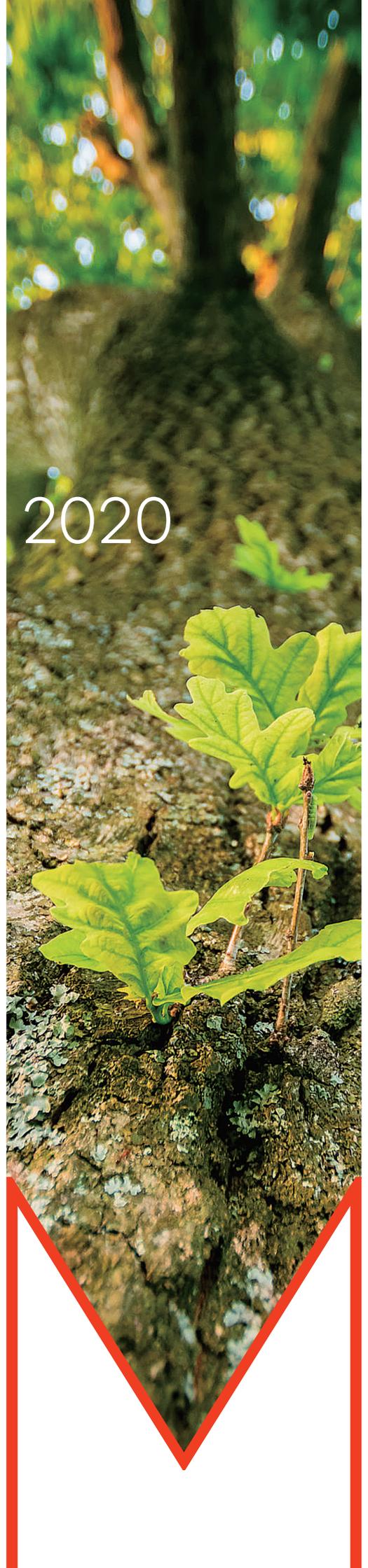
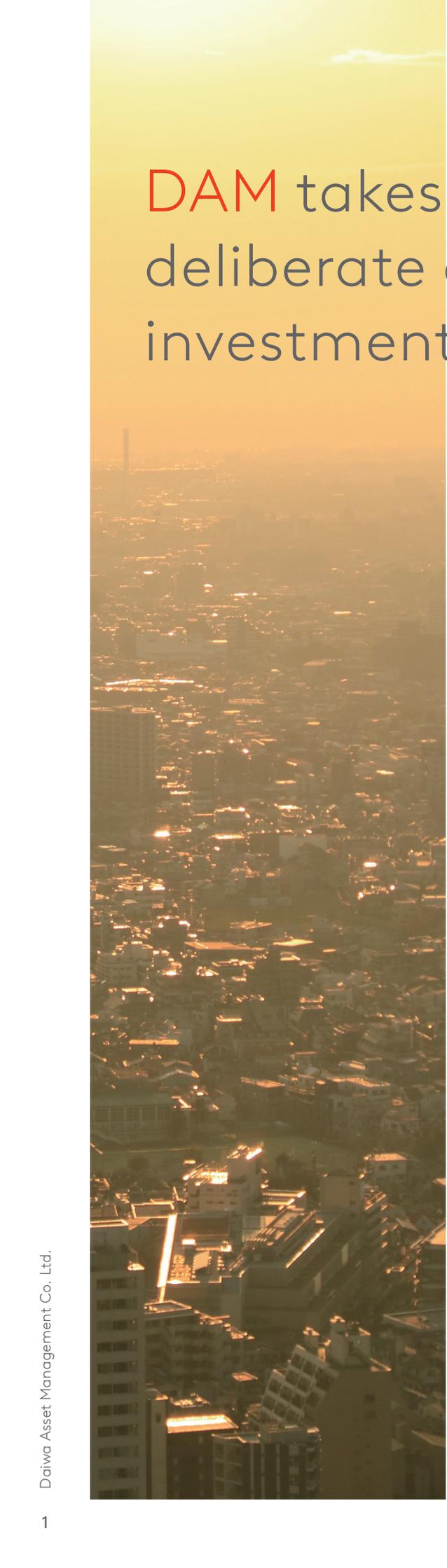


Stewardship Report 2020



An aerial photograph of a city at sunset, with the sky transitioning from a bright yellow-orange to a darker, hazy blue. The city lights are visible, creating a warm, golden glow over the urban landscape.

DAM takes a thoughtful and deliberate approach to investment stewardship.

— What is “Stewardship”?

Stewardship is the responsibility of the person entrusted with managing the property by those who manage assets on someone else’s behalf.

In other words, it is the fiduciary duty taken on when managing assets that have been entrusted by an institutional investor such as an investment trust management company and investment advisory firm.

— What is the Stewardship Code?

The Stewardship Code is the set of principles governing how institutional investors should fulfill their fiduciary duty by promoting the medium- and long-term growth of investee companies through dialog, etc.

The first Stewardship Code was formulated as a code of conduct for institutional investors in the UK. Japan used the UK Stewardship Code as a model when formulating its own Principles for Responsible Institutional Investors (Japan’s Stewardship Code).

Regarding stewardship responsibility, Japan’s Stewardship Code notes “the responsibilities of institutional investors to enhance medium- to long-term investment return for their clients and beneficiaries by improving and fostering the investee companies’ corporate value and sustainable growth through constructive engagement, or purposeful dialog, based on in-depth knowledge of the companies and their business environment.”

Activities undertaken by institutional investors in order to fulfill their stewardship responsibilities are known as “stewardship activities.”

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Message from the President



Koichi Matsushita

President,
Daiwa Asset Management Co. Ltd.

Enhancing the value of investee companies while also contributing toward the realization of a sustainable society

Providing support for all aspects of life on Earth, including social and environmental aspects

Looking back over the year 2020, it is clear that we cannot avoid making reference to the COVID-19 epidemic. For those living in Japan, the typhoons and torrential rains of 2020 will also be fresh in people's memories. I would like to take this opportunity to express my sincere sympathy for all of those affected by the epidemic and by natural disasters, and to express the respect and gratitude that I feel toward the medical professionals and other people throughout Japan who have been treating COVID-19 or working to prevent its spread, and toward everyone who has been working to carry on normal social and economic activities while also implementing measures to combat the spread of COVID-19.

At times like these, one feels more than ever just how important it is to ensure that society continues to function, and that people can live their lives in safety.

In December 2019, our company celebrated its 60th anniversary, and in April 2020 we marked the beginning of a new era with the changing of the company's Japanese name (the company's English name, Daiwa Asset Management Co. Ltd. [DAM], remained unchanged). Looking ahead, we will be responding to the challenges posed by this era of high uncertainty; in order for us to be an enterprise that is indispensable to society by the time we reach our 100th anniversary, it is vitally important for all company executives and employees to be working together as one to achieve the same goals.

To this end, we launched a special project, with mid-career staff and younger employees who will be playing key roles at the company in the future comprising most of the project team. After lively discussion regarding both DAM and the asset

management industry as a whole, we have formulated a new vision for the company, along with a set of key values that will represent important guidelines for us.

Our new vision is “All Challenges for All Investors—Creating opportunities for everyone who continues to take on new challenges.”

DAM believes that investment has the power to build the future. All of the challenges that we take on are for the benefit of all investors. By continuing to work together with investors as partners to take on new challenges, we aim to use investment to realize a future with real opportunities.

The “Investors” in “All Challenges for All Investors” refers to more than just investors in the narrow sense. Here, “Investors” means anyone who is taking on challenges in order to build the future, including people

who are trying to launch something new, and people who make a continued effort to achieve something. Furthermore, “Investors” in this sense does not only refer to individuals; it includes individual investors, but also investee companies and distributors, as well as shareholders and DAM’s own company executives and employees, as well as the society and environment in which we operate. In other words, it embraces everything on Earth that is engaged in an ongoing process of challenging itself.

We at DAM seek to support every aspect of life on Earth, including society and the environment. With this in mind, we have adopted a new corporate vision that commits us to continuing to challenge ourselves. In addition, we have chosen “Enhance Global Sustainability” as one of the values that represent the guidelines we will follow.

DAM employees will be working together as one, challenging themselves to maintain and enhance the sustainability of society as a whole

While our company’s basic mission is to do our utmost to achieve the objectives specified by our investment strategies, and to fulfill our fiduciary duty (including the duty of loyalty and the duty of due care of a prudent manager), I believe that, by adopting various approaches to the companies and organizations that issue the stocks and bonds in which we invest, or in which we may invest in the future, we can not only help to boost their corporate value but also enhance sustainability, and contribute toward maintaining and enhancing the sustainability of society as a whole.

The measures that play a key role in achieving this are our stewardship activities, including engagement activities. In FY2020, DAM strengthened its organizational framework by establishing an independent department to handle stewardship activities and ESG (environmental, social and corporate governance) issues. I believe that this new department

will be able to demonstrate a high level of expertise and execute its tasks expeditely and efficiently.

In Japan the concept of “Three-way satisfaction (benefiting the vendor, the buyer and society as a whole)” has existed since it was espoused by the Omi merchants several hundred years ago. As I see it, the concept that business transactions should be of benefit not only to the purchaser and seller who are directly involved, but also to the world in general, remains just as valid today.

Getting involved in the investment chain, all DAM employees will be working together with the aim of contributing toward “Every-way satisfaction”—the parties directly engaged in the investment chain, the stakeholders of the investee company, the local community where the investee company is based, society and the state—through stewardship activities.

Anticipated
future

Vision

Compass

Value

Fundamental
principles

Corporate principles of the
Daiwa Securities Group

Assets under management

(trillion yen)

20.0

15.0

10.0

5.0

0

March 31, 2010

March 31, 2011

March 31, 2012

March 31, 2013

March 31, 2014

9.77

9.87

9.63

11.06

12.49

The future that we are aiming to help create

All Challenges for All Investors

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

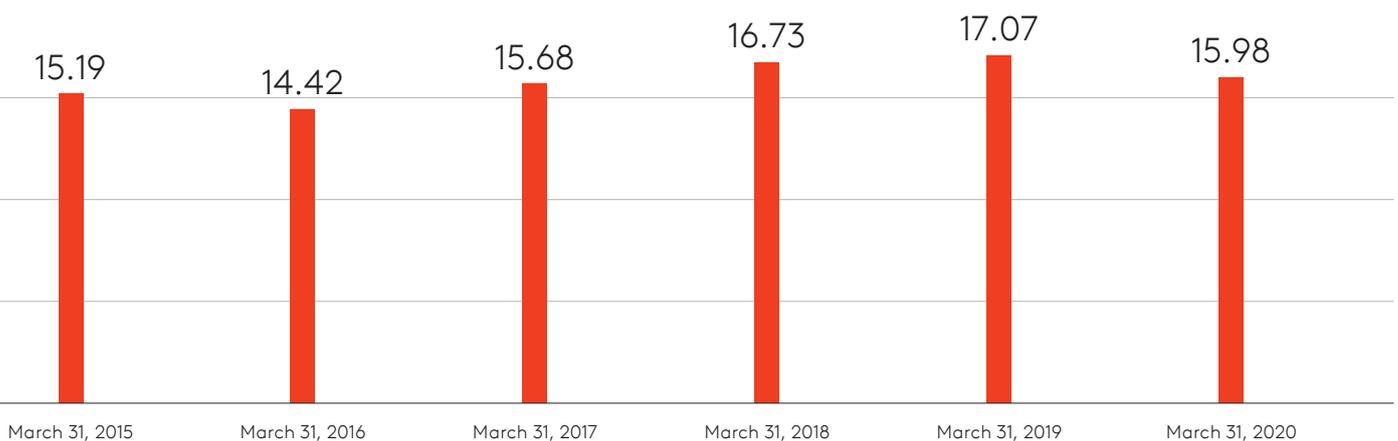
Investment has the power to build the future.

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

All of DAM's company executives and employees keep in mind and act up to the following six principles:

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





Stewardship Activities Framework

DAM's stewardship activities policy

General Policy on Stewardship Activities

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

To realize this goal, in addition to making appropriate choices regarding which stocks and bonds to invest in, it is also vitally important to enhance the medium- and long-term value and sustainability of the companies and organizations (hereinafter referred to as "companies, etc.") 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, DAM 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 various policies that conform to this approach are disclosed on DAM's website (in Japanese)

- ESG Investment Policy, including DAM's approach to sustainability
- Engagement Policy which stipulates how DAM should engage in constructive engagement with investee companies
- Proxy Voting Policy, which stipulates how proxy voting should be conducted

+ WEB For more details, please visit the following webpage (in Japanese).

📄 <https://www.daiwa-am.co.jp/company/managed/result.html>

Framework for stewardship activities

Regarding DAM's stewardship activities, in order to ensure thorough separation of corporate management and fund management, stewardship activities are undertaken in a systematic manner, subject to deliberation by the Stewardship Committee, composed of personnel from the Fund Management Division whose roles are related to stewardship activities, under the direction of the Chief Investment Officer (CIO).

In addition, the Stewardship Supervisory Committee, the members of which comprise the company's Outside Directors plus the Director with responsibility for legal & compliance (who oversees matters concerned with the

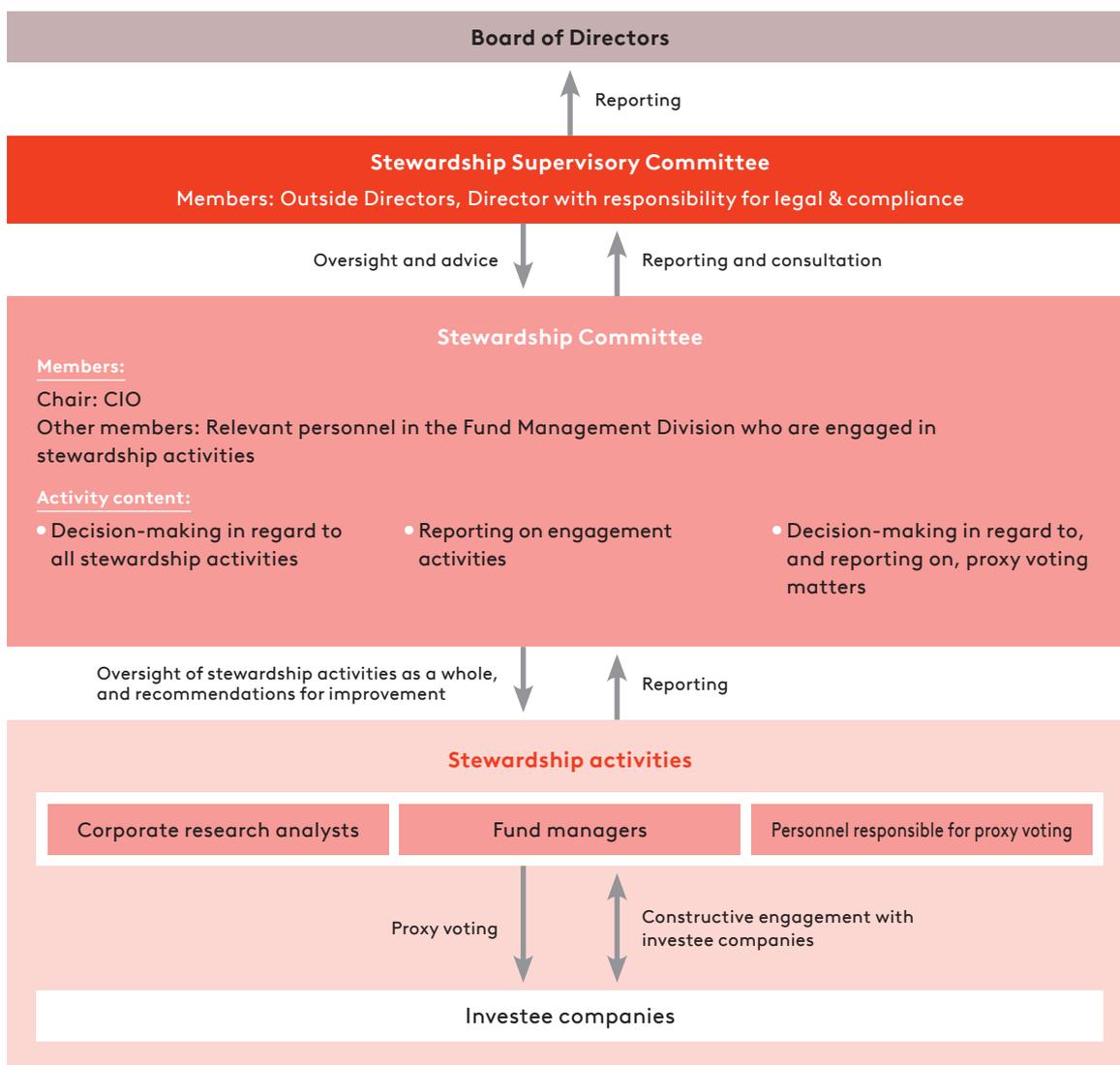
management of conflict of interest) exercises overall oversight over stewardship activities, submitting reports to the Board of Directors and recommending improvements to stewardship activities where necessary.

There is a requirement that more than half of the members of the Stewardship Supervisory Committee be Outside Directors, and the Committee's Chairperson must also be an Outside Director, which helps to ensure the Committee's independence, and also helps to ensure the effective operation of checks and balances.



The Stewardship Committee

Framework for stewardship activities



Message from Chairperson of the Stewardship Supervisory Committee

Looking forward to a further expansion and deepening of constructive engagement with investee companies

Toyosaku Hamada

Outside Director

Daiwa Asset Management Co. Ltd.



The position of Chairperson of the Stewardship Supervisory Committee has been held by an Outside Director ever since the Committee was established in January 2017. The Committee meets three times a year, to strengthen governance and ensure effective conflict of interest management in relation to DAM's stewardship activities.

In my role as Chairperson of the Stewardship Supervisory Committee, what I most hope to see in DAM's stewardship activities in the future is a further expansion and deepening of constructive engagement with investee companies. Particularly with regard to the following three areas, I believe that DAM can implement effective dialog.

Firstly, DAM should encourage investee companies to further enhance the transparency and agility of information disclosure, both internally and externally. Transparency and speed are the foundations on which the soundness and efficiency of corporate management rest. I believe that, in DAM's stewardship activities, the company should be striving for even more productive dialog with investee companies, based on the building of consensus with their managers.

Secondly, in order to bring about even more thorough implementation of governance, compliance, etc. by investee companies, there is a need for ongoing dialog

to support the creation of the conditions needed for helping the investee company's Outside Directors and Outside Corporate Auditors to fulfill their respective roles with greater precision and timeliness.

Finally, I feel that DAM needs to strengthen its ability to offer constructive suggestions regarding the promotion of Diversity & Inclusion at investee companies. This can include not just promoting respect for and fostering of diversity, but also maximizing companies' operational efficiency by making full use of latent, currently under-used resources. I hope to see a significant increase in concrete dialog with investee companies regarding Diversity & Inclusion from this perspective.

In the above paragraphs I have outlined what I hope to see in DAM's stewardship activities in terms of focusing on engagement in relation to the fundamental aspects of enterprise management. I would also hope to see greater clarity and consistency in regard to proxy voting, which represents a concrete expression of opinion in regard to investment activities and investee companies, with respect to efforts to help realize a sustainable society by fulfilling one's fiduciary duty as a responsible investor and keeping the United Nations' Sustainable Development Goals (SDGs) in mind.



Major activities in 2020

Policies regarding Japan's Stewardship Code

In May 2014, DAM announced that it was adopting the Principles for Responsible Institutional Investors (Japan's Stewardship Code), and DAM subsequently announced its Policies regarding Japan's Stewardship Code. This Policy was revised in September 2020 in response to the revision of the Code in March 2020.

+ WEB For more details, please visit the following webpage (in Japanese).

<https://www.daiwa-am.co.jp/company/managed/result.html>

TCFD

Due to the immense scope of its impacts, we consider climate change to be one of the most important ESG issues. In order to be able to identify the risks and opportunities for investee companies, the disclosure of accurate information is vitally important. Sharing the vision of the Task Force on Climate-related Financial Disclosures (TCFD), which promotes the disclosure of climate-related information that could have a financial impact, in December 2020 DAM formally announced its support for the TCFD, and joined the Japan TCFD Consortium.



30% Club Japan Investor Group

The 30% Club Japan Investor Group is a group of asset owners and asset management companies that aims to ensure that the importance of gender diversity and gender equality is recognized throughout all levels of organizations, by means of stewardship activities that include constructive engagement with investee companies.

DAM supports the activities of the 30% Club Japan Investor Group, and became a member of the Group in May 2020.



Establishment of the Stewardship & ESG Department

By making what was formerly the Stewardship & ESG Section of the Research Department into a separate department, DAM has put in place the framework needed for further promotion of stewardship activities and of measures to address ESG issues within the company. As of December 31, 2020, the Stewardship & ESG Department staff included five personnel responsible for proxy voting matters, and 12 corporate research analysts (who are also concurrently assigned to the Active Fund Management Department II).

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, besides striving to fulfill its fiduciary duty, DAM also carries out its daily operations in line with the company's corporate principle, which emphasizes putting the customer first. When conducting asset management operations, DAM keeps in mind the possibility that conflict of interest might arise between DAM and the beneficiaries of the investment trusts established and/or managed by DAM or jointly by DAM and another Daiwa Securities Group member company (hereinafter referred to as "Beneficiaries"). With this in mind, to prevent the inappropriate causing of harm to the interests of Beneficiaries, DAM 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 DAM funds with peace of mind, DAM has formulated a Management Policy for Conflict of Interest, a summary of which is presented on the company's website.

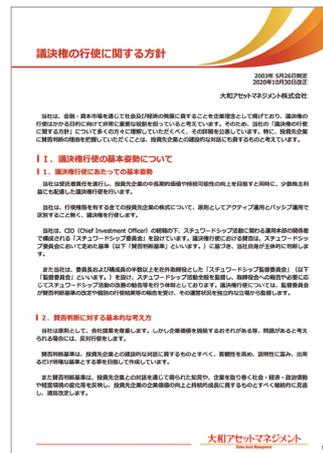
+ WEB For more details, please visit the following webpage (in Japanese).
<https://www.daiwa-am.co.jp/company/policy/interest/index.html>

Conflict of interest management in relation to proxy voting

With regard to proxy voting, conflict of interest management is implemented as outlined below.

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 (DAM'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 advisors, so as to avoid conflict of interest and ensure the neutrality of the decision. However, if the advice given by the external proxy advisors is inappropriate, for instance due to questions of reliability, the Stewardship Committee shall decide whether to approve or disapprove the proposals independently. In these cases, we will avoid conflict of interest and ensure our neutrality by reporting to the Stewardship Supervisory Committee the details and the reasons why the advice was deemed inappropriate, as well as the contents of specified deliberations and decisions by the Stewardship Committee. In addition, the Stewardship Committee may receive advice from the Stewardship Supervisory Committee before specified deliberations or decisions by the Stewardship Committee, as necessary.

+ WEB For more details, please visit the following webpage (in Japanese).
https://www.daiwa-am.co.jp/company/managed/guideline_03.pdf





Engagement Activities

Framework for engagement activities

DAM's engagement activities are implemented with the corporate research analysts, the personnel responsible for proxy voting, and the Engagement Team (composed of corporate research analysts and fund managers) as the three core elements. This framework enables each

element to undertake in-depth exploration of its own area of competence, while also enabling engagement activities to be conducted with effective coordination between the three core elements.

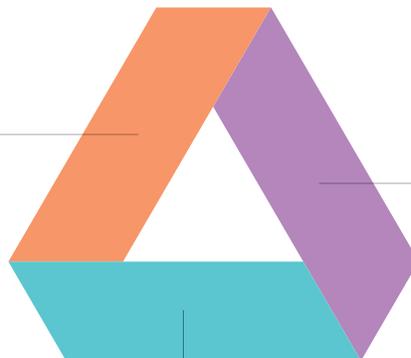
The key elements of engagement activities	Main activities
Corporate Research Team	<ul style="list-style-type: none"> Composed of corporate research analysts, this team undertakes research activities relating to corporate value, business strategy, ESG and also holds related meetings
Proxy Voting Team	<ul style="list-style-type: none"> Composed of personnel responsible for proxy voting, this team holds meetings relating to corporate governance and the exercise of voting rights Passive engagement
Engagement Team	<ul style="list-style-type: none"> Composed of fund managers and analysts, this team holds in-depth meetings with investee companies that are heavily represented in actively-managed fund and which are being invested in over the medium- to long-term



Corporate Research Team



Engagement Team



Proxy Voting Team

Engagement activities policy

In June 2014, DAM announced the Engagement Policy, which was formulated with the aim of facilitating dialog that would contribute toward enhancing corporate value and realizing sustainable growth.

Subsequently, the Policy has been revised in line with changes in what was required from constructive engagement, and in September 2020 the Policy was comprehensively overhauled. Regarding the perspectives that need to be emphasized in relation to

dialog, in addition to the business strategy perspective and the perspective relating to dialog with investors and related disclosure, the revised Engagement Policy also incorporates what DAM sees as key ESG issues, and specific points to focus on.

In line with the above policy, DAM undertakes active engagement with business enterprises in relating to both financial and non-financial (including ESG issues) areas.

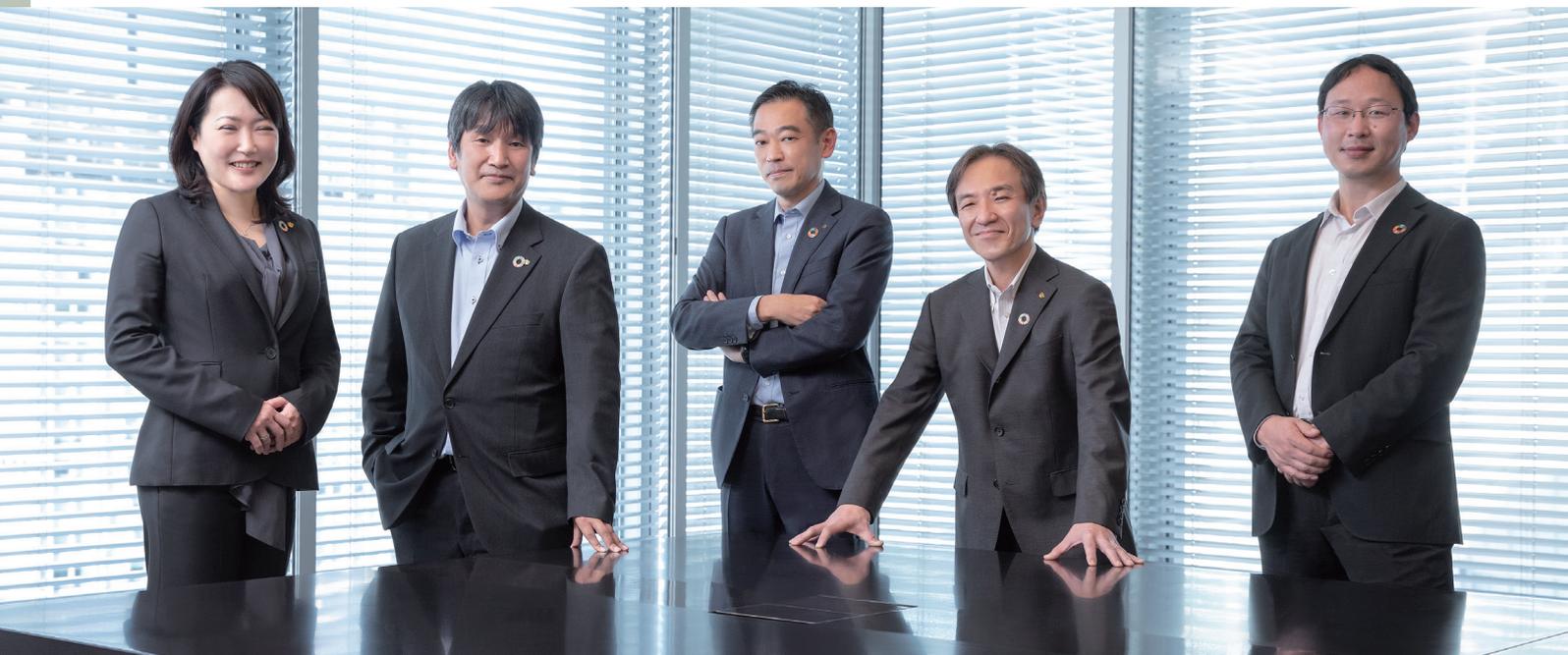
Materialities on environmental, social and governance (ESG)

	Key issues	Specific points
Environmental	Climate change	<ul style="list-style-type: none"> • Greenhouse gas emissions • Responding to climate change risk
	Natural capital	<ul style="list-style-type: none"> • Environmental pollution • Resource conservation
Social	Social responsibility	<ul style="list-style-type: none"> • Contributing toward the building of a healthy, safe society • Supply chain management
	Human capital	<ul style="list-style-type: none"> • Effective utilization of human capital
Governance	Measures aimed at corporate value enhancement	<ul style="list-style-type: none"> • Governance framework • Risk management • Improving capital efficiency • Engagement

+ WEB The Engagement Policy is presented on DAM's website (in Japanese).

https://www.daiwa-am.co.jp/company/managed/Dialoguepolicy_202009.pdf

Discussion meeting: DAM's engagement activities



Interlocutor

Yuka Shimada

Head of Active Fund Management
Department II
and Head of Stewardship & ESG
Department

Corporate Research Team

Tadashi Terashima

Chief Analyst
(Non-manufacturing),
Active Fund Management
Department II
and Stewardship & ESG Department

Yuji Watanabe

Chief Analyst (Manufacturing),
Active Fund Management
Department II
and Stewardship & ESG
Department

Proxy Voting Team

Fumiaki Saguchi

Managing Director,
Stewardship & ESG Department

Engagement Team

Iori Nakayama

Senior Fund Manager,
Active Fund Management
Department II

— Could you give us an overview of the engagement activities of your respective teams?

Terashima: Analysts engage in discussion regarding the measures that enterprises take to address management issues that could affect corporate value. On the basis of the analysts' own experience and know-how, we share information which we believe will be useful to the enterprise and offer suggestions, engaging in dialog that can contribute to forward-looking, self-directed change at the enterprise in question as part of regular activities. As a first step for this process, it is necessary for the analyst to undertake intensive study in order to be able to provide information that will be genuinely useful to the enterprise; DAM has been working to enhance the ability of analysts as a whole to perform engagement through the compilation of a set of Business Strategy Case Studies, etc. In cases where more in-depth discussion of management issues is needed, we proceed to the holding of an Engagement Meeting by the

Engagement Team. Based on the information obtained through high-quality dialog of this kind, corporate research analysts are able to undertake activities that include forecasting sales and financial performance, and using capital costs to assess corporate value.

Nakayama: The Engagement Team analyses the management issues that could affect the corporate value of the investee company and, through constructive engagement, share the issues as seen by DAM and take steps to address them so as to enhance corporate value. At the Engagement Meetings, in order to be able to engage in dialog with the management of the investee company to the maximum extent possible, besides having an in-depth understanding of the investee company's current situation, it is also vital to have wide-ranging knowledge of case studies where other companies have successfully addressed similar

problems, and of the overall market environment, etc. To this end, in order that the Engagement Team can provide useful information to enterprises in a similar manner to analysts, the team members are expected to accumulate knowledge through intensive study on a daily basis. The activities undertaken by the Engagement Team thus involve promoting the enhancement of corporate value at investee companies through high-quality dialog.

Saguchi: Besides implementing the exercising of voting rights to investee companies, the Proxy Voting Team also promotes coordinated oversight over DAM's stewardship activities as a whole and promotes ESG integration, and collects information relating to ESG investment, etc. In addition, the Proxy Voting Team is responsible for holding SR Meetings that address approaches to corporate governance and the key themes relating to the exercise of voting rights.



In this discussion, I ask the Corporate Research Team, Proxy Voting Team and Engagement Team, respectively about DAM's engagement activities.

Interlocutor:

Yuka Shimada

— Could you outline the advantages of the “Three in One” approach that is a unique feature of DAM's stewardship activities?

Watanabe: I believe that achieving high-quality engagement depends not only on the attitude of the business enterprise that is being engaged with, but also on the extent to which we ourselves have the ability to provide effective proposals and suggestions, and whether we have the resources needed to do that. While our corporate research analysts have all accumulated their own experience and specialist knowledge, the support that they receive from other DAM colleagues who possess differing expertise and experience dramatically increases the resources available to each analyst. In the case of challenging dialog, the fact that the business enterprise is being engaged with by DAM's “Three in One” approach (with a combined effort by the Corporate Research Team, Proxy Voting Team and Engagement Team) can lead to effective dialog. Furthermore, engaging in discussion on a “Three in One” basis can lead to new insights, with different team

members being up to keep one another up-to-date on the latest trends in their respective fields. This is very useful in terms of fostering constructive engagement.

Nakayama: In order to encourage investee companies to enhance their corporate value, not only does DAM need to have a thorough understanding of the investee company, as a stakeholder taking a medium- to long-term perspective, DAM also needs to offer potentially unwelcome advice when necessary. Making effective use of the exercise of voting rights can also provide support to encourage investee companies to take the steps needed to enhance corporate value. This is why I believe that the utilization of collective wisdom through “Three in One,” and the adoption of a multi-faceted approach, can be very beneficial.

Saguchi: Over the past few years, there has been an increase in the number of companies that have positioned ESG as a core element in their business management,

integrated ESG measures into their medium-term business planning, and formulated key performance indicators (KPIs) that relate to ESG issues as well as those relating to financial performance. For this reason, there has been an increasingly pronounced trend for the content of the dialog in SR Meetings to include not only conventional matters relating to voting rights and corporate governance, but also medium- to long-term profitability and the business environment, etc. With the “Three in One” approach, we can engage in collaborative dialog in which each team contributes from its own specialist perspective, and we can express our views to the investee company from a multi-faceted perspective. In this way, we can share various kinds of information and develop a more precise understanding of the investee company.

With the “Three in One” approach, we can engage in collaborative dialog in which each team contributes from its own specialist perspective, and we can express our views to the investee company from a multi-faceted perspective.

Fumiaki Saguchi
Proxy Voting Team





Precisely because we have the sense of security provided by the “Three in One” approach, without giving up to difference in opinion we have been able to engage in repeated, active dialog with investee companies, which in turn is a factor helping to drive change at these companies.

Yuji Watanabe
Corporate Research Team

— Could you tell us some of things that have stuck in your memory in relation to dialog with investee companies, and what you have learned from these cases?

Watanabe: Our engagement with Company X extended over a period of three years. Initially, we had many differences of opinion with this company regarding the effective utilization of assets and regarding information disclosure, which resulted in very lively discussion. All of these engagement activities were undertaken on the basis of “Three in One,” and so were analyst interviews and presentations on the results of proxy voting. As a result of this process of engagement, the Company X started to become more proactive about disclosure. They started to hold small briefings for the first time, at which participants were able to hear about the company president’s business strategy, also for the first time. I felt that, in this process, the specialist expertise of the Proxy Voting Team and the extensive engagement experience of our fund managers played a very important role. Precisely because we have the sense of security provided by the “Three in One” approach, we can avoid giving in to differences of opinion, and we have been able to engage in repeated, active dialog with investee companies, which in turn is a factor helping to drive change at these companies.

Nakayama: Company Y was a technology-oriented firm. It had gone through a rough patch in the past, and as a result had adopted a

rather negative attitude to investment and to its financial strategy. As a result, the company was unable to take full advantage of opportunities that its technology created for it, and it made do with low corporate valuation resulting from low asset efficiency. On the other hand, because business areas that were vulnerable to market shocks accounted for a shrinking share of overall sales, while businesses with high value-added accounted for a growing share, the company was gradually strengthening its revenue base, and its surplus assets were increasing steadily every year.

With this in mind, working in collaboration with DAM’s analysts and the Proxy Voting Team, we pointed out to Company Y that it was becoming increasingly important for them to consider their return on equity (ROE) and their capital costs, and that, because currently most of their market value derived from financial assets, with most of the value of the enterprise not being properly assessed, if things continued in this way, there was a danger that shares in the company might be bought up by investors who would not be concerned about maintaining the company’s corporate value over the medium and long term. As the best strategy for addressing this situation would be to enhance Company Y’s corporate value, we

proposed to them that it would be an effective approach if they were to improve asset efficiency and strengthen growth-oriented investment. Subsequently, when Company Y announced its new medium-term plan, it included a provision for share buy-back for the first time.

However, the amount allocated for share buy-back was really insufficient, and we felt that they needed to do even more to enhance corporate value, so we decided that it would be necessary, when exercising voting rights, to vote against the company’s surplus allocation proposal, and this idea was submitted for review by the Stewardship Committee. Following the exercise of voting rights, when we explained why we had voted against Company Y’s proposal, they came round to an understanding of why we had adopted the stance that we had taken during our engagement with them.

Since then, at a time when growing numbers of companies were announcing a reduction in dividends due to the impact of the COVID-19 epidemic, Company Y announced that it was increasing the amount allocated for buy-back of its own shares. We also began to see changes in the company’s stance toward disclosure.

Following the exercise of voting rights, when we explained why we had voted against the investee company’s proposal, they came round to an understanding of why we had adopted the stance that we had taken during our engagement with them.

Iori Nakayama
Engagement Team



— **What kind of stewardship activities do you hope to see DAM implement in the future? And what message would you like to offer to investee companies?**

Terashima: I would like to see an increase in engagement with investee companies that incorporates the perspective of quantitative analysts and strategists, using a “Three in One Plus” approach (effectively leveraging the horizontal and hierarchical relationships within DAM). Also, because it is very disappointing when investee companies just tell us that the advice we gave them was “useful,” without going into detail, I would like to see investee companies express their views about the recommendations they get from DAM more frankly.

Nakayama: There are various different factors that can cause problems when trying to enhance corporate value. The range of issues discussed during Engagement Meetings is becoming more diverse, covering not only disclosure and asset strategy, but also ESG-related dialog, dialog relating to the company’s medium-term strategy and long-term vision, cross-shareholdings, dialog relating to optimal capital structure, etc.

Against this background, there has been an increase in the number of requests received from investee companies for the holding of Engagement Meetings. This can be taken as evidence that investee companies have come to realize that in-depth dialog based around the “Three in One” approach is

beneficial dialog that can contribute toward enhancing corporate value for the investee company.

As regards measures for further intensifying this kind of dialog, which is an important issue for the future, the key here is to achieve a further evolution of the “Three in One” approach. Given that DAM has many economists, strategists and other experts, I hope that we can make more use of the expertise of specialists of this kind in stewardship activities in the future.

As one example of how different types of know-how can be utilized effectively, DAM recently held a joint Engagement Meeting in collaboration with a credit analyst from a securities firm. During this meeting, by making full use of the expertise that the credit analyst possessed as a financial specialist, we were able to engage in more in-depth discussion regarding the optimal capital structure for the firm in question. We were also able to receive positive feedback from the investee company that would be useful in formulating the next medium-term plan. Based on case studies of this kind, it can be seen that the effective utilization of internal and external know-how has an important role to play in strengthening stewardship activities.

Saguchi: When undertaking engagement or the exercise of

voting rights, it is vital to have a correct understanding of the investee company’s current circumstances. This means that it is very important for the investee company to disclose information. For example, when deciding whether or not to vote in favor of a particular proposal when exercising voting rights, since the company’s financial statements for the current fiscal year have not yet been published, then the information contained in financial summaries and in the notice of convocation of the shareholders meeting will have to be used as references when making the decision, so it is desirable that all of the information needed for making the decision is contained in the notice of convocation. Similarly, in the case of situations relating to ESG measures, which account for the bulk of non-financial information, it is important for the relevant information to have been disclosed, regardless of the format. I feel that it is very important for investee companies to be more proactive about company disclosure.

I would like to see an increase in engagement with investee companies that incorporates the perspective of quantitative analysts and strategists, using a “Three in One Plus” approach.

Tadashi Terashima

Corporate Research Team

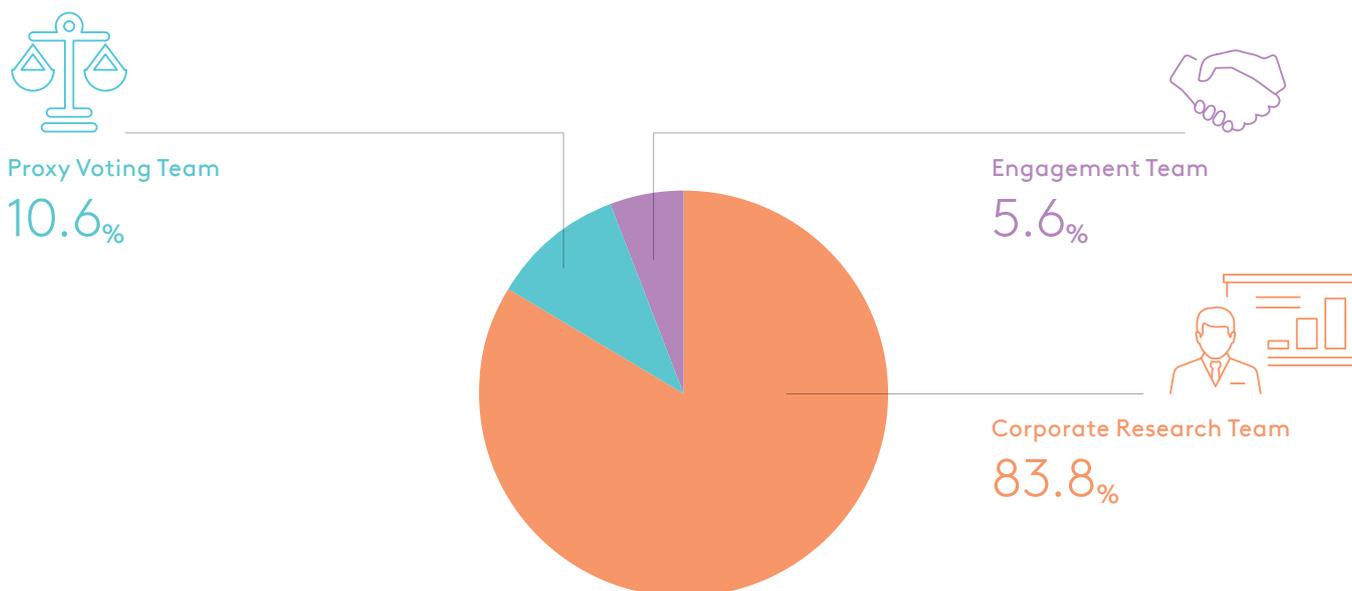


Engagement activities

Engagement activities based on direct dialog

In the most recent fiscal year, DAM implemented engagement activities that involved opportunities for direct dialog with approximately 570 companies.

The figure below shows these engagement activities broken down according to which team played the leading role in implementing them.



Most recent fiscal year: January 2020–December 2020
(The same definition shall apply to subsequent references to “most recent fiscal year”)

Engagement for passive fund

As a result of the growth in the outstanding amount of ETF in recent years, Japanese equity index funds have come to account for a steadily higher share of all investment trusts used by DAM. Viewed in terms of DAM’s fiduciary duty, it is clearly important to implement engagement with respect to the investee companies included in index funds.

However, the total number of companies in question is very high, exceeding 2,300 companies. Starting from

2018, DAM has positioned giving investee companies included in Japanese equity index funds an understanding of DAM’s stewardship activities as a first step for engagement, and has distributed copies of DAM’s Proxy Voting Policy to these companies.

In the most recent fiscal year, besides the Proxy Voting Policy, DAM has also distributed materials outlining our approach to IR activities and Diversity & Inclusion.

Overview of annual activities

The engagement activities in which each team acted a leading role are outlined below.



Corporate Research Team

The Corporate Research Team undertakes engagement as part of its regular analyst activities, and as such engagement activities are concentrated in the periods after investee companies announce their financial results.

	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Periods in which announcement of financial results is concentrated												
Periods of implementation of engagement activities												



Proxy Voting Team

Engagement by the Proxy Voting Team mainly takes place outside the main periods when most shareholders meetings are held. June is the month that has the most shareholders meetings; every year, DAM exercises voting rights at the shareholders meetings of around 1,600 domestic investee companies in the month of June. DAM's Proxy Voting Policy is adjusted as necessary in line with the knowledge obtained through engagement and with changes in the corporate governance situation, etc.

	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Periods in which the holding of shareholders meetings is concentrated												
Periods of implementation of engagement activities												
Periods in which the need for revision of the Proxy Voting Policy is reviewed												



Engagement Team

Engagement activities by the Engagement Team involve dialog with top executives of the target company, including the CEO as senior as possible, and so these activities are conducted throughout the year without any particular seasonal variation.

	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Period of implementation of engagement activities												



Corporate Research Team

Overview

As part of their regular analyst activities, DAM's corporate research analysts conduct stewardship activities that contribute to the enhancement of corporate value and to sustained growth. There are a total of 12 analysts (as of December 31, 2020), divided into two teams: Manufacturing and Non-manufacturing.

The implementation of constructive engagement makes use of various shared platforms and tools, including: ① The Analyst Handbook, which outlines the fundamental approach to be followed and presents the knowledge which underpins analyst activities; ② The Business Strategy Case Studies, which are based on analysis of actual business enterprise management strategies; ③ Qualitative analysis, in which companies are assessed qualitatively from a medium- and long-term perspective in terms of both financial and non-financial aspects; ④ The compilation of a Long-term Corporate Valuation Model, to determine companies' fair value over the medium to long term.

Analysts undertake analysis of individual companies

based on the Analyst Handbook and Business Strategy Case Studies, and then use this analysis as a basis for engaging in constructive engagement that is aimed at enhancing corporate value from a medium- and long-term perspective and realizing sustainable growth. The results of this dialog are reflected in the estimation of fair value using qualitative analysis and the Long-term Corporate Valuation Model, and in the ESG Score calculated by DAM.

Furthermore, the fair value as estimated using qualitative analysis and the Long-term Corporate Valuation Model serves as a reference for further dialog, on the basis of which the Analyst Handbook and Business Strategy Case Studies can be revised and expanded. Through the accumulation of constructive engagement and a continuing cycle of improvement of the four key platforms and tools, DAM aims to realize further enhancement of analysts' research activities and of stewardship activities.

Constructive engagement by analysts and key platforms and tools



① Analyst Handbook

The Analyst Handbook is a compilation of the fundamental knowledge that DAM analysts should possess, and the things they should be aware of, as the basis for their work. The first edition was compiled in September 2015; a revised third edition was completed in December 2018. The Analyst Handbook is utilized extensively as a means of sharing knowledge about the basics of analyst activities, including the background to the Stewardship Code and Corporate Governance Code, important points to note regarding ROE and capital costs, DAM's approach to ESG, the points to emphasize when engaging in dialog with companies, etc.

② Business Strategy Case Studies

When evaluating a company from a medium- or long-term perspective, it is vital to be able to accurately recognize and evaluate the company's business strategy. To this end, DAM analysts hold periodic business strategy study meetings. The Business Strategy Case Studies brings together the results of analysts'

research and analysis in relation to business strategy, with a main focus on the topics addressed at study meetings. The Business Strategy Case Studies constitutes an important reference for analysts when engaging in dialog with companies.

The Business Strategy Case Studies have been revised as needed. The seventh edition, which was published in March 2020, incorporates case studies of other companies that DAM analysts have used when engaging in constructive engagement with investee companies, as well as examples of constructive engagement that proved particularly effective. The eighth edition, published in October 2020, includes case studies relating to risk management, the importance of which has been re-emphasized by the major impact on business management resulting from changes in the external environment such as the COVID-19 epidemic and U.S.-China trade friction.

Extensive use is made of the Business Strategy Case Studies at the Engagement Meetings held by DAM's Engagement Team.

③ Qualitative analysis

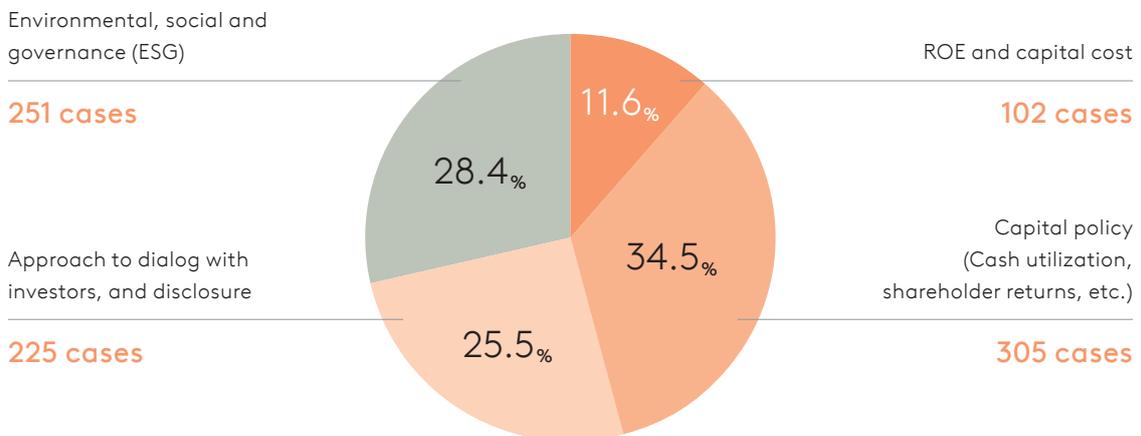
Besides quantitative evaluation of companies based on earnings forecasts, etc., DAM’s analysts also conduct qualitative analysis on an ongoing basis. Qualitative analysis is carried out using a three-stage process that examines six items—growth, profitability, continuity, financial strategy, ESG and IR—from a business strategy perspective over the medium and long term. Growth is evaluated by breaking it down into four component elements: business strategy, market growth, market share, and business model. The number of stocks for which qualitative analysis has been conducted has risen from approximately 300 in the previous fiscal year to around 500 in the most recent fiscal year, with a focus on stocks that are deemed to have strong growth potential over the medium and long term, and stocks where the quality of management is evaluated as being particularly high.

④ Long-term Corporate Valuation Model

DAM began to make large-scale use of the Long-term Corporate Valuation Model starting from April 2017, with the aim of achieving greater precision in the estimation of corporate value over the medium and long term. Using the residual income model (RIM) as the corporate valuation method, long-term corporate value (i.e., fair value) is estimated. When performing this estimation, as capital cost will vary depending on the quality of the financial strategy, ESG and IR in the qualitative analysis (item ③), if the qualitative evaluation is high, then capital cost will be low, and corporate value will be higher. The analysts present fund managers with an investment rating and target share price for each company for a period of between six months and one year; here too, fair value is indicated using the Long-term Corporate Valuation Model, to provide a reference for investment from a long-term perspective.

Activity

In the most recent fiscal year, the Corporate Research Team undertook engagement with around 480 companies. This engagement can be divided into four major categories: (a) ROE and capital cost; (b) Capital policy; (c) Approach to dialog with investors, and disclosure; (d) ESG. The distribution of engagement activity when broken down into these categories is shown below.



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



Proxy Voting Team

Overview

The 5 members (as of the end of December, 2020) of the Stewardship & ESG Department’s Proxy Voting Team have main responsibility for holding meetings that are focused primarily on investee companies’ corporate governance and on the exercise of voting rights.

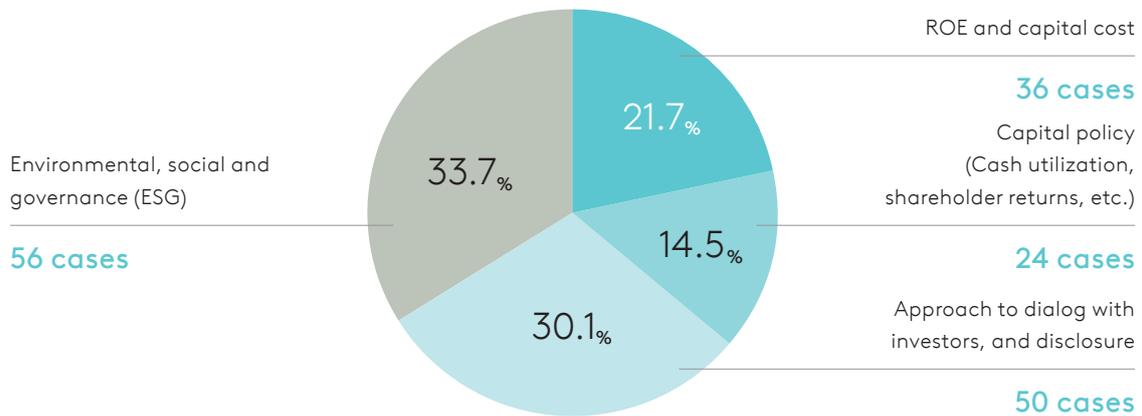
The Proxy Voting Team collects information from the investee company that is needed for making decisions regarding the exercise of voting rights. In addition, during the course of the dialog with the investee company, the Team outlines the proxy voting strategy and DAM’s expectations of the investee company in terms of corporate governance, with the aim of having

consensus with the investee company.

In recent years, the topics discussed at governance meetings have no longer been limited to matters relating to the exercise of voting rights and to governance systems; they have expanded to also include medium- and long-term profitability, the business environment, ESG, etc. In cases where it is anticipated that business strategy, etc. may be discussed during the meeting, DAM analysts will also be asked to attend; the Proxy Voting Team and Corporate Research Team work collaboratively to engage in dialog with investee companies.

Activity

In the most recent fiscal year, the Proxy Voting Team undertook engagement with around 60 companies. The distribution of engagement activity when broken down into these categories is shown below.



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



Engagement Team

Overview

Following the adoption by DAM of the Principles for Responsible Institutional Investors (Japan's Stewardship Code), in June 2015 the Engagement Team was established, bringing together analysts and fund managers for combined activity.

The main target for engagement activity by the Team was positioned as being companies that accounted for a high share of holdings in actively managed funds, and where there was felt to be potential for enhancing corporate value through investor relations (IR) improvements and changes in the measures taken by the firm resulting from dialog with DAM.

The emphasis in these Engagement Meetings is on discussion from a medium- and long-term perspective, and as far as possible dialog is held with senior managers of the company in question, including the CEO. The Engagement Team draws up the agenda for the dialog, and clarifies its purpose.

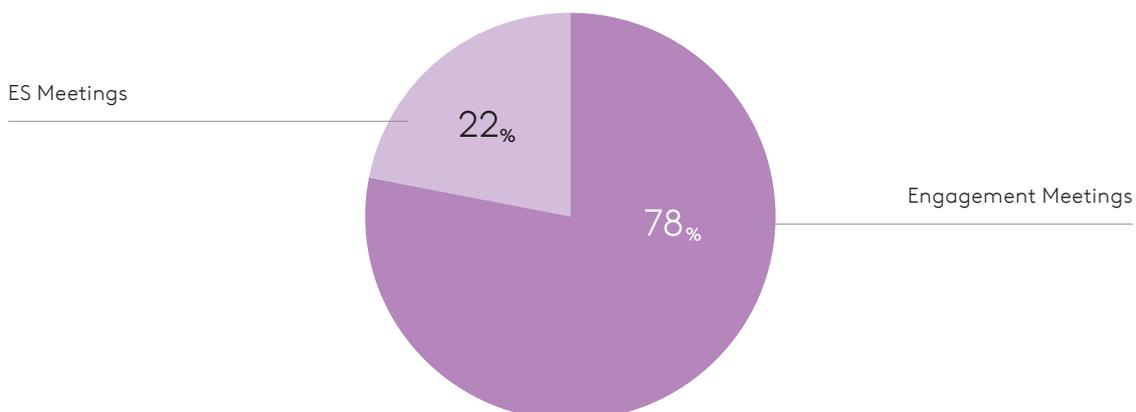
In addition, besides implementing KPI management (visualization) with respect to engagement progress status and collating relevant issues, the Engagement Team also shares information about engagement progress status within the company.

Activity

In the most recent fiscal year, the Engagement Team undertook engagement with around 30 companies.

With the growing importance of ESG measures in relation to the process of medium- and long-term value creation for investee companies, the Engagement Team felt that, relative to dialog with investee companies relating to governance (G), there had tended to be insufficient dialog relating to the environmental and social (ES) aspects.

In the most recent fiscal year, the Team aimed to expand the content of dedicated ES Meetings focused on environment impact and on social responsibility, and the Team undertook repeated dialog with investee companies relating to the importance of the "ES" aspects for building corporate value over the medium and long term.



Examples of engagement activities

Corporate Research Team

Company A (Service sector)

Issues

How to disclose the company's plans during the COVID-19 epidemic.

DAM's proposals

After clarifying the preconditions, DAM explained that outlining the company's business strategy in the current business environment was definitely worthwhile. It was also explained that, even if the external environment changed, the company's ability to engage in discussions with investors would have been facilitated, and that this could be expected to reduce share price volatility around the time when the company announces its financial results.

Outcome

The company's plans were disclosed, and although they announced that their earnings projection had been revised downward mid-year, they were able to prevent volatility in the share price.

Company B (ICT sector)

Issues

How to disclose performance and growth strategy, and what content to include in the disclosure.

DAM's proposals

It was pointed out that, in the company's past disclosure, information disclosure regarding a business area with a high market growth rate had been inadequate, and that this could be misleading for investors. DAM also expressed its opinion that the company should disclose the sales of other businesses related to the business area in question.

Outcome

A breakdown of sales was disclosed as a supplementary note to the financial results.

Company C (Machinery sector)

Issues

The company's share price was stagnant.

DAM's proposals

As it was felt that one reason for the stagnant share price was the gradual downward trend in ROE, DAM discussed ROE and dividend policy with the company. Given that the company had continued to accumulate free cashflow there was a discussion as to whether there should be a further expansion of shareholder returns, in order to enhance corporate value.

Outcome

The company noted that it expected to increase its dividend payout ratio.

Company D (Service sector)

Issues

The company needed to improve its capital efficiency.

DAM's proposals

DAM expressed the view that, while taking capital needs into account, the company should proceed with further improvements in capital efficiency by implementing balance sheet reform. In particular, the advisability of retaining cross-shareholdings was discussed, on a stock-by-stock basis.

Outcome

Subsequently, some of the cross-shareholdings that had been discussed were disposed of.

Proxy Voting Team

Main topics:

- Cross-shareholdings
- Executive compensation
- Whether it is intended to incorporate ESG into the Proxy Voting Policy
- Whether it is intended to raise the required percentage of Outside Directors
- Diversity

Engagement Team



Company E (Retail sector)

Issues

The company's profitability and growth were declining.

Background to the issues

Profits had been squeezed by rising H.R. costs, investment in new business areas and M&A activity, etc., as well as by the impact of natural disasters.

Suggested measures to resolve these issues

- Effective human resources management in line with the downturn in store operations, and reform of the operations, etc. of acquired companies
- Establishment of a plan for securing and cultivating human talent for new store opening

Anticipated situation after addressing the issues

The company would be able to realize an SG&A ratio that is much lower than its competitors, and achieve a pre-tax profit margin of around five percent, along with an annual average organic growth rate in the higher single digit.



Company F (Chemical sector)

Issues

- The company needed to improve asset efficiency, and to strengthen its foundations and achieve results as an R&D-oriented enterprise.
- The company needed to further develop communication with the stock market.

Background to the issues

As the company had already achieved a high level of profitability, efficiency and growth compared to other companies in the same sector, there tended to be a lack of motivation to strive to reach even higher levels.

Suggested measures to resolve these issues

- The company should strive for change on an ongoing basis, and should examine case studies of other outstanding, industry-leading companies (with high profitability, high efficiency and high valuation) and use these as a basis for implementing new measures within the company.
- The company should use disclosure of the progress made toward realizing its long-term vision as a means of invigorating communication with the stock market from a medium- to long-term perspective.

Anticipated situation after addressing the issues

- The company would be able to transform its operational structure into one which generates returns that exceed the cost of capital.
- The company would be able to put itself back on a growth path through the efficient utilization of capital.

Company's response

- The company announced its share buy-back plans and set an ROA target.
- The company successfully implemented its growth strategy.

Recognizing and clarifying issues

Sharing issues

Taking steps to address issues

Resolving issues

Company G (Electrical equipment sector)

Issues

- Some of the company's businesses had low profit levels and low stability (i.e., these were value-destroying businesses).
- It is unclear about the medium-term value creation "story" of the company's core revenue-generating businesses.

Background to the issues

- The company had businesses that were in overly competitive sectors where they could not make full use of their strengths.
- There was insufficient explanation of the company's shared growth "story."

Suggested measures to resolve these issues

- The company should implement a thorough-going restructuring of the value-destroying businesses.
- The company should strive to win investors' confidence by disseminating information, in the medium-term plan and company vision, regarding the strengths of the company's core businesses and its overall growth "story."

Anticipated situation after addressing the issues

By either withdrawing from value-destroying businesses or reducing the scale of these businesses, the company would be able to minimize the risk of corporate value destruction, enabling it to win investors' confidence in the growth "story" of its core businesses, and secure a valuation that is around average for the industry.

Company's response

- It is anticipated that a restructuring plan will be announced in the near future. The company has announced that, in formulating this plan, it will be aiming to achieve a thorough-going overhaul, rather than merely try to extend the life of the business as in the past.
- Feedback was received from the company indicating that constructive engagement with investors was one of the factors behind the adoption of this policy.

Recognizing and clarifying issues

Sharing issues

Taking steps to address issues

Resolving issues

Company H (Chemical sector)

Issues

Some of the company's businesses had low profit levels and low stability (i.e., these were value-destroying businesses).

Background to the issues

The company had businesses that were in excessively competitive sectors where they could not full use of their strengths.

Suggested measures to resolve these issues

The company should implement a thorough-going restructuring of the value-destroying businesses.

Anticipated situation after addressing the issues

By either withdrawing from value-destroying businesses or reducing the scale of these businesses, the company would be able to minimize the risk of corporate value destruction, enabling it to secure a higher appraisal for those businesses that have higher earnings resulting from investment targeting future growth.

Company's response

- Responding to the suggestions made by investors, including DAM, the company signed a contract with external consultants to formulate a restructuring plan.
- In order to clarify the issues where steps needed to be taken to enhance corporate value, the company created opportunities for dialog with DAM and other investors, and with external consultants, and engaged in constructive engagement aimed at realizing reforms.

3

ESG

Our approach to ESG issues

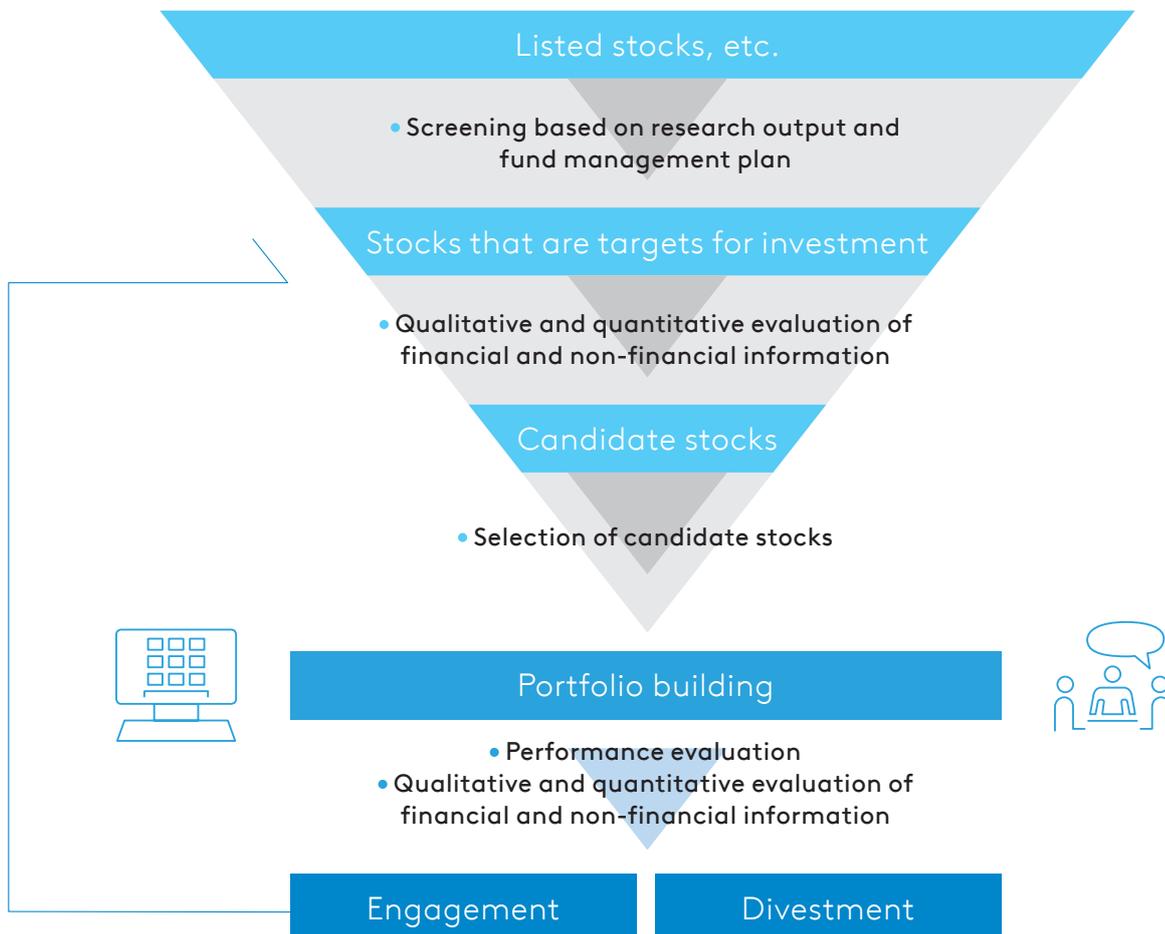
DAM views the ESG measures taken by companies, etc. as helping both to expand medium- and long-term growth potential and reduce risk, and DAM therefore considers these measures when making investment decisions.

By sharing information relating to qualitative evaluation undertaken by corporate research analysts and fund managers, and quantitative analysis and

evaluation undertaken by quantitative analysts, corporate valuation from an integrated perspective that combines financial information with non-financial information can be facilitated.

On the basis of the above information and DAM's approach to ESG, DAM calculates its own proprietary ESG scores, which serve as a reference when choosing which stocks to invest in and determining portfolio risk.

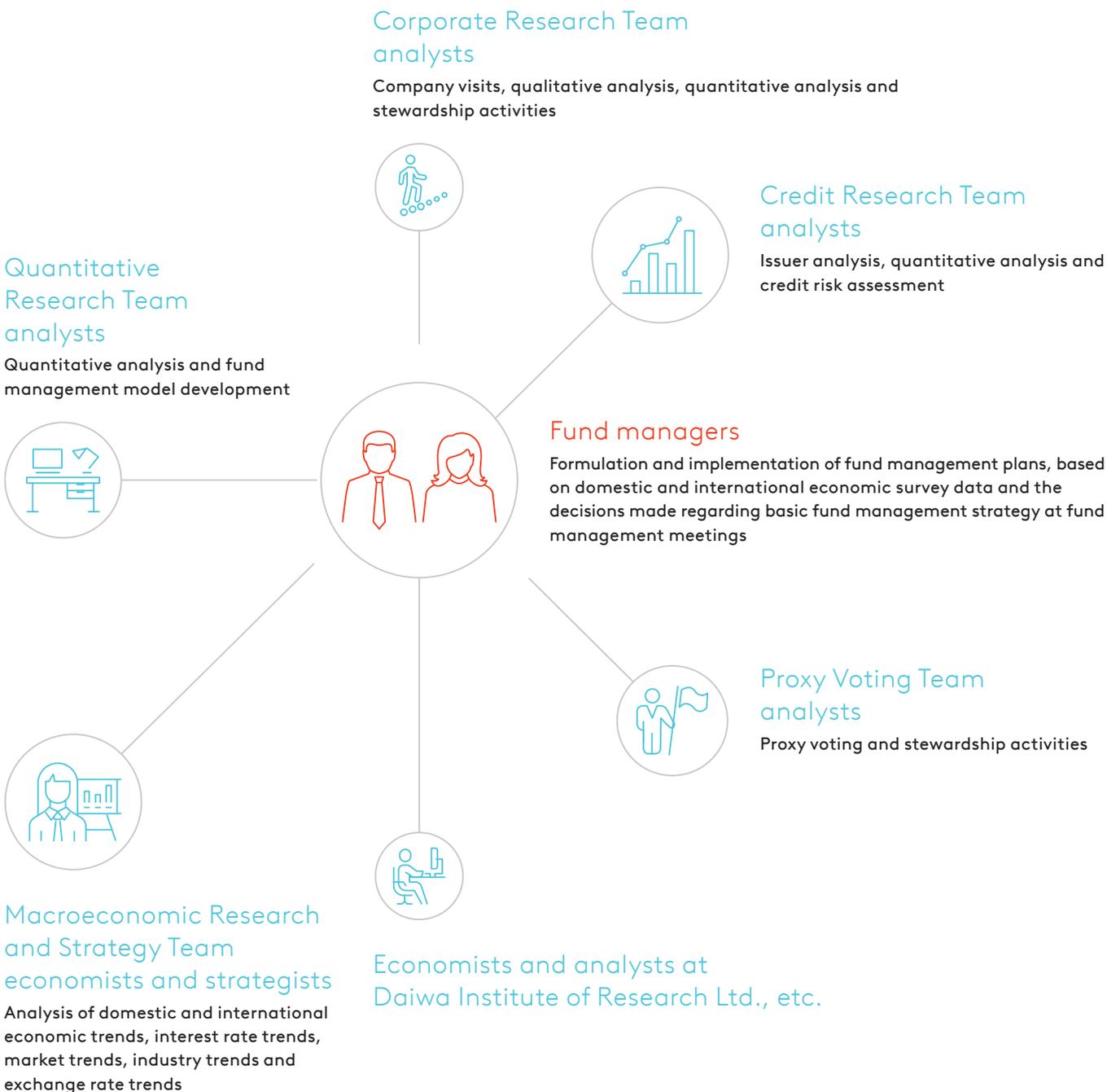
The fund management process



Research framework

As an asset management firm, DAM positions research on companies, etc. as one of its core business activities. With our corporate research analysts acting a central role, DAM undertakes wide-ranging data collection on an ongoing basis, making extensive use of both internal and external information networks, and strives to develop a clear picture of the current status of companies, etc.

DAM has also set criteria to be emphasized in dialog with companies in the Engagement Policy, and DAM's corporate research analysts, fund managers and personnel responsible for proxy voting engage in dialog from their own particular perspectives. The information and knowledge obtained through this engagement is shared within the company, and DAM strives to identify, at an early stage, anything that could potentially lead to value destruction.



Corporate value assessment

Corporate valuation and ESG information

DAM incorporates the qualitative assessment of investee companies' approach to ESG and of the state of implementation of ESG measures by them, which is obtained through engagement, into DAM's proprietary Long-term Corporate Valuation Model which is used to assess corporate value.

When incorporating ESG assessment into the Long-term Corporate Valuation Model for investee companies, DAM's corporate research analysts ensure that not only financial information but also non-financial information, including ESG-related information, is reflected in the cost of equity.

"Cost of equity" is the return that an investor can expect to obtain from their investment in the stock of the investee company.

In order to make it possible to calculate the extent to

which the value generated by a firm will exceed this anticipated return, DAM uses the equity spread (ROE minus cost of equity) to estimate corporate value.

When equity cost is low, this is reflected in corporate value as follows. For example, in the case of a firm with an ROE of eight percent, if the cost of equity is eight percent, then it can be determined that no value is being generated. If the cost of equity falls to six percent, then value is being generated at a rate of two percent.

In estimating the equity cost level, we take into account not only the company's growth and profitability but also its ESG information (see figure below). For example, a company with outstanding corporate governance will be perceived by investors as having lower risk, and so will have lower cost of equity, and higher corporate valuation.



ESG information in relation to bond management

DAM believes that enhancing medium- and long-term value and sustainability is vitally important for bond-issuing companies, etc. as well, and so we take into account the ESG measures of companies, etc. when making investment decisions.

As we see it, companies, etc. that do not implement proactive measures to address ESG issues are at risk of seeing a deterioration in their perceived creditworthiness over the medium and long term, and this could have a significant impact on asset management investment decisions.

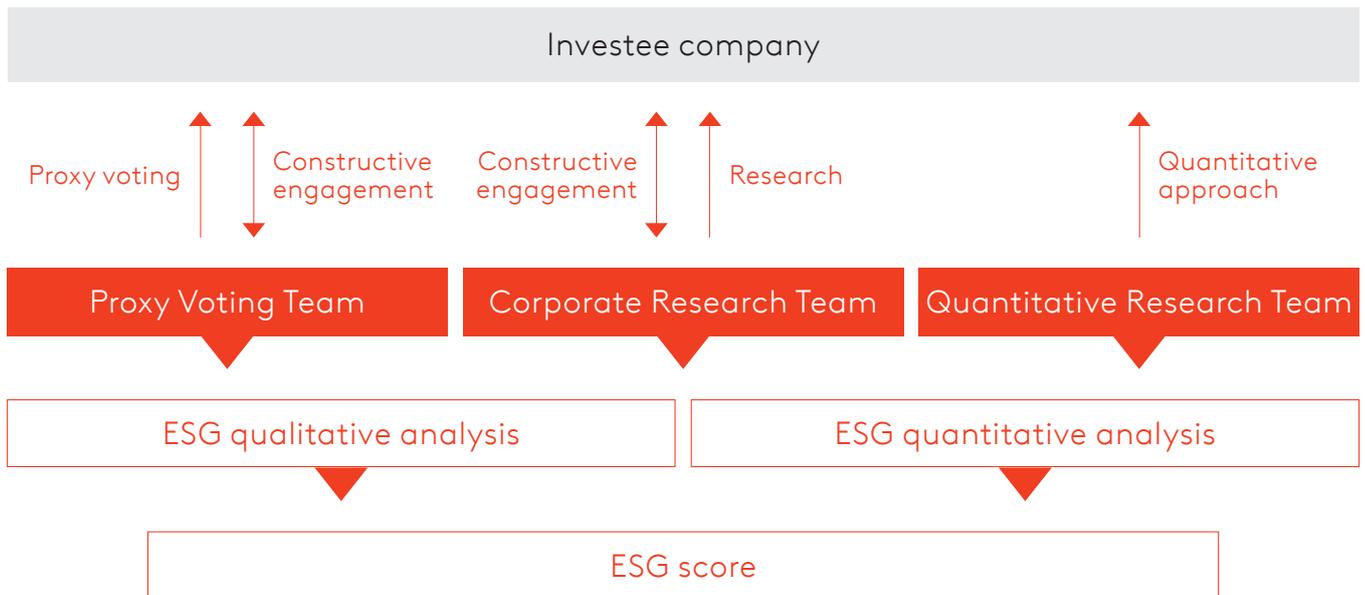
Although investing in corporate bonds has many

similarities to investing in listed stocks, there are also differences, such as the fact that bond-holders cannot exercise voting rights, and that, normally, the investment period is limited due to the setting of a redemption date. Nevertheless, because the approach to sustainability, through engagement with companies, etc., is the same as for investment in stocks, DAM shares and makes effective use of ESG information when investing in bonds too. Furthermore, because engagement with companies, etc. in relation to ESG can be expected to stabilize and improve the creditworthiness of the companies, etc. over the medium and long term, it also works to the benefit of bondholders.

ESG score

DAM calculates its own proprietary ESG score, to serve as a reference for investment decisions and for identifying risk. The score is calculated using qualitative evaluation by the Corporate Research Team and the

Proxy Voting Team that is focused mainly on what DAM sees as key ESG issues, as well as the utilization of a quantitative approach by the Quantitative Research Team.



As DAM believes that governance (G) is the most important element, after calculating the scores for each of E, S and G, the final ESG score is composed by E, S and G weightings, the basic approach is to give a weighting of 40 percent to G, and 30 percent each to E and S. However, as there are some industries where the most important items differ, for these industries the calculation of the ESG score is performed using weightings tailored to the actual circumstances in that particular industry.



Weighting that reflects the importance of key ESG items (materiality) in each sector

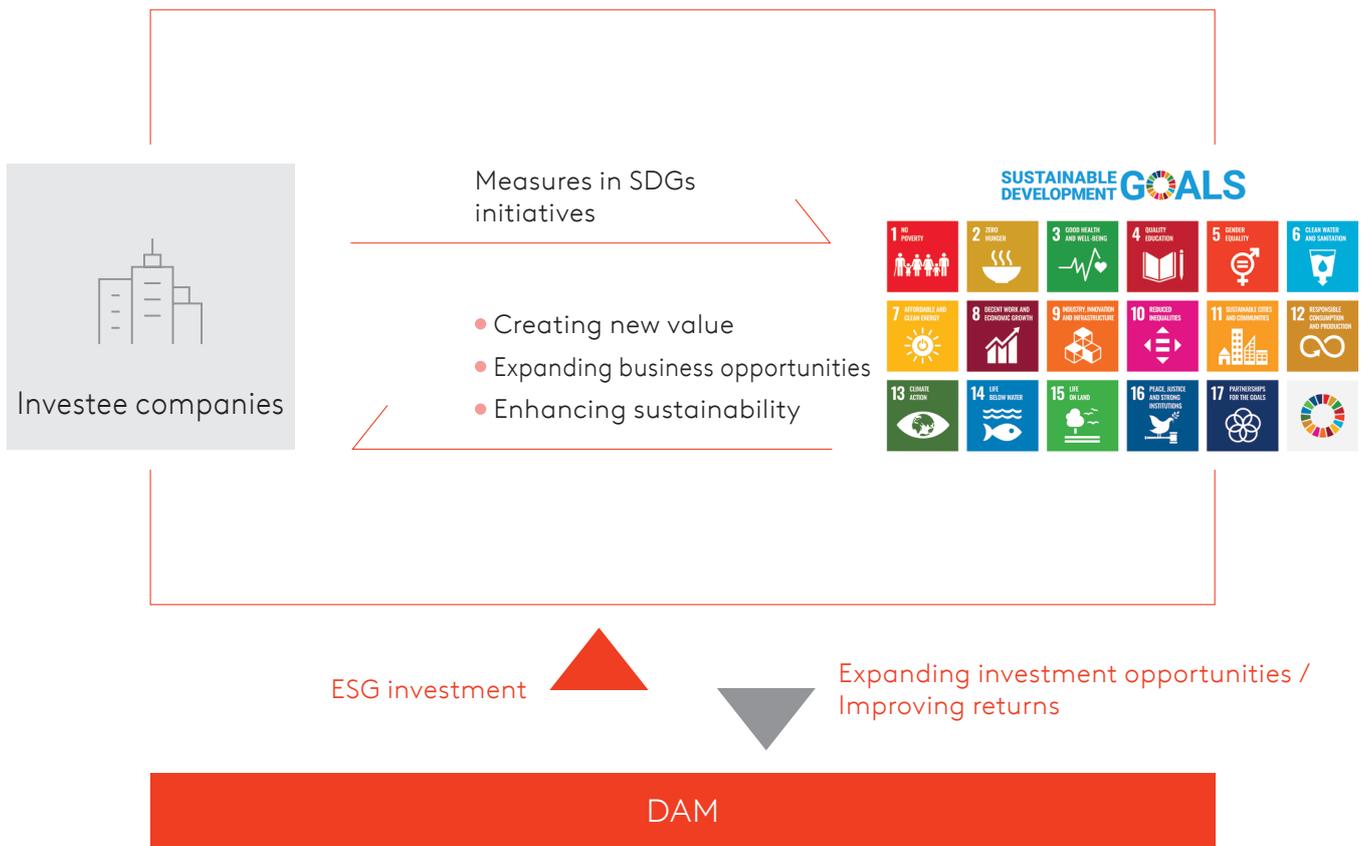
DAM's proprietary ESG score

ESG investment and the SDGs

By encouraging companies, etc. to take measures that address ESG issues, ESG investment contributes toward the achievement of the SDGs, which are closely linked to ESG, and toward the enhancement of sustainability. For companies, etc., ESG can help to expand the range

of business opportunities available and improve sustainability, with the potential for creating new value too. From the point of view of investors, ESG investment can lead to an expansion in investment opportunities and improve returns.

Realizing a highly sustainable society



ESG-related fund line-up

DAM believes that the provision of investment opportunities through the establishment and management of investment trusts focused on ESG and the SDGs also constitutes part of our stewardship activities. DAM offers a comprehensive line-up of ETFs that are linked to ESG indices, and sustainability-

oriented investment funds, etc.

DAM's ESG-related fund line-up conforms to the 17 SDGs, with a particular focus on the goals noted below. In the future, DAM will be making an even greater effort to provide investment opportunities in this area.

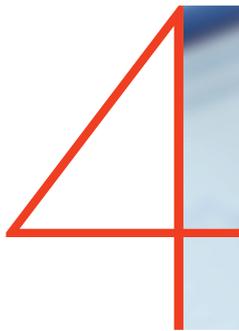


DAM's ESG-related funds

As of December 31, 2020

Name of Fund	Net Asset Value (NAV)	Link to SDGs goals
Daiwa Society 5.0 Fund	77.7 billion yen*	
Cleantech Stock & Green Bond Fund	5.2 billion yen*	
Women Supporter Fund ("Tsubaki" fund)	29.1 billion yen	
Daiwa Eco Fund	2.9 billion yen	
Social Challenges Fund	4.2 billion yen	
Daiwa ETF MSCI Japan Human and Physical Investment Index	46.1 billion yen	
Daiwa ETF MSCI Japan Empowering Women Index (WIN)	1.0 billion yen	
Daiwa ETF MSCI Japan ESG Select Leaders Index	4.5 billion yen	
Daiwa ETF FTSE Blossom Japan Index	1.5 billion yen	

*Net asset value (NAV) is the combined total for asset growth type and predictable distribution type.



Proxy Voting

Our vision for proxy voting

The corporate principle of the Daiwa Securities Group emphasizes using the financial and capital markets to contribute toward social and economic development, and this vision is also at the heart of DAM's corporate culture. We believe that the exercise of voting rights can play a very important role in achieving such goals, and we have made public the details of DAM's Proxy Voting Policy, so that as many people as possible can be made familiar with the Policy. In particular, we feel that helping investee companies to understand the reasons behind decisions as to whether or not to vote in favor of

particular proposals can make a positive contribution toward constructive engagement with investee companies.

We also recognize the need to respond to knowledge obtained through constructive engagement with investee companies, and to changes in the overall corporate governance situation, and so we will update the Policy as needed.

+ WEB For more details, please visit the following webpage (in Japanese).
https://www.daiwa-am.co.jp/company/managed/guideline_03.pdf

Main changes in the Proxy Voting Policy

The most recent changes in the Proxy Voting Policy are outlined below.

Criteria relating to the appointment of Outside Directors

In the past, in regard to the length of service of Outside Directors, in the case where an Outside Corporate Auditor was subsequently appointed an Outside Director of the same company, the period spent serving as an Outside Corporate Auditor was included when calculating the length of service as an Outside Director. However, given that those serving as Outside Corporate Auditors are expected to adopt a different perspective from those serving as Outside Directors, it was decided that the length of service should be calculated separately for each position.

Criteria relating to constructive engagement

The Proxy Voting Policy was revised to include a clear stipulation that, depending on an investee company's current circumstances and the content of constructive engagement with the investee company, based on the adoption of a perspective that emphasizes enhancing the medium- and long-term value and sustainability of investee companies, the decisions made by DAM may differ from those indicated by the Proxy Voting Policy.

Criteria relating to shareholder proposals

The Proxy Voting Policy was revised to include a clear stipulation that, with the aim of contributing toward the enhancement of corporate value, DAM would exercise voting rights in favor of the following categories of shareholder proposals:

- Disclosure of executive compensation for each Individual
- Adoption of clawback clauses

Outcomes of proxy voting

Regarding the individual outcomes of the exercise of voting rights, starting from the shareholders meeting held in April 2017, these outcomes have been shown on DAM's website.

Regarding the outcomes of the exercise of voting rights where an investee company has held its

shareholders meeting, in principle, the decisions made as to whether to vote in favor or against proposals will be announced monthly, by investee company and by proposal.

+ WEB For more details, please visit the following webpage (in Japanese).

<https://www.daiwa-am.co.jp/company/managed/voting.html>

DAM has exercised voting rights with respect to approximately 2,500 Japanese companies in FY2020. The overall situation in regard to the exercise of voting rights is shown below, broken down by the type of proposal.

Company proposals

		Total	In favor	Opposed	"Opposed" votes as % of total
Proposals relating to company organization	Appointment and dismissal of Directors* ¹	16,742	15,099	1,643	9.8%
	Appointment and dismissal of Corporate Auditors* ¹	4,505	3,952	553	12.3%
	Appointment and dismissal of Accounting Auditors	70	70	0	0.0%
Proposals relating to Executive compensation	Executive compensation* ²	856	739	117	13.7%
	Payment of retirement benefits for retiring Executives	182	143	39	21.4%
Proposals relating to capital policy (excluding those relating to Articles of Incorporation)	Appropriation of surplus	1,607	1,592	15	0.9%
	Organizational restructuring* ³	34	34	0	0.0%
	Introduction, revision or abolition of takeover defence measures	98	0	98	100.0%
	Other proposals relating to capital policy* ⁴	61	58	3	4.9%
Proposals relating to Articles of Incorporation		537	527	10	1.9%
Other		8	8	0	0.0%
Total		24,700	22,222	2,478	10.0%
	Of which, proposals embodying suggestions made by external specialist organizations* ⁵	3	3	0	0.0%

Shareholder proposals

		Total	In favor	Opposed	"Opposed" votes as % of total
Total		243	9	234	96.3%
	Of which, proposals embodying suggestions made by external specialist organizations* ⁵	0	0	0	0.0%

Notes:

- Proposals relating to appointment and dismissal of Directors or appointment and dismissal of Corporate Auditors are calculated as a combined total on the basis of one proposal per candidate.
- Includes proposals relating to changes in executive compensation issuing of stock options, adoption or revision of performance-linked compensation system, executive bonuses, etc.
- Includes proposals relating to mergers, business transfers and acquisitions, share swaps, share transfers, corporate splits, etc.
- 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.
- In principle, those instances of the exercise of voting rights with respect to companies which have a capital relationship with DAM or which have a business relationship with DAM which, according to DAM's criteria for making determinations regarding the exercise of voting rights, require individual determination, shall be treated as proposals embodying suggestions made by external specialist organizations.

Measures in response to the COVID-19 epidemic

In the current situation where the COVID-19 epidemic has been spreading throughout the world, DAM believes that priority should be given to safeguarding the health of all people in the investment chain. We also recognize that, given the lack of clarity regarding the overall business environment, it is important to help maintain the sustainability of investee companies.

With this in mind, DAM adopted the following policy with respect to shareholders meetings held between May and August 2020.

Subsequently, having determined that the situation had returned to normal, item 2 (Regarding the disclosure of information) was suspended in relation to the disclosure of information at the time of holding shareholders meetings (this was still the case as of December 31, 2020).

1 Regarding shareholders meetings

DAM respects the decisions taken by investee companies, out of concern for the health and safety of shareholders meeting participants, regarding the format to be used for the holding of shareholders meetings (such as holding virtual shareholders meetings, postponing them, or implementing continuation, etc.).

2 Regarding the disclosure of information

While DAM's Proxy Voting Policy requests the disclosure of all information necessary for making a determination as to whether to vote in favor of a proposal (including the business report, financial statements, etc.), this criterion will be applied flexibly in light of the circumstances, rather than being applied as a hard-and-fast rule.

3 Regarding short-term liquidity, etc.

While DAM's Proxy Voting Policy requests that companies possessing extensive shareholders' equity or cash assets should utilize these effectively, this criterion will be applied flexibly in light of the circumstances, rather than being applied as a hard-and-fast rule.

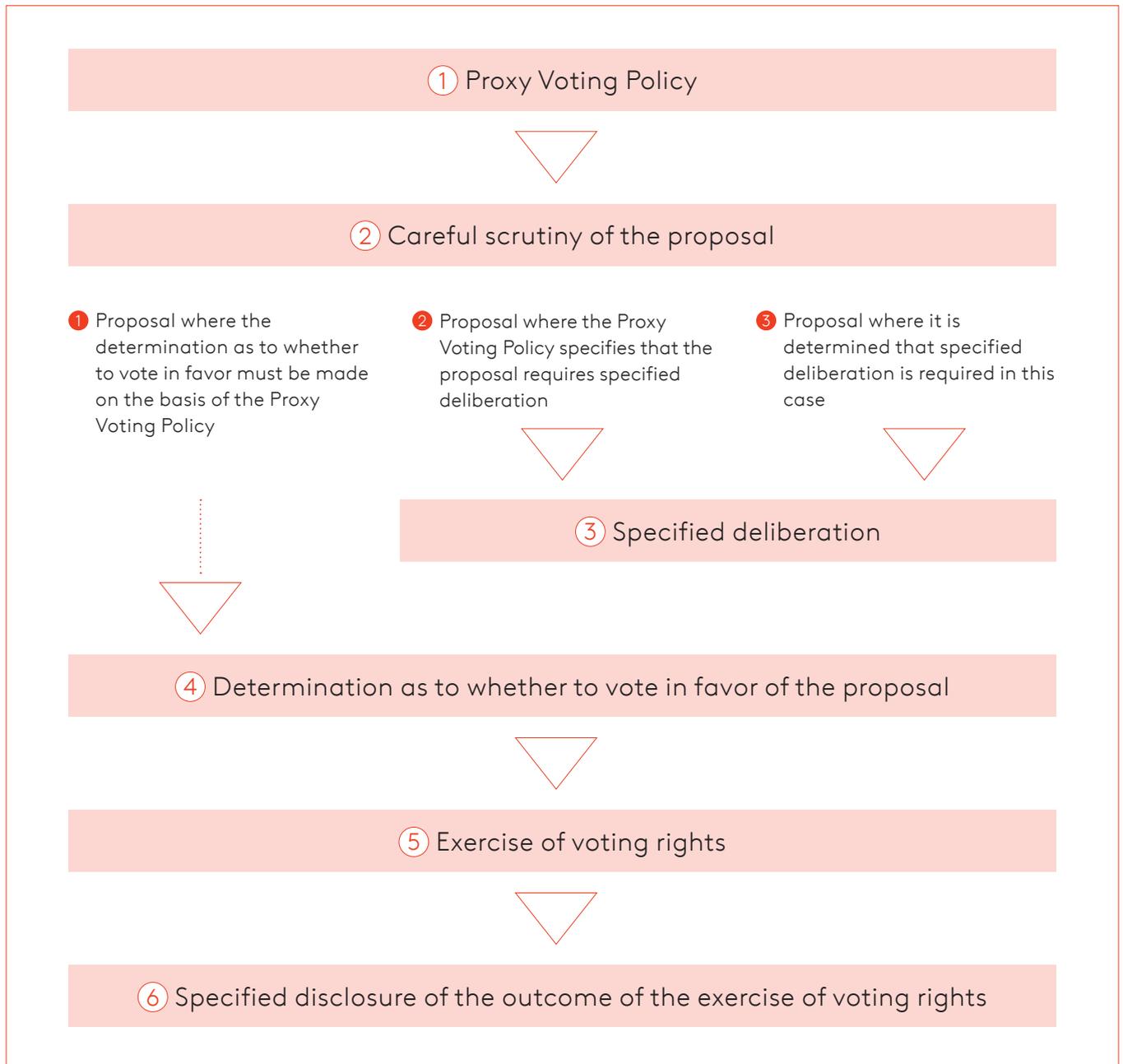
4 Regarding ROE, etc.

While DAM's Proxy Voting Policy specifies that decisions regarding the exercise of voting rights should take into account ROE and PBR, as indicators of effective utilization of shareholders' equity, this does not mean that investee companies should allow themselves to become undercapitalized to an extent that might harm their sustainability; this criterion will be applied flexibly in light of enhancing corporate value from a medium- to long-term perspective.

Furthermore, in cases where, as a result of the impact of the COVID-19 epidemic, investee companies have been forced to take measures in response that they would not normally take, DAM will take the circumstances into account, as far as possible.

Proxy voting process

Constructive engagement with investee companies



Key points of the proxy voting process

Note: The numbers ①, ③ and ⑥ correspond to the "Proxy voting process" diagram on P.37

① Proxy Voting Policy

- The Proxy Voting Policy is updated on an ongoing basis to reflect the information and knowledge obtained through dialog with investee companies
- Specific criteria for determining whether to vote in favor or against proposals are formulated and made public
- The TOPIX 17 industry categories are used as screening criteria for scrutinizing proposals, in order to be able to make a decision that conforms to the actual circumstances of the investee company in question

③ Specified deliberations

The Stewardship Committee performs specified deliberation of proposals.

The targets for specified deliberation include:

- Proposals where the criteria for determining as to whether to vote in favor in the Proxy Voting Policy specifies that the proposal requires specified deliberation
- Proposals where members of the Stewardship Committee, etc. recommend that specified deliberation be implemented

⑥ Individual disclosure of the outcome of the exercise of voting rights

In the case of proposals where specified deliberation was performed by the Stewardship Committee, the grounds for making the determination as to whether to vote in favor are noted in the Notes field.

Case study of specified deliberation by the Stewardship Committee

In the case of Company Z, as the "Criterion where it has been determined that there are problems with the company's operational performance or effective utilization of shareholders' equity" applied, according to the Proxy Voting Policy, when exercising voting rights, DAM would have been required to vote against any proposal to reappoint an Inside Director who had already served for at least three terms in the recent past.

However, the fund manager made a proposal for specified deliberation, on the following grounds:

- As a result of the company implementing rationalization, etc., both sales performance and ROE were tending to improve
- The company had announced new profitability improvement measures and a new growth strategy to shareholders, and as a result the company's share price was tending to rise

Following deliberation by DAM's Stewardship Committee, the Committee gave a positive evaluation to the measures implemented by the company's current management team, and it was decided that the provisions of DAM's Proxy Voting Policy would not be applied in this case, and that DAM would exercise voting rights in favor of the reappointment of the company's Inside Directors.



Further Enhancement of Stewardship Activities

Self-assessment

DAM implements periodic self-assessment of the state of DAM's implementation of the Principles for Responsible Institutional Investors (Japan's Stewardship Code).

The measures taken by DAM in regard to each of the seven principles of the Code are outlined below.

Principle No. 1

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

Following the revision of the Japan's Stewardship Code in March 2020, in September 2020 DAM revised its Policies regarding Japan's Stewardship Code. DAM also formulated a General Policy on Stewardship Activities, and revised its ESG Investment Policy and its Engagement Policy.

Principle No. 2

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

DAM has established a Stewardship Supervisory Committee, of which more than half the members are Outside Directors, and has continued to implement systems to handle conflict of interest.

Principle No. 3

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

Information and knowledge obtained through dialog with investee companies are managed and shared using DAM'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.

Principle No. 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.

In September 2020, DAM revised its Engagement Policy, with the addition of key ESG items that DAM believes should be emphasized when engaging in dialog. DAM's corporate research analysts, fund managers and personnel responsible for proxy voting perform engagement in accordance with the Engagement Policy, and strive to build consensus with companies, etc. with the goal of enhancing the medium- to long-term value and sustainability of the companies, etc.

Principle No. 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 2020, DAM revised its Proxy Voting Policy. At the same time, DAM made public the items that were currently under consideration, and its expectations with respect to investee companies; DAM has been making efforts to realize disclosure that will be more useful for fostering dialog. With regard to voting activity, DAM has started to provide more detailed information regarding the grounds for voting decisions, and is striving to realize disclosure that is easy to understand.

Principle No. 6

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

In April 2020, DAM published a Stewardship Report, which outlined the main content of DAM's stewardship activities.

Principle No. 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.

DAM 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.

In October 2020, DAM upgraded the Stewardship & ESG Section within the Research Department to become the Stewardship & ESG Department, with the aim of both strengthening and deepening our stewardship activities.

Annual PRI Assessment

The United Nations' Principles for Responsible Investment (PRI) are a set of international principles, the aim of which is to encourage institutional investors to incorporate an ESG perspective into the investment decision-making process and into decisions regarding strategy for holding of shares, etc., and to enhance long-term investment outcomes for beneficiaries.

The PRI were formulated in 2006, with the United Nations Environment Programme Finance Initiative (UNEP FI) and United Nations Global Compact playing a central role.

DAM supports the vision embodied by the PRI, and signed up to the PRI soon after they were promulgated in May 2006.

Annual assessment (2020)

The results obtained for key items in DAM's 2020 Annual PRI Assessment, based on assessment of DAM's activities in 2019, are shown below. DAM received a very positive evaluation, with a rating of A+ (the highest) for Engagement.

Signatory of:



Module	Score
Strategy & governance (overall assessment)	A
Listed equity—incorporation	A
Listed equity—Active ownership	A
Engagement	A+
Voting	A
Fixed income	A

Key items

Dialog with investee companies is implemented through collaboration between three core elements. Each element aims to realize an ongoing expansion and enhancement of the content of dialog with investee companies. The main measures currently being implemented are as follows.



Corporate Research Team

- **ESG research enhancement**

As ESG-related research is becoming increasingly important, all of DAM's analysts are striving to achieve a further enhancement of this area.

- **Proactive implementation of engagement activities**

By identifying investee companies that should be the main focus of engagement, and establishing concrete goals for dialog with these companies, the Corporate Research Team is aiming to intensify its engagement activities.



Proxy Voting Team

- **Strengthening of "Three in One" integration**

The Proxy Voting Team is working to strengthen coordination with the analysts of the Corporate Research Team and with the Engagement Team, sharing information regarding ESG, the SDGs and the exercise of voting rights, as well as responding to the need for more diversified engagement content and aiming to raise the overall level of dialog.

- **Expansion of disclosure content**

With regard to DAM's Proxy Voting Policy and measures relating to stewardship activities, the Proxy Voting Team is implementing expanded, easier-to-understand disclosure, and aiming to make use of those disclosed information in building constructive engagement with investee companies.



Engagement Team

- **Expanding the engagement themes and the scope of the Team's activities**

Besides expanding and deepening the themes addressed at Engagement Meetings, the Engagement Team is also adopting a more proactive approach to investee companies where issues need to be addressed.

- **Review of new management methods**

Regarding dialog relating to the "E" and "S" aspects of ESG, as there were cases where it was difficult to implement effective KPI progress management using conventional engagement progress management methods, the Engagement Team has undertaken review to develop engagement progress management methods that are more suited to "E" and "S" issues.



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

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