Engagement Activity Results

At Sumitomo Mitsui DS Asset Management, the fund managers and analysts engage in constructive dialogue with investee companies and other entities with the objectives of (1) enhancing the sustainability of investee companies and their ecosystems, and (2) enhancing the value of investee companies and avoiding impairment (and thereby providing customers and ultimate beneficiaries with high-quality investment returns).

Apr. 2019-Mar. 2020 (12 months) Results

(Definition of Engagement)

We define "constructive dialogue with management for medium-to long-term investment" or "dialogue with medium-to long-term management issues as the core issue" as engagement, and "one-to-one dialogue between the company and our company" as independent engagement.

(Number of engagements)

We conducted 1,270 independent engagements.
Approximately 80% of all companies have held dialogues with executive officers or higher as the counterparties to these dialogues.

The breakdown by topic of dialogue is as follows.
1) Management strategy including ESG: 982
2) Opinions on the exercise of voting rights: 273
3) Capital policy/Strengthen shareholder returns: 8
4) Strengthen information disclosure: 7

Example of dialogue

Through the progress of constructive dialogue, we engage in two stages: (1) general dialogue on the sustainability of investees, etc.; and (2) in-depth dialogue on the actions of specific investees, etc.
Across the general and in-depth dialogues, the fund managers and analysts engage in dialogue on the following topics:

Business Strategy: Appropriateness of the Medium-Term Management Plan and the Management Vision. Specific Measures to Realize the Plan

Company A

We raised the issue that a large contribution to profits from the food and beverage-related business would pose a sustainability risk. The company responded that (1) “Development” side of R&D should be handled by business creation sectors and emphasized new business development; (2) AI should be permeated into the business field by adopting the advanced companies as a benchmark and (3) it should promote the resin business with biodegradability in the oceans, which will help resolve the marine plastic problem.

Management Capability: Strengthen the governance system to support the realization of business strategies, improve the effectiveness of directors and corporate auditors, and implement an appropriate executive compensation system

Company B

We exchanged opinions on the need to create a skill matrix for directors to explain to investors the effectiveness of the Board of Directors and the need to invite new outside directors, such as experienced executives at large companies, since the risk of acquiring a larger company would increase. The company responded that it would like to deal with the skill matrix.

Financial Strategy: Capital policy for improvement of capital efficiency, appropriateness of shareholder return policy and sustainability

Company C

Regarding the medium-term plan in which capital is accumulated amid a lack of growth in business performance, we raised the following issues: (1) a conservative corporate culture for investment still remains due to the impaired capital in the past; and (2) outside directors should be invited not only to serve as a brake officer, but also to bring in personnel who have a broader perspective on investment projects. The companies responded that they (1) provided training on finance such as ROE and investment for executives with technical backgrounds, (2) would increase awareness of the cost of capital in making investments, loans, and asset sales, and (3) would establish new rules for the acquisition of strategic stocks.

Environment: Countermeasures against global warming, waste plastics, etc.

Company D

We raised the issue of recent increase in the frequency of severe disasters and the escalating social needs for ESG. The company explicated their plans to: (1) deepen discussions on ESG risks among management, business divisions and ESG divisions; (2) identify the business segments that should be severely damaged due to climate changes given the fact that there are various subsidiary operating companies like urban development and resort development; (3) conduct an analysis on “physical risks” and “transition risks”; and (4) respond to mitigate physical risks as an urgent issue by moving the emergency power supply system to the upper floors.

Social Responsibility: Establishment of sufficient internal control and compliance system to suit the interests of employees, customers, shareholders, and society in general

Company E

We shared our impression that it was seriously lagging behind its peers in terms of disclosure of negative aspects with examples of non-disclosure of the number of operational accidents. The company explained only that: (1) there are about 50 whistleblowing reports annually, including those from subcontractors, and thus risk communication is effective enough; and (2) procedures like promotion of the “internal control division” to the “internal control department” are implemented. We proposed enhancement of external disclosure for the future.

Social Responsibility: Reputation risk control

Company F

We commended the company management for the fact that its social responsibility fulfilment would lead to shorter construction durations, higher quality, and thus higher market share. At the same time, we shared views with the company that its CSR reports’ social responsibility pages were not appealing enough to investors. We suggested that the company should manage reputation risks by disclosing not only past achievements but also what risks should be managed and how they are being managed so that they can be incorporated into corporate value.