

Framework for Stewardship Activities

Message from the Chair of the Stewardship Supervisory Committee

“We anticipate stewardship activities that emphasize a sustainability perspective”

Sumikazu Tsutsui
Outside Director

At Daiwa AM, the Stewardship Committee functions as the decision-making body for all stewardship activities. The Stewardship Committee is supervised by the Stewardship Supervisory Committee, more than half the members of which are Outside Directors, and which I (being myself an Outside Director) chair.

Daiwa AM's two core stewardship activities are constructive dialog (engagement) with investee companies, and the exercise of voting rights. The enhancement of corporate value that results from these activities leads, in turn, to greater returns for investors. We attach great importance to a sustainability perspective in this regard. This is because the core source of fundamental value for a corporation is the sum total of that corporation's future revenue, and sustainability establishes a time axis for this revenue.

There are certain features of Daiwa AM's stewardship activities that reflect the unique characteristics of our company.

Firstly, there is the framework whereby three key actors—analysts, fund managers, and the stewardship team—work together to implement

stewardship activities. In this way, we are able to undertake stewardship activities, from engagement through to the exercise of voting rights, in an integrated, seamless manner.

Secondly, there are the types of engagement activity that Daiwa AM refers to as “lingagement.” Daiwa AM acts as a hub providing opportunities for investee companies to exchange information relating to corporate governance amongst themselves, and in doing so, contributes toward the enhancement of corporate value through new combinations of knowledge.

Thirdly, there is the focus on intangible assets when assessing corporate value. The measurement method used for this was developed in collaboration with the Drucker Institute in the U.S. Daiwa AM has also developed its own unique evaluation method for ESG.

I have been very impressed by the high level of innovation displayed by Daiwa AM, and I hope that the company will continue to further refine its capabilities and develop more new methods in the future, so that it can realize continued growth in terms of the increasingly advanced effectiveness of its stewardship activities.

Daiwa AM's Stewardship Activities Policy

General Policy on Stewardship Activities

As an asset management company, Daiwa AM follows the general policies specified in the agreements for each individual financial product, and strives to achieve, to the maximum possible extent, the objectives that conform to each investment purpose, giving the highest priority to the performance of our fiduciary duty (including the duty of loyalty and the duty of due care of a prudent manager).

To realize this goal, in addition to making appropriate choices regarding which stocks and bonds to invest in, it is also vitally important to enhance the medium- to long-term value and sustainability of the companies and organizations (hereinafter referred to as “companies”) that issue them, while at the same time, maintaining the sustainability of society as a whole is also an important precondition.

By contributing, through our stewardship activities, toward the enhancement of the medium- to long-term value and sustainability of companies, Daiwa AM is making

a contribution toward maintaining the sustainability of society, and in so doing is fulfilling its fiduciary duty in relation to asset management, and also fulfilling its responsibility to society as a business enterprise.

The following policies, which have been formulated in conformity with this approach, are disclosed on Daiwa AM's website (in Japanese):

- ESG Investment Policy
- Engagement Policy
- Proxy Voting Policy
- General Policy on Stewardship Activities

+ WEB For more details, please visit the following webpage:

Stewardship Activities (in Japanese)
<https://www.daiwa-am.co.jp/company/managed/result.html>

Framework for Stewardship Activities

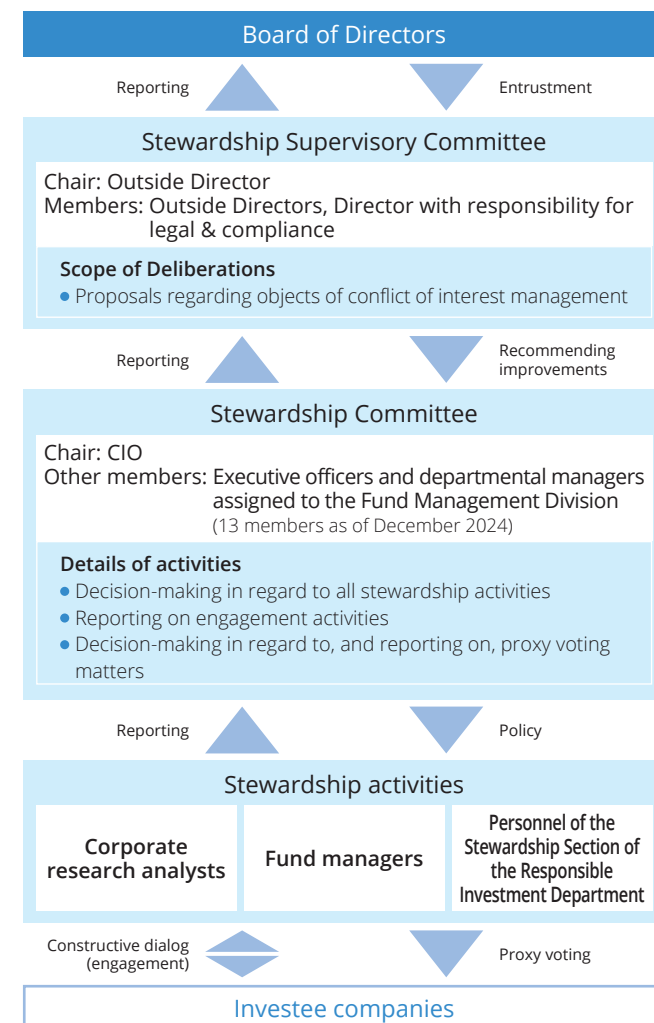
The Stewardship Committee undertakes decision-making in relation to practical policies, and the Stewardship Supervisory Committee oversees the overall situation in terms of conflict of interest in relation to stewardship activities.

To eliminate concerns about conflicts of interest, the Stewardship Committee excludes from its membership personnel who concurrently hold posts in either the Marketing Division, which oversees relationships with sales companies, or the Corporate Planning Department, which handles communication with major shareholders, even if they are assigned to the Fund Management Division.

The Stewardship Committee shares information relating to, and future strategies for, engagement with companies, the Proxy Voting Policy, policies on surveys and investment relating to sustainability including ESG, and international initiatives relating to issues such as climate change and human rights. It also conducts deliberation and decision-making in regard to policy revision and participation in initiatives.

As there is a requirement that more than half of the members of the Stewardship Supervisory Committee must be Outside Directors, the Committee is able to conduct monitoring of conflict of interest management in relation to stewardship activities, including proxy voting, from a perspective that is independent of the company's management. The Stewardship Supervisory Committee also submits reports to the Board of Directors and, when it deems it necessary, issues recommendations to make improvements in regard to the status of conflict of interest.

Framework





Conflict of Interest Management

The management policy for conflict of interest

As an asset management company that plays an important role within the Daiwa Securities Group, Daiwa AM attaches great importance to its fiduciary duty and strives to fulfill this duty in its daily operations. When conducting asset management operations, Daiwa AM keeps in mind the possibility that conflict of interest might arise between Daiwa AM or other Daiwa Securities Group member companies and the beneficiaries of the investment trusts established and/or managed by Daiwa AM (hereinafter referred to as “Beneficiaries”). With this in mind, to prevent the inappropriate causing of harm to the interests of Beneficiaries, Daiwa AM has put in place a system for the

proper management of transactions, etc. where there is a possibility of conflict of interest.

So that Beneficiaries can use Daiwa AM funds with peace of mind, Daiwa AM has formulated a Management Policy for Conflict of Interest, a summary of which is presented on the company's website.

+ WEB For more details, please visit the following webpages (in Japanese):
 **The Management Policy for Conflict of Interest (summary)**
<https://www.daiwa-am.co.jp/company/policy/interest/index.html>
 **Proxy Voting Policy**
https://www.daiwa-am.co.jp/company/managed/guideline_03.pdf

Conflict of interest management in relation to proxy voting

The Stewardship Committee will treat the voting rights as special cases when exercising the voting rights for securities issued by companies with a capital relationship (Daiwa AM's affiliates including Daiwa Securities Group Inc., etc.) or business relationship (companies that are distributors of our Investment Trusts, and their parent companies), as it may lead to conflict of interest. For proposals by these companies which should be decided independently of the regular criteria, we will exercise the voting rights based on the advice given by the external proxy advisor, so as to avoid conflict of interest and ensure the neutrality of the decision. However, if the Stewardship Committee determines that following this

advice would not be appropriate, from the perspective of enhancing corporate value and minority interest, then it may independently decide whether or not the proposal should be supported. With regard to proxy voting in relation to proposals made by companies that are the object of conflict of interest management, the Stewardship Committee will submit periodic reports to the Stewardship Supervisory Committee. The Stewardship Supervisory Committee may also provide advice, when requested by the Stewardship Committee, prior to the making of a decision by the Stewardship Committee in regard to specified deliberation or whether or not to vote in favor of a proposal.

Appropriate use of proxy advisory firms

In line with our policy regarding the exercising of voting rights, Daiwa AM makes use of advice provided by proxy advisory firms in relation to proposals, which meet certain previously set conditions, submitted for the shareholders meetings of companies that are the object of conflict of interest management. Here, “advice” does not refer to investment advice provided under investment advisory agreements, and is limited to the expression of views by the proxy advisory firm.

We hold regular meetings with proxy advisory firms every year to share information and exchange views regarding the overall corporate governance situation both in Japan and in other major countries, as well as trends in the exercise of voting rights, and analysis of the background to how voting rights have been exercised.

When a proxy advisory firm is planning to revise its policy regarding advice in relation to the exercise of voting rights, we ask the firm to explain, in advance, the anticipated changes and the thinking behind them, and engage in discussion with them, expressing Daiwa AM's own views on the matter.

When a proposal is put forward in relation to a company that is the object of conflict of interest management, besides scrutinizing the advice given to determine whether it can serve as a basis for deciding whether to vote in favor or against, we also listen to the views of our own analysts, etc.,

to verify whether the advice is appropriate.

If we believe that the advice given does not correspond to our company's policy, from the perspective of strengthening corporate value and respecting the interests of minority shareholders, then our Stewardship Committee will deliberate on the matter, and in some cases we may decide to exercise our votes in a way that differs from the advice received. In such cases, we will provide the proxy advisory firm with feedback on what we actually did, after the fact.

It should be noted that the results of the exercise of voting rights in relation to companies that are the conflict of interest management, including situations such as the above, are reported to the Stewardship Supervisory Committee; we have thus put in place a framework to ensure that conflict of interest management is handled appropriately.

Meetings with proxy advisory firms in 2024

Jan.	Explanation and exchange of views regarding the research system and the content of relevant initiatives
July	Reflecting on the shareholders meetings held in June, and exchange of views with personnel responsible for undertaking research on the Asia Pacific region
Nov.	Explanation and exchange of views regarding advisory policy revision

Activity Report

Initiatives to Improve Sustainability

Development of sustainability human resources

At Daiwa AM

From January 2024, Daiwa AM newly established the following in-house accreditation titles, which attest to employees having achieved a given level of expertise regarding our stewardship activities, ESG, and sustainability and related initiatives, as part of our initiatives to develop ESG human resources. We are working to improve the explanatory capacities on sustainability of Daiwa AM as a whole by promoting the acquisition of these titles.

Sustainability Associates

Following their attendance at an external designated course to learn about ESG and SDGs from the basics and achievement of an understanding of these basics of ESG and SDGs, participants take a certification test (implemented approximately once per month), created by the Responsible Investment Department. Upon completing the test with points above the designated passing score they are then certified as Sustainability Associates.

This course is aimed at employees in Assistant Manager positions and above, and the external designated courses can be taken by those who wish to do so at any time.

In 2024, 39 people were accredited as Sustainability Associates.

Sustainability Leaders

Following an internal application call for previously certified Sustainability Associates, applicants complete about three-month curriculum course, which includes lectures on Daiwa AM's stewardship activities, ESG, and sustainability in general at the Responsible Investment Department. As part of the curriculum, course participants sit in on engagements and complete practical exercises in proxy voting to achieve a deeper understanding of our stewardship activities, while also attending meetings with external ESG analysts to acquire specialist and up-to-the-minute expertise.

In 2024, a total of 15 people from 11 departments within the company applied to take part in Sustainability Leader training. Each of the participants took the knowledge they had acquired during the training back to their respective departments following completion of the course and are currently endeavoring to enhance sustainability within the company through their work duties.

- Testimonials from employees who have attained certification as both Sustainability Associates and Sustainability Leaders

It is the responsibility of Daiwa AM's employees, including myself, to ascertain ways to ensure the sustainability of the company's expertise in this field and ways to accumulate knowledge as a company. In addition to leveraging the knowledge I gained through this training in the work duties of my affiliated department and in my future career, it also occurred to me that I wish to actively pass this knowledge on to colleagues around me.



Daiwa AM requests that our investee companies undertake management practices with an awareness of sustainability as means to increase their corporate value. We do this to ensure a direct link between the investment performance of investment trusts and the value of the investee companies in which they are incorporated. This has once again brought home to me the imperative that Daiwa AM, too, undertake management with a greater awareness of sustainability than that which we request of our investee companies.

- Forthcoming policy

In 2025, we will continue to promote the acquisition of our sustainability accreditation titles and develop our sustainability human resources.

In addition, we plan to reflect feedback from course participants and endeavor to undertake periodic revisions and refinements of the course content. This will include

reviewing the curriculum and enhancing the quality of training. We additionally plan to implement a variety of update lectures for certified participants which will be made available in the context of information on sustainability being an area subject to updates from one day to the next.

Within divisions

Reskilling

Since 2022, we have convened study sessions within the Responsible Investment Department, with aims including facilitating the acquisition of knowledge on sustainability and improving engagement skills, and have been selecting the themes for the issues to be addressed and referring to relevant books aligned with these themes.

We are endeavoring to share knowledge and improve the levels of all individuals, while also disseminating the knowledge

and expertise which has been acquired throughout the company through in-house trainees, study groups for early career employees, and the publication of market letters, in the context of constant, ongoing, global-scale updates to relevant information, including regulatory amendments.

Daiwa AM will actively contribute to improving our own sustainability and that of investee companies by continuing to implement reskilling.