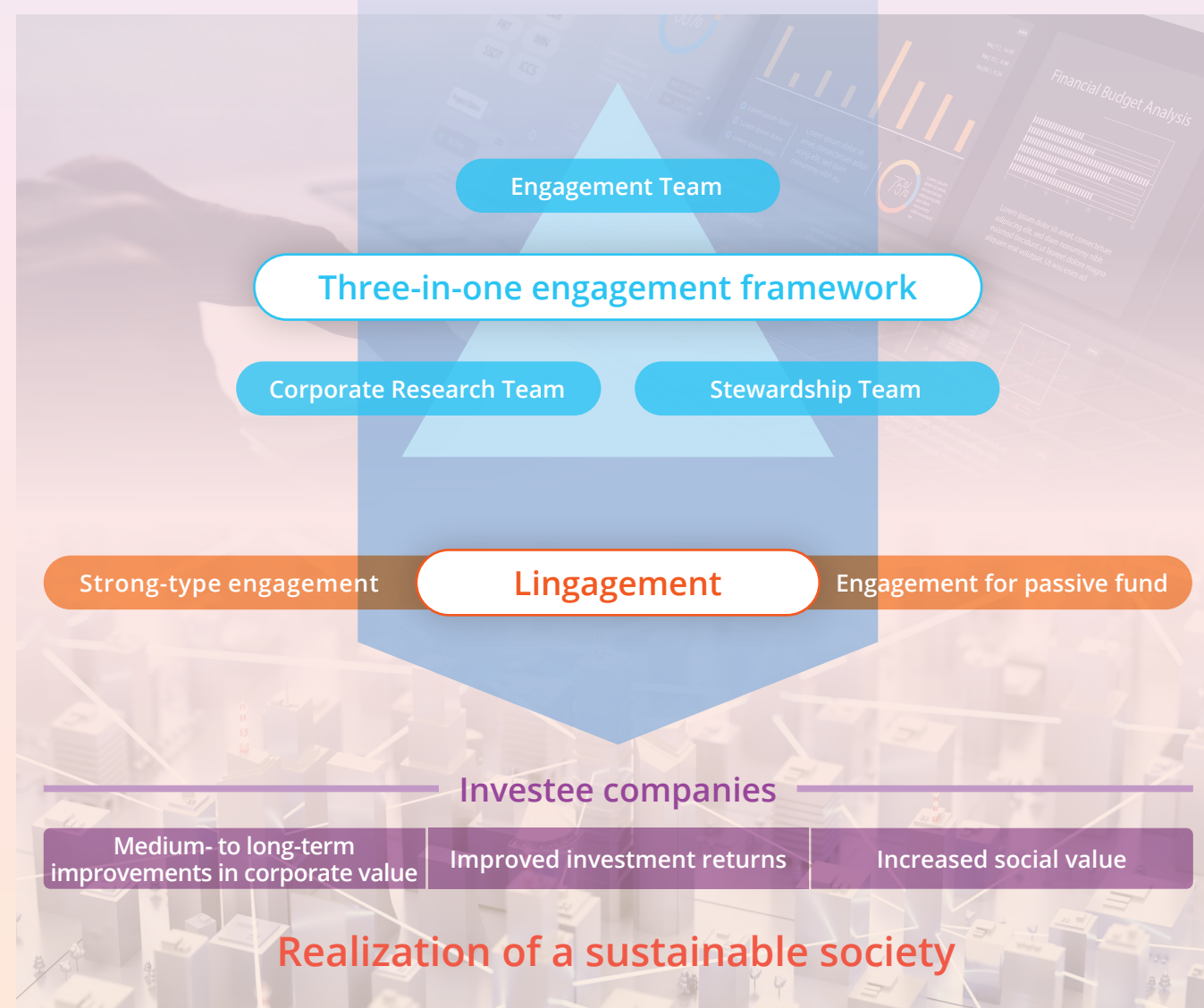
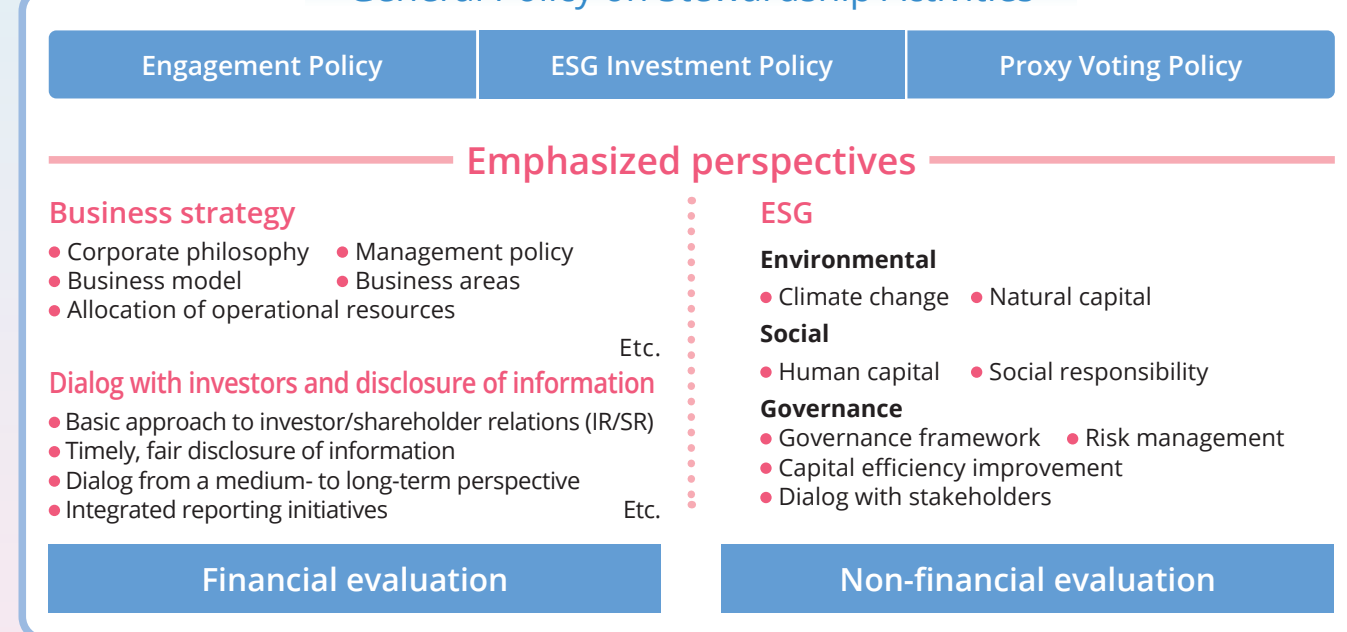


Engagement

Overview of Daiwa AM's Engagement

General Policy on Stewardship Activities



Strong-type Engagement

Overview

At Daiwa AM, we categorize engagement according to its depth. We use the term strong-type engagement to describe the deepest category of engagement. This category of engagement is that which aims to significantly improve operational performance by identifying engagement themes and directly and actively encouraging

management to improve on these.

Companies to be targeted for strong-type engagement are selected by corporate research analysts or fund managers from the Engagement Team based on the following selection criteria, with milestone management conducted until the issues are resolved.

Selection method for target companies

Corporate research analysts select companies in the sector for which they are responsible for engagement based on the following criteria: **① A company has key management issues, and ② these issues can be expected to be improved or resolved through dialogs, while ③ the resolution of the issues also can be expected to increase corporate value.** Among these, companies that can be expected to significantly increase their corporate value through the resolution of issues are then selected for strong-type engagement.

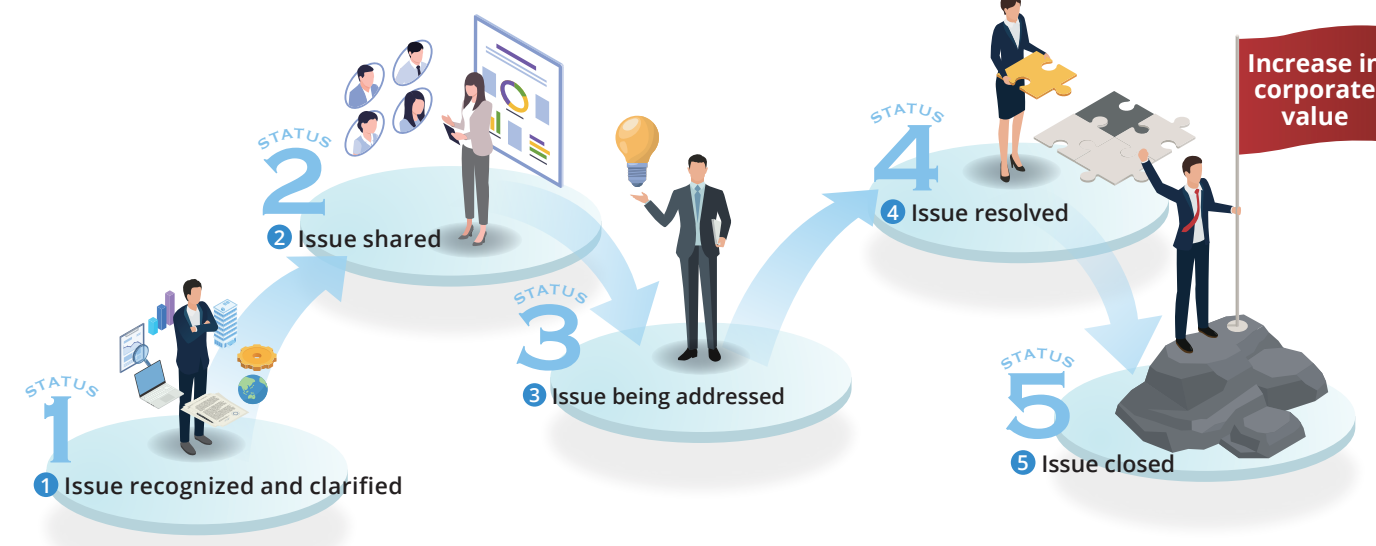
Fund managers in the Engagement Team additionally select companies to be targeted for engagement based on the previously outlined perspectives.



Milestone management

When implementing strong-type engagement, we first set an engagement theme for each target company, with an engagement plan then prepared. This plan outlines the specific issues recognized, the background to these issues, suggested measures to resolve the issues, and the anticipated situation after they have been successfully addressed.

Milestone management is then carried out by dividing the implementation statuses of engagement into five categories of: **① Issue recognized and clarified, ② Issue shared, ③ Issue being addressed, ④ Issue resolved, and ⑤ Issue closed.** The progress statuses are shared with each analyst and fund manager and routinely monitored by senior officers.



Engagement case studies



Company F
(iron and steel)

Current location of milestones: STATUS 1 → 2 → 3 Issue being addressed → 4 → 5

Main dialog counterpart: **Head of Accounting Department**

Engagement theme **Improving profitability and capital efficiency**

Issue awareness and background

The company has placed its highest priority on the stable supply of products to its major clients, which are group companies of the major automotive group to which it is affiliated in its capacity as a materials corporation in that group. At the same time, it has had a low awareness of increasing its corporate value as well as of improving profitability and capital efficiency, with its profitability significantly below that of its industry peers. This consequently necessitates the active pursuit of measures to improve its profitability, such as a review of selling prices and productivity improvements.

In addition, the company holds many assets not directly related to its core business and which it is difficult to justify as economically rational, such as cross-shareholdings, including those with other companies in the group. It has furthermore overstretched its equity capital by prioritizing financial stability to ensure a stable product supply, both of which have contributed to a decline in ROE. For this reason, the company must improve its capital efficiency by actively returning profits to shareholders through repurchasing of own-company stock and raising the dividend payout ratio.

In addition to these points, the company has failed to actively engage in investor relations activities, nor has it provided sufficient explanations of its growth strategy. As a result of this situation, the company has been routinely subject to significantly low PBR evaluations by the stock market.

Suggested measures to resolve the issues

- 1 Improve base margins by enhancing the emphasis on profitability at the time of order receipt as well as by requesting price increases for low-profitability products; expand the application scope of the surcharge system, which will automatically pass on fluctuations in raw material prices and energy costs centered on electricity, to product prices. In addition, implement selling which emphasizes profitability in products for general distribution.
- 2 Review and sell cross-shareholdings including those in group companies and subsequently utilize the proceeds from these sales to actively invest in high-potential domains such as products compatible with motorization.
- 3 Enhance shareholder returns by upwardly revising the dividends policy and repurchasing own-company stock to eliminate surplus capital, based on a recalibration of the in-company approach to how the balance sheet should look, including the appropriate equity capital ratio.
- 4 Actively disseminate information on the above measures to improve profitability, as well as on growth strategies and capital policies.

Anticipated situation following issue resolution

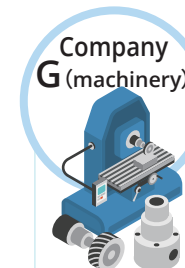
Due to the improvement in ROE and heightened expectations for medium- to long-term growth, the low PBR, which has become the norm, will be resolved, leading to a significant increase in stock prices.

Company response at time of dialog

The company indicated that there was growing recognition of low share prices as being an issue within the company, and the feeling that going forward they would increase opportunities for dialog with investors and actively reflect investor views in management. They were also aware of the issue of the low profitability of businesses and are enhancing initiatives to introduce and expand the scope of the surcharge system as well as initiatives to revise prices and are currently in negotiations with their clients to this end. Normalization of equity capital is an issue that the company has deemed difficult to settle and resolve in the short term. They will, however, pursue in-company discussions on how it wishes to calibrate itself on this issue and demonstrate their orientation toward improving capital efficiency over a medium- to long-term timeframe by, for example, committing to a cash allocation policy.

Company actions following the dialog

In the most recent financial year, the business environment was difficult, with product sales volumes declining due to a decrease in the number of vehicles manufactured by clients. Nevertheless, we were able to confirm that the company has made progress in improving the profitability of its products, which even included its announcement of an upward revision to its full-year profit forecast. Regarding the elimination of surplus capital, the company aims to commit to a specific orientation in its next medium-term management plan. In addition, the company has indicated policies, including reducing its cross-shareholdings, toward enhancing its corporate value.



Company G
(machinery)

Current location of milestones: STATUS 1 → 2 → 3 Issue being addressed → 4 → 5

Main dialog counterpart: **Director and Senior Executive Officer**
(Head of Corporate Planning Department)

Engagement theme **Measures to enhance corporate value**

Issue awareness and background

The company's market value is failing to remain in step with its actual standing. It maintains a given growth rate and capital efficiency, with beta and capital costs also low. However, the reflection of this in its PBR has been tardy, with PBR fluctuating around 1.0x since 2022.

This situation can be attributed to the company's downward trending ROE. While ROE was comfortably above double digits in the first half of the 2010s, this has continued to fall since the second half of the 2010s. This is due to lower financial leverage and lower asset turnover caused by capital accumulation.

The tardiness of initiatives to respond to the revised Corporate Governance Code and the failure to indicate a clear growth strategy and capital policy, which in turn occasioned a comparative decline in investor interest, were regarded as contributing factors in the company's flagging share price, with sell-side analyst coverage also down compared to the 2010s.

Suggested measures to resolve the issues

- 1 Clarify capital policy (financial strategy). Also, disclose an overview of cash allocation to communicate the company's strategic intentions to the market.
- 2 Actively pursue investor relations activities and expand shareholder returns. Increase the frequency of financial results briefings, small group sessions, and business and ESG briefings.
- 3 Actively pursue growth strategies. Implement mergers and acquisitions which leverage industry-leading advantages and abundant cash.

Anticipated situation following issue resolution

Actualization of a market valuation commensurate with a corporate valuation model appropriately reflecting the actual corporate standing of the company.

Company response at time of dialog

The company has undergone continuous engagement since the 2010s and Daiwa AM has achieved their consensus on an orientation to enhance corporate value. Improvements in investor relations activities were also evident in the improved briefing materials and the increased frequency of small meetings.

Company actions following the dialog

In May 2024, the company announced a new medium-term management plan and "action to implement management that is conscious of cost of capital and stock price," and presented its growth strategy and cash allocation. For shareholder returns, the company stated its approach of "no further accumulation of cash" and disclosed proactive quantitative targets. Nevertheless, its ROE targets remained less than satisfactory from the perspective of share price valuation.

In November 2024, the company issued a "Notification of Policy on the Reduction of Cross-shareholdings." The policy revised to aim to sell more than double the initial target for the balance at the end of March 2024 indicated in the medium-term management plan. These sales would be the main source of capital to increase shareholder returns (dividends & repurchasing of own-company stock) with the company's ROE target also revised upwards.

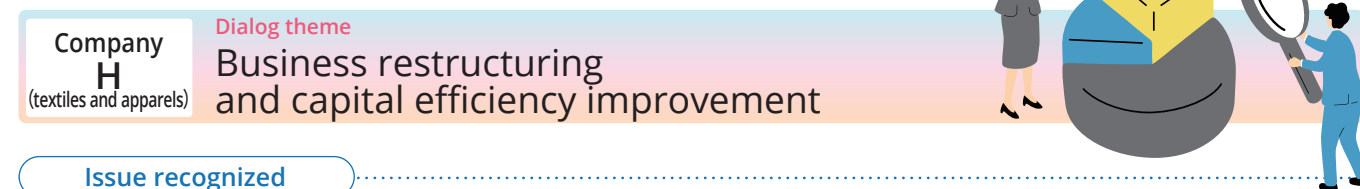


Escalation Strategies

Daiwa AM strives to operate in a way that integrates engagement with investee companies and proxy voting actions. These are referred to as our escalation strategies and constitute initiatives involving assessment of the content of dialogs with, and the actions of, investee companies and subsequently reflecting this in proxy voting by Daiwa AM. Based on these escalation strategies, we vote against a proposal of the general meeting of shareholders even if this does not conflict with Daiwa AM's Proxy Voting Policy if we deem that it will have a negative impact on corporate value, after considering the

content of dialogs with the company, its actions, and other factors. In addition, cases exist in which we will vote in favor of a proposal after considering the content of engagement even if we would otherwise oppose that proposal if the Proxy Voting Policy were to be applied mechanically, and together define these considerations as our escalation strategies. Daiwa AM thus strives to support initiatives that contribute to enhancing corporate value through dialogs with investee companies and the exercise of proxy voting rights, rather than applying the Proxy Voting Policy in a prescriptive manner.

Case Studies of Escalation Strategies



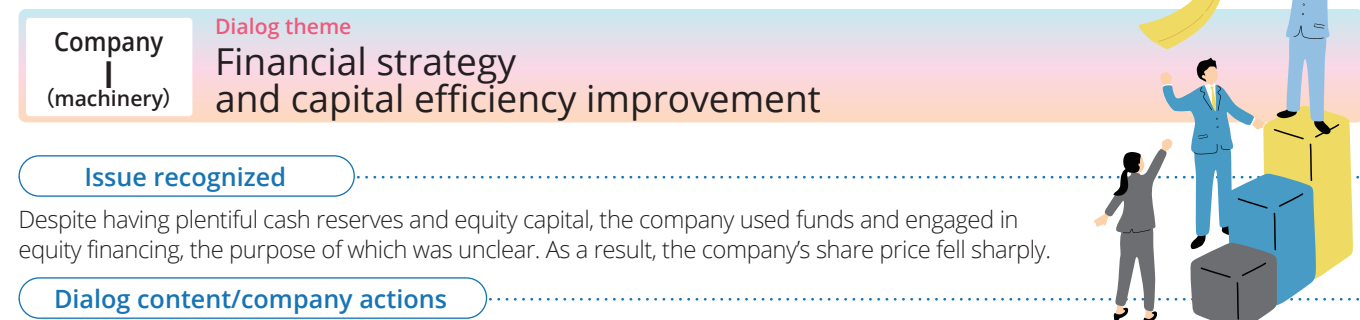
The company was deemed to have issues with its branding and overseas business strategies, with significant room for improvement in terms of cost structure and capital efficiency. Fundamental business restructuring, including management reforms, are needed for the company to extricate itself from a prolonged downturn in business performance.

Dialog content/company actions

The company has initiated management changeover, as well as management reforms and downsizing of the balance sheet, occasioned in part by corporate transformation engagement which was implemented based on their recognition of the above-outlined issues from several years ago. While the company's business conditions can be expected to be inevitably difficult until the new fiscal year due to factors such as restructuring and related costs, there are already indications that it is entering a recovery phase, and a recovery in performance can be expected from the subsequent fiscal year onwards.

Reflection in proxy voting

The company's level of performance to date is below the lower threshold set by Daiwa AM, and application of the Proxy Voting Policy would in principle mean that we would vote against the reappointment of some of the directors. Nevertheless, we have decided to vote in favor of the reappointment of the directors in question, based on our assessment that engagement has yielded adequate results in terms of management reform by the current management team and that further improvements can be expected going forward.



The company explained that the purpose of the financing was to improve the liquidity of its shares and that the use of funds was intended for M&As, property acquisition, and facilities investment. Despite our insistence that the company's explanation was unsatisfactory considering its current financial standing, the discussions failed to get any closer to achieving agreement. Subsequently, the company purchased and cancelled some of the stock subscription rights, claiming that it had secured the necessary funds due to favorable business performance.

Reflection in proxy voting

Although the company's business performance and superficial governance structure do not conflict with Daiwa AM's Proxy Voting Policy, we decided to vote against the reappointment of the director in charge of financial strategy, considering that we did not receive an adequate and convincing explanation of the financial strategy.

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"

Best Practice Companies

Examples of companies introduced

- Companies which have established platforms for dialog between outside directors and investors
- Companies which have incorporated ROE and ROIC management
- Companies which have disclosed on their growth strategies



"Lingagement" case study

[Purpose] Share knowledge toward enhancing corporate value as an R&D-oriented company

Company J

Although Company J continued to maintain high profitability facilitated by efficient research and development, it had no investment projects commensurate with its cash flow, which had resulted in a build-up of cash. In addition, the company has not reduced its cross-shareholdings, with the effect of these circumstances meaning that its capital efficiency (ROE) has failed to improve relative to its high profitability. Despite being aware of these issues, Company J was unable to devise an overall capital strategy and continued to use takeover defense measures against takeover risk.

Company K (best practice company)

Company K withdrew from the general-purpose products business and, from around 2000, undertook a major shift to high value-added business based on its research and development capabilities, the outcomes of which have enabled it to maintain high profitability as well as to build a CFO-led capital strategy. They have also been able to set targets for cash holdings and strike a balance between investment in excess of capital costs and shareholder returns. This has allowed them to raise capital efficiency (ROE) to an industry-leading level, resulting too in a PBR among the highest in the industry.

Daiwa AM conducted an engagement with Company J to convey that it should devise its overall capital strategy at an early stage and thereby indicate a path to improving capital efficiency, leading to enhanced corporate value.

Meanwhile, we conducted a separate engagement with Company K upon the departure of its CFO, who had spearheaded efforts to improve capital efficiency and enhance corporate value, to reflect on the initiatives for reform as CFO and ensure that the company could continue to develop as a capital-efficient, R&D-oriented company into the future.

Daiwa AM then set up a meeting between the former CFO of Company K and the directors and executive officers of Company J, including its president, in the belief that having Company K's former CFO share their experience with Company J would enable Company J to devise an appropriate


capital strategy and chart a course for its development as a capital-efficient, R&D-oriented company. (Daiwa AM was responsible only for arranging the meeting and not involved in the content of the dialog between Company J and Company K.)

Company J subsequently indicated a clear and distinct capital strategy and undertook actions to reduce its excess cash. The capital strategy and the disclosure of its contents indicated by Company J, as well as the business strategy linked to the capital strategy, constituted a substantial response to TSE's requirements in this regard and were subsequently taken up as an example of good practice by TSE. Since then, the disclosure of information by Company J has evolved even further, and such disclosure can be expected to facilitate the development of the company as an R&D-oriented company and to the enhancement of its corporate value.

Information Exchange Meetings

Event overview

The fourth Information Exchange Meeting was held on November 29, 2024. These exchange meetings are intended to focus on a specific theme and provide a platform for companies to share knowhow with each other. Based on the theme “Beyond PBR of 1.0x: Enhancing Corporate Value through Human Capital,” key actors in human capital from seven companies with best practices were invited to speak at the fourth meeting. Five external experts also offered their specialist perspectives, with the event thereby proving an opportunity for those in attendance to deepen their knowhow, including that relating to the other participating companies.

This time, human capital was selected as the theme, in acknowledgment of the growing importance of “potential power” ( see p. 52) in company valuations and because human capital is now considered fundamental

management capital and as having an intimate association with all capital. Corporations are currently undertaking initiatives to improve their human capital, with shareholders and investors striving to ensure it is appropriately valued. In addition to the institutionalization, from 2023, of human capital disclosure in securities reports, human capital can, going forward, be expected to be covered in sustainability disclosures in Japan. Many companies are now undertaking actions to directly increase ROE and ROIC in response to TSE requirements in this domain. Daiwa AM nevertheless believes that recognition of the importance of human capital, which is at the core of “potential power,” must be furthered strengthened, from the perspective of sustainable corporate value enhancement.

Participating companies in the Information Exchange Meeting

Best practice companies (seven companies)
Link and Motivation Inc.
PERSOL Holdings Co., Ltd.
Nissin Foods Holdings Co., Ltd.
Mitsui Chemicals, Inc.
Tokyo Ohka Kogyo Co., Ltd.
Chugai Pharmaceutical Co., Ltd.
Nippon Gas Co., Ltd.

(in order of securities code)

External experts (five companies)
Acropolis Advisors, Inc.
OpenWork Inc.
Servant Coach Inc.
Sustainability Standards Board of Japan (SSBJ) members
Unipos Inc.

(in alphabetical order)

Audience companies (14 companies)

Discussion content

To begin, the participant companies gave overviews of their respective human capital initiatives, which was followed by a group discussion on: ① Engagement, ② Human resource capacities, ③ Mechanisms spanning engagement and human resource capacities, and ④ Information disclosure and dialogs with shareholders and investors.

At this event, each of the key actors from companies with exemplary human capital initiatives and those with a high awareness of the link between human capital and management strategy once again took the floor. As such, discussions proceeded on the assumption of a common understanding of the relationship between human capital, productivity and business performance, and medium- to long-term corporate value.

Specific themes

- ① Engagement
- ② Human resource capacities
- ③ Mechanisms spanning engagement and human resources capacities
- ④ Information disclosure and dialogs with shareholders and investors



Scene from the group discussion



Information Exchange Meeting materials

Future approach

Daiwa AM positions these exchange meetings as a core activity of “lingagement,” and convenes them as a proprietary initiative of our company. Going forward, we will continue to hold Information Exchange Meetings of this sort, thereby actively contributing to enhancing corporate value through the resolution of corporate challenges by providing this platform for “knowledge sharing” among companies.

Themes of previous Information Exchange Meetings

1st meeting (Feb. 2021)	Gender Diversity
2nd meeting (May 2022)	Talent Strategy
3rd meeting (Sept. 2023)	Initiatives to Improve PBR
4th meeting (Nov. 2024)	Beyond PBR of 1.0x: Enhancing Corporate Value through Human Capital

Feedback from participating companies



Networking scene

“ This event was an outstanding opportunity to hear about the initiatives of respective companies. It was also highly informative to hear about the difficulties they were all facing and the various approaches they had adopted in tackling these challenges. ”

“ I was extremely impressed to see the commitment with which each company that spoke during the group discussions were working. Those in attendance from the audience companies also listened intently, as they tried to take home lessons from these advanced case studies. ”

“ The content of the discussions was also extremely rich and proved an opportunity to experience first-hand the high level of attention being paid to human capital management. ”

Engagement for Passive Fund

Overview

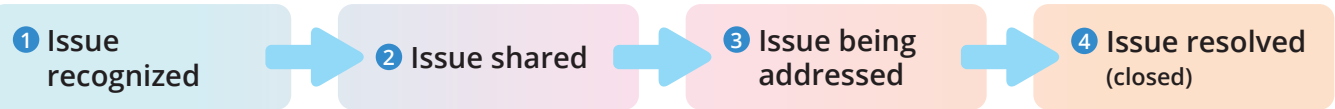
Daiwa AM also focuses efforts on passive engagement aimed at improving investment performance by raising the level of the overall market. Passive engagement can be broadly classified into two types: engagement involving approaches to investee companies whose initiatives to

address Daiwa AM's established materialities are considered inadequate, and engagement involving responses to approaches from companies faced with various issues.

Materiality-based engagement

Daiwa AM has established materialities that are highly important from sustainability and long-term returns perspectives as its core materialities and conducts engagement using focused approaches initiated by Daiwa AM to those investee companies which are failing to keep pace in their initiatives to address these materialities. In 2024, we conducted engagement with companies with significant GHG emissions, those in which gender diversity initiatives were failing to keep pace, and those which could be considered to have insufficient governance

systems in place. We determine the companies to be subject to these engagements by considering factors such as the status of our shareholdings in the company. For these materiality-based engagements, we divide the respective engagement themes of each investee company into four statuses: ① Issue recognized, ② Issue shared, ③ Issue being addressed, and ④ Issue resolved (closed), and conduct milestone management, internal information sharing, and regular monitoring.



Example of milestone management

Code	XXXXX		
Issue name	XXXXXXXXXXXXXX		
Theme	Appointment of female directors	Shortening terms of office for directors	Improving the share of female managers
Status	Issue currently being addressed	Issue shared	Issue shared
9/17/2024 Discussion history	○	△	△
(○: positive responses and initiatives; △: no specific measures or notable improvements; ×: not discussed)			



Engagement in response to approaches from companies

In addition to management and capital strategies, the themes for engagements which have been requested following approaches by investee companies encompass a diverse range including ESG and sustainability issues. Investee companies are faced with a multiplicity of issues,

many of which are difficult to resolve. However, Daiwa AM endeavors to engage in dialogs that will ultimately facilitate enhancements in medium- to long-term corporate value and improved sustainability.

Case studies of passive engagement

Company L
(marine transportation)

Dialog theme
Decarbonization initiatives



Issue As the decarbonization of shipping companies requires both major capital investment and the development of new technologies, presentation of a more concrete roadmap would facilitate understanding of the company's situation by the market.

Background While there is a necessity to appropriately reflect cost increases in freight rates subject to the understanding of clients when undertaking large-scale capital investments, the status of dialogs with clients and progress in the passing on of prices is not perceptible from the outside.

Dialog content The company's investment plan significantly varies over the year. Daiwa AM thus requested that the company gives indications of the situation, even in terms of major developments, such as the nature of the factors behind changes in investment planning and whether the cost increases stemming from decarbonization initiatives are being absorbed through price pass-on.

Company response
The company indicated that, although this will vary by client, there is a growing understanding of CO₂ reduction with an awareness of Scope 3, particularly in the automotive industry, and that the business environment is steadily becoming more conducive to proactive investments in LNG-fueled vessels. They also stated that, while they will also regularly update their investment planning, they wish to take steps which will allow them to provide more detailed explanations of any changes to the content of their investment planning.



Dialog theme
Gender diversity

Company M
(glass and ceramics products)

Issue The female manager ratio and the average years of service among female employees are low.

Background While the low proportion of female employees is unavoidable due to the underlying background of low numbers of women with science and related backgrounds among technical employees at manufacturing sites, many female employees leave the company before they can be promoted to management positions, with problems also evident in terms of the company's personnel system.

Dialog content The lack of a sufficient education and training system and the failure to ensure diversity in workstyles (including the absence of a teleworking system and the existence of job relocations) can be considered problematic factors which lead female employees to leave the company. As well as improving these systems, it is desirable that the company increases its number of role models, including mid-career hires, and ensures that it provides more comprehensive support in areas such as career design.

Company response
The company is aware of the issues surrounding its personnel system and is considering measures such as the introduction of a teleworking system, institution of positions not subject to job relocations, and the enhancement of their training and education system as necessary.



Company N
(construction)

Dialog theme
Reduction of cross-shareholdings

Issue The balance of cross-shareholdings is significantly above 20% of net assets but the pace at which these are being reduced remains slow.

Background The balance of cross-shareholdings with business partners is considerable due to entrenched industry practices. In addition, the pace at which these are being sold has not increased due to the time required for discussions with counterparties.

Dialog content As this industry is characterized by many counterparties asserting that the sale of their cross-shareholdings does not affect trading, the company should expedite the pace at which these are sold from the perspective of improving capital efficiency. At the same time, it should set targets to achieve less than 20% of cross-shareholdings to net assets.

Company response
The company stated that they would like to continue to hold repeated and detailed discussions with counterparties on the sale of cross-shareholdings but would like to be allowed to give further consideration regarding the setting of targets.

Case Studies of Engagement with Outside Directors

Daiwa AM expects outside directors to play a role in overseeing management from an objective standpoint while maintaining a high degree of independence as spokespersons for minority shareholders and, from this perspective, places particular emphasis on engagement with outside directors.



Company O (securities and commodity futures)

Dialog theme Strengthening the governance system

Daiwa AM held a dialog with the outside directors on the particular issues the outside directors perceived in terms of effectiveness. This was because few meetings of the voluntary nominating and compensation committees were being convened and the content of disclosures on effectiveness evaluations for the board of directors was limited, even though a majority of directors are formally outside directors. The outside directors explained that the nominating and compensation committees now actively

discuss CEO succession plans and other issues, based also on their recognition of the issue gleaned from dialogs with shareholders and investors to date, and that measures are being undertaken to facilitate easier responses to effectiveness evaluations, such as modifications to the content of questions asked at these evaluations. Daiwa AM was thereby able to confirm that initiatives to strengthen governance are making progress.



Company P (chemicals)

Dialog theme President response following the coming to light of misconduct

An outside director who was deeply knowledgeable about a subsidiary of the company's business gave an explanation on the series of processes from the coming to light of misconduct at a manufacturing site of this subsidiary, which had been ongoing for many years, through to the president's response and the formulation of measures to prevent recurrence. In response to this, we deemed that, while this case could be classified as misconduct, the president had only assumed office in the previous year and holding him directly responsible for this conduct would be

questionable. We also concluded that the president had undertaken appropriate measures including proactive disclosure following the discovery of the misconduct; that effective measures to prevent recurrence had been formulated; and that the president plays an important role as the pivotal force in the implementation and internal dissemination of measures to prevent recurrence. Daiwa AM thus voted in favor of the proposal for reappointment of the president.

PICK UP

What Daiwa AM is looking for in dialogs with outside directors

① Daiwa AM firstly wishes to have a company assign an outside director with a high level of knowhow regarding management and financial strategy as well as capital market perspectives to supervise dialogs with shareholders and investors. This is because doing so will enable dialogs in which the participants share to some extent equivalent perspectives, and which achieve some depth through the outside director's experience of dialogs with other investors.

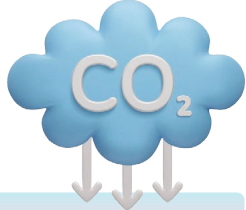
② We additionally wish to have outside directors speak in a frank and unreserved manner with those whom they may meet inside the company about the work duties with which they are tasked; their everyday perceptions; and their recognition of the issues. Daiwa AM regards these unfiltered perceptions as important

because the things that the outside directors perceive, from their independent and objective positions, approximate the feelings of shareholders and investors. We also believe that the details of their recognition of the issues will go some way to allowing confirmation that outside directors are satisfying their responsibilities in the overseeing of management from the perspective of minority shareholders.

③ Although outside directors are not positioned to conduct company business, it is essential that they fully understand the content of the management plan, owing to their involvement in the formulation of this plan and in overseeing its progress. For this reason, we expect that outside directors will speak in their own voices and offer candid feedback about the management plan.

Engagement on Bonds

For fixed income investments, as with equities, we engage in dialogs on the company's initiatives for issues with the potential to lead to future risks, while also conducting engagement themed, for example, on financial strategy and bond issuance policy, from bond-specific perspectives.



Case study of engagement with Company Q (electric power company) on decarbonization

While Daiwa AM holds corporate bonds in several electric power companies as part of our domestic fixed income investments, an increase in their weighting has become a factor in an increase in GHG emissions in domestic corporate bonds in comparison to the benchmark. We conduct engagements with several electric power companies on decarbonization, with Company Q among those with which we engage on an ongoing annual basis.

Company Q is completing disclosure on its 2050 net-zero targets, its interim targets for 2030, and its roadmap for achieving these. However, achieving future GHG emissions reduction and net-zero targets will be premised on the practical application of currently unestablished technologies such as ammonia co-firing and CCS utilization due to the company's high proportion of thermal power generation. Some of these technologies have demonstrated promising results in trial operations, and we requested that the company complete timely disclosure of progress in the

development of such technologies in a format based on its linkages with the roadmap. We also informed them that the GHG emissions which are currently targeted do not include those from overseas operations, and that these should be included in their net-zero target, especially for majority-investment power plants.

In response, Company Q outlined that it has to date routinely completed timely disclosures and that it is committed to continuing to do so in a clear and appropriate manner going forward. It also said that it recognizes as an issue the fact that GHG emissions of its overseas operations are not included in its targets, and that it intends to expand the scope of its disclosures going forward, which will include presenting roadmaps for each of its major investing countries. Daiwa AM plans to rigorously monitor whether the content of these dialogs is being actively reflected in forthcoming disclosures, while maintaining continuous engagement with Company Q going forward.

Joint Engagement with an Outsourcing Company

Daiwa AM has established a framework for joint engagements with investee companies for some funds through a partnership with an outside service provider. In addition to these joint engagements alongside the outsourcing company we also directly conduct engagements with investee companies. Below we introduce a case study of a direct engagement carried out during 2024 under review.



Case study of engagement with Company R (European renewable energy company)

Company R is a provider of infrastructure for renewable energy power generation and power transmission and distribution networks, mainly in Europe, including hydroelectric power, offshore wind power, and solar power. The company anticipates that the global trend of increased investment in clean energy will continue, due to the growing demand for electricity accompanying the progress of decarbonization policies, with an emphasis on Europe, and the increase in data centers, and regards the Japanese market as one in which there are business opportunities, particularly in offshore wind power.

Meanwhile, despite evidence of some anti-ESG trends in the U.S., we were able to confirm that the U.S. business of Company R was unlikely to be significantly affected by political currents such as the U.S. presidential election, as most regulations are implemented at state rather than federal levels and because network businesses constitute

its main operating domain in the U.S.

In terms of profitability, too, the selling price of renewable energies has declined due to an increase in global supply. However, the company's stable revenue source from the provision of power transmission and distribution networks and its high proportion of long-term contracts mean that it is positioned to secure stable revenue streams. Furthermore, for surplus electricity, the company has successfully secured profits by harnessing short-term spreads while monitoring price fluctuations by using its storage capacities.

Daiwa AM was able to confirm that the company's policy is to continue to actively invest with a steadfast awareness of profitability in the context of the global transition to clean energy, thereby aiming to increase its corporate value over the medium to long term.

Engagement on Foreign Stocks

Engagement on foreign stocks 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.

Engagement at a local 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

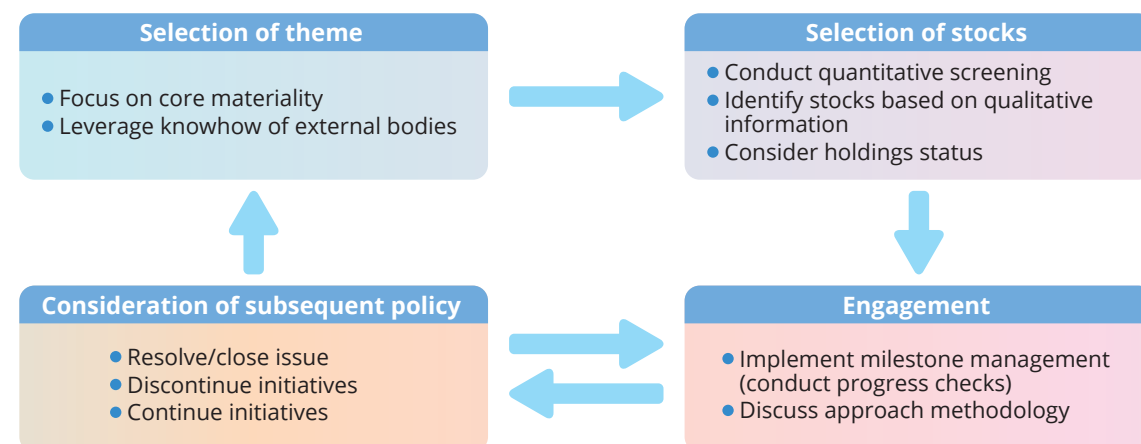
Daiwa AM uses Sustainalytics' Global Standards Engagement and a customized proxy engagement service provided by Glass Lewis for engagements on foreign stocks.

The former of these is an incident-driven proxy service focused on companies that have committed serious and systematic 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 reputational 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 foreign stock 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 between Daiwa AM and the company as required.

Below we introduce the process flow for a customized proxy engagement and a case study of proxy engagement using Global Standards Engagement.

Customized proxy engagement process flow



Case study of proxy engagement through Global Standards Engagement

Engagement Target : Uber Technologies, Inc. Issue : Data Privacy and Security

Overview Uber Technologies has been subject to multiple cyberattacks that have resulted in exposure of the personal data of its clients and drivers. The company's global privacy and data protection policies are inadequate. It is therefore essential that the company ensure compliance with privacy and data protection legislation, while also prioritizing the privacy of its clients, enhancing its data security, and improving its privacy programs in line with regulatory requirements and international norms. This will include implementing measures to ensure and monitor the proper processing and use of data. Daiwa AM also identified a coinciding need for the company to improve its disclosure to ensure transparency regarding the status of its progress toward such improvements.

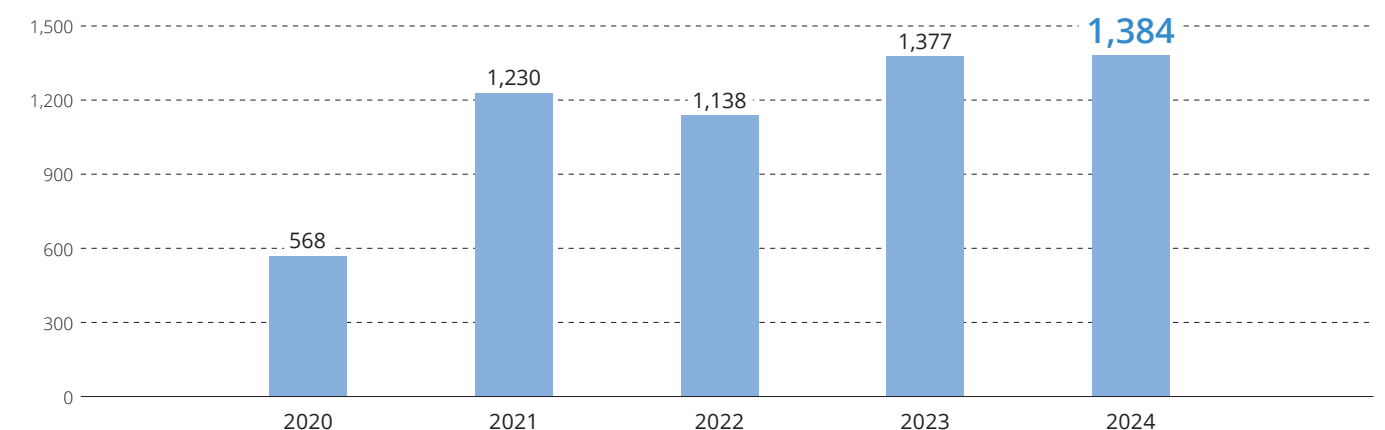
Engagement details Following dialogs on the previously outlined issues, Uber Technologies implemented an improvement plan and made complementary changes to its governance, operational AML, risk management, and compliance culture regarding issues relating to business ethics. The company subsequently disclosed a final report on the improvement program in 2024, which allowed us to confirm that it had fulfilled its accountability obligations.

Status of Three-in-one Engagement Activities

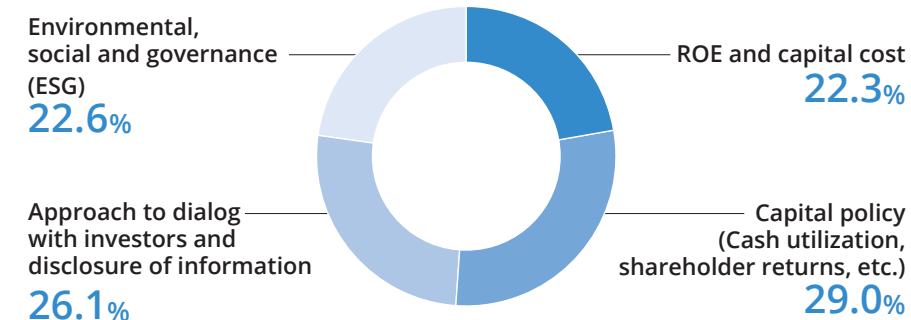
Engagement activities based on direct dialog

Daiwa AM uses a three-in-one engagement structure comprised of the Corporate Research Team, the Engagement Team, and the Stewardship Team. During the term under review (January 2024 to December 2024), the three teams collectively conducted 1,384 engagement activities with investee companies. The number of engagements to date and the ratios by engagement theme for the term under review are as follows.

Number of engagements



Ratios by engagement theme



Note: Some cases are included in more than one category, as the dialog in a given meeting may embrace multiple perspectives.





Corporate Research Team

Daiwa AM's "Integrated System" and "Engagement" on key survey issues

Daiwa AM's corporate research analysts have the three characteristics of: ❶ Offering "Full Coverage," encompassing all industries, ❷ Use of "Integrated System" for key survey issues (stocks), encompassing all aspects from surveys and ESG assessment through to forming opinions on proxy voting matters, and ❸ Conducting "Engagement" incorporating the provision of recommendations to management on issues in corporate management. For key survey issues in all sectors, including representative stocks of sectors and sub-

sectors, in addition to quantitative corporate analysis utilizing financial as well as industry data, our corporate research analysts conduct ESG assessments and form opinions on proxy voting matters under an "Integrated System," emphasizing direct and active overtures to management to institute improvements through "Engagement." Daiwa AM's analysts set out engagement themes for said engagements, with milestones then managed and progress shared via internal platforms, as well as being deployed in discussions with fund managers.



Engagement Team

Themed engagements and the use of internal and external information

The Engagement Team conducts engagements targeting companies outside the coverage scope of Daiwa AM's corporate research analysts. The team formulates themed reference materials covering topics such as reducing capital costs and improving investor relations, thereby encouraging companies to undertake change. For engagements, the team sets out the theme for the engagement, with milestones then managed and progress shared via internal platforms as well as being deployed in discussions with fund managers from other investment

teams. For management of funds on which engagement is focused, while we chiefly utilize engagement information from our corporate research analysts, our approach also involves increasing the share of stocks subject to engagement by fund managers in the Engagement Team. This team furthermore carefully monitors any changes in status in the domain of corporate governance while managing the fund based on trends in dialogs between companies and their shareholders and investors.



Stewardship Team

Dialogs on proxy voting and resolution of sustainability issues

A total of nine members (as of the end of December 2024) of the Stewardship Section's Responsible Investment Department have main responsibility for holding meetings that are focused primarily on investee companies' corporate governance and on the exercise of voting rights. The Stewardship Team collects information from the investee company that is needed for making decisions regarding the exercise of voting rights. In addition, during the course of the dialog with the investee company, the Team outlines the proxy voting strategy and Daiwa AM's expectations of the investee company in terms of corporate governance, with the

aim of having consensus with the investee company. In recent years, the content of dialogs has covered a wide range of topics, including medium- to long-term management, capital strategies, and ESG-related initiatives, with themes outside the exercise of voting rights and governance also being covered. Furthermore, although Daiwa AM strives to ensure a clear division of responsibility between the Stewardship Team and the Corporate Research Team, these two teams work collaboratively to engage in dialog with investee companies; for example, members of both teams may be asked to attend meetings, when necessary.

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
Climate change / Natural capital	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 responsibility / Human capital	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, as well as 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.
Information disclosure / Comprehensiveness / Importance	Governance framework	<ul style="list-style-type: none">The company has a board of directors composition that is appropriate and effective in terms of best practice. From the perspective of enhancing understanding of the board's effectiveness, it is desirable that the main initiatives decided on and discussions held at board meetings, etc. should be disclosed.The company formulates processes and criteria for decision-making in regard to management team succession. Besides outlining the knowledge, experience and capabilities that directors are expected to possess, the company also formulates a skill matrix and a director allocation plan for the future.The company does not adopt takeover defense measures.The company discloses the basic approach and philosophy that underpins its director's remuneration system. The company also adopts malus provisions and claw-back provisions.The company divides compensation into fixed compensation, short-term incentive compensation and long-term incentive compensation. Short-term incentive compensation is linked with and evaluated in relation to the degree of achievement of strategic objectives; long-term incentive compensation is linked with and evaluated in relation to corporate value. It is desirable for the share of total compensation held by long-term incentive compensation to be increased, within appropriate limits. Long-term incentive compensation should also be incorporated into compensation for outside directors where this would contribute to the enhancement of corporate value.The company considers the desirable number of members of the board, with a view to promoting a lively exchange of views at board meetings, to be around 10 at most.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 long-term vision, and formulates a medium-term management plan through back-casting from this.The company's medium-term management plan clearly specifies the growth strategy, and the company monitors progress status on a regular basis with respect to the investment planning and key measures needed to achieve this.The company considers withdrawing from or selling off businesses and assets with low capital efficiency where there is no prospect of improvement. The company will also work actively to reduce cross-shareholdings.The company will formulate an appropriate approach to capital structure and shareholder returns.
	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.
Corporate value enhancement		

(Date of revision: November 20, 2024)

Message to Our Investee Companies

We seek constructive two-way communication as part of engagement. However, we currently feel that there are various and significant gaps with the ideal scenarios. We believe that gradually bridging these gaps through repeated engagement will facilitate sustainable enhancement to corporate and shareholder value and that this will also contribute to the further development of the capital market in Japan.

Precisely because we hold these convictions, Daiwa AM expects the following actions from the investee companies with whom we engage in dialog to help close the existing gaps.



Daiwa AM's expectations

Expectation 1



Straightforward explanations of key selling points

At the beginning of an engagement, even if we request a focused explanation of key selling points, many companies still tend to explain all their materials. If the companies cannot concisely explain their initiatives, the true value of the company will not be conveyed, expectations for management will decrease, and the points of discussion may become confused. Therefore, Daiwa AM expects a concise explanation of their key selling points.

Expectation 2



Unflinching and proactive exchange of views

Engagement is a "dialog," and "bidirectionality" of communication is important. However, actual dialogs often take the form of a one-way exchange, with Daiwa AM taking charge of questions and answers throughout. Merely explaining materials or answering questions does not constitute "constructive dialog." At times, either rebuttals or counter-questions are also needed. For this reason, Daiwa AM expects a proactive exchange of views, whether this is before, during, or after dialogs.

Expectation 3



Showcasing changes based on dialogs

Unless it is an initial engagement, we expect changes to be instituted based on dialogs. Investors are convinced that dialogs will serve to facilitate enhanced corporate value. If nothing is gained from dialogs, these will represent nothing more than a waste of time for both parties. Accordingly, Daiwa AM asks that companies reaffirm the purpose of dialogs and showcase the changes that have been instituted as a result thereof.

Expectation 4



Dialogs in which the meeting itself is not the objective

There are many instances where we perceive that the meeting itself has been defined as the objective by our counterparts in dialog. This is the case, for example, when we are suddenly invited to "please ask any questions now." While we do carefully read the materials in advance based on the defined purpose of the dialog, we feel uncomfortable embarking on a meeting with counterparts who do not have a direct message they wish to convey. Daiwa AM thus expects that companies will have an enthusiastic attitude of wishing to engage in dialogs which specifically aim to enhance their corporate value.



The Stewardship Team

Engagement Plan for the Next Fiscal Year

Enhanced collaboration between the Corporate Research Team and the Stewardship Team

Daiwa AM has remained committed to promoting our signature three-in-one engagements. However, we are now endeavoring to qualitatively improve our various forms of engagement by facilitating a further deepening of the collaboration between our various teams. As part of this, we have arranged several opportunities for

discussions between our Corporate Research Team and Stewardship Team, the results of which we have reflected in our materiality, best practice, and revised Proxy Voting Policy. We will continue to enhance collaboration, including through the sharing of knowhow, with the aim of further enhancing our engagement capabilities.



Enhancing engagement with overseas companies through the utilization of customized proxy engagement service

For engagement on foreign stocks, Daiwa AM's local subsidiaries conduct engagements, with engagements also carried out via proxy engagement by external vendors. For proxy engagement, we have previously utilized Morningstar Sustainability's Global Standards Engagement service and have now additionally started using a customized proxy engagement service provided

by Glass Lewis. As this service provided by Glass Lewis enables customized engagements in line with Daiwa AM's materiality, we believe these will facilitate enhanced engagement with overseas companies and contribute to both improving operational performance and the resolution of societal challenges through enhancement to corporate value.

Enhance and maintain signature engagement activities

For engagement under Daiwa AM's signature engagement initiative of "lingagement," we will actively maintain initiatives to provide opportunities for interaction between investee companies and introduce them to best

practice companies. As part of this, Daiwa AM's approach is to continue to convene the information exchange meetings that we have been holding since 2021, after setting out new themes.

Enhancing passive engagement



Daiwa AM will also continue to actively undertake passive engagement, aimed at boosting the overall market. Specifically, we conducted focused engagement on companies that are failing to keep pace in their initiatives to address our core materialities, which are selected based on an analysis of two of these materialities: the perspectives of "sustainability," and facilitating "long-term returns." Daiwa AM is committed to continuing to approach the grouping of companies to which this applies based on milestone management.