



Daiwa
Asset Management

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Responsible Investment Department

Daiwa Asset Management Co. Ltd.

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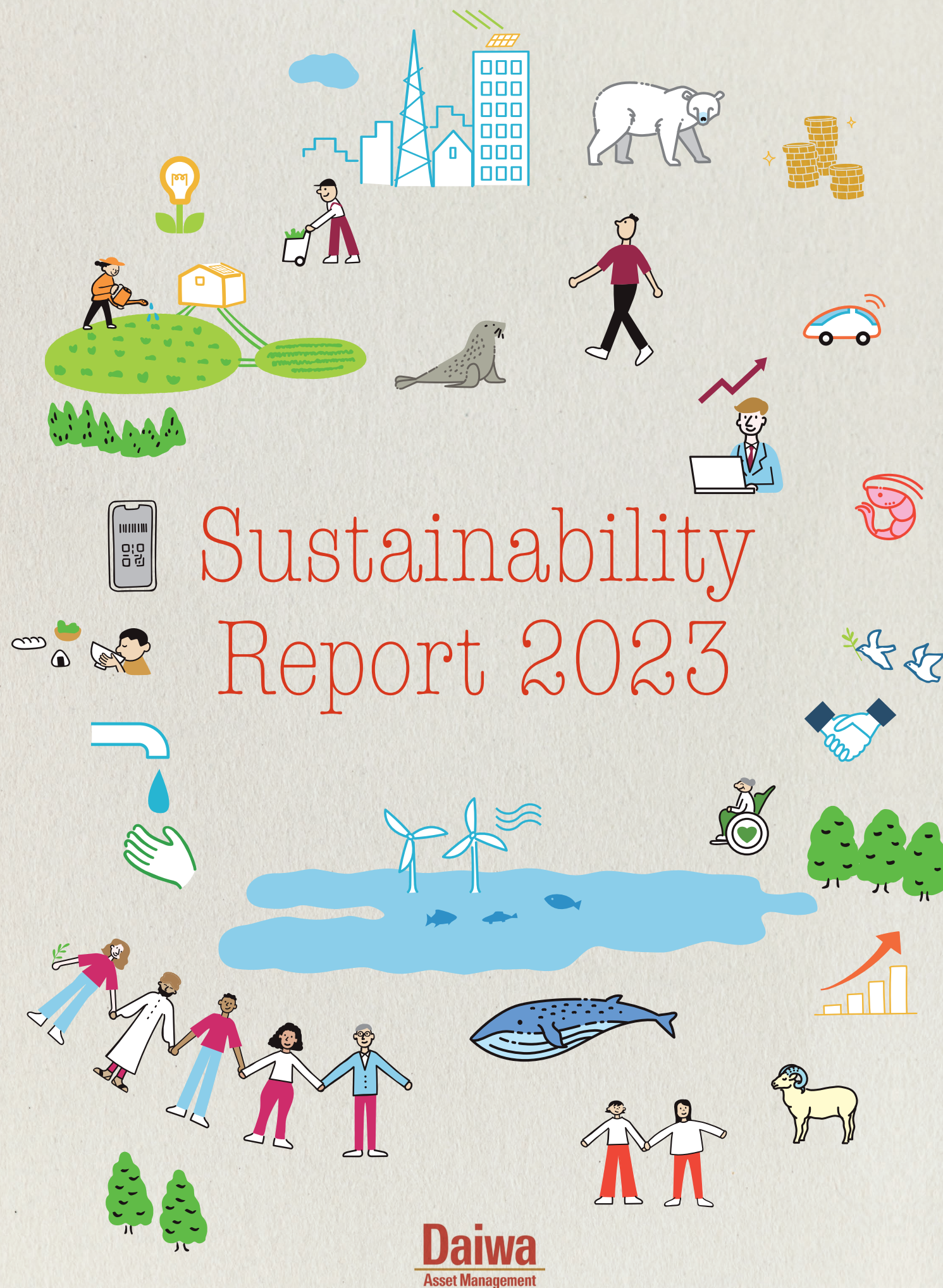
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Published in March 2024



Sustainability Report 2023

Daiwa Asset Management Co. Ltd.



Daiwa
Asset Management

Our Anticipated Future Vision

All Challenges *for* All Investors

—Creating opportunities for everyone who continues to take on new challenges

Investment has the power to build the future.

By taking on All Challenges for All Investors, we continue to work together as partners to challenge ourselves, using investment to build a future with real opportunities.

Compass Value

Our action guidelines

1. Create Innovation
2. Consider and Act Logically
3. Enhance Global Sustainability
4. Have Integrity
5. Image Yourself in Their Place
6. Unite as One Team

The Corporate Principles Forming
the Foundation of the Group

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Corporate History

Daiwa Asset Management

- 1951**
 - Act on Securities Investment Trusts enacted
 - Daiwa Securities Co. Ltd. registered as an investment trust management company
- 1959**
 - Split from Daiwa Securities Co. Ltd.
 - Company established as Daiwa Asset Management Co. Ltd.
- 1973**
 - Daiwa AM introduces Japan's first fund manager system
- 1984**
 - New York office opened
- 1987**
 - Daiwa Asset Management(Europe)Ltd established in London
- 1990**
 - Daiwa Asset Management(America)Ltd. established in New York
- 1994**
 - Daiwa Asset Management(Singapore)Ltd. Established
- 1995**
 - License for discretionary management services acquired
- 1998**
 - Began selling investment trusts through bank tellers
- 1999**
 - Became a major company of the Daiwa Securities Group Inc. under the holding company structure
- 2006**
 - Signed onto the UN Principles for Responsible Investment

- 2011**
 - Signed onto the Principles for Financial Action toward a Sustainable Society (Principles for Financial Action for the 21st Century)
- 2012**
 - Relocated the headquarters to 9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6753, Japan
- 2014**
 - Announced adoption of the Japan's Stewardship Code
 - Signed onto the Statement on Fiduciary Duty and Climate Change Disclosure
- 2015**
 - Established the Engagement Team
- 2018**
 - Established the Stewardship & ESG Section
- 2019**
 - Global X Japan Co. Ltd. established
- 2020**
 - Trade name changed to Daiwa Asset Management Co. Ltd.
 - Joined the 30% Club Japan Investor Group
 - Expressed support for the Task Force on Climate-related Financial Disclosures (TCFD)
 - Established the Stewardship & ESG Department
 - Daiwa Capital Management Silicon Valley established
- 2021**
 - Participated in the activities of the International Corporate Governance Network (ICGN)
 - Participated in the Climate Action 100+ initiative
 - Signed onto the Investor Agenda in advance of COP26
 - Signed onto the Net Zero Asset Managers initiative (NZAMi)
- 2022**
 - Signed onto the Japan Stewardship Initiative (JSI)
 - Signed onto the Investor Agenda in advance of COP27
 - Name of the Stewardship & ESG Department changed to the Responsible Investment Department
 - Participated in the Human Capital Management Consortium
 - Signed onto the Women's Empowerment Principles
 - Joined the PRI Advance initiative
- 2023**
 - Announced NZAMi intermediate goals
 - Registered with GIG Supporters
 - Joined the Japan branch of the Glasgow Financial Alliance for Net Zero (GFANZ)
 - Became a TNFD Adopter
 - Became a PRI Spring Endorser

Product and Service-related

- 1951**
 - Launched unit type investment trust
- 1952**
 - Launched Japan's first open-ended investment trust
- 1961**
 - Launched Income Fund (now the Large-Cap Equity Fund), Japan's oldest existing stock investment trust
- 1987**
 - Launched Million, a payroll deduction type fund
- 1992**
 - Launched Daiwa MMF, a money management fund offering an open-end bond investment trust
- 2001**
 - Executed Japan's first electronic delivery of a prospectus
 - Launched Nikkei 225 ETF, TOPIX ETF
- 2002**
 - Launched Japan's first Regional Support Fund
- 2003**
 - Launched Daiwa J-REIT Open
- 2004**
 - Launched Daiwa SRI Fund to support Japanese companies engaged in CSR efforts
- 2005**
 - Launched sales of investment trusts at post offices
 - Daiwa Stock Index 225 Fund adopted

- 2015**
 - Began managing Japanese equities for funds sold overseas and co-managing of a UCITS fund with Mirae Asset Global Investments, a leading Korean asset management firm
- 2016**
 - Launched iFree, index fund series
- 2017**
 - Launched three ETFs linked to ESG-related indexes
- 2013**
 - Launched Daiwa TOPIX Ex-Financials ETF to meet Basel III, as the first asset management company in Japan
 - Launched a rich variety of products for NISA
- 2014**
 - Launched Daiwa JPX Nikkei 400 Fund and Daiwa ETF JPX Nikkei 400 to link with JPX Nikkei Index 400 index
- 2022**
 - Received the Governor's Special Prize for Green Finance in the ESG Investment Category of the 2021 Tokyo Financial Awards*, in recognition of initiatives including the Carbon Neutral Equity Fund and a tree-planting project
- 2024**
 - Received an award in the ESG Finance Awards Japan organized by Japan's Ministry of the Environment (see P. 54 for more details)
- 2023**
 - Expanded the product range to include products tailored to Japan's new NISA system, and increased the provision of support for sales companies

* As one of the measures being implemented to realize "Global Financial City: Tokyo" Vision 2.0, Tokyo Metropolitan Government holds the Tokyo Financial Awards, which honor financial sector companies that develop and provide revolutionary new products and services that can help to meet the needs and solve the problems of Tokyo's citizens and of companies operating in Tokyo, as well as financial sector companies which are implementing activities that help to popularize ESG investment, and companies implementing measures that embody SDG-aware management. The ESG Investment Category of the Tokyo Financial Awards is divided into the ESG Investment Subcategory and the SDGs Subcategory. For the ESG Investment Subcategory, financial sector companies that are working to promote widespread adoption of ESG investment are invited to submit entries. The jury reviews the entries on the basis of how well they match the theme of the awards, the originality of the measures adopted, and the results achieved, and decides on the award-winners. Each year, one company is chosen to receive the Governor's Special Prize for Green Finance, in recognition of its outstanding initiatives in the area of green finance. Please note that neither Tokyo Metropolitan Government nor the Tokyo Financial Awards recommend the purchase, sale or holding of any particular products, nor do they offer any guarantee of future performance. All copyrights and other intellectual property rights relating to the Tokyo Financial Awards belong to Tokyo Metropolitan Government, and may not be duplicated or reproduced without authorization.

1920 1950 1960 1970 1980 1990 2000 2010 2015 2020 2021 2022 2023 2024

History of Sustainable Investment

- 1920s**
 - Negative screening based on Christian morality began to be implemented in the U.S.
- 1960s**
 - Socially responsible investing (SRI) started to attract attention as a method for realizing social change

- 1990s**
 - SRI began to address environmental issues and corporate governance
- 2006**
 - The Principles for Responsible Investment (PRI) were formulated by the UN

- 2014**
 - Japan's Stewardship Code was formulated

- 2015**
 - Corporate Governance Code was compiled
 - The Paris Agreement was adopted at COP21
 - The Sustainable Development Goals (SDGs) were adopted by the UN
 - Japan's Government Pension Investment Fund (GPIF) signed up to the PRI
- 2017**
 - Japan's Stewardship Code was revised
 - The TCFD Recommendations were announced
- 2018**
 - Corporate Governance Code was revised
- 2019**
 - The Business Roundtable in the U.S. announced a shift toward stakeholder capitalism
- 2020**
 - Japan's Stewardship Code was revised
 - The Japanese government announced that Japan would realize net zero greenhouse gas emissions by 2050
 - National Action Plan on Business and Human Rights was formulated
- 2021**
 - Corporate Governance Code was revised
 - The Glasgow Climate Pact was adopted at COP26
 - The Glasgow Financial Alliance for Net Zero (GFANZ) was launched
- 2022**
 - The Tokyo Stock Exchange was restructured into new market segments
 - The Kunming-Montreal Global Biodiversity Framework (GBF) was adopted
- 2023**
 - The Tokyo Stock Exchange asked companies to take action to implement management that is conscious of cost of capital and stock price
 - It became a legal requirement in Japan to implement sustainability disclosure
 - The TNFD issues its final Recommendations
 - PRI in Person 2023 was held in Tokyo

Message from the President

We will continue our efforts to win the trust of even more customers and become the most chosen asset management company.

Mikita Komatsu

President
Daiwa Asset Management Co. Ltd.

First of all, I would like to express my sincere condolences for all those who lost their lives in the earthquake which struck the Noto Peninsula region of Japan on January 1, 2024, and my sympathy for everyone affected by the earthquake. I hope that the region will experience a quick and smooth recovery.

With the uncertainty affecting the global economy becoming ever more pronounced, an even greater focus on ESG is needed

In July 2023, in a speech given at the headquarters of the United Nations, UN Secretary-general Antonio Guterres noted that “The era of global warming has ended; the era of global boiling has arrived,” and urged the leaders of national governments and business enterprises to take further action to combat climate change. Besides global warming, the global economy is also affected by supply chain disruption resulting from the COVID-19 pandemic, etc., as well as intensifying inflation throughout the world, and various geopolitical risks, all of which are causes of heightened uncertainty. Under these circumstances, there is a need for business enterprises to face up to environmental and social issues, identify the risks and opportunities that they present, and achieve growth through sustainable value creation.

Daiwa AM believes that companies which do not adopt a proactive approach toward addressing ESG issues will have

a heightened risk of having their perceived credibility worsen over the medium to long term. For this reason, when determining the real value of an investee company, besides undertaking an integrated assessment of not only financial performance but also non-financial aspects (including ESG), to evaluate the risks to which the company is exposed, we also strive to clarify the potential for sustainable growth. At the same time, we cannot afford to ignore new technologies and new business opportunities that companies create to solve environmental and social problems. I believe that Daiwa AM has a responsibility to develop and provide our customers with investment products which embody the digital transformation (DX) and green transformation (GX) that is coming, and which will contribute toward the realization of a sustainable future.

Daiwa AM also aims to further enhance the cultivation of ESG-aware human talent, so as to maintain the quality of our investment products and faithfully realize accountability in relation to our customers. We have already been implementing educational programs to cultivate ESG-aware talent, both internally and externally, and we have now established a grade-specific internal qualification system to raise the overall level of ESG knowledge among our company officers and employees.

We expect investee companies to manage themselves in a way that not only enhances corporate value but also embodies awareness of sustainability, and so that we can continue fulfilling a role that contributes toward the

maintenance and development of the capital markets, Daiwa AM will itself take the lead in implementing sustainability-aware management.

Playing a key role in Japan’s development as a “Leading Asset Management Center”

A key challenge for Japan as it seeks to realize becoming a “Leading Asset Management Center” (embodying a shift away from saving toward wealth formation) is to redirect the deposits that account for over half of the household sector’s financial assets toward investment, to realize a “virtuous circle” of growth and profit distribution in line with the ethos of the new capitalism. As an asset management company, this is our mission. However, Daiwa AM cannot bring about the achievement of the “Leading Asset Management Center” vision on its own. All stakeholders, including Daiwa AM, investee companies, and investors, are linked together as one. To stimulate the development of the virtuous circle outlined above, Daiwa AM is building various types of contact-points with stakeholders, for example by focusing

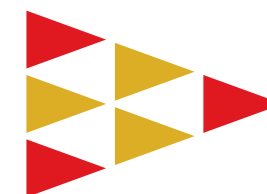
on financial and economic education to widen the scope of asset management, we are determined to fulfill our responsibility in relation to realizing the “Leading Asset Management Center.”

2024 saw the launch of the long-awaited new Nippon Individual Savings Account (NISA) program in Japan. Aiming to develop products that contribute toward enriching customers’ lives in the new era of 100-year lifespans, Daiwa AM is proceeding with an expansion of our product line-up, creating investment trusts that make effective use of a Japanese equivalent of the Drucker Institute Score which quantifies intangible assets such as human capital and customer satisfaction, and launching alternative investment trusts, etc.

Daiwa AM’s social mission is to contribute, through the asset management business, toward realizing enriched lives for people and a sustainable society. In line with Daiwa AM’s “All Challenges for All Investors” vision, we will continue striving to win the trust of even more customers and to be the asset management company that people are most likely to choose.

All Challenges for ESG Investment

President



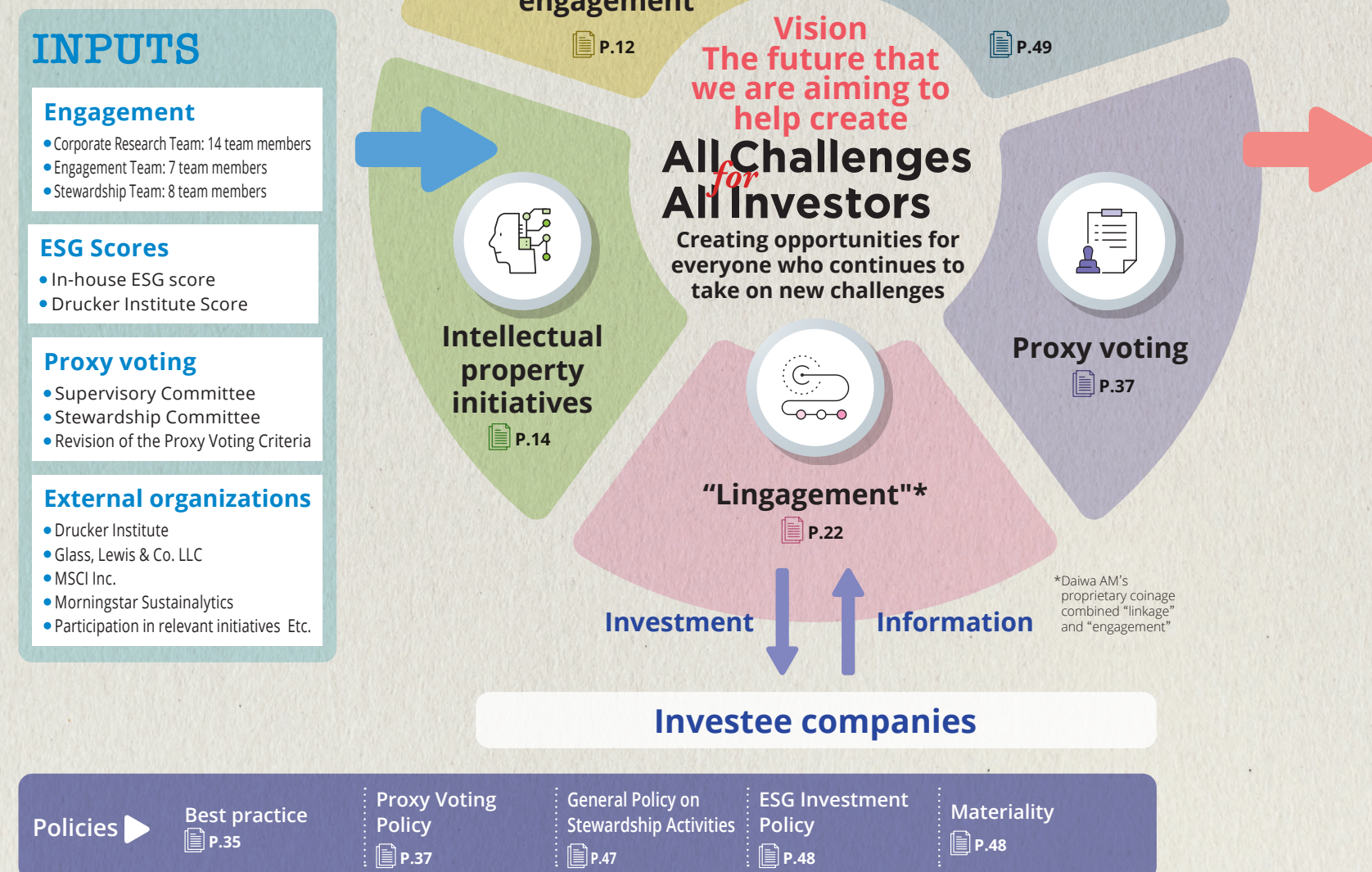
**All Challenges
for
All Investors**

Part 1 Stewardship Activities

Introduction

The Value Creation Process in Relation to Stewardship Activities

Daiwa AM is building on its strengths in terms of three-in-one engagement, intellectual property initiatives, “lingagement” (combining linkage with engagement), proxy voting, and ESG integration, to promote measures that will enhance the corporate value of investee companies.



OUTCOMES

Enhanced fund performance

Sustainable growth for society

Addressing society's problems

Enhancing corporate value and creating social value

OUTPUTS

Engagement P.11-

No. of engagement cases:

Stewardship Team
14.4%/198 cases

1,377

Engagement Team
4.4%/61 cases

Environmental, social and governance (ESG)
27.9%

Approach to dialog with investors and disclosure of information
25.7%

ROE and capital cost
18.3%

Capital policy (cash utilization, shareholder returns, etc.)
28.1%

Note: Some cases are included in more than one category, as the dialog in a given meeting may embrace multiple perspectives.

Proxy Voting P.37-

No. of instances of exercising proxy voting rights: 2,500

Ratio of voting in favor versus voting against

Proposals relating to company proposals (Total: 23,601 proposals)

In favor: 21,490

Against: 2,111

Proposals relating to proposals by shareholders (Total: 432 proposals)

In favor: 89

Against: 343

No. of Stewardship Committee meetings held: 40

No. of Stewardship Supervisory Committee meetings held: 2

No. of Stewardship Committee proposals: 101

No. of revisions made to the Proxy Voting Policy: 2

PRI annual assessment P.66



Items	Assessment
Policy Governance and Strategy	★★★★★
Direct - Listed equity - Active	★★★★★
Direct - Listed equity - Passive	★★★★★
SSA/Corporate	★★★★★
Securitized	★★★★★
Indirect - Listed equity - Active	★★★★★

Stock Market Investment Environment and Stewardship Activities



Yoshinori Nagano

Managing Director, Research Department

The transformation in corporate attitudes and developing Japan as a Leading Asset Management Center

Japan's stock markets posted an impressive upswing in 2023. There are two significant structural changes that contributed to this growth. The first of these changes is the transition from deflation to inflation. In a deflationary environment where prices are expected to fall, which makes it advantageous to delay consumption and investment until the future, economic activity tends to be characterized by diminishing equilibrium. However, this tendency toward stagnation is now changing due to the shift toward inflation. The second structural change is a move toward business management that is more aware of the cost of capital. There is a growing recognition that, when a firm's price-to-book ratio (PBR) falls below 1.0,

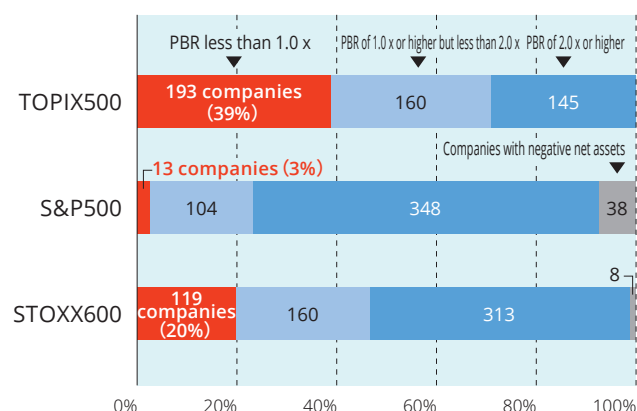
that firm is failing to generate revenue sufficient to meet investors' expectations (i.e. cost of capital).

Given these circumstances, the decision by the cabinet of Japanese Prime Minister Fumio Kishida to announce plans for developing Japan into a Leading Asset Management Center can be seen to be very timely. By combining a transformation of the asset management sector with the effective utilization of personal financial assets that have been lying idle as deposits, so that companies are provided with funds where a certain degree of risk is acceptable, if companies then use these funds efficiently and proactively (i.e., if they invest in expanding the scope of business operation while remaining aware of the cost of capital), then it should be possible to realize a virtuous circle that leads to enhanced corporate value, and which puts the Japanese economy back on a growth path.

The significance of engagement activities, and Daiwa AM's approach

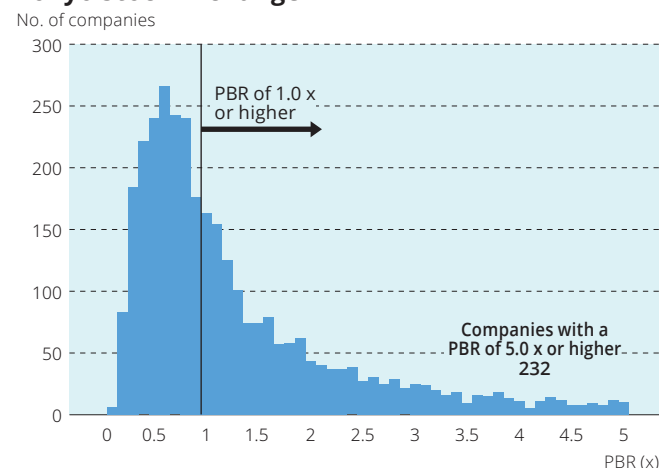
Corporate value can be defined as the sustained generation of revenue that exceeds the cost of capital. One of the activities that asset management companies need to undertake to realize an increase in corporate value is engagement (i.e., constructive dialog with companies). If an investee company and the asset management company have a shared understanding of the issues relating to corporate value enhancement, and undertake joint discussion of strategies for addressing these issues, then if the investee company implements management based on these discussions, it should be able to realize an increase in corporate value. Activities of this type have become increasingly prominent in recent years, and Daiwa AM has adopted a proactive approach to this type of engagement.

PBR analysis of companies included in the TOPIX 500, S&P 500 and STOXX 600 indices



Source: Compiled using Bloomberg data, and referencing data from Ministry of Economy, Trade and Industry (METI)

PBR distribution among companies listed on the Tokyo Stock Exchange



Source: Compiled using QUICK data, and referencing data from METI

There have also been a growing number of cases in which, besides undertaking engagement as an investor, asset management companies also make use of proposals put forward at companies' shareholders meetings. If, after careful study, Daiwa AM believes that a proposal will contribute toward raising corporate value over the medium to long term, then it will support that proposal.

The importance of intangible assets for enhancing sustainability, and Daiwa AM's initiatives in this area

Medium- to long-term corporate value is, in other words, sustainability. The word sustainability is often heard in relation to environmental issues, but its essential meaning remains the same in regard to corporate value. Contributing toward the sustainable existence of humanity involves not only avoiding business risks, but also taking advantage of opportunities, and building a management strategy that enables the right decisions to be made is connected to enhancing corporate value (i.e., sustainability) over the medium to long term.

One thing to which particular attention is paid when measuring medium- to long-term corporate value is intangible assets. In the past, the term intangible assets tended to be used in a restricted sense to mean only the value of brands, software, etc., but recently it has come to be used in a wider sense to refer to anything besides tangible assets that can generate corporate value. In other words, it can be used to mean a company's fundamental strengths in terms of its managerial capabilities, human capital, corporate culture, etc.

Financial data alone are not enough to evaluate a company's intangible assets. By making effective use of non-financial data, collaborating with external organizations that possess relevant knowhow, and undertaking engagement based on this, Daiwa AM is able to get a clearer picture of a firm's intangible assets, and then encourage firms to grow these assets and utilize them effectively, thereby both providing outstanding asset management performance and contributing toward enhanced corporate value, and, ultimately, playing a role in reinvigorating the Japanese economy.

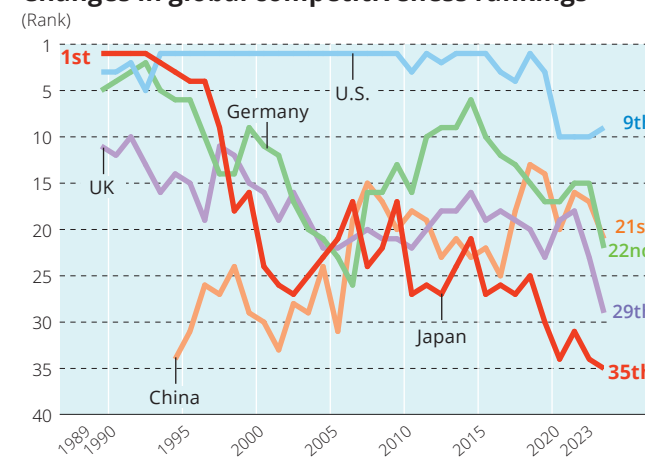


The Research Department's role in stewardship activities

Daiwa AM's Research Department is a team of economists and strategists who undertake analysis of the global economy and market environment. The team members disseminate their insights not only to company personnel responsible for fund management, but also to sales companies and customers. As part of the Fund Management Division, the Research Department also provides support for stewardship activities from a market perspective. Given that the global business foundations of both individual Japanese companies and the Japanese economy as a whole have for many years now been seen as declining, it is hoped that an increase in both the quality and quantity of stewardship activities can serve as a catalyst for the reinvigoration of Japan.

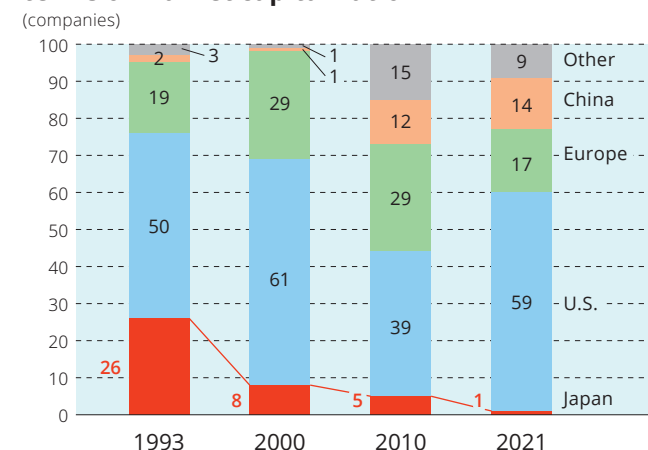


Changes in global competitiveness rankings



Source: Compiled using data from the IMD World Competitiveness Yearbook, and referencing data from METI

Composition of the world's Top 100 companies in terms of market capitalization



Source: Based on reference data compiled by METI, published on November 19, 2021 (Reference 5)

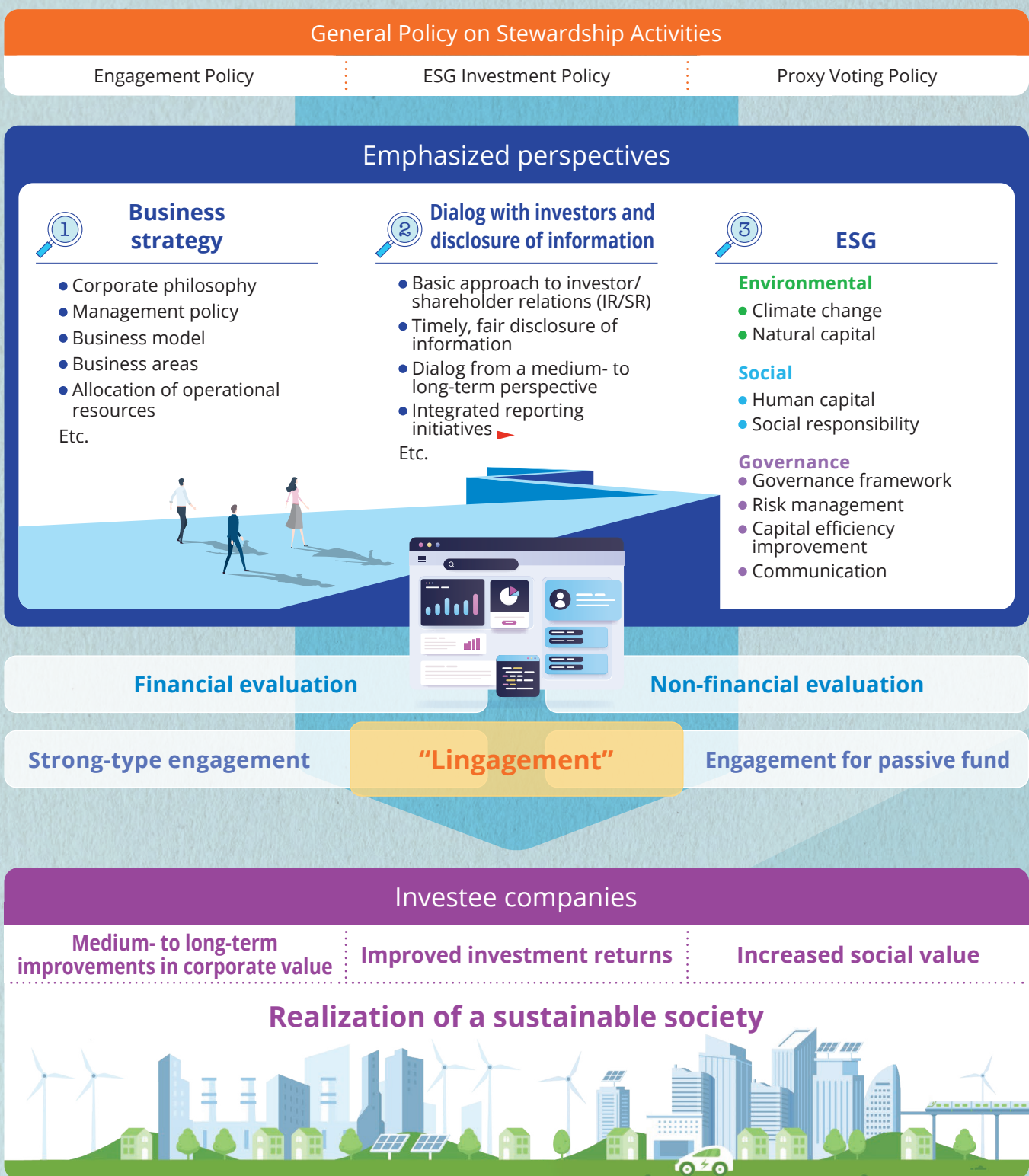


Engagement to Encourage Company Reform

Daiwa AM positions engagement as an important means of improving operational performance thereby maximizing beneficiary returns. We aim for win-win relationships by investigating, from multiple perspectives,

the reasons behind a company's failure to deliver its intrinsic value and encouraging reforms to remedy these problems, on an equal footing with the company.

Overview of Daiwa AM's Engagement Activities



Engagement Framework

Engagement is implemented with the three teams below working in concert as a three in one. The compositions of teams are optimized for the engagement case according to the situation and requirements of the target company, to effectively leverage the unique characteristics of each team.

A three-in-one engagement framework that drives company reform

P.31-

Engagement Team

Comprised of active fund managers and analysts

Stewardship Team

Comprised of stewardship analysts in the Stewardship Section of the Responsible Investment Department

Corporate Research Team

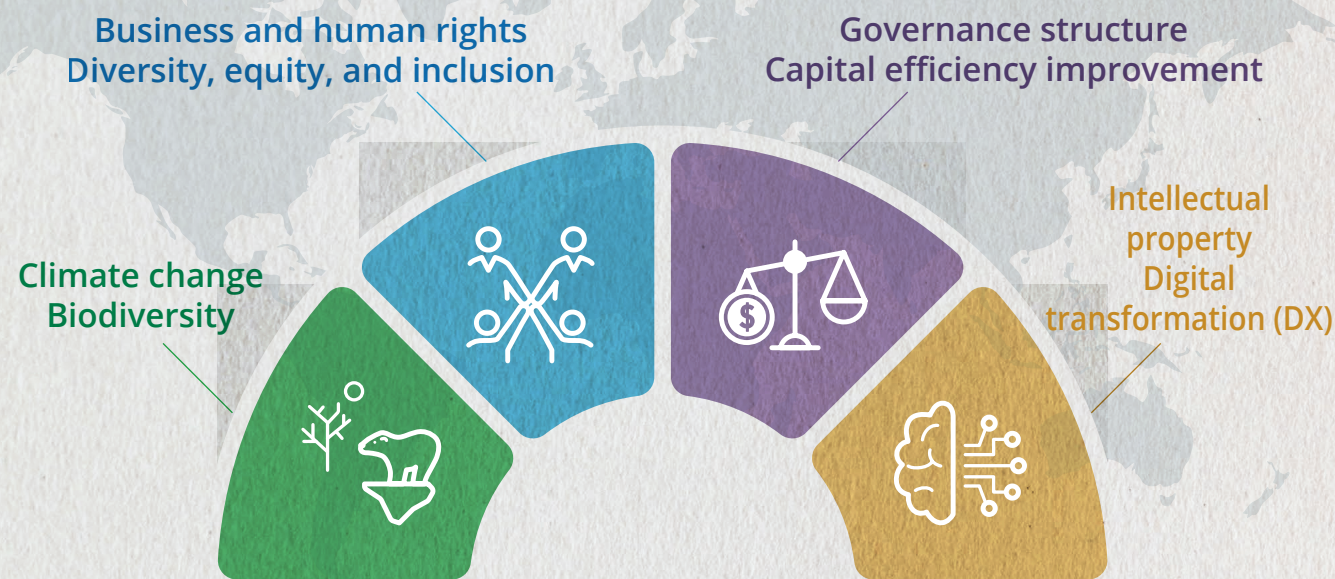
Comprised of analysts in the ESG & Corporate Research Section of the Responsible Investment Department (with concurrent assignments in the Active Fund Management Department II)

Three Key Points

/ 1. Sharing materialities and best practices

Through its asset management business, Daiwa AM aims to make a positive contribution toward beneficiaries' asset formation over the medium to long term. In order to achieve this goal, the company has identified materiality (key issues) that includes enhancing the medium- to long-term value and sustainability of investee

Examples of materialities (overview on  P.48)




Daiwa AM additionally defines an anticipated vision of management (best practices) to realize sustainable enhancement of the corporate value of investee companies. While approaches to anticipated visions and best practices may differ from person to person, Daiwa AM believes that defining our own approaches will serve

companies and helping to maintain the sustainability of society as a whole.

For engagement, each of these key issues is shared by each person with jurisdiction over the case when engaging in dialogs toward improving corporate value.

to facilitate all investment managers to orient themselves in the same direction when engaging in dialogs. Daiwa AM encourages our investee companies to undertake these initiatives through engagement and other means.

Examples of best practices (overview on  P. 35)



Climate change

The company formulates a specific roadmap and milestones to achieve carbon neutrality by 2050, and provides annual accounts of progress thereon. Note, that the desired target for 2030 is a reduction of at least 50%, consistent with Daiwa AM's NZAMi interim target.



Human capital

The company formulates a human resources strategy that is integrated with its business strategy. The human resources strategy includes measures relating to initiatives for recruiting and retaining outstanding human talent, frameworks for initiatives for the cultivation of human talent, and initiatives for enhancing employee engagement.

/ 2. Engagement focused on the value of intangible assets

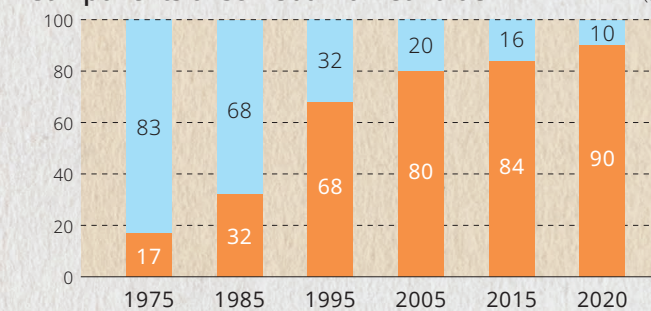
Corporate value encompasses a company's financial value, which will be reflected in its financial statements, and its non-financial value, which will not be reflected in these statements. In recent times, the share accounted for by a company's non-financial value, in particular its intangible assets (intellectual property, human capital, etc.) is reputed to be on the rise. Analyses have shown that intangible assets account for a lower share of the corporate value of

Japanese companies than is the case for companies in other countries. This tendency may be attributable to insufficient disclosure and a shortfall in initiatives relating to intangible assets by Japanese companies.

With this perspective in mind, Daiwa AM will actively undertake strategic engagement to ensure that corporate value is appropriately rated within the marketplace or to raise the corporate value of companies.

Comparison between Japan and the U.S. of intangible assets as a percentage of company value

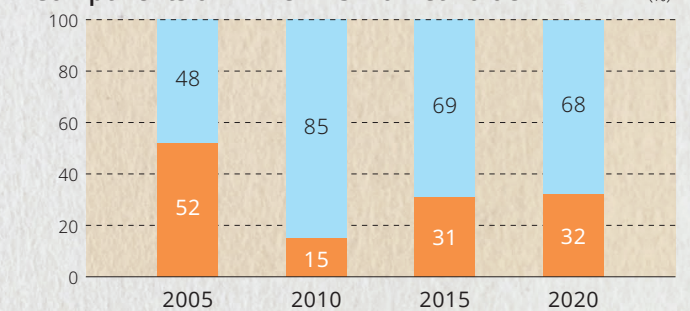
Components of S&P 500 Market Value (%)



■ Intangible Assets ■ Tangible Assets

Source: Guidelines on Disclosure and Governance of Strategies for Investment and Utilization Regarding Intellectual Property and Intangible Assets Ver. 2.0

Components of Nikkei 225 Market Value (%)



■ Intangible Assets ■ Tangible Assets

/ 3. Initiatives for the utilization of intellectual property information

For institutional investors, the importance of corporate evaluations and investment decisions based on their relevance to social sustainability is increasing. This perspective anticipates radical changes to the competitive environment, known as game changes, driven by innovations involving major shifts in thinking. It underscores the importance of the ability of companies to instigate or align with a game change. It can however be assumed that, when a game change occurs, the importance of intangible assets such as intellectual property, research and development capabilities, and the human capital responsible for these assets, as well as the corporate culture that nurtures them, will exceed that of the manufacturing and financial capital accumulated by a company to date.

As patent information, as well as the degree to which it is utilized and its related strategies, is characteristically difficult to discern from an external viewpoint, Daiwa AM actively engages in purposeful dialogs and engagement known as "IP Strategy Dialogs." These dialogs are aimed at the management tiers of IP and R&D departments at companies, and involve initiatives to understand their IP strategy based on specific examples, with dialogs undertaken after confirming basic information such as the positioning and characteristics of the IP department at the company. The ability to discern the factors behind its functioning, as well as the underlying strategies and systems, will serve to increase confidence in the company's IP strategy.

While interest in intellectual property is growing in the capital markets, it has yet to reach the stage whereby IP analyses are sufficiently integrated into corporate value assessments and investment decision-making. Daiwa AM nevertheless considers that a trend is underway to incorporate intellectual property into corporate value assessments and investment decision-making in the same way as has been the case for environment and human resources. We are thus committed to facilitating appropriate evaluations while also promoting the expansion of corporate value through the enhancement of non-financial value, including a company's intellectual property.

Written contribution to the Securities Analysts Journal

In the October 2023 issue of the Securities Analysts Journal, Chief Analyst Watanabe contributed an article entitled "IP strategy' Evaluation and Engagement in Institutional Investors." The article introduced the perspective of evaluations of IP strategy by institutional investors; the desirable communication between companies and institutional investors; as well as the forthcoming outlook for evaluations of IP strategy.



Roundtable discussion on intellectual property

At Daiwa AM, we anticipate that there will be an increasing trend for IP to be incorporated into corporate value assessments and investment decision-making in the same way as has been the case for environment and human resources. Meanwhile, we recognize comprehensive and appropriate assessment of corporate value as an important component of our role as institutional investors. This is the background to Daiwa AM

inviting Counsellor Ikeya of the Cabinet Office of Japan, who is tasked with promoting policies that foster the environment for initiatives and disclosure relating to the investment in and utilization of intellectual property and intangible assets by companies to be reflected as corporate value, to take part in a roundtable discussion and exchange views.

Theme 1

Significance of, and developments since, publication of the Guidelines on Disclosure and Governance of Strategies for Investment and Utilization Regarding Intellectual Property and Intangible Assets



Mr. Iwao Ikeya
Counsellor, Intellectual Property Strategy Promotion Secretariat, Cabinet Office, Government of Japan

Graduated from the University of Tokyo Faculty of Economics in 1997, and the Tuck School of Business at Dartmouth in the U.S. in 2003. Joined the Ministry of Trade and Industry (now the Ministry of Economy, Trade and Industry) in 1997. After appointments at the Small and Medium Enterprise Agency; Cabinet Office Minister's Secretariat; Japan Patent Office; Agency of Natural Resources and Energy; and as Counsellor at the Embassy of Japan in Indonesia, served as Counsellor for the Diet, Cabinet Office Minister's Secretariat; Executive Officer, Nuclear Damage Liability and Decommissioning Facilitation Corporation; Director, Secretariat Division, Japan Patent Office; and Director, Asia and Oceania Division, Trade Policy Bureau. Has served in current position since July 2022.

Ozaki: The "Guidelines on Disclosure and Governance of Strategies for Investment and Utilization Regarding Intellectual Property and Intangible Assets Ver. 1.0" were published in 2022. Please share your perceptions of the significance of these guidelines and trends among companies and other actors in the aftermath of its publication, from your respective standpoints.

Ikeya: We can assume that corporate managers, investors, and financial institutions variously recognized the importance of "intellectual property and intangible assets" as operational resources in terms of their being a source of competitiveness. With this, the 2021 revision to the Corporate Governance Code stipulated that "Companies should disclose and provide information on investments in human capital and intellectual properties in an understandable and specific manner, while being conscious of the consistency with their own management strategies and issues." This threw into relief the management challenges of how companies should disclose their investment and utilization strategies for intellectual property and intangible assets, which often received only general attention despite their significance, and how they should feed this into enhancement of the corporate value. The significance of these guidelines is that they set out concrete approaches and actions.

Watanabe: From an analyst's perspective, the report is also significant in that it clearly shows that we have fallen behind our cutting-edge competitors in Europe, the U.S., and emerging markets in terms of realizing business models that utilize intellectual property and intangible assets to secure competitive advantages, create value, and generate cash flow. We believe that this message, on the need to build a business model with high added value and pricing power, and the use of the expression game change have once again raised their profile and caught the attentions of management and IP departments, as well as those of shareholders and investors. Daiwa AM attaches great importance to purposeful dialogs, and since the publication of the guidelines, we have seen an increase in companies being more receptive to our IP Dialogs.

Nakayama: Combined with this, we consider the relationship with the human capital located at the core of non-financial information to be of great significance. Human resource development and motivation become important factors when attempting to amplify and utilize intellectual property as the core of a business model. In this way, we feel that this may well come to constitute an opportunity to raise the overall level of non-financial capital. In fact, we have found cases where the IP department was perceived as being a somewhat behind-the-scenes presence at companies. However, based on the guidelines, there is now a degree of momentum toward better collaboration among between the IP, R&D, and business departments. Efforts are also underway to rethink human resource development at IP departments.

Ikeya: Following the publication of the guidelines, a framework to link the thinking and assessment points of investors and financial institutions to enable value co-creation has become necessary to enhance the effectiveness of corporate initiatives and disclosure. This is the background to the publication of Ver. 2.0 in March 2023.

Nakayama: We have also had cases in which technical officers have been invited to sit in on IP Dialogs since the publication of the guidelines.

Expectations of investors and financial institutions and initiatives that should be undertaken as shareholders and investors

Ozaki: What are your expectations of investors and financial institutions following on from the publication of the guidelines?

Ikeya: The dissemination of information and disclosure on their intellectual property and intangible assets initiatives is required of institutional investors in addition to being required of corporations. From a company's perspective, institutional investors are perceived as having diverse information usage patterns and needs, depending on their respective positions. Accordingly, we would like to see institutional investors close any gaps by indicating how they intend to utilize information and dialogs on "intellectual property and intangible assets." In addition, I would like to have them engage in dialogs with companies from the perspective of discerning the "causal paths"—namely, how intellectual property and intangible assets are connected to corporate value; whether they are reproducible; and whether they lead to a business model, as opposed to merely ticking boxes using information and dialogs. The expectation then becomes that further improvements to their capabilities in this area will come about.

Ozaki: From the perspective of an analyst and fund manager, how should this be undertaken as a shareholder or investor?

Watanabe: I believe in the importance of maintaining a stance toward companies of commitment to actively exploring the factors and sources informing the success or failure of a business or product by tracing these back to operational resources, rather than simply looking to their immediate impact on performance. Among these operational resources, intellectual property itself, including patent information, is highly specialized, and as information disclosure on IP strategies has been limited, it has been difficult to identify as a factor in aspects such as operational performance and corporate value. I have the sense that the understanding and exploration of this through IP Dialogs is the same thing as what Counsellor Ikeya refers to when he talks about discerning the "causal paths." It is often the case that there will be major differences in terms of profitability and efficiency even when you are making the same product. Attention to intellectual property is essential for exploring the factors informing such differences. When I am conducting IP Dialogs, I show my counterparts the following diagram, to inform them that, in addition to externally visible R&D, business/product development, investments and results, I also want to understand their IP and related strategies that support these activities using specific examples. This is because I believe that, if we can affirm that IP and related strategies, which are difficult to discern from the outside, are robust, this will as a matter of course change assessment of a company's R&D, business/

The relationship between business success and patent-related strategies

Externally visible business success

Needs → Research → Development → Commercialization → Monetization

Examples of how strategies related to patents contribute within a company

Search by patent data	Other company patent clearances	Preparation for building access barriers
Partial blackboxing	Utilization of early screenings	Overseas and international patent applications
Patent infringement defense	Licensing	Sale

Specific understanding of the contributions of an IP strategy of this kind will facilitate appropriate IP strategy assessments.

Source: Daiwa Asset Management

Theme 2



Yuji Watanabe
Chief Analyst, Active Fund Management Department II and Responsible Investment Department



Mika Ozaki
Stewardship Analyst, Associate Director, Responsible Investment Department

Part 1

Stewardship Activities



Intellectual property is set to become an important issue in dialogs with investee companies regarding proxy voting (Ozaki).



We are actively undertaking engagement on intellectual property issues while disseminating our own views on IP from the perspectives of shareholders and investors at various workshops and seminars (Nakayama).



product development, investments, and results.

Nakayama: There are aspects in which IP analysis is highly specialized which can entail difficulties, and we are aware that it has yet to reach the stage where analysis of IP is sufficiently incorporated into corporate value assessments and investment decision-making by institutional investors. I also do not believe that we will be able to engage in dialogs with corporate IP departments to an equivalent level of expertise. However, what I do believe in is achieving a shared recognition of the fact that intellectual property and intangible assets are not being sufficiently reflected in corporate value, and in the importance of engagement to discuss the factors informing this as well as improvement strategies.

Ikeya: I am aware that the objective of shareholders and investors lies in medium- and long-term increases in corporate value. Accordingly, more than understanding and evaluating technologies and patents themselves, I would like to see you facilitate deeper dialogs with companies from the perspectives of why and how these technologies and patents constitute differentiating factors, how they can be organically linked with other management resources to be reflected in business performance, and whether they will be sustainable and reproducible. I would like to see specialists, with a focus on consulting companies and information vendors, fulfill the role of analysis and evaluation of the technologies and patents themselves.

Ozaki: The reality as it currently stands is that investment and utilization strategies, as well as information disclosure on intellectual property and intangible assets are seldom discussion points at Shareholder Relations (SR) meetings, which constitute dialogs pertaining to proxy voting policies and ESG issues. I believe that an underlying reason for this is the fact that operating results and capital efficiency as stipulated in proxy voting policies are being made the targets for evaluations of past performance. I do however feel that this is a topic which should also be actively probed and discussed in greater depth at SR meetings, given the fact that operating results and capital efficiency are outcomes of the accumulation of investment and utilization strategies for intellectual property and intangible assets. In this respect, I feel that the summary chart, which gives an encompassing overview of the Guidelines on Disclosure and Governance of Strategies for Investment and Utilization Regarding Intellectual Property and Intangible Assets Ver. 2.0 (see below) is an eminently usable tool in attempts to encourage dialogs on these topics at SR meetings.

Overview of the Guidelines on Disclosure and Governance of Strategies for Investment and Utilization Regarding Intellectual Property and Intangible Assets Ver. 2.0

Current situation • Increasing importance of intellectual property and intangible assets as a source of competitiveness (→progress of digitalization; calls to realize a green society)
• Japanese companies lagging behind advanced companies from overseas in investment in and utilization of intellectual property and intangible assets, with PBR under 1.0x and foreign investors abandoning Japanese equities

Increase corporate value and attract further investment funds by promoting investment in and utilization of intellectual property and intangible assets

- Enhance disclosure and governance of company strategies for investment in and utilization of their intellectual property and intangible assets
- Strengthen capital and financial market functions to allow investors and financial institutions to properly assess company investment and utilization strategies for intellectual property and intangible assets and provide the necessary funds

The Corporate Governance Code was revised in June 2021 to newly stipulate on the disclosure of intellectual property investment strategies and supervision by boards of directors
→ Listed companies are required to comply or provide appropriate explanations

Provides an easy-to-understand approach to the disclosure and governance of strategies for investment in and utilization of intellectual property and intangible assets

Guidance for Collaborative Value Creation 2.0
Integrated reports, IR materials
Management design sheets, etc.

Guidelines on Disclosure and Governance of Strategies for Investment and Utilization Regarding Intellectual Property and Intangible Assets

Expected use by small- and medium-sized enterprises and start-ups in addition to major corporations, investors, and financial institutions

Five principles

Feeding environmental and social issues into long-term positive value assessments to achieve Sustainability Transformation (SX)

Companies
Investors and financial institutions
Facilitate “pricing power” and “game changes”
Identify as the formation of “assets” rather than as “outlays”
Disclose and disseminate as “logic/stories”
Develop company-wide cross-functional structures and “build governance”
Assess and support “investment with medium- to long-term perspectives”

Seven actions for companies investing in and utilizing intellectual property and intangible assets

Establish the current situation
Identify the key issues and clarify positioning of strategy
Construct value creation stories
Construct investment and resource allocation strategies
Develop strategies, implementation systems, and governance structures
Disclose and disseminate investment and utilization strategies
Refine strategies through dialogs with investors and others

Provide operational resources and partnerships with the supply chain for start-ups and others

Added in Ver. 2.0 Communication framework for companies, investors, and financial institutions

Stories of corporate transformation backcasted from transformations of business portfolios
Causal path design and planning to connect each company's intrinsic strengths with its intellectual property and intangible assets
Linking operational indicators to intellectual property and intangible asset investment strategies (ex. ROIC Reverse Tree)

Prospects for a future in which greater importance will be attached to intellectual property and intangible assets

Ozaki: It is my impression that the Guidelines on Disclosure and Governance of Strategies for Investment and Utilization Regarding Intellectual Property and Intangible Assets have been the catalyst for information disclosure on the part of companies as well as exploration and engagement by institutional investors in relation to intellectual property and intangible assets. What is your opinion on the status of awareness around these issues and ongoing prospects following on from this trend?

Ikeya: Firstly, one of the current issues, as I perceive it, is that companies cannot be said to have made sufficient progress in disclosing information. In addition, there are still cases where the department within a company that will take the initiative in implementing strategies relating to intellectual property and intangible assets remains undecided. I would like institutional investors to be conscious of such issues and promote high-quality dialogs that give companies this insight. In terms of information disclosure, the disclosure of human capital in marketable securities reports began in the financial year ending March 31, 2023. I am also keeping an eye on how this trend toward institutional disclosure will extend to encompass intellectual property and intangible assets. Also, in terms of dialogs, I am looking at the possibility that developments in AI will enable the evolution of analyses by institutional investors, consulting companies, information vendors, and other specialists, resulting in more meaningful dialogs.

Watanabe: Systems do exist for the analysis, in various ways, of financial information and market data and their linking to corporate value. We are meanwhile aware that systems for measuring the value of a company's intellectual property and intangible assets remain in the exploratory stage. We are anticipating the formation of a trend whereby all stakeholders around a company are given a renewed awareness of the importance of intellectual property and intangible assets through initiatives to develop systems to gauge their “hidden power” and to reflect intellectual property and intangible assets in corporate value assessment models, with these feeding into increases in corporate value through initiatives and information disclosure.

Nakayama: Even with outstanding IP and technologies, if a company cannot establish a business model and connect this with the creation of added value, its investment capacities will not increase. We aspire to conduct engagement in such a way that it leads to the emergence of spiraling virtuous cycles. In this respect, dissemination of information on the importance of IP and related strategies by companies is gradually progressing, and the environment is becoming more conducive to analyses. The dissemination of such information is also one key to dialogs with investors, and with the furthering of dialog and engagement between companies and institutional investors, we believe a trend will emerge whereby advances will be seen in the dissemination of information and the development of analysis methods by institutional investors, while IP will also be incorporated into corporate value assessments and investment decision-making in the same way that has been the case for environment and human capital. Furthermore, while the current focus is on patent information, we would be inclined to say that, going forward, IP in its broadest sense, taking in designs and trademarks, is destined to become the target of analysis and assessment. At Daiwa AM, we are determined to make efforts to be at the vanguard of this trend. There are significant disparities between companies in terms of their disclosure of information on intellectual property and intangible assets, as well as in their actual investment and utilization strategies. Our Engagement Team both engages in one-to-one dialog with companies, and arranges opportunities for one-to-n (multiple company) meetings. These include meetings with companies that have achieved outstanding information disclosure and strategies (best practice companies). We introduce such best practice companies to those with issues, as means to encourage inter-company knowledge sharing. At Daiwa AM, we refer to these activities as “lingagement,” and have the sense that this category of activities is of particular utility in the domain of intellectual property and intangible assets.

Ikeya: I look forward to seeing these activities that are undertaken in the role of shareholder and investor serving as one of the driving force for increased investment and utilization strategies for intellectual property and intangible assets for companies, leading to many Japanese companies becoming game changers.

Theme 3



Daiwa AM has developed a Japanese version of the Drucker Institute Scores, and is endeavoring to measure “hidden power,” with intellectual property and intangible assets positioned as essential elements within this (Watanabe).



There is an expectation that institutional investors will engage in dialogs with companies focused on intellectual property and intangible assets, while asking constructive questions toward encouraging the sustainable growth of companies (Ikeya).



Strong-type Engagement

Overview

At Daiwa AM, we categorize engagement according to its depth and use the term strong-type engagement to describe the deepest category of engagement, which aims to significantly improve operational performance by identifying engagement themes and directly and actively encouraging management to improve on these.

Selection method for target companies

Corporate research analysts select companies in the sector for which they are responsible for engagement based on the following criteria: **① A company has key management issues**, and **② these issues can be expected to be improved or resolved through dialogs**, while **③ the resolution of the issues also can be expected to increase corporate value**. Among these, companies that can be expected to significantly increase their corporate value through the resolution of issues are then selected for strong-type engagement.

Fund managers in the Engagement Team also select target companies based on these previously outlined perspectives for all investee companies.

Milestone management

When implementing strong-type engagement, we first set an engagement theme for each target company, with an engagement plan then prepared. This plan outlines the specific issues recognized, the background to these issues, suggested measures to resolve the issues, and the anticipated situation after they have been successfully addressed.

Milestone management is then carried out by dividing the implementation statuses of engagement into five categories of: **① Issue recognized and clarified**, **② Issue shared**, **③ Issue being addressed**, **④ Issue resolved**, **⑤ Issue closed**. The progress statuses are shared with each analyst and fund manager and routinely monitored by senior officers.

Companies to be targeted for strong-type engagement are selected by corporate research analysts or fund managers from the Engagement Team based on the following selection criteria, with milestone management conducted until the issues are resolved.



Engagement case studies

Company A
(chemicals)

Main dialog counterpart: President & CEO

Engagement theme

Improving capital efficiency and expanding investor relations (IR) communication

Issue awareness and background

Cash holdings levels have remained excessive, despite the company having made major capital investments in line with its 50% total returns policy and long-term vision. With a lack of progress achieved on reduction of cross-shareholdings, actions to improve capital efficiency should be actively pursued.

There is also a necessity to improve interpretability of new products that have started to demonstrate outcomes as well as their underlying R&D capacities, while also indicating a path toward becoming a highly profitable and efficient R&D-oriented company.

Suggested measures to resolve the issues

- ① Expedite reduction of cross-shareholdings and calculate and disclose reasonable cash levels. Dissolve in particular cross-shareholdings with principal shareholders
- ② Establish disclosure methods for new products and R&D with minimal track records and limited experience regarding disclosure methods
- ③ Improve IR communication, prompted by appointment of company president, who had previously been a director in charge of IR department.

Anticipated situation following issue resolution

- Establishment of a clear path to becoming a highly efficient company with typical characteristics of an R&D-oriented enterprise
- Reduction of capital costs, fostering of medium- to long-term growth prospects, and improved PBR achieved by raising ROE

Company response at time of dialog

After informing the company that their share price was indicative of a situation whereby "shareholder equity costs are considerably high" and there was "no expectation of profit growth and ROE improvements," we presented favorable examples of corporate value enhancement at R&D-oriented companies. Following a dialog on the issues to be resolved as described to the left, company endorsed the suggested measures and decided to set up an opportunity to learn from the CFO of a model practice company.

Company actions following the dialog

The company presented a persuasive capital efficiency improvement plan based on lessons from the model practice company. As a result of measures including having R&D heads and outside directors present at small meetings, the share price rose to a level of over 1.0x PBR.

Issue being addressed

3

Company B
(retailer)

Main dialog counterpart: President & CEO

Engagement theme

Expansion of corporate value through improved profitability and ROE

Issue awareness and background

Company profitability was significantly below that of industry peers, with the major reason for disparity being low per-customer spending. There was an additional issue of low profitability of B2C businesses compared to the core B2B business.

Balance sheet indicates a surplus of on-hand cash, and there is a necessity to undertake measures to optimize capital in addition to profitability to improve ROE.

Suggested measures to resolve the issues

- ① Implement measures to increase per-customer spending by expanding product range, increasing inventory products, and enhancing recommendation functionality
- ② Implement measures to reduce costs such as platform integration
- ③ Sell low-profitability businesses such as B2C businesses
- ④ Implement measures to eliminate excess cash and improve capital efficiency through M&As and repurchasing of own-company stock

Anticipated situation following issue resolution

- Expectation of major increase in share price as a result of achieving financial targets set out in the ongoing medium-term business plan

Company response at time of dialog

The company is aware of the issue of low per-customer spending and will continue to endeavor to expand its product range and increase its inventory products. It also plans to maintain the B2C business in view of synergies with the B2B business but will strive to achieve further cost reductions. In addition, the company will set out measures such as a capital allocation policy and actively undertake ambitious reforms for its balance sheet.

Company actions following the dialog

Specific measures aimed at increasing per-customer spending and reducing costs in the B2C business were presented following the engagement meeting. It is expected that specific measures for balance sheet reform will be set out going forward.

Issue being addressed

3

Company C (foodstuffs) < > Main dialog counterpart: CEO and CFO

Engagement theme Improvement of ROE through selection and concentration of operational resources and structural reforms

Issue awareness and background
Since the formulation of the ongoing medium-term business plan, the external environment has deteriorated, including higher raw material costs caused by inflation. This situation raises doubts about the effectiveness of the structural reform and growth strategy set out in the plan. In addition, the main factors driving increases in capital costs are low levels of consistent profitability in processed foods, and profit volatility linked to conditions in the meats market.

Suggested measures to resolve the issues
Review the medium-term business plan with focuses on enhanced strategy execution, acceleration of structural reforms and actualization of growth strategies following the change of president. While the issues to be resolved remain unchanged, the need to speed up processes and a greater sense of urgency in the face of potential crises is increasing. This will require early implementation of key measures in the ongoing medium-term business plan; withdrawal from low-profit businesses, mainly those overseas; implementation of additional measures in response to the deteriorating external environment; as well as radical judgment calls founded in strong leadership to rally from internal and external setbacks.

Anticipated situation following issue resolution
• Increase in ROE due to improved margins and withdrawal from/downsizing of unprofitable businesses, and improved company valuations

Company response at time of dialog
The company were initially reluctant to implement measures to improve unprofitable businesses, despite indicating their recognition of the issues when laid out during the tenure of the previous president. Profits for over-performing businesses deteriorated at an accelerated rate due to the turmoil associated with the period of the COVID-19 pandemic, mainly attributable to the sharp rise in raw material prices. Since that time, the company has become more forward-looking in engaging in dialog with the stock market.

Company actions following the dialog
The company has shifted to a strong message of specific challenges and solutions in the businesses targeted for structural reform, as well as the need for change pertaining to deep-rooted problems related to the company's organization and culture as a whole. The penetration of structural reforms, including the moving forward of announcements on the targets for the new medium-term business plan was confirmed under the strong leadership of the senior management.

Issue being addressed 3

Column

Behind-the-scenes story of successful corporate change engagement

This account concerns the business portfolio of a materials company. While the business in question was one with a long history, it was capital-intensive and characterized by low profitability rates and high volatility with their origin in a strong susceptibility to economic and market conditions. This business also demonstrated the highest environmental impacts when compared with other businesses, with engagement deemed necessary due to the potential for business risks to increase even further in the future.

Engagement was first initiated with members of the investor relations team at the company. Daiwa AM then collated and shared the results of our analyses of the above points of concern, and indicated that continued neglect of the medium- to long-term issues could lead to increased scrutiny in the area of environment, as well as increasing capital costs, resulting in damage to corporate value.

Subsequently, a dialog was successfully initiated with the President following those with the company directors. Initially, however, the discussions moved on different tracks, as the company indicated their view that continuation of the business would enhance corporate value. The reasons they gave were an expectation of growth for certain products within the business considering environmental demands from society as well as client relationships. Discussions reached a

disappointing impasse, with the directors present rebuking us after our meeting for recommendations which they said amounted to radical structural reform of a business with a distinguished history.

Nevertheless, based on a strong conviction that our assertions were accurate, we embarked on an analysis of the rebuttal by the company President. As part of this, we conducted interviews with client companies, while also researching into changes in client company shareholdings in the company. It became increasingly apparent that the company's assertions were unreasonable during the process of conducting analyses of the actual track record and profitability of growth products.

Based on these analyses, we refuted the company's claims, with the outcomes of a series of surveys and, coincidentally, as the market environment deteriorated and risks in line with our assertions became apparent, we achieved a consensus with them on the need for structural reforms. Toward the drafting of a structural reform plan, we engaged a strategic consultant contracted by the company for discussions on the capital market assessment as well as the structural reform plan that investors sought.

Subsequently, a radical restructuring plan for the business was presented and implemented. This was a deeply poignant moment, with all the efforts made up to that point finally bearing fruit.

From Engagement to "Lingagement":

Together We Will Work to Improve the Corporate Value of Our Investee Companies

Daiwa AM conducts analyses aimed at gaining a deep understanding of our investee companies. Nevertheless, there is a limit to the understanding we can achieve, in terms of not having insider know-how requiring technological and other expertise equal to that of our investee companies. Meanwhile, we believe that the insight on best practices, past examples of failure, and inter-company comparisons which we have accumulated through our analyses and dialogs with various companies are domains in which investors are truly in their element. Another major strength in our dialogs with investee companies is the relationships we have built up with many representatives of industry and academia, as well as a range of consultants, analysts, government officials, and others with whom Daiwa AM share an affinity.

Daiwa AM leverages these strengths to conduct engagement



meetings with management at companies facing challenges, and issues engagement letters collating the matters shared at these engagement meetings. We also focus on specific ESG themes to hold "ESG Meetings," which serve as a platform for sharing knowledge among companies. Additionally, we focus efforts on "lingagement," a process whereby we introduce companies encountering challenges in increasing their corporate value to those which have faced similar challenges and discovered hints toward their resolution, encouraging them to share their knowledge.

By fully leveraging the know-how available to us in ways such as these, Daiwa AM aims to become a partner in the stock market which joins alongside our investee companies in the journey toward the shared goal of increasing their corporate value.

Overview and Effects of "Lingagement"



Overview

We aim to contribute to corporate value by fully utilizing all available resources and ideas to increase value.

Investee company x Investee company x Investee company



Themes

- FY2021: Diversity (1st meeting)
- FY2022: Human Resources Strategy (2nd meeting)
- FY2023: Finance Directors (3rd meeting)

Daiwa AM x Investee company

Engagement meetings
Engagement letters

Investee company x Best practice company

"Lingagement"



Shared themes

- Capital costs, ROE strategy (permeation within the organization)
- ESG information disclosure

Etc.



Effects

This is an initiative to provide a platform for discussion with the personnel and management of best practice companies on challenges facing investee companies as a reference to inform future improvements in their corporate value.

Investee companies



We believe that sharing on their challenges with best practice companies, and arranging encounters with the processes toward their resolution will provide hints on how to solve in-company issues. By building relationships which facilitate exchanges of views with other companies with best practices we expect to enhance the outcomes of initiatives.

Best practice companies



Interactions with other companies can lead to insights to facilitate taking their own initiatives to the next level.

Funds



We expect companies to sustainably grow and increase their corporate value.



In some cases, the scope of communication has moved beyond the themed discussions and developed into actual business collaboration.

“Lingagement” case study

Example scenario of “lingagement”



Case 1

Mitsui Chemicals, Inc.

Multiple companies (11 companies)

Purpose Share know-how on dialogs with outside directors and investors

The current in ESG is shifting from a stage involving responding to requirements and conducting disclosure, toward a focus on initiatives demonstrating effectiveness in contributing to improvements in corporate value. For example, regarding governance, it is also becoming increasingly important to understand the ways in which the governance process contributes to improving corporate value. This is evidenced by disclosure on the skills matrix and the ratio of outside and female directors. Within this context, the interest in dialog between outside directors and investors is increasing year on year. Given that one of the roles of outside directors is to act as spokespersons for the capital markets, this is a welcome trend, and one for which there is likely to be increasing demand going forward.

From the perspective of companies, meanwhile, we have a sense that many are reticent about providing opportunities for dialog, with this being attributable to their reluctance to burden outside directors who have been invited from outside the company, as well as the fact that outside directors themselves may have very little experience of dialog with investors.

Accordingly, we organized “lingagement” meetings with multiple companies around the nucleus of Mitsui Chemicals Inc. with the aim of contributing to the establishment of sound investment chains with outside directors as their starting point, involving the introduction to other companies of Mitsui Chemicals’

experience in holding “small-scale meetings between outside directors and investors” and the know-how gleaned from these experiences.

As a result, Nippon Gas Co., Ltd., one of the participating companies, was able to reaffirm the importance of dialog with outside directors and investors, with the senior executive managing director with jurisdiction over the matter providing feedback indicating that they would attempt to coordinate internally. In fact, Nippon Gas at a later point in time themselves organized “small-scale meetings between outside directors and investors” and requested Daiwa AM’s participation. In this way, with Mitsui Chemicals experience as the core catalyst for “lingagement,” Daiwa AM was extremely pleased at having been able to contribute to broadening the scope of initiatives to facilitate effective corporate value enhancement.



Case 2

Company A

Company B (Best Practice Company)

Purpose Knowledge sharing on capital cost-aware management

Following structural reforms, including to cost structuring reforms, customer relations management (CRM), and branch reforms, Company A’s corporate value was being revised by means of ameliorations to aspects of profit and loss in the context of the stringent business environment of the COVID-19 pandemic.

Thus, while evaluations of the business aspects of the company were increasing, with its balance sheet and cash flow management remaining works in progress, Daiwa AM proposed that, to further increase its corporate value, it become conscious of capital cost while also pursuing improvements in capital efficiency. As part of this proposal, we shared the case study of Company B, and proposed a “lingagement”—with Daiwa AM’s

relationships enabling it to act as an intermediary—between the finance directors of the two companies toward an exchange of information which would facilitate a deeper understanding by Company A of Company B’s initiatives.

This “lingagement” led to a series of initiatives in which Company B had previously been engaged being taken up by Company A, while also creating a networking opportunity, with the two companies having remained in frequent contact with each other since then. The financial strategy was then updated at a Company A briefing session, which, in addition to the positive evaluation of business aspects, led to a growing appreciation for the change to capital cost-aware management, ultimately further enhancing its corporate value.

Case 3

Company C

Company D (Best Practice Company)

Purpose Knowledge sharing on capital cost-aware management

Company C had a PBR considerably below 1.0x, and despite enjoying operating profits in the mid-10-billion-yen range, the value of the business, excluding market capitalization of redeemable assets, such as cash, deposits and marketable securities, remained limited to around 40 billion yen. An underlying factor was their extremely poor awareness of balance sheet and cash flow management attributable to their being a technology-oriented company.

Nevertheless, following repeated engagement between Daiwa AM and management at Company C, their sense of the importance of capital efficiency had begun to grow. However, due to their theretofore low

awareness of capital efficiency, they lacked the know-how of what issues they needed to address as well as the solutions to address these, in addition to a knowledge of how to build internal consensus.

We therefore proposed a “lingagement,” to introduce the senior executive managing director of Company D to the finance director at Company C, after which the Company D executive officer delivered a lecture on the approaches to fostering internal consensus and instituting improvements. As a result, Company C’s know-how on internal reforms deepened, which led to changes that can be expected to increase corporate value going forward.

Case 4

Company E

Company F

Purpose Business matching

Company E aims to expand into all-solid-state batteries as a new business. Their strong knowledge and experience in the energy sector make them a frontrunner company within the industry for such new products. The company aspired to build up a track record in the industrial sector, while extending into other areas, including the healthcare domain, toward expanding this product.

Against this backdrop, Company E introduced companies it was looking to develop in this market

going forward to Daiwa AM. Companies with which Daiwa AM was already conducting engagement were among this list of clients, and we contacted the listed companies to introduce Company E’s products to them. As a result of this, business negotiations between a head of the business department at Company F and a representative in the area at Company E came to take place, with “lingagement” achieved in the form of a business matching.

/ CFO Meeting implementation report

The “2023 CFO Meeting” was held in September 2023, with chief financial officers (CFOs) from 15 investee companies taking part. This was positioned to coincide with the third ESG Meeting, with the meeting arranged as an opportunity to provide reference for future initiatives through interactions among CFOs of companies facing various issues, with the reasoning that both management and financial strategy perspectives are indispensable to discussions on governance.

The theme of the event was “Initiatives to improve PBR.” The participants were divided into three groups and participated in group discussions conducted over two sessions.

For the first session, “ROIC,” “cash allocation,” and

“shareholder returns” were designated keywords as sub-themes of initiatives to improve ROE; while in the second session, “business portfolios,” “sustainability,” and “dialog and disclosure” were the designated keywords as sub-themes of initiatives to reduce capital cost, with introductions of each company’s characteristic initiatives and discussions taking place at both sessions.

The event was well received by the participating companies, and we will continue to actively hold meetings of this kind going forward, thereby contributing to improving their corporate value by providing a platform for companies to share knowledge with each other.

We did not expect that this meeting would be on such a large scale. We were also very grateful to have been invited to be one of the companies which would take part. The networking allowed us to exchange business cards with representatives from other companies, which led to us securing commitments for subsequent exchanges of views. This is extremely gratifying, as such opportunities to communicate with other companies are not generally available to us. I hope that you will invite us again.



Feedback from Participating Companies

This was a wonderful meeting. We found it helpful in seeing that there were companies at various stages, as well as in understanding statuses at these other companies. This proved an excellent opportunity, as we were in the process of considering our future strategies as well as how to prepare for a TSE disclosure request.



Pick Up

External assessment of engagement activities

Daiwa AM has received a steady level of recognition from companies, with a focus on matters dealing with engagement activities, including for “Asset management firm with the most effective overall stewardship activities,” in a survey of listed companies evaluating the stewardship activities of their asset management firms conducted by Mizuho Research & Technologies, Ltd.

We believe that this is in recognition of Daiwa AM’s efforts undertaken to enhance our engagement framework, expand our dialog tools, and of unique initiatives such as the “lingagement.” Daiwa AM will continue to actively endeavor to achieve qualitative improvements in our engagement activities.

Participation in the integrated reporting of a company

An article about a discussion with Daiwa AM Chief Analyst Watanabe was included in UBE Corporation’s (UBE) Integrated Report 2023. We have previously conducted numerous dialogs with UBE on a wide range of topics, from structural reform to ESG and intellectual property. For this article, however, a dedicated three-party dialog was held at the company’s request with UBE’s representative director and external directors on the theme of “Talent Strategy to Expand the Specialty Chemicals Business,” the content of which was then included in the integrated report.

Following the publication of the Integrated Report, at the request of UBE, Chief Analyst Watanabe presented and exchanged opinions on “evaluations, expectations, and suggestions for improvement in the stock market” at a training event for executive officers, with dialogs aimed at improving corporate value currently ongoing.



UBE Corporation Integrated Report 2023

Engagement for Passive Fund (Market-wide bottom-up-type engagement)

/ Overview

In order to proactively fulfill its fiduciary duty with respect to passive fund investment too, Daiwa AM attaches great importance to engagement activities. Particularly in the case of companies where Daiwa AM must vote against the company’s proposals in accordance with Daiwa AM’s Proxy Voting Policy, because the company in question has not achieved sufficient gender diversity or has excessively high levels of cross-shareholdings, Daiwa AM undertakes

engagement with such companies so as to verify the state of the measures implemented by the company in relation to these issues, and to exchange views. At the same time, since the total number of investee companies is very high, at over 2,300 companies, besides direct dialog, when necessary, Daiwa AM may also make use of methods such as sending companies information about revisions to the Proxy Voting Policy and about related topics.



/ Style we to achieve going forward

Conventional passive engagement has mainly consisted of one-way dialogs, including those amounting to confirmations of status reports in response to requests for meetings from investee companies, or means such as communicating our requests merely through letters,

rather than dialog based in an awareness of specific issues. Currently, however, we are conducting more active and two-way engagement than ever before, including for passive fund investment, directed toward increasing the effectiveness of engagement and producing positive effects which extend to the overall performance of Daiwa AM’s investments. More specifically, we are focusing on investee companies at which there is room for improvement in our materialities relating to climate change, diversity, and other areas for the promotion of issue resolution-type engagement initiated by Daiwa AM. We are adopting a continuous approach to follow-up with the targeted companies, and encouraging them to resolve their ESG issues through engagement while actively supporting them to improve their corporate value over the medium to long term. In this way, we hope to enhance the market reputation alongside them and, thereby, contribute to improving the overall performance of our managed assets.



Case studies of passive engagement

Daiwa AM conducts engagements not only on the management and capital strategies of our investee companies but also those which focus on improving our materiality. The issues faced by our investee companies are diverse, with many of these considerably difficult to

solve. However, as passive fund investment does not, in principle, allow us the option of selling our holdings, we have set our sights on engaging in dialog that offer potential clues to improving sustainability and medium- and long-term corporate value.

Company A
(glass and earthenware products)

Dialog theme Climate change countermeasures

Issue The company has low GHG emission reduction targets despite being a high CO₂ emitter.

Background By proactively expediting the decarbonization of its high-emission sectors, the company can greatly slow the pace of climate change, with this contribution spilling over to its entire stakeholder base, leading to improvements in corporate value.

Potential solution Actively endeavor to move forward the schedule of initiatives for what can be accomplished over the short term such as converting electricity use to renewable energies after acquiring Science Based Targets (SBT) certification and clearly indicating time-based countermeasures equivalent to the baseline standard of the Nationally Determined Contributions.

Company response

We have had companies respond that, after confirming case studies from other industry peer companies in Japan and overseas, the company was considering actively implementing and disclosing the initiatives that it can implement to further decarbonize its own operations.

Company B
(electrical equipment)

Dialog theme Employee engagement

Issue While the company has conducted an employee engagement survey, they have yet to complete any specific disclosures on it.

Background As it tends to be the case that companies will have elevated performance, productivity, etc. in line with higher levels of employee engagement, survey results and future plans should be proactively disclosed, as a jumping off point for the formulation and implementation of human capital strategies.

Potential solution The results of the survey will be monitored using KPIs while also being disclosed using a PDCA cycle to demonstrate how initiatives are being undertaken to resolve issues.

Company response

Based on the points raised in the previous fiscal year, the improvement of employee engagement has been set as a materiality as well as a medium-term target, and specific disclosure were made on initiatives for their outcomes.

Company C
(petroleum and coal products)

Dialog theme Term of office of directors in the Articles of Incorporation

Issue A two-year term of office for directors does not allow for shareholder feedback to be heard on an annual basis.

Background Governance discipline should be instituted by gaining annual shareholder confidence in managerial accountability each year. A two-year term of office for directors does not allow shareholders to hold management accountable during a given fiscal year, even if misconduct or other incidents occur outside the re-election period.

Potential solution Reduce the terms of office for directors in the Articles of Incorporation to one year.

Company response

The Report on Corporate Governance was updated to reduce the terms of office for directors in the Articles of Incorporation from two years to one year.

Engagement with Outside Directors

Daiwa AM also conducts engagement focused on dialog with outside directors. As part of this, we place particular emphasis on dialog with outside directors who are in a position to relate the company's assertions from a neutral

standpoint, to utilize the content of dialogs as a reference for decisions in the proxy voting process in governance meetings regarding annual meetings of shareholders that include shareholder proposals.

Company D (machinery)

Dialog theme Shareholder proposal (governance)

Scenario encountered Governance failures were identified, and a shareholder proposal for director appointments and other matters was received

Dialog content We confirmed the current status of governance and the company's vision for the future, as well as probing whether the current management structure could be said to be inadequate for governance, as claimed by the proposing shareholder.

Meeting outcomes

We met with the newly-appointed outside director who was chosen to serve as the chairperson of the board of directors to accompany the change in the management structure. Despite being newly appointed, they demonstrated high-level knowledge of corporate governance and superior communication skills, being able to respond fully to rigorous questioning, and so we were able to confirm that trust was warranted in relation to the adequacy of the current governance system and the future vision for the company. For this reason, we fully approved the company's proposals regarding this matter.

Company E (retail business)

Dialog theme Shareholder proposal (management strategy & governance)

Scenario encountered The reliability of the current management structure, which does not select and focus businesses despite the presence of those with longstanding unprofitability and having been made subject to a conglomerate discount, was questioned, and a shareholder proposal was received for the appointment of directors, and other matters.

Dialog content The dialog sought to identify any inadequacies in the company's structures in response to the current situation which had been pointed to by investors over many years, and whether there was insufficient communication with various stakeholders.

Meeting outcomes

Prior to the meeting, Daiwa AM had intended to approve the shareholder proposal in its entirety. However, the outside director with jurisdiction over the matter logically explained the need for the unprofitable business from an independent standpoint without denying the points raised by Daiwa AM, and while acknowledging the inadequacies of the current system. As a result, the credibility of the company increased, and the shareholder proposal was only partly approved.

Engagement for Fixed Income Investment

Case study of engagement with Company F (electric power company) on decarbonization

While Daiwa AM holds corporate bonds of Company F in a domestic fixed income investment, an increase in their weighting has become a factor in an increase of GHG emissions in domestic corporate bonds in comparison to the benchmark. We therefore conducted an engagement with Company F on climate change countermeasures.

Company F is completing disclosure, including disclosing in compliance with TCFD recommendations, in addition to its GHG emission reduction targets for 2030 and a roadmap to achieve these, as well as its 2050 net-zero targets. However, it does not provide more specific details and statuses on the roadmap, while also not indicating the power configurations it aims to achieve in 2030. Daiwa AM thus advised Company F on the necessity to further consolidate their disclosure including that

to promote investor understanding.

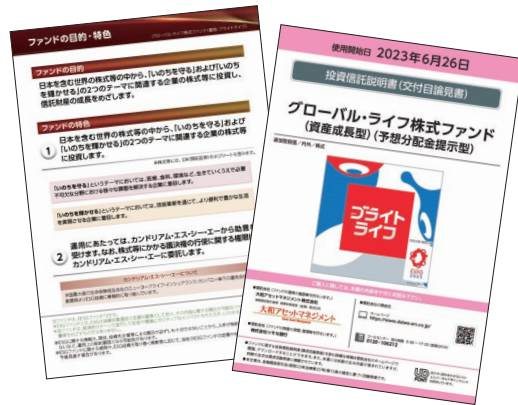
We moreover conveyed to them the advisability of information disclosure whenever there is a change or progress regarding their initiatives aimed at achieving the 2050 net-zero target, including development of technologies for ammonia and hydrogen co-firing and mono-firing, as well as R&D on the utilization of Carbon Capture, Utilization and Storage (CCUS), as means to demonstrate that it is steadily undertaking initiatives.

In response, the company indicated that it hopes to expand the scope of its disclosure wherever possible, even while indicating a problem in terms of the difficulty of presenting a specific indication of the form this would assume in the future, due to the influence on some fronts of ongoing national energy policies and systems.

Joint Engagement with an Outsourcing Company

Overview

A framework is in place to jointly conduct engagement with investee companies for some funds (Global Life) through a partnership with outside service provider Candriam.



Purpose

The purpose is defined as leveraging Candriam's know-how to provide more specialized dialogs from a global perspective for companies facing various issues. Through this, we aim to improve the performance of the funds in question while seeking to maximize beneficiary returns. Combining the know-how of both Candriam and Daiwa AM additionally enables us to cater to a wide range of domestic and international companies.



Engagement on Foreign Stocks

Engagement on foreign stocks is handled by means of direct engagement by Daiwa AM's local subsidiaries as well as indirect engagement through proxy engagement. Below we introduce an initiative using proxy engagement.

Proxy engagement

Overview

Sustainalytics' Global Standards Engagement, which Daiwa AM uses, is an incident-driven proxy service focused on companies that have committed serious and systematic breaches of international standards such as the Ten Principles of United Nations Global Compact and the OECD Guidelines for Multinational Enterprises.



2023 GSE Quarterly Report

Purpose

The purpose of this engagement is both to examine how companies have dealt with various incidents, and to improve ESG disclosures by bringing about changes in company policies and operational processes and ensuring that appropriate systems and programs are in place to circumvent future recurrences.

Expected outcomes

Although this engagement was not directly conducted by Daiwa AM, the issues under dispute and the record of dialog with the targeted company were shared with us. Through this instance of engagement, the reputational risk for Daiwa AM's foreign company holdings was effectively managed, and issues with serious environmental and social implications were effectively managed. In addition, it is hoped that this case will have helped in developing a deeper understanding of cases that have the potential to affect our portfolio and cannot be addressed merely by monitoring various types of news. It is anticipated that this will help us to fulfill our fiduciary duties to our beneficiaries.

Case study of proxy engagement

Engagement target Amazon.com, Inc (USA)

Issue

Forced Labor—Supply Chain

Extract from Global Standards Engagement

Overview

Amazon is facing a series of accusations of human rights violations associated with its operations in Saudi Arabia. According to an investigation made public in October 2023 by human rights organization Amnesty International, which interviewed Amazon contract workers, Nepalese migrant workers, employed by Abdullah Fahad Al-Mutairi Co. (AFMCO), an Amazon third-party labor supply contractor, and its subcontractor Basmah Al-Musanada Co. (Basmah), alleged that, between 2021 and 2023, they had paid consistently high commissions to recruitment agencies. The investigation report by Amnesty also describes other instances of modern slavery, including false recruitment processes for Nepalese workers and violations of freedom of movement.

Engagement details

In January 2024, Sustainalytics sent an initial query to Amazon seeking further information on incidents of forced labor occurring at Amazon's third-party vendor in the Kingdom of Saudi Arabia (KSA).

In February 2024, Amazon issued a press release and responded to our query. This indicated that, over the preceding several months, AFMCO had resolved serious concerns raised in Amnesty International's investigation report, that this had been verified by Amazon, and that AFMCO had made progress in improving workers' housing. More specifically, changes that AFMCO had made were noted as including: improvements to living conditions; the provision of lockers for personal belongings; limits to the number of occupants per room; and upgrades of fire safety systems. The changes made ensured that living conditions met Amazon's standards. In addition, Amazon undertook to continue to implement ongoing monitoring of improvements and progress made in relation to AFMCO's working environment.

Message to All Members of Investee Companies

Daiwa AM seeks constructive two-way communication as part of its engagement. However, we currently feel that there is a gap between the ideal scenarios and realities, such as those given below. We believe that bridging these gaps through repeated engagement will contribute to sustainable increases in corporate and shareholder value. As such, we expect the following actions from the investee companies with whom we engage in dialog to help close these gaps.

Ideal scenarios

- Potential for full two-way discussions to take place
- Presence of managerial intention to provide evidence to support the content of disclosures
- Generation of additional questions during dialogs Etc.

GAP

Realities

- Explanations of materials followed by single question and answer exchanges throughout
- No sense of managerial intention in the content of disclosures
- Lack of questions at the conclusion of meetings Etc.

Daiwa AM's expectations

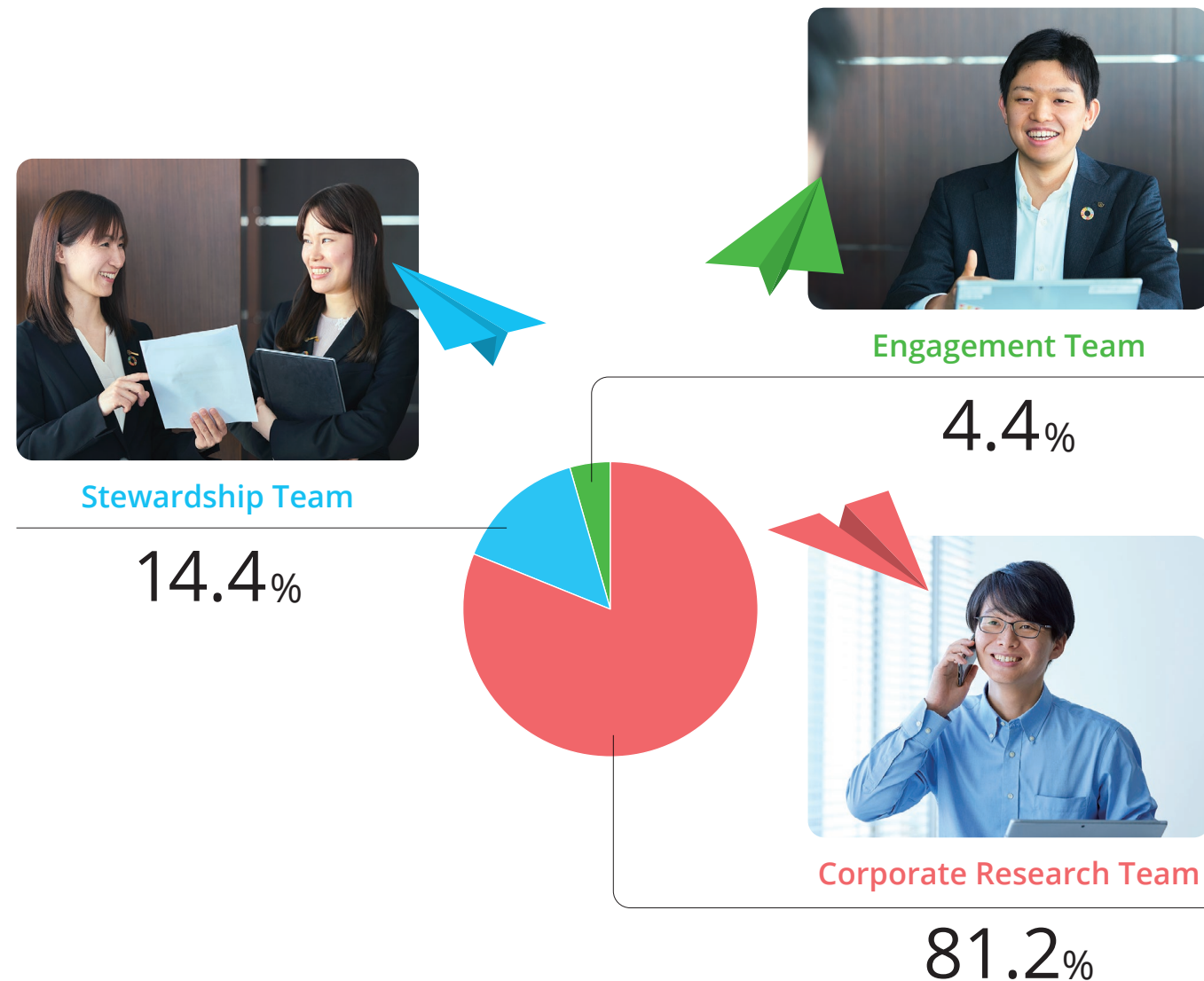
- Minimize explanations of materials and allow for dedicated discussion time (E.g.: Materials explanation should be kept to around 10 minutes)
- Explain even the management vision behind the content of disclosures (E.g.: Insist on explanations of the "why")
- Encourage free-flowing and proactive questioning (E.g.: Confirm impressions on the meeting as well as expectations going forward) Etc.



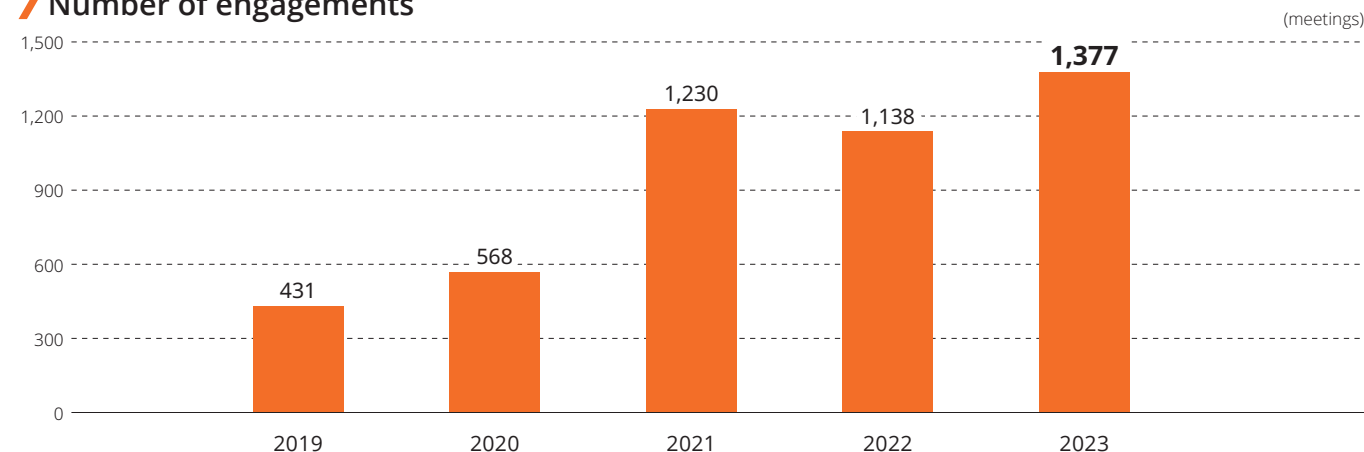
Engagement Activities by Respective Teams

Engagement activities based on direct dialog

During the term January 2023–December 2023, Daiwa AM implemented engagement activities with 1,377 companies. The breakdown by team and number of engagements during the term under review is as follows.



Number of engagements



Engagement Team

Dialogs with senior management from the perspective of improving corporate value over the medium to long term

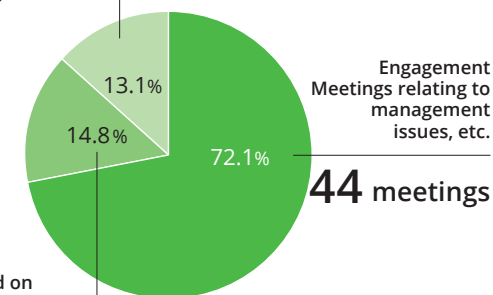
Activities status in the term under review

"Lingagement"

8 meetings

Engagement Meetings focused on E and S

9 meetings



Overview

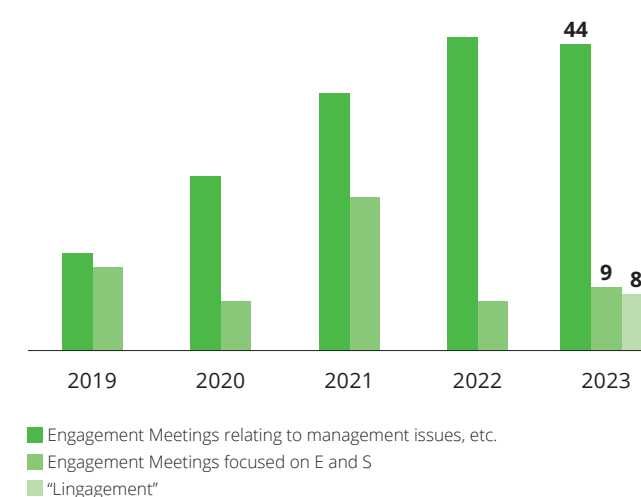
Daiwa AM emphasizes the role of engagement in enhancing corporate value, and established the Engagement Team in June 2015, bringing together analysts and fund managers for combined activity. The main target for engagement activity by the Team was positioned as being companies where there was felt to be potential for enhancing corporate value through IR improvements and changes in the measures taken by the firm resulting from dialog with Daiwa AM. The emphasis in these Engagement Meetings is on discussion from a medium- to long-term perspective, and as far as possible, dialog is held with senior managers of the company in question, including the CEO. The Engagement Team draws up the agenda for the dialog in advance, and clarifies its purpose. In addition, besides collating relevant issues by implementing KPI management (visualization) with respect to engagement progress status, the Engagement Team also shares information about engagement progress status within the company.

Focus points

In the term under review, we focused on enhancing the engagement framework and deepening methodologies. As part of enhancements to the resources invested in engagement, we created synergies between the company analysis skills of our Corporate Research Team and the dialog skills of our Engagement Team, which enabled us to create a framework for more effective engagements. In line with this, there has been an increase in dialogs characterized by an unprecedented sense of urgency with investee companies, toward the shared goal of increasing corporate value. Furthermore, the accumulation of know-how and the building of relationships with the managerial tiers of companies has enabled the establishment of Daiwa AM's proprietary approach of "lingagement*." In the next fiscal year, we will endeavor to evolve our engagement activities focused on the "lingagement" approach.

* Refer to P. 22 for more information on "lingagement."

Engagement meetings by theme

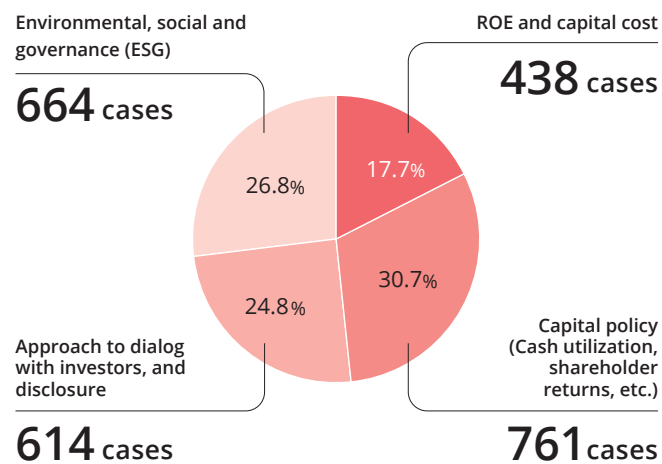




Corporate Research Team

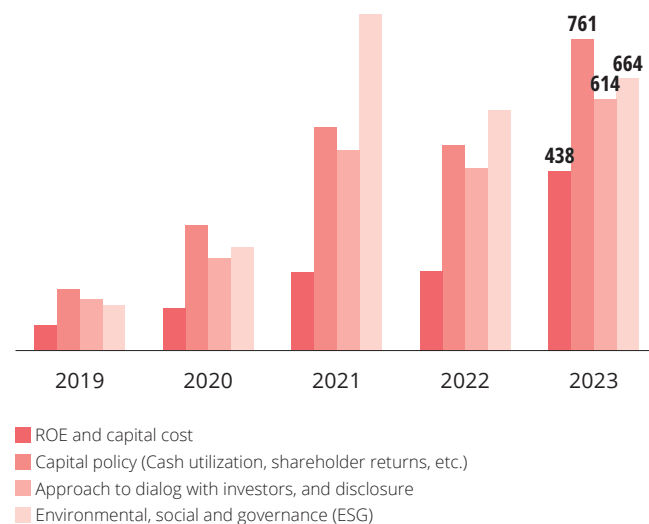
Constructive engagement to enhance corporate value and achieve sustainable growth

Activities status in the term under review



Note: Some cases are included in more than one category, as the dialog in a given meeting may embrace multiple perspectives.

Engagement meetings by theme



Overview

As part of their regular analyst activities, Daiwa AM's corporate research analysts conduct stewardship activities that contribute to the enhancement of corporate value and to sustained growth. There are a total of 14 analysts (as of December 31, 2023), divided into four teams: Consumer Services; Electronics; Materials & Industrial; and Utilities & Financial.. The implementation of constructive engagement makes use of various shared platforms and tools, including: ① The Analyst Handbook, which outlines the fundamental approach to be followed and presents the knowledge which underpins analyst activities; ② The Business Strategy Case Studies, which are based on analysis of actual business enterprise management strategies; ③ ESG Materiality Item Summary, which compiles information on key ESG items required for engagement, etc.; ④ Qualitative analysis, in which companies are assessed qualitatively from a medium- to long-term perspective in terms of both financial and non-financial aspects; ⑤ The compilation of a Long-term Corporate Valuation Model, to determine companies' fair value over the medium to long term.

Focus points

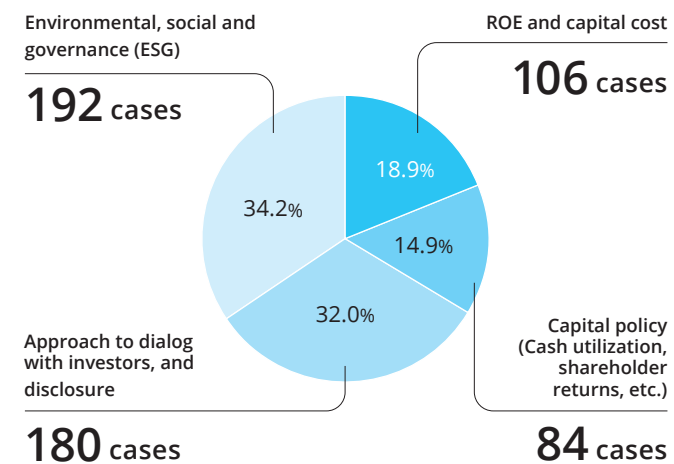
The Corporate Research Team made efforts to enhance engagement as constituting a major principle of their activities as analysts. Specifically, after classifying engagement into categories, including "strong-type engagement," which involves direct and active interventions to encourage management tiers to institute improvements, respective themes were designated for companies targeted for engagement, with milestone management promoted in terms of initiatives to tackle and address issues as regards awareness, sharing, resolution effort, and resolution. In addition to consolidating the infrastructure to share engagement progress statuses with fund managers, progress statuses and policies for future initiatives are shared at morning meetings. We have also deepened ties with the Engagement Team and are promoting joint engagement activities between our corporate research analysts and fund managers.



Stewardship Team

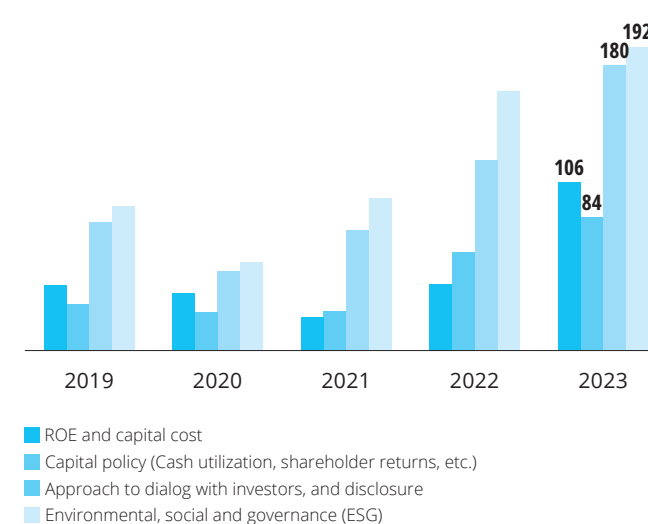
Dialogs on proxy voting and resolution of sustainability issues

Activities status in the term under review



Note: Some cases are included in more than one category, as the dialog in a given meeting may embrace multiple perspectives.

Engagement meetings by theme



Overview

A total of eight members (as of the end of December 2023) of the Stewardship Section's Responsible Investment Department have main responsibility for holding meetings that are focused primarily on investee companies' corporate governance and on the exercise of voting rights. The Stewardship Team collects information from the investee company that is needed for making decisions regarding the exercise of voting rights. In addition, during the course of the dialog with the investee company, the Team outlines the proxy voting strategy and Daiwa AM's expectations of the investee company in terms of corporate governance, with the aim of having consensus with the investee company. In recent years, the content of dialogs has covered a wide range of topics, including medium- and long-term management, capital strategies, and ESG-related initiatives, with themes outside the exercise of voting rights and governance also being covered. Furthermore, although Daiwa AM strives to ensure a clear division of responsibility between the Stewardship Team and the Corporate Research Team, these two teams work collaboratively to engage in dialog with investee companies; for example, members of both teams may be asked to attend meetings, when necessary.

Focus points

In the term under review, we focused on conducting dialogs with outside directors as well as dialogs with proposing shareholders at investee companies. Dialogs with outside directors were conducted from the perspective of examining how the independence and effectiveness of the board of directors is appropriately ensured, and how outside directors, as the voice of minority shareholders, contribute to increasing corporate value. For the dialogs with proposing shareholders, we endeavored to engage in the exercise of voting rights from more neutral perspectives to contribute to improvements to corporate value over the medium to long term by conducting dialogs not just for those on the corporate side as has traditionally been the case, but by also actively engaging in dialogs with proposing shareholders who could be referred to as activists. In the next fiscal year, we plan to actively engage in both conventional passive engagement, and in issue resolution-type engagement focused on improving Daiwa AM's materiality.

Daiwa AM's Vision for Investee Company Best Practice

Daiwa AM defines its vision of investee company best practice for the sustainable enhancement of corporate value as outlined below. Daiwa AM will continue to use engagement, etc. to encourage investee companies to adopt these measures.

Key Issues		Best Practice
Climate change / Natural capital Environmental	Climate change	<ul style="list-style-type: none">By formulating and analyzing climate change scenarios in line with the TCFD framework, the company identifies transitional risks, physical risks and business opportunities.The company implements quantitative monitoring of greenhouse gas emissions, emissions per unit of production, and the anticipated risks and opportunities.The company formulates a concrete roadmap and milestones for achieving carbon neutrality by 2050, and explains the progress made on an annual basis. It is also desirable that the company should set a goal of reducing emissions by at least 50% by 2030, in line with Daiwa AM's NZAMi intermediate goals.The company formulates and implements a business strategy that takes both risks and opportunities into account, and implements the summarizing and evaluation of activity implementation status.
	Natural capital	<ul style="list-style-type: none">The company performs a "stocktaking" of business continuity risks by identifying links between natural capital (forests, water resources, mineral resources, biodiversity, etc.) and its own business activity, and by analyzing its impact on the natural environment and the extent to which it is dependent on the natural environment. The company identifies its materiality on the basis of this analysis.The company incorporates natural capital considerations into its management policy.
Social responsibility / Human capital Social	Social responsibility	<ul style="list-style-type: none">The company formulates a concrete human rights policy based on international human rights standards.The company implements human rights due diligence and auditing that also covers stakeholders in the supply chain on an ongoing basis, and formulates improvement strategies to address the due diligence results and the issues found.
	Human capital	<ul style="list-style-type: none">The company formulates a human talent strategy that is integrated with its business strategy. The content of the human talent strategy includes measures relating to initiatives for recruiting and retaining first-rate human talent, frameworks and initiatives for human talent cultivation, and initiatives for enhancing employee engagement.Besides announcing concrete measures that enunciate how the company will implement initiatives to promote active participation by women, the company will also formulate initiatives aimed at reducing the disparities between male and female employees, based on gender-specific, quantitative indicators. It is desirable that, in the future, the company should have female directors account for at least 30% of the membership of the board of directors. It is also describable for the company to put in place a framework (for talent pooling) that facilitates the ongoing appointment of female directors from within the company.The company formulates initiatives and concrete measures aimed at ensuring not only gender diversity, but also diversity in terms of nationality, age, experience, etc.
Measures aimed at corporate value enhancement Governance	Governance framework	<ul style="list-style-type: none">The company has a board of directors composition that is appropriate and effective in terms of best practice. From the perspective of enhancing understanding of the board's effectiveness, it is desirable that the main initiatives decided on and discussions held at board meetings, etc. should be disclosed.The company formulates processes and criteria for decision-making in regard to management team succession. Besides outlining the knowledge, experience and capabilities that directors are expected to possess, the company also formulates a skill matrix and a director allocation plan for the future.The company does not adopt takeover defense measures.The company discloses the basic approach and philosophy that underpins its director's remuneration system. The company also adopts malus provisions and claw-back provisions.The company divides compensation into fixed compensation, short-term incentive compensation and long-term incentive compensation. Short-term incentive compensation is linked with and evaluated in relation to the degree of achievement of strategic objectives; long-term incentive compensation is linked with and evaluated in relation to corporate value. It is desirable for the share of total compensation held by long-term incentive compensation to be increased, within appropriate limits. Long-term incentive compensation should also be incorporated into compensation for outside directors where this would contribute to the enhancement of corporate value.The company considers the desirable number of members of the board, with a view to promoting a lively exchange of views at board meetings, to be around 10 at most.
	Risk management	<ul style="list-style-type: none">The company formulates rules governing diversity, human rights, supply chain, data security, etc.The company's internal auditing requires the maintenance of a direct reporting line to the board of directors and the board of auditors.It is desirable that the company should establish a framework for ensuring group-wide internal controls, and that the internal reporting system should provide multilingual support in line with the internationalization of corporate activities.The company will put in place a framework so that, in the event that misconduct or a scandal occurs, the reasons why the internal controls system did not function properly will be thoroughly investigated, strategies will be formulated to prevent reoccurrence, and the implementation and effectiveness of these strategies will be confirmed and verified on a periodic basis.
	Improving capital efficiency	<ul style="list-style-type: none">The company implements the following measures so as to raise ROE above equity cost and realize a continued, steady expansion of the equity spread.<ul style="list-style-type: none">The company formulates a long-term vision, and formulates a medium-term management plan through back-casting from this.The company's medium-term management plan clearly specifies the growth strategy, and the company monitors progress status on a regular basis with respect to the investment planning and key measures needed to achieve this.The company considers withdrawing from or selling off businesses and assets with low capital efficiency where there is no prospect of improvement. The company will also work actively to reduce cross-shareholdings.The company will formulate an appropriate approach to capital structure and shareholder returns.
	Communication	<ul style="list-style-type: none">The company compiles an integrated report and/or ESG report, and also compiles detailed supplementary data to accompany its financial results. The company also implements timely disclosure of other information.The company creates opportunities for dialog between senior management, outside directors, employees and shareholders, respectively, at least once a year. The company also holds regular business presentations and site visits, etc.The company's management philosophy, long-term vision and business plan are consistent with one another and are able to appeal to stakeholders.The company's outside directors are aware of where the company needs to be, are capable of confirming and pointing out the company's problems, and are provided with adequate information by the company.IR personnel have access to all necessary information for engaging in dialog with investors, and the management team receives feedback on the content of dialog with investors.In regard to initiatives relating to key ESG issues, the company implements all necessary disclosure adequately, and also engages in dialog with stakeholders.

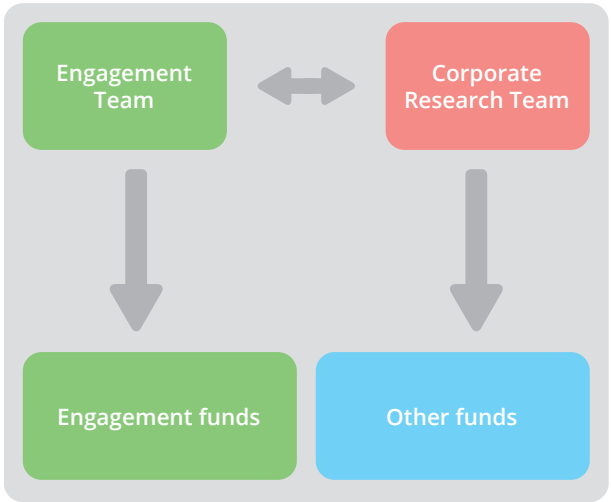
Engagement Plan for the Next Fiscal Year

Enhanced collaboration between the Engagement Team and the Corporate Research Team

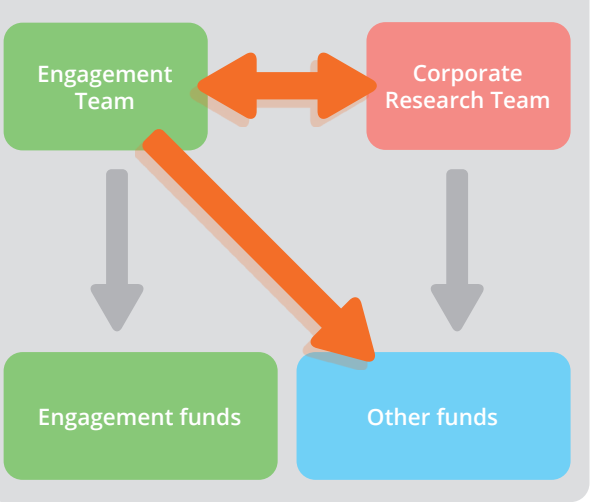
While fund managers in the Engagement Team and analysts in the Corporate Research Team have previously worked together when required, we are now making efforts to deepen this collaboration. Doing so will enable us to improve the quality of engagement conducted by the Engagement Team, as well as to facilitate more active engagement by Daiwa AM as a single entity in investee companies with which engagement is conducted. We will

thereby aim to realize even greater benefits from the improved investment performance that engagement brings.

To date



Going forward



Utilization of a Japanese version of the Drucker Institute Score

In 2022, Daiwa AM formed a comprehensive business alliance with the United States' Drucker Institute, and as part of this alliance, have jointly developed a Japanese version of the Drucker Institute Score for Japanese companies. The Japanese version of the Drucker Institute Score will be used to quantify human capital, intellectual property, and other capabilities which financial data fails to capture, thereby actively increasing the effectiveness of engagement.



Enhancing "lingagement" and continuation of the ESG Meetings

We will continue to provide opportunities for exchanges between investee companies and introductions of best practice companies as part of our "lingagement" initiatives. In addition, we will continue to conduct our ESG Meetings, which have been held since 2021.



Enhancing passive engagement

As previously described, we will actively engage in passive engagement to improve investment performance, and thereby increase fiduciary returns with respect to passive fund investment. This will initially involve Daiwa AM encouraging companies that we judge to have high ESG risks based on our materiality to take action to reduce those ESG risks. By doing so, we will continue to encourage them to improve their corporate value over the medium to long term.

Proxy Voting

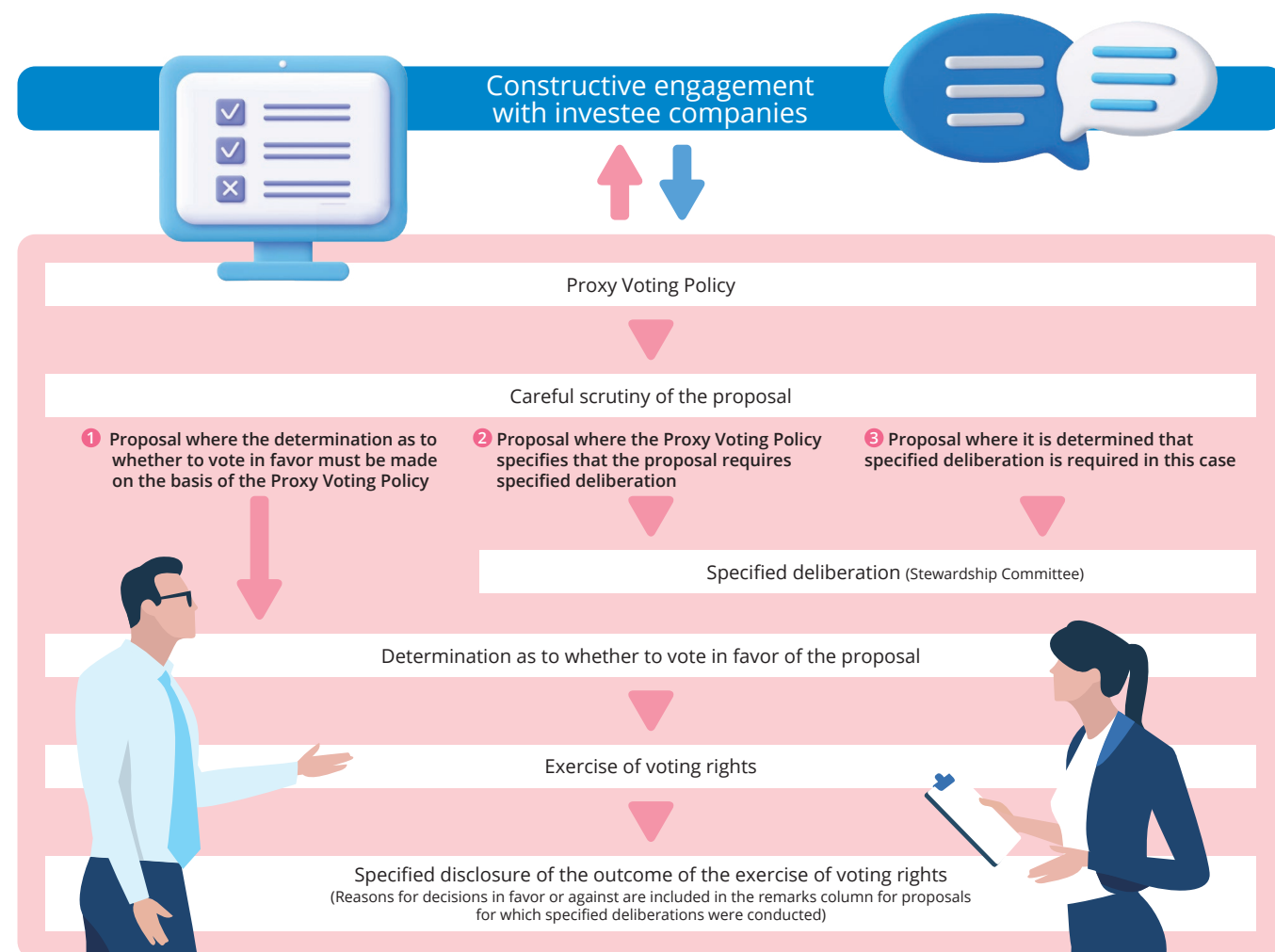
Key features of Daiwa AM's Proxy Voting Policy

- 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.
- Approval or disapproval of the exercise of voting rights 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.
- We make rational decisions based on the relative position of the investee companies in the TOPIX 17 industry categories, 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 a painstaking process that reflects the know-how obtained through constructive dialogs 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.



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 2023.

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 from a combination of the following perspectives.

- ① Whether the inclusion of this information in the Articles of Incorporation will be an obstacle to the business development of the company in question
- ② Whether the content of the amendment is appropriate for inclusion in the Articles of incorporation

Examples of engagement with companies subject to shareholder proposals, and points considered when making exercise decisions

Daiwa AM strives to make exercise decisions after meeting with both the investee company subject to the shareholder proposal and the shareholder making the proposal and confirming their

respective thinking. In 2023, there were six cases in which we met with both parties. Following are examples of proposals related to the election of directors, which were among the most common.

Example 1

Company A

Daiwa AM Engagement Participants:
Corporate Research Team;
Stewardship Team

Outline of Shareholder Proposal

- In response to last year's TOB from Company X, the company agreed to a purchase price that underestimated the potential of Company A, the sole reason for which was to protect itself by becoming a director of Company X. The proposing shareholder, Company Y, believes it is possible to realize shareholder value above the offering price by Company X.
- Company Y pointed out a lack of governance in that the board of directors makes decisions without sufficient discussion or institutional decision-making, and even outside directors blindly support management's decisions. Current management has failed to act to maximize shareholders' profits, and the proposal regarding election of directors was submitted based on the judgment that a restructuring of the board is necessary to improve corporate value.

Topics of Discussion with Company A

- Relationship with Company X going forward regarding last year's TOB from Company X
- Background of the major changes in governance structure, including the resignation of two representative directors and a major reshuffling of outside directors
- Process for nominating director candidates

Topics of Discussion with Shareholder Proposer

- Background leading to the shareholder proposal and key points
- Process for selecting candidates for the board of directors

Issues for the Stewardship Committee

Issue 1 Whether to support the plan of increasing corporate value at Company A, and whether governance can be considered inadequate.

- The company's new medium-term management plan and its accompanying capital policy were rated positively, and the share price has risen since the TOB was published
- Considering the specificity of the business plan and the company's ability to implement it, we basically support the company's measures to increase corporate value
- There is no clear and objective proof of the inadequate governance claimed by Company Y, the shareholder proposer

Issue 2 The skills and knowledge of the company's proposed directors and each of the candidates in the shareholder proposal. Who are the candidates needed for growth going forward?

- Some of the shareholder proposal candidates can be appraised as having the deep knowledge and skills needed for the company's future growth
- Oppose some of the candidates proposed by the company based on their skill sets and other factors, given that a significant increase in the number of directors on the board could impair the flexibility of management decision-making
- Verify the skill matrices and publicly disclosed work histories and skills

Exercise decision points and results

Approved three of candidates in the shareholder proposal from the viewpoint of ensuring diversity and in expectation of their contributions to the company, including knowledge of new business fields. Also, based on the judgment that the number of members on the board of directors should not be enlarged, we opposed three of the candidates proposed by the company after considering their skill matrices.



Company B

Daiwa AM engagement participants:
Corporate Research Team;
Stewardship Team

Outline of Shareholder Proposal

- Shareholder proposer pointed out that the founding family has enormous influence in the company, given that they own more than 30% of the company's shares and have an oligopoly over key positions, including chief advisor, chairman, president, and deputy president. Given also that no voluntary systems have been put in place to protect the interests of minority shareholders, such as establishing nominating and compensation committees, they proposed inviting outside directors with a greater degree of independence.
- Also, since the issuance of stock subscription rights to the founding family was carried out through a procedure by the board of directors without a resolution of the company's general meeting of shareholders, effectively putting the nature of the stock subscription rights in question as executive compensation, the proposer suggested that nominating and compensation committees should be established consisting of a majority of outside directors, both to strengthen the independence, objectivity, and accountability of procedures for nominating directors and to determine their compensation.

Topics of Discussion with Company B

- Outside director selection process; why outside directors do not agree to a dialog; specific schedule for establishing nominating and compensation committees
- Verify the reason for issuing stock options issued several years prior and who the recipients were; explanation of the significant discount from the fair price and the reason for setting the exercise price at the most recent stock price level; suspicions that the company may have intentionally revised its financial results to manipulate its stock price
- Reason for Mr. W's appointment to the board of directors and management's response to the shareholder proposal

Topics of Discussion with Shareholder Proposer

- The problem of stock options issued to current president Mr. Z and current deputy president Mr. Y
- The problem of Mr. W's independence
- Problems regarding successors and continuity of the business; the independence of the reappointed outside directors

Exercise Decision Points and Results

Decision regarding inside directors

- Based on Issue 1, there is an urgent need to improve and strengthen the company's governance structure.
- Regarding Issue 2, if true this would represent a breach of trust against general shareholders and a serious problem, but it is limited to circumstantial evidence accumulated by the shareholder proposer, and there is no definitive proof. That said, we believe that issuing SOs with allegedly favorable terms to top management without a resolution of the general meeting of shareholders is a sign that governance is not functioning.

Decision 1 We oppose the reappointment of Mr. Z, as the company's representative director, on the assumption that the company's governance failures are serious and that top management should be held accountable for said responsibility.

Issues for the Stewardship Committee

Issue 1 Problems with the governance structure

- The company has not established voluntary nominating and compensation committees.
- The company does not provide English-language or TCFD disclosures as required of companies listed on the TSE Prime Market.
- They have not disclosed a skills matrix.
- Executives have a policy of not, in principle, engaging in one-on-one discussions with shareholders and investors.
- Absolutely no training is conducted for executives.
- Outside director compensation comes to about three million yen per person, and with no voluntary committees, it is difficult to believe they are fulfilling an adequate supervisory function.

Issue 2 Issuance of stock options ("SOs") several years prior

- Several years ago, current president Mr. Z and current deputy president Mr. Y were issued SOs amounting to an 11.1% dilution. The reason for the issuance was to increase their commitment to management, but both gentlemen already each held more than 10% of shares as members of the founding family. Further, based on the judgment that this was not executive compensation, despite the fact that both were management executives, the SOs were issued solely by a resolution of the board of directors.
- The fair value for the above SOs was 2,073 yen per share, but the actual issuance price was 15 yen. The company explained this significant discount by saying the SOs came with strictness of company's performance and other exercise conditions.
- A downward revision to financial results prior to issuance of the SOs resulted in a significant drop in share price, and the exercise price was set at that share price level. Subsequently, however, full-year results ended up exceeding the initial plan. Note that since moving to a holding company structure, the company has not revised its results other than this one time, and the assumptions behind the plan that was revised downward are also not consistent with the company's actual promotional campaign measures.



- The SOs issued several years ago ❶ came with a significant dilution equivalent to 11.1% per outstanding share, and ❷ by exercising these SOs, the founding family's share of the company would increase (to over one-third), giving them veto power. Despite these being serious issues for minority shareholders, the SOs were issued without a resolution of the meeting of shareholders, and solely by resolution of the board of directors.
- In addition, though the company states that the SOs were issued to increase management commitment, no rational explanation has been given for granting a large number of shares to just two members of the founding family who already hold a certain number of shares.

Decision 2 We believe that issuing said SOs solely by resolution of the board of directors is a serious problem that disregards the interest of minority shareholders. We thus oppose those directors who participated in the resolution of the board of directors at the time.

Refer to the chart at right for the decision regarding outside directors →

Important management issues at Company B and the skills and knowledge required of its outside directors

Important Management Issues

- Strengthening governance systems, including protecting minority shareholders
- Improving the independence and effectiveness of outside directors
- Ensuring directors have the proper attitude toward and provide opportunities for dialog with shareholders and investors
- Advancing initiatives included in the medium-term management plan
- Strengthening ESG initiatives and information disclosure



Skills and Knowledge Required of Outside Directors

- Deep knowledge of corporate governance at listed companies
- An understanding of the importance of dialog with shareholders, and knowledge of capital markets
- Knowledge of the business and industry to support advancing business strategy
- Deep knowledge of ESG management

Prioritization of skills and knowledge expected of outside director candidates and their contributions to the company

Name	Proposer		Skills and knowledge		Skills	Opinion	Decision
Mr. S	Company	Reappointment	Retail industry management	Listed company management	❶	Opposed based on Daiwa AM's Proxy Voting Criteria, given that he is the head of a major shareholder and not an independent director.	Against
Mr. T	Company	Reappointment	Attorney		❶	Has served as outside director at multiple listed companies, and has a certain amount of knowledge or governance at listed companies. However, in the belief that said issuance of SOs solely by resolution of the board of directors is an important problem that disregarded the interests of minority shareholders, we oppose Mr. T, who participated in that board of directors' resolution.	Against
Mr. U	Company	Reappointment	Accountant		❶	While he has no directorship experience at other listed companies, he can be expected to contribute to supervision of governance and management from the position of accountant.	In favor
Ms. V	Company	Reappointment	Corporate management	Pharmaceutical Industry	❶	As head of a pharmaceutical company, he can be expected to contribute to the company's governance and business strategy.	In favor
Mr. W	Company	New Appointment	Head of a dispensing pharmacy		❸	As operator of a dispensing pharmacy, can be expected to make a certain contribution to advancing the company's medium-term plan of increasing the ratio of facilities with dispensing pharmacies, however, this is not a high priority for the company. We oppose his appointment because of concerns about his independence, given his ties to former employees and inside directors.	Against
Mr. X	Shareholder	New Appointment	M&A	Listed company executive	❶ ❸	Has served as an outside director at other listed companies, and has a certain level of knowledge about governance. Proposed by a shareholder and considered fully independent, he can be expected to contribute to improving governance.	In favor



Roundtable Discussion with Stewardship Committee Members

Expectations for Governance Reforms



Norihiisa Takao

Head of Active Fund
Management Department II,
Managing Director

Jun Matsumoto

Head of Beta Management &
Investment Solution
Department, Managing
Director

Yuka Shimada

Senior Managing Director,
Head of Stewardship & ESG and Deputy
Head of Global Business, Fund
Management Division

Fumiaki Saguchi

Head of Responsible
Investment Department,
Managing Director
Stewardship Analyst

At Daiwa AM, the Stewardship Committee deliberates proposals for which the Proxy Voting Policy stipulates in advance that individual decisions are to be made, or for which individual deliberations are deemed necessary. At Stewardship Committee meetings, committee members engage in a vigorous exchange of various opinions, each time resulting in heated debate. Here, four members of the Stewardship Committee review several agenda items from general shareholders' meetings and talk about the effectiveness of the board of directors as the key to improving corporate value.

Judging whether to vote in favor of or against shareholder proposals

Saguchi: Amid expectations for governance reforms at Japanese companies, a record number of shareholder proposals were made in 2023, and the Stewardship Committee discussed many of them.

How do you judge whether to vote in favor of or against shareholder proposals (and for what kind of reason do you vote in favor of shareholder proposals)? What are the issues involved?

Shimada: Important criteria for deciding include

whether the shareholder proposal will lead to improving the investee company's medium- to long-term value and its sustainability as a business, and whether it may not be detrimental to the interests of minority shareholders.

In addition, while proposals calling for greater disclosure of information on and stronger initiatives regarding ESG have been on the rise recently, and may lead to increased shareholder value, we make our decisions based on the status of corporate initiatives and other considerations.

Evaluation of the effectiveness of the board of directors and the independence of outside directors in calling for the appointment and dismissal of directors

Saguchi: Many shareholder proposals are submitted calling for the appointment or dismissal of directors. Of note are those focused on strengthening governance, including proposals to strengthen the independence of outside directors and to appoint directors with skills that will contribute to enhancing corporate value. In some cases, they also pointed out a lack of governance on the part of the board of directors, even in companies whose operating results are trouble-free. What do you think is needed to establish board governance?

Takao: The functions of the board of directors can

largely be divided between decision-making and supervisory roles. We believe it is particularly important for the latter to function that the board of directors maintains an appropriate level of tension. In this respect, attention must be paid to the selection of outside directors and a balance in their numbers. Outside directors must have the ability to independently investigate and possibly remove top management when problems arise in the management of a company, including issues related to the conduct of top management. Regardless of business performance, we

believe it is necessary to alter the numerical balance within the board, such as by increasing the number of outside directors, when shareholder proposals aimed at strengthening governance seem supported by a certain rationale.

Saguchi: Daiwa AM manages many passive funds; what are the key points you emphasize in exercising voting rights from the viewpoint of passive management?

Matsumoto: In passive management, we handle a huge number of stocks, and realistically, this makes it difficult to discuss the individual compositions of the boards of directors of every company. As long as the stock is employed in an index aiming to be linked, it cannot be sold simply for lack of governance. The composition and effectiveness of the board of directors must be judged externally in terms of the ratio of outside directors, diversity, and other factors. If it fails to meet those criteria, we express our intentions through the exercise of our voting rights in the company, and encourage them to make improvements. Other possible criteria for deciding to vote in favor of or against a proposal include, as noted previously, the ratio of outside directors, ensuring diversity and other quantitative standards, as well as qualitative judgments from the viewpoint of capital efficiency, corporate culture, etc. as seen in the reasons for and responses to scandals, and others.

Saguchi: You mentioned that in establishing governance, selection of outside directors and the ratio of outside directors on the board are important. What do you think is required of outside directors?

Shimada: I believe they require the independence that enables objective supervision of management, as well as a variety of attributes and expertise that can contribute

Expectations for investee companies

Saguchi: There is a trend toward outward fulfillment of improvements in board of director governance, including ensuring gender diversity and increasing the ratio of independent outside directors. Still, the problem is their effectiveness. What do you require of your investee companies in enhancing this effectiveness?

Takao: Currently, the skills of outside directors primarily comprise corporate management experience, but going forward, we believe it will be important to secure personnel who have knowledge of capital markets, including how to respond to activists and other types of radical investors.

We would also like investee companies to actively pursue dialog with outside directors and institutional investors. We think that a truly independent outside director with sufficient skills should be capable of engaging in dialog with institutional investors, and would enhance the effectiveness of investor engagement activities.

to the diversification of the board of directors. Regarding expertise, we expect them not to intervene in business execution, but to utilize their skills solely in terms of oversight aimed at improving governance.

Saguchi: What do you emphasize in determining independence in relation to a proposal for appointment of outside directors?

Takao: We assume that even if an outside director formally meets the criteria for independence, it is possible that both company and shareholder proposals contain a fundamental bias in the choice of candidates for outside director. This is especially likely when both the company and its shareholders have submitted a candidate for outside director. To determine true independence under such circumstances, we believe it is essential to engage in dialog with candidates for outside director to the extent time permits, to gain an understanding of their views on the company in question and the shareholder proposals.

Saguchi: There have been cases where, in the selection of directors proposed by shareholders, you have voted in favor of some of the candidates from the standpoint of improving corporate governance, taking into consideration their skills and other factors. What do you think regarding the importance of skills matrices as a means of verifying a director's skills?

Takao: They are important in the sense that they are a first step in verifying whether the skills the board needs in order to function properly are well-organized and how those skills are covered by the inside and outside directors. That said, in some cases the skills indicated may be of questionable reasonableness and objectivity, making it difficult to judge solely on the skills matrix.

Shimada: I also look for opportunities to engage in dialog with outside directors. In doing so, I try to verify whether they have sufficient knowledge and understanding of the company, whether they understand the role expected of them, and how they deal with the company in exercising the supervisory function.

I think it is also important for the companies themselves to improve the effectiveness of their outside directors by conducting their own effectiveness assessments and addressing any issues they may identify.

Matsumoto: We expect to see proactive dialog with activists. We also believe that, to increase effectiveness, it is important that companies ensure that board of directors' meetings are held frequently enough to allow for adequate discussion.

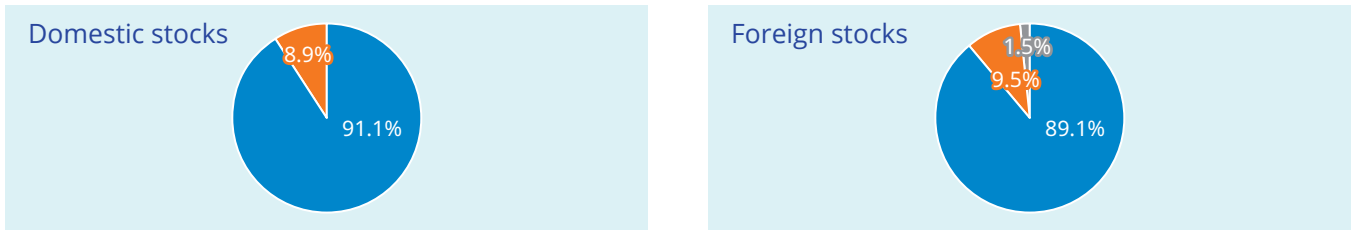
Proxy Voting Outcomes

In 2023, proxy voting rights were exercised for 2,412 Japanese companies and 3,171 non-Japanese companies. The following table shows the status of those votes by proposal.

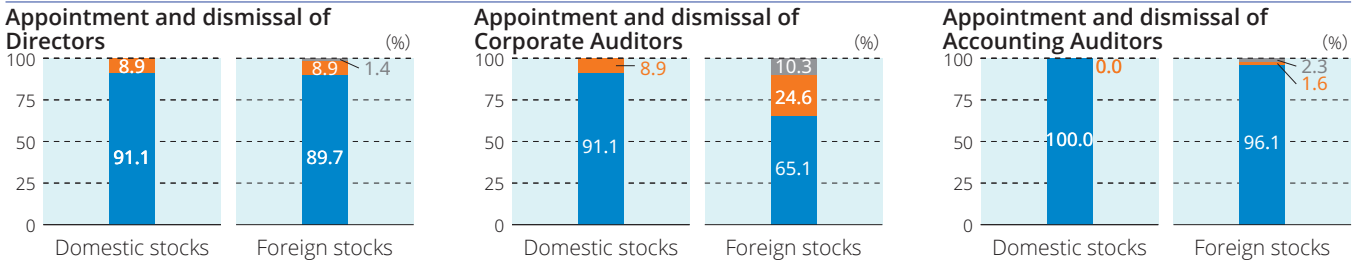
■ In favor ■ Against ■ Pending*1

/Proposals relating to company proposals

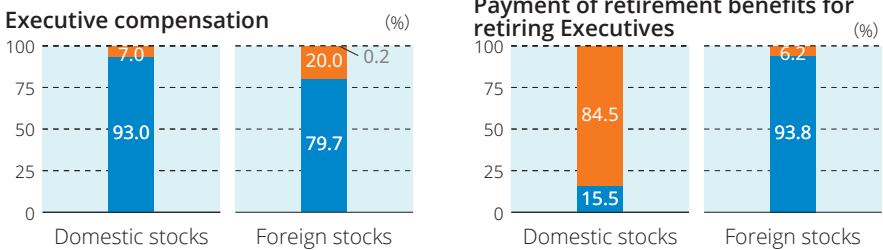
Total



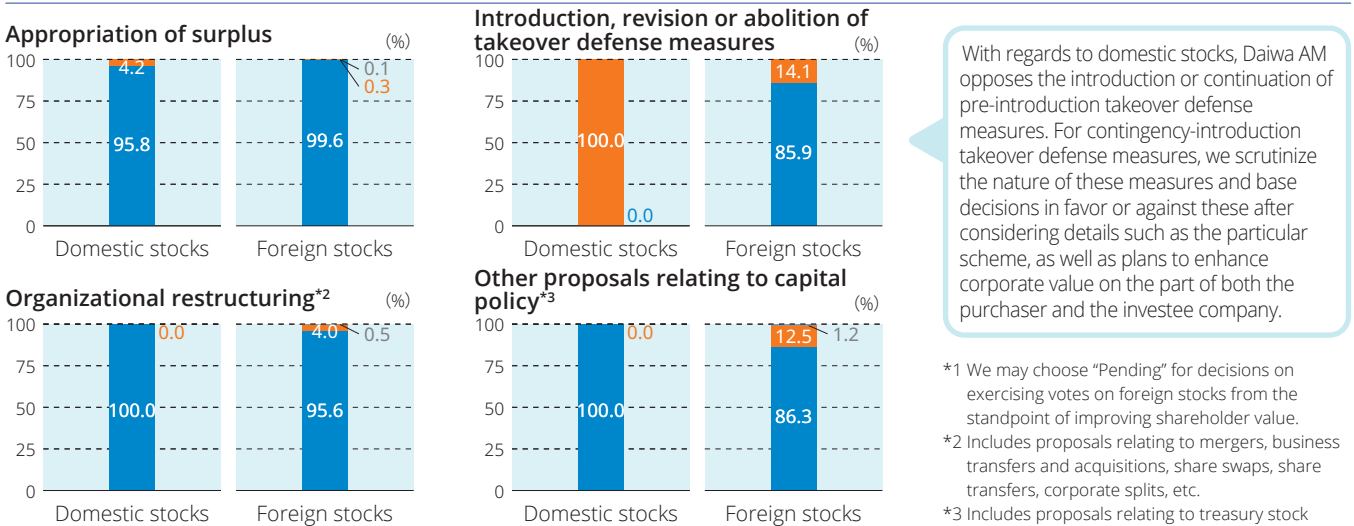
Proposals relating to company organization



Proposals relating to Executive compensation

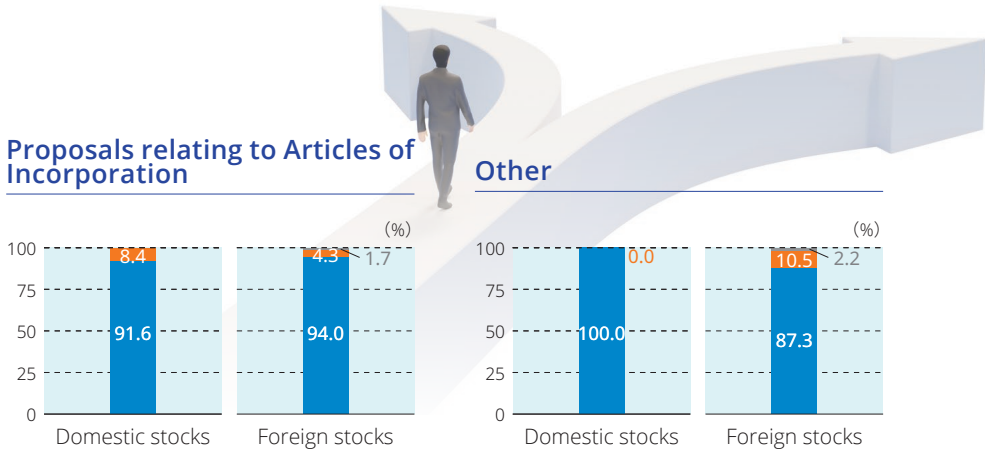


Proposals relating to capital policy



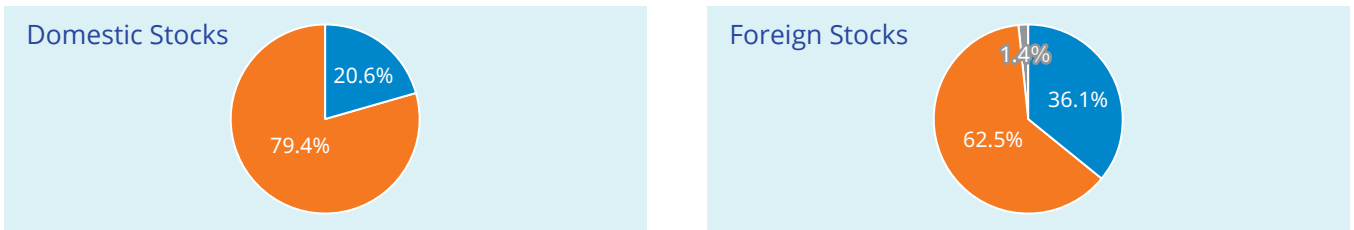
With regards to domestic stocks, Daiwa AM opposes the introduction or continuation of pre-introduction takeover defense measures. For contingency-introduction takeover defense measures, we scrutinize the nature of these measures and base decisions in favor or against these after considering details such as the particular scheme, as well as plans to enhance corporate value on the part of both the purchaser and the investee company.

*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.



/Proposals regarding shareholder proposals

Total



Column

Approach to Performance Criteria

Through the exercise of voting rights, we aim to improve the medium- to long-term value and sustainability of our investee companies.

Toru Yamanoi
Senior Executive Managing Director
Head of Fund Management Division



In the exercise of proxy votes regarding domestic stocks, Daiwa AM voted against 8.9% of company proposals. This was up by less than 2% compared to our voting record in 2022, but it has been pointed out that this rate of opposition is lower in comparison to the proxy voting records of other institutional investors.

The majority of company proposals involve proposals regarding the appointment of directors and the disposition of surpluses. In principle, however, we oppose candidates for reappointment as directors of investee companies that have failed to achieve ROE for three consecutive terms when compared to other companies in the same industry.

In general, institutional investors' proxy voting criteria use the same thresholds for ROE and other performance criteria. However, Daiwa AM's policy is to use the criteria noted above based on the belief that decisions should be made by looking at individual company circumstances and the characteristics of each industry. The percentage of votes exercised against candidates of reappointment to boards of directors thus

tends to be relatively low.

That said, with regards to shareholder proposals, which have been on the rise in recent years, as with company proposals we carefully examine each company's situation and make decisions in favor of or against proposals with the goal of improving corporate value over the medium to long term. As a result, the ratio of approval of shareholder proposals by institutional investors, including activists, was 20.9%, up 4.2% from 2022*4.

These approval/opposition ratios result from a close examination of individual proposals, and are not intended to control the ratios themselves, and thus they are likely to rise or fall going forward. However, we will continue to exercise our proxy voting rights based on a close study of the condition of the individual companies and the characteristics of their respective industries, based on the judgment that those decisions will truly contribute to improving their corporate value.

*4 Compiled by Japan Shareholder Services Ltd.

Comparison with previous year (2022)

The number of opposing votes increased as a result of a revision of the Proxy Voting Policy in May 2023, which expanded the criteria for the appointment of at least one female director from TOPIX 500 companies to the TSE Prime Market, and tightened the application of those criteria to companies.

✕ Opposition to representative directors due to violation of criteria on female corporate officers



Future issues to consider

Some of the issues for future consideration regarding the Proxy Voting Policy (domestic stocks) include the following:

Tackling ESG issues
(Diversity, equity, and inclusion)

Daiwa AM believes that diversity, equity, and inclusion initiatives and enhanced information disclosure by companies are important topics of engagement. Not only do these efforts contribute to enhancing corporate value, but also improve the efficiency of corporate management by making use of underutilized corporate resources.

Proxy voting criteria currently require TSE Prime Market listed companies to have a multi-gender board member composition, but we will consider expanding the scope of application and requirements regarding the number of members in the future.

Cross-shareholdings

Daiwa AM believes that, in principle, cross-shareholdings should be sold because the cross-holding of shares reduces the company's governance function and because such cross-holdings can lead to a decline in capital efficiency. At the same time, we recognize that it is difficult for companies with large current holding to rapidly reduce those holdings, so we have set a threshold for excessive holdings at 20% or more of net assets. We will, however, consider lowering the numerical criteria going forward. In addition, we recognize that the practice of asking business partners, etc. to hold a company's shares or to refuse to sell a company's shares is problematic. We will thus seek improvements from such companies through engagement, and consider incorporating those efforts in our proxy voting criteria going forward.

+ WEB Please visit the following webpage for details and information on other issues being considered (in Japanese):

<https://www.daiwa-am.co.jp/company/managed/revguideline.pdf>

In addition, when judging the number of outside directors, the number of votes in opposition has increased with a change to judging by the number of independent outside directors, which meets Daiwa AM's requirements for independence.

✕ Opposition to representative directors due to insufficient number and ratio of independent outside directors



Adjustments to individual disclosures

Early disclosure

We disclose our decisions for or against individual investee companies and proposals at the end of the month following the month in which the general meeting of shareholders is held.

Dedicated site set up to facilitate searchers

Using the Glass Lewis platform, we have created an environment that makes it easy to search for results of proxy votes by filtering by the date of the general shareholders' meeting, searching by issue name, and so on. Past proxy vote results can also be viewed.

Tool for disclosing proxy vote results using the Glass Lewis platform

日付	コード	銘柄	議決権	議決日
2023-07-31	7745	ABBグループ	賛成	2023-09-22
2023-07-31	3056	ABBグループ	賛成	2023-09-26
2023-11-30	8074	ABBグループ	賛成	2023-11-28
2023-11-30	6965	ABBグループ	賛成	2023-09-27
	4813	ABBグループ	賛成	2023-09-29
	4881	ABBグループ	賛成	2023-09-23
	2882	ABBグループ	賛成	2023-09-28
	2027	ABBグループ	賛成	2023-11-28
	5291	ABBグループ	賛成	2023-09-28
	3648	ABBグループ	賛成	2023-09-22
	4476	ABBグループ	賛成	2023-09-27
	3032	ABBグループ	賛成	2023-09-27
	3437	ABBグループ	賛成	2023-09-26
	7035	ABBグループ	賛成	2023-11-28
	6932	ABBグループ	賛成	2023-09-28
	6214	ABBグループ	賛成	2023-09-29
	4180	ABBグループ	賛成	2023-09-29

<https://viewpoint.glasslewis.com/WD/?siteId=DaiwaAM>

Data can be downloaded as an excel file

You can collate and analyze the proxy vote results by downloading the Excel file.

Stewardship Committee

Message from the Chair of the Stewardship Committee



We focus on engagement and seek to enhance the corporate value of investee companies and increase the medium- to long-term returns of each investment fund.

Hisashi Kanamori
Senior Executive Managing Director, Executive Head of Fund Management Division and CIO and Head of Global Business

In 2023, the capital efficiency and market evaluations of companies were once again a focus of attention following a request from the Tokyo Stock Exchange for Action to Implement Management That Is Conscious of Cost of Capital and Stock Price. Many companies announced specific measures for enhancing ROE and PBR, and awareness of capital costs, ROE, and PBR has increased on the part of both investors and companies. There will continue to be expectations for companies to take active measures into the future, and the importance of stewardship activities as a means of actively promoting reforms by investee companies is increasing.

Daiwa AM believes that engagement (constructive dialog) that involves direct communication with investee companies is the foundation of our stewardship activities, and we have long actively conducted such activities. We also believe that engagement conducted with appropriate content and methods to address the issues that companies are facing can identify and eliminate the factors that impede fundamental corporate value, thereby leading to improved corporate value.

In active management in particular, we go beyond simply seeking improvement in the quantitative indicators, such as ROE and PBR, of investee companies, and we engage in exchanges of opinions to encourage investee companies to reform their business portfolios by reviewing their corporate culture and exploring new business areas where they can leverage their strengths, encouraging corporate transformation. For example, we conduct “lingagement” initiatives for companies that are confronting the issue of improving corporate value, such as introducing companies that have faced similar issues and found solutions and holding networking events where companies can share their knowledge.

For an even broader scope of investee companies,

Daiwa AM engages in passive engagement that seeks to enhance corporate value for the market as a whole. In passive engagement, the primary aim is to mitigate and eliminate risks based on the material issues that we emphasize in relation to ESG and best practice adopted in the organizing of initiatives of companies that we believe conduct the best corporate governance overall.

We see the exercise of voting rights of investee companies, along with engagement, as a key tool for contributing, as an institutional investor, to the improvement of corporate value. When establishing or revising standards on the exercise of voting rights, we use the knowledge that we gained through engagement and conduct adequate internal deliberation so that our ideas on corporate governance can be reflected. In addition, if we determine through engagement with a company that it would not be appropriate to decide whether to vote for or against a proposal in accordance with the voting criteria, we may engage in internal deliberations to reach a decision on a case-by-case basis.

In July 2022, Daiwa AM formed a business alliance with the Drucker Institute in the U.S., and in December of that year, we established and began managing the Drucker Institute U.S. Equity Fund (Capital Growth Type), which uses a proprietary analytical model based on the Drucker Institute Score. In March 2024, we jointly developed a Japanese version of the Drucker Institute Score that covers Japanese stocks. In addition to using this score for investing in Japanese stocks, we are also considering its application as an engagement tool that focuses on the intangible assets of Japanese companies.

Going forward, Daiwa AM will continue to use tools, such as the Drucker Institute Score and ESG scores that we independently calculate to conduct engagement and stewardship activities with the objective of increasing returns for investors by improving corporate value.

Framework for Stewardship Activities

The Stewardship Committee undertakes decision-making in relation to practical policies, and the Stewardship Supervisory Committee oversees conflict of interest management 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.

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, it 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 conflict of interest management.



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 emphasizes 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 webpage (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 (Glass, Lewis & Co., LLC), 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 or 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.

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.

ESG Investment Policy

- Through our asset management business, we will provide all investors with the opportunities to invest in companies that are proactively addressing ESG and SDGs issues, as well as contributing to building a sustainable society.
- We believe the companies' ESG initiatives can lead them to grow in the medium-to-long-term and reduce risks. We will consider these measurements in terms of our investment decisions.
- Through constructive dialogue with the investee companies, we call for proactive ESG initiatives and share ESG issues. We will support them to maintain sustainable growth and longer-term corporate value.

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.

Materiality

Materiality relating to environmental, social and governance (ESG)

Key issues		Specific points of focus	
Information disclosure			
Environmental	Climate change	<ul style="list-style-type: none">● Greenhouse gas emissions● Energy transition	<ul style="list-style-type: none">● Responding to climate change risk
	Natural capital	<ul style="list-style-type: none">● Environmental pollution● Biodiversity	<ul style="list-style-type: none">● Resource conservation
Social	Social responsibility	<ul style="list-style-type: none">● Business and Human rights● Supply chain management	<ul style="list-style-type: none">● Contributing toward the building of a healthy, safe society
	Human capital	<ul style="list-style-type: none">● Enhancing the value of human capital● Diversity, Equity & Inclusion	
Governance	Measures aimed at corporate value enhancement	<ul style="list-style-type: none">● Governance framework● Improving capital efficiency	<ul style="list-style-type: none">● Risk management● Communication

Other perspectives on sustainability in general

Key issue	Specific points of focus
Other sustainability	<ul style="list-style-type: none"> Intellectual property (IP) Digital transformation (DX) Artificial intelligence (AI)

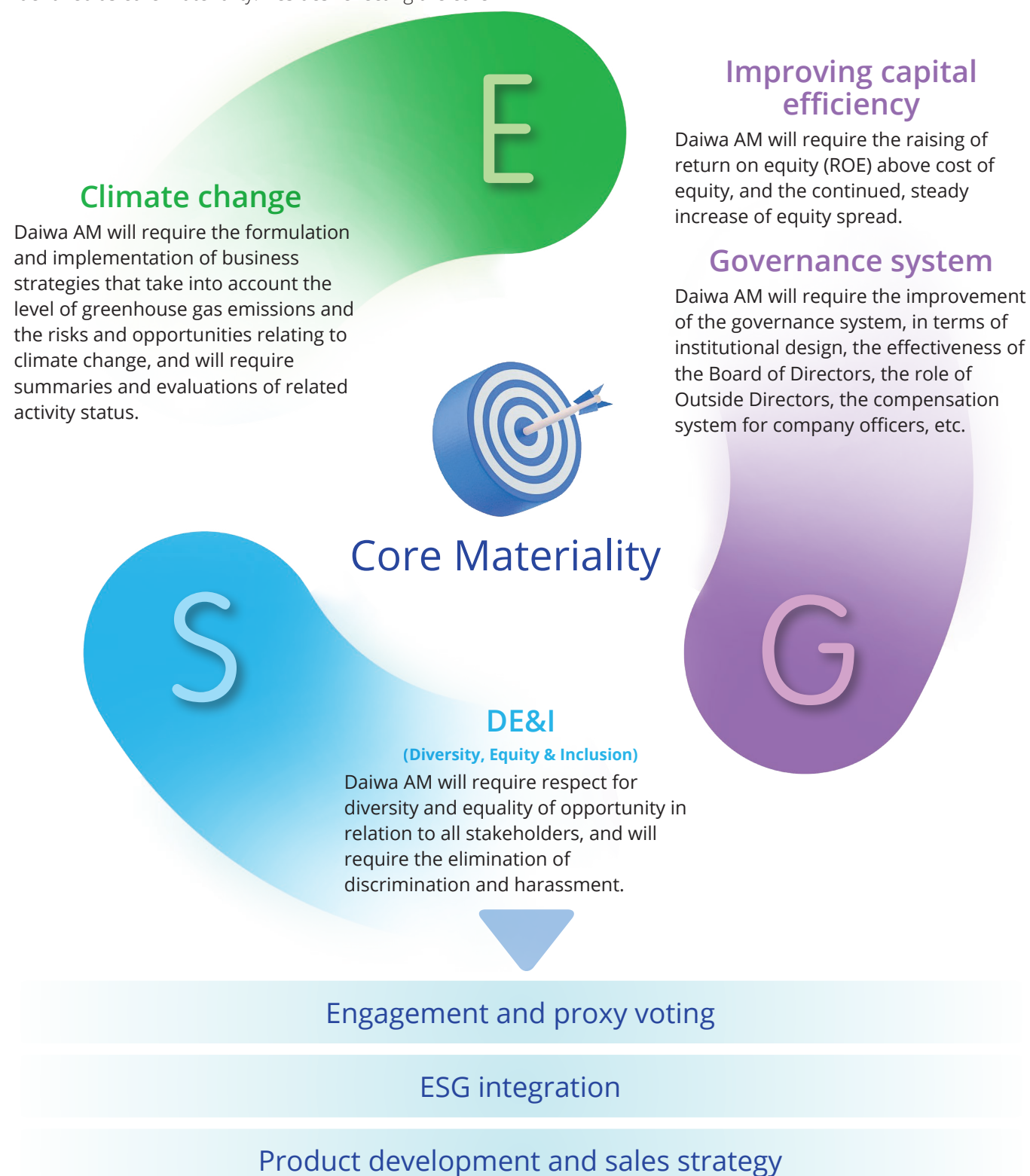
ESG Integration

/Core materiality (Targets and Measures)

Integrating core materiality with Daiwa AM's investment and business activities

Daiwa AM has analyzed its materiality from two perspectives: sustainability, and long-term returns. Items that score highly for both of these perspectives are identified as core materiality. Besides reflecting the core

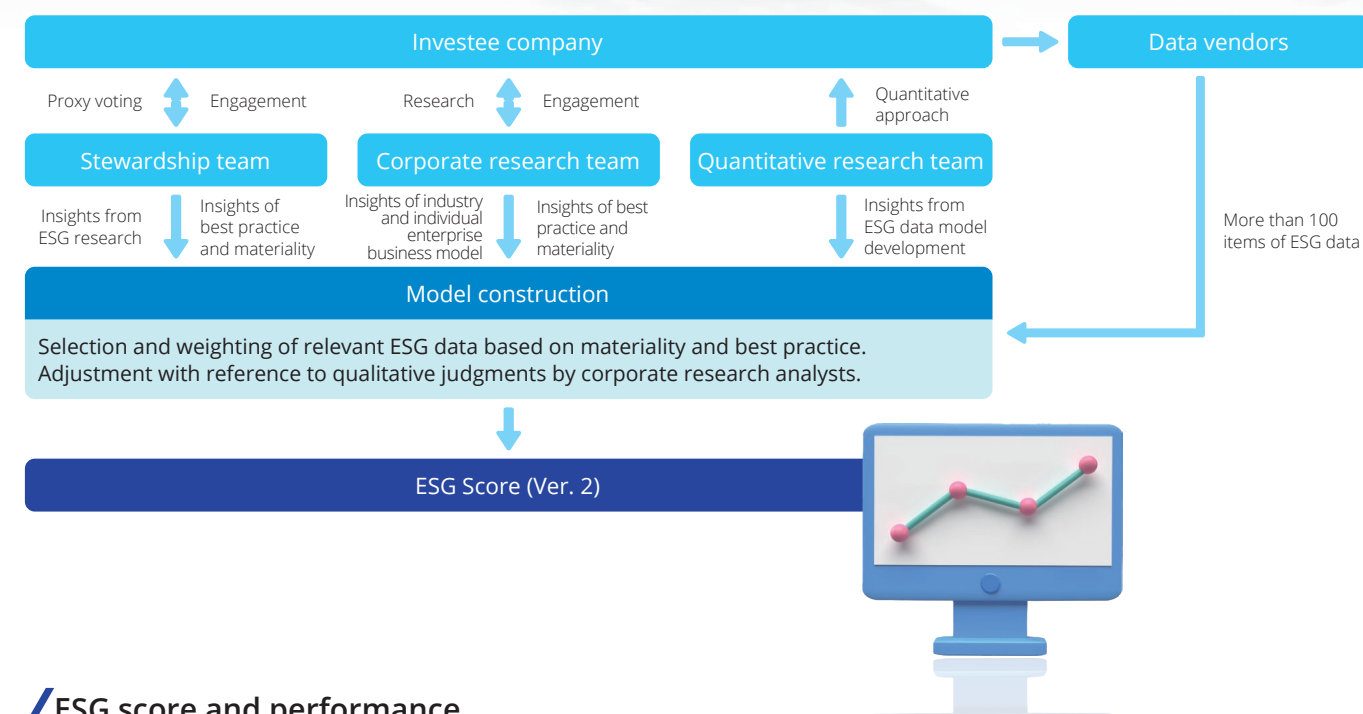
materiality identified by Daiwa AM in engagement, proxy voting and investment decision-making, the company is also applying this core materiality across a wide range of its business activities, including product development and sales strategy.



/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)



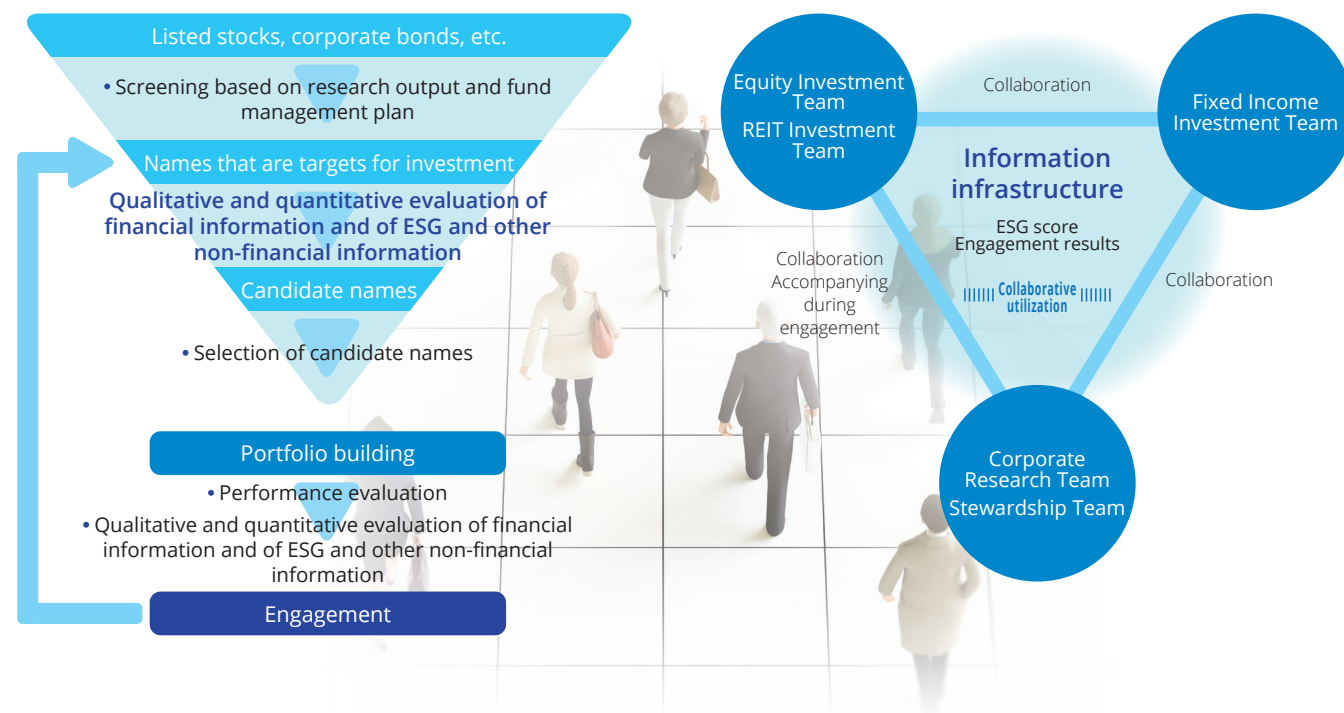
Note: The stock universe comprised the stocks included in Japan's TOPIX 1000 index. When monthly rebalancing is executed, neutralization is implemented using Daiwa AM's proprietary industry classification.

Integration of ESG scores and other no-financial data into the investment process, and collaborative utilization of this data via the information infrastructure

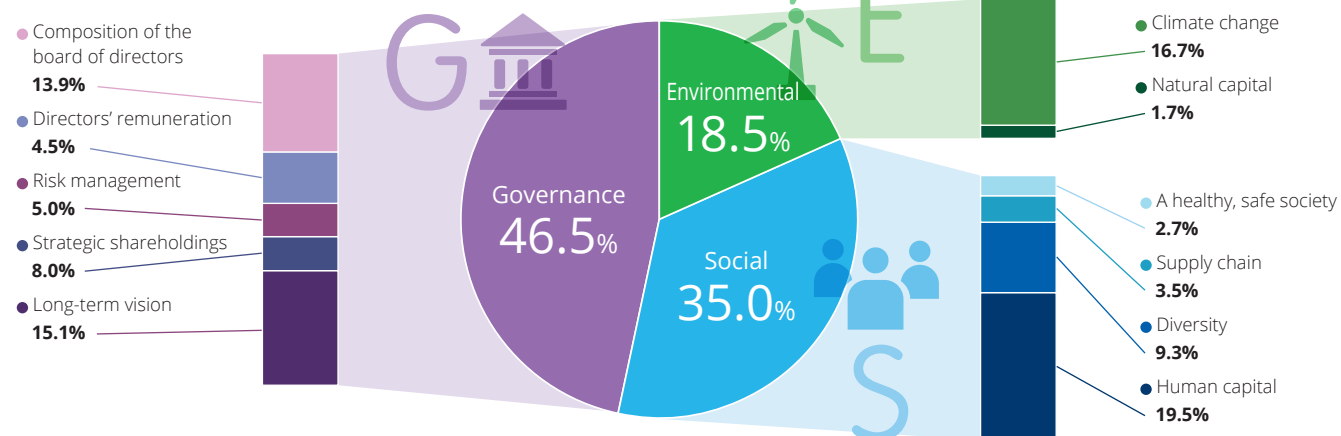
ESG scores and the content of dialog with companies are stored in our in-house information infrastructure, a system that allows anyone involved in asset management to utilize the information. By utilizing this information not only for equity investment but also for fixed income investment, Daiwa AM has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

Investment process of funds

Collaborative utilization of information



ESG-related engagement—Topics



Period covered: January–December, 2023

Of the three major classification—Environment (E), Social (S), and Governance (G)—the share of engagement topics accounted for by the S aspect fell from 40.9% to 35.0%, while the shares held by the G and E aspects rose from 40.9% to 46.5% and from 18.2% to 18.5% respectively.

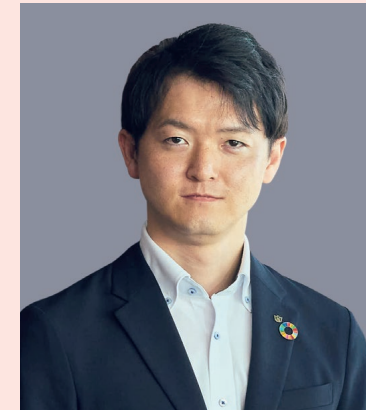
For more detailed classification, global warming remains an important topic and therefore climate change stays as an important topic category, with the share held rising from 15.5% to 16.7%.

In human capital where companies are now required to disclose in their financial statements and strategic shareholdings where Daiwa AM has tightened its Proxy Voting Policy, the opportunities for timely dialog increased in view of the current situation with the share held rising from 10.9% to 19.5% and from 6.8% to 8.0% respectively.

By contrast, the share of engagement topics in relation to supply chain issues declined from 15.1% to 3.5%, due to factors including the easing disruption of the COVID-19 pandemic.

Initiatives on each asset product

Japanese Equities



Takahiro Isobe
Senior Fund Manager,
Active Fund Management Department II

Promoting the sharing of knowledge through “lingagement”

In its engagement activities, Daiwa AM focuses on enhancing investee companies' corporate value over the medium to long term, sharing information about various management issues (engagement topics) with investee companies' senior management, encouraging them to address problems, and providing support where necessary. From a wide range of engagement topics, including those relating to ESG, restructuring of unprofitable and low-profit businesses, improving ROE and the cost of capital, and formulating growth strategies to accompany business transformation, Daiwa AM selects those that are most relevant for the individual investee company, and then proposes solutions, with Daiwa AM's own analyst teams playing a central role together with effective use of insights from external analysts and other experts.

One unique initiative of Daiwa AM is its active provision of opportunities for the exchange of information and for dialog between investee companies, through an activity which Daiwa AM calls “lingagement” (combining linkage with engagement). Companies that have implemented best practice in regard to specific engagement topics are introduced to other companies that are facing similar issues, with the aim of addressing problems efficiently through the direct sharing of experience and knowhow. In September 2023, Daiwa AM conducted a “lingagement” activity inviting the CFOs of more than a dozen listed companies to discuss measures for raising the price-book value ratio (PBR). Through knowledge-sharing as Daiwa AM as a hub, we aim to enhance corporate value not only for investee companies but for all Japanese corporations.

Key Point

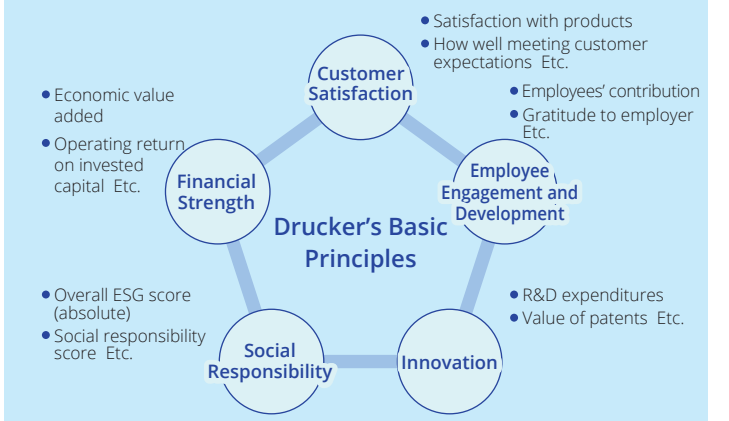
Using the Drucker Institute Score to Determine the Value of Intangible Assets

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 plans to launch 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



Fixed Income



Keisuke Saeki
Chief Fund Manager
Fixed Income Team
Active Fund Management Department I

ESG Integration in Fixed Income Investment

Unlike investing in equities, returns from investing in bonds is characterized by limited upside, but with significant downside risk. The key to enhancing investment performance with fixed income investment is how well controlling this risk. From this perspective, we believe non-financial data (including ESG elements) are very important for fixed income investment as well, and it is vital to make effective use of this information when making investment decisions in relation to bond issuers.

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 awareness that non-financial data is the foundation of the future financial data to be built, we see the success or failure of companies' initiatives addressing ESG issues as affecting the company's future financial data.

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 on their performance and balance sheet in the future, and determining whether they can maintain good returns while taking the risks into account.

By incorporating assessment of bond issuers' non-financial data into the credit risk analysis process in addition to analysis of financial data, we aim to control downside risk in relation to returns, improve the risk-return balance, and, ultimately, enhance investment performance.

Index Funds and ESG Investment

By providing funds linked to indexes which incorporate ESG assessment, our team aims to give investors the low-cost, easy-to-start ESG investment opportunity. The advantage of ESG investment using index funds is to facilitate low-cost investment management with transparent, clear rules. Daiwa AM currently provides five ESG funds (including ETF funds). We are also proceeding projects to provide institutional investors in Japan and overseas with ESG-related funds meeting their needs.

Regarding engagement, we keep investee companies informed about our stewardship activities, for example by sending them copies of our Proxy Voting Policy. With regard to ESG data such as ESG rankings and carbon emissions, we are aiming to realize more easy-to-understand disclosure, through efforts including liaison with index providers.

ESG Index Funds

Fund Type	Serial Code	Fund Name	Date Launched	Reference
Public Fund	3470	iFree Global Stock ESG Leaders Index	2022/5/10	
ETF	3510	Daiwa ETF—MSCI Japan Human and Physical Investment Index	2016/5/18	
ETF	3513	Daiwa ETF—FTSE Blossom Japan Index	2017/9/25	Index used by GPIF
ETF	3514	Daiwa ETF—MSCI Japan ESG Select Leaders Index	2017/9/25	
ETF	3515	Daiwa ETF—MSCI Japan Empowering Women Index (WIN)	2017/9/25	Index used by GPIF

Indexes



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

Outsourcing



Masako Okouchi
Advisory Fund Management Department
Sustainability Leader

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

• Selecting investment management strategies

When performing initial due diligence, we verify the outsourcing party's ESG-related internal systems and policies, and their links to various initiatives. Particularly in the case of ESG investment, we focus on verifying whether ESG-related risks and opportunities are controlled properly in the portfolio-building process, and whether concrete disclosure is possible, as well as whether the fund's economic and social returns are reflected fully in the character of the product, and whether concrete disclosure is possible in relation to these returns.

• Follow-up monitoring after fund launch

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 their opinions on ESG-related issues (which are constantly changing), and with regard to whether they are addressing these issues.

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. When an impact report is issued, besides verifying the status of fund objective achievement, we also encourage the outsourced fund manager to implement full information disclosure.

In addition, with regard to the results of engagement and proxy voting, we have a policy of implementing monitoring and exchanging views with the outsourced fund manager on a regular basis.

Pick Up

Daiwa AM Receives an Award in the ESG Finance Awards Japan Organized by Japan's Ministry of the Environment

Daiwa AM and Candriam S.C.A. were the joint winners of the Selection Committee Chairman's Award (Bronze) in the Investors Category (Asset Managers) in the 5th ESG Finance Awards Japan, organized by Japan's Ministry of the Environment.



Grounds for the Award

The basic concept behind the Carbon ZERO ESG fund that Daiwa AM has been managing with investment advice received from Candriam has a clear focus on investment in enterprises contributing toward mitigating the effects of climate change by reducing greenhouse gas emissions, which received a positive evaluation from the Awards jury, as did the social significance of the fund constituting long-term investment, with a fund operation period that will extend until 2050. In addition, the effort made to maximize the respective strengths of Daiwa AM and Candriam through our close collaboration, the inclusion in the fund impact report of content that will encourage individual investors in Japan to undertake ESG investment, and the clear stance focused on contributing toward expanding the ESG investment market in Japan, all attracted positive comment. The potential for discovering even more creation of synergy with Candriam in the future was another factor behind the decision to present the award to Daiwa AM and Candriam.

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 despite the lack of reality, 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.

Based on this Guideline, Daiwa AM is putting a system in place to provide publicly-offered ESG fund in which customers can invest with peace of mind.

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 Product Committee attended by members of the senior management team, thereafter the new fund is certified as an ESG fund. The certified fund is then established, and begins to be managed as a publicly-offered ESG fund.

ESG Fund Creation Process



Monitoring ESG Index Providers, etc.

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. In order to provide

ESG funds in which customers can invest with peace of mind, we hold meetings and exchange views with ESG index providers as well as ESG assessment and data providers in relation to these funds.

ESG Fund Definitions, and Daiwa AM’s ESG Funds

To provide customers with ESG funds in which they can invest with peace of mind, Daiwa AM has clarified the definition of ESG funds, and formulated criteria for ESG fund certification. These criteria are based on the Guideline issued by Japan’s Financial Services Agency, while also referencing similar guidelines issues by regulatory authorities in other countries.

As outlined below, Daiwa AM has



formulated criteria for two types of ESG fund. Funds meeting each of these two categories have already been certified and are listed in the table below. 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	
Daiwa AM’s ESG funds position ESG as a major factor when selecting targets for investment, for example by focusing on ESG risk management in relation to the entire portfolio, or by investing in companies that are emphasizing ESG or the achievement of the SDGs, so as to help bring about the transition to a sustainable society, and it is also important to enable effective disclosure possible in relation to the above.	[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.

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

Part 1

Stewardship Activities

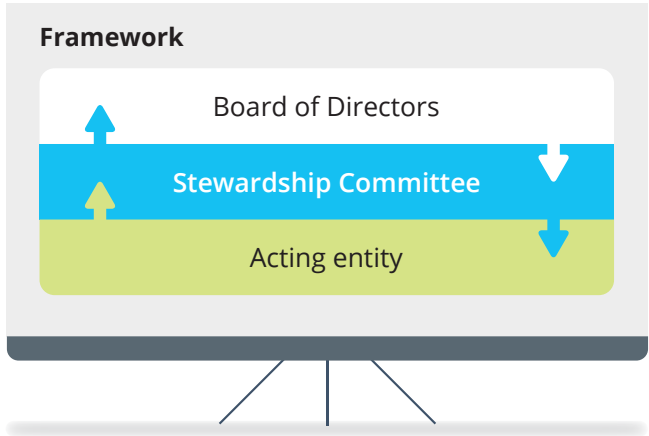
Measures Relating to the TCFD and TNFD

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

Disclosure items

Governance

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



Strategy

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

Risk management

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

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

Transitional risks

Regulatory risk	Stricter environmental regulation
Technology risk	Falling behind the progress being made in technology, in terms of renewable energy, etc.
Market risk	Changes in demand for petrochemical assets, etc.
Reputational risk	Becoming less highly valued and more negatively judged by consumers

Physical risks

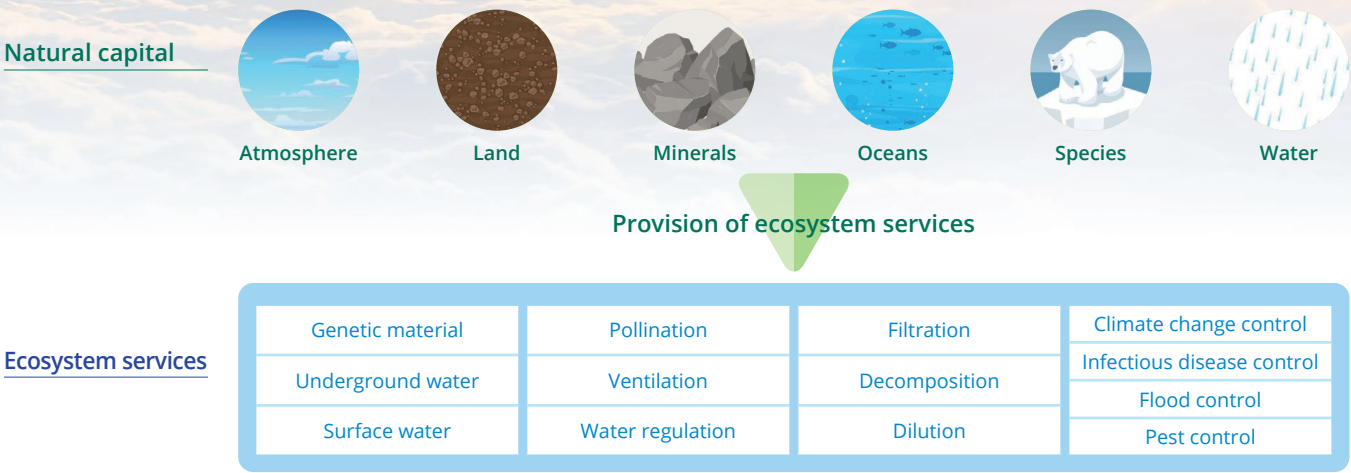
Acute risk	Risk relating to floods, typhoons, etc.
Chronic risk	Risk relating to changes in long-term climate patterns

Opportunities

Resource efficiency	Increased demand for recycling technology, etc.
Energy sources	Increased demand for renewable energy, etc.
Products and services	Increased demand for products, etc. with a smaller environmental footprint
Resilience	Energy diversification aimed at achieving greater resilience

★ Reflection in corporate value ★

Risks associated with the destruction of natural capital



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

Indicators and targets

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

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

Climate Change

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

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

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

Portfolios’ total carbon dioxide emissions

• Scope 1, 2

(tons of CO₂ equivalent)

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

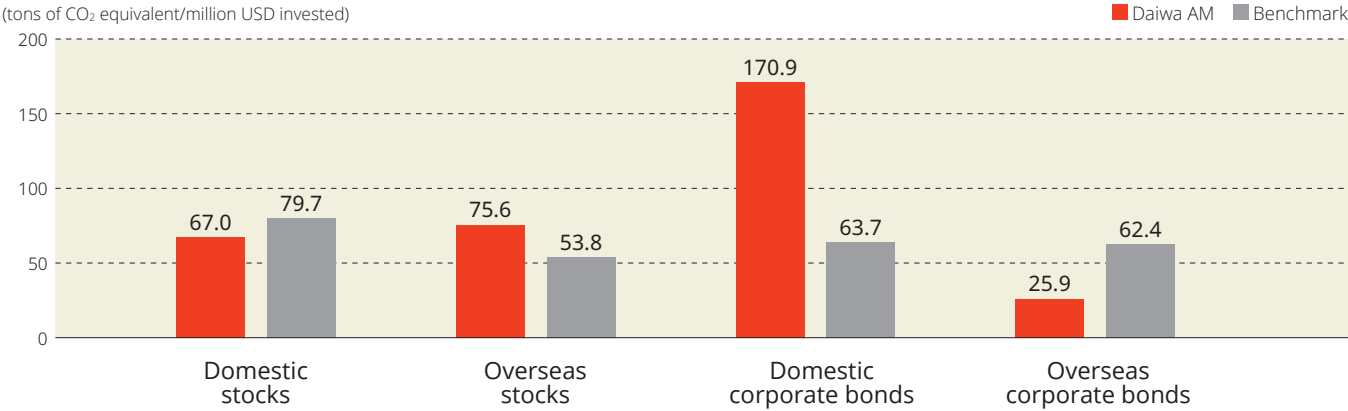
• Scope 3 Upstream

(tons of CO₂ equivalent)

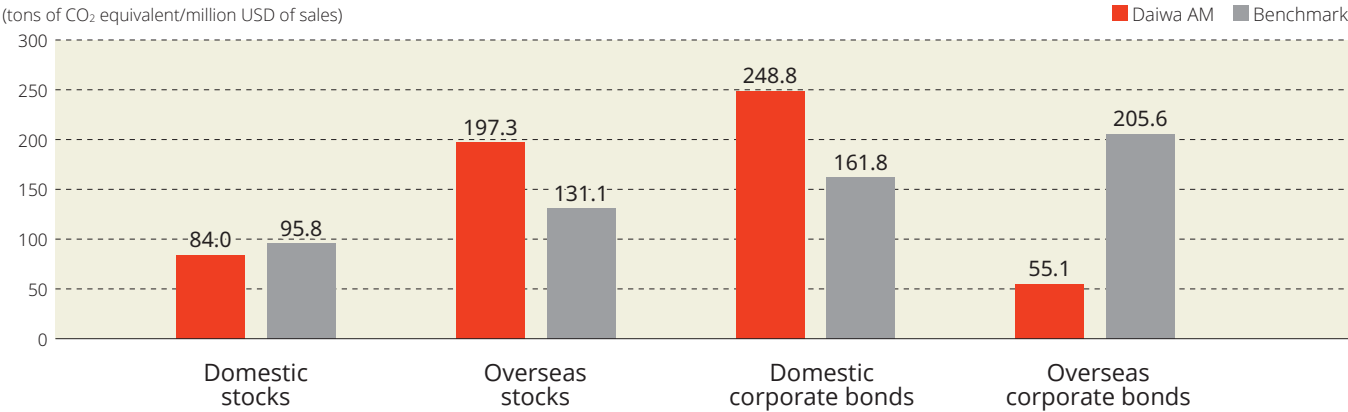
	Daiwa AM	Benchmark	Disparity
Domestic stocks	22,097,292	23,971,727	−8%
Overseas stocks	896,617	910,126	−1%
Domestic corporate bonds	298,559	246,728	21%
Overseas corporate bonds	119,330	197,487	−40%
Total	23,411,797	25,326,067	−8%

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

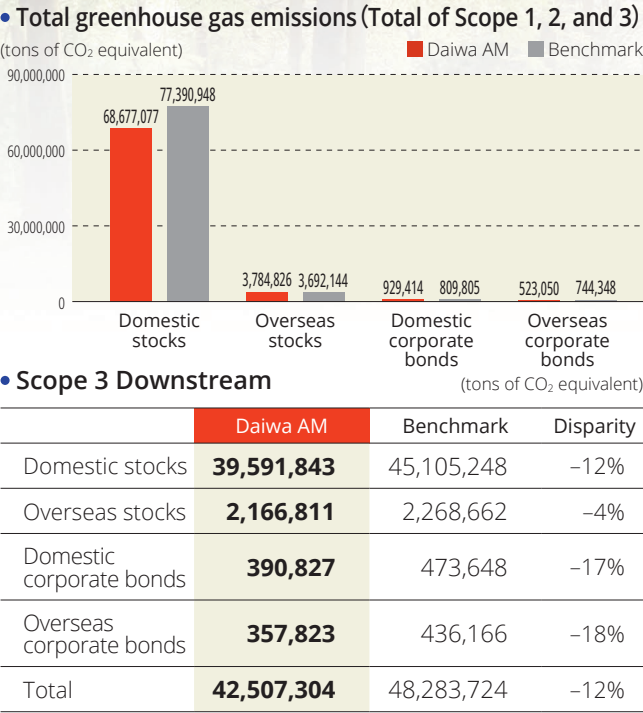
Carbon footprint of portfolio (Scope 1, Scope 2)



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



Note: The benchmarks used were the same as those used in the previous section for portfolio's total carbon dioxide emissions.
Source: Some information is derived from ©2024 MSCI ESG Research LLC. Reproduced by permission.

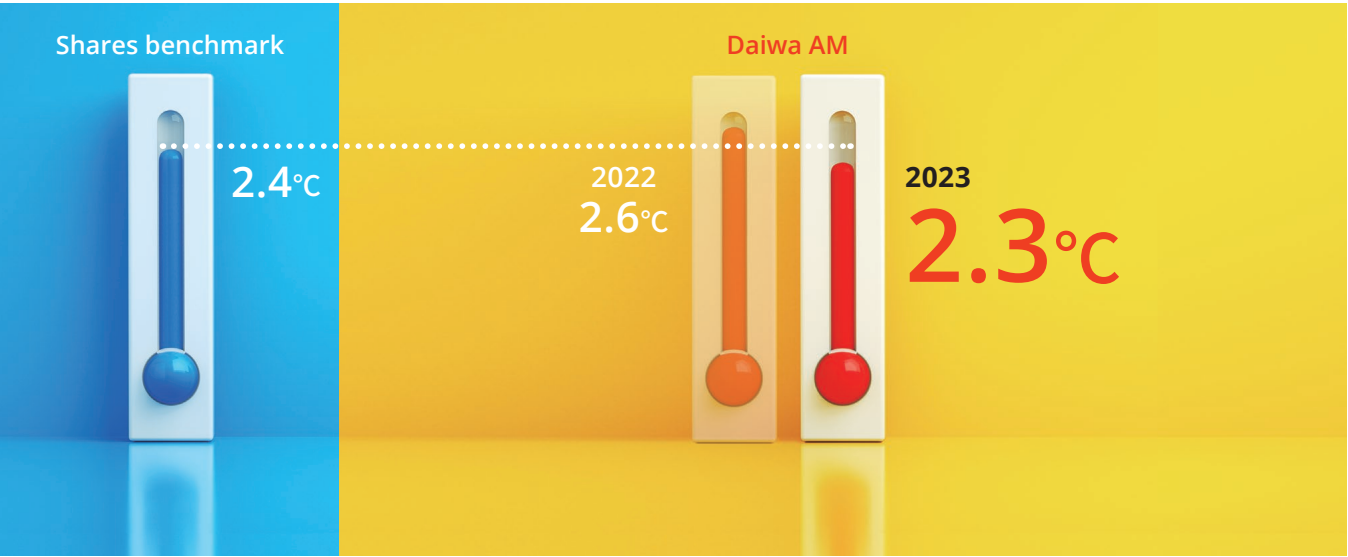


Warming potential analysis

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

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

Warming potential



Greenhouse gas reductions targets (SBT certification)

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

Percentage of companies which have obtained SBT certification

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

Analysis of potential CO₂ emissions (from fossil fuels)

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

(tons of CO₂ equivalent/million USD invested)

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

Note: The benchmarks used were the same as those used in the previous section for the portfolio's total carbon dioxide emissions.
Source: Some information is derived from ©2024 MSCI ESG Research LLC. Reproduced by permission.

/ Natural capital—Risk analysis

Situation surrounding natural capital

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

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

Exposure to specific sectors

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

Exposure to sensitive areas

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

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

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

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

Exposure to specific industries

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

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

Breakdown by specific industries

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

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

Exposure to sensitive areas

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

Note: Data was correct as of December 31, 2023.
Some information is reproduced with permission from MSCI ESG Research LLC.

/ NZAMi

What is the Net Zero Asset Managers initiative

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


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

The Net Zero Asset Managers initiative's three commitments



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

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



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

/ Advance

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

Overview of Advance

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

Other Initiatives Supported

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

ESG 2006 UN Principles for Responsible Investment (PRI)

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



ESG 2011 Principles for Financial Action for the 21st Century

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



E 2014 Statement on Fiduciary Duty and Climate Change Disclosure

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

S 2020 30% Club Japan Investor Group

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



E 2021 Climate Action 100+

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



E 2021 Investor Agenda

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

G 2021 International Corporate Governance Network (ICGN)

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



ESG 2022 Japan Stewardship Initiative (JSI)

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



S 2022 Human Capital Management Consortium

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



S 2022 Women's Empowerment Principles (WEPs)

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



Activity Report

Main Initiatives Implemented in 2023

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



Part 1

Stewardship Activities

Internal initiatives



An in-house training session

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

Shuhei Arai
Stewardship Analyst, Associate Director,
Responsible Investment Department

Pick Up

Pick up
1

Participated as a sponsor in PRI in Person 2023, one of the world's largest conferences on the Principles for Responsible Investment (PRI)

PRI in Person 2023, a gathering of institutional investors from around the world, was held over the three days from October 3 to 5 in Tokyo. Daiwa Asset Management supported the conference as a co-sponsor. We created conference bags and operated a booth where we broadly introduced the Company's ESG-related products.

The conference was a major event that was made a part of Japan Weeks held by the Financial Services Agency, and Prime Minister Kishida attended and gave a speech. More than 1,300 persons from 42 countries attended. On the opening day, conference bags with the Daiwa Asset Management logo were distributed to all participants.

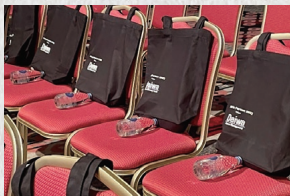
The Company is an original member of PRI, signing on when it was first launched in May 2006. We remain committed to actively undertaking responsible investment in the future.



At the PRI Exhibition site (From the left: Director Ogino, Business Development Manager Hotchi, Outside Director Emi Onozuka, Senior Fund Manager Ishii, and Director Hinata)



At the PRI reception in Happon (From the left: PRI COO Esther Teeken and Daiwa AM President Mikita Komatsu)



Bags with the Daiwa Asset Management logo were placed on all seats in the main conference hall

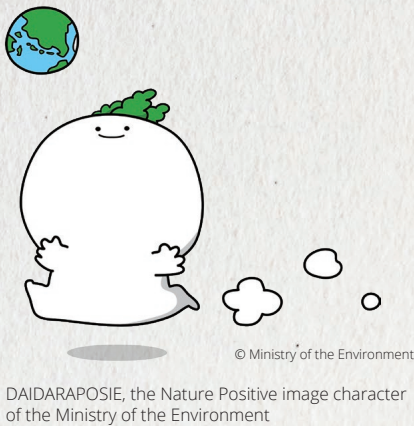
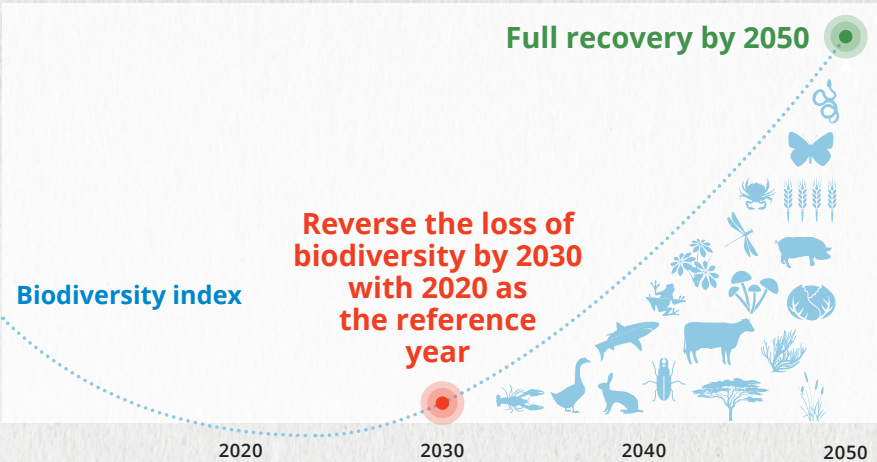
Pick up
2

Participated as endorser in "Spring"

Spring is a new collaborative engagement initiative for which PRI (the United Nations Principles for Responsible Investment) provides operational and other support with the objective of halting and reversing biodiversity loss by 2030. Initial endorsers were sought until January 19, 2024. Biodiversity is a key issue for companies to achieve sustainable growth.

Daiwa AM is participating as an endorser, and as a member of the investor group, is contributing to improvement of the corporate value of investees by encouraging, through collaborative engagement with companies, initiatives to undertake initiatives to address the loss of biodiversity.

Measurable global targets for nature to be Nature Positive by 2030



PRI Evaluation Results 2023

Five stars, the highest score, on 9 out of 10 items

Daiwa AM received by the stars, the highest score, on nine out of the 10 evaluation items in the 2023 annual UN PRI assessment. For the remaining one item, the company received four stars.

PRI signatory organizations are obligated to submit a report on the status of investment in various fields to PRI every year, and PRI performs an annual assessment based on the report. The current assessment covered activities in 2022, and the

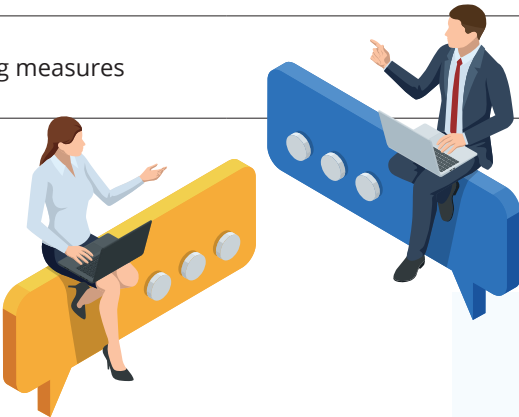
company's scores for each item were significantly higher than their median values. Since Daiwa AM signed the PRI in May 2006, we have consistently undertaken responsible investment, and we believe that this assessment result is the product of our repeated efforts.

Going forward, we will continue to fulfill our social responsibility as an institutional investor and will work to improve the corporate value of investee companies.



2023 PRI annual assessment

Assessment Items			Daiwa AM Evaluation	Daiwa AM Score	Median Score
Policy Governance and Strategy			★★★★★★	97	60
Direct	Listed equity	Active fundamental	★★★★★★	96	71
		Active quantitative	★★★★★★	96	65
		Passive equity	★★★★★★	100	42
		Other	★★★★★★	96	51
	Fixed income	SSA	★★★★★★	98	59
		Corporate	★★★★★★	100	68
		Securitised	★★★★★	89	64
Indirect	Listed equity	Active	★★★★★★	96	57
Confidence building measures			★★★★★★	100	80



+ WEB For more details, please visit the following webpage:
PRI Assessment Report 2023
https://www.daiwa-am.co.jp/company/pdf/20240221_02.pdf
PRI Public Transparency Report 2023
https://www.daiwa-am.co.jp/company/pdf/20240221_01.pdf

Self-assessment

Daiwa AM implements periodic self-assessment of the state of Daiwa AM's implementation of the Principles for Responsible Institutional Investors (Japan's Stewardship Code). The measures taken by Daiwa AM in regard to each of the seven principles of the Code are outlined below.

Principle 1

Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.

Daiwa AM supports the intent of Japan's Stewardship Code, a statement of Principles for Responsible Institutional Investors, and established and announced Policies regarding Japan's Stewardship Code. We also formulated a General Policy on Stewardship Activities to fulfill our stewardship responsibilities. Based on this general policy, we formulated the ESG Investment Policy, Engagement Policy, and Proxy Voting Policy and released these policies on the Company Website. The Proxy Voting Policy is updated twice annually and the details are publicly released.



Principle 3

Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation toward the sustainable growth of the companies.

Daiwa AM positions research on companies as a key part of its business activities as an asset management company, and is constantly undertaking the wide-ranging collection of information through both internal and external networks, with the company's corporate research analysts playing a central role, and striving to maintain an accurate picture of the current state of companies.

Information and knowledge obtained through dialog with investee companies are managed and shared using Daiwa AM's internal databases, and a framework is being put in place to identify, at an early stage, any developments that could be potentially harmful to corporate value. In addition, taking its approach to ESG as the foundation, Daiwa AM calculates its own proprietary ESG scores, based on its materiality, which serve as a reference for investment decision-making and when implementing portfolio risk assessment.

Principle 2

Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities, and should publicly disclose it.

Daiwa AM has established a Stewardship Supervisory Committee, of which more than half the members are Outside Directors, and has continued to implement systems to handle conflicts of interest. Furthermore, when exercising voting rights in relation to companies with which Daiwa AM has a financial or business relationship, in cases where Daiwa AM's proxy voting guidelines require specific determination, in principle Daiwa AM will follow the recommendations of an external specialist organization.

Principle 4

Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.

Daiwa AM has formulated an Engagement Policy in relation to engagement with investee companies, and this Policy clearly stipulates the major perspectives that Daiwa AM emphasizes in relation to engagement, including key ESG issues. In October 2023, Daiwa AM revised its vision of best practice for the realization of sustained corporate value enhancement by investee companies. Daiwa AM's corporate research analysts, fund managers and Stewardship Team personnel all undertake engagement with companies from their own respective standpoints in accordance with the Engagement Policy, and the knowhow obtained through these activities is shared within the company.

In addition, Daiwa AM undertakes collaborative engagement through participation in the Climate Action 100+ and PRI Advance initiatives.



Principle 5

Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies.

In October 2023, Daiwa AM revised its Proxy Voting Policy. At the same time, Daiwa AM disclosed potential changes to the Proxy Voting Policy that were currently under consideration, and its expectations with respect to investee companies, in an effort to make disclosure more useful for dialog. With regard to voting activity, Daiwa AM has sought to implement disclosure in the month following the month in which the annual shareholder's meeting is held, has started to provide more detailed information regarding the grounds for voting decisions, and is striving to realize disclosure that is easy to understand. Starting from the annual shareholders' meeting held in August 2022, Daiwa AM has comprehensively overhauled its disclosure format, providing enhanced convenience.

Principle 6

Institutional investors, in principle, should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.

In April 2023, Daiwa AM published the Sustainability Report 2022, which outlined the main content of Daiwa AM's stewardship activities.

Principle 7

To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.

Daiwa AM has established "Enhance Global Sustainability" as part of our action guidelines, and we are taking systematic measures that will contribute toward the sustainable growth of society.

Daiwa AM's Responsible Investment Department includes corporate research analysts who are also concurrently assigned to the Active Fund Management Department II, and are able to share information obtained through engagement with investee companies. The knowhow obtained in this way is effectively utilized in in-house ESG score calculation and in corporate value assessment.

In addition, in September 2023, Daiwa AM held a CFO Meeting with the chief financial officers (CFOs) of 15 investee companies. In addition to the dialog between Daiwa AM and the investee companies, this meeting also provided an opportunity for the investee companies to share information among themselves.

Part 2 Corporate Sustainability-aware Management

At Daiwa AM, we are promoting sustainability-aware management aimed at realizing sustainability for society and enhanced corporate value for Daiwa AM.



Corporate Sustainability-aware Management

Sustainability Policy

Basic approach

Daiwa AM's social mission is to contribute toward enabling people to live fulfilling lives and toward realizing a sustainable society through its asset management business. To this end, the company fulfills its fiduciary duty and strives to provide high-quality returns and services over the long term.

Daiwa AM believes that, in order to be able to continue doing this over an extended period while responding to changing times, it is vitally important to manage the company with an emphasis on sustainability.

Socioeconomic activity requires a sustainable social foundation in order to continue, and so Daiwa AM

positions the realization of this sustainability as a precondition for its business operations. At the same time, as a company engaged in the asset management business, Daiwa AM is constantly aware of the magnitude of its responsibility in relation to the continued development of the capital markets, and needs to fulfill its duty in this regard. This is why the company is implementing initiatives, through its business activities, to address the important issues affecting the maintenance of society's sustainability, and to earn the trust of its stakeholders, with the aim of further enhancing Daiwa AM's corporate value.

Action guidelines

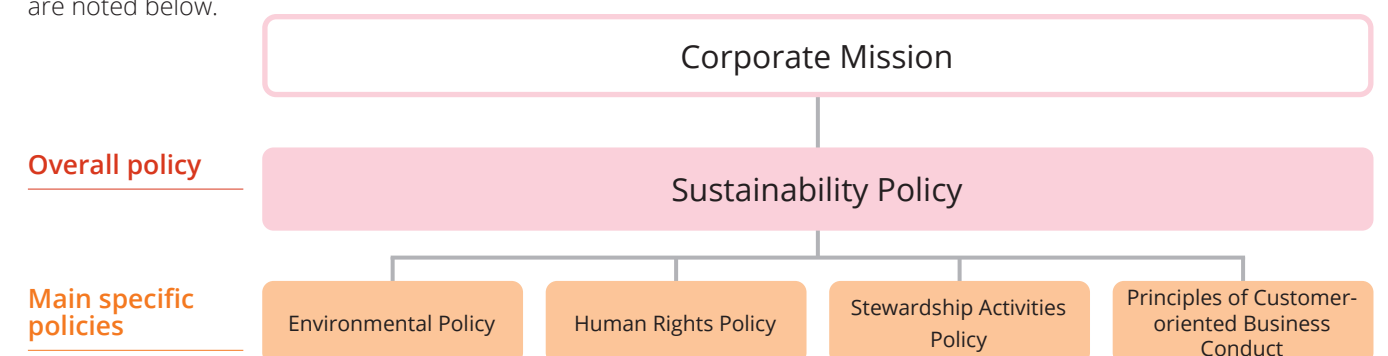
- 1 As an asset management company, Daiwa AM recognizes the importance of its role in promoting a virtuous cycle in the economy. Through its business activities, Daiwa AM will support business enterprises that contribute toward the maintenance and enhancement of the sustainability of the global environment and of society, while also fulfilling its fiduciary duty.
- 2 Daiwa AM will aim to be a "best partner" for all of its stakeholders.

- 3 By implementing healthy, transparent management, Daiwa AM will strive to enhance its corporate value in a sustainable manner.
- 4 Daiwa AM will clarify its materiality (key issues) that the company should prioritize, and will adjust this periodically.
- 5 Based on the above guidelines, Daiwa AM will draw up specific policies for promoting sustainability-aware management and will put them into effect.

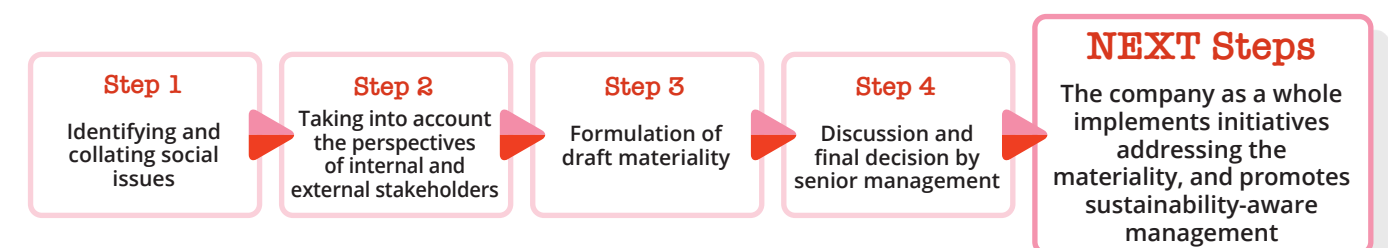
+ WEB For more details, please visit the following webpage (in Japanese):
<https://www.daiwa-am.co.jp/company/sustainability/index.html>

Specific policies

To promote sustainability-aware management, Daiwa AM has drawn up a number of specific policies. The main policies are noted below.





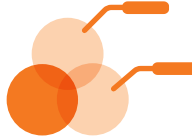

Materiality Identification Process







Corporate Materiality

After examining the risks and opportunities relating to various items, Daiwa AM identified the following materiality:

Materiality Relating to Business Activities

Key area	Grounds for deeming it important	Long-term goals (Where we want to be in 10 year's time)	Daiwa AM's initiatives
Thorough fulfillment of the company's fiduciary duty (FD) 	<p>Daiwa AM believes that, as a company engaged in the asset management business, the thorough implementation of its fiduciary duty and the maximization of its customers' interests constitute the foundation of its business and are its social mission.</p>	<p>Strengthening the product governance function, and continuing to provide products that serve customers' best interests</p>	<p>Ongoing initiatives Daiwa AM provides internal training to strengthen awareness of fiduciary duty.</p> <p>Key initiatives Daiwa AM will examine performance from a long-term perspective, and will implement systematic quality management after product formation (enhancing the effectiveness of product governance).</p> <p>Initiatives in 2023</p> <ul style="list-style-type: none"> ▶ Progress management item (qualitative target): Review management methods periodically in line with the specific characteristics of each individual product ▶ Performance: <ul style="list-style-type: none"> • To maintain and enhance product quality, a Product Governance Committee has been established, with senior management participating • The Product Governance Committee has established verification processes and implemented fund performance checks
Promotion of stewardship activities and responsible investment 	<p>Daiwa AM believes that, by promoting responsible investment and incorporating investee company's environmental, social and governance (ESG) factors into corporate evaluations, it is possible to accurately determine the medium- to long-term risks and opportunities of the investee company.</p> <p>Daiwa AM also believes that it can fulfill its social responsibility as an asset management company by contributing toward enhancing the value of enterprises, etc., and toward sustained growth through stewardship activities.</p> <p>Daiwa AM believes that, since stewardship activities and responsible investment form part of the company's fiduciary duty, and will also improve fund performance, they ultimately contribute toward the maintenance and enhancement of the customer's interest.</p>	<p>Spreading awareness of Daiwa AM's innovative initiatives</p>	<p>Ongoing initiatives Daiwa AM has formulated an ESG Investment Policy, and it references investee companies' ESG-related initiatives when making investment decisions.</p> <p>Key initiatives In the areas of stewardship activities and responsible investment, Daiwa AM will be promoting initiatives that embody the company's unique characteristics, and will be undertaking cultivation of specialist ESG talent.</p> <p>Initiatives in 2023</p> <ul style="list-style-type: none"> ▶ Progress management item (quantitative target): In analyst activities, increase the implementation rate for engagement aimed at supporting corporate reforms to 100% ▶ Performance: <ul style="list-style-type: none"> • Daiwa AM has formed an engagement team, and is strengthening its activities • Of the 152 stocks that are the object of engagement, milestone management was being implemented for 145 stocks (95% of the total) as of February 29, 2024. • For these 145 stocks, there was an engagement implementation rate of 68%, as of February 29, 2024. <p><small>Note: See Part 1 for more details of promotion of stewardship activities and responsible investment.</small></p>
Service quality enhancement contributing to asset formation 	<p>Daiwa AM believes that initiatives to encourage a wider range of people to undertake investment, and the development and provision of products tailored to investors' needs, are vitally important for the company's sustained growth. Daiwa AM also believes that enhancing management quality is very important in terms of securing stakeholders' trust.</p>	<p>Expanding the range of customers, and providing attractive products that will make customers want to continue investing</p>	<p>Ongoing initiatives To enhance the company's organizational management capability, Daiwa AM has been implementing measures for the visualization and sharing of the investment strategies and actions adopted by personnel responsible for asset management operations. Daiwa AM is also providing support for asset formation for a wide variety of customers, with the provision of wide-ranging content relating to asset formation.</p> <p>Key initiatives Daiwa AM will be putting in place a system for the speedy provision of financial products tailored to the changes in society and to customer needs, and will be promoting measures that contribute toward the enhancement of financial literacy in society as a whole.</p> <p>Initiatives in 2023</p> <ul style="list-style-type: none"> ▶ Progress management item (quantitative target): Have Daiwa AM's Sharpe ratio, weighted by the balance of each individual asset class, exceed the industry average ▶ Performance: Daiwa AM has exceeded the industry average in six out of seven major asset classes (over the period March 31, 2021–December 31, 2023)
Expansion of business fields 	<p>Daiwa AM believes that the exploration of new business areas (with the fulfillment of the company's fiduciary duty as a precondition) will lead to stable asset formation for customers and is vital for the company's sustained growth.</p>	<p>Strengthening management fundamentals</p>	<p>Ongoing initiatives Daiwa AM is collaborating with affiliate companies that specialize in ETFs, and has been undertaking the development of products that incorporate non-traditional assets.</p> <p>Key initiatives Daiwa AM will be aiming to expand its business areas through the effective utilization of its investment management know-how.</p> <p>Initiatives in 2023</p> <ul style="list-style-type: none"> ▶ Progress management item (qualitative target): Realize improved profitability at affiliate companies. ▶ Performance: In September 2019, Global X Japan, which is Japan's first asset management company specializing in ETFs, was established as a joint venture between Daiwa AM, Daiwa Securities Group Inc., and U.S. company Global X Management Company Inc. Through the provision of innovative ETF products, the balance of assets under management was increased to over 200 billion yen (as of November 30, 2023).

Materiality Relating to the Company's Business Foundations

Key area	Grounds for deeming it important	Long-term goals (Where we want to be in 10 year's time)	Daiwa AM's initiatives
Winning stakeholders' trust 	Daiwa AM believes that winning stakeholders' trust is the foundation for the company's continued existence as a sustainable enterprise.	Realizing close communication with stakeholders and mutual dialog	<p>Ongoing initiatives Daiwa AM's action guidelines emphasize the need to "Have Integrity" and "Imagine Yourself in Their Place," and the company has striven to build trust.</p> <p>Key initiatives Daiwa AM will be expanding its disclosure, and striving to monitor society's views and needs.</p> <p>Initiatives in 2023</p> <ul style="list-style-type: none"> ▶ Progress management item (qualitative target): Expand information disclosure to contribute toward enhancing stakeholder awareness ▶ Performance: <ul style="list-style-type: none"> • To realize investor-focused, easy-to-understand information disclosure, Daiwa AM has led the way in converting all index funds and reference indices so that they take dividends into account. • Daiwa AM has published a NISA Guidebook and Investment Trust Reference Guide for the use of sales staff. • Daiwa AM has held a large number of NISA-related seminars for investors.
Enhancing employee wellbeing 	Daiwa AM believes that human capital is the wellspring of the company's corporate value, and that if the wellbeing of Daiwa AM employees is not enhanced, then the company will not be able to realize sustainable growth.	Ensuring that working at Daiwa AM contributes to employee wellbeing	<p>Ongoing initiatives Daiwa AM has been putting in place an evaluation and compensation system, and has been implementing career support training, etc. The company has been providing support for flexible workstyles with the adoption of a flextime system, and has striven to monitor employees' health status through the implementation of measures such as periodic stress checks.</p> <p>Key initiatives Daiwa AM will be adopting strategies to enhance motivation, which in turn will lead to improved employee engagement. The company will also be introducing a framework that facilitates exchange across departments and roles, thereby invigorating intra-organizational communication.</p> <p>Initiatives in 2023</p> <ul style="list-style-type: none"> ▶ Progress management item (quantitative target): Maintain the employee satisfaction rate at 80% or over ▶ Performance: The employee satisfaction rate in 2023 was 90.3% (based on the percentage of employees that responded "Yes, very proud" or "Yes, somewhat proud" to the question "Do you feel proud of working for the Daiwa Securities Group" in a self-declaration survey implemented in the summer of 2023)
Respect for human rights and diversity 	Daiwa AM believes that it is important to respect the human rights of stakeholders through-out the value chain, and that encouraging the participation and dynamic engagement of diverse human talent is important for the company's continued growth.	Diverse human talent is able to demonstrate the strengths that they possess because of their diverse backgrounds, and everyone is able to work with enthusiasm	<p>Ongoing initiatives Daiwa AM has been working to cultivate a corporate mindset that fosters the dynamic engagement of diverse human talent. The company has formulated an action plan for the dynamic engagement of female employees, and is implementing this plan. It is also introducing a system to create a working environment that is more user-friendly for employees with disabilities, so that they can play a more active role in the company.</p> <p>Key initiatives Daiwa AM will be strengthening its system for the promotion of diversity, equity, and inclusion, and will be building a workplace environment that is equitable and free from discrimination so that diverse human talent can fulfill their potential. The company has established a Diversity & Inclusion Promotion Committee, chaired by the President, which directs the promotion of related activities throughout the company. Daiwa AM will also be implementing human rights due diligence measures with respect to stakeholders in the value chain, and will be contributing toward the realization of a society in which no one is left behind.</p> <p>Initiatives in 2023</p> <ul style="list-style-type: none"> ▶ Progress management item (quantitative target): Raise the share of managers who are female to at least 30% (long-term goal) ▶ Performance: The female manager ratio in 2023 was 15.1% (as of December 31, 2023)
Strengthening corporate governance 	Daiwa AM believes that the maintenance and strengthening of a sound, solid corporate governance system will help to secure the trust of stakeholders and enable the company to increase its corporate value and realize sustained growth.	Maintaining and building appropriate governance systems in Daiwa AM	<p>Ongoing initiatives Daiwa AM has structured its Board of Directors so that it includes three Outside Directors, with the aim of realizing a higher level of corporate governance. With the inclusion of Outside Directors in meetings, the company has built a governance structure that functions in such a way as to control conflicts of interest in relation to fund management and stewardship activities. Daiwa AM is also cultivating high ethical standards and compliance awareness through periodic compliance training.</p> <p>Key initiatives Strive to enhance the effectiveness of the Board of Directors and of the oversight function</p> <p>Initiatives in 2023</p> <ul style="list-style-type: none"> ▶ Progress management item (qualitative target): Realize continued implementation of evaluation of the effectiveness of the Board of Directors ▶ Performance: Regarding continued implementation of the evaluation of the effectiveness of the Board of Directors, Daiwa AM has been collating case studies of other companies and using these for comparative discussions, and has begun designing the relevant systems.



Enhancing Wellbeing

Daiwa AM believes that human capital is the wellspring of the company's corporate value, and that enhancing the wellbeing of Daiwa AM employees is the foundation for achieving sustained growth for our company. Besides the strict enforcement of a policy of no overtime after 7:00 p.m., and implementing promotional measures to bring the rate of annual paid leave utilization up to at least 70%, we have also adopted a flextime system and a teleworking system, and we will continue to implement measures to make working more convenient for employees.



Annual paid leave utilization rate (FY2022)

82.3%



Average no. of overtime hours worked (FY2022)

9.3 hours / month



Childcare leave utilization rate (FY2022)

Male employees: **100.0%** Female employees: **100.0%**



Average years of service (FY2022)

Male employees: **15.3 years** Female employees: **15.3 years**

Engagement Survey

Daiwa AM implements Engagement Surveys to gauge the current state of employee engagement, which can help to enhance productivity and performance. To implement a PDCA cycle oriented toward the company's vision of where it wants to be in the future, we have set multiple benchmarks, including benchmark values based on the results achieved by high-performing global enterprises. The survey results enable Daiwa AM to identify the

company's strengths and issues, providing a basis for organizational improvement activities and helping each employee to realize growth. The company aims to enhance employee engagement on an ongoing basis, by building a productive workplace environment where every employee can attain further personal growth, and by helping employees to realize better physical and mental health.

Health management

Since 2015, the Daiwa Securities Group has been selected by Japan's Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange as a Health & Productivity Stock Selection eight times, and has also been recognized by the Nippon Kenko Kaigi as White 500 (Top 500 Certified Health & Productivity Management Outstanding Organizations) seven times, and continues to promote effective health management. In FY2022, we

began to implement a new system that helps employees pay dental treatment costs.

In addition, with the aim of promoting employee health and invigorating inter-employee communication, we implement activities such as walking events in which individual employees and teams compete to see who can walk the most paces each day.

Internal awards system

The Daiwa Asset Monthly Engagement Awards (DMEA) have been established as a measure to help ensure that employees feel highly motivated when working at Daiwa AM. Through monthly awards given to individuals or teams that have improved the Company's management not only in terms of revenue but also from other angles like cost containment and reputation building, the program honors the work of its employees. The award decisions are made by senior management on a monthly basis.



DMEA award winners

Creating workplaces where all employees can maximize their performance and continue to work with enthusiasm and vigor



Kenichi Ueno
Executive Managing Director, Head of Human Resources

Human talent is the wellspring of competitiveness

For Daiwa AM, human talent is the wellspring of competitiveness. Besides creating workplace where all employees can maximize their performance and continue to work with enthusiasm and vigor, we are also aiming to build a truly professional team that continues to challenge itself by setting high targets.

Reflecting our commitment to the cultivation of human talent, we are putting in place a wealth of training programs and a flexible learning environment that can be optimized to meet individuals' career planning needs, so that every employee can continue to undertake self-directed study. Through this process, we are able to visualize the career path of each individual employee and the skills that they possess, and so we are building up a human talent "portfolio" in which the right people are assigned to the right position. We are also transforming our approach to employee appraisal and compensation, and proceeding with the building of a competitive compensation system.

The continued evolution of Daiwa Securities Group's human resources system has brought about enhanced employee motivation and employee satisfaction. However, we realized the need to confirm whether this was actually leading to improved productivity and performance. To

canvass employees' frank opinions and realize continuous improvement activities, we are implementing an anonymous engagement survey on a periodic basis. Using the survey results, we are able to identify strengths and issues, and implement improvement strategies, which will contribute toward enhancing productivity and performance.

Turn diversity into power

We believe that respecting the human rights of stakeholders in the value chain, and accepting and promoting the participation of diverse human talent, is very important for realizing Daiwa AM's sustained growth. Adopting an approach that aims to make Daiwa AM an organization which is able to turn diversity into a source of power, we are strengthening our Diversity & Inclusion promotion system, and working to build workplaces that are fair and free from discrimination, and where diverse human talent can fulfill their potential. We also view the promotion of women's participation and advancement as vital for achieving sustainable growth, and we are formulating and implementing related action plans. Going forward, I hope that Daiwa AM will continue to recognize human resources strategy's importance as a growth strategy, and will take it to an even higher level.



Diversity & Inclusion (D&I)

The Daiwa Securities Group has identified Diversity & Inclusion as one of the key areas that we need to focus on. To enable every individual employee to maximize their performance by making full use of their personal strengths and personality, Daiwa AM is promoting Diversity & Inclusion from a variety of different perspectives, including gender, age, disability, recruitment category, etc.

Gender diversity (Women's participation and advancement)

As of December 31, 2023, 40.4% of Daiwa AM's employees were women. In our diversity-related efforts, we view the promotion of women's participation and advancement being very important, and we are formulating and implementing related action plans.

Action Plan Based on the Act on Advancement of Measures to Support Raising Next-generation Children and the Act on the Promotion of Women's Active Engagement in Professional Life

Plan implementation period: April 1, 2021 to March 31, 2026 (five years)

Quantitative Objectives

- 1 Raise the percentage of managers who are women to at least **16%** (double the level in FY2020)

Performance

Percentage of managers who are women **15.1%**
(as of December 31, 2023)

- 2 Raise the percentage of new graduate hires who are women to a stable **50%**

Percentage of new graduate hires who are women **47.9%**
(average for the period between FY2021 and FY2023)

- 3 Raise the percentage of eligible male employees taking childcare leave to a consistent **100%**, with each eligible employee taking at least **14 days** of childcare leave.

Percentage of eligible male employees taking childcare leave **100%**
Average number of days of childcare leave taken by eligible male employees **16.1 days**
(FY2022)

Other relevant data

The main reasons for the disparity in pay between male and female employees are that the share of women holding management positions is relatively low, while the share of women holding lower-paid administrative jobs is high (starting from FY2010 as a general rule, all new employees, both male and female, have been recruited onto the management career track). Going forward, we believe that we will be able to reduce the gender pay gap by steadily increasing the share of women in managerial positions.

- **Gender pay gap** (Female employees' average pay as a percentage of male employees' average pay)

62.8% (FY2022, all staff)

- **Percentage of employees who are women**

40.4% (as of Dec. 31, 2023)

Promotion Meeting

Diversity & Inclusion Promotion Meeting

The Diversity & Inclusion Promotion Meeting, which is headed by the President, meets twice a year. It reports on Daiwa AM's D&I initiatives and discusses future issues.

Daiwa Securities Group Companies Women's Advancement Meeting

Held four times a year, this meeting brings together the executive officers responsible for human resources at each group company, as well as managers responsible for promoting D&I, to engage in discussion relating to the promotion of women's participation and advancement.

Support for balancing work and childcare—promoting the taking of at least two weeks of childcare leave by all eligible male employees

Ms. Toko Shirakawa, one of Daiwa AM's female Outside Directors, has held meetings with male employees who have taken childcare leave to exchange views. Daiwa AM has made it mandatory for male employees who have become fathers to take at least two weeks of childcare leave, and the percentage of eligible male employees who take childcare leave has already reached 100%. By breaking down stereotypical attitudes toward gender



Platinum Kurumin

As a high-performing "Childcare-supporting Enterprise," in June 2021 Daiwa AM received Platinum Kurumin certification from the Minister of Health, Labour and Welfare.

roles, we are aiming to help realize a society in which both men and women can balance work and family responsibilities.



A meeting to exchange views with male employees who have taken childcare leave

Mentoring System for female managers

As one of Daiwa AM's measures to promote women's participation and advancement, in FY2023 we introduced a new Mentoring System. Under this system, executive officers act as mentors for female managers who are under consideration for promotion to executive officer or department manager roles in the future, providing support to help them with their career development.

Career planning network (Wai Wai)

Daiwa AM's Human Resources Department provides and runs the "Wai Wai" inter-employee network, to create opportunities for employees to exchange experiences and ideas with one another. In FY2023, the "Wai Wai" network held discussion meetings on the topics of cultivation and management of subordinates, and balancing childcare and work.

Training programs aimed at cultivating awareness



Human rights awareness training

Topics Providing reasonable accommodation for persons with disabilities
Deepening understanding of LGBTQ+ people

To realize multi-faceted learning about human rights issues, we provide training videos for employees across all roles.



Training relating to Women's Health

Topics Women's healthcare
As in the previous year, we implemented training with the aim of deepening understanding of women's health issues, using training videos for both recent graduate hires and mid-career hires.



Care-related training

Topics Support for balancing work and care-giving responsibilities

To spread awareness of key points relating to balancing work and care responsibilities and of the internal systems available within the company to provide support for balancing them, and also to deepen understanding of what balancing work and care involves, training has been implemented for all employees using training videos.



Unconscious bias training

Topics Unconscious bias in the workplace

Training using training videos has been implemented for all employees, with Ms. Masako Arakane, whose programs for promoting changes in attitudes and behavior have been well-received, being invited to act as instructor.

Promoting D&I throughout the asset management industry—Asset Management Women's Forum

The Asset Management Women's Forum was launched by four companies (including Daiwa AM) in the spring of 2022, with the aim of promoting women's participation and advancement in the asset management industry. In the Forum's first year of operation, its events for people working in the asset management business were attended by approximately 700 people.

In FY2023 an additional 11 companies took part in the Forum's activities, with the planning and implementing of seminars and workshops from three perspectives: working women, managerial positions with responsibility for talent cultivation, and personnel responsible for diversity promotion. The Forum is proceeding with efforts to cultivate

an environment and build networks that will further the participation and advancement of women throughout the asset management industry.



Lunch meeting bringing together employees of 15 different companies



Corporate Governance Structure

At Daiwa AM, the Board of Directors is responsible for important decision-making on management and overseeing the execution of duties by directors. As a company with an Audit & Supervisory Board, the status of the performance of duties by each director is audited independently of the Board of Directors by the Audit & Supervisory Board Members and the Audit & Supervisory Board. In June 2023, Daiwa AM welcomed two new Outside Directors who have a wealth of experience in the asset management field, and their views, based on their respective specialist expertise, are taken into consideration in the company's management. Both the Stewardship Supervisory Committee and the Fiduciary

Duty Advisory Committee are chaired by Outside Directors, and the Outside Directors' expert opinions are helping to strengthen Daiwa AM's governance.

The Board of Directors is comprised of individuals with high ethical and moral standards, in addition to operational experience or specialist expertise. As of December 31, 2023, the Board of Directors was made up of 14 directors (including three Outside Directors, and three female directors).

+ WEB For more information about Daiwa AM's corporate governance system, please visit the following webpage (in Japanese):
<https://www.daiwa-am.co.jp/company/about/governance.html>

Legal & Compliance

/Aiming to build a compliance system that embodies a high level of specialist expertise

As an asset management company, Daiwa AM is expected to fulfill its social responsibilities, including those relating to stewardship, while managing the valuable assets of its customers and achieving the greatest possible performance in terms of investment goals. Legal and compliance challenges have a direct bearing on management at asset management firms, while also being intimately linked with all aspects of asset management operations. This makes it imperative that we establish an increasingly advanced and specialized compliance framework.

Daiwa AM's Legal & Compliance Department comprises two sections: the Planning Section and the Monitoring Section. The Planning Section is a strategic organization that draws up and implements plans for the realization of

compliance at Daiwa AM, while the Monitoring Section is a specialist organization responsible for implementing compliance-related auditing operations across the company that works to strengthen the effectiveness and efficiency of monitoring. The Legal & Compliance Department is also focused on the dissemination of information relating to compliance. To date, approximately 100 Compliance Columns written by department staff have been published internally within the company, and Compliance News, which provides timely information in an easy-to-read format, is disseminated within the company. The goal of measures such as these is to encourage employees to notice things happening around them and to constantly have their compliance awareness at a high level.

Organizational structure of the Legal & Compliance Department

Planning Section

The Planning Section has been established as a strategic organization that draws up and implements plans to realize compliance that embodies the essence of Daiwa AM.

- Legal consultations, Innovation Legal Team (ILT), and various legal services
- Compliance program planning and promotion
- Coordination with, and support for, planning departments and risk officers
- Handling administrative errors, and functioning as a contact point for communication with the regulatory authorities and relevant associations
- Implementation of compliance training

Monitoring Section

The Monitoring Section has been established as a specialist organization responsible for implementing compliance-related auditing operations across the company, which works to strengthen the effectiveness and efficiency of monitoring, with all auditing operations being handled by the same unit.

Contract Review Team

Advertising Review Team

Trade Inspection Team

Responsible for overseas subsidiaries (concurrent responsibility)

The Monitoring Section operates using a team structure



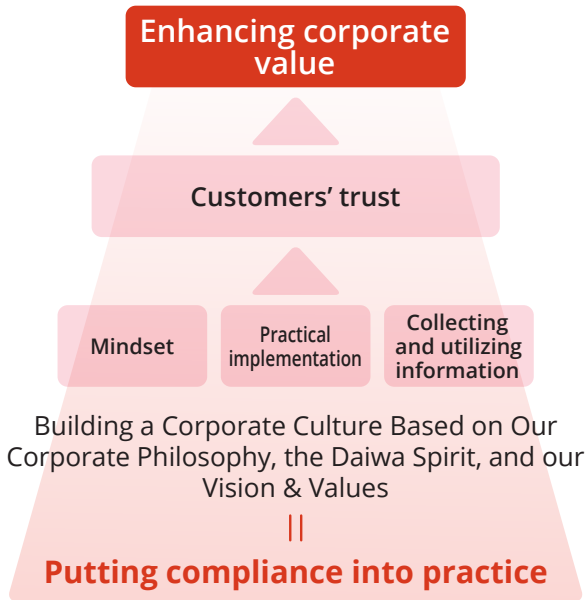
Compliance Columns written by Legal & Compliance Department personnel

/Compliance initiatives in FY2023

Daiwa AM's compliance initiatives in FY2023 aimed to realize a revolution in compliance awareness, based on our corporate philosophy, the Daiwa Spirit, and the company's Vision & Values, with a focus on the theme of "Promoting Compliance to Enhance Corporate Value." These initiatives are formulated and developed as compliance programs after obtaining the approval of the Board of Directors. Progress reports are submitted to the Board of Directors and made available for viewing to all company officers and employees via the in-house intranet.

Compliance initiatives are closely linked to the dissemination of Daiwa AM's corporate philosophy. Activities undertaken by company officers and employees in line with our corporate philosophy are the wellspring for generating value-added, and will make customers more likely to choose Daiwa AM. Based on a strong awareness of this, and with compliance awareness being seen as part of Daiwa AM's corporate branding, the Legal & Compliance Department provides support for every aspect of the company's operations from a legal and compliance

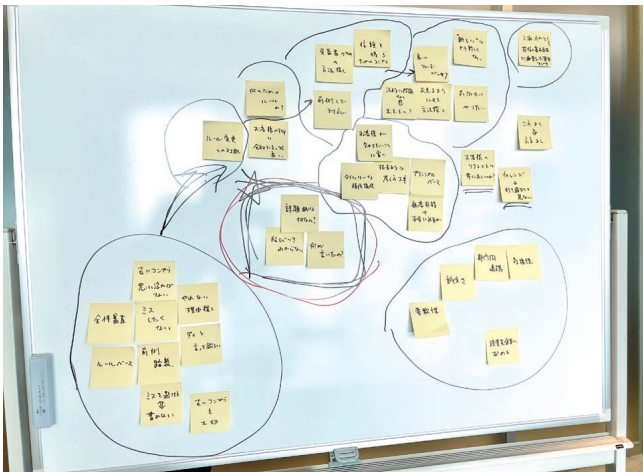
perspective, while aspiring to make Daiwa AM a leader in the legal and compliance sectors in the industry.



/Cultivating compliance that embodies the essence of Daiwa AM

Daiwa AM believes that the realization of compliance involves more than just abiding by laws and regulations; it also means instilling the corporate philosophy that is the foundation for everything we do, and implementing measures to put this philosophy into practice. We believe that, by undertaking this in a strategic manner, it can contribute toward our corporate branding and enhance corporate value. Different companies implement compliance in different ways, but we aim to realize compliance that embodies the essence of Daiwa AM. To this end, this term, we have implemented training that gets employees to think about what compliance that embodies the essence of Daiwa AM actually means, from the perspective of the corporate ethics that are our foundation,

and of our Vision & Values. Small group sessions were used for the training, during which each officer and employee shared their unique points of view, helping to clarify and unite their shared values. With the aim of achieving sustained growth in corporate value, and taking our corporate philosophy and Vision & Values, which are deeply instilled in all company officers and employees, as a core foundation, we have implemented training that enables everyone to experience for themselves how we are all moving in the same direction in carrying out our duties. Going forward, we will continue to cultivate compliance awareness appropriate to Daiwa AM so that all company officers and employees can have a shared understanding of compliance that embodies the essence of Daiwa AM.



Compliance training output



Compliance training in progress



Initiatives for Instilling Fiduciary Duty, and for Putting It into Practice

For Daiwa AM to be an asset management company that is truly customer-focused, it is important for all company officers and employees to have a correct understanding of fiduciary duty, and to put this into practice. In FY2023, we once again implemented periodic internal training so that all employees can think and act with an awareness of fiduciary duty when performing their duties. A questionnaire survey was conducted during the training; obtaining feedback in an appropriate manner not only enables us to monitor changes in the awareness of company officers and employees, it also makes it possible to obtain their views, based on practical experience, which can be effectively utilized in future business operations.

Strengthening product governance

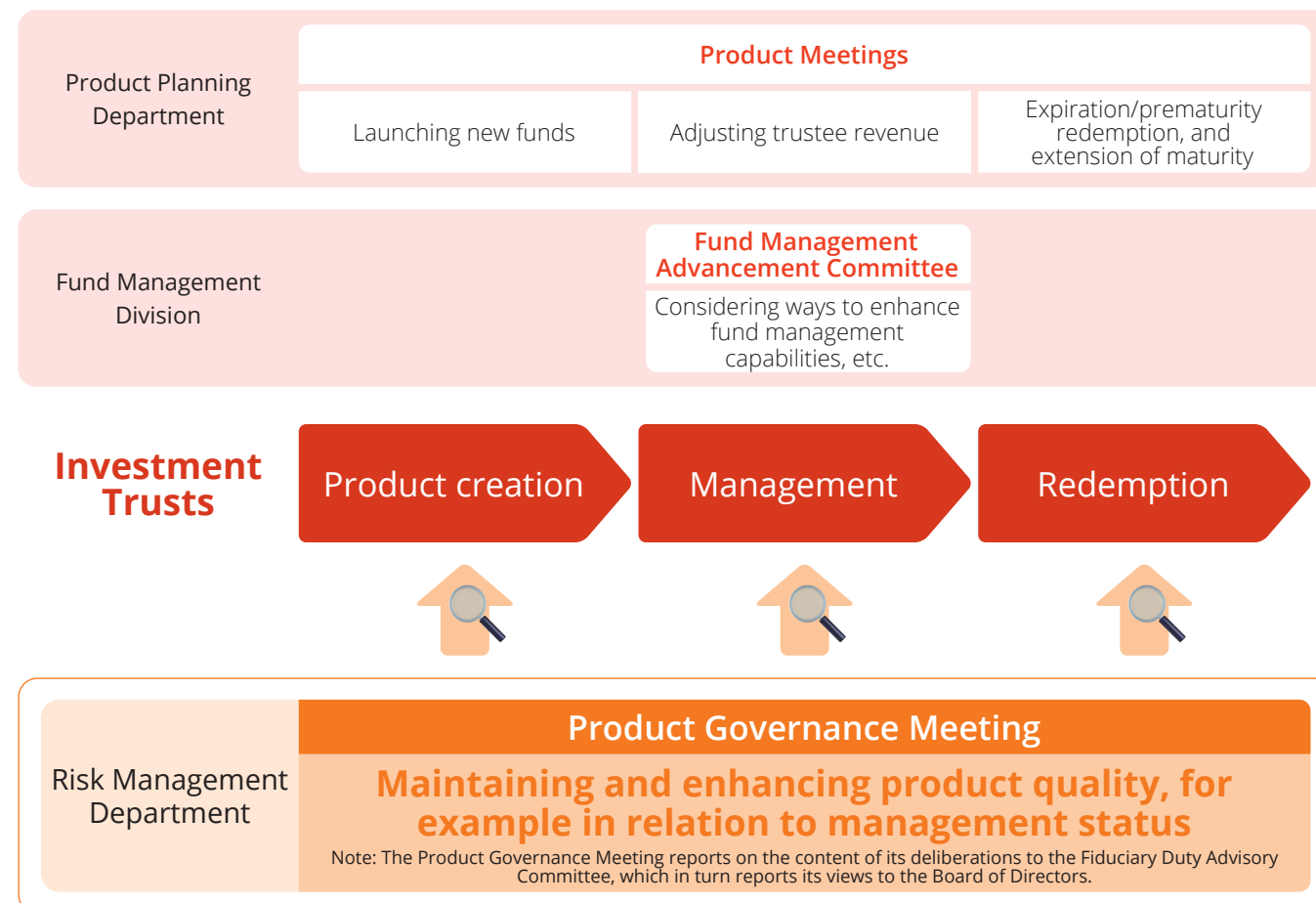
To provide products tailored to meet customers' needs, Daiwa AM strives to maintain and enhance product quality. In FY2023, we established a new Product Governance Meeting, with the senior management team taking part, and we have been working to strengthen the effectiveness of product governance.

In principle, the Product Governance Meeting meets on a quarterly basis, with the company's executive directors attending its meetings. At the meeting, the results of the verification are reported on matters related to overall product quality maintenance and improvement (e.g., operational status, merchantability, adequacy of

disclosures, etc.), policies are discussed and decided upon, and the status of implementation is confirmed.

In addition, to incorporate external viewpoints, the Product Governance Meeting's decisions and reports are reported to the Fiduciary Duty Advisory Committee, whose members include the company's Outside Directors and the personnel responsible for risk management; the views expressed by the Committee are then reported to the Board of Directors. Since June 2023, the Committee has been chaired by an Outside Director with a wealth of experience in asset management companies, which is helping to further strengthen governance.

Product governance framework



Promoting Financial and Economic Education

To contribute toward enhancing people's financial literacy through the provision of continuing financial and economic education, in FY2023 Daiwa AM established the Financial Education & Corporate Sustainability Section. Going forward, we will be rolling out various financial and economic education initiatives, with the new Section playing a central role, promoting measures that help people to realize long-term asset growth.

Participating in a project organized by Tokyo Metropolitan Government to provide visiting instructors

Daiwa AM has been involved in a project by Tokyo Metropolitan Government to provide visiting instructors to enhance financial literacy ever since the project was first launched.

In October 2023, Daiwa AM conducted a seminar for employees of the Council of Social Welfare in Sugunami Ward regarding the importance of asset management, focusing in particular on the individual-type defined contribution pension plan (iDeCo) system and on the new Nippon Individual Savings Account (NISA) program. Using worksheets, seminar participants performed asset management simulations and fund allocation. Participants

appreciated having the opportunity to take part in the seminar, with comments such as "We were able to learn the basics about how to utilize investment funds."



Seminar in progress

Holding the Investment Trust Creators Cup Activity

Daiwa AM provided three visiting lessons, combining Zoom and hands-on classes, for third-year students at Takamatsu Junior High School Attached to the Faculty of Education, Kagawa University.

In FY2023, taking Investment Trust Creators Cup as the theme, the students were asked to design an investment trust based around the concept of "an investment trust that will benefit both individuals and society as a whole in the future." The best investment trusts were chosen jointly by the students, their teachers, and Daiwa AM. The winning investment trust was created around the theme of space, while other outstanding investment trusts focused on the depreciation of the yen and decarbonization. Positive comments from the participating students included "We were able to learn

about the links between business enterprises and society," and "It got me interested in asset management."

Daiwa AM will continue to promote financial and economic education in the future, with the hope that initiatives of this kind can help people to develop an interest in finance and economics.



Group photo

Voice

In this project, which was being implemented for the third time in 2023, by designing the classes in collaboration with Daiwa AM, we were able to deliver a comprehensive learning experience. Through the classes, the students achieved significant growth, going from knowing nothing about investment trusts to creating them themselves. I feel that, by participating in this program, the students recognized that the economy is directly relevant to them, and have acquired the ability to think, judge, and act on their own.

Tomofumi Ono,
Teacher,

Takamatsu Junior High School
Attached to the Faculty of Education, Kagawa University



Measures Relating to the Launch of the New NISA Program

To accompany the launch of the new Nippon Individual Savings Account new NISA, a specific pillar of the Japanese government's Doubling Asset-based Income Plan initiative, Daiwa AM has been engaged in intensive communication with financial commodity sales companies, and has been undertaking new product development and provision of on-site support content.

Publication of the NISA Guidebook for personnel responsible for handling assets under management at sales companies

To enhance financial literacy, besides providing information to investors, it is also vitally important to offer support to the sales staff working at our sales companies. In addition to helping them develop a better understanding of the tax system, we have produced a practical guidebook with FAQs that can be used as case studies. The new NISA, encouraging people to make lifetime tax-free investments, is a significant development comparable to the Big Bang, a major financial reform previously implemented by the government, and it offers new opportunities for communication with a wide range of investors, including investors with limited experience. The NISA Guidebook has

been compiled and published in collaboration with Yamada Consulting Group, which has previously produced taxation guides for investment trusts, etc.



NISA Guidebook

Style 9—Developing an investing style diagnostic tool for inexperienced investors

Taking “Making asset management colorful” as its catchphrase, Style 9, which is oriented toward inexperienced investors, offers nine different portfolios that provide investment trusts tailored to match investors' individual investing styles. This product is designed to support the investment of smaller amounts on a regular basis within the NISA framework; a key feature is that it uses online tools to provide support for every stage from the first steps of asset management through to management status monitoring. The investment style diagnostics function asks investors some simple questions about their approach to investment and their risk tolerance, to guide them in thinking about their optimal investment style and allowing

them to perform asset accumulation simulations based on their life goals, etc.



Part of the Style 9 investment style diagnostics online tool

資産運用をカラフルに

STYLE 9

投資をはじめたい！
でも何から始めたらいいか？分からないあなたへ
まずはあなたにあった投資スタイルの診断から始めてみませんか？

初めての方・スタイル9 ID未登録の方
投資スタイルを今すぐ診断

スタイル9 ID 登録済みの方 ログイン

supported by 大和アセットマネジメント

+ WEB For more details, please visit the following website (in Japanese):
<https://style9.qri.jp/dam>



Insights Regarding ESG Fund Information Disclosure

Even before the Progress Report on Enhancing Asset Management Business 2022 published by the Financial Services Agency (FSA) outlined the government's expectations regarding information disclosure in relation to ESG investment trusts, Daiwa AM was already implementing leading-edge measures in regard to ESG fund disclosure.

Issuing the Carbon Zero Impact Report 2023

The Decarbonization Technology Fund (Carbon ZERO) is one of Daiwa AM's leading ESG funds. Since the fund was first launched, its impact report has provided, on annual basis, an explanation of the significance of ESG funds and the philosophy behind ESG fund management, as well as ESG surveys and management methods, and the impact that investment in the fund has had on society, all of it presented in a way that is easy for individual investors to understand. This fund is equivalent to a European Union Sustainable Finance Disclosure Regulation (SFDR) Article 9 fund, the most rigorous standard in the world for carbon zero funds, and with collaboration from Candriam, an asset management advisory firm, it has become an industry-leading fund that features leading-edge disclosure.



Carbon ZERO Impact Report 2023

+ WEB For more details, please visit the following website (in Japanese):
<https://www.daiwa-am.co.jp/special/carbonzero>

Working Together to Cultivate Tomorrow's Forests tree-planting activity—Carbon ZERO

Focusing on the topic of Working Together to Cultivate Tomorrow's Forests, Daiwa AM and its sales companies are realizing tree-planting on an annual basis by contributing part of our carbon zero investment trust returns to a tree-planting project run by NPO Environmental Relations. As of 2023, a cumulative total of 16,104 trees had been planted in four locations in various parts of Japan. We intend to continue with this activity every year as long as the Carbon ZERO fund is in existence. As a framework whereby the financial institutions providing investment trusts can work together with investors to help realize a decarbonized society, this project won the Governor's Special Prize for

Green Finance in the ESG Investment Category of the Tokyo Financial Awards.



Ashigawa-cho, Fuefuki-shi, Yamanashi Prefecture (June 2022)

Introducing the Tree-planting Projects



2022 Tree-planting Project
Ashigawa-cho, Fuefuki-shi,
Yamanashi Prefecture



+ WEB View video footage here:
https://youtu.be/h_iSAmqERbw

2023 Tree-planting Project
Hinohara-mura, Nishi-Tama-gun,
Tokyo



+ WEB View video footage here:
<https://youtu.be/rqEg09-pKRw>

Initiatives Aimed at Instilling our Vision and Values, and at Putting Them into Practice

/Holding our second round of town-hall meetings

Following on from 2022, town-hall meetings chaired by Daiwa AM President Mikita Komatsu were held on December 25 and December 28, 2023. With one of the goals being to strengthen engagement, this year there was more emphasis on dialog relating to the company's future direction. This was a valuable opportunity for the senior management team to directly hear from employees, while for employees, it was a marvelous opportunity to develop a more in-depth

understanding of the management team's approach and the company's overall strategic direction.



Town-hall meeting in progress

/Vision & Values (VV) Promotion Team activities

Daiwa AM formulated its Vision & Values (VV) in April 2020, and all employees are working together to realize the future that they embody. The "VV Team," composed of employee volunteers, works to promote related activities. In July 2023, a new group of employees took over the running of the VV Team (see figure below). Continuing to maintain the approach espoused by their predecessors, the new team is redoubling efforts to instill the Daiwa AM Vision and Values throughout the company.

The VV Team plans and implements various measures to make it easier for employees to develop an awareness of the Vision & Values. For example, they have held Input Day lecture sessions at which external instructors give talks on topics relating to the values espoused by Daiwa AM, and also carries out promotion initiatives like Sustainable Month as an activity to promote one of our Values, "Enhance Global Sustainable," to familiarize employees with ecological activities. The VV Team's

activities help to ensure a shared awareness among employees, and provide support for putting the company's Vision & Values into practice. Going forward, we intend to continue proactively implementing this kind of activity, so that each employee can move forward toward the achievement of Daiwa AM's vision.

The Vision & Value Awards (with award-winners chosen by employees)

In FY2022, Daiwa AM launched its own internal awards system. We call for applications from all company officers and employees once a year for challenging cases in which two or more people worked together with an awareness of Daiwa AM's Vision and Values, and all officers and employees vote to select the winning team. It is anticipated that this awards system will lead to new discoveries through the sharing of best practices, and that, by cultivating mutual respect, it will contribute to the cultivation of a company ethos that values taking on challenges.



Vision & Values (VV) Promotion Team (Second cohort)

This is a team that thinks and acts logically, and which you can rely on!

Going forward, we will continue working steadily to instill the company's Vision & Values!

We will continue to work with other team members to deliver sustainable projects!

Going forward, we will continue to develop projects that enable everyone to work together as one!

By looking at things from other people's perspectives, I will be working together with the other team members to carry out VV activities.

Let's strengthen the cohesion of all Daiwa AM employees through the VV Team's activities!

The VV Team will be rolling out some revolutionary new activities; watch this space!

Atsushi Kobayashi
Human Resources Department

Yusei Yamanaka
Legal & Compliance Department

Yoko Jimbo
Human Resources Department

Seika Izumisawa
Product Planning Department

Yuqing Jing
Corporate Planning Department

Yusuke Fukuda
Corporate Planning Department

Naomi Matsuda
Investment Planning Department and Global Business Department

Corporate Information

Company Overview

Company name, etc.	Daiwa Asset Management Co. Ltd. A Financial Instruments Business Operator registered with the Director of the Kanto Local Finance Bureau of the Ministry of Finance (Kin-sho) No. 352
Headquarters location	9-1 Marunouchi 1-chome, Chiyoda-ku, Tokyo
Main business areas	Investment management business, investment advisory and agency business, Type II financial instruments business
Memberships	The Investment Trusts Association, Japan; Japan Investment Advisors Association; Type II Financial Instruments Firms Association
Established	December 1959

+ WEB For an organization chart, please visit:
<https://www.daiwa-am.co.jp/english/corporation/organization.html>

+ WEB For more detailed information about Daiwa AM, please visit:
<https://www.daiwa-am.co.jp/english/corporation/index.html>

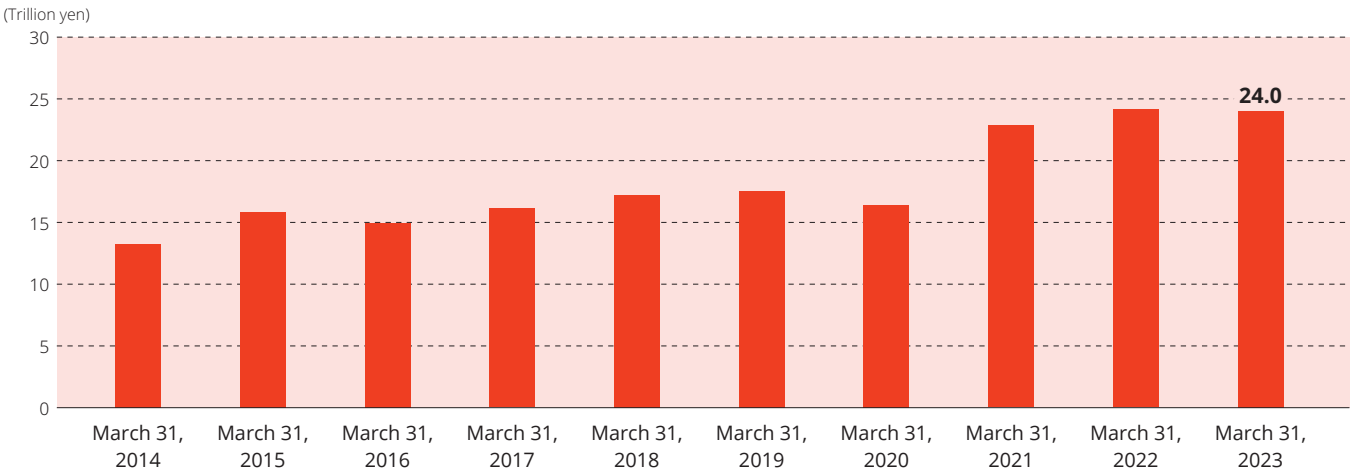


Capital	15,174,270,000 yen
Principal shareholder	Daiwa Securities Group Inc. (100%)
Overseas business locations	New York, Silicon Valley, Singapore, London
Number of Executives & Employees	680 (as of Dec. 31, 2023)

Financial Data

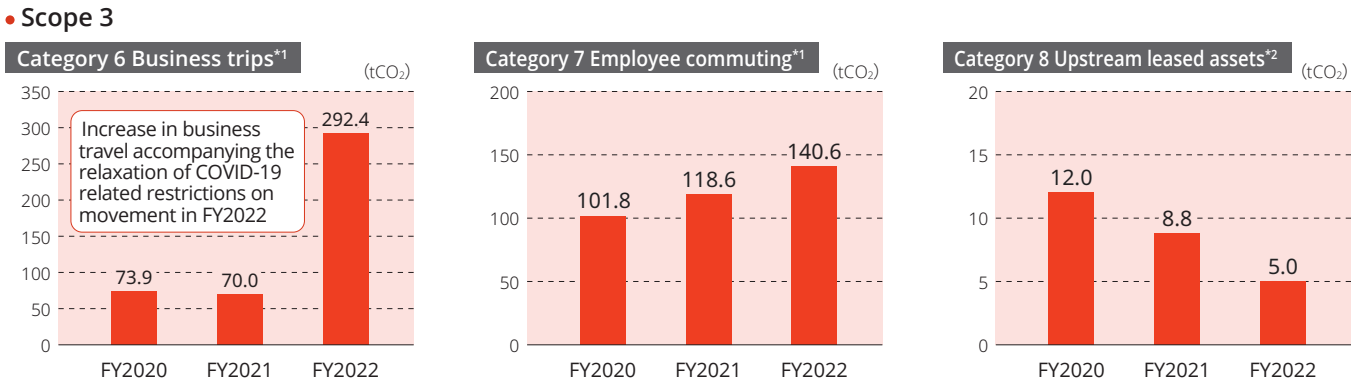
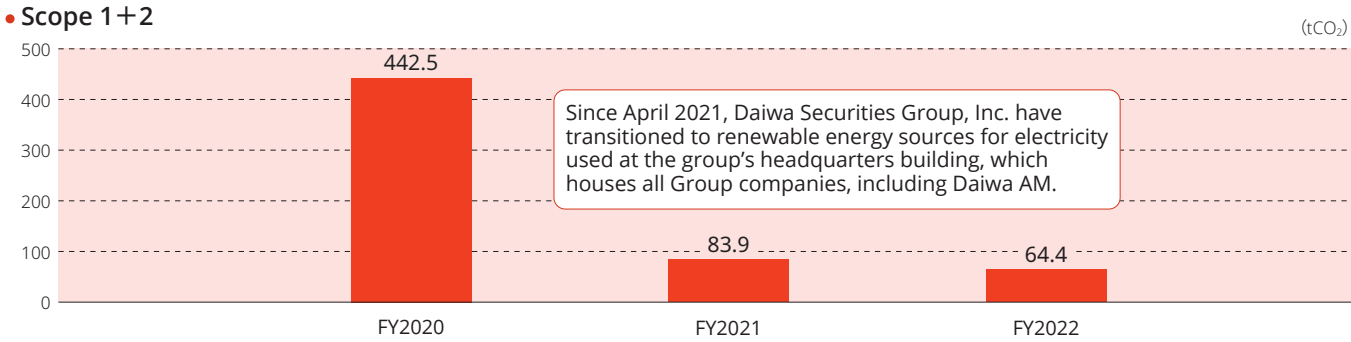
	FY2018	FY2019	FY2020	FY2021	FY2022
Operating revenue	76,725	70,134	65,906	74,948	70,405
Operating profit	16,572	14,525	14,067	18,551	15,310
Ordinary profit	16,961	15,629	14,616	19,089	15,642
Current net profits	11,870	10,566	9,389	12,738	10,317

Change in Assets under Management



Note: This figure is the combined total of investment trust, discretionary investment and investment advisory balances (Estimate including the investment balance of Daiwa AM's overseas subsidiaries)

Greenhouse Gas Emissions



*1 Business trips, employee commuting: Calculation based on amount of transportation expenses paid out
*2 Upstream leased assets: Calculation based on fuel amounts for leased vehicles employed as company cars
Notes:
1. Calculated using data obtained from Tokyo headquarters and overseas subsidiaries
2. The London subsidiary switched over to using renewable energy for electric power in 2019, and for gas in March 2022.
3. Calculated in accordance with methods stipulated under the Act on the Rationalization etc. of Energy Use and the Act on Promotion of Global Warming Countermeasures (disclosure figures are rounded off).

Amount of Copier Paper Used per Employee

	2019	2020	2021	2022	2023
	8,176	4,386	2,673	2,356	2,145

Human Resources and Related

	December 31, 2022	December 31, 2023
Ratio of female employees	40.4%	40.4%
Ratio of female managers	14.1%	15.1%
Ratio of female members of the Board of Directors	8.3%	21.4%
Ratio of female employees hired* ¹	57.1%	29.6%
Average duration of service of men and women* ¹	(Male) 15.8 years (Female) 14.8 years	(Male) 15.3 years (Female) 15.3 years
Employment rate of persons with disabilities	2.4%	2.7%
Average overtime per worker per month* ¹	10.5 hours	9.3 hours
Percentage of paid leave taken* ¹	82.7%	82.3%
Percentage of childcare leave taken* ¹	(Male) 100% (Female) 100%	(Male) 100% (Female) 100%
Disparity in pay between male and female employees* ¹ (Female employees' average pay as a percentage of male employees' average pay)	—	62.8% (all employees) 59.4% (regular employees) 76.5% (non-regular employees)

*1 Data is for FY2021 (April 2021 to March 2022), and FY2022 (April 2022 to March 2023)

Points that customers should be aware of when purchasing units in investment trusts

When purchasing units in an investment trust, customers should be fully aware of the two key points to note listed below, and should be sure to read through the investment trust prospectus for the investment trust in question, before making a decision as to whether or not to invest based on their own judgement.

Key points to note ① Regarding the fees payable by customers (assuming a consumption tax rate of 10%)

	Type	Fee rates	Fee details	Projected amount of fees payable (amounts are calculated based on the maximum fee rates shown to the left)
Fees payable by the customer directly	Handling fee payable at the time of purchase	0 to 3.3% (tax included)	Compensation for product explanation or provision of product information at purchase, provision of investment information, and executing transaction	The maximum fee payable will be 33,000 yen if 1 million units at the net asset value of 10,000 yen will be purchased
	Redemption fee (amount to be retained in fund assets)	0 to 0.5%	Deducted from the proceeds of redeemed amount and transferred to trust assets to cover expenses, etc. required for redemption	The maximum fee payable will be 5,000 yen if 1 million units at the net asset value of 10,000 yen will be redeemed
Fees payable by the customer indirectly, from the trust assets	Management fee (trustee revenue)	Annual rate of 0 to 1.98% (tax included)	Compensation received by the three parties of sales company, management company, and trustee company from the trust assets as investment and management expenses for units in investment trust	The maximum fee payable will be around 55 yen per day if 1 million units at the net asset value of 10,000 yen will be held
	Other fees and handling charges		Auditors' compensation, handling charges payable on the purchase or sale of marketable securities, fees payable on transactions involving futures contracts or options, fees payable for custody of assets overseas, etc. are payable from the fund assets. With regard to other fees and handling charges, these will vary depending on the management status, so it is not possible to give fee rates, upper limits, etc. in advance.	

Notes:
1.Types and fee rates of expenses will vary by sales company and individual investment trusts. The above fee rates for expenses are those of standard investment trusts managed by Daiwa Asset Management. As part of funds that invests in other funds, management and administration expenses for investment trusts in which funds will be invested are charged separately. Some investment trusts may also charge fees based on the performance of investments or handling fees for redemption.
2. As the total amount of handling fees, etc. will vary depending on how long the investor holds the fund, these cannot be shown here.
3. As this will vary depending on the investment trust, please contact the sales company for more details. You may also refer to the investment trust prospectus for more details.

Key points to note ② Regarding investment trust risk

As the investment trust invests in marketable securities, the price of which fluctuates significantly, the net asset value may also vary. Consequently, the original investment amount cannot be guaranteed. All profit or loss generated by the investment trust must be borne by the investor. An investment trust is not the same as a savings deposit. Please refer to the investment trust prospectus for the investment trust when applying, as the risk factors will vary depending on, for example, the securities instrument in which the investment trust will invest.

The providers of information to Daiwa Asset Management Co. Ltd., including MSCI ESG Research LLC and its affiliate companies (hereinafter collectively referred to as "ESG Parties"), obtain information from sources believed to be reliable (hereinafter referred to as "Information"), but none of the ESG Parties give any guarantees regarding the originality, accuracy and/or completeness of any of the data presented in this report, nor do they give any guarantee, implicit or explicit, regarding the Information's marketability or fitness for any specific purpose. The Information may be utilized only for customers' own internal use; it may not be reproduced or disseminated in any form, and may not be used as the basis of or as a component in any financial product, other product or index. Furthermore, none of the Information may be used for the purpose of deciding whether to purchase or sell any marketable security, or when to undertake such purchase or sale. None of the ESG Parties will be held liable for any error or omission in relation to the Information, nor will they be held liable for any direct, indirect, special, punitive, consequential or other damages (including loss of income), even if advance notification was given of the possibility of such damages.

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- This report is a Sustainability Report compiled by Daiwa Asset Management Co. Ltd., and should not be construed as a solicitation to purchase or subscribe to any product. Potential investors should refer to and read the content of the prospectus of each fund product, available from the sales company, prior to their investment decision.
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- In cases where the names of individual enterprises are given in this report, these are given for reference purposes only, and should not be construed as a recommendation of the enterprise concerned. They should also not be construed as an indication or guarantee that the enterprise in question will be included in a particular fund in the future.
- The data presented in this report are for the period between January 1 and December 31, 2023.



Management Company
Company name, etc. Daiwa Asset Management Co. Ltd.
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Memberships
The Investment Trusts Association, Japan
Japan Investment Advisors Association
Type II Financial Instruments Firms Association