

## Disclosure Based on TCFD recommendations

SMDAM announced its support for the Task Force on Climate-related Financial Disclosures (TCFD) in December 2019. As an investment management firm, we will analyze the impact of climate change on investee companies, both risks and opportunities, and try to translate such an analysis into high-quality investment returns to clients over the long term. At the same time, through engagement we will contribute to realize a sustainable society by supporting the innovations and transitions of investee companies to reduce greenhouse gases (GHG).

### Basic Concept

#### 1 Governance

##### Supervision by the Board of Directors

Our corporate philosophy and “the Principles of Fiduciary Duties and Sustainability”, which serve as the basic policy for our corporate activities, clearly state our intention, as an investment management firm and as a corporate citizen, to contribute to build a sustainable society. Therefore, sustainability initiatives, including for climate change, are positioned as the most important task of management. Basic policies and action plans at the company level are developed through an established process in which the policies and plans are fully considered by the Sustainability Promotion Subcommittee at the practical level and by the Management Meeting, which is attended by the CEO and executive officers, and then approved by the Board of Directors. In addition, the Board of Directors receives reports related to the progress of implementation plans twice a year, and performs

monitoring to ensure that operations are being executed appropriately. In addition, the Board of Directors also engages in lively discussions concerning matters such as ESG integration in investment processes, the status of stewardship activities, and sustainability-conscious business management, while Outside Directors with abundant knowledge provide advice to the management team.

##### Role of Management Team

In formulating company-wide policies and action plans pertaining to climate change and other sustainability-related issues, the officer in charge of the Corporate Strategy Department leads associated discussions while coordinating with related internal departments. Those policies and plans are deliberated at Management Meetings attended by the CEO and Executive Officers or at other meeting bodies, after which they are approved by the CEO or the Board of Directors depending on their level of importance. The policies and plans are implemented under the responsibility of the CEO. Meanwhile, the Responsible Investment Officer, the pertinent officers in charge in the Investment Management Division demonstrate leadership in the areas of stewardship activities, asset management operations and risks and opportunities of SMDAM, and handle individual risks and opportunities in a timely manner.

#### 2 Strategy

##### Climate Change Risks and Opportunities

We recognize the following as risks and opportunities caused by climate change.

(Risks)

- A decline in assets under management due to stock prices falling worldwide as a result of economic losses caused by global warming
- A deterioration in relative investment performance due to SMDAM investee companies being negatively impacted by the transition to a carbon-free economy

- An increase in reputational risk due to our investment activities being regarded as inappropriate from the standpoint of the reduction of greenhouse gas (GHG) emissions and our investment products being considered a form of so-called greenwashing
  - An increase in costs resulting from factors such as accommodating tighter regulations on climate change-related disclosure in Japan and overseas and procuring renewable energy in order to reduce our own GHG emissions  
(Opportunities)
  - An increase in new investment opportunities that include companies with innovative technologies that will contribute to the transition to a carbon-free economy and companies that can be expected to grow through a transformation of their business model
  - An improvement in relative investment performance through enhancing our capacity for research and analysis of non-financial information such as endeavors to address the issue of climate change
  - Expanded business opportunities from greater investor needs for investment products themed after solving or adapting to the issue of climate change
- Impact on Business and Strategy**  
(Investment)

● We at SMDAM manage all of our active investment products taking sustainability into consideration. Based on the increasing importance in recent years of such non-financial information, including that on climate change, we are working to further improve investment performance by conducting qualitative and quantitative research and analysis on the impact of non-financial information on stock and bond prices. Additionally, we support the practical application of innovations that will help smoothen the transition to a carbon-free economy and solve the issue of climate change through engagement in the form of dialogue

with investee companies and the exercise of voting rights in our capacity as a responsible institutional investor.

(Product Development)

- We work to develop and provide investment products that accommodate shifts in customer needs. These include investment with sustainability integrated into the investment process in a consistent fashion and products intended to improve sustainability.

(Operations)

- With a target of effectively zero GHG emissions by SMDAM (Scope 1 & 2) by 2030, we are working to reduce our energy consumption through such measures as promoting efficient office use, procuring renewable energy, and promoting paperless operations. We also established a sustainability procurement policy in July 2021 and are working to reduce GHG emissions in our supply chain (Scope 3).

#### Impact on Finance

One study\* has found that if outdoor temperatures were to rise by 2°C as of the year 2100, global GDP per capita in 2100 will be 15-20% lower than that it would be if temperatures remained unchanged from the first decade of this century. This is envisioned to have a negative impact on our profits through the decline in the market capitalization of global stock markets. Conversely, on an individual sector and company level, there may conceivably be cases of performance growth through lifestyle shifts and technological innovations. We will work to minimize any negative impact on finance by ascertaining and investing in sectors and companies where growth can be expected in our capacity as an asset management firm whose forte is active investment.

At the same time, given that we are an asset management firm, we do not own production facilities that emit GHGs, and as such are not anticipating any major transition risks that would

accompany operation. Additionally, we operate our businesses out of relatively small-sized offices that we maintain in major cities in Japan and overseas, and as such are not anticipating any major physical risks that would accompany climate change. Carbon offsetting, which is considered necessary to achieve effectively zero GHG emissions by 2030, is a factor that will increase costs. However, it is believed that any impact will be kept to minute levels.

\*Overview of the IPCC's Special Report on Global Warming of 1.5°C (July 2019), Ministry of the Environment

### 3 Risk Management

#### Climate Change Risk Evaluation

We assess climate change risks of investee companies using proprietary ESG evaluations and assign scores based on those companies' relative performance within their same sector. The issue of climate change is also one of our priority ESG themes. We practice engagement primarily with sectors that have high GHG emission levels and with companies that have considerable room to improve their ESG scores. Meanwhile, for our leading investment products, we measure climate change risks in portfolio units, verify measurement values for our entire portfolio as well as those for the investee companies that comprise it, and utilize them in investment decisions pertaining to stock selections.

#### Management of Climate Change Risks

In cases where climate change risk metrics are included in the investment guidelines of specific products, the Investment Management Division autonomously manages them just as it does other constraints. In addition, the Risk Management Department monitors the status of compliance and requests to the Investment Management Division to take the necessary actions or decide on a policy in situations in which thresholds are closely approached or encroached.

### Progress in Immediate Term

In March 2022, SMDAM became a member of the Net Zero Asset Managers Initiative (NZAMI) aiming to realize a society with net-zero GHG emissions. We disclosed our near-term targets as of 2030 on our website. We have been adequately monitoring GHG indicators and also striving to expand the coverage of AUM.

In the field of asset management, we annually conducted approximately 600 instances of exclusive engagements related to climate change and other environmental aspects across the globe. We held dialogues largely to encourage high-quality information disclosure based on superior case examples of disclosure. Additionally, as a form of CDP collective engagement, we led efforts to encourage Japanese corporations to acquire a CDP score. Also, together with the Japan Hydrogen Association (JH2A), we are preparing to launch an investment fund that aims to promote the popularization of hydrogen in Japan from a financing perspective. With amendments to the Basic Hydrogen Strategy of Japan in June 2023, there has also been an acceleration in efforts to achieve a hydrogen society in Japan, which is expected to result in a further increase in the need for funding in the hydrogen field. Furthermore, to timely address risks related to climate change, we hold monthly Sustainability Promotion meetings with the aim of facilitating the smooth execution of sustainability-related business activities.

## Disclosure Based on TCFD recommendations

### Indicators and Targets

SMDAM has established interim targets for 2030 based on our commitment to NZAMI ("Setting an Interim Targets for 2030 Based on Commitment to the Net Zero Asset Managers Initiative" [https://www.smd-am.co.jp/english/pressrelease/2023/NewsRelease\\_20230227\\_E.pdf](https://www.smd-am.co.jp/english/pressrelease/2023/NewsRelease_20230227_E.pdf)).

In addition to monitoring the status of progress related to interim targets that have been set, we are also endeavoring to expand coverage of our AUM.



#### [NZAMI Targets]

Item	Explanation	Notes
Scope	GHG emissions from the SMDAM portfolio	
Indicator	Carbon footprint	Indicators such as weighted average carbon intensity are also monitored as reference indicators.
Target	Net zero emissions by 2050 Reduce by half compared with end-March 2021 by 2030	Reference date: March 31, 2021; 96tCO <sub>2</sub> e/million USD Measurement date: March 31, 2023; 74tCO <sub>2</sub> e/million USD
Scope	Scopes 1 and 2	We also monitor indicators including Scope 3 emissions at investees. We plan to consider setting targets for Scope 1-3 emissions at investees, based on the progress of data disclosure at investees.
Coverage	Equivalent to 54% of SMDAM AUM (end-March 2022)	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.

#### [Information about TCFD disclosure]

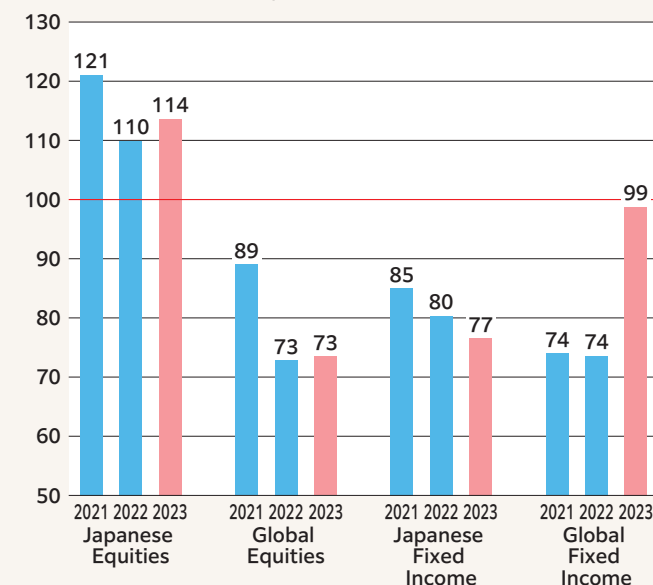
Item	Explanation	Notes
SMDAM portfolio	Japanese equities, global equities, Japanese fixed income, and global fixed income, managed in-house by SMDAM or externally-consigned	From 2023, AUM externally consigned to funds of funds (FOFs) have been added to the scope of applicable assets.
GHGs	Greenhouse gases	Carbon dioxide, methane, dinitrogen monoxide, specified fluorine compounds
Portfolio GHG emissions	Total GHG emissions linked to portfolio	$\Sigma$ [GHG emissions of issuers × (Value of issuer holdings) ÷ {(Issuer market cap) + (Total issuer interest-bearing debt)}]
Carbon footprint	GHG emissions per million USD portfolio value under the TCFD recommendations	Portfolio GHG emissions ÷ Portfolio value Carbon footprint for Japanese and global fixed income excludes government bonds, local government bonds, and government institution-related bonds.
Weighted average carbon intensity	Weighted average by holding weight of carbon intensity of each investee company	$\Sigma$ [(Issuer GHG emissions) ÷ (Issuer net sales)] × [(Value of issuer holdings) ÷ (Portfolio value)]
Carbon intensity	GHG emissions per million USD of net sales of investee companies	Portfolio GHG emissions ÷ $\Sigma$ [(Issuer net sales) × (Value of issuer holdings) ÷ {(Issuer market cap) + (Total issuer interest-bearing debt)}]
Benchmark	TOPIX for Japanese equities, MSCI Kokusai for global equities, Nomura-BPI for Japanese fixed income, and Bloomberg Global Aggregate Ex-Japan for global fixed income	
Scope	Scopes 1-3	

### SMDAM Portfolio Status

#### GHG emissions from the SMDAM portfolio (Figures 1 and 2)

A comparative analysis of our carbon footprint (Scopes 1-3) against benchmarks for each asset class shows that while results for Japanese equities exceeded benchmarks, results for global equities and Japanese fixed income fell below them. This was impacted by the fact that value equities make up a relatively large portion of our Japanese equities portfolio, and we are overweight in capital goods and materials sectors, which emit large amounts of GHGs. The large increase in the carbon footprint of our global fixed income was due to an increase in our investment exposure to India and other emerging markets, in line with the expansion of the scope of calculation to include externally consigned FOFs.

**Figure 1** SMDAM portfolio by asset class  
Carbon footprint (as of March of each year)



The benchmark for each year is set at 100  
(Source) Prepared by Sumitomo Mitsui DS Asset Management based on MSCI data  
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**2 Analysis of Transition Risks and Physical Risks in Portfolio (Figure 3)**

Using the “CVaR” analysis tool supplied by MSCI, we performed an analysis of the transition and physical risks in our portfolio.

The purpose of this analysis of multiple scenarios is to quantitatively ascertain the potential loss of value in our portfolio from climate change stress. More so than extracting accurate forecast figures, it is designed to enable us to draw up a future image of a scenario in which we subject our portfolio to stress without taking sufficient action.

The changes from the results of last year’s analysis are as follows. We believe that changes to MSCI’s evaluation models had a significant impact.

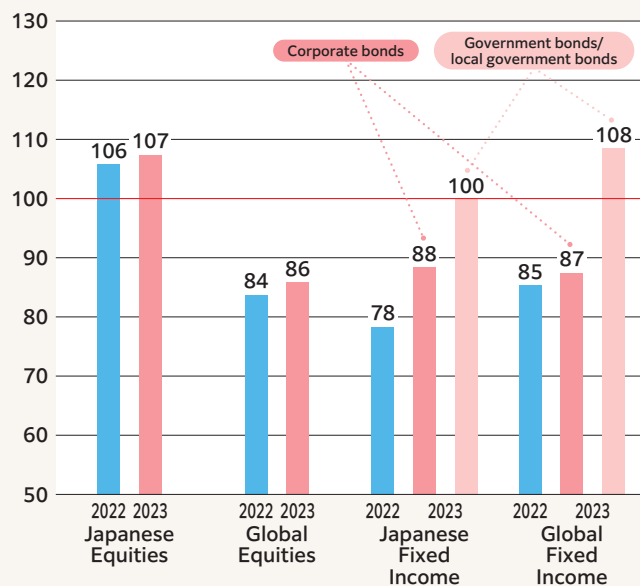
The risk of loss in the value of our portfolio increased compared with the previous year under the strictest scenario, where the rise in temperatures by 2100 is limited to 1.5°C.

Transition risks	Technological opportunities	The result of easing under the 1.5°C was reduced to +2.6% (+9.3% in the previous year).
	Policy risks	The risk of value loss related to Scope 3 emissions (supply chain emissions) under the 1.5°C scenario grew to -7.6% (-4.0% in the previous year).
Physical risks		The risk of value loss related to excessive heat under the 1.5°C scenario grew to -9.1% (-5.7% in the previous year).

**3 Analysis of Conformance of Portfolio with Paris Agreement (Figure 4)**

For the implied temperature rise index, we indicate conformant climate change target estimates in “C” units based largely on the GHG emission targets that our investee companies have committed to. We have arrived at the result that 64% (49% in the previous year) of our portfolio will be conformant with the 2°C scenario under the Paris Agreement in the future. On the other hand, investee companies that will not be conformant with the Paris Agreement at all under existing plans (the area indicated by the red line graph) constitute just 10% of our portfolio (16% in the previous year). We encourage investee companies to acquire SBT 1.5°C target certification, and this analysis indicates the success of these activities.

**Figure 2** SMDAM portfolio by asset class  
Weighted average carbon intensity (as of March of each year)



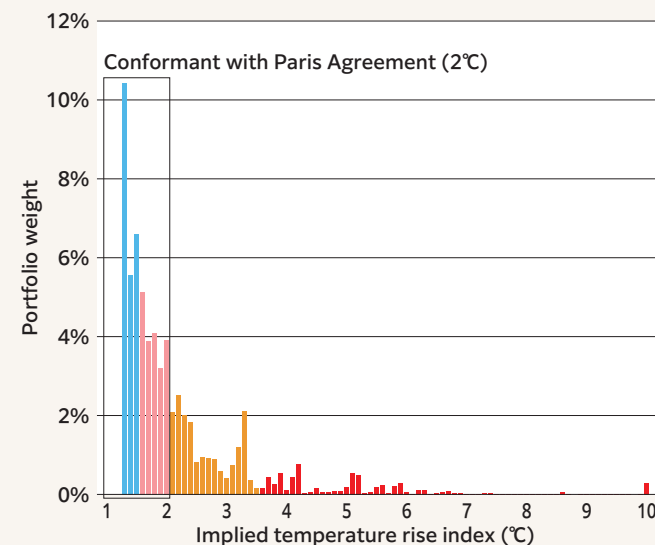
The benchmark for each year is set at 100  
(Source) Prepared by Sumitomo Mitsui DS Asset Management  
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**Figure 3** Potential loss of value of portfolio by temperature rise scenario (as of March 2023) (%)

Asset class	Scenario	Companywide portfolio		
		1.5°C	2.0°C	3.0°C
Transition risks		-11.3	-7.8	-2.4
Policy risks	Scope 1	-5.4	-4.8	-2.2
	Scope 2	-0.8	-0.4	-0.2
	Scope 3	-7.6	-3.8	-0.5
Technological opportunities		2.6	1.3	0.5
Physical risks (by cause)		-17.9	-17.9	-22.1
Excessive heat		-9.1	-9.1	-11.1
Coastal flooding		-7.1	-7.1	-8.8
Typhoons		-1.8	-1.8	-4.2
Heavy rain		-1.0	-1.0	-1.5
Flooding		-0.6	-0.6	-0.8
Rivers overflowing		-0.2	-0.2	-1.1

(Source) Prepared by Sumitomo Mitsui DS Asset Management  
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**Figure 4** Distribution of implied temperature rise index (°C) (as of March 2023)



(Source) Prepared by Sumitomo Mitsui DS Asset Management  
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