



Sustainability Report

2023-2024

Our Mission & Vision

Towards The Best Asset Management Firm For Your Better Quality of Life

We, as professionals, focus on:

- Delivering best-in-class investment performance while maintaining the highest standards of fiduciary responsibility to our clients,
- Contributing to a diversified and sustainable society through our investment activities.

To these ends, we commit ourselves to:

- Aiming for collective growth, based on a respectful understanding of all stakeholders,
- Creating a flexible working environment that allows all employees to reach their full potential.

Our Values



Materiality

Materiality for Business Operation

Social Challenges: Improving Quality of Life

Human capital



We will eradicate discrimination and harassment, enhance the workplace environment, and develop human resources

Social contribution activities



We will contribute to solving environmental and social issues through donations and volunteer activities

Improvement of business quality



We will utilize digital technology to revise and improve our operational processes

Environmental Issues: Safety of Life

Environmentally-friendly business management



We will endeavor to reduce energy usage and our impact on the environment by revising our operations

Enhanced Governance and Better Disclosure

Business ethics and corporate culture



We will aim to be an organization where all employees are conscious of being professionals, have an appetite to contribute to society, and maintain a spirit of taking on new challenges

Materiality for Investment Management

Human rights in supply chains



We will work to appropriately manage human rights risks through due diligence related to human rights

Human capital



We will implement human resource strategies that are consistent with management strategy and work to create an attractive workplace environment

Climate change



We will work to reduce GHG emissions across the supply chain

Natural capital



We will work to promote a circular economy and reduce environmental impact by cutting food loss

Effectiveness of corporate governance



We will work to ensure the diversity of the Board of Directors and implement measures to enhance corporate value

Business Ethics and Corporate Culture



We will foster corporate ethics and our corporate culture, and ensure thorough compliance with laws and regulations and risk management

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Editorial Policy

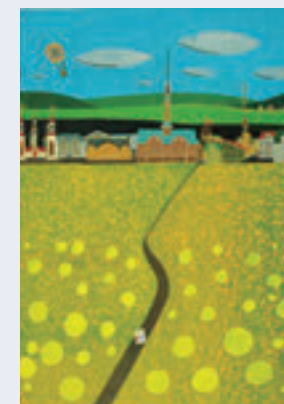
1. Present specific measures under the medium-term management plan
2. Further strengthen the creation of pages that show our employees' faces, to effectively indicate the investment, sales and marketing capabilities of teams that utilize the individual characteristics of each member
3. Be inventive with visual expression and improve readability

About the cover

As a part of our CSR activities, we are active supporters of the ParaArt project run by Nippon Charity Kyokai to promote the art and culture of people with disabilities. The ParaArt work on the cover is Kogen no Machinami ("Town in the Highlands"), by Takahiro Kubo. Mr. Kubo explained the work as follows: "I saw a beautiful town at the end of a slow climb up a gentle hill that lay over the peaceful highlands, where canola flowers bloomed as far as the eye could see."

Takahiro Kubo's career summary

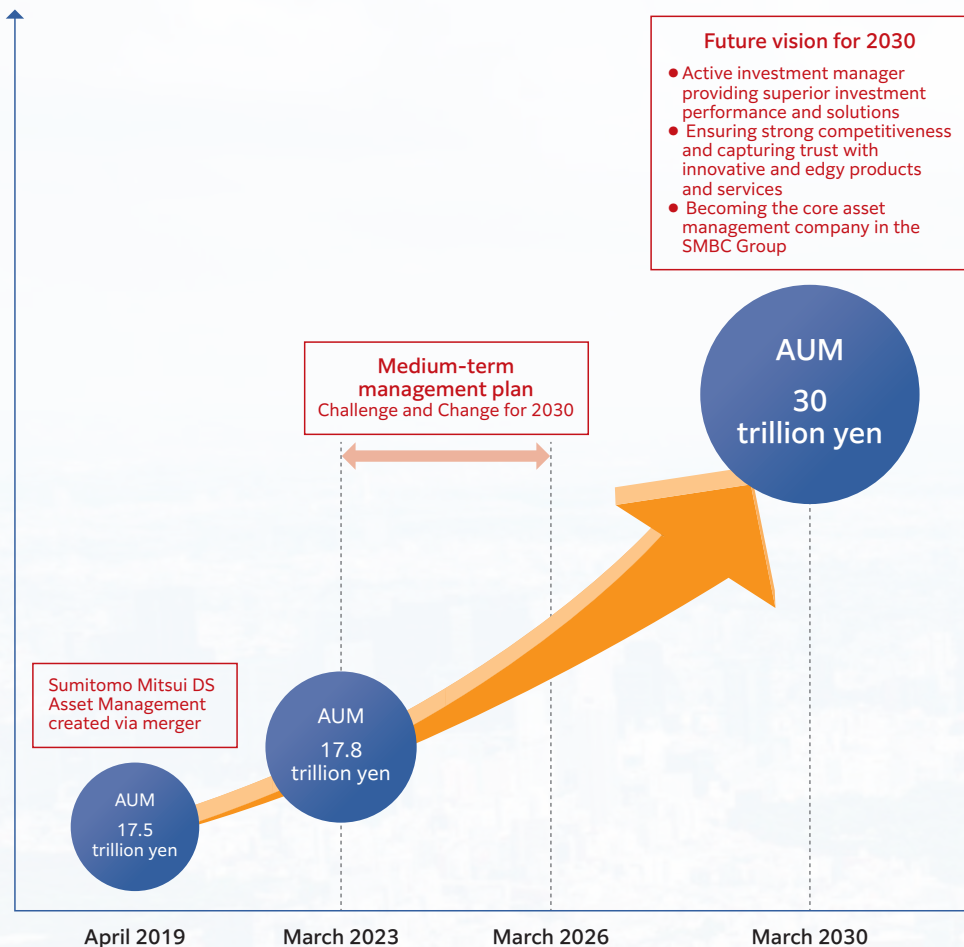
Born in 1970 (from Tokyo). From around the age of two, he began drawing many pictures that expressed a mysterious and heartwarming atmosphere in an unusual style. He began taking art classes in his first year of junior high school at Musashino-Higashi Gakuen, before specializing in art at the high school of the same institution. After graduating, while studying on the Picture Book Course at the Japan Juvenile Education College, he continued his creative activities while receiving instruction at the ParaArt School of Nippon Charity Kyokai.



Medium-Term Management Plan “Challenge and Change for 2030”

Our company aims to become an “asset management company that offers the best investment performance and solutions” by 2030. As a step to achieving that target, we have formulated our medium-term management plan “Challenge and Change for 2030” to cover the period from FY2023 to FY2025.

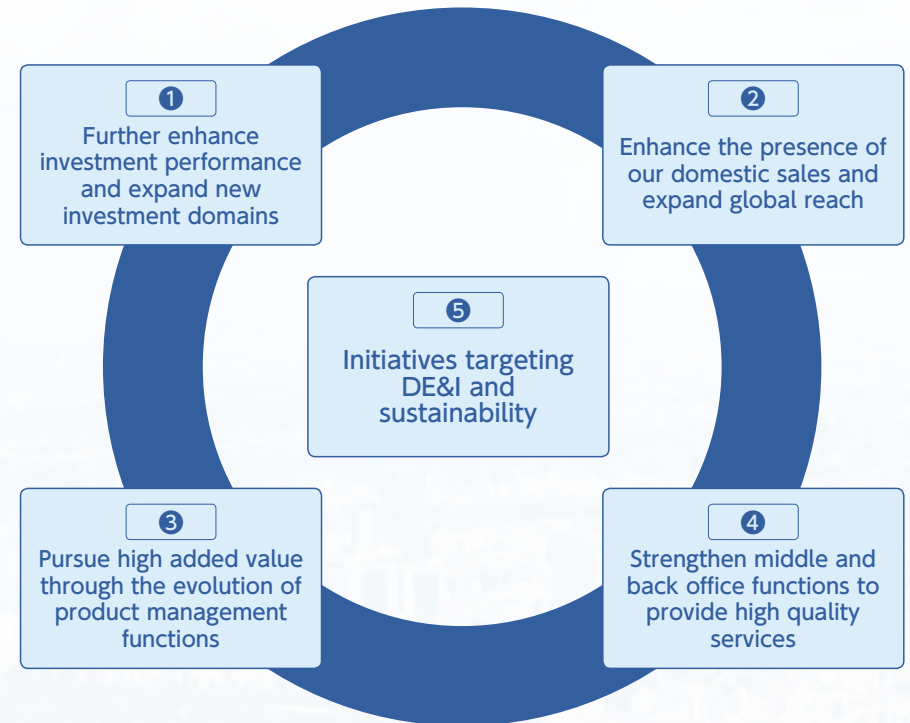
Roadmap to 2030



Four basic policies in the medium-term management plan

- Establish solid foundations for domestic profits, driven by group synergies
- Take on the challenge of “globalization” across the company as whole, to achieve sustainable growth
- Build middle and back office functions, as well as corporate functions, that are both flexible and robust, to provide stable and high-quality services
- Continuously form groups of professionals that enhance QOL for stakeholders

Five pillars to achieve the medium-term management plan



1 Further enhance investment performance and expand new investment domains

- ✔ Maintain our strong competitiveness in domestic equities and fixed income investment while shifting management resources with global assets as a priority domain
- ✔ Expand in-house management of alternative assets while collaborating with shareholder companies, etc.

Expand in-house management of alternative assets

	JP	Asia	Global
Infrastructure	Focus on expanding in-house management		
PE			
Real Estate			
Other	Mainly providing excellent outsourced asset management		

2 Enhance the presence of our domestic sales and expand global reach

- ✔ Be rated highly by our customers thanks to more sophisticated solution sales
- ✔ Expand our global reach by strengthening our overseas sales and marketing system and enhancing our product lineup for overseas customers

Strengthen our overseas sales and marketing system



3 Pursue high added value through the evolution of product management functions

- ✔ Established the Product Management Department in April 2023
- ✔ Collaborate within the company and externally, and with related companies in Japan and overseas to provide attractive investment products

Role of the Product Management Department



4 Strengthen middle and back office functions to provide high quality services

- ✔ Integrated product development and management, as well as middle and back office functions into the “Product and Administration Division” in April 2023, as part of efforts to promote efficient operations
- ✔ Promoting more efficient operations by cutting the number of funds, utilizing digital technologies, etc., thereby creating excess capacity to allot to future growth fields

Initiatives aimed at strengthening middle and back office functions



Create excess capacity for growth and focus fields

5 Initiatives targeting DE&I and sustainability

- ✔ Focus on developing, maintaining, and securing human resources to act as future leaders, as well as the creation of a working environment and fostering of a corporate culture that allows employees to exercise their diversity
- ✔ Secure empathy and trust from customers in Japan and overseas by contributing to the achievement of a sustainable society
- ✔ Enhance employee engagement

Initiatives to create a working environment that allows employees to exercise their diversity

- Actively hire female employees
- Strengthen support for newly appointed employees in managerial roles
- Strengthen initiatives to eliminate harassment
- Incorporate employee engagement in HR evaluations
- Enhance the fluidity of human resources by utilizing internal recruitment, etc.





Representative Director, President and CEO

Takashi Saruta

CEO Message

Enhancing QOL For All Stakeholders

Japanese equities have been rising since the introduction of Abenomics. Going into 2023, the Nikkei index broke 33,000 yen a number of times, trading at 33-year highs. In addition to a base of forecasts of robust corporate earnings, investors also demanded that companies listed on the TSE with P/B ratios of less than one disclose and execute measures to improve their management, resulting in the market attracting the attention of overseas investors. Factors such as the end of zero interest rates, the selling of ETFs, and policy interest rate hikes, which the Bank of Japan is expected to implement as future financial policies, will have a negative impact on share prices. On the other hand, from a long-term perspective, the normalization of capital markets is a good thing, and it is expected that Japanese equity markets will sufficiently absorb the impact. In the Basic Policy announced in June 2023, the government set forth its aim to “open up 2,000 trillion yen in household financial assets, and achieve an ‘asset management nation’ that will contribute to sustainable growth.” In addition to the new NISAs announced in 2022, we are eagerly waiting to see what measures are unveiled in the future.

Additionally, in its Progress Report announced in 2023, the Financial Services Agency is promoting initiatives aimed at addressing and resolving issues among the parties that constitute the investment chain. This is a request for investors, investment companies, sales companies, the market, and others to engage in activities that are more substantial and of higher quality than before.

The environment for asset formation in Japan is on the cusp of major change. At the same time, the mission of an asset management firm is

ultimately the provision of high-quality investment returns to investors. Our view is that together with making investment decisions based on multisided analysis that includes ESG elements, endeavoring to enhance the corporate value of investee companies through engagement and the exercise of voting rights also contributes to the resolution of both environmental and social issues. In our “Sustainability Report 2023-2024” as well, we have featured numerous activities that we are conducting on a routine, constant basis. We highly encourage you to read this report. Our belief is that continuing these fundamental activities will result in the smooth circulation of our investment chain and the enhancement of sustainability.

In April 2023, our company initiated its new medium-term management plan. In addition to elevating our asset management capability, which directly affects investment returns, we reestablished human capital development, which forms a backbone of the asset management firm’s development, as one of our priority measures. A component of our management philosophy is “Aiming for collective growth, based on a respectful understanding of all stakeholders.” Our employees are also included among those stakeholders. Our goal is to improve the Quality of Life (QOL) not only for our clients but also for our employees and other stakeholders. We believe that boosting engagement with our officers and employees and promoting the growth of human capital links to the growth of our organization and constitutes the path to realizing our mission and vision of “Towards The Best Asset Management Firm For Your Better Quality of Life.”



Materiality Initiatives in FY2022

Our materiality constitutes challenges that we believe to be vital in our endeavors to realize a sustainable society as a company that aims to become "The Best Asset Management Firm For Your Better Quality of Life."

Go here for a detailed explanation of SMDAM's materiality
<https://www.smd-am.co.jp/english/corporate/vision/fiduciary/01/>



The ■ in the figure indicates our materiality for investment management. The ■ in the figure indicates our materiality for business operation.

Business Ethics and Corporate Culture



We conducted 28 instances of engagement activities to promote measures to prevent the reoccurrence of scandals, primarily at investee companies where a scandal had occurred (41 instances last fiscal year).

Human Capital



We conducted 173 instances of engagement activities in which we encouraged investee companies to engage in the development of human capital and the creation of attractive workplace environments where employees can demonstrate their abilities (32 instances last fiscal year).

Environmentally-Friendly Business Management



Through means such as reducing office space usage, relocating to buildings with high energy efficiency and switching over to power derived from renewable energy, we reduced greenhouse gas (GHG) emissions (Scopes 1 & 2). Conversely, GHG emissions pertaining to business travel, which fall under the main category of Scope 3, increased.

Human Rights in Supply Chains



We conducted 47 instances of engagement activities aimed at investee companies to promote the reduction of human rights risks (eleven instances last fiscal year).

Business Ethics and Corporate Culture



We carried out corporate culture surveys in order to form a grasp of the awareness of our officers and employees our organizational condition as well as to put that information to beneficial use in the creation of a sound organization with open communication.

We held four quarterly internal training sessions on compliance that were mandatory for all officers and employees as well as four internal training sessions related to sustainability.

Natural Capital



We conducted 538 instances of engagement activities aimed at investee companies to promote the reinforcement of initiatives geared towards environmental issues, including the protection of natural capital (694 instances last fiscal year).

Human Capital



We revised its HR systems into convincing ones by doing away with elements of seniority based on age. We reorganized our DE&I Promotion Meeting into a Human Capital Strategy Meeting at which the CEO, departmental heads and other attendees discuss human capital in general.

The number of examples of the utilization of our internal open recruitment system for assisting employees with their autonomous career design came to nine.

Improvement of Business Quality



As an example of utilizing AI and RPA in its research and other operations, we incorporated a natural language analysis system that covers emerging countries to realize a more advanced level of investment processes, among other successes.

Social Contribution Activities



The total number of employees participating in volunteer activities came to 433 (an increase of 151 employees over last fiscal year).

The number of participants in the "Sumitomo Mitsui DS Asset QOL Fund", operated through donations by employee volunteers, came to 202 at the end of March (an increase of 36 participants over last year).

Governance



We conducted 663 instances of engagement activities to promote the effectiveness of corporate governance at investee companies and other entities (420 instances last fiscal year, including activities related to the exercise of voting rights).

Climate Change



We set medium-term targets for 2030 with a view to realizing zero GHG emissions by the year 2050.

<https://www.netzeroassetmanagers.org/signatories/sumitomo-mitsui-ds-asset-management-company/>



We supported and participated in joint engagement efforts such as the acquisition of Science-Based Target (SBT) certification and the improvement of CDP climate change scores for investee companies.

Achievements Related to the Principles of Fiduciary Duties and Sustainability in FY2022

As it aims to become “The Best Asset Management Firm For Your Better Quality of Life” as outlined in its Management Vision, our company has clearly defined the roles it should fulfill in the sustainability sector through its “Principles of Fiduciary Duties and Sustainability.” In addition, our company is dedicated to thoroughly implementing client-centered business operations.

Principle 1 We will fulfill our management responsibilities as a responsible institutional investor

Advanced Technology

Leveraging advanced technology, our company analyzes multilingual news in emerging countries and extracts investment candidate issues through natural language processing. Utilizing AI and other advanced technologies enhances the sophistication of asset management.

Enhancement of information

Our company displays facial photographs of its sales and marketing personnel on dedicated pages for institutional investor clients. Enhancing announcements and stewardship activity-related video sections, including market reports and the exercise of voting rights, our company ensures the timely provision of information.

Environment/Society

On January 2023, we publicly released its “Policy on the Integration of Sustainability Risk in Investment Processes and the Consideration of Principal Adverse Impacts (PAI) on the Environment and Society.”

Implementation Process for PAI Due Diligence

1. Management Philosophy and Various Policies
2. Identification of PAI and Assignment of Priority Order
3. Consideration PAI in Investment Processes
4. Engagement and Escalation
5. Cooperative Engagement and Initiative
6. Monitoring and Disclosure/Reporting

Principle 2 We will strive to help build a sustainable society through our investment management business

ESG

We revised our “Sustainable Product Certification Standards” that apply to all funds and products that we operate and defined “ESG products” at our company. Simultaneously, we built a comprehensive framework for operations and management to ensure the quality of these products.

Classification	Overview	ESG Products
Standard	Stewardship activities and negative screening are applied across all companies	
Integration	Sustainability is taken into consideration, and ESG evaluations are incorporated into investment decision processes.	
Integration Plus	Sustainability is positioned as a vital source of excess returns and ESG evaluations are utilized in a quantitative and systematic manner	
Engagement Plus	Persons responsible for investment actively engage in dialogue related to ESG themes that will contribute to enhancing corporate value	
Positive Screening	Specific quantitative screening standards for investment in companies with excellent ESG factors	○
ESG Thematic	Specific sustainability issues and themes are set and companies that contribute to those issues and themes are considered for investment	○
Impact	In addition to investment returns, investee companies are also selected for their contribution to solving sustainability issues	○

Initiatives

Our company is a participant in “Advance,” a human rights-related initiative newly started up by the U.N. Principles for Responsible Investment (PRI), as a collaborating investor. Based on our commitment upon joining the Net Zero Asset Managers Initiative (NZAMI), we set medium-term targets for 2030 related to GHG emissions.

School Visits

As part of our training and education activities for developing financial literacy, we conduct school visits with the use of the “Economica” card game at multiple elementary schools and other institutions.

Self-evaluation of the Implementation Status of Japan's Stewardship Code

With the aim of increasing medium- to long- term investment returns that serve as the interests of customers and beneficiaries, our company has been proactively working on stewardship activities aiming to encourage investee companies to enhance their corporate. We have also focused on ESG investment, incorporating analysis and assessments of medium- to long-term non-financial elements of investee companies into the investment process.

Principle 3 We, as a corporate citizen, will engage in activities to pass on an affluent society and rich global environment to the next generation

Donations to Organizations Our company donated approx. 250 billion yen of its trust fees from funds to organizations and entities tacking the realization of a decarbonized society, cultural preservation and other social challenges.

CO2 Reductions The power supplied at the building where our headquarters is located was switched over to renewable energy in October 2022. This is resulting in significant reductions in real CO2 emissions at our company.

KPI regarding protection of the global environment

KPI		FY2020		FY2021		FY2022	
		Actual	Ratio	Actual	Ratio	Actual	Ratio
Greenhouse gas (GHG) emissions at office building used	Ratio relative to FY2019	1,139 tCO2e	84.7%	923 tCO2e	68.7%	598 tCO2e	44.5%
		4,040 thousand sheets	39.2%	2,608 thousand sheets	25.4%	2,143 thousand sheets	20.9%
Paper consumption (Sheets purchased)							

Principle 4 We will train and educate human resources to contribute to the QOL of our clients, the society and our employees

Training and Education We systemized education and training for our employees and conduct training according to hierarchy and skills that they should master. These efforts include the development of global and DX human capital and training for specific age groups as well as that for specialized and managerial positions.

Internal Open Recruitment As part of our employee career support initiatives, we expanded the number of positions filled through internal open recruitment from last year's figure of two to nineteen. Nine employees were successfully reassigned to their desired positions as a result.

Recruitment Beginning with new employees hired in April 2023, we initiated investment course-specific recruitment in order to develop investment professionals (Six out of twenty new employees hired in April 2023 were recruited for specific investment courses.).

Please refer to our website for details.

https://www.smd-am.co.jp/corporate/vision/fiduciary/index_01/



Policies We employ analysis and assessments of the environment and society from a medium- to long-term perspective in our investment processes.

Managing Conflicts of Interest We invited one (female) independent Outside Director and enhanced the poise of our Responsible Investment Committee.

Ascertaining the Situation We contribute to the ESG evaluation of over 2,400 companies encompassing overseas and domestic individual companies and REIT.

Managing Dialogue Engagement progress is segmented into eight steps and dialogue is managed for each theme in order to adequately share awareness with investee companies and encourage problem-solving.

Exercise Criteria We updated and disclosed judgment criteria for the exercise of voting rights for Japanese equities based on the initiation of new market categories at the Tokyo Stock Exchange and the trend of steady improvements in the enhancement of governance frameworks and awareness at investee companies.

Reporting on Activities We disclose engagement activity results to our clients and final beneficiaries.

Improvement of Real Capability We signed the "Japan Impact-driven Financing Initiative," an initiative to facilitate the practice of impact-driven investments and loans, with a view to successfully striking a balance between environmental/social value and corporate value.

Please refer to our website for details.

https://www.smd-am.co.jp/english/corporate/responsible_investment/stewardship/self_evaluation/

