

# Environmental Disclosure in 2026

## October 2026

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SMBC
SUMITOMO MITSUI DS
ASSET MANAGEMENT

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# Summary

## Governance



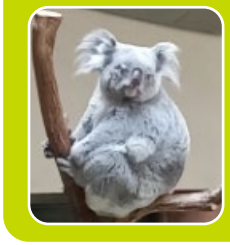

## Strategy

### Climate Change



- Maximize investment returns through proper management of climate-related risks and integration of sustainability factors.
- Focus on investments in decarbonization technologies to enhance asset management capabilities.

### Natural Capital



- Conduct engagement on natural capital to proactively prevent regulatory risks from constraining asset management.
- Prioritize biodiversity in product development.

## Risk Management

**Establishment of Monitoring Systems**
**Promotion of Engagement**

**Climate Change Risks**
Company-specific proprietary evaluation

Portfolio-wide measurement

**Natural Capital Risks**
Risk identification

Assessment using external data

**Human Rights Risks**
Human rights due diligence

Whistleblowing System

## Indicators and Targets

### Climate Change

- Reduce GHG emissions in the managed asset portfolio
- Use carbon footprint as the metric
- Target: Halve the carbon footprint by 2030 compared to 2020 levels

### Natural Capital

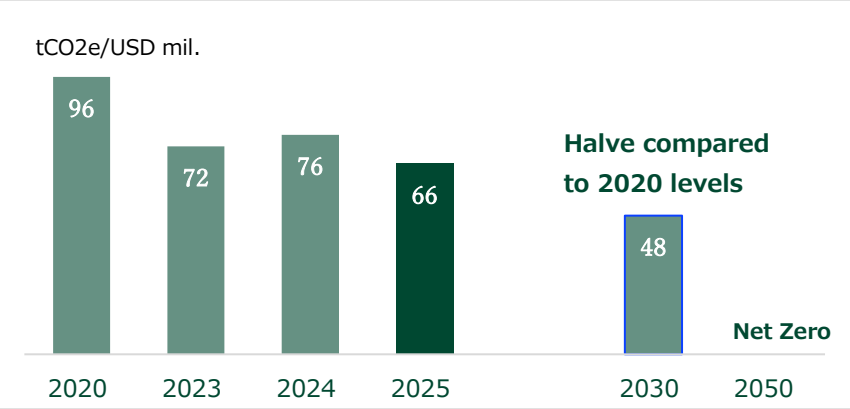
- Mitigate natural and biodiversity impacts of the managed asset portfolio
- Use PDF footprint as the metric
- Target: Increase the percentage of investee companies with policies on water resource management and deforestation prevention

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# Summary

## Climate Change

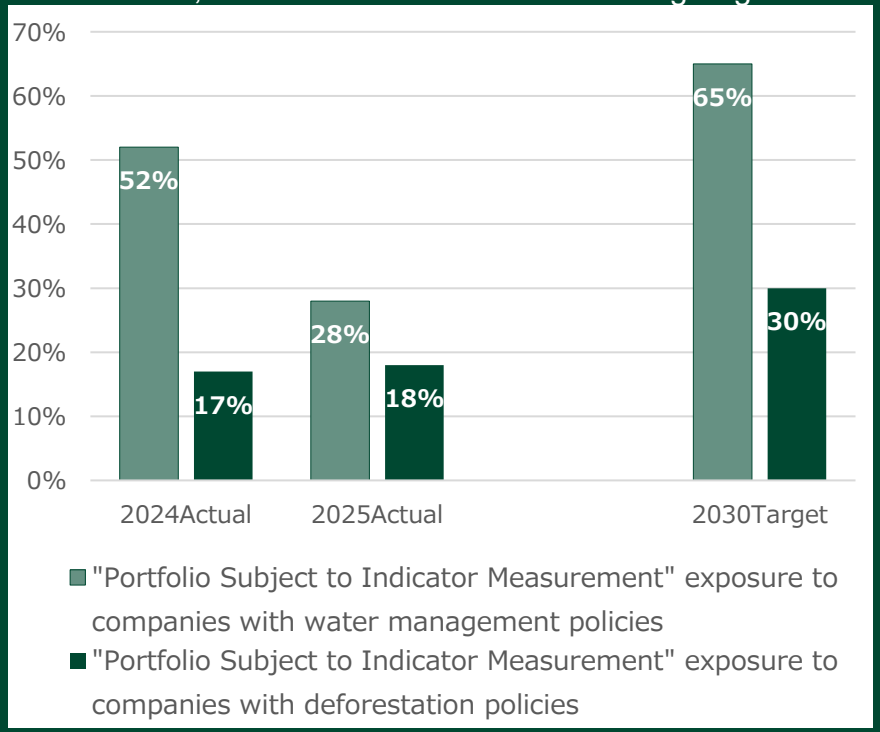
We have set portfolio GHG emissions (carbon footprint) per million dollars invested as a KPI. In addition to our long-term target for 2050, we have established an interim target for 2030 and disclose our progress.




| Item | Description | Supplementary Information |
|---|---|---|
| Target Assets | GHG emissions of assets under management (AUM) | Covers domestic and international equities and bonds managed in-house or outsourced to external managers. |
| Scope | Investees' Scope 1 & 2 | Indicators including investees' Scope 3 are also monitored. |
| Coverage | Equivalent to 71% of total AUM (As of December 2025) | To be increased in tandem with the expansion of asset classes for which GHG emissions can be calculated based on international standards. |

## Natural Capital

To improve the impact of our AUM on water resources and deforestation, we have established the following targets:




## Human Rights

We established a human rights remedy mechanism for a broad range of stakeholders, with zero reports received in 2025.

# 1. Environmental Policy

Sumitomo Mitsui DS Asset Management (hereinafter "SMDAM") has been disclosing information based on the “Taskforce on Climate-Related Financial Disclosures (TCFD)” since 2021. Starting in 2024, we have integrated our previous “climate-related disclosures” with “natural capital disclosures” into a unified "Environmental Disclosure".

We promote 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.

## 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)[1] emissions, thereby contributing to the realization of a sustainable society.

## Natural Capital Policy

In January 2024, we registered as one of the "Taskforce on Nature-related Financial Disclosures (TNFD) Adopters". 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.

[1] Greenhouse Gases (GHGs) are Carbon Dioxide, Methane, Dinitrogen Monoxide and Specified Fluorine Compounds.

# 1. Environmental Policy

## General Disclosure Requirements

| | Climate Change | Natural Capital |
|---|---|---|
| Reporting Organization | ● SMDAM parent company only | |
| Reporting Period | ● Initiatives from April 2025 to December 2025, as well as future plans<br>● Disclosure data is based on our portfolio as of the end of December 2025 | |
| Target Period | ● We are disclosing information based on TCFD from 2021.<br>● We monitor progress toward net-zero targets over a long-term timeframe. | ● The short-medium-term, and long-term timeframes for assessing risks and opportunities are as follows.<br>- **Short-Medium-term (1-5 years):** We will enhance our analysis to avoid and mitigate nature-related risks. Based on the LEAP[2] 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.<br>Additionally, we will analyze transition risks, including stricter regulations on natural capital and the conclusion of new international agreements.<br>- **Long-term (more than 5 years):** We will work toward achieving "nature positive" goals by maintaining biodiversity and conserving ecosystems. |

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

# 1. Environmental Policy

| | Climate Change | Natural Capital |
|---|---|---|
| Materiality Application | ● Single materiality.<br>- We will assess and disclose the risks and opportunities that climate change poses to our business and financial/non-financial aspects. | ● Double materiality.<br>- In addition to our dependence on natural capital, we assess and disclose both the risks and opportunities associated with our impact on natural capital. |
| Region | ● We have not yet disclosed the regions where investee companies emit GHGs, or the regions impacted by those emissions.<br>● 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.<br>● We prioritize disclosing cases where we assess that the negative impact on natural capital is severe. |
| Stakeholder Engagement | ● We engage in dialogue and receive feedback from stakeholders interested in climate change disclosures, such as NGOs and other institutional investors. | ● Monitoring the risk of negative impacts on indigenous peoples or local communities related to natural capital, based on third-party sustainability data vendors' evaluations of natural capital related to investee companies |

## Our Materiality

SMBC Group has identified "Green Planet," "Thriving People," and "Fulfilled Growth" as its materialities. As a frontrunner in social value creation, we will strive to realize a society filled with happiness and well-being.

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

# 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 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 by the Board of Directors

The Board of Directors supervises 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

The executive officer in charge oversees the following areas: the integration of environmental factors in asset management operations, environment-related stewardship activities, environmental reputational risk management for investment products, and our own environmental risks and opportunities.

## Role of the Sustainability Promotion Subcommittee

The Sustainability Promotion Subcommittee is composed of executive officers in charge of sustainability, 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:

# 2. Governance

- Analysis of risks and opportunities related to climate change and natural capital.
- 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.

## 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".<br>● 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.<br>● For 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. |

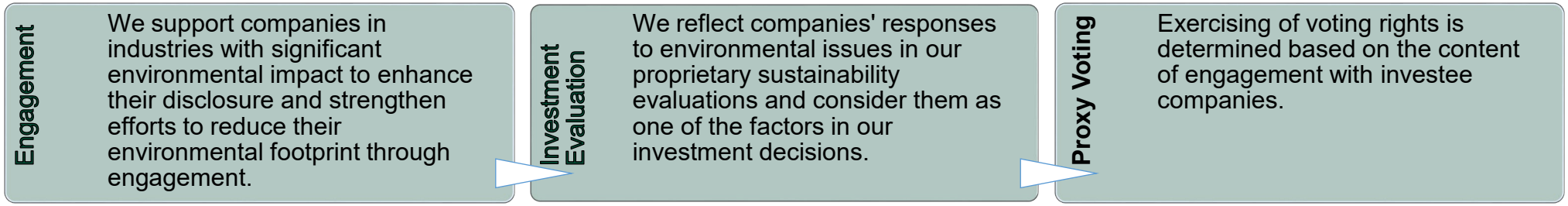
# 2. Governance

| | |
|---|---|
| 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.<br>● In July 2025, we began utilizing the "Engagement and Remedy Platform" operated and provided by the Japan Center for Engagement and Remedy on Business and Human Rights (JaCER), through Sumitomo Mitsui Financial Group. This initiative is aimed at addressing potential human rights violations by our officers and employees toward external business partners and other stakeholders. The platform serves as a comprehensive grievance mechanism to receive human rights-related complaints from a wide range of stakeholders, investigate the claims, consider appropriate response policies, and implement remedial measures through dialogue. |

The results of our annual human rights due diligence are disclosed on our website.
https://www.smd-am.co.jp/english/corporate/vision/fiduciary/02/

## 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.



# 2. Governance

## 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 Corporate Sustainability Department, which serves as the secretariat for the Sustainability Promotion Subcommittee, conducts the following practical initiatives.

**Social Contribution Activities**

- Awareness-raising through donation activities ("QOL Fund").
- Forest conservation activities in collaboration with NGOs.

**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.

# 3-1. Climate Change-related 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 | ● **Market and Investment Risk**: A decrease in assets under management and a decline in investment performance driven by global stock market downturns caused by climate change, or by delayed decarbonization efforts among investee companies.<br>● **Reputational Risk**: Loss of trust and credibility if the company's investment activities are deemed inadequate from an emissions-reduction perspective, or if its investment products are perceived as "greenwashing" (false or misleading environmental claims).<br>● **Regulatory and Cost Risk**: Increased compliance costs to meet stricter domestic and international disclosure regulations, as well as higher operational costs driven by the company's own procurement of renewable energy. |
| Opportunities | ● **Expansion of Investment Opportunities**: New investments in companies that possess innovative technologies driving decarbonization, or those transforming their business models to achieve sustainable growth.<br>● **Enhancement of Investment Capabilities**: Sharpening research and analysis skills for non-financial information to differentiate the company from competitors and improve relative investment performance.<br>● **Business Expansion**: Capturing investor demand by launching and managing investment products centered on climate change "mitigation" (solutions) and "adaptation." |

# 3-1. Climate Change-related Strategy

## (2) Impact on Business

| | |
|---|---|
| Asset Management | ● We are committed to further improving investment performance through qualitative and quantitative research and analysis on the impact of non-financial information on equity and fixed income prices.<br>● As a responsible institutional investor, we support the smooth transition to a decarbonized society and the commercialization of innovations that address climate change by engaging in dialogue with investee companies. |
| 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.<br>● 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 (SMDAM's 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. While the shift to renewable energy necessary to achieve net-zero emissions (SMDAM's Scope 1 & 2) by 2030 may increase costs, we expect the financial impact to be relatively minor.<br>● 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. |
| 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. |

# 3-2. Natural Capital-related Strategy

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

## (1) Interface with Nature Locate

The table shows sector-specific totals calculated by multiplying our investment ratio by the proportion of each investee company's assets or operations that are associated with nature and biodiversity risks, to indicate whether the companies in the assessed portfolio are linked to regions with high nature and biodiversity risks.

From the perspective of assets located in regions facing high water stress, sectors with higher risks include so-called heavy industries such as Materials, Automobiles, and Capital Goods.

In the Materials sector, a high proportion of operations were also found in business areas that have significant impacts on terrestrial and marine ecosystems.

Sectors with significant exposure to natural capital through assets and direct operations

| | Assets in geographies facing high water stress | Operations in business segments with high potential disturbances to land and marine areas | Operations located in geographies with highly fragile ecosystems |
|---|---|---|---|
| Materials | | | |
| Automobiles & Components | | | |
| Capital Goods | | | |
| Consumer Durables & Apparel | | | |
| Semiconductors & Semiconductor Equipment | | | |
| Utilities | | | |
| Consumer Services | | | |
| Pharmaceuticals, Biotechnology & Life Sciences | | | |
| Real Estate Management & Development | | | |
| Food, Beverage & Tobacco | | | |
| Equity Real Estate Investment Trusts (REITs) | | | |
| Household & Personal Products | | | |
| Transportation | | | |
| Consumer Staples Distribution & Retail | | | |

(Source) Prepared by SMDAM based on MSCI data (Please refer to Disclaimer)

## (2) Dependencies and Impacts of Natural Capital Evaluate

We analyzed the dependencies and impacts related to natural capital for the "Portfolio Subject to Indicator Measurement" by sector, using ENCORE, a dataset on natural capital provided by UNEP Natural Capital Finance Alliance.

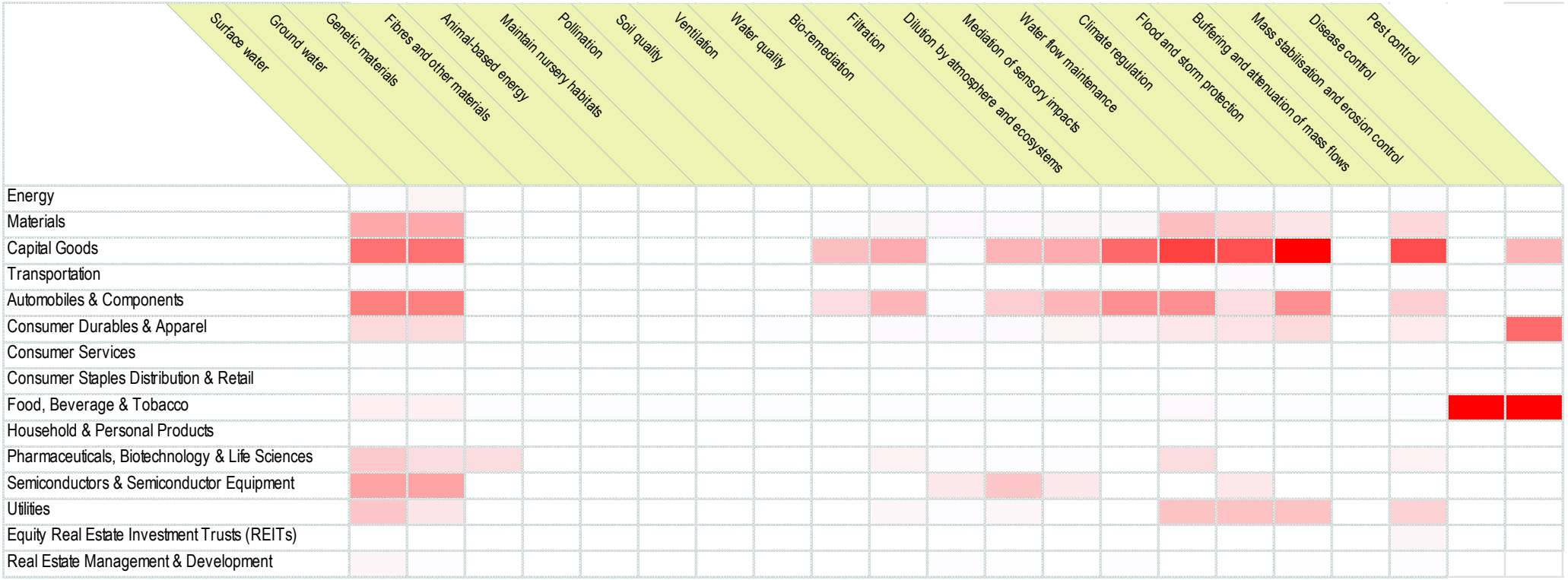
# 3-2. Natural Capital-related Strategy

The sector-specific heat map was created as follows:

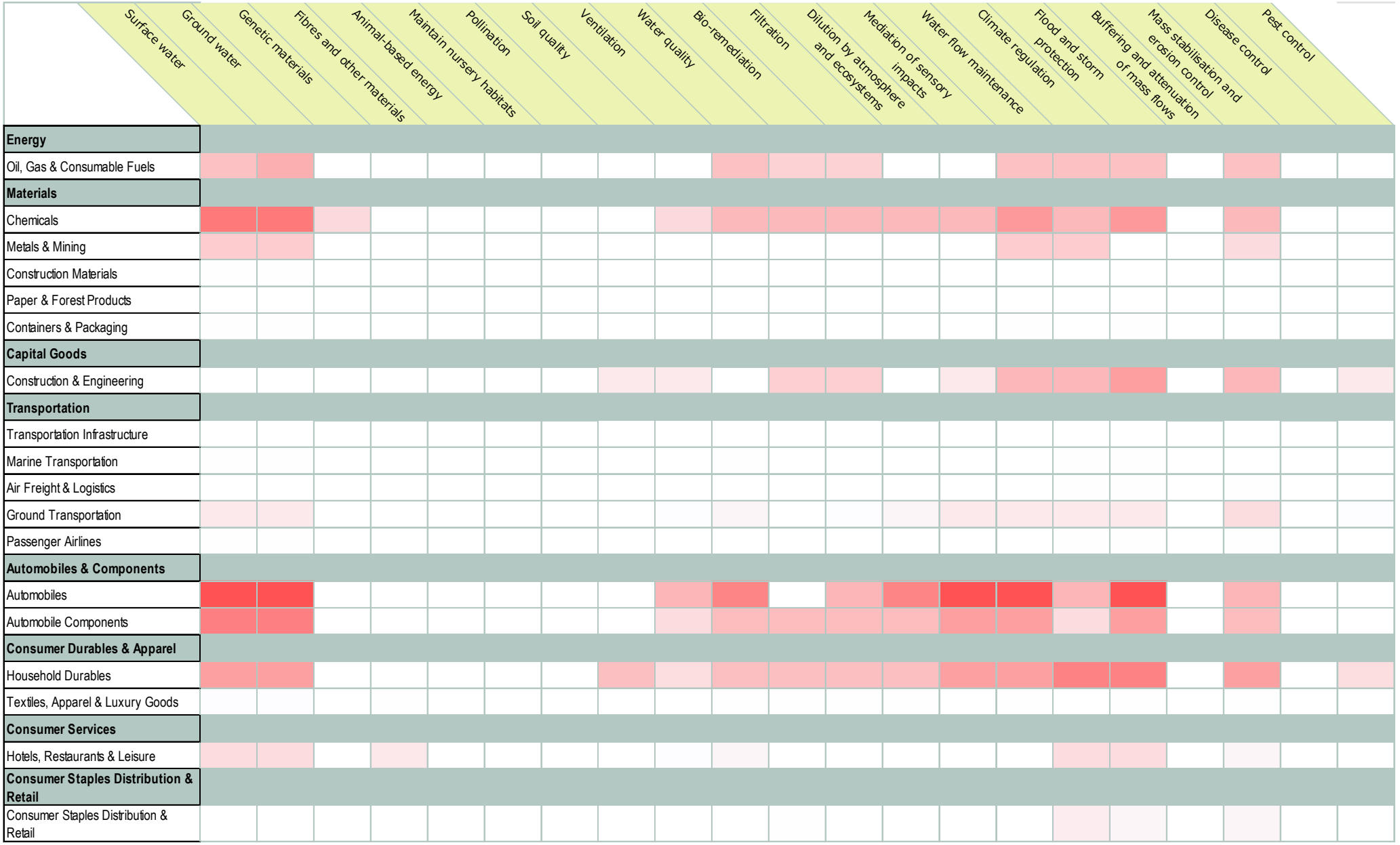
| | page | Calculation |
|---|---|---|
| GICS sub-sector | P13～14,16～17 | ● Calculated the maximum value of the [Dependency/Impact Score] for each GICS sub-sector category. => Value1 |
| GICS sector | P12,15 | ● Calculated the weighted average of Value1 by GICS sector, based on the sub-sector weights for each category. |

Heat Map of the “Portfolio Subject to Indicator Measurement”
Dependence on Natural Capital

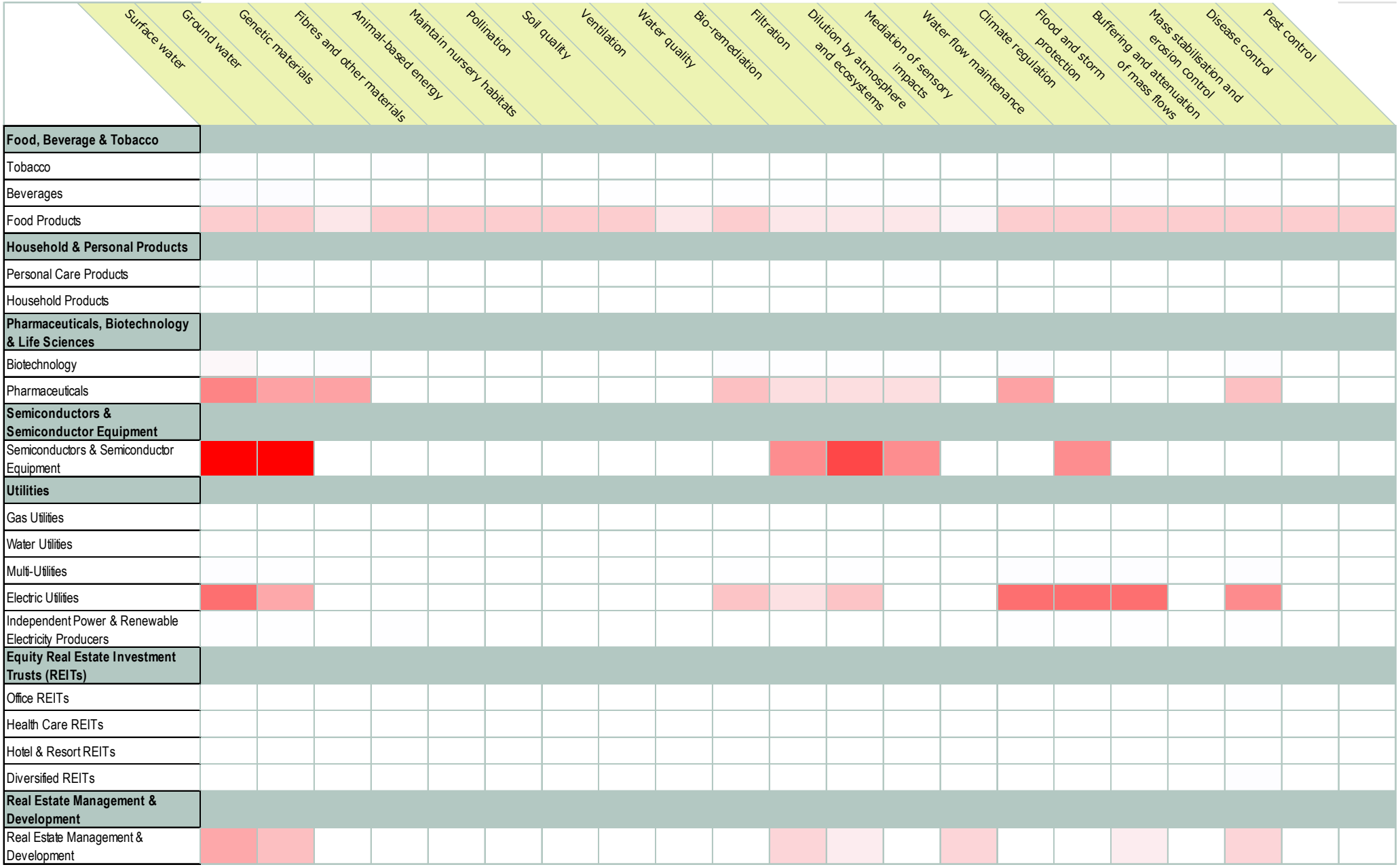
Low Dependency — High Dependency



# 3-2. Natural Capital-related Strategy



# 3-2. Natural Capital-related Strategy



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# 3-2. Natural Capital-related Strategy

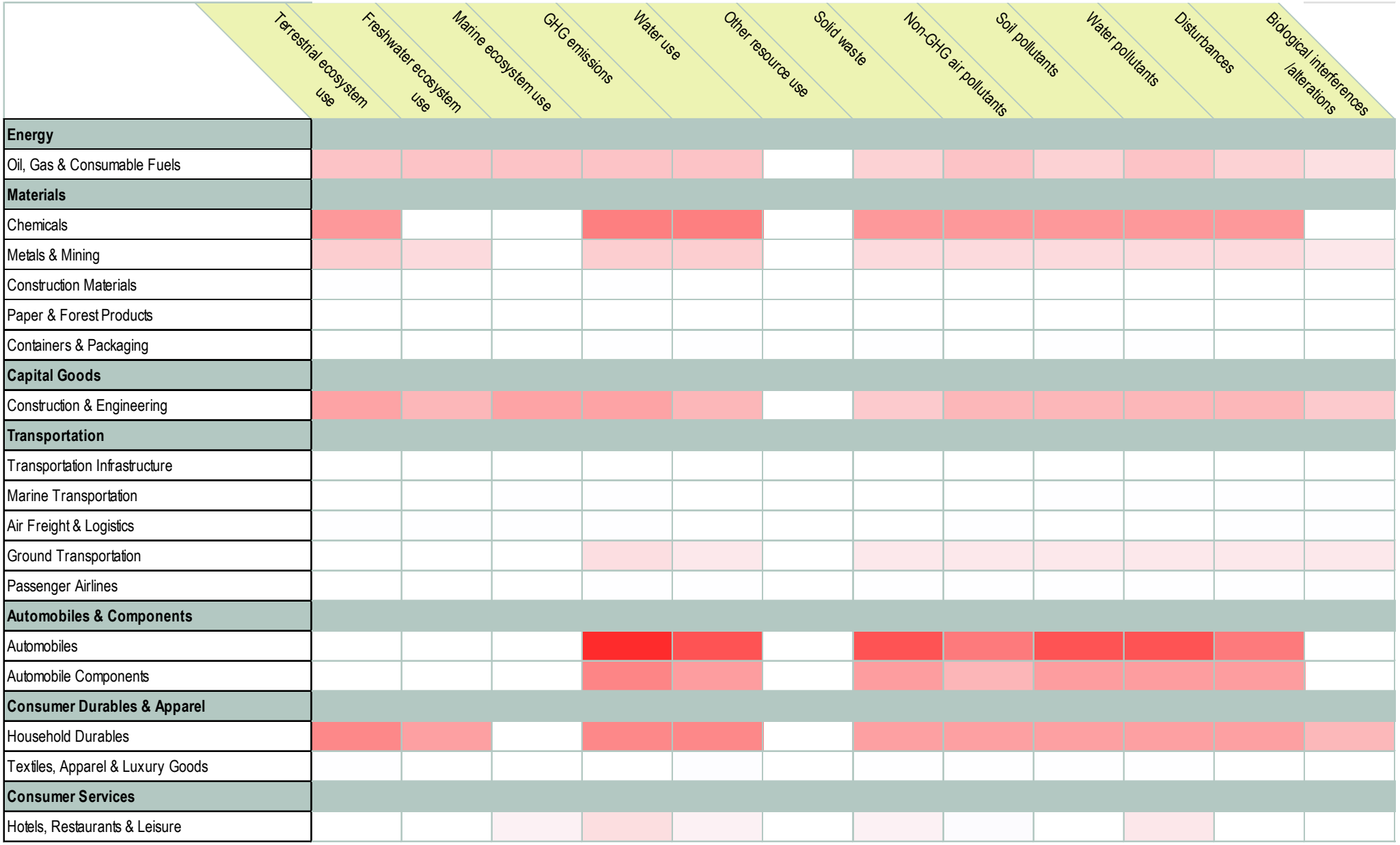
Heat Map of the “Portfolio Subject to Indicator Measurement”
Impact on Natural Capital

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 | | | | | | | | | | | | | |
| Pharmaceuticals, Biotechnology & Life Sciences | | | | | | | | | | | | | |
| Semiconductors & Semiconductor Equipment | | | | | | | | | | | | | |
| Utilities | | | | | | | | | | | | | |
| Equity Real Estate Investment Trusts (REITs) | | | | | | | | | | | | | |
| Real Estate Management & Development | | | | | | | | | | | | | |

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# 3-2. Natural Capital-related Strategy



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# 3-2. Natural Capital-related Strategy

## (3) Risks and Opportunities Related to Natural Capital

Assess

### (3-1) Sector-based Approach

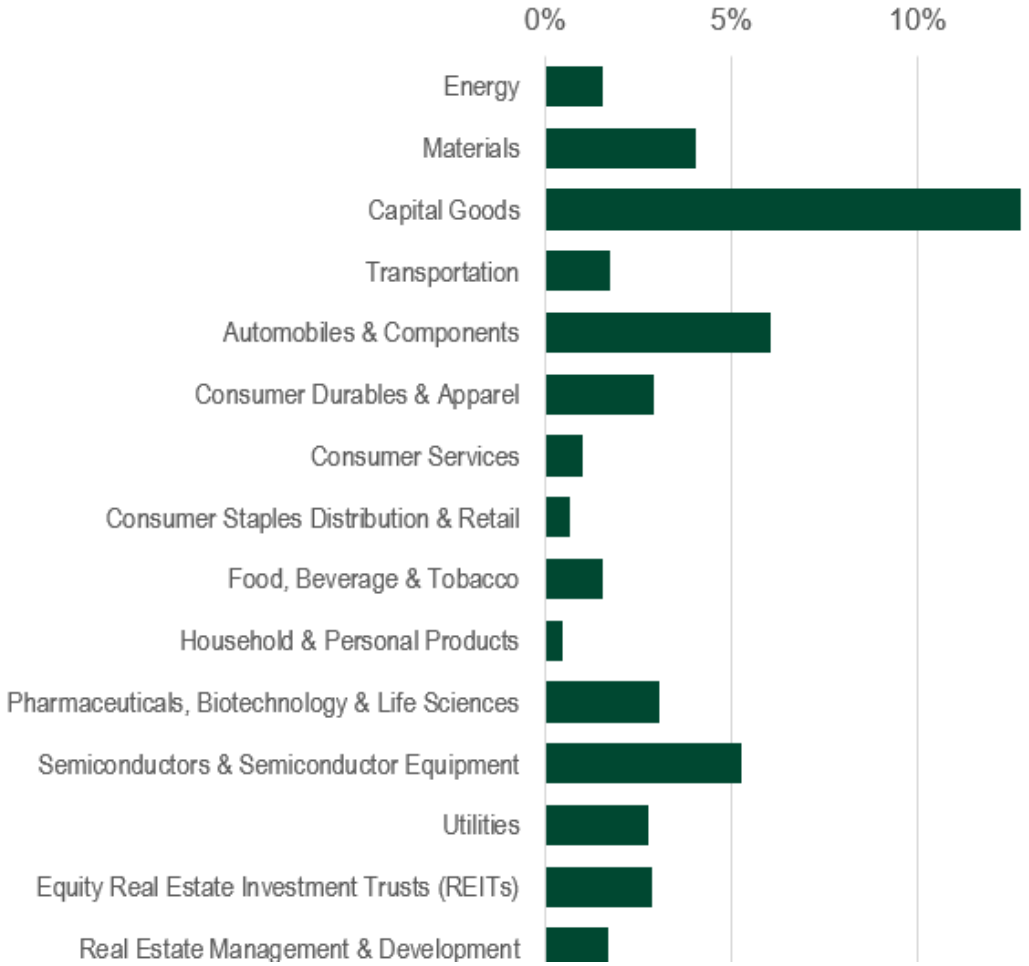
We have identified the following sectors and sub-sectors as critical, based on heat maps that indicate the importance of their dependency on, and impact on, nature.

Among all ecosystem services, “Water” emerged as the most significant in terms of both dependency and impact, specifically concerning dependency on surface water and groundwater, and the impact of water use and water pollutants.

Sectors demonstrating high dependency on and impact on water include “Materials,” Automobiles & Components, and Semiconductors” & “Semiconductor Equipment”. Additionally, “Food, Beverage & Tobacco” and “Pharmaceuticals, Biotechnology & Life Sciences” exhibit significant impacts on water.

The sector weights are shown in the figure on the right. It is important to note that the GICS sub-sectors used in this analysis are aligned with those defined under “Exposure to Sectors” in the core disclosure indicators for the financial sector.

Exposure to Sectors (as of the end of December 2025)




(Source) Prepared by SMDAM based on MSCI data (Please refer to Disclaimer)

# 3-2. Natural Capital-related Strategy

| Sector | Sub- Sector | Dependencies / Impacts | Description |
|---|---|---|---|
| Materials | Chemicals | **[ Dependencies ]**<br>- Surface water<br>- Ground water<br>**[ Impacts ]**<br>- Terrestrial ecosystem use<br>- GHG emissions<br>- 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.<br>● Wastewater from chemical plants may contain organic compounds, heavy metals, acidic or alkaline substances, and toxic chemicals, which can directly pollute water resources.<br>● Plastic waste presents a clear threat to ecosystems. Marine plastic, in particular, breaks down into microplastics, which have severe impacts on marine ecosystems. |
| Automobiles & Components | Automobiles & Components | **[ Dependencies ]**<br>- Surface water<br>- Ground water<br>- Water quality<br>- Mediation of sensory impacts<br>**[ Impacts ]**<br>- GHG emissions<br>- Water use<br>- Solid waste<br>- Soil pollutants<br>- Water pollutants | ● The processes of casting, forging, machining, heat treatment, surface treatment, and painting all rely on water resources.<br>● 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.<br>● 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. |

# 3-2. Natural Capital-related Strategy

| Sector | Sub- Sector | Dependencies / Impacts | Description |
|---|---|---|---|
| Food, Beverage & Tobacco | Food Products | **[ Impacts ]**<br>- Terrestrial ecosystem use<br>- Freshwater ecosystem use<br>- 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.<br>● Fertilizers cause eutrophication and chemical pollution of rivers and oceans, resulting in negative impacts on freshwater and marine ecosystems. |
| Semiconductors & Semiconductor Equipment | Semiconductors & Semiconductor Equipment | **[ Dependencies ]**<br>- Surface water<br>- Ground water<br>**[ Impacts ]**<br>- GHG emissions<br>- Water use<br>- Soil pollutants<br>- 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.<br>● 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.<br>● 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. |

# 3-2. Natural Capital-related Strategy

| Sector | Sub- Sector | Dependencies / Impacts | Description |
|---|---|---|---|
| Pharmaceuticals, Biotechnology & Life Sciences | Pharmaceuticals | **[ Impacts ]**<br>- Soil pollutants<br>- Water pollutants | ● There is a risk of water pollution from antibiotics and hormones, as well as soil contamination from waste. |

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 ]**<br>Surface water<br>Ground water | Automobiles<br>Semiconductors & Semiconductor Equipment | ● Operational shutdowns and supply chain disruptions due to water shortages in cooling and cleaning processes<br>● Stricter water-use regulations and reputational damage | ● Optimal use of water<br>● Development of technologies to reduce the use of ultrapure water<br>● Water source conservation through collective action, leading to strengthened relationships with stakeholders |
| **[ Impacts ]**<br>Soil pollutants<br>Water pollutants | Pharmaceuticals<br>Semiconductors & Semiconductor Equipment | ● Large-scale pollution caused by the discharge of hazardous substances (such as PFAS) and soaring remediation costs<br>● Impact on business continuity driven by tightening regulatory controls | ● Advancement of water recycling technologies<br>● Introduction of environmentally friendly chemical synthesis methods<br>● Development of recycling infrastructure |

# 3-2. Natural Capital-related Strategy

| Dependencies / Impacts | Sub- Sector | Risks | Opportunities |
|---|---|---|---|
| **[ Impacts ]**<br>GHG emissions | Semiconductors & Semiconductor Equipment | ● Growth impediments caused by rising electricity demand from AI expansion and energy constraints<br>● Increased costs in manufacturing processes (e.g., fluorinated gases) | ● Development of high-efficiency devices with low power consumption |
| **[ Impacts ]**<br>Solid waste | Automobiles<br>Chemicals | ● Environmental pollution caused by EV batteries and plastics<br>● Brand erosion and exclusion from specific markets | ● Establishment of waste collection routes<br>● Development of low-cost alternative raw materials |
| **[ Impacts ]**<br>Terrestrial ecosystem use<br>Freshwater ecosystem use<br>Marine ecosystem use | Food Products<br>Beverages | ● Rising raw material costs driven by biodiversity loss from deforestation and pesticide use<br>● Risk of losing consumer trust due to the environmental impact of plastic packaging and waste, leading to brand exclusion and loss of competitiveness | ● New technologies (soy meat, alternative meat)<br>● Simplification of packaging |

# 3-2. Natural Capital-related Strategy

## (3-2) 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.<br>● Indirectly, the extraction of fossil fuels and minerals carries risks such as deforestation, river pollution, topsoil erosion, and soil contamination.<br>● 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.<br>● Water pollution and the depletion of groundwater have significant impacts on local communities and agriculture.<br>● Soil contamination could make agriculture impossible, affecting long-term food security.<br>● The extraction of fossil fuels directly emits GHGs into the atmosphere as associated gas, accelerating climate change.<br>● 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:<br>- Assess environmental impacts and take preventive measures.<br>- Develop environmentally friendly technologies.<br>- Comply with environmental laws and regulations.<br>- Cooperate with indigenous peoples, local communities, and other stakeholders, and make transparent decisions.<br>- Natural Capital Accounting: Companies should incorporate the value of natural capital into their economic activities and quantify their environmental impact. |

# 3-2. Natural Capital-related Strategy

| Risk Factors | Description | Dependencies / Impacts on Natural Capital | Our Response |
|---|---|---|---|
| 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.<br>● The negative environmental impacts of increased palm oil production include:<br>- large-scale deforestation of tropical rainforests<br>- 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:<br>- 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.<br>- Pay attention to human rights issues related to raw materials. |
| Alcohol | ● With approximately 700 million people facing starvation 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.<br>● 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:<br>- Reduce water usage.<br>- Improve energy efficiency in manufacturing.<br>- Promote awareness of responsible drinking habits.<br>- Expand the sales of non-alcoholic beverages. |

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# 3-2. Natural Capital-related Strategy

## (4) Impact on Business Prepare

We are committed to business operations founded on the following three pillars, striving to achieve both natural capital conservation and economic profitability.

| | |
|---|---|
| Asset Management | ● In our asset management operations, we strive to ensure that the environmental performance of investee companies does not adversely affect our clients' trust assets.<br>● Decreased operational performance due to increased information costs. We will engage with investee companies based on the following perspectives, taking into account risks and opportunities related to natural capital:<br>- Identify our own natural capital risks using the LEAP approach and demonstrate policies to avoid and mitigate these risks.<br>- Make optimal decisions to materialize opportunities through the adoption of new technologies, accelerated research and development investments, and collaboration among companies.<br>- Ensure appropriate disclosure of information regarding risks and opportunities related to natural capital.<br>● 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:<br>- Loss of excess return opportunities due to overly restrictive investment constraints related to natural capital.<br>- Loss of investment opportunities due to difficulty accessing information related to natural capital. |

# 3-2. Natural Capital-related Strategy

| | |
|---|---|
| Product Development | ● We will consider that "the benefits of biodiversity" and "economic benefits" can sometimes be in conflict when developing investment products.<br>● For instance, the following products may not be regarded as sustainable in the medium to long term.<br>- Investment products that provide high economic benefits from land development while significantly destroying natural supply and regulatory services.<br>- 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.<br>- Investment products involving resource extraction for renewable energy technologies that significantly infringe on the rights of indigenous peoples and local residents.<br>● 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 activities that negatively impact it as much as possible.<br>- All human activities rely on the supply services of food and water provided by nature.<br>- 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.<br>● The business activities of investee companies depend on regulatory services such as flood control and pollution mitigation provided by nature. |

# 3-2. Natural Capital-related Strategy

## (5) Financial and Non-Financial Impacts Prepare

| | |
|---|---|
| Financial Impacts | ● As a business company, we believe that nature related transition risks are limited.<br>- Mitigation of Direct Operational Risks: Our business sites are not located in sensitive areas, such as habitats of endangered species. Therefore, we assess that the direct negative impact of our business activities on nature is extremely minimal.<br>- Adaptation to Regulatory Changes: Because the impact of our operations on nature is limited, the financial implications of tightening environmental regulations across various countries will be negligible.<br>- Suppression of Litigation and Compensation Risks: The legal risks of our company becoming a defendant in cases involving environmental pollution or destruction are low, ensuring stable business continuity. |
| Non-Financial Impacts | ● Building Trust and Enhancing Brand Value: Proactive initiatives toward natural capital serve as a vital means to deepen relationships of trust with our customers and society.<br>- Maximizing Brand Assets: We aim to enhance our brand strength by accurately communicating our stance on environmental issues to stakeholders and gaining their understanding.<br>- Avoiding Reputational Risks: To prevent erosion of our corporate image due to complicity in or lack of consideration for environmental destruction, we will ensure rigorous risk management.<br>- Ensuring Strict Compliance: We closely monitor domestic and international laws and regulations regarding natural capital to maintain our internal controls at a high standard. |

# 4. Risk Management

We conduct appropriate evaluations and management regarding environmental risks.

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

We conduct multi-faceted evaluations of both individual investee companies and our portfolio as a whole.

- Company-Specific Proprietary Evaluation: We utilize our proprietary sustainability assessment to perform relative evaluations within the same sector.
- Portfolio-Level Measurement: For our core products, we measure the climate change risks of the entire portfolio, utilizing the results as a critical factor in our investment decision-making process.

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

When climate change risk metrics are integrated into the investment guidelines of specific investment products, they are managed strictly.

- Monitoring Structure: The investment department conducts autonomous risk management based on the metrics established in the investment guidelines. Operating from an independent standpoint, the Risk Management Department monitors compliance. If risk metrics approach or breach pre-determined thresholds, they will promptly require the investment department to take corrective action.
- Consideration for a "Just Transition": In transitioning toward a decarbonized society, we promote engagement that considers the interests of diverse stakeholders, guided by the philosophy of "leaving no one behind."

## (3) Assessment of Natural Capital Risks in Asset Management Operations

Beginning in 2025, we will leverage the TNFD (Taskforce on Nature-related Financial Disclosures) framework to conduct annual reporting through the following processes:

- Risk Identification and Metric Development: We identify high-risk companies across the entire supply chain by taking into account sector-specific nature-related "dependencies and impacts" as well as geographical locations. We then define clear monitoring metrics to ensure thorough risk management.

# 4. Risk Management

- Objective Evaluation Using External Data: Utilizing data from Morningstar Sustainalytics, we conduct analyses based on the following indicators. This non-financial information serves as foundational data for our investee selection process:

  - Principal Adverse Impacts (PAI): Identifying the percentage of companies operating in biodiversity-sensitive areas that have significant adverse impacts on the environment or society.
  - Product Involvement: Identifying companies involved in environment-related prohibitions or controversies.

| Parameter | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|
| "Portfolio Subject to Indicator Measurement" exposure to companies operating in regions threatening biodiversity | 4.3% | 3.7% | 3.4% | **2.5%** |
| "Portfolio Subject to Indicator Measurement" exposure to companies whose operations affect threatened species or without a biodiversity protection policy covering operational sites owned, leased, managed in, or adjacent to, a protected area or an area of high biodiversity value outside protected areas | 3.6% | 2.2% | 2.0% | **1.7%** |
| "Portfolio Subject to Indicator Measurement" exposure to companies with **carbon emission reduction initiatives** | 54% | 61% | 61% | **69%** |
| "Portfolio Subject to Indicator Measurement" exposure to companies with **water management policies**[3] | 85% | 85% | 52% | **28%** |
| "Portfolio Subject to Indicator Measurement" exposure to companies with **deforestation policies** | 34% | 19% | 17% | **18%** |

(Source) Morningstar Sustainalytics

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

Natural capital is the foundation of all economic activity. Once perceived as "infinite," natural capital is now being consumed by human economic activities at a rate faster than it can replenish.

[3] The stricter adaptation standards have reclassified many Japanese and global tech companies from "compliant" to "non-compliant," resulting in a decline in their performance metrics over time.

# 4. Risk Management

- Driving Engagement: Companies that exert a significant negative impact on the natural environment face substantial risks of future value destruction through regulatory penalties and the erosion of brand value. Believing that reducing the burden on natural capital directly links to corporate sustainability, we will drive active engagement with investee companies, focusing on priority sectors.
- Alignment with the Kunming-Montreal Global Biodiversity Framework (GBF): With our sights set on the goals of the GBF, we, as an investment management company, will implement concrete measures to address risks and opportunities within the following timeframes.

| Term | Our Goals and Targets Based on the GBF Goal / Target | Our Response |
|---|---|---|
| Middle term (2026~2030) | ● Reduce pollution risks<br>● Minimize the impact of climate change<br>● Sustainable consumption and production<br>● Sustainable urbanization<br>● Contributions to biodiversity conservation and sustainable use | ● We will actively engage with investee companies, focusing on priority sectors.<br>● 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.<br>● 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. |

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# 5. Indicators and Targets

We conduct analysis on the "Portfolio Subject to Indicator Measurement".
We employ GHG emissions per million USD portfolio value (Carbon footprint) as an indicator and assist our investee companies in working toward a net-zero society.

| | Climate Change | Natural Capital |
|---|---|---|
| Disclosure data | ● Disclosure data is based on our portfolio as of the end of December 2025 | |
| Assets Under Management (AUM) | ● As of the end of December 2025, the total assets under management entrusted to our company amounted to 71 billion USD in investment management and 106 billion USD in investment trusts (both on a market value basis, rounded to the nearest unit). | |
| Assessment & Disclosure Targets | ● The GHG emissions for SMDAM's Scope 3, Category 15, will be assessed and disclosed. Specifically, we will evaluate and disclose the GHG emissions of our investee companies within the assets under our management, as Category 15 of Scope 3 holds significant importance.<br>● The GHG emissions we directly generate are limited. For FY2025, our Scope 1 & 2 emissions were only 303tCO2e, which is less than 0.01% of Category 15 under Scope 3 | ● In accordance with the TNFD guidance for financial institutions, we will assess and disclose the impact of our investment activities and assets.<br>● We recognize the importance of analyzing indirect dependencies and 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. |

# 5. Indicators and Targets

| | Climate Change | Natural Capital |
|---|---|---|
| Portfolio Subject to Indicator Measurement | ● We define the “Portfolio Subject to Indicator Measurement” as the portion of our AUM invested in Japanese equities, global equities, Japanese fixed incomes, and global fixed incomes, which are either managed internally or externally and for which metric measurement of investee companies is possible.<br>● 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.<br>● As of the end of December 2025, this portfolio represents approximately 71% of our total AUM. | |
| Benchmark | ● TOPIX for Japanese equities<br>● MSCI Kokusai for global equities<br>● Nomura-BPI for Japanese fixed income<br>● Bloomberg Global Aggregate Ex-Japan for global fixed income | |

# 5-1. Climate Change-related Indicators and Targets

## (1) Climate Change Indicators and Targets

We employ GHG emissions per million USD portfolio value (Carbon footprint) as an indicator and assist our investee companies in working toward a net-zero society.

| Item | Description | Supplementary Notes |
|---|---|---|
| Indicator | ● Carbon Footprint | ● Indicators such as weighted average carbon intensity are also monitored as reference indicators. |
| Investee companies' Scope | ● Investee companies' Scope 1-3 | ● We plan to consider setting targets for investee companies' Scope 1-3 emissions at investees, based on the progress of data disclosure at investees. |
| Target | ● Net zero emissions in terms of Investee companies' Scope 1 & 2<br>● We had set GHG reduction target independently, referring to international standards. | ● The Carbon Footprint (Investee companies' Scope 1 & 2 emissions) of the "Portfolio Subject to Indicator Measurement" is as follows:<br>● As of March 2021; 96tCO2e per million USD<br>● As of December 2025; 66tCO2e per million USD (63% of 2030 Goal Attained) |
| Climate Data Coverage | ● Market capitalization with available climate change data accounted for 81% of the "Portfolio Subject to Indicator Measurement" (As of December 2025) | |

# 5-1. Climate Change-related Indicators and Targets

| Item | Definition | Notes |
|---|---|---|
| Portfolio GHG emissions | $\sum\left[(\text{GHG emissions of issuers}) \times \frac{(\text{Value of issuer holdings})}{(\text{Issuer market cap}) + (\text{Issuer interest bearing debt})}\right]$ | ● Total GHG emissions linked to portfolio |
| Carbon Footprint | $\frac{(\text{Portfolio GHG emissions})}{(\text{AUM})}$ | ● AUM is adjusted by data coverage |
| Weighted Average Carbon Intensity | $\sum\left[\frac{(\text{GHG emissions of issuers})}{(\text{Issuer net sales})} \times \frac{(\text{Value of issuer holdings})}{(\text{AUM})}\right]$ | ● Weighted average by holding weight of carbon intensity of each investee company |

## (2) GHG Emissions of Our Portfolio

The **Carbon Footprint** (Investee companies' Scope 1-3) of the "Portfolio Subject to Indicator Measurement", when analyzed by asset class against its respective benchmark, shows that the following trends have become clear.

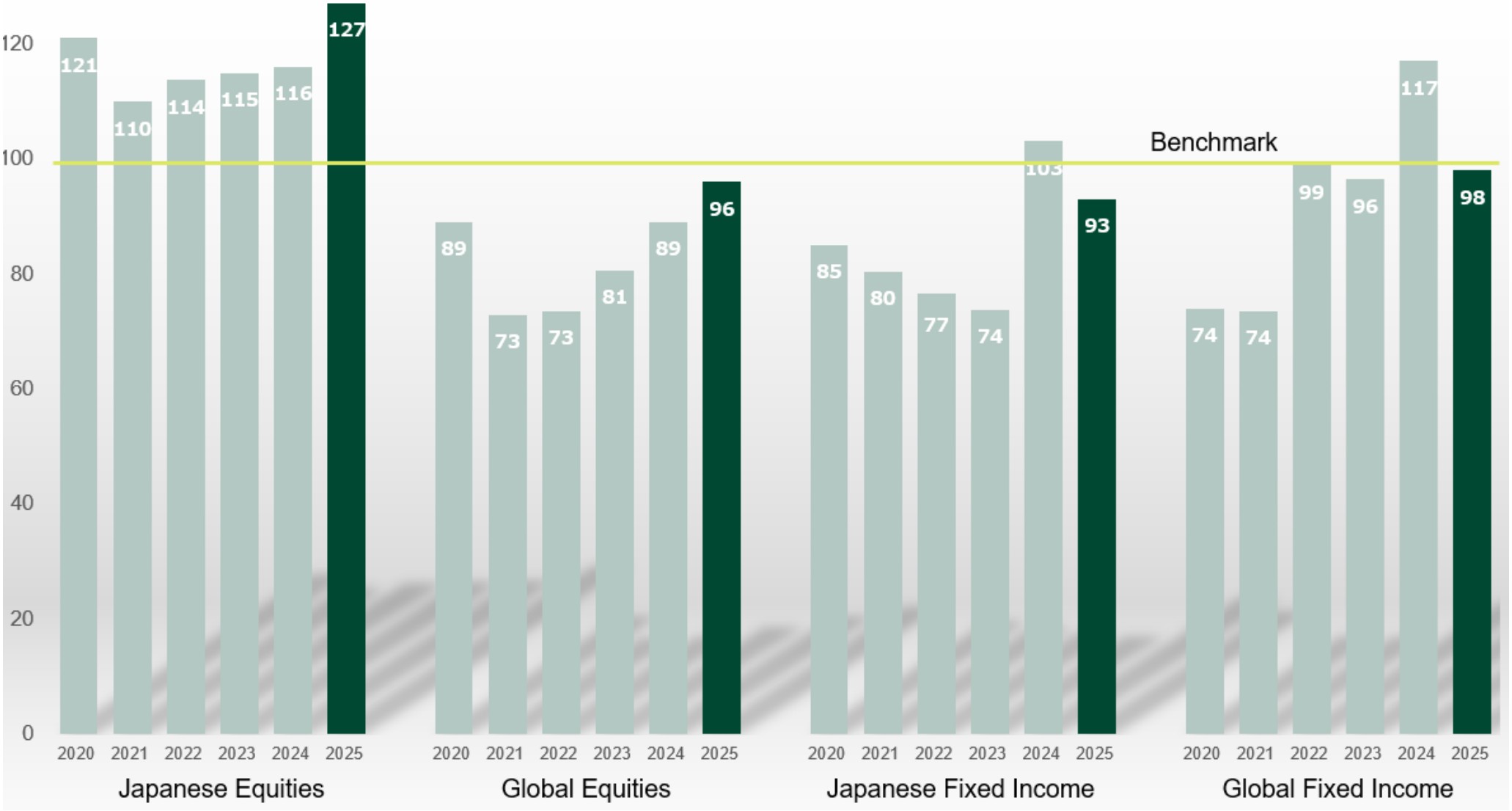
Based on these results, we plan to continue appropriately analyzing the metrics regarding the GHG emissions profile of the measured portfolio.

- Domestic Equities (Exceeding the Benchmark):
  In the automotive sector, which is characterized by high emissions, overweighting "value stocks" resulted in emissions exceeding the benchmark.
- Domestic Bonds (Below the Benchmark):
  An underweight allocation to the utility sector, primarily power companies, contributed to suppressing emissions below the benchmark.
- Global Equities and Global Bonds (Below the Benchmark):
  Through appropriate stock selection within the energy sector (sector selection effect), we have maintained a clean portfolio that remains below the benchmark.

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# 5-1. Climate Change-related Indicators and Targets

Comparison of **Carbon Footprint** by Asset Class in the "Portfolio Subject to Indicator Measurement" Against the Benchmark
(Investee companies' Scope 1-3, Figures for 2020–2024 are as of March of next year, while the 2025 is as of December)

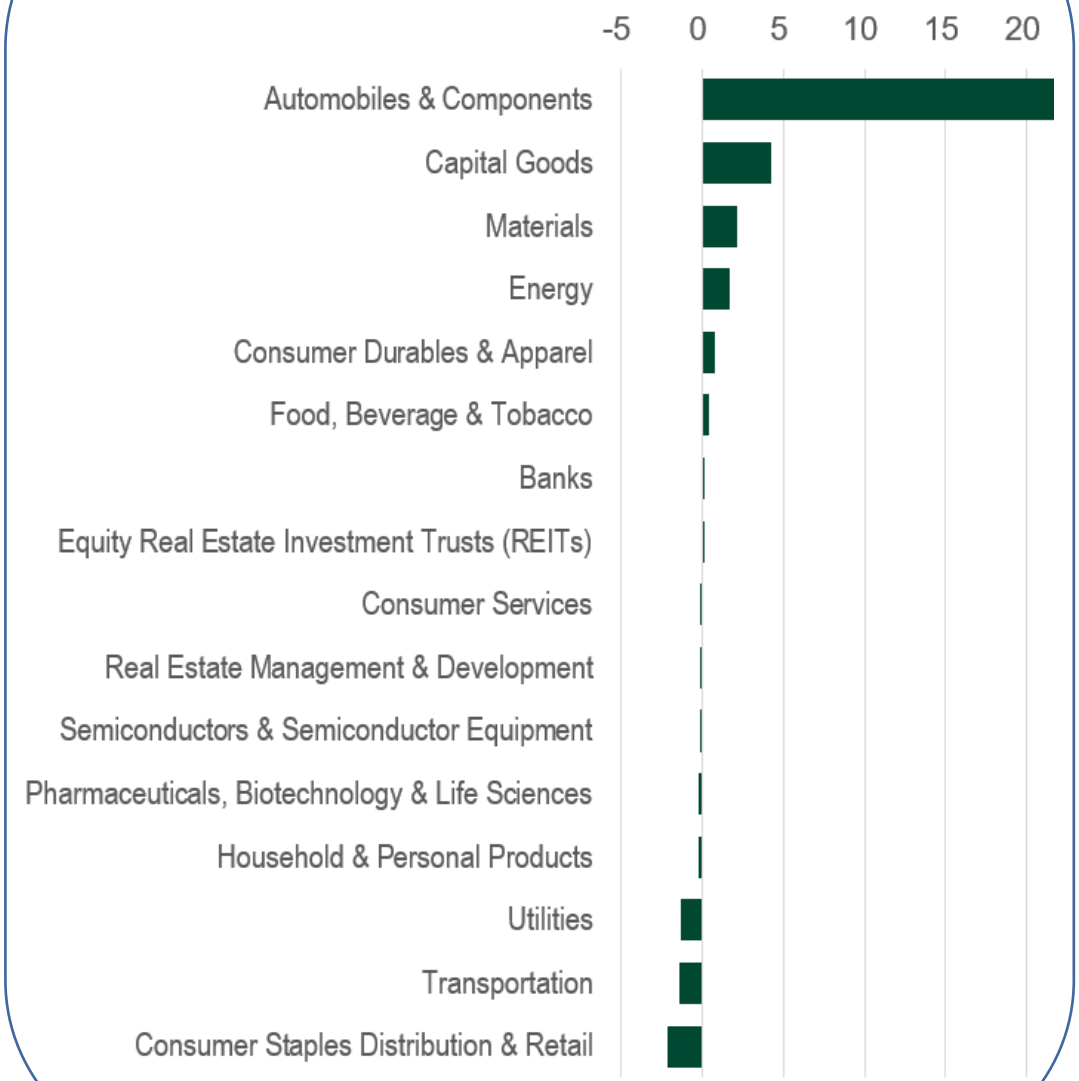



(Source) Prepared by SMDAM based on MSCI data (Please refer to Disclaimer)

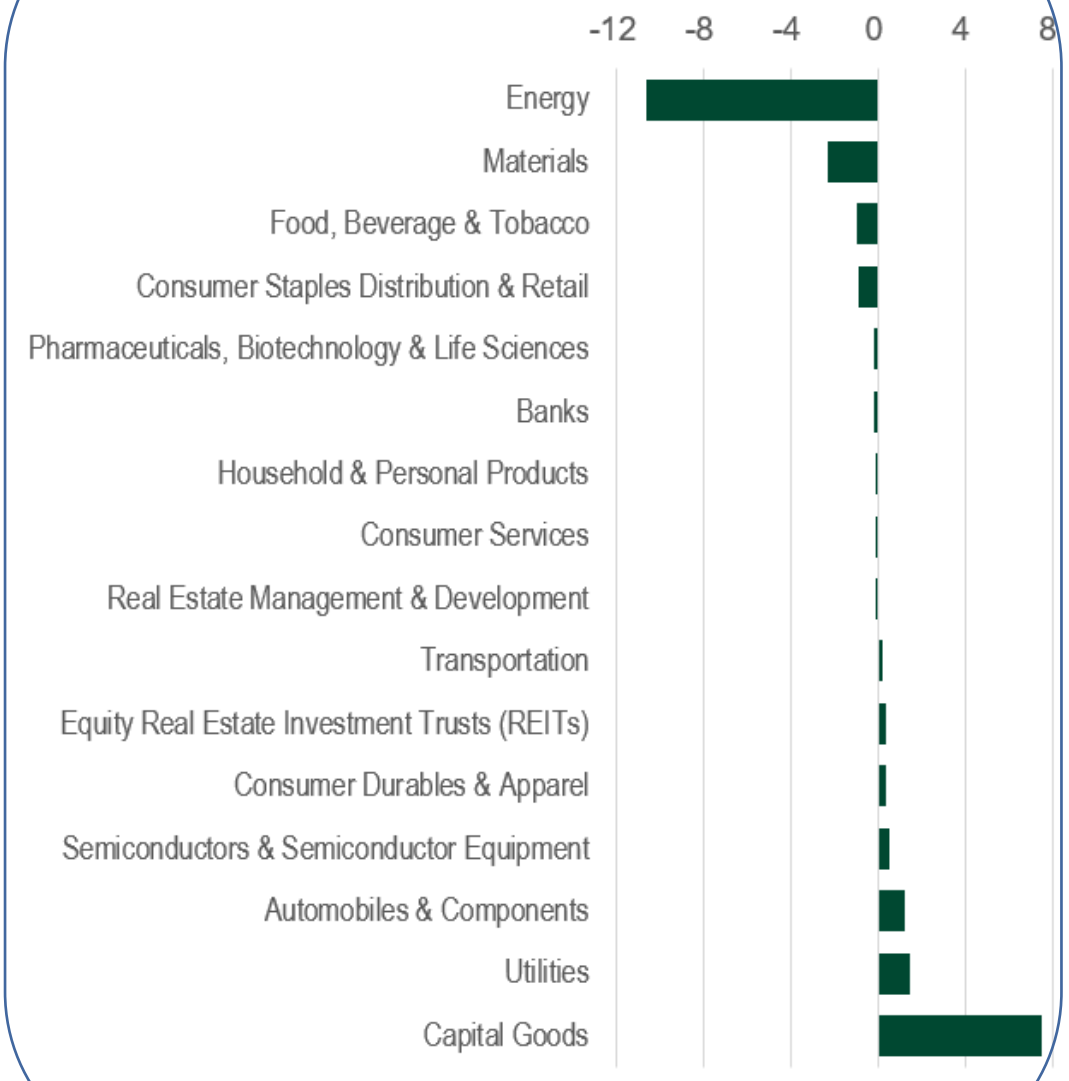
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# 5-1. Climate Change-related Indicators and Targets

**Sectoral Contribution to Japanese Equities**
**Benchmark Comparison (Attribution of +27)**



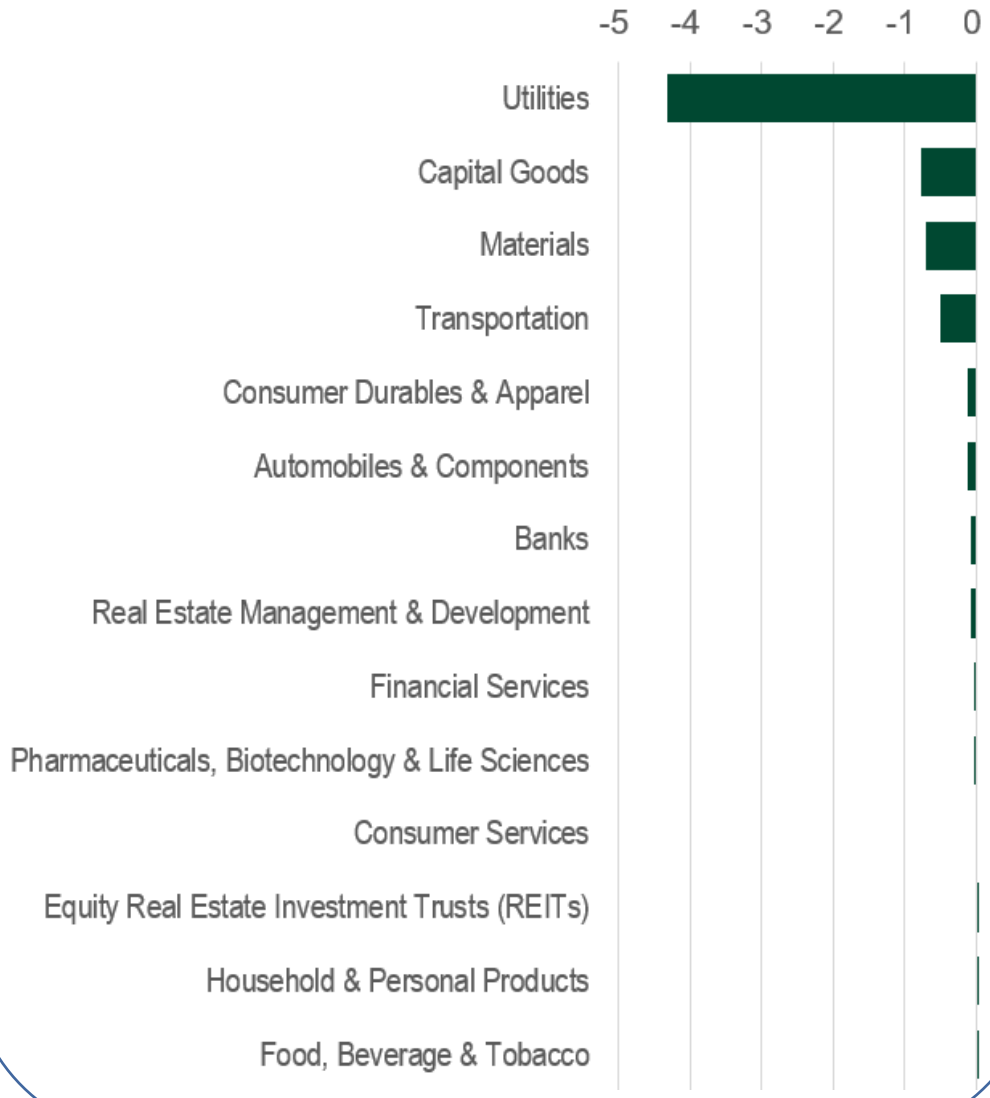

**Sectoral Contribution to Global Equities**
**Benchmark Comparison (Attribution of -4)**



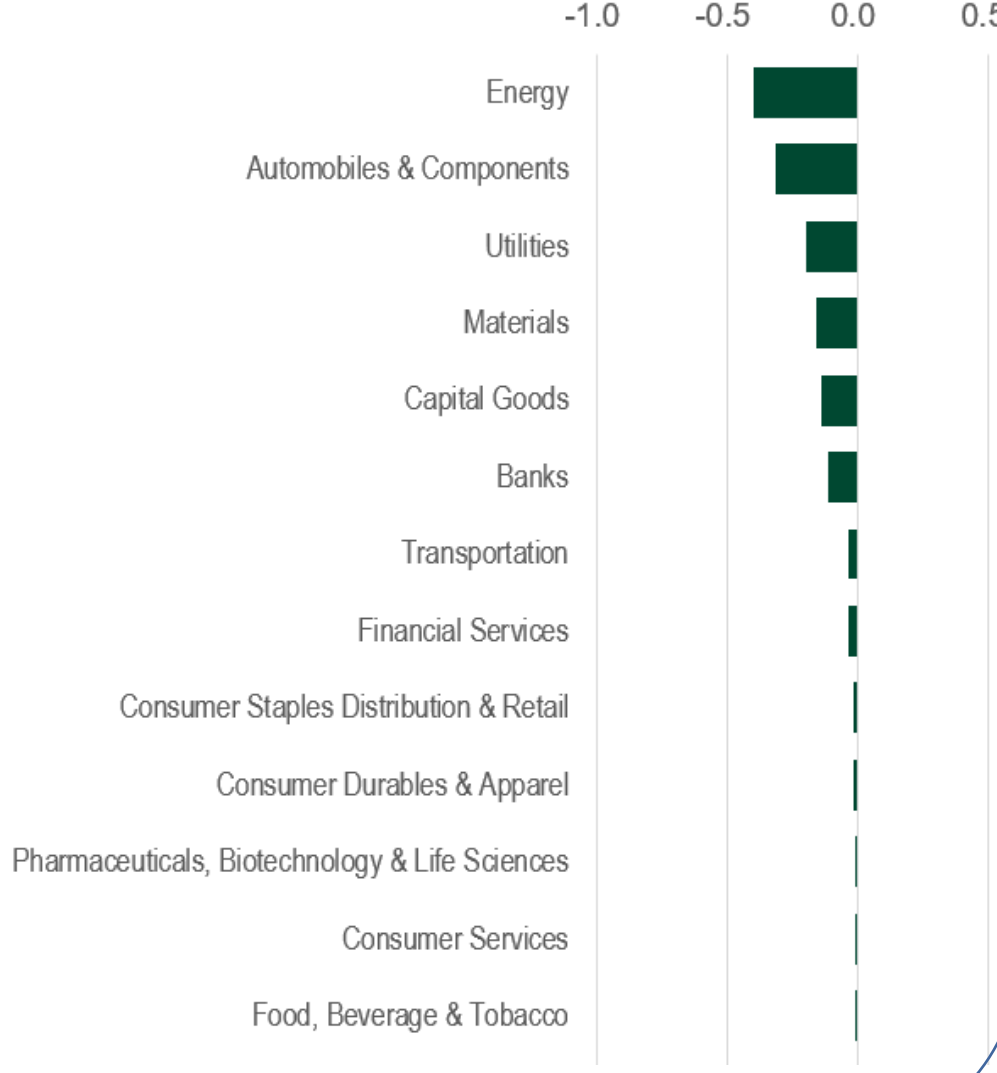
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# 5-1. Climate Change-related Indicators and Targets

## Sectoral Contribution to Japanese Fixed Income Benchmark Comparison (Attribution of -7)

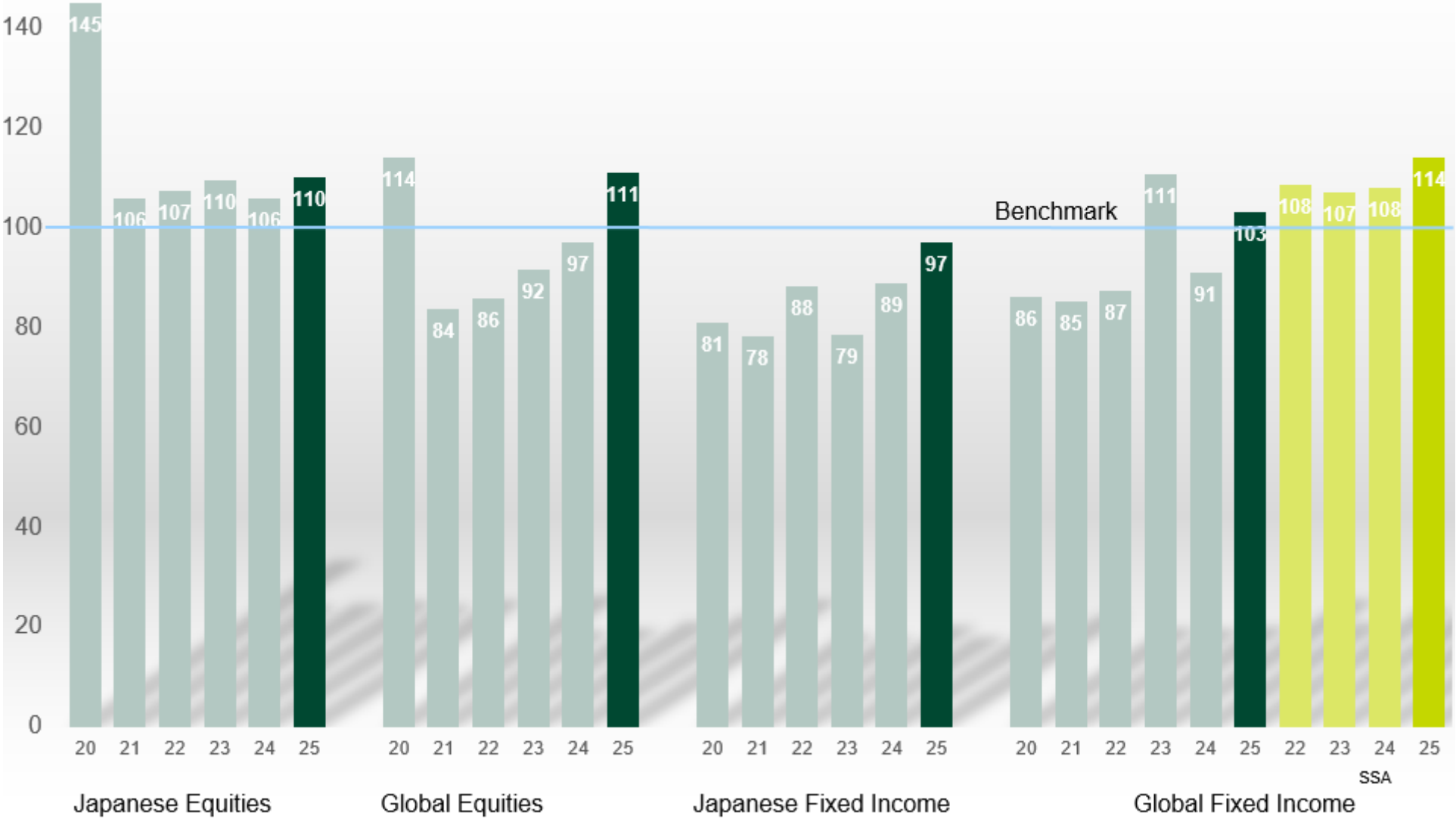



## Sectoral Contribution to Global Fixed Income Benchmark Comparison (Attribution of -2)



# 5-1. Climate Change-related Indicators and Targets

Comparison of Weighted Average Carbon Intensity by Asset Class in the "Portfolio Subject to Indicator Measurement" Against the Benchmark
(Investee companies' Scope 1-3, Figures for 2020–2024 are as of March of next year, while the 2025 is as of December)




(Source) Prepared by SMDAM based on MSCI data (Please refer to Disclaimer)
Japanese and Global fixed income excluding SSA
SSA = Debt securities issued by supranational organizations, sovereigns, government agencies, and municipalities, sub nationals and local governments.

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# 5-1. Climate Change-related Indicators and Targets

## (4) Analysis of the "Portfolio Subject to Indicator Measurement" Alignment with the Paris Agreement

We have quantified the potential destruction of portfolio value based on temperature rise scenarios up to the year 2100 (1.5°C, 2.0°C, and 3.0°C).

- **Policy Risk:** Under the 1.5°C scenario, the risk of value destruction was **-17.3%** (compared to -14.3% in the previous year), showing worsening.
- **Technology Opportunities:** Under the 1.5°C scenario, the mitigation effect (positive impact) expanded to **+3.0%** (compared to +2.2% in the previous year).
- **Physical Risk:** Under the 1.5°C scenario, the impact of extreme heat and other factors improved to **-0.7%** (compared to -1.0% in the previous year).

| | | |
|---|---|---|
| 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 Subject to Indicator Measurement" Value Damage by Temperature Increase Scenario / Asset Class (As of December 2025)

(%)

| Asset class | Portfolio Subject to Indicator Measurement | | | Japanese Equities | Global Equities | Japanese Fixed Income | Global Fixed Income |
|---|---|---|---|---|---|---|---|
| Scenarios | 1.5℃ | 2.0℃ | 3.0℃ | 1.5℃ | | | |
| Transition Risks | -12.1 | -6.5 | -5.2 | -16.1 | -7.2 | -18.1 | -3.7 |
| Policy Risk | -14.3 | -7.3 | -6.0 | -19.7 | -8.3 | -18.3 | -3.7 |
| Technology Opportunities | 2.2 | 0.8 | 0.8 | 3.6 | 1.1 | 0.2 | 0.0 |
| Physical Risks (by cause) | -2.1 | -3.2 | -6.4 | -3.4 | -1.1 | -0.4 | -0.4 |
| Extreme Heat | -1.0 | -1.8 | -3.3 | -1.6 | -0.5 | -0.1 | -0.1 |
| Coastal Flooding | -1.0 | -1.2 | -2.6 | -1.5 | -0.5 | -0.3 | -0.4 |
| Heavy Rain | -0.2 | -0.3 | -0.4 | -0.2 | -0.1 | 0.0 | 0.0 |
| Typhoons | -0.1 | -0.2 | -0.7 | -0.2 | -0.1 | 0.0 | 0.0 |
| 洪水 | 0.0 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| River Low Flow | -0.2 | -0.6 | -2.5 | -1.3 | -0.3 | -0.1 | 0.0 |

(Source) Prepared by SMDAM based on MSCI data (Please refer to Disclaimer)

# 5-1. Climate Change-related Indicators and Targets

- The purpose is not to calculate forecast values, but rather to understand potential future outcomes if climate change stresses manifest without sufficient countermeasures, and to utilize these insights in our strategy.

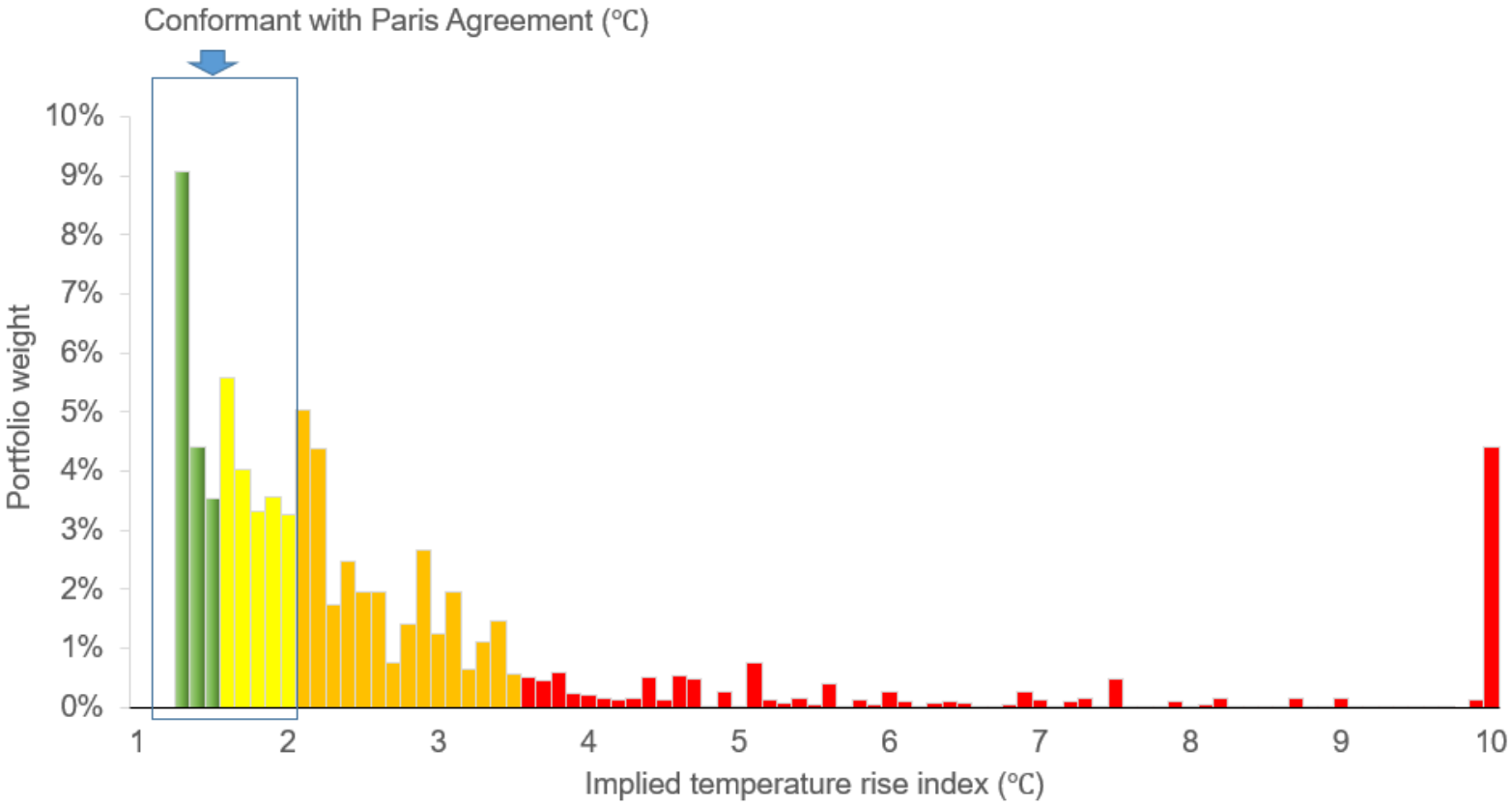
## (4) Analysis of the "Portfolio Subject to Indicator Measurement" Alignment with the Paris Agreement

The implied temperature rise index shows the projected climate change target, expressed in "°C", based on the GHG emission reduction targets by the investee companies.
The profile showed only a slight deterioration.

- Aligned with the under-2°C scenario: 46% of the portfolio (down 2 percentage points year-on-year)
- Completely misaligned with the Paris Agreement (red category): 17% of investee companies (up 2 percentage points year-on-year)

We will continue to support these investee companies in their efforts to address climate change.

Distribution of implied temperature rise index (℃) as of December 2025




(Source) Prepared by SMDAM based on MSCI data (Please refer to Disclaimer)

# 5-1. Climate Change-related Indicators and Targets

## (5) Challenges in Addressing Climate Change Risks

We identify the effectiveness of our climate risk strategies and governance, adaptation to physical risks, 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.<br>● However, we do not believe that we have fully translated these into concrete management strategies or sufficiently monitored the progress of strategy execution. | ● We will drive in-depth, long-term discussions on sustainability at the Sustainability Promotion Subcommittee. |
| Adaptation to Physical Risks by Investee Companies | ● We believe it is important that we can support our investee companies not only in mitigating climate change risks but also in adapting to them. | ● To prevent investee companies from significantly impairing their corporate value due to natural disasters like heatwaves and floods, we plan to address this by:<br>- Engaging with them to request precautionary measures against natural disasters.<br>- Appropriately evaluating their efforts toward adapting to physical risks. |

# 5-1. Climate Change-related Indicators and Targets

| | | |
|---|---|---|
| Lack and Quality of GHG Scope 3 Data | ● We include GHG emissions (Investee companies' Scope 1-3) as benchmark measurement indicators for each major asset.<br>● However, while we set investee companies' Scope 1 & 2 carbon footprint as a target, 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 dependable GHG data through proper monitoring of sustainability data providers. |

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# 5-2. Natural Capital-related Indicators and Targets

## (1) Portfolio's Nature and Biodiversity Indicators

We use the portfolio's Potentially Disappeared Fraction of Species (PDF) per 1 million USD of market value of investment (PDF Footprint) as a primary indicator to support investee companies in focusing on the realization of Nature Positive.
The PDF Footprint for the “Portfolio Subject to Metric Measurement” was 27.3 ($km^2 \cdot yr$/million USD).

| Item | Description | Supplementary Notes |
|---|---|---|
| Indicators | ● PDF Footprint | ● The following are also monitored as reference metrics:<br>- Weighted Average PDF Intensity<br>- MSA Footprint<br>- Weighted Average MSA Intensity |
| Data Coverage | ● The ratio of market capitalization with available nature and biodiversity footprint data is 77% of the "Portfolio Subject to Indicator Measurement" (as of December 2025). | |

| Item | Definition | Notes |
|---|---|---|
| PDF Footprint | $\sum \left[ (\text{Issuer's Potentially Disappeared Fraction of Species}) \times \frac{(\text{Value of issuer holdings})}{(\text{Issuer market cap}) + (\text{Issuer interest bearing debt})} \right] \div (\text{AUM})$ | ● **Potentially Disappeared Fraction of Species (PDF):** The fraction of species that is potentially disappeared. The fraction of species that may have been lost due to anthropogenic impacts related to corporate activities ($PDF \cdot km^2 \cdot yr$).<br>● **PDF Footprint:** PDF per million USD of market value of investment ($PDF \cdot km^2 \cdot yr$/million USD). |
| Weighted Average PDF Intensity | $\sum [(\text{Issuer's Potentially Disappeared Fraction of Species Intensity}) \times (\text{Issuer's portfolio weight})]$ | ● **Potentially Disappeared Fraction of Species Intensity:** The fraction of potentially disappeared species per million USD of revenue ($PDF \cdot km^2 \cdot yr$/million USD). |

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# 5-2. Natural Capital-related Indicators and Targets

| Item | Definition | Notes |
|---|---|---|
| MSA Footprint | $\sum\left[(\text{Issuer's Local Ecosystem Degradation}) \times \frac{(\text{Value of issuer holdings})}{(\text{Issuer market cap}) + (\text{Issuer interest bearing debt})}\right] \div (\text{AUM})$ | • **Local Ecosystem Degradation:** The estimated land use area of the company multiplied by the degradation of the health of the local **Mean Species Abundance (MSA)** due to the company (MSA·km$^2$).<br>• **MSA Footprint:** Local ecosystem degradation per million USD of market value of investment (MSA·km$^2$/million USD). |
| Weighted Average MSA Intensity | $\sum[(\text{Issuer's Local Ecosystem Degradation Intensity}) \times (\text{Issuer's portfolio weight})]$ | • **Local Ecosystem Degradation Intensity**: Local ecosystem degradation per million USD of revenue (MSA·km$^2$/million USD). |

## Portfolio's Nature and Biodiversity Footprint

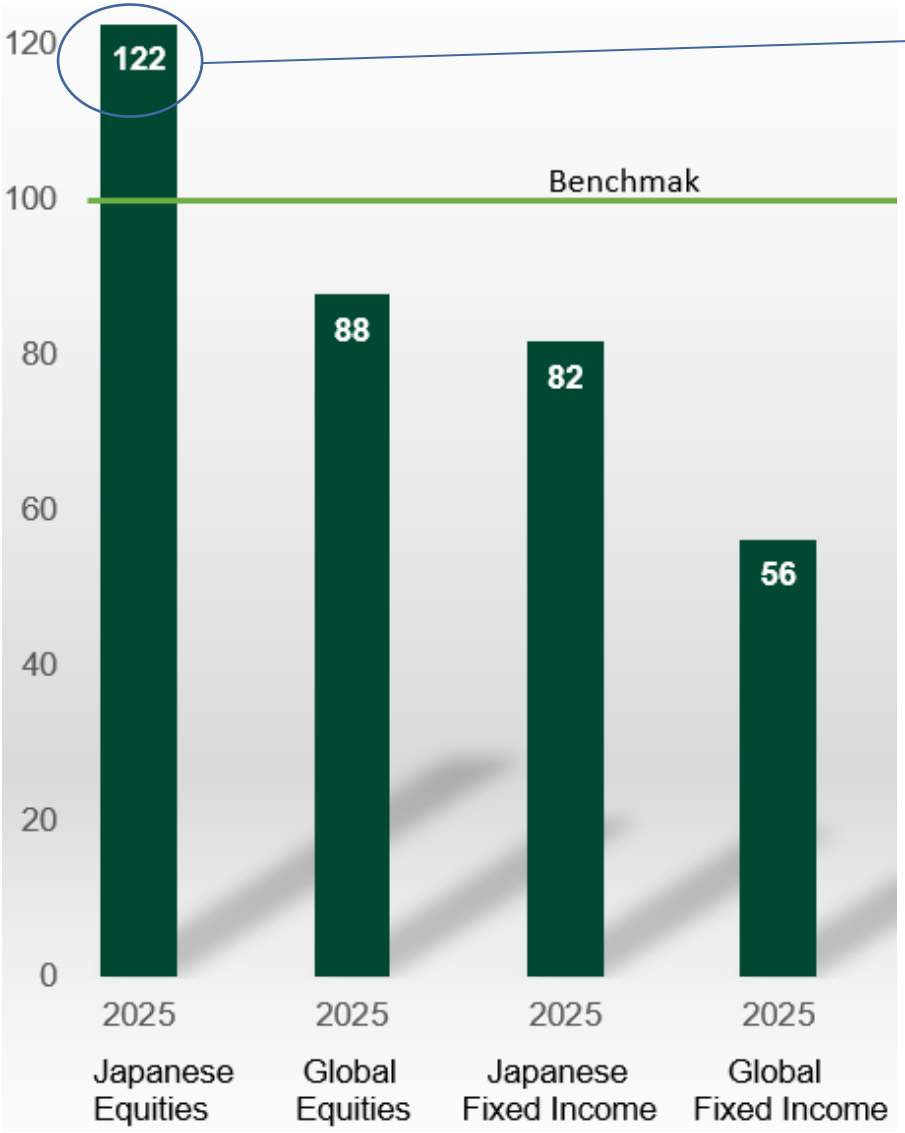
| Indicators | unit | 2024 | 2025 |
|---|---|---|---|
| PDF Footprint | (km2·yr/million USD) | 33.7 | **27.3** |
| Weighted Average PDF Intensity | (km2·yr/million USD) | 55.6 | **55.6** |
| MSA Footprint | (km2/million USD) | 3.69 | **3.51** |
| Weighted Average MSA Intensity | (km2 /million USD) | 3.32 | **3.27** |

(Source) Prepared by SMDAM based on MSCI data (Please refer to Disclaimer)

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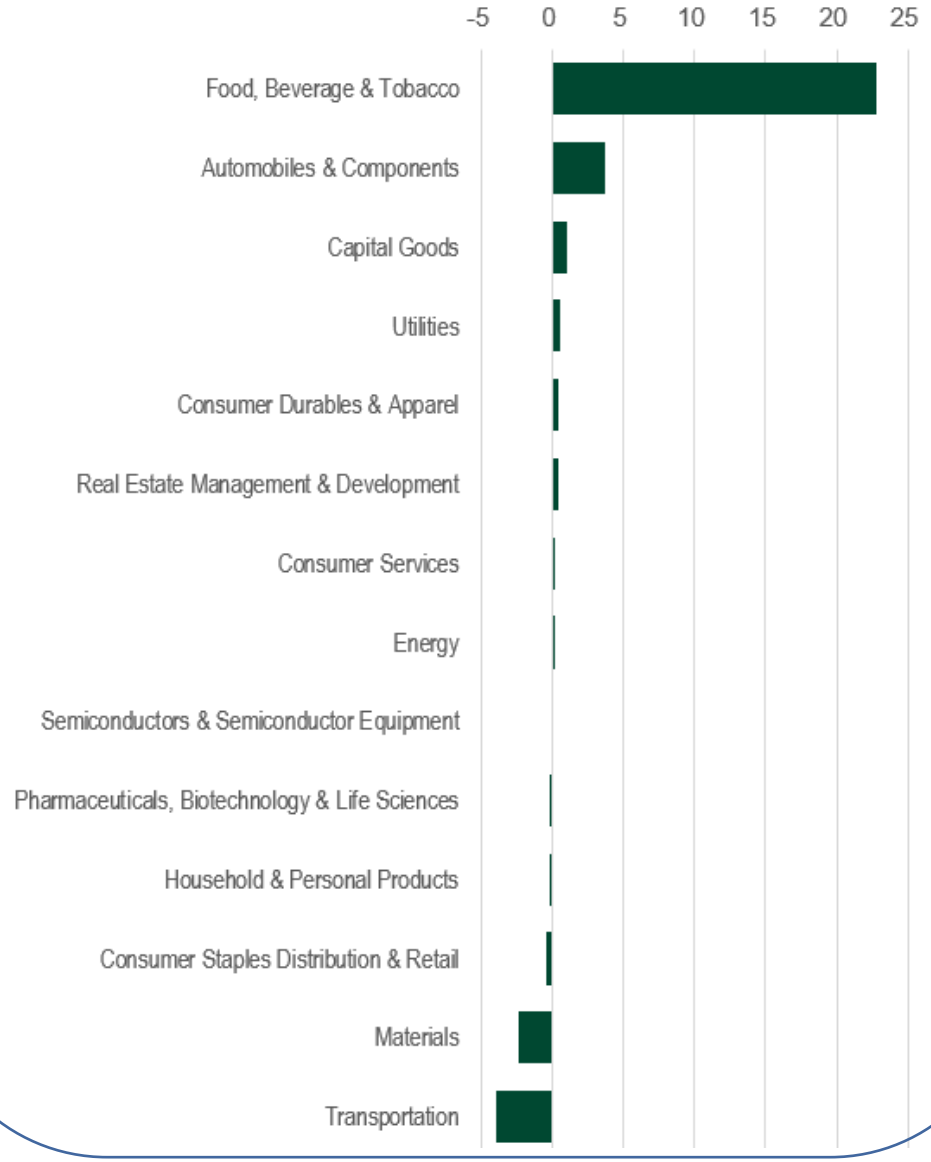
# 5-2. Natural Capital-related Indicators and Targets

Comparison of **PDF Footprint** by Asset Class in the "Portfolio Subject to Indicator Measurement" Against the Benchmark




(Source) Prepared by SMDAM based on MSCI data
(Please refer to Disclaimer)

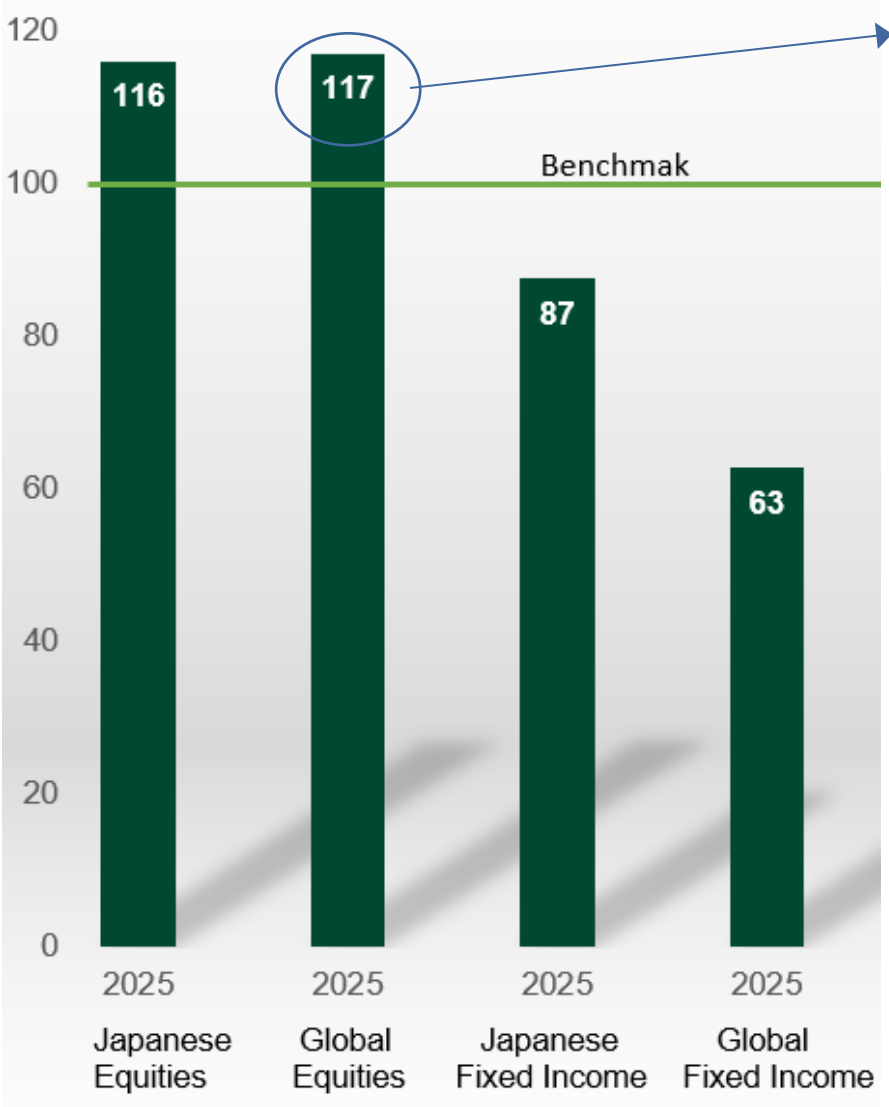
Sectoral Contribution to **Japanese Equities** Benchmark Comparison (Attribution of +22)



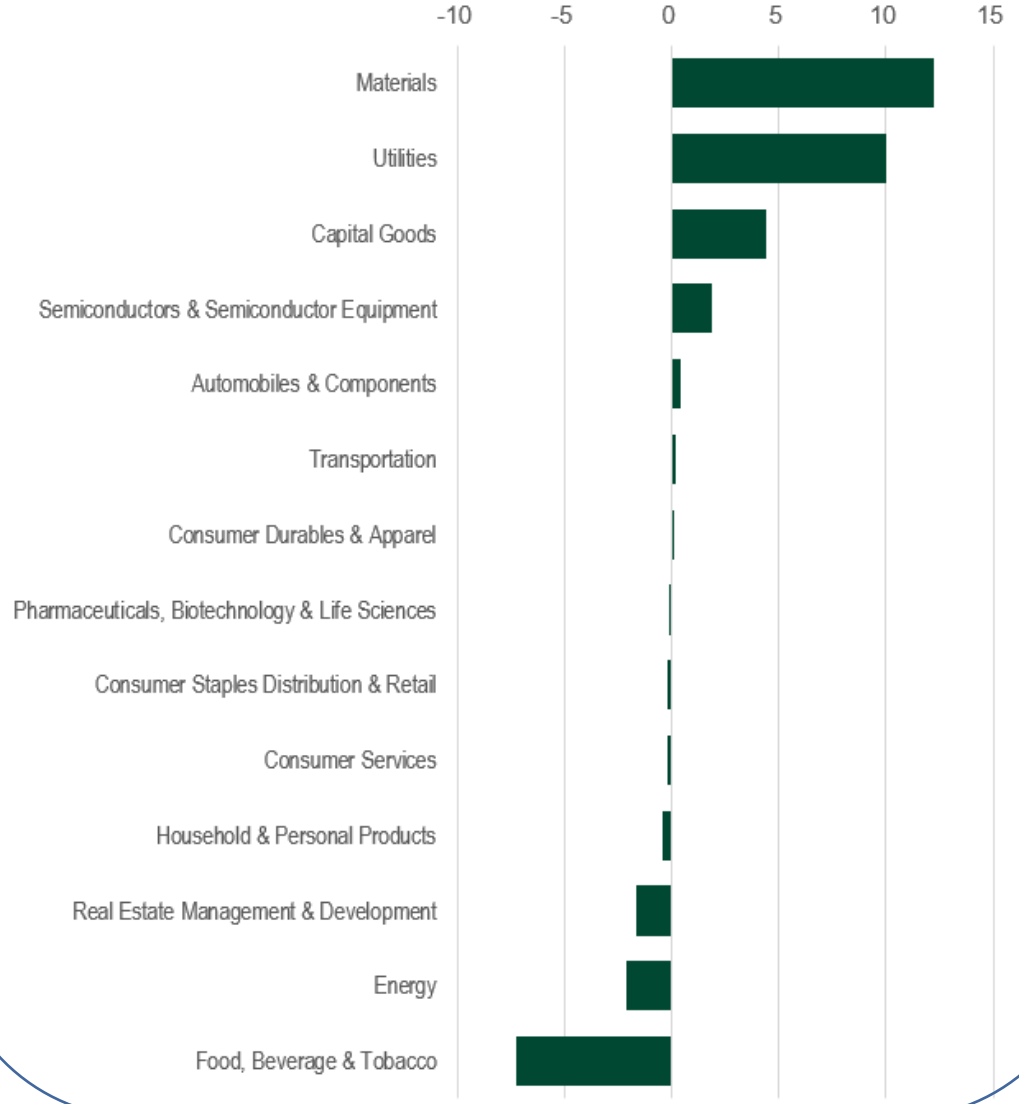
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# 5-2. Natural Capital-related Indicators and Targets

Comparison of **PDF Intensity** by Asset Class in the "Portfolio Subject to Indicator Measurement" Against the Benchmark




Sectoral Contribution to **Global Equities**
Benchmark Comparison (Attribution of +17)




(Source) Prepared by SMDAM based on MSCI data
(Please refer to Disclaimer)

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# 5-2. Natural Capital-related Indicators and Targets

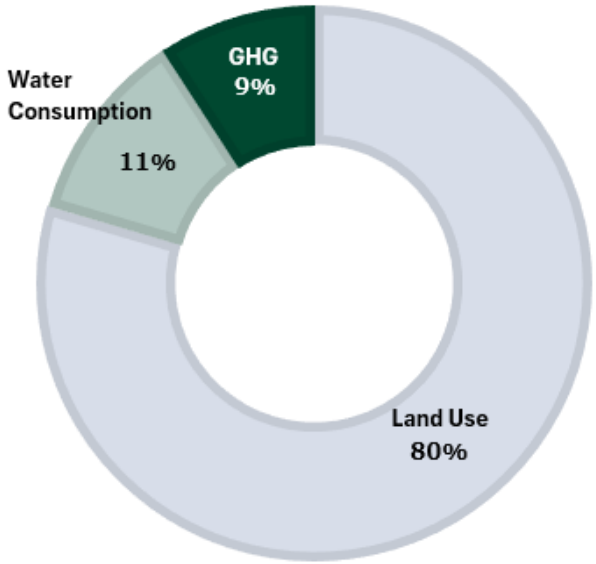
The analysis of the **PDF** compared to benchmarks across different asset classes showed the following trends:

**Domestic Equities**: The portfolio exceeded the benchmark by **22%** in PDF footprint and **16%** in weighted average PDF intensity, indicating a higher environmental impact. By sector, this was driven primarily by "Food, Beverages & Tobacco." At the individual company level, businesses handling palm oil and soybean oil (for both consumer and commercial use) were the main contributors. This aligns with global trends showing that the "Food" and "Paper & Forest Products" sectors inherently carry high ecosystem impact factors.

**Global Equities**: The portfolio exceeded the benchmark by **17%** in weighted average PDF intensity. This was primarily driven by the "Materials" and "Utilities" sectors.

**Domestic and Global Bonds**: The portfolio's impact remained below the benchmark.

Composition Ratio of PDF Impact Driver in Japanese Stock Portfolio “Food, Beverages & Tobacco”




(Source) Prepared by SMDAM based on MSCI data
(Please refer to Disclaimer)

## (2) Nature and Biodiversity Targets

Regarding the nature and biodiversity risk of the portfolios measured by the indicators, the following were identified as material impacts for our company:

- **"Water Resources"** through heatmap analysis.
- **"Land Use"** - specifically tropical rainforest logging/deforestation - related to "palm oil and soybean oil" through PDF and MSA analysis.

Our response is as follows:

- We will focus on “**Action Targets”** based on the LEAP analysis, which considers the actual economic activities of individual companies.
- We will continue to disclose indicators based on the current PDF analysis externally. However, we choose not to think of countermeasures by superficially quantifying the PDF/MSA analysis figures. This is because improving the performance of the PDF footprint for the indicator-measured portfolio can only be achieved by changing country or individual company investment weights, due to the nature of the data.

Our nature and biodiversity targets are:

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# 5-2. Natural Capital-related Indicators and Targets

| | |
|---|---|
| Action Target | ● We will engage with sectors and investee companies deeply related to the identified high-impact and high-dependency areas, "Water Resources" and "Land Use". |
| Quantitative Targets | ● We have set the following corresponding indicators and targets to improve the impact of our AUM on "Water Resources" and "Land Use." |

| Indicator | 2024 Actual | 2025 Actual | 2030Target |
|---|---|---|---|
| "Portfolio Subject to Indicator Measurement" exposure to companies with **water management policies** | 52% | 28% | **65%** |
| "Portfolio Subject to Indicator Measurement" exposure to companies with **deforestation policies** | 17% | 18% | **30%** |

(Source) Morningstar Sustainalytics

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# 5-2. Natural Capital-related Indicators and Targets

## (3) Challenges in Addressing Nature and Biodiversity Risks

We believe the key challenges in managing nature and biodiversity risk are the data completeness and valuation related to nature and biodiversity.

| Challenge | Description | Our Response |
|---|---|---|
| Data Completeness for Nature and Biodiversity | ● The nature and biodiversity figures provided by sustainability data vendors are limited to top-down estimates based on sector or country average data, rather than bottom-up estimates based on data from individual companies.<br>● There is a possibility that the impact estimate is biased toward specific commodity crops or manufactured products.<br>● The data does not necessarily include supply chain analysis. | ● We will continue to urge sustainability data vendors to improve data completeness.<br>● Specifically, we request that individual company data be used to calculate ecosystem impact so that it can serve as a suitable monitoring indicator. |
| Valuation of Nature and Biodiversity | ● We have not been able to analyze the transition and physical risks related to nature and biodiversity. We are in a state of waiting for sustainability data vendors to provide scenario analysis tools. | ● We will deepen our LEAP analysis. |

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