

Environmental Disclosure in 2024 (Based on TCFD and TNFD)

November, 2024

Sumitomo Mitsui DS Asset Management (hereinafter "SMDAM") has been disclosing information based on the "Taskforce on Climate-Related Financial Disclosures (TCFD)" since 2021. In January 2024, we will also support the "Taskforce on Nature-related Financial Disclosures (TNFD)" and will progressively advance the disclosure of natural capital. Starting in 2024, we will integrate our previous "climate-related disclosures" with "natural capital disclosures" into a unified "Environmental Disclosure".

1 Environmental Policy

We are committed to promoting environmental initiatives such as addressing climate change and preserving natural capital.

Our Approach to the "Environment"

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

Our Materiality

In 2022, we published key management issues related to sustainability, termed "Our Materiality". Regarding environmental matters, we have identified "climate change" and "natural capital" as material issues in our asset management business, and "environmentally conscious business operations" as material issues for our corporate activities. We regularly review "Our Materiality" to reflect the needs and expectations of stakeholders.

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

Climate Change Policy

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

Natural Capital Policy

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

General Disclosure Requirements

	Climate Change	Natural Capital
Reporting Period	Initiatives from April 2023 to March 2024, as well as future plans. Disclosure data is based on our portfolio as of the end of March 2024.	
Reporting Organization	Sumitomo Mitsui DS Asset Management (Parent company only)	
Materiality Application	Single materiality. We will assess and disclose the risks and opportunities that climate change poses to our business and financial/non-financial aspects.	Double materiality. In addition to our dependence on natural capital, we assess and disclose both the risks and opportunities associated with our impact on natural capital.
Disclosure Scope (Assessment & Disclosure Targets)	GHG emissions from Scope 3, Category 15, will be assessed and disclosed. Specifically, we will evaluate and disclose the GHG emissions of our investee companies, as Category 15 of Scope 3 holds significant importance.	In accordance with the TNFD guidance for financial institutions, we will assess and disclose the impact of our investment activities and assets. For the time being, we plan to assess and disclose the direct impact related to investee companies, as data vendors currently do not provide sufficient data regarding respective supply chains. However, we recognize the importance of analyzing indirect impacts resulting from the entire supply chain and corporate activities, such as the procurement of raw materials, product use, and disposal. As data availability improves, we will consider expanding our disclosure to cover the entire supply chain.

Climate Change		Natural Capital
[Reference] Direct Impact as a Corporate Entity	Our direct GHG emissions are limited. For Scope 1+2, the 2023 fiscal year results amounted to 289 tCO ₂ e (approximately 0.01% of Scope 3, Category 15). This amount has been decreasing over time through the purchase of renewable energy certificates. For Scope 3, aside from Category 15, we measure emissions from Category 6 (GHG emissions from employee business travel) and Category 7 (GHG emissions from employee commuting), with a total of 1,249 tCO ₂ e recorded in the 2023 fiscal year. Both emission volumes remain minimal.	The direct impact related to natural capital is excluded from our assessment and disclosure. We consider the direct impact our business activities have on natural capital, such as water usage, energy consumption, and land use, to be of low significance. In the 2023 fiscal year, our electricity consumption totaled 1.27 million kWh. As for locations, we use leased offices, including our headquarters, where the risk of ecosystem destruction is minimal.

Climate Change		Natural Capital
Target Period	We disclose quantitative and qualitative information annually. We began disclosing information based on TCFD in 2021. We monitor progress toward our 2030 interim targets and 2050 net-zero targets over a long-term timeframe.	In 2024, we disclose information on policies, strategy and governance. In 2025, we will disclose information based on TNFD. The short-term, medium-term, and long-term timeframes for assessing risks and opportunities are as follows: Short-term (within 1 year): - We will create and organize sector-specific heat maps of natural capital dependence and impact. This will allow us to evaluate whether there is excessive dependence or a significant negative impact. - Furthermore, we will deepen our understanding of the risks and opportunities that these factors present. Medium-term (1-5 years): - We will enhance our analysis to avoid and mitigate nature-related risks. Based on the LEAP* approach, we will identify priority areas with high natural capital risks (e.g., water, ecosystems, biodiversity) and evaluate whether investee companies are exposed to risks related to the availability of natural capital through their supply chains, or if they are causing negative impacts. - We will respond promptly to immediate risks that require action, such as urgent risks of supply chain disruptions due to natural capital dependencies. - Additionally, we will analyze transition risks, including stricter regulations on natural capital and the conclusion of new international agreements. Long-term (more than 5 years): - We will work toward achieving "nature positive" goals by maintaining biodiversity and conserving ecosystems.

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

Climate Change		Natural Capital
Region	We have not yet disclosed the regions where investee companies emit GHGs or the regions impacted by those emissions. However, for transition risks and physical risks, we identify high-risk countries based on site data from investee companies.	For the direct operational sites of investee companies, we focus on geographic locations that have an interaction with nature as a key aspect of evaluating nature-related issues. We prioritize disclosing cases where we assess that the negative impact on natural capital is severe. Evaluating geographic impacts across the value chain remains a challenge for the future.
Stakeholder Engagement	We engage in dialogue and receive feedback from stakeholders interested in climate change disclosures, such as NGOs and other institutional investors.	In the evaluation of natural capital, we carry out the following two points: - Monitoring the status of direct engagement between investee companies and indigenous peoples or local communities. - Monitoring the risk of negative impacts on indigenous peoples or local communities related to natural capital, based on third-party evaluations such as natural capital assessments from CDP reporting or ESG data vendors' evaluations of natural capital related to investee companies. However, we are not currently able to engage directly with indigenous peoples or local communities.
Disclosure Integration	Starting this year, we will integrate "Climate Change Disclosure based on TCFD" with "Natural Capital Disclosure based on TNFD" into a comprehensive "Environmental Information Disclosure". By continuously and comprehensively disclosing information related to the environment, we will fulfill our social responsibility.	

2 Governance

We are strengthening our environmental governance.

Our Approach to Environmental Governance

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

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

Supervision and Advice by the Board of Directors

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

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

Strategic Execution by the Management Meeting

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

Role of the Sustainability Promotion Subcommittee

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

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

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

Introduction of Sustainability Compensation

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

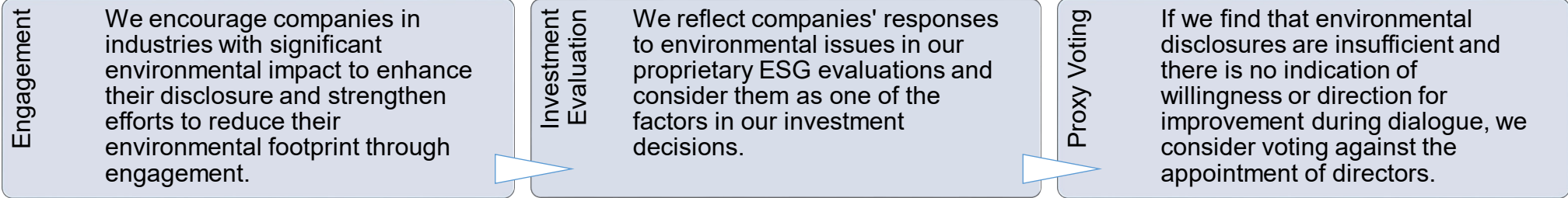
Human Rights Policy Contributing to Solving Environmental Issues

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

Human Rights Policy	● In 2021, we established our "Human Rights Policy" in line with international standards such as the "United Nations Guiding Principles on Business and Human Rights". ● Human rights violations are closely correlated with environmental pollution and destruction. We strive to ensure that the activities of our investee companies do not lead to environmental pollution or destruction, thereby infringing on basic human rights, such as the right to life. We pay particular attention to human rights violations within the value chains of investee companies.
Response in Asset Management Operations	● In our internal asset management, we consider human rights issues related to the environment as important non-financial information. If there are areas for improvement, we encourage appropriate actions through engagement. If we determine that a company's response to human rights is insufficient during engagement, we consider opposing the reappointment of the CEO during proxy voting. ● For key external asset management providers and other contractors, we require appropriate actions to prevent environmental-related human rights violations and fulfill our responsibilities through the implementation of human rights due diligence.
Consideration for Stakeholders	● We believe it is necessary to deepen cooperation with indigenous peoples and local communities and work together on environmental issues. Going forward, we will seek opportunities to collaborate with these communities and learn from their knowledge to achieve effective environmental conservation.

Environmental Execution in Asset Management Operations

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



Environmental Execution as an Operating Company

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

Plastic Pollution Prevention

- Signed the "Private Financial Sector Statement Calling for a Legally Binding Treaty on Plastic Pollution Prevention" (April 2024).

Social Contribution Activities

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

Internal Training Programs to Raise Environmental Awareness

- GHG Emission Reduction
- Reduction of food waste.
- Prevention of plastic pollution.

Paperless Initiatives

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

3 Climate Change Strategy

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

(1) Climate Change Risks and Opportunities

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

(2) Impact on Business

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

(3) Financial and Non-Financial Impacts

Financial Impacts	● As an operating company, we do not own production facilities that emit GHGs, and we do not foresee significant transition risks related to our operations. Additionally, since our business operations are conducted from relatively small offices located in major cities domestically and internationally, we do not anticipate major physical risks related to climate change. While the shift to renewable energy necessary to achieve net-zero emissions by 2030 may increase costs, we expect the financial impact to be minor. ● In our asset management business, we make efforts to ensure that the environmental performance of investee companies does not negatively impact our clients' trust assets.
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Non-Financial Impacts

- We aim to enhance the value of our non-financial assets, such as customer assets and brand equity, by earning the understanding and trust of our key stakeholders, including customers and society, through proactive environmental initiatives.

4 Strategy Related to Natural Capital

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

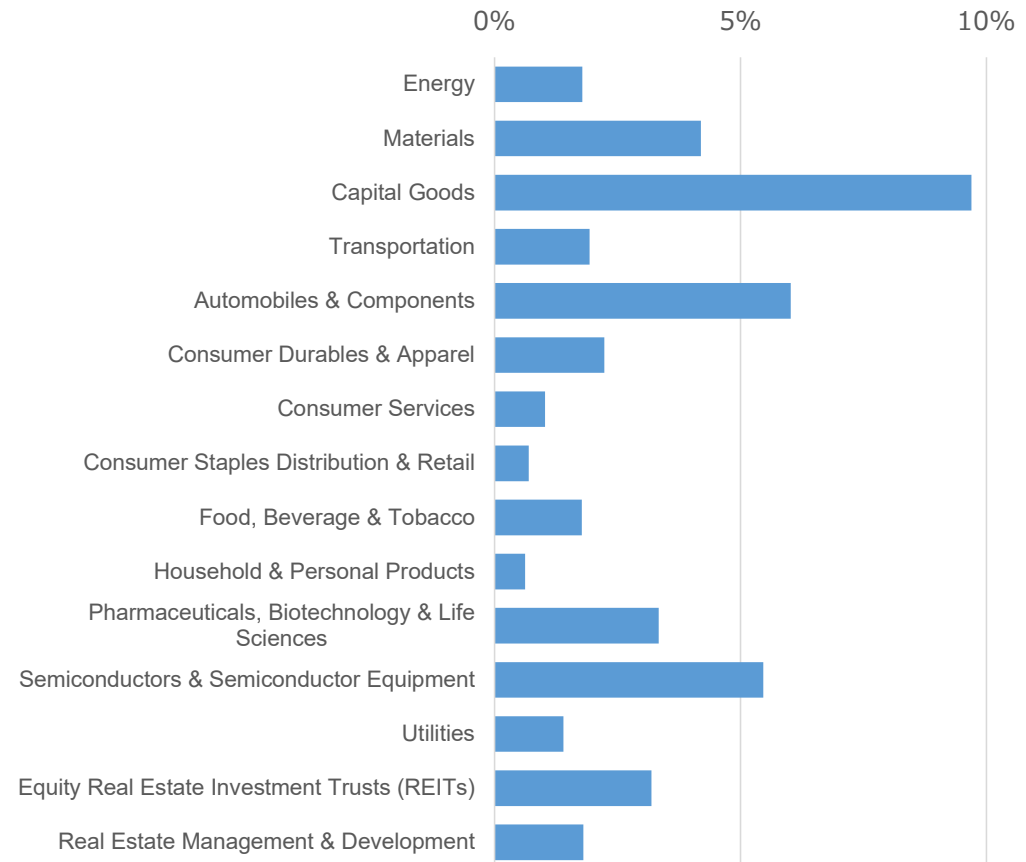
(1) Dependencies and Impacts of Natural Capital

In 2024, we analyzed the dependencies and impacts related to natural capital for our investee companies by sector, using ENCORE, a dataset on natural capital provided by UNEP Natural Capital Finance Alliance. The sector-specific heat map was created as follows:

- Calculated the maximum value of the [Dependency/Impact Score] for each GICS sub-sector category.
- Calculated the weighted average of the [Dependency/Impact Score] by GICS sector, based on the sub-sector weights for each category.

The sector weights are shown in the figure on the right. It should be noted that the GICS sub-sectors used in this analysis align with those defined under the "Exposure to Sectors" in the core disclosure indicators of the financial sector.

Exposure to Sectors



Heat Map of Our Portfolio's Dependence on Natural Capital

Low Dependency



High Dependency

	Surface water	Ground water	Genetic materials	Fibres and other materials	Animal-based energy	Maintain nursery habitats	Pollination	Soil quality	Ventilation	Water quality	Bio-remediation	Filtration	Dilution by atmosphere and ecosystems	Mediation of sensory impacts	Water flow maintenance	Climate regulation	Flood and storm protection	Buffering and attenuation of mass flows	Mass stabilisation and erosion control	Disease control	Pest control
Energy																					
Materials																					
Capital Goods																					
Transportation																					
Automobiles & Components																					
Consumer Durables & Apparel																					
Consumer Services																					
Consumer Staples Distribution & Retail																					
Food, Beverage & Tobacco																					
Household & Personal Products																					
Pharmaceuticals, Biotechnology & Life Sciences																					
Semiconductors & Semiconductor Equipment																					
Utilities																					
Equity Real Estate Investment Trusts (REITs)																					
Real Estate Management & Development																					

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Energy																					
Oil, Gas & Consumable Fuels																					
Materials																					
Chemicals																					
Metals & Mining																					
Construction Materials																					
Paper & Forest Products																					
Containers & Packaging																					
Capital Goods																					
Construction & Engineering																					
Transportation																					
Transportation Infrastructure																					
Marine Transportation																					
Air Freight & Logistics																					
Ground Transportation																					
Passenger Airlines																					
Automobiles & Components																					
Automobiles																					
Automobile Components																					
Consumer Durables & Apparel																					
Household Durables																					
Textiles, Apparel & Luxury Goods																					
Consumer Services																					
Hotels, Restaurants & Leisure																					
Consumer Staples Distribution & Retail																					
Consumer Staples Distribution & Retail																					
Food, Beverage & Tobacco																					
Tobacco																					
Beverages																					
Food Products																					

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

Weak Impact



Strong Impact

	Terrestrial ecosystem use	Freshwater ecosystem use	Marine ecosystem use	GHG emissions	Water use	Other resource use	Solid waste	Non-GHG air pollutants	Soil pollutants	Water pollutants	Disturbances	Biological interferences /alterations
Energy												
Materials												
Capital Goods												
Transportation												
Automobiles & Components												
Consumer Durables & Apparel												
Consumer Services												
Consumer Staples Distribution & Retail												
Food, Beverage & Tobacco												
Household & Personal Products												
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Semiconductors & Semiconductor Equipment												
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Oil, Gas & Consumable Fuels												
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Chemicals												
Metals & Mining												
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Tobacco												
Beverages												
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Specialized REITs												
Retail REITs												
Real Estate Management & Development												
Real Estate Management & Development												

(2) Risks and Opportunities Related to Natural Capital

(2-1) Sector-based Approach

We have identified the following sectors and sub-sectors as critical, based on heat maps indicating the importance of dependency on and impact on nature. The most important ecosystem service in terms of both dependency and impact was "water".

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

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

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

Dependencies / Impacts	Sub- Sector	Risks	Opportunities
[Dependencies] Surface water Ground water	● Automobiles ● Automobile Components ● Semiconductors & Semiconductor Equipment	● Surface water and groundwater are heavily used in processes like cooling in heat treatment facilities and parts cleaning. If a sufficient amount of high-quality water cannot be secured, there is a risk of reduced production, production halts, or disruptions to the supply chain. ● There are risks related to regulations on water use and reputational risks.	● Optimal use of water ● Development of technologies to reduce the use of ultrapure water ● Water source conservation through collective action, leading to strengthened relationships with stakeholders

[Impacts] Soil pollutants Water pollutants	● Pharmaceuticals	● If chemicals, solvents, or oils are discharged in excess of sewage treatment capacity, or if contamination occurs from hazardous chemicals or heavy metals (with PFAS being a major global concern), the cost of remediation could become enormous, potentially making it impossible to continue business operations.	● Advancement of water recycling technologies ● Introduction of environmentally friendly chemical synthesis methods ● Development of recycling infrastructure
[Impacts] GHG emissions	● Semiconductors & Semiconductor Equipment	● With the expansion of AI, electricity consumption is skyrocketing, and the limited capacity for power generation from renewable energy, which has lower GHG emissions, presents a risk of growth constraints. ● Increasing costs due to the rising use of fluorinated gases in manufacturing processes.	● Development of high-efficiency devices with low power consumption
[Impacts] Solid waste	● Automobiles ● Automobile Components ● Chemicals	● Waste issues such as pollution from the recycling of used EV batteries, the disposal of shredder dust, and marine plastic pollution pose a risk of losing consumer trust and brand damage, directly leading to exclusion from markets in environmentally conscious countries or regions.	● Establishment of waste collection routes ● Development of efficient waste processing technologies ● Development of low-cost alternative raw materials
[Impacts] Terrestrial ecosystem use Freshwater ecosystem use Marine ecosystem use	● Food Products ● Beverages	● The loss of biodiversity due to deforestation and pesticide use may lead to rising raw material costs. ● Environmental burdens from plastic packaging and waste could result in a loss of consumer trust, which may lead to brand exclusion and loss of competitiveness.	● Investment in new products ● New technologies (soy meat, alternative meat) ● Simplification of packaging

(2-2) Product-based Approach

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

Risk Factors	Description	Dependencies / Impacts on Natural Capital	Our Response
Fossil Fuels and Metals (Resource Development)	Fossil fuels and minerals themselves are capital provided by nature. The improper and wasteful use of these resources directly leads to the degradation of natural capital. Indirectly, the extraction of fossil fuels and minerals carries risks such as deforestation, river pollution, topsoil erosion, and soil contamination. There is a particularly critical need to pay attention to the risks that land acquisition for resource development and environmental pollution pose to the safety, health, and hygiene of indigenous peoples and local communities.	● Resource development has severe impacts on ecosystems, destroying the habitats of plants and animals and causing a loss of biodiversity. ● Water pollution and the depletion of groundwater have significant impacts on local communities and agriculture. ● Soil contamination could make agriculture impossible, affecting long-term food security. ● The extraction of fossil fuels directly emits GHGs into the atmosphere as associated gas, accelerating climate change. ● Major accidents at tailings dams or offshore oil fields could have devastating impacts on the natural environment and local communities.	● To mitigate risks, the following recommendations should be made to resource development companies: - Assess environmental impacts and take preventive measures. - Develop environmentally friendly technologies. - Comply with environmental laws and regulations. - Cooperate with indigenous peoples, local communities, and other stakeholders, and make transparent decisions. - Natural Capital Accounting: Companies should incorporate the value of natural capital into their economic activities and quantify their environmental impact.
Palm Oil	Palm oil is an inexpensive ingredient widely used in various foods such as chocolate, cakes, potato chips, instant noodles, and frozen foods, making the food industry overly dependent on it. Palm oil plantations are concentrated in Indonesia and Malaysia. Depending on supply and demand conditions, palm oil may be repurposed as biomass fuel, potentially leading to a shortage for food use.	● Human rights risks arise from child labor and land appropriation at palm oil production sites. ● The negative environmental impacts of increased palm oil production include: - large-scale deforestation of tropical rainforests - encroachment on the habitats of endangered species such as orangutans.	● For investee companies that have a high dependence on palm oil, the following recommendations can help reduce risks: - Manage and supervise the use of palm oil certified by the Roundtable on Sustainable Palm Oil (RSPO), an NGO aimed at sustainable palm oil production and use. - Pay attention to human rights issues related to raw materials.

Risk Factors	Description	Dependencies / Impacts on Natural Capital	Our Response
Alcohol	With approximately 700 million people facing hunger worldwide, the waste of valuable grains such as wheat, corn, and rice for alcohol production poses a significant threat to our sustainability. Moreover, alcohol is said to be more addictive than cannabis and is a global cause of diseases, violence, and accidents. As a result, sustainability investments have prioritized prohibiting investments in "tobacco, pornography, and alcohol".	● The production of alcoholic beverages requires a significant amount of water for cleaning manufacturing tanks and piping. This could have serious implications for water supply, especially in Africa. ● Deforestation aimed at increasing the production of grains for alcohol, particularly in the Amazon region, is often conducted illegally and exacerbates global warming.	● For investee companies that have a high dependence on alcoholic beverages, the following recommendations can help reduce risks: - Reduce water usage. - Improve energy efficiency in manufacturing. - Promote awareness of responsible drinking habits. - Expand the sales of non-alcoholic beverages.

(3) Impact on Business

Asset Management	● We will engage with investee companies based on the following perspectives, taking into account risks and opportunities related to natural capital: - Identify our own natural capital risks using the LEAP approach and demonstrate policies to avoid and mitigate these risks. - Make optimal decisions to materialize opportunities through the adoption of new technologies, accelerated research and development investments, and collaboration among companies. - Ensure appropriate disclosure of information regarding risks and opportunities related to natural capital.
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Product Development	● We will consider that "the benefits of biodiversity" and "economic benefits" can sometimes be in conflict when developing investment products. For instance, the following products may not be regarded as sustainable in the medium to long term: - Investment products that provide high economic benefits from land development while significantly destroying natural supply and regulatory services. - Investment products for projects with excessive environmental burdens, such as wind power that has a significant impact on birds and mega-solar projects that involve excessive deforestation. - Investment products involving resource extraction for renewable energy technologies that significantly infringe on the rights of indigenous peoples and local residents. ● We will pay careful attention to the appropriateness of investment product development and information disclosure to avoid negative impacts on all stakeholders, including nature and society.
Business Operations	● We recognize our dependence on nature and will avoid investment activities that negatively impact it as much as possible: - All human activities rely on the supply services of food and water provided by nature. - The business activities of investee companies depend on regulatory services such as flood control and pollution mitigation provided by nature. - The human capital of SMDAM and our investee companies can thrive and perform at their best thanks to the mental well-being provided by nature.

(4) Financial and Non-Financial Impacts

Financial Impacts	● As a business company, we believe that: 1) the direct operational risks related to nature are minimal, as it is almost impossible for us to have a base in the habitats of endangered species; 2) the impact of our business activities on nature is limited, and therefore, the effects of regulatory changes in various countries will be minor; additionally, the likelihood of being involved in environmental litigation as a defendant is extremely low, leading us to conclude that transition risks are limited. We will revise relevant parts of our regulations if we deem it appropriate in response to laws and regulations related to nature. ● In our asset management operations, we strive to ensure that the environmental performance of investee companies does not adversely affect our clients' trust assets. We will promote the resolution of issues related to natural capital through engagement with investee companies before excessive loss of revenue occurs. Furthermore, we will proactively respond to ensure that disclosure regulations in Europe and regulatory risks related to natural capital do not lead to the following operational constraints: - Loss of excess return opportunities due to overly restrictive investment constraints related to natural capital. - Loss of investment opportunities due to difficulty accessing information related to natural capital. - Decreased operational performance due to increased information costs.
Non-Financial Impacts	● We aim to enhance the value of non-financial assets, such as customer assets and brand assets, by fostering understanding and trust from important stakeholders, including customers and society, regarding our proactive environmental initiatives. ● We will also strive to avoid reputational risks related to natural capital.

5 Risk Management

We conduct appropriate evaluations and management regarding environmental risks.

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

We assess the climate change risks of investee companies using our unique ESG evaluation, assigning scores based on relative assessments

within the same sector. Additionally, climate change is one of our material issues, and we engage primarily with industries that have high GHG emissions and companies that have significant room for improvement in their ESG scores. In our major investment products, we measure climate change risks at the portfolio level, reviewing both the overall portfolio and the measurements of the investee companies included within it, which we utilize in our investment decision-making processes.

We also assess transition and physical risks for our entire portfolio using MSCI's analytical tool, CVaR.

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

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

To achieve carbon neutrality by 2050, we are committed to focusing on engagement that considers the interests of various stakeholders, including options like divestment, while promoting “Just Transition principles” and the SDGs’ commitment to “leave no one behind”.

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

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

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

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

Going forward, we aim to more explicitly incorporate “natural capital” as a materiality in our ESG score evaluation criteria in asset management operations.

Parameter	Data Coverage Rate	2022	2023
Proportion of Companies in Our Portfolio Operating in Regions Threatening Biodiversity	93%	4.3%	3.7%

(Source) Morningstar Sustainalytics

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

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

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

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

GBF Goal / Target		Our Response
Short term (2024~2025)	● Reporting on disclosures of risks, dependencies and impacts on biodiversity based on TNFD	We will actively engage with investee companies, focusing on priority sectors.
Middle term (2026~2030)	● Reduce pollution risks ● Minimize the impact of climate change ● Sustainable consumption and production ● Sustainable urbanization ● Contributions to biodiversity conservation and sustainable use	We will deepen our engagement with investee companies to reduce emissions of pesticides, chemicals, and plastics, promote climate change adaptation through ecosystems, and encourage sustainable production and consumption, thereby reducing impacts on biodiversity. We will also enhance our awareness of the importance of biodiversity.
Long term (2031~2050)	● Increase the level of financial resources to implement national biodiversity strategies and action plans	To ensure the conservation and sustainable use of biodiversity, we will play our role in enabling investee companies to effectively utilize the necessary funds and technologies.

6 Indicators and Targets

Since the impact of our asset management business is overwhelmingly greater compared to the impact by operating companies, we conduct analysis on our investment portfolio.

(1) Climate Change Indicators and Targets

We have disclosed our 2030 interim target based on our commitment to NZAMI (Net Zero Asset Managers Initiative), under the title “Setting an Interim Targets for 2030 Based on Commitment to the Net Zero Asset Managers Initiative”.

https://www.smd-am.co.jp/english/pressrelease/2023/NewsRelease_20230227_E.pdf

Item	Explanation	Notes
Scope	GHG emissions from the SMDAM portfolio	SMDAM portfolio consists of Japanese equities, global equities, Japanese fixed income, and global fixed income, managed in-house by SMDAM or externally-consigned
Indicator	Carbon footprint	Indicators such as weighted average carbon intensity are also monitored as reference indicators.
Target	Net zero emissions by 2050 Reduce by half compared with end-March 2021 by 2030	Reference date: March 31, 2021; 96tCO ₂ e/million USD Measurement date: March 31, 2024; 72tCO ₂ e/million USD (2030 target achievement rate=50%)
Scope	Investee companies' Scopes 1+2	We also monitor indicators including Scope 3 emissions at investees. We plan to consider setting targets for Scope 1-3 emissions at investees, based on the progress of data disclosure at investees.
Coverage	Equivalent to 65% of SMDAM AUM (end-March 2024)	If the scope of assets for which GHG emissions can be calculated under international standards grows, SMDAM will appropriately expand the scope of applicable AUM.

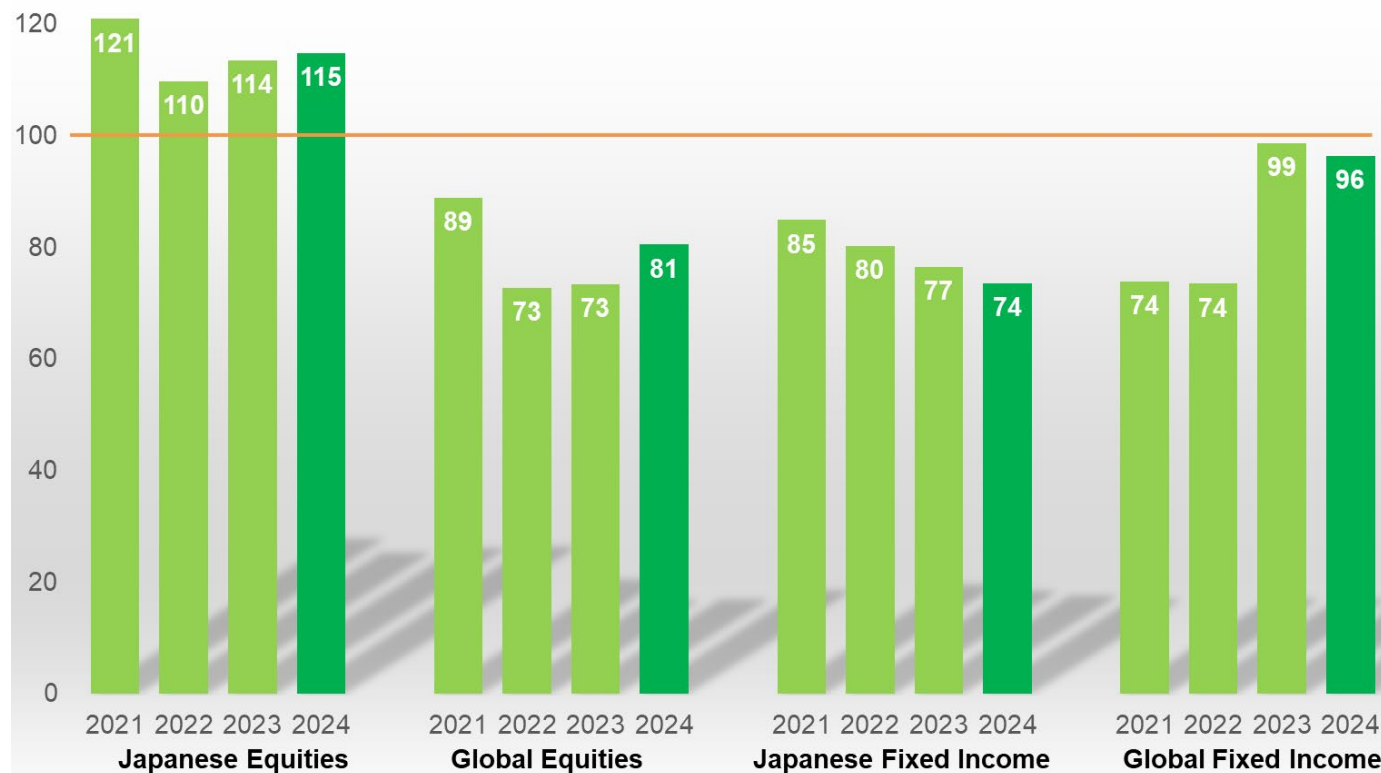
[Item Explanation Notes]

Item	Explanation	Notes
GHGs	Greenhouse gases	Carbon dioxide, methane, dinitrogen monoxide, specified fluorine compounds
Portfolio GHG emissions	Total GHG emissions linked to portfolio	$\Sigma [\text{GHG emissions of issuers} \times (\text{Value of issuer holdings}) \div \{(\text{Issuer market cap}) + (\text{Total issuer interest-bearing debt})\}]$
Carbon footprint	GHG emissions per million USD portfolio value under the TCFD recommendations	Portfolio GHG emissions $\div$ Portfolio value Carbon footprint for Japanese and global fixed income excludes government bonds, local government bonds, and government institution-related bonds.
Weighted average carbon intensity	Weighted average by holding weight of carbon intensity of each investee company	$\Sigma [(\{ \text{Issuer GHG emissions} \} \div \{ \text{Issuer net sales} \}) \times (\{ \text{Value of issuer holdings} \} \div \{ \text{Portfolio value} \})]$

(2) GHG Emissions of Our Portfolio

When comparing and analyzing the carbon footprint (Scope 1-3) by asset class against benchmarks, Japanese equities exceeded the benchmark, while global equities and Japanese fixed income fell below the benchmark. Japanese equities have a higher proportion of value stocks, with sectors such as automobiles and machinery, which have high GHG emissions, being overweight. Global equities, on the other hand, approached the benchmark due to an increase in the proportion of Indian stocks.

Comparison of Carbon Footprint by Asset Class in Our Portfolio (Scope 1-3, as of March each year) Against the Benchmark

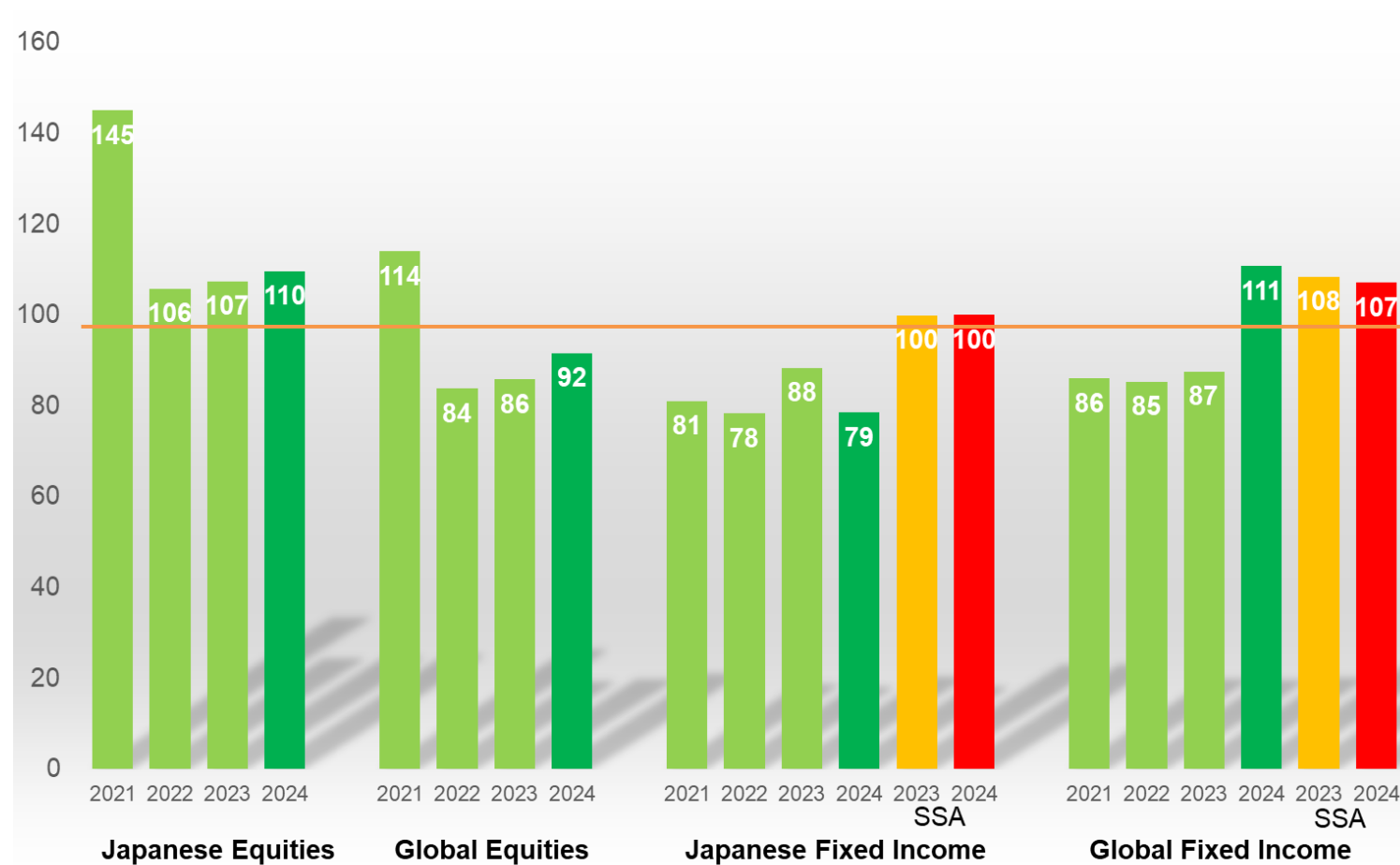


The benchmark for each year is set at 100

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

(Benchmark) TOPIX for Japanese equities, MSCI Kokusai for global equities, Nomura-BPI for Japanese fixed income, and Bloomberg Global Aggregate Ex-Japan for global fixed income

Comparison of Weighted Average Carbon Intensity by Asset Class in Our Portfolio (Scope 1-3, as of March each year) Against the Benchmark



The benchmark for each year is set at 100

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

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

(Benchmark) TOPIX for Japanese equities, MSCI Kokusai for global equities, Nomura-BPI for Japanese fixed income, and Bloomberg Global Aggregate Ex-Japan for global fixed income

(3) Analysis of Transition Risk and Physical Risk of Our Portfolio

We analyzed the transition and physical risks of our portfolio using the "CVaR" analysis tool provided by MSCI.

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

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

Potential Portfolio Value Damage by Temperature Increase Scenario / Asset Class (As of March 2024)

(%)											
Asset class		Companywide portfolio						Japanese Equities	Global Equities	Japanese Fixed Income	Global Fixed Income
Scenarios		1.5°C		2.0°C		3.0°C		1.5°C			
Transition Risks		-17.1	-3.8	-2.8	-24.9	-9.1	-15.8	-4.7			
	Policy Risk Scope 1	-6.4	-2.4	-2.2	-7.8	-4.7	-11.7	-2.9			
	Scope 2	-3.7	-0.5	-0.6	-6.1	-1.3	-2.2	-0.1			
	Scope 3	-11.4	-1.5	-0.6	-18.0	-5.0	-2.0	-1.8			
	Technology Opportunities	4.4	0.7	0.6	7.0	1.9	0.2	0.0			
Physical Risks (by cause)		-14.9	-14.9	-18.6	-23.3	-7.2	-8.0	-1.0			
	Extreme Heat	-8.1	-8.1	-10.4	-12.5	-4.4	-1.0	-0.3			
	Coastal Flooding	-6.3	-6.3	-8.2	-10.3	-2.5	-4.1	-0.4			
	Heavy Rain	-1.0	-1.0	-1.5	-1.6	-0.5	-0.1	-0.0			
	Typhoons	-0.5	-0.5	-1.4	-0.8	-0.2	-0.0	-0.0			

(Source) Prepared by Sumitomo Mitsui DS Asset Management based on MSCI data (Please refer to Disclaimer)
Revisions to past data related to technology opportunities by MSCI have been reflected.

The changes from last year's analysis are as follows (the figures represent the percentage of potential value creation or damage to the invested assets):

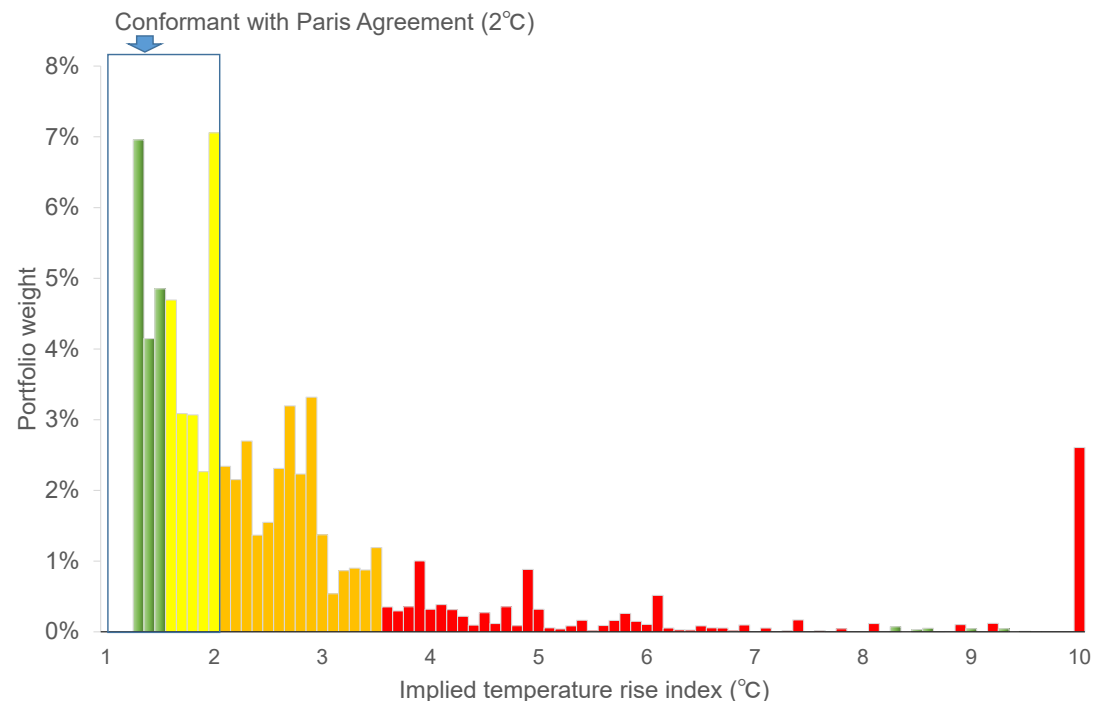
- Under the strictest scenario of limiting the temperature increase to 1.5°C by 2100 (1.5°C scenario), the portfolio damage risk increased only slightly compared to the previous year.
- Transition Risk Policy Risk: Under the 1.5°C scenario, Scope 3 (supply chain emissions) risk expanded to -11.4% (compared to -7.6% the previous year).
- Transition Risk Technological Opportunity: Under the 1.5°C scenario, the mitigation effect improved to +5.7% (compared to +2.0% the previous year).
- Physical Risk: Under the 1.5°C scenario, the impact of extreme heat (value damage) improved to -8.1% (compared to -9.1% the previous year).

(4) Analysis of Our Portfolio's Alignment with the Paris Agreement

The potential temperature increase indicator shows the projected climate change target, expressed in "°C", based on the GHG emission reduction targets committed to by the investee companies.

We found that 49% of our portfolio (compared to 64% last year) is likely to be aligned with the 2°C scenario of the Paris Agreement in the future. Meanwhile, the portion of investee companies that are not aligned at all with the Paris Agreement under current plans (indicated by the red bars) increased to 15% (compared to 10% last year). The worsening profile is due to the upward revision of the potential temperature increase indicator for major Japanese electronics and electrical transmission manufacturers. We will continue to engage with these investee companies to address climate change.

Distribution of implied temperature rise index (°C) (as of March 2024)



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

(5) Challenges in Addressing Climate Change Risks

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

Challenge	Description	Our Response
Ensuring the Effectiveness of Climate Risk Strategies and Governance	● We quantify physical and transition risks related to climate change. ● However, we do not believe that we have fully translated these into concrete management strategies or sufficiently monitored the progress of strategy execution.	● We believe it is necessary to formulate management strategies based on long-term discussions on sustainability at the Board of Directors level.
Lack and Quality of GHG Scope 3 Data	● We include GHG emissions (Scope 1-3) as benchmark measurement indicators for each major asset. ● However, while we set Scope 1+2 carbon footprint as a target under the NZAMI goals, we do not include Scope 3 as a target indicator. The reason is that many investee companies do not sufficiently disclose Scope 3 data, especially supply chain and regional data.	● We are supporting the establishment of consistent and reliable GHG data through proper monitoring of ESG data providers.

(6) Natural Capital Indicators and Targets

Governance and strategies (risks and opportunities) related to natural capital are reviewed periodically.

Regarding natural capital indicators and targets, we are working on a planned approach for disclosure in 2025.

The "sector exposure" of core disclosure indicators in the financial sector is shown in "4. Natural Capital-Related Strategy - (1) Dependence and Impact on Natural Capital" (P11).

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