

## Self-evaluation of the implementation status of Japan's Stewardship Code

September 27, 2021

Sumitomo Mitsui DS Asset Management Company, Limited.

### Self-evaluation

In order to enhance medium- to long-term investment returns that will be beneficial to clients and beneficiaries, Sumitomo Mitsui DS Asset Management (hereinafter "SMDAM ") is actively engaged in stewardship activities that enhance the value of investee companies, and ESG investments including medium- to long-term analysis and evaluation of non-financial elements of investee companies as well as those incorporation into the investment process.

In accordance with the "Japan's Stewardship Code [Principle 7] Guidance 7-4," SMDAM self-evaluates and discloses the results of its stewardship activities from April 2020 to March 2021. This self-evaluation is approved by the Board of Directors after deliberation by internal Stewardship Council/ESG Council, which monitors stewardship activities and is composed of persons in charge of practical operations, etc., followed by consideration at Responsible Investment Committee, which is commissioned by the Board of Directors and composed of external directors, the Chief Responsible Investment Officer, and the officer in charge of the Compliance Department.

#### < Major Initiatives in FY 2020 >

1. With regard to ESG investment, SMDAM established its own ESG integration classification system for active funds. (April 2020)
2. In light of the serious impact of the novel coronavirus (COVID-19) on global society, economy, and corporate activities, SMDAM announced its "Policy on the Exercise of Voting Rights in Japan for the time being in light of the impact of the novel coronavirus". (May 2020)
3. SMDAM established and announced the FD and Sustainability Principles, which set forth the principle of fulfilling management responsibility as a responsible institutional investor. (August 2020)
4. SMDAM disclosed the FY 2019 version of "Self-evaluation of the implementation status of Japan's Stewardship Code". (September 2020)
5. SMDAM published the first Sustainability Report 2020. (November 2020)
6. SMDAM set and disclosed key ESG themes that are useful for dialogue with investee companies. (November 2020)
7. SMDAM exercised its voting rights for all proposals of the holding companies in accordance with the "Criteria for Determining the Exercise of Voting Rights" and, if necessary, referring to the judgement of an external independent advisory service provider. In addition, it disclosed "Results of Exercise of Proxy Voting Rights". (May, August, November, 2020, and February, 2021)
8. SMDAM continued collective engagements with other institutional investors through the "Institutional Investor Collective Engagement Forum", and also participated in the "Climate Action 100+" program. (FY 2020)

**FY 2020 Results**

The results of the implementation of the principles and guidelines of Japan's Stewardship Code and what SMDAM achieved in FY 2020 are as follows.

**Principle 1: Policy for fulfilling stewardship responsibilities**

- Following the revision of Japan's Stewardship Code in March 2020, SMDAM revised and announced its "Acceptance of Japan's Stewardship Code" in June 2020. (=> [Guidances 1-1, 1-2](#))
- In the announcement of acceptance, SMDAM stated that it should incorporate medium- to long-term sustainability analysis and evaluation of investee companies into its investment process and carry out effective stewardship activities such as appropriate engagement. (=> [Guidances 1-1, 1-2](#))

**Principle 2: Policy on managing conflicts of interest to fulfill stewardship responsibilities**

- In the announcement of acceptance, SMDAM disclosed management policies for major types of conflicts of interest. (=> [Guidances 2-1, 2-2](#))
- As mentioned in the statement of acceptance, SMDAM periodically reports how to appropriately manage conflicts of interest for the exercise of voting rights and stewardship activities to the Responsible Investment Committee, member of which includes three external independent directors. (=> [Guidance 2-3](#))
- Regarding the exercise of voting rights for companies closely related to SMDAM and its related parties, it exercises voting rights referring to the judgment of an external independent advisory service provider. The Responsible Investment Committee monitors and confirms the status of conflicts of interest. (=> [Guidances 2-1, 2-2, 2-3](#))
- Discussions at the Responsible Investment Committee are reported to the Board of Directors, and the management makes an effort to strengthen initiatives related to these issues. (=> [Guidances 2-3, 2-4](#))
- SMDAM discloses the results of its exercise of voting rights on an individual basis in order to appropriately respond to conflicts of interest and increase the visibility of the exercise of voting rights. (=> [Guidances 2-1, 2-2, 2-4](#))

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

- SMDAM's fund managers and analysts engage in constructive dialogue with investee companies in order to promote the sustainability of investee companies, and to increase the value/avoid the damage of investee companies to provide high quality investment returns to customers and ultimate beneficiaries. As a result, the number of one-on-one meetings in which medium- to long-term management issues were discussed increased steadily to 2,242, 75% of which were attended by senior management including executive officers. The breakdown by theme is as follows. Note that multiple themes may be included for one dialogue, and thus subtotal by theme does not match the total. (=> [Guidances 3-1, 3-2, 3-3](#))
- Voting rights G (governance): 1,068
- Management strategy: 1,594
- E (environment): 145
- S (social): 150
- IR and disclosure: 916

- Financial strategy: 16
- Others: 16
- The analysts not only analyze financial elements, but also continuously conduct SMDAM's own ESG evaluations, which include such items as medium- to long-term catalysts, quality of management, and its attitude toward returns to shareholders/unitholders. The number of companies they evaluated is over 700 as of the end of March 2021. (=> [Guidances 3-2, 3-3](#))
- The policy of incorporating sustainability analysis and evaluation into the investment process is applied not only to Japanese equities but also to various investment asset classes such as J-REITs, foreign equities, Japanese and foreign bonds. As for foreign equities, SMDAM began full-scale engagement with some foreign investee companies in FY 2020, cooperating with SMDAM's overseas bases. (=> [Guidances 3-3, 4-2](#))

#### **Principle 4: Policy on engagement (constructive “goal-oriented dialogue”)**

- SMDAM promotes engagement that shall increase the value of investee companies, discussing enhancement of management oversight functions through effective management of the Board of Directors, the strengthening of management capabilities including those related to sustainability, and the sustainable improvement of capital efficiency. (=> [Guidances 4-1, 4-2, 4-3, 4-4](#))
- The policy of incorporating sustainability analysis and evaluation into the investment process is applied not only to Japanese equities but also to various investment asset classes such as J-REITs, foreign equities, Japanese and foreign bonds. As for foreign equities, SMDAM began full-scale engagement with some foreign investee companies in FY 2020, cooperating with SMDAM's overseas bases. (=> [Guidances 3-3, 4-2](#))
- SMDAM appropriately exercises voting rights of investee companies that have problems such as low capital efficiency, lack of management capability, or scandals. SMDAM also provides the feedback to investee companies about the reasons for the decision of exercising voting rights as necessary and has a dialogue to resolve the problems. (=> [Guidances 4-1, 4-2, 4-3, 4-4](#))
- SMDAM continued collective engagement with other institutional investors through collaborative engagement programs for issues common to many investee companies, such as climate change or the reduction of cross-shareholdings,. (=> [Guidances 4-5, 7-3](#))
- SMDAM will continue to avoid receiving undisclosed material facts as much as possible and will not make inappropriate investment decisions or conduct transactions based on insider information. (=> [Guidance 4-6](#))

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

- SMDAM discloses the “Criteria for Determining the Exercise of Voting Rights” on the website and engages in interactive dialogue with investee companies. When exercising voting rights, SMDAM judges proposals whether to approve or disapprove from the viewpoint of promoting the enhancement of value based on the information and analysis obtained through dialogue. In addition, in accordance with the “Overview of conflicts of interest management policy”, when there is a concern about a conflicts of interest, SMDAM exercises its voting rights as necessary referring to the judgment of an external independent advisory service provider. (=> [Guidances 5-1, 5-2, 5-4](#))
- The results of the exercise of voting rights are disclosed on a quarterly basis, and the reasons for the decision are shown regardless of approval or disapproval. (=> [Guidance 5-3](#))

- SMDAM remains strongly committed to enhancing value through the exercise of voting rights and engagement with investee companies.

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

- Upon requests from clients under discretionary investment contracts, SMDAM reported on stewardship activities appropriately, and disclosed to clients and final beneficiaries the results of engagement activities between April 2020 and March 2021. (=> [Guidance 6-1](#))
- SMDAM has prepared a variety of brochures and reports that meet the needs of our customers in order to show SMDAM's commitment to responsible investment more clearly. (=> [Guidance 6-3](#))
- SMDAM participates in the “Japan Stewardship Initiative (JSI)” and provided reports based on the “Smart Format”, a general-purpose reporting format for asset owners defined by JSI, mainly to clients with discretionary investment contracts. (=> [Guidance 6-3](#))
- SMDAM has established an engagement database that covers multiple assets with the primary objective of enhancing records of best practices and sharing useful information. (=> [Guidances 6-4, 7-1](#))

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

- In addition to establishing highly effective governance by the Board of Directors with three independent and diverse external directors, SMDAM has further strengthened its organizational structure by increasing the number of employees and strengthening the functions of the Responsible Investment Section, which specializes in stewardship activities. (=> [Guidances 7-1, 7-2](#))
- SMDAM held 12 stewardship and ESG meetings (monthly) and 6 meetings of the Responsible Investment Committee to appropriately manage conflicts of interest and improve the stewardship activities by reviewing the past and discovering/verifying issues to deal with. (=> [Guidances 7-1, 7-2](#))
- SMDAM has established an engagement database that covers multiple assets with the primary objective of enhancing records of best practices and sharing useful information. (=> [Guidances 6-4, 7-1](#))
- SMDAM continued collective engagement with other institutional investors through collaborative engagement programs for issues common to many investee companies, such as climate change or the reduction of cross-shareholdings,. (=> [Guidances 4-5, 7-3](#))
- SMDAM disclosed the FY 2019 version of “Self-evaluation of the implementation status of Japan's Stewardship Code”. (=> [Guidance 7-4](#))

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

SMDAM employs a service provider of the exercise of voting rights mainly to appropriately manage conflicts of interest, and engages in dialogue so that it fulfills its stewardship responsibilities in accordance with Principle 8 of Japan's Stewardship Code.

## **Strategy for the next**

### **Principle 1: Policy for fulfilling stewardship responsibilities**

SMDAM will strengthen its efforts to increase the medium- to long-term cash flow of investee companies and to continuously improve the value of shareholders/unitholders.

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

The Responsible Investment Committee will continuously monitor concerns about conflicts of interest and will strive to promptly resolve any issues found.

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

In addition to improving the ability to analyze and evaluate sustainability, SMDAM will strive to incorporate sustainability into its investment process of not only Japanese equities but also various investment asset classes such as J-REITs, foreign equities, Japanese and foreign bonds. In particular, SMDAM will review the evaluation items for ESG evaluation of Japanese small and medium-sized companies and foreign companies, and expand the scope of companies to be evaluated.

### **Principle 4: Policy on engagement (constructive “goal-oriented dialogue”)**

In addition to further enhancing the sustainability perspective of engagement efforts, particularly with regard to net-zero GHG emissions, SMDAM will make efforts to utilize collective engagement through the “Institutional Investor Collective Engagement Forum”, the “Climate Action 100+” program, and “SBT Collaborative Engagement” programs in which SMDAM proactively participates.

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

While exercising voting rights in accordance with the “Criteria for Determining the Exercise of Voting Rights”, SMDAM will endeavor to make decisions on the exercise of voting rights based on the dialogue with investee companies, taking into account the actual situation. In response to the revision of Corporate Governance Code, SMDAM will review the criteria for judging the exercise of voting rights.

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

SMDAM will strive for more efficient and effective reporting based on the opinions of various asset owners.

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

SMDAM will further strengthen the ability to manage conflicts of interest and engage with investee companies. SMDAM will strive to maintain and improve the ability to fulfill the stewardship responsibilities by fully utilizing broad knowledge and know-how.

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

SMDAM will make efforts mainly through dialogue to encourage advisory companies that exercise voting rights fulfill their stewardship responsibilities in accordance with Japan’s Stewardship Code [Principle 8].

**Self-evaluation of the implementation status of Japan's Stewardship Code (revised March 2020) (summary of responses to each guidance; for details and future policies refer to the main text)**

Principles		Guidance	SMDAM Response
1	Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.	1-1 Institutional investors should aim to enhance the medium- to long-term return on investments for their clients and beneficiaries by improving and fostering investee companies' corporate value and sustainable growth through constructive engagement, or purposeful dialog, based on in-depth knowledge of the companies and their business environment.	Yes
		1-2 Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities (hereafter, "stewardship policy") and publicly disclose it. The stewardship policy should cover how they define responsibilities and how they fulfill them, in view of their role in the investment chain running from their clients and beneficiaries to the investee companies.	Yes
		1-3 Asset owners should, to the extent possible, directly engage in stewardship activities to secure beneficial owners' interests. Further, if such owners do not personally, directly conduct stewardship activities, including exercising voting rights, they should encourage asset managers to engage in effective stewardship activities.	
		1-4 When selecting or issuing mandates to asset managers, asset owners should clearly specify issues and principles to be required in conducting stewardship activities including the exercise of voting rights, in order to ensure effective stewardship activities. In particular, large asset owners should pro-actively consider and clearly specify issues and principles to be required in conducting stewardship activities, including the exercise of voting rights, keeping in mind their positions and roles in the investment chain, instead of mechanically accepting asset managers' policies without any verification.	
		1-5 Asset owners should monitor whether their asset managers conduct stewardship activities in line with asset owners' policies, for example, making use of asset managers' self-evaluations. In conducting such monitoring, asset owners should put emphasis on the "quality" of dialogs between asset managers and investee companies, etc., instead of mechanically checking factors such as the number of meetings held between them and the duration of such meetings.	
2	Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.	2-1 Institutional investors should put the interests of their clients and beneficiaries first in conducting stewardship activities. On the other hand, they inevitably face the emergence of conflicts of interest from time to time, for example when voting on matters affecting both the business group the institutional investor belongs to and a client or beneficiary. It is important for institutional investors to appropriately manage such conflicts of interest.	Yes
		2-2 Institutional investors should put in place and publicly disclose a clear policy on how they effectively manage key categories of possible conflicts of interest. In particular, asset managers should identify specific circumstances that may give rise to conflicts of interest which may significantly influence the exercise of voting rights and/or dialog with companies, and set out and disclose specific policies on measures for effectively eliminating the influence of such conflicts including avoiding such conflicts, thus securing the interests of clients and beneficiaries.	Yes
		2-3 Asset managers should establish governance structures, such as an independent board of directors or third party committees for decision-making or oversight of voting, in order to secure the interests of clients and beneficiaries and prevent conflicts of interest.	Yes
		2-4 The management of asset managers should recognize that they themselves have important roles and responsibilities in strengthening the governance of asset managers and managing conflicts of interest, and should take action on such issues.	Yes
3	Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies.	3-1 Institutional investors should appropriately monitor investee companies so that institutional investors can fulfill their stewardship responsibility with the aim of enhancing medium- to long-term corporate value and capital efficiency, and supporting the sustainable growth of the companies.	Yes
		3-2 Institutional investors should monitor investee companies continuously and review as appropriate the effectiveness of the monitoring.	Yes
		3-3 When investors monitor investee companies, a variety of factors, including non-financial ones, may be considered as relevant. Factors may include, for example, the investee companies' governance, strategy, performance, capital structure, business risks and opportunities (including risks and opportunities arising from social and environmental matters), and how the companies address them. Relevance of a factor may depend on each investor's investment management strategy and may differ according to specific investee companies. Institutional investors need to use their own judgment in choosing which factors to focus on in light of their stewardship responsibilities. They should endeavor to identify at an early stage issues that may result in a material loss in the value of investee companies.	Yes
4	Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.	4-1 Institutional investors should endeavor to arrive at common understandings with investee companies through constructive dialog with the aim of enhancing the companies' medium- to long-term value and capital efficiency, and promoting their sustainable growth. In case a risk of possible loss in corporate value is identified through the monitoring of and dialogs with companies, institutional investors should endeavor to arrive at a more in-depth common understanding by requesting further explanation from the companies, and to solve problems.	Yes
		4-2 Because passive management provides limited options to sell investee companies' shares, and must promote their medium- to long-term increase in corporate value, institutional investors should actively take charge of engagement and voting from a medium- to long-term perspective.	Yes
		4-3 Institutional investors should have a clear policy in advance on how they design dialogs with investee companies in various possible situations.	Yes
		4-4 In addition to institutional investors engaging with investee companies independently, it would be beneficial for them to engage with investee companies in collaboration with other institutional investors (organizational engagement) as necessary.	Yes
		4-5 In principle, institutional investors can have constructive dialogs with investee companies based on public information, without receiving information on undisclosed material facts. The "G20/OECD Principles of Corporate Governance" and the Tokyo Stock Exchange's "Japan's Corporate Governance Code" set the principle of the equitable treatment of shareholders, which applies to the handling of undisclosed material facts. Institutional investors that have dialogs with investee companies should be aware that the companies are expected to abide by the principle and should in essence be discreet in receiving information on undisclosed material facts.	Yes
5	Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies.	5-1 Institutional investors should seek to vote on all shares held. They should decide on votes in light of the results of the monitoring of investee companies and dialogs with them.	Yes
		5-2 Institutional investors should have a clear policy on voting and publicly disclose it. The policy should not be comprised only of a mechanical checklist; it should be designed to contribute to sustainable growth of the investee company.	Yes
		5-3 Institutional investors should at a minimum aggregate the voting records into each major kind of proposal, and publicly disclose them. Furthermore, to enhance visibility of the consistency of their voting activities with their stewardship policy, institutional investors should disclose voting records for each investee company on an individual agenda item basis. If there is a reason to believe it is inappropriate to disclose such company-specific voting records on an individual agenda item basis due to the specific circumstances of an institutional investor, the investor should pro-actively explain the reason. At the time of their voting records disclosures, it is also considered beneficial in enhancing visibility for institutional investors, to explicitly explain the reasons why they voted "for" or "against" an agenda item.	Yes
		5-4 When institutional investors use the service of proxy advisors, it is important that they not mechanically depend on the advice of such proxy advisors, but take into consideration the particular circumstances of the investee company. When disclosing their voting activities, institutional investors using the service of proxy advisors should publicly disclose the fact that they are using such proxy advisors, and how they utilize the service.	Yes
		5-5 Proxy advisors should invest management resources sufficient to appropriately review the conditions of companies, and provide appropriate services while making sure that they themselves adhere to the principles of the Code, including guidance. Furthermore, proxy advisors should disclose their own efforts with respect to matters such as work structures, conflicts of interest, and their process of developing advice.	
6	Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.	6-1 Asset managers should in principle report periodically to their direct clients on how they fulfill their stewardship responsibilities through their stewardship activities.	Yes
		6-2 Asset owners should in principle report at least once a year to their beneficiaries on their stewardship policy and on how the policy is implemented.	
		6-3 When reporting to their clients and beneficiaries, institutional investors should choose the format and the content of the reports in light of any relevant agreement with the recipients and the recipients' convenience, and the costs associated with the reporting, and should aim to deliver effective and efficient reports.	Yes
		6-4 Institutional investors should maintain a clear record of their stewardship activities, including voting activities, to the extent necessary to fulfill their stewardship responsibilities.	Yes
7	To contribute positively to the sustainable growth of investee companies, institutional investors should have in-depth knowledge of the investee companies and their business environment, and the skills and resources needed to appropriately engage with the companies and make proper judgments in fulfilling their stewardship activities.	7-1 To make dialogs with investee companies constructive and beneficial, and to contribute to the sustainable growth of the companies, institutional investors should develop the skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the companies and their business environment. Institutional investors should have the necessary internal structure for having appropriate engagements and making proper judgments.	Yes
		7-2 In particular, the management of institutional investors should have appropriate capability and experience to effectively fulfill their stewardship responsibilities, and should be constituted independently and without bias, in particular from their affiliated financial groups. The management of institutional investors should also recognize that they themselves have important roles and responsibilities to carry out stewardship activities, such as enhancing dialogs, structuring their organizations and developing human resources, and taking action on these issues.	Yes
		7-3 Exchanging views with other investors and having a forum for that purpose may help institutional investors conduct better engagement with investee companies and make better judgments.	Yes
		7-4 Institutional investors should endeavor to improve their policies based on the Code and the quality of their stewardship activities by reviewing at appropriate times the status of their implementation of each principle, including guidance. In particular, asset managers should regularly conduct self-evaluations with respect to the status of their implementation of each principle, including guidance, and disclose the results of such evaluations in order to make continuous improvements to their governance structures, conflicts of interest management, and stewardship activities, etc.	Yes
8	Service providers for institutional investors should endeavor to contribute to the enhancement of the functions of the entire investment chain by appropriately providing services for institutional investors to fulfill their stewardship responsibilities.	8-1 Service providers for institutional investors including proxy advisors and investment consultants for pensions should identify specific circumstances that may give rise to conflicts of interest, put in place a clear policy how to manage them effectively, develop structures for conflicts of interest management, and disclose such measures.	
		8-2 Proxy advisors should develop appropriate and sufficient human and operational resources, including setting up a business establishment in Japan in order to provide asset managers with proxy recommendations based on accurate information on specific companies. They should also disclose with specificity the voting recommendation process, including the above measures to assure transparency.	
		8-3 In providing proxy recommendations, proxy advisors should rely upon corporate disclosure, and actively exchange views with companies upon necessity. Upon the request from a company that is the subject of a proxy recommendation, it is considered to contribute to secure accuracy of the information that is the basis for the recommendation and transparency that the proxy advisors provide the company with an opportunity to confirm whether such information is accurate, etc., and provide the submitted opinion of the company to their clients together with the recommendation.	