

Engagement Activity Results

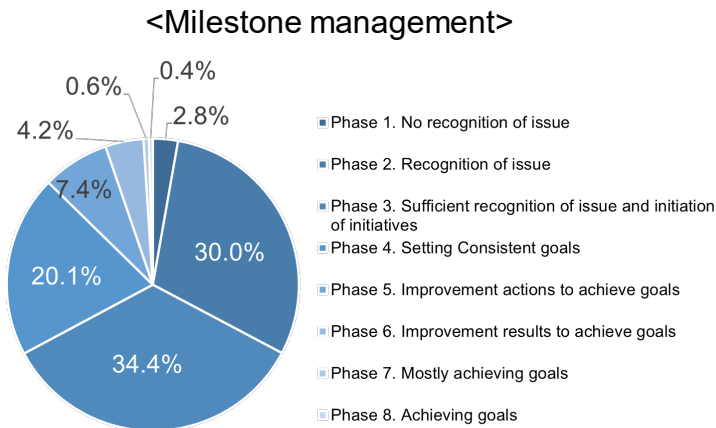
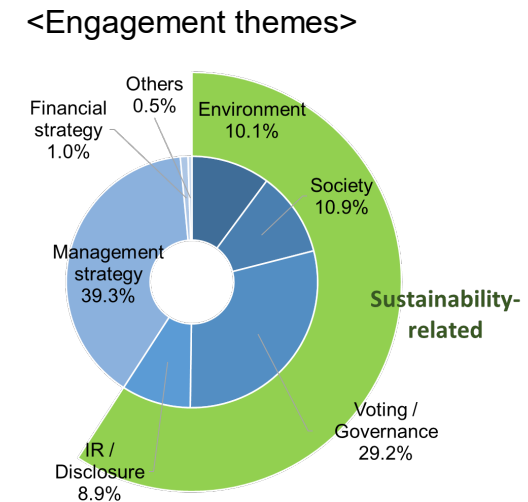
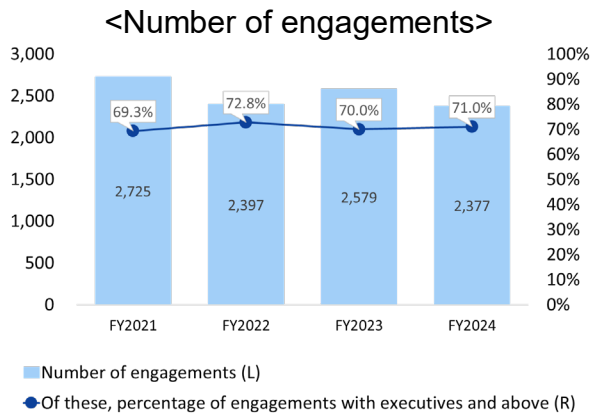
from April 2024 to March 2025 (12 months)
July 7, 2025



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Summary of Engagement Activities

- The number of engagements in the fiscal year 2023 was 2,377.
- Among these, 71.0% were engagements with directors or executive officers.



- In the thematic breakdown for the fiscal year 2024, "sustainability-related" topics such as environment, society, voting rights & governance, and IR & information disclosure accounted for 59.1% of the total.
- Compared to the fiscal year 2023, the number and proportion of engagements related to voting rights and governance increased. This is likely influenced by the expanded dialogues on measures to improve ROE and capital policies, aimed at achieving management conscious of capital costs and stock prices, based on requests from the Tokyo Stock Exchange.
- In milestone management, phases 1 to 3, where the dialogue partners have not yet reached "issue recognition and consistent goal setting," account for approximately 85% of the total. This indicates a need for ongoing dialogue.



Introduction of the 1st Place Case for FY2024

Target Company

Listed on the TSR Prime Market,
Food Products Sector

Engagement Theme

Capital Efficiency, Governance, IR Activities

Challenges

The management had a weak awareness of capital efficiency (such as surplus funds, shareholder returns, and business portfolio transformation) and was also passive in IR activities.

Engagement Plan

In the fiscal year 2022, the company was selected for the target list^{*1}, and we first began by sharing the recognition of issues related to capital efficiency with the responsible directors. From the fiscal year 2023 onward, we requested meetings with the president but were not granted any. Understanding that the strong influence of top management would require time for corporate behavioral changes, we persistently shared the recognition of issues based on balance sheet analysis and explained the necessity of measures to improve ROE.

Behavioral Changes of the Target Company

In the fiscal year 2024, the company strengthened its shareholder return policy. Furthermore, the president committed to personally announcing the capital policy and objectives.

^{*1}. At SMDAM, companies with which we conduct focused dialogues each fiscal year are listed and shared within the asset management division as the "Target List."

- ✓ This case was evaluated as an example of collaboration between the Investment Department, the Corporate Research Group of the Investment Department, and the Responsible Investment Section.
- ✓ Not only did we analyze the financial statements, but we also gained a deeper understanding of why the company held surplus funds by unraveling the company's history and culture. As a result, we were able to build relationships with the responsible directors and shared the challenges with them.

"Engagement of the Year" is...

an award established in the fiscal year 2023 with the aims of

- 1) commitment to management engagement,
- 2) sharing values through the sharing of best practices, and
- 3) improving the quality of engagement.

The winners are selected based on internal review and voting by employees directly involved in asset management, focusing on the following criteria: ① Significance of the theme and plan ② Contribution to investment returns ③ Impact through dialogue ④ Involvement of top management ⑤ Duration and frequency ⑥ Collaboration among employees directly involved in asset management.

Engagement Effect Measurement

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- We have been conducting ongoing engagements with investee companies and others with the following purposes:

1. Enhancing the sustainability of investee companies and their ecosystems
2. Improving the value of investee companies or avoiding value impairment

- To improve the effectiveness of engagement, it is important to review past engagements and continuously implement the PDCA (Plan-Do-Check-Act) cycle.
- In the past, we have monitored changes in companies after engagement by reviewing individual company responses and milestone management. These methods allowed us to capture subtle changes at the level of the responsible personnel. However, they also had the issue of lacking objectivity.
- Therefore, starting from the fiscal year 2024, we have implemented engagement effect measurement through statistical analysis using our engagement data as an objective means.
- In engagement effect measurement, we analyzed two aspects: ① changes in corporate behavior and ② changes in stock prices. **The analysis results showed improvements in several non-financial indicators as well as in PBR (Price-to-Book Ratio) and Tobin's Q.** It also suggested that excess returns occurred after engagements.

The Positioning of This Measurement

Means of Monitoring Engagement

Traditional approach

- Individual Company Responses and Milestone Management
While it captures subtle changes, it lacks objectivity.

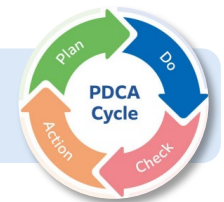


Effect Measurement

- Statistical Analysis Based on Engagement Data
High Objectivity



Strengthening the PDCA Cycle



Improving the Effectiveness of Engagement

- **Analysis Subjects:**
 - Engagements conducted with TOPIX-listed companies from fiscal years 2020 to 2022
 - Examination of long-term effects beyond one year
- **Analysis Method:** Following Hidaka, Ikeda, and Inoue (2023)^{*2}, and Lin, Kimura, and Inoue (2023)^{*3}, we used the difference-in-differences framework to examine changes in corporate behavior due to our engagement, by removing as much as possible the temporal factors and company-specific characteristics. (For details, see page 8)
- **Results:** We analyzed 14 indicators related to non-financial, financial, and corporate value aspects. Among the non-financial indicators, 5 items (setting CO2 reduction targets, female director ratio, independent director ratio, executive shareholding ratio, preparation of integrated reports) showed improvement effects after our engagement. Additionally, 2 items related to corporate value (PBR and Tobin's Q) also showed improvement effects following our engagement.

■ **Implications:** The overall trend in the analysis results suggests that the effects were more easily observed in items where management decisions are quickly reflected. On the other hand, some non-financial and financial indicators require a long period from the time a company decides to make changes to when the actual effects become apparent. Therefore, statistical changes may not have been observed in this analysis. However, if we assume that immediate changes, such as setting targets and appointing directors, will also influence future changes, positive long-term effects can be expected. Regarding PBR and Tobin's Q, it is believed that changes were observed earlier than financial indicators due to their fluctuation based on stock prices.

Changes in Corporate Behavior Due to Engagement

	Outcome	Effectiveness
Non-Financial	Bloomberg's ESG Disclosure Score	×
	Sustainalytics Score	×
	CO2 Emission Intensity	×
	Setting CO2 Reduction Targets (SBT: Science-Based Targets)	✓
	Female Director Ratio	✓
	Independent Director Ratio	✓
	Executive Shareholding Ratio	✓
	Creation of Integrated Reports	✓
Financial	Dividend Payout Ratio	×
	Total Payout Ratio	×
	ROE	×
	ROA	×
Corporate Value	PBR	✓
	Tobin's Q	✓

*2. Hidaka, W.; N. Ikeda; and K. Inoue. "Does engagement by large asset managers enhance governance of target firms?" Pacific-Basian Finance Journal, 77 (2023).

*3. Lin, K.; Y. Kimura; and K. Inoue. "Selection and Effects of Environmental and Social Engagements by Institutional Investors." Working Paper, (2023).

Available at SSRN: Selection and Effects of Environmental and Social Engagements by Institutional Investors by Kexin Lin, Yosuke Kimura, Kotaro Inoue :: SSRN

Analysis 1: By Theme

[Analysis Subjects and Method] Following Dimson, Karakas, and Xi (2015)⁴, we conducted an event study. We calculated the cumulative excess returns over 12 months from the base month of engagement for engagements conducted with TOPIX-listed companies from fiscal years 2020 to 2022. (For details, see page 10)

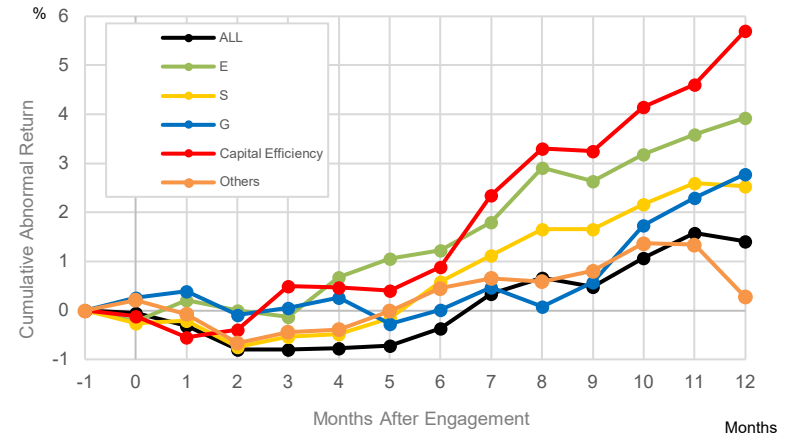
[Results and Implications] As shown in the right figure, **the average excess return of all engagements conducted by our company, labeled "All," was 1.41% over 12 months.** Additionally, by theme, **engagements related to capital efficiency particularly generated significant excess returns**, amounting to 5.7% over 12 months. These results suggest that our engagements have prompted changes in corporate behavior, which are subsequently reflected in stock prices.

Analysis 2: By Our Holdings

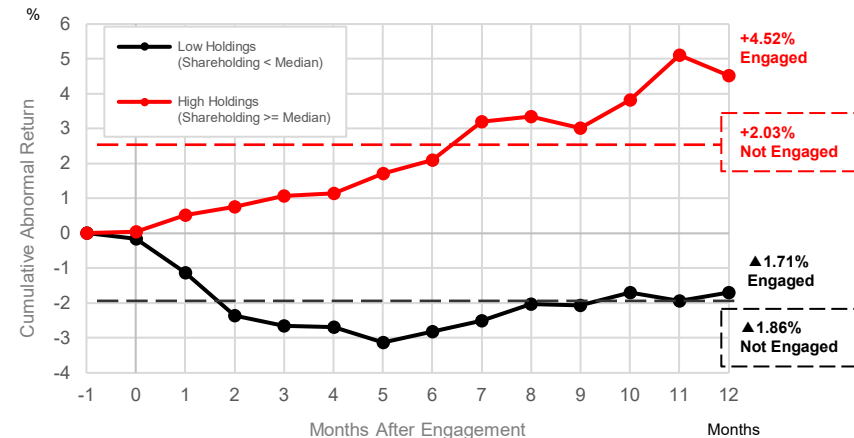
[Analysis Subjects and Method] To measure the contribution of engagement to excess returns in active management, we divided the samples based on the size of our holdings in the engagement targets at the time of engagement and analyzed the excess returns. Additionally, as a comparison, we similarly divided a group of companies with which we have never conducted engagement based on the size of our holdings and calculated the excess returns. This allowed us to attempt to separate the effects of stock selection by fund managers from the effects of engagement itself. The analysis subjects and the method of calculating excess returns are the same as in Analysis 1.

[Results and Implications] As shown in the right figure, even when considering the stock selection effect by comparing with the group of companies with which engagement was not conducted, **it is suggested that companies with larger holdings by our firm generated greater excess returns after engagement compared to those with smaller holdings.** Engaging with companies where we have larger holdings likely creates stronger pressure for change and provides easier access to top management. From these analysis results, we interpret that engagement is effectively functioning, particularly from the perspective of achieving excess returns in active management.

Cumulative Abnormal Returns Over 12 Months After Engagement (Analysis 1: By Theme)



Cumulative Abnormal Returns Over 12 Months After Engagement (Analysis 2: By Our Holdings)

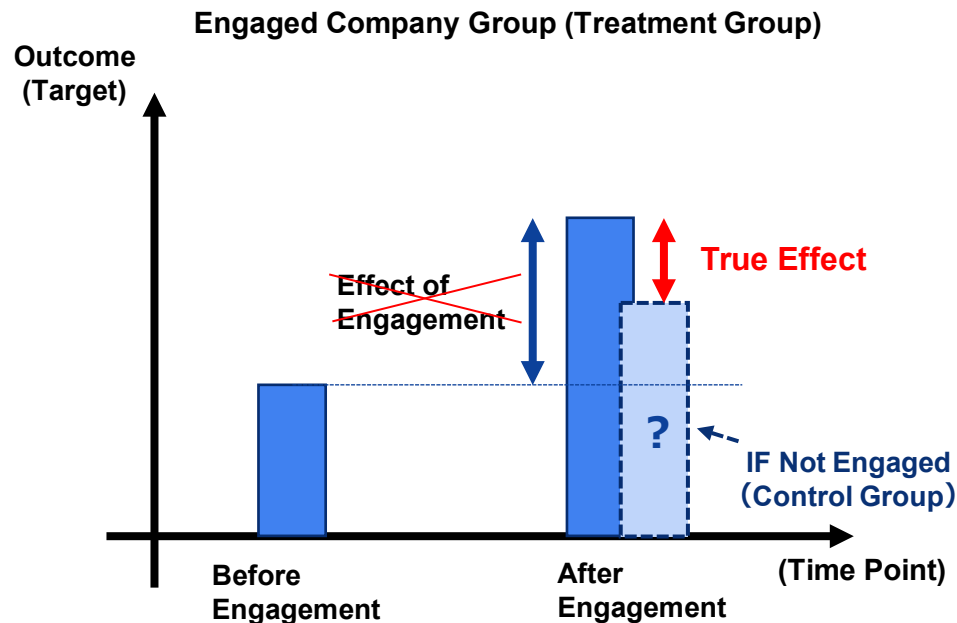


⁴ Dimson, E.; O. Karakas; and Xi. Li. "Active ownership." Review of Financial Studies, 12 (2015), 3225–3268.

Source: Bloomberg, Sumitomo Mitsui DS Asset Management

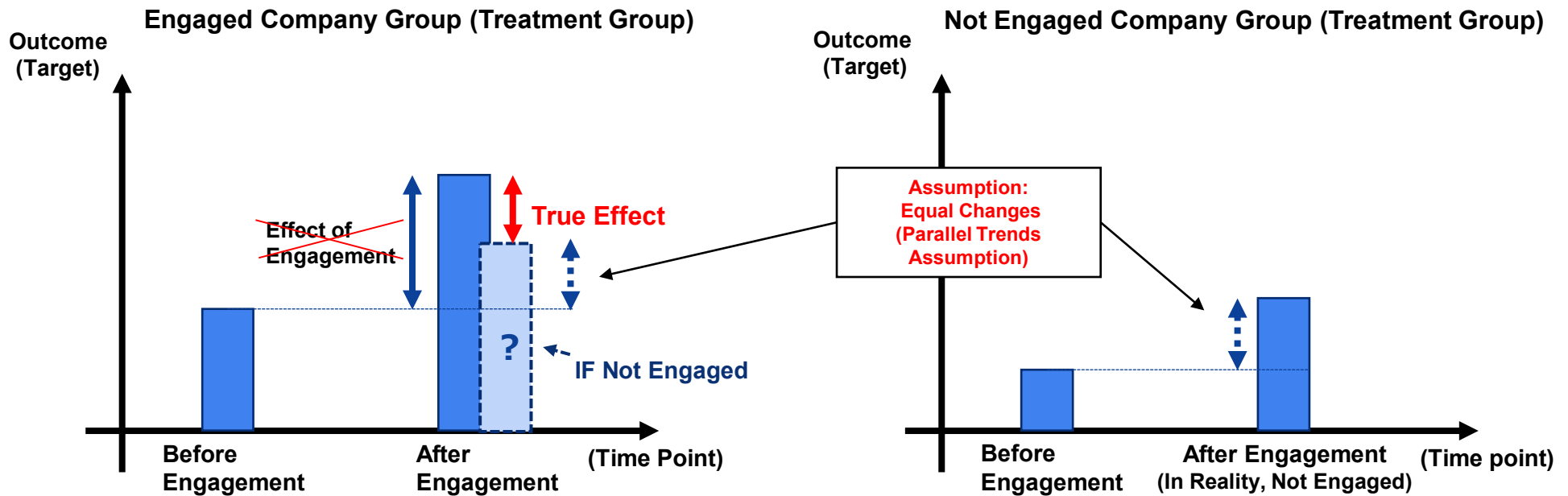
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- **Difference-in-Differences Method (DiD)** is a technique used to estimate the causal effect of an intervention by subtracting the observed change in a control group (which did not receive the intervention) from the observed change in a treatment group (which received the intervention).
- When measuring the effect of engagement, it is deemed inappropriate to simply compare the pre- and post-engagement periods of companies that have participated in engagement. **This is because some changes are expected to occur over time even if engagement had not been conducted.** Therefore, it is necessary to subtract the expected change from the actual observed change. However, it is practically impossible to observe the change in companies that participated in engagement if they had not engaged.



* The above diagram is an illustrative figure to enhance understanding

- Therefore, we estimate the true effect by using companies without engagement as a comparison group, under the assumption that the time-related changes in companies without engagement are equal to the expected changes in companies with engagement if they had not engaged.
- The "Difference-in-Differences (DiD) Method" focuses solely on the changes, allowing us to remove the influence of average **differences in company characteristics** over time between engaged and non-engaged companies, as well as the average **time-related changes affecting** all companies before and after engagement.



* The above diagram is an illustrative figure to enhance understanding

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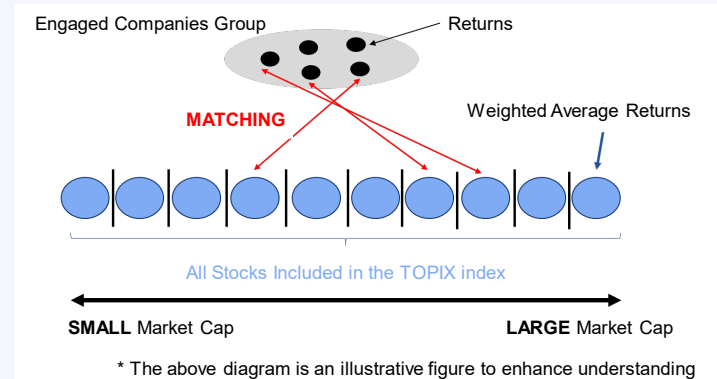
Calculation Method of Abnormal Returns

[Overall Process]

- ① Calculate the abnormal returns for each stock of companies that have conducted dialogues over a 12-month period after the dialogue.
 - i. Calculate the monthly abnormal returns.
 - ii. Accumulate the monthly abnormal returns to calculate the 12-month abnormal returns.
- ② Take the arithmetic average of the abnormal returns for each stock to calculate the average abnormal returns for companies that have conducted dialogues.

[Calculation Method of Monthly Abnormal Returns]

- Divide all stocks included in the TOPIX index into ten groups based on market capitalization, and calculate the weighted average return for each decile.
- For each company that has conducted dialogues, use the weighted average return of the corresponding decile as a benchmark to calculate the abnormal returns.



Additional Notes

- If multiple engagements are conducted for the same company, the month in which the engagement was conducted will be considered as the reference month.
- In Table P7 "Cumulative Abnormal Returns Over 12 Months After Engagement (Analysis 1: By Theme)", if multiple themes are included in the same engagement, each theme will be counted separately (if the content includes both E and S, it will be counted as both E and S).
- In Table P7 "Cumulative Abnormal Returns Over 12 Months After Engagement (Analysis 2: By Our Holdings)", for the group of companies without engagement, the "12 months after engagement" period cannot be defined. Therefore, we calculate the average monthly excess return for the analysis period from fiscal years 2020 to 2022, and then convert the average monthly excess return to a 12-month period.

Limitations of the Analysis

- Since the analysis focuses on engagements during the fiscal years 2020 to 2022, the effects of engagements prior to the fiscal year 2019 are not considered.
- Because we cannot account for the engagement activities of other investors, there is a possibility that the effects of engagements conducted by other investors during the same period are mixed.
- Especially in the analysis of stock prices, we attempt to distinguish between the effects of fund managers' stock selection and the effects of the engagement itself; however, this separation is not completely achieved.
- Due to the influences mentioned above, the items for which effects were confirmed in this analysis should not be strictly interpreted as causally related, and the excess returns do not guarantee precise figures.
- However, through this analysis, which was conducted on a best-effort basis based on prior research and attempted to verify causality using methods such as the "difference-in-differences" approach, we interpret that the results suggest a significantly positive effect of our engagements.

Future Directions

- Even for items where no effects were observed in this analysis, there is a possibility that effects might be seen over a longer term. Therefore, we will avoid easily leaning towards themes that showed favorable results this time, and continue to accumulate engagement data while conducting investigations over longer trends.
- Additionally, we plan to explore extended effect verification analyses, such as the impact of engagement on proxy voting.
- We will utilize effect verification to understand trend changes and to reflect on our engagements in order to implement the PDCA cycle, thereby seeking more effective engagements.
- Reviewing our past engagements through effect verification is meaningful, and this analysis is positioned as an initiative aimed at improving the "quality of engagement." We plan to fully utilize effect verification to understand trend changes and to reflect on our engagements in order to implement the PDCA cycle.
- We will build upon various creative efforts, including the introduction and utilization of effect verification, to promote more effective engagement activities.

Engagement Case Studies

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Gakujo Co., Ltd. (Ticker: 2301)

Engagement Theme

- Improvement of SMDAM's Proprietary ESG Evaluation

Challenges

The company's response in non-financial aspects was delayed, resulting in a low basic evaluation in SMDAM's proprietary ESG score (Core)*5. Additionally, market evaluations such as PER (Price Earnings Ratio) were also low.

Engagement Plan

We communicated the sector ranking of the basic evaluation in the ESG Score (Core) to the top management and verified the specific and swift improvements in sustainability initiatives.

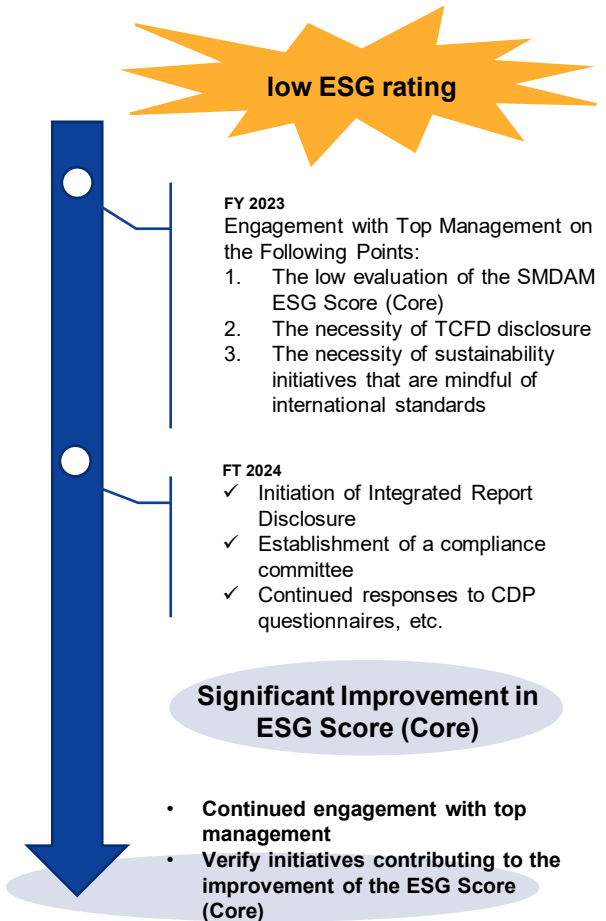
Behavioral Changes of the Target Company

Through engagement with top management, we observed significant changes in corporate behavior, such as the creation of integrated reports, the establishment of compliance committees, initiatives addressing climate change, and continued responses to CDP questionnaires, all of which indicate a steady improvement in the company's awareness. As a result, the basic evaluation in the ESG Score (Core) achieved a substantial improvement of over 30% year-over-year in terms of score. Additionally, as a voluntary initiative by the company, the term of office for directors was changed from two years to one year, demonstrating steady improvements in governance as well.

Looking Forward

We plan to continue our dialogue with top management and monitor the progress of the issues raised, specifically the improvement of the ESG Score (Core). Currently, we are engaging in discussions not only about environmental issues but also social issues such as human rights.

*5. The SMDAM ESG Score (Core) is an evaluation score for domestic investment target companies that are not covered by sector analysts. It consists of a basic evaluation and an analyst evaluation, focusing on particularly important items. Major adverse impacts on the environment and society are also considered.



Miyaji Engineering Group Co., Ltd. (Ticker: 3431)

Engagement Theme

- Improving corporate value towards a PBR over 1
- Expansion of IR/Sustainability-related information disclosure

Challenges

Miyaji Engineering Group, which engages in high-difficulty bridge construction projects, was experiencing stable performance driven by the increasing demand for large-scale renovation works. However, as of the end of March 2022, its PBR was 0.74 times, indicating that its true corporate value was not fully recognized. There were expectations for improved capital efficiency and expanded investor information disclosure.

Engagement Plan

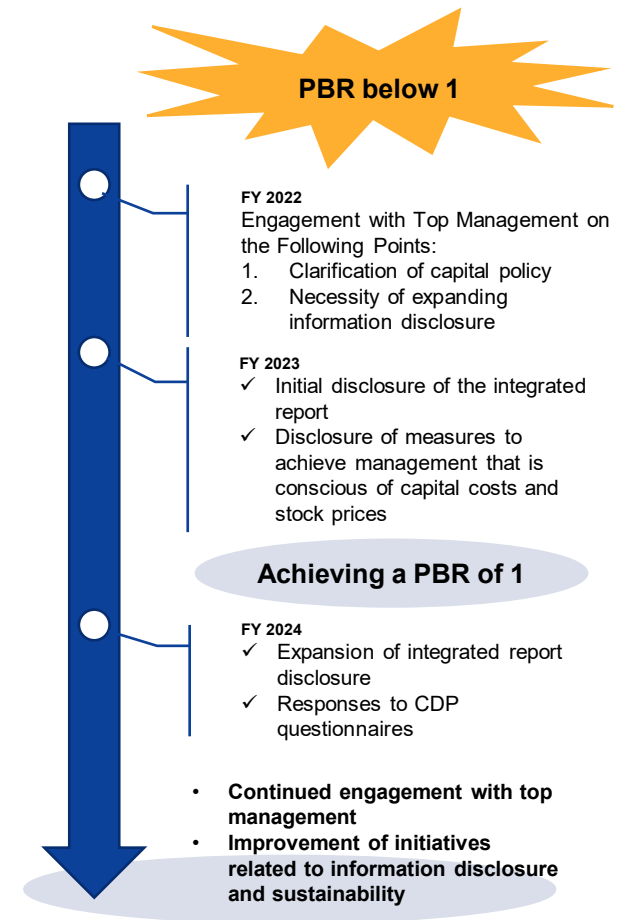
In December 2022, we conducted a constructive engagement with President Aota (at the time) on themes such as capital policy and information disclosure, proposing the clarification of capital policy principles and the expansion of non-financial information disclosure. In April 2023, we visited the Chiba factory, their main facility, to verify the sources of competitiveness, including large block processing equipment that enables the construction of long bridges and one of the largest indoor painting facilities in Japan. Since then, we have continued regular engagements with top management.

Behavioral Changes of the Target Company

In August 2023, the company disclosed measures to achieve management that is conscious of capital costs and stock prices, and announced seven initiatives, including the expansion of the total payout ratio. This was well received, and the PBR has been consistently above 1. Additionally, the integrated report, first issued in May 2023, was significantly expanded in September 2024, and responses to the CDP questionnaire were also made, showing progress in non-financial information disclosure to a certain extent.

Looking Forward

We engage in sustainability initiatives, such as expanding information disclosure that highlights the company's competitive advantages and differentiation factors, and formulating human rights policies, with the expectation of further enhancing corporate value.



Daido Steel Co., Ltd. (Ticker: 5471)

Engagement Theme

- Improvement of information disclosure regarding the environment and climate change
- Clarification of business portfolio transformation

Challenges

As a leading manufacturer of specialty steel materials primarily for automobiles and industrial machinery, the company was expected to expand its information disclosure on its climate change response policies (initiatives for CO2 reduction, business portfolio transformation in light of the progress in automotive electrification), and its efforts to contribute to society through its products and services.

Engagement Plan

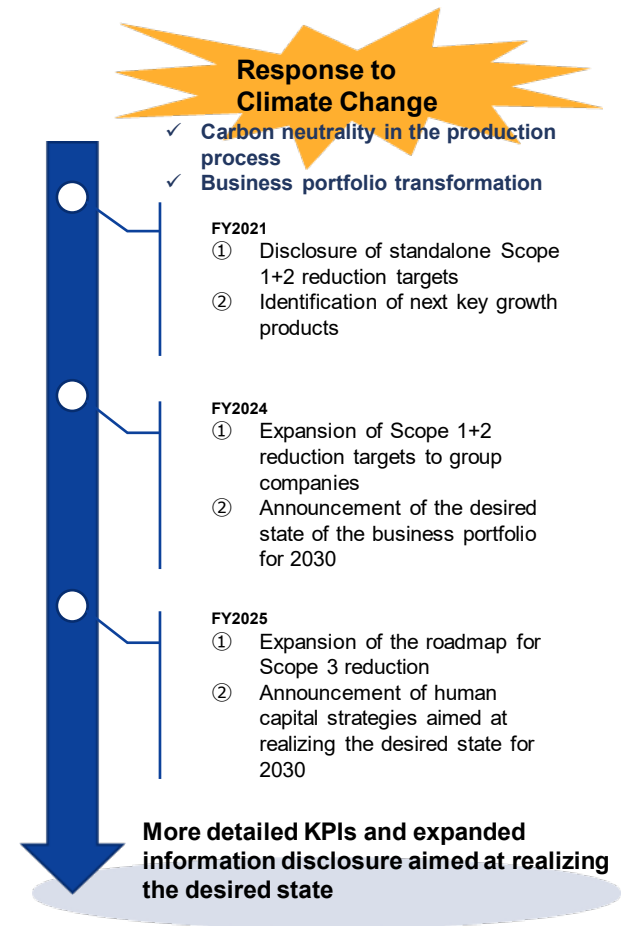
In 2023, we initiated engagement and shared our perspective as investors on the current status and challenges of the company's efforts toward carbon neutrality, requesting expanded information disclosure. Additionally, we discussed the company's growth story in terms of corporate value through environmental and social contributions, as well as the future direction of its business portfolio.

Behavioral Changes of the Target Company

In April 2021, the company set reduction targets to "reduce CO2 emissions (Standalone Scope 1+2) by 50% by 2030 compared to FY2013, and achieve carbon neutrality by 2050." In the "2026 Medium-Term Management Plan," announced in 2024, the scope of reduction targets was expanded to include the entire group, including domestic and overseas affiliates, and the direction for business portfolio transformation in light of the reduced demand for automotive steel materials was clarified. At the ESG briefing in March 2025, the company announced a roadmap for Scope 3 reduction, along with plans to expand environmentally-friendly products, initiatives for biodiversity, and human capital strategies. This conveyed a positive impression of the company's commitment to enhancing corporate value through contributions to the realization of a sustainable society.

Looking Forward

We plan to continue our engagement with a focus on environmental issues, deepening discussions on more specific initiatives for business portfolio transformation and the company's corporate value growth story.



Daikin Industries, Ltd. (Ticker: 6367)

Engagement Theme

- Strengthening shareholder returns

Challenges

The company, which holds a world-leading market share in air conditioning equipment, has steadily expanded its sales and profits, primarily overseas, including through M&A activities. However, shareholder returns have been managed based on the dividend on equity (DOE) ratio, resulting in a slow pace of dividend increases relative to profit growth, and the total payout ratio has consistently remained below 30%.

Engagement Plan

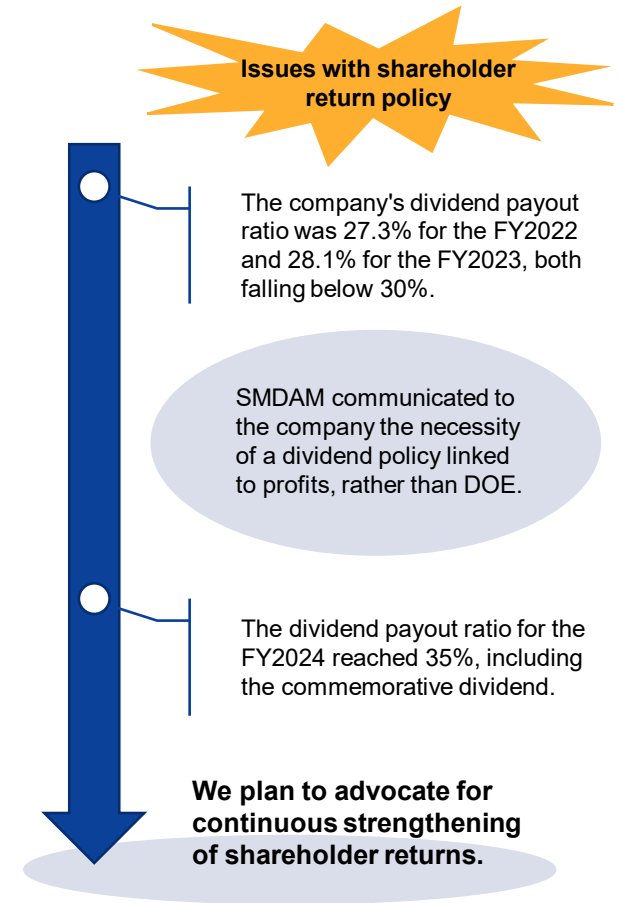
We have been engaging in regular engagements with the company, and in the post-AGM engagement in June 2023, we explained our decision to vote against the proposal for disposition of surplus due to the total payout ratio not meeting our criterion (over 30%). We requested the formulation of a dividend policy linked to profits and the strengthening of shareholder returns.

Behavioral Changes of the Target Company

Initially, the company emphasized stable dividends and investments in growth areas. Subsequently, recognizing the numerous shareholder opinions, including ours, advocating for increased dividends, the company shifted its stance to consider not only DOE but also the total payout ratio, taking into account the trends of other companies. In the fiscal year ending March 2025, the company implemented a commemorative dividend, resulting in a total payout ratio of 36.5%.

Looking Forward

To ensure that the strengthening of shareholder returns is not limited to a temporary increase due to the commemorative dividend, we plan to continue advocating for the raising of the DOE target itself and the setting of goals for the total payout ratio.



Casio Computer Co., Ltd. (Ticker: 6952)

Engagement Theme

- Response to unauthorized access incidents
- Improvement of ROE

Challenges

The company, which operates the global brand "G-SHOCK," recorded losses due to a ransomware attack in October 2024. The previous year, there was an unauthorized access incident involving an educational app, resulting in information leakage, highlighting the need to strengthen information management systems. Additionally, improving ROE, which is currently below capital costs, remains a challenge.

Engagement Plan

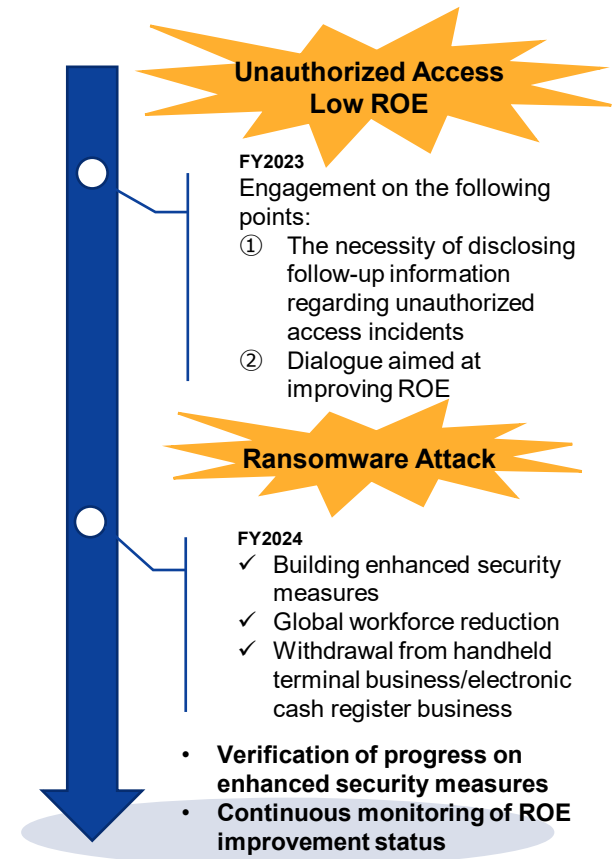
Since incidents of unauthorized access are related to corporate value, we requested that not only the initial occurrence but also follow-up information be disclosed to investors. For ROE improvement, we engaged in discussions regarding the continuous review of the business portfolio and efficient management of owned assets.

Behavioral Changes of the Target Company

Regarding unauthorized access, the company demonstrated a stance of disclosing information with a focus on all stakeholders and explained that they are in the process of building security enhancement measures as part of their cyber defense strategy, aiming to establish systems that minimize damage. For ROE improvement, the company plans to reduce approximately 650 employees, equivalent to 10% of their global workforce, and withdraw from the electronic cash register business in fiscal year 2024, resulting in a cost reduction of approximately 5 billion yen from the next fiscal year and aiming for an ROE of 8%.

Looking Forward

We will continuously monitor the operational status of the new systems incorporating enhanced security measures, as well as the improvement in ROE resulting from the realization of cost reductions.



Aoyama Trading Co., Ltd. (Ticker: 8219)

Engagement Theme

- Capital efficiency, shareholder return policy

Challenges

The core business of the men's apparel market has been continuously shrinking, making it difficult to outline a medium- to long-term growth strategy. Meanwhile, despite having stable cash flow generation capabilities, the shareholder returns were not considered sufficient.

Engagement Plan

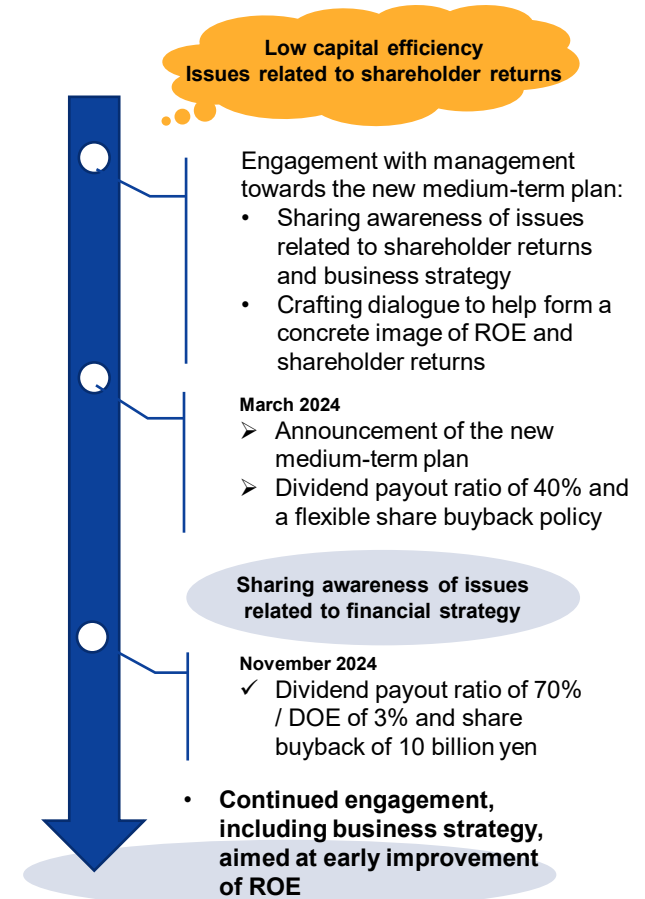
We held discussions with top management and the finance executives regarding the new medium-term management plan for the fiscal year 2024 and beyond, explaining the necessity of initiatives beyond the traditional business areas and measures to improve ROE, including shareholder returns. During these discussions, we shared SMDAM's performance outlook to help the company form a concrete image of ROE and shareholder return levels.

Behavioral Changes of the Target Company

In the medium-term plan announced in March 2024, a dividend payout ratio of 40% (with a progressive dividend of at least 60 yen annually) and a flexible policy for share buybacks were presented. Following the announcement of the medium-term plan, analysts, fund managers, and ESG analysts held a series of dialogues to share their awareness of issues related to capital policy. During the interim results announcement in November 2024, the shareholder return policy was strengthened, introducing a dividend policy based on the higher of either a 70% payout ratio or a 3% DOE, along with a plan to buy back up to 10 billion yen worth of shares during the medium-term plan period.

Looking Forward

Going forward, the focus will be on the early realization of ROE improvement through business strategies such as reviewing existing businesses and launching new ones, in conjunction with financial strategies. We plan to continue engaging with the management team on major themes such as the external environment, growth potential, and competitiveness, while also conveying SMDAM's outlook and perspectives.



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Odakyu Electric Railway Co., Ltd. (Ticker: 9007)

Engagement Theme

- Human Rights

Challenges

The railway industry is considered to have high human rights risks due to its wide range of labor environments, extensive customer base, and broad procurement supply chain. In this context, Odakyu Electric Railway was lagging behind in management compared to its peers.

Engagement Plan

First, we explained the necessity of formulating human rights policies. Subsequently, we encouraged the implementation of specific measures, such as explaining KPIs that can confirm the progress and actions for each item, including business operations, employees, customers, and procurement supply chain. Additionally, we verified the relationship between customer harassment responses and the turnover rate and accumulation of human capital.

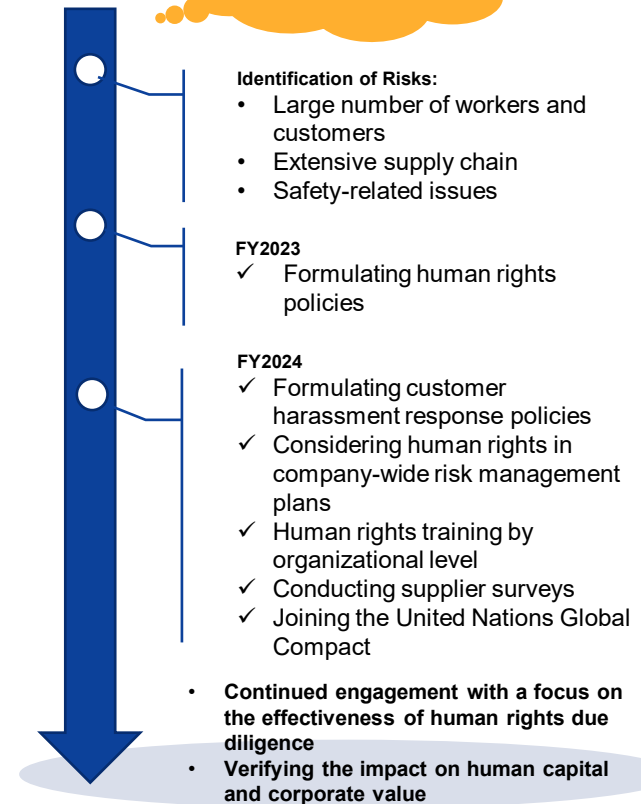
Behavioral Changes of the Target Company

In January 2024, human rights policies were formulated, clarifying what actions the company should take going forward. In the fiscal year 2024, measures were enhanced, including reflecting human rights risks in the risk management plan, conducting training and supplier surveys, formulating response policies for customer harassment, and initiating the operation of guidelines.

Looking Forward

We plan to continue our engagement with a focus on the effectiveness of human rights due diligence. Additionally, we will verify how it positively impacts corporate value, including human capital.

Human Rights Risks in the Railway Industry



TBS Holdings, Inc. (Ticker: 9401)

Engagement Theme

- Human Rights
- Board composition

Challenges

Since the fiscal year 2021, we have communicated the need for risk management in program production and the necessity to increase the number of female directors. Additionally, following the former Johnny's issue, it was necessary to address human rights risks.

Engagement Plan

We engaged in dialogue with top management regarding the importance of human rights policies, human rights due diligence (HRDD), and remedy mechanisms. Additionally, we shared the recognition that it is necessary to not only increase the number of female directors but also expand the pipeline for female managers and other leadership positions.

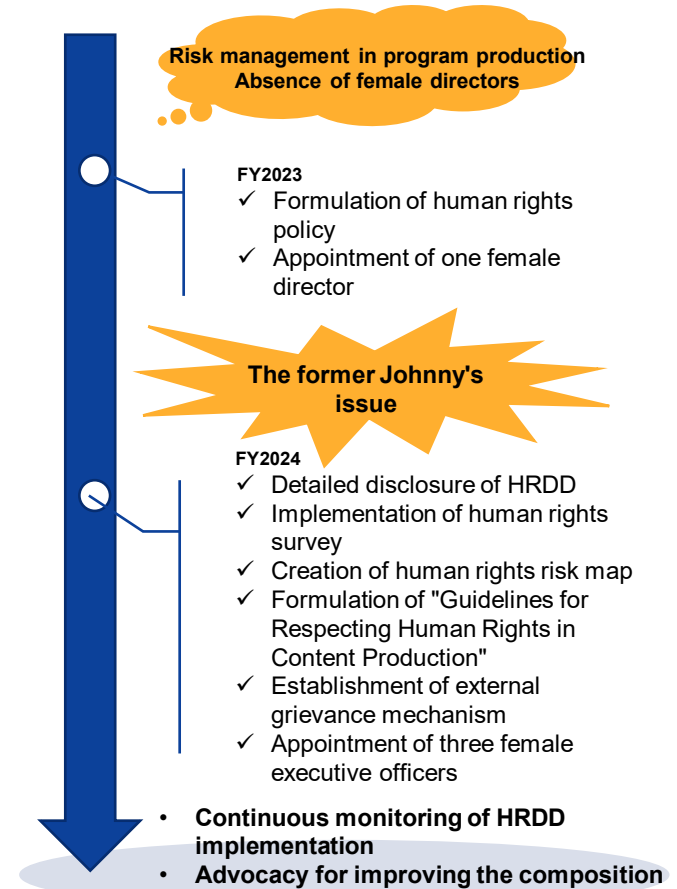
Behavioral Changes of the Target Company

In the 2024 integrated report, detailed disclosure on human rights was conducted. A human rights survey was administered to major suppliers, receiving responses from 132 out of 152 companies (response rate: 86.8%). Based on the survey analysis results, a human rights risk map for the content production process was created, and the "Guidelines for Respecting Human Rights in Content Production" were formulated, along with the establishment of an external grievance mechanism. This initiative appears to be a good example for media companies. In the June 2023 AGM, one female outside director was appointed. Additionally, in June 2024, three female executive officers were appointed, expanding the pipeline.

Looking Forward

We plan to verify the monitoring status of suppliers that did not respond to the human rights survey. Additionally, we plan to confirm the appointment of young directors, along with the appointment of female directors from within the company.

*Note: TBS subsidiaries in North America are excluded from the scope of female empowerment in the engagement.



Belc Co., Ltd. (Ticker: 9974)

Engagement Theme

- Strengthening sustainability initiatives and information disclosure

Challenges

At the start of fiscal year 2022, Belc had begun TCFD disclosures but had not yet disclosed GHG emissions or set reduction targets. Their external ESG ratings were also low.

Engagement Plan

During the initial engagement, we confirmed the organizational structure and status of initiatives and communicated the following needs: (1) For climate change, the calculation and disclosure of GHG emissions, target setting, and responses to CDP; (2) Regarding human capital, the disclosure of information related to the "standardization" of stores and operations that contribute to productivity, and the need to strengthen initiatives for promoting female participation considering the characteristics of the business.

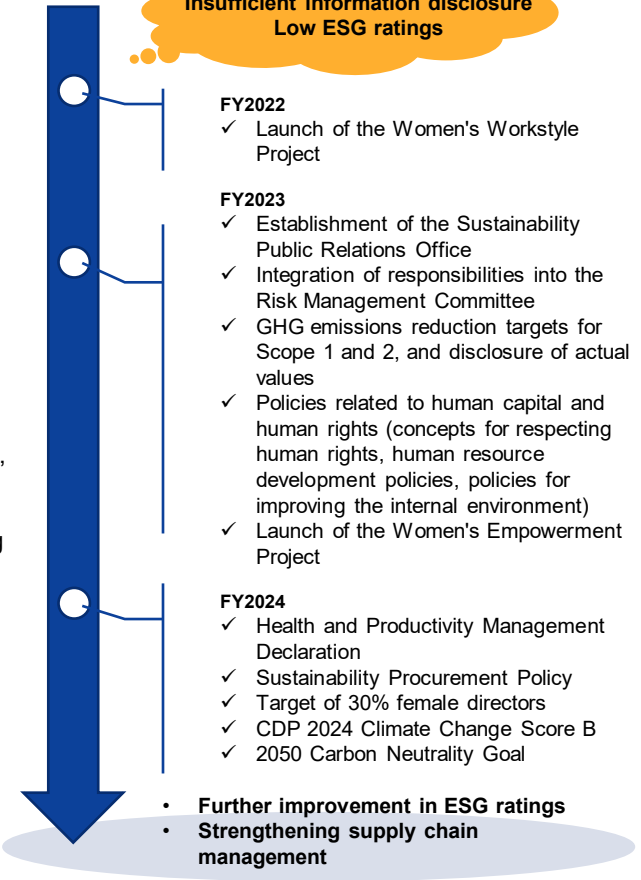
Behavioral Changes of the Target Company

In terms of organizational structure, the Sustainability Public Relations Office was established in fiscal year 2023, and the former Environmental Committee was abolished, integrating sustainability responses into the Risk Management Committee. Regarding climate change, in fiscal year 2023, the company set a target to reduce GHG emissions (Scope 1 and 2) by 50% by fiscal year 2030 compared to fiscal year 2013, and began disclosing actual values. In fiscal year 2024, the company responded to the CDP questionnaire and received a score of B for climate change. Regarding human capital, in fiscal year 2023, the company formulated concepts for respect for human rights and human resource development policies, and launched a project to promote female participation. In fiscal year 2024, the company set a target to increase the proportion of female directors to 30% by 2030.

Looking Forward

In less than three years since initiating engagement, Belc's external ESG ratings have significantly improved. Since entering 2025, the company has made further progress by setting a goal for carbon neutrality by 2050 and obtaining certification as a Health and Productivity Management Organization. Going forward, we aim to support strengthening supply chain management, a key challenge in the retail industry, through continued engagement.

Insufficient information disclosure
Low ESG ratings



Kyushu Electric Power Co., Inc. (Ticker: 9508)

Engagement Theme

- Sustainable Green Transition Finance Procurement

Challenges

The challenges for the Kyushu Electric Power Group include the development of high-efficiency LNG thermal power plants, the suspension and decommissioning of existing thermal power plants, and the diversification of investment funding to achieve carbon neutrality by 2050.

Engagement Plan

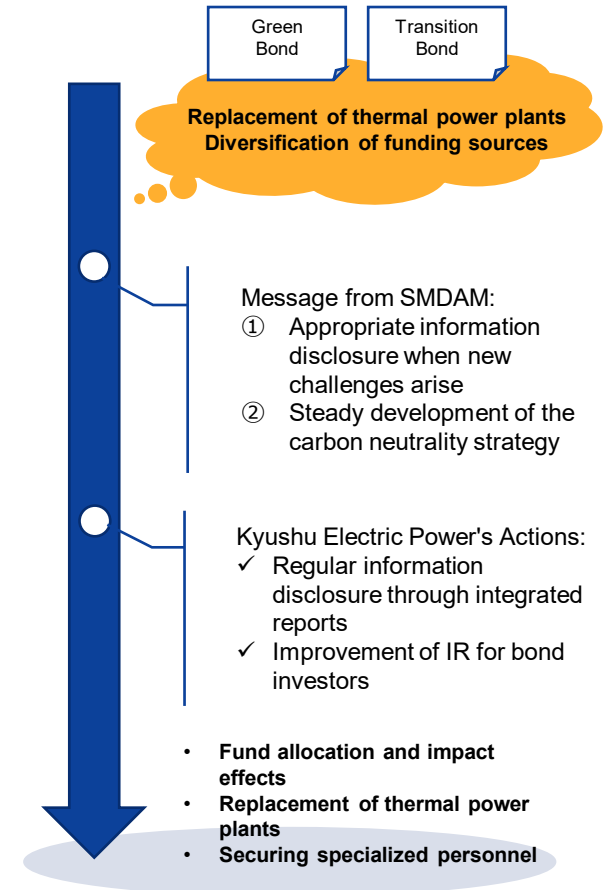
We verified the allocation of funds and impact effects of the "1st Kyushu Electric Power Green Bond (issued in June 2021)" and the "1st and 2nd Kyushu Electric Power Transition Bond (issued in May 2022)" through engagement. We requested that the company disclose new challenges as they arise and continue to advance its carbon neutrality strategy without complacency, despite its advantage in zero-emission and FIT power source ratios compared to other power companies.

Behavioral Changes of the Target Company

After issuing ESG bonds, the company regularly discloses the allocation of raised funds and environmental improvement effects through integrated reports and other channels. It has adopted an active stance in disclosure and engagement with bond investors, and has demonstrated an understanding of the possibility that the progress of its carbon neutrality strategy may influence future funding outcomes.

Looking Forward

We will continue to engage in discussions regarding the allocation of funds and impact effects of previously issued ESG bonds, the progress of carbon neutrality strategies such as the replacement of existing thermal power plants and the enhancement of transmission line networks, and the ongoing status of securing specialized personnel.



Private Company A outside Japan

Engagement Theme

- Enhancing Investor Relations and Disclosure
- Stopping Deforestation

Challenges

Limited disclosure to bondholders and supply chain deforestation issues raised by NGOs led to poor ESG ratings.

Engagement Plan

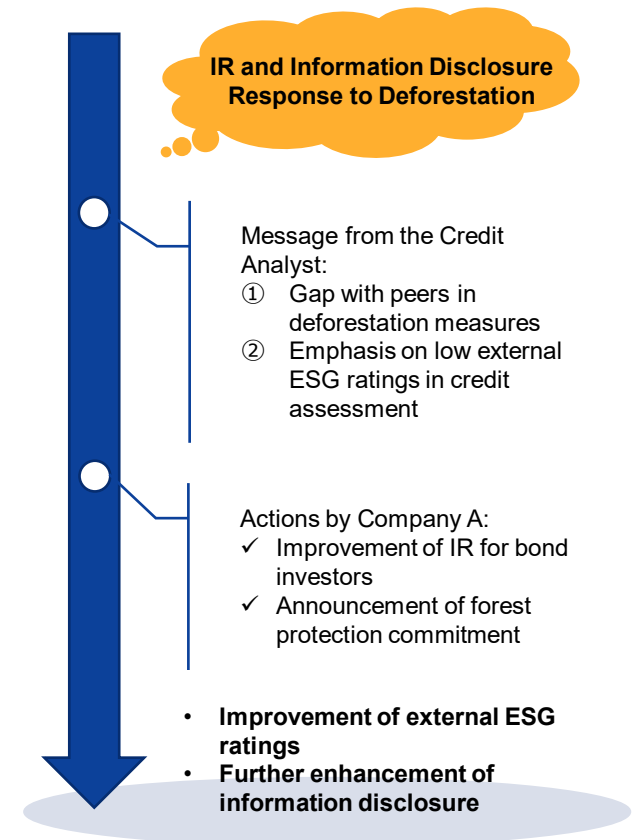
We expressed that we highly valued individual meeting opportunities as a bond investor and requested regular meetings with the credit analyst. We discussed deforestation solutions from related industry cases, highlighting how supply chain ESG issues and low ratings affect credit assessment.

Behavioral Changes of the Target Company

The issuer expanded sustainability staff, strengthened investor relations, and committed to stop deforestation, which have contributed to its improving ESG ratings. It valued dialogue with us, as a Japanese investor, to diversify its investor base.

Looking Forward

Since 2022, we've conducted one-on-ones and collaborative engagements. We'll promote supplier projects, monitor traceability improvements, and continue engagement for better disclosure.



Company B outside Japan

Engagement Theme

- Inferior external ESG ratings

Challenges

The external ESG score was classified as "Severe Risk," which was particularly poor among the holdings in funds disclosed under Article 8 of the European Disclosure Regulation (SFDR).

Engagement Plan

In 2021, we initiated engagement focusing on the overall poor external ESG scores, including corporate governance such as board independence, various environmental responses, and labor safety. We internally spearheaded to create an engagement target list, prioritizing global bonds and global equities. Additionally, we continuously advocated for the importance of ESG information, considering the background of additional disclosure requirements in Europe for our held funds and investors themselves. We carefully explained the differences between the expectations of global investors and local perspectives, encouraging the expansion of information disclosure, including specific figures. Based on the dialogue, we reflected the changes in our own ESG evaluation scores. In 2023, we conducted follow-up engagements to confirm progress and made further recommendations for improvement.

Behavioral Changes of the Target Company

Previously, ESG disclosures were limited to the content prescribed by local regulations. However, improvements were observed with the inclusion of specific figures now published on the company's website. By September 2024, the external ESG rating significantly improved to the "High Risk" level. In November 2024, following the improvement in external scores, we closed the engagement focused on ESG evaluations and transitioned to engagement on climate change, including advanced research and development on CCUS (Carbon Capture, Utilization, and Storage).

Looking Forward

Since the company has already established a system for managing GHG emissions to meet global regulatory requirements, it is expected to serve as a leading example in climate-related engagement within high-emission industries in emerging markets. Additionally, leveraging the case study from engagement with this traditional state-owned enterprise, we will continue to strive to bridge the expectations of the global capital markets and the local context.

Company C outside Japan

Engagement Theme

- Inferior external ESG ratings

Challenges

The external ESG score was classified as "High Risk," which was particularly poor among the investment candidates.

Engagement Plan

In 2020, we initiated engagement focused on external ESG scores. Initially, as an emerging company, the situation often involved explaining its limited IR resources. Given the impact of regulations like the European Disclosure Regulation (SFDR), we worked to share the recognition that low scores from ESG rating agencies could limit the expansion of the investor base and affect corporate value. Drawing from our experience in internal ESG evaluation, we identified high-contributing ESG issues and shared evaluation criteria to help improve external ESG scores. We aimed for a supportive, long-term shareholder engagement, emphasizing efficient allocation of management resources.

Behavioral Changes of the Target Company

By 2022, the external ESG score had significantly improved to be within the top 6% globally. In subsequent engagements, we expressed gratitude for the company's efforts in addressing ESG issues and enhancing related disclosures. Having achieved our engagement goals, we marked the final stage of our internal eight-phase dialogue progress as 8/8, completing the engagement. During the meeting with the IR head in 2024, we focused on medium- to long-term financial and management strategies, dedicating ourselves to strengthening the conviction in our holdings. Since completing the engagement in August 2022, the stock has outperformed the benchmark by +106.9% as of the end of 2024.

Looking Forward

As a successful example in emerging companies, we aim to proactively contribute to the improvement of external ESG scores and enhance evaluation in the capital markets by expanding engagement to other growth stocks that similarly have limited management resources.

Engagement Related to Materialities and Key Themes

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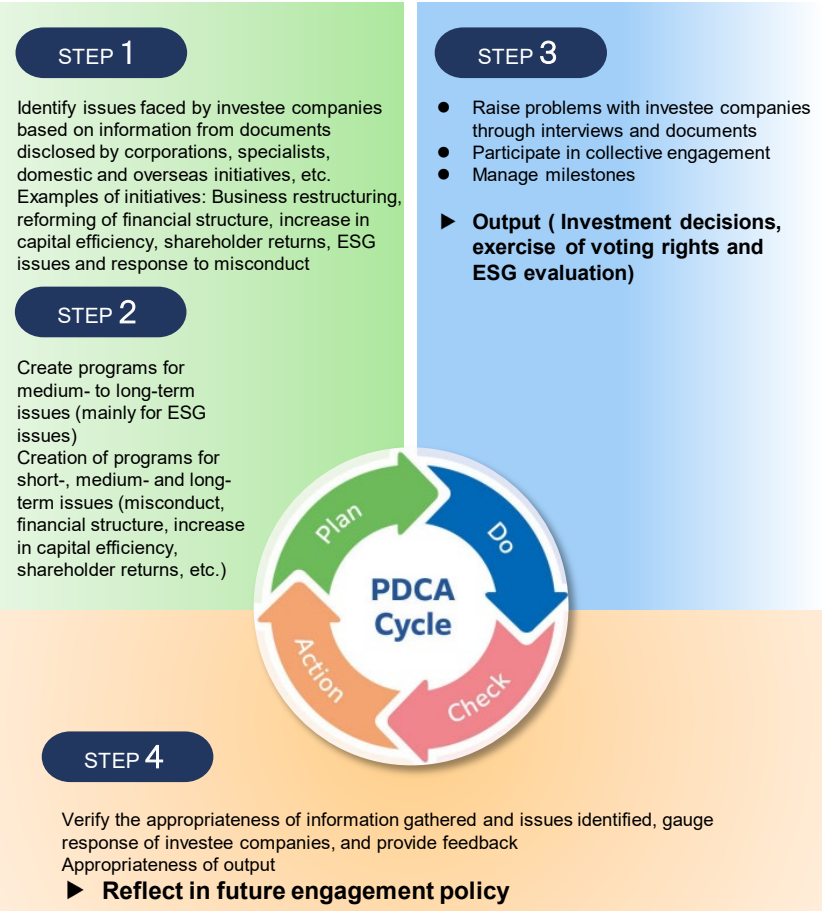


We will engage in what is truly valuable to our stakeholders, emphasizing more on substance than external standards, with the primary focus on priority sectors and target companies as defined by each materiality (see next page). By engaging in multifaceted discussions with the management of the investee 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



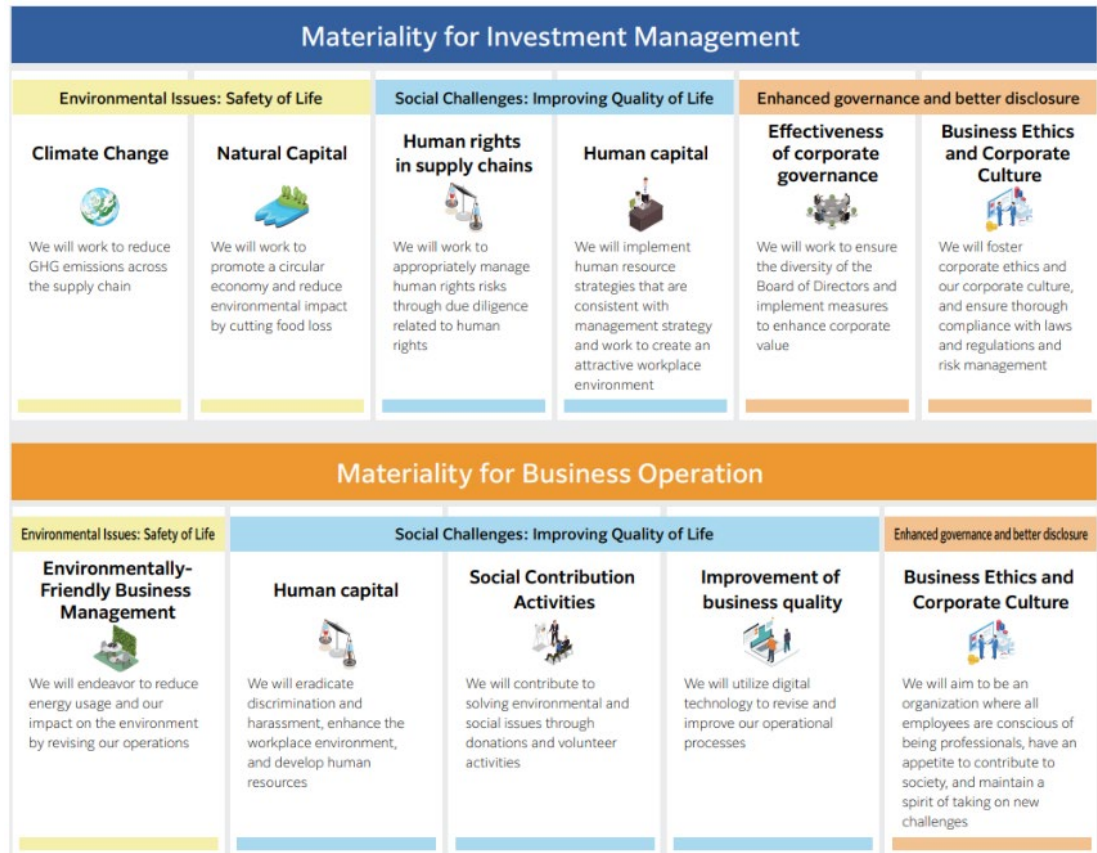
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Our Materialities

- To enable us to contribute more to achieving a sustainable society, we have identified our materialities and published the details of related initiatives on our website.

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.



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Climate Change

Our awareness and direction we should aim for

Climate change is a pressing global issue. To achieve 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

We support the Paris Agreement, the global long-term target of net zero GHG emissions by 2050, and the efforts of the Japanese government and the international community. As an investor, we strive to promote climate change measures by collecting extensive information and identifying best practices, while closely monitoring domestic and international trends to find optimal solutions. We explain to investee companies the necessity of disclosing information and expressing support based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and responding to CDP. We also encourage them to obtain Science Based Targets (SBT) certification and improve their CDP climate change scores. Additionally, in the process of determining the exercise of voting rights, we evaluate companies' efforts, including information disclosure in accordance with TCFD.



Natural Capital

Our awareness and direction we should aim for

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

Our progress

We aim to enhance the conservation and sustainability of 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

Since mandatory disclosure in financial reports incepted in FY 2023, human capital has been spotlighted. 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, supporting career development, and creating workplaces where employees find meaning in their work. 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. Recently, providing growth opportunities and skill enhancement through education and training, and realizing flexible work styles have been highly valued. We are strengthening our engagement with investee companies from these perspectives, promoting activities that contribute to sustainable improvement in corporate value, such as expanding disclosure and setting 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, 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 March 31, 2023, by the Tokyo Stock Exchange. However, they still remain relatively low compared to other major countries. 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. In fiscal 2024, we engaged with 17 companies. We have strengthened discussions on ROE and P/B ratios during engagement related to voting rights before shareholder meetings. 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 misconduct occurs, 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.

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Participation in Collaborative Engagement

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Participation in Collaborative Engagement

- In addition to our own independent engagements, we work with Japanese and international institutional investors through various initiatives we have signed or supported to engage in constructive dialogue with investee companies.

CDP



We endorsed the UK-based non-governmental organization (NGO) that operates a global information disclosure system to manage environmental impacts in June 2021.

In fiscal year 2024, we also participated in the Non-disclosure campaign and, as a lead investor, sent letters to 15 companies requesting responses to the CDP.

Institutional Investors Collective Engagement Forum



As a lead investor, we led the engagement with companies involved in scandals, discussing measures to prevent recurrence. Additionally, as the lead investor for the agenda "Action on Cost of Capital-Conscious Management" targeting low PBR companies, we sent letters to approximately 400 companies and conducted dialogues with some of them.

PRI Advance



The United Nations Principles for Responsible Investment (PRI) established an initiative in December 2022 to address human rights and other social issues, and we signed on at the time of its establishment. In fiscal year 2024, we continued to participate as a collaborating investor in a collaborative engagement with one Japanese company.

PRI Spring

In February 2024, we joined an initiative by domestic and international investors aiming to halt and reverse biodiversity loss by 2030.

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.

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Company D outside Japan

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. Since fiscal year 2022, our research head and ESG analysts based in London have 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 fiscal year 2023, Company D disclosed comprehensive forest fire mitigation plans for high-risk areas, aligned with international best practices, and a 10-year plan for undergrounding power lines. Additionally, due to the continuous establishment of robust and high-safety power systems, forest fires caused by the company's facilities significantly decreased. In September 2023, Morningstar Sustainalytics evaluated the company's 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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