

Engagement Activity Results

from April 2023 to March 2024 (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).

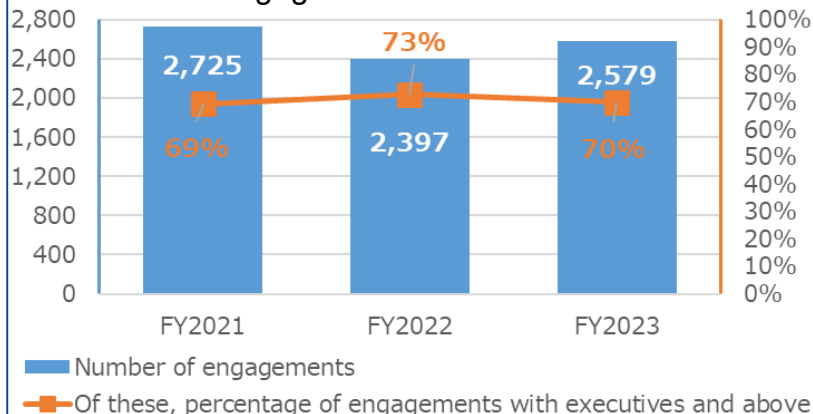
Summary of Engagement Activities

Highlights

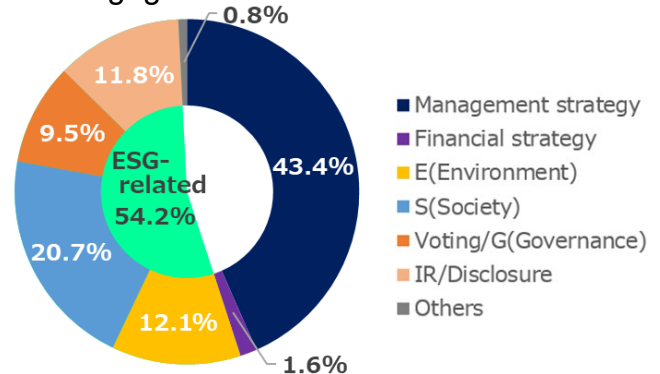
- In FY2023, SMDAM conducted 2,579 engagements, approximately 70% of which involved executives and above.
- Engagements focusing on "social" themes such as human capital and diversity increased.
- Of the eight phases of progress management milestone, phase 2-4 forms the bulk of our efforts and we intend to engage in an ongoing dialogue.

Activities Result (1on1 engagements)

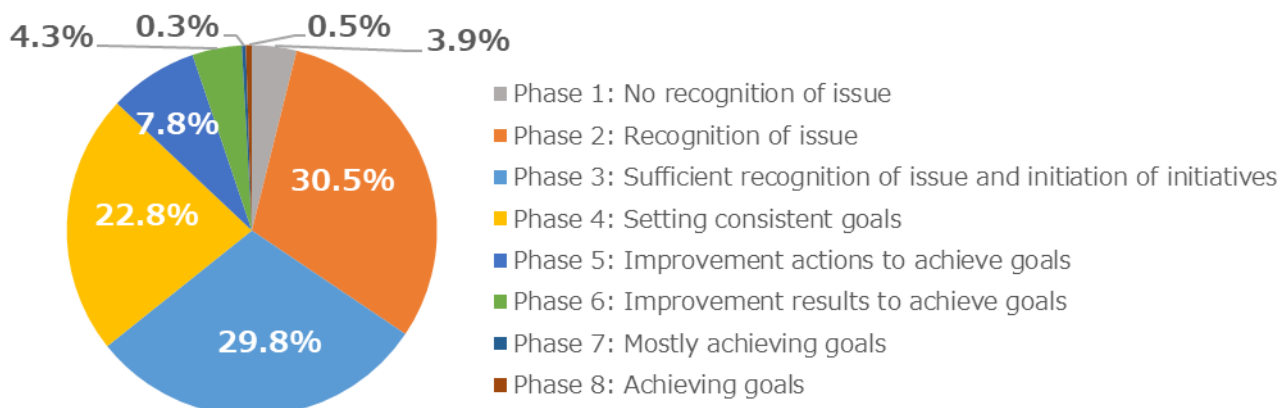
<Number of engagements>



<Engagement themes>



<Milestone management>



Basic Policies on Engagement

We have started an internal award "Engagement of the Year" from 2023 to recognize outstanding engagement cases. The objectives are as follows.

1	Investee Companies' Managerial Commitment to Engagement
2	Sharing Values through Presentation of Best Practices
3	Improving the Quality of Engagement

We received a wide range of engagement case applications from fund managers, analysts in equity, credit, and ESG, and employees in overseas offices, resulting in a total of 35 applications.

Based on the votes of employees directly involved in asset management operations, the winners were selected through internal review focusing on the following perspectives:

- Significance of the theme/plan
- Contribution to our investment returns
- Impact through dialogue
- Involvement of investee companies' top management
- Duration and frequency
- Collaboration among employees directly involved in asset management operations

The MVP of 2023 was a case of engagement through the collaboration of a domestic equity fund manager and an ESG analyst. The summary is as follows.

Engagement Theme	Improving Capital Efficiency
Challenges	As an owner-operated company, it has a company policy of "providing inexpensive and good-quality products and supplies highly competitive products", but low capital efficiency was a challenge.
Engagement Plan:	Led by the fund manager, repeated dialogues were conducted over many years. In addition to pointing out capital efficiency through financial analysis and comparing with other companies, dialogues were conducted in a way that resonated with the company's history and values, spending most of the dialogue time getting to know the company and building a trusting relationship.
Behavioral Changes of the Target Company	Gradual changes appeared, and the company mentioned ROE targets in financial results briefings. The capital market recognized this as a positive change, and the company's value increased.

In 2024, we will continue "Engagement of the Year" and aim for further advancement in active engagement.

Engagement Case Studies

Takara Holdings Inc.

Environmental Issues

Engagement Theme	Strengthening Responses to Climate Change and Water Risks
Challenges	Climate change impacts the alcoholic beverage manufacturing business, which uses agricultural products and water as main raw materials. Therefore, strengthening measures to mitigate climate change and water risks, and reducing anticipated impacts, were challenges.
Engagement Plan:	Engagement started in 2021. As the lead signatory institution for the 2023 CDP Non-Disclosure Campaign (NDC), we requested CDP disclosure. We also suggested setting medium- to long-term goals for reducing water usage, in addition to the 2025 target (15% reduction in the unit of quantity compared to 2017).
Behavioral Changes of the Target Company	Preparations for TCFD disclosure were already underway before the engagement began, leading to the disclosure of information based on the TCFD framework in 2022. In April 2023, a Sustainability Promotion Section was established, and the analysis of the impact of temperature rise on crop harvests was expanded from domestic to overseas alcoholic beverage businesses. Measures such as diversifying suppliers were considered to reduce procurement risks. Additionally, measures to address water disaster risks at bases due to river flooding, etc., and to strengthen responses to climate change were started. In 2023, the company disclosed information on climate change and water security in its CDP report.
Looking forward	We will continue to monitor progress towards the 2030 targets for GHG emissions reduction and water usage reduction, and continue efforts to enhance the effectiveness of measures to mitigate the impact of climate change and water risks on the business.

Engagement Case Studies

NICHIAS Co., Ltd.

Environmental Issues

Social Challenges

Engagement Theme	Strengthening Disclosure of Climate Change and Human Capital Strategy
Challenges	As a leading manufacturer and seller of sealants and insulation materials, the company was required to enhance its disclosure of policies on addressing climate change and initiatives for social contributions through its products and services. Additionally, efforts towards human capital strategy were lagging.
Engagement Plan:	Engagement began in 2021, involving dialogues on the status and challenges of efforts towards carbon neutrality. We shared investor perspectives on the issues and requested enhanced disclosure. Furthermore, we discussed the necessity of a human capital strategy to achieve the company's growth story through social contributions and environmental goals.
Behavioral Changes of the Target Company	In June 2023, the company expressed support for the TCFD and responded to the 2023 CDP, appropriately addressing climate change issues. In the 2023 Integrated Report, the company actively disclosed sustainability information, including (1) a detailed roadmap towards the 2030 greenhouse gas (GHG) emissions reduction targets, Scope 3, and the contribution and targets of GHG reduction through environmentally friendly products, and (2) the "Nichias Happiness Value Index," which quantifies evaluations from employees and stakeholders, along with goal settings.
Looking forward	The company plans to continue engaging on environmental issues and human capital strategy, deepening discussions towards a more concrete corporate value growth story.

Engagement Case Studies

Nomura Real Estate Holdings, Inc.

Environmental Issues

Engagement Theme	Emphasizing the Eligibility of ESG Bonds in Fundraising
Challenges	As a major real estate company, its mid-term challenges include: (1) Balancing rental enhancement and climate change risk reduction through the large-scale mixed-use "Shibaura Project" (2) Expanding ESG finance.
Engagement Plan:	As part of our bond engagement, we have regularly conducted dialogues on fundraising methods and responses to climate change risks. In our 2022 dialogue, we explained points of evaluation as bond investors during ESG bond investments and requested the need for fundraising that contributes to reducing reputational risk concerning the "Shibaura Project."
Behavioral Changes of the Target Company	We shared the recognition that issuing ESG bonds, which require steady execution of sustainability strategies and highly transparent disclosure, is crucial for achieving mid-term goals and continuing smooth fundraising. In 2023, the company demonstrated a proactive stance towards diversifying ESG finance and enhancing the transparency of green investments by participating in the "Study Panel on the Use of Digital Bonds in ESG Investing" hosted by "JPX Market Innovation & Research" (Japan Exchange Group), and issuing the "Shibaura Green Bond" with external evaluations from Moody's, R&I, and JCR.
Looking forward	We will continue to monitor the eligibility checks of existing ESG bonds and the status of ESG finance considerations in the "Shibaura Project," while engaging in discussions aimed at reducing long-term refinancing risks and improving creditworthiness.

Engagement Case Studies

Central Automotive Products Ltd.

Environmental Issues

Social Challenges

Engagement Theme	Setting environmental goals and disclosure of information, promoting disclosure of human capital.
Challenges	The company, a leading developer and distributor of automotive coating agents, relies on its chemical business for revenue, but has been lagging in disclosing environmental issues and setting goals. Additionally, there has been insufficient disclosure regarding human capital, and efforts to promote women's advancement have been delayed.
Engagement Plan:	Engagement began in 2022, with a request for disclosure of Scope 1 and 2 GHG emissions and initiatives for environmental pollution prevention. Regarding human capital, recommendations were made to disclose the content of employee engagement and accelerate the increase in the proportion of female managers.
Behavioral Changes of the Target Company	In May 2023, the company announced its medium-term plan, prioritizing investment in human capital and SDGs/ESG investment. In terms of the environment, they initiated TCFD disclosure and disclosed Scope 1 and 2 GHG emissions. Additionally, they disclosed initiatives such as recycling empty bottles of body coating solvents and conducting demonstration experiments for the recovery and recycling of acrylic resins. Regarding human capital, they set goals to strengthen efforts to improve employee engagement and create an environment where diverse talents can thrive.
Looking forward	The company plans to expand the content of TCFD disclosure and work on Scope 3 disclosure. Discussions will also continue regarding specific initiatives for workplace environment improvement and promoting women's advancement. They also plan to engage in efforts to disclose integrated reports.

Engagement Case Studies

Japan Post Bank Co., Ltd.

Social Challenges

Enhanced governance and better disclosure

Engagement Theme	Strengthening initiatives for respecting human rights, improving low ROE, and enhancing corporate value.
Challenges	While having the leading customer base domestically, the company faced challenges in establishing a human rights due diligence system, including assessing and addressing human rights risks involving customers and financiers. Additionally, improving low ROE and P/B was identified as an issue.
Engagement Plan:	Regarding human rights, the engagement plan included not only revising human rights policies but also requesting the introduction of appropriate measures in response to the evaluation of human rights risks and disclosing information on these PDCA (Plan-Do-Check-Act) processes. From a corporate value perspective, proposals with concrete examples were made emphasizing : (1) the importance of providing information sought by investors, (2) a focus on escaping from low P/B by being mindful of capital market perspectives
Behavioral Changes of the Target Company	In April 2024, the company issued its first human rights report, allowing investors to review risk assessments and response status. In terms of enhancing corporate value, the company strengthened information disclosure aimed at investors, such as prioritizing explanations of measures to improve ROE and restructuring yen denominated portfolios during the earnings briefing in November 2023.
Looking forward	Regarding human rights initiatives, the plan is to continue dialogues on accessibility to financial services, information security, and responding to specific human rights risks associated with investment and financing partners. For enhancing corporate value, discussions will focus on achieving capital efficiency higher than the target of 5% ROE and enhancing the persuasiveness of disclosed information to investors.

Engagement Case Studies

Sanwa Holdings Co., Ltd.

Enhanced governance and better disclosure

Engagement Theme	Improving capital efficiency, enhancing profitability of overseas operations.
Challenges	The company, which manufactures building materials such as shutter doors, faced two main challenges: (1) Reducing accumulated surplus cash and breaking away from low capital efficiency (2) Improving the profitability of overseas operations through the introduction of an ERP system.
Engagement Plan:	Engagement began in 2021. Meetings with the president were conducted to discuss measures for improving ROE and downstream strategies for the US business. Additionally, in meetings with external directors, it was requested to strengthen management's commitment to capital efficiency by prioritizing goals related to capital efficiency in performance-linked compensation.
Behavioral Changes of the Target Company	Management began actively addressing capital efficiency, considering SVA (Sanwa Value Added) introduced since fiscal year 2001 as an important indicator in the medium-term management plan, and actively engaging in discussions at the board of directors' meetings. The US business saw improved profitability as pricing strategies succeeded, leading to improvements in profitability during the fiscal years 2021 to 2022.
Looking forward	Discussions will continue on improving ROE and shareholder return policies, while also monitoring the company's response to the "2024 Problem" in construction and logistics.

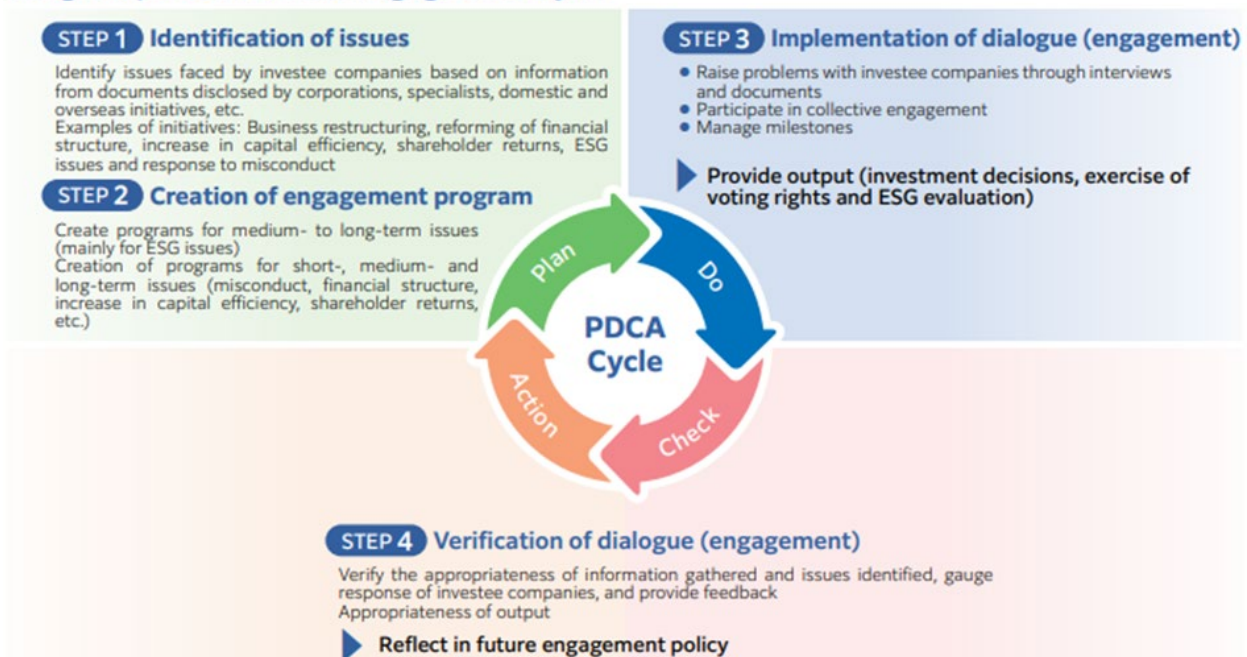
Basic Policies on Engagement

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. Additionally, as a factor in determining the exercise of voting rights, we have decided to include the disclosure of GHG emissions, along with information disclosure in accordance with TCFD, to further accelerate our initiatives.



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. As part of our efforts to strengthen our initiatives, in FY 2023, we have adopted TNFD and signed PRI Spring.



Human Capital

Our awareness and direction we should aim for

Human capital has been spotlighted since mandatory disclosure in financial reports incepted in FY 2023. Human capital stands as one of the foremost non-financial assets for companies, serving as a wellspring of competitiveness. Hence, linking human capital strategy to business strategy, acquiring and nurturing top talent, and maximizing the capabilities of each employee are keys to enhancing corporate value. To achieve this, it's pivotal to enhance employee engagement through the establishment of new HR systems such as job-based incentives or postings and the promotion of Diversity, Equity, and Inclusion (DEIB) initiatives like belonging. However, corporate disclosure remains rather uniform and still inadequate.

Our progress

Recognizing the direct correlation between an outstanding human capital strategy and enhanced corporate value, we are urging investee companies to disclose human capital strategies aligned with their medium to long-term business strategies and to create work environments where employees can fully unleash their potential. In 2023, we intensified dialogues with companies' Chief Human Resources Officers (CHROs) and utilized exemplary cases for engagement with other companies.

Regarding DEIB, it can be said that many companies in Japan are still lagging behind in their efforts. Recognizing that promoting DEIB contributes to organizational growth, revitalization, and enhanced corporate value, we are advocating for expanded disclosure and setting medium to long-term goals for companies with insufficient responses.



Human rights in supply chains

Our awareness and direction we should aim for

While human rights issues such as child labor, forced labor, power harassment, sexual harassment, and working in poor conditions are observed mainly in emerging countries, the treatment of "Foreign Technical Intern Trainees" 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 (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. We reflect in our voting decisions the lack of sufficient response or direction toward mitigating risks that are assessed to have a high negative impact on human rights through dialogue with companies.

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 investee companies to take steps to resolve human rights issues.



Effectiveness of corporate governance

Our awareness and direction we should aim for

The valuations such as P/B and P/E ratio in Tokyo stock market have somewhat improved since the publication of the document titled 'Action on Cost of Capital-Conscious Management and Other Requests' dated April 14, 2023, by the Tokyo Stock Exchange. However, they still 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 P/B 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. The number of such dialogues for fiscal 2022 and 2023 was amounted to 22 and 20 companies respectively, 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. Going forward, 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 misconduct 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. Then, We will notify our concerns to the identified company involved in the misconduct prior to the shareholder meeting, encouraging dialogue. These notifications and dialogues are taken into account to exercise voting rights and make investment decisions.

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



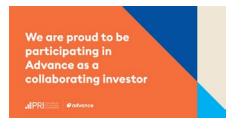
CDP

- 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 such as the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises are soft laws that have been developed through discussions among diverse stakeholders such as international organizations, governments, private companies, and NGOs over many years. In particular, the ten principles on human rights, labor, environment, and anti-corruption advocated by the United Nations Global Compact are recognized as a global baseline that companies should adhere to regardless of region or sector.

International norms call for companies to assess their direct and indirect impacts on stakeholders along their supply chains and to take measures to mitigate and improve negative impacts. There is also increasing incorporation of compliance requirements such as economic sanctions and anti-money laundering into the hard laws (regulations) of various countries and regions, as well as into individual contract clauses. Major institutional investors and banks are also increasingly incorporating international norms into their investment and voting criteria.

At our company, we consider it the responsibility of responsible investors to encourage improvement through dialogue with companies that are deemed to be in violation of international norms. In addition to implementing screening using international norm-related databases provided by external rating agencies for all asset classes, we also include the status of compliance with international norms as a criterion for selecting target companies for focused engagement on our "target list," and we strive to promote improvement through dialogue.

We have entered into a collaborative engagement agreement with Morningstar Sustainalytics and actively participate in dialogues with investee companies that violate international norms. The aim is to enhance the effectiveness of engagement by leveraging Morningstar Sustainalytics's expertise in environmental, human rights, and international law, as well as its influence based on the scale of assets under management by institutional investors worldwide.



American energy-related company B

Social Challenges

Engagement Theme	Promotion and Respect for Human Rights in Accordance with the United Nations Global Compact/Principle 1
Challenges	In 2018, Morningstar Sustainalytics designated the company as "Non-Compliant" with international norms. This designation came as a result of several large-scale forest fires ignited by the company's facilities, significantly impacting the social lives of local residents. There was a demand for the company to reduce the risk of forest fires caused by inadequate maintenance and management of its facilities.
Engagement Plan:	Through international norm collaborative engagement, efforts were made to encourage the establishment of a comprehensive safety strategy and strengthen management. In November 2022 and September 2023, our research head and ESG analysts based in London participated in dialogues focusing on the effectiveness of forest fire risk management tools and the implementation status of forest fire mitigation plans.
Behavioral Changes of the Target Company	In the first quarter of fiscal year 2023, the company disclosed comprehensive forest fire mitigation plans for 2023-2025, aligned with international best practices, and a 10-year plan for undergrounding power lines in high-risk forest fire areas. Additionally, due to the establishment of robust and high-safety power systems, forest fires caused by the company's facilities significantly decreased. Consequently, in September 2023, Morningstar Sustainalytics evaluated the company's future forest fire prevention measures, lifted the designation as a non-compliant entity with international norms, and upgraded its rating to the "Watch List."
Looking forward	Continued dialogue will focus on the effectiveness of safety strategies and forest fire mitigation plans for local residents, including the undergrounding of power lines and strengthening compliance measures.

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