

Sustainable Investment

ESG Investment Policy

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

To enhance the medium- to long-term corporate value and sustainability of investee companies, it is vital to build

a good relationship with the environment (E) and society (S) based on appropriate governance (G). We believe that this can also contribute toward the realization of a highly sustainable society.

In playing a role as a link in the investment chain alongside Beneficiaries and investee companies, Daiwa AM is implementing measures that embody a focus on the key aspects of ESG. We have adopted the same ESG investment approach across the full range of the active investment, passive investment, and investment outsourcing that constitute our investment management strategies/products.

ESG Investment Policy

- 1 Through our asset management business, we aim to provide investment opportunities to companies that are actively working on ESG and SDG issues and to contribute to the realization of a highly sustainable society.
- 2 We will consider companies' ESG initiatives as factors that contribute to both medium- to long-term growth potential and risk reduction and will incorporate them in our investment decisions.
- 3 Through constructive dialogues, we call for companies to actively engage in ESG initiatives, and share ESG issues to help them improve their medium- to long-term value and sustainability.

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

Daiwa AM's Materiality is outlined here ( see p. 32)

ESG Integration

Since the UN-supported Principles for Responsible Investment (PRI) were introduced in 2006, ESG has been an integral part of asset management. The companies that Daiwa AM invests in are also having to deal with climate change, human rights issues in the supply chain, etc., and have been brought to recognize the need to enhance their own sustainability. At the same time, it should not be forgotten that addressing these issues will also lead to the generation of new technologies and new business opportunities.

Daiwa AM views investee companies' initiatives to address ESG issues as leading to increased growth

potential over the medium to long term, and as helping to reduce risk, and we refer extensively to these initiatives when making investment decisions. By combining qualitative evaluation based on materiality-focused engagement with investee companies and other enterprises with quantitative evaluation undertaken by quantitative analysts, we are able to implement corporate valuation that integrates financial and non-financial information. We also calculate our own unique ESG scores based on our Materiality, and use these scores when selecting stocks for inclusion in our portfolio and when implementing portfolio risk assessment.

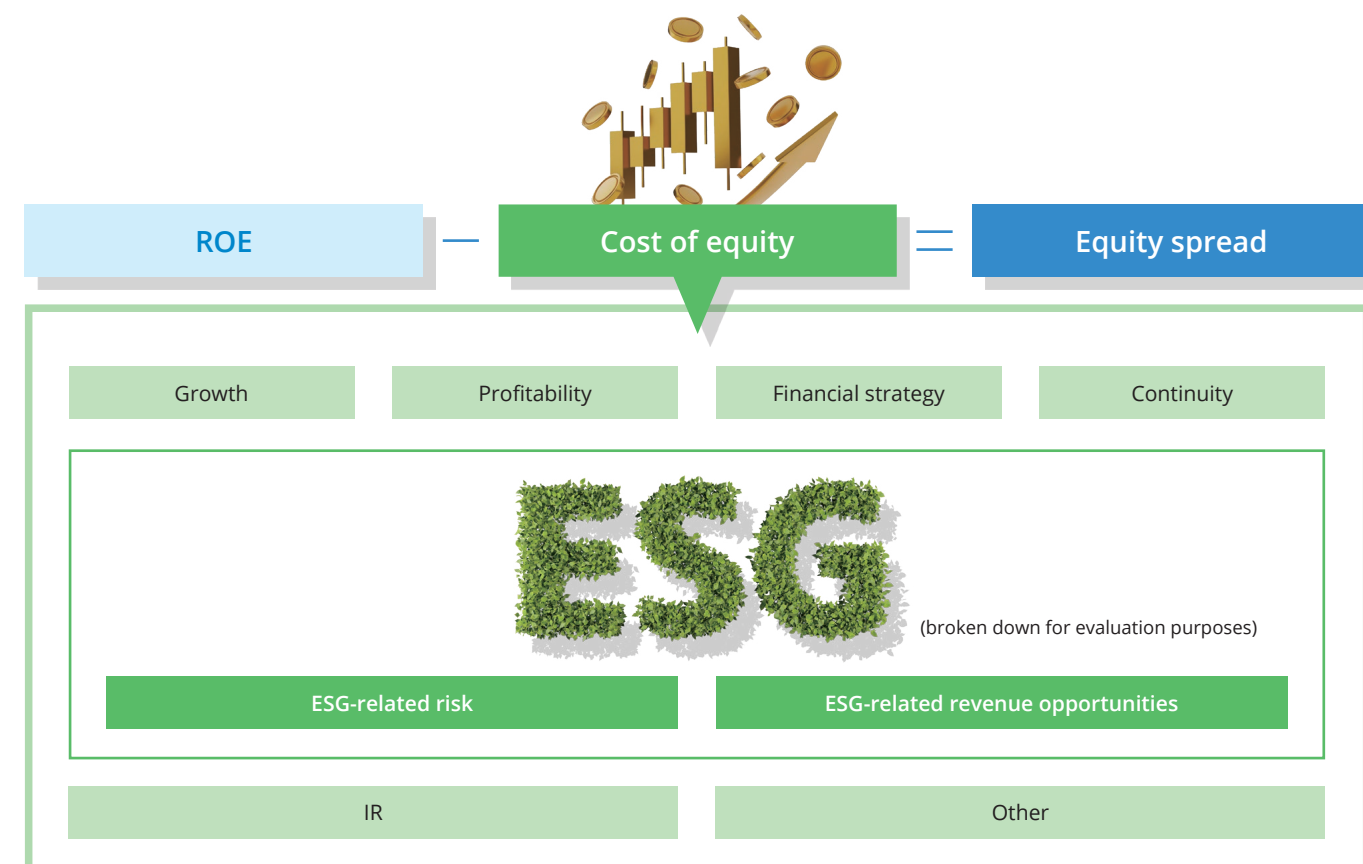
Corporate valuation and ESG data

What interests equity investors most in terms of the returns they can obtain from investee companies is equity cost. It is possible to measure the extent to which the value generated by a company can exceed this anticipated return.

We conduct corporate valuation by integrating qualitative evaluation based on investee companies' approach to ESG, as ascertained through dialog with them, and the status of their related initiatives, into our unique long-term corporate value model.

More specifically, our corporate research analysts adjust equity cost to reflect both financial data and non-

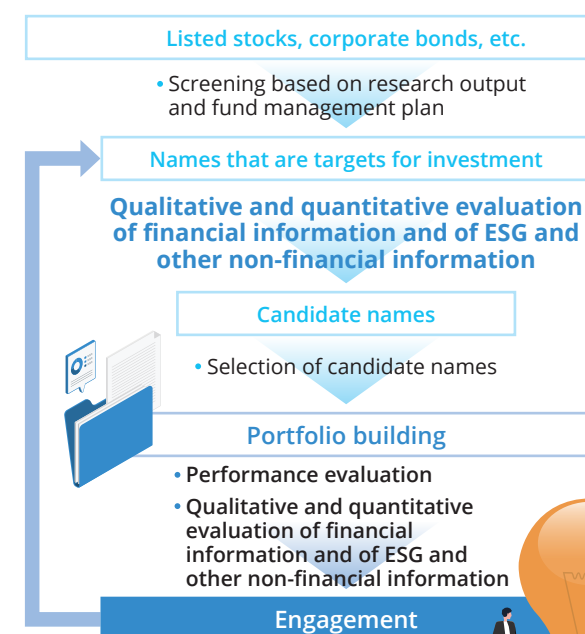
financial data (including ESG data), and then use the equity spread (calculated by deducting equity cost from the return on equity) to calculate corporate value (see figure on next page). For example, if a company has outstanding corporate governance, this means lower risks for investors, which in turn will lead to lower equity cost and thus higher corporate valuation. A further point is that, by breaking ESG evaluation down into risks and opportunities, we have a framework that enables us to determine, in detail, what impact a company's initiatives for ESG issues are having on its corporate value.



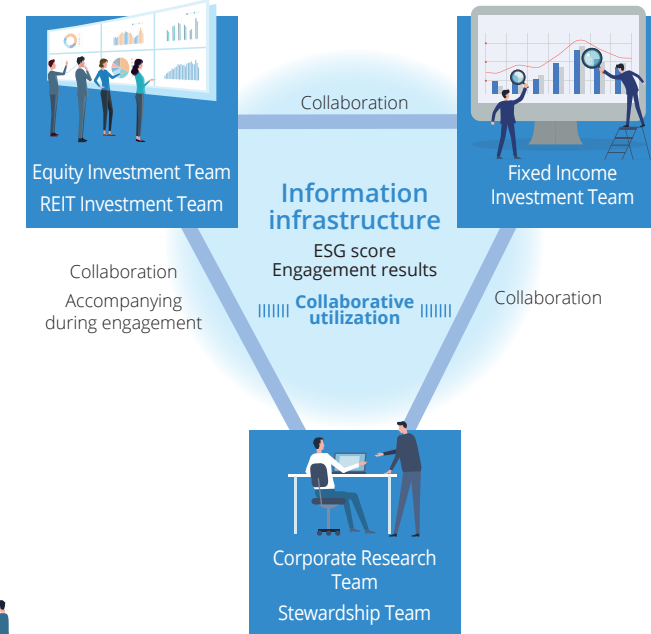
Integration of ESG information, etc. into the investment process, and collaborative utilization of this data via the information infrastructure

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

Investment process of funds



Collaborative utilization of information



In-house ESG score

What is our in-house ESG score?

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

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



ESG score and performance

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

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

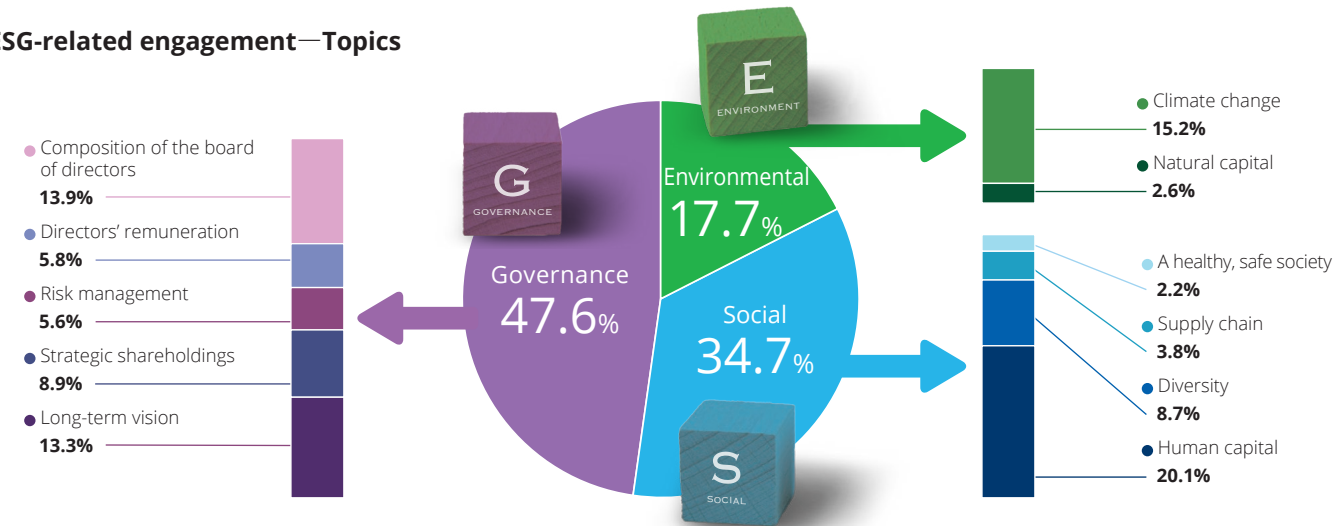
ESG score—cumulative returns (first quintile to fifth quintile)



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

ESG engagement

ESG-related engagement—Topics



Period covered: January–December, 2024

The share of engagement topics accounted for by each of the three major categories—Environment (E), Social (S), and Governance (G)—remained roughly the same as in the previous year. The share of topics accounted for by the G aspect rose from 46.5% to 47.6%, while the shares held by the other two aspects both fell slightly, from 35.0% to 34.7% in the case of S, and from 18.5% to 17.7% in the case of E.

Examining each category in more detail, contributing factors in the rise in the share of engagement topics held by G included an increase in the share of topics relating to strategic shareholdings (from 8.0% to 8.9%) and in those relating to directors' remuneration (from 4.5% to 5.8%). In the case of E, there was a fall in the share of topics relating to climate change (from 16.7% to 15.2%), while S saw a fall in the share of topics relating to diversity (from 9.3% to 8.7%). These changes may be partly attributable to the fact that initiatives addressing topics such as climate change have more or less become the norm at large companies.

The topics of dialog with investee companies are generally decided between Daiwa AM and the company based on a recognition of which topics constitute significant issues for the medium to long term, although the choice of topic is also affected by short- to medium-term factors such as new regulations or world events.

Drucker Institute Score

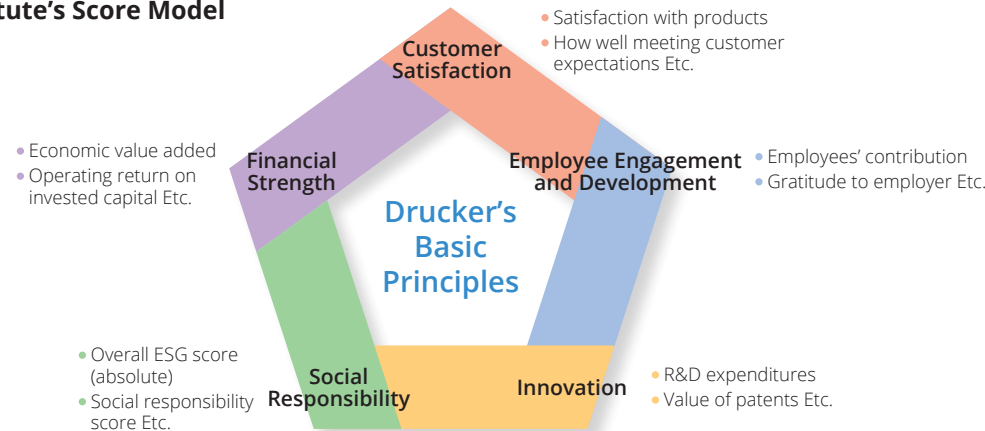
Using the Drucker Institute Score to determine the value of intangible assets

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

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

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

The Drucker Institute's Score Model



Initiatives on Each Asset Product


Japanese Equities



Daisuke Watanabe
Senior Fund Manager
Japan Equity Management Department

Contributing Toward the Enhancement of Investee Companies' Corporate Value Through Multi-Faceted Analysis

Important features of Daiwa AM's engagement activities include encouraging investee companies to implement measures oriented toward realizing sustainable growth and enhancing corporate value, and encouraging them to actualize those parts of corporate value that are currently under-valued. By undertaking multi-faceted surveys of the issues facing companies, undertaking engagement with appropriate content and methods, and encouraging companies, from an equal footing, to undertake the transformations needed to address the issues, we are working to bring about higher returns. Our fund managers, analysts, and stewardship team are working together to support enhancement of the corporate value of large numbers of investee companies, thereby also contributing toward sustainable growth for society as a whole.

One unique innovation by Daiwa AM is "lingagement," which combines linkage with engagement. "lingagement" involves: ❶ The holding of information exchange meeting; ❷ Introducing companies that have implemented best practice; ❸ Providing opportunities to establish relationships with experts in related fields, etc. Regarding the holding of information exchange meetings, past meetings have involved discussion of gender diversity, human capital strategies, and initiatives to improve PBR. The theme for the fourth meeting, held in November 2024, was "Beyond PBR of 1.0x: Enhancing Corporate Value through Human Capital," and the meeting brought together large numbers of investee companies and experts to discuss human capital ( see p. 61).

Fixed Income



Norio Endo
Senior Credit Analyst and Sustainability Leader
Fixed Income Investment Department

ESG Integration in Fixed Income Investment

Unlike investing in equities, returns from investing in bonds are characterized by limited upside, so the key to enhancing investment performance with fixed income investment is how well the downside risk is controlled. From this perspective, we believe that it is vitally important to make effective use of non-financial data (including ESG data) when making investment decisions in relation to bond issuers.

We see the initiatives that companies implement today to address ESG issues as affecting their financial information in the future, and we recognize the important role played by non-financial information as the foundation for the financial information of the future. In credit analysis, the shorter the investment timescale, the more important near-term financial information is; the longer the investment timescale, the more important non-financial information is.

With this in mind, by incorporating the evaluation of non-financial information into the credit risk analysis process alongside analysis of the bond issuer's financial information, we aim to control downside risk in relation to returns, improve the risk-return balance, and, ultimately, improve investment performance.

More specifically, Daiwa AM implements investment decision-making from a perspective that emphasizes verifying and analyzing how each bond issuer is addressing ESG issues, evaluating the impact of this on their future performance and future balance sheet, forecasting the likely impact on ratings and bond prices, and determining whether it is possible to maintain good returns while taking the risks into account.

Passive investing (Equities)



Eriko Ono
Senior Fund Manager and Sustainability
Leader
Beta Management & Investment Solution
Department

Promoting ESG Investment Through Index Funds

By providing funds linked to indexes which incorporate ESG assessment, we aim to give investors the opportunity to undertake ESG investment which is low-cost and easy to get started with. The advantage of ESG investment using index funds is that it can be expected to provide an improvement in terms of both risk and returns over the long term, through low-cost investment management based on clear, transparent rules. While there is still room for further verification regarding the performance of ESG indexes, some research results indicate that, over the long term, the trend will be for ESG indexes to outperform their parent indexes.

Daiwa AM currently provides five ESG index funds (including low-cost publicly-offered investment trusts, and ETFs). We are also proceeding with projects to provide institutional investors, both in Japan and overseas, with ESG-related funds that meet their needs. With regard to ESG data, such as ESG rankings and carbon emissions, for the component stocks of ESG indexes, we are aiming to realize more easy-to-understand disclosure, through efforts that include liaison with index providers.

Outsourcing



Masako Ookouchi
Fund Manager and Sustainability Leader
Advisory Fund Management Department

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

When performing initial due diligence, we verify the outsourced fund manager's ESG-related internal systems and policies, and their involvement in various initiatives. Particularly in the case of ESG investment, we focus on verifying whether concrete disclosure of ESG-related information is possible.

After a fund has been launched, we continue to hold meetings with the outsourced fund manager in relation to ongoing due diligence and other types of periodic review, and we exchange views with them regarding ESG issues relating to fund management. We implement proactive monitoring, periodically updating the due diligence questions used with reference to global standards such as PRI.

In the case of impact funds, we exchange views with outsourced fund managers and perform monitoring not only with regard to fund performance, but also regarding how the stocks included in the fund are contributing to social returns. We strive to ensure that we obtain the most up-to-date information by visiting outsourced fund managers several times a year to communicate directly with the personnel who are responsible for ESG.

In addition, in FY2024 we held meetings with overseas investee companies through collaboration with the outsourced fund managers. These meetings involved exchanges of information that covered, for example, how those investee companies that are working actively to realize sustainability are addressing ESG issues, and also the outlook for the business environment.

We also implement monitoring and opportunities to exchange thoughts and opinions, regarding the results of engagement and proxy voting, with outsourced fund managers on a regular basis.

ESG Fund Definitions, and Daiwa AM's ESG Funds

Daiwa AM has clarified the definition of ESG funds, and formulated criteria for ESG fund certification. These criteria are based on the guidelines issues by the regulatory authorities in Japan, while also referencing similar guidelines issued by regulatory authorities in other countries.

As outlined below, Daiwa AM has formulated criteria for two types of ESG fund. Funds belonging to each of

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

Daiwa AM's ESG funds

Impact funds

A key feature of impact funds is that they should realize not only economic returns but also social returns*, and that it should be possible to realize effective disclosure in relation to these social returns.

* Social returns include environmental returns.

Daiwa AM's ESG Funds

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

Dialog with ESG Data and Index Providers

Daiwa AM has created its own proprietary ESG score system, but we also make use of other ESG score systems provided by third parties, as part of the management process for our ESG index funds, etc. We hold meetings and exchange views, as needed, with ESG index providers and with ESG assessment and data providers in regard to

these third-party ESG scores. In addition, Daiwa AM is a member of the Index Advisory Panel established by JPX Market Innovation & Research, in which capacity we express our views regarding ESG indexes, the TOPIX index, etc.

Making the ESG Fund Certification Process More Rigorous

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

In line with this, Daiwa AM is putting a system in place to provide publicly-offered ESG funds.

The figure below explains the measures taken in the

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

When the Product Planning Department asks the Fund Management Division to confirm a particular fund proposal, the Fund Management Division verifies whether there are any problems with the fund management plan, and whether the proposed fund meets the ESG fund criteria set by Daiwa AM. The verification results are submitted for deliberation at a meeting of the Product Committee, which is attended by members of the senior management team, after which, if approved, it is certified as an ESG fund. Once the certified fund has been established, it undergoes verification by the Product Governance Committee (see p. 9).

ESG Fund Creation Process

