

## Initiatives Related to Our Core Materiality

### ① 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 2023, the global average near-surface temperature was 1.45 degrees Celsius above the pre-industrial baseline, and in 2024 it was a record 1.5 degrees Celsius above the baseline for the first time ever. 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.

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, for example by implementing reporting based on the recommendations of the TCFD, 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, as a responsible investor, 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.

#### Our thinking and approach

Daiwa AM believes that, in terms of responding to climate change, engagement is the most important thing for us to focus on. This is because, in order to promote the challenging, long-term transformation that is needed for the decarbonization of society, 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 realizing decarbonization.

In addition, we are proactively 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. 40 of this report).

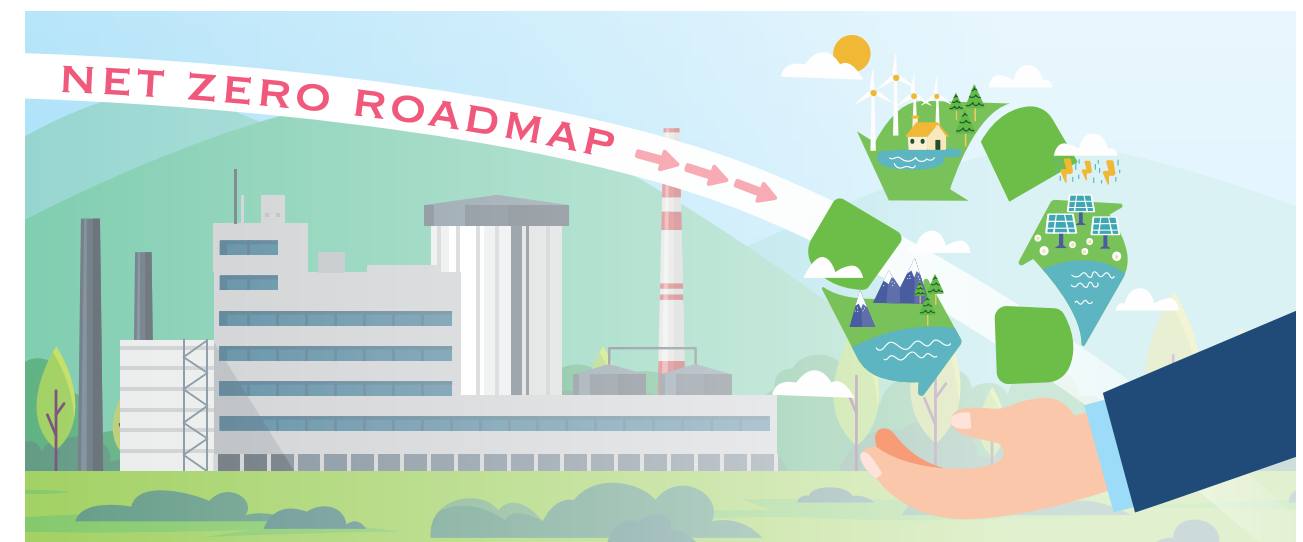
Going forward, we will be aiming to further strengthen engagement with investee companies that have high GHG emissions, and to contribute toward the realization of carbon neutrality, not only from a Japanese perspective but also a global perspective.



Company  
A  
(Steel producer)

#### Engagement case studies

#### TOPIC Strengthening the company's response to climate change



#### Issues and background

1. Company A has high GHG emissions, and although it was implementing measures to reduce emissions, its roadmap (transition plan) for decarbonization lacked a clear timetable; there was also a lack of clarity as to how its plans would be implemented.
2. While Company A is aiming to accelerate decarbonization efforts in the form of "avoided emissions," there had been a lack of disclosure other than basic calculated values, and as the specific calculation formula used had not been disclosed, the information disclosed was not sufficiently persuasive.

#### Potential solutions

1. Refining the timetable: The current situation was that Company A had set only the years 2030 and 2050 as milestones in its plans. To better integrate emissions reduction planning with the company's business plan, and to enhance the precision of the decarbonization initiatives, there was a need to break down the targets for the period running up to 2030 into annual targets. Doing so would reduce the uncertainty in relation to plan implementation, and inspire a better response from the market.
2. Disclosing the specific calculation formula used for "avoided emissions" for the company's main products: This would make it easier for people outside the company to understand the sources of emissions reduction, and would strengthen confidence in the reliability of the company's products and in the appropriacy of having a business plan based on "avoided emissions."

#### Company response

1. Company A responded that, although it was not able to address the concerns immediately because it would be implementing any large-scale investment within the next few years, once it had a clearer idea of the future outlook for implementing investment plans, it would consider refining its transition plan.
2. Company A noted that, while it did not intend to start disclosing "avoided emissions" by product category, it would consider improving its disclosure approach by including the specific calculation formula used, in response to its dialog with Daiwa AM.

#### Related initiatives

**GFANZ**  
Glasgow Financial Alliance for Net Zero

Glasgow Financial Alliance for Net Zero  
(GFANZ)

**Net Zero  
Asset Managers  
Initiative**

Net Zero Asset Managers initiative  
(NZAMI)

**TCFD**  
TASK FORCE ON  
CLIMATE-RELATED  
FINANCIAL  
DISCLOSURES

Task Force on Climate-related  
Financial Disclosures (TCFD)

A proud participant of:  
**Climate  
Action 100+**  
Global Investors Driving Business Transition

Climate Action 100+

Initiatives Related to Our Core Materiality

Biodiversity and the Circular Economy

Issues recognized

Many companies rely on ecosystems, both domestic and overseas, in their business activities, and many of them exert a significant impact on ecosystems. Initiatives aimed at safeguarding biodiversity can help to reduce business risk and uncertainty associated with being dependent on bioresources, 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.

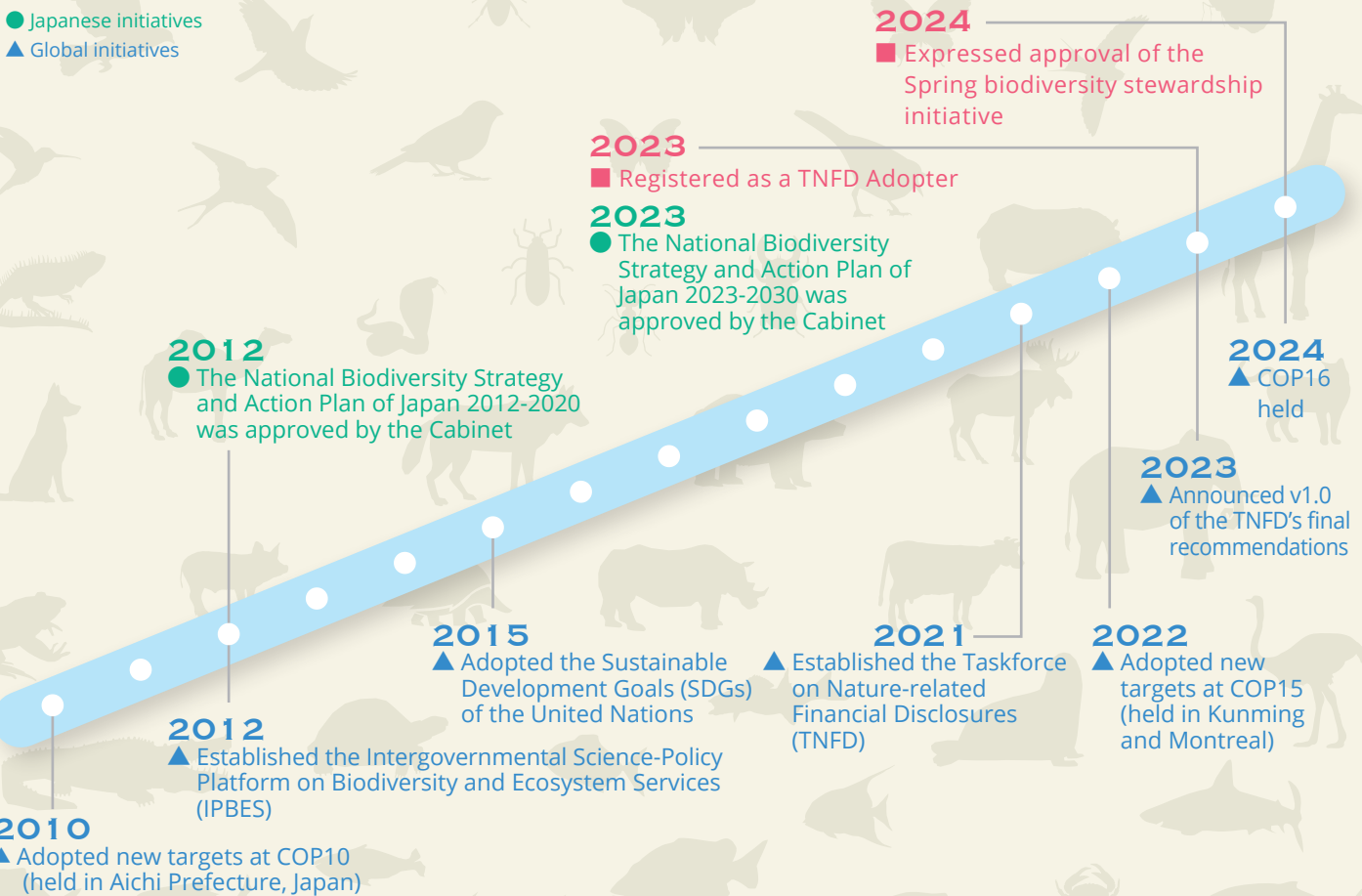
Reports published by the World Economic Forum (WEF) note that loss of biodiversity and destruction of ecosystems represent a serious crisis second only in urgency to climate change. At the same time, however, it is estimated that investing in and transitioning to a nature positive economy in which the loss of natural capital is stemmed and a more positive situation is created could result in the creation of 390 million new jobs and 10 trillion dollars in new business opportunities 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, 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 recognizes that, in order to minimize the loss of earnings resulting from the need to meet regulatory requirements in the future and in order to generate new growth opportunities, it is important for investee companies to implement measures for safeguarding biodiversity and for the transition to the circular economy as soon as possible.

Major developments relating to biodiversity

- Daiwa AM initiatives
- Japanese initiatives
- ▲ Global initiatives



Our thinking and approach

We believe that, for initiatives responding to climate change (see pp. 33-34) and initiatives aimed at safeguarding biodiversity, the concept of transitioning to the circular economy is vitally important.

Given that economic and social activity, particularly large-scale production and large-scale consumption, can cause intensive resource extraction and depletion of natural resources which in turn can result in a loss of biodiversity, controlling the wasteful consumption of natural resources can help to safeguard biodiversity.

In the circular economy, resources are recycled rather than being disposed of as waste, which supports nature's ability to regenerate itself, with the aim of preserving and enhancing the environment.

As a responsible investor, we encourage investee companies to implement initiatives to safeguard biodiversity, and to adopt comprehensive measures that will contribute toward the realization of the circular economy.

In 2024, we undertook engagement regarding nature positive initiatives and disclosure, and related issues, focusing on investee companies that are in industries that have many points of contact with biodiversity or which have high exposure to sensitive, nature-related fields.

We believe that how companies avoid the loss of natural capital and contribute toward the transition to the circular economy, and how this is linked to the enhancement of corporate value, constitute important topics.

Company B (Foods)

Engagement case studies

TOPIC Sharing information with leading companies

Through engagement with leading companies that have taken the lead in implementing the LEAP (Locate, Evaluate, Assess, Prepare) approach\* recommended by the TNFD and which implement disclosure in line with the TNFD's framework, we engaged in constructive dialog regarding the identification of current issues, risk management, and also how these companies identify opportunities.

\* For more information about the LEAP approach, see p. 41 of this report.

Current initiatives

- Company B began working to identify natural resource related risks in 2010.
- To realize sustainable raw materials procurement, the company prioritized resources on which the business was highly dependent, and resources with low substitutability, for the implementation of disclosure based on the LEAP approach recommended by the TNFD.

Future issues recognized

- Even if a company is implementing measures that take nature conservation in the supply chain into account and has obtained certification from a third party, this may not currently be reflected in the raw materials price paid to farmers, so the extent to which valuation can be performed and reflected regarding this could be an issue affecting the implementation of a nature positive approach.
- There is a need for cultivation of in-house talent able to address biodiversity and environmental issues.

PICK UP /

We also made site visits to two other leading companies relating to their overseas procurement measures (see pp. 43-44).

Related initiatives



Taskforce on Nature-related Financial Disclosures (TNFD)



Spring (PRI stewardship initiative for nature)



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 Task Force on Climate-related Financial Disclosures (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 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 TCFD and TNFD.

Framework



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

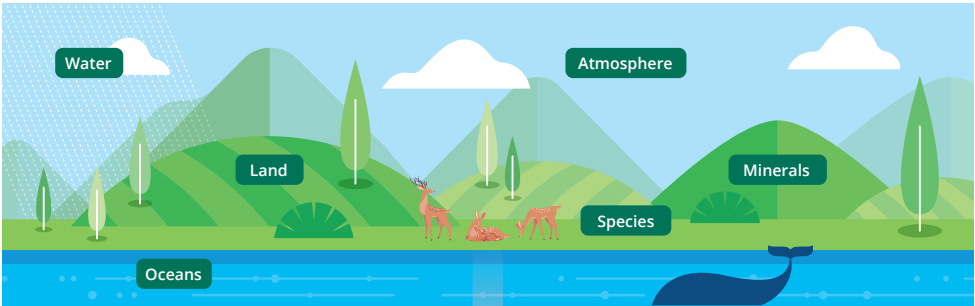
Transitional risks	Regulatory risk	Stricter environmental regulation
	Technology risk	Falling behind the progress being made in technology, in terms of renewable energy, etc.
	Market risk	Changes in demand for petrochemical assets, etc.
	Reputational risk	Becoming less highly valued and more negatively judged by consumers
Physical risks	Acute risk	Risk relating to floods, typhoons, etc.
	Chronic risk	Risk relating to changes in long-term climate patterns
Opportunities	Resource efficiency	Increased demand for recycling technology, etc.
	Energy sources	Increased demand for renewable energy, etc.
	Products and services	Increased demand for products, etc. with a smaller environmental footprint
	Resilience	Energy diversification aimed at achieving greater resilience

Reflection in the corporate value assessment model



Risks associated with the destruction of natural capital

Natural capital



Provision of ecosystem services

Ecosystem services

Genetic material	Pollination	Filtration	Climate change control
Underground water	Ventilation	Decomposition	Infectious disease control
Surface water	Water regulation	Dilution	Flood control
			Pest control

Natural disaster risks	Reduced supply of natural resources	Infectious disease risk
<ul style="list-style-type: none"><li>Reduction in the value of the assets held by companies that own factories or other buildings</li><li>Fall in revenue due to companies having their supply chain disrupted</li><li>Risk that insurance companies will need to pay out more in insurance payments, etc.</li></ul>	<ul style="list-style-type: none"><li>Fall in revenue due to a reduced supply of raw materials affecting sectors such as agriculture, food and pharmaceuticals, which are heavily dependent on natural resources</li><li>Increased raw materials prices due to the reduction in natural resources</li></ul>	<ul style="list-style-type: none"><li>Possibility that ecosystem destruction may lead to specific pathogens causing a pandemic</li><li>Risk that reduction in natural resources may prevent measures from being taken in response to new infectious diseases</li></ul>

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 monitors and manages risk through periodic analysis. 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, Scope 3 emissions were categorized as upstream or downstream, and the relevant emissions for each were calculated. Daiwa AM is striving to promote the decarbonization of its entire supply chain, by establishing a detailed understanding of the total carbon emissions of our investee companies, including Scope 1, Scope 2, and Scope 3 emissions, with a particular emphasis

on Scope 3, and making effective use of this information in engagement activities with investee companies. Carbon footprint and weighted average carbon intensity for overseas equities were found to exceed the benchmark values. This was attributable to having the stocks of Indian corporations accounting for a sizeable share of the investment portfolio. In the case of Japanese corporate bonds, although the carbon footprint was affected by the inclusion in the portfolio of the corporate bonds of electric power companies at a weight higher than the benchmark, the disparity with the benchmark was smaller than in the previous year, and there was also a fall in weighted average carbon intensity, so an improvement could be seen. Going forward, we will continue to utilize engagement activities, etc. to encourage investee companies to implement measures in relation to climate change.

Portfolios’ total carbon dioxide emissions

• Scope 1, 2

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

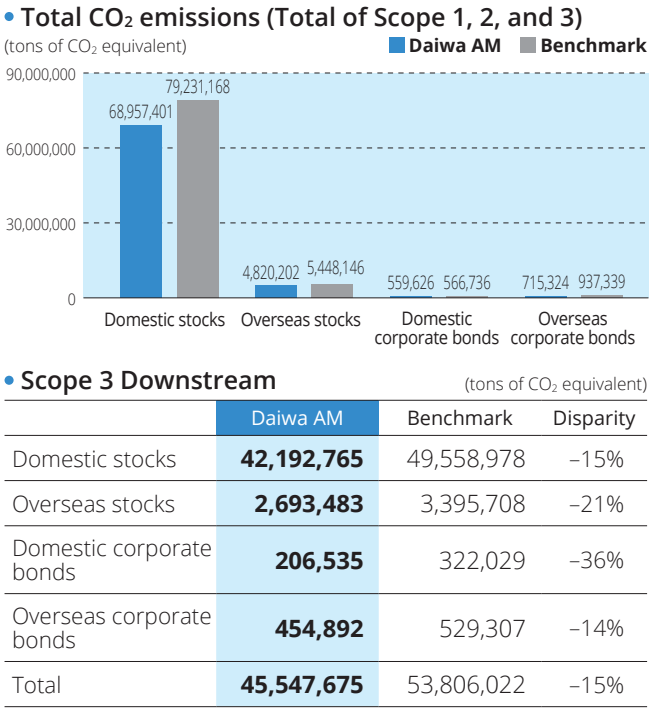
	Daiwa AM	Benchmark	Disparity
Domestic stocks	6,225,937	7,275,447	−14%
Overseas stocks	961,975	732,306	31%
Domestic corporate bonds	161,159	81,818	97%
Overseas corporate bonds	62,161	169,474	−63%
Total	7,411,231	8,259,044	−10%

• Scope 3 Upstream

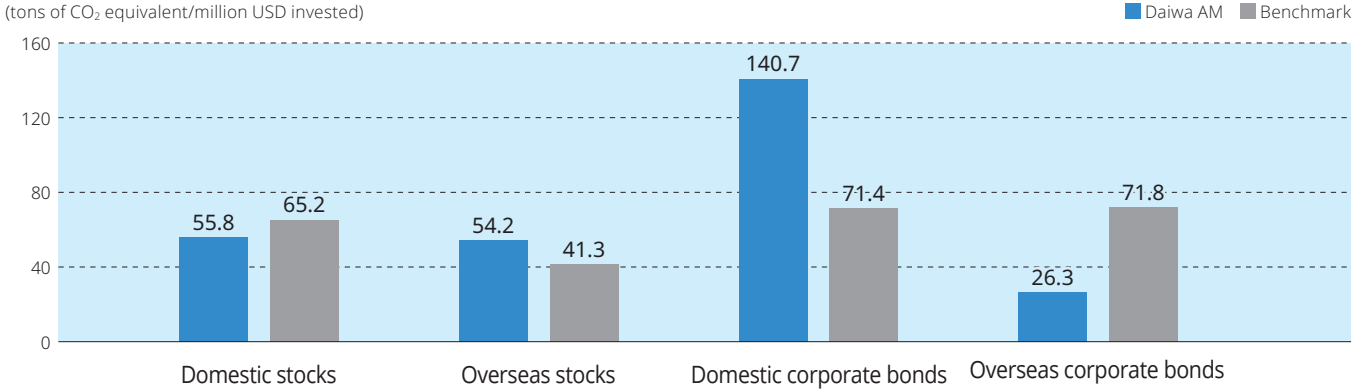
(tons of CO<sub>2</sub> equivalent)

	Daiwa AM	Benchmark	Disparity
Domestic stocks	20,538,700	22,396,744	−8%
Overseas stocks	1,164,744	1,320,133	−12%
Domestic corporate bonds	191,932	162,889	18%
Overseas corporate bonds	198,270	238,558	−17%
Total	22,093,646	24,118,323	−8%

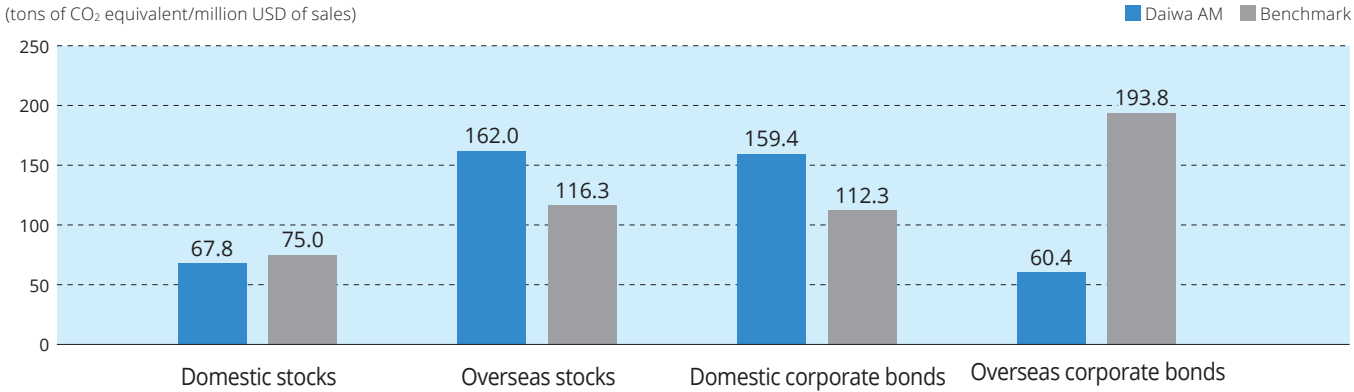
Note: Benchmarks:  
Domestic stocks: TOPIX (with dividends included) Overseas stocks: MSCI ACWI ex Japan Index Domestic corporate bonds: Bloomberg Asian-Pacific Japan Corporate TR Index Value Unhedged JPY Overseas corporate bonds: Bloomberg Global Aggregate ex-JPY-Corporate TR Index Unhedged USD  
Source: Some information is derived from ©2025 MSCI ESG Research LLC. Reproduced by permission.



Carbon footprint of portfolio (Scope 1, Scope 2)



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

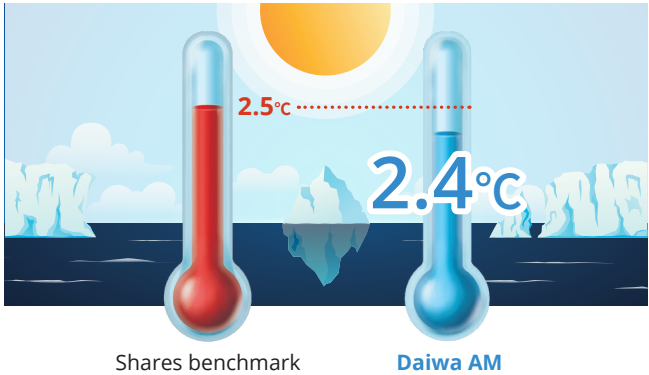


Note: The benchmarks used were the same as those used in the previous section for portfolio's total carbon dioxide emissions.  
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Warming potential analysis

Warming potential analysis 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



Note: The benchmark used was the MSCI ACWI Index.

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 8 percentage points higher than the corresponding figure for the benchmark.

Percentage of companies which have obtained SBT certification

	Daiwa AM	Benchmark	Previous Comparison (Daiwa AM)
All holdings	51.8%	43.9%	46.6%

Note: The benchmark used was the MSCI ACWI Index.

Analysis of potential CO<sub>2</sub> emissions (from fossil fuels)

This analysis allows us to measure potential CO<sub>2</sub> emissions from fossil fuels, taking the stored amounts of companies as its base. The analysis confirmed that potential CO<sub>2</sub> emissions from fossil fuels were generally lower than the benchmark and that the portfolio's climate change risks were low.

Potential CO<sub>2</sub> emissions (from fossil fuels)

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

	Daiwa AM	Benchmark	Disparity
Domestic stocks	495.9	608.4	−18%
Overseas stocks	919.1	1,048.6	−12%
Domestic corporate bonds	143.4	470.0	−69%
Overseas corporate bonds	719.5	861.9	−17%

Note: The benchmarks used were the same as those used in the previous section for the portfolio's total carbon dioxide emissions.  
Source: Some information is derived from ©2025 MSCI ESG Research LLC. Reproduced by permission.

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 2024	▶ 81 tCO <sub>2</sub> e/\$mn revenue (on a per unit of sales basis)
	Engagement activities	▶ Daiwa AM is proceeding with engagement with investee companies regarding climate change, engaging in dialog with target companies



Natural capital—Risk analysis

TNFD’s LEAP approach

In September 2023, the Taskforce on Nature-related Financial Disclosures (TNFD) released the TNFD Framework v1.0, which 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 four phases: Locate (your interface with nature), Evaluate (your dependencies

Locate (your interface with nature)

Daiwa AM has analyzed its Japanese equities portfolio and its overseas equities portfolio as of December 31, 2024. We identified those companies that had physical assets in, and were engaging in business in, Key Biodiversity Areas (KBAs)\*1 or protected areas\*2 as companies having risk associated with the loss of biodiversity, and we calculated their exposure to these areas. In terms of both number of stocks and investment share, our overseas equities portfolio had a higher level of exposure than our Japanese equities portfolio, and could therefore be seen to have higher risk associated with loss of biodiversity. This was because, by comparison with our Japanese equities portfolio, our overseas equities portfolio had more exposure to KBAs and protected areas in 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 its overseas equities portfolio as of December 31, 2024.

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 Materials industry

and impacts on nature), Assess (your nature-related risks and opportunities), and Prepare (to respond to nature-related risks and opportunities, and to report on your material nature-related issues). We have already begun analysis of the Locate and Evaluate items using data from S&P Global.

Exposure to KBAs and protected areas

Japanese equities portfolio	No. of stocks	19.7%
	Share of investment	68.9%
Overseas equities portfolio	No. of stocks	50.4%
	Share of investment	82.1%

\*1 Key Biodiversity Areas (KBAs) are sites contributing significantly to the global persistence of biodiversity, which include sites designed 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 designed 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.



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.

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 six industry groups (including Utilities) that had particularly high impacts, while in our overseas equities portfolio, there were three industry groups (including Utilities) that had particularly high impacts.

Industry groups that had both high dependencies and high impacts included, in our Japanese equities portfolio, Materials, Utilities, Energy, Household & Personal Products, and Food, Beverage & Tobacco, while in our overseas equities portfolio, they included Materials, Utilities, and Energy.

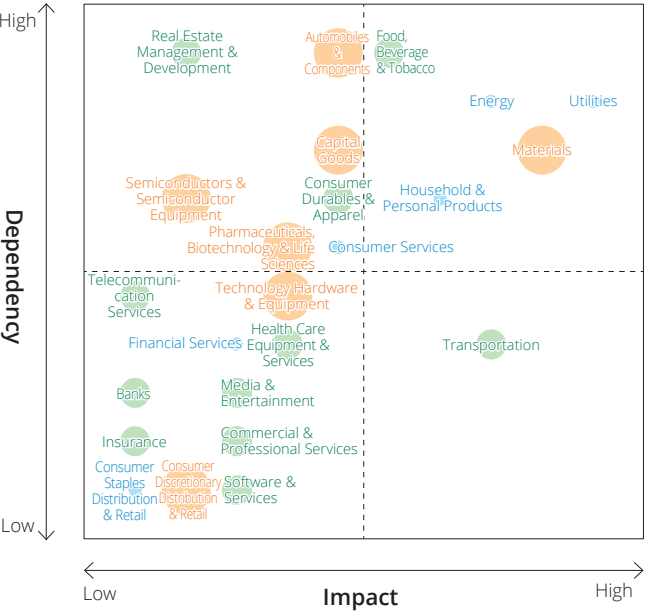
Through the analysis outlined above, we were able to identify, from our stock portfolio, which regions have companies that are particularly vulnerable to risk related to biodiversity loss, and which business activities are dependent on, or have an impact on, which types of

ecosystem services.

However, analyzing natural capital is a very complex process, and currently investee companies’ information disclosure in this area is still relatively limited, so analysis of this kind can only provide estimates based on a particular logical approach. Nevertheless, this analysis does have an important role to play, because it enables us to develop a rough idea of where natural capital related risk is high, and provides useful insights for undertaking engagement activity. Going forward, we will be working to further strengthen the collection and analysis of natural capital related information, and we will be undertaking engagement activity that encourages investee companies to expand the scope of disclosure in this area.

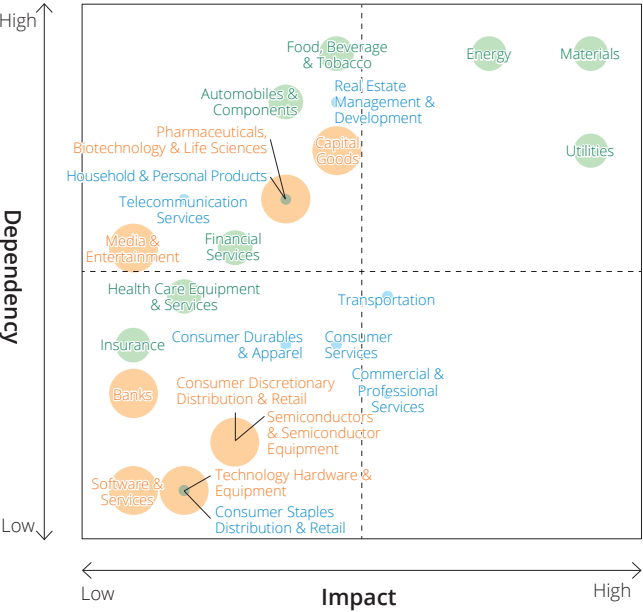


Industry Group Risk Map (Japanese equities portfolio)



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

Industry Group Risk Map (overseas equities portfolio)





Topic **Present Situation of Palm Oil and Natural Rubber Plantations in Southeast Asian**

In light of the disclosure requirements under the TNFD (Taskforce on Nature-related Financial Disclosures), compliance with the CSRD (Corporate Sustainability Reporting Directive), and the upcoming implementation of the EUDR (EU Deforestation Regulation) covering commodities like palm oil and natural rubber, addressing biodiversity across the entire supply chain has become a critical challenge for companies.

With the cooperation of Fuji Oil Holdings (hereafter “Fuji Oil”) and Sumitomo Rubber Industries, which implements forward-looking sustainability initiatives, visits were conducted to plantations, refineries, and processing plants to assess traceability efforts and the status of RSPO (Roundtable on Sustainable Palm Oil) certification.

**EUDR (EU Deforestation Regulation)**

Summary of Regulations	Companies are required to conduct due diligence to confirm that the products they sell within the EU or export from the EU are not produced on agricultural land developed through deforestation
Targeted Products	Palm oil, beef, timber, coffee, cocoa, rubber, and soybeans
Penalties	<ul style="list-style-type: none"><li>Companies that violate the due diligence obligation may face penalties such as fines, confiscation of the relevant products, and temporary exclusion from public procurement processes and access to public funding</li><li>The maximum fine is set at 4% of the relevant company's annual sales within the EU</li></ul>

**Fuji Oil's Initiatives**

In line with its Responsible Palm Oil Sourcing Policy, Fuji Oil works to ensure the sustainable procurement of palm oil, a key raw material. The company sources palm oil with production traceability to the oil palm plantations owned by its joint venture partners in order to manufacture high-value-added palm oil products.

**Sumitomo Rubber Industries' Initiatives**

Sumitomo Rubber has committed to procuring materials that meet its Sustainable Natural Rubber (SNR) Policy, focusing on improving traceability and supporting small-scale farmers. Since 2021, the company's subsidiary in Thailand has been conducting site visits to natural rubber suppliers at a pace of approximately 3,000 smallholder farms per year.

**Palm Oil**

**High Value-Added Initiatives**

One hundred percent of the palm oil produced at the Malaysian oil palm plantation we visited is RSPO-certified. (The Roundtable on Sustainable Palm Oil certification is an internationally recognized standard.) Such palm oil, certified as sustainable, can be sold at premium prices. Additionally, the plantation focuses on extracting high-quality palm oil by taking measures to reduce process contaminants—trace elements formed during the refining of palm oil. Since high-quality palm oil commands a quality premium in market purchase prices, systematically managed oil palm plantations like this one are able to attain high profitability.

**Example of Creating New Business Opportunities**

The plantation also uses the fibers and shells that are by-products of palm oil production to produce biogas. It utilizes the biogas at its own plant and then sells the surplus to an energy company. A larger biomass power plant is being constructed on the plantation grounds. In three years, the plan is to supply approximately 90% of the electricity generated to an AI data center in Malaysia. This serves as an excellent example of sustainable initiatives giving rise to new business opportunities.

**The Importance of Capital, Technical Expertise, and Adaptability**

Since the palm fruit must be pressed within 24 hours of harvesting to maintain oil quality, plantations must have an oil mill on site, which requires a substantial capital investment. At the processing plant we visited, the orange-colored crude palm oil transported from the plantations is refined to make it colorless and odorless. Processing and refining methods vary depending on the intended use, and customer demand is also segmented due to differences in regional climate and food culture, so the processing plant must have advanced technical expertise and be adaptable to meet diverse requirements.

**Leading Companies are Working to Ensure Traceability**

Fuji Oil partners with plantations engaged in sustainable practices and refineries that have advanced technologies. These partners have achieved 100% traceability to the oil mill and 95% traceability to the plantation as of FY2023. In Europe, there is a growing demand for segregated (SG) palm oil, a higher grade under the RSPO certification system. Similarly, in Japan, the demand for sustainable palm oil from major consumers is also on the rise. Building relationships with partner companies that implement sustainable practices enables a stable supply of sustainable palm oil, which contributes to improved competitiveness.



▲ Harvesting experience at an oil palm plantation in Malaysia

▲ Latex is collected at a natural rubber plantation in Thailand

**Natural Rubber**

**A Leading Company Has Largely Completed Its EUDR Compliance**

The natural rubber supply chain is a complex network of stakeholders, including an estimated six million smallholder farmers, as well as plantations, dealers, and processors, making perfect traceability extremely difficult to ensure.

However, at the Sumitomo Rubber Industries processing plant we visited, EUDR compliance had already been completed for approximately 15,000 farmers who supply rubber. Of the facility's 50,000-ton production capacity, around 80% is now EUDR-compliant, and the remaining 20% can be made compliant as necessary. So here, a leading corporation in the natural rubber business has largely completed its traceability compliance efforts.

**Focus on Supporting Smallholder Farmers**

Working conditions for tapping, the process of harvesting

natural rubber by scoring rubber trees with a knife, have much room for improvement. Also, initiatives to increase the profitability of natural rubber plantations have been lagging due to the high percentage of smallholder farmers in their ecosystems and little prospect for developing a new business from by-products such as biomass resources.

To address these issues, the research facility belonging to the processing plant we visited was working on improving the yield of latex (the sap harvested from rubber trees) and developing high-quality cloned seedlings. The facility was also developing the use of ethylene promoters to maintain yield levels while reducing the number of tapping days. This innovation has enabled an increase in the yield per tapping session, thereby reducing the frequency of the tapping work, which is physically demanding. The company expressed plans to roll out this technology to the company's other supplier farms to improve the work-life balance of workers.

**Expectations for the Future**

**Differences Between Initiatives for Palm Oil and Natural Rubber**

**Comparison of Palm Oil and Natural Rubber**

	Palm oil	Natural rubber
EUDR	Applicable	Applicable
Cultivation area	Areas around the equator within 15 degrees north and south	Areas around the equator within 20 degrees north and south
Main management style	Plantation (organization)	Smallholder (individual)
Maintaining quality	Oil must be pressed within 24 hours of harvesting	No problem if left to mature after harvesting
Time from seedling to harvest	3 years	7 years
Harvesting time	Day	Night
Harvesting period	All year round	May to January, but work is not possible on rainy days
By-products	Yes (biomass resources)	None
Profitability	High	Low

Thailand and Indonesia account for 37% and 15% of the world's natural rubber production, respectively, for a combined total of 52% of global production. However, driven by government policy, there has been movement in Indonesia to convert natural rubber plantations into more profitable oil palm plantations. As shown in the table above, aside from the profitability issue, compared to the better conditions for palm oil, natural rubber involves a seven-year wait from seedling to harvest, the working conditions are tougher for collecting the sap, and

the harvesting period is limited by season. At present, the global supply capacity of natural rubber is being supplemented by expanding production in other countries, so there have been no major disturbances to the overall supply-and-demand balance in the market to date, but that balance could well be upset in the future.

**To Improve Sustainability**

The oil palm plantation we visited is a company owned by the state of Johor in Malaysia, and it was listed on the stock exchange in July 2024. The funds raised during its IPO were invested in the business of creating high-value-added products from biomass resources. This initiative not only strengthens the company's competitiveness but also contributes to the reduction of greenhouse gases by using biomass as an energy source. We believe that such initiatives will help companies expand their market share and become best practices, contributing appreciably to the sustainable development of oil palm plantations.

For natural rubber, a leading company has demonstrated that it has little difficulty ensuring traceability and is confident it can also achieve EUDR compliance. Going forward, we expect to see nature-positive approaches to biodiversity challenges. We are also seeing proactive support for smallholder farmers through research and development and other activities. We expect to see companies continue to strengthen such initiatives, thereby contributing to the improvement of sustainability across the entire supply chain.



Initiatives Related to Our Core Materiality

④ Business and Human Rights

Issues recognized

With respect to human rights, there is a comparatively long tradition of discussion on the rights of workers, and the International Labor Organization (ILO) was established in 1919. Meanwhile, in recent years, human rights abuses by multinational corporations against indigenous and local populations in developing countries have become a societal issue with the advance of economic globalization, and “business and human rights” are 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.

Below are examples of the kinds of business and human rights issues that have arisen to date.

In the 1990s, reports of child labor and inhumane labor practices at Asian manufacturing plants in the supply chain of a major US footwear manufacturer triggered a boycott campaign.

In 2013, a building in Bangladesh occupied by many garment factories collapsed, causing the deaths of more than 1,000 workers. The cause of the collapse was identified as structural problems in the building accompanied by appalling working conditions, and this led to many questions being raised about the global garment industry's supply chains.

In 2019, a dam operated by a Brazilian mining company collapsed, inundating a city located downstream, and resulting

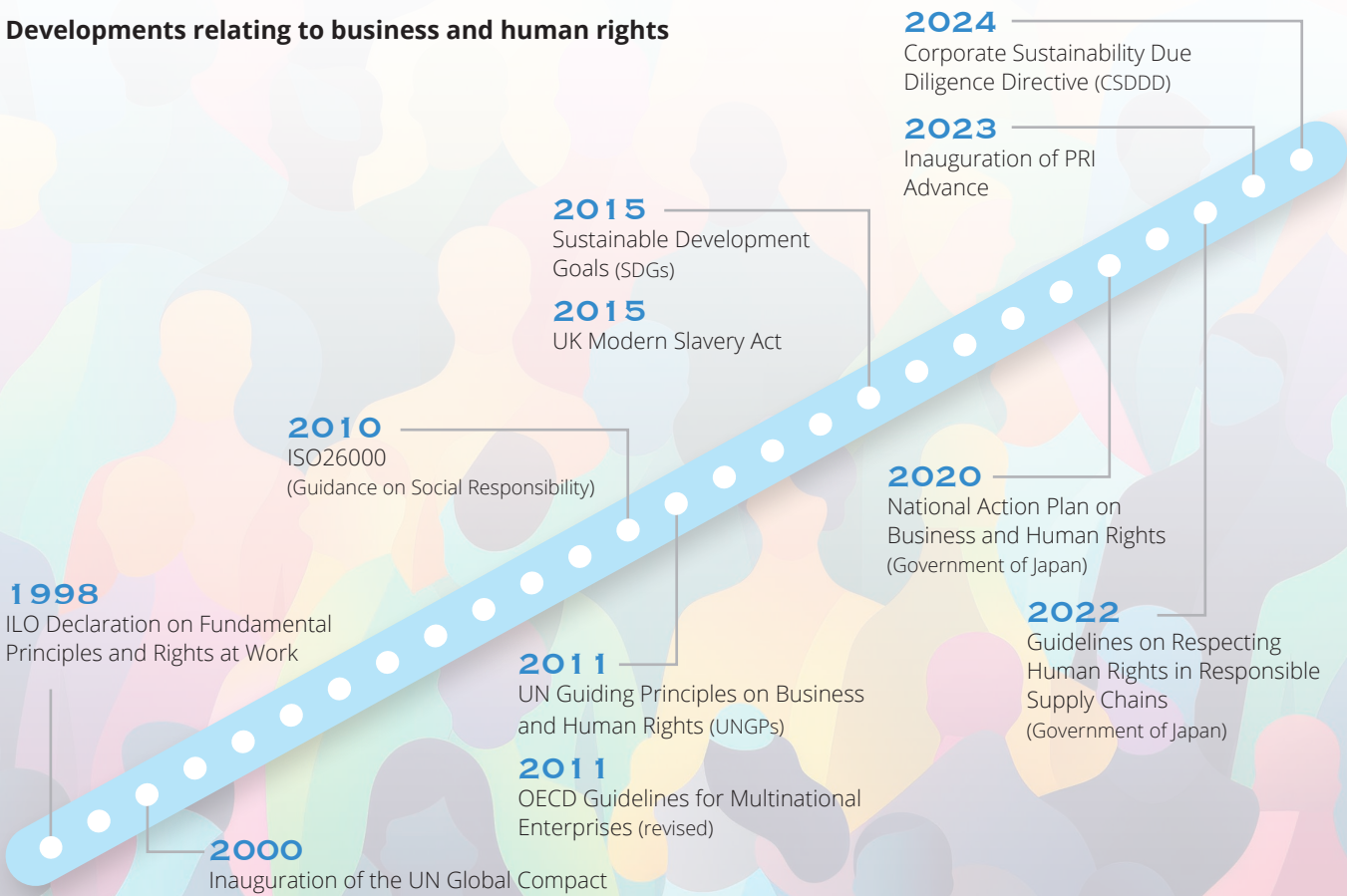
in the deaths of more than 200 people as well as significant environmental damage. This accident highlighted deficiencies in safety management and consideration for the environment in mining operations.

Issues such as these subsequently 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.

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.

Developments relating to 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.

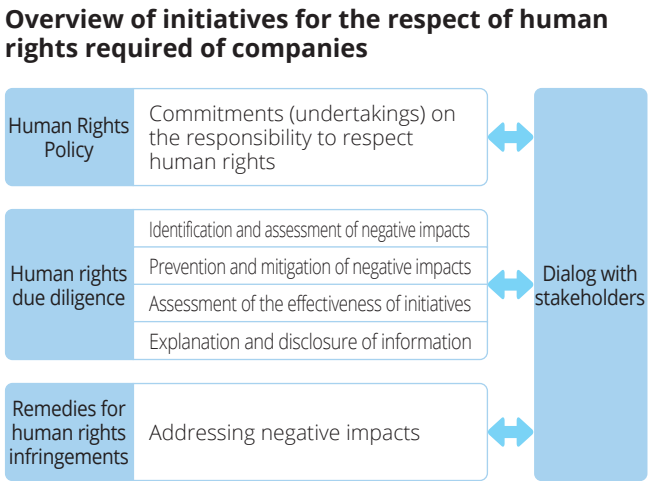
Specifically, based on the UN Guiding Principles on Business and Human Rights (UNGPs) and other standards which have been compiled with reference to the UNGPs such as the Japanese Government's Guidelines on Respecting Human Rights in Responsible Supply Chains, Daiwa AM require companies to:

- 1 Develop a human rights policy;
- 2 Conduct human rights due diligence;
- 3 Access remedies for human rights infringements.

We also utilize these initiatives at our investee companies in our operational ESG integration and in engagement.

As an institutional investor with responsibilities at one end of the investment chain, Daiwa AM are committed to improving

performance following adjustment for medium- to long-term risks with consideration to business and human rights risks and opportunities as well as to fulfilling our responsibility to society.



Source: Guidelines on Respecting Human Rights in Responsible Supply Chains

**Company C**  
(mining industry)

**Engagement case studies**

**TOPIC** Human rights abuses by an overseas company against indigenous and local population in a developing country

**Issues and background**

- In the mines of a developing country where the company has interests, an uninterrupted series of fatal accidents has occurred over the last 20 or so years, ten of which fatalities had occurred in the previous two years (2022-2023) alone.
- The area in question is home to an indigenous population which has historically conducted small-scale mining operations, and it has been reported that the local government, which co-owns the mine, has deployed security forces to assault and kill the indigenous population involved. The security forces have cited theft of mineral ore by this population as well as trespassing into the mine as justification for their violent actions.

**Potential solutions**

- The company's policies and initiatives on safety and human rights as well as community relations should be aligned with international human rights norms.
- The company should partner with the local government and report externally on how the company's policies on safety and human rights are being put into practice and whether the public authorities are promoting the respect and protection of human rights.

**Company response**

- The company explained that they were conducting a human rights risk assessment and shared the latest assessment results for the mine.

**Related initiatives**

We are proud to be participating in Advance as a collaborating investor

PRI Advance

## Initiatives Related to Our Core Materiality

### ⑤ Human Capital Management, DE&I

#### Issues recognized

In the capital markets, interest in “human capital” is growing in the context of a trend toward a greater focus on non-financial information. In 2018, the International Organization for Standardization published ISO 30414, to serve as the world’s first guidelines for internal and external human capital reporting, while in 2020 the U.S. Securities and Exchange Commission (SEC) codified the disclosure of human capital as a rule. In Japan, the Ministry of Economy, Trade and Industry (METI) published the ITO Report for Human Capital Management in September 2020, while the Tokyo Stock Exchange (TSE) added a section on disclosure of information on human capital in its revised Corporate Governance Code in June 2021. The Japanese Financial Services Agency (FSA) also stipulated disclosure of information on human capital and diversity from annual securities reports and other documents for the fiscal year ending on March 31, 2023, and for all subsequent fiscal years, in its Cabinet Office Order on Disclosure of Corporate Affairs.

Dealing with declines in the working population has become a pressing challenge in many developed

countries, and the mindsets, working styles, and communication methods of workers have changed in the wake of the COVID-19 pandemic. Accompanying this, the importance of investing in human resources, which can be regarded as the greatest capital resource of corporations and the driving force behind value creation, is increasing. “Human capital management” is thus required to maximize the value of these human resources as “capital,” and by doing so facilitate medium- to long-term enhancement of corporate value.

Nevertheless, many challenges remain in human capital investment, such as the disparity between labor market demand and the skills provided by the education system; a shortfall in opportunities for upskilling education and training for workers to respond to technological advances and changes in industrial structure; and impediments to maximizing human capital attributable to wage disparities and unequal access to promotion opportunities. These initiatives and disclosures can moreover be considered as factors with the potential to significantly impact corporate value in the medium to long term.

#### Regulatory developments relating to human capital disclosure

2023	FSA	Revision of the Cabinet Office Order on Disclosure of Corporate Affairs
2021	TSE	Additional disclosure section on human capital (revision of the Corporate Governance Code)
2020	METI	Publication of ITO Report for Human Capital Management
	SEC	Codifying of rules on disclosure of information on human capital
2018	ISO	Publication of ISO 30414, guidelines for internal and external human capital reporting

#### Our thinking and approach

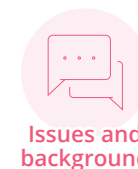
As part of our engagement on human capital, Daiwa AM undertakes dialogs with investee companies, focused on their “human capital strategy” and “diversity” initiatives. For human capital strategies, we encourage companies to engage in initiatives to secure and retain first-rate human resources, to create frameworks and initiatives to develop human resources, and to undertake initiatives to increase employee engagement. For diversity, we also encourage initiatives to redress gender disparities through specific measures and quantitative indicators in the promotion of the active participation of women, and those aimed at ensuring diversity from perspectives other than gender, such as nationality, age, and the recruitment of experienced personnel. We furthermore maintain an awareness of the importance of linking these initiatives to management strategies.

Regarding the diversity initiatives, we have created a list of, and conducted engagement with, investee companies with a low gender gap index or large disparities between the ratio of female managers and the ratio of female employees. In addition, Daiwa AM are a member of the 30% Club Japan Investor Group and request that investee companies develop systems to enable the appointment (facilitate talent pooling) of directors of diverse genders from within their companies on an ongoing basis, as we consider it desirable, at a future point in time, to have female directors account for at least 30% of the membership of the board of directors. Based on this principle, we have also revised our Proxy Voting Policy with the aim of encouraging the active appointment of directors of diverse genders.

Company  
D  
(mining industry)

#### Engagement case studies

##### TOPIC Promoting gender diversity



Issues and background

- The company has a low ratio of female managers and significantly lower ratio of female managers to ratio of female employees.
- The company's gender gap index is low in comparison to industry peers, with DE&I initiatives urgently required to secure and retain first-rate human resources
- The company has a risk of reduced production capacities and impacts on corporate value to a background of labor shortfalls accompanying reduced recruitment capacities



Potential solutions

- Introduce personnel and evaluation systems tailored to the career and life plans of each employee
- Address the need to reform the corporate culture in addition to introducing systems to ensure fairness
- Indicate role models as a useful means toward the retainment of human resources



Company response

- The company acknowledged that there was room for improvement in terms of their systems, and that they would like to consider a review of these systems going forward
- The company will enhance its development of human resources with the potential to serve as role models
- The company will consider disclosure on gender disparities in employee turnover rates, and aim to improve the relevant indices

#### Related initiatives



30% Club Japan Investor Group



Human Capital Management Consortium

In support of

**WOMEN'S  
EMPOWERMENT  
PRINCIPLES**

Established by UN Women and the  
UN Global Compact Office

Women's Empowerment Principles (WEPs)



## Initiatives Related to Our Core Materiality

### ⑥ Governance Framework and Effectiveness of Boards of Directors

#### Issues recognized

In Japan, the Corporate Governance Code was introduced in 2015. The Code serves as principles of conduct for listed companies toward the improvement of medium- to long-term profitability based on effective management strategies in appropriate collaboration with a wide range of stakeholders, and was subject to two subsequent rounds of revisions, in 2018 and 2021. Prompted by the introduction of the Code, listed companies have promoted various initiatives to enhance their governance frameworks. This has included increasing their ratios of independent outside directors; establishing voluntary nominating and compensation committees; and appointing board members with a variety of attributes to instill diversity. These efforts mean that today it can be said that formal governance frameworks have been enhanced to fulfill management supervision functions.

Meanwhile, there are other cases in which, despite having been established, such frameworks are not sufficiently utilized in management. In this regard, the forthcoming challenge can be characterized as being to ensure that governance frameworks that have been put in place are functioning effectively. Perhaps the most important factor in improving the effectiveness of boards of directors is the creation of an environment whereby outside directors can fully demonstrate their supervisory functions. The Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's

Corporate Governance Code, which is convened on a regular basis by the Financial Services Agency, has identified "effectiveness of independent directors" as a challenge in the substantive realization of corporate governance reform, with Daiwa AM also attaching particular importance to this point.

To achieve this, it will be necessary to: ① Implement timely and appropriate information provision for outside directors to reduce to the extent possible information gaps with inside directors, ② Expand the support systems to facilitate this purpose, ③ Create opportunities for communication with employees and other actors besides directors, and ④ Conduct site visits, study groups, and related initiatives aimed at facilitating a deepened understanding of the business.

Initiatives such as these can be anticipated to enhance the management supervisory function of outside directors while promoting further separation of business execution and supervisory functions and expediting management decision-making if they succeed in facilitating outside directors in fully demonstrating their capacities. At the same time, the transparency of management will also increase and external confidence in governance frameworks will grow if outside directors are thereby facilitated in assuming a central role in discussions of important matters such as management nominations and compensation.

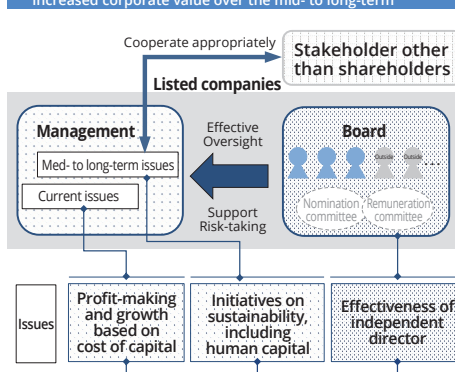
#### Action Program for Accelerating Corporate Governance Reform

- The Council published recommendations regarding "Action Program" as of April 26. The Council will review the implementation status from time to time and consider whether additional measures are needed.

##### Approach to future initiative

- It is vital to move the focus of reform from form to substance in resolving the issues. To this end, it is necessary to create an environment that promotes self-motivated changes in the mindsets of companies and investors, as well as to make the dialogues between companies and investors more productive and more effective.
- It is appropriate to examine the timing of the revision of each Code in a timely manner based on the status of progress from the viewpoint of the effective implementation of corporate governance reform, not necessarily following the review cycle in the past years.

##### 1. Issues for seeking sustainable corporate growth and increased corporate value over the mid- to long-term



##### Specific measures

- A) Encouraging the management with an awareness of profit making and growth**  
Encourage the management with an awareness of profit making and growth based on the cost of capital (such as the proper allocation of management resources toward risk taking, including a business portfolio review and investments in human capital, intellectual properties and R&D).
- B) Encouraging the management with an awareness of sustainability issues**  
Encourage companies to take actions on sustainability through publication of companies' good disclosure practices. Consider measures to improve the diversity of the board and core human resources, such as increasing the percentage of female executives (target of 30% or more by 2030).
- C) Improving the effectiveness of independent directors**  
Promote further improvement of the effectiveness of independent directors through compilation and publication of the actual status and examples of a board, nomination committee and remuneration committee, and educational activities to promote understanding of the roles expected of independent directors.

+ WEB Source: Secretariat briefing materials of the Financial Services Agency's "29th Meeting of the Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code," p. 2

https://www.fsa.go.jp/en/news/2023/20230426-2/01.pdf

#### Our thinking and approach

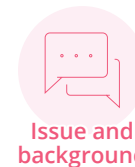
Daiwa AM's governance framework is the foundation for its corporate management as it considers it the most important issue for corporate management. This is the case because a failure of the governance framework to function in a stable manner would impede corporate activities, from day-to-day business to sustainability initiatives. During engagements, Daiwa AM holds dialogs on various topics, ranging from the composition and diversity of boards of directors to the independence of outside directors; activities of nominating and compensation committees; and evaluations of the effectiveness of the board of directors and executive remuneration, and then encourages the enhancement of initiatives to improve effectiveness.

In the proxy voting guidelines too, we had previously focused on revisions of articles requiring the fulfillment of formalized frameworks. However, since we are now entering the phase involving the improvement of effectiveness, we have recently introduced other guidelines informed by this perspective, such as those requiring the adoption of voluntary nominating and compensation committees as well as those relating to the number of companies at which outside directors hold concurrent appointments. We will continue to consider revisions to the proxy voting guidelines which contribute to enhancing the effectiveness of boards of directors.

#### Engagement case studies

Company E  
(Pharmaceuticals)

#### TOPIC Effectiveness of the voluntary nominating and compensation committees



Issue and background

- Company E has established voluntary nominating and compensation committees. However, there is a doubt as to whether the effectiveness of these committees is sufficiently ensured as they are convened only once a year, with no disclosure implemented on the specific activities of the committees.



Potential solution

- The nominating and compensation committees play a vital role in ensuring the objectivity of the processes in the important matters of appointing directors and determining their remuneration. For this reason, it is important to ensure the effectiveness of these committees, and details of this effectiveness should also be proactively disclosed to demonstrate this externally.



Company response

- The response we received indicated that Company E would recalibrate the content for discussion at meetings of the nominating and compensation committees while also increasing the frequency of these meetings to enhance their effectiveness.

#### Related initiatives



**ICGN MEMBER**

Inspiring global governance standards  
www.icgn.org

International Corporate Governance Network (ICGN)



# Topic IP and Intangible Assets

## Issues Recognized

We recognize the increasing importance of intellectual property (IP) and intangible assets as critical drivers of corporate competitiveness as industrial structures undergo a transformation. In the U.S., the tech companies referred to as the “Magnificent Seven” have realized high growth and continue to increase their corporate value. In contrast, Japanese companies are facing a low rate of R&D expenditure growth along with low markup ratios, which results in a smaller percentage of intangible assets in their market capitalization. This disparity contributes to the valuation gap between Japanese and U.S. markets, as evidenced by the price-to-book ratio (PBR) of approximately 5.0x for the S&P 500 compared to 1.3x for the TOPIX Prime as of October 2024.

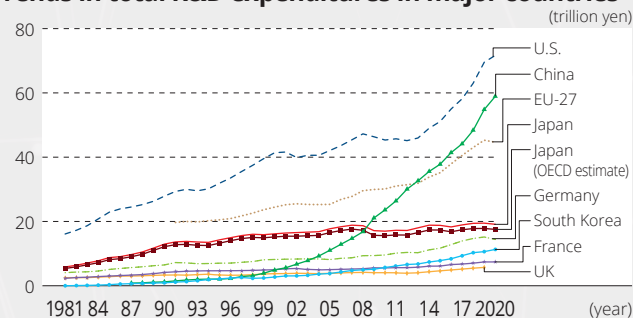
Finding pathways forward to meet global environmental challenges and resolve systemic socioeconomic issues will require transforming large-scale systems, which include energy transition, decarbonization, and supply chain restructuring. Disruptive innovations that reshape competitive landscapes (often called “game changers”) will likely be involved, calling for a major shift in thinking. The ability of companies to lead such change or synchronize with it will be crucial. In this context, over and above the role of traditional manufacturing or financial capital, we expect even more significance to reside in

intangible assets—particularly IP, R&D capabilities and the human capital that drives R&D, and corporate cultures that provide the ground for innovation to flourish.

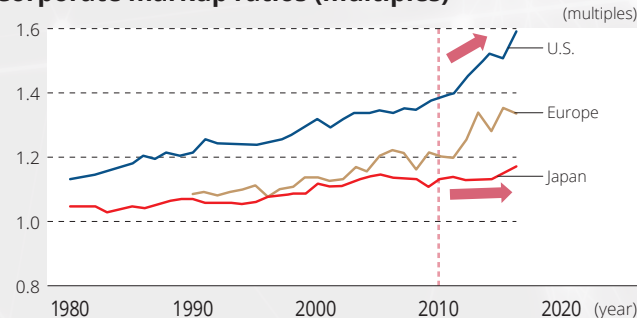
Corporate executives, investors, and financial institutions have increasingly recognized the importance of IP and intangible assets as essential resources for competitiveness. This emphasis was highlighted by the 2021 revision of Japan’s Corporate Governance Code, which incorporated the point that companies should disclose information on their investments in intellectual property and related assets and provide it in an easy-to-understand manner in alignment with management strategies and issues. Given that companies tend only to discuss IP and intangible assets in general terms, Japan’s Cabinet Office also issued and revised its Intellectual Property and Intangible Assets Governance Guidelines to assist companies in how they can improve their corporate value by disclosing their investment and utilization strategies and by applying governance to these assets.

To strengthen Japanese companies’ resilience to game-changing shifts, it is essential not only for the companies themselves to take action but also for stakeholders—shareholders, investors, and employees—to recognize the critical value of intangible assets like IP and R&D and actively contribute to increasing their value through engagement.

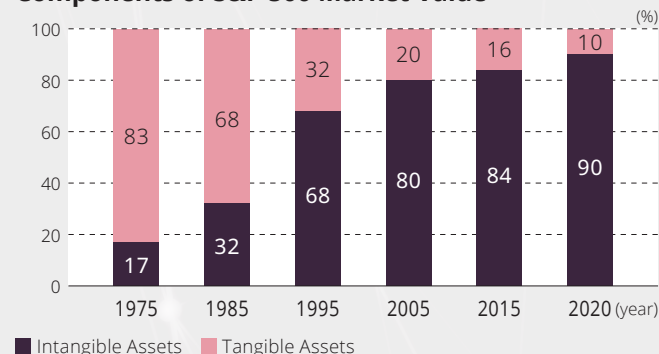
Trends in total R&D expenditures in major countries (trillion yen)



Corporate markup ratios (multiples)

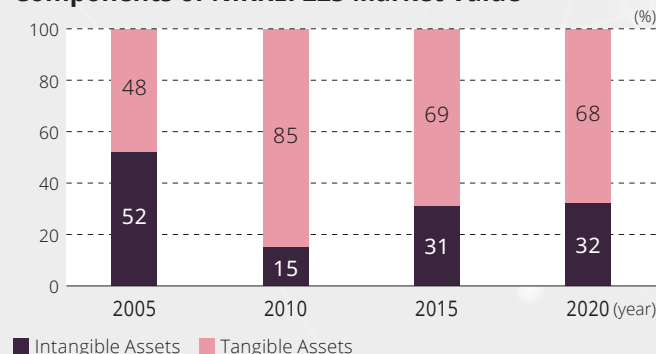


Components of S&P 500 Market Value



Source: Cabinet Office “Guidelines on Disclosure and Governance of Strategies for Investment and Utilization Regarding Intellectual Property and Intangible Assets” (Intellectual Property and Intangible Assets Governance Guidelines) Ver. 2.0

Components of NIKKEI 225 Market Value



## Our Approach and Philosophy

In general, the term “IP and intangible assets” is in most common use, but Daiwa AM prefers to view these assets through the lens of “IP and R&D capabilities.” The term “non-financial capital” is often used to refer to the sources of value creation that a company holds as the basis of its management—such as human capital, IP and R&D capabilities, and social capital. Depending on its specific nature, this is sometimes referred to as “future financial capital” or “pre-financial capital.” However, these types of capital, including those listed above, may already be recorded as financial capital in certain contexts. Additionally, accounting standards provide specific definitions for “intangible assets.” At Daiwa AM, we recognize the need to assess these sources of value creation, which constitute a company’s management foundation, irrespective of their inclusion in financial statements. To express this broader concept, we use the term “potential power.” We consider IP and R&D capabilities to be vital strengths alongside elements such as human capital and brand value.

Under this definition, we have prioritized purpose-driven dialogs, specifically focusing on IP and R&D capabilities. By clearly communicating to companies—as shareholders and investors—what we wish to know and why regarding their IP and R&D capabilities, we have been able to foster structured discussions in this area that had previously been unfamiliar territory to companies.

We have been gaining insights and engaging more proactively to shape practices by disseminating information. Our efforts include holding meaningful discussions with both the Cabinet Office, regarding its Intellectual Property and

Intangible Assets Governance Guidelines, and also with our group company specializing in IP consulting, participating in research forums where corporate IP departments convene, and publishing articles and books on related topics.

Notable progress has been made in corporate disclosures related to IP in the past year or two, but we recognize that significant challenges remain. We will continue to engage in purposeful dialogs with companies and communicate effectively with all stakeholders while working to enhance our expertise further.



## Engagement case studies (Tokyo Ohka Kogyo)

Dialog on IP and R&D Capabilities with Tokyo Ohka Kogyo (TOK)

Participation in information-gathering hearings with a research group (10 companies) to which the head of TOK’s Intellectual Property Dept. belongs

Publication of a three-way discussion on “Intellectual Capital/Human Capital Strategy” in TOK’s integrated report



Source: Tokyo Ohka Kogyo Integrated Report 2023



## Examples of Activities in the Initiative

### Speaking appearance at the UN Principles for Responsible Investment (PRI) human rights webinar

Daiwa AM participated in a human rights webinar organized by the PRI Japan Advisory Committee to mark World Human Rights Day, during which we gave an overview of the reasons investors place importance on “business and human rights” and of Daiwa AM’s engagement and other initiatives, while also taking part in a panel discussion on the topic of “How to Link Human Rights Responses to the Enhancement of Corporate Value.”

We additionally participated as a member of the Working Group for the Development of Awareness Raising Materials on Business and Human Rights for Institutional Investors in the production of “A Guide to ‘Business and Human Rights’ for Institutional Investors,” produced by the International Labor Organization (ILO) Office in Japan as part of the “Skills Development and Responsible Business Conduct for Transition” project, which was introduced at the event, while also cooperating by sharing Daiwa AM’s knowledge and expertise in these areas.



### Inclusion of case study in a 30% Club Japan Investor Group publication

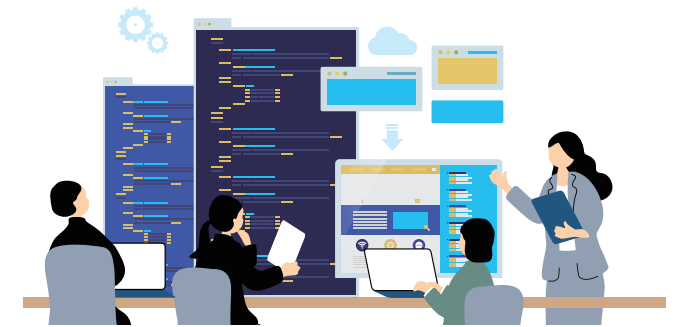
Daiwa AM presented a case of our engagement with an information and telecommunications company as a best practice in the promotion of the active participation of women in a progress report of the 30% Club Japan Investor Group.

The information and telecommunications company identified an expansion in the number of engineers as a core part of its growth strategy. However, the information services industry at large was faced with a shortage of engineers, a challenge requiring urgent redress. This situation was compounded by a background of the social structural problem of low numbers of female science and engineering students.

The company in question instituted measures to address these issues by, for example, developing a framework for the recruitment of personnel with no experience and undertaking initiatives on an organizational level for the creation of post-employment development programs for human resources. As a result of these initiatives, the company has both maintained a

high number of recruits and ensured that their ratio of female engineers exceeds that of industry peers.

In addition, although current appointments of female directors are limited to outside directors, several female employees trained in-house have already been appointed as executive officers. Daiwa AM thus assesses that the pool of female candidates for director positions from within the company is achieving adequate levels.



### Initiatives supported

ESG ESG in general  
E Environment S Social G Governance

#### 2006

##### ESG UN Principles for Responsible Investment (PRI)

The United Nations Principles for Responsible Investment (PRI) are global guidelines for responsible investment that aim 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 currently chairs the PRI Japan Advisory Committee.



#### 2011

##### ESG Principles for Financial Action for the 21st Century

The Principles for Financial Action toward a Sustainable Society (Principles for Financial Action for the 21st Century) were developed as an action guideline for domestic 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 on Climate-related Financial Disclosures (TCFD) was established by the Financial Stability Board (FSB) in 2015. The TCFD recommends that corporations and other entities voluntarily complete climate-related financial disclosures as part of their general (published) 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.



##### S 30% Club Japan Investor Group

The 30% Club Japan Investor Group is a group comprised of asset owners and asset managers whose 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+

Climate Action 100+ is an international engagement initiative launched by investors in 2017. 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)

The Net Zero Asset Managers initiative (NZAMI), which was launched in December 2020, is a global initiative by asset management companies to achieve net zero greenhouse gas (GHG) emissions at investee companies by 2050. As of July 2024, more than 325 companies worldwide, with a combined total of around 57 trillion dollars in assets under management, were participating in this initiative, including many Japanese asset management companies.



##### G International Corporate Governance Network (ICGN)

The International Corporate Governance Network (ICGN) is an international initiative launched in 1995. Its stated 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)

The Japan Stewardship Initiative (JSI) was established in 2019 with the aim of helping deepen and advance stewardship activities.



##### S Human Capital Management Consortium

The Human Capital Management Consortium was 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.



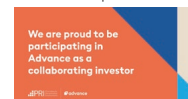
##### S Women’s Empowerment Principles (WEPS)

The Women’s Empowerment Principles (WEPS) 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

PRI Advance 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)

The Task Force on Nature-related Financial Disclosures (TNFD) 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 endorsing the TNFD to coincide with its launch in December 2023.



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

Glasgow Financial Alliance for Net Zero (GFANZ) is a voluntary coalition of financial institutions which aims to achieve net zero global greenhouse gas emissions by 2050. 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)

Spring is a collaborative engagement initiative for which the United Nations Principles for Responsible Investment (PRI) provides operational and other support with the objective of halting and reversing biodiversity loss by 2030. Daiwa AM is participating as an endorser and contributing to improvement of the corporate value of investee companies by promoting initiatives to address the loss of biodiversity through collaborative engagement with these companies.



##### E Investor Agenda

The Investor Agenda was launched in 2018 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.