

Daiwa AM's Vision for Investee Company Best Practice

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

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