

Engagement Activity Results from April 2022 to March 2023 (12 months)

At Sumitomo Mitsui DS Asset Management (SMDAM), the fund managers and analysts engage in constructive dialogue with investee companies and other entities with the objectives of (1) enhancing the sustainability of investee companies and their ecosystems, and (2) enhancing the value of investee companies and avoiding impairment (and thereby providing customers and ultimate beneficiaries with high-quality investment returns).

Summary of Engagement Activities

Highlights

- In FY2022, SMDAM conducted 2,397 engagements, approximately 73% of which involved executives and above.
- Engagements focusing on "social" themes such as human capital and diversity increased.
- Of the eight phases of progress management milestone, phase 2-4 forms the bulk of our efforts and we intend to engage in an ongoing dialogue.

Activities Result (1on1 engagements)

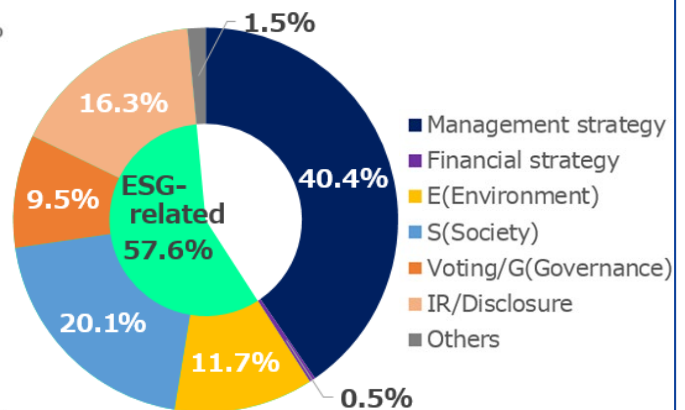
<Number of engagements>



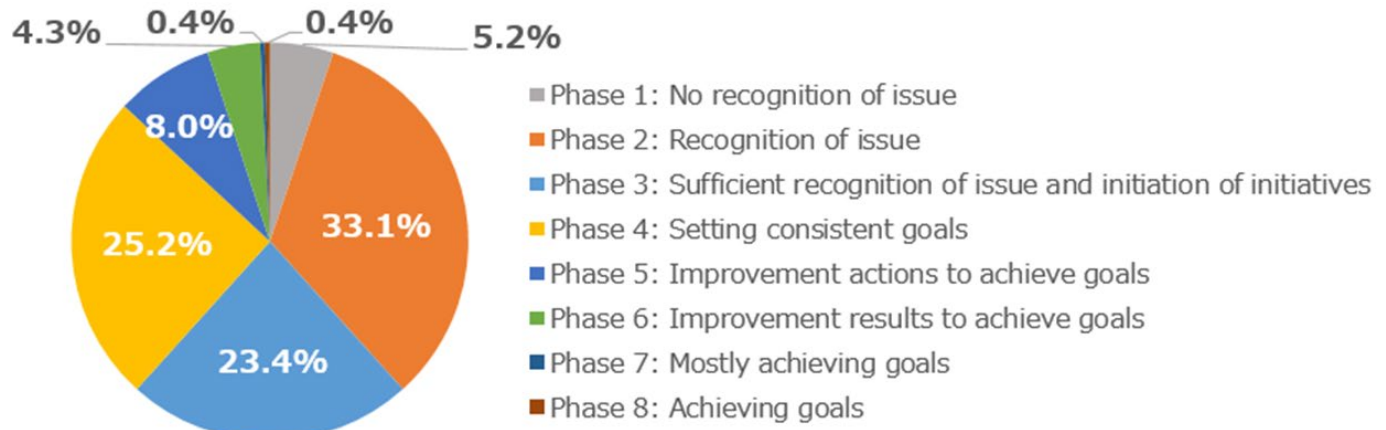
■ Number of engagements

■ Of these, percentage of engagements with executives and above

<Engagement themes>



<Milestone management>



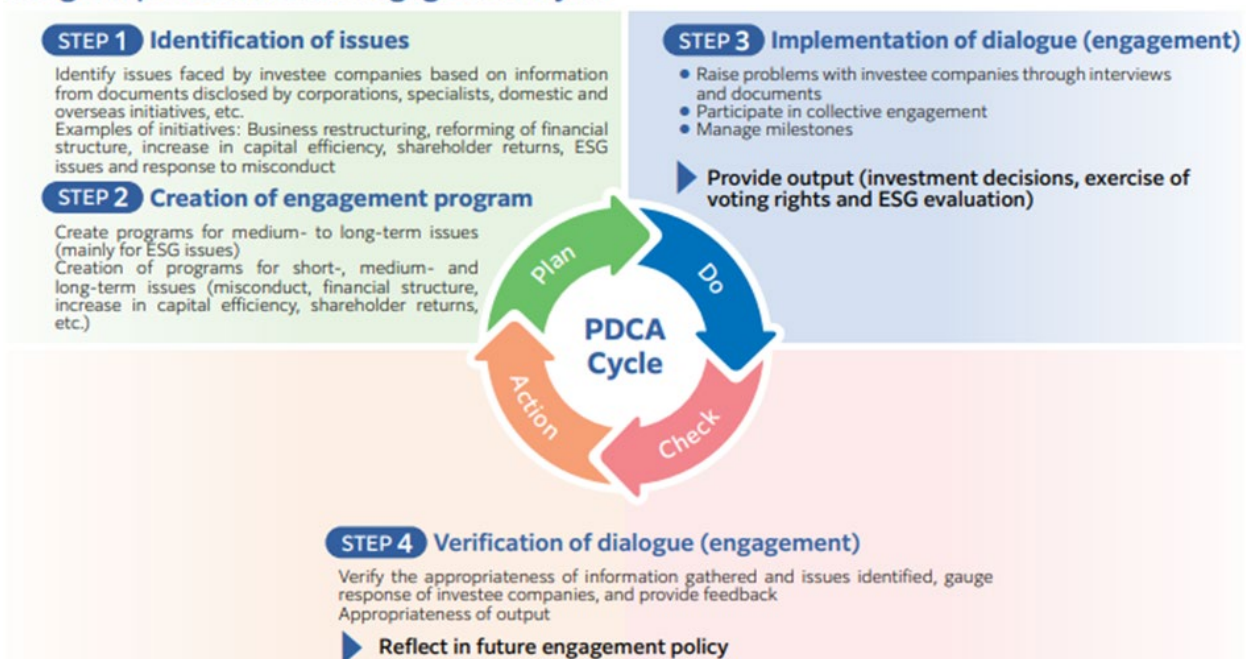
Basic Policies on Engagement

In view of the changing business environment on a global scale and the rising expectations for the Sustainable Development Goals (SDGs), we are focusing more than ever on ESG engagements. We will engage in what is truly valuable to our stakeholders, emphasizing more on substance than external standards, with the primary focus on priority sectors and target companies as defined by each materiality (see next page). By engaging in multifaceted discussions with the management of the investee companies, we can expect to increase or avoid damaging corporate value, which we believe leads to the delivery of high-quality investment returns to our customers and ultimate beneficiaries.

■ Basic Policies

1. SMDAM will conduct engagement with investee companies to fulfill its fiduciary responsibilities to customers and final beneficiaries as well as to contribute to the sound development of Japanese 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. SMDAM will work to improve the value of or mitigate damage to investee companies and other entities by encouraging them to develop and implement an 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 disclose information.
3. SMDAM will conduct engagement based on the perspective of improving environmental and social sustainability while taking the type of assets it invests in, the characteristics of and legal framework in countries and regions, and other conditions into consideration. In addition, the Company will conduct engagement pertaining to Japanese equities, J-REIT included, based on the perspectives of challenges related to the exercise of voting rights and the improvement of the capital efficiency of investee companies.
4. SMDAM will also take part in collective engagement under appropriate conditions if collaborating with other institutional investors is believed to be effective upon holding a dialogue with investee companies.

Image Representation of Engagement Cycle














Our Materiality

To enable us to contribute more to achieving a sustainable society, we identified our materialities and announced the details of related initiatives in April 2022.

Please visit our [website](#) to see further details about “Our Materiality”.

In the process to identify our materiality, we began with employee questionnaires and interviews with outside experts to reflect the broad perspectives of our stakeholders. Based on these findings, the division heads responsible for our company's management, after four intensive discussions, determined our materiality among a number of ESG issues that emerged from both management and governance.

Taking into account the characteristics of the investment management business, our materiality categories consist of “Materiality for Investment Management” and “Materiality for Business Operation.” We have identified material issues in the following three areas for each category: “Environment issues: Safety of Life,” “Social issues: Improving Quality of Life (QOL),” and “Governance.” Assuming that society is a single “organism”, each material issue that we have identified will be an essential element to ensure that society is healthy and sustainable. Based on these ideas, in our asset management operations, we will conduct activities that are truly valuable to our stakeholders, placing more emphasis on substance than on superficial standards. At the same time we as a company will work to develop human capitals and create a better organizational culture, in order to further contribute to improving the QOL of society, customers and employees.

Materiality for Investment Management					
Environmental Issues: Safety of Life		Social Challenges: Improving Quality of Life		Enhanced governance and better disclosure	
Climate Change  We will work to reduce GHG emissions across the supply chain	Natural Capital  We will work to promote a circular economy and reduce environmental impact by cutting food loss	Human rights in supply chains  We will work to appropriately manage human rights risks through due diligence related to human rights	Human capital  We will implement human resource strategies that are consistent with management strategy and work to create an attractive workplace environment	Effectiveness of corporate governance  We will work to ensure the diversity of the Board of Directors and implement measures to enhance corporate value	Business Ethics and Corporate Culture  We will foster corporate ethics and our corporate culture, and ensure thorough compliance with laws and regulations and risk management
Materiality for Business Operation					
Environmental Issues: Safety of Life	Social Challenges: Improving Quality of Life			Enhanced governance and better disclosure	
Environmentally-Friendly Business Management  We will endeavor to reduce energy usage and our impact on the environment by revising our operations	Human capital  We will eradicate discrimination and harassment, enhance the workplace environment, and develop human resources	Social Contribution Activities  We will contribute to solving environmental and social issues through donations and volunteer activities	Improvement of business quality  We will utilize digital technology to revise and improve our operational processes	Business Ethics and Corporate Culture  We will aim to be an organization where all employees are conscious of being professionals, have an appetite to contribute to society, and maintain a spirit of taking on new challenges	

Engagement on key ESG themes

We have set the direction to pursue ESG themes specific to materiality in its asset management operations, and engage mainly with sectors and companies that are highly relevant to each theme.



Climate Change

Our awareness and direction we should aim for

Climate change is a pressing global issue. To achieve the Japan's targets of a 46% reduction in greenhouse gas (GHG) emissions by 2030 (compared to fiscal 2013 levels) and net-zero emissions by 2050, it is imperative that the government, companies, and citizens work together as one. To achieve the target, in addition to reducing emissions in corporate activities through the supply chain, a number of innovations are essential, including the conversion to renewable energy, the use of hydrogen and ammonia, and the practical application of carbon dioxide capture, effective use, and storage (CCUS). As a responsible institutional investor, we believe it is important to share issues and have dialogues towards solutions not only with investee companies but with various stakeholders.

Our progress

In March 2022, we joined the Net Zero Asset Managers Initiative, a global initiative by asset managers aiming to achieve the global long-term target of net zero GHG emissions by 2050 as we support for the Paris Agreement and the efforts of the Japanese government and the international community.

We strongly encourage investee companies to express their support to Task Force on Climate-related Financial Disclosures (TCFD) and disclose information based on its recommendations, and to respond to CDP. We also encourage investee companies to obtain Science Based Targets (SBT) certification and improve their CDP climate change scores. Not limited to the progress of GHG reduction plans and how it should be disclosed, we share with investee companies internal factors such as financing and short- and long-term technological developments aimed at achieving the targets, and external factors such as the infrastructure environment in order to encourage their resolution.



Natural Capital

Our awareness and direction we should aim for

Natural capital means any capital formed from nature, including forests, soil, water, air and biological resources. Companies have built a broad value chain ranging from primary industries such as agriculture, forestry and fisheries and mining to tertiary industries such as retail and service industries, and enjoy ecosystem services derived from natural capital. In order to continuously receive affluent ecosystem services into the future, it is important to properly assess risks and opportunities associated with natural capital, reduce the negative impacts to environment, and enhance the sustainability of society as a whole.

Our progress

We aim to enhance the conservation and sustainability of the nature including biodiversity, water resources, forests and oceans, and contribute to the circular economy through engagement with investee companies. At the COP15 of the United Nations Convention on Biological Diversity (CBD) held in Montreal, Canada, in December 2022, the Kunming-Montreal Biodiversity Framework was adopted. The framework has set international targets including a direction for "Nature Positive" initiatives to halt the loss of biodiversity by 2030 and put it on a recovery track. Progress has also been made in corporate disclosure rules in line with the Natural Capital Financial Disclosure Task Force (TNFD), a framework for corporate risk management and disclosure of natural capital. Accordingly we encourage investee companies to appropriately assess natural capital risks and opportunities and enhance disclosure.

Engagement on key ESG themes

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Human Capital

Our awareness and direction we should aim for

Human resource is a company's largest capital and a source of competitiveness. Therefore, in addition to acquisition and development of talented personnel, and maximizing the capability of each employee, the key to increase corporate value is to align human resource strategies with management strategies. To this end, it is essential to improve employee engagement and to transform personnel systems to adopt so-called job-based employment and job-posting in order to motivate employees. Simultaneously promotion of diversity equity inclusion and belonging (DEI&B) is another key management issue. It is necessary to create a work environment where employees can work together for the success of the business and for their own growth, while respecting each other's diversity.

Our progress

Based on the above ideas, we encourage investee companies to recruit and train employees in accordance with human resources strategies consistent with medium- and long-term management strategies, and to create work environments that enable employees to realize their full potential for enhancing corporate value. This fiscal year, we plan to conduct intensive dialogues with the Chief Human Resources Officers (CHROs), and to use the findings gained through these dialogues for engagements with other companies.

As for DEI&B, many companies are still lagging behind in Japan. We believe the promotion of DEI&B leads to organizational growth, revitalization and enhancement of corporate value. Therefore, we will encourage companies that have much room to improve to expand their disclosure and set medium- to long-term goals.



Human rights in supply chains

Our awareness and direction we should aim for

While human rights issues such as child labor, forced labor, and working in poor conditions are observed mainly in emerging countries, the treatment of foreign technical interns in Japan has also become a problem. If human rights issues emerge not only in the company itself but also in its supply chain, there is a concern that the impact of such problems could damage its brand value or worsen business performance due to boycotts. For this reason, companies, regardless of size or industry, are required to formulate human rights policies in accordance with international norms and to conduct human rights due diligence (human rights DD), a mechanism to prevent, mitigate and correct human rights risks. Unfortunately, many companies lack the manpower and budget to adequately implement human rights measures. Under these circumstances, we believe that identifying human rights risks within a company and in its supply chain, conducting a fact-finding survey, and promptly taking remedial measures as necessary will prevent unforeseen losses and lead to sustainable growth.

Our progress

In October 2021, we established our Human Rights Policy with the aim of systematizing the concept of respect for human rights and undertaking a more comprehensive approach. Based on this policy, we encourage investee companies to appropriately manage, address and disclose human rights risks in their companies and supply chains.

In December 2022, we participated in Advance, a human rights-related initiative launched by the United Nations Principles for Responsible Investment (PRI). Through a collaborative engagement coordinated by the initiative, we will encourage our portfolio companies to take steps to resolve human rights issues.

Engagement on key ESG themes

We have set the direction to pursue ESG themes specific to materiality in its asset management operations, and engage mainly with sectors and companies that are highly relevant to each theme.



Effectiveness of corporate governance

Our awareness and direction we should aim for

Valuations such as PBR and P/E ratio in the Japanese stock market remain relatively low. To bring this level on par with other major countries, it is essential to raise management's awareness of corporate value and establish a governance system that encourages the risk-taking necessary for medium- to long-term growth. Another characteristic of the Japanese stock market is that there are problems with information disclosure and many companies have PBR ratios of less than 1 due to discounted valuations.

Furthermore, it is true that there are many companies that meet the formal standards but have questions about execution. We believe that as an institutional investor we can help these companies through constructive dialogue analyze the causes and encourage them to increase their corporate value.

Our progress

We have long sought to base our engagements on substantive judgment rather than just formal criteria. As part of these efforts to verify the effectiveness of the Board of Directors, since fiscal 2022 we have actively engaged in dialogue with outside directors. A number of such dialogues for fiscal 2022 was amounted to 22 companies, far exceeding the initial expectations. For most companies it was the first time that their outside directors had a dialogue with an asset manager. We felt through dialogues that companies were beginning to see the perspective of institutional investors and absorb management analysis and opinions from the perspective of capital providers as more important. We expect these dialogues will inspire a healthy entrepreneurship for sustainable growth.



Business Ethics and Corporate Culture

Our awareness and direction we should aim for

There is still no end to corporate scandals, including inspection fraud, quality falsification, bid-rigging, improper accounting and information leaks. Although the level of agency and organizational involvement varies from case to case, corporate ethics and organizational culture have a significant influence. A closed corporate culture not only causes scandals, but also hinders prompt and flexible responses, which can increase the negative impact on corporate value. In order for companies to deter scandals and take advantage of opportunities created by changes in the business environment, it is extremely important to pay due attention to the soft aspects of employee ethics and corporate culture as much as the hard aspects of governance structures and rules.

Our progress

When a scandal occur, we will try to identify issues of corporate culture, focusing on three areas: (1) investigating the causes, (2) clarifying responsibility, and (3) taking measures to prevent a recurrence. These issues are taken into account to exercise voting rights and make investment decisions, as well as engaging in dialogue for improvement. For example, we will focus on whether measures to prevent recurrence not only deal with the events that have occurred, but also have mechanisms to prevent new scandals, such as the reform of the internal culture by top management, the establishment of business processes and systems without room for arbitrariness, the supervision system by third parties, and the effectiveness of the whistle-blowing system. In addition, from the perspective of breaking away from a closed corporate structure, we believe that dialogue with outside directors is also important and we are actively working on it. At the same time, we are continuously working to improve the effectiveness of our ESG evaluation method by incorporating new information collected using various technologies and data, as well as corporate ethics and organizational culture, into our assessments.

Participation in Collaborative Engagement

In addition to our own independent engagements, we work with Japanese and international investors through various initiatives we have signed or supported to engage in constructive dialogue with investee companies. We have also signed a cooperative engagement agreement with Sustainalytics and participate in dialogues they sponsor with global companies that are in conflict with international norms such as the UN Global Compact and the OECD Guidelines for Multinational Enterprises.

■ Collaborative engagement through initiatives



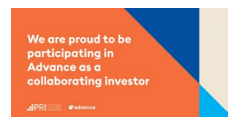
CDP

- Participated in Non-discloser campaign. As a lead investor, we invited five companies to respond to CDP's questionnaire.
- Participated in Science-Based Targets campaign. Signed a collaborative letter inviting investee companies to obtain SBT certification.



Institutional Investors Collective Engagement Forum

- In the engagement with scandal-plagued companies, we as a lead investor play a primary role in the dialogue to discuss measures to prevent a recurrence.
- Sent letters to approximately 1800 companies urging them to enhance their ESG materiality initiatives and improve disclosures.



PRI Advance

- PRI Advance was established in December 2022 by the UN PRI as an initiative to resolve human rights and other social issues.
- We signed at the time of its establishment, and will engage with a Japanese company as a collaborative investor.

■ Collaborative engagement based on international normative screening



International norms are global consensus that companies and others must comply with as a minimum standards. We believe that it is the responsibility of investors to encourage companies that are found to be in breach of these norms to take corrective actions through dialogue.

We participate in collaborative engagements organized by Sustainalytics. The aim is to increase the effectiveness of the engagement by utilizing the knowledge of environmental and human rights issues and international laws of Sustainalytics as well as the influence of the assets under management of global institutional investors.

[Case Study]

Company A, an energy company in the United States of America.

We participated in Sustainalytics' engagement with American energy company A, which had been accused of violating the human rights of indigenous peoples by building pipelines in the United States, urging the company to take steps to resolve the issue and prevent the risk of future violations. As a result, we confirmed the improvement of Sustainalytics' engagement milestone.

Overview of the engagement and results:

May 2018, Engagement program by Sustainalytics launched.
December 2021, we started participating in a collaborative engagement by Sustainalytics.
February 2022, Company A began developing its human rights policy after the human rights training program by Sustainalytics.
September 2022, Company A disclosed its comprehensive environmental management system, including compliance monitoring. Sustainalytics highly evaluated this progress.

Engagement Case Studies

Lacto Japan Co., Ltd.

Environmental Issues

Social Challenges

Engagement Themes	Sustainability Management and relevant strategies
Challenges	As a specialized trading company for milk ingredients and dairy products, the company was required to enhance their sustainability management, including addressing climate change risks and managing the sustainability risks of their suppliers.
Engagement Plan	We began our engagement with Lacto Japan in 2020. Since then, we suggested that establishment of a sustainable procurement policy and disclosure of the status of their suppliers and transactions based on that policy would effectively reduce their business risks. Furthermore, we requested them to conduct scenario analysis and develop responsive measures in line with TCFD recommendation as the production of dairy products, which are raw materials, is affected by climate change.
Engagement results	The company initially took it for granted to conduct due diligence visit to their overseas raw material suppliers on a regular basis. Therefore they seemed reluctant to make a related disclosures. However, continuing dialogue with us and increasing public interest in sustainable procurement had changed the company's management's awareness of sustainability, which would led to the launch of the ESG project. In 2023, we could confirm positive changes of the company, which included the disclosure of six material issues related to sustainability management, disclosures in compliance with TCFD, and their procurement policy.
Looking forward	We will encourage and support Lacto Japan to take further steps in their sustainable management practices, including setting targets for reduction of CO2 emissions and developing a transition plan, as well as human rights due diligence in the supply chain.

SHIMAMURA Co., Ltd.

Social Challenges

Engagement Themes	Strengthening Supply Chain Management
Challenges	As one of the leading Japanese apparel retailers, SHIMAMURA was expected to enhance their environmental and human rights risk management in their supply chain.
Engagement Plan	At the beginning of our engagement in 2019, information the company disclosed on their corporate website was limited to their CSR initiative. Therefore we requested them to disclose additional information related to measures to respond climate changes and supply chain management. Subsequently, as ESG information disclosure progressed, we held a dialogue in which we discussed following themes with the company: (1) enhancing climate change measures addressing Scope3 emission, (2) strengthening human rights measures in the supply chain, and (3) further improving disclosure to have higher ESG assessments.
Engagement results	In response to the report published in 2020 by the Australian Strategic Policy Institute (ASPI) on forced labor in Xinjiang and the involvement of Japanese companies, SHIMAMURA took a positive approach to dialogue on the theme of supply chain management. Shortly thereafter the company established a new organizational structure to address ESG issues in fiscal 2021. Subsequently, the company introduced an audit for suppliers in order to build a sustainable supply chain. In fiscal 2022, they began disclosing partial audit.
Looking forward	While the company has not yet published an integrated report, but we confirmed that they are aiming to do so in conjunction with improvement of their disclosure of non-financial information. With regard to the Supply Chain Management, we will continue dialogues with the company so that they explore ways to strengthen risk management system, such as measuring and setting targets for suppliers' GHG emissions and expanding human rights audit system.

Engagement Case Studies

BIPROGY Inc.

Enhanced governance and better disclosure

Engagement Themes	Management strategy and measures to prevent recurrence in light of scandals
Challenges	BIPROGY, a major Japanese systems integrator, remains undervalued in the market as the company seem unable to create the next growth spurt. In the midst of situation, the scandal a USB memory containing personal information was lost in Amagasaki City hit the company. The third-party committee pointed out a lack of compliance among officers and employees behind this scandal.
Engagement Plan	We held a dialogue with the outside directors discuss the lack of compliance that was blamed for the misconduct.
Engagement results	In the dialogue, we understood that the outside directors had significantly contributed the company's sustainability management by making various advices on their medium-to long-term growth and corporate purpose, as well as on the preparation of integrated reports. Furthermore, we got impression that the groundwork for innovation, such as work-style reform and sustainability management, which had been carried out so quickly under the CEO, had already been laid.
Looking forward	We will continue to monitor the progress of innovation in business activities and the effectiveness of measures to prevent recurrence in the light of scandals.

ADEKA Corporation

Enhanced governance and better disclosure

Engagement Themes	Expansion of information disclosure
Challenges	As one of leading Japanese chemical manufacturers running a chemical and food business, ADEKA Corporation has gradually been improving their information disclosure since the current president took office. However, there is still room for improvement, and more disclosure is expected to help eliminate discounts.
Engagement Plan	We urged top management to continuously hold briefing sessions on core businesses in order to eliminate discount factors while we recommended to publish an integrated report required of companies listed on the TSE Prime Market. Meanwhile, we expressed our opinion in dialogues that the company to should address not only improving the payout ratio but also other issues including sustainable share buybacks, rehabilitation of unprofitable businesses and adoption of ROIC as management indicator and the challenges of parent-child listings.
Engagement results	Three months after we delivered our opinion, the company held a business briefing for their core business. Higher coverage of sell-side analysts along with increased market attention has partially eliminate the discount factor. Moreover, based on the belief that the biggest anti-takeover measure is to increase corporate value, anti-takeover measures were also abolished.
Looking forward	We will continue to monitor the profitability of unprofitable businesses, the governance of listed subsidiaries, and the integrated reports to be released.

【Important Precautions】

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