of generations to raise the awareness for related issues and to improve financial literacy.
- We will work to resolve environmental issues, such as climate change, and social issues, such as human rights through our original stewardship activities and by participating in initiatives in Japan and overseas.
- We will strengthen our efforts to develop and provide products that focus on the sustainability of society.

FY2020 Achievements

- We held numerous seminars on financial topics to educate both beginning investors and people in the asset accumulation phase.
- Through initiatives both in Japan and overseas, we have participated in collective engagement dozens of times since the merger in April 2019.
- We launched the Japan Impact Fund, a pilot fund using our own funds.

Recommendations by committee member

- ESG, the SDGs, and the like represent both a cost factor and an earnings opportunity for companies. It is important to estimate and analyze how investee companies take advantage of these opportunities with their new products and services.
- Even if the pandemic subsides, the structure of industry is not going to revert to the way it was. Asset management firms are expected to play a very important role in anticipating these trends and encouraging investment.

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

- We will participate in CSR activities such as revitalizing communities and providing social welfare support.
- We will carry out environmentally conscious business management, such as reducing greenhouse gas emissions and plastic waste.

FY2020 Achievements

- We collected used books and clothing for reuse from company members and donated the proceeds to a foundation in Tokyo Metropolitan Government that supports medical professionals involved in treating the coronavirus. We also donated a portion of the trust fees from the investment trusts that we manage to charitable organizations aligned with the funds' concepts.

Recommendations by committee member

- Measures are also needed to further raise the awareness of employees with respect to environmental problems and social issues.
- While the department in charge of sustainability issues should take the lead and present a roadmap, it is important to let employees think about sustainability and proactively act by themselves.

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

- We will put in place an environment where employees with variety of values can fully demonstrate their abilities and promote diversity, especially the active participation of women.
- We will provide a variety of career support programs so that all employees regardless of ages or assignments can take pride in their work and obtain professional expertise and insight required.

FY2020 Achievements

- We held career training for senior employees (mid-50s and older), training for managers to improve managerial skills. We also launched and supported a female managers' community to promote women's active participation in the workplace. In this way, we promote broad-ranging measures for various age groups and job categories.
- An internal job posting program was started to allow employees to apply for jobs without their managers' prior approval. In fiscal 2020, two employees used the program to transfer to a new department.

Recommendations by committee member

- With regard to sustainability, the SDGs, ESG, and so on, the U.S. and Europe are ahead of Japan. You need to build up the breadth of the overall company's human resources by driving globalization and further interaction with local employees at overseas offices.

Climate Change Initiatives

Responding to Climate Change Needed by Responsible Institutional Investors

We see extreme weather events such as floods and droughts happening with greater frequency around the world, and resource extraction and economic development have caused air, water and soil pollution that impact on biodiversity. Such problems affecting the environment as a whole are an immediate and tangible crisis that threatens not only human life but all of life on Earth. Climate change in particular is a major problem. Temperatures are rising as carbon dioxide and other greenhouse gases are emitted in increasing volumes, and tackling this problem means no less than preserving a future for all of life.

The Paris Agreement was adopted in 2015 and went into force the following year in an effort to put the brakes on rising temperatures. It sets a long-term target of a 2°C rise while calling for efforts to keep the increase to within 1.5°C. It is essential that we as individuals re-examine our lifestyles in the present, which is an extension of the past, and for companies to pursue innovation and reform their business models to reduce environmental impact and rein in rising temperatures. The Assessment Report released in August by the Intergovernmental Panel on Climate Change (IPCC) warns that the pace of climate change is accelerating and at the current rate the temperature will have risen 1.5°C by 2040, 10 years before the initial target. With this situation, responsible institutional investors need to recognize climate change as a material risk that threatens the sustainability of humanity and in their asset management businesses focus even more than before on supporting investee companies' transition to a carbon-free economy while encouraging their efforts for innovation.

Our Initiatives

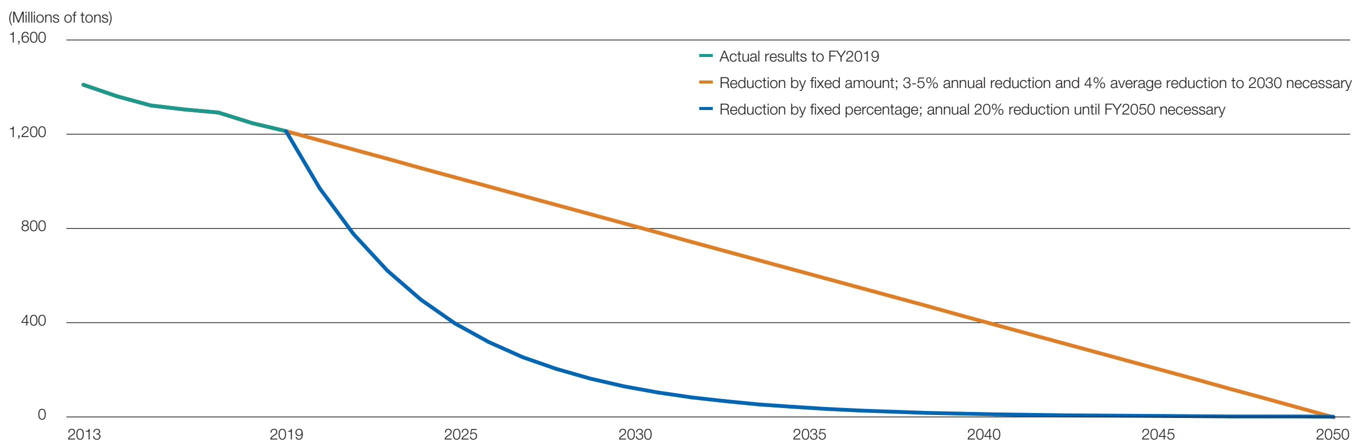
As a responsible institutional investor, Sumitomo Mitsui DS Asset Management is focused on environmental problems. In particular, we have identified climate change, environment conservation and building circular economies as priority themes. These themes are at once risks and growth opportunities from the standpoint of individual companies and we repeatedly alert them to this fact through engagement and other activities.

On climate change, we became a supporter of the Task Force on Climate-related Financial Disclosures, and we encourage companies, both through our own actions and through domestic and overseas initiatives like Climate Action 100+ and SBT collective engagement, to establish management goals, implement specific measures, and disclose related information in order to reduce greenhouse gas emissions to net zero or less by 2050 in line with national government policies.

At the same time, we as a signatory of the Principles of Responsible Investment address biodiversity and other environmental problems, and social issues like human rights and women's advancement. We anticipate changes in global circumstances and actively utilize our cumulative ESG-related expertise in investment activities through our own initiatives as well as various initiatives including the Asian Corporate Governance Association (ACGA), Principles for Financial Action towards a Sustainable Society (Principles for Financial Actions for the 21st Century), 30% Club Investor Group and others. Through these efforts, we help investee companies to move for building a more sustainable society.

We manage all our active investment products taking into account sustainability factors including environmental problems. We seriously work to deliver better investment performance over the long term by incorporating companies' response to sustainability issues into our evaluation process. Moreover, we provide good investment returns to clients and beneficiaries through thematic fund products that invest in innovative companies working in areas like green tech and food tech.

Japan's Greenhouse Gas Emissions: Pathway to Zero Emissions by FY2050 (CO_2 equivalents; a 99-100% decrease compared to FY2019)



Source: Actual results to FY2019 prepared by Sumitomo Mitsui DS Asset Management based on data from the National Institute for Environmental Studies

Engagement Policy for Climate Change

We will step up our engagement activities related climate change starting in fiscal 2021.
Specific initiatives are described below.

Basic Policy Promote engagement focused on net zero greenhouse gases by 2050

1) Research each company's GHG emissions (CO_2 equivalents) and consider risk factors such as carbon pricing. Incorporate them as necessary into earnings estimation models and calculations for valuations.

2) Using "Japan's Greenhouse Gas Emissions: Pathway to Zero Emissions by FY2050" (hereinafter, "model for Japan overall"), which lays out a possible path to achieving net zero emissions by 2050, promote dialogue with companies primarily on the following items.

   i. The company's disclosure on its most recent greenhouse gas emissions (engagement to confirm present situation and disclosure)
   ii. The company's year-on-year reduction of GHG emissions and observation of trends (confirm present situation)
      · Comparison with the model for Japan overall (fixed-amount reduction of 3-5% annually and 4% on average necessary to 2030)
   iii. The company's strategy for net zero emissions by FY2050 (engagement on management strategy)
      · Long-term target for GHG reductions (2036-2050)
      · Medium-term target for GHG reductions (2026-2035)
      · Short-term target for GHG reductions (2020-2025)
   iv. Overall management strategy, including net zero carbon and climate change measures (engagement on managerial strategy)
      · Carbon-free strategy
      · Consistency with capital allocations
      · The impact on its employees and communities of transition to a low-carbon business model
      · Disclosure based on TCFD requirements
   v. Investment decisions made by analysts and fund managers after considering the industry structure and individual factors based on information obtained through engagement activities and analytical work

Disclosure Based on TCFD recommendations

Sumitomo Mitsui DS Asset Management announced its support for the Task Force on Climate-related Financial Disclosures (TCFD) in December 2019. As an asset management firm, we will analyze the impact of climate change on investee companies, both risks and opportunities, and try to translate such an analysis into high-quality investment returns to clients over the long term. At the same time, through engagement we will contribute to realize a sustainable society by supporting the innovations and transitions of investee companies aimed at reducing greenhouse gases.

1 Governance

❶ Supervision by the Board of Directors

Our corporate philosophy and the Principles of Fiduciary Duties and Sustainability, which serve as the basic policy for our corporate activities, clearly state our intention, as an asset management firm and as a corporate citizen, to contribute to build a sustainable society. Therefore, sustainability initiatives, including for climate change, are positioned as the most important task of management.

Basic policies and action plans at the company level are developed through an established process in which the policies and plans are fully considered by the Sustainability Promotion Subcommittee at the practical level and by the Management Meeting, which is attended by the CEO and executive officers, and then approved by the Board of Directors. In addition, the Board of Directors receives reports twice a year on the progress of action plans and monitors whether processes are being carried out appropriately.

Moreover, the Board of Directors actively discusses the form of ESG integration in the investment process, the state of stewardship activities, operations that take sustainability into account, and other related matters. In addition, outside directors with ample expertise provide advice and recommendations to management.

❷ Role of Management Team

Company-level policies and actions plans related to sustainability, including climate change, are formulated through a process that involves discussions led by the officer in charge of the Corporate Strategy Department in coordination with related internal departments. Deliberations are conducted by committees, including the Management Meeting, which is attended by the CEO and executive officers, and then, depending on the importance, approval by the CEO or Board of Directors. These policies and plans are executed under the responsibility of the CEO, while stewardship activities are led by the Responsible Investment Officer, investment management, by officers in charge of the Investment Management Division, and our own risks and opportunities, by officers in charge of corporate divisions, which allows us to respond quickly to individual risks and opportunities.

2 Strategy

❶ Climate Change Risks and Opportunities

We recognize the following as risks and opportunities caused by climate change.

Risks

- A decline in assets under management due to stock prices falling worldwide as a result of economic losses caused by global warming
- Deterioration in relative investment performance from our investee companies being negatively impacted by the transition to a carbon-free economy
- An increase in reputational risk from our investment activities being regarded as inappropriate from the standpoint of greenhouse gas reduction or from our investment products being regarded as so-called greenwashing
- An increase in costs from accommodating tighter regulations on climate change-related disclosure in Japan and overseas and those from procuring renewable energy to reduce our own greenhouse gas emissions

Opportunities

- An increase in new investment opportunities, including companies with innovative technologies that will contribute to the transition to a carbon-free economy and companies being expected to grow with their business model reform
- Improvement in relative investment performance from developing competitiveness in research and analysis of non-financial information such as climate change initiatives
- Expanded business opportunities from greater investor demand for investment products on the theme of solving or adapting to climate change

❷ Impact on Business and Strategy

Investment

All of our active investment products are managed taking sustainability into account. Based on the increasing importance in recent years of non-financial information, including on climate change, we are working to further improve investment performance by conducting qualitative and quantitative research on the impact of non-financial information on stock and bond prices. Furthermore, as a responsible institutional investor, through engagement (dialogue with investee companies) and exercising voting rights we support the practical application of innovations that will help smooth the transition to a carbon-free economy and solve the problem of climate change.

Product Development

Continuing inflow into ESG-related products in Japan and overseas is observed in conjunction with rapidly rising interest in sustainability. To meet these changing client needs, we work to develop and provide investment products that integrate sustainability into the investment process in a consistent way and products with promoting sustainability as the investment objective.

Operations

At the same time, we have set a 2030 target of effectively zero for our own greenhouse gas emissions (Scopes 1 and 2) and are working to reduce energy consumption through such measures as promoting efficient office use, procuring renewable energy, and promoting paperless operations. Further, we established a sustainability procurement policy in July 2021 and are working to reduce greenhouse gas emissions on our supply chain (Scope 3).

❸ Impact on Finance

One study* has found that if the temperature has risen by 2°C as of 2100, global GDP per capita in 2100 will be around 15-20% lower than the case assuming temperature remains unchanged from the first decade of this century. This can be expected to have a negative impact on our profits due to the declining market caps of global stock markets. On the other hand, at the level of individual sectors and companies, there are likely to also be cases of performance growth from innovative technology and changes in people's lifestyles. As an asset management firm with strength in active investment, we will work to minimize the negative financial impact by carefully assessing and investing in sectors and companies where growth can be expected.

Since we are an asset management firm however, we do not own production facilities that emit greenhouse gases, so we do not anticipate major transition risk. Moreover, we operate our business out of relatively small offices located in major cities in Japan and overseas, so we do not expect any major physical risks from climate change. Carbon offsets, which will be needed for us to achieve effectively zero greenhouse gas emissions by 2030, are a factor that will increase costs, but we expect to be able to minimize the impact.

*Overview of the IPPC's *Special Report on Global Warming of 1.5°C* (July 2019), Ministry of the Environment

❹ Analyzing Alignment with the Paris Agreement

This is currently being evaluated, but we plan to disclose it on our website by a target date of March 31, 2022.

Disclosure Based on TCFD recommendations

3 Risk Management

❶ Climate Change Risk Evaluation

We assess climate change risks of investee companies through proprietary ESG evaluations and assign scores based on the companies' relative performance within their same sector. As climate change is one of our priority ESG themes, we conduct engagement primarily for sectors with high GHG emissions and companies with room to improve their ESG scores.

At the same time, for our major investment products, we measure climate change risk at the portfolio level. We utilize the resulting measurements for the overall portfolio and the investee companies that comprise it in investment decisions related to stock selection.

❷ Management of Climate Change Risks

When climate change risk metrics are included in the investment guidelines of specific products, the Investment Management Division autonomously manages them just as it does other restrictions. Meanwhile, the Risk Management Department monitors compliance and invites the Investment Management Division to take the necessary actions or decide a policy to deal with such a situation if the threshold is closely approached or reached.

4 Portfolio Greenhouse Gas Emissions

Focusing on Japan and global equities and domestic and foreign fixed income products, we analyzed our portfolio against benchmarks (BM) for GHG emissions (Scopes 1 and 2) and three other metrics. The metrics are calculated using data provided by Sustainalytics.

	GHG Emissions (Scopes 1 & 2) (Thousand tCO_2e)		Carbon Footprint (Thousand tCO_2e/Million USD)		Carbon Intensity (tCO_2e/Million USD)		Weighted Average Carbon Intensity (Thousand tCO_2e/Million USD)		Data Coverage (%)	
	SMDAM	Vs. BM (%)	SMDAM	Vs. BM (%)	SMDAM	Vs. BM (%)	SMDAM	Vs. BM (%)	SMDAM	BM
Japanese Equities	3,510	126	97	121	143	115	143	145	94	98
Global Equities	347	89	41	89	183	103	177	114	98	100
Japanese Fixed Income	58,296	85	193	85	308	87	285	81	86	82
Global Fixed Income	11,533	74	59	74	172	77	225	86	85	90

Benchmarks: Japanese equities use TOPIX; global equities, MSCI KOKUSAI; Japanese fixed income, Nomura BPI (corporate bonds); and global fixed income, Bloomberg Global Aggregate Ex-Japan - Corporate Total Return.
Please note that metric calculations were made for investment portfolios we directly manage as of June 30, 2021. Japanese and global fixed income exclude government bonds.

Metric Explanations and Calculation Methods

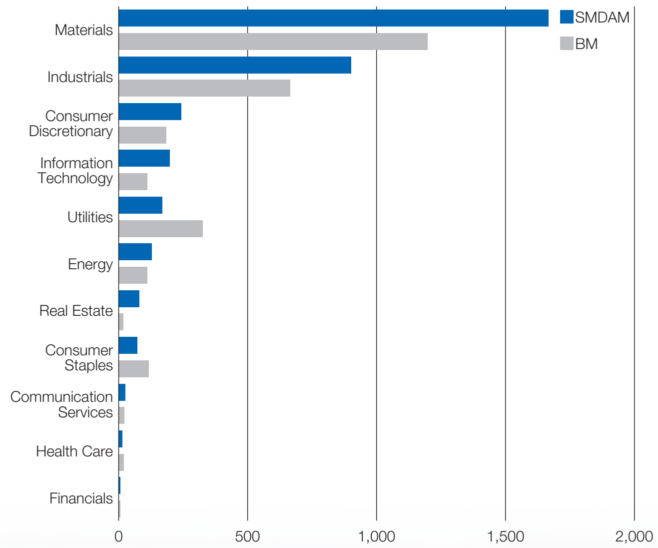
	Metric Explanation	Calculation Method
GHG Emissions (Scopes 1 & 2)	Total GHG emissions linked to portfolio	Σ [GHG emissions of issuers × (Market value of portfolio holdings) ÷ {(Issuer market cap) + (Total issuer interest-bearing debt)}]
Carbon Footprint	GHG emissions per million USD of portfolio value	Portfolio GHG emissions ÷ Portfolio value
Carbon Intensity	GHG emissions per million USD of net sales of investee companies	Portfolio GHG emissions ÷ Σ [(Net sales) × (Value of holdings) ÷ {(Issuer market cap) + (Total issuer interest-bearing debt)}]
Weighted Average Carbon Intensity [TCFD recommended metric]	Weighted average by holding weight of carbon intensity of each investee company	Σ [{(GHG emissions) ÷ (Net sales)} × {(Value of holdings) ÷ (Portfolio value)}]

Emissions from our Japan equities portfolio exceeded those of the benchmark for every metric. This was mainly attributable to the fact that a key investment product of ours is a Japan equity value investment strategy which overweight sectors like materials and industrials. Meanwhile, the weighted average carbon intensity of our portfolio was 145% of the benchmark. This was because the TOPIX benchmark does not include J-REITs, which have high emissions per unit of net sales, and without these J-REITs, our portfolio would be 106% of the benchmark.

Our GHG emissions from Japanese and global fixed income were generally below the benchmarks; our portfolio has a low environmental impact. With respect to our global equities portfolio, our carbon intensity and weighted average carbon intensity were 103% and 114% of the benchmark, respectively. This is in part because we hold materials-related companies in emerging countries with high emissions per unit of net sales that are not included in the benchmark and heavily overweight REITs. The other metrics were below the benchmark.

GHG Emissions from Japan Equities (Scopes 1 & 2)

(Unit: Thousand tCO_2e)



Source: Created by Sumitomo Mitsui DS Asset Management based on GHG emissions data (actual figures when available and estimates) from Sustainalytics as of June 30, 2021Uses TOPIX as the benchmark.

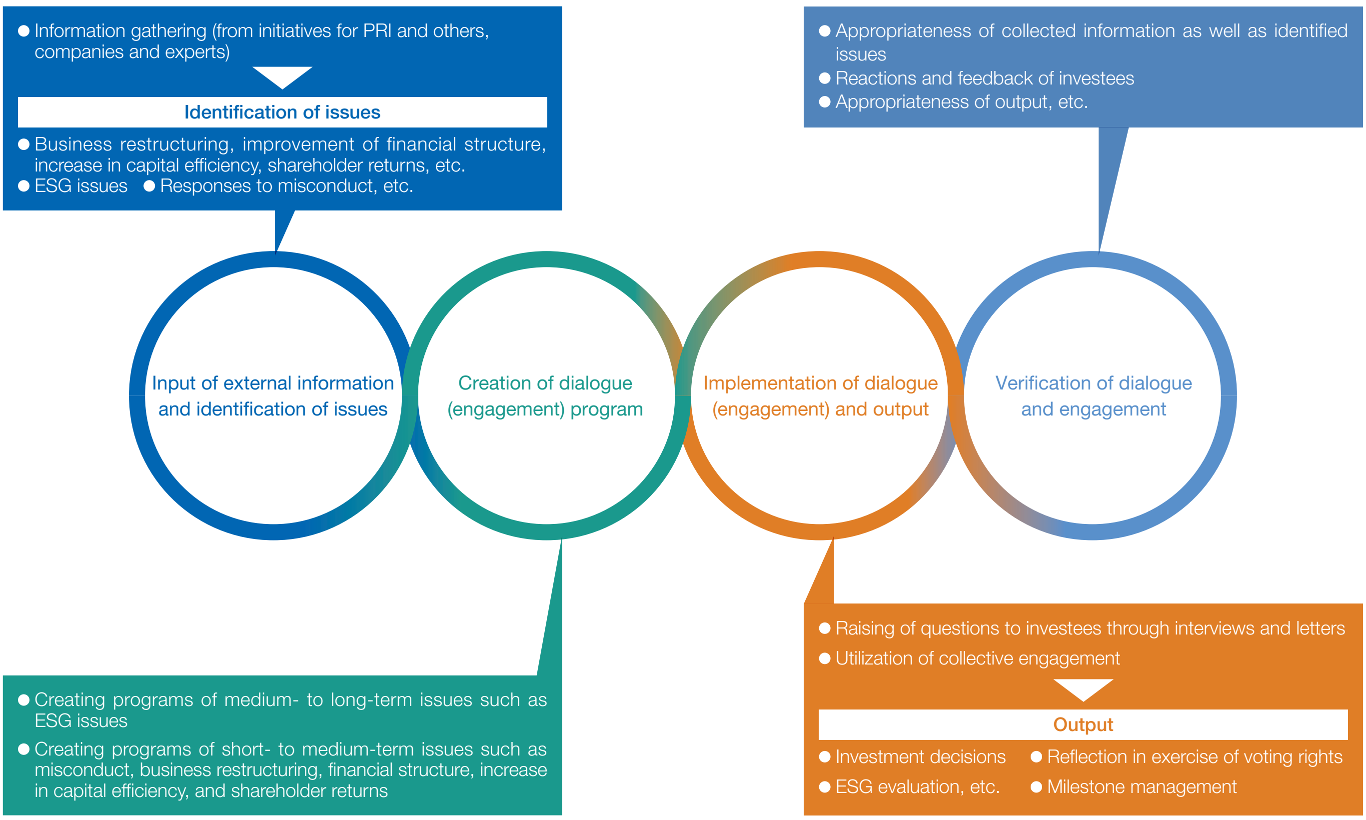
Basic Concept for Engagement

We conduct engagement activities for the purpose of encouraging investee companies to act with consideration given to sustainability and of helping the companies raise their corporate value over the medium to long term. At the same time, engagement activities enable us to discuss with investee companies from various viewpoints. These discussions provide us with new insights and we can expect to improve our research capabilities. On the other hand, if investee companies are able to improve their value or mitigate damage as a result of engagement, it is to the benefit of clients and final beneficiaries. Our policy is to make engagement activities valuable so as to create a win-win-win relationship between us, investee companies, and clients and final beneficiaries.

Basic Policies

1. The Company will carry out engagements with investee companies to fulfill its fiduciary responsibilities to customers and final beneficiaries, 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.
2. The Company will work to improve the value of or mitigate damage to investee companies by encouraging them to develop and implement appropriate medium- to long-term business strategy and vision based on medium- to long-term issues in the industry as a whole, a specific sector, or an individual company as well as to go far in information disclosure.
3. The Company will strive to conduct engagement based on the perspective of improving environmental and social sustainability while taking the type of assets we invest, the characteristics, legal framework in countries and regions, and other factors into consideration. In addition, the Company will conduct engagement pertaining to Japanese equities including J-REIT from a perspective focused on the exercise of voting rights and improvement of capital efficiency of investee companies.
4. The Company will also eye collective engagement under appropriate conditions if, in dialogue with investee companies, collaboration with other institutional investors is deemed effective.

Engagement cycle of Sumitomo Mitsui DS Asset Management



PDCA Cycle for Engagement

The following shows our PDCA cycle for engagement based on cases conducted by the Responsible Investment Section and investment departments.

Example 1: Resources & Energy Company A

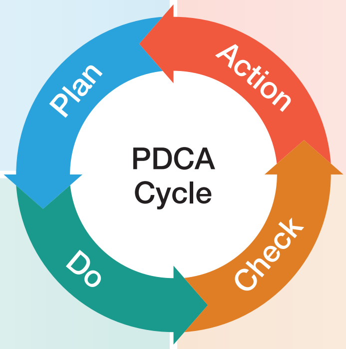
STEP1 Identification of issues

A company involved in natural resources and energy should have a clear management vision to achieve net zero GHG emissions

STEP2 Creation of engagement program

A list was created of specific points for clarification in connection with the company's management strategy for achieving effectively zero GHG emissions.

1. Recognition of current situation and future policy with a view to differentiate from competitors
2. Development of new businesses and potential of existing businesses



STEP3 Implementation of dialogue (engagement)

Company A had clarified measures to address climate change at an early stage compared to other Japanese companies. However, we expressed the view that a vision of achieving net zero GHG emissions by 2050 and an interim target for 2030 are not sufficient and that it is important to have a net-zero strategy that is more refined and consistent with existing businesses.

STEP4 Verification of dialogue (engagement)

We confirmed that Company A is

1. Considering additional disclosure of a specific plan for achieving net zero emissions by 2050, and
2. Aware of the importance of reforming existing business dependent on natural resources and energy

Company A's recognition of the issues was in alignment with ours and we set a policy of continuing dialogue.

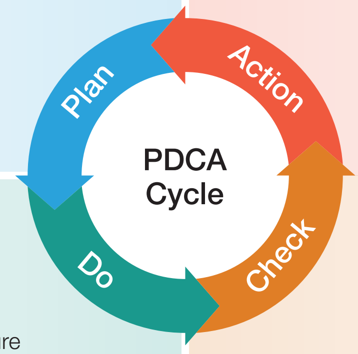
Example 2: Finance/Securities/Insurance Company B

STEP1 Identification of issues

As a company in the finance, securities, and insurance industry, the utilization of human capital is an indispensable factor in raising corporate value, and Company B should be working for further disclosure in connection with human rights, women's advancement, diversity, and related issues.

STEP2 Creation of engagement program

We carefully reviewed the contents of Company B's integrated report and identified areas with room for improvement in connection with human rights, women's advancement, diversity, and related issues.



STEP3 Implementation of dialogue (engagement)

We expressed the opinion that further disclosure on human rights initiatives and training programs that could benefit all employees would be viewed positively by capital markets.

STEP4 Verification of dialogue (engagement)

Top management was very aware of social issues and responded as follows to our opinion.

1. Although he could associate measures taken under the UK Modern Slavery Act with human rights issues in the report, it had not previously considered disclosure of employee-related programs and other internal initiatives.
2. The company reaffirmed the importance of diversity, and women in particular, to business agendas such as innovation, productivity and work style reforms.

We affirmed that Company B had responded positively to the opinion we expressed on strengthening disclosure and set a policy of continuing dialogue while monitoring its disclosures going forward.

Special Talk

Approach to Responsible Investment and Expectations for Institutional Investors

How should responsible investment be handled and what is expected from institutional investors? Futoshi Saito, Responsible Investment Section Principal, interviews Yuki Kimura, Chairman and Representative Executive Director of the Institutional Investors Collective Engagement Forum and Representative Director of the Japan Stewardship Forum, about his views on this theme. Mr. Kimura has many years of experience working at an asset owner, Japanese asset management companies and financial authorities.

Yuki Kimura

Chairman and Representative Executive Director of the Institutional Investors Collective Engagement Forum, and Representative Director of the Japan Stewardship Forum

Profile

He graduated from the Faculty of Commerce, Hitotsubashi University and joined Nomura Research Institute, where he worked as a sell-side analyst in the Corporate Research Department. After serving in various roles including Group Head of Corporate Research Team No. 4, President of the Nomura Research Institute Hong Kong, and Head of the Emerging Companies Research Department, he transferred to Nomura Investment Trust Asset Management (now Nomura Asset Management) in 1996, where his duties included heading the Corporate Research and Economic Research Departments and serving as Management Executive in charge of corporate governance. From January 2008 to August 2010, he was Head of Corporate Governance at the Pension Fund Association. From November 2010 to July 2014, he was Deputy Chief of the Corporate Accounting and Disclosure Division of the Japanese FSA's Planning Coordination Bureau. In 2014, he established Japan Stewardship Forum and became its Representative Director. In 2017, he established the Institutional Investors Collective Engagement Forum and became its Chairman and Representative Executive Director.

What is the essential meaning of responsible investment?

Saito Today I would like to ask you about the approach to responsible investment that an institutional investor is expected to take, based on recent trends. These days, I feel the terms “ESG investment” and “engagement” have become widely used in a way that is different from their original meanings, in regard to responsible investment. In particular, “ESG investment” has become so common that every Tom, Dick and Harry uses it. What do you think is the essential meaning of the term “responsible investment?”

Kimura Since it was proposed by the United Nations' Principles for Responsible Investment (PRI), the concept of responsible investment has been adopted around the world. But in recent years, I think the scope of the concept has expanded beyond merely being about the fiduciary responsibilities of institutional investors and providing investment returns to asset owners and final beneficiaries. Of course, an investors' ultimate goal is still to ensure a return on investment, but responsible investment now involves ESG initiatives in the form of addressing environmental and social issues, including climate change, human rights and promoting diversity as represented by active participation of women. As the number of PRI signatories grows, I feel that this latest meaning of responsible investment, which includes ESG initiatives, has been shared globally.

Saito You mean responsible investment has been evolving from its original framework of fiduciary responsibility and securing investment returns into a broader concept that includes ESG issues. Certainly, I realize that recently, responsible institutional investors have been increasingly expected to play a role in encouraging companies to tackle climate change.
To meet such expectations, so-called engagement activities, constructive dialogue with investee companies, has become a common practice. Do you think investor's engagement is directly linked to the essence of responsible investment?

Kimura Within this broader concept of responsible investment, I believe that institutional investors are expected to work harder than before to encourage investee companies to take action. More specifically, previously it was considered sufficient for them to mainly investigate investees' short-to medium-term financial aspects, such as business performance, ROE, and cash flow. However, nowadays they are expected to actively express their opinions about how to improve investees' value not only from a financial perspective, but also from a non-financial perspective, including ESG. In other words, they are expected to be more proactively involved with each investee company over a broad scope that covers both finance and non-financial matters. I think this is the background that engagement became common. Among others, ESG initiatives, especially climate change, human rights, and diversity, which I mentioned before, are areas where expectations have been rising rapidly in recent years. As Principle Four of Japan's Stewardship Code states, "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," I think they are expected to conduct engagement not merely to confirm the current situation, but also to enhance corporate value and solve various problems. In addition to corporations, institutional investors as shareholders are also becoming increasingly important in addressing a wide range of environmental and social issues, which I think links directly to the expectation of their proactive involvement.

Saito Your point that engagement is like an indicator of the proactiveness of an institutional investor is extremely interesting. To discuss more about engagement, let me ask you how you see the trend of responsible investment and ESG investment in Japan compared with the rest of the world.

Kimura In Japan, interest in responsible investment, particularly from an ESG perspective, has only been growing in the last few years, so I believe there is still plenty of room for investors to engage more proactively and express their opinions. I think this is largely because institutional investors in Japan have a short history of proactively expressing their opinions and encouraging companies to take action, and moreover, they rarely get involved in non-financial matters such as ESG. However, there is a lot of work being done right now to catch up rapidly. Especially, as asset owners have become more aware of the exercise of voting rights, Japanese institutional investors have started setting their own individual standards for exercising voting rights. Consequently, investee companies have become more serious about responding to dialogue. On this point, we can say that both institutional investors and investee companies have gained a better understanding of responsible investment. An increasing number of Japanese institutional investors participating in global initiatives such as the PRI and thinking in global terms has facilitated changes in responsible investment.

Saito Certainly, we are getting involved in various global initiatives, including the PRI, and we have learned a great deal from the global perspective that we gained through exchanges of opinion and feedback to industry surveys. In this regard, what investors should focus on is becoming increasingly broad. For example, climate change and the disclosures based on Task Force on Climate-Related Financial Disclosures (TCFD) are now drawing global attention, but it is said that human rights and biodiversity have joined the list of priority agenda. Amid this kind of change, what direction do you think responsible investment in general will take from now on?

Kimura Putting it simply, things will surely become even tougher for institutional investors. This is actually due to the high expectation for them. Although fiduciary responsibility and securing investment returns will continue to be their eventual goal, besides their fundamental missions an additional burden will be to respond to environmental and social issues and to invite investee companies to tackle such issues. Consequently, I believe that they will have to handle increasingly longer agendas and more themes. For example, you said that there is currently a lot of focus on response to the TCFD, but now the Taskforce on Nature-related Financial Disclosures (TNFD) has also been launched. This reflects the expectation that they will address natural capital alongside climate change through their engagements. The same is true for human rights. Institutional investors will need to study more and become even more discerning.

Futoshi Saito
Principal of Responsible Investment Section,
Sumitomo Mitsui DS Asset Management

Special Talk

Approach to Responsible Investment and Expectations for Institutional Investors

Are the voices of investors being reflected in investee company management?

Saito Next, I would like to ask you about the way engagement is carried out and its effectiveness. Institutional investors carry out engagement with the aim of contributing more to the enhancement of corporate value. Do you think their opinions expressed in this process are useful or beneficial for their investee companies? Also, to what extent do you think companies are taking their opinions seriously?

Kimura One thing we can look at is the exercise of voting rights. I think the way voting rights are being exercised has evolved dramatically in recent years. Actually, this change in institutional investors' awareness regarding the exercise of voting rights can be traced back to the early 2000s. Since then, decision-making regarding the exercise of voting rights has become more sophisticated, and as a result, the rate of opposition votes against the companies' proposals rose in a short period of time. Obviously, investee companies do not want investors to oppose their proposals at general shareholders' meetings. Therefore, if an institutional investor expresses a negative opinion or actually votes against their proposal, they will naturally ask the reasons behind the disagreement. This will enable them to understand what the institutional investor expects and to learn what they need to do to win the support of said investor. I think this will lead to the creation of an environment where investors can express opinions that are useful and beneficial for the investee company.
Unfortunately, however, not all listed companies think the same way. There even seems to be a trend toward polarization. While some companies listen to the opinions of institutional investors and incorporate them to their management, other companies, particularly those with many so-called stable shareholders, are likely to neglect dialogue or other kinds of IR activities. Nevertheless, considering that nearly 30% of the total shares on the Japanese stock market are held by non-Japanese investors, I believe that companies, especially those for which globalizing their business is an important element of their sustainable growth, should listen willingly to the opinions of institutional investors, including non-Japanese ones, and gather diverse feedback on a global basis. At the same time, institutional investors need to be prepared to be persistent in their efforts to improve corporate value.

Saito On the other hand, this is not limited to the exercise of voting rights. I sometimes feel that executives at Japanese companies have an elusive mindset, like, "We are entrusted with the management of this company through a resolution at the general shareholders' meeting, so why should we be told to do such things? Shareholders should refrain from meddling beyond exercising voting rights." I think that company executives should also recognize their fiduciary duties, in that they are entrusted by their shareholders to manage their business to enhance corporate value. What are your thoughts on this?

Kimura In regard to fiduciary duties, I think it is an unfortunate truth that there is a general lack of recognition of the fact that shareholders are the owners of a corporation. For example, in Japanese financial reports, the Japanese term used for "shareholder equity" literally translates as "own capital." I suspect that this translation has created a sense that the money belongs to the company, rather than to the shareholders as the English term makes clear. However, this outdated way of thinking does not really fit with the current situation, in which non-Japanese hold around 30% of the stock. In fact, companies have been forced to recognize the need to engage with their shareholders and they have faced no choice but to change their approach to IR. It is becoming normal for top management executives to carry out overseas IR activities. I feel that a growing number of companies have changed their attitude toward dialogue with institutional investors. Of course, while institutional investors leave the everyday management and execution of business up to the investee company's management team, it is crucial that they use the general shareholders' meeting as an opportunity to evaluate the management team's performance, and in this regard, the way they exercise voting rights is important.

What do investors need to do to prompt further action from investee companies?

Saito What are your thoughts on the approach institutional investors should take toward future responsible investment and how can they differentiate themselves?

Kimura The big change from the past is the increase in collaboration among institutional investors. A variety of platforms for collaborative activities have emerged. Some examples are global initiatives such as the PRI and Climate Action 100+, and organizations for collective engagement including the Institutional Investors Collective Engagement Forum, which I represent. As the field of activity continues to grow, it is becoming easier to share awareness. The increasing share of passive investment products might make it difficult for a single asset management company to carry out analysis, identify issues, and express comments for improvements, or in other words, to manage everything in-house, as in the past. This is because institutional investors managing passive investment products should cover a large number of companies in an index and consequently, it will be difficult for them to do everything in-house. I repeat that institutional investors are expected to address not only financial but also non-financial aspects such as ESG to increase corporate value of investee companies. Thus I believe that institutional investors should contemplate their overall investment strategy on the premise that consideration of ESG and sustainability is fundamental to all products. To sum up, as the scope of knowledge and activities required of institutional investors becomes increasingly evolved, ranging from financial aspects to climate change, human rights, diversity, and other ESG issues, institutional investors should consider how to meet these expectations, which will naturally indicate the way to carry out responsible investment going forward.

Saito We also participate in collective engagements. I feel that individual engagement and collective engagement play different roles. How do you think each type of engagement should be used?

Kimura As the scope of knowledge and activities required of institutional investors becomes deeper and broader, I think investors have to be smarter in conducting effective engagement. In other words, by making skillful use of collective engagement in addition to individual engagement, dialogue will become more multi-faceted, and the effectiveness of overall engagement will be enhanced. The UK version of the Stewardship Code, which was a reference for the Japanese version, states that investors should participate in collaborative engagement, where necessary, to influence issuers, as well as escalate stewardship activities to influence issuers. While the Japanese Stewardship Code does not go this far, I think in Japan there is also a movement towards using both individual and collective engagement in order to leverage the advantages of collaboration. I hope that the Institutional Investors Collective Engagement Forum, in which Sumitomo Mitsui DS Asset Management also participates, can contribute to responsible investment efforts in Japan.

THE UK STEWARDSHIP CODE 2020

PRINCIPLES FOR ASSET OWNERS AND ASSET MANAGERS

ENGAGEMENT

Principle 9
Signatories engage with issuers to maintain or enhance the value of assets.

Principle 10
Signatories, where necessary, participate in collaborative engagement to influence issuers.

Principle 11
Signatories, where necessary, escalate stewardship activities to influence issuers.

Source: Provisional translation of the UK Stewardship Code by the Financial Services Agency

Expectations for asset management companies

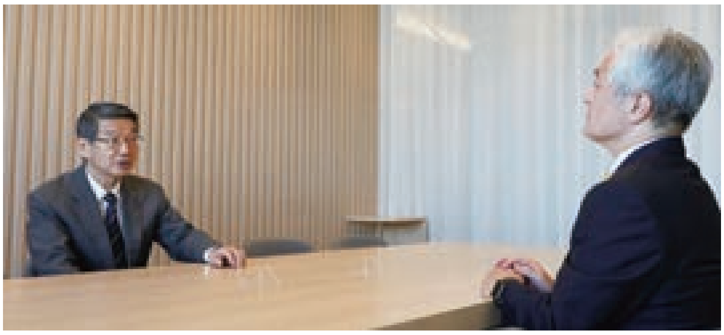
Saito Finally, what are your expectations for institutional investors, particularly for asset management companies like us?

Kimura As the issues that institutional investors should tackle have become global in scale, I would like to see ongoing and extra effort and strengthened responses relating to the section of Principle 7 of the Japanese Stewardship Code, which states, “Institutional investors should develop skills and resources needed to appropriately engage with companies and to make proper judgments in fulfilling their stewardship activities.” I think this will raise the capabilities and potential of institutional investors, which will lead to the competitiveness of capital markets and the overall asset management industry in Japan. I would like you to do your best.

Afterword

I hope this talk will inspire us into pursuing responsible investment so that we can contribute to further enhancing the value of investee companies in the future. As an early participant of the Institutional Investors Collective Engagement Forum, of which Mr. Kimura is the Chairman and Representative Executive Director, we will take more advantage of collective engagement through the forum so that we can properly fulfill our commitments as a responsible institutional investor.

(Futoshi Saito)



Importance of ESG Investment in Real Estate, a Basic Good of Society

Asian REIT Investment

Etsuro Akiyama

REIT Group Head, Investment Department

Is ESG important to REIT investment?

Of course it's important. In today's society, people live in condominiums, work in offices, and spend money at shopping malls and hotels, and there are distribution centers, data centers, and long-term care facilities. All of these serve as social infrastructure in support of consumer spending, information technology, and the aging society. This real estate that REITs invest in is a basic good truly essential to modern society and can be said to be an asset closely connected to the ESG issues faced by modern society. This is because properties excellent in environmental performance and comfort to a wide range of people are preferred by the lease market and this impact is reflected in lease revenue.

In recent years, pursuits of carbon neutrality for the environment (E) and social contributions (S) by corporates' core businesses have been important themes, and it holds true for REIT investment. Each REIT tries to raise the comfort levels of the people who live and work there by investments in green buildings that reduce greenhouse gases and in making building facilities barrier-free for the sustainability of the cities where they are located. Such efforts provide advantages in financing, so we conduct research on them as an important ESG theme. We also have our antenna up on other SDG themes and work to identify social issues on our own initiative. For example, there is a worldwide movement to restrict investment in companies involved in inhumane weapons like cluster munitions, and we are among those who regard inhumane weapons as problematic. We therefore investigated the situation in Asia/Oceania REITs. Although we have some difficulties to monitor from Japan, we are committed to making investment decisions based in part on whether or not properties have inhumane weapons-related companies as tenants.

Are such detailed surveys of tenants possible?

We have built trust with these REITs by holding individual meetings with them over many years, generally twice a year. In this year's survey, analysts at our Singapore research office established in 2016 reviewed disclosed information on major tenants for all 49 REITs in the region, including office REITs and commercial facility REITs. With additional individual interviews based on trust, we consequently identified 21 companies (43%) that have inhumane weapons-related companies as tenants. However, we also found that the percentage of income accounted for by such companies was 1.8% in the highest case, and in nearly all cases, the percentage was less than 1.0%. In light of the principle of materiality, before the survey we assumed 5% as a threshold to restrict investment, but there were no REITs above that threshold. We plan to continue conducting this survey and to encourage improvement through dialogue.

This is incredibly unique research, but does it have any significance for REIT investment?

We have integrated qualitative assessment based on individual meetings into the investment process since 2007. By evaluating real estate investment capabilities and financial management, which together determine performance, as well as the credibility of management, which lies behind it, we have captured investment opportunities and generated returns. Through this survey, we added ESG initiatives to the evaluation of management credibility and conducted engagement based on the findings, which further expanded the scope of our investment opportunities. Meanwhile, like with J-REIT, we exercise our voting rights after comprehensive due diligence even for all of Asia and Oceania REITs. We firmly believe that encouraging companies to address ESG themes through engagement and exercising voting rights is indispensable to obtaining long-term investment returns from active investment in REITs. If we are able to help build a better society through investment, that is the ultimate reward for fund managers.

Sumitomo Mitsui DS Asset Management (Singapore) Pte. Ltd.

Junnosuke Shinkawa

Senior Fund Manager

Dialogue to Raise Corporate Value with Self Transformation Process

Japan Equities Engagement Investment

Tomohisa Takano
Senior Manager, Engagement Investment Department

About engagement investment

In the Engagement Investment Department, we conduct investment with a focus on obtaining an alpha from changes in company behavior prompted by engagement on management issues specific to investee companies.

The management issues of investee companies can be categorized into ESG, business, and finance. Through proprietary analysis and a series of meetings, we identify the important management issues for a given company, make proposals tailored to that company's situation, and build processes to address them. If a company takes no interest in our proposals, there is no point in making them, so to avoid unilateral demands, we conduct engagement while maintaining the stance of a win-win relationship. Since investment began in 2016, our engagement activities have been accommodated positively and more and more companies are implementing what we proposed through engagement.

Example of environment-related engagement

ESG has become a mega trend. An increasing number of large companies are comprehensively engaged in it, but we see some companies classified as small and mid-cap equities that do not know specifically how to proceed or are unable to fully engage with ESG due to a lack of manpower or financial resources. Nevertheless, there are also many companies whose internal data and qualitative information contain the basic elements necessary for activities and disclosure, and there are instances of companies solving the problem with consideration of processes to recompile their existing data and information and distil it into a strategic narrative pivoting on ESG.

Among our investees, there was a company that had started its own ESG activities, but they were unable to gain a foothold and did not make much progress. In cooperation with our Responsible Investment Section, we proposed a growth strategy based on market analysis that reflected the strong affinity of the company's business with ESG. The company at the time was right in the midst of a process to identify growth areas for its next medium-term management plan, so our proposal was received favorably.

As a result of assessment of past business conditions and management strategies and intensive discussions on product characteristics and their competitiveness, we and the company's management both came to view environment-related products as a promising business area. After the meeting, the company executive told us that they had been unable to see themselves from a perspective separate from product performance and function; and that aligning their vision on business development with the direction of ESG initiatives gave them valuable insight into management policies for the future. Thereafter, the company hammered out a policy of working to pioneer new markets with environment-related products as a beachhead. This is a showcase where our proposal helped the company restructure existing product groups and reposition them as an environment-related business responsive to sustainability issues. We expect this business to drive growth and lead to increased corporate value.

Example of governance-related engagement, appropriate risk-taking

In connection with governance, along with systems for management oversight, transition to a system that allows for appropriate risk-taking is also an important issue. Japan's manufacturing sector has many high-earnings companies with strong technological capabilities, but there are companies that accumulate retained earnings instead of re-investing into their competitive business or providing shareholder returns in the form of dividends. This is the primary reason why their share prices are evaluated lower than they should be despite the attractiveness of their core businesses. This means there are companies with plenty of room to raise their corporate value.

One of the companies we invest in had fallen into such a predicament of insufficient investment. Its main product dominated the market because of a manufacturing process that is difficult to replicate. A high earnings structure was maintained, and the company grew along with demand increase. The company had many other products steadily reaping survivor benefits as well as promising product groups that maintained high shares in technology-related niche markets.

However, the history of the company's management plans over time showed that its medium- to long-term targets, which had been clear in the past, had gradually become less so, and that its risk-taking for growth had apparently diminished. We therefore proposed to the company, through discussions on its corporate philosophy and the competitive advantages of its businesses, that it create a medium- to long-term business plan on the foundation it had built thus far. Management admitted in meetings that internally there was a sense that the company was stagnating. As it is now, the company has a clear conception of a future ideal for itself that is translated in qualitative and quantitative targets. Its policy on uses of cash flow also changed substantially. Compared to the past when it kept a majority as internal reserve, the proportion it allocates to growth investment has increased. More recently, as part of its growth strategy the company has narrowed down its areas of focus taking into account the sources of its competitiveness and is now building systems for its next stage of growth. Once these changes bear fruit in the company's performance, its corporate value will steadily increase.

One of the roles of finance is to point the way to a future ideal.

Japan Equity Engagement Value

Takuya Kamiishi
Senior Manager, JP Equity Value +α Group, Investment Department

“You’re an inductive thinker, aren’t you”

When the CEO broke the ice at the meeting with these words, I felt a little anxious about him having taken the lead but I was convinced the meeting would be a success. This was because I knew then that he had carefully read the report I had sent ahead of time. I opened my business bag widely and, while making sure to show that the products of the company I was visiting were inside, I took out discussion papers and began explaining my ideas to raise the company’s corporate value.

Company A, a retailer, suffered an increasing number of unprofitable stores and loss cuts as it had continued to aggressively open stores with its main line of business while the domestic market got close to the saturation point. In addition, the company had invested in other low-profitability categories, resulting in the so-called conglomerate discount and a lower valuation from the stock market. At the same time, their core products still attracted many enthusiasts, and sales were growing overseas as well. Therefore, I asked for a meeting with the CEO, thinking that if our engagement would change management approach, there was a great deal of room for the stock price to rise.

Unique research report earns the CEO’s confidence

In the meeting, based on proprietary research, I put forth the idea that operating profit as its current KPI should be replaced by EPS or ROIC and the company should show cash flow allocations. When companies employ operating profit or EBITDA as KPI, it can be achieved even when there is inefficient capital expenditures or corporate acquisitions, so there is the risk of corporate value eroding. By contrast, companies that use ROIC or EPS as their KPI and express cash flow allocation tend to have strict investment guidelines, effective control of working capital, expanding shareholder returns, and divestment of non-core assets. It is also clear that they enjoy high valuations from the stock market (see Table 1). Responding positively, the CEO said, “I think we need to be aware of ROIC. The company has changed from a growth stock to a value stock, so it is a good idea to express growth with EPS.”

After the meeting, Company A announced a new management policy and a new set of KPIs including ROIC, EPS and free cash flow. This policy has generally been well received, and there have been positive comments from sell-side analysts on expectations for higher investment and capital efficiency. Six months later, at its IR meeting on financial results, the CEO stated “Our previous approach was to go ahead with a business if operating profit was positive. However, it has come to recognize that if return on investment cannot exceed capital costs, corporate value will not increase. The company has occasionally suffered large impairment losses and extraordinary losses, but I believe that this is going to change.” As thus far, Company A’s management has clearly changed.

A shareholder, an amateur when it comes to management, dares to speak to a professional business executive?

Stock companies have mechanisms for entrusting their management to highly talented people, so 99% of the proposals made by fund managers, who are amateurs in corporate management, do not help to raise corporate value. What can generally be of some help is introducing case studies of exceptional companies we come to know through research activities and providing ideas on finance, IR, and ESG based on specialized financial knowledge. Though in the only 1% of proposals that do help raise corporate value, finance can play the role of pointing the way to a future ideal. Which KPIs are good for a medium-term plan? How should executive remuneration be determined? Which industries will grow going forward? How should management be structured when the population is declining?

Most recently, one of the themes I’m focused on is hiring people without regard for gender or nationality. It is thought that companies who hire outstanding people, fully integrate them in, and promote them will experience greater earnings growth. However, with this theme there is no single ideal or way forward, so when engaging with companies, we do not say, you should be doing this or that; rather, we talk about the business environment they should take into account. For example, I might say, SFDR is a new regulation being implemented in Europe. Investors will be asking companies to improve metrics related to the environment and society, and the evaluations of companies with low scores for those metrics will decline. The percentage of female directors and percentage of women in managerial positions are candidate social metrics, and it will be important to set targets and disclosure information for them. In the long run, if many companies come to engage in this theme and commonalities in successful cases become clear, then an ideal—what companies should be doing—will emerge. I compile this information, put it into a report, and conduct dialogue with companies. Our role is to point the way like this to a future ideal.

Table 1 Total Return of Mid-Term Plan KPI of Companies in Nikkei Stock Average

KPI	Total return	Number of companies
Return on invested capital (ROIC)	56.4%	18
Earnings per share (EPS)	51.9%	22
Free cash flow	40.0%	26
Total shareholder payout ratio	36.4%	36
Operating profit	27.6%	107
EBITDA	18.9%	17
Equity ratio	16.9%	36
Ordinary profit	15.0%	37

Source: Created by Sumitomo Mitsui DS Asset Management. Covers from September 30, 2016 to September 30, 2019

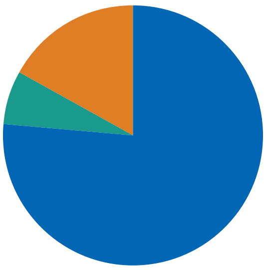
Results of Engagements

Our investment professionals such as analysts and fund managers contact companies on a daily basis and approach them from various aspects through one-on-one dialogues, various IR meetings such as results briefing, on-site tours, telephone interviews and others. We define "one-on-one engagement between the investee companies and the Company" as an exclusive engagement and focus on these activities. Here, we show results of exclusive engagement in fiscal 2020.

We conducted 2,242 exclusive engagements through the year. Among these engagements, approximately 76% were dialogues with executive officers, directors or persons in equivalent positions. The breakdown by topic of dialogue is as follows. In cases where multiple topics were discussed at the same time in actual dialogues, dialogues were classified by main topic in the counting. Engagements in which we had discussions with executives on management strategy make up most of the engagements. This is thought of as a characteristic of our engagement.

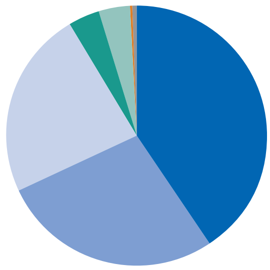
Counterparts of dialogues: breakdown by position

Directors, executive officers, etc.	76.5%
Department managers, section chiefs, etc.	6.8%
Person in charge	16.7%



Engagement themes: breakdown by topic

Management strategy	40.8%
Voting rights and governance	27.3%
IR and disclosure	23.5%
Society	3.8%
Environment	3.7%
Financial strategy	0.4%
Other	0.4%



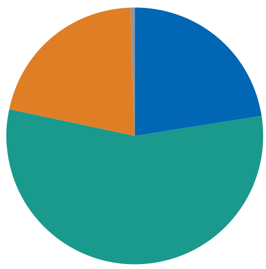
* For the composition ratio in the above chart, as the figures are rounded off to the nearest tenth, the total ratio may not be 100%.

Milestone management

We conduct milestone management in four stages for each engagement in order to grasp its effectiveness. The targets include many themes that require a long time horizon, so they are managed by classifying them into the following four stages and continuing to encourage companies to move toward solutions.

Stage 1	Our presentation of issues
Stage 2	Shared recognition of issues with the company
Stage 3	Improvements made on issues
Stage 4	Confirmation of target achievement

Stage 1	22.5%
Stage 2	56.0%
Stage 3	21.1%
Stage 4	0.4%



Basic Concept for the Exercise of Voting Rights

In fulfilling our stewardship responsibilities, we will exercise voting rights in accordance with our own guidelines with the aim of improving value of or mitigating damage to investee companies for the benefit of customers and final beneficiaries.

Voting rights are important, as they can impact corporate management and REIT management, and change the value of an investee company. We strive to exercise voting rights so as to prevent the management from damaging interests of shareholder or investor and to motivate them to create the greatest value by making effective use of the resources available within the company or REIT properties.

An asset manager in principle invests in assets that are expected to bring higher returns. We believe what we are able to do is not only to simply hold securities but to encourage sound development of investee companies and improve their corporate value through engagement, a dialogue with clear objective and the assertive exercise of voting rights. Concretely speaking, we neither abstain from voting nor submit blank votes in principle, to ensure that investee companies can enhance their corporate governance and develop desirable conditions for investors.

Exercise of Voting Rights Conscious of Improving Corporate Value

Hideki Kawanabe
General Manager, Responsible Investment Section

The general meeting of shareholders is the highest decision-making body of an incorporated company, and the exercise of voting rights to convey to the management the voice of shareholders is an activity that can improve the value of investee companies and thus directly impact the interests of our customers and final beneficiaries. As an asset manager, we strive to exercise our voting rights in a way that optimally enhances the value of investee companies.

As the majority of Japanese listed companies concentrate their general meeting of shareholders in June, it is necessary to exercise a huge number of voting rights during the short period of time between issuance of the convocation notice and the meeting. Therefore, in order to exercise these voting rights to improve corporate value, we at all times try to confirm their actual status of corporate governance and its improvements by having dialogues with the investees throughout the year. If we detect any issues in view of our guidelines for the exercise of voting rights, we explain that we are aware of the issues, and make requests for improvements.

Corporate executives are now required to make difficult business decisions due to the business environment worsened by COVID-19, and due to the need to respond to global issues such as climate change. Taking these into account, we issued the following press releases to clarify our policies. We will continue to contribute to the improvement of corporate sustainability and the expansion of profits for our customers and final beneficiaries, through constructive dialogues with investee companies, and by refining our guidelines for the exercise of voting rights that contribute to the enhancement of corporate value.

"Immediate Policy on the Exercise of Voting Rights for Japanese Stock in Light of COVID-19," issued on May 7, 2020

POINT

- We will flexibly apply our standard for performance and ROE criteria
- We will flexibly respond to postponement of general meetings of shareholders, and holding of general meetings in two stages.

For details, please refer to https://www.smd-am.co.jp/news/news/2020/news_20200507/ (in Japanese).

"Immediate Policy and Future Direction regarding the Exercise of Voting Rights for Japanese Stock," issued on May 6, 2021

POINT

- Given the latest condition where the extent of recovery from damages incurred due to the COVID-19 crisis varies among industries and businesses, we will make our decision on the exercise of voting rights taking the actual situations of each company into account.
- We will invite for disclosure of information regarding sustainability and for roadmaps to respond to sustainability issues, which will be reflected in our criteria for the exercise of voting rights in the future.

For details, please refer to https://www.smd-am.co.jp/news/news/2021/news_20210506/ (in Japanese).

Guidelines for the Exercise of Voting Rights

We have established our own guidelines for the exercise of voting rights for the purpose of contributing to improvement of corporate value through strengthening of governance of investee companies. In exercising voting rights, we do so after carefully examining all agenda proposals of companies on an individual basis in principle. Since we take into account the external environment and specific factors to be addressed and progress of improvement for each investee company through interviews and engagements, we do not automatically vote against the proposal in the case of conflict with the guidelines. The major criteria and the intent behind our guidelines for the exercise of voting rights are outlined below.

Details of our guidelines are disclosed on our website (https://www.smd-am.co.jp/english/corporate/responsible_investment/).

Major items and the embedded ideas of the guidelines for the exercise of voting rights

Proposals concerning the election and dismissal of directors

Criteria (In the case of conflict with the guidelines, we may vote against the proposal)	Embedded Ideas of the Criteria
● If ROE never exceeds the average for listed companies in the past three years. ● If liabilities exceed assets or there is a severe decline in profit, etc. ● If issue of social credibility occurs, etc.	These are ideas focusing on the management's responsibility for operating results.
● Composition of the board of directors such as cases where the number of directors is extremely large or where the ratio of outside directors is low. ● For companies that have a major shareholder or those that have introduced takeover defense measures, and others, we give especially serious consideration to the sufficiency of ratio of outside directors.	This is an idea that a certain number of independent outside directors is necessary to reflect the viewpoint of third-party and minority shareholders in managerial judgment. We believe that in the case where major shareholder standards exist, further guarantee on the structure side is needed for protection of minority shareholders.

Proposals concerning the election and dismissal of outside directors

Criteria (In the case of the conflict with the guidelines, we may vote against the proposal)	Embedded Ideas of the Criteria
● An outside director attends less than 80% of meetings of the board of directors, or a number of assignments served by outside director is extremely large ● Independence (major shareholders, parent company, major trading partners, advisory contractors, long term of office, etc.)	This is an idea that outside directors are required to appropriately supervise business management as a representative of minority shareholders, preferably they should have a high level of effectiveness and independence.

Proposals concerning officer compensation, etc.

Criteria (In the case of the conflict with the guidelines, we may vote against the proposal)	Embedded Ideas of the Criteria
● Appropriateness of the compensation amount; linkage with performance; appropriateness of stock options such as details leading to their provision, the timing of exercise, and the number granted; involvement of outside directors and the compensation committee and adequacy of disclosure ● Recipients of stock options include outside directors, directors who are audit committee members, auditors, and outsiders.	This is an idea that we shall focus on whether compensation incentivizes them properly, and whether it is not excessively paid. It is also an idea that preferably transparency of the process of determine compensation is ensured by involvement of outside directors and the compensation committee.

Results of the Exercise of Voting Rights

Results of exercise of proxy voting rights for Japanese equities at general meetings of shareholders from July 2020 to June 2021 are as follows.

Details are disclosed on our website (https://www.smd-am.co.jp/english/corporate/responsible_investment/voting/report/).

Results of the exercise of voting rights at general meetings of shareholders from July 2020 to June 2021 (Japanese equities)

Proposals	Total	Supported (percentage of support)	Opposed (percentage of opposition)	Abstention	Blank votes
Total company proposals	**23,951**	**18,600 (77.7%)**	**5,351 (22.3%)**	**0**	**0**
Proposals on company organization					
Appointment and dismissal of directors *1	18,601	14,194 (76.3%)	4,407 (23.7%)	0	0
Appointment and dismissal of audit & supervisory board members *1	1,809	1,376 (76.1%)	433 (23.9%)	0	0
Appointment and dismissal of accounting auditors	80	73 (91.3%)	7 (8.8%)	0	0
Proposals on executive compensation					
Executive compensation *2	1,004	835 (83.2%)	169 (16.8%)	0	0
Payment of retirement benefits	147	15 (10.2%)	132 (89.8%)	0	0
Capital policy proposals					
Appropriation of retained earnings	1,526	1,397 (91.5%)	129 (8.5%)	0	0
Matters related to restructuring *3	59	59 (100.0%)	0 (0.0%)	0	0
Introduction, renewal, or abolition of takeover defense measures	59	3 (5.1%)	56 (94.9%)	0	0
Other capital policy proposals *4	122	120 (98.4%)	2 (1.6%)	0	0
Partial amendment of the articles of incorporation	537	526 (98.0%)	11 (2.0%)	0	0
Other proposals	7	2 (28.6%)	5 (71.4%)	0	0
Total shareholder proposals	**189**	**25 (13.2%)**	**164 (86.8%)**	**0**	**0**
Proposals on company organization					
Appointment and dismissal of directors *1, 5	52	0 (0.0%)	52 (100.0%)	0	0
Appointment and dismissal of audit & supervisory board members *1	2	1 (50.0%)	1 (50.0%)	0	0
Appointment and dismissal of accounting auditors	0	0 —	0 —	0	0
Proposals on executive compensation					
Executive compensation *2, 6	12	6 (50.0%)	6 (50.0%)	0	0
Payment of retirement benefits	0	0 —	0 —	0	0
Capital policy proposals					
Appropriation of retained earnings	13	2 (15.4%)	11 (84.6%)	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%)	0	0
Other capital policy proposals *4	10	1 (10.0%)	9 (90.0%)	0	0
Partial amendment of the articles of incorporation	97	13 (13.4%)	84 (86.6%)	0	0
Other proposals	1	0 (0.0%)	1 (100.0%)	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
Note: The percentages of support and of opposition in the above chart are rounded off to the nearest tenth, so the total of both percentages may not be 100%.

Response to Shareholder Proposals and Management of Conflicts of Interest

We supported 13.2% of the shareholder proposals at general meetings of shareholders from July 2020 to June 2021

We supported 13.2% of shareholder proposals at general meetings of shareholders from July 2020 to June 2021.

At a general meeting of shareholders held in June 2021, a shareholder proposal for strengthening climate action submitted by environmental NGOs and others drew much attention. In November 2020, we announced our ESG priority themes as an asset management firm, and in May 2021, we announced our policy of making a positive decision on shareholder proposals regarding disclosure of ESG information such as climate change and human rights, if the content, scope, and items of disclosure required in these proposals are deemed appropriate. We will continue to carefully examine the content of proposals and consider supporting shareholder proposals when we determine those would improve, or avoid damage of, the value of investee companies.

Akane Kumagai
Assistant Manager, Responsible Investment Section

Case Study Environmental Shareholder Proposal to Mitsubishi UFJ Financial Group

Outline of proposal	At MUFG's general shareholders meeting held in June 2021, shareholders including the NPO Kiko Network submitted a proposal to amend its Articles of Incorporation, requiring the company to formulate and disclose a plan detailing management strategy to ensure investment and loans are aligned with the goals of the Paris Agreement.
Our response	We voted in favor of the proposal, as the proposed amendment to the Articles of Incorporation would not restrict MUFG's business operations, but instead required the company to strengthen its disclosure of climate change-related information, and thus it was of benefit to shareholders.
Results of the resolution	The proposal was rejected, with a 22.71% approval ratio.

Strict Control of Conflicts of Interest in the Exercise of Voting Rights

We strictly manage conflicts of interest in the exercise of voting rights with respect to our shareholder companies, including our largest shareholder Sumitomo Mitsui Financial Group, in order to prevent causing any disadvantage to customers and other third parties. In exercising voting rights, we will in principle vote to support a proposal only when both our standard for the exercise of voting rights and the recommendations of an external proxy advisory body are in favor of said proposal.

The results of the exercise of voting rights are reported to the Responsible Investment Committee, which comprises Outside Directors, the Responsible Investment Officer, and the officer in charge of the Compliance Department, and the Committee supervises the appropriate management of conflicts of interest. In addition, we strive to ensure further transparency by disclosing the results of the exercise of voting rights for each investee company and for each agenda item, along with the main reasons for agreement or disagreement.

Proposals at General Meeting of Shareholders Subject to Management of Conflicts of Interest

- All proposals of our shareholder companies, which are listed below
  - Sumitomo Mitsui Financial Group
  - Daiwa Securities Group
  - MS&AD Insurance Group Holdings (holding company of Mitsui Sumitomo Insurance, one of our shareholders)
- Any proposal for the election of directors or corporate auditors whenever its candidates include a person who once belonged to us, or held an important position, such as representative director, at any of our shareholder companies.

Participation in Global Initiatives

To fulfill stewardship responsibilities as a responsible institutional investor, the Company has signed and accepted various global initiatives. We work cooperatively with other investors, and conduct engagement with investee companies. Here are major initiatives we participate.

UN Principles for Responsible Investment (PRI)

The UN Principles for Responsible Investment (PRI), which was released by then UN Secretary-General Kofi Annan in April 2006, are principles aimed to improve long-term investment performance for customers and final beneficiaries by being incorporated into the investment process, of institutional investors with understanding of ESG issues. We became a signatory in March 2010.

Signatory of:

AGCA (Asian Corporate Governance Association)

ACGA is a non-profit organization mainly based in Hong Kong, which was established with the objective of working to improve corporate governance in Asian markets in 1999 based on the idea that corporate governance is an indispensable element for long-term growth of the Asian economy and capital markets. We became a signatory in 2007.

Principles for Financial Action towards a Sustainable Society (so called Principles for Financial Actions for the 21st Century)

Principles for Financial Actions for the 21st Century are principles established in October 2011 based on the recommendations of the Central Environmental Council of the Ministry of the Environment as action guidelines for financial institutions willing to fulfill responsibilities and roles necessary to form a sustainable society. We joined in December 2017.

TCFD (Task Force on Climate-related Financial Disclosures) and TCFD forum

TCFD was established in April 2015 by the Financial Stability Board at the request of G20. As the possibility of climate changes threatening the stability of financial systems has been increasing, the task force was set up to discuss the disclosure of information on climate change and how financial institutions should respond. We joined TCFD forum in December 2019.

CA100+ (Climate Action 100+)

Climate Action 100+ is a collective engagement program which identifies and conducts engagements with over 100 global companies that release a large amount of greenhouse gas emissions, aiming to achieve the Paris Agreement. This program is to be implemented over five years from December 2017. From the standpoint of asset management, it asks for reduction of greenhouse gas emissions, monitoring of climate change-related risks and opportunities, and improvement of environmental information disclosure in line with the TCFD. We became a signatory in February 2020.

30% Club Japan Investor Group

30% Club, which was founded in the United Kingdom in 2010, is a global campaign aimed at an increase of the proportion of women on seats in companies' important decision-making bodies, including the board of directors. Its Japanese body, 30% Club Japan, went into action in May 2019. Investor Group, one of its working groups aims to share the importance of gender diversity with the management of investee companies and to exercise influence in achieving the goal. We joined in December 2019.

CDP

CDP is a UK-based non-governmental organization (NGO) that runs a global disclosure platform for investors, companies, states, regions and cities with which they can manage their own environmental impacts. Since the establishment of its predecessor the Carbon Disclosure Project in 2000, the organization has been sending out questionnaires to institutional investors on, and disclosing information on climate change, water, forests, supply chains, and other issues. We became a signatory in June 2021.

Example of Initiative Activities, PRI Assessment

[Example of initiatives] 30% Club Japan Investor Group

The 30% Club Japan Investor Group (hereinafter, "Investor Group"), in which we participate, is a working group comprising institutional investors. As an institutional investor, its aim is to promote gender diversity in companies, increase the medium- to long-term corporate value of investee companies, and maximize shareholder returns.

The goal of 30% Club Japan is to increase the ratio of female executives (directors and corporate auditors) in the top 100 TOPIX companies to 30% by 2030. To attain this goal, the Investor Group believes that it is effective to hold a constructive dialogue with investee companies to discuss solutions to gender-related issues. The main activities of the Investor Group include (1) collecting and sharing best practices for engagement, (2) disseminating information on the importance of gender diversity in key decision-making bodies such as boards of directors (Thought Leadership Report, white paper, etc.), and (3) improving awareness. We participate in a sub-group on (1) collecting and sharing best practices for engagement (hereinafter, "sub-group").

As well as collecting best practices for engagement, this sub-group exchanges opinions with female outside officers of the Japanese Institute of Certified Public Accountants and the Japan Federation of Bar Associations. This initiative allows investors to gain insights from the experiences and challenges of those who have actually served as outside directors, while the Investor Group communicates to them the issues that the investors recognize. Consequently, both sides help each other to deepen understanding of the importance of board diversity.

In October 2020, the Investor Group published its first Annual Report since its foundation in Japan. The report on the Investor Group's activities contains best practices for engagement shared by the sub-group. We hope that this will provide new insights and solutions for companies facing diversity-related challenges.

As of July 2021, the number of institutional investors participating in the Investor Group, including us, increased to 25. The Investor Group aims to realize more diversified boards of directors through dialogue, but currently there is a shortage of candidates with adequate business experience in Japan. We believe it is important that in engagement, we convey the importance of board diversity, and share and discuss ideas and know-how of other companies regarding how to promote diversity, including disclosing results and targets of relevant indicators such as the ratio of women in the recruitment of new graduates and mid-career workers, and developing female candidates for executive positions who will lead the next generation.

We will keep moving forward in the hope that the sophistication of engagement by the Investor Group collectively as well as each participating institutional investor will contribute to achieving gender diversity in Japan.

PRI Assessment (2020)

We received the following assessment in the 2020 Annual Report of the United Nations Principles for Responsible Investment (PRI):

In the "Strategy and Governance" category, which evaluates a responsible investment framework as an asset management firm, we received the highest rating of "A+." We also received the highest rating of "A+" in "Integration of Responsible Investment in Listed Stocks" and in "Active Ownership."

As we are an institutional investor entrusted with the important assets of our customers and final beneficiaries, we will continue to strive for responsible investment activities.

Strategy and Governance	A+
Integration of Responsible Investment in Listed Stocks	A+
Active Ownership in Listed Stocks	A+
Engagement	A+
Exercise of Voting Rights	A+
Bonds (corporate/financial)	A
Bonds (corporate/non-financial)	A

Initiatives to Enhance ESG Integration

We have established the Principles of Fiduciary Duties and Sustainability to serve as a universal policy on company activities that is aligned with our corporate philosophy. Based on these principles, “Consideration of sustainability” is inscribed in our investment philosophy as well, and to provide investment performance of the highest quality as a responsible institutional investor, we strive to make a further enhancement of our investment management capability, which includes incorporating ESG factors into the investment process (ESG integration).

Our Investment Philosophy
https://www.smd-am.co.jp/english/corporate/investment/

Our Basic Policy on ESG Investment
https://www.smd-am.co.jp/english/corporate/responsible_investment/esg/

In March 2020, to further promote sustainability and ESG investment, we defined investment product types based on ESG integration and established a program to certify products that clearly consider ESG factors in the investment process as sustainability-related products. Since then we have worked to expand the certified products and focused on initiatives to further enhance ESG integration in a way that ties ESG factors to investment returns. For example, while we have developed proprietary ESG evaluation and engagement methods centering on Japan equity investment, we are now working to expand both the scope and content of our research and engagement for foreign companies as well by promoting coordination among expertise in different assets and among investment and research groups and overseas offices. Further, we devote ourselves to develop new products focused on society’s overall sustainability, such as the Japan Equity Impact Fund and Global GX Related Equity Fund.

With interest increasing around the world in sustainability and ESG, the Sustainable Finance Disclosure Regulation (SFDR) for investment products became effective in the EU, and there is now an international movement toward standardizing corporate ESG-related disclosure rules, which are currently highly varied. Meanwhile, AI, big data, and other information technologies are also making steady progress. Given such changing circumstances, we will persistently enhance our investment capabilities, strengthen engagement activities, and reinforce R&D so that we will deliver better investment performance of our products and provide new progressive products that meet client needs. With all these efforts we will do our part in building a more sustainable society.

Shingo Imai
Director and Senior Managing Executive Officer,
Head of Investment Management Division

Recent Initiatives to Enhance ESG Integration

	Initiative	
Organization	Increase the staff of the Responsible Investment Section	Increased staff centering on members jointly affiliated with the Investment Department to promote knowledge-sharing among different assets 12 members as of October 2021 (increase of 5 year on year)
ESG evaluation	Expand evaluation coverage and enhance evaluation methods	Japanese companies: Expanded coverage to SMEs Overseas companies: Created shared score for equities and fixed income
	Raise evaluation precision	Augmented database of ESG-related information
Engagement	Engagement on environment- and society-related themes	Conducted focused engagement on climate change and will expand to other themes going forward
	Further utilization of collective engagement	Participated in collective engagements sponsored by CA100+ and the Science-Based Targets Initiative

Types of Investment Products Based on ESG Integration

All of our fund managers make investments while taking into account ESG factors, which are material to investee company sustainability, except for certain products like passive investment management products and long/short products for which their application is difficult.

Basic Approach to ESG Integration

1. When we concern the 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 investee companies to appropriately address critical issues.
2. 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. (consideration of sustainability in investment decisions)
3. 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 as appropriate.
4. We continuously enhance various ESG integration methods including security screening, engagement activity and the extent of ESG evaluation taken into account in portfolio construction. With these efforts, we will try to increase a number of products for which ESG factors are more actively integrated. We will also monitor and improve effectiveness of ESG integration.

Among investment products taking ESG into account, those with clear ESG integration that meet certain criteria are certified as Sustainability Focus or Social Contribution-Thematic/Impact Investment. The investment balance of these products as of March 31, 2021 is ¥5,993.3 billion (around 35% of our AUM on a non-consolidated basis).

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 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 (With impact fund, impact targets set in advance)

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

ESG Scores Based on Proprietary Methodology

We calculate ESG scores based on our proprietary methodology and now evaluate over 1,500 domestic and overseas companies and REITs. Features of our ESG evaluation methods are as follows. ESG scores are utilized within the investment process of our funds in various ways.

ESG Evaluation Features

Feature 1

Our ESG evaluation consists of two components: a "Basic evaluation" based on public information on the investee company, and an "Analyst evaluation" leveraging dialogues with the company

1. **Basic evaluation**
   ➡ Evaluation by ESG analysts at the Responsible Investment Section based on the information provided by third-parties such as external ESG research institutions.
2. **Analyst evaluation**
   ➡ Evaluation by sector analysts at the Corporate Research Group based on qualitative information obtained through their own research and analysis as well as dialogues with investee companies.

Feature 2

For both evaluations, items have been set uniquely, and prospect forecasts are incorporated in the Analyst evaluation.

We employed the bottom-up method where detailed items in E, S and G are respectively evaluated for each company.
The Analyst evaluation incorporates the item of possibility for future changes.

ESG evaluation process

Basic evaluation
- Based on public information showing past results
- Utilizing third-party information to ensure objectiveness
- Measuring the degree of information disclosure

Analyst evaluation
- Based on information obtained through proprietary research and dialogues.
- Analysts' insights on sustainability
- Incorporating the possibility for future changes

ESG evaluation
- A five-grade evaluation is made for each detailed item to create a refined score book.

(Companies with a good ESG score)
- Having excellent potential for sustainable growth and high sustainability
- Having great ability to respond to changes in external circumstances
- Having a high possibility of creating desirable changes such as responses to issues and leading innovation

Utilization of ESG scores in dialogues with companies and investment decisions

Initiatives for Expanding Use of ESG Scores

It was 2009 when we introduced our ESG evaluation with a proprietary methodology on Japan equity and thereafter we have expanded its application to other asset classes: REITs, domestic fixed income, and global equities. In Japan, ESG scores are assigned primarily to large-cap companies covered by equity research analysts, but to further expand the scope, we have begun to plan out an evaluation framework for smaller companies. In addition, for overseas companies, we channeled our experience in ESG evaluation based on national and regional characteristics and this fiscal year created a score applicable to both equities and fixed income. In the process of creating a common score, we incorporated the latest trends and revamped risk categories and other items, which raised the reliability of the evaluations compared to before.

Meanwhile, we continue to increase the number of companies to which we assign ESG scores while we promote ESG integration utilizing them. We carry out investment while taking into account the sustainability of investee companies for all active investment, in principle, in accordance with our basic policy on ESG investment. As our proprietary ESG evaluation is based on two types of assessment: the Basic evaluation and Analyst evaluation, combining different usage methods enables us to make multifaceted evaluations. This could include comparison of the total ESG score that consists of the Basic evaluation score and Analyst evaluation score and comparison of the Basic evaluation score and Analyst evaluation score. More specifically, we are able to simulate the degree to which improvements can be expected in the future by comparing the Basic evaluation based on the company's disclosures with the Analyst evaluation that incorporates projections of its future potential.

Application of ESG Evaluation to Foreign Fixed Income Investment Strategy

ESG scores now being shared between global equities and foreign fixed income teams

Research analysts of global equities and foreign bonds have worked jointly to conduct interviews on company performance and engage in dialogue. Recently, we decided to step further by beginning in fiscal 2021 a common proprietary ESG score which is utilized for each investment strategy. Specifically, the SMDAM ESG Rating, which had been used for global equity investment, was modified with help of the Responsible Investment Section for use in fixed income investment. The SMDAM ESG Rating identifies material ESG issues for each sector and assigns an analyst evaluation on a forward-looking basis that is based on company analysis and dialogue.

Our latest efforts have made it possible to analyze creditworthiness using our proprietary ESG score even in corporate credit investment for global companies. Improvement of comparability of ESG analysis enables credit analysts to make multifaceted credit appraisals of overseas companies while assimilating their financial and non-financial information, which can be expected to increase the precision of investment decisions. Furthermore we expect the quantitative output will allow ESG analysis to be utilized in a rule-based investment process with clearly defined criteria.

Engagement for Foreign Fixed Income Investment

Using our proprietary ESG score, credit analysts are able to conduct dialogue with a greater awareness of materiality for each sector even with overseas companies. For companies with a low ESG score, companies not in compliance with international codes of conduct, and companies with difficulties in addressing climate change issues, we engage in constructive dialogues jointly with our global equity analysts or by participating in external collective engagement. With such efforts we strive to both promote sustainability and raise investment performance at a high level.

Case Study ESG Evaluation Based on Dialogue with a U.S. Food Products Company

We engaged in dialogue with the ESG division manager of a major U.S. food products company whose ESG scores by external ESG rating agencies had fallen in recent years. The engagement focused on product quality management, which we consider particularly important in a sector like consumer staples.

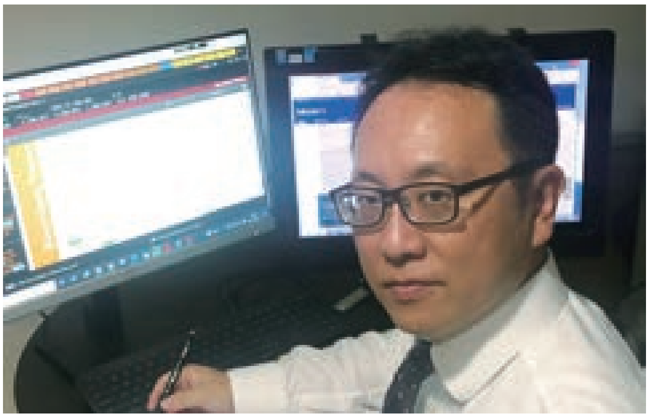
Parallel with this, we held discussions with external ESG rating agencies and credit rating agencies on ESG evaluation in consumer sectors in general and with this as input assigned our own ESG score. As a result, our ESG score drew closer to the reality compared to external ESG scores which rely primarily on disclosed information. As our ESG score also took into account future changes, we were able to incorporate this into credit appraisals and came to the conclusion that the declines in external ESG scores would not influence our own credit rating. The specific basis of our conclusion is as follows.

Insufficient information on product quality management, and on quality management system (QMS) certification, in particular, caused the decline in external ESG scores. However, through dialogue, we were able to confirm:

- the company had implemented its own QMS program in conformance with the standards of the International Organization for Standardization (ISO),
- a majority of its primary suppliers have obtained international certification from the Global Food Safety Initiative (GFSI), and
- the company has established a food safety council made up of outside experts which verifies its production, quality, and sanitation management systems and gives consultations whenever needed.

Accordingly, we judged that in their actual operation, the systems do not compare unfavorably with those of other major companies in the sector. What is more, since the current CEO took office, we have gained a renewed sense that the company has come to strictly maintain and execute its investment discipline with a focus on profitability and business risk. We believe that such a management approach will help the company improve its product portfolio and maintain or increase its brand power.

In forthcoming engagements, we plan to review the improvement of disclosures and follow up on issues we expressed our opinion in previous dialogues such as increasing use of renewable energy and ongoing debt IR.



Sumitomo Mitsui DS Asset Management (USA) Inc.
Takashi Miyazaki Senior Credit Analyst

More than 15 years ago, I worked to quantify the latent value of intangible assets that could not be evaluated with traditional financial information. At the time, there was little interest in ESG or sustainability among investors, while U.S. and European companies addressed these issues on a limited basis. So I was unable to obtain any insights that could have been useful for investment decisions. Times have changed, though. Today I get the strong sense through my day-to-day activities that there has been an increase in recent years in U.S. and European companies that want to hear the candid opinions of Asia-based investors on ESG. Here in New York, there are not many Asian investors who actively approach and engage with U.S. and European companies. So as Asia's representative, we intend to carry out engagement and work to further improve the effectiveness of our ESG evaluations.

Case Study: Promoting Research on ESG Themes

Research started on cross-sector themes

The Corporate Research Group has over 20 Japan equity analysts who cover more than 500 Japanese companies. With increasing uncertainty in the business environment surrounding companies due to mounting geopolitical risks, the COVID-19 pandemic, and other developments, we have raised the frequency at which we gather information so as not to miss changes in performance trends and future growth opportunities while we have facilitated coordination among analysts to ensure analysis has adequate depth and breadth.

Moreover, we are aware increasing expectation by society in general on asset management firms with respect to their ESG initiatives and needs to drastic changes to the analysis methods by our analysts. In the past, our primary work was corporate financial analysis and we aimed to generate an alpha by predicting variation based on detailed performance forecasts and analysis of the competitive environment and latent growth potential. Now however, because it is difficult to anticipate ESG megatrends with traditional quantitative analysis, it is essential that we evaluate companies with a methodology that incorporates ESG.

Against this backdrop, among non-financial factors, we first began to calculate 2030 greenhouse gas emissions in order to quantify the environment factor. Specifically, we will make environmental impact costs visible by estimating future CO_2 emissions based on individual company efforts, technological innovations and changes in the electrical power generation mix and multiplying it by a carbon price. With such an estimated environment cost integrated into corporate value calculations, we are empowered to make our investment decisions from a new standpoint and create a system capable of meeting such requirements as carbon footprint tracing for investees. In addition, this initiative facilitates analysts to actively engage in dialogue with companies and encourage their initiatives towards carbon-free trajectory, and we believe that this is an important part of our mission.

With a global, broad-ranging paradigm shift underway given impetus by ESG, it is essential that analysts collaborate across sectors. We have therefore begun efforts to share the latest trends in various sectors through the pursuit of shared themes and to leverage this for investment ideas. Going forward, we plan to promote the initiative on a global basis and further strengthen our research system through a united company-wide effort.

Examples of research on ESG themes

Environment-related Research Themes

- Energy policy
- Renewable energy
- Hydrogen, ammonium
- Batteries
- Sustainable food
- …

Theme: Cross-Sector Research on Hydrogen creation, transportation, and usage

Sector	Creation	Transportation	Usage
Electric Utilities, Oil & Gas	★		★
Chemicals	★		
Machinery, Construction & Engineering	★	★	
Metals, Trading companies	★	★	★
Automobiles			★

Leveraging thematic research to provide information to clients

We, the Investment Information Group, gather and summarize information and deliver in-house research papers, economic outlook and others almost every day with an aim to communicate highly comprehensible information inside and outside the company. We work to have the market reports and videos we have created viewed by a wide range of people by providing them to various external economic news sites and posting them on Twitter and other social media, along with publishing them on our website. In an interview-based survey of investment trust distributors conducted by a consulting firm, our market reports received a top-level, extremely high rating.

Shinji Asai
Head of Corporate Research Group, Investment Department

Hideshige Watanabe
Head of Investment Information Group, Fund Management Department

Information related to climate change and other sustainability themes has a larger influence on the economy, society, and financial markets than before. We edit information provided by our analysts in the Corporate Research Group and communicate it daily to recipients inside and outside the company. One such report is *Carbon Neutral 2050*, which was compiled and issued in June of this year. The report includes contents on carbon-free initiatives for each industry written by portfolio specialists in the Investment Department in collaboration with analysts in Hong Kong and other overseas offices. In this report, the Investment Information Group also provides commentary on the background to accelerating carbon-free initiatives and assumed changes in society going forward as well as information on the future direction of carbon neutrality and projected changes for each industry. Looking ahead, along with these ad-hoc reports, we are also planning to publish a regular newsletter with the findings of internal research and analysis on sustainability and ESG. For the first phase, we plan to publish a booklet in November on ESG initiatives in the shipping industry.

We have also created numerous reports related to sustainability that are posted on our website, so we invite you to read them.

Carbon Neutral 2050

Market reports are available on our website at this link:
https://www.smd-am.co.jp/market/ (in Japanese)

Leveraging thematic research in product development

The Global Equity Group has two dedicated analysts whom we call New Opportunity Analysts. Their role is to identify long-term global trends and investment themes and quantitatively evaluate investment opportunities related to them. We maintain a framework in which attractiveness of investment theme is translated to scores and seasoned sector analysts provide 360-degree evaluations, a key to enable this framework to evolve effectively and efficiently.

The Asia GX Related Equity Fund and Global GX Related Equity Fund (hereinafter the “GX funds”), which were both launched in May 2021, are funds that focus on our priority ESG themes and aim to solve social issues while providing medium- to long-term performance. The GX funds mainly invest in companies involved in green transformation (GX) to build a sustainable society by using advanced technology to solve environmental problems like marine plastic litter and rising greenhouse gas emissions.

The GX funds involve analysts from offices in Asia, Europe and the U.S. to conduct thematic research that combines both local and global vantage points. For example, opinion appeared to be united on solar power as the most promising investment theme, but further digging resulted in divergent views among analysts and fund managers regarding the relative attractiveness. After a discussion from various viewpoints on the respective areas of the value chain and the candidate stocks to include in the portfolio, we came to the conclusion that in a certain area, the candidate stocks were significantly reshuffled. Focusing on the GX, we think that in addition to selecting top-down themes like policy trends and technology innovation, conducting a detailed bottom-up analysis of the competitive environment at each stage of the value chain, as in the example above, is essential for medium- to long-term investment performance and social impact creation.


Sumitomo Mitsui DS Asset Management (Hong Kong) Limited
Stanley Tang Portfolio Manager

Case Study: Japan Equity Value Investment

Koji Matsushita

Senior Manager, JP Equity Value Group, Investment Department

With regard to ESG integration in value equity investment, it does not work simply constructing a portfolio with high ESG score companies, does it?

We, the Investment Department's Value Group, have long regarded raising corporate value through constructive dialogue with investee companies as one method for improving investment performance. In particular, we believe that enhancing governance leads directly to increased corporate value, and we encourage companies to strengthen their governance. With regard to environmental and social issues as well, we call on investee companies from the standpoint of reducing investment risk to address these issues, particularly in areas with higher probability to impact their sustainability.

The Japan Equity Value Strategy we manage follows a contrarian investment philosophy of investing in companies whose valuation in the market is currently low but can be expected to improve going forward. Likewise for ESG, we believe we can achieve higher performance by investing in companies whose ESG valuation is currently low but likely to improve. In evaluating ESG, we utilize the company's proprietary ESG scores, and for engagement activities, we collaborate with the Responsible Investment Section to conduct individual dialogues with all investees with the aim of raising their ESG evaluations.

How do you integrate the ESG scores in the investment strategy that is highly appreciated by opinion leaders in ESG investment?

As a result of verifying our proprietary calculation model, which we have used in assessing the degree of discount for individual stock, in combination with ESG scores, we discovered that in sectors that are relatively unaffected by the macro economy stocks which are deeply discounted but have high ESG scores tend to show relatively good performance trends. In actual investment as well, we take account of ESG scores to determine active weight based on the recognition that undervalued stocks with high ESG scores offer relatively attractive investment opportunities.

In addition to this, since last fiscal year we have worked to consider an equity spread (difference between ROE and cost of equity) that takes the ESG score into account in order to sort out investable companies among low price-to-book ratio (PBR) stocks. Specifically, we verified the relationship between the equity spread and performance using cost of equity adjusted based on the ESG score, and we found that among low-PBR stocks those with negative equity spreads on an ESG score adjusted basis tended to show worse performance. We do not immediately exclude these stocks from our investment universe. However, when there appear to be no prospects for improving the ESG evaluation, we adopt a cautious stance to investment and regard such stocks as possible value traps which are stocks that other investors do not invest in, that neither provide the expected returns nor meet ESG requirements.

Finally, what are the Value Group's initiatives and its future direction?

Our group at present does not directly include ESG evaluations in the quantitative valuation model we mainly use, but we are keeping an eye on the fact that disclosure of non-financial quantitative information is making rapid progress. Going forward, availability of non-financial information and the quality of data provided by companies would improve if new ESG-related disclosure rules go into force and other improvements are made by exchanges and the regulators. That would enable us to explore opportunities for further analysis of the relationship to performance and figure out better integration methods. We will promote further ESG integration through various methods and translate such an integration to better investment performance over the medium and long term.

Case Study: Japan Equity Impact Investment

Impact investment heavily favored by the SDGs

"Impact" refers to a positive change on the environment and society, the E and the S in ESG. In impact investment, we construct a portfolio through a process where we consider whether the company's goods or businesses as a whole have the potential to create positive change in the environment or society and whether they are consistent with improving the quality of life and reducing environmental impact, which are tied to the 17 Sustainable Development Goals.

We decide on whether to include a company in the portfolio after rigorously researching and analyzing the extent to which its goods or services help to solve environmental and social issues and at the same time the extent to which this has increased corporate value or could increase corporate value in the future. Impact investment is active investment aimed at two goals: helping solve social and environmental issues and helping investors build assets. It could be said that this is an investment method that is completely new and similar to no other method.

Differences with typical ESG investment

In our product classification by ESG integration, impact investing is defined as investment that targets companies helping to raise society's sustainability. Where impact investing differs from typical ESG investment is in the fact that:

- ESG is the purpose not the means of investment,
- investment universe is built using a bottom-up rather than a top-down approach that uses screening, and
- efforts are made to raise the awareness of and promote action by company representatives such as the president and CFO.

So impact investment with these characteristics centers on logic analysis and setting KPI. Logic analysis consists of building a scenario for the growth of goods and services expected to contribute to impact themes from inputs such as human capital and manufactured capital, company actions, outputs, and their expected impact on society as a whole, and then measuring and evaluating the impact based on this scenario. KPI are set for individual investee companies. It has now been over a year since we began Japan Equity Impact Investment, but it is my impression that only a very small number of companies have set their own impact-related KPI. Our role is to propose KPI, encourage companies to set them, and promote disclosure and action. This is our daily challenge as we continue to engage in dialogue with companies.

Impact theme*	Impact examples
Improved quality of life	● Sustainable food supply ● High-quality healthcare and nursing ● Access to high-quality education ● Community development, regional revitalization
Reduced environmental impact	● Increased energy efficiency ● Clean energy ● 3 Rs, circular economy

*The impact themes may change in the future.

Ayako Watanabe
Senior Manager, JP Equity Value +α Group, Investment Department

Keiko Akuto
Responsible Investment Section

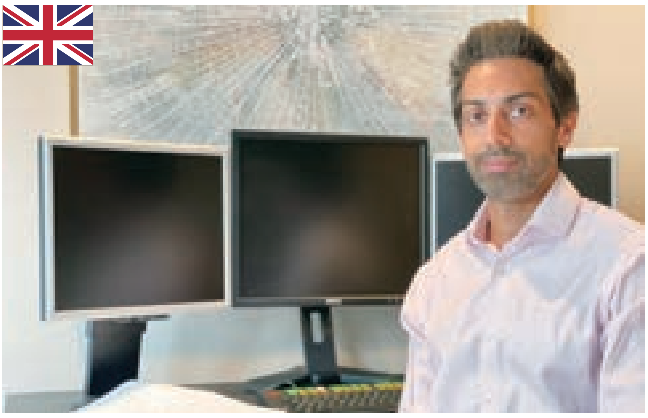
Other initiatives for improving investment capabilities and improvements and ambitions going forward

Regarding Japan Equity Impact Investment, and here CO_2 emissions is a straightforward example, some say the impact is not as large as that of global companies. And there is some truth to that. At the same time, in Japan there exist companies capable of a high-quality impact despite their small size thanks to unique services that utilize information technology and other innovations. In addition, I firmly believe there are impacts that only Japanese companies can create, such as with automotive technologies. This is exactly why we are focused on this investment strategy. By encouraging investee companies to recognize the importance of impact-generating activities and take further action, we believe we can broaden the geographic scope benefiting from the impact.

Our ambition going forward is to identify and cover all companies truly worthy of impact investment without omission. We personally are confident that we have considerable knowledge and initiative, but that is not enough. Therefore, it is important to link up with other internal resources including corporate research analysts with outstanding ability in information-gathering and analysis and ESG analysts with extensive experience in ESG engagement. For the further growth of Japan Equity Impact Investment, we will also play the role of strengthening and further expanding such cross-organizational collaboration.

Case Study: Initiatives at Overseas Offices

UK office/Singapore office



Sumitomo Mitsui DS Asset Management (UK) Limited

Chirin Gill Senior Portfolio Manager

Sustainability Financial Disclosure Regulation (SFDR) in the EU went into effect on March 10, 2021. The UCITS funds we at the UK office manage and other portfolios delegated by European asset management firms will be substantially affected. The main aim of SFDR is to shift the flow of capital market funds in a direction consistent with sustainability and make it easier for investors to compare products from a sustainability perspective.

We see additional work related to SFDR not as a regulatory compliance cost but as investment for differentiation. Asset management firms that conduct marketing activities in European markets are required to strengthen ESG-related disclosure. For example, asset managers will have to consider not only conventional ESG risks with a high likelihood of impacting future financial information but also negative externalities, material negative impacts investment decisions might cause on sustainability factors.

It will be exceedingly difficult for asset managers unable to meet the expectations of customers whose requirement levels for sustainability are getting higher and higher. In contrast, it will be a great opportunity to promote superiority for investors like us who truly incorporate ESG into the portfolio-construction process and, further, make this a source of excess returns. Currently, with respect to the UCITS funds and other portfolios that we manage, we are moving forward with considerations while closely coordinating with the Tokyo headquarters so that they are classified as so-called Article 8 funds as soon as possible.

Fund classifications under SFDR

Article	Qualification
Article 6	Funds that consider sustainability risk in investment decisions (but which do not qualify as Article 8 or Article 9 funds)
Article 8	Funds that promote environmental and social characteristics
Article 9	Funds that consider sustainability as investment objective

* The SFDR articles do not indicate fund classifications but are used here as shorthand (e.g. Article X funds) for explanatory purposes.

Hong Kong office/Shanghai office

In mainland China, publicly listed companies and investors had not paid much mind to ESG. Nevertheless, from an early stage, we integrated ESG into our investment process, taking into account the ESG factors that will impact corporate value over the medium to long term.

In the past, among the popular stocks at the time held by most investment trusts, there were cases of stock prices plummeting due to fraudulent or opaque accounting practices or trading being suspended. However, we had opted not to invest in such stocks and were able to avoid loss incurred since we had found problems in corporate governance.

This insufficient attention to ESG held true for environment issues for which the focus had been on air pollution more than global climate change, for example, as well as social issues like individual rights and privacy awareness for which there was a gap with the so-called global standard. However, since the Chinese government pledged to achieve carbon neutrality by 2060, financial markets overall began to put more focus on ESG. Among domestic Chinese investors as well, whose interest before had been minimal, momentum is mounting, and against a backdrop of more stringent ESG disclosure guidelines from securities exchanges, we expect there will be further progress in incorporating ESG issues into stock prices.

We will strictly maintain our philosophy of considering ESG to provide clients the highest risk-adjusted returns as possible while also focusing on dialogue with companies with ESG issues. Further, we believe that intensive discussions on business opportunities related to sustainability themes that we view as promising will directly be connected to investment decisions and performance and will lead to the creation of social impact and promotion of sustainability.

Case Study: Viewpoint of a Macroeconomic Research Analyst

Increasing importance of ESG in macroeconomic research

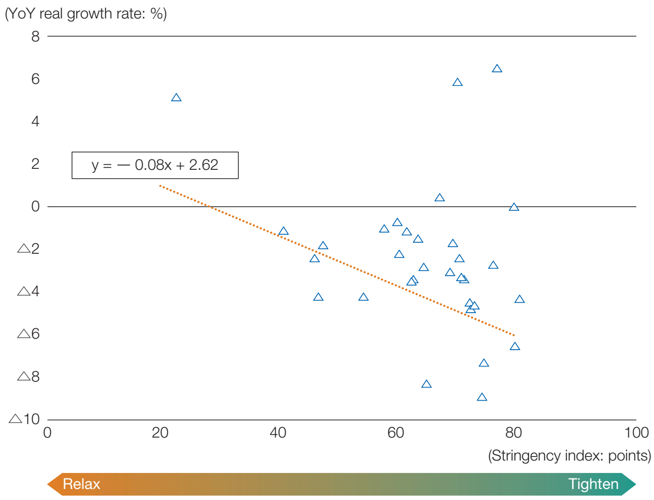
We have had ESG factors, and especially governance, which seeks government stability, incorporated into macroeconomic forecasts in analysis of emerging economies, where money flows and currency movements are particularly susceptible to the impact of the political situation. However, in recent years, natural disasters caused by extreme weather and the COVID-19 pandemic have impacted financial systems, economic growth, and inflation rates, so major central banks and government authorities have been strengthening policies to address environmental and social problems, including assessments of the resiliency of the financial system against climate change risks, target-setting for the transition to a carbon-free economy, and accelerating vaccination. As we cannot rule out that the environmental and social issues could change even the preferences and investment rules of consumers and investors, it has become important to more comprehensively consider ESG factors when forecasting and analyzing the macroeconomic environment.

COVID-19 pandemic has shown social issues can influence economic growth

During the COVID-19 pandemic that began last year, the sustained stability of society, including the resiliency of the people, the government's responsiveness, and the speed of vaccinations in different countries and regions, actually had a major effect on economic growth in each country. The pandemic became a clear example in economic analysis of how a social issue can have a decisive impact on macroeconomic performance.

The virus emerged, and national governments put restrictions on activity to stem transmission by reducing interpersonal contact. Demand activity around the world was forced to shut down, and the global economy in 2020 suffered large negative growth of over 3%. In fact, analyzing the relationship between movement

Relationship Between Economic Growth and Restrictions on Economic Activity



Note: As of October-December 2020
Source: Created Sumitomo Mitsui DS Asset Management based on Blavatnik School of Government, University of Oxford, and Bloomberg.

Setsuko Yamashita
Senior Manager, Macro Research Group, Investment Department

restrictions and real economic growth rates in the October-December quarter last year, we found the relationship was negative: when the stringency index went up by 10 points (greater stringency), the countries' real economic growth rates went down by 0.8 percentage points. In addition, even in countries that placed the same level of restrictions on movement, their economic growth rates fluctuated around the approximation curve, so there were differences in growth. This suggests that differences in ESG factors among countries, such as the people's awareness of future uncertainty and the penetration rate of government policy, have an impact on the pace of growth.

Utilizing the target country's ESG evaluation in macroeconomic analysis

The COVID-19 pandemic clarified the importance of incorporating risks related to environmental issues that are caused by nature and cannot be avoided into economic analysis. Environmental problems are already having a direct, undeniable impact on countries' economic performance through the frequent occurrence of natural disasters. Moreover, as environmental regulations are strengthened, companies and investors are forced to change their behaviors in various ways such as internalizing environmental problems as a new cost and making additional capital expenditures. Based on such social changes, the standpoint of environmental issues will remain to be seen as an important factor closely related to macroeconomic research.

For sovereign investment, we conduct negative screening to identify countries with low ESG evaluations and utilize this in macro research and analysis and investment decision-making. We also have put in place a process to measure and monitor ESG risks for each portfolio using external ESG scores. One example of specific use of this in macro research and analysis was reconsidering economic forecasts for an emerging country that had a lower ESG evaluation due to its poor security situations and slow response to the pandemic. However, in the case of this particular country, we judged that there was a low likelihood of new risks to economic and social stability owing to the government's stability under the current regime, expectations for vaccine supply from improved diplomatic relations, favorable foreign demand, and other positive factors. Therefore, we maintained our forecast for the country's economic recovery.

Contributing to a Sustainable Society Through Asset Management and Donations

In order to contribute to the realization of a sustainable society, a portion of the management fees for the investment trusts shown below are donated to organizations that work to solve social issues related to the concept behind each fund.

Global New Era Equity Fund (nicknamed "World Change")

Inception Date	July 31, 2020	**AUM**	20.62 billion yen (as of the end of September 2021)	**Trust Fee**	1.584% annually (tax included)

The fund carefully selects and invests in stocks of companies around the world that have a strong competitive advantage in fields where growth is expected due to structural changes. Specifically, the primary characteristic of the fund is described by its stock selection in the way we select investee companies by analyzing and evaluating corporate growth outlook and the extent of discount of stock prices with a focus on themes such as changes in lifestyles, corporate strategy and medical and health care.

We donated a portion of the management fees for the fund to organizations that are working to solve social issues in the medical and education fields.

Donation Overview

Recipients: National Center for Global Health and Medicine, UTokyo Future Society Initiative Fund (The University of Tokyo)

Date of donation: September 8, 2021

Donation amount: A total of 5,969,572 yen

National Center for Global Health and Medicine

The National Center for Global Health and Medicine provides sophisticated and comprehensive healthcare services through two healthcare facilities (Center Hospital and Kohnodai Hospital). In addition, the center carries out clinical research and develops human resources in advanced medical fields, such as infectious diseases, immunological disorders, diabetes, and metabolic disease at operating research and clinical trial facilities, the Bureau of International Health Cooperation, and the National College of Nursing, Japan. Recently it has been fully engaged in treating and researching the new coronavirus disease (COVID-19).

UTokyo Future Society Initiative Fund (The University of Tokyo)

The UTokyo Future Society Initiative Fund was established as a fund to support projects advanced by the UTokyo Future Society Initiative from a financial perspective and to help the initiative achieve its goals. Although the University of Tokyo carries out a wide range of academic research projects, not all of them receive widespread attention from the start. The fund encourages fundamental research that is important for creating the future society in areas that might not receive attention, and also plays a key role in developing exceptional young talent that can support these efforts.

Innovative Decarbonization Strategy Fund

Inception Date	March 30, 2021	AUM	164.72 billion yen (as of the end of September 2021)	Trust Fee	1.925% annually (tax included)

The fund invests in stocks of companies that are contributing to initiatives and innovation aimed at realizing a decarbonized society as well as stocks of companies that are expected to receive the benefits of these efforts.

We plan to donate a portion of the management fees for the fund to organizations that support efforts such as research that contributes to innovation or initiatives that aim to realize a decarbonized society.

Donation Overview

Recipients*: Institute of Physical and Chemical Research (RIKEN), Research Institute of Innovative Technology for the Earth (RITE)
Date of donation: To be implemented on the settlement date for the period ending April 2022.

*Plan as of the current time. Recipients may be subject to change.

Institute of Physical and Chemical Research (RIKEN)

As Japan's only comprehensive research institute for natural science, RIKEN advances research into a wide range of fields, including physics, engineering, chemistry, mathematics, information science, computational science, biology, and medical science. Its Center for Sustainable Resource Science is conducting research that contributes to sustainable growth and solving global issues centered on the concept of manufacturing methods with reduced environmental impact. Its Center for Emergent Matter Science conducts research toward realizing new properties that can contribute to solving energy issues through collaboration between the three fields of physics, chemistry, and electronics.

Research Institute of Innovative Technology for the Earth (RITE)

Established as a core research institute for international movement toward the development of innovative environmental technologies for addressing the global warming issue. RITE has become renowned both in Japan and overseas as an institute conducting highly unique research focused on the global environment, particularly global warming. Its work includes the development of carbon capture and storage (CCS) and biorefining technologies, and analysis of systems for countering global warming.

The Tomioka Silk Mill and Related Industrial Heritage Support Fund (nicknamed "Gunma Silk Heritage")

Inception Date	July 14, 2014	AUM	0.67 billion yen (as of the end of September 2021)	Trust Fee	1.474% annually (tax included)

The fund primarily invests in Japanese equities and global bonds, with the aim of achieving long-term growth in trust assets. In principle, the asset mix is split roughly evenly between these two assets. The fund invests in Japanese equities of companies that are headquartered in Gunma Prefecture, companies that are actively carrying out business activities in Gunma Prefecture, such as creating employment, and companies that were founded in Gunma Prefecture.

We are collaborating with the distributors of the fund to donate a portion of the trust fees for the fund toward the conservation of Tomioka Silk Mill and Related Sites.

Donation Overview

Recipients: Gunma Prefecture World Heritage Gunma Silk Heritage Inheritance Fund
Date of donation: Carried out every year since 2015 (on September 17 in 2021)
Donation amount: 16,909,752 yen* (cumulative)

*The amount is the total of donations from Sumitomo Mitsui DS Asset Management and distributing companies.

Use of Alternative Data at Sumitomo Mitsui DS Asset Management – Data Strategy Diversified Fund

We manage assets using alternative, non-conventional data, which has been attracting attention in recent years.

What is alternative data?

Alternative data is the name given to a wide range of data other than that traditionally used in financial analysis, such as economic statistics and financial information. It includes text data such as written news articles and social media sites, image data such as satellite photos, audio data such as speeches by important figures, POS data, credit card payment data, and location data. Now that conventional data, such as economic statistics and financial information, has become available to everyone, and it is difficult to earn profits through an informational advantage, greater attention is being turned toward alternative data.

Investment decisions can be made ahead of other investors by using preliminary alternative data to identify economic trends before statistics are officially announced. Additionally, using alternative data that other investors do not pay much attention to can also provide a valuable unique perspective. It is possible to use these advantages to build an investment strategy that can potentially improve returns and reduce risk.

Gentaro Hosaka (left)
Senior Manager, Active Solutions Group, Investment Department
Ryuta Henmi (center)
Assistant Manager, Active Solutions Group, Investment Department
Masaya Furusho (right)
Assistant Manager, Investment Development Group, Investment Department

Please tell us about our Data Strategy Diversification Fund (nicknamed "d Impact") product that uses alternative data.

The fund was launched in December 2020 as a publicly offered investment trust. We aim to generate excess returns by tactical asset allocation based on a unique assessment of business confidence utilizing multiple sets of alternative data. The nickname "d Impact" comes from the fact the fund was launched by a partnership with NTT DOCOMO, and from our hope that the use of alternative data will have an impact on society.

To make an investment decision for d Impact, we use Mobile Spatial Statistics® (population statistical data created using a mechanism in NTT DOCOMO's mobile phone network) provided by DOCOMO InsightMarketing, Inc. In addition to this, we use statements at the U.S. Federal Open Market Committee (FOMC) as text information. We take pride that by using multiple sets of alternative data to make active investment decisions, d Impact is breaking new ground as a cutting-edge investment trust.

Please share the background behind the launch of d Impact.

Following the recent trend of companies entering the financial business from different industries, we partnered with NTT DOCOMO to explore collaboration ideas that go beyond conventional frameworks. After a series of discussions, we figured out NTT DOCOMO was looking for an opportunity to monetize their data assets. Therefore, our Investment Development Group proposed the development of an asset management model that uses NTT DOCOMO's data as a driver for excess returns. The first step was to verify the viability of this model. Verification tests confirmed that the data-use model was indeed viable, so we worked to develop and launch the fund.

How does d Impact's asset management model use alternative data?

As mentioned earlier, we derive a unique assessment of business confidence from multiple sets of alternative data. Then, we make tactical adjustments to asset allocations based on this. Mobile Spatial Statistics® determines population movement, such as in industrial and commercial areas in Japan, which provides a basis for making a prompt assessment of business confidence. Text analysis of statements at the FOMC is translated into a numerical score showing how the Federal Reserve Board (FRB) views the U.S. economy. This score also enables an assessment to be made on business confidence. We then use the unique assessment of business confidence gained through these methods to flexibly adjust asset allocations with the aim of realizing excess returns.

Finally, please share any fun or difficult experiences you had during the research and development processes.

It was our first attempt to launch an investment trust which uses data provided by a commercial company other than a financial data vendor as well as to develop an investment strategy leveraging location information. So we were really intrigued by this challenge. Location information is extremely valuable and can be analyzed from a variety of different angles, so it took time to discuss analysis means and methods. Although we had to overcome many hurdles until we arrived at the optimal way of handling and using the data, it was a really astonishing and moving moment when we realized the data could capture economic trends.

Enhancement of an Information Sharing System for Analysts

As part of efforts to enhance our asset management capability, we have developed IT system that uses AI to evaluate comments by equity/credit analysts and to acquire their expertise with continuous machine learning. We have also revamped our in-house analyst reports system to create an environment that enables analysts to focus more on corporate research.

Joint Research on Sentiment Analysis of Analyst Texts

A third artificial intelligence boom driven by the dramatic success of deep learning has accelerated practical use of sentiment analysis, which uses AI technology to analyze non-conventional data such as news articles in the asset management industry. In December 2017, we started joint research with Kobe University's Center for Mathematical and Data Sciences involving the application of natural language processing to the abundant text data materials we have accumulated, such as analyst reports, in order to evaluate the sentiment of our corporate analysts' evaluations.

As part of this joint research, we developed a system that independently evaluates our analysts' visits using the text data in their visit records. These analyst visit records comprise frank commentaries such as the analyst's opinions on financial results presentations or interviews. In contrast to analyst reports, which summarize the relevant industry situation and corporate financial results and have a focus on accuracy, the analyst visit records focus on reporting information swiftly and tend to include the analyst's candid impression and opinions. Therefore, we developed a system that uses deep learning to learn about the relationship between the text in the analyst visit records and its relationship to positive or negative sentiment with the goal of machine learning the expertise contained within the analysts' candid opinions.

Analyst Report System Renovation

As a separate initiative to our AI system, we are also building an analyst report platform. Previously, the report creation process

Daisuke Nishida
Manager, Investment Development Group, Investment Department

Yoshihiro Ikeda
Principal, Investment Development Group, Investment Department

Yasuhisa Kimoto
Principal, Corporate Research Group, Investment Department

Toshikazu Nishimura
Principal, Corporate Research Group, Investment Department

was labor-intensive as it required manual input of information such as share price information and all numerical business performance data to date. Therefore, we took our merger as a good opportunity to revamp our analyst report creation and distribution system with the aim of improving efficiency.

The new system coordinates information such as a business performance and share price data, meaning that all the analyst needs to do is enter the stock code of a company, and a report template containing said company's information will be created. This allows the analyst to spend more time on writing a report and analytical work such as their evaluation of business performance and creating numerical forecasts. Meanwhile, the system allows analysts to attach tables and charts they created themselves, enabling the creation of reports that are as attractive and easy to understand as those created manually.

Ongoing Initiatives

Our analysts analyze financial results and industry news comprehensively, extract necessary information, and put it into text, which in turn is accumulated within our analyst report system. This produces high-quality data, which is ideal training data for natural language processing. We store these texts as text data in a database to enable the use of such processing.

Currently, the system for evaluating analyst visit records is being operated separately from the analyst report system because the former is still in the verification stage. But we plan to merge the two systems into an asset management support system in the future. We are working to develop a system that can make objective judgments of text information created by analysts to provide an alternative perspective that can aid fund managers' decision-making.

Corporate Governance

Highly Independent Board of Directors

In order to ensure our independence as an asset management company and to build an effective system in accordance with the Corporate Governance Code, we have three Independent Outside Directors out of the seven Directors and thereby enhanced monitoring and supervisory functions of the Board of Directors. These Independent Outside Directors are experts in corporate management and financial economics. Our policies on sustainability issues are determined by the Board of Directors. In addition, we conduct a questionnaire survey of Directors and Audit & Supervisory Board members every fiscal year in order to evaluate whether the Board of Directors is properly performing its expected functions.

Professional Backgrounds of Outside Directors
https://www.smd-am.co.jp/english/corporate/corporate_governance/

Enhancing Supervisory Function of Board of Directors

With regard to response to issues related to sustainability, we have received various opinions from these Directors through the questionnaire survey for the evaluation of the effectiveness of the Board of Directors, and we are working to clarify issues and initiatives. We have three Outside Directors in the Board: Mr. Chikatomo Hodo and Mr. Jun Arai, who have experience in managing a Japanese subsidiary of the world's largest consulting firm and a global energy company respectively, and Mr. Noriyuki Yanagawa, a member of the Council on Economic and Fiscal Policy for the Japanese government and also an expert in the field of FinTech. They always give us future-minded suggestions from a global viewpoint, and we put those suggestions into practice in our corporate management and asset management. In addition, the Directors and Outside Directors occasionally have special meetings focusing on ESG topics. We will enhance the supervisory function of the Board of Directors not merely in terms of sustainability issues such as the environment and human rights but also in broader terms of, for example, developing human resources who practice our approaches to sustainability.

Takashi Kawahori
Director and Senior Managing Executive Officer in charge of General Affairs Department (Secretariat of the Board of Directors)

Establishment of Internal Committees within the Board of Directors

We have established the Nominating Committee for Directors, the Nominating Committee for Executive Officers, and the Responsible Investment Committee as internal committees within the Board of Directors. Each of the internal committees comprises Outside Directors and plays an important role in ensuring appropriate business execution and fair internal personnel management.

Committee Name	Members	Purpose
Nominating Committee of Directors	President and Director, and Outside Directors	The purpose is to deliberate on matters concerning election, dismissal, and remuneration of Directors and to advise the Board of Directors.
Nominating Committee of Executive Officers	Directors (including Outside Directors)	The purpose is to deliberate matters concerning election, dismissal, and remuneration of Executive Officers and to advise the Board of Directors.
Responsible Investment Committee	An Outside Director who meets the independence standards set forth separately, the Responsible Investment Officer, and the officer in charge of the Compliance Department	The purpose of this committee is not only to confirm that the Company properly fulfills its fiduciary duties, including initiatives for responsible investment, and that there is proper management of potential conflicts of interest but also to make recommendations to the Board of Directors for further improvements.

Our Approach on Human Rights Issues

Interest and awareness of human rights issues has been growing in recent years. Human rights due diligence legislation is being or has been adopted in Europe, Americas, and other regions, and Japan has established its National Action Plan in response to the United Nations Guiding Principles on Business and Human Rights, as part of humanitarian diplomacy.

In our efforts to improve the quality of life of our customers and all other stakeholders such as our employees and people in the community, we have consciously been working on respect for human rights. We have now established the Human Rights Policy for the purpose of organizing our view on human rights and making more comprehensive efforts on human rights.

Maho Hayashi

Manager, Human Resources Development Section, Human Resources Department

Human Rights Policy

Sumitomo Mitsui DS Asset Management (SMDAM) respects the human rights of all persons including our officers and employees, investee companies, and all those throughout our value chain to materialize our corporate vision of becoming the “Best Asset Management Firm for your Better Quality of Life.” SMDAM has established this Human Rights Policy to ensure the human rights for every person who could be affected by our business activities, and promote them through initiatives.

1. Basic Concept

We adhere to the 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.

In addition to our compliance with the laws and regulations of the countries and regions in which we conduct business activities, when internationally recognized human rights standards and national or regional laws and regulations are in conflict, SMDAM honors the principles of internationally recognized human rights while respecting the laws and regulations in the nation or region.

2. Respect for Human Rights

We respect fundamental human rights and prohibit any discrimination or harassment based on race, nationality, gender, age, marital status, origin, religion, creed, disability, sexual orientation, gender identity or any other grounds, while we make our greatest effort to protect individuals’ privacy. We also respect the fundamental rights at work and do not tolerate any form of child labor, forced labor or any other inappropriate labor practices.

3. Workplace Environment

We aim to foster a safe working environment where every employee can work with peace of mind and enjoy a healthy work-life balance. We also strive to continue to improve our corporate culture that allows every individual employee to maximize their potential and work with enthusiasm.

4. Human Rights in the Value Chain

We consider human rights initiatives conducted by our investee companies as critical non-financial information in our investment process. If there is any human rights issue identified, we prompt investee companies to take appropriate actions through engagement activities. Meanwhile, we fulfill our responsibility for the human rights to be upheld all along the value chain by encouraging our business partners to take appropriate actions to not violate the human rights.

5. Training and Education

We provide training programs for all officers and employees to raise their awareness and understand both domestic and global human rights issues, so that each individual is able to adhere to human rights in their business activities.

6. Human Rights Due Diligence

We have established the process of human rights due diligence, which is conducted continuously to identify any human rights risk items in our business activities. Through this process we prevent or mitigate adverse impacts on human rights.

7. Grievance Mechanism and Remedies

We initiate immediate and appropriate procedures and implement necessary remedial actions whenever we encounter any adverse human rights impact caused within our business activities, and make our upmost effort to prevent recurrence. In case that we become aware of our involvement in any adverse impact caused in our value chain, SMDAM along with our business partners will engage in consultation with stake holders affected by our businesses activities in good faith.

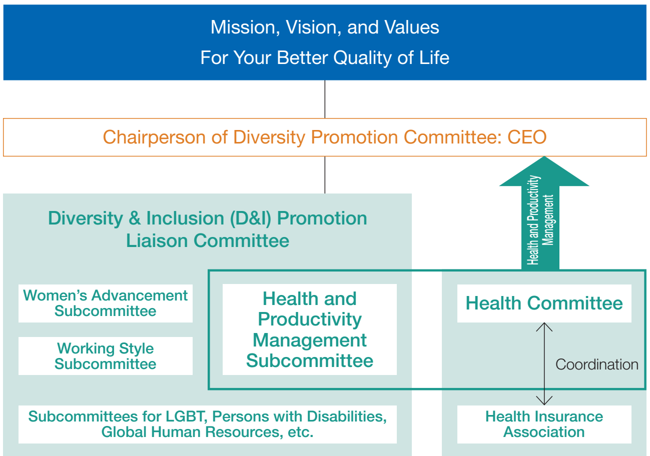
Creating a Vibrant Workplace

We aim to be "The Best Asset Management Firm For Your Better Quality of Life." To do so, we are implementing Diversity and Inclusion (D&I) initiatives with the goal of creating a workplace where each and every employee can maximize his or her abilities and work with enthusiasm.

We have established the Diversity Promotion Committee, chaired by the CEO, to promote D&I, which we regard as one of our most important management issues.

We promote D&I initiatives in four areas: women's active participation, working styles, health and productivity management, and diverse human resource activities.

We engage in D&I because we believe that it leads to efficient and sound organizational growth. One of our codes of conduct is "Teamwork," which we hope will help stimulate our ideas and generate energy and innovation by fostering interaction and mutual respect among a diverse mix of people. In order to encourage people with different characteristics, backgrounds, and lifestyles to mutually respect each other, we are working to foster awareness through training and other means while we develop and support various measures to ensure flexible working styles and enable employees to manage their health in a fun, fulfilling way.



KPIs for diversity and inclusion

KPI	Fiscal 2020 (Actual)	Fiscal 2022 (Target)
Percentage of female managers	11.3%	15.0%
Percentage of paid holidays taken	59.3%	75.0%
Overtime hours (monthly average)	26.3 hours	20.0 hours
Percentage of employees with disabilities	1.8%	2.3%
Percentage of male employees taking childcare leave	108%	100%
Percentage of employees who smoke	15.6%	12.0%

Support for women's advancement

We are working to increase the percentage of women among our employees, managers, and investment professionals through recruitment and changes in job types. For example, half of our new graduate employees are female. In addition to external training program for our female employees, we also conduct training for managers with female subordinates to foster and share awareness of women's active participation not only among female employees but also throughout the company. For female managers, we have created a "Female Manager Community" in which they can interact with female executives and managers of other companies so that they can find a familiar role model and develop an image of their future self. We will introduce a mentor system to provide more detailed assistance to female managers or candidates, and development program to increase the ratio of female managers over the medium-to-long term.

Furthermore, we believe that unconscious bias is a hindrance to diversity. Therefore, we provide training programs where each and every employee can learn about, develop an awareness of, and address unconscious bias.

Flexible working styles

We have introduced a variety of working styles so that diverse human resources can thrive. In addition to a flextime system, we have also instituted a leave system for childcare, nursing care, and medical care support, along with frameworks for volunteer leave and long-term leave. For some time now, we have provided laptops and mobile phones to all employees to enable remote work. However, since we understand that system infrastructure and operational improvement are indispensable for remote work, we are constantly enhancing our system capabilities, transitioning to paperless processing, and reviewing operation flows. In fiscal 2021, we improved our work systems, adopting fully flexible working and introducing flexibility of remote work.

In addition, as initiatives for human resource development and operational reform, we introduced one-on-one meetings plus workshops and town hall meetings to instill our code of conduct. We are also expanding programs that support the autonomous career development of our employees such as career design training, an internal job posting systems, and a side-work system.

A town hall meeting

Furthermore, we hold seminars on balancing nursing care and work in order to create a working environment without constraints. Additionally, we encourage male employees to take childcare leave as a support measure for balancing child-raising and work.

NIKKEI Smart Work 2021

In Nikkei's "Smart Work Management Survey," which evaluates companies aiming for growth through flexible work styles, we received 3.5 stars in fiscal 2019 and fiscal 2020. We are the only asset management company with membership in the Japan Investment Advisers Association to be awarded a star in this survey.

Health and Productivity Management

2021 健康経営優良法人 Health and productivity

As part of our health and productivity management, our "Health Point Program" helps employees improve their health in an enjoyable way. This program offers health points based on how many steps you take as you move around, how many times you read health columns, when you take health checkups, when you take leave, and other criteria, all of which help employees improve their health with enjoyable incentives. We also cover the entire cost for a smoking cessation program, encourage employees who require specific health guidance to take medical examinations, and provide information on women-specific health issues. To address mental health issues, we have a consultation desk to respond to various employee concerns and regularly bring in professional counsellors to our offices to facilitate any employee's access to counseling. With regard to harassment, we provide all organizational layers of executives, managers, and general employees with level-appropriate training sessions as part of a zero-tolerance harassment policy. With these efforts garnering high marks, we received certification as a Certified Health & Productivity Management Outstanding Organization (large enterprise category)* in both 2020 and 2021.

* Certified Health & Productivity Management Outstanding Organizations are corporations recognized for excellence in health and productivity management under the Certified Health & Productivity Management Outstanding Organizations Recognition Program promoted by the Nippon Kenko Kaigi as well as initiatives suited to local health issues.

Sustainable Procurement Policy

In accordance with our Principles of Fiduciary Duties and Sustainability, we are working to realize a sustainable society. In fiscal 2021, we set out a Sustainable Procurement Policy for our corporate activities that addresses environmental management and respect for human rights.

Environmental management

We will make sure that all our officers and employees understand the importance of tackling environmental issues such as climate change; improve our office environment and go paperless in order to reduce greenhouse gas emissions directly and indirectly from our corporate activities; and consider environmental conservation when procuring goods.

Reduction of greenhouse gas (GHG) emissions

Basic policy

- We will reduce CO_2 emissions through the use of renewable energy and energy conservation, with the goal of **net zero* by 2030**.
- We will **promote paperless processing and reduce waste** to cut the indirect CO_2 emissions not included in our own CO_2 emission figures.

* This includes direct GHG emissions that occur from our operations (Scope 1) and indirect GHG emissions associated with the purchase of energy for our corporate activities (Scope 2).

Environmental conservation

Basic policy

- We will procure **plastic-free products, recycled products, materials free from harmful substances, and other goods** in consideration of environmental conservation and reduction of environmental impacts.

Our environmental policy sets a clear goal of reducing our own CO_2 emissions. To accelerate our efforts to go paperless and achieve a reduction in indirect CO_2 emissions, when relocating offices in July 2020, we also created an office environment with restrictions on the use of printing paper. In addition, we introduced procedures for digitizing legal documents such as “expense receipt” and “minutes of board meeting” in accordance with domestic laws and regulations. Employees working remotely are often placed in a paperless environment. We will take measures so that each employee can work in ways that are not dependent on physical paper. Finally, when ordering company equipment and fixtures, we give preference to products with energy-saving performance, plastic-free products, recycled products, and products with no harmful substances.

Domestic customers who receive their statutory investment report from our discretionary investment service by post can instead choose to download them at our web page exclusive for institutional investors.

The COVID-19 pandemic has further heightened the need for digital utilization and paperless disclosure, and we believe this effort has made it possible to rapidly provide information to customers and contribute to reducing paper use. We also hope this effort supports our customers’ various work styles, including remote work, since they will be able to view our reports and other documents online from outside their offices.

A screenshot of the institutional investors page

Disclosure of KPIs for our environmental management

We will disclose our efforts in terms of KPIs in order to respond to environmental issues based on our Sustainable Procurement Policy.

Greenhouse gas (GHG) emissions of the headquarters building

Change in GHG emissions	FY2019 (base year)	FY2020	FY2021	FY2022
Target	—	85%	83%	80%
Result Upper: Ratio/Lower: GHG	100% 1,344tCO_2e	**84.7%** **1,139tCO_2e**	TBA	TBA

Sumitomo Mitsui Asset Management and Daiwa SB Investments merged in April 2019 to form Sumitomo Mitsui DS Asset Management. In July 2021, the offices were integrated into a single headquarters to improve office efficiency and accelerate our responses to environmental issues. As a result of this integration, energy consumption in the headquarters building has been significantly reduced. We will continue to disclose the changes in the amount of our annual greenhouse gas emissions as a KPI at the end of each fiscal year, using the results for fiscal 2019 (the merger year) as the base value (100).

Amount of paper used for printing (effort toward a paperless office)

Change in amount of paper used	FY2019 (base year)	FY 2020	From FY 2021 forward
Actual amount Upper: Ratio/Lower: Sheets	100% 10,296 thousand sheets	**39.2%** **4,040 thousand sheets**	TBA

In order to reduce indirect CO_2 emissions that are not included in our direct CO_2 emissions, we plan to disclose the actual amount of printing paper used in our offices as a KPI.

Respect for human rights

We have explicit rules to ensure that all officers and employees not only understand the importance of addressing human rights in our supply chain, but also confirm that third parties to whom we outsource our investment management authorities or other business activities perform due diligence on human rights and respect human rights in their operations through periodic surveys and interviews.

Basic policy

- We respect fundamental human rights and give consideration to the working environment, safety, and health when we carry out procurement activities.
- For the procurement of ongoing services (including outsourcing of investment management authorities), we confirm that **each supplier has no material violations, or suspicions of such violations, related to fundamental human rights or the working environment**.

Efforts of each employee

In terms of procedures for procurement of goods for our corporate activities, we have practical guidelines for sustainable procurement that set out specific measures employees should consider with regard to the environment and human rights. Additionally, we are introducing plastic-free or recycled products for the straws, chopsticks, and other items that employees use in the office during breaks, and thus we are improving our office environment so that employees can always be aware of the environment. For human rights, we have formulated practical guidelines to ensure that each employee is aware of human rights initiatives in our supply chain, and we will further raising employees' awareness through training.

Shared awareness with business partners

We continue to ask for the cooperation of our stakeholders in spreading our basic policy of environmental management and respect for human rights not only within the company but also to society as a whole, including our business partners. We ask our business partners to promote paperless operations and will also deepen dialogue on human rights with them to prevent negative impacts on human rights, and thereby fulfill our expected responsibility for respect for human rights.

Social Contribution Activities

As a corporate citizen, we are engaged in social contribution activities

We contribute to the creation of a sustainable society through our investment actively to solve various social issues. Among the diversity of existing issues, we focus our ESG priority themes on "Environmental Issues: Safety of human Life" and "Social Issues: Improving Quality of Life." We also emphasize financial education and enlightenment to promote asset building, and contribute to the community and to culture to help realize a society where people can live with peace of mind. Through these activities, we aim to fulfill our social responsibilities as a corporate citizen and realize a sustainable society for the future.

	Priority ESG Themes			
	Climate change Environmental conservation Circular economy	Human rights issues Aging society with declining birth rate DX Further utilization of human capital (e.g. women's participation and advancement)	Financial education	Contributions to community and culture
Social contribution activities	● Clothing reuse ● Donation of short-dated food stocks ● Establishment of a donation fund from salary deductions ● Forest conservation activities	● Support for ParaArt (art activities of people with disabilities) ● Support for children from disadvantaged households	● Economica-related events ● School visits ● Seminars, etc. for individual investors ● Distribution of manga introducing our company	● Volunteering at the Minato Marathon ● Financial Industry in Tokyo (FIT) For Charity Run
Company management	● Formulation of our Sustainable Procurement Policy ● FSC-certified paper ● Promotion of paperless processing	● Introduction of HRBP system ● Formulation and publication of our Human Rights Policy	● Investment competition (promotion of DC)	

Establishment of a QOL fund

We have 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 donation from our employees, along with the company matching contribution to support organizations working to solve social problems. We have selected three organizations to support, based on our ESG priority themes: forest conservation activities, support for children from disadvantaged households, and support for ParaArt (art activities of people with disabilities). In addition to donations, we also hold in-house seminars to introduce the activities of these organizations as well as provide participatory opportunities for employees to build awareness and address such problems through their own efforts.

Supported Organizations

Approved 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

NPO Learning for All

(1) Programs to provide learning support and gathering spaces for children from underprivileged households.

(2) Development of human resources (student volunteers) through the above project activities

Nippon Charity Kyokai

(1) Hosts Japan's first ParaArt school for those with disabilities

(2) Holds the Tokyo Metropolitan Government's Art Exhibition for Those with Disabilities

Financial education and enlightenment through school visits and other programs

Recognizing that asset-building efforts are indispensable as Japan grapples with an aging society and declining birthrates, we engage in educational and awareness-raising activities to improve financial literacy across generations. For individual investors, we hold study sessions and seminars to help them gain the correct knowledge. For elementary, junior high, and high school students, we give classes at schools using Economica, a card game designed to get students interested in finance and the economy. We hope that these activities will help as many people as possible improve their quality of life (QOL) in this age of "100-year life."

TCG Economica is a competitive card game produced by us and planned by the Association for the Promotion of Financial Literacy. The players can enjoy playing and become familiar with the economy through battling with each other by raising and lowering the value of assets while using economic terminology such as "inflation/deflation" and "innovation."

Use the QR code on the right to learn more about Economica. ▶
https://www.youtube.com/watch?v=ySoZ7rIJnkA

We created this manga-style booklet to introduce our company, presented as a story featuring our fund managers who help an office worker who is having difficulties answering questions from his daughter about Japan's pension problem. Through their struggles the manga introduces the still-unfamiliar role of asset management companies, conveying the importance of asset building in this era of 100-year life and the enjoyment of contributing to society through one's investments.

Clothing reuse activities

We periodically collect reusable clothing from employees and donate them to NPO Yofukupost. The clothes collected are sold in the secondhand clothing markets overseas and reused as clothing. Based on the weight of the garments collected, we donate a portion of the proceeds to organizations working to improve the society. We believe that raising each and every employee's awareness of themselves as a consumer and reducing the amounts of waste we generate are a step toward the realization of a sustainable society.

Cooperation: NPO Yofukupost Network Meeting

Looking Forward

Junichi Sakaguchi
Chief Responsible Investment Officer

Takashi Saruta
Representative Director, President and CEO

It seems that in the term "sustainable investment," the modifier "sustainable" refers to sustainable society in some contexts while in other contexts it means sustainable investee companies. We believe that the aim of sustainable investment is to promote the realization of a sustainable society by investing in companies that support such a realization with their products and services. This kind of approach will result in selecting sustainable companies and gaining favorable investment returns over the medium to long term. In practice, we aim to realize a better society and, at the same time, earn investment returns, by investing in companies that can be expected to improve their ESG scores and ROE. Based upon this idea, all of our fund managers involved in active management make investment decisions considering ESG factors, which are important elements in sustainability.

The following describes our future policies regarding the three important pillars of sustainable investment— **(1)** ESG evaluation, **(2)** engagement, and **(3)** exercise of voting rights. First, we will expand ESG evaluation both in quality and quantity. We will progressively expand the asset classes to be covered from domestic equities to global equities, and domestic and foreign bonds. With regard to Japanese equities, while we are monitoring more than 600 companies on a continuous basis, we will try to increase our coverage of small and mid-cap enterprises with a simplified evaluation method. In global equities, we have evaluated over 500 companies in Asia, whereas we have covered only around 200 companies in Europe and United States. We plan to double this number by having our equity and bond managers collaborate with each other. When it comes to engagement, we will expand dialogue themed around the E (environment) and S (society) in ESG. Since July 2021, we have been focusing our dialogue with companies with high GHG emissions on responses to climate change issues, in particular decarbonization strategies. We have been encouraging our investee companies to set short, medium, and long-term targets for emissions reduction, develop policies and strategies in order to achieve these targets, and disclose such information effectively. Fund managers will reflect the information obtained through engagement and their analysis in their investment decisions, and thus improve investment returns. Although we do not rule out the possibility of divestment (sale of assets) as for companies with low ESG evaluations and no prospects of improvement, we will basically encourage improvements through ongoing dialogue. Looking to the future, we will actively engage in dialogue around the themes of human rights and environmental conservation. Lastly, we will review our basic policy on the exercise of voting rights in view of the purpose of the revised Corporate Governance Code. When we make decisions regarding the exercise of voting rights, we will take into consideration investees' effort towards sustainability and its disclosure status, as well as evaluations of the effectiveness of their Board of Directors and their Board of Corporate Auditors.

We are facing a highly complex investment climate caused by discontinuous changes in the business environment, where we observe frequent abnormal weather, the COVID-19 pandemic, and heightened geopolitical risks due to political turmoil. In such a "VUCA" environment, there are increasing expectations that sustainable investment is one of the solutions to realize a better society. By effectively combining our initiatives which are **(1)** ESG evaluation, **(2)** engagement, and **(3)** exercise of voting rights, we will work to enhance the sophistication of sustainable investment, and thus meet the expectations of our customers.

In addition, to fulfill our responsibility as a company, we have been operating our business in an eco-friendly manner, creating a workplace where our employees can work with enthusiasm, and carrying out a range of related CSR activities. To make these initiatives more systematic, we have now established the Sustainable Procurement Policy and the Human Rights Policy. We will contribute towards the realization of a sustainable society through steady implementation of these policies.

Status of Responses to Japan's Stewardship Code (Principles for Responsible Institutional Investors)

We have expressed our acceptance of Japan's Stewardship Code. With a view to increasing medium- to long-term investment returns that will serve the interests of customers and beneficiaries, we have been proactively working on stewardship activities aiming to encourage investee companies to enhance their corporate value. We have also been working on ESG investment, such as conducting sustainability analyses and assessments of investee companies and incorporating such elements into our investment process. The following is a summary of our achievements relating to the Stewardship Code in fiscal 2020 and our policies for the future.

See our website (https://www.smd-am.co.jp/english/corporate/responsible_investment/stewardship/self_evaluation/) for details.

Self-evaluation of the implementation status of Japan's Stewardship Code (revised in March 2020), and future policies

	Principle	Achievements in fiscal 2020	Policies for the future
1	Policies for fulfilling stewardship responsibilities	● Revised and announced our "Statement of Acceptance," following the revisions to Japan's Stewardship Code.	Enhance initiatives to increase the medium- to long-term cash flow of investee companies, leading to continuous improvements in shareholder value
2	Policies for managing conflicts of interest	● Announced a management policy in the "Statement of Acceptance" to handle major types of conflicts of interest ● Held periodic meetings of the Responsible Investment Committee, and reported to the Board of Directors ● Utilized a proxy advisory firm (ex.: voting for shareholder companies) ● Disclosed individual results of the exercise of voting rights (quarterly)	Conduct ongoing monitoring of concerns regarding conflicts of interest, and consider prompt solutions when issues are identified at the Responsible Investment Committee
3	Policy on understanding company status	● Held dialogue with investee companies (2,242 cases) ● Conducted ESG evaluations by analysts (more than 700 companies) ● Steadily expanded the integration of sustainability assessment and analysis into the investment process of domestic equities to that of various assets	Improve capabilities for sustainability assessment and analysis and promote the integration of sustainability factors into the investment processes of various assets. Streamline ESG evaluation items for domestic small and mid-cap companies and overseas companies, and evaluate more companies
4	Policy on engagement	● Encouraged investee companies to enhance their corporate value and strengthen their response to sustainability issues ● Commenced full-scale engagement in foreign equities ● Gave feedback on the results of the exercise of voting rights ● Continued and enhanced collective engagement	Further enhance engagement themed around sustainability issues, in particular achieving net zero greenhouse gas emissions Take advantage of collective engagement
5	Policy on exercise of voting rights and disclosure of voting results	● Disclosed individual results of the exercise of voting rights (quarterly) ● Utilized a proxy advisory firm (e.g.: voting for shareholder companies)	Make decisions on the exercise of voting rights based on the actual conditions through dialogue with investee companies Update criteria for the exercise of voting right in view of the revised Corporate Governance Code
6	Policy on reporting the status of initiatives regarding stewardship activities	● Disclosed results of engagement activities ● Continued the use of the general-purpose reporting format (smart format) for asset owners ● Built and enhanced an engagement database covering multiple asset classes	Report more efficiently and effectively in line with the wishes of various asset owners
7	Policy for maintaining and improving capabilities	● Maintained effective governance by a Board of Directors that includes three highly independent and diverse outside directors ● Held Stewardship/ESG meetings (monthly) and Responsible Investment Committee meetings (six times a year) ● Continued and enhanced collective engagement ● Built and strengthened an ESG database that covers assets other than just equities	Maintain effective governance and the structure to manage conflicts of interest Further strengthen engagement capabilities, and while fully leveraging longstanding knowledge and expertise, focus on maintaining and improving capabilities to fulfill stewardship responsibilities
8	Policy on service providers for institutional investors	● Requested the proxy advisory firm to appropriately fulfill their stewardship responsibilities in accordance with Principle 8 of Japan's Stewardship Code, primarily through dialogue	Continue the efforts detailed at left

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.

* When discretionary accounts invest in investment trusts, these expenses include trust audit expenses.

The upper limits and calculation methods for these fees and commissions cannot be indicated herein because actual amounts are determined by transaction specifics, etc. and are recognized as expenses whenever incurred or billed, or they change depending on investment conditions and other factors.

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.

Caution: The aforementioned risks, fees, and commissions vary depending on contract provisions, investment conditions, and other factors, so always review the written documentation before entering into a contract.

[As of March 31, 2021]

For institutional account clients

- The research, analysis, and other information in this report have been prepared in order to show a portion of our research. The report is not intended to solicit investment and is not a document disclosed under the Financial Instruments and Exchange Act of Japan.
- The risks and returns presented herein are calculated based on historical data, our current outlook for the economy, and other factors, and do not guarantee future risks or returns.
- Data on rates of returns from simulations, etc., not from actual funds, does not include the fees, transaction fees, and 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 contained in this report are opinions as of the time the report was prepared and do not guarantee future trends or performance. They may not be reflected in current investment policies and may change in the future without notice.
- Third-party evaluations stated herein are based on analysis of past performance over a certain period of time and do not guarantee future performance, etc.
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- This report has been prepared based on information believed to be reliable, but we assume no responsibility for its accuracy and completeness.
- We reserve all rights related to the contents of this report. The use of this report for investment purposes and its duplication or disclosure to a third party without permission is strictly prohibited.

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

The following expenses are charged to clients making investments with us.

Expenses charged directly
Transaction fee: **Up to 3.85% (including tax)**
Redemption (cancelation) fee: **Up to 1.10% (including tax)**
Redemption fee reserved as part of trust assets: **Up to 0.60%**

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. Risks and expenses for investment trusts vary with the trust, so when considering making investments, clients are advised to carefully review explanatory materials related to the trust (the prospectus) provided by the distributor and all other documents provided before the contract is signed.
Investment trusts are unlike bank deposits, saving accounts, and insurance contracts; they are not protected by deposit insurance, savings insurance, or the 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 July 31, 2021]

For investment trust distributors and individual investors

- This document has been prepared by Sumitomo Mitsui DS Asset Management for informational purposes. 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.
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Sumitomo Mitsui DS Asset Management Company, Limited

Registration number: The Director of Kanto Local Finance Bureau (KINSHO) No. 399
Member of the Investment Trusts Association, Japan, Japan Investment Advisers Association,
and Type II Financial Instruments Firms Association

Report current as of November 1, 2021

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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 painting on the cover, *Hitoribocchi ni shinaidene* (*Don't Leave Me Alone*) by Riho Ochiai, received the Sumitomo Mitsui DS Asset Management Award at the 2021 International ParaArt Exhibition in Tokyo this October. The colorful gorilla expresses the individuality that every person possesses. It is our hope that this report will help raise public awareness of the artistic activities of people with disabilities as exemplified by the ParaArt project.

Artist's Profile

Riho Ochiai enjoyed drawing from a young age and took up painting seriously at age 17 when she learned of her disability. Painting has helped her through difficult times in life, especially after leaving high school.
Her awards include the Grand Prize at the Nice Heart Art Exhibition in the painting category (general division).