Responsible Investment
Report 2018

Nomura Asset Management Co., Ltd.

In Pursuit of Both Economic and Social Value

That's Nomura Asset Management's Mission

Responsible Investment Report 2018

Publication of the Responsible Investment Report

I am pleased to issue the Responsible Investment Report 2018. Responsible investment has grown in importance in recent years. Companies are increasingly addressing the environmental and social aspects of their business activities, as evidenced by their efforts to advance the United Nations' Sustainable Development Goals (SDGs). Asset management firms are also being urged to encourage the companies they invest in to grow sustainably.

In this context, Nomura Asset Management (hereinafter "we") established the Responsible Investment Department in April 2016, becoming the first company in Japan's asset management industry to create a unit dedicated to responsible

As a responsible institutional investor, we are committed to creating a sustainable society through wealth creation.

Junko Nakagawa

President & CEO
Nomura Asset Management Co., Ltd.

investment, and we have focused on responsible investment ever since. We have prepared this report to inform our stakeholders, including individual clients, asset holders and the companies we invest in, about our responsible investment-related initiatives and philosophy.

Fulfilling our social responsibility

The essence of the asset management business lies in fulfilling social responsibilities through the provision of high-quality products along with excellent performance and services that meet clients' expectations. From this perspective, in addition to responsible investment, we are also working to widen the range of investments by enhancing our lineup of ESG investment products and through investment education. As sustainable growth receives increasing attention around the world, it is essential that we offer products and services that help people build wealth.

Meanwhile, the world has seen tremendous advances in technologies such as artificial intelligence (AI) in recent years, and the environment surrounding the asset management industry is changing rapidly. We established the Innovation Lab Department in October 2017 to incorporate cutting-edge investment expertise, as going forward we must adapt to these and other changes in order to continue to deliver the types of services that meet our stakeholders' expectations.

Celebrating our 60th anniversary

Nomura Asset Management will celebrate its 60th anniversary in December 2019. Reaching this milestone is possible thanks to our clients and all other stakeholders, and I am extremely grateful for everyone's support. I credit our success in continuing to grow for 60 years to our ability to do business while remaining conscious of our social mission.

Our corporate principles are "Maximizing value," "Advanced expertise" and "Confidence and responsibility." Based on these corporate principles, we will contribute to creating a more sustainable society by helping our clients build wealth.

In closing, I ask for your continued support as we strive to exceed our clients' expectations as a responsible institutional investor with which they have entrusted their assets.

Corporate Principles

Maximizing Value
Advanced Expertise
Confidence and Responsibility

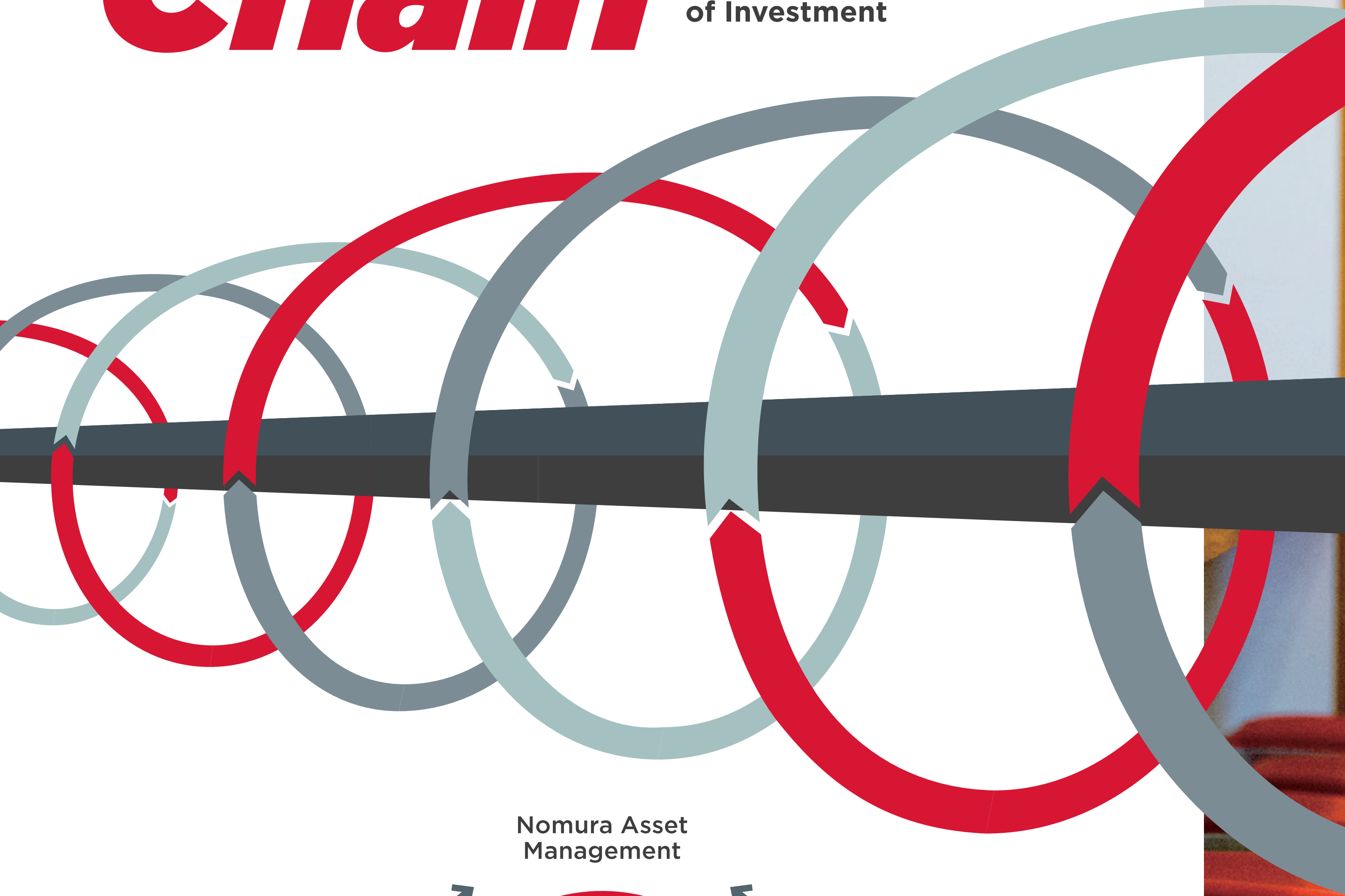
Corporate Slogan

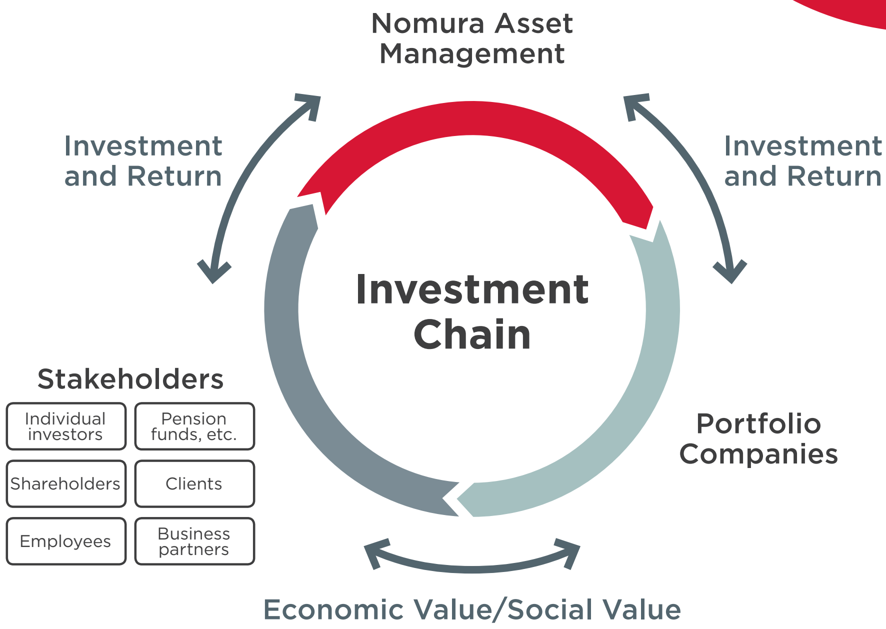
Expertise to Exceed

Using our expertise and foresight to stay ahead of change,
we pursue exceptional performance and
create cutting-edge solutions to exceed all expectations.

Investment Chain

Realizing a Virtuous Cycle of Investment





Realizing Sustainable Economic Growth and a Prosperous Society

Our Goals

As a responsible institutional investor, Nomura Asset Management aims to realize a prosperous society by helping clients build wealth. To this end, we must strive to provide better products and services by improving the quality of our investment products in a way that encourages portfolio companies in which we invest to achieve sustainable growth. At the same time, portfolio companies are being asked to operate sustainable businesses by efficiently utilizing the funds they have raised. The business activities of these portfolio companies generate economic value for a large number of stakeholders, including employees, business partners and shareholders. These companies will also gain acceptance in society by addressing social issues through their own business practices, thereby achieving sustainable growth. This will eventually be reflected in the investment returns earned by clients, including individuals, pension funds and others who entrust their assets with us.
We believe that by creating this kind of chain of virtuous cycles, investment activity will enable us to realize sustainable economic growth and a prosperous society, ultimately leading to wealth creation for our clients.

Masanao Tsuda

Chairman, Responsible Investment Committee
Head of Investment and Research Division
Executive Vice President

Supporting Social Advancement Through the Asset Management Business

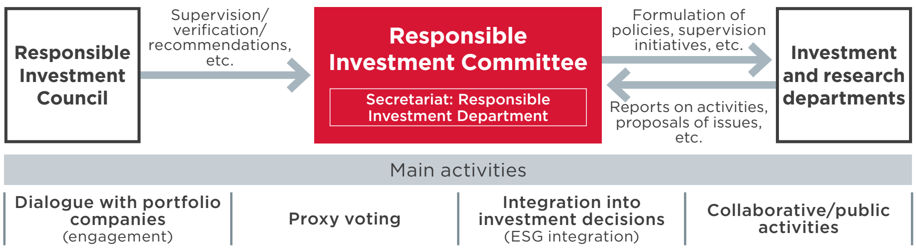
Basic Principle of the Responsible Investment Committee

The Responsible Investment Committee is our highest decision-making body for responsible investment, including proxy voting and constructive dialogue with portfolio companies. The Committee formulates the basic policy for responsible investment, makes decisions on shareholders' meeting proposals requiring qualitative judgment, and oversees engagement activities in the investment and research process (see chart below).
I have served as a member of the Committee since its inception, and became chairman in April 2018. The Responsible Investment Committee has its origins in two committees: the Stewardship Committee and the ESG Committee. At the time the Responsible Investment Committee was created, we held vigorous debate before establishing our basic policy for responsible investment. The basic policy we agreed upon clearly states that we will support social advancement through the asset management business. This is backed by the belief that activities as a responsible investor, such as understanding and engaging in ESG issues in portfolio companies, as well as proxy voting, will promote a healthy, sustainable society as well as efficient and stable capital markets. This is the Committee's fundamental belief.

Our responsible investment – What makes it unique

Our responsible investment has the following four strengths.
The first strength is our long history of engaging in responsible investment (see page on right). The Responsible Investment Committee was established in October 2014 through a reorganization of the ESG Committee. It then integrated the Stewardship Committee in October 2015, but its roots lie in the Proxy Voting

Organizational Structure for Responsible Investment



Committee established in 2001. Based on many discussions over the years, and always remaining conscious of our mandate from clients, we have been able to foster a culture that is supportive of responsible investment, respects diverse opinions from a large number of professionals, and values lively discussion.

The second strength is our robust responsible investment structure developed by continuously implementing organizational reforms in advance of society's changing needs and the changing times. One example is the Responsible Investment Council, which was established in 2016 as an oversight body of the Responsible Investment Committee. Highly-independent outside directors make up the majority of the Council members, thus enhancing the management of conflicts of interest. Having the Council monitor Committee discussions in real time is an unprecedented initiative in the industry.

The third strength is our global and highly-diverse personnel and their research capabilities. A large number of portfolio managers, analysts and ESG specialists working in one of the largest active management operations in Japan are committed to applying their analytical abilities and insight to responsible investment.

Our greatest strength is our emphasis on discussion and debate

The fourth strength is the focus we place on carrying out exhaustive discussions. In 2018, the most heated debates in the Responsible Investment Committee were those concerning M&A as well as dividend increase proposals made by shareholders. On many occasions, there were splits in opinion, or the Secretariat's plans were overturned. The members of the Responsible Investment Council were present for Committee meetings and actively participated in discussions without limiting themselves to monitoring conflicts of interest, as we believe that holding thorough discussions is the most effective way to manage conflicts of interest. In fact, the discussions often ran longer than scheduled. We feel that taking the time to hold such vigorous discussions and debates is one of our greatest strengths.

As we move forward, we will leverage these strengths to pursue responsible investment, aiming to enhance the corporate value of portfolio companies as well as ensuring their sustainable growth, in addition to securing a healthy and sustainable society along with efficient and stable capital markets.

Responsible Investment Committee Meetings

January – December 2018

Responsible Investment Committee	Responsible Investment Council
17 times	7 times
Regular 4 times / Ad hoc 13 times	Regular 4 times / Ad hoc 3 times

History of Responsible Investment

2001

Proxy Voting Committee established

2004

Management of SRI Index Fund commenced

Management of governance fund commenced

2010

UK Stewardship Code adopted

2011

ESG Committee (now the Responsible Investment Committee) established

United Nations-supported Principles for Responsible Investment (UN PRI) signed

2014

Japanese version of the Stewardship Code adopted

ESG Committee reorganized into Responsible Investment Committee

Proxy Voting Committee reorganized into Stewardship Committee

2015

Responsible Investment Group and ESG specialists established

Stewardship Committee integrated into Responsible Investment Committee

2016

Responsible Investment Department established

Conflict of Interest Management Policy formulated and Responsible Investment Council established

Stewardship Codes in Singapore, Hong Kong and Taiwan adopted

UK Office acquired Tier1 evaluation from UK FRC*

2017

Proxy voting results disclosed individually

Malaysian Stewardship Code adopted

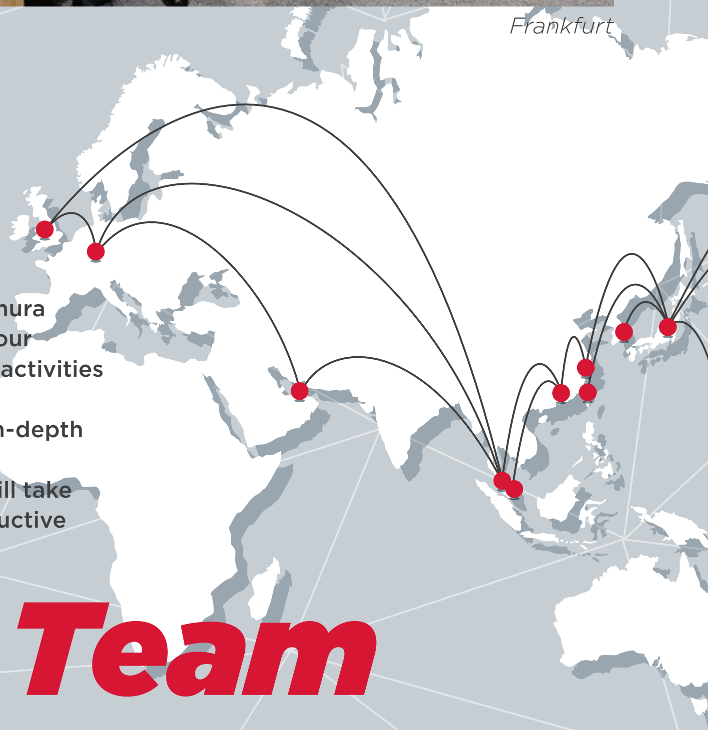
2018

Self-evaluation disclosed

*UK FRC
Abbreviation for the Financial Reporting Council in the United Kingdom

London

Frankfurt



Nomura Asset Management is the core company within the Nomura Group's Asset Management Division. In close cooperation with our overseas offices, we are integrating our responsible investment activities into our global investment operations.
This structure gives us a global perspective, supported by the in-depth local market expertise of our regional offices and affiliates.
By harnessing our accumulated expertise and experience, we will take on the challenge of maximizing added value in a spirit of constructive engagement in a rapidly changing investment environment.

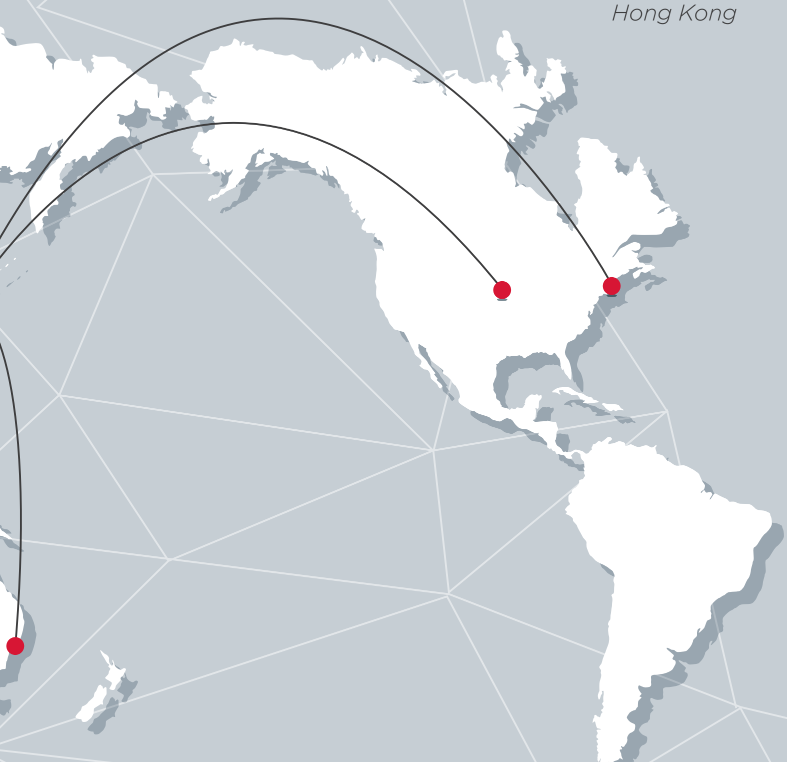
Our Global Team

New York

Taiwan

Hong Kong

Shanghai



Tokyo

Singapore

Malaysia

Dialogue Gives Us a Broad Perspective on Each Company

Head of Responsible Investment Department Toshiyuki Imamura and Head of Equity Research Department Yasukazu Nakaguma discuss their approach to portfolio companies

Toshiyuki Imamura
Head of Responsible Investment Department

We take a comprehensive analytical approach to assess each company as a whole.

Imamura: The Responsible Investment Department was established in April 2016 as a department specializing in ESG research and analysis. Behind its establishment was the growing importance of ESG as an element for determining corporate value and the need to strengthen our expertise in ESG, given that ESG encompasses many global trends and investment concepts.

ESG specialists in the Responsible Investment Department regard constructive dialogue with portfolio companies (engagement), proxy voting, and the integration of ESG elements into the overall investment and research process (ESG integration) as the three main pillars of their work.

The Equity Research Department has a longer history than the Responsible Research Department, so how do analysts view ESG?

Nakaguma: The Equity Research Department sees ESG as an important element of a company's sustainability. Because an analyst evaluates a company as a going concern, it is natural to consider ESG issues that could pose a threat to its long-term viability.

The basic role of an analyst is to evaluate a company's corporate value by forecasting its medium- to long-term profits, cash flows, dividends, and other metrics. As such, in addition to financial analysis, research analysts must have a strong understanding of a company's management philosophy, its business model, and the technologies and operations behind its financial data gained through direct meetings with the company. ESG factors provide an important perspective in this non-financial analysis.

Imamura: Analysts and ESG specialists are in different positions, but their ultimate goal is the same: a higher return on investment based on the enhancement of the corporate value of portfolio companies. For a portfolio company to sustainably enhance its corporate value, its management must execute business and financial strategies that give appropriate consideration to the environment and society from a medium- to long-term perspective. The company's board of directors must also establish an effective corporate governance system and disclose information appropriately. Meanwhile, institutional investors like us must use dialogue to encourage companies to adopt best practice in their operations, and sometimes apply pressure for them to make improvements, either through proxy voting or engagement as needed. Finally, we need to ensure that these measures raise the quality of our own investment products.

It is important that we approach engagement, proxy voting, and integration of investment and research in an all-encompassing manner. Using a comprehensive approach to work with portfolio companies is the way to accomplish this.

The importance of dialogue

Nakaguma: The Equity Research Department holds around 2,000 meetings with companies each year, and approximately 40% of these are meetings with members of senior management, mainly to discuss the business environment and management strategies.

Dialogue with members of senior management provides prime opportunities for analysts to think with the company about how to enhance corporate value as well as how to better understand one another.

Recently, ESG specialists have been holding more meetings. What significance does dialogue with

Yasukazu Nakaguma
Head of Equity Research Department

companies have for ESG specialists?

Imamura: Looking at corporate governance alone, there are no correct answers, and companies need to construct a system that best suits them. In that sense, dialogue with companies is extremely important.

In addition, while analysts study companies vertically by industry, ESG specialists analyze and evaluate companies horizontally in terms of corporate governance, the environment, social issues, and other matters. I think that looking at companies using a vertical and horizontal matrix allows us to see the broader picture and also helps us to gain a detailed understanding of the company.

For ESG issues, topics of high importance differ from industry to industry, and I think that cooperation between ESG specialists and analysts is necessary when it comes to dialogue with companies.

Nakaguma: I agree. If a company ignores capital efficiency, it would not only diminish its corporate value, but it would also eventually undermine the sustainability of the company due to a decline in competitiveness. If a company fails to consider the environment and society, then risks can build up to a point where they threaten a firm's viability. In order to remain conscious of sustainability, companies must have processes in place, including its management oversight mechanisms, a transparent decision-making process, and its remuneration system for senior management.

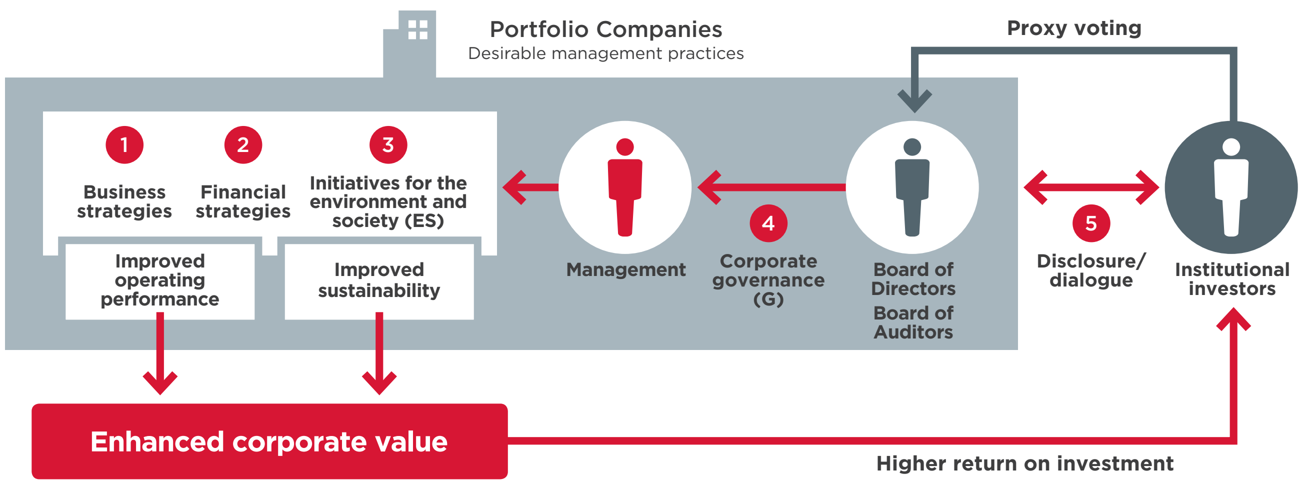
Dialogue from an ESG perspective is also useful for analysts, and I would like to continue to work together with ESG specialists going forward.

Our goal is for companies to achieve sustainable growth while we raise the quality of our investment products

Imamura: What we are aiming for is sustainable growth of companies and an improvement in the quality of our own investment products. Dialogue alone is not enough, constructive engagement is necessary.

Nakaguma: That's right. To get as close to that goal as possible, we need to ensure that dialogue is meaningful by always striving to increase our level of expertise.

Imamura: Dialogue with companies is essential when it comes to proxy voting decisions as well. Dialogue is also an important source of information used to make investment decisions. We want to continue to improve our capabilities and meet the expectations of those who have entrusted us to manage their assets.



Three Approaches to Responsible Investment

The central principle of our responsible investment activities is to take a cordial and constructive approach to companies in order to understand how they are handling ESG issues as well as the underlying strategies and philosophies behind their efforts.
Based on this understanding, we aim to help increase the corporate value of companies through engagement, proxy voting and ESG integration.

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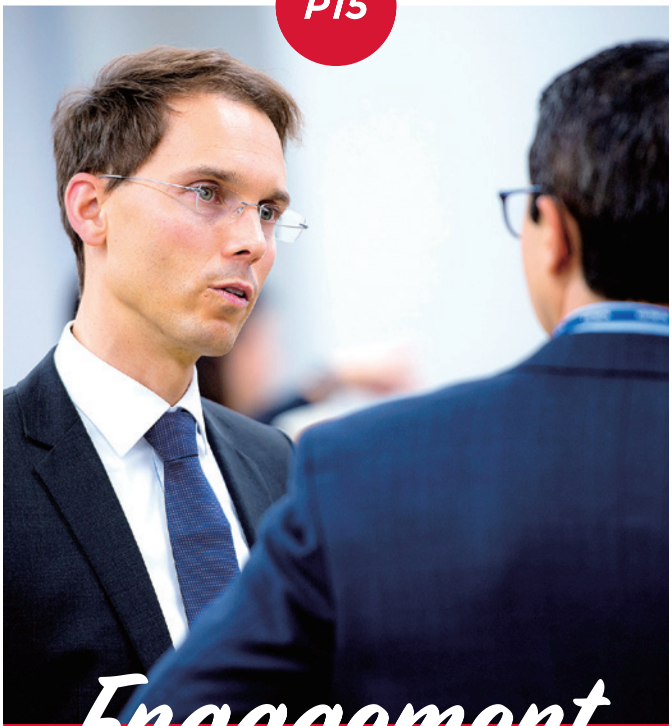

Engagement

We define our engagement activities as an effort to “exert an influence on companies based on a deep understanding of them so that they will be able to enhance their corporate value and achieve sustainable growth by applying best practice in their management operations.” By selecting target companies from the stocks in our portfolio through regular screening, we conduct engagement from an ESG perspective based on a range of important topics.

Engagement Activity Track Record

In 2018, the total number of engagement cases was 345 (250 companies), and we held dialogue with companies on 656 topics on mainly ESG related issues. We also managed our progress efficiently, based on our milestone management system using three-year periods we introduced in 2017. We are using this to establish our engagement schedule for the next period. The milestone system has four stages: (1) Communication of issues; (2) Shared recognition; (3) Formulation of countermeasures; and (4) Implementation of countermeasures. When measuring outcomes, we make judgments based on whether there is an ongoing improvement process for each issue.

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Proxy Voting

We have established proxy voting guidelines to ensure that portfolio companies will be able to enhance their corporate value and achieve sustainable growth through best management practice. We carry out proxy voting for portfolio companies in accordance with the proxy voting guidelines and with an appropriate sense of our stewardship responsibilities. We focus our attention on corporate governance, including the appointment of directors, remuneration for executives, and the appointment of auditors.

Proxy Voting Results

The Responsible Investment Committee Secretariat (the Responsible Investment Department) makes decisions on proposals that can be decided based on our proxy voting guidelines. For other proposals that require qualitative judgment, the Responsible Investment Committee meets and makes decisions following discussions. In proxy voting for Japanese companies in 2018, we made decisions on approximately 22,700 proposals and voted in favor of 92% of proposals and against 8% of them. For non-Japanese companies, we made decisions on approximately 10,200 proposals and voted in favor of 86% of proposals and against 14% of proposals.

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ESG Integration

We conduct ESG evaluations of portfolio companies on a global basis. By extracting specific material ESG issues for individual industries and companies, in addition to globally common themes such as climate change and human rights, we assign our own ESG ratings to companies while referencing assessment information from multiple outside sources. We then use the ratings we have assigned in our investment decisions-making process.

Integration Trends

We incorporate ESG integration in our investment process using differentiated methods for each strategy, but based on our common ESG evaluation. In our ESG evaluation, we focus not only on areas of potential risk, but also on opportunities to generate future earnings. Our evaluations are useful for selecting stocks because we can create rankings and compare different companies in the same industry for each issue we evaluate. To generate medium- to long-term investment returns, we evaluate the ESG efforts of companies on a time scale of roughly five years, and incorporate this into our investment process to improve our investment capabilities over time.

Engagement

Our View on Engagement

We believe that engagement, or constructive dialogue with portfolio companies, starts with a thorough understanding of the target company and its current and future business environment. We also view engagement as one of the most powerful means to fulfill our stewardship responsibility.

The definition of our engagement is to "exert an influence on companies based on a deep understanding of them so that they will be able to enhance their corporate value and achieve sustainable growth by adopting best practice in their management operations." Merely seeking improvements from companies with ESG issues is not engagement. We believe that an important role of engagement is also to directly communicate our support and approval as an investor to companies that operate in on the basis of best practice. At NAM, we value four basic stances on engagement (see chart below).

We are convinced that supporting the enhancement of corporate value and the sustainable growth of companies through ongoing engagement activities will contribute to the medium- to long-term growth of assets which have been entrusted to us by our clients.

Engagement Process

With respect to Japanese equities, the approximately 2,400 Japanese companies whose shares we hold (as of the end of December 2018) are targets for engagement. We have selected key target companies through screening based on our ownership ratio and other factors. There are more than 300 key target companies, and they account for more than 70% of the market capitalization of all companies listed on the First Section of the Tokyo Stock Exchange, and make up more than 80% of our total investments in Japanese equities. We conduct dialogue by establishing an order of priority in light of the ESG issues and key topics. Portfolio companies are also increasingly reaching out to us to initiate dialogue.

We currently carry out milestone management, which sets the period for one engagement topic at three years. We can efficiently formulate a dialogue schedule for subsequent phases and evaluate the performance through the management of the PDCA progress with a timeline. To measure performance, we check whether a company has advanced to the next stage, in other words whether or not the improvement process for an issue is being continued.

Our engagement is based on one-on-one direct dialogue with companies, and about half of the meetings are with members of senior management (directors and executive officers). Depending on the issue, we then engage in deeper dialogue with people working in specific departments. We decide the main topic based on the opinion of the analyst in charge, but during dialogue we usually discuss multiple topics. After the dialogue, an ESG specialist records what was discussed and then evaluates the progress. This is used as a reference for integration into investment, and it is also used for the next dialogue session.

Examples of Engagement Issues

Environment

- Climate change
- Water resources
- Forest preservation/biodiversity
- Green technologies

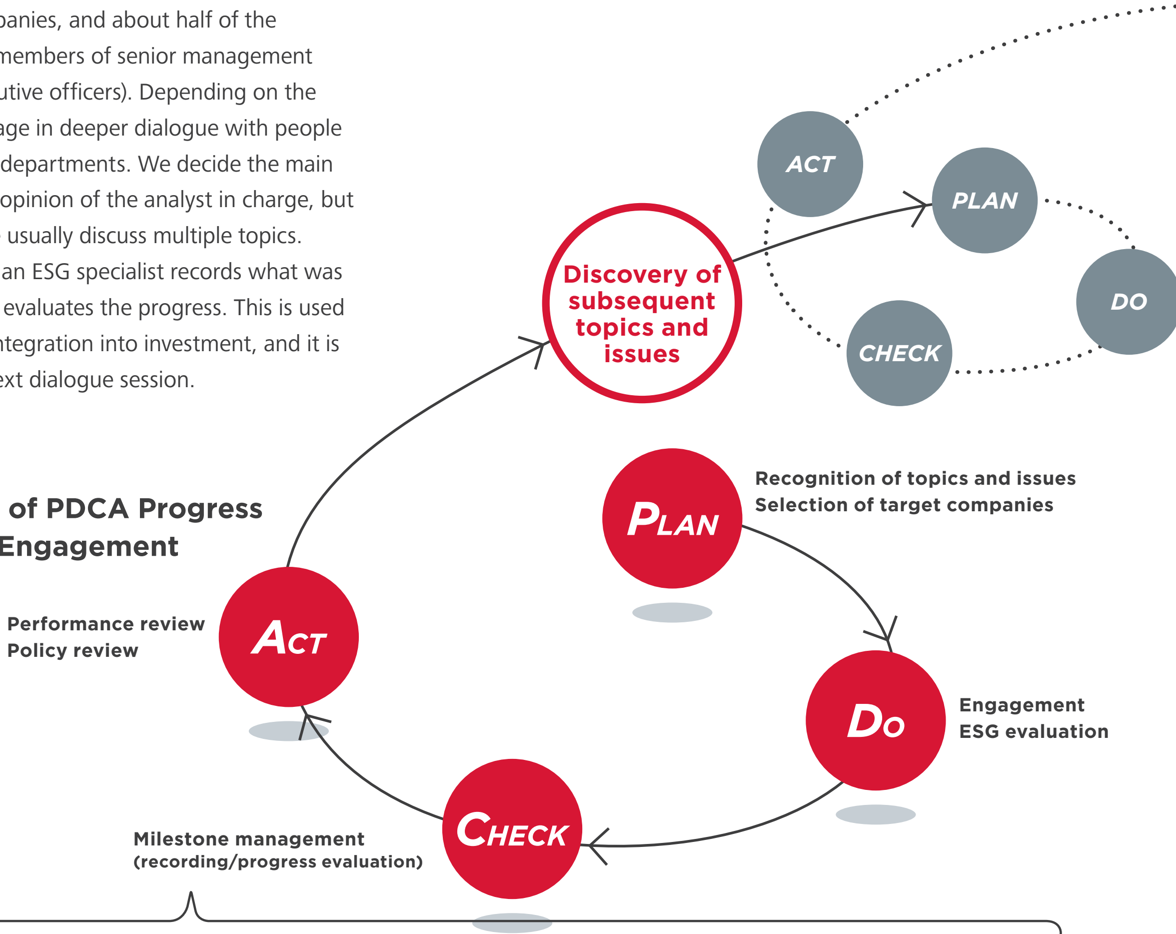
Social

- Safety of products and services
- Supply chain management
- Cyber security
- Cultivation and diversity of human resources

Governance

- Independence and diversity of the board of directors
- Nomination, compensation and audit
- Successor plan
- Information disclosure/dialogue with investors

Management of PDCA Progress Spiral Up by Engagement



1 Convey issues to a portfolio company 2 The company shares a recognition of the issues
3 The company formulates a plan to address issues 4 The company implements the plan

Track Record of Engagement for Japanese Companies

Period: January to December 2018
345 cases (250 companies)

		Number of topics
Business strategies	18%	116
Financial strategies	8%	51
Environment	15%	101
Social	15%	96
Governance	22%	143
Proxy voting-related	23%	149
Total number of topics		656

Examples of Milestone Management

Details of progress 1 Conveyance of issues 2 Sharing of recognition 3 Formulation of countermeasures 4 Implementation of countermeasures 5 End

Company A
Electrical machinery

Business strategies | Financial strategies | **ES** | G | **Disclosure/ dialogue**

Issue Enhance disclosure of ESG information

Insufficient disclosure of ESG information

Person interviewed Representative Director, Chairman & President, and others

ESG efforts were confirmed through dialogue, but disclosure was insufficient, and we pointed out that the company's true capabilities were not being appropriately conveyed to the public. Since the company demonstrated a willingness to make improvements, we subsequently engaged in continuous dialogue, and based on this dialogue the company published an integrated report with content of interest to investors, and the company's rating from an ESG evaluation company improved.

Goal Publication of an integrated report

Latest interview date: **October 2018**

Period (three years as a goal)

11 months Five interviews

Progress 1 2 3 4 5

Response Positive

Company B
Food

Business strategies | Financial strategies | ES | **G** | Disclosure/ dialogue

Issue Board of directors composition

The make-up of outside directors was disproportionately "defensive" due to the impact of past scandals, and changes to the composition reflecting the changes of the business stage were needed

Person interviewed Representative Director & President, and others

We told the company that it needed to switch to a more "offensive" governance, and said that there were no outside directors with management experience. We received a reply from the company stating that it would consider raising the ratio of outside directors to one-third and take the experience of the candidates into account.

Goal Appointment of outside directors (particularly persons with management experience) appropriate for "offensive" governance

Latest interview date: **September 2018**

Period (three years as a goal)

12 months Two interviews

Progress 1 2 3 4 5

Response Neutral

Company C
Textiles

Business strategies | **Financial strategies** | ES | **G** | **Disclosure/ dialogue**

Issue Target values matching capital cost

The target ROE was lower than the capital cost
The company needed higher performance ambitions

Person interviewed Representative Director & President, and others

We told the company that its large holdings of financial assets and real estate were causing its low ROE. We also said that the ROE target was too low given the company's true capabilities and its capital costs. We received a reply from the company stating that it understood our concerns, and that it would consider raising the target once it was able to achieve the current target.

Goal Setting and disclosing a target consistent with capital costs

Latest interview date: **October 2018**

Period (three years as a goal)

Initial dialogue

Progress 1 2 3 4 5

Response Positive

Takashi Miyao

Senior ESG Specialist

Perceived Changes in Companies Based on Engagement Activities

Discussing a normative way of thinking with companies and coming to a common understanding is important

During my 23 years as an asset manager, I had one-on-one meetings with companies at the rate of 150 meetings a year, and used what I learned from meetings to make investment decisions. Since I began working on engagement, the number of meetings I have has increased to a pace of 250 a year.

The change goes beyond just the number of meetings. The content of dialogue with companies has also changed. When I was an asset manager, the main topics discussed were the business, financial and capital strategies of companies. The ultimate goal was to obtain information to use to judge the return on investment by forecasting future cash flows.

Now, the main topics are governance, efforts to address the environment and society, and disclosure of information on these activities. An engagement professional also takes on the important role of discussing a normative way of thinking with companies and sharing an understanding, in addition to simply obtaining information.

We have a strong global network for investment and research, and has a significant opportunity to recognize and consider trends in important global issues on the environment, society and governance before other Japanese companies. Conveying these issues to portfolio companies, we encourage management to discuss these issues and eventually disclose information on their views and measures to address them.

Specific examples of engagement include the case of a company with a coal business that emits a large amount of greenhouse gases, and the case of a company for which there are concerns about the sustainable procurement of raw materials (see the chart below). Based on actual dialogue, we have been able to confirm that they have made progress in addressing these issues. However, in the case of a company aiming for sustainable growth, it is normal for the resolution of one issue to be followed by another issue that needs to be resolved. Engagement activities therefore need to be carried out on an ongoing basis over the long term.

Specific Engagement Initiatives

	Problem awareness	Nomura Asset Management	Company's response
Company with a coal business	Growing global movement to avoid investment in companies that emit greenhouse gases	Held dialogue with the company and discussed the importance of expressing a view on this topic	Disclosed its view on the downsizing of coal-related businesses, its business shift, and business continuity in its long-term plan and integrated report
Company with an imported materials business	Human rights issues were discovered at a local company that manufactures imported materials	Held dialogue with the company about the findings of the NGO, etc. and confirmed that the company recognized the issues	Is paying close attention to the developments of the NGOs and others working on the problems in the area where the company is located. Also keeping an eye on global environmental regulations

Joint Engagement System with GES*

Nomura Asset Management is working to strengthen its engagement activities with respect to both our domestic Japanese market and global equities. Currently, after signing the Stewardship Code in six countries and territories (Japan, the UK, Singapore, Hong Kong, Malaysia and Taiwan), the investment teams in offices in these countries and territories are advancing activities globally in a cooperative manner. Because many ESG issues faced by companies are common to companies around the world, building a cooperative framework with our investment teams worldwide is essential for our domestic and global equity engagement activities.

On the other hand, the response of companies to ESG issues at the working level varies depending on the laws, customs and situations in each country and industry. Unlike Japanese equities, for overseas equities there are significant obstacles associated with the considerable number of target countries and companies, as well as geographical factors. We must establish a more efficient system in a manner that utilizes external resources while taking advantage of the expertise of the individual investment offices.

In April 2017, we selected GES International ("GES") as a partner for engagement with overseas companies. We conducted a field survey and recognized the high quality of GES's staff and their flexible attitude in dealing with customers. GES has a research office in Poland and puts a great deal of effort into and employs experts in fields such as law and taxes. Another deciding factor for selecting GES was that GES has many things in common with us, including its emphasis on researching fundamentals. We have built a good relationship with GES by conducting activities together, such as participating in engagement whenever appropriate. Currently, GES is further bolstering its work as the engagement division of Sustainalytics. We will leverage our partnership with GES to continue to promote engagement activities overseas.

At GES's research office in Poland

*In January 2019, GES became part of Sustainalytics, an ESG research and ratings company, through a management integration.

Examples of Joint Engagement with GES

Company in Russia's energy sector

Visited in September 2018

ESG issue	With the coal business coming under heavy scrutiny worldwide, there is growing demand for energy with lower greenhouse gas (GHG) emissions.
Company's understanding	Regards the global shift from coal to natural gas as a great opportunity. Understands that improving safety in its business is a future challenge.

Company initiatives

Reduction of GHGs was set as an internal goal as a key performance indicator (KPI).
As of the end of 2018, five of the six environmental goals to be achieved by 2019 have been achieved.
Achieving a zero fatality rate for employees has been set as a goal.

Proposals September 2018

Proposed setting a goal of raising the assessment of the Carbon Disclosure Project (CDP) to Level A and disclosing key environmental goals (KPIs).
Proposed disclosing information on work accidents and expanding the scope to include subcontractors and partner companies.
Proposed disclosing numerical data on the whistleblower system.

Taiwanese manufacturing company that operates in China

Visited in November 2017 and November 2018.

ESG issue	Management and supervision of workers and management of GHG emissions and resources at the company's plants. Management of parts suppliers, etc.
Company's understanding	There is a need to formulate labor management rules and comply with them at more than 30 plants in China.

Company initiatives

Participated in the CDP and worked to reduce GHG emissions. Plans to provide Level 2 disclosure in 2018.
Strives to improve the work environment together with the labor union at more than 30 plants.

Proposals November 2017

Proposed more proactive disclosure on the work environment, and proposed efforts to improve the work environment and retain workers by setting certain labor indicators as KPIs for management-level employees.

Company initiatives

Introduced 52 ethical indicators that management-level employees should comply with. Evaluates the risk level (high/medium/low) by conducting an on-site audit of each production line once a year. Provided improvement guidance to production lines with medium or high risk.
Conducts an annual audit of suppliers.

Proposals November 2018

Evaluated improvements since the previous meeting.
Proposed continuing to proactively disclose information on important ESG issues and the work environment.

Message from GES

Hanna Roberts

Head of Engagement Services

Established in Sweden in 1992, GES is engaged in responsible investment. Based in Europe, we have approximately 20 engagement specialists with advanced expertise in the United Kingdom, Sweden, Denmark, Poland and Switzerland. Each day, we target companies around the world. In January 2019, GES was merged with Sustainalytics and relaunched as its engagement division. We will be able to provide more advanced services by utilizing ESG research and information provided by Sustainalytics.

Currently, we handle engagement for more than 1.8 trillion euro of investments worldwide (as of the end of December 2018). We identify and evaluate serious ESG risks in customers' portfolios and exert influence on companies. The identification of key items that could have financial impacts is important, and when we look at the non-financial aspects of a company, we focus on whether the company maintains good relationships with its stakeholders and has earned a high level of trust from them by resolving issues, and whether this will ultimately enhance shareholder value.

Over the 25 years since our founding, GES has developed a strong client-oriented corporate culture through our long-term commitment to our clients. We have succeeded in building a strong relationship of trust with our clients, employees and other stakeholders by consistently implementing this commitment into everything we do in our daily business. Using the engagement program we have developed over many years, we want to continue to provide support as a good partner so that ESG will become more integrated into Nomura Asset Management's stewardship activities and investment strategies.

■Company in China's mining sector and listed on Hong Kong's stock exchange

Visited in November 2017 and November 2018

ESG issue	With overseas operations expanding, the company needs to conduct business in line with global environmental standards. The company also needs to disclose related information.
Company's understanding	Recognizes that there are no problems with the environmental standards in the countries where the company operates and in China.

Company initiatives	Proposals November 2017	Company initiatives	Proposals November 2018
As it is now, the company continues to operate in accordance with the local standards in the countries in which it operates and in its mother country.	Proposed making a shift to operating in accordance with global environmental standards. Proposed disclosing information on work safety indicators, etc. Requested continued dialogue with local communities.	Departments related to society, communities, the environment and safety report to the board of directors every month. Considering publicly announcing work safety indicators, etc.	Told the company that improvements were needed because the board of directors was not comprised of directors with the skills to deal with the issues. Proposed disclosing information on work safety indicators, etc.

■Company in South Korea's chemicals industry

Visited in December 2017 and December 2018

ESG issue	Supply chain management is becoming increasingly important from the perspective of the child labor problem, etc., given that the amount of cobalt used is increasing due to the growth in demand for lithium-ion batteries for mobile phones and automobiles.
Company's understanding	Recognizes that managing and clarifying cobalt suppliers is necessary because the growing demand for batteries means increasing cobalt procurement.

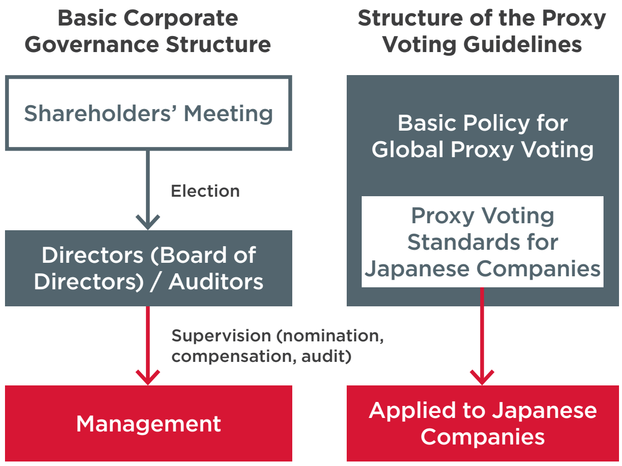
Company initiatives	Proposals November 2017	Company initiatives	Proposals December 2018
Introduced a supply chain code of conduct (conforms with the OECD standard). Audits suppliers and releases audit results. Works with NGOs to address cobalt-related child labor issues.	Told the company that we wanted it to continue to investigate supply chain-related problems. Proposed improving the operation of the whistleblower system and enhancing disclosure.	Continues to supervise the supply chain. Conducted a local audit in the Republic of Congo. There was no child labor, but abuses of human rights and violations of safety standards were discovered. Asked suppliers to address these problems. Conducts an annual audit of suppliers and receives an evaluation from an audit organization.	Told the company that we wanted it to continue to investigate problems in the supply chain and work to improve transparency.

Concept of Proxy Voting

In proxy voting, we focus on the corporate governance of portfolio companies. The basic structure of corporate governance is that directors and auditors are elected at a shareholders' meeting and directors (the board of directors) and auditors supervise senior management through nominations, compensation matters, and audits. Accordingly, the following three aspects are particularly important in proxy voting: the election of directors (nomination), executive compensation (compensation) and the election of auditors (audit). In addition, the appropriation of surplus is important when it comes to Japanese companies because Japanese companies are often criticized for retaining a large amount of cash and deposits and being unwilling to return profits to shareholders through dividends and share buybacks. Moreover, proposals submitted by shareholders have also been increasing in recent years. Due to differences in legal systems, it is easier to make shareholder proposals in Japan than in Europe and the US, and these proposals can often have a direct impact on company management. Accordingly, these proposals must be carefully considered.

We regard proxy voting as part of our engagement with portfolio companies, and we make judgments on proposals by all portfolio companies in accordance with our own Proxy Voting Guidelines. To ensure that proxy voting will not become a demand for "governance for the sake of governance," we have decided to limit proxy voting to show what we see as the absolute minimum, and in more involved cases we exert an influence through engagement based on the portfolio company's situation.

On the other hand, we make rigorous judgments on a company's responsibility for consequences through proxy voting, and we may object to a company's proposals if the management performance is poor or if there is misconduct.



Proxy Voting Process

The proxy voting process is as shown in the figure below. In addition to the Responsible Investment Committee, which is the highest decision-making body, the Responsible Investment Council, which comprises only the Chief Conflict Officer and independent outside directors, has been established to prevent conflicts of interest.

For starters, there is a process for formulating the Proxy Voting Guidelines. The Responsible Investment Committee engages in deliberations based on a draft prepared by the secretariat, revises the draft as needed, and then makes a final decision. The Responsible Investment Council then meets after the Responsible Investment Committee to examine possible conflicts of interest. The members of the Responsible Investment Council attend Responsible Investment Committee meetings and monitor any conflicts of interest from the deliberation and decision stages. One of our unique features is that rather than reviewing decisions after they are made, monitoring and review of conflicts of interest are incorporated into the decision-making process.

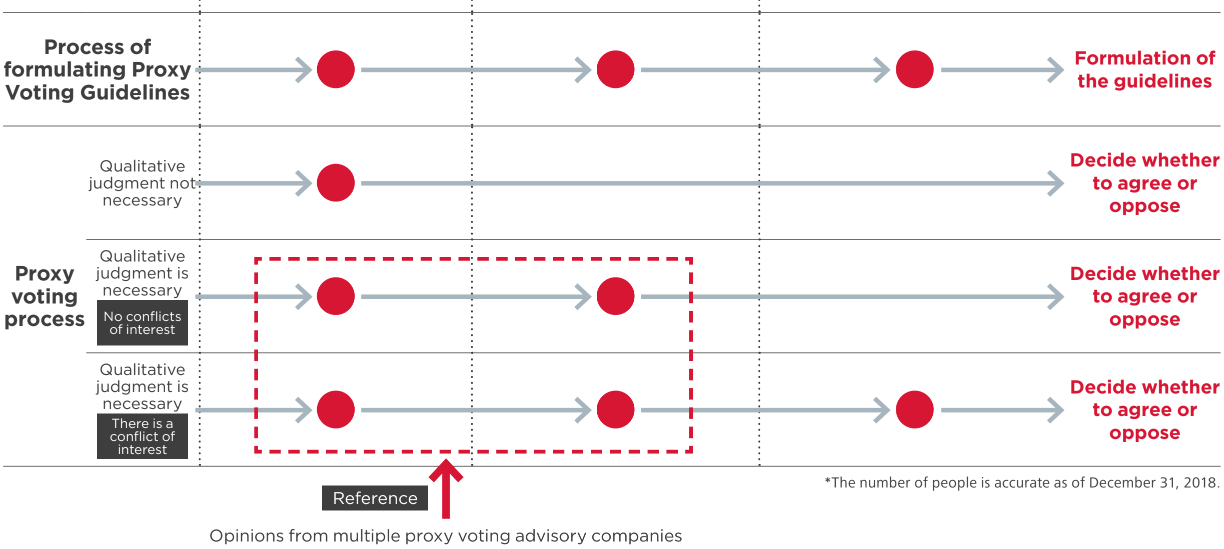
Next, the process of making a judgment on proposals is broadly divided into three patterns. The secretariat decides on proposals that can be judged according to the proxy voting guidelines (do not require qualitative judgment), but other proposals (that do require qualitative judgment) are discussed and decided at a Responsible Investment Committee meeting. In addition, for proposals that involve conflicts of interest, the conflicts of interest are monitored and reviewed at a Responsible Investment Council meeting while referencing the opinions of multiple proxy voting advisory firms.

The Responsible Investment Committee and the Responsible Investment Council hold regular meetings four times a year and extraordinary meetings as required. In 2018, the Committee and the Council held a total of 17 meetings and seven meetings, respectively.

Characteristics of the Proxy Voting Process	**Discipline**	Judgments on proposals are made in accordance with the proxy voting guidelines
	Robustness	A robust decision-making process centered on the Responsible Investment Committee
	Comprehensive discussions	The Responsible Investment Committee itself decides to agree with or oppose proposals, rather than simply ratifying the secretariat's proposal
	Conflict of interest management	Real-time monitoring by the Responsible Investment Council

*Refer to Pages 7 and 8 for more information about the Responsible Investment Committee

	Secretariat	Responsible Investment Committee	Responsible Investment Council
Members	Responsible Investment Department	Eight people involved in decision-making for investment and research (The Responsible Investment Council members participate in Responsible Investment Committee meetings)	Conflict of interest management One (1) Chief Conflict Officer Two independent outside directors
Roles	Preparation of proposals	Holds deliberations and make decisions based on the secretariat's proposals Makes revisions to the secretariat's proposals as required	Review from the perspective of conflicts of interest Advises the Executive Management Committee or the Responsible Investment Committee to make improvements as required and reports to the Board of Directors



*The number of people is accurate as of December 31, 2018.

Overview of Proxy Voting Standards for Japanese Companies

Our Proxy Voting Standards for Japanese Companies (the "Proxy Voting Standards") (refer to our website* for details) are revised on a regular basis to reflect progress in the corporate governance of portfolio companies. In 2017, the timing for making revisions was changed from spring to autumn. This allows us to carry out engagement based on the latest Proxy Voting Standards for approximately six months from when they are revised to when shareholders' meetings are concentrated. Most recently, the Proxy Voting Standards were revised in November 2018.

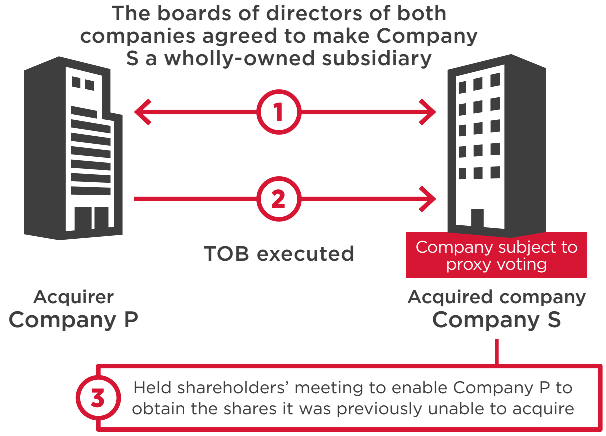
Proxy Voting Standards and their summaries	In the following cases, we may oppose a company's proposal
Emphasis on responsibility for consequences The management team's responsibility for consequences is reflected.	■An act that could cause significant damage to shareholder value (misconduct, etc.) is discovered. ■Return on equity (ROE) is stagnant.
Structure of directors (Board of Directors) A certain number of outside directors is necessary to supervise the management team. Particularly in a company where there is a controlling shareholder (such as a listed subsidiary), there are concerns about a conflict of interest with the controlling shareholder, and a higher level of supervision is required.	■The company does not have two or more outside directors. ■The ratio of outside directors is less than one-third in a listed subsidiary, etc. (excluding cases where ROE is above a certain level).
Independence of outside directors A certain level of independence is required for outside directors to supervise the management team. In order to prioritize effectiveness, the Company ensures that the standards for independence are not too stringent.	■Notification as an independent executive is not confirmed. ■An outside director has worked for or has otherwise been part of a company that is a major shareholder.
Effectiveness of outside directors Outside directors must effectively supervise the management team.	■The attendance rate for board of directors' meetings is less than 75%. ■It is obvious that the outside director did not fulfill the expected tasks such as the appointment and dismissal of senior management and the supervision of conflicts of interest between the company and the management team or controlling shareholders.
Appropriate compensation governance Because the process for determining executive compensation must be transparent, it is essential that there is appropriate supervision (compensation governance).	■In a company where the outside directors fall short of a majority and an independent compensation committee has not been established, a proposal for executive compensation or executive retirement benefits above a certain level is submitted.
Appropriate incentives Although stock compensation is important as a management incentive, it may produce a contrary effect unless it is designed appropriately.	■The stock compensation is designed so as to encourage the management team to be short-term oriented. ■The persons to whom the stock compensation is given are not appropriate. ■The stock compensation could lead to excessive dilution.
Effective utilization of financial assets It is essential for financial assets to be utilized effectively to enhance corporate value.	■Financial assets are not utilized effectively, and shareholder returns (dividends and share buybacks) are not appropriate.

*http://www.nomura-am.co.jp/corporate/service/responsibility_investment/pdf/vote_policy.pdf

Examples of Qualitative Judgment on Proposals

Overview of proposal

Company P agreed with Company S to make Company S a wholly-owned subsidiary and wanted to acquire all the shares of Company S through a takeover bid (TOB). If Company P acquired 90% or more of the shares, it would be able to acquire all the shares by demand for cash-out. However, Company P acquired less than 90% of the shares. Accordingly, Company S held a shareholders' meeting and submitted a proposal that would enable Company P to acquire the shares that Company P was unable to acquire (squeeze out). Given that Company P held more than two-thirds of the shares through the TOB, it would be difficult for us to vote down the proposal, even if we objected to it. However, we held careful discussions to fulfill our responsibility as an investment manager.



Process of judgment on proposal

We first referred to the Proxy Voting Guidelines. The standard on the right applies to this proposal, but the proposal was discussed at the Responsible Investment Committee because qualitative judgment was required. In addition, if there was a possibility of a conflict of interest, the Responsible Investment Council would hold a meeting to review it.

Company reorganization and capital policy

(merger, acquisition, business transfer, acquisition of business, company split, capital increase, etc.)

We vote for a proposal on a company reorganization or a capital policy if it is deemed appropriate, and we otherwise vote against it after comprehensively taking into consideration its content, the economic terms (including a premium), the impact on shareholder value, the grounds for management judgments and rationality and the disclosure status, etc. If general shareholders receive consideration such as shares and money for the company reorganization or the capital policy, we emphasize the appropriateness of the consideration when deciding whether to agree with or oppose the proposal.

Outcome of proposal judgment

In 2018, there were a number of proposals like the one above, but here we will introduce a case where we voted for the proposal (Company A) and a case where we voted against the proposal (Company B). In accordance with the above standard, we deliberated the proposals at a Responsible Investment Committee meeting, but there was a split in opinion on two issues: the economic terms (including premium) and the impact on shareholder value. The summary is shown below. In the case of Company A, the proposal was reviewed by the Responsible Investment Council because there was a possibility of a conflict of interest, but they reached the conclusion that there were no problems.

	Company A: Voted for the proposal	Company B: Voted against the proposal
Economic terms	• We undertook engagement because the premium (the difference between the TOB tender offer price and the share price immediately before the TOB) was low, and we communicated this to the company. • The tender offer price was increased during the TOB period. • We found that one reason for the low premium was that Company A's business was susceptible to business cycles and that the share price immediately before the TOB was high.	• Because the premium was slightly lower than other similar cases, we undertook engagement and communicated this fact to the company, but the tender offer price was not changed.
Impact on shareholder value	• To examine the impact on shareholder value from the standpoint of a minority shareholder, Company A established an independent third-party committee which included outside directors. • We confirmed through disclosure materials and engagement that the outside directors themselves were actively involved, including attending negotiations with the acquiring company.	• To examine the impact on shareholder value from the standpoint of a minority shareholder, Company B established a third-party committee including an outside auditor. • Given that this outside auditor came from a financial institution that provides advice to the acquiring company, there were some concerns regarding independence. Even in the process of the negotiations, the outside auditor displayed behavior that caused us to worry about independence. • We conveyed our concern regarding independence through engagement, but no improvements were made.

Proxy Voting for Japanese Companies from January to December 2018

The results of our proxy voting with respect to Japanese companies from January to December 2018 are as follows. Unless otherwise noted, the ratio of votes against company proposals and the underlying reasons are shown (for shareholders' proposals, the ratio of votes in favor and the reasons are shown).

Election and dismissal of directors

The independence of candidates for outside director could not be confirmed, poor business performance, misconduct, etc.

Number of proposals 17,313

5%

Election and dismissal of auditors

The independence of candidates for outside auditor could not be confirmed, etc.

Number of proposals 1,835

22%

Election and dismissal of accounting auditor

None

Number of proposals 45

0%

Executive compensation

Outside directors and auditors were included among the people who would receive stock compensation, and the lock-up period was less than three years

Number of proposals 793

29%

Payment of retirement benefits to retiring executives

Outside directors and auditors were included in the scope of persons who would receive payment, etc.

Number of proposals 199

51%

Appropriation of surplus

The company is cash rich, and its ROE and the ratio of shareholder returns is low.

Number of proposals 1,553

9%

Organizational restructuring-related

There were problems in terms of protecting the interests of minority shareholders, etc.

Number of proposals 47

6%

Introduction, update and abolition of takeover defense measures

There was a problem in the design in terms of enhancing and protecting shareholder value

Number of proposals 62

100%

Proposals on other capital policies

Capital increase or contribution of treasury shares without a clear impact on shareholder value

Number of proposals 111

5%

Proposals on articles of incorporation

The chairman of the board and the chief executive officer (CEO) are not separated, etc.

Number of proposals 550

5%

Total Company proposals

See above

Number of proposals 22,508

8% (Ratio of votes against)

Total Shareholders' proposals

We thought it would contribute to an improvement in corporate governance, etc.

Number of proposals 145

14% (Ratio of votes for)

Reference

Results of proxy voting for foreign companies January to December 2018

	Votes for	Votes against	Total	Ratio of votes against
Company proposals	8,339	1,302	9,641	14%
Shareholders' proposals	364	167	531	31%
Total	**8,703**	**1,469**	**10,172**	**14%**

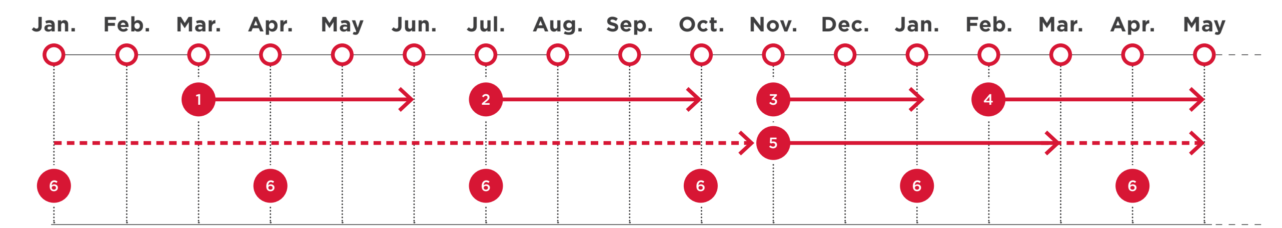
My Year in Charge of Proxy Voting

Hiroharu Fukasawa

Senior ESG Specialist

June, followed by March and May, are the months in which the largest number of Japanese companies hold their general shareholders' meetings. We exercise our voting rights for more than 1,500 portfolio companies in June alone, and for more than 1,900 portfolio companies if you include March and May. Below, I discuss the approximate annual schedule for proxy voting, focusing on this period with a high concentration of shareholders' meetings.

Proxy voting Annual schedule



1 Period when most general shareholders' meetings are held

March – June

This is a period when we need to accurately judge a large number of proposals. We exercise voting rights for roughly 100 companies per day during the peak period in June, so it also happens to be the period when we most want companies' information disclosure to be easy to understand.

2 Revisions to Proxy Voting Guidelines

July – October

As soon as the busy season for shareholders' meetings ends, we start reviewing our Proxy Voting Guidelines. Taking into consideration the actual conditions of Japanese companies, which we learned through engagement and proxy voting, we make revisions to reflect changes in laws and regulations, such as revisions to the Corporate Governance Code.

3 Engagement to inform companies about the revisions to our Proxy Voting Guidelines

November – January

We conduct engagement mainly with the portfolio companies that we think will be significantly impacted by the revisions to our Proxy Voting Guidelines. We communicate our thoughts and encourage them to strengthen their corporate governance. In addition to individual meetings with portfolio companies, we also sometimes explain our views at seminars.

4 Engagement with an eye towards general shareholders' meetings

February – May

As the busy season approaches, we ramp up engagement with an eye towards shareholders' meetings. This is the time when companies are finalizing the proposals they will make at shareholders' meetings (the proposals have already been finalized in some cases), so portfolio companies tend to be most interested in the prospects for individual proposals. However, we try to keep the focus of discussions on strengthening corporate governance over the medium to long term.

5 Engagement to strengthen corporate governance

All year, particularly November – March

We explain our proxy voting philosophy and let portfolio companies explain to us how they are working to strengthen their corporate governance, and we then talk with them about their efforts. Typically, the discussions will be about what efforts they should make to enhance corporate value over the medium to long term, and what kind of corporate governance they should have as a mechanism for supervising those efforts given their particular business and financial situation.

6 Disclosure of proxy voting results

January, April, July and October

After the end of each quarter, we disclose the results of our proxy voting on our website. We also sometimes prepare a report at the request of public and corporate pension funds, or other clients.

ESG Integration

Concept of ESG Integration

Nomura Asset Management's active equity investment is based on the analysis of companies' fundamentals. To be competitive in this area and make a stable contribution to the long-term growth of clients' assets, we must effectively incorporate the evaluation of non-financial information including ESG into our investment process, on top of the existing analysis of financial information.

Corporate value is basically the discounted present value of future free cash flows. We think that business assets that generate corporate value include not only fixed assets such as production facilities, but also assets that do not appear in financial statements, such as human capital, natural capital and social capital. Our greatest challenge is to analyze how these various types of capital, or non-financial information, will affect the future business operations and growth sustainability of companies and make investment decisions based on the evaluation of non-financial information.

The so-called integration approach of incorporating ESG elements into the investment process directly leads to an improvement in our investing competence, and we believe that it will be increasingly important going forward.

ESG Integration Process

ESG integration is employed across many of our investment strategies. Our investment process is characterized by the systematic organization of strategies for each investment team in each office. All investment teams now include ESG considerations as part of their ongoing investment process. While the integration method varies from strategy to strategy, ESG evaluation, which is the basis of ESG integration , has been developed on a global basis. By identifying ESG issues in each individual industry and company and by utilizing multiple external evaluation methods and information sources, we can now provide our own ESG ratings that can be utilized as part of our investment activities.

In recent years, there have been astonishing advances in technology including AI, and the environment in which the asset management industry operates is also changing rapidly. We established the Innovation Lab Department in October 2017 to assimilate the most advanced investment know-how into our investment process. We are also diversifying our integration efforts by launching new initiatives in 2018, such as beginning to utilize AI to further integrate ESG criteria into our investment process.

ESG Evaluation in Stock Selection

Japanese Equities

Yuichi Murao

Senior Investment Officer
Japanese Equities

Financial information and non-financial information are closely related and influence one another

In the investment process for typical actively- managed Japanese equity funds, we make an investment decision by adding our assessment of undervalued and overvalued stocks using share valuation indicators to our short- and long-term earnings forecasts, which are based on a company's competitiveness and growth potential.

We have now incorporated non-financial information, or so-called ESG evaluation, into this process.

Specifically, we have incorporated the ESG metrics and engagement information based on the perspectives of analysts and ESG specialists, along with the ESG evaluations made by outside rating agencies. Together, this analysis becomes part of our decision-making process. This is because we believe there is a close relationship between financial performance and ESG measures, which is non-financial information, and that they influence one another.

To enhance this process, we work to improve our own ESG evaluation techniques. This creates a common language that is used when company analysts, ESG specialists and asset managers hold discussions, and with this we can expect more effective ESG integration into our investment process.

Characteristics of ESG Evaluation	ESG Evaluation Items (Five Major Items)
Comprehensive evaluation by corporate analysts and ESG specialists	**Governance** Evaluation of management and the board of directors, etc.
	Environment Information disclosure related to climate change, etc.
Establishing highly effective evaluation items focusing on adequate disclosure as well as risks and opportunities	**Social** Information disclosure on the active participation of women and on human rights, etc.
	Risk Consideration of the financial impact of ESG risks
A relative comparison within the industry is possible for each of the five major evaluation items	**Opportunity** 17 SDGs

Creating our own ESG evaluation techniques for Japanese equities

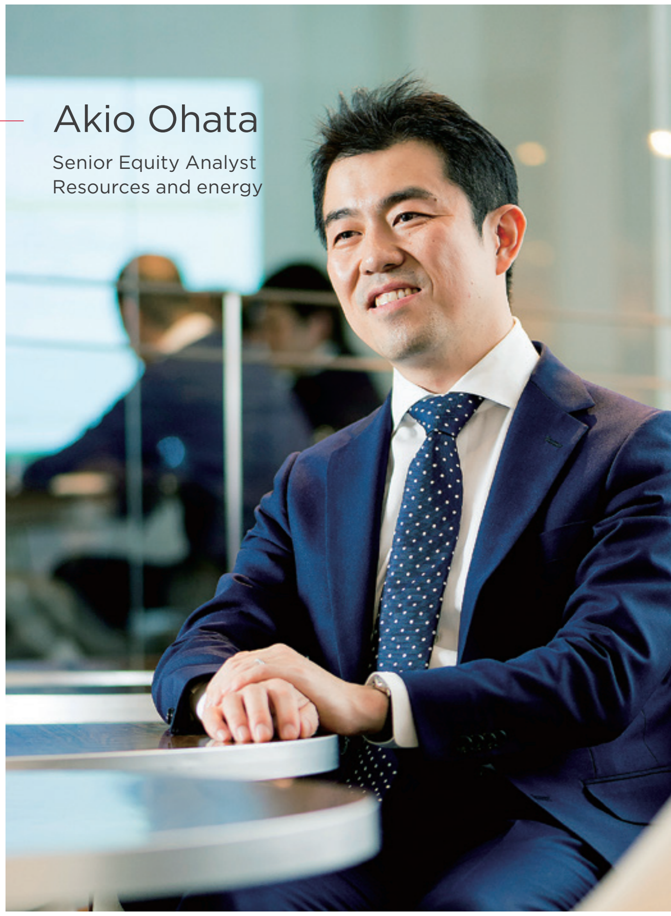
When we evaluate the non-financial aspects of a portfolio company, we focus not only on the company's efforts regarding ESG but also on whether the efforts are of material importance and have a financial impact on the company. We study these efforts to see if they provide an opportunity to generate future cash flows, in addition to determining whether they are risks for the company. Currently, our ESG evaluation has five major items: (1) Governance, (2) Environment, (3) Social, (4) Risk, and (5) Opportunity, while more detailed lists of points to be evaluated have been established for each major item.

The ESG evaluation is determined by taking qualitative judgment into consideration based on the perspectives of the company analysts and ESG specialists, in addition to information disclosed by the company. The company's true condition is better reflected by adding the qualitative judgment to the evaluation based on the information disclosed by the company. Using the content of this evaluation, we can also assign a ranking for each evaluation item and make comparisons within an industry. Accordingly, the ESG evaluation can be used in many different ways within our investment process. As an investment manager, I hope that company analysts and ESG specialists will continue to provide high-quality, unique analysis and evaluation. At the same time, portfolio managers, will continue to strive to get better at using ESG evaluations to more effectively discern corporate value.

Perspectives of Equity Analysts

Japanese Equities

Expressing a stance and disclosing information on climate change are becoming increasingly important



Akio Ohata

Senior Equity Analyst
Resources and energy

My focus is on the resources and energy sectors. These sectors are at all times aware of their relationship with climate change risk.

Addressing climate change risk is certainly an important issue, but natural resources and energy are also essential components of all economic activity. Accordingly, these companies have a responsibility to ensure a secure supply of resources and energy. Environmental and supply issues should ultimately be satisfied at the same time, but in the past many companies have given priority to their supply responsibility. Recently, however, an increasing number of companies have sought to reflect climate change risk in their long-term strategies. Good examples of this include petroleum refinery companies and public utility companies, which are working to expand the use of renewable energy and hydrogen while eliminating and consolidating existing facilities.

Information disclosure is also critical. It is sometimes difficult to address climate change risk quickly due to the burden on users and the supply responsibility, but even in such cases, it is important to indicate an effort to make steady progress by presenting a long-term plan. I believe that actively disclosing information and holding constructive dialogue will help to enhance corporate value in the long term.

Xiang Li

Equity Analyst
Food and daily goods

There are numerous issues to be addressed in order to achieve sustainable growth

Many companies in the food and daily goods sector are actively addressing social issues such as the environment and the active participation of women based on a keen awareness of these issues.

However, there are numerous issues to be addressed in order to achieve sustainable growth, such as environmental protection in the procurement of raw materials (including palm oil) and the issue of waste plastics. The issue of discarded plastics has recently become one of the main topics during dialogue with companies, as many plastics are used in packaging for food and daily commodities.

In the food and daily goods sector, women are very active in a range of areas, including product development and sales. In particular, some cosmetics companies are supporting female entrepreneurs, and I think this is a very interesting approach that could give rise to benefits such as an increase in demand for products and higher motivation among female employees.

From an investment perspective, I focus on how resolving social issues aligns with the enhancement of corporate value

Aya Torii
Equity Analyst
Healthcare

In the healthcare sector, social contribution and the enhancement of corporate value easily align with one another because business itself leads to the resolution of social issues such as the fulfillment of unmet medical needs and an improvement in quality of life (QOL).

On the other hand, however, there are issues specific to this sector. For example, providing medical access to people in low-income countries is a social responsibility unique to the healthcare industry, and one that is directly linked to life and well-being. As medical expenses account for an increasingly large share of government and household budgets around the world, gaining social recognition is also important from the perspective of sustainable growth. For example, tropical infectious diseases such as malaria were easily overlooked in the past because their impact was limited to developing countries, but some companies are now turning their attention to these diseases. This is an effort to fulfill a social responsibility by meeting unmet medical needs from a global perspective, but it also allows us to prepare for the spread of tropical infectious diseases over the long term in conjunction with global warming. For this reason, I see this as a notable initiative from an investment perspective.

Mitsuhiro Iso
Senior Equity Analyst
Electronics

Presenting future business opportunities based on outstanding technologies is also critical

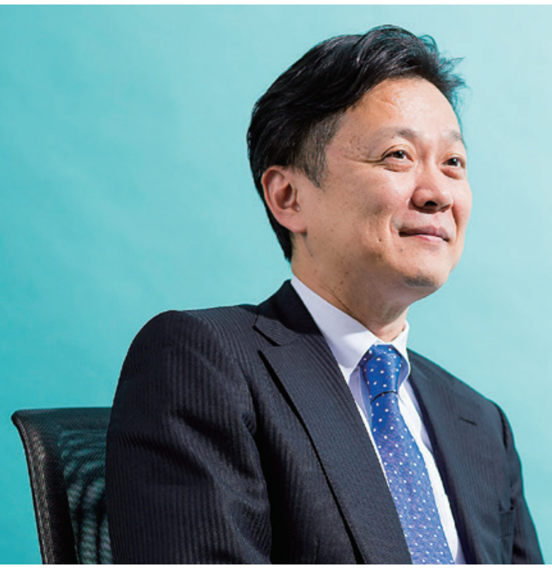
In the electronics sector, many companies possess outstanding technologies that can help to mitigate environmental problems, including the reduction of greenhouse gas emissions. In this sense, social issues such as the environment are often regarded as business opportunities rather than risks in this sector.

In fact, Japanese companies have a history of capturing markets using their energy-saving technologies, and this strength still exists for air- conditioners and many other products. There are also many parts manufacturers with key technologies that support energy conservation, such as inverters and brushless motors. I believe that electric vehicles, which are expected to make a significant contribution to the reduction of greenhouse gas emissions in the medium to long term, are a promising growth opportunity for these companies.

In the manufacturing industry, the electronics sector has a relatively high level of awareness of issues such as conflict minerals and working environments. Because companies in this sector emphasize efforts throughout the supply chain, companies that have business relationships with such entities recognize that appropriately addressing social issues is an increasingly important risk management objective.

Perspectives of Equity Portfolio Managers

Japanese Equities



ESG integration is helping to diversify our evaluation of companies

Our value investing incorporates ESG principles

The Japan Strategic Value (JSV) Fund employs an investment strategy which seeks to discover companies with the potential to create value over the medium to long term from among the universe of undervalued companies.
The fund has performed well over the years since its launch in 2000. I believe the source of this strong performance is JSV's proprietary method of assessing companies to discover their intrinsic value over a timeline of approximately five years, looking at various aspects such as asset value, improvements in earnings power and competitiveness, and enhancement of shareholder returns. This is based on the understanding that fulfilling corporate responsibilities regarding the environment, social and governance (ESG) areas is absolutely essential, and the principles of ESG are included in the JSV team's evaluation method.
The JSV team determines the intrinsic value of companies in terms of various aspects, including their medium- to long-term management strategies, an assessment of the management team, and its stance on shareholder returns. With regard to governance in particular, we look not only at the current execution and supervisory functions, but we also assess and analyze factors including a company's sustainability in terms of its future generation of leaders and other areas for which improvements are expected over time. I believe that this approach is a good method for determining corporate value in order to discover companies that can sustainably enhance their corporate value over the longer term.
This approach includes having ESG specialists come with us when we visit portfolio companies, as they bring their unique perspectives and knowledge. This enhances discussions we have with the companies' executives through direct dialogue to increase their corporate value.
Disclosure about companies' ESG efforts is also very important for assessing corporate value from a medium- to long-term perspective. Monitoring portfolio companies' CO_2 emissions, keeping an eye on outside vendors' ESG ratings, and analyzing integrated reports and CSR reports are also important parts of the process for evaluating individual stocks as well as the portfolio as a whole.

Kentaro Takayanagi

Value Equity Investment
Chief Portfolio Manager

Joined Nomura Asset Management in 1991. He has been a Japanese equities investment professional since 1993, and has more than 25 years of investment experience. The JSV Fund, which he has managed as the chief decision-maker since its launch in 2000, has grown to become a leading fund overseas as well, with a global customer base spread over more than 20 countries.

ESG will be further integrated by having a long-term view

Shintaro Harada

Growth Equity Investment
Chief Portfolio Manager

Joined Nomura Asset Management in 1993, and has consistently been involved in Japanese equities investment for pension funds for more than 25 years. He launched the Japan Active Growth strategy in 1996 and started the Japan High Conviction strategy in 2012. With more than 20 years of experience in growth investment, in 2009 he was among the first to switch to an investment strategy focused on ROE, and his investment strategy has the longest investment horizon in our company.

Discerning a company's true competence is necessary for long-term investment

I am in charge of the Japan Active Growth and Japan High Conviction investment strategies. In both, we invest in stocks capable of maintaining high ROE over the long term. What I am particularly aware of in this strategy is having a long-term perspective. I believe that a company's current business performance is the result of decisions it made in the past, and that the current decisions being made by a company will surface as operating results three years to five years down the road. To make a judgment on corporate value from a medium- to long-term perspective, we need to discuss, for example, what a company's core competencies are, and whether its competitive advantage will change. If we look at the company on a timeline of three years and five years, this judgment has even more critical implications. I feel that our team's investment process is very compatible with the philosophy of ESG investment.

Our team seeks not only short-term financial information for the current year and the next year. We also want to see the company's medium- to long-term investment plan spanning at least five years or so, the allocation of resources including staff assignments, the sustainability of ongoing and new businesses, and the relative strength of social needs behind the business, to name just a few. We research and discuss topics including how the company's vision – as presented by its management team – will be incorporated into its business, how it will maintain its advantages, how it will grow its corporate value over the long term, as well as other information such as the evaluation of management quality to execute and supervise these initiatives. We do this with the research teams that equity analysts and ESG specialists belong to and use the outcomes when selecting stocks. Through such fundamental analysis and consideration of ESG issues, we can increase our degree of confidence when holding stocks over the long term by understanding companies' true competencies free from the influence of the external environment. We can then make a judgment about buying and holding over a roughly five-year time horizon.

Global Equity Investment Team

Global Equity Investment Pursuing Both Shareholders' Interests and Social Value

Global Equities

The Global Equity Investment Team I lead comprises 15 investment professionals based mainly in London. We make investments in a broad investment universe that includes developed and developing countries as well as frontier markets. Our investment philosophy is to pursue investments in high-quality and undervalued stocks. This means investing in the stocks of companies that are trading below their intrinsic value.

The team's investment philosophy

Being a responsible investor is central to our investment philosophy. Our approach uses the concept of "the greatest happiness of the greatest number," as a guideline, which is the basic principle of Utilitarian philosophy. We take into account the utility derived by the wide range of stakeholders of companies we invest in or may invest in.

For example, let's apply this to the case in which a company uses monopolistic pricing power to dramatically increase the prices of its drugs. The company's stakeholders include not only its shareholders, but also the patients who need the drugs. The shareholders might be happy with high investment returns due to the price hike, but it will have a seriously detrimental impact on the patients. In fact, one pharmaceutical company did dramatically raise its drug prices over a short period of time, but it ultimately failed to generate sustainable profits.

Our decision-making process

Our idea of responsible investment is for a company to create all types of sustainable value, and for this value to be shared equitably among all stakeholders, including its customers, employees, suppliers, society as a whole, and shareholders. This is because unless the value created by the company is shared with society in a sustainable way, there will be some kind of detrimental impact on stakeholders. In other words, this is a process of taking the total impact on the stakeholders into consideration. Our starting point is the total utility or 'total value' created by the company.

The total value created is not just financial, but is the benefit delivered to all the stakeholders, including the 'happiness' brought to customers, the 'employment and opportunities' brought to employees, and the 'impact on the environment.' Our investment process includes analysis of a company's impact on all these stakeholders and the identification of any associated issues. We rate every company we review as 'investible' or not based on ESG factors and that is a key component of our investment decision-making review.

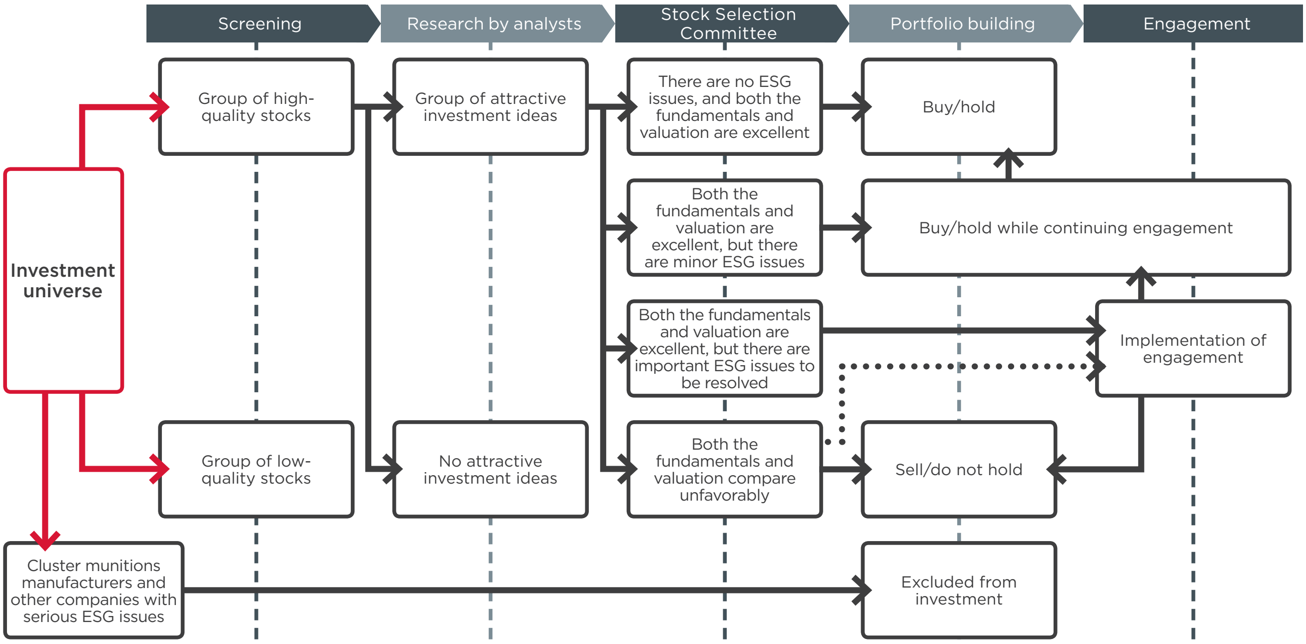
For example, Cluster Munitions Producers are excluded given that their products are widely prohibited. Aside from that we do not implement simple stock exclusions, except where requested by a client as we prefer to rely on our own decision making framework and analysis. In cases where a company has a serious negative impact on a certain stakeholder group we might judge that stock to be "uninvestible". Typically

Tom Wildgoose

UK Office
Global Equity Investment
Head of Investment

Joined Nomura Asset Management's UK Office in 2007 after working at a consulting company for seven years. He became Head of Research in 2011 and has held his current position since 2014.

The Global Equity Investment Team's Investment Process

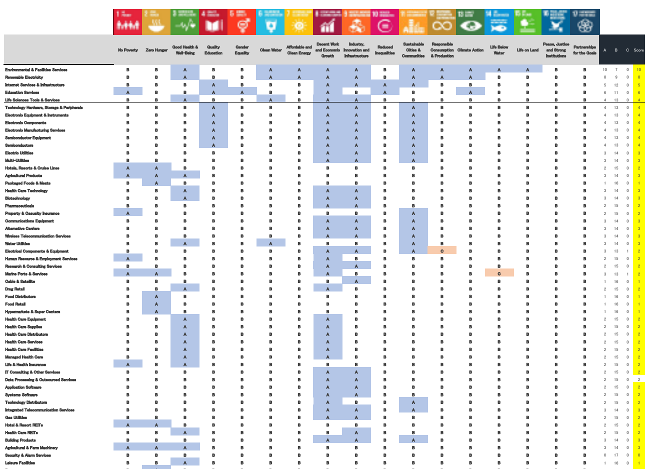


companies that intentionally adopt a practice that breaches some regulation or have a serious negative impact on a stakeholder group will fit this category. The chart above shows the basic flow for identifying ESG issues and resolving them. Engagement with company management to encourage improvement on issues is central to our process. In the past, for example, through dialogue we succeeded in encouraging a company to adopt a better executive remuneration scheme, while we encouraged another company to improve the environmental impact of the supply chain. We also disclose our engagement activity on a quarterly basis on our website. This is based on our belief that disclosure is important in order to encourage companies to continue their efforts.

Incorporating SDGs into the investment process

Our investment process places importance on identifying good companies, rather than excluding companies with a poor ESG evaluation. For this reason, we focus on the sectors that could become potential targets of investment by evaluating the impact of each industry on the 17 SDGs. Companies related to oil, gas and coal that could have a material negative impact on the achievement of the SDGs tend to be less likely targets of investment. This is because although we recognize that these sectors do indeed have a positive impact on society at large, such as supplying low-priced transportation fuel, we feel that, judging from currently available information, these sectors are likely to have a net negative impact on the world in the future, such as their environmental impact. On the other hand, we identify internet services, infrastructure development, renewable energy and electronic components, among others, as sectors with a net positive impact on the UN SDGs, and a likely source of investment ideas. Incorporating the SDGs into the investment process also helps us to fortify our investment philosophy.

Analysis of industries and companies based on the UN's SDGs



Global Equity Investment Team

The only Japanese-affiliated asset manager to be awarded Tier 1 status by the UK FRC

Alex Rowe

UK Office
Portfolio Manager / Equity Analyst

In 2016, Nomura Asset Management's UK Office was the only Japanese-affiliated asset manager to be awarded Tier 1 status, the highest category, by the Financial Reporting Council in the United Kingdom (UK FRC). The UK FRC divides institutional investors who are signatories to the UK Stewardship Code into three categories from Tier 1 to Tier 3 according to their continuous disclosure of activity reports and commitment to stewardship activities. The institutional investors who were categorized as Tier 3 were removed from the list of signatories by the UK FRC.

The Global Equity Investment Team is proud of its strong track record as a responsible investor. We took ESG into account in our investment decisions before the concept of ESG integration became mainstream. Since 2013, ESG research and analysis has been incorporated into every single stock review, using both internal proprietary research and external ESG databases. The review of ESG factors has become a core, mandatory component of the stock selection committee's investment approval process.

While ESG integration has been a part of the investment process for a while, in early 2016 we extensively reviewed the process to ensure that these activities would have the maximum positive effect on our behavior as a responsible investor. In this process, we identified areas for improvement across our engagement activities and established principles for us to truly be responsible investors. The report presenting our investment philosophy ("The Philosophical Thoughts of a Responsible Investment Team")*1 laid out how we would, as a team, strive to achieve our goal of being responsible investors. Since the April-June quarter of 2016, we have publicly reported the results of all our ESG research and engagement activity in our quarterly "Responsible Investing Report"*2 in the UK. This is based on our belief that publicly reporting our activities will help increase our own accountability and also encourage accountability by companies.

In 2017, we took our principle of total value creation one step further and launched the Global Sustainable Equity strategy that August. This strategy seeks to invest in attractive companies that exhibit the greatest total value generation and distribution of this value to all stakeholders. Going forward, we will continue to strive to deliver industry-leading responsible investment standards and maximize the impact of our activities.

*1 The Philosophical Thoughts of a Responsible Investment Team
https://www.nomura.com/nam-europe/resources/upload/the-philosophical-thoughts-of-a-responsible-investment-team.pdf

*2 Responsible Investing Report in the UK
https://www.nomura.com/nam-europe/about_nam/responsible-investment.shtml

ESG Research by Country Specialists is Another Source of Added Value

Asia-Pacific Equities

The investment process and ESG considerations

The Singapore Office actively invests in equities in the Asia-Pacific region based on fundamental research. In the process of our active investment, country specialists (CSs) are assigned to each country in this diverse region with their different demographics, industrial structures, economic development stages and growth factors. The main source of our added value is bottom-up research and the selection of individual stocks by approaching and meeting with a large number of companies (about 3,000 cases in 2018) by the CSs, who are professionals with considerable experience.

We attach an investment rating to individual stocks based on the fundamentals research carried out by CSs. For the ESG evaluation, the CSs evaluate stocks in light of the situation and customs peculiar to each country and incorporate their assessments in the evaluation of individual stocks. This ESG evaluation is made with reference to the research of individual stocks by CSs on their own as well as our own ESG ratings. The actual portfolio is constructed based on these investment ratings and the ESG evaluation.

A specific example of investment by the Singapore Office

Here is how we evaluated a bank stock and the investment action we took. We evaluated the stock positively, appreciating the fact that it was undervalued in addition to having strong fundamentals, including an improved profit margin due to the policy interest rate hike, and the expected growth in the credit card and securities businesses. In terms of ESG, we learned through an interview by the CS and joint engagement with GES International (now Sustainalytics) that the bank had a constructive stance on ESG, indicated by the fact that it had established a CSR Committee independent from senior management and had set CSR targets to be met by 2020 and had been engaging in dialogue with investors towards achieving those goals, as well as the diversity of director candidates, the promotion of renewable energy use and the reduction of GHG emissions. We decided to increase our investment weighting because of the bank's commitment to ESG from the medium- to long-term perspective and based on the progress it has made in its ESG efforts, in addition to our positive assessment of its financial standing.

The growing importance of ESG in Asia

Reflecting growing interest in ESG worldwide, research into ESG-related matters and engagement activities are becoming increasingly important in the Asia-Pacific market in order to achieve good investment performance over the long term. In the Asian market, evaluating corporate governance when making investment decisions is particularly important, given the large presence of government-affiliated companies and conglomerates. In addition, even in Asian countries, which are in the structural high-growth stage driven by population growth, the expanding middle-income segment, and industrialization, highly-sustainable management that is more conscious of ESG (including the environment and social issues) is seen as an essential factor for long-term economic growth and growth in corporate earnings. We will continue to seek strong investment performance over the long term by continuing to further enhance our ESG evaluation process.

Vipul Mehta

Singapore Office
Asia-Pacific Equity Investment
Head of Investments

Started working as a fund manager at an asset management firm in 1994. Joined the Singapore Office of Nomura Asset Management in 2004 as an Asia-Pacific equities manager. Appointed to his current position in 2016.

ESG Integration into Fixed Income Investment

Fixed Income

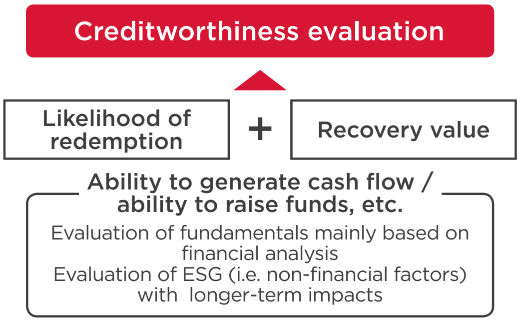
Integration of ESG factors into the credit research process

In our active fixed income investment, we incorporate ESG into the investment process of our credit strategy. The credit strategy pursues excess returns by taking on issuers' credit risk, which is done by evaluating the creditworthiness of issuers and analyzing the likelihood that the bonds issued by a particular issuer will be redeemed, as well as analyzing the recovery value should the bonds not be redeemed. In fundamentals-based qualitative research, we have been taking ESG factors, such as governance risk and the carbon exposure of public utilities and resource companies into consideration in our basic evaluation process. To enable us to make more optimal investment decisions, we conduct a comprehensive credit evaluation that is well balanced in the long term by identifying potential non-financial risks that could have an impact in the future (i.e. ESG factors) and utilizing quantified ESG scores.

Masahiro Kawagishi

Investment Department, Fixed Income Group
Co-CIO

Joined Nomura Asset Management in 1990. After working as a corporate analyst, in 1993 he began working as a bond portfolio manager, handling investment related to interest rates in Japan and overseas, foreign exchange and credit. From 2007, he handled global sovereign and corporate bond mandates for international clients as the leader of NAM UK's bond investment team. Since 2014, he has being in charge of Active Fixed Income investment in Tokyo.



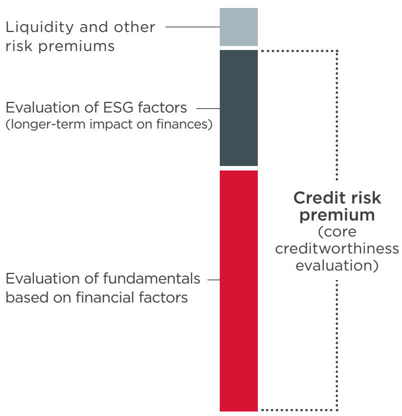
Identification and quantification of ESG factors for bonds

While ESG factors are common to both bond investment and equity investment, our view regarding concerns about risks such as the impairment of assets and due to the transition to a low carbon society as well as governance concerns differs from that of equity investors, and we must identify ESG factors from the perspective of a bond investor. Accordingly, we sort those indicators that could have a material impact on the credit risk of bonds and issuers, and ensure that these indicators are reflected in our ESG scores for bonds. Quantitative scores are also used as a tool to support qualitative judgment.

For example, if a bond is screened as having a high risk and high exposure to carbon and fossil fuels (implying low ESG score), instead of automatically excluding the bond from investment or making the decision to underweight the bond, we conduct deeper research including looking into whether the company has a plan to shift to cleaner power generation and determining whether there is future opportunity, thereby aiming for a chance to create alpha. In other words, we analyze risks and opportunities in terms of both level and momentum in domains where the impact of ESG could become greater over time.

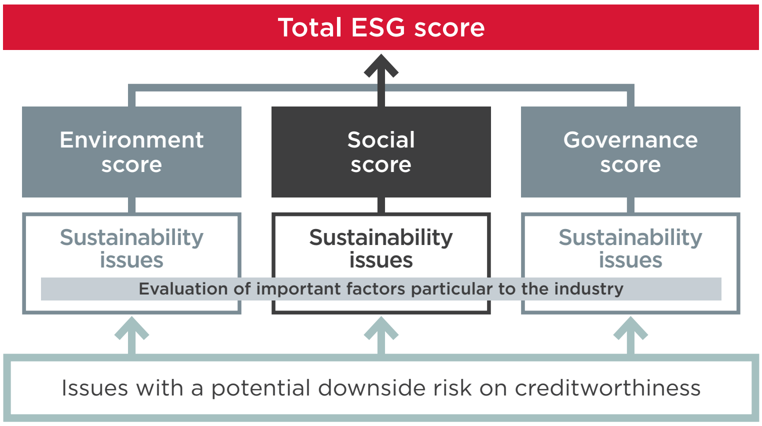
In addition, spreads on non-government bonds over government bonds are closely related to credit risk, but an approach that mechanically selects bonds that are excellent in terms of ESG could result in an investment bias toward highly-rated, low-spread bonds, thereby sacrificing returns. To avoid an unintended bias due to a simple inclination toward ESG, we evaluate ESG fully taking into account the portfolio's risk characteristics, and analyzing the impact on performance.

Spread components



Quantitative ESG evaluation in actual corporate bond investment

In our fixed income investment, we have strengthened our investment framework by introducing quantitative ESG risk assessment in conjunction with the launch of a euro-denominated corporate bond fund. For bond investors, company assessments mainly focus on whether ESG factors will negatively impact the company's creditworthiness. Accordingly, our investment team carries out assessments by designing robust, systematic and quantitative standards for the downside risk on companies related to ESG factors. I hope that the market understands that introducing ESG risk assessments brings about strong investment performance characteristics, and that companies realize that proactively addressing ESG issues is important to investors. We have strengthened our investment process by using an objective, consistent and quantitative framework to identify and evaluate ESG factors with an emphasis on downside credit risk. First, we identify issues related to the sustainability of credit evaluation. We identify their importance, taking into account the likelihood of downside risk materializing in the credit market. We then calculate ESG scores by matching the importance of the issues with data provided by an ESG provider or other vendors. The total ESG score is calculated from E, S, and G weightings particular to the sector that we have identified and the previously calculated ESG scores. Quantitative ESG scores are evaluated objectively by credit analysts through a qualitative approach and are integrated into the bond selection process and the portfolio-building process in a way that compares with industry peers.



Specific examples of the framework

Specific examples include the case of an insurance company. While we regarded its creditworthiness as positive based on our financial analysis, we gave the company a low ESG evaluation in social and governance issues, based on the fact that no changes had been made to the senior management team for a long time, along with the fact that the insurance company held investments in many companies with weaknesses in terms of responsible investment. We therefore decided not to include the insurance company in our portfolio.

For an oil and gas company with a business portfolio in which a high weighting is given to ESG issues related to the environment and governance, although its risk-adjusted spread was attractive, because we found vulnerabilities in terms of waste management, environmental sustainability, and operational safety, we replaced it with a company meeting the same conditions that had a higher ESG score. As this shows, introducing ESG risk assessment has strengthened our investment framework, resulting in a portfolio more resistant to downside risk.

Jason Mortimer

Investment Department, Fixed Income Group
Senior Portfolio Manager

Joined a securities firm in 2006 and was assigned to derivatives sales and trading in Tokyo. In 2010, he was assigned to Asian local currency bond strategy in Hong Kong and Singapore. In 2014, he began managing local currency bonds of developing countries and dollar credit-linked notes in London as a portfolio manager. He joined Nomura Asset Management in 2017 and engages in ESG-related investment in the Fixed Income Group.

Rikio Nagahama

Outside Director

Interview with Outside Directors

We will actively engage to remain a trusted asset

We have been participating in comprehensive discussions for more than two years since becoming members of the Responsible Investment Council.

Can you tell us about the role of the Responsible Investment Council and what you have been doing as Council members?

Nagahama: I worked on the asset management side at Dai-ichi Life Insurance, and later served as the president of DIAM (now Asset Management One) for five years. I have thus been closely watching Japanese companies over the years from the perspective of an institutional investor. I then spent about five years away from the investment world until I returned to it as the chairman of the Self-Regulatory Committee of the Japan Investment Advisers Association (JIAA), but I have always had a first-hand appreciation of the importance of the Stewardship Code and the Corporate Governance Code through my interaction and wide-ranging discussions with companies and market players.

As such, when I became an outside director of Nomura Asset Management in 2015 and a member of the Responsible Investment Council in September 2016, I took responsible investment as my personal mission and gladly accepted this fulfilling and significant role.

Kimura: Over the course of my long career as an attorney, my focus has been on international corporate legal affairs, and I have worked on many financing deals, primarily involving equity and corporate debt. I accepted this position as an outside director based on my knowledge of the capital markets, having represented both issuing companies as well as securities companies. After taking office, however, I learned that the asset management business is totally different from the business activities of securities companies. That said, given that it was the first time for Nomura Asset Management to bring in outside directors and that the Stewardship Code and the Corporate Governance Code had just been adopted, I get the feeling that not only myself, but also the company and the industry as a whole have been gradually finding our bearings as we incorporate these new concepts.

Nagahama: Ms. Kimura's participation in discussions as an outside director has been very significant. Investment and the law are completely different worlds, but making decisions based on a legal perspective is important when it comes to the fairness of proxy voting and responsible investment, which are recent requirements. Ms. Kimura's expertise has brought a breath of fresh air and knowledge to the company and has helped enhance

Nomura Asset Management's System for Managing Conflicts of Interest

*Chief Conflict Officer

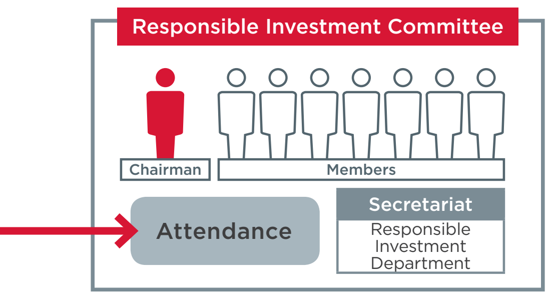
Akiko Kimura
Outside Director

in responsible investment management company.

our management of conflicts of interest.

The Responsible Investment Council, the forum for discussions, is an important body for an asset management company. As outside directors, we must focus on managing conflicts of interest as neutral Committee members.

As a Nomura Group company, Nomura Asset Management is predestined to always be suspected of having a conflict of interest. We must therefore maintain our independence as an asset manager and have a more resolute attitude than other asset management companies. Biased proxy voting favoring the group's interests must be avoided at all costs. I have been keenly aware of managing conflicts of interest from my very first day in office, and having taken part in thorough and frank discussions, I am confident that no such conflicts of interest have influenced investment activities.



Kimura: The most important thing we have done thus far is to eliminate conflicts of interest based on the customer-first principle. Governance by the law is the basic approach for lawyers, so I was a little confused at first about a company being governed by something other than the law, such as the Corporate Governance Code. Still, given the fact that Japanese companies have historically had low levels of transparency, the enactment of the Corporate Governance Code has most certainly resulted in a rapid improvement in governance among Japanese companies.

From the perspective of responsible investment, having exhaustive discussions at Responsible Investment Committee meetings is critical. Managing conflicts of interest appropriately through rigorous deliberations at Responsible Investment Committee meetings helps to secure the trust of our clients, which is the most important factor underlying the growth of Japan's asset management business. I therefore look to express my opinions and participate actively in discussions by attending the Responsible Investment Council as a member, in addition to attending Responsible Investment Committee meetings to make sure that comprehensive discussions are taking place.

Recently, the materials submitted to the Responsible Investment Committee have become more thorough thanks to the Secretariat's efforts, and the increasingly lively discussions among Committee members. I am learning a lot by listening attentively to Mr. Nagahama, who has a great deal of experience in the asset management industry, as he freely expresses his legitimate opinions at Board of Directors meetings and Responsible Investment Committee meetings.

Nagahama: A company becomes stronger when the Stewardship Code, the Corporate Governance Code, ESG and SDGs become ingrained into its culture and operations, and this ends up benefitting shareholders. I find it extremely rewarding to play a part in responsible investment that will help to enhance corporate value.

Participating in meetings besides the Responsible Investment Council

In 2018, the Responsible Investment Committee and the Responsible Investment Council each held four regular meetings where discussions lasted around three hours in each case. A total of 16 extraordinary meetings were also held by the Responsible Investment Committee and the Responsible Investment Council.
In addition, if you also include the hours you spend listening to the Secretariats' explanations on proposals, the time really adds up. How do you feel about this?

Kimura: I serve as outside director for another Japanese company, but my workload for Nomura Asset Management is heavier and I spend more time on it than the other company. I also attend the extraordinary meetings of the Responsible Investment Committee related to M&A and other matters, so if you include these meetings as well the time really adds up.
However, I think that spending time preparing for meetings and discussions is only natural for me to fulfill my stewardship responsibility as an outside director and as an Audit and Supervisory Committee member of an asset management company.

Nagahama: To be honest, before taking office I also did not expect to spend as much time on this job as I do. However, as a Nomura Group company, we must discuss all matters thoroughly so as to never do anything that could be misinterpreted or leave room for scandal. As a participant in the capital markets, it is also critical that we earnestly address any issues that arise more broadly in the capital markets.
We take pride in having more exhaustive discussions than other asset management companies. In addition, as outside directors we also participate in Board of Directors' meetings, Audit and Supervisory Committee meetings and Fund Operation Advisory Council meetings. The Fund Operation Advisory Council is a body that makes sure the company's investment trusts are structured so as to enhance customers' interests and returns. I feel confident in saying that Nomura Asset Management has all the mechanisms in place to fulfill its fiduciary duty.

Akiko Kimura

April 1973	Certified as an attorney (Dai-Ichi Tokyo Bar Association) Joined Nishimura, Komatsu & Tomotsune (now Anderson Mori & Tomotsune)
January 1977	Partner, Nishimura, Komatsu & Tomotsune
June 1978	Harvard Law School (LL.M.)
January 2011	Of Counsel, Anderson Mori & Tomotsune (present post)
June 2015	Outside Director, Nomura Asset Management Co., Ltd. (present post)

Rikio Nagahama

April 1967	Joined Dai-ichi Mutual Life Insurance
June 2004	Representative Director and President, DLIBJ Asset Management Co., Ltd. (Company name changed to DIAM Co., Ltd. in January 2008)
June 2009	Adviser, DIAM (now Asset Management One)
June 2010	Board Meeting Chairperson, NPO Triton Arts Network (present post)
June 2015	Outside Director, Nomura Asset Management Co., Ltd. (present post)

Discussions about revising the Proxy Voting Standards

In order to enhance customers' interests and returns, an asset management company must exercise its voting rights responsibly to ensure that portfolio companies adopt appropriate management practices and thus enhance their corporate value and achieve sustainable growth. We revised our Proxy Voting Standards in November 2018. How did you feel about the discussions regarding the revisions?

Kimura: Nomura Asset Management published the details of the Proxy Voting Standards in 2017, and the Standards are revised every year. As such, they are still a work in progress. For example, shareholders' proposals have been increasing recently, so revisions reflecting this were made to the Proxy Voting Standards in 2018.

Nagahama: Indeed, the Proxy Voting Standards are still being fine-tuned. Publishing the Proxy Voting Standards also encourages portfolio companies to make efforts on their own, and the November 2018 revisions to the Proxy Voting Standards were made with the aim of promoting more active engagement with portfolio companies. Introducing such revisions in November allows the company to undertake engagement well before the March through June period when most shareholders' meetings are held. This gives a company time to understand our thinking and take appropriate measures ahead of its shareholders' meeting. However, the content of Proxy Voting Standards is by no means our idea of the best practice that a company can follow – we want portfolio companies to understand that we want them to continue to make improvements and go above and beyond what our Proxy Voting Standards call for.

Moreover, our engagement in not conducted with respect to proxy voting alone, but also various other themes. Engagement began based on a desire for portfolio companies to grow appropriately. Regarding ROE, for example, institutional investors have been paying close attention to ROE since before the bubble period, and it has finally been systematized recently after attracting enough attention.

Kimura: When it comes to corporate governance, Japanese companies tend to get into a situation of putting systems in place but actually giving a half-hearted effort, and they often place too much emphasis on maintaining harmony. We will continue to hold lively discussions at Responsible Investment Council meetings and continue to provide our candid opinions to make sure companies govern themselves appropriately.

Our engagement needs to cover a broad range of topics, including business and financial strategies, governance based on these issues, and appropriate responses to environmental (E) and social (S) issues that ensure sustainability.

Nagahama: That's true. However, because companies are very diverse, investors need to gather more knowledge to appropriately engage with them. We are now in the process of raising each other's standards through dialogue in order to create a win-win relationship with portfolio companies. This is very important, and in my opinion it is a necessary process in order for portfolio companies to grow globally.

Having experienced the bursting of the bubble economy and the Lehman shock, companies have made progress in unwinding cross-shareholdings. As a result, investment in stocks has become more popular among the wider population, which is a good thing. As a result, Japanese companies have become more shareholder-oriented, and they have started to listen to and accept outside views. Companies have made considerable progress, and Nomura Asset Management has likely contributed to this in some ways.

Playing a part in supporting society by meeting customers' expectations

What are your expectations for Nomura Asset Management going forward?

Kimura: Looking at the investment trust data, it is clear that the asset management business has greater potential for growth in Japan than in many other countries. Mechanisms encouraging investment, such as NISA, have gradually been put in place. We must meet investors' expectations by improving its investment performance and increasing its creditworthiness. I want the company to strive to turn its growth potential into a reality by meeting investors' expectations and demands.

Nagahama: There are no clever gimmicks in asset management. The asset management business is similar to agriculture in the sense that you plant seeds and cultivate them. Overnight success does not happen in this industry. For this reason, our responsibility is to refine our company analysis capabilities, and steadily invest in good companies. Placing top priority on bolstering our investment capabilities, I want us to deepen the mutual understanding with portfolio companies so that they can continue to grow sustainably. Ultimately, I would like us to take part in creating and supporting a society that ensures shareholders' interests.

Review of 2018

This year marked the third year since the Responsible Investment Department was created. At the beginning, we worked to create an environment supporting responsible investment, including strengthening the system for properly managing conflicts of interest, adding multiple proxy voting advisory companies, expanding ESG research resources, and building a global engagement framework. In the second stage, we have been focusing on efforts to enhance our capabilities and become more effective.

Looking back at our activities in 2018, we were able to focus more on activities aimed at further enhancing the value of portfolio companies. In particular, we spent a considerable amount of time discussing proposals submitted to shareholders' meetings, based on the need to have more exhaustive discussions given the progress being made by Japanese companies on corporate governance reforms. Our own awareness and understanding of corporate governance certainly grew based on the multitude of discussions we engaged in.

In addition, partly due to the diversification of dialogue with companies about ESG and other issues, we developed the milestone management system for engagement activities and strengthened the PDCA cycle aimed at enhancing corporate value. We also developed our own ESG evaluation methodology, and otherwise advanced initiatives directly linked to the return on investment of our own investment products. As such, 2018 was a year of laying the groundwork for the future.

2019 and Beyond

We want to make further advances in 2019. We will enhance the Responsible Investment Department's activities, including engagement and proxy voting, to promote responsible investment, and ensure that these activities lead to enhanced corporate value by bolstering internal coordination and through exhaustive discussions.

Each December, we hold an Annual Strategy Meeting, which includes key members involved in investment and research operations both in Japan and overseas. At the 2018 meeting, we reconfirmed our thoughts on responsible investment and established a forum for sharing them globally. With this, in 2019 all investment offices will be able to work together to pursue responsible investment more than ever before. We will focus in particular on further integrating ESG into our investment operations to improve our investment performance.

Collaborating with external initiatives such as the UN PRI and ICGN is also critical, as important ESG topics like SDGs and plastic issues are on the rise, led by overseas organizations, and new regulations as well as emerging social norms. In FY2019 and beyond, we will advance our responsible investment efforts while keeping a firm watch on global developments.

Toshiyuki Imamura
Head of the Responsible Investment Department

Nomura Asset Management's Participation in Various Initiatives

Signatory of: PRI Principles for Responsible Investment

The United Nations-supported Principles for Responsible Investment (UN PRI) are principles formulated in April 2006 in response to the call made to the world's largest institutional investors in 2005 by then UN Secretary-General, Kofi Annan. The UN PRI aim to incorporate ESG into actual investment analysis and decision-making processes.
The results of our PRI assessment from 2018 are as follows.

PRI assessment results	
Strategy and governance (overall assessment)	**A+**
Status of integration into responsible investment for listed stocks	**A**
Active ownership for listed stocks	**A**
Engagement	**A+**
Proxy voting	**A**
Bond investment (government bonds, etc.)	**B**
Bond investment (corporate bonds, etc.)	**B**

The overall assessment of our responsible investment initiatives was A+, the highest possible rating. We also obtained the highest rating of A+ in engagement.

ICGN International Corporate Governance Network

The International Corporate Governance Network (ICGN) was established in 1995 to promote effective corporate governance standards and foster responsible investment by investors to advance efficient markets and sustainable economies worldwide.

ACGA

The Asian Corporate Governance Association (ACGA) was established in 1999 to engage in research and provide corporate support and education in order to implement effective corporate governance practices throughout Asia.

21世紀金融行動原則

The financial principles toward the formation of a sustainable society (Principles for Financial Action for the 21st Century) are principles formulated in October 2011 as action guidelines for financial institutions who wish to fulfill their responsibilities and roles as required for the formation of a sustainable society.

Initiatives supported by the Group

WE SUPPORT UN GLOBAL COMPACT

The United Nations Global Compact (UNGC) comprises non-binding action principles advocated by then UN Secretary-General, Kofi Annan, at the Davos Forum in 1999. It encourages businesses and groups worldwide to take actions in the areas of human rights, labor, the environment and anti-corruption.

CDP DISCLOSURE INSIGHT ACTION

The Carbon Disclosure Project (CDP) is a project that encourages companies to disclose their strategies to combat climate change as well as their specific greenhouse gas emissions. Current areas of focus include climate change, water and forests.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

The Task Force on Climate-related Financial Disclosures (TCFD) is an initiative launched in April 2015 by the Financial Stability Board (FSB). It was established because climate change came to be recognized as a threat to the stability of the financial system.

UNEP FINANCE INITIATIVE

The United Nations Environment Programme – Finance Initiative (UNEP FI) is a partnership established between the United Nations Environment Program (UNEP) and financial institutions worldwide. Since its establishment in 1992, UNEP FI has been cooperating with financial institutions, policy makers and regulatory authorities to promote a shift to a financial system that integrates economic development with ESG considerations.

Stewardship Codes Signed by Nomura Asset Management

Expertise to Exceed

www.nomura-am.co.jp