

# Guidelines for the Future

## 1 Materiality

Key areas in relation to the goal of enhancing investment companies' value over the medium to long term, and of realizing sustainable growth

Guidelines for the Future  
1 Materiality

Transformation That Begins with Dialog  
2 Engagement  
3 Proxy Voting

Responsible Investment Framework  
4 Sustainable Investment  
5 Stewardship

Achievements over the Past Year  
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## Material ESG Issues

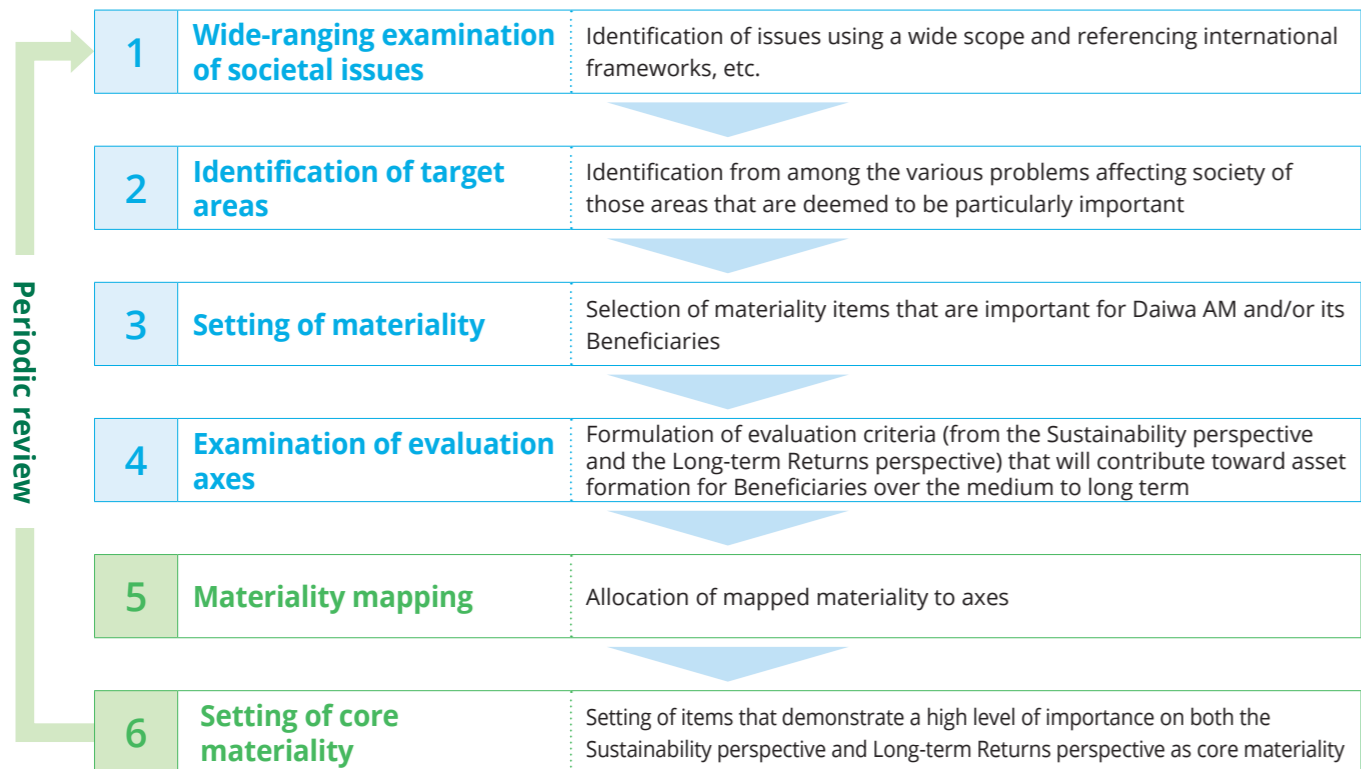
Through its asset management business, Daiwa AM aims to make a positive contribution toward Beneficiaries' asset formation over the medium to long term. Materiality at Daiwa AM refers to key issues (materialities) which have been set with the aims of enhancing the medium- to long-term value and sustainability of investee companies and helping to maintain the sustainability of society as a whole. To this end, Daiwa AM strives to develop an

accurate picture of the state of individual enterprises and of industry as a whole, and to share its understanding. Daiwa AM's materiality is comprised of perspectives relating to sustainability, including ESG in general. We then analyze Daiwa AM's materiality from two perspectives—Sustainability, and Long-term Returns—and specify high materialities as core materialities for both.

## Core materiality identification and analysis process

There is a wide range of ESG and sustainability issues relating to corporate activity. To address these issues, it is vital to focus on making effective use of limited resources, with a focus on solving problems in the way that is most efficient in terms of realizing sustainable growth and enhancing corporate value over the medium and long term. Daiwa AM has identified target areas from the

various problems affecting society, and then taken the maximizing of Beneficiaries' returns over the medium and long term as the yardstick which serves as the basis for identifying core materiality, which in turn is being utilized in engagement with investee companies and in proxy voting.



## Target Areas

<b>Climate change</b>	This is an important issue that is directly related to the generation of corporate value and to resilience. It is vitally important to realize the reduction of greenhouse gas (GHG) emissions (to achieve the goal of Net Zero emissions), to undertake the transition to decarbonization technology, and to implement climate risk disclosure.	<b>Human capital</b>	The strategic utilization of human capital and the promotion of DE&I are the wellsprings of growth and innovation. Providing a motivating work environment and enhancing employee well-being are directly linked to maximizing employees' capabilities and strengthening competitiveness.
<b>Natural capital</b>	This is the foundation that supports sustainable corporate activity. The safeguarding of biodiversity, resource recycling, and measures to address environmental risk are all vital for enhancing corporate value over the long term.	<b>Social responsibility</b>	Ensuring respect for human rights and implementing sound supply chain management are vital if a company is to fulfil its responsibility to society. Companies today need to attach due importance to their working environment and to human rights risk, so that they can contribute toward the building of a society in which people are able to enjoy good health and peace of mind.
<b>Governance</b>	Sound corporate governance and robust asset management are vital for enhancing corporate value. Risk management, capital, efficiency, corruption prevention, and taxation transparency all have a key role to play in strengthening management foundations.		

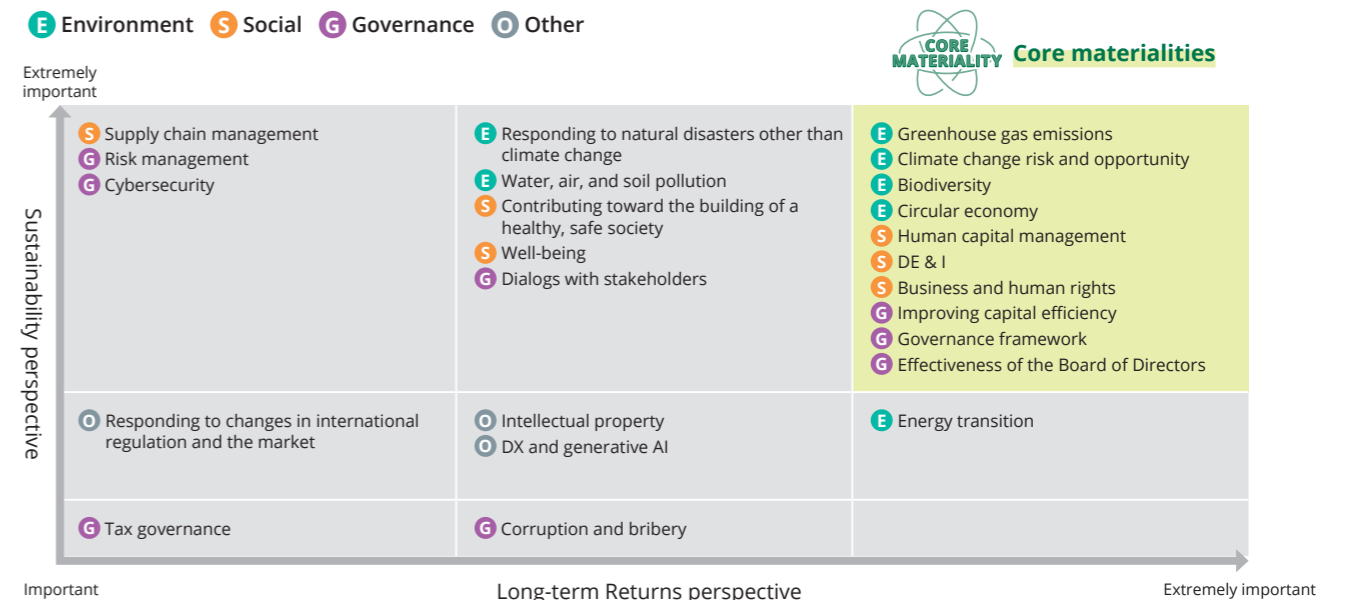
## Materiality

### Key issues domains

### Specific points of focus

Information disclosure	<b>E</b> Climate change	<ul style="list-style-type: none"> <li>Greenhouse gas emissions</li> <li>Energy transition</li> </ul>	<ul style="list-style-type: none"> <li>Climate change risk and opportunity</li> </ul>
	<b>E</b> Natural capital	<ul style="list-style-type: none"> <li>Biodiversity</li> <li>Circular economy</li> <li>Responding to natural disasters other than climate change</li> <li>Water, air, and soil pollution</li> </ul>	
	<b>S</b> Social responsibility	<ul style="list-style-type: none"> <li>Business and human rights</li> <li>Supply chain management</li> </ul>	<ul style="list-style-type: none"> <li>Contributing toward the building of a healthy, safe society</li> </ul>
	<b>S</b> Human capital	<ul style="list-style-type: none"> <li>Human capital management</li> </ul>	<ul style="list-style-type: none"> <li>DE&amp;I</li> <li>Well-being</li> </ul>
	<b>G</b>	<ul style="list-style-type: none"> <li>Governance framework</li> <li>Improving capital efficiency</li> </ul>	<ul style="list-style-type: none"> <li>Effectiveness of the Board of Directors</li> <li>Risk management</li> <li>Cybersecurity</li> <li>Dialogs with stakeholders</li> <li>Tax governance</li> <li>Corruption and bribery</li> </ul>
	<b>Other</b>	<ul style="list-style-type: none"> <li>Intellectual property (IP)</li> <li>Digital transformation (DX)/generative AI</li> <li>Responding to changes in international regulation and the market</li> </ul>	

## Materiality Map



### Strategy for materiality-oriented dialog

With the aim of enhancing sustainable corporate value, Daiwa AM has formulated an Engagement Policy based on the materiality identified as outlined above. This Engagement Policy covers not only management strategy, communication with investors and disclosure, but also a wide range of materiality topics that are directly linked to corporate value creation, including climate change, natural capital, governance, human capital, corporate social responsibility, etc.

By using these topics as the basis for multi-faceted verification of companies' strategies, response to risk, growth opportunities, etc., and undertaking a comprehensive assessment of companies' overall status (both financial and non-financial), Daiwa AM is actively promoting engagement that emphasizes stakeholders' overall interests and information disclosure. Through these initiatives, Daiwa AM is aiming to realize dialog that will generate value for both investee companies and Daiwa AM itself.

#### Engagement Policy (extracts)

##### Dialog

- We recognize the importance of constructive dialog (engagement) with companies and others in fulfilling our fiduciary responsibilities.
- We will strive to accurately grasp the fundamentals of companies and share our perceptions, including non-financial aspects as well as financial aspects.
- In order to improve the medium- to long-term value and sustainability of corporations and other entities, we believe it is important to appropriately allocate profits to all shareholders.
- We will not encourage the provision of insider information, including material non-public information, at the time of dialog. In the event that we obtain such information, we will handle it appropriately and request that the company disclose it promptly.



#### Perspectives emphasized in dialog (the ESG perspective references the materiality outlined on the previous page)

##### On corporate strategy

- Concept behind the corporate philosophy, management policies and initiatives for instilling them throughout the company
- Clarification of value creation processes, business models and vision for the future
- Approach to determining business domains and allocating management resources

##### On dialog and disclosure with investors

- Basic approach to IR
- Approaches to timely and fair disclosure
- Initiatives for dialog and disclosure from a medium-to long-term perspective
- Initiatives for providing opportunities for dialog with various divisions

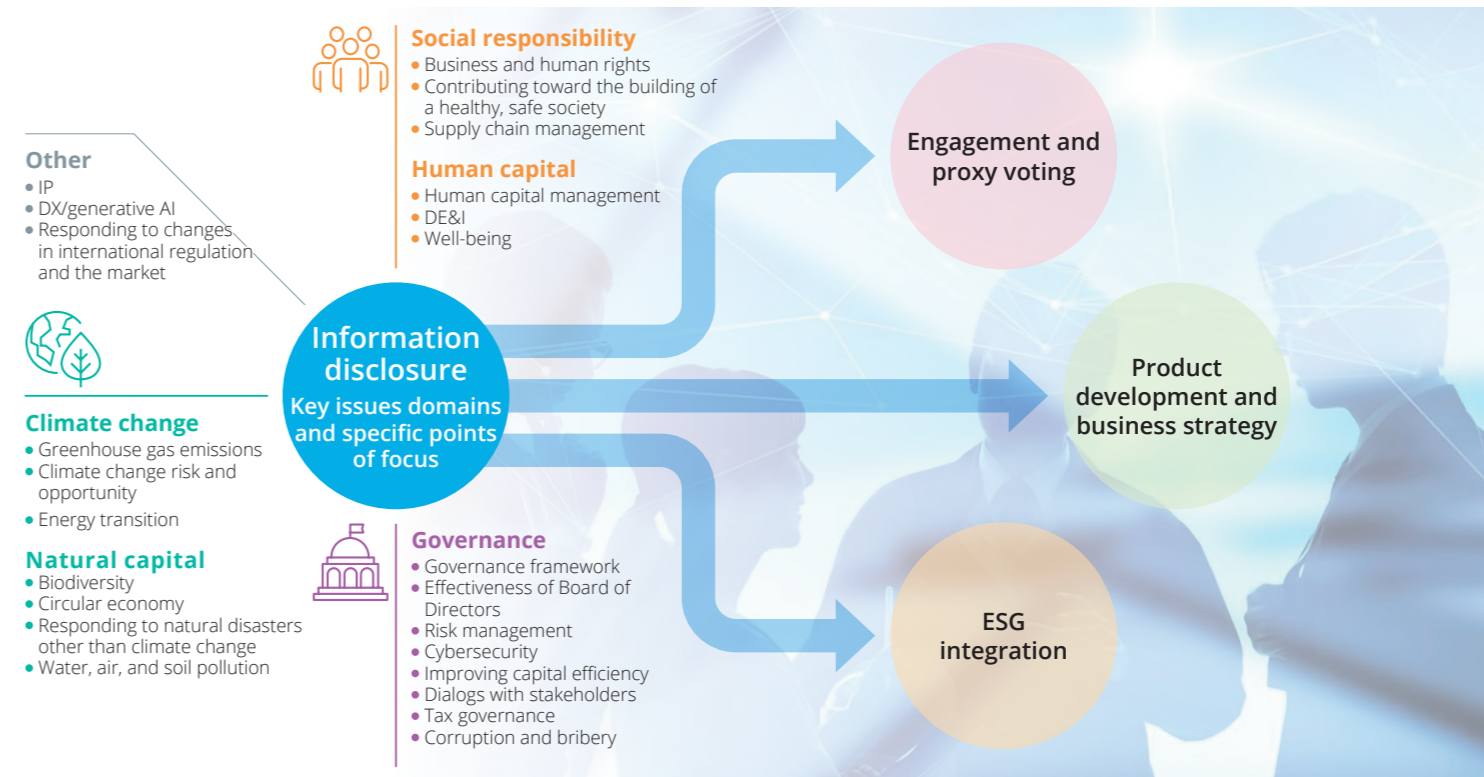
+ WEB For more details, please visit the following webpage:  
 Engagement Policy  
[https://www.daiwa-am.co.jp/english/stewardship/engagement\\_policy.html](https://www.daiwa-am.co.jp/english/stewardship/engagement_policy.html)



### Integration in investment and business activities

In addition to being reflected in engagement, proxy voting, and investment decisions, the materialities Daiwa AM has identified will be actively applied to a wide range of business activities, including product development and

business strategy. For companies showing no signs of action toward improvement following engagement, we will consider, for example, voting against proposals for the election of directors during proxy voting.



### Adjustment of materiality items

In line with the process outlined above for identifying and analyzing materiality, in October 2025 Daiwa AM adjusted its materiality items. In relation to factors that have the potential to affect the sustainability and competitiveness

of companies, etc., a new materiality item was added from a long-term perspective, and the name of one item was changed in order to clarify the exact meaning of the materiality.

#### Newly added item

Area	Specific point (newly added)	Reasons / Background
Governance	<b>Effectiveness of the Board of Directors</b>	Although a governance system has been formally established, there is still room for improvement in terms of the system's effectiveness.

#### Changed item

Area	Specific point (old → new)	Reasons / Background
Governance	Old: Capital efficiency improvement (cross-shareholdings, etc.) ↓ New: <b>Capital efficiency improvement</b>	It is important to emphasize that capital efficiency improvement initiatives are not limited to reducing cross-shareholdings.

#### Eliminated item

Area	Materiality area	Reasons / Background
Governance	<b>Enhancing corporate value</b>	Enhancing corporate value is a topic that does not relate only to governance.

## ➤ Initiatives Related to Our Core Materiality

### Climate Change

#### Issues recognized

Today, there is an urgent need for measures to address climate change to be implemented on a global scale. In line with the Paris Agreement on climate change that was signed in 2015, countries throughout the world have set targets for reducing greenhouse gas (GHG) emissions, and are striving to keep the global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius, with the aim of realizing a sustainable society.

However, the World Meteorological Organization (WMO) has reported that, in 2024, the global average near-surface temperature was 1.5 degrees Celsius above the pre-industrial baseline for the first time ever, making this the hottest year since records began. According to the Sixth Assessment Report published by the Intergovernmental Panel on Climate Change (IPCC) in 2021, in the worst-case scenario, by the end of this century average global temperatures may have risen by as much as 5.7 degrees Celsius.

Natural disasters, such as torrential rains and drought, resulting from abnormal climatic conditions are becoming more frequent year by year, and as global temperatures rise there will be an increased risk of these becoming even more serious. Global warming already poses a threat to ecosystems and to human life, so there is an unavoidable need to speed up the adoption of climate change response measures.

#### Our thinking and approach

Daiwa AM believes that, in terms of responding to climate change, engagement is an extremely important thing for us to focus on. This is because, faced with the challenging, long-term problem of needing to implement decarbonization, idealism is not enough; it is ongoing dialog between investors and investee companies based on transition plans reflecting the individual circumstances of investee companies that will lead to effective solutions.

With this in mind, we are encouraging companies with high GHG emissions to transition to a new focus on strengthening corporate value over the medium to long term and on realizing sustainable management, by actively undertaking engagement with them, and through constructive dialog aimed at reducing emissions.

Over the last few years, investment opportunities in emerging economies have grown; in particular, Daiwa AM has steadily increased its investment in Indian companies. India's rapid economic growth and rising population have led to increased demand for energy, but the country is still heavily dependent on coal-fired thermal power generation. Given India's distinctive energy environment and the variation in regulations and incentive mechanisms between states (and between the state governments and the national government), besides undertaking direct engagement with investee companies, Daiwa AM is also

While such measures need to be considered from a wide range of perspectives, including that of new technology development, first priority must be given to further expanding the adoption of renewable energy and energy-saving technology. In particular, it is vital to have a timetable for reducing the emissions of companies in the energy sector, etc. with high GHG emissions, and so making the most effective possible use of existing technologies, and striving to do the best we can now, will determine how climate change develops in the future.

As investors, we hope that investee companies will aim for a sustainable increase in corporate value by working to reduce their GHG emissions and reducing climate change related risk, while also securing new business opportunities from their response to climate change. To this end, going forward there will be an even greater focus on encouraging investee companies to expand their disclosure of information relating to climate change and to formulate transition plans for accelerating the reduction of GHG emissions, as well as taking concrete action to implement them.

Daiwa AM believes it is possible to achieve both economic growth and decarbonization. Looking ahead, we will continue to provide proactive support for investee companies initiatives, so that, by realizing a sustainable society, a better global environment can be handed down to future generations.

arranging for external organizations to undertake engagement on its behalf. Rather than just asking companies to disclose information, Daiwa AM is conducting effective dialog that takes into account the business structure and emissions sources of each individual company, thereby promoting decarbonization from a global perspective (see pp. 57-58 of this report).

In addition, we are investing in companies that can contribute toward combating climate change through the creation and sale of a wide range of ESG funds. By providing support for the development and widespread adoption of revolutionary new technologies, we are aiming to help bring about the realization of a society that is steadily making steps toward decarbonization.

Furthermore, through active participation in various types of initiatives, we are taking on responsibilities and setting goals in relation to our own company's actions. For example, in relation to our involvement in the Net Zero Asset Managers initiative (NZAMi), we have set goals for GHG emissions reduction, and have formulated concrete action plans (see p. 26 of this report).

Going forward, we will be aiming to further strengthen engagement with investee companies that have high GHG emissions, and undertaking investment activities that are aimed at helping to realize a sustainable society.

# TOPICS

## Visiting a GX project in Hokkaido

### Visiting Japan's largest GX project through collaboration with Sapporo City

The need to respond to climate change is an urgent issue that is global in scope. However, the measures that countries around the world are taking in response cannot really be said to be adequate, and there is no getting away from the fact that there are growing doubts as to whether Japan will achieve its goal of becoming carbon neutral by 2050, and regarding the emissions reduction targets that the government has set. Thanks to the collaboration of

Sapporo City, Daiwa AM recently had the opportunity to visit and study a decarbonization project that is the largest Green Transformation (GX) project of its kind in Japan. The insights and case studies learned through this experience will, through engagement with companies in Japan, help to strengthen measures to address climate change, and will also contribute to the growth of the sustainable finance market in Japan.

### CCS is a powerful option for realizing decarbonization

Carbon dioxide capture and storage (CCS) is widely expected to have a key role to play in addressing the problem of global warming. The CCS demonstration facility at Tomakomai that the team from Daiwa AM visited uses an amine-based absorption method to capture carbon dioxide emitted from factories, etc., and then injects it into a sandstone layer deep below the seabed for storage. The aims of this demonstration project are to implement verification testing for an integrated system, and to confirm that the system is safe and can be used with peace of mind. The facility began injecting CO<sub>2</sub> into the storage reservoir in 2016; by the time that injection ceased in 2019, a total of 300,000 tons of CO<sub>2</sub> had been stored. There has been no leakage from the storage reservoir, including during the Hokkaido Eastern Iburu Earthquake occurred in 2018.

Issues that need to be addressed in order to realize widespread adoption of CCS include bringing down the cost, developing appropriate methods for CO<sub>2</sub> transportation, and finding suitable storage sites. Separation membrane development is seen as being key to reducing the cost of CCS. Regarding the identification of suitable sites, surveys are currently underway throughout Japan aimed at commercialization of CCS by 2030.

The adoption of CCS technology is seen as very important for ensuring a steady supply of electric power (demand for which is expected to increase) while also realizing decarbonization, and keeping the overall cost of electric power under control.

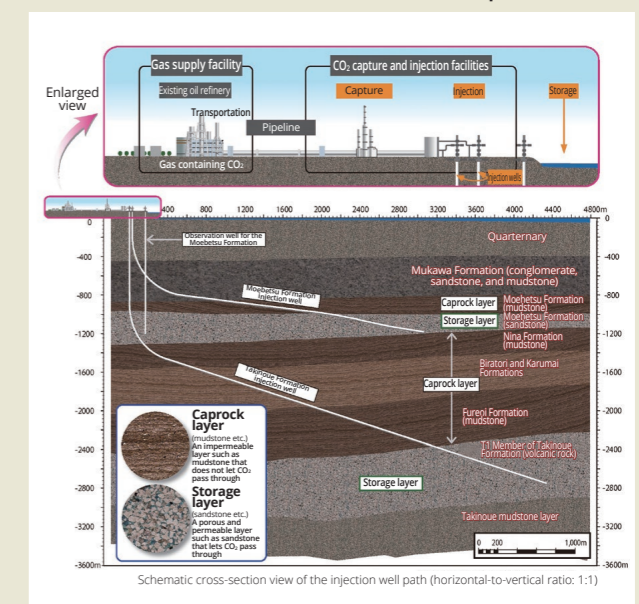
### Offshore wind power has great potential

The Ishikari Bay New Port Offshore Wind Farm, which began operation in January 2024, is one of Japan's largest wind farms in commercial use, with 14 large wind turbines, each with a capacity of 8,000 kW. The wind farm is connected to 180,000 kWh of battery storage capacity; in this way, renewable energy, which is often criticized as being unstable, can provide a stable supply of electric power.

What makes this wind farm special is that it is the first facility of its kind in Japan to use a jacket structure for the turbine foundations; as a result, the wind turbines are, by value, 60% domestically produced.

In Japan, due to the dramatic rise in construction costs, some companies have announced that they are withdrawing from wind power development projects. However, given that Japan is surrounded by the ocean, wind power has great potential, and the government has set a goal of realizing wind power projects with combined generating capacity of 10 GW by 2030, and 30 – 45 GW by 2040. The expansion of wind power has a vital role to play in realizing widespread adoption of renewable energy.

#### Schematic view of the CCS demonstration plant



Source: Japan CCS Co., Ltd. (JCCS) website

#### Ishikari Bay New Port Offshore Wind Farm



Photo by Daiwa AM

➤ Initiatives Related to Our Core Materiality

## Biodiversity and Natural Capital

### Issues recognized

Many companies rely on ecosystems and natural capital, both domestic and overseas, in their business activities, and many of them exert a major impact on ecosystems. Initiatives aimed at safeguarding biodiversity and natural capital can help to reduce business risk and uncertainty for enterprises that are dependent on them, while also enhancing the resilience of the company's business activities. In addition, such initiatives have the potential for generating new business opportunities, through moving into areas where the company was not previously active, such as the development of new technology, etc.

Reports published by the World Economic Forum (WEF) note that loss of biodiversity and destruction of ecosystems represent a serious crisis second only in urgency to climate change. At the same time, however, it is forecast that transitioning to a nature positive economy in which the loss of natural capital is stemmed and a more positive situation is created could result in the generation of 10 trillion dollars per year in new business opportunities and in the creation of 390 million new jobs by 2030. Within Japan, the new market that this generates could be worth around 47 trillion yen, and possibly as much as 104 trillion yen,

### Our thinking and approach

Daiwa AM believes that the conservation and sustainable use of biodiversity and natural capital are vitally important for enhancing companies' sustainability. This is because the loss of biodiversity and natural capital will lead to instability in the supply of raw materials, increasingly onerous regulation, reputational risk, etc., and can have a severe impact on corporate value.

At the same time, incorporating the safeguarding of natural capital into one's management strategy and building a sustainable business model can be expected to generate new growth opportunities and contribute toward the enhancement of corporate value over the long term.

For this reason, companies need to accurately identify the extent to which the sustainability of their business is dependent on natural capital, and determine the environment's impact on their own company and the supply chain. There is also a need to take proactive steps to safeguard biodiversity and natural capital in order to manage risks associated with natural capital and create opportunities.

The Task Force on Nature-related Financial Disclosures (TNFD), which issued its final recommendations in September 2023, has provided an international

equivalent to 16.5% of Japan's GDP.

At the Fifteenth meeting of the Conference of the Parties to the Convention on Biological Diversity (CBD-COP15), which was held in December 2022, the Kunming-Montreal Global Biodiversity Framework (GBF) was adopted, setting out new international objectives oriented toward a nature positive approach. In line with these developments, the Japanese government has formulated the National Biodiversity Strategy and Action Plan (NBSAP), which is positioned as an important strategy for securing Japan's sustainability, and the government is working to strengthen related initiatives.

At COP16, held in October 2024, broad agreement was not reached regarding the procurement of the much-anticipated international funding, and a final consensus was not reached regarding the establishment of a progress monitoring framework for the GBF and the setting of related indicators, although the GBF notes that the total amount needed for the protection and restoration of nature by 2030 will be 200 billion dollars. Daiwa AM focuses on both the risks and the opportunities in relation to biodiversity and natural capital.

framework that companies can use to assess and disclose their relationship with nature.

Daiwa AM believes that it is important for investee companies to prioritize the accurate identification of risks and opportunities related to biodiversity and natural capital, and therefore encourages investee companies to implement assessment and disclosure in line with the TNFD recommendations, with a particular focus on industries that have numerous interfaces with biodiversity, and on companies that have high levels of exposure to nature-related risks. Daiwa AM also implements engagement in relation to nature-positive initiatives and awareness of related issues.

Daiwa AM is convinced that avoiding the loss of natural capital and contributing to nature positive measures, and then linking these initiatives with the enhancement of corporate value, are vitally important topics.

Going forward, Daiwa AM will be proactively encouraging investee companies to implement integrated measures that incorporate that safeguarding of biodiversity and natural capital and the transition to a circular economy.

➤ Initiatives Related to Our Core Materiality

## Measures Relating to the TCFD and TNFD

In this section, we introduce measures that address climate change related issues through stewardship activities undertaken in line with the disclosure framework recommended by the ISSB (formerly TCFD). We have also begun to implement disclosure relating to natural capital, in line with the LEAP (Locate, Evaluate, Assess, Prepare) approach recommended by the TNFD.

### Disclosure items

#### Governance

Daiwa AM addresses ESG issues, including risks relating to climate change and natural capital, in accordance with our General Policy on Stewardship Activities, which has been decided on by our Stewardship Committee, and with our ESG Investment Policy, which incorporates sustainability considerations. Related activities and policies are deliberated on and monitored by the Stewardship Committee. We are currently making preparations for the

#### Framework

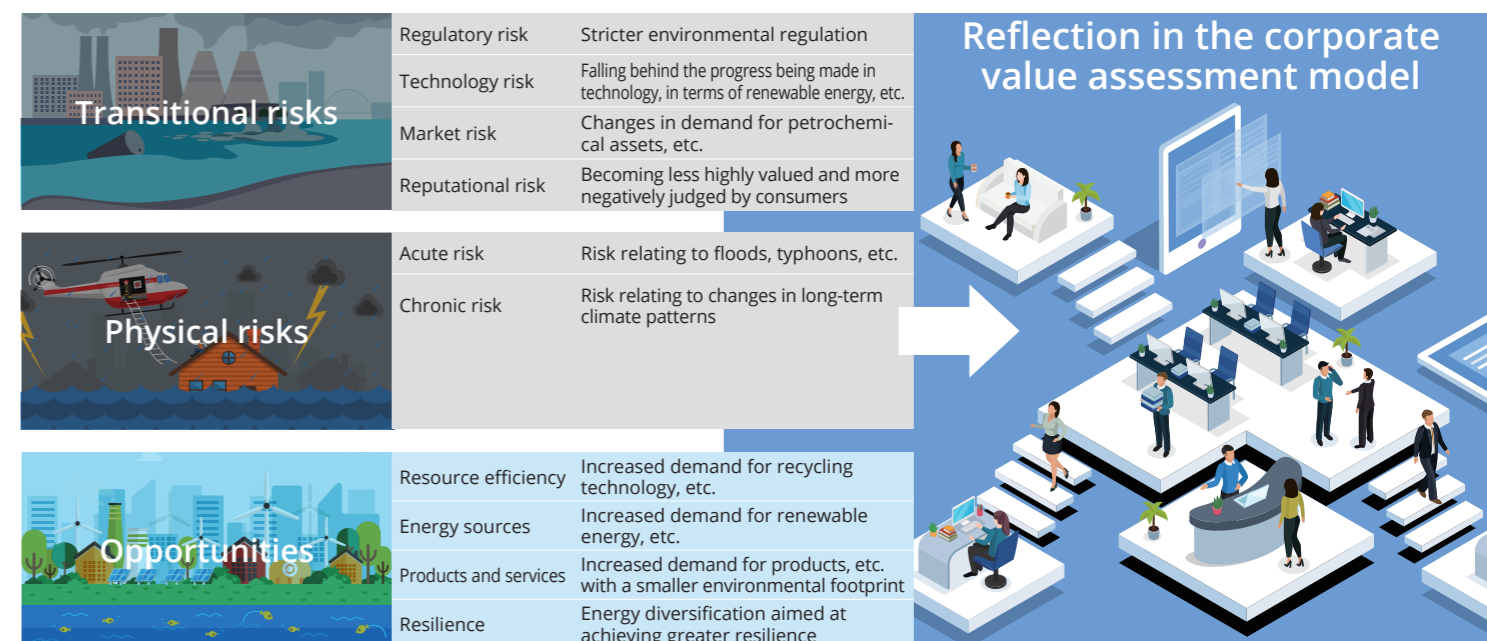


formulation of an organizational human rights policy in relation to indigenous peoples, local communities and affected stakeholders, as well as the full-scale launch of engagement activities with related companies, as recommended by the TNFD. The Stewardship Committee reports to the Board of Directors on monitoring status in relation to the ISSB and the TNFD.

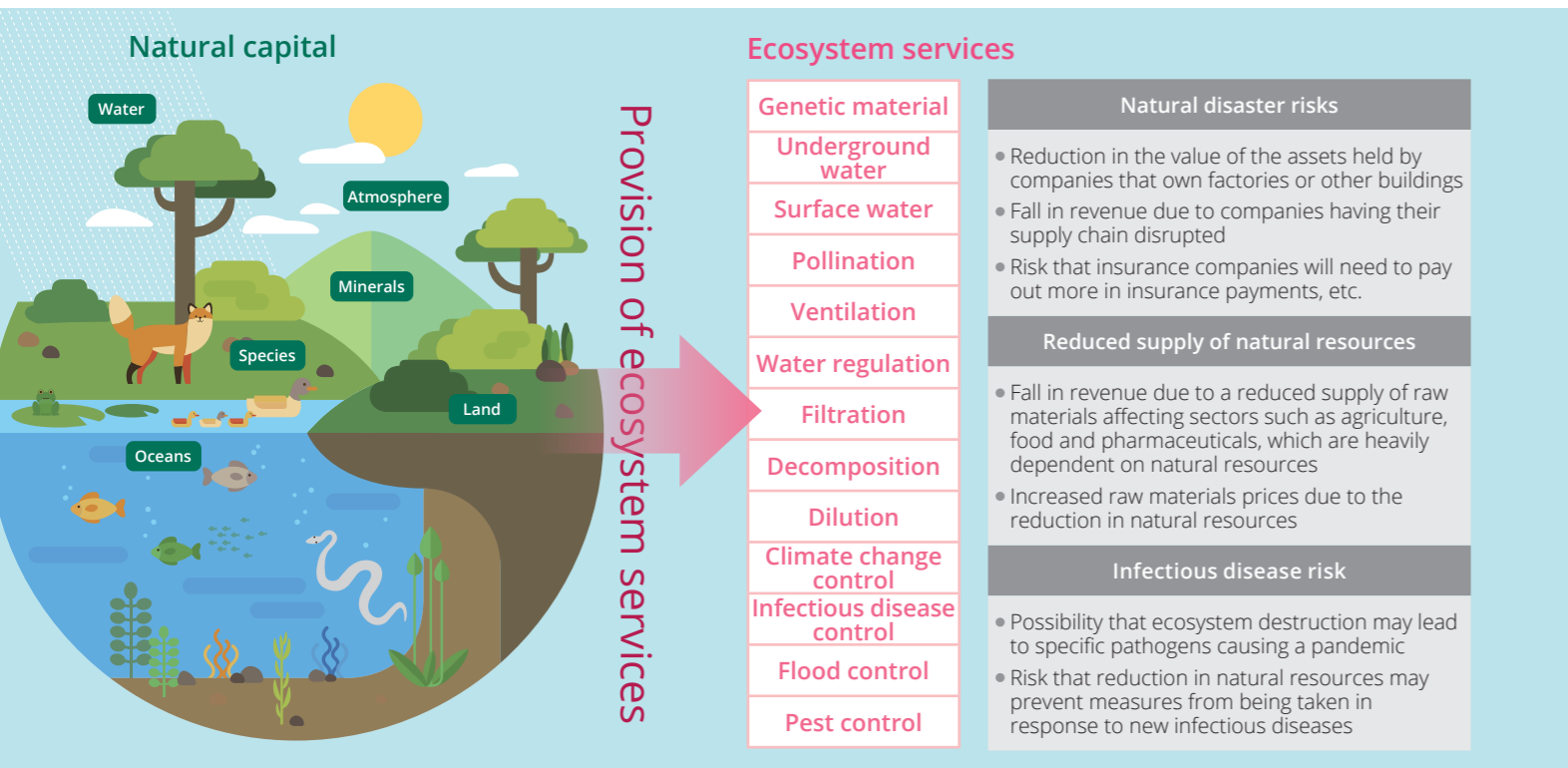
#### Strategy

The risks and opportunities relating to climate change and natural capital are reflected in Daiwa AM's corporate value assessment model, and are utilized in the selection of investee companies. We also aim, through our engagement activities, to guide companies toward a focus on decarbonization and nature-positive management, so as to enhance investee companies' corporate value. Particularly in regard to climate change, we perform scenario analysis using indicators that include conditional value at risk (CVaR) to verify portfolio risk and resilience. With regard to natural capital, we are working to identify the risk associated with destruction of natural capital, and to analyze and determine the risk borne by investee companies.

### Reflecting identified climate change related risks and opportunities in the corporate value assessment model



## Risks associated with the destruction of natural capital



## Risk management

Daiwa AM uses information disclosed by companies, data from external vendors, the research and engagement conducted by Daiwa AM itself, and dialog with companies, to monitor the risks and opportunities for investee companies relating to climate change and natural capital. Daiwa AM has also put in place a framework for utilizing external vendors' data as a basis for measuring the greenhouse gas emissions of the investee companies in our portfolio, and conducting climate change risk scenario analysis, and we perform these activities on a regular basis. With regard to natural capital, although the data available is currently limited, we are striving to identify current risks and opportunities by making effective use of various data sources recommended in the TNFD guidelines, etc.

## Indicators and targets

As greenhouse gas emissions indicators, we perform monitoring and analysis of total CO<sub>2</sub> emissions by fund and by asset class, and of carbon footprint, carbon intensity, etc. In regard to natural capital, we perform monitoring and analysis of risks and opportunities based on the information currently available to us. On the basis of this data and our own original research, we undertake engagement activities with companies to encourage them to proactively decarbonize and implement nature-positive management.

## Climate change—Analysis of the main indicators relating to total CO<sub>2</sub> emissions

Daiwa AM has compared the total carbon emissions, carbon footprint, and weighted average carbon intensity for each of the asset classes that we invest in against the respective benchmarks for each class. The carbon footprint is an indicator measuring emissions in relation to portfolio size (market capitalization), while carbon intensity is an indicator measuring carbon emissions of investee companies per unit of sales. For each of these, climate change risk management is performed appropriately by implementing analysis and monitoring. As shown in the table on the next page, emissions were categorized as Scope 1, Scope 2, Scope 3 (upstream) or Scope 3 (downstream), and the relevant emissions for each were calculated. Daiwa AM is striving to promote the decarbonization of its entire supply chain, by determining, in detail, the total carbon emissions of our investee

companies and making effective use of this information in engagement activities with investee companies.

The main indicators for Japanese equities and overseas corporate bonds were, broadly speaking, found to fall below the benchmark values. By contrast, the figures for Japanese corporate bonds exceeded the benchmarks; this was affected by the inclusion in the portfolio of the corporate bonds of electric power companies at a weight higher than the benchmark. The weighted average carbon intensity for overseas equities was affected by the fact that the stocks of Indian corporations accounted for a sizeable share of the investment portfolio.

Going forward, we will continue to utilize engagement activities, etc. to encourage investee companies to implement measures in relation to climate change.

## Part 1 Stewardship Activities

## Part 2 Corporate Sustainability

### 1 Materiality

### 2 Engagement

### 3 Proxy Voting

### 4 Sustainable Investment

### 5 Stewardship

### 6 Stewardship Activity

## Portfolios' total carbon dioxide emissions

### • Scope 1, 2

(tons of CO<sub>2</sub> equivalent)

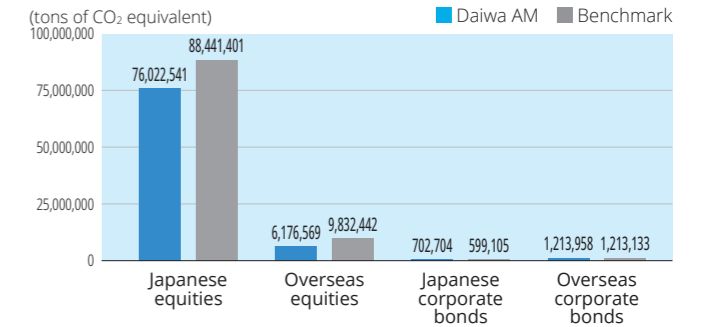
	Daiwa AM	Benchmark	Disparity
Japanese equities	7,061,629	8,571,358	-18%
Overseas equities	1,185,494	1,261,435	-6%
Japanese corporate bonds	203,221	86,627	135%
Overseas corporate bonds	180,125	212,237	-15%
Total	8,630,469	10,131,657	-15%

### • Scope 3 Upstream

(tons of CO<sub>2</sub> equivalent)

	Daiwa AM	Benchmark	Disparity
Japanese equities	24,072,359	26,946,971	-11%
Overseas equities	1,550,708	2,274,369	-32%
Japanese corporate bonds	228,312	197,761	15%
Overseas corporate bonds	329,331	307,783	7%
Total	26,180,710	29,726,883	-12%

### • Total CO<sub>2</sub> emissions (Total of Scope 1, 2, and 3)



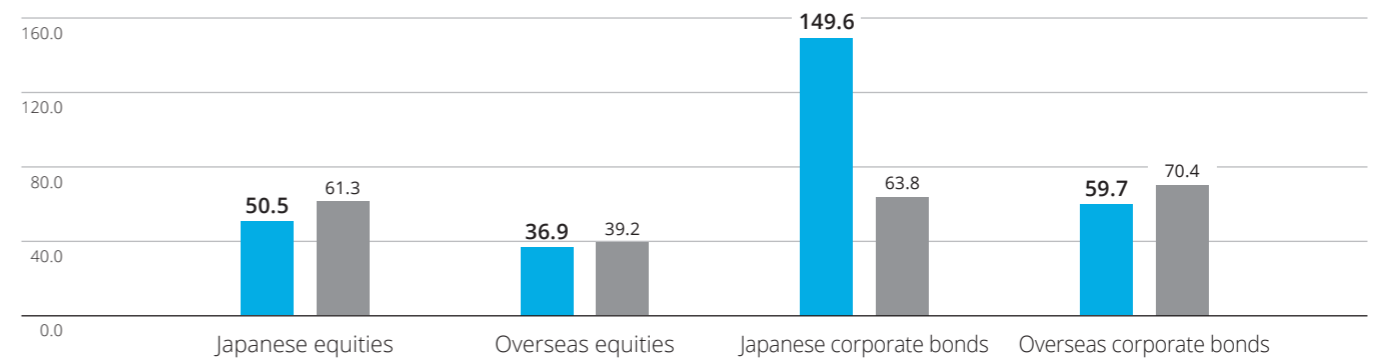
### • Scope 3 Downstream

(tons of CO<sub>2</sub> equivalent)

	Daiwa AM	Benchmark	Disparity
Japanese equities	44,888,554	52,923,072	-15%
Overseas equities	3,440,366	6,296,638	-45%
Japanese corporate bonds	271,171	314,717	-14%
Overseas corporate bonds	704,503	693,113	2%
Total	49,304,594	60,227,540	-18%

## Carbon footprint of portfolio (Scope 1, Scope 2)

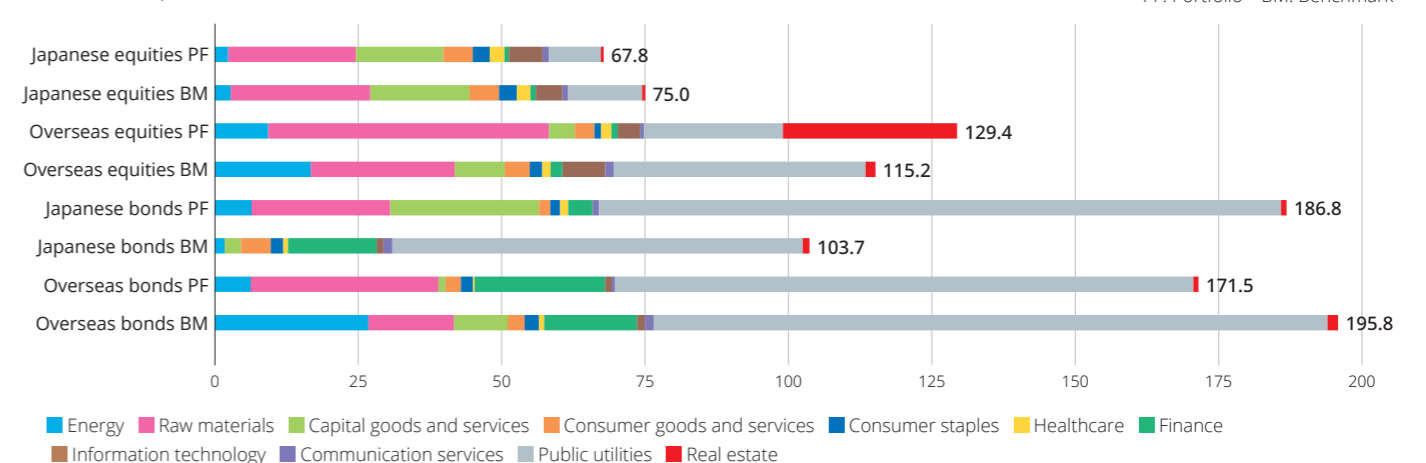
(tons of CO<sub>2</sub> equivalent/million USD invested)



## Weighted average carbon intensity of portfolio (Scope 1, Scope 2)

(tons of CO<sub>2</sub> equivalent/million USD of sales)

PF: Portfolio BM: Benchmark



Note: Benchmarks:

Japanese equities: TOPIX (with dividends included); Overseas equities: MSCI ACWI ex Japan Index; Japanese corporate bonds: Bloomberg Asian-Pacific Japan Corporate TR Index Value Unhedged JPY; Overseas corporate bonds: Bloomberg Global Aggregate ex-JPY-Corporate TR Index Unhedged USD

Source: Some information is derived from ©2025 MSCI ESG Research LLC. Reproduced by permission.

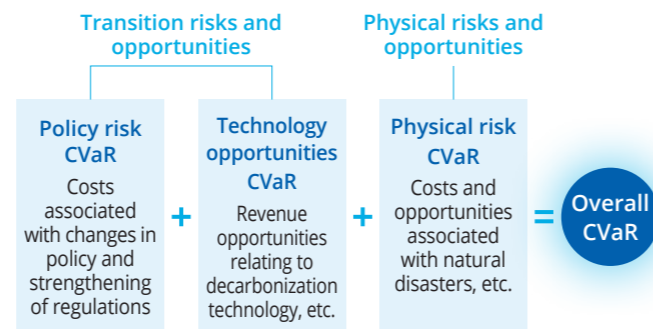
### Climate Value at Risk (CVaR) Analysis

Daiwa AM uses the Climate Value at Risk (CVaR) analysis method provided by MSCI to quantitatively assess the climate change risk associated with Daiwa AM's portfolio. CVaR is a risk assessment method that shows the extent to which future corporate value is likely to be affected by climate change.

Based on climate scenarios published by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), this analysis makes it possible to forecast the financial impact of climate change on Daiwa AM's portfolio. More specifically, the overall impact on corporate value is estimated from the perspectives of policy risk CVaR, technology opportunities CVaR, and physical risk CVaR.

The climate change risk associated with Daiwa AM's portfolio has been analyzed on the basis of the five climate scenarios outlined below.

#### Overview of CVaR



#### NGFS climate scenarios overview

	Category	Temperature rise	Scenario	Policy adoption	Technology change
1	Orderly transition	+1.5°C	Net zero achieved by 2050	Rapid, but with variation between sectors	Fast
2	Non-orderly transition	+2°C	Transition delayed	Delayed	Slow
3	Orderly transition	+2°C	Transition before a 2°C rise	Rapid and smooth	Moderate pace
4	Continued warming	+3°C	Individual countries implement their own reduction targets	NDCs	Slow
5	Continued warming	+3°C	Current policies continue	No (current policies continue)	Slow

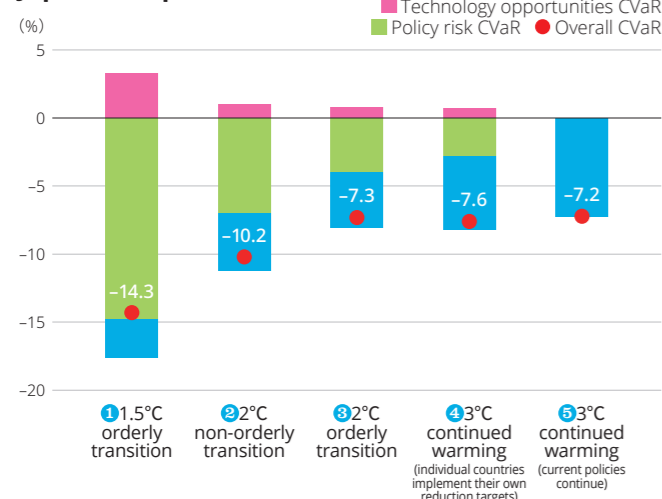
#### CVaR Analysis of Daiwa AM's Portfolio

The graph below shows the CVaR analysis results for Daiwa AM's Japanese equities and overseas equities portfolios, by scenario. The closer the scenario is to the achievement of Net Zero by 2050, the stricter the environmental legislation and the higher the carbon pricing that companies will be faced with, which in turn means a higher negative impact for policy risk. However, because in these scenarios there is a substantial increase in greenhouse gas emissions for society as a whole, the physical impact of climate change is controlled, thereby reducing the physical impact of physical risk. Furthermore, because of the increase in demand relating to low-carbon technology and renewable energy, the positive

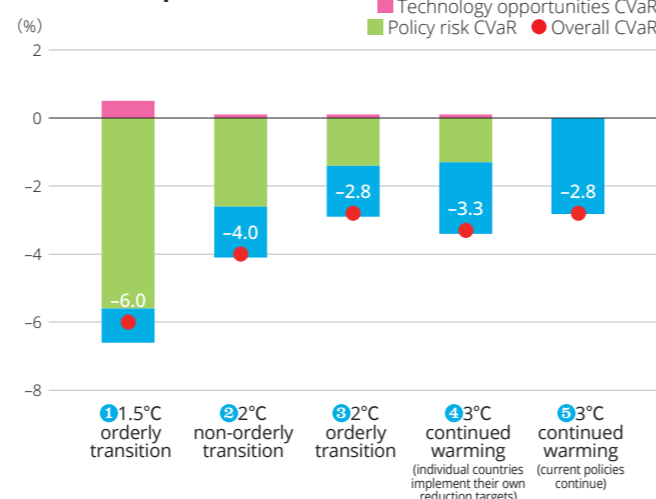
impact of technology-related opportunities is greater.

While Japanese equities and overseas equities display a similar trend in terms of CVaR, the negative impact of policy risk and physical risk is greater in the case of Japanese equities, and it could be seen that the negative impact on future corporate value would be greater. This is because, in the Japanese equities portfolio, industries with high levels of transfer risk account for a large share of total investment, so policy risk is significant. Physical risk is dependent on geographical factors; because Japan is relatively highly affected by torrential rain, flooding, heatwaves, etc., the negative impact of physical risk can be expected to be greater.

#### Japanese equities



#### Overseas equities



Note: Physical risk CVaR is based on scenarios that make assumptions regarding average loss from natural disasters, etc.

### Greenhouse gas reductions targets (SBT certification)

The figure on the right shows the percentage of companies which have obtained SBT certification from among the portfolio component issues. The SBT certification process is administered by the Science Based Targets Initiative, whereby companies set targets for reductions in greenhouse gas emissions consistent with scientific findings to mitigate increases in global average temperatures to less than 1.5 degrees Celsius. Through its engagement activities, etc., Daiwa AM encourages investee companies to obtain SBT certification.

As a result of comparing a hypothetical portfolio of all Daiwa AM's shareholdings with the benchmark, we were able to confirm that the percentage of investee companies that have obtained SBT certification is around 6.5 percentage points higher than the corresponding figure for the benchmark.

#### Percentage of companies which have obtained SBT certification

Daiwa AM	Benchmark
51.3%	44.8%

Note: The benchmark used was the MSCI ACWI Index.

### ITR Warming Potential Analysis

Implied Temperature Rise (ITR) warming potential analysis is an indicator that shows the degree to which average global temperatures will rise by the year 2100 as a result of the corporate business activities that the companies in the current investment portfolio are expected to conduct over this period. In this way, it is possible to verify whether the current investment portfolio is in line with the goal of the Paris Agreement, which seeks to "limit global warming to well below 2.0, preferably to 1.5 degrees Celsius, compared to pre-industrial levels during the period up until 2100." As

a result of comparing a hypothetical portfolio of all Daiwa AM's shareholdings with the benchmark, we were able to confirm that, although our performance was not consistent with the targets set in the Paris Agreement, it was superior to that of the benchmark.

#### Warming potential

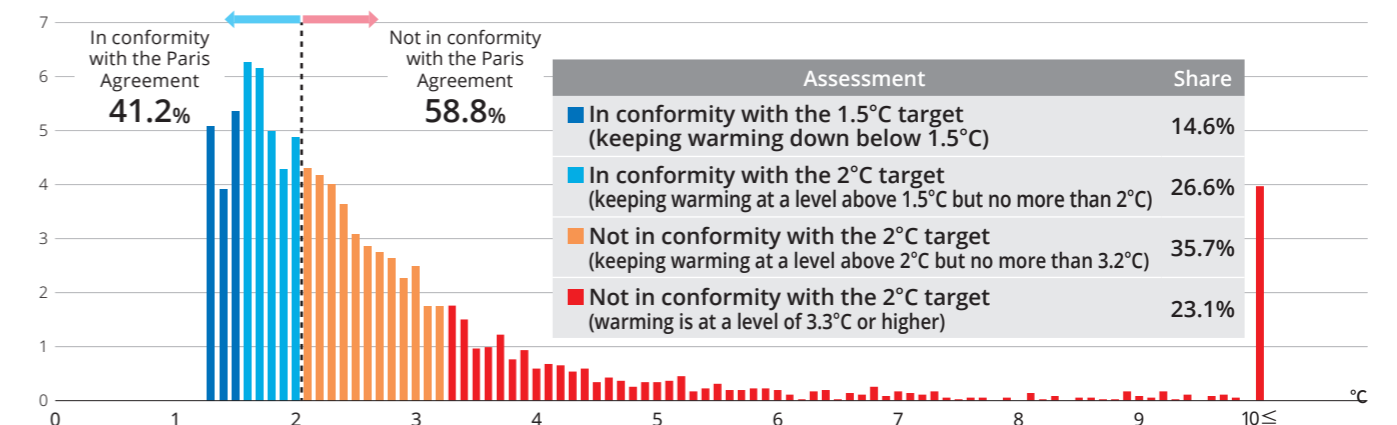
Daiwa AM	Benchmark
2.4°C	2.6°C

Note: The benchmark used was the MSCI ACWI Index.

#### Company Distribution by ITR Level

With this analysis, it is possible to implement assessment that takes into account not only companies' greenhouse gas reduction targets, but also the reliability of these targets and the progress made toward them. The figure below shows the distribution of companies by ITR level within Daiwa AM's portfolio (for all equities). The results of the analysis indicate that 41.2% of the companies included in the portfolio are in conformity with the goals set by the Paris Agreement on Climate Change, a figure which is lower than

the share of companies that have received SBT certification. Looking at the companies that had higher ITR levels, it was apparent that a high share of these companies was in sectors that have high emissions, such as public utilities and raw materials suppliers; there was also a high percentage of companies based in emerging economies, such as India. Daiwa AM is undertaking active engagement targeting these companies, encouraging them to implement measures aimed at decarbonization.



### Daiwa AM's NZAMi interim targets, and progress made toward them

Interim targets for 2030	Reduce the GHG emissions per unit of at least 67% of AUM (which totaled approximately 23 trillion yen as of October 31, 2022) by 50% compared to 2019
GHG emissions per unit, as of 2019	93 tCO <sub>2</sub> e/\$mn revenue (on a per unit of sales basis)
GHG emissions per unit, as of 2025	81 tCO <sub>2</sub> e/\$mn revenue (on a per unit of sales basis)
Engagement activities	Promoting engagement with investee companies regarding climate change, engaging in dialog with target companies

Source: Some information is derived from ©2025 MSCI ESG Research LLC. Reproduced by permission

## Natural capital—Risk analysis

### TNFD's LEAP approach

In September 2023, the TNFD released the TNFD Framework v1.0.

It provides the LEAP approach (Guidance on the identification and assessment of nature-related issues) as a method for identifying nature-related dependencies and impacts.

The LEAP approach comprises the following four phases:

**Locate:** Locate your interface with nature

**Evaluate:** Evaluate your dependencies and impacts on nature

**Assess:** Assess your nature-related risks and opportunities

**Prepare:** Prepare to respond to nature-related risks and opportunities, and to report on your material nature-related issues

Once again this year, Daiwa AM performed analysis using data from S&P Global. As the scope of S&P Global's data coverage had improved significantly since last year's report, analysis of the Locate and Evaluate stages of the LEAP approach was performed again this year.

#### • Locate (your interface with nature)

Daiwa AM has analyzed its Japanese equities portfolio and its overseas equities portfolio as of June 30, 2025.

We identified those companies that had physical assets in, and were engaging in business in, Key Biodiversity Areas (KBAs)\*1 or protected areas (PAs) \*2 as companies having risk associated with the loss of biodiversity, and we calculated their exposure to these areas.

In terms of investment share, both the Japanese equities portfolio and the overseas equities portfolio had a level of exposure of around 90%.

In terms of the number of stocks, the overseas equities portfolio was determined to have higher exposure, with a relatively high level of risk associated with loss of biodiversity.

The results also showed that, for both Japanese companies and overseas companies, most of the companies with a high market capitalization had at least one physical asset located in either a KBA or a PA.

With regard to the reason why, in terms of the number of stocks, the overseas equities portfolio had higher exposure, this was because the stocks in this portfolio had more exposure to KBAs and PAs in regions that include Europe, North America, and Africa.

#### • Evaluate (your dependencies and impacts on nature)

As the next step Daiwa AM evaluated the dependencies and impacts in its Japanese equities portfolio and overseas equities portfolio as of June 30, 2025.

#### Evaluation of dependencies

We allocated each company a score for its dependence on ecosystem services (using the 21 ecosystem services defined by the National Capital Finance Alliance's ENCORE tool, which was launched in 2022, and assigning the scores based on the dependence of each company's assets and production processes on these ecosystem services), then assigned a weighting according to the investment percentage, and performed evaluation based on the industry groups defined by the Global Industry Classification Standard (GICS).

In our Japanese equities portfolio, we found that the Automobiles & Components, Food, Beverage & Tobacco, and Real Estate Management & Development industry groups all had relatively high dependency. In the case of the Automobiles & Components industry group, the specific ecosystem services for which there was a high level of dependency included: soil and sediment retention services, dilution by atmosphere and ecosystems, storm mitigation services, and also bio-restoration.

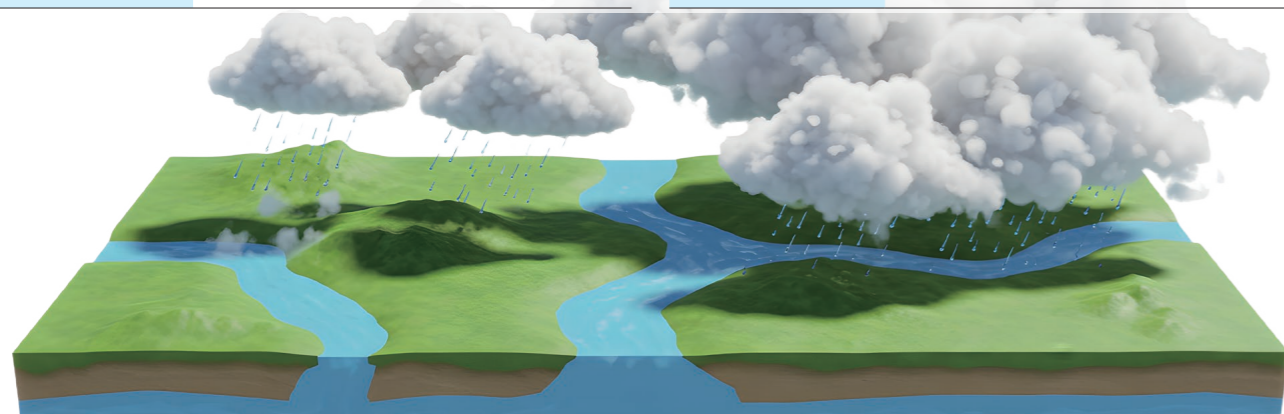
In our overseas equities portfolio, we found that the Energy, Food, Beverage & Tobacco, and Automobiles & Components industry groups all had relatively high dependency. In the case of the Energy industry group, the specific ecosystem services for which there was a high level of dependency included: storm mitigation services, groundwater, and surface water, as well as filtration.

\*1 Key Biodiversity Areas (KBAs) are sites contributing significantly to the global persistence of biodiversity, which include sites designated by the Alliance for Zero Extinction Sites, as well as other sites that are important for bird species or for biodiversity in general.

\*2 Protected areas are areas designated by the International Union for Conservation of Nature (IUCN), characterized by ecosystems that are nationally or globally important, or by a high level of geological diversity.

#### Exposure to KBAs and protected areas

Portfolio	Metric	Value
Japanese equities portfolio	No. of stocks	51.0%
	Share of investment	90.8%
Overseas equities portfolio	No. of stocks	67.3%
	Share of investment	90.5%



#### Evaluation of impacts

We determined the percentage of direct and indirect external costs relative to sales (total environmental costs, including greenhouse gases, water, waste, soil and water pollution, atmospheric pollution, and use of natural resources), then assigned a weighting according to the investment percentage, and performed evaluation based on the industry groups defined by the Global Industry Classification Standard (GICS). As there were certain industry groups for which impacts were particularly large, we divided the industry groups into those where impacts were higher than the average for all industry groups and those where they were lower, before performing the statistical processing. We found that, in our Japanese equities portfolio, there were five industry groups (including Utilities) that had particularly high impacts, while in our overseas equities portfolio, there were five industry groups (including Materials) that had particularly high impacts.

Industry groups that had both high dependencies and high impacts included, in our Japanese equities portfolio, Utilities, Materials, Energy, and Semiconductors & Semiconductor Equipment, while in our overseas equities portfolio, they included Utilities, Materials, and Energy.

Through this analysis, we were able to identify, from our stock portfolio, which regions are particularly vulnerable to risk related to biodiversity loss, and which business activities are dependent on, or have an impact on, which types of ecosystem services, as well as the nature of the impacts.

However, analyzing natural capital is a very complex process, and investee companies' information disclosure in this area is currently still relatively limited, so analysis of this kind can only provide estimates based on a particular logical approach. Despite these constraints, the important

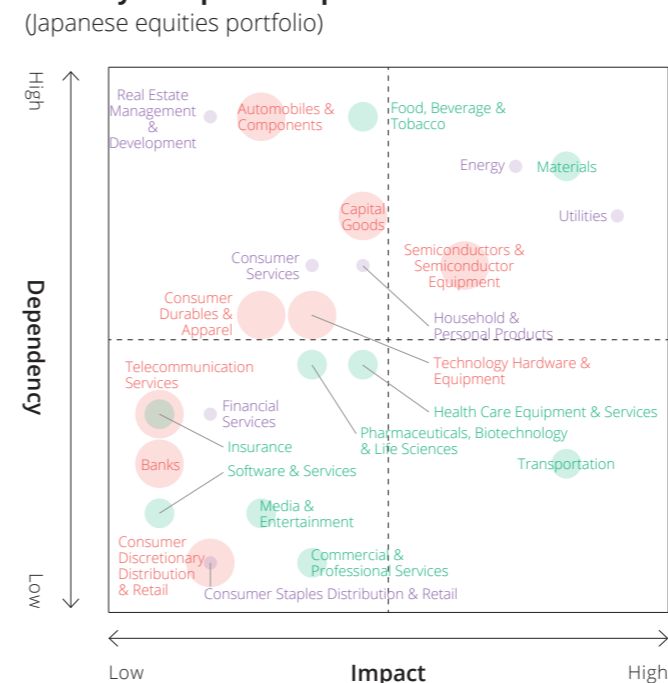
thing is being able to develop a rough idea of where natural capital related risk exists, information which can be used in future engagement activity.

Daiwa AM is working to further strengthen the precision of the collection and analysis of natural capital related information, and is encouraging investee companies to expand the scope of their disclosure in this area, and urging them to respond to the TNFD recommendations and to formulate biodiversity strategies. In addition, with the transition to the Assess and Prepare phases of the LEAP approach now coming into view, Daiwa AM will also be promoting the quantification of risks and opportunities, the strengthening of scenario analysis, and the formulation of science-based strategies. Through these measures, we will strengthen dialog with investee companies, enhance the quality of information disclosure, and also establish investment decision-making that takes natural capital into account.

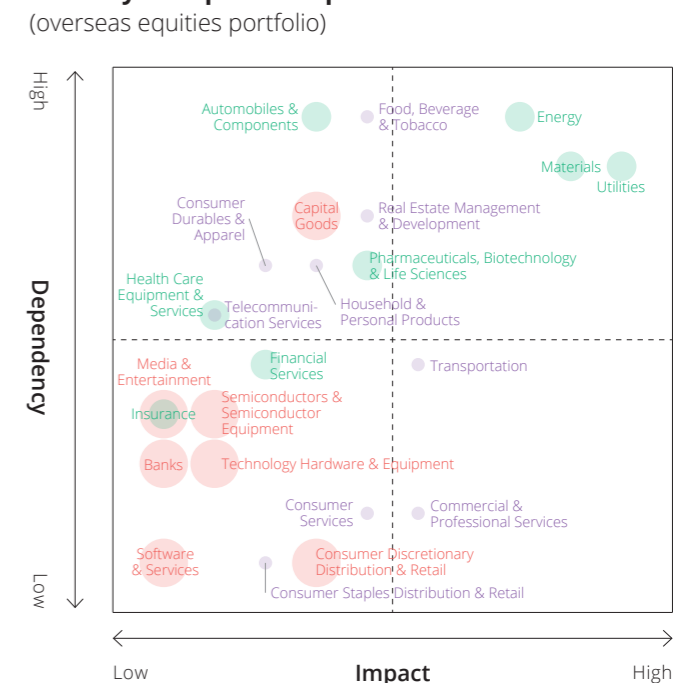
Investment decision-making that incorporates consideration of natural capital is vital for the generation of corporate value over the long term and the formation of sustainable markets; Daiwa AM is contributing to the realization of this goal by implementing responsible investment.



#### Industry Group Risk Map (Japanese equities portfolio)



#### Industry Group Risk Map (overseas equities portfolio)



●: Portfolio weighting < 2%   ●: Portfolio weighting < 5%   ●: Portfolio weighting ≥ 5%

➤ Initiatives Related to Our Core Materiality

## Circular Economy

### Issues recognized

Human economic activity consumes vast amounts of natural resources, securing economic growth and enriched lifestyles at the cost of major damage to the global environment. If we continue to consume resources at the current pace, then by exceeding the level of usage that is renewable for the Earth, we will harm the sustainability of society as a whole. To address this problem, it is important that we move away from the traditional linear economy in which resources are extracted, used, and then disposed of as waste, to a circular economy in which resources are used, recycled, and reused. Minimizing the amount of waste generated will also contribute toward safeguarding the environment.

In 2024, the Fifth Fundamental Plan for Establishing a Sound Material-Cycle Society was approved by the Japanese Cabinet. This plan positions the transition to a circular economy as a major national strategy, and aims to expand the markets that can be developed by businesses related to the circular economy.

Given this trend, it is apparent that there is great potential for companies to develop new business opportunities relating to resource recycling and efficient

### Our thinking and approach

Transitioning to a circular economy is important, not just because it will enhance the sustainability of society as a whole, but also it is closely linked to other issues, specifically: responding to climate change, and safeguarding biodiversity.

In 2025, besides implementing engagement with respect to companies that have been implementing cutting-edge initiatives aimed at realizing the circular economy, Daiwa AM also conducted research visits to deepen its understanding of current initiatives and issues,

resource usage. Eliminating waste and minimizing wastage also have the potential to enhance corporate value by cutting costs. A further point is that emphasizing environmentally-friendly management by measures such as providing sustainable products can help to strengthen a company's brand value by making it appeal to sustainability-oriented consumers.

At the same time, however, proceeding with circular economy initiatives does present some significant problems, including: (1) the need to build systems for continued recycling of used products; (2) the burden of technological development or costs associated with resource recycling; (3) developing customers' awareness of the value-added that recycled products can provide. These are problems that individual companies will find it difficult to solve on their own, so it is important to build linkages and collaboration between the national government, local government authorities, academic and research institutions, business enterprises and ordinary consumers; there is a need to build systems that cover the whole of society.

the outlook for the future, etc. Daiwa AM intends to make use of the insights obtained through these visits in future dialog with investee companies.

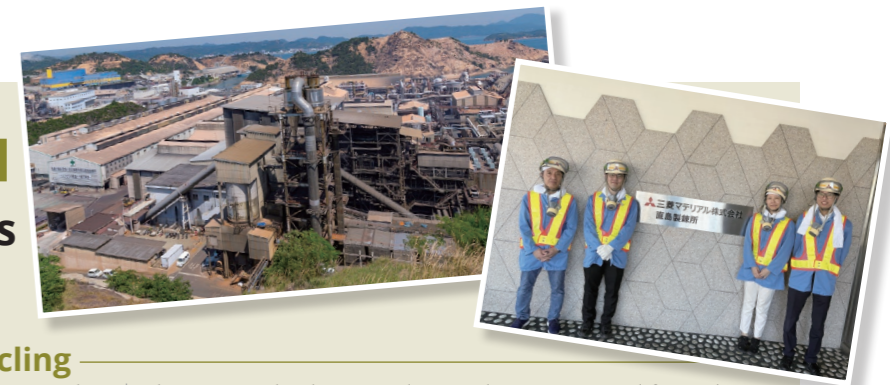
Daiwa AM encourages investee companies to undertake integrated measures that are aimed at contributing toward the realization of the circular economy. It will be encouraging them not only to expand such measures, but also to expand disclosure of how these measures are linked to corporate value enhancement.



# TOPICS

## A Research Visit to Mitsubishi Materials

### A leading-edge company's metal recycling initiative



#### Copper smelting and metal recycling

Copper concentrate (made by crushing copper ore and sorting it to enhance the grade), the raw material for copper smelting, includes not only copper but also small amounts of precious metals and rare metals. Mitsubishi Materials Corporation and other companies in the metallurgy sector have been developing recycling technology, particularly for higher-value metals such as silver and gold, for many years now. The last few years have seen an increase in the amount of e-scrap (used electronic substrate, etc.) being generated, particularly in the developed nations, and growing importance is

being attached to recycling and reusing metal from this e-scrap. By incorporating e-scrap as an input in the copper smelting process, Mitsubishi Materials is helping to strengthen initiatives to realize efficient recycling of copper and precious metals.

By making effective use of the Mitsubishi Group's network to implement recycling via a variety of different processes, not only for copper, silver, and gold but also for other valuable metals such as platinum, palladium, tin, and lead, the company is working to minimize the amount of resources that needs to be disposed of as waste.

#### Mitsubishi Materials' strengths

For copper smelting, Mitsubishi Materials makes use of its unique Mitsubishi Process for continuous copper smelting. This process, which was originally developed to realize pollution-free, highly efficient smelting, is also very well suited to processing e-scrap, making it possible for Mitsubishi Materials to recycle more e-scrap than other companies in the same industry.

Regarding the collection of e-scrap, Mitsubishi Materials has built up a network that covers not only Japan but also Europe, North America, and the ASEAN region, putting in place a truly global e-scrap collection

system. When it comes to building a stable transaction relationship with scrap collection firms, being able to accurately and reliably determine the metal content of scrap is very important; by adopting a wide range of sampling methods and processes for precise analysis, Mitsubishi Materials is able to ensure high reliability, and has been able to maintain a stable relationship with its scrap collection partners.

Naoshima (visited location)

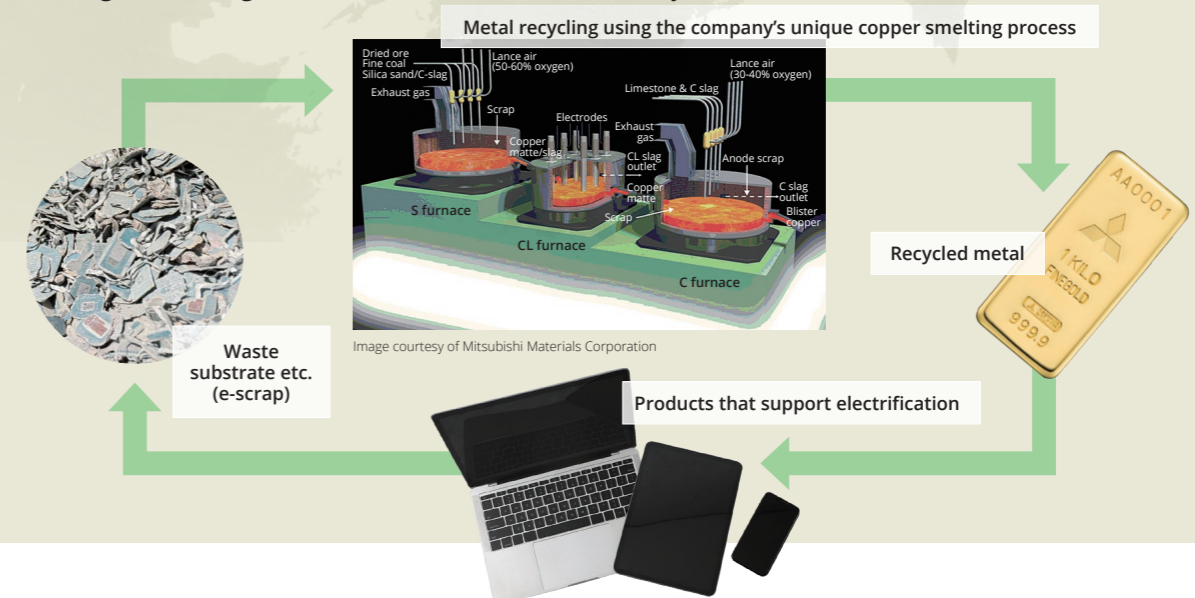
#### Expectations for the future

With advances in plating technology (and falling costs), the amount of precious metals and rare materials needed for electronic substrates, etc. is tending to fall. Besides realizing efficient recycling of e-scrap, Mitsubishi Materials is planning to gradually step up investment in equipment that can increase the amount of e-scrap that can be utilized as inputs in smelting. The company is also implementing initiatives to build a resource recycling loop that recycles waste substrate from used

products collected from specific customers, and then returns the refined or recycled metal to those same customers.

Daiwa AM recognizes the importance to society of making effective use of "urban mining" (recycling metal from used products) in the metals sector, and anticipates that Mitsubishi Materials will play a leading role in promoting such recycling initiatives in the future.

#### Schematic diagram showing the resource circulation undertaken by Mitsubishi Materials



➤ Initiatives Related to Our Core Materiality

## Business and Human Rights

### Issues recognized

There is a comparatively long tradition of discussion on the human rights of workers, and the International Labor Organization (ILO) was established in 1919. By the 1990s, human rights abuses by multinational corporations against indigenous and local populations in developing countries had become a societal issue with the advance of economic globalization, and the relationship between business and human rights was now in the spotlight. Business and human rights is a concept which comprehensively encompasses human rights issues in relation to business activities including corporate supply chains, as well as the relationships of corporations with stakeholders such as workers, consumers, and local populations.

The reporting of various issues relating to business and human rights led to the adoption, in 2011, of the UN Guiding Principles on Business and Human Rights (UNGPs), which have become widely established as the international norms in the domain of business and human rights.

### Our thinking and approach

The issue of business and human rights concerns not just investee companies but extends beyond to the supply chain and stakeholders.

In our capacity as both an institutional investor and a company, Daiwa AM has set out a human rights policy and supports and respects Japanese and global norms. We also require our investee companies to support and respect international norms and to tackle business and human rights issues in an appropriate manner.

Specifically, based on the UN Guiding Principles on Business and Human Rights (UNGPs) and other standards which have been compiled with reference to the UNGPs such as the Japanese Government's Guidelines on Respecting Human Rights in Responsible Supply Chains, Daiwa AM require companies to: ①Develop a human rights policy; ②Conduct human rights due diligence; ③Access remedies for human rights infringements. We also utilize these initiatives at our investee companies in our operational ESG integration and in engagement.

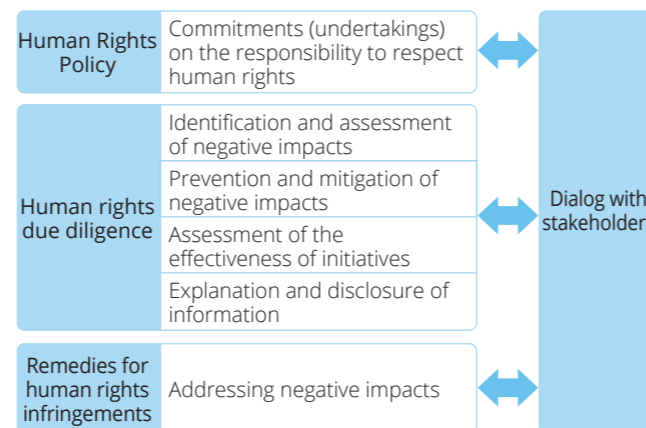
Daiwa AM is committed to improving medium- to long-

In recent years, institutional investors have also focused on business and human rights in terms of both risks and opportunities. While various factors underly this, foremost among these is the fact that companies that violate rules may damage their corporate value, with the risk of then being subject to boycotts, compensation for damages, and so on. Other reasons include the reality that many of the clients who are the source of funding for such corporations are themselves businesses, and maintaining an investment in these corporations could subject these clients to reputational risk.

Conversely, companies that remain mindful of business and human rights and which tackle the associated challenges such as through conducting human rights due diligence, are more likely to build positive relationships with their stakeholders, including employees, clients, suppliers, and communities, with the resultant expectation that this will enhance the company's brand value.

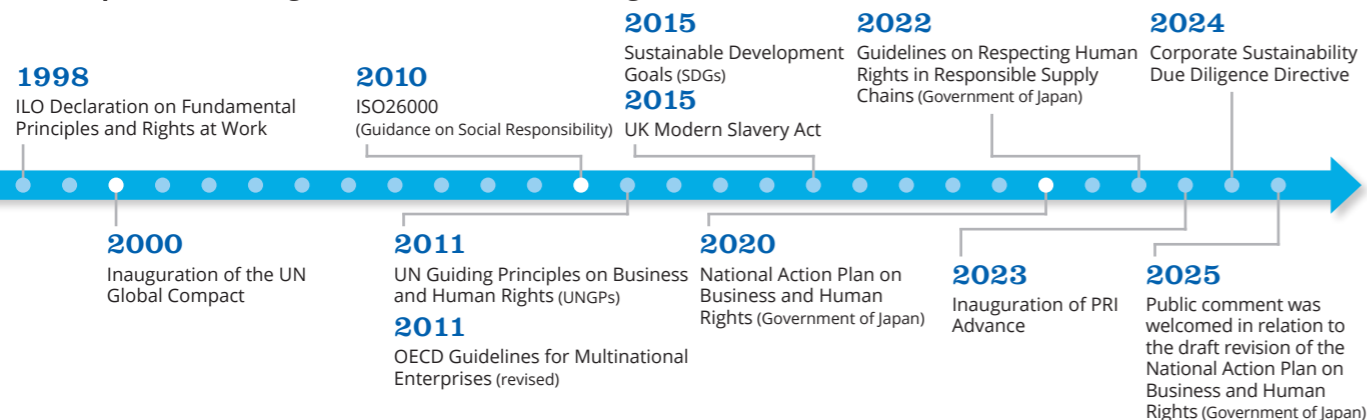
term returns with consideration to business and human rights risks and opportunities as well as to fulfilling our responsibility to society.

### Overview of initiatives for the respect of human rights required of companies



Source: Guidelines on Respecting Human Rights in Responsible Supply Chains

### Developments relating to business and human rights



➤ Initiatives Related to Our Core Materiality

## Human Capital Management

### Issues recognized

Currently, the concept of human capital is attracting unprecedented attention, both within and outside Japan. In response to the structural transformation taking place in the global economy, growing economic uncertainty, and renewed awareness of the importance of human talent and diversity, human capital has come to be seen as the most important form of capital, one which can underpin a company's sustainable growth and enable it to generate value over the medium to long term, and there is growing demand for human capital aware management. In Japan, while there has been increasingly widespread adoption of disclosure standards relating to human capital and diversity, along with the formulation of various related

### Our thinking and approach

Human capital is an important resource that is the foundation for corporate growth. Once again this year, Daiwa AM has positioned human capital strategy and diversity as important topics that it is focusing on. In regard to human capital strategies, Daiwa AM encourages investee companies to engage in concrete initiatives to secure and retain first-rate human resources, to systematically cultivate human talent, and to enhance employee engagement. With regard to diversity, in light of the slow pace of adoption of DE&I measures in Japan (despite the progress made in other countries), Daiwa AM continues to view this as an important issue; we encourage initiatives to redress gender disparities through specific measures and quantitative indicators in relation to the promotion of women's active participation, as well as initiatives aimed at ensuring diversity from other perspectives besides gender, such as nationality, age, experience, etc. Daiwa AM also recognizes the importance of linking these initiatives

guidelines, the external environment in relation to human capital is becoming ever more complex. With the evolution of AI technology and the acceleration of digital transformation (DX), as well as the need to respond to environmental problems, etc., the issues facing business enterprises are becoming more diverse, making human talent who can generate innovation more important than ever. On the global scale, progress is being made in terms of the adoption of a wide range of indicators that can be used to measure investment in human capital transparently and effectively, and there is a need for Japanese companies to proactively implement initiatives in this area in order to maintain and strengthen their international competitiveness.

closely to management strategy.

Regarding diversity initiatives, Daiwa AM has compiled a list of investee companies that have a significant gender gap or a large disparity between the ratio of female managers and the ratio of female employees, and has made a point of conducting engagement with these companies. In addition, Daiwa AM is a member of the 30% Club Japan Investor Group, and believes that it is desirable for companies to have female directors account for at least 30% of the membership of their board of directors. To this end, we encourage investee companies to build up, from within the company, a pool of female talent who have the potential to be appointed to directorships in the future. To promote the proactive appointment of female directors in line with this policy, Daiwa AM is considering revising its Proxy Voting Policy to increase the female director ratio that we expect investee companies to achieve.

### Key Points

**Point 1**

■ Promoting diversity and inclusion  
Ensuring diversity in terms of employee gender, nationality, age and experience is the wellspring of corporate competitiveness. Besides rectifying the gender pay gap and actively appointing women, foreign nationals and older talent to positions, it is also important to foster the development of an organizational culture that makes effective use of diverse viewpoints.

**Point 2**

■ Acceleration of re-skilling and career development  
Given the need for employees to acquire new skills as technology evolves, the putting in place of a framework to support employees' re-skilling and self-directed career development is an urgent task. Companies need to provide systematic training programs, strengthen on-the-job training, and build an environment that supports individuals' self-directed learning.

**Point 3**

■ Enhancing employee engagement and promoting employee well-being  
To enhance employee satisfaction and motivation, measures to support flexible workstyles, health management, and emotional security need to be taken to a higher level. It is also important for the growth vectors of each individual employee to be oriented in the same direction as the company's philosophy and purpose.

**Point 4**

■ Strengthening human capital related disclosure  
There is a need for expanded disclosure of information relating to human capital and diversity in companies' annual reports, etc. Rather than just disclosing numerical data, the focus should be on strategies and results, initiatives to address anticipated future issues, etc., in relation to the company's overall growth story.



➤ Initiatives Related to Our Core Materiality

# Governance Framework and Effectiveness of Boards of Directors

## Issues recognized

In Japan, the Corporate Governance Code was introduced in 2015, to serve as principles of conduct for listed companies, oriented toward strengthening medium- to long-term profitability based on effective management strategies. Since then, the Code has been revised twice. In 2025, the intention to implement a third revision of the Code, with a focus on “moving from form to substance,” was announced, and there has been discussion regarding clarification of accountability in relation to cost of capital and growth-oriented investment aimed at enhancing companies’ earning power. In line with this trend, progress has been made in terms of putting in place formal systems to support the management and supervisory function, for example by expanding the percentage of board members who are independent outside directors, the voluntary establishment of nominating and compensation committees, making boards more diverse, etc.

However, it is noticeable that there have been many cases where, although on the face of it the right systems have been put in place, this has not led to sufficient improvement in the actual quality of management. Going forward, it is important for governance systems to be “moving from form to

substance,” and for board of directors effectiveness to be enhanced. In particular, putting in place an environment that enables independent outside directors to fully exercise their supervisory function is very important from an investor’s point of view. The Action Programme for Corporate Governance Reform 2025 based on the discussions of the Council of Experts Concerning the Follow-up of Japan’s Stewardship Code and Japan’s Corporate Governance Code clearly positions the strengthening of the functioning of board of directors’ secretariats, and the promotion of constructive dialog with outside directors and investors, as being important, and Daiwa AM also attaches great importance to these areas.

If initiatives such as these succeed in enabling outside directors to fulfil their potential, this can be expected to promote further separation of the business execution and supervisory functions, thereby enhancing both the speed and transparency of management decision-making. Furthermore, having outside directors play a central role in governance, in relation to important matters such as nominations and compensation, will help to strengthen investors’ trust.

## Our thinking and approach

Governance is the foundation for management, and if this function is damaged, it can have a wide-reaching impact, including an impact on sustainability measures.

Engagement can bring about enhanced effectiveness by taking as its starting point the diversity of board membership, the independence of outside directors, the status of the activities of the various board committees, how company officers’ remuneration is planned, etc. In particular, when it comes to evaluating the effectiveness of the board of directors, although disclosure is really the only tool that allows outsiders to determine the board’s effectiveness, there are many companies that do not implement disclosure effectively, and so Daiwa AM asks these companies to make improvements, at a level whereby judgments can be made

using the PDCA cycle. Disclosing the results of dialog with investors is also important for giving real substance to governance, and so Daiwa AM seeks to confirm the extent to which insights obtained through dialog are actually applied in corporate management.

In its proxy voting guidelines, Daiwa AM has also been steadily shifting from a focus on formalized frameworks to an emphasis on effectiveness, and has adopted new guidelines relating to the voluntary adoption of nominating and compensation committees, and to the number of companies at which outside directors hold concurrent appointments. Looking ahead, Daiwa AM will continue working to deepen engagement with investee companies and encouraging them to strengthen their governance systems.

### Moving “from form to substance” in corporate governance reform—Issues and overall strategic direction for the future (Summary)

<b>Strengthening earning ability</b>	<ul style="list-style-type: none"> <li>Promoting investment through the appropriate allocation of management resources based on verification of the current situation</li> <li>Strengthened disclosure of human resources strategies and salary and compensation policies that are linked to the overall corporate strategy</li> </ul>
<b>Expanding information disclosure and promoting dialog with investors</b>	<ul style="list-style-type: none"> <li>Confirming whether annual reports are being disclosed before the holding of the annual shareholders meeting, and examining whether the right environment has been put in place</li> <li>Promoting changes to the legal and regulatory system relating to shareholders meetings, and promoting measures to make annual report content easier to understand</li> </ul>
<b>Strengthening the functionality of the board of directors, etc.</b>	<ul style="list-style-type: none"> <li>Establishment of a consortium to expand the sharing of best practice case studies, with the aim of strengthening the functioning of outside directors and board secretariats</li> </ul>
<b>Addressing problems affecting the market environment</b>	<ul style="list-style-type: none"> <li>Strengthening disclosure of cross-shareholdings and examining the response to system violations</li> <li>Promoting the safeguarding of minority shareholders’ interests through the putting in place of systems relating to the practice of parent-subsidiary listing</li> </ul>
<b>Sustainability-aware management</b>	<ul style="list-style-type: none"> <li>Examining the issue of responsibility in relation to sustainability disclosure and guarantee systems</li> <li>Expressing views regarding the development of international standards for human capital</li> </ul>

Reference: Financial Services Agency’s “Action Programme for Corporate Governance Reform 2025”

## Initiatives Supported, etc.

ESG ESG in general  
 E Environment S Social G Governance

### 2006 (year of endorsement)

**ESG UN Principles for Responsible Investment (PRI)**  
 This is a global guideline for responsible investment that aims to improve long-term investment results for beneficiaries by incorporating ESG issues into the investment decision-making process and determination of stock ownership policies of institutional investors. Daiwa AM is a member of the PRI Japan Advisory Committee.



### 2011

**ESG Principles for Financial Action for the 21st Century**  
 This is an action guideline for Japanese financial institutions to fulfill their responsibilities and roles in helping to solve global environmental and social problems and to form a sustainable society.



### 2020

**E Task Force on Climate-related Financial Disclosures (TCFD)**  
 The task force, established by the Financial Stability Board (FSB), recommends that corporations and other entities disclose climate-related financial information in their annual financial reporting. Since FY2021, Daiwa AM has disclosed the status of its initiatives to address climate change issues, including the greenhouse gas (GHG) emissions of its asset management portfolio in line with the TCFD framework. It should be noted that the TCFD disbanded itself in October 2023, with the International Sustainability Standards Board (ISSB) taking over responsibility for matters relating to the TCFD Recommendations, etc.



### S 30% Club Japan Investor Group

This is a group comprised of asset owners and asset managers. Its goals include sharing the importance of gender diversity and gender equality at all levels of an organization through constructive dialog and other stewardship activities with companies in which they invest. Daiwa AM participated in a working group to formulate best practices for engagement.



### 2021

**E Climate Action 100+**  
 This is an international engagement initiative launched by investors. Its goal is to stimulate improvements through collaborative engagement with large enterprises that have significant greenhouse gas emissions. Daiwa AM participates as a collaborative investor through cooperative engagement with companies in Japan’s steel, electrical and other industries.



### E Net Zero Asset Managers initiative (NZAMi)

This is a global initiative by asset management companies to implement measures in response to climate change. NZAMi has recently dropped its original shared goal of realizing Net Zero emissions, and has transitioned to a more flexible framework whereby each individual member company sets its own targets.



### G International Corporate Governance Network (ICGN)

This is an international initiative whose mission is to establish effective corporate governance and foster investor stewardship with the aim of promoting an efficient global market and sustainable economic activity.



### 2022

**ESG Japan Stewardship Initiative (JSI)**  
 This is an initiative that aims to take stewardship activities in the Japanese asset management sector to a higher level, and to foster information sharing and dialog between asset management companies.



### S Human Capital Management Consortium

This is a consortium established by a group of Japanese companies, investors and others. Its objective is to promote both the practice and disclosure of human capital management in Japanese companies by sharing advanced cases of human capital management practices, holding discussions aimed at cooperation between companies, and considering effective information disclosure.



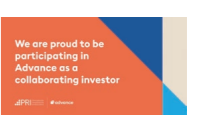
### S Women’s Empowerment Principles (WEPs)

These are action principles intended to actively promote the advancement of women, and were jointly developed by UN Global Compact and UN Women.



### S PRI Advance

This is an institutional investor initiative established to promote corporate initiatives on “social” issues, with a particular focus on human rights, through collaborative engagement. Companies with a high level of human rights risk will be encouraged, through dialogs, to implement measures that strengthen respect for human rights.



### 2023

### E Task Force on Nature-related Financial Disclosures (TNFD)

This is an international initiative which aims to develop and provide a framework for the disclosure of nature-related financial information. Daiwa AM was an early adopter in this area, expressing its support for the TNFD as soon as the TNFD was established, and beginning to implement related disclosure starting from FY2024.



### E Glasgow Financial Alliance for Net Zero (GFANZ)

This is an international alliance that brings together financial institutions from all over the world to accelerate the transition to Net Zero. In line with the goals of the Paris Agreement, it is promoting decarbonization through finance. Daiwa AM is playing an active role in the Consulting Group and the Core Working Group of GFANZ as a member of its Japanese chapter.



### 2024

### E PRI Stewardship Initiative for Nature (Spring)

This is a collaborative engagement initiative for which the PRI provides operational and other support with the objective of halting and reversing biodiversity loss by 2030. Daiwa AM is participating as an endorser.



### E Investor Agenda

This is an activity by a group of institutional investors. It has issued recommendations on how to accelerate climate change initiatives by institutional investors and national governments. Daiwa AM signed in support of a statement by global investors in advance of COP29.