



2

Proxy Voting

We exercise voting rights with an emphasis on the effectiveness of our actions through a disciplined and robust decision making process

We conduct proxy voting with respect to various kind of proposals made at the shareholders' meetings of the portfolio companies in which we invest, including the election of directors.

In accordance with the proxy voting guidelines, we have adopted a disciplined voting process, and for proposals requiring qualitative judgment, we engage in thorough discussions that will lead to improvements in corporate value and promote highly-effective corporate governance.

At the same time, we have established the Responsible Investment Council, and have built a system to manage conflicts of interest in real time.

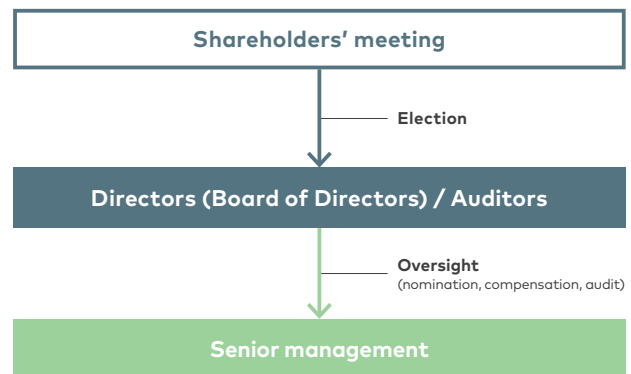


Concept of Proxy Voting

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 United States, and these proposals can often have a direct impact on the management of companies. Accordingly, these proposals must be considered carefully. 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 be carried out as a “governance for the sake of governance,” we have decided to limit the participation on proxy voting to the minimum level that is absolutely required, 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 regarding a company’s responsibility on business results through proxy voting, and we may object to a company’s proposals if the management performance is poor or if there is misconduct.



Basic Corporate Governance Structure



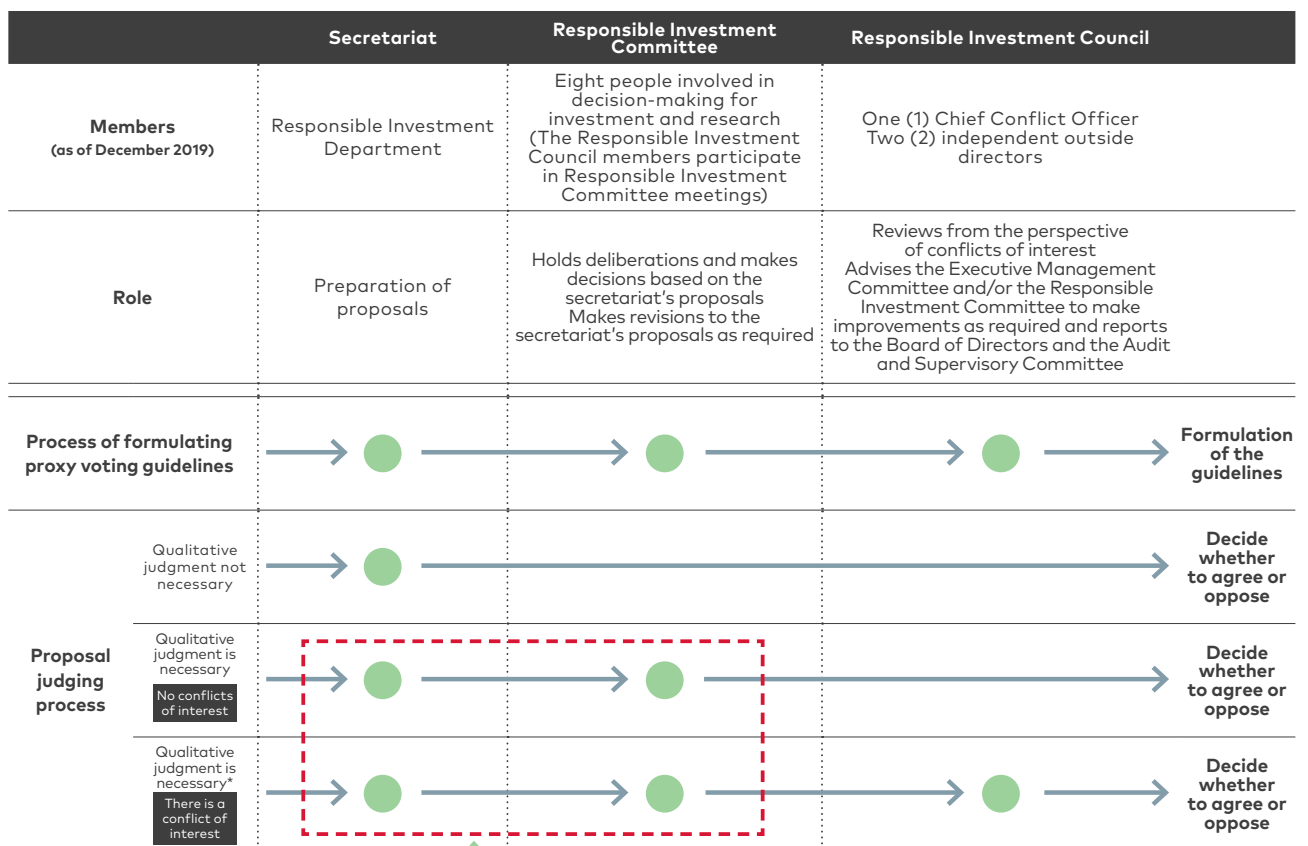
Proxy Voting Process

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 has been established to prevent conflicts of interest. Please refer to Page 41 about the conflict of interest. We will begin by explaining the process for formulating the proxy voting guidelines. The Responsible Investment Committee engages in deliberations based on a draft prepared by the secretariat, it 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 unique feature our policy is that rather than reviewing decisions after they are made, the process of monitoring and reviewing conflicts of interest is integral to the decision-making process. Next, the process of forming a judgment on these proposals can be 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 on at a Responsible Investment Committee meeting. In addition, for proposals that involve conflicts of interest, similar to when formulating the proxy voting guidelines, a Responsible Investment Council meeting is held and the conflicts of interest are monitored and reviewed 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, while extraordinary meetings may also be held as required. In 2019, the Committee held 18 meetings and the Council held four meetings.

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 Page 3~4 for more information about the Responsible Investment Committee



*This includes proposals of group affiliates.

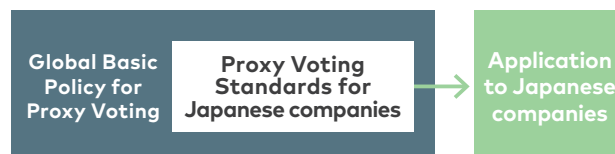
Reference ↑

Opinions from multiple proxy voting advisory firms

Overview of Proxy Voting Standards for Japanese Companies

Here, we explain our Proxy Voting Standards for Japanese Companies (the "Proxy Voting Standards"). Please refer to our website* for details.

Proxy Voting Guidelines Structure



Proxy Voting Standards and their summaries	In the following cases, we will oppose a company's proposal
<p>Rigorously judge corporate actions and responsibility to deliver business results</p> <p>Judgment made and the responsibility taken to deliver business results by the management and the board of directors will be scrutinized and rigorously judged.</p>	<ul style="list-style-type: none"> ■ M&A or other corporate action does not protect the interests of minority shareholders ■ An act that could cause significant damage to shareholder value (misconduct, etc.) is discovered ■ Return on equity (ROE) is stagnant
<p>Composition of (Board of) Directors</p> <p>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, therefore a higher level of supervision is required.</p>	<ul style="list-style-type: none"> ■ The number of outside directors falls short of the minimum level (refer to Page 41 for details)
<p>Independence of outside directors</p> <p>A certain level of independence is required for outside directors in order to supervise senior management. In order to prioritize effectiveness, we ensure that the standards for independence are not too stringent.</p>	<ul style="list-style-type: none"> ■ 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
<p>Effectiveness of outside directors</p> <p>Outside directors must effectively supervise senior management.</p>	<ul style="list-style-type: none"> ■ 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
<p>Appropriate compensation governance</p> <p>Because the process for determining executive compensation must be transparent, there must be appropriate supervision (compensation governance).</p>	<ul style="list-style-type: none"> ■ 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
<p>Appropriate incentives</p> <p>Although stock compensation is important as a management incentive, it can be counterproductive if not properly designed.</p>	<ul style="list-style-type: none"> ■ 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
<p>Effective utilization of financial assets</p> <p>It is essential that financial assets are utilized effectively to enhance corporate value.</p>	<ul style="list-style-type: none"> ■ 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

Summary of Revisions to Proxy Voting Standards (November 2019)

Corporate governance reforms are changing and have become increasingly focused on effectiveness, rather than just making changes “on paper.” Japanese companies are being asked to strengthen supervisory functions, including nomination and compensation, as well as managing conflicts of interest between senior management and major shareholders. In the November 2018 revisions, we added new items related to roles expected of compensation committees and outside directors (such as the election and dismissal of senior management members and oversight of conflicts of interest). Revisions this time around also emphasize strengthening of the supervisory function. The main changes are discussed below.

1. In order to strengthen the supervisory function, we raised the minimum requirement for the number of outside directors.

Organizational design		Before revision	After revision
Company with corporate auditors	There is no controlling shareholder	2	2. However, 3 if there are more than 12 directors.
	There is a controlling shareholder (listed subsidiary, etc.)	Average ROE in past three fiscal periods is at least 8%: 2 Average ROE in past three fiscal periods is less than 8%: 1/3	1/3
Company with Audit & Supervisory Committee, Company with Nominating Committee, etc.		2	1/3

2. If a minimum baseline level of compensation governance (a majority of the directors are outside directors, or there is an independent compensation committee) is in place and there is proper oversight, the upper limit for dilution is 10%. (Prior to the revision it was 5% regardless of the current status of compensation governance.)

3. Reflecting the increase and diversification of shareholder proposals requesting director elections, we made changes so that these proposals can be judged alongside company proposals (before the revision, we opposed shareholder proposals if the person presented for the company proposal was appropriate).

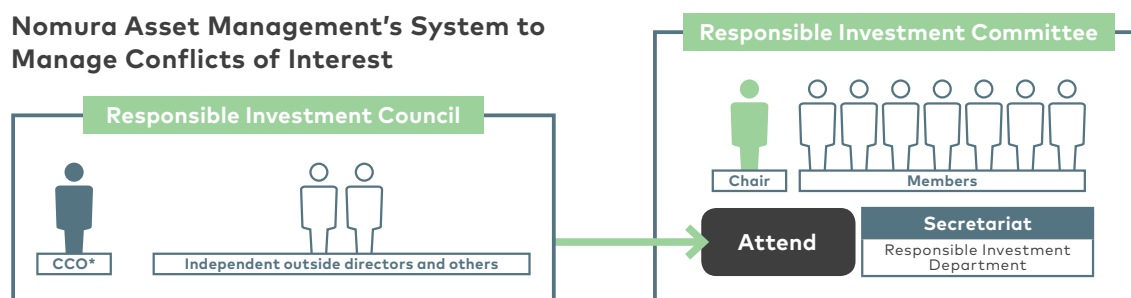
4. As factors for judging corporate restructuring and capital policies, based on the fact that the possibility for conflicts of interest with minority shareholders have increased and the initiatives to protect the interests of minority shareholders have become more important, these will be clearly included in the Standards.

System to Manage Conflicts of Interest

Members of the Responsible Investment Committee, the highest decision-making body, include, in principle, only persons involved in investment and research decision-making, while people in a position with a conflict of interest or people with the possibility of acting on behalf of such persons are excluded. In addition, under the Audit and Supervisory Committee, we have established a Responsible Investment Council that comprises only the Chief Conflict Officer and persons in independent positions with respect to our company, including independent outside directors. This committee monitors stewardship activities, especially proxy voting involving conflicts of interest, to make sure that decisions are made that do not adversely

affect the interests of clients as a result of conflicts of interest. As required, the Responsible Investment Council recommends improvements to the Executive Management Committee and/or the Responsible Investment Committee, and reports on this to the Board of Directors and the Audit and Supervisory Committee. Furthermore, members of the Responsible Investment Council attend Responsible Investment Committee meetings, and are able to immediately state their opinion if there is a problem from the standpoint of conflicts of interest. This allows the Responsible Investment Council to appropriately monitor conflicts of interest related to stewardship activities, and prevent problems in advance.

Nomura Asset Management’s System to Manage Conflicts of Interest

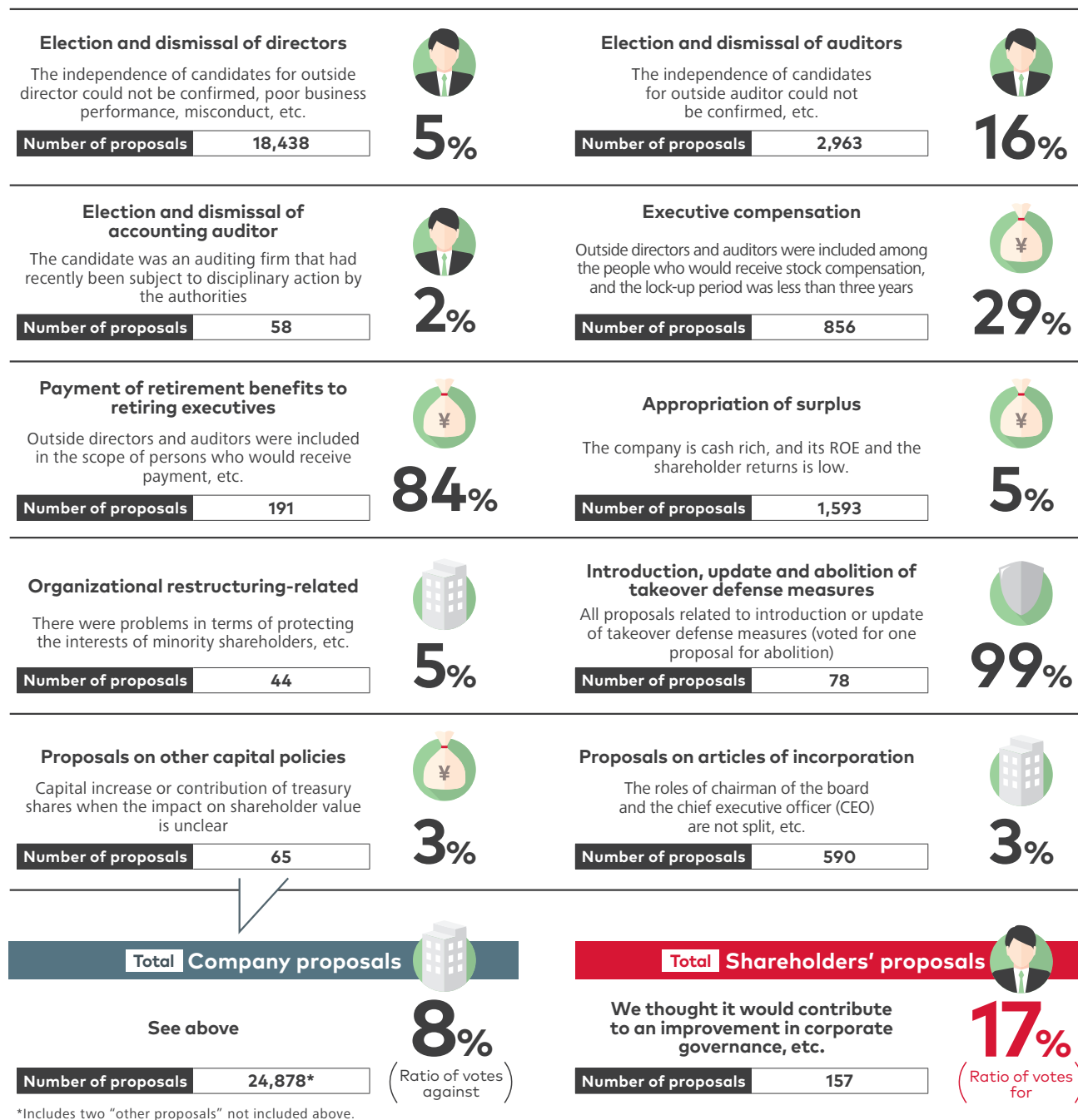


*Chief Conflict Officer

Responsible Investment Report 2019

Proxy Voting for Japanese Companies from January to December 2019

The results of our proxy voting with respect to Japanese companies from January to December 2019 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).



*Includes two "other proposals" not included above.

Reference

	Votes for	Votes against	Total	Ratio of votes against
Results of Proxy Voting for Global Companies (January – December 2019)				
Company proposals	18,814	3,330	22,144	15%
Shareholders' proposals	677	225	902	25%
Total	19,491	3,555	23,046	15%

Examples of Qualitative Judgments on Proposals

In recent years, corporate governance of listed subsidiaries has been attracting attention. This is because the parent company has the right to control the business by controlling the majority of the voting rights (controlling rights), which causes concerns about possible conflicts of interest with other shareholders (minority shareholders). In our Proxy Voting Standards, we demand that listed subsidiaries should have a board structure whereby one-third of members are outside directors. This is a relatively stringent provision.

So, how are listed subsidiaries created? There are two typical ways: (1) listing a subsidiary on the stock market, or acquiring more than half of the shares of a listed company and turning it into a subsidiary; and (2) through a third-party allotment of shares or a share exchange. In (1), a shareholders' meeting is not held, but in (2) it is normal for a shareholders' meeting to be held and for a proposal to be put on the agenda. Here, we explain what kind of judgments we made in Case (2).

Overview of Proposals

Here, we introduce one proposal we voted in favor of (Case 1) and one proposal we opposed (Case 2). The company formats were different, but in both cases Company S is a listed subsidiary of Company P, and the proposals were on the agenda of Company S's shareholders' meeting. The details are shown in the figure on the page to the right.

Proposal Judgment Process

We first referred to the proxy voting guidelines. The standard*1 below was applied to both proposals, but the proposals were discussed at the Responsible Investment Committee because qualitative judgments were required. Because neither case created a conflict of interest for Nomura Asset Management, the Responsible Investment Council did not hold a meeting.

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.

*1 The standard was revised in November 2019 in light of both of these cases (refer to Page X)
The above is the standard prior to revision.

Outcome of Judgements on the Proposal

In such cases, the appropriateness of the premium*2 for control is an important issue.

In both cases, the premium was effectively zero, and an independent committee did not take actions such as verifying the appropriateness of the premium utilizing the opinions and information from outside experts, so careful consideration was required.

The deciding factor was whether or not there was a conflict of interest between Company S's management and non-major shareholders. In Case 1, management and the non-major shareholders had the same interests, and we respected and agreed with the company's opinion. In Case 2, there was concern that management may have a conflict of interest, and we opposed the proposal as we could not respect the company's opinion given the fact that there was no verification by an independent specialist or committee.

*2 If Company P acquires a majority of Company S's shares through a tender offer, it is normal for the company to pay a price that is higher than the share price immediately preceding the tender offer. This is considered compensation for attaining the controlling rights, and the excess amount is called the "premium." In the case of a share exchange or third-party allotment, there are differences from the case of a tender offer of new shares, but the appropriateness of the premium remains an important issue.



Qualitative Judgment Cases (Company S's shareholders' meeting)

	Case 1: Supported	Case 2: Opposed
Format	<p>Company X was a wholly-owned subsidiary of Company P.</p> <p>By exchanging Company X's shares held by Company P with Company S's shares, Company P acquired more than one-half of Company S's shares, thereby becoming its parent company.</p>	<p>Shares were issued to Company P through a third-party allotment. Company P acquired more than one-half of Company S's shares, thereby becoming its parent company.</p>
Business judgment	<p>We judged it to be rational, as business synergy was recognized.</p>	<p>We judged it to be rational, as business synergy was recognized.</p>
Issue price / Exchange ratio	<p>The exchange ratio is within Company X's share price calculation range (premium is effectively zero).</p>	<p>The issue price is roughly the same level as the share price prior to the announcement</p>
Verification by independent committee	<p>Outside expert calculated Company X's share price. However, an independent committee was not established.</p>	<p>Created an independent committee. However, there was no calculation of share price by an independent outside expert. It went no further than a regulatory check.</p>
Conflict of Interest	<p>Because Company S's management team members are also shareholders, there was little concern about a conflict of interest.</p>	<p>Because Company P is a major shareholder of Company S, there was significant concern about a conflict of interest.</p>

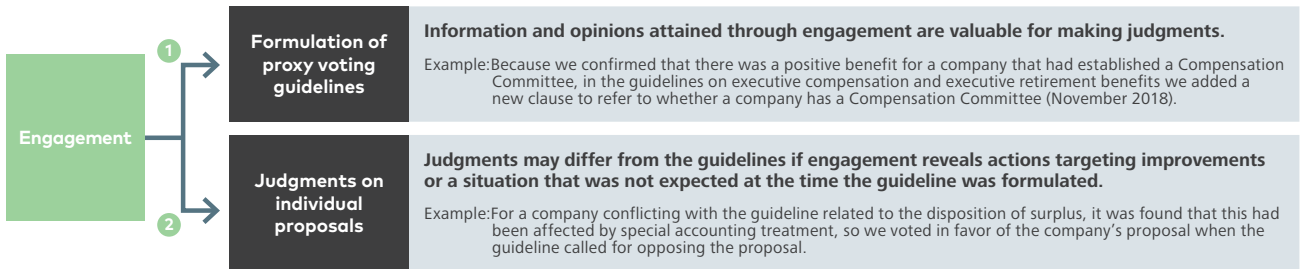


Proxy Voting FAQ

Q Can engagement have an impact on proxy voting?

A Through engagement, we ascertain the status of the company and its opinions regarding proxy voting, and these impact the formulation of the proxy voting guidelines (“guidelines”) and the decisions on individual proposals. Please refer to the figure below for details.

Relationship between engagement and proxy voting

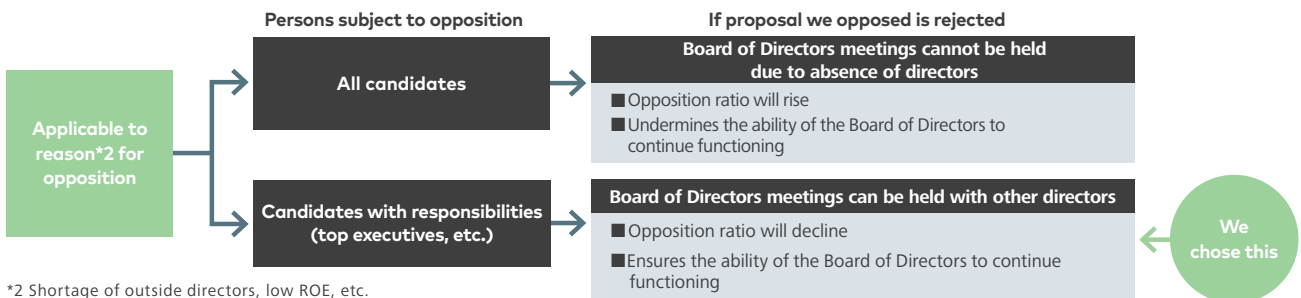


Q It seems that you vote against company proposals a small percentage of the time. Can you comment on that?

A As discussed on Page 38, we have positioned proxy voting as a part of our engagement program. In proxy voting, we execute what we consider to be the “minimum line” that is considered necessary at the given time. This may limit the increase in the ratio of voting against. Another factor affecting this is the fact that, because we take the continuity of the board of directors into consideration, for director election proposals that we oppose, we limit our opposition to candidates possessing responsibility in individual matters (see figure below). While our opposition ratio to director election proposals was 5% (2019), of these proposals, we opposed the appointment of one or more candidates for 30% of companies. We do not feel this percentage is particularly low.

*1 Under the Companies Act, a minimum of three directors is necessary in order to hold a Board of Directors meeting.

Guideline for Director Election Proposals



*2 Shortage of outside directors, low ROE, etc.

Q What about proxy voting with respect to group affiliates?

A As with other portfolio companies, we make decisions about whether to support or oppose proposals for group affiliates based on our guidelines. As a proposal with a conflict of interest, the Responsible Investment Committee will discuss the proposal referencing the opinions of multiple proxy voting advisory firms. Members of the Responsible Investment Council attend the Responsible Investment Committee meeting and participate in the deliberations. Also, following the conclusion of the Responsible Investment Committee meeting, the Responsible Investment Council holds a meeting where it closely examines the issue from the perspective of conflict of interest. Please refer to Page 39 for details on the proxy voting process and Page 41 for details on our system for managing conflicts of interest.

Q Do you have a message for portfolio companies?

A In carrying out proxy voting, we refer to documents related to shareholders’ meetings, including the notice of convocation, independent officer registrations, and corporate governance reports. Recently, documents related to shareholders’ meetings have become more informative, and this has allowed us to judge these proposals more easily. We want portfolio companies to continue providing clear and easy to understand information disclosures. We still believe that engagement with portfolio companies, including explanations of proposals, is valuable, and we are active with engagement throughout the year, with the exception of late-May through mid-June when proxy voting reaches its peak. We would like for portfolio companies to check the proxy voting representative’s schedule (see Page 46) and contact them.

Responsible Investment Report 2019

Column
1

Current Situation with Corporate Governance Reform -shifting the focus from matters of formality to effectiveness-

Following corporate governance reforms, boards of directors of Japanese companies have been changing. A few years ago, the main topic of discussion related to matters of formality, such as whether or not to appoint outside directors, but these days the issue is shifting more towards effectiveness. So, how should we view the effectiveness of corporate governance? As the basic structure on Page 38 shows, oversight of senior management is a requirement of good corporate governance, so the critical factors are the effectiveness of nomination, compensation and auditing. Focusing our attention on nominations and compensation, points ① – ③ on the right summarize the matters in question. What is the current situation for Japanese companies? It appears that some companies are doing ① – ③ all at a high level, while others are still struggling with making changes “on paper.” Overall, it seems that many management teams are increasingly recognizing the importance of ① – ③, and are getting started from where they can. Through proxy voting and engagement, we will continue calling on companies to put ① – ③ into practice.

① Appropriate members

Board of Directors, Nomination Committee, and Compensation Committee should be comprised of appropriate members. In order to fulfill ③, this will center on outside directors satisfying requirements such as independence from senior management, corporate management experience, and diversity.

② Management strategies and plans

Conduct thorough deliberations on the management strategies and plans presented by senior management. These management strategies and plans are the yardsticks for evaluating senior management.

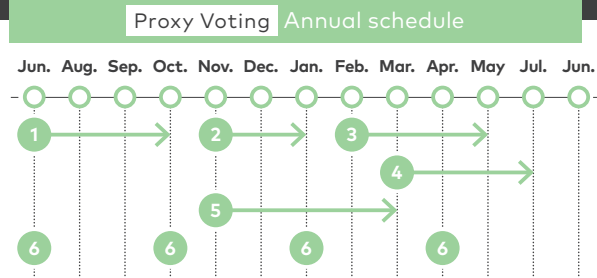
③ Nomination/Compensation

Evaluate senior management and decide on the need for replacement (nomination) and determine compensation. This is based on the formulation of a successor plan consistent with ② and the design of the compensation system. It is important to feed the evaluation results back into ②.

Column
2

Annual Schedule of a Proxy Voting Representative

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



① 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 have 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 in anticipation of the general shareholders’ meeting.

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 these discussions focused 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.

② 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 views and encourage them to strengthen their corporate governance. In addition to individual meetings with portfolio companies, we also explain our views at seminars.

④ 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 to provide information disclosures that are clear and easy to understand.

⑥ Disclosure of proxy voting results

January/April/July/October

After the end of each quarter, we disclose the results of our proxy voting, and the reasons behind our voting activities, on our corporate website.