

April 2025

UK Stewardship Code



SUMITOMO MITSUI TRUST ASSET MANAGEMENT

Foreword



A major highlight of the year was to welcome global sustainable investors to Japan for the PRI in Person annual conference in October 2023. I had the opportunity to hear insights from stakeholders from around the world and to participate as a panellist in the session 'Climate and nature: where are we now, and what action can investors take?' on the plenary stage. It was not only an opportunity to re-connect with the international community after the challenges of the coronavirus, but also an event which triggered a further increase in interest in ESG and sustainability in Japan. Attention was heightened further when the Japan FSA enacted the Asset Owner Principles in August 2024, which outlined the role of asset owners in stewardship activities such as engagement activities. These developments have occurred against a backdrop of higher-than-average summer temperatures in Japan and numerous news reports of flooding and other damage caused by localised torrential rains, serving as a reminder of the need to take action on climate change. In this environment, we are keenly aware of the importance of our role and responsibilities as a leading asset management company in Japan.

At SuMi TRUST AM we are committed to maximising medium- and long-term investment returns on the assets entrusted to us by our clients and realising long-term sustainable growth for society as a whole. Our stewardship activities are an important means of achieving these goals, with the three pillars of our activities: engagement, voting and ESG considerations in investment decision-making. During the reporting period, we have been taking various initiatives in response to growing public interest in sustainability. Following the establishment of the Sustainability Committee, we have reviewed and updated our ESG materiality framework, with the aim of strengthening the governance of our various activities. In addition to dialogue with portfolio companies, we also continue to make efforts to improve communication with a wide range of stakeholders, including clients, other institutional investors, NGOs, professional bodies, and national and international regulators. As interest in ESG and sustainability grows, we are determined to fully fulfil our responsibilities through open communication with our various stakeholders.

This report describes in detail our stewardship activities over the past year. The first half of the report provides a framework for these activities, while the second half describes not only the activities, but also the outcomes, our assessment and further improvements. We also provide a wide range of practical case studies. We very much hope that this report will help you to understand our stewardship activities and how we can work together to build a sustainable future. We look forward to your continued understanding and support.

Yoshio Hishida
Representative Director and President

A handwritten signature in black ink, appearing to read 'Y. Hishida', written in a cursive style.



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Principle 1

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

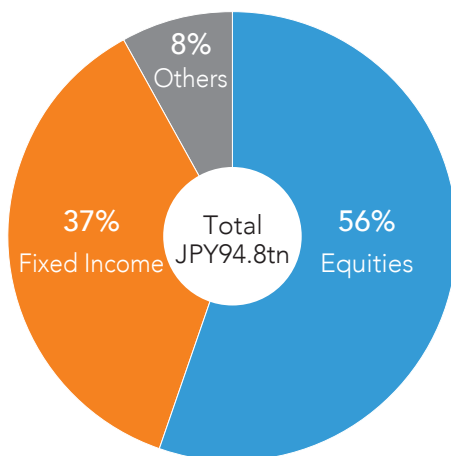
At Sumitomo Mitsui Trust Asset Management (SuMi TRUST AM) helping our clients to prosper in the medium to long term is foundational to the success of our asset management business.

Our clients entrust us with approximately ¥94.8 trillion in assets under management, making us one of the largest asset management companies in Asia. Assets under management include ¥79.1 trillion in the investment advisory business and approximately ¥15.7 trillion in the investment trust business.

We are committed to rewarding the trust our clients place in us and retaining our leading position in key markets. This includes a 20.2% share of the DC investment trust market in Japan. The following is a breakdown of assets under management by asset class and client type.

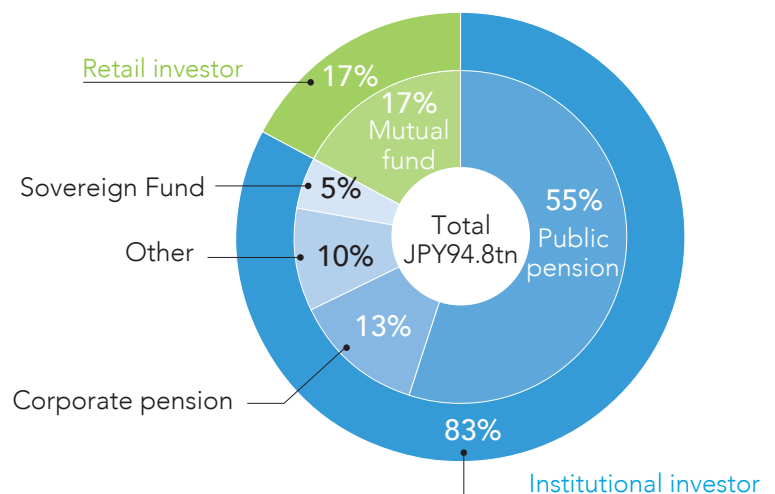
Chart 1.1 - Client overview

AUM breakdown by asset class



(Source: SuMi TRUST AM, as of end-June, 2024)

AUM breakdown by client type



(Source: SuMi TRUST AM, as of end-June, 2024)

As a signatory of the UK Stewardship Code, Japan Stewardship Code and UN PRI, we prioritise sustainable investment consistent with our role as a long term institutional investor. We aim to maximise investment returns and to contribute to the sustainable growth of companies and society as a whole. We actively utilise our role as an asset manager in the investment chain to support our investee companies to address ESG issues through engagement, voting and the incorporation of ESG factors into our investment decision-making. We are a subsidiary of the Sumitomo Mitsui Trust Group and aim to create both economic and social value and contribute to the wider group's efforts.

Our purpose

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

VISION

Realising opportunities today to ensure sustainable prosperity for tomorrow.

MISSION

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

Chart 1.2 - Core values

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

(Source: SuMi TRUST AM)

In order to realise our vision, we identify key ESG materialities which drive investee's value enhancement and sustainable growth for the future. Our ESG materialities are the basis for the planning and implementation of our stewardship activities. We conducted a review of the materialities during the reporting period, with some important updates that we cover in more detail in [Principle 7](#).

Company History

Our heritage dates to 1986 with the establishment of Chushin Capital Management Co., Sanshin Capital Management Co. and Sumishin Capital Management Co. The current organisational structure was established in October 2018 by integrating the asset management functions of Sumitomo Mitsui Trust Bank. We are the core asset management firm within the Sumitomo Mitsui Trust Group. Sumitomo Mitsui Trust Group celebrated its 100th anniversary in 2024.

Business Model and Strategy

Our relationship with our clients is characterised by enduring relationships and long-term objectives, which is a foundational principle of our trust bank heritage of asset management and administration. In addition to maintaining and strengthening relationships of trust with clients, we are focused on improving profitability through more efficient operations, providing new investment services, and offering unique investment opportunities.

Client overview - home market

Institutional investor

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

Retail investor

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

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

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

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

Client overview - overseas market

Assets under management for overseas investors exceeded ¥5 trillion. Our clients are primarily institutional investors, public pension or sovereign wealth funds. In terms of geographical dispersion, we target clients in Europe, US, Southeast Asia and the Middle East. We offer solutions including Japanese active equities as well as Japanese and global passive solutions.

Although our portfolio management functions are

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

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

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

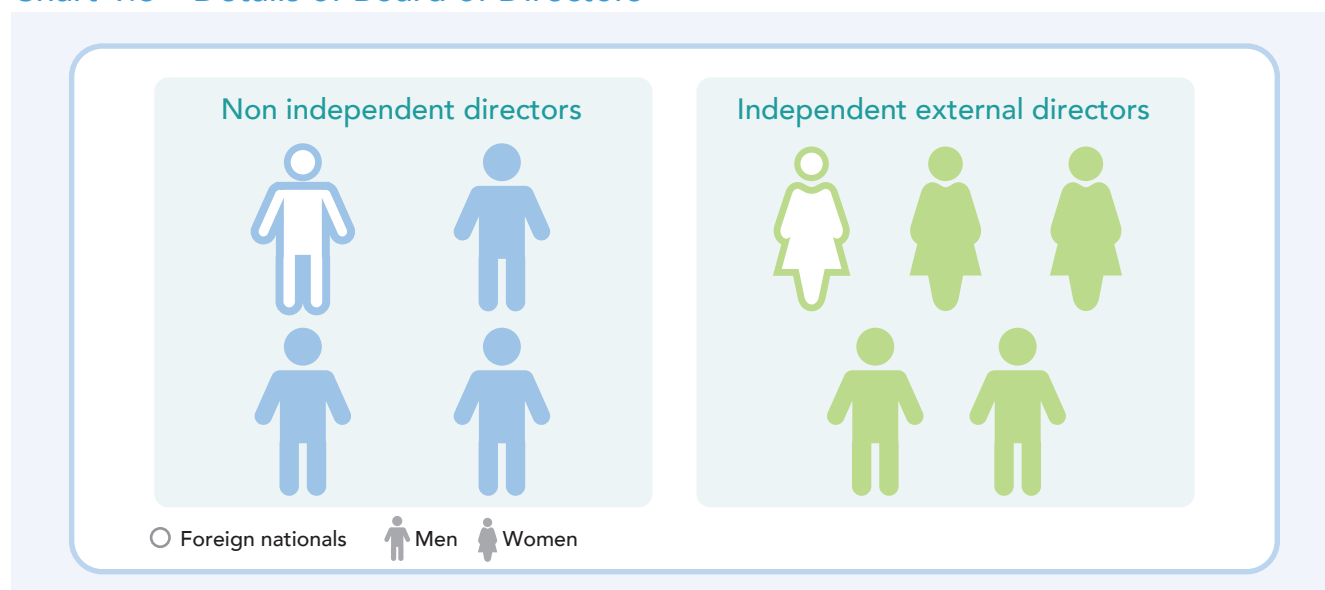
Management

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

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

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

Chart 1.3 – Details of Board of Directors



(Source: SuMi TRUST AM, as of end-June, 2024)

Human Resources

In terms of our workforce, we have 720 employees, including overseas entities, with high retention rates and diverse specialties. Within the investment teams, the average tenure of our analysts is approximately 18.5 years and the average tenure of our fund managers approximately 15.4 years, as of September 2024.

Our investment philosophy and the importance of ESG

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

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

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

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

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

Our Stewardship activity

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

Our engagement activities can be categorised into

- 1) our independent dialogue with portfolio companies,
- 2) dialogue with portfolio companies through international and domestic initiatives, and
- 3) engagement activities outside of our portfolio companies, such as policy engagement with government departments, policymakers and regulatory bodies, more details in [Principle 4](#).

We exercise our voting rights in approximately 2,500 Japanese companies and 2,600 foreign companies, as of June 2024.

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

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

Chart 1.4 - SuMi TRUST AM Sustainable investment activities

Year	Details
2003	Launched Japanese Equity SRI investment trusts for retail investors.
2004	Launched SRI funds for DC.
2006	Signed UN PRI.
2010	Launched Chinese equity SRI investment trusts.
2014	Japanese Stewardship Code successful application.
2015	MBIS® (non-financial information assessment) introduced.
2017	Stewardship Development Department established; Stewardship Activities Advisory Committee established.
2019	Impact investment products developed and seeded in Japan.
2020	Global Equity Impact Fund seeded, revised SSC successful application.
2021	SMT ETF Carbon-efficient Japanese equities listed.
2022	Bloomberg MSCI Global Total Sustainability A+ Index-linked Bond Fund is launched for pension trusts.
2023	Sustainability Committee established.
2024	We've joined the UK Stewardship Code signatory list.

(Source: SuMi TRUST AM)

ESG Materiality

ESG materiality is positioned as the cornerstone of SuMi TRUST AM's stewardship activities. Materiality refers to ESG issues that are relevant to value enhancement and sustainable growth for our investees, and which we take into account in our ESG assessment and in our engagement and voting decisions. We have conducted a review of ESG materiality-related provisions in our stewardship activities and asset management during the reporting period. The process includes a review of ESG materiality, and the key activities linked to it, as well as a reassessment of the level of materiality by mapping the key activities, with our new Sustainability Committee established in October 2023 overseeing the review through July 2024.

The views of clients, initiative organisations, investee companies and other stakeholders have all been critical inputs into the process. We also solicited opinions on additions and revisions from members of the Stewardship Development Department and Research Department. In total, we received 24 opinions related to the review which were discussed one by one in both departments, and the results were discussed by the Sustainability Committee and the Executive Committee.

The revised 'ESG Materialities' were approved by the Executive Committee and have been taken into account in engagement activities and voting decisions and reflected in our own ESG score which is utilised for ESG investment decision-making. More information on the materiality review is provided in [Principle 7](#).

We recognise that we must continue to develop our sustainability resources. In order to upgrade our sustainability resources, we made the following changes:

- 1) The Stewardship Committee has been renamed the Sustainability Committee and given an enhanced role. It is responsible for deciding on the revision or abolition of the ESG materiality review and monitoring activities related to engagement and collaborative initiatives.
- 2) The Stewardship Report has been replaced by a new Sustainability Report, which covers various stewardship activities and, in addition, information on human capital management, the role of risk management and other aspects of the investment management department. Furthermore, the content of the report is prepared with an editorial policy of fairness, balance and ease of understanding. The Sustainability Committee confirms the content of the report.
- 3) We have enhanced our monitoring of service providers including data providers and proxy advisors with a view to contacting them at least once a year and seeking to continually upgrade our services.

ESG materiality is positioned as the cornerstone of SuMi TRUST AM's stewardship activities.

Assessing effectiveness

Our Stewardship activities are reported to and monitored by the Sustainability Committee and are checked for alignment with the company's business plan and philosophy and purpose.

We engage in a two-way dialogue with clients both through surveys by our sales department, discussions with clients and reports on performance criteria. We also request feedback and discuss implications regarding ad-hoc projects and deliverables. Our clients feedback is a key measure of the effectiveness of our ability to deliver long term returns and favourable social outcomes. We cover our interactions with clients in more detail in [Principle 6](#).

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

We are committed to each principle of the Japanese version of the Stewardship Code as summarised in Chart 1.5.

Chart 1.5 – Japan Stewardship Code

We are committed to each principle of the Stewardship Code as described in the table below.	
Principle	Initiatives and self-assessment
Principle 1 Policy formulation and disclosure	In addition to our 'Policy for Addressing the Principles of the Japan's Stewardship Code', we have continued to promote stewardship activities and develop related governance systems. In October 2023, the existing Stewardship Committee's role and responsibilities was reorganised and expanded into a new Sustainability Committee in order to enhance the governance and execution of our stewardship activities.
Principle 2 Conflict of interest management	As the asset management company of the Sumitomo Mitsui Trust Group, we have a conflict of interest management system. We have disclosed summaries of the deliberations of the Stewardship Activities Advisory Committee, which is composed mostly of independent members. For all proposals of the parent company, Sumitomo Mitsui Trust Group, and affiliated companies, and cases where persons with close relationships with either company (e.g. current directors or former directors) are candidates for directors of investee companies, we follow recommendations from our proxy voting advisory company based on our Voting Rights Exercise Guidelines. The number of companies covered by the guidelines from July 2023 to June 2024 was 20.
Principle 3 Accurate understanding	We reviewed our ESG materiality framework and key activity items for each materiality and reassessed their importance by mapping the activity items. In addition, we began surveying, analysing and scoring the high greenhouse gas emitters among domestic companies on their efforts to address climate change issues for use in engagement and voting. Finally, we utilised the Paris Aligned Investment Initiative's Net Zero Investment Framework to assess alignment of portfolio companies (over 5,000 globally, as of March 2024) to net zero scenarios.
Principle 4 Dialogue with companies	We conducted approximately 1,600 engagements in Japan and 460 overseas, driven by our ESG materiality and priority activity items. In Japan, we pursued engagement in response to the Tokyo Stock Exchange's 'Action to Implement Management that is Conscious of Cost of Capital and Stock Price', while also promoting collaborative engagement. Internationally, we actively focused on agendas items such as climate change and natural capital.
Principle 5 Exercise of Voting Rights	In December 2023, we revised our voting guidelines, expanding the scope of companies eligible to object to proposals for the election of directors in the absence of female directors to prime market listed companies from TOPIX 500 constituent companies. In addition, PBR (price book value ratio) was added to the criteria for surplus appropriation proposals, and the criteria for cash-rich companies was tightened. We published individual disclosure of voting results for all stocks and proposals on a quarterly basis.
Principle 6 Reporting to clients and beneficiaries	We reported stewardship activities directly to clients and stakeholders through the Stewardship Report 2023/2024. In addition to expanding the ESG-related information on our website, we also promoted the dissemination of information via the Tokyo Stock Exchange's website. We published individual disclosure of voting results for all stocks and proposals on a quarterly basis.
Principle 7 Development of skills	We continued to strengthen our ESG knowledge through external institutions (PRI Academy) and internal e-learning. We continued to acquire, share and deepen our knowledge through various global initiatives and study groups, as well as engagement with government agencies, academia and relevant organisations. In the fall of 2023, we received the top rating in an external survey as 'the asset management institution implementing the most effective overall stewardship activities'.

(Source: SuMi TRUST AM)

Principle 2

Signatories' governance, resources and incentives support stewardship.

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

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

Corporate governance system

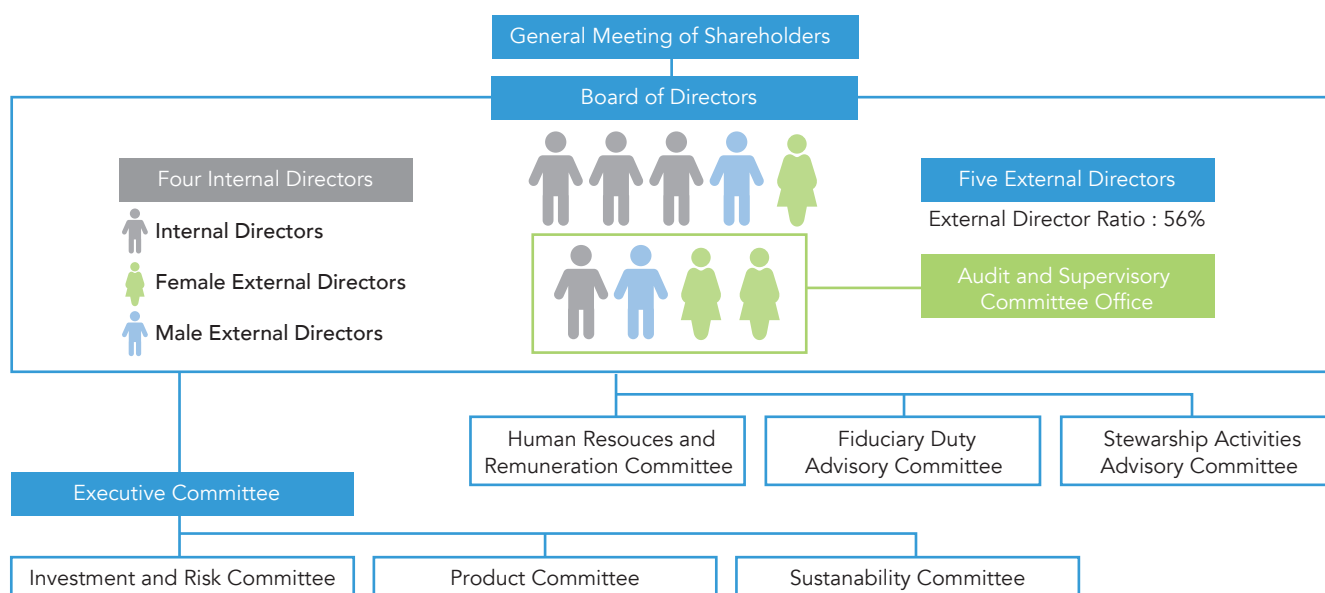
Our company structure is composed of an executive

team, who drive the company's growth, and governance functions led by the Board of Directors and relevant committees.

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

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

Chart 2.1 – Governance system



(Source: SuMi TRUST AM, as of end-June, 2024)

Board of directors

Our Board of Directors consists of nine members, including three women and five independent external directors. In selecting candidates for the Board of Directors, we take into account the diversity of their skills and experience, including advanced knowledge and experience in asset management, corporate management, legal and compliance, IT and DX, and experience in global business. For more details of the composition of our board, please see the following description.

Outside directors

Outside directors are actively involved in various meeting bodies and a robust exchange of views with the executive team. A monthly liaison meeting for outside directors is held to support decision-making and supervise business execution. The meetings attended by outside directors and others are listed in Chart 2.2.

We regularly seek to review and improve our governance structure. Since adopting the current governance structure in October 2018, a survey was sent to the directors in February 2024 in order to improve the operation of the Board of Directors.

Chart 2.2 – List of meetings attended by outside directors and others

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

(Source: SuMi TRUST AM)

As for the background on outside directors, Yasuhiro Yonezawa has served on the management and asset management committees of GPIF and Public Mutual Insurance, and Mami Sasaki has extensive experience in financial services. In addition, Royanne Doi is highly knowledgeable in the field of global risk compliance and has increased board diversity as a Japanese-American woman.

Yoshinori Inoue is a new member of the board and has extensive knowledge and experience in investment management companies, having worked in institutional investor sales at MFS Investment Management. In addition, Mie Matsuo has joined the board and has experience as a system engineer and in accounting and financial consulting, and has also served as managing executive officer at IBM Japan Ltd.

Internal governance structures

The internal control system has been founded on nine critical workstreams to ensure the execution of directors' duties and the appropriateness of other company operations. Its effectiveness is verified once a year, and the results are reported to the Executive Committee and the Board of Directors.

Our Board of Directors consists of
nine members,
including three women and five
independent
external directors.

1. Compliance programme

We have formulated a specific plan to ensure our compliance and customer protection management system. The progress of this plan is reported to the quarterly Executive Committee meetings, and subsequently to the Board of Directors. Based on the programme, we conduct compliance training for all officers and an employee awareness survey. Each department conducts training on internal controls at least once a term in principle. The main topics are insider trading, proprietary trading, prevention of transactions with anti-social forces, conflicts of interest, and compliance hotline.

2. Risk management

We formulate a specific, practical plan with the progress and achievements regularly monitored and reported quarterly to the Executive Committee and the Board of Directors. Under our three lines of defence risk management framework (for more details see [Principle 4](#)), risk register measures and business improvement activities (QC activities) has been strengthened to promote voluntary risk recognition and initiatives in line with the business characteristics of each department. In addition to e-learning training in each department, a liaison meeting of internal control representatives is held to promote a risk culture by informing each department of changes to regulations and rules relating to risk management and sharing operational accident cases. The risk management of our subsidiaries, Sumitomo Mitsui Trust International and Sumitomo Mitsui Trust Asset Management Americas, is monitored in accordance with the regulations of these subsidiaries.

3. Business execution

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

relevant laws and regulations, and when such laws and regulations are amended or abolished, they are promptly updated to reflect the amendments.

4. Management transparency

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

Our company is subject to an internal control evaluation over financial reporting conducted by the holding company, and the department responsible for financial reporting undergoes internal control evaluation by the holding company. The executive officer in charge of finance reports matters that have a significant impact on the company's business results and financial position to the Board of Directors and the Executive Committee. The company prepares, discloses and reports financial statements and other relevant documents in accordance with the Financial Instruments and Exchange Act.

5. Company's subsidiaries

The Corporate Planning Department monitors our international subsidiaries, Sumitomo Mitsui Trust International (UK) and Sumitomo Mitsui Trust Asset Management Americas, to ascertain the status of business execution and to understand the risks associated with them in order to manage them appropriately. In conducting monitoring, the Corporate Planning Department also considers various rules and approaches to risk management activities of the departments in charge of risk and works closely with the relevant departments to identify issues within the company. Sumitomo Mitsui Trust Asset Management Singapore, whose registration of incorporation was completed in December 2023, is in the process of developing its internal management system with a view to commencement of business operations in April 2025.

6. Sumitomo Mitsui Trust Group

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

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

7. Information storage and management system

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

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

8. Internal audit

In accordance with the Group Internal Audit Basic Policy set out by the holding company, an internal audit plan sets out basic policy, including priority items, and is approved by the Board of Directors

with the prior consent of the Audit Committee. In the internal audit in 2023, as a new audit framework for upgrading audits, continuing from fiscal 2022, we will conduct the following audits. In addition to the 'Organisational Management Audit', which has been changed and streamlined from the previous departmental audits, the 'critical theme' and 'regular theme' audits, which has been reorganised from the business operation section, have been implemented.

From 2024, preparations are under way to shift to an audit operation centred on the audit of key themes from the perspective of a more management-oriented audit. The officer in charge reports the results of internal audits to the Audit Committee, the Board of Directors and the President. Internal audit results are usually reported to the Audit Committee monthly and to the Board of Directors on a quarterly basis.

9. Audit and Supervisory Committee

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

The internal control system has been founded on nine critical workstreams to ensure the execution of directors' duties and the appropriateness of other company operations.

Stewardship governance

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

The Sustainability Committee was set up to enhance the governance and enforcement of stewardship activities in light of the increasing scope of activity and more granular reporting requirements of clients and regulators. The Sustainability Committee is co-chaired by the officers in charge of the Stewardship Development Department and Business Planning Department.

Chart 2.3 - Sustainability Committee - Key agenda items during the reporting period include:

- 1 ESG materialities review – approval of revision and abolishment proposals.
- 2 Engagement and collaborative engagement - determine annual plans for engagement and initiative activities and conduct monitoring.
- 3 Sustainability Report - review external disclosures such as Sustainability Report.

(Source: SuMi TRUST AM)

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

For example, the Sustainability Committee has been responsible for reviewing input from customers, portfolio companies, regulators, global stewardship initiative organisations and other stakeholders, as well as internal departments to devise our ESG Materialities. This included the annual review of ESG materialities in June and July 2024 to ensure their effectiveness and relevance (more details in [Principle 7](#)). The details of the annual review and ongoing review are reported directly to the Executive Committee. It is also communicated to the Stewardship Activity Advisory Committee.

Another important change to our stewardship governance reflects the shifting sustainability environment with a greater focus on actively learning from engagement and communication with global clients, national regulators and other international stakeholders. To date, we have developed our ESG-related activities as a leading asset manager through communication with clients in our base in Japan. However, we have placed a new emphasis on narrowing the gap with international best practice. For more details of our engagement with overseas clients during the reporting period please see case studies in [Principle 6](#).

Improving customer evaluations

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

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

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

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

Stewardship - Independent governance

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

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

Fiduciary Duty Advisory Committee meetings

Since June 2024, the Fiduciary Duty Advisory

Committee has been comprised of two independent external directors, two external experts and an internal member. The committee is chaired by external director Mami Sasaki, who is one of three women. The committee regularly discusses the company's stewardship, engagement and voting activities and reports to the Executive Committee and the Board of Directors.

Assessment

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

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

Chart 2.4 – Result of the 2024 UN PRI Assessment

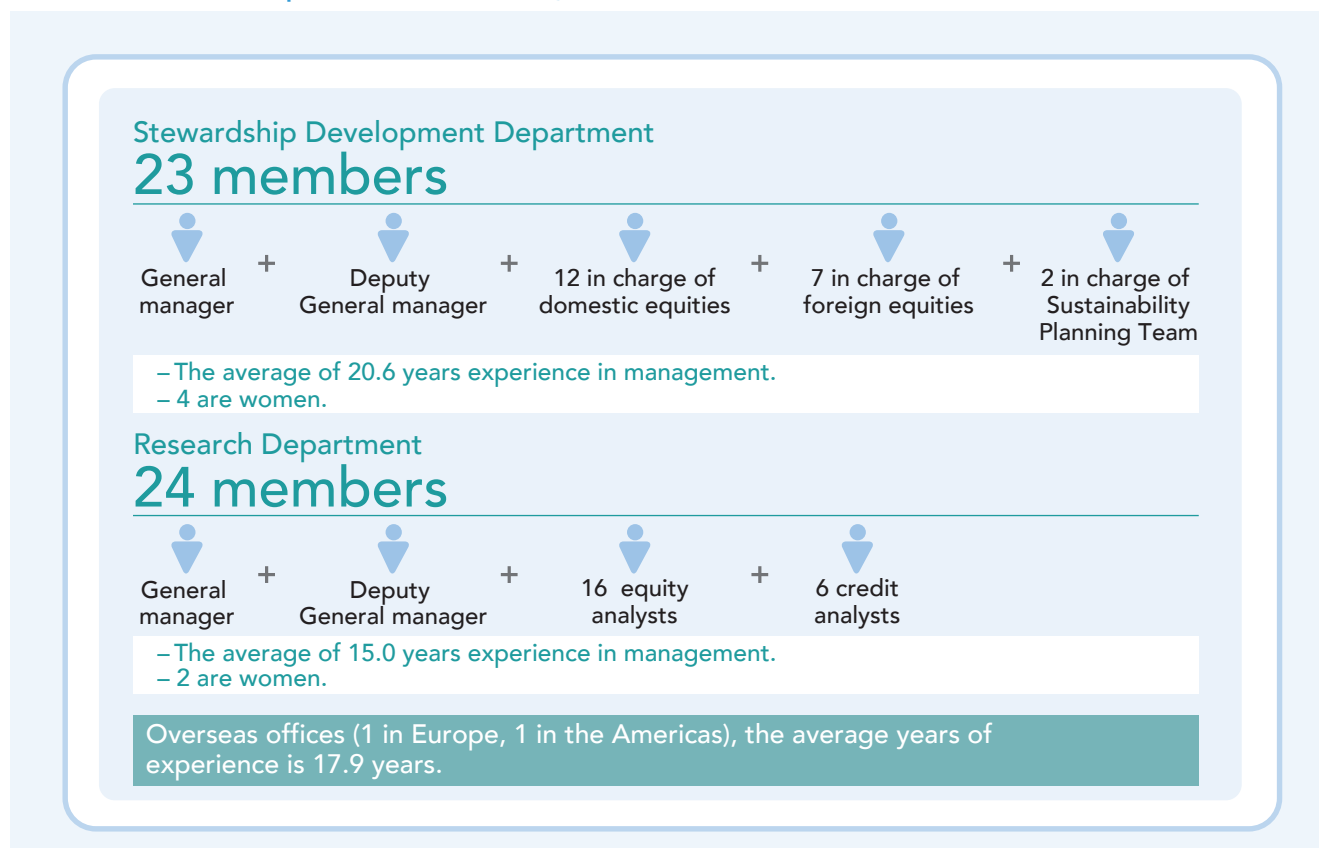
			2024
Policy Governance and Strategy			★★★★★
Indirect	Listed equity - Active		★★★★★
	Fixed Income - Active		★★★★★
Direct	Listed equity - Passive equity		★★★★★
	Listed equity - Active quantitative		★★★★★
	Listed equity - Active fundamental		★★★★★
	Fixed Income - SSA		★★★★★
	Fixed Income - Corporate		★★★★★
	Hedge funds - Multi-strategy		★★★★★
	Hedge funds - Long/short equity		★★★★★
Confidence building measures			★★★★★

(Source: SuMi TRUST AM)

Stewardship resources

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

Chart 2.5 – ESG specialist and analysts



(Source: SuMi TRUST AM, as of end-September 2024)

In addition, the Stewardship Development Department runs specific training courses throughout the year on a range of ESG topics, themes and strategies. Recent topics include 'Asset Owner and Asset Manager Trends'.

In addition, we are working to build ESG capacity across the enterprise through internal and external training initiatives. Internal capacity-building initiatives include employees attending the PRI Academy. Over 80 of our staff including management have completed PRI academy training since 2017. This worldwide online ESG training programme give us the skills to help shape a more sustainable financial future.

Key individuals

In terms of details on seniority, experience and qualifications of key individuals, Keisuke Fukunaga is Head of our Stewardship Development Department. He graduated from Osaka University, Faculty of Engineering and has been working in investment management and Stewardship-related roles since May 2001 and is a Japanese Securities Analyst CMA. He reports to the managing executive officer in charge of the Stewardship Development Department.

Seiji Kawazoe is Senior Stewardship Officer in the Stewardship Development Department. He has an MBA from the London School of Economics and a US Securities Analyst CFA and Japanese Securities

Analyst CMA. He has experience in investment management from September 1990 and has belonged to the Stewardship Development Department since January 2017. He reports to the Head of Stewardship Development Department. He serves as a board member of ICGN.

Initiatives to promote diversity, equity and inclusion (DE&I)

We believe that the promotion of DE&I enhances our employees' ability to create value, which in turn enhances the medium- and long-term growth potential of the company.

We are working to foster a corporate culture that respects the individuality and values of each employee and recognises the diversity of our workforce.

Promotion of gender equality and support for work-life balance

We are working to support the career development of female employees through the introduction of a mentoring system and the organisation of in-house seminars.

We have a variety of systems and support structures in place to help employees balance work with various life events, such as childbirth, childcare and nursing care, and to enable them to maximise their contribution. We encourage male employees to take paternity leave and provide training for managers and in-house seminars on paternity leave.

Promoting the activities of persons with disabilities

We are working to increase the employment of people with disabilities, based on the belief that promoting an active role for all will provide further growth and added value to the company.

Not only to simply achieve the legally mandated rate, but also to ensure that personnel with disabilities have equal access to opportunities.

Promoting understanding of human rights and LGBTQ

In accordance with the Sumitomo Mitsui Trust Group Human Rights Policy, we respect the human rights of all individuals when conducting our corporate activities. The Human Rights Policy includes the prevention of discrimination against LGBTQ people. We also support the promotion and establishment of Work with Pride (a voluntary organisation that supports the promotion and establishment of LGBTQ diversity management).

SuMi Trust AM received a 'Gold' rating, which is the highest possible rating, in the 'PRIDE Index' formulated by Work with Pride in November 2024.

The company has put in place a range of incentives to ensure behaviours and compliance consistent with our stewardship commitments and to raise standards to global best practice.

Stewardship incentives

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

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

Stewardship systems and processes

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

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

ESG data

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

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

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

Service providers

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

Proxy advisors

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

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



Principle 3

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

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

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

Action plan

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

- 5) Build and strengthen governance to ensure independence and transparency in management and independence from the holding company and affiliated sales companies.

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

How we identify conflicts of interest

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

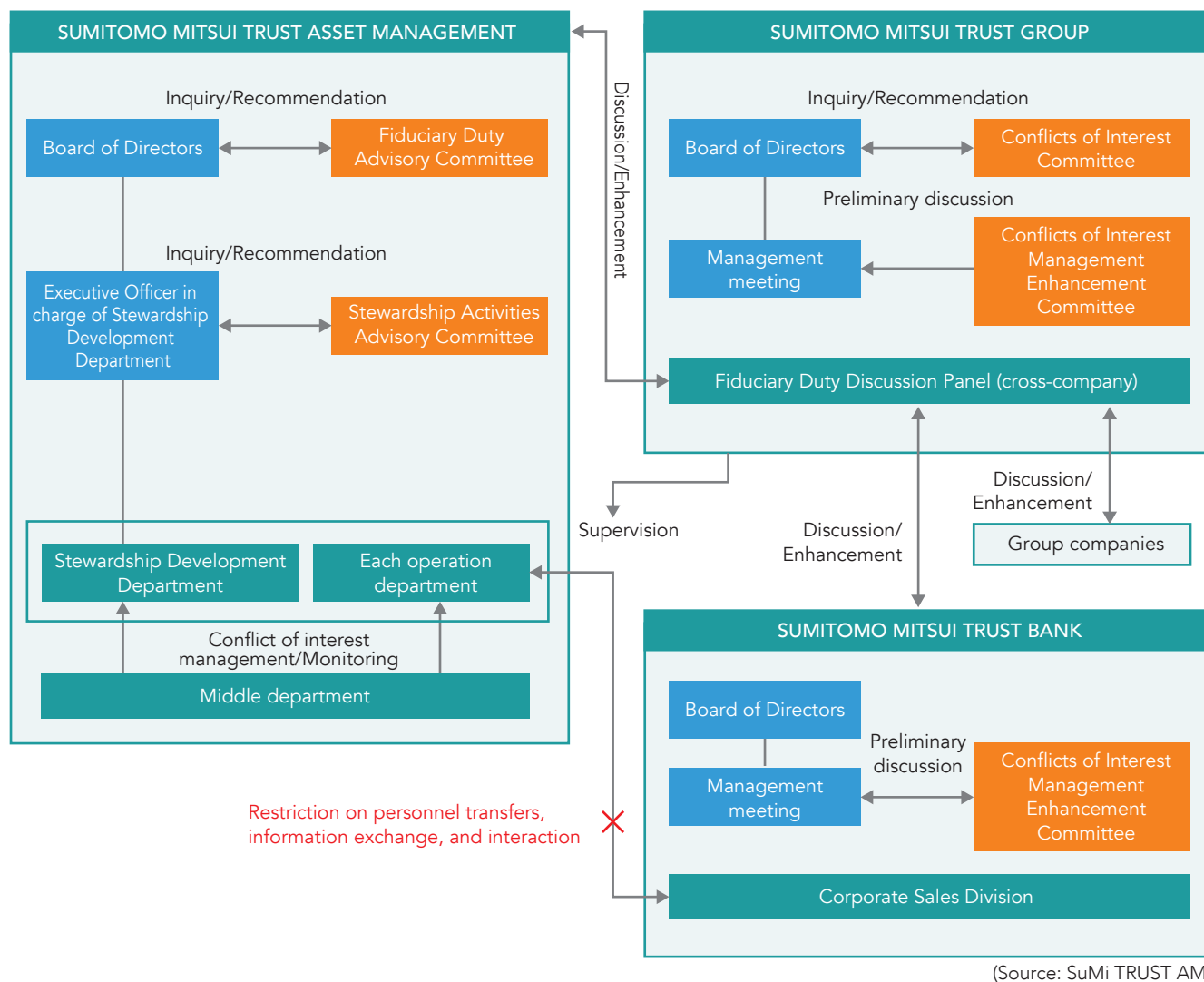
We take a proactive approach to identifying transactions that are susceptible to conflicts of interest. We identify the following key transaction types that are relevant to conflicts of interest

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

How we manage conflicts of interest

To enshrine our fiduciary duties, we have established a conflicts of interest management system, see Chart 3.1.

Chart 3.1 - Conflict of interest Management System



Conflicts of interest that arise in relation to stewardship activities shall be strictly managed in accordance with internal rules for managing conflicts of interest and for investment management operations with the aim of putting the interests of customers and beneficiaries first. For details of the conflict of interest management methods please see Chart 3.2.

Chart 3.2 – Examples of conflict of interest management methods

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

(Source: SuMi TRUST AM)

In principle, we conduct conflicts of interest management through the conflict of interests management policy as described in Chart 3.3. A summary of our conflicts of interest policy is disclosed below.
<https://www.sumitrust-am.com/conflict-interest-management-policy>

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

Conflicts of interests related to voting rights

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

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

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

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

Conflicts of interests related to group companies

One example of conflicts of interests related to group companies relates to voting rights. To avoid conflicts of interests regarding shareholder proposals for candidate directors of the parent company,

Sumitomo Mitsui Trust Group, group companies, and those who have a close relationship with us or our parent company (such as current executives), we use the advice of a proxy advisory company based on our proxy voting principles, and after confirmation by the Stewardship Activity Advisory Committee. At general meetings held from July 2023 to June 2024, 20 companies were judged through this process.

Conflicts of interests related to officers and employees

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

Chart 3.3 – Conflict of interests

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

(Source: SuMi TRUST AM)

How we monitor conflicts of interest

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

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

Principle 4

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

Risk management

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

Risk management policy

We have established our company's risk management policy based on the risk controls established by our parent company Sumitomo Mitsui Trust Group, our management policy and internal control policy.

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

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

Chart 4.1 – Risk governance structure

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

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

At SuMi TRUST AM, we operate a three-line defence risk governance system which includes risk management by the investment departments (1st line defence), risk management by risk management related departments (Risk Management Department, Compliance Department, Investment Risk Management Department) (2nd line defence), risk management by the Internal Audit Department (3rd line defence)

Chart 4.2 – Risk management

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

(Source: SuMi TRUST AM)

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

Investment management risk

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

In addition, our Investment Risk Management Department is dedicated to monitoring fund management activity independent from the investment department, see Chart 4.3. The team has personnel with knowledge of investment theory, business laws, securities trading regulations, and IT skills necessary to conduct monitoring work.

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

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

Chart 4.3 – Major items for monitoring investment management risk

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

(Source: SuMi TRUST AM)

Operational risk

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

appropriate risk control activities, and respond to changes in the environment.

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

Chart 4.4 – Major items for operational risk

• Business processing risk • Information security risk • Conduct risk • Event risk	• System risk • Legal and compliance risk • Human resources risk • Reputational risk
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(Source: SuMi TRUST AM)

Identification of market-wide and systemic risk

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

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

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

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

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

Furthermore, climate change risks are defined as 'various matters that are a result of the progression of global warming driven by human-induced economic

activities.' Changes in weather patterns caused by global warming can alter ecosystems and cause damage to food, water, health, and the economy, adversely affecting sustainable social and economic activities.

In addition to climate change, we also closely consider our investment activities impact on natural capital and biodiversity. Since September 2020, we have been the only Japanese asset manager to participate in informal working group for a preparatory meeting of the Taskforce on Nature-related Financial Disclosures (TNFD), and in January 2024, we announced we would implement early disclosure based on the recommendations of TNFD as an Early Adopter. For more detailed information on our strategy towards addressing climate change and natural capital risk, please see below or refer to our TCFD/TNFD report which is available on our homepage.
https://www.smtam.jp/file/217/TCFD_TNFD_Report.pdf

We also recognise the growing interest of market-wide and systemic risks for our clients. To better address systemic risk, we will consider further improvements in identifying and responding to systemic risks, especially related to climate change, in the next year and future years.

There is an urgent need to systematically address the implications of climate change.

A comprehensive approach to climate change as a systemic risk

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

At Sumitomo Mitsui Trust Group, our parent company, the Board of Directors has formulated Action Guidelines for Mitigating Climate Change. In addition,

at SuMi TRUST AM we have a sustainability risk management policy, including climate change risk, in our Risk Management Policy. This policy clarifies the significance of sustainability-related risk management, the roles and responsibilities of the Board of Directors, the Management Committee and officers, the organisational structure and the three-line defence system. In addition, sustainability-related risks, including climate change risk, associated with assets under management, are managed from the perspective of fiduciary duty in the investment management business rules and business-related rules and regulations. In this way, we have established an integrated risk management system for risks associated with our corporate and investment assets, including sustainability-related risks.

Portfolio climate change risk assessment

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

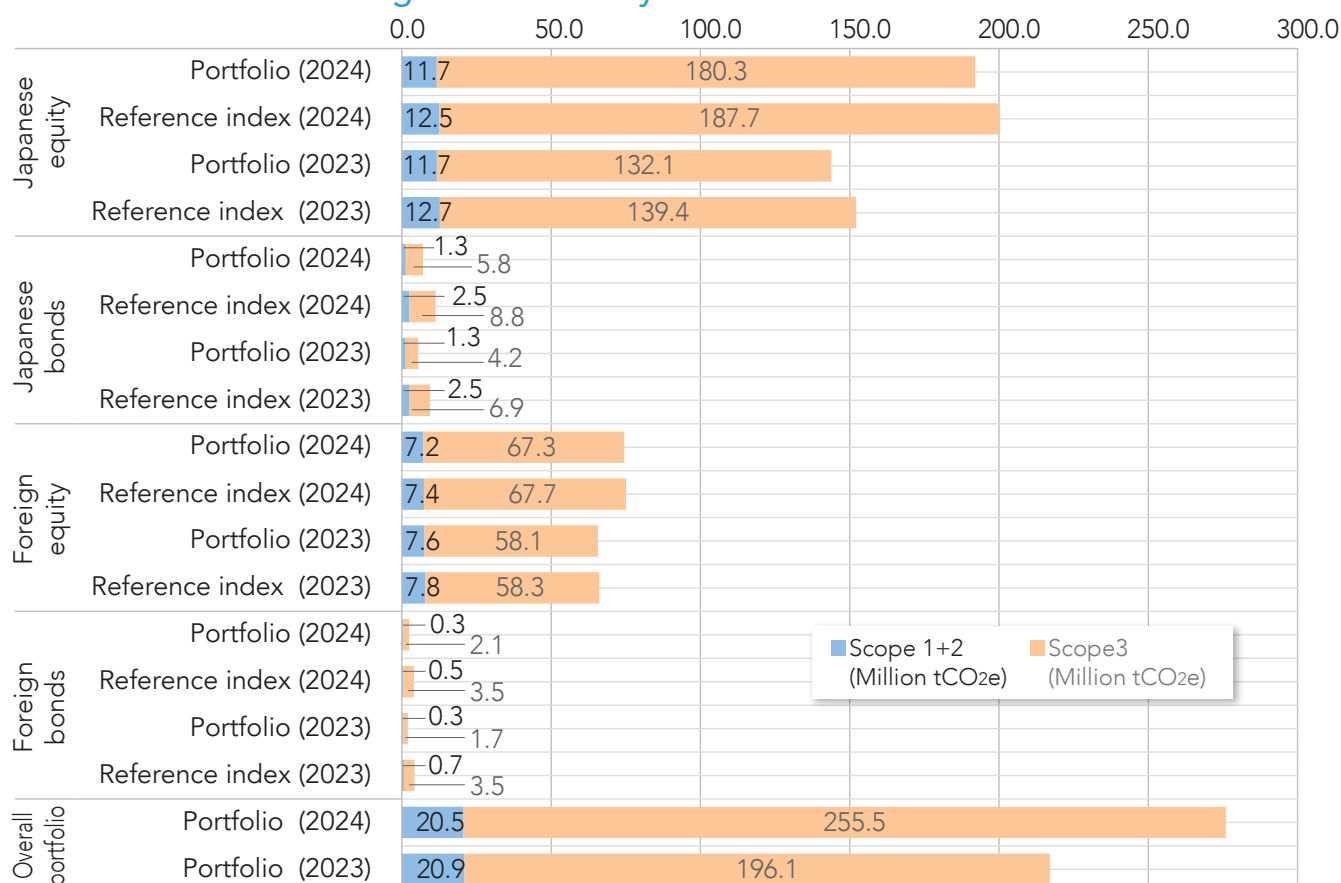
- 1) Fixed point analysis (Greenhouse gas emissions, etc.)
- 2) Transition pathway analysis

3) Portfolio resilience analysis related to climate change

Chart 4.5 provides an overview of the results of our analysis of our holdings of domestic equities, domestic bonds, foreign equities and foreign bonds. The GHG emissions based on Scope 1+2 from our portfolio stood at 20.5 million tCO₂e as at end-March 2024, a decline from the previous year's level of 20.9 million tCO₂e. On the other hand, the GHG emissions from our portfolio based on Scope 3 increased significantly to 255.5 million tCO₂e, compared to 196.1 million tCO₂e the previous year. Looking at the reason, the greatest increase came from Japanese equity as some companies expanded the measurement range of emissions resulting in a sudden increase in Scope 3 emissions compared to the previous year. Based on our understanding, we assume that changes in the measurement range resulted in a temporary increase.

In terms of emissions by industry, the utilities and materials sectors accounted for a large part of the total emissions in each of the asset classes. In response, we are engaging with relevant companies in these sectors, to accelerate our efforts to reduce GHG emissions.

Chart 4.5 - Greenhouse gas emissions by asset class



(Source: SuMi TRUST AM)

Additionally, as part of our commitment to TCFD, we have further conducted resilience analysis of our portfolios by breaking down climate risk into transition risk and physical risk. The impact of these risks is then examined through transition path analysis, which assesses how a portfolio's climate change risk will change in response to future climate change scenarios.

The results of our analysis show that our efforts to reduce the greenhouse gas emissions from our portfolio have been effective. However, we recognise the importance of taking further action. We are focusing on domestic and foreign equities by asset

class, the utilities and materials sectors as well as the capital goods sector are important for transition risk. We are also focusing our engagement and voting rights on these priority assets and sectors.

Taking action to address climate change

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

Case study 4.1 – Global 100 Climate Change Company

Company	Holcim	Country: Switzerland
Initiative	CA100+	
Activity	As one of our Global 100 Climate Change Companies, we have targeted continuous dialogue with the company to address climate change issues. The company is a leader in tackling climate change issues in the cement industry, setting a net-zero target ahead of its competitors. Consequently, our engagement has focused on additional disclosure related to the development of low-carbon cement, the use of carbon capture technologies and the increased use of renewable energy to increase the credibility of the company achieving its targets.	
Outcome	The company has continued to take a leadership position for the industry, increasing its targets for Scope 1 and 2 until 2030, and extended its Scope 3 targets to all categories. Science-based targets (SBT) approval was obtained for the increased target and scope for GHG emission reductions, and for the 1.5°C scenario. In addition, in May 2023 the company was selected as one of the first 17 companies to pilot the science-based targets (SBTs) for Nature.	
Assessment	We appreciated the improved disclosure for specific measures such as the company's Carbon Capture, Utilisation and Storage (CCUS) project, which was offered a grant from the EU Innovation Fund in July 2023, and the securing of alternative raw materials for the development of low-carbon cement. We believe that the continuous engagement through emails, online interviews and face-to-face meetings since 2019 as one of our 100 focus companies on addressing climate change issues is also a factor that has led to the improvement.	
Improvement	We will continue to engage with the company on implementation of measures to achieve the net-zero greenhouse gas emissions target for 2030-2050, and encourage the company to continue its proactive efforts as a leading company in the industry. We will also use examples of the company's initiatives in our engagement activities with European competitors, as well as with competitors covered by our other offices, in order to encourage a global energy transition.	

Case study 4.2 – Voting rights

Company	Steelmaker	Country: Japan
Activity	Under our voting criteria, we vote against company directors in firms with relatively high greenhouse gas emissions if they have problems with information disclosure, setting medium- and long-term targets for reduction, concrete measures and progress in reduction. The company is one of the top GHG emitters and we have conducted ongoing engagement and monitored the company's climate change response. While the company is expanding its business outside Japan significantly and aims to achieve a global crude steel production of 100 million tonnes, the scope of the reduction target is limited to domestic consolidated subsidiaries and does not include foreign affiliates. For consistency with the business strategy, the greenhouse gas emission target should be set to include overseas operations as well. In addition, there is a lack of explanation of the emission reduction initiatives, and it is unclear when they will be achieved. As part of our ongoing engagement, we requested that disclosures be improved and indicated to the company that we may oppose director appointments because of these problems with the company's response to climate change.	
Outcome	We opposed company proposals related to election of directors (excluding new directors). We also requested disclosure on two shareholder proposals: Proposal 6: to develop and publish short- and medium-term targets for reducing Scope 1, 2 and 3 greenhouse gas emissions in line with the Paris Agreement targets, and to disclose the company's consistency with future capital expenditure and emission reduction targets; Proposal 8: to improve disclosure with regard to climate and decarbonisation-related lobbying. While the company is aware of the issues regarding the scope of the reduction plan, it states that it would be unrealistic to set targets for all businesses and affiliates as requested. The company's reduction plan lacks specificity in its breakdown. In addition, although room for improvement can be found in the action plan and financial plan, the company had not shown sufficient commitment to improvement by the annual general meeting (AGM).	
Assessment	We are concerned about the current state of disclosure related to the company's emission reduction plans, action plans and investment plans, which is inferior to industry peers. As a result, we voted against the election of directors. Furthermore, the lack of additional explanation in response to shareholder proposals and the company's stance indicates no intention to improve. Subsequently, we voted in favour of Proposal 6, which is consistent with the company's engagement, and Proposal 8, which serves stakeholders' interests in terms of information disclosure.	
Improvement	We will continue to engage with the company, which has high emissions and lagging behind in its decarbonization efforts. In particular, we expect the company to exert greater responsibility as it expands its business development internationally and will vote against directors based on voting criteria if the company's behaviour towards decarbonisation does not improve.	

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

Collaborative engagement

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

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

To achieve these goals, we deploy methods including:

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

Advisor to Asian signatories

When NZAMI asked its members to introduce policies to achieve net zero, we functioned as an advisory board to the Asian signatories and encouraged them to consider regional approaches to 'Just Transition' through 'real solutions', including consideration of regional characteristics in Asia. At SuMi TRUST AM, we actively participate in industry initiatives seeking to solve ESG issues from a global perspective. Our proactive approach on collaborative engagement through global initiatives is covered in more detail in [Principle 10](#).

Collaboration with regulators

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

Case study 4.3 – Public policy engagement

Brazilian stock exchange and securities regulator Country: Brazil

Activity

As an active member of Investor Policy Dialogue on Deforestation (IPDD) Initiative, we participated with engagement with the B3 Brazilian stock exchange and the securities regulator CVM. The stock exchange discussed strengthening incentives for firms listed on the Novo Mercado, a listing segment for shares issued by companies that voluntarily adopt additional corporate governance practices, to disclose sustainability information. In addition, they sought investor feedback on efforts to ensure market credibility of the carbon market. The CVM held a collaborative dialogue on the establishment of a green taxonomy and trading rules for carbon markets and investment funds. We sought to exchange information on global best practice.

Case study 4.4 – Public policy engagement

US government officials Country: US

Activity

As a member of the CERES Working Group, we participated in round table meetings with officials from the US Treasury, Department of Energy and Department of State. We shared our views as part of an investor group on fiscal spending as set out in the Inflation Control Act. In addition, we discussed policy proposals for the effective use of green investment, and awareness of issues related to the implementation of the Net Zero Finance Principles set out by the Treasury Department.

Settlement risk

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

At SuMi TRUST AM, from the perspective of controlling the foreign exchange settlement risk of the funds, we introduced Continuous Linked Settlement (CLS) for all foreign currency asset balances of funds managed by the company by October 2024. We have also established an operation system that will ensure robust CLS without delay when new funds are established in the future.

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

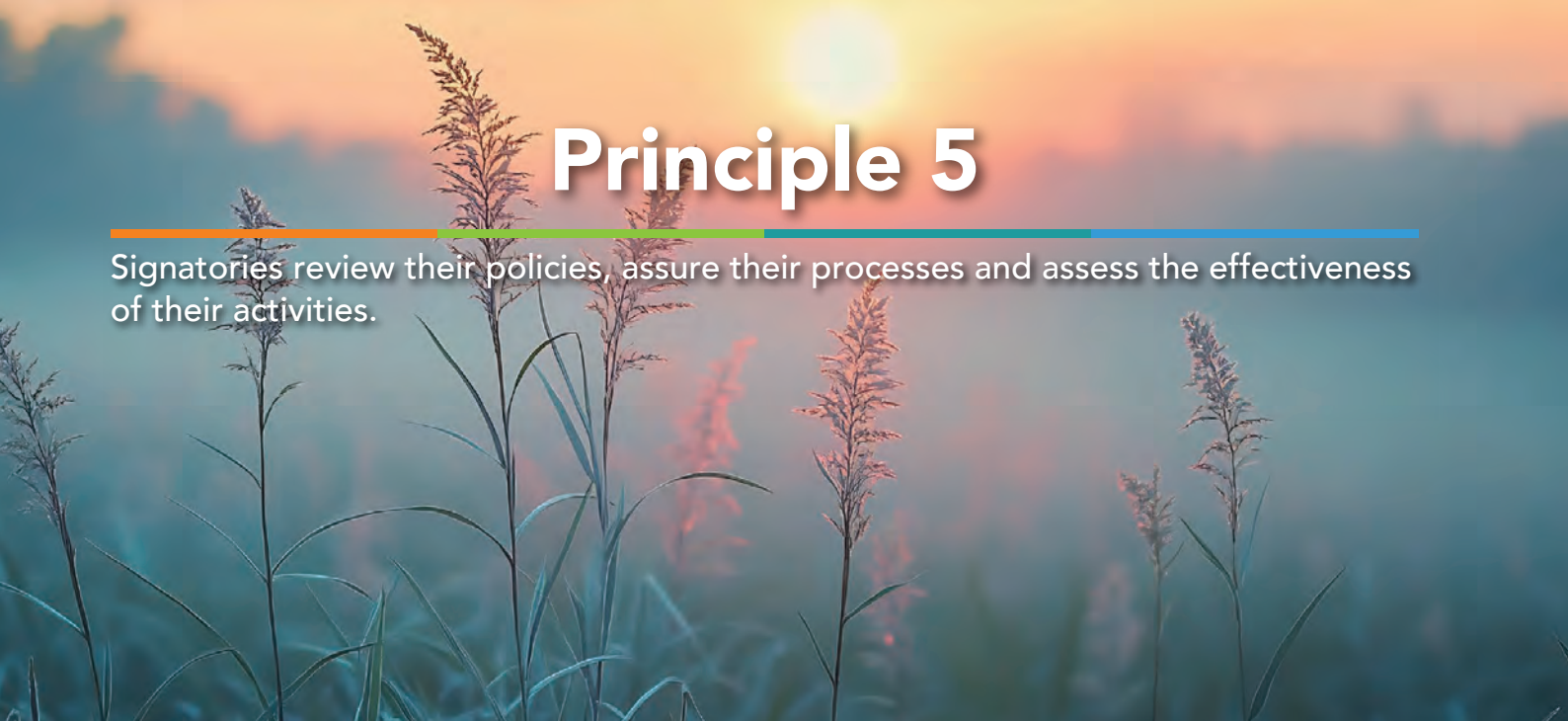
Through this initiative, we have reduced the settlement risk associated with foreign exchange transactions for the funds we manage.

Geo-political risk

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

Given the seriousness of the events in Ukraine, we engaged with index providers to provide input on the exclusion of Russian assets from relevant indices and pricing implications for fund valuation purposes. The result of this engagement was the removal of the country's assets from the benchmark index. Please see [Principle 11](#) for more details. Since last year's report, we have not made any material changes related to these measures.

We will continue to monitor the situation closely and if there are any significant changes in the situation, we will review our response measures and seek to reduce systemic risk.



Principle 5

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

Stewardship activities

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

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

The Sustainability Committee meets monthly in principle, and the Stewardship Activity Advisory Committee meets quarterly. At these meetings, the committees deliberate on revisions to the voting principles and reviews reports on stewardship activities. In order to strengthen the governance structure further, the activities of these committees are monitored with reports made to the Executive Committee on an annual cycle.

Regular review

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

During the reporting period we have made a number of upgrades to our Stewardship capabilities including:

1. Review of ESG materiality, which we cover in more detail in [Principle 7](#).
2. Planning for engagement and global initiatives (collaborative engagement) and the introduction of a monitoring system.
3. Implementation of annual dialogue with vendors.
4. Changes to voting guidelines.

During the reporting period we have made a number of upgrades to our Stewardship capabilities.

Changes to voting guidelines

An example of how our review process impacts activities and outcomes relates to changes to our voting guidelines. Based on internal and external reviews and assurances, the following changes have become effective in the domestic voting criteria, with an effective start date of January 2024.

- 1) Opposition to the election of directors in absence of a female on the board of directors was expanded from the TOPIX 500 index, which consists of companies with high market capitalisation and liquidity, to the broader Prime market, which also includes small and mid-cap stocks. This represents a further strengthening of our criteria for greater female representation in the boardroom, having previously expanded the criteria from the TOPIX 100 Index to the TOPIX 500 Index. While we recognise the challenge for some companies of finding appropriate talent, we are committed to changing the situation through

multi-year engagement and have clearly stated that, in the long term, it is important to develop internal human resources to fulfil these requirements.

- 2) In March 2023, the Tokyo Stock Exchange (TSE) published a statement on 'Action to Implement Management that is Conscious of Cost of Capital and Stock Price', urging all listed companies on the Prime and Standard Markets to allocate resources with sufficient consideration of cost of capital and profitability. To reflect this new environment, we decided to use a new financial metric, price-to-book ratio, as a criterion in assessing disposition of surplus proposals. The revision of voting principles allowed us to strengthen engagement and voting activities in the area of capital efficiency.

Internal assurance

An essential part of our stewardship is regularly communicating our activity to clients. This includes our annual Stewardship Report, which was revamped and renamed the Sustainability Report, and quarterly or bi-annual reports as requested. Our client communications go through a rigorous review to meet appropriate controls and compliance.

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

One area of improvement relates not only to the accuracy of the information provided by the annual Sustainability Report but also the fairness of the information provided. We have identified institutionalising fairness as one of important improvements of the revised Sustainability Report, please see [Principle 1](#).

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

Finally, the Internal Audit Department monitors activities and carries out risk assessments and conducts internal audits as necessary, independently of the systems in place for the operational execution

of stewardship activities and risk management.

An essential part of our
stewardship is regularly
communicating our activity to
clients.

External assurance

In terms of our external assurance, the PRI assessment is a key external evaluation of our stewardship activities. The PRI assessment is a report that PRI signatory institutions are required to submit annually. It is reviewed by senior members of the Stewardship Development Department and reported to the Sustainability Committee, please see [Principle 2](#) for more details. We consider the assessment an important way to benchmark our activities and take measures to address items that require improvement.

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

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

Despite our efforts to harness both internal and external assessment of our stewardship capabilities, we recognize the limitations of largely a voluntary and self-assessment approach to assurance. With multiple competing standards and methodologies, as well as rapidly shifting client preferences across regions, there is a risk that the assurance landscape remains fragmented.

We have taken an active approach to cultivating a more effective market for external assurance of sustainable investing capabilities, attending seminars hosted by third-party companies and conducting

internal feasibility studies in consideration of future possibilities. At SuMi TRUST AM, we believe it is important to be able to benchmark our activities so that they can be assessed at an industry level. We expect the process of equipping our company with external assurance to be a multi-year endeavour and will continue to report on our progress as and when there is a material change in our approach.

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

Client-centric approach

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

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

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

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

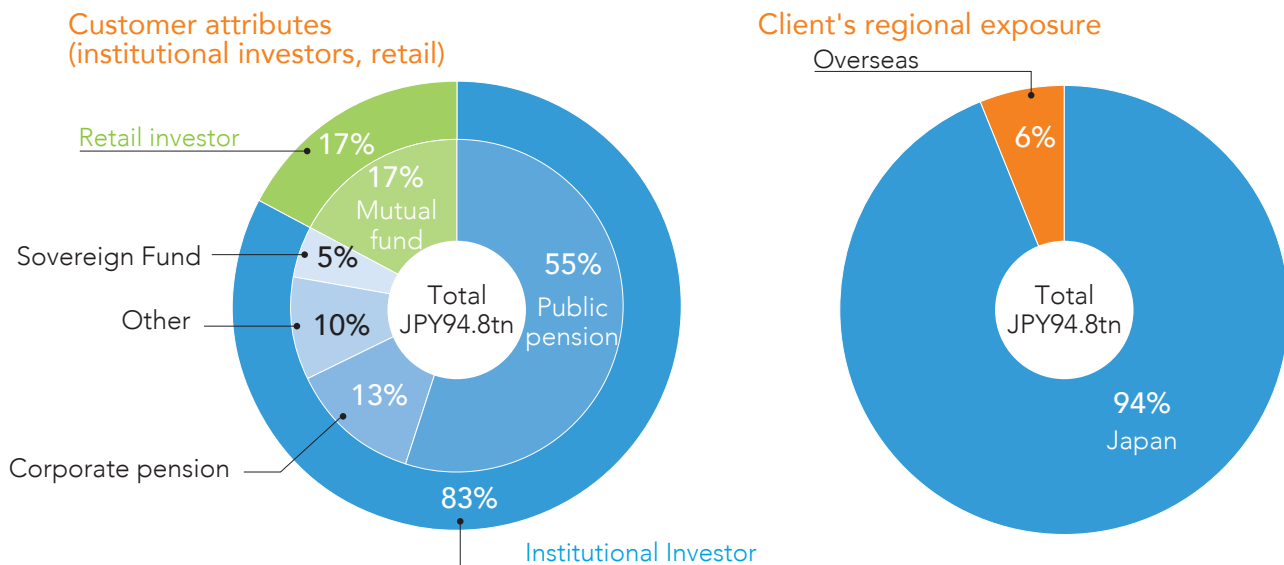
Principle 6

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

Client dialogue is vital to our business success. Our stewardship activities have become an important source of engagement with our clients. This reflects both a rise in inbound enquiries as well as outbound efforts to educate clients as to the importance of stewardship activities for the improvement of corporate value of investee companies. We manage assets globally, but our clients are primarily located in Japan, see Chart 6.1.

We recognise that the penetration of ESG varies by region, with Japan and Asia having greater scope to develop to meet global standards. As a global asset manager, we have an opportunity and responsibility to work with clients with advanced knowledge and opinions to tackle global issues and raise standards relating to sustainability across regions.

Chart 6.1 – Customer attributes



Regional Exposure by Asset Class

Asset Class	JPY Tn		Japan	Overseas
Equities	52.73	55.6%	47.47	5.26
Fixed Income	34.64	36.6%	34.63	0.01
Others	7.38	7.8%	7.36	0.03
Total	94.76	100.0%	89.46	5.30

(Source: SuMi TRUST AM, as of end-June 2024)

Our capabilities related to stewardship, which impacts outcomes over mid to long term time investment horizon, are particularly important for our long term institutional investor base, which comprises a significant portion of our clients. In particular, our clients have expressed a high level of interest in our engagement activities and collaborative engagement activities.

We also have a large Japanese retail investment trusts and DC client base. After a long period of economic stagnation, Japanese retail investors are increasingly seeking to align their investment horizons with their long-term investment goals. The Japanese government is also seeking to promote long term asset building by linking households' funds to investment in long-term sustainable growth in Japan and the world.

In response, we are engaged in financial education and the dissemination of ESG-related information in conjunction with the provision of financial products which offer outcomes aligned to our clients' long term interests.

A critical component of our client communication

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

- 1) Annual Sustainability Report
- 2) PRI assessment
- 3) TCFD Report
- 4) TNFD Report
- 5) Voting results
- 6) Insight

The reporting of our Stewardship activities to clients is a two-way process. For example, in the process of regular reporting to one of our clients, which has included quarterly investment reports, as well as on an annual basis for both domestic and overseas equities, we received a response regarding a case where governance standards were assessed as being insufficient. This subsequently resulted in engagement and a vote against the company management. We received feedback from the client on the specific activities and outcomes achieved. For more details see Case study 6.1.

Case study 6.1 – A Japanese client

A large Japanese client was keen for us to actively promote dialogue with individual companies that do not meet best practice or suffer from lapses in governance standards with the aim of raising overall standards within the Japanese market. One example was our engagement and subsequent exercise of voting at a Japanese manufacturer. Having assessed the company as having governance problems,

we actively sought out dialogue with the company and subsequently voted against the company management. Following the AGM, the company implemented effective measures to rectify our concerns on governance. In conclusion, we were able to respond to the interests of the client, who recognised our efforts to help to contribute to improvements in governance practices within the Japanese market that it had prioritised.

Industry Forum

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

Our President, Yoshio Hishida, participated in a panel discussion at the PRI's annual conference, which was held in Japan for the first time in October 2023. The theme of this year's conference was 'Moving from commitment to action', Yoshio communicated the importance of climate change and natural capital measures, as well as the

leadership of our stewardship activities.

Our Chairman, David Semaya, took part in a panel discussion at the 'World Climate Summit', a COP28-related event in December 2023. As the only speaker from the financial sector in Asia, David touched on the region's unique characteristics and stressed the need for persistent engagement and broad dialogue, including with governments, on the region's decarbonisation.

Our Senior Managing Director, Shigeki Moriki,

participated in a panel discussion at the 1st NIKKEI Symposium on Intellectual Property and Intangible Assets / Global Institutional Investor Trends in October 2023. In the 'Panel Discussion: Asset Managers' session, Shigeki expressed his views on our company's role and responsibilities as an asset manager.

What are clients asking from us?

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

As detailed in Chart 6.2, our customer interests in ESG related items continue to evolve, with engagement activities seeing a large increase while interest in global initiatives remains structurally high. In contrast, General Stewardship Activities and Proxy Voting saw a modest decline from already elevated levels.

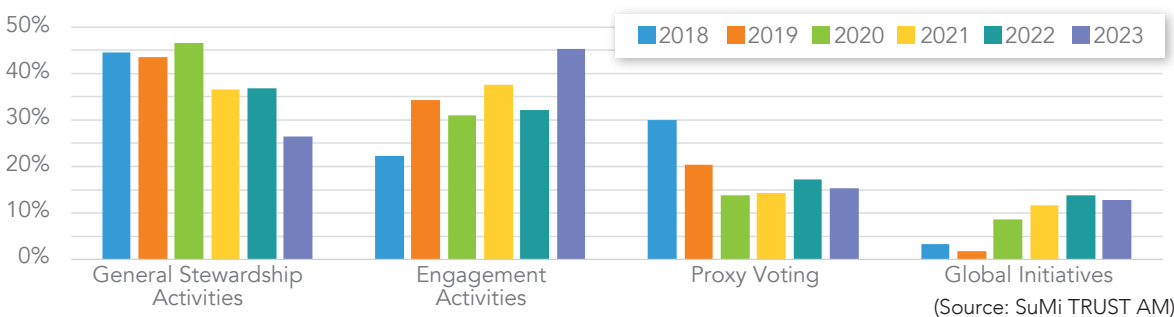
In terms of engagement activities, we have noticed an increase in client enquiries regarding our

foundational approach, our response to individual themes and the results of our engagement activities, as well as interest in the companies and themes we select for engagement. In terms of global initiatives, clients are seeking more in-depth explanations, such as how we play a lead manager role and how we apply the knowledge gained from these initiatives to our stewardship activities.

Another key driver of client interest in sustainability in Japan has been the 2023 PRI Annual General Meeting held in Tokyo, with a number of major public pension funds subsequently joining the PRI. This interest has extended to a wider range of institutional investors with the introduction of Asset Owner Principles in August 2024. In this environment, we have received greater communication from clients regarding their needs for sustainability activities.

In response, we have sought to explain our engagement and initiative activities at a series of client seminars. We have also increased our communication on trends and topics in ESG investing. For more details, please see Case Study 6.2.

Chart 6.2 – Our clients' interest



Case study 6.2 – Helping pension funds prepare for Japan Asset Owner Principles

In 2024, the Japanese government consulted on and eventually adopted the Asset Owner Principles. As a result, Japanese asset owners have expressed strong interest in our stewardship activities. In response, we exchanged opinions on

trends and topics in stewardship including our review of ESG materiality. We also discussed global trends and reported on the latest developments from asset owners and asset managers in Europe and the US.

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

In recent years, we have received many inquiries from clients in Asia, where ESG issues are often considered to be relatively less developed, such as the exercise of voting rights, and we are increasingly explaining our engagement activities and voting initiatives. For more details, please see case studies 6.3 and 6.4.

Case study 6.3 – Sharing stewardship best practice with Asian clients

Following a request from an Asian client, we conducted a seminar in H2 2024 on industry best practice in stewardship, the different standards across jurisdictions, including the role of the UK Stewardship Code, and explained our approach to ESG investment.

The client was able to provide an overview of its needs and interests in sustainability and asked a wide range of questions. By exchanging knowledge related to sustainability and by offering to answer future questions or other follow-up requirements we sought to build an interactive relationship.

Case study 6.4 – Sharing stewardship best practice with Asian clients

Following the Tokyo Stock Exchange's restructuring of the prime market and subsequent follow-up listing requirements, we saw an increase in interest from our clients in corporate governance reforms in Japan. As a result, we conducted a webinar entitled "Five

key lessons from corporate governance change in Japan" with Asian clients in December 2023. We also conducted a Q&A session to promote greater awareness of sustainability-related knowledge in Japan and the rest of Asia.

Aligning stewardship activity with clients' needs

Voting rights

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

If we identify a divergence between the customer policy and our company principles in exercising voting rights through the above engagement, we will explain to asset owners our voting intentions and seek understanding through departments in charge of clients. Of course, not all differences can be resolved. In these cases, we are willing to consider overwriting our company voting principles with the client's policy or, after a discussion with the Sustainability Committee, seek to enhance our voting rights principles to better reflect changing customer preferences, please see [Principle 12](#) for more details. Any such revisions will be disclosed in advance and be accompanied by an explanation, if necessary, to investee companies. Efforts are made to increase the effectiveness of corporate value improvement by disclosing the revised content in advance and gaining understanding from asset owners through client departments. If there are ultimately differences between the customer policy and our company's principles regarding the exercise of voting rights, we will consider adopting a policy that overwrites our company's principles with the customer policy.

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

Strengthened global capabilities

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

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

Another important consequence of our expanded overseas engagement capacity is the ability to participate in global initiatives, a growing area of interest for our clients which is aligned with our strategy (see Chart 6.2 and case studies in [Principle 10](#)). We provide an example of our participation in the Sustainability Palm Oil Transparency Toolkit (SPOTT)'s Advisory Group and membership of PRI Palm Oil working group, see Case Study 6.5.

Case study 6.5 – SPOTT

Company	Jardine Matheson Holdings	Country: Hong Kong
Engagement	Group Corporate Secretary, Head of Sustainability	
Activity	As a member of SPOTT's Advisory Group, we have been engaging palm oil plantation companies to make sustainable palm through the Roundtable on Sustainable Palm Oil (RSPO). The company is the parent company of Indonesian palm oil plantation operator Astra Agro Lestari (AAL). AAL is not currently a member of the RSPO, despite owning large plantations, mainly in Indonesia. In light of reports regarding human rights issues occurring on plantations, particularly in Sumatra, we have requested action to address potential problems and reiterated the need for prompt accession to the RSPO.	
Outcome	At the time of the dialogue with Jardine Matheson, we were informed that AAL was considering appropriate action on human rights and environmental issues in Sumatra. In addition, the company highlighted that AAL was a member of ISPO (Indonesia Sustainable Palm Oil) and considered this to be sufficient. However, it believed that palm oil operators were required to comply with global standards so it would positively consider joining RSPO. Subsequently, AAL established an independent third-party committee to investigate AAL's human rights issues, and started an investigation into these concerns. In addition in July 2024, we were informed that AAL had applied for membership to the RSPO.	
Assessment	Due to our work with SPOTT and as a member of the PRI Palm Oil working group, we have been actively engaging with palm oil plantation companies. Although, we have not been able to engage directly with AAL, we have welcomed the parent company efforts to emphasise the importance of strengthening the response to human rights violations. We also see the dialogue with the group's parent company as an opportunity for engagement regarding improvements with other companies under its umbrella.	
Improvement	We plan to continue to hold meetings with its Group Corporate Secretary and Head of Sustainability. In addition, we plan to provide support to AAL after it joins the RSPO, as well as to encourage Jardine Matheson's other group affiliates to take human rights action.	

Clients' future needs

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

industry, analysing and disclosing the impact of its activities on natural capital.

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



Principle 7

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

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

ESG Analysis

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

ESG Materiality

In making ESG investments, SuMi TRUST AM considers ESG Materiality a critical component of assessments of all our ESG investments. Our new Sustainability Committee established in October 2023 is responsible for implementing the company's process with regard to ESG Materiality and conducting a regular review process. The views of

clients, initiative organisations, investee companies and other stakeholders, as well as internal departments are all critical inputs into the process. ESG Materiality is discussed at the new Sustainability Committee and 12 Materialities are identified for each of E, S and G - three risks and an opportunity - and approved by the Executive Committee.

Review of ESG Materialities and related key activity items

In July 2024, SuMi TRUST AM updated its ESG materialities and related key activity items. The decision came after an extensive review conducted over a number of months. The review process started with a wide-ranging consultation of stakeholders, including our clients and initiative organisations. We subsequently conducted internal quantitative analysis and held discussions on qualitative amendments or replacements related to of ESG materialities and related key activities.

Chart 7.1 – SuMi TRUST AM's 12 ESG Materialities

ESG Materialities		Key activity items	
Environment	① Climate Change	1	Greenhouse gas emissions reduction
	② Natural Capital	2	Conservation of water resources and forests, and recovery of biodiversity
	③ Pollution & Waste	3	Sustainable procurement of raw materials (palm oil, natural rubber, and timber), marine plastic pollution, and waste reduction
	④ Environmental Opportunities	4	Expanding sales of environmentally-friendly products and services
		5	Transitioning to a resource circulation model
Social	⑤ Human Rights & Community	6	Human rights in supply chains
		7	Environmental load and work environment, management of chemicals, and ensuring traceability of conflict minerals
		8	Just transition
	⑥ Human Capital	9	Human resource strategies (Human resource development, recruitment, placement, and evaluation)
		10	Employee engagement
		11	Promotion of DE&I
		12	Work style reforms
	⑦ Safety & Responsibility	13	Promotion of well-being initiatives
		14	Improving access to medicine, countermeasures for infectious disease, and responding to antimicrobial resistance issues
		15	Product safety management
	⑧ Environmental Opportunities	16	Expansion and promotion of products and services that address social issue
		17	Building sustainable social infrastructure
Governance	⑨ Corporate Behavior	18	Promotion of non-financial (ESG) information disclosure
		19	Promotion of proper capital policies and business portfolio reforms
		20	Improving awareness of capital efficiency and capital cost
		21	Purpose management (vision, mission, value) and alignment with the management strategy
	⑩ Stability & Fairness	22	Better governance of company misconduct and prevention of recurrence
		23	Enhancement of risk management (Data Security)
		24	Cross-shareholding
		25	Takeover defence measures
		26	Reviewing and enhancing group governance systems (Including parent-subsidiary listing issues)
		27	Supply chain restructuring
	⑪ Structure	28	Board of director structure and skill set
		29	Promotion of board diversity
	⑫ Improvement in Governance	30	Improving the effectiveness of the board of directors (Fulfillment of roles by independent external directors, remunerations system for directors, and planning for successors)

(Source: SuMi TRUST AM)

Review process

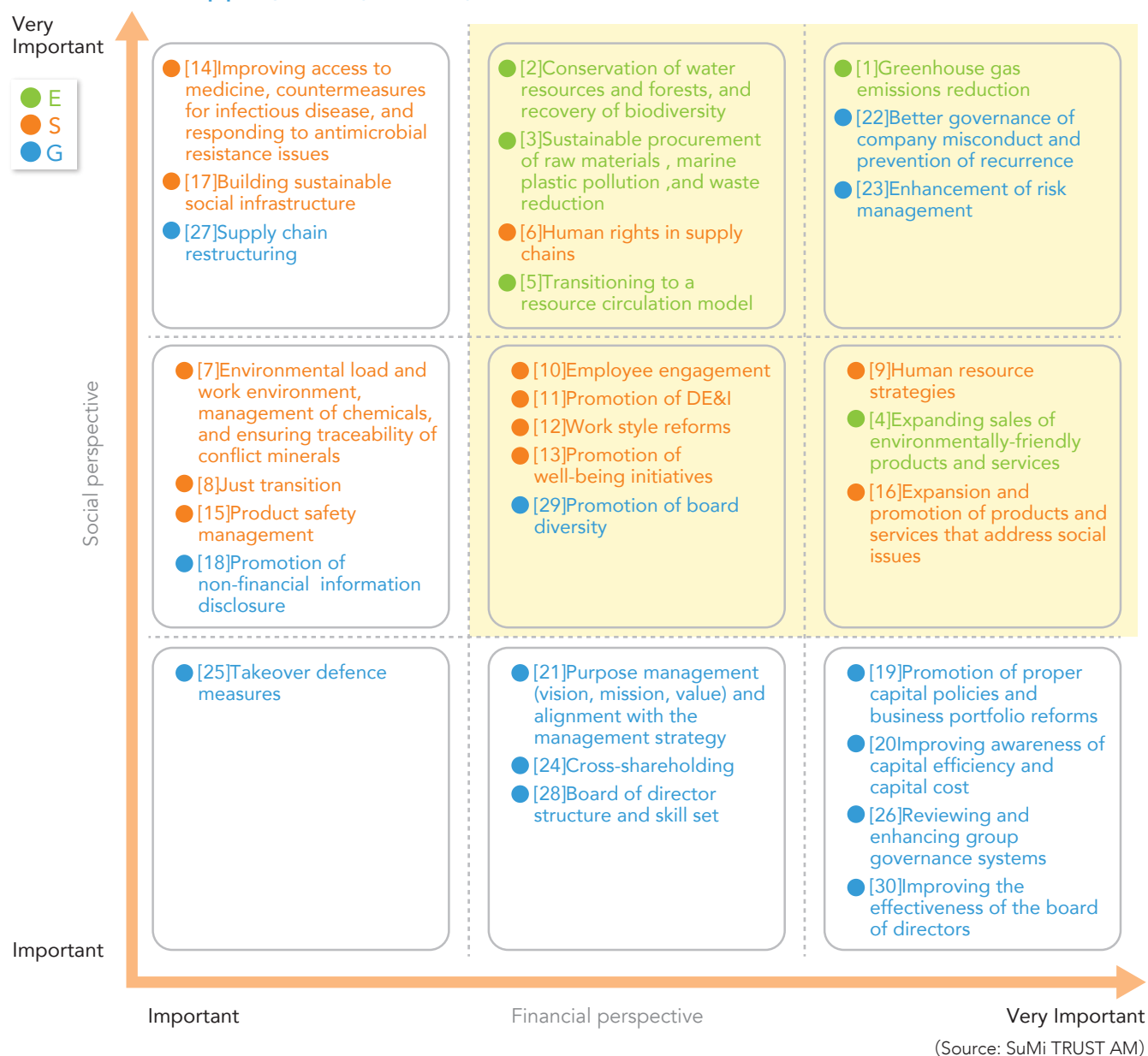
SuMi TRUST AM mapped each key activity item taking into account a qualitative and a quantitative dual-axis evaluation based on the following:

1) A quantitative assessment on a financial dimension: risks and opportunities posed by assets under management (investment portfolio) were assessed, analysed and summarised in terms of financial impact based on ESG vendor data and adjusted for sector dynamics.

2) A quantitative assessment on a social dimension: risks and opportunities for society as a whole posed by corporate activities were assessed, analysed and summarised in terms of external interest (importance) and impact, based on information available from a number of public organisations.

The details of our mapping process are captured in Chart 7.2.

Chart 7.2 – Mapping of key activity items (2024)

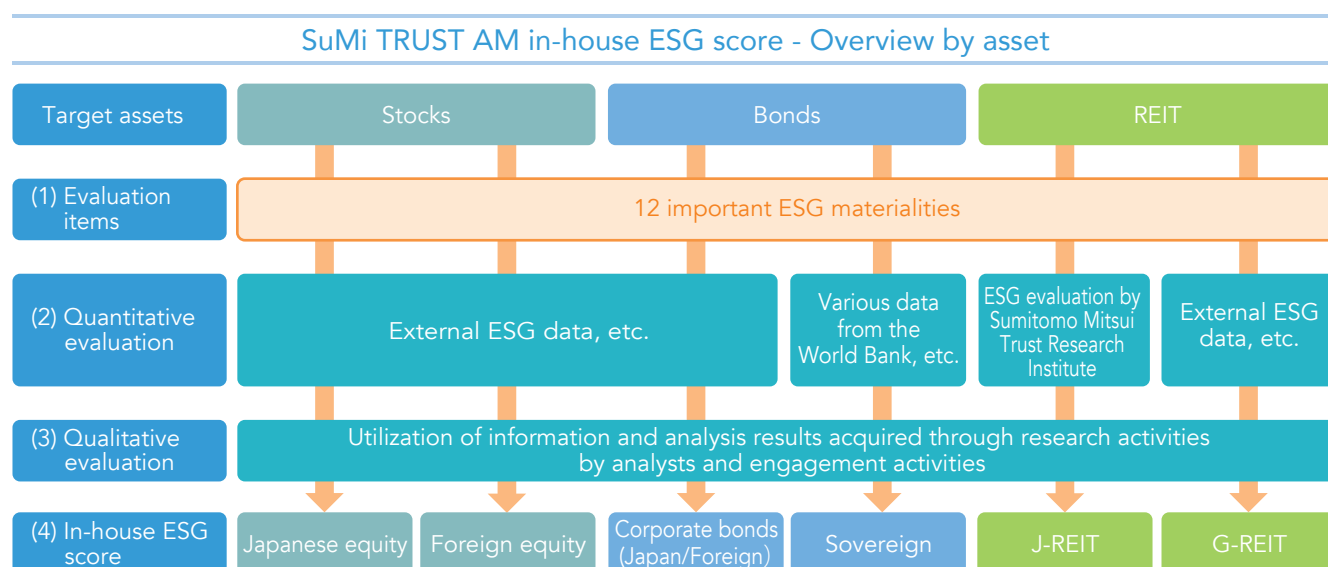


Following the review, SuMi TRUST AM has consulted with members responsible for engagement activities to identify six priority activity items. These include: greenhouse gas emissions reduction; conservation of water resources and forests, and recovery of biodiversity; sustainable procurement of raw materials (palm oil, natural rubber, timber), marine plastic pollution and waste reduction; human rights in supply chains; human resource strategies (human resource development, recruitment, placement, and evaluation); and employee engagement. For each activity item, we have developed accompanying action plans, which will help us prioritise future stewardship activities.

In-house ESG score

In-house ESG score refers to our investment evaluation index, which is assigned from an investor's perspective. SuMi TRUST AM calculates its own ESG score reflecting information and analysis obtained through research and engagement activities by our analysts as well as external ESG data. In the evaluation of in-house ESG scores, bottom-up research and engagement activities by our analysts and portfolio managers are reflected in the ESG score as a qualitative evaluation. While the ESG Materiality defined by the company is used as the basis for the assessment of the company's ESG score, the assessment methodology reflects the characteristics of each asset class (more details below).

Chart 7.3 – Investment universe evaluation based on in-house ESG score



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

(Source: SuMi TRUST AM)

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

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

In principle, for foreign equities and foreign corporate bonds, we have sought to make the evaluation more comprehensive by utilising quantitative data to evaluate individual companies' environmental and socially beneficial products and services. Although there are differences in the use of such quantitative data between domestic and foreign assets, the ESG assessments are calculated using the same approach based on ESG Materialities, so they remain mutually comparable.

Case study 7.1 – ESG Score

The quantitative evaluation of the ESG score of a leading Japanese electrical component company, based on service provider data, is E = 3 points, S = 3 points and G = 4 points. However, based on our analyst's assessment the qualitative evaluation is upgraded for social factors to E = 3 points, S = 4 points and G = 4 points. Regarding safety and responsibility within society, although company disclosures are considered insufficient, based on the information in its integrated report and other documents, as well as in dialogue with the company, we have confirmed an appropriate level of risk management in this area and our analyst subsequently upgraded our qualitative assessment for the social score.

MBIS® score

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

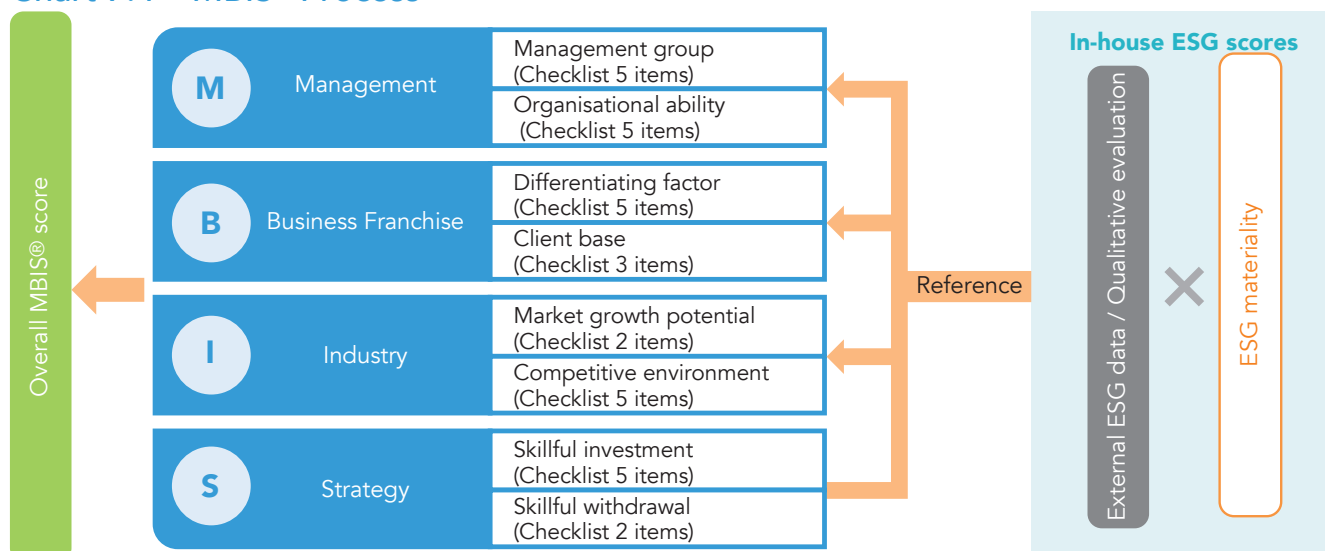
value-add, and the degree of social and environmental impact that forms the basis for sustainable growth, please see Chart 7.3 for more details. M stands for Management, B for Business Franchise, I for Industry and S for Strategy, and each evaluation item also incorporates an assessment of our in-house ESG score for domestic equities and domestic corporate bonds. In addition, the evaluation incorporates the concept of the SDGs and is based on an awareness of the 17 goals.

Case study 7.2 – MBIS®

The MBIS® score for a Japanese machine tool maker is 18.0 points*, consisting of 5 points for M (management), 5 points for B (business franchise), 3 points for I (industry), and 4 points for S (strategy). Regarding M (management), the MX initiative, or so-called Machining Transformation, introduced by the president has had a strong impact on the firm's activities. In terms of B (business franchise), the company is highly evaluated as the acquisition and integration of the German entity has strengthened the company's customer base in terms of products and regional differentiation, while expanding business with leading US companies. In S (strategy), the acquisition of the German company has contributed to the superiority of the company's management strategy, which was one of the first Japanese firms to adopt European practices, such as securing carbon neutrality credits and participating in an open data ecosystem, leading to a significant increase in corporate value.

*MBIS® is calculated as $M \times 1.5x + B \times 1x + I \times 0.5x + S \times 1x$, totaling 18.0 points

Chart 7.4 – MBIS® Process



(Source: SuMi TRUST AM)

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

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

ESG investment methodology and in-house ESG Score

ESG investment methodology for in-house investment products

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

1) ESG negative screening

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

2) ESG positive screening

We actively invest in companies with high ESG ratings within each sector.

3) Integration of ESG-related information

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

4) Topic investment

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

5) Impact investment

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

6) Engagement

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

7) Exercise of voting rights

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

Integration by asset class

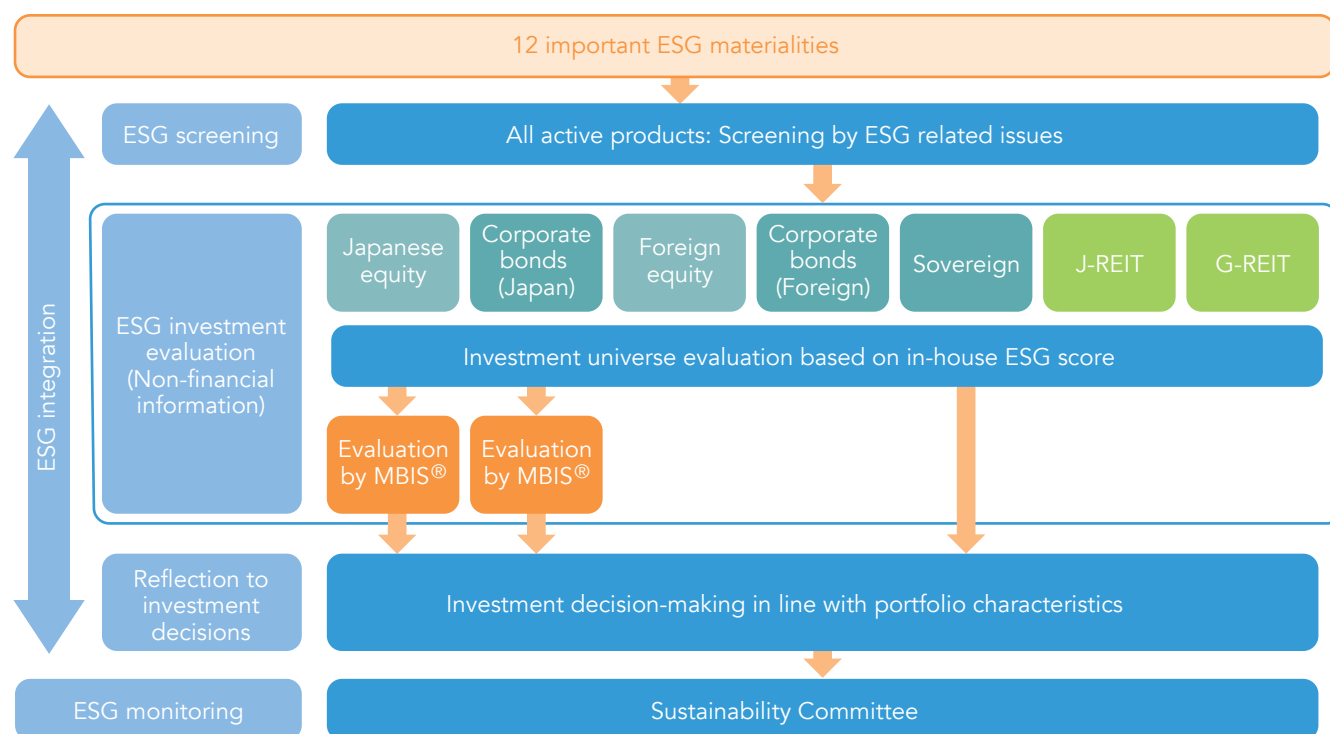
In principle, our ESG investment methods are integrated across all the asset classes we invest, please see Chart 7.5. However, there is variation in how they are used as we explain below.

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

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

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

Chart 7.5 – ESG integration across asset classes



(Source: SuMi TRUST AM)

Service providers

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

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

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

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

For example, we require data that enables us to assess our 12 ESG Materialities, in line with both risks - including exposure and risk management elements - and opportunities, risks in terms of both exposure and risk management, compliance with the Global Compact, and corporate scandals and traceability of the assessments.

The data must be traceable to the assessment of corporate misconduct and its evaluation, and the data must be available for countries to assess our 12 ESG Materialities as well.

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

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

Meeting clients ESG investment needs

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

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

In order to align our stewardship with client investment needs and timeframes we have a range of ESG-related products, as described in the next section.

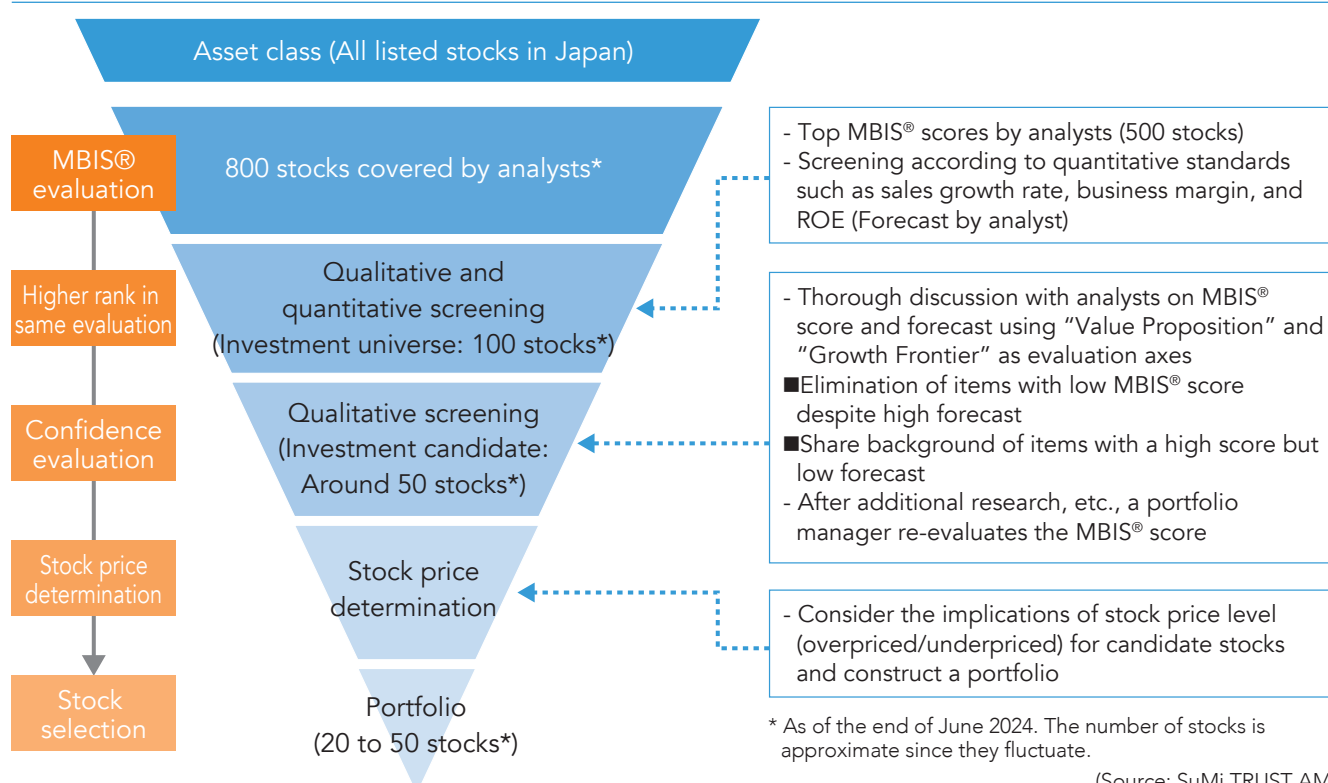
Japanese Equity ESG Integration

The investment universe for this fund is around 500 stocks given priority coverage by our analysts. These were narrowed down to about 100 stocks based on (1) stocks with a high MBIS® score, and (2) 5-year

performance forecasts by analysts (revenue, business margins, and ROE).

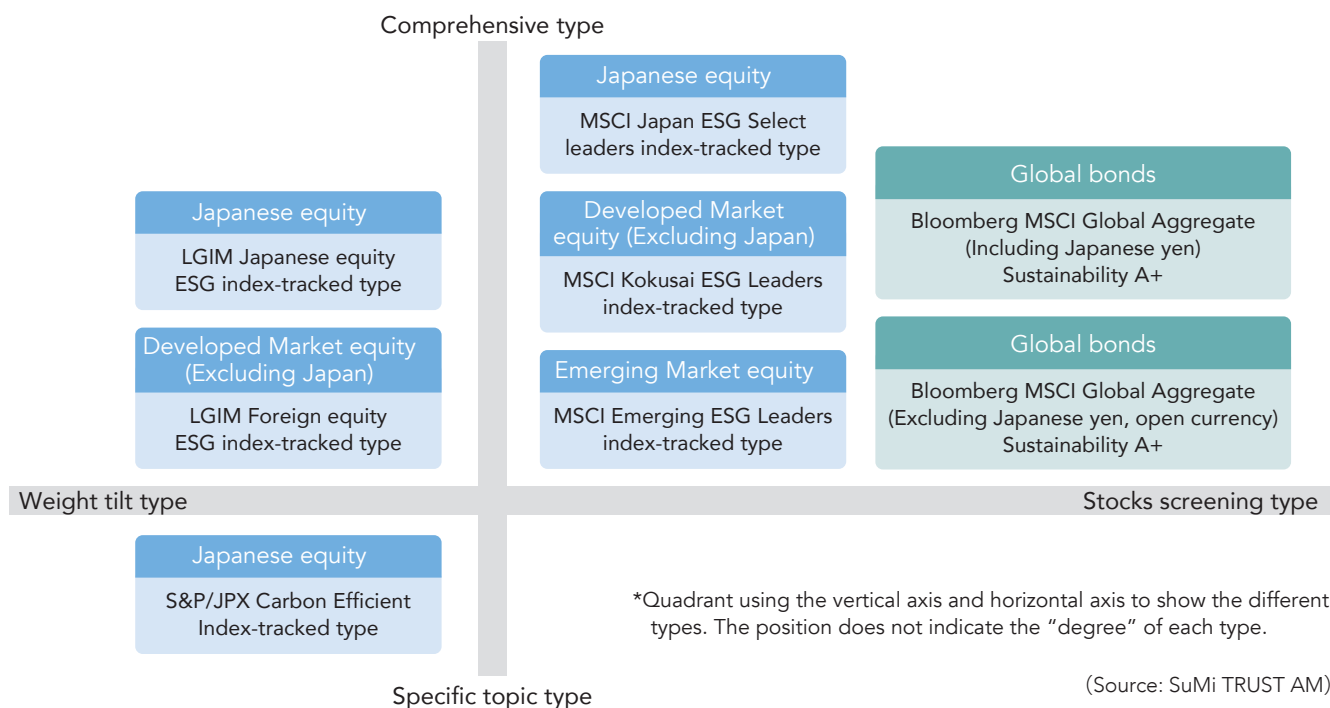
Portfolio managers thoroughly discuss the MBIS® score and estimates with analysts based on 'value proposition', which is the source of added value, and the 'growth frontier', which indicates potential for market expansion and innovation. Companies with a low MBIS® score are eliminated from the investment universe even if the 'growth frontier' forecast is high, and items with a high MBIS® score are kept in the investment universe after sharing their background even if they have a low forecast. After conducting interviews with management and business representatives, portfolio managers, together with analysts, re-evaluate the MBIS® score to narrow it down to around 50 potential stocks. During discussions with analysts, priority is given to 'ideal corporate value.' We consider the company's potential indicated by the MBIS® score, as well as the possibility of the investee company's market capitalisation doubling over the next three to five years, scope for improving their position in the industry, and expectations for higher profit margin by reforming the earnings structure, see Chart 7.6 for more details.

Chart 7.6 – Portfolio construction process



ESG Passive investment strategy

Chart 7.7 – SuMi TRUST AM's ESG passive investment strategy map



SuMi TRUST AM provides a wide range of ESG investment products including passive investment across multiple asset classes. Our passive ESG integration funds focus on two perspectives: (1) providing investment opportunities for clients and ensuring return on investment while also helping to improve the sustainability of society and companies, and (2) contributing to stewardship activities since ESG investment leads to changes in corporate behaviour, see Chart 7.7 for more details.

SuMi TRUST AM provides a wide range of ESG investment products including passive investment across multiple asset classes.

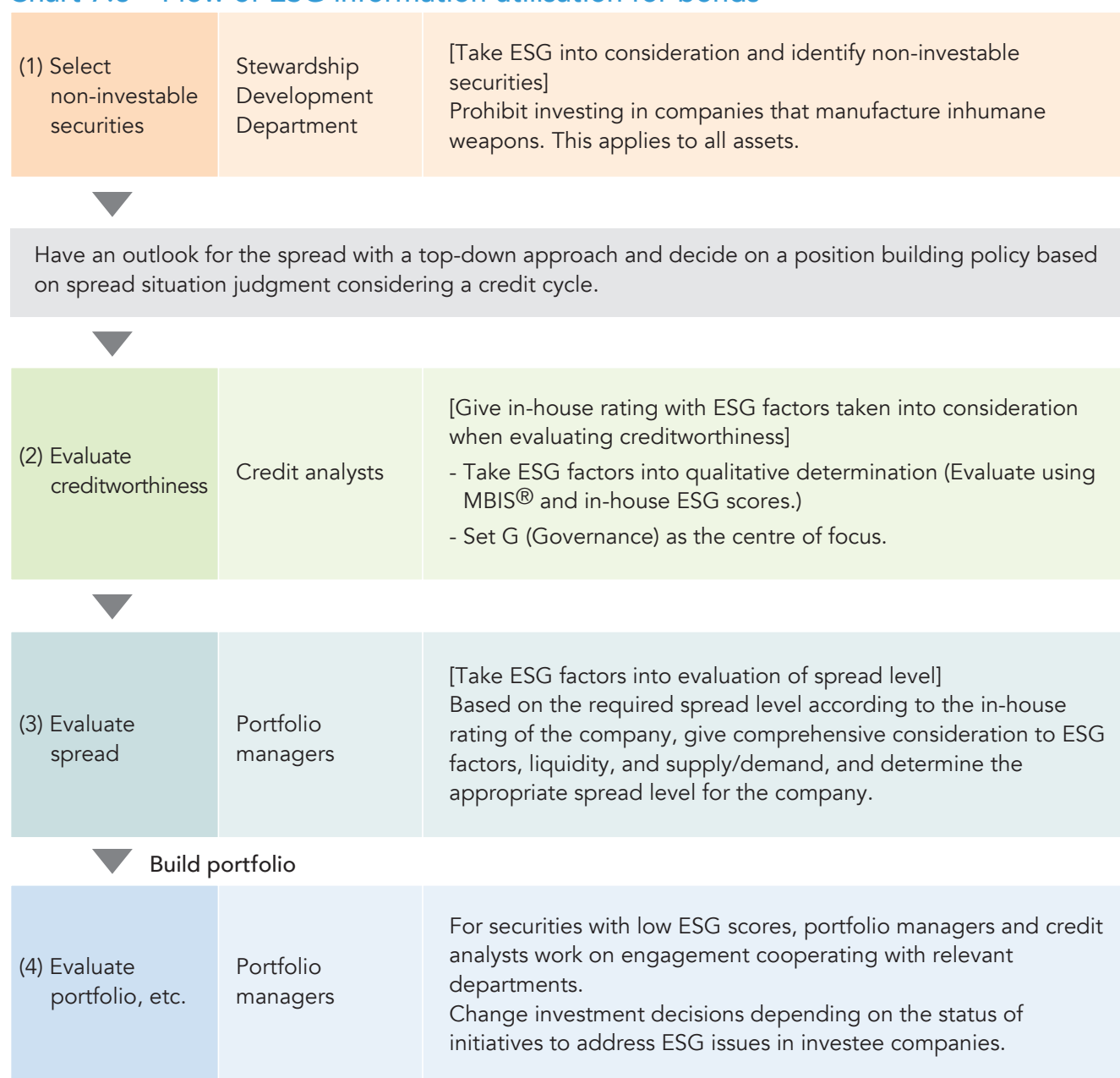
Fixed income ESG investment strategy

Due to the difference in product characteristics, there are differences between stocks and bonds investment related to the significance of ESG integration and investment points. Although bondholders do not have voting rights, as a direct funder, we believe that they have an important position for corporate management. Therefore, as a bondholder, while we have the right to ask investee

companies to take measures for medium- to long-term growth and to reduce downside risk, we also believe we have responsibilities to request social contribution.

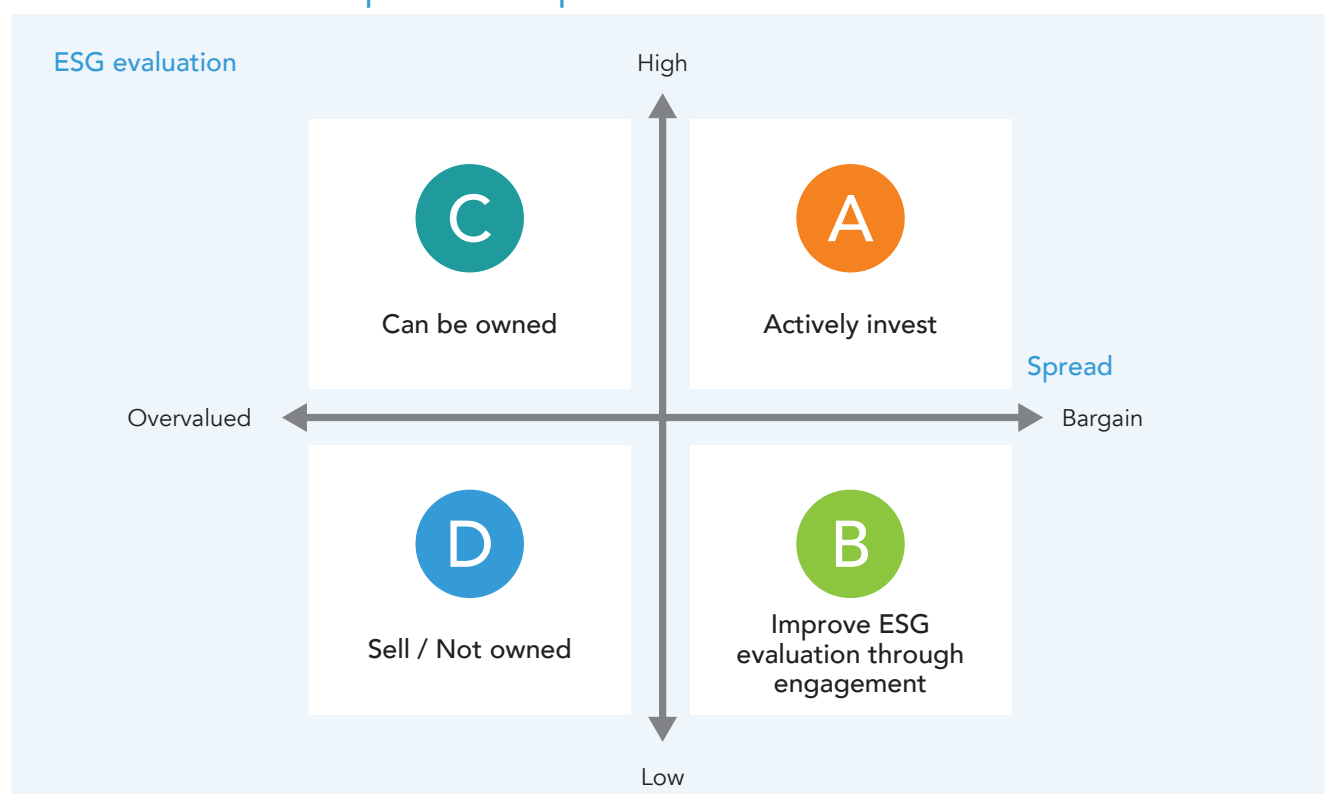
ESG information is utilised according to the flow in Chart 7.8 for fixed income management. Details of how ESG factors are integrated into spread level evaluation are shown in Chart 7.9

Chart 7.8 – Flow of ESG information utilisation for bonds



(Source: SuMi TRUST AM)

Chart 7.9 – Relationship between spread evaluation and ESG evaluation

**A Actively invest**

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

B Improve ESG evaluation through engagement

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

C Can be owned (Possible to own but subject to sell (Not owned))

It is overvalued, but the ESG evaluation is high, so it can be owned.

D Sell / Not owned

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

(Source: SuMi TRUST AM)

For government bond investment in particular, financial soundness and politics are scored in our country score. For political score, each country is evaluated and given a score on environmental aspects (E) such as climate change, social aspects (S) such as human capital, and governance aspects (G) such as legal system and political stability. This is equivalent to an ESG score.

Case study 7.3 – Bond engagement

Company	Pharmaceutical company	Country: Japan
Activity	We have been actively urging appropriate Japanese companies to issue SDG bonds, including green or social bonds. While conducting engagement with the issuer in relation to the issuance of SDG bonds, we encouraged the firm to consider issuing social bonds given its suitability.	
Outcome	At the time of the meeting in February 2024, the company only mentioned social bonds as an issue to be considered in the future. However, in June the company launched its inaugural social bond issuance.	
Assessment	We were satisfied that our engagement efforts were clearly understood by the company and resulted in a further deepening of the company's financing options.	
Improvement	Going forward, we will monitor the company's disclosure of use of proceeds from the outstanding social bonds and seek further dialogue if there are any related concerns. In addition, we will use the case of the company as a good practice to actively promote efforts to increase the issuance of SDG bonds and raise standards.	

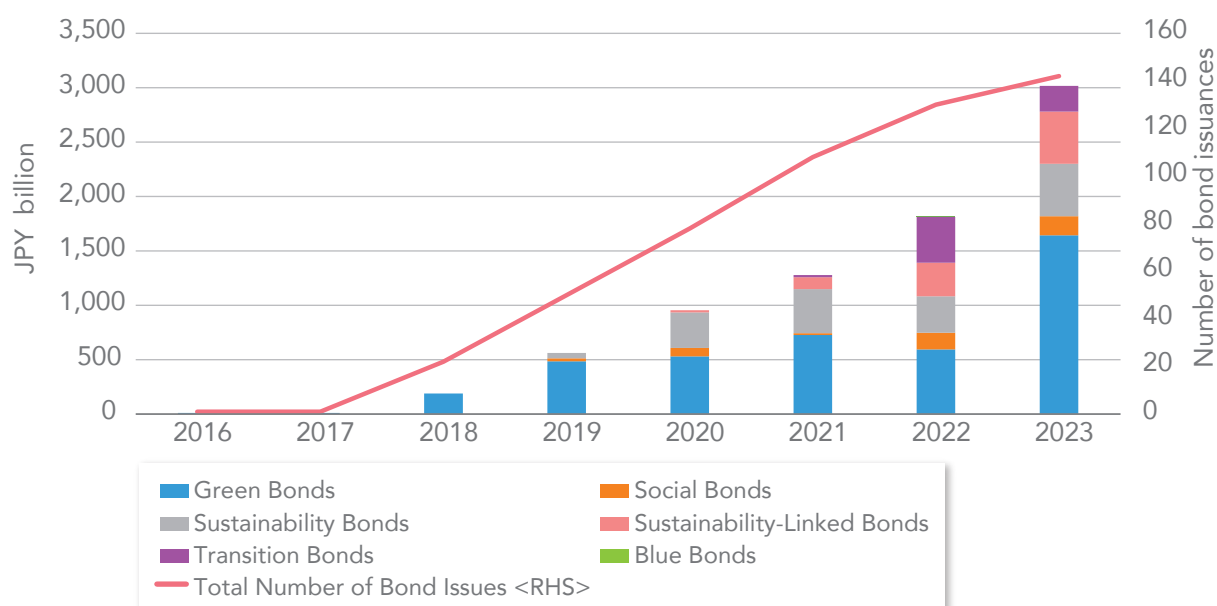
Our ESG approach is broadly consistent across geographies. However, it may be necessary to include consideration of local regulations and market standards when applying our ESG approach across regions.

For example, while we are guided by our ESG materiality related to climate change in all jurisdictions, there are individual cases which serve to highlight that the appropriate response to the energy transition may take different forms depending on

resource availability and market development (see Case Study 7.4). To reflect difference in our stewardship activity across regions, we think it is important to document case studies across the world (see [Principle 9](#), [10](#), [12](#)).

It is also worth noting that the bottom-up or top-down tilt differs from region to region, as the composition of the team differs based on our regional structure with members responsible for the stewardship based in London, New York and Asia.

Chart 7.10 -ESG Bonds Issued by Japanese Companies (Excluding Public Institutions)



(Source: Prepared by SuMi TRUST AM based on data from JPX)

Case study 7.4 – AIGCC

Company	Power Company
Initiative	AIGCC/AUEP(Asian Utilities Engagement Program)
Activity	The Asia Investor Group on Climate Change (AIGCC) aims to promote effective engagement to support decarbonisation initiatives among power companies. As lead manager of a top private power company and its related thermal power generation joint venture - and the largest GHG emitter in Japan - we aim to contribute to Scope 2 reductions at the operating companies and reduce GHG emissions in Japan.
Outcome	In order to improve the effectiveness of GHG reductions, the company has incorporated climate change-related items in executive remuneration, which is based on whether the 2025 reduction target is achieved. The joint venture has also achieved 20% co-firing in tests at its own thermal power plants, and has announced new policies such as shutting down all inefficient thermal power generation units and switching to high-efficiency thermal power generation units (ammonia co-firing/100% mono-firing), and switching fuel from coal to LNG at its customers' thermal power plants. However, the effectiveness of these measures are unclear, and even the identity of the power plants has not been specified.
Assessment	We have conducted multi-year dialogue with the power company's management, including the vice-president and president. While communicating information from the initiative, as well as overseas investors' views on the company's climate change response, we have requested measures and enhanced information disclosure so as to improve the effectiveness of the company's climate change initiatives. At the AGM in June, we exercised in favour of the company's directors based on the results of the engagement. However, we also exercised in favour of the shareholder proposal for a climate change response, considering the need to encourage the company to take action. By combining escalation in voting rights with the framework of collaborative engagement, we have sought to encourage the company to take action.
Improvement	The transition to renewable energy in Japan will require a certain amount of thermal backup power. The power demand associated with data centres and AI use are increasing. In addition, Japan is a country with a small land area and requires further development of offshore wind power. Since the European power supply system cannot be introduced to Japan as is, we will ask Japanese power companies to improve their decarbonisation plans and disclose them publicly. We need to close the gap in mutual understanding so that they can be understood by external and overseas investors. We will encourage the company to provide concrete phase-out and transition plans to ensure that the use of ammonia and hydrogen is not misinterpreted as preserving or extending the life of coal-fired power, and to encourage the company to align its business strategies with environmental strategies so it can improve sustainability and increase corporate value at the same time.

Principle 8

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

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

Service providers relating to stewardship activities

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

Chart 8.1 – Service providers

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

(Source: SuMi TRUST AM)

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

The two main types of service providers include:

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

These service providers are a vital source of support

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

Proxy advisors

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

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

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

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

SuMi TRUST AM has strengthened its analysis and monitoring of ISS's exercise recommendations conducts a discussion at least once a year. At this year's meeting with ISS, the key discussion points included:

Climate change policy

Regarding the climate change policy, ISS requires relevant companies to disclose medium or long term targets for Scope 1 and Scope 2, while our voting policy requires companies to set both medium and long term targets. We requested the standards be made stricter to meet our requirements. In addition, for industries where financed emissions are considered important, we urged stricter standards on target setting and information disclosure.

Proxy voting in China

Regarding Chinese companies, ISS' policy targets proposals for approval of directors' reports, rather than proposals for the appointment of directors. In order to strengthen our shareholder influence with companies on climate change issues, especially for companies for which it is difficult to conduct dialogue, we proposed an approach that directly opposes the election proposals.

ESG ratings agencies and data providers

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

Data for in-house scores

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

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

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

For climate change risk analysis, we use climate change-related data and climate change risk analysis data provided by ISS. The content of information services from external data providers is checked and discussed with external service providers as appropriate in the analysis process. Frequent concerns include cleansing of data and the upgrading of the level of the data and information services particularly for Japan and Asian stocks, where coverage is lower.

Principle 9

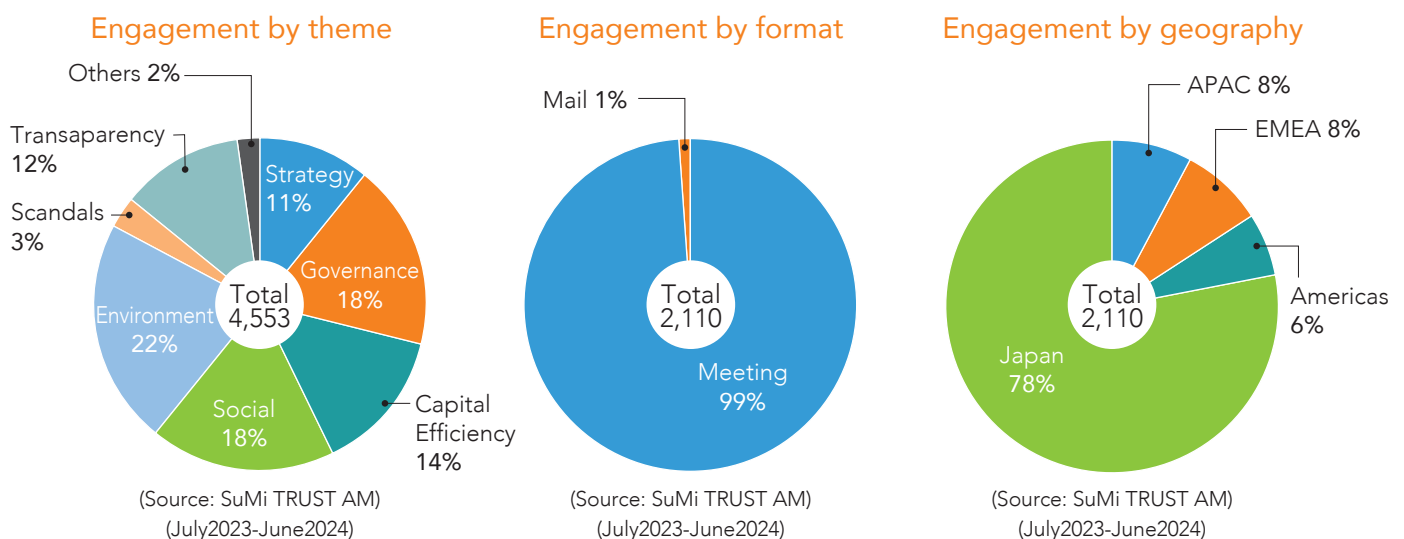
Signatories engage with issuers to maintain or enhance the value of assets.

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

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

In this section will go into detail on our engagement activities, which is one of the three pillars of our stewardship activities. We deploy a range of engagement tools, including face-to face meetings, conference calls, and the writing of letters to the board and/or management team outlining the areas of improvement or expectations. Please see Chart 9.1 for more details of our engagement activity.

Chart 9.1 – Overview of engagement



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

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

During the reporting period, we increased our engagement related to capital efficiency. The disclosure of capital policy has come under increased scrutiny following the inclusion of a supplementary principle 5:2 in the revised Corporate Governance Code related to management with awareness of cost of capital. Subsequent action from the Tokyo Stock Exchange including market restructuring and revision of the listing rules in 2023, which emphasised financial metrics related to cost of capital and capital efficiency, have increased disclosure in this area. As a result, we have seen an increase in the opportunities to engage with Japanese companies

on the topic of capital efficiency.

In terms of other changes in engagement themes, we have continued to witness a diverse range of engagement topics over the reporting period, which has strengthened even further relative to last year with environmental thematic engagement declining modestly as a result.

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

Prioritisation of engagement

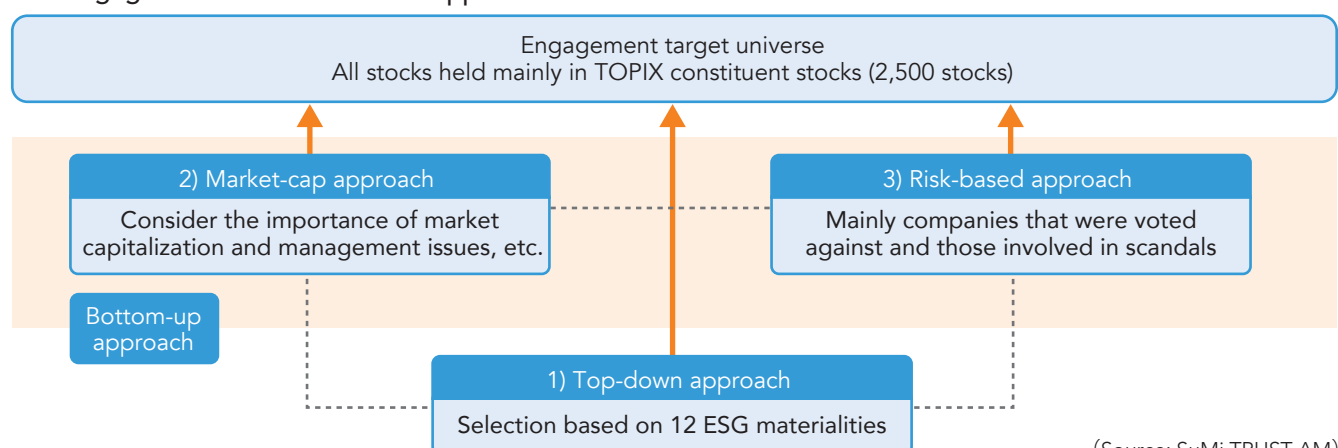
We select and prioritise engagement activities using three key approaches:

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

Engagement may also be conducted using a combination of these three methods. For more details, please see Chart 9.2.

Chart 9.2 – SuMi Trust AM’s engagement with each investee company

Our engagement consists of three approaches



(Source: SuMi TRUST AM)

1. Top-down approach

In 2019, our Executive Committee established an ESG investment policy and identified ESG Materialities. In 2020, we established 12 focused ESG Materialities through discussions at the Stewardship Committee and consultation and recommendations from the Stewardship Activities Advisory Committee, which our top-down engagement activities are based on.

The Sustainability Committee, which was established in October 2023, is responsible for reviewing the appropriateness of the 12 ESG Materialities based on feedback from clients, regulators and other stakeholders, for more information see [Principle 2](#) and [7](#).

In July 2024, SuMi TRUST AM reviewed and authorised its ESG materialities and related key activity items. The review included a wide-ranging consultation of stakeholders, including our clients, initiative organisations, and subsequent internal discussions on the amendment or replacement of key activity items.

Following the review, SuMi TRUST AM has identified six priority activity items. The six priority activity items include: greenhouse gas emissions reduction; conservation of water resources and forests, and

recovery of biodiversity; sustainable procurement of raw materials (palm oil, natural rubber, timber), marine plastic pollution and waste reduction; human rights in supply chains; human resource strategies (human resource development, recruitment, placement, and evaluation); and employee engagement.

The Stewardship Development Department subsequently developed accompanying action plans, which will be reflected in our future engagement activities and be monitored by the Sustainability Committee.

Selection and prioritisation of engagement

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

- 1) We select approximately 100 target companies for each ESG theme from among portfolio companies.
- 2) Long term goals and intermediate targets for each ESG theme are set according to the ESG issues and management level of each company (see Chart 9.4).
- 3) Effective engagement activities are implemented, e.g. by applying a six-stage process to affect the change necessary to meet our targets.

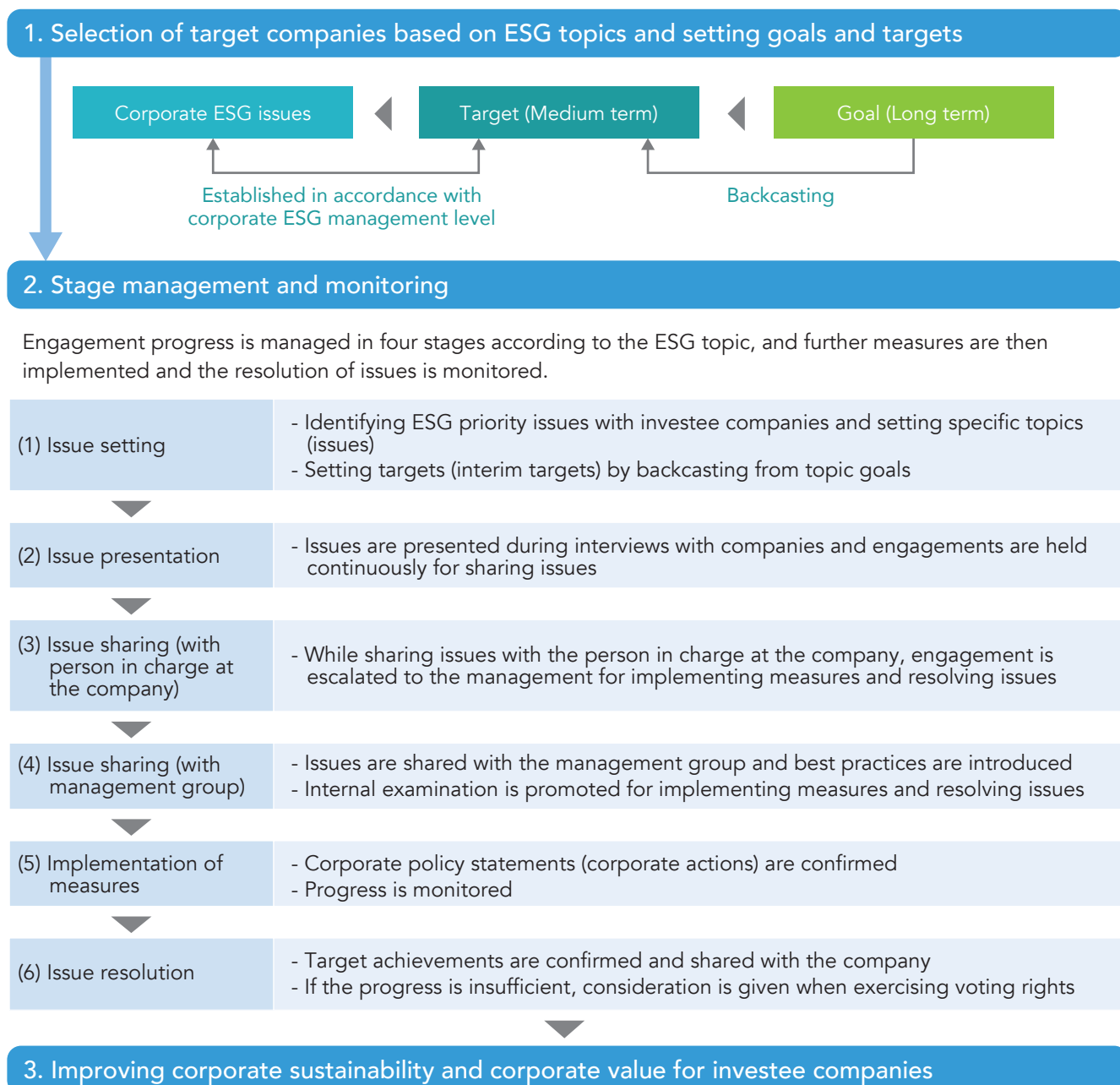
Chart 9.3 – Identifying engagement from ESG Materialities

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

(Source: SuMi TRUST AM)

Management and monitoring

Chart 9.4-Top-down engagement process

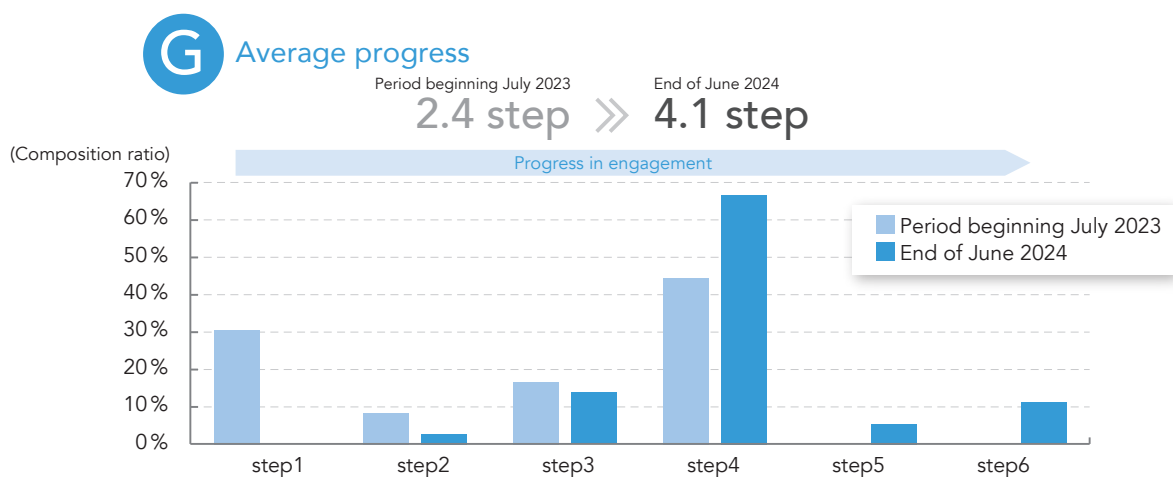
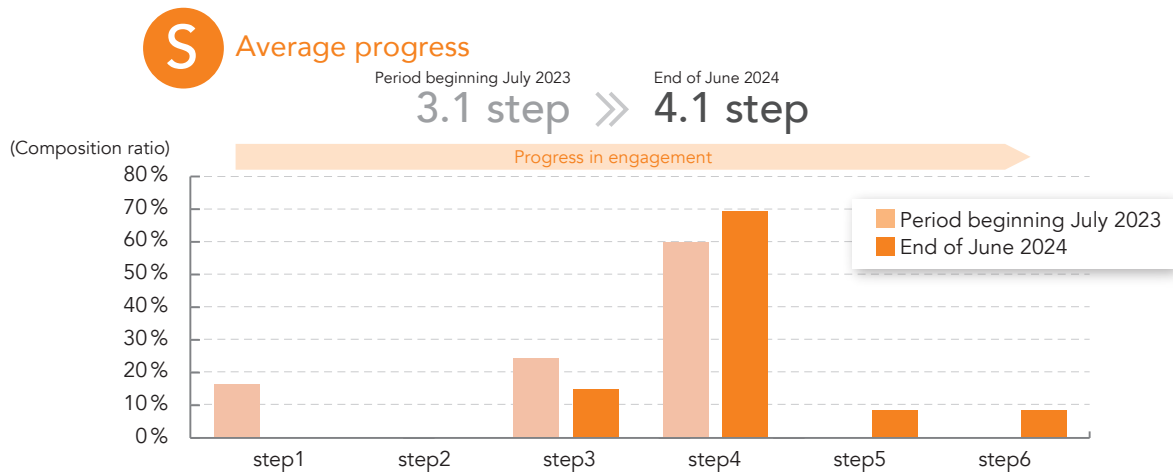
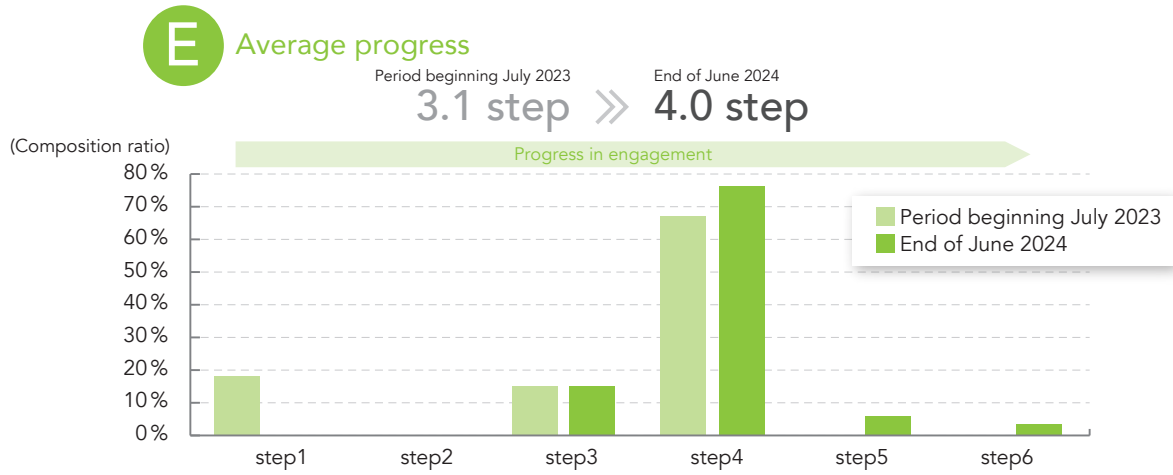


(Source: SuMi TRUST AM)

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

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

Chart 9.5 – Engagement progress dashboard



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

(Source: SuMi TRUST AM)

Our engagement progress dashboard provides a breakdown of the progress of engagement efforts by ESG theme, see Chart 9.5. In fiscal 2024, the majority of engagements progressed to Step 4, 'sharing issue awareness with management'.

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

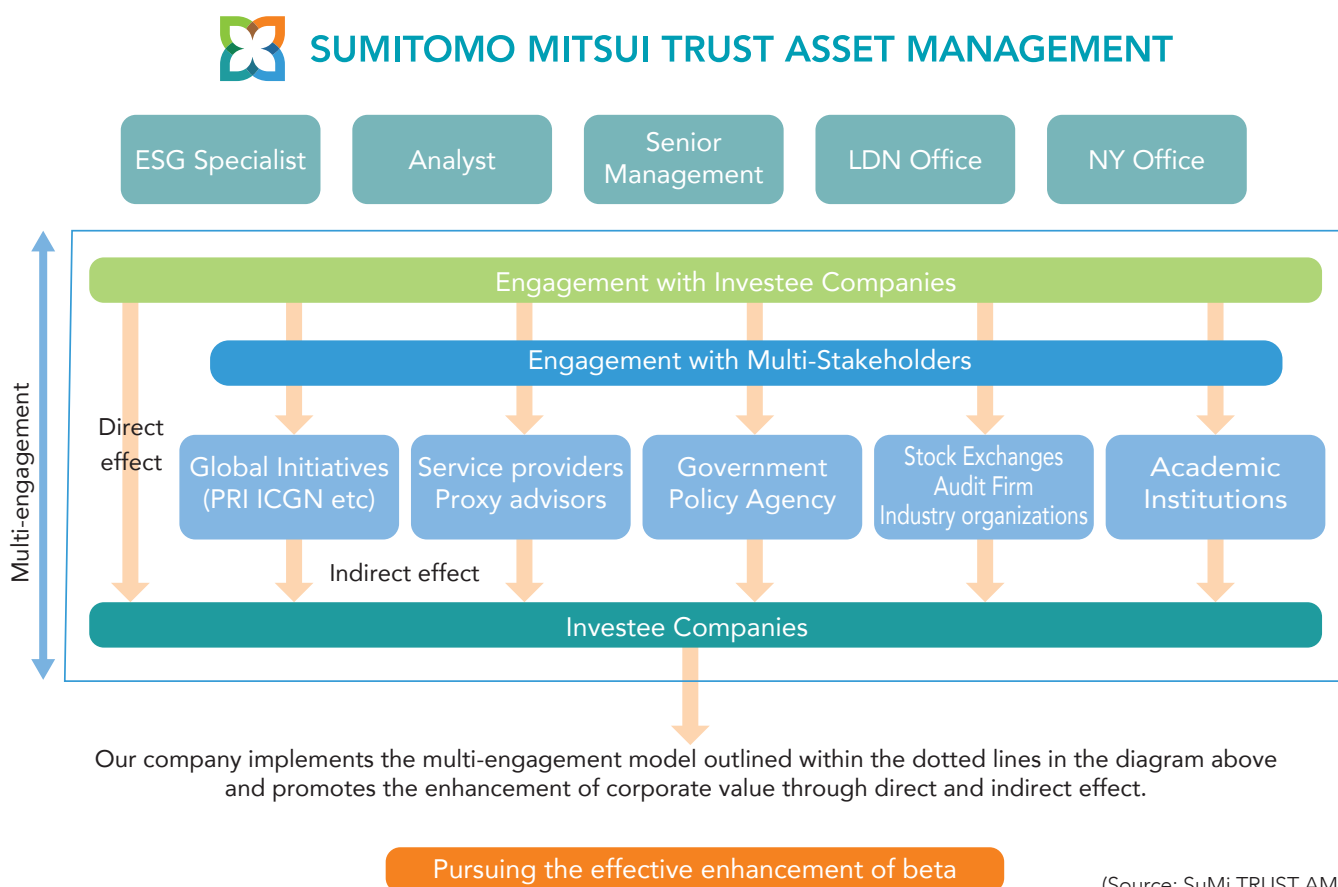
Assigning personnel to London and New York to conduct engagement with European and US

companies is another important step in increasing the scope of our engagement of our progress dashboard.

Multi-engagement approach

As discussed earlier, we seek to solve issues more effectively through 'multi-engagement'. This includes engagement not only with investee companies, but also with stakeholders including stock exchanges and regulators who are in a position to promote sustainability and corporate value enhancement of listed companies through listing rules and various regulations, see Chart 9.6. We also include an example of our multi-engagement approach in the [Principle 9](#) case studies.

Chart 9.6 – Multi-engagement approach



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

2. Market-cap approach (bottom-up)

We initially select the companies to conduct engagement with based on a quantitative, market capitalisation criteria. We supplement this with qualitative criteria such as severity of ESG challenges and response of firm management.

3. Risk-based approach (bottom-up)

We select companies to conduct engagement with

based on an assessment of firm-level risk. This includes firms which we have voted against management in the past, have performance issues such as a low ROE ratio, or have been hit by scandals.

Bottom-up selection criteria

Our selection criteria for bottom-up engagement are based on:

- 1) an assessment of discount factors (see Chart 9.7),
- 2) incentives for change based on the company's predisposition to listen to dialogue.

Chart 9.7 – Discount factors

The three discount factors assessed are:

- (i) overcapitalisation
- (ii) low profitability
- (iii) poor governance

Incentives to change focus on two items:

- (i) willingness to change
- (ii) external pressure influence

Country: Japan

(Source: SuMi TRUST AM)

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

engagement, we may select companies that are willing to address the content of the engagement and explain why it is not possible to take action, when it will be possible to take action, and the reasons for not accepting the engagement.

To demonstrate our efforts to enhance and preserve the value of our clients' investments through engagement activities, we have included some case studies as follows. You can see other case studies related to our engagement in [Principle 4](#).

Case study 9.1 – Engagement

Company	Power company	Country: Japan
Engagement	President, Vice President, Managing Executive Officer (ESG), Head of Corporate Planning (Investor Relations)	
Activity	As stipulated in our voting guidelines, we require major GHG emitters to disclose information based on the TCFD, specific reduction plans and reduction performance, and we will monitor this information. The company's targets (40% reduction in 2030 compared to 2013, 2050 net zero) do not provide a specific breakdown of reductions, nor do they provide a roadmap. Scenarios involving the operation of nuclear power plants, for which no progress has been made since the Great Tohoku earthquake in 2011, lack credibility and the financial plan is also lacks specifics. Given the lack of progress, we became concerned about the risk of statis with regards existing disclosures. We expressed to senior management the urgency of the situation, saying that a plan including a concrete breakdown of reductions needs to be presented. Due to insufficient specific disclosure, we voted in favour of climate change-related shareholder proposals for two consecutive years (2022, 2023).	
Outcome	We exercised our vote in favour of the shareholder proposal and expressed our intention to vote against them in the election of directors if no action is taken. In May 2024, the company disclosed in its financial results a plan related to GHG reduction efforts, including the mothballing of five coal-fired power stations, conversion to reserve power sources and upcycling methods. In addition, it disclosed that of the 700 billion yen in strategic investment planned through 2030, 290 billion yen would be invested in renewable energy, networks and thermal power during the 2024-26 mid-term management period. The company also announced a plan for the allocation of funds for the renewal of existing facilities such as hydropower (230 billion yen) and nuclear power (145 billion yen), and disclosed a more detailed investment plan. Based on the fact the company has shown improvement related to our requirements, and in absence of a shareholder proposal, we voted in favour of the company's proposals to the appointment of directors for 2024.	
Assessment	The company's has belatedly begun to make progress in improving its disclosure regarding plans to address GHG emissions. The latest disclosure represent a meaningful shift in approach, although disclosures about its 2030 transition plan and coal-fired electricity phase-out remain inadequate.	
Improvement	We will continue to monitor the transition plan for 2030 and request more detailed disclosures of emission reduction plans up to 2035.	

Case study 9.2 – Engagement

Company	Retailer	Country: Japan
Engagement	CFOs, executive officers, IR and SR department officers and personnel	
Activity	We raised our concern about logistics problems endured in 2024 and the company's difficulty in securing labour at rice processing plants and the implications for its ability to effectively deliver products to its domestic stores in light of the ongoing expansion. The discussion also included the need to review the value chain, which is one of the company's strengths, and to focus on a sustainable business model.	
Outcome	In March 2024, the company announced it will distribute hand-rolled rice balls with a longer freshness time (an average of about eight hours longer compared to current rolls) nationwide. Given the popularity of these rice products, this initiative will have a meaningful impact on waste loss, alleviate ordering and food management burdens on store and reduce the number of delivery services and night-time work at rice plants. This will have benefits not only in terms of its environmental footprint but will reduce existing logistical pressures and strengthen the value chain.	
Assessment	The dialogue resulted in a new initiative that will serve to reduce the environmental and social impact of the value chain and strengthening the resilience of the company's business model which should be commended.	
Improvement	We intend to monitor the progress and effectiveness of the company's project. In addition, we will conduct dialogue not only with distribution companies, but also with a wide group that make up the supply chain. These include companies vulnerable to labour shortages, a major social issues, such as construction companies and transportation companies.	

Case study 9.3 – Engagement

Company	Trading company	Country: Japan
Engagement	Head of IR and Manager, Sustainability Promotion Department	
Activity	Our dialogue with the company focused on the issue of executive remuneration. The advancement of sustainability management is included as non-financial information in the individual evaluation section. However, it is unclear who is committed to what goals and whether the incentives are appropriately designed. As part of our engagement we called for a clear visualisation of KPIs and the disclosure of design details related to executive remuneration.	
Outcome	Although there was no clear reference to commitment at the time of our meeting in December 2022, the company has since introduced non-financial indicators in its performance-linked stock compensation. It has also clarified evaluation criteria for climate change, gender equality and employee engagement initiatives. Following a subsequent meeting, further details of relevant KPIs were presented in the 2024 Integrated Report.	
Assessment	The engagement period extended for two years. During that period, the company demonstrated considerable improvement related to its disclosure of executive remuneration. The overall response from the company was deemed sufficient (i.e. satisfactory level).	
Improvement	We intend to continue to monitor progress of the company's institutional arrangements and other aspects of the company's governance system. In addition, the contents of the dialogue will be included in engagements with other companies and in other industries as an example of good practice.	

Case study 9.4 – Engagement

Company	Equipment and electronics manufacturer	Country: Japan
Engagement	CEO, CFO	
Activity	The company is an environmentally advanced company that is working to reduce the environmental impact of its products. This includes both by reducing its own CO2 emissions and by showing the results and targets of CO2 emissions reduction contributions by its suppliers. We requested greater clarity on sales targets related to its sustainable business initiatives.	
Outcome	Following the engagement, the company announced an estimate of the amount of CO2 reduction contribution - the amount of CO2 reduction made by replacing conventional products with energy-saving products. It also announced sales targets that relate business opportunities to its management strategy to realise a de-carbonised and a recycling-oriented society.	
Assessment	The company response to our engagement efforts was deemed sufficient (i.e. satisfactory level), including the disclosure of plans showing the linkage between the management strategy and environment-related opportunities. The engagement also confirmed that the firm is set to remain a leader in its efforts to build an sustainable business approach.	
Improvement	We were able to confirm the high level of activities in the firm through the engagement and we intend to use the company's approach as an example of best practice and a blueprint for developing a dialogue in a wide range of companies, including those in other sectors.	

Case study 9.5 – Engagement

Company	Heineken	Country: Netherlands
Engagement	Senior Sustainability Manager	
Activity	Natural capital, including the conservation of water resources, is one of our 12 key materialities. As a result, we participate in industry associations such as Ceres - a US environmental organisation - and use the knowledge gained from these activities in our engagement. We also conduct dialogue with beverage manufacturers operating globally to assess water resources risks, including in the agricultural supply chain, and to work on measures to reduce them. The company has already set brewery usage reduction targets for water resource risks by 2030. However, we conducted engagement to request disclosure on greenhouse gas emissions in relation to agriculture and the setting of specific targets for water resource risk response and farmer support.	
Outcome	The company had improved disclosure of comprehensive response plans for healthy soil use, integrating greenhouse gas emissions reduction and water resource risk. In September 2023, the company received certification that its targets are set in line with Science-based Target's Forest, Land and Agriculture Guidance (FLAG), including Scope 3 forest, land and agriculture. The company also published an updated base year along with a target to reduce agriculture-related Scope 3 emissions by 30% (from 2018 to 2022). In addition, various projects have been initiated including concepts such as regenerative agriculture with regard to water resource risk management and reducing fertiliser use and crop rotation to improve soil health.	
Assessment	Since 2020, the company has improved its disclosure on topics including water resource risk response as a result of engagement through emails, online interviews and face-to-face meetings and by incorporating the findings of initiatives such as Ceres into its engagement activities. We recognise the company's initiatives to manage greenhouse gas emissions and water resource risks and to support for farmers. On the other hand, verification of targets and the effects from each project and the presentation of strategies integrated within the business could be improved.	
Improvement	Going forward, we plan to meet with the IR Director and Senior Sustainability Manager about once a year to discuss soil health improvement through greenhouse gas emissions and water resource risk management, and support for farmers. We will demand improved disclosure, not only in terms of target setting, but also in terms of progress and concrete business impact of measures. In addition, we will continue to conduct engagement activities by using the company as a case study to engage with competing global beverage manufacturers, as well as incorporating the knowledge of initiatives such as Ceres into our engagement activities.	

Case study 9.6 – Engagement

Company	POSCO Holdings, POSCO International	Country: South Korea
Engagement	Head of IR Sustainability	
Activity	We have conducted engagement with both POSCO Holdings and its subsidiary, POSCO International. POSCO International is South Korea's largest trading company and a listed subsidiary of POSCO Holdings. These companies are involved in low-carbon steel sales, as well as in fossil resource development projects such as renewable energy projects and natural gas extraction projects. In our opinion, in addition to POSCO Holdings' steel business, POSCO International's trading company division has businesses with a high environmental impact. These include investments in fossil resources and palm oil production, with implications for climate change and natural capital. As a result, we believe POSCO Holdings' governance requires the disclosure of a sustainable strategy that relates to the entire group including both companies.	
Outcome	POSCO Holdings is actively improving its disclosure on climate and published a TCFD-aligned report assessing both physical and transition risks for 11 major global worksites. It also disclosed the decarbonisation roadmaps for its major subsidiaries including POSCO international.	
Assessment	We were able to conduct engagement with POSCO Holdings, including through initiatives such as CA100+. The improved disclosure has increased the likelihood that POSCO Holdings' subsidiaries will be included in consolidated emissions reporting and targets. However, POSCO Holdings has not yet integrated carbon neutrality roadmaps at the holding level. In addition, efforts to reduce methane in natural gas supply chain could be improved as POSCO International does not have a methane reduction target but the company does acknowledge its importance.	
Improvement	We believe that the dialogue objectives were partly met as a result of meeting between the CA100+ investor group and the management of POSCO Holdings. However, it is necessary to publish a consolidated carbon neutrality roadmap at the group level. We will proceed to apply the case of POSCO to other companies that we have met with through the CA100+ investor group, and will monitor the progress of the plan with POSCO.	

Engagement in fixed income

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

Although bondholders cannot exercise voting rights as shareholders can with shares, they are considered an important part of the company's corporate

governance. Bondholders have the right to demand sustainable growth and measures to mitigate downside risk in return for the provision of funds.

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

Chart 9.8 Our bondholder engagement includes:

- 1) Confirmation of the terms and conditions of any new issue.
- 2) Negotiation of price (coupon) in accordance with the company's creditworthiness and market conditions
- 3) Provide recommendations on the optimum maturity, issue size and bond market (wholesale/retail/overseas) and encourage the creation of a sustainable procurement environment for companies.
- 4) Dialogue on how to reduce GHG emissions and how to allocate the proceeds from ESG bonds.
- 5) Require the use of different rating agencies and ESG assessment bodies.
- 6) Recommendation of issuance formats for overseas companies (Samurai Bonds/Euroyen Bonds/Global Yen Bonds).
- 7) Require a clause for transformation from unsecured to secured status in cases of low credit ratings and creditworthiness concerns.
- 8) Require release of collateral in cases where bondholders are subordinated due to high secured borrowing from banks.

(Source: SuMi TRUST AM)

Case study 9.7 – Bond engagement

Company	Construction materials company	Country: Japan
Activity	The company's IR materials contain insufficient disclosure of capital allocation policy, a key requirement in the latest Corporate Governance Code. We held a dialogue with the company to discuss its capital allocation policy and financial soundness and stress the need to disclose this information given its importance to bondholders going forward.	
Outcome	At the time of the engagement meeting, the company stated it would consider disclosure related to its capital allocation policy. It subsequently disclosed details of its capital allocation in the explanatory material for the new medium-term plan. These disclosures serve to increase transparency of the company's business and financial strategies and we welcome them as a bondholder.	
Assessment	The company response was sufficient and indicated it understood our standpoint as a bond manager (satisfactory level).	
Improvement	We intend to use this case as an example of best practices regarding disclosure to deepen investors' understanding of business and financial strategies and to improve the efficiency of dialogue with issuers, as there are many companies that are facing similar issues. We also intend to encourage corporate bond issuers to clearly state their capital allocations in order to prevent sudden downgrades of their credit rating and unnecessary market turmoil in the event of major capital expenditure or acquisitions. In addition, while conservative financial management is desirable from the perspective of creditworthiness, it does not necessarily lead to maximum corporate value and may lead to significant financial deterioration as a result of intervention by activists, so we will encourage appropriate financial management and information disclosure that does not attract additional outside pressure.	

Case study 9.8 – Bond engagement

Company	Financial services company	Country: Japan
Activity	We expect the parent company to witness a higher investment burden relative to earnings and cash flow due to the ongoing transitional phase of the shift to EV. Our dialogue with the company confirmed details related to 'investment policy and discipline' , 'capital allocation strategy' and 'profitability of existing businesses such as internal combustion engine vehicles to support the EV shift transition phase' . In particular, as the time lag to a full EV shift is uncertain, and profitability of the EV business is an important issue, we requested information on 'disclosure of earnings and cash flow of the EV business alone and the timeline for its monetisation' .	
Outcome	Although there have been no cases of EV business units disclosing earnings and cash flows separate from the legacy business, the company has committed to proactively disclose information towards the late 2020s.	
Assessment	The performance on the EV business, whether positive or negative, is likely to affect the company's credit spreads when issuing bonds in the future. We appreciate the efforts and will continue to check the company's proactive disclosures and monitor its explanations related to the EV business.	
Improvement	We intend to use dialogue to make recommendations and share opinions with particular attention to the EV business as, and in relation to other financial leverage indicators, as it could affect credit spreads as a result of the company's long-term business strategy. Similar dialogue on EVs will also be extended to other car manufacturers in Japan.	

Divergence of engagement by fund

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

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

In order to cater for clients differing needs and time horizons, we have a range of funds.

Principle 10

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

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

Engagement can take the form of individual engagement with companies, or it can be collaborative engagement, in which we work with like-minded investors. We actively promote collaborative engagement to support individual engagement activities, as these actions can have an effect greater than the sum of individual companies and serve to improve the functionality and efficiency of our activities.

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

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

As of October 2024, we are engaged in or participate in 25 initiatives with further details in Chart 10.1. Our global initiatives activities are monitored by the Sustainability Committee, which

conducts a detailed review of action plan progress at least once a year.

Our approach

During the reporting period, we upgraded our engagement and monitoring of activity conducted through global initiatives. These changes were organised in line with the review of ESG Materialities and the related activity items.

A key upgrade related to the objectives of participation in the initiative groups, with all 25 member organisations organised by their alignment to the following goals:

- (i) gaining high-level expertise in specific fields,
- (ii) approaching difficult-to-access targets,
- (iii) maintaining and improving reputation,
- (iv) capacity building.

Having clarified objectives of each of the 25 global initiatives, we organised them based on long-term and short-term activity plans and ensured that they are regularly reported to the Sustainability Committee for monitoring.

We have benefited from the greater clarity around global initiative objectives and monitoring. For example, we have upgraded our engagement activities in specific fields as a result of the acquisition of expertise, see Chart 10.1 for more details.

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

Chart 10.1 – Global initiatives

Title		Affiliated working group (Year principally indicates participation year)	Main accomplishments from activities in the past year (Principally from July 2023 to June 2024)
Global initiatives	UN climate change-related	 PRI	[1] PRI Advance (2022) - Promoted collaborative engagement with Korean and Chinese companies as a collaborative manager, with outcomes published in the PRI Advance assessment report. [1]
			[2] PRI Collaborative Sovereign Engagement (Australia) (2023) - Participated in collaborative engagement with the Australian Federal Government on climate change policy and green bond issuance. The Australian Government presented a roadmap to realise the 1.5C target and the Treasury presented its response policy on green bond issuance. [2]
			[3] PRI Spring (2023) - Involved from inception as an advisory group member. Started collaborative engagement on biodiversity as lead manager and collaboration manager for Asian companies.[3]
		 Climate Action 100+	- Appointed as a co-chair of the Asian Advisory Group and lead manager for collaborative engagements in the Asia-Pacific region including Japan, Indonesia, South Korea and Thailand.
		 United Nations GC (Global Compact)	
Specific topic-related		 CDP	- Participated in the science-based targets (SBTs) for nature project organised by CDP Japan as sole Japanese asset management company. Through this project we have promote the spread of SBTs for Nature among Japanese companies.
	5	 FAIRR	[1] Sustainable Proteins (2021) - Continued collaborative engagement as a lead manager with a US food manufacturer on the theme of sustainable food supply (protein) and a Brazilian meat manufacturer on the theme of labor protections. [1][2] [2] Working Conditions in Global Meat Supply Chains (2021) - In terms of policy engagement, we participated in discussions on the formulation of the 2050 roadmap hosted by the FAO (Food and Agriculture Organization of the United Nations) on food policy for soft commodity producing countries, and submitted recommendations on food protein production and climate change response.

Chart 10.1 – Global initiatives (continued)

Title		Affiliated working group (Year principally indicates participation year)	Main accomplishments from activities in the past year (Principally from July 2023 to June 2024)
Global initiatives	6	 SPOTT	- Using natural rubber data published by SPOTT, we conducted a comparative assessment of 13 domestic and foreign rubber-related companies. We shared the results through engagement and discussed the issues facing each company, such as prevention of deforestation and human rights in the supply chain.
	7	  Investors for Board Diversity 30% Club UK Investor Group, Invest Ahead (formerly Thirty Percent Coalition)	- Participated in the quarterly investor group meetings of the 30% Club UK, accumulating knowledge on activities related to gender diversity and dialogue approaches. - Participated in the general meeting of Invest Ahead, formerly the 30% Coalition, and gathered information on diversity initiatives in US companies through discussions with the US Securities and Exchange Commission, the State Treasurer of Colorado and women and minority directors of US companies. - Participated in the study group of Invest Ahead, formerly the 30% Coalition, on the status of US companies' disability inclusion initiatives and challenges.
	8	 Access to Medicine Foundation	- We held individual dialogues with Japanese pharmaceutical companies, serving as the lead manager and communicating the ATM views and encouraging improvements. Through our European engagement representatives, we provided feedback to the ATM on the dialogue and the company's stance, thereby contributing to mutual understanding between ATM and the companies in Japan.
	9	 Investor Action on AMR	- We have been in dialogue with companies involved in infectious disease drugs to raise awareness of antimicrobial resistance (AMR) following the end of the Corona pandemic and to encourage the establishment of a sustainable research and development system by introducing pull incentives - a system to support the launch of antimicrobials by separating usage (sales volume) and sales (revenue) after approval. - The Investors Action on AMR public statement was signed for the UN General Assembly High-Level Meeting on AMR.
	10	 TNFD Forum	- Participated in forum members' exchange of opinions in preparation for the announcement of the final recommendations for the TNFD information disclosure framework. - Announced as an Early Adopter of information disclosure in January 2024.

Chart 10.1 – Global initiatives (continued)

Title		Affiliated working group (Year principally indicates participation year)	Main accomplishments from activities in the past year (Principally from July 2023 to June 2024)
Global initiatives	Specific topic-related	 IPDD	[1] Brazil Engagement Group (2020) - Submitted letters and exchanged views on implementing effective policies regarding forest conservation with policymakers including the Brazilian Congressional Delegation and the Ministry of Finance. [1]
			[2] Indonesia Engagement Group (2021) - In Indonesia, we conducted dialogues with local stakeholders such as the stock exchange to ensure the sustainability of investments and loans for forest conservation. [2]
			[3] Consumer Countries Group (2022) - Conducted interviews with policymakers in the United States and discussed the feasibility of introducing regulations similar to the European Forest Conservation Framework. [3]
	12	 FSDA	- Lead manager in a collaborative engagement with financial institutions lending to grain-producing and related companies in Asia, including Japan, to develop an effective plan for deforestation risk avoidance by 2025, and to facilitate disclosure and steady implementation of the plan.
	13	 Nature Action 100 NA100	- Collaborative engagement was initiated with Asian companies, including Japanese companies, to encourage them to adopt the TNFD, a natural capital disclosure framework, and strengthen their governance.
	Investor group-related	 Ceres	[1] Investor Water Hub (2019) - We conducted collaborative engagement with a US fast food operators as a lead manager, and with a Japanese electronics manufacturer as a collaboration manager. [1]
			[2] Biodiversity Working Group (2020)
			[3] Food Emission 50 (2021)
			[4] Paris Aligned Investment (2021) - Participated in a panel discussion at the Paris Aligned Investment meeting and introduced examples of engagement approaches that integrate water resource issues and climate issues. [4]
			[5] Investor Network Policy Working Group 2024 - Participated in a roundtable meeting with the U.S. Department of Treasury and Department of Energy held in Washington, DC, and exchanged opinions on the utilisation of climate transition policies. [5]
			[6] Banks Working Group (2024) - Participated in a multi-stakeholder engagement on climate information disclosure with a major US bank, and discussed the advancement of the company's disclosure with the International Financial Reporting Standards (IFRS) in mind. [6]

Chart 10.1 – Global initiatives (continued)

Title		Affiliated working group (Year principally indicates participation year)	Main accomplishments from activities in the past year (Principally from July 2023 to June 2024)
Global initiatives	Investor group-related	15	 CII - Participated in meetings with activist investors and US railway company management in proxy fights at 2024 shareholder meetings, respectively. - Participated in the CII Spring and Fall Conference to gather information on SEC regulations, labour rights and AI governance.
		16	 AIGCC [1] Energy Transition Working Group (2023) [2] Forest and Land Use Working Group (2023) - We acted as lead manager for a Japanese utility and as collaboration manager for a major Asian utility, facilitating engagement on exit from coal-fired power generation and renewable energy investment. - Our natural capital strategy was published as an online learning resource for AIGCC members. It provided an opportunity for asset owners, asset managers and others to understand our activities. - We were a panellist at the AIGCC Japan Nature Positive Strategy Roundtable in Japan. We introduced our natural capital activities and engaged in discussions with industry peers.
		17	 ICGN [1] Natural Capital Committee (2021) [2] Policy Oversight Committee (2021) - Appointed as a member of the ICGN Board of Governors. - As a board member, we have made recommendations to the Japanese government regarding Japan's corporate governance reform, including: 'disclosure of information prior to AGMs.' We also held a dialogue with the SEC, a US government agency, and provided opinions to ensure that US climate-related information disclosure is consistent with global standards. - The Natural Capital Committee disseminated an updated version of the policy guidance (Viewpoint) regarding natural capital. [1] - The Policy Oversight Committee sent out recommendations for 'Governance regarding AI'. [2]
		18	 The Investor Agenda - Signed the 2024 Global Investor Statement to Governments on the Climate Crisis, communicating the need for a 'Whole of Government Approach' to the 1.5°C target. - In accordance with ICAP, we conducted a self-evaluation of our climate change stewardship activities and disclosed it in our Stewardship Report.

Chart 10.1 – Global initiatives (continued)

Title		Affiliated working group (Year principally indicates participation year)	Main accomplishments from activities in the past year (Principally from July 2023 to June 2024)
Domestic initiatives	Investor group-related 19	 Net Zero Asset Managers initiative	- Appointed as a member of the Advisory Group. - The NZAM Bi-Annual signatory meetings were held in the US, Europe and Asia/ASEAN regions, where we represented the Asian region and presented case studies of our Asia-focused engagements and conducted awareness-raising activities.
	Climate change-related 20	 TCFD Consortium	- Participated in the TCFD roundtable with industry peers and advised and exchanged opinions regarding the disclosure required by asset management institutions. - Participated as a lecturer in the TCFD Consortium's educational material, 'Mock Roundtable for Beginners,' and provided an explanation of the main points of TCFD disclosure required by institutional investors.
	Specific topic-related 21	 ESG Information Disclosure Study Group	- Participate as a Full Membership company with our Senior Managing Director, Hiroyuki Horii, serving as a Director. - Five young employees participated in the Sustainability Human Resource Development subcommittee, building up their knowledge in stewardship activities through lectures and Q&A sessions with listed companies, major asset owners and auditing firms. - Through the study group, opinions were submitted in response to public consultation on the draft standards published by the Sustainability Standards Board (SSBJ).
	22	 30% Club Japan Investor Group	- Our President, Yoshio Hishida, stepped down as Chair of the Investor Group at the end of March 2024, but has continued to serve on the Board of the Investor Group since April and lead its operations. - In June 2023 and May 2024, we published a Progress Report, including examples of best practice in dialogue, and in October 2023, we published a Good Practices in D&I Disclosure from an Investor's Perspective. - In December 2023, a second event was held for senior female leaders of TOPIX constituent companies, which are members of the initiative.
	Investor group-related 23	 Institutional Investors Collective Engagement Forum	- Served as co-lead manager and responsible for conducting dialogue on the issue of 'Action to Implement Management that is Conscious of Cost of Capital and Stock Price'. - As a co-lead manager, we contributed to the selection of target companies (criteria setting).

Chart 10.1 – Global initiatives (continued)

Title		Affiliated working group (Year principally indicates participation year)	Main accomplishments from activities in the past year (Principally from July 2023 to June 2024)
Domestic initiatives	Investor group-related		
	24	 JSIF Japan Sustainable Investment Forum (JSIF)	- Hiroyuki Horii, our Senior Managing Director, is a member of the Board of Directors. - Participated in the Next Generation Human Resource Success Project in 2024, where young people from JSIF participating companies discussed sustainability work and made policy recommendations.
	25	 JSI Japan Stewardship Initiative	Japan Stewardship Initiative (JSI)

(Source: SuMi TRUST AM)

Collaborative engagement

Climate change

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

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

We take a proactive approach to all our initiatives including taking up management if necessary. As a specific example, as part of our CA100+ commitments, we have asked company executives to commit to net zero emissions by around 2050, to set specific medium- to long-term targets related to the

transition process, and to disclose appropriate capital investment plans in line with these targets. In addition to encouraging ambitious efforts that are not bound by Nationally Determined Contributions, we have also requested actions to reduce emissions throughout the value chain. To support the work in Asia with CA100+, we are a lead investor for a number of Asian utilities. This has led to multi-layered engagement with companies and policymakers.

On climate-related issues, our Stewardship Officer also spoke at webinars organised by PRI Japan and the AIGCC to discuss our efforts to improve engagement and voting decisions towards net zero. A member of our company has been appointed to the Advisory Group of NZAMI, please see Chart 10.1. We represented Asia at the NZAMI bi-annual signatories meetings held in the US/Europe and Asia/Oceania regions and presented case studies of our Asia-focused engagements to raise awareness of these activities. Furthermore, we play a knowledge-sharing role in promoting NZAMI membership.

Initiative alignment

We recognise that not all industry initiatives will suit all asset managers. Our enhanced engagement and monitoring are designed to ensure our objectives are aligned with an initiative, allowing us to play a more effective role.

For example, as well as taking a board position at ICGN, we are committed to maintaining our membership given the initiatives strong alignment with our approach.

Another example of where we have strengthened systematic and collaborative activities is in the field of natural capital through our work with PRI Spring, the Coalition for Environmentally Responsible Economies (Ceres), the TNFD Forum and SPOTT, an online platform for assessing commodity producers.

In North America, we participate in the Ceres Working Group on Land Use and Climate. Our work on information disclosure and analysis regarding natural capital has also been facilitated by collaborative engagement through the following organisations: The Investors Policy Dialogue on Deforestation (IPDD), Finance Sector Deforestation Action (FSDA) and Nature Action 100.

Of course, there are other important themes that require collaborative engagement. For example, to tackle the issue of health inequality we took on the role of lead manager for the Access to Medicine Foundation's engagement with Japanese pharmaceutical firms, please see Case study 10.1 for more details.

Case study 10.1 – Initiatives

Company	Pharmaceutical Company	Country: Japan
Initiative	Access to Medicine Foundation	
Activity	The Access to Medicine Foundation initiative urges pharmaceutical companies to improve medicine availability and publishes an Access to Medicine (ATM) Index. We acted as lead manager for the company, a continuation of our previously reported role, with the purpose of encouraging the company to improve its approach to the supply of medicines for developing countries and support systems for healthcare organisations.	
Outcome	The management has continued to be proactive in addressing the issues pointed out regarding medicine availability from a global perspective. Specifically, at the 2024 Sustainability Meeting, the CEO explained his access to medicines activities in Kenya and the outcome from these activities. In addition, since 2023 the company has increased the prioritisation of its ATM activities with the creation of an ATM Steering Committee made up of senior employees, i.e. heads of departments or above. The company management's commitment to ATM activities, led by the CEO, resulted in a modest improvement in the 2024 Access to Medicine Index ranking, rising to 15th place from 16th place (2022).	
Assessment	The improvement of the access system and disclosure of medicines for developing countries is highly commendable, with implications for the ATM Index assessment and peer comparison with European and US companies. In addition, we welcome the establishment of the ATM Steering Committee, which will allow greater integration into management strategies. The 2024 Access to Medicine Index also recognised this commitment, with high scores for governance. However, the operation of the committee is new and we expect the results of the committee's efforts to become more apparent in the future. The company has not made up the gap with highly rated European and US companies, so we judge that it has not yet reached the level we expect.	

Case study 10.1 – Initiatives (continued)

Improvement	We will continue our multi-year efforts to analyse and engage with the company on the content of the Access to Medicine Index evaluation, clarifying issues and referring to highly rated European and US companies. We will also conduct similar engagement initiatives for other Japanese pharmaceutical companies. In particular, we will check the progress of the ATM Steering Committee to contribute to improving access to medicines and to enhancing corporate value. In addition, if the company has any opinions on the ATM evaluation results, we will provide feedback to the Access to Medicine Foundation as lead manager.
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Our commitment to global initiatives means we are also a member of the management committee that oversees the activities of the IPDD, a member of the Board of Governors of the International Corporate Governance Network, a member of the 30% Club Japan Investor Group, and Director of the ESG Disclosure Study Group.

A global approach

It is important that participants in these initiatives seek to solve ESG issues from a global perspective. We conduct comprehensive engagement globally through our three bases in Japan, Europe (London) and North America (New York). For European and US initiatives, the UK and US-based members collaborate with the Tokyo team on these initiatives; while for domestic, Asian and Australian initiatives

the Tokyo-based members take a lead. We share activities and information from regional initiative among the three sites to improve information gathering and the efficiency and effectiveness of engagement and voting decisions with companies and policymakers.

Another major benefit of participating in collaborative initiative is that it provides us with global trends on ESG issues and investor responses. By relaying information to Japan, we are working to improve the overall sophistication of our stewardship activities. For example, in 2020 we joined the SPOTT Initiative, which is aimed at managing ESG risk through its assessment of the public disclosure and reporting of soft commodity companies, please see Case study 10.2.

We share activities and information from regional initiative among the three sites to improve information gathering and the efficiency and effectiveness of engagement and voting decisions with companies and policymakers.

Case study 10.2 – Initiatives

Company	Barry Callebaut	Country: Switzerland
Initiative	SPOTT	
Activity	One of our key materialities is the theme of human rights in the supply chain. In order to complement our own efforts to promote activities related to this theme, we have been a member of the UK initiative SPOTT since 2020. SPOTT aims to resolve ESG issues for companies involved in palm oil and natural rubber, and we have utilised their approach to support smallholder farmers and supply chain management in engagement activities. As a leading chocolate and cocoa products manufacturer that procures many of its raw materials from African farmers and other developing countries, we have conducted engagement to improve efforts and to set effective targets to eradicate child labour and support farmers' self-reliance in its supply chain. The company has pledged to eradicate child labour and lift more than 500,000 cocoa farmers out of poverty. However, there is a need not only to monitor the existence of child labour, but also to put in place systems that enable local communities to become self-reliant and to promote direct intervention to address income challenges as the root cause of the child labour problem among farmers.	
Outcome	Engagement was conducted on the need to set effective targets with regard to eradicating child labour in the supply chain and supporting farmers to become self-reliant. The company has committed to establishing human rights protection mechanisms for all directly sourced rural communities by 2030. It also set a target to mobilise public and private sector stakeholders to improve cocoa farmers' incomes by 2030. For cocoa farmers, it declared a shift in focus from traditional methods of training farmers to providing direct input support and a wide range of programmes including soil amendments and planting materials, as well as third-party labour services and financial support. In addition, it set targets for the establishment of child protection committees throughout producer communities and the implementation of public and private sector initiatives to create an environment where quality education is available.	
Assessment	We welcome the efforts to establish a producer community-wide child protection committee in 2023 and for setting quantitative targets for 2030 to lift cocoa producers out of poverty, as well as disclosing related programmes.	
Improvement	In the future, we will encourage the disclosure of information on the progress of efforts to meet the targets set for human rights issues in the supply chain. We will also expand the dialogue themes (sustainable raw material procurement and DEI) and we will encourage improved disclosure that is integrated with the strategy. In addition, we will use the company's initiatives in engagement activities with competitors in Europe and also in engagement activities with competitors covered by our other offices.	

Case study 10.3 – Initiatives

Company BRF Country: Brazil	
Initiative	FAIRR
Activity	The FAIRR Initiative is a collaborative initiative that raises awareness of ESG risks and opportunities in the global food sector. We participate in the initiative in order to gain knowledge on labour rights. We have taken an active role in the initiative's collaborative dialogue programme, acting as lead investor in an engagement with Brazilian meat-packing company BRF to promote environmental improvements in the wholesale meat processing industry, where poor working conditions have been identified. Specifically, we sought improvements with regard to respect for collective bargaining rights, paid sick leave schemes, employee engagement and grievance disclosure in its global operations.
Outcome	The company has identified employee turnover as a key management issue. It has taken steps to provide opportunities for direct dialogue through site visits by directors, to protect the rights of migrant workers and to ensure labour rights in regions such as the Middle East where protections are inadequate.
Assessment	The company's use of information disclosure and work-practice improvements with regard to grievance redress is commendable. While there have been improvements in the protection of workers' rights and the involvement of directors in employee engagement in some regions, there is still room for further improvement and we look forward to stronger efforts in the future.
Improvement	While referring to comparisons with companies in the same sector in the collaborative dialogue programme, we will continue dialogue on core labour issues where there is room for improvement, such as perpetuation of paid sick leave for corona pandemic, and expand dialogue on the adequacy of migrant workers' protection, wages and benefits in wider geographical regions.

Case study 10.4 – Initiatives

Company  Woolworth		Country: Australia
Initiative	ACCR	
Activity	Our engagement activity with the company, Australia's largest retail chain, has sought to address risks of human rights violations in the supply chain of its agricultural products. One of our key materialities is the theme of human rights in the supply chain and we have used our membership of global initiatives to improve our knowledge as relates to best practices in this area. As a result, we asked the company to disclose and implement policies and guidelines aimed at eliminating human rights risks in its supply chain, with a view to developing a protective treaty based on the Modern Slavery Act which came into force in Australia in 2019.	
Outcome	The company disclosed the first version of its Modern Slavery Statement in September 2020. While this did reflect the Modern Slavery Act, it did not adequately examine human rights issues in its supply chain. Subsequently, after further engagement the company disclosed a revised version of the Modern Slavery Statement in September 2023.	
Assessment	In response to the Modern Slavery Act, Australian companies have sought to address human rights issues in supply chains. However, the pace of activity has been insufficient. Over the last four years, we have engaged with Woolworth and a number of other Australian companies (Metcash and Coles). Although our collaboration with ACCR has not extended to joint letters or statements, we benefited from sharing White Papers and other relevant information. Woolworth has improved significantly as a result and has served as an example of best practice to other retailers.	
Improvement	Looking forward, we aim to use the Woolworth example to encourage to other Australian retailers (Metcash and Coles) to improve practices related to human rights risks in the supply chain. It has also been possible to ask Japan and other Asian countries to take similar action, although progress continues to lag practices in Australia.	

Principle 11

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

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

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

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

Case study 11.1 – Voting rights

Company	Steelmaker	Country: Japan
Escalation	Voting	
Activity	Since the inclusion of the climate change criteria in our voting guidance in April 2022, we have communicated to the company that we will monitor the company as a high GHG emitter and have encouraged the company to accelerate its response to the various climate change-related issues. We requested the company to disclose the risks associated with coal-fired power generation and the financial impact of each scenario in accordance with TCFD, to present a breakdown of its reduction targets and to share a concrete investment plan to support its reduction efforts. In addition, a particularly significant issue was that, while the 2030 target for the steel manufacturing process had been set, the reduction target did not include the power business, which accounts for a large proportion of emissions and was a concern in terms of consistency with the business plan. Despite multiple dialogues, the company's stance that it is still difficult to reflect quantitatively on the reduction targets by 2030 in its electricity business was unchanged ahead of the 2024 General Meeting of Shareholders. On the issue of reduction plans, the means and extent of reductions was unclear, and there was no concrete disclosure of carbon neutral-ready investments. The company also confirmed that it is difficult to disclose information on the reduction plan of steelmaking process-related technologies that enable low carbonization.	
Outcome	Despite requests for improvement through ongoing dialogue, the company's climate change-related reduction targets are problematic. The company's response remains inadequate with regard to the lack of transparency regarding measures towards carbon neutrality. Based on our climate change-related voting criteria, we voted against the proposal for the election of directors (excluding new appointments) at the AGM in June 2024.	

Case study 11.2 – Voting rights

Company	Cement company	Country: Japan
Escalation	Voting	
Activity	In February 2022, we informed the company that we had introduced climate change criteria into our voting guidelines and shared our awareness of the need to raise GHG emission reduction targets as they were not as high as national carbon neutral (CN) initiatives. The company recognised the need to increase its GHG emission reduction targets. The company's carbon neutral strategy was subsequently published and, at a dialogue in May 2022, the 2030 interim target and the investment amount and technology roadmap towards 2050 CN were presented. However, more specific disclosure was needed as there was no specific CO2 reduction contributions or KPI disclosure for each item. In subsequent dialogue in May 2023, the company shared its stance that the setting of environment-related targets, including initiatives such as fuel switching from coal, was consistent with the 1.5°C scenario. However, we were unable to verify this from its Integrated Report. We asked the company to present a breakdown of reduction items and investment plans that show its reduction efforts are in line with the Paris Agreement. Since January 2024, we have had several discussions with the company about its efforts to become carbon neutral and the lack of disclosure. We communicated that while it had already achieved its 2030 interim target, which was set only for domestic operations, it needed to set a target that included its overseas operations, and that the 2030 interim target was based on the 2000 level and a roadmap consistent with the Nationally Determined Contributions was necessary. The company's stance during the dialogue was that its reduction plan is consistent with national policy as a cement business and does not deviate from the level required. In addition, it was not clear whether the company's CO2 emissions intensity targets for the supply chain were calculated in accordance with the GHG Protocol.	
Outcome	As described in previous examples, we deployed dialogue to confirm the status of company actions against the voting criteria for climate change action. In our assessment, the company's climate change action has been at an insufficient level for a company with relatively high GHG emissions. Following the appropriate processes, we voted against the proposal for the election of directors (excluding new appointments) at the AGM in June 2024.	

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

Escalation in fixed income engagements is more limited as there is no ability to vote at meetings. Fixed income escalation may take other measures

such as divestment or other methods to pursue our right as bondholders.

Prioritisation criteria

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

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

If we conclude that our concerns cannot be resolved through standard activity, we may consider

escalation to achieve our engagement objectives as described previously.

We are aware that the escalation process may not yield desired outcomes in the short term. As a result, we seek to monitor progress over a multi-year timeframe and will report outcomes as and when they are achieved.

Case study 11.3 – Voting rights

Company	Marathon Petroleum	Country: US
Escalation	Voting	
Activity	As one of our Global 100 Climate Change Companies, we have targeted continuous dialogue with the company to address climate change issues. We sent a letter to the Chairman of the Board of Directors requesting increased action on climate change, and held a dialogue on the lack of long-term targets. The company responded that it was reluctant to set long-term targets, citing the lack of specific policy targets needed to achieve them and the fact that the proposed US SEC climate disclosure rules are still being developed.	
Outcome	Following further dialogue in 2024 which showed no change in the company's negative attitude to target setting, we opposed the election of the directors in accordance with our stricter voting rights policy.	

Another potential source of escalation comes from our annual review of our voting principles. By revising our voting principles, we can take a more stringent approach in our dialogue and voting activities. For example, in order to encourage investee companies to improve awareness of cost of capital, we included a new financial metric, price-to-book ratio, as a criterion in appropriation of retained earnings proposals, please see [Principle 12](#) for more details. The change in principles has allowed us to increase our voting activity related to capital efficiency.

Divestment

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

Japan has ratified the relevant treaties.

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

Escalation as a bondholder

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

Principle 12

Signatories actively exercise their rights and responsibilities.

Our basic voting rights policy

SuMi TRUST AM regards the exercise of voting rights as one of its important stewardship activities to enhance corporate value and sustainable growth and to maximise the long-term returns of clients. Our basic policy is as follows.

- The purpose of exercising voting rights is to contribute to the sustainable growth of investee companies, and ultimately to maximize medium- to long-term investment returns for clients and beneficiaries. We take into account the situation of the investee company and the details of our engagement, rather than merely using formulaic judgement criteria. In addition, when it comes to proposals that include multiple items, we will give priority to those that will contribute to sustainable growth.
- In exercising voting rights, we require investee companies to establish an appropriate corporate governance system that respects shareholder interests, such as separating the management

oversight functions and ensuring the independence of outside directors and officers, as well as efficiently utilising shareholder capital for sustainable growth. Furthermore, based on high-quality governance, we require appropriate corporate decisions that give due consideration to the environment and society.

- In the event of a scandal or situation that damages corporate value, such as medium- to long-term poor performance or a misalignment of corporate management with shareholder interests, we will exercise our voting rights in a manner that contributes to the improvement of corporate governance. In addition, we will seek a full explanation of the measures to prevent recurrence and delivers improvement and will base our exercise decision accordingly.

Process for exercising voting rights

The exercise of voting rights is conducted using the process outlined in Chart 12.1.

SuMi TRUST AM regards the exercise of voting rights as one of its important stewardship activities to enhance corporate value and sustainable growth and to maximise the long-term returns of clients.

Chart 12.1- Overview of the Process for Exercising Voting Rights



① Decisions on proposals not stipulated in the guidelines for the exercise of voting rights

Following separate consideration at the Sustainability Committee and a report from the Stewardship Activities Advisory Committee, the director of the Stewardship Development Department will make the decision.

② Decisions on individual proposals

Exercise of voting rights in accordance with the voting guidelines, but reflecting the content of the engagement, not just a formulaic decision.

(Previous case)

The decision on whether to apply the exception criteria to companies that have violated the business performance criteria for three consecutive terms or the disposition of surplus criteria is made based on our engagement.

③ Reporting of voting results

Reporting of voting results to the Sustainability Committee, the director of the Stewardship Development Department and the Stewardship Activities Advisory Committee.

④ Formulation of proposals for revising the guidelines for the exercise of voting rights

Based on outcomes from the exercise of voting rights, dialogue with portfolio companies and latest trends.

(Previous case)

- The inclusion of the Stewardship Activities Advisory Committee's opinion requires stricter standards for proposals regarding disposition of surplus when reporting the exercise of voting rights.
- Based on dialogue with investee companies, we enacted the exception criteria for granting equity remuneration to non-executive directors.
- We deemed it necessary to revise guidelines after a request to companies by the Stewardship Code, Corporate Governance Code or the Tokyo Stock Exchange.

⑤ Revision of voting guidelines

After deliberations by the Sustainability Committee and a report by the Stewardship Activities Advisory Committee, a decision is made by the officer in charge of the Stewardship Development Department.

(Source: SuMi TRUST AM)

Revision to voting principles

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

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

As part of an internal and external review process, we made the following changes to our voting principles for domestic equities, with an effective start date of January 2024.

- 1) Opposition to the election of directors in absence of a female on the Board of Directors has been expanded from the TOPIX 500 index, which consists of companies with high market capitalisation and liquidity, to the broader Prime market, which also includes small and mid-cap stocks. This represents a further strengthening of our criteria for greater female representation in the boardroom, having previously expanded the criteria from the TOPIX 100 Index to the TOPIX 500 Index. While we recognise the challenge for some companies finding appropriate talent, we are committed to changing the current situation through multi-year engagement and have clearly stated that, in the long term, it is important to develop internal human resources to fulfil these requirements.
- 2) In March 2023, the Tokyo Stock Exchange (TSE) published a statement on 'Action to Implement Management that is Conscious of Cost of Capital and Stock Price', urging all listed companies on the Prime and Standard Markets to allocate resources with sufficient consideration of cost of capital and profitability. To reflect this new environment, we decided to use a new financial metric, price-to-book ratio, as a criterion in assessing disposition of surplus proposals. The

revision of voting principles allowed us to strengthen engagement and voting activities around capital efficiency.

In terms of our voting principles for overseas equities, we have made the following changes to our voting principles, with an effective start date of January 2024:

- 1) We have strengthened our opposition to directors if gender and other diversity requirements in the composition of the board of directors are insufficient, as is consistent with laws and institutions of the host jurisdiction.
- 2) With regard to executive remuneration, we have reviewed our stance and committed to ensuring that executive remuneration is consistent with a goal of maximising the value of the company's shareholders, and that appropriate incentives, by level and content, are in place to assess effectiveness.
- 3) With regard to shareholder returns, we have reviewed our stance and committed to ensuring appropriate distribution of profits in line with the company's growth prospects, while paying attention to the balance between retained earnings and future investment based on the financial situation and business plan. Share buybacks are considered an effective means of increasing corporate and shareholder value.

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

Disclosure of voting

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

Full details of our voting principles and disclosures can be found here:

<https://www.sumitrust-am.com/responsible-investment/proxy-voting>

Use of proxy advisers

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

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

In regard to overseas stocks, we use data and research reports from advisers such as ISS for reference when deliberating our voting decisions. The executive officer in charge of the Stewardship Development Department holds all authority for exercising voting rights. In cases where the exercise recommendation from ISS does not match our voting principles, we give priority to our in-house voting principles.

Given the scale of our holdings, we observe some cases where the ISS exercise recommendation differs from the actual voting decision. However, incidences of divergence are low given voting principles are provided to ISS in advance and tailored to meet our stated voting principles. We conduct weekly meetings to discuss proxy adviser output and to address any specific concerns and seek to raise our issues in our annual review process with ISS. We cover more details of this review process in [Principle 8](#).

Allowing clients to choose

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

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

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

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

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

Our policy on pooled and segregated accounts

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

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

Monitoring voting rights

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

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

Approach for fixed income assets

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

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

Research-based approach

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

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

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

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

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

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

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

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

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

Voting results

Chart 12.2 – Disclosure of percentage of shares voted

Record of Exercising Voting Rights for Japanese Equity (July 2023 to June 2024)

Company proposals

		For	Against	Abstention	Total	Opposition ratio
Proposals concerning company systems	Appointment/dismissal of directors	14,258	4,595	0	18,853	24.4%
	Appointment/dismissal of corporate auditors	1,758	249	0	2,007	12.4%
	Appointment/dismissal of accounting auditors	56	0	0	56	0.0%
Proposals concerning remuneration for executives	Remuneration for executives*1	713	143	0	856	16.7%
	Payment of retirement benefits for resigning executives	0	89	0	89	100.0%
Proposals concerning capital policies (Excluding proposals concerning articles of incorporation)	Disposal of surplus funds	1,368	160	0	1,528	10.5%
	Restructuring-related*2	30	0	0	30	0.0%
	Introduction/renewal/abolishment of takeover defense measures	0	44	0	44	100.0%
	Other proposals concerning capital policies*3	66	0	0	66	0.0%
Proposals concerning articles of incorporation		477	15	0	492	3.0%
Other proposals		4	5	0	9	55.6%
Total		18,730	5,300	0	24,030	22.1%

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

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

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

Shareholder proposals

	For	Against	Abstention	Total	Opposition ratio
Total	35	357	0	392	91.1%

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

In comparison with the previous year, the ratio of opposition to company proposals increased due to our revised guidelines, such as the expanded eligibility of opposition to companies without female directors and stricter criteria for disposition of surplus.

Voting results

Chart 12.2 – Disclosure of percentage of shares (continued)

Record of Exercising Voting Rights for Foreign Equity (July 2023 to June 2024)

Company proposals

		For	Against	Abstention	Total	Opposition ratio
Proposals concerning company systems	Appointment/dismissal of directors	13,269	1,699	0	14,968	11.4%
	Appointment/dismissal of corporate auditors	631	103	0	734	14.0%
	Composition of board of directors (limits on number of directors, etc.)	343	16	0	359	4.5%
	Appointment of accounting auditors	2,063	20	0	2,083	1.0%
Proposals concerning remuneration for executives	Remuneration for executives	3,320	472	0	3,792	12.4%
	Stock options	511	338	0	849	39.8%
	Presentation of retirement benefits	16	1	0	17	5.9%
Proposals concerning capital policies (Excluding proposals concerning articles of incorporation)	Shareholders' equity	2,154	436	0	2,590	16.8%
	Profit disposal and loss disposition plans	1,600	10	0	1,610	0.6%
	Establishment of share buyback frameworks	947	23	0	970	2.4%
	Mergers, corporate splits, conversions to holding company, business transfers, etc.	481	64	0	545	11.7%
	Takeover defense measures	171	8	0	179	4.5%
Proposals concerning articles of incorporation		1,330	453	0	1,783	25.4%
Other proposals		8,956	1,400	0	10,356	13.5%
Total		35,792	5,043	0	40,835	12.3%

Shareholder proposals

	For	Against	Abstention	Total	Opposition ratio
Total	1,182	613	0	1,795	34.2%

(Source: SuMi TRUST AM)

Voting results

Based on the voting results, we have identified a higher ratio of opposition to shareholder proposals in Japan versus overseas voting (see Chart 12.2). We believe this reflects legal and institutional differences between Japan and overseas markets. For example, many shareholder proposals for

Japanese companies require amendments to the Articles of Incorporation, which represents a significant change to the company and makes it less likely for shareholders to express support. In comparison, overseas shareholder proposals are less onerous, so it is relatively easier for shareholder proposals to receive support.

Voting Records

(Japanese Equities)

<https://www.smtam.jp/company/policy/voting/result/>

(Overseas Equities)

https://www.smtam.jp/institutional/stewardship_initiatives/stewardship_activities/voting_index/overseas_result/index.html

Case study 12.1 – Voting rights

Company	Financial company	Country: Japan
Activity	Under our voting criteria, we oppose directors who have been in office for more than three years if the company holds an excessive number of cross-shareholdings (equivalent to 10% of TOPIX constituents). The company's reduction plan is on track on a book value basis. However, progress on a market value basis is unlikely to achieve the target ratio of less than 20% of net assets to total assets. We met with the company management, including the company's president, and communicated the possibility of opposing the proposal to appoint a director. We also communicated the need to present their approach, including the pace of reductions, including a long-term reduction policy and reduction levels. In response, the company indicated it had not planned to review their cross-shareholdings reduction plans, but were willing to consider it.	
Outcome	The company has revised its reduction plan for cross-shareholdings. According to its latest financial statements, the amount of reduction by the end of March 2030 will be two-thirds or more on a book value basis (compared to the end of March 2024) and the ratio of shares to net assets will be reduced from 37% to around 10% on a market value basis. In addition, a 20% level is to be reached in three years at the earliest. At the 2024 AGM, we voted in favour of proposal for the appointment of directors, applying the exception criteria based on a review of the engagement and the reduction plan, and the voting resulted in the approval of all candidates.	
Result	In favour of the proposal for the appointment of directors (application of the exception criteria). Approved for all candidates.	
Assessment	We welcomed the company's new reduction plan for meeting the level required by the company's voting criteria. As a result of sharing with management the issues with progress in reducing cross-shareholdings, the company presented an improved reduction plan. Based on the content of the engagement, we considered it appropriate to approve the plan.	
Improvement	We have tightened our guidelines for cross-shareholdings since January 2024. We are looking at not only the level disclosed in the reduction plan but also monitoring progress. The company's most recent presentation of a new reduction plan addressed our concerns. However, we will continue to monitor the effectiveness of the plan and whether progress is being made, and if there are any problems, we will express its intentions at future AGMs.	

Case study 12.2 – Voting rights

Company	Transportation company	Country: Japan
Activity	The company's capital policy has come under scrutiny from activist shareholders. The company's market capitalisation has continued to trade below the market capitalisation of its existing shareholdings in affiliated companies. The firm has not demonstrated its own value creation proposition and has not effectively utilised its holdings of these shares. A shareholder proposal was made following the refusal to take up an advisory resolution that the board of directors should develop, publish and maintain a capital allocation plan and reduce their shareholding to below 15% by March 2026.	
Outcome	Through engagement with company management, we confirmed that the company has not provided sufficient explanation of its capital policy and justified the retention of existing shareholdings. Under our voting policy criteria, we are in favour of shareholder proposals that seek to change the Articles of Incorporation if the content of the proposal is conducive to improving corporate value. We voted in favour of the share proposal. (The ratio of votes in favour of the proposal was 29.89%, which was rejected).	
Result	In favour of the shareholder proposal. Rejected with 29.89% in favour.	
Assessment	The financial performance of the company remains poor, with a low ROE when excluding shares of net income of affiliates. Despite increased awareness of the problem, there has been no improvement in response to our request for more effective capital allocation, such as additional growth investment or enhanced shareholder returns through the realisation of past investments. Finally, the company has been unable to increase its corporate value through its core business.	
Improvement	Despite the difficult circumstances, we will continue to use our engagements to encourage companies with poor capital efficiency and capital allocation to improve financial performance such as ROE.	

Case study 12.3 – Voting rights

Company	Shell	Country: UK - Netherlands
Activity	We have focused on engagement with the company as climate change is one of our key materialities and the company is one of our climate change Global 100 companies. We are in continuous dialogue with the company and have sent a letter to the Chairman urging the company to take action on climate change issues. Dialogue was also held prior to the 2024 AGM on the disclosure of the portfolio towards 2030 and the adjustment of the Scope 3 targets in March 2024. The company was subject to a shareholder proposal requiring its existing 2030 Scope 3 reduction target to be consistent with the Paris Agreement. In principle, we support shareholder proposals that encourage basic responses to climate change issues. However, we make decisions based on the content of such proposals and the status of initiatives at the target company based on engagement and from the perspective of promoting sustainable growth.	
Outcome	The company's overall strategy sets targets that are compliant with the Paris Agreement, and the company's claim that it is making progress against these targets is highly credible. The fact that a clear definition of the Paris Agreement-compliant targets is not yet verifiable make the shareholder proposal to require the application of targets based on a specific scenario overly prescriptive. As a result, we opposed the shareholder proposal.	
Result	Opposed shareholder proposal. Rejected with 19% of shareholders in favour.	
Assessment	Approximately 19% of shareholders voted in favour of the proposal. We agreed with the company's argument that the shareholder proposer's demands related to compliance with the Paris Agreement on Scope 3 reduction are not clear as the company has specified the details consistent with IPCC. However, the company's disclosure of measures to reduce GHG emissions in the medium to long term is still insufficient, especially when compared to other European oil and gas companies.	
Improvement	While we consider the demands of the shareholder proposal to be excessive, we have urged the company to address the lack of details in its various investment plans to reduce carbon emissions and the disclosure of the company's portfolio towards the medium to long term net-zero target. We will encourage further improvement through continuous dialogue. We are currently meeting with the company's Vice President Investor Relations ESG, and in the future we intend to hold a dialogue on improving disclosure, including quantitative targets for individual measures, as well as developing top-down activity plans targeting our Global 100 Climate Change Companies. We will also use this framework to prioritise our activities when using collaborative initiatives.	

Case study 12.4 – Voting rights

Company	Bank of America Corporation	Country: USA
Activity	The company was subject to a shareholder proposal requiring disclosure of the Clean Energy Supply Financing Ratio (the ratio of clean energy to fossil fuel financing in their loan book and investment banking). The company response to the proposal has been slow, especially in comparison with peers with JPMorgan Chase and Citigroup, as well as RBC having already reached an agreement on these disclosures.	
Outcome	The company mounted a strong defence to the proposal that demanded disclosure of the funding ratio, indicating difficulties in data classification and questioning whether it was necessary for the company to disclose this ratio.	
Result	In favour of the shareholder proposal. Rejected with 26% in favour, excluding broker non-votes.	
Assessment	Although the shareholder proposal was rejected, we think that the 26% of shareholders voting in favour indicated that disclosure of the ratio is a valid requirement for shareholders.	
Improvement	Two competitors have already published and will continue to require the same type of information to be disclosed. In particular, JPMorgan Chase has issued a Climate Report in November 2024, which may become the de facto standard for US financial institutions in the future. Consequently, the delay in the company's efforts to meet these standards may be more noticeable. We will continue to engage with the company to amend its disclosure policies.	

Case study 12.5 – Voting rights

Company	Barry Callebaut	Country: Switzerland
Activity	The company's board of directors has a low proportion of female directors. We believe that achieving diversity on the board of directors is a high priority. It is necessary to set targets and initiatives that are at least in line with EU regulations. We have held a dialogue to explain our voting guidelines related to this issue which state that we will oppose proposals for the election of directors if the gender and other diversity in the composition of the board of directors is insufficient in relation to the laws, regulations and business practices of the respective countries.	
Outcome	Although a similar dialogue was held at the time of the previous AGM in 2023, no progress was made on key initiatives such as setting targets and policies for the promotion of women on the Board of Directors. As a result, the company's diversity was deemed inadequate, and we therefore opposed the chairmanship of the Nomination Committee. We voted against the proposal for the election of the director, with approximately 15% of shareholders opposing it.	
Result	Opposed company proposals: Approved with 15% of shareholders opposed.	
Assessment	Although the company confirmed its intention to increase the number of women on its board of directors during our dialogue with the company, the response was deemed insufficient as it lacked details. However, the company has made progress towards its 40% target by 2025 related to the promotion of women at management level. The company's efforts to improve its talent pipeline are commendable.	
Improvement	We are currently in dialogue with the Head of Sustainability and the Head of IR, and will continue to engage with them about the composition of the Board of Directors and their diversity initiatives at company-wide level. We also intend to use case studies related to best practice regarding diversity issues at other companies to encourage change. Many companies, including European competitors and companies in other sectors in Switzerland, are improving with regard to diversity.	

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Principle 4

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

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Principle 6

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

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

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

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

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Principle 11

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

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Principle 12

– Signatories actively exercise their rights and responsibilities.

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