

Proxy Voting

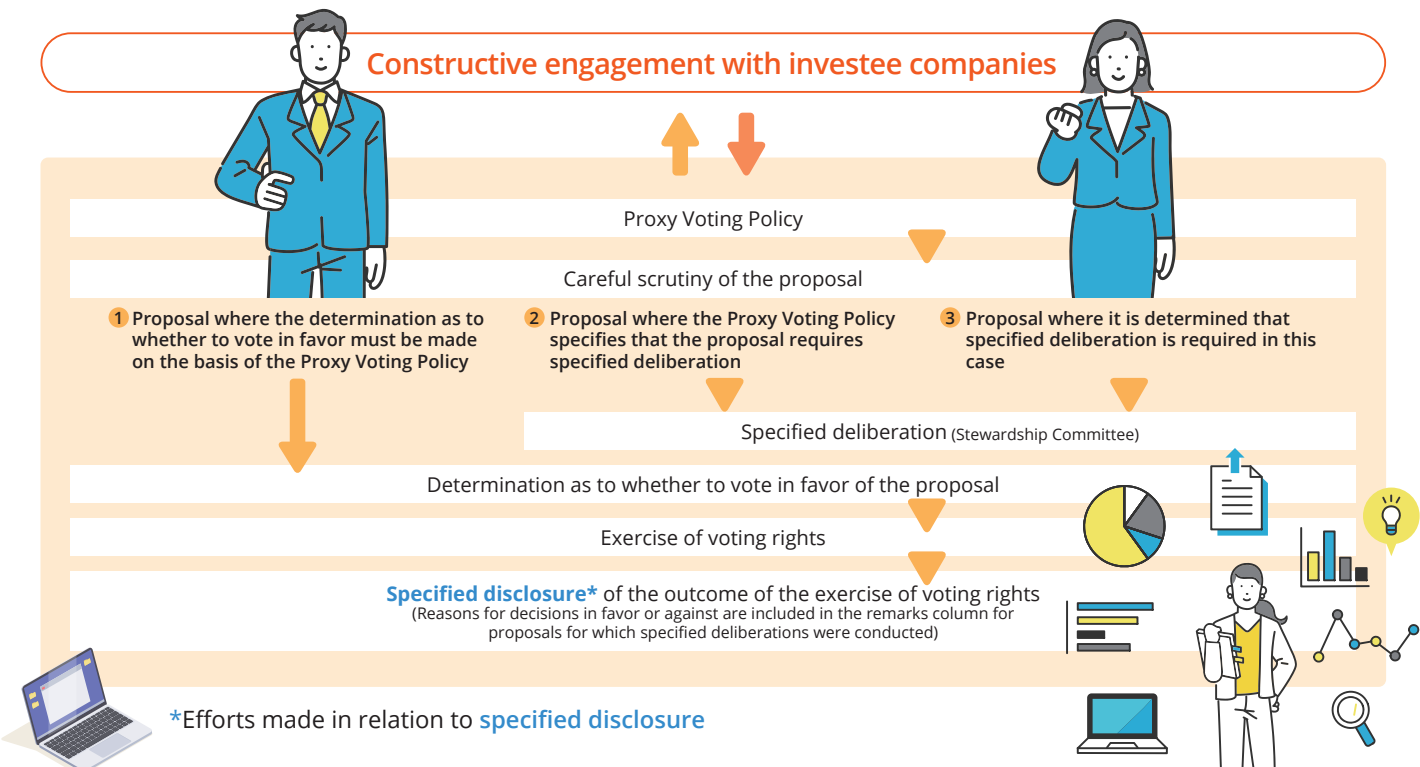
Proxy Voting

Key features of Daiwa AM's Proxy Voting Policy

- 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.
- As a criterion for evaluating performance, we make rational decisions 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.
- 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 (including escalation strategies).

Proxy voting process

Proxy voting is implemented by means of the following process, which reflects the knowhow 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.



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.

Key Changes in Our Proxy Voting Policy

We have made the following changes to our policy on the exercise of voting rights (in relation to Japanese equities).

IR implementation criteria

While it was originally intended that the criteria relating to non-implementation of IR activities (including the holding of financial results briefings) would be utilized in combination with performance criteria, in light of how important it is for

listed companies to fulfill their accountability to shareholders and investors, it was decided to add a new item, specifying that Daiwa AM would vote against the re-appointment of company representatives who failed to hold financial results briefings.

Company officer gender diversity

Regarding the extent to which gender diversity is expected in relation to company officers, in the past this was assessed on the basis of what percentage of those attending board meetings belonged to a particular gender, regardless of whether the individual in question was a director or auditor. However, it was felt that, in terms of reflecting gender diversity in management

decision-making, the scope of assessment should be limited to directors, who actually have the right to vote at board meetings, so it was decided that, in the case of companies listed on the Prime Market of the Tokyo Stock Exchange, companies would be expected to have representatives of more than one gender on their board of directors.

Companies that fail to implement disclosure of "action to implement management that is conscious of cost of capital and stock price"

We decided that, if a listed company fails to respond to the Tokyo Stock Exchange's "action to implement management that is conscious of cost of capital and stock price" disclosure request, despite a company's stock price having fallen below the liquidation value, this represents a major

failing on the part of that company's managers, and so in such cases Daiwa AM would vote against the re-appointment of the company's representative.

Note: This criterion will come into effect starting with shareholders meetings held in June 2025.

Attendance rate of outside directors and outside auditors at board meetings and other meetings

Originally, it was deemed problematic if outside directors' and outside auditors' attendance rate at meetings such as that of the board of director or board of auditors was less than 75%.

However, it was felt that, given that ideally the attendance rate should be 100%, the current threshold was too low, and so it was decided to raise the required attendance rate to 85%.

Performance criteria

Regarding the abolition of the ability to use PBR performance to compensate for low ROE, it was decided that it would be more appropriate to have only ROE as the main performance criterion, for the following reasons: ① Fluctuations in the stock price may be primarily caused by factors other than managerial diligence, and so it can be not appropriate to use the stock price as a criterion for deciding whether or not to approve the re-appointment of directors; ② With the existing criteria, there was a danger of sending the misleading message that "As long as PBR exceeds 1, it doesn't matter if ROE is low."

In addition, recently there have been some industry categories where the baseline value for low ROE has exceeded 8%. As it was not desirable for cases where ROE exceeded 8%, which would normally be considered to exceed equity cost, to result in voting against the re-appointment of directors on the grounds of failure to meet performance criteria, a maximum level was set for the threshold for determining low ROE.


In the past, the determination as to whether PBR fell within the bottom 33% of companies in the same industry was based on all listed companies. However, there are some industries where including the Growth Market of the Tokyo Stock

Exchange results in abnormal values, so it was decided that we would aim to normalize the threshold values by restricting the scope of calculation to companies listed on the Prime Market or Standard Market.

With regard to companies whose IR activities were seriously inadequate, in the past this was just one of the factors taken into account when evaluating performance. However, in line with Daiwa AM's approach which places emphasis on IR and information disclosure, it was decided that failing to hold financial results briefings would be established as a separate criterion in its own right.



Changes in Performance Criteria

Date of Adoption	Adoption or Revision Content	Key Aspects of Adoption or Revision
June 2008	● Adoption of ROE as an indicator	Initially, it was determined that investee companies that posted an ROE of less than 3% for three consecutive years would be scrutinized (although if the ROE was trending toward improvement, then having an ROE of less than 3% would be deemed not to be a problem). Subsequently, the appropriate ROE level was discussed by the Committee every year, and was maintained at the 3% level.
May 2014	● Adoption of the following as ROE evaluation criteria: ① ROE for the last three fiscal years fell within the bottom 33% of companies in the same industry. ② ROE has been falling for the past two fiscal years, and ROE in the most recent fiscal year fell within the bottom 33% of companies in the same industry. (However, a company may be excepted from this based on analysts' opinion, after being individually considered by the Committee)	Following discussion based on a recognition of the need, in line with Japan's Corporate Governance Code, for more detailed performance criteria that take into account enterprise characteristics, improvements in performance, the wider economic environment, etc., it was decided to adopt an approach whereby performance would be evaluated relative to other companies in the same industry, based on the TOPIX-17 sector indices.
May 2016	● Adoption of PBR criteria in addition to ROE criteria	From the viewpoint that evaluation criteria should incorporate stock price information that could be deemed to reflect the market's evaluation of the current status of, and future outlook for, a company's ROE, an additional evaluation threshold was adopted based on whether PBR fell within the bottom 33% of companies in the same industry.
July 2016	● Taking PBR into account in relation to the criterion of making a loss in three consecutive fiscal years	This revision was made to maintain coherence in relation to the adoption in May 2016 of PBR criteria with respect to the determination of low ROE.
Mar. 2018	● Switching over to new criteria with respect to cases where low ROE is combined with failure to implement IR, in line with the formulation in August 2015 of new rules regarding failure to implement IR	It was determined that companies where there were concerns regarding managerial performance or the efficient utilization of shareholders' capital, and whose IR activities were seriously inadequate, would be considered to have problems, even if the company's PBR was not particularly low relative to other companies in the same industry.
Mar. 2019	● Establishment of an additional provision allowing for exemption in the case of companies whose ROE has been rising in the two most recent fiscal years	A change was made to add analysts' qualitative analysis to the evaluation process, to allow for disparities between industries and between the circumstances of individual companies.
May 2020	● Exercise of proxy voting rights began to take into account the impact of the COVID-19 pandemic	While ROE and PBR were used as indicators in relation to the effective utilization of shareholders' capital, this did not imply that investee companies should be so under-capitalized as to impair the sustainability of the enterprise. Recognizing the need to take current circumstances into account, from the perspective of enhancing corporate value over the medium to long term, it was decided to temporarily waive the criterion that companies whose ROE had been falling for two consecutive fiscal years would be deemed to have a problem.
Sept. 2021	● Change to requiring scrutiny of companies that have made a loss for three consecutive fiscal years and which have also posted a PBR of less than 1.0x in the most recent fiscal year	As continuing to have a low ROE and continuing to make a loss are problems on different levels, it was felt that the PBR threshold applying to a company making a loss should be more stringent than that applying to a company with a low ROE, and so the threshold was changed to a minimum PBR of at least 1.0x (liquidation value).
Apr. 2023	● Note added to the effect that "net income attributable to owners of the parent company will be used as the criterion for determining whether a company has been making a loss"	While one of the conditions used to determine whether there are problems with a company's managerial performance is whether the company has been making a loss for three consecutive fiscal years and also has a PBR of less than 1.0x, there had not been a clear stipulation as to which definition of profit should be used to determine whether the company had been making a loss, so a note was added to clarify the evaluation criteria.
May 2023	● Exercise of proxy voting rights ceased to take into account the impact of the COVID-19 pandemic	The regular performance criteria began to be applied again.
Oct. 2023	● Abolition of the PBR threshold criterion for companies that have made a loss for three consecutive fiscal years, with a change to setting the criterion as having a PBR of less than 1.0x as of the end of the most recent fiscal year ● The criterion of having a downward trend in ROE for the most recent two fiscal years was also abolished	While a PBR condition was incorporated into the low-ROE performance criteria, setting the threshold as having PBR that fell within the bottom 33% for companies in the same industry could not reasonably be said to correspond to being viewed positively by the market. As the yardsticks for determination of being viewed positively by the market may include liquidation value, and in line with Tokyo Stock Exchange requirements, etc., it was decided to change the threshold value of PBR to 1.0x. With regard to companies that have been making a loss for three consecutive years, it was considered that there was clear managerial responsibility regardless of how the company was viewed by the market, and so the PBR condition was eliminated. In addition, with regard to the condition that classes a company that has had falling ROE for the most recent two fiscal years as having problems, although this could enable early identification of problem companies that have experienced a rapid deterioration in performance, as the general principle is to look at ROE over a period of three years, and as there were concerns about maintaining inter-industry fairness in relation to qualitative evaluation, it was decided to eliminate this criterion.
Feb. 2025	● With regard to the low-ROE criterion, the ability to compensate for low ROE with PBR was eliminated ● Regarding the threshold of having ROE that has fallen within the bottom 33% for companies in the same industry for the most recent three fiscal years, a note was added to the effect that "if the level exceeds 8%, it will be deemed to be 8%" ● It is decided that the determination of whether a company falls within the bottom 33% for companies in the same industry based on the TOPIX-17 sector indices will be calculated for the Prime Market and Standard Market of the Tokyo Stock Exchange ● In regard to the condition of having IR activities that are seriously inadequate, utilized in conjunction with the performance criteria, this was made into a separate criterion, defined as "a company that does not implement financial results briefings"	See "Key changes in our Proxy Voting Policy" in the previous page. 

Message from the Head of the Responsible Investment Department

Engagement and the exercise of voting rights are an integral part of the process of promoting the enhancement of corporate value

Fumiaki Saguchi
Head of Responsible Investment Department,
Managing Director
Stewardship Analyst

Regarding voting rights for stocks that form part of Daiwa AM's assets under management, we exercise these rights in accordance with our company's Proxy Voting Policy. When exercising voting rights, we undertake engagement with the investee company as necessary, and we may vote in a way that diverges from the Proxy Voting Policy if, on the basis of the information we have obtained through the engagement process and our understanding of this information, we believe that doing so will help to enhance the corporate value of the investee company. Furthermore, in cases where we do exercise voting rights in accordance with the Proxy Voting Criteria, this reflects our approach to corporate governance, and any suggestion that we follow the Proxy Voting Criteria mechanically is not justified. In assessing corporate value appropriately, and in deciding how to exercise voting rights based on that assessment, it is

vitaly important to understand the initiatives and thinking adopted by the investee company, and the information disclosed by the company is very important in this regard. Being able to examine not just the disclosure information mandated by law, such as a securities report, but also an integrated report that combines financial and non-financial information, can provide a very useful reference for investors in their decision-making. Daiwa AM aims to strengthen mutual understanding between itself and investee companies, so that they can work together to enhance corporate value. We view engagement and the exercise of voting rights as constituting an integral part of this process, and as methods for supporting companies' long-term growth and sustainability. We hope that investee companies will continue to proactively implement disclosure and engage in dialog with us.

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 2024. 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
- Sale of cross-held shares (proposals to amend the Articles of Incorporation): Consideration of the appropriateness of cross-shareholdings; measures to reduce cross-held shares; period of sale sought by shareholder proposal; appropriateness of share quantity to be sold, and other factors based on the status of company's use of shareholder equity
- Disclosure of capital costs (proposals to amend the Articles of Incorporation): Consideration of the company's disclosure statuses (including engagement) for their medium-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:

- ① 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
- ② 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. In 2024, there were eight cases in which we met with both parties.

Engagement case studies



Example 1 Company S

Outline of Shareholder Proposal

- Company S had Company T as an affiliated company accounted for by the equity method, but the business synergy between the two companies was very limited.
- On the face of it, the ROE of Company S was relatively high, but this was mainly because Company S had Company T as an equity method affiliate.
- In reality, ROE was low, indicating a need for Company S to sell off its shares in Company T (synergy with which was limited) and expand growth-oriented investment or make more efficient use of its capital.
- To this end, a proposal was made that the Articles of Incorporation should be amended to stipulate that Company S's share in Company T should be reduced to less than 15% within two years.

Topics of Discussion with Company S

- Company S's strategy regarding its holding in Company T, and the synergy that Company S expected to derive from this holding.
- Company S's strategy for increasing corporate value in the future.

Topics of Discussion with Shareholder Proposer

- Background to the shareholder proposal, and key points.
- Issues with Company S's capital strategy.

Issues for the Stewardship Committee

Issue 1 Synergy between Company S and Company T. Whether to support Company S's strategy for enhancing corporate value.

- Despite the historic nature of the relationship between the two companies, Company S's railway lines and Company T's facilities are not geographically proximate to one another, and it had not been clearly demonstrated that there was potential for synergy with Company T's other businesses, including the bus operation business. The fact of holding shares in Company T as an equity method affiliate was therefore a factor in reducing Company S's effective capital utilization efficiency.
- Company S had stated that selling off shares in Company T was one potential method of procuring funds for growth-oriented investment, but it had not given a concrete explanation of the anticipated timing of such a sale, or the amounts involved, and it had not given a clear explanation of the plan for returning value to shareholders.
- The impression was given that deriving substantial earnings from having Company T as an equity method affiliate was a factor in Company S's management decision-making being somewhat lackadaisical; there were also concerns about Company S's senior management's attitude toward enhancing the profitability of their core business if things continued the way they were.

Issue 2 Whether the sale of Company S's shares in Company T will lead to an increase in Company S's corporate value over the medium to long term. Whether including a stipulation regarding the shares in the Articles of Incorporation will be an obstacle to business development.

- It can be deduced that, within the next few years, Company S will need to procure funds for business investment, but currently the company has not disclosed a concrete funding plan. If the sale of shares in Company T is used to meet funding needs, it can be anticipated that the resulting progress in business investment would lead to an enhancement of corporate value over the medium to long term.
- The proposing shareholder was requesting that Company S sell off its shares in Company T to the extent that is practicable. They did not seek to place any restrictions on the purposes to which the proceeds of the sale would be put, and they respected the company's right to make its own decisions regarding future management. It is therefore unlikely that the inclusion of a note in the Articles of Incorporation would constitute an obstacle to the company's business operations.

Exercise decision points and results

Having determined that, from the perspective of strengthening business investment and the efficiency of capital use, selling off the shares held in Company T would contribute toward enhancing corporate value over the medium to long term, we decided to support the shareholder's proposal.

Proxy Voting Outcomes

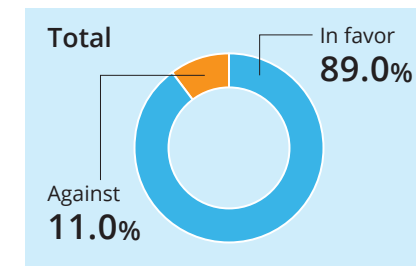
In 2024, proxy voting rights were exercised for 2,370 Japanese companies and 3,431 non-Japanese companies.

The following table shows the status of those votes by proposal.

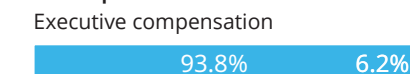
■ In favor ■ Against ■ Pending*1

Domestic stocks

Proposals relating to company proposals



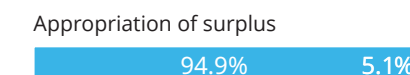
Proposals relating to Executive compensation



Payment of retirement benefits for retiring Executives



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



Organizational restructuring*2



Introduction, revision or abolition of takeover defense measures



Other proposals relating to capital policy*3



Proposals relating to company organization

Appointment and dismissal of Directors



Appointment and dismissal of Corporate Auditors



Appointment and dismissal of Accounting Auditors



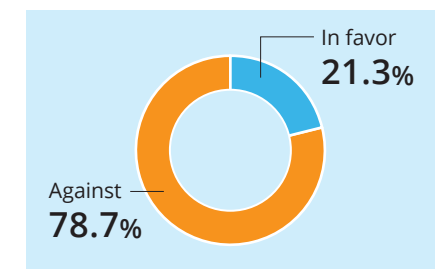
Proposals relating to Articles of Incorporation



Other

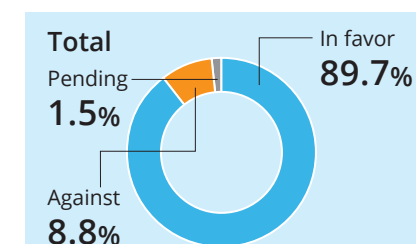


Proposals relating to shareholder proposals



Foreign stocks

Proposals relating to company proposals



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



Proposals relating to amendment of the Articles of Incorporation



Proposals relating to compensation



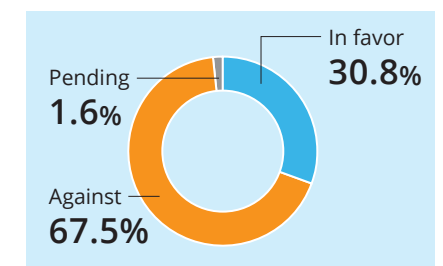
Proposals relating to mergers and acquisitions



Other proposals



Proposals relating to shareholder proposals



*1 We may choose "Pending" for decisions on exercising votes on foreign stocks 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.