

Transformation That Begins with Dialog

③ Proxy Voting

Realizing the enhancement of corporate value through engagement and proxy voting

Guidelines for the Future
① Materiality

Transformation That Begins with Dialog
② Engagement
③ Proxy Voting

Responsible Investment Framework
④ Sustainable Investment
⑤ Stewardship

Achievements over the Past Year
⑥ Stewardship Activity

Daiwa AM's Proxy Voting Policy and Key Features




Key points of Daiwa AM's Proxy Voting Policy

Daiwa AM exercises voting rights in accordance with its Proxy Voting Policy. The key points of this policy are as follows.

- We will fulfill our fiduciary duty, aiming to improve the medium- to long-term value and sustainability of investee companies while at the same time exercising our voting rights in consideration of the interests of minority shareholders.
- In principle, we will exercise our voting rights on shares of all investee companies for which we have authority to exercise them, without distinguishing between active and passive management.
- When exercising voting rights, the decision as to whether to vote in favor or against is determined independently by Daiwa AM based on criteria established by the Stewardship Committee (Proxy Voting Criteria). Specific Proxy Voting Criteria are formulated and made public.
- Based on individual consideration drawing on the results of constructive dialog (engagement) with the companies, we may in some cases make decisions for or against that diverge from the Proxy Voting Criteria as an escalation strategy.

Key features of Daiwa AM's Proxy Voting Policy

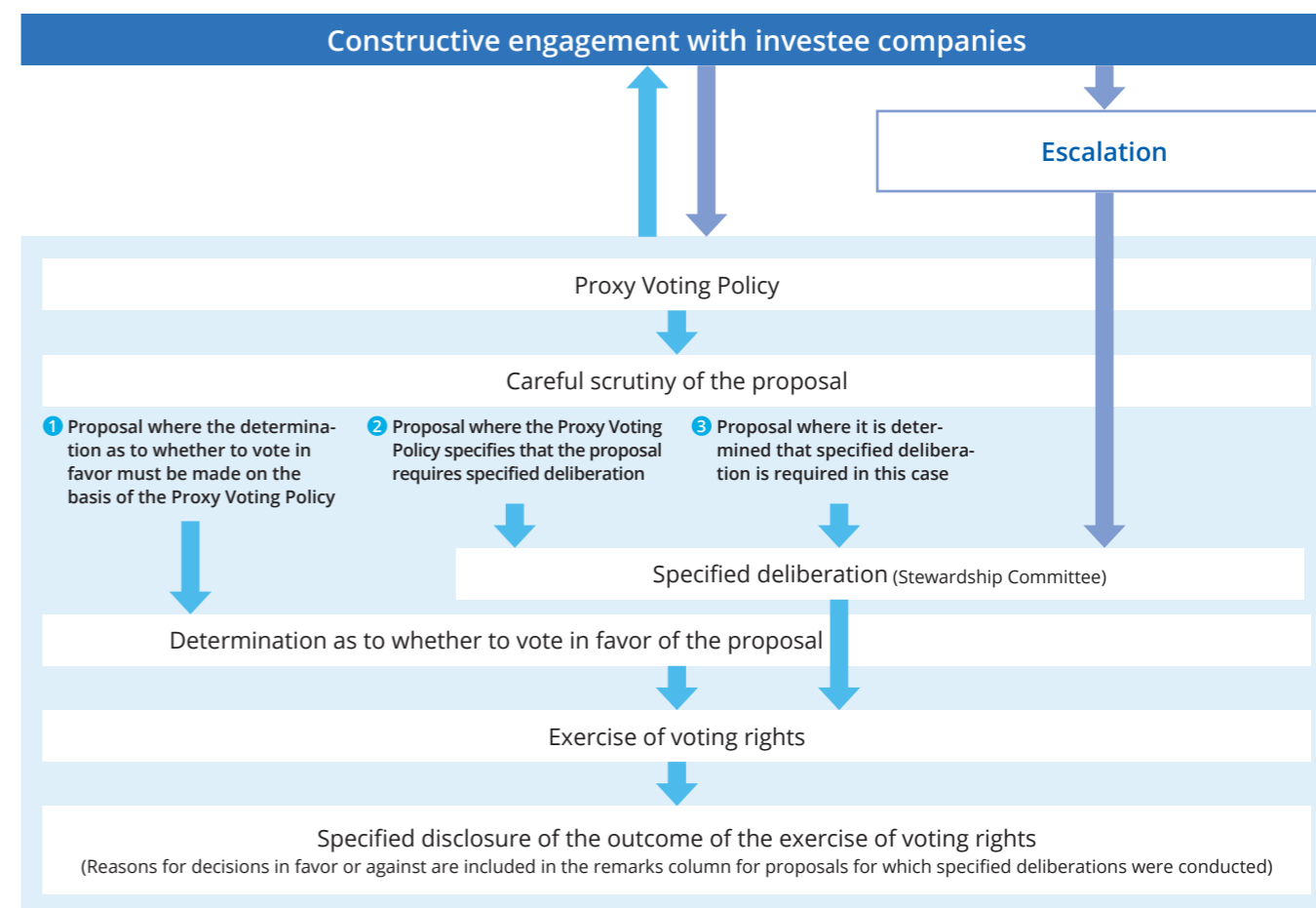
Daiwa AM's Proxy Voting Policy also has the following key features.

Performance	Non-implementation of IR activities	Establishment of nominating and compensation committees
<p>Relative evaluation of ROE by industry</p> <p>Since capital costs vary by industry and business model, we evaluate director nomination proposals based on the relative position of investee companies in the TOPIX-17 series indices (sector indices), which are more in line with the actual circumstances of the investee companies.</p> 	<p>Creation of criteria for non-implementation of IR activities</p> <p>In light of the importance of fulfilling accountability to shareholders and investors as a listed company, we have established criteria opposing the reappointment of representatives from companies that do not hold financial results briefings.</p> 	<p>Creation of criteria for the establishment of nominating and compensation committees</p> <p>The establishment of nominating and compensation committees (including voluntary) enhances transparency in the decision-making process for important policies such as the appointment, removal, and compensation of management. In addition, given its significant role in protecting minority shareholder interests, we require the establishment of such a committee and have created criteria regarding this matter concerning the reappointment of representatives.</p> 

Proxy voting process

Proxy voting is implemented by means of the following process, which reflects the information obtained through constructive dialog with investee companies. Daiwa AM is also committed to deepening our mutual understanding

by engaging in constructive dialogs with investee companies through the proxy voting policy and outcomes, thereby contributing to enhancements to the corporate value of investee companies.



Escalation

Escalation strategies

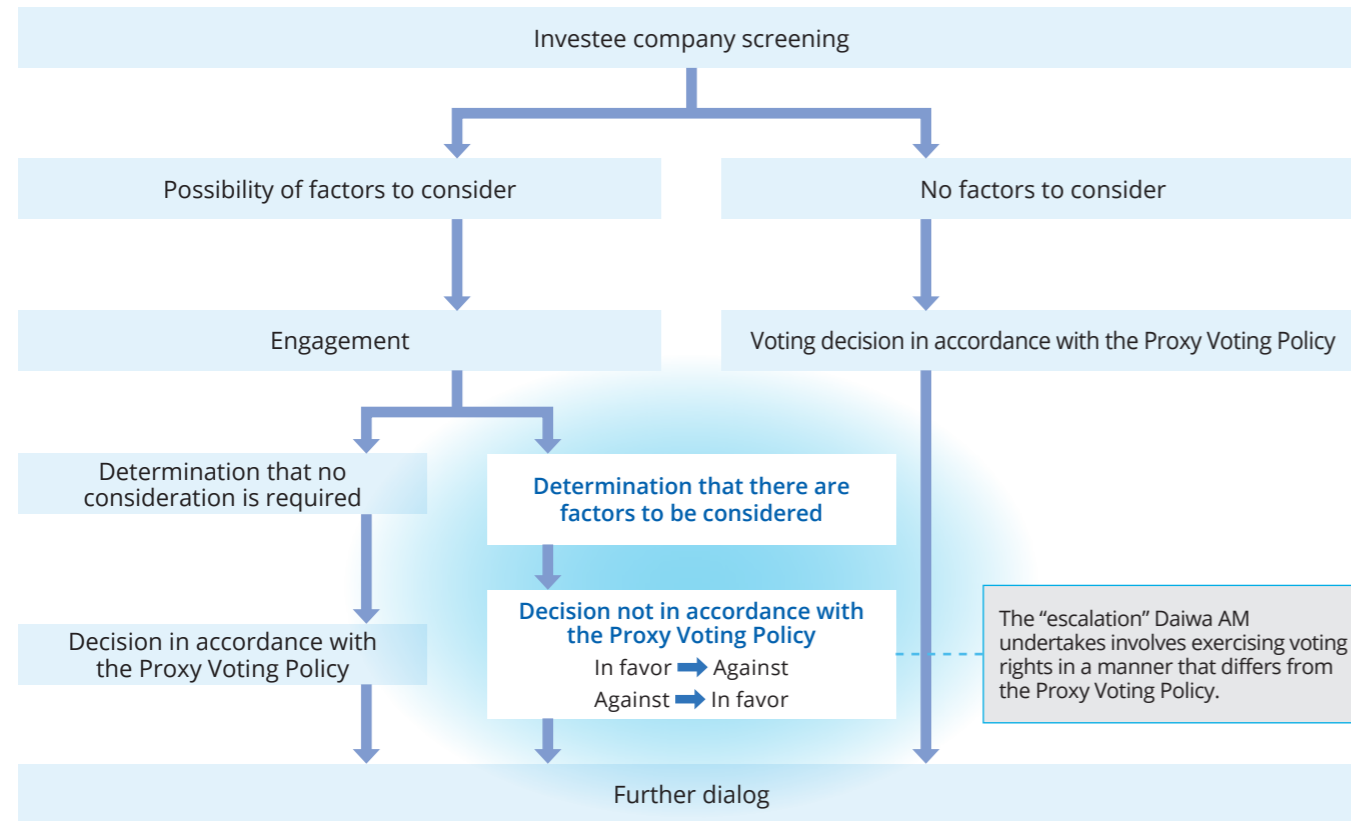
Daiwa AM strives to operate in a way that integrates engagement with investee companies and proxy voting actions. This initiative involves assessment of the content of dialogs with, and the circumstances of, investee companies and subsequently reflecting this in proxy voting by Daiwa AM.

Even if a company proposal at a general meeting of shareholders of an investee company does not conflict with Daiwa AM's Proxy Voting Policy, we will vote against the proposal in accordance with our escalation strategies if we deem that its passage would have a negative impact on corporate value, based on 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, the company's initiatives, and other factors 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.

Escalation process



Escalation case study (in favor → against)

Company N

(land transportation)

Engagement theme

Strengthening the governance system

Issue recognized

On the surface, the company continued to perform well thanks to the contribution of earnings from equity method affiliates and gains from the sale of shares. However, this obscured the governance challenges the company faced. Considering the doubts surrounding the sustainability of its strong performance, we believed there was an urgent need to strengthen its governance system, including the effectiveness of the board of directors and nominating and compensation committees, as well as its approach to information disclosure.

Dialog content

In our engagement with the company, we discussed the structure of the director's remuneration system, the status of nominating and compensation committee meetings, and the method of information disclosure in the event of misconduct. We also communicated our expectations as shareholders and investors regarding the next medium-term management plan, which was being formulated at the time. Further, we pointed out issues with the company's information disclosure and urged improvements.

Company response and reflection in proxy voting

The new medium-term management plan was announced at the financial results meeting, but its contents diverged significantly from the expectations of investors, and the company's stock price plummeted after the announcement. Further, there were no particular improvements in governance-related matters or the company's approach to information disclosure. While these matters did not formally violate Daiwa AM's Proxy Voting Policy, we determined that there were issues with the governance system and made the decision to oppose the proposal for the reappointment of the company's top management (president and representative director).

Future approach

We provided feedback to the company regarding our vote. We plan to continue our engagement with the company and encourage it to strengthen its governance system.

Escalation case study (against → in favor)

Company O

(electrical equipment)

Engagement theme

Reduction of cross-shareholdings, improvement of ROE

Issue recognized

Over the past few years, the company's performance had been sluggish, and its ROE was on a downward trend. The company had been slow to select and concentrate its businesses, leading to an expansion of its business areas and resulting in the accumulation of numerous non-core businesses. A high-cost structure that reduced competitiveness and profitability was a further factor in its poor performance. In addition, the company's large amount of cross-shareholdings and extremely safety-focused financial strategy resulted in a large buildup of equity capital, which also contributed to the decline in its ROE.

Dialog content

Daiwa AM shared its perception of the above issues with the company and first discussed the cost of capital, confirming a shared understanding of the level of the company's cost of capital. Next, we requested that the target ROE level be clearly defined. We also conveyed our view that improving profitability required the company to review its business portfolio and that breaking away from its high-cost structure was an urgent priority. Furthermore, we pointed out that balance sheet reforms, including regarding cross-shareholdings, were also crucial for improving ROE. In response, the company requested specific details on what initiatives and disclosures could serve as decision-making factors for proxy voting. Daiwa AM expressed the view that it was necessary to explicitly present a bold reduction policy for cross-shareholdings, aiming to reduce them to less than 20% of net assets. Regarding ROE, we stated that it was essential to set a concrete target exceeding the cost of capital and to disclose specific measures to improve ROE that would satisfy investors, such as business portfolio reforms and cost reductions. Initially, the company was philosophically opposed to personnel reductions and noted that its cross-shareholdings were in companies it had been involved with since its founding and to which it held strong emotional ties. However, by emphasizing the necessity for swift action based on the company's current situation, we gained the company's understanding.

Company response

At financial results briefings and elsewhere, the company clearly stated its target ROE level. The company also announced cost-cutting measures, such as a policy to review its business portfolio, including withdrawing from non-core businesses; and controlling personnel expenses by reducing hiring. Further, regarding cross-shareholdings, the company presented a concrete reduction plan that included long-term targets, and announced substantial sales of cross-shareholdings thereafter.

Reflection in proxy voting

Although the balance of cross-shareholdings retained by the company remained large, we determined that it was indeed making efforts to reduce such holdings, and assessed that they were not in conflict with our Proxy Voting Policy. Although the company's performance fell short of our criteria, we confirmed through engagement that management had initiated structural reforms, including a review of the business portfolio and cost-cutting measures. We therefore made the decision to withhold the application of the relevant criteria and to vote in favor of the reappointment of the company's directors.

Future approach

We reached a shared understanding with the company regarding the future direction it would pursue. Daiwa AM will continue our engagement with the company to monitor whether initiatives aligned with this shared understanding are being implemented and whether the pace and effectiveness of these initiatives are meeting expected levels, and to urge the company to further enhance relevant initiatives as necessary.

Approach and Response to Shareholder Proposals

Votes in favor or against proposals by shareholders

Recently, shareholder proposals have been on the increase, with various such proposals also having been put forward for discussion in 2025.

Daiwa AM has based decisions on votes in favor of or against shareholder proposals on the following approach, principled on the application of our Proxy Voting Policy.

Approach to major shareholder proposals

- **Appropriation of surplus:** Decisions made from the perspective of improvements to corporate and shareholder value over the medium to long term following a comparison with the company's proposal
- **Treasury stock acquisitions:** Consideration of the company's use of shareholder equity, cash flow and other factors
- **Disclosure of capital costs (proposals to amend the Articles of Incorporation):** Consideration of the company's disclosure statuses (including engagement) for their medium- to long-term management plan, capital policy and growth strategy, with the capital costs of the company in mind
- **Proposals seeking responses to climate change (proposals to amend the Articles of Incorporation):** Consideration of climate change initiatives and disclosure statuses of the company

Approach to proposals to amend the Articles of Incorporation


Daiwa AM bases decisions on shareholder proposals put forward for discussion as proposals to amend the Articles of Incorporation on a combination of the following perspectives:

- **Whether the inclusion of the proposal content in the Articles of Incorporation will be an obstacle to the business development of the company in question**
- **Whether the proposal will contribute toward the enhancement of corporate value, and whether it is appropriate for inclusion in the Articles of Incorporation**

Examples of engagement with companies that receive shareholder proposals, and points considered when making decisions regarding the exercise of voting rights

Daiwa AM strives, as far as possible, to make decisions regarding the exercise of voting rights only after meeting with both the investee company that has received the shareholder proposal and the shareholder making the proposal and confirming their respective thinking. During the one-year period from July 2024 to June 2025, there were 15 cases in which we met with both parties.

Shareholder proposal decision case study



Company P
(banking)

Engagement theme

Climate change

Outline of shareholder proposal

The proposal called for the addition of a new chapter on climate-related risk management to be added to Company P's articles of incorporation to address climate change risks and achieve net-zero goals, mandating the evaluation and disclosure of transition plans for customers in high-emission sectors.

Topics of discussion with Company P

- The content of information disclosure sought by the proposing shareholder
- Transition evaluation frameworks, escalation processes, and other initiatives aimed at achieving carbon neutrality

Issues for the Stewardship Committee → **Necessity of inclusion in the Articles of Incorporation**

Point 1 Does this sufficiently address climate change?

The company already utilized a transition assessment framework to track the transition status of its customers, and provided disclosure of its methods and results. While the company had not implemented financial risk assessments and funding restrictions based solely on the question of whether a transition plan existed, it had already incorporated escalation processes and a climate change risk management framework.


Point 2 Will the inclusion of climate change initiatives in the articles of incorporation constrain the management of the company?

While the shareholder proposal can be appreciated from the perspective of enhancing information disclosure, explicitly stating specific issues such as climate change in the articles of incorporation risks undermining the overall management balance of the company and adversely affecting corporate value.

Decision

Based on the company's initiatives and disclosure practices, we determined that inclusion in the articles of incorporation was unnecessary and opposed the shareholder proposal.

Shareholder proposal decision case study



Company Q
(food)

Engagement theme

Management strategy, governance

Outline of shareholder proposal

The proposal sought the appointment of two outside directors with expertise in global business and capital strategies—key management issues for the company—to enhance the knowledge and skills of the board of directors.

Topics of discussion with Company Q

- Future business strategy and capital policy
- Director selection criteria and the board's skill matrix

Topics on discussion with proposing shareholders

- Background to shareholder proposal and selection of candidates for the board of directors
- Company Q's management issues

Issues for the Stewardship Committee

Point 1 Is the current composition of the board of directors members sufficient, or are there any gaps in expertise or skills?

Although global operations were of high importance to Company Q's business, the current board of directors, with the exception of the chair and president, lacked members with overseas experience. The company also faced the need to improve capital efficiency through such means as reviewing its business portfolio, but lacked personnel with expertise in capital markets and capital allocation.

Point 2 Can the expertise and skills of the candidates of the shareholder's proposal be expected to contribute to enhancing corporate value?

The two candidates of the shareholder's proposal possessed an understanding of capital markets and extensive overseas experience, and their independence as outside directors was assured. The individuals were considered to have valuable experience and expertise in addressing management issues such as global business expansion and improving capital efficiency, and were therefore expected to contribute to enhancing corporate value over the medium to long term.

Outside director candidate skill matrix

Name	Proposer	Background	Corporate management	Finance/accounting	Legal/compliance	Marketing/sales	Quality/production/R&D	Global business	ESG/sustainability	Capital markets	Decision
A	Company	University professor				●					In favor
B	Company	Banking management	●	●							In favor
C	Company	Retail management, agricultural cooperative	●			●					In favor
D	Company	Lawyer			●				●		In favor
E	Shareholder	Global business management, capital market participant	●	●				●		●	In favor
F	Shareholder	Global business management, food industry management	●	●			●	●			In favor

Decision

Judging that the expertise and skills of the two proposed candidates would contribute to enhancing corporate value and strengthening governance over the medium to long term, we supported the shareholder's proposal.

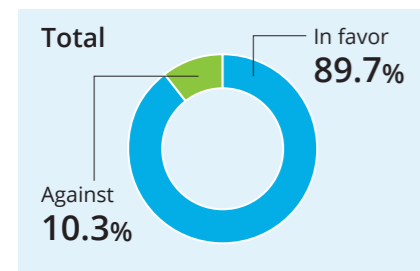
Proxy Voting Outcomes

In 2025, proxy voting rights were exercised for 2,068 Japanese companies and 3,432 non-Japanese companies. The following table shows the status of those votes by proposal.

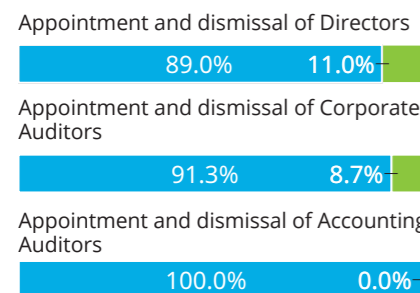
In favor | Against | Pending*1

Japanese equities

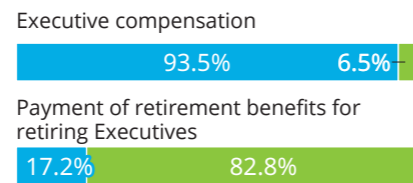
Proposals relating to company proposals



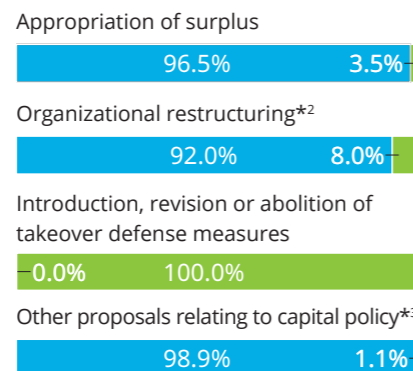
Proposals relating to company organization



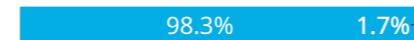
Proposals relating to Executive compensation



Proposals relating to capital policy (excluding proposals relating to the Articles of Incorporation)



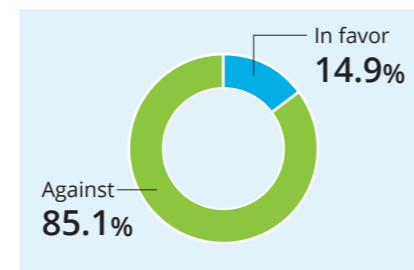
Proposals relating to Articles of Incorporation



Other

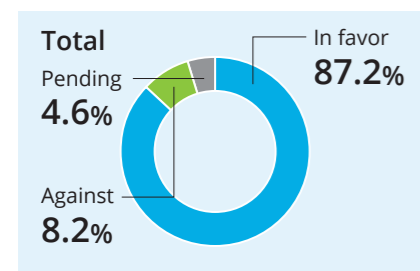


Proposals relating to shareholder proposals



Overseas equities

Proposals relating to company proposals



General proposals (appropriation of surplus, election of Corporate Auditors, etc.)



Proposals relating to Directors (election of Directors, etc.)



Proposals relating to capital (issuing of shares, etc.)



Proposals relating to amendment of the Articles of Incorporation



Proposals relating to compensation



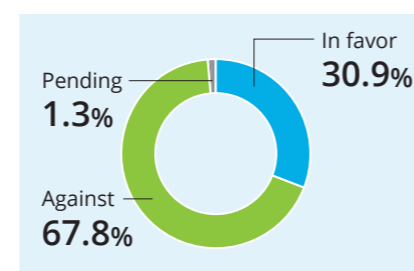
Proposals relating to mergers and acquisitions



Other proposals



Proposals relating to shareholder proposals



*1 We may choose "Pending" for decisions on exercising votes on overseas equities from the standpoint of improving shareholder value.
 *2 Includes proposals relating to mergers, business transfers and acquisitions, share swaps, share transfers, corporate splits, etc.
 *3 Includes proposals relating to treasury stock acquisitions, reduction of statutory reserves, increase in allocation of new shares to third parties, capital reduction, reverse stock splits, issuing of classified stock, etc.

Analysis of proxy voting outcomes

Daiwa AM aims to enhance the medium- to long-term corporate value and sustainability of investee companies through the fulfillment of our fiduciary responsibilities, while exercising voting rights with a focus on the interests of minority shareholders. In recent years, as a result of continuously revising our Proxy Voting Policy to emphasize the effectiveness of governance, the rate at which we vote against proposals had been on an upward trend. However, as of the June 2025 general meeting of shareholders, the opposition rate to company proposals had decreased from 10.48% the previous year to 8.97%. This can primarily be attributed to the following two factors.

First, our review of TOPIX constituent stocks, which began following the 2022 market classification reorganization, had completed its first phase by the end of January 2025, reducing the number of constituent companies from approximately 2,200 to approximately 1,700. Consequently, the number of TOPIX constituent companies held by Daiwa AM has decreased by several hundred over the past year. The exclusion of companies with relatively high opposition rates from the TOPIX is considered to have contributed to the decline in the opposition rate.

Next, the significant progress made in efforts by the companies we invest in has also been a major factor. In March 2023, following the Tokyo Stock Exchange's call for companies to adopt "management that is conscious of cost of capital and stock price," reforms advanced on both financial and non-financial fronts. These included improving capital efficiency, reviewing business portfolios, and investing in human capital and intangible assets. As a result, efforts to improve metrics such as ROE, ROIC, and PBR have expanded, and the number of companies in conflict with our Proxy Voting Policy has decreased.

Progress in establishing systems based on the Corporate Governance Code is an additional underlying factor. Companies listed on the Prime Market are

recommended to appoint a third or more independent outside directors, promote female executives, and establish nominating and compensation committees, and many companies are complying with these recommendations. This has provided an external governance framework, and the number of companies that can be trusted to manage their operations with confidence has increased.

However, these formal provisions are only a starting point. Going forward, there is a need to enhance the effectiveness of boards of directors, including substantive functioning and the provision of appropriate oversight and advice to management. The effectiveness of governance directly contributes to the qualitative improvement of ESG as a whole and forms the foundation for the sustainable enhancement of corporate value.

Japanese companies have made great strides in corporate governance in recent years, and stock prices have surpassed bubble-era levels. However, by global standards, they have only just reached the starting line. Various metrics are experiencing a trend of improvement thanks to factors such as optimized capital allocation that is conscious of the cost of capital. Fundamentally strengthening core earning power remains crucial for Japanese companies, however, and productivity improvements and steady execution of a medium-to-long-term growth strategy is indispensable for achieving this.

Going forward, in addition to quantitative criteria, Daiwa AM will place greater emphasis on qualitative judgments based on the effectiveness of governance in exercising proxy voting rights. We expect our portfolio companies to be ready to push both the accelerator and the brakes as appropriate in their management, under governance systems that include independent outside directors and prioritize diversity. As a responsible investor, we will continue to exercise proxy voting rights to support companies' sustainable growth.

Efforts Made in Relation to Specified Disclosure

The exercise of voting rights is the only opportunity for shareholders to directly reflect their opinions in corporate management and serves as an important means to promote sound management and sustainability in investee companies. Further, by disclosing the results in

detail, we ensure transparency in the exercise of proxy voting rights and fulfill our accountability to investee companies.

Daiwa AM incorporates the following measures when disclosing individual exercise results.

Early disclosure	We disclose the names of individual investee companies and how we decided to vote on each proposal by the end of the month following the month in which the shareholders meeting took place.
Dedicated website	We provide a website environment that makes it easy to check how votes were exercised, with the ability to search by the date on which the shareholders meeting was held, or by stock name. https://viewpoint.glasslewis.com/WD/?siteId=DaiwaAM
Excel file download function	Excel files containing data on the exercise of voting rights can be downloaded for data compilation and analysis.

Message to Our Investee Companies







Through engagement, Daiwa AM aims to support portfolio companies in the sustainable creation of value. Therefore, in our dialog with companies, we seek constructive, two-way communication that goes beyond the mere exchange of information to achieve the deepening of mutual understanding. Companies and investors facing each other as equals and exchanging views toward a shared goal of value creation is the essence of engagement.

However, a significant gap still exists between this ideal and reality. Examples include situations where dialog is one-sided and centered on questions and answers, or

where time is spent explaining materials, leaving little room for mutual expectations and concerns to be fully reflected. If this gap can be gradually bridged through ongoing dialog, it would surely lead to an increase in corporate and shareholder value. We believe this will also contribute to the sound development of Japan's capital markets.

Based on this conviction, we expect our portfolio companies to take the following concrete actions to bridge this gap.

Daiwa AM's expectations

Expectation 1	Meeting ≠ purpose 	Sometimes the meeting itself becomes the goal, resulting in superficial dialog. In particular, when the choice of dialog themes is left to investors, it fails to foster proactive, company-driven discussions. Engagement also serves as a crucial forum for testing hypotheses, enabling companies and investors to deepen mutual understanding and enhance corporate value. That is why we expect companies to take the initiative in leading the conversation during meetings and to deepen discussions with a positive attitude.
Expectation 2	Succinct explanations 	During meetings, it is crucial for companies to accurately convey their initiatives and strengths within the limited time available. However, we sometimes see meetings consisting of overly lengthy explanations that fail to effectively convey a company's appeal, hindering higher expectations of its management. The result is a blurring of the focus of the dialog, making it difficult to achieve a constructive exchange of opinions that fully satisfies both parties. Given this context, we expect our investee companies to clearly organize their key selling points and provide succinct explanations that cover essential information.
Expectation 3	Proactive exchange of views 	Engagement is a dialog, and two-way communication is essential. However, it is not uncommon for meetings to be one-sided, with time spent explaining materials or answering questions. Such meetings do not adequately convey a company's drive and can undermine the essence of the dialog. Sharing values and the background behind decision-making through rebuttals and follow-up questions enhances the quality of dialog and deepens relationships. That is why we expect a positive exchange of ideas, both before and during the dialog.
Expectation 4	Clear presentation of issues 	We believe that the issues a company faces are not shortcomings but rather opportunities for growth. This is because the resolution of issues ties directly into the improvement of corporate value. Disclosing issues alongside strategies for improvement makes it possible to promote engagement with a forward-looking perspective. Taking an attitude of disclosing current issues without hiding them is also crucial for building trust. Accordingly, we expect transparent disclosure of information that includes not only current strengths but also issues that need to be addressed for the future.
Expectation 5	PDCA cycle visualization 	We ask our investee companies to clearly disclose how the PDCA (plan-do-check-act) cycle functions in various management activities. Visualizing this cycle enables positive evaluation based on continuous improvement efforts even when performance is not favorable. How the PDCA cycle functions within a company's governance framework, including the effectiveness assessment of the board of directors, is particularly important from the perspectives of risk management and transparency, and we hold higher expectations in this regard.
Expectation 6	Disclosure of dialog outcomes 	Excluding first-time meetings, we expect to see change through our dialogs with investee companies. Investors believe that dialog leads to increased corporate value. Sharing concrete changes resulting from past engagement efforts is crucial for reaffirming the purpose of dialog. Disclosing dialog outcomes contributes to building trust and lays the foundation for enhancing the quality of future dialogs. That is why we expect proactive disclosure regarding changes and progress made based on past dialogs.



Stewardship Team

Key revisions to our Proxy Voting Policy this year

1 Stricter independence requirements for outside directors and outside auditors

As a necessary condition for the independence of outside directors and outside auditors, we have required that outside directors and outside auditors must not be affiliated with a major shareholder holding 10% or more of the company's shares, or with any parent, subsidiary, or affiliate of such a shareholder. This is because we believe there are concerns about whether individuals originating from particular major shareholders can effectively fulfill the role of overseeing and auditing management from the perspective of ordinary shareholders. However, even when holdings are below 10%, cases where such concerns are significant due to cross-shareholdings or business relationships are frequently observed. Therefore, we have decided to lower the threshold for major shareholders to 5% or more.

2 Term of office of directors

The term of office for directors of companies with a board of company auditors is stipulated under the Companies Act as being within two years. However, considering that directors of listed companies should seek shareholder approval annually at the general meeting of shareholders, we have established a new criterion requiring a one-year term for directors of companies with a board of company auditors.

3 Independence requirements for substitute outside director and outside auditor candidates

Previously, our independence requirements for substitute outside director and outside auditor candidates were limited to meeting the criteria for independent outside directors and outside auditors as established by financial instruments exchanges. However, since substitute candidates may also serve as outside directors and outside auditors in emergencies, they will now be subject to the same independence requirements as regular outside directors and outside auditors.

Future revisions to our Proxy Voting Policy

In order to contribute to the medium- to long-term enhancement of corporate value at investee companies, Daiwa AM continuously reviews the appropriateness of our Proxy Voting Policy, and we revise it annually with the aim of further improvement. Currently, we are examining from various angles the introduction and revision of principles that contribute to the strengthening of governance systems, with the enhancement of the effectiveness of boards of directors as a particularly major theme. The following are some specific examples of issues we are currently considering.

1 Gender diversity on boards of directors

Although listed companies as a whole have made progress in appointing female directors, it is not yet possible to say that diversity has been sufficiently ensured. We currently require companies listed on the Prime Market to have a board of directors with a multi-gender composition, but we plan to raise the required ratio for non-majority genders going forward.

2 Cross-shareholdings

Listed companies as a whole have made steady progress in reducing their cross-shareholdings, but we believe there is still a long way to go. Further, since our benchmark of less than 20% of net assets used to define excessive holdings is not an end goal but rather a target for ongoing reductions, we will consider lowering the threshold for excessive holdings going forward.

3 Strengthening the independence of nominating and compensation committees

We believe that nominating and compensation committees are extremely important forums for deliberating key matters, including the selection of director candidates from the succession plan for top management, as well as the composition ratio of performance-based compensation and stock-based compensation, and their respective metrics. To enhance the objectivity of their deliberation process, we believe the chair of these committees should be an outside director. Going forward, we will also consider introducing policies regarding the chairs of nominating and compensation committees, including those established on a voluntary basis.