



Sumitomo Mitsui DS Asset Management

Sustainability Report 2020



CEO Message

As a responsible asset management firm entrusted with the precious funds from our clients, Sumitomo Mitsui DS Asset Management has been making all efforts possible to ensure that we are fulfilling our fiduciary duties. Before the Financial Services Agency of Japan finalized the Principles for Customer-Oriented Business Conduct in 2017, we announced our “Our Commitment to Fiduciary Duties” in 2015, which was well in advance to the regulatory authority’s announcement. The objective was to declare and demonstrate the required self-disciplines to fulfill our asset management responsibilities, and to ensure that we engage ourselves to a perpetual self-innovation process. Since then, expectations have been constantly rising towards the social roles to be executed by asset management firms, where we are obliged to gratify the needs of the society. Therefore, in August 2020, we decided to add sustainability elements and incorporate ESG factors to our previous commitment and to implement our upgraded set of “Principles of Fiduciary Duties and Sustainability”.

At the time of merger between Sumitomo Mitsui Asset Management and Daiwa SB Investments in April 2019, the corporate philosophy which we adopted as our missions and visions stated the following.

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

We, as professionals, focus on:

- Delivering the 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.

This corporate philosophy acknowledges that there are responsibilities to be discharged not only as an asset management firm, but also as a corporate citizen. Additionally, this corporate philosophy clearly states that these responsibilities are not limited to clients, beneficiaries, and to the general public, but also to our employees. Our “Principles of Fiduciary Duties and Sustainability” are aligned with this corporate philosophy as a universal and fundamental policy to guide and drive our business operations.

Sumitomo Mitsui DS Asset Management shall naturally fulfill our investment responsibilities as an asset management firm which pledged and declared “Our Commitment to Fiduciary Duties”, and also shall contribute to the society through capital markets as a firm serving in the investment chain. Once again, we are renewing our own resolution to execute these responsibilities now more than ever. Simultaneously, as a corporate citizen, we will strive to create an affluent society through CSR activities and measures to promote diversity while we work to preserve the global environment through environmentally friendly business operations and contribute to the realization of a sustainable society into the future.



Takashi Saruta

Representative Director, President and CEO

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Mission, Vision and Values

Our Mission & Vision

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

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To these ends, we commit ourselves to:

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- Creating a flexible working environment that allows all employees to reach their full potential.

Our Values

Sincerity

Customers' interest first

We act in fair and responsive manner by placing customers' interest as our values to become their most trusted partner.

Agility

Time - strategic resources

We address issues in a time-conscious manner to deliver new products and services to our customers earlier than peers.

Challenge

Confront the status quo

We challenge norms by exploring extraordinary products, services and processes in pursuit of the highest standard of investment management services.

Passion

Strive for an extra basis point

We dedicate ourselves to improve investment performance and business efficiency across all business areas.

Teamwork

Tackle conflict head-on in pursuit of value

We embrace diversity of views and ideas, and make collective efforts to achieve what cannot be done by one person alone.

Principles of Fiduciary Duties and Sustainability

To materialize our vision of becoming “the best asset management firm for your better quality of life (QOLs),” we, Sumitomo Mitsui DS Asset Management, are committed to fulfilling our fiduciary duties. As a responsible institutional investor, we are also committed to fulfill management responsibilities based upon high ethical standard and professionalism. We acknowledge that our current investment activities lead to the future development of a sustainable society. Therefore, we will not only fulfill our fiduciary duties but also engage in stewardship activities and ESG investment. Simultaneously, as a corporate citizen, the way we operate our business will be environmentally and diversity conscious. In addition to this and in order to contribute to the realization of a sustainable society, we will take an active role for the sound development of local communities. Through these initiatives, we wish to grow with our clients and society in the medium- to long-term.

Principle

1

We will fulfill our management responsibilities as a responsible institutional investor

- We will exert ourselves to cultivate investment professionals who will play a central role in asset management business, and work to enhance capabilities of investment management, trading operation and risk management through utilizing state of the art IT technologies and domestic and overseas networks.
- We will incorporate ESG factors into the investment process, and take a progressive approach to stewardship activities including engagement and exercising voting rights in order to encourage companies to enhance their sustainability and eventually contribute to augmentation of the company’s enterprise value over the medium- to long-term.
- We will develop and provide the most suitable products and services such as long-term investment products to accumulate assets by identifying the true needs of clients. We will also provide timely information on the investment products using IT technology.
- We will not only establish a rigid corporate governance structure that ensures the appropriate management of conflicts of interest and independence of management, but also endeavor to disclose risks and commissions with a high level of transparency.
- We will strive to maintain our soundness as a company and reinforce our crisis management system to be prepared for various contingencies.

Principle

2

We will strive to materialize a sustainable society through our asset management business

- We recognize the significance and essentials of asset accumulation for individual investors in an aging society with fewer children. Therefore, we will engage in investor education for a wide range of generations to raise the awareness for related issues and to improve financial literacy.
- We will work to resolve environmental issues, such as climate change, and social issues, such as human rights through our original stewardship activities and by participating in initiatives in Japan and overseas.
- We will strengthen our efforts to develop and provide products that focus on the sustainability of society.

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

- We will participate in CSR activities such as revitalizing communities and providing social welfare support.
- We will carry out environmentally conscious business management, such as reducing greenhouse gas emissions and plastic waste.

Principle

4

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

- We will put in place an environment where employees with variety of values can fully demonstrate their abilities and promote diversity, especially the active participation of women.
- We will provide a variety of career support programs so that all employees regardless of ages or assignments can take pride in their work and obtain professional expertise and insight required.

Highlights

Our Initiatives for Sustainability

2002	December	Adopted ROE criteria for Guidelines on the Exercise of Voting Rights
2009	November	Initiated ESG evaluation
	November	Launched a fund catered to qualified institutional investors, constructing a portfolio with Japanese companies based on information on their individual ESG activities
2010	March	Became a signatory to the UN Principles for Responsible Investment (PRI)
2014	May	Accepted Japan's Stewardship Code
2015	August	Announced "Our Commitment to Fiduciary Duties"
	October	Established FD Third-Party Committee
2016	April	Established Engagement Investment Dept.
	June	Introduced independent Outside Directors
	October	Established Stewardship Enhancement Section
2017	October	Became a member of the Institutional Investors Collective Engagement Forum (collective engagement)
	December	Became a signatory to Principles for Financial Action for the 21st Century
2018	February	Launched Sumitomo Mitsui Japan Stock ESG Fund Investing in Japanese companies anticipated to attract ESG investment <small>*Please refer to page 44 for our sustainability-related funds</small>
	March	Introduced ESG evaluation for REIT and domestic fixed-income investments
	April	Sumitomo Mitsui Asset Management and Daiwa SB Investments merged Established Responsible Investment Section
2019	April	Established Responsible Investment Committee and FD Advisory Board to strengthen our initiatives for responsible investment
	April	Introduced XNET to integrate operations for determining the exercise of voting rights
	December	Declared support for TCFD and joined TCFD Consortium
2020	December	Joined 30% Club Japan
	February	Became a signatory to Climate Action 100+
	August	Established "Principles of Fiduciary Duties and Sustainability" by adding sustainability elements and incorporating ESG factors to "Our Commitment to Fiduciary Duties"

PRI Assessment Rating

	2020
Strategy and governance	A+
ESG incorporation in listed equities	A+
Active ownership in listed equities	A+
Engagement	A+
Voting	A+



Fund Management Operations

With our network of over 300 investment professionals in Japan and overseas, we have established a global investment research platform that allows us to meet clients' diverse asset management needs.

Investment professionals

308

Average years of industry experience

15.3

CFA (Chartered Financial Analyst)

65



*As of April 1, 2020

- London**
Sumitomo Mitsui DS Asset Management (UK) Limited
- Singapore**
Sumitomo Mitsui DS Asset Management (Singapore) Pte. Ltd.

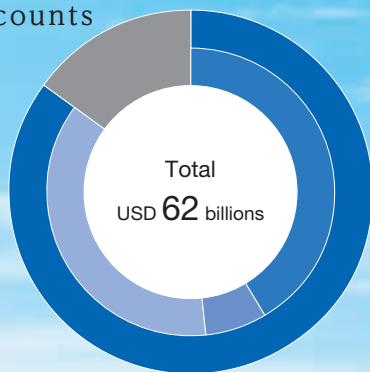
- Hong Kong**
Sumitomo Mitsui DS Asset Management (Hong Kong) Limited
- Shanghai**
Sumitomo Mitsui DS Asset Management Company, Limited
Shanghai Representative Office
- New York**
Sumitomo Mitsui DS Asset Management (USA) Inc.

Assets Under Management

Institutional accounts

- Domestic USD 53 billions
- Discretionary Accounts (Pension Funds) USD 26 billions
- Discretionary Accounts (Others) USD 4 billions
- Investment Advisory Accounts USD 23 billions

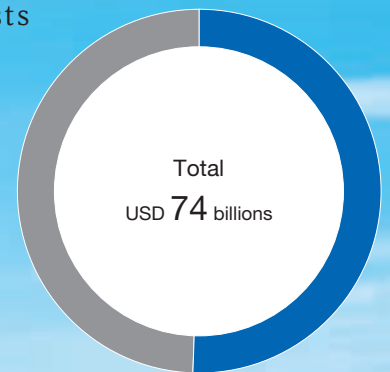
Overseas USD 9 billions



Investment trusts

Publicly Offered Funds
USD 38 billions

Privately Placed Funds
USD 37 billions



*AUM is as of March 31, 2020.

*Figures shown in US dollars are conversions from Japanese yen based amounts, at USD/JPY 107.955.

Corporate History



In April 2019, Sumitomo Mitsui Asset Management and Daiwa SB Investments merged to form Sumitomo Mitsui DS Asset Management
 In December 2019, it became a supporter to the FSB (Financial Stability Board) Task Force on Climate-related Financial Disclosures (TCFD)

Company Profile



Name	Sumitomo Mitsui DS Asset Management Company, Limited
Home Address	Toranomon Hills Business Tower 26F, 1-17-1 Toranomon, Minato-ku, Tokyo 105-6426, Japan Tel: +81-3-6205-0200
Paid in Capital	JPY 2 billion
Business	(1) Investment Management Business (2) Investment Advisory and Agency Business (3) Type II Financial Instruments Business
Representative	Representative Director, President and CEO Takashi Saruta
Number of Staff	1,074 (as of April 1, 2020 including overseas offices)
Ownership	Sumitomo Mitsui Financial Group 50.1% Daiwa Securities Group 23.5% Mitsui Sumitomo Insurance 15.0% Sumitomo Life Insurance 10.4% Sumitomo Mitsui Trust Bank 1.0%
Registered Number	The Director of Kanto Local Finance Bureau (KINSHO) No.399
Membership	The Investment Trusts Association, Japan; Japan Investment Advisers Association; Type II Financial Instruments Firms Association

Domestic Offices

Osaka Branch	Yodoyabashi Mitsui Building 3F, 4-1-1 Imabashi, Chuo-ku, Osaka 541-0042, Japan Tel: +81-6-4707-4855
Nagoya Branch	Nagoya Lucent Tower 15F, 6-1 Ushijimacho, Nishi-ku, Nagoya, Aichi 451-6015, Japan Tel: +81-52-587-5491
Subsidiary	Nikko Global Wrap Ltd. Koamicho Nikko Building, 9-2 Nihonbashi Koamicho, Chuo-ku, Tokyo 103-0016, Japan Tel: +81-3-4577-8800

Overseas Offices and Subsidiaries

Shanghai	Sumitomo Mitsui DS Asset Management Company, Limited Shanghai Representative Office Suite1002, 10/F, CITIC Square, 1168 Nanjing Road West, Shanghai, 200041, China Tel. +86-(0)21-5292-5960
UK	Sumitomo Mitsui DS Asset Management (UK) Limited 5 King William Street, London EC4N 7DA, United Kingdom Tel. +44-(0)20-7507-6400
USA	Sumitomo Mitsui DS Asset Management (USA) Inc. 300 Park Avenue, 16th Floor, New York, NY10022, United States Tel. +1-212-418-3030
Hong Kong	Sumitomo Mitsui DS Asset Management (Hong Kong) Limited 6/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong Tel. +852-2521-8883
Singapore	Sumitomo Mitsui DS Asset Management (Singapore) Pte. Ltd. 7 Straits View, #16-04 Marina One East Tower, Singapore 018936 Tel. +65-6297-6811

Message from the Responsible Investment Officer



We will reach out through engagement so that Japanese companies can regain earning power.

Yuji Kuramoto Chief Responsible Investment Officer

Sumitomo Mitsui DS Asset Management Company, Limited is a company established through the merger of two companies, namely Sumitomo Mitsui Asset Management and Daiwa SB Investments, on April 1, 2019.

Former Sumitomo Mitsui Asset Management announced “Our Commitment to Fiduciary Duties” ahead of the industry in 2015. This preceded the ethos of the “Principles for Customer-Oriented Business Conduct,” which the Financial Services Agency of Japan encouraged financial businesses to adopt in 2017, and set managerial goals of strengthening professional abilities in investments and providing financial services that contribute to and customers’ quality of life (QOL). When it comes to ESG, we have started our own ESG evaluation from 2009 and now assigned ESG scores to over 700 companies.

On the other hand, former Daiwa SB Investments led the way in the industry by implementing various efforts that are now common in the asset management industry, such as the introduction of ROE criteria in the guidelines for exercise of voting rights from 2002 and the adoption of the principle approach where decisions on exercise of voting rights are made in light of actual conditions of investee companies. Furthermore, Daiwa SB Investments appointed independent outside directors in 2017, set up a Responsible Investment Committee centered on independent directors, with the aim of strengthening management of conflicts of interest with customers and improving the transparency in operations with regard to decisions on exercise of voting rights as well as investment trust fees and income distributions.

These two companies carried out the management integration in 2019 and made a start under a new structure in order to continue to take on challenges as a true asset management professional who contributes to customers’ QOL over the long term. We recognize that the merger has enhanced our human

resources and created the responsible investment system that enhance both quality and quantity more than ever before.

Against the backdrop of frequent abnormal weather and marine pollution around the world, calls for various tighter regulations and companies’ responses have been growing at the global level to ensure sustainability of the global environment. CO₂ emissions per production unit are now an important element for corporate competitiveness, and companies’ interests, assets, businesses and others related to fossil fuels can be assumed to become “stranded assets” and may lose their value in the future. We are aware that risks related to sustainability are becoming a crucially important factor that influences existence of companies.

In light of such non-continuous and dynamic changes in the business environment surrounding investee companies, the Company has been strengthening the approach of incorporating evaluation and analysis taking various non-financial and medium-to long-term perspectives including the perspective of sustainability into the Company’s investment products according to respective investment concepts.

In addition, we have been and will be encouraging investee companies, through engagement with them, to solve sustainability-related issues and navigate business management to increase their sustainability. At the same time, to restore earning power of Japanese companies and bring a virtuous cycle of the Japanese economy, including job creation and an increase in national income, we will prompt the strengthening of managerial power that enables investee companies to take risks in an appropriate manner boldly through engagement with them.

We will continue to report details of our responsible investment activities regularly to diverse stakeholders including customers and companies that have agreed to hold dialogues with the Company.

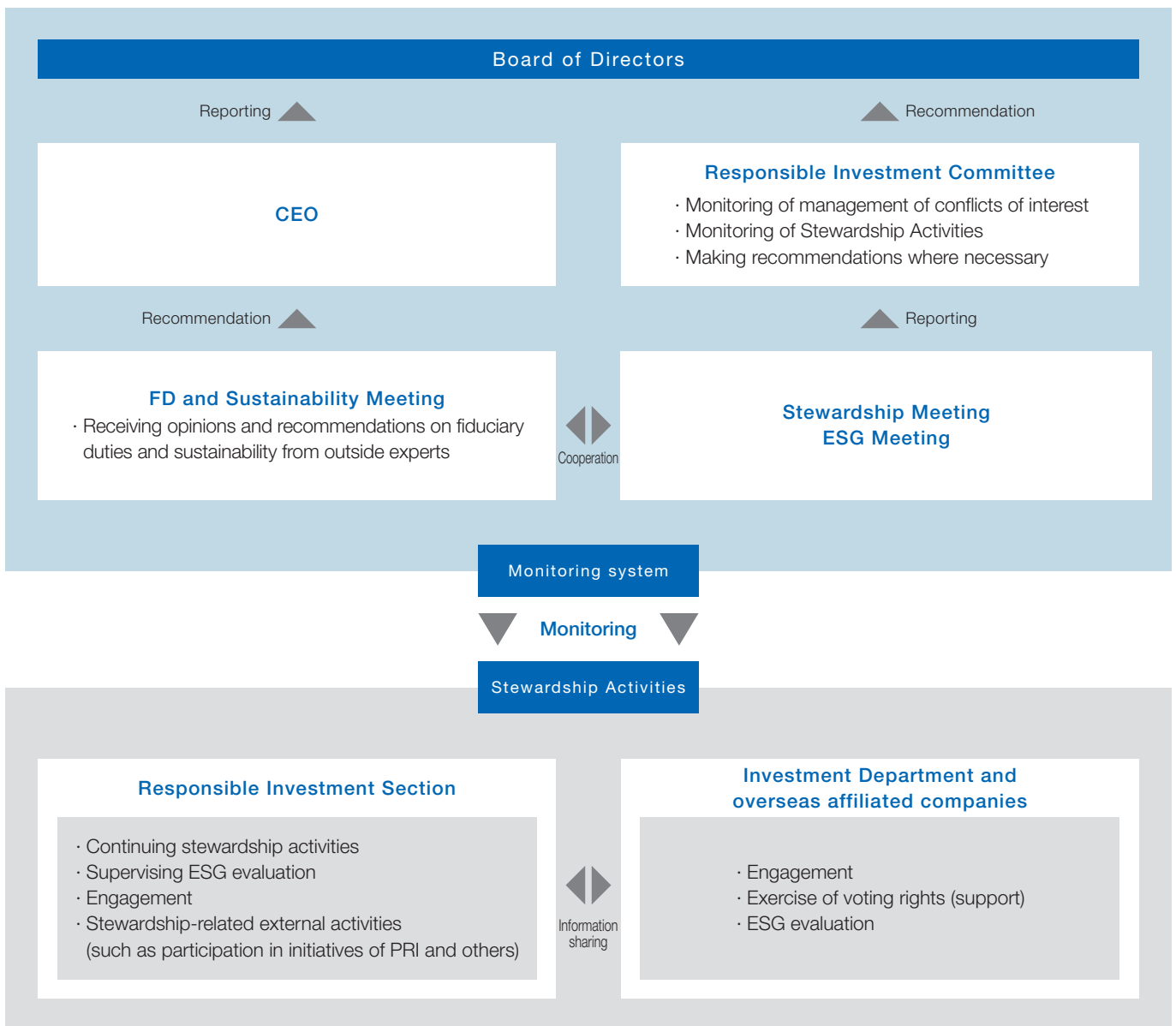
Overview of Stewardship Activities

“Stewardship responsibilities” are institutional investors’ responsibilities to increase investment returns for “customers and beneficiaries including final beneficiaries” over the medium- to long-term, by encouraging investee companies to improve their corporate value and achieve sustainable growth through “engagement”, constructive dialogue with medium- to long-term viewpoints based on deep understanding of investee companies and their business environment.

The Company has many experienced investment professionals, and analysts and fund managers at the Responsible Investment Section and the Investment Department conduct engagements so as to improve corporate value and mitigate any damage to

investee companies on a daily basis. Furthermore, we also conduct collective engagement with other institutional investors by proactively participating in third party’s initiatives. At the Stewardship Meeting and the ESG Meeting, our investment professionals share engagement activities and will lead to more efficient engagement through vigorous discussions from multidimensional perspectives. In addition, the Company conduct highly transparent management by managing potentials for conflicts of interest with its shareholder companies and business partners through monitoring by the Responsible Investment Committee including outside directors.

Overview of stewardship activities



Basic Concept for Engagement

Although engagement themes vary depending on situations of investee companies and REIT investment firms. (hereafter referred to as “investee companies”), we try to conduct engagement that contributes to improvement of the value of or mitigation of any damage to investee companies in accordance with the following basic policy. In addition, engagement topics are not always solved immediately, and discussions are continued over the medium- to long-term.

We conduct self-evaluation of the implementation status of Japan’s Stewardship Code annually and disclose the results. In the disclosure, results of engagements and examples of engagements can be found.



Basic policies

- 1 The Company will carry out engagements with investee companies to fulfill its fiduciary responsibilities to customers and final beneficiaries, as well as to contribute to the sound development of Japan’s capital markets and economic expansion by playing an instrumental role in the virtuous cycle of the investment chain, thereby achieving its social mission as a responsible institutional investor.
- 2 The Company will work to improve the value of or mitigate damage to investee companies by encouraging them to develop and implement appropriate medium- to long-term business strategy and vision based on medium- to long-term issues in the industry as a whole, a specific sector, or an individual company as well as to go far in information disclosure.
- 3 The Company will strive to conduct engagement pertaining to domestic securities (including J-REIT) from a perspective focused on both sustainability and the improvement of capital efficiency, while for other investment assets, engagement will be based on sustainability perspective that considers the characteristics, legal framework, and status of the relevant assets and countries.
- 4 In the course of engagement, the Company will also cover issues with the exercise of voting rights as well as ESG issues that affect sustainability, such as increasing awareness of climate change risks and the permeation of the sustainable development goals (SDGs).
- 5 The Company will also eye collective engagement under appropriate conditions if, in dialogue with investee companies, collaboration with other institutional investors is deemed effective.

Engagement Process

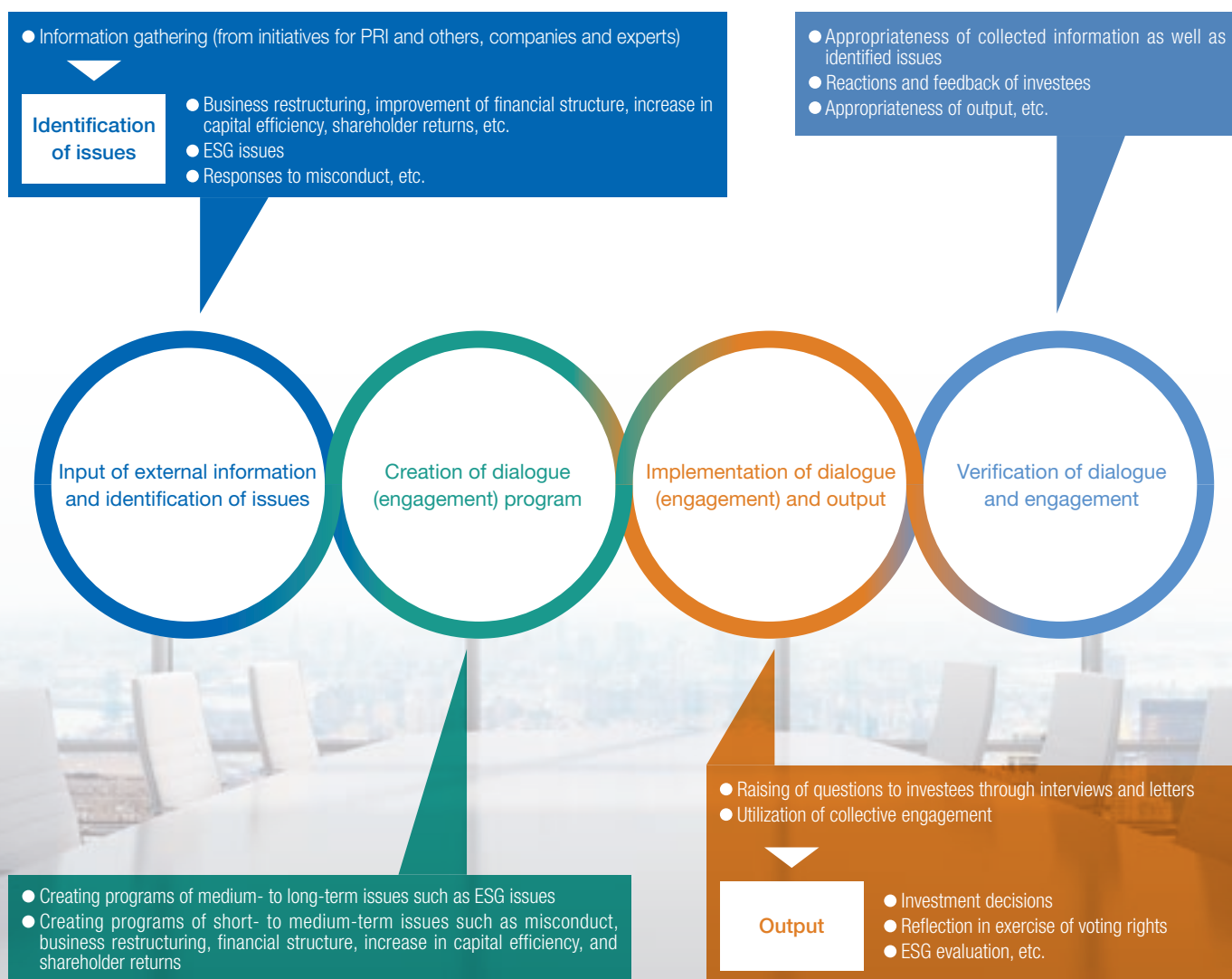
Our engagement process is illustrated as in the following table:

What is important in implementing engagement is recognition of issues and identification of the engagement theme. As the preliminary stage for engagement, an engagement topic is set for each investee company after careful preparations by reference to external information on social situation and others. While some themes are for the short to medium term, there are many medium- to long-term themes that require time to achieve their objectives. Therefore, we will continue to work to solve issues while appropriately understanding the progress including changes in activities of investee companies. The Company manages investment products for both active and passive methods as an all-round asset management company, and consciously conducts a dialogue focused on improvement of the value or mitigation of any damage to investee companies

for active methods and on raising the level of the entire stock market for passive methods.

After engagement, the dialogue is taken into account in investment activities such as reviewing forecast of investees' earnings results and the Company's own ESG evaluation, and exercise of voting rights based on information and responses received. In addition, the Company verifies effectiveness of the engagement through internal sharing of information, and looks back the engagement to further enrich the following dialogues. In the look-back, the Company may ask investee companies for feedback about dialogue to see if it was useful to both the Company and the investee companies. The Company's engagement process has been built by continuously repeating such a cycle.

Engagement cycle of Sumitomo Mitsui DS Asset Management



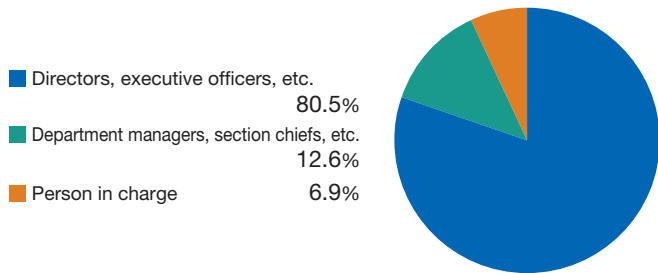
Results of Engagements

At the Company, investment professionals such as analysts and fund managers contact companies on a daily basis and approach them from various aspects through one-to-one dialogues, a variety of presentation meetings such as results briefing, tours of plants and facilities, telephone interviews and others. We define “one-on-one engagement between the investee companies and the Company” as an exclusive engagement and focus on these activities. Here, we show results of exclusive engagement in fiscal 2019.

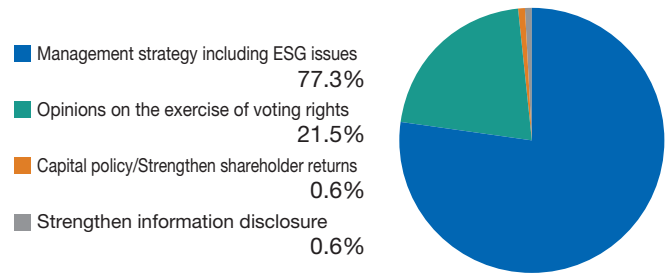
Results of exclusive engagements

We conducted 1,270 exclusive engagements through the year. In these engagements, approximately 80% of all companies have held dialogues with executive officers or higher such as directors and executive officers as the counterparties to these dialogues. The breakdown by topic of dialogue is as follows. Although multiple topics are discussed at the same time in actual dialogues, dialogues were classified by main topic in the counting. Engagements in which discussions went into the management and managerial strategy make up most of the engagements. This is thought of as a characteristic of the Company.

Counterparts of dialogues: breakdown by position



Engagement themes: breakdown by topic



Example (1)

Chemical manufacturer A

Preparation: setting a topic/issues

- Making discussions and expressing opinions on business continuity or sustainability
 - (1) Recognition of current situation and future policy
 - (2) Potential of existing businesses and new businesses

▼

Engagement: proposal to the investee company

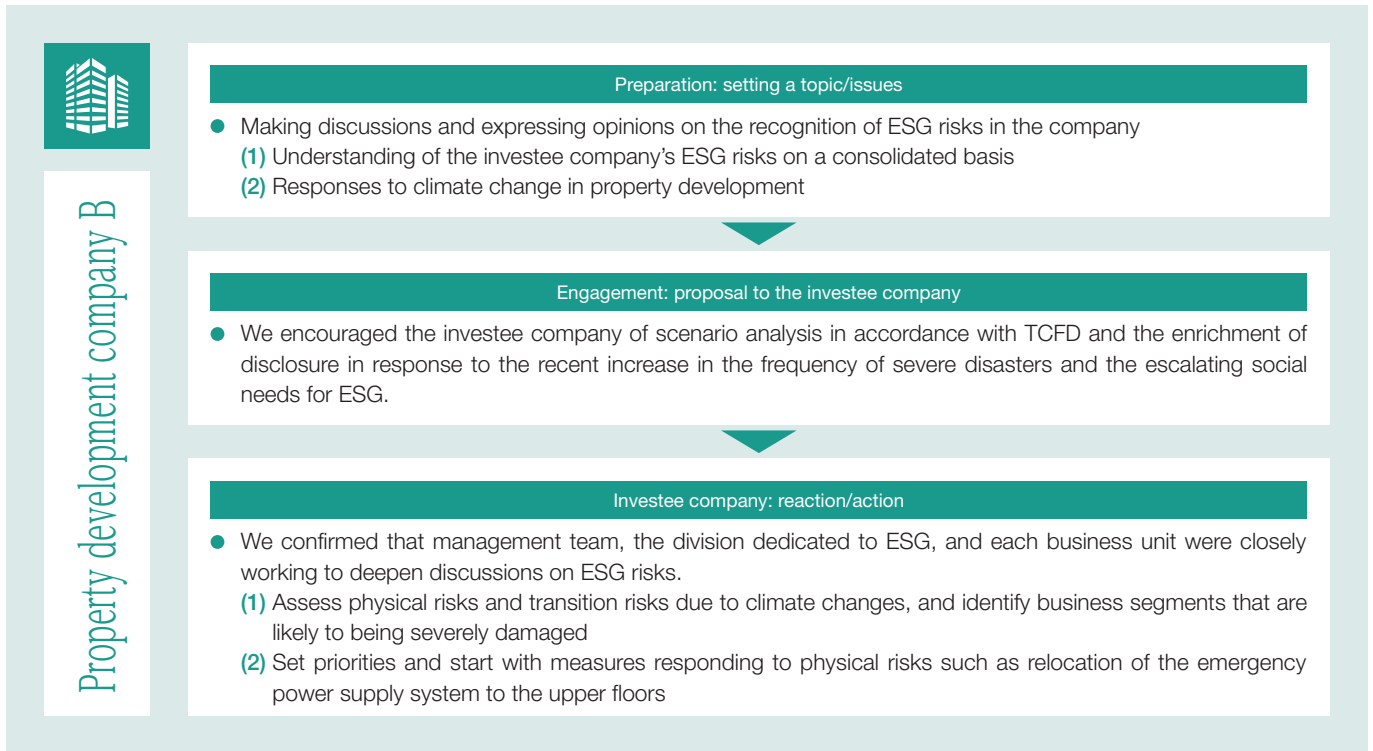
- We expressed our concerns, as an investor, about the risk that the company’s food and beverage-related business would shrink due to future social changes, then encouraged investee company to scrutinize current situation as well as to promote responsive measures from now on.

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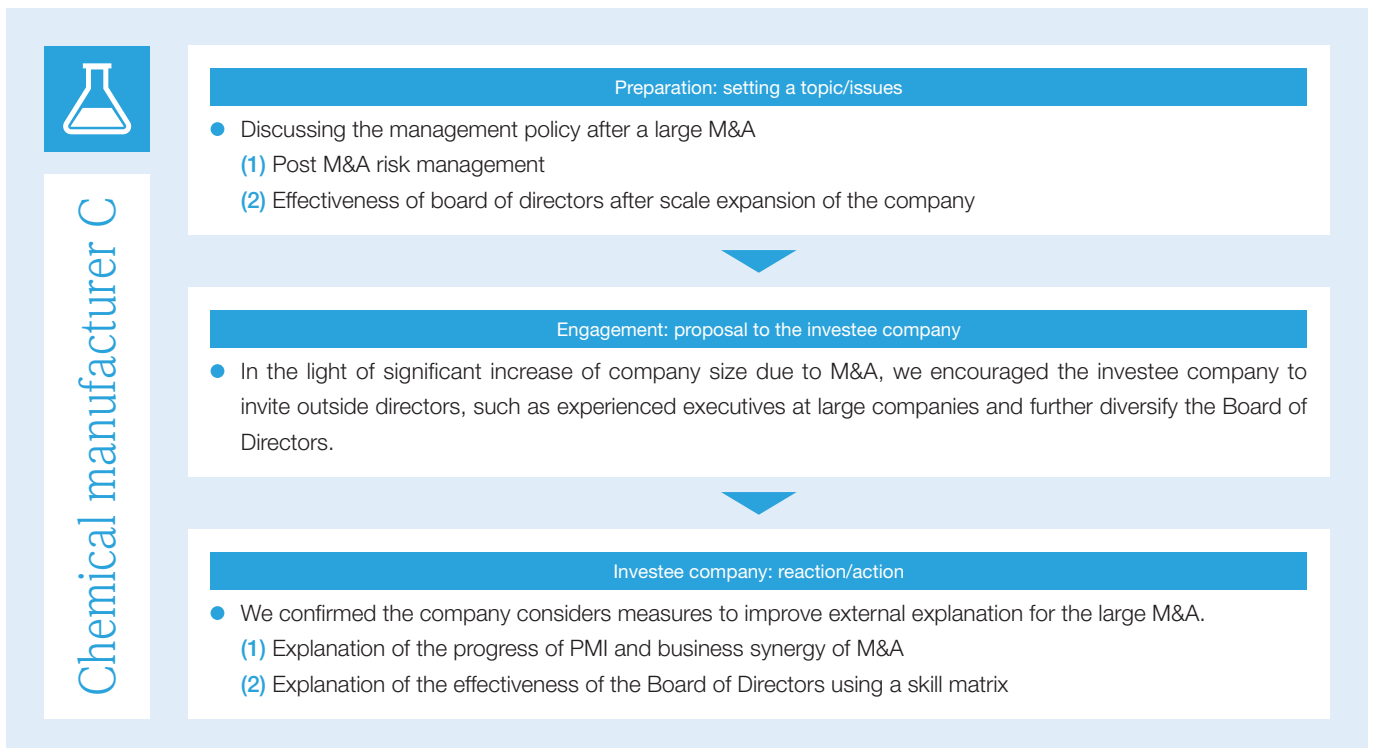
Investee company: reaction/action

- We confirmed that the company had an understanding of the risk of shrinking of the market for the relevant food and beverages and was making the following actions.
 - (1) Promoting improvement of productivity in the existing businesses using AI
 - (2) Focusing on creation of new businesses by strengthening R&D, including environmentally compatible products such as biodegradable resin

Example (2)



Example (3)



Basic Concept for the Exercise of Voting Rights

In fulfilling our stewardship responsibilities, we will exercise voting rights with the aim of improving value of or mitigating damage to investee companies for the benefit of customers and final beneficiaries.

Voting rights are important, as they can impact corporate management and REIT management, and change the value of an investee company, depending on exactly how they are exercised. We strive to exercise voting rights so as to prevent the management from damaging interests of shareholder or investor and to motivate them to create the greatest value by making effective use of the resources available within the company or REIT properties.

As an asset manager, the Company invests in assets that are expected to bring higher returns. We believe what we are able to do is not only to simply hold securities but to encourage sound development of investee companies and improve their corporate value through goal-oriented dialogue (engagement) and the assertive exercise of voting rights. We utilize voting rights in an assertive manner to ensure that investee companies to enhance their corporate governance and that capital markets are soundly managed, and to make investee companies aware of interests of shareholders and investors and also to let them develop desirable conditions.

The purpose of the exercise of voting rights is improvement of customer interests and satisfaction.

The exercise of voting rights is an activity leading directly to interests of customers and final beneficiaries through raising value in investee companies.

The first phase to exercise voting rights is a constructive dialogue with companies. We summarize problems and issues of each of investee companies and send questionnaire prior to dialogues. For example, we requested Company A to explain future vision on how to minimize “discount on the share price due to concerns on diesel engines business,” while we requested Company B for specific measures to strengthen internal control since we recognized a risk that the management’s pressure may lead to dysfunction of the corporate auditors and falsification of figures for quality on site. These are headlines of engagement agenda, and we actually have a dialogue on more specific issues.

The second phase is continuation of dialogue. We provide feedback about results of the exercise of voting rights and continue to prompt actions of each company for the matter in question. In the second and subsequent dialogues, the

Company (1) tries to follow the PDCA cycle in a dialogue based on records created and (2) strives to increase quality of its dialogues by sending a questionnaire to each company, while making efforts including aiming to hold a dialogue with consideration given to each company.

The third phase is improvement of companies’ earnings power. On the defensive side, we take a tough stance with any company that caused incidents in terms of social credibility from the perspective of customer and beneficiary interests. In such a case, we ask companies to account for incidents while we strengthen monitoring and appropriately vote against a proposed agenda on election of executives. On the other hand, as an offensive measure, we exercise voting rights favorably in such a case where a company proactively makes prior investments in development of human resources.

Through these activities related to the exercise of voting rights, we aim to enhance sustainability of investee companies, and eventually to expand interests of customers and final beneficiaries.



Takayuki Maekawa
General Manager,
Responsible Investment
Section

Major issues for the exercise of voting rights

- | | |
|---|--|
| Management Strategy | <ul style="list-style-type: none"> ● Development and implementation of appropriate medium- to long-term management strategy ● Improvement of return on equity (ROE) |
| IR and information disclosure | <ul style="list-style-type: none"> ● Engagement that encourages information disclosure ● Raising the value in investee companies in medium- to long-term |
| Capital policy/ Strengthen shareholder returns | <ul style="list-style-type: none"> ● Efficient investment taking capital cost into account ● Appropriate financial/capital structure, and cross-held shares ● Shareholder returns |
| ESG | <ul style="list-style-type: none"> ● Board composition, remuneration and incentives ● Internal control to prevent misconduct, etc. |

Criteria for the Exercise of Voting Rights

We have established our own guidelines for the exercise of voting rights for the purpose of contributing to improvement of corporate value through strengthening of governance of investee companies. In exercising voting rights, we do so after carefully examining all agenda proposals of companies on an individual basis in principle. In actual voting decisions, since external environment and specific factors to be addressed and progress of improvement for each investee company are taken into account through interviews and engagements, we do not necessarily vote against the proposal in the case of the conflict with the guidelines. The major items and the intent of establishment of the Company's voting rights guidelines are outlined below. Details of our guidelines are disclosed on our website (https://www.smd-am.co.jp/english/corporate/responsible_investment/).

Major items and the embedded ideas of the guidelines for the exercise of voting rights.

Proposals concerning the election and dismissal of directors

Criteria (In the case of the conflict with the guidelines, we may vote against the proposal)	Embedded Ideas of the Criteria
<ul style="list-style-type: none"> ● If ROE never exceeds the average for listed companies in the past three years. ● If liabilities exceed assets or there is a severe decline in profit, etc. ● If issue of social credibility occurs, etc. 	<p>These are ideas focusing on the management's responsibility for operating results.</p>
<ul style="list-style-type: none"> ● Composition of the board of directors such as cases where the number of directors is extremely large or where the ratio of outside directors is low. ● For companies that have a major shareholder or those that have introduced takeover defense measures, and others, we give especially serious consideration to the sufficiency of ratio of outside directors. 	<p>This is an idea that a certain number of independent outside directors is necessary to reflect the viewpoint of third-party and minority shareholders in managerial judgment. We believe that in the case where a major shareholder company exists, further guarantee on the structure side is needed for protection of minority shareholders.</p>

Proposals concerning the election and dismissal of outside directors

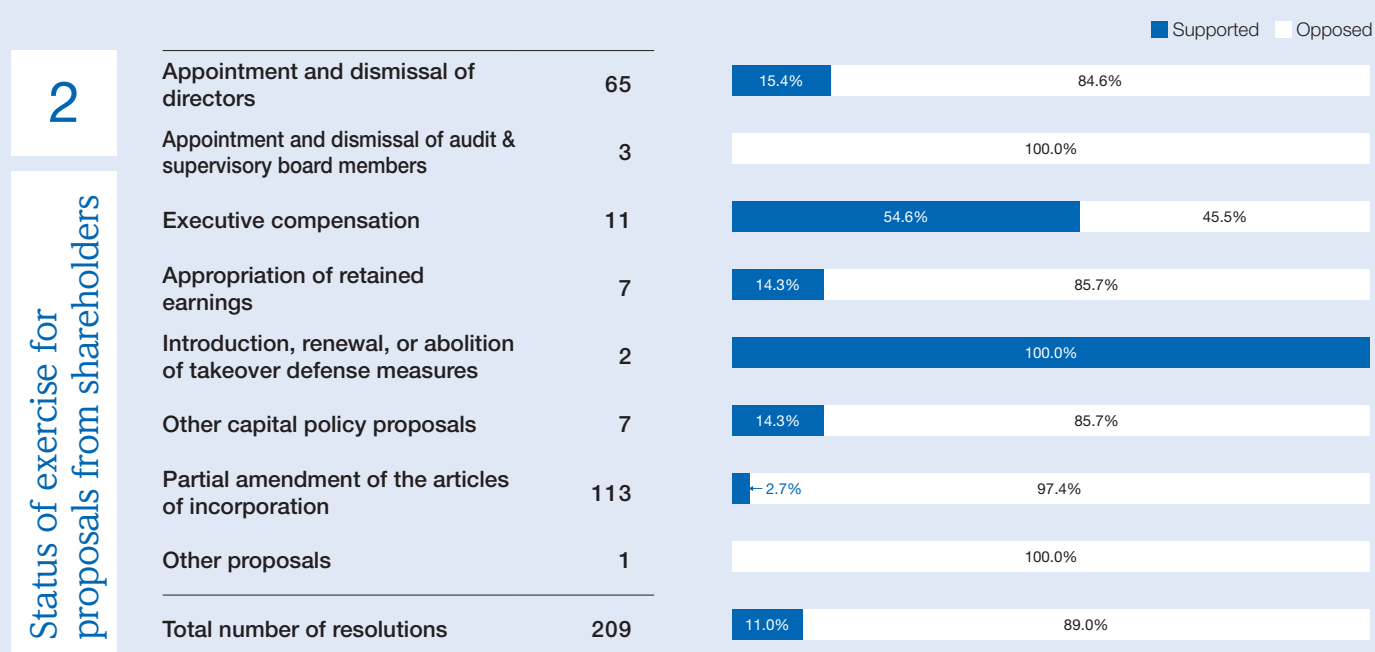
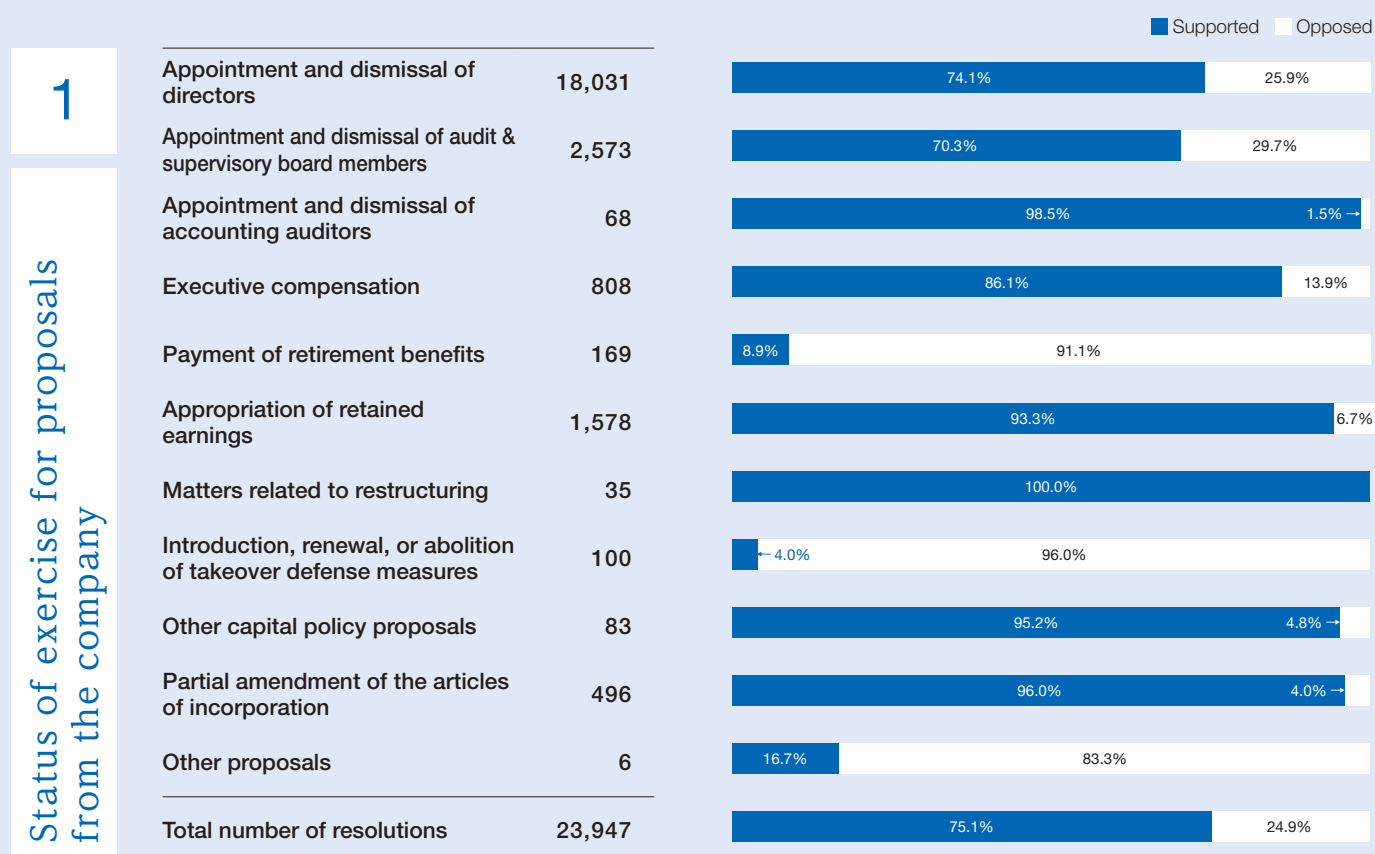
Criteria (In the case of the conflict with the guidelines, we may vote against the proposal)	Embedded Ideas of the Criteria
<ul style="list-style-type: none"> ● An outside director attends less than 80% of meetings of the board of directors, or a number of assignments served by outside director is extremely large ● Independence (major shareholders, parent company, major trading partners, counsel agreements, long term of office, etc.) 	<p>This is an idea that outside directors are required to appropriately supervise business management as a representative of minority shareholders, preferably they should have a high level of effectiveness and independence.</p>

Proposals concerning officer compensation, etc.

Criteria (In the case of the conflict with the guidelines, we may vote against the proposal)	Embedded Ideas of the Criteria
<ul style="list-style-type: none"> ● Appropriateness of the compensation amount; linkage with performance; appropriateness of stock options such as details leading to their provision, the timing of exercise, and the number granted; involvement of outside directors and the compensation committee and adequacy of disclosure ● Recipients of stock options include outside directors, directors who are audit committee members, auditors, and outsiders. 	<p>This is an idea that we shall focus on whether compensation incentivizes them properly, and whether it is not excessively paid. It is also an idea that preferably transparency of the process of determine compensation is ensured by involvement of outside directors and the compensation committee.</p>

Results of the Exercise of Voting Rights

Results of exercise of proxy voting rights for Japanese equities at general meetings of shareholders from July 2019 to June 2020 are as follows. Details are disclosed on our website (https://www.smd-am.co.jp/english/corporate/responsible_investment/voting/report/).



* For the composition ratio in the above chart, as the figures are rounded off to the nearest tenth, the total ratio may not be 100%.

Observation about the Results of Exercise of Voting Rights

The high objection rate regarding company-proposed resolutions differentiate us from other asset managers.

Taking this opportunity, I would like to tell my observation about the result of exercise of voting rights at general meetings from July 2019 to June 2020 described in the previous page.

I can say that the high objection rate regarding company-proposed resolutions is unique to the Company. Looking at the results by item, the highest objection rate is for proposals for introduction, renewal, or abolition of takeover defense measures. As an asset manager that manages important funds of beneficiaries, we basically take a position against takeover defense measures that may give rise to the possibility of self-protection of the management. We have made it a practice to support only if a takeover defense scheme is disclosed in detail, exercise conditions are limited to abusive buyers and we could confirm elimination of arbitrariness through dialogue.

The second highest rate of opposition votes is for payment of retirement benefits. We vote against if the amount of retirement benefits for directors has not been disclosed. In case of retirement benefits for directors, we see very often that persons eligible to be granted are disclosed while the total number of payments is not clarified and left entirely up to the company. Compared with companies in Europe and the United States, Japanese companies are less willing to disclose compensation.

The opposition rate for proposals for appointment and dismissal of directors was 25.9%. In light of materiality of directors' management, we have carefully examined proposals from various perspectives. We may oppose if ROE fell below the average for listed companies for three consecutive years. Nearly half of reasons for opposition to appointment and dismissal of directors were ROE.

What we are aware in the exercise of voting rights

In the exercise of voting rights, it is necessary to assess the company from various perspectives. Recently, product quality-related misconducts have also come to an issue even in major companies that are representative of Japan. Furthermore, amid the globalization of corporate activities, some insufficiently managed overseas subsidiaries engaged in accounting misconduct. In such situations, not only corporate earnings, but also whether any misconduct that may ruin social credibility has occurred, whether an effective governance structure has been demonstrated are important factors for voting decisions.

The Company not only conducts investment surveys focusing on earnings forecasts, but also actively exchanges opinions with investee companies on voting rights and governance in order to make effective voting decisions that contribute to improving corporate value. Although we may consequently vote against a



proposal, we exercise voting rights based on the thought that we would like to maintain an adequate tension with investee companies through the exercise of voting rights and lead it to further improvement of corporate value. While we have established and disclosed guidelines for the exercise of voting rights, these are for investee companies to easily understand problem consciousness of investors, rather than for automatic exercise. As situations varies among investee companies, we try to appropriately exercise voting rights with due understanding of the situation through daily dialogues.

Flexible responses in the exercise of voting rights in light of impact of the new coronavirus disease (COVID-19) at present

At present, because there are concerns about voluntary restraint and stagnancy of corporate activities due to the global spread of COVID-19, we have also flexibly applied the guidelines to managerial decisions to secure internal reserves for corporate sustainability or to give priority to investments in anticipation of post-COVID-19 society.

As we enhanced capability to promote responsible investments through the merger of Sumitomo Mitsui Asset Management and Daiwa SB Investments in April 2019, the number and scope of dialogues with investee companies have also been expanding more than ever before. Although time is physically limited as most of Japanese companies hold their general meetings of shareholders in June, we as a fiduciary of client funds will effectively exercise valuable proxy voting rights on behalf of beneficiaries.

Participation in Global Initiatives

To fulfill stewardship responsibilities as a responsible institutional investor, the Company has signed and accepted various global initiatives. We work cooperatively with other investors, and conduct engagement with investee companies. Here are major initiatives we participate.

UN Principles for Responsible Investment (PRI)

The UN Principles for Responsible Investment (PRI), which was released by then UN Secretary-General Kofi Annan in April 2006, are principles aimed to improve long-term investment performance for customers and final beneficiaries by being incorporated into the investment process, of institutional investors with understanding of ESG issues. Currently, the Company has received the highest rank “A+” in the comprehensive assessment (strategy and governance) by PRI and enjoys high acclaim.

Signatory of:



ACGA (Asian Corporate Governance Association)

ACGA is a non-profit organization mainly based in Hong Kong, which was established with the objective of working to improve corporate governance in Asian markets in 1999 based on the idea that corporate governance is an indispensable element for long-term growth of the Asian economy and capital markets.



Principles for Financial Action towards a Sustainable Society (so called Principles for Financial Actions for the 21st Century)

Principles for Financial Actions for the 21st Century are principles compiled in October 2011 as action guidelines for financial institutions that want to fulfill responsibilities and roles necessary to form a sustainable society.



TCFD (Task Force on Climate-related Financial Disclosures) and TCFD forum

TCFD was established in April 2015 by the Financial Stability Board at the request of G20. As the possibility of climate changes threatening the stability of financial systems has been increasing, the task force was set up to discuss the disclosure of information on climate change and how financial institutions should respond.



CA100+ (Climate Action 100+)

Climate Action 100+ is a collective engagement program which identifies and conducts engagements with over 100 global companies that release a large amount of greenhouse gas emissions, aiming to achieve the Paris Agreement. This program is to be implemented over five years from December 2017. From the standpoint of asset management, it asks for reduction of greenhouse gas emissions, monitoring of climate change-related risks and opportunities, and improvement of environmental information disclosure in line with the TCFD.



30% Club Japan Investor Group

30% Club, which was founded in the United Kingdom in 2010, is a global campaign aimed at an increase of the proportion of women on seats in companies' important decision-making bodies, including the board of directors. Its Japanese body, 30% Club Japan, went into action in May 2019. Investor Group aims to share the importance of gender diversity with the management of investee companies and to exercise influence in achieving the goal.



Status of Responses to Japan's Stewardship Code (Principles for Responsible Institutional Investors)

The Company has expressed the acceptance of the Stewardship Code. With a view to increasing medium- to long-term investment returns that will be interests of customers and beneficiaries, we have been proactively working on stewardship activities aiming to encourage investee companies to enhance their corporate value as well as on ESG investment including analysis and assessment of non-financial and medium- to long-term factors of investee companies and incorporation of such investments into the investment process. The following is a summary of our achievement pertaining to the Stewardship Code in fiscal 2019 and our policy for the future. The details are disclosed on our website (https://www.smd-am.co.jp/english/corporate/responsible_investment/stewardship/self_evaluation/).

Principle		Achievement in fiscal 2019	Policies for the future
1	Policies	<ul style="list-style-type: none"> Announced policies of the Company after merger 	Enhance initiatives to increase medium- to long-term cash flow of investee companies, leading to continuous improvement in shareholder value
2	Managing conflicts of interest	<ul style="list-style-type: none"> Announced the management policy for main conflict types Held Responsible Investment Committee (quarterly) Utilize a proxy advisory firm (ex. voting for shareholder companies) Disclosed individual voting results (quarterly) 	Further strengthen the structure through monitoring of potential conflict of interests by the Responsible Investment Committee
3	Accurate understanding of company information	<ul style="list-style-type: none"> Held dialogues including medium- to long-term managerial issues (1,270 cases) Made ESG evaluation by analysts (more than 700 companies) Maintained the highest rank, A+, in the comprehensive assessment of PRI 	Further improve analysis and evaluation abilities for medium- to long-term non-financial information including ESG factors
4	Dialogues with companies	<ul style="list-style-type: none"> Encouraged investee companies to improve corporate value and sustainability Gave feedback about results of the exercise of voting rights Encouraged disclosure on responses to COVID-19 	Further enhance exclusive engagement activities while taking advantage of the framework of collective engagement appropriately
5	Exercise of voting rights	<ul style="list-style-type: none"> Utilize a proxy advisory firm (ex. voting for shareholder companies) Disclosed individual voting results (quarterly) <p>* Reasons for support have also been disclosed since general meetings of shareholders in April 2020.</p>	Make voting decisions taking the current measures and future changes of investee companies into account based on dialogues with them.
6	Reporting the status of initiatives	<ul style="list-style-type: none"> Published the engagement activities performance on our website Used a general-purpose reporting format (smart format) Developed an ESG database (DB) Initiated the establishment of an engagement DB for assets other than stocks 	Report efficiently and effectively, taking account of intentions from various asset owners
7	Maintaining and developing capabilities	<ul style="list-style-type: none"> Formed the highly diverse Board of Directors including three Outside Directors at the inception of a new company Enhanced manpower for analysts in charge of responsible investment and corporate research Held Stewardship Board/ESG Board meetings (monthly), Responsible Investment Committee meeting (quarterly) Upgraded ESG and engagement DBs 	Strengthen the structure to manage conflicts of interest and engagement capabilities, and further utilize knowhow of the two former companies
8	Service providers	<p>* Because Principle 8 was newly established in the revision of the code in March 2020, there is no related achievement for fiscal 2019.</p>	Request a proxy advisory firm to appropriately fulfill stewardship responsibilities

Basic Policy and Initiatives for ESG Investment



Basic policy on ESG investment

We believe that non-financial information including environmental, social, and governance (ESG) is equally important as financial information for us to evaluate sustainability of businesses and impact on long-term profitability or mitigation of any damages of investee companies given the increasing interest on environmental changes and SDGs. In that context, we proactively take following actions.

Basic policies

- 1 We integrate analysis and evaluation of non-financial information including ESG into investment process of every product across variety of asset classes, taking account of characteristics of products. With our commitment to do this, we aim to be a front runner in the field of ESG investment.
- 2 We exercise our voting rights taking into account engagement activities relating to ESG theme.
- 3 We aim to contribute to increasing corporate value of investee companies through engagement activities with them where we communicate our views as well as clarify ESG agendas they should address to enhance their value or to mitigate any damages.
- 4 We also encourage corporations to disclose more detailed information of ESG related policies and actions, which we believe leads to favorable reputation among capital market participants.

In summary, through these actions, we as a responsible institutional investor will fulfill our fiduciary duties by providing good quality investment returns leveraging analysis and evaluation of non-financial information including ESG.

ESG integration

In principle, the Company, under the Basic policy on ESG investment, invites all of fund managers and analysts engaged with active investment management products to take into account ESG factors, which are material to corporate sustainability, in the course of the investment process*.

* This principle may not apply to passive investment management products and others such as long/short products that are technically difficult to accord with the principle.

1. When we concern the sustainability of corporations due to outcome of our internal ESG research or acknowledgement of any misconducts, we will examine materiality of the incident and difficulty to recover through various means such as interviews and decide to add to negative list if necessary. Such a decision is made by Responsible Investment Officer after deliberation at ESG Meeting. Meanwhile, fund managers and analysts in cooperation with Responsible Investment Section conduct engagements and exercise voting rights to prompt investee companies to appropriately address critical issues.
2. We take ESG factors into consideration as a material element to evaluate sustainability when we make investment decisions. In particular, we incorporate analysis and evaluation of ESG factors into security selection process to the extent suitable for characteristics of each investment product so that we are able to deliver stable return in the long run. (consideration of sustainability in investment decisions)
3. We continuously monitor ESG related indicators including greenhouse gas emissions at a portfolio level. Measuring results is evaluated and reflected to investment process going forward as appropriate.
4. We continuously enhance various ESG integration methods including security screening, engagement activity and the extent of ESG evaluation taken into account in portfolio construction. With these efforts, we will try to increase a number of products for which ESG factors are more actively integrated. We will also monitor and improve effectiveness of ESG integration.

Types of ESG integration

Name	Standard	Sustainability Focus	Social Contribution-Thematic/ Impact Investment
Definition	Manage funds or portfolio with sustainability-related risks and opportunities being as one of important factors in investment decisions. In addition to the case where certain companies and sectors set forth in the investment guidelines are excluded, there are cases where the Company places limits, at its discretion, on holding of companies in which material problems and concerns are raised for sustainability.	Manage funds or portfolio by selecting companies, among extensive investment universes, that excel in the sustainability characteristic by qualitative or quantitative methods or companies that are expected to improve the characteristic through engagement activities.	Manage funds or portfolio by investing in companies that contribute to improvement of sustainability of society such as SDGs.
Factors of ESG Integration*	Screening	Negative screening (Exclude companies restricted by investment guidelines or companies the Company considers ineligible)	Positive screening (Apply a certain criteria to define investable universe)
	Engagement	Consider the need for engagement with ESG theme for each investee company, and conduct engagement if necessary	Same as on the left
	Consideration of sustainability	Evaluate sustainability as one of important factors in investment decisions	Same as on the left
Products* (as of the end of August 2020)	In principle, all active investment products (excluding products shown on the right)	<ul style="list-style-type: none"> • Japan Equity New Alpha Fund • Japan Equity Quality Focus Fund • Japan Equity Engagement Strategy • Japan Equity ESG Fund • Japan Bond Credit Active type • Japan Equity Value (TOPIX, Large Cap) 	<ul style="list-style-type: none"> • Japan Impact Fund • Global Impact Fund • Global SDGs Equity Fund • Global SDGs High Income Fund

* The funds managed by external investment managers may not partially be relevant due to the managers' investment methods.

Unique ESG Scores

We calculate ESG scores based on our proprietary methodology and now evaluate over 700 companies. Features of the Company’s ESG evaluation are as follows. ESG scores are actually utilized within investment process of our investment funds.

- Feature 1** Our ESG evaluation consists of two components: basic evaluation based on published information on the company, and analyst evaluation leveraging dialogues with the company
- (1) **Basic evaluation**
 - ➔ Analysts at Responsible Investment Section make the evaluation based on the information provided by third-parties such as external ESG research institutions.
 - (2) **Analyst evaluation**
 - ➔ Sector Analysts at Corporate Research Group make the evaluation based on qualitative information obtained through their own research and analysis as well as dialogues with investee companies.
- Feature 2** For both basic evaluation and analyst evaluation, items have been set uniquely, and prospect forecasts are incorporated in analyst evaluation.
- We employed the bottom-up method where detailed items in E, S and G are respectively evaluated for each company. In addition, analyst evaluation also incorporates the item of possibility for future changes.

ESG evaluation process



Fund Manager's Viewpoint (Japanese Equity Quants Strategy)

The Quantitative Investment Group manages funds specialized in ESG. How does the team leverage ESG information in security selection?

In the funds we manage, we focus on changes in companies' efforts to address ESG issues in security selection.

We believe that companies that show progress on improvement in ESG evaluation can be expected to be more profitable by improving the corporate value through lowering capital cost. We can say this point is extremely different from other ESG funds that invest in companies with a high ESG evaluation.

In selecting stocks, we make examination through two evaluations: "basic evaluation" to evaluate companies' efforts for ESG based on published materials such as annual reports; and "analyst evaluation" to indicate the potential based on insights of our in-house analysts who are well-versed in corporate research and gather information through dialogues directly with the top management.

Based on this process, the following are candidate stocks for our portfolio.

- Stocks with a high scores in both "basic evaluation" and "analyst evaluation." This means companies are making excellent efforts for ESG and also expected to show steady progress in the efforts.
- Stocks with score of "analyst evaluation" surpassing that of "basic evaluation." This means companies' efforts for ESG are underestimated and expected to improve in the future.

We capture changes in companies' efforts to address ESG issues by investing in these two types of stocks then aim to bring in returns efficiently using the quantitative mechanism.

You have made investments based on your own ESG evaluation. How do you collaborate with in-house analysts?

I think benefits from ESG investment can be gained over the medium- to long-term. Therefore, we observe the followings as essential monitoring items in investment management.

- (1) "capital cost" utilized as a surrogate variable for sustainability, and
- (2) "news on misconducts of companies."

I will give a little explanation of item (1). In terms of corporate value calculation, lower capital cost will lead to improvement in future sustainability and is expected to bring an improvement of medium- to long-term corporate value. We believe that this chance will increase for companies whose ESG scores are expected to improve. On the other hand, if we confirm that investee companies' capital cost tends to increase or deteriorate in sustainability, I ask our in-house analysts with a concern of decrease in companies' corporate value to revisit ESG evaluation.

As for item (2), there is a risk of a steep fall in stock prices in the short term. In some cases, if the market judges that impact on the finance is limited, or the company has subsequently taken sufficient recurrence prevention measures, the stock prices may recover. However, because there is a risk that the corporate culture is problematic and a misconduct might take place again, I ask analysts to examine details and severity of incidents and review whether the ESG evaluation should be changed.



Hiromasa Morioka

Head of Quantitative Investment Group, Investment Department

Fund Manager's Viewpoint (REIT)



Etsuro Akiyama
Unit Leader of REIT Unit, Investment Department

Incorporating unique ESG evaluation into REIT investment strategy

We have managed J-REIT strategy since spring 2007 and Asia and Oceania REIT strategy since autumn of the said year, and now covers approximately 90%* of REITs in the Asia and Oceania region including Japan (hereinafter, "the Region").

* Calculation based on the market cap of S&P REIT Index component.

ESG integration for REIT strategy has begun penetrating the Region only in recent years, following Europe and the US. In our REIT investment strategy, we first developed our own ESG evaluation for J-REIT, then expanded the coverage to the Region as a whole in 2019.

To develop our ESG evaluation, we added evaluation items reflecting analysis of information collected ourselves to scores of GRESB, an external ESG research institute, which are regarded as a global standard in the real estate industry, and adjusted the evaluation items and content for country by country, taking into account characteristics of each REIT market. This enabled cross-country comparison and detailed analysis of REITs in the Region in terms of ESG evaluation. These ESG evaluation scores are utilized as one of the important analytical factors from a multifaceted perspective, together with metrics such as PER, in the stage of stock selection within investment process.

Based in Singapore, developing engagement activities in the Asia and Oceania region

Detailed local research including ESG and individual meetings with REITs have been conducted for J-REIT by the Tokyo based team and for Asia and Oceania REIT by the Singapore based team respectively. Our two dedicated REIT analysts in Singapore office have accumulated research know-how in J-REIT and have established trust relationships with the top management of REITs

in the Region ex Japan and achieved the level of research that is just as good as J-REIT.

In individual meetings with REITs where we make proposal for managerial strategy, request for tangible improvement for information disclosure and discuss about exercise of voting rights, we deepen dialogues by utilizing analysis of ESG evaluation and strive to increase shareholders' value through discovery of hidden value. Particularly, in engagements with overseas REITs, the Singapore base's strong ties with the top management of REITs are our big advantage.

Focus on measures in the "S: society" field amid the COVID-19 crisis

In response to the spread of new coronavirus disease (COVID-19) from the beginning of this year, REIT investors' interest in REIT ESG is expected to grow from now on. Until recently, attention has been given to "E: environment" and "G: governance" such as environmental issues including reduction of CO₂ emissions, internal control structure and information disclosure. Currently, efforts for "S: society" by REITs, which have not been envisioned before are drawing attention. For example, some hotel REIT provided its properties as isolation facilities for affected individuals with only minor symptoms while some commercial facility REIT responds to requests by its tenants for reduction of rents or extension of payment. Taking this opportunity, we believe the importance of ESG factors will also increase further in REIT investment strategy.

To this end, we are willing to implement ESG research, engagement and exercise of voting rights with high aspirations to contribute to enhanced sustainability of the entire REIT market in the Region. Also we will continuously improve our ESG evaluation methods taking into account changes in the external environment so as to improve shareholders' value through engagement. Then, we aim to develop REIT ESG research into one of core sources of excess return.



Sumitomo Mitsui DS Asset Management (Singapore) Pte. Ltd.

Tomoya Nose
Analyst

Junnosuke Shinkawa
Senior Fund Manager

Fund Manager's Viewpoint (Fixed Income Credit Strategy)

What are features of fixed income ESG integration of the Company?

It is “ESG estimation rating model” that makes our fixed income credit investment process unique as the model incorporates ESG scores as explanatory variable to determine credit standing of individual issues. Although it is already common in Japan that credit analysts take ESG scores into account as a source of qualitative judgment to select securities, the Company tries to estimate credit rating based on non-financial information (ESG) utilizing the propriety quantitative model, in addition to determination of credit standing by analysts based on financial information, in its active fixed income credit investment strategy.

We can say that negative screening utilizing our quantitative model to sort out companies that are likely to be downgraded in addition to the common evaluation method using ESG scores, is a unique ESG integration method even on a global basis.

What is the “ESG estimation rating model”?

This model is to estimate credit rating with only ESG scores as an explanatory variable using the method of machine learning. Datasets used as an explanatory variable are based on ESG scores provided by the Responsible Investment Section. The accuracy of the model is equivalent to or more than traditional, popular credit rating estimation models which rely primarily on financial data. The model is periodically verified by extending the learning period. We, Fixed Income team, had closely worked with the Responsible Investment Section and the Investment Planning Department to develop the model through trial and error, and put it into use in FY2018.

With this model, securities in the domestic universe are screened based on objective criteria eliminating arbitrariness as indicated below. Because we can refer to the direction of credit rating changes estimated based on the systematic ESG evaluation, credit analysts can be more conscious of ESG factors in determining credit rating.

- “ESG estimation rating” surpasses “credit rating”
 - ➔ Used as indication of “upgraded”
- “ESG estimation rating” is at the same level as “credit rating”
 - ➔ Used as indication of “unchanged”
- “ESG estimation rating” falls below “credit rating”
 - ➔ Used as indication of “downgraded”

ESG integration in investment process

Japan credit team prepares the following lists by two types of negative screening of securities in the universe every month.

- (1) “ESG negative list”: The list consists of issues for which the ESG estimation rating model indicates downgrade
- (2) “ESG monitoring list”: The list consists of issues for which our own ESG scores fall below a certain threshold.



Yuji Hatakeyama

Senior Fund Manager, Investment Department

In the investment process, credit analysts review credit rating of issuers in these lists, reflect the results in various internal indicators such as internal rating, individual factor score and R rating. Analysts share their views based on their analytical work with fund managers at credit meetings so that fund managers can make investment decisions.

Fixed income engagement/overseas credit

From the perspective of not only eliminating unexpected credit risks but also implementing the Stewardship Code, we consider fixed income engagement as important part of our investment activities. For domestic credit strategy in particular, engagement activities are recorded and properly followed-up have been developed and progress is shared among investment professionals at credit meetings as well as Stewardship Meetings and ESG Meetings, which are cross-sectional meeting structures.

With regard to global credit strategy, we have also introduced ESG integration where credit analysts give three-grade “ESG outlook” to each security in the universes of Americas, Europe, Australia and China. Such an ESG outlook is taken into account to determine credit rating as well as to sort out securities not qualified for investment.

As only a few years have passed since rating agencies began specifying ESG factors clearly in their rating methodology, fixed income investors are still challenged in terms of effective systems of ESG investment management. We would like to improve our analytical capabilities and quality of investment management for fixed income ESG investment and make it a stable source of excess returns.

Corporate Research Analyst's View



Shinji Asai

Head of Corporate Research Group, Investment Department

ESG evaluation approach by corporate research analysts

We widely cover basic ESG information described in environmental reports and annual reports in detail, efficiently utilizing external database. On the other hand, ESG information on which we, as analysts, focus is fresh information obtained through day-to-day interviews with investee companies. For example, we evaluate adequacy of information disclosure, degree of management commitment, effectiveness of the risk management system, potential of environmentally compatible products, and so on. Because it is difficult to establish objective criteria common to industries facing different environments and challenges to be addressed, the evaluations are made based on judgment of analysts. Specifically, analysts compare companies in the same industry that they are in charge of and make a relative evaluation. This is a scene where analysts demonstrate their experience of watching companies and deep knowledge of the industry. In addition, while management changes and announcement of medium-term

business plans are important events for us to make ESG evaluation, analysts' insightfulness is tested for companies' "management commitment" and "execution abilities" there.

These are our basic approach for ESG information, and for each industry, we research impact of certain ESG factors on competitive advantages. For example, the issue of marine pollution caused by plastic waste such as plastic bags and straws has prompted discussions around the world on plastic reduction. It is essential to analyze how these developments will impact each company in the chemical industry five to ten years from now. While demand for disposable plastic is declining, biodegradable plastics that are eventually dissociated into carbon dioxide and water due to biodegradability are expected to be widely used for food packaging materials, agricultural and civil engineering materials, marine materials, etc. In addition, the market for plastics made of reusable biomass resources is also expected to expand to prevent global warming and reduce dependence on fossil resources.

As such, we feel the importance of appropriately evaluating corporate value by taking the ESG perspective is growing to understand future business opportunities and risks.

Current status and future challenges in corporate evaluation

While analysts' basic activity is to forecast upcoming earnings through analysis of financial information, ESG evaluation must be directly or indirectly reflected in the calculation of corporate value. Analysts and fund managers will determine how ESG scores will be used in the investment process, depending on nature of each fund product.

What we emphasize is "degree of improvement" in companies' approach to efforts for ESG. In case analysts decide it will improve in the future despite the current low ESG evaluation, we grant the outlook of improving direction (deteriorating direction in an opposite case) to the company. If such dynamic ESG evaluation can show influences on corporate valuation, the importance of ESG scores in the investment process will grow further. Furthermore, we recognizes that in the future, it will be our challenge to evaluate corporate value from ESG viewpoint over the long-term by various means including quantitative evaluation of stranded assets to incorporate non-financial information into financial data.

Application of ESG Research to Global Equity Strategy



Sumitomo Mitsui DS Asset Management (Hong Kong) Limited

Junichi Sakaguchi
General Manager, Asia Research Center

Jane Ye
Fund Manager

Wataru Terada
ESG Analyst

ESG evaluation is a key component for analysts' rating recommendation

At the Company, overseas offices in Hong Kong, Singapore, Shanghai and London and the Tokyo headquarters work closely to conduct research and investment management of our global equities, and the evaluation of ESG factors is integrated in each stage of the investment process. For example, for Asian equities, we started ESG evaluation centered on governance in 2013, strengthened evaluation of society and environment as part of ESG integration in 2018, and sophisticated the system as "SMDAM ESG Rating" in December 2019. We have come to be able to understand possible risks and opportunities that might be overlooked in the research centered on financial analysis, by quantifying ESG-related risks of individual companies. ESG evaluation is now a component of analysts' rating recommendation as being critical and essential, just like evaluation of corporate value centered on financial analysis, to the pursuit of long-term investment performance.

In incorporating ESG factors in the investment process, we first focus on contributing to investment performance and redesigned the entire process rather than adding these factors to the existing process. As a result, we feel proudly that our investment process has a competitive advantage not only in Asian markets that are still in an immature state in terms of penetration of ESG but also even in European markets that are ESG-conscious.

ESG evaluation focuses on not only risks but opportunities

"SMDAM ESG Rating" consists of "basic evaluation" to comprehensively understand current ESG risks and "analyst evaluation" made by sector analysts in charge of the industry in light of their own interviews and future prospects.

"Analyst evaluation" emphasizes the positive side (opportunities) related to ESG in addition to the negative side (risks). In development of the evaluation method, analysts specialized in ESG and sector analysts in charge of industries work together to prepare the industry-specific evaluation guidelines that reflect the most material ESG issues for each industry.

Examples of successful investment due to focus on opportunities include a US-based container manufacturer that benefited from demand shift from plastic bottles with large environmental burden to aluminum cans with good recyclability, and a US utility company that became a winner in the industry by switching to environmentally-friendly power generation from early on.

The trend of emphasis on ESG, led by Europe, is also irreversible in Asia

Now ESG is one of issues to be considered first in corporate analysis. This is because environment and social issues have been becoming more important to investors. This is particularly notable in the tiers called Millennial Generation and Generation Z. Companies that appropriately respond to this trend are highly evaluated, and evaluation of those which do otherwise will be inevitably downgraded. Such a trend is the most prominent in Europe. As both institutional investors and individual investors want to be responsible investors, improvement of ESG evaluation is a driver of excess return. Investors' awareness of ESG risks remains low in emerging markets including Asia and companies' efforts are lagging. However, as investors all over the world are strengthening the perspective of sustainability, it is no doubt the trend of focusing on ESG will also progress steadily without going backward in Asia including China.

We believe that ESG integration increases the accuracy of each investment decision and enhance robustness of the investment process in the medium- to long-term. We will exert all possible efforts to offer investment performance of the highest quality to customers. ESG integration is one of such efforts.



Sumitomo Mitsui
DS Asset Management (UK) Limited
Steven Muspratt
Analyst

Initiatives Regarding Fiduciary Duties

Initiatives to Date

In August 2015, ahead of the Financial Services Agency’s enactment of the Principles for Customer-Oriented Business Conduct, we announced “Our Commitment to Fiduciary Duties” and established a basic policy to be observed by all officers and employees as an asset management company entrusted with customers’ important funds. In October 2015, we established the FD Third-Party Committee, which is composed of outside experts, as an advisory body to the CEO, and established a system to reflect the perspectives of third parties in our business operations. Since then, we have undertaken a variety of initiatives to contribute to the long-term asset building of our customers, including reviewing our dividend distribution policy, preparing easy-to-understand customer briefing materials, and managing life stage-oriented products.

In August 2020, we added sustainability element to “Our Commitment to Fiduciary Duties” and clarified our roles and responsibilities as an asset manager and a corporate citizen to establish the “Principles of Fiduciary Duties and Sustainability.” Going forward, we will continue to firmly conduct customer-oriented business operations while also striving to contribute to the sustainability of society as a whole.

Highlight of initiatives regarding fiduciary duties

August 2015	Announced “Our Commitment to Fiduciary Duties” and “Our Fiduciary Action Plans”
October 2015	Established FD Third-Party Committee
December 2015	Initiated easy-to-understand customer briefing materials
April 2016	Reviewed our dividend distribution policy
October 2016	Disclosed the progress of the Action Plan
May 2018	Launched life stage-oriented products
June 2018	Added performance indicators (KPIs)
April 2020	Reorganized FD Advisory Board into FD and Sustainability Meeting
August 2020	Announced “Principles of Fiduciary Duties and Sustainability”, which added elements of sustainability to the Our Commitment to Fiduciary Duties and clarify our roles and responsibilities as an asset management company and a corporate citizen.

FD and Sustainability Meeting

Five years has already passed since we started proactive initiatives with the broad objective of “fulfilling investment responsibilities.” In the meantime, we have taken the lead in the industry to take on the challenge of transformation without any exceptions.

For our customers, our goal is to build relationships between buyers and sellers who exchange views on an equal footing, as we move from “ignoring asymmetric information between the industry and our customers” to “disclosing information in an easy-to-understand manner,” eventually to “commitment to improving financial literacy.”

Asset management is also in the midst of persistent changes, and we have been reexamining our *raison d’être* through a number of market crises. It is the promotion of ESG that means rediscovery of our mission to create a circulation of funds that improves the world. Approximately 400 years has passed since stocks and bonds in their present form appeared in the world, during which time portfolio management with the principle of diversification has only over 40 years of history. We need to continue to further evolve our investment management capability and management philosophy. The philosophy that serves as the guiding principle should be simple and clear. We aim to refine the philosophy of “three-ways satisfaction,” which means making our customers happy, giving employees pride, and leading the public acknowledgement of our existence. I think the key to adapting to the next generation will be digital transformation, which will help us extremely to provide investment management services.

Against the backdrop of frequent occurrence of global crises, we are under pressure to solve long-term industry issues as soon as possible. We believe that the source of sustainability lies in striving to develop and provide services with truly appropriate quality to our customers without forgetting confidence as a professional.

The source of sustainability lies in striving to realize and provide truly appropriate quality to our customers without forgetting confidence as a professional.

Susumu Okamura
Chairperson
President and CEO,
Education for Asian Talents



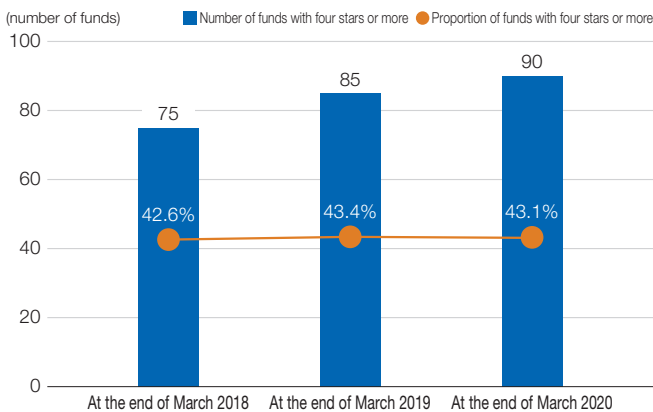
Achievement in Fiscal 2019

In fiscal 2019, we steadily implemented 17 action plans, including the following examples.

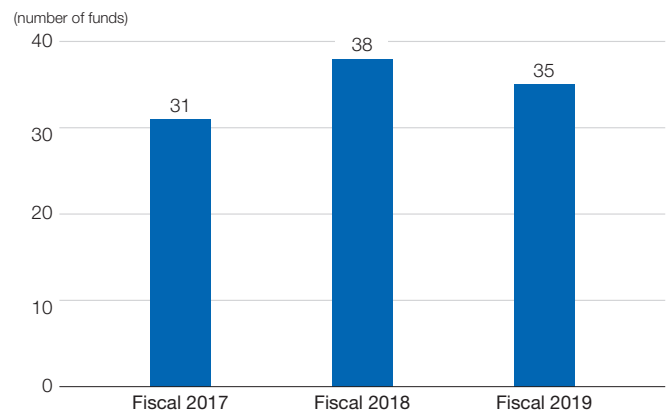
Action plan	We will verify the rationality and validity of management fees to satisfy our customers, and review them as necessary (in accordance with Principle 4 of the Financial Services Agency of Japan's Principles for Customer-Oriented Business Conduct).
Achievement	● We confirmed that there was no difference in concepts of management fees between the two companies prior to the merger and that management fees for existing publicly offered investment trusts were reasonable.
Action plan	We will review the cost structure of the entire Company and improve productivity with the aim of improving the products and services we provide to customers (in accordance with Principle 2 of the Financial Services Agency of Japan's Principles for Customer-Oriented Business Conduct).
Achievement	● In addition to implementing various income and expenditure analyses, we are reviewing the flow of operations, including reporting, settlement, and expense processing procedures, and digitalizing and moving forward with paperless operations, in order.

Performance Indicators (KPIs)

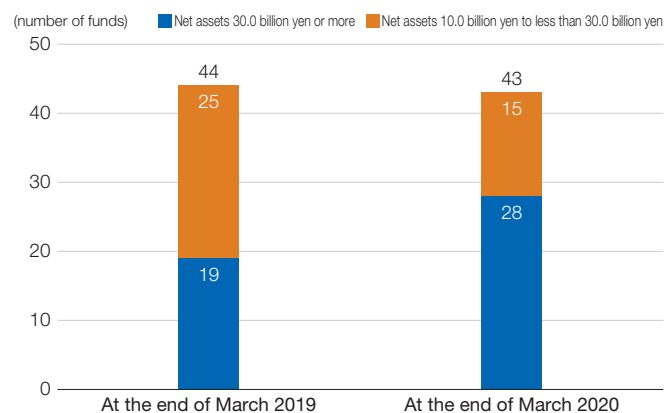
Number and proportion of funds with Morningstar Rating Overall of 4 Stars or more (net assets of 1.0 billion yen or more)¹



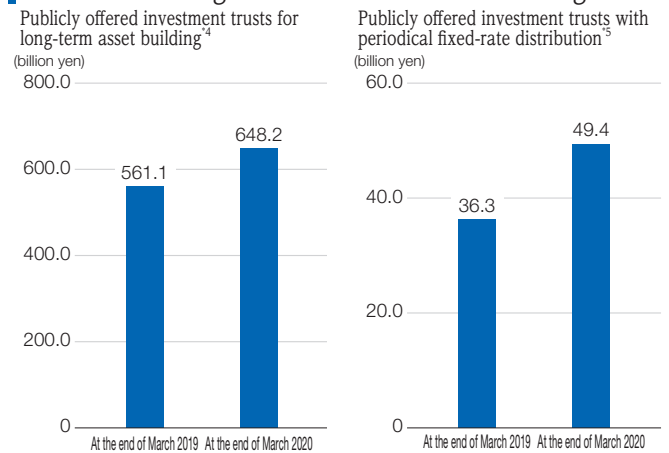
Number of award-winning funds²



Number of funds over 10 years since launch³



AUM of life stage-oriented funds under management



*1 Provided by Morningstar Japan K.K. ("Morningstar") and calculated based on the risk-adjusted performance of funds within the category in five stars with the highest rating of five stars and the lowest rating of one. For details, please refer to Disclaimer on page 46.

*2 Sum of the Mercer MPA (Japan) Awards, Morningstar Award Fund of the Year, Thomson Reuters Lipper Fund Awards Japan, and the R&I Fund Award

*3 Number of funds with net assets of 10.0 billion yen or more

*4 The AUM of managed assets of publicly offered investment trusts for long-term asset building through systems such as DC, iDeCo, and Tsumitate NISA, and through direct sales via the Internet (including products sold for retail investors).

*5 Products aimed at making distributions in accordance with target distribution rates set beforehand

Basic Concept for More Sophisticated Investment Management

We will strengthen R&D in investment technologies and products in order to accurately respond to diversifying customer needs.

Shingo Imai

Head of Investment Management Division
Director and Senior Managing Executive Officer



We have a long-standing strength in active investment, and are ranked second in the questionnaire on customer satisfaction for domestic equity investment management according to Rating and Investment Information, Inc. (*"Newsletter on Pensions & Investment"* vol.821, February 3, 2020). In addition, we have strong track records in REIT (Asian and Oceanian regions including Japan), domestic fixed income (credit), foreign fixed income (Mexican bonds) and other areas. With regard to Asian stocks, we have established an investment management structure closely linked to local markets at our overseas bases in Hong Kong, which plays a central role, and also in Singapore and Shanghai.

Regarding initiatives for cutting-edge investment technology, we have engaged with joint research with National Institute of Informatics (NII) and other academic organizations. In addition, we have been providing publicly offered investment trusts leveraging research outcome on quantitative investment as well as AI/big data through collaboration with Nikko Global Wrap Ltd., our subsidiary and alliances with companies who provide AI solutions. In order to promote further sophistication of investment management through utilization of technology, we established a

group dedicated to research activities on advanced information technology within the Investment Management Division. With this organizational change, we will accelerate the advancement of our investment and the development of investment products using the latest technology. Furthermore, in order to respond quickly and accurately to the increasing needs of customers for alternatives in the prolonged low interest rate environment, the Alternative Investment Department became under the direct control of CEO so as to enhance its capability.

Besides organizational changes, it is also important how to put into practice the five codes of conduct ("sincerity," "agility," "challenge," "passion," and "teamwork") so that not only from an organizational perspective, but also each and every employee can demonstrate his or her abilities to the fullest. We share ideas and knowledge using in-house social media and are also working to foster investment professionals through our training system.

Going forward, we will continue to strengthen R&D for new investment technologies and products and provide advanced products in a timely manner in order to accurately respond to the diversifying needs of customers.

Our Investment Philosophy

As investment professionals conscious of sustainability, we are committed to provide the "best in quality" performance over the medium- to long-term.

In order to achieve this, we shall strive to provide stable returns by actively incorporating new investment methodologies and by responding to ever changing market environments.

Regarding active investments, we shall specify existing market inefficiencies and turn them into

investment opportunities through establishing disciplined investment approaches to capture excess returns.

In order to achieve this we shall execute the following.

- Conduct thorough & proprietary research on a global basis to reveal inefficiencies.
- Take appropriate risks driven by professional judgments and based on risk tolerance levels.
- Manage risks from multidimensional perspectives.
- Control and improve product quality on an ongoing basis for all investment processes.

Examples of Initiatives to Enhance Investment Management Capabilities

Case Study AI-based investment management in collaboration with Nikko Global Wrap

In collaboration with Nikko Global Wrap, we are developing funds utilizing deep learning, for which asset allocation is determined based on the AI model. For discretionary accounts and advisory contracts, the investment team provides recommendation on qualitative asset allocation of traditional assets, as well as manages multi-asset funds utilizing quantitative analysis models.

Q1 What are features of your asset allocation model?

A1 Using a deep-learning model called Siamese Network multi-layer neural network model, which is useful for time-series analyses, we predict the relative superiority and inferiority among equities and bonds of Japan, the US, the UK and Germany. The results are used to determine asset weights through optimization and to develop a long/short portfolio (within 200% of gross positions and 40% of net positions) by the underlying assets. Then, risk adjustment is applied to determine the final portfolio. Our model is featured by a long/short position as a source of return under any market environment including current ultra-low interest rates, and also by the advanced method of the AI model.

Q2 What kind of data do you use?

A2 In addition to general data such as valuations and technical indicators for each asset, we use news sentiment, which is a polarity judgment based on natural language processing, classified as so-called big data, as input data for learning.

Q3 Could you tell us about successful examples of investment decisions?

A3 As an example in the simulation, at the time of the so-called VIX shock at the beginning of 2018, when the stock market plummeted twice, in February and in March, we secured stable earnings by reducing the net position of the entire equity in February, and in the case of March, taking short positions for the equity on the whole.

Q4 What types of customer segments do you think are beneficial?

A4 Due to the difference in decisions making process between our strategy that employs AI model and many others, customers can benefit diversifying effect to existing multi-assets. We also believe that having long/short positions allows us to secure earnings opportunities without raising risk even in a low interest rate environment. For this reason, we believe that it serves as one of our clients' core investment strategies aimed at securing stable earnings in a low interest rate environment, or as part of the diversification strategy of clients that already have multi-asset funds.

Q5 Could you explain any other initiatives that will lead to improved investment capabilities and areas that need further improvement in the future?

A5 Regarding the deep learning model, we have made a system that constantly incorporates the latest market trends by regularly extending the learning period to the latest period. The success or failure of the model is monitored at all times primarily by Nikko Global Wrap. As a fund, we strive to stabilize earnings by building a balance between net long and long positions and by ensuring that risk positions are not biased toward specific assets in optimization.

Even with a deep learning model, I think it is not easy to respond stably to the ever-changing financial markets. We will continuously analyze successful and failed phases in our investment management while we improve and upgrade our investment methods in collaboration with Nikko Global Wrap, which has expertise.



Nikko Global Wrap	Investment Department	Nikko Global Wrap	
Shinichi Takahashi	Mitsuru Hayakawa	Yusuke Hori	Koji Shimoyanagita
Managing Executive Officer	Senior Portfolio Manager, Asset Allocation Group	Quants Analyst	General Manager

Examples of Initiatives to Enhance Investment Management Capabilities

Case Study Industry-academics collaboration



Naoya Kawadai

Senior Manager, Investment Development Group, Investment Department

Takehide Hirose

Head of Investment Development Group, Investment Department

While involved in the development of funds based on quantitative models as well as organizational operation, I am also engaged in research and development including machine learning.

Q1 Please tell us a brief description of machine learning.

A1 There are various types of machine learning. Among them, I will talk about a method called text mining. Text mining allows us to treat textual information such as news and corporate documents in the same way as numbers. We input texts and human evaluation thereof into the calculator and analyze the relationship between the texts and evaluations with a neural network-based model.

Q2 Specifically, what kind of sentences do you deal with?

A2 If there is literal information available continuously and any valuation about it, any textual information can be handled, but we mainly deal with what is expected to affect the stock prices. For example, we mainly handle earnings reports and securities reports issued by companies as well as comments from corporate analysts and *Kaisha Shikiho*. In addition, machine learning is evolving every day, so we are conducting joint research with Kobe University, partly for the purpose of acquiring knowledge and brand new information. We expect models developed through joint research to be applied for practical use in the near future.

Q3 What are the appeals, difficulties, and future aspirations of R&D?

A3 We will strive to research new types of data and analytical methods in order to meet customer expectations in product development and in the performance of products that we are entrusted with.

Takehide Hirose

Head of Investment Development Group, Investment Department

As a result of joint research on a fully systematic management strategy based on mathematical models and credit models in collaboration with external research institutes and data vendors, we made presentations about Japan's equity text analysis strategy and domestic and overseas Rachev strategies at academic conferences.

Q1 What kind of academic fields are used for R&D?

A1 We mainly use financial engineering based on probability and statistics, optimization theory, economics, and accounting.

Q2 What are your research achievements?

A2 In 2019, we conducted joint research with Keio University, Financial Data Solutions Inc. and FactSet. In recognition of its novelty in academic terms, the results were posted in two international academic journals, and we also made presentations at an academic conference in Seattle. The results are the Japanese equity text analysis strategy and the domestic and overseas Rachev strategy. In short, the Rachev strategy is to systematically aggregate market inefficiencies into a source of excess return. At the same time, the model takes into account risk control that can withstand challenges in actual asset management and trade costs. In fiscal 2020, we conducted joint research with outstanding people from outside the company, including from National Institute of Informatics (NII) and other organizations, under a new theme, with the aim of making achievements including our analysis of global equity text analysis strategy.

Q3 Could you tell us any ingenious attempt when utilizing that Rachev strategy for actual asset management?

A3 Mathematical model-based asset management varies depending on the investment target, and so it is extremely important to use some artistic skill, for example tuning the model. That is, even if using the same model, the performance of different managers varies widely. For example, when the Rachev strategy is used to invest in the Japanese market, it is important to consider how to incorporate the reversal factor into the model.

Going forward, in addition to replicate our existing strategies, we will strive to push effective new asset management strategies forward with technology and art.

Naoya Kawadai

Senior Manager, Investment Development Group, Investment Department

Case Study Knowledge management

We use internal social media to share information across the Investment Management Division and the entire company, helping to visualize and share knowledge that serves as hints for product development and investment ideas.



Shinichi Yano

Senior Manager,
Investment Planning Department

Yoshinobu Umemura

Manager,
Investment Planning Department

Q1 What kind of information can you find on internal SNS?

A1 For example, the Investment Planning Department posts news related to the domestic and overseas investment management industries and minutes for investment information exchange salons across departments. In addition, the Investment Development Group publishes latest research outcomes, and the Macro Research Group and other groups in charge of asset management express their outlook and review of the economy and the market. Since we receive replies not only from the department to which we belong, but also from various departments, discussions may begin on the spot, and the sender may also be able to obtain new knowledge from the feedback. Meanwhile, we set up Python Study Group where we review and confirm the progress reading books common to all members of the Group.

Q2 Could you describe more on internal SNS?

A2 The organization of the Investment Management Division is divided by asset class, and there are many experienced people who have accumulated knowledge of each asset for many years. While each market is closely linked, there may be a tendency for people to bias their views toward the assets they are in charge of. Therefore, referring to the views of the persons in charge of other assets through our internal social media helps us learn more sophisticated investment management. There are cases that were actually evaluated by third-party evaluation organizations. Occasionally, some members who used to work for the market divisions of securities companies provide opportunities for others to learn speculations of brokers that affect the market, as well as the story of the supply and

demand of derivatives, with which people in the buy side are not very familiar.

Q3 Do you have many horizontal connections, not just within the department?

A3 Many of the discussion groups on our social media are operated on a company-wide basis, allowing all employees to read and post comments. Interactions on the internal social media sometimes develop into in-person workshops participated by employees from various departments. In 2019, the Python study group chose *The Self-Taught Programmer: The Definitive Guide to Programming Professionally* (in Japanese translation) as a reference book to read through for 27 weeks (27 chapters in total). Group members described the code in practice, and check the progress with social media after reading, using the like button, and exchange information. More than 100 people joined this discussion group. In addition, interested employees get together to host an ad hoc after-work gathering called “Mokumoku-kai lunch meeting” to support each other and help the development of beginners. For example, we invited employees who actually use Python for programming in daily operations to give lecturers and held an explanatory meeting on the “Program for Obtaining Securities Reports from EDINET.” Participants commented that they understood how to use Python in a concrete way, which led to an aspiration to learn about programming.

Q4 Could you tell us about your future aspirations and any further progress you may wish to make?

A4 I think it will be interesting if we are able to set up a bottom-up project that will create new ideas and initiatives.



Corporate Governance

Highly Independent Board of Directors

In order to ensure our independence as an asset management company and to conduct effective corporate governance, we have four out of the eight Directors who are from other organizations than our shareholders. The Company invites three Outside Directors with abundant knowledge in domestic and overseas corporate management and financial and economic fields to supervise the status of management execution and conflicts of interest with shareholders from an independent standpoint and give advice to our management team based on their respective experience and expertise. In addition, in order to verify whether the functions expected of the Board of Directors are properly performed and to improve them, the effectiveness of the Board of Directors is evaluated every fiscal year through a questionnaire survey of Directors and Audit & Supervisory Board members.

Outside Directors

Chikatomo Hodo **Date of appointment** June 27, 2016 **Attendance rate at the Board of Directors meetings** 100% (15/15)

Career Summary
 September 2005 Representative Director, Accenture Japan Ltd.
 April 2006 Representative Director and President, Accenture Japan Ltd.
 September 2015 Director and Chairman, Accenture Japan Ltd.
 September 2017 Director and Senior Corporate Advisor, Accenture Japan Ltd.
 July 2018 Senior Corporate Advisor, Accenture Japan Ltd. (incumbent)

Major Concurrent Positions
 Director, Mynavi Corporation
 Director, Konica Minolta, Inc.
 Director of the Board, Mitsubishi Chemical Holdings Corporation

Noriyuki Yanagawa **Date of appointment** June 27, 2016 **Attendance rate at the Board of Directors meetings** 100% (15/15)

Career Summary
 April 1993 Full-time lecturer, Faculty of Economics, Keio University
 April 1996 Assistant Professor, Graduate School of Economics, the University of Tokyo
 April 2007 Associate Professor, Graduate School of Economics, the University of Tokyo
 December 2011 Professor, Graduate School of Economics, the University of Tokyo (incumbent)

Major Concurrent Positions
 Advisor, SOMPO Holdings, Inc.
 Director, Yamaguchi Financial Group, Inc.

Jun Arai **Date of appointment** April 1, 2019 **Attendance rate at the Board of Directors meetings** 100% (15/15)

Career Summary
 August 2008 Representative Director, Showa Shell Sekiyu K.K.
 November 2008 Representative Director and President, Showa Shell Sekiyu K.K.
 March 2013 Representative Director and Group Chief Operating Officer, Showa Shell Sekiyu K.K.
 March 2014 Representative Director and President, Showa Yokkaichi Sekiyu Co., Ltd.
 April 2016 Representative Director and President, Showa Yokkaichi Sekiyu Co., Ltd. and Director, Daiwa SB Investments Ltd.

Major Concurrent Positions
 Audit & Supervisory Board Member, Kyowa Kirin Co., Ltd.
 Corporate Auditor, Ryohin Keikaku Co., Ltd.

Establishment of Internal Committees of Board of Directors

We have established the Nominating Committee of Directors, the Nominating Committee of Executive Officers and the Responsible Investment Committee as internal committees of the Board of Directors. Each of these committees is composed of Outside Directors, and plays an important role in ensuring appropriate business execution and fair internal personnel management.

Committee Name	Members	Purpose
Nominating Committee of Directors	Chairman of the Board, President and Director, and Outside Directors	The purpose is to deliberate matters concerning personnel affairs, remuneration, and bonuses of Directors and to advise the Board of Directors.
Nominating Committee of Executive Officers	Directors (including Outside Directors)	The purpose is to deliberate matters concerning the personnel affairs, remuneration, and bonuses of Executive Officers and to advise the Board of Directors.
Responsible Investment Committee	An Outside Director who meets the independence standards set forth separately, the Responsible Investment Officer, and the officer in charge of the Compliance Department	The purpose of this committee is not only to review that the Company properly fulfills its fiduciary duties including initiatives for responsible investment and that there is proper management of the potential for conflicts of interest, but also to make recommendations to the Board of Directors for further improvements.

Interview with Outside Director

I hope that asset managers will play an active role in leading the changes in society.

Noriyuki Yanagawa

Professor, Graduate School, the University of Tokyo



Speed of change in society accelerated with digitization as a driving force.

From now onward, various changes in society will occur more rapidly than ever before, triggered by the COVID-19 crisis. As a result of the spread of infections, a kind of social experiment was conducted in the face of a situation where we were effectively forced to conduct remote work and online classes. As a result, although there were various inconveniences, it was clear that remote work and other measures that had been deemed difficult could be done to some extent. Given this experience, digitization will become the driving force that will further accelerate changes in society.

Sustainability becomes a major social trend due to changes in people's values

In the corporate society, information gathering will be easier by digitization, and the change of the industrial structure will be advanced by making effective use of it. In recent years, the rise of platformers represented by GAFA has been remarkable. It is expected that not only the barriers between banks and security firms but also the barriers between traditional financial and non-financial industries will rapidly disappear in the financial industry. In people's lives, it will become more convenient to live with no need to use seals and documents in administrative procedures. In addition, in the long run, if people do not have to commute to work every day, more and more people will move from the city

center to the suburbs, enjoying nature not found in the city center, or enjoying time with their families. These trends are not limited to where to live, but will lead to changes in people's values, eventually sustainability is expected to become a major trend for society as a whole.

Asset managers are expected to play an active role in leading the changes in society.

What roles and responsibilities should asset managers fulfill in the future? We live in an age when major changes that would have taken five to ten years in the past can occur just in a half year. For one thing, it is essential for asset managers to detect these changes, make decisions quickly after thoroughly analyzing their effects, and invest appropriately where they should. Furthermore, I would look forward to taking actions to go a step further, rather than simply investing in areas with growth potential. In other words, future asset management companies will need to understand changes in the values of investors and society as a whole, envision their own image of the future society firmly, and in some cases lead society as a whole toward realization of the image.

Sumitomo Mitsui DS Asset Management has stated "For Your Better Quality of Life" in its management philosophy, which is precisely required in the present era of change. In the field of sustainability as well, I would like the Company to move forward toward a major vision while firmly establishing its footing.

Creating a Vibrant Workplace

We aim to be “the Best Asset Management Firm for Your Better Quality of Life.” To this end, we are implementing Diversity and Inclusion (D&I) initiatives with the goal of creating a workplace where each and every employee can maximize his or her abilities and work enthusiastically.

We regard D&I as one of the most important management issues and established The Diversity Promotion Committee, chaired by CEO, as the promotion body.



We create a flexible working environment that allows all employees to reach their potential.

Takashi Kawahori

Director and Senior Managing Executive Officer
In charge of human resources

We promote D&I initiatives in four areas: women’s active participation, working styles, health management, and diverse human resource activities.

We engage in D&I simply because we believe that promoting D&I leads to efficient and sound organizational growth. One of our codes of conduct is “Teamwork” with which we hope that our ideas will be stimulated and energy and innovation will be

generated through interaction and mutual respect of diversified people. In order to encourage people with different characteristics, backgrounds, and lifestyles to mutually respect each other, we are working to foster awareness through training and other means while we are developing and supporting various measures to ensure flexible working styles and enable employees to practice enjoyable health management.

Mission, Vision and Values Towards The Best Asset Management Firm For Your Better Quality of Life.	
Chairperson of Diversity Promotion Committee: CEO	
Diversity & Inclusion (D&I) Promotion Liaison Committee	
Women’s Advancement Subcommittee	Health Management Subcommittee
Working Style Subcommittee	Diverse Human Resources Subcommittee

KPIs on diversity and inclusion

	Fiscal 2019 (Actual)	Fiscal 2022 (Target)
Percentage of female managers	10.5% ^{*1}	15.0%
Percentage of paid holidays taken	68.1%	75.0%
Overtime hours (average)	22.8 hours/month	20.0 hours/month
Percentage of employees with disabilities	1.9%	2.3%
Percentage of male employees taking childcare leave	30% ^{*2}	100%
Smoking rate	16.2% ^{*3}	12.0%

*1: As of April 1, 2020 *2: Reference value *3: Result from fiscal 2018

Support for women's advancement

We are working to increase the percentage of women in employees, managers, and investment professionals through recruitment and changes in job types. In addition to dispatching female employees to external training organizations, we also conduct training for managers who have female subordinates to foster the awareness of women's active participation not only among female employees but also throughout the company. In particular, we believe that unconscious bias is a hindrance to diversity. Therefore, we provide

training program where all employees can learn unconscious bias so that each and every employee can be aware of it and correct it.

In addition, we are sponsoring a "Women's Lunch Community" in which female employees can frankly share information while having lunch on the themes of balancing work with childcare and nursing care as well as career development. This is an opportunity to listen to advice from senior employees and colleagues on balancing work with childcare and housekeeping and to consult on working styles.

Flexible working styles

We have established systems that enable a variety of working styles so that diverse human resources can thrive. We have a flextime system as well as a leave system for childcare, nursing care and medical care support, and volunteer leave and long-term leave.

In addition, in principle, we provide notebook PCs and mobile phones to all employees to enable remote work. In the spring of 2020, remote work was implemented in many departments except for some inevitable on-site operations. In order to increase the flexibility of working styles in this way, we are simultaneously replacing various manual work by IT, improving the capabilities of the systems themselves, making our operations paperless, and reviewing our operation flows.

Health and Productivity Management

As part of our health and productivity management, we have a system called "Health Point Program" for employees to enjoy while promoting their health. This program offers health points based on how many steps you walk, how many times you read health columns, when you take health checkups, how you take leaves, and other criteria, and helps employees to enjoy and improve their health. We also hold walking events in which all employees participate. During the team match, executives became leaders of each team, speaking out and competing with each other, which helped to stimulate communication. In addition, we are conducting walking and health seminars on food and exercise to increase interest in health.

In the area of mental health, we have established a consultation desk to respond to various concerns of our employees and also a

In addition, as initiatives for human resource development and operational reform, we introduced one-on-one meetings while we held workshops and town hall meetings to instill the code of conduct into our people. We are also expanding our efforts to support employees' autonomous career development by measures such as our internal job posting system.

In recognition of the flexible working styles, we became the first asset management company to win 3.5 stars in the Nikkei's "Smart Work Management Survey 2019."



system in which any employee can regularly have a counseling by professionals in our office. With regard to harassment, under a strong policy that we allow absolutely no harassment, we provide all layers of executives, managers, and general employees with training sessions depending on the level.

These efforts have been evaluated highly and we were certified as one of the 2020 Certified Health & Productivity Management Outstanding Organizations (large enterprise category)*.

* A 2020 Certified Health & Productivity Management Outstanding Organization is a corporation recognized for excellence in health management under the 2020 Certified Health & Productivity Management Outstanding Organizations Recognition Program promoted by Nippon Kenko Kaigi as well as initiatives suited to local health issues.

Elsewhere, we have established a system in which LGBTs or sexual minorities can regard their partners as equivalent to their families and spouses.

In addition, to create a work environment that is free from discrimination and foster diverse values, we have positioned LGBT and human rights trainings as mandatory, and are expanding them throughout the company.

Social Contribution Activities



Education and Enlightenment for Promoting Asset Building



In Japan, where the declining birthrate and aging population are progressing with the speed rarely seen in the rest of world, it goes without saying that efforts toward asset building are extremely important for every citizen. Accordingly, we provide workshops and seminars for individual investors to acquire the correct knowledge of asset building, and for elementary, junior high and high school students with educational programs to be interested in finance and economy as a first step. We hope that these activities will help improve Quality of Life of as many people as possible in the age of “100-year life.”

Okashita Juku, a study group for regional financial institutions

Okashita Juku is a study session organized by Mr. Kazumi Okashita, our Advisor. The purpose of the session is to learn with distributors about the ideal ways of investment trust sales for the true sense of asset building of customers, rather than just selling investment products. Since its launch in 2015, approximately 16,700 employees from 50 regional financial institutions have participated as of the end of March 2020.

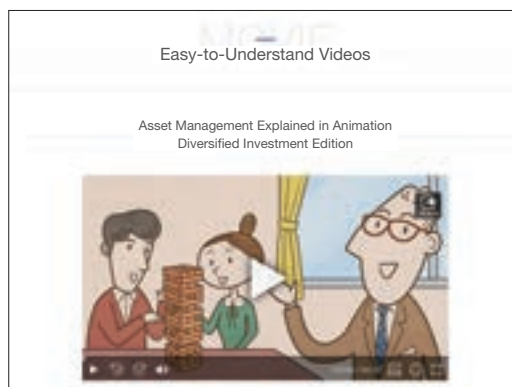


Nikkei Quality of Life Seminar

In cooperation with Nikkei Business Publications, Inc., seminars were held twice for working women in their 20s to 40s to learn about career development as well as asset building essential for the age of “the 100-year life.” All seats were filled at each session, highlighting the high level of interest in asset building.

Educational contents for individual investors

We provide at the website a variety of contents that individual investors who are about to begin asset building in the future or have just begun. They can learn the basics of asset building, including videos on basic knowledge such as diversified investment and installment-type investment, and animation on the structure of investment trusts.





Activities to Educate Future Generations



In order to maintain this prosperous society in the future, we conduct education-related activities for pupils and students who will lead the next generation.

Economica, a financial and economic card game

Economica is a card game, with which players can enjoy playing and become familiar with the economy. We hold tournaments of Economica around the country. We believe that familiarity with financial economics through playing will help to broaden children's horizons and cultivate power to live in the future.



Support for higher education of children orphaned by traffic accidents

We held seminars to learn about autonomous driving technology, which is expected to reduce traffic accidents and secure transportation means in depopulated areas. We also donated to KOTSUIJI IKUEIKAI Association, which provides support for children orphaned by traffic accidents to receive higher education.



Financial and economic education seminars

We hold financial and economic educational seminars in collaboration with SMBC Group companies. Our employees visit high schools and universities to give lectures on financial knowledge and investment. Each time participating students asked many questions such as the background investors buy government bonds despite the negative yield and various questions on equity investment. Lectures provide opportunities for students to get interested in asset management.



Classes offered at neighborhood junior high schools

Our Chief Economist, Mr. Takumori, offered classes on how to think of trends in the business environment using familiar events. During the classes, we conducted a mock survey, in which students experienced how to generate economic indicators related to consumption.



Social Contribution Activities



Activities Contributing to Culture and Communities



In order to realize a society where people can nurture a rich spirit and live with peace of mind, we are, as a member of society, making efforts that will lead to the succession of culture and the revitalization of communities.

Support for protection of cultural heritage

We donate a part of our management fee of “The Tomioka Silk Mill and Related Industrial Heritage Support Fund,” investment trust we manage, to support protection of the “Tomioka Silk Mill and Related Sites” so that valuable culture can be handed down to future generations.



Volunteering in MINATO City Half Marathon

We participated as volunteers in the marathon event sponsored by Minato-ku, Tokyo, where our head office is located, to support runners by providing drinking water and other means. It was a wonderful experience for the participating employees to have been able to support people who engage in sports, including those with disabilities, together with local residents.



Environmental Initiatives



As a corporate citizen, we are engaged in volunteer activities such as clothing reuse, as well as in environmentally conscious business operations. To reduce office paper use, we distributed laptop PCs to all employees and implemented a policy of paperless in-house meetings in 2019. On the occasion of our head office relocation in July 2020, we aimed to realize a recycling-oriented office.

Participation in clothing reuse project

We collected reusable clothing from employees that would have previously been discarded as garbage and donated it to the NPO “Yofuku Post.” The clothes collected are sold in the secondhand clothing markets overseas, and reach those who use them again as clothing. We donate proceeds earned depending on the weight of the garments collected to organizations working to improve the society.

Cooperation: NPO Yofukupost Network Meeting



Initiatives related to new office relocation project

We relocated our head office to Toranomon Hills Business Tower (Minato-ku, Tokyo) in July 2020. In selecting a building for relocation, we placed great value on high energy efficiency of the Toranomon Hills Business Tower. In the new office, we promoted paperless operations by reducing storage space such as

cabinets, and actively used products made from recycled materials. At the same time, we sought to reduce the environmental impact of the entire relocation project by reusing and recycling fixtures and equipment used in the former offices.

- The energy efficiency of the new office is expected to improve by 46%* compared to standard office buildings due to direct sunlight shields by eaves, district heating and cooling systems, and system lighting with human-detecting sensors.
* Evaluation of Toranomon Hills Business Tower (standard floor office) based on the Building-Housing Energy-efficiency Labeling System (BELS).
- For office furniture, products made from thinned domestic broadleaf trees with excellent design have been adopted.
- Approximately 95% of tile carpets and other flooring materials at the new office were made from products using recycled materials. Approximately 60% of tile carpets used at the former office were reused as recycled carpet raw materials.



Eaves of building exterior walls that block direct sunlight



Office furniture using thinned broadleaf trees



Recycling process of used carpets

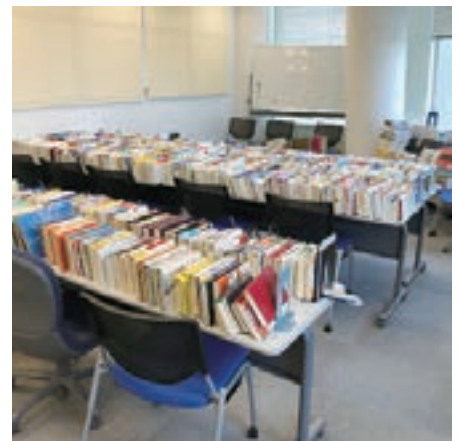
- To promote further paperless operations, we reduced storage space by approximately 70% compared to the former office, while we installed displays and Wi-Fi network in meeting spaces and provided laptop PCs and iPhone with each employee.
- In the cafeteria in the office, paper or biodegradable plastics straws are used instead of the plastic made.
- Approximately 1,600 books that were no longer needed were brought to the used book purchasing company on the occasion of the relocation. The proceeds from selling the books is donated to organizations working on social contribution activities.



Well-equipped online conferencing facilities



Straws made from biodegradable plastics



Donation of proceeds from selling about 1,600 used books

Sustainability-Related Products/Funds

We provide relevant products to realize a sustainable society through our asset management business. We will continue to enhance our product lineup to meet the diverse needs of our domestic and overseas customers.

Japan Equity Engagement Strategy

The following is an interview with Mr. Ichikuwata, the General Manager of the Engagement Investment Department about the Japan Equity Engagement Strategy, which was launched in March 2016.

Engagement is the source of return

In traditional equity investment, the sources of return are in investment styles such as growth and value, and engagement is a complementary element. In contrast, this investment strategy is characterized in large part by the fact that engagement itself is the source of return.

We invest in companies that are undervalued in the market despite having strong business. This means that we try to eliminate the inefficiencies that hinder the stock price of such companies through engagement. In terms of analysis, we focus not on short-term fluctuations in performance, but on the strengths of the company itself, namely its business location, entry barriers, and competitive advantage, as well as the extent of

discount relative to the absolute value of the company.

Launch of Investment	March 2016
AUM	4.0 billion yen (as of the end of August 2020)
Investment Universe	All listed Japanese equities
Number of Holdings	Approximately 15-25
Targeted Return	Absolute 10% to 15% annually over the medium- to long-term (approximately five years) (before excluding costs)
Benchmark	N/A

Poor corporate governance is the biggest factor hindering rising stock prices

Inefficiencies that hinder the stock prices often exist in companies with significant room for improvement in terms of corporate governance. In other words, many companies are not sufficiently aware of corporate value. For example, there are some companies with high profit margins but room for improvement in asset efficiency, or companies with high ROE but room for improvement

in IR. Accordingly we encourage management team through engagement to improve the three elements of stock evaluation, namely, capital productivity, sustainability and growth potential, while at the same time strengthening and improving the IR function, which is also a crucial element.

Engagement is a dialogue that organizes the ideas of company executives and encourages them to change their consciousness

Through our engagement so far, there have been many changes in the companies in which we invest. For example, a company that had not actively worked to improve ROE has made progress in organizing their thoughts through dialogue. As a result, they have begun to focus on improving ROE through B/S management for their entire business efficiency. There is an example of another company whose top management awareness has changed when a dramatic improvement in IR led to a significant rise in the stock price. Although the company had strong businesses, the IR explanation had been centered around short-term events, and the evaluation from the stock market was not high. Accordingly, we organized their competitive advantages, management vision, and growth strategies, and at the same time held repeated discussions on the importance of IR and the enhancement of corporate value. As a result, the focus of IR has shifted to a competitive advantage and growth story with a medium- to long-term perspective, and their reputation in the stock market has improved dramatically. These changes in awareness has led to further improvements since then. In addition, we engage in dialogue and proposals that will enhance corporate value and stock valuation over the medium- to long-term, including encouraging the creation of a long-term vision, the content of a medium-term management



Yuichi Ichikuwata
General Manager, Engagement Investment Department

plan, and ESG initiatives. Engagement is conducted in a way that leads to clarification of the minds of top management and prompts their awareness of continuous enhancement of corporate value.

Global Impact Fund (nicknamed “Better World”)

Inception Date	August 26, 2016	AUM	26.4 billion yen (as of the end of August 2020)	Trust Fee	1.98% annually (tax included)
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Fund Purpose | The Fund invests primarily in global equities through investments in mother funds, with the objective of achieving medium- to long-term growth in trust assets.

Characteristics of the Fund |

1. Through investments in mother funds, we aim to grow assets under management by substantially investing in companies with innovative technologies and business models that could solve social issues, mainly from among global stocks.
2. The fund is substantially managed by Wellington Management Company LLP.
3. Settlement is made on the 10th of every February and August (the following business day in the case of a holiday), and in principle, we aim for distribution.

Sumitomo Mitsui Japan Stock ESG Fund

Inception Date	February 9, 2018	AUM	0.9 billion yen (as of the end of August 2020)	Trust Fee	1.188% annually (tax included)
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Fund Purpose | The Fund invests in stocks listed on Japanese exchanges through investments in the Japan Equity ESG Mother Fund with the objective of achieving medium- to long-term growth in trust assets.

Characteristics of the Fund |

1. We primarily invest in Japanese equities in the market where ESG investment is expected to expand. ESG investment is an investment method that considers companies' initiatives toward environmental, social, and governance issues when making investment decisions.
2. Experienced corporate research analysts evaluate companies' ESG initiatives (ESG evaluation) and select companies that are expected to increase corporate value.

Global SDGs Equity Fund

Inception Date	January 28, 2019	AUM	14.3 billion yen (as of the end of August 2020)	Trust Fee	1.694% annually (tax included)
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Fund Purpose | The Fund invests in stocks listed on global exchanges through investment in Global SDGs Equity Mother Fund with the objective of achieving medium- to long-term growth in trust assets.

Characteristics of the Fund |

1. We invest in shares of companies that are expected to contribute to SDGs.
2. The fund is substantially managed by Robeco Switzerland AG, utilizing the method of ESG investment, which is a global trend in asset management.
3. In principle, we do not hedge against the yen for real assets denominated in foreign currencies.

Global New Era Equity Fund (nicknamed “World Change”)

Inception Date	July 31, 2020	AUM	1.6 billion yen (as of the end of August 2020)	Trust Fee	1.584% annually (tax included)
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Fund Purpose | The Fund invests in stocks listed on global exchanges through investing in mother funds with the objective of achieving medium- to long-term growth in trust assets.

Characteristics of the Fund |

1. We carefully select and invest in stocks of companies around the world that have a high competitive advantage in fields where growth is expected due to structural changes.
2. We select investee companies by analyzing and evaluating corporate growth outlook and the extent of discount of stock prices based on investment themes such as changes in lifestyles, corporate strategy and medical and health care.
3. In principle, we do not hedge against the yen for real assets denominated in foreign currencies.

Important Precautions

Notes on Investment Advisory Contracts and Discretionary Investment Management Contracts (Risks, Expenses)

Risks relating to investment advisory contracts and discretionary investment management contracts

Financial products and financial derivatives products invested in under discretionary investment management contracts or those products advised to invest in under investment advisory contracts may incur losses resulting from changes in the market indices of those products interest rates, foreign exchange rates or other indicators in financial instruments markets.

Factors subject to change include: risk of fluctuations in prices of marketable securities, etc.; credit risk of issuers, etc.; risk of fluctuations in interest rates and financial markets; liquidity risk, etc., such as the inability to execute a transaction under conditions of sufficient liquidity (and with regards to investments denominated in a foreign currency, foreign exchange rate risk, etc.). Accordingly, the client's investment principal amount is not guaranteed. A decline in the value of the financial instruments, etc. could cause a loss of principal.

In cases where margin transactions and/or futures and options transactions (hereunder "derivatives transactions") are utilized, the amount of derivatives transactions may exceed the amount of customer margin and other guarantee money (hereunder "customer margin, etc."), and as a result of fluctuations in the level of interest rates and currency values and other financial product market indicators losses exceeding the customer margin, etc., may arise.

The amount of customer margin, etc. and the method of its calculation etc. differ according to a wide variety of transaction circumstances and transaction counterparties, therefore it is not possible to show the ratio of the amount of derivative transactions to the amount of customer margin, etc.

Fees and commissions on investment advisory contracts and discretionary investment management contracts

Investment Management fee

Management fee under an investment advisory contract or a discretionary investment management contract is borne as fixed compensation by multiplying the contract asset amount (the base amount used to calculate investment advisory fees) by a Company's official predetermined rate.*

Under certain contracts, performance fee is applicable.

*A predetermined rate cannot be stated specifically beforehand, as it varies depending on the specifics of contracts. Details of the contract asset amount and calculation method will be specified separately in consultation with customers.

Other fees, etc.

In addition to the above investment advisory fees, the following fees and commissions, etc., will be incurred.

- (1) Trading commissions for financial products borne from the assets under management
- (2) When investing in investment trusts in accordance with discretionary investment management contracts, reserves for trust assets and the trust fees and various trust administrative expenses*, etc. are deducted from the trust assets.
- (3) When investing in foreign domiciled investment trusts in accordance with discretionary investment management contracts, the followings are deducted from trust assets: management fees and incentive fees to foreign investment managers; management and custodial fees to investment trust management and custodial companies; trustee fees; audit fees; and other investment trust management expenses, etc.

As the actual amount of these commissions, etc. are determined based on the specifics of transactions, etc., and are recognized as expenses whenever incurred or billed, or fluctuates depending on the status of investments, etc., the maximum amount and calculation method of these commissions, etc. cannot be stated herein.

The total amount of the above investment advisory fees and other fees to be borne by customers, the maximum amount thereof, and the calculation method, etc. cannot be stated in advance for the same reasons described above.

*In the case discretionary accounts invest in investment trusts various expenses include the audit expenses of investment trusts.

Note: The above risks, fees, etc. differ depending on the specifics of contracts and the status of investments, etc. Therefore, before entering into a contract, please confirm written documents prior to concluding the contract.

For institutional accounts clients

- This material has been prepared for the purpose of introducing information on some of the products that we can provide, and it is not a disclosure document in accordance with the Financial Instruments and Exchange Act of Japan.
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Notes on Investment Trusts (Risks, Expenses)

Risks related to investment trusts

The price of investment trusts fluctuates, affected by price movements of securities included in the investment trusts (in addition foreign currency denominated assets are subject to currency exchange rate fluctuations). **Losses may occur when the price declines and this may result in a loss of principal.**

Profits and losses generated by the fund as a result of investments **are shared by all the beneficiaries. Unlike bank deposits, the principal of investment trusts is not guaranteed** and a particular investment performance is not guaranteed.

Expenses related to investment trusts

Customers need to pay the following expenses related to investment.

- **Expenses paid directly** Transaction fee: **Up to 3.85% (tax included)**
Redemption (cancellation) fee: **Up to 1.10% (including tax)**
Redemption fee to be reserved as part of trust asset: **Up to 1.25%**
- **Expenses incurred indirectly during the holding period of investment trusts**
Trust fees: **Up to 3.905% annually (tax included)**
- **Other expenses**

The following fees and commissions are also charged from the trust assets: audit fees; brokerage commissions and other charges on traded securities, derivative transactions(including amounts for consumption and other taxes), etc; and charges, etc., for the custody, etc., of assets overseas. In addition, some investment trusts incur success fees and those success fees are paid out of the assets of the investment trust. When the fund invests into other funds, asset management fees and other expenses of those funds are charged indirectly.

As the amount of such charges depends on the details of particular transactions, etc., SMDAM cannot provide an upper limit or method of calculation for them.

* Further, as the total amount of fees, etc. borne by the customer, their calculation methods and maximum amounts differ according to the customer's holding period we are unable to provide more specific information.

Note: The above risks and charges pertain to investment trusts in general. As regards the Subscription fee and other fees, the rates listed above are the highest applicable among all investment trusts managed by SMDAM Furthermore, as the risks and charges entailed by an investment trust vary from one trust to another, before making an investment the client is requested to read carefully all relevant items within the investment trust summary prospectus and the other documents provided prior to signing a contract.

Investment Trusts are unlike deposit/saving or insurance contract, not protected by Deposit Insurance/Saving Insurance/Policyholders Protection Corporation. Also, in case of purchase at Registered Financial Institutions, it will not be covered by Investor Protection Fund.

Please note that no redemption/cancellation is accepted for investment trusts if it falls on the closed period of investment trusts or domestic and overseas public holidays.

As of May 29, 2020

To the distribution companies and individual investors of investment trusts

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Sumitomo Mitsui DS Asset Management Company, Limited

Registration Number: The Director of Kanto Local Finance Bureau (KINSHO) No.399

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and Type II Financial Instruments Firms Association.

As of November 2, 2020