

Framework for Stewardship Activities

The Stewardship Committee undertakes decision-making in relation to practical policies, and the Stewardship Supervisory Committee oversees conflict of interest management in relation to stewardship activities.

To eliminate concerns about conflicts of interest, the Stewardship Committee excludes from its membership personnel who concurrently hold posts in either the Marketing Division, which oversees relationships with sales companies, or the Corporate Planning Department, which handles communication with major shareholders.

The Stewardship Committee shares information relating to, and future strategies for, engagement with companies, the Proxy Voting Policy, policies on surveys and investment relating to sustainability including ESG, and international initiatives relating to issues such as climate change and human rights. It also conducts deliberation and decision-making in regard to policy revision and participation in initiatives.

As there is a requirement that more than half of the members of the Stewardship Supervisory Committee must be Outside Directors, it is able to conduct monitoring of conflict of interest management in relation to stewardship activities, including proxy voting, from a perspective that is independent of the company's management. The Stewardship Supervisory Committee also submits reports to the Board of Directors and, when it deems it necessary, issues recommendations to make improvements in regard to conflict of interest management.



Conflict of Interest Management

The management policy for conflict of interest

As an asset management company that plays an important role within the Daiwa Securities Group, Daiwa AM emphasizes great importance to its fiduciary duty and strives to fulfill this duty in its daily operations. When conducting asset management operations, Daiwa AM keeps in mind the possibility that conflict of interest might arise between Daiwa AM or other Daiwa Securities Group member companies and the beneficiaries of the investment trusts established and/or managed by Daiwa AM (hereinafter referred to as "Beneficiaries"). With this in mind, to prevent the inappropriate causing of harm to the interests of Beneficiaries, Daiwa AM has put in place a system for the proper management of transactions, etc. where there is a possibility of conflict of interest.

So that Beneficiaries can use Daiwa AM funds with peace of mind, Daiwa AM has formulated a Management Policy for Conflict of Interest, a summary of which is presented on the company's website.

+ WEB For more details, please visit the following webpage (in Japanese):

The Management Policy for Conflict of Interest (summary)
<https://www.daiwa-am.co.jp/company/policy/interest/index.html>

Proxy Voting Policy
https://www.daiwa-am.co.jp/company/managed/guideline_03.pdf

Conflict of interest management in relation to proxy voting

The Stewardship Committee will treat the voting rights as special cases when exercising the voting rights for securities issued by companies with a capital relationship (Daiwa AM's affiliates including Daiwa Securities Group Inc., etc.) or business relationship (companies that are distributors of our Investment Trusts, and their parent companies), as it may lead to conflict of interest. For proposals by these companies which should be decided independently of the regular criteria, we will exercise the voting rights based on the advice given by the external proxy advisor (Glass, Lewis & Co., LLC), so as to avoid conflict of interest and ensure the neutrality of the decision. However, if the Stewardship Committee determines that following this advice would not be appropriate, from the perspective of enhancing corporate value or minority interest, then it may independently decide whether or not the proposal should be supported. With regard to proxy voting in relation to proposals made by companies that are the object of conflict of interest management, the Stewardship Committee will submit periodic reports to the Stewardship Supervisory Committee. The Stewardship Supervisory Committee may also provide advice, when requested by the Stewardship Committee, prior to the making of a decision by the Stewardship Committee in regard to specified deliberation or whether or not to vote in favor of a proposal.

Sustainable Investment

ESG Investment Policy

Through its asset management business, Daiwa AM aims to make a positive contribution toward Beneficiaries' asset formation over the medium to long term. To achieve this goal, besides the appropriate selection of investment assets (i.e., stocks and bonds), enhancing the medium- to long-term corporate value and sustainability of the issuer companies and organizations (hereinafter "investee companies") is also extremely important, while maintaining the sustainability of society as a whole is also a prerequisite.

To enhance the medium- to long-term corporate value and sustainability of investee companies, it is vital to build a good relationship with the environment (E) and society (S) based on appropriate governance (G). We believe that this can also contribute toward the realization of a highly sustainable society.

In playing a role as a link in the investment chain alongside Beneficiaries and investee companies, Daiwa AM is implementing measures that embody a focus on the key aspects of ESG.

ESG Investment Policy

- Through our asset management business, we will provide all investors with the opportunities to invest in companies that are proactively addressing ESG and SDGs issues, as well as contributing to building a sustainable society.
- We believe the companies' ESG initiatives can lead them to grow in the medium-to-long-term and reduce risks. We will consider these measurements in terms of our investment decisions.
- Through constructive dialogue with the investee companies, we call for proactive ESG initiatives and share ESG issues. We will support them to maintain sustainable growth and longer-term corporate value.

In addition, based on the strategy outlined above, Daiwa AM has positioned the following items as its ESG Materiality (key issues), and is striving to accurately monitor the status of investee companies and industry as a whole, and to share its awareness of these issues.

Materiality

Materiality relating to environmental, social and governance (ESG)

Key issues		Specific points of focus	
Information disclosure			
Environmental	Climate change	<ul style="list-style-type: none">● Greenhouse gas emissions● Energy transition	<ul style="list-style-type: none">● Responding to climate change risk
	Natural capital	<ul style="list-style-type: none">● Environmental pollution● Biodiversity	<ul style="list-style-type: none">● Resource conservation
Social	Social responsibility	<ul style="list-style-type: none">● Business and Human rights● Supply chain management	<ul style="list-style-type: none">● Contributing toward the building of a healthy, safe society
	Human capital	<ul style="list-style-type: none">● Enhancing the value of human capital● Diversity, Equity & Inclusion	
Governance	Measures aimed at corporate value enhancement	<ul style="list-style-type: none">● Governance framework● Improving capital efficiency	<ul style="list-style-type: none">● Risk management● Communication

Other perspectives on sustainability in general

Key issue	Specific points of focus
Other sustainability	<ul style="list-style-type: none"> Intellectual property (IP) Digital transformation (DX) Artificial intelligence (AI)

ESG Integration

/Core materiality (Targets and Measures)

Integrating core materiality with Daiwa AM's investment and business activities

Daiwa AM has analyzed its materiality from two perspectives: sustainability, and long-term returns. Items that score highly for both of these perspectives are identified as core materiality. Besides reflecting the core

materiality identified by Daiwa AM in engagement, proxy voting and investment decision-making, the company is also applying this core materiality across a wide range of its business activities, including product development and sales strategy.

Climate change

Daiwa AM will require the formulation and implementation of business strategies that take into account the level of greenhouse gas emissions and the risks and opportunities relating to climate change, and will require summaries and evaluations of related activity status.

Core Materiality

DE&I

(Diversity, Equity & Inclusion)

Daiwa AM will require respect for diversity and equality of opportunity in relation to all stakeholders, and will require the elimination of discrimination and harassment.

Engagement and proxy voting

ESG integration

Product development and sales strategy

Improving capital efficiency

Daiwa AM will require the raising of return on equity (ROE) above cost of equity, and the continued, steady increase of equity spread.

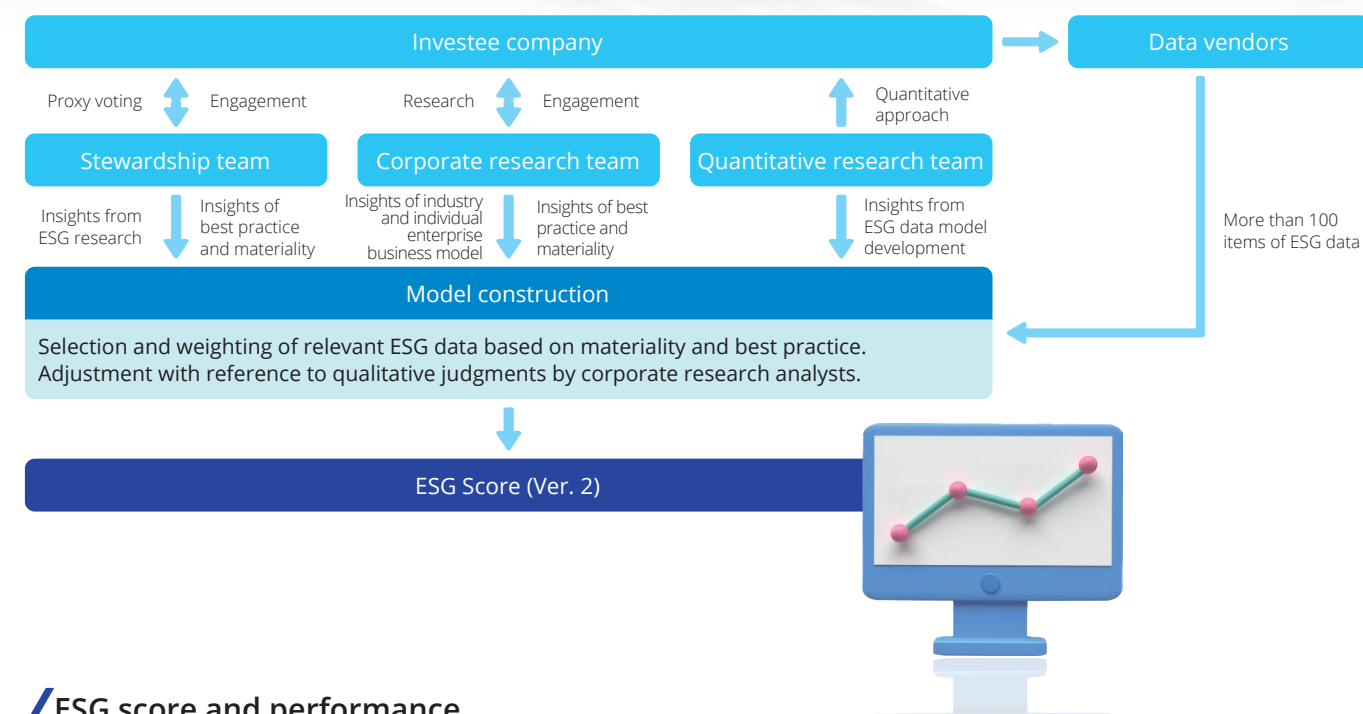
Governance system

Daiwa AM will require the improvement of the governance system, in terms of institutional design, the effectiveness of the Board of Directors, the role of Outside Directors, the compensation system for company officers, etc.

/In-house ESG score

With the aim of identifying companies' ESG-related risks and opportunities from multiple perspectives and then using this information effectively in investment decision-making, Daiwa AM calculates its own proprietary ESG scores. In the spring of 2023, the existing ESG score system was revised, and Version 2 was introduced.

With the new ESG score system, quantitative evaluation of ESG data is used to build models. By comparison with the old system, significantly increased number of data items makes it possible for more accurate scoring that reflects the actual situation.



/ESG score and performance

Using the ESG scores compiled by Daiwa AM, the universe of stocks was divided into five quintiles and then the performance disparity between the first quintile (highest scores) and fifth quintile (lowest scores) of stocks was analyzed. It was found that, over the period

measured, the stocks in the first quintile steadily outperformed the stocks in the fifth quintile, showing that, on average, the higher a company's ESG score, the better its performance.

ESG score—cumulative returns (first quintile to fifth quintile)



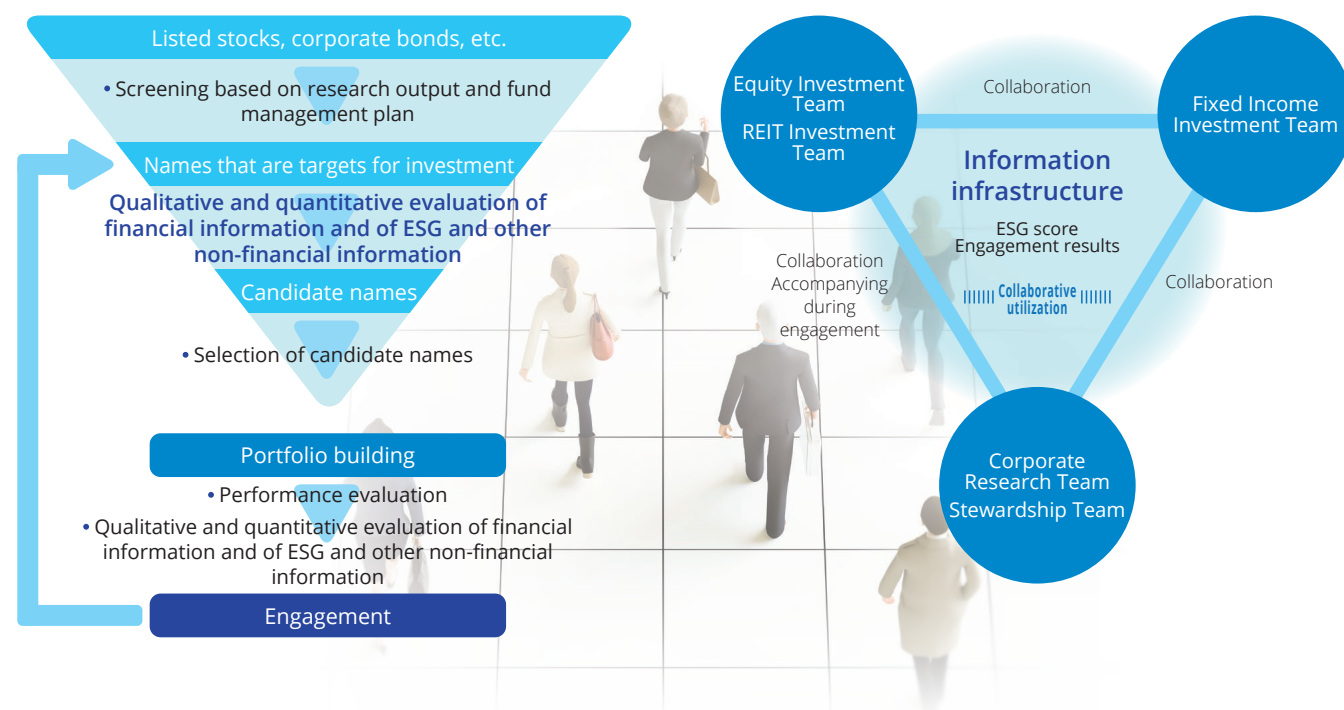
Note: The stock universe comprised the stocks included in Japan's TOPIX 1000 index. When monthly rebalancing is executed, neutralization is implemented using Daiwa AM's proprietary industry classification.

Integration of ESG scores and other no-financial data into the investment process, and collaborative utilization of this data via the information infrastructure

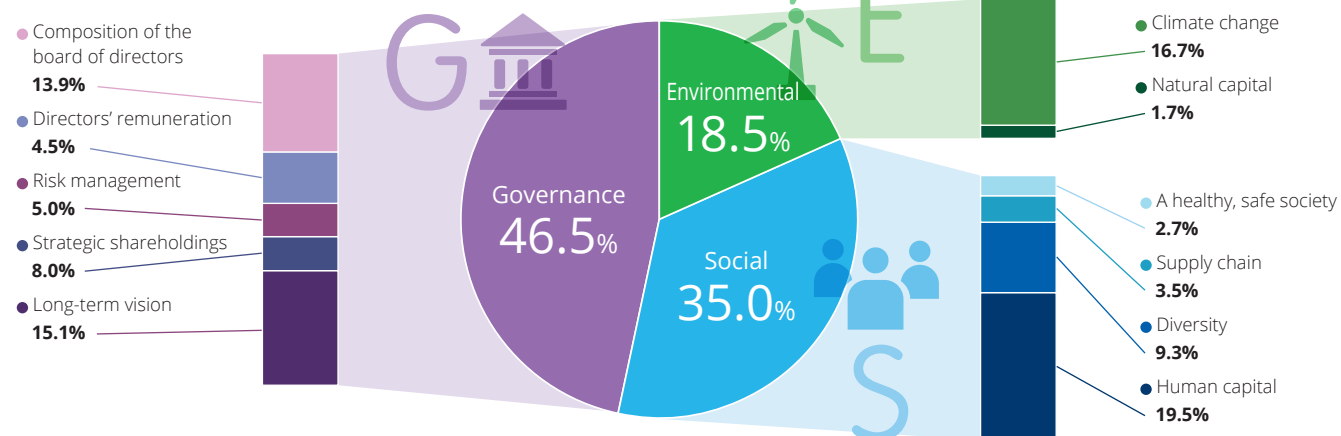
ESG scores and the content of dialog with companies are stored in our in-house information infrastructure, a system that allows anyone involved in asset management to utilize the information. By utilizing this information not only for equity investment but also for fixed income investment, Daiwa AM has succeeded in taking credit analysis to a higher level.

Investment process of funds

Collaborative utilization of information



ESG-related engagement—Topics



Period covered: January–December, 2023

Of the three major classification—Environment (E), Social (S), and Governance (G)—the share of engagement topics accounted for by the S aspect fell from 40.9% to 35.0%, while the shares held by the G and E aspects rose from 40.9% to 46.5% and from 18.2% to 18.5% respectively.

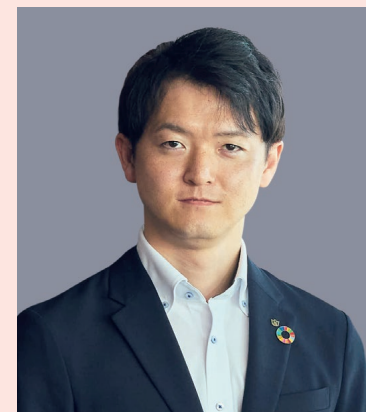
For more detailed classification, global warming remains an important topic and therefore climate change stays as an important topic category, with the share held rising from 15.5% to 16.7%.

In human capital where companies are now required to disclose in their financial statements and strategic shareholdings where Daiwa AM has tightened its Proxy Voting Policy, the opportunities for timely dialog increased in view of the current situation with the share held rising from 10.9% to 19.5% and from 6.8% to 8.0% respectively.

By contrast, the share of engagement topics in relation to supply chain issues declined from 15.1% to 3.5%, due to factors including the easing disruption of the COVID-19 pandemic.

Initiatives on each asset product

Japanese Equities



Takahiro Isobe
Senior Fund Manager,
Active Fund Management Department II

Promoting the sharing of knowledge through “lingagement”

In its engagement activities, Daiwa AM focuses on enhancing investee companies' corporate value over the medium to long term, sharing information about various management issues (engagement topics) with investee companies' senior management, encouraging them to address problems, and providing support where necessary. From a wide range of engagement topics, including those relating to ESG, restructuring of unprofitable and low-profit businesses, improving ROE and the cost of capital, and formulating growth strategies to accompany business transformation, Daiwa AM selects those that are most relevant for the individual investee company, and then proposes solutions, with Daiwa AM's own analyst teams playing a central role together with effective use of insights from external analysts and other experts.

One unique initiative of Daiwa AM is its active provision of opportunities for the exchange of information and for dialog between investee companies, through an activity which Daiwa AM calls “lingagement” (combining linkage with engagement). Companies that have implemented best practice in regard to specific engagement topics are introduced to other companies that are facing similar issues, with the aim of addressing problems efficiently through the direct sharing of experience and knowhow. In September 2023, Daiwa AM conducted a “lingagement” activity inviting the CFOs of more than a dozen listed companies to discuss measures for raising the price-book value ratio (PBR). Through knowledge-sharing as Daiwa AM as a hub, we aim to enhance corporate value not only for investee companies but for all Japanese corporations.

Key Point

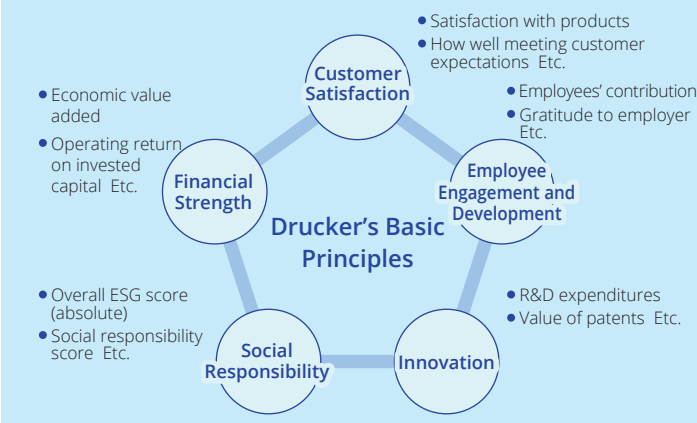
Using the Drucker Institute Score to Determine the Value of Intangible Assets

Peter F. Drucker was one of the leading economists of the 20th century. He has been called the “greatest thinker of the 20th century,” and the “father of management,” and a great many managers have been influenced by him. The Drucker Institute is a research institute established at Claremont Graduate University in the U.S. to keep Drucker's ideas and vision alive. Besides spreading Drucker's philosophy, the institute also undertakes quantification (score utilization) of the basic principles that Drucker advocated.

By quantifying intangible assets that cannot be determined from a company's financial statements, such as employee engagement and innovation, the Drucker Institute Score aims to identify enterprises with real growth potential.

Daiwa AM is collaborating with the Drucker Institute on plans to launch funds that will be focused on assigning scores to Japanese stocks in the same way that has been done for U.S. stocks.

The Drucker Institute's Score Model



Fixed Income



Keisuke Saeki
Chief Fund Manager
Fixed Income Team
Active Fund Management Department I

ESG Integration in Fixed Income Investment

Unlike investing in equities, returns from investing in bonds is characterized by limited upside, but with significant downside risk. The key to enhancing investment performance with fixed income investment is how well controlling this risk. From this perspective, we believe non-financial data (including ESG elements) are very important for fixed income investment as well, and it is vital to make effective use of this information when making investment decisions in relation to bond issuers.

In credit analysis, the shorter the investment timescale, the more important near-term financial information is; the longer the investment timescale, the more important non-financial information is. With this awareness that non-financial data is the foundation of the future financial data to be built, we see the success or failure of companies' initiatives addressing ESG issues as affecting the company's future financial data.

Daiwa AM implements investment decision-making from a perspective that emphasizes verifying and analyzing how each bond issuer is addressing ESG issues, evaluating the impact on their performance and balance sheet in the future, and determining whether they can maintain good returns while taking the risks into account.

By incorporating assessment of bond issuers' non-financial data into the credit risk analysis process in addition to analysis of financial data, we aim to control downside risk in relation to returns, improve the risk-return balance, and, ultimately, enhance investment performance.

Index Funds and ESG Investment

By providing funds linked to indexes which incorporate ESG assessment, our team aims to give investors the low-cost, easy-to-start ESG investment opportunity. The advantage of ESG investment using index funds is to facilitate low-cost investment management with transparent, clear rules. Daiwa AM currently provides five ESG funds (including ETF funds). We are also proceeding projects to provide institutional investors in Japan and overseas with ESG-related funds meeting their needs.

Regarding engagement, we keep investee companies informed about our stewardship activities, for example by sending them copies of our Proxy Voting Policy. With regard to ESG data such as ESG rankings and carbon emissions, we are aiming to realize more easy-to-understand disclosure, through efforts including liaison with index providers.

ESG Index Funds

Fund Type	Serial Code	Fund Name	Date Launched	Reference
Public Fund	3470	iFree Global Stock ESG Leaders Index	2022/5/10	
ETF	3510	Daiwa ETF—MSCI Japan Human and Physical Investment Index	2016/5/18	
ETF	3513	Daiwa ETF—FTSE Blossom Japan Index	2017/9/25	Index used by GPIF
ETF	3514	Daiwa ETF—MSCI Japan ESG Select Leaders Index	2017/9/25	
ETF	3515	Daiwa ETF—MSCI Japan Empowering Women Index (WIN)	2017/9/25	Index used by GPIF

Indexes



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Implementation of ESG-related Monitoring With Respect to Outsourced Fund Managers

• Selecting investment management strategies

When performing initial due diligence, we verify the outsourcing party's ESG-related internal systems and policies, and their links to various initiatives. Particularly in the case of ESG investment, we focus on verifying whether ESG-related risks and opportunities are controlled properly in the portfolio-building process, and whether concrete disclosure is possible, as well as whether the fund's economic and social returns are reflected fully in the character of the product, and whether concrete disclosure is possible in relation to these returns.

• Follow-up monitoring after fund launch

After a fund has been launched, we continue to hold meetings with the outsourced fund manager in relation to ongoing due diligence and other types of periodic review, and we exchange views with them regarding their opinions on ESG-related issues (which are constantly changing), and with regard to whether they are addressing these issues.

In the case of impact funds, we exchange views with outsourced fund managers and perform monitoring not only with regard to fund performance, but also regarding how the stocks included in the fund are contributing to social returns. When an impact report is issued, besides verifying the status of fund objective achievement, we also encourage the outsourced fund manager to implement full information disclosure.

In addition, with regard to the results of engagement and proxy voting, we have a policy of implementing monitoring and exchanging views with the outsourced fund manager on a regular basis.

Pick Up

Daiwa AM Receives an Award in the ESG Finance Awards Japan Organized by Japan's Ministry of the Environment

Daiwa AM and Candriam S.C.A. were the joint winners of the Selection Committee Chairman's Award (Bronze) in the Investors Category (Asset Managers) in the 5th ESG Finance Awards Japan, organized by Japan's Ministry of the Environment.



Grounds for the Award

The basic concept behind the Carbon ZERO ESG fund that Daiwa AM has been managing with investment advice received from Candriam has a clear focus on investment in enterprises contributing toward mitigating the effects of climate change by reducing greenhouse gas emissions, which received a positive evaluation from the Awards jury, as did the social significance of the fund constituting long-term investment, with a fund operation period that will extend until 2050. In addition, the effort made to maximize the respective strengths of Daiwa AM and Candriam through our close collaboration, the inclusion in the fund impact report of content that will encourage individual investors in Japan to undertake ESG investment, and the clear stance focused on contributing toward expanding the ESG investment market in Japan, all attracted positive comment. The potential for discovering even more creation of synergy with Candriam in the future was another factor behind the decision to present the award to Daiwa AM and Candriam.

Making the ESG Fund Certification Process More Rigorous

“ESG-washing,” which involves investment activity that pretends to embody concern for the environment and for society despite the lack of reality, has become a problem, and countries throughout the world are tightening up controls relating to ESG investment. In Japan, the Financial Services Agency issued a related Guideline in March 2023, outlining the scope of ESG investment trusts, and the information disclosure items that need to be provided in relation to ESG investment trusts.

Based on this Guideline, Daiwa AM is putting a system in place to provide publicly-offered ESG fund in which customers can invest with peace of mind.

The figure below explains the measures taken in the

ESG fund creation process to prevent “ESG-washing.”

When the Product Planning Department asks the Fund Management Division to confirm a particular fund proposal, the Fund Management Division verifies whether there are any problems with the fund management plan, and whether the proposed fund meets the ESG fund criteria set by Daiwa AM. The verification results are submitted for deliberation at a Product Committee attended by members of the senior management team, thereafter the new fund is certified as an ESG fund. The certified fund is then established, and begins to be managed as a publicly-offered ESG fund.

ESG Fund Creation Process



Monitoring ESG Index Providers, etc.

Daiwa AM has created its own proprietary ESG score system, but we also make use of other ESG score systems provided by third parties, as part of the management process for our ESG index funds, etc. In order to provide

ESG funds in which customers can invest with peace of mind, we hold meetings and exchange views with ESG index providers as well as ESG assessment and data providers in relation to these funds.

ESG Fund Definitions, and Daiwa AM’s ESG Funds

To provide customers with ESG funds in which they can invest with peace of mind, Daiwa AM has clarified the definition of ESG funds, and formulated criteria for ESG fund certification. These criteria are based on the Guideline issued by Japan’s Financial Services Agency, while also referencing similar guidelines issues by regulatory authorities in other countries.

As outlined below, Daiwa AM has



formulated criteria for two types of ESG fund. Funds meeting each of these two categories have already been certified and are listed in the table below. Besides implementing monitoring to check whether the actual management of each fund is in conformity with the fund certification criteria, we also aim to ensure that there is ample information disclosure which brings across information to customers in an easy-to-understand way.

Daiwa AM’s ESG funds	
Daiwa AM’s ESG funds position ESG as a major factor when selecting targets for investment, for example by focusing on ESG risk management in relation to the entire portfolio, or by investing in companies that are emphasizing ESG or the achievement of the SDGs, so as to help bring about the transition to a sustainable society, and it is also important to enable effective disclosure possible in relation to the above.	[Impact funds] A key feature of impact funds is that they should realize not only economic returns but also social returns, and that it should be possible to realize effective disclosure in relation to these social returns.

Daiwa AM’s ESG Funds

Impact fund	Code	Fund Name
●	2785	Decarbonization Technology Fund (Carbon ZERO)
●	2790	Decarbonization Technology Fund (estimated dividend type) (Carbon ZERO estimate dividend type)
	2800	Global Water Resources Equities Fund
	3256	Women’s Advancement Support Fund (Tsubaki)
	3356	Tsumitate Tsubaki
	3388	Social Problem Resolution Support Fund (Bridge for Smiles)
●	3410	Clean Tech Equity & Green Bond Fund (capital growth type) (Mirai Earth capital growth type)
●	3411	Clean Tech Equity & Green Bond Fund (estimated dividend type) (Mirai Earth estimated dividend type)
●	3417	Clean Tech Equity Fund (capital growth type) (Mirai Earth S capital growth type)
	3470	iFree Global Stock ESG Leaders Index
	3488	Global Life Equity Fund (capital growth type) (Bright Life (capital growth type))
	3489	Global Life Equity Fund (estimated dividend type) (Bright Life (estimated dividend type))
	3510	iFree ETF MSCI Japan Human and Physical Investment Index
	3513	iFree ETF FTSE Blossom Japan Index
	3514	iFree ETF MSCI Japan ESG Select Leaders Index
	3515	iFree ETF MSCI Japan Empowering Women Index (WIN)
	3711	DC Daiwa SRI Fund

Part 1

Stewardship Activities