The cover features a repeating pattern of triangles in various colors (grey, green, blue, purple, pink, orange) and some containing nature photographs. The photos include: a mountain peak with snow, a close-up of green leaves, a forest scene, a sunset over a landscape, and a tropical beach. The title 'Stewardship Report 2021' is centered in a large, black, sans-serif font.

Stewardship Report 2021

Daiwa
Asset Management

Daiwa AM 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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Corporate principles



Fundamental principles

Compass / Value

Corporate principles of the Daiwa Securities Group

Our action guidelines

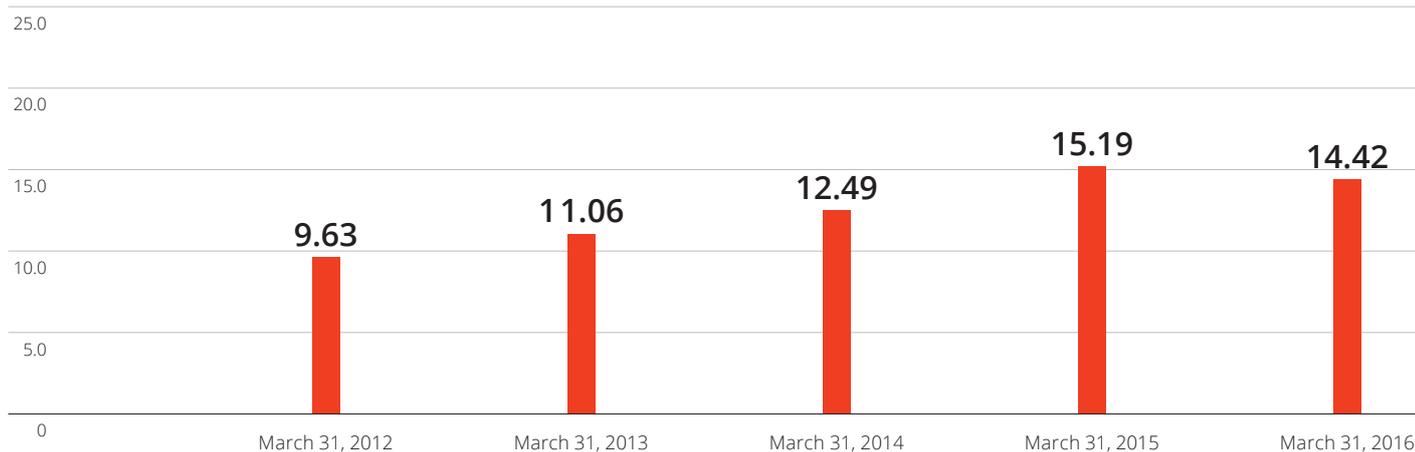
All of Daiwa AM's company executives and employees keep in mind and act up to the following six principles:

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



Assets under management

(trillion yen)





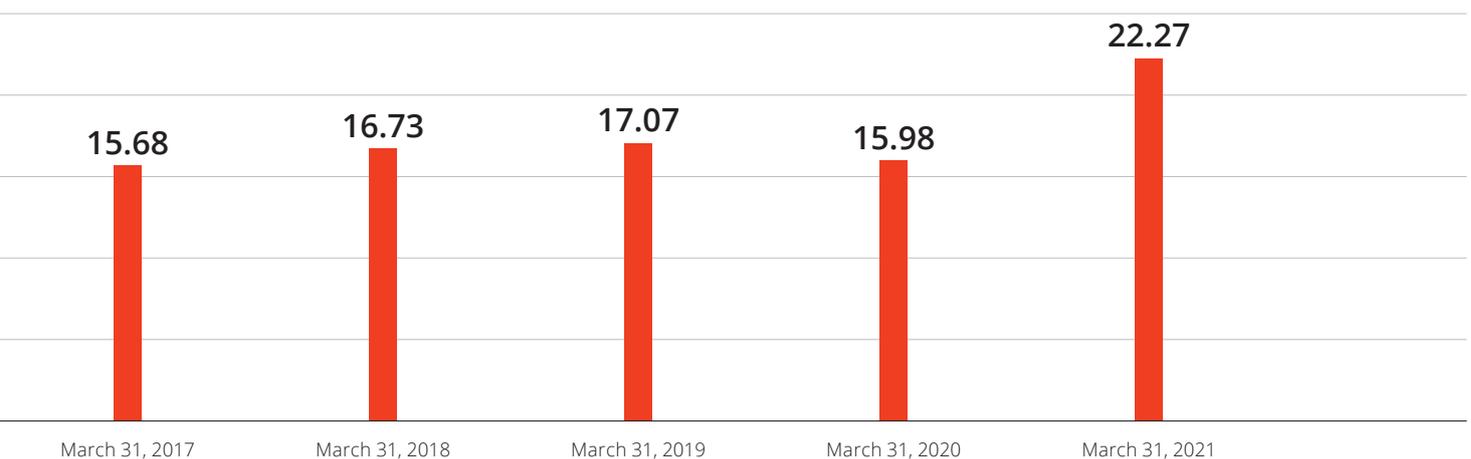
Anticipated future / Vision

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.



Message from the President

Koichi Matsushita

President,
Daiwa Asset Management Co. Ltd.

〰〰 Aiming to be a company that is trusted not only by investors, but by everyone, and where all employees work together as one to take on new challenges 〰〰

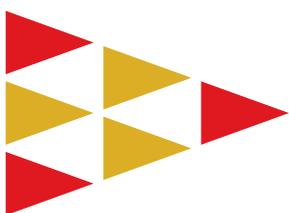
The COVID-19 pandemic has led to major changes in our daily lives and in the social environment. In addition, there have been frequent abnormal weather phenomena not just in Japan but worldwide, and the need to respond to climate change has become increasingly urgent. This has been a year in which one had a strong feeling that we have entered an era in which the future is hard to predict, and this applies just as much in the asset management industry as in other sectors, so we are facing dramatic changes.

The social mission of an asset management company is to contribute toward enabling people to live fulfilling lives and toward realizing a sustainable society. Daiwa AM is implementing a wide range of initiatives in order to realize this mission.

Of course, our first priority is to safeguard and grow the assets that our customers entrust us with. However, as can be seen from the widespread adoption of ESG investment in recent years, it is not enough just to generate returns; one can sense that more and more attention is being placed on the quality of the returns. Through stewardship activities such as constructive dialog with investee companies, Daiwa AM aims to contribute toward not only enhancing the value of investee companies, but also enhancing sustainability. By conducting these activities with the expertise that one expects from asset management professionals, we are striving to increase the quality of the returns that we generate.

At the same time, as a business enterprise, we also have a mission to contribute toward maintaining and enhancing the sustainability of society as a whole. In order to be able to constantly respond to changing times and be an asset management company that people will still choose to use in 50 years' time or even 100 years' time, we need to think carefully about our company's medium- and long-term corporate value enhancement and sustainability. To achieve this, and to strengthen our company's resilience, we have established the Sustainability Committee. As an institutional investor, we expect our investee companies to demonstrate sustainability; as a business enterprise ourselves, we need to implement sustainable management that can cope with the high level of uncertainty that characterizes society today.

We have established "All Challenges for All Investors" as our corporate vision. We will be supporting all those who take on challenges in order to build the future, wherever they are in the world, and we will continue to challenge ourselves alongside them, refusing to let ourselves be constrained by conventional ideas. As an asset management company, we are constantly striving for ever higher levels of specialist expertise and creativity, and all Daiwa AM employees will be working as one to challenge themselves, striving to address issues that are global in scale such as climate change and management of natural capital, and aiming to make Daiwa AM a company that is trusted not just by investors, but by everyone.



**All Challenges
for
All Investors**

President

Message from the CIO

Thinking carefully and taking action to enable our customers to invest over the long term with peace of mind, and to enjoy the fruits of their investments

Keiji Kobayashi

Executive Managing Director and
Chief Investment Officer (CIO)

What we need is to safeguard the sustainability of individual economic entities and of society as a whole

Our mission in the asset management industry, as people entrusted with managing our customers' assets on their behalf, is to pursue the optimal investment returns for customers. To this end, besides undertaking quantitative and qualitative analysis of investment targets and estimating and assessing their intrinsic value, we also need to implement asset management in such a way that we are able to verify the appropriateness of the investment activities that we undertake in the financial markets, which are highly complex and characterized by a high degree of uncertainty.

Furthermore, these analysis and investment activities are predicated on the assumption that the society in which our economic activities take place is reasonably stable, or at least that it will survive over the long term. If we have to assume that society will undergo dramatic changes, then there is little point in trying to make long-term revenue forecasts or estimate corporate value.

However, what we are facing at the moment is not only uncertainty and complexity in the financial markets that are the target of our investment, but also an increased level of uncertainty in the society and environment within which the individual entities that make up the financial markets—including enterprises, individuals and states—conduct their economic activity.

The emission of carbon dioxide into the atmosphere as a result of economic activity has resulted in long-term climate change, and the level of risk faced in economic activity can be expected to increase in the future. If an effective global response to climate change is delayed, the increase in natural disasters that will result from this will cause huge amounts of economic value to be lost, causing firms' market value to fall. Currently, it does not appear as though the financial markets have fully factored in this risk.

What we need, in order to be able to forecast the future economic value of our investment targets, is to safeguard the sustainability of individual economic entities and of society as a whole.

It can be anticipated that the next few years will be of key importance in determining whether we can safeguard society's sustainability

In order to enhance sustainability, all of society's component elements need to be aware of the risks and to take action to address them. However, in the short term at least, such action is likely to be quite painful.

As I see it, our role is to provide support for action taken to strengthen society's sustainability while sharing the risks and, on occasion, the pain, with the economic entities that are our investment targets, and also to create flows that direct society's investment funds toward entities that are working to reduce risk and boost economic value. Besides risk, we also need to think proactively about the revenue-generating opportunities that individual entities' actions may generate, estimate the economic value created, and strive to ensure that this is reflected in market prices.

Going forward, we will be engaging in repeated dialog with business enterprises and other economic entities regarding a wide range of environmental, social and corporate governance (ESG) issues, such as the need to reduce carbon dioxide emissions, that could affect society's sustainability. This will require not the one-sided setting of quantitative goals, but rather dialog which takes into account the need to balance the goal of growing corporate value over the long term with the goals of risk reduction and ensuring sustainability.

It can be anticipated that the next few years will be of key importance in determining whether we can safeguard society's sustainability.

I believe that we will need to think carefully and take action in order to enable our customers to invest over the long term with peace of mind, and to enjoy the fruits of their investments.

1



Stewardship Activities Framework

Daiwa AM's stewardship activities policy

General Policy on Stewardship Activities

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

To realize this goal, in addition to making appropriate choices regarding which stocks and bonds to invest in, it is also vitally important to enhance the medium- and 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 have been formulated in conformity with this approach, and are disclosed on Daiwa AM's website (in Japanese):

- ESG Investment Policy
- Engagement Policy
- Proxy Voting Policy

+ 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



Stewardship Committee

Chair: CIO
 Other members: Executive officers and departmental managers assigned to the Fund Management Division

- Decision-making in regard to all stewardship activities
- Reporting on engagement activities
- Decision-making in regard to, and reporting on, proxy voting matters



Framework for stewardship activities

The Stewardship Committee undertakes decision-making in relation to practical policies, while the Stewardship Supervisory Committee is entrusted by the Board of Directors with responsibility for the monitoring of all stewardship activities.

The members of the Stewardship Committee, which is chaired by the Chief Investment Officer (CIO), comprise the executive officers and departmental managers assigned to the Fund Management Division (as of December 2021, the Committee had 10 members). To eliminate concerns about conflict of interest, 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 the company's major shareholders, are excluded from membership of the Stewardship Committee.

The Stewardship Committee undertakes decision-making in relation to stewardship activities, including engagement and proxy voting, and in relation to sustainability considerations relating to investee companies. More specifically, the Committee shares information regarding information relating to, and future strategy for, engagement with companies, Proxy Voting Policy, policy for surveys and investment relating to sustainability, including ESG, and participation in international initiatives relating to issues such as climate change and human rights. It also undertakes

deliberation and decision-making in regard to policy revision and participation in initiatives. In line with the policies formulated by the Stewardship Committee, Daiwa AM's corporate research analysts, fund managers and personnel responsible for stewardship activities implement systematic activities aimed at enhancing medium- and long-term investment returns and ensuring investee companies' sustainability.

The members of the Stewardship Supervisory Committee comprise the company's Outside Directors together with the Director responsible for legal and compliance. The Stewardship Supervisory Committee is chaired by an Outside Director.

As there is a requirement that more than half of the members of the Stewardship Supervisory Committee must be Outside Directors, it is able to conduct monitoring of stewardship activities, including proxy voting, from a perspective that is independent of the company's management. The Stewardship Supervisory Committee receives reports from the Stewardship Committee and, when it deems it necessary, issues recommendations to make improvements. Particularly with regard to conflict of interest, and as specified in the Management Policy for Conflict of Interest, the Stewardship Supervisory Committee plays an important role in relation to proxy voting.



The Stewardship Committee

Overview of committee activities

Stewardship Committee

No. of meetings held

Around 40 per year

Main topics, and periods during which these topics are addressed

- Revision of the Proxy Voting Policy (March and October)
- Reporting on stewardship activities (February and September)
- Formulation and revision of the stewardship policies (August and September)
- Specified deliberation of shareholders meeting proposals (mainly in March, June, September, etc.)

Stewardship Supervisory Committee

No. of meetings held

Three times per year

Main topics addressed

- Matters relating to policy formulation and revision
- Matters relating to proxy voting results
- Matters relating to stewardship activities self-assessment

History of Daiwa AM's stewardship activities

■ Internal systems ▲ Funds ● Other

- Signed the Principles for Responsible Investment (PRI)



- ▲ Established the Daiwa Eco Fund

- Signed the Principles for Financial Action toward a Sustainable Society (Principles for Financial Action for the 21st Century)



- Announced adoption of the Japan's Stewardship Code

- Established the Engagement Team

- ▲ Established an ETF linked to ESG indices

2006

2011

2014

2015

2017

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, Daiwa AM 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, Daiwa AM keeps in mind the possibility that conflict of interest might arise between Daiwa AM and the beneficiaries of the investment trusts established and/or managed by Daiwa AM or jointly by Daiwa AM 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, Daiwa AM has put in place a system for the proper management of transactions, etc. where there is a possibility of conflict of interest.

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

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

<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 (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 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/policy/interest/index.html>

■ Established a Stewardship & ESG Section within the Investment Planning Department

■ Transferred the Stewardship & ESG Section from Investment Planning Department to the Research Department

- Joined the 30% Club Japan Investor Group
- Adopted the revised version of Japan's Stewardship Code
- Established the Stewardship & ESG Department
- Expressed support for the TCFD



- Participated in the activities of the International Corporate Governance Network (ICGN)
- Participated in the Climate Action 100+ initiative
- Signed up to the Investor Agenda



Participated in the Net Zero Asset Managers initiative

NET ZERO ASSET MANAGERS INITIATIVE

2018

2019

2020

2021

2022

Major activities in 2021

Implementing of engagement requesting the appointment of female corporate officers

In March 2021, Daiwa AM revised its Proxy Voting Policy in regard to Japanese stocks, with the establishment of a new criterion requesting that companies which are included in the TOPIX 100 index should have appointed at least one female corporate officer (i.e., directors and auditors). In combination with this change, Daiwa AM also took advantage of opportunities for constructive engagement with companies to accelerate measures to encourage them to enhance the diversity of their corporate officers.

Daiwa AM believes that, given that a company's board of directors conducts decision-making that can enhance that company's corporate value, it is desirable for the board members to possess a diverse range of skills and attributes, and that, bearing in mind that women account for around half of the population of any given country, whether or not female corporate officers have been appointed can serve as an indicator of the degree of diversity in the board.

Daiwa AM's CIO gives an address on dialog with companies that are oriented toward addressing social issues

In May 2021, Keiji Kobayashi, Daiwa AM's CIO, attended the Nikkei Symposium, where he gave an address on the topic of the measures being implemented by business enterprises to address social issues, including measures aimed at furthering the implementation of the United Nations Sustainable Development Goals (SDGs), as well as Daiwa AM's ESG Investment Policy and stewardship.

During his speech, Mr. Kobayashi discussed Daiwa AM's Social Challenges Fund (Egao no Kakehashi fund) as a case study, and explained how tackling significant issues relating to social change, such as digital transformation, climate change response strategies and workstyle reform, can help to generate a virtuous cycle of investment opportunity involving investment in companies with real growth prospects. He also discussed how investors can engage in constructive dialog with companies and contribute toward the resolution of social problems while also enhancing investment returns.

Beginning to undertake collaborative engagement by participating in the Climate Action 100+ initiative

Reducing greenhouse gas emissions, which are a major cause of global warming, is vital in order to maintain and enhance the sustainability of companies over the medium and long term.

Climate Action 100+ is an international initiative launched in 2017 by institutional investors. Its goal is to stimulate improvements through collaborative engagement with large enterprises that have significant greenhouse gas emissions.

Daiwa AM supports this initiative as a useful approach for helping to realize the goals of the Paris Agreement, and in August 2021 Daiwa AM signed up to Climate Action 100+.

Making policy recommendations through Investor Agenda

Investor Agenda is an initiative launched by a group of institutional investors, which submitted the 2021 Global Investor Statement to Governments on the Climate Crisis for the 2021 United Nations Climate Change Conference (COP26) that was held in November 2021. This statement asked national governments to implement five measures in order to achieve the goals of the Paris Agreement as early as possible.

Daiwa AM supports the goals outlined in 2021 Global Investor Statement, and signed up to it in August 2021.

Participation in the Net Zero Asset Managers initiative

Daiwa AM has decided to participate in the Net Zero Asset Managers initiative, which is led by global investors with the aim of contributing toward reducing greenhouse gas emissions to net zero (an official announcement of this participation was scheduled to be made in 2022).

Going forward, Daiwa AM will gradually increase the share of assets under management that are directed toward supporting the goal of achieving net zero emissions by 2050, and will encourage companies to implement decarbonization measures to help achieve this goal.

Dissemination of information through the holding of seminars, etc.

Name of event	Content
1st ESG Meeting	Meeting held to share information and ideas regarding the ESG measures implemented by listed companies (February 2021)
Signing up to the ICGN	Signed up to the ICGN, the aim of which is contribute toward the realization of efficient global markets and sustainable global economic development (April 2021)
Submitting the company's ESG Investment Policy for inclusion in a publication	Daiwa AM's ESG Investment Policy was published in <i>Nikkei Mukku: Jissen! ESG Toushi SDGs Jidai no Megatorendo</i> (Nikkei Mook: Putting It into Practice! ESG Investment Megatrends in the Era of the SDGs) (May 2021)
Internal stewardship awareness-raising seminar	Implemented an open seminar to raise Daiwa AM employees' awareness regarding stewardship and sustainability (May 2021)
Support for a student competition	Provided support, for the first time, for the Bloomberg ESG Investment Contest 2021, in which teams of university students participate (May 2021 onwards)
Giving an address at a symposium	Keiji Kobayashi, Daiwa AM's CIO, attended the Project for Thinking about the Future of Asset Management Companies—Symposium, which was organized by Nikkei, and gave an address on how to implement engagement to address social issues (May 2021)
Internal ESG study meetings	Implemented ESG study meetings for Daiwa AM personnel (a total of four sessions) (August–November 2021)



Event report

1st ESG Meeting

In February 2021, an ESG Meeting was held in which representatives from five listed companies took part, sharing information and ideas in relation to their respective ESG initiatives. The theme chosen for the meeting was gender diversity; the meeting was held online due to the COVID-19 pandemic.

The meeting began with a lecture by Yukino Yamada, Chief Strategist at Daiwa Securities, who is responsible for ESG matters at that company, and by Naoki Ieiri, Senior Strategist at Daiwa Securities, in which they used case study analysis to discuss measures being implemented to promote women's participation. This was followed by a discussion session at which Daiwa AM's Senior Fund Manager Iori Nakayama acted as moderator.

The discussion session saw a lively exchange of views, and several people commented that they wished more time had been reserved for this part of the meeting. Unlike in normal engagement with investors, it was possible to learn something about the measures being implemented in other listed companies, and the participants from other companies seemed to feel that the meeting had been a worthwhile experience.

Consideration is being given to holding a second and possibly more such meetings, based on the feedback received after the event, which indicated that participants wished the time had been allocated differently, and that analysts responsible for particular industry sectors had been invited to participate.



The ESG Meeting was held online.

2



Engagement Activities

Framework for engagement activities

Daiwa AM'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



Engagement activities policy

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

In September 2020 the Policy was comprehensively overhauled. Regarding the perspectives that need to be emphasized in relation to engagement, in addition to the business strategy perspective and the perspective relating

to dialog with investors and related disclosure, the revised Engagement Policy also incorporated what Daiwa AM sees as key ESG issues, and specific points to focus on. In August 2021, the content of the Policy regarding management of information relating to corporations was revised.

In line with the above policy, Daiwa AM undertakes active engagement with companies in relation to both financial and non-financial (including ESG issues) areas.

Materiality relating to 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 Daiwa AM's website (in Japanese).

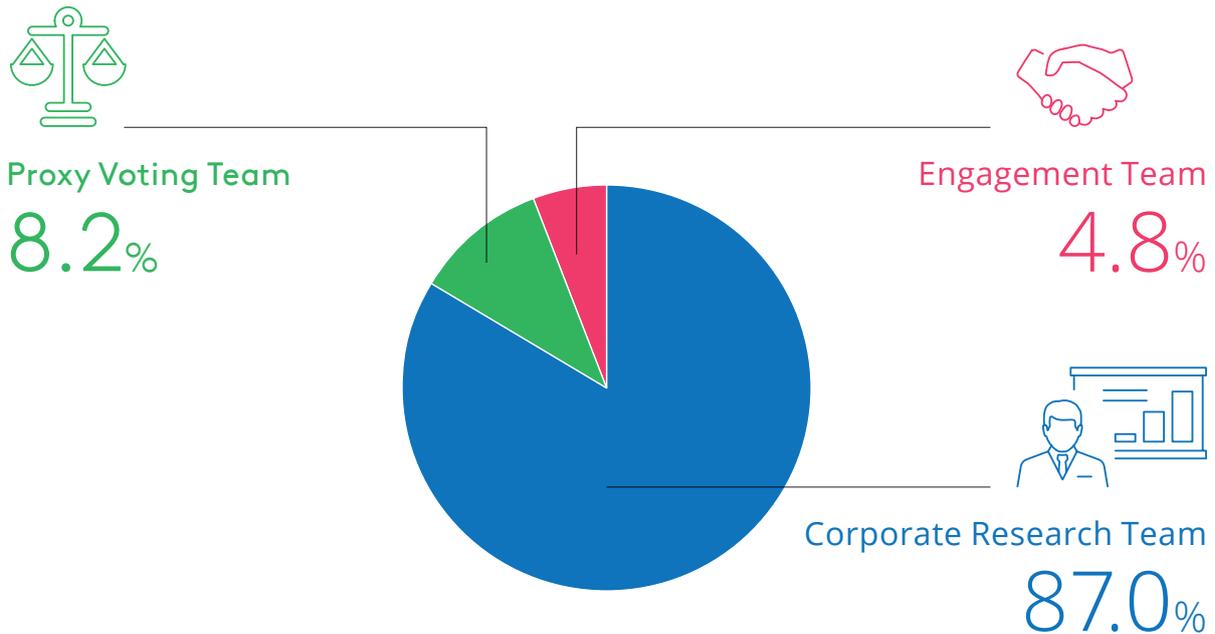
 https://www.daiwa-am.co.jp/company/managed/Dialoguepolicy_202108.pdf

Engagement activities

Engagement activities based on direct dialog

In the most recent fiscal year (January 2021–December 2021; the same definition shall apply to subsequent references to “most recent fiscal year”), Daiwa AM implemented engagement activities that involved opportunities for direct dialog with 1,230 companies.

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



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 Daiwa AM. Viewed in terms of Daiwa AM’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,

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

In the most recent fiscal year, besides the Proxy Voting Policy, Daiwa AM has also distributed materials outlining our approach to cross-shareholdings 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, Daiwa AM exercises voting rights at the shareholders meetings of around 1,600 domestic investee companies in the month of June. Daiwa AM'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, Daiwa AM's corporate research analysts conduct stewardship activities that contribute to the enhancement of corporate value and to sustained growth. There are a total of 12 analysts (as of December 31, 2021), 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 Daiwa AM.

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, Daiwa AM 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 Daiwa AM 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 fourth edition was completed in August 2021, taking into account the revisions made to the Stewardship Code and Corporate Governance Code. 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, Daiwa AM's approach to ESG and the points to emphasize when engaging in dialog with companies.

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, Daiwa

AM 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 ninth edition, which was published in August 2021, includes case studies of evaluating ESG measures and estimating corporate value, focused on the need for accurate evaluation of companies' ESG measures, given the growing trend toward ESG investment, and on how such evaluation is reflected when estimating companies' corporate value, as well as on the growing importance of investment opportunities deriving from deviation from market value.

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

③ Qualitative analysis

Besides quantitative evaluation of companies based on earnings forecasts, etc., Daiwa AM's analysts also conduct qualitative analysis on an ongoing basis. Qualitative analysis examines six items—growth, profitability, continuity, financial strategy, ESG and IR—from a business strategy perspective over the medium and long term. Examination of ESG had been conducted using a three-stage process that considers the environmental (E), social (S) and corporate governance (G) aspects separately, but starting from the most recent fiscal year, this was changed to a five-stage process, with the aim of achieving more precise evaluation. In addition, with regard to the E and S aspects, opportunities and risks are now evaluated separately. 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 is conducted is around 550, 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

Daiwa AM 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 as the corporate valuation method, long-term corporate value (i.e., fair value) is estimated. With this model, when performing the estimation, as the variation in capital cost will partly depend on the ESG evaluation performed in item ③ (qualitative analysis), if the ESG evaluation is high, then capital cost will be low, and corporate value will be higher. This model is being improved to enable visualization of how corporate value changes in line with the ESG evaluation, and Daiwa AM has begun to implement measures that will make it easier to effectively utilize ESG evaluation in investment decisions and in constructive engagement with investee companies.

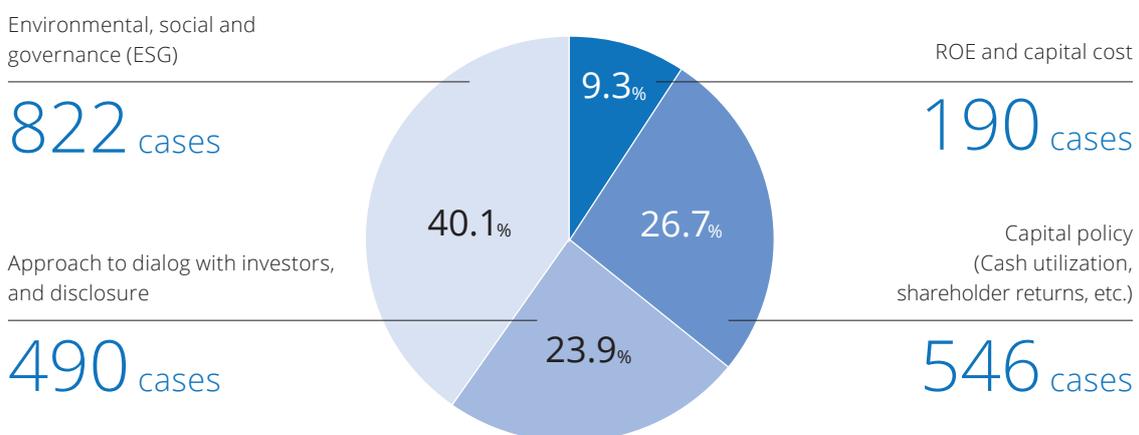
The analysts present fund managers with an investment rating and target share price for each company for a period of between six months and one year; here too, fair value is indicated using the Long-term Corporate Valuation Model, to provide a reference for investment from a long-term perspective.

Activity

In the most recent fiscal year, the Corporate Research Team undertook engagement with 1,070 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 (Stewardship & ESG Department)

Overview

The five members (as of the end of December, 2021) 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 Daiwa AM’s expectations of the investee company in terms of corporate governance, with the aim of having consensus with the investee company.

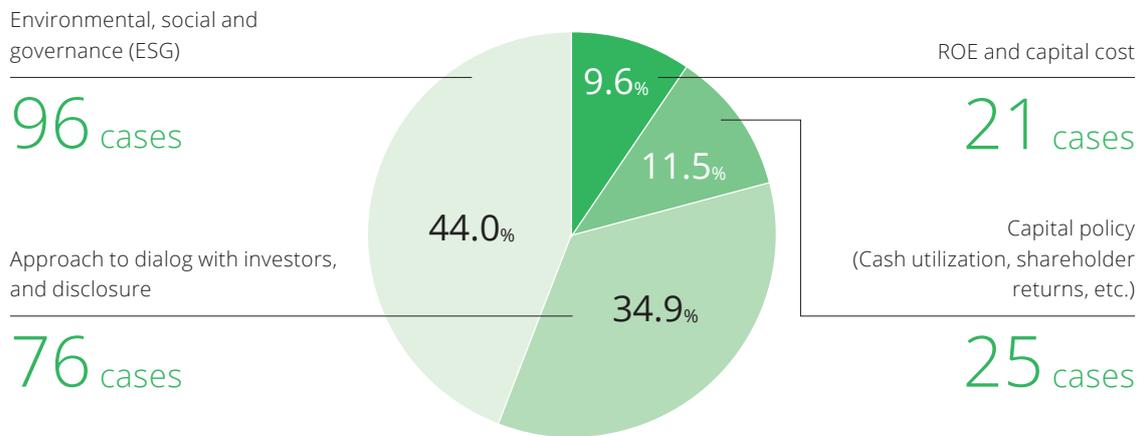
In recent years, the topics discussed at governance

meetings have no longer been limited to matters relating to the exercise of voting rights and to governance systems; they have expanded to include medium- and long-term profitability, the business environment and ESG. In particular, as there has been an increase in the number of meetings held in relation to ESG and integrated reports, the Proxy Voting Team has also been making a serious effort to collect information and accumulate know-how relating to ESG. Furthermore, although Daiwa AM strives to ensure a clear division of responsibility between the Proxy Voting Team and the Corporate Research Team, these two teams work collaboratively to engage in dialog with investee companies; for example, members of both teams may be asked to attend meetings, when necessary.

Activity

In the most recent fiscal year, the Proxy Voting Team undertook engagement with 101 companies.

The distribution of engagement activity when broken down by category 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 Daiwa AM 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 where there was felt to be potential for enhancing corporate value through IR improvements and changes in the measures taken by the firm resulting from dialog with Daiwa AM.

The emphasis in these Engagement Meetings is on

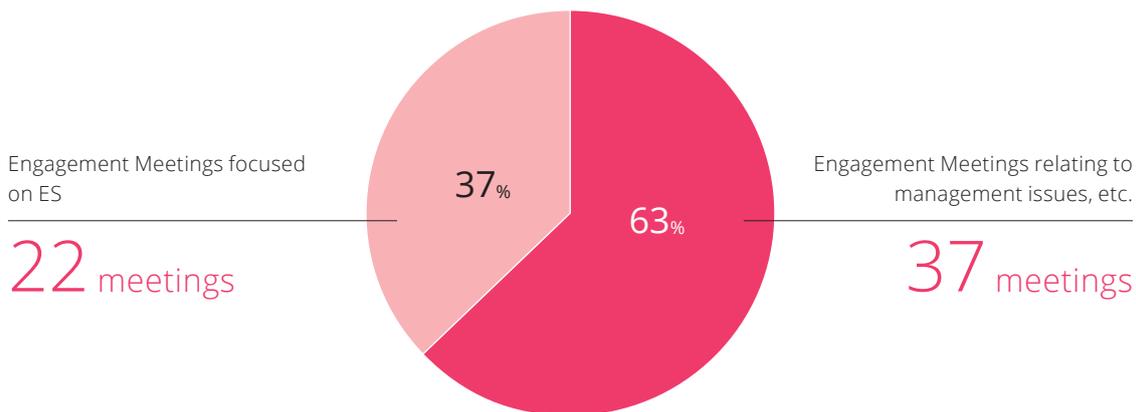
discussion from a medium- and long-term perspective, and as far as possible dialog is held with senior managers of the company in question, including the CEO. The Engagement Team draws up the agenda for the dialog in advance, and clarifies its purpose.

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

Activity

In the most recent fiscal year, the Engagement Team undertook engagement with 59 companies. With the growing importance of ESG measures in relation to the process of medium- and long-term value creation for companies, there has been a focus on expanding dialog in relation to the environmental and social (ES) aspects of ESG, which in the past has tended to be insufficient relative to dialog relating to the governance (G) aspect.

In the most recent fiscal year, the Engagement Team focused in particular on the social (S) aspect of ES, and aimed to expand the content of dialog relating to human resources strategy, such as gender diversity, and the supply chain. The Team undertook repeated dialog with companies relating to the importance of the ES aspects for building corporate value over the medium and long term.



Case studies of engagement by the Engagement Team

Daiwa AM's Engagement Team has held a series of highly constructive Engagement Meetings with AGC Inc., which has adopted the following goal: "By providing differentiated materials and solutions, AGC strives to help realize a sustainable society and become an excellent company that grows and evolves continuously."

Note: The following section presents a written recreation of one of the Engagement Meetings between AGC and Daiwa AM.

AGC



Daiwa
Asset Management

Engagement topics that had been addressed prior to this meeting

Improving the disclosure of information, strengthening the company's ability to explain its growth businesses to outsiders, improving asset efficiency, and overhauling the structure of the company's glass business

Topics addressed in this meeting

What is expected of an excellent company, and dissemination of ESG-related information



Dialog with AGC's CEO and CFO

Daiwa Asset Management (Daiwa AM): Previously, we have engaged in dialog regarding a wide range of different topics, including improving the disclosure of information and enhancing explanatory abilities, cashflow management strategies for improving asset efficiency, and overhauling the structure of AGC's glass business. Regarding these themes, your company had achieved steady progress in terms of the measures implemented, and disclosure. We would like to engage in further dialog regarding the Vision 2030 referred to in AGC's new Medium-term Management Plan. While AGC's Vision 2025 included the goal of becoming "a highly profitable, leading global material and solution provider," in Vision 2030 this has been changed to becoming "an excellent company that grows and evolves continuously." The concept of becoming an "excellent company" is particularly interesting. Could you tell us about the thinking behind this change?

AGC Inc. (AGC): Prior to formulating our Vision 2030, we had already incorporated a strategy of adding a "plus" by building a better future for coming generations into AGC plus 2.0, our new management policy. The adoption of this strategy was based on a recognition of the growing importance of measures to address issues affecting the sustainability of the enterprise, including climate change. Besides embodying our determination to contribute toward the realization of a sustainable society, the Vision 2030 also establishes the model of "an excellent company that grows and evolves continuously" as the kind of enterprise that can achieve this goal. It also represents the inherited traditions of AGC, which has taken technology as the foundation for continuing to provide materials and products suited to changing times.



Mr. Yoshinori Hirai
Representative Director, President & CEO
AGC Inc.



AGC plus 2.0, AGC's new management policy, incorporates a strategy of adding a "plus" by building a better future for coming generations.





Long-term Management Strategy Vision 2030

By providing differentiated materials and solutions, AGC strives to help realize a sustainable society and become an excellent company that grows and evolves continuously.

Daiwa AM: First of all, let us discuss what “excellent” means in terms of performance and the financial side of things. Recently, we conducted a comparison with the financial data and valuations of companies that are already widely regarded as excellent companies in the chemicals and electronics sectors, which are AGC’s business areas, comparing them with AGC. We feel that the main difference between AGC and these comparison firms is that, while AGC does have businesses that demonstrate profitability and growth, it also has businesses that need restructuring or improved profitability, and businesses where the potential for growth needs to be more clearly explained.

AGC: In this regard, we have positioned the restructuring of our glass business as one of the main issues addressed by our new Medium-term Management Plan, and, particularly in relation to our architectural glass business, we have launched a restructuring project, headed by the Chief Financial Officer (CFO), and we have made the decision to put in place the framework needed to tackle this issue quickly. In addition, in June 2021 we announced that we would be selling off our architectural glass business in North America. Regarding the point relating to businesses where the potential for growth needs to be more clearly explained, we are in the process of strengthening related measures, for example by holding business presentations for individual business areas, focusing on sectors of strategic importance.

Daiwa AM: Certainly, regarding the sale of the North American architectural glass business, one has the impression that this was a speedy, decisive move that took advantage of the improvement in both current revenue performance and the overall business climate. As regards strategic sectors, with respect to the life science business, an area where the evaluation of your company by the stock market differs substantially from its evaluation of overseas companies, we feel that AGC’s explanations of its business foundations and strategy, and its expanded disclosure of related information, create the potential for an enhanced evaluation.

AGC Inc.

- 1 Mr. Yoshinori Hirai
Representative Director, President & CEO
- 2 Mr. Shinji Miyaji
Representative Director, Senior Executive Vice President, CFO, CCO
- 3 Ms. Sakiko Ogino
Manager, Sustainability Division, Corporate Planning General Division
- 4 Ms. Sayoko Morinaga
IR Team Leader, CC and IR Division
- 5 Mr. Ryota Nakamura
IR Team, CC and IR Division
- 6 Ms. Wu Wanju
Internal Branding Team, CC and IR Division

Daiwa Asset Management Co., Ltd.

- 7 Yuji Watanabe
Chief Analyst, Active Fund Management Department II and Stewardship & ESG Department
- 8 Iori Nakayama
Senior Fund Manager, Active Fund Management Department II
- 9 Yusuke Kabashima
Executive Director, Stewardship & ESG Department



Mr. Shinji Miyaji

Representative Director, Senior Executive Vice President, CFO, CCO
AGC Inc.



While using engagement with shareholders and investors as a reference when formulating our business strategy, we have also been striving to improve the disclosure of information and enhance our explanatory capabilities.





Iori Nakayama

Senior Fund Manager, Active Fund Management Department II
Daiwa Asset Management Co., Ltd.



We hope that AGC will develop a more elevated management perspective by comparing itself to other excellent companies that are in a better position, and that it will be able to secure more appropriate evaluation by further enhancing its disclosure of information.



Yuji Watanabe

Chief Analyst, Active Fund Management Department II and Stewardship & ESG Department
Daiwa Asset Management Co., Ltd.



Widely disclosing information about the company's technologies and products that can help to combat climate change and reduce the burden on the environment would help to facilitate recognition of new opportunities.



AGC: In terms of contributing toward the building of a sustainable society and becoming an “excellent company that grows and evolves continuously” which is able to make this contribution, our life science business has an important role to play, and we will need to feel our way toward securing a more appropriate evaluation of this business.

The diversification of AGC's business activities



Source: AGC's Presentation "ESG Briefing session" material (2021)

Daiwa AM: Regarding AGC's glass business, besides the need for restructuring in the architectural glass segment, we also feel that the need to make the automotive glass segment more profitable and to achieve greater earnings stability in the display glass segment also constitute significant issues. How do you feel about this? While one would obviously hope to see an improvement in productivity at AGC itself, the changes in pricing strategy that can be seen in the iron and steel and food sectors would also seem to be important.

AGC: In our new Medium-term Management Plan, we disclose our return on capital employed (ROCE) (this is calculated by dividing operating profit by operating assets) performance by industry segment, and our forecast for ROCE in 2023. In the electronic materials business and life science business, we see top-line growth (i.e., growth in revenue) contributing to a substantial improvement in ROCE, but in the glass business we will need to aim for wide-ranging structural reform, including changes to our pricing strategy. With regard to display glass, we are attaching great importance to stabilizing ROCE, and we have a strategy to achieve this, which involves strengthening our relationships with customers to which we supply our G11 large-sized glass substrate, and which are accounting for a growing share of sales.

Daiwa AM: In terms of being excellent from a sustainability perspective, AGC needs to take action in regard to its greenhouse gas emissions, which are relatively large due to factors relating to the way in which its businesses are structured. We understand that AGC is already implementing improvement strategies, for example by changing over to different fuels, but with regard to the absolute volume of emissions, we feel that there is a need for AGC to outline a clear path toward achieving the target values that it has announced.

AGC: AGC uses the AGC Environmental Indicator as an indicator of environmental efficiency, and performs self-evaluation of the environmental footprint of our business activities. We assess, in relative terms, how great a burden is placed on the environment for a given level of economic benefit, and use this as an indicator for implementing improvements. However, in addition to this, we also recognize the importance of outlining a path for reducing emissions in absolute terms, and we intend to spread awareness of this path through the holding of ESG presentations, etc.

Daiwa AM: Also, in terms of being excellent from a sustainability perspective, we feel that AGC has adopted some forward-looking, effective measures to enhance the value of its human capital, and we believe that it is important for AGC to do more to spread awareness of these measures.

Dialog relating to AGC's Integrated Report and ESG

Daiwa AM: As feedback in regard to AGC's Integrated Report, we have offered comments and suggestions for improvement, in regard to both the report as a whole and individual items, as well as case studies of other companies that AGC can use as a reference. In particular, with regard to the environmental (E) aspect of ESG, we feel that AGC needs to outline a clear path toward reducing greenhouse gas emissions, and that widely disclosing information about the company's technologies and products that can help to combat climate change and reduce the burden on the environment would help to facilitate recognition of new opportunities.

AGC: AGC offers many products that help to combat climate change and reduce the burden on the environment, including low-e glass that contributes toward improving buildings' energy efficiency by selectively permitting light and heat to pass through as needed, and environment-friendly, next-generation refrigerants and solvents. Our strategy is to use the technology that underpins these products to deliver products that provide a high level of value for society. We have recognized that there is a need to proactively spread awareness of this.

Daiwa AM: Regarding the measures to enhance the value of human capital that were referred to just now, AGC was very forward-thinking in having begun some time ago to implement employee engagement surveys on a global basis, and it has also launched various distinctive initiatives such as the Cross-divisional Network Activities. Despite this, one gets the feeling that AGC's Integrated Report doesn't really say enough about the strengths that underpin AGC's businesses.

AGC: Our company has put in place a human resources system and other systems that are aimed at realizing integrated global management and diversity. In terms of managerial talent cultivation, in 2003 we launched our Global Management Talent Development Program, and since then we have also introduced similar programs at the regional level. As far as building up our human resources foundations is concerned, in 2005 we introduced a Global Job Grade System, and with regard to workstyle reform, since 2003 we have had a childcare leave system that can be used by both male and female employees. Initiatives like these have received very positive evaluation from outside the company, but it would seem that we do need to make a bit more effort to inform investors and shareholders of how they are linked to corporate value.

Daiwa AM: It is also worth noting that, with regard to R&D, AGC's technological heritage and technology foundations, as well as the measures implemented in regard to personnel responsible for technology matters, all constitute content that can help to strengthen understanding of the R&D that underpins AGC's technological capabilities. A further point is that, since the early 2000s, AGC has had a clear separation of the managerial oversight function from the executive function, and has implemented corresponding reforms in relation to the Board of Directors, and these governance-related initiatives by AGC have attracted a lot of positive attention.

AGC: Going forward, we will be working to improve both our Integrated Report and our ESG-related disclosure, taking into account the feedback received from shareholders, investors and other stakeholders.

Daiwa AM: We think that proactively disclosing things that underpin the company's operations, and ensuring that they are properly understood and receive a positive evaluation, can help to drive a further strengthening of managerial foundations. We will continue to keep a close eye on AGC's initiative in the future, and we look forward to engaging in more dialog of this kind.



Yusuke Kabashima

Deputy Department Manager, Stewardship & ESG Department
Daiwa Asset Management Co., Ltd.



We think that proactively disclosing things that underpin the company's operations, and ensuring that they are properly understood and receive a positive evaluation, can help to drive a further strengthening of managerial foundations.



Examples of engagement activities



Company A (Service sector)

Recognizing and clarifying issues

Sharing issues

Taking steps to address issues

Resolving issues

Issues

- By comparison with its competitors, the company's ability to deliver customers was weak.
- The services provided by the company were not seen by customers as being vitally important services.

Background to the issues

- The company's website was not very attractive to potential users, and as a result the number of users was low, relative to competitors.
- The company was not able to offer services other than advertising services.

Suggested measures to resolve these issues

- The company should work to enhance its ability to attract and deliver customers, by making effective use of other group companies' resources.
- The company should expand the range of services that it provides by forming alliances, etc.

Anticipated situation after addressing the issues

- The company's income from revenue-sharing would expand as its performance in delivering customers improved.
- As the company's services came to be seen as more important, the share of customers terminating their contracts would fall.

Company's response

- ✓ The company's response indicated that it was broadly in agreement with Daiwa AM's recommended approach. Subsequently, the company announced a new medium-term business plan and a series of capital and operations tie-ups.



Company B (Chemical industry)

Recognizing and clarifying issues

Sharing issues

Taking steps to address issues

Resolving issues

Issues

- Although the company had received a high evaluation in terms of profitability, efficiency and medium-term growth potential, there were issues in terms of how the company was viewed by the stock market from a non-financial perspective, and with regard to the clarity of the company's long-term growth strategy.

Background to the issues

- There was a risk that measures to strengthen the company's business foundations and develop businesses from a long-term perspective were inadequate, due to the fact that such measures might impact short-term and medium-term profitability and efficiency.

Suggested measures to resolve these issues

- Use comparison with outstanding companies (including overseas companies) and case studies as a basis for clarifying the company's strategy for strengthening the environmental and social (E and S) aspects of its managerial foundations, and demonstrate how this strategy is linked to the company's long-term growth strategy

Anticipated situation after addressing the issues

- By securing support and anticipation for the company's long-term vision, which will emphasize not only short- and medium-term profitability, efficiency and growth potential, but also strengthening of managerial foundations, the company will be evaluated as being one of Japan's leading materials suppliers.

Company's response

- ✓ The company's response indicated that, while it was confident that it was already making suitable improvements in terms of information disclosure in relation to the environmental and social aspects, it would evaluate the potential for sharing dialog that covers comparison with other companies and case studies based on a long-term perspective with the management team, and then adopting measures that could contribute toward a further enhancement of corporate value.



Company C (Pharmaceuticals)

Recognizing and clarifying issues

Sharing issues

Taking steps to address issues

Resolving issues

Issues

- Communication with the stock market was not consistent enough, leading to a pronounced fall in the company's stock price.

Background to the issues

- Following a merger, the company had dramatically cut back on its disclosure of information, and as a result disclosure was inadequate compared to other companies in the same industry.

Suggested measures to resolve these issues

- Improve the information disclosed, both quantitatively and qualitatively, including the company's medium- and long-term business strategy and quantitative objectives, and aim to bring information disclosure up to around the same level as other companies in the same industry in Japan
- Aim to build a framework for communication with the stock market, through individual meetings in which senior managers would participate

Anticipated situation after addressing the issues

- Investors who have not seen the company as a worthwhile target for investment due to the inadequate disclosure of information would be willing to invest again.
- The company could eliminate the problem of being downgraded in qualitative assessment due to having a management stance that adopted an excessively passive stance toward investor relations.

Company's response

- ✓ The company has begun to implement disclosure of information at the same level as other companies in the same industry, including quarterly disclosure and the medium-term business plan.
- ✓ The company has held multiple individual and small-group meetings (including interviews with outside directors), as well as business-specific presentations.



Company D (Wholesaler)

Recognizing and clarifying issues

Sharing issues

Taking steps to address issues

Resolving issues

Issues

- The company was faced with an increasing risk of seeing its revenue-generating ability decline due to a shrinking of the upstream resource (petroleum and coal) industry and the thermal power generating industry.

Background to the issues

- Simply withdrawing from the energy business could be seen as undermining customers' energy security. There was a need for decision-making that embodied awareness of the importance not just of environmental issues, but of achieving a sustainable society.

Suggested measures to resolve these issues

- The company should demonstrate to the stock market that it is working to help build a global supply chain for new energy sources such as hydrogen and ammonium, by playing a key role in discovering new decarbonization technologies while at the same time identifying potential demand and linking this demand with suppliers.

Anticipated situation after addressing the issues

- By adopting an internal carbon pricing system, the company would be able to speed up decision-making that is directly linked to greenhouse gas emissions reduction.
- The company would be able to not only withdraw from greenhouse gas emitting industries, but also invest proactively in new energy businesses.

Company's response

- ✓ The company shared an awareness of the high importance for future business development of building a brand as a leading company in decarbonization.



Proxy Voting Team (Stewardship & ESG Department)



Company E (Iron and steel)

Topic

- Promoting measures aimed at decarbonization, and expanding the disclosure of information

Dialog content

- The company has several businesses that have significant carbon dioxide emissions, while at the same time it has not announced a long-term vision or roadmap, and despite the global trend toward decarbonization, it was not clear what the company would look like in the future. It was suggested that, in the near term, the company should focus first on announcing its strategy.

Company's response

- ✓ The company felt that it would be difficult to announce its future business portfolio, as this would be taken to imply that the company would be withdrawing from certain businesses, so in the near term it would be implementing relevant measures while disclosing carbon dioxide emissions reduction efforts related to the continuation of existing technologies.



Company F (Non-ferrous metals)

Topic

- Approach to evaluation of directors' remuneration

Dialog content

- Although the company had proposed including non-financial indicators in the evaluation items for determining directors' remuneration, this was limited to single-year evaluation. While it was certainly desirable to include non-financial indicators in the evaluation items, as these are items that need to be evaluated over the medium and long term, it would be advisable for them to be adopted as medium- and long-term incentives.

Company's response

- ✓ Going forward, the company will consider adopting non-financial indicator items as medium- and long-term incentives.



Company G (Machinery)

Topic

- Diversity of the board of directors

Dialog content

- While ensuring the diversity of the board of directors is important for enhancing corporate value, currently, the company does not have any female directors. Although it would be preferable to appoint female directors from within the company, as an interim measure, the company should consider appointing one or more female directors from outside the company.

Company's response

- ✓ Taking into account the need for diversity in the appointment of outside directors, the company has, in the past, considered female candidates for directorships, but ultimately decided that it was more important to choose directors with the required skillset. It will take some time for the company to be able to appoint female directors from within the company, but the company will proceed with measures toward this end, combined with efforts to promote more active participation by female employees.



Company H (Bank)

Topic

- Approach to ensuring the appropriateness of cross-shareholdings, and measures to reduce them

Dialog content

- Explanations from a quantitative perspective regarding the appropriateness of the company's cross-shareholdings should be based on the current market value, not the book value (i.e., the value at the time of acquisition), and such explanations should address the question of whether there are alternative financial assets that the company could hold in the future instead, and how the cross-shareholdings could be used to enhance corporate value.

Company's response

- ✓ Recognizing that the company's explanation regarding the appropriateness of its cross-shareholdings had so far been inadequate, the company would be aiming to expand its explanation so that it can be better understood.



Engagement Team



Company I (Service sector)

Recognizing and clarifying issues

Sharing issues

Taking steps to address issues

Resolving issues

Issues

- The company's status as an environment-related stock was not widely recognized by the stock market.

Background to the issues

- Being involved with industrial waste gave the company a bad image, and within the industrial waste processing sector the company was not seen as a major player.

Suggested measures to resolve these issues

- Spread awareness of the fact that growing demands to tackle environmental problems will lead to increased business opportunities.
- Demonstrate that the company has strong growth opportunities by publicizing its medium- and long-term vision.

Anticipated situation after addressing the issues

- The company would be able to secure evaluation as an environmental stock, for which the capability to address society's environmental problems will lead to growth opportunities.



Company J (Glass, and stone and clay products)

Recognizing and clarifying issues

Sharing issues

Taking steps to address issues

Resolving issues

Issues

- The company's core business, which had low profitability, low asset efficiency and high volatility, was not being highly evaluated.
- Failure to adequately disclose information prevented expectations regarding the potential for growth in the company's strategic businesses from growing.

Background to the issues

- As a company in the process industry sector, the company had experienced continuing problems with low asset efficiency and difficulty in forecasting performance in its core business.
- The company's ROE had for some time now fallen below capital cost.

Suggested measures to resolve these issues

- Implement appropriate restructuring to address the issues affecting the core business
- Improve information disclosure with respect to the company's strategic businesses

Anticipated situation after addressing the issues

- The company's revenue base will be strengthened through improved information disclosure and appropriate restructuring of the core business.
- The company will secure wider awareness of its strategic businesses and win investors' trust as an enterprise with growth potential.



Company K (Machinery)

Recognizing and clarifying issues

Sharing issues

Taking steps to address issues

Resolving issues

Issues

- The company was viewed by the stock markets as being just a cyclical stock.

Background to the issues

- The market expansion that had led the company's growth had come to the end of its cycle, while the new growth markets that the company had entered were making only a relatively small contribution to profits because this was early-stage investment.
- The company's ESG-related disclosure was inadequate.

Suggested measures to resolve these issues

- Spread awareness of how growth-oriented the company is by disclosing the company's approach, in terms of its medium-term and long-term strategies
- Disclose measures being taken to optimize the company's capital structure, including the setting of key performance indicators (KPIs) relating to asset efficiency, and improvement of the cash conversion cycle (CCC).

Anticipated situation after addressing the issues

- Although it is in a niche market, the company would be able to secure evaluation as a world-class enterprise with strong growth potential.
- The company would win trust in relation to its ESG initiatives.

Company's response

- ✓ The company stated that it would be disclosing an outline of its medium-term business plan earlier than had originally been planned.
- ✓ The company announced its intention to set the adjustment of its funding procurement methods and the implementation of a strategy to improve its capital efficiency (including CCC) as medium-term KPIs.

3



ESG

Our approach to ESG issues

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

Of the various ESG issues, Daiwa AM has collated those key ESG items (materiality) to which we attach particular importance. By sharing information relating to the qualitative evaluation based on the results of engagement—focusing particularly on materiality—with companies undertaken by Daiwa AM's corporate research analysts and fund managers, and quantitative analysis and evaluation undertaken by our quantitative analysts, we are able to achieve corporate evaluation from an integrated perspective that combines financial information with non-financial information.

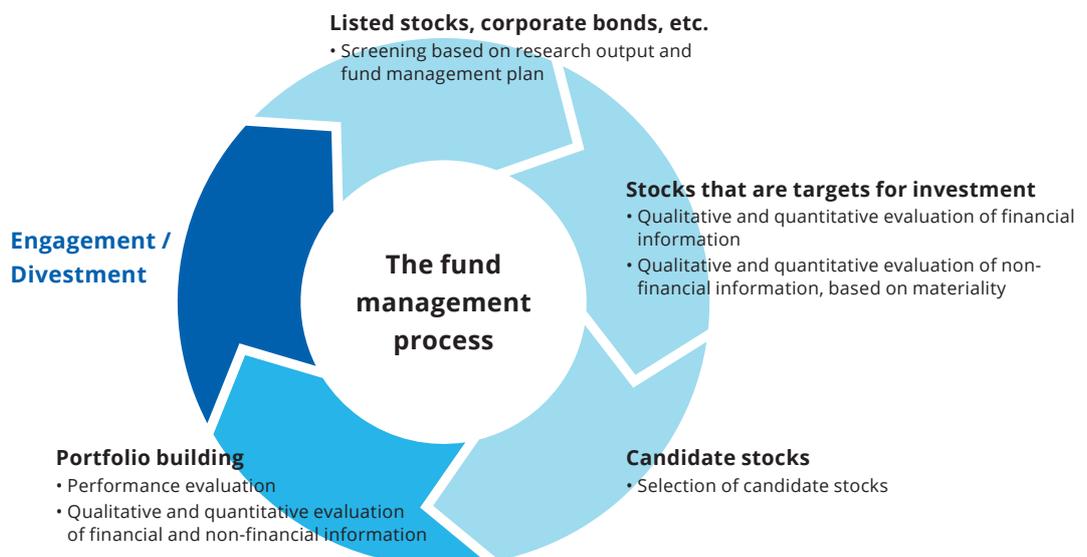
Using the above information, and based on Daiwa AM's approach to ESG, Daiwa AM is able to calculate its own proprietary ESG scores, which serve as a reference when choosing which stocks to invest in and determining portfolio

risk.

Daiwa AM also takes into account the ESG performance of companies when making investment decisions in relation to bond operations.

As we see it, companies 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.

As the approach to sustainability, through engagement with companies, is the same as for investment in stocks, Daiwa AM shares and makes effective use of ESG information when investing in bonds too. Furthermore, because engagement with companies in relation to ESG can be expected to stabilize and improve the creditworthiness of the companies over the medium and long term, it also works to the benefit of bondholders.



Research framework

As an asset management firm, Daiwa AM positions research on companies as one of its core business activities. With our corporate research analysts acting a central role, Daiwa AM 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.

Daiwa AM has also set criteria to be emphasized in dialog

with companies in the Engagement Policy, and Daiwa AM'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 Daiwa AM strives to identify, at an early stage, anything that could potentially lead to value destruction.

Corporate Research Team analysts

Company visits, qualitative analysis, quantitative analysis and stewardship activities



Quantitative Research Team analysts

Quantitative analysis and fund management model development



Macroeconomic Research and Strategy Team economists and strategists

Analysis of domestic and international economic trends, interest rate trends, market trends, industry trends and exchange rate trends



Fund managers

Formulation and implementation of fund management plans, in line with the management strategy for each individual fund, and making effective use of the fund manager's own research and internal and external survey data



Credit Research Team analysts

Issuer analysis, quantitative analysis and credit risk assessment



Proxy Voting Team analysts

Proxy voting and stewardship activities



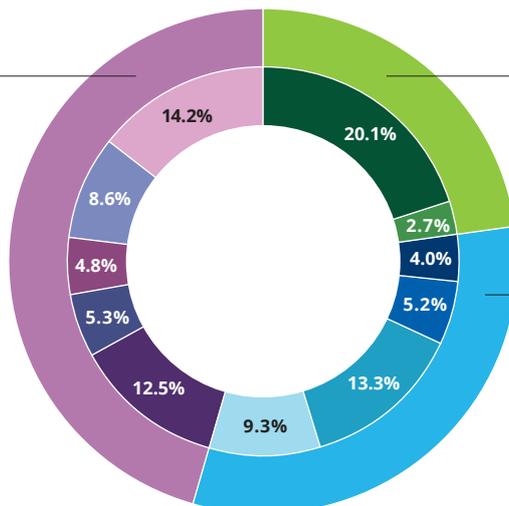
Economists and analysts at Daiwa Institute of Research Ltd., etc.

ESG-related engagement—Topics

Governance
45.4%



- Composition of the board of directors
- Directors' remuneration
- Risk management
- Cross-shareholdings
- Long-term vision



Environmental
22.8%

- Climate change
- Natural capital



Social
31.8%

- A healthy, safe society
- Supply chain
- Diversity
- Human capital

Period covered: January–December, 2021

- Within the broad classification into environmental (E), social (S) and corporate governance (G) aspects, the G aspect continues to account for the largest share, at 45.4%, but the shares held by the E and S aspects have risen.
- The topics that Daiwa AM focused on in particular were the climate change topic within E (20.1%) and the diversity topic within S (13.3%); both of these were important topics that accounted for more than 10% of the total.

Corporate value assessment

Corporate valuation and ESG information

Daiwa AM incorporates the qualitative assessment of the approach of companies to ESG and of the state of their implementation of ESG measures, which is obtained through engagement, into Daiwa AM'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 companies, Daiwa AM'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.

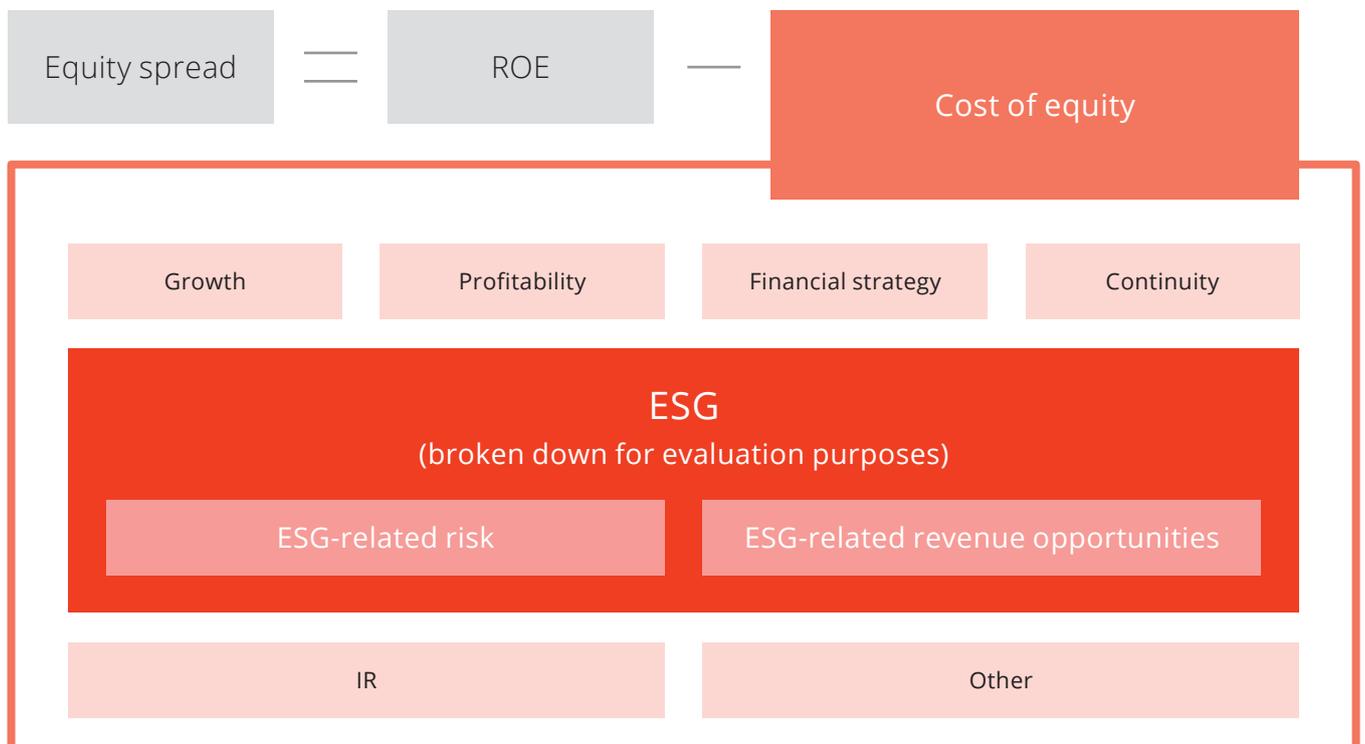
In order to make it possible to calculate the extent to which the value generated by a firm will exceed this anticipated return, Daiwa AM uses the equity spread (ROE

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.

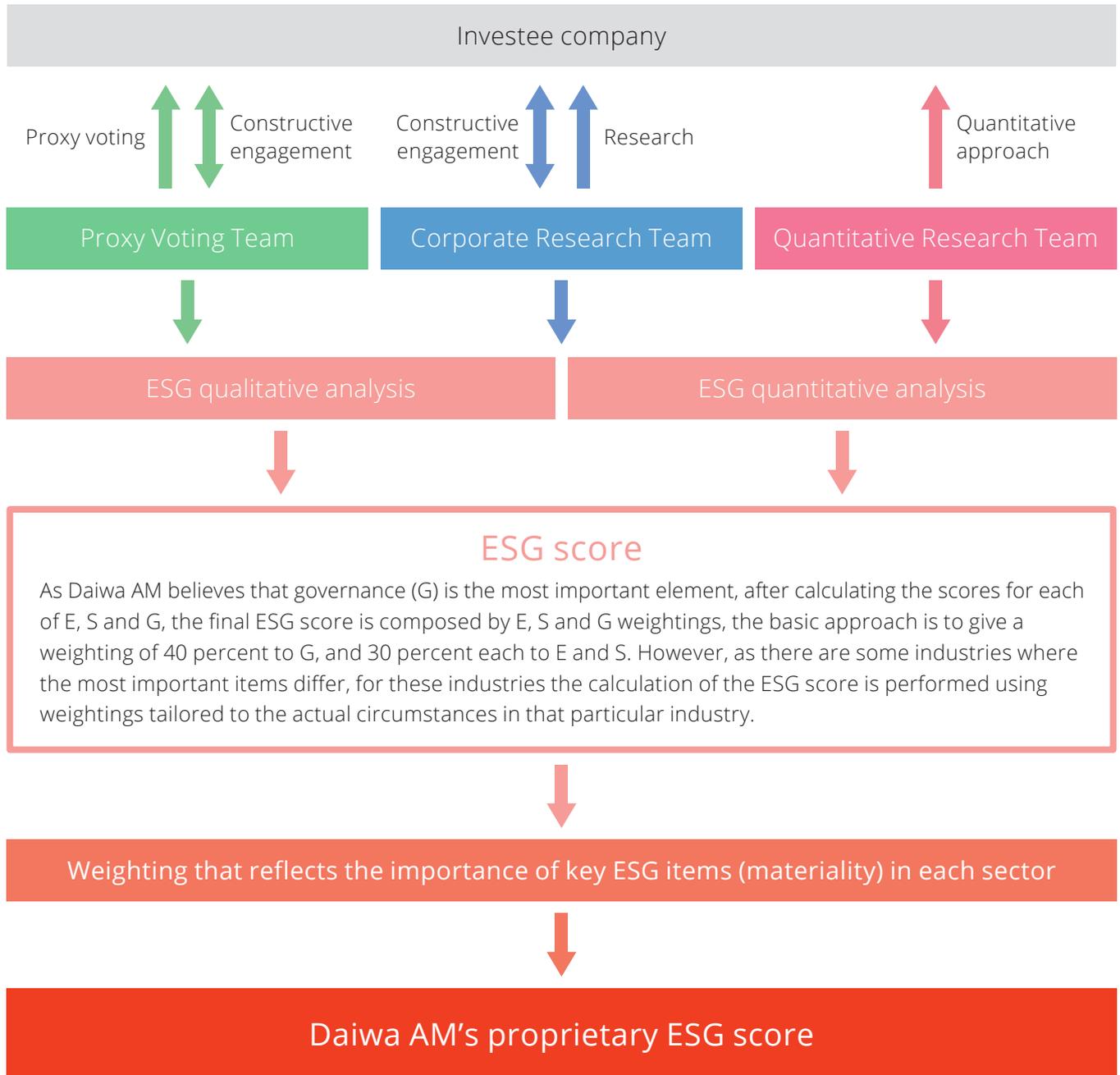
By breaking the ESG evaluation down into risks and opportunities, we have established a framework that enables us to examine, in detail, the impact that measures taken to address ESG issues will have on corporate value.



ESG score

Daiwa AM 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 Daiwa AM sees as key ESG issues, as well as the utilization of a quantitative approach by the Quantitative Research Team.



Fund managers' approach to ESG

Domestic
stocks

Contributing toward the building of a sustainable society by investing in companies that are working to build a better tomorrow



Ryo Shiina
Senior Fund Manager

In recent years, we have gone from an era in which people emphasized the securing of material wealth, to a new era in which more importance is attached to solving the various problems affecting society, including problems that are global in scope, such as climate change. At the same time, with growing awareness of the need for ethical consumption that takes the environment and human rights into account, and with the emergence of the information society, characterized by social media, etc., it has become increasingly noticeable that companies that are perceived as being problematic can very rapidly find themselves being affected by a boycott campaign. Furthermore, given that Japan is expected to experience a long-term decline in its labor-force, companies that do not value their employees are likely to have difficulty in recruiting talented people, and there are also concerns that companies' innovation capability, which is needed to generate solutions to society's problems, may be reduced.

With this in mind, taking the United Nations Sustainable Development Goals (SDGs) and the Japanese government's policies as a reference, we at Daiwa AM have identified investment topics that can assist in addressing society's problems, and have adopted a basic policy of focusing investment on companies that contribute toward solving these problems. When engaging in dialog with companies, we seek to verify whether each company has clarified its management philosophy, mission, and vision for the future, and we attach great importance to whether or not the company is implementing "proactive ESG" that helps to solve society's problems through the company's business activities. At the same time, implementing "defensive ESG" by working to maximize value for stakeholders and building a robust organizational structure, so as to be able to continue growing in a sustainable manner while helping to solve society's problems, is also very important, and so we work to identify and analyze key ESG issues (materiality) on a company-by-company basis. Finally, when we are evaluating corporate value, as those companies that demonstrate outstanding defensive ESG initiatives can be expected to have reduced business risk in the future, and as the innovation that superior human talent and diversified values can generate will give these companies strong growth potential in the future, we attach a premium to these companies when evaluating them.

By investing in companies that help to solve society's problems and work to build a better tomorrow, we aim to deliver good performance to our investment beneficiaries, and also contribute toward the building of a sustainable society.

Overseas
stocks

The importance of non-financial (ESG) information to stock evaluation



Henry Nguyen Thanh Long
Senior Fund Manager

We believe that companies that demonstrate superior ESG performance will be positively evaluated by the market, and that investing in such companies will deliver good returns over the long term. For example, by investing in companies with outstanding corporate governance, tail risk relating to corporate scandals can be avoided. Companies that have worked to develop their supply chain management will have fewer problems with employees and suppliers, and so their operations will proceed more smoothly. And if companies demonstrate concern for the environment, then they will be able to minimize the negative impact of increasingly strict environmental legislation. By contrast, if a company is deemed not be attaching sufficient importance to ESG, then this will negatively impact how that company is evaluated, which in turn will affect investment decisions. The key point

to emphasize when undertaking qualitative evaluation of ESG is whether, based on the company's environmental policy, the company is working to protect the environment and ensure efficient utilization of resources, and whether it is contributing toward decarbonization. With regard to corporate governance, the focus will be on how management treats minority shareholders, on the disclosure of information, and on the company's capital policy. With respect to the social aspect of ESG, the emphasis is on supply chain management initiatives, such as efforts to eliminate forced labor and ensure that workers are paid at least the statutory minimum wage.

However, in the case of the Asia region, which is the region that our team are responsible for, ESG is only just starting to get off the ground. Particularly in the case of small and medium-sized enterprises, and in frontier markets such as Vietnam, reliable ESG data can be difficult to get hold of. For this reason, it is important to engage in direct contact with companies, so as to obtain more information.

We are currently seeing an increase in the number of Asian companies that are starting to implement ESG initiatives. Our team hope that we will be able to continue contributing to the development of ESG in the Asian market through our investment activities.

Domestic bonds

ESG has become a vital approach for investment in bonds



Takaya Mitsui
Chief Fund Manager

The trend toward ESG-aware investment is also growing rapidly in the world of bond operations. When Daiwa AM evaluates the creditworthiness of sovereign debt and corporate bonds, in addition to governance (the G aspect of ESG), which we have for many years recognized the importance of, in recent years we have also attached growing importance to the social (S) and environmental (E) aspects, which are factors that can affect not just the perceived creditworthiness of the enterprise or other issuing body, but also their long-term sustainability.

Unlike stocks, bonds do not come with voting rights, so when selecting bond issues and building portfolios, we take account of ESG factors by making effective use of direct dialog with investees, and of information provided by corporate research analysts. Through these actions, besides reducing uncertainty in relation to our portfolios' investment performance and controlling downside risk, we also aim to secure long-term returns by helping to realize a sustainable society.

Passive funds

Aiming to provide even more investors with an opportunity for easy ESG investment through index funds



Eriko Ono
Fund Manager

In recent years, there has been a worldwide trend (centered in Europe) demanding a shift toward a post-carbon society or sustainable society, which has led to an acceleration of the flow of investment funds, from institutional investors and other categories of investor, into ESG investment, and the performance of ESG investment has also improved.

Our team provides funds which are linked to indexes that incorporate ongoing ESG evaluation, and we aim to provide opportunities for investors to start undertaking ESG investment at lower cost and more easily. Currently, we have established three ETFs that are linked to indexes such as the MSCI Japan ESG Leaders Index, which is used by Japan's Government Pension Investment Fund as an ESG index and investment target.

We also aim to provide easy-to-understand disclosure of ESG data, such as ESG ratings and carbon dioxide emission volumes.



Measures relating to the TCFD



In this section, we introduce measures that address climate change related issues through stewardship activities undertaken in line with the disclosure framework recommended by the Task Force on Climate-related Financial Disclosures (TCFD).

TCFD disclosure items

Governance

Disclosing aspects of governance concerned with climate change related risks and opportunities

Daiwa AM discloses our ESG Investment Policy, which has been deliberated on and approved by our Stewardship Committee, as well as the ESG issues to which our company attaches particular importance, and climate change is positioned as one key aspect. Regarding the ESG risk, including greenhouse gas emissions, of our investment portfolio, the Stewardship & ESG Department performs monitoring, and makes effective use of this information in investment decision-making and

engagement by sharing it with the company's fund managers and analysts. The Department also reports to the Stewardship Committee on a regular basis, and discusses current monitoring status and the formulation and implementation of our Engagement Policy in regard to ESG issues. The Chair of the Stewardship Committee reports on matters relating to ESG risk and the content of the Stewardship Committee's discussions to the company's Board of Directors.

Framework



Strategy

Regarding the actual and potential impact of climate change related risks and opportunities on the organization's business, strategy and financial planning, this is disclosed in cases where it constitutes materiality

The impact of climate change on companies can be seen as including both risks that could negatively impact corporate value, such as flooding, or greenhouse gas emissions controls, and opportunities that could enhance corporate value, such as being a company that possesses technology which can be used to reduce greenhouse gas emissions or respond to climate change. Daiwa AM strives to monitor the risks and opportunities for companies by making effective

use of data from external sources. The content obtained by analyzing these data is reflecting when evaluating companies, and is effectively utilized in the selection of investee companies and in portfolio risk management. We also aim to enhance the corporate value of companies and reduce their risk by encouraging them, through engagement, to implement decarbonization.

Common climate change related risks and opportunities

Transitional risks		Physical risks		Opportunities	
Regulatory risk	Stricter environmental regulation	Acute risk	Risk relating to floods, typhoons, etc.	Resource efficiency	Increased demand for recycling technology, etc.
Technology risk	Falling behind the progress being made in technology, in terms of renewable energy, etc.	Chronic risk	Risk relating to changes in long-term climate patterns	Energy sources	Increased demand for renewable energy, etc.
Market risk	Changes in demand for petrochemical assets, etc.			Products and services	Increased demand for products, etc. with a smaller environmental footprint
Reputational risk	Becoming less highly valued and more negatively judged by consumers			Resilience	Energy diversification aimed at achieving greater resilience

↓

Reflection in corporate value

Risk management

Disclosing how organizations identify, evaluate and manage risk relating to climate change

Daiwa AM uses disclosed information, data from external vendors, and the research and engagement conducted by Daiwa AM itself, to monitor the climate change related risks and opportunities for companies. Daiwa AM has also put in place a framework for utilizing external vendors' data as a basis for measuring greenhouse gas emissions, and

conducting climate change risk scenario analysis, for individual funds and individual asset classes, thereby enabling risk to be monitored and managed on a regular basis. More details of the specific analysis methods used can be found in the following sections.

Indicators and targets

Where information is deemed to be of key importance (i.e., materiality), the climate change related risks and opportunities are evaluated, and measurement criteria (indicators) and targets are disclosed for the use of management

Daiwa AM uses portfolios' total greenhouse gas emissions, carbon footprint and carbon intensity as greenhouse gas emissions related indicators for individual funds and asset classes, and performs monitoring and analysis of them. Based on this data and its own original research, Daiwa AM

undertakes engagement activities with companies to encourage them to decarbonize, in line with the goal of achieving net zero carbon dioxide emissions by 2050. More detailed information about engagement activities can be found in the last section in this part of the report.

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

Portfolios' total carbon dioxide emissions

Daiwa AM compared the total carbon dioxide emissions for each of the asset classes that we invest in against benchmarks. It was confirmed that, for all asset classes, the total emissions of Daiwa AM's portfolio were lower than the total emissions of the benchmark (calculated as being equivalent in amount to the corresponding Daiwa AM portfolio). Reflecting the trend for higher total emissions to be associated with larger portfolio size, the emissions associated with domestic (Japanese) stocks, in which Daiwa AM invests a particularly large amount, were high compared to other asset classes. The fact that total emissions for Daiwa AM's domestic stock portfolio were substantially lower than total emissions for the benchmark was due to the fact that investment in the utilities sector, which includes electric power companies that have high greenhouse gas emissions, holds a lower weighting in Daiwa AM's domestic stock

portfolio than it did in the benchmark, and the fact that, in relation to investment in companies in the materials sector, Daiwa AM tends to have substantial positions in companies with relatively low greenhouse gas emissions.

(ten thousand tons of CO₂ equivalent)

	Daiwa AM	Benchmark
Domestic stocks	1553.64	2024.79
Overseas stocks	53.91	54.96
Domestic corporate bonds	46.42	109.55
Overseas corporate bonds	12.14	28.14

Note: Benchmarks:

Domestic stocks: TOPIX (with dividends included)

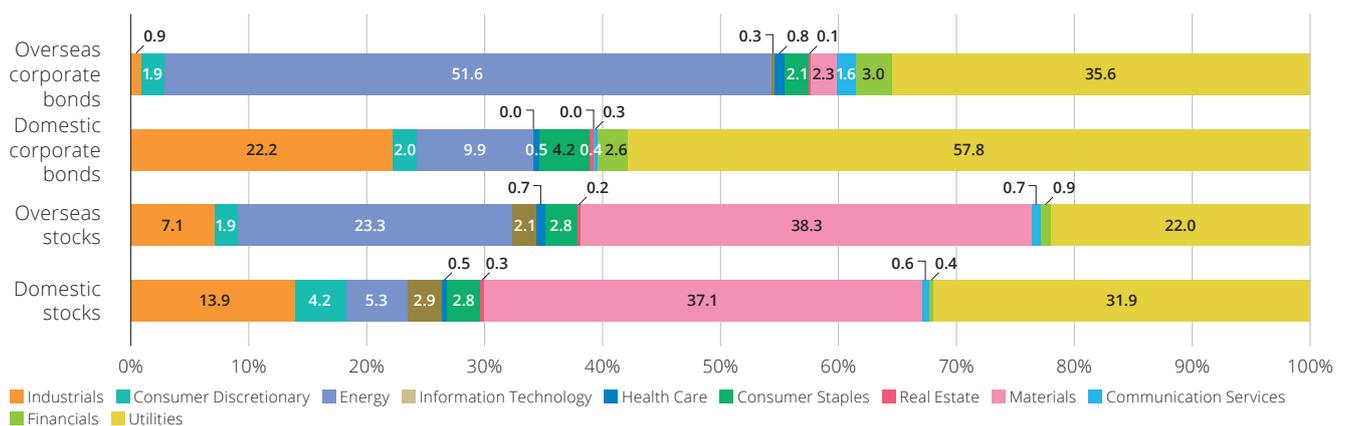
Overseas stocks: MSCI ACWI ex Japan Index

Domestic corporate bonds: Bloomberg Asian-Pacific Japan Corporate TR Index Value Unhedged JPY

Overseas corporate bonds: Bloomberg Global Aggregate ex-JPY-Corporate TR Index Unhedged USD

Source: Some information is derived from ©2022 MSCI ESG Research LLC. Reproduced by permission. (Limited to portfolio component issues for which Scope 1+2 data are available)

Portfolios' total carbon dioxide emissions, by sector



Portfolios' carbon footprint and weighted average carbon intensity

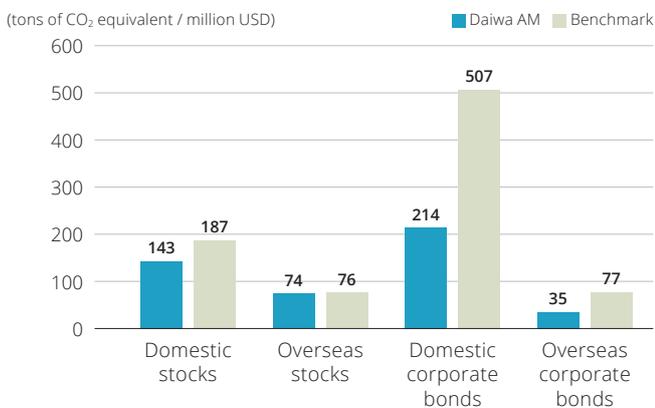
Here, we compare the carbon footprint and weighted average carbon intensity for each asset class that Daiwa AM invests in with the benchmark. The carbon footprint represents the emissions volume in relation to portfolio size (i.e., market capitalization), while carbon intensity is an indicator that denotes carbon dioxide emissions volume per unit of sales, for companies. For example, if we compare Daiwa AM's overseas stock portfolio with the benchmark, we can see that Daiwa AM's carbon footprint is lower than the benchmark, but the weighted average carbon intensity per unit of sales is higher than the benchmark. This is because investment in the materials sector, which has higher carbon

dioxide emissions per unit of sales, holds a slightly higher weighting in Daiwa AM's case than it does for the benchmark.

The weighted average carbon intensity for Daiwa AM's overseas corporate bond portfolio is very low compared to the benchmark, because investment in the electric power sector and materials sector, which have high carbon dioxide emissions per unit of sales, accounts for a relatively low share of Daiwa AM's investment in this asset class.

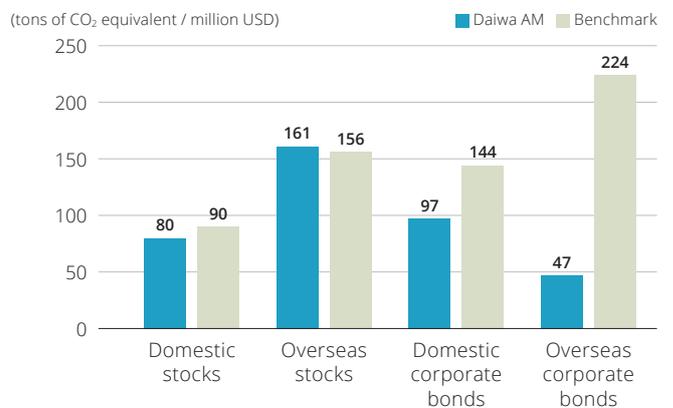
Daiwa AM aims to reduce the carbon footprint by encouraging companies, to reduce their carbon intensity, through measures such as engagement.

Portfolios' carbon footprint



Note: The benchmarks used were the same as those used in the previous section for portfolios' total carbon dioxide emissions. Source: Some information is derived from ©2022 MSCI ESG Research LLC. Reproduced by permission. (Limited to portfolio component issues for which Scope 1+2 data are available)

Portfolios' weighted average carbon intensity



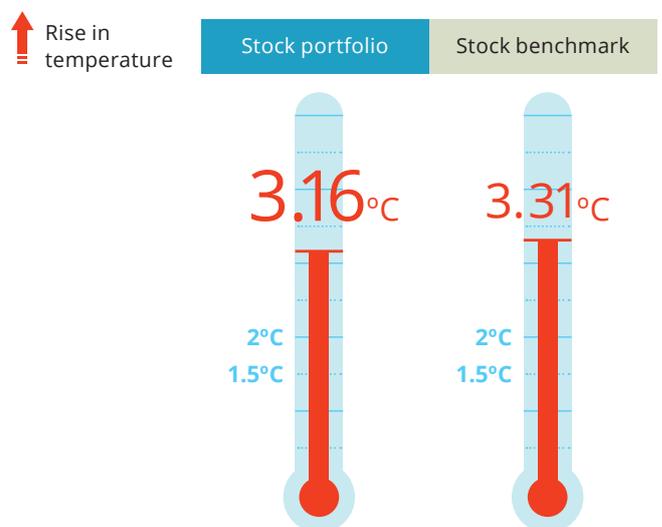
Scenario analysis

Warming potential analysis

Warming potential analysis shows the extent to which the current investment portfolio could be expected to cause average global temperature to rise by the year 2100, through the business activities that the investee companies 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. The main reason why Daiwa AM's stock portfolio has lower warming potential than the benchmark is because, compared to the benchmark, Daiwa AM's stock portfolio has relatively low positions in developing economy companies, which tend to have higher carbon dioxide emissions.

Improvement is still needed in order to bring warming potential down to under the 2°C, which is the Paris Agreement target. Daiwa AM aims to reduce the warming potential of its portfolio by undertaking engagement with companies that have high carbon dioxide emissions, to encourage them to reduce emissions and make effective use of renewable energy.

Warming potential



Notes:
1. The Daiwa AM stock portfolio is a virtual portfolio that combines Daiwa AM's domestic stock and overseas stock portfolios.
2. The MSCI ACWI Index was used as the benchmark.
Source: Some information is derived from ©2022 MSCI ESG Research LLC. Reproduced by permission. (Limited to portfolio component issues for which Scope 1+2 data are available)

Climate change related engagement case studies

By analyzing the main indicators for total greenhouse gas emissions, etc. and implementing scenario analysis, Daiwa AM identifies the key issues in relation to the risks and

opportunities presented by climate change, and utilizes this information in engagement activities with companies. Case studies of this type of engagement are presented below.

Engagement case study: Company A

Overview

Investee Company A (in the materials sector) had announced its support for the goals of the TCFD, but had not been able to implement disclosure of opportunities and risks based on scenario analysis. Although Company A's main products were associated with high levels of greenhouse gas emissions, as the special characteristics and recyclability of these materials were expected to help mitigate the effects of climate change, and as there were significant opportunities relating to the production of Company A's products using highly efficient manufacturing processes, Daiwa AM encouraged Company A to undertake proactive disclosure, in order for the company to receive appropriate evaluation by the stock market. More specifically, by presenting Company A with case studies of other companies' disclosure efforts, and by showing how scenario analysis could be utilized by shareholders and investors, Daiwa AM helped Company A to understand the significance of disclosure. After Company A began to implement more effective disclosure, Daiwa AM continued to engage in regular dialog with Company A in regard to how best to respond to climate change.



Company's response

In the first fiscal year, Company A's related disclosure was limited to a rough outline of the risks and opportunities pertaining to each scenario, but subsequently the disclosure content was expanded, and currently, besides providing more information regarding the measures adopted in response to risks, and about the characteristics of a wide range of the company's products, Company A has also expanded its disclosure in regard to opportunities.



Future strategy

Company A is one of Japan's leading manufacturers, and is expected to be able to contribute toward mitigating the negative impact of climate change through its highly efficient manufacturing processes, while also growing its revenue. Daiwa AM hopes that Company A will undertake disclosure that will help to foster an understanding of its strengths, and from this perspective, Daiwa AM will continue to undertake engagement with Company A with objectives relating to climate change. When undertaking such engagement, it is anticipated that it will be possible to undertake more effective dialog by comparing Company A's situation with information disclosed by overseas companies that can serve as a benchmark for Company A.

Engagement case study: Company B

Overview

Investee Company B (in the IT services sector) was already undertaking scenario analysis on a business-specific basis. While this careful analysis was very useful for identifying opportunities and risks, the analysis was only disclosed for one or two businesses per year. Furthermore, while the major trends in society's response to climate change were expected to boost the potential of various Company B businesses, it was pointed out to Company B that their strategy in this regard had not been adequately disclosed.



Company's response

When undertaking detailed scenario analysis at the level of individual businesses, there is a need to perform analysis from various different perspectives, and to have an in-depth understanding and awareness of each business sector, which is why up until now the analysis has focused on one or two businesses each year. However, now that the company has accumulated the necessary know-how, going forward, the approach adopted will be to speed up the expansion in the range of businesses for which such analysis is disclosed.



Future strategy

Company B is a company for which the major trends in society's response to climate change offer business potential, and also a company that provides services which can support society's response to climate change. Daiwa AM intends to continue engaging in regular dialog with Company B, not only in relation to business-specific scenario analysis, but also regarding the company's business strategy for taking advantage of its wide-ranging opportunities.

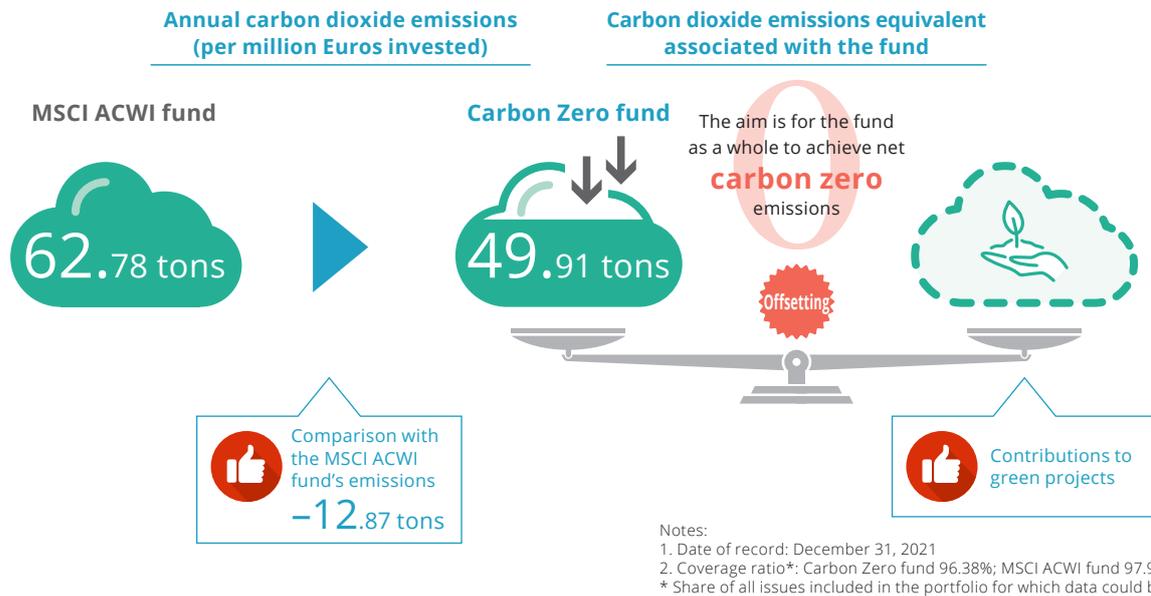
Fund initiatives aimed at decarbonization

Carbon Neutral Equity Fund (Carbon Zero)

Daiwa AM's Carbon Neutral Equity Fund (Carbon Zero), which was established in July 2021, and the operation of which has benefited from assistance from Candriam Belgium SA (hereinafter referred to as "Candriam"), invests in companies that provide solutions aimed at helping to realize the post-carbon society; the scope of investment includes both Japanese and international stocks. The fund's portfolio was found to be even more effective than MSCI ACWI in terms of reducing carbon dioxide emissions.

Part of the consideration that Candriam receives in return for providing assistance with the operation of the fund is used to support green projects (i.e., projects that contribute

toward addressing environmental problems, including the issue of global warming) aimed at reducing carbon dioxide emissions, mainly in emerging economies such as India and Panama, thereby helping to offset the carbon dioxide emissions associated with the fund. Daiwa AM is also contributing toward the restoration of natural environments by donating part of its trustee revenue from the fund to tree-planting activities, through an NPO. In this way, investment beneficiaries are being provided not only with an opportunity to earn profits from investing in the fund, but also to help address environmental issues.



Source: Candriam

Examples of contributions to green projects

Solar power project—India



- Large-scale solar power project
- Generation of renewable energy for India's electric power network, which currently relies heavily on fossil fuels

Tree-planting project—Panama



- Converting land that had been cleared for agricultural use to mixed forest
- Improving biodiversity and carbon sequestration, and mitigating global warming
- Supporting community development through fair production of organic cocoa and sustainable forest products

SDGs which the project contributes toward achieving

7 Affordable and Clean Energy	Generating electricity through the use of renewable energy	8 Decent Work and Economic Growth	Creating new employment opportunities
9 Industry, Innovation and Infrastructure	Disseminating Parabolic trough technology	13 Climate Action	Contributing toward reducing CO ₂ emissions

4 Quality Education	Environmental education programs and training	8 Decent Work and Economic Growth	Creating new employment opportunities
13 Climate Action	Contributing toward reducing CO ₂ emissions	15 Life On Land	Contributing toward forest regeneration

Donating part of the trustee revenue to tree-planting activities Cultivating forests along with the fund

Growing trees for the future
Working together
to cultivate
the Forest
for Tomorrow



5 Working together with customers to continue progressing toward Carbon Zero
Customers receive regular updates on how the trees planted through this program are growing.

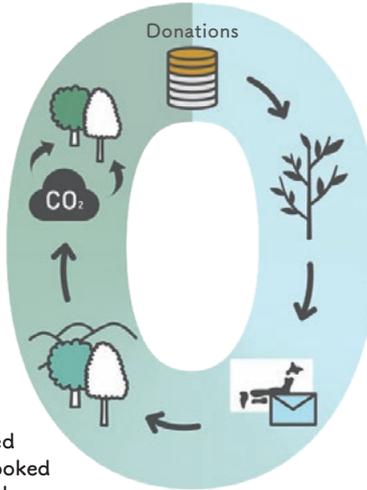


4 The forests that are planted through this program are looked after over a 10-year period
The trees that are planted through this program are cultivated and managed for 10 years by experts, such as members of the local forest owners' cooperative.



1 When customers subscribe to this fund, Daiwa AM donates part of the trustee revenue

The size of the donation is determined in late February each year, based on the net asset value of the fund.



2 Tree-planting takes place every year from spring through into summer

One tree can be planted for every 5,000 yen donated.



3 Customers can receive a tree-planting certificate

Every year, in late February, a tree-planting certificate is sent to those customers that hold at least 5 million units in the Carbon Zero fund.



The Carbon Zero fund receives the Governor's Special Prize for Green Finance in the ESG Investment Category of the 2021 Tokyo Financial Awards

The Carbon Zero fund, which was established to foster new investment in technology aimed at realizing net zero carbon dioxide emissions, won the Governor's Special Prize for Green Finance in the ESG Investment Category of the 2021 Tokyo Financial Awards, which is awarded to businesses that are particularly outstanding in their green finance initiatives.



Daiwa AM wins the Most Innovative Product Award for the Carbon Zero fund at the 2022 Best of the Best Awards

In the 2022 Best of the Best Awards organized by Hong Kong's Asia Asset Management—The Journal of Investments & Pensions, Daiwa AM won the Most Innovative Product Award for its Carbon Zero fund. This award can be seen as

constituting recognition of the product's ability to facilitate the cultivation of both assets and forests, in collaboration with investors, through investment in decarbonization.

About the ESG Investment Category of the Tokyo Financial Awards

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.

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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 Daiwa AM'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 Daiwa AM'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 will be updating this Policy as needed, in line with changes in the situation regarding corporate governance, and knowledge obtained through constructive engagement with investee companies.

+ 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 main changes that were made to the Proxy Voting Policy in 2021 are outlined below.

Diversity

Criteria relating to female corporate officers

As a company's decision-making organ, the board of directors makes decisions that can enhance the company's corporate value. As such, it would be deemed desirable for the board to comprise members who possess a diverse range of skills and attributes. In particular, the appointment of women, who make up around half of the population, to the board can be seen as an indicator of diversity. With this in mind, Daiwa AM has established a new criterion requiring that companies included in the TOPIX 100 index should have at least one female corporate officer (i.e., directors or auditors).

Composition of the board of directors

Criteria relating to the number of outside directors

Whereas in the past listed companies other than those listed on the First Section of the Tokyo Stock Exchange were only required to have at least one outside director, as required by Japan's Companies Act, this has now been changed to a criterion requiring that all listed companies, regardless of where they are listed, must have at least two outside directors.

Criteria relating to the independence of outside directors

Criteria relating to the requirement for independence of outside directors

The wording of the relevant criterion has been changed so that it now requires the Notice of Meeting to clearly state that outside directors meet the conditions for the status of independent directors as stipulated by the relevant financial instruments exchange market.

Corporate officers' compensation and retirement bonuses

Criteria relating to retirement bonuses for corporate officers

Deeming it not to be desirable for corporate officers' compensation to include seniority-based compensation, such as retirement bonuses, that does not provide an incentive for increasing a company's corporate value, it was decided that, in principle, Daiwa AM would oppose such proposals, except in cases where retirement benefit was put up for discussion at the same time.

Capital management policy

Criteria regarding cross-shareholdings

Having excessively high levels of cross-shareholdings can be deemed to be problematic, in terms of reducing capital efficiency and leading to the hollowing out of voting rights through cross-shareholdings, and so, fundamentally speaking, Daiwa AM believes that it is important for investee companies to work to reduce their cross-shareholdings. With this in mind, Daiwa AM has established a new criterion, to the effect that Daiwa AM will oppose the reappointment of the representative director (or representative executive officer) of a company that has excessively high cross-shareholdings, has problems in terms of its managerial performance or in terms of the effective utilization of capital, and cannot be seen to be making adequate efforts to reduce its cross-shareholdings.

ESG

Criteria relating to ESG

While Daiwa AM has already been responding to major ESG-related issues at investee companies by making requests for improvement through engagement with the companies concerned, a new criterion has now been established with respect to cases in which improvement is not seen even after continued engagement, whereby, as the next step, Daiwa AM will oppose the reappointment of the representative director (or representative executive officer) of the company in question.

Performance

Criteria relating to the appointment of directors (excluding outside directors)

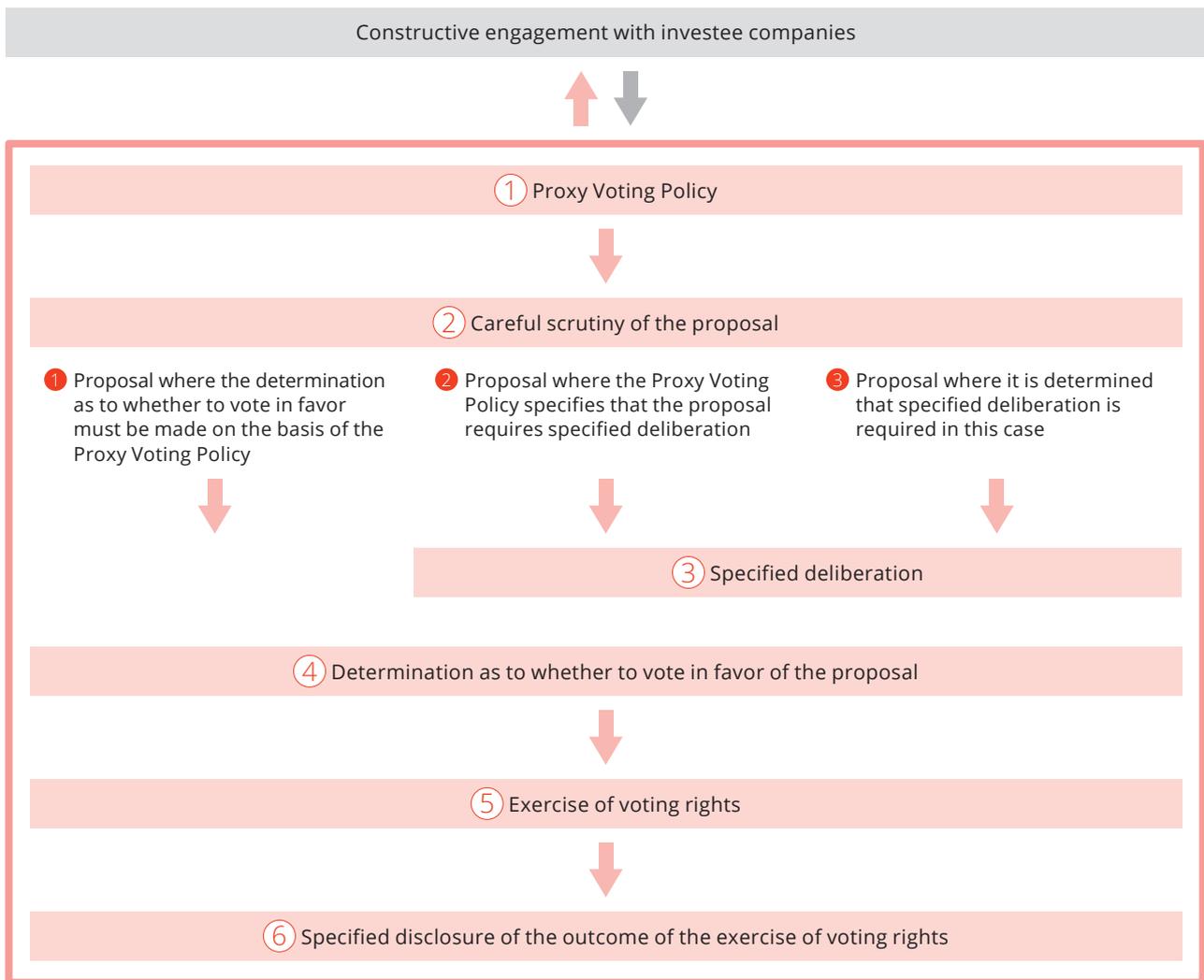
With respect to companies that have made a loss for three consecutive quarters, it had previously been the case that such a company would be deemed to have problems with its managerial performance if the price-book-value ratio (PBR) was in the bottom 33% for companies in the same industry. It has now been decided that, during a period in which a company makes a loss for three consecutive quarters, the value of the company's stock must, at a minimum, remain above the liquidation value, so if the PBR falls below one, then the company will be deemed to have problems with its managerial performance.

Other

Criteria relating to disposal of treasury shares as a result of private placement with respect to a foundation

Regarding proposals relating to disposal of treasury shares as a result of private placement with respect to a foundation, the approach to the handling of proxy voting in such a situation has been changed to a policy whereby the proposal can be approved even if the voting rights for the shares placed with the foundation are not exercised.

Proxy voting process



Key points of the proxy voting process

Note: The numbers ①, ③ and ⑥ correspond to the "Proxy voting process" diagram shown above.

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 deliberation

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 Specified 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

Company Z received a shareholder proposal to the effect that the company should include, in its Articles of Incorporation, a commitment to formulating and disclosing plans that specify a business strategy for undertaking business activities in accordance with the goals of the Paris Agreement. As Daiwa AM's proxy voting criteria state that shareholder proposals should be considered on a case-by-case basis if there is a possibility that they may contribute toward enhancing corporate value, the Stewardship Committee was asked to perform specified deliberation of this proposal.

The Stewardship Committee determined that, since companies have an important social responsibility to formulate business strategies relating to climate change and to expand the scope of disclosure, and since these are vital factors in enhancing corporate value over the medium and long term, as a general rule, this type of shareholder proposal could be approved. However, in this particular case, Company Z had already taken adequate steps to formulate and disclose such strategies and objectives, and so there was no need to include new articles to this effect in the company's Articles of Incorporation.

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 Daiwa AM'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>

Daiwa AM has exercised voting rights with respect to approximately 2,500 Japanese companies in FY2021. 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	16,649	15,415	1,234	7.4%
	Appointment and dismissal of Corporate Auditors* ¹	3,567	3,307	260	7.3%
	Appointment and dismissal of Accounting Auditors	92	92	0	0.0%
Proposals relating to Executive compensation	Executive compensation* ²	1,079	974	105	9.7%
	Payment of retirement benefits for retiring Executives	133	43	90	67.7%
Proposals relating to capital policy (excluding those relating to Articles of Incorporation)	Appropriation of surplus	1,510	1,478	32	2.1%
	Organizational restructuring* ³	58	56	2	3.4%
	Introduction, revision or abolition of takeover defense measures	57	3	54	94.7%
	Other proposals relating to capital policy* ⁴	95	91	4	4.2%
Proposals relating to Articles of Incorporation		609	598	11	1.8%
Other		7	7	0	0.0%
Total		23,856	22,064	1,792	7.5%
	Of which, proposals embodying suggestions made by external specialist organizations* ⁵	6	4	2	33.3%

Shareholder proposals

		Total	In favor	Opposed	"Opposed" votes as % of total
Total		178	17	161	90.4%
	Of which, proposals embodying suggestions made by external specialist organizations* ⁵	1	0	1	100.0%

1. 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.

2. Includes proposals relating to changes in executive compensation issuing of stock options, adoption or revision of performance-linked compensation system, executive bonuses, etc.

3. Includes proposals relating to mergers, business transfers and acquisitions, share swaps, share transfers, corporate splits, etc.

4. 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.

5. In principle, those instances of the exercise of voting rights with respect to companies which have a capital relationship with Daiwa AM or which have a business relationship with Daiwa AM which, according to Daiwa AM'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.

Case studies of engagement relating to proxy voting

Engagement case study: Company A

Overview

When Investee Company A received a tender offer from Company B, it was decided that Company A would reject the offer, announce a merger with the Company C Group, and hold an extraordinary shareholders meeting to approve the merger.



Daiwa AM's policy

Daiwa AM's Proxy Voting Policy states that, with regard to mergers, in principle, Daiwa AM will support the company's proposal. However, in this particular case, it was felt that there were doubts as to whether the company's proposal would be more beneficial than the tender offer in terms of enhancing corporate value, and so Daiwa AM undertook engagement with Company A and Company B.



Results of engagement

Having learned, through the engagement process, that the merger proposed by Company A was based on an optimistic business plan, it was determined that the proposed merger would not do more to enhance corporate value than the tender offer made by Company B, and so Daiwa AM opposed the company's proposal.

Engagement case study: Company D

Overview

When Investee Company D received a tender offer from Company E, it was decided that Company D would adopt anti-takeover measures on an ex-post basis, and would confirm the shareholders' views on this matter at the shareholders meeting.



Daiwa AM's policy

Daiwa AM's Proxy Voting Policy states that, in principle, Daiwa AM is opposed to anti-takeover measures. However, in this particular case, it was felt that it was important to clarify whether entrusting management of the company to the would-be purchaser or to the existing management team would do more to enhance corporate value, and so Daiwa AM undertook engagement with Company D.



Results of engagement

Based on the engagement, in light of the fact that, while the would-be purchaser did not have a business plan for managing the company after acquisition, the existing management team had in fact formulated plans for enhancing corporate value in the future, including a medium-term management plan, it was decided that Daiwa AM would support the company's proposal.

Measures in response to the COVID-19 epidemic

Responding to the spread of the COVID-19 pandemic, on May 18, 2020, Daiwa AM announced “Voting with Consideration of the Impact of COVID-19,” stating that, with respect to four items—1. Regarding shareholders meetings; 2. Regarding the disclosure of information; 3. Regarding short-term liquidity, etc.; and 4. Regarding ROE, etc.—Daiwa AM would take into account the current circumstances when exercising proxy voting.

Subsequently, it was determined that, in regard to disclosure of all information necessary for making a determination as to whether to vote in favor of a proposal (including the business report and financial statements), it was in fact possible for an investee company to implement

this disclosure within the normal time period, and so, starting from August 27, 2020, item 2. (Regarding the disclosure of information) was suspended.

While Daiwa AM appreciates that the COVID-19 pandemic is still having a major impact on corporate performance, it was determined that there had been a significant improvement in terms of the dispelling of uncertainty regarding the outlook for the business environment, and in terms of the funding situation, and so it was decided that item 3. (Regarding short-term liquidity, etc.) would also be suspended with respect to shareholders meetings held from June 2021 onwards (this suspension was still in effect as of December 31, 2021).

1 Regarding shareholders meetings

Daiwa AM 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 Daiwa AM’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 Daiwa AM’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 Daiwa AM’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, Daiwa AM will take the circumstances into account, as far as possible.

5



Further Enhancement of Stewardship Activities

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.



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 Daiwa AM revised its Policies regarding Japan's Stewardship Code. Daiwa AM also formulated a General Policy on Stewardship Activities, and made and announced revisions to its ESG Investment Policy and its Engagement Policy.



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



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 has always positioned 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.



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

Daiwa AM has formulated an Engagement Policy in relation to engagement with investee companies, and this Policy clearly stipulates the major perspectives that Daiwa AM emphasizes in relation to engagement, including key ESG issues. Daiwa AM's corporate research analysts, fund managers and personnel responsible for stewardship activities 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, in August 2021, Daiwa AM began participation in the Climate Action 100+ initiative, undertaking collaborative engagement.



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 November 2021, Daiwa AM revised its Proxy Voting Policy. At the same time, Daiwa AM made public the items that were currently under consideration, and its expectations with respect to investee companies; Daiwa AM has been making efforts to realize disclosure that will be more useful for fostering dialog. With regard to voting activity, Daiwa AM has started to provide more detailed information regarding the grounds for voting decisions, and is striving to realize disclosure that is easy to understand.



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

In March 2021, Daiwa AM published the Stewardship Report 2020, which outlined the main content of Daiwa AM's stewardship activities.



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

In addition, in February 2021, Daiwa AM held a meeting for the exchange of views regarding ESG, attended by representatives of five investee companies. Besides dialog between Daiwa AM and the investee companies, this meeting also provided an opportunity for the investee companies to share information among themselves, and it constituted Daiwa AM's first step toward helping both investors and investee companies to deepen their understanding of ESG.

6



Corporate Initiatives

Sustainability Committee and Corporate Planning Section

On November 1, 2021, Daiwa AM established the Sustainability Committee, with the aim of promoting sustainability-aware management, so as to fulfil the company's corporate social responsibility.

The Sustainability Committee is chaired by Daiwa AM's President, and its members comprise the directors and executive officers responsible for individual departments. Functioning as a sub-committee of the Executive Management Committee, the Sustainability Committee discusses matters relating to Daiwa AM's medium- and long-term corporate value enhancement and sustainability, including the setting of sustainability-related policies and objectives, and the building and improvement of promotional frameworks. Important matters relating to operational execution are decided on by the company's Board of Directors, the membership of which includes three Outside Directors.

Daiwa AM has also established a new Corporate Planning Section within the Corporate Planning Department, to promote sustainability related initiatives on a company-wide basis. The Corporate Planning Section also functions as the

secretariat for the Sustainability Committee.

As a company that manages customers' assets on their behalf, Daiwa AM is fully aware of its social responsibility to contribute toward the maintenance and enhancement of society's sustainability, and all Daiwa AM employees work together as one to achieve this.

Going forward, Daiwa AM will continue to promote management that emphasizes sustainability, taking the framework outlined above as its foundation.



Corporate Planning Section

Sustainability Committee framework



Meeting to exchange views with a female director



Touko Shirakawa Outside Director, Daiwa Asset Management Co., Ltd.

As part of Daiwa AM's initiatives to promote diversity, in December 2021 a meeting was held at which the company's female line managers had the opportunity to exchange views with Ms. Touko Shirakawa, who was appointed as one of Daiwa AM's Outside Directors in April 2021.



In Japan, diversity starts with women. This is because, although women account for half of the country's population, they are still a minority in decision-making roles. Changing the current situation where there are few women among decision-makers will help to change society as a whole. This is important not just for the sake of women, but for the sustainable growth of business enterprises. We need to make full use of everyone's capabilities, and anyone who has the opportunity to achieve something should grasp that opportunity.



Question-and-answer sessions with female line managers

Responding to Outside Director Ms. Touko Shirakawa's suggestion that "We should start by listening to the views of female line managers working on the frontline of the company's operations," Daiwa AM has developed the regular meetings for female managers into the form seen in the most recent meeting.

On the day of the meeting, following an address by Ms. Shirakawa in which she discussed the progression from promoting women's active participation in the workplace to workstyle reform, the meeting proceeded using interviews with participants. There was an exchange of views regarding participants' thoughts on becoming managers, the types of measures they would like to see put in place, etc. Comments from participants included "It was a very valuable experience, and I appreciated being able to receive wide-ranging advice from a woman who has the perspective of someone from outside the company," "It was great being able to share concerns with other female managers who are in the same

position," and "We have many promising young female employees who have great potential for the future, and I want to be able to create an environment in which women can maximize their working potential."



The question-and-answer session was conducted online.

Providing support to help male employees achieve work-life balance, in order to realize equitable workstyles for both men and women

During the question-and-answer session, Outside Director Touko Shirakawa asked participants "Don't you feel uncertain about what is actually meant by promoting women's participation?" Ms. Shirakawa commented that "The concept of promoting women's participation could be seen as one-sided encouragement for women, whereas what is actually most important is the idea of fairness. Women's active participation in society and men's participation in the home are two sides of the same coin. It is only when men also receive support to help them achieve work-life balance that we will be able to realize truly fair workstyles."

In April 2018, Daiwa AM set itself the goal of raising the percentage of male employees that take childcare leave to 100%, and the company has been striving to build a working environment where everyone can balance their work and their personal life, and can continue to work with vigor and

enthusiasm. In addition, starting from April 2021 Daiwa AM has had an additional goal of encouraging male employees to take at least 14 days of childcare leave, and is actively working toward achieving this goal.

Daiwa AM is also implementing measures to encourage employees to take full advantage of the systems that have been put in place, for example by holding regular meetings for employees who are balancing work and childcare responsibilities.

In June 2021, Daiwa AM received Platinum Kurumin certification from the Minister of Health, Labour and Welfare as a company that has been outstanding in providing support for employees' child-raising. As of the end of November 2021, Daiwa AM was one of only two asset management companies that are full members of The Investment Trusts Association, Japan to have received this certification.



Meeting with the President to exchange views (on the topic of diversity)

In January 2022, a meeting to exchange views was held between Daiwa AM's President and 11 of the company's next generation of female leaders.

The meeting was the result of Daiwa AM President Koichi Matsushita's strong conviction that "In order to take Daiwa AM's diversity up to the next level, we need to listen more to the leaders who will be managing the company in the future." The topic chosen for the meeting was "Working to build a future in which both male and female employees can continue to work with enthusiasm and vigor." Besides Mr. Matsushita, Deputy President Noriaki Kusaka also took part in the meeting, and Outside Director Touko Shirakawa acted as meeting facilitator. The meeting was held as a dialog between senior management and the other participants.

The meeting participants put forward many forward-looking ideas, such as "It would be good to have training to strengthen people's understanding of diversity," and "It is important to have a corporate culture in which people are willing to teach others, and in which the

organization's know-how is passed down from one generation to the next." The exchange of views was lively and productive, to the extent that Mr. Matsushita commented that "This is the first time in a long while that an hour has gone by so quickly for me."

Going forward, Daiwa AM will continue to actively implement measures aimed at promoting diversity, while taking employees' views into account.



An employee taking part in the Diversity Meeting

Work-life balance and promotion of women's active participation

Daiwa AM continues working to create a more employee-friendly working environment. Besides strict enforcement of having employees leave the office no later than 7:00 p.m., and striving to increase the percentage of employees who take their annual leave entitlement to at least 70%, in 2021, the company also introduced a flextime system.

With regard to promoting women's active participation in the workplace, rather than just appointing women as managers to increase the number of female managers, Daiwa AM provides comprehensive support to help female employees fulfil their potential, including career support training, the arranging of exchange activities with role models and support for network building. There has been a noticeable increase in the number of female employees who are proactively working to enhance their skills with the goal of self-actualization; for example, in recent years more than half of the employees registering to take skill enhancement training have been female.

As a result of these developments, there has been a steady increase in the number of female managers at Daiwa AM, and the company is strengthening the provision of

support so as to more than double the number of female managers by 2025 compared to 2020. Daiwa AM is implementing various measures to make it possible for all employees to fulfil their potential with maximum vigor in the future.

Related achievements

	FY2020	FY2021*1
Female manager ratio	7.7%	9.9%
Female share of newly-recruited employees	30.0%	52.6%
Percentage of male employees taking childcare leave	90.9%	122.2%*2
Percentage of employees taking annual leave	78.7%	—

Notes:

- Figures given for FY2021 are the data for December 31, 2021.
- "Percentage of male employees taking childcare leave" is calculated as the number of male employees who took childcare leave in that year (excluding male employees taking childcare leave a second time for the same child) divided by the number of male employees that had a child in that year. As childcare leave is available to Daiwa AM employees up until the child's third birthday, the number of male employees taking childcare leave in a given year includes employees who did not have a child in that year, hence the fact that the percentage given may exceed 100%.

Promoting digital transformation

Daiwa AM has positioned the promotion of digital transformation (DX) as a key pillar of the new medium-term management plan that was launched in FY2021, and is working to transform the company's business model and develop a data-driven corporate culture, with a company-wide, inter-departmental project team playing a central role in this process.

In order to successfully promote DX, it is vitally important to transform the mindset of everyone in the company, from senior management to ordinary employees. Starting from this fiscal year, we have been disseminating internal newsletters aimed at cultivating a new mindset in all employees, and we have introduced a training program to enhance IT literacy and data analysis skills. More than 10% of all Daiwa AM employees have already taken part in this training program, and a wide range of employees with different roles and in different age groups—from recent graduates in their first year with the company to veteran employees in their 50s or older—are working to upgrade their data analysis skills.



DX Newsletter for internal use

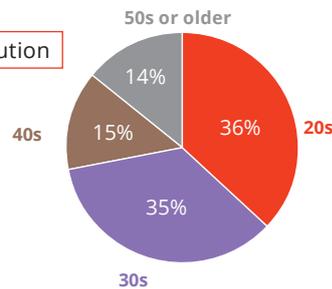
Change in the number and age distribution of employees with Python engineer certification, before and after the training program was launched

Python 3 Certified Engineer Basic Examination

Change in the number of employees passing the test



Age distribution

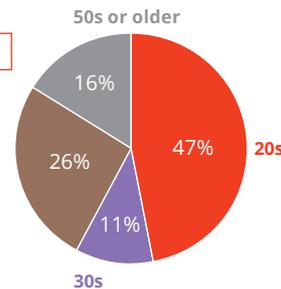


Python 3 Certified Data Analyst Examination

Change in the number of employees passing the test



Age distribution



Note: Passing the Python certified engineer examination is a basic requirement for participation in the training program.

Adopting renewable energy

Starting from April 2021, the Daiwa Securities Group began shifting over to the use of renewable energy for the electricity used in the group's headquarters building, which is occupied by Daiwa AM and by the other group companies. Also in 2021, the Group began using electric power with environmental value* generated by the renewable energy generating facilities within Japan belonging to Daiwa Energy

& Infrastructure Co., Ltd.

It is anticipated that these measures will enable the Daiwa Securities Group as a whole to reduce its CO₂ emissions by around 3,400 t-CO₂ per year.

* The value that green electric power generated using renewable energy possesses in terms of reducing the burden on the environment, and creating and saving energy

Human rights training

Daiwa AM implements human rights education and awareness-raising for its company officers and employees. In FY2021, human rights training was conducted for those newly becoming general managers, managers, and associate managers. In FY2020, in accordance with the trend to move beyond merely understanding and accepting one another's differences toward a new era in which companies work proactively to transform differences into new value, a combination of video-based training and discussion meetings was implemented for all employees, using a film

entitled "Turning Differences into Strengths," on the theme of hints for promoting greater workplace communication. In addition, human rights awareness slogan contest is held every year between October and November with the aim of promoting a broader and deeper understanding of human rights issues. Contest participation was open not just to employees but also to their families. The winning entries were presented in the Daiwa Securities Group in-house magazine.

Donations

In line with the increase in the net asset value of the company's Social Challenges Fund (Egao no Kakehashi fund), Daiwa AM has donated part of its earnings to the Japanese Red Cross Society, which undertakes a wide range of humanitarian activities, including measures to combat the COVID-19 pandemic.

While the Social Challenges Fund was established to invest in companies that are providing solutions to the problems affecting Japanese society, a new donation function has now

been added to the fund, in order to provide support to help address the major social problems that Japan is currently faced with, including the pressure on medical resources, the increased burden on medical professionals, and the spread of prejudice and discrimination.

In its role as the asset management company of the Daiwa Securities Group, going forward, Daiwa AM will continue to contribute toward building a sustainable, prosperous society.

Visiting classes

Daiwa AM has continued to implement its visiting classes for junior high school students, using a web conferencing system. The students were asked to design a virtual investment fund, based around the concept of "an investment trust for the future that benefits both individuals and society." Daiwa AM fund managers responsible for domestic stocks and overseas stocks provided feedback on the students' proposals. The participating students asked a lot of questions, and being able to get feedback from fund managers working at an asset management company was much appreciated, leading to lively question-and-answer sessions.

We believe that these visiting classes have helped students to develop a more in-depth understanding of financial and economic systems, through the medium of investment

trusts. Going forward, Daiwa AM will continue promote economic and financial education, through the holding of visiting classes for junior high school and senior high school students.



Visiting class in progress

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%)

For the Carbon Neutral Equity Fund, the following fees are payable when purchasing units in the fund and during the fund management period.

Fees payable by the customer directly

Handling fee payable at the time of purchase	To be payable at a rate set separately by the sales company, up to a maximum of 3.3% (tax included) Note: For more details, please contact your sales company.
Redemption fee (amount to be retained in fund assets)	Not applicable

Fees payable by the customer indirectly, from the trust assets

Management fee (trustee revenue)	Annual rate of 1.837% (tax included)
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. The total amount of handling fees, etc. will vary depending on how long the investor holds the fund, and so cannot be shown here. Furthermore, fees for listed real estate investment trusts cannot be shown because such funds involve transactions based on market value.
2. For more details regarding handling fees payable at the time of purchase, please contact your sales company.
3. For more details, please read the investment trust prospectus.

Key points to note: ② Regarding investment trust risk

As the Carbon Neutral Equity Fund invests in marketable securities the price of which fluctuates, the net asset value may also vary.

Consequently, the original investment amount cannot be guaranteed, and the net asset value may fall below the original investment amount.

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.

The main factors that may cause the net asset value to vary are listed below:

- Price fluctuation risk and credit risk (share price fluctuation and REIT price fluctuation)
- Risk relating to concentration of investment in specific industry sectors
- Exchange rate risk
- Emerging market investment risk
- Country risk
- Other (risk relating to redemption requests, etc.)

Notes:

1. The factors that may cause the net asset value to vary are not limited to the above.
2. For more details, please read the investment trust prospectus.

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