

Sustainability Report

2024-2025



Our Mission and Vision

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

We, as professionals, focus on:

- Delivering best-in-class investment performance while maintaining the highest standards of fiduciary responsibility to our clients,
- Contributing to a diversified and sustainable society through our investment activities.

To these ends, we commit ourselves to:

- Aiming for collective growth, based on a respectful understanding of all stakeholders,
- Creating a flexible working environment that allows all employees to reach their full potential.

Our Values

Sincerity

Customers' interest first

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

Agility

Time - strategic resources

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

Challenge

Confront the status quo

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

Passion

Strive for an extra basis point

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

Teamwork

Tackle conflict head-on in pursuit of value

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

Materiality

Materiality for Business Operation

Social Challenges: Improving Quality of Life

Human capital



We will eradicate discrimination and harassment, enhance the workplace environment, and develop human resources

Social Contribution Activities



We will contribute to solving environmental and social issues through donations and volunteer activities

Improvement of business quality



We will utilize digital technology to revise and improve our operational processes

Environmental Issues: Safety of Life

Environmentally-friendly business management



We will endeavor to reduce energy usage and our impact on the environment by revising our operations

Governance

Business ethics and corporate culture



We will aim to be an organization where all employees are conscious of being professionals, have an appetite to contribute to society, and maintain a spirit of taking on new challenges

Materiality for Investment Management

Human rights in supply chains



We will work to appropriately manage human rights risks through due diligence related to human rights

Human capital



We will implement human resource strategies that are consistent with management strategy and work to create an attractive workplace environment

Climate change



We will work to reduce GHG emissions across the supply chain

Natural Capital



We will work to promote a circular economy and reduce environmental impact by cutting food loss

Effectiveness of corporate governance



We will work to ensure the diversity of the Board of Directors and implement measures to enhance corporate value

Business ethics and corporate culture



We will foster corporate ethics and our corporate culture, and ensure thorough compliance with laws and regulations and risk management



CEO Message

In Japan, there has never been a year in which the asset management environment and market have undergone such significant changes as in 2024.

Following the Kishida administration's declaration of Japan as a "Leading Asset Management Center," on December 13, 2023, the Financial Services Agency announced the "Policy Plan for Promoting Japan as a Leading Asset Management Center," which aims for sustainable growth of Japanese companies and increased asset income for the Japanese people. Appealing to each of the entities that make up the investment chain, this grounded plan carries as its main objective the facilitation of economic growth through the market, even if it means achieving it in a roundabout way.

Combined with the Tokyo Stock Exchange (TSE)'s request to disclose and implement remedial measures for listed companies with P/B ratios below 1x and the start of the new NISA, the centerpiece of the "Doubling Asset-based Income Plan," the Nikkei Stock Average exceeded 40,000 yen, reaching a record high for the first time in 34 years. As someone based in the asset management industry, this is major news that I was eagerly awaiting.

It was also in 2024 that the Bank of Japan began attempting to shift its decades-long policy of monetary easing. The increase in short-term interest rates, which was implemented in the middle of a heat wave coming off of the lifting of negative interest rates, caused a sharp drop in Japanese stocks that had been performing well in what could be called a repeat of Black Monday*,

as well as a rapid appreciation of the yen that signified a sharp turnaround from the yen's depreciation. While an explanation of this was requested of the Bank of Japan by the national government, the behavior of individual investors during the sharp decline of the yen was to "buy" Japanese stocks in line with the strategy of "long-term, accumulation, and diversification." This is the result of the public and private sectors working together to promote financial education and work towards the establishment of the new NISA system. I believe it gave confidence to the Financial Services Agency and other policy authorities overseeing Japan as a Leading Asset Management Center. I expect they will continue to take measures that will have a substantial effect on the revitalization of the investment chain, even if it takes time.

As an entity playing a role in Japan as a Leading Asset Management Center, we have published our Sustainability Report for 2024 as well. We consider this our annual report in our capacity as a privately held company. Given Sumitomo Mitsui DS Asset Management (SMDAM) oversees asset management, simply presenting past investment performance is not a sufficient explanation of whether or not we can provide sustainable investment results heading in the future. Superior performance results when diverse human resources thrive in a corporate culture that instills fiduciary duty and a foundation of corporate management that remains robust well into the future.

In this report, we also introduce our endeavors aimed at maintaining and developing our investment capabilities and infrastructure as an investment management company as well as those aimed at instilling our Mission, Vision and Values and fostering our culture. We hope you will take the time to read the content herein, which we have prepared with the intent of providing you with a deeper understanding of SMDAM.

The cover of this report features professional skateboarder Yuto Horigome, whom We have a sponsorship contract with. Our corporate brand of "Be Active. A single step can change the future" resonated with Mr. Horigome, who has made appearances in our branded movies since fiscal 2022. The emotion, courage, passion, and countless other forms of inspiration that SMDAM's officers and employees have received from his successes are immeasurable. With the attitude that embodies Mr. Horigome's "Be Active." as a guide, we will endeavor to realize our goal of becoming "Towards The Best Asset Management Firm For Your Better Quality of Life" while bearing Our Values of "Sincerity," "Agility," "Challenge," "Passion," and "Teamwork" in mind.

Representative Director, President and CEO

Takashi Saruta

*Black Monday: Monday, October 19, 1987, the day of the global stock market crash. The US Dow Jones Industrial Average of 30 stocks fell more than 22% in a single day, seriously harming the global economy.

Corporate Brand [Be Active.]



その一歩で、未来は変えられる。

あなたの人生も、社会の未来も、
じっとしてるだけじゃ、何も変わらない。
その一歩を踏み出すだけで、人生だって、社会だって、
もっともっと良い方向に変えていける。
私たち三井住友DSアセットマネジメントは、
投資を通じて、あなたがアクティブになるお手伝いをしたい。
一歩を踏み出す時も、その先も、
そばに寄り添ってサポートし続けたい。
自分を豊かにするために、社会を豊かにするために、
これからは、アクティブじゃなきゃ。

Each and every one of our employees focuses their sight on the people, society, and future that lay beyond their work, and engages in their duties as a true professional.

Special
Feature 1

Sustainable Active Investment
Ability

- Investment ability with value stocks ▶ P9-11
- The challenge of alternative investment ▶ P12
- Sustainable team operation ▶ P13-14
- Global theme investment ▶ P15-16
- Investment human resource development ▶ P17

Special
Feature 2

Investment and Engagement
that Contributes to Social
Value Creation

- Engagement pertaining to human rights ▶ P18
- Hydrogen fund ▶ P19
- Investment sophistication with the use of generative AI ▶ P20

Special
Feature 3

Contribution to a Leading
Asset Management Center

- Active ETF ▶ P21-22
- Goal-based approach (GBA) ▶ P23-24



Deputy President Executive Officer
Wataru Ogihara

Message from the Head of Investment Management Division

I Restoration of Japanese equities

The Nikkei average reached a 34-year high in February, and continued to trend upwards through July. This is likely attributable to the fact that the public and private sectors have joined together in efforts to enhance market value, including the spread of corporate governance codes among issuers and the proactive involvement of investors in stewardship codes. These efforts have attracted the interest of investors around the world.

At SMDAM as well, as an asset management company whose active management strategies can provide added value that clients can recognize and whose corporate brand is “Be Active,” we feel pride in our

investment ability. At the same time, we have renewed our commitment to the importance of sustainability in our investment process and division.

I Sustainable investment system

The highest-priority challenges for the Investment Management Division in an investment company are “the creation of systems that can maintain good quality investment products over a very long timeframe” and “the execution of measures to guarantee the sustainability of existing investment processes.”

Many good-quality products require sustainability over a period in excess of decades, beyond the length of a single investor’s career. For that reason, the succession of investment through constant process improvement and the securing of competent human resources is a major challenge.

A sustainable Investment Management Division is a requirement for ensuring that each individual investment process is sustainable. The results brought forth by new challenges by individual investors leads to sustainability. It can be observed as a rule of thumb that the major current investment processes must have been new at one point in the past, and that some of the existing investment processes lose their raison d’être for one reason or another.

I New challenges

Here are some of the new sustainability investment challenges we at SMDAM have taken on to help its Investment Management Division remain sustainable. We will continue to accelerate new challenges and strive to improve the sustainability of our investment as we move forward.

Our funds are evaluated by external evaluation institutions.

Go here for information on our award-winning funds: <https://www.smd-am.co.jp/english/corporate/awards/>

	Initiative
Bond ESG	Prepared “ESG Bond Checklist” and “Bond Fraud and Misconduct List” → Utilized in engagement with bond issuers
Domestic and foreign active ETF/ UCITS lineup	Enhanced product lineup for overseas investors Listed Japanese equity Exchange Traded Funds (ETFs) domestically and internationally Six UCITS funds for European investors
Hydrogen fund	Aiming to achieve carbon neutrality and contribute to the Japanese economy through the realization of a hydrogen society, SMDAM oversees middle back-up operations and sustainable investment evaluation.
Participation in initiative	Announced participation in initiatives such as “TNFD” and “PRI Spring” as those that align with our materiality.
Engagement of the Year	Initiated an internal award system focused on engagement activities for the purpose of raising awareness of the investment division regarding those activities and sharing good practices widely within SMDAM

Links to content related to responsible investment

Stewardship

Link	Explanation
Self-evaluation of the Implementation Status of Japan's Stewardship Code	We are proactively engaged in ESG investment by incorporating stewardship activities and mid- to long-term analysis and evaluation of non-financial factors of investees, etc. into our investment process
Basic Policy on the Exercise of Voting Rights	We exercise voting rights with the purpose of improving the value of investees, etc. or avoiding damage to them
Results of Exercise of Proxy Voting Rights (Japanese stocks)	The results of the exercise of voting rights (for fiscal 2019 and beyond) will be compiled and announced every three months with the end of March, June, September and December as the record dates
Results of Engagement Activities	Fund managers and analysts engage in constructive dialogue with investee companies
Participation in Initiatives	We sign and endorse initiatives and work together with domestic and foreign investors to conduct engagement with investees, etc.

Sustainable ESG Products

Link	Explanation
Sustainable Products Classification	We certify sustainable products based on our methods for considering sustainability factors in investment decisions and the importance of sustainability factors in our investment strategy



Message from our Officer in Charge of Corporate Sustainability Section



Managing Executive Officer
Takenari Suzuki

We have set forth our materialities as key management issues with a view to realizing a sustainable society. Taking into account the characteristics of the investment management business, materiality categories at SMDAM consist of “Materiality for Investment Management” and “Materiality for Business Operation.” We have identified issues in the following three areas for each of these materiality categories: “Environment issues: Safety of Life,” “Social issues: Improving Quality of Life,” and “Governance.”

Here, we introduce some of the materiality initiatives we have taken as an operating company. For the aspect of human capital, in November 2023, we formulated and disclosed our basic policy on human capital management, which forms the basis of all our business activities, with the aim of realizing “Towards The Best Asset Management Firm For Your Better Quality of Life” as espoused in our management philosophy. As a promotion structure, our existing “DE&I Promotion Meeting” was reorganized into the “Human Capital Strategy Meeting” to provide a forum for the management team, including division heads, to discuss a broad agenda related to human capital management under the supervision of the CEO, who chairs the meeting. Additionally, in October 2023, the Human Resources Department’s Human Resources Development Section was made independent as the Human Capital Development Department to bolster human resource strategy initiatives, with the Human Resources Department and the Human Capital Development Department coordinating with each other. As part of our social contribution activities, we have established the QOL Fund, an employee-participation donation fund, through which we make donations to NPOs that are working to solve social issues. Over the

three years that have passed since the fund was established in June 2021, cumulative donations, including company-matching contributions, have reached approximately 3.7 million yen. Additionally, we engage in activities to enhance the understanding of officers and employees of SMDAM in relation to sustainability, including jointly holding events and participating in volunteer activities, by collaborating with organizations supported by the QOL Fund. Our contributions to the local community include cleanup activities around our office and volunteer activities in the “MINATO City Half Marathon” organized by Minato City, Tokyo, where our head office is located.

We are working on education and awareness activities to improve financial literacy for a wide range of generations.

For elementary, junior high, and high school students, we give classes at schools with the use of *Economica*, a card game designed to get students interested in finance and the economy. For university students, we participate in onsite classes held in cooperation with the Sumitomo Mitsui Banking Corporation (SMBC) Group to convey the importance of asset management. We also registered as a lecturer for the Tokyo Metropolitan Government’s program to dispatch lecturers to improve financial literacy, and held seminars for working adults in fiscal 2023 and for high school students in fiscal 2024.



In addition, we have been holding NISA workshops jointly with the TSE to provide information on the new NISA and have set up a special NISA page on our website in our efforts to disclose easy-to-understand information through videos and PDF content.

For its special features, this year’s Sustainability Report covers “Sustainable Active Investment Ability,” “Investment and Engagement that Contributes to Social Value Creation,” and “Contribution to a Leading Asset Management Center” among our various initiatives.

We believe such initiatives will help us realize Our Mission & Vision of “Towards The Best Asset Management Firm For Your Better Quality of Life” and contribute to improving the quality of life of all our stakeholders.

Links to content related to sustainability

Governance

Link	Explanation
Our Commitment to Fiduciary Duties and Sustainability	We have articulated the role that SMDAM must fulfill in the area of sustainability
Our Materiality	To enable us to contribute to the achievement of a sustainable society on a greater level than we have previously, we have identified key management issues as our "materiality."
Corporate Governance	We practice effective corporate governance by ensuring our independence as an asset management company

Environment

Link	Explanation
Environmental Disclosure (Disclosure Based on TCFD and TNFD recommendations) 	We integrated climate change disclosures and natural capital disclosures from 2024

Society

Link	Explanation
Our Approach on Human Rights Issues	We are consciously committed to respecting the human rights of all stakeholders, including employees and local communities, as well as clients
Reporting on Implementation of Due Diligence on Human Rights 	In accordance with our "Human Rights Policy," we have been practicing human rights due diligence since fiscal 2022

Investment Ability with Value Stocks

Aiming for sustainable high performance based on selecting stocks to break away from low P/B ratios



Head of JP Equity Value Group,
Investment Department
Masamichi Arikawa

Our Value Group has been practicing value stock investment in which it “selects companies that can make money” for approximately 30 years since our inception. When investments fell below the TOPIX for three consecutive years since fiscal 2017, we judged that it was a historical opportunity to invest in value stocks and informed our clients. Those investments have managed to outperform the TOPIX for four consecutive year from that point. As a result of continuing our investment efforts while adhering to the Group’s investment philosophy even as we experienced underperformance, we were able to continue an investment management structure with our outstanding group members. In fiscal 2023, we successfully achieved the highest excess return in the past 20 years not only against TOPIX, but also against the Russell Nomura Japan Value Index, a leading value index.

A consistent investment philosophy as a value investor

In Japan, there have been repeated cases of investments in stocks with low P/B ratios, or ratios of the total market value of shares to shareholders’ equity, producing higher returns than investments in TOPIX. Why do you suppose that is?

As is inevitable that investment decisions by humans will be biased, the cycle of overvaluation and undervaluation will repeat itself. Our investment philosophy is that this is where the source of excess earnings is to be found, and that contrarian investment in undervalued stocks will continue to be effective. When comparing deep learning models such as generative AI with the human brain, one can see that the human brain is good at making decisions by omitting calculations from a small amount of

information. A typical example is judging that what happened just before will happen again next, and that what has not happened in the past will not happen in the future either (“recency bias”). Our conclusion is that such bias in human judgment is a highly sustainable phenomenon brought about by the structure of the brain based on humanity’s success in surviving by using limited information, time, and energy in an efficient manner (“heuristics”).

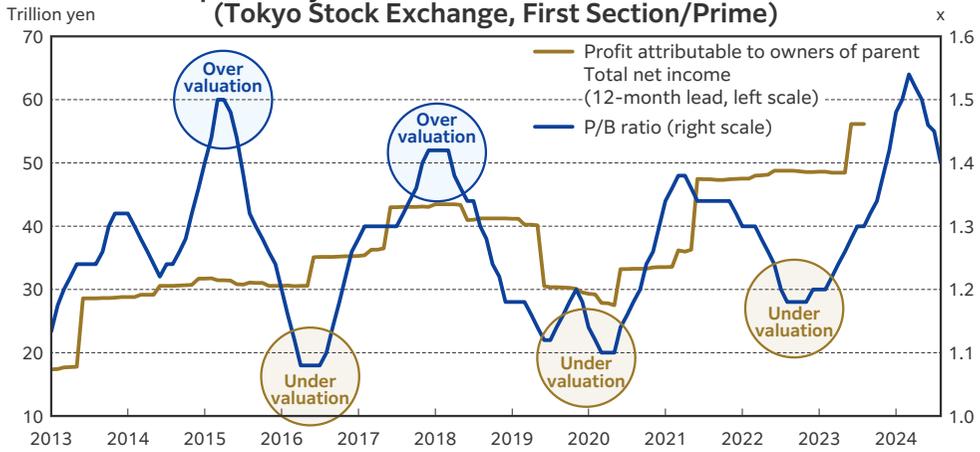
When companies’ profits increase, investors often expect continued growth in the future. The resulting rise in companies’ value in the form of its share price rises creates sentiment that the share price will continue to rise in the future. This leads to a further rise in share price and, consequentially, overvaluation. Conversely, if profits decline, companies’ share price will fall, which leads to undervaluation. Such market dynamics have yielded a repeated cycle of investment opportunities serve as the source of excess earnings.

Russell Nomura Japan Value Index/TOPIX Index



*The above is a record of past performance and does not indicate or guarantee future investment results, future market conditions, etc.
[Period] January 1989 - June 2024
[Source] Prepared by SMDAM based on Nomura Fiduciary Research & Consulting Co., Ltd. data, etc.

Repeated cycle of overvaluation and undervaluation (Tokyo Stock Exchange, First Section/Prime)



*The above is a record of past performance and does not indicate or guarantee future investment results, future market conditions, etc.
 [Period] January 2013 - August 2024
 [Source] Prepared by Sumitomo Mitsui DS Asset Management based on data from the Japan Exchange Group, etc.

Investment opportunities through a breakaway from low P/B ratios

Our approach involves the usage of P/B ratios as measures of whether a company is overvalued or undervalued.

A company's shareholders' equity is the capital needed to take risks in order to make a profit. If profitability is very high, shareholders' equity can be kept to an extremely low level. If there is a high risk of fluctuation in earnings, a larger amount of shareholders' equity will be needed.

The market capitalization of one stock is the expected value of a company's earning power. P/B ratios compare whether that earning power is commensurate with the risk buffer that shareholders' equity represents. A company with P/B ratio below 1x will be evaluated as having excess capital in relation to profitability, or as having excessively risky businesses or low profitability.

If there is a surplus of shareholder equity, shareholder returns can be increased through dividends and share buybacks. Additionally, if unprofitable businesses that are high-risk can be reduced through a business realignment, the amount of required shareholders' equity can be reduced as well, leading to an increase in shareholder returns.

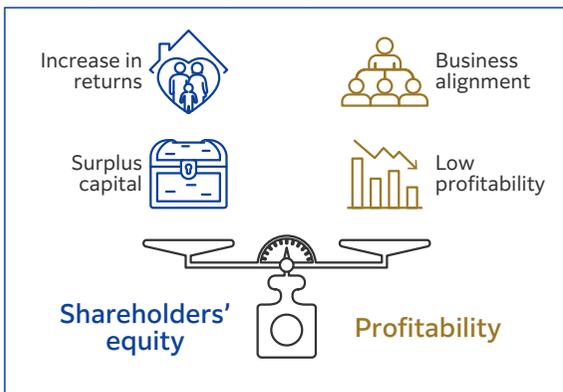
In fiscal 2023, following the Tokyo Stock Exchange (TSE)'s request that companies practice management

mindful of capital efficiency, many companies with a P/B ratio below 1x began to highlight their management policies. A large number of them are aiming to increase their P/B ratio to more than 1x by increasing their market capitalization through elevated profitability.

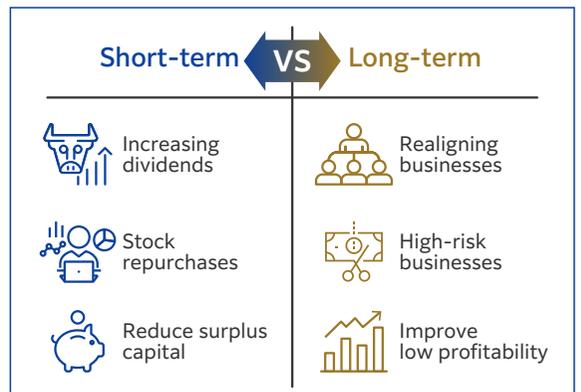
Until now, there were numerous examples of listed Japanese companies have sought to keep their profit margins low in the face of strong competition, maintain relationships with their customers, reduce their capital costs by cross-holding shares and minimize the impact of economic fluctuations by expanding their business domains. As a result, issuing earnings forecasts has become difficult, with companies exhibiting low P/B ratios and reduced stability in their share prices.

Within that environment, we have focused on making accurate earnings forecasts by understanding the core strengths of companies as well as identifying signs of changes in their management policy. We see the ability to do this as the ability to buy stocks when they are undervalued and earn high returns from share price increases beyond improvements in earnings that occur as those improvements take place. For that reason, we have invested much time in direct interviews with companies just as we would with internal and external analysts in the course of continuing our investment activities.

Balance between shareholders' equity and profitability for optimal returns



Breaking away from P/B ratios of less than 1x



Aiming for sustainable high performance

In fiscal 2023, following the requests issued by the Tokyo Stock Exchange, expectations for Japanese companies began to rise broadly. This matched the investment approach that we have continued over time, that of selecting stocks with a low P/B ratio with the expectation that will change. This resulted in our best performance in the past twenty years.

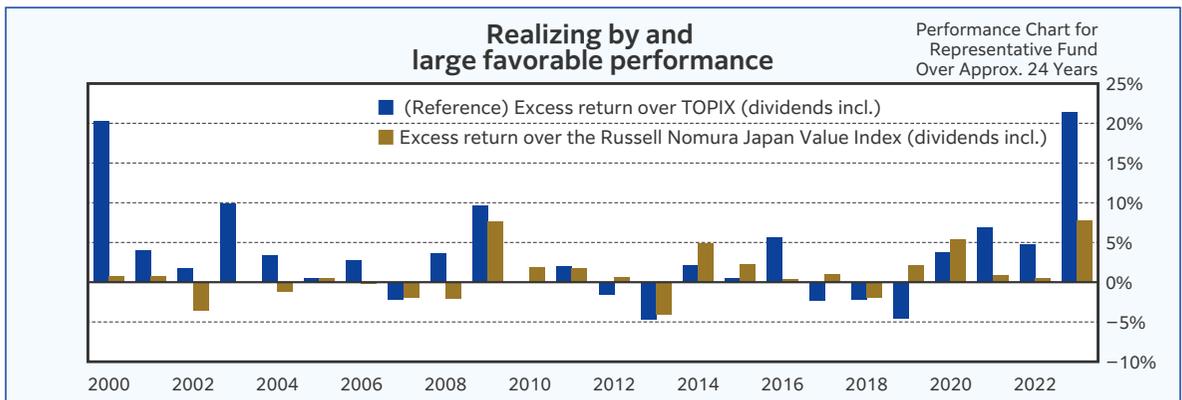
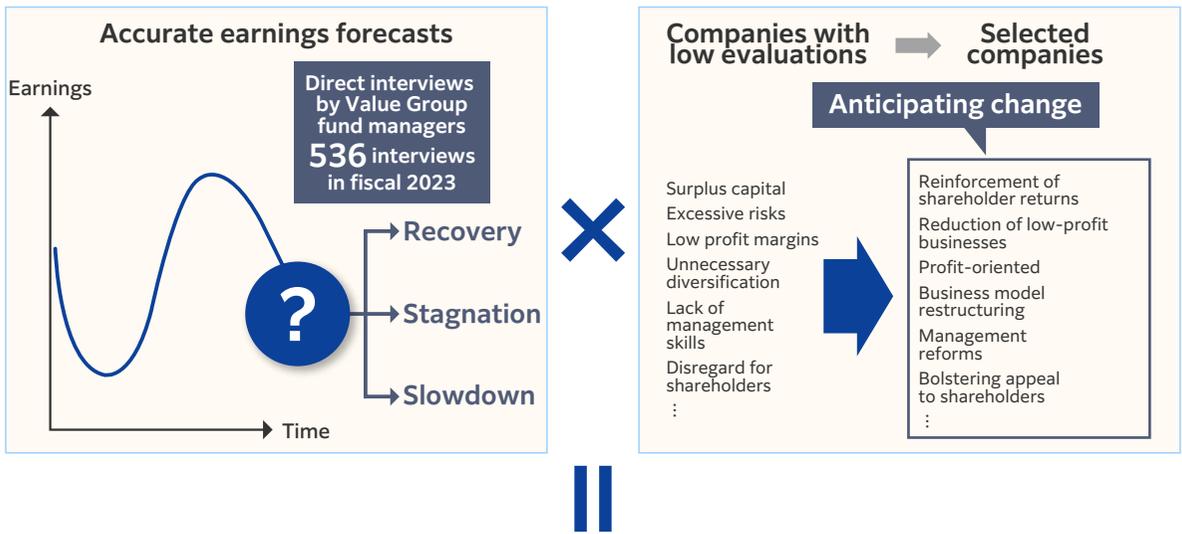
Similar approaches taken by the TSE to listed companies have in fact been ongoing for some time. Our inferred reason why many companies are now starting to respond is because they have recognized that the situation has changed to one that makes it difficult to stay in business with low profit margins and P/B ratios.

One citable factor is that the pressure to reduce supply capacity in the face of a shrinking workforce is finally becoming unavoidable, and competition to raise wages in order to attract human resources has entered full swing. Furthermore, there has been a greater number of cases in which changes in shareholder composition brought about by the reduction of cross-holdings and changes in the voting behavior of investors have significantly brought down the

percentage of votes in favor of management at general shareholders' meetings. Such cases are predicted to be highly likely to continue, and are believed to be motivating companies to accelerate the downsizing of their low-profit businesses, promote reductions in excess assets and capital and boost capital efficiency.

We believe that at present, companies are in the process of beginning to change against the backdrop of these highly sustainable factors, and that abundant value stock investment opportunities remain. We also believe that we find ourselves in a situation conducive to applying our know-how, which has enabled us to select investment targets by sensing changes in the environment that force companies to change and signs of change within companies, towards companies that have low stock valuations due to not changing up to now.

Going forward, as an initiative for our entire Investment Department, we will do more to utilize advanced technologies such as generative AI for macro, micro and other information and constantly update our analysis tools and investment processes in order to improve the accuracy of our forecasts of corporate performance as we aim to achieve even better investment results.



*The above provides an image representation in order to further understanding. It does not guarantee future investment results, etc.
 *The above (excess return) is a record of past performance and does not indicate or guarantee future investment results, future market conditions, etc.
 *TOPIX (dividends incl.) is not a benchmark for the representative fund.
 [Representative Fund] Japanese Pension/Japanese Equity Value Type [Period] January 2000 - December 2023
 [Source] Prepared by Sumitomo Mitsui DS Asset Management based on GIPS

The Challenge of Alternative Investment with the Use of Our Global Network

Going forward, we will continue to fulfill our social responsibility to provide superior investment opportunities, both through gatekeeper services utilizing our network with overseas investment firms and by providing our own alternative asset management funds in collaboration with entities within and outside the Group.

From gatekeeper to in-house investment

Alternative assets have risk/return characteristics that differ from those of traditional investments such as listed stocks and bonds, and are expected to contribute to improving the efficiency of investors' portfolios. Investments in these assets have been on the rise. However, it has been difficult for Japanese investment firms to enter the alternative asset management market on their own due to a lack of investment human resources and an investment universe with limited information compared to traditional assets.

In this environment, we established a dedicated alternative investment division in 2014. As our first challenge, we began working together with overseas investment firms to provide investment opportunities in alternative assets such as infrastructure, real estate, and private equity in the capacity of gatekeeper. Additionally, since 2014, we have been accelerating efforts to establish alternative investment products that we manage independently in cooperation with financial institutions and investment firms with specialized know-how (We launched a fund investing in CAT bonds in collaboration with Mitsui Sumitomo Insurance in 2014 and Infrastructure Debt Fund 1 in collaboration with SMBC, which invests in overseas infrastructure projects in debt form, in 2020, with Fund 2 to be launched and operated in 2024.).

Expansion of investor base to individual investors

In recent years, we have taken on the challenge of expanding our investor base for alternative investments by combining our expertise in gatekeeper services for institutional investors and our know-how in due diligence, monitoring, and reporting for overseas investment firms with our strength in our platform for providing funds to individual investors (We offered a

fund that invests in non-listed REITs to individual investors in Japan in 2023.)

Participation in products that contribute to solving social issues

As global efforts to achieve "Net Zero by 2050" ("virtually zero greenhouse gas emissions") accelerate, we are also working to provide solutions to new social needs, such as responding to climate change and financing infrastructure projects, through cooperation with outstanding domestic and overseas investment firms.

Specifically, we made an LP capital investment** in Aravest's (a real estate investment firm headquartered in Singapore.) Asia-Pacific Sustainable & Decarbonisation Infrastructure Equity fund in 2023 and dispatched human resources to its investment management team. We are also participating in the establishment of a fund specializing in investment in hydrogen-related fields in collaboration with the Japan Hydrogen Association and Advantage Partners. Through these efforts aimed at solve social issues, we are accumulating knowledge about investments in the infrastructure sector.

Global expansion of in-house investment

The SMBC Group is pursuing a strategy to become an "asset management solution provider." SMDAM leverages the private debt-related human resources and expertise of SMBC's major offices in the Americas, Europe, and Asia Pacific. Currently, we are developing alternative asset management systems in the UK, Singapore, and Tokyo and at the SMBC Group's US offices, and are taking on the challenge of expanding our private debt management business globally. In 2024, SMDAM has been participating in a private debt fund established by SMBC in Europe. In the future, we intend to offer on an ongoing basis investment products that invest in European private debt at the UK office. Additionally, at our base in Singapore, we will launch a strategy for Asia-Pacific real estate debt that will be jointly managed by Aravest and our Singapore office. At the SMBC Group's US office, we will offer investment products that invest in private debt. In doing so, we will expand our private debt strategy in various asset classes across the globe.

**LP: Limited Partner. Investors who invest in structured funds rather than conduct direct investment



Sustainable Team Operation



Head of Corporate Research Group,
Investment Department
Toshikazu Nishimura

The Corporate Research Group focuses on sustainable operations and the development of the next generation of leaders. We strive for efficient organizational management through the training of highly specialized analysts and the passing-on of know-how. Additionally, our next generation of leaders must promote the sharing of know-how and communication, and bolster data-driven approaches and information disclosure. Through such initiatives, we are further drawing out the strengths of our entire organization and achieving sustainable growth for the future.

Aiming for sustainable operation

In the Corporate Research Group, even analysts who fall in the “training zone” are required to have a high level of expertise due to the nature of their work. Still, a high level of expertise cannot be acquired overnight. To maintain this expertise, we focus on establishing and improving training systems for the purpose of efficiently passing on know-how.

New analysts acquire basic analytical skills as analysts through basic training. Subsequent on-the-job training hones practical performance forecasting method. Additionally, when a new analyst makes an investment decision, the Group Head or Senior Analyst performs a logic check of the performance model for all stocks. While dozens of exchanges may occur upon startup, this thorough communication ensures a high level of expertise and leads to the successful sharing of know-how throughout the organization.

What the next generation of leaders keeps in mind

Firstly, next-generation leaders make it a point to conduct data- and fact-based analysis and proactive information disclosure. The large number of highly-experienced analysts constitutes one of the Group's strengths. For analysts who fall into the “training zone,” we believe that data and fact analysis is important in order to compensate for their lack of experience. Moreover, while the results of investment decisions are of course important, it is also of the essence for young analysts to visualize the process. These points are conveyed to them through on-the-job training. On the other hand, as noted above, analysts in the Corporate Research Group have a high degree of work independence and as such do not have many opportunities to provide direct guidance. Accordingly, we proactively disseminate information not only for the purpose of communicating information to fund managers (FMs), but also as part of our efforts to share know-how on how to analyze and disseminate information to analysts who fall in the “training zone.”

Developing the next generation of leaders

In the Corporate Research Group, due to the high degree of work independence of each analyst, there is a risk of poor communication among analysts. As such, what is required of the next generation of leaders is a commitment to creating an organizational culture that enables each analyst to share their know-how. We must be ever-aware of the need to establish a workplace environment in which communication naturally progresses by taking the initiative in knowledge management of our own accord. The Corporate Research Group is comprised of five units. The Unit Leader of each focuses on strengthening communication and developing human resources within the unit. We believe that giving them responsibility and authority and involving them in management duties in this fashion will lead to fostering and nurturing their self-awareness as next-generation leaders.



Senior Analyst, Corporate Research Group,
Investment Department
Tomohiro Sawada



Senior Portfolio Manager, Research Active Group,
Investment Department

Naoki Koga

The Research Active Group focuses on sustainable team operation, training the next generation of investors, and challenging young FMs and ensuring their contribution to the organization. While maintaining an investment system based on our investment philosophy, each of us takes responsibility for investment decisions and aims to grow as a trusted investor.

Sustainable team management and passing on of investment philosophy

The investment products we offer to our beneficiaries are intended for medium- to long-term asset-building. In order to achieve that purpose, we believe it is important to maintain without interruption an investment structure with a thorough investment philosophy. As such, we ensure continuity through independent team operation.

In our team, we do not assign a leader for investment decisions. All of us, whether highly-experienced FMs or active young FMs, work from a level position to build one portfolio. This ensures portfolios are not overly dependent on the investment decisions of a single FM, and that future generational changes can be made smoothly. Moreover, the process of building a portfolio as a team is itself an opportunity to pass on and thoroughly instill our investment philosophy.

The challenge of young FMs and organizational contribution initiatives

By receiving an introduction from my senior employees and following their example in tackling my duties, while there are still many things I have yet to master, I am now able to provide asset management services to beneficiaries in my capacity as an asset manager. In the investment division as well as the Research Active Group, there are many motivated young employees. We communicate both within and outside our organization that we are the ones who will uphold an “asset management company that offers the best investment performance and solutions!”, and engage the stock market in earnest each day so that we feel proud to uphold the SMDAM name.

Fortunately, we are blessed with opportunities to disclose information externally. We disclose information to our clients through social media and live feedback at seminars. Through diligent reporting and other activities, we strive to be investors who are trusted by the issuers we cover and securities companies. We also proactively utilize mass media and

Development of the next generation of investors and fostering of a sense of responsibility

While our investment team discusses areas such as the risks involved in each decision, we basically respect the investment decisions of each FM. This allows us to build a portfolio made up of a concentration of diverse investment ideas. It is also highly effective in terms of training investors as well.

Young FMs initially focus their efforts on selecting stocks with small investment proportions. However, as they continue their investment efforts within the team on a daily basis, their behavior gradually starts to reflect awareness of the investment performance of the overall portfolio and risk management.

Also, in order to fulfill our fiduciary responsibility as investors, it is important that we are able to explain our investment behavior to our beneficiaries. Although the main explanations are given by experienced senior FMs, young FMs are given opportunities to give explanations in stages, starting with those that are easy to discuss, so that they can learn and grow as trusted FMs.



Senior Portfolio Manager, Research Active Group,
Investment Department

Masahiro Kaneko

social media to disclose useful information based on our experience.

I will strive vigorously to contribute to the asset management business in Japan from the perspective of how I can contribute to my beneficiaries beyond the framework of the funds I am oversee while inheriting the sentiments of my senior employees.

Global Theme Investment



Senior Portfolio Manager,
Global Equities Group,
Investment Department

Shohei Osawa

Head of Global Equities Group,
Investment Department

Yoshitaka Aikawa

In global equity investment, the growth or decline of a company is affected not simply by market trends and business cycles, but also by major structural changes in society and the economy. These structural changes include long-term trends across society, such as response to environmental issues, technological innovations, and demographic shifts. These long-term trends, or megatrends as they are also called, are extremely important factors in equity investment. We believe that by accurately capturing these factors, we can achieve stable returns that are not affected by short-term market fluctuations. The significance of theme investment lies in understanding these major structural changes and, based on that understanding, in identifying and investing in companies and industries that show long-term promise.

Unique global equity theme investment process

At SMDAM, we conduct theme investment in global equities based on a unique process that focuses specifically on megatrends and structural growth opportunities. The theme investment process begins by focusing on long-term megatrends on a global scale and identifying among them sub-themes closer to the market from which structural growth can be anticipated.

Specifically, various long-term and structural changes persisting in the world are verified and megatrends are consolidated into four major themes. Further, we determine the impact of long-term changes in the marketplace and society and, based on this, identify areas of high future growth potential. At this stage, we select highly attractive sub-themes by utilizing the knowledge of experts in each industry and our own quantitative analysis. Selected sub-themes are verified in detail at meetings dedicated to the theme and evaluated by the entire team for their degree of

promise.

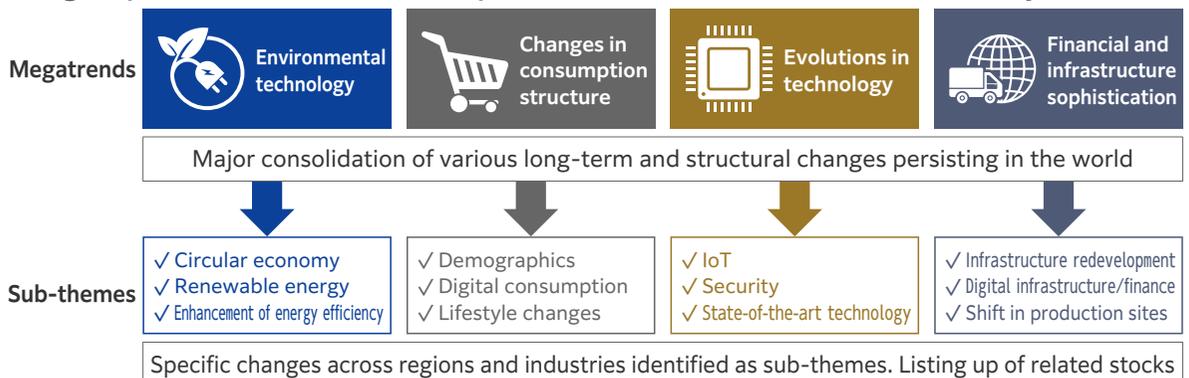
Next, a universe of stocks related to the sub-themes is established and stocks are selected through qualitative and quantitative fundamental analysis. This process involves thorough bottom-up research, discussions of the long-term growth potential of individual stocks by the entire team, and the careful selection of the most competitive stocks. Then, finally, FMs construct the portfolio and realize an investment strategy in line with the prevailing theme.

Through this process, it is possible to invest in stocks that are not simply the talk of the market, but also in those that are most likely to achieve sustainable growth due to the benefits yielded by the theme. The uniqueness of our theme investment lies in this thorough research and selection process, which enables us to select stocks in a reproducible fashion.

Case studies of theme investment

Here are some case studies of changes in environmental technologies and consumption structures that constitute specific results of our theme investment efforts.

Image representation of investment process that embodies theme investment by the team



The investment environment for environmental businesses is changing rapidly due to social and regulatory changes. However, by conducting supply chain analysis within sub-themes, among related stocks, we focus on markets with particularly high growth potential over the medium term as well as firms that will become market leaders in those markets. We then invest in grid infrastructure-related companies that have strengths in solutions and technologies for long-term environmental issues. Sustainability in global equity theme investment goes beyond the ascertainment of risk, and we recognize that environmental technology constitutes important investment opportunities.

Additionally, in investments based on changes in consumption structure, we are making long-term investments in luxury car manufacturers with our focus placed on the global expansion of the affluent market and growing preferences for luxury. After investing, we continue to confirm the structural factors behind the company's strong performance largely through regular dialogues with its management and onsite factory tours, deepening our level of confidence in that company's sustainable growth.

In this manner, we ascertain companies that hold the promise of growth from a long-term perspective and pursue the capture of favorable investment performance through theme investment.

System to support theme investment with reproducibility and sophistication initiatives

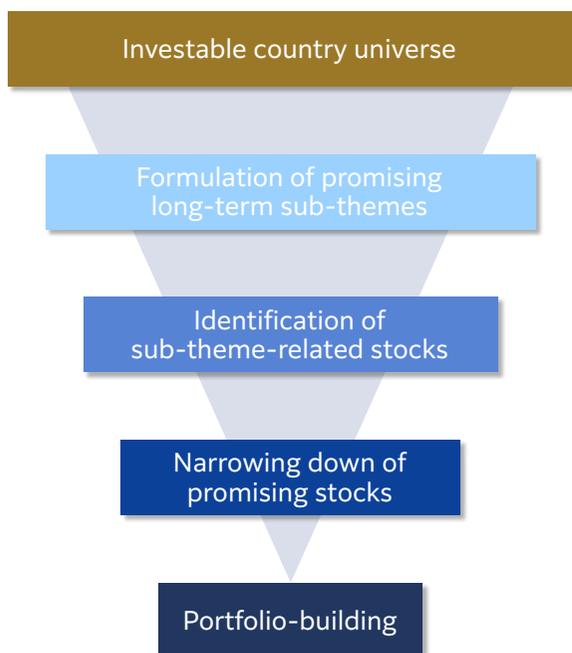
We are implementing multi-faceted initiatives in order to ensure the continuation of theme investment with reproducibility. Specifically, analysts are assigned to each sub-theme and a research system is put in place that is not biased toward any particular industry or region. We also organize teams for each megatrend and work together with analysts who have in-depth knowledge of specific fields to enable cross-functional research on sub-themes. The introduction of this

team-based system reduces dependence on individuals and enables theme investment with reproducibility.

For our global investment structure, we have management teams placed in Tokyo, London, Shanghai, Hong Kong, and Singapore to provide broad coverage of global equities. Analysts and FMs at each location coordinate over information closely to conduct effective and efficient theme research and company interviews. In this way, we have established an investment structure that enables us to make investment decisions based on a globally consistent investment philosophy while still taking advantage of the unique characteristics of each region.

SMDAM is continuing various initiatives to in order to facilitate the sophistication of theme investment. For example, with regard to the selection of sub-themes, meetings are held with team members with experts in each industry included as appropriate in order to leverage the knowledge provided by those experts. Up to this point as well, we have held meetings with physicians specializing in dementia and obesity as well as with experts who have expertise in building data center infrastructure related to generative AI. Also, in addition to developing a model to quantitatively evaluate the promise of sub-themes, we have created a mechanism to efficiently identify stocks related to each sub-theme by making full use of industrial data and our independently-developed text mining technology.

We believe that theme-based investments are more durable against short-term market volatility and are more likely to provide stable returns from a long-term perspective. Our aim at SMDAM is to achieve favorable long-term performance by continuing initiatives that lead to the sophistication of theme investment and the improvement of reproducibility to realize sustainable and consistent investments.



Investment Human Resource Development Initiatives

In striving to become “the Best Asset Management Firm For Your Better Quality of Life,” our management philosophy, we require human resources that engage in their day-to-day job duties with a strong sense of ownership. In the recruitment of new graduates as well, to acquire such human resources, we have established two courses: an investment course to become an investment professional and a general course to be active in a wide range of diverse operations, allowing candidates to choose according to their career aspirations. We position the five-year period after a new graduate joins our organization as a “training zone” that we define as the period during which the employee acquires the knowledge and skills they need while clarifying their own career vision. Furthermore, we also provide opportunities for skill development to support the autonomous career-building of all employees, not just new graduates. In particular, we place focus on the development of global human resources. Through the dispatch of trainees to our overseas offices and subsidiaries and to overseas graduate schools, we are working towards developing human resources who will lead SMDAM into the future.



Employees assigned to the investment course
Investment Development Group,
Investment Department
Quantitative Analyst

Teppei Yoshikawa



Sumitomo Mitsui DS Asset Management
(Singapore) Pte. Ltd.
Group Fund Manager

Yuta Osugi

In our investment course, new employees are assigned to the investment frontlines and related departments to hone their expertise from the time they join our organization. There are two types of investment courses: the “Investment Course” and the “Quantitative Course.” I was hired in the Quantitative Course and assigned to a department that conducts quantitative analysis.

This department is primarily responsible for fund analysis and the development of tools used on the investment frontlines. While I had no practical experience in quantitative analysis when I first joined SMDAM, I steadily improved my skills through extensive training and my day-to-day work. Actually working on the investment frontlines gave me an acute sense of how a higher level of expertise than I imagined is needed. Members on the investment frontlines have not only knowledge and theories about the market, but also deep insight based on their wealth of experience. Being able to learn in such an environment while still a new employee is an extremely valuable experience.

I feel that being initially assigned in an environment where excellent role models are close at hand is a very rare opportunity to grow as a professional in terms of both ability and spirit. Going forward, I intend to continue to make the most of this environment as I engage the market in earnest and grow into a professional that possesses a sense for both the market and figures.

I arrived at the decision to join SMDAM due to how attractive I found the abundant overseas assignment and training opportunities offered by the company as well as its systems that support career growth. After joining our organization, I gained experience in the middle-back functions of investment duties and in corporate and business operation duties. After entering my third year, I was managing funds entrusted by institutional investors and private and public pension funds in private funds as a member of the Alternative Investment Department. At SMDAM, due to our ability to leave large funds in the hands of our young employees as well, we cumulatively managed approximately 100 billion yen in Japan. In 2019, I took advantage of our organization’s study-abroad program and was sent to London Business School to pursue a Master’s in finance. This study-abroad experience enabled me to further my international financial knowledge and skills. Subsequently, as part of SMDAM’s efforts to utilize global capital, I was seconded to a major Hong Kong-based corporation engaged in the development and operation of logistics real estate and data centers. At present, I am on transfer to Aravest, a real estate investment firm headquartered in Singapore. As part of the Investment Team of a private equity fund that invests in sustainable infrastructure in the Asia Pacific region, I perform sourcing, evaluation, execution and fundraising duties for investment projects.

In the future, I hope to further broaden my range by gaining experience in the US market in addition to the European (UK) and Asian (Singapore) markets. At the same time, I will continue to master investment management duties and devote myself to becoming a leader of SMDAM’s global business over the long term.

Engagement Pertaining to Human Rights



Responsible Investment Section
Senior Analyst
Akane Kumagai

We established our Human Rights Policy on October 1, 2021, and have been implementing human rights due diligence (DD) since fiscal 2022. The Responsible Investment Section introduced a process based on that Human Rights Policy and human rights DD in criteria for the exercise of voting rights that was revised in January 2024.

Section is pursuing dialogue with approximately 20 companies as of August 2024.

Banking Sector Company A

Company A has the largest client base in Japan. It was faced with the challenge of establishing a human rights DD system that included clients, investees and borrowers. Given that, in addition to a revision of its human rights policy, we requested that the company assess its human rights risks, introduce appropriate measures based on the results, and disclose information on its PDCA cycle. Subsequently, Company A published its first human rights report in April 2024. This gave investors the ability to review its risk assessment and response status.

It is our policy to engage in ongoing dialogue regarding accessibility of financial services (equitable access to financial services by diverse people) and human rights risks of investees and borrowers.

Construction Sector Company B

Company B, a major construction company, is facing issues such as long working hours for construction workers and foreign technical interns. Since 2022, we have been engaged in a dialogue with the company on the investigation of its supply chain, including its subcontractors, the prevention and mitigation of risks, and the disclosure of this information. Company B has begun to address human rights DD at overseas construction sites by conducting surveys of foreign technical intern trainees and partner companies.

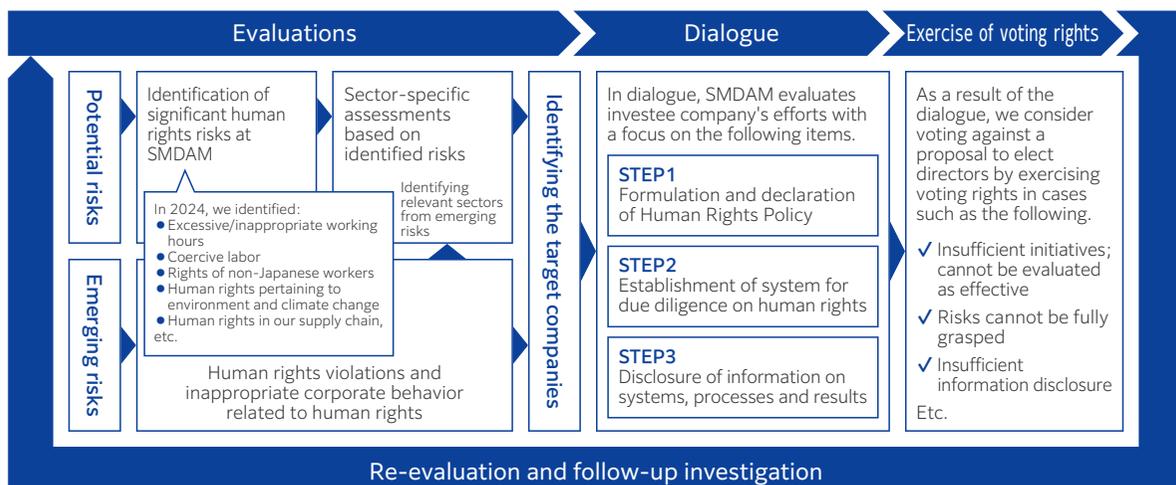
However, more time is still needed to form a grasp of the actual situation surrounding long working hours, as employee occupational accidents (prolonged working hours) are becoming evident. SMDAM's policy on this matter is to continue to demand an investigation into the actual situation, an investigation into the causes of the problem, and full disclosure of information.

Human rights initiatives in sustainable investment management

If an investee, etc. causes a negative impact on human rights (human rights violation), such as excessive labor, wage disparity between men and women, or damage to health resulting from products, not only compliance and operational risks but also damage to corporate value, including corporate reputation, may result. With all companies facing these human rights risks, it is crucial to ascertain and address the root causes of human rights violations. At the same time, if a company can face its own human rights risks and respect the human rights of its workers and other individuals, it will build up its human capital and contribute to the enhancement of corporate value. Investors, through dialogue, the exercise of voting rights, and other stewardship activities, should also take action to encourage their investees to prevent and mitigate human rights risks and implement human rights initiatives. Based on the process illustrated in the figure, the Responsible Investment Section organically links and handles the evaluation of, dialogue with, and exercise of voting rights at investee companies.

Cases studies of dialogue related to human rights

Based on this process, the Responsible Investment



Hydrogen Fund Initiatives

In collaboration with the Japan Hydrogen Association (JH2A) and Advantage Partners, Inc. (AP), SMDAM has participated in the establishment and operation of the Japan Hydrogen Fund (“the Fund”) with the aim of achieving carbon neutrality through the realization of a hydrogen society in Japan and around the world not only to build a sustainable environment but also to contribute to the Japanese economy and industry.

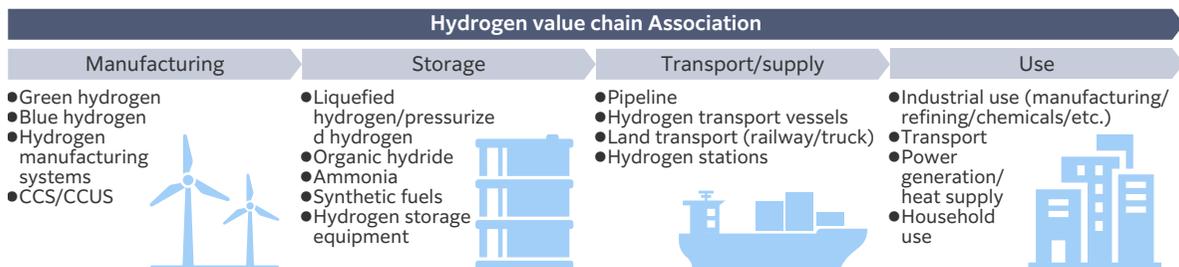
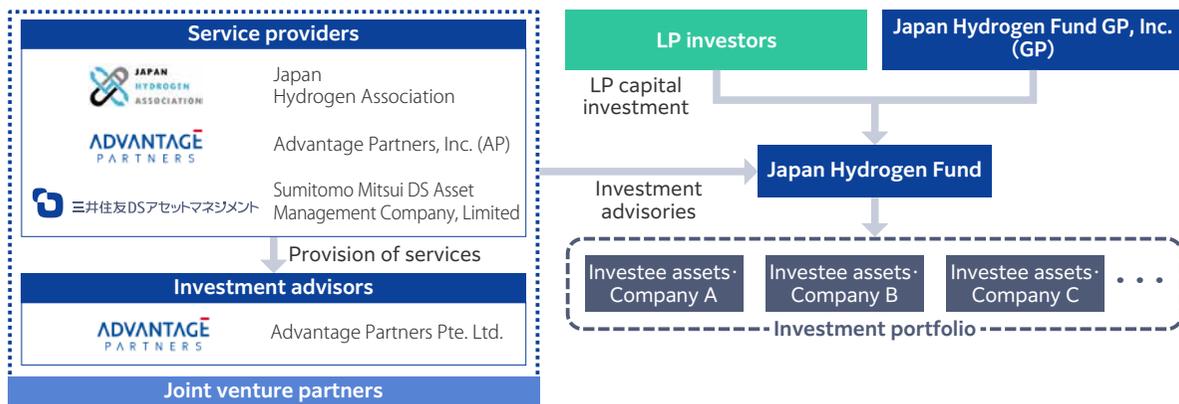
Because the process of utilizing hydrogen does not emit CO₂, hydrogen is attracting worldwide attention as an energy source for achieving carbon neutrality in fields where electrification is difficult. Overseas, a number of countries have announced national hydrogen strategies and policies. Many hydrogen production projects are being planned in countries that hold the promise of hydrogen supply, and funding needs are increasing due to global, long-term growth prospects.

In Japan as well, JH2A commenced activities in December 2020 as a cross-sectional organization to accelerate the formation of a hydrogen society. On the policy front, with the enactment of the Act on Promotion of Supply and Utilization of Low-Carbon Hydrogen and its Derivatives for Smooth Transition to a Decarbonized, Growth-Oriented Economic Structure, or Hydrogen Society Promotion Act, in May 2024, supportive measures are being taken to promote the supply and use of hydrogen at an early stage with a view toward the realization of a hydrogen society. The need for funds for the hydrogen sector is expected to increase further. In June 2024, it was announced that the Ministry of Economy, Trade and Industry (METI) will establish an Indo-Pacific Economic Framework (IPEF) window within the Fund to establish a hydrogen supply chain within the IPEF region, and that it will also be able to receive official support from METI, including the promotion of private sector investment. SMDAM will provide limited partner (LP) investment with limited liability to general partners (GP) with unlimited liability for the Fund, and will be responsible for middle-back operations and the provision of

sustainable investment and Japan Bank for International Cooperation assessments. Furthermore, AP, which is responsible for front-line operations such as sourcing, investment consideration, and value-up activities, and JH2A, which is responsible for promoting collaboration and sharing the latest market information with member companies and disseminating information domestically and internationally, will cooperate with SMDAM to promote the Fund projects.

In the operation of the Fund, middle-back operations will include bookkeeping, transaction processing, and response to inquiries from investors. For sustainable investment and Japan Interest (J/I) evaluations, SMDAM’s Alternative Investment Department and Responsible Investment Section will work together to perform evaluations using criteria unique to the Fund. For sustainable investment evaluations, they will make disclosures to investors and otherwise utilize their know-how accumulated through the management of traditional assets, J/I is defined as “the anticipated return of profits to Japan, either directly or indirectly, now or in the future.” In investing in overseas companies, we will evaluate and monitor their potential to contribute to the realization of a hydrogen society in Japan.

Through our participation in the establishment and operation of the Fund, we hope to do our part for the realization of a hydrogen society and the achievement of carbon neutrality in Japan by providing the necessary funding for production, storage, transportation, supply, use, and other domains in the hydrogen value chain.



(Source) Prepared by Japan Hydrogen Association, Advantage Partners, Mitsubishi UFJ Morgan Stanley Securities, and SMDAM

Investment Sophistication Using Generative AI



Head of Investment Development Group,
Investment Department
Takehide Hirose

We will combine its “accumulation of unique information” and “utilization through technology” to realize “Our Mission & Vision” as an investment front desk and continue to take on new challenges in order to emerge victorious in the race for survival.

“Our Mission & Vision” as an investment front desk

Recently, we have seen the keyword “Symbiotic” (referring to symbiosis between AI and humans). We aim to do the same at our investment frontlines. We believe it is important to increase competitiveness through combinations of “unique information” such as internal know-how and the “utilization of technology” as a tool such as AI. “Our Mission & Vision” refers to the achievement of a symbiotic relationship with AI on the investment frontlines, one that enables FM to focus on generating investment ideas that lead to better performance.



Impact caused by generative AI

When I was a student, developing logic for web access ranking was a hot topic. This was back when full-text search engines such as AltaVista were mainly used overseas. In Japan, although there were robot-based search engines such as Clairvoyant and Goo, registration-based search engines were still the norm. However, the results displayed by all search tools did not match the users' sensibilities. Given that situation, Google developed the random surfer model, which revolutionized the display of search results. Now we are in an age of “Googling” anything that we want to know. With generative AI as well, the era of “asking AI to do everything” has arrived. Just as we cannot imagine a world without the Internet or Google, it is likely that we will be unable to imagine a world without access to generative AI. I feel that is what tools are all about.

Competition over the utilization of generative AI that may occur in the future

I believe that the utilization of generative AI in a company goes through three steps. The first step is simple utilization. Companies have a lot of internal information. We will create an AI generated exclusively for internal use and begin using it in a manner that prevents information leakage. At this stage, however, the only differentiation is “whether one uses or does not use” AI. The second step involves the utilization of generative AI using RAG (a mechanism for referencing internal information). Differentiation among firms starts with the utilization of in-house know-how and generative AI. I imagine many companies are currently working on development for this step. Finally, the third step involves the development of full-scale proprietary AI competition trained using internal information. In the second step, information is merely referenced to. At this stage, knowledge is embedded in the generative AI itself. I feel that ultimately, we should also keep in mind a world in which proprietary AI is responsible for the continuation of the essence of a company's personality and the know-how of that company itself.

Status of our progress

SMDAM, too, is working on the second step for the time being while keeping the third step in its sights. In fiscal 2023, we handled the improvement of our development environment one element at a time with a view to realizing “Our Mission & Vision.” For generative AI, we do not know which company will provide innovative tools in the future. For that reason, we have developed a private multi-cloud environment that enables us to accommodate innovative services no matter where they emerge from. We are also promoting the construction of a data analysis infrastructure with the use of Snowflake. By enabling direct access to vendor-managed data, Snowflake reduces internal data management loads and enables low-cost data processing. During fiscal 2024, we plan to provide RAG-based support tools that utilize proprietary and up-to-date information. The keywords for this endeavor are a combination of “an accumulation of unique information” and “utilization through technology.” In order to realize “Our Mission & Vision” and emerge victorious in the race for survival, SMDAM will continue to take on new challenges.

Active ETF Initiatives

An actively managed Exchange Traded Fund (Active ETF) is an ETF that does not have an index to be linked to or aim to outperform its benchmark. This makes it different from an ETF (Index-linked ETFs, index-type ETFs, etc.), which aims to achieve investment results linked to a specific index such as a stock index. Numerous active ETFs are already listed in overseas markets, and inflows of funds from them have been increasing in recent years.



Our first active ETF

In June 2023, the ban on the TSE on the ETF system was lifted, and our first active ETF was listed on the exchange on November 28, 2023.

This ETF is the strategy of selecting and incorporating Japanese equities conducive to “ongoing” dividends. In selecting investee firms, we do not merely mechanically and quantitatively select companies with high dividend yields. We also select firms that can maintain a high level of dividends based on bottom-up research in which FM themselves interview companies and analyze their future management and financial strategies.

The reason for emphasizing dividend continuity is that even if the current dividend yield is high, a dividend cut could cause the stock price to decline and ultimately worsen the total return. In order to confirm the continuity of dividend payments, it is important to hear directly from management not only about the company’s performance and financial information, but

also about its future strategy, including its policy for utilizing retained earnings. For that reason, we conduct thorough bottom-up research through our interview activities.

Additionally, we select companies from a broad investment universe that includes small- and mid-cap stocks. Limiting oneself to only large domestic high-dividend stocks will cause the majority of your portfolio to be skewed toward foreign-demand-dependent companies and manufacturing industries such as automobiles, financials, and general trading companies. These stocks are sensitive to the stock market and currency exchange rates and tend to have large price movements. At the same time, selecting stocks that continue to pay high dividends, including small- and mid-cap stocks, will result in a higher inclusion ratio of domestic non-manufacturing stocks such as construction, wholesale, and information and communication services. These companies are less susceptible to currency fluctuations and less invested

in their businesses than large-cap stocks, which makes it easier for them to stabilize their earnings and realize sustainable dividends. Moreover, we believe that the recent increase in the number of small- and mid-cap stocks that are proactive in returning profits to shareholders is also a positive factor.

What we were mindful of upon listing our ETF

Upon listing our ETF, we were mindful of “information disclosure.” ETFs can be invested in by either institutional or individual investors as long as they have a securities account. On the other hand, unlike investment trusts, for which provide information mainly through distributors, with EFTs, SMDAM must disclose information directly to investors. Upon listing this active ETF, in addition to creating a special page on our website to explain the product

using videos, we are also making new attempts following the listing, such as creating an investment report video and posting it on YouTube.

The future

SMDAM is considering listing new ETFs through which offer our active investment capabilities while disclosing information on the investment status of our currently-listed active ETF.

For promotional efforts, we seek to continue to provide high quality information by utilizing SNS and other means, and take on challenges with broader horizons and without being bound by conventional formats. Also, through active ETFs, we will continue to convey the appeal of active management as well as contribute to the asset building efforts of institutional and individual investors.

Challenging the US active ETF market

In April 2024, SMDAM became the first Japanese investment company to become a sub-advisor to an active ETF for Japanese equities listed on the US-based New York Stock Exchange. This was made possible through a collaboration with Rayliant Global Advisors (RGA). RGA, which is strong in quantitative investment, has already listed three active ETFs in the US. As a sub-advisor, we are responsible for selecting investment targets and constructing portfolios based on bottom-up research.

The US ETF market is a massive one worth approximately 1,300 trillion yen as of the end of 2023. Of that market, active ETFs account for approximately 95 trillion yen. This market size has been expanding rapidly in recent years. In this growing market, SMDAM aims to expand its assets under management by making forays in the US market.

Our listed fund is a concentrated portfolio that selectively invests in approximately 30 stocks. This growth-type fund identifies and invests in growth markets and firms by analyzing trends based on medium- to long-term growth themes over a period of roughly three to five years. Growth themes include generative AI and electric vehicles (EVs). Through research, we find related companies and narrow down investees through interviews.

Each week, new growth themes and companies of interest are discussed by our team. Overseas, there are numerous investors who have an image of Japanese stocks as value stock investments. However, we would like to spread the word that Japanese stocks also have the appeal of growth stock investments.

Overseas investors' interest in Japanese equities

Many foreign investors are paying attention to Japanese equities against the backdrop of the Japanese economy's exit from deflation, the Bank of Japan's start of interest rate hikes, and the TSE's initiative to improve corporate governance of Japanese companies. At SMDAM, we believe that active ETFs are an important tool for providing access to Japanese equity investment for overseas investors. We will proactively communicate the positive changes in Japanese companies and the appeal of investing in Japanese equities to overseas investors.



Research Active Group and
Global Equities Group,
Investment Department
Senior Portfolio Manager
Tomoko Yokoyama

Promoting a Goal-Based Approach

Providing asset management services in close proximity to each individual investor in an era of “100-year life expectancy”



Tomioaka We launched MY GOALS in May 2023 in cooperation with Hiroshima Bank (“your bank”). In addition to providing high quality investment performance in our capacity as an asset management company, this service is designed for advisors to give ongoing support to clients in order to achieve their long-term life planning goals. Please tell us about the background of your bank’s introduction of MY GOALS.

Our “Goal-Based Approach (GBA) Fund Wrap Service,” called “MY GOALS,” is an asset management service that provides advice and follow-up services from the formulation of asset management plans to the realization of goals based on each client’s life plan. We work in concert with partner regional financial institutions to provide this service.

Ishimura In this era of 100-year life expectancy, there are growing needs for advice on mid- to long-term money planning. As a region-based financial institution, Hiroshima Bank launched the GBA initiative in fiscal 2022 to build long-term relationships of trust with our clients by helping them plan their lives. Having done that, in order to implement GBA, it is important to formulate an asset management plan for each client and follow up with them on an ongoing basis. Given this, we arrived at the decision to introduce “MY GOALS” as a service that encompasses all of those mechanisms. Another deciding factor was that “MY GOAL” uses our investment trust account. This enables us to offer highly convenient service to our clients.

Tomioaka Five companies, including your bank and SMDAM, participated in the project to introduce “MY GOALS.” In that project, we conducted service design, system development, workflow construction, and more. The thing I remember the most is the difficulty in managing tasks and coordinating opinions due to the large number of people involved. As this was an unprecedented initiative for us, everything constituted a significant challenge. However, with the cooperation of all the companies involved, we managed a successful service launch.

Since commencing the service, we have endeavored to make continuous improvements to it that include expanding the functionality of the front tools used by advisors and making the service support NISA in July 2024.

Please tell us about the status of your bank’s initiatives and reactions to the service at your bank, as well as future prospects.



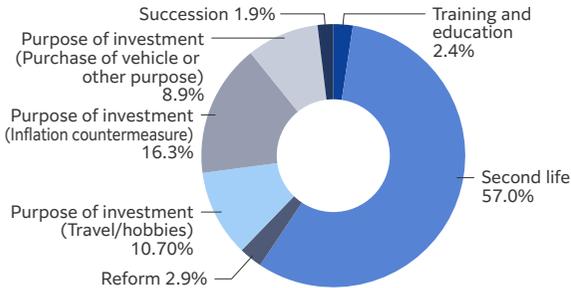
Naoki Ishimura

Hiroshima Bank

Oversees the operation of the “MY GOALS Hirogin Fund Wrap Service,” a GBA-type fund wrap service offered by SMDAM.

Ishimura Thanks to SMDAM, as of August 31, 2024, we have 799 contracts and a net asset balance of 5.4 billion yen. Looking at individual contracts, it is evident that clients have formulated various asset management plans tailored to their life plans. We genuinely feel that our advice based on GBA is taking root.

“MY GOALS” contract goals: Breakdown



*As of August 30, 2024. Contract basis (N=799).

More and more, we are receiving praise from clients as well on our consulting proposals that are aligned with their life plans. Hiroshima Bank will continue focusing on the education and training of advisors so that they can provide high-quality side-by-side support to help clients realize their goals.

In the case of banks, it is inevitable that the person in charge of client accounts will change for reasons such as a transfer or retirement. However, with “MY GOALS,” client goals are managed in the system even if the person in charge changes. This makes it possible for the bank as a whole to support clients throughout their lives. We will do our utmost to be in close proximity to clients and help them address their financial concerns.

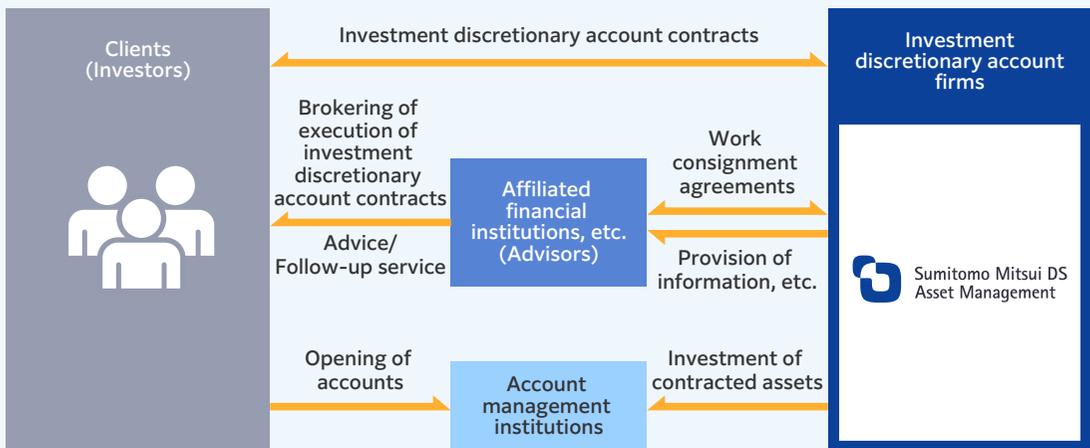


Marketing Planning Department
Head of Business Development & Innovation Team
Ikuko Tomioka

Tomioka With “MY GOALS,” the advice provided based on GBA constitutes added value. The presence of advisors who work side-by-side clients to help each of them fulfill their goals is sure to become increasingly important in the future. SMDAM, too, hopes to work with your bank to create new forms of asset management services offered by regional financial institutions and proceed to expand that trend across Japan.

About “MY GOALS”

“MY GOALS” is a discretionary investment management service through which asset management plan are formulated with future goals as the starting point and ongoing follow-up services aimed at achieving those goals are provided.



Important Precautions

Precautions Related to Investment Advisory Contracts and Discretionary Investment Management Contracts (Risks and Expenses)

Risks related to investment advisory contracts and discretionary investment management contracts

Financial products and financial derivatives products that are invested in under discretionary investment management contracts or for which investment is advised under investment advisory contracts may incur losses due to fluctuations in interest rates, currency values, market prices on financial instruments markets, or other financial indicators.

The variable factors include the risk of price fluctuations in marketable securities and other instruments, the credit risk of issuers and other bodies, the risk of fluctuations in interest rates and financial markets, and liquidity risk, specifically, the inability to execute transactions under conditions of sufficient liquidity. (Foreign denominated assets are also subject to foreign exchange risk.)

The client's investment principal, therefore, is not guaranteed, and a loss of principal may be incurred if the value of financial instruments or other assets declines.

When margin transactions or futures/options transactions (hereunder "derivatives transactions") are used in connection with investment of assets under management, the derivatives transactions amount may exceed the amount of the customer margin or other guarantee money (hereunder "customer margin, etc."), and losses exceeding the customer margin, etc. may be incurred as a result of fluctuations in interest rates, currency values, market prices on financial instruments markets, or other financial indicators.

Customer margin, etc. amounts and calculation methods vary depending on the transaction's circumstances and counterparty, so it is not possible to indicate the ratio of the derivative transactions amount to the customer margin, etc. amount.

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

Investment Management fee

A fixed management fee is charged for investment advisory contracts and discretionary investment management contracts. It is calculated by multiplying the contract asset amount (the base amount used to calculate investment advisory fees) by a rate* set in advance.

*This rate varies depending on the provisions of the contract with the client, investment conditions, and other factors, so it cannot be stated in advance. The details of contract asset amounts and calculation methods are determined separately in consultation with the client.

Depending on the contract's provisions, an incentive fee may also be charged in addition to the aforementioned management fee.

Other fees, etc.

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

- (1) Trading commissions for financial products charged on assets under management
- (2) Reserves for trust assets and the trust fees and trust administrative expenses* deducted from trust assets when investments are made in investment trusts in accordance with discretionary investment management contracts.
- (3) Management fees and incentive fees to foreign investment managers, management and custodial fees to investment trust management and custodial companies, trustee fees, audit fees, and other investment trust management expenses deducted from trust assets when investments are made in foreign domiciled investment trusts in accordance with discretionary investment management contracts.

*In the case discretionary accounts invest in investment trusts various expenses include the audit expenses of investment trusts. As the actual amount of these commissions, etc. are determined based on the specifics of transactions, etc., and are recognized as expenses whenever incurred or billed, or fluctuates depending on the status of investments, etc., the maximum amount and calculation method of these commissions, etc. cannot be stated herein.

The upper limit and calculation method, etc. for the total amount of the aforementioned investment advisory fees and other fees and commissions charged to the client cannot be indicated herein for the reasons stated above.

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

*As of September 30, 2024

For institutional account clients

- These materials have been prepared for the purpose of introducing information on some of the products that we are capable of providing. They do not constitute a disclosure document in accordance with the Financial Instruments and Exchange Act of Japan.
- The risks and returns described herein are calculated based on historical data, our current outlook for the economy, and other factors, and do not constitute a guarantee of future risks or returns.
- Data on rates of returns not from actual funds, including that from simulations described herein, does not include compensation, transaction fees, rebalancing costs, etc. incurred in actual fund management.
- The investment products and methods described herein do not guarantee future investment performance or principal, and it is possible that investments will incur losses. All investment outcomes, including losses, are attributed to the client.
- Market projections and other forward-looking statements described herein are opinions as of the time these materials were prepared and do not constitute a guarantee of future trends or results. They may not be reflected in current investment policies and may change in the future without notice.
- Third-party evaluations described herein are based on analyses of past performance over a certain period of time and do not constitute a guarantee of future investment results, etc.
- The intellectual property rights and any and all other rights of benchmark indexes described herein belong to their respective issuers and licensors.
- These materials have been prepared based on information believed to be reliable. However, we assume no responsibility for their accuracy or completeness.
- All rights to the contents of these materials are reserved by SMDAM. It is strictly prohibited to use this document for investment purposes and to duplicate or disclose it to third parties without approval.

Notes on Investment Trusts (Risks, Expenses)

Risks related to investment trusts

The prices of investment trusts fluctuate because they are affected by the price movements of the securities included in them (foreign currency denominated assets are also subject to exchange rate fluctuations). Losses may be incurred when prices decline, and this may result in a loss of principal.

All gains and losses generated by a fund from its investments are attributed to the beneficiary. Unlike bank deposits, investment trusts do not guarantee principal and also do not guarantee any particular investment performance.

Expenses related to investment trusts

Client investors will be charged with the following expenses:

■ Expenses paid directly

Commission on purchase: **Up to 3.85% (tax incl.)** Redemption (cancellation) fee: **Up to 1.10% (tax incl.)** Amount retained in trust assets: **Up to 0.50%**

■ Expenses incurred indirectly during the holding period of investment trusts

Trust fees: **Up to 2.255% annually (including tax)**

■ Other expenses

The following fees and commissions are also paid out of trust assets: audit fees; brokerage commissions and other charges on traded securities; expenses for derivative transactions (including consumption and other taxes); and charges for the custody of assets overseas, etc. Some investment trusts also set incentive fees, and these fees are paid out of trust assets. If a fund invests in other funds, asset management fees and other expenses from those funds are incurred indirectly. As the amount of such charges depends on the details of particular transactions, etc., SMDAM cannot provide an upper limit or method of calculation for them.

*The total amount of the abovementioned fees and commissions borne by clients, and their upper limits and calculation methods, cannot be stated specifically in advance because they vary depending on the client's holding period and other factors.

Caution:

The above risks and expenses pertain to investment trusts in general. The rates listed are the highest applicable for their respective fees among the investment trusts we manage. Furthermore, as the risks and charges entailed by an investment trust vary from one trust to another, before making an investment the client is requested to read carefully all relevant items within the investment trust summary prospectus and the other documents provided prior to signing a contract.

Investment trusts are unlike bank deposits, saving accounts, and insurance contracts; they are not protected by deposit insurance, savings insurance, or the Policyholders Protection Corporation. In addition, when purchased through registered financial institutions, they are not covered by the Investor Protection Fund.

Please note that investment trusts cannot be redeemed or canceled during the closed period or on public holidays in Japan or overseas.

*As of September 30, 2024

To the distribution companies and individual investors of investment trusts

- This document has been prepared by Sumitomo Mitsui DS Asset Management for the purpose of providing information. It is not intended to recommend or solicit the purchase or sale of any particular investment trust, life insurance policy, stock, bond, or other investment product.
- Sumitomo Mitsui DS Asset Management bears no liability for the outcome of investment actions taken on the basis of this document.
- The information contained in this document is current as of the date it was prepared and is subject to change without prior notice.
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- Photographs that may be included in this document are for illustrative purposes only and may be unrelated to the text.

For information on GIPS, please refer to the explanation on the GIPS website (<https://www.gipsstandards.org/>).

Note: The fiscal year 2023 refers to the period from April 2023 to the end of March 2024. Similarly, in other years.

Report current as of September 30, 2024

Be. Active.

その一歩で、未来は変えられる。

 Sumitomo Mitsui DS Asset Management

Registration number: The Director of Kanto Local Finance Bureau (KINSHO) No. 399
Membership: The Investment Trusts Association, Japan/
Japan Investment Advisers Association/
Type II Financial Instruments Firms Association