

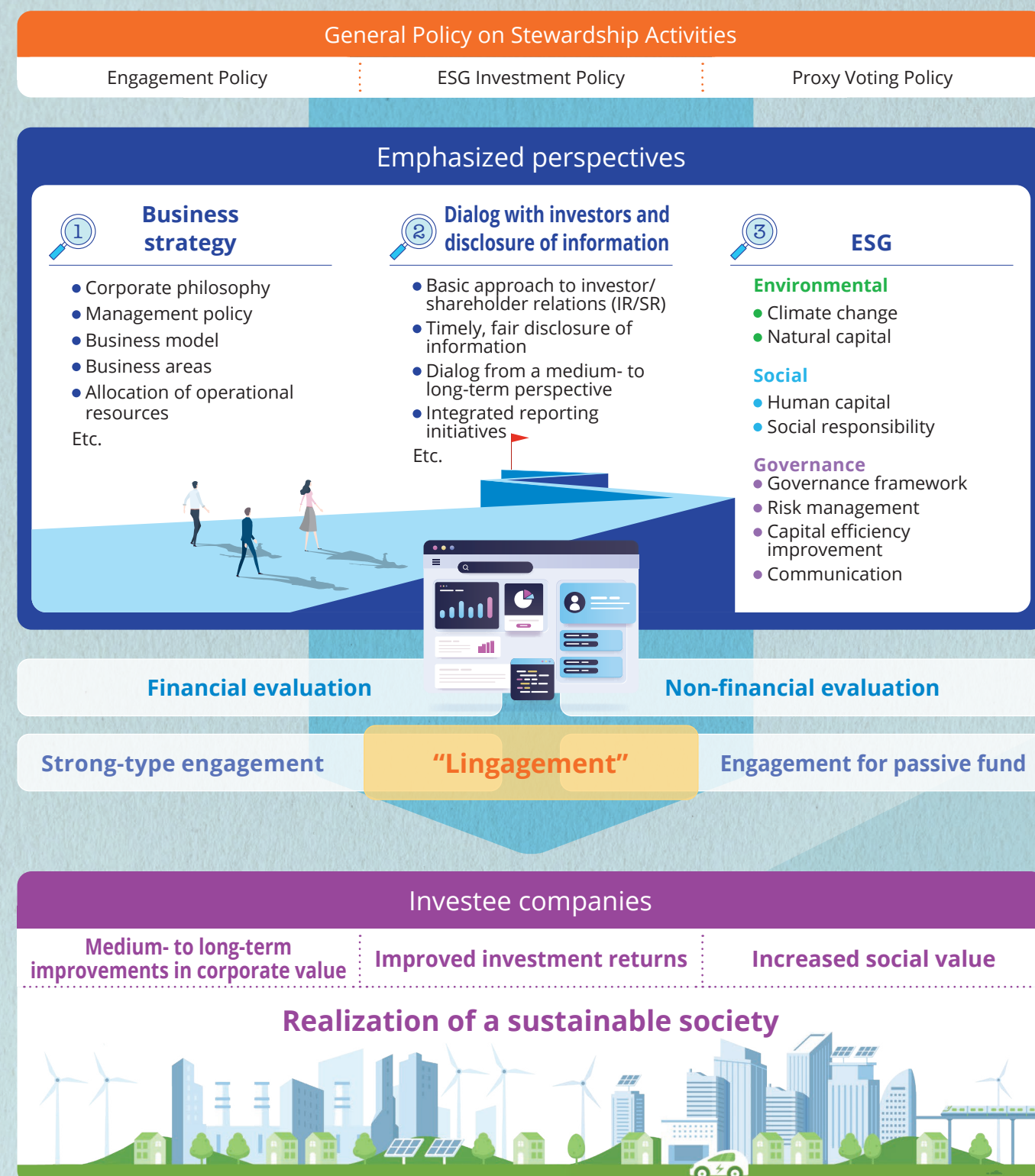


Engagement to Encourage Company Reform

Daiwa AM positions engagement as an important means of improving operational performance thereby maximizing beneficiary returns. We aim for win-win relationships by investigating, from multiple perspectives,

the reasons behind a company's failure to deliver its intrinsic value and encouraging reforms to remedy these problems, on an equal footing with the company.

Overview of Daiwa AM's Engagement Activities



Engagement Framework

Engagement is implemented with the three teams below working in concert as a three in one. The compositions of teams are optimized for the engagement case according to the situation and requirements of the target company, to effectively leverage the unique characteristics of each team.

A three-in-one engagement framework that drives company reform

P.31-

Engagement Team

Comprised of active fund managers and analysts

Stewardship Team

Comprised of stewardship analysts in the Stewardship Section of the Responsible Investment Department

Corporate Research Team

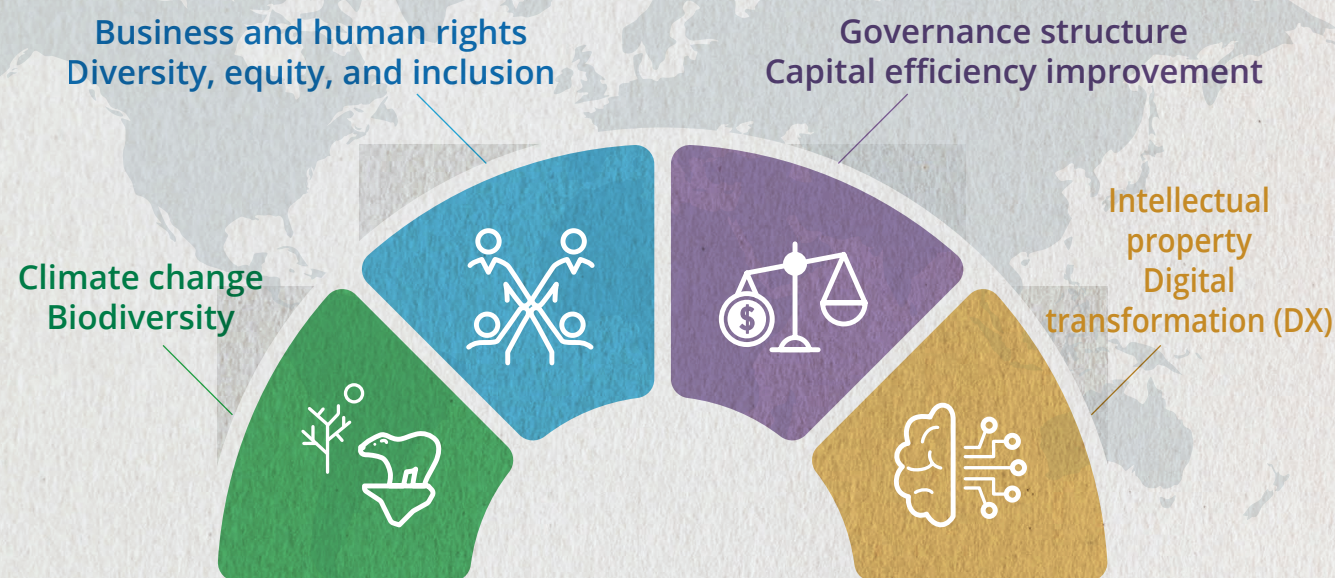
Comprised of analysts in the ESG & Corporate Research Section of the Responsible Investment Department (with concurrent assignments in the Active Fund Management Department II)

Three Key Points

/ 1. Sharing materialities and best practices

Through its asset management business, Daiwa AM aims to make a positive contribution toward beneficiaries' asset formation over the medium to long term. In order to achieve this goal, the company has identified materiality (key issues) that includes enhancing the medium- to long-term value and sustainability of investee

Examples of materialities (overview on  P.48)




Daiwa AM additionally defines an anticipated vision of management (best practices) to realize sustainable enhancement of the corporate value of investee companies. While approaches to anticipated visions and best practices may differ from person to person, Daiwa AM believes that defining our own approaches will serve

companies and helping to maintain the sustainability of society as a whole.

For engagement, each of these key issues is shared by each person with jurisdiction over the case when engaging in dialogs toward improving corporate value.

to facilitate all investment managers to orient themselves in the same direction when engaging in dialogs. Daiwa AM encourages our investee companies to undertake these initiatives through engagement and other means.

Examples of best practices (overview on  P. 35)



Climate change

The company formulates a specific roadmap and milestones to achieve carbon neutrality by 2050, and provides annual accounts of progress thereon. Note, that the desired target for 2030 is a reduction of at least 50%, consistent with Daiwa AM's NZAMi interim target.



Human capital

The company formulates a human resources strategy that is integrated with its business strategy. The human resources strategy includes measures relating to initiatives for recruiting and retaining outstanding human talent, frameworks for initiatives for the cultivation of human talent, and initiatives for enhancing employee engagement.

/ 2. Engagement focused on the value of intangible assets

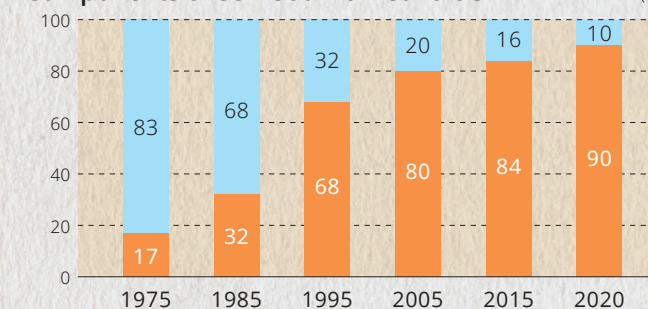
Corporate value encompasses a company's financial value, which will be reflected in its financial statements, and its non-financial value, which will not be reflected in these statements. In recent times, the share accounted for by a company's non-financial value, in particular its intangible assets (intellectual property, human capital, etc.) is reputed to be on the rise. Analyses have shown that intangible assets account for a lower share of the corporate value of

Japanese companies than is the case for companies in other countries. This tendency may be attributable to insufficient disclosure and a shortfall in initiatives relating to intangible assets by Japanese companies.

With this perspective in mind, Daiwa AM will actively undertake strategic engagement to ensure that corporate value is appropriately rated within the marketplace or to raise the corporate value of companies.

Comparison between Japan and the U.S. of intangible assets as a percentage of company value

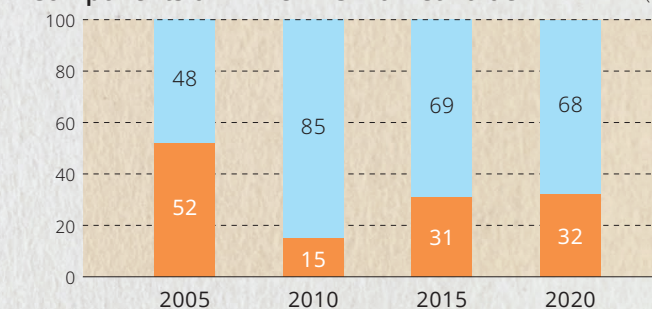
Components of S&P 500 Market Value (%)



■ Intangible Assets ■ Tangible Assets

Source: Guidelines on Disclosure and Governance of Strategies for Investment and Utilization Regarding Intellectual Property and Intangible Assets Ver. 2.0

Components of Nikkei 225 Market Value (%)



■ Intangible Assets ■ Tangible Assets

/ 3. Initiatives for the utilization of intellectual property information

For institutional investors, the importance of corporate evaluations and investment decisions based on their relevance to social sustainability is increasing. This perspective anticipates radical changes to the competitive environment, known as game changes, driven by innovations involving major shifts in thinking. It underscores the importance of the ability of companies to instigate or align with a game change. It can however be assumed that, when a game change occurs, the importance of intangible assets such as intellectual property, research and development capabilities, and the human capital responsible for these assets, as well as the corporate culture that nurtures them, will exceed that of the manufacturing and financial capital accumulated by a company to date.

As patent information, as well as the degree to which it is utilized and its related strategies, is characteristically difficult to discern from an external viewpoint, Daiwa AM actively engages in purposeful dialogs and engagement known as "IP Strategy Dialogs." These dialogs are aimed at the management tiers of IP and R&D departments at companies, and involve initiatives to understand their IP strategy based on specific examples, with dialogs undertaken after confirming basic information such as the positioning and characteristics of the IP department at the company. The ability to discern the factors behind its functioning, as well as the underlying strategies and systems, will serve to increase confidence in the company's IP strategy.

While interest in intellectual property is growing in the capital markets, it has yet to reach the stage whereby IP analyses are sufficiently integrated into corporate value assessments and investment decision-making. Daiwa AM nevertheless considers that a trend is underway to incorporate intellectual property into corporate value assessments and investment decision-making in the same way as has been the case for environment and human resources. We are thus committed to facilitating appropriate evaluations while also promoting the expansion of corporate value through the enhancement of non-financial value, including a company's intellectual property.

Written contribution to the Securities Analysts Journal

In the October 2023 issue of the Securities Analysts Journal, Chief Analyst Watanabe contributed an article entitled "IP strategy' Evaluation and Engagement in Institutional Investors." The article introduced the perspective of evaluations of IP strategy by institutional investors; the desirable communication between companies and institutional investors; as well as the forthcoming outlook for evaluations of IP strategy.



Roundtable discussion on intellectual property

At Daiwa AM, we anticipate that there will be an increasing trend for IP to be incorporated into corporate value assessments and investment decision-making in the same way as has been the case for environment and human resources. Meanwhile, we recognize comprehensive and appropriate assessment of corporate value as an important component of our role as institutional investors. This is the background to Daiwa AM

inviting Counsellor Ikeya of the Cabinet Office of Japan, who is tasked with promoting policies that foster the environment for initiatives and disclosure relating to the investment in and utilization of intellectual property and intangible assets by companies to be reflected as corporate value, to take part in a roundtable discussion and exchange views.

Theme 1

Significance of, and developments since, publication of the Guidelines on Disclosure and Governance of Strategies for Investment and Utilization Regarding Intellectual Property and Intangible Assets

Ozaki: The “Guidelines on Disclosure and Governance of Strategies for Investment and Utilization Regarding Intellectual Property and Intangible Assets Ver. 1.0” were published in 2022. Please share your perceptions of the significance of these guidelines and trends among companies and other actors in the aftermath of its publication, from your respective standpoints.

Ikeya: We can assume that corporate managers, investors, and financial institutions variously recognized the importance of “intellectual property and intangible assets” as operational resources in terms of their being a source of competitiveness. With this, the 2021 revision to the Corporate Governance Code stipulated that “Companies should disclose and provide information on investments in human capital and intellectual properties in an understandable and specific manner, while being conscious of the consistency with their own management strategies and issues.” This threw into relief the management challenges of how companies should disclose their investment and utilization strategies for intellectual property and intangible assets, which often received only general attention despite their significance, and how they should feed this into enhancement of the corporate value. The significance of these guidelines is that they set out concrete approaches and actions.

Watanabe: From an analyst’s perspective, the report is also significant in that it clearly shows that we have fallen behind our cutting-edge competitors in Europe, the U.S., and emerging markets in terms of realizing business models that utilize intellectual property and intangible assets to secure competitive advantages, create value, and generate cash flow. We believe that this message, on the need to build a business model with high added value and pricing power, and the use of the expression game change have once again raised their profile and caught the attentions of management and IP departments, as well as those of shareholders and investors. Daiwa AM attaches great importance to purposeful dialogs, and since the publication of the guidelines, we have seen an increase in companies being more receptive to our IP Dialogs.

Nakayama: Combined with this, we consider the relationship with the human capital located at the core of non-financial information to be of great significance. Human resource development and motivation become important factors when attempting to amplify and utilize intellectual property as the core of a business model. In this way, we feel that this may well come to constitute an opportunity to raise the overall level of non-financial capital. In fact, we have found cases where the IP department was perceived as being a somewhat behind-the-scenes presence at companies. However, based on the guidelines, there is now a degree of momentum toward better collaboration among between the IP, R&D, and business departments. Efforts are also underway to rethink human resource development at IP departments.

Ikeya: Following the publication of the guidelines, a framework to link the thinking and assessment points of investors and financial institutions to enable value co-creation has become necessary to enhance the effectiveness of corporate initiatives and disclosure. This is the background to the publication of Ver. 2.0 in March 2023.

Nakayama: We have also had cases in which technical officers have been invited to sit in on IP Dialogs since the publication of the guidelines.



Mr. Iwao Ikeya
Counsellor, Intellectual Property Strategy Promotion Secretariat, Cabinet Office, Government of Japan

Graduated from the University of Tokyo Faculty of Economics in 1997, and the Tuck School of Business at Dartmouth in the U.S. in 2003. Joined the Ministry of Trade and Industry (now the Ministry of Economy, Trade and Industry) in 1997. After appointments at the Small and Medium Enterprise Agency; Cabinet Office Minister’s Secretariat; Japan Patent Office; Agency of Natural Resources and Energy; and as Counsellor at the Embassy of Japan in Indonesia, served as Counsellor for the Diet, Cabinet Office Minister’s Secretariat; Executive Officer, Nuclear Damage Liability and Decommissioning Facilitation Corporation; Director, Secretariat Division, Japan Patent Office; and Director, Asia and Oceania Division, Trade Policy Bureau. Has served in current position since July 2022.

Expectations of investors and financial institutions and initiatives that should be undertaken as shareholders and investors

Ozaki: What are your expectations of investors and financial institutions following on from the publication of the guidelines?

Ikeya: The dissemination of information and disclosure on their intellectual property and intangible assets initiatives is required of institutional investors in addition to being required of corporations. From a company’s perspective, institutional investors are perceived as having diverse information usage patterns and needs, depending on their respective positions. Accordingly, we would like to see institutional investors close any gaps by indicating how they intend to utilize information and dialogs on “intellectual property and intangible assets.” In addition, I would like to have them engage in dialogs with companies from the perspective of discerning the “causal paths”—namely, how intellectual property and intangible assets are connected to corporate value; whether they are reproducible; and whether they lead to a business model, as opposed to merely ticking boxes using information and dialogs. The expectation then becomes that further improvements to their capabilities in this area will come about.

Ozaki: From the perspective of an analyst and fund manager, how should this be undertaken as a shareholder or investor?

Watanabe: I believe in the importance of maintaining a stance toward companies of commitment to actively exploring the factors and sources informing the success or failure of a business or product by tracing these back to operational resources, rather than simply looking to their immediate impact on performance. Among these operational resources, intellectual property itself, including patent information, is highly specialized, and as information disclosure on IP strategies has been limited, it has been difficult to identify as a factor in aspects such as operational performance and corporate value. I have the sense that the understanding and exploration of this through IP Dialogs is the same thing as what Counsellor Ikeya refers to when he talks about discerning the “causal paths.” It is often the case that there will be major differences in terms of profitability and efficiency even when you are making the same product. Attention to intellectual property is essential for exploring the factors informing such differences. When I am conducting IP Dialogs, I show my counterparts the following diagram, to inform them that, in addition to externally visible R&D, business/product development, investments and results, I also want to understand their IP and related strategies that support these activities using specific examples. This is because I believe that, if we can affirm that IP and related strategies, which are difficult to discern from the outside, are robust, this will as a matter of course change assessment of a company’s R&D, business/

The relationship between business success and patent-related strategies

Externally visible business success

Needs → Research → Development → Commercialization → Monetization

Examples of how strategies related to patents contribute within a company

Search by patent data	Other company patent clearances	Preparation for building access barriers
Partial blackboxing	Utilization of early screenings	Overseas and international patent applications
Patent infringement defense	Licensing	Sale

Specific understanding of the contributions of an IP strategy of this kind will facilitate appropriate IP strategy assessments.

Source: Daiwa Asset Management

Theme 2



Yuji Watanabe
Chief Analyst, Active Fund Management Department II and Responsible Investment Department



Mika Ozaki
Stewardship Analyst, Associate Director, Responsible Investment Department

Part 1

Stewardship Activities



Intellectual property is set to become an important issue in dialogs with investee companies regarding proxy voting (Ozaki).



We are actively undertaking engagement on intellectual property issues while disseminating our own views on IP from the perspectives of shareholders and investors at various workshops and seminars (Nakayama).



product development, investments, and results.

Nakayama: There are aspects in which IP analysis is highly specialized which can entail difficulties, and we are aware that it has yet to reach the stage where analysis of IP is sufficiently incorporated into corporate value assessments and investment decision-making by institutional investors. I also do not believe that we will be able to engage in dialogs with corporate IP departments to an equivalent level of expertise. However, what I do believe in is achieving a shared recognition of the fact that intellectual property and intangible assets are not being sufficiently reflected in corporate value, and in the importance of engagement to discuss the factors informing this as well as improvement strategies.

Ikeya: I am aware that the objective of shareholders and investors lies in medium- and long-term increases in corporate value. Accordingly, more than understanding and evaluating technologies and patents themselves, I would like to see you facilitate deeper dialogs with companies from the perspectives of why and how these technologies and patents constitute differentiating factors, how they can be organically linked with other management resources to be reflected in business performance, and whether they will be sustainable and reproducible. I would like to see specialists, with a focus on consulting companies and information vendors, fulfill the role of analysis and evaluation of the technologies and patents themselves.

Ozaki: The reality as it currently stands is that investment and utilization strategies, as well as information disclosure on intellectual property and intangible assets are seldom discussion points at Shareholder Relations (SR) meetings, which constitute dialogs pertaining to proxy voting policies and ESG issues. I believe that an underlying reason for this is the fact that operating results and capital efficiency as stipulated in proxy voting policies are being made the targets for evaluations of past performance. I do however feel that this is a topic which should also be actively probed and discussed in greater depth at SR meetings, given the fact that operating results and capital efficiency are outcomes of the accumulation of investment and utilization strategies for intellectual property and intangible assets. In this respect, I feel that the summary chart, which gives an encompassing overview of the Guidelines on Disclosure and Governance of Strategies for Investment and Utilization Regarding Intellectual Property and Intangible Assets Ver. 2.0 (see below) is an eminently usable tool in attempts to encourage dialogs on these topics at SR meetings.

Overview of the Guidelines on Disclosure and Governance of Strategies for Investment and Utilization Regarding Intellectual Property and Intangible Assets Ver. 2.0

Current situation • Increasing importance of intellectual property and intangible assets as a source of competitiveness (→progress of digitalization; calls to realize a green society)
• Japanese companies lagging behind advanced companies from overseas in investment in and utilization of intellectual property and intangible assets, with PBR under 1.0x and foreign investors abandoning Japanese equities

Increase corporate value and attract further investment funds by promoting investment in and utilization of intellectual property and intangible assets

- Enhance disclosure and governance of company strategies for investment in and utilization of their intellectual property and intangible assets
- Strengthen capital and financial market functions to allow investors and financial institutions to properly assess company investment and utilization strategies for intellectual property and intangible assets and provide the necessary funds

The Corporate Governance Code was revised in June 2021 to newly stipulate on the disclosure of intellectual property investment strategies and supervision by boards of directors
→ Listed companies are required to comply or provide appropriate explanations

Provides an easy-to-understand approach to the disclosure and governance of strategies for investment in and utilization of intellectual property and intangible assets

Guidance for Collaborative Value Creation 2.0
Integrated reports, IR materials
Management design sheets, etc.

Guidelines on Disclosure and Governance of Strategies for Investment and Utilization Regarding Intellectual Property and Intangible Assets

Expected use by small- and medium-sized enterprises and start-ups in addition to major corporations, investors, and financial institutions

Five principles

Feeding environmental and social issues into long-term positive value assessments to achieve Sustainability Transformation (SX)

Companies
Investors and financial institutions
Facilitate “pricing power” and “game changes”
Identify as the formation of “assets” rather than as “outlays”
Disclose and disseminate as “logic/stories”
Develop company-wide cross-functional structures and “build governance”
Assess and support “investment with medium- to long-term perspectives”

Seven actions for companies investing in and utilizing intellectual property and intangible assets

Establish the current situation
Identify the key issues and clarify positioning of strategy
Construct value creation stories
Construct investment and resource allocation strategies
Develop strategies, implementation systems, and governance structures
Disclose and disseminate investment and utilization strategies
Refine strategies through dialogs with investors and others

Provide operational resources and partnerships with the supply chain for start-ups and others

Added in Ver. 2.0 Communication framework for companies, investors, and financial institutions

Stories of corporate transformation backcasted from transformations of business portfolios
Causal path design and planning to connect each company's intrinsic strengths with its intellectual property and intangible assets
Linking operational indicators to intellectual property and intangible asset investment strategies (ex. ROIC Reverse Tree)

Prospects for a future in which greater importance will be attached to intellectual property and intangible assets

Ozaki: It is my impression that the Guidelines on Disclosure and Governance of Strategies for Investment and Utilization Regarding Intellectual Property and Intangible Assets have been the catalyst for information disclosure on the part of companies as well as exploration and engagement by institutional investors in relation to intellectual property and intangible assets. What is your opinion on the status of awareness around these issues and ongoing prospects following on from this trend?

Ikeya: Firstly, one of the current issues, as I perceive it, is that companies cannot be said to have made sufficient progress in disclosing information. In addition, there are still cases where the department within a company that will take the initiative in implementing strategies relating to intellectual property and intangible assets remains undecided. I would like institutional investors to be conscious of such issues and promote high-quality dialogs that give companies this insight. In terms of information disclosure, the disclosure of human capital in marketable securities reports began in the financial year ending March 31, 2023. I am also keeping an eye on how this trend toward institutional disclosure will extend to encompass intellectual property and intangible assets. Also, in terms of dialogs, I am looking at the possibility that developments in AI will enable the evolution of analyses by institutional investors, consulting companies, information vendors, and other specialists, resulting in more meaningful dialogs.

Watanabe: Systems do exist for the analysis, in various ways, of financial information and market data and their linking to corporate value. We are meanwhile aware that systems for measuring the value of a company's intellectual property and intangible assets remain in the exploratory stage. We are anticipating the formation of a trend whereby all stakeholders around a company are given a renewed awareness of the importance of intellectual property and intangible assets through initiatives to develop systems to gauge their “hidden power” and to reflect intellectual property and intangible assets in corporate value assessment models, with these feeding into increases in corporate value through initiatives and information disclosure.

Nakayama: Even with outstanding IP and technologies, if a company cannot establish a business model and connect this with the creation of added value, its investment capacities will not increase. We aspire to conduct engagement in such a way that it leads to the emergence of spiraling virtuous cycles. In this respect, dissemination of information on the importance of IP and related strategies by companies is gradually progressing, and the environment is becoming more conducive to analyses. The dissemination of such information is also one key to dialogs with investors, and with the furthering of dialog and engagement between companies and institutional investors, we believe a trend will emerge whereby advances will be seen in the dissemination of information and the development of analysis methods by institutional investors, while IP will also be incorporated into corporate value assessments and investment decision-making in the same way that has been the case for environment and human capital. Furthermore, while the current focus is on patent information, we would be inclined to say that, going forward, IP in its broadest sense, taking in designs and trademarks, is destined to become the target of analysis and assessment. At Daiwa AM, we are determined to make efforts to be at the vanguard of this trend. There are significant disparities between companies in terms of their disclosure of information on intellectual property and intangible assets, as well as in their actual investment and utilization strategies. Our Engagement Team both engages in one-to-one dialog with companies, and arranges opportunities for one-to-n (multiple company) meetings. These include meetings with companies that have achieved outstanding information disclosure and strategies (best practice companies). We introduce such best practice companies to those with issues, as means to encourage inter-company knowledge sharing. At Daiwa AM, we refer to these activities as “lingagement,” and have the sense that this category of activities is of particular utility in the domain of intellectual property and intangible assets.

Ikeya: I look forward to seeing these activities that are undertaken in the role of shareholder and investor serving as one of the driving force for increased investment and utilization strategies for intellectual property and intangible assets for companies, leading to many Japanese companies becoming game changers.

Theme 3



Daiwa AM has developed a Japanese version of the Drucker Institute Scores, and is endeavoring to measure “hidden power,” with intellectual property and intangible assets positioned as essential elements within this (Watanabe).



There is an expectation that institutional investors will engage in dialogs with companies focused on intellectual property and intangible assets, while asking constructive questions toward encouraging the sustainable growth of companies (Ikeya).



Strong-type Engagement

Overview

At Daiwa AM, we categorize engagement according to its depth and use the term strong-type engagement to describe the deepest category of engagement, which aims to significantly improve operational performance by identifying engagement themes and directly and actively encouraging management to improve on these.

Selection method for target companies

Corporate research analysts select companies in the sector for which they are responsible for engagement based on the following criteria: **① A company has key management issues**, and **② these issues can be expected to be improved or resolved through dialogs**, while **③ the resolution of the issues also can be expected to increase corporate value**. Among these, companies that can be expected to significantly increase their corporate value through the resolution of issues are then selected for strong-type engagement.

Fund managers in the Engagement Team also select target companies based on these previously outlined perspectives for all investee companies.

Milestone management

When implementing strong-type engagement, we first set an engagement theme for each target company, with an engagement plan then prepared. This plan outlines the specific issues recognized, the background to these issues, suggested measures to resolve the issues, and the anticipated situation after they have been successfully addressed.

Milestone management is then carried out by dividing the implementation statuses of engagement into five categories of: **① Issue recognized and clarified**, **② Issue shared**, **③ Issue being addressed**, **④ Issue resolved**, **⑤ Issue closed**. The progress statuses are shared with each analyst and fund manager and routinely monitored by senior officers.

Companies to be targeted for strong-type engagement are selected by corporate research analysts or fund managers from the Engagement Team based on the following selection criteria, with milestone management conducted until the issues are resolved.



Engagement case studies

Company A
(chemicals)

Main dialog counterpart: President & CEO

Engagement theme

Improving capital efficiency and expanding investor relations (IR) communication

Issue awareness and background

Cash holdings levels have remained excessive, despite the company having made major capital investments in line with its 50% total returns policy and long-term vision. With a lack of progress achieved on reduction of cross-shareholdings, actions to improve capital efficiency should be actively pursued.

There is also a necessity to improve interpretability of new products that have started to demonstrate outcomes as well as their underlying R&D capacities, while also indicating a path toward becoming a highly profitable and efficient R&D-oriented company.

Suggested measures to resolve the issues

- ① Expedite reduction of cross-shareholdings and calculate and disclose reasonable cash levels. Dissolve in particular cross-shareholdings with principal shareholders
- ② Establish disclosure methods for new products and R&D with minimal track records and limited experience regarding disclosure methods
- ③ Improve IR communication, prompted by appointment of company president, who had previously been a director in charge of IR department.

Anticipated situation following issue resolution

- Establishment of a clear path to becoming a highly efficient company with typical characteristics of an R&D-oriented enterprise
- Reduction of capital costs, fostering of medium- to long-term growth prospects, and improved PBR achieved by raising ROE

Company response at time of dialog

After informing the company that their share price was indicative of a situation whereby "shareholder equity costs are considerably high" and there was "no expectation of profit growth and ROE improvements," we presented favorable examples of corporate value enhancement at R&D-oriented companies. Following a dialog on the issues to be resolved as described to the left, company endorsed the suggested measures and decided to set up an opportunity to learn from the CFO of a model practice company.

Company actions following the dialog

The company presented a persuasive capital efficiency improvement plan based on lessons from the model practice company. As a result of measures including having R&D heads and outside directors present at small meetings, the share price rose to a level of over 1.0x PBR.

Issue being addressed

3

Company B
(retailer)

Main dialog counterpart: President & CEO

Engagement theme

Expansion of corporate value through improved profitability and ROE

Issue awareness and background

Company profitability was significantly below that of industry peers, with the major reason for disparity being low per-customer spending. There was an additional issue of low profitability of B2C businesses compared to the core B2B business.

Balance sheet indicates a surplus of on-hand cash, and there is a necessity to undertake measures to optimize capital in addition to profitability to improve ROE.

Suggested measures to resolve the issues

- ① Implement measures to increase per-customer spending by expanding product range, increasing inventory products, and enhancing recommendation functionality
- ② Implement measures to reduce costs such as platform integration
- ③ Sell low-profitability businesses such as B2C businesses
- ④ Implement measures to eliminate excess cash and improve capital efficiency through M&As and repurchasing of own-company stock

Anticipated situation following issue resolution

- Expectation of major increase in share price as a result of achieving financial targets set out in the ongoing medium-term business plan

Company response at time of dialog

The company is aware of the issue of low per-customer spending and will continue to endeavor to expand its product range and increase its inventory products. It also plans to maintain the B2C business in view of synergies with the B2B business but will strive to achieve further cost reductions. In addition, the company will set out measures such as a capital allocation policy and actively undertake ambitious reforms for its balance sheet.

Company actions following the dialog

Specific measures aimed at increasing per-customer spending and reducing costs in the B2C business were presented following the engagement meeting. It is expected that specific measures for balance sheet reform will be set out going forward.

Issue being addressed

3

Company C (foodstuffs) < > Main dialog counterpart: CEO and CFO

Engagement theme Improvement of ROE through selection and concentration of operational resources and structural reforms

Issue awareness and background
Since the formulation of the ongoing medium-term business plan, the external environment has deteriorated, including higher raw material costs caused by inflation. This situation raises doubts about the effectiveness of the structural reform and growth strategy set out in the plan. In addition, the main factors driving increases in capital costs are low levels of consistent profitability in processed foods, and profit volatility linked to conditions in the meats market.

Suggested measures to resolve the issues
Review the medium-term business plan with focuses on enhanced strategy execution, acceleration of structural reforms and actualization of growth strategies following the change of president. While the issues to be resolved remain unchanged, the need to speed up processes and a greater sense of urgency in the face of potential crises is increasing. This will require early implementation of key measures in the ongoing medium-term business plan; withdrawal from low-profit businesses, mainly those overseas; implementation of additional measures in response to the deteriorating external environment; as well as radical judgment calls founded in strong leadership to rally from internal and external setbacks.

Anticipated situation following issue resolution
• Increase in ROE due to improved margins and withdrawal from/downsizing of unprofitable businesses, and improved company valuations

Company response at time of dialog
The company were initially reluctant to implement measures to improve unprofitable businesses, despite indicating their recognition of the issues when laid out during the tenure of the previous president. Profits for over-performing businesses deteriorated at an accelerated rate due to the turmoil associated with the period of the COVID-19 pandemic, mainly attributable to the sharp rise in raw material prices. Since that time, the company has become more forward-looking in engaging in dialog with the stock market.

Company actions following the dialog
The company has shifted to a strong message of specific challenges and solutions in the businesses targeted for structural reform, as well as the need for change pertaining to deep-rooted problems related to the company's organization and culture as a whole. The penetration of structural reforms, including the moving forward of announcements on the targets for the new medium-term business plan was confirmed under the strong leadership of the senior management.

Issue being addressed 3

Column

Behind-the-scenes story of successful corporate change engagement

This account concerns the business portfolio of a materials company. While the business in question was one with a long history, it was capital-intensive and characterized by low profitability rates and high volatility with their origin in a strong susceptibility to economic and market conditions. This business also demonstrated the highest environmental impacts when compared with other businesses, with engagement deemed necessary due to the potential for business risks to increase even further in the future.

Engagement was first initiated with members of the investor relations team at the company. Daiwa AM then collated and shared the results of our analyses of the above points of concern, and indicated that continued neglect of the medium- to long-term issues could lead to increased scrutiny in the area of environment, as well as increasing capital costs, resulting in damage to corporate value.

Subsequently, a dialog was successfully initiated with the President following those with the company directors. Initially, however, the discussions moved on different tracks, as the company indicated their view that continuation of the business would enhance corporate value. The reasons they gave were an expectation of growth for certain products within the business considering environmental demands from society as well as client relationships. Discussions reached a

disappointing impasse, with the directors present rebuking us after our meeting for recommendations which they said amounted to radical structural reform of a business with a distinguished history.

Nevertheless, based on a strong conviction that our assertions were accurate, we embarked on an analysis of the rebuttal by the company President. As part of this, we conducted interviews with client companies, while also researching into changes in client company shareholdings in the company. It became increasingly apparent that the company's assertions were unreasonable during the process of conducting analyses of the actual track record and profitability of growth products.

Based on these analyses, we refuted the company's claims, with the outcomes of a series of surveys and, coincidentally, as the market environment deteriorated and risks in line with our assertions became apparent, we achieved a consensus with them on the need for structural reforms. Toward the drafting of a structural reform plan, we engaged a strategic consultant contracted by the company for discussions on the capital market assessment as well as the structural reform plan that investors sought.

Subsequently, a radical restructuring plan for the business was presented and implemented. This was a deeply poignant moment, with all the efforts made up to that point finally bearing fruit.

From Engagement to "Lingagement":

Together We Will Work to Improve the Corporate Value of Our Investee Companies

Daiwa AM conducts analyses aimed at gaining a deep understanding of our investee companies. Nevertheless, there is a limit to the understanding we can achieve, in terms of not having insider know-how requiring technological and other expertise equal to that of our investee companies. Meanwhile, we believe that the insight on best practices, past examples of failure, and inter-company comparisons which we have accumulated through our analyses and dialogs with various companies are domains in which investors are truly in their element. Another major strength in our dialogs with investee companies is the relationships we have built up with many representatives of industry and academia, as well as a range of consultants, analysts, government officials, and others with whom Daiwa AM share an affinity.

Daiwa AM leverages these strengths to conduct engagement



meetings with management at companies facing challenges, and issues engagement letters collating the matters shared at these engagement meetings. We also focus on specific ESG themes to hold "ESG Meetings," which serve as a platform for sharing knowledge among companies. Additionally, we focus efforts on "lingagement," a process whereby we introduce companies encountering challenges in increasing their corporate value to those which have faced similar challenges and discovered hints toward their resolution, encouraging them to share their knowledge.

By fully leveraging the know-how available to us in ways such as these, Daiwa AM aims to become a partner in the stock market which joins alongside our investee companies in the journey toward the shared goal of increasing their corporate value.

Overview and Effects of "Lingagement"

Overview
We aim to contribute to corporate value by fully utilizing all available resources and ideas to increase value.

Investee company x Investee company x Investee company



Themes

- FY2021: Diversity (1st meeting)
- FY2022: Human Resources Strategy (2nd meeting)
- FY2023: Finance Directors (3rd meeting)

Daiwa AM x Investee company

Engagement meetings
Engagement letters

Investee company x Best practice company

"Lingagement"

Shared themes

- Capital costs, ROE strategy (permeation within the organization)
- ESG information disclosure

Etc.

Effects
This is an initiative to provide a platform for discussion with the personnel and management of best practice companies on challenges facing investee companies as a reference to inform future improvements in their corporate value.

Investee companies

We believe that sharing on their challenges with best practice companies, and arranging encounters with the processes toward their resolution will provide hints on how to solve in-company issues. By building relationships which facilitate exchanges of views with other companies with best practices we expect to enhance the outcomes of initiatives.

Best practice companies

Interactions with other companies can lead to insights to facilitate taking their own initiatives to the next level.

Funds

We expect companies to sustainably grow and increase their corporate value.

In some cases, the scope of communication has moved beyond the themed discussions and developed into actual business collaboration.

/ “Lingagement” case study

Example scenario of “lingagement”



Mitsui Chemicals, Inc.

Multiple companies (11 companies)

Purpose Share know-how on dialogs with outside directors and investors

The current in ESG is shifting from a stage involving responding to requirements and conducting disclosure, toward a focus on initiatives demonstrating effectiveness in contributing to improvements in corporate value. For example, regarding governance, it is also becoming increasingly important to understand the ways in which the governance process contributes to improving corporate value. This is evidenced by disclosure on the skills matrix and the ratio of outside and female directors. Within this context, the interest in dialog between outside directors and investors is increasing year on year. Given that one of the roles of outside directors is to act as spokespersons for the capital markets, this is a welcome trend, and one for which there is likely to be increasing demand going forward.

From the perspective of companies, meanwhile, we have a sense that many are reticent about providing opportunities for dialog, with this being attributable to their reluctance to burden outside directors who have been invited from outside the company, as well as the fact that outside directors themselves may have very little experience of dialog with investors.

Accordingly, we organized “lingagement” meetings with multiple companies around the nucleus of Mitsui Chemicals Inc. with the aim of contributing to the establishment of sound investment chains with outside directors as their starting point, involving the introduction to other companies of Mitsui Chemicals’

experience in holding “small-scale meetings between outside directors and investors” and the know-how gleaned from these experiences.

As a result, Nippon Gas Co., Ltd., one of the participating companies, was able to reaffirm the importance of dialog with outside directors and investors, with the senior executive managing director with jurisdiction over the matter providing feedback indicating that they would attempt to coordinate internally. In fact, Nippon Gas at a later point in time themselves organized “small-scale meetings between outside directors and investors” and requested Daiwa AM’s participation. In this way, with Mitsui Chemicals experience as the core catalyst for “lingagement,” Daiwa AM was extremely pleased at having been able to contribute to broadening the scope of initiatives to facilitate effective corporate value enhancement.



Company A

Company B (Best Practice Company)

Purpose Knowledge sharing on capital cost-aware management

Following structural reforms, including to cost structuring reforms, customer relations management (CRM), and branch reforms, Company A’s corporate value was being revised by means of ameliorations to aspects of profit and loss in the context of the stringent business environment of the COVID-19 pandemic.

Thus, while evaluations of the business aspects of the company were increasing, with its balance sheet and cash flow management remaining works in progress, Daiwa AM proposed that, to further increase its corporate value, it become conscious of capital cost while also pursuing improvements in capital efficiency. As part of this proposal, we shared the case study of Company B, and proposed a “lingagement”—with Daiwa AM’s

relationships enabling it to act as an intermediary—between the finance directors of the two companies toward an exchange of information which would facilitate a deeper understanding by Company A of Company B’s initiatives.

This “lingagement” led to a series of initiatives in which Company B had previously been engaged being taken up by Company A, while also creating a networking opportunity, with the two companies having remained in frequent contact with each other since then. The financial strategy was then updated at a Company A briefing session, which, in addition to the positive evaluation of business aspects, led to a growing appreciation for the change to capital cost-aware management, ultimately further enhancing its corporate value.



Company C

Company D (Best Practice Company)

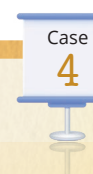
Purpose Knowledge sharing on capital cost-aware management

Company C had a PBR considerably below 1.0x, and despite enjoying operating profits in the mid-10-billion-yen range, the value of the business, excluding market capitalization of redeemable assets, such as cash, deposits and marketable securities, remained limited to around 40 billion yen. An underlying factor was their extremely poor awareness of balance sheet and cash flow management attributable to their being a technology-oriented company.

Nevertheless, following repeated engagement between Daiwa AM and management at Company C, their sense of the importance of capital efficiency had begun to grow. However, due to their theretofore low

awareness of capital efficiency, they lacked the know-how of what issues they needed to address as well as the solutions to address these, in addition to a knowledge of how to build internal consensus.

We therefore proposed a “lingagement,” to introduce the senior executive managing director of Company D to the finance director at Company C, after which the Company D executive officer delivered a lecture on the approaches to fostering internal consensus and instituting improvements. As a result, Company C’s know-how on internal reforms deepened, which led to changes that can be expected to increase corporate value going forward.



Company E

Company F

Purpose Business matching

Company E aims to expand into all-solid-state batteries as a new business. Their strong knowledge and experience in the energy sector make them a frontrunner company within the industry for such new products. The company aspired to build up a track record in the industrial sector, while extending into other areas, including the healthcare domain, toward expanding this product.

Against this backdrop, Company E introduced companies it was looking to develop in this market

going forward to Daiwa AM. Companies with which Daiwa AM was already conducting engagement were among this list of clients, and we contacted the listed companies to introduce Company E’s products to them. As a result of this, business negotiations between a head of the business department at Company F and a representative in the area at Company E came to take place, with “lingagement” achieved in the form of a business matching.

／ CFO Meeting implementation report

The “2023 CFO Meeting” was held in September 2023, with chief financial officers (CFOs) from 15 investee companies taking part. This was positioned to coincide with the third ESG Meeting, with the meeting arranged as an opportunity to provide reference for future initiatives through interactions among CFOs of companies facing various issues, with the reasoning that both management and financial strategy perspectives are indispensable to discussions on governance.

The theme of the event was “Initiatives to improve PBR.” The participants were divided into three groups and participated in group discussions conducted over two sessions.

For the first session, “ROIC,” “cash allocation,” and

“shareholder returns” were designated keywords as sub-themes of initiatives to improve ROE; while in the second session, “business portfolios,” “sustainability,” and “dialog and disclosure” were the designated keywords as sub-themes of initiatives to reduce capital cost, with introductions of each company’s characteristic initiatives and discussions taking place at both sessions.

The event was well received by the participating companies, and we will continue to actively hold meetings of this kind going forward, thereby contributing to improving their corporate value by providing a platform for companies to share knowledge with each other.

We did not expect that this meeting would be on such a large scale. We were also very grateful to have been invited to be one of the companies which would take part. The networking allowed us to exchange business cards with representatives from other companies, which led to us securing commitments for subsequent exchanges of views. This is extremely gratifying, as such opportunities to communicate with other companies are not generally available to us. I hope that you will invite us again.



Feedback from Participating Companies

This was a wonderful meeting. We found it helpful in seeing that there were companies at various stages, as well as in understanding statuses at these other companies. This proved an excellent opportunity, as we were in the process of considering our future strategies as well as how to prepare for a TSE disclosure request.



Pick Up

External assessment of engagement activities

Daiwa AM has received a steady level of recognition from companies, with a focus on matters dealing with engagement activities, including for “Asset management firm with the most effective overall stewardship activities,” in a survey of listed companies evaluating the stewardship activities of their asset management firms conducted by Mizuho Research & Technologies, Ltd.

We believe that this is in recognition of Daiwa AM’s efforts undertaken to enhance our engagement framework, expand our dialog tools, and of unique initiatives such as the “lingagement.” Daiwa AM will continue to actively endeavor to achieve qualitative improvements in our engagement activities.

Participation in the integrated reporting of a company

An article about a discussion with Daiwa AM Chief Analyst Watanabe was included in UBE Corporation’s (UBE) Integrated Report 2023. We have previously conducted numerous dialogs with UBE on a wide range of topics, from structural reform to ESG and intellectual property. For this article, however, a dedicated three-party dialog was held at the company’s request with UBE’s representative director and external directors on the theme of “Talent Strategy to Expand the Specialty Chemicals Business,” the content of which was then included in the integrated report.

Following the publication of the Integrated Report, at the request of UBE, Chief Analyst Watanabe presented and exchanged opinions on “evaluations, expectations, and suggestions for improvement in the stock market” at a training event for executive officers, with dialogs aimed at improving corporate value currently ongoing.



UBE Corporation Integrated Report 2023

Engagement for Passive Fund (Market-wide bottom-up-type engagement)

／ Overview

In order to proactively fulfill its fiduciary duty with respect to passive fund investment too, Daiwa AM attaches great importance to engagement activities. Particularly in the case of companies where Daiwa AM must vote against the company’s proposals in accordance with Daiwa AM’s Proxy Voting Policy, because the company in question has not achieved sufficient gender diversity or has excessively high levels of cross-shareholdings, Daiwa AM undertakes

engagement with such companies so as to verify the state of the measures implemented by the company in relation to these issues, and to exchange views. At the same time, since the total number of investee companies is very high, at over 2,300 companies, besides direct dialog, when necessary, Daiwa AM may also make use of methods such as sending companies information about revisions to the Proxy Voting Policy and about related topics.



／ Style we to achieve going forward

Conventional passive engagement has mainly consisted of one-way dialogs, including those amounting to confirmations of status reports in response to requests for meetings from investee companies, or means such as communicating our requests merely through letters,

rather than dialog based in an awareness of specific issues. Currently, however, we are conducting more active and two-way engagement than ever before, including for passive fund investment, directed toward increasing the effectiveness of engagement and producing positive effects which extend to the overall performance of Daiwa AM’s investments. More specifically, we are focusing on investee companies at which there is room for improvement in our materialities relating to climate change, diversity, and other areas for the promotion of issue resolution-type engagement initiated by Daiwa AM. We are adopting a continuous approach to follow-up with the targeted companies, and encouraging them to resolve their ESG issues through engagement while actively supporting them to improve their corporate value over the medium to long term. In this way, we hope to enhance the market reputation alongside them and, thereby, contribute to improving the overall performance of our managed assets.



Case studies of passive engagement

Daiwa AM conducts engagements not only on the management and capital strategies of our investee companies but also those which focus on improving our materiality. The issues faced by our investee companies are diverse, with many of these considerably difficult to

solve. However, as passive fund investment does not, in principle, allow us the option of selling our holdings, we have set our sights on engaging in dialog that offer potential clues to improving sustainability and medium- and long-term corporate value.

Company A
(glass and earthenware products)

Dialog theme Climate change countermeasures

Issue The company has low GHG emission reduction targets despite being a high CO₂ emitter.

Background By proactively expediting the decarbonization of its high-emission sectors, the company can greatly slow the pace of climate change, with this contribution spilling over to its entire stakeholder base, leading to improvements in corporate value.

Potential solution Actively endeavor to move forward the schedule of initiatives for what can be accomplished over the short term such as converting electricity use to renewable energies after acquiring Science Based Targets (SBT) certification and clearly indicating time-based countermeasures equivalent to the baseline standard of the Nationally Determined Contributions.

Company response

We have had companies respond that, after confirming case studies from other industry peer companies in Japan and overseas, the company was considering actively implementing and disclosing the initiatives that it can implement to further decarbonize its own operations.

Company B
(electrical equipment)

Dialog theme Employee engagement

Issue While the company has conducted an employee engagement survey, they have yet to complete any specific disclosures on it.

Background As it tends to be the case that companies will have elevated performance, productivity, etc. in line with higher levels of employee engagement, survey results and future plans should be proactively disclosed, as a jumping off point for the formulation and implementation of human capital strategies.

Potential solution The results of the survey will be monitored using KPIs while also being disclosed using a PDCA cycle to demonstrate how initiatives are being undertaken to resolve issues.

Company response

Based on the points raised in the previous fiscal year, the improvement of employee engagement has been set as a materiality as well as a medium-term target, and specific disclosure were made on initiatives for their outcomes.

Company C
(petroleum and coal products)

Dialog theme Term of office of directors in the Articles of Incorporation

Issue A two-year term of office for directors does not allow for shareholder feedback to be heard on an annual basis.

Background Governance discipline should be instituted by gaining annual shareholder confidence in managerial accountability each year. A two-year term of office for directors does not allow shareholders to hold management accountable during a given fiscal year, even if misconduct or other incidents occur outside the re-election period.

Potential solution Reduce the terms of office for directors in the Articles of Incorporation to one year.

Company response

The Report on Corporate Governance was updated to reduce the terms of office for directors in the Articles of Incorporation from two years to one year.

Engagement with Outside Directors

Daiwa AM also conducts engagement focused on dialog with outside directors. As part of this, we place particular emphasis on dialog with outside directors who are in a position to relate the company's assertions from a neutral

standpoint, to utilize the content of dialogs as a reference for decisions in the proxy voting process in governance meetings regarding annual meetings of shareholders that include shareholder proposals.

Company D (machinery)

Dialog theme Shareholder proposal (governance)

Scenario encountered Governance failures were identified, and a shareholder proposal for director appointments and other matters was received

Dialog content We confirmed the current status of governance and the company's vision for the future, as well as probing whether the current management structure could be said to be inadequate for governance, as claimed by the proposing shareholder.

Meeting outcomes

We met with the newly-appointed outside director who was chosen to serve as the chairperson of the board of directors to accompany the change in the management structure. Despite being newly appointed, they demonstrated high-level knowledge of corporate governance and superior communication skills, being able to respond fully to rigorous questioning, and so we were able to confirm that trust was warranted in relation to the adequacy of the current governance system and the future vision for the company. For this reason, we fully approved the company's proposals regarding this matter.

Company E (retail business)

Dialog theme Shareholder proposal (management strategy & governance)

Scenario encountered The reliability of the current management structure, which does not select and focus businesses despite the presence of those with longstanding unprofitability and having been made subject to a conglomerate discount, was questioned, and a shareholder proposal was received for the appointment of directors, and other matters.

Dialog content The dialog sought to identify any inadequacies in the company's structures in response to the current situation which had been pointed to by investors over many years, and whether there was insufficient communication with various stakeholders.

Meeting outcomes

Prior to the meeting, Daiwa AM had intended to approve the shareholder proposal in its entirety. However, the outside director with jurisdiction over the matter logically explained the need for the unprofitable business from an independent standpoint without denying the points raised by Daiwa AM, and while acknowledging the inadequacies of the current system. As a result, the credibility of the company increased, and the shareholder proposal was only partly approved.

Engagement for Fixed Income Investment

Case study of engagement with Company F (electric power company) on decarbonization

While Daiwa AM holds corporate bonds of Company F in a domestic fixed income investment, an increase in their weighting has become a factor in an increase of GHG emissions in domestic corporate bonds in comparison to the benchmark. We therefore conducted an engagement with Company F on climate change countermeasures.

Company F is completing disclosure, including disclosing in compliance with TCFD recommendations, in addition to its GHG emission reduction targets for 2030 and a roadmap to achieve these, as well as its 2050 net-zero targets. However, it does not provide more specific details and statuses on the roadmap, while also not indicating the power configurations it aims to achieve in 2030. Daiwa AM thus advised Company F on the necessity to further consolidate their disclosure including that

to promote investor understanding.

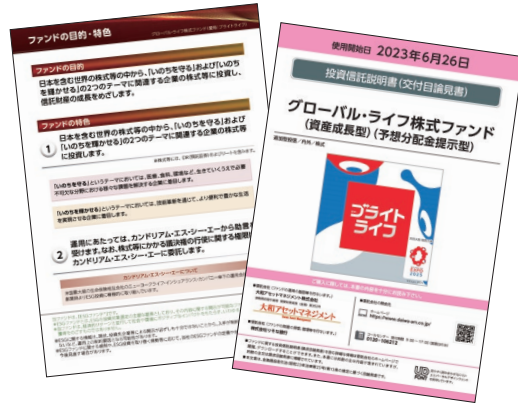
We moreover conveyed to them the advisability of information disclosure whenever there is a change or progress regarding their initiatives aimed at achieving the 2050 net-zero target, including development of technologies for ammonia and hydrogen co-firing and mono-firing, as well as R&D on the utilization of Carbon Capture, Utilization and Storage (CCUS), as means to demonstrate that it is steadily undertaking initiatives.

In response, the company indicated that it hopes to expand the scope of its disclosure wherever possible, even while indicating a problem in terms of the difficulty of presenting a specific indication of the form this would assume in the future, due to the influence on some fronts of ongoing national energy policies and systems.

Joint Engagement with an Outsourcing Company

Overview

A framework is in place to jointly conduct engagement with investee companies for some funds (Global Life) through a partnership with outside service provider Candriam.



Purpose

The purpose is defined as leveraging Candriam's know-how to provide more specialized dialogs from a global perspective for companies facing various issues. Through this, we aim to improve the performance of the funds in question while seeking to maximize beneficiary returns. Combining the know-how of both Candriam and Daiwa AM additionally enables us to cater to a wide range of domestic and international companies.



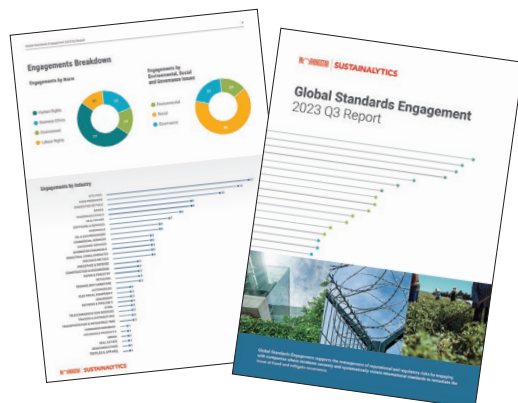
Engagement on Foreign Stocks

Engagement on foreign stocks is handled by means of direct engagement by Daiwa AM's local subsidiaries as well as indirect engagement through proxy engagement. Below we introduce an initiative using proxy engagement.

Proxy engagement

Overview

Sustainalytics' Global Standards Engagement, which Daiwa AM uses, is an incident-driven proxy service focused on companies that have committed serious and systematic breaches of international standards such as the Ten Principles of United Nations Global Compact and the OECD Guidelines for Multinational Enterprises.



2023 GSE Quarterly Report

Purpose

The purpose of this engagement is both to examine how companies have dealt with various incidents, and to improve ESG disclosures by bringing about changes in company policies and operational processes and ensuring that appropriate systems and programs are in place to circumvent future recurrences.

Expected outcomes

Although this engagement was not directly conducted by Daiwa AM, the issues under dispute and the record of dialog with the targeted company were shared with us. Through this instance of engagement, the reputational risk for Daiwa AM's foreign company holdings was effectively managed, and issues with serious environmental and social implications were effectively managed. In addition, it is hoped that this case will have helped in developing a deeper understanding of cases that have the potential to affect our portfolio and cannot be addressed merely by monitoring various types of news. It is anticipated that this will help us to fulfill our fiduciary duties to our beneficiaries.

Case study of proxy engagement

Engagement target Amazon.com, Inc (USA)

Issue

Forced Labor—Supply Chain

Extract from Global Standards Engagement

Overview

Amazon is facing a series of accusations of human rights violations associated with its operations in Saudi Arabia. According to an investigation made public in October 2023 by human rights organization Amnesty International, which interviewed Amazon contract workers, Nepalese migrant workers, employed by Abdullah Fahad Al-Mutairi Co. (AFMCO), an Amazon third-party labor supply contractor, and its subcontractor Basmah Al-Musanada Co. (Basmah), alleged that, between 2021 and 2023, they had paid consistently high commissions to recruitment agencies. The investigation report by Amnesty also describes other instances of modern slavery, including false recruitment processes for Nepalese workers and violations of freedom of movement.

Engagement details

In January 2024, Sustainalytics sent an initial query to Amazon seeking further information on incidents of forced labor occurring at Amazon's third-party vendor in the Kingdom of Saudi Arabia (KSA).

In February 2024, Amazon issued a press release and responded to our query. This indicated that, over the preceding several months, AFMCO had resolved serious concerns raised in Amnesty International's investigation report, that this had been verified by Amazon, and that AFMCO had made progress in improving workers' housing. More specifically, changes that AFMCO had made were noted as including: improvements to living conditions; the provision of lockers for personal belongings; limits to the number of occupants per room; and upgrades of fire safety systems. The changes made ensured that living conditions met Amazon's standards. In addition, Amazon undertook to continue to implement ongoing monitoring of improvements and progress made in relation to AFMCO's working environment.

Message to All Members of Investee Companies

Daiwa AM seeks constructive two-way communication as part of its engagement. However, we currently feel that there is a gap between the ideal scenarios and realities, such as those given below. We believe that bridging these gaps through repeated engagement will contribute to sustainable increases in corporate and shareholder value. As such, we expect the following actions from the investee companies with whom we engage in dialog to help close these gaps.

Ideal scenarios

- Potential for full two-way discussions to take place
- Presence of managerial intention to provide evidence to support the content of disclosures
- Generation of additional questions during dialogs Etc.

GAP

Realities

- Explanations of materials followed by single question and answer exchanges throughout
- No sense of managerial intention in the content of disclosures
- Lack of questions at the conclusion of meetings Etc.

Daiwa AM's expectations

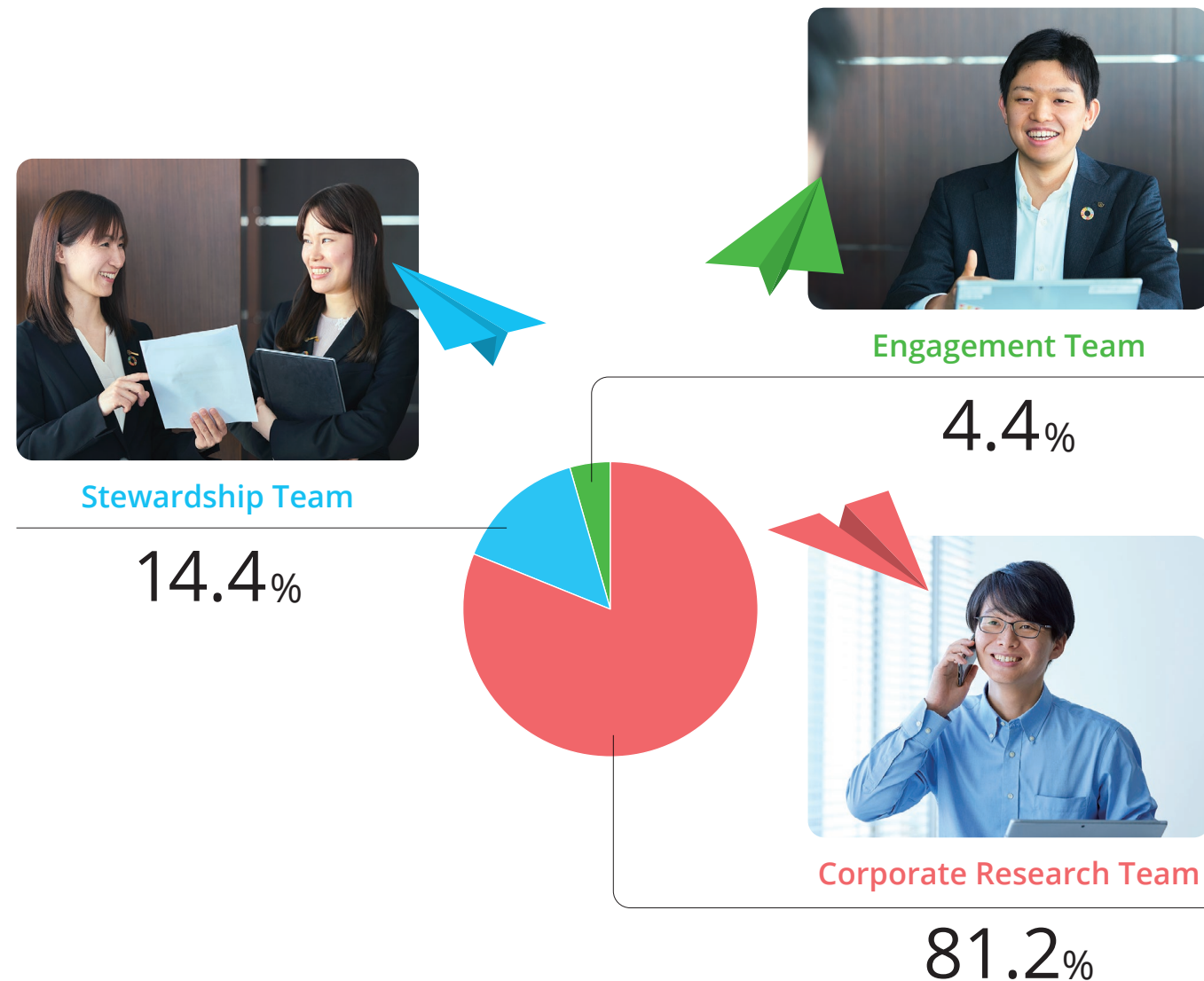
- Minimize explanations of materials and allow for dedicated discussion time (E.g.: Materials explanation should be kept to around 10 minutes)
- Explain even the management vision behind the content of disclosures (E.g.: Insist on explanations of the "why")
- Encourage free-flowing and proactive questioning (E.g.: Confirm impressions on the meeting as well as expectations going forward) Etc.



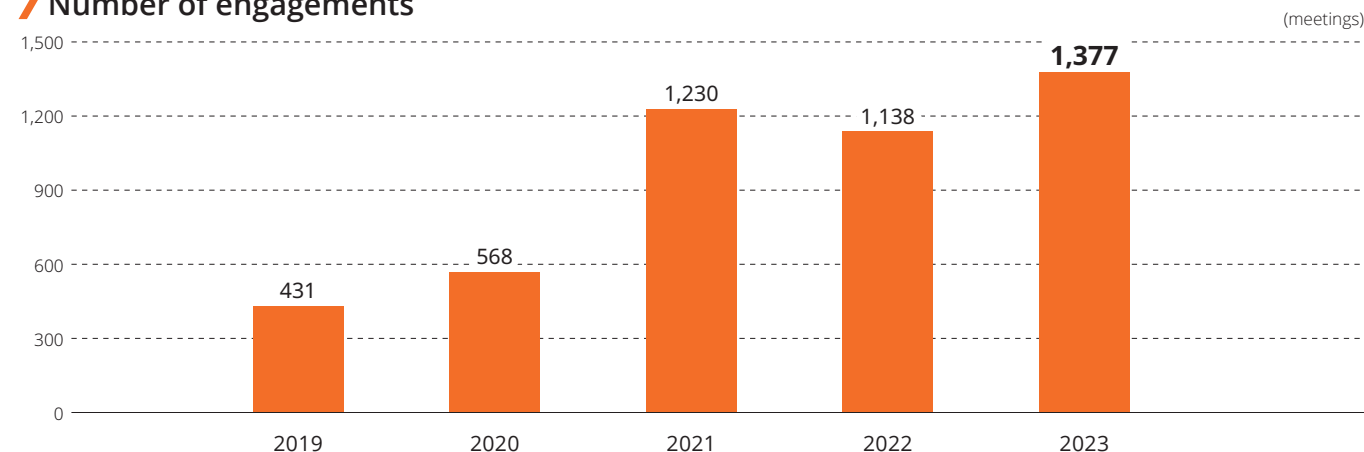
Engagement Activities by Respective Teams

Engagement activities based on direct dialog

During the term January 2023–December 2023, Daiwa AM implemented engagement activities with 1,377 companies. The breakdown by team and number of engagements during the term under review is as follows.



Number of engagements



Engagement Team

Dialogs with senior management from the perspective of improving corporate value over the medium to long term

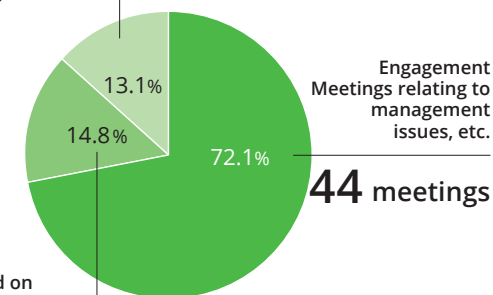
Activities status in the term under review

"Lingagement"

8 meetings

Engagement Meetings focused on E and S

9 meetings



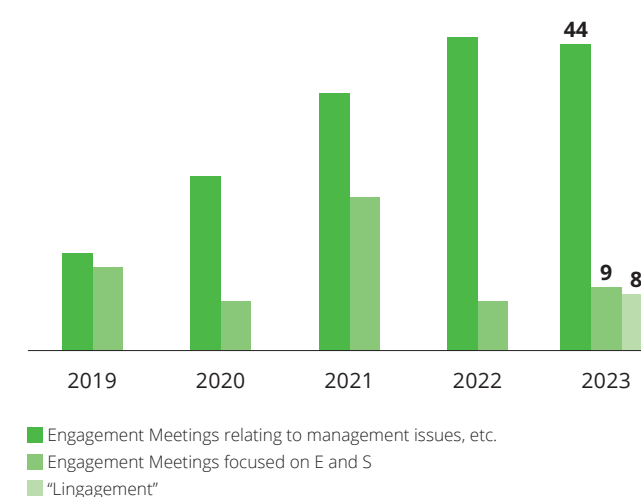
44 meetings

Overview

Daiwa AM emphasizes the role of engagement in enhancing corporate value, and established the Engagement Team in June 2015, bringing together analysts and fund managers for combined activity. The main target for engagement activity by the Team was positioned as being companies where there was felt to be potential for enhancing corporate value through IR improvements and changes in the measures taken by the firm resulting from dialog with Daiwa AM. The emphasis in these Engagement Meetings is on discussion from a medium- to long-term perspective, and as far as possible, dialog is held with senior managers of the company in question, including the CEO. The Engagement Team draws up the agenda for the dialog in advance, and clarifies its purpose. In addition, besides collating relevant issues by implementing KPI management (visualization) with respect to engagement progress status, the Engagement Team also shares information about engagement progress status within the company.

Focus points

Engagement meetings by theme



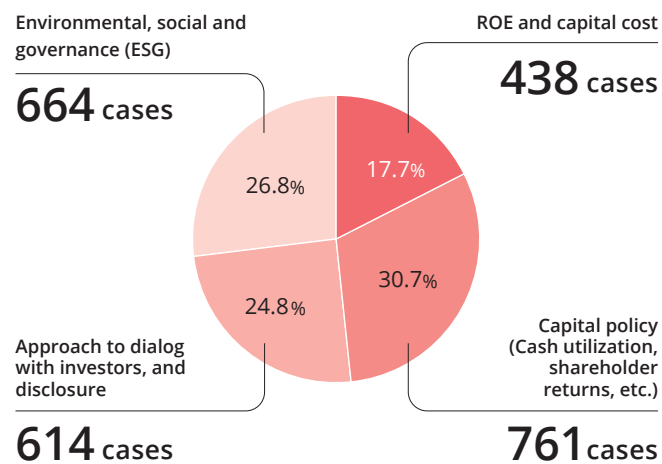
* Refer to P. 22 for more information on "lingagement."



Corporate Research Team

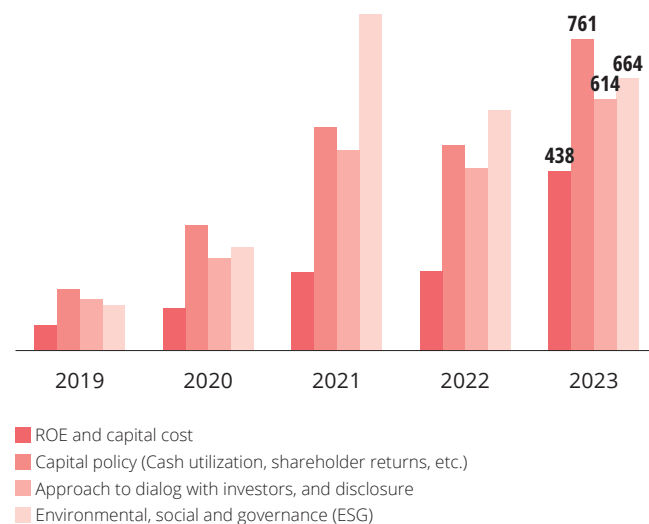
Constructive engagement to enhance corporate value and achieve sustainable growth

Activities status in the term under review



Note: Some cases are included in more than one category, as the dialog in a given meeting may embrace multiple perspectives.

Engagement meetings by theme



Overview

As part of their regular analyst activities, Daiwa AM's corporate research analysts conduct stewardship activities that contribute to the enhancement of corporate value and to sustained growth. There are a total of 14 analysts (as of December 31, 2023), divided into four teams: Consumer Services; Electronics; Materials & Industrial; and Utilities & Financial.. The implementation of constructive engagement makes use of various shared platforms and tools, including: ① The Analyst Handbook, which outlines the fundamental approach to be followed and presents the knowledge which underpins analyst activities; ② The Business Strategy Case Studies, which are based on analysis of actual business enterprise management strategies; ③ ESG Materiality Item Summary, which compiles information on key ESG items required for engagement, etc.; ④ Qualitative analysis, in which companies are assessed qualitatively from a medium- to long-term perspective in terms of both financial and non-financial aspects; ⑤ The compilation of a Long-term Corporate Valuation Model, to determine companies' fair value over the medium to long term.

Focus points

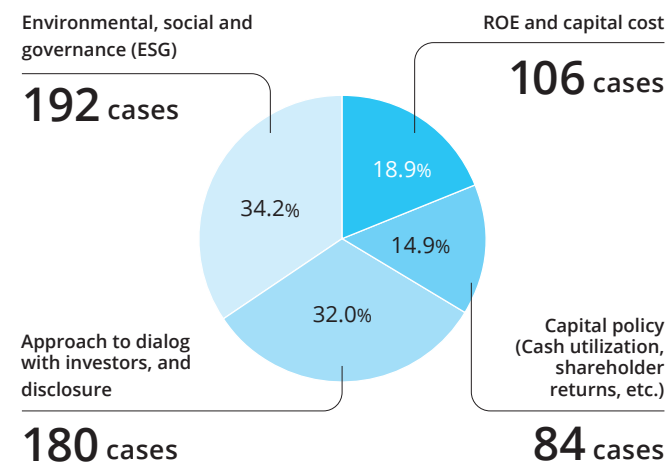
The Corporate Research Team made efforts to enhance engagement as constituting a major principle of their activities as analysts. Specifically, after classifying engagement into categories, including "strong-type engagement," which involves direct and active interventions to encourage management tiers to institute improvements, respective themes were designated for companies targeted for engagement, with milestone management promoted in terms of initiatives to tackle and address issues as regards awareness, sharing, resolution effort, and resolution. In addition to consolidating the infrastructure to share engagement progress statuses with fund managers, progress statuses and policies for future initiatives are shared at morning meetings. We have also deepened ties with the Engagement Team and are promoting joint engagement activities between our corporate research analysts and fund managers.



Stewardship Team

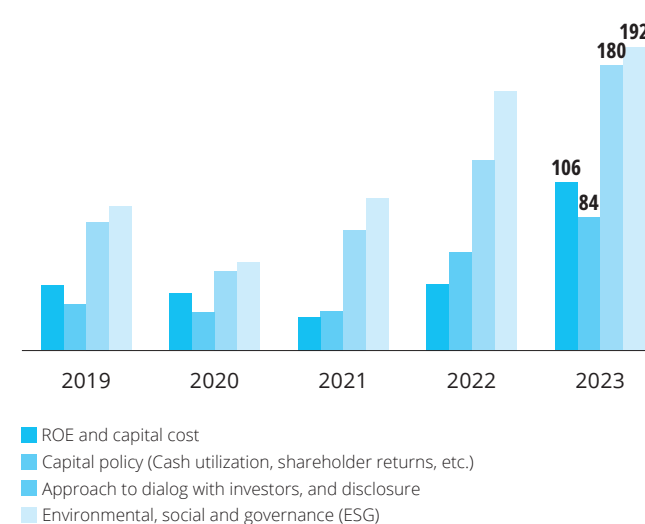
Dialogs on proxy voting and resolution of sustainability issues

Activities status in the term under review



Note: Some cases are included in more than one category, as the dialog in a given meeting may embrace multiple perspectives.

Engagement meetings by theme



Overview

A total of eight members (as of the end of December 2023) of the Stewardship Section's Responsible Investment Department have main responsibility for holding meetings that are focused primarily on investee companies' corporate governance and on the exercise of voting rights. The Stewardship Team collects information from the investee company that is needed for making decisions regarding the exercise of voting rights. In addition, during the course of the dialog with the investee company, the Team outlines the proxy voting strategy and Daiwa AM's expectations of the investee company in terms of corporate governance, with the aim of having consensus with the investee company. In recent years, the content of dialogs has covered a wide range of topics, including medium- and long-term management, capital strategies, and ESG-related initiatives, with themes outside the exercise of voting rights and governance also being covered. Furthermore, although Daiwa AM strives to ensure a clear division of responsibility between the Stewardship Team and the Corporate Research Team, these two teams work collaboratively to engage in dialog with investee companies; for example, members of both teams may be asked to attend meetings, when necessary.

Focus points

In the term under review, we focused on conducting dialogs with outside directors as well as dialogs with proposing shareholders at investee companies. Dialogs with outside directors were conducted from the perspective of examining how the independence and effectiveness of the board of directors is appropriately ensured, and how outside directors, as the voice of minority shareholders, contribute to increasing corporate value. For the dialogs with proposing shareholders, we endeavored to engage in the exercise of voting rights from more neutral perspectives to contribute to improvements to corporate value over the medium to long term by conducting dialogs not just for those on the corporate side as has traditionally been the case, but by also actively engaging in dialogs with proposing shareholders who could be referred to as activists. In the next fiscal year, we plan to actively engage in both conventional passive engagement, and in issue resolution-type engagement focused on improving Daiwa AM's materiality.

Daiwa AM's Vision for Investee Company Best Practice

Daiwa AM defines its vision of investee company best practice for the sustainable enhancement of corporate value as outlined below. Daiwa AM will continue to use engagement, etc. to encourage investee companies to adopt these measures.

Key Issues		Best Practice
Climate change / Natural capital Environmental	Climate change	<ul style="list-style-type: none">By formulating and analyzing climate change scenarios in line with the TCFD framework, the company identifies transitional risks, physical risks and business opportunities.The company implements quantitative monitoring of greenhouse gas emissions, emissions per unit of production, and the anticipated risks and opportunities.The company formulates a concrete roadmap and milestones for achieving carbon neutrality by 2050, and explains the progress made on an annual basis. It is also desirable that the company should set a goal of reducing emissions by at least 50% by 2030, in line with Daiwa AM's NZAMi intermediate goals.The company formulates and implements a business strategy that takes both risks and opportunities into account, and implements the summarizing and evaluation of activity implementation status.
	Natural capital	<ul style="list-style-type: none">The company performs a "stocktaking" of business continuity risks by identifying links between natural capital (forests, water resources, mineral resources, biodiversity, etc.) and its own business activity, and by analyzing its impact on the natural environment and the extent to which it is dependent on the natural environment. The company identifies its materiality on the basis of this analysis.The company incorporates natural capital considerations into its management policy.
Social responsibility / Human capital Social	Social responsibility	<ul style="list-style-type: none">The company formulates a concrete human rights policy based on international human rights standards.The company implements human rights due diligence and auditing that also covers stakeholders in the supply chain on an ongoing basis, and formulates improvement strategies to address the due diligence results and the issues found.
	Human capital	<ul style="list-style-type: none">The company formulates a human talent strategy that is integrated with its business strategy. The content of the human talent strategy includes measures relating to initiatives for recruiting and retaining first-rate human talent, frameworks and initiatives for human talent cultivation, and initiatives for enhancing employee engagement.Besides announcing concrete measures that enunciate how the company will implement initiatives to promote active participation by women, the company will also formulate initiatives aimed at reducing the disparities between male and female employees, based on gender-specific, quantitative indicators. It is desirable that, in the future, the company should have female directors account for at least 30% of the membership of the board of directors. It is also describable for the company to put in place a framework (for talent pooling) that facilitates the ongoing appointment of female directors from within the company.The company formulates initiatives and concrete measures aimed at ensuring not only gender diversity, but also diversity in terms of nationality, age, experience, etc.
Measures aimed at corporate value enhancement Governance	Governance framework	<ul style="list-style-type: none">The company has a board of directors composition that is appropriate and effective in terms of best practice. From the perspective of enhancing understanding of the board's effectiveness, it is desirable that the main initiatives decided on and discussions held at board meetings, etc. should be disclosed.The company formulates processes and criteria for decision-making in regard to management team succession. Besides outlining the knowledge, experience and capabilities that directors are expected to possess, the company also formulates a skill matrix and a director allocation plan for the future.The company does not adopt takeover defense measures.The company discloses the basic approach and philosophy that underpins its director's remuneration system. The company also adopts malus provisions and claw-back provisions.The company divides compensation into fixed compensation, short-term incentive compensation and long-term incentive compensation. Short-term incentive compensation is linked with and evaluated in relation to the degree of achievement of strategic objectives; long-term incentive compensation is linked with and evaluated in relation to corporate value. It is desirable for the share of total compensation held by long-term incentive compensation to be increased, within appropriate limits. Long-term incentive compensation should also be incorporated into compensation for outside directors where this would contribute to the enhancement of corporate value.The company considers the desirable number of members of the board, with a view to promoting a lively exchange of views at board meetings, to be around 10 at most.
	Risk management	<ul style="list-style-type: none">The company formulates rules governing diversity, human rights, supply chain, data security, etc.The company's internal auditing requires the maintenance of a direct reporting line to the board of directors and the board of auditors.It is desirable that the company should establish a framework for ensuring group-wide internal controls, and that the internal reporting system should provide multilingual support in line with the internationalization of corporate activities.The company will put in place a framework so that, in the event that misconduct or a scandal occurs, the reasons why the internal controls system did not function properly will be thoroughly investigated, strategies will be formulated to prevent reoccurrence, and the implementation and effectiveness of these strategies will be confirmed and verified on a periodic basis.
	Improving capital efficiency	<ul style="list-style-type: none">The company implements the following measures so as to raise ROE above equity cost and realize a continued, steady expansion of the equity spread.<ul style="list-style-type: none">The company formulates a long-term vision, and formulates a medium-term management plan through back-casting from this.The company's medium-term management plan clearly specifies the growth strategy, and the company monitors progress status on a regular basis with respect to the investment planning and key measures needed to achieve this.The company considers withdrawing from or selling off businesses and assets with low capital efficiency where there is no prospect of improvement. The company will also work actively to reduce cross-shareholdings.The company will formulate an appropriate approach to capital structure and shareholder returns.
	Communication	<ul style="list-style-type: none">The company compiles an integrated report and/or ESG report, and also compiles detailed supplementary data to accompany its financial results. The company also implements timely disclosure of other information.The company creates opportunities for dialog between senior management, outside directors, employees and shareholders, respectively, at least once a year. The company also holds regular business presentations and site visits, etc.The company's management philosophy, long-term vision and business plan are consistent with one another and are able to appeal to stakeholders.The company's outside directors are aware of where the company needs to be, are capable of confirming and pointing out the company's problems, and are provided with adequate information by the company.IR personnel have access to all necessary information for engaging in dialog with investors, and the management team receives feedback on the content of dialog with investors.In regard to initiatives relating to key ESG issues, the company implements all necessary disclosure adequately, and also engages in dialog with stakeholders.

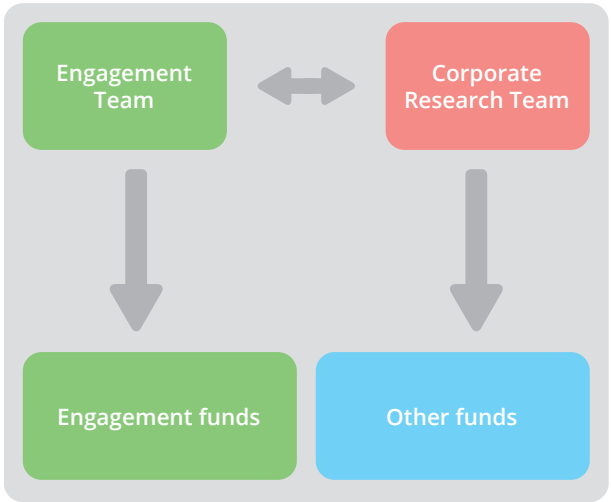
Engagement Plan for the Next Fiscal Year

Enhanced collaboration between the Engagement Team and the Corporate Research Team

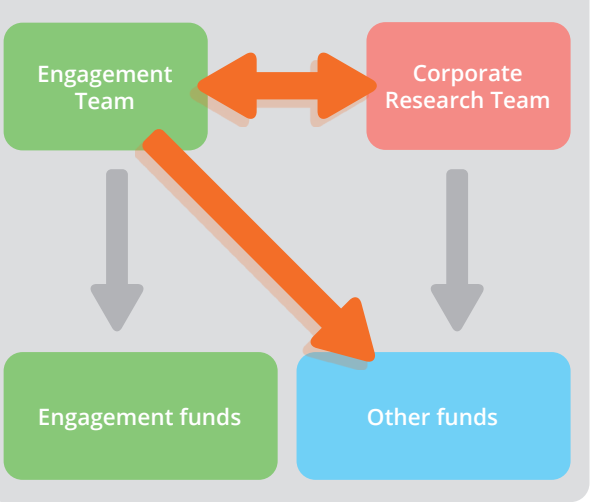
While fund managers in the Engagement Team and analysts in the Corporate Research Team have previously worked together when required, we are now making efforts to deepen this collaboration. Doing so will enable us to improve the quality of engagement conducted by the Engagement Team, as well as to facilitate more active engagement by Daiwa AM as a single entity in investee companies with which engagement is conducted. We will

thereby aim to realize even greater benefits from the improved investment performance that engagement brings.

To date



Going forward



Utilization of a Japanese version of the Drucker Institute Score

In 2022, Daiwa AM formed a comprehensive business alliance with the United States' Drucker Institute, and as part of this alliance, have jointly developed a Japanese version of the Drucker Institute Score for Japanese companies. The Japanese version of the Drucker Institute Score will be used to quantify human capital, intellectual property, and other capabilities which financial data fails to capture, thereby actively increasing the effectiveness of engagement.



Enhancing "lingagement" and continuation of the ESG Meetings

We will continue to provide opportunities for exchanges between investee companies and introductions of best practice companies as part of our "lingagement" initiatives. In addition, we will continue to conduct our ESG Meetings, which have been held since 2021.



Enhancing passive engagement

As previously described, we will actively engage in passive engagement to improve investment performance, and thereby increase fiduciary returns with respect to passive fund investment. This will initially involve Daiwa AM encouraging companies that we judge to have high ESG risks based on our materiality to take action to reduce those ESG risks. By doing so, we will continue to encourage them to improve their corporate value over the medium to long term.