

Transformation That Begins with Dialog

2. Engagement

Realizing the enhancement of corporate value through engagement and proxy voting



Overview of Daiwa AM's Engagement

Purpose and positioning

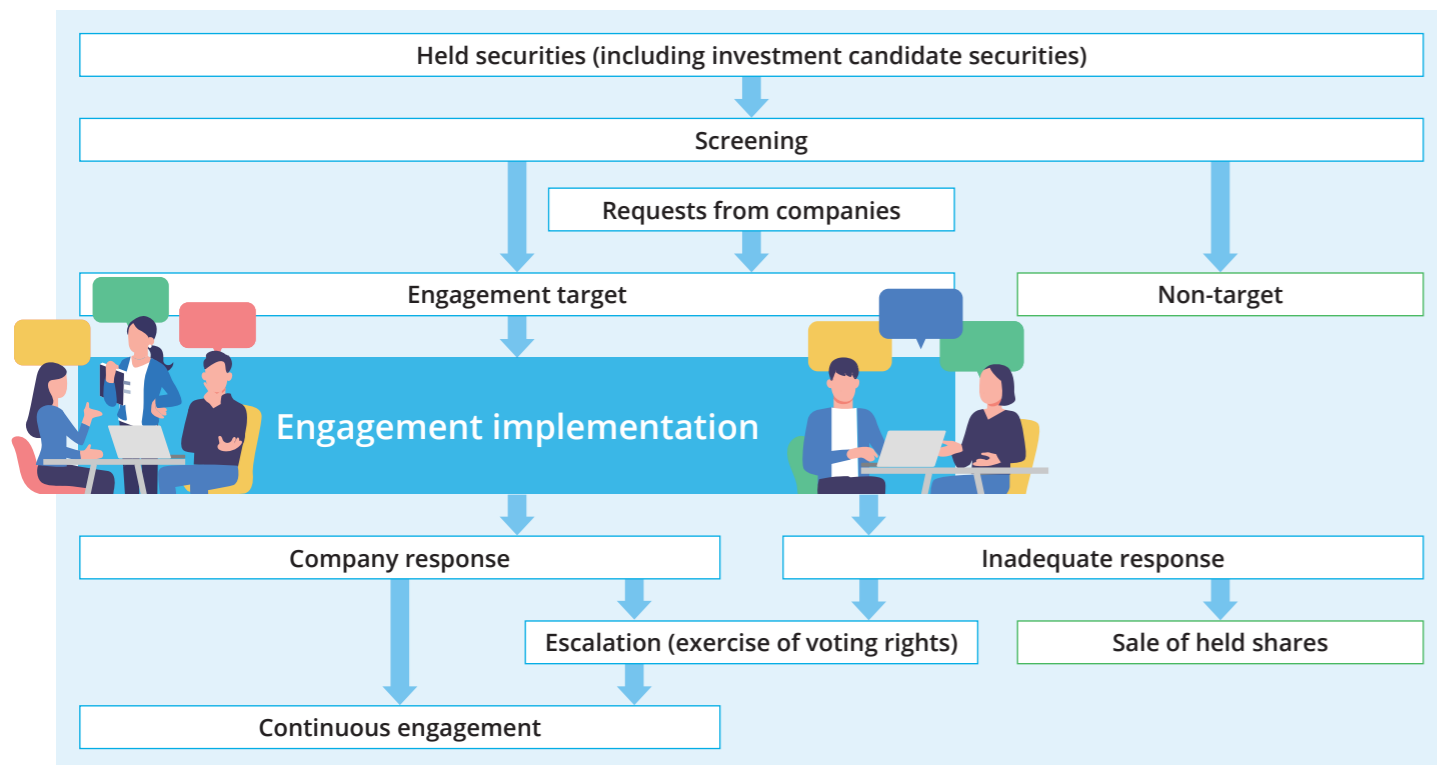
The engagement by investors in ongoing dialog with investee companies to hasten the resolution of environmental, social, and governance (ESG) issues and promote improvements in corporate behavior is considered indispensable to the achievement both of a sustainable society and long-term investment returns. The Stewardship Code also emphasizes that active engagement by investors is crucial for everything from driving sustainable corporate growth and enhancing corporate value, through to furthering responses to ESG challenges.

Daiwa AM seeks to enhance transparency in management and strengthen governance through engagement, while focusing efforts on supporting companies in their responses to ESG challenges and achieving sustainable growth. Engagement also serves to maximize medium- to long-term returns in contributing to

long-term enhancements of corporate value and the early detection of risk. We consider engagement to play a vital role in reconciling the pursuit of financial returns with fulfillment of social responsibilities.

To complement the above, Daiwa AM uses an integrated approach to managing engagement and the exercise of voting rights. We implement engagement with companies which are facing sustainability challenges, including those relating to ESG, to encourage corporate transformation at our investee companies. Meanwhile, when we deem that responses by companies are insufficient, we endeavor to enhance the effectiveness of engagement by compelling them to undertake actions that will contribute to the enhancement of corporate value, including through specific investment conduct and the exercise of voting rights.

Positioning of engagement



Information disclosure and governance as the basis for dialog

Information disclosure as the foundation for all challenges

Daiwa AM defines its vision, encompassing diverse perspectives, of how investee companies should be situated to enhance corporate value. The fundamental premise for this becoming a reality is accurate and detailed disclosure of information on actual statuses. How a company is evaluated externally will not improve if disclosure is absent or inadequate, regardless of how outstanding the initiatives undertaken may be. This is why Daiwa AM insists first and foremost on proactive disclosure. We specifically consider integrated reports to be a crucial disclosure tool in clearly communicating to shareholders and investors a company's management strategies as well as their non-financial information, which statutory disclosures alone cannot cover. We thus expect companies to actively publish integrated reports.

foundation to facilitate this is essential. We also consider effectiveness of the board of directors, the body responsible for overseeing business execution, as representing the key to this governance framework.

For the above reasons, numerous items concerning effectiveness of boards of directors can be found in examples of best practices. However, the overarching principles governing Daiwa AM's approach to this are the importance of: (1) Establish a framework which enables lively exchanges of views among an appropriate number of sufficiently diverse members; (2) Ensure a support framework led by the board secretariat for an environment enabling outside directors to fully demonstrate their skills and expertise, and; (3) Create a supervisory framework for business execution in which outside directors are given a leading role, particularly on key matters such as senior management nominations and compensation. For organizational design, we recognize that the optimal setup will be dictated by each company's circumstances and growth stage and consequently do not currently require all companies to establish a monitoring board. We will, however, continue to examine the scope of companies at which a monitoring board would be advisable as well as the appropriate organizational design where this is the case.

The most critical task: Enhancement of the effectiveness of the board of directors

Initiatives to address ESG and other challenges gain effectiveness when a framework has been put in place to manage the entire process from identifying key issues to devising and implementing measures, and monitoring and reviewing progress. In this sense, establishing a robust governance framework to serve as the

Encouraging proactive disclosure of non-financial information on risks and opportunities

Communicating in a clear and understandable manner how non-financial information, particularly information pertaining to the environment and society, impacts medium- to long-term corporate value is a key point for Daiwa AM. We advise disclosure of such information from

the twin perspectives of reducing risks with the potential to negatively impact future corporate value and identifying future business opportunities. Below we outline Daiwa AM's vision of where companies need to be positioned on matters that we consider particularly important.

Climate change

The company formulates a roadmap for attainment, specifies necessary measures, and steadily implements these toward the goal of achieving carbon neutrality by 2050.

Business and human rights

The company identifies human rights risks in their economic activities, continuously pursues initiatives to reduce risk through implementation of human rights due diligence, and simultaneously establishes an effective human rights remedy mechanism, based on international frameworks for the respect of human rights.

Biodiversity

The company identifies the impacts and risks posed by their economic activities on natural capital and then formulates and implements measures to forestall any loss of nature stemming from these activities, including within their value chain, to contribute to nature positivity.

Human capital and DE&I

The company implements human capital management designed to maximize the potential of their workforce and enables employees from diverse backgrounds to find fulfillment in their work and apply creativity to the performance of their duties, thereby achieving high productivity and continuous innovation, based on a commitment to these principles among their senior management.



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 and conducts reviews of this vision on an ongoing basis. We use these cases as a tool to achieve more in-depth discussions on enhancing corporate value, including during engagements with investee companies.

Key Issues		Best Practice
Environmental	Climate change	<ul style="list-style-type: none"> By formulating and analyzing climate change scenarios in line with the TCFD framework, the company identifies transitional risks, physical risks and business opportunities. The company implements quantitative monitoring of greenhouse gas emissions, emissions per unit of production, and the anticipated risks and opportunities. The company formulates a concrete roadmap and milestones for achieving carbon neutrality by 2050, and explains the progress made on an annual basis. It is also desirable that the company should set a goal of reducing emissions by at least 50% by 2030, in line with Daiwa AM's NZAMI intermediate goals. The company formulates and implements a business strategy that takes both risks and opportunities into account, and implements the summarizing and evaluation of activity implementation status.
	Natural capital	<ul style="list-style-type: none"> The company grasps the business continuity risks by identifying links between natural capital (forests, water resources, mineral resources, biodiversity, etc.) and its own business activities throughout the value chain, and by analyzing its impact and the extent to which it is dependent on the natural environment. The company undertakes initiatives and disclosure in line with TNFD recommendations, including the identification of biodiversity risks and opportunities, scenario planning, and the formulation of business strategies, in an appropriate manner. The company engages in corporate activities which serve to promote the transition to a circular economy by maximizing the value of resources and products, minimizing resource consumption, and mitigating waste generation.
Social	Social responsibility	<ul style="list-style-type: none"> The company formulates a concrete human rights policy based on international human rights standards. The company assesses and identifies domains in which human rights risks are high from within its own operations, geographical areas of activity, and its supply chain. The company conducts ongoing human rights due diligence and audits and formulates due diligence results, as well as its issues for redress and improvement strategies.
	Human capital	<ul style="list-style-type: none"> The company establishes executive positions such as Chief Human Resources Officer (CHRO), and formulates a human talent strategy integrated with its business strategy. The company's human talent strategy is intended to achieve both individual and organizational growth through facilitating job satisfaction as well as by making it more convenient for employees to work, while incorporating frameworks for recruiting and retaining first-rate human talent and for human talent cultivation such as granting appropriate stock-based compensation to employees, as well as establishing initiatives for enhancing employee engagement. The company formulates initiative policies as well as specific measures to ensure diversity in accordance with the nature of the company's business, including those relating to nationality, age, gender, and the recruitment of experienced personnel. The company includes quantitative indicators and specific measures while formulating initiatives to reduce gender disparities as part of its gender diversity initiatives. The company should, desirably, at a future point in time, have female directors account for at least 30% of the membership of the board of directors. It is also desirable that the company together have in place a framework to enable the ongoing appointment (facilitate talent pooling) of female directors from within the company.
Governance	Governance framework	<ul style="list-style-type: none"> The company has a board of directors composition that is appropriate and effective in terms of best practice. From the perspective of enhancing understanding of the board's effectiveness, it is desirable that the main initiatives decided on and discussions held at board meetings, etc. should be disclosed. The company formulates processes and criteria for decision-making in regard to management team succession. Besides outlining the knowledge, experience and capabilities that directors are expected to possess, the company also formulates a skill matrix and a director allocation plan for the future. The company does not adopt takeover defense measures. The company discloses the basic approach and philosophy that underpins its director's remuneration system. The company also adopts malus provisions and claw-back provisions. The company divides compensation into fixed compensation, short-term incentive compensation and long-term incentive compensation. Short-term incentive compensation is linked with and evaluated in relation to the degree of achievement of strategic objectives; long-term incentive compensation is linked with and evaluated in relation to corporate value. It is desirable for the share of total compensation held by long-term incentive compensation to be increased, within appropriate limits. Long-term incentive compensation should also be incorporated into compensation for outside directors where this would contribute to the enhancement of corporate value. The company keeps the number of directors at an appropriate level and enhances the functions of the board secretariat to promote lively and diverse discussions and enhance the effectiveness of the board of directors. The company should, in its capacity as a listed company, make directors subject to the confidence of shareholders in each term with the term of appointment of directors set at one year.
	Risk management	<ul style="list-style-type: none"> The company formulates rules governing diversity, human rights, supply chain, data security, etc. The company has adequate measures in place to ensure robust cybersecurity and rigorous employee training. The company's internal auditing requires the maintenance of a direct reporting line to the board of directors and the board of auditors. The company should preferably 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 establish a management system to prevent misconduct or scandals, and 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. The company formulates a medium-term management plan that integrates analysis of current statuses with future initiatives, based on a long-term vision, thereby enhancing the feasibility of the plan. 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.
	Dialog with stakeholders	<ul style="list-style-type: none"> The company implements adequate disclosure of financial and non-financial information through integrated reports and other means, discloses detailed supplementary information on financial results, and undertakes other disclosures in a timely manner. The company creates opportunities for dialog between senior management, outside directors, employees and shareholders. 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.

(Date of revision: October 24, 2025)

Review of best practices

Daiwa AM also periodically undertakes reviews of the best practices which form the basis for our dialogs with companies, in the same way as for materiality and core materiality.

During best practice reviews, company research analysts and stewardship analysts hold lively discussions on the direction companies should pursue, while sharing their insights and case studies from specific companies. The Stewardship Committee then ultimately formulates new best practices based on the content of these discussions.

At the most recent review of best practices, discussions were held on specific case studies of the composition of boards of directors and of "true" independence of outside directors. We also discussed

real world examples of cross-shareholdings contributing to enhancement of corporate value for the issue of the practice of such cross-shareholdings which are also touched upon in the Daiwa AM Proxy Voting Policy.

For the question of corporate governance frameworks, we believe that, while formal structures are increasingly being consolidated, significant challenges pertaining to effectiveness of boards of directors remain. Based on this conclusion, we have revised our guidance for improving board effectiveness in governance. Besides these topics, we additionally discussed approaches to human capital management for the improvement of employee engagement and procedures for formulating medium-term management plans to enhance feasibility and reflected these in our new list of best practices.

Key changes to best practices

New addition

Domain	New addition	Reason/background
Human capital	The company is undertaking initiatives to raise awareness of stock prices by granting appropriate stock-based compensation to employees.	It is crucial that companies enhance employees' sense of ownership in company management to maximize the value of human capital. The introduction of stock-based compensation fosters a sense among employees that they are contributing to the enhancement of corporate value and encourages behaviors that support sustainable growth.
Governance framework	The company should enhance the functions of the board of directors' secretariat to encourage lively discussion among participants, including outside directors, and enhance the effectiveness of the board.	The quality of discussion design, information provision, and follow-up by the secretariat are crucial to support effective decision-making and avoid the mere formal implementation of board meetings. It is essential that companies create an environment that leverages the expertise of outside directors to the greatest extent possible.
	Outside directors should also actively undertake initiatives toward realizing management practices that consider capital cost and stock price.	The role of outside directors does not end with oversight, with outside directors also expected to provide strategic perspectives to achieve enhancements of corporate value. It is crucial that they achieve an in-depth understanding of capital efficiency and shareholder value and facilitative constructive dialogs with senior management.

Change

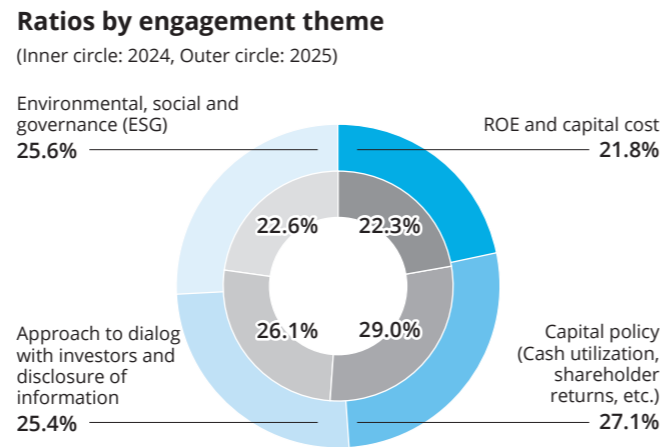
Domain	Old → New	Reason/background
Governance framework	<p>Old The company considers the desirable number of members of the board, with a view to promoting a lively exchange of views at board meetings, to be around 10 at most.</p> <p style="text-align: center;">↓</p> <p>New The company should keep the number of directors at an appropriate level with a view to promoting lively and diverse discussions.</p>	It is more important to ensure a board composition that safeguards the quality and diversity of discussions than it is to set a quantitative limit on the number of board members. The wording of this section will be updated to a qualitative expression to enable flexible adaptation in line with the size and challenges of a company.
	<p>Old The company formulates a medium-term management plan by back-casting from a long-term plan prepared in advance.</p> <p style="text-align: center;">↓</p> <p>New The company formulates a medium-term management plan that integrates analysis of current statuses with future initiatives, based on a long-term vision, thereby enhancing the feasibility of the plan.</p>	It is essential to verify feasibility based on current challenges and resources in addition to applying a back-casting approach. Bridging the gap between ideals and actual circumstances enables the formulation of more effective plans.

Signature Engagements

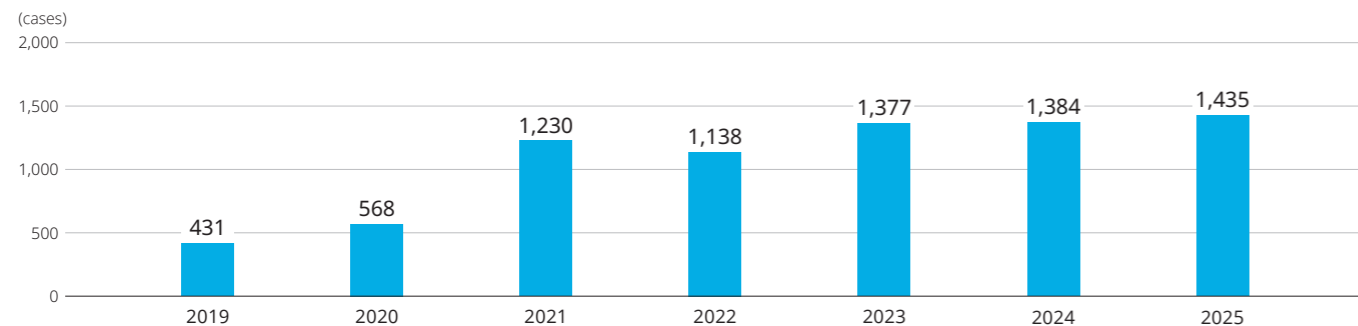
Activities status

Daiwa AM uses a three-in-one engagement structure comprised of corporate research analysts, fund managers, and stewardship analysts, with these three actors conducting a total of 1,435 engagement activities with investee companies, during the term under review (July 2024 to June 2025).

The number of engagements to date and the ratios by engagement theme for the term under review are shown below. This illustrates that the number of engagements is on an upward trend and confirms that engagements are being conducted with a good balance across the four main engagement themes.

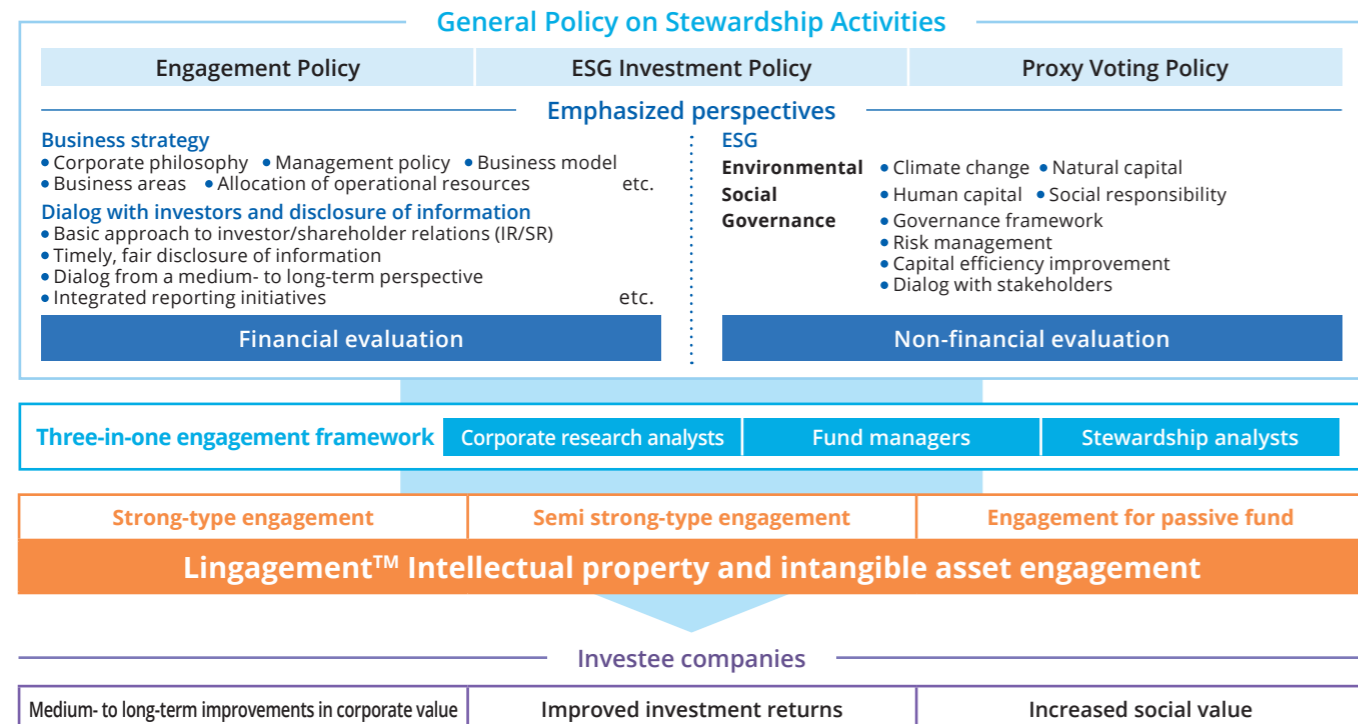


Number of engagements



Note: The reporting period for this report is July 2024 to June 2025.

Overview of engagement and Daiwa AM's distinctive features



Realization of a sustainable society

Strong point 1 Three-in-one Engagement

Overview

Our three-in-one framework can be cited as one of the distinguishing features of Daiwa AM's engagement. This framework involves close collaboration among three actors: our corporate research analysts, who have an in-depth knowledge of specific industries and the business environments of individual companies; fund managers (including credit analysts), who excel in market condition and cross-industry analysis; and stewardship analysts, who possess advanced expertise in ESG and related matters, including governance. These three actors

together employ various approaches when engaging in dialogs with investee companies.

We assemble optimal teams for each engagement based on the target company's situation and needs, to actively leverage the expertise and characteristics contained in each team. We have created this framework to facilitate meaningful and effective engagement by allowing each team to intensely focus on the domains in which they are strong while also maintaining close collaboration with respective actors.

Overview of Each Team



Corporate research analysts

Corporate research analysts have a centralized research function, with a full-coverage system established to allow them to cater across all industries. In this capacity, they provide integrated coverage both for standard fundamental analysis and for ESG evaluations and the formulation of opinions on proxy voting matters for key survey issues (stocks) selected based on market capitalization and management quality.

In dialogs with investee companies, they prioritize discussions on both financial and non-financial management challenges to encourage corporate transformation and initiatives targeting the capture of excess earnings through enhancements to corporate value.

Key survey issues also include groupings of companies chosen to represent their respective industries, with initiatives undertaken aimed at raising the level of the overall market through engagement with these companies.

For corporate evaluation, the corporate research analysts utilize a "long-term corporate value model" that incorporates "qualitative evaluations" based on medium- to long-term perspectives of financial and non-financial factors reflecting dialog with companies, as well as Daiwa AM's original "ESG scores."



Fund managers

Fund managers undertake engagements focused on small- and mid-cap issues (stocks) outside the coverage scope of corporate research analysts.

Within this, the Engagement Team focuses on key themes such as reducing capital costs and improving investor relations, to stimulate behavioral changes in investee companies. Targets for engagement are selected with a focus on issues (stocks) for which significant enhancements to corporate value can be anticipated through changes in corporate initiatives.

Dialogs emphasize engagement with senior management, with fund managers working to achieve clarification of key themes. The Engagement Teams also rigorously manage engagement progress and actively share information with other fund managers within the firm.

For bond engagements, credit analysts and fund managers collaborate to address bond-specific themes while leveraging the centralized research function of the Corporate Research Team.



Stewardship analysts

Meetings with a primary focus on corporate governance and proxy voting matters at investee companies are mainly handled by stewardship analysts in the Responsible Investment Department.

Stewardship analysts gather information necessary for decisions on the exercise of voting rights at investee companies while also explaining Daiwa AM's policy on proxy voting and expectations for investee companies during dialogs, thereby striving to foster a shared understanding.

Additionally, they are currently conducting dialogs encompassing ESG and related initiatives and extending to management and financial strategies for investee companies facing various challenges outside the coverage scope of our corporate research analysts.

In terms of the relationship between stewardship analysts and corporate research analysts, we have established a system that clarifies the roles of the two actors while enabling mutual collaboration as needed. Doing so helps us cater to broadening dialog themes while enhancing the sophistication of dialog content to thereby focus efforts on encouraging initiatives for the enhancement of corporate value.

Strong point 2 Lingagement™

Overview

“Lingagement™” is an original coinage of Daiwa AM, combining the words “linkage” and “engagement.” It is an initiative to provide a forum for discussions with the personnel and management of best-practice companies on issues faced by investee companies, as well as to serve as a reference for future enhancement of their corporate value.

By utilizing the networks and knowhow we have built up through engagement to their maximum potential, actively promoting “Lingagement™,” and encouraging the sharing of knowledge, Daiwa AM will support enhancements to the corporate value of as many investee companies as possible and actively contribute to the sustainable growth of society.

Example scenario of “Lingagement™”



Information Exchange Meetings

Event overview

The fifth Information Exchange Meeting was held on November 28, 2025. These exchange meetings are intended to focus on a specific theme and provide a platform for companies to share insights with each other. Based on the theme “Toward achieving high ROE: Enhancing intellectual property and innovation and reflecting these in corporate value,” we invited key actors and external experts in intellectual property and innovation from best-practice companies as well as those undertaking proactive initiatives despite facing challenges to present at the meeting.

The importance of “Mienai Chikara™ (Invisible Value Drivers),” in company valuations continues to grow and, among the components which comprise this, we recognize intellectual property as core capital intimately entwined with all other forms of capital and with a high correlation with corporate performance. Furthermore, while the 2022 publication by the Cabinet Office of Japan of the Intellectual

Property and Intangible Assets Governance Guidelines has spurred increased corporate disclosure, the significant gaps in the understanding and knowledge which companies have and that of shareholders and investors remains a defining characteristic of intellectual property.

We also recognize that the gap between the price-to-book ratio (PBR) for the Japanese and U.S. markets is largely attributable to disparities in innovation, which is underpinned by intellectual property. However, corporate initiatives, including those in response to Tokyo Stock Exchange (TSE) requirements have largely focused on actions to directly enhance ROE or ROIC. We chose the theme of “Intellectual Property and Innovation” for this Information Exchange Meeting. This was motivated by our conviction that further enhancement in the recognition afforded to the importance of intellectual property and innovation, which constitute the nucleus of “Mienai Chikara™” is needed, from the perspective of sustainable corporate value enhancement.

Discussion content

Participant companies gave overviews of intellectual property and innovation initiatives, which was followed by discussions covering the role of intellectual property departments and their contributions to the enhancement of corporate value, the evolution of innovation, information disclosure and communication, and both issues recognized and forthcoming prospects.

The companies that gave presentations at the event, which included companies implementing advanced intellectual

property and innovation initiatives as well as those strongly focused on linking intellectual property with management strategy to present at the event, embody a shared recognition that when intellectual strategy is functioning effectively and when the creation of innovation has gained momentum, this serves to enhance recognition and appreciation among shareholders and investors, while ultimately facilitating high ROE and high PBR. Against this backdrop, the discussions at the event focused on strategies, initiatives, and policies pertaining to intellectual property and innovation.



Scene from the group discussion

Feedback from participating companies

“This was a valuable opportunity to learn about intellectual property initiatives in other industries. I was particularly impressed to hear accounts of how intellectual property, even in sectors not typically thought to have abundant intellectual property, is linked to business models and capital strategies to thereby enhance corporate value.”

“Being able to communicate with other companies and experts represented an opportunity for us to reconsider how we will promote our intellectual property strategy and information disclosure going forward, in the context of significant changes in the role of intellectual property departments currently underway.”

“Encountering case studies of other companies where intellectual property and research departments work as a single unit to drive innovation has inspired me to consider this approach for our own management strategy going forward.”

Future approach

Daiwa AM positions these exchange meetings as a core activity of “Lingagement™,” and convenes them every year as a proprietary initiative of our company. We have had numerous positive responses from participating companies and believe that this initiative will serve as a

platform for “knowledge sharing” among the companies and ultimately contribute to solving corporate challenges.

We intend to continue holding Information Exchange Meetings to contribute to enhancement of the corporate value of our investee companies.

Lingagement™ Case Studies

Case study 1 Company A (electrical equipment) + University professor + Daiwa AM

Theme Consolidating intellectual property strategy and information disclosure

Company A possesses world-leading technology and intellectual property in specific electronics fields, with distinguishing features including its in-house development of AI engines and monetization of its intellectual property. Based on this, we held discussions with Company A with the involvement of a university professor who

previously concluded an intellectual property joint research agreement with Daiwa Asset Management. Our decision to hold this exchange of opinions stemmed from the desire to facilitate enhancements to corporate value through the refinement of the company's intellectual property strategy and to help evolve their information disclosure. Following these discussions, Company A has been exploring the development of a more effective intellectual property strategy and disclosure practices, incorporating perspectives from shareholders, investors, and academia.

Case study 2 Company B (chemicals) + Intellectual property consulting firm + Daiwa AM

Theme Reflecting intellectual property strategy in management performance and corporate value

Company B possesses an outstanding management foundation, including its human capital and intellectual property. Despite this its management performance has stagnated, with the result that the link between this management foundation and its corporate value was

weak. From this starting point, we held an exchange of opinions with Company B with the involvement of an intellectual property consulting firm, toward the aim of establishing links between its intellectual property strategy and management performance and connecting this into enhancements to its corporate value. Following these discussions, Company B's intellectual property strategy department has been collaborating with its investor relations department to further the development of a strategy strongly focused on corporate value.

Case study 3 Company C (chemicals) + Consulting firm

Theme Evolving investor relations

Company C is a highly profitable medium-tier materials manufacturer, but it had been accumulating cash reserves due to its low growth potential and tendency to restrain growth investments. This situation had led to external pressure mounting, including shareholder proposals, for the company to enhance corporate value. The company thus began actively pursuing growth investments and was also working

to improve its balance sheet. However, its investor relations activities remained limited to biannual earnings briefings and responses to media inquiries, meaning that its visibility had failed to improve. With this background, Company C participated in a Daiwa Asset Management-hosted Information Exchange Meeting. Guided by advice from a consulting firm that works closely with corporate IR officers to drive the execution and improvement of IR activities, Company C has now taken steps to evolve its investor relations, such as holding business briefing sessions on its growth areas and tours of its plants.

Strong point ③ IP and Intangible Assets

Recognition of Current Status

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 large tech companies referred to as the “Magnificent Seven” have grown significantly and are also leading the world in generative AI, thereby increasing their corporate value. Japanese companies have made progress in “measures to realize management practices that consider capital cost and stock price,” improving the TOPIX PBR to up to 1.3x (September 2025). However, this level is still both low when compared with the U.S. S&P 500’s approximately 5.0x PBR and represents only a modest improvement over the last three years.

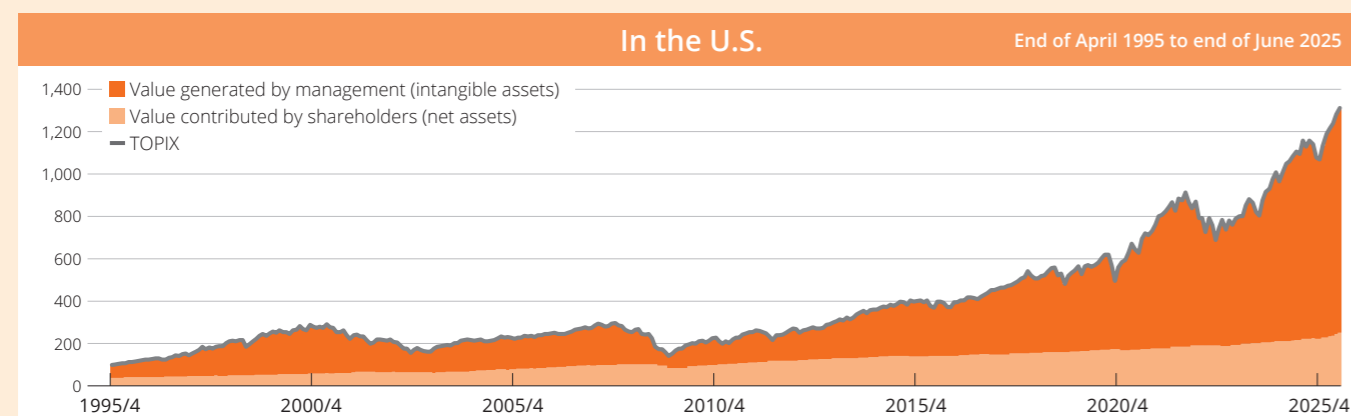
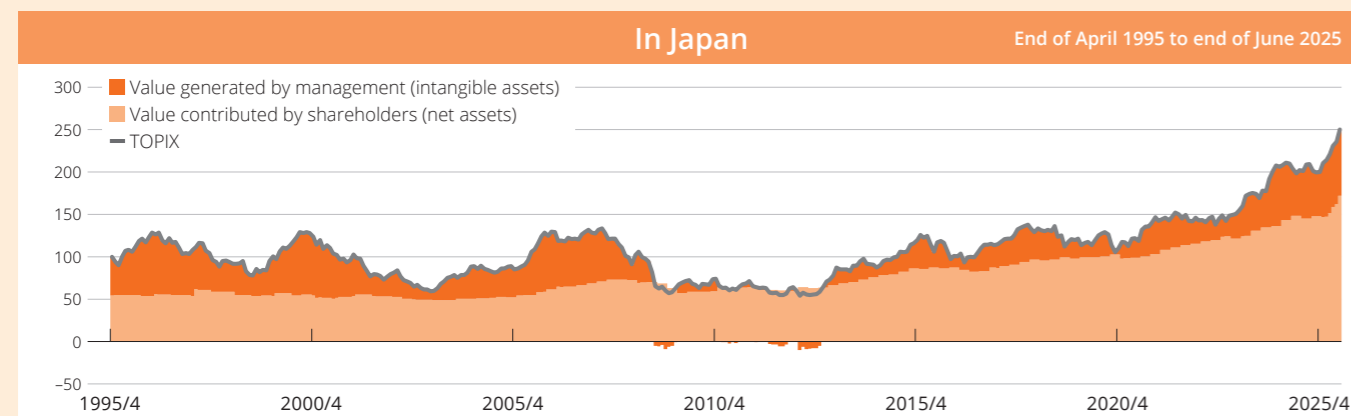
While expansions of undistributed profits at Japanese companies have long driven stock price gains, increases in stock prices in the United States are driven by valuations of intangible assets not recorded on financial statements, which leads to greater stock price gains. This suggests that barriers to entry based on tangible assets have become comparatively lower amid increasingly vigorous global flows of information and capital and that, conversely, differentiation through intangible assets such as intellectual property and innovation may be relatively gaining in value.

Even when considering global environmental and systemic socioeconomic challenges, finding pathways toward resolving

these will necessitate the transformation of large-scale systems, which will 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, and the ability of companies to lead such change or synchronize with it will be crucial. When that time comes, intangible assets—particularly intellectual property, R&D capabilities, and the human capital that drives R&D, as well as corporate cultures that foster innovation—will be even more important than traditional manufacturing or financial capital.

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 and governing their investment and utilization strategies.

Differences in intangible assets between Japan and the U.S. as seen through PBR



Note: PBR of 1.0x or higher = recorded as intangible assets Note: Indexed with end of April 1995 set at 100

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 innovation” or “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 “Mienai Chikara™ (Invisible Value Drivers).” We consider IP, innovation, and R&D capabilities to be vital strengths alongside elements such as human capital and brand value.

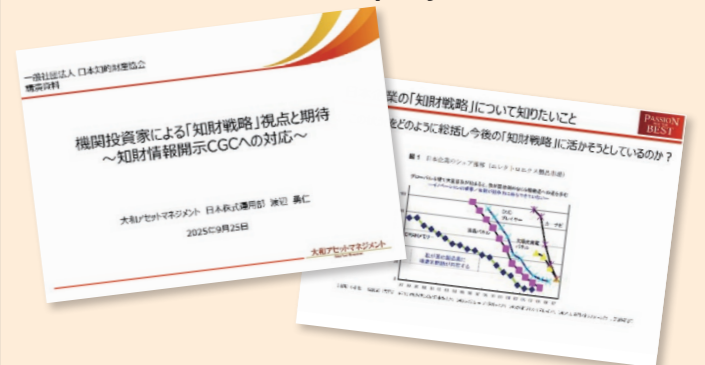
Under this definition, we have prioritized purpose-driven dialogs centered on themes such as “intellectual property and innovation” (designated at Daiwa AM as “IP Strategy Dialogs”). By clearly communicating to companies as shareholders and investors what we wish to know and why regarding their intellectual property and innovation, we have been able to foster structured ongoing IP strategy dialogs 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 (IP Bridge), presenting at the Japan Intellectual Property Association, participating in a group meeting bringing together corporate intellectual property departments, and publishing articles and books on related topics. Additionally, we held Information Exchange Meetings, which Daiwa AM position as a core activity of our “Lingagement™” initiative, with the theme for 2025 of “Intellectual Property and Innovation.”

Notable progress has been made in corporate disclosures related to IP in recent years, 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.

Case Study: Presentation at the Japan Intellectual Property Association



Source: Lecture materials from presentation at the Japan Intellectual Property Association

Engagement case study: Company D (textiles and apparels)

Issue awareness and background

- Under its new management framework, Company D has clearly defined its “winning formula” as the establishment of long-term, sustainable high-profit businesses through partnerships (co-creation) with prominent clients.
- However, it is difficult to assess from the outside whether this “winning formula” contains inherent barriers to entry that make imitation or replication difficult, and this means that this formula has not been recognized by or subject to expectations among shareholders and investors.
- This failure to translate the winning formula may be attributable to the fact that Company D’s communication regarding the management foundation, including intellectual property, innovation, and human capital, remains weak, despite active disclosures of environmental (E) sustainability information.

Engagement details

- For its “winning formula,” Company D should disclose information that makes it easier to visualize that there exist barriers to entry making the formula difficult to imitate or replicate, by elucidating their connection to the management foundation, including intellectual property, innovation, and human capital.

Company D’s initiatives

- In its integrated report, Company D provided highly informative disclosures on the above points while also elucidating their distinctive intellectual property strategy centered on “technology brands.”

Future expectations

- Company D ensures the sustainability of its “winning formula” in relation to the management foundation, including intellectual property, innovation, and human capital, while creating follow-on cases and positioning these on a trajectory for the continuous enhancement of corporate value.

Japanese Equity Engagements

Engagement categories

At Daiwa AM, we classify engagement with investee companies on Japanese equities into three categories: strong-type engagement, which aims to capture excess earnings; engagement for passive fund, which seeks to raise the level of the overall market; and semi strong-type engagement, which is positioned in between the other two engagement categories.

Strong-type engagement is led primarily by corporate research analysts and fund managers and seeks to drive significant behavioral changes or management reforms in investee companies.

Engagement for passive fund, meanwhile, is led primarily

by corporate research analysts and stewardship analysts, who engage in constructive dialogs toward finding solutions to the challenges faced by investee companies. Strong-type engagement tends to give rise to higher per-dialog costs compared to engagement for passive fund, including preparatory work such as peripheral research.

For all engagements, each actor leverages their specific insights while attempting to form an optimal engagement team composition based on the circumstances of the company targeted for dialog, with this approach intended to help achieve engagement objectives effectively and efficiently.

Engagement categories

Category	Purpose	Actors			Per-dialog cost
		Corporate research analysts	Fund managers	Stewardship analysts	
Strong-type engagement (corporate transformation engagement)	Capture excess earnings	◎	◎	—	High
Semi strong-type engagement	Capture excess earnings/raise the level of the overall market	○	△	△	Medium
Engagement for passive fund	Raise the level of the overall market	○	—	◎	Low

◎: Very large number ○: Large number △: Small number —: None

Strong-type engagement

Daiwa AM classifies engagement aimed at capturing returns through active management into strong-type engagement or semi strong-type engagement according to its depth.

Strong-type engagement, which we also refer to as corporate transformation engagement, is an approach that seeks to dramatically improve investment performance. This involves direct and proactive recommendations and advocacy to management based

on engagement themes.

Our corporate research analysts or fund managers of our Engagement Team select companies to be targeted for strong-type engagement and implement milestone management until issues are resolved.

Meanwhile, semi strong-type engagement, which is comparatively less intensive, also aims to enhance the investment performance of the overall market in addition to capturing excess earnings.

Engagement for passive fund

Engagement for passive fund, which aims to improve investment performance by raising the level of the overall market, comes under two sub-categories, namely: "Cases in which Daiwa AM engages investee companies based on our assessment of the status of their responses to materialities" and "Cases in which Daiwa AM engages in accordance with requests from companies facing challenges."

In the former cases, we select companies to be subject to engagement—such as those with high GHG emissions or challenges in terms of gender diversity and governance frameworks—while also considering factors such as the

status of our shareholdings in the company.

Meanwhile in the latter cases, of engagement stemming from requests from investee companies, the themes are not limited to aspects such as management strategy and capital policy but encompass a broad range of ESG and sustainability-related issues. While the diverse and complex nature of the challenges faced by investee companies means that it can be difficult to find solutions in these cases, we focus our efforts on constructive dialog aimed at improving corporate value and enhancing sustainability over the medium to long term.

Engagement letter dispatch

Daiwa AM dispatches engagement letters to investee companies as part of our engagement for passive fund strategy. Rather than mere formal notifications, these letters are notable for being tailored to address the specific challenges and characteristics of each company based on thorough consideration of such. Most recently, we have dispatched engagement letters to companies at which we had determined that the diversity levels of the board of directors were insufficient as well as to companies at which we had identified significant room for improvement in terms of governance frameworks to enhance the effectiveness of the board of directors.

The content of the letters which Daiwa AM dispatches are based on our Proxy Voting Policy and encourage the companies in receipt of the letters to undertake prompt

action to address the issues outlined therein. Daiwa AM implements its initiatives in line with a strategy of conducting engagement activities and proxy voting in an integrated way, and one of the biggest advantages of using engagement letters is that it enables us to approach a large number of investee companies efficiently. A further benefit is that, besides making it possible to proactively provide the companies that receive engagement letters with opportunities for dialog, it also clarifies the topics for such dialog. That is to say, it can be anticipated that this approach will enhance both the amount of dialog and the quality, and it can be expected to contribute toward increasing investee companies' corporate value over the medium and long term and toward their realization of sustainable growth.

Overview of milestone management

The engagements conducted by Daiwa AM can be broadly classified into two categories: those aimed at capturing excess earnings as a source of returns, and those which seek to raise the level of the overall market. Within these, strong-type and semi strong-type engagement on Japanese equities fall under the category of engagement aimed at capturing excess earnings, for which we implement milestone management.

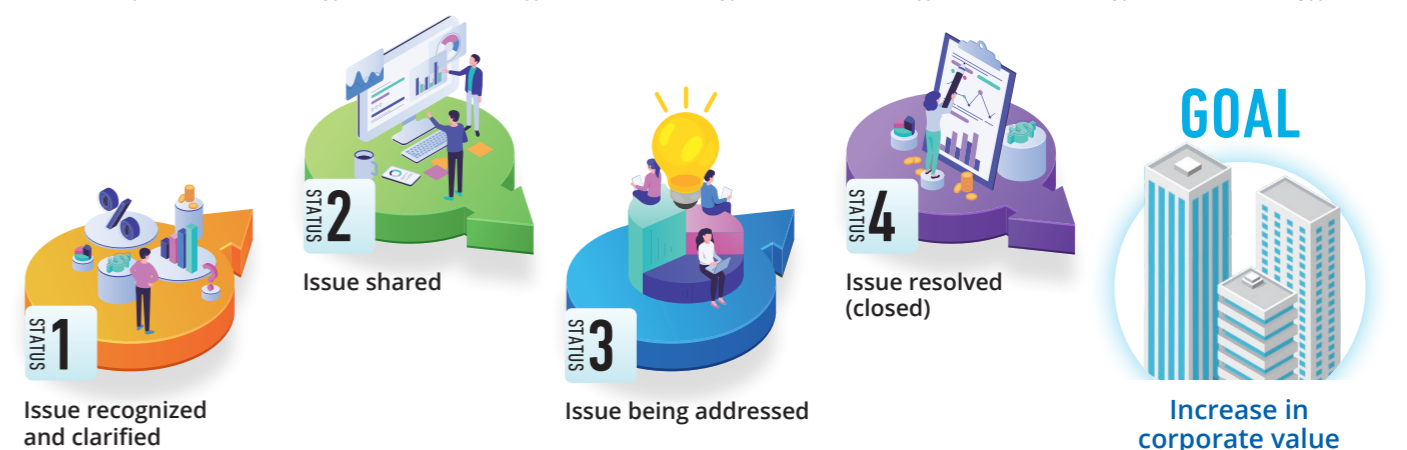
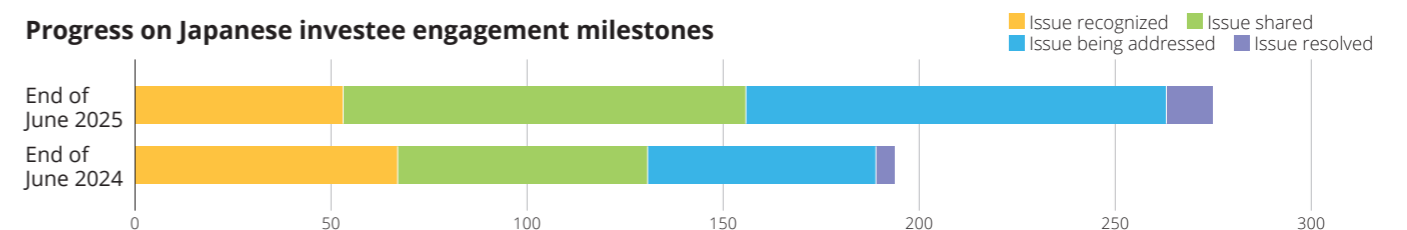
When conducting engagements, we initially set out engagement themes based on the challenges faced by the company. We subsequently formulate an engagement plan outlining the background to challenges including suggested measures to resolve these and an outline of the anticipated situation after they have been successfully addressed before proceeding with the engagement.

Engagement progress is managed by categorizing statuses into: issue recognized and clarified; issue shared; issue being addressed; issue resolved; or issue closed. These statuses are then shared among analysts, fund

managers, and stewardship analysts. These are additionally subject to routine monitoring by senior officers, to inform, for example, future revisions to policies for engagement with respective companies.

For engagements with investee companies, companies may be required to commit to long-term initiatives depending on the engagement themes, such as reducing GHG emissions or transforming the business portfolio. Furthermore, engagement may be discontinued due to factors such as the company's attitude toward dialog, with the table below also including companies newly selected as targets for engagement. It is notable, however, that corporate transformation appears to be achieving steady progress at many of the companies we engaged with, at least in terms of the progress status on milestones evident in the most recent year. Daiwa AM thus concludes that our engagement activities are achieving a certain level of effects.

Progress on Japanese investee engagement milestones



Strong-type engagement case studies



Company E
(textiles and apparels)

Main dialog counterpart : President and CEO

Engagement theme :
Transition to and stabilization of a new management structure to foster improved efficiency of management resources and trust in governance



Issue awareness and background

- Capital investment prioritizes business opportunities over efficiency, with the result that ROA and per-employee profits are persistently low. The company's governance framework has become a discount factor due to delays in compliance with the Corporate Governance Code, recurring scandals including quality irregularities, and other issues.
- Management, which has traditionally focused on long-term growth, has neglected to implement asset efficiency measures, including ROIC management. This can be attributed in large part to the management philosophy of leadership (senior management) at the company.
- Excessive pride stemming from having pioneered the creation of major new industries such as synthetic and carbon fibers has contributed to a corporate culture with insubstantial awareness of efficiency and profitability.
- The limited nature of direct dialogs between senior management and shareholders/investors is another underlying factor exacerbating these issues.

Suggested measures to resolve the issues

- Transition to a new management structure while also establishing KPIs in the new medium-term management plan.
- Implement structural reforms, such as downsizing or withdrawal from low-profitability and mature businesses.
- Enhance business performance and profitability by expanding range of environmentally responsible products.
- Foster a healthy sense of urgency and overhaul the corporate culture to one which is highly focused on enhancing corporate value.
- Engage in direct and proactive dialogs with shareholders and investors led by senior management.

Anticipated situation following issue resolution

- Company E will normalize stock prices which consistently exceed the past average PBR levels by creating a path toward becoming a high-efficiency company.

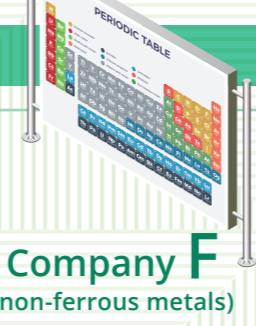
Company response at time of dialog

Company E recognizes that investments have failed to yield outcomes, thereby significantly impacting corporate value. Based on this recognition, it has sharply pivoted toward ROIC-focused management. The company has furthermore actively increased direct dialogs between its senior management and shareholders and investors and understands that these are meaningful, in recognition of the room for improvement in its engagement with the stock market.

Company actions following the dialog

Company E clarified its ROIC management policy following the appointment of new senior management. Since then, it has swiftly implemented structural reforms and measures to improve profitability based on ROIC management. The company is also pursuing balance sheet management, including the disposal of non-operational assets. Furthermore, the company has not only increased opportunities for direct dialog between senior management and shareholders and investors, but also successfully facilitated deeper discussions on its management issues.

Strong-type engagement case studies



Company F
(non-ferrous metals)

Main dialog counterpart : President and CEO

Engagement theme :
Enhancing capital efficiency and expanding investor relations communication



Issue awareness and background

- Company F operates multiple businesses, primarily automotive, and including information and telecommunications and power generation. Business performance is strong, with record profits set, attributable to improved profitability in automotive orders and a favorable business environment, including for expanded AI investments.
- Meanwhile, however, stock valuations are trending downward due to insufficient communication with investors, while conglomerate discounts are limiting share price gains relative to changes in business performance.

Suggested measures to resolve the issues

- For the automotive business, enhance expectations on sustainability of the business by demonstrating both resilience to changes in the external environment, such as increased adoption of electrical vehicles (EVs), and a commitment to improving profitability.
- For non-automotive businesses, enhance the amount and quality of disclosure on considerable technological advantages, including R&D capabilities, as well disclosure on the business environment.
- Improve capital efficiency through active commitment to increasing shareholder returns.

Anticipated situation following issue resolution

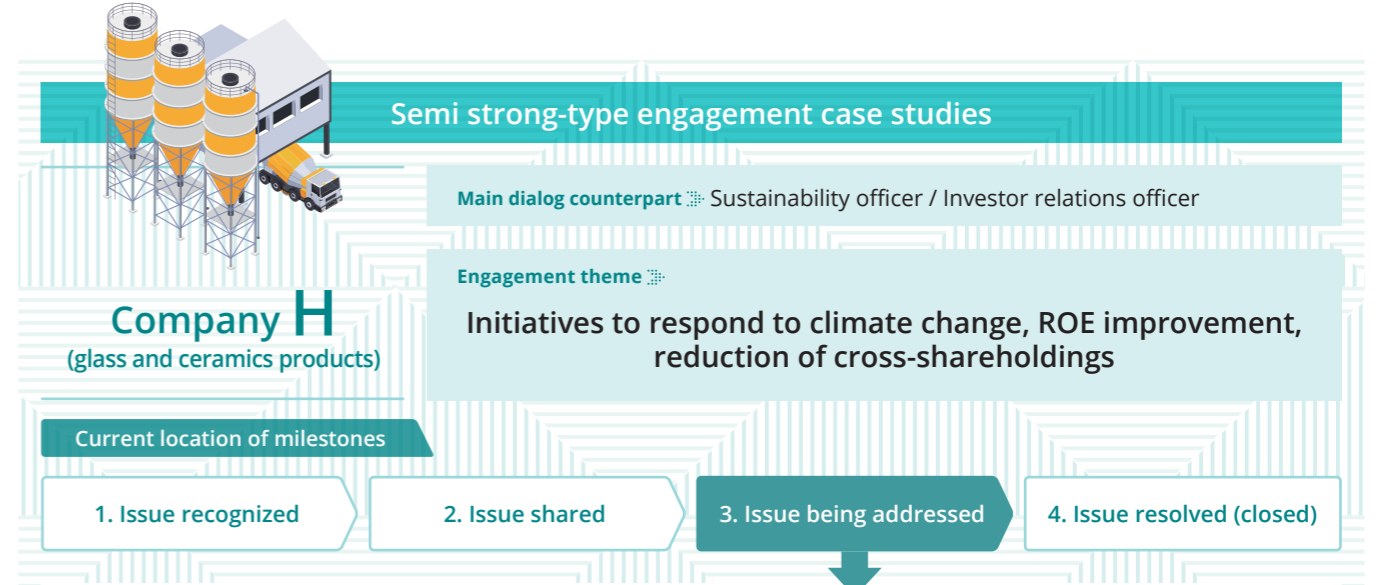
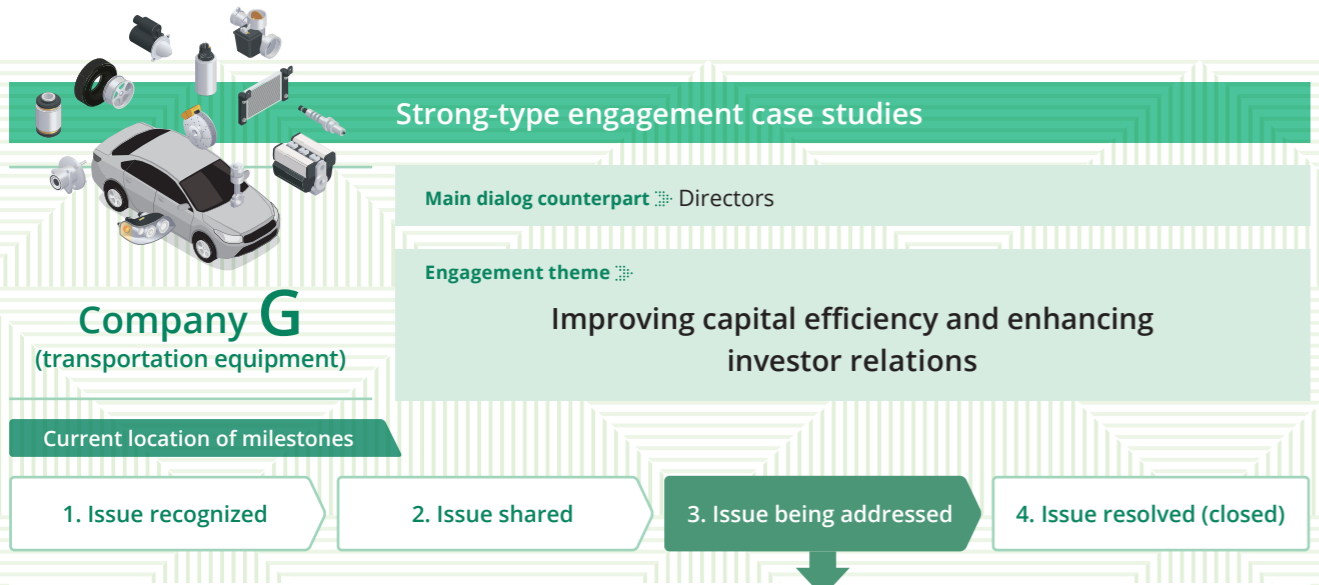
- Elimination of the stock price discount and elevated valuation due to heightened expectations of sustained profit growth over the medium-to-long term coupled with the increased commitment to achieving shareholder returns for the improvement of ROE.

Company response at time of dialog

With increasing recognition of low share prices as an issue, in response to investor requests, the company hosted factory inspection tours for the first time in over a decade as part of its investor relations activities. Additionally, there was evidence at business briefings that the company was steadily shifting its approach to investor relations, such as by demonstrating profit growth to raise investor expectations. Meanwhile, changes in shareholder returns have yet to become evident; but the company did indicate that it will actively consider this in their next medium-term management plan.

Company actions following the dialog

Company F plans to host an exchange meeting between its president and investors, thereby creating an opportunity for investor feedback to directly reach management. There is evidence of improved stock valuation metrics attributable to enhanced investor relations efforts. Further enhancement of corporate value can be anticipated through disclosure on cash allocation in the next medium-term management plan; increased commitment to achieving shareholder returns; and the setting of targets including those to improve ROE.



Issue awareness and background

- Company G is an owner-managed automotive parts manufacturer boasting the leading Japanese market share for its flagship products. Its stock prices have risen significantly over the past decade due to an expansion in business performance and improved ROIC.
- Meanwhile, the company's corporate value is not sufficiently recognized relative to its fundamental value. This is primarily due to deteriorating capital efficiency caused by holding non-operational assets and inadequate investor relations activities stemming from insubstantial awareness regarding stock prices and capital costs.
- While the owner-manager's steadfast management approach has enabled tentative investment and a steady build-up of profits, insufficient shareholder returns have led to an accumulation of surplus cash and a worsening of capital efficiency. For investor relations too, the failure, for example, to hold financial results briefings, has hindered market understanding of the value of the company's business, resulting in persistently undervalued stock prices.

Suggested measures to resolve the issues

- Determine appropriate cost of capital, formulate investment plans, and adjust non-operational assets.
- Allocate surplus cash to shareholder returns after implementing investments expected to generate returns exceeding capital costs.
- Disclose details of medium-term management plan and actively disseminate information by hosting briefings, etc. after consolidating the content of investor relations materials.

Anticipated situation following issue resolution

- Enhanced capital efficiency through appropriate allocation of growth investments and shareholder returns accompanied by actualizing latent corporate value through lowering the cost of capital, which will be achieved via improvements to investor relations activities and other measures.

Company response at time of dialog

Daiwa AM's input was shared with Company G's management, and we also had the opportunity to directly engage with management, with the company directors amenable to dialog. The company is undertaking considerations and preparations, including those for the enhancement of disclosure reflecting ongoing changes in the external environment. We acknowledge that there still exist areas in which the company is not currently positioned to address issues due to limited human resources. Despite this, we felt that they were making a sincere effort to respond to dialog requests and had a genuine willingness to carefully listen to feedback from the market.

Company actions following the dialog

Company G announced a dividend increase to coincide with its financial results release, which represents a step toward improving capital efficiency. Meanwhile, there is no evidence of progress on addressing its investor relations issues, such as consolidation of disclosure materials or holding financial results briefings, and these remain areas with which it has failed to engage. The company's stock price achieved a new high, driven by strong performance and enhanced shareholder returns. However, the stock price remains significantly below its fundamental value, and we will thus continue to encourage improvements in capital efficiency and investor relations through ongoing dialogs.

Issue awareness and background

- The cement sector has an industrial structure which generates CO₂ during the production process, with GHG emission reduction initiatives accordingly critically important from a sustainability perspective.
- In addition to industry-wide initiatives for technological development, there is a need to routinely monitor progress on climate change responses, including specific initiatives of the company.
- Company H's ROE levels remain low compared to industry peers, with the price-to-book ratio (PBR) persistently below 1.0x due to financial challenges such as sluggish business performance and substantial cross-shareholdings.

Suggested measures to resolve the issues

- Expedite initiatives to increase the replacement rate from fossil fuels as part of the company's initiatives to reduce GHG emissions.
- Enhance initiatives for the utilization of hydrogen, ammonia, and synthetic methane and the development of new technologies such as CCS and CCUS.
- Review the business portfolio to enhance profitability, streamline assets including cross-shareholdings to improve asset efficiency, and expand shareholder returns to improve ROE levels.

Anticipated situation following issue resolution

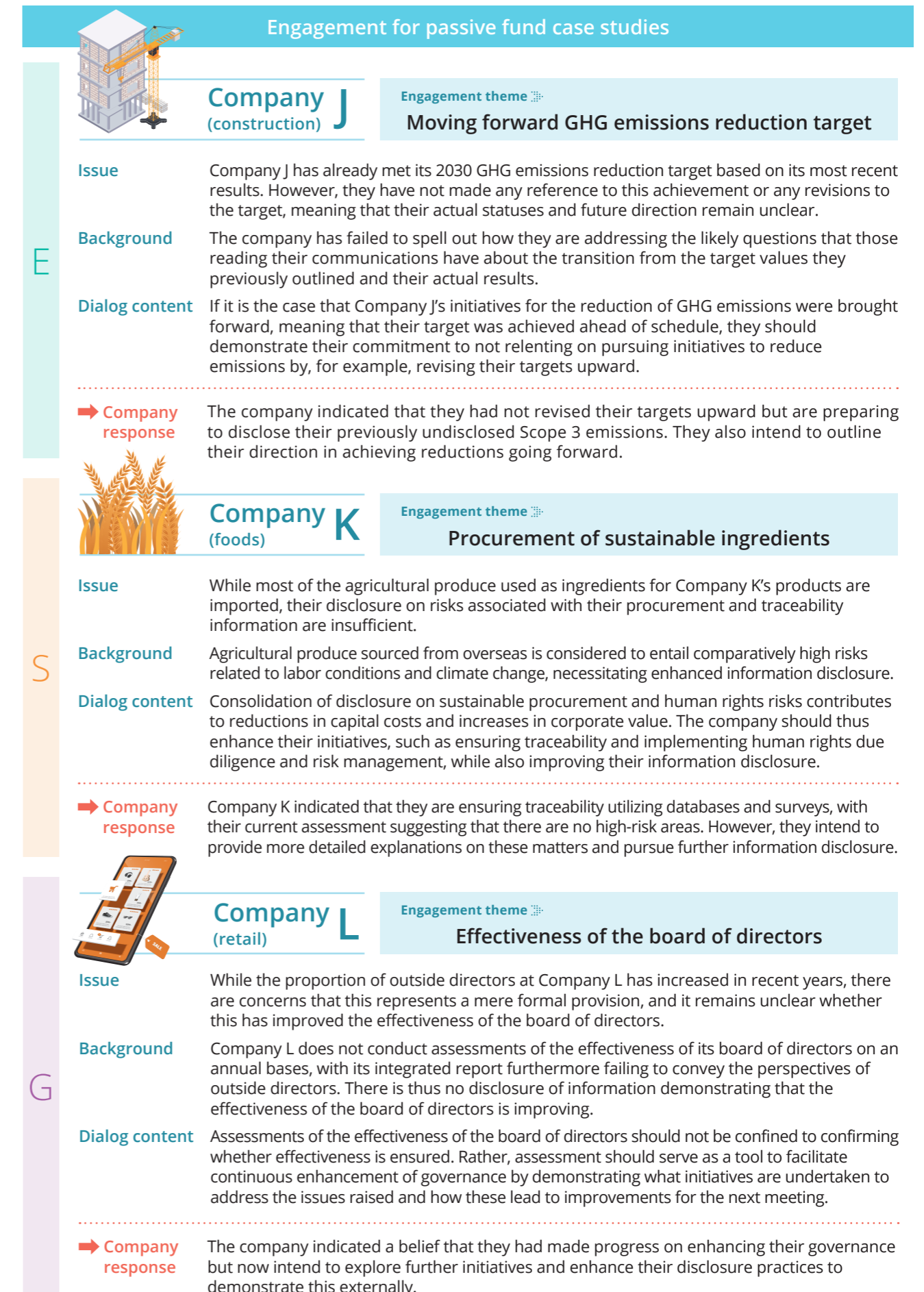
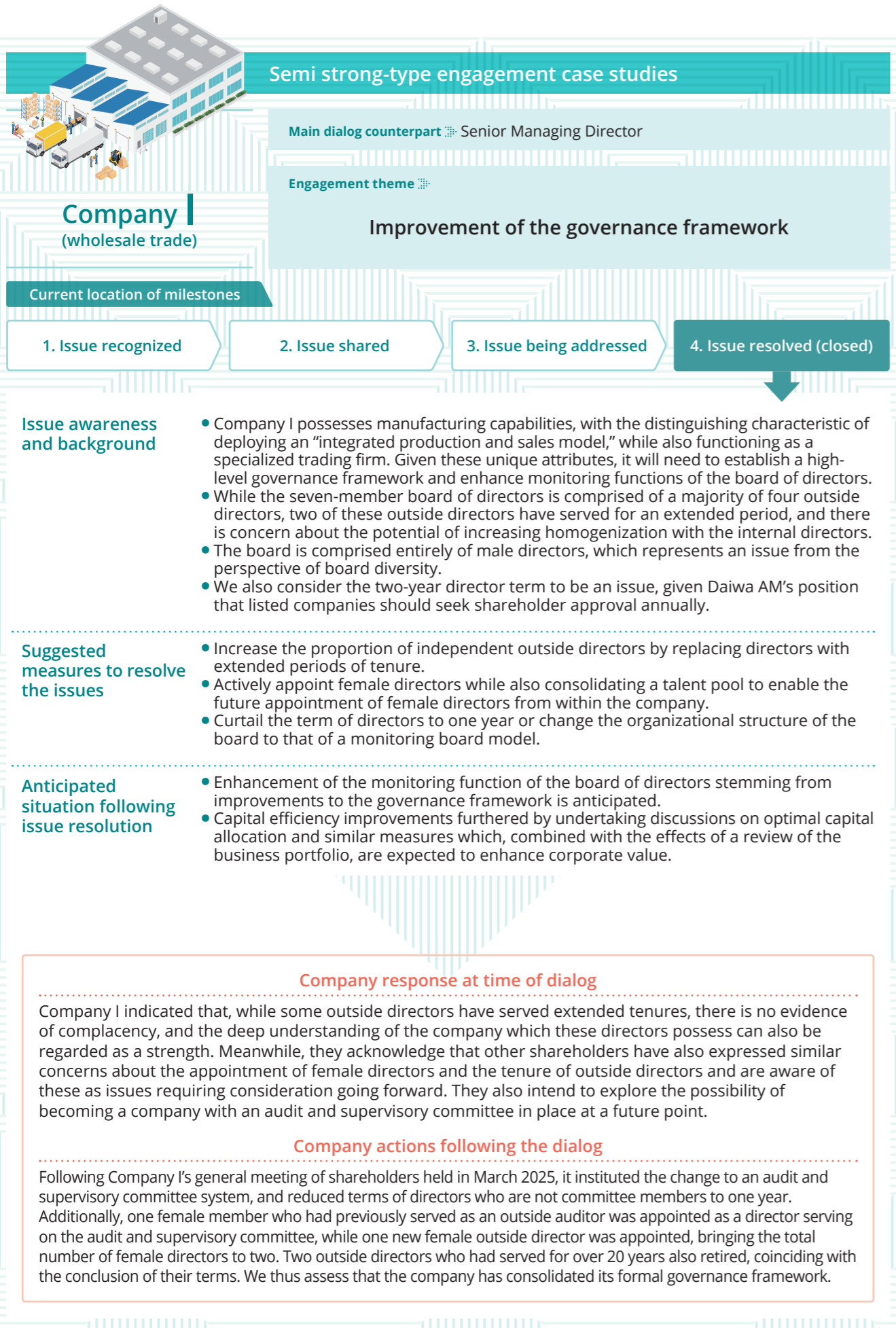
- Reduction of future risks from a sustainability perspective through initiatives to cut GHGs which, coupled with the resulting decrease in capital costs, contributes to enhancement of corporate value.
- Achievement of improved profitability and capital efficiency leading to higher ROE levels and an expansion of equity spread to contribute to enhanced corporate value.

Company response at time of dialog

Company H reduced its CO₂ emissions from energy sources on a per-unit basis through the introduction of new facilities. The fossil fuel replacement rate, which is set as a KPI, is also trending upward, indicating they are making steady progress on climate change countermeasures. They are also accruing achievements in technological development, through initiatives for CO₂ recycling artificial limestone. For initiatives to improve capital efficiency, the company has achieved the target of reducing cross-shareholding to below 20% of net assets and set a new target of below 10%. Their ROE target is set at 8% in the current medium-term management plan, exceeding the equity cost, and at 10% for the future, with their policy to achieve this consisting of securing stable profits in the flagship cement business while leveraging growth in new businesses.

Company actions following the dialog

Company H continues to promote climate change countermeasures, and they have confirmed further progress in their CO₂ recycling artificial limestone initiative, including the completion of a manufacturing test facility. For initiatives to improve capital efficiency, the company indicated an outlook that means it will be difficult to achieve the ROE target for the final year of the medium-term management plan. However, they also commented that the foundation for the next medium-term management plan is solidifying through the effects of price increases, sales recovery in new businesses, and expansion of production capacity. Furthermore, for initiatives to cut cross-shareholdings, the company announced a substantial reduction even in the most recent fiscal year, and we evaluate their progress toward the new target as favorable.



Measuring the effectiveness of engagement

Daiwa AM undertakes engagement with companies with the aim of contributing to investment performance through enhancements to corporate value. However, realizing these benefits can require a considerable amount of time, depending on the theme and the company's response. Furthermore, we do not select companies to be subject to engagement with the aim of actualizing short-term effects.

Nevertheless, we conducted measurements on the effectiveness of our engagement both to assess whether it is being implemented effectively and to identify potential areas for improvement in selection of engagement targets and methodologies.

Specifically, this involves conducting analysis using the "difference-in-differences method" applying the criteria outlined below, to statistically measure and understand the impact of our engagement. This method is used to estimate the effects of engagement by comparing pre- and post-intervention differential effects between an intervention group (engaged companies) and a control

group (non-engaged companies). It utilizes fixed effects for time and company to isolate the effects of engagement to the extent possible.

We successfully confirmed improvement effects following engagement by Daiwa AM in the two areas of "ROE" and "Tobin's Q" as an outcome of our analysis conducted using the six items in the table below as dependent variables. While we also observed improvement effects for "Ratio of independent outside directors" and "PBR," we concluded that these improvements could not be definitively attributed to Daiwa AM engagement activities based on a consideration of their pre-intervention trends.

Going forward, we intend to further improve the sophistication of our engagement activities by pursuing increased effectiveness in our initiatives to verify engagement effects and by conducting ongoing verification.



Note: In this analysis, FY2020 is taken as the first year that engagement was conducted in assessing engagement effects due to data constraints. However, bear in mind too that engagement with investee companies had been conducted prior to FY2020, and that companies for which data could not be obtained were excluded from the measurement.

Sun, Liyang / Abraham, Sarah (2021) "Estimating dynamic treatment effects in event studies with heterogeneous treatment effects" Journal of Econometrics, 225(2), 175-199.

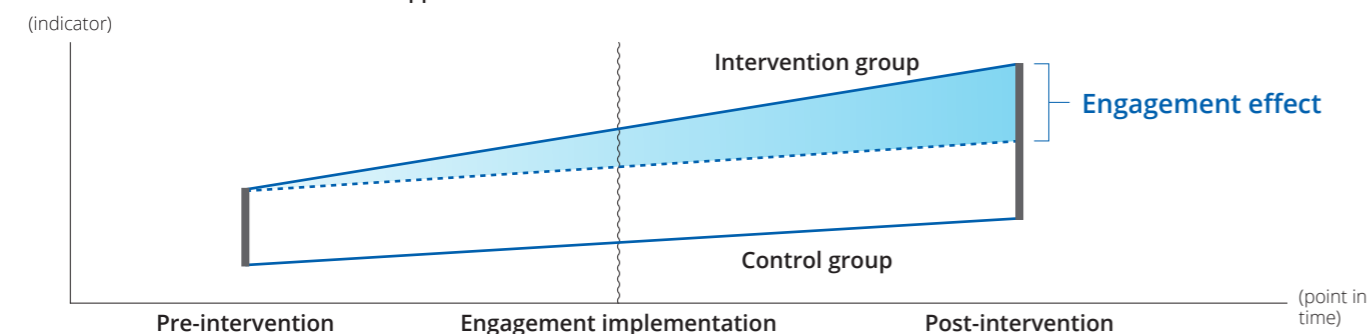
Criteria for effect measurement

Analysis target	TOPIX 1000 Constituent Stocks
Analysis period	Engagement conducted over the three fiscal years from FY2020 to FY2022
Effect measurement period	End of engagement through FY2024
Analysis method	Difference-in-differences method (Sun & Abraham, 2021); significance level 10%

Outcomes of the effect measurement

Dependent variable	Effective
Ratio of female directors	—
Ratio of outside directors	—
ROE	○
PBR	—
Tobin's Q	○
Dividend payout ratio	—

• "Difference-in-differences method" approach



Overseas Equity Engagements



Overview

Engagement on overseas equities is handled by means of engagement at local subsidiaries as well as proxy engagement utilizing external vendors. Below we introduce respective examples of these initiatives.

Additionally, we have established a framework for conducting joint engagement activities with investee companies for certain funds through a partnership with an outside service provider.

Engagement at an overseas subsidiary

Daiwa Asset Management (Singapore) Ltd., Daiwa AM's Singapore subsidiary, actively engages in engagement activities to improve the medium- to long-term corporate value of investee companies, in accordance with the ESG Responsible Investment Policy set out in 2022. While the Asian region for which the Singapore subsidiary is responsible includes some countries where ESG has yet to achieve sufficient penetration, interest in ESG is high among management at corporations, and ESG issues are subject to lively discussions.

For Environment (E), Daiwa AM confirms the green

project plans of companies in recognition of this as an important perspective, in particular for companies in the oil and gas industry. We additionally emphasize green finance in our dialogs with finance and related companies. For Social (S), we focus on initiatives for supply chain management, such as the elimination of forced labor. For Governance (G), we highlight information disclosure, the treatment of minority shareholders by management, and capital policy. We also encourage companies to regularly publish ESG reports, as it is often difficult to obtain reliable ESG information in Asia.

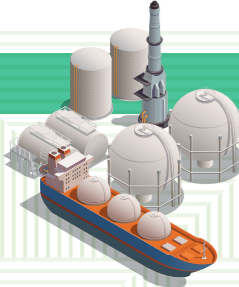
Proxy engagement on overseas equities

Daiwa AM uses Sustainalytics' Global Standards Engagement and a customized proxy engagement service provided by Glass Lewis for engagements on overseas equities.

The former of these is an incident-driven proxy service focused on companies that have committed serious and systematic breaches (or companies posing a high risk of such breaches) of international standards such as the Ten Principles of the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises. By using this service, we effectively manage the incident risk of Daiwa AM's foreign company holdings. It also allows us to address issues with serious environmental and societal consequences and we can anticipate the development of a deeper understanding of incidents with the potential to affect our portfolio which cannot be addressed by monitoring news on financial and related matters alone,

with Daiwa AM thereby expecting that this will help us to fulfill our fiduciary duties to our beneficiaries.

The latter of these is a service whereby we request Glass Lewis to carry out proxy engagement with companies identified from among our overseas equity holdings that we consider as having high ESG risks. For this service, the engagement theme is determined based on the materiality set by the Daiwa AM, and the target stocks are selected with consideration to the statuses of the company's initiatives and of our holdings in the company. Currently, we conduct engagements having selected companies with high GHG emissions; those with challenges regarding their business and human rights initiatives; and those with issues in terms of their governance framework. Engagement is carried out and managed in line with pre-determined milestones, with progress shared with Daiwa AM as required.



Case study of customized proxy engagement by Glass Lewis

Reliance Industries

Engagement theme: GHG emissions, water stewardship



Overview
 We met with representatives of Reliance Industries, a conglomerate company which generates revenue from petroleum refining, petrochemicals, and fuel retail. While the company has committed to achieving carbon neutrality for Scope 1 and Scope 2 emissions by 2035, it had yet to set targets for Scope 3 emissions. In consideration of this, we requested disclosure of Scope 3 emissions and proposed setting ambitious targets. We also discussed water stewardship (water resources management), including identifying water-stressed regions, assessing water risks in those regions, and formulating water management plans.

Engagement details
 The company indicated its intention to determine Scope 3 emissions targets while ascertaining the market trends in India. It also acknowledged data collection as an issue and detailed its plans to collaborate with third parties in enhancing its training and monitoring for value chain partners. We emphasized the importance of disclosing the progress they had described as well as the value of setting specific targets demonstrates a commitment to proactive engagement and transparency.
 For water resource management, the company has currently only disclosed that one of its facilities is in a water-stressed region. In response to this disclosure, we pointed out that the company should also disclose a comprehensive water risk assessment aimed at identifying regions where high levels of water consumption are anticipated in the future and sites where future water stress is expected. We also requested that they develop water risk assessments and formulate water management plans for the relevant regions.



Case study of proxy engagement through Global Standards Engagement

Alphabet Inc.

Engagement theme: Anti-competitive practices




Case study of proxy engagement through Global Standards Engagement

Alphabet Inc.

Engagement theme: Anti-competitive practices

Overview
 Alphabet Inc., Google's parent company, has faced allegations of anti-competitive behavior in the U.S., EU, and elsewhere concerning the market dominance of Google, which lead to an apparent trend of intensified investigations and sanctions spanning various countries. While the company is maintaining dialog with regulators, its responses were centered more on legal appeals than operational reforms. The company failed to provide clear disclosure on its handling of exclusionary practices or platform dominance, while its resistance to proposed remedies, such as corporate splits, has been perceived as suggesting a limited willingness to pursue structural reforms.

Engagement details
 Regarding the issues detailed above, we are conducting engagement focused on reviewing business practices, approaches to dealing with regulators, and evolving governance mechanisms to manage risk in terms of antitrust laws. The rising climate of enforcement worldwide is reflected in rulings in the United States as well as fresh investigations in emerging markets. Companies which fail to undertake more proactive initiatives are accordingly at risk not only of increased reputational and operational repercussions but also of aggravating pressure from regulators and civil society. We assess that internal awareness of regulatory risks associated with market conduct is also rising at the company and that they are beginning to take initial steps to mitigate these.



Case study of engagement by AXA Investment Managers

The Indian Hotels

Engagement theme: Board gender diversity

Case study of engagement by AXA Investment Managers

Outsourced service provider fund, Clean Tech




Engagement theme: Corporate Governance

Overview
 Following a first meeting with the Board Chair after the sudden revocation of the CEO, and feedback sent by e-mail to the Corporate Secretary on the new remuneration policy that would apply to the newly appointed CEO, we are now meeting with the Board secretary ahead of the 2025 AGM. This was the opportunity to clarify the disagreement we had on the calculation of the severance payment made to the former CEO, as well as discuss the new CEO pay package. After communicating our concerns with respect to the ESP target setting in the CEO's LTIP (set, in previous years, at very low levels), we welcomed the new target for 2024 which is better in line with the company's announced trajectory. We therefore consider this engagement as successful. We will continue to meet with various representatives of the company to discuss governance.

Overview
 We exchanged views with The Indian Hotels on gender diversity at the board of directors and employee levels, with a focus on current objectives, policies, and measures for the promotion of diversity. While the company's board of six directors currently includes only one female director, they aim to increase this to 25% of the board by 2030. For diversity promotion at the overall employee level, the company has set targets to increase the ratio of female managers to 25% and the ratio of female employees to 25% by FY2025, from the current levels of 20% and 22.9%, respectively.

Engagement details
 The company indicated their recognition that achieving their 2030 targets is feasible by nominating female directors to coincide with board member changeover. For the number of female directors to be appointed, we confirmed a target of three directors and encouraged the company to formalize this as their target. The company is furthermore supporting efforts to increase the overall ratio of female employees using a framework emphasizing recruitment and retention and have described their progress to date as favorable. The company gave overviews of key measures, including dedicated programs for the recruitment of female employees; provision of second-career opportunities; and recruitment campaigns at women's educational institutions. Other key measures on which they briefed us included those for flexible workstyles; childcare support; shuttle transportation for employee safety; a campaign for the elimination of unconscious bias; and leadership development programs. In response, we indicated our appreciation for the company's wide-ranging initiatives and their transparency on both achievements and challenges to be addressed. We also encouraged further disclosure regarding diversity-conscious board nomination processes and the specific outcomes of DE&I initiatives.

Overview
 We engaged with NVIDIA through email exchange and participation in its quarterly ESG call that was held on January 16th 2025. The company seems on track to meeting our objective of setting science-based targets for all scopes by 2026, as the company mentioned it was actively engaging with the SBTi to set targets. The company provided a satisfactory rationale for its incapacity to disclose aggregate KPIs related to the energy saving enabled by its solutions. However, it restated its commitment to disclosing more specific KPIs that illustrate its impact. The company did not address our objective of disclosing with more granularity its revenue exposure to "sustainable verticals". However, it has already started improving its disclosures in that fields, now disclosing its exposure to automotive (autonomous driving) and providing guidance for its healthcare revenue.



Engagement theme: Climate Change

TOPICS

India's Decarbonization Initiatives

India is the third-largest emitter of greenhouse gases (GHGs) globally. While per capita GHG emissions remain at about 40% of the global average, there are forecasts of high economic growth and Westernization of lifestyles going forward, with emissions likely to continue rising for the foreseeable period. While the Government of India has declared its target of net-zero by 2070, this is later than the 2050 target set by many other nations, with questions being raised about the effectiveness of its policies.

During this engagement, we interviewed government officials and private-sector firms about their decarbonization efforts while also holding constructive dialogs with our investee companies on their initiatives.

These dialogs left us with the impression that initiatives by India's government are advancing ahead of the 2070 target. Furthermore, for initiatives by private-sector firms, we were able to confirm activities aimed at achieving net-zero at an even earlier point than the government target. However, we also felt that continued dialog is needed on both government and private sector measures amid the emphasis on economic security and similar policies. This will include dialogs on whether coal-fired power plants, retained after peak electricity consumption, can be reduced.



India's GHG emissions and decarbonization targets

GHG emissions	4.14 billion CO ₂ equivalent (CO ₂ e) tons (8% of 2023 global share)
Net-zero target date	2070
Intermediate target	Reduce CO ₂ emissions per unit of GDP by 45% by 2030 (compared to 2005 levels) Note: Transition to 50% non-fossil fuel power generation capacity

Source: Government of India, UNEP

India's GHG emissions by sector

Sector	Emissions (billion tons CO ₂ e)	Percentage (%)
Power generation	1.17	39.4
Road transport	0.27	9.1
Animal intestinal fermentation	0.22	7.5
Steel	0.15	5.1
Residential	0.15	5.0
Cement production	0.14	4.6
Other	0.87	29.2

Note: Figures for 2020. Excludes land use, land-use change, and forestry.
Source: India's Biennial Update Report (BUR-4)

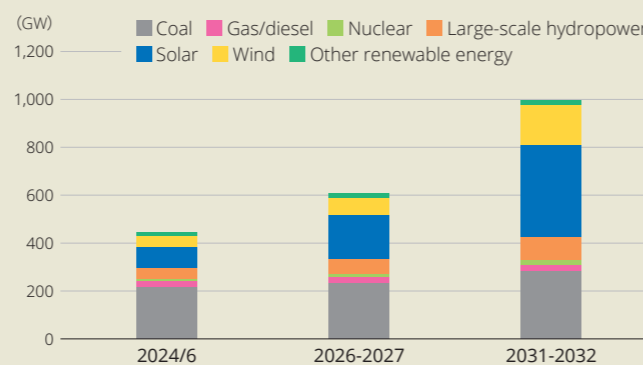
Electrical Power and Energy Policy

According to India's GHG emissions figures by sector, power generation is the largest contributor at 39.4%. To reduce GHG emissions, it is necessary to optimize the power generation mix, for example by reducing the use of fossil fuels and increasing the use of renewable energy.

The total capacity of India's power generation facilities currently stands at 485GW, with 50% of power generation using non-fossil fuel sources. Regarding this, the Government of India announced that it has achieved its 2030 target, which it committed to at COP26, five years ahead of schedule. Putting this into context, Japan's most recent achievement rate was just under 40%.

Furthermore, according to the National Electricity Plan, India intends to increase total power generation capacity to approximately 1,000GW by FY2031, with about 69% of this accounted for by non-fossil fuel sources. By power source, India anticipates rapid growth in renewable energy sources, including solar and wind power.

India's power generation by source (power generation facility capacities)



Source: Central Electricity Authority of India

Power supply situation for Indian businesses

As part of a 2022 revision of India's Electricity Act, the minimum demand threshold for companies purchasing renewable energy through power purchase agreements (PPAs) was lowered to 100kW. The Act also established preferential measures, such as reductions or exemptions on transmission fees for power sent over the existing distribution grid, conditional on satisfying certain conditions when utilizing PPAs. For companies purchasing electricity, this enabled electricity procurement at lower costs compared to conventional rates largely concentrated on coal-fired power generation. These factors mentioned above significantly contributed to the expansion of the demand for renewable energy.

Energy security and attracting international companies

Preferential measures for renewable energy such as those just described are often premised on purposes such as reducing dependence on imported coal for energy security or advocating for carbon-neutral power sources to attract global technology companies and data centers engaged with the challenge of decarbonization.

Companies Undertaking Decarbonization Solutions Initiatives

Initiatives of Osaka Gas

Osaka Gas is undertaking energy projects in India, where it is jointly investing in city gas operations. The company is involved in an expansion project for city gas services across an area of approximately 320,000 square kilometers, covering about 10% of India's landmass. It is advancing the development of infrastructure, including compressed natural gas (CNG) stations and city gas pipeline networks, with plans to increase city gas sales primarily for transportation, and including for residential, commercial, and industrial uses.

The Government of India is promoting increased natural gas utilization, with demand for CNG vehicles, which are less carbon intensive than gasoline vehicles, rising significantly in recent years. We can thus anticipate contributions to decarbonization efforts through sales at CNG stations and other means.

The second pillar, whereby outcomes are anticipated, is Osaka Gas's renewable energy business. The company has announced its participation in a renewable energy project in India developed and operated by Clean Max Enviro Energy Solutions ("Clean Max"), a leading company in this field.

The company plan to acquire 300MW of renewable energy assets held by Clean Max as well as to develop an additional

100MW within two years through a Japanese-affiliated joint venture.

We also exchanged views on ESG risks associated with large-scale, renewable energy power plant construction. This enabled us to learn that, in addition to environmental and human rights considerations accompanying power plant construction, the company is deliberately addressing the risk of bribery involving local governments and other entities at the construction sites.



A Clean Max solar-wind hybrid power plant

Initiatives for High GHG Emitting Companies

Since cement production is a major source of emissions, accounting for approximately 5% of India's GHG emissions, initiatives to reduce these levels are currently under the spotlight. We engaged in dialog with two Indian cement companies, at which demand is expected to grow, on their decarbonization initiatives. While the Government of India has set a national net-zero target to be achieved by 2070, these companies aim to do so by 2050, which is testament to the ambitious nature of their initiatives.

JSW Cement

Although JSW Cement's share of the Indian cement market is in the region of less than 5%, its strength lies in low-CO₂ cement, referred to as green cement. The company gave us an overview of its initiatives to significantly reduce carbon dioxide emissions leveraging the strengths of its group companies, by using blast furnace slag generated at JSW Steel instead of conventional limestone. They have implemented disclosure outlining the achievement of the lowest CO₂ emissions per unit in India, at approximately 258 kg/ton.

Furthermore, the company has set a goal to have renewable energy account for 63% of the electricity used in processes such as firing, to strive for net-zero concrete by 2050.

We heard details of the client stratum for green cement,

namely that, while few clients are willing to pay a premium for green cement over regular cement, major developers and international companies are tending to choose green cement to help them obtain green building certifications.

UltraTech Cement

UltraTech Cement is India's largest cement producer. The company, a founding member of the Global Cement and Concrete Association (GCCA), which promotes decarbonization in the cement and concrete industries, is actively promoting decarbonization within its own business operations.

UltraTech is aiming to achieve net-zero by 2050 and is advancing initiatives such as expansion of its renewable energy use (aligned with RE100) and fuel substitution using agricultural waste. It plans to increase the share of renewable energy in its total energy sources to 85% by 2030.

Additionally, the company is developing carbon capture and utilization (CCU) technology to capture and reuse CO₂ from raw materials through industry-academia collaboration, while also announcing the construction of a demonstration plant for technology to recover high-purity CO₂ using an electrochemical process in place of combustion for the decarboxylation of limestone.

Engagement for Fixed Income Investments

Basic policy on engagement for fixed income investments

For fixed income investments, we select engagement targets from companies issuing corporate bonds and other investment instruments based on a comprehensive assessment of factors, including holding amounts, materiality, financial information, non-financial information, and credit ratings. We share the resulting list of engagement targets with our corporate research analysts and accompany them on analyst-led engagements as necessary. Daiwa AM deploys a centralized research framework led by corporate research analysts, seeking to effectively leverage their resources for engagement with companies. In recognition of the easier direct access that equity investors holding voting rights often have in having their voices heard by management, we consider the capacity to leverage this access to convey input from fixed income investors as another benefit of

collaborating with corporate research analysts.

No inherent conflict of opinion exists between equity and fixed income investors during dialogs from the perspective of encouraging medium- to long-term enhancement of corporate value. Nevertheless, differing views are conceivable regarding short-term financial strategies or shareholder returns. We have accordingly established conflict-of-interest management guidelines for occasions on which managers for equity and fixed income investments will participate in the same engagement. These guidelines stipulate prior discussions on dialog content, with mutual participation of the parties precluded if there is a possibility that conflicting messages will be conveyed to the company. In such cases, fixed income investment professionals, mainly handled by credit analysts, will take the lead and conduct a separate engagement.

Engagement case study (Company M)

Company M's primary affiliation is in the materials industry, while it is also involved in power generation and other businesses. As a result, the company has a high proportion of fixed assets and an underlying low equity capital ratio. Its financial standing has also persistently failed to match that of industry peers due to instability in business performance caused by past market fluctuations. In recent years, however, progress on initiatives it has undertaken to improve earnings has yielded greater stability in its business performance and steadily improved its financial standing.

However, looking ahead, the company can anticipate the need to undertake substantial capital expenditures not only in terms of investments for future growth but also those toward

decarbonization initiatives. Given this background, we held dialogs with the company on how to balance future investments and on maintaining its financial stability. While Company M recognizes decarbonization as crucial to enhancing its corporate sustainability, its investment policy involves selecting projects from which returns can be expected or postponing some planned investments when necessary. Consequently, even if they are in a position in which short-term financial metrics may temporarily deteriorate due to front-loaded investments, we were able to confirm that the company's underlying approach does not entail excessive sacrifices of future profits or capital, and that investments will be premised on steadfastly securing its medium- to long-term financial stability.

Engagement Plan for the Next Fiscal Year

Review of the Previous Plan

Previous plan	Action items	See
Enhance collaboration between the Corporate Research Team and the Stewardship Team	<ul style="list-style-type: none"> Enhanced discussions on revisions to Proxy Voting Policy and reviews of materiality and best practices. Enhanced collaboration established integrated management of engagement activities and proxy voting actions, significantly increasing escalation cases during proxy voting. 	<ul style="list-style-type: none"> p. 18 p. 38 pp. 62-64 p. 70
Enhance engagement with international companies through the utilization of customized proxy engagement service	<ul style="list-style-type: none"> Initiated engagement to address challenges within the Daiwa AM portfolio leveraging Glass Lewis's services. Daiwa AM stewardship analysts also participated in these meetings to gain engagement knowhow. Conducted engagement on 49 themes across 31 companies over the year. 	pp. 54-56
Enhance and maintain signature engagement activities	<ul style="list-style-type: none"> Held Information Exchange Meetings as part of the "Lingagement™" initiative. Participant numbers exceeded those of the previous fiscal year, with 29 companies and organizations attending, including experts and audience companies. Promoted the sharing of each company's insights and knowhow through networking and other activities. 	pp. 40-44
Enhance engagement for passive fund	<ul style="list-style-type: none"> Enhanced engagement with companies whose initiatives to address core materialities established by Daiwa AM are insufficient. Significantly increased engagement cases led by stewardship analysts. 	<ul style="list-style-type: none"> p. 39 pp. 45-46 pp. 50-52

Forthcoming Engagement Plan

Expansion of engagements integrated with escalation strategies

It is crucial that we pursue engagement activities and escalation strategies in an integrated manner to help maximize the effects of engagement.

Daiwa AM strives to support initiatives that contribute to the enhancement of corporate value while considering the specific circumstances of each investee company, rather than a one-size-fits-all approach to applying the Proxy Voting Policy. This is why it is essential that we undertake engagement that leverages the industry knowledge and company-specific insights of our corporate research analysts combined with the sustainability insights of our stewardship analysts.

We leverage the exercise of our voting rights to encourage further changes in cases in which repeated engagements with investee companies fail to yield sufficient responses. Conversely, even if a proposal conflicts with Daiwa AM's Proxy Voting Policy, when we positively assess an initiative by the current management team at a company, we will reflect this in our proxy voting decision. We believe that conducting in-depth engagements with investee companies, including engagement for passive fund, is crucial to fully understanding and appropriately evaluating their individual businesses.

Enhancement of collaboration among engagement actors

Daiwa AM has traditionally advanced activities through "three-in-one" integrated efforts among our corporate research analysts, fund managers, and stewardship analysts in our engagement with investee companies. Going forward, we will further clarify the roles of each engagement actor and deepen collaboration leveraging their respective strengths, with the aim of achieving further enhancements to the sophistication of our engagement activities.

As part of these efforts, we will increase opportunities for discussion between corporate research analysts and stewardship analysts. We will then reflect these discussions in reviews of materiality assessments and

the Proxy Voting Policy, while also expanding opportunities for joint dialogs alongside corporate research and stewardship analysts with companies.

Added to this, Engagement Team fund managers will strive to enhance the quality of corporate transformation engagement by leveraging the insights of corporate research analysts with in-depth knowledge of specific industries and the business environments of individual companies. We will furthermore aim to facilitate more broad-reaching benefits from the positive effects this has on investment performance by enhancing joint initiatives between both teams and actively investing in companies at which we conduct engagement.

Enhancement of bond engagements

Engagement with investee companies is also important in bond investments, and Daiwa AM is working to strengthen stewardship activities, including engagement, in the same manner as for equity investments.

We have established a three-in-one engagement framework equivalent to that used for equity investments for bond engagements. This framework integrates the industry knowledge possessed by corporate research analysts equipped with central research capabilities and the ESG expertise of stewardship analysts, with the bond-specific knowhow

possessed by credit analysts and fund managers within the Fixed Income Investment Department.

We enable the promotion of corporate value enhancement and management of risks from multiple perspectives, including financial and ESG, by implementing systematic engagements. This also facilitates improvements in the quality of bond investments and greater returns for the beneficiary clients. We are committed to maintaining our initiatives to further enhance our bond engagement activities going forward.

Achievement of greater depth in Daiwa AM's signature engagement initiatives

For engagements as part of Daiwa AM's signature "Lingagement™" initiative, we will continue to actively promote initiatives to provide opportunities for interaction between investee companies and introduce them to best practice companies. As part of these efforts, we furthermore intend to continue holding our Information Exchange Meetings, which we have conducted since 2021, setting new themes for each meeting.

Additionally, in 2022, Daiwa AM entered into a comprehensive business alliance with the Drucker

Institute in the United States, and subsequently jointly developed a Japanese version of the Drucker Institute Score for Japanese companies. We will strive to further enhance the effectiveness of our "Mienai Chikara™ (Invisible Value Drivers)" engagements on intangible assets such as human capital and intellectual property and themed engagements such as those on addressing ESG challenges by utilizing this Japanese version of the Drucker Institute Score alongside our proprietary ESG score in dialogs with investee companies.