

# Self-evaluation of the implementation status of Japan's Stewardship Code

September 29, 2020

Sumitomo Mitsui DS Asset Management Company, Limited

## [Self-evaluation]

Sumitomo Mitsui DS Asset Management (hereinafter the "Company"), in order to increase beneficial, medium-term returns on the investments of our customers and beneficiaries, assertively take initiatives in ESG investments, such as stewardship activities for enhancement the value of invested companies, etc., analyses and evaluations of non-financial and medium-term factors of invested companies, etc., and including ourselves in operational processes.

We would like to publish the self-evaluation we conducted with respect to our stewardship activities for April 2019 through March 2020, in accordance with the "Japan Stewardship Code [Principle 7] Guidance 7-4." Note that this self-evaluation was decided on via resolution of the board of directors after considerations by internal organizations that monitor stewardship activities (stewardship conferences and ESG conferences comprised of persons actually in charge of the monitoring, etc.), and consideration and deliberation by committees of responsible parties (comprised of external directors, responsible investment officers, and officers in charge of the compliance department, all of whom were requested to participate in the process by the board of directors).

Overall, we found that, thanks to the business integration in April of 2019, the policy designs and personnel increases that combined the best aspects of the two former companies has advanced the development of a system that appropriately executes our stewardship responsibilities, and we should effectuate further enhancements in the future via our actual business practice.

The key initiatives we undertook in 2019 were as follows.

1. As a new company formed in April 2019 from the two former companies, we developed and published our "Action Plan 2019" and its key performance indicators (KPIs) as a specific declaration of our fiduciary duties. (June 2019)
2. With respect to exercises of voting rights, we continued to make individualized disclosures regarding the results of exercised voting rights in addition to exercising voting rights with respect to all measures put forth by companies for which we have voting rights either in accordance with voting rights exercise guidelines or in accordance with the decisions of external proxy advisors independent of the Company. (Voting rights are exercised each month, and individual disclosures were made in May, August, and November of 2019, and February 2020)
3. We published our self-evaluation of the implementation status of Japan's Stewardship Code (fiscal year 2018). (August 2019)
4. We continued our cooperative engagements with other institutional investors. (During FY2019)

5. We newly signed on to or participated in the following initiatives: "Japan's Stewardship Initiative," "30% Club Investor Group," "Task Force on Climate-related Financial Disclosures (TCFD) and TCFD Consortium," and "Climate Action 100+." (During FY2019)

The following is a report on our performance in FY2019 with respect to the implementation of the respective Principles and Guidances of Japan's Stewardship Code.

### **[Performance for FY2019]**

#### **Principle 1: Policy on fulfilling stewardship responsibilities**

- At the time of the April 2019 business integration of the 2 former companies, we developed a document titled "Regarding Our Intent to Accept Japan's Stewardship Code" (hereinafter the "expression of acceptance") and announced our policy to fulfill the stewardship responsibilities of the new company. (⇒ [Guidances 1-1, 1-2](#))
- In response to the March 2020 revisions to the "Japan's Stewardship Code," we revised our expression of acceptance in June 2020. (⇒ [Guidances 1-1, 1-2](#))
- Furthermore, in this expression of acceptance, we have expressed our policy to incorporate sustainability evaluations and analyses into the investment process for all assets we manage. (⇒ [Guidances 1-1, 1-2](#))

#### **Principle 2: Policy on managing conflicts of interest to fulfill stewardship responsibilities**

- In the expression of acceptance, we have published the Company's management policies for the main types of conflicts of interest. (⇒ [Guidances 2-1, 2-2](#))
- As described in the expression of acceptance, we make quarterly status reports regarding voting-rights related to conflicts of interest management and stewardship activities to the responsible investments committee composed principally of three external directors with sufficient independence. (⇒ [Guidance 2-3](#))
- When exercising voting rights with respect to companies with close relationships to the Company and affiliates of the Company, among other similar parties, we will exercise rights in accordance with the decisions, etc. of external proxy advisors independent of the Company, as necessary, and confirm the status thereof via our responsible investment committee. (⇒ [Guidances 2-1, 2-2, 2-3](#))
- Deliberations of the responsible investment committee have been reported to the board of directors, and management is working to enhance our engagements with respect to various issues. (⇒ [Guidances 2-3, 2-4](#))
- In order to properly respond to conflicts of interest, and further enhance visibility of voting rights, we continued implementing individualized disclosures of results of voting rights exercises (note that reasons for decisions, regardless of whether votes were made in support or opposition, were also disclosed for the rights exercised for the April 2020 through June 2020 term). (⇒ [Guidances 2-1, 2-2, 2-4](#))

### Principle 3: Appropriately monitoring investee companies

• Since the start of the new company, we have enhanced our monitoring of investee companies via discussions with said companies regarding medium-term management issues by our analysts and fund managers, and these discussions have been steadily increasing in number. 1,270 individual discussions, including discussions of medium-term management issues, have been implemented independently by the company, and roughly 80% of those discussions have involved members of management from the other party that were of executive officer rank or greater. Breakdown by theme is as follows: (⇒ [Guidances 3-1, 3-2, 3-3](#))

- (1) Management strategy including ESG: 982 discussions
- (2) Expressions of opinion on the exercise of voting rights: 273 discussions
- (3) Enhancements to capital policy and returns to shareholder: 8 discussions
- (4) Enhancements to information disclosures: 7 discussions

• In addition to investigations of financial factors by analysts conducting company surveys, the Company has been continuously implementing ESG evaluations that include medium- to long-term catalysts, management, and shareholder or investor returns attitudes (at least 700 companies as of the end of March 2020). (⇒ [Guidances 3-2, 3-3](#))

• In the 2020 evaluation report on the "United Nations Principles for Responsible Investment (PRI)," in addition to continuing to receive the highest grade "A+" in the overall evaluation (strategy and governance), we were also highly evaluated for initiatives for fulfilling stewardship responsibilities over stocks as described below.

#### PRI評価

		当社		平均 (PRI署名者の中央値)	
		2019	2020	2019	2020
戦略とガバナンス（総合評価）	Strategy and Governance	A+	A+	A	A
上場株式会社における責任投資の統合状況	Listed Equity - Incorporation	A+	A+	B	A
上場株式会社におけるアクティブ・オーナーシップ	Listed Equity - Active Ownership	A+	A+	B	B
単独エンゲージメント	Individual Engagement	A+	A+	-	-
協働エンゲージメント	Collaborative Engagement	A+	A+	-	-
議決権行使	Proxy Voting	A+	A+	-	-

### Principle 4: Arriving at understandings working to solve problems with investee companies through constructive, "purposeful discussions" (engagement)

• We have engaged in efforts to encourage investee companies to do the following: enhance

management supervision functions via effective operation of the board of directors, which then leads to enhancement of management capabilities, leading to continuous improvements in capital efficiency, which ultimately results in increases to the value of investee companies and ensures the repleteness of sustainability-related measures. (⇒ [Guidances 4-1, 4-2, 4-3](#))

- With respect to investee companies facing problems through factors such as low investment efficiency, inadequate management capabilities, and scandals, we have been working to engage in discussions meant to help resolve their problems, both through the proper exercise of voting rights at general shareholders' and investors' meetings, and to disclose reasons for voting as we did to the investee companies as feedback where necessary, among other efforts. (⇒ [Guidances 4-1, 4-2, 4-3](#))
- Following the emergence of COVID-19, in addition to prioritizing the continuation of business above all else, we have endeavored to have our management ascertain real conditions directly, and provide careful explanations regarding our present and future management policies. (⇒ [Guidance 4-3](#))
- With respect to issues shared among many investee companies, such as climate change and reductions in cross-shareholding policies, we have continued our coordinated engagements wherein we hold discussions with companies in collaboration with other institutional investors. (⇒ [Guidances 4-4, 7-3](#))
- We continued to pointedly avoid receiving unpublished, material information, and expressed our intention not to make any inappropriate investment decisions or transactions based on insider information and the like. (⇒ [Guidance 4-5](#))

#### **Principle 5: Policy on exercise of voting rights, and disclosure of voting results**

- In addition to publishing the Company's voting rights exercise guidelines on our homepage, we have made our decisions to support or oppose measures in a manner that reflects our various discussions with investee companies, and seek to enhance value based on actual conditions. Furthermore, in accordance with our conflict of interest management policy, whenever there exists a concern about conflicts of interest, we have exercised voting rights in accordance with the decisions, etc. of external proxy advisors independent of the Company, as necessary. (⇒ [Guidances 5-1, 5-2](#))
- We made individualized disclosures of the results of voting rights exercises on a quarterly basis. (⇒ [Guidance 5-3](#))
- Note that, with respect to disclosures starting from the April through June 2020 general meetings onward, we elected to disclose our decision-making reasons regardless of whether our votes were made in support or opposition. (⇒ [Guidance 5-3](#))
- The Company continues its strong commitment to increasing value through exercising voting rights and discussions with investee companies.

#### **Principle 6: Policy on reporting the status of initiatives regarding stewardship activities**

- In addition to reporting on stewardship activities in a timely fashion when requested by discretionary investment contract customers, we have published the engagement activities performance for April

2019 to March 2020 for our clients and ultimate beneficiaries on our website. (⇒ [Guidance 6-1](#))

- In order to better explain the Company's responsible investment efforts to our clients, we have prepared a variety of materials corresponding to the needs of our clients. (⇒ [Guidance 6-3](#))
- We participated in the "Japan Stewardship Initiative" and provided reports based on the "smart format," a general-purpose reporting format, to our clients with discretionary investment agreements. (⇒ [Guidance 6-3](#))
- We have established a global ESG database, and have endeavored to enhance our analytical capabilities regarding non-financial information from a medium- to long-term perspective of investee companies. (⇒ [Guidances 6-4, 7-1](#))
- We began developing an engagement database covering assets other than stocks for the primary purpose of sharing valuable information such as best practices, and to enhance our records. (⇒ [Guidances 6-4, 7-1](#))

### **Principle 7: Policy on maintaining and developing SMAM's capabilities to fulfill stewardship responsibilities**

- Taking the opportunities presented by starting a new company, we developed a board of directors with a diverse membership of varied experiences and a variety of skills, including three external directors who were sufficiently independent from the Company and had high auditing capabilities, and further enhanced our organizational structure by enhancing the membership and functions of our responsible investment advancement office, the department that exclusively handles our stewardship activities, and bolstering the ranks of our analysts by establishing first and second company survey departments, among other efforts. (⇒ [Guidances 7-1, 7-2](#))
- We held stewardship conferences/ESG conferences 12 times (monthly), and held 4 meetings of the responsible investment committee, and in addition to conducting proper management of conflicts of interest, we reviewed our stewardship activities, and plotted out further improvements to our activities by identifying and investigating issues. (⇒ [Guidances 7-1, 7-2](#))
- We have established a global ESG database, and have endeavored to enhance our analytical capabilities regarding non-financial information from a medium- to long-term perspective of investee companies. (⇒ [Guidances 6-4, 7-1](#))
- We began developing an engagement database covering assets other than stocks for the primary purpose of sharing valuable information such as best practices, and to enhance our records. (⇒ [Guidances 6-4, 7-1](#))
- With respect to issues shared among many investee companies, such as climate change and reductions in cross-shareholding policies, we have continued our coordinated engagements wherein we hold discussions with companies in collaboration with other institutional investors. (⇒ [Guidances 4-4, 7-3](#))
- We published our self-evaluation of the implementation status of Japan's Stewardship Code (fiscal year 2018). (⇒ [Guidances 7-4](#))

## **[Policies for the future]**

### **Principle 1: Policy on fulfilling stewardship responsibilities**

We will work to enhance our efforts to expand medium-to-long term cash flows of our investee companies, and continuously improve value for shareholders and investors.

### **Principle 2: Policy on managing conflicts of interest to fulfill stewardship responsibilities**

We will monitor concerns regarding conflicts of interest via our responsible investment committee and work to realize further systemic enhancements.

### **Principle 3: Policy on understanding a company's situation**

We will work to realize further enhancements to our ability to analyze medium- to long-term, non-financial information including ESG factors.

### **Principle 4: Policy on engagement**

In addition to enhancing the Company's individualized engagements, we are endeavoring to apply, as appropriate, collaborative engagement frameworks via our involvements in the general incorporated association, "Institutional Investor Collaborative Discussion Forum" and the "Climate Action 100+" program.

### **Principle 5: Policy on exercise of voting rights, disclosure of voting results**

We apply a principal-based voting rights exercise determination process, and are endeavoring to make voting decisions that take into account the present conditions of the targets of the voting rights exercise and anticipate future changes, in accordance with discussions with investee companies.

### **Principle 6: Policy on reporting the status of initiatives regarding stewardship responsibilities**

We strive to provide efficient and effective reports that take into account the intentions of various asset owners.

### **Principle 7: Policy on maintaining and developing SMAM's capabilities to fulfill stewardship responsibilities**

In addition to enhancing our conflicts of interest management system and ability to engage with investee companies, we will work to continually enhance our capabilities while utilizing the knowledge and knowhow developed by the two former companies over many years of operation.

### **Principle 8: Policy on service providers for institutional investors**

We will work to ensure that proxy advisors being used to manage conflicts of interest appropriately fulfill their stewardship responsibilities.

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**Self-evaluation of the implementation status of Japan's Stewardship Code (revised May 2017) (summary of responses to each guidance; for details and future policies refer to the main text)**

Principles		Guidance		The Company's Response
1	Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.	1-1	Institutional investors should aim to enhance the medium- to long-term return on investments for their clients and beneficiaries by improving and fostering investee companies' corporate value and sustainable growth through constructive engagement, or purposeful dialog, based on in-depth knowledge of the companies and their business environment.	Yes
		1-2	Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities (hereafter, "stewardship policy") and publicly disclose it. The stewardship policy should cover how they define responsibilities and how they fulfill them, in view of their role in the investment chain running from their clients and beneficiaries to the investee companies.	Yes
		1-3	Asset owners should, to the extent possible, directly engage in stewardship activities to secure beneficial owners' interests. Further, if such owners do not personally, directly conduct stewardship activities, including exercising voting rights, they should encourage asset managers to engage in effective stewardship activities.	
		1-4	When selecting or issuing mandates to asset managers, asset owners should clearly specify issues and principles to be required in conducting stewardship activities including the exercise of voting rights, in order to ensure effective stewardship activities. In particular, large asset owners should pro-actively consider and clearly specify issues and principles to be required in conducting stewardship activities, including the exercise of voting rights, keeping in mind their positions and roles in the investment chain, instead of mechanically accepting asset managers' policies without any verification.	
		1-5	Asset owners should monitor whether their asset managers conduct stewardship activities in line with asset owners' policies, for example, making use of asset managers' self-evaluations. In conducting such monitoring, asset owners should put emphasis on the "quality" of dialogs between asset managers and investee companies, etc., instead of mechanically checking factors such as the number of meetings held between them and the duration of such meetings.	
2	Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.	2-1	Institutional investors should put the interests of their clients and beneficiaries first in conducting stewardship activities. On the other hand, they inevitably face the emergence of conflicts of interest from time to time, for example when voting on matters affecting both the business group the institutional investor belongs to and a client or beneficiary. It is important for institutional investors to appropriately manage such conflicts of interest.	Yes
		2-2	Institutional investors should put in place and publicly disclose a clear policy on how they effectively manage key categories of possible conflicts of interest. In particular, asset managers should identify specific circumstances that may give rise to conflicts of interest which may significantly influence the exercise of voting rights and/or dialog with companies, and set out and disclose specific policies on measures for effectively eliminating the influence of such conflicts including avoiding such conflicts, thus securing the interests of clients and beneficiaries.	Yes
		2-3	Asset managers should establish governance structures, such as an independent board of directors or third party committees for decision-making or oversight of voting, in order to secure the interests of clients and beneficiaries and prevent conflicts of interest.	Yes
		2-4	The management of asset managers should recognize that they themselves have important roles and responsibilities in strengthening the governance of asset managers and managing conflicts of interest, and should take action on such issues.	Yes
3	Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies.	3-1	Institutional investors should appropriately monitor investee companies so that institutional investors can fulfill their stewardship responsibility with the aim of enhancing medium- to long-term corporate value and capital efficiency, and supporting the sustainable growth of the companies.	Yes
		3-2	Institutional investors should monitor investee companies continuously and review as appropriate the effectiveness of the monitoring.	Yes
		3-3	When investors monitor investee companies, a variety of factors, including non-financial ones, may be considered as relevant. Factors may include, for example, the investee companies' governance, strategy, performance, capital structure, business risks and opportunities (including risks and opportunities arising from social and environmental matters), and how the companies address them. Relevance of a factor may depend on each investor's investment management strategy and may differ according to specific investee companies. Institutional investors need to use their own judgment in choosing which factors to focus on in light of their stewardship responsibilities. They should endeavor to identify at an early stage issues that may result in a material loss in the value of investee companies.	Yes
4	Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.	4-1	Institutional investors should endeavor to arrive at common understandings with investee companies through constructive dialog with the aim of enhancing the companies' medium- to long-term value and capital efficiency, and promoting their sustainable growth. In case a risk of possible loss in corporate value is identified through the monitoring of and dialogs with companies, institutional investors should endeavor to arrive at a more in-depth common understanding by requesting further explanation from the companies, and to solve problems.	Yes
		4-2	Because passive management provides limited options to sell investee companies' shares, and must promote their medium- to long-term increase in corporate value, institutional investors should actively take charge of engagement and voting from a medium- to long-term perspective.	Yes
		4-3	Institutional investors should have a clear policy in advance on how they design dialogs with investee companies in various possible situations.	Yes
		4-4	In addition to institutional investors engaging with investee companies independently, it would be beneficial for them to engage with investee companies in collaboration with other institutional investors (organizational engagement) as necessary.	Yes
		4-5	In principle, institutional investors can have constructive dialogs with investee companies based on public information, without receiving information on undisclosed material facts. The "G20/OECD Principles of Corporate Governance" and the Tokyo Stock Exchange's "Japan's Corporate Governance Code" set the principle of the equitable treatment of shareholders, which applies to the handling of undisclosed material facts. Institutional investors that have dialogs with investee companies should be aware that the companies are expected to abide by the principle and should in essence be discreet in receiving information on undisclosed material facts.	Yes
5	Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies.	5-1	Institutional investors should seek to vote on all shares held. They should decide on votes in light of the results of the monitoring of investee companies and dialogs with them.	Yes
		5-2	Institutional investors should have a clear policy on voting and publicly disclose it. The policy should not be comprised only of a mechanical checklist: it should be designed to contribute to sustainable growth of the investee company.	Yes
		5-3	Institutional investors should at a minimum aggregate the voting records into each major kind of proposal, and publicly disclose them. Furthermore, to enhance visibility of the consistency of their voting activities with their stewardship policy, institutional investors should disclose voting records for each investee company on an individual agenda item basis. If there is a reason to believe it is inappropriate to disclose such company-specific voting records on an individual agenda item basis due to the specific circumstances of an institutional investor, the investor should pro-actively explain the reason. At the time of their voting records disclosures, it is also considered beneficial in enhancing visibility for institutional investors, to explicitly explain the reasons why they voted "for" or "against" an agenda item.	Yes
		5-4	When institutional investors use the service of proxy advisors, it is important that they not mechanically depend on the advice of such proxy advisors, but take into consideration the particular circumstances of the investee company. When disclosing their voting activities, institutional investors using the service of proxy advisors should publicly disclose the fact that they are using such proxy advisors, and how they utilize the service.	Yes
		5-5	Proxy advisors should invest management resources sufficient to appropriately review the conditions of companies, and provide appropriate services while making sure that they themselves adhere to the principles of the Code, including guidance. Furthermore, proxy advisors should disclose their own efforts with respect to matters such as work structures, conflicts of interest, and their process of developing advice.	
6	Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.	6-1	Asset managers should in principle report periodically to their direct clients on how they fulfill their stewardship responsibilities through their stewardship activities.	Yes
		6-2	Asset owners should in principle report at least once a year to their beneficiaries on their stewardship policy and on how the policy is implemented.	
		6-3	When reporting to their clients and beneficiaries, institutional investors should choose the format and the content of the reports in light of any relevant agreement with the recipients and the recipients' convenience, and the costs associated with the reporting, and should aim to deliver effective and efficient reports.	Yes
		6-4	Institutional investors should maintain a clear record of their stewardship activities, including voting activities, to the extent necessary to fulfill their stewardship responsibilities.	Yes
7	To contribute positively to the sustainable growth of investee companies, institutional investors should have in-depth knowledge of the investee companies and their business environment, and the skills and resources needed to appropriately engage with the companies and make proper judgments in fulfilling their stewardship activities.	7-1	To make dialogs with investee companies constructive and beneficial, and to contribute to the sustainable growth of the companies, institutional investors should develop the skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the companies and their business environment. Institutional investors should have the necessary internal structure for having appropriate engagements and making proper judgments.	Yes
		7-2	In particular, the management of institutional investors should have appropriate capability and experience to effectively fulfill their stewardship responsibilities, and should be constituted independently and without bias, in particular from their affiliated financial groups. The management of institutional investors should also recognize that they themselves have important roles and responsibilities to carry out stewardship activities, such as enhancing dialogs, structuring their organizations and developing human resources, and taking action on these issues.	Yes
		7-3	Exchanging views with other investors and having a forum for that purpose may help institutional investors conduct better engagement with investee companies and make better judgments.	Yes
		7-4	Institutional investors should endeavor to improve their policies based on the Code and the quality of their stewardship activities by reviewing at appropriate times the status of their implementation of each principle, including guidance. In particular, asset managers should regularly conduct self-evaluations with respect to the status of their implementation of each principle, including guidance, and disclose the results of such evaluations in order to make continuous improvements to their governance structures, conflicts of interest management, and stewardship activities, etc.	Yes