April 2024

UK Stewardship Code

SUMITOMO MITSUI TRUST ASSET MANAGEMENT

Foreword

At Sumitomo Mitsui Trust Asset Management, we understand trust is earned not given. We have cultivated long-standing relationships of trust with individual investors and public and private pension clients in Japan. We also offer our funds and solutions in overseas markets through our subsidiaries including UK-registered Sumitomo Mitsui Trust International.

In 2021, we established our corporate vision statement: 'Your goals are our goals. Your success is our success.' This philosophy is aligned with the needs of our diverse stakeholders, including employees, customers, business partners and local communities.

The concept of rewarding our diverse stakeholders has no borders. We believe that our response to the UK Stewardship Code is consistent with the universal and global approach we seek to foster.

Through unceasing efforts to maximise the return on the assets entrusted to us and to solve wider social issues, we hope to continue to earn the trust that has driven our business since its establishment in 1986 and has made us one of the largest asset management companies in Japan and Asia.

A pioneering approach to ESG

A surge in interest in ESG and sustainable investing has led to a discussion about the role asset managers should play both in Japan and globally. We strongly recognise the importance of our role to promote the concepts of ESG and sustainability through discussions with various stakeholders in Japan and abroad.

We have been a pioneer among Japanese asset management companies in acquiring advanced knowledge in sustainability by leveraging our strength and collaborating with various global initiatives.

Issues related to the natural environment, human rights, and corporate governance are global in nature. In this sense, we believe that we can return the knowledge we have gained from overseas activities and contribute to the further enhancement of the Japanese market.

One example is our participation in the UK's 30% Club, an initiative that asks companies to commit to diversity as a business objective and aim for at least 30% female representation. This is an important issue for Japanese companies and our clients, and I have personally participated in a related initiative, the 30% Club (Japan) since its inception. I also served as chair of its Investor Group until March 2024, when my term expired. The initiative has already yielded results, with every TOPIX 100 firms expected to have female board representation by spring next year.

We have also seen the benefits of meeting global best-in-class standards elsewhere too. For example, Japanese equities has seen a significant increase in interest from overseas investors in recent years. The origins of this trend can be found in the Japanese Stewardship Code and Corporate Governance Code, which were established in 2014 and 2015 respectively.

These codes have paved the way to solving structural problems unique to Japan, such as cross-shareholdings and increasing board independence.

Responding to regulatory change

The rising interest in ESG and sustainable investing has also resulted in rapid progress in the delivery of global regulations such as Sustainable Finance Disclosure Regulation and Task Force on Climate-related Financial Disclosures. This has been mirrored in Japan with the Cabinet Office Ordinance on Disclosure of Corporate Information requiring disclosure on sustainability approaches and initiatives from January 2023.

In response to these trends, we have extensively reviewed and updated our internal process and structures. This included the establishment of our Sustainability Committee in October 2023.

We have consolidated various sustainability-related responsibilities, developed frameworks for several sustainability processes, and reorganised the authority of the Sustainability Committee to enhance its governance functions. We also recently established a Sustainability Planning Team to enhance our sustainability capability and address a wide range of sustainability issues.

As regulations in Japan and abroad continue to evolve, asset management institutions will be required to operate more effectively and efficiently. In addition to complying with regulations, we will fulfil our role by discussing changes and responding to the needs of our stakeholders in Japan and overseas. Through efforts to maximise the return on assets and to realise a prosperous society, we hope to continue to earn the trust that drives our business.

Yoshio Hishida
Representative Director and President

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Principle 1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

At Sumitomo Mitsui Trust Asset Management (SuMi TRUST AM) helping our clients to prosper in the medium to long term is foundational to the success of our asset management business.

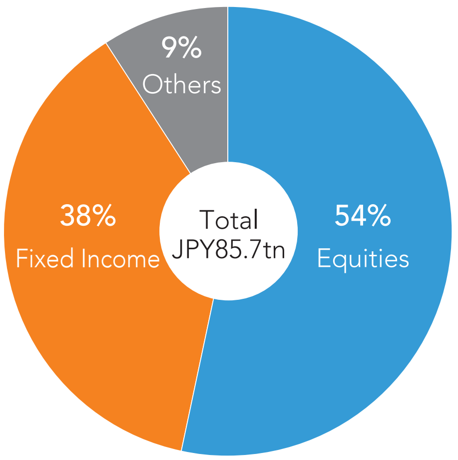
Our clients entrust us with approximately ¥86 trillion in assets under management, making us one of the largest asset management companies in Asia. Assets under management include ¥71 trillion in the investment advisory business and approximately ¥15 trillion in the investment trust business.

We are committed to rewarding the trust our clients place in us and retaining our leading position in key markets. This includes a 21.0% share of the DC investment trust market in Japan.

The following is a breakdown of assets under management by asset class and client type.

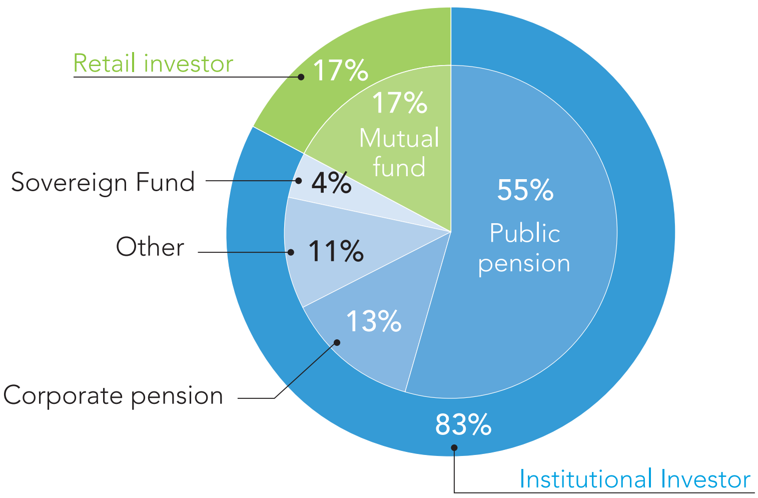
Chart 1.1 - Client overview

AUM breakdown by asset class



(Source: SuMi TRUST AM, as of end-September, 2023)

AUM breakdown by client type



(Source: SuMi TRUST AM, as of end-September, 2023)

As a responsible institutional investor, which has endorsed the Japanese version of the Stewardship Code and is a signatory to the UN PRI, we aim to maximise investment returns and contribute to the sustainable growth of companies and society as a whole by encouraging investee companies to address ESG issues through engagement, voting and the incorporation of ESG factors into the investment decision-making process.

PURPOSE
Our purpose is driven by our corporate philosophy, vision, and mission. It is delivered through our core values, see Chart 1.2.

CORPORATE PHILOSOPHY
With a broad global perspective, we exchange ideas with diverse stakeholders and continue to explore possibilities that will lead to a better future. We will take on the challenge of creating a meaningfully enriched society.

VISION
Your goals are our goals. Your success is our success.

MISSION
We strive to create the new standard of asset management that acknowledges the aspirations of all our investors and stakeholders and work with each of you every step of the way.

Chart 1.2 - Core values

- Stand in the shoes of others and engage in dialogue with empathy.
- Have self-awareness and seek constant self-improvement.
- Expand curiosity and transform awareness into action.
- Create synergies by bringing unique personalities together.
- Pursue quality and value that goes one step ahead.
- Look ahead to the future, continuously challenging ourselves.

(Source: SuMi TRUST AM)

Company History

Our heritage dates to 1986 with the establishment of Chushin Capital Management Co, Sanshin Capital Management Co. and Sumishin Capital Management Co. The current organisational structure was established in October 2018 by integrating the asset management functions of Sumitomo Mitsui Trust Bank.

We are the core asset management firm within the Sumitomo Mitsui Trust Group. Sumitomo Mitsui Trust Group will celebrate its 100th anniversary in 2024.

Business Model and Strategy

Our relationship with our clients is characterised by enduring relationships and long-term objectives, which is a foundational principle of our trust bank heritage of asset management and administration.

In addition to maintaining and strengthening relationships of trust with clients, we are focused on improving profitability through more efficient operations, providing new investment services, and offering unique investment opportunities.

Client overview - home market

Institutional investor

As the asset management company of Japan's largest trust bank group, our business model is calibrated to deliver both independent asset management services to institutional clients and to offer integrated services with the group's institutional investor clients such as pension funds.

Retail investor

In terms of retail business, our primary focus is on designing and engineering products to meet evolving client needs.

We have a track record for managing innovative funds with an enduring advantage over competitor offerings. Flagship funds include a global technology `5G` fund and J-REIT real estate funds. We have launched a decarbonisation fund that offer benefits for investors with a medium to long-term perspective.

In addition, we are seeking new ways to engage and expand assets under management from our retail customers through digital marketing and services.

> We have a track record for managing innovative funds with an enduring advantage over competitor offerings.

Client overview - overseas market

Assets under management for overseas investors exceeded ¥3 trillion. Our clients are primarily institutional investors, public pension or sovereign wealth funds. In terms of geographical dispersion, we target clients in Europe, US, Southeast Asia and the Middle East. We offer solutions including Japanese active equities as well as Japanese and global passive solutions.

Although our portfolio management functions are located in Japan, the depth and breadth of our expertise allows us to differentiate our offering and expand our business model from Japan to overseas markets.

Another key competitive advantage stems from our experience and knowledge gained through engagement activities in Japan, both through a top-down approach based on ESG themes and a bottom-up approach that leverages detailed interaction with investee companies.

Furthermore, we are harnessing our expertise gained from engagement on ESG issues in the US and Europe and by participating in related global initiatives to share knowledge with institutional investors and investee companies in Asia and Japan, which still lag global best practice.

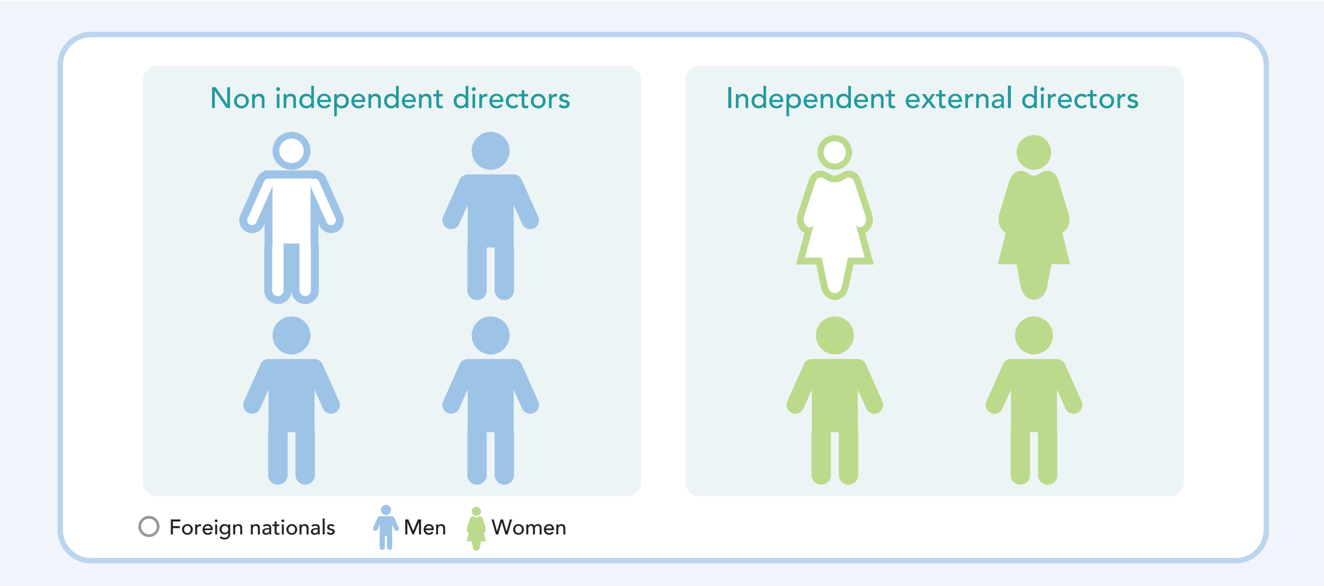
Management

Our company structure is composed of the Board of Directors, who oversee the overall governance, and an Executive Committee, with the role of driving the company's growth, and relevant committees supporting the Executive Committee.

The relevant committees with delegated authority include the Investment and Risk Committee, the Product Committee and the new Sustainability Committee, which was established in October 2023. All our executive team have experience, knowledge, and background in the investment management business.

The composition of our Board of Directors is managed to reflect appropriate skillsets and relevant experience. We also place a significant weight on the independence and diversity of the board with four independent outside directors, representing half of the board, two foreign nationals, and two women, see Chart 1.3.

Chart 1.3 – Details of board of directors



(Source: SuMi TRUST AM)

Only two executive officers, participate in the board of directors. Since our chairman is on the board, the president is effectively the only executive officer of the board.

Human Resources

In terms of our workforce, we have 713 employees, including overseas entities, with high retention rates and diverse specialties. Within the investment teams, the average tenure of our analysts is approximately 18 years and the average tenure of our fund managers approximately 16 years, as of September 2023.

Our investment philosophy and the importance of ESG

Our pursuit of medium- and long-term investment returns on the assets entrusted to us by our clients has led to a significant emphasis on sustainable investing practices, including stewardship and ESG integration.

This is a reflection of the long-term investment horizon of our clients and beneficiaries in Japan, which is our core business base. This includes pension funds, mainly Japanese public pensions, but also increasingly retail investors deploying DC and Nippon Individual Savings Account (NISA). NISA is a tax exemption investment programme introduced by the Japanese Government, as a source of long-term investment funds, in line with the Japanese Government's advocacy of 'new capitalism'.

The role our stewardship activities is particularly important given our significant passive fund management client base who are universal asset owners seeking to raise market returns, or so-called beta. Our strength in terms of number of fund managers, analysts and other personnel with investment management experience, as well as our leadership in practical stewardship activities, allows us to benefit from the medium- and long-term business strategies of portfolio companies.

Furthermore, as one of the largest asset management company in Japan and Asia, we have an important role to play in guiding companies and clients in Japan and Asia about global best practice gained from engagement within advanced economies of Europe and the US.

To this end, we have been actively accumulating knowledge through participation in a number of global initiatives, as well as from dedicated stewardship staff assigned to overseas offices. We are leading in stationing dedicated stewardship staff to overseas offices in asset management industry in Japan.

Our Stewardship activity

As a 'responsible institutional investor', our stewardship activities are driven by our responsibilities related to engagement, voting, and incorporation of ESG factors into investment decision-making process.

Our engagement activities can be categorised into
1) our independent dialogue with portfolio companies,
2) dialogue with portfolio companies through international and domestic initiatives, and
3) engagement activities outside of our portfolio companies, such as policy engagement with government departments, policymakers and regulatory bodies, more details in Principle 4.

We exercise our voting rights in approximately 2,500 Japanese companies and 2,700 foreign companies, as of June 2023.

By fully utilising our employees advanced expertise and fiduciary spirit, we are able to provide solutions in a timely manner and ensure effective client reporting.

We are proactively promoting initiatives to develop a competitive advantage in the field of ESG and sustainable investment, including product development, while giving due consideration to our stakeholders, see Chart 1.4.

Chart 1.4 - SuMi TRUST AM Sustainable investment activities

Year	Details
2003	Launched Japanese Equity SRI investment trusts for retail investors.
2004	Launched SRI funds for DC.
2006	Signed UN PRI.
2010	Launched Chinese equity SRI investment trusts.
2014	Japanese Stewardship Code successful application.
2015	MBIS® (non-financial information assessment) introduced.
2017	Stewardship Development Department established; Stewardship Activities Advisory Committee established.
2019	Impact investment products developed and seeded in Japan.
2020	Global Equity Impact Fund seeded, revised SSC successful application.
2021	SMT ETF Carbon-efficient Japanese equities listed.
2022	Bloomberg MSCI Global Total Sustainability A+ Index-linked Bond Fund is launched for pension trusts.
2023	Sustainability Committee established.

(Source: SuMi TRUST AM)

ESG Materiality

ESG Materiality is positioned as the cornerstone of SuMi TRUST AM's stewardship activities. Materiality refers to ESG issues that are relevant to value enhancement and sustainable growth. We have invested heavily in improvements to the governance and monitoring capabilities related to our ESG Materialities, which we discuss further in Principle 2.

Our new Sustainability Committee established in October 2023 is responsible for devising our 'ESG Materialities' through an annual review process. The views of clients, initiative organisations, investee companies and other stakeholders, as well as internal departments are all critical inputs into the process.

These 'ESG Materialities' are approved by the Executive Committee and taken into account in engagement activities and voting decisions and reflected in our own ESG score which is utilised for ESG investment decision-making. More information is provided in Principle 7.

We recognise that we must continue to develop our sustainability resources and in 2023 we introduced 13 'level-up' initiatives aimed at strengthening our capabilities, please see Chart 1.5. Further details are also available in Principles 4 and Principle 5.

Chart 1.5 - Level-up initiatives

Stewardship – core activities
ESG Materiality
Engagement activities
Collaborative engagement
Escalation
Voting: Diverse Voting
Exercise of Voting Rights: Stock Lending (Empty Voting)

Governance
Governance system for stewardship activities
Systemic risk
Confirmation of fairness of SS report

External relations
Communication with external parties such as customers
Engagement with external vendors

Talent management
Diversity
Compensation system

(Source: SuMi TRUST AM)

Assessing effectiveness

As a 'responsible institutional investor' we aim to achieve sustainable growth and sustainability for companies and society as a whole. We are primarily held to account by our clients who entrust us to deliver long term returns and favourable social outcomes. We cover this process in Principle 6.

We complement our feedback process regarding our ESG investing from clients with external assessments including the UN PRI. In addition to signing the PRI in May 2006, we formulated policies in accordance with each of the six principles and has taken initiatives in line with the latest developments.

The PRI assesses the commitment and progress on these six principles. The latest assessment reflects our commitment to our obligations, and we will continue to be actively involved in the PRI and work to maintain and improve our assessment. For more details, please see Principle 2 and Principle 5.

We also fully support the aims of Stewardship Code and the Corporate Governance Code in the jurisdictions we operate and adherence to high regulatory standards is an important part of our assessment of the effectiveness of our investment beliefs, methods and strategy.

We are committed to each principle of the Japanese version of the Stewardship Code as summarised in Chart 1.6.

Chart 1.6 – Japan Stewardship Code

We are committed to each principle of the Stewardship Code as described in the table below.	
Principle	Initiatives and self-assessment
Principle 1 Policy formulation and disclosure	In light of the revision of the "Japanese Stewardship Code" published on March 24, 2020, we have formulated and published our "Policy for Responding to the Principles of the Japanese Stewardship Code" and reaffirmed our support for the code. We will continue to revise the policy as necessary.
Principle 2 Conflict of interest management	We have established an appropriate conflict of interest management system. We also published a summary of the deliberations of the Stewardship Activities Advisory Committee and our committed to reviewing the system as necessary in response to changes in the environment and other factors.
Principle 3 Accurate understanding	We have promoted engagement activities through a top-down approach based on our ESG materiality-based agenda, a market cap approach that focuses on market capitalization, and a risk approach that targets low ROE companies. In addition to the trilateral collaboration among our Tokyo, London, and New York offices, we also promoted collaborative engagement activities in Japan and overseas. The ICAP was highly evaluated as a good example of the evaluation framework in the ICAP (Investor Climate Action Plan).
Principle 4 Dialogue with companies	We received the top rating in a survey of external evaluation organisations as "the management institution that implements the most effective stewardship activities overall.
Principle 5 Exercise of Voting Rights	As a result of a revision of the Guidelines for the Exercise of Voting Rights, we added criteria for gender diversity and cross shareholdings (January 2023). In addition, we regularly disclose individual voting results for all stocks held and all proposals (October 2022, January 2023, April 2023). In July 2023, we began disclosing voting results in CSV format. We believe that the current measures are appropriate, but we will continue to target best practice. We will continue to revise the guidelines for the exercise of voting rights, maintain transparency in the exercise of voting rights, and enhance the sophistication of the exercise of voting rights.
Principle 6 Reporting to clients and beneficiaries	We explain our stewardship activities to clients on a regular and ad hoc basis. We have also taken the opportunity to explain our stewardship activities at external seminars and workshops. We also published the 2023/2024 Stewardship Report (October 2023). (October 2022). We will continue to report on our activities in a timely and appropriate manner, and at the same time, improve and enhance the content of our activity reports.
Principle 7 Development of skills	We have been acquiring, sharing, and deepening our knowledge through activities at global initiatives and study groups. We also engaged with government agencies, various organisations, and academia to gain a deeper understanding of key issues. We also used external organisations (PRI Academy) and internal e-learning programs to enhance our ESG-related knowledge. We will continue to enhance our stewardship capabilities through these activities.

(Source: SuMi TRUST AM)

Principle 2

Signatories' governance, resources and incentives support stewardship.

As an asset management business within a wider financial group, our governance structures ensure the independence of our asset management operations while generating synergies for our parent company, Sumitomo Mitsui Trust Holdings.

We have sought improvements to our governance structures and systems including enhancement of company governance, greater diversity among board of directors, and the implementation of appropriate product governance practices to ensure that business operations are conducted in the best interests of clients.

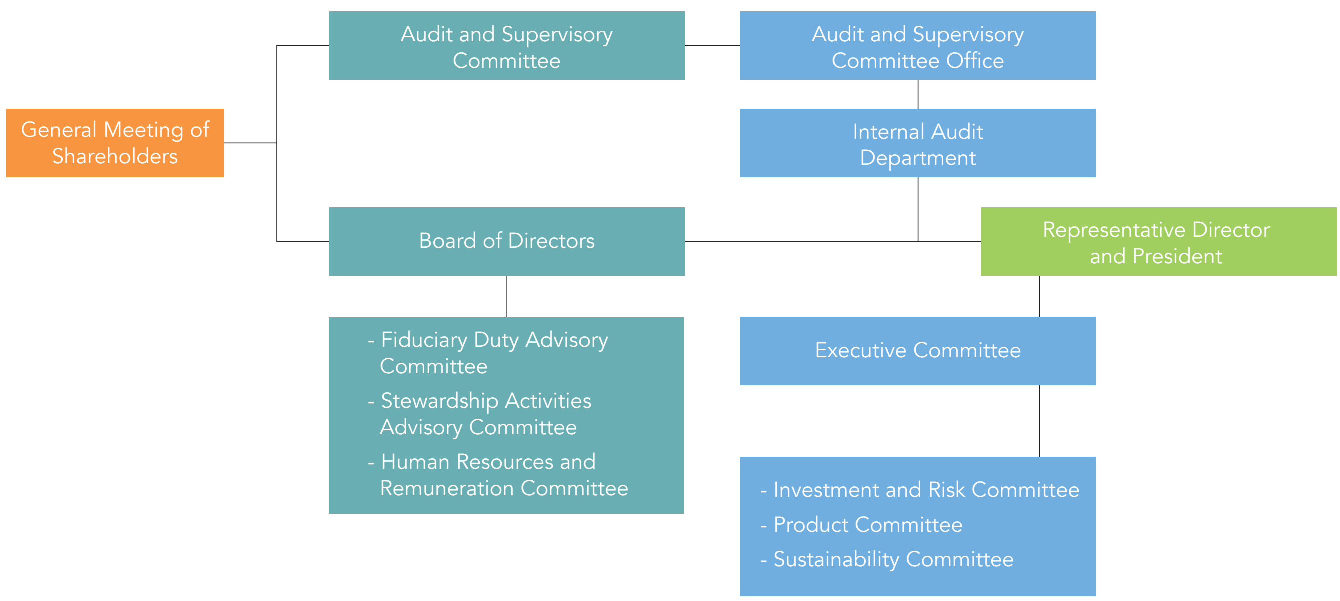
Corporate governance system

Our company structure is composed of an executive team, who drive the company's growth, and governance functions led by the Board of Directors and relevant committees.

We have adopted a basic governance system of a 'company with audit and supervisory committee' under the Japanese Companies Act.

To enhance the effectiveness of the Board of Directors supervisory function, we have established several advisory bodies to the board including the Fiduciary Duty Advisory Committee, the Stewardship Activities Advisory Committee and the Human Resources and Remuneration Committee, please see Chart 2.1 for more details.

Chart 2.1 – Governance system



(Source: SuMi TRUST AM)

Board of directors

The composition of our board is designed to incorporate a diverse range of skillsets and opinions into company management regarding present and future challenges. The Board of Directors is composed with a balance of knowledge and experience, including 'experience in the asset management business', 'knowledge and experience in global business' and 'knowledge in risk management and compliance'. For more detail, please see Principle 1.

Outside directors

Outside directors are actively involved in various meeting bodies and a robust exchange of views with the executive team. A monthly liaison meeting for outside directors is held to support decision-making and supervise business execution. The meetings attended by outside directors and others are listed in Chart 2.3.

We regularly seek to review and improve our governance structure. Since adopting the current governance structure in October 2018, a third-party survey was sent to the directors in February 2023 in order to improve the operation of the Board of Directors. Subsequent initiatives have targeted board communication and timely information-sharing before meetings to ensure decision-making is efficient and all compliance and board duties are captured.

Chart 2.3 – List of meetings attended by outside directors and others

Name	Frequency
General meeting of shareholders	Annual
Board of Directors	At least once a quarter
Liaison Committee of External Directors	Monthly
Audit and Supervisory Committee	Monthly
Stewardship Activities Advisory Committee	Quarterly
Fiduciary Duty Advisory Committee	Quarterly
Human Resources and Remuneration Committee	Multiple times a year

(Source: SuMi TRUST AM)

As for details on outside directors, Yasuhiro Yonezawa has served on the management and asset management committees of GPIF and Public Mutual Insurance, and Mami Sasaki has extensive experience in financial services. Mitsuaki Iwase has expertise in overseas and foreign affairs and good insight into organisational governance and information security, which contributes to strengthening our governance function. He has previous experience working at the National Police Agency. Royanne Doi, a new addition since October 2022, is highly knowledgeable in the field of global risk compliance and has increased board diversity as a Japanese-American woman.

Internal governance structures

The internal control system is founded on nine critical workstreams which monitor performance and assess effectiveness. The results are reported to the Executive Committee and the Board of Directors. We review the appropriateness of these assessment criteria once a year.

1. Compliance programme

We have formulated a specific plan to ensure our compliance and customer protection management system, which is reported to semi-annual Executive Committee meetings and subsequently the Board of Directors. Based on the programme, compliance training is conducted for all officers and employees and each department conducts training on internal controls at least once a term in principle. The main topics are insider trading, proprietary trading, prevention of transactions with anti-social forces, conflicts of interest, and compliance hotline.

2. Risk management

We formulate a specific, practical plan with the progress and achievements regularly monitored and reported quarterly to the Executive Committee and the Board of Directors. In addition to e-learning training in each department, a liaison meeting of internal control representatives is held to promote a risk culture by informing each department of changes to regulations and rules relating to risk management and sharing operational accident cases. The risk management of our subsidiaries, Sumitomo Mitsui Trust International and Sumitomo Mitsui Trust Asset Management Americas, is monitored in accordance with the regulations of these subsidiaries.

3. Business execution

The formulation of management strategies relating to business execution are approved by the Executive Committee and subsequently the Board of Directors. In addition, a liaison meeting of external directors is held in advance of the Board of Directors' meetings, to ensure active discussions between internal and external directors. In addition, the President and, if necessary, other executive officers report regularly to the Board of Directors on the status of the execution of duties.

4. Management transparency

To ensure the accuracy of accounting records and the reliability of financial reporting, and to prevent fraud and errors, we have established accounting rules, and assigns personnel with sufficient accounting knowledge and experience, for the departments in charge of operations. Information on amendments to laws, regulations and accounting standards is collected through online participation in external workshops and other means, and efforts are made to ensure proper financial reporting.

The departments in charge of financial reporting are audited by the internal audit department, which reports to the Board of Directors. As a company subject to assessment of internal control over financial reporting by the holding company, the company undergoes an internal control assessment.

The executive officer in charge of finance reports matters that have a significant impact on the company's business results and financial position to the Board of Directors and the Executive Committee. The company prepares, discloses and reports financial statements and other relevant documents in accordance with the Financial Instruments and Exchange Act.

5. Company's subsidiaries

The Corporate Planning Department monitors our international subsidiaries, Sumitomo Mitsui Trust International (UK) and Sumitomo Mitsui Trust Asset Management Americas, to ascertain the status of business execution and to understand the risks associated with them in order to manage them appropriately. In conducting monitoring, the Corporate Planning Department also takes into account various rules and approaches to risk management activities of the departments in charge of risk and works closely with the relevant departments to identify issues within the company.

6. Sumitomo Mitsui Trust Group

We comply with the management principles of the Sumitomo Mitsui Trust Group and strives to establish an appropriate group management system. We share issues and problems with Sumitomo Mitsui Trust Holdings, by reporting matters at the Board of Directors and management meetings, as well as the status of business execution.

In compliance and risk management, mutual cooperation is carried out with the Compliance

Management Department and the Risk Management Department of the holding company in formulating plans and revising internal regulations, and issues to be addressed and matters to be communicated are shared at Group affiliate company compliance meetings, etc. The Group also shares information on issues to be dealt with and matters to be communicated at Group affiliate compliance meetings.

7. Information storage and management system

For the General Meeting of Shareholders, the Board of Directors and the Executive Committee, minutes are prepared to record the proceedings and the main points of proceedings, respectively, and are stored together with the relevant documents. Of these, for the Executive Committee and Board of Directors meetings, following the introduction of paperless meeting operations from May 2018, the operation of storing the electronic media used has been added.

For documents, paperless operation has been promoted since October 2020, and documents for the General Meeting of Shareholders, the Board of Directors and the Executive Committee are stored using this workflow system. In addition, specific implementation plans for information security risk management and customer information management are addressed semi-annually by the Board of Directors as part of a Risk Management Plan. The occurrence of information-related accidents, together with other operational accidents, is reported monthly to the Executive Committee.

8. Internal audit

In accordance with the Group Internal Audit Basic Policy set out by the holding company, an internal audit plan sets out basic policy, including priority items, and is approved by the Board of Directors with the prior consent of the Audit Committee. The executive in charge reports internal audit results to the Audit Committee, the Board of Directors and the President. The Audit Committee is usually informed monthly, while the Board of Directors is informed quarterly.

In the internal audit in FY2022, the Board of Directors adopted a new internal audit plan with the following key action points:

1) 'Organisational Management Audit' changed and streamlined.
2) 'Business Theme Audit', reorganised from the business section and implemented together with the special theme audit and regular theme audit.
3) The Company established an Audit Committee Office and a system for reporting. In principle, the Audit Committee meets monthly, and the director in charge of internal audit and the head of the Internal Audit Department attend as observers to exchange opinions with the Internal Audit Department, and to exchange information necessary for the effective implementation of the Audit Committee's activities.

9. Audit and Supervisory Committee

The Company has established an Audit and Supervisory Committee and has developed a reporting system to the Audit and Supervisory Committee. In addition to attending meetings of the Board of Directors and other important meetings deemed necessary by the Audit and Supervisory Committee, such as the Executive Committee, the Audit Committee members hold hearings and exchange opinions with the Chairman and President, the executive directors, the executive officers and the general managers of each department. In principle, the Audit and Supervisory Committee meets monthly, and the director in charge of internal audit and the head of the Internal Audit Department attend as observers to exchange information and opinions with the Internal Audit Department, and other information necessary for the effective implementation of the Audit and Supervisory Committee’s activities.

The internal control system is founded on nine critical workstreams which monitor performance and assess effectiveness.

Stewardship governance

In response to changes among clients, regulators and the wider society we have made significant investment in developing and upgrading our governance during the reporting period. This included the establishment of our Sustainability Committee in October 2023.

The Sustainability Committee was set up to strengthen the monitoring function in light of the increasing scope of activity and more granular reporting requirements of clients and regulators. The Sustainability Committee is co-chaired by the officer in charge of the Stewardship Development Department and Business Planning Department.

The committee has consolidated various sustainability-related responsibilities and has developed new frameworks for several sustainability processes. The new body is also more functional than the previous governance structures in reviewing and evaluating activities.

For example, the Sustainability Committee is responsible for reviewing input from customers, portfolio companies, regulators, global stewardship initiative organisations and other stakeholders, as well as internal departments to devise our ESG Materialities and for conducting an annual review to ensure their effectiveness and relevance. The results of the annual review and ongoing review are reported directly to the Executive Committee and the Stewardship Activity Advisory Committee.

Another important change to our stewardship governance reflects the shifting sustainability environment with a greater focus on actively learning from engagement and communication with global clients, national regulators and other international stakeholders. To date, we have developed our ESG-related activities as a leading asset manager through communication with clients in our base in Japan. However, we have placed a new emphasis on narrowing the gap with international best practice and seeking to raise standards where possible.

Improving customer evaluations

We are working to ensure customer-oriented business operations by upgrading product governance through effective measures based on the PDCA (Plan-Do-Check-Act) cycle. As part of this initiative, we reviewed our product governance framework in 2023. We have also improved the framework for monitoring suitability of products, post-launch setting and return monitoring.

In order to enhance product governance, we have also established the ESG Product Management Process, which includes consideration of global ESG investment-related regulations. Our ESG product accreditation criteria include not only the application of ESG investment methods, but also the following requirements:

1) The portfolio must have ESG characteristics and these characteristics must be measurable,
2) ESG-related disclosure must be appropriate, and
3) for ESG investments by outsourced asset management companies, products must be evaluated in accordance with the "Guidelines for Due Diligence on Outsourced Investment Management".

Finally, we have invested in processes and systems that contribute to ESG investment as well as investing in related data and research capacity. This enables us to better measure the ESG characteristics of each portfolio, as well as the appropriate disclosure of information on the status of ESG investments.

Stewardship - Independent governance

In addition, to our internal review and assessment we also seek independent assessment of our stewardship activity through the Stewardship Activities Advisory Committee. This quarterly meeting comprises of three independent experts (the chairperson is Yasuhiro Yonezawa, an external director) and one internal person.

The committee deliberates on revisions to the voting principles and reports on stewardship activities. Specifically, the committee deliberates on the approval or disapproval of proposals for which there are no provisions in the voting principles, the appropriateness of the interpretation of the voting principles for individual proposals, and the verification of the decision-making process for exercising voting rights for proposals that may cause conflicts of interest.

Fiduciary Duty Advisory Committee meetings

The Fiduciary Duty Advisory Committee, which meets quarterly, comprises four independent external experts (chaired by external director Mami Sasaki) and one internal member. The committee regularly discusses the company's stewardship, engagement and voting activities and reports to the Executive Committee and the Board of Directors.

Assessment

In order to secure further objective and independent assurance of our stewardship activity, we signed up to the UN PRI initiative at its inception in 2006 and pay close attention to their regular evaluation of our capabilities based on each of the six principles.

We were delighted to be highly commended in a number of categories during the most recent evaluation despite a tightening of requirements and increase in standards for 2021, please see Chart 2.4 for more details. We will continue to be actively involved in the PRI and work to maintain and improve our assessment.

Chart 2.4 – UN PRI Assessment

		2023
Policy Governance and Strategy		★★★★★
Indirect	Listed equity - Active	★★★★
	Fixed Income - Active	★★★★
Direct	Listed equity - Passive equity	★★★
	Listed equity - Active quantitative	★★★★★
	Listed equity - Active fundamental	★★★★★
	Fixed Income - SSA	★★★★★
	Fixed Income - Corporate	★★★★★
	Hedge funds - Multi-strategy	★★★★
	Hedge funds - Long/short equity	★★★★★
Confidence building measures		★★★★

(Source: SuMi TRUST AM)

Stewardship resources

SuMi TRUST AM invests extensive personnel resources in its stewardship activities. Our engagement activities, which is a major part of our stewardship activities, are conducted in collaboration with the Stewardship Development Department, ESG specialist, and analysts in the Research Department, professionals in industrial company analysis. Headquartered in Tokyo, we also have dedicated engagement staff in New York and London to facilitate stewardship activities on a global basis.

Chart 2.5 – ESG specialist and analysts

Stewardship Development Department
21 members

General manager + 13 in charge of domestic equities + 7 in charge of foreign equities

– The average number of years of investment experience is 22.6 years.
– 4 are women.

Research Department
25 members

Head + Deputy head + 17 equity analysts + 6 credit analysts

– The average of 16.0 years experience in management.
– 2 are women.

Overseas offices (1 in Europe, 1 in the Americas), with the average years of experience is 16.9 years.

(Source: SuMi TRUST AM, as of end-September 2023)

In addition, we are working to build ESG capacity across the enterprise through internal and external training initiatives. Internal capacity-building initiatives include employees attending the PRI Academy, with 25 participants from the Stewardship Development Department and the investment front offices. In addition, the Stewardship Development Department runs specific training courses throughout the year on a range of ESG topics, themes and strategies. Recent topics include 'ESG investment flows', 'Status of ESG issues', 'ESG information disclosure - 'TCFD', 'ESG/sustainable investment' and 'Trends at domestic/overseas asset managers'.

Stewardship incentives

The company has put in place a range of incentives to ensure behaviours and compliance consistent with our stewardship commitments and to raise standards to global best practice.
At a leadership level, long-term incentives for executives reflect the achievement of various targets under the Net Zero Asset Managers Initiative. In addition, the number of engagements, content of information of stewardship activities and outcomes are set as criteria for remuneration and personnel evaluation, particularly in departments deeply involved in engagement activities, so that the personnel are highly motivated to engage in these activities.

The ESG Investment Policy is incorporated into incentives for all the employees in the investment department and are monitored at least once a year.

Stewardship systems and processes

One of the most important recent enhancements to our ESG research capability is the upgrading of our in-house ESG scores and establishment of the ESG Score Management Process in 2022.

In principle, an in-house ESG score is assigned to the investment universe of all assets. Based on ESG Materialities, our ESG score is a quantitative assessment calculated with reference to ESG data from external vendors, and qualitative results are obtained through research and engagement activities by our analysts and ESG specialists. Our ESG score compliments, our proprietary, non-financial information evaluation tool MBIS® which is used for assessing a company's medium- to long-term sustainable growth potential, see more details in Principle 7.

ESG Data

In addition to the ESG score, we hold a large amount of basic ESG data, including data on inhumane weapons for ESG negative screening, and greenhouse gas emissions for use in engagement, regulatory compliance, information disclosure, etc. Fund managers can refer to them via a tool that displays scores by issue/portfolio, enabling the sharing of evaluations across the company.

In relation to engagement, we use a mix of information sources to conduct assessments of companies and promote initiatives to increase corporate value including MSCI and FTSE scores, company reports, responses to CDP, and scandal-related information from Sustainalytics and ISS-ESG (Ethix).

The integration of our ESG scores and data management into our investment process is explained in more detail in Principle 7.

In relation to engagement, we use a mix of information sources to conduct assessments of companies and promote initiatives to increase corporate value including MSCI and FTSE scores.

Service providers

Given the importance placed on stewardship as a core function, our use of outsourcing services is highly selective. Where we do utilise external service providers, we do so where we see critical value-add for our clients and beneficiaries. The main areas of external service providers are ratings companies, ESG data and information providers. We cover this topic in more detail in Principle 8.

Proxy advisors

In exercising our voting rights, we use services from ISS, which is our sole proxy advisor, on a selective basis. In terms of the final exercise of voting, our voting guidelines and information on corporate initiatives and policies obtained through engagement activities are critical. However, for overseas equities proposal analysis reports and exercise recommendations from ISS are utilised as inputs into our decision-making process.

In terms of our domestic equities, ISS recommendations are also applied to exercise decisions on proposals of our own group companies and proposals dedicated to executives from our group companies from the perspective of appropriate management of conflicts of interest. We do not use ISS execution services for domestic equities.

Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Our parent company Sumitomo Mitsui Trust Holdings (SMTH) recognises the importance of building sustainable business models that meet the long-term interests of clients. To ensure products and services reflect the long-term welfare of our clients, SMTH established the Fiduciary Duty Planning and Promotion Department in 2016.

Based on the Policy on SMTH Group's Fiduciary Duty Initiatives and the Principles on Customer-Oriented Business Operations published by the Financial Services Agency, we have created the following Fiduciary Duty Action Plan.

Action plan

1) Formulate clear and rational investment and engagement policies that maximise the interest of our clients and are executed on the best possible terms and conditions for customers.
2) Develop products and services that meet the diverse needs of our clients and changes in the social environment, such as the aging of the population.
3) Empower clients' decision-making through seminars and the provision of timely and appropriate information on market information and trends; as well as the disclosure of appropriate and easy-to-understand information on remuneration and fees.
4) Ensure professional development and retention of human resources and develop personnel evaluation system, while promoting understanding and practice of fiduciary duty among officers and employees.
5) Build and strengthen governance to ensure independence and transparency in management and independence from the holding company and affiliated sales companies.

Based on the commitments set out in the action plan, we direct our efforts at SuMi TRUST AM to client-oriented products and services and seek to build appropriate governance to protect clients' interests.

How we identify conflicts of interest

While we strive to faithfully perform investment management operations for our clients, we recognise the risk that this may not always be the case. Conflicts of interest may occur when there is an incentive to prioritise the interests of those other than the customer. Alternatively, they may occur when there is a considerable disparity in knowledge or information regarding products and services between our Group companies and our clients and beneficiaries.

We take a proactive approach to identifying transactions that are susceptible to conflicts of interest. We identify the following key transaction types that cause conflicts of interest:

1) Best market rate and trading conditions
2) Client disclosure or consent
3) Information disclosure between group companies or departments
4) Change in terms or methods
5) Cancellation of the transaction

How we manage conflicts of interest

To enshrine our fiduciary duties, we have established a conflicts of interest management system, see Chart 3.1. Conflicts of interest that arise in relation to stewardship activities shall be strictly managed in accordance with internal rules for managing conflicts of interest and for investment management operations with the aim of putting the interests of customers and beneficiaries first.

Chart 3.1 – Examples of conflict of interest management methods

Conflict/potential conflict	Transaction type	Details	Control mechanism
Operation and management of fund	Best market rate and trading conditions	There is a concern that the fund will be traded at unfavourable rates or terms.	Internal review by risk and audit review fair transaction/trust condition (market rate/level)
Exercise of influence within the group	1) Client disclosure or consent 2) Information disclosure between group companies or departments	Concerns that, when our funds invest in shares of companies with which the corporate sales departments of group companies have business relationships, the corporate sales departments may request to exercise voting rights in favour of the issuer of the shares.	Rules and guidance Exercise of voting rights based on voting guidelines and disclosure of results

(Source: SuMi TRUST AM)

In principle, we conduct conflicts of interest management through the conflict of interests management policy, see Chart 3.2. A summary of our global conflicts of interest policy is disclosed below.
https://www.sumitrust-am.com/conflict-interest-management-policy

During the reporting period, we have strictly applied our conflicts of interest policy to issues related to stewardship. The compliance department did not point out cases of conflict of interests.

Conflicts of interests related to voting rights

The Sustainability Committee, in consultation with the Stewardship Activities Advisory Committee, is responsible for the principles for the exercise of voting rights. The officer in charge of the Stewardship Development Department has exclusive authority over all matters related to the exercise of voting rights, independent of the executive authority of other departments, thereby minimising any conflict of interest that may arise in the exercise of voting rights.

The Stewardship Activities Advisory Committee, of which the majority of members are external experts, advises and reports on the following:

1) Matters relating to the revision or abolition of voting principles and other rules impacting voting decisions.
2) Matters relating to companies to which the relevant rules are not stipulated in the principles related to the decision to exercise voting rights.
3) Improvements concerning engagement and voting cases which are likely to give rise to conflicts of interest, such as those involving companies that are business partners of SuMi TRUST AM.

The Sustainability Committee is responsible for monitoring the implementation of voting principles and all voting results are reported to the Sustainability Committee on an annual basis.

Conflicts of interests related to group company

One example of conflicts of interests related to group companies relates to voting rights. To avoid conflicts of interests regarding shareholder proposals for candidate directors of the parent company, Sumitomo Mitsui Trust Holdings, group companies, and those who have a close relationship with us or our parent company (such as current executives), we use the advice of a proxy advisory company based on our proxy voting principles, and after confirmation by the Stewardship Activity Advisory Committee. At general meetings held from July 2022 to June 2023, 12 companies were judged through this process.

Conflicts of interests related to officers and employees

To mitigate employee conflicts of interest we have put in place robust controls relating to intra-department communication, information disclosure and personnel transfers. We also regularly conduct education and training for offices and employees, and thoroughly inform them about the management of transactions that may cause conflicts of interest.

Chart 3.2 – Conflict of interests

Intra-department communication	Operational business departments are restricted from communicating information with the following departments of our group companies. • Corporate loan business and planning departments • M&A operations related departments • Respective departments for stock transfer agency services business
Information disclosure	Employees in each investment department are prohibited from disclosing non-public information related to fund management activities to group companies, except when permitted by laws and regulations.
Personnel transfers	Employees in the following departments of affiliated companies and the investment trust sales promotion departments are restricted from being assigned or appointed to important decision-making positions in the operation and stewardship activities of each investment department. • Corporate loan sales and planning departments (5-year time limit) • M&A operations related departments, departments for stock transfer agency services business (1-year time limit)

(Source: SuMi TRUST AM)

How we monitor conflicts of interest

In order to appropriately monitor conflicts of interest, we have established a Compliance Department which controls conflicts of interest. The verified results from the compliance supervision are reported to the Board of Director on a regular basis. The Board seeks to ensure that the interests of our customers are not unduly harmed and includes independent outside director to ensure the effectiveness of supervision.

The Board seeks to ensure that the interests of our customers are not unduly harmed and includes independent outside director to ensure the effectiveness of supervision.

Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Risk management

At SuMi TRUST AM, risk management capabilities are at the heart of our value proposition for clients, and we believe risk management excellence supports our sustainable growth.

Risk management policy

Based on the risk controls established by our parent company Sumitomo Mitsui Trust Holdings, our management policy and internal control policy, we have established our company's risk management policy.

Through risk management, we aim to identify, evaluate, monitor, control and reduce risks, while verifying appropriateness and reviewing risk management activities. Our risk management policy aims to ensure sound management, generate profits through risk-taking based on management strategies, and support sustainable growth.

The Risk Governance Structure defines the roles and responsibilities of the Board of Directors, the Executive Committee, and Directors, Executive Officers, and Officers in charge of risk management.

Chart 4.1 – Risk governance structure

1. Board of Directors	2. Executive Committee	3. Directors, Executive Officers, and Officers in charge of Risk Management
1) Establish and disseminate risk management policy. 2) Formulate policies for risk identification, assessment, monitoring, control and reduction. 3) Formulate and disseminate a risk management plan. 4) Clarify the roles and responsibilities of the Executive Committee and the responsible officers with respect to risk management. 5) Establish policies regarding organisational structure, including the establishment and authorisation of risk management related departments. 6) Assign knowledgeable and experienced managers to the risk	1) Resolve and disseminate rules and regulations that stipulate arrangements for risk management in accordance with these rules and regulations. 2) Resolve arrangements for identification, assessment, monitoring, control and reduction of risks. 3) Establish risk management related departments, assign knowledgeable and experienced personnel and grant necessary authority. 4) Establish a system to ensure the independence of the risk management related departments and to exercise a check-and-balance function. 5) Establish a system to ensure	1) Directors and Executive Officers shall be fully aware that neglecting risk management may have a significant impact on the achievement of strategic objectives and they shall manage with an emphasis on risk management. 2) Officers in charge of risk management related departments shall fully understand the location of risks, types and characteristics of risks, and methods for identifying, evaluating, monitoring, and controlling risks, as well as the importance of risk management. Based on this understanding, they should appropriately recognize the status of risk management

management related department and grant necessary authority. 7) Establish a reporting system for the risk management related departments to report on the status of risks and risk management on a regular or as-needed basis. 8) Regular or as-needed reviews of 1) through 7) above based on reports on the status of risk management.	compliance with risk management policy and ensure effective risk management in relevant departments. 6) Analyse the status of risk management, evaluate the effectiveness of risk management, and verify problem areas based on the results of reviews by the Audit and Supervisory Committee Office, internal and external audits, and reports from risk management related departments. 7) Establish a framework for improvement and follow-up on problem areas. 8) Establish a system for consultation and reporting to the holding company. 9) Periodic or as-needed review of 1) through 8) above based on reports on the status of risk management.	and consider policies and specific measures to develop and establish and maintain an appropriate risk management framework.

(Source: SuMi TRUST AM)

At SuMi TRUST AM, we operate a three-line defence risk governance system which includes risk management by the investment departments (1st line defence), risk management by risk management related departments (risk management department, compliance department, investment risk management department) (2nd line defence), risk management by the internal audit department (3rd line defence).

Chart 4.2 – Risk management

Three lines defence	
1st line defence	Each business division is expected to understand the risk characteristics of its operations and have policies in place to identify and review risks as a risk owner. Risk management needs to be conducted independently and with self-awareness.
2nd line defence	Risk management and compliance departments simultaneously monitor first-line risk and support the business divisions with dedicated risk expertise.
3rd line defence	The internal audit department is responsible for reviewing the effectiveness and adequacy of risk governance systems and processes independently of the first- and second-line defences. If deemed necessary, it will request corrective action or notify management of its concerns.

(Source: SuMi TRUST AM)

Despite these rigorous protections, we accept that risks in the execution of our business are inevitable. We closely monitor risk in two principal areas: investment management risk and operational risk.

Investment management risk

As part of the first line of defence, the Investment Department is obligated to meet standards stipulated by each client mandate and to implement risk controls as specified by each fund. For example, to avoid credit risks the fund manager may exclude firms that do not meet specified requirements based on criteria such as an inadequate financial position, loss-making or no dividend.

In addition, our Investment Risk Management Department is dedicated to monitoring fund management activity independent from the investment department. The team has personnel with knowledge of investment theory, business laws, securities trading regulations, and IT skills necessary to conduct monitoring work.

The results of monitoring activity are reported every month in principle to the Investment and Risk Committee, which consists of senior management from the investment division and the risk management division, and if necessary, discuss and decide on improvement measures. In addition, the Investment and Risk Committee annually report to the Executive Committee, which consists of the president and the management team.

The Board of Directors considers the location of risks, the types and characteristics of risks, methods for identifying, evaluating, monitoring, controlling, and reducing risks, sophistication and review of risk management, and the importance of risk management.

Chart 4.3 – Major items for monitoring investment management risk

Risks associated with investment management
Market risk Credit risk Liquidity risk
Compliance associated with fund management
Status of compliance with operational guidelines Status of compliance with laws and regulations Managing transactions with potential conflicts of interest

(Source: SuMi TRUST AM)

Operational risk

The second important source of risks relates to operational risk, which we recognise as an unavoidable risk that arises in the execution of our business, see Chart 4.4 for major items. The company regularly implements risk register measures (Risk and Control Self-Assessment) in which all departments identify operational risks that hinder their own departmental targets, implement appropriate risk control activities, and respond to changes in the environment.

The Risk Management Department plays a central role in collaborating with other risk management departments, analyses and evaluates the results of implementing these risk register measures, and regularly reports them to the Executive Committee.

Chart 4.4 – Major items for operational risk

- Business processing risk
- Information security risk
- Conduct risk
- Event risk
- System risk
- Legal and compliance risk
- Human resources risk
- Reputational risk

(Source: SuMi TRUST AM)

Identification of market-wide and systemic risk

In addition, to investment management risk and operational risk it is also important to define and identify market-wide and systemic risk. One example of systemic risk is when the insolvency of an individual financial institution spreads to other financial institutions, other markets, or the entire financial system. We consider this a definition which corresponds with that applied by the Bank of Japan.

Another example of systemic risk is any risk which is non-diversifiable. It may represent any risk that is imbedded in the market, whether it necessarily results in market instability or creates imbalances it has the potential to amplify investment management risks and operational risks, which can result in systemic risks.

In terms of our approach to systemic risk, we start with a recognition of investment management risk and operational risks as identified above. We then consider the transmission and amplification of these risks within the financial market.

One example relates to a risk of disruption to financial services that is caused by an impairment of failure of all or parts of the financial system. Another important example is climate change, which we have identified as one of our 12 ESG materialities. It is included as part of Sustainability Risk in the Risk Management Standards (the highest level of the company's standards).

Climate change risk is a risk driver that amplifies investment management and operational risk. This is in line with our interpretation of climate change risk as a risk driver based on the Task Force on Climate-related Financial Disclosures (TCFD) in the UK, i.e. a factor in the internal environment or external environment that is a primary cause in the occurrence, or changes/transitions in potential incidents. Therefore, identifying and controlling climate change risk in fund management means we can detect the potential amplification of investment management and operational risk that can lead to systemic risk and help mitigate this risk.

Furthermore, climate change risks are defined as 'various matters that are a result of the progression of global warming driven by human-induced economic activities. Changes in weather patterns caused by global warming can alter ecosystems and cause damage to food, water, health, and the economy, adversely affecting sustainable social and economic activities. For more detailed information on our strategy towards addressing climate change risk, please see below or refer to our TCFD report in our Stewardship Report which is available on our homepage.

We also recognise the growing interest of market-wide and systemic risks for our clients. We have identified this area as one of our 13 'level-up' initiatives, which we introduce in Principle 1. To better address systemic risk, we will consider further improvements in identifying and responding to systemic risks, especially related to climate change, in the next year and future years.

A company-wide approach to climate change as a systemic risk

There is an urgent need to systematically address the implications of climate change. This includes both risks and opportunities that will impact the funds we manage on behalf of our clients. We recognise how climate change risks impact our business management through the following three routes: damage to the value of assets under management, loss of entrusted assets and of newly entrusted opportunities, and loss of business continuity; all of which can ultimately worsen our finances and threaten our viability as a company.

SuMi TRUST AM evaluates the climate change risk of assets under management by asset class, and then integrates the asset classes to evaluate all owned assets. The evaluation methods include:

1) Fixed point analysis (Greenhouse gas emissions, etc.)
2) Transition pathway analysis
3) Portfolio resilience analysis related to climate change

How have we put this into action?

Taking action to address climate change is of upmost importance and we have conducted a wide range of engagements to solve issues across various industries. For example, we are focusing on approximately 100 companies that have a significant impact on total greenhouse gas (GHG) emissions and are promoting effective activities, see Case study 4.1.

Case study 4.1 – Global 100 Climate Change Companies

Company	AP Moller Maersk	Country: Denmark
Activity	In 2018, AP Moller Maersk became one of the first major European shipping companies to set a 2050 carbon neutral target. To improve the credibility of its ambitious targets, the firm needs to substantiate measures and actively disclose progress. As one of our 100 focused companies on climate change, we have been actively engaged in dialogue with them since 2019. Our engagement has focused on climate change issues and related disclosure.	
Outcome	Building on previous progress, the carbon neutrality target has been improved to net zero in 2040 - from the original net zero target of 2050. The firm also plans to target 25% green fuels by 2030. However, we expect greater disclosure to increase the certainty of realising the target.	
Assessment	As we are entering the execution phases of its climate transition plan, we will ask the company to provide concrete details of its energy mix and the role of future technological and supply/demand trends on investment decisions. One verifiable KPI is the ratio of green energy in the fuel mix. In addition, critical details such as the management of price pass-on to customers remain insufficient.	
Improvement	We will also increase the frequency of our engagement with the company. To date, we have conducted dialogue with the IR head and IR manager every two years. Going forward, to intend to hold interviews with the IR head and manager once every one to two years and participate in ESG events organised by the company.	

Case study 4.2 – Voting rights

Company	Financial company	Country: Japan
Activity	The company received a shareholder proposal to strengthen its climate change response at the 2022 AGM. We voted in favour of the shareholder proposal because the carbon reduction targets in its investment and loan portfolio were only for the power sector and the company's stance on climate change response was deemed inadequate.	
Outcome	In favour of shareholder proposals (2022) ⇒ against (2023) The company's GHG reduction targets as of May 2023 covered only three sectors (power, oil & gas and coal). However, it has subsequently set targets for two sectors (steel and automobiles) by the end of 2023 and presented a plan to set targets for all nine high-GHG emitting sectors by the end of 2024. Consequently, we opposed the shareholder proposal in 2023, as the company has made considerable progress in addressing climate change and it will be possible to ascertain emissions coverage in the future. The percentage in favour of the shareholder proposal for climate change action decreased to 27.1% in 2022 and 20.7% in 2023.	

In exercising voting rights, if an investee company does not respond to a request for engagement, or if there is no improvement in the situation despite continuous engagement, we will vote for shareholder proposals against the appointment of directors. For more details and case studies please see Principle 12.

Collaborative engagement

In order to address systemic risks and approve market functioning, we recognise the value of working with others to strengthen our influence in these critical areas. In the area of climate change, we joined the Net Zero Asset Managers initiative (NZAMI), a global initiative of asset managers, and have committed to working towards achieving net zero GHG emissions from our portfolios by 2050.

In May 2022, we set an interim 2030 target for the GHG emissions of our assets under management. Specifically, 50% of our assets under management (approx. ¥85 trillion at the end of June 2021) are targeted to halve their carbon footprint (GHG emissions per unit) compared to 2019. The assets excluded from the target are mainly sovereign bonds and we will consider adding them to the target assets.

To achieve these goals, we deploy methods including:

1) Engagement
2) Exercise of voting rights
3) Investment considerations
4) Providing clients with investment opportunities
5) Engagement with clients
6) Enhancing SuMi TRUST AM' s response to climate change

We believe that in order to realise net zero, it is important to take an all-participant approach, aiming to eliminate the 'negative externalities' themselves. We acted as a contact point and conducted four consultations with Japanese asset management companies regarding their NZAMI membership and setting of interim targets. In addition, SuMi TRUST AM's president spoke at a webinar for asset managers to promote NZAMI membership. We supported these companies to join the NZAMI, among others.

Advisor to Asian signatories

When NZAMI asked its members to introduce policies to achieve net zero, we functioned as an advisory board to the Asian signatories and encouraged them to consider regional approaches to 'Just Transition' through 'real solutions', including consideration of regional characteristics in Asia.

Case study 4.3 – Collaborative engagement

In 2021, a Japanese electric component company committed to carbon neutrality through its entire value chain including production, procurement and the use of products and services by FY2050. However, progress on specific initiatives towards net zero was insufficient. As a result, we conducted dialogue through collaborative engagement with other asset managers. The company subsequently announced interim plans to reduce CO_2 emissions by 100 million tonnes per year by 2024. We welcome this step, but we still believe the company's emissions targets lacks sufficient disclosure. We plan further dialogue with executive officers, with a firm focus on KPIs, such as how to link the plan to financial indicators.

Case study 4.4 – Collaborative engagement

As co-lead manager in collaborative engagement with a major US asset owner, we engaged with a Japanese steelmaker requesting detailed reductions of value-chain emissions. The company subsequently announced a plan to reduce emissions and supply carbon-neutral steel. However, the existing plan is on a domestic consolidated basis rather than a more comprehensive approach that includes all global operations. We also judged that the company's response has been lagging peers. We are considering future escalation options, which we will disclose as the engagement deepens.

At SuMi TRUST AM, we actively participate in industry initiatives seeking to solve ESG issues from a global perspective. Our proactive approach on collaborative engagement through global initiatives is covered in more detail in Principle 10.

Collaboration with regulators

The Stewardship Development Department coordinates engagement with government departments, policymakers and regulatory bodies. We use our market position, industry knowledge and expertise to shape the nature of future regulation so that our clients' interests are best protected.

Case study 4.5 – Public policy engagement

We met with the Strategic Planning Office, Energy Planning Agency, Ministry of Economy, Trade and Industry to discuss the 2030 power generation mix stipulated in Japan's 6th Strategic Energy Plan.

From our company perspective, there are many points that are unclear and difficult to realise in the plan. These include:

1) a deceleration in the development of renewable energy sources and emergence of suitable land shortages.
2) the degree of difficulty in realising new nuclear power plant replacements reflected in the basic plan.
3) zero-emission thermal power plants and decarbonisation through the use of CCS/CCUS.
4) the necessity of utilizing carbon tax as a financial resource to promote energy conservation and innovation.

During our discussion, there was a recognition that the utilisation of nuclear power is indispensable for achieving carbon neutrality in 2050. We were able to confirm a positive attitude toward the promotion of energy conservation and introduction of zero-emission thermal power generation through the use of CCS/CCUS, as well as the design of incentives and review of the tax system through the introduction of carbon taxes and carbon credits.

Case study 4.6 – Public policy engagement

Another important forum of engagement the Financial Services Agency's 'Corporate Governance Forum'. As a global investor and the only ICGN board member from Japan, we have an important role to play in the development of a globally interoperable sustainability disclosure frameworks.

Following our discussion with the regulator in September 2023, we conducted engagements with companies regarding new sustainability reporting and disclosures standards and discussed potential bottlenecks. In particular, we discussed improving disclosure ahead of the adoption of new sustainability disclosure rules in Japan scheduled for 2025, and consistent with the standards developed by the International Sustainability Standards Board.

Case study 4.7 – Public policy engagement

As an example of policy advocacy, we sent a letter to the Brazilian government requesting that it disclose information on the state of conservation, management, and development of the Amazon as part of the activities of the PRI/Ceres Forest Conservation Working Group, and we have held independent dialogues with the Governor of the Brazilian Central Bank and the Ambassador to Japan. The Company's independent dialogue with the Governor of the Central Bank of Brazil and the Ambassador of Brazil to Japan is also highly regarded by the Working Group. We recognize that these evaluations are equivalent to level 1, the highest rating on the Investor Climate Action Plans' Expectations Achievement Level scale.

Settlement risk

In capital markets, financial institutions have intricate settlement relationships, so reducing settlement risk leads to stabilization of financial transactions and reduces systemic risk. Settlement risk is defined as the risk that issues may arise due to payment not being made as scheduled for whatever reason.

At SuMi TRUST AM, from the perspective of controlling the foreign exchange settlement risk of the funds, we introduced Continuous Linked Settlement (CLS) in March 2023 for approximately 90% of the foreign currency asset balance of funds managed by our company.

CLS is a payment method in which two different currencies traded in a foreign exchange transaction are delivered simultaneously at a CLS Bank, which is licensed as a special purpose bank by the Federal Reserve Board of the United States.

Through this initiative, we have reduced the settlement risk associated with foreign exchange transactions for the funds we manage.

In capital markets, financial institutions have intricate settlement relationships, so reducing settlement risk leads to stabilization of financial transactions and reduces systemic risk.

Geo-political risk

Another example of systemic risks relates to geopolitical risk. Geopolitical risks amplify investment risks and operational risks and include the adverse impact of heightened political, military, or social tensions on regional and the global economy. For example, the February 2022 Russian invasion of Ukraine and Western economic sanctions placed unprecedented restrictions on Russian financial markets.

Given the seriousness of the events in Ukraine, we engaged with index providers to provide input on the exclusion of Russian assets from relevant indices and pricing implications for fund valuation purposes. The result of this engagement was the removal of the country's assets from the benchmark index. Please see Principle 11 for more details.

We are dealing with existing exposures and, where possible and appropriate, will consider options for reducing exposures in a prudent manner that protects client interests and mitigates unintended consequences. We are closely monitor events and continually review our decisions should there be a material change in the status quo.

Principle 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Stewardship activities

Our stewardship activities are led by the Stewardship Development Department in collaboration with experienced analysts in the Corporate Research Unit of the Research Department.

Our stewardship activities are reported to the Sustainability Committee, which was established in October 2023, and the Stewardship Activity Advisory Committee, which is comprised of a majority of independent experts. The Sustainability Committee was set up to monitor our stewardship activities in light of their increasing scope and the more granular processes and reporting requirements of clients and regulators.

The Sustainability Committee meets monthly, and the Stewardship Activity Advisory Committee meets quarterly. At these meetings, the committee deliberates on revisions to the voting principles and reviews reports on stewardship activities.

In order to strengthen the governance structure further, the activities of these committees are monitored with reports made to the Executive Committee on an annual cycle.

Regular review

It is important that policies and processes related to stewardship activities are regularly reviewed and assessed for effectiveness. Our starting point is one of continuous self-improvement based on frequent dialogue with clients.

One example relates to our 'ESG Materialities' and 'ESG Investment Policy', which was established in 2019. These policies require regular review, with the most recent revision in August 2022. We have upgraded our capabilities in three key areas: harmonizing definitions, responding to regulatory change, and improving communications, see Chart 5-1.

Chart 5.1 – Upgraded capabilities

Harmonising definitions related to ESG	Responding to regulatory guidance	Communication improvements
New definition of 'ESG integration'	Addition of purpose	Enhanced explanation of each ESG Materiality
New definition of 'ESG products' and establishment of 'ESG product guidelines'	Addition of contents of approach attitude	Enhanced description of sovereign ESG score
New definition of 'in-house ESG score' and establishment of 'ESG score guidelines'		
Clarification of the definition of 'ESG Materiality' and enhancement of explanations for each ESG Materiality.		

(Source: SuMi TRUST AM)

Another example of when assurance activities resulted in meaningful revision in our process relates to our Principles for Exercising Voting Rights. Based on internal and external review and assurance the following policies changes have been effective since January 2023:

1) Opposition to the election of directors when there are no female directors on the board has been expanded from the TOPIX 100 Index to the TOPIX 500 Index.
2) The Company will oppose the election of directors, in principle, if the company has excessive cross-shareholdings.

Our revisions to voting policies are not simply constrained to our shareholding in equities. We have also made improvements to our voting standards for Japanese real estate investment trusts and infrastructure funds in response to unitholder proposals in REITs and the establishment of investment trusts investing in infrastructure funds for DC clients.

Internal assurance

An essential part of our stewardship is regularly communicating our activity to clients including our annual Stewardship Report and quarterly or bi-annual reports as requested. Our client communications go through a rigorous review to meet appropriate controls and compliance.

The annual Stewardship Report is also approved by the general manager of the Stewardship Development Department and reported to the Sustainability Committee and the Stewardship Activities Advisory Committee.

One area of improvement relates not only to the accuracy of the information provided by the annual Stewardship Report but also the fairness of the information provided. We have identified fairness of the Stewardship Report as one of 13 'level-up initiatives', please see Principle 1.

We have also introduced an enhanced process that assesses relevance for a global audience and ensures compliance with laws and regulations of jurisdictions other than Japan.

In addition, following the UN PRI assessment of the selection and monitoring of outsourced investment management companies, it was determined that there was room for improvement in the level of monitoring. As a result, the content of the Responsible Investment Questionnaire for outsourced investment management companies was significantly expanded and monitoring upgraded. At the same time, SuMi TRUST AM reorganised its outsourced products through the development of regulations regarding ESG product certification. The ESG product certification is also applied to our in-house products.

An essential part of our stewardship is regularly communicating our activity to clients including our annual Stewardship Report and quarterly or bi-annual reports as requested.

External assurance

In terms of our external assurance, the PRI assessment is a key external evaluation of our stewardship activities. The PRI assessment is a report that PRI signatory institutions are required to submit annually. This is reviewed by senior members of the Stewardship Development Department and reported to Sustainability Committee, please see Principle 2 for more details.

We consider the assessment an important way to benchmark our activities and take measures to address items that require improvement. For example, in the last PRI assessment, there was a question regarding the disclosure ratio of voting rights in listed stocks. Since previously only domestic stocks had been disclosed, we have started disclosing information on foreign stocks as well.

Our main motivation for utilising external forms of assurance is to establish a competitive advantage over those firms that are unable to meet the demanding requirements of these international standards.

We also believe that external assessment helps to promote the benchmarking and upgrading of our stewardship capabilities. In preparing the various reports and assessments, many internal teams collaborate on the output including the client departments, investment departments, and business planning department. External assessment helps unify our efforts and reduce silos within the firm.

Despite our efforts to harness both internal and external assessment of our stewardship capabilities, we recognize the limitations of largely a voluntary and self-assessment approach to assurance. With multiple competing standards and methodologies, as well as rapidly shifting client preferences across regions, there is a risk that the assurance landscape remains fragmented. We will continue to seek a solution to external assurance, which has become a pressing need for the industry.

We also believe that external assessment helps to promote the benchmarking and upgrading of our stewardship capabilities.

Client-centric approach

The ultimate adjudicator of whether our reports are fair, balanced, and understandable is the client. We report to our clients on our stewardship activities on an annual, semi-annual, and quarterly basis as requested.

Our stewardship activities are evaluated on a regular basis, with our clients regularly commending their sophistication and improvement. In Principle 6, we provide multiple examples of how client feedback has supported and improved our stewardship activity.

However, we recognise that clients may be lacking in the information or resources to validate claims related to stewardship activities from all asset managers. In particular, greenwashing, where claims are unverifiable, or competence-washing, where professionals lack necessary skillsets, remain concerns.

Of course, assurance is a vital tool to combat information asymmetry. However, the market for assurance is underdeveloped, with concerns about the cost if the standards cannot differentiate providers effectively.

The ultimate adjudicator of whether our reports are fair, balanced, and understandable is the client.

Principle 6

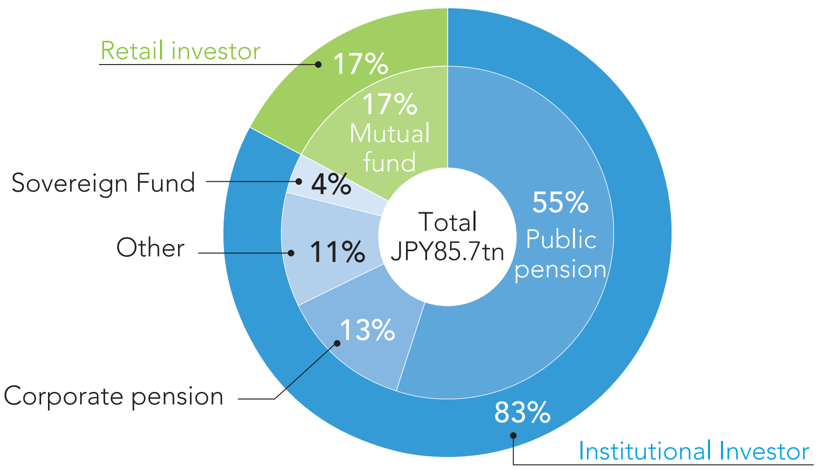
Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Client dialogue is vital to our business success. Our stewardship activities have become an important source of engagement with our clients. This reflects both a rise in inbound enquiries as well as outbound efforts to educate clients as to the importance of stewardship activities for the improvement of corporate value of investee companies.

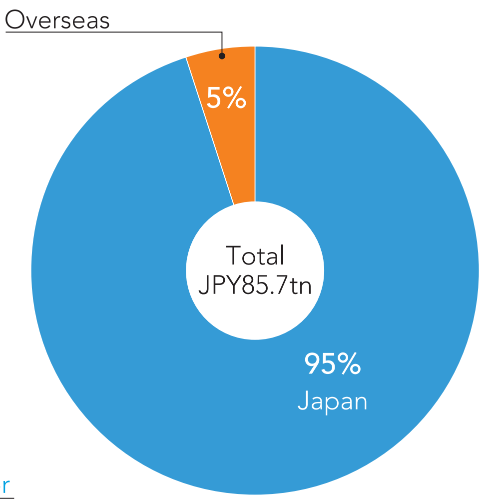
We manage assets globally, but our clients are primarily located in Japan, see Chart 6.1. We recognise that the penetration of ESG varies by region, with Japan and Asia having greater scope to develop to meet global standards. As a global asset manager, we have an opportunity and responsibility to work with clients with advanced knowledge and opinions to tackle global issues and raise standards relating to sustainability across regions.

Chart 6.1 – Customer attributes

Customer attributes (institutional investors, retail)



Client's regional exposure



Regional Exposure by Asset Class

Asset Class	JPY Tn		Japan	Overseas
Equities	45.87	54%	41.88	3.99
Fixed Income	32.29	38%	32.28	0.01
Others	7.55	9%	7.53	0.03
Total	85.71	100%	81.69	4.02

(Source: SuMi TRUST AM, as of end-September 2023)

Our capabilities related to stewardship, which impacts outcomes over mid- to long-term time investment horizon, are particularly important for our long-term institutional investor base, which comprises a significant portion of our clients, see Chart 6-1.

The Company also has a large Japanese retail investment trusts and DC client base. After a long period of economic stagnation, Japanese retail investors are increasingly seeking to align their investment horizons with their long-term investment goals. In response, we are engaged in financial education and the dissemination of ESG-related information in conjunction with the provision of financial products which offer outcomes aligned to our clients' long term interests.

A critical component of our client communications efforts is the disclosure and clarification of our own stewardship policies. In addition to disclosing our stewardship policy on our website, we also disclose the details of our activities through the following:

1) Annual Stewardship Report
2) PRI assessment
3) TCFD report
4) Voting results

Our capabilities related to stewardship, which impacts outcomes over mid- to long-term time investment horizon, are particularly important for our long-term institutional investor base, which comprises a significant portion of our clients.

Industry Forum

To disseminate our thinking and actions related to our stewardship activity and to facilitate two-way communication with our clients we also participate in industry forums.

1) Our Chairman David Semaya participated as a panellist at the 'Net Zero Delivery Summit' hosted by the City of London. David spoke about SuMi TRUST AM's engagement efforts on credible, high-quality climate transition plans made by investee companies, May 2023.

2) Our President, Yoshio Hishida, participated in the Cabinet Office's 'Study Group for Realizing a Virtuous Cycle of Female Participation and Economic Growth' convened under the Minister of State for Gender Equality to consider increasing the percentage of women among 'executive officers or equivalent positions' in Japan, January 2023.

3) A SuMi TRUST AM representative participated in the '9th Nikkei FT Communicable Diseases Conference' as a panellist at the Antimicrobial Resistance Sub-committee, giving a presentation on our company's initiatives to increase pull incentives for the development of new drugs, November 2022.

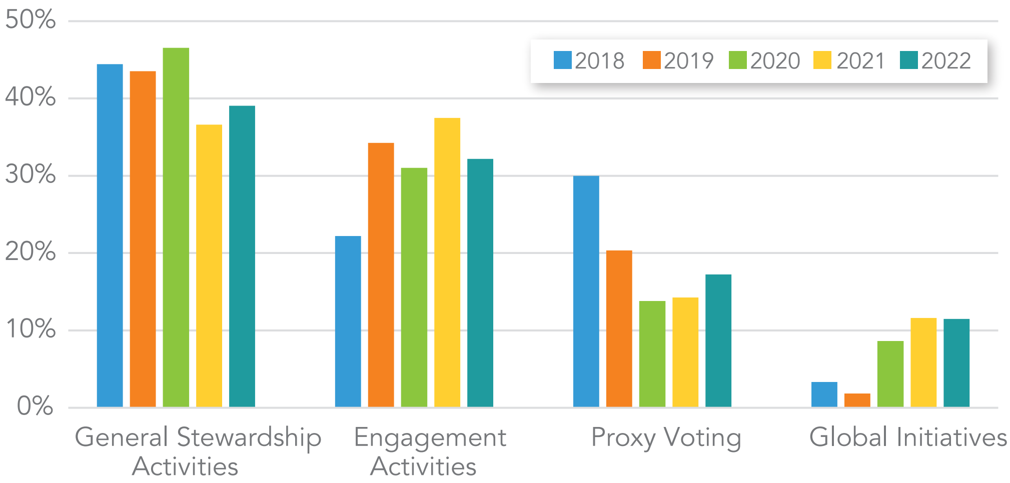
4) A Stewardship Development Department representative spoke at a 'UN PRI Interview on ESG practitioner: webinar on trends surrounding biodiversity and Taskforce on Nature-related Financial Disclosures', June 2022.

What are clients asking from us?

We seek to understand our clients' needs regarding stewardship activities by reviewing an annual client survey. The results are reviewed by the Stewardship Development Department and inform processes, organisational structure and strategy related to stewardship. Chart 6.2 highlights that client interest relates to voting rights and engagement activities.

These areas have come under increased scrutiny since the establishment of Stewardship Code in Japan in 2014. In recent years, we have also witnessed a noticeable increase in interest in global initiatives and have responded accordingly.

Chart 6.2 – Our clients' interest



(Source: SuMi TRUST AM)

For clients outside the scope of our stewardship survey, such as overseas clients, we engage in two-way dialogue with asset owners and are increasingly asked to include ESG-related items in RFPs and other documents when communicating with clients and when applying for new mandates.

In recent years, we have received many inquiries from clients in Asia, where ESG issues are often considered to be relatively less developed, such as the exercise of voting rights, and we are increasingly explaining our engagement activities and voting initiatives.

Aligning stewardship activity with clients' needs

Voting rights

We are committed to increasing the value of investee companies, to the benefit of our clients, through the exercising of voting rights. To gain client understanding of our voting decisions we disclose details of our voting principles and results to our clients.

If we identify a divergence between the customer policy and our company principles in exercising voting rights through the above engagement, we will explain to asset owners our voting intentions and seek understanding through departments in charge of clients.
Of course, not all differences can be resolved. In these cases, we are willing to consider overwriting our company voting principles with the client's policy or, after a discussion with the Sustainability Committee, seek to enhance our voting rights principles to better reflect changing customer preferences, please see Principle 12 for more details. Any such revisions will be disclosed in advance and be accompanied by an explanation, if necessary, to investee companies.

Efforts are made to increase the effectiveness of corporate value improvement by disclosing the revised content in advance and gaining understanding from asset owners through client departments. If there are ultimately differences between the customer policy and our company's principles regarding the exercise of voting rights, we will consider adopting a policy that overwrites our company's principles with the customer policy.

For example, as a result of a difference between a customer's voting criteria and our voting principles, priority is given to the customer's voting criteria (non-uniform exercise) for the relevant customer account.

Case study 6.1 – Voting rights

Company	**Chemical company** Country: Japan
Engagement	
Objective	We have been in dialogue with the company for some time about the need to appoint female directors. However, since no women had been appointed as candidates for directors at the 2022 General Meeting of Shareholders, we opposed directors who had been in office for more than three years.
Outcome	Company proposal opposed (last year) ⇒ in favour (this year) 77.3% in favour in 2022, 93.7% in favour in 2023.
Result	The company requested further dialogue after the 2022 General Meeting of Shareholders due to the low approval rate for the election of directors, and we explained how we had included the election of female directors in its voting criteria. Since a female director candidate was proposed at the 2023 General Meeting of Shareholders, we voted in favour of the election of directors, except for outside directors who were in breach of the independence criteria. The percentage in favour of the President increased from 77.3% in 2022 to 93.7% in 2023.

Strengthened global capabilities

Another area we have sought to align our stewardship activity with client needs relates to our clients' desire for greater international engagement and a more proactive global approach, which is well-aligned with our strategy.

For example, a pension scheme pointed out that there was room for improvement in our overseas engagement system in order to align with our domestic capabilities. To remedy this situation, we established a new base for stewardship activities in New York in July 2020 to supplement our legacy bilateral engagement system centred in Tokyo and London. This has allowed us to more than double our overseas engagements over the last five years.

This has allowed us to more than double our overseas engagements over the last five years.

Case study 6.2 – Overseas capabilities

Company	**Archer Daniels Midland Co** Country: US
Activity	
Topic	As a major US grain trading company, the sustainability of Archer Daniels Midland Co's success is dependent on environmental issues including climate change and water resources.
Engagement	
Objective	Our engagement has focused on monitoring and control of soya production and its supply chain, which is a major cause of deforestation in Brazil. We have conducted a dialogue with the firm since 2020, both independently and collaboratively through the US NGO group Ceres and the Initiative for Policy Dialogue (IPDD). As part of this activity, we sent a letter requesting full traceability of the supply chain, including all direct and indirect suppliers of Brazilian soya, disclosure of a policy for dealing with offending suppliers, a target to achieve zero deforestation soya by 2030, and a cut-off of supplies of Cerrado soya, a vulnerable savannah grassland.
Outcome	
Result	The company announced a target of 100% traceability of direct and indirect suppliers in Brazil, Paraguay and Argentina by 2022 and a zero deforestation by 2030. In May 2023, the company upgraded its target to zero deforestation by 2025. The company's latest Sustainability Report also presented an action plan to achieve the 2025 zero deforestation target. The plan includes (i) conducting a comprehensive deforestation risk assessment, including the supply chain; (ii) further strengthening direct and indirect supplier monitoring in high-risk areas; (iii) developing a measurement protocol and supplier engagement plan to manage deforestation-free soybean; and (iv) working towards third-party verification. Despite these efforts, media reports have indicated deforestation continues apace and without independent verification we have characterized ESG data provision as high risk.
Assessment	
Did outcome meet our expectations?	Until Brazilian deforestation - especially the ever-increasing conversion of the Cerrado Savannah to agricultural land - is addressed, we consider the response of related commodity companies, especially beef and soya, insufficient. In terms of KPIs, ADM discloses the percentage of deforestation-free soya twice a year which we will monitor to ensure it is aligned to its 2025 zero deforestation target. We will also question executive management on their views on mitigating risks and capturing business opportunities through these activities.
Improvement	
Future action	While we welcome the progress on new initiatives to address deforestation, we plan to conduct further dialogue targeted at improving transparency. For example, the 2023 Sustainability Report announced the establishment of a traceability system for suppliers. However, the policy for dealing with non-compliant suppliers and the cut-off period remain unclear.

Another important consequence of our expanded overseas engagement capacity is the ability to participate in global initiatives, a growing area of interest for our clients which is aligned with our strategy (see Chart 6.2). We provide an example of how our participation in the Financial Sector Deforestation Action Initiative resulted in a positive outcome, see Case Study 6.3.

Another important consequence of our expanded overseas engagement capacity is the ability to participate in global initiatives

Case study 6.3 – Global initiative

The Financial Sector Deforestation Action Initiative (FSDA) is an organisation that was launched at COP26 with 30 financial and investment institutions. We received a request from our client to educate Japanese companies on global ESG themes, and using this framework, we began joint engagement on the issue of deforestation, which is still unfamiliar in Japan.

Deforestation is a particularly important issue for tyre companies, which are dependent on land usage to source rubber. Using our global capabilities, we conducted engagement with leading European tyre companies (Michelin and Continental) and were able to provide an international comparison to a large Japanese tyre company and present a compelling case for improvement. The Japanese company which has relatively advanced ESG capacities compared to other Japanese companies recognised that there were further advancements required to reach global standards. In August 2022, the company announced plans for the commercialisation of Guayule, an alternative for existing natural rubber, to help meet its goal to use 100% sustainable materials by 2050.

Clients' future needs

Our approach is not just reactive but also includes monitoring and anticipating future trends related to ESG. An example of this approach is our focus on water management. This is an under-developed area of expertise in Japan, allowing us to engage with companies. For example, we engaged with a large Japanese trading company on water resource management. The company was unfamiliar with this issue but after further discussions recognised its importance. As a result, it implemented the Taskforce on Nature-related Financial Disclosures' approach on a trial basis in the marine aquaculture industry, analysing and disclosing the impact of its activities on natural capital.

We have also been able to align our engagement in Japan with the interests of our overseas clients. For example, in response to a request from an Asian asset owner when communicating about the sophistication of engagement initiatives, we explained our initiatives on water resource management and gained the understanding of the client. The water resource initiatives were also requested by a Japanese pension scheme and as such reflects requests received from both domestic and overseas clients.

Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

To meet our stewardship responsibilities, we integrate the analysis and evaluation of ESG information into our investment processes with the aim of maximising medium to long term investment returns for clients and beneficiaries.

ESG Analysis

Our analysis and investment decision-making are grounded in 'ESG Materiality' as defined by the company. It is informed by several in-house assessment tools and by non-financial information obtained through stewardship activities.

ESG Materiality

In making ESG investments, SuMi TRUST AM considers ESG Materiality a critical component of assessments of all our ESG investments.

Our new Sustainability Committee established in October 2023 is responsible for implementing the company's process with regard to ESG Materiality and conducting a regular review process. The views of clients, initiative organisations, investee companies and other stakeholders, as well as internal departments are all critical inputs into the process.

ESG Materiality is discussed at the new Sustainability Committee and 12 Materialities are identified for each of E, S and G - three risks and an opportunity - and approved by the Executive Committee.

Chart 7.1 – SuMi TRUST AM's 12 ESG Materialities

	ESG Materiality	Risk/Opportunity	Future Acitivities
E	① Climate Change	Risk	For companies with high emissions, we will encourage the taking of specific effective action as soon as possible. For 2030 interim targets, we will continue having engagements with management for requesting the formulation of viable and specific action plans for the transition path according to the industry while also raising reduction targets in line with the Paris Agreement.
	② Natural Capital	Risk	Maintaining and improving natural capital and biodiversity are important obligations for people living today. In addition to efforts for achieving zero damage to natural capital through the conservation of water resources and forests, as well as responsible land use, we will encourage corporate actions that aim to restore and thus maintain and improve natural capital and biodiversity.

Chart 7.1 – SuMi TRUST AM's 12 ESG Materialities (continued)

	ESG Materiality	Risk/Opportunity	Future Acitivities
E	③ Pollution & Waste	Risk	To realize a circular economy, it is essential to strengthen cooperation among industries and among companies at each stage of the value chain. We will encourage corporate actions for establishing a circular economy including the development of products and services that take resource recycling into consideration along with education/awareness activities for consumers.
E	④ Environmental Opportunities	Opportunity	It is essential to find balance between resolving environmental issues and achieving economic returns in order to achieve social and corporate sustainability. We will encourage companies to take the initiative to realize this and to improve corporate value.
S	⑤ Human Rights & Community	Risk	In addition to risk management by establishing a human rights policy and establishing and operating a system for human rights due diligence, we will also encourage proactive information disclosure on related initiatives for improving corporate value. We will encourage improvement of community sustainability by reducing the supply chain load and "just transition."
S	⑥ Human Capital	Risk	While utilizing human capital by promoting DE&I management, we will continue conducting engagements for requesting initiatives to improve corporate value. These initiatives include enhancing employee engagement, disseminating corporate philosophy and business strategies, and fostering each employee's ability to create value.
S	⑦ Safety & Responsibility	Risk	From the perspective of well-being, we will encourage initiatives for maintaining/managing the health and safety of employees, and for improving the ability of each employee to create value for increasing corporate value. We will also continue having engagements for requesting initiatives to improve external evaluations through active information disclosure on improving access to medicine globally.
S	⑧ Social Opportunities	Opportunity	We will promote initiatives for business that resolves social issues by creating employment opportunities and job support. We will also encourage companies to shift to a business model that is sustainable within communities with aging populations and declining birthrates.
G	⑨ Behaviour	Risk	A backcast perspective based on a long-term vision is important for a company's medium-term management plan. We will continue to have discussion with management personnel on setting goals through backcasting as external uncertainties increase, and on their achievement, along with the resolution of various issues.

Chart 7.1 – SuMi TRUST AM's 12 ESG Materialities (continued)

	ESG Materiality	Risk/Opportunity	Future Acitivities
G	⑩ Structure	Risk	We will encourage the improvement of corporate value through the establishment of a diverse board of directors necessary for realizing its purpose, corporate philosophy, and long-term vision.
G	⑪ Stability & Justice	Risk	We will continue to engage with companies that have experienced misconduct, encouraging actions to prevent its recurrence and to improve management discipline, as well as requesting the establishment of risk management processes to prevent such incidents beforehand.
G	⑫ Governance Improvement	Opportunity	We will promote the improvements to corporate value by encouraging the establishment of a foundation that allows each director to demonstrate their potential and to fulfill their rol.

(Source: SuMi TRUST AM)

Adjustment of 12 ESG Materialities themes

In August 2022, we made the following adjustments to the 12 ESG Materialities themes with the aim of enhancing the sophistication of engagement.

1) 'Social Opportunities' replaced 'Sustainable Communities'. By adding the perspectives of 'promoting the expansion of products and services that solve social issues' and 'fair transition' to the existing theme of 'building sustainable social infrastructure and business models', the aim is to broaden the scope of dialogue on both solving social issues and creating business opportunities.
2) We added 'natural capital and resource protection', which we consider to be of increasing importance, to the existing high-priority themes of 'climate change', 'promotion of corporate behaviour' and 'governance reform.'

The 12 ESG Materialities framework allows us to select and prioritise stewardship activities. This can vary depending on whether a top-down or bottom-up approach is required to meet our client outcomes. For an explanation of how the top down and bottom-up approach to engagement differ in practice please see Principle 9.

In-house ESG score

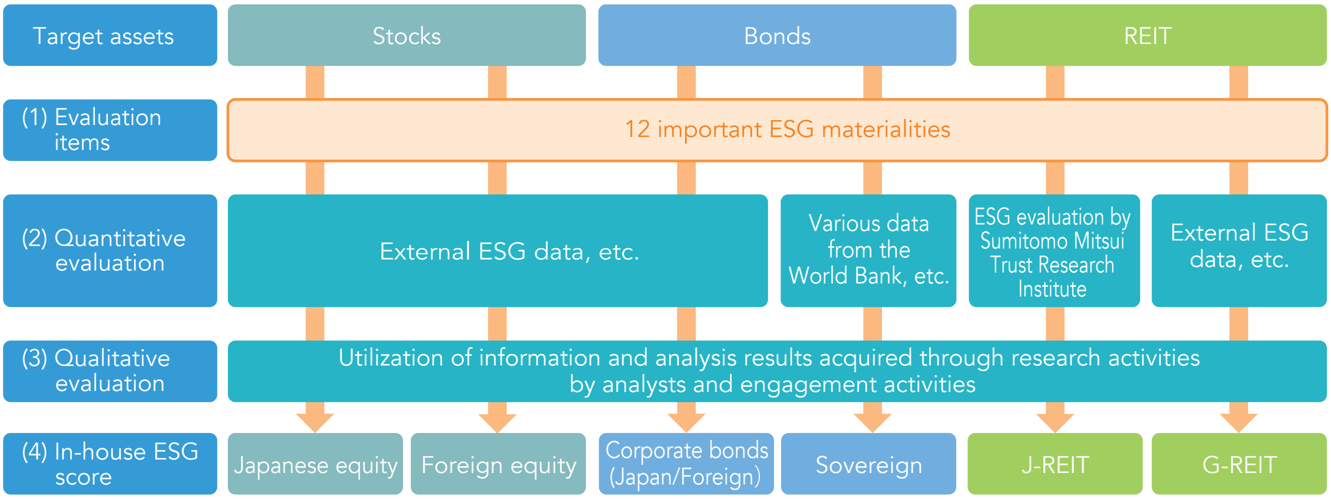
In-house ESG score refers to our investment evaluation index, which is assigned from an investor's perspective. SuMi TRUST AM calculates its own ESG score reflecting information and analysis obtained through research and engagement activities by our analysts as well as external ESG data.

In the evaluation of in-house ESG scores, bottom-up research and engagement activities by our analysts and fund managers are reflected in the ESG score as a qualitative evaluation.

While the ESG Materiality defined by the company is used as the basis for the assessment of the company's ESG score, the assessment methodology reflects the characteristics of each asset class (more details below).

Chart 7.2 – Investment universe evaluation based on in-house ESG score

SuMi TRUST AM in-house ESG score - Overview by asset



Principally, we give an in-house ESG score on the investment universe for the whole asset. The in-house ESG score is our investment evaluation index given from the perspective of investors after analyzing the impact of opportunities and risks resulting from ESG issues on nations, companies, etc. It is calculated based on ESG materiality by utilizing external ESG data and by reflecting information acquired through research activities by analysts and engagement activities, and then reflecting the analysis results. In order to select brands and determine the investment weight, we add company performance, financial status and valuation for stocks and REIT, and add credit evaluation and spread evaluation for Sovereigns and corporate bonds.

(Source: SuMi TRUST AM)

In order to maintain the quality of the ESG score, the items and content of the qualitative assessment have been categorised into five areas:

1) public information not yet considered by data providers
2) company's engagement results
3) governance assessment with a focus on 'executive power'
4) opportunity assessment on environmental and social issues
5) modification of the assessment weight allocation

In principle, for foreign equities and foreign corporate bonds, we have sought to make the evaluation more comprehensive by utilising quantitative data to evaluate individual companies' environmental and socially beneficial products and services.

Although there are differences in the use of such quantitative data between domestic and foreign assets, the ESG assessments are calculated using the same approach based on ESG Materialities, so they remain mutually comparable.

Case study 7.1 – ESG scores

The quantitative evaluation of the ESG score of a leading Japanese chemical company, based on service provider data, is E4, S2 and G1, while the composition of the board of directors and risk management are rated low by the data provider for G. On the other hand, the qualitative evaluation by analysts is upgraded for E4, S2 and G3.
Although the composition of the board of directors and risk management are rated low by the data provider, our qualitative assessment by our analysts suggests the governance score should be higher. The management has a clear strategy, and the four internal directors are well balanced in terms of the skills matrix. Furthermore, the company's high level of executive talent is a valuable asset given the agility required to respond to rapidly changing business conditions in the sector.

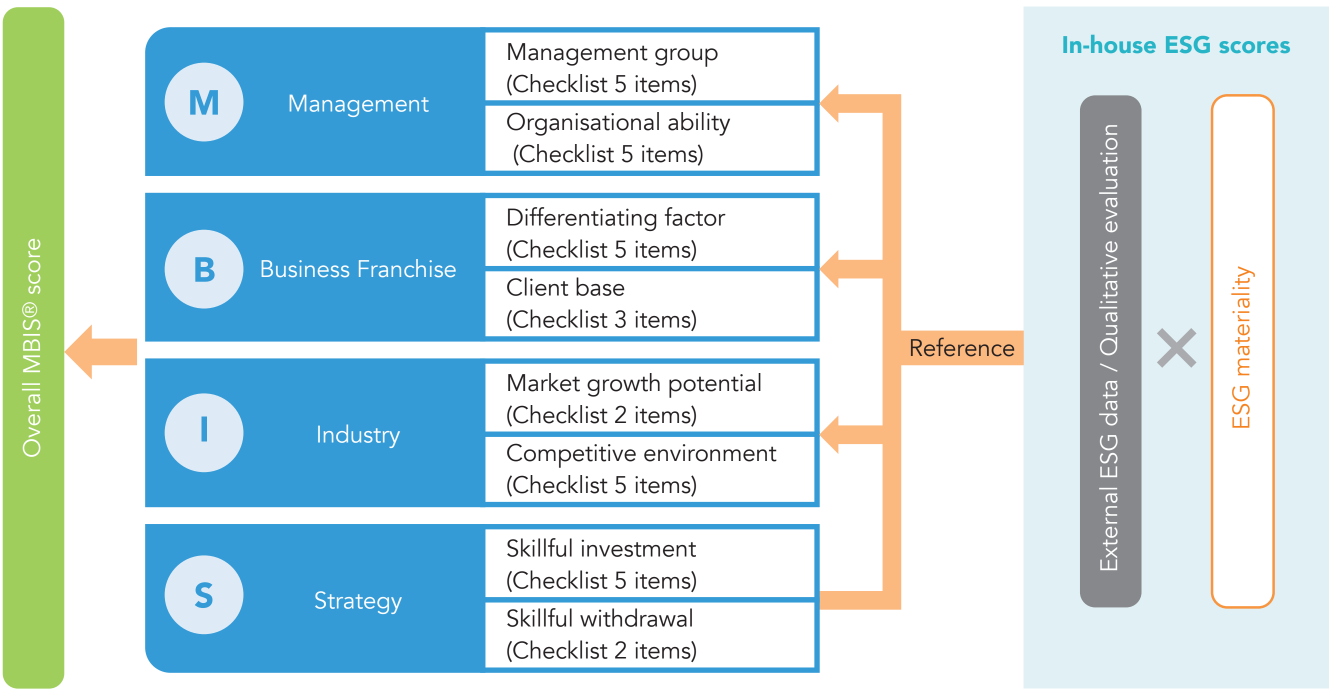
We also use a non-financial information evaluation tool MBIS®. MBIS® is a proprietary system for assessing a company's medium to long term sustainable growth potential. MBIS® collects, analyses and evaluates information that cannot be expressed in financial information, such as the value-add and sustainability of products and services offered by the companies covered by the analysts, the governance systems that support the provision of value-add, and the degree of social and environmental impact that forms the basis for sustainable growth, please see Chart 7.3 for more details.

M stands for Management, B for Business Franchise, I for Industry and S for Strategy, and each evaluation item also incorporates an assessment of our in-house ESG score for domestic equities and domestic corporate bonds. In addition, the evaluation incorporates the concept of the SDGs and is based on an awareness of the 17 goals.

Case study 7.2 – MBIS®

The MBIS® score for Japanese machine tool manufacturer is 16.5 points. The MBIS® breakdown is as follows: M (management) 4 points, B (business franchise) 5 points, I (industry) 3 points, S (strategy) 4 points; for M (management). The president's leadership and agile decision-making was highly related through meetings with the company's management team. Regarding B (business franchise), the company's complementary product and geographical relationships with European companies it has acquired in the past is a differentiating factor, and its customer base has strengthened as a result of increased business with global companies; regarding S (strategy), the company believes that the acquisition of a European company, which was a major corporate success, has enhanced its prospects for growth in the future. The company believes that the prospects for future growth are increasing.
The company is also working with suppliers to reduce CO2 emissions by switching to CO2-free electricity and solar power generation.
The formula for the above MBIS® total points is: M x 2x + B x 1x + I x 0.5x + S x 1x, giving a total of 16.5 points.

Chart 7.3 – MBIS® Process



(Source: SuMi TRUST AM)

Information on stewardship activities is managed via an engagement support tool. Stewardship information is shared internally on the platform and used for voting decisions and fund managers' investment decisions. In addition, depending on the ESG issues faced by the company, the fund manager is also involved in the engagement dialogue and uses stewardship activity information for investment decisions.

The portfolios we manage use a variety of investment strategies to meet the investment objectives of each of our clients. ESG investment methods are used in appropriate combinations according to the characteristics of the investment objectives, investment targets, investment strategies, as described below in ESG Investment Methodology and In-house ESG Score.

ESG Investment methodology and in-house ESG Score

ESG investment methodology for in-house investment products

The ESG investment method for conducting ESG investments is defined in the following:

1) ESG negative screening
   Under certain criteria, we exclude companies from our investment universe who have significant problems from the perspective of ESG, such as those that manufacture inhumane weapons and that conflict with international codes.

2) ESG positive screening
   We actively invest in companies with high ESG ratings within each sector.

3) Integration of ESG-related information
   We incorporate knowledge obtained from analysing/evaluating non-financial information including ESG into processes regarding selecting brands of each fund and building portfolios in an explicit and systematic manner.

4) Topic investment
   We establish topics regarding ESG and organize and manage funds that mainly incorporate companies related to it.

5) Impact investment
   We form and manage funds with an explicit purpose of having a positive impact on society from the ESG perspective, as well as producing economic investment return.

6) Engagement
   We hold constructive dialogues on ESG topics with investee companies as an opportunity to seek best practices from companies and improve their value over a medium to long term.

7) Exercise of voting rights
   We call for minimum standards and value improvement in investees by reflecting ESG factors in voting “for” or "against” an agenda item in the exercise of voting rights.

Integration by asset class

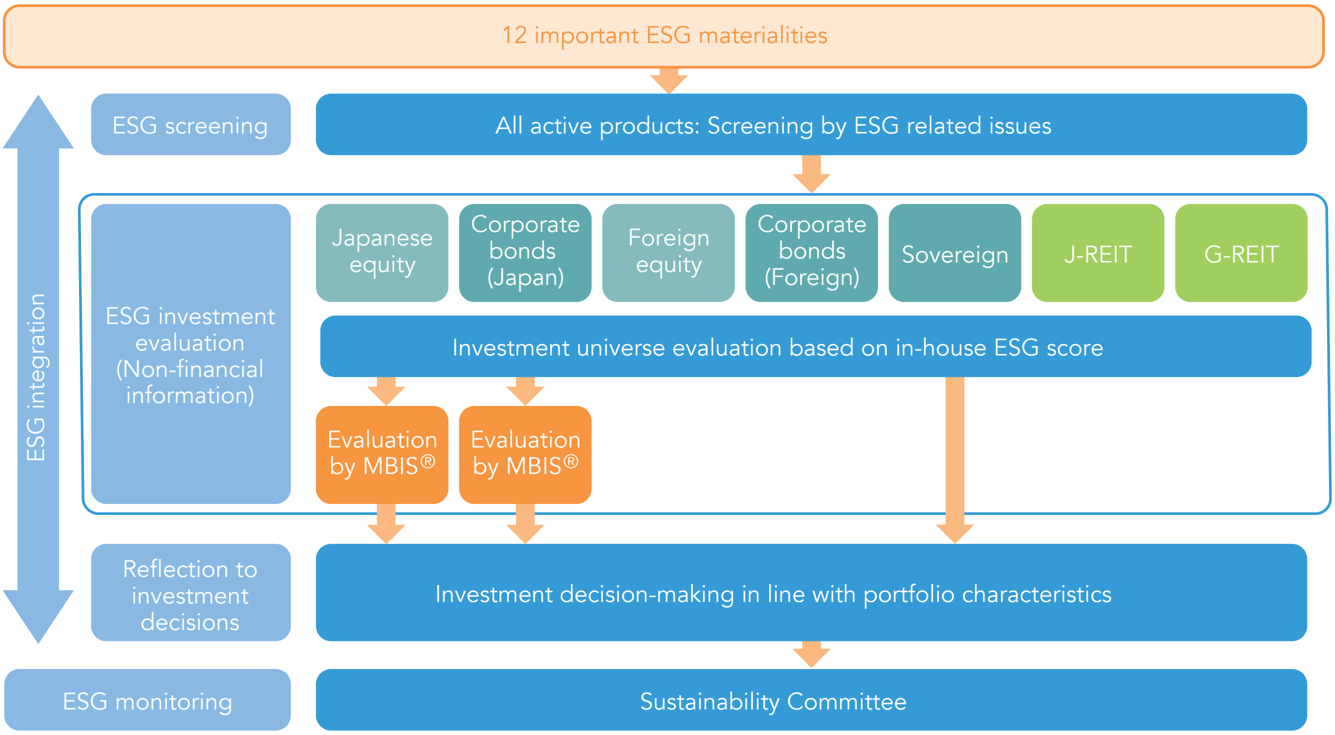
In principle, our ESG investment methods are integrated across all the asset classes we invest, please see Chart 7.4. However, there is variation in how they are used as we explain below.

In terms of our in-house ESG score, domestic equities and corporate bonds, foreign equities and corporate bonds and Real Estate Investment Trusts (REITs) all use an evaluation method based on three measures of non-financial information: environmental and social opportunities, an assessment of risk management and an assessment of management execution from the perspective of governance.

For sovereigns, the evaluation method is based on whether countries are adequately addressing environmental, social and governance issues, taking into account their governance structures and the people and land. For J-REITs, the evaluation method is based on whether each investment corporation and asset management company appropriately consider and addresses environmental, social and governance issues.

For domestic equities and J-REIT, the quantitative score is used to select stocks and determine investment weightings, adding performance, financial condition and valuations. For sovereign and corporate bonds, the quantitative score is used to creditworthiness and spread assessments to select stocks and determine investment weights.

Chart 7.4 – ESG integration across asset classes



(Source: SuMi TRUST AM)

Service providers

In order to improve the effect of ESG investments, we examine and try to understand the evaluation purpose, method, and restrictions for ESG evaluation and data used to allow us to perform ESG evaluations and ESG investments for investees.

This commitment extends to external service providers and the data they supply. We have developed a comprehensive approach to evaluating these service providers including the following:

1) breadth of coverage of the data provided
2) transparency of the purpose and methodology of the assessment
3) organisational structure and governance
4) the level of support and service provided
5) the quality of dialogue with the service provider
6) the commitment of the service provider's management to our services

In addition, to assessing the service providers at a provider-level we also assess individual data series. For example, all resources from an external data provider used in-house ESG score are assessed for applicability or compatibility with our own objectives and definitions.

For example, we require data that enables us to assess our 12 ESG Materialities, in line with both risks - including exposure and risk management elements - and opportunities, risks in terms of both exposure and risk management, compliance with the Global Compact, and corporate scandals and traceability of the assessments. The data must be traceable to the assessment of corporate misconduct and its evaluation, and the data must be available for countries to assess our 12 ESG Materialities as well.

As well as assessing the suitability of data services from external providers we also engage in an ongoing dialogue with data providers on improving data enrichment and clarifying data definitions and specifications.

We also consider the data provider's capacity to evolve their offering in line with regulatory change. For example, we use Bloomberg's Sustainable Finance Disclosure Regulation (SFDR) data solution which generates 'Principal Adverse Impact' indicators in a manner that is compliant with SFDR requirements.

Meeting clients ESG investment needs

At SuMi TRUST AM, we believe that providing a wide range of ESG investment products for active strategy, passive strategy, and other assets are an important part of our work as 'Responsible Investors' from the following perspectives:

- Stewardship Activities can encourage companies to change their behaviour through ESG investment.
- Provide a variety of investment opportunities makes it possible for clients to contribute toward better sustainability for society and companies, as well as investment return.

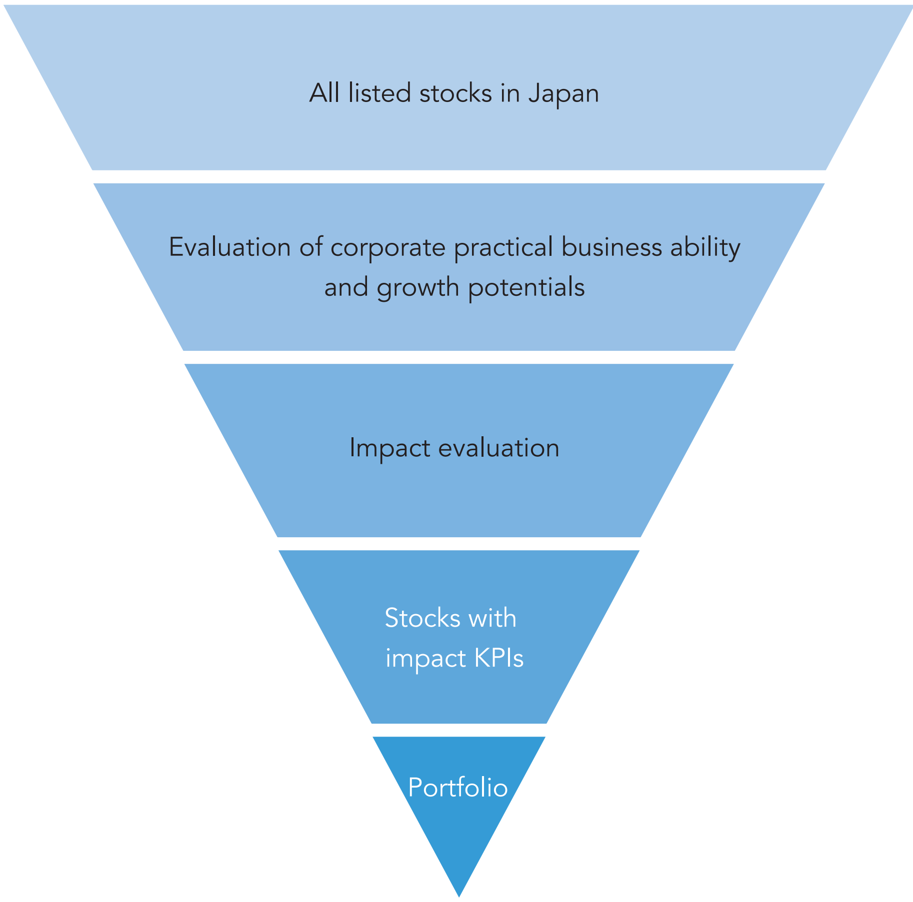
In order to align our stewardship with client investment needs and timeframes we have a range of ESG-related products.

Japan equity impact fund

We launched the Japan Equity Impact Fund in October 2019 after various discussions and deliberations with clients and global organisations. The fund has an explicit objective of making a positive impact on society from an ESG perspective, alongside economic investment returns.

The fund invests over the long term in companies for which solving SDG issues is itself a growth driver. It sets an 'impact KPI' for each company to measure the degree to which ESG issues are solved and to guide our engagement. The portfolio construction process consists of five key stages as set out in Chart 7.5.

Chart 7.5 – Portfolio construction process



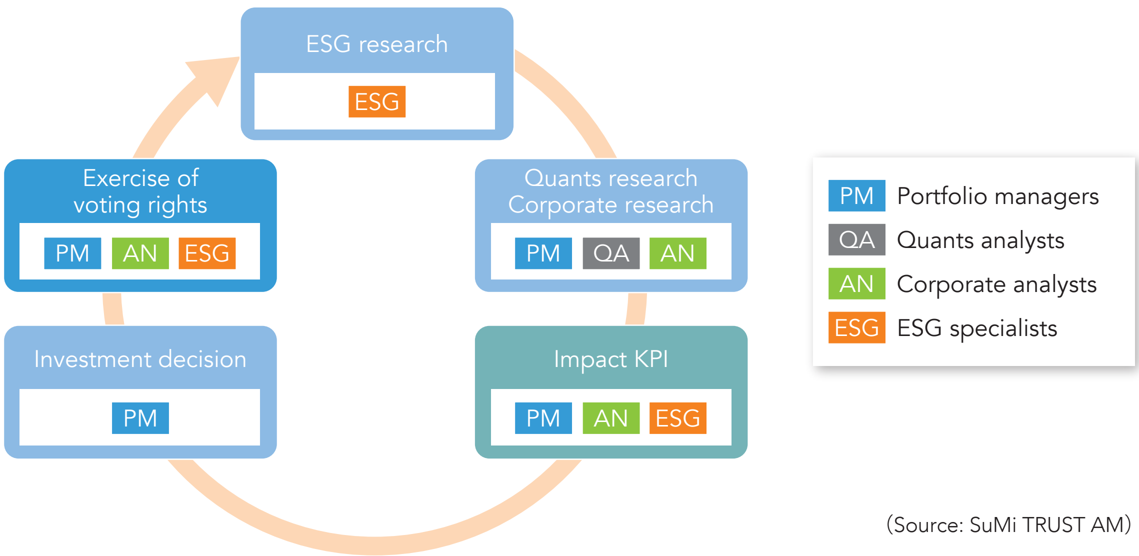
(Source: SuMi TRUST AM)

Global equity impact fund

We have also launched the Global Equity Impact Fund, allowing us to expand the investment universe of our ESG capabilities. This fund makes long-term investments in companies in which solving ESG issues is a growth driver; and aims to further enhance corporate value through active dialogue with companies. It also uses quantitative analysis to identify groups of companies to invest in. In addition, the fund is characterised by regular meetings with corporate analysts and ESG specialists based in overseas offices in London, New York, Hong Kong and Singapore.

The fund investment process is anchored on the firm's in-house research and data capabilities, see Chart 7.6.

Chart 7.6 – Overview of investment process



(Source: SuMi TRUST AM)

ESG Passive investment strategy

We believe that developing and providing investment products that address climate change issues are an effective way to accomplish net zero greenhouse gas emissions from investee companies by 2050. Next, we introduce one of our passive investment strategies.

In 2018, SuMi TRUST AM launched a passive product for the S&P/JPX Carbon Efficient Index-tracked type strategy, and in 2021, the tracked ETF was listed on the Tokyo Stock Exchange.

1) Index features

Adopting rules such as increasing the weight of companies who have sufficient information disclosure on greenhouse gasses and companies who have high carbon efficiency (low carbon-emissions-per-sale) and can be expected to help promote company information disclosure and carbon efficiency.

2) Expected impact from investment

Since it is investment to weight-tilt type indices where TOPIX stocks are the universe, it limits the gap with TOPIX and aims for the same level of risk/return, while also aiming to improve the carbon efficiency of the investment portfolio compared to TOPIX. Stocks of companies where information disclosure related to greenhouse gas are insufficient or those with low carbon efficiency are also held. Continuing investment in such companies is in harmony with the purpose of our stewardship activities, which is engagement and exercise of voting rights as a shareholder to raise the whole market.

Fixed income ESG investment strategy

Due to the difference in product characteristics, there are differences between stocks and bonds investment related to the significance of ESG integration and investment points. Although bondholders do not have voting rights, as a direct funder, we believe that they have an important position for corporate management. Therefore, as a bondholder, while we have the right to ask investee companies to take measures for medium- to long-term growth and to reduce downside risk, we also believe we have responsibilities to request social contribution.

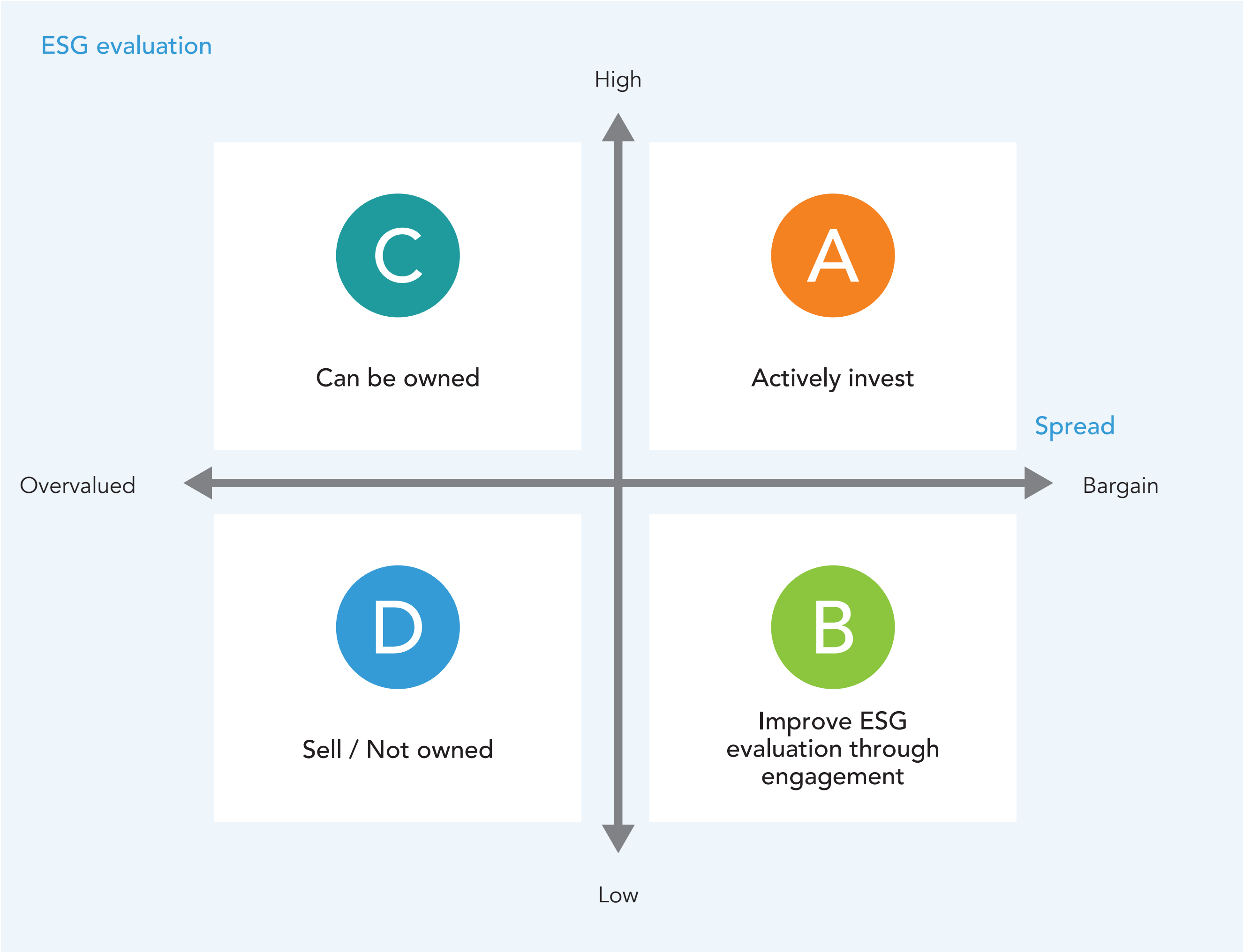
ESG information is utilised according to the flow in Chart 7.7 for fixed income management. Details of how ESG factors are integrated into spread level evaluation are shown in Chart 7.8

Chart 7.7 – Flow of ESG information utilisation for bonds

(1) Select non-investable securities	Stewardship Development Department	[Take ESG into consideration and identify non-investable securities] Prohibit investing in companies that manufacture inhumane weapons. This applies to all assets.
Have an outlook for the spread with a top-down approach and decide on a position building policy based on spread situation judgment considering a credit cycle.		
(2) Evaluate creditworthiness	Credit analysts	[Give in-house rating with ESG factors taken into consideration when evaluating creditworthiness] - Take ESG factors into qualitative determination (Evaluate using MBIS® and in-house ESG scores.) - Set G (Governance) as the centre of focus.
(3) Evaluate spread	Portfolio managers	[Take ESG factors into evaluation of spread level] Based on the required spread level according to the in-house rating of the company, give comprehensive consideration to ESG factors, liquidity, and supply/demand, and determine the appropriate spread level for the company.
Build portfolio		
(4) Evaluate portfolio, etc.	Portfolio managers	For securities with low ESG scores, portfolio managers and credit analysts work on engagement cooperating with relevant departments. Change investment decisions depending on the status of initiatives to address ESG issues in investee companies.

(Source: SuMi TRUST AM)

Chart 7.8 – Relationship between spread evaluation and ESG evaluation



A Actively invest
It is a bargain and has a high ESG evaluation, so active investment is likely (purchase/hold).

B Improve ESG evaluation through engagement
It is a bargain, but the ESG evaluation is low. Effort to improve ESG evaluation through engagement.

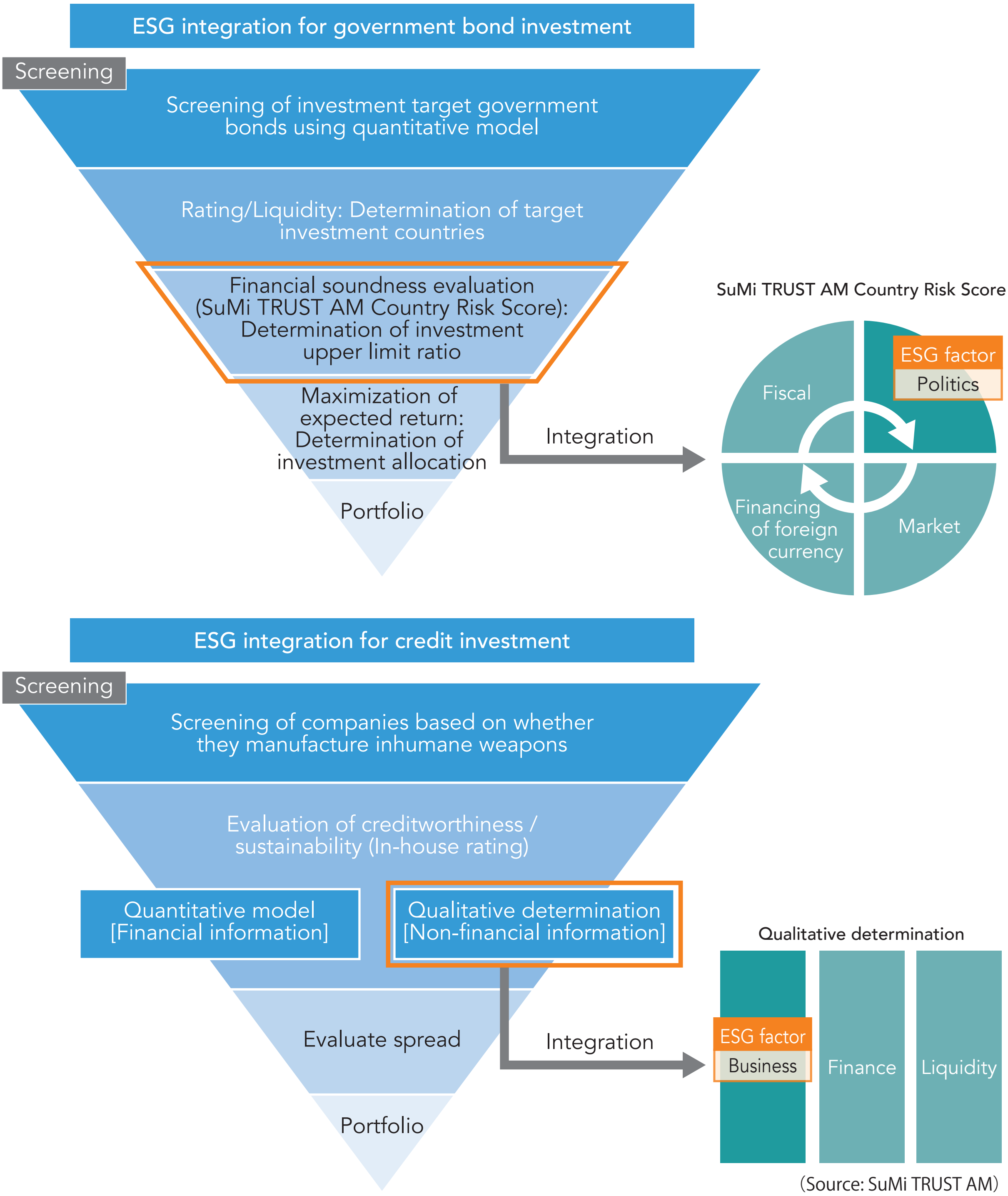
C Can be owned (Possible to own but subject to sell (Not owned))
It is overvalued, but the ESG evaluation is high, so it can be owned.

D Sell / Not owned
It is overvalued, the ESG evaluation is low, and the spread may widen (price decline) in the future, so it is subject to sell (Not owned).

(Source: SuMi TRUST AM)

Chart 7.9 shows the securities selection process and a schematic diagram of ESG integration for government bond investment and corporate bond investment. For government bond investment in particular, financial soundness and politics are scored in our country score. For political score, each country is evaluated and given a score on environmental aspects (E) such as climate change, social aspects (S) such as human capital, and governance aspects (G) such as legal system and political stability. This is equivalent to an ESG score.

Chart 7.9 – Securities selection process for government bond and corporate bond investment



(Source: SuMi TRUST AM)

Our ESG approach is broadly consistent across geographies. We are committed to continuously evolving our capabilities to address client needs.

Principle 8

Signatories monitor and hold to account managers and/or service providers.

We utilise external vendors and service providers to enhance our services and to increase the benefits to clients and beneficiaries. All service providers are regularly monitored through ongoing engagement.

Service providers relating to stewardship activities

We use several external service providers and rating agencies as part of our stewardship activities. A summary of these is provided in the table below.

Chart 8.1 – Service providers

Service providers	Brief description of purpose
MSCI Inc.	ESG assessment/analysis
Institutional Shareholder Services, Inc.	Emissions analysis Voting rights exercise
Sustainalytics Japan Inc.	ESG Screening Regulatory compliance (SFDR/PAI) Voting rights exercise
Bloomberg L.P.	ESG assessment and analysis Regulatory compliance (SFDR/PAI)
Refinitiv Japan K.K.	Screening (anti-money laundering)
Factset Research Institute Inc.	ESG assessment/analysis (RBICS)
FTSE Russell	ESG assessment/analysis
Governance Visions	Voting rights exercise
ICJ, Inc.	Voting rights exercise
Sumitomo Mitsui Trust Research Institute Co., Ltd.	ESG assessment/analysis

(Source: SuMi TRUST AM)

In addition, we conduct regular engagement with policy authorities, industry associations and initiative organisations as part of our multi-stakeholder engagement.

The two main types of service providers include:

1) Proxy advisors
2) ESG ratings agencies and ESG data providers

These service providers are a vital source of support to help execute our rights and responsibilities as an investor. Our departmental personnel are in daily contact with the respective proxy advisors, ESG rating agencies and ESG data providers and carry out monitoring activities, recognising that they are part of a cycle that drives improvements in outcomes for our clients.

Proxy advisors

All voting decisions are taken in line with SuMi TRUST AM's in-house principles. Before any voting rights are exercised, our voting recommendations undergo intensive scrutiny including internal approval.

Proxy voting recommendations play an important role in our voting decision-making process for our overseas equity holdings. However, it is supplementary to our in-house analysis, and we do not use default recommendations of our proxy advisor. Our primary proxy voting advisor is Institutional Shareholder Services, Inc. (ISS). The Stewardship Development Department hold weekly internal meetings on voting decision-making to discuss ISS's recommendations. If there are any concerns, we contact ISS for more details.

To ensure that we are meeting the high expectations of our clients in this area, we dedicate significant efforts to the exercising of voting rights and the effective monitoring and management of our proxy advisor.

To enhance our monitoring of voting activity, we prepare a monthly report on 'results of the exercise of voting rights in both domestic and foreign stocks' (approval, disapproval, non-exercise) which is reported to the Sustainability Committee. The report includes detailed information on the number of votes and the total number of proposals.

SuMi TRUST AM has strengthened its analysis and monitoring of ISS's exercise recommendations and has concluded that there is room for improvement in ISS' understanding of misconduct.

Case study 8.1 is an example of improvement with our proxy advisor.

Case study 8.1 – Improvement with proxy advisors

Our proxy advisor offered a recommendation to 'cautiously' vote in favour of a company resolution on director appointments. However, it was unclear under which criteria the approval recommendation was made.

We conducted a dialogue with the proxy advisor's Head of US research in March 2023, who confirmed the company is a significant GHG emitter but had not taken the necessary minimum actions, such as assessing and mitigating risks related to climate change.

Based on our engagement, we advised our proxy advisor of our intention to vote against the previous recommendation to elect the chairman of the board of directors, as they had not taken the minimum possible response to climate change issues. Subsequently, the proxy advisor recommended against the proposed appointment of the previous board chairman, in line with our own view.

Another example of our monitoring activities included meeting with our proxy advisor's Head of Research to discuss disclosure improvements, particularly for controversial resolutions. We requested improved information provision related to the proxy advisor's materiality assessment and more information on engagement activity.

The company introduced its enhanced capabilities in norm-based research, controversial weapons screening, global sanctions screening, and sector-based screening. We identified an increased politicisation of its screening criteria. For example, our proxy advisor has increased attention on human rights concerns, with a particular focus on Myanmar and Xinjiang, driven by requests from US and European clients.

As an Asian investor, we have a high interest in both regions. However, we expressed concerns about the difficulty to obtain reliable information. We emphasised our expectation that voting

decision-making should be made strictly based on accurate information.
The proxy advisor admitted that there was a commercial imperative to provide ratings for these regions and accepted research priorities would continue to be led by customer interest. They did agree to strive to make more accurate judgments in areas affected by human rights concerns. We plan to follow-up on this issue on future engagements with the proxy advisor.

ESG ratings agencies and data providers

We subscribe to various ESG ratings agencies and data providers, such as MSCI and Bloomberg, to help calculate our ESG score and interpret various disclosures. We believe that regular dialogue with these companies is necessary to improve the quality of the services we receive and, by extension, to ensure that our clients and society as a whole benefit from these services.

Case study 8.2 – ESG score calculation

Dialogue with ESG data provider takes place about once a year, aimed at identifying areas for improvement in the actual ESG score calculation process, sharing ideas, and realising better services. The data provider has a number of staff, who are familiar with the financial and non-financial issues of our investee companies. This can lead to more sophisticated scores through discussions about the gap between their views on the company and the score results, which leads to more effective engagement activities with the companies.

The most recent meeting was held in August 2023 to review the current state of their research on ESG activities of companies and to discuss research methods, particularly for small and mid-cap stocks, where we have identified information gaps in their dataset.

In recent years, there have been calls for more extensive and in-depth disclosure of ESG-related information, such as SFDR and TCFD. However, the data to calculate such disclosure has not yet been developed sufficiently. This is a challenge faced by many global asset managers. We utilise the ESG data vendor capabilities to meet disclosure obligations related to sustainability.

Data for in-house scores

Another important contribution of external data providers relates to our own ESG score. The in-house ESG score is an investment evaluation indicator that is assigned based on an analysis of the impact of ESG issues on the opportunities and risks for countries, companies, etc.

The score is calculated by utilising external data and reflecting information and analysis results obtained through research and engagement activities by analysts and other parties.

External data providers include MSCI, Sustainalytics, Bloomberg and FactSet for in-house ESG scores for equities and corporate bonds, the World Bank for in-house ESG scores for sovereigns, Sumitomo Mitsui Trust Research Institute and others for in-house ESG scores for J-REITs.

For climate change risk analysis, we use climate change-related data and climate change risk analysis data provided by ISS.

The content of information services from external data providers is checked and discussed with external service providers as appropriate in the analysis process. Frequent concerns include cleansing of data and the upgrading of the level of the data and information services particularly for Japan and Asian stocks, where coverage is lower.

Principle 9

Signatories engage with issuers to maintain or enhance the value of assets.

Our mission is to maximise medium- and long-term investment returns for our clients by improving the value of investments and investee companies. To achieve our goals, we identify the important issues for our investments using our ESG investment policy and 12 ESG Materialities.

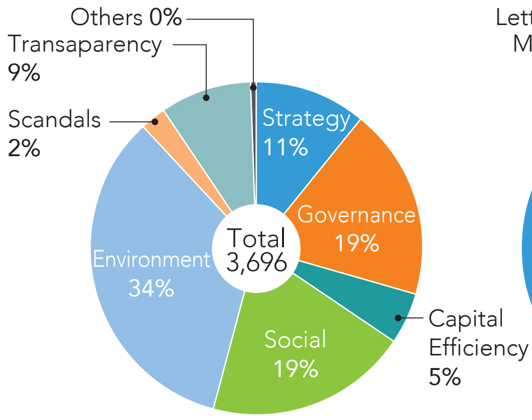
We then allocate our resources to the three key areas of stewardship activities: engagement, voting and incorporating ESG factors into investment decision-making processes.

In this section will go into detail on our engagement activities, which is one of the three pillars of our stewardship activities.

We deploy a range of engagement tools, including face-to face meetings, conference calls, and the writing of letters to the board and/or management team outlining the areas of improvement or expectations. Please see Chart 9.1 for more details of our engagement activity.

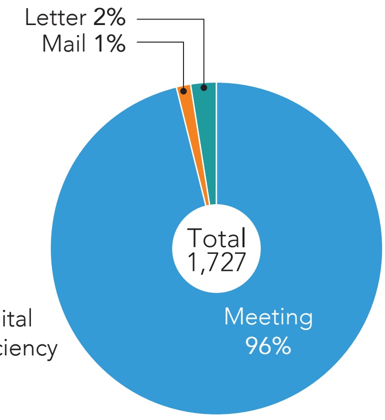
Chart 9.1 – Overview of engagement

Engagement by theme



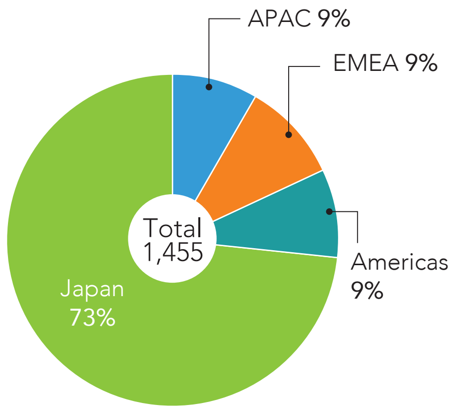
(Source: SuMi TRUST AM)
(July2022-June2023)

Engagement by format



(Source: SuMi TRUST AM)
(July2022-June2023)

Engagement by geography



(Source: SuMi TRUST AM)
(July2022-June2023)

SuMi TRUST AM chooses to devote a large amount of resources to face-to-face meetings due to the fact that many Japanese and Asian firms are seeking to improve best practice in shareholder engagement.

Given our mission is to maximise returns for our clients, we believe their best interests are served by educating executive teams to align with long term value creation. This can be achieved more effectively by face-to-face meetings. Our approach will depend on the specifics of the individual engagement.

In addition to investee companies, engagement is carried out with various stakeholders including public agencies, exchanges, industry groups, NGOs, and academics. While engagement is something we can do on our own, it is also done in collaboration with other investors who share the same beliefs. Engagement also includes activities that expand the investor base.

Prioritisation of engagement

We select and prioritise engagement activities using three key approaches:

1) Top-down approach,
2) Market-cap approach,
3) Risk-based approach.

1.Top-down approach

In 2019, our Executive Committee established an ESG investment policy and identified ESG Materialities. In 2020, we established 12 focused ESG Materialities through discussions at the Stewardship Meeting and consultation and recommendations from the Stewardship Activities Advisory Committee, which our top-down engagement activities are based on. The Sustainability Committee, which was established in October 2023, is responsible for reviewing the appropriateness of the 12 ESG Materialities based on feedback from clients, regulators and other stakeholders, for more information see Principle 2 and 7.

The selection and prioritisation of engagement in our top-down activities follows the process outlined below.

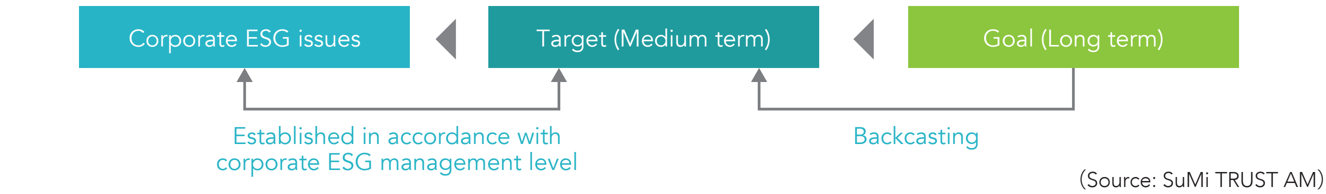
1) We select approximately 100 target companies for each ESG theme from among portfolio companies.
2) Long-term goals and intermediate targets for each ESG theme are set according to the ESG issues and management level of each company (see Chart 9.3).
3) Effective engagement activities are implemented, e.g. by applying a six-stage process to affect the change necessary to meet our targets.

Chart 9.2 – Identifying engagement from ESG Materialities

ESG Materiality		
E	S	G
① Climate Change	⑤ Human Rights & Community	⑨ Behaviour
② Natural Capital	⑥ Human Capital	⑩ Structure
③ Pollution & Waste	⑦ Safety & Responsibility	⑪ Stability & Justice
④ Environmental Opportunities	⑧ Social Opportunities	⑫ Governance Improvement

(Source: SuMi TRUST AM)

Chart 9.3 – Setting goals and targets



(Source: SuMi TRUST AM)

Management and monitoring

Having identified clear targets, the engagement progress is managed in six steps according to the ESG theme (see Chart 9.4). At each step, specific engagement measures are implemented. Finally, the resolution of issue is assessed and, if appropriate, further action is triggered.

Chart 9.4 – Engagement process

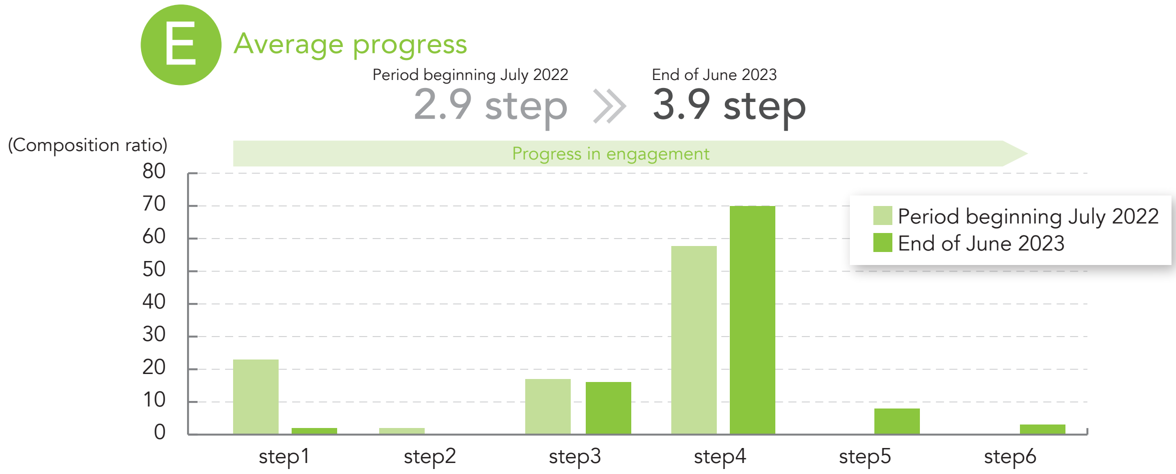
(1) Issue setting	- Identifying ESG priority issues with investee companies and setting specific topics (issues) - Setting targets (interim targets) by backcasting from topic goals
(2) Issue presentation	- Issues are presented during interviews with companies and engagements are held continuously for sharing issues
(3) Issue sharing (with person in charge at the company)	- While sharing issues with the person in charge at the company, engagement is escalated to the management for implementing measures and resolving issues
(4) Issue sharing (with management group)	- Issues are shared with the management group and best practices are introduced - Internal examination is promoted for implementing measures and resolving issues
(5) Implementation of measures	- Corporate policy statements (corporate actions) are confirmed - Progress is monitored
(6) Issue resolution	- Target achievements are confirmed and shared with the company - If the progress is insufficient, consideration is given when exercising voting rights

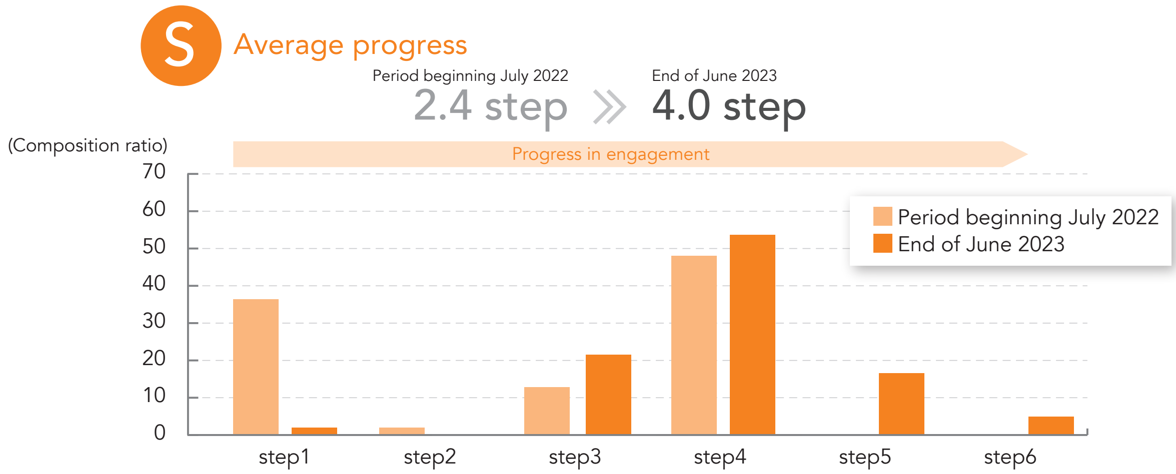
Improving corporate sustainability and corporate value for investee companies

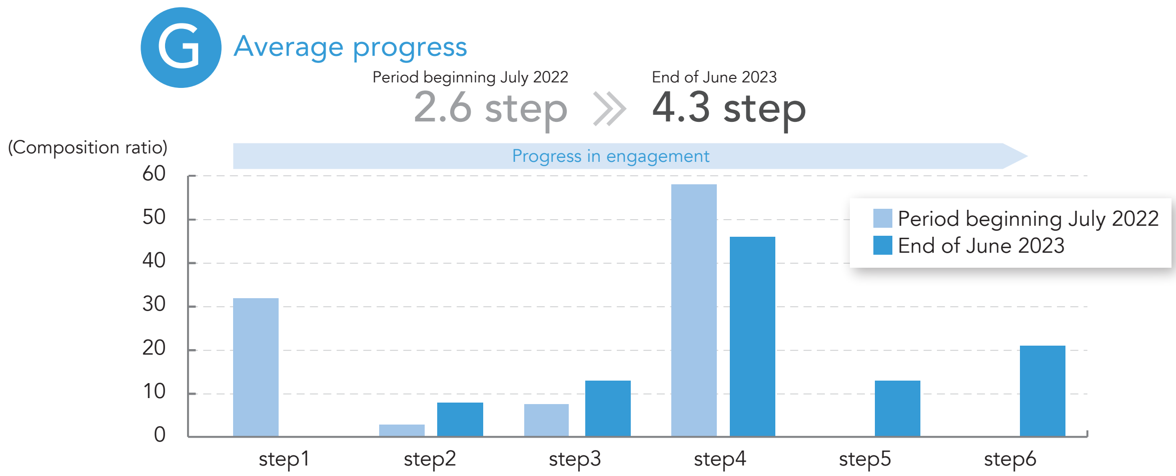
(Source: SuMi TRUST AM)

In order to enhance the effectiveness of engagement activity, we have implemented a monitoring and disclosure framework that assess the progress of our top-down engagement activities.

Chart 9.5 – Engagement progress dashboard







* It is not possible to simply compare the materiality composition between the end of June 2022 and the end of June 2023, or to simply compare steps at the end of June 2022 and steps at the beginning of the July 2022 period.
- Brands/topics are replaced as part of the annual plan for the period beginning July 2022.
- Topics (Steps 5, 6) where targets were achieved by the end of June 2022 were excluded.

(Source: SuMi TRUST AM)

Our engagement progress dashboard provides a breakdown of the progress of engagement efforts of broken down by ESG theme, see Chart 9.5. In fiscal 2023, the majority of engagements progressed to Step 4, 'sharing issue awareness with management'.

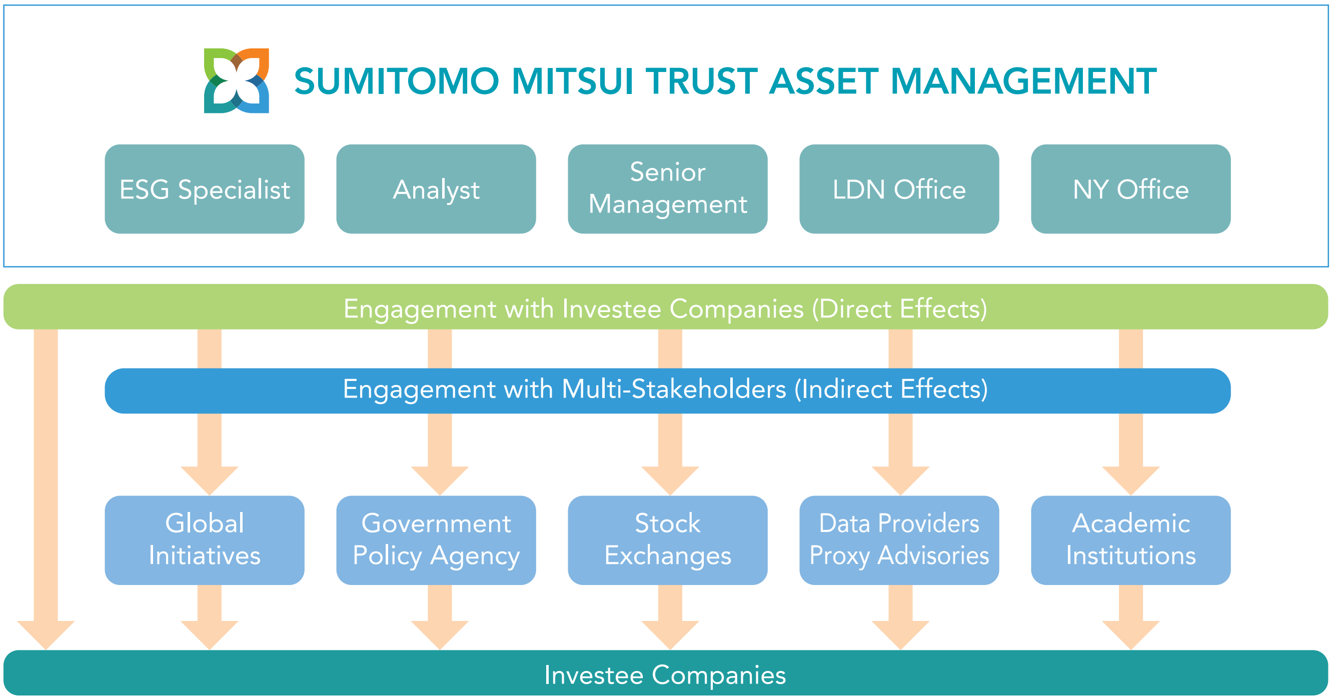
Based on our assessment, it is important that more engagements are progressed to stage 5 and stage 6, especially for social topics which are ranked the lowest. We plan to focus on ensuring that the ratio of escalation to stage 5 and stage 6 is higher going forward.

Assigning personnel to London and New York to conduct engagement with European and US companies is another important step in increasing the scope of our engagement of our progress dashboard.

Multi-engagement approach

As discussed earlier, we seek to solve issues more effectively through 'multi-engagement'. This includes engagement not only with investee companies, but also with stakeholders including stock exchanges and regulators who are in a position to promote sustainability and corporate value enhancement of listed companies through listing rules and various regulations, see Chart 9.6.

Chart 9.6 – Multi-engagement approach



(Source: SuMi TRUST AM)

In addition to the top-down approach, we have two distinct approaches to engagement from a bottom-up perspective.

2.Market-cap approach (bottom-up)
We initially select the companies to conduct engagement with based on a quantitative, market capitalisation criteria. We supplement this with qualitative criteria such as severity of ESG challenges and response of firm management.

3.Risk-based approach (bottom-up)
We select companies to conduct engagement with based on an assessment of firm-level risk. This includes firms which we have voted against management in the past, have performance issues such as a low ROE ratio, or have been hit by scandals.

Bottom-up selection criteria

Our selection criteria for bottom-up engagement are based on
1) an assessment of discount factors and
2) incentives for change based on the company's predisposition to listen to dialogue.

Chart 9.7 – Discount factors

The three discount factors assessed are:
(i) overcapitalisation
(ii) low profitability
(iii) poor governance
Incentives to change focus on two items:
(i) willingness to change
(ii) external pressure influence

(Source: SuMi TRUST AM)

Once we have identified the main discount factors, it is important to assess the company's willingness to change, see Chart 9.7. Typically, this requires an assessment of whether the investee company is aligned with our aim of 'medium- to long-term corporate value enhancement'. Even if the engagement does not lead directly to action, if the investee and investor are deemed to be 'in the same boat' the company may be included in portfolios.

The receptiveness of companies to dialogue is another key selection criteria for bottom-up engagement. Even when it is difficult to respond positively to an engagement, we may select companies that are willing to address the content of the engagement and explain why it is not possible to take action, when it will be possible to take action, and the reasons for not accepting the engagement.

Case study

To demonstrate our efforts to enhance and preserve the value of our clients' investments through engagement activities, we have included some case studies as follows.

Case study 9.1 – Engagement

Company	**Financial Institution** Country: Japan
Activity	Dialogue with President, Vice-President, Managing Director, Head of IR The company has lagged peers in setting comprehensive emission reduction targets, influencing a discount factor in its share price. Financial institutions need to set targets that also take into account their role in ensuring companies change their behaviour. Our engagement has focused on climate-related information disclosure related to CO2 targets. The company had set reduction targets by sector for 2030. However, only three sectors have been targeted. This makes it unclear from the outside how much reduction will be achieved overall.
Outcome	Of the nine high-emission sectors set out in the Net Zero Banking Alliance and the Partnership for Carbon Accounting Financials, the company plans to set targets - with the exception of aluminium, cement and agriculture - by March 2024. This will cover about 70% of its investment and loan portfolios. The company has also committed to improve the accuracy of target setting while putting in place efficient data collection mechanisms, based on Net-Zero Data Public Utility guidelines.
Assessment	The coverage sectors and rates are now in line with other domestic peers and the gap in coverage with overseas financial institutions is expected to narrow.
Improvement	We will monitor the effectiveness of targets and indicators for the reduction plan based on a sectoral approach. In addition, we will reiterate the requirement to set a 2030 target for the entire investment and loan portfolio. In addition, we will promote dialogue on efforts to deepen the reduction targets for each sector as it considers its 2035 target.

Case study 9.2 – Engagement

Company	**Power company** Country: Japan
Activity	President, Vice-President, Director of Corporate Planning, General Manager of IR The company has an important role to play in helping Japan to meet its greenhouse gas (GHG) emission reduction targets. However, it needs to expedite its initiatives for climate change and improve disclosure on its plans, while ensuring energy supply stability. Our engagement focused on the firm's vision, execution and disclosure of medium- and long-term targets consistent with the Paris Agreement, while requiring concrete actions and financial plans.
Outcome	The company's environmental vision aims to reduce CO2 emissions by 40% in 2030, which has been further revised to 46%, and achieve net zero CO2 emissions in its power generation business in 2050. The company's headline target of a 40% reduction in CO2 emissions by 2030 does not specify a detailed breakdown and we consider its path to be unclear and generalised. The company expects thermal power generation to be zero-emission through carbon capture and storage (CCS) and that a new nuclear power plant will be in operation. However, there is no progress in the seismic fault examination of the new plant, and there are risks to the effectiveness of both plans. At the 2023 annual meeting, shareholders submitted a proposal requesting the disclosure of climate change plans. From the perspective of encouraging the company to take action, and since there was no problem based on our principles, we voted for the shareholder proposal.
Assessment	With regard to the carbon reduction plan, the public disclosure was limited and the response was insufficient. We will continue to urge the company to present a concrete plan together with a timeline for reduction and a financial plan to support the implementation of the plan.
Improvement	If no progress is made in addressing climate change, we expressed our intention to vote against the proposal in the election of directors and encourage action on climate change. The results of the annual general meeting in June showed that the approval rates key directors had declined compared to the previous year.

Case study 9.3 – Engagement

Company	Energy company	Country: Japan
Activity	Vice President, Head of Sustainability Strategy Office, Corporate Planning Department, IR The company faces multiple headwinds associated with climate change and environmental regulations. Insufficient information disclosure and a high risk of stranded assets in the coal industry are obstacles to improving company value. Our engagement focused on better disclosure on GHG emissions targets as well as related capital allocation. Given the nature of our interests, we targeted the Head of Sustainability Strategy Office during the most recent engagement.	
Outcome	In the latest medium term management plan published in November 2022, the company disclosed details of its CO2 reduction plan and investment plans and set a target of below 50% of its revenue composition from fossil fuels in 2030. The company has set its target based only on Scope 1+2. The new plan also includes a reduction in refining capacity from 950,000 bpd (2022) to 850,000 bpd (2025) to 650,000 bpd (2030). It showed that the 30% reduction on a capacity basis and the 20% reduction in assets account for the bulk of the plan. The petroleum sales business, which produces the largest amount of CO2 emissions, is expected to see an 80% reduction in Japan by 2050, and the company plans to address the remaining 20% through CCS. The sale of shares in the company's Indonesia coal business, the suspension of production, and the subsequent sale of interests in its mine in Australia, will also lead to a decline in coal production from over nine million to approximately 5.5 million tonnes per year.	
Assessment	While the proposed downsizing of refineries is a step in the right direction, we believe that it is not sufficient as a target in itself. A clearer understanding of its intent on Scope 3 reduction is also essential. Although some high-grade coal concessions remain, we welcome the planned 40% reduction in its coal production. We also accept to a certain degree that there remains a case for some high-quality assets to ensure essential energy supply. Beyond this, we support the company's policy of promoting the reduction and de-carbonisation of coal use by working on biomass fuel and blue ammonia supply in unison with domestic energy companies in the supply chain.	
Improvement	We would like the company to improve its corporate value through the sale of coal interests, setting of Scope 3 targets and obtaining Science Based Targets initiative(SBTi) certification. With regard to Scope 3 target setting, we plan to share the concept of targets setting integrated with the supply chain, while introducing examples of how other companies have set their targets. Regarding Science Based Targets initiative(SBTi), we will also keep a close eye on the trend of finalising discussions in the sectoral approach method and ask the company to consider whether there are any elements that should be reflected in its initiatives.	

Case study 9.4 – Engagement

Company	Electrical equipment company	Country: Japan
Activity	President, non-executive director, managing director The company has suffered a number of controversies in recent years. The problems have been pervasive, including inspection, quality, labour issues and unauthorised access, and the locations have also varied, pointing to a major issue in the organisational culture. Despite these issues, the company has not taken fundamental and essential corrective measures. Our engagement has focused on promoting fundamental reforms to rebuild the corporate culture and actively seek disclosure in order to restore trust both internally and externally. We have engaged extensively with the firm. Firstly, with the IR team and then with the senior management following concerns that investors' opinions were not being conveyed to management.	
Outcome	In September 2022, the firm's Integrated Report (IR) provided a roadmap of measures to improve the workplace climate and the short-term priority measures and long-term initiatives and progress of the reform programme. The IR also disclosed its employee engagement score as a KPI and the changes in the score as an indicator for evaluating efforts to improve the workplace culture.	
Assessment	We welcome the disclosure of a roadmap and reform programme to improve the workplace climate. It is also commendable that progress can be monitored by setting the employee engagement score as a KPI and disclosing the changes in the score as an evaluation indicator. On the other hand, these initiatives may not produce results in the short term and require continuous efforts under the strong will of top management, so we recognise that long-term monitoring is necessary.	
Improvement	We will monitor the progress of the roadmap and reform programme by attending analyst interviews once every three months, as well as holding a dialogue with the top management (President and CFO) once a year. In addition, we will monitor the penetration of these initiatives using a series of KPI indicators. These include employee satisfaction rate of 80% or more, work-life balance assessment of 80% or more, employee awareness of management policy of 80% or more, implementation of operations in line with management philosophy of 75% or more.	

Case study 9.5 – Engagement

Company	**Electronical equipment maker** Country: Japan
Activity	Executive officer (Legal Affairs), director of the environmental management centre, head of IR promotion office The ratio of female executives in Japan is less than half the government target of 30%. The company has been seeking to increase the number of female managers within the company and to increase candidates for board positions. However, the company has not addressed board diversity sufficiently. Our engagement has targeted diversity on the board of directors. We understand that it is difficult to select candidates for outside directors because they overlap with candidates from other companies, and that priority is given to internal development. However, the company's explanation that there are no female directors capable of meeting the criteria for appointment is unsatisfactory.
Outcome	The company recognises that diversity is an important management issue and risk-mitigation strategy. However, no female directors were elected at the March 2023 General Meeting. Subsequently, the company announced plans to appoint a female director at its 2024 AGM.
Assessment	With regard to the absence of female directors, we exercised our opposition to the proposal for the appointment of directors. In addition, feedback was provided to the board that diversity was the reason for the low approval rate of representative directors. The proposed director appointment in 2024 is welcome.
Improvement	We intend to demand the company consider the appointment of female directors, both internally and externally, at the earliest possible opportunity. We will closely examine disclosure on future appointments.

Case study 9.6 – Engagement

Company	**AGL Energy**	Country: Australia
Activity	Australian energy firm AGL Energy has been addressing climate change issues through organisational changes, including the separation of its power generation and distribution businesses. However, it continues to operate a coal power generation business in Australia. The objective of our engagement was to establish effective disclosure on the firm's climate change planning and governance. The firm was also targeted as we believe that addressing coal-fired power generation, which is estimated to account for 8% of Australia's GHG emissions, is an important element in achieving Australia's emissions reduction commitments known as Nationally Determined Contributions. In response to a successful resolution to appoint a board member at the 2021 AGM from shareholders dissatisfied with the transition plan, we conducted a dialogue with the company requesting that climate change action be strengthened using information from advocacy group, Australian Centre for Corporate Responsibility, in addition to the CA100+ initiative.	
Outcome	We were able to confirm progress towards net zero, including the general framework submitted to the AGM in November 2022 and the accelerated withdrawal from coal-fired power generation, including the early exit - 10 years ahead of schedule - of the Loy Yang coal-fired power station in Victoria. However, the framework plan lacks critical detail, e.g. in relation to a A$20 billion investment plan and the development of employment measures aligned with a just transition; while the firm's approach to Scope 3 emissions was unclear.	
Improvement	Although a transition plan has been announced, we intend to monitor the effectiveness of its implementation, including progress on an accelerated exit from coal-fired power generation and investment in renewable energy. We will benchmark our assessment against industry peers and changing best practice through discussion with CA100+ members.	

You can see other case studies related to our engagement in Principle 4.

Engagement in fixed income

In principle, our engagement themes are largely asset class agnostic and the 12 ESG Materialities are equally relevant to all asset classes. However, there are some obvious differences in engagement based on the practical realities of each asset class.

Although bondholders cannot exercise voting rights as shareholders can with shares, they are considered an important part of the company's corporate governance. Bondholders have the right to demand sustainable growth and measures to mitigate downside risk in return for the provision of funds.

We mainly exercise our rights as a bondholder through engagement prior to bond issue. We also have a dialogue on how to reduce GHG emissions and set targets through the issuance of ESG bonds in order to achieve a sustainable society.

Chart 9.8 Our bondholder engagement includes:

1) Confirmation of the terms and conditions of any new issue.

2) Negotiation of price (coupon) in accordance with the company's creditworthiness and market conditions

3) Provide recommendations on the optimum maturity, issue size and bond market (wholesale/retail/overseas) and encourage the creation of a sustainable procurement environment for companies.

4) Dialogue on how to reduce GHG emissions and how to allocate the proceeds from ESG bonds.

5) Require the use of different rating agencies and ESG assessment bodies.

6) Recommendation of issuance formats for overseas companies (Samurai Bonds/Euroyen Bonds/Global Yen Bonds).

7) Require a clause for transformation from unsecured to secured status in cases of low credit ratings and creditworthiness concerns.

8) Require release of collateral in cases where bondholders are subordinated due to high secured borrowing from banks.

(Source: SuMi TRUST AM)

Case study 9.7 – Bond engagement

Company	**Japanese real estate company** Country: Japan
Activity	Although profitability was high and financial metrics good, the company's orientation toward proactive business expansion and related business policies indicate latent governance risk such as quality issues and sales misconducts. We characterised the company under "Improve ESG evaluation through engagement". Through dialogue with companies, we confirmed that personnel quality control is set as the highest priority for management, the establishment of in-house manuals on sales, and the implementation of measures for improving customer satisfaction. We conducted analysis using online reviews by employees as supplemental material. Results indicated high "job satisfaction" but low "ease of work," so we conducted interviews regarding measures for maintaining employee motivation and morale.
Outcome	There are still some concerns related to governance, but we decided that investment was possible conditional upon continuous dialogue and monitoring. As a result, we invested in this bond premised on a high spread level relative to the rating. We will consider selling this bond if governance risk is found that has a significant adverse impact on the business base and creditworthiness.

Case study 9.8 – Bond engagement

Company	Japanese steel company	Country: Japan
Activity	For a Japanese steel company, which belongs to an industry that emits a large amount of greenhouse gases, a transition strategy is an urgent issue requiring a large amount of capital. The company confirmed disclosure including technical responses and methods for 2030 interim targets are under consideration so that items such as capital expenditure and amounts can be disclosed. The company also raised some important questions such as whether the investment hurdle is getting higher in the steel sector and does the investment decision depend on whether it is an SDGs-related bond? Our analysis indicates that the implementation of transition finance in harmony with the roadmap developed by METI is an important way to raise funds for the transition strategy. There is the possibility that it will be gradually harder to invest depending on the amount of effort toward the transition strategy by investee companies. In addition, it is common to make an investment decision based on creditworthiness and appropriate spread level regardless of whether it is an SDGs-related bond or not. If economic return is the same, we may prefer SDGs-related bonds from the perspective of social return.	
Outcome	We appreciate their effort to share recognition of financial matters with investors and their efforts toward achieving carbon neutrality by a greenhouse gas heavy industry. Our policy is to continue encouraging them to reduce GHG emissions and to help them improve corporate value while also having dialogue with related parties such as securities companies, related governmental agencies, and third-party evaluation institutes to help expand the transition finance market.	

Divergence of engagement by fund

In order to cater for clients differing needs and time horizons, we have a range of impact funds. For example, our global equity impact investment fund makes long-term, concentrated investments in stocks whose share price drivers are contributing to solving ESG issues. In line with our 12 ESG Materialities, we identify issue resolution areas and businesses common to Japanese and global equities.

The target areas/businesses and engagement KPIs are determined through consultation between the Active Investment Department, Research Department and Stewardship Development Department and are reviewed on a quarterly basis.

Case study 9.9 –Impact engagement

Company	SSE	Country: UK
Activity	We conducted engagement with a UK power company to reduce CO2 emissions and expand renewable energy capacity. The company's accepted many investors are calling for the separation of its renewable energy business. However, the company expects to create synergies through a vertically integrated business model of renewable energy generation and distribution power network business. The risk of losing carbon capture and hydrogen business opportunities is also significant. Our analysis indicates that the bottleneck in energy transition is the connection to the distribution network, which is more than the expansion of renewable energy generation capacity. We support the company's vertically integrated model, which will lead to profitable growth for the company as well as promote energy transition. Furthermore, the integrated business model will contribute to mid- to long-term competitiveness through the implementation of new technologies such as CCS and hydrogen.	

Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers.

At SuMi TRUST AM all our stewardship activities, including engagement, voting and ESG integration in investment decision-making, are conducted in accordance with our 12 ESG Materialities.

Engagement can take the form of individual engagement with companies, or it can be collaborative engagement, in which we work with like-minded investors.

We actively promote collaborative engagement to support individual engagement activities, as these actions can have an effect greater than the sum of individual companies and serve as a way to improve the functionality and efficiency of our activities.

Our participation is determined by whether (1) it is aligned with our ESG Materiality, (2) there is a synergetic effect with individual engagement, and (3) we expect to gain new know-how in areas of nascent or complicated ESG-related issues that require deep insight and expertise.

We proactively participate in collaborative engagement initiatives. In particular, we value working with investors on global initiatives given the diversity of backgrounds and expertise.

As of October 2023, we are involved in or participating in 25 initiatives with further details in Chart 10.1.

We actively promote collaborative engagement to support individual engagement activities, as these actions can have an effect greater than the sum of individual companies and serve as a way to improve the functionality and efficiency of our activities.

Chart 10.1 – Global initiatives

			Title	Affiliated working group (Year principally indicates participation year)	Main accomplishments from activities in the past year (Principally from July 2022 to June 2023)
Global initiatives	UN climate change-related	1	Signatory of: PRI	[1] PRI Advance (2022)	- As a collaboration manager, we conducted collaborative engagement for human rights with companies in the raw materials sector in Korea and China.
				[2] PRI Collaborative Sovereign Engagement (Australia) (2023)	- We attended meetings with responsible persons in the Australian government to exchange opinions.
				[3] PRI Stewardship Initiative on Nature (2023)	- At the PRI Webinar Series (5 in total), we joined as a panelist in the second webinar entitled "Climate Change Issues and Activities based on Global Initiatives" and the fifth webinar entitled "Biodiversity and TNFD / Trends with Investors."
		2	Climate Action 100+		- As a lead manager, we continued to have collaborative engagement mainly with Asian companies in Japan, Indonesia, Korea, and Thailand. As a collaboration manager, we continued to have collaborative engagement with companies in the US. - As a lead manager, we discussed ideal global decarbonization pathways for the steel industry, discussed disclosure and evaluation methods for contributing parts to decarbonization through provision of technologies, products, and services from major electronics industries, and discussed ideal disclosure on lobbying for examining engagement contents.
		3	United Nations GC (Global Compact)		
		4	CDP		- We participated in a panel discussion hosted by the CDP (Singapore) at an event of the UN water conference, and discussed water security with ASEAN government agencies and businesses.
	Specific topic-related	5	FAIRR	[1] Sustainable Proteins (2021)	- As a lead manager, we conducted collaborative engagement with food makers in the US based on the theme of sustainable protein.
				[2] Working Conditions in Global Meat Supply Chains (2021)	- As a lead manager, we conducted collaborative engagement with Brazilian meat packaging companies about their work environment.
		6	SPOTT		- As a member of TAG (Technical advisory group), we exchanged opinions with members in the London office and discussed how to improve assessments of the natural rubber supply chain.

Chart 10.1 – Global initiatives (continued)

			Title	Affiliated working group (Year principally indicates participation year)	Main accomplishments from activities in the past year (Principally from July 2022 to June 2023)
Global initiatives	Specific topic-related	7	30% Club UK InvestorGroup, Thirty Percent Coalition		- The 30% Club UK Investor Group introduced case studies from business companies, created analysis reports on diversity, and shared best practices related to 30% Club initiatives from other regions. - At the annual meeting of the Thirty Percent Coalition in November 2022, commissioners of the SEC (U.S. Securities and Exchange Commission) and women and minority directors from companies in the US were invited to a panel discussion, and reports, etc., were presented on diversity analysis for boards of directors of companies in the US. - We directly participated in these activities by utilizing our 3-pole system including our offices in the US and UK, and learned about advanced diversity activities in Europe and the US.
		8	Access to Medicine Foundation		- As a lead manager with major pharmaceutical companies in Japan, we promoted collaborative engagement to encourage them to establish and implement a management strategy for improving access to medicine. - We appeared on stage at the Access to Medicine Index Tokyo Conference held in December 2022, and presented our initiatives.
		9	Investor Action on AMR		- We participated in the NIKKEI FT Communicable Diseases Conference that was held in November 2022 as the only investment manager from Japan, and presented our views and specific initiatives on AMR.
		10	TNFD Forum		- We participated in the preliminary committee that was set up in September 2020, and also joined in public comments. We also participated in and gave recommendations at the TNFD meeting at the 15th Conference of the Parties to the UN Convention on Biological Diversity (COP 15) held in Montreal, Canada in 2022.
		11	IPDD	[1] Brazil Engagement Group (2020)	- As a management committee member for supervising and managing group activities, we are involved in the operation and management of initiatives. - In April of 2023, we had dialogue with the new President Lula administration of Brazil, and exchanged opinions and gave recommendations on forest conservation in the Amazon according to the local situation.

Chart 10.1 – Global initiatives (continued)

Title				Affiliated working group (Year principally indicates participation year)	Main accomplishments from activities in the past year (Principally from July 2022 to June 2023)
Global initiatives	Specific topic-related	11	**IPDD**	[2] Indonesia Engagement Group (2021)	- In October 2022, we held a meeting with the government and people related to financial markets in Indonesia. A "Memorandum of Understanding" was concluded with the Jakarta Stock Exchange and IPDD for providing advice on sustainability.
				[3] Consumer Countries Group (2022)	- For the European Commission, we conducted policy engagement with countries and regions (including the US, Europe, and China) that import and consume agricultural products and processed products, like palm oil and soy, which are at risk of contributing to deforestation.
		12	**FSDA**		- In September 2022, we began collaborative engagement with companies that have a soft commodities supply chain.We encouraged companies in Japan, Korea, Malaysia, and Indonesia as well as financial institutions that provide finances to such businesses, to disclose and implement effective measures for avoiding deforestation risks by 2025.
		13	Nature Action 100 NA100		- We participated in events at the COP15 held in Montreal, Canada, and were present at the NA100 launch announcement. We were also on stage for discussions about the purpose of its activities.
	Investor group-related	14	Ceres Ceres	[1] Investor Water Hub (2019)	- With the Valuing Water Finance Initiative, we conducted collaborative engagement with US fast food companies as a lead manager, and as a collaboration manager for US beverage companies.
				[2] Biodiversity Working Group (2020)	- We conducted collaborative engagement on deforestation in Brazil with grain trading companies in the US.
				[3] Food Emission 50 (2021)	- We conducted collaborative engagement on climate change risks in agriculture supply chains with meatpacking companies and discount stores in the US.
				[4] Paris Aligned Investment (2021)	- We participated in panel discussions of the Paris Aligned Investment Working Group. We explained the status of our efforts related to natural capital and climate change.
		15	Council of Institutional Investors® CII		- We participated in regular meetings held every six months in the US in September 2022 and March 2023. - We collected information on corporate governance, financial markets and regulations, accounting/auditing, and diversity.

Chart 10.1 – Global initiatives (continued)

Title				Affiliated working group (Year principally indicates participation year)	Main accomplishments from activities in the past year (Principally from July 2022 to June 2023)
Global initiatives	Investor group-related	16	AIGCC	[1] Energy Transition Working Group (2023)	- As a lead manager, we continue to have collaborative engagement with major power company groups in Japan.
				[2] Forest and Land Use Working Group (2023)	- We began participating in working groups [1] and [2] for the first time and proactively joined in discussions on solutions to cross-sectional energy issues in Asia and issues related to forest and land usage.
		17	ICGN	Natural Capital Committee (2021)	- We are appointed to the Board of Governors.
				Policy Oversight Committee (2021)	- At the Japan/Korea conferences held in October 2022, we participated in panel discussions on corporate governance reforms for these countries, and gave our opinions and lobbied with related organisations such as the Financial Services Agency, Ministry of Economy, Trade and Industry, and KEIDANREN (Japan Business Federation). - As a board member of the ICGN, we participate in the Natural Capital Committee and Policy Oversight Committee.
		18	The Investor Agenda	Global Investor Statement to Governments on The Investor Agenda Climate Crisis (Signed and agreed to the 2023 Investor Statement)	- In the statement made in July 2023, in addition to climate change, we repeated appeals to strengthen measures for protecting forest resources that are deeply connected to climate change. - We conducted a self-evaluation of our stewardship activities related to climate change according to ICAP, and disclosed it in our Stewardship Report.
		19	**Net Zero Asset Managers initiative**		- We have been appointed as an Advisory Group member. - We participated in an in-person meeting held with the NZAOA (Net-Zero Asset Owner Alliance) in London as an NZAMI Advisory Committee member. - We conducted an exchange of opinions between asset owners and asset managers about initiatives for climate change issues. - We took the stage as a representative of the Asia region Advisory Group at the NZAM Bi-Annual Signatories Meeting.

Chart 10.1 – Global initiatives (continued)

			Title	Affiliated working group (Year principally indicates participation year)	Main accomplishments from activities in the past year (Principally from July 2022 to June 2023)
Domestic initiatives	Climate change-related	20	TCFD Consortium		- We participated in the TCFD roundtable, which included investment managers and issuing bodies, and gave advice on disclosure that we, as an investment manager, expect from the participating business companies (participating listed companies), along with exchanging opinions.
Domestic initiatives	Specific topic-related	21	ESG Information Disclosure Study Group		- We participate as a Full Membership company with our Senior Managing Director, Hiroyuki Horii, serving as a Director, while other SuMi TRUST AM employees are members of plan working groups. During the year from July 2022 to June 2023, we held monthly study groups and regular general meetings in addition to the "Subcommittee for improving integrated reports (targeting four listed companies)," "Subcommittee on human capital disclosure," and "Subcommittee for analyzing the relationship between S-factor and financial value." We also submitted a letter with our comments on the ISSB public draft by the IFRS Foundation. We published a one-year activity report in June 2023. In this way, we strengthened relationships with member companies and deepened our understanding of ESG information disclosure.
Domestic initiatives	Specific topic-related	22	30% Club Japan Investor Group		- We issued progress reports including examples of best practices for engagement in November 2022 and March 2023. We also engaged in a public awareness campaigns by holding events targeting female senior leaders at TOPIX companies who are main members of the initiative body. SuMi TRUST AM President Yoshio Hishida served as the chair of the Investor Group of the 30% Club until his term expired in March 2024 Japan, and as the top person, he is taking the lead in managing these.
Domestic initiatives	Investor group-related	23	Institutional Investors Collective Engagement Forum		- We sent letters for the six agendas set by the organisation such as "Reduction of cross-shareholdings" or "Enhancing governance for parent-subsidiary listings", and practiced collective engagement with several companies who responded. We are also the lead manager for the "Enhancing governance for parent-subsidiary listings"agenda, and practiced collective engagement with major steel companies over the past year.

Chart 10.1 – Global initiatives (continued)

			Title	Affiliated working group (Year principally indicates participation year)	Main accomplishments from activities in the past year (Principally from July 2022 to June 2023)
Domestic initiatives	Investor group-related	24	Japan Sustainable Investment Forum (JSIF)		- SuMi TRUST AM Senior Managing Director Hiroyuki Horii is a director. Mr. Horii served as a lecturer for the course operated in cooperation with JSIF at Waseda University Graduate School of Business and Finance. One of our employees also contributed an article to the "White Paper on Sustainable Investment" of the JSIF entitled "The Impact of Overseas Regulations on Investors in Japan."
		25	Japan Stewardship Initiative (JSI)		- We participated in meetings for examining revisions to smart formats in 2023, and attended the annual general meeting. We also attended the meeting for exchanging opinions with executives of the Stewardship Asia Centre (an organisation that manages and operates stewardship principles in Singapore) held by the JSI in Tokyo, and participated in seminars on corporate governance in Japan hosted by the Consulate-General of Japan held in New York, USA.

(Source: SuMi TRUST AM)

Collaborative engagement

Climate change

Climate change is one of the most important engagement themes. We are developing a wide range of engagement across a variety of industries. Among these, we focus on the 100 or so companies that have the greatest impact on reducing total greenhouse gas (GHG) emissions on a global level as a particularly important group of companies.

To strengthen our engagement on this issue, we have joined the Net Zero Asset Manager Initiative (NZAMI) (more details in Principle 4) and aligned with Climate Action 100+ (CA100+), the Asia Investor Group on Climate Change (AIGCC), Farm Animal Investment Risk & Return, Carbon Disclosure Project and The Investor Agenda.

We take a proactive approach to all our initiatives including taking up management if necessary.

As a specific example, a member of our team previously served on the global steering committee of the CA100+ and we continue to lead collaborative engagements in the Asian region. As part of our CA100+ commitments, we have asked company executives to commit to net zero emissions by around 2050, to set specific medium- to long-term targets related to the transition process, and to disclose appropriate capital investment plans in line with these targets. In addition to encouraging ambitious efforts that are not bound by Nationally Determined Contributions, we have also requested actions to reduce emissions throughout the value chain. To support the work in Asia with CA100+, we are lead representative of the Asian Utilities Engagement Program of AIGCC. This has led to multi-layered engagement with companies and policymakers, please see case studies as follows.

Case study 10.1 – Initiatives

Initiatives	SK Innovation	Country: South Korea
Activity		
Initiative	CA100+ Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate GHG emitters take necessary action on climate change. The initiative requires them to disclose effective plans and strategies on climate change issues based on a 1.5°C scenario. The initiative also seeks senior management commitment, for example by linking executive remuneration to effective implementation. SK Innovation has an upstream resources business and downstream petrochemicals and other businesses with significant GHG emissions. The company sees climate change challenges as a business opportunity and has started a battery business for EVs. However, it requires a more profound shift away from its heritage business activities. We developed an engagement strategy as CA 100+ lead manager for SK Innovation. As it was a turnaround dialogue, we targeted an exchange of views with the CEO and members of the Board of Directors.	
Outcome	Our expertise and experience dealing with other Asian conglomerates seeking business transformation combined with our collaboration with the CA100+ initiative, ensured we were able to meet with board members and secure management commitment. In July 2021, the company announced its 'Net Zero Roadmap 1.0', which included Scope 1, 2 and 3 targets to achieve net zero emissions by 2050. The main thrust of the roadmap was a major shift in business profile by reducing GHG emissions from the petrochemicals business and investing in EV business.	
Assessment	The objectives of the engagement were achieved, and climate change disclosure was substantially improved.	

Case study 10.2 – Initiatives

Initiatives	BP PLC	Country: UK

Activity	
Initiative	CA100+ Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate GHG emitters take necessary action on climate change. The initiative requires them to disclose effective plans and strategies on climate change issues based on a 1.5°C scenario. The initiative also seeks senior management commitment, for example by linking executive remuneration to effective implementation. BP is one of our Focus 100 companies, defined by our proprietary framework which utilises CA100+ expertise to assess climate change-related stocks. We have been in continuous dialogue with BP since 2020. Our engagement objective, aligned with CA100+, is for the company to promote a transition to net-zero and to provide disclosures that increase the credibility of the roadmap. This requires disclosure on the capital allocation approach necessary to achieve the 2050 target in terms of the medium- to long-term portfolio transformation. It is also necessary for BP to demonstrate leadership in its entire value chain.
Outcome	Since the start of the dialogue in 2020, the company's proactive efforts including the setting the 2050 Scope 1+2 carbon neutrality target, increasing the emission reduction target for 2030 for Scope 1+2 to 50% (previously 30%-35%) and reducing the carbon emissions from Scope 3 sales to zero (previously 50%) have been highly commendable. We also welcome the disclosure of climate change targets reflected in financial KPIs, including an increase in the EBITDA target from the entire transition energy business in 2030. BP has also disclosed plans for investment in business portfolio transformation until 2030 and targets for the contribution from renewable energy projects. We also welcome developments such as strengthening of collaboration with supplies and customers, including retail, automotive and power companies, on renewable energy.
Improvement	Interviews with senior IR managers have been held at intervals of 12-18 months. We will maintain the cadence of direct dialogue, while verifying management execution through participation in company’s ESG events. In the next phase, we will focus on concrete action plans and measures to increase the feasibility of achieving the carbon neutrality target. An example of an important KPI is the implementation of an investment plan for the 2030 EBITDA target. We will also monitor progress on measures to accelerate transition which involve the entire value chain. Finally, we will use BP position as an industry leader as a case study for improvement for peers in other regions.

Case study 10.3 – Initiatives

Initiatives	Japanese power company	Country: Japan
Activity		
Initiative	AIGCC's AUEP (Asian Utilities Engagement Program) The Asian Utilities Engagement Program initiative aims to promote effective engagement on decarbonisation initiatives among Asian power companies. We have sought to contribute to the reduction of GHG emissions in Japan through our involvement as lead managers of engagement with a Japanese power company, which is a leading private power company in Japan, and its thermal power generation JV, the largest GHG emitter in Japan. Our engagement focused on disclosure related to the firm's 2021 publication of a 2030 emissions target and ultra-long roadmap for a carbon-free society. We sought to escalate the engagement counterpart to the president. In addition, we secured joint participation from the parent and joint-venture company in light of the shared responsibility for emissions reduction plan and need for a joined-up approach by management.	
Outcome	The company's interim target of 44% non-fossil fuel power supply by 2030 has remained unchanged, but the company breakdown of a specific reduction plan has increased its credibility. In addition to the 2030 target, the joint venture has also set a 60% reduction target for 2035, ahead of other power companies and the national energy basic plan. The companies have also disclosed details on the roadmap for hydrogen and ammonia co-firing to achieve zero-emissions for thermal power, as well as on the status of infrastructure development, including fuel procurement.	
Assessment	The power company has presented a concrete emissions reduction plan and progress has been made in setting its JV reduction target for 2035. The fact that the two companies are taking steps to realise their environmental targets in unison is evidence of the firm's improved environmental governance. We accept the company's assessment that a certain amount of thermal backup power is necessary while the generation capacity of renewables is developed. Furthermore, the development of zero-emission technology for thermal power is essential to even out the variability of renewable energy sources in the future. In particular, we believe it is necessary for the JV to invest management resources in research, development and acceleration of zero-emission thermal power initiatives.	
Improvement	We aim to enhance the decarbonisation efforts of Japanese utilities through sharing knowledge gained through collaborative engagement and concerns about technology development. While seeking insights from the AUEP initiative on information disclosure, we will urge that ammonia and hydrogen co-firing and mono-firing technologies are not misinterpreted as preserving or extending the life of coal-fired power plants. We believe that reducing GHG emissions and improved sustainability disclosure will enhance corporate value over the long term.	

On climate-related issues, our Stewardship Officer also spoke at webinars organised by PRI Japan and the AIGCC to discuss our efforts to improve engagement and voting decisions towards net zero, and to analyse the status of setting interim targets towards net zero for asset managers who have signed up to join the NZAMI. A member of our company has been appointed to the Advisory Group of NZAMI, please see Chart 10-1. Furthermore, we play a knowledge-sharing role in promoting NZAMI membership, including the results of analysis of the status of asset managers who have signed up to NZAMI.

We recognise that not all industry initiatives will suit all asset managers. One high profile case was the departure of US asset manager from the NZAMI initiative in December 2022, citing client confusion between NZAMI commitments and the firm's role as a passive manager. As a member of NZAMI, our activities are aligned with our commitments as a passive investor.

Another example of where we have strengthened systematic and collaborative activities is in the field of natural capital through our work with UN PRI Stewardship Initiative on Nature, the Coalition for Environmentally Responsible Economies (Ceres), the TNFD Forum and SPOTT, an online platform for assessing commodity producers. In North America, we participate in the Ceres Working Group on Land Use and Climate. Our work on information disclosure and analysis with regard to natural capital has also been facilitated by collaborative engagement through the following organisations: The Investors Policy Dialogue on Deforestation (IPDD), Finance Sector Deforestation Action (FSDA) and Nature Action 100.

Case study 10.4 – Initiatives

Initiatives	**Domino Pizza** Country: US
Activity	
Initiative	Ceres/Valuing Water Finance Initiative Ceres' Valuing Water Finance Initiative is a new global investor-led effort to engage 72 companies with a high water footprint and to raise awareness of and encourage portfolio companies to respond to water resource risks. We are a lead manager, through our New York subsidiary, of a collaborative dialogue with Domino's Pizza Inc. The engagement objective is to establish a comprehensive approach to addressing water resources risks, including in the agricultural supply chain, and addressing greenhouse gas (Scope 3) issues. In 2020, at the start of the collaborative dialogue, the company lagged its peer restaurant chains in addressing water resource risk. However, it had started preparing a response and was open to dialogue. The company was aware of the sustainability risk but was more sceptical about its influence on its supply chain and was cautious about integrating supplies into its plan.
Outcome	Through collaborative dialogue and the sharing of environmental organisation reports and peer best practice, the company published in 2022 a supply chain GHG reduction target and engagement plan as well as a commitment to obtaining science-based accreditation. However, the fact that the disclosure of water resources was limited to its own operations for reasons of data quality, even though the majority of consumption is attributed to the supply chain, means our objectives were not fully met.

Case study 10.4 – Initiatives (continued)

Assessment	We conducted a constructive dialogue utilising Valuing Water Finance Initiative's risk-assessment tools and case studies, while recognising significant regional differences, as well as examples of engagement with supply chains and local residents. The knowledge we accumulated has been integrated into our in-firm water resource assessment framework, which is used in engagement with companies worldwide. In relation to this initiative, we have separately participated in a collaborative dialogue with a Japanese electronics company including the setting up of interviews through our domestic analyst relationships.
Improvement	The company plans to engage with suppliers to achieve its GHG target, and we intend to continue dialogue about using this opportunity to work on water resources at the same time. We do welcome the company's promotion of its sustainability brand as part of its business strategy. We will push for the firm to exploit this value proposition by addressing water risks in future engagements.

Of course, there are other important themes that require collaborative engagement. For example, to tackle the issue of health inequality we took on the role of lead manager for the Access to Medicine Foundation's engagement with Japanese pharmaceutical firms, please see Case study 10.5 for more details.

Case study 10.5 – Initiatives

Initiatives	**Pharmaceutical company** Country: Japan
Activity	
Initiative	Access to Medicine Foundation The Access to Medicine Foundation initiative urges pharmaceutical companies to improve the supply of medicines for low-to-middle income countries (LMIC) and support systems for healthcare organisations. Access to Medicines has targeted 20 global pharmaceutical companies for assessment including four Japanese companies. The project was designed to promote mutual understanding between the Access to Medicine Foundation and the company aimed at helping to resolve an important social issue while enhancing the company's reputation and, ultimately, corporate value. After previous communication failed to yield the desired results, we took on the role of lead manager for the company utilising our engagement expertise with Japanese companies.
Outcome	Through the dialogue, we clarified the Access to Medicines requirements and recommendations and top management has been proactive in addressing the issues raised. Specifically, the new mid-term business plan (2021-2025) positioned access to medicines as a value-creating activity and presented a consistent pipeline for future supply to LMIC. In addition, the target number of patients to be accessed was disclosed at the 2023 Sustainability Meeting.

Case study 10.5 – Initiatives (continued)

Assessment	Although the improvement of the access to medicines system for developing countries and disclosure is highly commendable, the evaluation of the Access to Medicine Index indicates the gap with highly rated European and US companies has not narrowed.
Improvement	To achieve our objective, we must closely monitor the implementation of the initiatives of the New Medium-Term Plan while clarifying issues and referencing global best practice. We will also consult with the company regarding the evaluation results and criteria and, as the lead manager, provide feedback to the Access to Medicine Foundation to ensure fairness, objectivity, and accuracy of the Index.

Our commitment to global initiatives means we are also a member of the management committee that oversees the activities of the IPDD, a member of the Board of Governors of the International Corporate Governance Network, Chair of the 30% Club Japan Investor Group until end-March 2024, and Director of the ESG Disclosure Study Group.

A global approach

It is important that participants in these initiatives seek to solve ESG issues from a global perspective. We conduct comprehensive engagement globally through our three bases in Japan, Europe (London) and North America (New York). For European and US initiatives, the UK and US-based members collaborate with the Tokyo team on these initiatives; while for domestic, Asian and Australian initiatives the Tokyo-based members take a lead. Activities and information from regional initiative are shared among the three sites to improve information gathering and the efficiency and effectiveness of engagement and voting decisions with companies and policymakers.

Another major benefit of participating in collaborative initiative is that it provides us with global trends on ESG issues and investor responses. By relaying information to Japan, we are working to improve the overall sophistication of our stewardship activities. For example, in 2021 we joined the FSDA Initiative, which is a natural capital-related initiative aimed at preventing deforestation in soft commodities production supply chain, please see Case study 10.6.

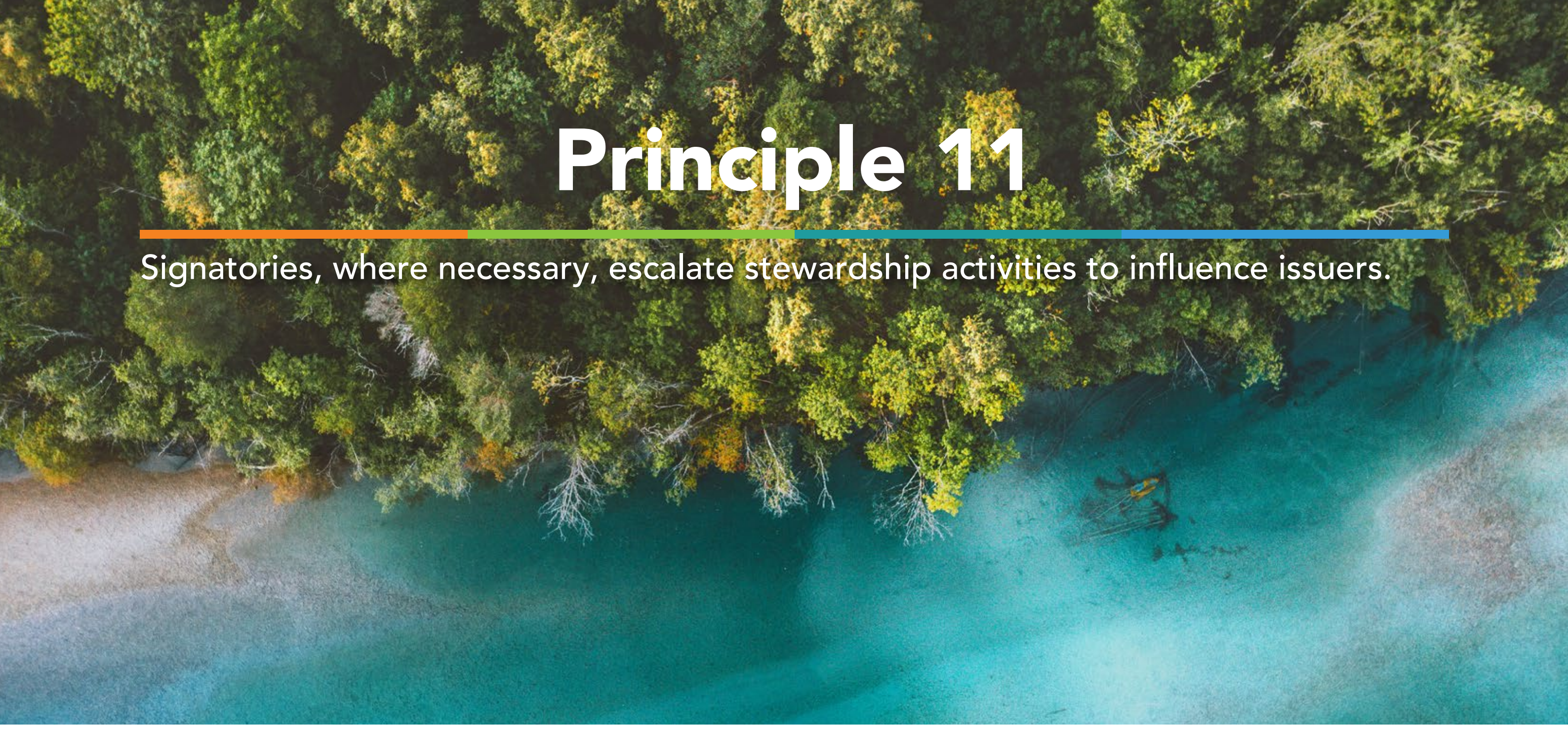
Case study 10.6 – Global initiative

The FSDA Initiative requests companies to address the risk of deforestation in soft commodities supply chains such as palm oil, soya, meat production, paper and timber. There is a pressing need to address the risk of deforestation given both the loss of natural capital and the role forests can play in solving climate change as carbon sinks.

We participated as lead manager to a Japanese trading company to persuade the company that the risk of deforestation is a natural capital risk in addition to climate change, and we are conducting engagement activities to educate the company on the status of the TNFD, a natural capital disclosure framework, and to include deforestation risk as a climate change issue.

The company revised its sustainability report in March 2023, adopting the beta version of the TNFD and clarifying its commitment to information disclosure within the framework of natural capital and the FSDA's initiative to disclose information related to soft commodity supply chain risks.

While other countries are ahead of us in disclosing information on forest conservation, we are using the knowledge gained from our participation to engage with and provide information to our portfolio companies in Japan.



Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

In the course of stewardship activities, we may use different means of communication with our portfolio companies than traditional dialogue when it becomes difficult to increase the effectiveness of ESG investments.

The most commonly recognised escalation methods include voting on company and shareholder proposals, in addition to working with other investment managers and initiative groups, as well as public statements and divestments.

In the event stewardship activities with portfolio companies do not meet our minimum standards, we will consider voting against company proposals for the election of directors and the appropriation of retained earnings or voting in favour of shareholder proposals in accordance with our voting principles, more details in Principle 12.

We also take a proactive approach to collaborative engagement in areas, both domestic and international, where we feel that our stewardship efforts are unlikely to meet our engagement objectives. Although public and media statements are feasible, it is not always an effective way to achieve our engagement objectives.

Escalation in fixed income engagements is more limited as there is no ability to vote at meetings. Fixed income escalation may take other measures such as divestment or other methods to pursue our right as bondholders.

We also take a proactive approach to collaborative engagement in areas, both domestic and international, where we feel that our stewardship efforts are unlikely to meet our engagement objectives.

Prioritisation criteria

Before selecting and prioritising issues for escalation, we set clear objectives to measure the progress of existing engagements. As outlined in Principle 9, we identify 12 ESG Materialities and set long-term goals for each ESG theme and intermediate targets for engagement, depending on the ESG issues and management level of each company.

We utilize our deep understanding of corporate and industry trends accumulated through previous engagements and draw on our knowledge of the latest global ESG developments through collaborative engagement initiatives.

If we conclude that our concerns cannot be resolved through standard activity, we may consider escalation to achieve our engagement objectives as described previously.

Case study 11.1 – Voting rights

Capital management

Activity	An example of the use of voting rights as a means of escalation is our activities with a Japanese industrial equipment company. Despite strong profitability and healthy financial metrics, the company did not disclose sufficient detail on its capital management policy and approach to shareholder returns. In particular, we repeatedly asked for an explanation of the company's use of cash, it has a high net cash ratio of 35%.
Outcome	Since we did not receive a reasonable explanation of the firm's capital policy and approach to shareholder return, we voted against the company's dividend payout ratio in both 2022 and 2023, which was 16% in 20% respectively, significantly below the previous year's 25%.

Case study 11.2 – Global initiatives

Gender diversity

Activity	Japanese companies have a low ratio of female directors and managers who are candidates for directorships. We conducted extensive dialogue with investee companies on improving board diversity through the development of female executives, including the need for female role models and the creation of a comfortable working environment, with the aim of increasing the number of women active in senior positions. Despite these efforts Japanese companies continue to lag international peers in terms of board diversity. To demonstrate our commitment and increase the effectiveness of engagement activities, we escalated our activities on two fronts. First, we compiled a list of TOPIX 500 companies with zero female directors and from 2022, issued revised guidelines to oppose the appointment of directors if no female director was included. Second, our President took up a position as the Investor Group Chair of the 30% Club Japan until his term expired in March 2024.
Outcome	As a result of our commitments and continued dialogue we confirmed the appointment of female directors at TOPIX 500 companies including Central Japan Railways, Shin-Etsu Chemical, Sumitomo Reality and Development, OBIC, Toray Industries and Shimano.

Divestment

We are committed to avoiding investment in companies and other entities with significant problems from an ESG perspective, such as the manufacture of inhumane weapons or infringement of international norms. Specifically, we exclude firms that are engaged in the production, sale and use of cluster munitions, anti-personnel mines, biological weapons and chemical weapons, which are widely prohibited under international treaties and for which Japan has ratified the relevant treaties.

If an existing holding is suspected of violating our stated ESG screening criteria, we will seek a direct dialogue with the company. We will not purchase any new or additional securities. If the company refuses to meet with us and we are unable to hold a dialogue, we escalate the issue and sell it.

We are committed to avoiding investment in companies and other entities with significant problems from an ESG perspective, such as the manufacture of inhumane weapons or infringement of international norms.

Case study 11.3 – Divestment

In the aftermath of the Russian invasion of Ukraine, we implemented a coordinated campaign of engagement, escalation and divestment. Engagement was conducted with providers of equity and bond benchmarks to request that Russian assets be removed at the earliest opportunity. The engagement facilitated the prompt removal of relevant assets from the benchmark, exclusions and divestments.

In addition, Russian assets that were held due to trading restrictions, as well as dividend formulae and interest that was due to be credited, were reduced to zero for fund valuation purposes, in consultation with asset owners and auditors.

Escalation as a bondholder

From a bondholder's perspective, the opportunities for escalation are more limited as engagements tend to focus around new issues and there is no ability to vote at AGMs. In cases where companies and issuers are at risk of a significant decline in corporate value due to poor governance, or where credit concerns have increased due to poor management strategies, we will conduct thorough analysis and engagement through the channels stated in Principle 9. In cases where our concerns are not sufficiently addressed, we will seek to prohibit active and passive products from additional purchases or divest from our holding.

Principle 12

Signatories actively exercise their rights and responsibilities.

Our basic voting rights principles

SuMi TRUST AM regards the exercise of voting rights as one of its important stewardship activities to enhance corporate value and sustainable growth and to maximise the long-term returns of clients. We focus on efficient use of capital, appropriate corporate governance systems and consideration of material ESG issues.

The exercise of voting rights is an opportunity to seek minimum standards of governance and as a means of expressing our views to enhance corporate value and sustainable growth. We are actively engaged with companies regarding the exercise of voting rights.

Our voting decision are based on the engagement activity with investee firms and made in accordance with the company's voting principles.

Revisions to the voting rights principles will be finalised by the executive officer in charge of the Stewardship Development Department, subject to the appropriate conditions set by the Sustainability Committee. Revisions to the principles for exercising voting rights, except minor ones, require consultation with the Stewardship Activity Advisory Committee, which includes independent members.

The principles for exercising voting rights are highly transparent and implemented across all portfolios in principle. If there are specific circumstances identified through engagement activity with the company that require additional consideration it is possible to make exception to the principles through the appropriate procedures, please see our case studies.

When exercising voting rights, we take into account the fact that laws and regulations, business practices and corporate governance have been developed based on the economic, political and social environment and historical context of each country, and we make decisions in line with the actual situation in each country.

Voting results are reported regularly to the Sustainability Committee, which oversees stewardship activities, together with the results of voting exercises based on customer policy. In addition, we disclose voting results at the level of individual proposals on our website on a quarterly basis.

Full details of our voting principles and disclosures can be found here:
https://www.sumitrust-am.com/responsible-investment/proxy-voting

Use of proxy advisers

We make decisions on the exercise of voting rights in accordance with transparent, in-house voting principles.

In regard to foreign stocks, we use data and research reports from advisers such as ISS for reference when deliberating our voting decisions. The executive officer in charge of the Stewardship Development Department holds all authority for exercising voting rights.

In cases where the exercise recommendation from ISS does not match our voting principles, we give priority to our in-house voting principles. We observe some cases where the actual voting decision differs from the ISS exercise recommendation. However, incidences of divergence are low given voting principles are provided to ISS in advance and tailored to meet our stated voting principles.

In regard to domestic stocks, we use the ISS recommendations in the exercise of voting rights which are subject to our conflict of interest policy. An example of such a case is for proposals related to the election of directors and executive officers of SuMi TRUST AM's parent company and Group companies, and for proposals for the election of directors and executive officers from the Company's parent company, see Principle 3 for more details.

Allowing clients to choose

We recognise that there are circumstances when clients voting policy will diverge from our principles. If there is a difference between us and a client, SuMi TRUST AM is committed in principle to allowing clients to implement their own custom voting policies in segregated accounts.

Any decision to diverge from our voting principles is discussed and approved by the Sustainability Committee, which oversees stewardship activities and approved by the executive officer in charge of the Stewardship Development Department.

We will exercise our voting rights based on our understanding of the client's voting policy. If we have any questions about a client's exercise of voting rights based on its policy, we will check with the client through the department in charge of clients.

The department in charge of clients consult closely with the customer to ensure that the exercise reflects their intentions, while also evaluating the feasibility of whether it is practically possible to exercise the voting rights in accordance with the customer's policies. If a customer changes its criteria for exercising voting rights, we discuss this with the client and consider the implications for the exercise of voting rights.

In terms of differences between our and client's voting policy, the most frequent occurrence relates to the appointment of directors. Cases where the results of the exercise of voting rights have diverged from our principles based on a client's policy are clearly identified in our quarterly voting disclosures. In addition to the above external disclosures, we also provide individual explanations of our stewardship activities at the request of our clients.

Our policy on pooled and segregated accounts

We are committed to integrating our voting decisions and engagement activities as an integrated activity. Voting is one of the escalation methods of engagement, and we believe that linking the concept of voting with the content of dialogue with companies in engagement will increase the effectiveness of promoting changes in corporate behaviour.

We do not offer a scheme for customers to exercise their voting rights directly in pooled accounts. This is in line with our view that our stewardship activity is a critical service provision and should be shared for all the funds we manage. Our allocation of resources is in line with this commitment.

Monitoring voting rights

The number of voting rights for each issue held by SuMi TRUST AM is confirmed by the custodian. As a result, we can monitor for each issue the voting rights exercised by the company based on the data provided by the custodian.

We liaise closely with custodians regarding the share lending activity to avoid violations of lending limits or the inability to execute any sell transaction. We have access to the custody data in order to confirm delivery at the time of the sell transaction.

Approach for fixed income assets

Although bondholders cannot exercise voting rights as they can with shares, they are considered an important part of the company's corporate governance. Bondholders have the right to demand sustainable growth and measures to mitigate downside risk in return for the provision of funds.

We exercise our rights as a bondholder through engagement prior to every bond issue. Key areas of focus include optimum issue term, issue size and bond market, issuance formats for overseas companies (Samurai Bonds/Euroyen Bonds/Global Yen Bonds), use of different rating agencies and ESG assessment bodies, release of collateral in cases where bondholders are subordinated due to high secured borrowing from banks. More details can be found in Principle 9.

Research based approach

By conducting research and engagement with the same investee company from multiple perspectives, we can increase the likelihood that the engagement issues set for each company are solved. Our credit analysts, equity analysts and stewardship officers collaborate on engagement and ongoing constructive dialogue to improve sustainability and increase value for issuers and society.

Although there are some differences between bonds and stocks, we are unique in that our credit and equity analysts work together. The purpose is the same; to improve the sustainability of investee companies and society, and to increase corporate value. Both sides perform research and engagement from different perspectives for the same investee company, which makes it possible to add value to activities and to strengthen support, allowing companies to address ESG issues.

The purpose is the same; to improve the sustainability of investee companies and society, and to increase corporate value.

Stock lending, recalling lent stock for voting and 'empty voting'

In regard to stock lending activity, our 'Investment Management Business Rules' sets limits on lending transactions to ensure voting rights are fully exercised in all cases outside the lending limit. In practice, the limit is 5%/10% of our total holding. To secure voting rights, shares can be recalled as set out by the contractually commitments of the client and the custodian and lending agent. This is to ensure we have exercised our full voting rights.

The status of the number of on-loan shares in relation to the lending limit in stock lending transactions is monitored by the custodian. In addition, when the portfolio manager sells the relevant shares, the custodian can be contacted to avoid violations of the lending limit itself or the inability to deliver the sell transaction due to exceeding the lending limit.

Although voting rights are transferred by lending shares, the motivation to engage as an investor with an economic stake and stewardship responsibility remains, as the shares remain recorded as a valued asset in the portfolio and is subject to price fluctuation risk.

Furthermore, with regard to empty voting the voting rights secured in shares outside the lending limit are managed in accordance with the Company's voting principles.

In standard contracts of lending transactions, there is a clause that guarantees that the borrower "will not borrow for the primary purpose of obtaining voting rights". In practice, the procedure of avoiding empty voting is applied to our stock lending.

Voting results

Chart 12.1 – Disclosure of percentage of shares voted

Record of Exercising Voting Rights for Japanese Equity (July 2022 to June 2023)

Company proposals

		For	Against	Abstention	Total	Opposition ratio
Proposals concerning company systems	Appointment/dismissal of directors	14,500	4,198	0	18,698	22.5%
	Appointment/dismissal of corporate auditors	1,928	275	0	2,203	12.5%
	Appointment/dismissal of accounting auditors	96	0	0	96	0.0%
Proposals concerning remuneration for executives	Remuneration for executives*1	642	100	0	742	13.5%
	Payment of retirement benefits for resigning executives	0	91	0	91	100.0%
Proposals concerning capital policies (Excluding proposals concerning articles of incorporation)	Disposal of surplus funds	1,469	57	0	1,526	3.7%
	Restructuring-related*2	38	0	0	38	0.0%
	Introduction/renewal/abolishment of takeover defense measures	1	84	0	85	98.8%
	Other proposals concerning capital policies*3	58	0	0	58	0.0%
Proposals concerning articles of incorporation		767	11	0	778	1.4%
Other proposals		4	0	0	4	0.0%
Total		19,503	4,816	0	24,319	19.8%

*1. This includes amendments to remuneration for executives, issuance of stock options, introduction/alteration of performance-linked remuneration systems, and executive bonuses

*2. This includes mergers, business transfers and acquisitions, share swaps, share transfers, and corporate splits

*3. This includes treasury stock acquisitions, decrease in statutory reserves, new share allocations to third parties, decrease in capital, reverse stock splits, and issuance of class shares

Shareholder proposals

	For	Against	Abstention	Total	Opposition ratio
Total	39	365	0	404	90.3%

Factors that affect the result of exercising voting rights and the opposition ratio

When comparing the opposition rate to company proposals with the same period last year, there was an increase attributed to stricter standards regarding the appointment of female directors, cross-shareholding, etc., but overall, there was a slight decrease because enhancements with the investee company governance systems (such as an increase in number of independent external directors) offset this increase.

Record of Exercising Voting Rights for Foreign Equity (July 2022 to June 2023)

Company proposals

		For	Against	Abstention	Total	Opposition ratio
Proposals concerning company systems	Appointment/dismissal of directors	13,872	1,722	0	15,594	11.0%
	Appointment/dismissal of corporate auditors	553	96	0	649	14.8%
	Composition of board of directors (limits on number of directors, etc.)	332	15	0	347	4.3%
	Appointment of accounting auditors	2,209	29	0	2,238	1.3%
Proposals concerning remuneration for executives	Remuneration for executives	3,230	487	0	3,717	13.1%
	Stock options	547	410	0	957	42.8%
	Presentation of retirement benefits	10	2	0	12	16.7%
Proposals concerning capital policies (Excluding proposals concerning articles of incorporation)	Shareholders' equity	3,301	529	0	3,830	13.8%
	Profit disposal and loss disposition plans	1,567	3	0	1,570	0.2%
	Establishment of share buyback frameworks	886	48	0	934	5.1%
	Mergers, corporate splits, conversions to holding company, business transfers, etc.	732	169	0	901	18.8%
	Takeover defense measures	186	10	0	196	5.1%
Proposals concerning articles of incorporation		1,344	375	0	1,719	21.8%
Other proposals		8,921	1,152	0	10,073	11.4%
Total		37,690	5,047	0	42,737	11.8%

Shareholder proposals

	For	Against	Abstention	Total	Opposition ratio
Total	1,148	543	0	1,691	32.1%

(Source: SuMi TRUST AM)

Case study 12.1 – Voting rights

Company	Engie SA	Country: France
Activity		
Engagement	The company's climate change strategy is a key issue in the company's business strategy. As one of our Global 100 Climate Change Companies, we are in continuous dialogue with Engie SA to address climate change issues. The company's current plan for 2030 is a 2°C scenario. However, it is necessary for an update to a 1.5°C scenario, an improved post-2030 roadmap towards carbon neutrality and investment plan targets up to 2025.	
Outcome	In favour of the shareholder proposal. Rejected with 24% in favour.	
	We voted in favour of a shareholder proposal seeking inclusion of the company's climate change strategy in the bylaws of its disclosure information. The proposal was in line with the interests of shareholders as it contributes to enhancing the disclosure of information on the company's climate strategy and does not unduly restrict the authority of the board of directors.	
Assessment	The 2030 plan based on the 2°C scenario is insufficient to be considered top tier in terms of disclosure. However, it is too early to judge whether the company is lagging, as the International Energy Agency and Transition Pathway Initiative scenarios are disclosed in line with the 1.5°C scenario. The company's preparations for Science Based Targets initiative (SBTi) disclosure at 1.5°C and improving disclosure and KPIs indicates a willingness to change. Looking ahead, it is vital the company implements investment plans related to the profitability of renewable energies and the transition of its gas business, as well as an improvement of the roadmap to carbon neutrality, including medium- and long-term investment plans.	
Improvement	We intend to continue the dialogue by checking the progress of the company's initiatives, as well as by proposing improvements in comparison to peers.	

Case study 12.2 – Voting rights

Company	**Swiss Re AG** Country: Switzerland
Activity	
Engagement	As a member of the 30% Club and 30% Coalition in Japan, the US and Europe, SuMi TRUST AM believes that diversity of the board of directors is essential for improving corporate value. We raised the issue of board diversity with the investee company. However, it explained it will take time to move towards increasing the proportion of female directors as the industry requires substantial professional expertise. The company has been preparing for the appointment of female directors for the past few years.
Outcome	Against the company proposal. 79.2% in favour of the proposal.
	We voted against a company proposed director at the 2022 AGM due to insufficient gender board diversity in the board composition. Although the candidate was eventually approved with 80% support rate, the points we raised were recognised by the management, who subsequently committed to increase the number of female directors to 30% next year. At the AGM in April 2023, two new female directors were appointed, bringing the ratio of female directors to 33%.
Assessment	The increase in the ratio of women was confirmed and we believe the company has made good progress on gender diversity. However, we believe the appointment of women is not the end of the story. Diversity, Equity and Inclusion (DEI) initiatives and continuity throughout the company are important, and we will continue to strengthen our diversity initiatives for management and employees as a whole, as well as for race and other diversity initiatives.

Case study 12.3 – Voting rights

Company	**Activision Blizzard Inc** Country: US
Activity	
Engagement	We began regular dialogue with the company in 2020. We initially focused on improvement of ESG information disclosure after our ESG screening revealed low quality. In June 2021, the company improved its disclosure with its ESG report. However, we had concerns about internal working environment with complaints related to sexual harassment and discriminatory behaviour in the workplace leading to litigation. Subsequently, our dialogue with the company deepened into human capital management, DEI policies and improved management transparency. However, we did not see sufficient KPI disclosure.
Outcome	We voted in favour of shareholder proposals. 67.4%. in favour of the proposal.
	We voted in favour of the shareholder proposal at the 2022 AGM to report on harassment and discrimination prevention initiatives. Given the company's lack of disclosure of DEI targets and the ongoing controversy regarding sexual harassment, we decided that additional disclosure of the company's initiatives would be beneficial to shareholders. Following the passage of the shareholder proposal, the company committed to enhanced disclosure of quantitative figures and initiatives in its Transparency Report and to reporting on an annual basis in the future. We assessed the human capital-related disclosures as progressing rapidly. Specifically, the Transparency Report discloses information on the workplace harassment complaint hotline, including the number of reported complaints and substantiated complaints. Disclosure of complaint handling is rare among major US companies. With regard to DEI, the company is also increasing related disclosures, such as gender minority composition by job type and position within the company, gender pay gap, gender minority breakdown of new hires and turnover, etc. With regard to workplace diversity, the company is committed to increasing the proportion of women and minorities by 50% over the next five years and to reporting on its progress.
Improvement	We will monitor these KPI trends and confirm the effects of efforts to improve workplace diversity and corporate culture. Semi-annual interviews have been held in the past, and will continue to be held with the ESG team on at least an annual basis.

Case study 12.4 – Voting rights

Company	**BHP Group Limited** Country: Australia
Activity	
Engagement	The company's climate change strategy is a key issue in the company's business strategy. As one of our Global 100 Climate Change Companies, we are in continuous dialogue with the company to address climate change issues. We are a participant in CA100+ and are aware the company's benchmark assessment is improving, but the capital allocation assessment is still incomplete. Labour and community responses, such as the so-called fair transition in exiting the coal business, are also required. In October 2022, the company received a shareholder proposals requiring quantitative figures and judgements for all products under all scenarios, including the 1.5°C scenario, in audited financial statements. The company confirmed it was examining assessment related to the effectiveness of the capital investment in climate change measures, and would disclose more information soon. The proposer is a signatory of CA100+ and we confirmed their views through attendance at small meetings on the shareholder proposal.
Outcome	Against shareholder proposal. Rejected with 19% in favour.
	We voted against the shareholder proposal. The company has improved the disclosure of information on its capital plan and Scope 3 reduction targets, which we had pointed out as an issue. We also received a response stating that the company expects to be able to disclose more in-depth initiatives such as capital allocation assessment and Just Transition in the CA100+ benchmark, which we raised as issues in our most recent dialogue before the AGM. The proponent, the Australasian Centre for Corporate Responsibility, assertion that climate change risk is a financial risk and should be properly reflected in the financial statements is understandable. However, the company's assertion that in the absence of established disclosure standards in the decarbonisation plan, information that conflicts with the accounting standards adopted by the company risks breaching standards is highly convincing. Given the company has made efforts and disclosures on climate change issues and we considered the shareholder proposal as being overly prescriptive.
Improvement	
Future action	In June 2023, the company reviewed its capital plan to 2030 and provided detailed disclosure. While we acknowledge the improvement in information disclosure in response to our dialogue, we believe that further steps, such as disclosure on just transitions, are still necessary and will continue to encourage this in our dialogue.

Case study 12.5 – Voting rights

Company	JPMorgan Chase	Country: US
Activity		
Engagement	The company's climate change strategy is a key issue in the company's business strategy. As one of our Global 100 Climate Change Companies, we are in continuous dialogue with the company to address climate change issues.	
Outcome	In favour of shareholder proposal (Item9), against (Items 6 and 12). Item 9 voted 34.8% in favour, Item 6 voted 8% in favour, Item 12 voted 12.4% against.	
	In May 2023, the company received a shareholder proposals on climate change related to 1) the adoption of a policy to phase out underwriting and lending for new fossil fuel development (Item 6); 2) the publication of a transition plan report explaining how financing activities will be aligned with the 2030 sectoral GHG reduction targets (Item 9) and; 3) disclosure of 2030 absolute greenhouse gas reduction targets for the oil, gas and power sector lending and underwriting (Item 12). In our dialogue, the company noted sector coverage has been expanded based on the materiality of its portfolio and the maturity of the sector decarbonisation pathways. The six sectors covering the majority of global emissions, in line with the Net Zero Banking Alliance's policy. JP Morgan also noted that in agriculture and real estate, where transition pathways have not yet been established, it is difficult to set Scope 3 targets for the companies financed. The company also explained the reasons it has not incorporated reduction targets into the overall portfolio including regulatory considerations such as the US Anti-Trust Act and the fact that effective data is not yet available. Absolute-based targets will be disclosed by the end of 2023. However, the company believes it will be difficult for financial institutions to obtain SBTi accreditation, with the exception of some European banks. We expressed our view that further efforts, such as expanding to all sectors and obtaining science-based certification, as well as enhanced information disclosure, is necessary.	
Assessment	We voted in favour of the resolution related to Item 9. As shareholders, we should seek to improve the effectiveness of the transition strategy and comprehensive disclosure of information. The company has not clearly disclosed timelines and other information on its decarbonisation strategy, and we considered that additional information, including specific strategies and milestones, would be useful for shareholders. On the other hand, we voted against the resolution related to item 6. The elimination of lending and underwriting in certain sectors is a possible tool in accelerating the transition strategy. However, a proposal to identify individual strategies that impact on lending reluctance was deemed overly prescriptive. We also accepted that there are some hurdles to the reporting of absolute GHG reduction targets, such as the lack of an established definition for absolute basis in the area of underwriting and voted against the proposal related to Item 12.	

Case study 12.6 – Voting rights

Company	**Printing Company**	Country: Japan
Activity	Our voting guidelines state that we will oppose proposals for the election of directors for companies with excessive cross shareholdings, unless there are unique circumstances that merit an exception.	
Outcome	In favour of company proposals (exception criteria).	
	In March 2023, the company announced a target for the sale of cross shareholdings representing a substantial ¥220 billion over five years from FY2023 to FY2027, representing a reduction to less than 10% of net assets. As the reduction plan meets our criteria, we applied the exception and voted in favour of the proposal for the appointment of directors. We intend to closely monitor whether the company is in line with the divestment target.	

Case study 12.7 – Voting rights

Company	**Information technology**	Country: Japan
Activity	Our voting guidelines require us to oppose the appointment of responsible directors, i.e. those who have been in office for more than three years, for any company reporting an operating loss for three consecutive terms, unless an exception is warranted.	
Outcome	In favour of company proposals (exception criteria).	
	In this case, our engagement with the company identified a number of mitigating factors including (i) the company's earnings deficit was due to upfront investment costs to increase future corporate value, (ii) the user churn rate is low at 1.3%, and (iii) the company plans to be profitable in terms of EBITDA in FY11/2024. We plans to suspend the application of the exception criteria if it fails to achieve its initial company plan or if it fails to become profitable in terms of EBITDA in FY11/2024, as the exception criteria are expected to be applied for a period of more than three years.	

Case study index

Principle 9

– Signatories engage with issuers to maintain or enhance the value of assets.

Principle 10

– Signatories, where necessary, participate in collaborative engagement to influence issuers.

Principle 11

– Signatories, where necessary, escalate stewardship activities to influence issuers.

Principle 12

– Signatories actively exercise their rights and responsibilities.

SUMITOMO MITSUI
TRUST ASSET MANAGEMENT