

Environmental Disclosure in 2025

October 2025



Sumitomo Mitsui DS Asset Management (hereinafter "SMDAM") has been disclosing information based on the "Taskforce on Climate-Related Financial Disclosures (TCFD)" since 2021. Starting in 2024, we have integrated our previous "climate-related disclosures" with "natural capital disclosures" into a unified "Environmental Disclosure".

1. Environmental Policy

We promote environmental initiatives such as addressing climate change and preserving natural capital.

Our Approach to the "Environment"

In 2020, we announced the "Principles of Fiduciary Duties and Sustainability" which serve as the foundation of our corporate activities. We firmly recognize that "responding to climate change" and "preserving natural capital" are critical elements for a sustainable future. As a responsible corporate citizen, we operate our business with consideration for the environment and diversity, actively participating in activities that contribute to the healthy development of local communities, thereby supporting the realization of a sustainable society.

Climate Change Policy

In December 2019, we expressed our support for the TCFD. As an asset management company, we analyze the impact of climate change on investee companies from both risk and opportunity perspectives, aiming to provide clients with high-quality long-term investment returns. At the same time, through engagement, we support innovation and transitions at investee companies aimed at reducing Greenhouse Gas (GHG)* emissions, thereby contributing to the realization of a sustainable society.

Natural Capital Policy

In January 2024, we registered as one of the "Taskforce on Nature-related Financial Disclosures (TNFD) Adopters". As a responsible institutional investor, we support efforts to disclose information on "natural capital" related to investee companies in line with TNFD's disclosure recommendations, working towards the achievement of Japan's national strategy of being nature-positive by 2030. Through these efforts, we aim to enhance corporate value.

* Greenhouse Gases (GHGs) are Carbon Dioxide, Methane, Dinitrogen Monoxide and Specified Fluorine Compounds.

General Disclosure Requirements

	Climate Change	Natural Capital
Reporting Period	● Initiatives from April 2024 to March 2025, as well as future plans ● Disclosure data is based on our portfolio as of the end of March 2025	
Reporting Organization	● SMDAM parent company only	
Reporting Frequency	● SMDAM's governance, strategy, risk management, indicators and targets will be regularly disclosed on an annual basis.	
Target Period	● We are disclosing information based on TCFD from 2021. ● We monitor progress toward net-zero targets over a long-term timeframe.	● The short-medium-term, and long-term timeframes for assessing risks and opportunities are as follows. Short-Medium-term (1-5 years): - We will enhance our analysis to avoid and mitigate nature-related risks. Based on the LEAP** approach, we will identify priority areas with high natural capital risks (e.g., water, ecosystems, biodiversity) and evaluate whether investee companies are exposed to risks related to the availability of natural capital through their supply chains, or if they are causing negative impacts. - We will respond promptly to immediate risks that require action, such as urgent risks of supply chain disruptions due to natural capital dependencies. - Additionally, we will analyze transition risks, including stricter regulations on natural capital and the conclusion of new international agreements. Long-term (more than 5 years): - We will work toward achieving "nature positive" goals by maintaining biodiversity and conserving ecosystems.

** LEAP is the analytical approach introduced by TNFD, consisting of four processes: Locate, Evaluate, Assess, and Prepare.

	Climate Change	Natural Capital
Materiality Application	● Single materiality. ● We will assess and disclose the risks and opportunities that climate change poses to our business and financial/non-financial aspects.	● Double materiality. ● In addition to our dependence on natural capital, we assess and disclose both the risks and opportunities associated with our impact on natural capital.
Assessment & Disclosure Targets	● The GHG emissions for SMDAM's Scope 3, Category 15, will be assessed and disclosed. Specifically, we will evaluate and disclose the GHG emissions of our investee companies within the assets under our management, as Category 15 of Scope 3 holds significant importance.	● In accordance with the TNFD guidance for financial institutions, we will assess and disclose the impact of our investment activities and assets. ● We recognize the importance of analyzing indirect dependencies and impacts resulting from the entire supply chain and corporate activities, such as the procurement of raw materials, product use, and disposal. As data availability improves, we will consider expanding our disclosure to cover the entire supply chain.
[Reference] Direct Impact as a Corporate Entity	● Our direct GHG emissions are limited. For SMDAM's Scope 1 & 2, the 2024 fiscal year preliminary GHG emissions amounted to 298 tCO₂e (well below 0.01% of Scope 3, Category 15). This amount decreased compared to 2019 fiscal year through the purchase of renewable energy certificates. ● For SMDAM's Scope 3, aside from Category 15, we measure GHG emissions from Category 6 (GHG emissions from employee business travel) and Category 7 (GHG emissions from employee commuting), with a total of 1,249 tCO₂e recorded in the 2023 fiscal year. Both GHG emission volumes remain minimal.	● Our direct impact related to natural capital is excluded from our assessment and disclosure. - We consider the direct impact our business activities have on natural capital, such as water usage, energy consumption, and land use, to be of low significance. - As for locations, we use leased offices, including our headquarters, where the risk of ecosystem destruction is minimal.
Assets Under Management (AUM)	● As of the end of March 2025, the total assets under management entrusted to our company amounted to 63 billion USD in investment management and 94 billion USD in investment trusts (both on a market value basis, rounded to the nearest unit).	

	Climate Change	Natural Capital
Portfolio Subject to Indicator Measurement	● We define the “Portfolio Subject to Indicator Measurement” as the portion of our AUM invested in Japanese equities, foreign equities, Japanese fixed incomes, and foreign fixed incomes, which are either managed internally or externally and for which metric measurement of investee companies is possible. ● As of the end of March 2025, this portfolio represents approximately 66% of our total AUM.	
Region	● We have not yet disclosed the regions where investee companies emit GHGs, or the regions impacted by those emissions. However, for transition risks and physical risks, we identify high-risk countries based on site data from investee companies.	● For the direct operational sites of investee companies, we focus on geographic locations that have an interaction with nature as a key aspect of evaluating nature-related issues. ● We prioritize disclosing cases where we assess that the negative impact on natural capital is severe. ● Evaluating geographic impacts across the value chain remains a challenge for the future.
Stakeholder Engagement	● We engage in dialogue and receive feedback from stakeholders interested in climate change disclosures, such as NGOs and other institutional investors.	● In the evaluation of natural capital, we conduct the following two points: - Monitoring the status of direct engagement between investee companies and indigenous peoples or local communities - Monitoring the risk of negative impacts on indigenous peoples or local communities related to natural capital, based on third-party evaluations such as natural capital assessments from CDP reporting or sustainability data vendors' evaluations of natural capital related to investee companies ● However, we are not currently able to engage directly with indigenous peoples or local communities.

Our Materiality

We define materiality as "key issues that we, as an asset management company, should proactively address". By tackling these material issues, we aim to realize our vision of becoming "the best asset management company contributing to the Quality of Life (QOL)," while also striving to solve social challenges that lead to improved QOL.

Regarding environmental matters, we have identified "climate change" and "natural capital" as material issues in our asset management business, and "environmentally conscious business operations" as material issues for our corporate activities. We regularly review "Our Materiality" to reflect the needs and expectations of stakeholders.

<https://www.smd-am.co.jp/english/corporate/vision/fiduciary/01/>

2. Governance

We are strengthening our environmental governance.

Our Approach to Environmental Governance

If we fail to appropriately address environmental risks, it could potentially impact our business operations depending on how we respond to such issues. To proactively prevent such situations, the following environmental governance framework has been established across SMDAM:

- Supervision of environmental-related business execution and advice on execution by the Board of Directors
- Decision-making on environmental policies and execution of business by the CEO and executive officers at management meetings
- Reporting and discussion at the practical level in the Sustainability Promotion Subcommittee

Supervision and Advice by the Board of Directors

The Board of Directors supervises and provides advice on environmental matters.

The Board receives reports on environmental issues at least once a year and conducts ongoing supervision. Based on these reports, the Board advises the executive team on the review of appropriate action plans and risk management.



Strategic Execution by the Management Meeting

In accordance with the "Principles of Fiduciary Duties and Sustainability", the company-wide strategic decisions and business execution related to sustainability, including environmental matters, are conducted under the responsibility of the CEO. For the incorporation of environmental factors in asset management operations, each executive in charge of the respective asset management divisions exercises leadership. The Responsible Investment Officer oversees stewardship activities related to the environment, while each executive in the sales and product divisions manages reputational risks associated with investment products. In terms of our own environmental risks and opportunities, the executive in charge of corporate functions provides leadership, ensuring prompt individual responses.

Role of the Sustainability Promotion Subcommittee

The Sustainability Promotion Subcommittee is composed of internal director, executive officer in charge of sustainability, and department heads responsible for promoting sustainability initiatives.

The subcommittee aims to promote activities that align with both the interests of our stakeholders and sustainability. In its meetings, the following activities are conducted:

- Analysis of risks and opportunities related to climate change and natural capital.
- Review of the status of sustainability initiatives, including Sustainability KPIs and achievements based on "Principles of Fiduciary Duties and Sustainability."
- Discussions on business execution plans for risk reduction and the creation of business opportunities related to climate change and natural capital.
- Providing internal training to enhance expertise and awareness related to environmental issues.



Introduction of Sustainability Compensation

Portfolio managers are expected not only to deliver investment returns but also to contribute to the realization of a sustainable society. In determining their compensation, we place emphasis on quantitative evaluations based on medium-term performance over a period of three to five years, within a framework that also takes into account the sustainability of investment targets.

Furthermore, starting in fiscal year 2024, we introduced a sustainability compensation system for executive officers. Specifically, a certain percentage of executive officers' compensation is linked to "transparent indicators based on performance metrics for sustainability KPIs, such as carbon footprint reduction". This aims to accelerate the promotion and execution of sustainability activities.

Human Rights Policy Contributing to Solving Environmental Issues

We respect human rights based on our "Human Rights Policy".

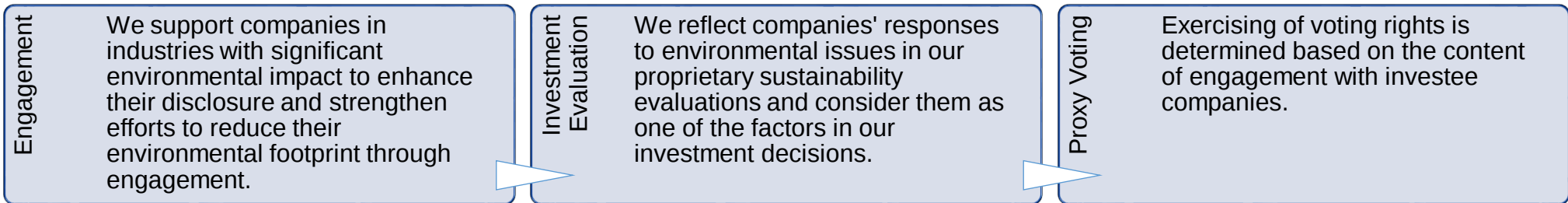
Human Rights Policy	● In 2021, we established our "Human Rights Policy" in line with international standards such as the "United Nations Guiding Principles on Business and Human Rights". ● Human rights violations are closely correlated with environmental pollution and destruction. We strive to ensure that the activities of our investee companies do not lead to environmental pollution or destruction, thereby infringing on basic human rights, such as the right to life. We pay particular attention to human rights violations within the value chains of investee companies.
Response in Asset Management Operations	● In our internal asset management, we consider human rights issues related to the environment as important non-financial information. If there are areas for improvement, we encourage appropriate actions through engagement. ● For external asset management providers and other contractors, we require appropriate actions to prevent environmental-related human rights violations and fulfill our responsibilities through the implementation of human rights due diligence.
Consideration for Stakeholders	● We believe it is necessary to deepen cooperation with indigenous peoples and local communities and work together on environmental issues. Going forward, we will seek opportunities to collaborate with these communities and learn from their knowledge to achieve effective environmental conservation. ● In July 2025, we began utilizing the "Engagement and Remedy Platform" operated and provided by the Japan Center for Engagement and Remedy on Business and Human Rights (JaCER), through Sumitomo Mitsui Financial Group. This initiative is aimed at addressing potential human rights violations by our officers and employees toward external business partners and other stakeholders. The platform serves as a comprehensive grievance mechanism to receive human rights-related complaints from a wide range of stakeholders, investigate the claims, consider appropriate response policies, and implement remedial measures through dialogue.

The results of our annual human rights due diligence are disclosed on our website.

<https://www.smd-am.co.jp/english/corporate/vision/fiduciary/02/>

Environmental Execution in Asset Management Operations

In asset management, we engage with investee companies, evaluate investments, and exercise voting rights to fulfill our responsibilities to our clients. As stated in our “Human Rights Policy”, we respect indigenous peoples and local communities, and we ensure that our investment activities prevent environmental pollution or destruction, which could negatively impact these communities or our business.



Environmental Execution as an Operating Company

In 2021, we established the "Sustainable Procurement Policy", and when procuring goods, we consider environmental conservation and reducing environmental impact, such as avoiding plastic, using recycled products, and selecting materials free from harmful substances. Additionally, to strengthen nature-positive activities, the Corporate Sustainability Department, which serves as the secretariat for the Sustainability Promotion Subcommittee, conducts the following practical initiatives.

Social Contribution Activities

- Awareness-raising through donation activities ("QOL Fund").
- Forest conservation activities in collaboration with NGOs.
- Provision of “Blue Seafood Bento” at SMDAM company store.

Internal Training Programs to Raise Environmental Awareness

- GHG emission reduction
- Reduction of food waste.
- Prevention of plastic pollution.

Paperless Initiatives

- Reduction of multifunction printer units.
- Organizing documents stored in external warehouses.
- Reduction of document storage cabinets.

3. Climate Change-related Strategy

We recognize the following "risks and opportunities", "impacts on business" and "financial and non-financial impacts" related to climate change.

(1) Climate Change Risks and Opportunities

Risks	● A decrease in the value of managed assets due to a global equity market decline caused by economic losses from global warming. ● A deterioration in the relative investment performance due to the negative impact on our investee companies as they transition to a decarbonized economy. ● An increase in reputational risk if our investment activities are deemed inappropriate from the perspective of GHG emissions reduction, or if our investment products are perceived as "greenwashing". ● Increased costs due to responding to stricter regulations related to climate change disclosures both domestically and internationally and procuring renewable energy to reduce our own GHG emissions.
Opportunities	● An increase in new investment opportunities in companies with innovative technologies that contribute to the transition to a decarbonized economy, or companies expected to grow through business model transformation. ● Improved relative investment performance through enhanced capabilities in researching and analyzing non-financial information, such as efforts to address climate change issues. ● Expanded business opportunities driven by growing investor demand for investment products themed around solving or adapting to climate change.

(2) Impact on Business

Asset Management	● We incorporate sustainability considerations into the management of all our active investment products. In light of the increasing importance of non-financial information, including climate change, we are committed to further improving investment performance through qualitative and quantitative research and analysis on the impact of non-financial information on equity and fixed income prices. ● As a responsible institutional investor, we support the smooth transition to a decarbonized society and the commercialization of innovations that address climate change by engaging in dialogue with investee companies.
Product Development	● We strive to develop and provide investment products that respond to changes in customer needs, such as products that integrate sustainability consistently into the investment process and products aimed at improving sustainability. ● We pay close attention to ensure that fund names and disclosures do not mislead our customers.
Business Operations	● Our goal is to achieve net-zero GHG emissions (SMDAM's Scope 1 & 2) by 2030. To reduce energy consumption, we promote efficient use of office space, procure renewable energy, and encourage paperless initiatives.

(3) Financial and Non-Financial Impacts

Financial Impacts	● As an operating company, we do not own production facilities that emit GHGs, and we do not foresee significant transition risks related to our operations. Additionally, since our business operations are conducted from relatively small, leased offices, we do not anticipate major physical risks related to climate change. While the shift to renewable energy necessary to achieve net-zero emissions (SMDAM's Scope 1 & 2) by 2030 may increase costs, we expect the financial impact to be relatively minor. ● In our asset management business, we make efforts to ensure that the environmental performance of investee companies does not negatively impact our clients' trust assets.
Non-Financial Impacts	● We aim to enhance the value of our non-financial assets, such as customer assets and brand equity, by earning the understanding and trust of our key stakeholders, including customers and society, through proactive environmental initiatives.

4. Natural Capital-related Strategy

We recognize the following regarding "Dependencies and Impacts", "Risks and Opportunities", "Business Impacts," and "Financial and Non-financial Impacts" related to natural capital.

(1) Interface with Nature Locate

The table shows sector-specific totals calculated by multiplying our investment ratio by the proportion of each investee company's assets or operations that are associated with nature and biodiversity risks, to indicate whether the companies in the assessed portfolio are linked to regions with high nature and biodiversity risks.

From the perspective of assets located in regions facing high water stress, sectors with higher risks include so-called heavy industries such as Materials, Automobiles, and Capital Goods.

In the Materials sector, a high proportion of operations were also found in business areas that have significant impacts on terrestrial and marine ecosystems.

Sectors with significant exposure to natural capital through assets and direct operations

	Assets in geographies facing high water stress	Operations in business segments with high potential disturbances to land and marine areas	Operations located in geographies with highly fragile ecosystems
Materials			
Automobiles & Components			
Capital Goods			
Consumer Durables & Apparel			
Semiconductors & Semiconductor Equipment			
Utilities			
Consumer Services			
Pharmaceuticals, Biotechnology & Life Sciences			
Real Estate Management & Development			
Food, Beverage & Tobacco			
Equity Real Estate Investment Trusts (REITs)			
Household & Personal Products			
Transportation			
Consumer Staples Distribution & Retail			

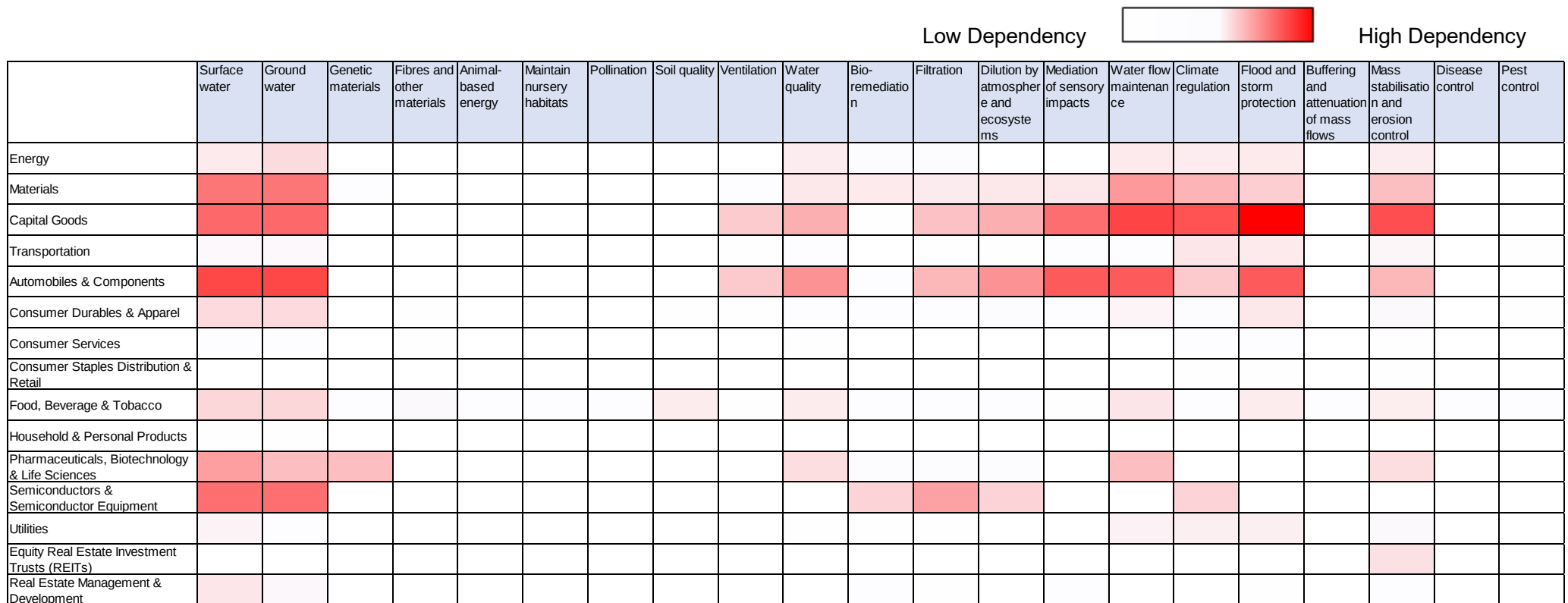
(Source) Prepared by Sumitomo Mitsui DS Asset Management based on MSCI data (Please refer to Disclaimer)

(2) Dependencies and Impacts of Natural Capital Evaluate

We analyzed the dependencies and impacts related to natural capital for the "Portfolio Subject to Indicator Measurement" by sector, using ENCORE, a dataset on natural capital provided by UNEP Natural Capital Finance Alliance. The sector-specific heat map was created as follows:

	page	Calculation
GICS sub-sector	P13~14,16~17	Calculated the maximum value of the [Dependency/Impact Score] for each GICS sub-sector category. => Value1
GICS sector	P12,15	Calculated the weighted average of Value1 by GICS sector, based on the sub-sector weights for each category.

Heat Map of the "Portfolio Subject to Indicator Measurement" Dependence on Natural Capital



	Surface water	Ground water	Genetic materials	Fibres and other materials	Animal-based energy	Maintain nursery habitats	Pollination	Soil quality	Ventilation	Water quality	Bio-remediation	Filtration	Dilution by atmosphere and ecosystems	Mediation of sensory impacts	Water flow maintenance	Climate regulation	Flood and storm protection	Buffering and attenuation of mass flows	Mass stabilisation and erosion control	Disease control	Pest control
Energy																					
Oil, Gas & Consumable Fuels																					
Materials																					
Chemicals																					
Metals & Mining																					
Construction Materials																					
Paper & Forest Products																					
Containers & Packaging																					
Capital Goods																					
Construction & Engineering																					
Transportation																					
Transportation Infrastructure																					
Marine Transportation																					
Air Freight & Logistics																					
Ground Transportation																					
Passenger Airlines																					
Automobiles & Components																					
Automobiles																					
Automobile Components																					
Consumer Durables & Apparel																					
Household Durables																					
Textiles, Apparel & Luxury Goods																					
Consumer Services																					
Hotels, Restaurants & Leisure																					
Consumer Staples Distribution & Retail																					
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Food, Beverage & Tobacco																					
Tobacco																					
Beverages																					
Food Products																					

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Household & Personal Products																					
Personal Care Products																					
Household Products																					
Pharmaceuticals, Biotechnology & Life Sciences																					
Biotechnology																					
Pharmaceuticals																					
Semiconductors & Semiconductor Equipment																					
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Utilities																					
Gas Utilities																					
Water Utilities																					
Multi-Utilities																					
Electric Utilities																					
Independent Power & Renewable Electricity Producers																					
Equity Real Estate Investment Trusts (REITs)																					
Office REITs																					
Health Care REITs																					
Hotel & Resort REITs																					
Diversified REITs																					
Industrial REITs																					
Residential REITs																					
Specialized REITs																					
Retail REITs																					
Real Estate Management & Development																					
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Heat Map of the “Portfolio Subject to Indicator Measurement” Impact on Natural Capital

Weak Impact  Strong Impact

	Terrestrial ecosystem use	Freshwater ecosystem use	Marine ecosystem use	GHG emissions	Water use	Other resource use	Solid waste	Non-GHG air pollutants	Soil pollutants	Water pollutants	Disturbances	Biological interferences /alterations
Energy												
Materials												
Capital Goods												
Transportation												
Automobiles & Components												
Consumer Durables & Apparel												
Consumer Services												
Consumer Staples Distribution & Retail												
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Transportation Infrastructure												
Marine Transportation												
Air Freight & Logistics												
Ground Transportation												
Passenger Airlines												
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Retail REITs												
Real Estate Management & Development												
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(3) Risks and Opportunities Related to Natural Capital Assess

(3-1) Sector-based Approach; We have identified the following sectors and sub-sectors as critical, based on heat maps that indicate the importance of their dependency on, and impact on, nature.

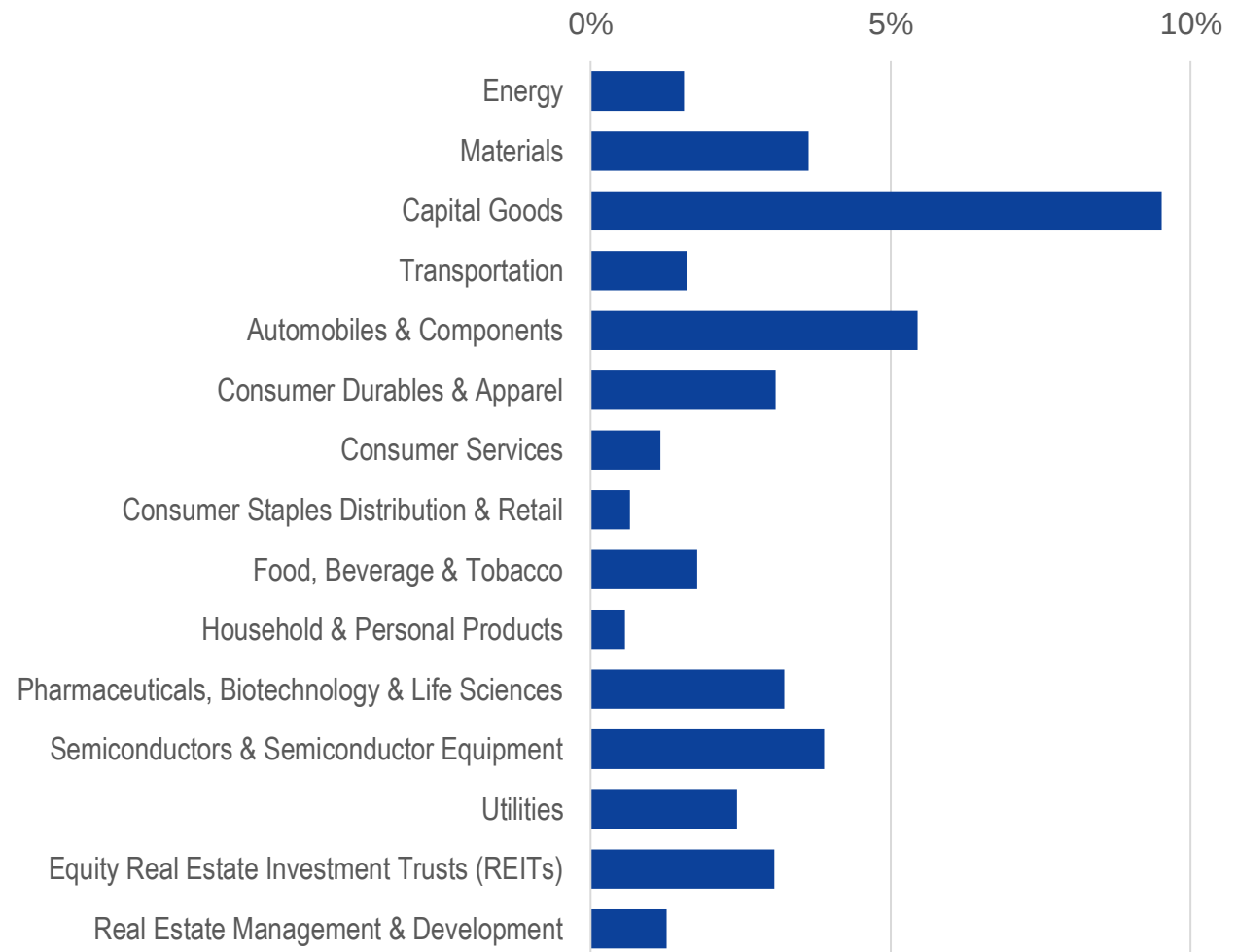
Among all ecosystem services, **“Water”** emerged as the most significant in terms of both dependency and impact, specifically concerning dependency on surface water and groundwater, and the impact of water use and water pollutants.

Sectors demonstrating high dependency on and impact on water include “Materials,” Automobiles & Components, and Semiconductors” & “Semiconductor Equipment”. Additionally, “Food, Beverage & Tobacco” and “Pharmaceuticals, Biotechnology & Life Sciences” exhibit significant impacts on water.

The sector weights are shown in the figure on the right. It is important to note that the GICS sub-sectors used in this analysis are aligned with those defined under “Exposure to Sectors” in the core disclosure indicators for the financial sector.



Exposure to Sectors (as of the end of March 2025)



Sector	Sub- Sector	Dependencies / Impacts	Description
Automobiles & Components	Automobiles & Components	[Dependencies] ● Surface water ● Ground water ● Water quality ● Mediation of sensory impacts [Impacts] ● GHG emissions ● Water use ● Solid waste ● Soil pollutants ● Water pollutants	● The processes of casting, forging, machining, heat treatment, surface treatment, and painting all rely on water resources. ● Automobiles are increasingly being restricted in city centers, residential areas, and nature reserves due to exhaust emissions and noise from engines and road surfaces. The automotive industry is expected to invest in ecosystem conservation projects for “Mediation of sensory” impacts, along with initiatives such as the shift to EVs, the use of sound-absorbing and vibration-damping materials, and improvements in suspension systems. ● In addition to traditional measures such as reducing emissions, managing hazardous substances, and improving energy efficiency, the prevention of environmental pollution now also requires initiatives aimed at reducing negative impacts on nature. These include sourcing sustainable raw materials, increasing recycling rates, and transitioning to renewable energy.
Semiconductors & Semiconductor Equipment	Semiconductors & Semiconductor Equipment	[Dependencies] ● Surface water ● Ground water [Impacts] ● GHG emissions ● Water use ● Soil pollutants ● Water pollutants	● In the semiconductor and electronic components industries, large amounts of water are required for cleaning in the photolithography, etching, and polishing processes. A significant amount of water is also used in chemical treatment processes. Without high-quality surface water or groundwater, production cannot be sustained. ● Furthermore, water is needed for cooling data centers, where semiconductors and electronic components are heavily utilized, and the operation of AI requires large amounts of electricity, leading to enormous water dependence in power generation. Naturally, this also results in negative impacts such as increased GHG emissions from power generation. ● Regarding the negative impacts of water in semiconductor and electronic components production, attention must be paid to water pollution caused by harmful chemicals and toxic metals through wastewater or leaks. On the other hand, the development of advanced water treatment technologies that mitigate these negative impacts can be seen as a business opportunity, providing a competitive technological advantage.

Sector	Sub- Sector	Dependencies / Impacts	Description
Materials	Chemicals	[Dependencies] ● Surface water ● Ground water [Impacts] ● Terrestrial ecosystem use ● GHG emissions ● Water use	● Chemical plants use large amounts of water in their manufacturing processes. For inland plants, the excessive use of river water or groundwater poses a significant risk of causing damage to ecosystems. ● Wastewater from chemical plants may contain organic compounds, heavy metals, acidic or alkaline substances, and toxic chemicals, which can directly pollute water resources. ● Plastic waste presents a clear threat to ecosystems. Marine plastic, in particular, breaks down into microplastics, which have severe impacts on marine ecosystems.
Pharmaceuticals, Biotechnology & Life Sciences	Pharmaceuticals	[Impacts] ● Soil pollutants ● Water pollutants	● There is a risk of water pollution from antibiotics and hormones, as well as soil contamination from waste.
Food, Beverage & Tobacco	Food Products Beverages	[Impacts] ● Terrestrial ecosystem use ● Freshwater ecosystem use ● Marine ecosystem use	● Deforestation aimed at increasing the production of soybeans, palm oil, and beef has a clear negative impact on ecosystems. Large-scale deforestation of tropical rainforests is occurring. ● Fertilizers cause eutrophication and chemical pollution of rivers and oceans, resulting in negative impacts on freshwater and marine ecosystems.

We have identified the following natural capital-related risks and opportunities for sectors with high importance in terms of dependency and impact.

Dependencies / Impacts	Sub- Sector	Risks	Opportunities
[Dependencies] Surface water Ground water	● Automobiles ● Automobile Components ● Semiconductors & Semiconductor Equipment	● Surface water and groundwater are heavily used in processes like cooling in heat treatment facilities and parts cleaning. If a sufficient amount of high-quality water cannot be secured, there is a risk of reduced production, production halts, or disruptions to the supply chain. ● There are risks related to regulations on water use and reputational risks.	● Optimal use of water ● Development of technologies to reduce the use of ultrapure water ● Water source conservation through collective action, leading to strengthened relationships with stakeholders
[Impacts] Soil pollutants Water pollutants	● Pharmaceuticals	● If chemicals, solvents, or oils are discharged in excess of sewage treatment capacity, or if contamination occurs from hazardous chemicals or heavy metals (with PFAS being a major global concern), the cost of remediation could become enormous, potentially making it impossible to continue business operations.	● Advancement of water recycling technologies ● Introduction of environmentally friendly chemical synthesis methods ● Development of recycling infrastructure
[Impacts] GHG emissions	● Semiconductors & Semiconductor Equipment	● With the expansion of AI, electricity consumption is skyrocketing, and the limited capacity for power generation from renewable energy, which has lower GHG emissions, presents a risk of growth constraints. ● Increasing costs due to the rising use of fluorinated gases in manufacturing processes.	● Development of high-efficiency devices with low power consumption
[Impacts] Solid waste	● Automobiles ● Automobile Components ● Chemicals	● Waste issues such as pollution from the recycling of used EV batteries, the disposal of shredder dust, and marine plastic pollution pose a risk of losing consumer trust and brand damage, directly leading to exclusion from markets in environmentally conscious countries or regions.	● Establishment of waste collection routes ● Development of efficient waste processing technologies ● Development of low-cost alternative raw materials

[Impacts] Terrestrial ecosystem use Freshwater ecosystem use Marine ecosystem use	● Food Products ● Beverages	● The loss of biodiversity due to deforestation and pesticide use may lead to rising raw material costs. ● Environmental burdens from plastic packaging and waste could result in a loss of consumer trust, which may lead to brand exclusion and loss of competitiveness.	● Investment in new products ● New technologies (soy meat, alternative meat) ● Simplification of packaging
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(3-2) Product-based Approach

We present the natural capital exposure in areas we consider important. The dependency on and impact on nature are based on ENCORE descriptions.

Risk Factors	Description	Dependencies / Impacts on Natural Capital	Our Response
Fossil Fuels and Metals (Resource Development)	● Fossil fuels and minerals themselves are capital provided by nature. The improper and wasteful use of these resources directly leads to the degradation of natural capital. ● Indirectly, the extraction of fossil fuels and minerals carries risks such as deforestation, river pollution, topsoil erosion, and soil contamination. ● There is a particularly critical need to pay attention to the risks that land acquisition for resource development and environmental pollution pose to the safety, health, and hygiene of indigenous peoples and local communities.	● Resource development has severe impacts on ecosystems, destroying the habitats of plants and animals and causing a loss of biodiversity. ● Water pollution and the depletion of groundwater have significant impacts on local communities and agriculture. ● Soil contamination could make agriculture impossible, affecting long-term food security. ● The extraction of fossil fuels directly emits GHGs into the atmosphere as associated gas, accelerating climate change. ● Major accidents at tailings dams or offshore oil fields could have devastating impacts on the natural environment and local communities.	● To mitigate risks, the following recommendations should be made to resource development companies: - Assess environmental impacts and take preventive measures. - Develop environmentally friendly technologies. - Comply with environmental laws and regulations. - Cooperate with indigenous peoples, local communities, and other stakeholders, and make transparent decisions. - Natural Capital Accounting: Companies should incorporate the value of natural capital into their economic activities and quantify their environmental impact.

Risk Factors	Description	Dependencies / Impacts on Natural Capital	Our Response
Palm Oil	● Palm oil is an inexpensive ingredient widely used in various foods such as chocolate, cakes, potato chips, instant noodles, and frozen foods, making the food industry overly dependent on it. Palm oil plantations are concentrated in Indonesia and Malaysia. Depending on supply and demand conditions, palm oil may be repurposed as biomass fuel, potentially leading to a shortage for food use.	● Human rights risks arise from child labor and land appropriation at palm oil production sites. ● The negative environmental impacts of increased palm oil production include: - large-scale deforestation of tropical rainforests - encroachment on the habitats of endangered species such as orangutans.	● For investee companies that have a high dependence on palm oil, the following recommendations can help reduce risks: - Manage and supervise the use of palm oil certified by the Roundtable on Sustainable Palm Oil (RSPO), an NGO aimed at sustainable palm oil production and use. - Pay attention to human rights issues related to raw materials.
Alcohol	● With approximately 700 million people facing starvation worldwide, the waste of valuable grains such as wheat, corn, and rice for alcohol production poses a significant threat to our sustainability. Moreover, alcohol is said to be more addictive than cannabis and is a global cause of diseases, violence, and accidents. As a result, sustainability investments have prioritized prohibiting investments in "tobacco, pornography, and alcohol".	● The production of alcoholic beverages requires a significant amount of water for cleaning manufacturing tanks and piping. This could have serious implications for water supply, especially in Africa. ● Deforestation aimed at increasing the production of grains for alcohol, particularly in the Amazon region, is often conducted illegally and exacerbates global warming.	● For investee companies that have a high dependence on alcoholic beverages, the following recommendations can help reduce risks: - Reduce water usage. - Improve energy efficiency in manufacturing. - Promote awareness of responsible drinking habits. - Expand the sales of non-alcoholic beverages.

(4) Impact on Business Prepare

Asset Management	● In our asset management operations, we strive to ensure that the environmental performance of investee companies does not adversely affect our clients' trust assets. ● Decreased operational performance due to increased information costs. We will engage with investee companies based on the following perspectives, taking into account risks and opportunities related to natural capital: - Identify our own natural capital risks using the LEAP approach and demonstrate policies to avoid and mitigate these risks. - Make optimal decisions to materialize opportunities through the adoption of new technologies, accelerated research and development investments, and collaboration among companies. - Ensure appropriate disclosure of information regarding risks and opportunities related to natural capital. ● We will promote the resolution of issues related to natural capital through engagement with investee companies before excessive loss of revenue occurs. Furthermore, we will proactively respond to ensure that disclosure regulations in Europe and regulatory risks related to natural capital do not lead to the following operational constraints: - Loss of excess return opportunities due to overly restrictive investment constraints related to natural capital. - Loss of investment opportunities due to difficulty accessing information related to natural capital.
Product Development	● We will consider that "the benefits of biodiversity" and "economic benefits" can sometimes be in conflict when developing investment products. ● For instance, the following products may not be regarded as sustainable in the medium to long term. - Investment products that provide high economic benefits from land development while significantly destroying natural supply and regulatory services. - Investment products for projects with excessive environmental burdens, such as wind power that has a significant impact on birds and mega-solar projects that involve excessive deforestation. - Investment products involving resource extraction for renewable energy technologies that significantly infringe on the rights of indigenous peoples and local residents. ● We will pay careful attention to the appropriateness of investment product development and information disclosure to avoid negative impacts on all stakeholders, including nature and society.

Business Operations	● We recognize our dependence on nature and will avoid activities that negatively impact it as much as possible. - All human activities rely on the supply services of food and water provided by nature. - The human capital of SMDAM and our investee companies can thrive and perform at their best thanks to the mental well-being provided by nature. ● The business activities of investee companies depend on regulatory services such as flood control and pollution mitigation provided by nature.
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(5) Financial and Non-Financial Impacts Prepare

Financial Impacts	● As a business company, we believe that nature related transition risks are limited. - The direct operational risks related to nature are minimal, as it is almost impossible for us to have a base in the habitats of endangered species. - The impact of our business activities on nature is limited, and therefore, the effects of regulatory changes in various countries will be minor.
Non-Financial Impacts	● We aim to enhance the value of non-financial assets, such as customer assets and brand assets, by fostering understanding and trust from important stakeholders, including customers and society, regarding our proactive environmental initiatives. ● We will also strive to avoid reputational risks related to natural capital. ● We will revise relevant parts of our regulations if we deem it appropriate in response to laws and regulations related to nature.

5 Risk Management

We conduct appropriate evaluations and management regarding environmental risks.

(1) Evaluation of Climate Change Risks in Asset Management Operations

We assess the climate change risks of investee companies using our unique sustainability evaluation, assigning scores based on relative assessments within the same sector. Additionally, we engage primarily with industries that have high GHG emissions and companies that have significant room for improvement in their sustainability scores. In our major investment products, we measure climate change risks at the portfolio level, reviewing both the overall portfolio and the measurements of the investee companies included within it. We also assess transition and physical risks for the “Portfolio Subject to Indicator Measurement” using MSCI's analytical tool, CVar.

(2) Management of Climate Change Risks in Asset Management Operations

If climate change risk indicators are included in the investment guidelines for specific investment products, the investment department will manage them autonomously, similar to other constraints. Additionally, the risk management department will monitor compliance, and if thresholds are approached or breached, the investment department will be required to take necessary actions or determine corrective policies.

To achieve carbon neutrality, we are focusing on engagement that considers the interests of various stakeholders, while promoting “Just Transition Principles” and “Leave No One Behind”.



(3) Evaluation of Natural Capital Risks in Asset Management Operations

Utilizing the TNFD framework, we report annually starting in 2025 on indicators and activities related to natural capital from the following perspectives:

- Identify sectors and companies within the supply chain that have significant risks concerning natural capital, considering their dependencies, impacts, and geographical locations.
- Clarify monitoring indicators.
- Manage nature related risks.

Additionally, we will analyze the proportion of companies within the "Portfolio Subject to Indicator Measurement" that operate in regions threatening biodiversity using Morningstar Sustainalytics' "Principal Adverse Impacts Data Solution" on the environment and society and understand companies related to environmental breaches as indicated by "Product Involvement", establishing a foundation for making investment choices based on important non-financial information.

Parameter	2022	2023	2024
"Portfolio Subject to Indicator Measurement" exposure to companies operating in regions threatening biodiversity	4.3%	3.7%	3.4%
"Portfolio Subject to Indicator Measurement" exposure to companies whose operations affect threatened species or without a biodiversity protection policy covering operational sites owned, leased, managed in, or adjacent to, a protected area or an area of high biodiversity value outside protected areas	3.6%	2.2%	2.0%
"Portfolio Subject to Indicator Measurement" exposure to companies with carbon emission reduction initiatives	54%	61%	61%
"Portfolio Subject to Indicator Measurement" exposure to companies with water management policies *	85%	85%	52%
"Portfolio Subject to Indicator Measurement" exposure to companies with deforestation policies *	34%	19%	17%

* The time-series deterioration in figures due to the shift from 'Adaptation' to 'Non-Adaptation' for many Japanese and global high-tech companies, triggered by the stricter criteria for adaptation.

(Source) Morningstar Sustainalytics

(4) Management of Natural Capital Risks in Asset Management Business

Natural capital is a key element underlying economic activities. Until now, it has often been taken for granted; however, it has been pointed out that human economic activities are consuming it at an unsustainable rate, making it impossible to regenerate. As a result, companies that have a significant negative impact on the environment may face potential damage to their corporate value in the future due to legal violations or loss of consumer trust.

In light of this situation, we believe that reducing the burden on natural capital leads to corporate sustainability, and we will strive for active engagement with investee companies, focusing on priority sectors.

The Kunming-Montreal Global Biodiversity Framework (GBF) involves efforts by governments around the world, but we are also exploring short-, medium-, and long-term response measures to address the risks and opportunities related to natural capital, as follows:

Our Goals and Targets Based on the GBF Goal / Target		Our Response
Short term (2025)	● Reporting on disclosures of risks, dependencies and impacts on biodiversity based on TNFD	● We have disclosed our indicators and targets related to nature and biodiversity.
Middle term (2026~2030)	● Reduce pollution risks ● Minimize the impact of climate change ● Sustainable consumption and production ● Sustainable urbanization ● Contributions to biodiversity conservation and sustainable use	● We will actively engage with investee companies, focusing on priority sectors. ● We will deepen our engagement with investee companies to reduce emissions of pesticides, chemicals, and plastics, promote climate change adaptation through ecosystems, and encourage sustainable production and consumption, thereby reducing impacts on biodiversity. ● We will also enhance our awareness of the importance of biodiversity.
Long term (2031~2050)	● Increase the level of financial resources to implement national biodiversity strategies and action plans	● To ensure the conservation and sustainable use of biodiversity, we will play our role in enabling investee companies to effectively utilize the necessary funds and technologies.

6. Climate Change-related Indicators and Targets

We conduct analysis on the "Portfolio Subject to Indicator Measurement".

(1) Climate Change Indicators and Targets

We employ GHG emissions per million USD portfolio value (Carbon footprint) as an indicator and assist our investee companies in working toward a net-zero society.

Item	Description	Supplementary Notes
Portfolio Subject to Indicator Measurement	The portion of our AUM invested in Japanese equities, foreign equities, Japanese fixed incomes, and foreign fixed incomes, which are either managed internally or externally and for which metric measurement of investee companies is possible.	If the scope of assets for which GHG emissions can be calculated under international standards grows, SMDAM will appropriately expand the scope of applicable AUM.
Investee companies' Scope	Investee companies' Scope 1-3	We plan to consider setting targets for investee companies' Scope 1-3 emissions at investees, based on the progress of data disclosure at investees.
Indicator	Carbon Footprint	Indicators such as weighted average carbon intensity are also monitored as reference indicators.
Target	- Net zero emissions in terms of Investee companies' Scope 1 & 2 - The Carbon Footprint (Investee companies' Scope 1 & 2 emissions) of the "Portfolio Subject to Indicator Measurement" is as follows: - As of March 2021; 96tCO₂e per million USD - As of March 2025; 76tCO₂e per million USD	We had set GHG reduction target independently, referring to international standards.
Data	Data is based on the "Portfolio Subject to Indicator Measurement" as of March 2025.	

Benchmark	● TOPIX for Japanese equities ● MSCI Kokusai for global equities ● Nomura-BPI for Japanese fixed income ● Bloomberg Global Aggregate Ex-Japan for global fixed income
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[Item Explanation Notes]

Item	Definition	Notes
Portfolio GHG emissions	$\sum \left[(\text{GHG emissions of issuers}) \times \frac{(\text{Value of issuer holdings})}{(\text{Issuer market cap}) + (\text{Issuer interest bearing debt})} \right]$	Total GHG emissions linked to portfolio
Carbon Footprint	$\frac{(\text{Portfolio GHG emissions})}{(\text{AUM})}$	AUM is adjusted by data coverage
Weighted Average Carbon Intensity	$\sum \left[\frac{(\text{GHG emissions of issuers})}{(\text{Issuer net sales})} \times \frac{(\text{Value of issuer holdings})}{(\text{AUM})} \right]$	Weighted average by holding weight of carbon intensity of each investee company

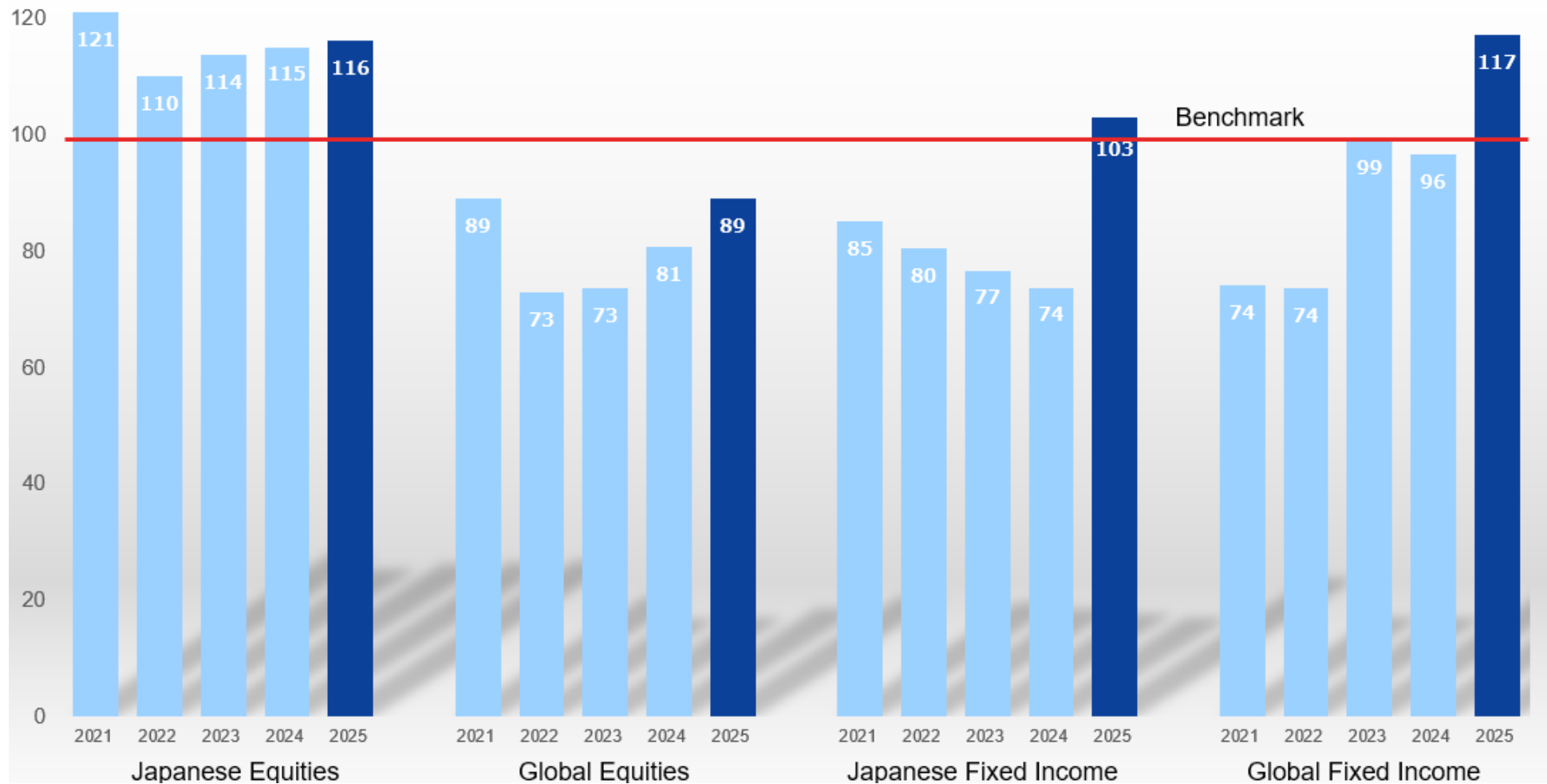
(2) GHG Emissions of Our Portfolio

The **Carbon Footprint** (Investee companies' Scope 1-3) of the "Portfolio Subject to Indicator Measurement", when analyzed by asset class against its respective benchmark, shows that Global Fixed incomes, Domestic Equities, and Domestic Fixed incomes exceeded their benchmarks, while Global Equities were below the benchmark.

- In **Global Fixed incomes**, the carbon footprint exceeded the benchmark due to the sector selection effect from heavy industries such as Energy, Automotive, and Capital Goods. Furthermore, over half of the benchmark-exceeding factors in terms of country were attributable to the United States. Conversely, the weighted average carbon intensity of Global Fixed incomes was below the benchmark.
- The reason the carbon footprint of **Domestic Equities** exceeded the benchmark is the sector selection effect of the Automotive industry, which has high GHG emissions but also a high proportion of value stocks.
- **Domestic Fixed incomes** had a higher carbon footprint than the benchmark, influenced by the Utility sector, primarily electric power.

Based on these results, we plan to continue appropriately analyzing the metrics regarding the GHG emissions profile of the measured portfolio.

Comparison of **Carbon Footprint** by Asset Class in the "Portfolio Subject to Indicator Measurement"
(Investee companies' Scope 1-3, as of March each year) Against the Benchmark

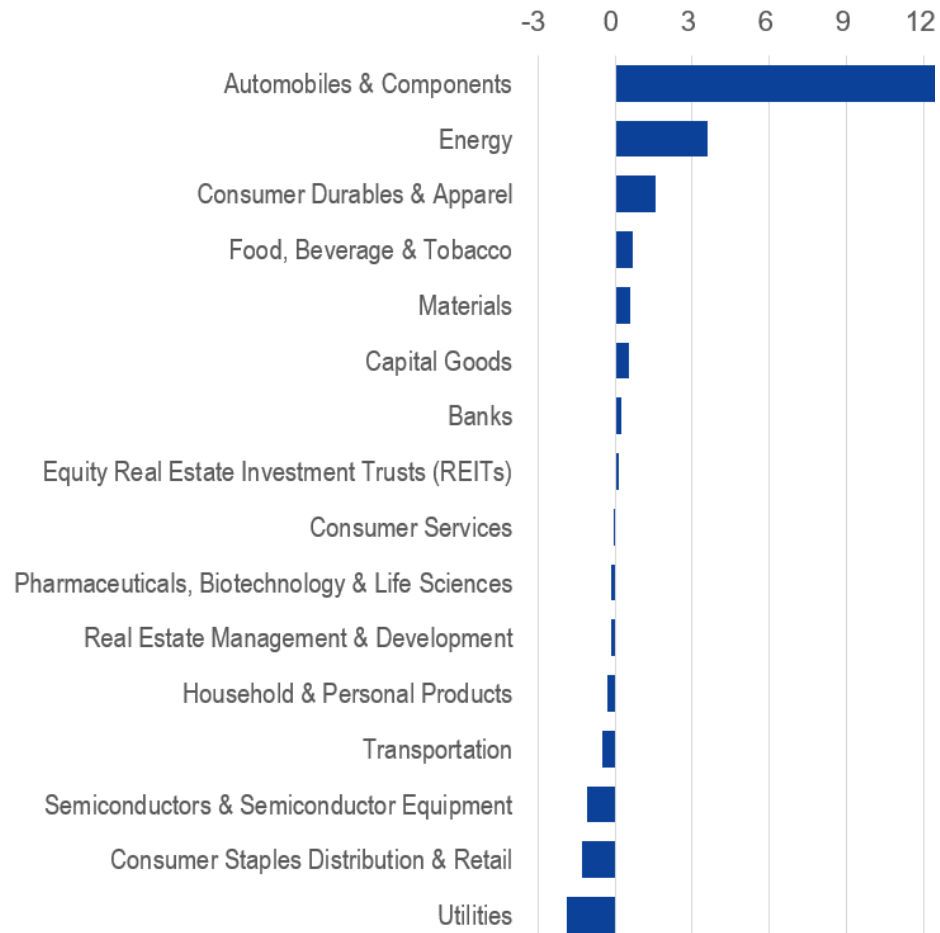


(Source) Prepared by SMDAM based on MSCI data (Please refer to Disclaimer)

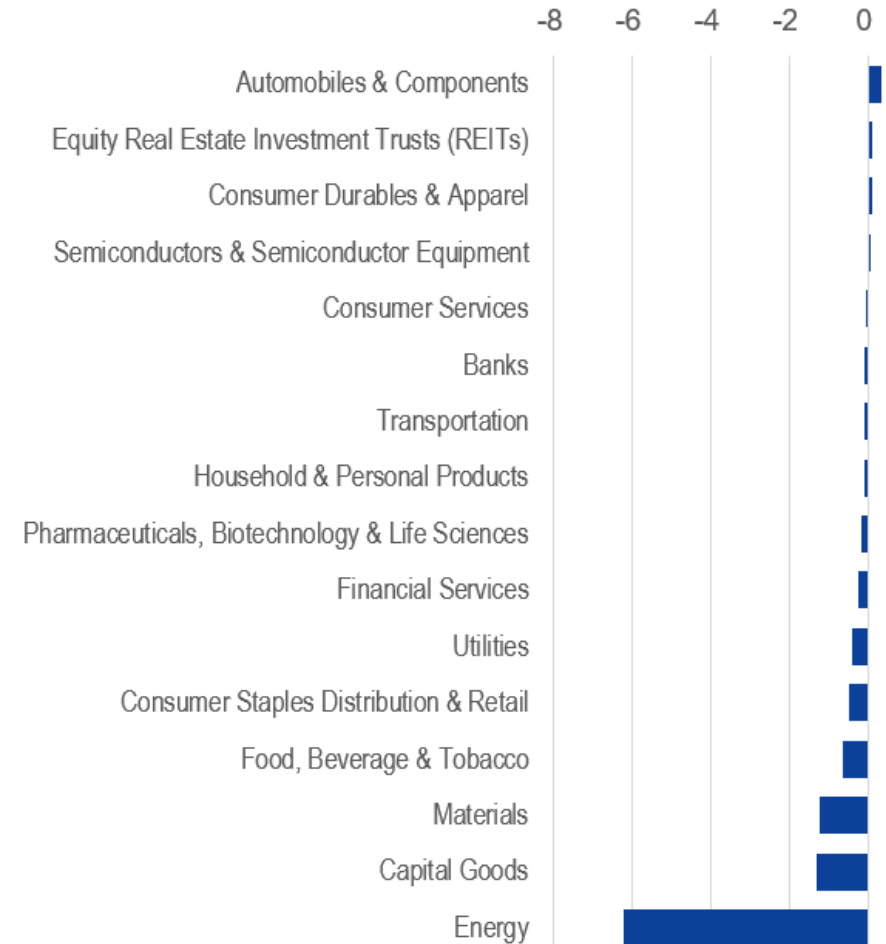
Japanese and Global fixed income excluding SSA

SSA = Debt securities issued by supranational organizations, sovereigns, government agencies, and municipalities, sub nationals and local governments.

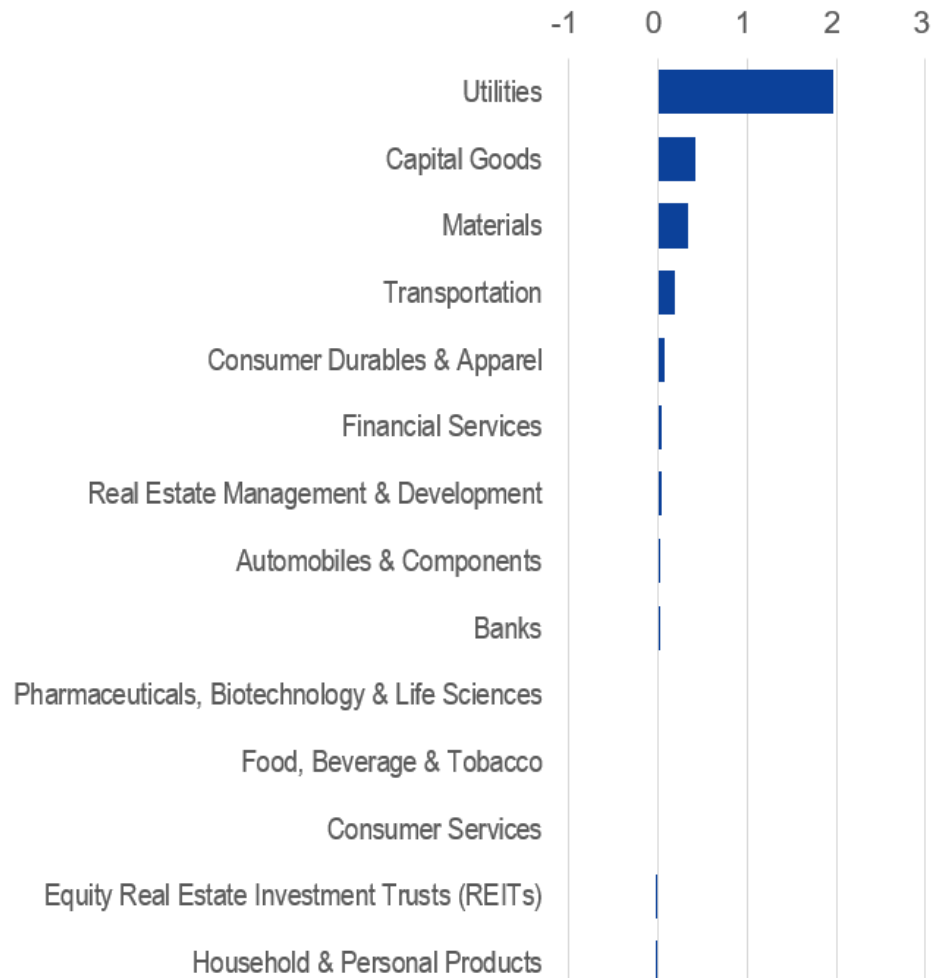
Sectoral Contribution to Japanese Equities Benchmark Comparison (Attribution of +16)



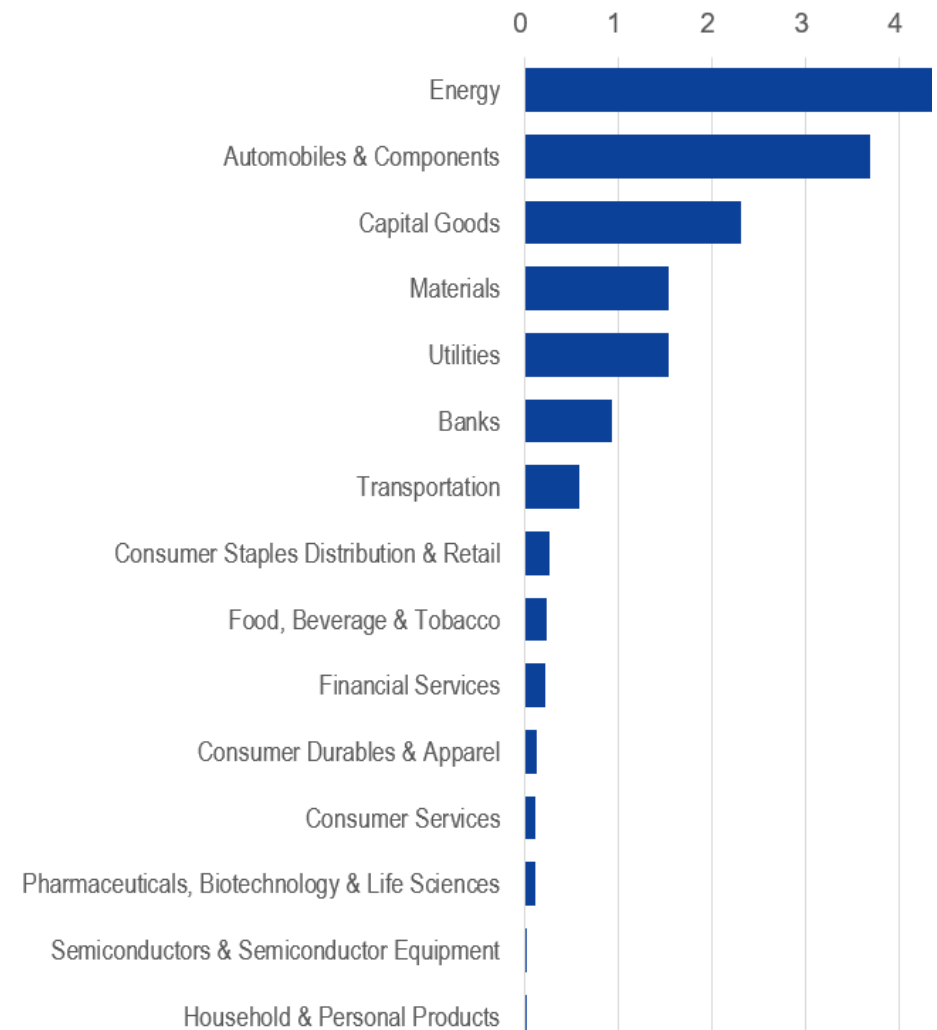
Sectoral Contribution to Global Equities Benchmark Comparison (Attribution of -11)



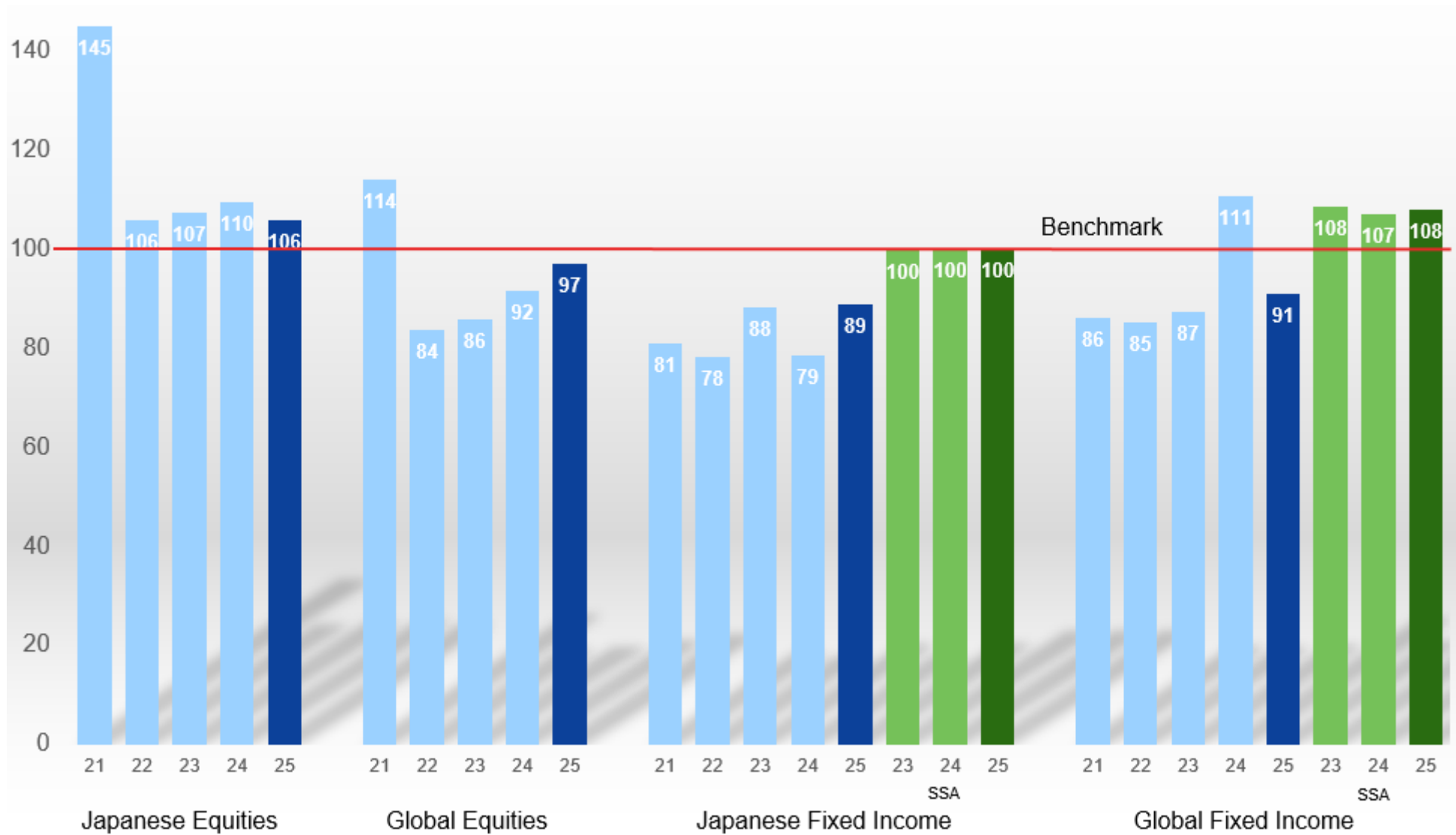
Sectoral Contribution to Japanese Fixed Income Benchmark Comparison (Attribution of +3)



Sectoral Contribution to Global Fixed Income Benchmark Comparison (Attribution of +17)



Comparison of **Weighted Average Carbon Intensity** by Asset Class in the "Portfolio Subject to Indicator Measurement"
(Investee companies' Scope 1-3, as of March each year) Against the Benchmark



(Source) Prepared by SMDAM based on MSCI data (Please refer to Disclaimer)

(3) Analysis of Transition Risk and Physical Risk of the "Portfolio Subject to Indicator Measurement"

We analyzed the transition and physical risks of the "Portfolio Subject to Indicator Measurement" using the "CVaR" analysis tool provided by MSCI.

For the analysis of transition and physical risks, we used the strictest scenario of limiting the average temperature increase to 1.5°C by 2100, as well as scenarios for 2.0°C and 3.0°C. The purpose of the multi-scenario analysis is to quantitatively capture the potential damage to the "Portfolio Subject to Indicator Measurement" value from climate stress. It is designed not to provide exact predictions but to illustrate what could happen in the future if adequate measures are not taken in response to stress.

Transition Risks	Policy Risks	An increase in costs pertaining to GHG emitted by investee companies over the period between now and roughly 15 years in the future
	Technological Opportunities	Growth in profit through contributions associated with the transition to a low-carbon society, such as the cultivation of new markets and the absorption of GHG
Physical Risks		Costs resulting from the impairment of noncurrent assets and suspension of business activities due to natural disasters such as typhoons and floods

Potential "Portfolio Subject to Indicator Measurement" Value Damage by Temperature Increase Scenario / Asset Class (As of March 2025)

		(%)													
Asset class		Portfolio Subject to Indicator Measurement						Japanese Equities		Global Equities		Japanese Fixed Income		Global Fixed Income	
Scenarios		1.5°C		2.0°C		3.0°C		1.5°C							
Transition Risks		-12.1	-6.5	-5.2	-16.1	-7.2	-18.1	-3.7							
	Policy Risk	-14.3	-7.3	-6.0	-19.7	-8.3	-18.3	-3.7							
	Technology Opportunities	2.2	0.8	0.8	3.6	1.1	0.2	0.0							
Physical Risks (by cause)		-2.1	-3.2	-6.4	-3.4	-1.1	-0.4	-0.4							
	Extreme Heat	-1.0	-1.8	-3.3	-1.6	-0.5	-0.1	-0.1							
	Coastal Flooding	-1.0	-1.2	-2.6	-1.5	-0.5	-0.3	-0.4							
	Heavy Rain	-0.2	-0.3	-0.4	-0.2	-0.1	0.0	0.0							
	Typhoons	-0.1	-0.2	-0.7	-0.2	-0.1	0.0	0.0							
	River Low Flow	-0.2	-0.6	-2.5	-1.3	-0.3	-0.1	0.0							

(Source) Prepared by SMDAM based on MSCI data (Please refer to Disclaimer)

The **changes from last year's analysis** are as follows (the figures represent the percentage of potential value creation or damage to the "Portfolio Subject to Indicator Measurement"):

- Under the strictest scenario of limiting the temperature increase to 1.5°C by 2100 (1.5°C scenario), the "Portfolio Subject to Indicator Measurement" **damage risk decreased** compared to the previous year.
- Transition Risk Policy Risk: Under the 1.5°C scenario, policy risk shrunk to -14.3% (compared to -21.5% the previous year).
- Transition Risk Technological Opportunity: Under the 1.5°C scenario, the mitigation effect shrunk to +2.2% (compared to +4.4% the previous year).
- Physical Risk: Under the 1.5°C scenario, the impact of extreme heat (value damage) improved to -1.0% (compared to -8.1% the previous year). The main cause is the impact of a model change and data update by MSCI Inc.; we do not consider this to represent a substantive improvement.

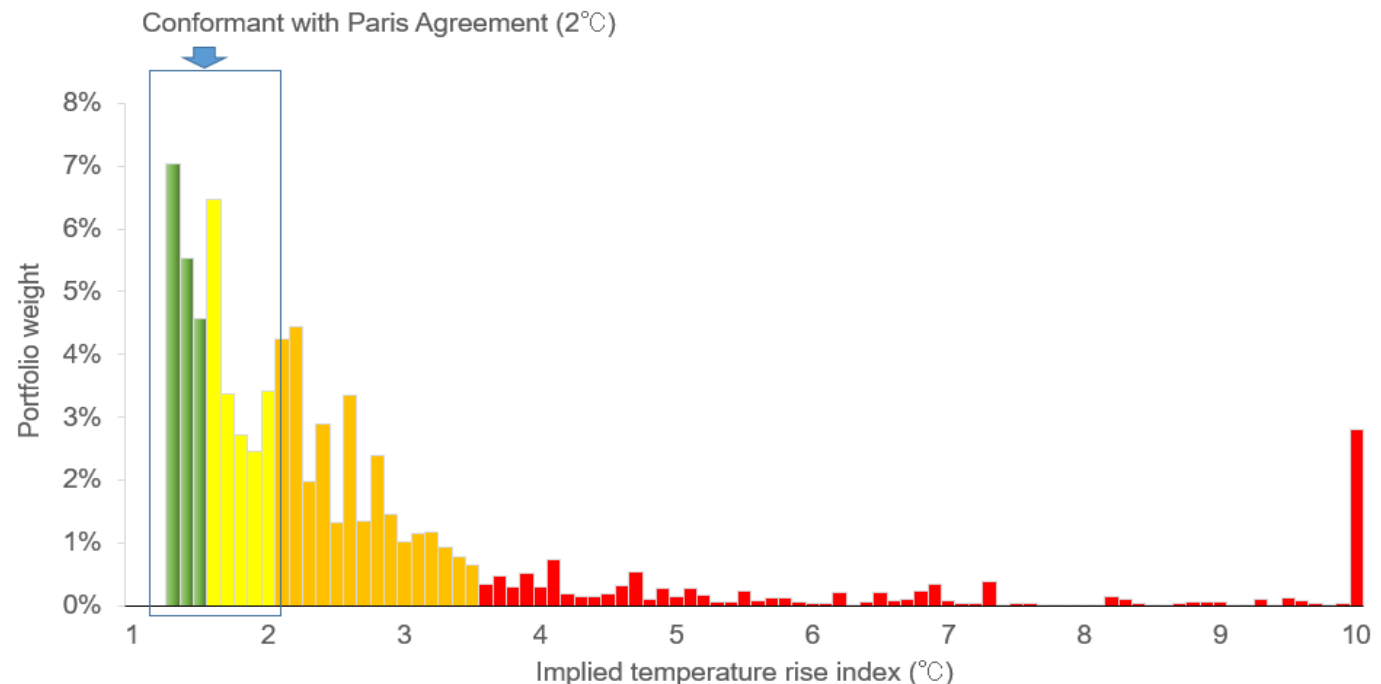
(4) Analysis of the "Portfolio Subject to Indicator Measurement" Alignment with the Paris Agreement

The implied temperature rise index shows the projected climate change target, expressed in "°C", based on the GHG emission reduction targets by the investee companies.

The profile showed **only a slight deterioration**. We found that 48% of the portfolio measured by the indicator (a 1-point drop from the previous year) is expected to be aligned with the Paris Agreement's 2°C scenario in the future. Conversely, 15% of investee companies—those whose current plans are completely unaligned with the Paris Agreement (represented by the red bar)—remained unchanged from the prior year.

We will continue to support these investee companies in their efforts to address climate change.

Distribution of implied temperature rise index (°C) as of March 2025



(Source) Prepared by SMDAM based on MSCI data (Please refer to Disclaimer)

(5) Challenges in Addressing Climate Change Risks

We identify the **effectiveness** of our climate risk strategies and governance, **adaptation** to physical risks, and the lack and quality of GHG Scope 3 **data** as key challenges.

Challenge	Description	Our Response
Ensuring the Effectiveness of Climate Risk Strategies and Governance	● We quantify physical and transition risks related to climate change. ● However, we do not believe that we have fully translated these into concrete management strategies or sufficiently monitored the progress of strategy execution.	● We believe it is necessary to formulate management strategies based on long-term discussions on sustainability at the Board of Directors level.
Adaptation to Physical Risks by Investee Companies	● We believe it is important that we can support our investee companies not only in mitigating climate change risks but also in adapting to them.	● To prevent investee companies from significantly impairing their corporate value due to natural disasters like heatwaves and floods, we plan to address this by: - Engaging with them to request precautionary measures against natural disasters. - Appropriately evaluating their efforts toward adapting to physical risks.
Lack and Quality of GHG Scope 3 Data	● We include GHG emissions (Investee companies' Scope 1-3) as benchmark measurement indicators for each major asset. ● However, while we set investee companies' Scope 1 & 2 carbon footprint as a target, we do not include Scope 3 as a target indicator. The reason is that many investee companies do not sufficiently disclose Scope 3 data, especially supply chain and regional data.	● We are supporting the establishment of consistent and dependable GHG data through proper monitoring of sustainability data providers.

7. Natural Capital-related Indicators and Targets

(1) Portfolio's Nature and Biodiversity Indicators

We use the portfolio's Potentially Disappeared Fraction of Species (PDF) per 1 million USD of market value of investment (PDF Footprint) as a primary indicator to support investee companies in focusing on the realization of Nature Positive. The PDF Footprint for the "Portfolio Subject to Metric Measurement" in 2025 was 33.7 (km²·yr/million USD). We also monitor ecosystem evaluation metrics based on the Mean Species Abundance (MSA).



Item	Description	Supplementary Notes
Portfolio Subject to Indicator Measurement	The portion of our AUM invested in Japanese equities, foreign equities, Japanese fixed incomes, and foreign fixed incomes, which are either managed internally or externally and for which metric measurement of investee companies is possible.	
Indicators	PDF Footprint	- The following are also monitored as reference metrics: - Weighted Average PDF Intensity - MSA Footprint - Weighted Average MSA Intensity
Data Coverage	The ratio of market capitalization with available nature and biodiversity footprint data is 73% of the "Portfolio Subject to Indicator Measurement" (as of March 2025).	
Benchmark	- TOPIX for Japanese equities - MSCI Kokusai for global equities - Nomura-BPI for Japanese fixed income - Bloomberg Global Aggregate Ex-Japan for global fixed income	

[Item Explanation Notes]

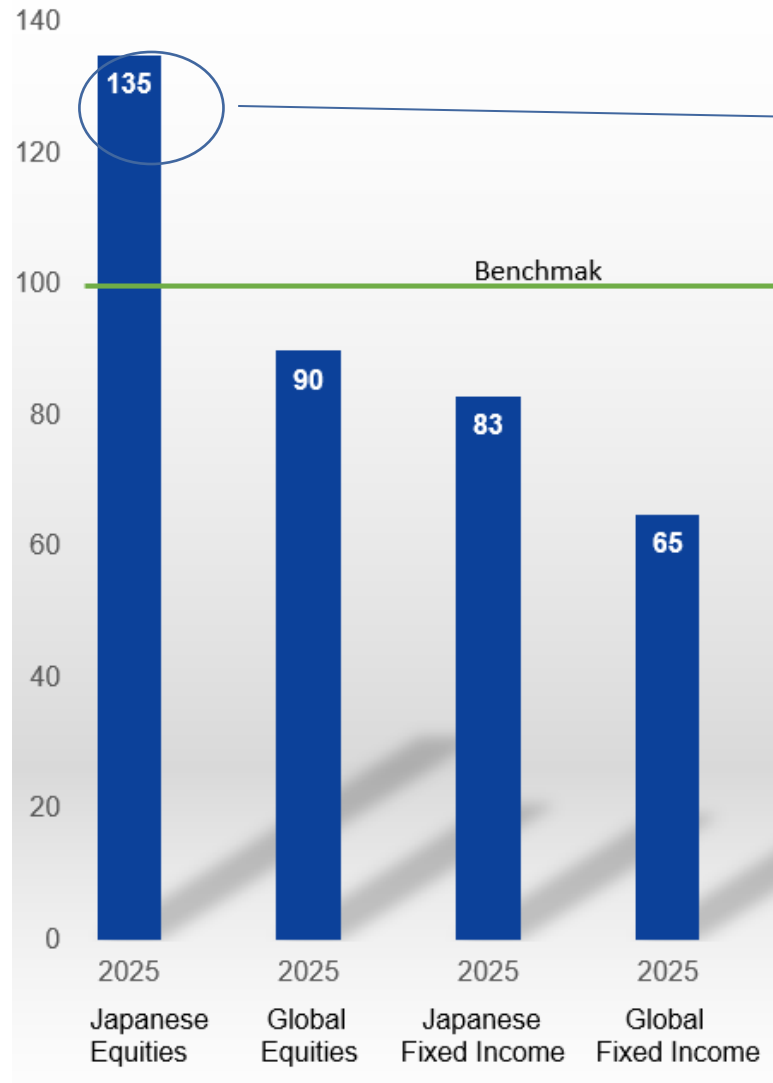
Item	Definition	Notes
PDF Footprint	$\sum \left[\frac{(\text{Issuer's Potentially Disappeared Fraction of Species}) \times (\text{Value of issuer holdings})}{(\text{Issuer market cap}) + (\text{Issuer interest bearing debt})} \right] \div (\text{AUM})$	● Potentially Disappeared Fraction of Species (PDF): The fraction of species that are potentially disappeared. The fraction of species that may have been lost due to anthropogenic impacts related to corporate activities (PDF · km² · yr). ● PDF Footprint: PDF per million USD of market value of investment (PDF · km² · yr/million USD).
Weighted Average PDF Intensity	$\sum [(\text{Issuer's Potentially Disappeared Fraction of Species Intensity}) \times (\text{Issuer's portfolio weight})]$	● Potentially Disappeared Fraction of Species Intensity: The fraction of potentially disappeared species per million USD of revenue (PDF · km² · yr/million USD).
MSA Footprint	$\sum \left[\frac{(\text{Issuer's Local Ecosystem Degradation}) \times (\text{Value of issuer holdings})}{(\text{Issuer market cap}) + (\text{Issuer interest bearing debt})} \right] \div (\text{AUM})$	● Local Ecosystem Degradation: The estimated land use area of the company multiplied by the degradation of the health of the local Mean Species Abundance (MSA) due to the company (MSA · km²). ● MSA Footprint: Local ecosystem degradation per million USD of market value of investment (MSA · km²/million USD).
Weighted Average MSA Intensity	$\sum [(\text{Issuer's Local Ecosystem Degradation Intensity}) \times (\text{Issuer's portfolio weight})]$	● Local Ecosystem Degradation Intensity: Local ecosystem degradation per million USD of revenue (MSA · km²/million USD).

Portfolio's Nature and Biodiversity Footprint

	PDF Footprint	Weighted Average PDF Intensity
	(km ² · yr/million USD)	(km ² · yr/million USD)
Portfolio Subject to Indicator Measurement	33.7	55.6

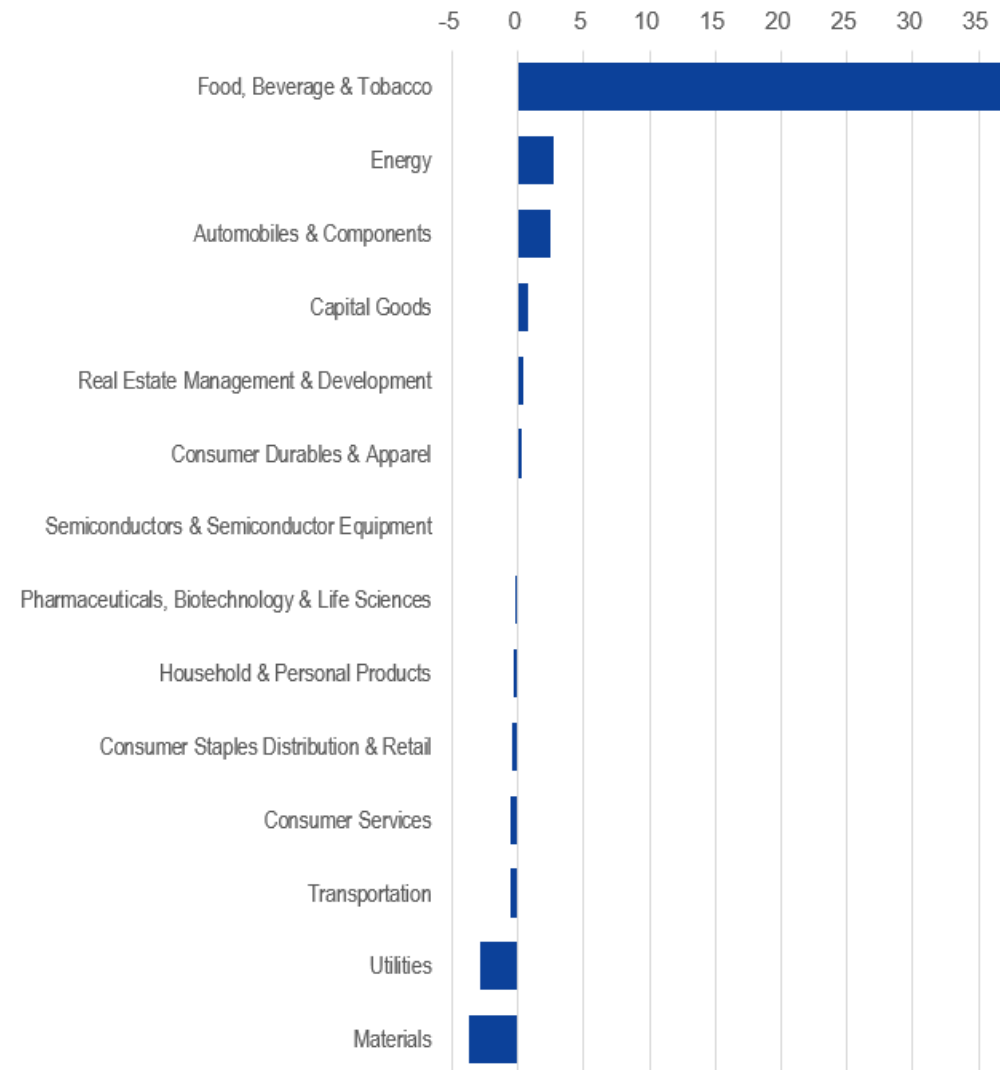
(Source) Prepared by SMDAM based on MSCI data (Please refer to Disclaimer)

Comparison of **PDF Footprint** by Asset Class in the "Portfolio Subject to Indicator Measurement" (as of March each year) Against the Benchmark

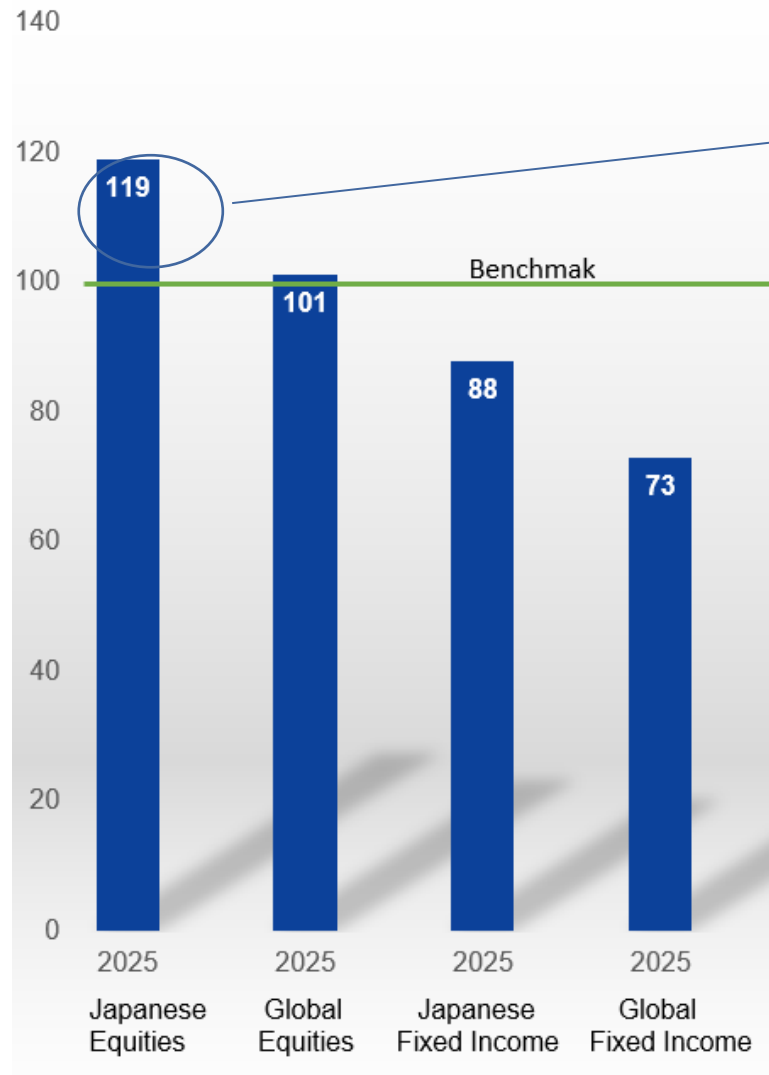


(Source) Prepared by SMDAM based on MSCI data
(Please refer to Disclaimer)

Sectoral Contribution to Japanese Equities
Benchmark Comparison (Attribution of +35)

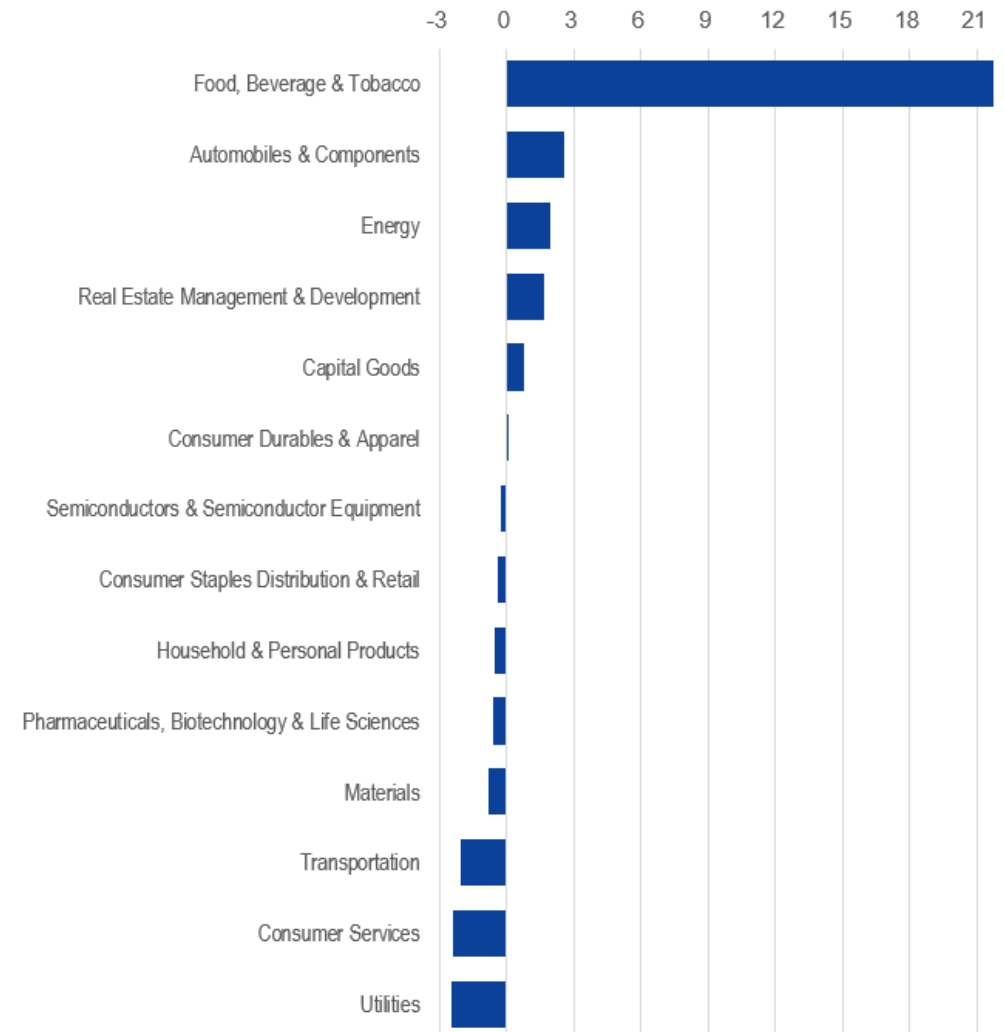


Comparison of **PDF Intensity** by Asset Class in the "Portfolio Subject to Indicator Measurement" (as of March each year) Against the Benchmark



(Source) Prepared by SMDAM based on MSCI data
(Please refer to Disclaimer)

Sectoral Contribution to Japanese Equities
Benchmark Comparison (Attribution of +19)



The analysis of the **PDF footprint** compared to benchmarks across different asset classes showed that our Japanese Equity portfolio exceeded its benchmark, while our Foreign Equity and Domestic and Foreign Fixed income portfolios were less than respective benchmarks.

The main reasons why the Japanese Equity portfolio had a +35% higher environmental burden compared to the benchmark were:

- Impacts from the "Food, Beverage, and Tobacco" sector when broken down by sector.
- Impacts from a specific company involved in the manufacturing and sales of cooking oils (palm and soybean oil) for household and commercial use.

This aligns with the global general tendency for the ecosystem impact coefficient of "Food" and "Paper" to be exceptionally large.

The results for the **weighted average PDF intensity** were similar, with the Japanese Equity portfolio at +19% compared to the benchmark, with the "Food, Beverage, and Tobacco" sector being the exceeding factor.

(2) Nature and Biodiversity Targets

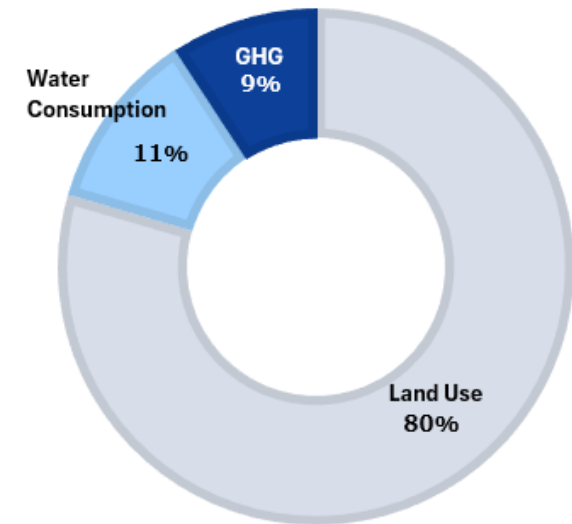
Regarding the nature and biodiversity risk of the portfolios measured by the indicators, the following were identified as material impacts for our company:

- **"Water Resources"** through heatmap analysis.
- **"Land Use"** - specifically tropical rainforest logging/deforestation - related to "palm oil and soybean oil" through PDF and MSA analysis.

Our response is as follows:

- We will focus on **"Action Targets"** based on the LEAP analysis, which considers the actual economic activities of individual companies.
- We will continue to disclose indicators based on the current PDF analysis externally. However, we choose not to think of countermeasures by superficially quantifying the PDF/MSA analysis figures. This is because improving the performance of the PDF footprint for the indicator-measured portfolio can only be achieved by changing country or individual company investment weights, due to the nature of the data.

Composition Ratio of PDF Impact Driver in Japanese Stock Portfolio "Food, Beverages & Tobacco"



(Source) Prepared by SMDAM based on MSCI data
(Please refer to Disclaimer)

Our nature and biodiversity targets are:

Action Target	We will engage with sectors and investee companies deeply related to the identified high-impact and high-dependency areas, "Water Resources" and "Land Use," aiming to achieve the following quantitative targets.		
Quantitative Targets	We have set the following corresponding indicators and targets to improve the impact of our AUM on "Water Resources" and "Land Use."		
	Indicator	2024 Actual	2030 Target
	"Portfolio Subject to Indicator Measurement" exposure to companies with water management policies	52%	65%
	"Portfolio Subject to Indicator Measurement" exposure to companies with deforestation policies	17%	30%
(Source) Morningstar Sustainalytics			

(3) Challenges in Addressing Nature and Biodiversity Risks

We believe the key challenges in managing nature and biodiversity risk are the **data completeness** and **valuation** related to nature and biodiversity.

Challenge	Description	Our Response
Data Completeness for Nature and Biodiversity	- The nature and biodiversity figures provided by sustainability data vendors are limited to top-down estimates based on sector or country average data, rather than bottom-up estimates based on data from individual companies. - There is a possibility that the impact estimate is biased toward specific commodity crops or manufactured products. - The data does not necessarily include supply chain analysis.	- We will continue to urge sustainability data vendors to improve data completeness. - Specifically, we request that individual company data be used to calculate ecosystem impact so that it can serve as a suitable monitoring indicator.
Valuation of Nature and Biodiversity	We have not been able to analyze the transition and physical risks related to nature and biodiversity. We are in a state of waiting for sustainability data vendors to provide scenario analysis tools.	We will deepen our LEAP analysis.

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Cover Introduction

SMDAM supports the “ParaArt” (arts and culture by people with disabilities) initiative run by the “Nippon Charity Kyokai” as part of its social contribution activities. A “ParaArt” piece is featured on the cover of this report.

We hope that through our activities, more people will be introduced to “ParaArt”, and that this will lead to greater social inclusion for people with disabilities.

Featured Artwork

Title: “**SUICHU-NO-RAKUEN**” (Underwater Paradise)

Artist: **Rei Shoji**

- Award: The recipient of the "Sumitomo Mitsui DS Asset Management Award" at “2024 PARAART TOKYO”.
- According to the artist, this piece was “painted spontaneously, without any preliminary sketches, but with scenes that simply came to mind”.
- Looking at how various natural environments and the creatures inhabiting them are depicted so beautifully and vibrantly, it inspires reflection on biodiversity and the global environment.



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