

All challenges for  
ESG Investment

# SUSTAINABILITY REPORT 2022

**Daiwa**  
Asset Management

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**Daiwa**  
Asset Management



# Introduction

## Corporate Principles

# Value

### Our action guidelines

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

# 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.



### The Corporate Principles Forming the Foundation of the Group



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## Investment Philosophy

### Investments

#### Comprehension of investments

We measure intrinsic values of investments and changes of them in the future by conducting quantitative and qualitative analyses. Then, we evaluate investment ideas by comparing these values with current market prices.

### Financial Markets

#### Comprehension of financial markets

We are conscious of financial markets' high uncertainty and recognize them as complicated systems/complex systems. So, we place the basis for the certainty of investment activities on the logicality and adequacy of the investment process.

### Human Behavior

#### Comprehension of human behavior

We realize that there are biases in human behavior and judgment. By understanding investor's psychology, we can use this to improve our decision making.

## Organizational Approach

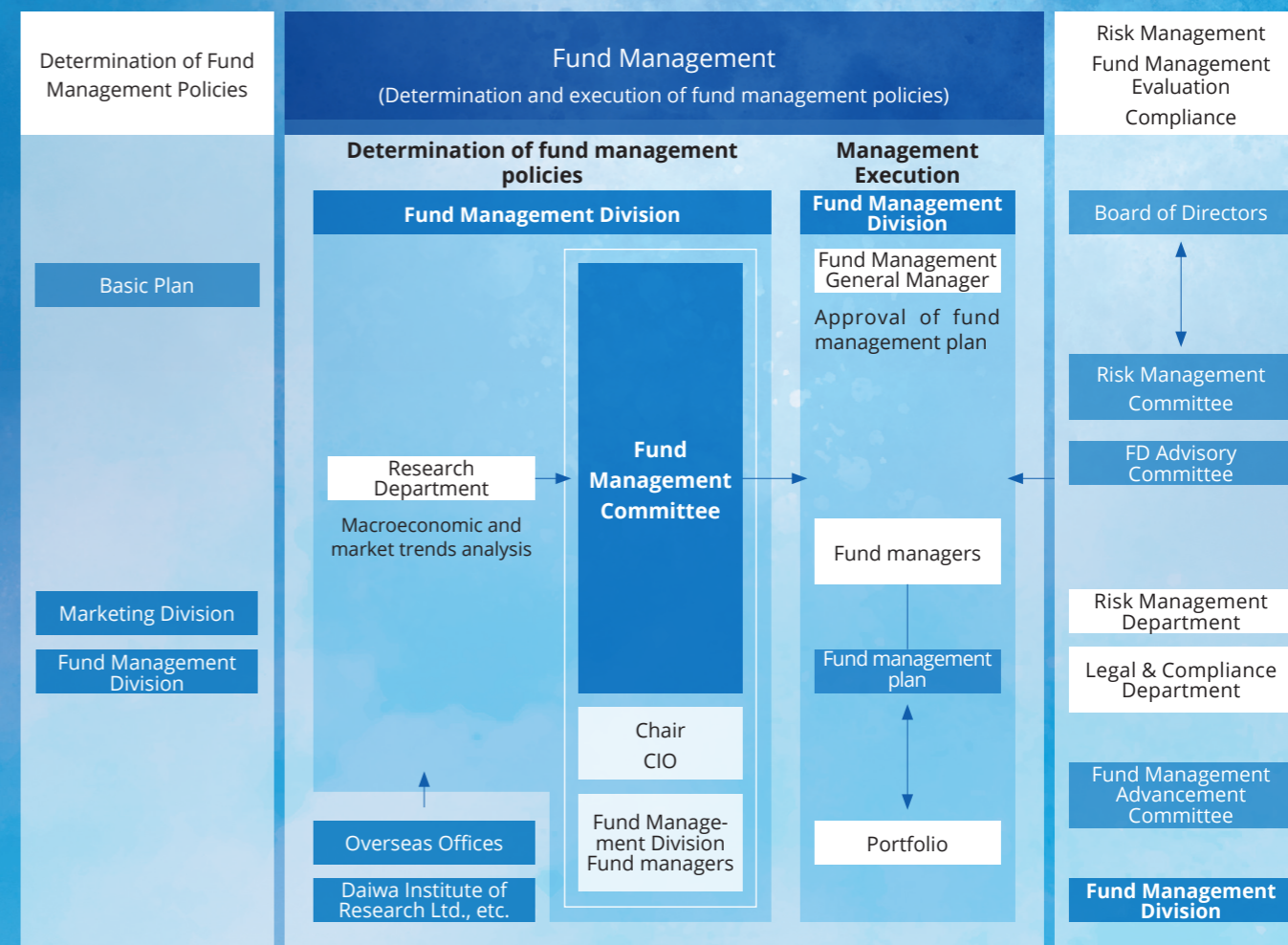
### Organizational approach

We promote the specialization and division of labor, and build a process and an informational interaction space to enhance the required knowledge and skills in order to achieve performance that exceeds the constraints and limits of an individual ability.

## Contribution to Society

We believe that we are able to contribute to the realization of a sustainable society, as seen in the SDGs, with providing services and values to our customers.

## Fund Management Structure



### Process Related to Determination of Fund Management Policies

#### Formulating the basic plan

The basic plan that describes various policies for fund management is given final approval by the executive in charge of products.

#### Determining basic fund management policies

Chaired by the CIO, the Fund Management Committee meets once a month, in principle, and determines basic fund management policies.

#### Creating and approving the fund management plan

The fund managers prepare a fund management plan in accordance with the policies of each fund as set forth in the basic plan and the basic fund management policy decided upon by the Fund Management Committee. The General Manager of the Fund Management Division checks and approves the fund management plans presented by the fund managers for consistency with the basic plan and the decisions made by the Fund Management Committee.



# Corporate History

## Daiwa Asset Management

1950	1960	1970	1980	1990	2000	2010	2015	2020	2021	2022
			<b>1984</b> ■ New York office opened <b>1987</b> ■ Daiwa Asset Management(Europe)Ltd established in London	<b>1994</b> ■ Daiwa Asset Management(Singapore)Ltd. Established <b>1995</b> ■ License for discretionary management services acquired <b>1998</b> ■ Began selling investment trusts through bank tellers <b>1999</b> ■ Became a major company of the Daiwa Securities Group Inc. under the holding company structure	<b>2006</b> ■ Signed onto the UN Principles for Responsible Investment	<b>2011</b> ■ Signed onto the Principles for Financial Action towards a Sustainable Society (Principles for Financial Action for the 21st Century) <b>2012</b> ■ Relocated the headquarters to 9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6753, Japan <b>2014</b> ■ Announced adoption of the Japan's Stewardship Code	<b>2015</b> ■ Established the Engagement Team <b>2018</b> ■ Established the Stewardship & ESG Section <b>2019</b> ■ Global X Japan Co. Ltd. established	<b>2020</b> ■ Trade name changed to Daiwa Asset Management Co. Ltd. ■ Joined the 30% Club Japan Investor Group ■ Expressed support for the Task Force on Climate-related Financial Disclosures (TCFD) ■ Established the Stewardship & ESG Department ■ Daiwa Capital Management Silicon Valley established	<b>2021</b> ■ Participated in the activities of the International Corporate Governance Network (ICGN) ■ Participated in the Climate Action 100+ initiative ■ Signed onto the Investor Agenda in advance of COP26 ■ Signed onto the Net Zero Asset Managers initiative (NZAMI)	<b>2022</b> ■ Signed onto the Japan Stewardship Initiative (JSI) ■ Signed onto the Investor Agenda in advance of COP27 ■ Name of the Stewardship & ESG Department changed to the Responsible Investment Department ■ Participated in the Human Capital Management Consortium ■ Signed onto the Women's Empowerment Principles

## Product and Service-related

1950	1960	1970	1980	1990	2000	2010	2015	2020	2021	2022
<b>1951</b> ■ Launched unit type investment trust <b>1952</b> ■ Launched Japan's first open-ended investment trust	<b>1961</b> ■ Launched Income Fund (now the Large-Cap Equity Fund), Japan's oldest existing stock investment trust		<b>1987</b> ■ Launched Million, a payroll deduction type fund	<b>1992</b> ■ Launched Daiwa MMF, a money management fund offering an open-end bond investment trust	<b>2001</b> ■ Executed Japan's first electronic delivery of a prospectus ■ Launched Nikkei 225 ETF, TOPIX ETF <b>2002</b> ■ Launched Japan's first Regional Support Fund <b>2003</b> ■ Launched Daiwa J-REIT Open <b>2004</b> ■ Launched Daiwa SRI Fund to support Japanese companies engaged in CSR efforts <b>2005</b> ■ Launched sales of investment trusts at post offices Daiwa Stock Index Fund 225 adopted	<b>2013</b> ■ Launched Daiwa TOPIX Ex-Financials ETF to meet Basel III, as the first asset management company in Japan ■ Launched a rich variety of products for NISA <b>2014</b> ■ Launched Daiwa JPX Nikkei 400 Fund and Daiwa ETF JPX Nikkei 400 to link with JPX Nikkei Index 400 index	<b>2015</b> ■ Began managing Japanese equities for funds sold overseas and co-managing of a UCITS fund with Mirae Asset Global Investments, a leading Korean asset management firm <b>2016</b> ■ Launched iFree, index fund series <b>2017</b> ■ Launched three ETFs linked to ESG-related indexes			<b>2022</b> ■ Received the Governor's Special Prize for Green Finance in the ESG Investment Category of the 2021 Tokyo Financial Awards*, in recognition of initiatives including the Carbon Neutral Equity Fund and a tree-planting project

# Initiatives Supported

**ESG 2006 UN Principles for Responsible Investment (PRI)**  
 The United Nations Principles for Responsible Investment (PRI) are global guidelines for responsible investment that aim to improve long-term investment results for beneficiaries by incorporating ESG issues into the investment decision-making process and determination of stock ownership policies of institutional investors. Daiwa AM participates in conferences and other events sponsored by PRI.



**ESG 2011 Principles for Financial Action for the 21st Century**  
 The Principles for Financial Action towards a Sustainable Society (Principles for Financial Action for the 21st Century) were developed as an action guideline for domestic financial institutions to fulfill their responsibilities and roles in helping to solve global environmental and social problems and to form a sustainable society.



**E 2014 Statement on Fiduciary Duty and Climate Change Disclosure**  
 The Statement on Fiduciary Duty and Climate Change aims to prompt companies to disclose climate change information in a comprehensive and comparable form in their annual reports and other disclosure materials, with the recognition that, going forward, climate change will have an increasing impact on corporate results and investment performance.

**E 2020 Task Force on Climate-related Financial Disclosures (TCFD)**  
 The Task Force on Climate-related Financial Disclosures (TCFD) is an international initiative established by the Financial Stability Board (FSB) in 2015. It recommends that companies disclose climate-related financial information as part of their own general (public) annual financial reports. In line with the TCFD framework, Daiwa AM has been disclosing its efforts to address climate change issues, including greenhouse gas emissions from its fund management portfolio, since FY2021.



**ESG** ESG in general **E** Environment  
**A** Diversity and Human Rights **G** Governance

**A 2020 30% Club Japan Investor Group**  
 The 30% Club Japan Investor Group is a group comprised of asset owners and asset managers whose goals include sharing the importance of gender diversity and gender equality at all levels of an organization through constructive dialog and other stewardship activities with companies in which they invest. Daiwa AM participated in a working group to formulate best practices for engagement.



**E 2021 Net Zero Asset Managers initiative (NZAMI)**  
 The Net Zero Asset Managers initiative is a global initiative of asset management companies aiming to achieve net zero greenhouse gas emissions from their investee companies by 2050. Daiwa AM has established interim targets for 2030 in order to achieve its net zero target for the portfolio we manage in 2050.

NET ZERO ASSET MANAGERS INITIATIVE

**E 2021 Climate Action 100+**  
 Climate Action 100+ is an international engagement initiative launched by investors in 2017. Its goal is to stimulate improvements through collaborative engagement with large enterprises that have significant greenhouse gas emissions. Daiwa AM participates as a collaborative investor through cooperative engagement with companies in Japan's steel, electrical and other industries.



**E 2021 Investor Agenda**  
 The Investor Agenda was launched in 2018 by a group of institutional investors. It has issued recommendations on how to accelerate climate change initiatives by institutional investors and national governments. Daiwa AM signed in support of a statement by global investors in advance of COP27.

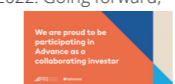
**G 2021 International Corporate Governance Network (ICGN)**  
 The International Corporate Governance Network (ICGN) is an international initiative launched in 1995. Its stated mission is to establish effective corporate governance and foster investor stewardship with the aim of promoting an efficient global market and sustainable economic activity.



**ESG 2022 Japan Stewardship Initiative (JSI)**  
 The Japan Stewardship Initiative (JSI) was established in 2019 with the aim of helping deepen and advance stewardship activities.



**S 2022 PRI Advance**  
 Established in 2022, Advance is a collaborative stewardship initiative where institutional investors work together to take action on human rights and social issues. Investors exert collective influence over companies and other decision makers to bring about positive outcomes for workers, communities and society. Daiwa AM has participated since Advance was launched in 2022. Going forward, Daiwa will work through collaborative engagement to help companies achieve their goals.



**S 2022 Human Capital Management Consortium**  
 The Human Capital Management Consortium was established by a group of Japanese companies, investors and others. Its objective is to promote both the practice and disclosure of human capital management in Japanese companies by sharing advanced cases of human capital management practices, holding discussions aimed at cooperation between companies, and considering effective information disclosure.



**S 2022 Women's Empowerment Principles (WEPS)**  
 The Women's Empowerment Principles (WEPS) are action principles intended to actively promote the advancement of women, and were jointly developed by UN Global Compact and UN Women.



\* 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.



## Message from the President

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

**Mikita Komatsu**

President

Daiwa Asset Management Co. Ltd.



Through the asset management business, Daiwa AM's social mission is to contribute to the realization of a sustainable society and enable people to live fulfilling lives. To achieve stable asset formation for our customers, we must not only develop and provide products that meet customer needs in a timely manner, but also fulfill our role as asset management professionals to safeguard and grow the assets entrusted to us by our customers.

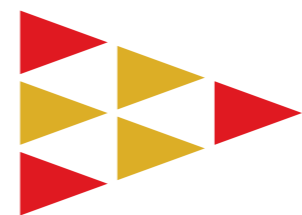
In evaluating corporate value, which is important for making fund management investment decisions, in addition to traditional financial data analysis, we are building a new evaluation process that takes into account a variety of ESG factors that support sustainability. When utilizing the advice of external asset management firms, we also place an emphasis on whether the institution incorporates ESG and sustainability perspectives in its investment philosophy and fund management flow, and whether its investment decisions are based on the same values as those of Daiwa AM.

What these efforts require is an accurate assessment of an investee's potential and possibilities. This is based on an understanding of what the company should be, incorporating ESG and other non-financial information and an evaluation of the investee's intangible assets. In July 2022, Daiwa AM announced a joint study with the Drucker Institute, and we believe that asset management companies like ours are being expected to accurately incorporate a wide range

of information, including intellectual property and others, in their evaluations of corporate value.

In addition, to continue to provide our customers with quality products over the long term, we ourselves must be a sustainable company. In September 2022, we formulated our Sustainability Policy, declaring our commitment to sustainability in every initiative we undertake. We have identified eight priority areas of materiality, and of these, we consider rigorousness in fiduciary duty in our business activities and earning the trust of stakeholders in our business foundations to be fundamental. We believe that we cannot fulfill our responsibilities as an asset management company unless we conduct management that remains steadfast in these fundamental areas. To continue playing a role in contributing to the maintenance and growth of capital markets, and to require our investee companies to engage in sustainability-aware management, we ourselves will take the lead in sustainability management.

Under our vision of "All Challenges for All Investors," we will continue our efforts to win the trust of even more customers and become the most chosen asset management company. Our goal is to contribute to maintaining and improving a sustainable society by ensuring that each of our employees has a deeper understanding of ESG and sustainability, and by developing, providing and responsibly managing products that offer the optimal investment returns for customers.



**All Challenges  
for  
All Investors**

President



# Part 1 Sustainability-aware Management

## Corporate

## Sustainability-aware Management

In November 2021, Daiwa AM established the Sustainability Committee with the aim of promoting sustainability-aware management so as to fulfill the company's corporate social responsibility. During meetings of the Sustainability Committee, Daiwa AM's president (who chairs the Committee) and the other members, who comprise the directors and executive officers responsible for individual departments, have engaged in repeated discussions regarding the question of what is needed for Daiwa AM to be a sustainable enterprise.

In September 2022, Daiwa AM formulated a Sustainability Policy, in order to drive the development of sustainability-aware management at an even higher level. Based on this Policy, Daiwa AM has identified the company's materiality (key issues) relating to sustainability and has also drawn up an Environmental Policy and a Human Rights Policy.

Going forward, Daiwa AM will be implementing various initiatives so that it can be an asset management company that is trusted and chosen by stakeholders.

## Sustainability Policy

### Basic approach

Daiwa AM's social mission is to contribute toward enabling people to live fulfilling lives and toward realizing a sustainable society through its asset management business. To this end, the company fulfills its fiduciary duty and strives to provide high-quality returns and services over the long term. Daiwa AM believes that, in order to be able to continue doing this over an extended period while responding to changing times, it is vitally important to manage the company with an emphasis on sustainability.

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

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

### Action guidelines

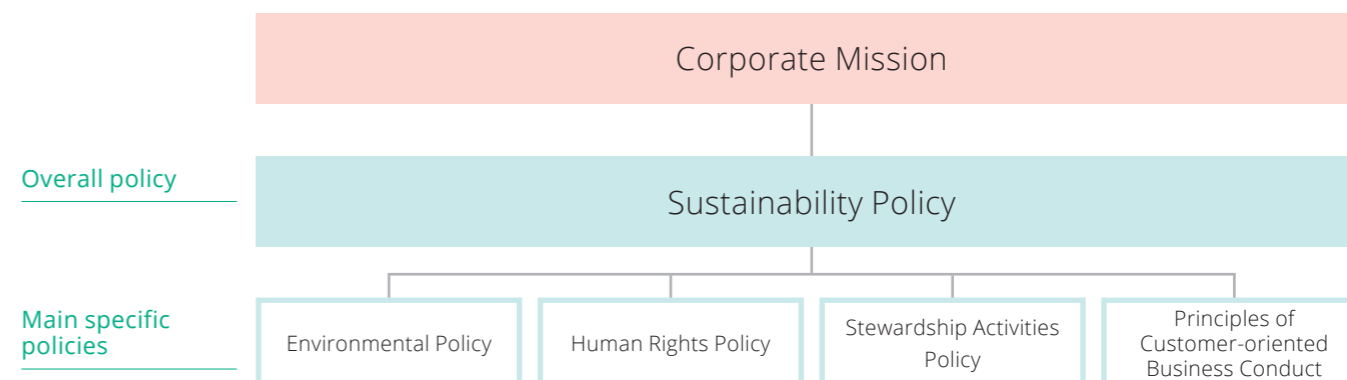
1. As an asset management company, Daiwa AM recognizes the importance of its role in promoting a virtuous cycle in the economy. Through its business activities, Daiwa AM will support business enterprises that contribute toward the maintenance and enhancement of the sustainability of the global environment and of society, while also fulfilling its fiduciary duty.
2. Daiwa AM will aim to be a "best partner" for all of its stakeholders.
3. By implementing healthy, transparent management, Daiwa AM will strive to enhance its corporate value in a sustainable manner.
4. Daiwa AM will clarify its materiality (key issues) that the company should prioritize, and will adjust this periodically.
5. Based on the above guidelines, Daiwa AM will draw up specific policies for promoting sustainability-aware management and will put them into effect.

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

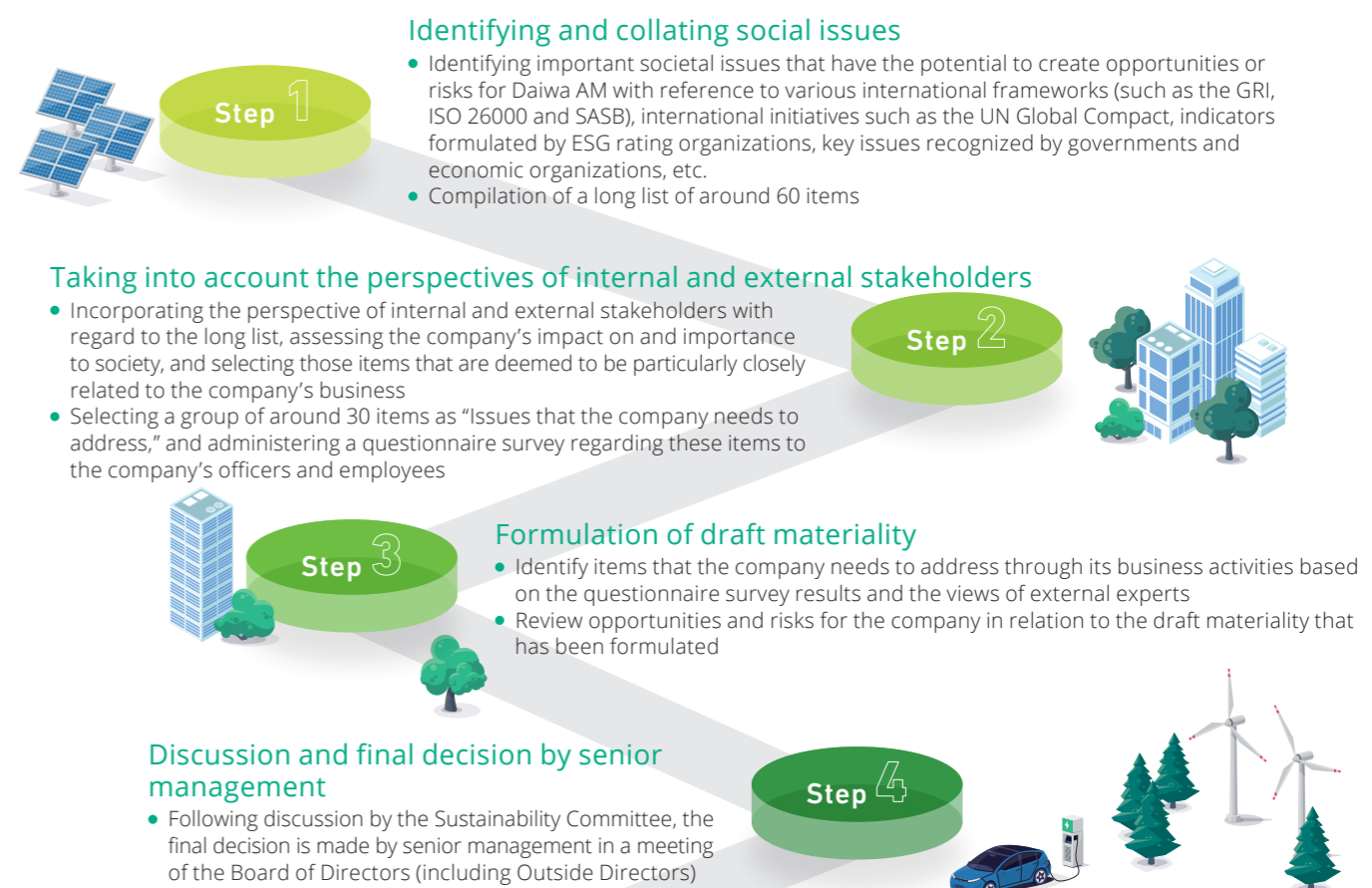
<https://www.daiwa-am.co.jp/company/sustainability/index.html>

### Specific policies

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



### Materiality identification process



### Next Steps

#### The company as a whole implements initiatives addressing the materiality, and promotes sustainability-aware management

- Set KPIs to manage progress in initiatives relating to the company's long-term vision and its materiality
- Have the heads of each division and department manage progress, identify problems, and implement measures to address these problems
- Have senior management monitor progress on a regular basis through meetings of the Sustainability Committee, Board of Directors, etc.
- Conduct ongoing reviews of the company's materiality in the future, in light of major international trends in relation to societal problems, the changing business environment, and the views of internal and external stakeholders



# Corporate Materiality

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



Key area	Grounds for deeming it important	Daiwa AM's initiatives
<p>★ <b>Thorough fulfillment of the company's fiduciary duty</b></p>	<p>Daiwa AM believes that, as a company engaged in the asset management business, the thorough implementation of its fiduciary duty and the maximization of its customers' interests constitute the foundation of its business and are its social mission.</p>	<p>▶ <b>Ongoing initiatives</b> Daiwa AM provides ongoing training to instill awareness of the importance of fiduciary duty, or "business operations that put the customer's interests first," throughout the company.</p> <p>▶ <b>Key initiatives</b> In order to provide products that are in customers' best interests, Daiwa AM will examine performance from a long-term perspective, and will implement systematic quality management after product formation (enhancing the effectiveness of product governance).</p>
<p>✔ <b>Promotion of stewardship activities and responsible investment</b></p>	<p>Daiwa AM believes that, by promoting responsible investment and incorporating investee company's environmental, social and governance (ESG) factors into corporate evaluations, it is possible to accurately determine the medium- and long-term risks and opportunities of the investee company.</p> <p>Daiwa AM also believes that it can fulfill its social responsibility as an asset management company by contributing toward enhancing the value of enterprises, etc., and toward sustained growth through stewardship activities.</p> <p>Daiwa AM believes that, since stewardship activities and responsible investment form part of the company's fiduciary duty, and will also improve fund performance, they ultimately contribute toward the maintenance and enhancement of the customer's interest.</p>	<p>▶ <b>Ongoing initiatives</b> Since signing up to the Principles for Responsible Investment (PRI) in May 2006, Daiwa AM has consistently implemented responsible investment. The company has formulated an ESG Investment Policy, and it positions investee companies' ESG-related initiatives as contributing both to the expansion of medium- and long-term growth potential and to risk reduction, and references these initiatives when making investment decisions.</p> <p>▶ <b>Key initiatives</b> In the areas of stewardship activities and responsible investment, Daiwa AM will be promoting initiatives that embody the company's unique characteristics. Daiwa AM will also be undertaking ongoing cultivation of specialist ESG talent.</p>
<p>✔ <b>Service quality enhancement contributing to asset formation</b></p>	<p>Daiwa AM believes that initiatives to encourage a wider range of people to undertake investment, and the development and provision of products tailored to investors' needs, are vitally important for the company's sustained growth.</p> <p>Daiwa AM also believes that enhancing management quality is very important in terms of securing stakeholders' trust.</p>	<p>▶ <b>Ongoing initiatives</b> With the aim of enhancing the company's organizational management capability, besides making use of advisors with an academic background, Daiwa AM has also been implementing measures for the visualization and sharing of the investment strategies and actions adopted by personnel responsible for asset management operations. Daiwa AM is also providing support for asset formation for a wide variety of customers, with the provision of wide-ranging content relating to asset formation, from the basics upwards.</p> <p>▶ <b>Key initiatives</b> Daiwa AM will be putting in place a system for the speedy provision of financial products tailored to the changes in society and to customer needs. Daiwa AM will be making a contribution toward the development of financial and economic education programs in schools, and will be contributing to the enhancement of financial literacy in society as a whole.</p>
<p>✔ <b>Expansion of business fields</b></p>	<p>Daiwa AM believes that the exploration of new business areas (with the fulfillment of the company's fiduciary duty as a precondition) will lead to stable asset formation for customers and is vital for the company's sustained growth.</p>	<p>▶ <b>Ongoing initiatives</b> Daiwa AM has established a dedicated ETF affiliate company, and is proceeding with collaboration in this area. Daiwa AM has also been undertaking the development of products that incorporate non-traditional assets.</p> <p>▶ <b>Key initiatives</b> Daiwa AM will be aiming to expand its business areas through the effective utilization of its investment management know-how.</p>



Key area	Grounds for deeming it important	Daiwa AM's initiatives
<p>★ <b>Winning stakeholders' trust</b></p>	<p>Daiwa AM believes that winning stakeholders' trust is the foundation for the company's continued existence as a sustainable enterprise.</p>	<p>▶ <b>Ongoing initiatives</b> Daiwa AM's action guidelines emphasize the need to "Have Integrity" and "Imagine Yourself in Their Place," and the company has striven to build trust.</p> <p>▶ <b>Key initiatives</b> Daiwa AM will be expanding its disclosure, and striving to monitor society's views and needs.</p>
<p>✔ <b>Enhancing employee wellbeing</b></p>	<p>Daiwa AM believes that human capital is the wellspring of the company's corporate value, and that if the wellbeing of Daiwa AM employees is not enhanced, then the company will not be able to realize sustainable growth.</p>	<p>▶ <b>Ongoing initiatives</b> Daiwa AM has been putting in place an evaluation and compensation system tailored to human talent with high levels of specialist expertise, and has been implementing career support training, etc. The company has been providing support for flexible workstyles with the adoption of a shortened working hours system and a flextime system. Daiwa AM has striven to monitor employees' health status through the implementation of periodic stress checks, etc.</p> <p>▶ <b>Key initiatives</b> Daiwa AM will be building a working environment that enables employees to continue fulfilling their potential through measures such as the adoption of strategies to enhance motivation, which in turn will lead to improved employee engagement. The company will also be introducing a framework that facilitates exchange across departments and roles, thereby invigorating intra-organizational communication.</p>
<p>✔ <b>Respect for human rights and diversity</b></p>	<p>Daiwa AM believes that it is important to respect the human rights of stakeholders throughout the value chain, and that encouraging the participation and dynamic engagement of diverse human talent is important for the company's continued growth.</p>	<p>▶ <b>Ongoing initiatives</b> Daiwa AM has been implementing periodic human rights training on an ongoing basis, and has been working to cultivate a corporate mindset that fosters the dynamic engagement of diverse human talent. The company has formulated an action plan for the dynamic engagement of female employees, and is implementing this plan. The company is also introducing a system to create a working environment that is more user-friendly for employees with disabilities, striving to help them fulfill their potential while taking into account the various issues that affect them, so that they can play a more active role in the company.</p> <p>▶ <b>Key initiatives</b> Daiwa AM will be strengthening its system for the promotion of diversity, equity and inclusion, and will be building a workplace environment that is equitable and free from discrimination, so that diverse human talent can fulfill their potential. The company has established a Diversity &amp; Inclusion Promotion Committee, chaired by the President, and a dedicated organization is directing the promotion of related activities throughout the company. The company will be also implementing human rights due diligence measures with respect to stakeholders in the value chain, and is contributing toward the realization of a society in which no one is left behind.</p>
<p>✔ <b>Strengthening corporate governance</b></p>	<p>Daiwa AM believes that the maintenance and strengthening of a sound, solid corporate governance system will help to secure the trust of stakeholders and enable the company to increase its corporate value and realize sustained growth.</p>	<p>▶ <b>Ongoing initiatives</b> Daiwa AM has structured its Board of Directors so that it includes three Outside Directors, with the aim of realizing a higher level of corporate governance. With the inclusion of Outside Directors in meetings, the company has built a governance structure that functions in such a way as to control conflicts of interest in relation to fund management and stewardship activities. Daiwa AM also strives to cultivate high ethical standards and compliance awareness through periodic compliance training.</p> <p>▶ <b>Key initiatives</b> Daiwa AM will be striving to strengthen the effectiveness of the Board of Directors and the oversight function.</p>



# Materiality-based Initiatives

## Women's Healthcare Training

As an initiative to enhance Daiwa AM officers' and employees' healthcare literacy, this fiscal year the company has held Women's Healthcare Training, with Dr. Ruriko Tsushima, a leading expert in women's healthcare, invited to provide the training.

Although it has recently become clear that health issues specific to women are a major obstacle for working women, the current situation is that men's understanding of these issues remains limited. Daiwa AM has identified this as a pressing issue, and so the company arranged this training activity as a measure to facilitate understanding of the current circumstances and to strengthen health literacy. Comments from training participants included: "I learned a lot of things that I didn't know before" and "It was a great opportunity to acquire accurate knowledge." Rather than allowing women's

healthcare to be a "taboo" subject, Daiwa AM is promoting employees' understanding by aiming to implement effective communication, and is seeking to build a working environment that is employee-friendly for both male and female employees.



Women's Healthcare Training in progress



**"White 500" Certified Health & Productivity Management Outstanding Organization**  
As an enterprise that implements high-quality health management, the Daiwa Securities Group has been awarded certification as a Certified Health & Productivity Management Outstanding Organization, and has also been selected for inclusion in the "White 500" (Top 500 Certified Health & Productivity Management Outstanding Organizations) as of December 31, 2022.

## Holding of the Diversity & Inclusion Promotion Meeting

Given that Daiwa AM is working to achieve sustainable growth, the effective utilization of diverse human talent (i.e., diversity) is becoming increasingly important. Starting from this fiscal year, the company has held a Diversity & Inclusion Promotion Meeting, headed by the President, at which discussions have been held regarding the diversity and inclusion (D&I) initiatives that Daiwa AM has implemented to date and the issues that the company will need to address in the future. Going forward, the meeting will be held on a regular basis, with the aim of taking the promotion of D&I to an even higher

level, including efforts to promote the dynamic engagement of female employees. Daiwa AM will also be working to put in place the environment needed to help every individual employee demonstrate outstanding performance and to transform diversity into strength.



A Diversity & Inclusion Promotion Meeting in progress

## "Wai Wai" inter-employee network

In FY2022, Daiwa AM launched the "Wai Wai" inter-employee network, which provides opportunities for employees to engage in communication and exchange with one another in line with their own preferences, with the Human Resources Department acting as an intermediary for employees who would like to ask another employee about something, or who would like to make new friends within the company. Various different formats are used for the communication and exchange activities, including both face-to-face and online activities, lunch meetings held during the noon break, etc.

The "Wai Wai" network has also organized discussion meetings on a wide range of different topics, including balancing childcare with work, subordinate cultivation

and management, and care provision. Positive feedback from participants includes comments such as "It was very useful in helping me to think about my future career." Going forward, by holding further events based on various different themes, the "Wai Wai" network will help to build an environment in which all employees can continue to work enthusiastically with high motivation.



"Wai Wai" lunch meeting in progress

## Asset Management Women's Forum

Following the coming into effect of the Act on Promotion of Women's Participation and Advancement in the Workplace in 2016, there has been significant progress in terms of women's advancement, and this progress has also been seen in the asset management industry. The general trend has been toward steady improvement in women's career development, through a process of trial and error. At the same time, however, there are many people who, personally, have not experienced an improvement, and have not felt real change. In 2022, the Asset Management Women's Forum network secretariat was established by four asset management companies, including Daiwa AM, with the aim of bringing together people who have been working hard on a daily basis with the same concerns and goals in relation to realizing career development in the asset management industry that is unaffected by gender.

Reflecting the need to support women's active participation, in August 2022 the first Asset Management Women's Forum online event was held with the collaboration of the Investment Trusts Association and assistance from the Financial Services Agency. Nearly 500 people

participated. The first part of the event was a panel discussion in which four women, including General Manager Noguchi of Daiwa AM's Advisory Fund Management Department, discussed the topic of "How to overcome the obstacles that women face at work," while the second part comprised workshops in which there was a lively exchange of views by the participants. Comments from participants included "It was very useful to hear from people with a diverse range of careers," and "I found it very stimulating." In the future, it is anticipated that the forum will continue to be held, on various different themes.



Panel discussion in progress

## Childcare leave for male employees

To encourage male employees to make use of their childcare leave entitlement, starting from October 2022, Daiwa AM has expanded its childcare leave system. Since then, the company has held "Daddy Meetings" for male employees who are expected to be taking childcare leave, at which the new system is explained and participants are able to exchange views. At these meetings, male employees who have already taken childcare leave have discussed their experiences, and there has been a lively exchange of ideas.

Daiwa AM has set itself the goal of having eligible male employees take at least 14 days of childcare leave, and is working to put in place an environment that makes it easy for male employees to take childcare leave. The percentage of eligible employees taking childcare leave has already reached 100% for both male and female employees. Going forward,

Daiwa AM will be working to further improve the working environment and strengthen employee engagement so as to realize childcare leave that provides a high level of satisfaction for all concerned, including the families of the male employees who are taking childcare leave.



"Daddy Meeting" in progress

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



## Engagement Survey

Daiwa AM implements Engagement Surveys to gauge the current state of employee engagement. The company aims to enhance employee engagement on an ongoing basis, by building a productive workplace environment where every employee can attain further personal growth, and by helping employees to realize better phys-

ical and mental health. The survey results enable Daiwa AM to identify the strengths and issues of the company as a whole and of individual departments, providing a basis for organizational improvement activities and for helping each individual employee to grow.



### Dissemination of the company's vision and values

In April 2020, Daiwa AM formulated its corporate vision for the future that the company aims to help create, along with values consisting of six principles that constitute Daiwa AM's action guidelines. The company is implementing various initiatives with the aim of disseminating awareness of its vision and values among all company officers and employees.

In March 2022, Mr. Daisuke Ohata, a former rugby player who captained the Japanese national team, was invited to give an address on the topic of "Unite as One Team," which is one of the principles making up Daiwa AM's action guidelines. Mr. Ohata noted that there were similarities between rugby and work, such as the importance of fulfilling one's role while having trust in the people around you, and the fact that writing one's goals down is a good way of reinforcing them. A survey conducted after the lecture showed that 87% of company officers and employees felt that they had gained some insights that they could use in the future, and, overall, the response from employees was very positive.

Daiwa AM's company officers and departmental managers were asked to express their resolutions for the coming year based on the company's vision and values in the form of a single kanji (Chinese character); were announced on the company's intranet. This was a great opportunity to share awareness so that employees can work together to realize the company's vision.

In December, Daiwa AM held a Sustainability Week activity as part of the company's efforts to "Enhance Global Sustainability," which forms part of its vision. The aim of Sustainability Week is for every company officer and employee to enhance their awareness regarding

sustainability. The theme for this year's Sustainability Week was environmental protection.

Company officers and employees made use of internal communication tools to actively disseminate ideas (supported by photographs, etc.) for initiatives based on sustainability-related experiential activities including, for example, using your own reusable bottle or reusable shopping bag. Positive feedback from employees included comments such as "It gave me an opportunity to think in-depth about sustainability" and "It was a great opportunity to learn more about the personalities of my colleagues."

Going forward, Daiwa AM will continue to implement measures to strengthen company officers' and employees' awareness of the company's vision and values, and will continue to provide support for the realization of this vision and values.



Expressions of resolution



Sustainability Week—The V&V Team (Corporate Sustainability Section)

### Expanding the overseas training system

Starting from this fiscal year, Daiwa AM has been expanding its overseas training system.

In September 2022, Daiwa AM President Komatsu personally visited a number of major asset management companies in Europe and North America, with the aim of strengthening partnerships with companies providing entrusted management services and advisory services, and to explore the possibility of these companies accepting trainees. He engaged in discussions with the CEOs, CIOs and investment managers of these companies regarding their thoughts on issues that will be significant over the medium- and long-term and their implementation of responsible investment initiatives; the response from these companies regarding the potential for strengthening their partnership with Daiwa AM was very positive.

As a result of these visits to overseas asset management companies, it has been decided that Daiwa AM will

send personnel to undergo training at several asset management companies that are leaders in the field of ESG investment or which are developing thematic investment on a global scale. Daiwa AM believes that, not only will these trainees help to invigorate the company's asset management operations by bringing back the in-depth know-how and experience that they will have acquired at offices

in the countries concerned, this program will also help to enhance employee motivation.



President Komatsu with AXA IM CEO Marco Morelli

### Financial and economic education

Daiwa AM continues to implement visiting classes for junior and senior high school students. Company personnel recently visited an integrated junior and senior high school, and gave a class on the topic of "What is investment?" referring to the concept of "time," a subject familiar to students.

Feedback from the students indicated that the examples used for the explanations, which showed how, by investing their time wisely, students can get good "returns" in terms of being able to get into their first-choice university, were easy to understand, and that students' preconception that investment was something to be afraid of had changed.

The question-and-answer part of the visiting class was very lively, with questions from junior high school students such as "Besides reading *KAISHA SHIKIHO*, what other

materials should you study for investment purposes?"

Daiwa AM believes that this kind of initiative can help to stimulate interest in finance and the economy, and going forward the company will continue to promote

finance and economics education by holding visiting classes for junior and senior high school students.



Visiting class in progress

### Participation in initiatives relating to human capital

In August 2022, Daiwa AM joined the Human Capital Management Consortium, which undertakes the sharing of advanced practices in the area of human capital management, engages in discussion aimed at fostering inter-enterprise collaboration, and examines how to implement effective disclosure.

In October 2022, Daiwa AM signed up to the Women's Empowerment Principles (WEPs), which are action guidelines to encourage self-directed initiatives for positioning gender equality at the core of business management.

Daiwa AM believes that human talent constitutes the wellspring of competitiveness, and will continue to actively promote human capital-related initiatives in the future.



In support of

**WOMEN'S EMPOWERMENT PRINCIPLES**

Established by UN Women and the UN Global Compact Office



# Part 2 Stewardship Activities

## Town-hall meetings

Daiwa AM held town-hall meetings in December 2022. The company positions town-hall meetings as an opportunity for direct dialog between senior management and employees; a total of three meetings were held, one for each of the three divisions to which officers and employees are assigned (Corporate, Fund Management, and Marketing).

Senior management outlined Daiwa AM's vision of where it wants to be in the future—"Evolving into an enterprise that is recognized both in Japan and globally as a first-rate company with unique strengths"—as well as discussing matters such as the attitude that one needs to take towards one's work (based on their own personal experience). Employees had already submitted questions relating to management strategy, the approach to human capital, etc. in advance, while the question-and-answer session on the day saw a lively exchange of views between senior management and employees.

For a company such as Daiwa AM that is engaged in

the asset management business, winning the trust of stakeholders is the foundation for a successful business. As employees are not just important stakeholders but also the wellspring of the company's competitiveness, Daiwa AM believes that deepening mutual understanding with employees is vital for enhancing corporate value.



Town-hall meeting in progress

## Promoting the paperless office

Since May 2020, Daiwa AM has been using mobile devices so that all company officers and employees can work in the same environment regardless of whether they are working at home or in the office. When meetings are held, participants bring their mobile devices into the meeting, and since the company is basically aiming for a "paperless office" operation, the amount of paper materials being printed and distributed has been dramatically reduced.

Daiwa AM is also proceeding with adjustments to operational flow and with the introduction of Robotic Process Automation (RPA), and has adopted electronic approval processes. In 2017, the company began using C-Flow, a standardized internal workflow management system, which has eliminated the need for paper vouchers and forms. In order to convert vouchers and forms with complex application and approval flows to the new system, the existing workflow also

needed to be reviewed, and so the changes not only helped to reduce paper usage, they also improved overall operational efficiency. The number of applications for which C-Flow is used has increased steadily over the past few years, and the workflow management system has now been adopted for almost all internal operations that require applications.

As a result of the efforts outlined above, by comparison with the situation in 2019 (before employees were issued with mobile devices), the amount of paper used per employee has been reduced to about one-third of what it was.

Amount of paper used per employee				(Sheets of paper)
2019	2020	2021	2022	
8,176	4,386	2,673	2,356	

## Human rights awareness training

In this fiscal year, Daiwa AM implemented human rights awareness training for personnel who have recently been promoted to general manager, deputy general manager or associate manager. In addition, to enable all company officers and employees to learn about human rights issues from multiple perspectives, the company provided video-based training and discussion-based learning sessions on the theme of "Promotion of Human Rights," with the topics addressed this fiscal year including gender diversity, people with disabilities, and harassment.

Every year, in October and November, Daiwa AM holds a human rights awareness slogan contest to enhance the human rights awareness of each individual employee. The prize-winning entries are publicized throughout the Daiwa Securities Group. Going forward, Daiwa AM will continue to implement human rights education and awareness-raising for company officers and employees so that, in today's world where workstyles are becoming increasingly diversified, each employee can work together with colleagues in the way that suits them best.

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# Stewardship Activities Framework

## Message from the Chair of the Stewardship Committee

We encourage investee companies to improve corporate value by increasing the value of their intangible assets, thereby contributing to investors' asset formation.



**Hisashi Kanamori**

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

### Unwavering commitment to the importance of ESG in the medium- and long-term

Changes in the environment surrounding the asset management business over the past year have been unprecedented in recent years. Supply constraints since the COVID-19 pandemic have caused the prices of goods and services to rise markedly, and this has had a significant impact on the value of assets. The situation surrounding ESG has also sparked debate about how to

proceed amidst greenwashing and conflicts of opinion between state governments and fund management companies in the U.S. over fiduciary duty (consideration of ESG factors and prioritization of fund performance). We believe, however, that the direction we should aim for in the medium- and long-term remains unwavering.

### Sustainability-aware management is important to providing long-term, stable returns

Our social mission is to work through the asset management business to contribute toward enabling people to

live fulfilling lives and toward realizing a sustainable society. To that end, we strive to fulfill our fiduciary duty and

provide quality returns and services over the long term. Management that emphasizes sustainability is important in providing those returns and services stably over the long term regardless of conditions. To ensure sustainability, we examine the risks and opportunities across a

variety of matters and work to clarify the materiality (key issues) that should be prioritized. With regards to materiality, we have established the following four issues related to business activities and four issues related to our business foundations (see P. 11–12 for details).

### Recent initiatives regarding key issues related to asset management operations

This section introduces recent initiatives regarding key issues related to asset management operations.

#### Promotion of stewardship activities and responsible investment

With regard to promotion of stewardship activities and responsible investment, we believe that by promoting responsible investment and incorporating ESG factors of our investee companies into our corporate evaluations, we can accurately identify medium- and long-term risks and opportunities for our investee companies. A unique feature of this process at Daiwa AM is that our corporate research analysts, Stewardship Team and fund managers are each involved in research and engagement activities from their own perspectives, with the three coming together to share knowledge. We calculate corporate value by incorporating ESG qualitative analysis conducted by our corporate research analysts into the Long-term Corporate Valuation Model of our corporate evaluations. Further, the ESG score is calculated in-house, utilizing the quantitative analysis of our Quantitative Research Team. This information is shared within the Fund Management Division and is used in investment decisions by managers and in engagement activities by each of the aforementioned teams. (We are currently working to further refine our ESG scores. See P. 30 for details.)

#### Engagement activities

A unique initiative among our engagement activities is the ESG Meeting. Opportunities are provided for corporate stakeholders, primarily from investee companies with which we are engaged, to gather and exchange information and opinions on specific ESG topics. The first meeting two years ago focused on gender diversity, while the second meeting addressed the topic of human resource strategies. Seven companies, mostly those engaged in progressive, enthusiastic efforts, participated

in the discussion (with another 20 interested companies in attendance). The events were well-received, and we are currently working to select a theme for the next session.

#### Corporate evaluations

From the perspective of corporate evaluations, which also relate to service quality enhancement contributing to asset formation, we believe that the evaluation of intangible assets, which are not adequately reflected in corporate financial information, is an important point. We are thus engaged in joint research with academia in Japan regarding intellectual property, and have entered into a comprehensive business alliance agreement regarding the Drucker Score, calculated by the Drucker Institute in the U.S. At the Institute, this Drucker Score is calculated by dividing the comprehensive basic principles of stakeholder focus as advocated by management scholar Peter F. Drucker into five areas: "Customer satisfaction," "Employee engagement and development," "Innovation," "Social responsibility" and "Financial strength" and then quantifying them. Based on this score, we have developed a proprietary analytical model for our stock market-aware management approach, and on December 20, 2022, established a completely new type of mutual fund using this model, the Drucker Institute U.S. Equity Fund (Capital Growth Type). Going forward, we will work to jointly develop a version of the Score for Japan, targeting Japanese companies.

Through our engagement and other activities, we will continue to promote our investee companies' efforts to address their intangible assets, including ESG issues, so that the status of such initiatives will be reflected, for example, in this score, leading to improved corporate evaluations and asset formation for investors.



# 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- and long-term

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

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

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

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

# Framework for Stewardship Activities

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

The members of the Stewardship Committee, which is chaired by the CIO, comprise the executive officers and departmental managers assigned to the Fund Management Division (as of December 2022, the Committee had 13 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 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 the personnel of the Stewardship Section of the Responsible Investment Department (hereinafter referred to as the "Stewardship Section") 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 with responsibility for legal & 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 conflict of interest management in relation to stewardship activities, including proxy voting, from a perspective that is independent of the company's management. The Stewardship Supervisory Committee also submits reports to the Board of Directors and, when it deems it necessary, issues recommendations to make improvements in regard to conflict of interest management.

## Framework for stewardship activities





## Overview of Committee Activities

### Stewardship Committee

No. of meetings held	Around 40 per year
Main topics, and periods during which these topics are addressed	<ul style="list-style-type: none"> <li>• Revision of the Proxy Voting Policy (March and October)</li> <li>• Formulation and revision of stewardship policies (May and October)</li> <li>• Specified deliberation of shareholders meeting proposals (mainly in March, June, September, etc.)</li> </ul>

### Stewardship Supervisory Committee

No. of meetings held	Two times per year
Main topics addressed	<ul style="list-style-type: none"> <li>• Proposals by companies that are the objects of conflict of interest management</li> </ul>



## Conflict of Interest Management

### The Management Policy for Conflict of Interest

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

of harm to the interests of Beneficiaries, Daiwa AM has put in place a system for the proper management of transactions, etc. where there is a possibility of conflict of interest.

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

+ WEB For more details, please visit the following webpage (in Japanese).  
<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 advisor (Glass, Lewis & Co., LLC), so as to avoid conflict of interest and ensure the neutrality of the decision. However, if the Stewardship Committee determines that following this advice would not be appropriate, from the perspective of enhancing corporate value or minority interest, then it may independently decide whether or not the

proposal should be supported. With regard to proxy voting in relation to proposals made by companies that are the object of conflict of interest management, the Stewardship Committee will submit periodic reports to the Stewardship Supervisory Committee. If the Stewardship Supervisory Committee deems that there is a problem in relation to conflict of interest management, then it will strive to eliminate the conflict of interest and maintain neutrality by submitting a recommendation to the CIO. The Stewardship Supervisory Committee may also provide advice, when requested by the Stewardship Committee, prior to the making of a decision by the Stewardship Committee in regard to specified deliberation or whether or not to vote in favor of a proposal.

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

Materiality

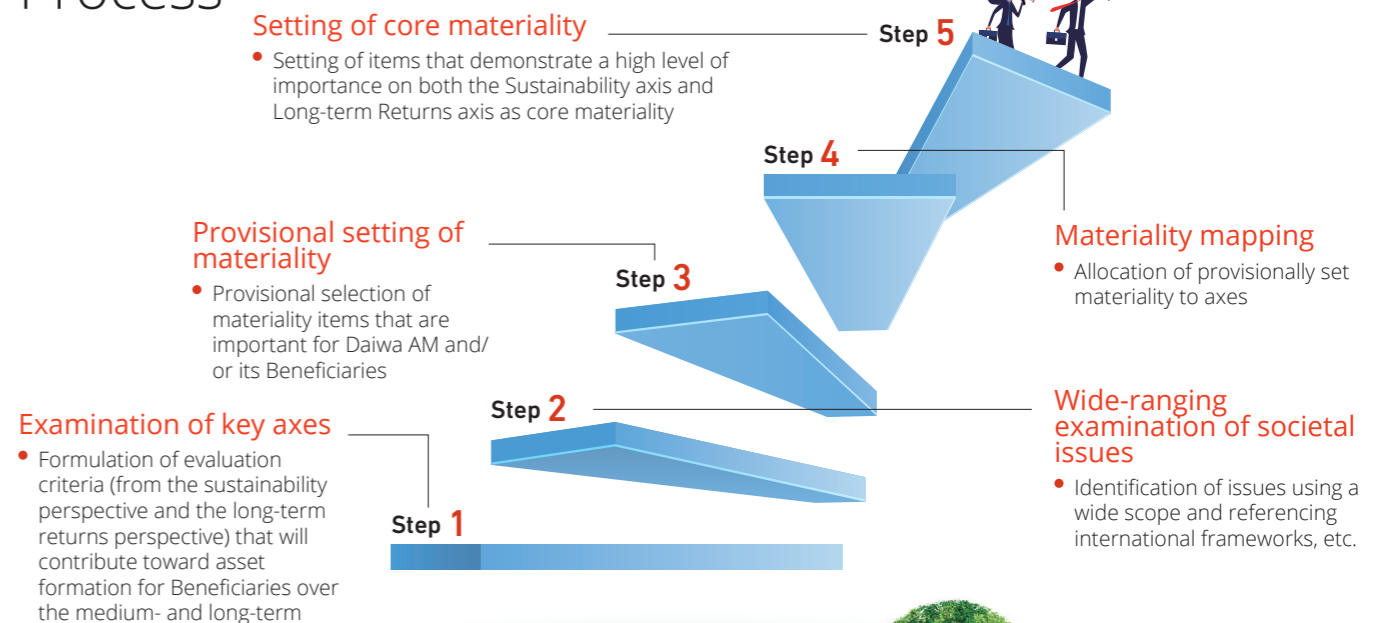
## Materiality

### Daiwa AM’s Materiality in Relation to Asset Management

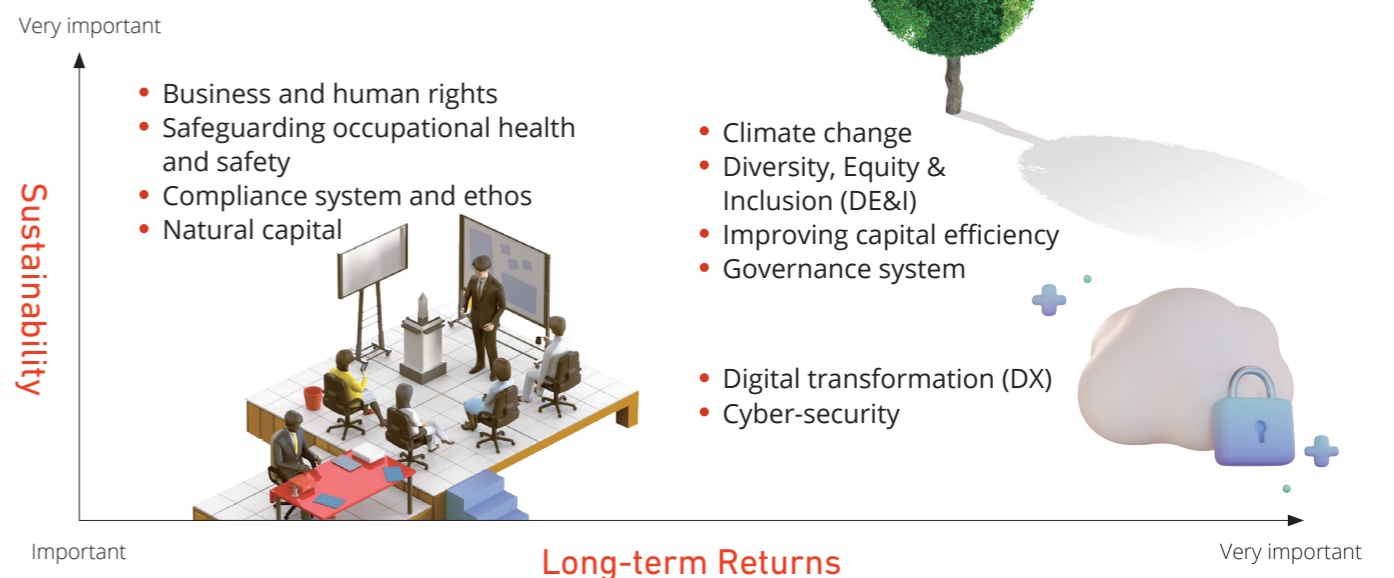
Through its asset management business, Daiwa AM aims to make a positive contribution toward Beneficiaries’ asset formation over the medium- and long-term. In order to achieve this goal, the company has identified materiality (key issues) that includes enhancing the medium- and long-term value and sustainability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

To this end, Daiwa AM strives to develop an accurate picture of the state of individual enterprises and of industry as a whole, and to share its understanding. The following sections present an analysis of Daiwa AM’s materiality from two perspectives—Sustainability, and Long-term Returns—and outline the process through which the company’s core materiality was identified for both of these.

### Materiality Identification and Analysis Process



### Materiality Map





# Integrating Core Materiality with Daiwa AM's Investment and Business Activities

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

## Core Materiality



### Climate change

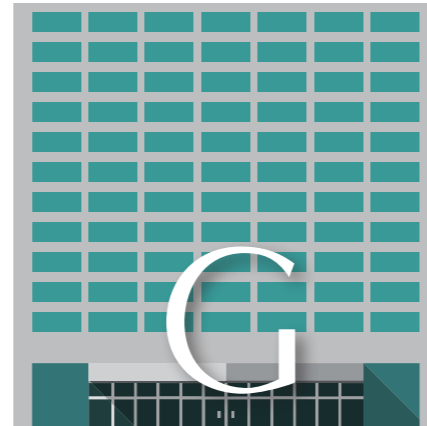
Daiwa AM will require the formulation and implementation of business strategies that take into account the level of greenhouse gas emissions and the risks and opportunities relating to climate change, and will require summaries and evaluations of related activity status.



### DE&I

(Diversity, Equity & Inclusion)

Daiwa AM will require respect for diversity and equality of opportunity in relation to all stakeholders, and will require the elimination of discrimination and harassment.

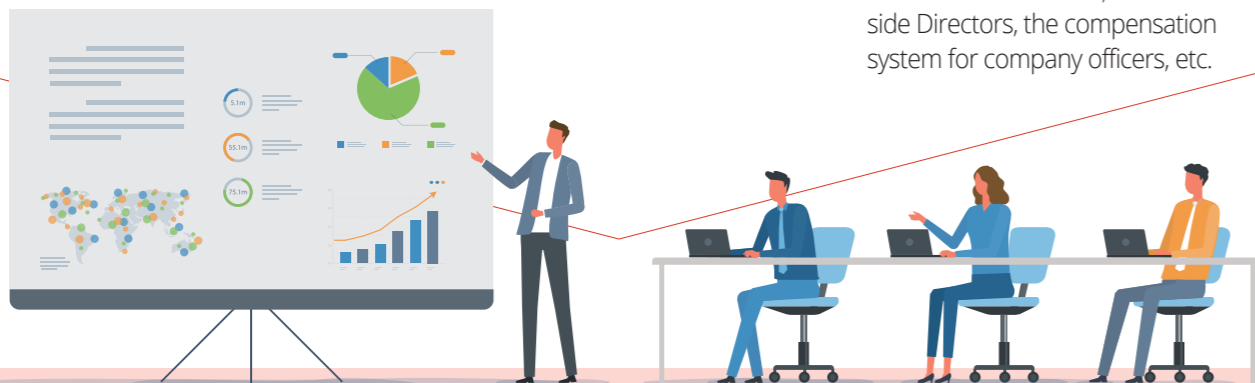


### Improving capital efficiency

Daiwa AM will require the raising of return on equity (ROE) above cost of equity, and the continued, steady increase of equity spread.

### Governance system

Daiwa AM will require the improvement of the governance system, in terms of institutional design, the effectiveness of the Board of Directors, the role of Outside Directors, the compensation system for company officers, etc.



Engagement and proxy voting

ESG integration

Product development and sales strategy

## Engagement case study

### Climate change (Company A)



#### Issue

The amount of CO<sub>2</sub> emissions generated when producing aluminum ingots using recycled aluminum is only around 3% of the amount generating when producing aluminum from virgin ore; this represents a dramatic improvement in emissions performance. Due to the special characteristics of recycling, there is a need to maximize the effective utilization of scrap aluminum through collaboration with various different partners within the supply chain. The company in question had announced that it would be strengthening its initiatives in this area, with FY2030 as the target year, but the company had not disclosed its current recycling rate or set a specific target for the future.



#### Background

A significant point was that, when supplying aluminum ingots (mainly for use in can manufacturing), the company was using a distinctive business model whereby, within Japan, it was contractually required to use material supplied by the can manufacturers, making it difficult for the company to make progress in this area on its own. Recycling was difficult because different alloys were used for the body of the can and for the lid, and there were limits on how much scrap material could be procured.



#### Measures required to address the issue

The company needed to transition from contracts whereby material was supplied by the can manufacturers, to a new type of contract that would allow the company to purchase its own raw materials. In addition, in order to strengthen procurement of recycled aluminum, there was a need for the company to strengthen its relationships with producers of secondary aluminum alloys, and to proceed with related R&D.



#### Situation after resolution

After changing the type of contract used, the company would be able to secure enhanced value-added in relation to raw materials procurement, and the profitability of its domestic business would improve. Besides increasing the recycling ratio, the environmental performance of the company's products would also improve relative to other materials. With the shift away from PET bottles toward the use of aluminum containers, it can be anticipated that a "virtuous circle" would develop in which the company's production volume and sales volume would continue to grow.



#### Response from the company in question

Our policy is to disclose our current recycling rate, and to set and disclose our target for the future at the earliest possible date. Moving away from contracts that involved the use of materials supplied by the customer offers great benefits in terms of revenue, and we will be proceeding with negotiations with our customers in this regard.

## Engagement case study

### DE&I (Company B)



#### Issue

The limited number of female science students studying materials science is believed to be a major obstacle to the active participation of women in the R&D departments of R&D oriented companies in the materials sector. Whether or not there is an appropriate response to this situation, whether progress is made in promoting women's participation, and whether the path to improving this situation can be clarified, could have a major impact on the competitiveness of R&D oriented companies over the medium- and long-term.



#### Background

The company is a medium-sized firm in the materials sector, which it was assumed would be having difficulty in recruiting and retaining female R&D personnel. Given that a characteristic of this business is that one of the roles played by R&D talent is to provide support for overseas customers, it was assumed that this company was one of the R&D oriented companies in the materials sector that were having difficulty in promoting the active participation of women. While the company had defined the type of human talent it needed, and its president had given a clear message regarding the importance of gender diversity in relation to the cultivation of suitable talent, it had not disclosed information about women's participation in the R&D division, which is of particular importance to an R&D oriented company.



#### Measures required to address the issue

Through dialog with the company, Daiwa AM's previous assumptions were overturned. It was confirmed that the female employee ratio in the company's R&D division was actually nearly 40%. Given that the female employee ratio in the R&D divisions of other R&D oriented companies in the chemical sector is often only around 15%, this is a very high figure. It was suggested that the company should proactively disclose this background information and the measures it had taken, so as to demonstrate its medium- and long-term competitiveness as an R&D oriented company.



#### Situation after resolution

The company appointed its first female executive officer through internal promotion from its R&D division, and this female executive officer was appointed to head the Taiwan subsidiary, an important base for the production of electronics chemicals. In this way, having DE&I take root in the company was recognized as helping to boost competitiveness over the medium- and long-term, and enhancing corporate value, while also creating a "virtuous circle" of enhanced DE&I.



#### Response from the company in question

While the company had implemented appropriate measures, which it saw as being only natural, it recognized that its disclosure of information, not only in regard to DE&I but also in relation to the company's special features and strengths, had been inadequate. The company noted that it would be striving to implement disclosure, through its CSR report, etc., in such a way as to enhance understanding of the company and facilitate better evaluation of it.



# ESG Integration

## Integration of ESG into Investment

Since the introduction of the United Nations' Principles for Responsible Investment (PRI) in 2006, ESG has been inseparable from investment, and its importance has increased steadily. Numerous issues have emerged that are global in scale, such as the problem of climate change and human rights issues in the supply chain, and the companies and countries in which Daiwa AM invests have had to face up to these issues, and been forced to enhance their own sustainability. At the same time, we must not lose sight of the fact that the attempts to address these issues have led to the emergence of new technologies and new business opportunities.

Daiwa AM views the measures adopted by companies to address ESG-related issues as helping both to expand medium- and long-term growth potential and reduce risk, and we therefore consider these measures when making investment decisions.

By sharing information relating to the qualitative evalu-

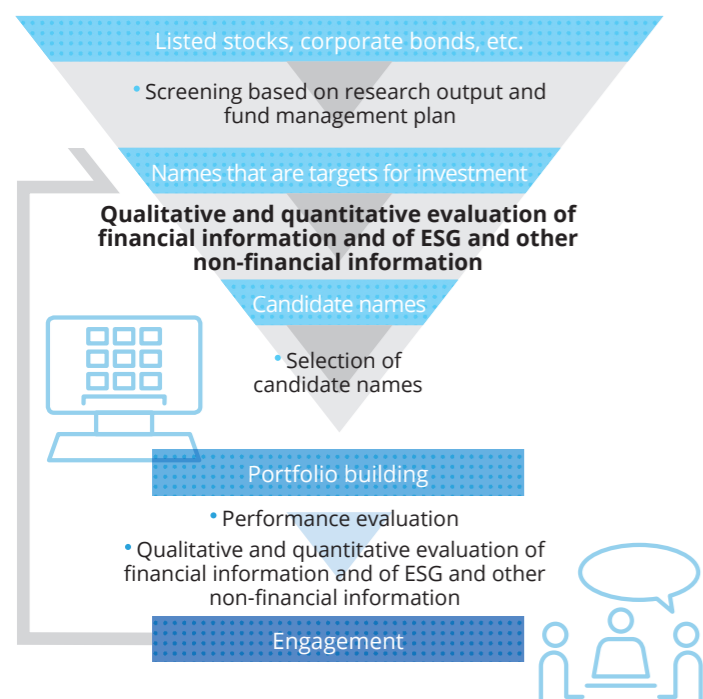
ation based on the results of engagement—focusing particularly on materiality—with companies undertaken by Daiwa AM's corporate research analysts and fund managers, and quantitative analysis and evaluation undertaken by our quantitative analysts, we are able to achieve corporate evaluation from an integrated perspective that combines financial information with non-financial information.

Daiwa AM calculates its own proprietary ESG scores, based on our materiality, which are used when choosing which names to invest in and implementing portfolio risk assessment.

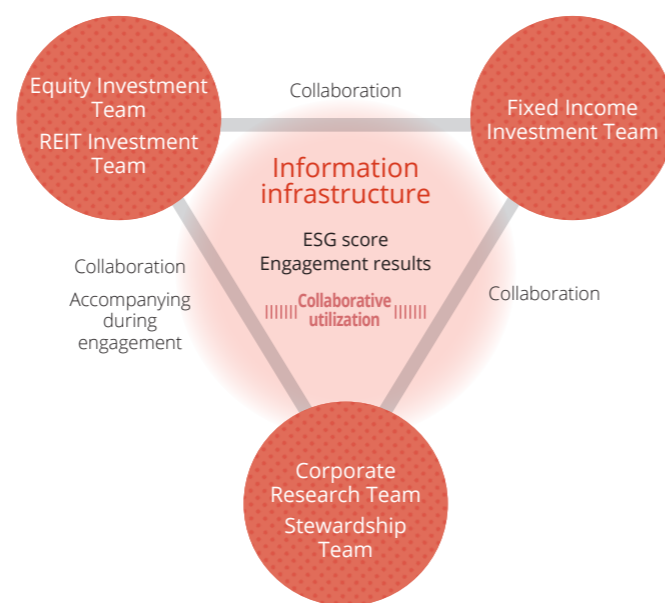
The details of ESG scores and the content of dialog with companies are stored in our in-house information infrastructure, a system that allows anyone involved in asset management to utilize the information. By utilizing this information not only for equity investment but also for fixed income investment,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

## Integration of ESG Information into the Investment Process, and Collaborative Utilization of this Data via the Information Infrastructure

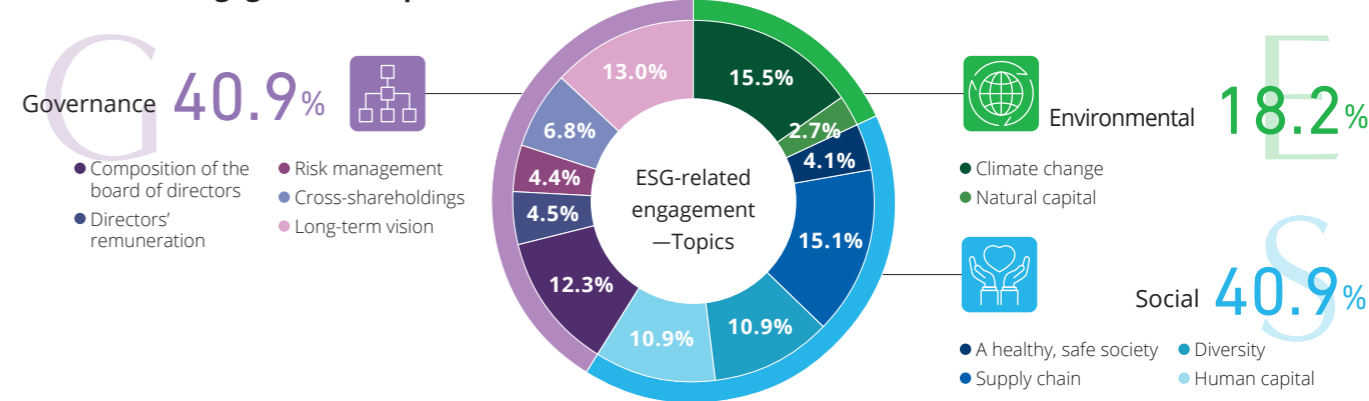
### Investment process of funds



### Collaborative utilization of information



### ESG-related engagement—Topics



Period covered: January–December, 2022

As in the previous year, there was an increase in the share of engagement topics accounted for by the social (S) aspect, rising from 31.8% to 40.9%, which brought it up to roughly the same share as the governance (G) aspect. With the S aspect, the most rapid increase was in the topics relating to the supply chain (increasing from 5.2% to 15.1%). Due to the disruption caused to global supply chains by the COVID-19 pandemic, etc., companies' ability to maintain sustainable operations has continued to be under threat. Daiwa AM has been collecting and analyzing information that relates to how companies are responding to these issues over the medium- and long-term, and has been engaging in dialog with companies.

## Japanese Equities

### Engagement aimed at enhancing the value of intangible assets

When undertaking engagement, Daiwa AM shares topics relating to ESG that can contribute toward value enhancement for the investee company over the medium- and long-term with the investee company's managers, and encourages them to proceed with initiatives in these areas and address related issues.

These topics are not limited to improving disclosure; they cover a wide range of areas, including business profitability and efficiency, growth strategy, labor productivity, etc. The topics are collated based not only on collaboration with Daiwa AM's own analyst team, but also on the views expressed by external analysts and the opinions of various experts.

At the same time, Daiwa AM recognizes the need to fully utilize its rights as an investor, and to meet its responsibilities, and in cases where investee companies are not making sufficient progress in terms of taking action to transform themselves, Daiwa AM will encourage them to undertake related initiatives through the use of proxy voting.

Iori Nakayama  
Senior Fund Manager  
Active Fund Management Department II



By utilizing the wealth of knowledge and relationships that have been built up, and conducting engagement directed toward the goal of increasing corporate value (which is a goal shared with the companies in question), we have been able to build good relationships with just the right degree of tension.

One of the topics that we are currently working assiduously to address is the value of intangible assets. Japan has many companies that possess significant intangible assets, such as outstanding technology. We believe that, for Japan, which has various problems such as limited resources and a shrinking, aging population, it is very important to focus on these kinds of useful assets, to realize their value, and to utilize them in meaningful ways.

A Cabinet Office committee has published "Guidelines on Disclosure and Governance of Strategies for Investment and Utilization of Intellectual Property and Intangible Assets." Daiwa AM is undertaking joint research with university professors who played a key role in the formulation of these guidelines, and aims to make effective use of the guidelines in the company's engagement activities. Through activities such as participation in research groups and the dissemination of its own views, Daiwa AM is aiming to contribute, as an investor, toward enhancing the value of Japanese stocks as a whole.



# Corporate Value Assessment: Corporate Value Assessment and ESG Information

Daiwa AM incorporates qualitative assessment of companies' approach 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 8%, if the cost of equity is 8%, then it can be determined that no additional value is being generated. If the cost of equity falls to 6%, then value is being generated at a rate of 2%.

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.

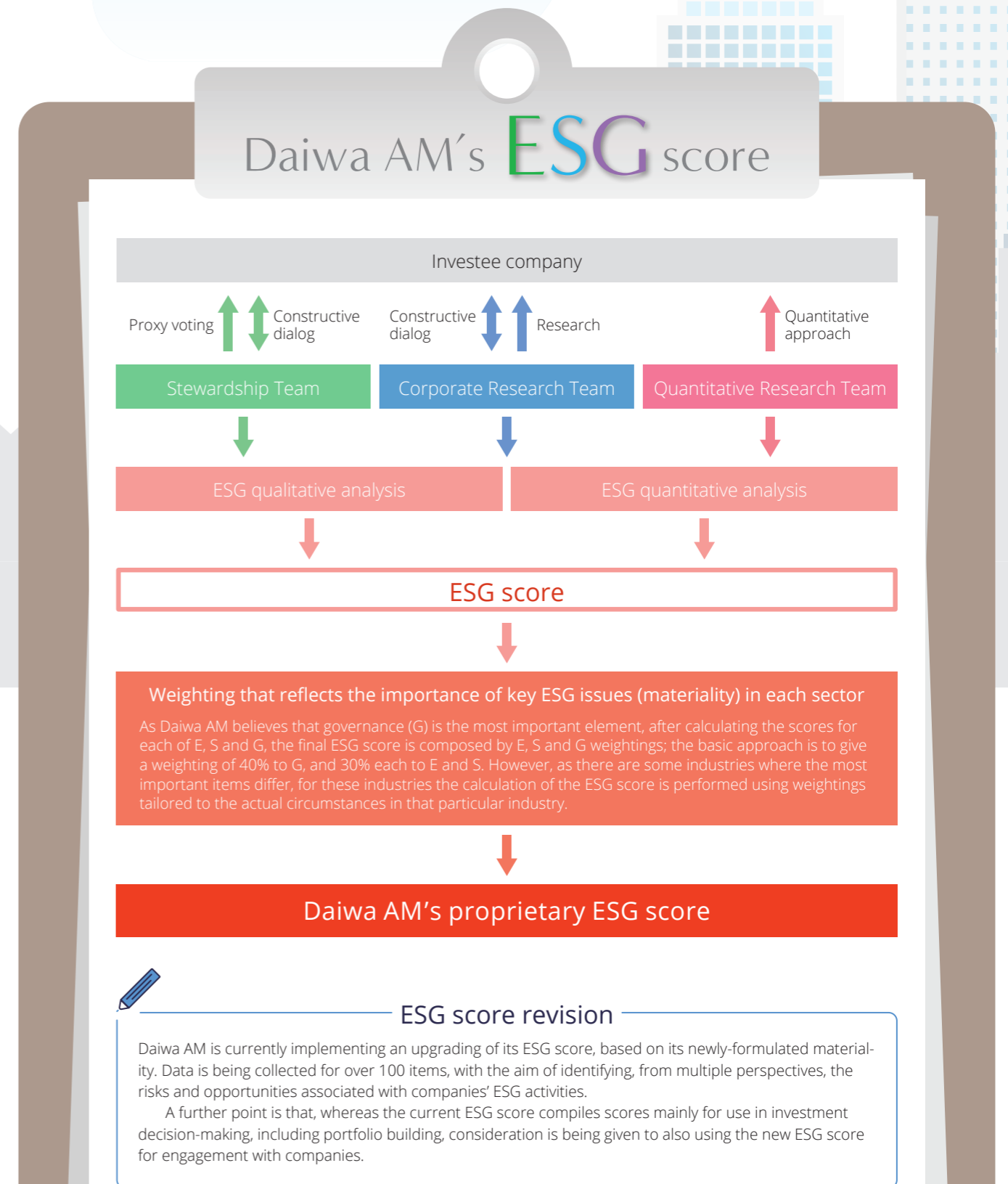
By breaking the ESG evaluation down into risks and opportunities, we have established a framework that enables us to examine, in detail, the impact that measures taken to address ESG issues will have on corporate value.



# ESG Scores and Score Revision

Daiwa AM calculates its own proprietary ESG score, for use in 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.





# Fixed Income

## ESG integration in credit analysis

### The need for ESG integration in fixed income investment

Daiwa AM also makes use of ESG information in fixed income investment.

In today's world, where people are becoming increasingly aware of the sustainability of society and economic entities, we believe that keeping abreast of these trends and appropriately addressing the ESG issues faced by issuers is an essential element of their long-term activities.

One of the main features of fixed income investment is that investments have a fixed maturity and the approximate return is determined at the time of investment, as long as no default occurs during the period of the investment. By understanding the issuers efforts to address ESG issues, and by analyzing their sustainability, we believe we can reduce the risk of a



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

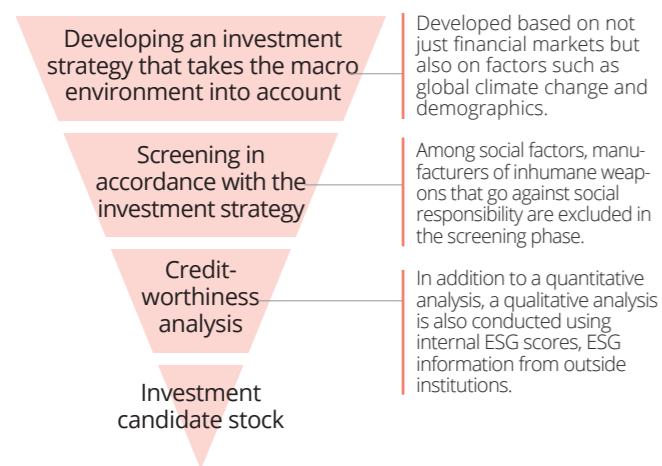
In analyzing creditworthiness, Daiwa AM views the impact of ESG factors on an issuer's credit risk in terms of the relationship between the time it takes for that impact to manifest and the creditworthiness of the issuer, excluding ESG factors, as shown in the figure below. In other words, the lower the creditworthiness of the issuer and the shorter the timeframe for the ESG factors to have an impact, the greater the impact on the bonds issued by the issuer in terms of credit risk.

Under this basic understanding, in addition to a financial analysis of the issuer, Daiwa AM incorporates in its creditworthiness risk analysis both quantitative and qualitative information regarding ESG, with the goal of conducting appropriate creditworthiness analysis, controlling downside risk and improving investment performance.

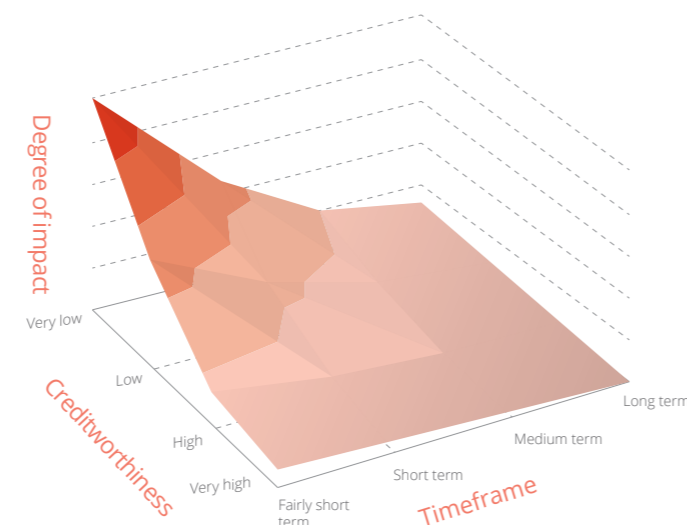
decline in earnings associated with issuer default.

### Degree of impact of ESG factors on creditworthiness risk

### Integration process



### Degree of impact on credit risk



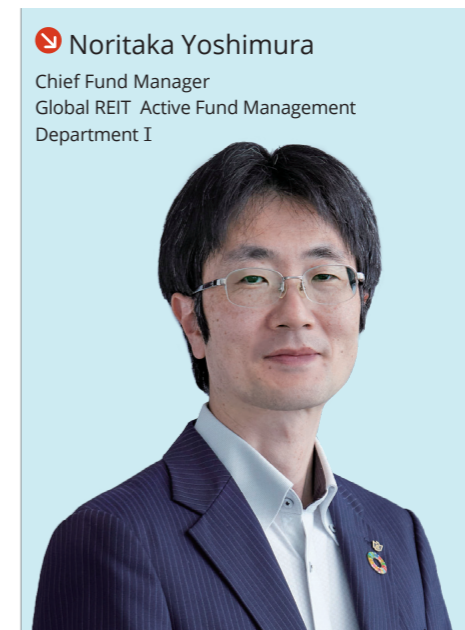
# J-REIT

## ESG factors taken into consideration in evaluating J-REIT issues

In the last two to three years, J-REIT companies have accelerated their ESG initiatives. In J-REIT active fund management, Daiwa AM makes investment decisions using each company's valuation, growth potential and other financial information, in addition to ESG and other non-financial information gained through interviews, property tours and other means.

### Governance

One thing Daiwa AM has consistently emphasized over the years is governance. J-REITs have an external management type of system in which an asset management company is entrusted by a fund (investment corporation) to manage assets and conduct various operations. Governance is important in J-REIT investment because there are many instances in which J-REITs acquire properties from sponsor companies (real estate firms, etc.) which are shareholders of the asset management company. In this case, there is a conflict of interest: The sponsor company wishes to sell the property at the highest possible price to book a profit, while the investment company wants to buy the property at the lowest possible price to ensure a yield. Aside from price, the asset management company should make decisions that place the highest priority on the interests of the investment corporation's investors (equivalent to shareholders), including whether or not to acquire the property in the first place. However, due in part to capital ties and personal relationships—such as staff of the asset management company being seconded from the sponsor—there is a structural risk that priority will be given to what is convenient for the sponsor. While laws,



**Noritaka Yoshimura**  
Chief Fund Manager  
Global REIT Active Fund Management  
Department I

equipment with high environmental performance and green electricity also need to be carefully analyzed.

### Society

Unlike the environmental field, efforts of J-REITs in the social field are currently somewhat scattershot because of the difficulty of setting quantitative targets, and because evaluations need to be changed depending on purpose, scale, and location. On the other hand, real estate can contribute to the creation of a sustainable society and people's well-being because of its strong relationship with local communities and the way people work and live, with offices providing a place to work, rental housing providing a place to live, commercial facilities and hotels providing a place for consumption, and logistics facilities supporting each of these. As progress is made in putting in place criteria and methods for evaluating the impact of real estate on society as a whole, and in establishing a framework for information disclosure, this will become one area of growing importance.

When properties that consider ESG, including the environment, see higher rents and occupancy rates and higher profitability than properties that do not, and when the cap rate—the discount rate—declines and property values rise in trading markets, these factors will become increasingly important in investment decisions. It would not be exaggerating to say that the value of a J-REIT is determined by the value of its real estate holdings, and Daiwa AM will continue to closely monitor the impact of ESG on the intrinsic value of real estate.

industry rules and each company's own regulations have advanced the development of mechanisms for managing conflicts of interest, Daiwa AM analyzes each company's governance efforts, including the actual operations of asset management companies and how the sponsors respond.

### Environment

One of the major changes faced in the near term is in the area of environmental efforts. In October 2020, the government declared its goal of becoming carbon neutral, which means reducing overall greenhouse gas emissions to zero by 2050. Many J-REIT companies are also moving to become more proactive in the environmental field, including by setting targets to reduce CO<sub>2</sub> emissions intensity and by acquiring green building certification. While efforts in the area of the environment are important for realizing a sustainable society, the costs and benefits of specific initiatives like introducing



# Passive Investment

## Aiming to offer a wide range of ESG investment opportunities through index management

In recent years, as the transition to a decarbonized and sustainable society has become a global imperative, particularly in Europe, considering ESG in investments has become a requirement. Investment capital continues to flow into index funds from institutional and other investors as well, and the balance under management related to ESG investments has expanded, with performance improving over the long term.

Daiwa AM's team would like to offer funds linked to indexes that incorporate ESG evaluations, offering investors a lower-cost, easy-to-begin ESG investment opportunity. Currently Daiwa AM offers five ESG funds, including publicly offered funds and ETFs. ETFs include three funds that are linked to ESG indexes in which the GPIF invests.

The advantage of ESG investment in index funds is that they are low



**Eriko Ono**  
Senior Fund Manager  
Beta Management & Investment Solution Department

cost and allow for fund management based on highly transparent, clear rules. Under the methodology of the MSCI ACWI ESG Leaders Index, the benchmark for the iFree Global

Stock ESG Leaders Index, companies are selected according to the flow shown in the diagram below. It specifies how ESG evaluations are incorporated into index construction using quantitative and other data. ESG ratings by MSCI also have a sufficiently high level of transparency, as the rating methodologies are published and are based on publicly available information.

Daiwa AM believes proactive efforts regarding engagement are also important in index funds, and we send our investees our Proxy Voting Policy and other materials and inform them of our stewardship activities. We also discuss with index vendors the importance of ESG disclosure, including information such as ESG ratings and carbon emissions, and aim for easier-to-understand information disclosure, including encouraging them to provide a wider range of data.

### ESG Index Funds

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

### MSCI ACWI ESG Leaders Index Calculation Overview



\*1 Weapons against humanity, tobacco, gambling, etc.

\*2 Score that indicates whether a company is involved in controversy that has a serious negative impact on its ESG evaluation

(Source) MSCI

# Outsourcing

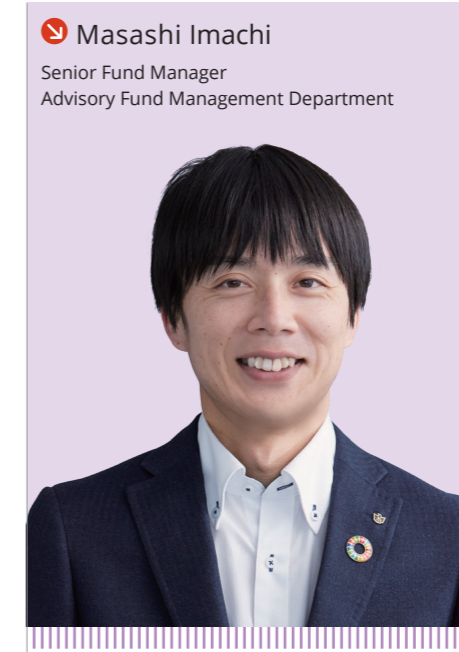
## Monitoring of ESG factors in the selection of outsourced fund managers and strategy and in the evaluation process

ESG investment, which systematically takes ESG issues into account in the investment process, is growing rapidly around the world and has now become a part of the investment mainstream. One important role of outsourced fund management is to provide Japanese investors with access to the strategies of outstanding overseas asset managers who are leading the way in ESG investment. Based on this, Daiwa AM conducts monitoring regarding ESG in the selection and evaluation process of outsourced fund managers and investment strategies.

### When Selecting Investment Strategies

When selecting investment strategies, as part of initial due diligence, Daiwa AM collects information on items regarding ESG at outsourced fund managers, and then conducts an evaluation of that information. Specifically, Daiwa AM verifies ESG-related management structures, ESG policies, ESG-related disclosures and ESG initiatives in which the company participates, among other things.

In particular, when selecting an outsourced fund manager for ESG-related investment trusts, the firm must be able to control ESG risks and



**Masashi Imachi**  
Senior Fund Manager  
Advisory Fund Management Department

opportunities in the portfolio building process and disclose specifics. Or, we look closely at whether the main feature of the product's nature is to earn economic and social returns as a fund, and whether specific disclosures about such returns can be made.

### Ongoing Monitoring

Once the fund is established, monitoring is conducted in the form of ongoing due diligence of ESG factors through quarterly reviews with the fund management team. ESG investment is evolving daily, and by verify-

ing the same information as during initial due diligence, Daiwa AM examines how outsourced fund managers and their fund management strategies are responding to changes in the external environment.

During the quarterly review with the fund management team, we monitor not only fund performance, but also exchange opinions regarding how new issues to be included in the fund will help achieve social returns. We also discuss the views of the management team on ever-changing ESG-related issues and exchange opinions and monitor how they are responding.

### Daiwa AM's ESG Funds

Daiwa AM's offerings include the Carbon Neutral Equity Fund of Belgium's Candriam and the Clean Tech Equity Fund of France's AXA IM. Both of these companies have strengths in ESG investment and are among the leading ESG fund management companies in Europe. As ESG funds, they provide transparent disclosure to Beneficiaries in Japan. Daiwa AM also periodically reviews its monitoring methods, and will work to achieve both a sustainable society and long-term asset building through its investment trusts.

### Process of Monitoring Outsourced Fund Manager ESG Factors

Initial Due Diligence		Ongoing Monitoring	Quarterly Review
Verify ESG-related items		Verify changes since initial DD	Reinforce monitoring of ongoing DD
[Outsourced fund managers]	[Investment strategies]	[Outsourced fund managers]	[Investment strategies]
<ul style="list-style-type: none"> <li>ESG-related fund management structure</li> <li>ESG policies</li> <li>ESG-related disclosure</li> <li>Participating ESG initiatives</li> </ul>	<ul style="list-style-type: none"> <li>Control of ESG risks and opportunities</li> <li>Specific disclosure of ESG integration</li> <li>Securing of economic and social returns</li> <li>Specific disclosures regarding returns</li> </ul>	<ul style="list-style-type: none"> <li>ESG-related fund management structure</li> <li>ESG policies</li> <li>ESG-related disclosure</li> <li>Participating ESG initiatives</li> </ul>	<ul style="list-style-type: none"> <li>Contribution to helping included issues to achieve social returns</li> <li>ESG views and investment policies of fund management team</li> </ul>





**Candriam S.C.A.**  
A leading European asset management company which has been actively engaged in ESG investment since its establishment in 1996



**Marouane Bouchricha**  
CFA - Senior Fund Manager



**Alix Chosson**  
Lead ESG Analyst, Energy & Materials



**Sophie Deleuze**  
Lead ESG Analyst, Engagement & Voting



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



**Maki Noguchi**  
General Manager, Advisory Fund Management Department



**Tadashi Terajima**  
Chief Analyst, Active Fund Management Department II and Responsible Investment Department



**Haruka Miyamura**  
Director, Responsible Investment Department

**Candriam: CA**  
**Daiwa Asset Management: Daiwa AM**

## ESG Investment Initiatives and Characteristics of Each Company

**Noguchi of Daiwa AM:** Daiwa Asset Management adopted "All Challenges for ESG Investment" as its slogan as an expression of our commitment as a responsible investor. Candriam has actively conducted ESG investment and has been a pioneering presence within the field of ESG investment since its foundation. Please begin by discussing the ESG initiatives and characteristics of Daiwa Asset Management.

**Watanabe of Daiwa AM:** We see corporate ESG initiatives as contributing to both medium- and long-term growth potential and risk reduction, and we make use of these initiatives in our investment decisions. The characteristics of this are qualitative assessments by analysts and calculation of original quantitative ESG scores. Qualitative

assessments by analysts that target covered stocks evaluate the ESG initiatives and information disclosures of each company from a perspective of corporate value, and are separate from formalistic, check-the-box ESG assessments. For original quantitative ESG scores, we select priority data for each material issue, weight the data according to the importance in each sector, and perform calculations through statis-

tical processing. Candriam is active as a global ESG investment leader; how would you describe the characteristics of and commitment to ESG investment?

**CA Alix:** Ever since we launched our first sustainable investment strategies in 1996, in-depth analysis of ESG factors has been a cornerstone of our investment process. Accordingly, a very large part of our product range is classified within



**The name Candriam is derived from "Conviction AND Responsibility In Asset Management." The name represents our belief in and commitment to contributing to society and achieving management results by actively investing in a sustainable future.**

**Naïm Abou-Jaoudé**  
Chief Executive Officer of New York Life Investment Management

Article 8 and 9 under the EU's Sustainable Finance Disclosure Regulation. When assessing the sustainability of companies, we analyze their adherence to international norms, their involvement in controversial activities, how they manage their stakeholder relationships and the key sustainability challenges that they are exposed to. For countries, our analytical framework includes filters for high-risk, oppressive regimes and standards of democracy. Furthermore, we assess each country's ability to manage its environmental, human, social, and economic capital in a sustainable fashion, today and in the future.

## Key Points When Assessing a Company's Environmental Performance

**Watanabe of Daiwa AM:** I see. You have a framework for analyzing an extensive range of factors over time. I handle materials sectors, such as the chemical sector, which have high CO<sub>2</sub> emissions, and when

assessing the environmental (E) performance of a company, I focus not just on the scale or change in emissions, but also on carbon efficiency and the degree of contribution to reductions. Carbon efficiency is a measure of the technologies and expertise that companies have and how efficiently they can produce the same products, and reduction contribution is the perspective of whether a company can first achieve net zero by contributing to the decarbonization of its customers and society as a whole. What are the criteria used by your company for evaluating companies in relation to climate change and selecting them for investment?

**CA Alix:** Our ESG analytical framework has embedded climate mitigation and adaptation across our sustainable investment strategies for over 15 years. This means that across our ESG-related strategies, we systematically integrate climate considerations into the way we invest and select companies that are putting forward a meaningful and credible carbon decarbonization pathway. We believe that when

doing so, it is important to focus on companies that are implementing concrete measures towards a real energy transition, such as companies demonstrating a credible energy transition strategy that has been validated by the Science Based Targets initiative. We measure and disclose the carbon footprints of sustainable funds, and our overarching ambition is to reduce the footprint of these strategies year-on-year in order to secure a 50% reduction in greenhouse gas emissions across a significant share of our investment portfolio by 2030 and pursue net zero emissions in our investment portfolio by 2050 or sooner. Candriam also joined the Net Zero Asset Managers initiative (NZAMI), supporting the goal of net zero greenhouse gas emissions by 2050 or earlier in line with global efforts to limit warming to 1.5 degrees Celsius. Accordingly, we engage in stewardship activities that target investments with the highest climate risks, but we believe that it is essential that each company first has a clear and achievable decarbonization strategy.



**Candriam: CA**  
**Daiwa Asset Management: Daiwa AM**

**Watanabe of Daiwa AM:** I mentioned that when assessing the environmental performance of a company, we emphasize the degree of contribution to carbon reduction, but I get the sense that in some instances, that assessment can be challenging. This can depend on the lack of development of product life cycle assessment (LCA) or carbon footprint of products (CFP) information or a lack of clarity in the selection of criteria for making comparisons. It is my impression that it is also necessary to develop society as a whole for achieving decarbonization, including standards and regulations.

**CA Alix:** We can say that the policies and regulations of national governments still have issues, as they need to accelerate even more for the adoption of clean energy. Also, radical technological innovations are increasingly seen as necessary to limit climate change to

less than 2°C of temperature change, or to extend the limit of global warming more aggressively to 1.5°C, which are the goals of the Paris Agreement.

Yet, the ability to address those global challenges also involves organizational, social, and economic changes. At such times, social adaptation may not progress without incentives from policy makers. We believe that there are cases where something like the U.S. Inflation Reduction Act or a system of credits for biofuels is needed. And we further believe that it is the role of companies to expand the scale so that technologies intended to mitigate adverse effects can be made readily accessible by using these types of policies, regulations, and incentives.

**Terajima of Daiwa AM:** When performing qualitative assessments of ESG, we assess dialog with the company and information disclosure. We believe that when assessing decarbonization, for example, it is important to adopt a comprehensive perspective, not limited to the



business portfolio or technologies relating to decarbonization, but also including the human resources, intellectual property, governance, capital policies, and more that serve as the foundations of these.

What perspectives do you focus on when assessing a company's dialog and information disclosure in the evaluation of ESG or carbon mitigation technologies?

**CA Alix:** Since 2014, Candriam's stewardship efforts have focused on three ESG topics: business ethics, energy transition and fair working conditions. If companies are not meeting our expectations on ESG, we will continue engaging with them and strive to advance their efforts. Climate is a good example, as many large global greenhouse gas (GHG) emitters are still lagging behind on their net zero commitments and associated strategies. If engagement intensifies but progress is still not made, we take escalation measures, including, as a last resort, divestment. Divestment can send a strong signal to the company and the market.

### Exercise of Voting Rights

**Miyamura of Daiwa AM:** I would like to ask about exercise of voting rights. Shareholder proposals relating to climate change have been

increasing in Japan in recent years. At Daiwa Asset Management, we make individual determinations, focusing on whether the companies in question responds adequately to climate change issues and information disclosure and whether a proposal could restrict business.

What points does Candriam emphasize when making determinations regarding climate change related proposals?

**CA Sophie:** When exercising voting rights last year, we voted against about 30% of proposals relating to climate change. This is because in cases where a company's policies on climate change are not sufficiently ambitious, even if the proposal passes, it will not result in concrete change within the company. Also, we have a target of achieving net-zero GHG emissions from our investment portfolio by 2050, and we evaluate proposals by assessing whether the transition strategies of individual companies are in agreement with a path to net zero emissions by 2050.

### Creating Zero-Carbon Funds

**Noguchi of Daiwa AM:** We are aware that the fund's carbon-zero approach, that is, funding projects conducted by Carbon Neutral Equity Fund (Carbon Zero), can

serve a model initiative when considering long-term responsibility and roles of investment management companies for achieving a decarbonized society. This is an important point when selecting projects, but we believe that there are also some difficult aspects. What mechanisms and innovations does Candriam use when selecting projects?

**CA Marouane:** When selecting climate projects, we set conditions such as projects must aim to reduce, avoid or remove emissions; projects must apply the highest environmental and social standards, contributing to sustainable development; and projects must be subject to monitoring and reporting. Also, all projects are audited in accordance with the Gold Standard. The Gold Standard was established in 2003 by WWF and other international NGOs to ensure that projects that reduce carbon emissions feature the highest levels of environmental integrity and contribute to sustainable development. By investing in these types of reliable projects, we are working towards zero carbon for the fund.

**Noguchi of Daiwa AM:** Daiwa Asset Management sends trainees to Candriam as part of its efforts to strengthen collaboration with excellent asset management companies around the world. In the future, we plan to achieve mutual enhancements not only relating to investment advice for the Carbon Neutral Equity Fund, but also in responsible investment overall, human resource development, and other areas.

**We place particular importance on the integration of ESG assessments in corporate value calculations and a comprehensive perspective when performing ESG assessments.**



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

**We seek to provide products tailored to customer needs while deepening collaboration with excellent asset management companies from around the world.**



**Maki Noguchi**  
 General Manager, Advisory Fund Management Department

COMMENT

**Candriam is focusing its efforts on achieving net zero GHG emissions from its investment portfolio by 2050 and systematically incorporates consideration for the climate into its investment approaches.**

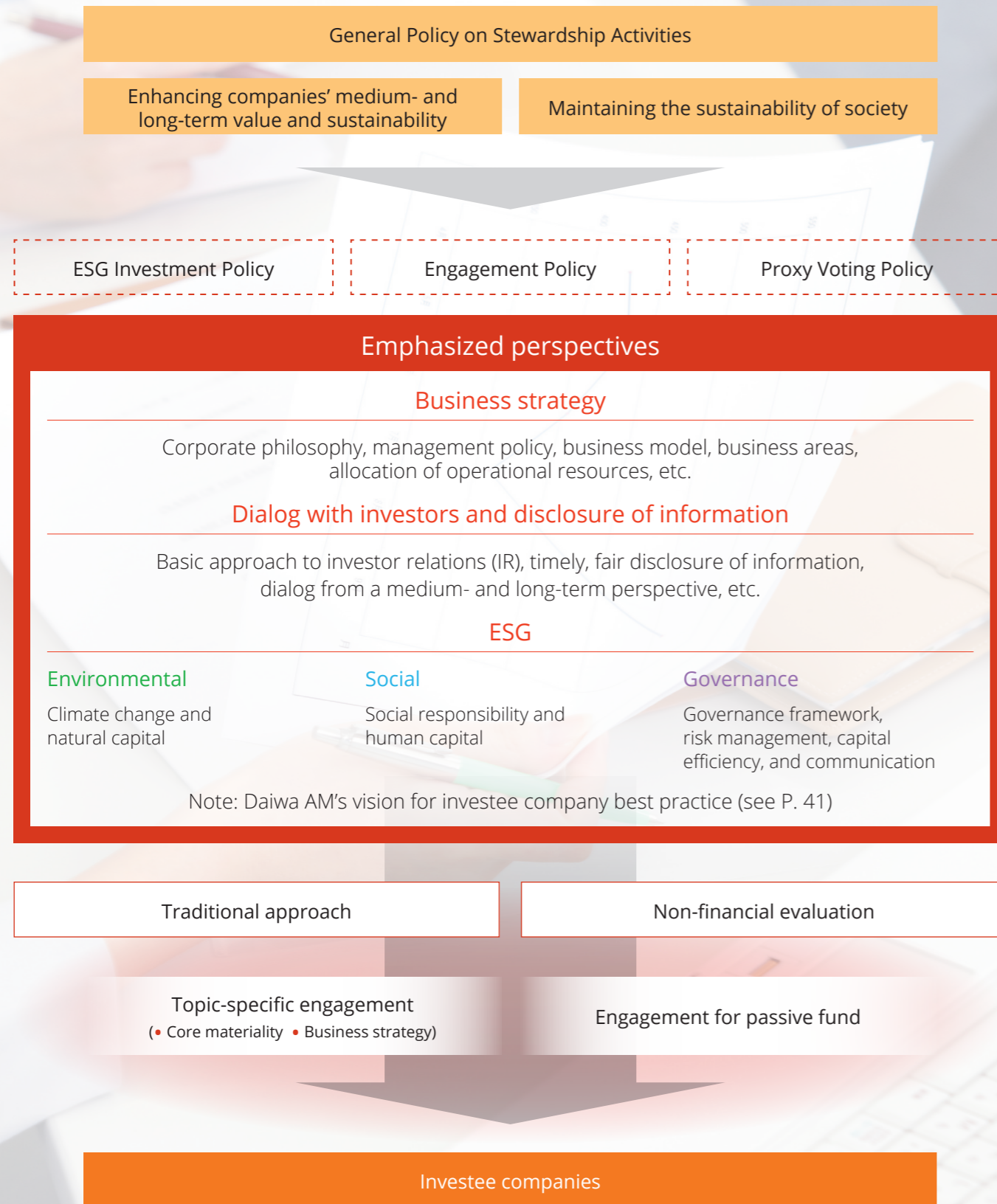
**Vincent Hamelink**  
 Candriam S.C.A.  
 CEO, Member of the Group Strategic Committee and Executive Committee





# Engagement Activities

## Overview of Daiwa AM's Engagement 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, and in October 2022 a further revision was made to reflect the adjustment of ESG Materiality.

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
<b>Environmental</b>	<b>Climate change</b> <ul style="list-style-type: none"> <li>Greenhouse gas emissions</li> <li>Responding to climate change risk</li> <li>Energy transition</li> </ul>
	<b>Natural capital</b> <ul style="list-style-type: none"> <li>Environmental pollution</li> <li>Resource conservation</li> </ul>
<b>Social</b>	<b>Social responsibility</b> <ul style="list-style-type: none"> <li>Contributing toward the building of a healthy, safe society</li> <li>Supply chain management</li> </ul>
	<b>Human capital</b> <ul style="list-style-type: none"> <li>Enhancing the value of human capital</li> </ul>
<b>Governance</b>	<b>Measures aimed at corporate value enhancement</b> <ul style="list-style-type: none"> <li>Governance framework</li> <li>Risk management</li> <li>Improving capital efficiency</li> <li>Communication</li> </ul>



# Daiwa AM's Vision for Investee Company Best Practice

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

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

# Framework for Engagement Activities

Daiwa AM's engagement activities are implemented with the Corporate Research Team, the stewardship personnel, 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.

## Engagement Team

- Composed of fund managers and analysts, this team holds in-depth meetings with companies which are being invested in over the medium- and long-term



## The key elements of engagement activities Main activities



## Corporate Research Team

- Comprising the ESG & Corporate Research Section, Responsible Investment Department, this team undertakes research activities relating to corporate value, business strategy and ESG, and also holds related meetings



## Stewardship Team

- Comprising the Stewardship Section, Responsible Investment Department, this team holds meetings relating to ESG, including corporate governance, and proxy voting
- Engagement for passive fund



# Engagement Activities

## Engagement activities based on direct dialog

In the most recent fiscal year (January 2022–December 2022; 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 1,138 companies.

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



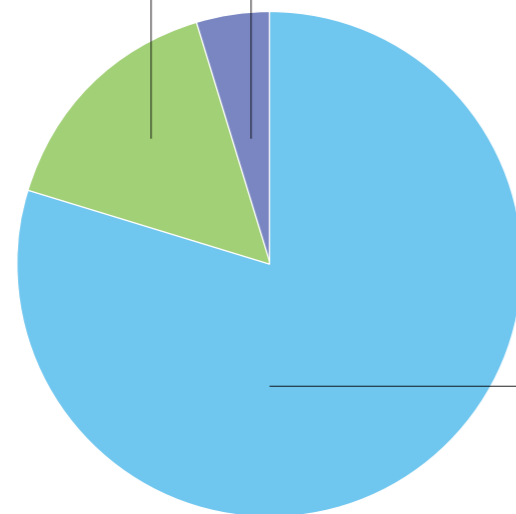
Stewardship Team



Engagement Team

15.6%

4.6%



Corporate Research Team

79.8%

## Engagement for passive fund

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

panies so as to verify the state of the measures implemented by the company in relation to these issues, and to exchange views.

At the same time, since the total number of investee companies is very high, at over 2,300 companies, besides direct dialog, when necessary, Daiwa AM may also make use of methods such as sending companies information about revisions to the Proxy Voting Policy and about related topics.

Note: The same company may be counted more than once, due to undertaking engagement with the same company on multiple occasions.



## Examples of engagement activities

# Corporate Research Team

Constructive engagement to enhance corporate value and achieve sustainable growth

### 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 13 analysts (as of December 31, 2022), 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** ESG Materiality Item Summary, which compiles information on key ESG items required for engagement, etc.; **4** Qualitative analysis, in which companies are assessed qualitatively from a medium- and long-term perspective in terms of both financial and non-financial aspects; **5** The compilation of a Long-term Corporate Valuation Model, to determine companies' fair value over the medium- and long-term.



Analysts undertake analysis of individual companies based on the Analyst Handbook, Business Strategy Case Studies, and ESG Materiality Item Summary, 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, and ESG Materiality Item Summary can be revised and expanded. Through the accumulation of constructive engagement and a continuing cycle of improvement of the five key platforms and tools, Daiwa AM aims to realize further enhancement of analysts' research activities and of stewardship activities.

### Analysts

- 1** Analyst Handbook
- 2** Business Strategy Case Studies
- 3** ESG Materiality Item Summary
- 4** Qualitative Analysis
- 5** Long-term Corporate Valuation Model

### Constructive engagement by analysts and key platforms and tools



Constructive engagement

Investee companies



### 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, to reflect successive revisions subsequently 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.



### 4 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 is conducted using a five-stage process that considers the environmental (E), social (S) and corporate governance (G) aspects separately. 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, stocks where the quality of management is evaluated as being particularly high, and major stocks representative of business sectors.

### 2 Business Strategy Case Studies

When evaluating a company from a medium- and 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. We also actively deploy the Business Strategy Case Studies during constructive engagement and engagement meetings.

In 2022, we brought together case studies of corporate business strategies (mainly those related to ESG), which had been evaluated and identified as focus cases by analysts, and used these as reference material to inform revisions of ESG Materiality and for the formulation of best practices.



### 3 ESG Materiality Item Summary

Daiwa AM drafted the ESG Materiality Item Summary in 2022, with the aim of contributing to the maintenance, fostering, and sharing of know-how in dialogs with companies, and to establish current status with regards to ESG. These materials highlight those items of ESG Materiality that we have determined as currently meriting deeper exploration and development based on changes in their importance for society, companies, and the capital market, as well as dialogs with companies. They summarize the related laws and principles, as well as the perspectives and talking points during engagement for each item, while also including case studies of companies that have made advanced efforts in these areas. We will continue to strive to enhance the content and promote the active use of this Summary to improve the effectiveness of ESG research.



### 5 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 4 (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.



### Provision of research data for bond operations



Daiwa AM has adopted a centralized research framework, with respective Corporate Research Team at the core of this framework, for gathering data and conducting research and analysis on listed companies in Japan. Research data, including that on studies conducted by corporate research analysts and evaluations by analysts, is provided to both fund managers of domestic stocks and fund managers of domestic bonds. From the viewpoint of bond operations, the data employed primarily relates to financial status, cash flow, capital strategy, fund-raising capacity, and assessments of ESG-related risks. With regards to ESG, Daiwa AM considers there to be no significant difference in its perspectives on shares and bonds, in the sense that they lead to an enhancement of a company's corporate value in the medium- and long-term.



### Case study of engagement where a bond operations perspective was central

Due to Company J having posted significant losses in the past and having jeopardized its financial footing, it drafted and was implementing a business rehabilitation plan taking in structural reforms and the fostering of growth businesses to achieve recovery from those losses. Despite some progress having been achieved regarding structural reforms, including asset liquidation and withdrawal from unprofitable businesses, they had posted significant losses in their overseas operations, attributable to the COVID-19 pandemic, and their financial standing had failed to improve to the extent that may have been expected. In this context, we initiated engagement on the topic of the company's decision to issue preferred shares.

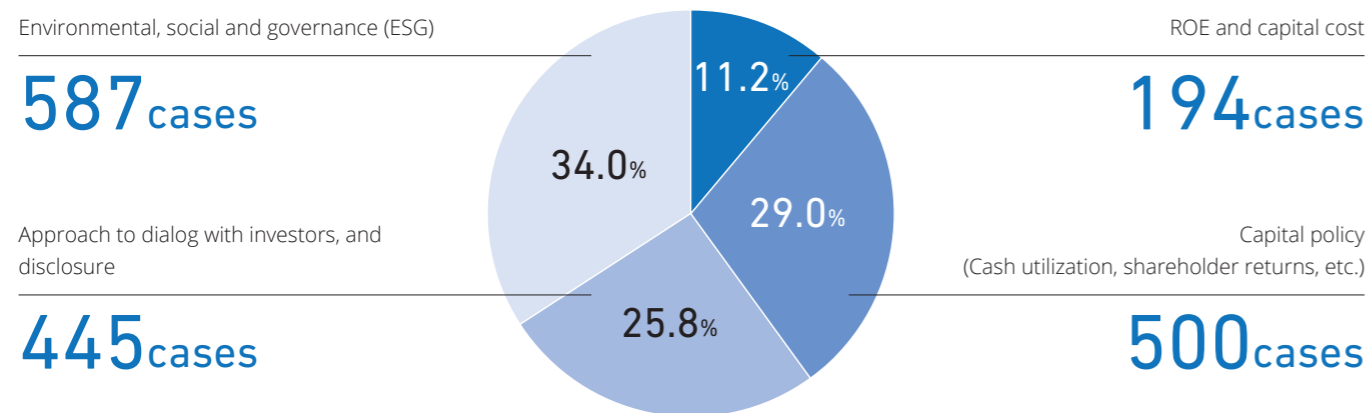
From the perspective of financial standing and the certainty of raising funds, their choice of preferred stock as a financing method is understandable, and expected to improve the company's financial position. On the other hand, since the company explained that the main purpose of the fundraising was for investment in growth, we requested timely and appropriate disclosure of information on the future use of the funds and their effects, with a firm awareness of the current financial position and the fact that the company raised funds using the high-cost method of preferred shares.



## Activity

In the most recent fiscal year, the Corporate Research Team undertook engagement with 908 companies. This engagement can be divided into four major categories: ROE and capital cost; Capital policy; Approach to dialog with investors, and disclosure; and 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.



### CASE 01 > Company A (Chemical industry)

#### Issues

While in the past few years, the company has clarified its management policy of aiming to become an R&D-oriented company, and some outcomes have begun to emerge, there remains considerable room for improvement when the company is compared with other R&D-oriented companies which the company uses as a benchmark, both in terms of the efficiency of management resources and profitability, as well as in communication with shareholders and investors.

#### Background to the issues

- Room for improvement in terms of efficiency and profitability in the high value-added functional products business and in company-wide assets
- Lack of consistent IR improvements which would foster an awareness of the intention of management to become an R&D-oriented company

#### Suggested measures to resolve these issues

- Disclose more proactively about new product development and R&D in the functional products business, and clearly state the efficiency and profitability that the business aims to achieve
- Conduct reviews of cross-shareholdings, cash levels, and allocations
- Further enhance the in-company positioning of IR and strengthen communication

#### Anticipated situation after addressing the issues

Entrenchment of the expectation and reputation of the company as a R&D-oriented company with highly efficient management resources and profitability.

#### Company's response

The company has to date failed to actively disclose information on new product development and R&D owing to a preoccupation with impacts on business aspects. However, it has now acknowledged the need to revisit this issue. The company will endeavor to proactively disclose on new product development and R&D alongside raising the overall level of IR.



### CASE 02 > Company B (Wholesaler)

#### Issues

While improvements in the company's business performance through appropriate business strategies, aggressive IR activities, and strengthening of its governance framework have enhanced its visibility in the stock market and facilitated some extension of its reputation, this remains at an insufficient level when compared to other companies in the same industry.

#### Background to the issues

A shortfall in in-depth communication with investors regarding the company's: ① visualizations of its growth strategies; ② optimization of its capital structure; ③ ESG.

#### Suggested measures to resolve these issues

- ① Review current information disclosure which makes it difficult to quantify growth strategies; ② demonstrate optimizations of the capital structure in the course of gradual changes to the business models for main lines of business; ③ implement in-depth disclosure on all aspects of ESG through the publication of an integrated report.

#### Anticipated situation after addressing the issues

By engaging in ① to ③ above, appropriate expectations of long-term growth will be fostered and capital costs lowered, which will result in a correction to the company's lower valuations when compared to other companies in the same industry.

#### Company's response

For ① the company will consider reviewing information disclosure in financial briefings; for ② the company recognizes this as a key issue for the upcoming medium-term business plan; and for ③ the company aims to explore in-depth and disclose on various elements of ESG in an integrated report to be published in the next fiscal year.



### CASE 03 > Company C (Telecommunications)

#### Issues

- Although the company has formulated and announced a medium-term business plan, the numerical targets in the plan have become untethered from actual circumstances, including dramatic changes to the business climate occasioned by the COVID-19 pandemic and other factors
- As a result of the above, it has become difficult for the company to communicate effectively with investors and others regarding their goals for earnings levels over the medium term

#### Background to the issues

- Rapid deterioration in short-term business results due in part to dramatic deteriorations in the business climate precipitated by the COVID-19 pandemic
- Regarding the revision of the mid-term plan, consideration should be given to the consistency with the stock compensation scheme, which will be a trigger for the achievement of the targets in the plan
- The company has the advantage of strong sales expertise. However, there is a risk that the company's lack of clarity on medium- and long-term target figures could precipitate declines in employee motivation

#### Suggested measures to resolve these issues

- Restore reciprocal communication with the stock market by announcing the re-establishment of new target figures under the medium-term business plan; or, defer the prospective achievement date for the medium-term business plan
- For the stock compensation scheme too, align the new targets under the medium-term business plan, which has the potential to enable alignment of employee vectors, thus leading to restored motivation (dispelling concerns of low motivation)

#### Anticipated situation after addressing the issues

- Consolidation of employee vectors and improved motivation towards achievement of the new medium-term business plan, as a result expediting the pace of earnings recovery and expansion
- Return of displaced investors (valuation recovery) due to restoration of reciprocal communication with the stock market and improved trust in the company

#### Company's response

It was apparent that the company had also begun to feel the need to review the ongoing medium-term business plan. They commented that they would be pleased to use our proposals as reference.





# Engagement Team

Discussions with senior management from medium- and long-term perspectives

## Overview

Daiwa AM emphasize the role of engagement in enhancing corporate value, and established the Engagement Team in June 2015, bringing together analysts and fund managers for combined activity.

The main target for engagement activity by the Team was positioned as being companies where there was felt to be potential for enhancing corporate value through IR improvements and changes in the measures taken by the firm resulting from dialog with Daiwa AM.

The emphasis in these Engagement Meetings is on discussion from a medium- 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.



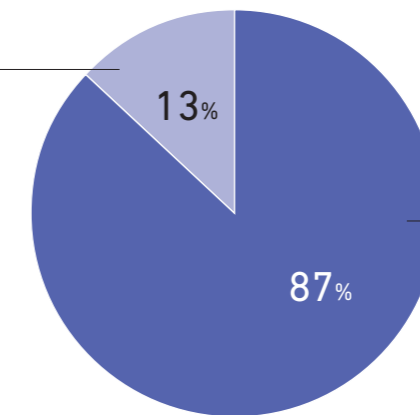
## Activity

In the most recent fiscal year, the Engagement Team undertook engagement with 52 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.

Engagement Meetings focused on E and S

7 meetings



Engagement Meetings relating to management issues, etc.

45 meetings



### CASE 04 > Company D (Retail business)

#### Issues

- Low profitability structure of regional stores with ongoing issues of excessive costs and decline
- Undervaluation of owned assets

#### Background to the issues

- High-cost structure of business model during high economic growth period
- Paucity of strategies to realize tangible asset values

#### Suggested measures to resolve these issues

- Visualization of costs and establishment of systems to verify cost effectiveness
- Monetization strategies for prime client base aligned to the changing conditions of the times
- Utilization strategies for assets owned by the company which leverage their strengths

#### Anticipated situation after addressing the issues

- Improved profitability of retail business
- Growth centered on prime client base of affluent urban and regional customers
- Revaluation of the company's assets through tangible realization of real estate values

#### Company's response

The company has begun to review its earnings structure and has furthermore given higher strategic priority to affluent customers in its client base target. Moreover, the company has strengthened its communication with investors, and has begun to hold business briefings on a separate basis from earnings briefings for direct business to affluent and institutional clients, online services, and other areas. In addition, the importance of increasing corporate value has become a common understanding, as evidenced by the fact that the president is now being asked to exchange opinions on strategies.





CASE 05 > Company E (Wholesaler)

**Issues**

- PBR of the company is under 1.0x based on its reputation as a domestic vendor
- The company has made some progress in strengthening its unique products and services in the IT field. However, it has yet to achieve sufficient results in terms of its performance over the course of a sustained period

**Background to the issues**

- For B2C products, a mature market, the company are price leaders or at comparable levels. Meanwhile, pursuit of a marketing strategy of retroactive pricing has resulted in a decline in brand value among consumers, with low profitability levels and poor stability
- The company's failure to create a human capital portfolio to strengthen the IT field has meant that per-head employee productivity is also failing to increase

**Suggested measures to resolve these issues**

- Increase awareness of profitability in B2C; curtail over-investment in terms of "personnel/commodities/money"; and achieve and foster stability in the company's profitability infrastructure ("cash cows")
- Establish optimal configurations for the company's human capital strategy towards the realization of this vision, and proceed with a review of methods to secure human capital as well as the personnel systems to help achieve this

**Anticipated situation after addressing the issues**

Enterprise centered on B2C products will become a cash cow business, with growth achieved by leveraging the vast quantities of customer information accumulated in the company's capacity as a vendor. Developing the IT solutions business will facilitate reputation gains as an IT solutions company with the potential to facilitate a high valuation

**Actions taken by the company**

The company's IT solutions business has begun to see improvements to its levels of profitability as well as growth in areas in which it did not previously measure up to the competition due to its seniority system, with both profitability and growth now at comparable levels or exceeding those of rival firms. They have also reviewed excessive spending in their B2C business and achieved stability by surpassing capital costs in return on invested capital (ROIC.)

**Company's response**

The company has successfully built relationships that allow it to seek a wide range of input, not only as it relates to engagement but also on improving communication with investors and shortcomings in the integrated report, as well as other areas that will help them improve their corporate value.

Feedback from companies we engage with

Company D (Retailer business)

Your company has long supported us as one of our important investors.

In discussions with us, Daiwa AM's advisors have been candid in their opinions about our strategy and direction from a medium- and long-term perspective, rather than focusing on short-term performance. These opinions are based on a scrupulous and courteous attention to the particular circumstances of our company. We have also benefitted from a variety of opinions on cash allocation, ESG initiatives, and other areas. These have proven opportunities to engage in vital dialogs to help bridge gaps between the market and our company.

We have meanwhile received advice, rooted in our company strategies, on strategic disclosure as part of briefing sessions, a key issue for our company. By putting this into practice, we are also benefiting from the support of many investors. The management team is additionally looking forward to ongoing twice-yearly meetings with Daiwa AM, at which we will continue to cordially discuss the results of investor surveys and gaps with the market.

We will continue to give it our all to ensure that we meet these expectations.

Company E (Wholesaler)

Your company's advisors have long advised us from their perspective as one of the shareholders in our company.

In addition to consistently providing us with honest feedback on our reputation in the capital market, we have benefitted from their suggestions on improving our corporate value on various fronts, including our ESG initiatives, enhancement of information disclosure, and cash allocation. They recently gave us highly instructive feedback on an integrated report that we had published, with an emphasis on our human capital initiatives and disclosures. These are areas on which we will be placing a particular focus going forward. Daiwa AM's advisors have been extremely accommodating in providing proposals for management tiers based on specific case studies. We will use these proposals as reference when considering our own strategies, and are moreover extremely eager to do justice to the expectations invested in us.



# Stewardship Team

(Stewardship Section)

Dialog on proxy voting matters and governance framework



**Overview**

The five members (as of the end of December 2022) of the Stewardship Section's Responsible Investment Department have main responsibility for holding meetings that are focused primarily on investee companies' corporate governance and on the exercise of voting rights.

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

In recent years, the topics discussed at governance meetings have no longer been limited to matters relating to the exercise of voting rights and to governance framework; 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 Stewardship 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 Stewardship Team and the Corporate Research Team, these two teams work collaboratively to engage in dialog with investee companies; for example, members of both teams may be asked to attend meetings, when necessary.



**Activity**

In the most recent fiscal year, the Proxy Voting Team undertook engagement with 178 companies.

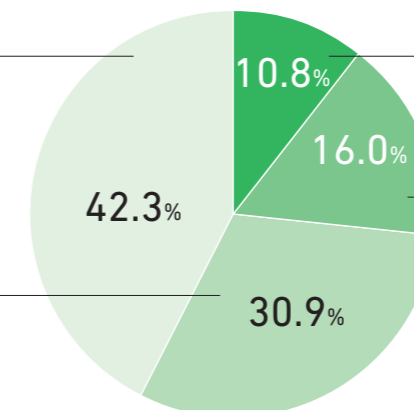
The distribution of engagement activity when broken down by category is shown below.

Environmental, social and governance (ESG)

164cases

Approach to dialog with investors, and disclosure

120cases



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





CASE 06 > Company F (Food industry)

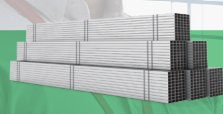
**Topic**  
Cross-shareholdings

**Dialog content**

Although the company has historically had cross-shareholdings amounting to slightly over 10% of shares, its positioning in terms of business strategies is unclear, and it has not sufficiently accounted for the reasoning behind these holdings. Daiwa AM has recommended that the company increase its holdings if enhancing its strategic partnerships, or at least that it become an equity-method affiliate; and if not, that they take steps to reduce cross-shareholdings.

**Company's response**

Subsequently, the company announced a partial sale of the shares in question, reducing its cross-shareholdings to less than 5% of total shares.



CASE 07 > Company G (Iron and steel industry)

**Topic**  
Outside directors

**Dialog content**

As the two outside directors were originally from the same business conglomerate, and one of them had held the position for over 12 years, the company was informed of investor concerns about the material independence of the outside directors, and we requested they appoint an outside director with a high degree of independence.

**Company's response**

The outside director who had held the position for over 12 years tendered his resignation at a subsequent shareholders meeting, with a highly-independent candidate from a company outside the business conglomerate to which the previous outside director had been affiliated, then appointed to the position.



CASE 08 > Company H (Food industry)

**Topic**  
Director's remuneration

**Dialog content**

While director's remuneration consisted of a fixed salary only, we recommended that it would be advisable to introduce incentive compensation from the perspective of incentivizing directors to undertake appropriate risks to increase corporate value.

**Company's response**

Performance-linked short-term incentive compensation was introduced at a subsequent shareholders meeting.



CASE 09 > Company I (Electrical machinery)

**Topic**  
Diversity

**Dialog content**

While the company is prioritizing initiatives for the participation and advancement of women in the workplace, they have largely failed to disclose information on these activities, which accordingly have not increased their reputation. As external appraisals of ESG are an important factor influencing corporate value, Daiwa AM requested that they take proactive steps to disclose this information.

**Company's response**

Traditionally, the company had a culture inconducive to the proactive disclosure of information. However, with the changing times, they have come to understand the importance of informational briefings and disclosure to stakeholders, and intend to strive to expand their disclosure going forward.

Overseas stocks engagement



**Henry Nguyen Thanh Long**  
Daiwa Asset Management (Singapore) Ltd.  
Senior Fund Manager

**Initiative details**

Align with the ESG Investment Policy established in 2022, Daiwa AM's Singapore office actively pursues engagement activities to enhance the corporate value of investee companies in the medium- and long-term. While the Asian region, over which our Singapore office has coverage, includes countries such as Vietnam, where ESG has not been popular, corporate management teams in the region have pronounced interest in ESG issues and are actively discussing them.

For E (Environment), we recognize the particular importance of this perspective for companies in the oil and gas industry, and usually ask them about the status of green projects. In addition, we usually emphasize on green financing in our dialogs with companies in the financial sector.

For S (Society), we focus on supply chain management initiatives, such as efforts to eliminate forced labor.

For G (Governance), we focus on information disclosure, how management teams treat minority shareholders, and capital policy. We also encourage companies to publish ESG reports on a regular basis, as there are many situations whereby it can be difficult to obtain reliable information on ESG in Asian contexts.



**Vietnam**  
**Company K**

Company K is a major housing developer in Vietnam, which is involved in various projects, including those to create single-family residences and condominiums. They have previously produced one ESG report for the purpose of fundraising from the International Finance Corporation (IFC). We believed the company did not have sufficient disclosure of information relating to ESG. Therefore, during the engagement, we encouraged them to publish ESG reports on a regular basis, with a view to improving perceptions of the company among investors and for long-term fundraising. Their management team has indicated to us that they are considering incorporating ESG into their future strategies towards the goal of regular publication of ESG reports.

**Singapore**  
**Company L**

Company L is a commercial bank in Singapore. Daiwa AM is engaged on E (Environment), with a focus on green finance initiatives. Their responses indicated that there was a demand for green financing aimed at renewable energy projects, green buildings, agricultural technologies, and waste management technologies. For G (Governance), we asked about their high equity ratio, which was a point of concern for investors as a factor lowering ROE. The CEO explained that, while the current level was high due to the accumulation of excess capital during the COVID-19 pandemic, it was anticipated to stabilize at a future point, as the company's policy was to invest excess capital towards the development of new platforms.

**Steps in constructive engagement implemented by analysts**





## Engagement plan for the next fiscal year



**Fumiaki Saguchi**  
Responsible Investment General Manager

### Enhance engagement framework

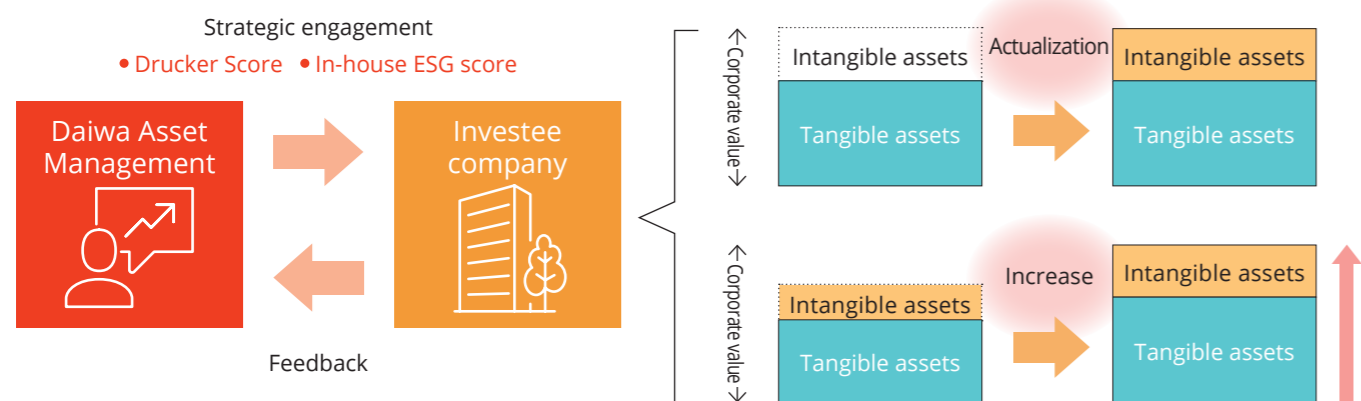
Daiwa AM consider engagement an important means of contributing to improvements in asset management performance through the enhancement of the medium- and long-term corporate value of investee companies. As such we have reviewed our engagement structures to ensure that our engagement activities are more rigorous than ever before. Specifically, we have: 1 expanded the membership of our Engagement Team; 2 reviewed time allocations for corporate research analysts (increase engagement activities).

In addition, we have reviewed the scope of companies with whom we conduct engagement, as well as our milestone management methods to implement engagement in a more strategic manner, and adjusted these towards our aim of realizing more highly effective engagement.

### Engagement focused on the value of intangible assets

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

initiatives relating to intangible assets by Japanese companies. With this perspective in mind, Daiwa AM will actively undertake strategic engagement to ensure that corporate value is appropriately rated within the marketplace or to raise the corporate value of companies. For the implementation of this engagement, we will utilize a Japanese version of the Drucker Score, which we will jointly develop with the Drucker Institute, and use this to quantify the efficacy of corporate management, including of intangible assets, with a view to enhancing the effectiveness of our engagement.



### Engagement plan and key issues for 2023

In our new engagement framework, we will aim to conduct highly effective engagement activities by simultaneously raising the capacities of each person responsible for engagement and by strengthening the cooperation among our teams.

We will continue to actively engage in dialogs with companies which have clear management issues, while also undertaking to actively engage with companies which we

have determined as having significant issues relating to ESG Materiality, with the aim of resolving these ESG issues.

In addition, we will establish engagement frameworks which focus on intangible asset value, as described above. We will base this on exploring ways to identify and select the companies which will be subject to this engagement, identify issues, and share our findings with those companies with whom we are in active dialog.

## 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).



Measures relating to the TCFD

### TCFD Disclosure Items

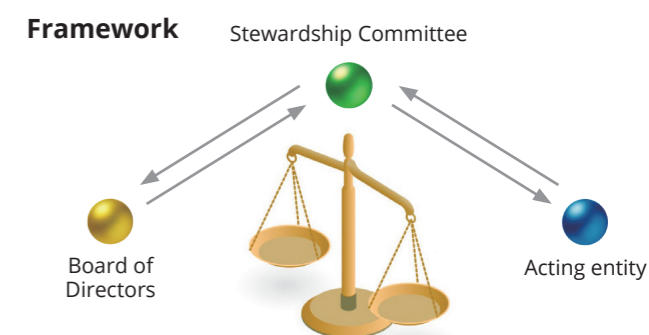


#### Governance

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 Responsible Investment 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.



#### 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 controls on greenhouse gas emissions, 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 investee companies by making effective use of data from external sources. The content obtained by analyzing these data is reflected 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 the total greenhouse gas emissions, carbon footprint, and carbon intensity of its portfolios as greenhouse gas emissions related indicators for individual funds and asset classes, and performs monitoring and analysis of them. Based on this data and its own

original research, Daiwa AM undertakes engagement activities with companies to encourage them to decarbonize, and aims to achieve net zero carbon dioxide emissions by 2050.

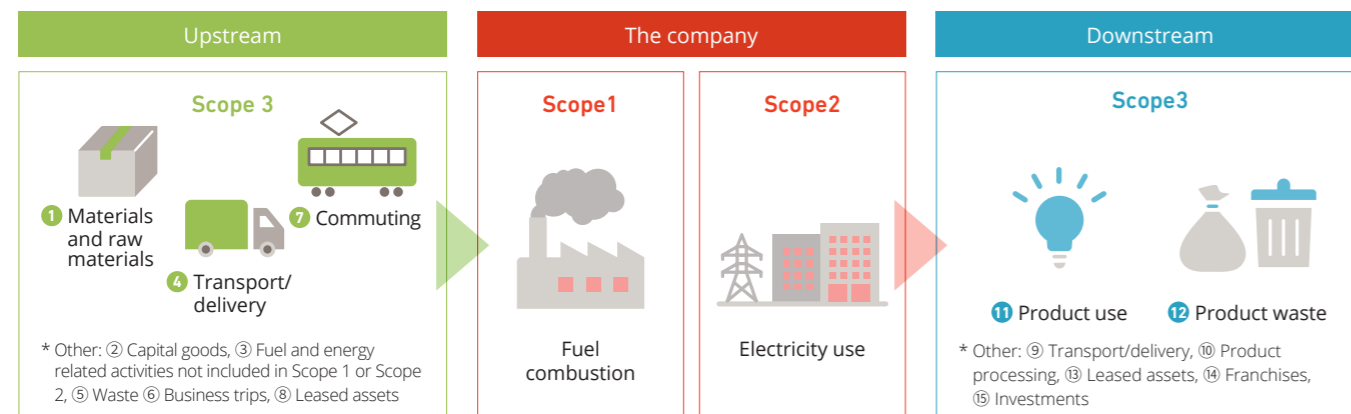
# Analysis of the Main Indicators Relating to Total Greenhouse Gas Emissions, etc.

Daiwa AM compared the total carbon emissions, carbon footprint, and weighted average carbon intensity for each of the asset classes that we invest in against respective benchmarks per class. The carbon footprint is a measure of the emissions (per million US dollars invested) by portfolio size; while carbon intensity is an indicator for the carbon emissions by sales volume of investee companies (per million US dollars equivalent of turnover). Analysis and monitoring are conducted for each of these to identify climate change risks.

Carbon footprint and weighted average carbon intensity for Japanese corporate bonds were found to exceed the benchmark values. This was, however, attributable to the

inclusion in the portfolio of corporate bonds of electric power companies, at a weight higher than the benchmark.

In addition, as recommended by the TCFD, these were categorized as upstream or downstream, as illustrated in the below table for Scope 3, with the relevant emissions for each calculated and listed here for the first time. Daiwa AM intends to actively promote the decarbonization of its entire supply chain, by establishing a detailed understanding of total carbon emissions of our investee companies in Scope 1, Scope 2, and Scope 3, and with a particular emphasis on Scope 3. We will subsequently deploy this data in engagement activities with these companies, including our investee electric power companies.



Scope 1: Direct greenhouse gas emissions by the businesses themselves (fuel combustion, industrial processes)  
 Scope 2: Indirect emission from the use of electricity, heat, and steam, supplied by other companies  
 Scope 3: Indirect emissions other than Scope 1 or Scope 2 (emissions by other companies associated with activities by businesses)

## Portfolios' total carbon dioxide emissions

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

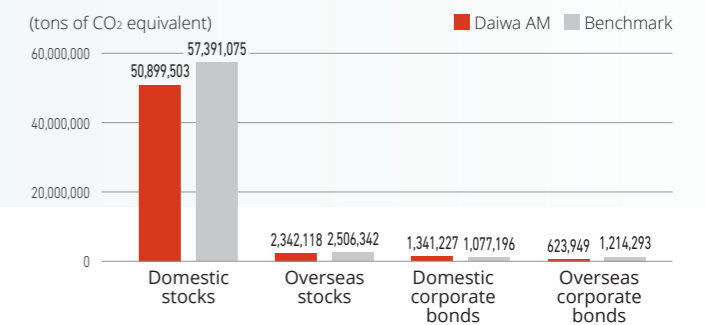
	Scope 1, 2		
	Daiwa AM	Benchmark	Disparity
Domestic stocks	5,494,325	6,367,039	-14%
Overseas stocks	355,353	360,370	-1%
Domestic corporate bonds	441,007	182,496	142%
Overseas corporate bonds	70,686	186,784	-62%
<b>Total</b>	<b>6,361,371</b>	<b>7,096,689</b>	<b>-10%</b>

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

	Scope 3 Upstream		
	Daiwa AM	Benchmark	Disparity
Domestic stocks	16,535,670	17,761,710	-7%
Overseas stocks	499,761	537,468	-7%
Domestic corporate bonds	421,074	334,030	26%
Overseas corporate bonds	131,768	294,762	-55%
<b>Total</b>	<b>17,588,273</b>	<b>18,927,970</b>	<b>-7%</b>

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 ©2023 MSCI ESG Research LLC. Reproduced by permission.

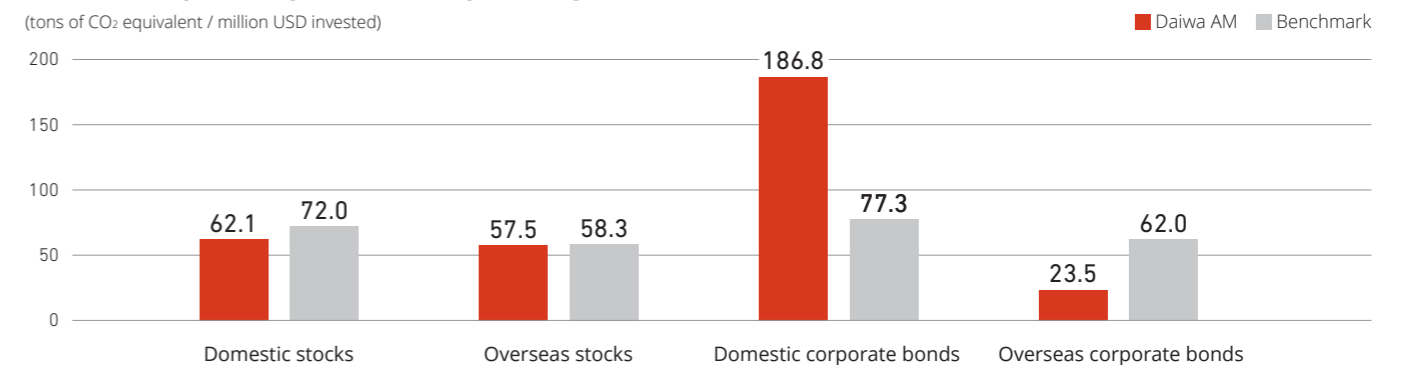
## Total greenhouse gas emissions (Total of Scope 1, 2, and 3)



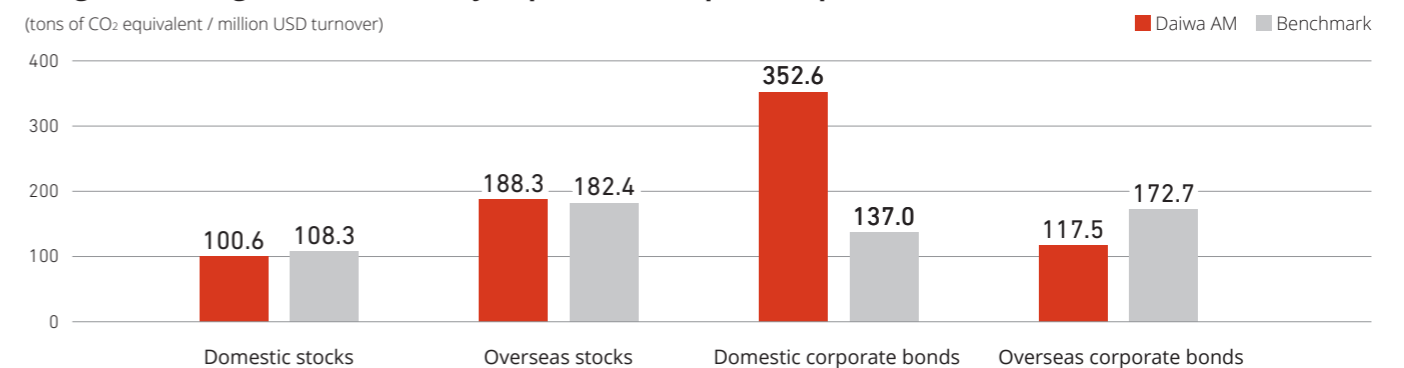
(tons of CO<sub>2</sub> equivalent)

	Scope 3 Downstream		
	Daiwa AM	Benchmark	Disparity
Domestic stocks	28,869,507	33,262,327	-13%
Overseas stocks	1,487,004	1,608,504	-8%
Domestic corporate bonds	479,146	560,670	-15%
Overseas corporate bonds	421,495	732,747	-42%
<b>Total</b>	<b>31,257,152</b>	<b>36,164,248</b>	<b>-14%</b>

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



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

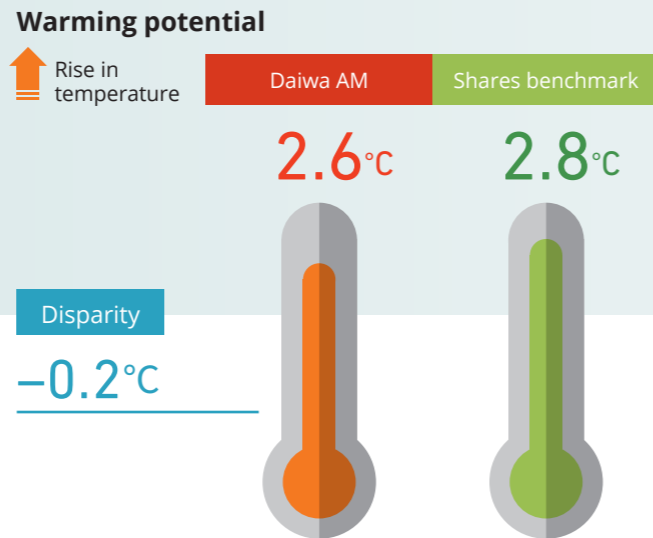


Note: The benchmarks used were the same as those used in the previous section for portfolio's total carbon dioxide emissions.  
 Source: Some information is derived from ©2023 MSCI ESG Research LLC. Reproduced by permission.



### Warming potential analysis

Warming potential analysis shows the degree to which average global temperatures will rise by the year 2100, through the corporate business activities that the companies in the current stock portfolio are expected to conduct over this period. In this way, it is possible to verify whether the current investment portfolio is in line with the goal of the Paris Agreement, which seeks to “limit global warming to well below 2.0, preferably to 1.5 degrees Celsius, compared to pre-industrial levels during the period up until 2100.” As a result of comparing a hypothetical portfolio of all Daiwa AM’s shareholdings with the benchmark, we were able to confirm that we would improve on the benchmark by around -0.2°C.

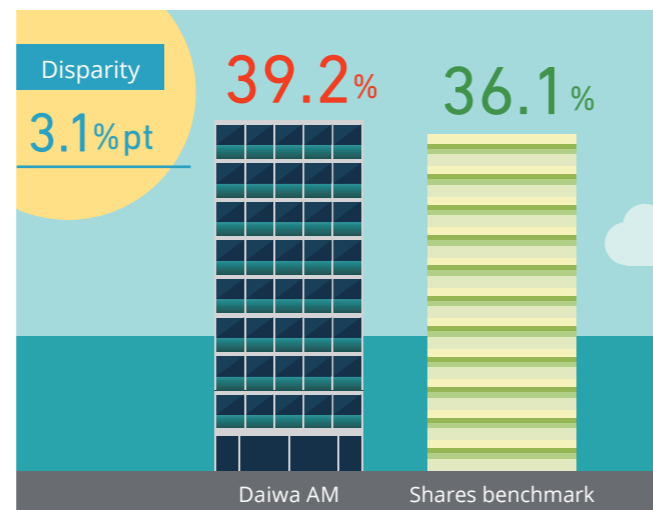


Notes:  
 1. The Daiwa AM stock portfolio is a virtual portfolio that combines Daiwa AM’s domestic stock and overseas stock portfolios.  
 2. The MSCI ACWI Index was used as the benchmark.  
 Source: Some information is derived from ©2023 MSCI ESG Research LLC. Reproduced by permission.

### Greenhouse gas reductions targets (SBT certification)

The figure on the right shows the percentage of companies which have obtained SBT certification from among the portfolio component issues. The SBT certification process is administered by the Science Based Target Initiative, whereby companies set targets for reductions in greenhouse gas emissions consistent with scientific findings to mitigate increases in global average temperatures to less than 1.5 degrees Celsius. As a result of comparing Daiwa AM’s stock portfolio with the benchmark, we were able to confirm that around 3.1%pt more companies have obtained certification than the benchmark value.

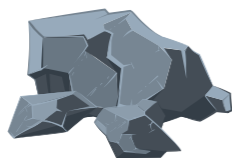
### Percentage of companies which have obtained SBT certification



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 ©2023 MSCI ESG Research LLC. Reproduced by permission.

### Analysis of potential CO<sub>2</sub> emissions (from fossil fuels)

This analysis allows us to examine potential CO<sub>2</sub> emissions from fossil fuels, taking the stored amounts of companies as its base. The analysis confirmed that potential CO<sub>2</sub> emissions from fossil fuels were lower than the benchmark and that the portfolio’s climate change risks were low.



	(tons of CO <sub>2</sub> equivalent / million USD invested)		
	Daiwa AM	Benchmark	Disparity
Domestic stocks	121,046	141,552	-15%
Overseas stocks	10,035	11,564	-13%
Domestic corporate bonds	824	5,136	-84%
Overseas corporate bonds	2,829	4,340	-35%

Note: The benchmarks used were the same as those used in the previous section for the portfolio’s total carbon dioxide emissions.  
 Source: Some information is derived from ©2023 MSCI ESG Research LLC. Reproduced by permission.

### Formulae

#### Total Carbon Emissions

- Total greenhouse gas emissions associated with the portfolio
- Unit is tCO<sub>2e</sub> (CO<sub>2</sub> equivalent)
- Greenhouse gas emissions of investee companies are Scope 1, Scope 2, and Scope 3

$$\text{Total carbon emissions} = \sum_n^i \left( \frac{\text{Market value of investment } i}{\text{Investee company's EVIC } i^*} \times \text{Investee company's GHG emissions } i \right)$$

#### Carbon Intensity

- Total carbon emissions divided by sales of investee companies allocated to portfolio
- Unit is tCO<sub>2e</sub>/million USD (sales)
- Greenhouse gas emissions of investee companies in total carbon emissions are Scope 1 and Scope 2

$$\text{Carbon intensity} = \frac{\text{Total carbon emissions}}{\sum_n^i \left( \frac{\text{Market value of investment } i}{\text{Investee company's EVIC } i^*} \times \text{Investee company's sales } i \right)}$$

\* Enterprise Value Including Cash:  
 EVIC = Market capitalization of equity (ordinary stock, preferred stock, and other stock classes)+Interest-bearing debts (book value)+Non-controlling interests (book value)

#### Carbon Footprint

- Total carbon emissions divided by the market value of the portfolio
- Unit is tCO<sub>2e</sub>/million USD (investment)
- Greenhouse gas emissions of investee companies in total carbon emissions are Scope 1 and Scope 2

$$\text{Carbon footprint} = \frac{\text{Total carbon emissions}}{\text{Market value of portfolio}}$$

#### Weighted Average Carbon Intensity

- Weighted average of per unit sales for each company with the weight of each company in the portfolio
- Unit is tCO<sub>2e</sub>/million USD (sales)
- Greenhouse gas emissions of investee companies are Scope 1 and Scope 2

$$\text{Weighted average carbon intensity} = \sum_n^i \left( \frac{\text{Market value of investment } i}{\text{Market value of portfolio}} \times \frac{\text{Investee company's GHG emissions } i}{\text{Investee company's sales } i} \right)$$

## Announcement of the Net Zero Asset Managers Initiative Targets

The Net Zero Asset Managers initiative (hereafter “NZAMI”) is a global initiative by asset management companies to achieve net zero greenhouse gas (GHG) emissions at investee companies by 2050, and was launched in December 2020.

Daiwa AM joined NZAMI in December 2021, and we have recently announced our intermediate targets under the initiative.

Our intermediate target under the initiative for the

year 2030 will focus on 67% of Daiwa AM’s 23 trillion yen (as of October 31, 2022) of managed assets, with the aim of reducing greenhouse gas emissions per unit by 50% compared to 2019 levels. The assets which will be targeted under the initiative will be credit assets, and will not include assets such as sovereign bonds, for which it is not possible to calculate greenhouse gas emissions based on portfolio holdings as of this time.





## Our Vision for Proxy Voting

The corporate principle of the Daiwa AM emphasizes using the financial and capital markets to contribute toward social and economic development. We believe that the exercise of voting rights can play a very important role in achieving such goals. Accordingly, 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.

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

📄 [https://www.daiwa-am.co.jp/company/managed/guideline\\_03.pdf](https://www.daiwa-am.co.jp/company/managed/guideline_03.pdf)

### About the 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, which are more in line with the actual circumstances of investee companies, are used for determination as to whether to vote in favor or against proposals based on relative comparisons within the industry

## Main Changes in the Proxy Voting Policy in 2022

1.

### Criteria relating to corporate scandals, etc.

In cases where it has been deemed that a serious event that undermined public trust in the company has occurred, such as an illegal or anti-social act, or a corporate scandal, Daiwa AM previously opposed the reappointment of all candidates for Director or Audit & Supervisory Board Member. However, from the viewpoint of continuity of management operations and the effectiveness of measures to prevent recurrence, the criteria on corporate scandals have now been changed such that Daiwa AM will only oppose the reappointment of those candidates who have been deemed responsible for the event in question.

2.

### Criteria relating to the number of outside directors

Criteria under Japan's Company Act have been amended to require companies listed on the Prime Market of the Tokyo Stock Exchange to have at least two outside directors, with outside directors comprising at least one third of the membership of a company's board of directors (at least two outside directors and more than half of the membership of the board of directors) for companies with a parent company or majority shareholder).

3.

### Criteria relating to cash-rich companies

Daiwa AM previously used the ratio of short-term liquidity to total assets or turnover as an indicator of the inadequate utilization of shareholder equity despite a company possessing extensive shareholder equity or cash assets. However, we have now decided to use the ratio of net cash to total assets as an indicator after deeming that it would be more desirable to gauge the presence or absence of surplus cash using net cash with interest-bearing debts deducted. At the same time, we have raised the minimum DOE threshold to take into account values of current market averages.

4.

### Criteria relating to female corporate officers

As a company's decision-making organ, the board of directors makes judgments that enhance its corporate value. As such, Daiwa AM considers it desirable that a board of directors be comprised of members with a diverse range of skills and attributes. In particular, the appointment of women, who make up around half of the general population, can be regarded as an indicator of diversity. With this in mind, in March 2021, we first established criteria regarding the requirement that at least one female corporate officer (i.e. director or auditor) be appointed at companies included in the TOPIX 100 index. Since then, a majority of the companies included in the TOPIX 100 have appointed female corporate officers. In addition, for those companies which have yet to do so, we confirmed that proactive in-house efforts for the training and development of female corporate officers through engagement and other means were underway. Therefore, the scope of these criteria has been extended to encompass companies included in the TOPIX 500 index.

5.

### Criteria relating to cross-shareholdings

Having excessively high levels of cross-shareholdings has the potential to lead to reductions in capital efficiency as well as reductions in management discipline. For this reason, in March 2021, Daiwa AM instituted criteria regarding cross-shareholdings. Our policy previously allowed for a given level of cross-shareholdings used in conjunction with ROE, and provided that management was being conducted to ensure high capital efficiency. However, it has since been decided not to allow use in conjunction with ROE, as we concluded that companies with high capital efficiency should be aiming to further improve ROE by reducing cross-shareholdings. At the same time, we decided to disclose the reference values for excessive ownership at Daiwa AM from the viewpoint of clarifying the criteria used to reach decisions.

6.

### Criteria relating to executive compensation/ allocation of new shares to third parties

In the past, the threshold for determining if a sweeping dilution of share value due to the introduction or revision of a stock compensation scheme was more than 10% of the total number of shares issued or outstanding. However, this criterion has been lowered to at least 5%, as it could be deemed that, at 10%, the financial loss due to a dilution of existing shareholders could exceed any incentive effect for company executives and others. Based on this approach, the criteria for determining dilution in disposal of treasury shares as a result of allocation of new shares to third parties with respect to a foundation have also been lowered to at least 5%.

## Issues for Ongoing Consideration

### Effectiveness of outside directors

Daiwa AM has deemed that determinations on the independence required of outside directors should be made subject to more stringent criteria. While we do not currently require that outside directors satisfy the status of independent directors when determining the numbers of outside directors, we will actively consider incorporating determinations on the number of independent outside directors going forward.

### Cross-shareholdings

At present, the reference value for excessive ownership of cross-shareholdings is 20% or more of net assets. However, we will actively consider lowering these numerical criteria going forward. Daiwa AM also recognizes that the practices of requesting that business partners own shares in a company or of refusing approaches to sell shares in a company are problematic. We will seek improvement at companies engaged in these practices through engagement, and deliberate on the incorporation of this into our criteria for proxy voting going forward.

+ WEB Please visit our company website for more details of these and other issues for consideration (in Japanese).

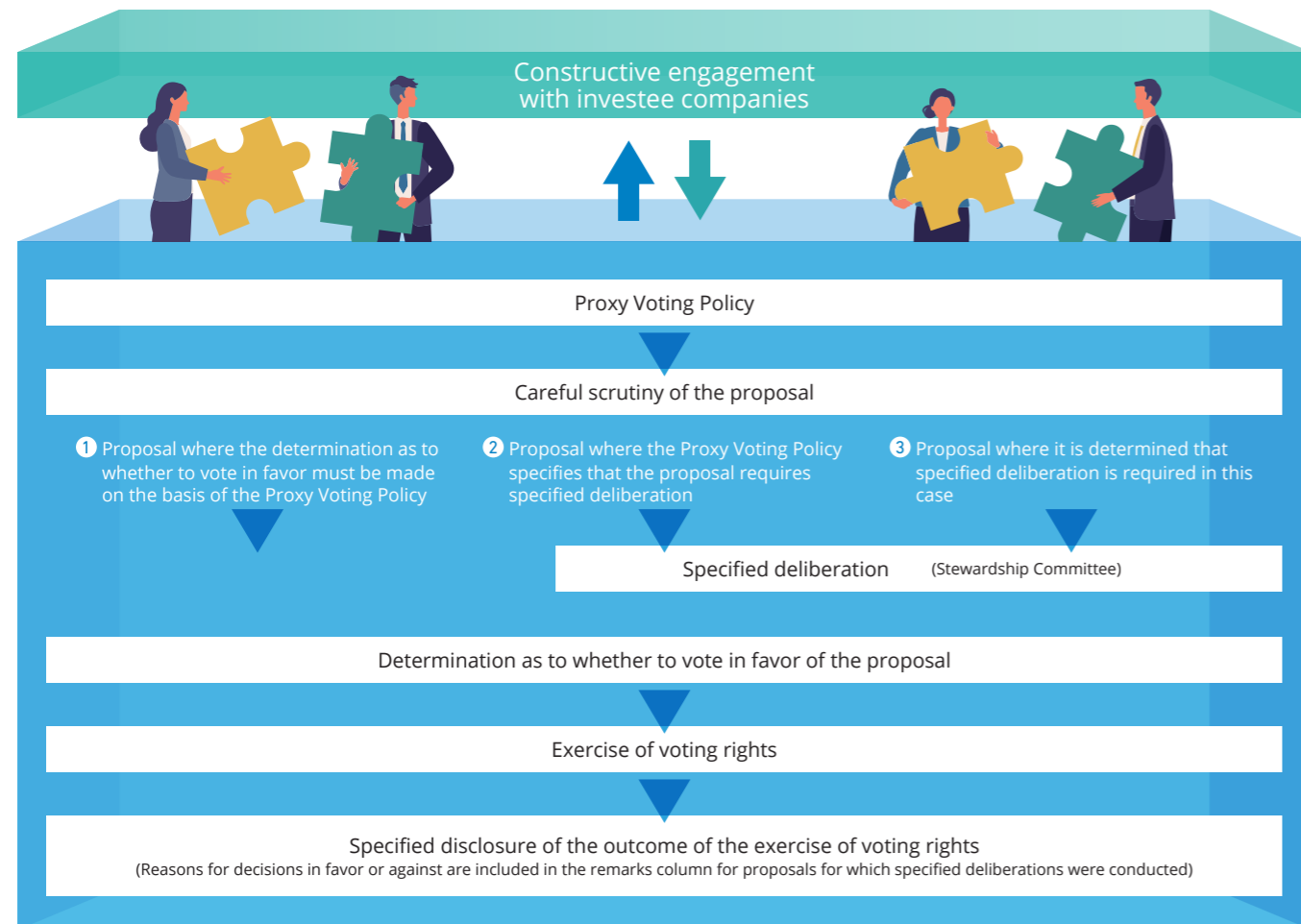
📄 <https://www.daiwa-am.co.jp/company/managed/revguideline.pdf>





# Proxy Voting Process

Proxy voting is implemented by means of a painstaking process that reflects the know-how obtained through constructive dialogs with investee companies. Daiwa Am is also committed to deepening our mutual understanding by engaging in constructive dialogs with investee companies through the proxy voting policy and outcomes, thereby contributing to enhancements to the corporate value of investee companies.



## Case Studies of Proposals Subject to Specified Deliberations

### Case study of votes in favor of or against proposals at variance with the Proxy Voting Policy

Proposed by	Proposal type	Decision	Reasons
The Company	Appointment or dismissal of Directors	Against	This proposal would not be opposed on the basis of Daiwa AM's policy on the exercise of voting rights. However, the stock price of Investee Company A has remained stagnant for a long time period, and the fund manager petitioned for specified deliberations on the election of a CEO and COO, with the Stewardship Committee deliberating on the matter. As maximizing corporate value and managerial responsibility were the issues under deliberation, Daiwa AM voted against reappointment of both the CEO and the COO, having deemed that management was responsible for failing to implement the robust measures required to enhance corporate value and of precipitating the long-term slump in stock prices, despite repeated engagement with the management team over the course of five years.
The Company	Appointment or dismissal of Directors	In favor	While Daiwa AM's Proxy Voting Policy would be to oppose the reappointment of director candidates who had held office for three or more consecutive terms at Company B, an investee company which had returned losses over three consecutive quarters and had a price-book value ratio (PBR) below 1, the fund manager proposed that the criteria in the Policy did not apply to this case, with the Stewardship Committee deliberating on the matter. As extraordinary losses were the reason for the deficits, and because operating profit increased and highest income was anticipated in the next quarter, with net profit also anticipated to return a surplus due to the elimination of transient factors and the prospect of structural reform, Daiwa AM deemed that the current management team's efforts for business reform and corporate value creation had been successful, and that the criteria in the Policy did not apply, thus voting to approve the proposal to reappoint the directors.

### Case study in which specified deliberations were prescribed under the Proxy Voting Policy

Proposed by	Proposal type	Decision	Reasons
Shareholder	Proposal relating to Articles of Incorporation	Against	Investee Company C received a shareholder proposal requesting that they include information relating to Group governance and the effectiveness of Group governance for listed subsidiaries in its corporate governance report. Daiwa AM stipulates that "decisions take into consideration the status of corporate initiatives and impacts on the execution of duties in proposals calling for expanded scope of disclosures and enhancement of initiatives relating to ESG," with the Stewardship Committee deliberating on the proposal. As a result, we decided against the shareholder proposal due to there being no evidential basis for its reasoning (namely that there was a high risk of conflict-of-interest transactions with listed subsidiaries). In addition, the decision to vote against the proposal was based on Company C having included details of policies relating to Group management and listed subsidiaries as required by the Corporate Governance Code in its corporate governance report.
Shareholder	Proposal relating to Articles of Incorporation	In favor	Investee Company D received a shareholder proposal requesting detailed disclosure in its annual report as to how its policy on executive compensation promotes the achievement of targets for the reduction of greenhouse gas emissions. Daiwa AM stipulates that "decisions take into consideration the status of corporate initiatives and impacts on the execution of duties in proposals calling for expanded scope of disclosures and enhancement of initiatives relating to ESG," with the Stewardship Committee deliberating on the proposal. As a result, we voted in favor of the shareholder proposal as it was deemed that directly linking the executive compensation to the achievement of greenhouse gas emissions reduction targets would be of benefit to Company D as an important mechanism to encourage efforts by the management team to achieve decarbonization targets, and that it would contribute to an enhancement of the corporate value.

## Case Studies of Engagement Relating to Proxy Voting

### Relationship between proxy voting and engagement

Daiwa AM will oppose the reappointment of representative directors at companies with serious issues relating to ESG, where improvements have not been seen despite continuous engagement, or repeated offers of engagement have been refused. In addition, depending on the nature of engagement, decisions which differ from the criteria for exercise of voting rights may be made, from the viewpoint of improving medium- and long-term corporate value and sustainability of the investee company.

### Engagement case study: Company E

#### Overview

Investee Company E did not have a single female director in the membership of its board of directors, and failed to put this up for discussion at the shareholder meeting.



Daiwa AM's policy

Daiwa AM's Proxy Voting Policy is to oppose candidates for reappointment as representative director or representative executive officer at a company that is included in the TOPIX 500 index if the company does not have at least one female director in the membership of its board of directors; or at least one female auditor, in companies with audit and supervisory boards. Daiwa AM undertook engagement with the company in question on the status of initiatives to promote the participation and advancement of women as well as their approaches to diversity.



Results of engagement

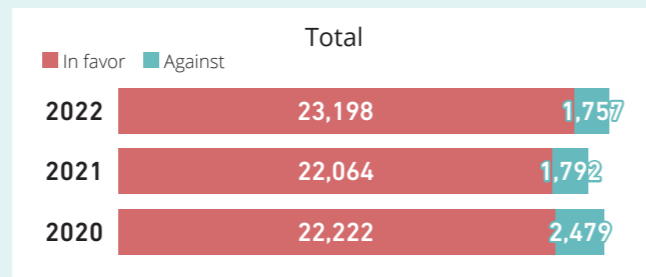
As a result of engagement, it was confirmed that the company recognized the necessity and importance of diversity on the board of directors, and that specific initiatives to promote the appointment of female directors were being made. Daiwa AM thus voted in favor of the proposal to appoint a representative director.



# Proxy Voting Outcomes and Trends

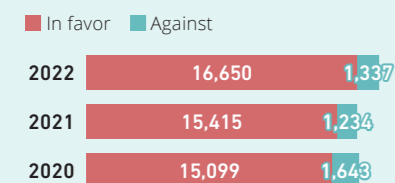
In 2022, proxy voting rights were exercised for 2,431 Japanese companies. The following table shows the statuses of votes by proposal for the three years past.

## Proposals relating to company proposals

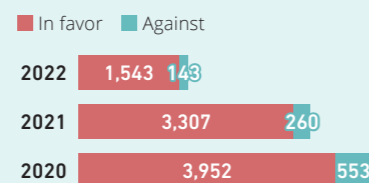


## Proposals relating to company organization

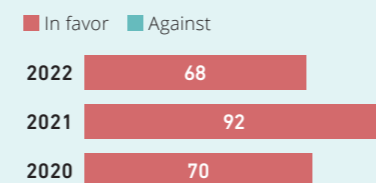
### Appointment and dismissal of Directors



### Appointment and dismissal of Corporate Auditors

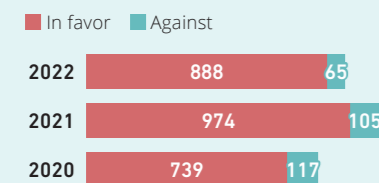


### Appointment and dismissal of Accounting Auditors

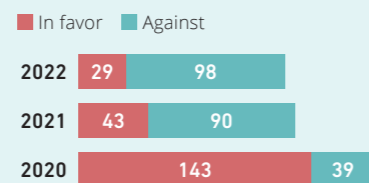


## Proposals relating to Executive compensation

### Executive compensation



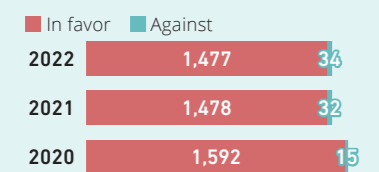
### Payment of retirement benefits for retiring Executives



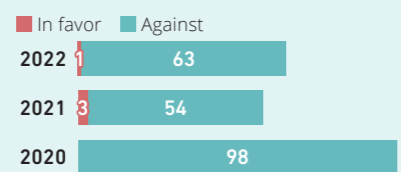
In principle, Daiwa AM is opposed to the payment of retirement benefits but in favor if payment of final benefits is put forward for discussion to coincide with payments.

## Proposals relating to capital policy

### Appropriation of surplus

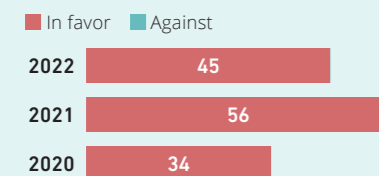


### Introduction, revision or abolition of takeover defense measures

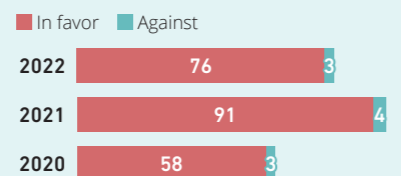


Daiwa AM opposes the introduction or continuation of pre-introduction takeover defense measures. For contingency-introduction takeover defense measures, we scrutinize the nature of these measures and base decisions in favor or against these after considering details such as the particular scheme, as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

### Organizational restructuring\*1



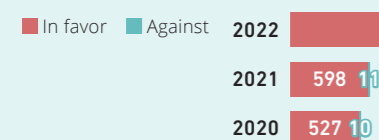
### Other proposals relating to capital policy\*2



\*1 Includes proposals relating to mergers, business transfers and acquisitions, share swaps, share transfers, corporate splits, etc.

\*2 Includes proposals relating to treasury stock acquisitions, reduction of statutory reserves, increase in allocation of new shares to third parties, capital reduction, reverse stock splits, issuing of classified stock, etc.

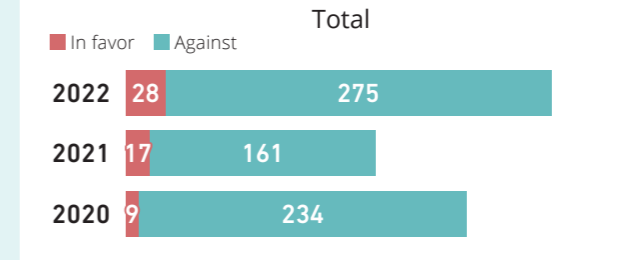
## Proposals relating to Articles of Incorporation



## Other



## Proposals relating to proposals by shareholders



## Votes in favor or against proposals by shareholders

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

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

### Approach to major shareholder proposals

- **Appropriation of surplus:** Decisions made from the perspective of improvements to corporate and shareholder value over the medium- and long-term following a comparison with the company's proposal
- **Treasury stock acquisitions:** Consideration of the company's use of shareholder equity, cash flow and other factors
- **Sale of cross-held shares (proposals to amend the Articles of Incorporation):** Consideration of the appropriateness of cross-shareholdings; measures to reduce cross-held shares; period of sale sought by shareholder proposal; appropriateness of share quantity to be sold, and other factors based on the status of company's use of shareholder equity
- **Disclosure of capital costs (proposals to amend the Articles of Incorporation):** Consideration of the company's disclosure statuses (including engagement) for their medium-term management plan, capital policy and growth strategy, with the capital costs of the company in mind
- **Proposals seeking responses to climate change (proposals to amend the Articles of Incorporation):** Consideration of climate change initiatives and disclosure statuses of the company

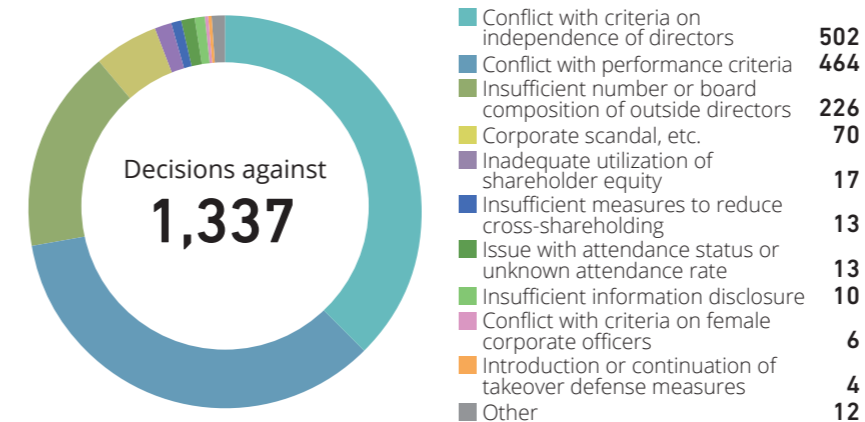
### Approach to proposals to amend the Articles of Incorporation

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

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

## Aggregate Data (2022)

### Proposal on appointment and dismissal of directors Breakdown of reasons for decisions against proposals



The most common reason for decisions against is conflicts with Daiwa AM's criteria on the independence of directors. Regarding outside directors and outside corporate auditors, we base decisions to vote for or against proposals for the appointment of a candidate primarily on the fulfillment of the requirements for status as independent directors, but also consider factors such as their tenure and attendance rates. Further, in addition to performance criteria and effective use of shareholder equity, we consider the make-up of the board of directors, taking into account the number and board composition in terms of outside directors and female directors, in decisions as to whether to vote for or against proposals to appoint representative directors.

For the results of proxy voting for investee companies, Daiwa AM discloses its decisions relating to individual investee companies and proposals the month after the general shareholders meetings are held (in Japanese).

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



# Further Enhancement of Stewardship Activities

## Main Initiatives Implemented in 2022

<p><b>January</b></p> <ul style="list-style-type: none"> <li>Engagement for passive fund</li> <li>Internal ESG study meeting</li> </ul>	<p><b>February</b></p> <ul style="list-style-type: none"> <li>Published the Stewardship Report 2021</li> <li>Senior Managing Director Yuka Shimada introduced Daiwa AM's ESG investment measures in an article in <i>Weekly Toyo Keizai magazine</i></li> </ul>	<p><b>March</b></p> <ul style="list-style-type: none"> <li>Alterations made to the proxy voting platform</li> <li>Joined the Japan Stewardship Initiative (JSI)</li> <li>Internal ESG study meeting</li> </ul>	<p><b>April</b></p> <ul style="list-style-type: none"> <li>Published the English-language version of the Stewardship Report 2021</li> </ul>	<p><b>May</b></p> <ul style="list-style-type: none"> <li>Signed a comprehensive business tie-up agreement with the Drucker Institute</li> <li>Held the 2nd ESG Meeting</li> <li>Revised the General Policy on Stewardship Activities (Domestic Stocks)</li> <li>Internal ESG study meeting</li> </ul>	<p><b>June</b></p> <ul style="list-style-type: none"> <li>Revised the Proxy Voting Policy</li> <li>Senior Managing Director Yuka Shimada attended an ETF Conference (organized by S&amp;P Dow Jones Indices) and gave a talk on ESG evaluation issues and utilization</li> <li>Formulated ESG Fund Classification Standards</li> </ul>	<p><b>July</b></p> <ul style="list-style-type: none"> <li>Revised the ESG Materiality</li> </ul>	<p><b>August</b></p> <ul style="list-style-type: none"> <li>Signed up to the Investor Agenda (COP27 Policy Recommendations)</li> <li>Participated in a TNFD forum</li> <li>Internal ESG study meeting</li> <li>Took part in a Bloomberg Investment Contest</li> <li>Senior Fund Manager Iori Nakayama attended the Human Resources Governance Leaders Conference and gave a talk on engagement in relation to intellectual property</li> </ul>	<p><b>September</b></p> <ul style="list-style-type: none"> <li>Participated in the TNFD Forum</li> <li>Signed an agreement for joint research on intellectual property and intangible assets with Professor Kazunari Sugimitsu (Kanazawa Institute of Technology (KIT) Toranomon Graduate School) and Professor Hirofumi Tatsumoto (University of Tsukuba Graduate School)</li> </ul>	<p><b>October</b></p> <ul style="list-style-type: none"> <li>Renamed the Stewardship &amp; ESG Department as the Responsible Investment Department</li> <li>Restructured the Engagement Team</li> </ul>	<p><b>November</b></p> <ul style="list-style-type: none"> <li>Took part in the NIKKEI Integrated Report Award</li> <li>Completed Version 2 of Daiwa AM's in-house ESG score system</li> <li>Revised the Proxy Voting Policy</li> <li>An interview with Daiwa AM President Komatsu, on the topic of the importance of disclosure in relation to ESG funds, was published in the November 2022 issue of <i>Nikkei ESG</i></li> <li>Chief Analyst Yuji Watanabe contributed an article to the <i>Securities Analysts Journal</i> (Outlined how to effectively utilize integrated reports from buy side analysts)</li> </ul>	<p><b>December</b></p> <ul style="list-style-type: none"> <li>Internal ESG study meeting</li> <li>Participated in Advance (A stewardship initiative for human rights and social issues)</li> </ul>
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### TOPICS 1 2nd ESG Meeting

Daiwa AM has been working to strengthen its ESG-related dialog with investee companies. In recent years, there has begun to be a more widespread awareness of the importance of not just environmental (E) and governance (G) issues, but also social (S) issues. Against a background of a growing focus on intangible assets within the S field, in May 2022, Daiwa AM held an online ESG Meeting on the theme of "Human Capital Strategy," with Senior Fund Manager Nakayama acting as moderator. The theme of "Human Capital Strategy" is one that investee companies have also shown growing interest in over the past few years.

The meeting took the form of a discussion involving representatives of seven companies, including companies that presented case studies of cutting-edge initiatives relating to "Human Capital Strategy" and companies which have recognized that this is an important management issue and which are working enthusiastically to address it. Another 20 companies that are considering strengthening their initiatives in this area, which they anticipate will be very important in the future, sat in on the discussion.

The companies that collaborated on this meeting include many firms that are leaders in their respective industries. We believe that these efforts will not only enhance the quality of our ESG management, but also help us, as an investment management company, to contribute to society by enhancing the value of Japanese companies.

The meeting participants included managers and company officers responsible for human resources affairs, who introduced case studies of cutting-edge initiatives that their company had implemented. The case studies presented at the meeting focused on the integration of human resources strategy with management strategy, introduced the kinds of problems that were encountered, what measures were adopted to address them, and what issues the company is facing now. With companies that are currently facing problems asking other participants for their views on how to address this kind of issue, the meeting provided an opportunity for in-depth discussion regarding corporate value.

After the meeting, Daiwa AM received very positive feedback from the participating companies, and Daiwa AM is considering continuing to hold similar events in the future.



The 2nd ESG Meeting in progress

### TOPICS 2 Joint research on intellectual property and corporate value

Daiwa AM is undertaking joint research with Professor Kazunari Sugimitsu of the Kanazawa Institute of Technology (KIT) Toranomon Graduate School of Innovation Management and Professor Hirofumi Tatsumoto of the University of Tsukuba Graduate School of Business Sciences on the impact that disclosure of information relating to intellectual property, etc. has on corporate value.

From the perspective of improving long-term corporate value, Daiwa AM has been engaging with companies while studying non-financial information, with a particular focus on governance, climate change response, and human capital strategies. The joint research with Professor Sugimitsu and Professor Tatsumoto aims to examine the growing impact of these ESG factors and IP strategies (including R&D) on corporate value, which is closely connected to a broad range of management foundations.

By integrating the two professors' academic insights with Daiwa AM's concrete survey results and experience of undertaking dialog and engagement with companies, Daiwa AM is able to explore best practice for IP strategy that can lead to enhanced corporate value, offer recommendations, and fulfill the role of a responsible investor. At the same time, by enhancing investee companies' corporate value, Daiwa AM will be able to provide Beneficiaries with high-quality, high-performance funds.



### TOPICS 3 Business tie-up with the Drucker Institute in the U.S.

Daiwa AM has signed a comprehensive business tie-up agreement with the Drucker Institute (located in California in the US), which was founded by the American economist Peter Drucker. The content of the agreement includes granting Daiwa AM the exclusive right to use the Drucker Score system, which was developed by the Drucker Institute to evaluate American companies, within Japan, as well as the collaborative development of a Japanese version of the Drucker Score for use in relation to Japanese companies.

The Drucker Score is a score calculated by the Drucker Institute at Claremont Graduate University. It evaluates how closely a company matches the core principles derived from Drucker's five dimensions of corporate performance (customer satisfaction, employee engagement and development, innovation, social responsibility, and financial strength).

The first phase of the collaboration involved the establishment of an actively-managed American equities fund using the Drucker Score, which was due to be launched by the end of March 2023.

Going forward, by dispatching personnel to the Drucker Institute to learn about the Drucker Score, and by collaborating on the development of a Japanese version of the Drucker Score and using this in engagement activities, Daiwa AM is aiming to develop a new Japanese stock index and new actively-managed Japanese equity funds.



# 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 Japan's Stewardship Code in March 2020, Daiwa AM revised its Policies regarding Japan's Stewardship Code in September of the same year. Daiwa AM also formulated a General Policy on Stewardship Activities, and made and announced revisions to its ESG Investment Policy and its Engagement Policy. In addition, Daiwa AM revises its Proxy Voting Policy on an annual basis, and announces the details of these revisions so that as many people as possible are aware of them.



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

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

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



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

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



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

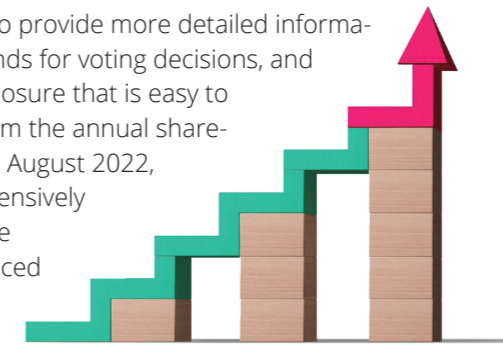
✓ Daiwa AM has formulated an Engagement Policy in relation to engagement with investee companies, and this Policy clearly stipulates the major perspectives that Daiwa AM emphasizes in relation to engagement, including key ESG issues. In 2022, Daiwa AM formulated its vision of best practice for the realization of sustained corporate value enhancement by investee companies. Daiwa AM's corporate research analysts, fund managers and Stewardship Team personnel all undertake engagement with companies from their own respective standpoints in accordance with the Engagement Policy, and the knowhow obtained through these activities is shared within the company.

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



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



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

✓ In February 2022, Daiwa AM published its Stewardship Report, 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 Responsible Investment Department includes corporate research analysts who are also concurrently assigned to the Active Fund Management Department II, and are able to share information obtained through engagement with investee companies. The knowhow obtained in this way is effectively utilized in in-house ESG score calculation and in corporate value assessment. In addition, in May 2022, Daiwa AM held a second meeting for the exchange of views regarding ESG, attended by representatives of seven investee companies. Besides the dialog between Daiwa AM and the investee companies, this meeting also provided an opportunity for the investee companies to share information among themselves.



## Message from Director Responsible for Stewardship and ESG



We aim to engage in co-creating sustainable value in our investee companies, contributing to securing high-quality medium- and long-term returns.

### Yuka Shimada

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

### Integrating non-financial information into the asset management process for a systematic, multi-layered approach

Prerequisites in our aim to contribute to our customers' medium- and long-term asset formation are the realization of a sustainable society and the sustained growth of the companies in which we invest. We believe that in a rapidly changing environment, non-financial information is becoming increasingly important for analysis and evaluation

from a long-term perspective. We thus integrate non-financial information, including ESG factors, in our company evaluations as an inseparable part of our asset management process. Our asset management staff, including analysts, fund managers, Stewardship Team, work in mutual cooperation with a systematic, multi-layered approach.

### Engaging with investee companies and utilizing external data and knowledge

Our investment philosophy is to have a better understanding of our investment targets, markets and human behavior so that we can engage in systematic efforts. When working to understand an investment in, for example, a company, it is important to understand not only its performance as a result of its business activities and the distribution of that

performance. We also need to have a deep understanding of the management foundations responsible for generating those results (financial, manufacturing, intellectual, human, social and natural capital). An ESG evaluation is nothing more than a process for better understanding a company in light of societal changes and demands.

Daiwa AM ESG evaluations are divided into risks and opportunities, and are designed to provide a detailed understanding of how efforts to address ESG issues impact corporate value. In addition to mitigation of sustainability-related risks, we evaluate how the social value of an investee company is linked to its corporate economic value as it engages in business with high social value. In evaluating opportunities, we look closely at the hopes and potential for realizing social value; the existence of a management foundation capable of realizing social value; the scale and potential of economic value; and the time frame in which that economic value is factored into corporate value.

In this ESG evaluation process, we emphasize constructive dialog (engagement) with our investee companies. Through this engagement, we affirm the company's value creation story and its effectiveness, deepen mutual understanding, and work with the investee companies to achieve the creation of new value. This is not limited to a one-on-one format

between Daiwa AM and its investees. We believe that providing companies with opportunities to share with other companies the concerns they have in addressing ESG issues, and to gain insights into their own sustained growth and improvements to governance from other companies' case studies will also lead to the co-creation of enhanced corporate value. This becomes a valuable opportunity for us as well, to collect information unavailable through one-on-one dialog and to deepen understanding.

In working to understand an investment target, there are naturally limits on the scope of analyses that can be conducted in-house, so it is necessary to utilize outside data and knowledge. External data, like our own ESG scores, is a condensed version of the approaches emphasized by each company. Still, we believe that using such data with an understanding of the characteristics of and differences between them can be a great complement to engagement and corporate value assessment efforts.

### We emphasize the creation of systems to enhance knowledge and skills

To achieve results that go beyond individual capabilities, it is important to create systems that enhance the knowledge and skills needed in providing Beneficiaries with high-quality medium- and long-term returns.

We have put together best practices for investee company management, along with an Analyst Handbook, the Business Strategy Case Studies, and ESG Materiality Item Summary with the goal of contributing to the development, cultivation and sharing of knowledge in the ESG evaluation and engagement process.

Daiwa AM's proprietary long-term theoretical stock price calculation model encompasses the intrinsic value of the stock and its reasonable stock price, which incorporate the ESG evaluation. As mentioned earlier, ESG evaluations are separated into risks and opportunities, each of which is quantified under certain rules and adjusted in the model for factors such as cost of capital and sales growth rate. This ESG evaluation is also reflected in our proprietary ESG score, which also takes into account a quantitative approach from our Quantitative Research.

Information needed in making investment decisions, including ESG scores and engagement details, is stored in our in-house information infrastructure, a system that allows anyone involved in asset management to utilize the information. ESG issues for each engagement are determined through discussions

between analysts, fund managers and the personnel responsible for proxy voting, and the management of engagement milestones is also shared. In addition to engagement with important ESG issues that vary by company, we also strategically engage in ESG issues that we feel are especially important.

Dialog with the overseas asset management companies of our business partners is also valuable in improving expertise and strengthening our systems. This not only allows us to gain an understand of situations overseas and their implications for Japan, but it also provides insights into new perspectives and approaches in ESG evaluation and investment decisions.

The environment and social demands surrounding companies change over time, and those ESG issues that are important for corporate sustainability will also change. Our goal at Daiwa AM is to build a structure flexible enough to also respond to the changing times. In ESG evaluations and integration, our organization will continue tirelessly not only to improve the expertise of our asset management staff, but to refine our processes, make use of outside resources, and consider other multi-faceted steps to improve our operations and be flexible in execution. Our goal is the co-creation of sustainable value in our investee companies, so that we may contribute to securing high-quality medium- and long-term returns.



## Corporate Information

### Company Overview

Company name, etc.	Daiwa Asset Management Co. Ltd. A Financial Instruments Business Operator registered with the Director of the Kanto Local Finance Bureau of the Ministry of Finance (Kin-sho) No. 352
Headquarters location	9-1 Marunouchi 1-chome, Chiyoda-ku, Tokyo
Main business areas	Investment management business, investment advisory and agency business, Type II financial instruments business
Memberships	The Investment Trusts Association, Japan; Japan Investment Advisors Association; Type II Financial Instruments Firms Association
Established	December 1959
Capital	15,174,270,000 yen
Principal shareholder	Daiwa Securities Group Inc. (100%)



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Compliance

#### Data

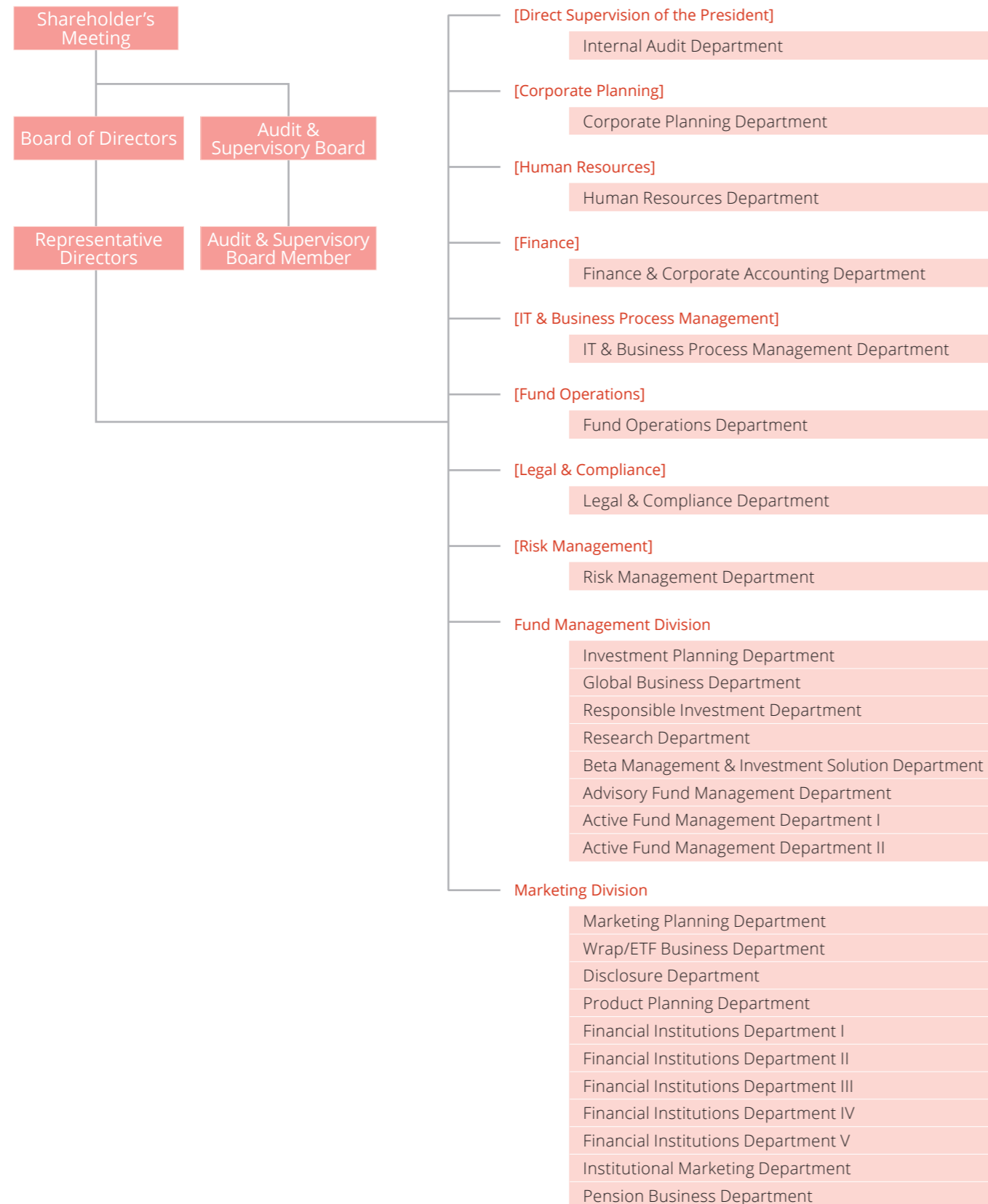
- 78 Greenhouse Gas Emissions
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- Human Resources and Related

#### Daiwa AM's Overseas Network





# Organization Chart



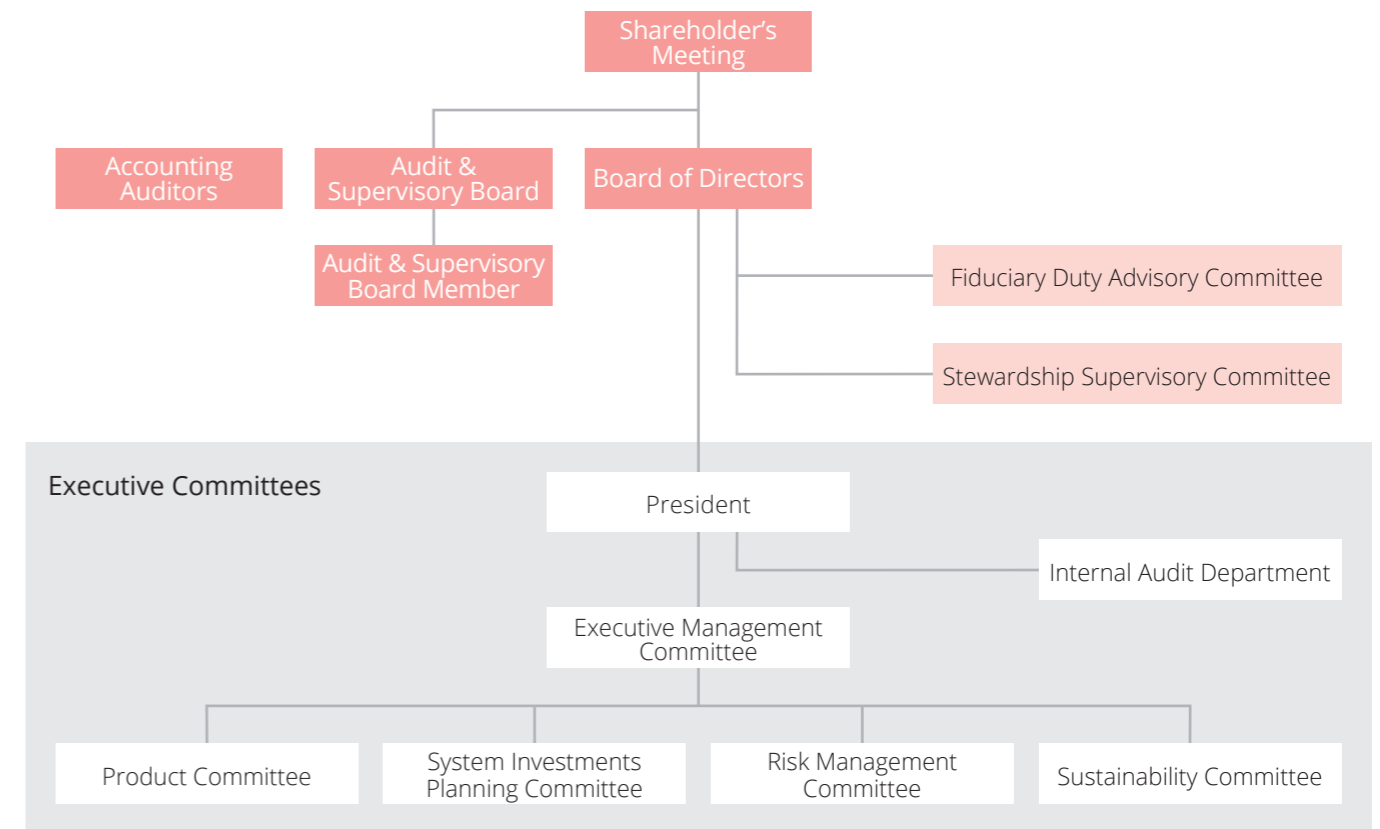
As of April 1, 2023

# Corporate Governance Structure

At Daiwa AM, the Board of Directors is responsible for important decision-making on management and overseeing the execution of duties by respective directors. As a company with an Audit & Supervisory Board, the performance of duties statuses of respective directors are meanwhile audited independently of the Board of Directors by the Audit & Supervisory Board Members and the Audit & Supervisory Board.

The Board of Directors is comprised of individuals with high ethical and moral standards, in addition to

operational experience or specialist expertise. As of December 31, 2022, the Board of Directors was made up of 12 directors (including three Outside Directors, and one female director). Outside Directors are individuals with a wealth of experience and insight from outside the company, who audit the performance of duties by directors from an independent and impartial perspective, and provide advice on management based in their experience and insights.



Committee name	Overview	Members
FD Advisory Committee	Checks and balances on committees, etc. involved in formation and management of funds	Chair: Outside Director Members: Outside Directors, Risk Management
Stewardship Supervisory Committee	Oversee conflict of interest management in stewardship activities	Chair: Outside Director Members: Outside Directors, Legal & Compliance



## Risk Management

At Daiwa AM, we are striving to enhance our risk management systems by actively involving management in risk management; developing risk management systems aligned to the characteristics of the company's particular risks; identifying overarching risks based on integrated risk management; and making efforts to clarify the risk management process, all based on the general policies on risk management as determined by the Board of Directors.

The Risk Management Committee is established as a sub-committee of the Executive Management Committee and is involved in the identification of major risks, namely risk events of extreme consequence in terms of impacts on management. It also determines specific measures for risk management and monitors the Key Risk Indicators (KRI) for major risks, while reporting regularly on the status of various risks.

Daiwa AM defines investment risks (exposure risks for trust properties of investment assets and contract assets of discretionary investment contracts), operational risks (risks pertaining to the company's opera-

tions), and financial risks (risks pertaining to the company's financial activities) as risks to be managed, and has established methods for the management of each of these risk categories.

In managing investment risks, the company has defined and implements monitoring for the three sub-categories of risk of market risks, credit risks, and liquidity risks.

Operational risk management meanwhile is divided into the seven sub-categories of risk of administrative risks; system risks; information security risks; compliance risks; legal risks; human risks; and tangible assets risks. We have designated the personnel with jurisdiction over these respective risks and are conducting Risk Control Self-Assessment (RCSA) as part of our preemptive activities, while formulating measures to prevent operational risks from recurring.

For financial risks, management is implemented based on the establishment of holding limits on investment securities and credit limits on deposits, among other steps.

## Compliance

### Daiwa AM's Compliance Framework

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

In this context, the Legal & Compliance Department at Daiwa AM play the role of a "navigator" to support the undertakings of the company's officers and employees from legal perspectives, and as a "guardian" to support the appropriate management and control of compliance

### FY2022 Compliance Initiatives

The four compliance initiatives in FY2022 are given on the right. These initiatives are formulated and developed as compliance programs after obtaining the approval of the Board of Directors. Progress reports are given to the Board of Directors on a quarterly basis and made available for viewing to all company officers and employees via the in-house intranet. Our Legal & Compliance Department are aspiring to becoming industry leaders while supporting each and every company officer and employee in the execution of their work duties while taking ownership of the risks involved in such.

risks. This is to ensure that an autonomous awareness of compliance is fostered among each and every officer and employee, as well as to enable them to execute working duties oriented by their "Visions" (the futures they aim to create) and facilitated by their "Values" (guidelines for their actions).



- Enhance compliance support for all departments, in particular those on the front-line
- Strengthen Legal & Compliance Division's ability and capacity to respond to enquiries and offer consultation
- Collate and simplify access to internal compliance data
- Distribute compliance data internally in a timely manner

## Data

### Greenhouse Gas Emissions

	FY2020	FY2021
Scope1+2*1	455.8	79.0
Scope3*2		
Category 6 Business trips*3	74.7	224.8
Category 7 Employee commuting*3	103.0	125.2
Category 8 Upstream leased assets*4	8.9	6.3

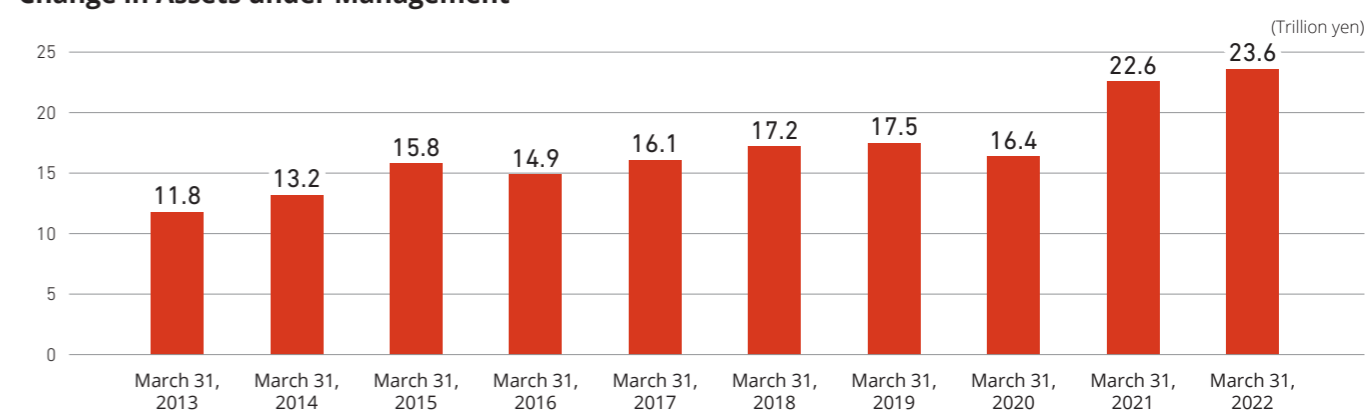
\*1 Aggregation periods are April 2020 to March 2021, and April 2021 to March 2022  
 \*2 Aggregation periods are January to December 2021, and January to December 2022  
 \*3 Business trips, employee commuting: Calculation based on amount of transportation expenses paid out  
 \*4 Upstream leased assets: Calculation based on fuel amounts for leased vehicles employed as company cars

Notes:  
 1. Calculated using data obtained from Tokyo headquarters and overseas subsidiaries  
 2. Calculated in accordance with methods stipulated under the Act on the Rationalization etc. of Energy Use and the Act on Promotion of Global Warming Countermeasures (disclosure figures are rounded off).  
 3. Since April 2021, Daiwa Securities Group, Inc. have transitioned to renewable energy sources for electricity used at the group's headquarters building, which houses all Group companies, including Daiwa AM.

### Financial Data

	FY2017	FY2018	FY2019	FY2020	FY2021
Operating revenue	83,244	76,725	70,134	65,906	74,948
Operating profit	18,411	16,572	14,525	14,067	18,551
Ordinary profit	18,741	16,961	15,629	14,616	19,089
Current net profits	12,670	11,870	10,566	9,389	12,738

### Change in Assets under Management



### Human Resources and Related

	December 31, 2021	December 31, 2022
Ratio of female employees	39.0%	40.4%
Ratio of female managers	9.9%	14.1%
Ratio of female members of the Board of Directors	9.1%	8.3%
Ratio of female employees hired*1	33.3%	57.1%
Difference in average duration of service between men and women*1	Men 15.6 years Women 14.5 years	Men 15.8 years Women 14.8 years
Employment rate of persons with disabilities	2.1%	2.4%
Average overtime per worker per month*1	12.9 hours	10.5 hours
Percentage of paid leave taken*1	78.7%	82.7%
Percentage of childcare leave taken*1	Male 100% Female 100%	Male 100% Female 100%

\*1 Data is for FY2020 (April 2020 to March 2021) and FY2021 (April 2021 to March 2022)



## 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: ❶ Regarding the fees payable by customers (assuming a consumption tax rate of 10%)

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

Notes:

1. Types and fee rates of expenses will vary by sales company and individual investment trusts. The above fee rates for expenses are those of standard investment trusts managed by Daiwa Asset Management. As part of funds that invests in other funds, management and administration expenses for investment trusts in which funds will be invested are charged separately. Some investment trusts may also charge fees based on the performance of investments or handling fees for redemption.

2. As the total amount of handling fees, etc. will vary depending on how long the investor holds the fund, these cannot be shown here.

3. As this will vary depending on the investment trust, please contact the sales company for more details. You may also refer to the investment trust prospectus for more details.

### Key points to note: ❷ Regarding investment trust risk

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

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**Daiwa**  
Asset Management

Management Company

Company name, etc. Daiwa Asset Management Co. Ltd.

A Financial Instruments Business Operator registered with the Director of the Kanto Local Finance Bureau of the Ministry of Finance (Kin-sho) No. 352

Memberships

The Investment Trusts Association, Japan  
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