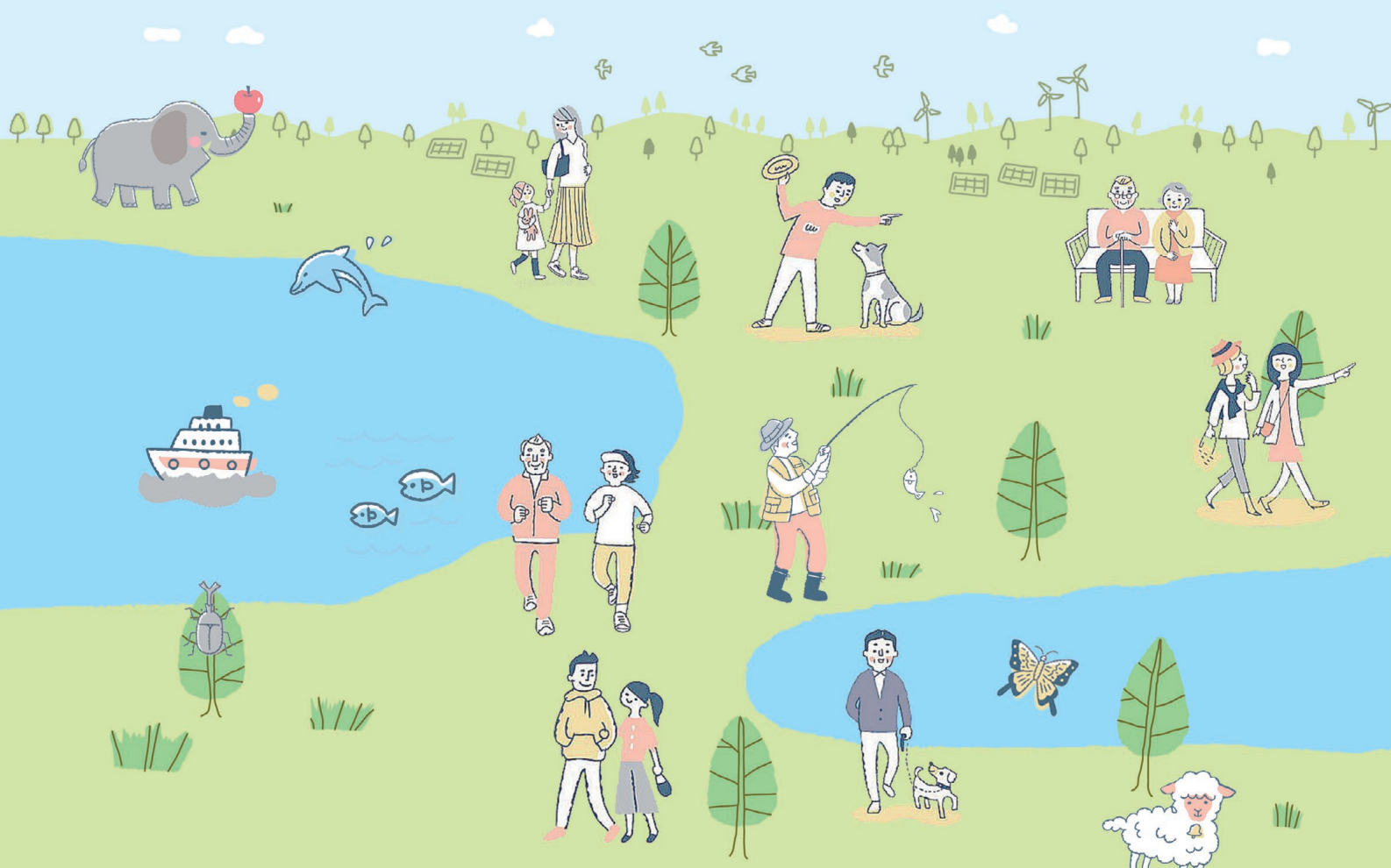


# SUSTAINABILITY REPORT 2025



SUSTAINABILITY REPORT 2025



Published by:

**Daiwa**  
Asset Management

Corporate Planning Department and  
Responsible Investment Department  
Daiwa Asset Management Co. Ltd.

GranTokyo North Tower, 9-1 Marunouchi 1-chome,  
Chiyoda-ku, Tokyo 100-6753, Japan  
E-mail: damssc@daiwa-am.co.jp

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Daiwa Asset Management Co. Ltd.

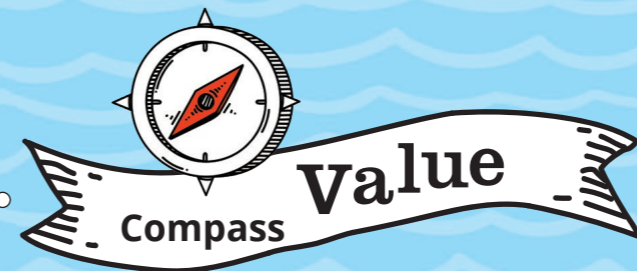
**Daiwa**  
Asset Management

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.

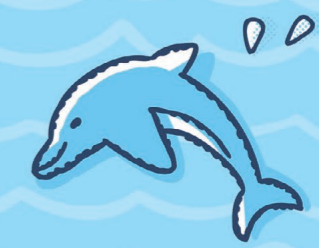


### Our action guidelines

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

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# Corporate History

## Early Years (1950-1990)

### 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



## 1991-2010

- 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 group member company of the Daiwa Securities Group Inc. under the holding company structure



## 2011-2020

- 2012**
  - Relocated the headquarters to 9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan
- 2019**
  - Global X Japan Co. Ltd. established
- 2020**
  - Trade name changed to Daiwa Asset Management Co. Ltd.
  - Daiwa Capital Management Silicon Valley established



## 2021-

- 2022**
  - Signed up to the Women's Empowerment Principles
  - Entered into a business alliance with the Drucker Institute, which was founded by U.S. management theorist Peter F. Drucker
- 2024**
  - Entered into a capital and business alliance with Japan Post Insurance
- 2025**
  - Mitsui & Co. Alternative Investments became a subsidiary, Daiwa JPI Alternative Investments launched



### Responsible Investment

- 2006**
  - Signed up to the Principles for Responsible Investment



- 2011**
  - Signed up to the Principles for Financial Action toward a Sustainable Society (Principles for Financial Action for the 21st Century)
- 2014**
  - Announced adoption of Japan's Stewardship Code
  - Signed up to the Statement on Fiduciary Duty and Climate Change Disclosure
- 2015**
  - Established the Engagement Team
- 2018**
  - Established the Stewardship & ESG Section
- 2020**
  - Joined the 30% Club Japan Investor Group
  - Expressed support for the Task Force on Climate-related Financial Disclosures (TCFD)
  - Established the Stewardship & ESG Department



- 2021**
  - Began participating in the activities of the International Corporate Governance Network (ICGN)
  - Began participating in the Climate Action 100+ initiative
  - Signed up to the Investor Agenda in advance of COP26
  - Signed up to the Net Zero Asset Managers initiative (NZAMI)
- 2022**
  - Signed up to the Japan Stewardship Initiative (JSI)
  - Signed up to the Investor Agenda in advance of COP27
  - Name of the Stewardship & ESG Department changed to the Responsible Investment Department
  - Began participating in the Human Capital Management Consortium
  - 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
- 2024**
  - Signed up to the Investor Agenda in advance of COP29
  - Registered "Lingagement™" as a trademark
- 2025**
  - Registered "Mienai Chikara™ (Invisible Value Drivers)," a source of corporate value creation, as a trademark

### 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 and 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

- 2013**
  - Launched Daiwa TOPIX Ex-Financials ETF to meet Basel III requirements, as the first asset management company in Japan to do so
  - Launched a rich variety of products for NISA
- 2014**
  - Launched Daiwa JPY Nikkei 400 Fund and Daiwa ETF JPY Nikkei 400 to link with JPY Nikkei Index 400 index
- 2015**
  - Began managing Japanese equities for funds sold overseas and began co-managing of a UCITS fund with Mirae Asset Global Investments, a leading Korean asset management firm
- 2016**
  - Launched iFree, an index fund series
- 2017**
  - Launched three ETFs linked to ESG-related indexes



- 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
- 2023**
  - Expanded the product range to include products tailored to Japan's new NISA system, and increased the provision of support for sales companies
- 2024**
  - Received an award in the ESG Finance Awards Japan organized by Japan's Ministry of the Environment
  - Developed a Japanese equivalent of the Drucker Institute Score, and established the Drucker Institute Japan Equity Fund (capital growth type), which makes use of this score
- 2025**
  - iFreeNEXT FANG+ Index exceeded 1 trillion yen in net asset value

\* 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.



“ Aiming to be the most trusted and chosen asset management company by our customers, we will continue to take on new challenges without fear of change ”

### Taking on the challenge of creating new value through alternative investments

In October 2024, Daiwa AM entered into a capital and business alliance with Japan Post Insurance, one of the leading asset owners in Japan, marking our full-scale entry into the investment advisory business, including alternative investment areas. Then, in 2025, through a capital and business alliance with Mitsui & Co., Mitsui's alternative asset management subsidiary was welcomed into the Daiwa Securities Group and made a new start as Daiwa JPI Alternative Investments. This is the first step in creating new value through the combination of global perspectives and expertise, and this initiative will enable flexible fund management strategies that are not bound by conventional frameworks.

I believe that asset management is not just about

accumulating numbers, but is a dialog with society and a responsibility toward the future. The initiatives under this alliance truly embody this philosophy. Our full-scale entry into the alternative sector has the potential not only to meet the diverse needs of investors, but also to create capital flows that contribute to solving social issues.

At the same time, Daiwa AM has steadily implemented a variety of measures to improve our fund management capabilities, such as upgrading team management and revising our human resources system. We will continue to work on further upgrading our fund management capabilities and strive to realize a sustainable society and enhance our corporate value.

### Japan's future as a "Leading Asset Management Center," driven by challenge and action

Sustainability is not something which can be achieved with theory alone. It is only when you put theory into practice, engage in dialog, and learn from mistakes that true value is created. I am convinced that the cornerstone of sustainable management is listening sincerely to the voices of the people on the ground and being ready to flexibly adapt.

Promoting the use of AI technology is a part of this. In July 2025, we jointly developed an AI system with LegalOn Technologies to enhance the sophistication and efficiency of our ad screening operations, and began introducing the system as part of the screening operations for our monthly report in October. In addition to improving operational efficiency, this has enabled us to establish a system that enables both legal compliance and knowledge accumulation, and to provide investors with accurate and useful information more promptly.

We believe that efforts like this will strengthen the business foundation of the asset management industry, as well as contribute to the realization of Japan as a "Leading Asset Management Center," something that will require high levels of expertise and transparency from asset management companies.

Going forward, Daiwa AM will return to its starting point and "contribute toward enabling people to live fulfilling lives and toward realizing a sustainable society through its asset management business" while continuing to take on new challenges without fear of change. Further, we will proactively fulfill our role to help make Japan a "Leading Asset Management Center" by promoting stewardship activities conscious of the entire investment chain, engaging in thorough product governance, and working to improve financial literacy through financial and economic education.

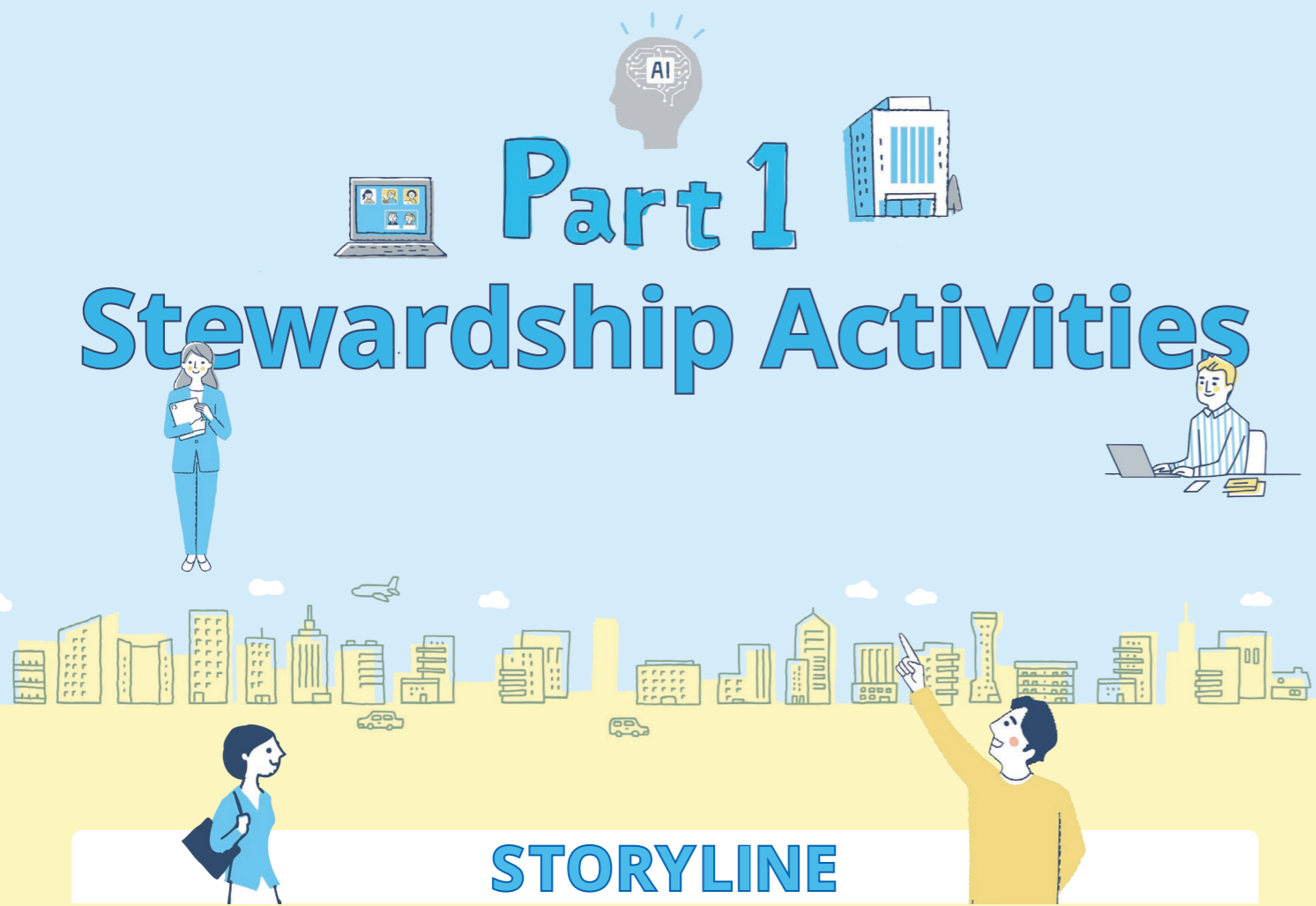


### All Challenges for ESG Investment

Kei Sano  
President

# Part 1

# Stewardship Activities



## STORYLINE

In Part 1, our aim is to help readers understand Daiwa AM's responsible investment initiatives. This part of the report is structured as follows:

### Guidelines for the Future

#### 1 Materiality

Key areas in relation to the goal of enhancing investment companies' value over the medium to long term, and of realizing sustainable growth



### Transformation That Begins with Dialog

#### 2 Engagement

#### 3 Proxy Voting

Realizing the enhancement of corporate value through engagement and proxy voting



### Responsible Investment Framework

#### 4 Sustainable Investment

#### 5 Stewardship

The policy and systems framework that functions as the foundation for Daiwa AM's activities



### Achievements over the Past Year

#### 6 Stewardship Activity

A year of responsible investment undertaken in collaboration with business enterprises



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- 11 Key Features of Daiwa AM's Stewardship Activities
- 13 FOCUS Sustainable Investment Strategy

### 15 Guidelines for the Future

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- 22 Measures Relating to the TCFD and TNFD
- 29 Circular Economy

### 1 Materiality

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# 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 and intangible assets initiatives, "Lingagement™" (combining linkage with engagement), proxy voting, and ESG integration, to promote measures that will enhance the corporate value of investee companies.

- CORE MATERIALITY**
- Core materiality
- Greenhouse gas emissions
  - Risks and opportunities relating to climate change
  - Biodiversity
  - Circular economy
  - Human capital management
  - DE & I
  - Business and human rights
  - Capital efficiency improvement
  - Governance framework
  - Effectiveness of the Board of Directors

### INPUTS

**Key participants in engagement**

- Corporate research analysts
- Fund managers
- Credit analysts
- Stewardship analysts

**ESG scores**

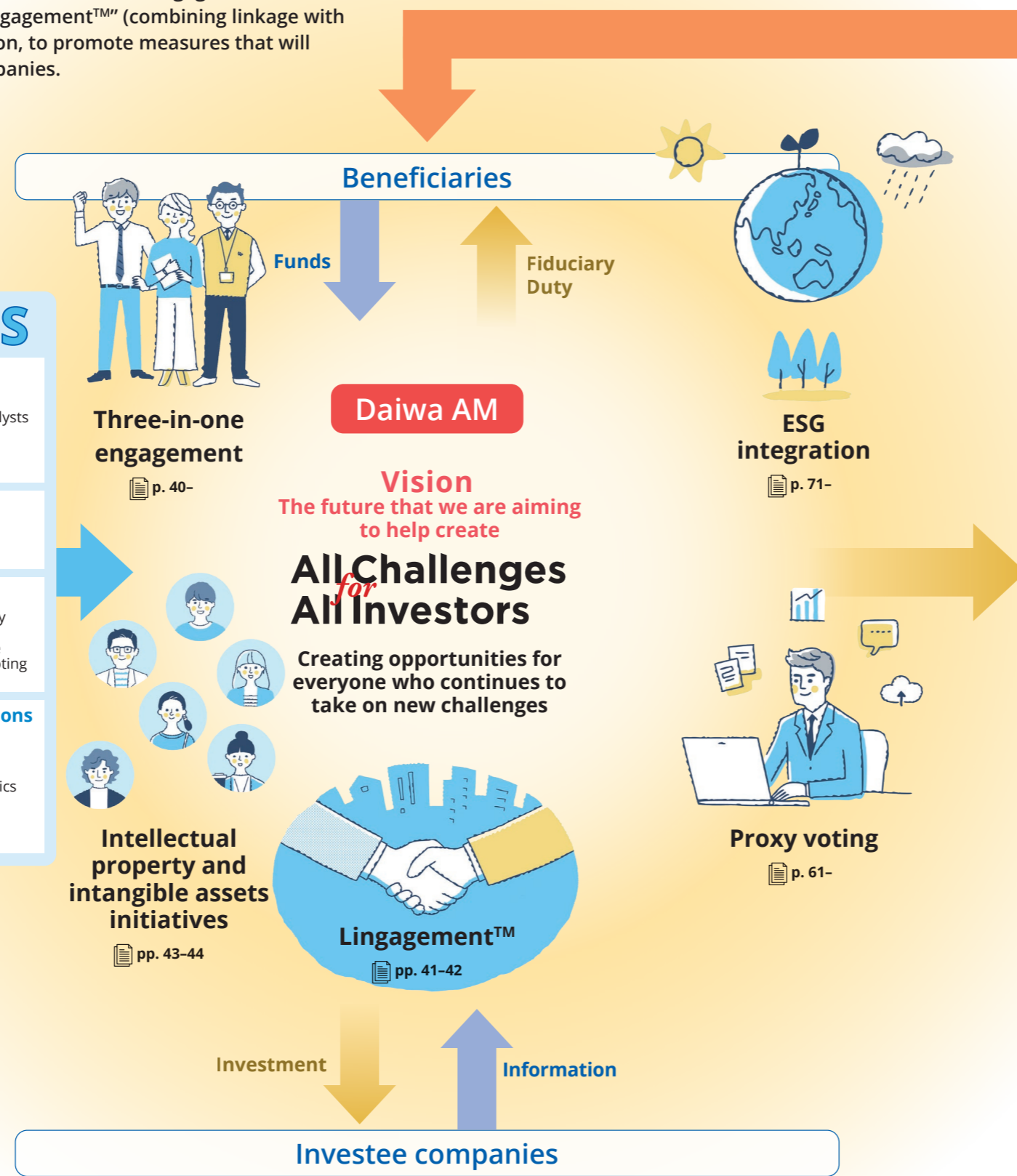
- In-house ESG score
- Drucker Institute Score

**Proxy voting**

- Stewardship Supervisory Committee
- Stewardship Committee
- Revision of the Proxy Voting Policy

**External organizations**

- Drucker Institute
- Glass, Lewis & Co. LLC
- MSCI Inc.
- Morningstar Sustainalytics
- S&P Global
- Participation in relevant initiatives Etc.



- Policies**
- Best Practice (p. 37)
  - Proxy Voting Policy (p. 61)
  - General Policy on Stewardship Activities (p. 87)
  - ESG Investment Policy (p. 71)
  - Materiality (p. 15)

## OUTCOMES

**Sustainable growth for society**

Enhanced fund performance

Addressing society's problems

Enhancing corporate value and creating social value

## OUTPUTS

**Engagement** (p. 35-)

- No. of engagement cases: 1,435
- Engagement cases by category (%)

Environmental, social and governance (ESG)	25.6%	ROE and capital cost	21.8%
Approach to dialog with investors and disclosure of information	25.4%	Capital policy (cash utilization, shareholder returns, etc.)	27.1%

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

**Proxy voting** (p. 61-)

- No. of instances of exercising proxy voting rights: 2,068
- No. of voting in favor and voting against

Proposals relating to company proposals (Total: 19,746 proposals)	In favor: 17,711	Against: 2,035
Proposals relating to proposals by shareholders (Total: 383 proposals)	In favor: 57	Against: 326

- No. of Stewardship Committee meetings held: 45
- No. of Stewardship Supervisory Committee meetings held: 2
- No. of Stewardship Committee proposals: 108
- No. of revisions made to the Proxy Voting Policy: 2

**PRI annual assessment** (p. 92)

Signatory of: **PRI** Principles for Responsible Investment

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

Note: Data presented in this report are for the period from July 2024 to June 2025.

## Key Features of Daiwa AM's Stewardship Activities

What makes Daiwa AM's stewardship activities special is a multi-faceted approach that emphasizes practical effectiveness, and which incorporates three-in-one engagement and Daiwa AM's unique "Lingagement™." To achieve both the enhancement of corporate value and the realization of sustainable growth for society as a whole, Daiwa AM implements cutting-edge initiatives that include the effective utilization of dialog based on a high level of specialist expertise and of unique indicators, as well as the cultivation of ESG talent, etc.

1

### Three-in-one engagement activities

pp. 40

Daiwa AM conducts engagement through a "three-in-one" system that integrates the activities of three key categories of participant: corporate research analysts, fund managers, and stewardship analysts. By making effective use of the specialist expertise of each of these participants, and by engaging in dialog through teams that are optimized to suit the particular circumstances and ambitions of each individual enterprises, Daiwa AM aims to make engagement more meaningful.



No. of engagement cases  
Annual total: **1,435 cases**

2

### Coordinated implementation of engagement and proxy voting

pp. 62-64

To gain maximum benefits from engagement, it is important for it to be implemented in a way that is integrated with other stewardship activities and with escalation strategy. Rather than single-mindedly following its Proxy Voting Policy in all cases, Daiwa AM takes into account the individual circumstances of each investee company. In implementing engagement, Daiwa AM makes effective use of the industry knowledge of corporate research analysts, and of the sustainability knowhow of stewardship analysts. In cases where the response from the investee company is not fully satisfactory, Daiwa AM uses proxy voting to stimulate change; proxy voting is also used to reflect a positive evaluation of efforts made by an investee company's management team. Feedback interviews are conducted in relation to proxy voting results.

No. of proxy voting cases  
Annual total: **20,129 proposals**



3

### Lingagement™

pp. 41-42

"Lingagement™" is a unique approach developed by Daiwa AM that combines linkage with engagement. In "Lingagement™," Daiwa AM creates opportunities for investee companies to engage in discussion, regarding the issues facing them, with the leaders and senior managers of other companies that have been implementing best practice. By effectively utilizing the networks and knowhow that it has built up over the years, Daiwa AM is implementing "Lingagement™" to bring about both the enhancement of investee companies' corporate value and sustainable growth for society as a whole.

No. of companies and organizations taking part in information exchange meetings

Cumulative total: **102 companies**

Note: This type of meeting has been held since 2021.



4

### Collaboration with the Drucker Institute

pp. 77-78

In 2022, Daiwa AM began a partnership with the Drucker Institute in the U.S., working together with the Institute to develop a Japanese version of the Drucker Institute Score. By using this score, in combination with Daiwa AM's proprietary ESG scores, in dialog with investment companies, and in the analysis of "Mienai Chikara™ (Invisible Value Drivers)" such as human capital, intangible capital and intellectual property, etc., Daiwa AM is aiming to strengthen the effectiveness of engagement that is focused on initiatives addressing ESG issues.

Drucker Fund assets under management (AUM)  
**43.4 billion yen**

Note: This figure represents the combined total of the AUM of the following three funds as of November 30, 2025.  
• Drucker Institute Japan Equity Fund (capital growth type)  
• Drucker Institute U.S. Equity Fund (capital growth type)  
• Leverage Drucker Institute U.S. Equity Fund



5

### Utilization of in-house ESG scores

pp. 75-76

To be able to identify companies' ESG-related risks and opportunities from multiple perspectives and utilize this information in investment decision-making, Daiwa AM calculates its own unique ESG scores. The data items used in these scores are revised and expanded periodically, to ensure that evaluation reflects current circumstances. ESG scores and the content of dialog with investment companies are shared within the company, and both equity and fixed income investment operations involve analysis that makes full use of this information.

ESG score cumulative return\*

**19.3%**

\* The cumulative return was calculated with May 2021 as the baseline, by dividing the equity universe into five groups based on each individual company's ESG score, and then calculating the disparity in performance between the highest-scoring group and the lowest-scoring group.



6

### System for cultivating sustainability talent

p. 89

As part of its ESG talent cultivation measures, Daiwa AM has established an in-house accreditation system (with the awarding of titles) to recognize those employees who have acquired a specified level of sustainability-related knowledge (including knowledge relating to the SDGs and ESG). By encouraging employees to obtain this accreditation, Daiwa AM aims to enhance sustainability awareness throughout the company as a whole.

No. of employees who have obtained in-house accreditation titles

**50 employees**

Note: As of November 30, 2025



7

### High-quality stewardship activities

p. 92

In annual assessment in relation to the Principles for Responsible Investment (PRI), Daiwa AM was awarded five stars, the highest possible score. Since signing up to the PRI in May 2006, Daiwa AM has consistently implemented measures to realize responsible investment, and this assessment is a tribute to years of hard work. Going forward, Daiwa AM will continue to fulfil its responsibility to society as an institutional investor, while also working proactively to enhance the corporate value of investee companies.

PRI annual assessment

**5 stars**  
For three consecutive years

Note: No. of stars in each main asset class



## Sustainable Investment Strategy Daiwa AM's unique initiatives and the potential for further evolution

With the sustainable investment environment currently undergoing a dramatic transformation, we discussed Daiwa AM's unique initiatives in this area, the strategies being adopted to strengthen them, and related business opportunities, with Yukino Yamada, Senior Managing Director at Daiwa Institute of Research, and Hisashi Kanamori, Head of Fund Management Division and Chief Investment Officer, Daiwa AM, both of whom possess a high level of specialist expertise in this field.



**Hisashi Kanamori**

Deputy President, Head of Fund Management Division and Chief Investment Officer (CIO)  
Daiwa AM

**Yukino Yamada**

Senior Managing Director and Lead Researcher,  
Daiwa Institute of Research

### The role of institutional investors, and the evolution of engagement

**Moderator:** First, could we talk about the role of institutional investors in relation to sustainable investment, and about Daiwa AM's initiatives in this area?

**Yamada:** Ideally, institutional investors should be more than just providers of capital within the investment chain; they should take on the role of providing "responsible capital" that has a positive impact on both corporate activity and society as a whole. Besides functioning as decision-makers in relation to fund allocation, institutional investors should also take on responsibility for realizing sustainability, influencing business enterprises through their engagement activity, and leveraging the power of capital to create a better future for society.

**Kanamori:** With the number of individuals in Japan who hold shares either directly or indirectly tending to increase due to the success of the new NISA program, the pool of investors is expanding noticeably. This means that there is a real need for institutional investors to make a conscious effort to undertake engagement that targets a more diverse range of stakeholders. Daiwa AM has for some time now been implementing strategies to strengthen engagement. In particular, unique engagement initiatives such as "Lingagement™," which emphasizes knowledge sharing, and measures such as "Mienai Chikara™ (Invisible Value Drivers)" for assessing the value of intangible assets, have been very well received by business enterprises.

**Yamada:** I attended the first of the information exchange meetings that Daiwa AM holds every year as part of its "Lingagement™" initiative. I got a real sense that, by not only sharing knowhow from

companies that are implementing best practice, but also introducing measures implemented by companies that rank slightly below the best performing firms in their industry, this initiative can be expected to produce meaningful results in terms of strengthening companies' awareness and expanding their sense of what is possible. Another noteworthy initiative is Daiwa AM's collaboration with the Drucker Fund and the Drucker Institute.

**Kanamori:** In order to bring about an evolution of engagement, Daiwa AM is also putting a great deal of effort into the utilization of generative AI. When undertaking engagement, by using AI to analyze companies, including non-financial information and sustainability related information, we believe that engagement can be made more efficient and taken to a higher level. I think that effective utilization of AI will become even more important in the future for responsible investors as an important means for strengthening engagement.

**Yamada:** I too have noticed the growing use of generative AI in the asset-management sector. I think it will become important to implement a division of labor between humans and AI, for example by having humans research and analyze information that is not available online, while using AI to analyze data that can be collected from the Internet.

**Kanamori:** I think that in the future one option will be to adopt an approach whereby it becomes mainstream to use AI for analyzing listed companies for which it is easy to obtain information, while humans spend more time on evaluating unlisted companies that are harder to obtain information about.

### Sustainable investment is vital for ensuring the sustainable growth of Japanese society

**Moderator:** Can we move on to talk about the anti-ESG trend in the U.S., as well as the response to that in Europe and the impact on Japan?

**Yamada:** The second Trump administration has seen a noticeable shift, with the U.S. withdrawing from the Paris Agreement, and with the subsidies for green energy and electric vehicles that were introduced in line with the Inflation Reduction Act being reduced or eliminated. However, the severity of new regulations and the overall strategic direction vary from state to state depending on the political environment in that state. In Europe, most decarbonization policies continue to be implemented. With regard to the anti-DE&I trend in the U.S., while keeping the political risks in mind, most American companies continue to implement strategies to encourage participation by diverse human talent, because they know that this will contribute to enhanced performance (although the language that they use may have changed).

**Kanamori:** As regards Japan, particularly with regard to the adoption of DE&I initiatives, it is widely recognized that the situation is significantly different from that in the U.S. Besides the differences in diversity initiatives due to historical factors, an additional point is the severity of labor shortages in Japan as the population starts to fall. Japan has finally reached a stage where it is starting to see improvement in terms of the female employment participation rate and the "M-shaped curve" issue (the phenomenon whereby female employment falls off dramatically as women enter their child-bearing years, before recovering later). Looking ahead, I think that Japanese companies will need to further strengthen their DE&I initiatives.

**Yamada:** There is a definite possibility that the anti-ESG trend will have a negative impact on the creation and sale of ESG-themed

financial products. Nevertheless, most institutional investors in Japan have already been implementing ESG investment and lending, and taking ESG factors into account when evaluating companies, so I think it is safe to say that the growth of sustainable investment is already an unstoppable trend.

**Kanamori:** When implementing sustainable investment, short-term performance can be significantly affected by the market environment and by conditions in that particular industry. However, sustainable investment is, after all, aimed at achieving financial returns while also focusing on sustainability over the medium to long term. Recent research has shown that companies that emphasize sustainability factors tend to achieve stable growth and lower risk over the long term.

**Yamada:** I feel the same about sustainable investment performance. If you look at the performance of ESG indices that have been adopted by Japan's Government Pension Investment Fund (GPIF), starting from the point at which they were adopted by the GPIF, it can be seen that most of them have at least managed to match the average market return.



### Strengthened information disclosure offers the potential for developing sustainable finance

**Moderator:** Finally, Ms. Yamada, could you tell us your views on the outlook for sustainability-related markets in the future, and Mr. Kanamori, could you tell us about Daiwa AM's strategy in regard to sustainability initiatives?

**Yamada:** The last few years have seen a dramatic change in sustainability related disclosure and corporate attitudes, for example in regard to disclosure relating to human capital, and management that embodies more awareness of the cost of capital and of the share price. Looking ahead, we can expect to see a further expansion of disclosure, for example with the introduction of the Sustainability Standards Board of Japan (SSB) sustainability disclosure standards, and with the new requirement for a company to disclose its annual report before the holding of the annual shareholders meeting.



**Kanamori:** As regards information disclosure, although the burden that this places on companies can be high, non-financial information is extremely important for estimating a company's future value, and so the trend toward expanded disclosure of non-financial information is to be welcomed. Investors can use AI to make the collection and processing of information more efficient, so the efforts that companies make are directly related to strengthening investors' ability to analyze

companies. At the same time, there is also a need for measures to reduce the burden on companies; I think it would be a good idea to consider simplifying disclosure in those areas where improvements in companies' response have already brought disclosure to a high level of maturity.

**Yamada:** With regard to impact finance, in Japan the last few years have seen a noticeable increase in impact investing by banks and life insurance companies, while on a global scale, institutional investors such as pension funds and foundations have been at the center of the growth in impact investing. The goals of major financial institutions in undertaking impact finance initiatives include: fulfilling their responsibility to society, accumulating impact finance knowhow, and responding to the need for strategic cultivation and promotion of impact startups.

**Kanamori:** Regarding the sustainable finance market in Japan, the Japanese government has indicated that its GX Strategy will require around 150 trillion yen in investment and lending. To achieve this, it will be important to make effective use of the approximately 2,200 trillion yen in household financial assets, so the ideal situation would be to realize impact investing that will help to solve society's problems while also generating economic returns through investment and lending. Daiwa AM is exploring various business opportunities relating to sustainable finance and impact investing, including the development of GX-related indices, using ETFs and investment trusts to direct funds toward sustainable areas, focusing on the Emerging Managers Program (EMP) in collaboration with Japan Post Insurance, and collaborating on impact capital investment projects that we are involved with. We are confident that Daiwa AM's future initiatives in this area will attract a great deal of interest.

# Guidelines for the Future

## 1 Materiality

Key areas in relation to the goal of enhancing investment companies' value over the medium to long term, and of realizing sustainable growth

Guidelines for the Future  
1 Materiality

Transformation That Begins with Dialog  
2 Engagement  
3 Proxy Voting

Responsible Investment Framework  
4 Sustainable Investment  
5 Stewardship

Achievements over the Past Year  
6 Stewardship Activity

## Material ESG Issues

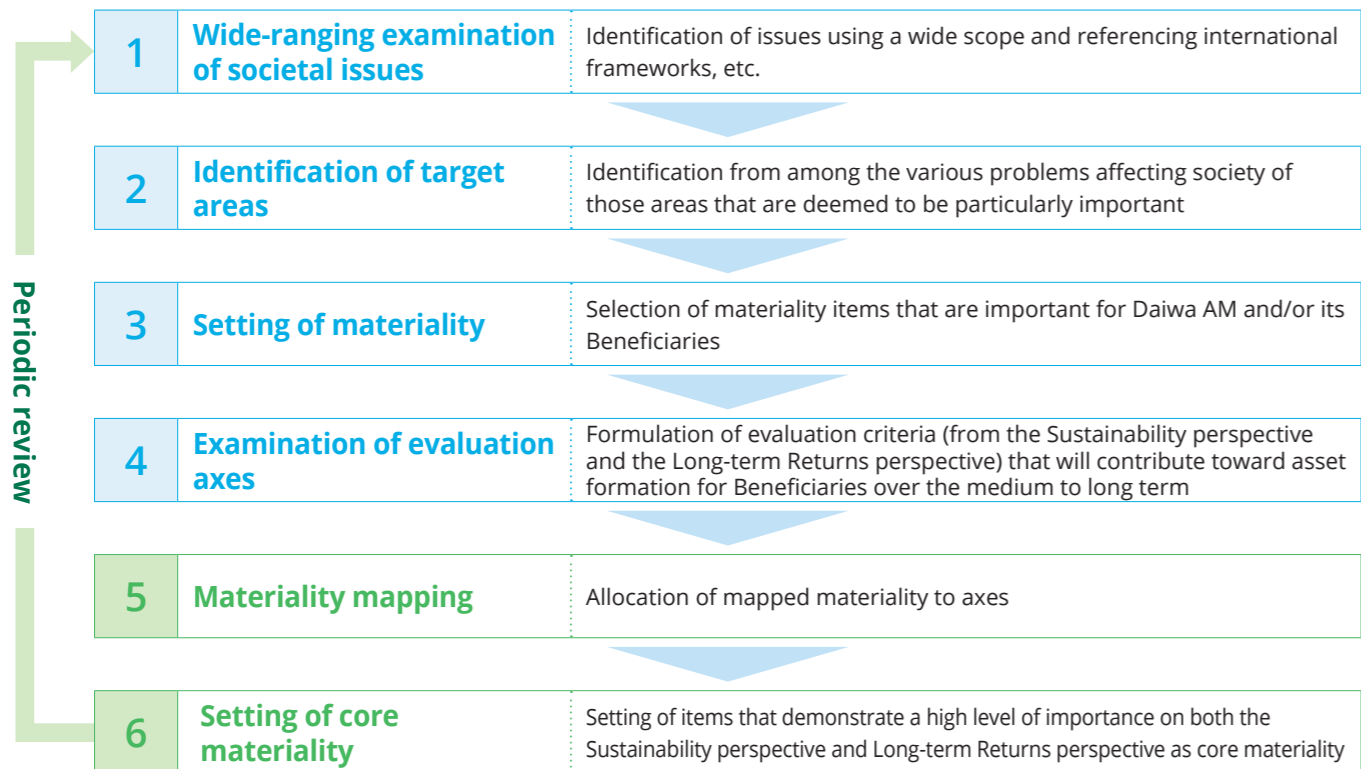
Through its asset management business, Daiwa AM aims to make a positive contribution toward Beneficiaries' asset formation over the medium to long term. Materiality at Daiwa AM refers to key issues (materialities) which have been set with the aims of enhancing the medium- to long-term value and sustainability of investee companies and helping to maintain the sustainability of society as a whole. To this end, Daiwa AM strives to develop an

accurate picture of the state of individual enterprises and of industry as a whole, and to share its understanding. Daiwa AM's materiality is comprised of perspectives relating to sustainability, including ESG in general. We then analyze Daiwa AM's materiality from two perspectives—Sustainability, and Long-term Returns—and specify high materialities as core materialities for both.

## Core materiality identification and analysis process

There is a wide range of ESG and sustainability issues relating to corporate activity. To address these issues, it is vital to focus on making effective use of limited resources, with a focus on solving problems in the way that is most efficient in terms of realizing sustainable growth and enhancing corporate value over the medium and long term. Daiwa AM has identified target areas from the

various problems affecting society, and then taken the maximizing of Beneficiaries' returns over the medium and long term as the yardstick which serves as the basis for identifying core materiality, which in turn is being utilized in engagement with investee companies and in proxy voting.



## Target Areas

<b>Climate change</b>	This is an important issue that is directly related to the generation of corporate value and to resilience. It is vitally important to realize the reduction of greenhouse gas (GHG) emissions (to achieve the goal of Net Zero emissions), to undertake the transition to decarbonization technology, and to implement climate risk disclosure.	<b>Human capital</b>	The strategic utilization of human capital and the promotion of DE&I are the wellsprings of growth and innovation. Providing a motivating work environment and enhancing employee well-being are directly linked to maximizing employees' capabilities and strengthening competitiveness.
<b>Natural capital</b>	This is the foundation that supports sustainable corporate activity. The safeguarding of biodiversity, resource recycling, and measures to address environmental risk are all vital for enhancing corporate value over the long term.	<b>Social responsibility</b>	Ensuring respect for human rights and implementing sound supply chain management are vital if a company is to fulfil its responsibility to society. Companies today need to attach due importance to their working environment and to human rights risk, so that they can contribute toward the building of a society in which people are able to enjoy good health and peace of mind.
<b>Governance</b>	Sound corporate governance and robust asset management are vital for enhancing corporate value. Risk management, capital, efficiency, corruption prevention, and taxation transparency all have a key role to play in strengthening management foundations.		

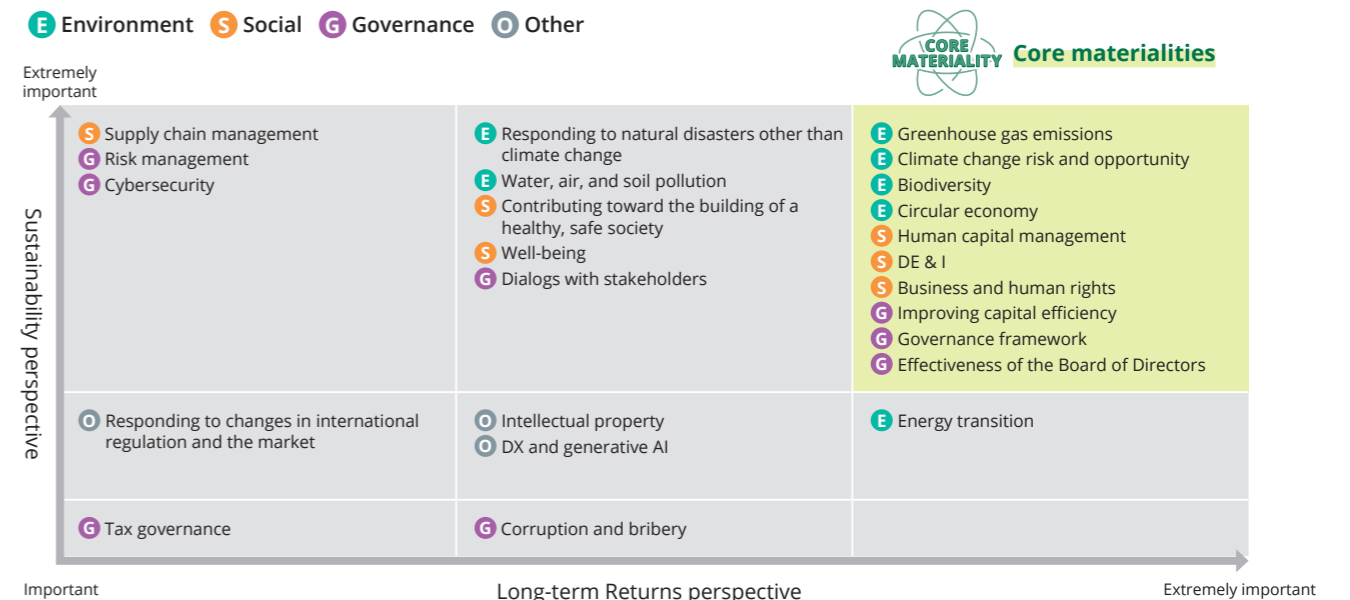
## Materiality

### Key issues domains

### Specific points of focus

Information disclosure	<b>E</b> Climate change	<ul style="list-style-type: none"> <li>Greenhouse gas emissions</li> <li>Energy transition</li> </ul>	<ul style="list-style-type: none"> <li>Climate change risk and opportunity</li> </ul>
	<b>E</b> Natural capital	<ul style="list-style-type: none"> <li>Biodiversity</li> <li>Circular economy</li> <li>Responding to natural disasters other than climate change</li> <li>Water, air, and soil pollution</li> </ul>	
	<b>S</b> Social responsibility	<ul style="list-style-type: none"> <li>Business and human rights</li> <li>Supply chain management</li> </ul>	<ul style="list-style-type: none"> <li>Contributing toward the building of a healthy, safe society</li> </ul>
	<b>S</b> Human capital	<ul style="list-style-type: none"> <li>Human capital management</li> </ul>	<ul style="list-style-type: none"> <li>DE&amp;I</li> <li>Well-being</li> </ul>
	<b>G</b>	<ul style="list-style-type: none"> <li>Governance framework</li> <li>Improving capital efficiency</li> </ul>	<ul style="list-style-type: none"> <li>Effectiveness of the Board of Directors</li> <li>Risk management</li> <li>Cybersecurity</li> <li>Dialogs with stakeholders</li> <li>Tax governance</li> <li>Corruption and bribery</li> </ul>
	<b>Other</b>	<ul style="list-style-type: none"> <li>Intellectual property (IP)</li> <li>Responding to changes in international regulation and the market</li> </ul>	<ul style="list-style-type: none"> <li>Digital transformation (DX)/generative AI</li> </ul>

## Materiality Map



### Strategy for materiality-oriented dialog

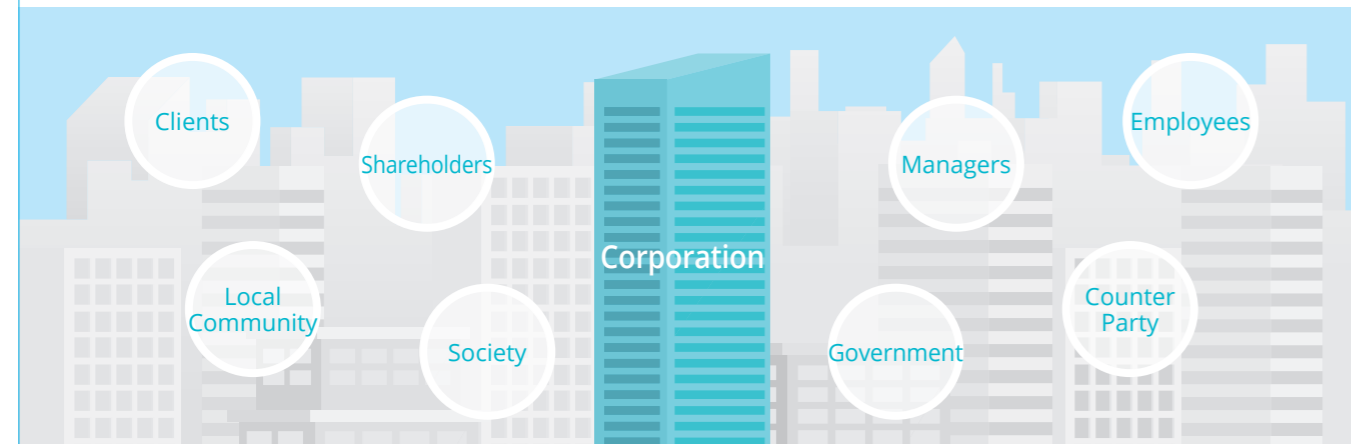
With the aim of enhancing sustainable corporate value, Daiwa AM has formulated an Engagement Policy based on the materiality identified as outlined above. This Engagement Policy covers not only management strategy, communication with investors and disclosure, but also a wide range of materiality topics that are directly linked to corporate value creation, including climate change, natural capital, governance, human capital, corporate social responsibility, etc.

By using these topics as the basis for multi-faceted verification of companies' strategies, response to risk, growth opportunities, etc., and undertaking a comprehensive assessment of companies' overall status (both financial and non-financial), Daiwa AM is actively promoting engagement that emphasizes stakeholders' overall interests and information disclosure. Through these initiatives, Daiwa AM is aiming to realize dialog that will generate value for both investee companies and Daiwa AM itself.

#### Engagement Policy (extracts)

##### Dialog

- We recognize the importance of constructive dialog (engagement) with companies and others in fulfilling our fiduciary responsibilities.
- We will strive to accurately grasp the fundamentals of companies and share our perceptions, including non-financial aspects as well as financial aspects.
- In order to improve the medium- to long-term value and sustainability of corporations and other entities, we believe it is important to appropriately allocate profits to all shareholders.
- We will not encourage the provision of insider information, including material non-public information, at the time of dialog. In the event that we obtain such information, we will handle it appropriately and request that the company disclose it promptly.



#### Perspectives emphasized in dialog (the ESG perspective references the materiality outlined on the previous page)

##### On corporate strategy

- Concept behind the corporate philosophy, management policies and initiatives for instilling them throughout the company
- Clarification of value creation processes, business models and vision for the future
- Approach to determining business domains and allocating management resources

##### On dialog and disclosure with investors

- Basic approach to IR
- Approaches to timely and fair disclosure
- Initiatives for dialog and disclosure from a medium-to long-term perspective
- Initiatives for providing opportunities for dialog with various divisions

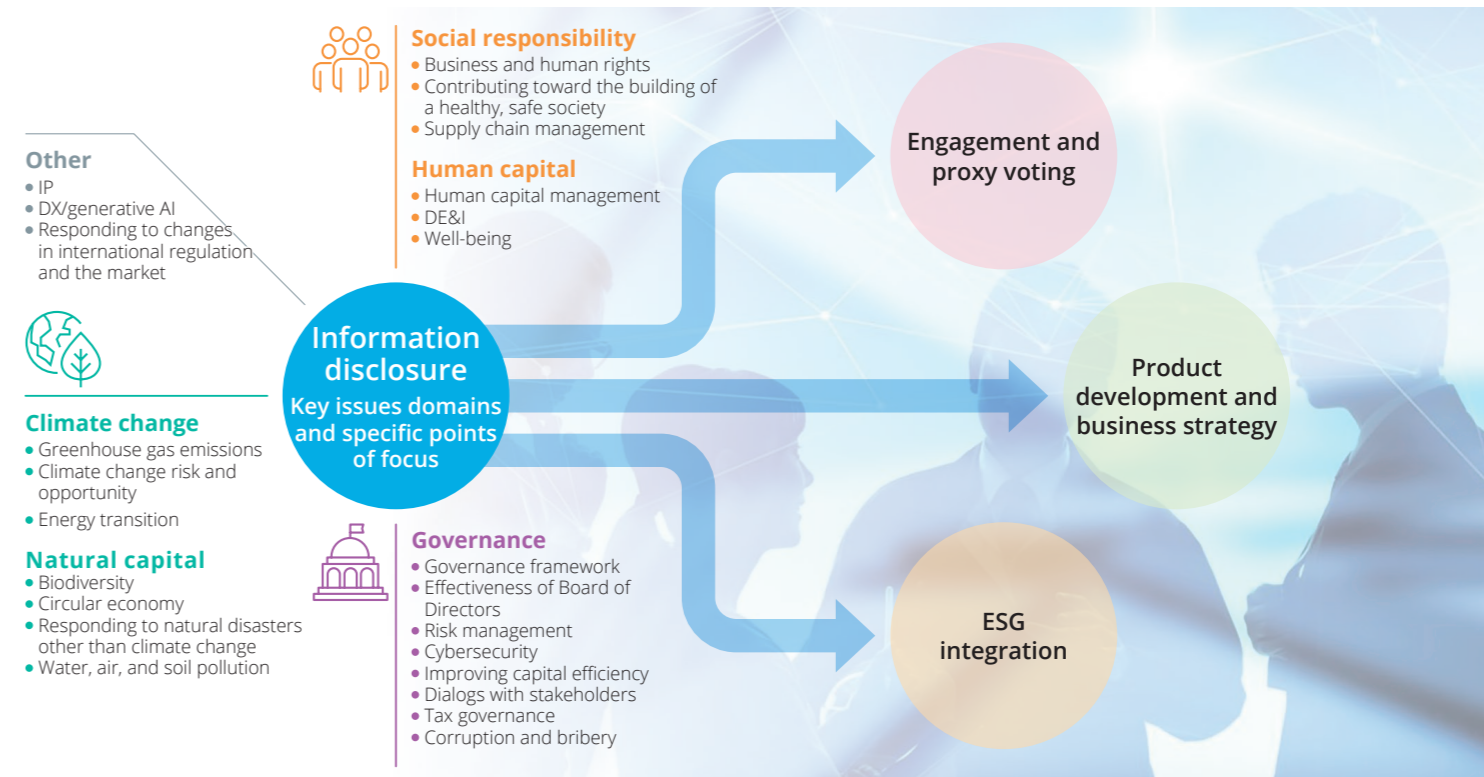
+ WEB For more details, please visit the following webpage:  
 Engagement Policy  
[https://www.daiwa-am.co.jp/english/stewardship/engagement\\_policy.html](https://www.daiwa-am.co.jp/english/stewardship/engagement_policy.html)



### Integration in investment and business activities

In addition to being reflected in engagement, proxy voting, and investment decisions, the materialities Daiwa AM has identified will be actively applied to a wide range of business activities, including product development and

business strategy. For companies showing no signs of action toward improvement following engagement, we will consider, for example, voting against proposals for the election of directors during proxy voting.



### Adjustment of materiality items

In line with the process outlined above for identifying and analyzing materiality, in October 2025 Daiwa AM adjusted its materiality items. In relation to factors that have the potential to affect the sustainability and competitiveness

of companies, etc., a new materiality item was added from a long-term perspective, and the name of one item was changed in order to clarify the exact meaning of the materiality.

#### Newly added item

Area	Specific point (newly added)	Reasons / Background
Governance	<b>Effectiveness of the Board of Directors</b>	Although a governance system has been formally established, there is still room for improvement in terms of the system's effectiveness.

#### Changed item

Area	Specific point (old → new)	Reasons / Background
Governance	Old: Capital efficiency improvement (cross-shareholdings, etc.) ↓ New: <b>Capital efficiency improvement</b>	It is important to emphasize that capital efficiency improvement initiatives are not limited to reducing cross-shareholdings.

#### Eliminated item

Area	Materiality area	Reasons / Background
Governance	<b>Enhancing corporate value</b>	Enhancing corporate value is a topic that does not relate only to governance.

## ➤ Initiatives Related to Our Core Materiality

### Climate Change

#### Issues recognized

Today, there is an urgent need for measures to address climate change to be implemented on a global scale. In line with the Paris Agreement on climate change that was signed in 2015, countries throughout the world have set targets for reducing greenhouse gas (GHG) emissions, and are striving to keep the global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius, with the aim of realizing a sustainable society.

However, the World Meteorological Organization (WMO) has reported that, in 2024, the global average near-surface temperature was 1.5 degrees Celsius above the pre-industrial baseline for the first time ever, making this the hottest year since records began. According to the Sixth Assessment Report published by the Intergovernmental Panel on Climate Change (IPCC) in 2021, in the worst-case scenario, by the end of this century average global temperatures may have risen by as much as 5.7 degrees Celsius.

Natural disasters, such as torrential rains and drought, resulting from abnormal climatic conditions are becoming more frequent year by year, and as global temperatures rise there will be an increased risk of these becoming even more serious. Global warming already poses a threat to ecosystems and to human life, so there is an unavoidable need to speed up the adoption of climate change response measures.

#### Our thinking and approach

Daiwa AM believes that, in terms of responding to climate change, engagement is an extremely important thing for us to focus on. This is because, faced with the challenging, long-term problem of needing to implement decarbonization, idealism is not enough; it is ongoing dialog between investors and investee companies based on transition plans reflecting the individual circumstances of investee companies that will lead to effective solutions.

With this in mind, we are encouraging companies with high GHG emissions to transition to a new focus on strengthening corporate value over the medium to long term and on realizing sustainable management, by actively undertaking engagement with them, and through constructive dialog aimed at reducing emissions.

Over the last few years, investment opportunities in emerging economies have grown; in particular, Daiwa AM has steadily increased its investment in Indian companies. India's rapid economic growth and rising population have led to increased demand for energy, but the country is still heavily dependent on coal-fired thermal power generation. Given India's distinctive energy environment and the variation in regulations and incentive mechanisms between states (and between the state governments and the national government), besides undertaking direct engagement with investee companies, Daiwa AM is also

While such measures need to be considered from a wide range of perspectives, including that of new technology development, first priority must be given to further expanding the adoption of renewable energy and energy-saving technology. In particular, it is vital to have a timetable for reducing the emissions of companies in the energy sector, etc. with high GHG emissions, and so making the most effective possible use of existing technologies, and striving to do the best we can now, will determine how climate change develops in the future.

As investors, we hope that investee companies will aim for a sustainable increase in corporate value by working to reduce their GHG emissions and reducing climate change related risk, while also securing new business opportunities from their response to climate change. To this end, going forward there will be an even greater focus on encouraging investee companies to expand their disclosure of information relating to climate change and to formulate transition plans for accelerating the reduction of GHG emissions, as well as taking concrete action to implement them.

Daiwa AM believes it is possible to achieve both economic growth and decarbonization. Looking ahead, we will continue to provide proactive support for investee companies initiatives, so that, by realizing a sustainable society, a better global environment can be handed down to future generations.

arranging for external organizations to undertake engagement on its behalf. Rather than just asking companies to disclose information, Daiwa AM is conducting effective dialog that takes into account the business structure and emissions sources of each individual company, thereby promoting decarbonization from a global perspective (see pp. 57-58 of this report).

In addition, we are investing in companies that can contribute toward combating climate change through the creation and sale of a wide range of ESG funds. By providing support for the development and widespread adoption of revolutionary new technologies, we are aiming to help bring about the realization of a society that is steadily making steps toward decarbonization.

Furthermore, through active participation in various types of initiatives, we are taking on responsibilities and setting goals in relation to our own company's actions. For example, in relation to our involvement in the Net Zero Asset Managers initiative (NZAMi), we have set goals for GHG emissions reduction, and have formulated concrete action plans (see p. 26 of this report).

Going forward, we will be aiming to further strengthen engagement with investee companies that have high GHG emissions, and undertaking investment activities that are aimed at helping to realize a sustainable society.

# TOPICS

## Visiting a GX project in Hokkaido

### Visiting Japan's largest GX project through collaboration with Sapporo City

The need to respond to climate change is an urgent issue that is global in scope. However, the measures that countries around the world are taking in response cannot really be said to be adequate, and there is no getting away from the fact that there are growing doubts as to whether Japan will achieve its goal of becoming carbon neutral by 2050, and regarding the emissions reduction targets that the government has set. Thanks to the collaboration of

Sapporo City, Daiwa AM recently had the opportunity to visit and study a decarbonization project that is the largest Green Transformation (GX) project of its kind in Japan. The insights and case studies learned through this experience will, through engagement with companies in Japan, help to strengthen measures to address climate change, and will also contribute to the growth of the sustainable finance market in Japan.

### CCS is a powerful option for realizing decarbonization

Carbon dioxide capture and storage (CCS) is widely expected to have a key role to play in addressing the problem of global warming. The CCS demonstration facility at Tomakomai that the team from Daiwa AM visited uses an amine-based absorption method to capture carbon dioxide emitted from factories, etc., and then injects it into a sandstone layer deep below the seabed for storage. The aims of this demonstration project are to implement verification testing for an integrated system, and to confirm that the system is safe and can be used with peace of mind. The facility began injecting CO<sub>2</sub> into the storage reservoir in 2016; by the time that injection ceased in 2019, a total of 300,000 tons of CO<sub>2</sub> had been stored. There has been no leakage from the storage reservoir, including during the Hokkaido Eastern Iburi Earthquake occurred in 2018.

Issues that need to be addressed in order to realize widespread adoption of CCS include bringing down the cost, developing appropriate methods for CO<sub>2</sub> transportation, and finding suitable storage sites. Separation membrane development is seen as being key to reducing the cost of CCS. Regarding the identification of suitable sites, surveys are currently underway throughout Japan aimed at commercialization of CCS by 2030.

The adoption of CCS technology is seen as very important for ensuring a steady supply of electric power (demand for which is expected to increase) while also realizing decarbonization, and keeping the overall cost of electric power under control.

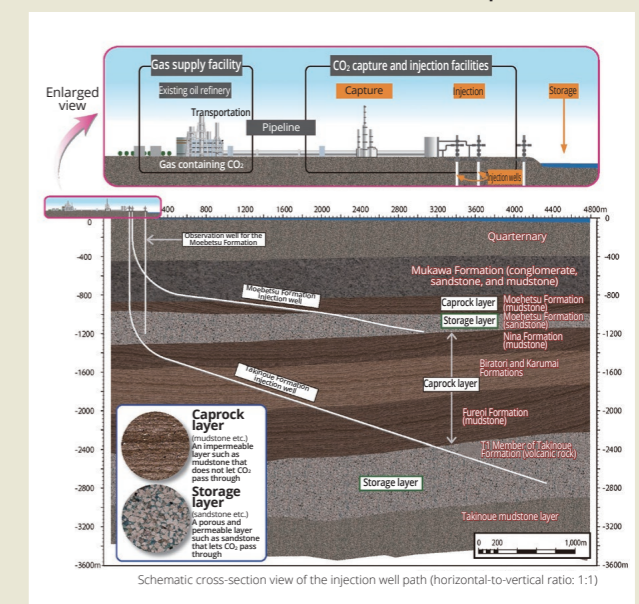
### Offshore wind power has great potential

The Ishikari Bay New Port Offshore Wind Farm, which began operation in January 2024, is one of Japan's largest wind farms in commercial use, with 14 large wind turbines, each with a capacity of 8,000 kW. The wind farm is connected to 180,000 kWh of battery storage capacity; in this way, renewable energy, which is often criticized as being unstable, can provide a stable supply of electric power.

What makes this wind farm special is that it is the first facility of its kind in Japan to use a jacket structure for the turbine foundations; as a result, the wind turbines are, by value, 60% domestically produced.

In Japan, due to the dramatic rise in construction costs, some companies have announced that they are withdrawing from wind power development projects. However, given that Japan is surrounded by the ocean, wind power has great potential, and the government has set a goal of realizing wind power projects with combined generating capacity of 10 GW by 2030, and 30 – 45 GW by 2040. The expansion of wind power has a vital role to play in realizing widespread adoption of renewable energy.

#### Schematic view of the CCS demonstration plant



Source: Japan CCS Co., Ltd. (JCCS) website

#### Ishikari Bay New Port Offshore Wind Farm



Photo by Daiwa AM

➤ Initiatives Related to Our Core Materiality

## Biodiversity and Natural Capital

### Issues recognized

Many companies rely on ecosystems and natural capital, both domestic and overseas, in their business activities, and many of them exert a major impact on ecosystems. Initiatives aimed at safeguarding biodiversity and natural capital can help to reduce business risk and uncertainty for enterprises that are dependent on them, while also enhancing the resilience of the company's business activities. In addition, such initiatives have the potential for generating new business opportunities, through moving into areas where the company was not previously active, such as the development of new technology, etc.

Reports published by the World Economic Forum (WEF) note that loss of biodiversity and destruction of ecosystems represent a serious crisis second only in urgency to climate change. At the same time, however, it is forecast that transitioning to a nature positive economy in which the loss of natural capital is stemmed and a more positive situation is created could result in the generation of 10 trillion dollars per year in new business opportunities and in the creation of 390 million new jobs by 2030. Within Japan, the new market that this generates could be worth around 47 trillion yen, and possibly as much as 104 trillion yen,

### Our thinking and approach

Daiwa AM believes that the conservation and sustainable use of biodiversity and natural capital are vitally important for enhancing companies' sustainability. This is because the loss of biodiversity and natural capital will lead to instability in the supply of raw materials, increasingly onerous regulation, reputational risk, etc., and can have a severe impact on corporate value.

At the same time, incorporating the safeguarding of natural capital into one's management strategy and building a sustainable business model can be expected to generate new growth opportunities and contribute toward the enhancement of corporate value over the long term.

For this reason, companies need to accurately identify the extent to which the sustainability of their business is dependent on natural capital, and determine the environment's impact on their own company and the supply chain. There is also a need to take proactive steps to safeguard biodiversity and natural capital in order to manage risks associated with natural capital and create opportunities.

The Task Force on Nature-related Financial Disclosures (TNFD), which issued its final recommendations in September 2023, has provided an international

equivalent to 16.5% of Japan's GDP.

At the Fifteenth meeting of the Conference of the Parties to the Convention on Biological Diversity (CBD-COP15), which was held in December 2022, the Kunming-Montreal Global Biodiversity Framework (GBF) was adopted, setting out new international objectives oriented toward a nature positive approach. In line with these developments, the Japanese government has formulated the National Biodiversity Strategy and Action Plan (NBSAP), which is positioned as an important strategy for securing Japan's sustainability, and the government is working to strengthen related initiatives.

At COP16, held in October 2024, broad agreement was not reached regarding the procurement of the much-anticipated international funding, and a final consensus was not reached regarding the establishment of a progress monitoring framework for the GBF and the setting of related indicators, although the GBF notes that the total amount needed for the protection and restoration of nature by 2030 will be 200 billion dollars. Daiwa AM focuses on both the risks and the opportunities in relation to biodiversity and natural capital.

framework that companies can use to assess and disclose their relationship with nature.

Daiwa AM believes that it is important for investee companies to prioritize the accurate identification of risks and opportunities related to biodiversity and natural capital, and therefore encourages investee companies to implement assessment and disclosure in line with the TNFD recommendations, with a particular focus on industries that have numerous interfaces with biodiversity, and on companies that have high levels of exposure to nature-related risks. Daiwa AM also implements engagement in relation to nature-positive initiatives and awareness of related issues.

Daiwa AM is convinced that avoiding the loss of natural capital and contributing to nature positive measures, and then linking these initiatives with the enhancement of corporate value, are vitally important topics.

Going forward, Daiwa AM will be proactively encouraging investee companies to implement integrated measures that incorporate that safeguarding of biodiversity and natural capital and the transition to a circular economy.

➤ Initiatives Related to Our Core Materiality

## 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 ISSB (formerly TCFD). We have also begun to implement disclosure relating to natural capital, in line with the LEAP (Locate, Evaluate, Assess, Prepare) approach recommended by the 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

#### Framework

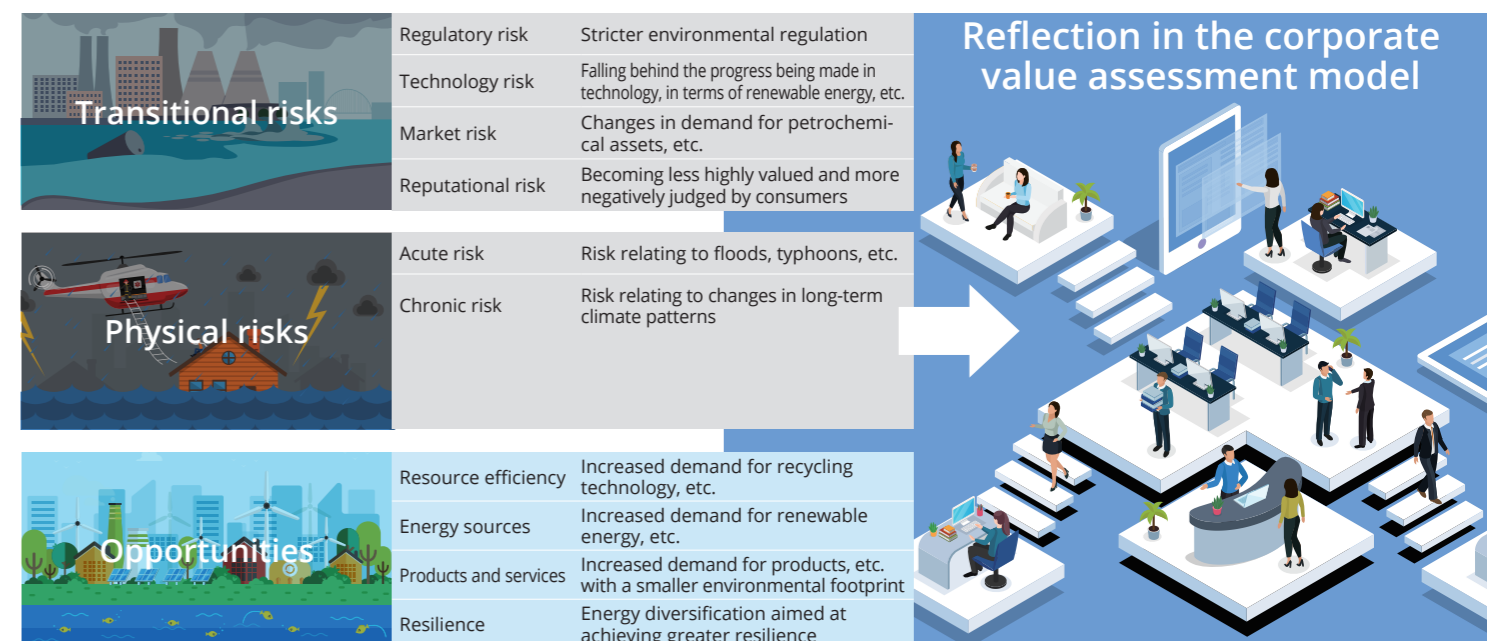


formulation of an organizational human rights policy in relation to indigenous peoples, local communities and affected stakeholders, as well as the full-scale launch of engagement activities with related companies, as recommended by the TNFD. The Stewardship Committee reports to the Board of Directors on monitoring status in relation to the ISSB and the TNFD.

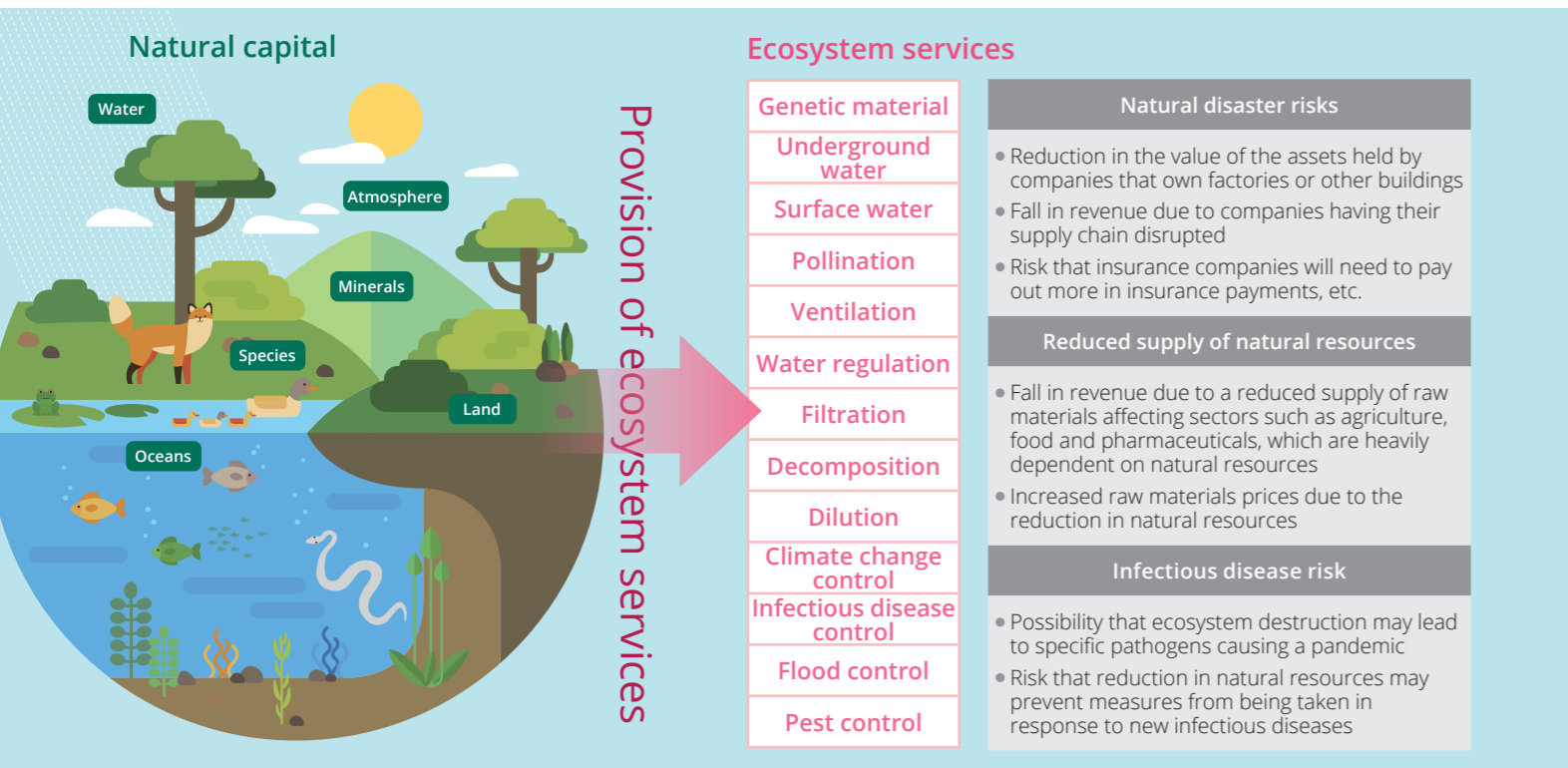
#### Strategy

The risks and opportunities relating to climate change and natural capital are reflected in Daiwa AM's corporate value assessment 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 are working to identify the risk associated with destruction of natural capital, and to analyze and determine the risk borne by investee companies.

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



## Risks associated with the destruction of natural capital



## 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 the greenhouse gas emissions of the investee companies in our portfolio, and conducting climate change risk scenario analysis, and we perform these activities on a regular basis. 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.

## Indicators and targets

As greenhouse gas emissions indicators, we perform monitoring and analysis of total CO<sub>2</sub> emissions by fund and by asset class, and of carbon footprint, carbon intensity, etc. 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 our own original research, we undertake engagement activities with companies to encourage them to proactively decarbonize and implement nature-positive management.

## Climate change—Analysis of the main indicators relating to total CO<sub>2</sub> emissions

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 the respective benchmarks for each class. The carbon footprint is an indicator measuring emissions in relation to portfolio size (market capitalization), while carbon intensity is an indicator measuring carbon emissions of investee companies per unit of sales. For each of these, climate change risk management is performed appropriately by implementing analysis and monitoring. As shown in the table on the next page, emissions were categorized as Scope 1, Scope 2, Scope 3 (upstream) or Scope 3 (downstream), and the relevant emissions for each were calculated. Daiwa AM is striving to promote the decarbonization of its entire supply chain, by determining, in detail, the total carbon emissions of our investee

companies and making effective use of this information in engagement activities with investee companies.

The main indicators for Japanese equities and overseas corporate bonds were, broadly speaking, found to fall below the benchmark values. By contrast, the figures for Japanese corporate bonds exceeded the benchmarks; this was affected by the inclusion in the portfolio of the corporate bonds of electric power companies at a weight higher than the benchmark. The weighted average carbon intensity for overseas equities was affected by the fact that the stocks of Indian corporations accounted for a sizeable share of the investment portfolio.

Going forward, we will continue to utilize engagement activities, etc. to encourage investee companies to implement measures in relation to climate change.

## Part 1 Stewardship Activities

## Part 2 Corporate Sustainability

### 1 Materiality

### 2 Engagement

### 3 Proxy Voting

### 4 Sustainable Investment

### 5 Stewardship

### 6 Stewardship Activity

## Portfolios' total carbon dioxide emissions

### • Scope 1, 2

(tons of CO<sub>2</sub> equivalent)

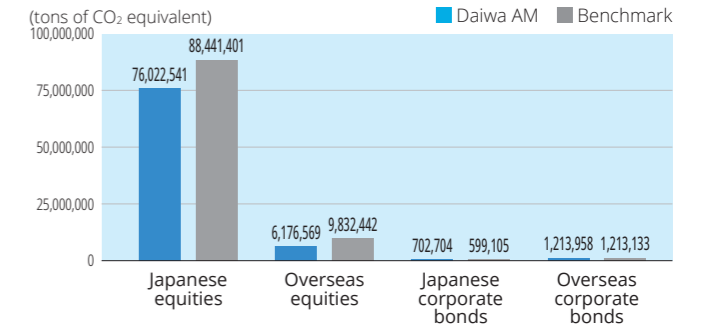
	Daiwa AM	Benchmark	Disparity
Japanese equities	7,061,629	8,571,358	-18%
Overseas equities	1,185,494	1,261,435	-6%
Japanese corporate bonds	203,221	86,627	135%
Overseas corporate bonds	180,125	212,237	-15%
Total	8,630,469	10,131,657	-15%

### • Scope 3 Upstream

(tons of CO<sub>2</sub> equivalent)

	Daiwa AM	Benchmark	Disparity
Japanese equities	24,072,359	26,946,971	-11%
Overseas equities	1,550,708	2,274,369	-32%
Japanese corporate bonds	228,312	197,761	15%
Overseas corporate bonds	329,331	307,783	7%
Total	26,180,710	29,726,883	-12%

### • Total CO<sub>2</sub> emissions (Total of Scope 1, 2, and 3)



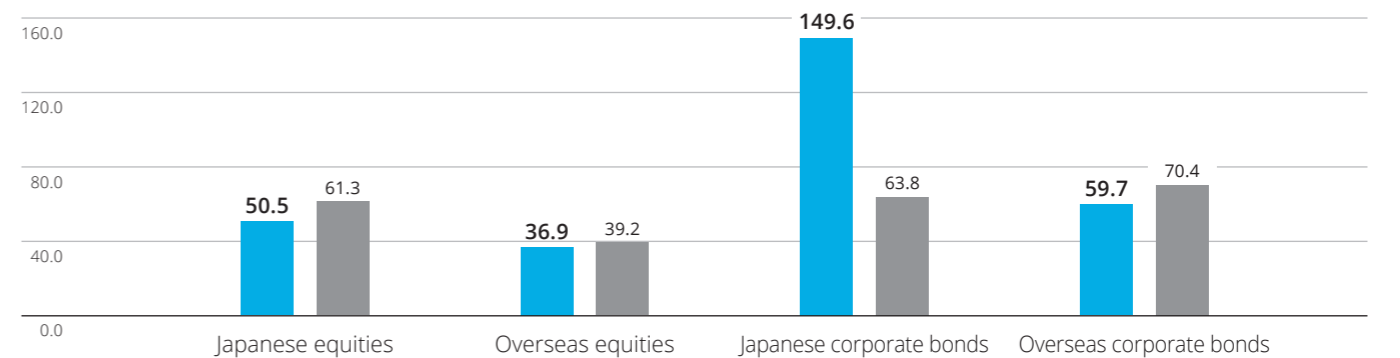
### • Scope 3 Downstream

(tons of CO<sub>2</sub> equivalent)

	Daiwa AM	Benchmark	Disparity
Japanese equities	44,888,554	52,923,072	-15%
Overseas equities	3,440,366	6,296,638	-45%
Japanese corporate bonds	271,171	314,717	-14%
Overseas corporate bonds	704,503	693,113	2%
Total	49,304,594	60,227,540	-18%

## Carbon footprint of portfolio (Scope 1, Scope 2)

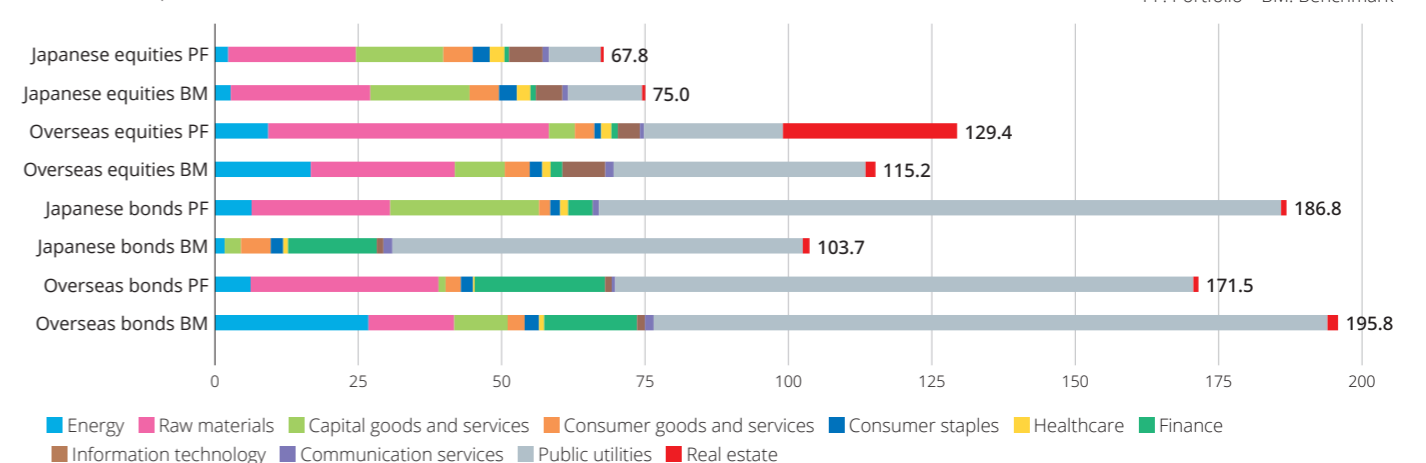
(tons of CO<sub>2</sub> equivalent/million USD invested)



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

(tons of CO<sub>2</sub> equivalent/million USD of sales)

PF: Portfolio BM: Benchmark



Note: Benchmarks:

Japanese equities: TOPIX (with dividends included); Overseas equities: MSCI ACWI ex Japan Index; Japanese 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 ©2025 MSCI ESG Research LLC. Reproduced by permission.

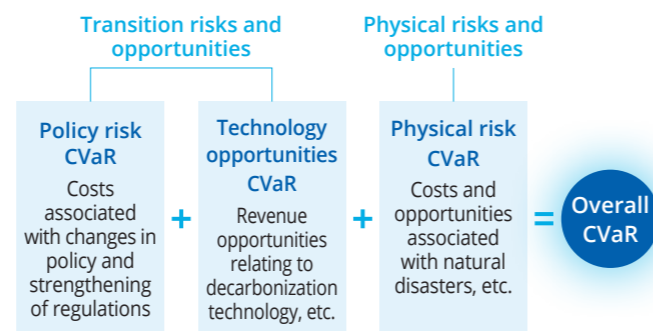
### Climate Value at Risk (CVaR) Analysis

Daiwa AM uses the Climate Value at Risk (CVaR) analysis method provided by MSCI to quantitatively assess the climate change risk associated with Daiwa AM's portfolio. CVaR is a risk assessment method that shows the extent to which future corporate value is likely to be affected by climate change.

Based on climate scenarios published by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), this analysis makes it possible to forecast the financial impact of climate change on Daiwa AM's portfolio. More specifically, the overall impact on corporate value is estimated from the perspectives of policy risk CVaR, technology opportunities CVaR, and physical risk CVaR.

The climate change risk associated with Daiwa AM's portfolio has been analyzed on the basis of the five climate scenarios outlined below.

#### Overview of CVaR



#### NGFS climate scenarios overview

	Category	Temperature rise	Scenario	Policy adoption	Technology change
1	Orderly transition	+1.5°C	Net zero achieved by 2050	Rapid, but with variation between sectors	Fast
2	Non-orderly transition	+2°C	Transition delayed	Delayed	Slow
3	Orderly transition	+2°C	Transition before a 2°C rise	Rapid and smooth	Moderate pace
4	Continued warming	+3°C	Individual countries implement their own reduction targets	NDCs	Slow
5	Continued warming	+3°C	Current policies continue	No (current policies continue)	Slow

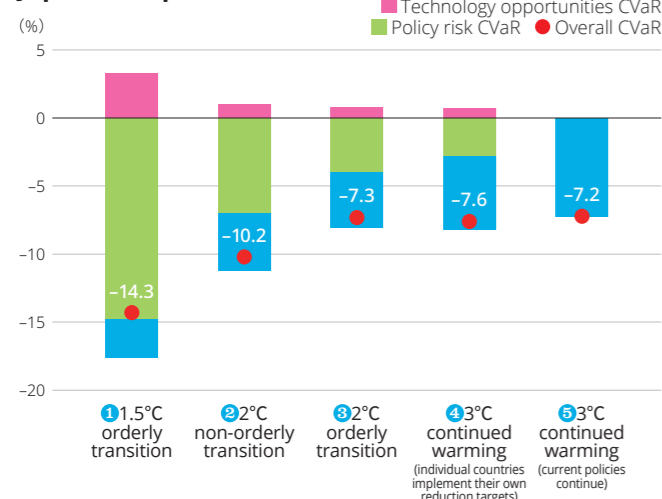
#### CVaR Analysis of Daiwa AM's Portfolio

The graph below shows the CVaR analysis results for Daiwa AM's Japanese equities and overseas equities portfolios, by scenario. The closer the scenario is to the achievement of Net Zero by 2050, the stricter the environmental legislation and the higher the carbon pricing that companies will be faced with, which in turn means a higher negative impact for policy risk. However, because in these scenarios there is a substantial increase in greenhouse gas emissions for society as a whole, the physical impact of climate change is controlled, thereby reducing the physical impact of physical risk. Furthermore, because of the increase in demand relating to low-carbon technology and renewable energy, the positive

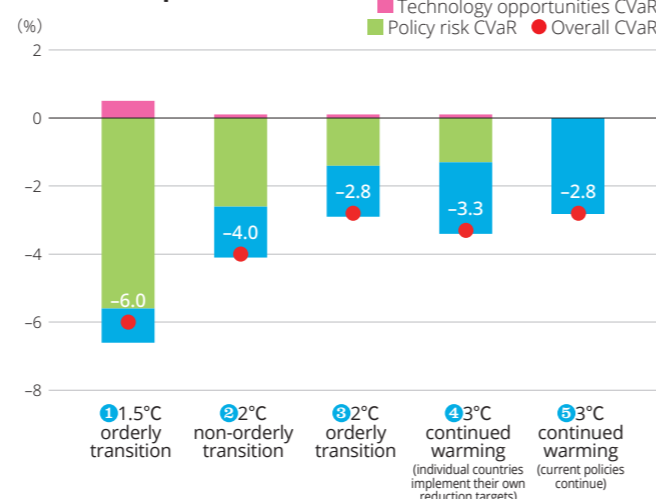
impact of technology-related opportunities is greater.

While Japanese equities and overseas equities display a similar trend in terms of CVaR, the negative impact of policy risk and physical risk is greater in the case of Japanese equities, and it could be seen that the negative impact on future corporate value would be greater. This is because, in the Japanese equities portfolio, industries with high levels of transfer risk account for a large share of total investment, so policy risk is significant. Physical risk is dependent on geographical factors; because Japan is relatively highly affected by torrential rain, flooding, heatwaves, etc., the negative impact of physical risk can be expected to be greater.

#### Japanese equities



#### Overseas equities



Note: Physical risk CVaR is based on scenarios that make assumptions regarding average loss from natural disasters, etc.

### Greenhouse gas reductions targets (SBT certification)

The figure on the right 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 Targets 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. Through its engagement activities, etc., Daiwa AM encourages investee companies to obtain SBT certification.

As a result of comparing a hypothetical portfolio of all Daiwa AM's shareholdings with the benchmark, we were able to confirm that the percentage of investee companies that have obtained SBT certification is around 6.5 percentage points higher than the corresponding figure for the benchmark.

#### Percentage of companies which have obtained SBT certification

Daiwa AM	Benchmark
51.3%	44.8%

Note: The benchmark used was the MSCI ACWI Index.

### ITR Warming Potential Analysis

Implied Temperature Rise (ITR) warming potential analysis is an indicator that 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, although our performance was not consistent with the targets set in the Paris Agreement, it was superior to that of the benchmark.

#### Warming potential

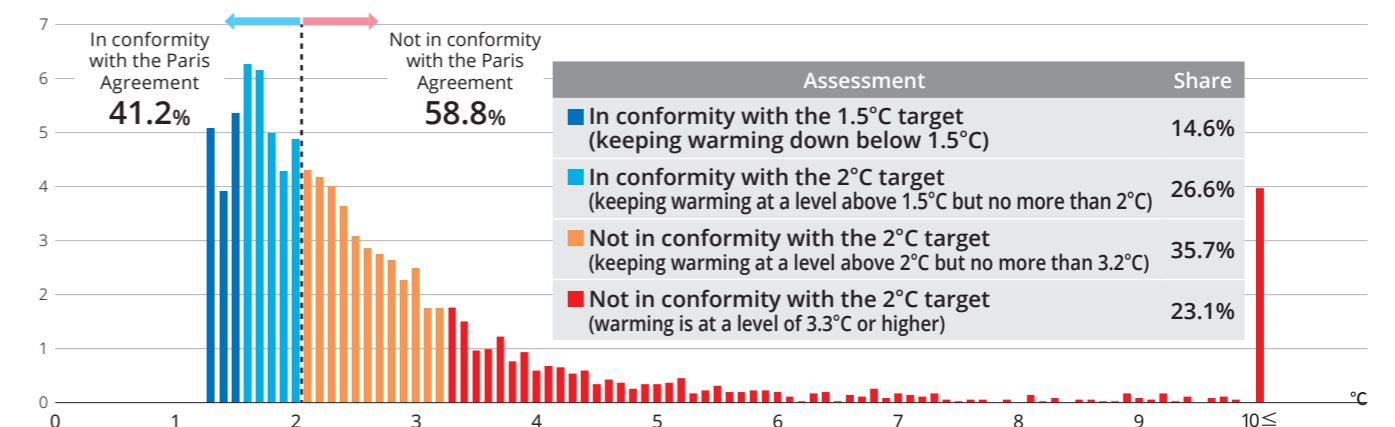
Daiwa AM	Benchmark
2.4°C	2.6°C

Note: The benchmark used was the MSCI ACWI Index.

#### Company Distribution by ITR Level

With this analysis, it is possible to implement assessment that takes into account not only companies' greenhouse gas reduction targets, but also the reliability of these targets and the progress made toward them. The figure below shows the distribution of companies by ITR level within Daiwa AM's portfolio (for all equities). The results of the analysis indicate that 41.2% of the companies included in the portfolio are in conformity with the goals set by the Paris Agreement on Climate Change, a figure which is lower than

the share of companies that have received SBT certification. Looking at the companies that had higher ITR levels, it was apparent that a high share of these companies was in sectors that have high emissions, such as public utilities and raw materials suppliers; there was also a high percentage of companies based in emerging economies, such as India. Daiwa AM is undertaking active engagement targeting these companies, encouraging them to implement measures aimed at decarbonization.



### Daiwa AM's NZAMi 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 <sub>2</sub> e/\$mn revenue (on a per unit of sales basis)
GHG emissions per unit, as of 2025	81 tCO <sub>2</sub> e/\$mn revenue (on a per unit of sales basis)
Engagement activities	Promoting engagement with investee companies regarding climate change, engaging in dialog with target companies

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## Natural capital—Risk analysis

### TNFD's LEAP approach

In September 2023, the TNFD released the TNFD Framework v1.0.

It provides the LEAP approach (Guidance on the identification and assessment of nature-related issues) as a method for identifying nature-related dependencies and impacts.

The LEAP approach comprises the following four phases:

**Locate:** Locate your interface with nature

**Evaluate:** Evaluate your dependencies and impacts on nature

**Assess:** Assess your nature-related risks and opportunities

**Prepare:** Prepare to respond to nature-related risks and opportunities, and to report on your material nature-related issues

Once again this year, Daiwa AM performed analysis using data from S&P Global. As the scope of S&P Global's data coverage had improved significantly since last year's report, analysis of the Locate and Evaluate stages of the LEAP approach was performed again this year.

#### • Locate (your interface with nature)

Daiwa AM has analyzed its Japanese equities portfolio and its overseas equities portfolio as of June 30, 2025.

We identified those companies that had physical assets in, and were engaging in business in, Key Biodiversity Areas (KBAs)\*1 or protected areas (PAs) \*2 as companies having risk associated with the loss of biodiversity, and we calculated their exposure to these areas.

In terms of investment share, both the Japanese equities portfolio and the overseas equities portfolio had a level of exposure of around 90%.

In terms of the number of stocks, the overseas equities portfolio was determined to have higher exposure, with a relatively high level of risk associated with loss of biodiversity.

The results also showed that, for both Japanese companies and overseas companies, most of the companies with a high market capitalization had at least one physical asset located in either a KBA or a PA.

With regard to the reason why, in terms of the number of stocks, the overseas equities portfolio had higher exposure, this was because the stocks in this portfolio had more exposure to KBAs and PAs in regions that include Europe, North America, and Africa.

#### • Evaluate (your dependencies and impacts on nature)

As the next step Daiwa AM evaluated the dependencies and impacts in its Japanese equities portfolio and overseas equities portfolio as of June 30, 2025.

#### Evaluation of dependencies

We allocated each company a score for its dependence on ecosystem services (using the 21 ecosystem services defined by the National Capital Finance Alliance's ENCORE tool, which was launched in 2022, and assigning the scores based on the dependence of each company's assets and production processes on these ecosystem services), then assigned a weighting according to the investment percentage, and performed evaluation based on the industry groups defined by the Global Industry Classification Standard (GICS).

In our Japanese equities portfolio, we found that the Automobiles & Components, Food, Beverage & Tobacco, and Real Estate Management & Development industry groups all had relatively high dependency. In the case of the Automobiles & Components industry group, the specific ecosystem services for which there was a high level of dependency included: soil and sediment retention services, dilution by atmosphere and ecosystems, storm mitigation services, and also bio-restoration.

In our overseas equities portfolio, we found that the Energy, Food, Beverage & Tobacco, and Automobiles & Components industry groups all had relatively high dependency. In the case of the Energy industry group, the specific ecosystem services for which there was a high level of dependency included: storm mitigation services, groundwater, and surface water, as well as filtration.

\*1 Key Biodiversity Areas (KBAs) are sites contributing significantly to the global persistence of biodiversity, which include sites designated by the Alliance for Zero Extinction Sites, as well as other sites that are important for bird species or for biodiversity in general.

\*2 Protected areas are areas designated by the International Union for Conservation of Nature (IUCN), characterized by ecosystems that are nationally or globally important, or by a high level of geological diversity.

#### Exposure to KBAs and protected areas

Japanese equities portfolio	No. of stocks	51.0%	Overseas equities portfolio	No. of stocks	67.3%
	Share of investment	90.8%		Share of investment	90.5%

#### Evaluation of impacts

We determined the percentage of direct and indirect external costs relative to sales (total environmental costs, including greenhouse gases, water, waste, soil and water pollution, atmospheric pollution, and use of natural resources), then assigned a weighting according to the investment percentage, and performed evaluation based on the industry groups defined by the Global Industry Classification Standard (GICS). As there were certain industry groups for which impacts were particularly large, we divided the industry groups into those where impacts were higher than the average for all industry groups and those where they were lower, before performing the statistical processing. We found that, in our Japanese equities portfolio, there were five industry groups (including Utilities) that had particularly high impacts, while in our overseas equities portfolio, there were five industry groups (including Materials) that had particularly high impacts.

Industry groups that had both high dependencies and high impacts included, in our Japanese equities portfolio, Utilities, Materials, Energy, and Semiconductors & Semiconductor Equipment, while in our overseas equities portfolio, they included Utilities, Materials, and Energy.

Through this analysis, we were able to identify, from our stock portfolio, which regions are particularly vulnerable to risk related to biodiversity loss, and which business activities are dependent on, or have an impact on, which types of ecosystem services, as well as the nature of the impacts.

However, analyzing natural capital is a very complex process, and investee companies' information disclosure in this area is currently still relatively limited, so analysis of this kind can only provide estimates based on a particular logical approach. Despite these constraints, the important

thing is being able to develop a rough idea of where natural capital related risk exists, information which can be used in future engagement activity.

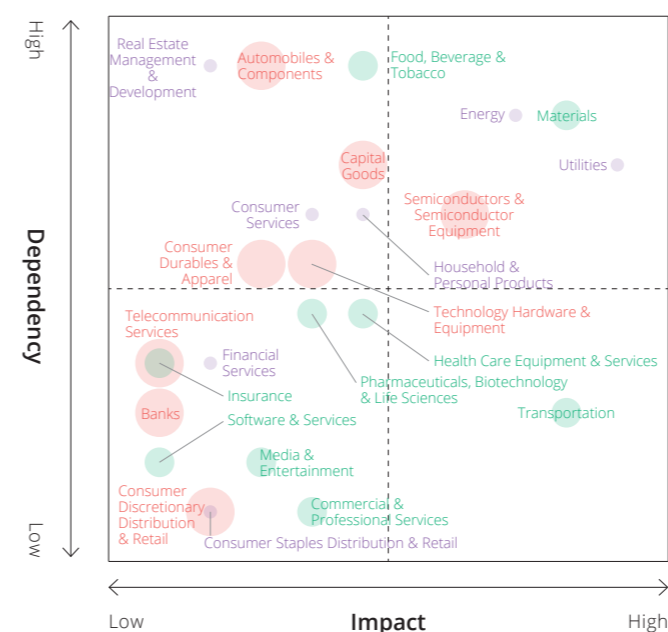
Daiwa AM is working to further strengthen the precision of the collection and analysis of natural capital related information, and is encouraging investee companies to expand the scope of their disclosure in this area, and urging them to respond to the TNFD recommendations and to formulate biodiversity strategies. In addition, with the transition to the Assess and Prepare phases of the LEAP approach now coming into view, Daiwa AM will also be promoting the quantification of risks and opportunities, the strengthening of scenario analysis, and the formulation of science-based strategies. Through these measures, we will strengthen dialog with investee companies, enhance the quality of information disclosure, and also establish investment decision-making that takes natural capital into account.

Investment decision-making that incorporates consideration of natural capital is vital for the generation of corporate value over the long term and the formation of sustainable markets; Daiwa AM is contributing to the realization of this goal by implementing responsible investment.



#### Industry Group Risk Map (Japanese equities portfolio)

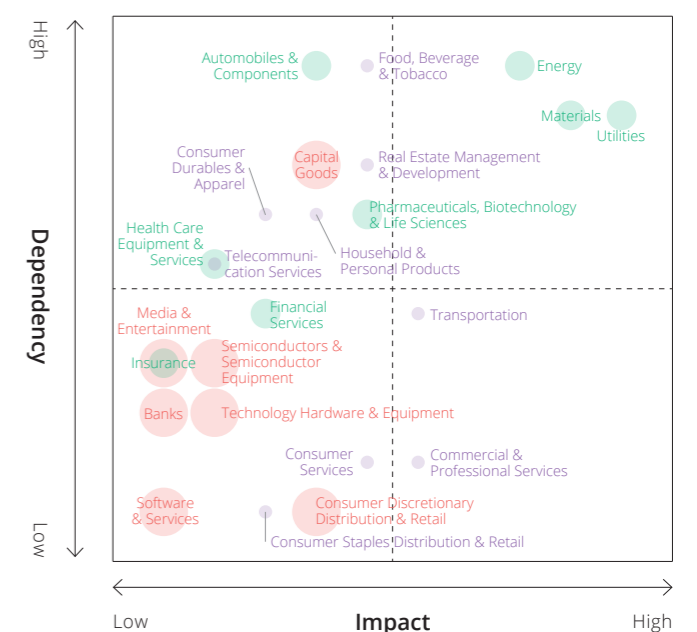
(Japanese equities portfolio)



●: Portfolio weighting < 2%   ●: Portfolio weighting < 5%   ●: Portfolio weighting ≥ 5%

#### Industry Group Risk Map (overseas equities portfolio)

(overseas equities portfolio)



➤ Initiatives Related to Our Core Materiality

## Circular Economy

### Issues recognized

Human economic activity consumes vast amounts of natural resources, securing economic growth and enriched lifestyles at the cost of major damage to the global environment. If we continue to consume resources at the current pace, then by exceeding the level of usage that is renewable for the Earth, we will harm the sustainability of society as a whole. To address this problem, it is important that we move away from the traditional linear economy in which resources are extracted, used, and then disposed of as waste, to a circular economy in which resources are used, recycled, and reused. Minimizing the amount of waste generated will also contribute toward safeguarding the environment.

In 2024, the Fifth Fundamental Plan for Establishing a Sound Material-Cycle Society was approved by the Japanese Cabinet. This plan positions the transition to a circular economy as a major national strategy, and aims to expand the markets that can be developed by businesses related to the circular economy.

Given this trend, it is apparent that there is great potential for companies to develop new business opportunities relating to resource recycling and efficient

### Our thinking and approach

Transitioning to a circular economy is important, not just because it will enhance the sustainability of society as a whole, but also it is closely linked to other issues, specifically: responding to climate change, and safeguarding biodiversity.

In 2025, besides implementing engagement with respect to companies that have been implementing cutting-edge initiatives aimed at realizing the circular economy, Daiwa AM also conducted research visits to deepen its understanding of current initiatives and issues,

resource usage. Eliminating waste and minimizing wastage also have the potential to enhance corporate value by cutting costs. A further point is that emphasizing environmentally-friendly management by measures such as providing sustainable products can help to strengthen a company's brand value by making it appeal to sustainability-oriented consumers.

At the same time, however, proceeding with circular economy initiatives does present some significant problems, including: (1) the need to build systems for continued recycling of used products; (2) the burden of technological development or costs associated with resource recycling; (3) developing customers' awareness of the value-added that recycled products can provide. These are problems that individual companies will find it difficult to solve on their own, so it is important to build linkages and collaboration between the national government, local government authorities, academic and research institutions, business enterprises and ordinary consumers; there is a need to build systems that cover the whole of society.

the outlook for the future, etc. Daiwa AM intends to make use of the insights obtained through these visits in future dialog with investee companies.

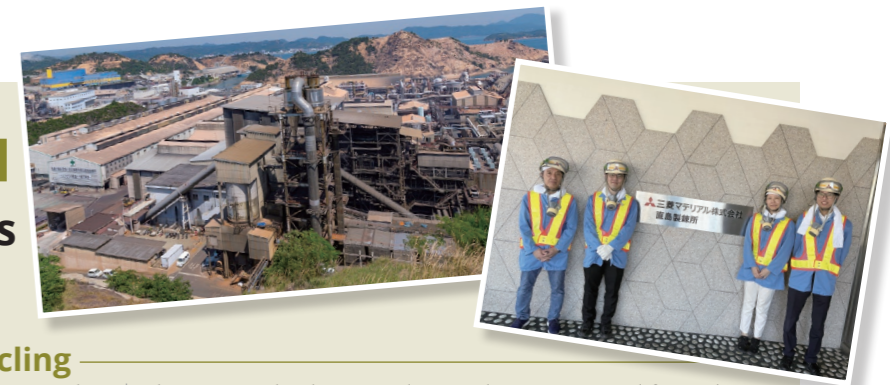
Daiwa AM encourages investee companies to undertake integrated measures that are aimed at contributing toward the realization of the circular economy. It will be encouraging them not only to expand such measures, but also to expand disclosure of how these measures are linked to corporate value enhancement.



# TOPICS

## A Research Visit to Mitsubishi Materials

### A leading-edge company's metal recycling initiative



#### Copper smelting and metal recycling

Copper concentrate (made by crushing copper ore and sorting it to enhance the grade), the raw material for copper smelting, includes not only copper but also small amounts of precious metals and rare metals. Mitsubishi Materials Corporation and other companies in the metallurgy sector have been developing recycling technology, particularly for higher-value metals such as silver and gold, for many years now. The last few years have seen an increase in the amount of e-scrap (used electronic substrate, etc.) being generated, particularly in the developed nations, and growing importance is

being attached to recycling and reusing metal from this e-scrap. By incorporating e-scrap as an input in the copper smelting process, Mitsubishi Materials is helping to strengthen initiatives to realize efficient recycling of copper and precious metals.

By making effective use of the Mitsubishi Group's network to implement recycling via a variety of different processes, not only for copper, silver, and gold but also for other valuable metals such as platinum, palladium, tin, and lead, the company is working to minimize the amount of resources that needs to be disposed of as waste.

#### Mitsubishi Materials' strengths

For copper smelting, Mitsubishi Materials makes use of its unique Mitsubishi Process for continuous copper smelting. This process, which was originally developed to realize pollution-free, highly efficient smelting, is also very well suited to processing e-scrap, making it possible for Mitsubishi Materials to recycle more e-scrap than other companies in the same industry.

Regarding the collection of e-scrap, Mitsubishi Materials has built up a network that covers not only Japan but also Europe, North America, and the ASEAN region, putting in place a truly global e-scrap collection

system. When it comes to building a stable transaction relationship with scrap collection firms, being able to accurately and reliably determine the metal content of scrap is very important; by adopting a wide range of sampling methods and processes for precise analysis, Mitsubishi Materials is able to ensure high reliability, and has been able to maintain a stable relationship with its scrap collection partners.

Naoshima (visited location)

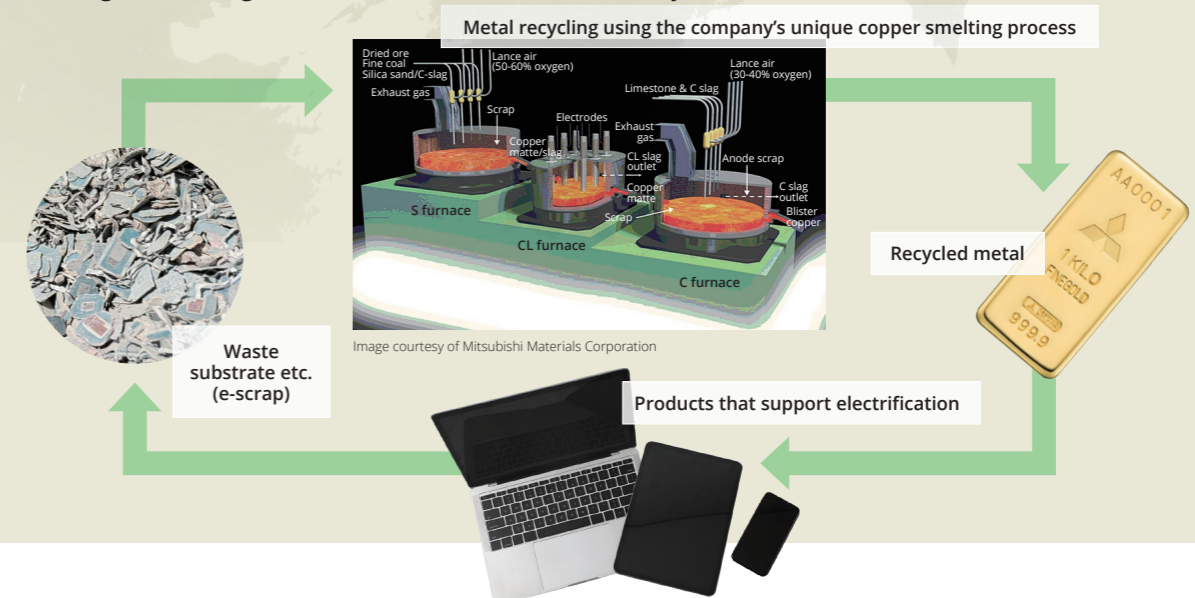
#### Expectations for the future

With advances in plating technology (and falling costs), the amount of precious metals and rare materials needed for electronic substrates, etc. is tending to fall. Besides realizing efficient recycling of e-scrap, Mitsubishi Materials is planning to gradually step up investment in equipment that can increase the amount of e-scrap that can be utilized as inputs in smelting. The company is also implementing initiatives to build a resource recycling loop that recycles waste substrate from used

products collected from specific customers, and then returns the refined or recycled metal to those same customers.

Daiwa AM recognizes the importance to society of making effective use of "urban mining" (recycling metal from used products) in the metals sector, and anticipates that Mitsubishi Materials will play a leading role in promoting such recycling initiatives in the future.

#### Schematic diagram showing the resource circulation undertaken by Mitsubishi Materials



➤ Initiatives Related to Our Core Materiality

## Business and Human Rights

### Issues recognized

There is a comparatively long tradition of discussion on the human rights of workers, and the International Labor Organization (ILO) was established in 1919. By the 1990s, human rights abuses by multinational corporations against indigenous and local populations in developing countries had become a societal issue with the advance of economic globalization, and the relationship between business and human rights was now in the spotlight. Business and human rights is a concept which comprehensively encompasses human rights issues in relation to business activities including corporate supply chains, as well as the relationships of corporations with stakeholders such as workers, consumers, and local populations.

The reporting of various issues relating to business and human rights led to the adoption, in 2011, of the UN Guiding Principles on Business and Human Rights (UNGPs), which have become widely established as the international norms in the domain of business and human rights.

### Our thinking and approach

The issue of business and human rights concerns not just investee companies but extends beyond to the supply chain and stakeholders.

In our capacity as both an institutional investor and a company, Daiwa AM has set out a human rights policy and supports and respects Japanese and global norms. We also require our investee companies to support and respect international norms and to tackle business and human rights issues in an appropriate manner.

Specifically, based on the UN Guiding Principles on Business and Human Rights (UNGPs) and other standards which have been compiled with reference to the UNGPs such as the Japanese Government's Guidelines on Respecting Human Rights in Responsible Supply Chains, Daiwa AM require companies to: ①Develop a human rights policy; ②Conduct human rights due diligence; ③Access remedies for human rights infringements. We also utilize these initiatives at our investee companies in our operational ESG integration and in engagement.

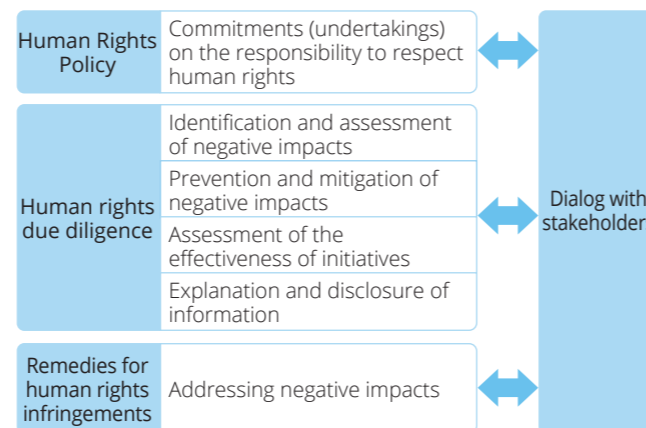
Daiwa AM is committed to improving medium- to long-

In recent years, institutional investors have also focused on business and human rights in terms of both risks and opportunities. While various factors underly this, foremost among these is the fact that companies that violate rules may damage their corporate value, with the risk of then being subject to boycotts, compensation for damages, and so on. Other reasons include the reality that many of the clients who are the source of funding for such corporations are themselves businesses, and maintaining an investment in these corporations could subject these clients to reputational risk.

Conversely, companies that remain mindful of business and human rights and which tackle the associated challenges such as through conducting human rights due diligence, are more likely to build positive relationships with their stakeholders, including employees, clients, suppliers, and communities, with the resultant expectation that this will enhance the company's brand value.

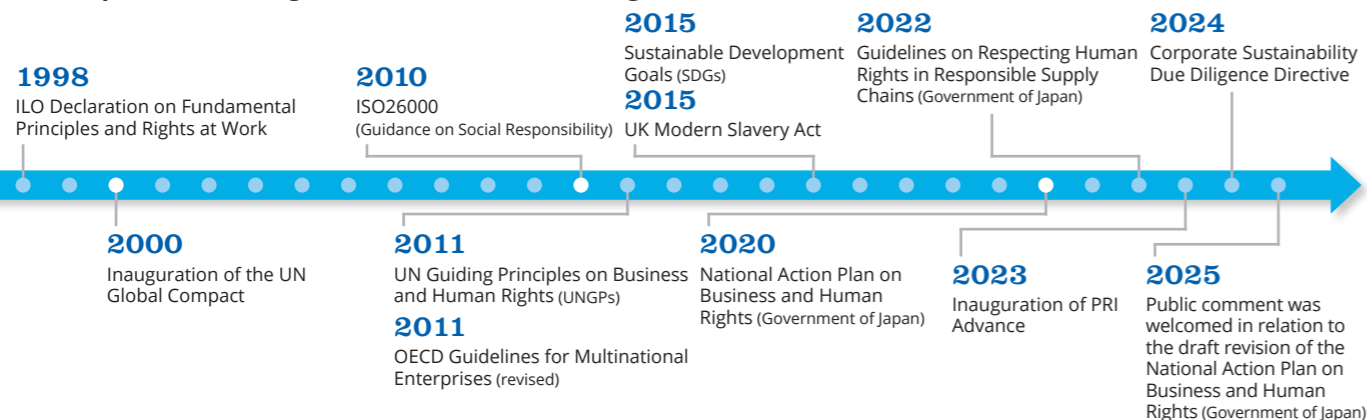
term returns with consideration to business and human rights risks and opportunities as well as to fulfilling our responsibility to society.

### Overview of initiatives for the respect of human rights required of companies



Source: Guidelines on Respecting Human Rights in Responsible Supply Chains

### Developments relating to business and human rights



➤ Initiatives Related to Our Core Materiality

## Human Capital Management

### Issues recognized

Currently, the concept of human capital is attracting unprecedented attention, both within and outside Japan. In response to the structural transformation taking place in the global economy, growing economic uncertainty, and renewed awareness of the importance of human talent and diversity, human capital has come to be seen as the most important form of capital, one which can underpin a company's sustainable growth and enable it to generate value over the medium to long term, and there is growing demand for human capital aware management. In Japan, while there has been increasingly widespread adoption of disclosure standards relating to human capital and diversity, along with the formulation of various related

### Our thinking and approach

Human capital is an important resource that is the foundation for corporate growth. Once again this year, Daiwa AM has positioned human capital strategy and diversity as important topics that it is focusing on. In regard to human capital strategies, Daiwa AM encourages investee companies to engage in concrete initiatives to secure and retain first-rate human resources, to systematically cultivate human talent, and to enhance employee engagement. With regard to diversity, in light of the slow pace of adoption of DE&I measures in Japan (despite the progress made in other countries), Daiwa AM continues to view this as an important issue; we encourage initiatives to redress gender disparities through specific measures and quantitative indicators in relation to the promotion of women's active participation, as well as initiatives aimed at ensuring diversity from other perspectives besides gender, such as nationality, age, experience, etc. Daiwa AM also recognizes the importance of linking these initiatives

guidelines, the external environment in relation to human capital is becoming ever more complex. With the evolution of AI technology and the acceleration of digital transformation (DX), as well as the need to respond to environmental problems, etc., the issues facing business enterprises are becoming more diverse, making human talent who can generate innovation more important than ever. On the global scale, progress is being made in terms of the adoption of a wide range of indicators that can be used to measure investment in human capital transparently and effectively, and there is a need for Japanese companies to proactively implement initiatives in this area in order to maintain and strengthen their international competitiveness.

closely to management strategy.

Regarding diversity initiatives, Daiwa AM has compiled a list of investee companies that have a significant gender gap or a large disparity between the ratio of female managers and the ratio of female employees, and has made a point of conducting engagement with these companies. In addition, Daiwa AM is a member of the 30% Club Japan Investor Group, and believes that it is desirable for companies to have female directors account for at least 30% of the membership of their board of directors. To this end, we encourage investee companies to build up, from within the company, a pool of female talent who have the potential to be appointed to directorships in the future. To promote the proactive appointment of female directors in line with this policy, Daiwa AM is considering revising its Proxy Voting Policy to increase the female director ratio that we expect investee companies to achieve.

### Key Points

**Point 1**

**Promoting diversity and inclusion**  
Ensuring diversity in terms of employee gender, nationality, age and experience is the wellspring of corporate competitiveness. Besides rectifying the gender pay gap and actively appointing women, foreign nationals and older talent to positions, it is also important to foster the development of an organizational culture that makes effective use of diverse viewpoints.

**Point 2**

**Acceleration of re-skilling and career development**  
Given the need for employees to acquire new skills as technology evolves, the putting in place of a framework to support employees' re-skilling and self-directed career development is an urgent task. Companies need to provide systematic training programs, strengthen on-the-job training, and build an environment that supports individuals' self-directed learning.

**Point 3**

**Enhancing employee engagement and promoting employee well-being**  
To enhance employee satisfaction and motivation, measures to support flexible workstyles, health management, and emotional security need to be taken to a higher level. It is also important for the growth vectors of each individual employee to be oriented in the same direction as the company's philosophy and purpose.

**Point 4**

**Strengthening human capital related disclosure**  
There is a need for expanded disclosure of information relating to human capital and diversity in companies' annual reports, etc. Rather than just disclosing numerical data, the focus should be on strategies and results, initiatives to address anticipated future issues, etc., in relation to the company's overall growth story.



➤ Initiatives Related to Our Core Materiality

## Governance Framework and Effectiveness of Boards of Directors

### Issues recognized

In Japan, the Corporate Governance Code was introduced in 2015, to serve as principles of conduct for listed companies, oriented toward strengthening medium- to long-term profitability based on effective management strategies. Since then, the Code has been revised twice. In 2025, the intention to implement a third revision of the Code, with a focus on “moving from form to substance,” was announced, and there has been discussion regarding clarification of accountability in relation to cost of capital and growth-oriented investment aimed at enhancing companies’ earning power. In line with this trend, progress has been made in terms of putting in place formal systems to support the management and supervisory function, for example by expanding the percentage of board members who are independent outside directors, the voluntary establishment of nominating and compensation committees, making boards more diverse, etc.

However, it is noticeable that there have been many cases where, although on the face of it the right systems have been put in place, this has not led to sufficient improvement in the actual quality of management. Going forward, it is important for governance systems to be “moving from form to

substance,” and for board of directors effectiveness to be enhanced. In particular, putting in place an environment that enables independent outside directors to fully exercise their supervisory function is very important from an investor’s point of view. The Action Programme for Corporate Governance Reform 2025 based on the discussions of the Council of Experts Concerning the Follow-up of Japan’s Stewardship Code and Japan’s Corporate Governance Code clearly positions the strengthening of the functioning of board of directors’ secretariats, and the promotion of constructive dialog with outside directors and investors, as being important, and Daiwa AM also attaches great importance to these areas.

If initiatives such as these succeed in enabling outside directors to fulfil their potential, this can be expected to promote further separation of the business execution and supervisory functions, thereby enhancing both the speed and transparency of management decision-making. Furthermore, having outside directors play a central role in governance, in relation to important matters such as nominations and compensation, will help to strengthen investors’ trust.

### Our thinking and approach

Governance is the foundation for management, and if this function is damaged, it can have a wide-reaching impact, including an impact on sustainability measures.

Engagement can bring about enhanced effectiveness by taking as its starting point the diversity of board membership, the independence of outside directors, the status of the activities of the various board committees, how company officers’ remuneration is planned, etc. In particular, when it comes to evaluating the effectiveness of the board of directors, although disclosure is really the only tool that allows outsiders to determine the board’s effectiveness, there are many companies that do not implement disclosure effectively, and so Daiwa AM asks these companies to make improvements, at a level whereby judgments can be made

using the PDCA cycle. Disclosing the results of dialog with investors is also important for giving real substance to governance, and so Daiwa AM seeks to confirm the extent to which insights obtained through dialog are actually applied in corporate management.

In its proxy voting guidelines, Daiwa AM has also been steadily shifting from a focus on formalized frameworks to an emphasis on effectiveness, and has adopted new guidelines relating to the voluntary adoption of nominating and compensation committees, and to the number of companies at which outside directors hold concurrent appointments. Looking ahead, Daiwa AM will continue working to deepen engagement with investee companies and encouraging them to strengthen their governance systems.

### Moving “from form to substance” in corporate governance reform—Issues and overall strategic direction for the future (Summary)

<b>Strengthening earning ability</b>	<ul style="list-style-type: none"> <li>Promoting investment through the appropriate allocation of management resources based on verification of the current situation</li> <li>Strengthened disclosure of human resources strategies and salary and compensation policies that are linked to the overall corporate strategy</li> </ul>
<b>Expanding information disclosure and promoting dialog with investors</b>	<ul style="list-style-type: none"> <li>Confirming whether annual reports are being disclosed before the holding of the annual shareholders meeting, and examining whether the right environment has been put in place</li> <li>Promoting changes to the legal and regulatory system relating to shareholders meetings, and promoting measures to make annual report content easier to understand</li> </ul>
<b>Strengthening the functionality of the board of directors, etc.</b>	<ul style="list-style-type: none"> <li>Establishment of a consortium to expand the sharing of best practice case studies, with the aim of strengthening the functioning of outside directors and board secretariats</li> </ul>
<b>Addressing problems affecting the market environment</b>	<ul style="list-style-type: none"> <li>Strengthening disclosure of cross-shareholdings and examining the response to system violations</li> <li>Promoting the safeguarding of minority shareholders’ interests through the putting in place of systems relating to the practice of parent-subsidary listing</li> </ul>
<b>Sustainability-aware management</b>	<ul style="list-style-type: none"> <li>Examining the issue of responsibility in relation to sustainability disclosure and guarantee systems</li> <li>Expressing views regarding the development of international standards for human capital</li> </ul>

Reference: Financial Services Agency’s “Action Programme for Corporate Governance Reform 2025”

## Initiatives Supported, etc.

ESG ESG in general

E Environment

S Social

G Governance

### 2006 (year of endorsement)

**ESG UN Principles for Responsible Investment (PRI)**  
This is a global guideline for responsible investment that aims 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 is a member of the PRI Japan Advisory Committee.



### 2011

**ESG Principles for Financial Action for the 21st Century**  
This is an action guideline for Japanese financial institutions to fulfill their responsibilities and roles in helping to solve global environmental and social problems and to form a sustainable society.



### 2020

**E Task Force on Climate-related Financial Disclosures (TCFD)**  
The task force, established by the Financial Stability Board (FSB), recommends that corporations and other entities disclose climate-related financial information in their annual financial reporting. Since FY2021, Daiwa AM has disclosed the status of its initiatives to address climate change issues, including the greenhouse gas (GHG) emissions of its asset management portfolio in line with the TCFD framework. It should be noted that the TCFD disbanded itself in October 2023, with the International Sustainability Standards Board (ISSB) taking over responsibility for matters relating to the TCFD Recommendations, etc.



### S 30% Club Japan Investor Group

This is a group comprised of asset owners and asset managers. Its 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.



### 2021

**E Climate Action 100+**  
This is an international engagement initiative launched by investors. 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 Net Zero Asset Managers initiative (NZAMi)

This is a global initiative by asset management companies to implement measures in response to climate change. NZAMi has recently dropped its original shared goal of realizing Net Zero emissions, and has transitioned to a more flexible framework whereby each individual member company sets its own targets.



### G International Corporate Governance Network (ICGN)

This is an international initiative whose mission is to establish effective corporate governance and foster investor stewardship with the aim of promoting an efficient global market and sustainable economic activity.



### 2022

**ESG Japan Stewardship Initiative (JSI)**  
This is an initiative that aims to take stewardship activities in the Japanese asset management sector to a higher level, and to foster information sharing and dialog between asset management companies.



### S Human Capital Management Consortium

This is a consortium 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.



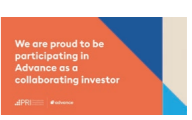
### S Women’s Empowerment Principles (WEPs)

These are action principles intended to actively promote the advancement of women, and were jointly developed by UN Global Compact and UN Women.



### S PRI Advance

This is an institutional investor initiative established to promote corporate initiatives on “social” issues, with a particular focus on human rights, through collaborative engagement. Companies with a high level of human rights risk will be encouraged, through dialogs, to implement measures that strengthen respect for human rights.



### 2023

**E Task Force on Nature-related Financial Disclosures (TNFD)**  
This is an international initiative which aims to develop and provide a framework for the disclosure of nature-related financial information. Daiwa AM was an early adopter in this area, expressing its support for the TNFD as soon as the TNFD was established, and beginning to implement related disclosure starting from FY2024.



### E Glasgow Financial Alliance for Net Zero (GFANZ)

This is an international alliance that brings together financial institutions from all over the world to accelerate the transition to Net Zero. In line with the goals of the Paris Agreement, it is promoting decarbonization through finance. Daiwa AM is playing an active role in the Consulting Group and the Core Working Group of GFANZ as a member of its Japanese chapter.



### 2024

### E PRI Stewardship Initiative for Nature (Spring)

This is a collaborative engagement initiative for which the PRI provides operational and other support with the objective of halting and reversing biodiversity loss by 2030. Daiwa AM is participating as an endorser.



### E Investor Agenda

This is an activity 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 COP29.

# Transformation That Begins with Dialog

## 2. Engagement

Realizing the enhancement of corporate value through engagement and proxy voting



### Overview of Daiwa AM's Engagement

#### Purpose and positioning

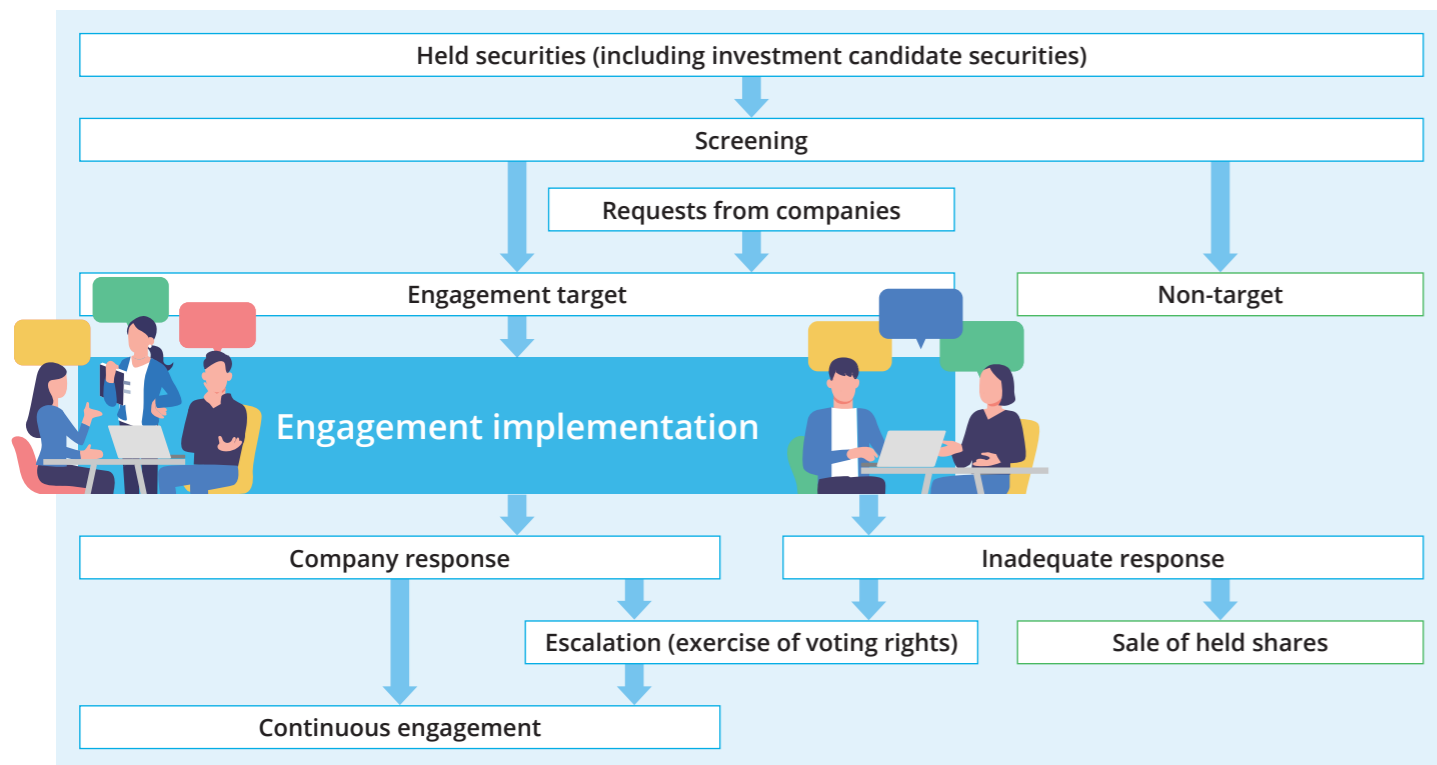
The engagement by investors in ongoing dialog with investee companies to hasten the resolution of environmental, social, and governance (ESG) issues and promote improvements in corporate behavior is considered indispensable to the achievement both of a sustainable society and long-term investment returns. The Stewardship Code also emphasizes that active engagement by investors is crucial for everything from driving sustainable corporate growth and enhancing corporate value, through to furthering responses to ESG challenges.

Daiwa AM seeks to enhance transparency in management and strengthen governance through engagement, while focusing efforts on supporting companies in their responses to ESG challenges and achieving sustainable growth. Engagement also serves to maximize medium- to long-term returns in contributing to

long-term enhancements of corporate value and the early detection of risk. We consider engagement to play a vital role in reconciling the pursuit of financial returns with fulfillment of social responsibilities.

To complement the above, Daiwa AM uses an integrated approach to managing engagement and the exercise of voting rights. We implement engagement with companies which are facing sustainability challenges, including those relating to ESG, to encourage corporate transformation at our investee companies. Meanwhile, when we deem that responses by companies are insufficient, we endeavor to enhance the effectiveness of engagement by compelling them to undertake actions that will contribute to the enhancement of corporate value, including through specific investment conduct and the exercise of voting rights.

#### Positioning of engagement



### Information disclosure and governance as the basis for dialog

#### Information disclosure as the foundation for all challenges

Daiwa AM defines its vision, encompassing diverse perspectives, of how investee companies should be situated to enhance corporate value. The fundamental premise for this becoming a reality is accurate and detailed disclosure of information on actual statuses. How a company is evaluated externally will not improve if disclosure is absent or inadequate, regardless of how outstanding the initiatives undertaken may be. This is why Daiwa AM insists first and foremost on proactive disclosure. We specifically consider integrated reports to be a crucial disclosure tool in clearly communicating to shareholders and investors a company's management strategies as well as their non-financial information, which statutory disclosures alone cannot cover. We thus expect companies to actively publish integrated reports.

foundation to facilitate this is essential. We also consider effectiveness of the board of directors, the body responsible for overseeing business execution, as representing the key to this governance framework.

For the above reasons, numerous items concerning effectiveness of boards of directors can be found in examples of best practices. However, the overarching principles governing Daiwa AM's approach to this are the importance of: (1) Establish a framework which enables lively exchanges of views among an appropriate number of sufficiently diverse members; (2) Ensure a support framework led by the board secretariat for an environment enabling outside directors to fully demonstrate their skills and expertise, and; (3) Create a supervisory framework for business execution in which outside directors are given a leading role, particularly on key matters such as senior management nominations and compensation. For organizational design, we recognize that the optimal setup will be dictated by each company's circumstances and growth stage and consequently do not currently require all companies to establish a monitoring board. We will, however, continue to examine the scope of companies at which a monitoring board would be advisable as well as the appropriate organizational design where this is the case.

#### The most critical task: Enhancement of the effectiveness of the board of directors

Initiatives to address ESG and other challenges gain effectiveness when a framework has been put in place to manage the entire process from identifying key issues to devising and implementing measures, and monitoring and reviewing progress. In this sense, establishing a robust governance framework to serve as the

### Encouraging proactive disclosure of non-financial information on risks and opportunities

Communicating in a clear and understandable manner how non-financial information, particularly information pertaining to the environment and society, impacts medium- to long-term corporate value is a key point for Daiwa AM. We advise disclosure of such information from

the twin perspectives of reducing risks with the potential to negatively impact future corporate value and identifying future business opportunities. Below we outline Daiwa AM's vision of where companies need to be positioned on matters that we consider particularly important.

#### Climate change

The company formulates a roadmap for attainment, specifies necessary measures, and steadily implements these toward the goal of achieving carbon neutrality by 2050.

#### Business and human rights

The company identifies human rights risks in their economic activities, continuously pursues initiatives to reduce risk through implementation of human rights due diligence, and simultaneously establishes an effective human rights remedy mechanism, based on international frameworks for the respect of human rights.

#### Biodiversity

The company identifies the impacts and risks posed by their economic activities on natural capital and then formulates and implements measures to forestall any loss of nature stemming from these activities, including within their value chain, to contribute to nature positivity.

#### Human capital and DE&I

The company implements human capital management designed to maximize the potential of their workforce and enables employees from diverse backgrounds to find fulfillment in their work and apply creativity to the performance of their duties, thereby achieving high productivity and continuous innovation, based on a commitment to these principles among their senior management.



### 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 and conducts reviews of this vision on an ongoing basis. We use these cases as a tool to achieve more in-depth discussions on enhancing corporate value, including during engagements with investee companies.

Key Issues		Best Practice
Environmental	Climate change	<ul style="list-style-type: none"> <li>By formulating and analyzing climate change scenarios in line with the TCFD framework, the company identifies transitional risks, physical risks and business opportunities.</li> <li>The company implements quantitative monitoring of greenhouse gas emissions, emissions per unit of production, and the anticipated risks and opportunities.</li> <li>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.</li> <li>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.</li> </ul>
	Natural capital	<ul style="list-style-type: none"> <li>The company grasps the business continuity risks by identifying links between natural capital (forests, water resources, mineral resources, biodiversity, etc.) and its own business activities throughout the value chain, and by analyzing its impact and the extent to which it is dependent on the natural environment.</li> <li>The company undertakes initiatives and disclosure in line with TNFD recommendations, including the identification of biodiversity risks and opportunities, scenario planning, and the formulation of business strategies, in an appropriate manner.</li> <li>The company engages in corporate activities which serve to promote the transition to a circular economy by maximizing the value of resources and products, minimizing resource consumption, and mitigating waste generation.</li> </ul>
Social	Social responsibility	<ul style="list-style-type: none"> <li>The company formulates a concrete human rights policy based on international human rights standards.</li> <li>The company assesses and identifies domains in which human rights risks are high from within its own operations, geographical areas of activity, and its supply chain.</li> <li>The company conducts ongoing human rights due diligence and audits and formulates due diligence results, as well as its issues for redress and improvement strategies.</li> </ul>
	Human capital	<ul style="list-style-type: none"> <li>The company establishes executive positions such as Chief Human Resources Officer (CHRO), and formulates a human talent strategy integrated with its business strategy.</li> <li>The company's human talent strategy is intended to achieve both individual and organizational growth through facilitating job satisfaction as well as by making it more convenient for employees to work, while incorporating frameworks for recruiting and retaining first-rate human talent and for human talent cultivation such as granting appropriate stock-based compensation to employees, as well as establishing initiatives for enhancing employee engagement.</li> <li>The company formulates initiative policies as well as specific measures to ensure diversity in accordance with the nature of the company's business, including those relating to nationality, age, gender, and the recruitment of experienced personnel.</li> <li>The company includes quantitative indicators and specific measures while formulating initiatives to reduce gender disparities as part of its gender diversity initiatives.</li> <li>The company should, desirably, at a future point in time, have female directors account for at least 30% of the membership of the board of directors. It is also desirable that the company together have in place a framework to enable the ongoing appointment (facilitate talent pooling) of female directors from within the company.</li> </ul>
Governance	Governance framework	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>The company does not adopt takeover defense measures.</li> <li>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.</li> <li>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.</li> <li>The company keeps the number of directors at an appropriate level and enhances the functions of the board secretariat to promote lively and diverse discussions and enhance the effectiveness of the board of directors.</li> <li>The company should, in its capacity as a listed company, make directors subject to the confidence of shareholders in each term with the term of appointment of directors set at one year.</li> </ul>
	Risk management	<ul style="list-style-type: none"> <li>The company formulates rules governing diversity, human rights, supply chain, data security, etc.</li> <li>The company has adequate measures in place to ensure robust cybersecurity and rigorous employee training.</li> <li>The company's internal auditing requires the maintenance of a direct reporting line to the board of directors and the board of auditors.</li> <li>The company should preferably 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.</li> <li>The company will establish a management system to prevent misconduct or scandals, and 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.</li> </ul>
	Improving capital efficiency	<ul style="list-style-type: none"> <li>The company implements the following measures so as to raise ROE above equity cost and realize a continued, steady expansion of the equity spread.</li> <li>The company formulates a medium-term management plan that integrates analysis of current statuses with future initiatives, based on a long-term vision, thereby enhancing the feasibility of the plan.</li> <li>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.</li> <li>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.</li> <li>The company will formulate an appropriate approach to capital structure and shareholder returns.</li> </ul>
	Dialog with stakeholders	<ul style="list-style-type: none"> <li>The company implements adequate disclosure of financial and non-financial information through integrated reports and other means, discloses detailed supplementary information on financial results, and undertakes other disclosures in a timely manner.</li> <li>The company creates opportunities for dialog between senior management, outside directors, employees and shareholders. The company also holds regular business presentations and site visits, etc.</li> <li>The company's management philosophy, long-term vision and business plan are consistent with one another and are able to appeal to stakeholders.</li> <li>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.</li> <li>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.</li> <li>In regard to initiatives relating to key ESG issues, the company implements all necessary disclosure adequately, and also engages in dialog with stakeholders.</li> </ul>

(Date of revision: October 24, 2025)

### Review of best practices

Daiwa AM also periodically undertakes reviews of the best practices which form the basis for our dialogs with companies, in the same way as for materiality and core materiality.

During best practice reviews, company research analysts and stewardship analysts hold lively discussions on the direction companies should pursue, while sharing their insights and case studies from specific companies. The Stewardship Committee then ultimately formulates new best practices based on the content of these discussions.

At the most recent review of best practices, discussions were held on specific case studies of the composition of boards of directors and of "true" independence of outside directors. We also discussed

real world examples of cross-shareholdings contributing to enhancement of corporate value for the issue of the practice of such cross-shareholdings which are also touched upon in the Daiwa AM Proxy Voting Policy.



For the question of corporate governance frameworks, we believe that, while formal structures are increasingly being consolidated, significant challenges pertaining to effectiveness of boards of directors remain. Based on this conclusion, we have revised our guidance for improving board effectiveness in governance. Besides these topics, we additionally discussed approaches to human capital management for the improvement of employee engagement and procedures for formulating medium-term management plans to enhance feasibility and reflected these in our new list of best practices.

### Key changes to best practices

#### New addition

Domain	New addition	Reason/background
Human capital	<b>The company is undertaking initiatives to raise awareness of stock prices by granting appropriate stock-based compensation to employees.</b>	It is crucial that companies enhance employees' sense of ownership in company management to maximize the value of human capital. The introduction of stock-based compensation fosters a sense among employees that they are contributing to the enhancement of corporate value and encourages behaviors that support sustainable growth.
Governance framework	<b>The company should enhance the functions of the board of directors' secretariat to encourage lively discussion among participants, including outside directors, and enhance the effectiveness of the board.</b>	The quality of discussion design, information provision, and follow-up by the secretariat are crucial to support effective decision-making and avoid the mere formal implementation of board meetings. It is essential that companies create an environment that leverages the expertise of outside directors to the greatest extent possible.
	<b>Outside directors should also actively undertake initiatives toward realizing management practices that consider capital cost and stock price.</b>	The role of outside directors does not end with oversight, with outside directors also expected to provide strategic perspectives to achieve enhancements of corporate value. It is crucial that they achieve an in-depth understanding of capital efficiency and shareholder value and facilitative constructive dialogs with senior management.

#### Change

Domain	Old → New	Reason/background
Governance framework	Old 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.  New <b>The company should keep the number of directors at an appropriate level with a view to promoting lively and diverse discussions.</b>	It is more important to ensure a board composition that safeguards the quality and diversity of discussions than it is to set a quantitative limit on the number of board members. The wording of this section will be updated to a qualitative expression to enable flexible adaptation in line with the size and challenges of a company.
	Old The company formulates a medium-term management plan by back-casting from a long-term plan prepared in advance.  New <b>The company formulates a medium-term management plan that integrates analysis of current statuses with future initiatives, based on a long-term vision, thereby enhancing the feasibility of the plan.</b>	It is essential to verify feasibility based on current challenges and resources in addition to applying a back-casting approach. Bridging the gap between ideals and actual circumstances enables the formulation of more effective plans.

# Signature Engagements

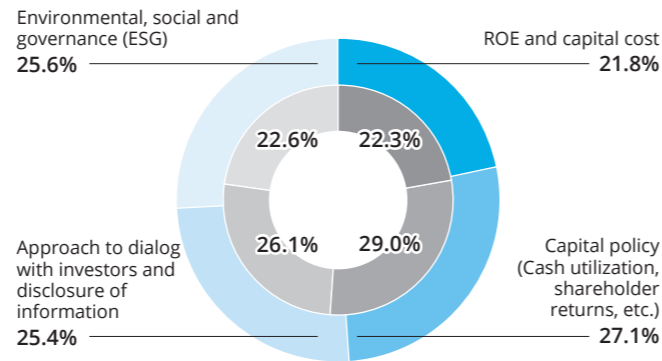
## Activities status

Daiwa AM uses a three-in-one engagement structure comprised of corporate research analysts, fund managers, and stewardship analysts, with these three actors conducting a total of 1,435 engagement activities with investee companies, during the term under review (July 2024 to June 2025).

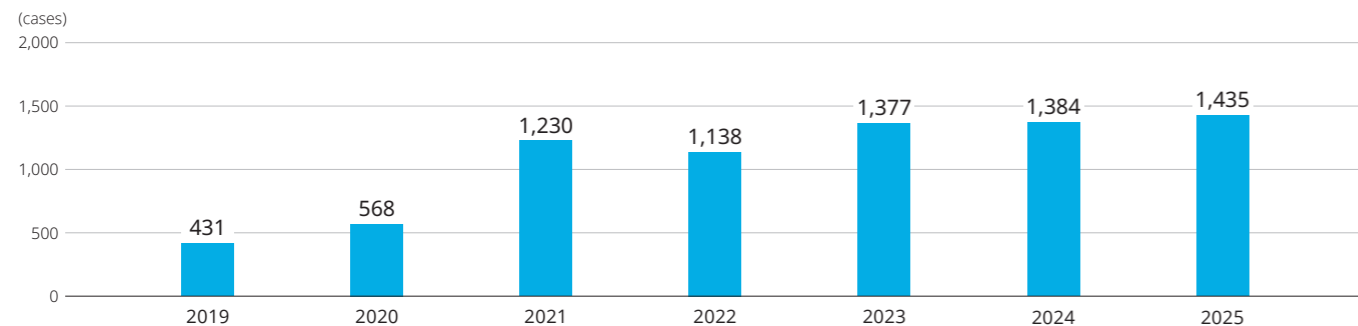
The number of engagements to date and the ratios by engagement theme for the term under review are shown below. This illustrates that the number of engagements is on an upward trend and confirms that engagements are being conducted with a good balance across the four main engagement themes.

### Ratios by engagement theme

(Inner circle: 2024, Outer circle: 2025)

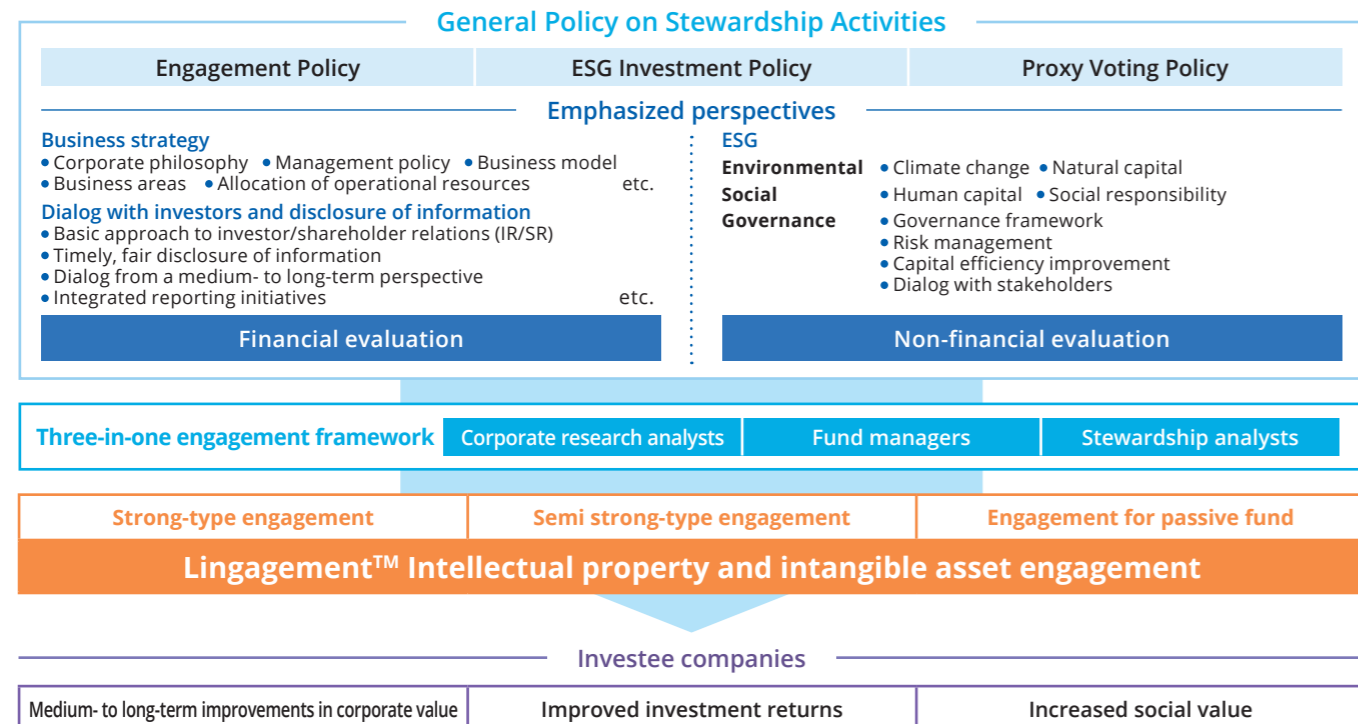


## Number of engagements



Note: The reporting period for this report is July 2024 to June 2025.

## Overview of engagement and Daiwa AM's distinctive features



## Realization of a sustainable society

# Strong point 1 Three-in-one Engagement

## Overview

Our three-in-one framework can be cited as one of the distinguishing features of Daiwa AM's engagement. This framework involves close collaboration among three actors: our corporate research analysts, who have an in-depth knowledge of specific industries and the business environments of individual companies; fund managers (including credit analysts), who excel in market condition and cross-industry analysis; and stewardship analysts, who possess advanced expertise in ESG and related matters, including governance. These three actors

together employ various approaches when engaging in dialogs with investee companies.

We assemble optimal teams for each engagement based on the target company's situation and needs, to actively leverage the expertise and characteristics contained in each team. We have created this framework to facilitate meaningful and effective engagement by allowing each team to intensely focus on the domains in which they are strong while also maintaining close collaboration with respective actors.

## Overview of Each Team



### Corporate research analysts

Corporate research analysts have a centralized research function, with a full-coverage system established to allow them to cater across all industries. In this capacity, they provide integrated coverage both for standard fundamental analysis and for ESG evaluations and the formulation of opinions on proxy voting matters for key survey issues (stocks) selected based on market capitalization and management quality.

In dialogs with investee companies, they prioritize discussions on both financial and non-financial management challenges to encourage corporate transformation and initiatives targeting the capture of excess earnings through enhancements to corporate value.

Key survey issues also include groupings of companies chosen to represent their respective industries, with initiatives undertaken aimed at raising the level of the overall market through engagement with these companies.

For corporate evaluation, the corporate research analysts utilize a "long-term corporate value model" that incorporates "qualitative evaluations" based on medium- to long-term perspectives of financial and non-financial factors reflecting dialog with companies, as well as Daiwa AM's original "ESG scores."



### Fund managers

Fund managers undertake engagements focused on small- and mid-cap issues (stocks) outside the coverage scope of corporate research analysts.

Within this, the Engagement Team focuses on key themes such as reducing capital costs and improving investor relations, to stimulate behavioral changes in investee companies. Targets for engagement are selected with a focus on issues (stocks) for which significant enhancements to corporate value can be anticipated through changes in corporate initiatives.

Dialogs emphasize engagement with senior management, with fund managers working to achieve clarification of key themes. The Engagement Teams also rigorously manage engagement progress and actively share information with other fund managers within the firm.

For bond engagements, credit analysts and fund managers collaborate to address bond-specific themes while leveraging the centralized research function of the Corporate Research Team.



### Stewardship analysts

Meetings with a primary focus on corporate governance and proxy voting matters at investee companies are mainly handled by stewardship analysts in the Responsible Investment Department.

Stewardship analysts gather information necessary for decisions on the exercise of voting rights at investee companies while also explaining Daiwa AM's policy on proxy voting and expectations for investee companies during dialogs, thereby striving to foster a shared understanding.

Additionally, they are currently conducting dialogs encompassing ESG and related initiatives and extending to management and financial strategies for investee companies facing various challenges outside the coverage scope of our corporate research analysts.

In terms of the relationship between stewardship analysts and corporate research analysts, we have established a system that clarifies the roles of the two actors while enabling mutual collaboration as needed. Doing so helps us cater to broadening dialog themes while enhancing the sophistication of dialog content to thereby focus efforts on encouraging initiatives for the enhancement of corporate value.

## Strong point 2 Lingagement™

### Overview

“Lingagement™” is an original coinage of Daiwa AM, combining the words “linkage” and “engagement.” It is an initiative to provide a forum for discussions with the personnel and management of best-practice companies on issues faced by investee companies, as well as to serve as a reference for future enhancement of their corporate value.

By utilizing the networks and knowhow we have built up through engagement to their maximum potential, actively promoting “Lingagement™,” and encouraging the sharing of knowledge, Daiwa AM will support enhancements to the corporate value of as many investee companies as possible and actively contribute to the sustainable growth of society.

### Example scenario of “Lingagement™”



### Information Exchange Meetings

#### Event overview

The fifth Information Exchange Meeting was held on November 28, 2025. These exchange meetings are intended to focus on a specific theme and provide a platform for companies to share insights with each other. Based on the theme “Toward achieving high ROE: Enhancing intellectual property and innovation and reflecting these in corporate value,” we invited key actors and external experts in intellectual property and innovation from best-practice companies as well as those undertaking proactive initiatives despite facing challenges to present at the meeting.

The importance of “Mienai Chikara™ (Invisible Value Drivers),” in company valuations continues to grow and, among the components which comprise this, we recognize intellectual property as core capital intimately entwined with all other forms of capital and with a high correlation with corporate performance. Furthermore, while the 2022 publication by the Cabinet Office of Japan of the Intellectual

Property and Intangible Assets Governance Guidelines has spurred increased corporate disclosure, the significant gaps in the understanding and knowledge which companies have and that of shareholders and investors remains a defining characteristic of intellectual property.

We also recognize that the gap between the price-to-book ratio (PBR) for the Japanese and U.S. markets is largely attributable to disparities in innovation, which is underpinned by intellectual property. However, corporate initiatives, including those in response to Tokyo Stock Exchange (TSE) requirements have largely focused on actions to directly enhance ROE or ROIC. We chose the theme of “Intellectual Property and Innovation” for this Information Exchange Meeting. This was motivated by our conviction that further enhancement in the recognition afforded to the importance of intellectual property and innovation, which constitute the nucleus of “Mienai Chikara™” is needed, from the perspective of sustainable corporate value enhancement.

#### Discussion content

Participant companies gave overviews of intellectual property and innovation initiatives, which was followed by discussions covering the role of intellectual property departments and their contributions to the enhancement of corporate value, the evolution of innovation, information disclosure and communication, and both issues recognized and forthcoming prospects.

The companies that gave presentations at the event, which included companies implementing advanced intellectual

property and innovation initiatives as well as those strongly focused on linking intellectual property with management strategy to present at the event, embody a shared recognition that when intellectual strategy is functioning effectively and when the creation of innovation has gained momentum, this serves to enhance recognition and appreciation among shareholders and investors, while ultimately facilitating high ROE and high PBR. Against this backdrop, the discussions at the event focused on strategies, initiatives, and policies pertaining to intellectual property and innovation.



Scene from the group discussion

#### Feedback from participating companies

“This was a valuable opportunity to learn about intellectual property initiatives in other industries. I was particularly impressed to hear accounts of how intellectual property, even in sectors not typically thought to have abundant intellectual property, is linked to business models and capital strategies to thereby enhance corporate value.”

“Being able to communicate with other companies and experts represented an opportunity for us to reconsider how we will promote our intellectual property strategy and information disclosure going forward, in the context of significant changes in the role of intellectual property departments currently underway.”

“Encountering case studies of other companies where intellectual property and research departments work as a single unit to drive innovation has inspired me to consider this approach for our own management strategy going forward.”

#### Future approach

Daiwa AM positions these exchange meetings as a core activity of “Lingagement™,” and convenes them every year as a proprietary initiative of our company. We have had numerous positive responses from participating companies and believe that this initiative will serve as a

platform for “knowledge sharing” among the companies and ultimately contribute to solving corporate challenges.

We intend to continue holding Information Exchange Meetings to contribute to enhancement of the corporate value of our investee companies.

### Lingagement™ Case Studies

#### Case study 1 Company A (electrical equipment) + University professor + Daiwa AM

##### Theme Consolidating intellectual property strategy and information disclosure

Company A possesses world-leading technology and intellectual property in specific electronics fields, with distinguishing features including its in-house development of AI engines and monetization of its intellectual property. Based on this, we held discussions with Company A with the involvement of a university professor who

previously concluded an intellectual property joint research agreement with Daiwa Asset Management. Our decision to hold this exchange of opinions stemmed from the desire to facilitate enhancements to corporate value through the refinement of the company's intellectual property strategy and to help evolve their information disclosure. Following these discussions, Company A has been exploring the development of a more effective intellectual property strategy and disclosure practices, incorporating perspectives from shareholders, investors, and academia.

#### Case study 2 Company B (chemicals) + Intellectual property consulting firm + Daiwa AM

##### Theme Reflecting intellectual property strategy in management performance and corporate value

Company B possesses an outstanding management foundation, including its human capital and intellectual property. Despite this its management performance has stagnated, with the result that the link between this management foundation and its corporate value was

weak. From this starting point, we held an exchange of opinions with Company B with the involvement of an intellectual property consulting firm, toward the aim of establishing links between its intellectual property strategy and management performance and connecting this into enhancements to its corporate value. Following these discussions, Company B's intellectual property strategy department has been collaborating with its investor relations department to further the development of a strategy strongly focused on corporate value.

#### Case study 3 Company C (chemicals) + Consulting firm

##### Theme Evolving investor relations

Company C is a highly profitable medium-tier materials manufacturer, but it had been accumulating cash reserves due to its low growth potential and tendency to restrain growth investments. This situation had led to external pressure mounting, including shareholder proposals, for the company to enhance corporate value. The company thus began actively pursuing growth investments and was also working

to improve its balance sheet. However, its investor relations activities remained limited to biannual earnings briefings and responses to media inquiries, meaning that its visibility had failed to improve. With this background, Company C participated in a Daiwa Asset Management-hosted Information Exchange Meeting. Guided by advice from a consulting firm that works closely with corporate IR officers to drive the execution and improvement of IR activities, Company C has now taken steps to evolve its investor relations, such as holding business briefing sessions on its growth areas and tours of its plants.

## Strong point ③ IP and Intangible Assets

### Recognition of Current Status

We recognize the increasing importance of intellectual property (IP) and intangible assets as critical drivers of corporate competitiveness as industrial structures undergo a transformation. In the U.S., the large tech companies referred to as the “Magnificent Seven” have grown significantly and are also leading the world in generative AI, thereby increasing their corporate value. Japanese companies have made progress in “measures to realize management practices that consider capital cost and stock price,” improving the TOPIX PBR to up to 1.3x (September 2025). However, this level is still both low when compared with the U.S. S&P 500’s approximately 5.0x PBR and represents only a modest improvement over the last three years.

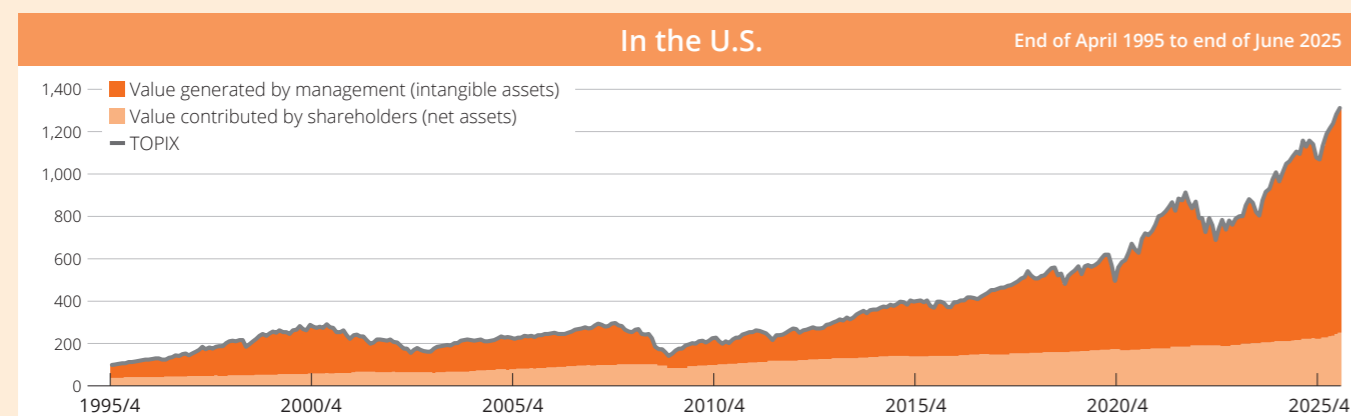
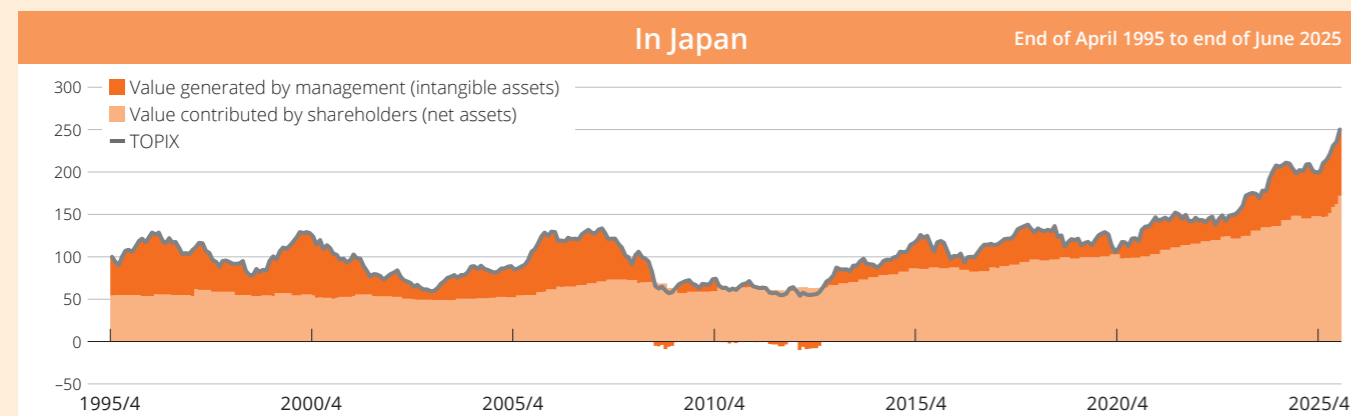
While expansions of undistributed profits at Japanese companies have long driven stock price gains, increases in stock prices in the United States are driven by valuations of intangible assets not recorded on financial statements, which leads to greater stock price gains. This suggests that barriers to entry based on tangible assets have become comparatively lower amid increasingly vigorous global flows of information and capital and that, conversely, differentiation through intangible assets such as intellectual property and innovation may be relatively gaining in value.

Even when considering global environmental and systemic socioeconomic challenges, finding pathways toward resolving

these will necessitate the transformation of large-scale systems, which will include energy transition, decarbonization, and supply chain restructuring. Disruptive innovations that reshape competitive landscapes (often called “game changers”) will likely be involved, calling for a major shift in thinking, and the ability of companies to lead such change or synchronize with it will be crucial. When that time comes, intangible assets—particularly intellectual property, R&D capabilities, and the human capital that drives R&D, as well as corporate cultures that foster innovation—will be even more important than traditional manufacturing or financial capital.

Corporate executives, investors, and financial institutions have increasingly recognized the importance of IP and intangible assets as essential resources for competitiveness. This emphasis was highlighted by the 2021 revision of Japan’s Corporate Governance Code, which incorporated the point that companies should disclose information on their investments in intellectual property and related assets and provide it in an easy-to-understand manner in alignment with management strategies and issues. Given that companies tend only to discuss IP and intangible assets in general terms, Japan’s Cabinet Office also issued and revised its Intellectual Property and Intangible Assets Governance Guidelines to assist companies in how they can improve their corporate value by disclosing and governing their investment and utilization strategies.

### Differences in intangible assets between Japan and the U.S. as seen through PBR



Note: PBR of 1.0x or higher = recorded as intangible assets Note: Indexed with end of April 1995 set at 100

### Our Approach and Philosophy

In general, the term “IP and intangible assets” is in most common use, but Daiwa AM prefers to view these assets through the lens of “IP and innovation” or “IP and R&D capabilities.” The term “non-financial capital” is often used to refer to the sources of value creation that a company holds as the basis of its management—such as human capital, IP and R&D capabilities, and social capital. Depending on its specific nature, this is sometimes referred to as “future financial capital” or “pre-financial capital.” However, these types of capital, including those listed above, may already be recorded as financial capital in certain contexts. Additionally, accounting standards provide specific definitions for “intangible assets.” At Daiwa AM, we recognize the need to assess these sources of value creation, which constitute a company’s management foundation, irrespective of their inclusion in financial statements. To express this broader concept, we use the term “Mienai Chikara™ (Invisible Value Drivers).” We consider IP, innovation, and R&D capabilities to be vital strengths alongside elements such as human capital and brand value.

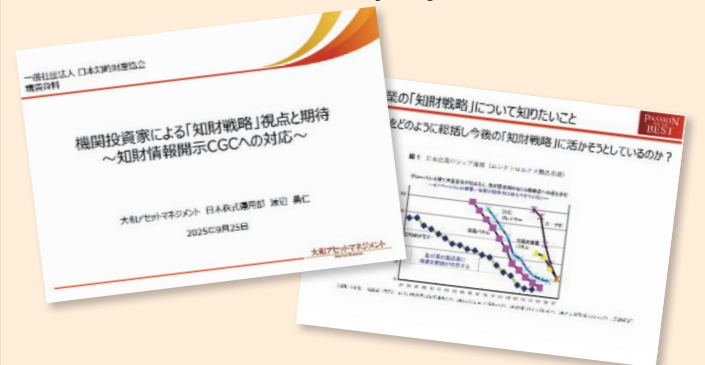
Under this definition, we have prioritized purpose-driven dialogs centered on themes such as “intellectual property and innovation” (designated at Daiwa AM as “IP Strategy Dialogs”). By clearly communicating to companies as shareholders and investors what we wish to know and why regarding their intellectual property and innovation, we have been able to foster structured ongoing IP strategy dialogs that had previously been unfamiliar territory to companies.

We have been gaining insights and engaging more proactively to shape practices by disseminating information. Our efforts include holding meaningful discussions with both

the Cabinet Office, regarding its Intellectual Property and Intangible Assets Governance Guidelines, and also with our group company specializing in IP consulting (IP Bridge), presenting at the Japan Intellectual Property Association, participating in a group meeting bringing together corporate intellectual property departments, and publishing articles and books on related topics. Additionally, we held Information Exchange Meetings, which Daiwa AM position as a core activity of our “Lingagement™” initiative, with the theme for 2025 of “Intellectual Property and Innovation.”

Notable progress has been made in corporate disclosures related to IP in recent years, but we recognize that significant challenges remain. We will continue to engage in purposeful dialogs with companies and communicate effectively with all stakeholders while working to enhance our expertise further.

### Case Study: Presentation at the Japan Intellectual Property Association



Source: Lecture materials from presentation at the Japan Intellectual Property Association

### Engagement case study: Company D (textiles and apparels)

#### Issue awareness and background

- Under its new management framework, Company D has clearly defined its “winning formula” as the establishment of long-term, sustainable high-profit businesses through partnerships (co-creation) with prominent clients.
- However, it is difficult to assess from the outside whether this “winning formula” contains inherent barriers to entry that make imitation or replication difficult, and this means that this formula has not been recognized by or subject to expectations among shareholders and investors.
- This failure to translate the winning formula may be attributable to the fact that Company D’s communication regarding the management foundation, including intellectual property, innovation, and human capital, remains weak, despite active disclosures of environmental (E) sustainability information.

#### Engagement details

- For its “winning formula,” Company D should disclose information that makes it easier to visualize that there exist barriers to entry making the formula difficult to imitate or replicate, by elucidating their connection to the management foundation, including intellectual property, innovation, and human capital.

#### Company D’s initiatives

- In its integrated report, Company D provided highly informative disclosures on the above points while also elucidating their distinctive intellectual property strategy centered on “technology brands.”

#### Future expectations

- Company D ensures the sustainability of its “winning formula” in relation to the management foundation, including intellectual property, innovation, and human capital, while creating follow-on cases and positioning these on a trajectory for the continuous enhancement of corporate value.

# Japanese Equity Engagements

## Engagement categories

At Daiwa AM, we classify engagement with investee companies on Japanese equities into three categories: strong-type engagement, which aims to capture excess earnings; engagement for passive fund, which seeks to raise the level of the overall market; and semi strong-type engagement, which is positioned in between the other two engagement categories.

Strong-type engagement is led primarily by corporate research analysts and fund managers and seeks to drive significant behavioral changes or management reforms in investee companies.

Engagement for passive fund, meanwhile, is led primarily

by corporate research analysts and stewardship analysts, who engage in constructive dialogs toward finding solutions to the challenges faced by investee companies. Strong-type engagement tends to give rise to higher per-dialog costs compared to engagement for passive fund, including preparatory work such as peripheral research.

For all engagements, each actor leverages their specific insights while attempting to form an optimal engagement team composition based on the circumstances of the company targeted for dialog, with this approach intended to help achieve engagement objectives effectively and efficiently.

### Engagement categories

Category	Purpose	Actors			Per-dialog cost
		Corporate research analysts	Fund managers	Stewardship analysts	
Strong-type engagement (corporate transformation engagement)	Capture excess earnings	◎	◎	—	High
Semi strong-type engagement	Capture excess earnings/raise the level of the overall market	○	△	△	Medium
Engagement for passive fund	Raise the level of the overall market	○	—	◎	Low

◎: Very large number ○: Large number △: Small number —: None

## Strong-type engagement

Daiwa AM classifies engagement aimed at capturing returns through active management into strong-type engagement or semi strong-type engagement according to its depth.

Strong-type engagement, which we also refer to as corporate transformation engagement, is an approach that seeks to dramatically improve investment performance. This involves direct and proactive recommendations and advocacy to management based

on engagement themes.

Our corporate research analysts or fund managers of our Engagement Team select companies to be targeted for strong-type engagement and implement milestone management until issues are resolved.

Meanwhile, semi strong-type engagement, which is comparatively less intensive, also aims to enhance the investment performance of the overall market in addition to capturing excess earnings.

## Engagement for passive fund

Engagement for passive fund, which aims to improve investment performance by raising the level of the overall market, comes under two sub-categories, namely: "Cases in which Daiwa AM engages investee companies based on our assessment of the status of their responses to materialities" and "Cases in which Daiwa AM engages in accordance with requests from companies facing challenges."

In the former cases, we select companies to be subject to engagement—such as those with high GHG emissions or challenges in terms of gender diversity and governance frameworks—while also considering factors such as the

status of our shareholdings in the company.

Meanwhile in the latter cases, of engagement stemming from requests from investee companies, the themes are not limited to aspects such as management strategy and capital policy but encompass a broad range of ESG and sustainability-related issues. While the diverse and complex nature of the challenges faced by investee companies means that it can be difficult to find solutions in these cases, we focus our efforts on constructive dialog aimed at improving corporate value and enhancing sustainability over the medium to long term.

## Engagement letter dispatch

Daiwa AM dispatches engagement letters to investee companies as part of our engagement for passive fund strategy. Rather than mere formal notifications, these letters are notable for being tailored to address the specific challenges and characteristics of each company based on thorough consideration of such. Most recently, we have dispatched engagement letters to companies at which we had determined that the diversity levels of the board of directors were insufficient as well as to companies at which we had identified significant room for improvement in terms of governance frameworks to enhance the effectiveness of the board of directors.

The content of the letters which Daiwa AM dispatches are based on our Proxy Voting Policy and encourage the companies in receipt of the letters to undertake prompt

action to address the issues outlined therein. Daiwa AM implements its initiatives in line with a strategy of conducting engagement activities and proxy voting in an integrated way, and one of the biggest advantages of using engagement letters is that it enables us to approach a large number of investee companies efficiently. A further benefit is that, besides making it possible to proactively provide the companies that receive engagement letters with opportunities for dialog, it also clarifies the topics for such dialog. That is to say, it can be anticipated that this approach will enhance both the amount of dialog and the quality, and it can be expected to contribute toward increasing investee companies' corporate value over the medium and long term and toward their realization of sustainable growth.

## Overview of milestone management

The engagements conducted by Daiwa AM can be broadly classified into two categories: those aimed at capturing excess earnings as a source of returns, and those which seek to raise the level of the overall market. Within these, strong-type and semi strong-type engagement on Japanese equities fall under the category of engagement aimed at capturing excess earnings, for which we implement milestone management.

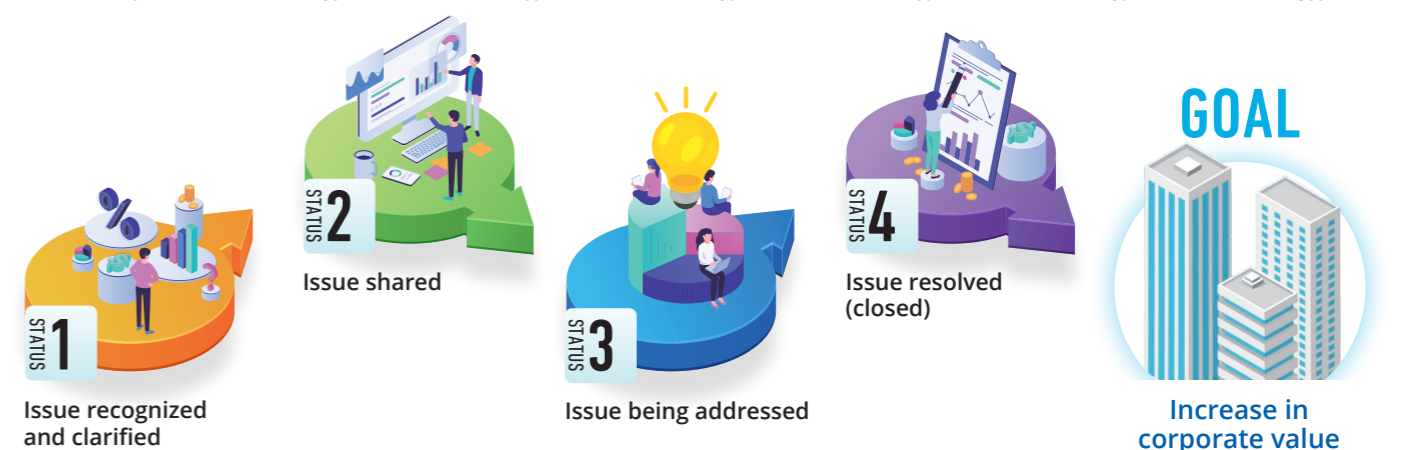
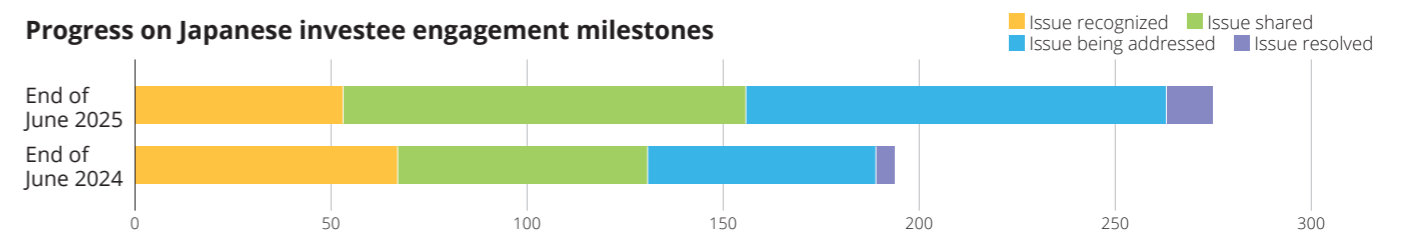
When conducting engagements, we initially set out engagement themes based on the challenges faced by the company. We subsequently formulate an engagement plan outlining the background to challenges including suggested measures to resolve these and an outline of the anticipated situation after they have been successfully addressed before proceeding with the engagement.

Engagement progress is managed by categorizing statuses into: issue recognized and clarified; issue shared; issue being addressed; issue resolved; or issue closed. These statuses are then shared among analysts, fund

managers, and stewardship analysts. These are additionally subject to routine monitoring by senior officers, to inform, for example, future revisions to policies for engagement with respective companies.

For engagements with investee companies, companies may be required to commit to long-term initiatives depending on the engagement themes, such as reducing GHG emissions or transforming the business portfolio. Furthermore, engagement may be discontinued due to factors such as the company's attitude toward dialog, with the table below also including companies newly selected as targets for engagement. It is notable, however, that corporate transformation appears to be achieving steady progress at many of the companies we engaged with, at least in terms of the progress status on milestones evident in the most recent year. Daiwa AM thus concludes that our engagement activities are achieving a certain level of effects.

### Progress on Japanese investee engagement milestones



## Strong-type engagement case studies



**Company E**  
(textiles and apparels)

**Main dialog counterpart** : President and CEO

**Engagement theme** : Transition to and stabilization of a new management structure to foster improved efficiency of management resources and trust in governance



### Issue awareness and background

- Capital investment prioritizes business opportunities over efficiency, with the result that ROA and per-employee profits are persistently low. The company's governance framework has become a discount factor due to delays in compliance with the Corporate Governance Code, recurring scandals including quality irregularities, and other issues.
- Management, which has traditionally focused on long-term growth, has neglected to implement asset efficiency measures, including ROIC management. This can be attributed in large part to the management philosophy of leadership (senior management) at the company.
- Excessive pride stemming from having pioneered the creation of major new industries such as synthetic and carbon fibers has contributed to a corporate culture with insubstantial awareness of efficiency and profitability.
- The limited nature of direct dialogs between senior management and shareholders/investors is another underlying factor exacerbating these issues.

### Suggested measures to resolve the issues

- Transition to a new management structure while also establishing KPIs in the new medium-term management plan.
- Implement structural reforms, such as downsizing or withdrawal from low-profitability and mature businesses.
- Enhance business performance and profitability by expanding range of environmentally responsible products.
- Foster a healthy sense of urgency and overhaul the corporate culture to one which is highly focused on enhancing corporate value.
- Engage in direct and proactive dialogs with shareholders and investors led by senior management.

### Anticipated situation following issue resolution

- Company E will normalize stock prices which consistently exceed the past average PBR levels by creating a path toward becoming a high-efficiency company.

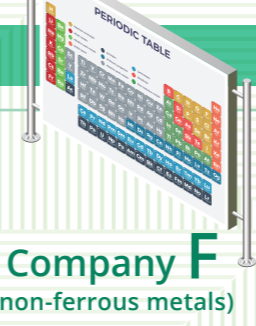
### Company response at time of dialog

Company E recognizes that investments have failed to yield outcomes, thereby significantly impacting corporate value. Based on this recognition, it has sharply pivoted toward ROIC-focused management. The company has furthermore actively increased direct dialogs between its senior management and shareholders and investors and understands that these are meaningful, in recognition of the room for improvement in its engagement with the stock market.

### Company actions following the dialog

Company E clarified its ROIC management policy following the appointment of new senior management. Since then, it has swiftly implemented structural reforms and measures to improve profitability based on ROIC management. The company is also pursuing balance sheet management, including the disposal of non-operational assets. Furthermore, the company has not only increased opportunities for direct dialog between senior management and shareholders and investors, but also successfully facilitated deeper discussions on its management issues.

## Strong-type engagement case studies



**Company F**  
(non-ferrous metals)

**Main dialog counterpart** : President and CEO

**Engagement theme** : Enhancing capital efficiency and expanding investor relations communication



### Issue awareness and background

- Company F operates multiple businesses, primarily automotive, and including information and telecommunications and power generation. Business performance is strong, with record profits set, attributable to improved profitability in automotive orders and a favorable business environment, including for expanded AI investments.
- Meanwhile, however, stock valuations are trending downward due to insufficient communication with investors, while conglomerate discounts are limiting share price gains relative to changes in business performance.

### Suggested measures to resolve the issues

- For the automotive business, enhance expectations on sustainability of the business by demonstrating both resilience to changes in the external environment, such as increased adoption of electrical vehicles (EVs), and a commitment to improving profitability.
- For non-automotive businesses, enhance the amount and quality of disclosure on considerable technological advantages, including R&D capabilities, as well disclosure on the business environment.
- Improve capital efficiency through active commitment to increasing shareholder returns.

### Anticipated situation following issue resolution

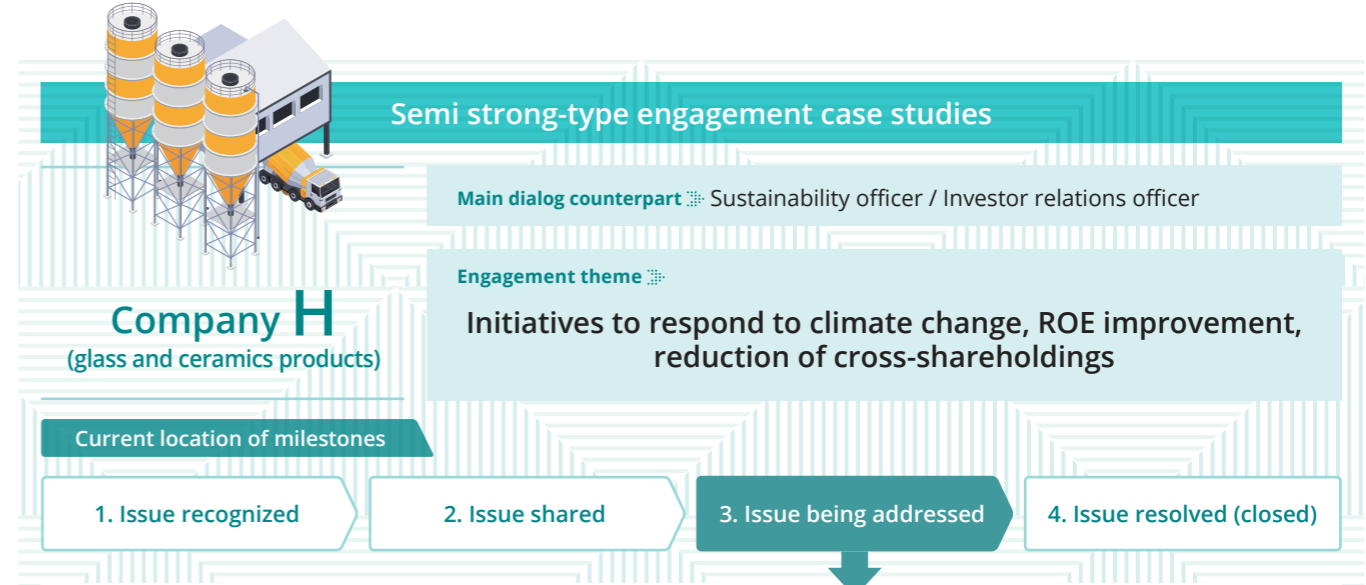
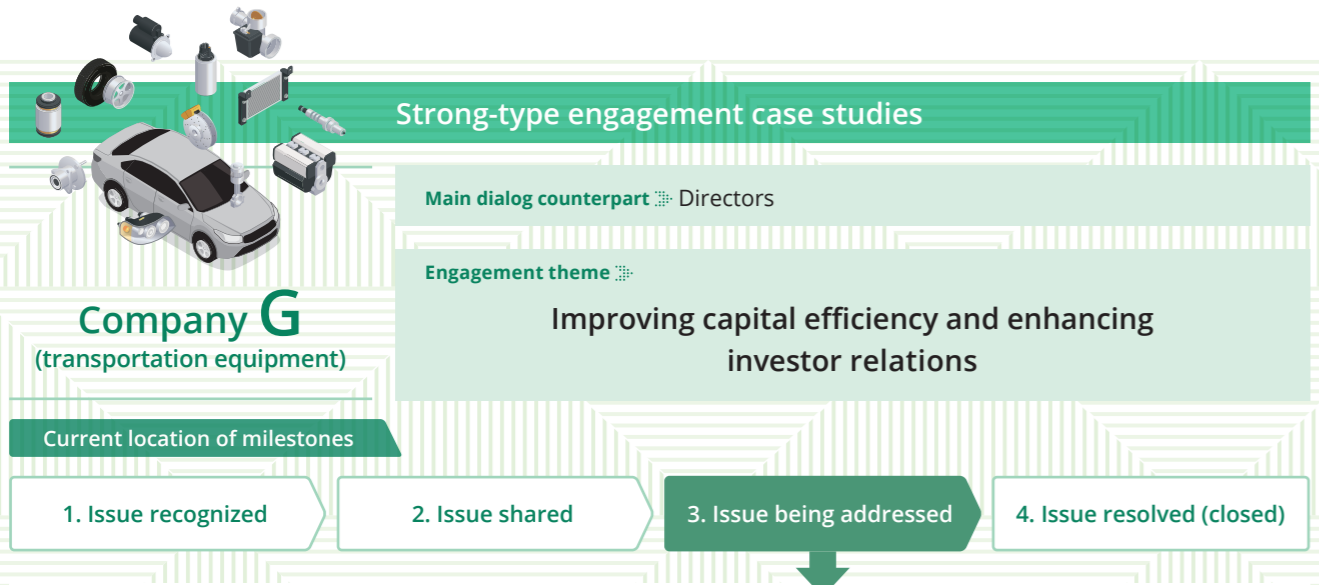
- Elimination of the stock price discount and elevated valuation due to heightened expectations of sustained profit growth over the medium-to-long term coupled with the increased commitment to achieving shareholder returns for the improvement of ROE.

### Company response at time of dialog

With increasing recognition of low share prices as an issue, in response to investor requests, the company hosted factory inspection tours for the first time in over a decade as part of its investor relations activities. Additionally, there was evidence at business briefings that the company was steadily shifting its approach to investor relations, such as by demonstrating profit growth to raise investor expectations. Meanwhile, changes in shareholder returns have yet to become evident; but the company did indicate that it will actively consider this in their next medium-term management plan.

### Company actions following the dialog

Company F plans to host an exchange meeting between its president and investors, thereby creating an opportunity for investor feedback to directly reach management. There is evidence of improved stock valuation metrics attributable to enhanced investor relations efforts. Further enhancement of corporate value can be anticipated through disclosure on cash allocation in the next medium-term management plan; increased commitment to achieving shareholder returns; and the setting of targets including those to improve ROE.



**Issue awareness and background**

- Company G is an owner-managed automotive parts manufacturer boasting the leading Japanese market share for its flagship products. Its stock prices have risen significantly over the past decade due to an expansion in business performance and improved ROIC.
- Meanwhile, the company's corporate value is not sufficiently recognized relative to its fundamental value. This is primarily due to deteriorating capital efficiency caused by holding non-operational assets and inadequate investor relations activities stemming from insubstantial awareness regarding stock prices and capital costs.
- While the owner-manager's steadfast management approach has enabled tentative investment and a steady build-up of profits, insufficient shareholder returns have led to an accumulation of surplus cash and a worsening of capital efficiency. For investor relations too, the failure, for example, to hold financial results briefings, has hindered market understanding of the value of the company's business, resulting in persistently undervalued stock prices.

**Suggested measures to resolve the issues**

- Determine appropriate cost of capital, formulate investment plans, and adjust non-operational assets.
- Allocate surplus cash to shareholder returns after implementing investments expected to generate returns exceeding capital costs.
- Disclose details of medium-term management plan and actively disseminate information by hosting briefings, etc. after consolidating the content of investor relations materials.

**Anticipated situation following issue resolution**

- Enhanced capital efficiency through appropriate allocation of growth investments and shareholder returns accompanied by actualizing latent corporate value through lowering the cost of capital, which will be achieved via improvements to investor relations activities and other measures.

**Company response at time of dialog**

Daiwa AM's input was shared with Company G's management, and we also had the opportunity to directly engage with management, with the company directors amenable to dialog. The company is undertaking considerations and preparations, including those for the enhancement of disclosure reflecting ongoing changes in the external environment. We acknowledge that there still exist areas in which the company is not currently positioned to address issues due to limited human resources. Despite this, we felt that they were making a sincere effort to respond to dialog requests and had a genuine willingness to carefully listen to feedback from the market.

**Company actions following the dialog**

Company G announced a dividend increase to coincide with its financial results release, which represents a step toward improving capital efficiency. Meanwhile, there is no evidence of progress on addressing its investor relations issues, such as consolidation of disclosure materials or holding financial results briefings, and these remain areas with which it has failed to engage. The company's stock price achieved a new high, driven by strong performance and enhanced shareholder returns. However, the stock price remains significantly below its fundamental value, and we will thus continue to encourage improvements in capital efficiency and investor relations through ongoing dialogs.

**Issue awareness and background**

- The cement sector has an industrial structure which generates CO<sub>2</sub> during the production process, with GHG emission reduction initiatives accordingly critically important from a sustainability perspective.
- In addition to industry-wide initiatives for technological development, there is a need to routinely monitor progress on climate change responses, including specific initiatives of the company.
- Company H's ROE levels remain low compared to industry peers, with the price-to-book ratio (PBR) persistently below 1.0x due to financial challenges such as sluggish business performance and substantial cross-shareholdings.

**Suggested measures to resolve the issues**

- Expedite initiatives to increase the replacement rate from fossil fuels as part of the company's initiatives to reduce GHG emissions.
- Enhance initiatives for the utilization of hydrogen, ammonia, and synthetic methane and the development of new technologies such as CCS and CCUS.
- Review the business portfolio to enhance profitability, streamline assets including cross-shareholdings to improve asset efficiency, and expand shareholder returns to improve ROE levels.

**Anticipated situation following issue resolution**

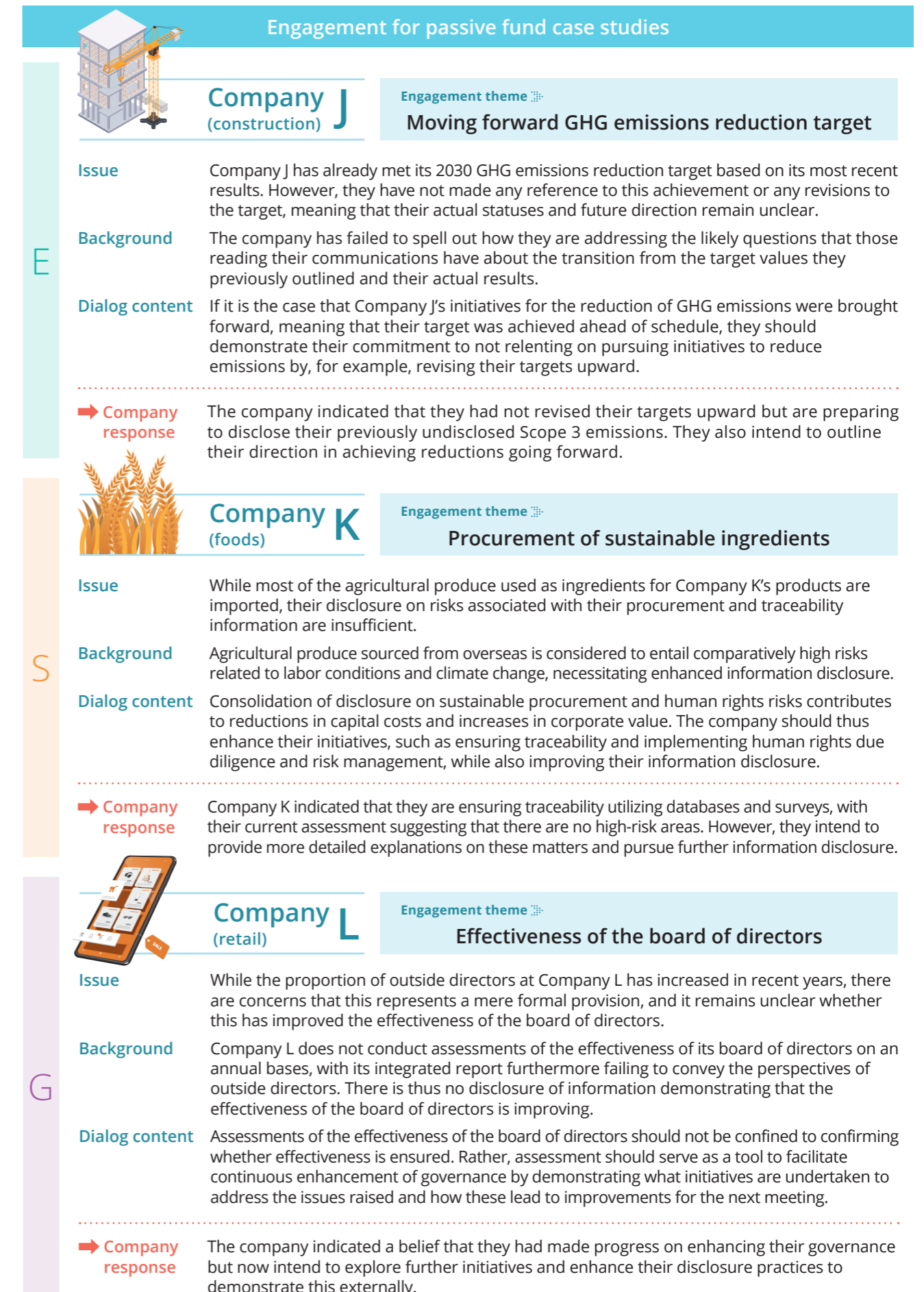
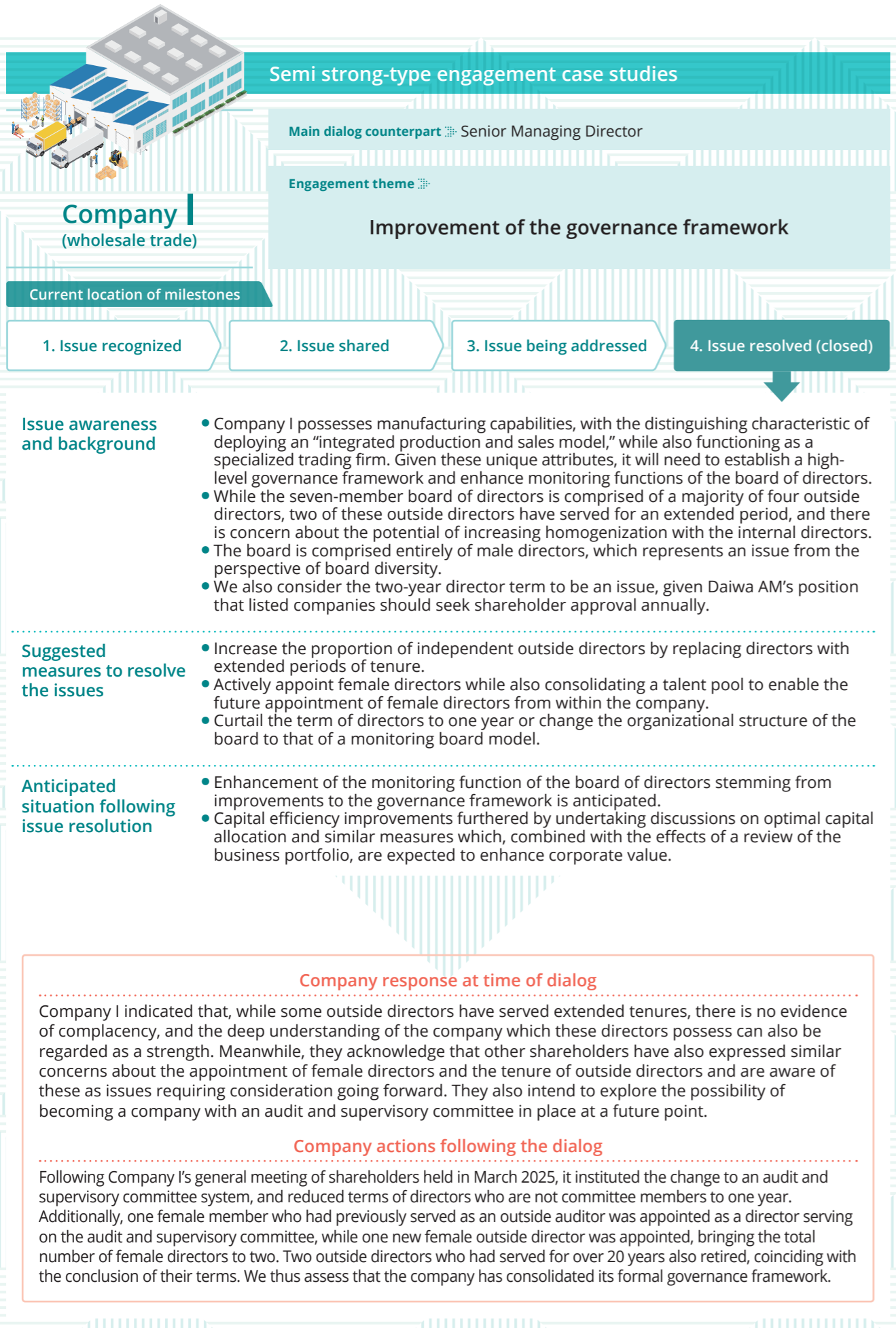
- Reduction of future risks from a sustainability perspective through initiatives to cut GHGs which, coupled with the resulting decrease in capital costs, contributes to enhancement of corporate value.
- Achievement of improved profitability and capital efficiency leading to higher ROE levels and an expansion of equity spread to contribute to enhanced corporate value.

**Company response at time of dialog**

Company H reduced its CO<sub>2</sub> emissions from energy sources on a per-unit basis through the introduction of new facilities. The fossil fuel replacement rate, which is set as a KPI, is also trending upward, indicating they are making steady progress on climate change countermeasures. They are also accruing achievements in technological development, through initiatives for CO<sub>2</sub> recycling artificial limestone. For initiatives to improve capital efficiency, the company has achieved the target of reducing cross-shareholding to below 20% of net assets and set a new target of below 10%. Their ROE target is set at 8% in the current medium-term management plan, exceeding the equity cost, and at 10% for the future, with their policy to achieve this consisting of securing stable profits in the flagship cement business while leveraging growth in new businesses.

**Company actions following the dialog**

Company H continues to promote climate change countermeasures, and they have confirmed further progress in their CO<sub>2</sub> recycling artificial limestone initiative, including the completion of a manufacturing test facility. For initiatives to improve capital efficiency, the company indicated an outlook that means it will be difficult to achieve the ROE target for the final year of the medium-term management plan. However, they also commented that the foundation for the next medium-term management plan is solidifying through the effects of price increases, sales recovery in new businesses, and expansion of production capacity. Furthermore, for initiatives to cut cross-shareholdings, the company announced a substantial reduction even in the most recent fiscal year, and we evaluate their progress toward the new target as favorable.



## Measuring the effectiveness of engagement

Daiwa AM undertakes engagement with companies with the aim of contributing to investment performance through enhancements to corporate value. However, realizing these benefits can require a considerable amount of time, depending on the theme and the company's response. Furthermore, we do not select companies to be subject to engagement with the aim of actualizing short-term effects.

Nevertheless, we conducted measurements on the effectiveness of our engagement both to assess whether it is being implemented effectively and to identify potential areas for improvement in selection of engagement targets and methodologies.

Specifically, this involves conducting analysis using the "difference-in-differences method" applying the criteria outlined below, to statistically measure and understand the impact of our engagement. This method is used to estimate the effects of engagement by comparing pre- and post-intervention differential effects between an intervention group (engaged companies) and a control

group (non-engaged companies). It utilizes fixed effects for time and company to isolate the effects of engagement to the extent possible.

We successfully confirmed improvement effects following engagement by Daiwa AM in the two areas of "ROE" and "Tobin's Q" as an outcome of our analysis conducted using the six items in the table below as dependent variables. While we also observed improvement effects for "Ratio of independent outside directors" and "PBR," we concluded that these improvements could not be definitively attributed to Daiwa AM engagement activities based on a consideration of their pre-intervention trends.

Going forward, we intend to further improve the sophistication of our engagement activities by pursuing increased effectiveness in our initiatives to verify engagement effects and by conducting ongoing verification.



Note: In this analysis, FY2020 is taken as the first year that engagement was conducted in assessing engagement effects due to data constraints. However, bear in mind too that engagement with investee companies had been conducted prior to FY2020, and that companies for which data could not be obtained were excluded from the measurement.

Sun, Liyang / Abraham, Sarah (2021) "Estimating dynamic treatment effects in event studies with heterogeneous treatment effects" Journal of Econometrics, 225(2), 175-199.

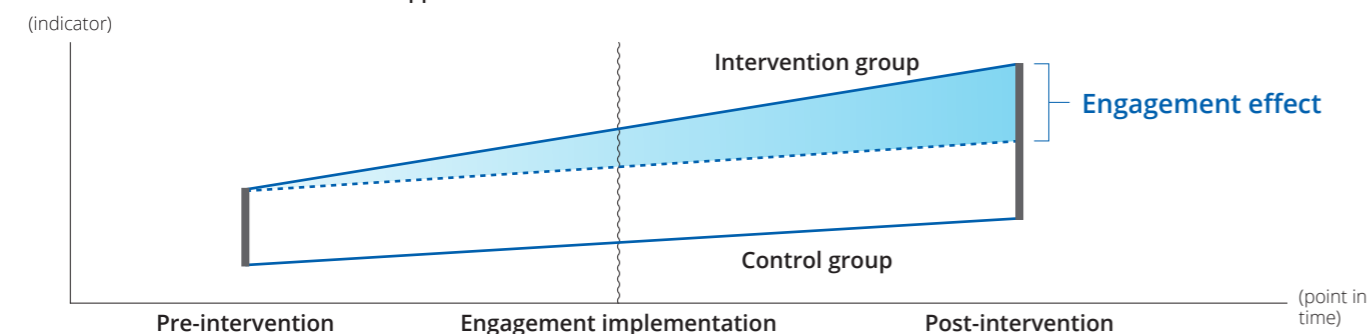
### Criteria for effect measurement

Analysis target	TOPIX 1000 Constituent Stocks
Analysis period	Engagement conducted over the three fiscal years from FY2020 to FY2022
Effect measurement period	End of engagement through FY2024
Analysis method	Difference-in-differences method (Sun & Abraham, 2021); significance level 10%

### Outcomes of the effect measurement

Dependent variable	Effective
Ratio of female directors	—
Ratio of outside directors	—
ROE	○
PBR	—
Tobin's Q	○
Dividend payout ratio	—

### • "Difference-in-differences method" approach



## Overseas Equity Engagements



### Overview

Engagement on overseas equities is handled by means of engagement at local subsidiaries as well as proxy engagement utilizing external vendors. Below we introduce respective examples of these initiatives.

Additionally, we have established a framework for conducting joint engagement activities with investee companies for certain funds through a partnership with an outside service provider.

### Engagement at an overseas subsidiary

Daiwa Asset Management (Singapore) Ltd., Daiwa AM's Singapore subsidiary, actively engages in engagement activities to improve the medium- to long-term corporate value of investee companies, in accordance with the ESG Responsible Investment Policy set out in 2022. While the Asian region for which the Singapore subsidiary is responsible includes some countries where ESG has yet to achieve sufficient penetration, interest in ESG is high among management at corporations, and ESG issues are subject to lively discussions.

For Environment (E), Daiwa AM confirms the green

project plans of companies in recognition of this as an important perspective, in particular for companies in the oil and gas industry. We additionally emphasize green finance in our dialogs with finance and related companies. For Social (S), we focus on initiatives for supply chain management, such as the elimination of forced labor. For Governance (G), we highlight information disclosure, the treatment of minority shareholders by management, and capital policy. We also encourage companies to regularly publish ESG reports, as it is often difficult to obtain reliable ESG information in Asia.


### Proxy engagement on overseas equities

Daiwa AM uses Sustainalytics' Global Standards Engagement and a customized proxy engagement service provided by Glass Lewis for engagements on overseas equities.

The former of these is an incident-driven proxy service focused on companies that have committed serious and systematic breaches (or companies posing a high risk of such breaches) of international standards such as the Ten Principles of the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises. By using this service, we effectively manage the incident risk of Daiwa AM's foreign company holdings. It also allows us to address issues with serious environmental and societal consequences and we can anticipate the development of a deeper understanding of incidents with the potential to affect our portfolio which cannot be addressed by monitoring news on financial and related matters alone,

with Daiwa AM thereby expecting that this will help us to fulfill our fiduciary duties to our beneficiaries.

The latter of these is a service whereby we request Glass Lewis to carry out proxy engagement with companies identified from among our overseas equity holdings that we consider as having high ESG risks. For this service, the engagement theme is determined based on the materiality set by the Daiwa AM, and the target stocks are selected with consideration to the statuses of the company's initiatives and of our holdings in the company. Currently, we conduct engagements having selected companies with high GHG emissions; those with challenges regarding their business and human rights initiatives; and those with issues in terms of their governance framework. Engagement is carried out and managed in line with pre-determined milestones, with progress shared with Daiwa AM as required.



### Case study of customized proxy engagement by Glass Lewis

## Reliance Industries

Engagement theme: GHG emissions, water stewardship



**Overview**  
 We met with representatives of Reliance Industries, a conglomerate company which generates revenue from petroleum refining, petrochemicals, and fuel retail. While the company has committed to achieving carbon neutrality for Scope 1 and Scope 2 emissions by 2035, it had yet to set targets for Scope 3 emissions. In consideration of this, we requested disclosure of Scope 3 emissions and proposed setting ambitious targets. We also discussed water stewardship (water resources management), including identifying water-stressed regions, assessing water risks in those regions, and formulating water management plans.

**Engagement details**  
 The company indicated its intention to determine Scope 3 emissions targets while ascertaining the market trends in India. It also acknowledged data collection as an issue and detailed its plans to collaborate with third parties in enhancing its training and monitoring for value chain partners. We emphasized the importance of disclosing the progress they had described as well as the value of setting specific targets demonstrates a commitment to proactive engagement and transparency.  
 For water resource management, the company has currently only disclosed that one of its facilities is in a water-stressed region. In response to this disclosure, we pointed out that the company should also disclose a comprehensive water risk assessment aimed at identifying regions where high levels of water consumption are anticipated in the future and sites where future water stress is expected. We also requested that they develop water risk assessments and formulate water management plans for the relevant regions.



### Case study of proxy engagement through Global Standards Engagement

## Alphabet Inc.

Engagement theme: Anti-competitive practices



### Case study of engagement by AXA Investment Managers

## Schneider Electric SE

Engagement theme: Corporate Governance

**Overview**  
 Alphabet Inc., Google's parent company, has faced allegations of anti-competitive behavior in the U.S., EU, and elsewhere concerning the market dominance of Google, which lead to an apparent trend of intensified investigations and sanctions spanning various countries. While the company is maintaining dialog with regulators, its responses were centered more on legal appeals than operational reforms. The company failed to provide clear disclosure on its handling of exclusionary practices or platform dominance, while its resistance to proposed remedies, such as corporate splits, has been perceived as suggesting a limited willingness to pursue structural reforms.

**Engagement details**  
 Regarding the issues detailed above, we are conducting engagement focused on reviewing business practices, approaches to dealing with regulators, and evolving governance mechanisms to manage risk in terms of antitrust laws. The rising climate of enforcement worldwide is reflected in rulings in the United States as well as fresh investigations in emerging markets. Companies which fail to undertake more proactive initiatives are accordingly at risk not only of increased reputational and operational repercussions but also of aggravating pressure from regulators and civil society. We assess that internal awareness of regulatory risks associated with market conduct is also rising at the company and that they are beginning to take initial steps to mitigate these.



### Case study of engagement by AXA Investment Managers

## Outsourced service provider fund, Clean Tech

Engagement theme: Climate Change

**Overview**  
 Following a first meeting with the Board Chair after the sudden revocation of the CEO, and feedback sent by e-mail to the Corporate Secretary on the new remuneration policy that would apply to the newly appointed CEO, we are now meeting with the Board secretary ahead of the 2025 AGM. This was the opportunity to clarify the disagreement we had on the calculation of the severance payment made to the former CEO, as well as discuss the new CEO pay package. After communicating our concerns with respect to the ESP target setting in the CEO's LTIP (set, in previous years, at very low levels), we welcomed the new target for 2024 which is better in line with the company's announced trajectory. We therefore consider this engagement as successful. We will continue to meet with various representatives of the company to discuss governance.

**Overview**  
 We engaged with NVIDIA through email exchange and participation in its quarterly ESG call that was held on January 16th 2025. The company seems on track to meeting our objective of setting science-based targets for all scopes by 2026, as the company mentioned it was actively engaging with the SBTi to set targets. The company provided a satisfactory rationale for its incapacity to disclose aggregate KPIs related to the energy saving enabled by its solutions. However, it restated its commitment to disclosing more specific KPIs that illustrate its impact. The company did not address our objective of disclosing with more granularity its revenue exposure to "sustainable verticals". However, it has already started improving its disclosures in that fields, now disclosing its exposure to automotive (autonomous driving) and providing guidance for its healthcare revenue.



**Overview**  
 We exchanged views with The Indian Hotels on gender diversity at the board of directors and employee levels, with a focus on current objectives, policies, and measures for the promotion of diversity. While the company's board of six directors currently includes only one female director, they aim to increase this to 25% of the board by 2030. For diversity promotion at the overall employee level, the company has set targets to increase the ratio of female managers to 25% and the ratio of female employees to 25% by FY2025, from the current levels of 20% and 22.9%, respectively.

**Engagement details**  
 The company indicated their recognition that achieving their 2030 targets is feasible by nominating female directors to coincide with board member changeover. For the number of female directors to be appointed, we confirmed a target of three directors and encouraged the company to formalize this as their target. The company is furthermore supporting efforts to increase the overall ratio of female employees using a framework emphasizing recruitment and retention and have described their progress to date as favorable. The company gave overviews of key measures, including dedicated programs for the recruitment of female employees; provision of second-career opportunities; and recruitment campaigns at women's educational institutions. Other key measures on which they briefed us included those for flexible workstyles; childcare support; shuttle transportation for employee safety; a campaign for the elimination of unconscious bias; and leadership development programs. In response, we indicated our appreciation for the company's wide-ranging initiatives and their transparency on both achievements and challenges to be addressed. We also encouraged further disclosure regarding diversity-conscious board nomination processes and the specific outcomes of DE&I initiatives.

# TOPICS

## India's Decarbonization Initiatives

India is the third-largest emitter of greenhouse gases (GHGs) globally. While per capita GHG emissions remain at about 40% of the global average, there are forecasts of high economic growth and Westernization of lifestyles going forward, with emissions likely to continue rising for the foreseeable period. While the Government of India has declared its target of net-zero by 2070, this is later than the 2050 target set by many other nations, with questions being raised about the effectiveness of its policies.

During this engagement, we interviewed government officials and private-sector firms about their decarbonization efforts while also holding constructive dialogs with our investee companies on their initiatives.

These dialogs left us with the impression that initiatives by India's government are advancing ahead of the 2070 target. Furthermore, for initiatives by private-sector firms, we were able to confirm activities aimed at achieving net-zero at an even earlier point than the government target. However, we also felt that continued dialog is needed on both government and private sector measures amid the emphasis on economic security and similar policies. This will include dialogs on whether coal-fired power plants, retained after peak electricity consumption, can be reduced.



### India's GHG emissions and decarbonization targets

GHG emissions	4.14 billion CO <sub>2</sub> equivalent (CO <sub>2</sub> e) tons (8% of 2023 global share)
Net-zero target date	2070
Intermediate target	Reduce CO <sub>2</sub> emissions per unit of GDP by 45% by 2030 (compared to 2005 levels) Note: Transition to 50% non-fossil fuel power generation capacity

Source: Government of India, UNEP

### India's GHG emissions by sector

Sector	Emissions (billion tons CO <sub>2</sub> e)	Percentage (%)
Power generation	1.17	39.4
Road transport	0.27	9.1
Animal intestinal fermentation	0.22	7.5
Steel	0.15	5.1
Residential	0.15	5.0
Cement production	0.14	4.6
Other	0.87	29.2

Note: Figures for 2020. Excludes land use, land-use change, and forestry.  
Source: India's Biennial Update Report (BUR-4)

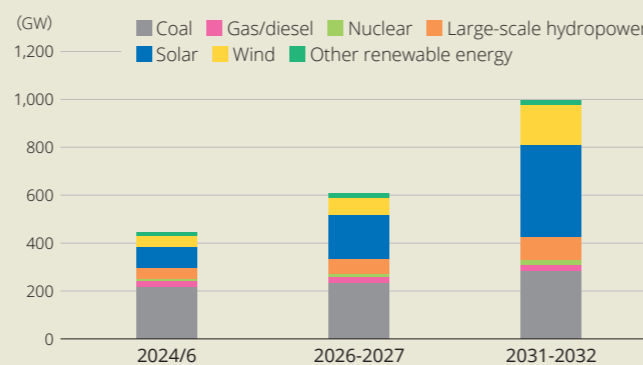
### Electrical Power and Energy Policy

According to India's GHG emissions figures by sector, power generation is the largest contributor at 39.4%. To reduce GHG emissions, it is necessary to optimize the power generation mix, for example by reducing the use of fossil fuels and increasing the use of renewable energy.

The total capacity of India's power generation facilities currently stands at 485GW, with 50% of power generation using non-fossil fuel sources. Regarding this, the Government of India announced that it has achieved its 2030 target, which it committed to at COP26, five years ahead of schedule. Putting this into context, Japan's most recent achievement rate was just under 40%.

Furthermore, according to the National Electricity Plan, India intends to increase total power generation capacity to approximately 1,000GW by FY2031, with about 69% of this accounted for by non-fossil fuel sources. By power source, India anticipates rapid growth in renewable energy sources, including solar and wind power.

### India's power generation by source (power generation facility capacities)



Source: Central Electricity Authority of India

### Power supply situation for Indian businesses

As part of a 2022 revision of India's Electricity Act, the minimum demand threshold for companies purchasing renewable energy through power purchase agreements (PPAs) was lowered to 100kW. The Act also established preferential measures, such as reductions or exemptions on transmission fees for power sent over the existing distribution grid, conditional on satisfying certain conditions when utilizing PPAs. For companies purchasing electricity, this enabled electricity procurement at lower costs compared to conventional rates largely concentrated on coal-fired power generation. These factors mentioned above significantly contributed to the expansion of the demand for renewable energy.

### Energy security and attracting international companies

Preferential measures for renewable energy such as those just described are often premised on purposes such as reducing dependence on imported coal for energy security or advocating for carbon-neutral power sources to attract global technology companies and data centers engaged with the challenge of decarbonization.

### Companies Undertaking Decarbonization Solutions Initiatives

#### Initiatives of Osaka Gas

Osaka Gas is undertaking energy projects in India, where it is jointly investing in city gas operations. The company is involved in an expansion project for city gas services across an area of approximately 320,000 square kilometers, covering about 10% of India's landmass. It is advancing the development of infrastructure, including compressed natural gas (CNG) stations and city gas pipeline networks, with plans to increase city gas sales primarily for transportation, and including for residential, commercial, and industrial uses.

The Government of India is promoting increased natural gas utilization, with demand for CNG vehicles, which are less carbon intensive than gasoline vehicles, rising significantly in recent years. We can thus anticipate contributions to decarbonization efforts through sales at CNG stations and other means.

The second pillar, whereby outcomes are anticipated, is Osaka Gas's renewable energy business. The company has announced its participation in a renewable energy project in India developed and operated by Clean Max Enviro Energy Solutions ("Clean Max"), a leading company in this field.

The company plan to acquire 300MW of renewable energy assets held by Clean Max as well as to develop an additional

100MW within two years through a Japanese-affiliated joint venture.

We also exchanged views on ESG risks associated with large-scale, renewable energy power plant construction. This enabled us to learn that, in addition to environmental and human rights considerations accompanying power plant construction, the company is deliberately addressing the risk of bribery involving local governments and other entities at the construction sites.



A Clean Max solar-wind hybrid power plant

### Initiatives for High GHG Emitting Companies

Since cement production is a major source of emissions, accounting for approximately 5% of India's GHG emissions, initiatives to reduce these levels are currently under the spotlight. We engaged in dialog with two Indian cement companies, at which demand is expected to grow, on their decarbonization initiatives. While the Government of India has set a national net-zero target to be achieved by 2070, these companies aim to do so by 2050, which is testament to the ambitious nature of their initiatives.

#### JSW Cement

Although JSW Cement's share of the Indian cement market is in the region of less than 5%, its strength lies in low-CO<sub>2</sub> cement, referred to as green cement. The company gave us an overview of its initiatives to significantly reduce carbon dioxide emissions leveraging the strengths of its group companies, by using blast furnace slag generated at JSW Steel instead of conventional limestone. They have implemented disclosure outlining the achievement of the lowest CO<sub>2</sub> emissions per unit in India, at approximately 258 kg/ton.

Furthermore, the company has set a goal to have renewable energy account for 63% of the electricity used in processes such as firing, to strive for net-zero concrete by 2050.

We heard details of the client stratum for green cement,

namely that, while few clients are willing to pay a premium for green cement over regular cement, major developers and international companies are tending to choose green cement to help them obtain green building certifications.

#### UltraTech Cement

UltraTech Cement is India's largest cement producer. The company, a founding member of the Global Cement and Concrete Association (GCCA), which promotes decarbonization in the cement and concrete industries, is actively promoting decarbonization within its own business operations.

UltraTech is aiming to achieve net-zero by 2050 and is advancing initiatives such as expansion of its renewable energy use (aligned with RE100) and fuel substitution using agricultural waste. It plans to increase the share of renewable energy in its total energy sources to 85% by 2030.

Additionally, the company is developing carbon capture and utilization (CCU) technology to capture and reuse CO<sub>2</sub> from raw materials through industry-academia collaboration, while also announcing the construction of a demonstration plant for technology to recover high-purity CO<sub>2</sub> using an electrochemical process in place of combustion for the decarboxylation of limestone.

## Engagement for Fixed Income Investments

### Basic policy on engagement for fixed income investments

For fixed income investments, we select engagement targets from companies issuing corporate bonds and other investment instruments based on a comprehensive assessment of factors, including holding amounts, materiality, financial information, non-financial information, and credit ratings. We share the resulting list of engagement targets with our corporate research analysts and accompany them on analyst-led engagements as necessary. Daiwa AM deploys a centralized research framework led by corporate research analysts, seeking to effectively leverage their resources for engagement with companies. In recognition of the easier direct access that equity investors holding voting rights often have in having their voices heard by management, we consider the capacity to leverage this access to convey input from fixed income investors as another benefit of

collaborating with corporate research analysts.

No inherent conflict of opinion exists between equity and fixed income investors during dialogs from the perspective of encouraging medium- to long-term enhancement of corporate value. Nevertheless, differing views are conceivable regarding short-term financial strategies or shareholder returns. We have accordingly established conflict-of-interest management guidelines for occasions on which managers for equity and fixed income investments will participate in the same engagement. These guidelines stipulate prior discussions on dialog content, with mutual participation of the parties precluded if there is a possibility that conflicting messages will be conveyed to the company. In such cases, fixed income investment professionals, mainly handled by credit analysts, will take the lead and conduct a separate engagement.

### Engagement case study (Company M)

Company M's primary affiliation is in the materials industry, while it is also involved in power generation and other businesses. As a result, the company has a high proportion of fixed assets and an underlying low equity capital ratio. Its financial standing has also persistently failed to match that of industry peers due to instability in business performance caused by past market fluctuations. In recent years, however, progress on initiatives it has undertaken to improve earnings has yielded greater stability in its business performance and steadily improved its financial standing.

However, looking ahead, the company can anticipate the need to undertake substantial capital expenditures not only in terms of investments for future growth but also those toward

decarbonization initiatives. Given this background, we held dialogs with the company on how to balance future investments and on maintaining its financial stability. While Company M recognizes decarbonization as crucial to enhancing its corporate sustainability, its investment policy involves selecting projects from which returns can be expected or postponing some planned investments when necessary. Consequently, even if they are in a position in which short-term financial metrics may temporarily deteriorate due to front-loaded investments, we were able to confirm that the company's underlying approach does not entail excessive sacrifices of future profits or capital, and that investments will be premised on steadfastly securing its medium- to long-term financial stability.

## Engagement Plan for the Next Fiscal Year

### Review of the Previous Plan

Previous plan	Action items	See
Enhance collaboration between the Corporate Research Team and the Stewardship Team	<ul style="list-style-type: none"> <li>Enhanced discussions on revisions to Proxy Voting Policy and reviews of materiality and best practices.</li> <li>Enhanced collaboration established integrated management of engagement activities and proxy voting actions, significantly increasing escalation cases during proxy voting.</li> </ul>	<ul style="list-style-type: none"> <li>p. 18</li> <li>p. 38</li> <li>pp. 62-64</li> <li>p. 70</li> </ul>
Enhance engagement with international companies through the utilization of customized proxy engagement service	<ul style="list-style-type: none"> <li>Initiated engagement to address challenges within the Daiwa AM portfolio leveraging Glass Lewis's services.</li> <li>Daiwa AM stewardship analysts also participated in these meetings to gain engagement knowhow.</li> <li>Conducted engagement on 49 themes across 31 companies over the year.</li> </ul>	pp. 54-56
Enhance and maintain signature engagement activities	<ul style="list-style-type: none"> <li>Held Information Exchange Meetings as part of the "Lingagement™" initiative. Participant numbers exceeded those of the previous fiscal year, with 29 companies and organizations attending, including experts and audience companies.</li> <li>Promoted the sharing of each company's insights and knowhow through networking and other activities.</li> </ul>	pp. 40-44
Enhance engagement for passive fund	<ul style="list-style-type: none"> <li>Enhanced engagement with companies whose initiatives to address core materialities established by Daiwa AM are insufficient.</li> <li>Significantly increased engagement cases led by stewardship analysts.</li> </ul>	<ul style="list-style-type: none"> <li>p. 39</li> <li>pp. 45-46</li> <li>pp. 50-52</li> </ul>

## Forthcoming Engagement Plan

### Expansion of engagements integrated with escalation strategies

It is crucial that we pursue engagement activities and escalation strategies in an integrated manner to help maximize the effects of engagement.

Daiwa AM strives to support initiatives that contribute to the enhancement of corporate value while considering the specific circumstances of each investee company, rather than a one-size-fits-all approach to applying the Proxy Voting Policy. This is why it is essential that we undertake engagement that leverages the industry knowledge and company-specific insights of our corporate research analysts combined with the sustainability insights of our stewardship analysts.

We leverage the exercise of our voting rights to encourage further changes in cases in which repeated engagements with investee companies fail to yield sufficient responses. Conversely, even if a proposal conflicts with Daiwa AM's Proxy Voting Policy, when we positively assess an initiative by the current management team at a company, we will reflect this in our proxy voting decision. We believe that conducting in-depth engagements with investee companies, including engagement for passive fund, is crucial to fully understanding and appropriately evaluating their individual businesses.

### Enhancement of collaboration among engagement actors

Daiwa AM has traditionally advanced activities through "three-in-one" integrated efforts among our corporate research analysts, fund managers, and stewardship analysts in our engagement with investee companies. Going forward, we will further clarify the roles of each engagement actor and deepen collaboration leveraging their respective strengths, with the aim of achieving further enhancements to the sophistication of our engagement activities.

As part of these efforts, we will increase opportunities for discussion between corporate research analysts and stewardship analysts. We will then reflect these discussions in reviews of materiality assessments and

the Proxy Voting Policy, while also expanding opportunities for joint dialogs alongside corporate research and stewardship analysts with companies.

Added to this, Engagement Team fund managers will strive to enhance the quality of corporate transformation engagement by leveraging the insights of corporate research analysts with in-depth knowledge of specific industries and the business environments of individual companies. We will furthermore aim to facilitate more broad-reaching benefits from the positive effects this has on investment performance by enhancing joint initiatives between both teams and actively investing in companies at which we conduct engagement.

### Enhancement of bond engagements

Engagement with investee companies is also important in bond investments, and Daiwa AM is working to strengthen stewardship activities, including engagement, in the same manner as for equity investments.

We have established a three-in-one engagement framework equivalent to that used for equity investments for bond engagements. This framework integrates the industry knowledge possessed by corporate research analysts equipped with central research capabilities and the ESG expertise of stewardship analysts, with the bond-specific knowhow

possessed by credit analysts and fund managers within the Fixed Income Investment Department.

We enable the promotion of corporate value enhancement and management of risks from multiple perspectives, including financial and ESG, by implementing systematic engagements. This also facilitates improvements in the quality of bond investments and greater returns for the beneficiary clients. We are committed to maintaining our initiatives to further enhance our bond engagement activities going forward.

### Achievement of greater depth in Daiwa AM's signature engagement initiatives

For engagements as part of Daiwa AM's signature "Lingagement™" initiative, we will continue to actively promote initiatives to provide opportunities for interaction between investee companies and introduce them to best practice companies. As part of these efforts, we furthermore intend to continue holding our Information Exchange Meetings, which we have conducted since 2021, setting new themes for each meeting.

Additionally, in 2022, Daiwa AM entered into a comprehensive business alliance with the Drucker

Institute in the United States, and subsequently jointly developed a Japanese version of the Drucker Institute Score for Japanese companies. We will strive to further enhance the effectiveness of our "Mienai Chikara™ (Invisible Value Drivers)" engagements on intangible assets such as human capital and intellectual property and themed engagements such as those on addressing ESG challenges by utilizing this Japanese version of the Drucker Institute Score alongside our proprietary ESG score in dialogs with investee companies.

# Transformation That Begins with Dialog

## ③ Proxy Voting

Realizing the enhancement of corporate value through engagement and proxy voting

Guidelines for the Future  
① Materiality

Transformation That Begins with Dialog  
② Engagement  
③ Proxy Voting

Responsible Investment Framework  
④ Sustainable Investment  
⑤ Stewardship

Achievements over the Past Year  
⑥ Stewardship Activity

### Daiwa AM's Proxy Voting Policy and Key Features


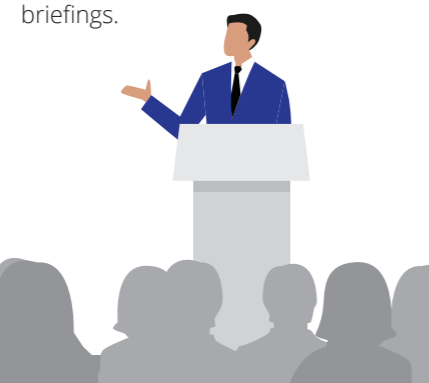

#### Key points of Daiwa AM's Proxy Voting Policy

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

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

#### Key features of Daiwa AM's Proxy Voting Policy

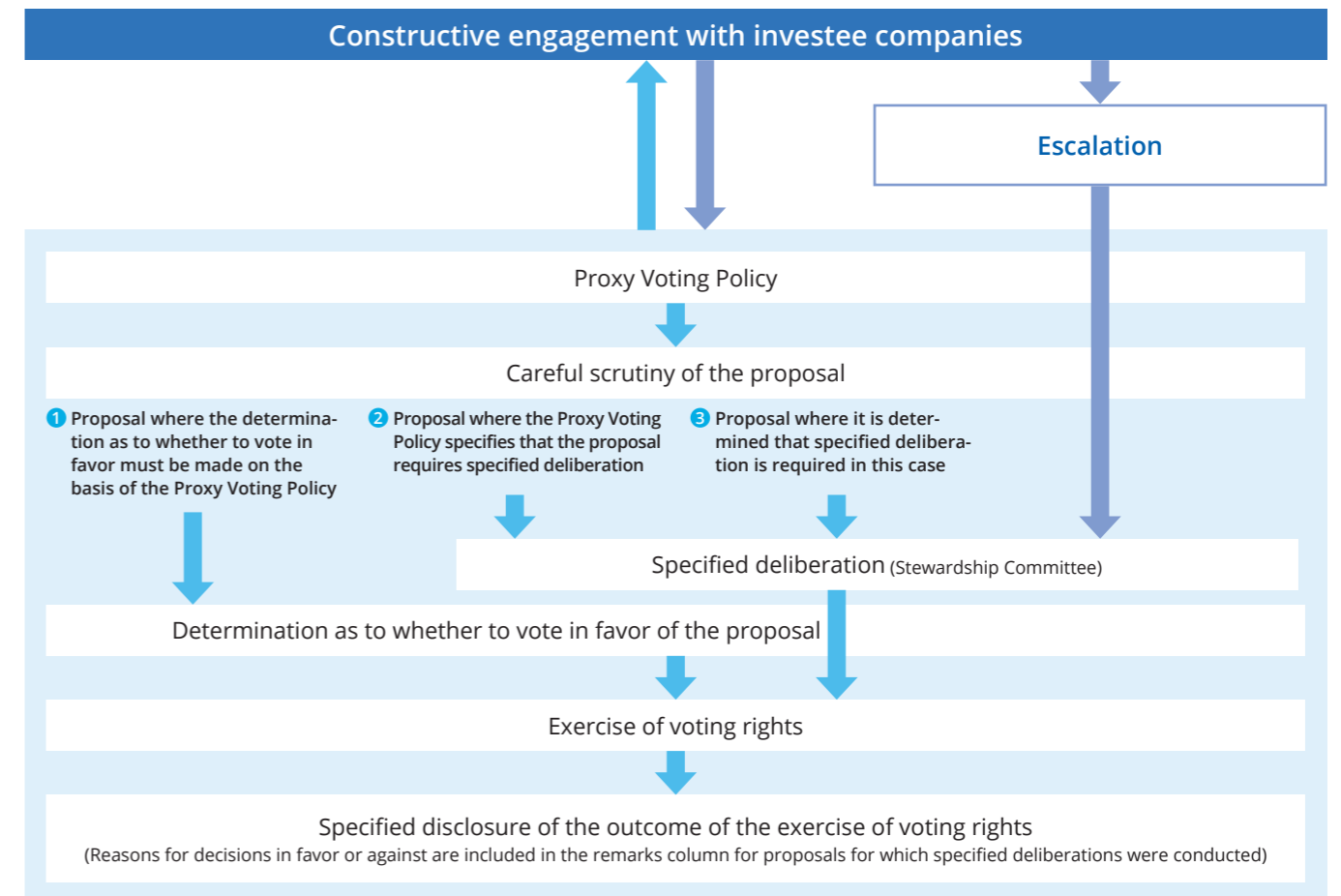
Daiwa AM's Proxy Voting Policy also has the following key features.

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

### Proxy voting process

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

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



### Escalation

#### Escalation strategies

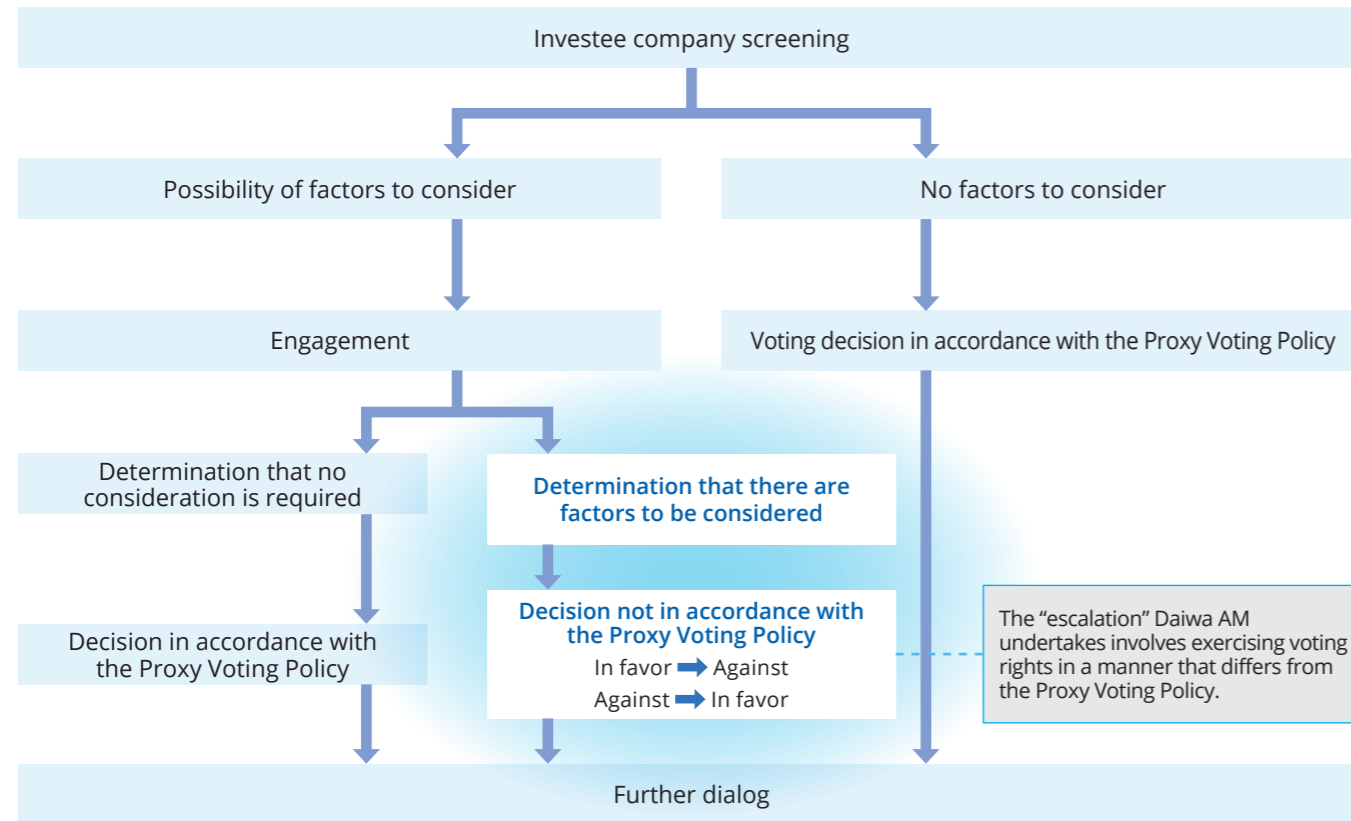
Daiwa AM strives to operate in a way that integrates engagement with investee companies and proxy voting actions. This initiative involves assessment of the content of dialogs with, and the circumstances of, investee companies and subsequently reflecting this in proxy voting by Daiwa AM.

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

the company, its actions, and other factors. In addition, cases exist in which we will vote in favor of a proposal after considering the content of engagement, the company's initiatives, and other factors even if we would otherwise oppose that proposal if the Proxy Voting Policy were to be applied mechanically, and together define these considerations as our escalation strategies.

Daiwa AM thus strives to support initiatives that contribute to enhancing corporate value through dialogs with investee companies and the exercise of proxy voting rights, rather than applying the Proxy Voting Policy in a prescriptive manner.

### Escalation process



#### Escalation case study (in favor → against)

**Company N**  
(land transportation)

**Engagement theme**  
Strengthening the governance system

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

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

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

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

#### Escalation case study (against → in favor)

**Company O**  
(electrical equipment)

**Engagement theme**  
Reduction of cross-shareholdings, improvement of ROE

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

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

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

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

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

# Approach and Response to Shareholder Proposals

## Votes in favor or against proposals by shareholders

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

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

### Approach to major shareholder proposals

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

### Approach to proposals to amend the Articles of Incorporation


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

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

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

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

Shareholder proposal decision case study



**Company P**  
(banking)

Engagement theme

Climate change

**Outline of shareholder proposal**

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

**Topics of discussion with Company P**

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

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

**Point 1** Does this sufficiently address climate change?

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


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

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

**Decision**

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

Shareholder proposal decision case study



**Company Q**  
(food)

Engagement theme

Management strategy, governance

**Outline of shareholder proposal**

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

**Topics of discussion with Company Q**

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

**Topics on discussion with proposing shareholders**

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

**Issues for the Stewardship Committee**

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

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

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

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

**Outside director candidate skill matrix**

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

**Decision**

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

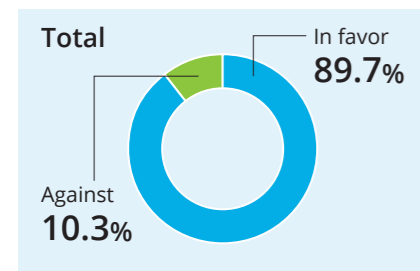
## Proxy Voting Outcomes

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

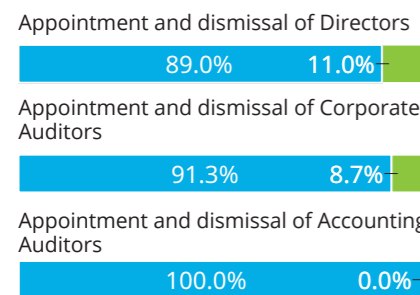
In favor ■ Against ■ Pending\*1

### Japanese equities

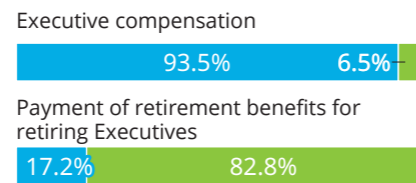
#### Proposals relating to company proposals



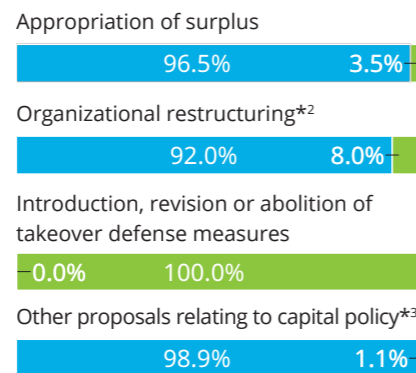
#### Proposals relating to company organization



#### Proposals relating to Executive compensation



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



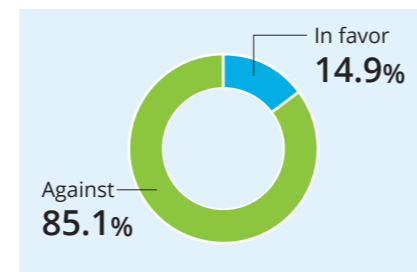
#### Proposals relating to Articles of Incorporation



#### Other

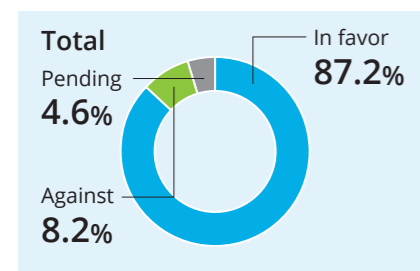


#### Proposals relating to shareholder proposals



### Overseas equities

#### Proposals relating to company proposals



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



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



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



#### Proposals relating to amendment of the Articles of Incorporation



#### Proposals relating to compensation



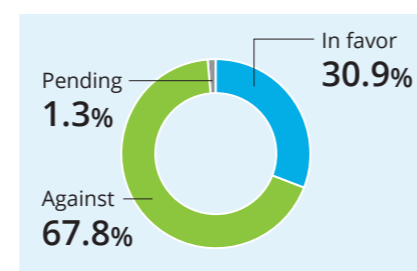
#### Proposals relating to mergers and acquisitions



#### Other proposals



#### Proposals relating to shareholder proposals



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

## Analysis of proxy voting outcomes

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

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

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

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

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

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

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

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

## Efforts Made in Relation to Specified Disclosure

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

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

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

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

## Message to Our Investee Companies







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

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

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

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

### Daiwa AM's expectations

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



Stewardship Team

### Key revisions to our Proxy Voting Policy this year

#### 1 Stricter independence requirements for outside directors and outside auditors

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

#### 2 Term of office of directors

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

#### 3 Independence requirements for substitute outside director and outside auditor candidates

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

### Future revisions to our Proxy Voting Policy

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

#### 1 Gender diversity on boards of directors

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

#### 2 Cross-shareholdings

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

#### 3 Strengthening the independence of nominating and compensation committees

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

# 4 Sustainable Investment

The policy and systems framework that functions as the foundation for Daiwa AM's activities



## ESG Investment Policy

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

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

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

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

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



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

For Daiwa AM's material ESG issues, see p. 16

## ESG Integration

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

Daiwa AM views investee companies' initiatives to address ESG issues as leading to increased growth potential over the medium to long term, and as helping to

reduce risk, and we refer extensively to these initiatives when making investment decisions. By combining qualitative evaluation based on materiality-focused engagement with investee companies and other enterprises with quantitative evaluation undertaken by quantitative analysts, we are able to implement corporate valuation that integrates financial and non-financial information.

We also calculate our own unique ESG scores based on our Materiality, and use these scores when selecting stocks for inclusion in our portfolio and when implementing portfolio risk assessment.

### Integration of ESG information, etc. into the investment process

The process that Daiwa AM uses for integrating non-financial information, including ESG information, into the asset management process, is as follows. The priority order for each process varies depending on the asset class and on the investment strategy.

First, starting from the various asset classes that are the target of investment, we decide on the investment universe through screening based on our general policy and the investment guidelines outlined in our individual strategies.

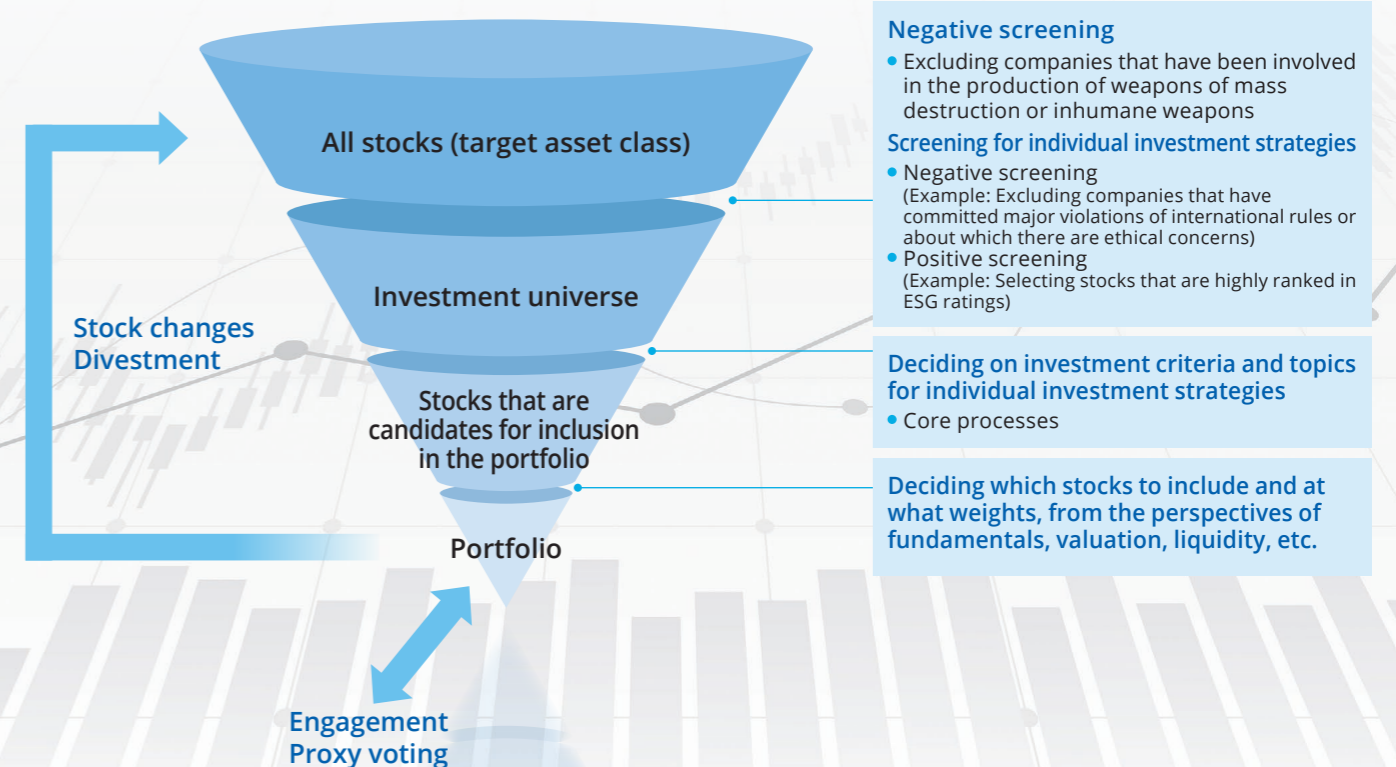
Based on the above, we then perform the selection of investment criteria and topics for each investment strategy, and decide on which stocks to include as candidates for inclusion in our portfolio. This is the core process that defines the purpose and characteristics of the investment strategy; in the case of ESG funds, ESG is included as a key

element in the process.

Finally, we take into account fundamentals such as performance, valuation (in terms of whether a stock is undervalued or overvalued), liquidity, etc., when building our portfolio when deciding which stocks to include and at what weights.

After the portfolio has been built up, we continue to revise it on a regular basis, and we take every opportunity to undertake engagement with investee companies. In engagement, we encourage companies to aim for further improvement from both a financial and non-financial perspective. In the case of equities, proxy voting provides an important way for us to express our views; for all shareholders meeting proposals, we implement proxy voting in accordance with Daiwa AM's Proxy Voting Policy.

### Investment strategy implementation process



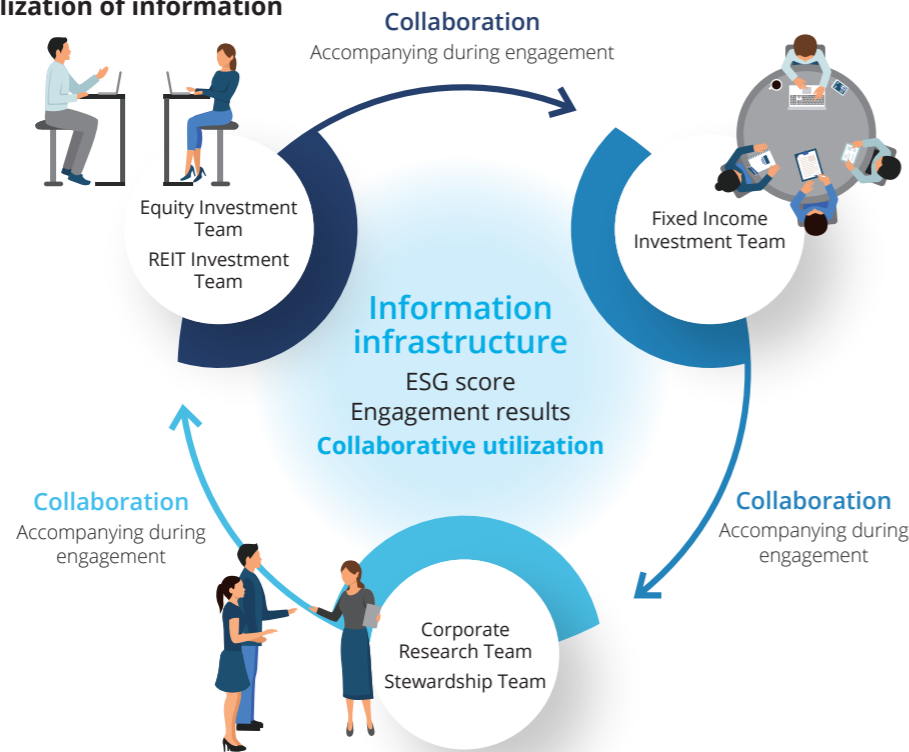
## Research and analysis system for non-financial information, and information infrastructure

Daiwa AM has adopted a centralized research system, so that information from the Corporate Research Team and Stewardship Team can be used not only by the equity and REITs management teams but also by the bond management team. For both financial and non-financial information, investee company data collection and analysis, records of contact and engagement with investee companies and related

progress reports, etc. are collated by Daiwa AM's in-house information infrastructure using a system that enables all personnel involved with asset management to utilize them.

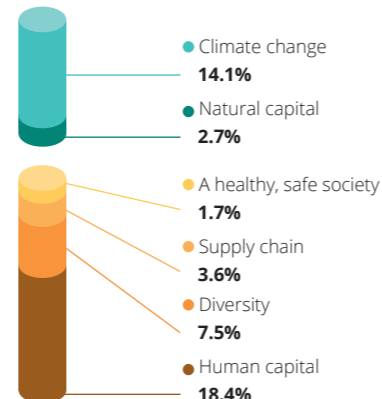
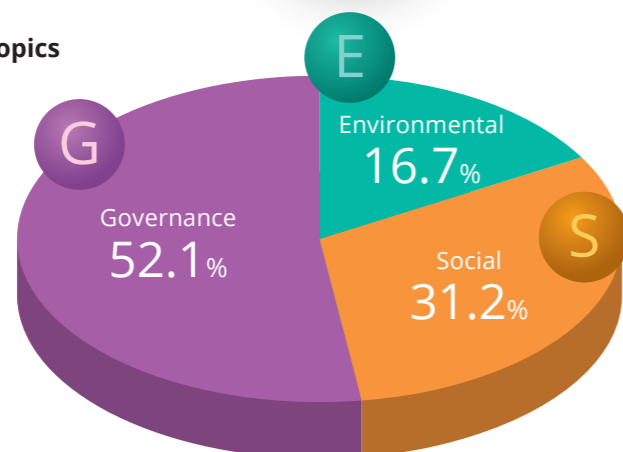
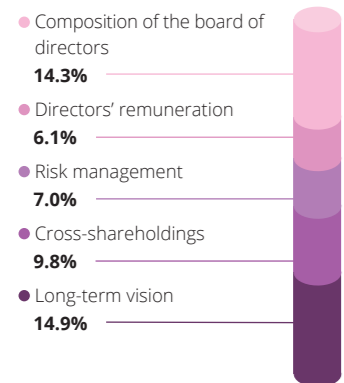
Daiwa AM has also put in place a system whereby all related parties, regardless of asset class, can participate in engagement with investee companies, and conduct engagement from their own particular perspective.

### Collaborative utilization of information



## ESG engagement

### ESG-related engagement—Topics



### Period covered: July 2024–June 2025

The share of engagement topics accounted for by the Environment (E) and Social (S) categories both fell over this period, from 18.1% to 16.7% in the case of E, and from 35.1% to 31.2% in the case of S, while the share accounted for by Governance (G) rose from 46.9% to 52.1%. This was because, although the number of instances of engagement in the E and S categories rose year-on-year, the number of instances of engagement in the G category rose more rapidly (by around 50% year-on-year). A major contributing factor to the rise in the number of instances of engagement in the G category was an increase in the share of engagement topics relating to cross-shareholdings (up from 8.7% to 9.8%) and to long-term vision (up from 13.1% to 14.9%), the background to which likely was the increasingly strict proxy voting policies adopted by Daiwa AM and by other asset management companies.

Within the E category, although the share of engagement topics relating to natural capital remained low as a percentage of all topics, in terms of the number of instances of engagement it increased by over 200% year-on-year, and we are paying close attention to this trend.

## Equity ESG Integration (corporate value assessment and ESG data)

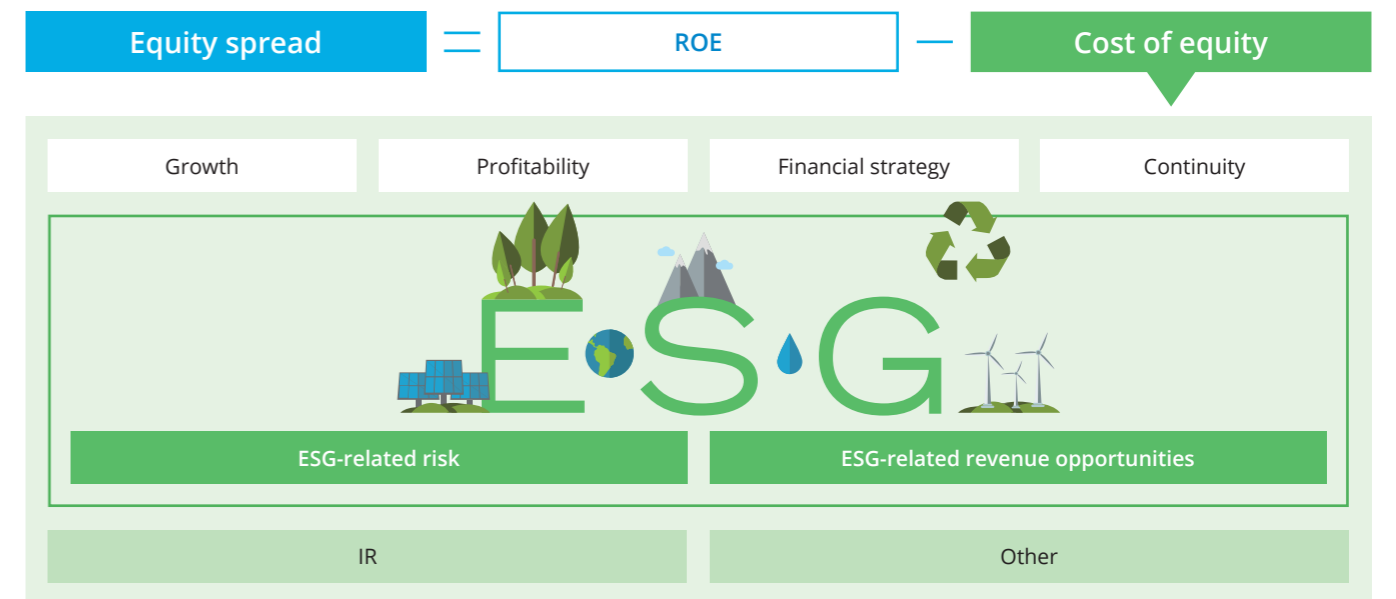
What interests equity investors most in terms of the minimum return they can expect to obtain from investee companies is equity cost. It is possible to measure the extent to which the value generated by a company can exceed this anticipated return.

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

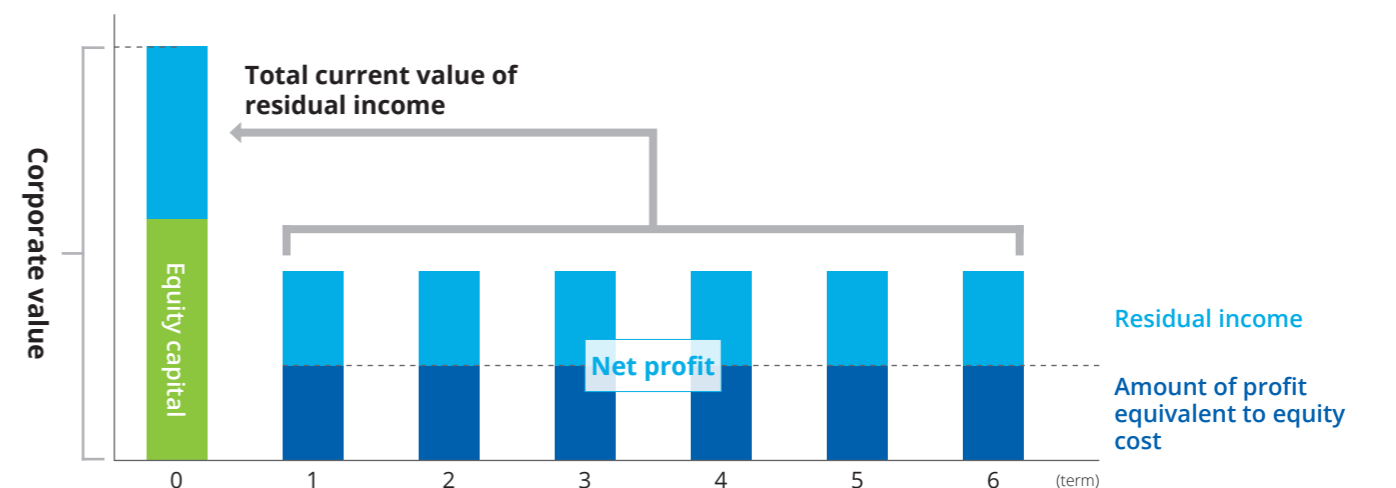
More specifically, our corporate research analysts adjust equity cost to reflect both financial data and non-financial data (including ESG data), and then use the equity spread (calculated by deducting equity cost from the return on equity) to calculate corporate value (see figure below). For example, if a company has outstanding corporate

governance, this means lower risks for investors, which in turn will lead to lower equity cost and thus higher corporate valuation. A further point is that, by breaking ESG evaluation down into risks and opportunities and reflecting the opportunities in anticipated long-term growth rates, we have a framework that enables us to determine, in detail, what impact a company's initiatives for ESG issues are having on its corporate value.

The residual income model (RIM) is utilized when using equity spread to determine corporate value. By using RIM, anticipated future net profit can be broken down into the amount of profit equivalent to equity cost and residual income (calculated as the equity spread x shareholders' equity). Discounting residual profit for each period by present value and then adding it to current shareholders' equity makes it possible to determine corporate value.



### Residual Income Model (RIM)



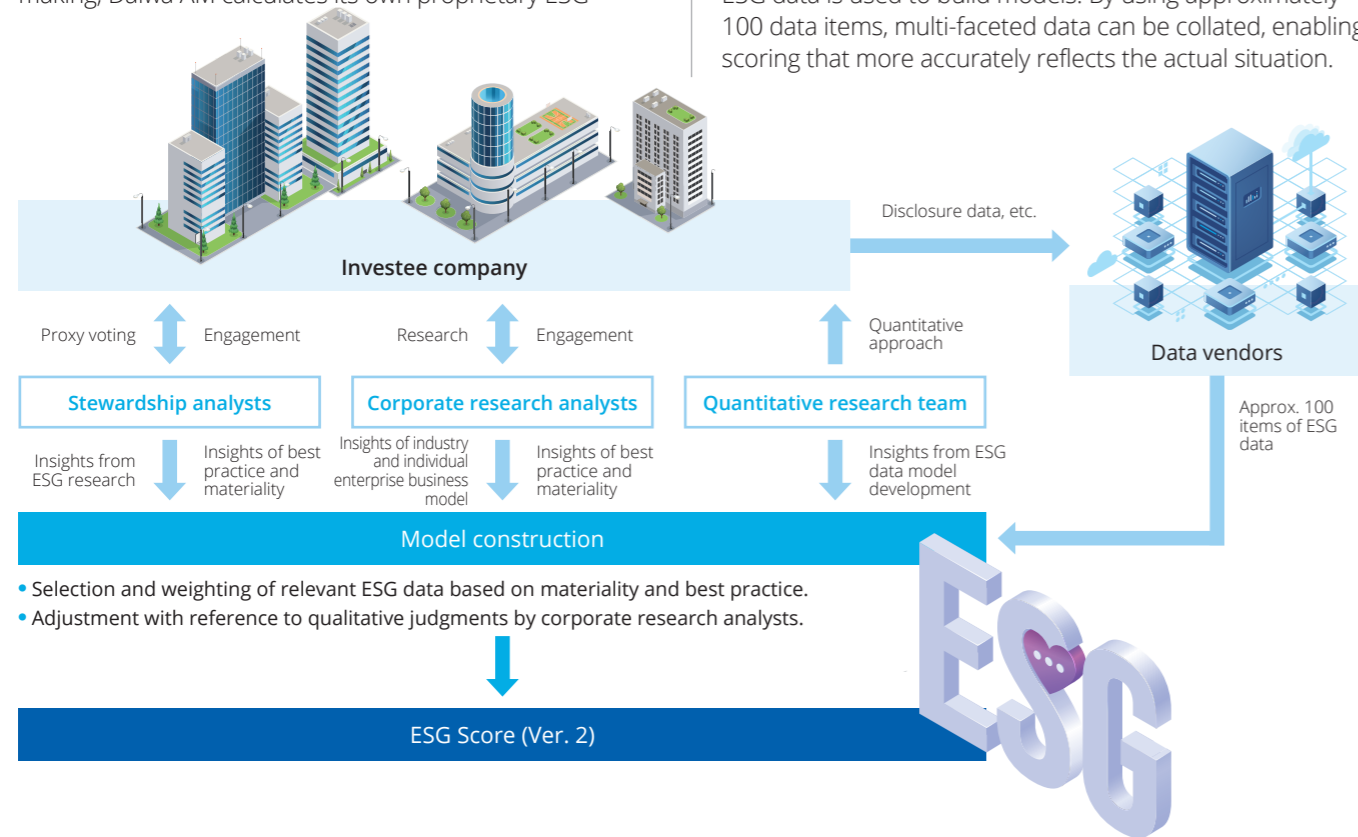
## In-house ESG Score

### What is our in-house ESG score?

With the aim of identifying companies' ESG-related risks and opportunities from multiple perspectives and then using this information effectively in investment decision-making, Daiwa AM calculates its own proprietary ESG

scores. In the spring of 2023, the existing ESG score system was revised, and Version 2 was introduced.

With this ESG score system, quantitative evaluation of ESG data is used to build models. By using approximately 100 data items, multi-faceted data can be collated, enabling scoring that more accurately reflects the actual situation.



### The data that ESG scores are compiled from

To build ESG scores, Daiwa AM collects data on sustainability related risks and opportunities from companies. The data collected (mainly via data vendors) includes data disclosed by individual companies themselves, data disclosed by organizations to which the companies belong, and third-party data from

independent research and estimates, etc.

The collected data then undergoes a process of selection based on Daiwa AM's core materiality and best practice, and is divided into the E, S, and G categories, and into more detailed topics and sub-topics.

Data on companies' ESG-related measures, risks, and opportunities			
	Filter		
	Our core materiality and best practice		
Category	Environment (E)	Social (S)	Governance (G)
Topics	<ul style="list-style-type: none"> <li>Climate change</li> <li>Natural capital</li> </ul>	<ul style="list-style-type: none"> <li>Social responsibility</li> <li>Human capital</li> </ul>	<ul style="list-style-type: none"> <li>Governance system</li> <li>Risk management</li> <li>Capital efficiency improvement</li> <li>Communication</li> </ul>
Sub-topics	<ul style="list-style-type: none"> <li>Greenhouse gas emissions</li> <li>Response to climate change risk</li> <li>Energy shift</li> <li>Environmental pollution</li> <li>Safeguarding resources, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Contributing toward the building of a society in which people enjoy health and peace of mind</li> <li>Supply chain management</li> <li>Enhancing the value of human capital, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Appropriate decision-making and oversight</li> <li>Risk management system</li> <li>Compliance</li> <li>Balance sheet management to realize capital efficiency improvement</li> <li>Constructive dialog and appropriate communication with stakeholders, etc.</li> </ul>

Note: Sub-topics consist of approximately 100 detailed data items.

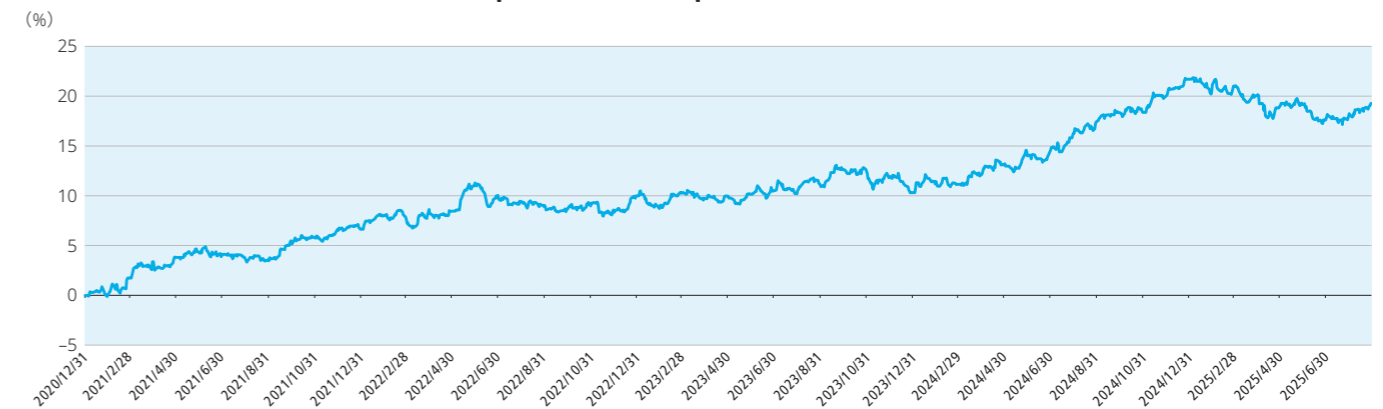
## ESG score and performance

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.

Although performance deteriorated from the beginning of 2025 through to around July, at the time of compilation of this report it was improving again.

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



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

### ESG score analysis

We examined ESG score performance since 2023, for the ESG score referred to above, for each of E, S, and G.

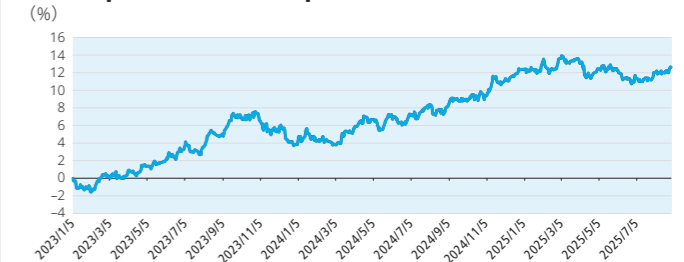
Environment (E) performance showed steady improvement, a trend which was similar to overall ESG score performance.

With regard to Social (S), there was little change up until around the summer of 2024, after which performance improved.

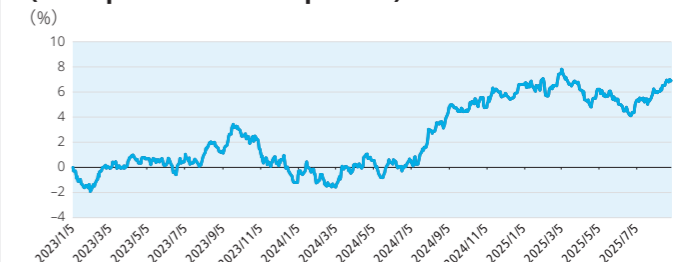
Governance (G) performance was negative until around May or June each year, after which it moved into positive territory. We believe this may have been due to the increase in the number of companies receiving shareholder proposals from activist investors, and to the fact that this component of the ESG score seeks to identify companies that have relatively low governance scores due to, for example, holding large amounts of cash during the period coming up to the annual shareholders meeting. It can be assumed that following the meeting, a reversal of this trend is observed. Also, we believe that the G performance also contributed to the significant decline in the overall ESG score during the period from the beginning of 2025 onward.

With the current model, the individual components that make up the ESG score are each given an equal weight. However, if one looks at the trends in the TOPIX 1000 stock universe over this period, it is apparent that the E score had the biggest impact on the overall ESG score. Going forward, we will continue to undertake research aimed at ensuring that our ESG score makes a positive contribution to asset management from the perspective of risks and opportunities in each sector.

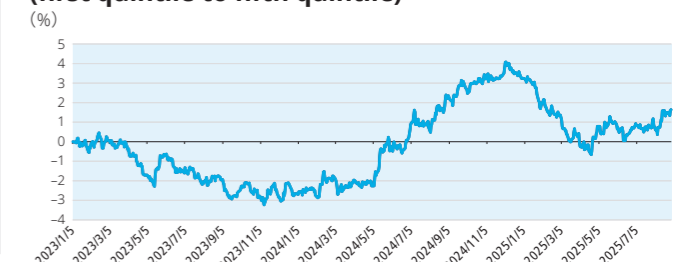
### Environment (E) score—Cumulative returns (first quintile to fifth quintile)



### Social (S) score—Cumulative returns (first quintile to fifth quintile)



### Governance (G) score—Cumulative returns (first quintile to fifth quintile)



## Collaboration with the Drucker Institute

### Business alliance with the Drucker Institute

In 2022, Daiwa AM signed a comprehensive business alliance agreement with the Drucker Institute in California. The Drucker Institute is a research institute at Claremont Graduate University; the content of the agreement included granting to Daiwa AM the exclusive right to use the Drucker Institute Score (developed by the Drucker Institute to evaluate the corporate effectiveness of U.S. companies) in Japan, and also a project to collaborate on development of a Japanese equivalent of the Drucker Institute Score to evaluate the effectiveness of Japanese companies.

The Drucker Institute Score quantifies five principles advocated by American management theorist Peter Drucker: customer satisfaction, employee engagement

and development, innovation, social responsibility, and financial strength.

Results achieved through the alliance so far include: the establishment of a Daiwa AM US equities active fund that makes use of the Drucker Institute Score, gaining expertise in the scoring methodology by assigning Daiwa AM personnel to undertake research at the Drucker Institute in the U.S., the joint development of a Japanese equivalent of the Drucker Institute Score, and the establishment of a Japanese equities active fund using this new score.

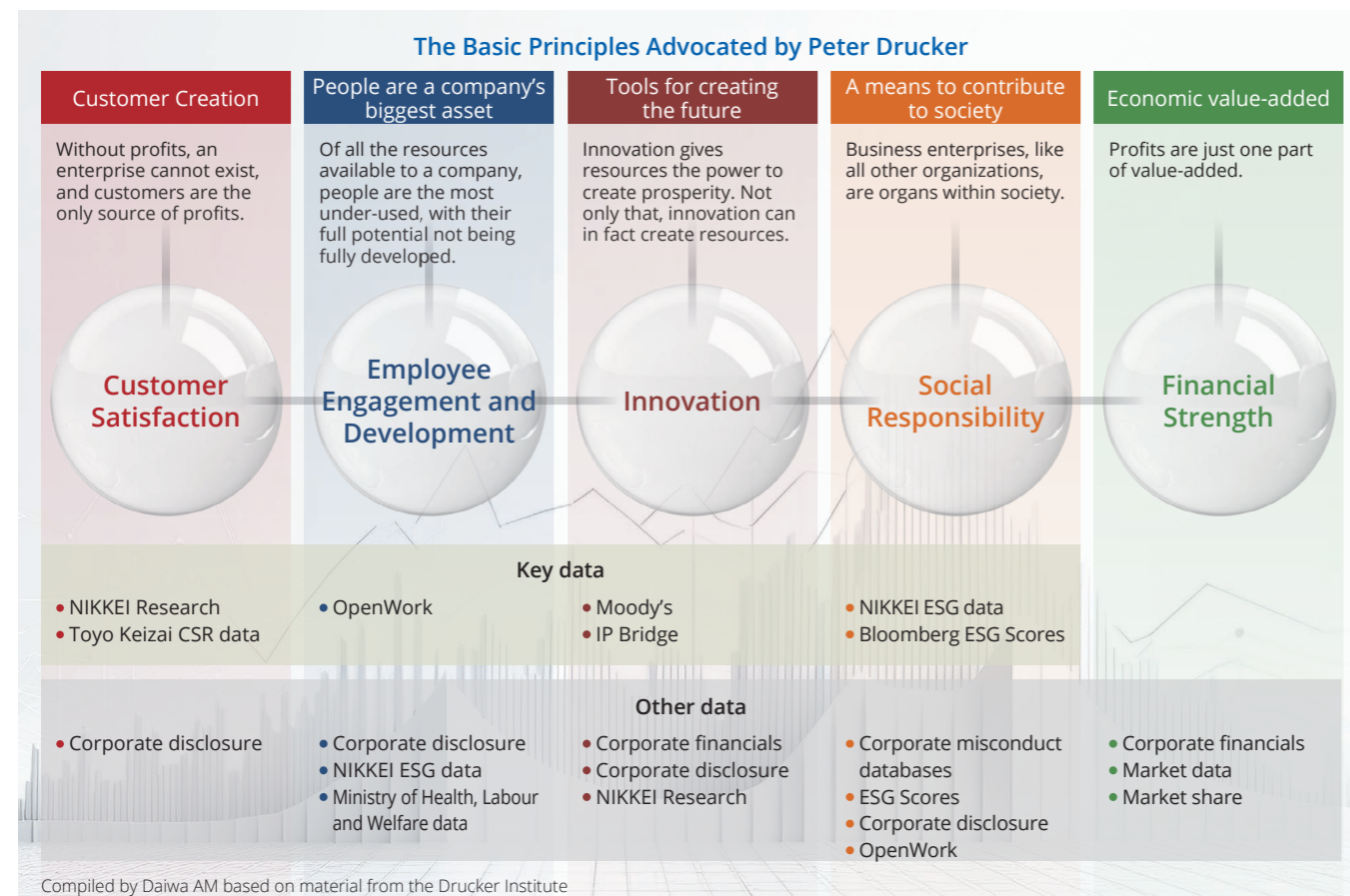
Going forward, we will be further strengthening this partnership with the Drucker Institute, and striving to generate as many tangible and intangible benefits as possible from this relationship.

### Drucker Institute Score

Building on the data structure and methodology of the U.S. Drucker Institute Score and considering data availability in Japan, Daiwa AM has developed a Japanese equivalent of the Drucker Institute Score. By dividing Drucker's basic principles into five domains and visualizing them, it makes it possible to measure corporate value from the perspectives of diverse stakeholders in a way

that is difficult to do with conventional assessment. Elements such as human capital that generates profits and value, patents that can earn licensing fees, and the customer base that derives from high customer satisfaction and brand power, all contribute to high competitiveness and stable earning ability, and are thus vital for corporate growth.

### Drucker Institute Score



### Comments from the Fund Manager of the Drucker Institute Japan Equity Fund

### Focusing on intangible assets that constitute "Mienai Chikara™"



**Kazuhito Terashima**  
Senior Fund Manager  
Beta Management & Investment Solution Department

The Drucker Institute Japan Equity Fund is an innovative active fund that selects Japanese stocks to invest in based on assessment of their fundamental growth potential, focusing on intangible assets that cannot be evaluated using conventional financial data alone. The most important feature of the Fund is that it uses the Japanese equivalent of the Drucker Institute Score which was developed using knowhow obtained through the business alliance between Daiwa AM and the Drucker Institute. In conventional active funds, normal practice is to have financial data play the central role when estimating corporate value. However, as has been seen with the dramatic growth of leading U.S. platform companies such as Microsoft, Amazon, and Apple, the transformation of the industrial structure is being accompanied by major changes in the perspectives needed when evaluating companies. There is a clear trend toward evaluating not only the revenue and assets recorded

in a company's financial statements, but also intangible assets such as the skills that the company possesses, its customer base, and the strength of its brand. The Drucker Institute Score visualizes "Mienai Chikara™ (Invisible Value Drivers)" that is the source of a company's competitiveness and growth, despite not being visible in its financial statements, and makes it possible to undertake corporate analysis that marks a new beginning when compared to conventional valuation methods and analysis that focuses on short-term performance. Of course, financial analysis is still an important element of corporate evaluation. The Drucker Institute Japan Equity Fund coordinates its operations with Daiwa AM's active, passive, and quant fund managers and corporate research analysts, sharing insights across departments; the Fund represents the adoption of an innovative financial model that emphasizes affinity with the Drucker Institute Score.

Given the issues affecting Japan's financial markets, such as the fact that a substantial percentage of the companies listed on the Tokyo Stock Exchange are trading at a price-to-book ratio (PBR) of less than 1.0, and given the reforms that the TSE is implementing, intangible assets and non-financial data are becoming steadily more important. The Drucker Institute Japan Equity Fund is a new active fund that makes it possible to identify companies with real growth potential as we enter a new era for Japan's financial markets. We believe that, by utilizing diverse perspectives different from those of conventional funds, as well as an innovative scoring system based on Drucker's management philosophy, we can realize investment in Japanese companies that are aiming for sustainable growth and enhance return on investment, thereby contributing toward medium- to long-term capital formation of our beneficiaries.

### Initiatives at the Drucker Institute

For the past ten years, the Drucker Institute has published an annual ranking of America's Best Managed Companies based on the Drucker Institute Score. The ranking uses a comprehensive assessment framework formulated in accordance with the management thinking of Peter Drucker, analyzing organizational performance in terms of five areas: customer satisfaction, employee engagement and development, innovation, social responsibility, and financial strength.

In June 2025, the Drucker Institute announced the establishment of a new Data Innovation Team, which will build on the cutting-edge research that the Institute has achieved to date. The Team's members include faculty members from Claremont Graduate University, data scientists, business practitioners, and doctoral students (working as research associates and assistants). By adopting an assessment process that adds advanced AI and machine learning technology to existing knowhow and research methods, the Team aims to evaluate intangible assets with high precision. More specifically, its efforts can be expected to involve data collection that uses data scraping technology (applied to social media, etc.) to provide new indicators for evaluating companies.

Dr. Michelle Bligh, President of Claremont Graduate University, commented that "This is about pushing the

boundaries of how we measure and define corporate success. With this new team, we're combining the timeless wisdom of Peter Drucker with the power of modern data analytics." Attention is increasingly focused on how the Drucker Institute will leverage these new initiatives to become a leader in corporate evaluation, generating more diverse, effective indicators and methods. By integrating the power of AI and data science with Peter Drucker's thinking, the Institute will be taking the measurement of organizations' fundamental value to a new level.



**Michael Kelly**  
Executive Director  
Drucker Institute

**Shuhei Arai**  
Research Fellow, Drucker Institute  
(on assignment from Daiwa AM)

## Initiatives Relating to Individual Asset Products

### Equities (Active)

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

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

On unique innovation by Daiwa AM is "Lingagement™," which combines linkage with engagement. "Lingagement™" involves: (1) The holding of information exchange meetings; (2) Introducing companies that have implemented best practice; (3) Providing opportunities to establish relationships with experts in related fields, etc. Regarding the holding of information exchange meetings, a fifth meeting was held in November 2025, with the theme of

"Aiming to Realize High ROE: Expanding Intellectual Property and Innovation, and Ensuring that this is Reflected in Corporate Value." The meeting brought together representatives of many investee companies, along with experts in related fields, for discussions about intellectual property and innovation. (see p. 42)

Our team also engages in dialog with government authorities, sharing ideas, from the perspective of institutional investors and minority shareholders, about the issues affecting efforts to enhance corporate value and the actual situation in this regard, and about the effectiveness of government regulations, etc. Particularly given the recent trend toward not having parent companies and their subsidiaries both listed on the stock market and toward taking companies private, we have vigorously made the case for strengthening measures to protect minority shareholders. Looking ahead, Daiwa AM will be proactively contributing toward the building of an environment that is conducive toward enhancing corporate value and safeguarding the rights of minority shareholders.



### Equities (Passive)

#### Promoting ESG Investment Through Index Funds

The last few years have seen an ongoing global transition toward a decarbonized, sustainable society, particularly in Europe, and ESG-aware investment has become increasingly important. There has been regional variation in this respect. In some regions, such as Europe, ESG-related assets under management, including index funds, have increased substantially, and the pace of implementation of ESG measures by both companies and investors has accelerated. In the U.S., by contrast, with an adverse political climate, there has been growing criticism of ESG, and many companies now prefer to use the terms "sustainability" or "corporate value enhancement," framing it in a way

that is more obviously directly linked to business value. With the spread of this trend, it can be anticipated that sustainability-focused initiatives will be able to put down stronger roots, both in the U.S. and in the rest of the world, leading to enhanced long-term performance for companies.

Our team provides funds linked to indexes which incorporate ESG assessment; we aim to give investors the opportunity to undertake ESG investment which is low-cost and easy to get started with. The advantage of ESG investment using index funds is that it can be expected to provide an improvement in terms of both risk and returns over the long term, through low-cost investment management

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based on clear, transparent rules. While there is still room for further verification regarding the performance of ESG indexes, some research results indicate that, over the long term, the trend will be for ESG indexes to outperform their parent indexes.

Daiwa AM currently provides five ESG index funds (including low-cost

publicly offered investment trusts, and ETFs). We are also proceeding with projects to provide institutional investors, both in Japan and overseas, with ESG-related funds that meet their needs.

As regards engagement, Daiwa AM's Engagement Policy and related information are disclosed on our

website; we also inform investee companies about our stewardship activities. With regard to ESG data, such as ESG rankings and carbon emissions, for the component stocks of ESG indexes, we are aiming to realize more easy-to-understand disclosure, through efforts that include liaison with index providers.



### Outsourcing

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

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

After a fund has been launched, we continue to implement regular review and hold meetings with the outsourced fund manager, and we exchange views with them regarding ESG issues relating to fund management. We implement proactive monitoring, periodically updating the due diligence questions used with reference to global standards such as PRI. In addition, we verify the implementation status of engagement undertaken by the outsourced fund manager.

In this fiscal year, we have been working to strengthen communication with outsourced fund managers regarding human rights issues. Daiwa AM has formulated a Human Rights Policy and implements initiatives to foster respect for human rights; building on this foundation, we believe that it is vital to embody respect for human rights not only in our own business activities, but throughout our network of outsourced fund managers.

We recognize that human rights initiatives are currently still in the early

stages of implementation. As a first step, we are striving to verify the current implementation status at outsourced fund managers.

For example, we have added questions about human rights to the due diligence process that is implemented, in principle, on an annual basis. We confirm the current status of implementation of measures to address human rights issues relating to fund operation, for example by verifying whether the outsourced fund manager has incorporated human rights risk appraisal into its operational processes. We also check what kind of human rights initiatives the outsourced fund manager is implementing in their own company.

As regards efforts to strengthen monitoring, we have been exchanging views with external experts regarding business and human rights issues, and implementing preparations for measures to further strengthen communication in this area.

Looking ahead, we will continue to examine the implementation status of individual companies in line with the responses that we receive from outsourced fund managers, and will be taking steps to address problems in advance, for example by determining which outsourced fund managers are lagging behind their peers in terms of implementation.

## ESG Integration in Fixed Income Investment (credit risk assessment and ESG data)

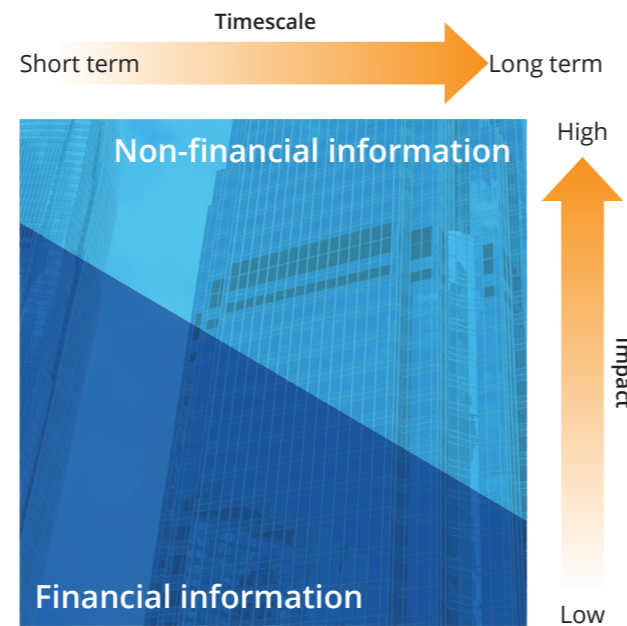
### The impact of ESG factors on credit risk

We recognize that non-financial information is the foundation that underpins the financial information of the future. This is because the way in which companies address ESG issues, which are the key element in non-financial information, and how successful they are in addressing them, affects the future financial performance of that company.

In the case of fixed income investment, based on the perspective that the sustainability of a bond issuer will affect its ability to generate stable cash flow in the future, we implement assessment that takes into account the environment (E), social (S), and governance (G) elements of ESG in light of the manifested timescale.

Those bond issuers that take a proactive approach to ESG issues have lower governance-related risk, in relation to misconduct, lawsuits, compliance issues, etc., and can be expected to display stable long-term performance and reduced credit risk in the future.

We also focus on human capital management, from the perspective of verifying whether bond issuers have put in place a robust organizational structure able to maintain competitiveness during an era of dramatic change.



### The ESG integration process in relation to fixed income investment

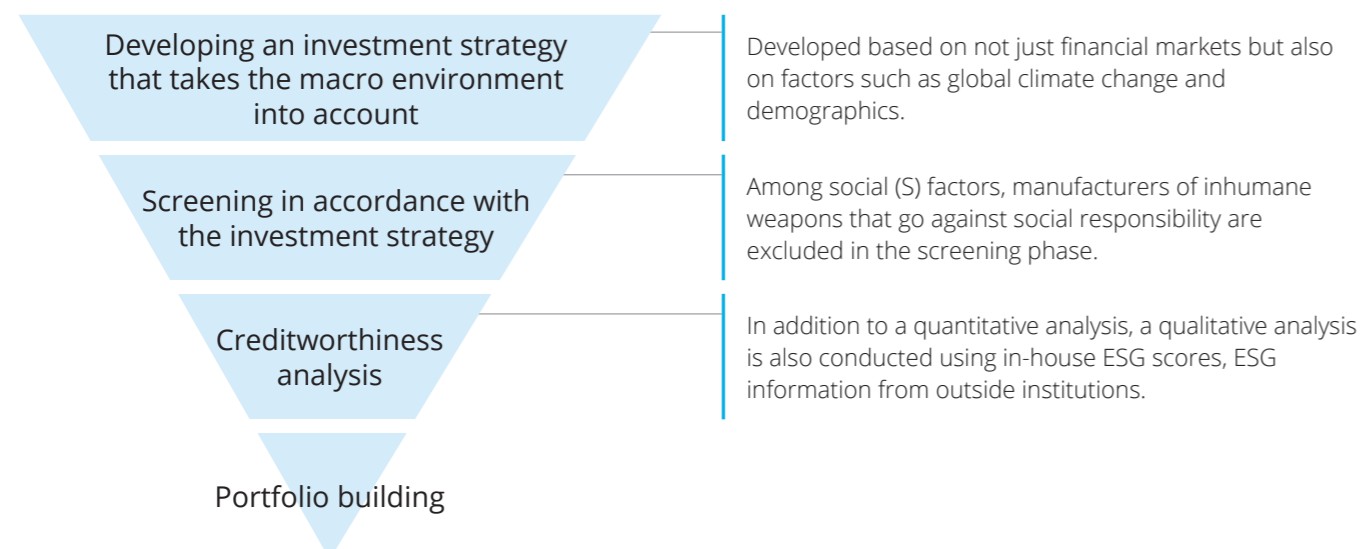
In Daiwa AM's ESG integration process, having constructed an investment strategy that takes the macroeconomic environment into account, and after performing negative screening to exclude companies that manufacture inhumane weapons, etc., we have our team of credit analysts perform creditworthiness analysis.

When implementing creditworthiness analysis, besides financial analysis focused on repayment ability, we also undertake both quantitative and qualitative assessment of non-financial information, including ESG.

A key feature of fixed income investment is that because the investment is for a fixed period, provided

that the bond issuer does not default during that time period, the return that one can expect to make at the time of making the investment is fixed.

The longer the investment period, the greater the impact that non-financial information can have on the perceived creditworthiness of the bond issuer. By including not only financial analysis of the bond issuer but also evaluation of non-financial information in the credit risk analysis process, we aim to implement appropriate credit risk analysis, control downside risk, and strengthen investment performance.



## The non-financial information that we focus on, and our credit analysis perspective

Daiwa AM identifies the non-financial information that the industry, and bond issuers, should be focusing on, and strives to control downside risk by analyzing and evaluating the degree of impact that this non-financial information could have.

For example, as a case study of credit analysis in relation to the Environment (E), in the blast furnace segment of the steel industry, decarbonization is an important issue. Very large amounts of carbon dioxide are emitted during the process of using carbon to remove oxygen from iron ore, so in order to make the industry carbon neutral, there is a need to comprehensively replace existing technology with new, low-carbon technology. It is estimated that, for the Japanese steel industry to achieve carbon neutrality, individual steelmakers will need to spend several trillion yen on R&D and new equipment.

Given this business environment, in order to be able to compete effectively against leading foreign steelmakers, besides individual companies' technology development efforts, there is also need for multi-faceted, comprehensive strategies that include seeking funding support from countries that might not have been considered in the past, and undertaking a comprehensive overhaul of the global supply chain. Viewed from a medium- and long-term perspective, delays in technology development and rising manufacturing costs represent financial risk factors; this is why we are focusing on the implementation status of

measures to become carbon neutral.

In the chemical industry, an important indicator for credit evaluation in relation to the Social (S) aspect is supply chain management, including the issues of safety and quality. Demand for chemical products is very wide-ranging; chemicals play a vital role in the manufacturing of a diverse range of products, including cars, electromechanical machinery, consumer goods, etc., so there is a need to put in place systems that ensure a stable supply of products that meet customers' quality requirements. For the chemical industry as with the steel industry, the investment burden relating to complying with regulatory requirements aimed at the realization of carbon neutrality is important as a long-term risk factor.

With regard to the evaluation of governance (G), unlike the situation with E and S, timescale assessment is generally challenging. This is because the actualization of G-related risks may take a long time, or it may take the form of a sudden, dramatic change. Having said that, Daiwa AM implements measures to determine, as early as possible, the emergence of G risks, for example by developing an understanding of corporate culture and ethos through interviews with bond issuers, by evaluating bond issuers' stance when engaging in dialog with investors, and by examining the appropriacy of the capital allocation envisaged by a company's long-term vision as expressed in its medium-term business plan, etc.

### Assessment of non-financial information is the key to reducing downside risk



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

What makes fixed income investment different from equity investment is that because the upside returns are limited, the key to enhancing investment performance is controlling downside risk. From this perspective, the most important aspects of fixed income investment is the effective utilization of non-financial information, including ESG, in investment decisions with regard to bond issuers.

We view the initiatives that individual companies are implementing now in relation to ESG issues as affecting their financial performance in the future; we recognize that non-financial information is the foundation for future financial information.

When performing analysis of creditworthiness, if the investment timescale is short, then recent financial information is important, whereas the longer the investment timescale, the more important non-financial information is.

Given this background, by incorporating the evaluation of non-financial information into the credit risk analysis process alongside analysis of the bond issuer's financial information, we are aiming to control downside risk, improve the balance of risk and return, and, ultimately, improve investment performance.

More specifically, after verifying and analyzing the current response of each bond issuer to ESG issues, and then assessing the impact that this can be expected to have on future results and performance, we go on to forecast the impact on bond ratings and bond prices, and undertake investment decision-making from a perspective that seeks to ensure that the risk is commensurate with the return.

## ESG Funds

### ESG fund definitions and ESG funds

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

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

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

#### Daiwa AM’s ESG funds

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 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.

\* Social returns include environmental returns.

#### Daiwa AM’s ESG funds

Impact fund	Code	Fund Name
●	2785	Decarbonization Technology Fund (Carbon ZERO)
●	2790	Decarbonization Technology Fund (estimated dividend type) (Carbon ZERO estimate dividend type)
	2800	Global Water Resources Equities Fund
	3256	Women’s Advancement Support Fund (Tsubaki)
	3356	Tsumitate Tsubaki
	3388	Social Problem Resolution Support Fund (Bridge for Smiles)
●	3410	Clean Tech Equity & Green Bond Fund (capital growth type) (Mirai Earth capital growth type)
●	3411	Clean Tech Equity & Green Bond Fund (estimated dividend type) (Mirai Earth estimated dividend type)
●	3417	Clean Tech Equity Fund (capital growth type) (Mirai Earth S capital growth type)
	3470	iFree All World Equity Index All Country
	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

### Making the ESG fund certification process more rigorous

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

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

The figure below explains the measures taken in the

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

When the Product Division asks the Fund Management Division to confirm a particular new ESG fund proposal, the Fund Management Division verifies whether there are any problems with the fund management plan, and whether the proposed fund meets the ESG fund criteria set by Daiwa AM. The verification results are submitted for deliberation at a meeting of the Product Committee, which is attended by members of the senior management team, after which, if approved, it is certified as an ESG fund. Once the certified fund has been established, it undergoes verification by the Product Governance Committee (see p. 97).

#### ESG Fund Creation Process



### Dialog with ESG Data and Index Providers

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

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

# Responsible Investment Framework

## 5 Stewardship

The policy and systems framework that functions as the foundation for Daiwa AM's activities

Guidelines for the Future  
① Materiality

Transformation That Begins with Dialog  
② Engagement  
③ Proxy Voting

Responsible Investment Framework  
④ Sustainable Investment  
⑤ Stewardship

Achievements over the Past Year  
⑥ Stewardship Activity

### Roundtable Discussion with Outside Directors Serving on the Stewardship Supervisory Committee

Three of Daiwa AM's outside directors who are also members of the Stewardship Supervisory Committee share with us their assessments of our overall stewardship activities as well as their expectations for the future.



Toko Shirakawa  
Outside Director

Sumikazu Tsutsui  
Outside Director

Emi Onozuka  
Outside Director

#### The Stewardship Supervisory Committee: Monitoring conflicts of interest management from a position independent of company management

**Moderator:** To start, I would like to ask Director Tsutsui, as Chair of the Stewardship Supervisory Committee, to tell us about the role of this committee.

**Tsutsui:** The Stewardship Supervisory Committee has been put in place to oversee the Stewardship Committee, which is the decision-making body for Daiwa AM's stewardship activities. It is composed primarily of outside directors, ensuring it monitors conflicts of interest management from a perspective independent of the company's management, and reports to the Board of Directors and, as needed, issues recommendations to make improvements.

**Moderator:** Now, I would like to call on directors Shirakawa and Onozuka to reflect on the past year and share details of any memorable discussions from the Stewardship Supervisory Committee.

**Shirakawa:** The meticulous discussions on exercise of voting rights for companies with conflicts of interest come to mind. Shareholder proposals by activists have increased in recent years, and the "quality" of these proposals has also improved. We find it commendable that proposals focusing not only on the pursuit of quick returns but also those on enhancing medium- to long-term corporate value are increasing, and that dialog and proxy voting are taking place in response to these discussions.

**Onozuka:** I received satisfactory answers when I questioned the Supervisory Committee about changes in the rate of opposition to exercises of voting rights and their responses to misconduct cases. Confirming that the proxy voting process is being thoroughly considered and dutifully executed left a strong impression on me.

#### Institutional investors will be required to fulfill their fiduciary duties regardless of changes in the societal situation

**Moderator:** Next, can I ask you to share any thoughts you have on the purpose and significance of stewardship activities conducted by institutional investors, including those of Daiwa AM.

**Tsutsui:** The assets managed by institutional investors are those of customers. Stewardship encompasses all the clear obligations we must fulfill toward our customers, who have entrusted us with their assets based on their belief in our expertise. When investing in equities, it is possible to achieve returns solely through trading based on stock price fluctuations. However, acquiring shares confers shareholder rights, such as proxy voting rights. I believe that if we can contribute to enhancing the value of our investees by exercising these rights it is our duty to follow through on this.

**Onozuka:** Dialog with institutional investors represents an opportunity for companies to objectively reassess their own challenges and strengths from the perspective of external capital providers, which will subsequently inform enhancements to their corporate value through the optimal allocation of management resources. Notably, initiatives in non-financial areas, such as human capital and branding will influence long-term competitiveness. By sharing their progress, investors support the sustainable growth of companies as fellow travelers and can help them to reap the benefit of this enhanced corporate value.

**Shirakawa:** Institutional investors will be increasingly required to commit to more meaningful dialog from a medium- to long-term perspective in the context of the changing societal situation, particularly escalating geopolitical risks and intensifying climate change. We consider it crucial to spur the sustained growth of investee companies through a "true merging of investment and stewardship," which integrates financial value mindful of cost of capital and stock prices, with non-financial value, including human rights and environmental considerations.

#### Highly impressed by the breadth of dialog themes and distinctive stewardship activities

**Moderator:** As you have pointed out, proxy voting and engagement with companies are key activities expected of institutional investors. Given this fact, I would like to hear what you think about and how you would rate Daiwa AM's stewardship activities.

**Onozuka:** My impression is that Daiwa AM is appropriately executing conflict of interest management and processes for the exercise of voting rights, and that the scope of dialogs and the breadth of the items on Daiwa AM's agenda are expanding year by year. Going forward, I anticipate the further leveraging of technologies such as AI to significantly enhance the speed at which dialogs produce outcomes, as well as the degree to which they contribute to increasing corporate value.

**Tsutsui:** We have concluded that deliberations within the Stewardship Committee are both thorough and undertaken in earnest. We furthermore consider Daiwa AM's stewardship activities possess three commendable characteristics which are unique to the firm. Firstly, is the framework for activities, whereby three key actors—corporate research analysts, fund managers, and stewardship analysts—undertake initiatives in unison. Secondly, there is the type of engagement activities undertaken that Daiwa AM refers to as "Lingagement™." And thirdly, is your focus on intangible assets when assessing corporate value.

**Shirakawa:** I also find value in the proactive approach of "Lingagement™" to connect investee companies and provide platforms for discussions. We have a particularly high opinion of the enhanced three-in-one collaboration, which enables engagement on a wide range of ESG issues.

#### Anticipation of growth at an even higher level, achieved by leveraging dialog with companies and Group insights

**Moderator:** Finally, please share the key areas to watch in the sustainability field going forward, as well as your expectations for Daiwa AM.

**Onozuka:** A look at the global situation of the past few years appears to indicate that disclosure and expectations relating to sustainability have been on a downward trend. Nevertheless, we anticipate that greater attention will be paid to companies which have established governance and sustainability perspectives as the foundation for their long-term activities. We expect companies to actively refine their communications on how their initiatives in specific thematic areas engage with their core strengths, and how they balance social responsibility with their own economic activities.

**Shirakawa:** We are updating the criteria in the Proxy Voting Policy on diversity of Daiwa AM's board of directors to make requirements more stringent. The content of this update requires strategic dialog that touches upon the core of management: the composition of the board of directors. As an industry leader in female empowerment, we expect Daiwa Securities Group to leverage its unique insights to disclose the outcomes of this dialog and its specific impact on investment returns.

**Tsutsui:** Daiwa AM's stewardship activities, which have been nurtured by a corporate culture of sincerity and honesty, are deserving of the trust and responsibility which customers place in you. The company's capacity for innovation is also outstanding. We expect that you will not relent in devoted daily efforts to refine your skills, preserve and stay true to these strengths, and strive for growth to an even higher level.

## Daiwa AM's Stewardship Activities Policy

### General Policy on Stewardship Activities

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

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

By contributing, through our stewardship activities, toward the enhancement of the medium- to long-term

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

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

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

+ WEB For more details, please visit the following webpage:  
[Stewardship Activities \(in Japanese\)](https://www.daiwa-am.co.jp/company/managed/result.html)  
<https://www.daiwa-am.co.jp/company/managed/result.html>

### Framework for Stewardship Activities

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

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

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

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



## Conflict of Interest Management

### The management policy for conflict of interest

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

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

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

+ WEB For more details, please visit the following webpages (in Japanese):  
[The Management Policy for Conflict of Interest \(summary\)](https://www.daiwa-am.co.jp/company/policy/interest/index.html)  
<https://www.daiwa-am.co.jp/company/policy/interest/index.html>  
[Proxy Voting Policy \(Japanese equities\)](https://www.daiwa-am.co.jp/company/managed/guideline_03.pdf)  
[https://www.daiwa-am.co.jp/company/managed/guideline\\_03.pdf](https://www.daiwa-am.co.jp/company/managed/guideline_03.pdf)

### Conflict of interest management in relation to proxy voting

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

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

### Appropriate use of proxy advisory firms

In line with our policy regarding the exercising of voting rights, Daiwa AM makes use of advice provided by proxy advisory firms in relation to proposals, which meet certain previously set conditions, submitted for the shareholders meetings of companies that are the object of conflict of interest management. Here, "advice" refers merely to recommendations based on independent judgments, and not to investment advice provided under investment advisory or similar agreements.

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

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

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

to verify whether the advice is appropriate.

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

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

#### Key discussions with proxy advisory firms in 2025

- Reflection on the shareholders meetings held in June and exchange of views on revisions to the advisory firm's recommended standards
- Exchange of views on trends in shareholder meetings in Japan and Asia
- Exchange of views accompanying revisions to Daiwa AM's Proxy Voting Policy

## Achievements over the Past Year

# ⑥ Stewardship Activity

A year of responsible investment undertaken in collaboration with business enterprises

Guidelines for the Future

① Materiality

Transformation That Begins with Dialog

② Engagement  
③ Proxy Voting

Responsible Investment Framework

④ Sustainable Investment  
⑤ Stewardship

Achievements over the Past Year

⑥ Stewardship Activity

## Initiatives to Improve Sustainability

### Development of sustainability human resources

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

#### Sustainability Associates

Following attendance by employees who wish to participate in an external designated course on ESG, participants who pass a certification test created by the Responsible Investment Department are certified as Sustainability Associates. As of the end of November 2025, 50 employees had been accredited as Sustainability Associates.

#### Sustainability Leaders (Responsible Investment Department trainees)

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

To date, applications to take part in Sustainability

Leader training have been received from 14 departments within the company (as of the latest application period). After the training, each participant prepares a final report to bring their insights back to their respective departments and apply them to their assigned duties. They are then accredited as Sustainability Leaders subject to the approval of the executive officer responsible for stewardship and ESG and the Head of the Responsible Investment Department at the Fund Management Division. In addition, we undertake periodic revisions reflecting feedback from course participants and endeavor to refine the course content. We are also planning to conduct follow-up training for individuals accredited as Sustainability Leaders.

#### Reskilling

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

We are endeavoring to share knowledge and improve the levels of all individuals, while also disseminating the knowledge and expertise which has been acquired throughout the company through in-house trainees, study groups for early career employees, and the publication of market letters, in the context of constant, ongoing, global-scale updates to relevant information, including regulatory amendments. Daiwa AM will actively contribute to improving our own sustainability and that of investee companies by continuing to implement reskilling.

#### Feedback from a Responsible Investment Department trainee course participant

Attending this course gave me a real sense of the critical importance for Daiwa AM's business of all employees understanding and deepening their knowledge of sustainability.

I was struck by the high quality of the training, with the curriculum giving me a systematic understanding of responsible investment concepts. I was also profoundly impressed by our approach as a responsible institutional investor, actively committed to undertaking dialogs to support sustainable corporate growth as part of engagement with investee companies.

## Key Initiatives over the Year

December 2024	<ul style="list-style-type: none"> <li>Underwent first screening for the fourth Nikkei Integrated Report Award</li> <li>Fielded a speaker at the PRI Human Rights Webinar on the topic of "Serious Human Rights Response by Investors: Practical Implementation of Business and Human Rights"</li> <li>Revamped the English version of the Stewardship Activities page on the Daiwa AM website</li> </ul>
January 2025	<ul style="list-style-type: none"> <li>Conducted the third Sustainability Leader Training</li> <li>Held the Exchange Meeting for the Japanese version of the Drucker Institute Scores</li> </ul>
February	<ul style="list-style-type: none"> <li>Underwent final screening for the fourth Nikkei Integrated Report Award</li> <li>Issued the Sustainability Report 2024</li> <li>Published <b>Market Letter</b>: "Major financial institutions in the U.S. and Canada successively withdrawing from the Climate Alliance"</li> </ul>
March	<ul style="list-style-type: none"> <li>Donated to an environmental NPO as part of the "Project to contribute to tree-planting activities in proportion to balances of funds"</li> </ul>
April	<ul style="list-style-type: none"> <li>Issued the English language edition of the Sustainability Report 2024</li> <li>Held the first Asset Management Forum Sustainable Finance Subcommittee</li> </ul>
May	<ul style="list-style-type: none"> <li>Revised the Proxy Voting Policy</li> <li>Conducted lectures at Keio University on "Corporate Valuation, Investment, and Engagement"</li> </ul>
June	<ul style="list-style-type: none"> <li>Held the second Asset Management Forum Sustainable Finance Subcommittee</li> <li>Published <b>Market Letter</b>: "Is the timing of general meetings of shareholders set to change?—Disclosures of financial statements in advance of meetings"</li> <li>Published <b>Market Letter</b>: "Who are the real beneficiaries of going private?"</li> </ul>
July	<ul style="list-style-type: none"> <li>Conducted the fourth Sustainability Leader Training</li> <li>Registered "Mienai Chikara™ (Invisible Value Drivers)," as a trademark</li> <li>Conducted inspection tours of overseas procurement sites of investee companies <a href="#">(see p. 30)</a></li> <li>Presented at seminar jointly hosted by AIMA Japan, Tokyo Financial Award, and The Association for Promotion of Sustainable Finance Platform</li> <li>Published <b>Market Letter</b>: "Reflections on June 2025 general meetings of shareholders—Increases in shareholder proposals and growing polarization"</li> </ul>
August	<ul style="list-style-type: none"> <li>Held the third Asset Management Forum Sustainable Finance Subcommittee</li> <li>Published <b>Market Letter</b>: "Revision of Japan's Stewardship Code"</li> </ul>
September	<ul style="list-style-type: none"> <li>Conducted inspection tour of Hokkaido GX Project <a href="#">(see p. 20)</a></li> <li>Conducted inspection tour of overseas investee company (India; <a href="#">see p. 57</a>)</li> <li>Held the fourth Asset Management Forum Sustainable Finance Subcommittee</li> </ul>
October	<ul style="list-style-type: none"> <li>Revised the Proxy Voting Policy, Engagement Policy, and Daiwa AM's Vision for Investee Company Best Practice</li> <li>Daiwa AM featured in an interview article in the book "Human Capital Management: How Leading Investors Expose the Effective Strategies for Stock Prices and Recruitment"</li> <li>Held the Asset Management Forum Annual Meeting</li> </ul>
November	<ul style="list-style-type: none"> <li>Held the fifth Information Exchange Meeting on the theme: "Toward achieving high ROE: Enhancing intellectual property and innovation and reflecting these in corporate value" <a href="#">(see p. 42)</a></li> <li>Presented at an event hosted by Glass, Lewis &amp; Co.</li> <li>Published <b>Market Letter</b>: "Toward sustainable finance practice"</li> </ul>
December	<ul style="list-style-type: none"> <li>Featured in an interview article published in "Season Review of the 2025 Japanese General Meetings of Shareholders" jointly issued by Georgeson and JSS</li> <li>Underwent first screening for the fifth Nikkei Integrated Report Award</li> <li>Held the ninth Asset Management Women's Forum</li> <li>Revised the Daiwa AM General Policy on Stewardship Responsibilities</li> <li>Issued the Sustainability Report 2025</li> <li>Published <b>Market Letter</b>: "Policy for responding to the revision of the Stewardship Code"</li> </ul>

## 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 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 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 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, which it revised in October 2025. This Policy clearly stipulates the major perspectives that Daiwa AM emphasizes in relation to engagement, including key ESG issues. Coinciding with this, Daiwa AM also revised the Daiwa AM's Vision for Investee Company Best Practice. Daiwa AM's corporate research analysts, fund managers and stewardship analysts 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.

Following the revision of Japan's Stewardship Code, we updated our policy regarding our approach to this code in December 2025. The major revisions concerned two points: responding to inquiries relating to substantial shareholders under Principle 4; and promoting collaborative engagement.

**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 2025, 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. Since December 2024, we have also implemented English-language disclosure of outcomes of, and grounds for the exercise of voting rights for investees companies in Japan.

**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.**

Each year, Daiwa AM regularly publishes the Sustainability Report, which outlines the main content of Daiwa AM's

stewardship activities. We also publish case studies of engagement with investee companies and outcomes of the exercise of voting rights on our website.

**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 Japan Equity Management Division, 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 November 2025, Daiwa AM invited investee companies and convened the fifth ESG Meeting, thereby providing an opportunity for both dialogs and mutual exchange of information between Daiwa AM and investee companies. We also hold weekly reskilling sessions aimed at, for example, facilitating the acquisition of knowhow on sustainability and improving engagement skills.

## PRI Evaluation Results 2025

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

For the third year running, Daiwa AM received five stars, the highest possible score, on nine out of the 10 evaluation items in the 2025 annual 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 2024, 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 also 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.

### 2025 PRI annual assessment

Assessment Items		Daiwa AM Evaluation	Daiwa AM Score	Median Score	
Policy Governance and Strategy		★★★★★	97	66	
Listed equity	Active fundamental	★★★★★	96	78	
	Active quantitative	★★★★★	96	76	
	Passive equity	★★★★★	100	56	
Direct	Other	★★★★★	96	61	
	SSA	★★★★★	98	70	
		Corporate	★★★★★	100	75
Fixed income	Securitized	★★★★☆	89	73	
	Indirect	Listed equity	Active	★★★★★	97
Confidence building measures		★★★★★	100	80	

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

PRI Assessment Report 2025  
[https://www.daiwa-am.co.jp/company/pdf/20251201\\_02.pdf](https://www.daiwa-am.co.jp/company/pdf/20251201_02.pdf)

PRI Public Transparency Report 2025  
[https://www.daiwa-am.co.jp/company/pdf/20251201\\_01.pdf](https://www.daiwa-am.co.jp/company/pdf/20251201_01.pdf)

# Part 2 Corporate Sustainability

## STORYLINE

Part 2 (the Corporate Sustainability section) of this report has been structured as outlined below, with the aim of helping readers to understand how Daiwa AM is promoting sustainability-aware management.

### 1 Sustainability Principles

- Basic approach and guidelines for related initiatives

The policies that provide the foundation for sustainability-aware management

### 2 Corporate Materiality

- Daiwa AM's materiality
- Initiatives relating to each materiality item

Helping to realize a sustainable society, and enhancing corporate value

### 3 Corporate Data

- Company overview
- Databook

The results achieved by Daiwa AM's company officers and employees over the past year

## 1 Sustainability Principles

The policies that provide the foundation for sustainability-aware management

### 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

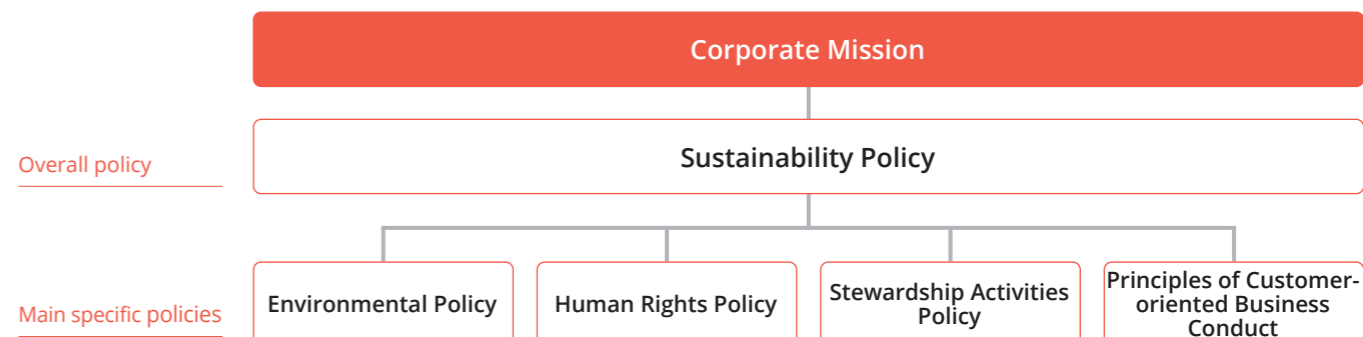
- 1 As an asset management company, Daiwa AM recognizes the importance of its role in promoting a virtuous cycle in the economy. Through its business activities, Daiwa AM will support business enterprises that contribute toward the maintenance and enhancement of the sustainability of the global environment 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):

Sustainability  
<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.

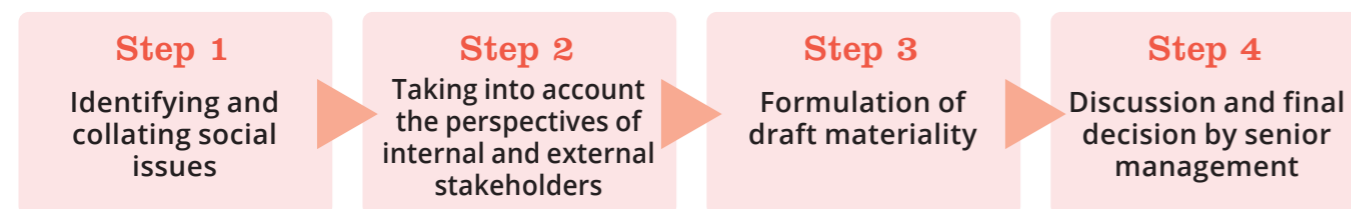


# 2 Corporate Materiality

Helping to realize a sustainable society, and enhancing corporate value

## Materiality Identification Process

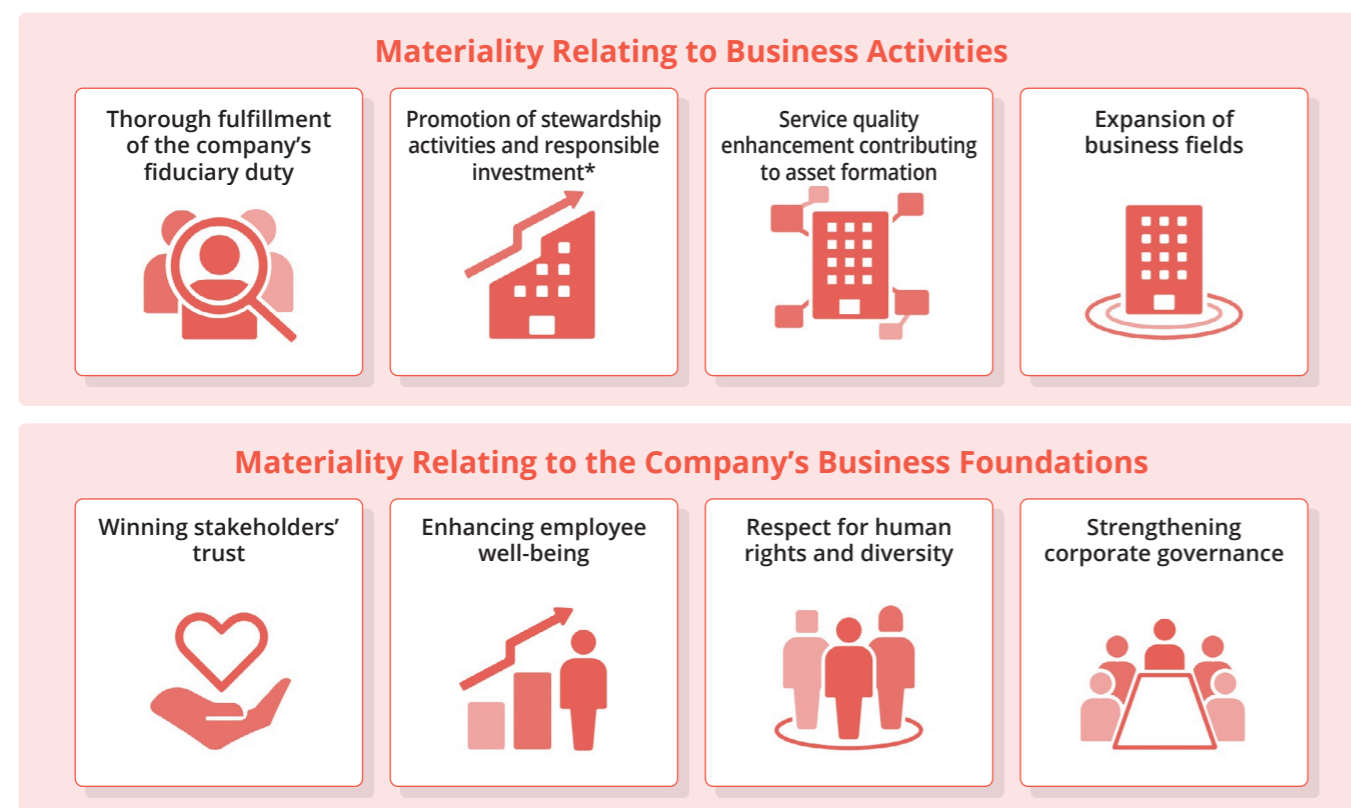
Daiwa AM has identified the materiality (i.e., key issues that need to be addressed), after examining the risks and opportunities relating to various items.



## Corporate Materiality

Daiwa AM's materiality has been set as outlined below, using a specified process. By implementing this on a company-wide basis, we are promoting sustainability-aware management.

We revise our materiality on an ongoing basis in line with recent trends in relation to the problems affecting society, and in line with changes in the business environment.



\* For more details about the promotion of stewardship activities and responsible investment, see Part 1 of this report, beginning on p. 7.

+ WEB Winning stakeholders' trust  
Daiwa AM has set long-term targets and progress management items for each of its materiality items. More details about KPIs are given on our website.

Long-term targets and key performance indicators (KPIs) (in Japanese)  
[https://www.daiwa-am.co.jp/company/sustainability/pdf/long-term\\_goals\\_and\\_progress\\_control\\_items.pdf](https://www.daiwa-am.co.jp/company/sustainability/pdf/long-term_goals_and_progress_control_items.pdf)

Related Corporate Materiality: [Respect for human rights and diversity](#)

## Initiatives Embodying Respect for Human Rights

Daiwa AM has positioned respect for human rights in its business activities as a basic policy, in line with the UN Guiding Principles on Business and Human Rights (UNGPs) and other international frameworks. The UNGPs, which were adopted in 2011, clearly stipulate that all business enterprises have a responsibility to respect human rights, and require companies to address adverse human rights impacts that are caused by, contributed to by, or directly linked to their business activities. In Japan, the government published the Guidelines on Respecting Human Rights in Responsible Supply Chains in 2022, requiring companies to strengthen measures to address human rights issues throughout their supply chain.

### Main initiatives

Daiwa AM formulated its own Human Rights Policy in September 2022, making it clear that respect for human rights is positioned as a core element in the company's corporate culture.

In December 2022, Daiwa AM joined PRI Advance, an initiative established to promote initiatives that use collaborative engagement to advance respect for human rights.

Daiwa AM also works to identify and assess key human rights issues, and performs human rights due diligence. Human rights due diligence comprises a series of activities that includes verifying whether corporate activities are infringing on human rights, and, in the event that a human rights infringement is found to have occurred, formulating effective remedial measures.

### Human Rights Policy

The Corporate Principles of the Daiwa Securities Group stipulate that "the Group will strive to maintain a high sense of morality and duty, endeavoring to continue contributing to the sustainable growth of the societies in which we operate." Consequently, "Enhance Global Sustainability" is also listed as one of Daiwa AM's action guidelines. Daiwa AM believes that respect for human rights is vital in order to realize a sustainable society in which no-one is left behind. We are aiming to further strengthen our corporate culture, which has respect for human rights as a key element, and we will be promoting initiatives that embody respect for human rights.

### Human rights due diligence

In line with Daiwa AM's Human Rights Policy, we implement human rights related surveys and measures not only with respect to Daiwa AM employees, but also in relation to business partners, outsourced fund managers, and investee companies.

The Daiwa Securities Group has formulated a Suppliers' Code of Conduct, and we expect suppliers to understand and collaborate on our ESG measures, including measures relating to human rights issues.

Outsourcing partners (fund management)	Outsourcing partners (other business partners)	Employees	Investee companies
We have added items relating to human rights measures and issues to the request for information (RFI) that we administer on an annual basis, and we conduct monitoring in relation to the survey results.	We plan to conduct monitoring through surveys to assess how business partners address human rights issues, such as long working hours and harassment.	We perform monitoring using a workplace environment survey that is administered twice a year, and we implement human rights awareness training and harassment prevention training for company officers and employees.	We have established the relationship between business and human rights as part of the core materiality for our asset management operations, and we monitor risks and opportunities and implement engagement <a href="#">(see p.31)</a> .

### Remedies

We have established a consultation desk that employees can use to request consultations regarding human rights issues or harassment. We are also considering establishing a similar consultation desk for business partners.

Related Corporate Materiality: [Thorough fulfillment of the company's fiduciary duty](#)

## Initiatives to Strengthen Product Governance

When creating new products, we implement product design after clarifying the value-added that the product will provide, and once the product has been created we strive to maintain its product value. By way of thorough product governance, we will continue implementing business operations that prioritize the customer's interests.

### Product governance framework



**Policy Regarding Product Governance**  
Daiwa AM has always strived to realize business operation that puts customers' interests first. To clarify the thinking that underpins our product governance, in September 2024 we formulated a Policy Regarding Product Governance.

- Policy**
- 1. Policy goals
  - 2. Putting the product governance system in place
  - 3. Product creation
  - 4. Product management
  - 5. Providing information in an easy-to-understand way

+ WEB Please visit the following webpage for more detailed information:  
Policy Regarding Product Governance (in Japanese)  
[https://www.daiwa-am.co.jp/company/product\\_governance.html](https://www.daiwa-am.co.jp/company/product_governance.html)

## Results Achieved from Product Governance Measures

Daiwa AM clarifies the added-value that a new product will provide at the product creation stage, and then performs ongoing monitoring after product creation to ensure that product value is maintained. To date, Daiwa AM has implemented the following initiatives in this area. Going forward, we will roll out ongoing, systematic measures.

- Operational status verification**  
We implement assessment from multiple perspectives, including whether investors' anticipated returns have been achieved, whether the fund is performing significantly worse than similar funds offered by other companies, etc. In the case of funds that are deemed to have underperformed over an extended period, we take measures such as improving fund management, reviewing trust fees, implementing early redemption, etc.
- Redemption of small-sized funds**  
To prevent unsatisfactory fund performance and optimize the overall number of investment trusts, we compile a list of funds that are candidates for early redemption, and then implement early redemption when appropriate. In FY2024 we performed early redemption for 16 funds; we will continue to implement early redemption as necessary in FY2025.
- ESG fund verification**  
With regard to ESG funds, we verify that information is being provided in accordance with the characteristics of the fund, and we also verify whether efforts are being made to ensure easy-to-understand disclosure, which may involve the issuing of ESG reports for some funds, etc.
- Fund cost verification**  
In regard to funds' overall expense ratio, we have implemented comparison (with other funds in the same class) and verification.
- Information linkage with sales partners**  
Daiwa AM is proceeding with measures to strengthen information linkage with sales partners, from the perspective of promoting the provision of products that serve customers' best interests. In the case of high-risk or complex investment trusts, we ask sales partners to provide us with data that can be used to verify whether there is any disparity between the projected customer profile and the actual customer profile, and we are proceeding with the building of systems aimed at deepening communication with sales partners.

### Message from the Chair of the Fiduciary Duty Advisory Committee

*Message*



Emi Onozuka  
Outside Director

### Committee initiatives aimed at enhancing the effectiveness of fiduciary duty performance

Looking back over the past year, I have the impression that the content of the matters undertaken by the Fiduciary Duty Advisory Committee has been taken to a higher level. The Product Governance Committee has been steadily implementing verification reporting with respect to operational performance, and has also undertaken "grand design" formulation. The Fiduciary Duty Advisory Committee has expressed its views and provided support so that these activities can be carried out effectively. With both the industry as a whole and the regulatory authorities having increasingly high expectations regarding fiduciary duty, Daiwa AM's responsible units and company officers are working with integrity to meet these expectations, for example by close collaboration with sales partners.

Looking ahead, from the perspective of providing value for investors, it can be anticipated that further, more in-depth measures will be rolled out; the Fiduciary Duty Advisory Committee will be focusing on providing effective monitoring.

Related Corporate Materiality: Service quality enhancement contributing to asset formation Winning stakeholders' trust

## Expanding and Diversifying Our Range of Products and Services

We are developing investment trusts and ETFs tailored to various different investment goals, so that our company's products will appeal to a wide range of customers. We are also proceeding with the proactive provision of information so that customers can develop a more in-depth understanding of our products.

### Providing attractive products and investment opportunities that contribute to customers' asset formation

#### ■ Providing a diverse range of NISA-approved investment trusts

Responding to the launch of Japan's new Nippon Individual Savings Account (NISA) program, Daiwa AM is meeting customers' diverse needs by providing innovative, cutting-edge products designed with a wider range of investors in mind.

#### iFreeNEXT FANG+ Index fund (for the NISA "Growth investment quota" and "Tsumitate (Installment) investment quota")

The iFreeNEXT FANG+ Index fund is designed to provide exposure to the growth and dynamism of the U.S. Big Tech companies through carefully selected investment in these companies, which have been exerting a major impact on the global economy. Total returns in 2024 were the highest\*1 of any NISA-approved investment trust in the "Tsumitate (Installment) investment quota" category. In the seven years since the fund was established, assets under management have risen to over 1 trillion yen.\*2 We believe that this fund is a great solution for investors who are looking for faster asset growth.

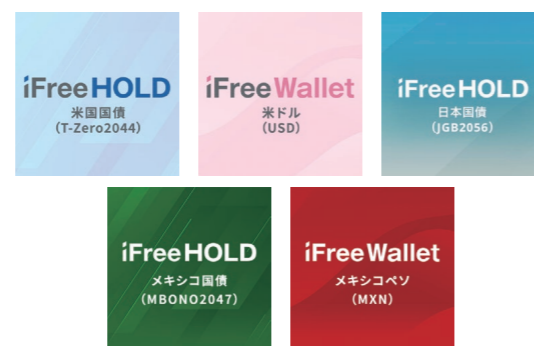
\*1 Source: QUICK Corp. data for Dec. 31, 2024. The scope of comparison covered all NISA "Tsumitate (Installment) investment quota" funds.  
\*2 As of December 3, 2025.



Special Report: <https://www.daiwa-am.co.jp/special/fang/index.html> (in Japanese)

#### iFreeHOLD / iFreeWallet series (for the NISA "Growth investment quota")

This fund series originated from the concept of providing investors with more freedom when it comes to investing in bonds. Daiwa AM offers iFreeHOLD, based on a simple investment strategy that involves holding a single long-term bond until maturity, and iFreeWallet, a new style of foreign currency investment through which investors can continue to benefit from short-term interest rate movements. We believe that fixed income investment through NISA is a great solution for realizing asset growth over the medium to long term. As of October 31, 2025, iFreeHOLD was available for three countries (the U.S., Mexico, and Japan), while iFreeWallet was available for the U.S. and Mexico; there are plans to expand the range of countries covered in the future.



#### ■ Developing a diverse range of investment trusts Expanding opportunities to invest in alternative assets

We are expanding our range of high-value added, differentiated financial products for investment in alternative assets, to provide investment solutions that meet the needs of diverse customers. These include the Daiwa Blackstone Infrastructure Fund, which is the first Japanese investment trust to target investment in infrastructure-related assets throughout the world, and the Blackstone Private Credit JPY Fund (monthly distribution type), the first Japan-registered publicly-offered investment trust of its kind, which invests mainly in unlisted private credit funds. Going forward, we will

continue to strengthen our development of new funds, to provide new value for investors.



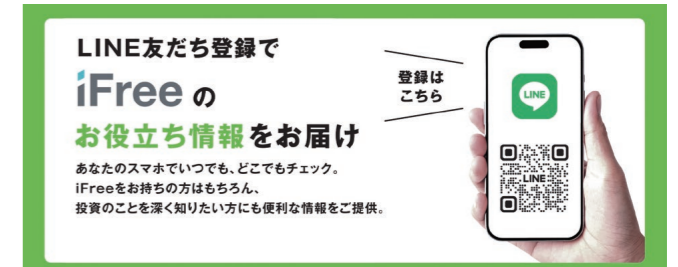
### Expanded service and sales support

#### ■ Starting an iFree (Daiwa AM) official LINE account

As part of our efforts to provide customers with timely, useful information, in May 2025 Daiwa AM established an iFree (Daiwa AM) official LINE account.

Depending on the answers that they give in a questionnaire survey, users access one of four different menus, each of which provides content and advertising campaign material tailored to the user's own interests. Through this account, we are expanding the scope of our information dissemination to customers.

Looking ahead, we will be striving to further enhance both the quality and scope of the information that we provide to customers, using our official LINE account and a wide range of other channels to support customers' long-term asset formation.



+ WEB You can add the official LINE account as a friend by scanning the 2D code. For more details, see:

iFree (Daiwa AM) official LINE account (in Japanese) <https://www.daiwa-am.co.jp/ifree/index.html#line>

#### ■ Overhauling our website

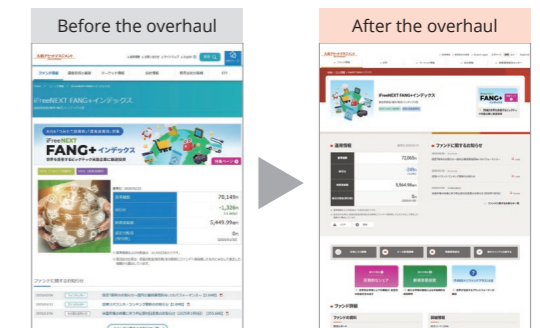
Daiwa AM has overhauled its corporate website, to improve usability and accessibility for customers.

The main improvements include making search easier, by adding autocomplete suggestions and popular keyword display to the fund search function, and introducing a new fund comparison function that lets users view information for multiple funds at the same time. In addition, the addition of new online customer service functions has made it possible to display fund recommendations and provide Help information.

The website design uses red and gold (the corporate colors of the Daiwa AM Group) as the keynote colors, aiming to realize universal design principles so that the site is easy to use for everyone, regardless of age, cultural background, or disability.

This overhauling of the website represents an important step toward strengthening the trust that

customers place in Daiwa AM, and toward realizing the provision of information to users in a way that is appropriate and useful. Looking ahead, we will be working to make further improvements to the website.

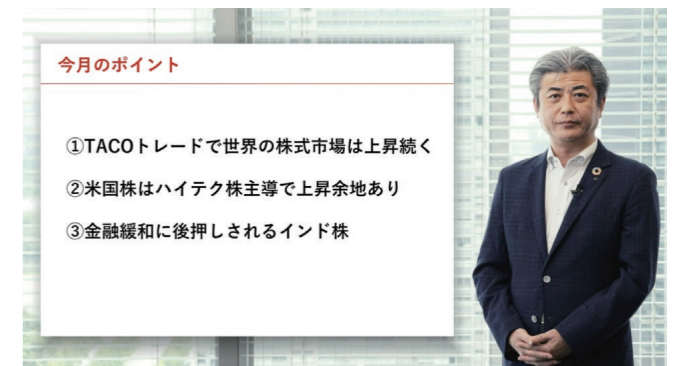


Webpage providing fund information

#### ■ Timely support for sales companies

We provide training for the sales staff of the sales companies involved in selling our products, covering market trends and forecasts, and fund management status.

In addition, starting from FY2024 we have begun providing online, non-company-specific training that multiple sales companies can make use of. Besides regular explanations of market trends, this training also includes content that focuses on specific topics and asset classes. We provide training in a timely, flexible way that meets the needs of front-line sales staff, for example by arranging training at short notice in response to sudden changes in the market. To date, non-company-specific training has been implemented on 32 occasions, with a cumulative total of more than 20,000 people taking part in the training.



Non-company-specific training content

Takuya Takahashi  
Chief Strategist, Research Department

Related Corporate Materiality: Service quality enhancement contributing to asset formation Winning stakeholders' trust

## Making a Positive Contribution to Society and to the Environment

Daiwa AM aims to continue creating value for society and for the environment on a sustainable basis through its asset management business. We roll out financial education programs, and provide support to help people with asset formation by strengthening their understanding of investment. In addition, we contribute toward the development of local communities and toward safeguarding the environment through donation activities that are implemented through our funds.

### Initiatives to strengthen financial literacy

#### ■ Providing an original game

With the aim of providing interactive financial education seminars that give attendees opportunities for active participation, in 2024, we have designed "Everyone's Money Plan!" (trademark registered in Japan), a card game that incorporates elements of asset management and life planning.

"Everyone's Money Plan!" is a game in which players take on the roles of specific characters and aim to achieve various life plans, occurring from their 20s through to their 60s, while increasing their money through asset management. The seminar activity is designed so that, after experiencing the benefits that effective asset management can provide through the card game, participants then learn the basics of asset formation in a classroom instruction setting. This original seminar developed by Daiwa AM is targeted mainly at young people, and aims to provide support to help them take the first steps toward asset formation.



Packaging design for "Everyone's Money Plan!"

Note: For more detailed information about financial and economic education, see p. 103.

#### ■ Exhibiting at Gokkoland Expo

As part of our sustainability activities, we have become the first asset management company to launch a game on Gokkoland, one of Japan's most popular learning apps for younger children run by KIDS STAR Inc. The game, which has ESG investment as its theme, is called "Let's keep the world healthy!"

The game uses a combination of quizzes and running-type gaming. Players try to safeguard the Earth's future by investing coins that they earn through the running part of the game in the ways that they think are most appropriate. Our hope is that this game will help to get children thinking about environmental issues, the Earth's future, and money and investing.



Game play image from the Gokkoland app

In FY2025, we also participated in Gokkoland Expo physical events, providing financial education workshops for parents and children at major shopping malls throughout Japan. Besides creating an opportunity to think about money by getting children to make their own piggy bank, and providing support for strengthening financial literacy as a family, by developing a new point of contact with families, these workshops have also helped to spread awareness of Daiwa AM's sustainability activities.

Looking ahead, we will continue contributing toward the realization of a sustainable society from our unique perspective as an asset management company.



Piggy banks made during a Daiwa AM workshop at a Gokkoland Expo event

### Providing donations to environmental NPOs and other organizations through our funds

#### ■ Working Together to Cultivate Tomorrow's Forests

Daiwa AM and its sales companies have been donating part of the trust fees from the Decarbonization Technology Fund (Carbon ZERO) to the "Working Together to Cultivate Tomorrow's Forests" tree-planting project organized by the NPO Environmental Relations. Every year around May to June, the NPO collaborates on tree-planting with local forestry cooperatives; after planting, the growth of the young trees is managed carefully over a 10-year period. In 2025, 2,714 tree saplings were planted in Ashigawa-cho, Fuefuki City, Yamanashi Prefecture, for a cumulative total of 24,243 trees. The total number of tree-planting sites in Japan has risen to six.

Decarbonization Technology Fund (in Japanese)  
<https://www.daiwa-am.co.jp/special/carbonzero/>



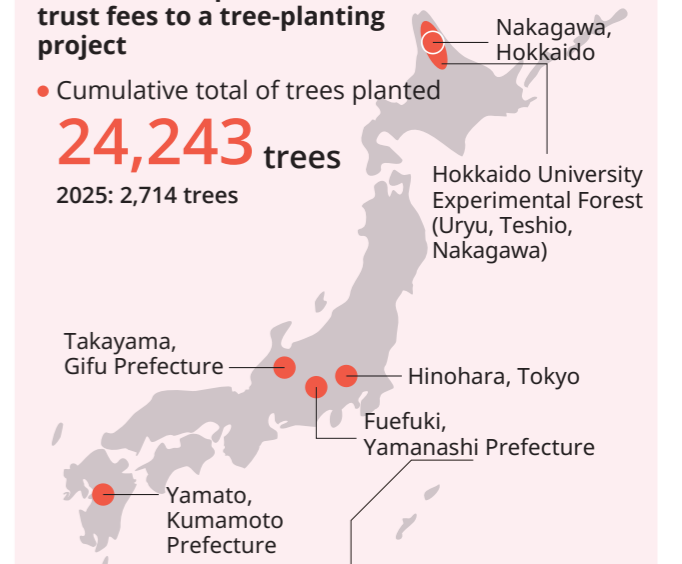
Tree-planting site landscape (Ashigawa-cho, Fuefuki City, Yamanashi Prefecture)

#### Donation of a portion of the trust fees to a tree-planting project

• Cumulative total of trees planted

**24,243** trees

2025: 2,714 trees

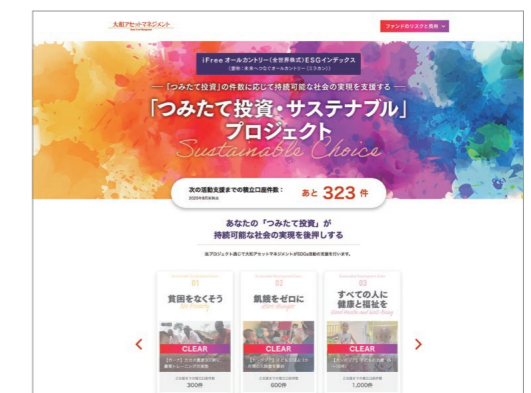


#### ■ The "Periodic Investing - Sustainable" project

In this project, we donate a portion of the trust fees from Daiwa AM's iFree All Country Whole World Equity ESG Index to organizations involved in activities relating to the SDGs, based on the number of periodic investing accounts opened at our sales companies for this fund as of month-end each month.

Donation recipients in 2025	Donation amount
Japan Heart (specified non-profit corporation)	300,000 yen

"Periodic Investing - Sustainable" Project (in Japanese)  
[https://www.daiwa-am.co.jp/special/ifree\\_esg/](https://www.daiwa-am.co.jp/special/ifree_esg/)



### Donating to social welfare organizations through in-house activities

#### ■ Donation activities linked to events organized by the Vision & Values Team

Every year, Daiwa AM's Vision & Values Promotion Team designates one month as Sustainability Month, in which we seek to realize Value No. 3 of Daiwa AM's action guidelines: Enhance Global Sustainability. The money collected through the holding of the internal recycled goods market is donated to an organization chosen by the Vision & Values Promotion Team. In FY2024, it was decided to donate the collected funds to Kurushima-kai, a social welfare corporation which provides support for children, senior citizens, and people with disabilities in Imabari City, Ehime Prefecture. Going forward, we will continue striving to raise the sustainability awareness of Daiwa AM's company officers and employees through activities of this kind.



User of Kurushima-kai's welfare facilities

Related Corporate Materiality: Service quality enhancement contributing to asset formation Winning stakeholders' trust

## Initiatives Implemented by the Center for Dissemination of Investment and Asset Management

The Center for Dissemination of Investment and Asset Management was established in April 2024 to spread awareness of the importance of asset management.

### The Center for Dissemination of Investment and Asset Management—Two approaches

#### Financial and Economic Education Group

Conducts financial and economic education that contributes toward enhancing financial literacy, so as to realize financial well-being.

#### Asset Formation Research Group

Researches and analyzes household asset formation from a macroeconomic perspective, disseminating information that can contribute toward the creation of an environment conducive to asset formation.

### Financial and economic education activities

The Financial and Economic Education Group conducts financial and economic education seminars in schools and workplaces. Based on Japan's official Financial Literacy Map, these seminars provide opportunities to learn financial literacy, not only for investment purposes but as an important life skill.

For students

#### Giving talks on finance, economics and life planning for students



In FY2025, the Financial and Economic Education Group began to provide more seminars and lectures for students. Lectures on the importance of financial and economic knowledge and life-planning have been given at colleges and schools that included Aoyama Gakuin University, the University of Osaka, Sagami High School, Doshisha Junior High School, and Nihon Geijutsu Koto Gakuen.

Going forward, the Group will continue to provide seminars and lectures that help to enhance financial literacy, so that every student can enjoy autonomy, peace of mind and prosperity.

For educators

#### Providing model classes for financial and economic education as part of the Business Training for Japanese School Teachers program



Following last year, the Daiwa Securities Group provided training for approximately 40 teachers working at schools in Tokyo, as part of the Business Training for Japanese School Teachers program initiated by an organization affiliated with the Japan Business Federation. The Center for Dissemination of Investment and Asset Management implemented a model class using a specially designed card game, intended for use in schools. In a survey conducted after the training, many of the teachers who had taken part commented that they had found it very useful, with some expressing an intention to use what they had learned in financial education classes at their school.

For families

#### Implementing "Work x Money" seminars for parents and children, in collaboration with other companies



In collaboration with Daiwa Connect Securities, Daiwa AM held a parent-and-child seminar during the summer holidays for PERSOL TEMPSTAFF CO., LTD. employees and their families. The theme of the seminar was "Work x Money"; by getting participants to think about the relationship between work and money, and having them play the "Everyone's Money Plan!" card game, the seminar strengthened their awareness of the importance of life planning and asset formation. Participants commented that the seminar had helped to create new opportunities for them to talk about money as a family.

### Dissemination of information aimed at realizing financial well-being

#### Launching a new Center for Dissemination of Investment and Asset Management website

A dedicated website for the Center for Dissemination of Investment and Asset Management has been set up as part of the Daiwa AM website. Besides introducing the main financial and economic education activities that the Center has implemented and its original teaching materials, the site also presents reports such as the Asset Formation White Paper. Looking ahead, we intend to expand the website content to also include the results of questionnaire surveys targeting individual citizens.

Center for Dissemination of Investment and Asset Management  
<https://www.daiwa-am.co.jp/huku-center> (in Japanese)

#### Planning to publish the Asset Formation White Paper again this year

The Asset Formation White Paper, which was first compiled last year, presents comprehensive information regarding asset formation. It includes wide-ranging analysis and data, from both a microeconomic and macroeconomic perspective, and from current trends to long-term transformations. This year, it is intended that the White Paper will also include analysis of an innovative survey of individual citizens conducted by the Center for Dissemination of Investment and Asset Management.



#### Creating original teaching materials in the form of the Financial and Economic Education Textbook

The Financial and Economic Education Textbook is a textbook compiled by the Center for Dissemination of Investment and Asset Management for use in financial and economic education classes and seminars. The structure of the textbook is based on the Financial Literacy Map established by an official committee.

Going forward, the Center intends to compile supplementary materials covering the NISA program, the iDeCo additional pension scheme, occupational pensions, care fees, and education expenses.



### A new challenge for "Everyone's Money Plan!", a card game developed by Daiwa AM



Developed by Daiwa AM's Center for Dissemination of Investment and Asset Management, "Everyone's Money Plan!" is a financial and economic education card game that has been used at many schools and workplaces in Japan. The Center is now working to develop a new version of the game to help foster women's advancement, in collaboration with the students of SHINAGAWA JOSHI GAKUIN Junior & Senior High School, which celebrated the 100th anniversary of its founding in 2025. The new version incorporates a diverse range of characters and life events based on suggestions from the students, and it is anticipated that it will help students in their teens to think about their future with a greater sense of realism. Game development is due to be completed by early 2026.

### Message

#### Message from the Center's Managing Director

Recently, I have noticed when speaking at events such as asset management seminars that these events are now attracting people from a wider range of age groups, giving a real sense of how the utilization of asset management is becoming more widespread. However, I also get the feeling that asset management is not as widespread among the groups that have the greatest need to grow their assets over the long term. Thirty or forty years from now, there will be a pronounced disparity between the financial assets held by those who have already started to grow their assets and those who are doing nothing. I believe that, to prevent this situation from emerging, there is a need to spread awareness of asset management as widely as possible and as soon as possible, and I also believe that we at Daiwa AM have an important role to play in this.



**Yoshinori Nagano**  
 Managing Director, Head of Center for Dissemination of Investment and Asset Management

Related Corporate Materiality: Enhancing employee well-being Respect for human rights and diversity

## Promoting Effective Human Capital Management

Daiwa AM is making a concerted effort to establish a comprehensive human resources system that enables diverse human talent to continue working over the long term with vigor and enthusiasm, and to create workplaces in which everyone can fulfill their potential.

### Human talent cultivation programs

Daiwa AM attaches great importance to building an environment in which every employee can work with peace of mind and achieve personal growth, and by providing a comprehensive range of human talent cultivation programs tailored to each stage in employees' development, we offer support to help employees achieve the career they are aiming for.

	Young employees	Mid-career employees	Managers
Fundamentals	Daiwa AM Basic Program (Graduate entrants in their 1st or 2nd year)	Daiwa AM Q-Road (Graduate entrants in their 3rd to 5th year)	Mindset training
	Tutor system		Line manager training
			Leader training
			Mentoring system*1
	Supporter system (for mid-career hires)		
Strengthening specialist expertise	Fund management talent cultivation program Fund Management Division training system, and weekly market analysis training		
	Global talent cultivation program Overseas study system, and overseas training system*2		
	Product knowhow enhancement program Basic product training, and internal study sessions		
Other	Sustainability talent cultivation program Sustainability Associates, and Sustainability Leaders		
	Note: For more information, see "Development of Sustainability Human Resources" on p.89 of this report.		
Career development support	System for employees to discuss their career development with the company, and 1-on-1 meetings		
	Intra-Group open job posting system		
	Support for self-directed re-skilling (support for obtaining certifications and for strengthening language skills, online learning, external seminars, etc.)		

\*1 This is a system that provides support for the career development of managers who are potential future candidates for senior executive or line department manager positions, with a senior executive providing mentoring.  
 \*2 Examples of overseas training: training with a leading company in the field of ESG investment (1 week), and training with an asset management company specializing in REIT investment (1 year).

#### Pick up A five-year cultivation program for young employees

##### Daiwa AM Basic Program (Graduate entrants in their 1st or 2nd year)

This program is designed for employees who are in their first or second year. The first two years after joining are positioned as a period for learning the basics of being a professional in the asset management business, in which employees learn the basic mindset they need as a mature adult, develop an understanding of the Daiwa Group and its corporate culture, and acquire the knowledge and skills that underpin business operations.

###### Main training content

Classes on skills that mature adults need to possess, including business etiquette, logical thinking, and communication skills, as well as classes on financial and economics, and on product knowhow and operational skills, etc.

##### Daiwa AM Q-Road (Graduate entrants in their 3rd to 5th year)

This program is designed for employees who are in their third to fifth year. This period is positioned as a time for practical, hands-on learning in relation to the operational capabilities, marketing skills, and product development skills that are needed by a professional in the asset management business, with employees receiving a well-balanced education in basic capabilities that will enable them to fulfil their potential no matter what area they are assigned to in the future.

###### Main training content

Classes to foster understanding of the management philosophy and operations applicable to each team, as well as classes on marketing and on fund planning and creation, etc.

### Program participants' comments

#### Fund management talent cultivation program



**Haruka Takase**  
 Assistant Manager  
 Alpha Driver Investment Team  
 Japan Equity Management Department

#### Fund Management Division training system

##### Knowledge and experience that you can leverage later in your career

Participating in the Fund Management Division training system enabled me to learn a wide range of useful content, from the basics of macroeconomics through the foundations of equity and bond management and behavioral finance to compliance and the philosophy of asset management. The training has deepened my understanding not only of how the financial markets operate, but also of the mindset needed for involvement in asset management, and the tools that are used in actual operations. I believe that I will be able to make effective use of this knowhow and experience in my career in the future.



Fund Management Division training session in FY2025

#### Global talent cultivation program



**Masato Tomonari**  
 Senior Associate Director  
 Corporate Planning Section  
 Corporate Planning Department

#### Researcher overseas assignment program

##### New perspectives toward promoting Japan as a leading asset management center through research

Through my assignment at the Center on Japanese Economy and Business (CJEB), Columbia Business School, Columbia University, I conducted empirical research on financial literacy. I also had the opportunity to attend classes and engage in a wide range of exchange activities. Enhancing financial literacy is a critically important social issue, and many initiatives and studies are underway in the United States. Addressing this topic in such an environment was a significant opportunity to sharpen my understanding of how I can contribute, through my work, toward realizing the goal of promoting Japan as a leading asset management center.



Presentation at the CJEB Visiting Scholar Seminar

#### Training that developed spontaneously within the company

#### Product knowhow enhancement program



**Taito Fukami**  
 Assistant Manager  
 Product Governance Section  
 Risk Management Department

#### Product fundamentals training

##### Experiencing accelerated growth as a specialist

In product fundamentals training, I was able to learn, through case studies, about investment trust systems and related laws and regulations, as well as the basic operational knowledge relating to product creation. I feel that being able to receive this training shortly after joining the company gave me a more in-depth understanding of the work that I was responsible for, and speeded up my growth as a specialist. Going forward, I am aiming to use the knowledge I acquired through this training as a foundation for further enhancing my performance.



Sample training materials

Related Corporate Materiality: Enhancing employee well-being Respect for human rights and diversity

### Building a workplace environment in which diverse human talent can fulfil their potential

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.

#### Support for continuing to work while receiving treatment for cancer

Daiwa AM has adopted a “Ganbaru Support” Support Plan to Help Employees Combine Work with Treatment for Cancer.

Besides a flexible work system that includes the option to have reduced working hours, other support to help employees continue to work while undergoing treatment for cancer includes financial support, consultations, etc.

#### 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

As of October 31, 2025, 42.5% 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.

In addition, we have expanded our system for employees to transfer to other positions within the company, and for contract employees to become regular employees. Besides our existing system for transferring to management career track positions, we have also introduced systems for transferring to regional career track positions (in which employees are not required to accept transfers to other regions) and for non-regular, contract employees to become regular employees.

#### Promoting awareness of LGBTQ+ issues and expanding related human resources systems

With the aim of creating an employee-friendly working environment in which people can be themselves, we are working to eliminate all forms of discrimination in recruitment and employment, and we are implementing training to deepen understanding of LGBTQ+ issues. In addition, by expanding the scope of our partnership-oriented human resources system, building the Daiwa ALLY Network (an employee-centric community), and setting up both internal and external consultation desks, etc., we are proceeding with the creation of a workplace environment in which all

employees can carry out their work with peace of mind.

#### Encouraging male employees to take childcare leave

Daiwa AM has made it compulsory for all male employees whose partners have had children to take at least two weeks of childcare leave. Our goal is to dispel stereotypical attitudes to gender roles and help realize a society in which both men and women can balance work and childcare.

(For reference) FY2024

- Percentage of eligible male employees taking childcare leave: 118.2%
- Average no. of days of childcare leave taken: 34.0 days

#### Expanding the work-life balance support system for employees who are raising children with disabilities

Children with disabilities often require ongoing support from family members. Starting from FY2025, Daiwa AM employees who are caring for children with disabilities are able to make use of a reduced working hours system for an unlimited period.

#### Expanding the support system for employees who are balancing work with care responsibilities

Daiwa AM provides support to help employees balance work with care responsibilities through a variety of systems and measures, including providing more than the statutorily required number of days of nursing care leave (up to a maximum of 1,095 days, which can be taken in up to four separate periods), the putting in place of a teleworking system, a Care Concierge advice service which can suggest a number of different solutions, reduced working hours, a travel allowance for travelling to one's hometown to provide care, etc.

#### Implementation of various types of awareness-raising training

Daiwa AM implements human rights awareness-raising training (including training to promote understanding of issues relating to disability and LGBTQ+ issues), training relating to support for balancing work with care responsibilities, personal healthcare training, harassment prevention training, etc.

### Engagement Survey implementation

Daiwa AM implements Engagement Surveys (in a way which safeguards respondent anonymity) to gauge the current state of employee engagement, which can help to enhance productivity and performance. The November 2024 saw a rise in engagement scores across all categories, compared to the previous survey. “Challenge mindset” continued to receive a high score, and there was an improvement in the score for “performance management,” thanks to the adoption of a new 1-on-1 performance management system and a human capital management system. However, in regard to the “business operation system,” there appears to still be an issue with the speed of decision-making. We are considering and implementing concrete measures in response to these survey results, and, going forward, we aim to continue strengthening engagement on an ongoing basis.

#### Engagement Survey scores

	FY2024	Compared to previous survey	Compared to asset management industry benchmark values
Strengths	Challenge mindset	86%	+3% Exceeds
	Well-being and flexibility	86%	+4% Exceeds
	Ethics and integrity	85%	+3% Substantially exceeds
Issues	Business operation system	47%	+4% —*
	Performance management	61%	+6% Exceeds
	Leadership	65%	+7% Falls below

Note: Data and analysis provided by our survey partner, Willis Towers Watson. Data were compiled for each question in the various categories according to the share of employees who gave a positive response to the question, out of a total of 601 respondents, with an average value being calculated for each category based on the shares for all of the questions in that category.

\* Categories where comparison was not possible due to unavailability of applicable scores are denoted with a dash.

### Human talent interchange activities (internal and external)

#### Walking event (health management promotion)

In FY2025, Daiwa AM once again held an internal contest for company teams as part of the Satsuki Run & Walk event, in which the teams compete using the average number of steps they take during the month of May. The team members enjoyed walking and encouraging one another, and participants from the different teams also enjoyed meeting and socializing at the awards ceremony and after-party; the competition helped employees improve their health while also invigorating communication within the company.



Awards ceremony for the Satsuki Run & Walk health promotion event

#### An expanded range of company clubs that help build new links between employees

Daiwa AM's first company clubs were set up in February 2024, and there are now a total of 13 clubs. These clubs help to create new links in addition to those forged through work, provide a venue for diversified interchange that crosses the boundaries of unit and position, and encourage employees to make new discoveries and learn new things. A further point is that, when employees share hobbies and interests, this will naturally tend to create an atmosphere in which employees can work together more easily.



Hiking club activity

#### The Asset Management Women's Forum—Promoting D&I across the asset management sector

The Asset Management Women's Forum (AMWF) began its activities in May 2022, with the aim of promoting women's advancement in the asset management industry. In FY2025, a total of 24 companies were members of the Forum, including Daiwa AM, and its four working groups held a total of five events in that year.

Asset Management Women's Forum website <https://www.toushin.or.jp/start/16> (in Japanese)



Group discussion during an AMWF event

### Third-party evaluations

#### Support for balancing work and childcare responsibilities



Platinum Kurumin

#### Support for balancing work and long-term care responsibilities



Tomonin

#### Initiatives to support LGBTQ+ employees



PRIDE Index 2025 – Gold evaluation

#### Health management



Health & Productivity Stock 2025

### Diversity & Inclusion Promotion Committee—Message from the Chair

Message



Toko Shirakawa  
Outside Director

Daiwa AM's Diversity & Inclusion Promotion Committee meets once every six months; the Committee reports on Daiwa AM's diversity & inclusion (D&I) initiatives, and discusses anticipated future issues. Besides ensuring women's participation and advancement, the Committee also seeks to create an employee-friendly environment in which all employees feel motivated, and it discusses, with senior management, a wide range of measures to make diversity a strength for Daiwa AM.

Daiwa AM benefits from having diverse human talent that includes graduate recruits, mid-career hires, and personnel on assignment from other Daiwa Group companies. Effective human capital management requires a two-pronged approach that involves both cultivating employees' individual capabilities and fostering a corporate ethos which ensures that these capabilities are fully utilized. People working in the asset management sector tend to be individuals who possess a high level of specialist expertise. We need to be a company that employees feel is worth working for, and which has real appeal. We will continue implementing the transformations needed to ensure that this diverse human capital is a source of sustainable corporate value creation.

Related Corporate Materiality: **Strengthening corporate governance**

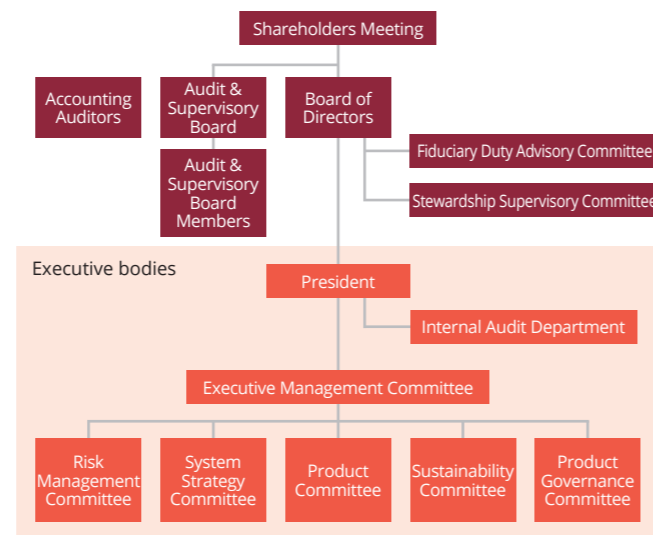
## Strengthening Corporate Governance

### Corporate governance system

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 October 31, 2025, the Board of Directors was made up of 13 directors (including three Outside Directors, and four female directors).

#### Corporate governance system



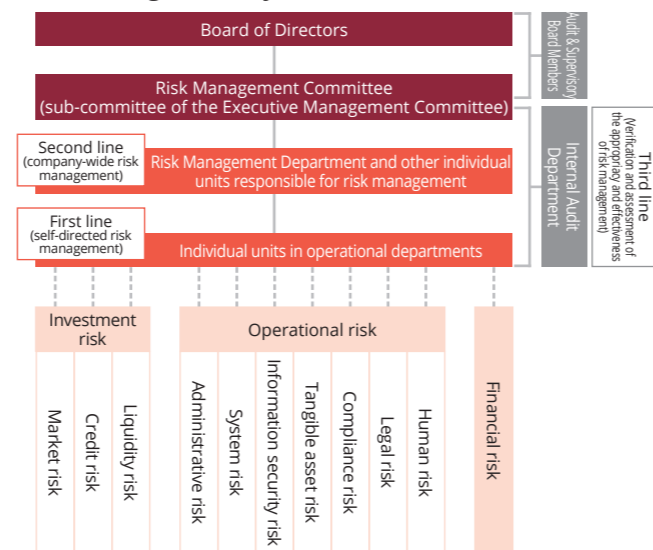
+ WEB For more information, please visit the following webpage:  
 Corporate Governance (in Japanese)  
<https://www.daiwa-am.co.jp/company/about/governance.html>

### Risk management

In line with the policy on risk management decided on by the Board of Directors, we are striving to strengthen our risk management posture, through measures that include having senior management participate proactively in risk management, putting in place an approach to risk management that is tailored to the special characteristics of the risks faced by our company, identifying the full spectrum of risks based on integrated risk management, and clarification of the risk management process.

We have established a Risk Management Committee as a sub-committee of the Executive Management Committee. The Risk Management Committee identifies topics which embody risks that represent a particularly significant threat to the company's operations, decides on concrete methods for implementing risk management, and performs monitoring of key risk indicators (KRIs) for especially serious risks, while reporting on overall risk status on a regular basis.

#### Risk management system



#### Upgrading management of system risk and information security risk

To protect information assets from external and internal threats and risks, and to build an environment that allows key tasks such as the calculation of baseline values to continue without disruption, Daiwa AM is working to strengthen our system risk management system. In investments in securities and credit limits for deposits. In particular, we have positioned serious operational stoppages caused by cyberattacks and system outages, and inadequate response to technological

innovation, as the most serious risks, and we are proceeding with the provision of cybersecurity training for company officers and employees, and with measures to make our IT infrastructure stronger and more resilient. In FY2025, we are updating our IT infrastructure to support business model innovation and innovation, for example through the putting in place of platforms to enable effective use of AI, and data collation and utilization geared toward the AI era.

### Legal & compliance

Legal and compliance challenges have a direct bearing on management at asset management firms, while also being intimately linked with all operations. This makes it imperative that we establish a specialized compliance framework, and we are working steadily to strengthen this framework.

#### Compliance aimed at enhancing corporate value

In line with the concept that thorough implementation of compliance will lead to enhanced corporate value, since FY2023 Daiwa AM has positioned compliance as an integral part of our corporate branding. The measures implemented to realize this include promoting the adoption of a compliance mindset, and establishing effective compliance in a way that reflects who we are. In FY2024, as a collaborative project involving all company officers and employees, we formulated the slogan "Trust, Above All, Is Our Asset." This was because, in today's era of diversification, we felt the need for a slogan that would embody a shared awareness conducive to realizing our corporate philosophy and implementing our vision and values.

In FY2025, we are aiming to instill this Slogan throughout the company. Besides proactively implementing various related training activities, we are also conducting awareness-raising activities such as the displaying of posters on company premises.

The slogan "Trust, Above All, Is Our Asset" represents a declaration, both internally and externally, of our commitment to compliance, and we have announced this slogan on our corporate website.



Compliance statement poster

#### Initiatives aimed at strengthening our compliance system

We are proactively adopting new IT tools to strengthen our compliance infrastructure. Last year, we took Daiwa AM's Vision as the starting point for compiling a Common Sense Sheet, single-sheet document that summarizes the principles that society expects us to conform to, the specific laws and regulations that we are required to abide by, and the linkages between them. In FY2025, we worked together with the IT department to try linking with other applications so that we could provide explanations of specific items on the company intranet.

We have also adopted several AI legal tools in order to be able to provide an efficient response to the various types of queries that are received from different units within the company. In July 2025, we began working with LegalOn Technologies to jointly develop an AI system aimed at making the reviewing of advertisements (of which more than 1,000 need to be reviewed every month) more efficient; full-scale adoption of this new system began in October 2025.



Advertisement review AI tool

## VOICE What is special about legal and compliance work at Daiwa AM



**Aya Kamon**  
 Director, Planning Section,  
 Legal & Compliance  
 Department

**Masaya Matsuura**  
 Associate Director,  
 Legal & Compliance Department

Regarding the impact of various systemic reforms that are being implemented to realize the government's goal of developing Japan as a "Leading Asset Management Center," We believe it is important to consider the implications not only for asset management firms but for the investment chain as a whole, based on the intents of these reforms.

The staff of the Legal & Compliance Department includes not only human talent with extensive experience working in asset management companies but also people with diverse backgrounds in other parts of the financial sector, as well as attorneys serving as legal specialists. This makes it possible, on a day-to-day basis, to engage in discussions with stakeholders' viewpoints in mind, and this, together with the opportunity to carry out one's work while developing a more in-depth understanding of the relevant systems, is what makes working here so enjoyable.

Related Corporate Materiality: Expansion of business fields

## Generating New Growth Opportunities

By collaborating with other companies that possess unique ideas or knowhow to promote product and service enhancement, Daiwa AM is aiming to enhance our fund management capabilities and diversify our revenue sources.

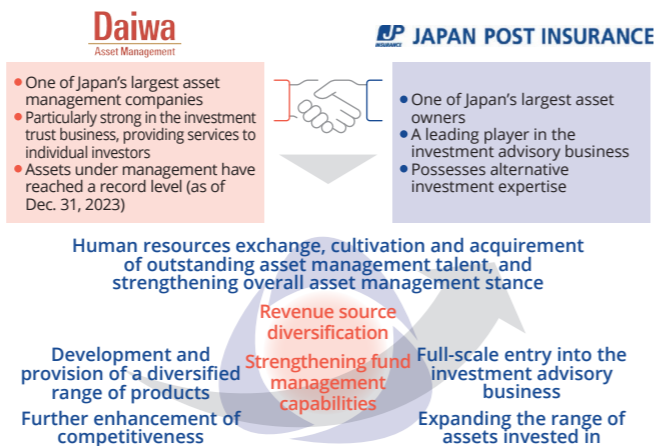
### Entering into a capital and business alliance with Japan Post Insurance

#### ■ Collaboration and human talent exchange

Through the capital and business alliance between Japan Post Insurance Co., Ltd. and the Daiwa Securities Group in the asset management sector that was announced in May 2024, we are working to take our asset management operations to an even higher level by utilizing the knowhow possessed by Japan Post Insurance, which has one of the highest asset balances in Japan.

Since the signing of the alliance agreement, besides proceeding with the putting of place of systems aimed at the enhancement of Daiwa AM's overseas credit operations, with Daiwa AM's New York subsidiary playing a key role (and with the exchanging of personnel between Daiwa AM and Japan Post Insurance), we have also been proceeding with the expansion of other investment areas and strategies and with related product development.

Going forward, we will continue doing our utmost, through a variety of initiatives including inorganic growth, to serve customers' best interests over the medium to long term.

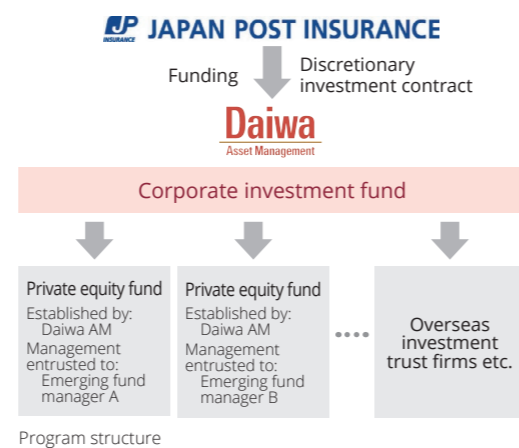


#### ■ Emerging Managers Program (EMP) initiative

On March 21, 2025, in collaboration with Japan Post Insurance Co., Ltd. and Daiwa Securities Group Inc., Daiwa AM invested in the Cadira Japan Equities Fund, managed by Cadira Capital Management; this is the first project to be implemented through the Emerging Managers Program (EMP), which seeks to promote investment in emerging fund management firms. In this initiative, Japan Post Insurance is providing the investment, while Daiwa AM is providing support.

Cadira Capital Management is an independent asset management founded with the mission of "Connecting the Investment Chain and Beyond," which has adopted a sustainability-focused strategy targeting Japanese equities.

By participating in this initiative, Daiwa AM is helping to support the development of emerging fund management firms with strong fund management capabilities and is promoting the smooth supply of funding to investee companies, thereby contributing toward the government's goal of building Japan into a "Leading Asset Management Center."



#### ■ Launching Daiwa JPI Alternative Investments Co., Ltd.

On March 31, 2025, Japan Post Insurance Co., Ltd., Mitsui & Co., Ltd, MKAM Co., Ltd., Mitsui & Co. Alternative Investments Ltd. (MAI), and Daiwa Securities Group Inc. concluded a capital and business alliance agreement in the alternative asset investment sector that involved MAI becoming a subsidiary of Daiwa AM. In line with this change, MAI has been renamed as Daiwa JPI Alternative Investments Co., Ltd. (DKAI). Through this initiative, Daiwa AM is making a full-scale move into the alternative assets investment sector, and we are aiming to enhance our ability to provide solutions by developing both public-offered and private funds. In addition, Daiwa AM will be exchanging personnel with DKAI to cultivate alternative investment talent.

By providing a wide range of customers with attractive alternative financial products through this organic collaboration between the Japan Post Group, the Mitsui Group, and the Daiwa Securities Group, we are contributing toward the Japanese government's goal of developing Japan into a "Leading Asset Management Center."



Press conference held in March 2025 (from left: Daisuke Ishida, Executive Managing Officer, Mitsui & Co., Ltd.; Takayuki Haruna, Senior Managing Executive Officer, Japan Post Insurance; Atsushi Katayama, President and CEO, DKAI; Kei Sano, President, Daiwa AM; Keiko Tashiro, Deputy President, Daiwa Securities Group Inc.

## Initiatives Aimed at Instilling Our Vision and Values

### Vision & Values Promotion Team activities

In April 2020, Daiwa AM formulated its Vision, which outlines the future that the company is aiming to build, and its six Values, which represent the action guidelines for achieving this vision. Vision & Values (VV) promotion

activities are being implemented by the VV Team, composed of employee volunteers; the team is planning and overseeing a variety of measures to strengthen awareness of the VV among Daiwa AM employees.

#### ■ Five years of VV Team activities

Over the past five years, we have conducted various activities that contribute toward the dissemination of Daiwa AM's Vision & Values. Specific activities have included Input Day lectures at which employees learn about new approaches and perspectives, Sustainability Month, which aims to realize Daiwa AM's Value No. 3 (Enhance Global Sustainability), and Exploring Work Responsibilities, in which individual employees introduce the work done by their department to strengthen mutual understanding across units; by planning and implementing these activities, the VV Team has been striving to instill the VV throughout the company. Going forward, we hope that Daiwa AM's company officers and employees will conduct activities that take the realization of the Vision and the six Values to an even higher level.



Daiwa AM's Six Values

#### ■ Activity case study: Input Day

Every year on Input Day, guest speakers from outside the company are invited to give talks, the content of which is related to Daiwa AM's Vision & Values. For the fourth Input Day, our guest speaker was Mr. Youichi Ito, whose book *Speak in One Minute* is a best-seller that has sold over 670,000 copies, and who is active in several different fields. Mr. Ito's talk was on the topic of "Let's move forward by embracing entrepreneurship!", and his passionate enthusiasm for the subject ensured that the one hour lecture flew by. This was an extremely meaningful and productive event.



Mikita Komatsu, former Daiwa AM President (and currently Executive Advisor) (on the left) with Mr. Youichi Ito (on the right)



# 3 Corporate Data

The results achieved by Daiwa AM's company officers and employees over the past year

## 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 100-6753, Japan
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
Capital	41,424,540,000 yen



Principal shareholder	Daiwa Securities Group Inc. (80%) Japan Post Insurance Co., Ltd. (20%)
Overseas business locations	New York, Silicon Valley, Singapore, London
Number of Executives & Employees	758 (as of Oct. 31, 2025)

**+ WEB** For more details, please visit the following webpage:  
 Organization chart <https://www.daiwa-am.co.jp/english/corporation/organization.html>

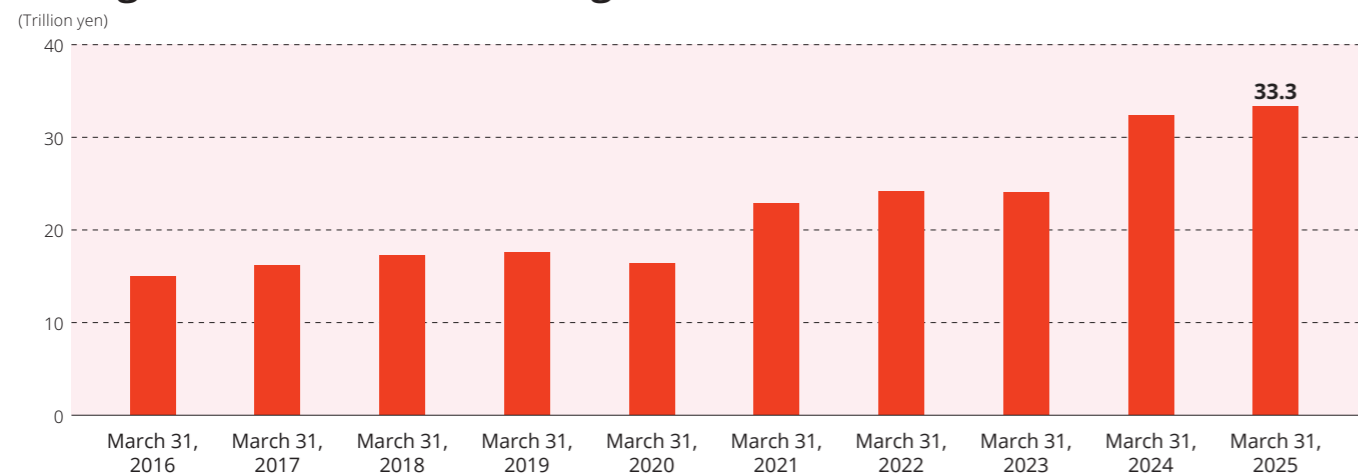
**Corporate Information** <https://www.daiwa-am.co.jp/english/corporation/index.html>

## Financial Data

(Million yen)

	FY2020	FY2021	FY2022	FY2023	FY2024
Operating revenue	65,906	74,948	70,405	76,939	<b>92,868</b>
Operating profit	14,067	18,551	15,310	17,368	<b>22,061</b>
Ordinary profit	14,616	19,089	15,642	17,540	<b>23,528</b>
Current net profits	9,389	12,738	10,317	11,859	<b>16,552</b>

## Change in Assets Under Management



Note: This figure is the combined total of investment trust, discretionary investment and investment advisory balances (it is an estimate including the investment balance of Daiwa AM's overseas subsidiaries, as of April 2025).

## Data

### Greenhouse Gas Emissions

Scope	FY2020	FY2021	FY2022	FY2023	FY2024	
Scope 1+2	442.5	83.9	64.4	55.5	<b>47.6</b>	
Scope 3	Category 6 Business trips*1	73.9	70.0	292.4	562.1	<b>702.3</b>
	Category 7 Employee commuting*1	101.8	118.6	140.6	163.6	<b>178.5</b>
	Category 8 Upstream leased assets*2	12.0	8.8	5.0	9.8	<b>11.4</b>

\*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. Since April 2021, Daiwa Securities Group, Inc. have transitioned to renewable energy sources for electricity used at the group's headquarters building, which houses all Group companies, including Daiwa AM  
 3. The London subsidiary switched over to using renewable energy for electric power in 2019, and for gas in March 2022  
 4. 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)

### Human Resources and Related

Ratio of female employees  
(October 31, 2025)

42.5%

Ratio of female managers  
(October 31, 2025)

20.4%

Ratio of female members of the Board of Directors  
(October 31, 2025)

30.8%

Percentage of new graduate hires who are female  
(FY2024)

50.0%

Average duration of service of men and women  
(FY2024)

Male **13.5** years    Female **15.3** years

Employment rate of persons with disabilities  
(October 31, 2025)

2.7%

Average overtime per worker per month  
(FY2024)

11.1 hours

Percentage of employees taking paid leave  
(FY2024)

79.0%

Percentage of eligible male employees taking childcare leave\*3  
(FY2024)

118.2%    **34.0** days

Disparity in pay between male and female employees\*4  
(Female employees' average pay as a percentage of male employees' average pay)  
(FY2024)

all employees **66.6%**    regular employees **62.8%**    non-regular employees **59.5%**

\*3 Calculation method: No. of male employees taking childcare leave in that fiscal year ÷ No. of male employees whose partner gave birth in that fiscal year × 100.  
 Please note that, due to the difference in timing between the time of giving birth and the time of taking childcare leave, the result may exceed 100%.

\*4 The main reasons for the disparity in wages between male and female employees are the fact that the percentage of employees in managerial roles who are female is low, and the high percentage of female employees on the clerical career track, which has a different salary structure (starting from FY2010, in principle all new employees are recruited onto the management career track). Going forward, we intend to reduce the wage disparity by continuing to promote the appointment of female employees to management positions.

## 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	<b>0 to 3.3% (tax included)</b>	Compensation for product explanation or provision of product information at purchase, provision of investment information, and executing transaction	The <b>maximum fee payable will be 33,000 yen</b> 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)	<b>0 to 0.5%</b>	Deducted from the proceeds of redeemed amount and transferred to trust assets to cover expenses, etc. required for redemption	The <b>maximum fee payable will be 5,000 yen</b> 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 <b>0 to 1.98% (tax included)</b>	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 <b>maximum fee payable will be around 55 yen per day</b> 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.

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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.
- The content of this report is based upon sources believed to be reliable, but their accuracy, correctness or complete-ness are not guaranteed. The content, including performance of investments, etc., is based on past data and is neither an indication nor a guarantee of future performance. The intellectual property rights and all other rights relating to the indexes, statistical data, etc. used in this report are the property of their respective issuers or licensors. The information presented in the report was correct at the time of compilation, and is subject to change without notice.
- 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.



#### Management Company

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

#### Memberships

The Investment Trusts Association, Japan

Japan Investment Advisors Association

Type II Financial Instruments Firms Association