

Measures Relating to the TCFD and TNFD

In this section, we introduce measures that address climate change related issues through stewardship activities undertaken in line with the disclosure framework recommended by the Task Force on Climate-related Financial Disclosures (TCFD). We have also begun to implement disclosure relating to natural capital, as recommended by the Taskforce on Nature-related Financial Disclosures (TNFD).

Disclosure items

Governance

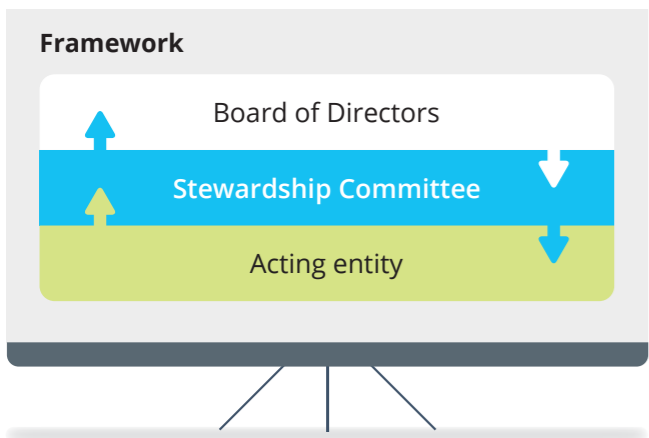
Daiwa AM addresses ESG issues, including risks relating to climate change and natural capital, in accordance with our General Policy on Stewardship Activities, which has been decided on by our Stewardship Committee, and with our ESG Investment Policy, which incorporates sustainability considerations. Related activities and policies are deliberated on and monitored by the Stewardship Committee. We are currently making preparations for the formulation of an organizational human rights policy in relation to indigenous peoples, local communities and affected stakeholders, as well as the full-scale launch of engagement activities with related companies, as recommended by the TNFD. The Stewardship Committee reports to the Board of Directors on monitoring status in relation to the TCFD and TNFD.

Strategy

The risks and opportunities relating to climate change and natural capital are reflected in Daiwa AM's company evaluation model, and are utilized in the selection of investee companies. We also aim, through our engagement activities, to guide companies toward a focus on decarbonization and nature-positive management, so as to enhance investee companies' corporate value. Particularly in regard to climate change, we perform scenario analysis using indicators that include conditional value at risk (CVaR) to verify portfolio risk and resilience. With regard to natural capital, we aim to identify the risk association with destruction of natural capital, and to analyze and determine the risk borne by investee companies.

Risk management

Daiwa AM uses information disclosed by companies, data from external vendors, the research and engagement conducted by Daiwa AM itself, and dialog with companies, to monitor the risks and opportunities for investee companies relating to climate change and natural capital. Daiwa AM has also put in place a framework for utilizing external vendors' data as a basis for measuring greenhouse gas emissions, and conducting climate change risk scenario analysis, for individual funds and individual asset classes, and monitors and manages risk through periodic analysis. With regard to natural capital, although the data available is currently limited, we are striving to identify current risks and opportunities by making effective use of various data sources recommended in the TNFD guidelines, etc.

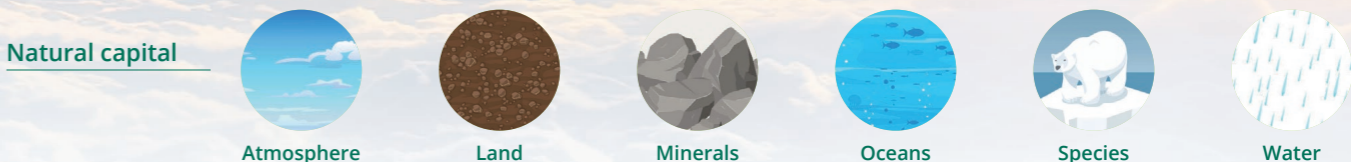


Reflecting identified climate change related risks and opportunities in corporate value assessment

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

★ Reflection in corporate value ★

Risks associated with the destruction of natural capital



Ecosystem services

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

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

Indicators and targets

In terms of climate change, Daiwa AM uses the total greenhouse gas emissions, carbon footprint, and carbon intensity of its portfolios as greenhouse gas emissions related indicators for individual funds and asset classes, and performs monitoring and analysis of them. In regard to natural capital, we perform monitoring and analysis of

risks and opportunities based on the information currently available to us. On the basis of this data and its own original research, Daiwa AM undertakes engagement activities with companies to encourage them to decarbonize and implement nature-positive management.

Climate Change

—Analysis of the main indicators relating to total greenhouse gas emissions, etc.

Daiwa AM has compared the total carbon emissions, carbon footprint, and weighted average carbon intensity for each of the asset classes that we invest in against respective benchmarks per class. The carbon footprint is a measure of the emissions in relation to portfolio size (market capitalization), while carbon intensity is an indicator for the carbon emissions of investee companies per unit of sales. For each of these, climate change risk management is performed appropriately by performing analysis and monitoring. As shown in the figure below, Scope 3 emissions were categorized as upstream or downstream, and the relevant emissions for each were calculated. Daiwa AM intends to actively promote the decarbonization of its entire supply chain, by establishing a detailed understanding of the total carbon emissions of our investee companies, including Scope 1, Scope 2, and Scope 3 emissions, with a particular emphasis on Scope 3, and making effective use of this information in

engagement activities with investee companies. Carbon footprint and weighted average carbon intensity for overseas equities were found to exceed the benchmark values. This was attributable to increased investment in the stocks of Indian corporations. In the case of Japanese corporate bonds, although the carbon footprint was affected by the inclusion in the portfolio of the corporate bonds of electric power companies, at a weight higher than the benchmark, the disparity with the benchmark was smaller than in the previous year, and there was also a fall in weighted average carbon intensity. Using engagement by Daiwa AM itself and by outsourced fund managers, we are encouraging companies (both Japanese and overseas) with high emissions to reduce their emissions. Going forward, we will continue to utilize engagement activities, etc. to encourage investee companies to implement measures in relation to climate change.

Portfolios’ total carbon dioxide emissions

• Scope 1, 2

(tons of CO₂ equivalent)

	Daiwa AM	Benchmark	Disparity
Domestic stocks	6,987,943	8,313,973	−16%
Overseas stocks	721,398	513,356	41%
Domestic corporate bonds	240,028	89,429	168%
Overseas corporate bonds	45,898	110,696	−59%
Total	7,995,266	9,027,455	−11%

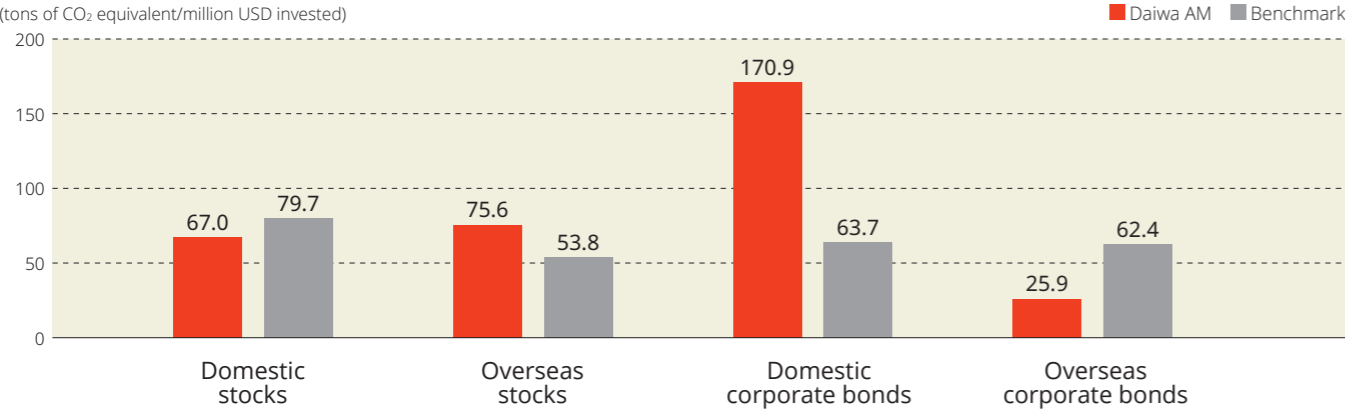
• Scope 3 Upstream

(tons of CO₂ equivalent)

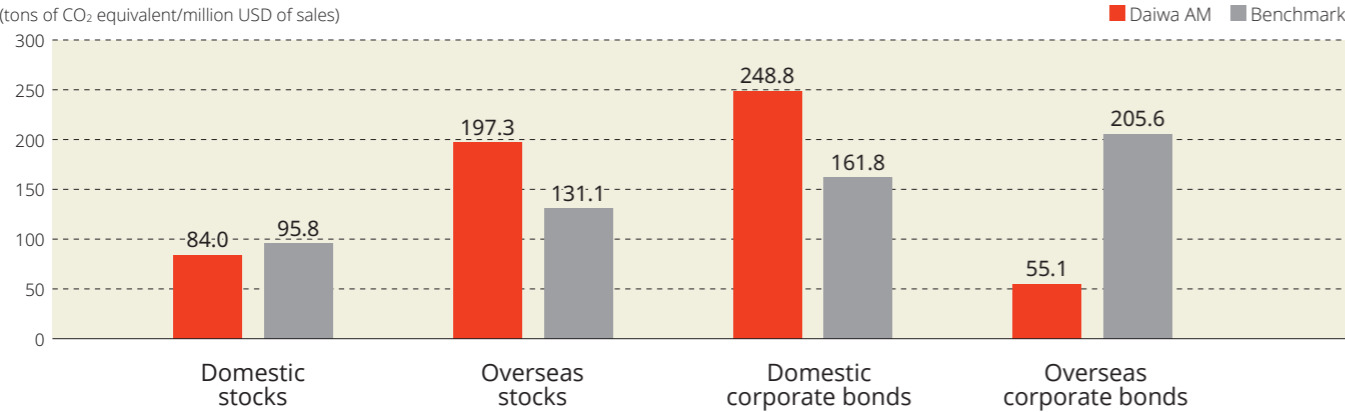
	Daiwa AM	Benchmark	Disparity
Domestic stocks	22,097,292	23,971,727	−8%
Overseas stocks	896,617	910,126	−1%
Domestic corporate bonds	298,559	246,728	21%
Overseas corporate bonds	119,330	197,487	−40%
Total	23,411,797	25,326,067	−8%

Note: Benchmarks:
Domestic stocks: TOPIX (with dividends included) Overseas stocks: MSCI ACWI ex Japan Index Domestic corporate bonds: Bloomberg Asian-Pacific Japan Corporate TR Index Value Unhedged JPY Overseas corporate bonds: Bloomberg Global Aggregate ex-JPY-Corporate TR Index Unhedged USD
Source: Some information is derived from ©2024 MSCI ESG Research LLC. Reproduced by permission.

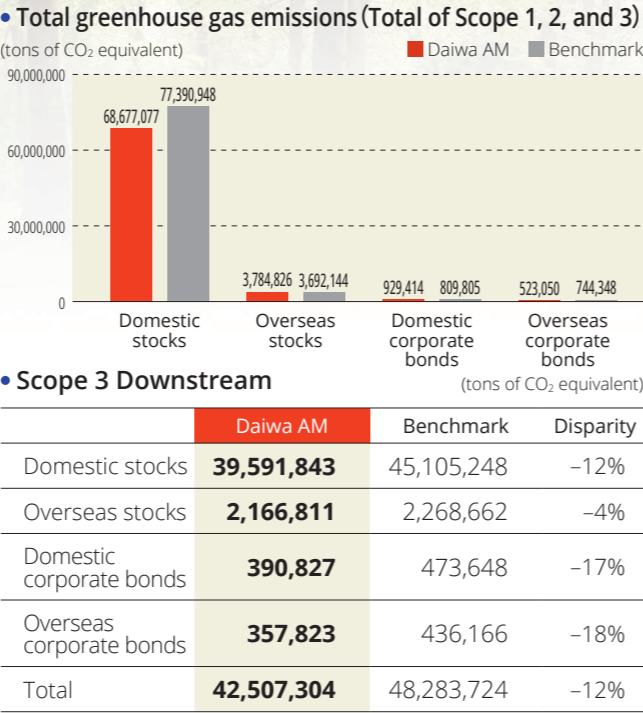
Carbon footprint of portfolio (Scope 1, Scope 2)



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



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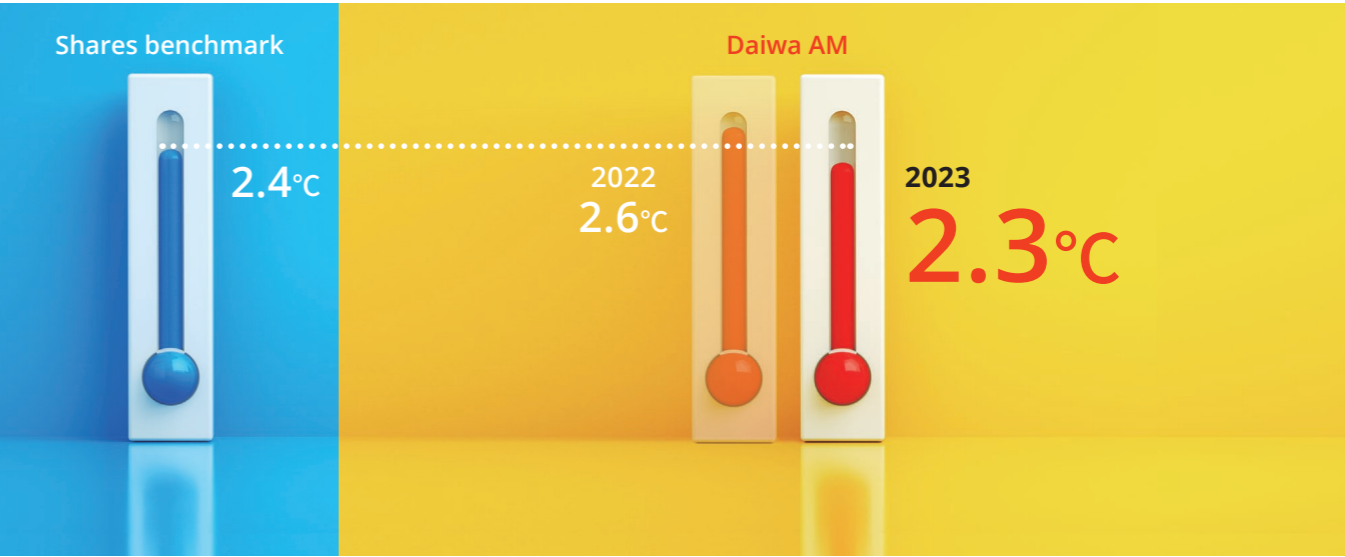


Warming potential analysis

Warming potential analysis shows the degree to which average global temperatures will rise by the year 2100 as a result of the corporate business activities that the companies in the current investment portfolio are expected to conduct over this period. In this way, it is possible to verify whether the current investment portfolio is in line with the goal of the Paris Agreement, which seeks to“limit global warming to well below 2.0,

preferably to 1.5 degrees Celsius, compared to pre-industrial levels during the period up until 2100.” As a result of comparing a hypothetical portfolio of all Daiwa AM's shareholdings with the benchmark, we were able to confirm that our performance was superior to that of the benchmark. There had also been an improvement of around -0.3°C compared to the last time this comparison was made.

Warming potential



Greenhouse gas reductions targets (SBT certification)

The figure below shows the percentage of companies which have obtained SBT certification from among the portfolio component issues. The SBT certification process is administered by the Science Based Target Initiative, whereby companies set targets for reductions in greenhouse gas emissions consistent with scientific findings to mitigate increases in global average temperatures to less than 1.5 degrees Celsius. As a result of comparing a hypothetical portfolio of all Daiwa AM's shareholdings with the benchmark, we were able to confirm that around 6.1 points more companies have obtained certification than the benchmark value. We also found that this share had risen compared to the last time this comparison was made.

Percentage of companies which have obtained SBT certification

	Daiwa AM	Benchmark	Previous Comparison (Daiwa AM)
All holdings	46.6%	40.5%	39.2%

Analysis of potential CO₂ emissions (from fossil fuels)

This analysis allows us to examine potential CO₂ emissions from fossil fuels, taking the stored amounts of companies as its base. The analysis confirmed that potential CO₂ emissions from fossil fuels were generally lower than the benchmark and that the portfolio's climate change risks were low.

(tons of CO₂ equivalent/million USD invested)

	Daiwa AM	Benchmark
Domestic stocks	691.7	863.6
Overseas stocks	1,497.7	1,331.9
Domestic corporate bonds	117.1	1,070.8
Overseas corporate bonds	466.3	743.8

Note: The benchmarks used were the same as those used in the previous section for the portfolio's total carbon dioxide emissions.
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/ Natural capital—Risk analysis

Situation surrounding natural capital

The Global Risks Report 2024 published by the World Economic Forum (WEF) positions natural capital related risk, and particularly loss of biodiversity, as being the most significant risk affecting the world over the next 10 years, in terms of both likelihood and impact, and this is seen as being an important issue in terms of its potential effects on society and the economy. According to the WEF, if the global destruction of natural capital continues, the estimated economic loss will be around 44 trillion dollars.

However, the WEF notes that, if there is a positive shift toward nature-positive economy, then this would generate business opportunities worth around 10 trillion dollars annually and create approximately 400 million jobs by

Exposure to specific sectors

Daiwa AM has calculated the exposure that its Japanese equities portfolio has to the sectors that are noted in Annex 1 of the TNFD guidance for financial institutions as having a high level of natural capital related risk. Having calculated a figure of 37.73% as a reference value, we then went on to calculate the level of exposure that the MSCI ACWI index has in this regard. Comparison of the two figures suggested that Daiwa AM's Japanese equities portfolio has a higher level of natural capital related risk than the MSCI ACWI index; however, the real importance of this analysis lies in being able to clarify which sectors with high natural capital related risk Daiwa AM has a high level of exposure to, and in the insights it provides that will facilitate data collection and engagement activities. The analysis showed that Daiwa AM has a particularly high level of exposure to the automotive, semiconductor, pharmaceuticals, and chemical sectors. By utilizing the impact materiality data provided by ENCORE, a tool that financial institutions can use to clarify companies' impact on natural capital and their level of dependence on it, we have been able to confirm which types of business activity are associated with natural capital related risks. Going forward, we will continue to undertake related data collection and engagement activities.

Exposure to sensitive areas

Exposure to areas that are sensitive in relation to natural capital was estimated using data provided by MSCI. This analysis made it possible to determine which types of company were undertaking business development in sensitive areas. We believe that this analysis, when combined with the analysis of exposure to specific areas outlined above, is important for monitoring natural capital related risk in the portfolio. However, with individual companies tending not to disclose this type of information at present, for the time being this analysis can only

provide a broad-brush picture of the actual situation. Nevertheless, we view it as providing a guideline for data collection and engagement in regard to latent risks.

2030. It is estimated that, in Japan, a shift toward a nature-positive economy would bring economic benefits totaling around 125 trillion yen (including spillover effects), and create around 9.3 million jobs. It can thus be seen that there are not only risks associated with natural capital, but also opportunities.

The following section analyses the natural capital related risks affecting Daiwa AM's Japanese equities portfolio in terms of two indicators, based on the guidance that the TNFD has issued for financial institutions. As financial institutions will need to wait until investee companies expand the scope of their disclosure, these data are best thought of as provisional, simplified risk indicators.

Exposure to specific industries

Japanese equities' exposure	40.67%
ACWI's exposure	31.00%

Note: Data was correct as of December 31, 2023. The GICS 6-digit code industry classification was used, as recommended by the TNFD.

Breakdown by specific industries

Industry	Share
Semiconductors and semiconductor manufacturing equipment	17.83%
Automotive	13.81%
Pharmaceuticals	12.21%
Chemicals	11.71%
Consumer durables	8.84%
Food	4.88%
Real estate management and development	4.80%
Land transportation	4.51%
Other	21.42%

Exposure to sensitive areas

Japanese equities' exposure	37.73%
ACWI's exposure	69.70%

Note: Data was correct as of December 31, 2023.
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/ NZAMi

What is the Net Zero Asset Managers initiative

The Net Zero Asset Managers initiative (NZAMi), which was launched in December 2020, is a global initiative by asset management companies to achieve net zero greenhouse gas (GHG) emissions at investee companies by 2050. As of February 2024, more than 315 companies worldwide, with a combined total of around 57 trillion dollars in assets


under management, were participating in this initiative, including many Japanese asset management companies. Daiwa AM announced its support for NZAMi and began participating in December 2021.

The Net Zero Asset Managers initiative's three commitments



- Work in partnership with asset owner clients on decarbonization goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all assets under management ("AUM").
- Set an interim target for the proportion of assets to be managed in line with the attainment of net zero emissions by 2050 or sooner.
- Review our interim target at least every five years, with a view to ratcheting up the proportion of AUM covered until 100% of assets are included.

Daiwa AM's interim targets, and progress made toward them



Interim targets for 2030	▶ Reduce the GHG emissions per unit of at least 67% of AUM (which totaled approximately 23 trillion yen as of October 31, 2022) by 50% compared to 2019
GHG emissions per unit, as of 2019	▶ 93 tCO ₂ e/\$mn revenue (on a per unit of sales basis)
GHG emissions per unit, as of 2023	▶ 97 tCO ₂ e/\$mn revenue (on a per unit of sales basis)
Engagement activities	▶ Daiwa AM is proceeding with engagement with investee companies regarding climate change, engaging in dialog with target companies.

/ Advance

Advance, which was launched on December 1, 2022, is an institutional investor initiative which aims to promote efforts made by companies through collaborative engagement to address the social aspect of ESG, with a particular focus on human rights issues. Companies with a high level of human rights risk will be encouraged, through dialog, to implement measures that strengthen respect for human rights.

Overview of Advance

- ✓ Supported by **265** institutional investors
- ✓ Total assets under management of the supporting investors come to **35 trillion dollars**
- ✓ **115** investors are already undertaking engagement with companies
- ✓ Currently, engagement is being undertaken with **39 companies**

Other Initiatives Supported

ESG ESG in general
E Environment
S Diversity and Human Rights
G Governance

ESG 2006 UN Principles for Responsible Investment (PRI)

The United Nations Principles for Responsible Investment (PRI) are global guidelines for responsible investment that aim to improve long-term investment results for beneficiaries by incorporating ESG issues into the investment decision-making process and determination of stock ownership policies of institutional investors. Daiwa AM participates in conferences and other events sponsored by PRI.



ESG 2011 Principles for Financial Action for the 21st Century

The Principles for Financial Action toward a Sustainable Society (Principles for Financial Action for the 21st Century) were developed as an action guideline for domestic financial institutions to fulfill their responsibilities and roles in helping to solve global environmental and social problems and to form a sustainable society.



E 2014 Statement on Fiduciary Duty and Climate Change Disclosure

The Statement on Fiduciary Duty and Climate Change aims to prompt companies to disclose climate change information in a comprehensive and comparable form in their annual reports and other disclosure materials, with the recognition that, going forward, climate change will have an increasing impact on corporate results and investment performance.

S 2020 30% Club Japan Investor Group

The 30% Club Japan Investor Group is a group comprised of asset owners and asset managers whose goals include sharing the importance of gender diversity and gender equality at all levels of an organization through constructive dialog and other stewardship activities with companies in which they invest. Daiwa AM participated in a working group to formulate best practices for engagement.



E 2021 Climate Action 100+

Climate Action 100+ is an international engagement initiative launched by investors in 2017. Its goal is to stimulate improvements through collaborative engagement with large enterprises that have significant greenhouse gas emissions. Daiwa AM participates as a collaborative investor through cooperative engagement with companies in Japan's steel, electrical and other industries.



E 2021 Investor Agenda

The Investor Agenda was launched in 2018 by a group of institutional investors. It has issued recommendations on how to accelerate climate change initiatives by institutional investors and national governments. Daiwa AM signed in support of a statement by global investors in advance of COP26.

G 2021 International Corporate Governance Network (ICGN)

The International Corporate Governance Network (ICGN) is an international initiative launched in 1995. Its stated mission is to establish effective corporate governance and foster investor stewardship with the aim of promoting an efficient global market and sustainable economic activity.



ESG 2022 Japan Stewardship Initiative (JSI)

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



S 2022 Human Capital Management Consortium

The Human Capital Management Consortium was established by a group of Japanese companies, investors and others. Its objective is to promote both the practice and disclosure of human capital management in Japanese companies by sharing advanced cases of human capital management practices, holding discussions aimed at cooperation between companies, and considering effective information disclosure.



S 2022 Women's Empowerment Principles (WEPs)

The Women's Empowerment Principles (WEPs) are action principles intended to actively promote the advancement of women, and were jointly developed by UN Global Compact and UN Women.



Activity Report

Main Initiatives Implemented in 2023

January	▶ Started disclosing the results of the exercise of voting rights in the following month
February	▶ Held the second Asset Management Women's Forum ▶ Formulated the Daiwa AM's vision for investee company (best practices)
March	▶ Issued the 2022 Stewardship Report
April	▶ Issued the English version of the 2022 Stewardship Report ▶ Underwent a Bloomberg Investment Contest review
May	▶ Revised ESG fund definitions ▶ Revised the Proxy Voting Policy ▶ Started disclosing the results of the exercise of voting rights in Excel format
June	▶ Planted 7,124 trees in three locations around Japan: This project makes donations for tree-planting activities according to fund balances ▶ Joined the Japan branch of the Glasgow Financial Alliance for Net Zero (GFANZ)
July	▶ Cooperated with preparations for the "FDSF Global Conference 2023: Seeking the Creation of a Sustainable Future" and had company personnel appear as panelists ▶ Chief Analyst Yuji Watanabe served as instructors at the Intellectual Property Issues Study Group of the Japan Intellectual Property Association
August	▶ CA Watanabe discussed Talent Strategy to Expand the Specialty Chemicals Business in the UBE Integrated Report
September	▶ Held the 2023 CFO Meeting and discussed efforts to improve PBR (see P. 25)
October	▶ Revised the Proxy Voting Policy ▶ Revised the Daiwa AM's vision for investee company (best practices) ▶ CA Watanabe contributed an article titled "'IP strategy' Evaluation and Engagement in Institutional Investors" for Securities Analysts Journal (October issue) ▶ CA Watanabe gave a lecture titled "UBE from the Perspective of Shareholders and Investors" at UBE training for all officers ▶ CA Watanabe co-authored "Introduction to Intellectual Property and Intangible Asset Governance" (published by Chuokeizai-sha)
November	▶ Underwent screening for the Nikkei Integrated Report Award
December	▶ Held talks with Counsellor of the Cabinet Office Iwao Ikeya (see P. 15-18) ▶ Expressed support for the TNFD ▶ Participated in Spring initiative as an endorser (see P. 65)



Part 1

Stewardship Activities

Internal initiatives



An in-house training session

Internal initiatives included the ESG study meeting, which Daiwa AM started with the aim of improving understanding relating to stewardship and ESG, as well as the launch of an ESG-related bulletin board in an effort to share information. In addition, we introduced a new qualification that certifies employees who have a certain level of knowledge about sustainability, and we are taking action to enhance our ability to explain company's initiatives externally. An example of one such measure is the Sustainability Leader Training, which assigns trainees to the Responsible Investment Department so that they can acquire high-level knowledge.

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