Responsible Investment
Report 2020

Nomura Asset Management Co., Ltd.

We create economic and social value through the asset management business

Responsible Investment Report 2020

About Nomura Asset Management

Engagement

Proxy Voting

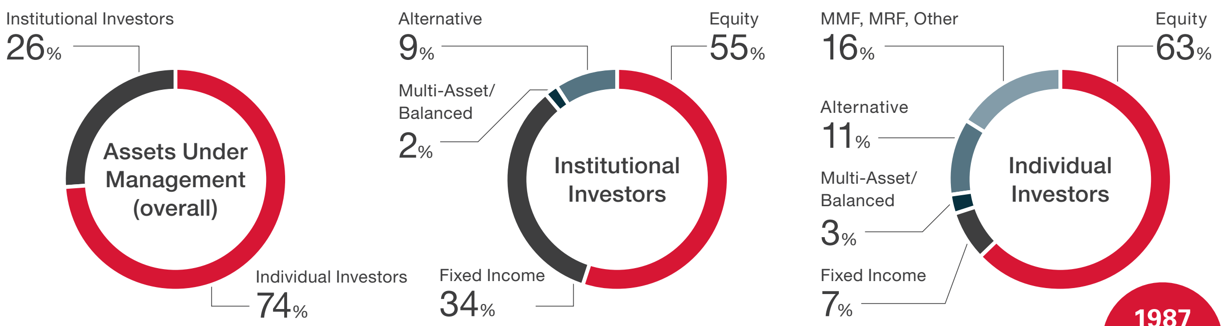
ESG Integration

About photos in this report
Photos for this report were taken with the room doors open and adequate ventilation, and the size of the photography crews was limited to avoid over-crowding.

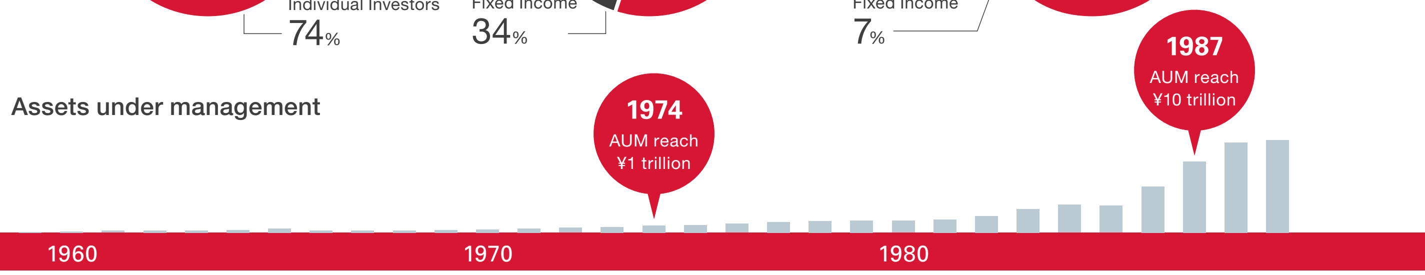
Nomura Asset Management

Established in December 1959, Nomura Asset Management is a global asset management firm with business operations in Japan, North America, Latin America, Asia, and Europe. We meet the asset management needs of a diverse range of clients, from individual investors to institutional clients including large pension funds and institutional investors. As a responsible investor entrusted with our clients' assets, in addition to providing investment returns, we proactively work to create medium-to long-term sustainability, including for ESG (environmental, social, and governance) issues.
It's all about the client.
Based on this philosophy, our offices collaborate to meet the expectations of our clients around the world.

Ratio of AUM by Asset Class



Assets under management



1960s

December 1960 Investment trust
Launched the Company's first openend stock investment trust ("Open No. 1")

January 1961 Investment trust
Launched a bond investment trust

September 1969 Investment trust
Launched Nomura Capital Fund of Japan
Began US pension fund management (Japanese stock investment products in the US)

1970s

February 1972 Investment trust
Launched Japan's first foreign securities investment fund following the abolishment of the 50% limit on foreign securities holdings

1976
Opened New York Representative Office

1980s

January 1980 Investment trust
Launched the Medium-Term Japanese Government Bond Fund, the first of its kind in Japan

August 1980 Investment trust
Began management of Japan's first index fund

1984
Established London branch office

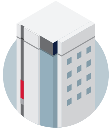
March 1986 Investment trust
Launched the Long-Term Government Bond Fund (Nickname: "Top")

1988
Established Singapore branch office
Established Hong Kong branch office

Opening/establishment of overseas office
NAM product

NAM's Strengths by the Numbers

(As of December 2020)



Established

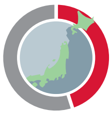
1959

Assets under management (Asset Management Division)

¥61.2trillio

Employees in head office/ branch offices

1,404employees



World's 5th largest ETF AUM Domestic market share *1

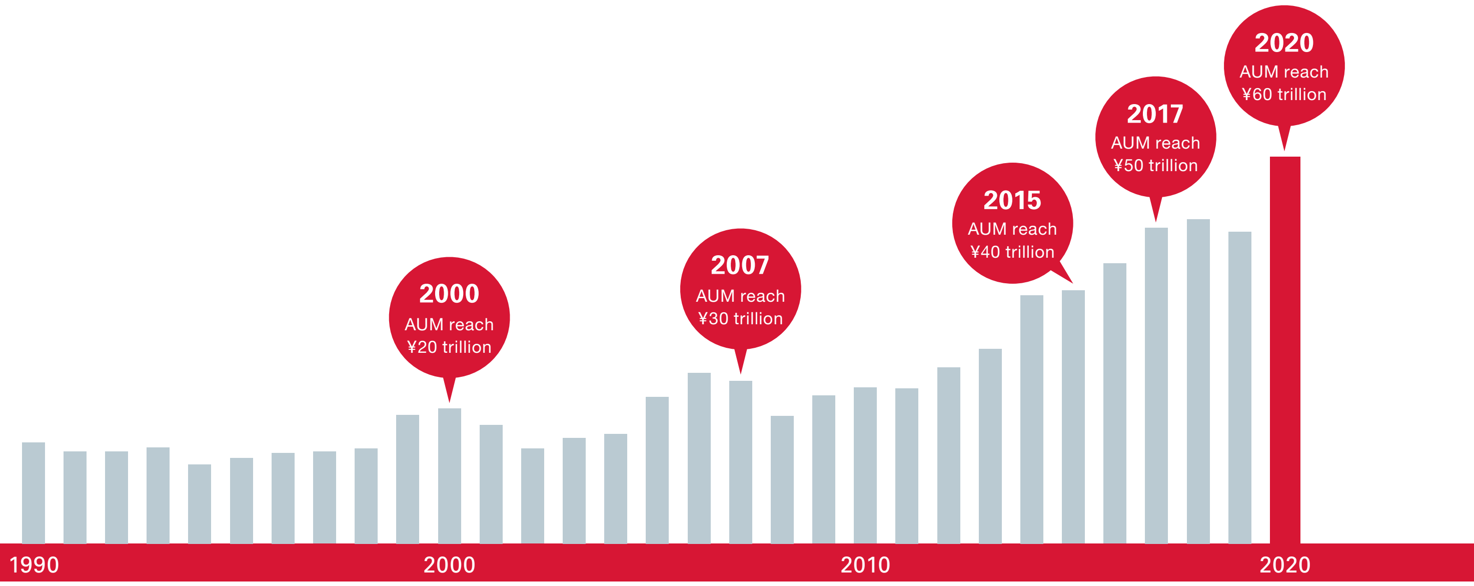
45.0%

Market share in the ¥139 trillion domestic publicly-offered investment trust market *2

28.3% No. 1

Average years of experience among employees involved in investment and research-related operations

12.8 *3



1990s

May 1992 Investment trust
Launched MMF

April 1995 ETF
Launched the Nikkei 300 Stock Index Listed Fund, the first ETF in Japan

1986
Established Sydney branch office

April 1998 Investment trust
Launched MRF

2000s

June/July 2001 ETF
Launched and listed the Nikkei 225 ETF and the TOPIX index ETF

October 2005 Investment trust
Launched the Nomura Global 6 Assets Diversified Fund, a balanced fund sold through Japan Post

August 2007 ETF
Launched and listed the Gold-Price-Linked ETF, Japan's first ETF using index-linked bonds

March 2008 ETF
<NEXTFUNDS> Launched and listed 17 TOPIX-17 ETF series ETFs

September 2008 ETF
Launched and listed the Tokyo Stock Exchange REIT Index ETF

2010s

2011
Opened Shanghai representative office

May 2011 Investment trust
Launched the East Japan Revival Support Bond Fund (redeemed in May 2016)

2014
Opened Taiwan office through a joint venture

2015
Formed business partnership with American Century Investments (ACI)

May 2018 ETF
Launched and Listed the Japan Empowering Women ETF

October 2018 Investment trust
Launched the ACI Advanced Medical Impact Fund

November 2019 Investment trust
Announced Japan's first fund merger

Nomura Asset Management

Our Strengths in Responsible Investment

1 Long-term commitment to responsible investment

The first strength is our long history of engaging in responsible investment. The roots of the current Responsible Investment Committee lie in the Proxy Voting Committee established in 2001.

Subsequently, the ESG Committee was established in 2011. The ESG Committee became the Responsible Investment Committee as part of a reorganization and an integration from 2014 to 2015. Based on many discussions over the years, and always remaining conscious of our mandate from clients, we have fostered a culture that is supportive of responsible investment, respects diverse opinions from a large number of professionals, and values lively discussion.

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

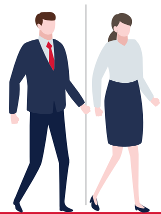
2016
Responsible Investment Department established
Conflict of Interest Management Policy formulated and Responsible Investment Council established
Stewardship Codes in Singapore, Hong Kong and Taiwan adopted
UK Office acquired Tier1 evaluation from UK FRC*

2017
Proxy voting results disclosed individually
Malaysian Stewardship Code adopted

2018
Self-evaluation disclosed

2019
Support for TCFD. Strengthening our company-wide efforts to tackle climate change.
Formulated our ESG Statement

2020
Established Asset Management Research Institute to promote ESG



2001 2004 2010 2011 2014 2015 2016 2017 2018 2019 2020

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

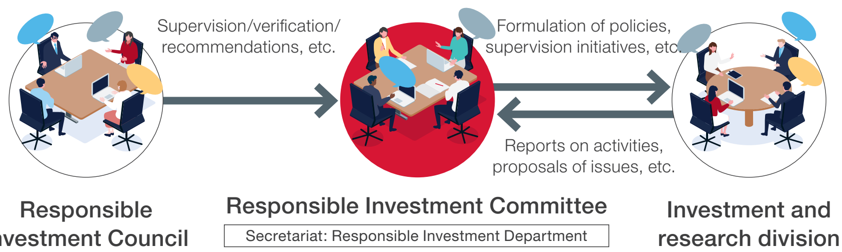
2 Building a strong responsible investment platform

The second strength is our robust responsible investment platform. Our systems, processes and organization have undergone continuous reform to reflect and respond to the changing needs of investors and wider society. One example is the Responsible Investment Council, which was established in 2016 as an oversight body of the Responsible Investment Committee.

Independent outside directors and Outside Expert make up the majority of the Council, thus enhancing the management of conflicts of interest. Having the Council monitor Committee discussions in real time is an unprecedented initiative in the industry.

Please refer to Page 52 for more information on conflict of interest management, and Pages 81-82 for a message from the Responsible Investment Council.

Organizational Structure for Responsible Investment



Main activities	Dialogue with portfolio companies (engagement)	Proxy voting	Integration into investment decisions (ESG integration)	Collaborative/public activities

3 Global, diverse personnel and research capabilities with respect to responsible investment

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

4 Emphasis on responsible investment discussion and debate

The fourth strength is the emphasis we place on exhaustive discussions.

In 2020, the Responsible Investment Committee held discussions about agenda proposals from shareholders such as director elections and M&A-related issues, and also discussed the response to the newly-revised Japan Stewardship Code and amendments of the firm's proxy voting guidelines. On many occasions there were splits in opinion, or the Secretariat's plans were overturned. The members of the Responsible Investment Council were also present at Committee meetings and actively participated in discussions, without limiting themselves to monitoring conflicts of interest.

We believe that such rigorous monitoring structure and interactive discussions bring productive results, and consider this to be one of our key strengths.

Responsible Investment Committee Meetings January – December 2020

Responsible Investment Committee

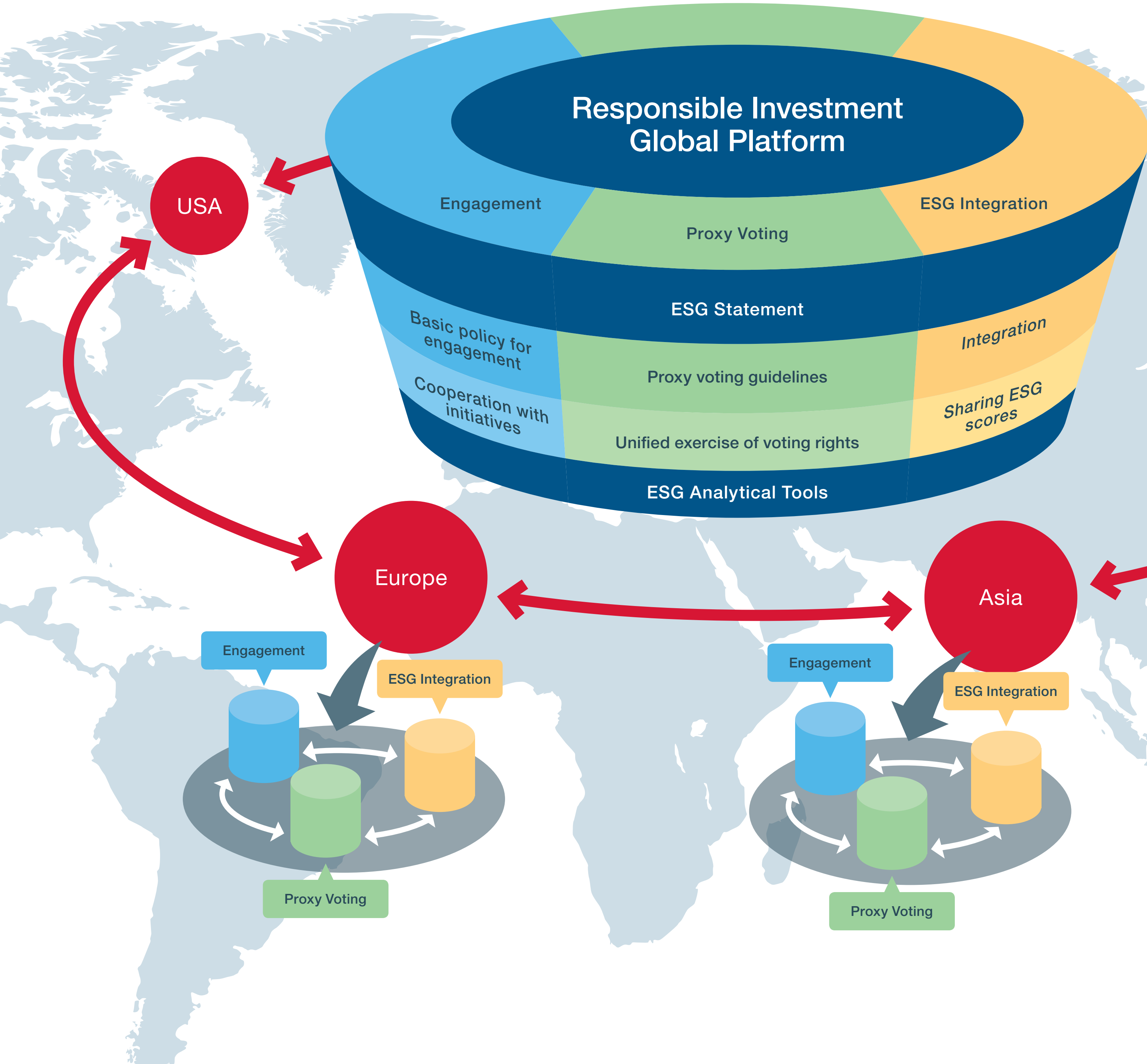
19times

Regular 4 times Ad hoc 15 times

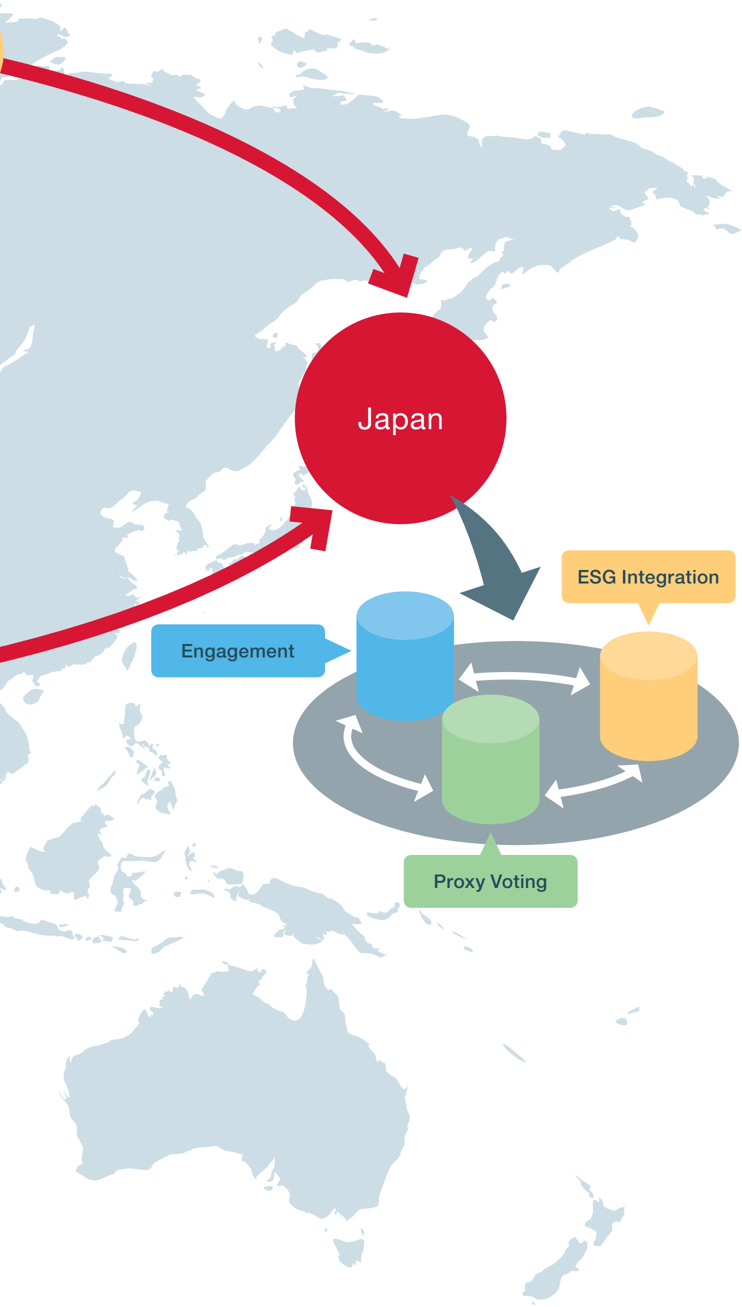
Responsible Investment Council

8times

Regular 4 times Ad hoc 4 times



Nomura Asset Management Global Platform and Coordination on Responsible



Cooperation With Overseas Offices

At Nomura Asset Management, we work globally to strengthen our ESG initiatives based on our global platform for responsible investment.
By utilizing this common platform, we are not only able to promote ESG initiatives at each office, but offices can also share detailed information with one another.
Our ESG Statement is shared globally, and allows for a common understanding of the goals behind our ESG-related activities as well as ESG-related issues (refer to Page 15).

Engagement

We engage in constructive dialogue with companies about important financial and non-financial risks and opportunities in accordance with our basic policy for engagement (refer to Page 35). Specifically, our ESG specialists, ESG investment manager, company analysts, and country specialists based in Japan and overseas offices collaborate to engage with portfolio companies. We monitor the details of the engagement of managers in each country with target companies using common milestone management tools, which allows information to be easily shared among our offices (refer to Pages 38, 44). For example, ESG specialists in Tokyo discuss the details of engagements with Japan-based pharmaceutical companies in which portfolio managers in the UK office participate, as well as the details of portfolio company engagements conducted by ESG investment professionals in Singapore and portfolio managers in Hong Kong (refer to Pages 45-48).

Proxy Voting

For proxy voting (excluding Japanese equities), we generally decide to agree or oppose an issue in accordance with our Global Basic Policy on Proxy Voting. However, if the portfolio managers and analysts possessing a deep understanding of local conditions determine it to be necessary, we may, upon deliberation, make a decision that differs from the basic policy on proxy voting. The final decision is then shared with all offices, and proxy voting is then carried out uniformly on a global basis (refer to Page 51).

ESG Integration

In terms of integration, climate change analysis tools are used to evaluate the climate change risks and opportunities for each fund (refer to Pages 22-26), and in addition to sharing our ESG scores among all offices, ESG data from external sources and other data are incorporated and used to make investment decisions. The details of engagement with companies whose stocks our funds hold are shared with portfolio managers and utilized in discussions about whether to continue holding the stocks in question (refer to Pages 62-65).

Investment

CEO Message

We create economic and social value through the asset management business

As a responsible institutional investor

In 2020, the COVID-19 pandemic created an extremely challenging situation for us. Even now, in 2021, there are no clear signs of the pandemic coming to an end. However, medical professionals, along with many other people and companies, are doing all they can to combat the pandemic, and this has convinced me that we will soon be able to overcome this crisis.

Meanwhile, social changes that are transforming our lifestyles, such as the diversification of work styles symbolized by the growth in remote work and advances in digital transformation, are occurring in a variety of fields. As an asset management firm, we will continue to support initiatives aimed at addressing and overcoming problems through the virtuous cycle of investment (investment chain).

We believe it is important to not only create economic value by helping clients build wealth through our asset management business, but also to support the creation of social value through our portfolio companies. We feel that this will enable sustainable economic growth and the realization of a prosperous society, which will ultimately lead to more affluent lives for our clients.

Climate Change, Health and Human Rights Initiatives

In 2020, the world once again witnessed the risks that ESG issues can bring. In terms of the environment, there were massive forest fires overseas, and various parts of Japan experienced large-scale flooding due to the prolonged stationary nature of the seasonal rain front.

In October 2020, the Japanese government set a goal of reducing greenhouse gas emissions to net zero by 2050. This and other initiatives are expected to trigger an acceleration in action by companies to combat climate change. In terms of society, not only has the COVID-19 pandemic significantly changed people's awareness with respect to health, but also various types of action are starting to be called for, against the backdrop of heightened awareness of human rights, including work styles and the working environment in supply chains.

In our ESG Statement, we identified issues including the climate change and issues related to social responsibility as key issues (materiality), and we have been working to solve such problems. In equity investment, we are using impact investing to advance efforts to address climate change, health issues and human rights problems, while in fixed income investment we are expanding our offerings which use ESG investment methods.

Contribution to the advancement of society through asset management

The essence of the asset management business lies in fulfilling our fiduciary responsibilities and solving social issues through the provision of high quality products, excellent performance and exceptional service that meet clients' expectations. To fulfill this mission, we will continue to work to realize a virtuous cycle of investment (investment chain).

In January 2021, in line with our ESG Statement, we announced our materiality, the key issues that we will address over the medium to long term, based on our corporate principles and our medium-term management strategy. Proactively addressing these issues is aligned with the United Nations Sustainable Development Goals (SDGs), which aim to create social value by addressing the issues that exist among various stakeholders through business activities, in addition to pursuing economic value through those business activities.

Nomura Asset Management aims to be the Japanese asset management firm of choice for clients around the world. Anchored by our corporate principles of "Maximizing Value," "Advanced Expertise," and "Confidence and Responsibility," we will continue to push forward with our responsible investment initiatives to enhance the corporate value of our portfolio companies and realize a sustainable society.

Hiroyasu Koike

President & CEO
Nomura Asset Management Co., Ltd.

Corporate Princi

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

Nomura Asset Management's investment chain and materiality

Four

Strengthening the Investment Chain

- Provision of excellent products and services that help clients build wealth.
- Promotion of responsible investment
- Enhancement of investment capabilities and client convenience through digitalization
- Promotion of financial literacy education
- Support for regional revitalization

Corporate Value Improvement through Governance

- Sufficient display of corporate governance functions
- Enhancement of internal control system
- Strengthen and enhance the system for managing conflicts of interest

& Materiality

Nomura Asset Management aims to be the Japanese asset management firm of choice for clients around the world. In accordance with our corporate principles, we will continue to proactively work to solve key issues (materiality) in order to realize a virtuous cycle of investment (investment chain).

Goals

Realizing a Healthy Global Environment

- Achieving a decarbonized society
- Preservation of natural capital

Realization of a Society in which Human Rights are Respected

- Promotion of diversity and inclusion
- Creation of environments in which employees are excited to work
- Realization of a healthy and long-lived society

Materiality

Strengthening the Investment Chain

Important issue	Goal	Key initiatives	Main related SDGs
Provision of excellent products and services that help clients build wealth.	We will respond to clients' various asset management needs, and provide excellent investment performance.	In addition to traditional assets, expand investment in areas such as ESG and alternative investments, and further improve asset allocation capabilities	1, 4, 8
Promotion of responsible investment	Through stewardship activities, we will continue to support portfolio companies' corporate value enhancement and social value creation	Enhancement of ESG integration to incorporate non-financial information into the investment process Proactive promotion of ESG engagement based on ESG perspectives and important topics	1, 3, 5, 6, 7, 8, 9, 12, 13, 17
Enhancement of investment capabilities and client convenience through digitalization	We will utilize cutting-edge technologies to the maximum extent possible and provide clients with even more investment opportunities and added value	Enhancement of UI/UX for digital content and utilization of DX to cultivate new business domains Development of investment methods utilizing AI, alternative data, and other means	8, 9
Promotion of financial literacy education	In order to get clients familiar with investment trusts, we will promote financial literacy education and work to broaden the range of investors	Enhancement of education/training that will lead to the promotion of wealth-building	1, 4, 8
Support for regional revitalization	We will work with regional financial institutions to create strong movement for regional revitalization originating from regional financial institutions	Partner with regional financial institutions to launch donation schemes utilizing the corporate version of the hometown tax system Holding ESG forums with regional financial institutions to discuss regional revitalization and consider ESG	3, 4, 8, 9, 11, 17

Realizing a Healthy Global Environment

Important issue	Goal	Key initiatives	Main related SDGs
Achieving a decarbonized society	Targeting the shift to a sustainable decarbonized society, we will use engagement and other means to encourage portfolio companies to combat climate change, and aim to achieve carbon neutrality for Nomura Asset Management as well	Enhancement of the level of investment with respect to climate change risks and opportunities Use of engagement with portfolio companies to have them incorporate climate change initiatives into their management strategies Reduction of Nomura Asset Management's CO_2 emissions, with the aim of achieving carbon neutrality	9, 7, 13
Preservation of Natural Capital	We will demand that portfolio companies have management strategies that take the sustainability of natural capital into account, and promote initiatives within Nomura Asset Management to preserve natural capital	Use of engagement with portfolio companies to have them incorporate initiatives aimed at the coexistence of natural capital and their business into their management strategies Utilization of environmentally-friendly and socially-friendly products	12, 14, 15

As an institutional investor As an operating company

Realization of a Society in Which Human Rights are Respected

Important issue	Goal	Key initiatives	Main related SDGs
Promotion of diversity and inclusion	We will promote diversity and inclusion in portfolio companies as well as within Nomura Asset Management, in order to continuously create added value by allowing diverse human resources to display their abilities and individuality	Promotion of diversity and inclusion through engagement with portfolio companies Establishment and management of Japan Empowering Women Select Index ETF Introduction of job-grade personnel system Development and appointment of diverse professional human resources Support for balancing work and raising children	
Creation of environments in which employees are excited to work	Our portfolio companies as well as Nomura Asset Management itself will improve productivity and create high value-added services by creating a high-quality work environment.	Developing and managing investment strategies that focus on the performance of companies that are good places to work. Realization of decent work through engagement with portfolio companies Correction of long working hours Strengthen communication with management to promote flexible work styles and increase employee engagement (willingness to contribute to the company)	
Realization of a healthy and long-lived society	In advance of the era of 100-year lifespans, we aim not only to help clients extend the longevity of their assets, but also realize a society in which people live long, healthy lives	Contribution to medical research through the creation and provision of investment funds in collaboration with strategic partner ACI Joint engagement with initiatives aiming to improve access to healthcare Education targeting improvements in health literacy Understanding employees' health status and conduct mental health checks Implementation of measures to prevent communicable diseases	

Corporate Value Improvement through Governance

Important issue	Goal	Key initiatives	Main related SDGs
Sufficient display of corporate governance functions	We will promote the sufficient functioning of corporate governance in order for portfolio companies, as well as Nomura Asset Management itself, to achieve the corporate philosophies and management targets established by each	Engagement with portfolio companies with the aim of enhancing corporate governance Disciplined proxy voting in accordance with the proxy voting guidelines Adoption of a monitoring model as a Company with Audit & Supervisory Committee Appointments of independent outside directors possessing expertise in specialized fields Creation of various committees	
Enhancement of internal control system	We will work to strengthen and enhance our internal control system and conflict of interest management framework in order to protect our clients' assets and earn their unwavering trust	Construction of an internal control system based on three lines of defense Monitoring of market risk, credit risk, operational risk, etc., by various committees Enhancement of the conduct risk management system Construction of a robust crisis management system	
Strengthen and enhance the system for managing conflicts of interest		Creation of the Fund Management Council and the Responsible Investment Council, and appointment of independent outside experts as members of both councils Ensure independence of decision-making and personnel in investing and research	

ESG Statement

ESG Statement

We formulated our ESG Statement in March 2019. This statement shares with our stakeholders the direction of our ESG-related activities and how we will respond to environmental and social risks, while the statement also aims to show how we will strive to realize a sustainable environment and society. We recognize that efforts to solve ESG issues are important in order to support a virtuous cycle in the investment chain. As a responsible investor, we encourage our portfolio companies to operate with an emphasis on good ESG practices, and we ourselves will also conduct operations with a focus on ESG.

Related Initiatives to which Nomura Asset Management is a signatory

Climate Change

Environment

Decarbonation | Palliation and Adaptation | Innovation

We will request portfolio companies that operate in businesses that could have a negative climate change impact to properly manage transitional and physical risks related to greenhouse gas emissions, etc. and incorporate their response to climate change in their management strategy.
At the same time, we will hold continued dialogue with the companies in our portfolios to encourage the transition of industrial structures towards a decarbonized society, so that problems can be addressed through technological innovation.

CDP

Established in 2000. This is a global project in which institutional investors around the world encourage 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.

Signature Timing
June 2015 N

Farm Animal Investment Risk and Return FAIRR

A private-sector led task force launched in December 2015 by the Financial Stability Board (FSB) that encourages enhanced information disclosure related to climate change.

Signature Timing
March 2019

Climate Action100+

An investor initiative in which institutional investors collaborate (group engagement) to encourage the world's largest corporate greenhouse gas emitters to disclose information related to climate change. The initiative was established in December 2017, and the action period was set at five years.

Signature Timing
December 2019

Signed as Nomura Group

Natural Resources

Environment

Water and Forest | Biodiversity | Livestock and Aquaculture

We will hold ongoing dialogue with portfolio companies engaged in business activities that have potential to negatively impact natural capital and biodiversity, and we will encourage them to establish and implement measures to limit their impact on the environment, as well as appropriately incorporate their responses to business issues into their management strategies.

Social Responsibility

Social

Human Rights | Hiversity | Medical Access

If a portfolio company has a potential negative effect on human rights, including society, child labor and forced labor, in addition to applicable laws and regulations, we encourage the portfolio company to respect international human rights standards such as the UN OHCHR's "Guiding Principles on Business and Human Rights." We also encourage portfolio companies to appropriately disclose information so that their policies are available externally.

Farm Animal Investment Risk and Return FAIRR

A livestock industry-related institutional investor initiative launched in 2015 by Jeremy Coller, the founder of Coller Capital (U.K.). The initiative educates people about livestock industry risks, including the impact on the environment, as well as food safety (antibiotics) issues.

Signature Timing
June 2019

Sustainable Blue Economy Finance Principles SBEFP

These are financial principles for realizing a sustainable marine economy formulated by the European Commission in March 2018. The principles promote investment activities to protect marine ecosystems and solve marine problems such as marine plastics.

Signature Timing
June 2019

Access to Medicine Foundation/ Access to Medicine Index

Founded in 2003 by Dutch entrepreneur Wim Leereveld. The organization encourages the pharmaceutical industry to do more to help low- and middle-income countries who have limited access to medicine. Signatories support the foundation's index.

Signature Timing
June 2019

30% Club Japan (Investor Group)

A group of asset owners and asset managers that engages in constructive dialogue with the boards of directors and senior management of portfolio companies, with the aim of highlighting the importance of gender diversity within senior management and realizing such gender diversity.

Signature Timing
December 2019

Nomura Asset Management ESG Statement
http://www.nomura-am.co.jp/corporate/service/pdf/esgstatement.pdf

Ⓝ Signed as Nomura Group

Governance

Governance

Independent Director | Officer's compensation | succession planning

We urge our investees to establish appropriate corporate governance structures, so they are able to address ESG issues that may lead to enhancing their corporate values in a sustainable manner.

ICGN International Corporate Governance Network

The International Corporate Governance Network ICGN

Established in 1995 to promote effective corporate governance standards and foster responsible investment to advance efficient markets and sustainable economies worldwide.

Signature Timing
December 2018

ACGA

The Asian Corporate Governance Association ACGA

Established in 1999 to engage in research and provide corporate support and education related to corporate governance in order to promote corporate governance in Asia.

Signature Timing
December 2018

JSI Japan Stewardship Initiative

Japan Stewardship Initiative JSI

Aims to identify practical issues between asset owners and asset managers and to support efficient transmission of information aimed at advancing and deepening stewardship activities.

Signature Timing
November 2019

SDGs

Sustainable Development Goals

Solutions to the various ESG issues presented in the SDGs can be viewed positively as new business opportunities, and may encourage portfolio companies to appropriately reflect these in their management strategies. We also request appropriate information disclosure so that companies' policies and activities are clearly understood by external parties.

SUSTAINABLE DEVELOPMENT GOALS

As the successor to the Millennium Development Goals (MDGs) established in 2001, the Sustainable Development Goals (SDGs) are international goals that aim for a sustainable and better world by 2030, and are part of the "2030 Agenda for Sustainable Development" which was adopted at the UN Summit in September 2015. There are 169 targets for the 17 goals, and the SDGs pledge to "Leave No One Behind." The SDGs are universal and do not apply only to developing countries. Japan is also proactively working towards these goals.

Nomura Asset Management supports the Sustainable Development Goals (SDGs)

Other Related Initiatives that Nomura Asset Management has Joined

WE SUPPORT

Signature Timing June 2015 Ⓝ

The United Nations Global Compact UNGC

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 preventing corruption.

21世紀金融行動原則

Signature Timing January 2012

The financial principles toward the formation of a sustainable society

(Principles for Financial Action for the 21st Century)

Formulated in October 2011 based on a proposal by the Ministry of the Environment's Central Environmental Council as action guidelines for financial institutions that wish to fulfill their responsibilities and roles as required for the formation of a sustainable society.

PRI Principles for Responsible Investment

Signature Timing March 2011

Principles for Responsible Investment PRI

The UN PRI (United Nations' Principles for Responsible Investment) are a set of principles formulated in April 2006 that require investors to incorporate ESG into actual investment analysis and decision-making processes.

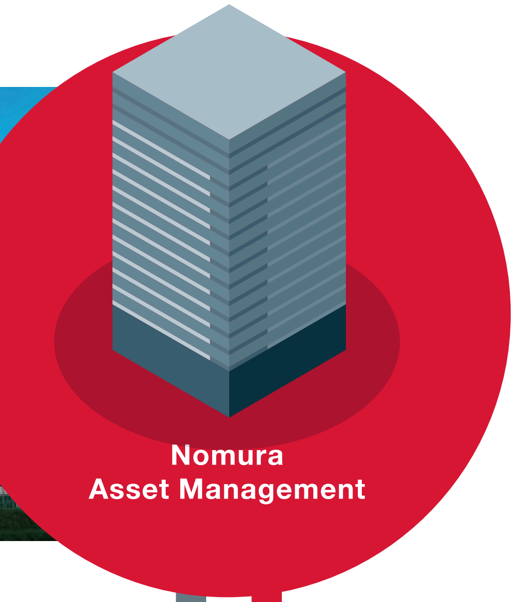
UNEP FINANCE INITIATIVE

Signature Timing January 2019 Ⓝ

The United Nations Environment Programme – Finance Initiative UNEP FI

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 and regulatory authorities to promote a shift to a financial system that integrates economic development with ESG considerations.

ESG Statement



Nomura
Asset Management

Nomura Asset Management's Role in ESG Issues

Role as an institutional investor

Impact on economic cycle as institutional investor

Create a virtuous cycle of investment funds, and realize sustainable economic growth and a prosperous society

Investment Chain ▸ P11 - P12

Role as an operating company

Directly impact society as an operating company

Solve social issues through asset formation
(poverty, health and welfare, active participation of women, education)

Materiality ▸ P13 - P14

Solving ESG issues
Creating social impact

GRESB

Signature Timing March 2021

GRESB

Measures the environmental, social, and governance (ESG) of individual companies and investment funds in the real estate sector. GRESB was launched in 2009, mainly by European pension funds, as a source of information to use when selecting investments and during dialogue with portfolio companies and investment funds.

NAM's Initiatives on Climate Change and Climate-Related Risks and Opportunities

(Disclosure based on the TCFD Recommendations)

In June 1990, prior to the United Nations Conference on Environment and Development (Earth Summit) held in Rio De Janeiro in June 1992, NAM became an industry pioneer by establishing the "Global Environment Fund." Since establishing this fund, NAM has been proactively investing in companies that help protect the environment around the world and combat climate change. With respect to the environment, we believe that climate change is the most important ESG issue in terms of impact on corporate value of portfolio companies, and our ESG Statement positions climate change as one of the most important ESG issues. Based on this stance, in March 2019 we became a signatory of the TCFD (Task Force on Climate-related Financial Disclosures), and in our Responsible Investment Report and other reports we disclose the details of our initiatives on climate change and the climate change-related risks and opportunities of portfolio companies, based on the TCFD Recommendations.

Enhancing our ESG integration with analysis and evaluation of climate-related risks and opportunities
Incorporating climate change countermeasures into the management strategies through constructive engagement with portfolio companies

Climate change is one of the most important ESG issues in the management strategies of portfolio companies. Through our TCFD initiatives, we are enhancing the level of our investment management with respect to climate-related risks and opportunities, and contributing to the realization of a carbon-free society by engaging with portfolio companies and encouraging them to include efforts to combat climate change in their business strategies.

TCFD

As climate change increasingly impacts corporate management, government policies, consumer preferences, nature, weather, and other aspects of society, climate-related risks and opportunities are some of the most important factors that determine the corporate value of portfolio companies. Corporate value is the discounted present value of financial metrics such as future free cash flow, and the business assets that generate such metrics include not only tangible assets such as production equipment, but also human capital, natural capital, social capital, and other "non-financial capital" which is not found in a company's financial statements. In order to analyze how these types of non-financial capital will impact the future management, sustainable growth, and financial data of a company, we believe it is extremely important to analyze non-financial data (data on non-financial capital) as a part of managing the assets our clients have entrusted to us.

Climate-related risks include transition risks accompanying the shift to a carbon-free society, and physical risks which include the impacts of natural disasters and other events (refer to table below). A company's corporate value will decline if, due to climate change, it has natural disaster-related costs, incurs a carbon tax, has costs to acquire carbon credits, must pay litigation costs or insurance premium payments accompanying a disaster, or incurs asset impairment losses. On the other hand, climate-related opportunities include resource efficiency, energy sources, products and services, markets, and resiliency, among other possibilities. A company's corporate value will increase if business opportunities accompanying climate change result in higher profits or cash flow in the future.

In October 2020, the Government of Japan declared that Japan will become carbon neutral by 2050, and in December 2020 the government formulated the "Green Growth Strategy Through Achieving Carbon Neutrality in 2050". Overseas, aiming to create a sustainable decarbonized society, many countries and territories, including the EU, have made declarations of carbon neutrality, established rules on taxonomy, introduced carbon pricing (carbon tax, emissions trading, etc.), and have made mandatory the disclosure of climate change data based on the TCFD Recommendations and other non-financial data. With these actions, climate-related risks and opportunities are expected to increasingly impact the corporate value of our portfolio companies going forward.

We are carrying out ESG integration that incorporates analysis and assessments of these climate-related risks and opportunities into our investment process, and we have built a system enabling comprehensive ESG integration not only for our company-wide portfolios but for individual funds. In addition to the TCFD Recommendations, we perform advanced analyses and evaluations of climate-related risks and opportunities in our proprietary ESG scores, and we work to enhance both the corporate value of portfolio companies and the performance of the funds we manage by encouraging portfolio companies through engagement and proxy voting, as well as by collaborating with various stakeholders on climate-related initiatives.

Climate Change Risks and Opportunities

transition risks

- Policy and legal risks accompanying carbon pricing, mandatory emissions reporting, and regulations/litigation surrounding products/services
- Replacement of existing products/services with carbon-free options, failed investments in new technologies, and costs to transition to carbon-free technologies, as well as technological risks accompanying each
- Market risks accompanying changes in consumer behavior, uncertainty in market signals, and soaring raw materials costs
- Reputation risk in conjunction with changes in consumer preferences, growing negative impressions of the industry, and an increase in stakeholder concerns as well as negative feedback from stakeholders

physical risks

- Acute physical risks accompanying intensifying abnormal weather events like strong typhoons and flooding
- Long-term physical risks due to changing rainfall patterns, increased volatility in weather patterns, rising average temperatures, and sea level rise

opportunities

Resource Efficiency: Use of more efficient means of transportation, use of more efficient means of production/transport, recycling, transitioning to more efficient buildings, reducing water use/consumption

Energy Sources: Use of carbon-free energy sources, use of support from policy initiatives, use of new technologies, participation in carbon markets, transitioning to diversified energy sources

Products/Services: Development and expansion of carbon-free products/services, adaptation to climate change and use of insurance to address risks, development of new products/services through R&D and innovation, ability of businesses to diversify, changes in consumer preferences

Market: Access to new markets, use of public sector incentives, access to new assets and locations requiring insurance coverage

Resilience: Participation in renewable energy programs and improvements in energy efficiency, replacement and diversification of resources

Task Force on Climate-related Financial Disclosures

Climate-related Financial Disclosure based on the TCFD Recommendations

Governance

- Our Board of Directors and Executive Management Committee both recognize that climate-related risks and opportunities have important impacts on our business and our medium-to long-term management targets, and we have therefore built an appropriate governance system and also carry out monitoring.
- The Responsible Investment Department, which acts as the TCFD Secretariat, shares the analytical data it compiles, such as greenhouse gas emissions, ESG scores and scenario analyses, with portfolio managers and analysts. These data are then utilized in company analyses, engagement, and investment decision-making.
- These data are also regularly reported to the Responsible Investment Committee, which comprises officers in the Investment and Research division, and they are used to evaluate a portfolio's climate-related risks and opportunities. Following this, the chair of the Responsible Investment Committee reports the evaluation outcomes to the Executive Management Committee, which allows members of senior management to monitor climate-related risks and opportunities and make management decisions. The details are then ultimately reported to the Board of Directors via the Executive Management Committee.

Strategy

- As detailed on Page 20, we recognize a wide range of short-, medium- and long-term climate-related risks and opportunities. In terms of transition risks, we are closely watching carbon pricing, the stranding of assets, and changes in consumer behavior and preferences. For physical risks, we are focusing on abnormal weather, which is increasing in recent years. Meanwhile, with respect to opportunities, we are paying close attention to products and services related to renewable energy and energy efficiency and conservation, electricity storage, hydrogen, ammonia, CCUS (Carbon dioxide Capture, Utilization and Storage), carbon recycling, as well as disaster prevention and mitigation.
- We analyze the impacts that climate-related risks and opportunities do and will have on our businesses, strategies, financial plans, and portfolios. For example, we perform financial analysis and transition risk analysis using both Institutional Shareholder Services' (ISS) analysis methods and our own carbon pricing in our ESG score.
- In principle, we do not divest from (and thereby lose the chance for engagement with) portfolio companies with high levels of greenhouse emissions. Instead, by continuing to hold such companies, we use engagement as a means to encourage these portfolio companies to take measures to combat climate change.
- Please refer to Page 23 for information on the scenario analysis we performed for our four-asset integrated portfolio.

Risk Management

- We manage portfolio risk using ISS's analysis methods for transition risk and physical risk. In addition, we identify and manage portfolio companies' transition risks and physical risks using our own corporate analysis and ESG scores, as well as through engagement.
- We feel it is important to analyze GHG emissions throughout the entire life cycle of a company's products and services, and on a supplementary basis we use emissions throughout the global supply chain and avoided emissions as disclosed by companies.
- Such risk management analysis outcomes are shared within the Investment and Research division, and are reported to both the Executive Management Committee and the Board of Directors after being monitored by the Responsible Investment Committee.

Metrics and Targets

- In order to evaluate climate-related risks and opportunities in accordance with our own strategies and risk management process, we measure four metrics recommended by the TCFD (total carbon emissions, carbon footprint, carbon intensity, weighted average carbon intensity) and perform scenario analyses as well as a transition risk analysis and physical risk analysis for each portfolio.
- While the total carbon emissions of our entire Japanese equities portfolio is below the benchmark, the total carbon emissions of our global equities portfolio exceeds the benchmark.
- In December 2018, Nomura Group formulated medium- and long-term CO_2 emissions reduction targets for the entire Group on a global basis. The global targets include reducing CO_2 emissions (total) 32% by FY2030 (medium-term) and 65% by FY2050 (long-term) compared to FY2012 emissions.

Analysis of Carbon Footprinting and Exposure Metrics

In order to evaluate the climate-related risks and opportunities of portfolio companies in accordance with our own strategy and risk management process, we measure the following four metrics recommended by the TCFD for each of our portfolios.

Total Carbon Emissions

- Absolute GHG emissions associated with a portfolio
- Unit: tCO_2e(CO_2 equivalent)

$$\sum_{n}^{i}\left(\frac{\text{current value of investment } i}{\text{issuer's market capitalization } i}\times\text{issuer's Scope 1 and Scope 2 GHG emissions } i\right)$$

Carbon Footprint

- Total carbon emissions for a portfolio normalized by the market value of the portfolio
- Unit: tCO_2e/US$ million (investment amount)

$$\frac{\text{Total Carbon Emissions}}{\text{market capitalization of portfolio}}$$

Carbon Intensity

- Volume of carbon emissions per million dollars of revenue (carbon efficiency of aportfolio)
- Unit: tCO_2e/US$ million (revenues)

$$\frac{\text{Total Carbon Emissions}}{\sum_{n}^{i}\left(\frac{\text{current value of investment } i}{\text{issuer's market capitalization } i}\times\text{the revenues of portfolio companies } i\right)}$$

Weighted Average Carbon Intensity

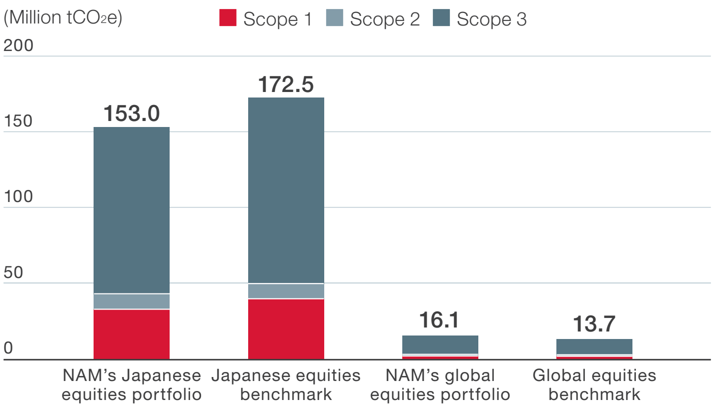
- Portfolio's exposure to carbon-intensive companies and metric recommended byTCFD
- Unit: tCO_2e/US$ million (revenues)

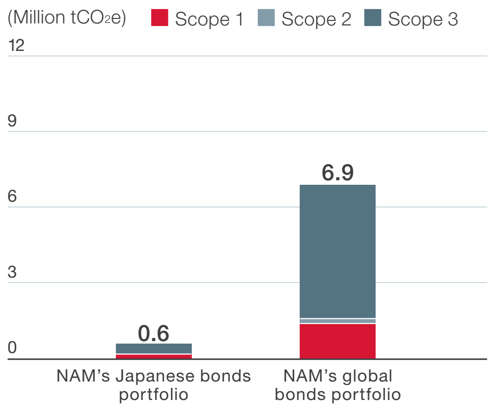
$$\sum_{n}^{i}\left(\frac{\text{current value of investment } i}{\text{market capitalization of portfolio } i}\times\frac{\text{issuer's Scope 1 and Scope 2 GHG emissions } i}{\text{the revenues of portfolio companies } i}\right)$$

We analyze climate-related risks and opportunities for four portfolios we manage: Japanese equities; global equities; Japanese bonds; and global bonds. In our analysis, we use data and analysis methods from ISS. For equities benchmarks, we used TOPIX for Japanese equities and MSCI ACWI ex-Japan for global equities. Bonds only included corporate bonds, and did not include government or other public bonds.

The analysis revealed that the total carbon emissions of our Japanese equities portfolio and global equities portfolio are less than, and greater than, respectively, the total carbon emissions of portfolios which have the same monetary amount as each portfolio and comprise the same stocks and weightings as the benchmarks. For global equities, total carbon emissions likely exceeded that of the benchmark due to the fact that the weightings of high-emitting companies in sectors such as Energy, Materials and Utilities in emerging countries including India, China, and Russia are higher than the weightings in the benchmark. In terms of the ratio of total carbon emissions accounted for by each industry, there is a high ratio from both Materials and Utilities, as well as relatively high ratios from Energy and Industrials. The same trend is seen in the industry ratios for weighted average carbon intensity. Going forward, through engagement as well as cooperation with climate change-related initiatives, we will continue to encourage portfolio companies to undertake initiatives targeting a carbon-free society.

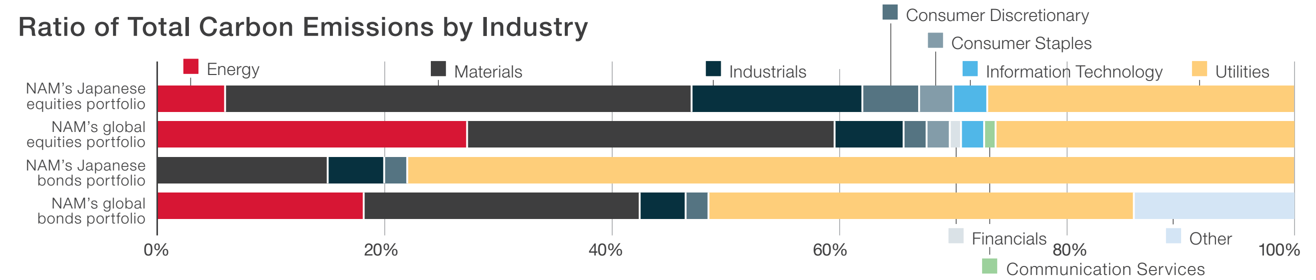
Total Carbon Emissions





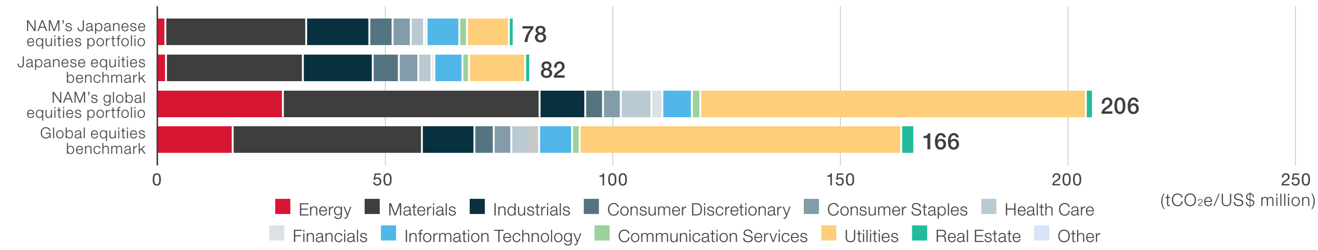
*For equities, total carbon emissions have been calculated using NAM's ownership stake versus total market capitalization. For bonds, total carbon emissions have been calculated using Adjusted Enterprise Value (total market capitalization + total debt).

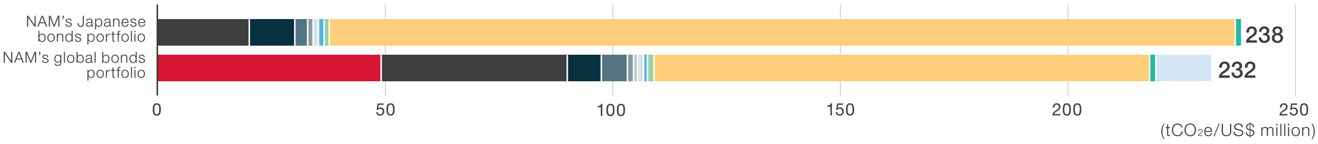
Ratio of Total Carbon Emissions by Industry



*Industries whose composition ratio of the Global Industry Classification Standard (GICS) is less than 1% are not included in industry classifications.

Weighted Average Carbon Intensity and Ratio by Industry





Scenario Analysis

For total carbon emissions of our four-asset integrated portfolio, we used data from ISS, and performed scenario analyses based on the three scenarios in the World Energy Outlook 2019 issued by the International Energy Agency (IEA). For the total carbon emissions used in our scenario analyses, in light of the specific characteristics of transition risk in each sector, we used only Scope 1 emissions for the utility companies, only Scope 3 emissions for fossil fuel producing companies, and both Scope 1 and Scope 2 emissions for all other companies.

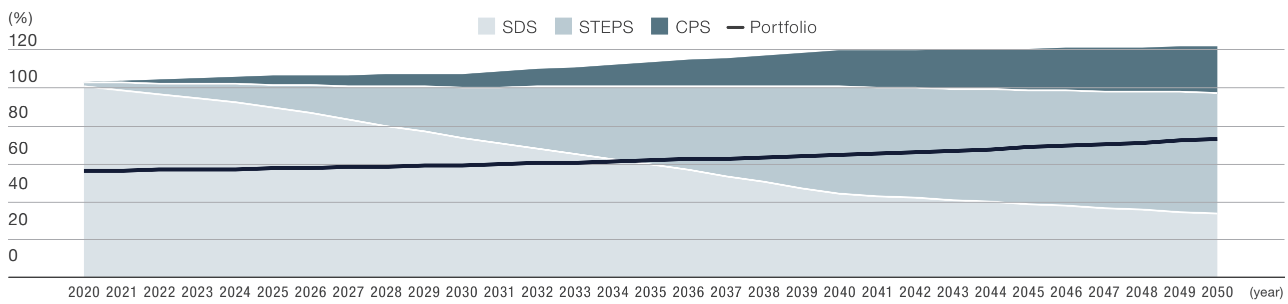
❶ Sustainable Development Scenario(SDS): The 1.5°C scenario aligned with the target of the Paris Agreement, which is to work to limit global warming to well below 2°C, preferably to 1.5°C, compared to pre-industrial levels.

❷ Stated Policies Scenario (STEPS): A scenario which assumes that governments carry out policy initiatives they have already announced, on the assumption that countries will execute existing policy frameworks and ambitions. Under this scenario, the earth's temperature is projected to rise approximately 2.7°C by the end of this century.

❸ Current Policies Scenario (CPS): A scenario under which countries continue, but make no changes to, their current policies. Under this scenario, the earth's temperature is projected to rise approximately 3.2°C by the end of this century.

The scenario analysis confirmed that our four-asset integrated portfolio is likely to reach the total carbon emissions permitted in the Sustainable Development Scenario around 2035. We feel that the portfolio's emissions were greatly impacted by the fact that our global equities and bonds portfolios include comparatively high weightings of stocks and bonds in the Energy, Materials, and Utilities sectors, centered on emerging countries and developing countries, where GHG emissions are high in conjunction with economic growth. Our analysis also hints at the importance of calling for measures to address climate change across the market, as our investment portfolios include many passive investments.

Comparison of NAM's four-asset integrated portfolio's total carbon emissions and carbon budget under each scenario



*On the graph's y-axis, the 2020 carbon budget for SDS is set at 100%.

Transition Risk Analysis

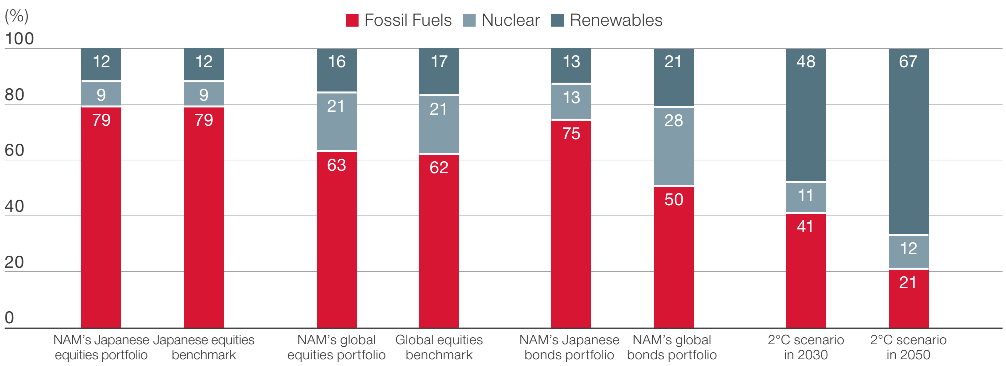
It is important to analyze in detail climate-related transition risk due to the fact that this risk is highly dependent on GHG emissions which have a relatively high correlation with both stock price performance and corporate valuation. We feel it is key to analyze GHG emissions throughout the entire life cycle of a company's products and services, and on a supplementary basis we use emissions throughout the global supply chain and avoided emissions as disclosed by companies.

The specific transition risk analysis method involves using ISS data to analyze the power generation exposure and future GHG emissions (risk of stranded assets) on an energy generation basis in the portfolio, and the ratio of problematic resource development (shale oil/gas development and fracking, crude oil or gas drilling in the arctic, oil sands development, etc.), along with using the carbon risk rating, which is ISS's proprietary transition risk assessment. Furthermore, the environment score within our proprietary ESG score includes evaluations of climate-related transition risk, and we use carbon pricing to analyze its financial impact.

Power Generation Exposure Analysis (Portfolio, Benchmark, SDS)

The graph below compares the power generation exposure of our portfolios, the benchmarks, and the SDS on a power generation volume basis. The SDS, based on IEA forecasts, shows the power generation exposure that is likely to limit the temperature increase in 2030 and 2050 to less than 1.5°C above pre-industrial levels. The power generation exposure of both our domestic equities and global equities portfolios are almost the same as the benchmarks, and the ratio of fossil fuels is higher in comparison to the power generation exposure in 2030 and 2050 under the SDS.

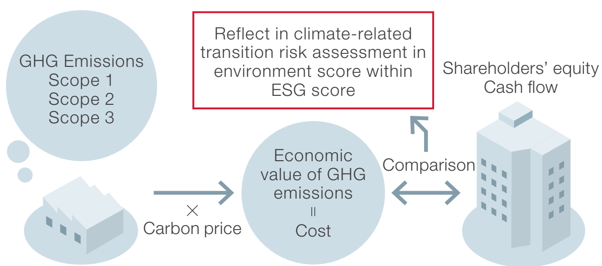
By increasing the ratio of renewable energy in our portfolios through engagement with portfolio companies, we will strive to reduce the transition risk from fossil fuels, as well as reduce the total carbon emissions and weighted average carbon intensities of our portfolios.



Column: Using Carbon Pricing to Analyze Financial Impact

Transition risk analyses are generally based on the amount of GHG emissions, but we use carbon pricing to analyze financial impact in the evaluation of climate-related transition risk in the environment score within our ESG score. For example, if a carbon tax or emissions trading scheme is introduced, a portfolio company's GHG emissions become a cost. From the standpoint of the impact on corporate value, a more accurate transition risk analysis can be performed if the ratio of this cost to shareholders' equity or cash flow is analyzed.

For GHG emissions, we used data disclosed by companies for Scope 1 and Scope 2 emissions, and for Scope 3 emissions we used ISS's estimates. In addition, the carbon price used to replace GHG emissions with economic value is periodically reviewed referencing the market price (EUA in EU ETS, etc.), internal carbon pricing levels in portfolio companies, and reports from international organizations such as the World Bank.



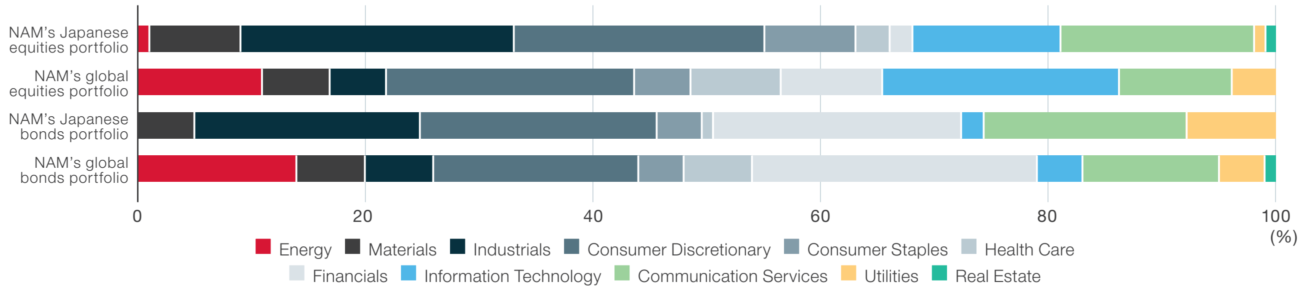
Physical Risk Analysis

In recent years, hurricanes, cyclones, heavy rains, floods, heat waves, forest fires, and droughts, which are thought to be impacted by climate change, are frequently occurring around the world. The impact of these events on the businesses and assets held by portfolio companies can no longer be ignored, and analyzing physical risks is becoming increasingly important. In analyzing the physical risks of portfolio companies, in addition to ISS's risk analysis and physical risk score by industry and region, we utilize the portfolio's Value at Risk (potential negative impact of physical risk on the value of a portfolio) calculated as the potential value lost through 2050 due to damage incurred by the business assets owned by portfolio companies from abnormal weather stemming from climate change. For Japanese companies, if necessary, we use disclosure materials and company websites to research the regions of offices, factories, and important owned assets, and we also check hazard maps and other materials published by local governments in order to supplement our analysis of physical risk.

Physical Risk Analysis by Region and Sector

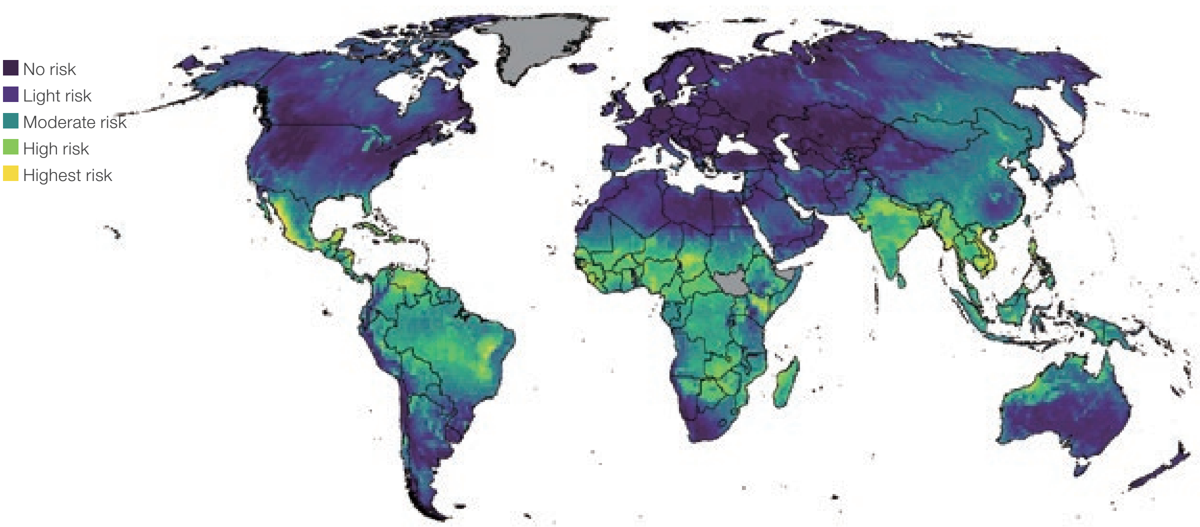
We utilize ISS data to analyze physical risks by industry and region. The graph below shows the percentage of Value at Risk related to physical risk in each sector through 2050 for our Japanese equities, global equities, Japanese bonds, and global bonds portfolios. The higher the ratio, the greater the potential negative impact of physical risk on the value of companies in that industry. We calculate the Value at Risk of each portfolio, but it is used internally and not disclosed in this report.

Value at Risk by Sector



The map below shows the physical risk by region for our Japanese equities and global equities portfolios. Along with the ratio by industry, we use this map as a reference when considering industry and regional allocations. These analyses enable us to identify sectors and regions with relatively high physical risk.

The Physical Risk By Region



Analysis of Individual Funds

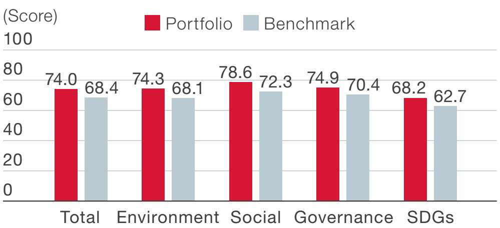
Up to this point, we have explained our methods for analyzing climate-related risks and opportunities for our portfolios as a whole. However, we also perform the following analyses of individual funds using data from ISS and other ESG evaluation firms, as well as our own ESG scores, and we compare them to benchmarks.

- The four metrics recommended by the TCFD (total carbon emissions, carbon footprint, carbon intensity, weighted average carbon intensity)
- Analyze the ratio of contribution from each sector and from individual companies to the fund's total carbon emissions and weighted average carbon intensity, and compare with other sectors and industry peers
- Scenario analysis based on the scenarios (SDS, STEPS, CPS) noted in the IEA's World Energy Outlook 2019
- Analysis of transition risk and physical risk
- Total weight of applicable companies vis-à-vis overall portfolio with respect to support for TCFD, establishment of short-, medium- and long-term GHG emissions reduction targets, measurement of Scope 3 and avoided emissions, introduction of internal carbon pricing (ICP), incorporation of climate change countermeasures into KPI for executive compensation, participation in climate change initiatives (CDP, SBT, RE100, etc.)

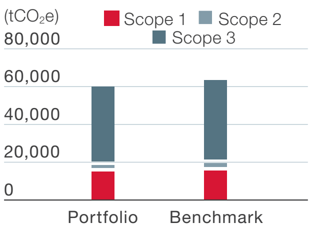
The analysis results are shared with portfolio managers, and referred to in the investment decision-making process. In addition, these results are regularly reported to the Executive Management Committee and the Board of Directors via the Responsible Investment Committee. If there is room for improvement in GHG emissions-related metrics, scenario analyses, or risk scores compared to the benchmarks, we check the contributions from the fund's constituent sectors and companies, promote awareness about climate-related risks and opportunities during engagement with portfolio companies, and discuss their efforts to improve GHG emissions or other metrics.

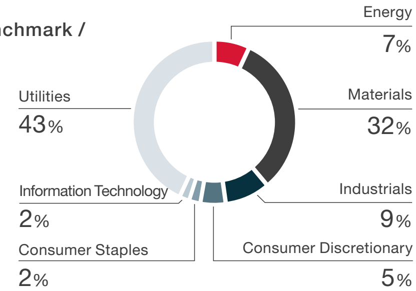
Example of Analysis of Individual Fund (US$100mn)

Nomura Asset Management ESG score



Total carbon emissions versus benchmark / sector contribution to emissions

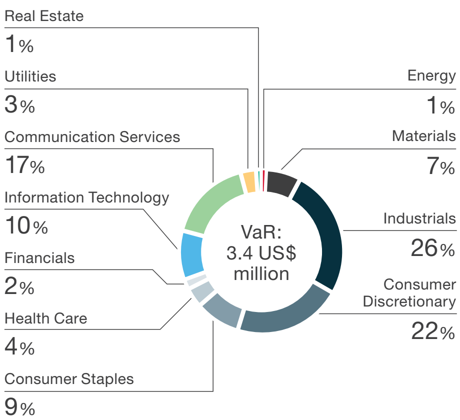




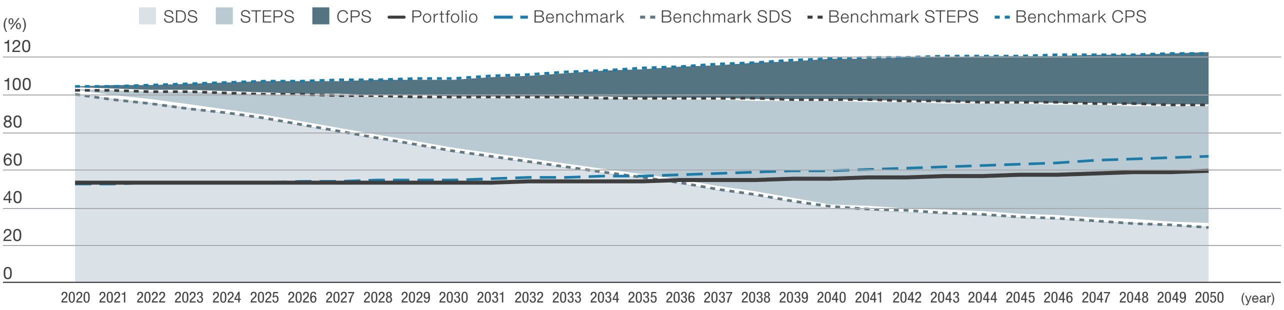
Sectors to emission attribution exposure versus benchmark

Sector	Portfolio Weight	Benchmark Weight	Difference	Sector Allocation Effect	Issuer Selection Effect
Energy	0.64%	0.58%	0.06%	-0.54%	-0.49%
Materials	4.82%	6.28%	-1.46%	8.94%	-0.52%
Industrials	20.20%	22.39%	-2.18%	1.39%	4.11%
Consumer Discretionary	17.76%	17.86%	-0.10%	0.03%	0.58%
Consumer Staples	8.43%	8.31%	0.12%	-0.04%	0.76%
Health Care	11.82%	10.21%	1.61%	-0.06%	0.07%
Financials	8.92%	8.49%	0.43%	-0.02%	0.01%
Information Technology	12.64%	13.24%	-0.60%	0.12%	0.67%
Communication Services	9.59%	9.07%	0.52%	-0.03%	0.04%
Utilities	1.60%	1.32%	0.28%	-6.38%	-3.26%
Real Estate	3.57%	2.25%	1.31%	-0.19%	0.09%
Cumulative Higher (-) and Lower (+) Emission Exposure vs. Benchmark				3.20%	2.07%
				5.27%	

Physical risk VaR by Sector

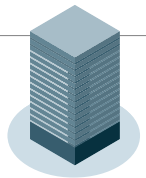


Total carbon emissions of portfolio and benchmark, carbon budget comparison in each scenario (scenario analysis)



Climate Change-Related Engagement with Portfolio Companies

Through engagement with portfolio companies, we are pursuing the following initiatives in order to reduce climate-related risk in our portfolios and promote investment in climate-related opportunities.



NAM

- Active involvement in climate change countermeasures through climate-related initiatives we have joined, such as PRI, TCFD, and Climate Action 100+, cooperation with other investors, share best practices
- Further raise the level of TCFD disclosure and climate change-related ESG integration
- Develop climate change-related financial products
- Develop financial analysis/valuation methods using carbon pricing

Portfolio Companies

- Support for TCFD, climate-related financial data disclosure based on the TCFD Recommendations, including scenario analysis and GHG reduction targets
- Incorporate climate change countermeasures into KPI for executive compensation
- Obtain approval of science-based targets and commit to them
- Provide information to CDP, join RE100/EP100/EV100, etc.
- Introduce internal carbon pricing (ICP)
- Disclose Scope 3 and avoided emissions that enable GHG emissions to be assessed in the life cycle of products and services and throughout the supply chain

Examples of Climate-Change Related Engagement

Company/ Sector	Company initiatives and post-engagement response	Details communicated from NAM to company during engagement
Company A Chemicals	■ Considering support of the TCFD at time of engagement meeting ■ In executive compensation, some directors have ESG-related metrics in their personal KPI ■ Working to reduce non-energy source CO2 arising in the process of producing key products, but the development of new technologies takes time ■ Supported the TCFD after the meeting, enhanced climate-related disclosure	■ We told the company that by supporting the TCFD, the company will show the commitment of senior management to combatting climate change, and we said that we would like the company to enhance its climate-related disclosure ■ While the sales target for products and businesses that contribute to the environment is a good initiative, it is also important to have more detailed long-term reduction targets for GHG emissions and carbon intensity, as well as to include climate change countermeasure items in the KPI for executive compensation ■ While we expressed our understanding that it is difficult to reduce non-energy source CO2 emitted in the manufacturing process, we discussed encouraging more innovation
Company B Electronics	■ In TCFD disclosure, the company discloses detailed scenario analyses, and specific financial impacts of risks and opportunities ■ Has established medium- and long-term environmental targets, and has linked executive compensation to these targets ■ Participating in climate-related initiatives and proactive in obtaining certifications	■ We told the company that we take a very positive view on its advanced initiatives, including establishing medium- and long-term environmental targets and linking executive compensation to these targets ■ We told the company that more and more companies have recently started using ICP in internal investment decision-making and other areas, and we asked them to consider introducing ICP. We said that introducing ICP will also likely increase awareness of risks and opportunities related to non-financial data within the company
Company C Steel	■ Includes detailed scenario analyses in TCFD disclosure ■ Has established medium- and long-term GHG reduction targets ■ Discloses avoided emissions from using high-performance steel, renewable energy, etc.	■ The company asked a question about our method for assessing avoided emissions, so we answered that in our ESG score we evaluate whether or not a company discloses avoided emissions ■ Currently, in the disclosure rules there are no clear rules for calculating avoided emissions, but we discussed how they should be assessed along with GHG emissions in the future should data become more reliable

Cooperation with Climate Change Initiatives

In March 2019, we pledged our support for the TCFD. Starting with our Responsible Investment Report 2019 we have been providing disclosure in line with the TCFD Recommendations, and also offering detailed disclosure and reports on GHG emissions monitoring for individual funds, covering our company-wide Japanese equities, global equities, Japanese bonds, and global bonds portfolios. In addition, we have been a member of the TCFD Consortium since its establishment in May 2019, and we are a member of the GIG Supporters, a group of investors that utilize the Green Investment Guidance formulated by the TCFD Consortium in October 2019. While leveraging the Green Investment Guidance, we engage with portfolio companies and actively encourage them to support the TCFD, disclose climate-related financial data, and integrate climate-related risks and opportunities into their management strategies. Furthermore, in December 2019, we joined Climate Action100+, and through this initiative we collaborate with other institutional investors to encourage portfolio companies to take action to combat climate change.

In June 2015, Nomura Holdings, representing all of Nomura Group, became a signatory of the CDP. With this, Nomura Asset Management is one of the CDP's investor signatories. We are responsible for the responses to questions for the asset management firm on Nomura Holdings' CDP questionnaire. Nomura Holdings was selected as a member of the CDP's "Climate Change A List 2020," which recognizes Nomura Holdings as a globally excellent company with respect to initiatives to combat climate change and for its disclosure of related data.

Nomura Asset Management's

Initiatives on Human Rights

With the support of 99% of its shareholders, at its annual general meeting of shareholders in June 2020, French food giant Danone became the first publicly-traded company to adopt the "Entreprise à Mission" (mission-fulfilling company) model. This is a new legal framework established by France in 2019, and a new company model under which a company bears the responsibility to achieve a purpose other than profits. Danone has included four new objectives in its articles of incorporation: 1) Improve health through products; 2) Preserve the planet's resources; 3) Entrust Danone's people to create new futures; and 4) Foster inclusive growth. Going forward, Danone's Board of Directors will be responsible for progress on these objectives. The Board of Directors will be overseen by a 10-person Mission Committee comprising outside experts and employee representatives. If the objectives are not being achieved, the Mission Committee will encourage improvements.

As symbolized by this action by Danone, companies are now being asked to act responsibly in addition to pursuing profits. Amid the growing impact on society by corporate activities in the process of economic development, a wide range of ESG issues are materializing, and the importance of companies playing a responsible role is becoming better recognized. Among many ESG issues, one that has received particular attention along with climate change is human rights. As companies' business activities expand globally, the global supply chains that companies are a part of are also expanding. A large number of people are involved in these long, enormous supply chains, and as a result many different kinds of human rights problems arise on a daily basis. However, companies face difficulties to monitor such issues in these supply chains because they are so massive.

The issue of human rights has been a global topic of discussion for a number of years, and during this time many principles and guidelines have been developed. In 1976, the Organisation for Economic Co-operation and

> "I even have had to pay them money at the end of the month instead of getting money". These are the words of Batsa, a 25 year-old Nepalese worker in an electronics factory in Malaysia. For 18 months, he had approximately half of his monthly salary (approximately US$1,800) taken from his paycheck, with the reason given that the money was needed to obtain a new work permit.
>
> — From Know the Chain
> (2020 ICT Benchmark Overview; June 2020)

Development (OECD) issued the OECD Guidelines for Multinational Enterprises, a set of recommendations for multinational enterprises of adhering countries reflecting the expectation to companies on how to voluntarily act responsibly. The following year, in 1977, the Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy was established by the International Labour Organization (ILO). This document provides direct guidance to enterprises on social policy and inclusive, responsible and sustainable workplace practices.

In 1999, the UN Global Compact was advocated as a voluntary initiative for companies and other organizations to act as good citizens of society and realize sustainable growth. The Global Compact comprises 10 principles in four areas that businesses are asked to put into practice. Of these, six principles and two areas are related to human rights and labor rights. Subsequently, in 2011, the UN Human Rights Council endorsed the "Guiding Principles on Business and Human Rights" proposed by Harvard University Professor John Ruggie (the "Ruggie Principles"). These Principles comprise three main pillars for the relationship between companies and human rights: jjthe duty of states to protect against human rights abuses by third parties, including business enterprises; the corporate responsibility to respect human rights; and the need for greater access by victims to effective remedy. The Ruggie Principles make clear the "obligations of states" and the "responsibilities of companies" concerning the impact of corporate activities on human rights, and also stress the importance of mechanisms for victims to access effective relief, and lay out specific fields and examples of fulfilling each obligation or responsibility by each actor. Based on the Ruggie Principles, states and companies are currently bolstering their initiatives related to human rights. For example, in October 2020 the Japanese government formulated the "National Action Plan on Business and Human Rights (2020-2025)."

Key Basic Principles and Guidelines on Human Rights	
OECD Guidelines for Multinational Enterprises (1976)	■ Guidelines for multinational enterprises in OECD-adhering countries that provide voluntary principles and standards for responsible business conduct
International Labour Organization (ILO)Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (1977)	■ A document about corporate activities established to provide direct guidance to enterprises on social policy and inclusive, responsible and sustainable workplace practices.
UN Global Compact (1999)	■ Advocated as a voluntary initiative for companies and other organizations to act as good citizens of society and realize sustainable growth ■ Of the 10 principles across four areas that businesses are asked to put into practice, two areas (six principles) are related to human rights and labor rights
Guiding Principles on Business and Human Rights: Implementation of the UN "Protect, Respect and Remedy" framework (2011)	■ In 2005, the 69th session of the UN Human Rights Committee appointed Harvard University's Kennedy School of Government professor John Ruggie as the UN Secretary-General's Special Representative on Human Rights and Transnational Corporations. In 2008, he submitted the "Protect, Respect and Remedy" framework to the 8th session of the UN Human Rights Council ■ This framework comprises three core pillars: 1) the State duty to protect against human rights abuses by third parties, including business enterprises; 2) the corporate responsibility to respect human rights; and 3) access to remedies ■ In 2011, the Guiding Principles were formulated and unanimously endorsed at the 17th session of the UN Human Rights Council

Guiding Principles on Business and Human Rights (3 Pillars / 33 Principles)

Principle 1~10

The State Duty to Protect Human Rights

The duty to protect against human rights abuses through effective policies, legislation, regulations and adjudication

Principle 11~24

The Corporate Responsibility to Respect Human Rights

Business enterprises have the duty to conduct due diligence, avoid infringing on human rights, and address adverse human rights impacts with which they are involved

Principle 25~33

Access to Effective Remedy

States must establish, through judicial or non-judicial means, measures (judicial means or measures by business enterprises) for people impacted by human rights infringements related to business enterprises to have access to remedy.

Principle 16

Commitment

Expression of commitment, policy formulation

Operational principles

Principle 17

Due diligence

In order to explain how they identify, prevent, mitigate and account for their adverse human rights impacts, business enterprises should carry out human rights due diligence

Principle 18

Assessment

Identify and assess any actual or potential human rights risks

Principle 19

Integration

In order to prevent and mitigate risks identified in the human rights assessment, business enterprises should integrate the risks across internal functions and processes, and take appropriate action

Principle 20

Monitoring

Communication by business enterprises with external parties regarding adverse human rights impacts and the status of addressing such impacts

Principle 21

Communication

Communication by business enterprises with external parties regarding adverse human rights impacts and the status of addressing such impacts

Source: Prepared by Nomura Asset Management using various sources of information

The Movement to Make Human Rights Due Diligence Mandatory

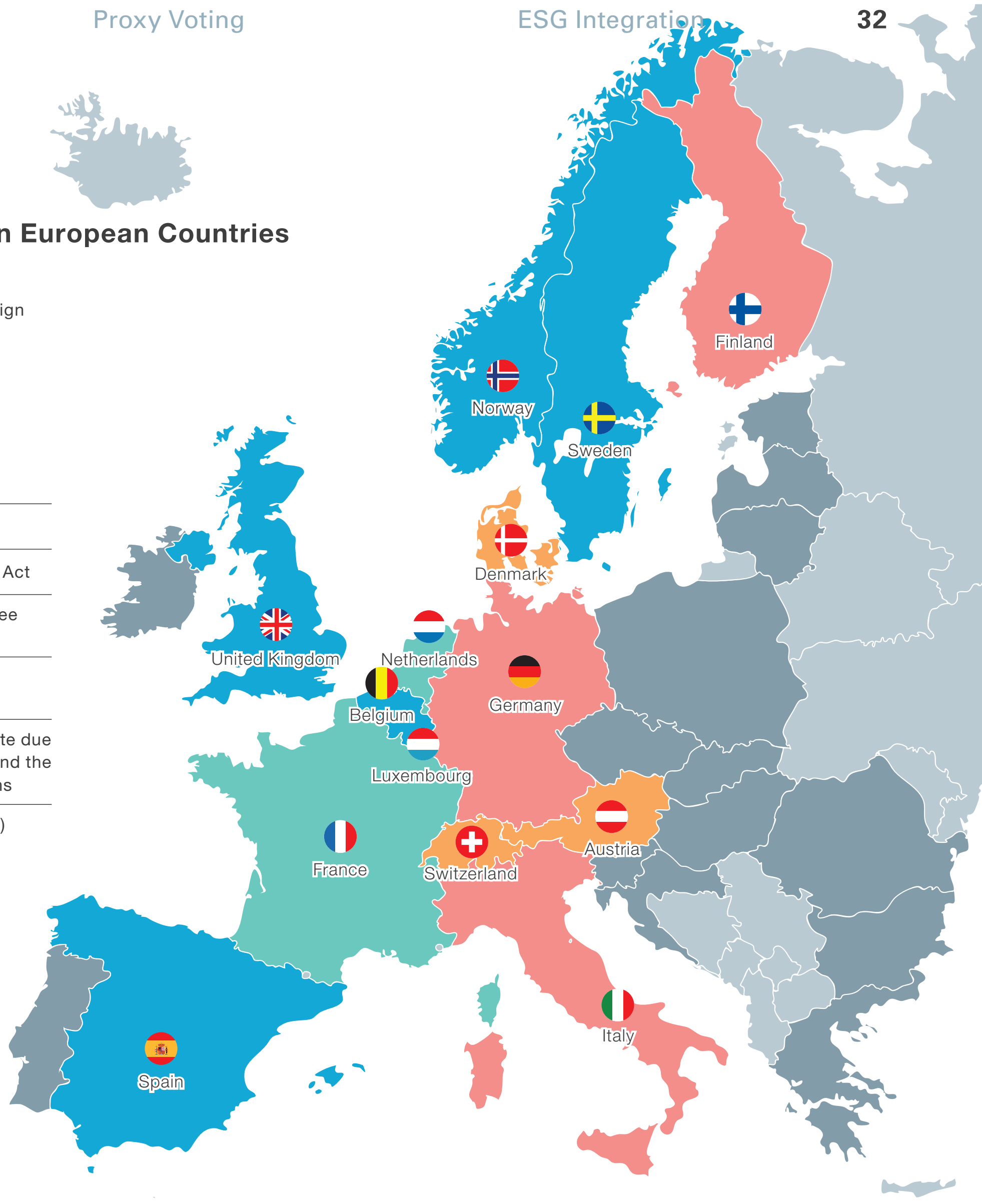
In response to growing awareness of human rights, the movement to introduce legal frameworks, primarily in Western countries, requiring companies to respect human rights including in their supply chains, is gaining traction. This movement is especially strong in Europe, and countries are enacting laws that mandate human rights due diligence. Such laws have already been introduced and put into force in France and the Netherlands, while legislative bills have been drafted in countries including Norway, Switzerland, and Germany (as of December 2020). At the EU level as well, preparations are underway to introduce uniform legislation mandating due diligence, and a draft report was published in September 2020.

This draft legislation would apply to all businesses, regardless of size, that are headquartered or engage in business activities in the EU, and covers a very broad range of ESG-related issues, including: 1) Human rights risks, understood as being those defined in the International Bill of Human Rights, the UN Conventions protecting vulnerable persons, the Core ILO Conventions, and other ILO treaties; 2) Environmental risks (including climate change, natural resources and biodiversity); and 3) Governance risks (including the OECD's Anti-Corruption Guidelines). The main due diligence requirements are shown on the table at the bottom of the next page. The requirements include expressing how the due diligence strategy relates to business strategy. In other words, the EU has been formulating this draft legislation based on the understanding that human rights are inseparably linked to corporate value.

Nomura Asset Management positions human rights, along with climate change, as an important ESG issue that impacts corporate value. As such, along with engaging portfolio companies on human rights issues based on our monitoring of investment portfolios, we proactively integrate such human rights risk information into our investment research.

Status of Legislative Frameworks in European Countries

(as of May 2020)



- Policy statements / Public discussions / CSOs* campaign
- Government's commitment
- Legislative process / motion
- Adopted law

*CSO...Civil Society Organization

Specific Examples of Legislation

Enacted	**France**	Duty of Vigilance Law
	Netherlands	Child Labour Due Diligence Act
Drafting of legislation	**Norway**	Ethics Information Committee draft act
	Switzerland	Draft legislation mandating human rights due diligence
	Germany	Draft legislation for corporate due diligence on human rights and the environment in supply chains

Source : European Coalition for Corporate Justice (ECCJ)

Key content of the EU's draft legislation mandating due diligence ("Draft Report") (September 2020)	
Companies covered	Companies headquartered in the EU and companies not headquartered in the EU but which engage in business activities in the EU
Items covered by the law	■ Human rights defined in the International Bill of Human Rights, the UN Conventions protecting vulnerable persons, the Core ILO Conventions, and other ILO treaties ■ Environmental risks (including climate change, natural resources and biodiversity) ■ Governance risk (including the OECD Anti-Corruption Guidelines)
Main Due Diligence Requirements	■ Continuous due diligence in the entire direct and indirect value chain accompanying a company's business activities ■ Disclosure of statement on the implementation of risk assessments (if risks are not identified) ■ Conduct due diligence, stop, prevent, or mitigate risks, information disclosure (if risks are identified) ■ Engage in consultations with stakeholders and labor unions regarding effective and appropriate due diligence strategy (minimum of once per year) ■ Set up grievance mechanisms ■ Disclosure regarding how the due diligence strategy relates to the business strategy, the details of codes of conduct and policy agreements with business partners, and status of periodic audits of suppliers

Future Schedule

2021 1H	European Commission submits official legislative proposal
2021 2H - 2023	Once the European Commission has submitted its legislative proposal, it will be considered and voted on by the EU Parliament and the European Council. If the directive is adopted, EU member states will be required to incorporate the law into their own national laws.

Source : Prepared by Nomura Asset Management using various sources of information

Nomura Asset Management's Human Rights Monitoring Process

Nomura Asset Management broadly and continuously monitors the human rights risks of companies in our investment universe, as we seek to reduce the risk of human rights infringements at the investment portfolio level. Managing human rights risk is not a factor that results in the generation of cash flows over the short term. However, if human rights problems materialize, not only in a portfolio company, but also in the supply chain connected to that company, the company will be subject to a higher reputation risk, such as a worsening of the company's image in society, and the company may have to pay a large cost (cost and time to restore its reputation) to resolve its human rights issues. In addition, if the problem cannot be solved over a prolonged period of time, the adverse impact on the company's corporate value itself will grow.

In order to avoid unexpected costs related to human rights issues and fulfill our social responsibilities as an asset management firm, we research the efforts of companies in our investment universe with respect to human rights, including if they have formulated programs to address human rights and the implementation status of such programs, as well as research any possible misconduct and the details of such misconduct if it exists. Our research centers on items related to human rights respect and compliance as set forth in international norms related to human rights, such as the OECD Guidelines for Multinational Enterprises and the Ruggie Principles. The basic survey is conducted once a year by our ESG specialists and company analysts using information voluntarily disclosed by companies, NGOs that monitor human rights, and media reports as sources of information. The survey covers items including the disclosure of the status of becoming a signatory and endorsing the international norms supported by Nomura Asset Management, the disclosure of policies for respecting human rights, the establishment of systems to manage human rights violations and the level of progress of such systems (auditing, grievance systems, self-assessment, etc.), and the status of occurrence of human rights-related misconduct.

In addition, for companies in industries that we define as having particular human rights risks, we check whether the company is carrying out human rights monitoring, including for parts suppliers of the company. It is important for a company to check whether there are any human rights violation risks across the entire supply chain, such as in the manufacturing process of raw materials and procured parts, in addition to the company's own manufacturing process. This is because if human rights violation risks are neglected in these sectors and problems arise, business opportunities may be lost, such as an increase in the reputation risk of final products and difficulty in procuring parts, and this will have a significant impact on corporate value.

Sector	**Foods**	**ICT**	**Automobiles**	**Apparel**	**Mining**	**Trading companies**
Industries Focused With Human Rights Risks	Agricultural products (Especially palm oil, cocoa, fruits, tobacco)	Electronic equipment components	Automobile parts Tires	Textiles (cotton and wool) Garment	Precious metals Non-precious metals	All related items noted to the left

Human Rights Risk Management at the Portfolio Level

ESG investment manager examines human rights risks (the survey items mentioned in the human rights monitoring process) at the portfolio level throughout the year, based on the human rights risk monitoring data for each stock researched annually. We share our understanding of issues through continuous engagement with companies that are aware of human rights issues in their business activities and are actively working to address them. For these companies, we carry out engagement while continuing to hold the company as an investment target. In addition, we treat companies that have newly experienced serious human rights-related misconduct or for which improvement in human rights risk management is insufficient as human rights high-risk companies, and manage them as important engagement target companies. Engagement for the purpose of human rights risk management is carried out as a collaborative effort by portfolio managers, ESG specialists, company analysts and ESG investment manager.

However, for companies that are considered human rights high-risk companies but continue to work on solving problems, we will monitor the progress of their efforts through periodic engagement. Also, after a certain period of engagement, those companies for which we can expect improvement will be unflagged as human rights high-risk companies, and will be subject to normal monitoring.

In corporate business for which human rights risk assessment has become the norm, we believe that companies that have established strong processes for human rights risk management will see a reduction in human rights risk not only in business with existing customers, but also in business with new corporate customers, and we also believe that this will result in more positive evaluations of the products and services the company offers and an increase in business opportunities.

Our holding a large number of companies with excellent human rights track records in our portfolios not only helps us avoid risk, but also leads to opportunities for higher returns.

Human rights risk monitoring of companies
Based on individual companies

- Check the status of compliance with international norms
- Human rights-related policies (child labor, forced labor, wages, safety, etc.)
- Human rights risk management systems (monitoring, relief systems, self-assessment, etc.)
- Investigations of misconduct related to human rights violations
- Status of compliance with human rights monitoring policies of client company of company being researched

Engagement
(human rights high-risk companies)

- Formulation of human rights policies/ programs
- Introduction of human rights monitoring
- Implementation and disclosure of self-assessment
- Actions aimed at improvement

Integration into investment
(investment decision-making)

- Buy
- Sell
- Continuous hold

Example of Engagement

Human rights risk issue

Child labor / Poverty

Milestone management

Engagement period
36months
(10 interviews)

Nomura Asset Management

- Asked company to take initiatives on child labor and problems such as poverty at the root of child labor
- Further promote initiatives aimed at reducing child labor in the supply chain, improving children's access to education, enhancing farmers' living income
- Issued statement along with 35 institutional investors to 40 leading global food companies about reducing child labor and improving living wages
- **Asked further strengthening of efforts to reduce child labor and improve living wages**

The world's leading food company

- Issued child labor report, targeting 100% sustainable cocoa procurement by 2025
- Established more than 40 KPI regarding ESG and the supply chain (confirmed positive progress for almost all matters)
- Applying child labour monitoring and remediation systems. Implementing a strategy to keep watch on improvements in living wages
- **Continuing initiatives aimed at reducing child labor and improving living wages through initiatives for cocoa farmers, such as promoting school attendance and high value-added agriculture**

We engage in constructive dialogue with companies regarding important financial and non-financial risks and opportunities.

Our Idea of Constructive Dialogue with Portfolio Companies

We have established a basic policy for engagement as part of our responsible investment policy formulated by the Responsible Investment Committee, the highest decision-making body for responsible investment. Here, we provide an overview of this policy.

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

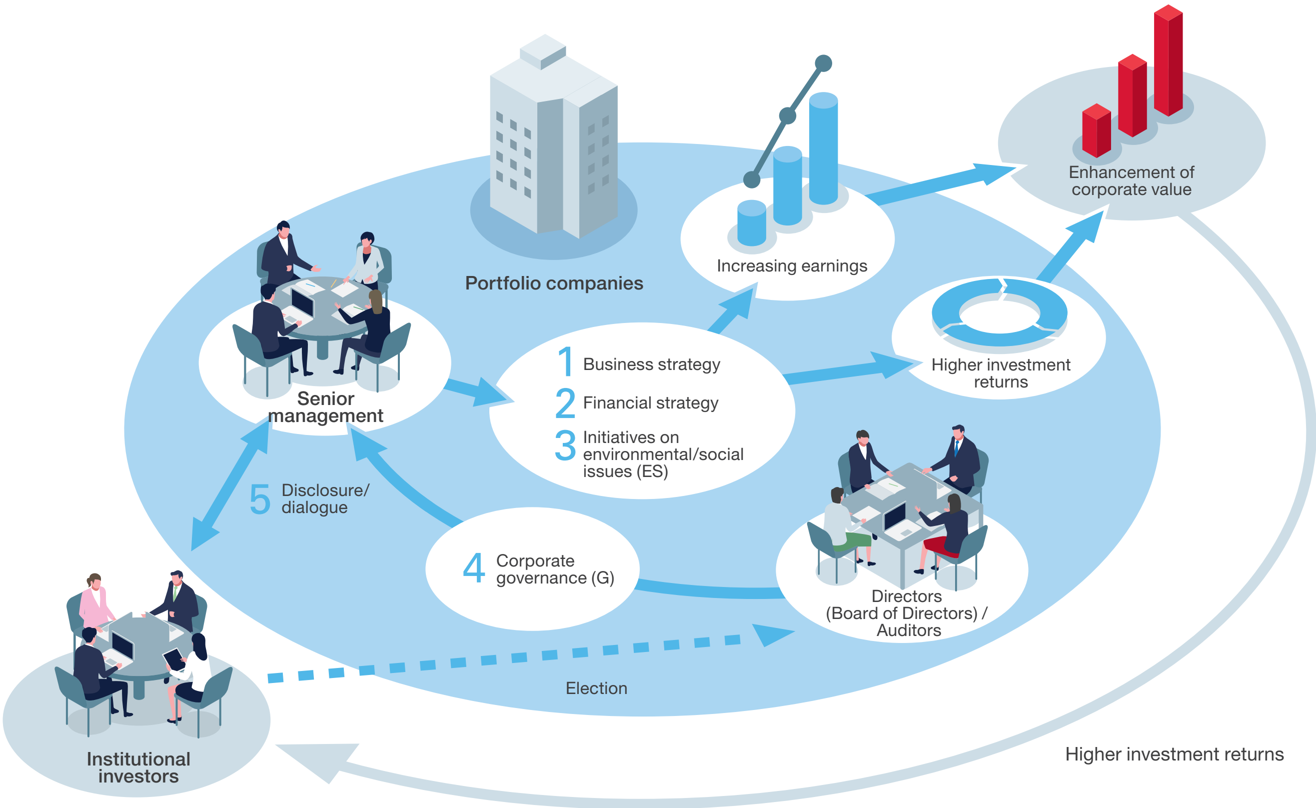
The definition of our engagement is to "exert an influence on companies based on a deep understanding of them so that they will be able to enhance their corporate value and achieve sustainable growth by operating in desirable ways." Merely seeking improvements from companies with ESG issues is not engagement. 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 desirable ways. We value our basic stance on engagement (see table on right).

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

Basic stance on engagement	
1	Engage in dialogue with a cordial and constructive attitude
2	Work to understand non-financial information, including companies' efforts to address ESG issues, and the strategies and philosophies behind them
3	Listen to the views of portfolio companies on the efficient use of capital, and communicate our thoughts
4	When a serious scandal or accident has occurred, promote sound management by hearing the causes and measures to prevent recurrence

Engagement Process

In accordance with our responsible investment policy, we have divided engagement topics into five categories: 1 Business strategy; 2 Financial strategy; 3 Environmental and social issues; 4 Corporate governance; and 5 Disclosure and dialogue.



Engagement Target Companies and Results

With respect to Japanese equities, the approximately 2,400 Japanese companies whose shares we hold (as of December 31, 2020) are all targets for engagement.

Total number of contacts with portfolio companies

Japanese companies, January – December 2020	Of these, number of 1-on-1 dialogues at company	Of these, number of dialogues with executives and above
Approximately **5,600**	Less **2,000**	Approximately **900**

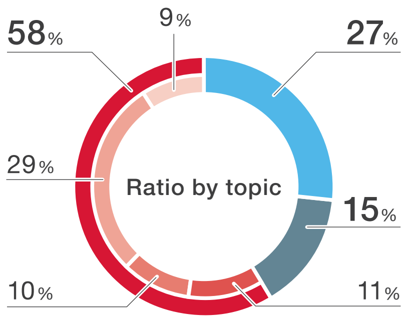
Engagement meetings

Total number of engagement topics (total number of companies)

2020

1,215 topics

(399 companies)



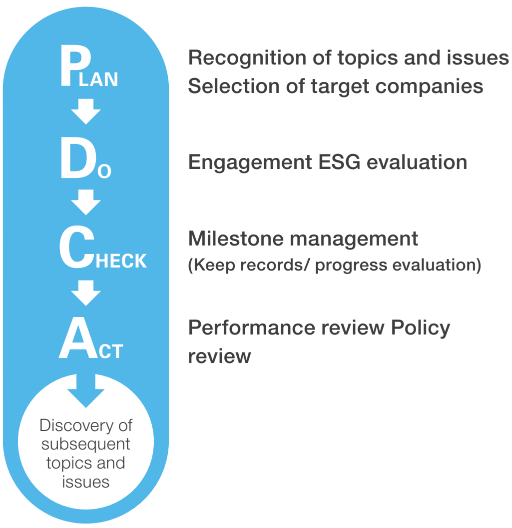
	Ratio	Number of topics
Business strategy	27%	326
Financial strategy	15%	180
ESG-related meetings	58%	709
Environmental	11%	129
Social	10%	126
Governance	29%	347
Proxy voting-related	9%	107
Total		**1,215**

Milestone Management

In order to manage our progress on engagement, we carry out "milestone management," setting the period for individual engagement topics at three years. By managing PDCA (Plan, Do, Check, Action) progress using a fixed timeline, we can efficiently formulate a dialogue schedule for subsequent phases and evaluate the results. To measure results, we check whether a company has advanced to the next stage, in other words whether or not the improvement process for an issue is ongoing.

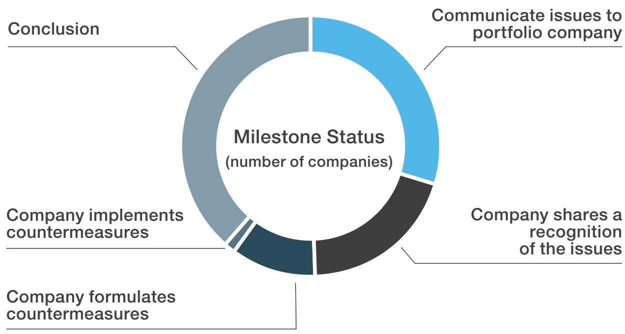
Milestone management requires setting goals, but goals cannot be established for all engagement. In particular, 1) business strategy and 2) financial strategy are directly linked with corporate value, but in many cases it is difficult to establish clear goals. Therefore, in addition to setting goals for the discussed topics themselves (Pattern 1 below), we also establish goals for 3) 4) ESG and 5) disclosure and dialogue after discussing 1) business strategy and 2) financial strategy (Pattern 2 below).

PDCA Cycle by Milestone Management



Status of Milestone Management
(as of December 31, 2020)

In 2020, we carried out engagement across 1,215 topics. Currently, we are managing milestones for a total of 221 topics (147 companies). Of these, 84 topics are already at "Step 5: Conclusion."



Pattern 1 (Hold discussions on individual topics and set goals for these same topics)

1 Business strategy | 2 Financial strategy | 3 Initiatives on environmental and social issues (ES) | 4 Corporate governance (G) | 5 Disclosure/ dialogue

↓

Discuss with company and share the issue recognition ▶ Communicate opinions as a shareholder

↓

Set goals for topics discussed ▶ Progress to milestone management

Pattern 2 (Hold discussions on 1 2 business strategy and financial strategy, and set goals for 3~5)

1 Business strategy 2 Financial strategy

↓

Discuss with company and share the issue recognition ▶ Communicate opinions as a shareholder

↓

Worried about sustainability | Worried about commitment | Insufficient explanation

↓

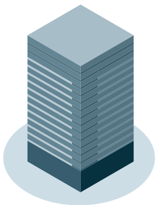
Set goals for topics discussed ▶ Progress to milestone management

↓

3 Initiatives on environmental and social issues (ES) | 4 Corporate governance (G) | 5 Disclosure/dialogue

Examples of Engagement

Here, we introduce some examples of engagement. Company A is an example that corresponds to Pattern 2 discussed on the previous page. We set multiple goals, and took our time to reach “Step 5: Conclusion.”



Interview Date : After February 20, 2017

Nomura Asset Management

Interviewee
Analysts, ESG specialists

Company A

Electronics

Interviewee
Representative Director and Senior Corporate Managing Director, others

Root issue awareness	Decreasing capital efficiency. There are multiple background factors, including financial strategy, governance, and the stance towards dialogue.

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- Continuously low ROE. Surplus financial assets (especially cross-shareholdings) and the vertically-divided organization are the background causes.
- The stance towards dialogue with institutional investors might be passive or even negative.
- Oversight and execution are not separated, and there is no system in place to select the top management successor(s).

Towards milestone management (right page)

- ROE is being pushed down by cross-shareholdings. In addition, turnover rate and operating margin are somewhat low.
- In order to show commitment to shareholders, we want you to publish numerical targets including ROE.
- We want you to clearly state that the Nomination Committee is in charge of successor planning.
- We want you to clarify the relationship between executive officers and directors. Outside directors with management experience are good in terms of overseeing management.
- We have a positive view on the course of action for strengthening corporate governance. Continuous efforts are needed, including the separation of oversight and execution.
- We want you to continue to provide meetings with the company president.

Company A

- We have not been intentionally building up financial assets. We plan to focus investment in key divisions.
- Since the time that the previous president was in office, we have been advancing organizational reforms to cross lines between business divisions and we have seen some examples of success.
- We are going to start creating a structure for successor planning.
- We will create a Nomination Committee and Compensation Committee. We are considering stock compensation.
- We understand that there are many directors from inside the company, and that there is a demand for one-third of the directors to be outside directors. We are considering this.
- In May 2019, we announced an ROE target (8%).
- In June 2019, an outside director for whom there was concern about independence retired from office.
- We understand that teamwork between departments is weak. We are focusing on organizational reforms. As a start, we consolidated the research and development division.
- We plan to gradually reduce the number of directors serving concurrently as executive officers.

Future Plan

Convey our views as a shareholder, while monitoring the company’s process towards achieving its ROE target and initiatives to strengthen corporate governance.

- **Strengthened shareholder returns (announced policy to increase the dividend payout ratio, return all free cash flow).**
- **Promised ongoing meetings with the company president.**

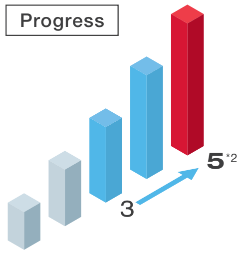
Examples of Engagement (Milestone Management)

Company A — Electronics

Themes: **Business strategies** / **Financial strategies** / ES / G / **Disclosure/dialogue**

- **Issue**: ROE continues to decline due to surplus financial assets and the vertically-divided organization.
- **Goal**: Disclosure of capital efficiency targets
- **Interviewee**: Representative Director and President, others

Period*1: 27 months (4 interviews)
Completion: June 2019

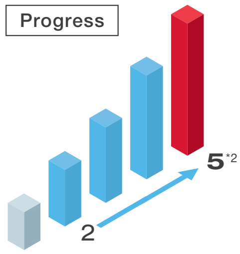
Progress


Company A — Electronics

Themes: Business strategies / Financial strategies / ES / G / **Disclosure/dialogue**

- **Issue**: Amid a continuously low ROE, the stance towards dialogue with institutional investors is passive/negative.
- **Goal**: Regularly hold meetings with top management
- **Interviewee**: Representative Director and President, others

Period*1: 37 months (5 interviews)
Completion: March 2020

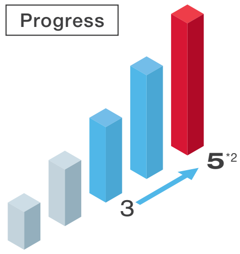
Progress


Company B — Pulp & Paper

Themes: **Business strategies** / Financial strategies / ES / **G** / Disclosure/dialogue

- **Issue**: This is a phase when a major reallocation of management resources, including the possibility of industry consolidation, is required, and there is concern about oversight given the absence of outside directors with management experience.
- **Goal**: Elect outside director(s) with management experience
- **Interviewee**: Director, Senior Managing Executive Officer, others

Period*1: 15 months (2 interviews)
Completion: June 2020

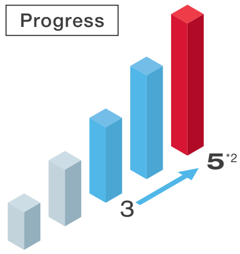
Progress


Company C — Food

Themes: Business strategies / Financial strategies / **ES** / **G** / **Disclosure/dialogue**

- **Issue**: The company is proactively working on ESG, but the explanation of the relationship with the business strategy is insufficient, and the contribution to the enhancement of corporate value is unclear.
- **Goal**: Prepare and publish an integrated report linking business strategy and ESG
- **Interviewee**: Representative Director and President, others

Period*1: 36 months (4 interviews)
Completion: Dec. 2020

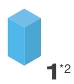
Progress


Company D*3 — Rubber Products

Themes: Business strategies / Financial strategies / **ES** / G / **Disclosure/dialogue**

- **Issue**: It's a business characteristic that is highly affected by climate change issues, but the company does not support the TCFD, and has not adequately explained its climate change-related risks and opportunities.
- **Goal**: Support TCFD
- **Interviewee**: General Manager of ESG department, others

First interview
Most recent interview June 2020

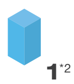
Progress


Company E*3 — Machinery

Themes: Business strategies / Financial strategies / **ES** / **G** / **Disclosure/dialogue**

- **Issue**: There is little information disclosure about ESG-related risk management, and it is especially concerning that senior management does not adequately grasp human rights risks.
- **Goal**: Senior management grasps human rights risks (perform due diligence, etc.)
- **Interviewee**: ESG department officer, others

First interview
Most recent interview Nov 2020

Progress


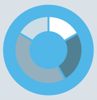
*1 Three years as a target
*2 1: Communicate issues; 2: Share a recognition of the issues; 3: Formulate countermeasures; 4: Implement countermeasures; 5: Conclusion
*3 We engage company D and E on Priority Topics for engagement.

FY2020 Priority Topics: Background Philosophy

Each year, the Responsible Investment Committee discusses priority topics for engagement. After sorting out the issues for Japanese companies, we decided on the following nine topics in 2020.

1
Rational explanation of financial strategy

Ask companies to explain their use of cash on hand, shareholder return policy, etc.



Financial

2
Strengthen commitment to capital efficiency

Demand commitment to capital efficiency through executive compensation

Governance

3
Reduction of cross-shareholdings

Ask for a reduction in line with the Corporate Governance Code

Governance

4
Become a TCFD signatory, actions after becoming a signatory

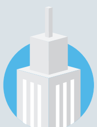
Disclose data in accordance with TCFD regarding climate change impact and countermeasures

Environment

5
Business strategy amid new circumstances

Business strategy, supply chain management in age of COVID-19

Reconsider materiality (level of importance)



Business

6
Human resources amid new circumstances

Work style reform in responseto the age of COVID-19

Consideration of human rights and workers

Social

7
Diversity

Focus on gender. Medium- to long-term increase in women in managerial positions, etc.

Social

8
Redefine the Board of Directors

Enhance effectiveness

Support the full-fledged transition to a monitoring board.

Governance

9
Risk management

Reconsideration of materiality (important management issues)

Disclosure of risk data based on materiality

Disclosure/dialogue

Column

Engagement by the Equity Research Department

Engagement by Analysts

The Equity Research Department has adopted a long-term assignment system, and more than 20 highly experienced (over 20 years of experience, on average) sector analysts with expertise in analyzing specific sectors and companies are directly involved in engagement with portfolio companies.

Engagement (dialogue) undertaken by the Equity Research Department centers on business strategy and financial strategy. The content of engagement is proposals born from ordinary research work for active investment, that is, industry research, as well as investment decision-making based on corporate value calculations and stock price indicator evaluations in accordance with assessments of competitiveness.

In principle, our engagement aims to share an understanding of problems and align a general sense of direction with companies. Our basic philosophy is to support companies as they work to reform themselves on their own. On top of that, we try as much as possible to avoid abstract arguments, aiming to make concrete proposals through discussions.

Our engagement covers a wide range of areas, including information disclosure methods, business structural reforms and establishing financial KPI. There are sometimes discrepancies in the understanding of the timeline or the approach method, but the unique perspective of analysts (including a sense of speed as viewed by the capital markets, the sector view based on a medium- to long-term perspective, and the comparison with sector peers both in Japan and overseas) is essential in order to continue dialogue.

Head of Equity Research Department
Yosuke Uchida

	Engagement Content	Progress/Outcome/Future Plans
Company Y (Chemicals)	We have continuously been communicating the idea that in order to enhance its corporate value, the company needs to present its measures to reduce greenhouse gas emissions and reform its business portfolio.	■ We feel that we have shared our awareness of the issue with the company. ■ The company has set out a policy of aiming to reduce greenhouse gas emissions by 80% by 2050. The company is also working on business portfolio reforms such as strengthening governance to speed up decision-making and pursuing alliances with other companies.
Company J (Transportation Equipment)	The company plans to allocate more than half of its cash flow to new businesses and M&A over the next 10 years, but the explanation about this was insufficient. In a one-on-one dialogue, we communicated to the company that appropriate information disclosure would lead to more positive evaluations from the capital markets.	■ The company promised to continue to hold regular dialogue and consider holding briefings about new businesses, among other initiatives. We believe that the company understands the content of our engagement and has shown a positive stance. ■ We plan to continue dialogue with the company so that in addition to information disclosure the company ultimately allocates cash flow appropriately.

Global Equity Engagement

We continue to enhance our engagement activities for global equities as well. There are many global ESG issues for companies, and collaboration with overseas investment teams is essential not only for engagement with overseas companies but also for engagement with Japanese companies. Because global equities are characterized by a large number of target countries and companies, we are leveraging the expertise of each investment team around the globe, as well as utilizing outside resources, to create a more efficient system.

In 2020, our overseas offices conducted engagement on a total of 430 topics (the total number of engagements was 186). We divide engagement topics into a total of six topics: adding 3 new topics: business strategy, financial strategy, and disclosure/dialogue to previous 3 topics: environment, social and corporate governance. The investment managers and analysts in each office decide the engagement topics and carry out engagement with companies.

Our engagement partner overseas is Sustainalytics, and we either conduct collaborative engagement with Sustainalytics or fully outsource engagement to Sustainalytics (Refer to Page 46). In addition, we also make use of collaborative initiatives such as the Access to Medicine Foundation to carry out engagement alongside other asset management firms on specific topics (For details, please refer to Pages 47-48).

Engagements by Overseas Offices

Engagement Topics (Total number)

2020

430 topics (186 engagements)

	Ratio	Number of topics
Business strategy	4%	18
Financial strategy	0%	2
Environmental	34%	145
Social	23%	97
Governance	17%	74
Disclosure/dialogue	22%	94
Total number of topics		**430**

	Ratio	Number of topics
Europe	12%	53
North America	22%	93
Asia and Emerging	66%	284
Total by Region		**430**

Engagements by Sustainalytics* (2020)

*Target universe: MSCI ACWI ex Japan

346

Column

Introduction of members supporting engagement activities overseas

Portfolio and team assistant at UK office

Diana Frattali-Moreno

Global Utilities and ESG Analyst at UK office

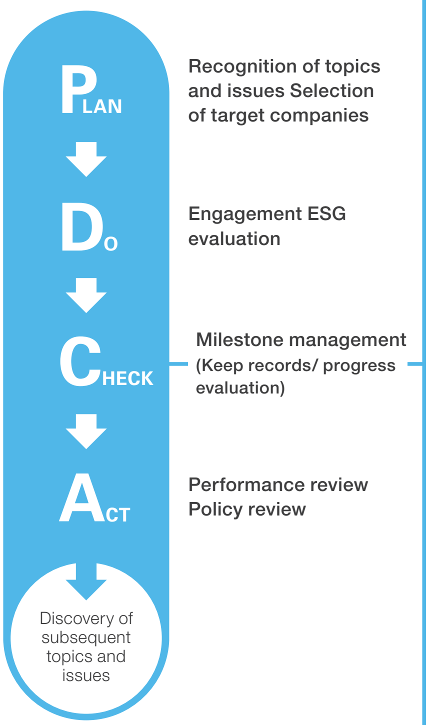
Daniela Dorelova

Diana and Daniela in the London office collate and manage the engagement data for global equities. In 2020, milestone tracking for foreign stocks was introduced, so that it can be maintained in a consistent manner globally

Engagement and Milestone Management

Since the middle of 2020, in global equity engagement we have been sharing our awareness of ESG issues with companies, setting specific goals, and carrying out milestone management until the goals are achieved. In addition to the engagement and milestone management that we conduct on our own, we also perform milestone management for collaborative engagement with Sustainalytics. As with milestone management for Japanese companies, milestones are divided into five stages with an engagement period of three years. By establishing clear goals and having a set timeline, and then evaluating the engagement process, we are able to effectively implement PDCA (Plan, Do, Check, Act). The ESG issues focused on during engagement and the goals established vary greatly depending on the company.

Global Equity Milestone Management



Examples of Milestone Management[*1] (Refer to Page 45)

		Nomura Asset Management's Global Equity Engagement		
		Engagement by Nomura Asset Management offices	Collaborative engagement by Nomura Asset Management and Sustainalytics	Engagement outsourced to Sustainalytics
		South Korean technology hardware, storage & peripherals company	Hong Kong insurance company	US professional services company
1	Communicate issues to portfolio company	■	■	■
2	Company shares a recognition of the issues	■	■	■
3	Company formulates plan to address issues	■	■	■
4	Company executes plan			■
5	Conclusion			■
	Number of meetings	1	1	4
	Period[*2]	First interview	First interview	33months

1: Communicate issues; 2: Share recognition; 3: Formulate countermeasures; 4) Implement countermeasures; 5) Conclusion
2: Three years as a target

Example of Engagement by Overseas Office

The UK Office felt that it was necessary to address issues such as child labor in Africa's cocoa plantations and among growers, as well as poverty and other problems that are the root causes of child labor. In December 2017, we started engaging with companies that procure cocoa, a raw ingredient used in chocolate and turn it into products. In addition to our independent engagement, through collaborative engagement with Sustainalytics, we work with many stakeholders to encourage multiple companies, including companies in the supply chain, to tackle the problems in this industry and achieve sustainable growth. This is not a problem that can be resolved overnight, but support from the investor community is essential in order to improve the situation. Companies are actively implementing initiatives targeting improvements, such as reducing child labor on cocoa plantations and establishing key performance indicators (KPI) to increase farmers' living income. Going forward, we will continue to work with companies to solve these and other problems.

Examples of Global Equity Engagement (Milestone Management)

Swiss food company

ESG issues	Engagement overview	Company response	Goals	Milestone progress
Reduction of child labor, solution to poverty	Reduce child labor, promote children's rights. Strengthen efforts aimed at increasing living income.	Applying child labour monitoring and remediation systems. Implementing a strategy to monitor the improvement in living income.	Reduce child labor in cocoa procurement in Ghana and Côte d'Ivoire. Increase wages in these countries.	Period*1 36months (10 interviews) Dialogue timing Dec. 2020 4 Progress*2

South Korean technology hardware, storage & peripherals company

ESG issues	Engagement overview	Company response	Goals	Milestone progress
Formulate measures to prevent corruption, ensure diversity and independence of directors, and strengthen the internal auditing system	Regarding initiatives to formulate measures to prevent corruption and monitor such measures, to ensure diversity and the independence of directors, and to strengthen the internal auditing system	In addition to formulating a global policy to prevent corruption and bribery, training is provided to all employees every year. Ensuring director diversity and independence and the independence of internal auditors, as part of efforts to strengthen governance	Diversity and independence of Board of Directors, independence of internal auditors	Period*1 First interview (1 interviews) Dialogue timing September 2020 3 Progress*2

Hong Kong insurance company

ESG issues	Engagement overview	Company response	Goals	Milestone progress
Establish and enhance disclosure of ESG risk-related KPI, improve the process for nominating directors, and strengthen gender diversity	Improve gender diversity in the Board of Directors. Enhance disclosure of ESG risk-related KPI.	Plans to work on gender diversity and disclosure of ESG risk-related KPI.	Board of Directors diversity, disclosure of ESG risk-related KPI	Period*1 First interview (1 interviews) Dialogue timing November 2020 3 Progress*2

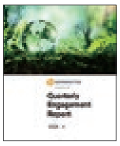
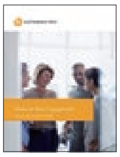
Malaysian food company

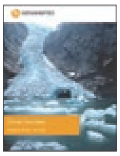
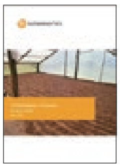
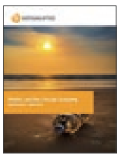
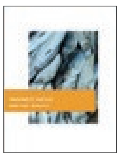
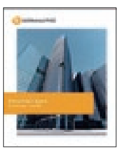
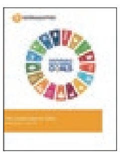
ESG issues	Engagement overview	Company response	Goals	Milestone progress
Strengthen initiatives to prevent deforestation	Bolster initiatives to prevent deforestation and ensure traceability, such as strengthening supply chain monitoring and a having a support framework towards attaining certification	Plantation traceability has not reached 100%. If 100% of producers obtain Malaysia Sustainable Palm Oil (MSPO) certification (currently at 88%), there is a possibility that total traceability up to plantations could be achieved.	Initiatives to prevent deforestation, including in the supply chain	Period*1 First interview (1 interviews) Dialogue timing November 2020 3 Progress*2

*1 Three years as a target
*2 1: Communicate issues; 2: Share a recognition of the issues; 3: Formulate countermeasures; 4: Implement countermeasures; 5: Conclusion

Engagement by Sustainalytics

In global equity engagement, Nomura Asset Management's overseas offices also actively engage portfolio companies, but due to the broad scope of coverage for global equities, we partner with Sustainalytics to carry out collaborative engagement with as well as outsource engagement to Sustainalytics. The engagement services provided by Sustainalytics have become even more functionally advanced following the integration in 2019 with the former GES (with whom we entered into an agreement with in 2017). Sustainalytics provides Global Standards Engagement, in which companies are selected for engagement based on violations of international norms such as the United Nations' Global Compact, Material Risk Engagement covering companies with critical ESG risks, and Thematic Engagement, which focuses on solutions to specific topics, such as climate change, plastics or the circular economy from a global vantagepoint.

		Engagement Policy	Target companies	ESG
	**Global Standards Engagement**	Encourage companies to resolve severe incidents as well as build a strategy aimed at preventing future recurrences and improving ESG practices	Companies that severely or systematically violate the United Nations' Global Compact or other international norms	E S G
	**Material Risk Engagement**	Encourages companies with financially-material ESG issues to construct strategies to handle ESG risks and opportunities with the aim of increasing long-term corporate value	Companies with particularly high ESG risk in their industry	E S G

Thematic Engagement		Engagement Policy	Target companies	ESG
	**Engagement related to Climate Transition**	Climate-related activity management in compliance with international disclosure standards, involvement in transitioning to 2°C (or lower) scenarios and initiatives to promote the SDGs	Steel and cement companies with high carbon emissions and carbon emission intensities	E
	**Engagement related to Child Labour In Cocoa**	Aiming to improve the problem of child labor on cocoa plantations, encourages companies to promote access to education and other children's rights, with the aim of solving poverty which is at the root of the child labor problem	Large cocoa and chocolate companies, companies in related supply chains	S
	**Engagement related to Plastics and the Circular Economy**	Encourages companies to recycle plastics, to shift their strategic focus towards redesign and innovation, to promote the re-usability of products, and transform the plastics market with the goal of enhancing sustainability	Companies in the automotive, electronics, packaging/consumer goods sectors	E
	**Engagement related to Sustainable Seafood**	Encourages companies to establish appropriate evaluation and management systems for marine products-related sustainability risks	Large companies involved in the procurement of marine products	E
	**Engagement related to Tomorrow's Board**	Encourages companies to have directors with the appropriate abilities to deal with important ESG issues and to display the necessary commitment	Companies in extractives, financial , and healthcare sectors which have especially large ESG issues and opportunities	G
	**Engagement related to The Governance of SDGs**	Encourages companies to define meaningful SDGs strategies that align with their business plans. Aims to influence these companies to produce positive outcomes in line with the 2030 SDG agenda.	Consumer goods, financial, and Information and communications technology companies	G

Cooperation with Initiatives

Commitment to no-deforestation together with other financial institutions

A coalition of nine financial institutions including Nomura Asset Management, representing ¥1.8 trillion(as of October 2020) in assets under management asked companies to take action to end deforestation in their supply chains, as well as to enhance supply chain traceability. Initiated and coordinated by ACTIAM, a sustainable investment specialist, the collaborative engagement aims to reduce deforestation across our investments, in light of climate change and biodiversity loss, as well as financial risks connected to deforestation.

With this initiative, we investors reach out to companies that provide insufficient information about their supplier lists, as well as companies linked to deforestation cases in the palm oil sector in Malaysia. These cases have been unveiled through analysis of satellite imagery and artificial intelligence provided by Satelligence. We are asking these companies to publicly disclose supplier lists for soft commodities, as these products present high risks for deforestation. Companies linked to cases of deforestation are being asked to mitigate the effects of deforestation and takes actions to prevent future incidents.

The loss of biodiversity due to deforestation is one of the greatest risks to society and the economy. Scrutiny of the financial and non-financial material risks, as well as recent governmental and regulatory discussions, has brought analysis and risk management of deforestation to the forefront of investors' minds. Thus, traceability and transparency of companies' supply chains are crucial to investors in order to identify and reduce deforestation risks in their portfolios.

Companies are expected to meet the investors' requests in two to three years time. The use of innovative tools, such as satellite imagery and data analysis will allow investors to independently assess the progress made by the engaged companies, and whether their efforts are indeed leading to a reduction of deforestation in the monitored regions and suppliers.

Participant Investors, who took action towards no-deforestation:
ACTIAM N.V.
Achmea Investment Management
Aegon Nederland N.V.
a.s.r. Asset Management
Aviva Investors
Fidelity International
Nomura Asset Management
Robeco
Zwitserleven

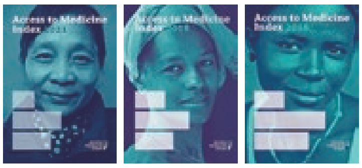
Message

Daniela Dorelova

Global Utilities and ESG Analyst at UK office

This satellite-based engagement towards no-deforestation aligns well with our investment philosophy and our Impact Goals. Mitigate Natural Capital Depletion, along with our main KPI – Global Annual Tree Cover Loss – is one of the goals that we as investors believe we can have the greatest impact on through our investments and direct engagements. The initial collaborative engagement reviews the palm oil sector in Malaysia, however the methodology used could be expanded and applied to other soft commodities in the future.

access to medicine index



Report published every two years

Access to Medicine Foundation / Access to Medicine Index:

Commitment to access to medicine

Since 2019, Nomura Asset Management is a signatory to the Access to Medicine Index (ATMI), which is conducted every two years by the Access to Medicine Foundation (ATMF: Access to Medicines Foundation), an independent non-profit research foundation. As a signatory, we continue to engage global pharmaceutical companies to responsibly enable and expand access to currently available medicines in low- and middle-income countries.

In April 2020, as the coronavirus continued to spread, in collaboration with Access to Medicine and a number of our fellow signatories, we supported the development of an open letter to the pharmaceutical industry urging companies to take a number of actions including: Proactively and innovatively reach out, collaborate and share relevant data in a timely manner with governments, the health sector, academia and peers Ensure that in the long term research and development processes sufficiently address infectious diseases Focus on international cooperation to ensure supply chains are up and running Enforcing patents, excessive price setting, non-disclosure of relevant findings or securing extended market exclusivity through, for example, orphan drug designation, should not run counter to the responsibility to respond to Pandemic.

- Proactively and innovatively reach out, collaborate and share relevant data in a timely manner with governments, the health sector, academia and peers
- Ensure that in the long term research and development processes sufficiently address infectious diseases
- Focus on international cooperation to ensure supply chains are up and running.
- Enforcing patents, excessive price setting, non-disclosure of relevant findings or securing extended market exclusivity through, for example, orphan drug designation, should not run counter to the responsibility to respond to Pandemic.

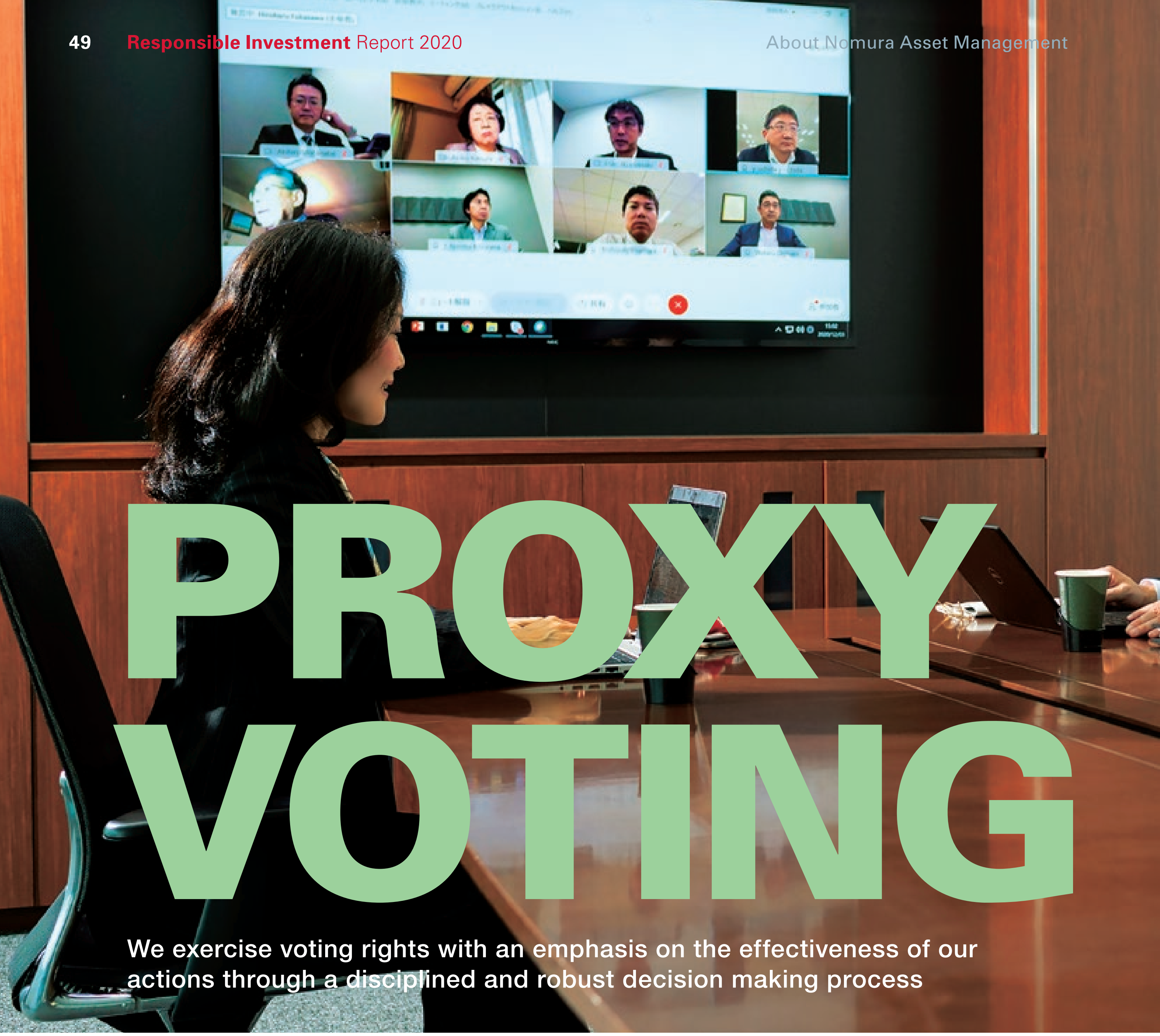
Following the letter we co-led two individual company engagements to focus on the most relevant actions the respective companies should be taking. We engaged with a UK Pharmaceutical that is a world leader within vaccines but is not currently advanced in the race to develop a treatment (As of June 2020). Our conversation was therefore focused around how the company could use its vast resources and footprint to support peers that are currently more likely to develop a treatment. We also engaged with a US Pharmaceutical that was at the very forefront of developing a treatment for Covid-19 (As of June 2020). Here we focused on how the company would responsibly price the treatment and the actions being taken to ensure access in emerging economies through licensing agreements.

The New Coronavirus pandemic has also brought to light the severity of a lack of adequate access to medical oxygen within emerging economies given the role this can play in improving outcomes for those that experience severe symptoms. We participated in two roundtables led by Access to Medicine and the Every Breath Counts coalition, for companies, NGOs, donors and investors to openly discuss how stakeholders could work together to tackle this grave issue. Working collaboratively across our firm we were also able to use our influence to support bringing a key player within the medical oxygen space to the table to participate in the conversation. The initiative remains in the early stages but the first steps have been taken and highlight the important role institutional investors can play in supporting better outcomes.

Alex Rowe

Global Sustainable Equity Fund (GSE) Lead portfolio manager

Alex is the lead portfolio manager of Global Sustainable Equity strategies and plays a key role in the team's responsible investment activities as well as global industrial sector research.
At ATMI, he is actively involved in helping companies create impact, including co-chairing a collaborative engagement with GSK. Alex became a father shortly after the start of the Covid-19 pandemic and took parental leave. He is now happy to make the most of the free time he had and is even more passionate about creating a more sustainable future.



PROXY VOTING

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

Proxy Voting Process

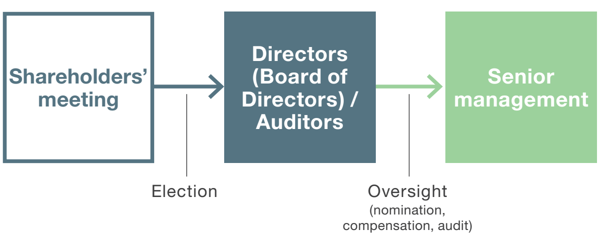
In proxy voting, we focus on the corporate governance of portfolio companies. The basic structure of corporate governance is that directors and auditors are elected at a shareholders' meeting, and directors (the board of directors) and auditors supervise senior management through nominations, compensation 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.

Our Proxy Voting Process is characterized by the following four points.

Basic Corporate Governance Structure



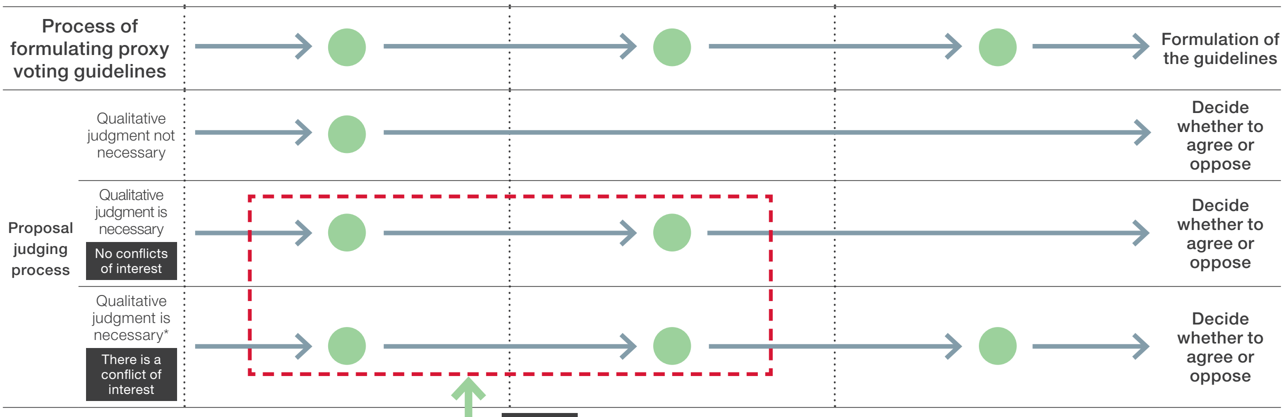
Characteristics of the Proxy Voting Process	
Discipline	Judgments on proposals are made in accordance with the proxy voting guidelines
Robustness	A robust decision-making process centered on the Responsible Investment Committee
Comprehensive discussions	The Responsible Investment Committee itself decides 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 5~6 for more information about the Responsible Investment Committee

Proxy Voting Process for Japanese Equities

The proxy voting process is as shown in the figure below. The process for proposals that can be judged in accordance with the proxy voting guidelines (proposals that do not require qualitative judgment) is different than the process for other proposals (that do require qualitative judgment).

	Secretariat	Responsible Investment Committee	Responsible Investment Council
Members (as of December 2019)	Responsible Investment Department	Six people involved in decision-making for investment and research (The Responsible Investment Council members participate in Responsible Investment Committee meetings)	One (1) Chief Conflict Officer Outside directors: 2 Outside experts: 1
Role	Preparation of proposals	Holds deliberations and makes decisions based on the secretariat's proposals Makes revisions to the secretariat's proposals as required	Reviews from the perspective of conflicts of interest Advises the Executive Management Committee and/or the Responsible Investment Committee to make improvements as required and reports to the Board of Directors and the Audit and Supervisory Committee



*This includes proposals of group affiliates.

Proxy Voting Process for Global Equities

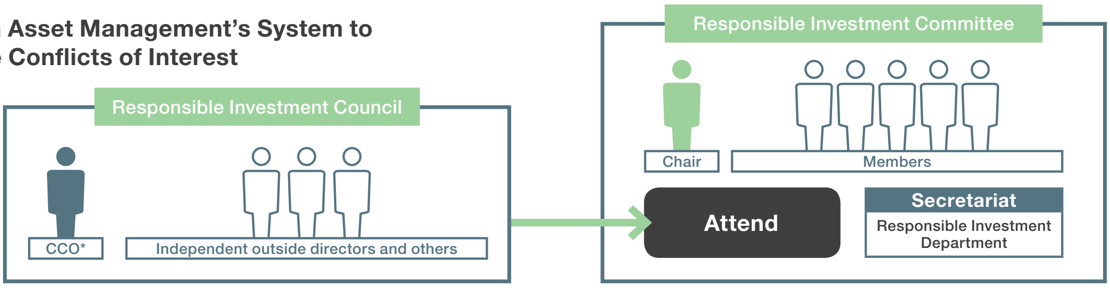
For proxy voting (excluding Japanese equities), we generally decide to vote for or against a proposal in accordance with our Global Basic Policy on Proxy Voting. However, if the investment managers and analysts possessing a deep understanding of local conditions determine it to be necessary, we may, upon deliberation, make a decision that differs from the basic policy on proxy voting. The final decision is then shared with all offices, and proxy voting is then carried out uniformly on a global basis.

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 comprising only the Chief Conflict Officer and persons in independent positions in our company, including independent outside directors. This Responsible Investment Council monitors the Responsible Investment Committee's decisions as well as its overall management. This council 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 opinions.

Nomura Asset Management's System to Manage Conflicts of Interest



*Chief Conflict Officer

Column 1 Disclosure of Reasons for Voting For or Against Proposals

We disclose the reasons for voting for or against some proposals from April to June 2019, and all proposals from October to December 2019, and also provide detailed explanations of our reasons for those proposals we feel require special explanation. In 2020, we explained in detail the reasons for voting for or against 105 proposals from 24 companies (65 were company proposals and 40 were shareholder proposals). Key proposals are discussed below.

<Proxy Voting Outcomes for Individual Proposals> (October 1, 2019 – December 31, 2019)

The approve/oppose decisions in the table below are based on our guidelines. A "*" mark is to the right of a proposal if the decision based on client standards differs from our standards.

Can be searched by keyword ([Edit] > click [Simple search] > enter company code and/or company name in displayed box and press Enter)

Company code	Company name	GSM type	GSM Date YYYY/MM/DD	Proposer	Proposal No.	Candidate No.	Proposal classification		For/against and reason
1722	Misawa Homes Co., Ltd.	Special	2019/11/26	Company	1		Organizational restructuring-related	agree	Parent company Toyota Housing Corporation will make Misawa Homes Co., Ltd. a wholly-owned subsidiary. There were concerns about a conflict of interest with minority shareholders, but the measures to protect the interests of minority shareholders were affirmed, and the premium compared favorably to similar deals, so we voted for the proposal in line with our guidelines. In this deal, group company Nomura Securities was involved as a third-party valuation entity.
1997	Akatsuki Eazima Co., Ltd.	Annual	2019/11/22	Company	1		Disposition of surplus	agree	Voted for proposal in line with our guidelines

Example of Reasons for Voting For or Against Proposals

GSM type	Proposer	Proposal classification	Voting result	Reason for the our proxy voting result
Special GSM	Company proposal	Introduce/change/abolishment of takeover defense plan	Votes against	A proposal seeking approval for the introduction of a takeover defense plan and the triggering of countermeasures following a public tender offer by a large shareholder. Triggering countermeasures would limit shareholders' right to buy and sell shares, and we decided that there was no reason that justified it, so we voted against it.
Ordinary GSM	Shareholder proposal	Director appointment	Votes against	A proposal calling for the appointment of outside directors because the lack of information disclosure hinders the enhancement of corporate value. In addition to the composition of the board of directors, considering the fact that the reason behind the proposal was not convincing, we determined that the effect on enhancing shareholder value could not be confirmed, so we voted against the proposal.
Ordinary GSM	Shareholder proposal	Director appointment	Votes for	A proposal calling for the appointment of outside directors due to insufficient independence and diversity of outside directors. Taking into consideration factors such as the composition of the Board of Directors, the financial situation in which the company held many strategically-held shares, as well as the valuation situation, we decided that this proposal would contribute to the enhancement of corporate governance, so we voted in favor of the proposal.

Proxy Voting for Japanese Companies (January – December 2020)

The results of our proxy voting with respect to Japanese companies from January to December 2020 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: 17,959

6%

Election and dismissal of auditors

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

Number of proposals: 2,589

13%

Election and dismissal of accounting auditor

—

Number of proposals: 63

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: 826

24%

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: 165

85%

Appropriation of surplus

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

Number of proposals: 1,548

1%

Organizational restructuring-related

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

Number of proposals: 38

8%

Introduction, update and abolition of takeover defense measures

All proposals related to introduction or update of takeover defense measures

Number of proposals: 92

100%

Proposals on other capital policies

Capital increase or contribution of treasury shares when the impact on shareholder value

Number of proposals: 59

7%

Proposals on articles of incorporation

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

Number of proposals: 530

2%

Total Company proposals

See above

Number of proposals: 23,877*

8% (Ratio of votes against)

*Includes two "other proposals" not included above

Total Shareholders' proposals

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

Number of proposals: 236

13% (Ratio of votes for)

Reference

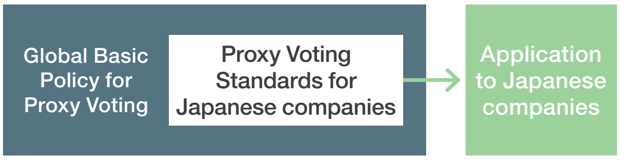
Results of Proxy Voting for Global Companies (January – December 2019)

	Votes for	Votes against	Total	Ratio of votes against
Company proposals	18,814	3,330	22,144	15%
Shareholders' proposals	677	225	902	25%
Total	**19,491**	**3,555**	**23,046**	**15%**

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. Due to the impacts of the COVID-19 pandemic, for general shareholders' meetings held from June 2020 onward, we have stopped using the standards with a mark below (as of December 31, 2020).

Proxy Voting Guidelines Structure



Support for the transition to a monitoring board

- We indicate the eight requirements, such as having a majority of outside directors, for determining whether a board falls into the category of a monitoring board.
- If it falls into the category of a monitoring board, we ease the requirements for voting for company proposals. In the near term, it will apply to guidelines related to executive compensation, but going forward we plan to extend the scope to include guidelines for opposing director appointment proposals on the grounds of slumping ROE (currently not applying this guideline due to the impact of COVID-19).
- Even if it does not fall under the category of a monitoring board, for companies that develop compensation governance as an initiative aimed at a transition to a monitoring board, we will relax some of the requirements for voting in favor of the company's executive compensation proposals.

Proxy Voting Standards and their summaries	In the following cases, we will oppose a company's proposal
Rigorously judge corporate actions and responsibility to deliver business results Judgment made and the responsibility taken to deliver business results by the management and the board of directors will be scrutinized and rigorously judged.	■ 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
Composition of (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, therefore a higher level of supervision is required.	■ The number of outside directors falls short of the minimum level (refer to Next Page for details)
Independence of outside directors 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	■ If the term in office is 12 years or greater ■ 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 senior management.	■ 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, there must be 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 can be counterproductive if not properly designed.	■ 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 that financial assets are utilized effectively to enhance corporate value.	■ Financial assets are not utilized effectively, and shareholder returns (dividends and share buybacks) are not appropriate

Summary of Revisions to Proxy Voting Standards (November 2019)

The main point of these revisions was to clarify our stance of supporting the transition to a monitoring board. Please refer to the following page for a discussion of our thinking behind the revisions.

Amid the focus on improved effectiveness of board functions, the revised Corporate Governance Code mentions* a majority of the board members as independent outside directors and the establishment and strengthened functions of nomination an compensation committees, and is aligned with our idea of a monitoring board.

* Based on materials from the "Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code" (22nd).

	Before revision	After revision
Create guidelines to determine whether or not it falls under the category of a monitoring board	(New)	**Establishes eight items as requirements for being a monitoring board, including outside directors as a majority, at least one woman director, and not holding strategic shareholdings in excess. Refer to bottom-right on next page.**
Minimum number of outside directors	■ Two for a company with a board of corporate auditors and which does not have controlling shareholders (three if there are more than 12 directors) ■ For other companies, 1/3 of the number of directors	■ **In principle, either two directors or 1/3 of the number of directors, whichever is greater** ■ **For a company with a board of corporate auditors and which does not have controlling shareholders, two or 20%, whichever is greater (until October 2020)**
Executive compensation	Refer to below table	
Independence of outside directors/corporate auditors	Requirements for determining there to be a high level of independence ■ Registration as independent director is confirmed ■ Has never belonged to a company that is a large shareholder	Requirements for determining there to be a high level of independence ■ **Term in office is less than 12 years** ■ Registration as independent director is confirmed ■ Has never belonged to company that is a large shareholder
Changes to articles of incorporation based on shareholder proposal	In principle, approve proposals demanding disclosure of individual executive compensation	In principle, approve proposals demanding individual disclosure of executive compensation and compensation of non-director advisors, consultants, etc.
Changes to articles of incorporation based on shareholder proposal	Indicate types such as those demanding individual disclosure of executive compensation, and approve applicable proposals	Even if it is a proposal that falls under the type noted to the left, oppose a proposal that is made for the purpose of social or political assertions

*Content changed in this revision is noted in bold-faced type

Overview of Proxy Voting Guidelines Revisions for Executive Compensation

		Falls under category of monitoring board	Does not fall under category of monitoring board, but compensation-related governance has been established*2	Other
Bonus payments, increase in compensation at companies with slumping ROE		**Votes against**	Votes against	Votes against
Executive compensation at or above a certain level		Votes for	Votes for	Votes against
Payment of bonuses to outside directors, etc.*3		**Votes against**	**Votes against**	**Votes against**
Stock compensation	Dilution percentage	Oppose if over 10%	Oppose if over 10%	Oppose if over 5%
	Period until stock can be sold	**Oppose if less than 2 years**	**Oppose if less than 2 years**	Oppose if less than 3 years
	Payment to outside directors, etc.*3	**If there are no operating performance requirements,vote for payments other than to corporate auditors**	Votes against	Votes against

*1 Content changed in this revision is noted in bold-faced type
*2 Outside directors comprise a majority, or there is an independent compensation committee
*3 Outside directors, directors who are members of the audit committee or audit and supervisory board, corporate auditors

Transition to a Monitoring Board: The Thinking Behind It

A monitoring board is a board of directors whose main role and responsibility is to supervise management. Traditionally, the board of directors of Japanese companies have mostly been management boards, but today, as the number of boards with outside directors is increasing, and those with outside directors are adding even more outside directors, this is now a turning point for companies to choose whether to transition to an advisory board or a monitoring board. For publicly-listed companies, the function of supervising the management team on behalf of an unspecified number of shareholders is absolutely necessary, and the board of directors is responsible for this. We expect the board of directors of a Japanese company to be responsible for the supervisory function as a monitoring board.

Management board

Main roles and responsibilities	Member composition
Management decision-making	Centered on inside directors (management team)

Advisory board

Main roles and responsibilities	Member composition
Management decision-making, advice to management team	Centered on inside directors (management team), but there are also a minority of outside directors

Monitoring board

Main roles and responsibilities	Member composition
Supervision of management team	Centered on outside directors

We expect companies to transition to this

Some companies have introduced an executive officer system to separate supervision and execution, but if the board of directors is a management board, the board of directors will rank higher than the other executive bodies (management committee, executive committee, etc.), and high-ranking executive officers usually serve concurrently as directors. On the other hand, a board of directors which has transitioned to become a monitoring board oversees the executive bodies, so the hierarchical relationship with executive bodies no longer exists. There is also no rank hierarchy between directors and executive officers, as they each play different roles.

Supporting an Effective Transition

The effectiveness of the supervisory function is what is important, and through proxy voting as well as engagement we encourage companies to increase effectiveness
So as to not encourage merely perfunctory transitions, we do not oppose company proposals on the reasoning that the company has not transitioned to a monitoring board.

Monitoring Board: Judging Standards in Proxy Voting Guidelines

We have newly established standards to decide whether or not a board is a monitoring board. Specifically, we determine a board to be a monitoring board if it satisfies all of the eight requirements below. We view these requirements are the bare minimum as a monitoring board.

1 A majority of the directors are outside directors

2 Has nomination committee and compensation committee with outside directors comprising a majority

3 Nomination and compensation committee chairpersons are outside directors

4 There is at least one woman director

5 The company has not introduced a takeover defense plan

6 The company does not hold strategic shareholdings in excess (less than 10% of invested capital)

7 If the company is a company with a board of corporate auditors, director’s term in office is one year

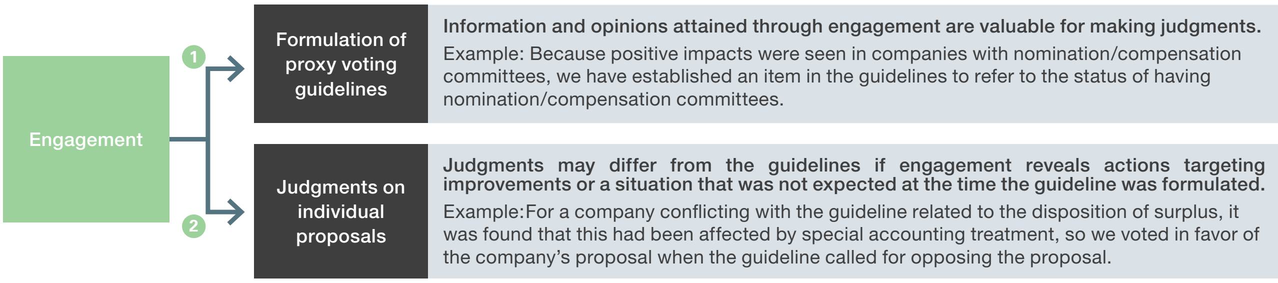
8 If there are controlling shareholders, the chair of the board of directors is an outside director

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



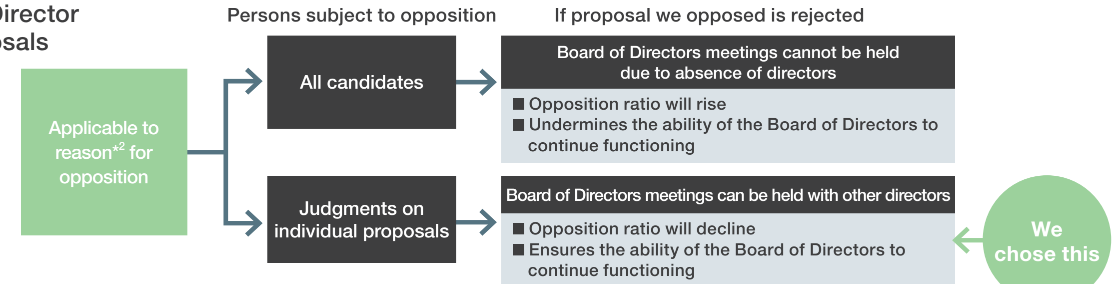
Q It seems that you vote against company proposals a small percentage of the time. Can you comment on that?

A Taking the continuity of the board of directors into consideration, we limit our opposition to candidates who are responsible for individual cases in the election of directors. This is the reason why our opposition rate looks relatively low (see diagram below). We opposed 5% of director appointment proposals (April – June 2020), but we opposed one or more candidates in the director appointment proposals for 30% of companies (same period), so we do not view our opposition percentage as being particularly low.

We aim to combine proxy voting with engagement to appeal to portfolio companies, and encourage them to establish desirable corporate governance systems and enhance their corporate value. We position proxy voting as one means of accomplishing this, and we do not feel that our opposition rate indicates our stance.

*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 51 for details on the proxy voting process and Page 52 for details on our system for managing conflicts of interest.

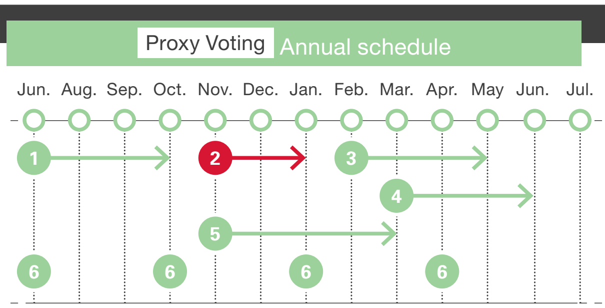
Q Do you have a message for portfolio companies?

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 58) and contact them.

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, we 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.

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.

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.

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.

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/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.

ESG INTEGR

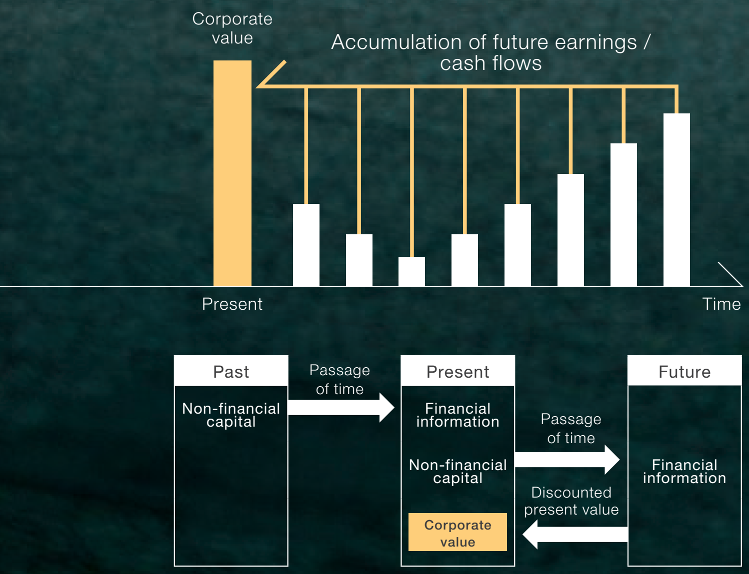
Integrating ESG factors into the investment process is critical, as we believe financial performance and ESG efforts (non-financial information) are closely related and influence one another. At Nomura Asset Management, we utilize proprietary ESG evaluations of portfolio companies when making investment decisions. In order to effectively incorporate ESG considerations and other non-financial information into the investment process to supplement the analysis of a company's fundamentals (financial information used to evaluate a company), we conduct our own ESG assessment for both equity investing and fixed income investing. This integration of ESG factors into the investment process not only helps reduce downside risk, but is also an essential component to improve returns.

ESG assessment is not limited to Japanese companies, as the scope also includes companies in developed countries in Europe and the Americas, as well as companies in Asia and emerging countries. In addition to global themes such as climate change and human rights, we extract and assess specific material ESG considerations for individual industries and companies, and utilize information from multiple external sources to create our proprietary ESG scores. These ratings are made available to all portfolio managers for integration into the investment decision-making process.

Features of Integration	
Equity Investing	When evaluating the ESG characteristics of portfolio companies, we focus not only on potential risks but also on opportunities to generate future earnings. Although each equity strategy integrates ESG considerations into their investment philosophy and process in different ways, a common ESG evaluation platform is shared by all strategies.
Fixed Income Investing	We select and model ESG factors that are material for credit investment based on a variety of research. In addition to this ESG factor model, qualitative evaluations by credit analysts are also considered within the ESG integration to improve the portfolio's risk-adjusted return and sustainability.

Equity Integration

Investors' Basic Philosophy on Corporate Value



"Continuity between financial and non-financial" and the "Impact on long-term profits/cash flow generation" are of the upmost importance.

Equity Integration Approach

Corporate value is essentially the discounted present value of future free cash flows. The business assets that generate future free cash flow include not only fixed assets such as production facilities, but also various types of intangible assets (capital) not found in financial statements, including human capital, natural capital and social capital. Evaluating such capital, or business assets including non-financial information, is necessary in order to analyze corporate value. We believe that, in addition to financial data, reflecting non-financial data in company evaluations, and making investment decisions based on these evaluations, is essential in order to increase the added value of our investments.

There are two aspects to evaluating intangible assets that do not appear in a company's financial information. The first is evaluating the profits that intangible assets can bring, or a "growth evaluation," and the other is a "business risk evaluation" related to the risks to which a company's profits are exposed.

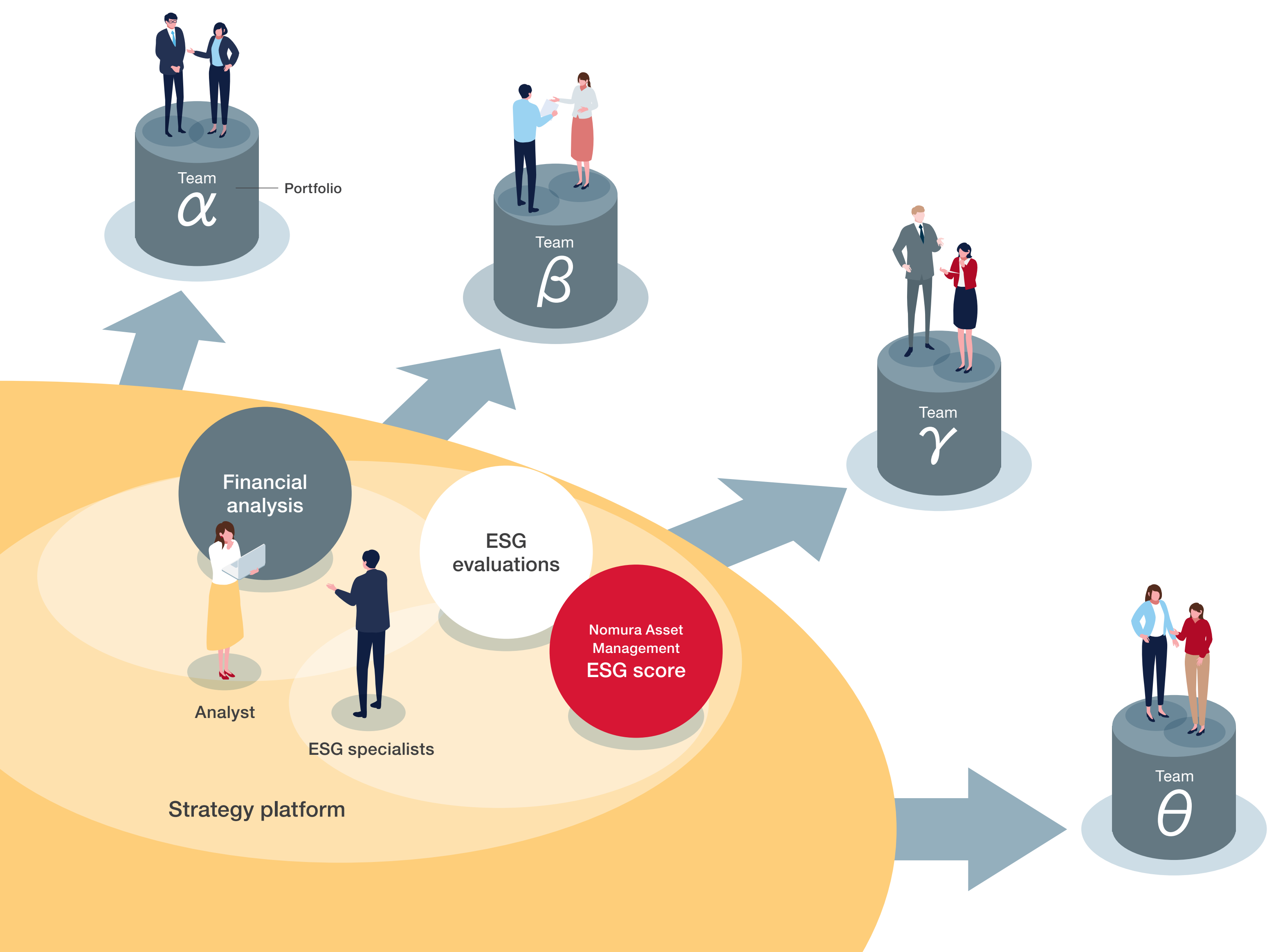
For the "growth evaluation", the impact of climate change on business, supply chain resilience, intellectual property, R&D capabilities and organizational strength, quality of human resources and diversity are among the sources of competitiveness that help differentiate a company from its peers. These factors manifest themselves in the future as financial information such as corporate profits and growth.

The "business risk evaluation" aims to ascertain the stability and sustainability of future profits based on whether or not the company is able to accumulate intangible assets, and to determine whether or not future profits will fluctuate sharply due to changes in the business environment. In other words, this "business risk evaluation" is looking at how to evaluate the discount rate when discounting future cash flows to the present value. To put it another way, the valuation of intangible assets is an important aspect of determining whether the valuation (relative price metric for the stock price) of the investment target company is too high or too low.

Equity Investment Process

An in-house proprietary ESG score, which is jointly produced by sector analysts and ESG specialists, is utilized for ESG integration into our equity investments. In addition to the risks and opportunities related to environmental, social, and governance factors, opportunity sets relating to the UN's Sustainable Development Goals are also considered when creating a numerical ESG score. These scores serve as an important piece of information utilized by investment decision makers within the investment process/platforms for each investment product (see diagram below).

We have also established ESG evaluation process globally. In addition to global themes such as climate change and human rights, we extract and assess specific material ESG considerations for individual industries and companies and utilize information from multiple external sources to create our proprietary ESG ratings. These ratings are made available to all portfolio managers for incorporation into the investment decision-making process. For example, at our Singapore Office, country specialists (CS) are assigned to cover each country in this diverse region, and the main source of added value is the bottom-up research conducted by meeting with companies (2685 meetings in 2020). Investment ratings are assigned to individual stocks based on the fundamental research carried out by CSs as well as the ESG evaluation. The portfolio is constructed based on these ratings.



ESG Evaluation in the Selection of Japanese Equities

In addition to integrating ESG into the portfolio construction process by leveraging the in-house ESG evaluation to identify companies that are expected to have sustainable growth in the medium to long term, engaging with companies that may be excluded from investment due to ESG risks is also an important role of ours.

Efforts to reduce greenhouse gas emissions are being made in countries around the world, but for companies whose profits are highly dependent on coal and crude oil, we evaluate their efforts to address transition risks, and we encourage companies whose responses we deem inadequate to address these issues sufficiently. For companies that operate globally, we discuss geopolitical risks that may impact supply chains for parts and other materials, as well as physical risks related to natural disasters, and urge them to address such risks appropriately. For companies possessing a prime contractor/subcontractor structure, we pay particular attention to the profitability and working environment of the subcontractor, and discuss whether the supply chain enables sustainable business continuity. We also have dialogue and urge improvements with companies about governance issues, including conflicts of interest with minority shareholders due to publicly listed parent-child company pairs, as well as issues related to capital efficiency such as low profitability due to cross-shareholdings. We believe that these stewardship activities will lead to the realization of both a healthy and sustainable society as well as efficient and stable capital markets, and allow us to continue to fulfill our role as a responsible investor.

Senior Managing Director
CIO (Equities)
Yuichi Murao

ESG Investment from the Perspective of Active Equity Portfolio Managers

Chief Senior Portfolio Manager
Masaaki Tezuka

Fifty years have passed since economist Milton Friedman spoke about how a company's social mission is to maximize shareholder returns. Since then, the social norms surrounding stock companies have undergone major changes, including the collapse of the Internet bubble and the Global Financial Crisis in this century. How do companies fulfill their non-financial role, as represented by ESG? And how should we evaluate them? The time has come for the true value of active managers like ourselves to be questioned.

With the growing interest in ESG, it seems that the impact of ESG assessment on corporate valuation has rapidly increased in recent years. Looking at ESG is also essential when thinking about economic returns. Through ESG integration, our investment teams closely examine the impact of non-financial information on long-term corporate value as we work to enhance performance. In addition, we want to contribute to the realization of a better society through our engagement activities.

Chief Portfolio Manager
Hiromu Asano

Senior Portfolio Manager
Makoto Yamamoto

As ESG grows in importance, we believe there are many companies in Japan that will be able to improve their long-term competitive advantage. Active managers must be able to assess the materiality of ESG information and incorporate it into their financial analysis. It is also important to quickly grasp changes made by companies and provide support. By working with the Equity Research Department and the Responsible Investment Department and leveraging each's capabilities, we aim to enhance our investment performance and support the realization of a sustainable society.

Toward More Sophisticated ESG Integration

ESG Investment Manager
Minako Takaba

Equity Integration Initiatives

The companies we invest in generate profits by carrying out business activities within a social and environmental environment, and shareholders receive the results of their investments as investment returns. However, some companies may prioritize short-term returns, even when the natural, social and human capital used in their business activities are exposed to long-term threats in various ways. This makes it difficult for investors to receive the returns they initially expected over the long term.

My role as an ESG investment manager is to improve the ESG quality of our portfolios and to link ESG factors to portfolio returns. By consitently asking “Is this a company that controls risks and opportunities and can continue to grow five or 10 years down the road?,” we are able to examine portfolio companies from a longer-term perspective. This ultimately leads to investment decisions such as buying new stocks, selling stocks, or changing investment weightings in the portfolio.

For example, as the global shift from gasoline vehicles to EVs progresses due to a number of factors, including EU taxonomy which has made environmental technology standards more stringent, as well as Japan’s domestic policy for zero net greenhouse gas emissions and regulations on gasoline vehicle sales, we made the decision to remove an automobile company from our investment universe based on the fact that it had gotten off to a late start developing EVs and therefore was subject to the risk of long-term opportunity loss. On the other hand, we recently initiated a position in a company that addressed internal labor problems reported in the past through labor reforms and governance reforms, and showed progress on ESG disclosure. Although the company still requires monitoring, the company’s actions allowed us to feel confident that it would continue its corporate reforms.

By repeatedly and continuously assessing ESG quality appropriately, we aim to ensure that the individual companies that make up the portfolio will be better able to comply with regulations, be in better position to acquire sales opportunities in markets that emphasize a sustainable environment, and will also manage labor appropriately, allowing them to acquire diverse and talented human resources that will enhance innovation and productivity. We believe that all of these will lead to an improvement in investment results.

As an asset manager, our mission is to work on behalf of our clients to invest in companies that will grow robustly, while also considering sustainability amid a turbulent social environment.

Portfolio Manager’s ESG Viewpoint

Business risks and opportunities	■ Current and future segment mix ■ Assessment of M&A strategy
Geographic risks and opportunities	■ Status of production and sales in regions with enhanced regulations ■ Changes in the supply chain structure
Growth of environmental/social solutions businesses	■ Profitability of environmental/social solutions businesses ■ Current customer and market development strategy ■ Growth targets ■ Assessment of R&D
ESG track record	■ Environmental performance (CO2 emissions, stranded asset exposure, eco-friendly procurement ratio, etc.) ■ Social performance (employee turnover rate, diversity, safety indicators, actions on human rights, etc.) ■ Governance (governance structure, compensation, misconduct/scandals, etc.)

ESG Scores

At Nomura Asset Management, our analysts and ESG specialists collaborate to compute proprietary ESG scores, which assess Japanese companies' true ESG abilities. Corporate value is usually expressed as the discounted present value of future cash flows generated. ESG and other non-financial information are critical in predicting such future cash flows. Researching, analyzing, and then scoring a portfolio company's non-financial information makes it possible to measure "corporate value taking ESG into account," and we believe doing so leads to increases in the added value of our investments.

ESG Scoring Revision

Each year we review the ESG scores for Japanese equities. However, ESG-related disclosure has improved and companies' ESG-related initiatives have become more advanced, which has made it difficult to adequately assess companies using our previous ESG evaluation framework. To address this, the Investment Department, Equity Research Department and Responsible Investment Department have worked together to revise the ESG scoring framework, and we have been utilizing the new scoring framework in our investment operations starting in 2021.

An overview of the ESG scoring revision is as follows. The weight of each evaluation factor (E, S, G, and SDGs) in the new scoring system has been set at 25%. This will result in evaluations with a greater emphasis on SDGs initiatives.

In addition, there are approximately 100 evaluation items in the new scoring system, with a good balance between risks and opportunities. We have added new items that qualitatively assess the efforts of companies and senior management with respect to the environment and society. Furthermore, in order to take into consideration the special characteristics of the industry that each company belongs to, we have introduced the concept of materiality (important management issues) which allows us to reflect on the differences in the characteristics of each industry.

Moreover, we have more clearly established the evaluation parameters of risks and opportunities. For opportunities, we will evaluate items including management's vision and commitment with respect to ESG issues (ability to explain, plan, and execute initiatives, as well as achievements), along with the future growth potential of companies that contribute to the achievement of SDGs, as well as the management resources contributing to the above. Meanwhile, for risks, our evaluations will emphasize items that can be quantitatively analyzed, such as whether or not a company has provided disclosure and/or obtained certification, as well as the data disclosed and trends for such data.

ESG Score Content

For "Environment," we look at whether a company is managing transition risks and physical risks related to climate change and incorporating responses to such risks in its business strategy. We also look at whether the company's management team has expressed a commitment to improving the environment. We evaluate matters including a company's actions related to the TCFD, internal carbon pricing, as well as disclosure of avoided emissions.

New ESG Scoring Framework

Main category	Sub-category
E **Environmental** 25% of total	E1:Environmental strategy, senior management's ir
	E2:climate change
	E3:Natural capital, other environmental issues
S **Social** 25% of total	S1:Social strategy, senior management's initiatives
	S2:Working environment, human capital
	S3:Human rights, other social issues
G **Governance** 25% of total	G1:Top management (evaluation of senior manage
	G2:Evaluation of board of directors
	G3:Other governance items
SDGs 25% of total	

Specifically, with respect to the TCFD, in addition to the four indicators related to governance, strategy, risk management, and metrics and targets , we analyze and evaluate disclosure regarding scenario analyses, transition risk, and physical risk based on a company's integrated report and the materials posted on its website. With respect to evaluating natural capital and other environment assessments, we evaluate items such as waste management, conservation of river and marine resources, and biodiversity (including preventing marine pollution).

For "Social" factors, our evaluation is divided into looking at a company's internal and external risks as well as measures to address such risks. The former includes assessments such as those related to employees' human rights and the utilization of human capital, while the latter relates to the issues surrounding the quality of products and services as well as supply chain management. Recently, much attention around the world has been given to initiatives on human rights issues. For Japanese companies in particular, we emphasize the evaluation of supply chain management at business sites both in Japan and overseas.

For "Governance," we evaluate multiple items to make sure that companies have put appropriate structures/systems in place, such as the composition of the board, outside director independence, and whether nomination and compensation committees have been established. Meanwhile, we also evaluate qualitative issues such as dialogue with top management and successor planning. The unique strengths of our analysts, who have been studying and analyzing companies extensively for many years, are reflected in our evaluations.

We decided to raise the weighting of the SDGs evaluation and proactively evaluate a company's stance vis-à-vis working on future opportunities. We evaluate whether a company considers solutions to SDG issues as business opportunities and appropriately incorporates them into its business strategies. In doing so, rather than simply looking at whether or not a company has businesses that enable it to contribute to the achievement of each goal, we conduct extensive research and forecast future sales mixes capable of contributing to SDGs goals, and look at whether or not a company has excellent human and technological resources to differentiate itself from industry peers.

To determine ESG scores, analysts who have frequent contact with companies and know the companies they cover inside and out collaborate with ESG specialists who analyze ESG from a cross-industry perspective. They work together, identifying items where one or the other possess particular expertise. Ultimately, the Responsible Investment Department are responsible for the final scores, which are then shared with the Investment Department.

		Sub-items
itiatives	opportunity	Evaluate individual sub-items in line with the theme of the larger grouping Reflect importance (materiality) in score, taking industry characteristics into account for each company.
	risk	
	risk	
	opportunity	
	risk	
	risk	
ment)	opportunity	
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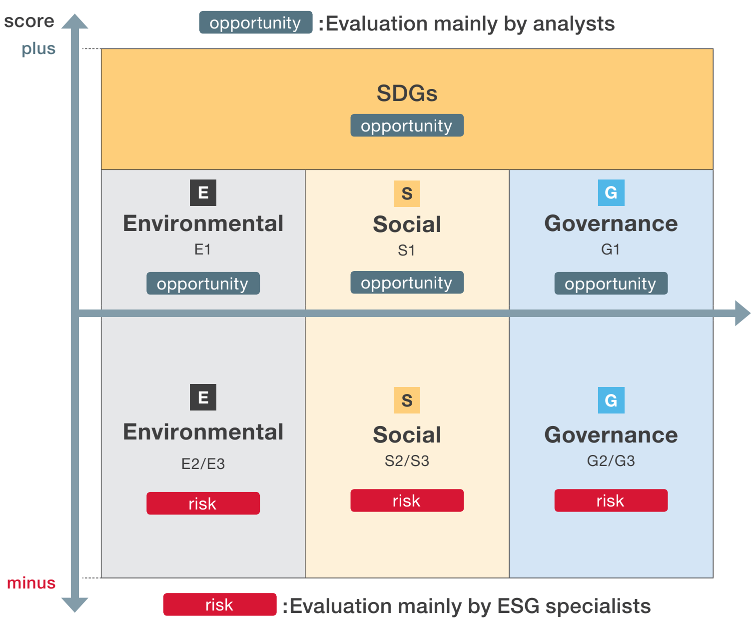


Utilizing ESG Score

ESG scores generated by quantification of non-financial information are used not only for investment decisions and new product development in investment portfolios, but also for client reporting and our ESG investment management.

Acquiring ESG Score Information

ESG scores are posted on an internal research-sharing system. Portfolio managers can check the ESG scores of individual companies to help make final investment decisions.

Utilizing ESG score information in engagement

ESG scores are determined not only based on disclosed data but also using information on future risks and opportunities. By using this ESG score, we can compare the strengths and weaknesses of portfolio companies' ESG efforts, and use the scores for engagement such as discussing future directionality.

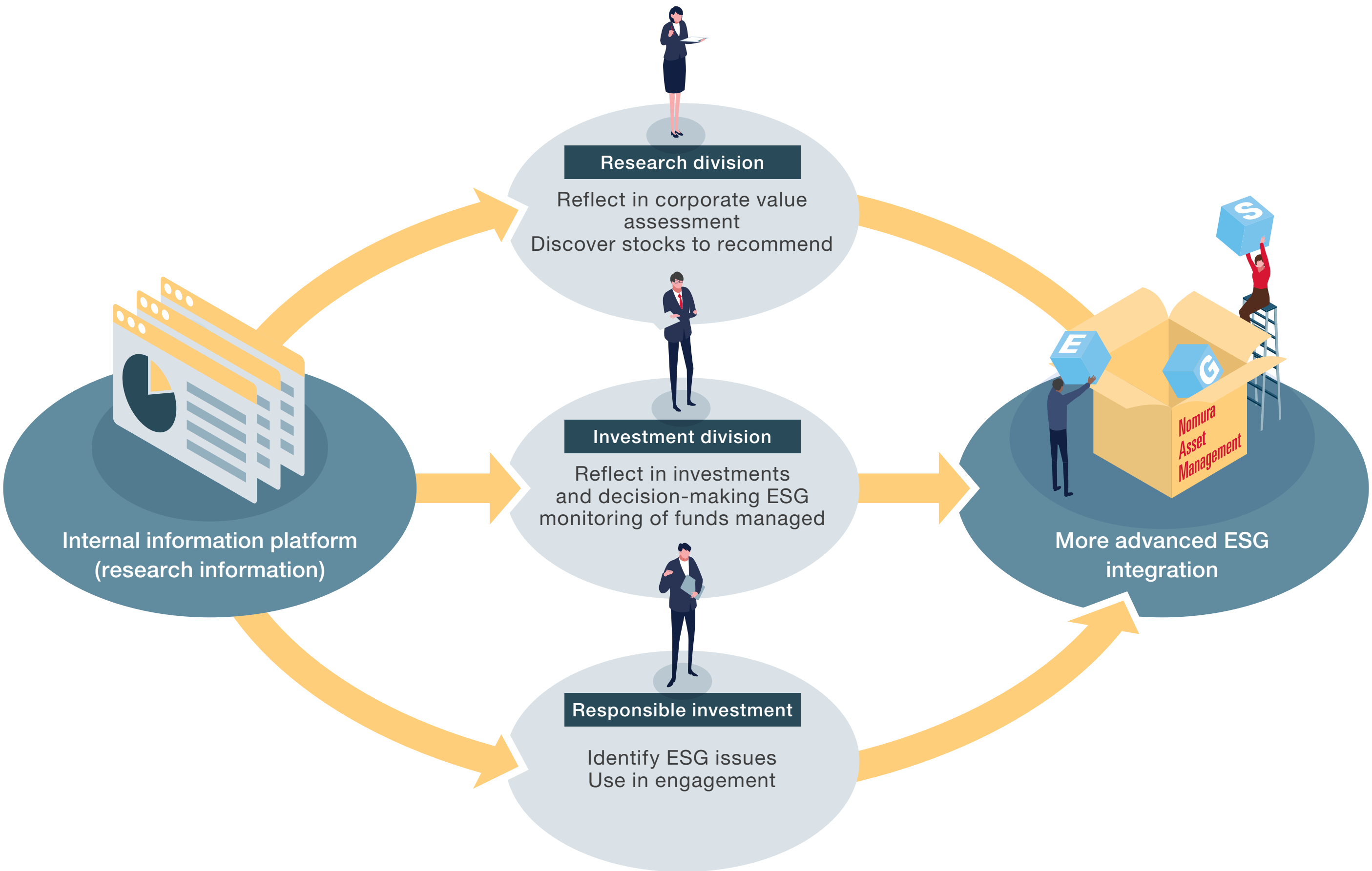
Utilizing ESG scores in Investment Committees

The materials used by the committee for Japanese equity investment to evaluate investment value for individual companies include financial data such as earnings growth potential and return on equity, as well as stock price valuations, along with ESG scores and ESG comments by the analysts in charge. ESG scores are also actively used besides for the investment committee.

Utilization of ESG scores in portfolio construction and monitoring

When building and reviewing portfolios from a bottom-up approach, portfolio managers can constantly keep track of ESG scores for individual companies and are used to make comparisons with industry peers and to see how a company's score has changed. ESG Investment Manager also joins the team and use scores to check the ESG quality of the portfolio. Meanwhile, from a top-down perspective, the overall portfolio's ESG score is periodically compared to the benchmark to avoid unintentional ESG risk bias.

Also, investment managers can use the evaluation items comprising the ESG scores of individual companies as standalone data. For example, they can adjust the weights of particular items, or select to use the scores of specific items, to reflect the specific characteristics of the fund they manage.



Reflecting on the 2020 ESG Scoring Revision

Senior ESG Specialist
Teppei Yamaga

With the Project Team's revisions, it will now be easier to utilize ESG scores in the investment decision-making process

With portfolio companies enhancing their provision of non-financial (ESG) information, investors now need to have ESG scoring frameworks that allow them to appropriately evaluate this information. In order to respond to such rapid changing times, we spent approximately six months from the middle of 2020 revising our ESG scoring system. We created a Project Team comprised of representatives from the Investment Department, Equity Research Department, and Responsible Investment Department, and after sharing ideas leveraging the expertise of each department, we designed a scoring system that allows us to more appropriately evaluate companies' ESG-related risks and opportunities, which will also make it easier than before to utilize ESG scores in the investment decision-making process. Also, in addition to making the decision-making criteria for evaluators as uniform as possible, in order to make the scoring work more efficiently, we have created a methodology (manual) and are simplifying the ESG score entry sheet, among other changes.

We expect companies to be able to discuss their ESG efforts and how such efforts are linked to their long-term vision and medium-term management plans

This revision to our scoring framework has clarified the advantages and challenges for the pharmaceutical and healthcare sector. Solving the challenges stated in the SDGs is the core business of companies in this sector. For example, establishing treatment methods for unmet medical needs achieves the goal of "Good health and well-being" while it also enhances corporate value.

Meanwhile, there are differences among management teams in the level of commitment to ESG. Companies are getting better with disclosure of non-financial information, but only some companies are able to talk about ESG in connection with their long-term vision and medium-term management plan. With respect to the environment, the impact on corporate value may be small compared to other sectors, but in our evaluation we emphasize integration with management strategy and the resulting effectiveness.

Senior Equity Analyst
Healthcare
Aya Torii

Equity Analyst Consumer Staples
Xiang Li

Management teams' commitment and efforts have a big impact on both opportunity and risk

In the Food and Consumer Staples sector, differences in awareness among senior management teams has led to discrepancies in progress on efforts to address environmental and social issues. Top management's commitment to issues and their associated strategic efforts are having an increasing impact on future business in terms of both opportunity and risk. As such this was an area of focus during the scoring framework revisions.

In addition, among companies that supply high-quality, low-priced foods and daily essentials, companies that are actively working to solve the problems of hunger and health, as well as companies that are trying to fulfill their "responsibility to make and responsibility to use" by leading the industry in focusing on recycling products and packaging materials were given high scores, as we view these as companies that can contribute to achieving the SDGs.

IMPACT INVESTING

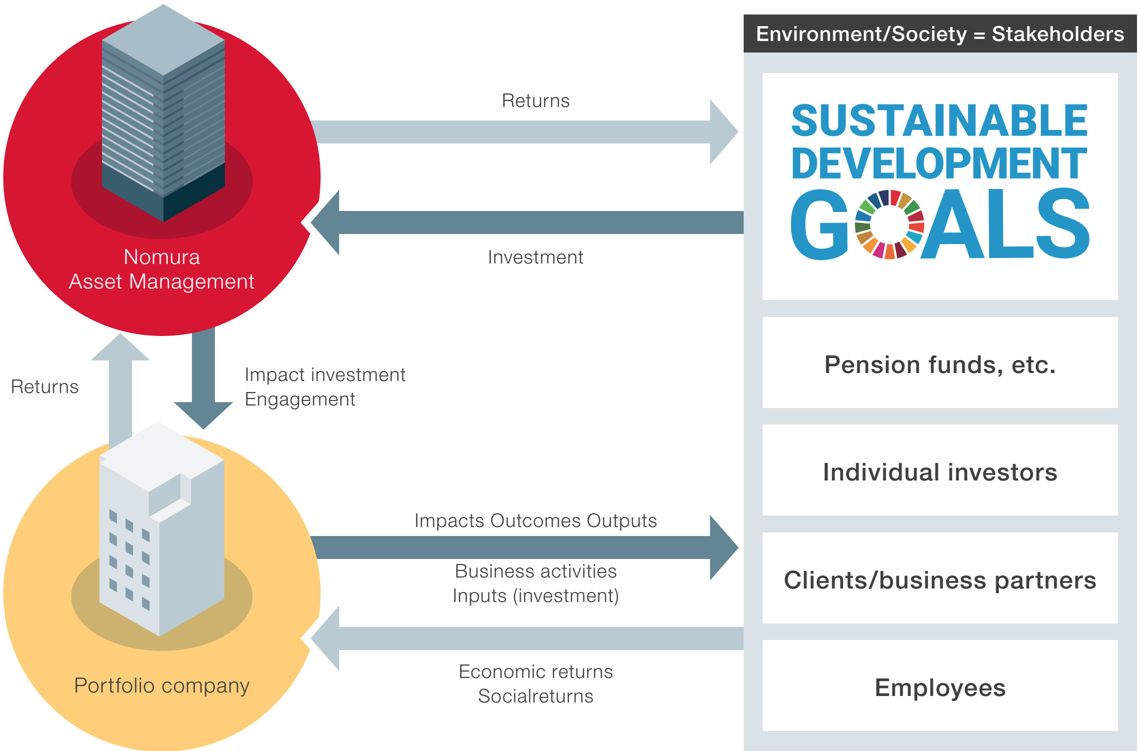
What is impact investing?

At Nomura Asset Management, we believe that impact investing is not limited to simply having an impact on the environment or society, and we feel it is important for the impact to generate earnings and cash flows, which will ultimately be returned to asset owners and other stakeholders. In carrying out impact investing, we extensively analyze the impact that a portfolio company has on the environment and society, as well as the portfolio company's earnings/cash flows generated. At the same time, we engage with the portfolio company to help it set KPI and targets that generate impact, as well as proactively support business activities aimed at achieving them.

Impact investment is generally defined as investment that aims to create environmental and/or social impact and an economic return on investment at the same time. As opposed to the conventional two-dimensional evaluation of risk and return, impact investment requires the advanced skill of three-dimensional evaluation covering risk, return and impact. Impact investing is defined as one category of ESG investment and sustainable investment given the fact that it is expected to bring about environmental and social improvements.

The United Nations SDGs are often used as a framework for impact investing. Adopted by the United Nations in 2015, the SDGs set forth 17 goals and 169 targets. The SDGs indicate the enormous needs of the global market and effective risk management methods that lead to returns on investments in portfolio companies, and are viewed as useful indicators for measuring the impacts on the environment and society.

Proactive impact investing and accompanying engagement activities create outputs and outcomes from the business activities of portfolio companies, as well as impact on the environment and society related to SDGs, etc., and return both economic value and social value to asset owners and other stakeholders.



Our Impact Investment Process

Our ESG Statement is the starting point for our approach to impact investing. The statement identifies issues such as climate change, natural capital, and social responsibility as key topics. Through internal discussions on the above, we have set impact goals which we aim to achieve through our impact investment. These goals target urgent issues facing the world including climate change, natural capital depletion, access to healthcare, social responsibility (for example, financial services and access to drinking water). We then establish indicators to measure the degree of improvement for each established impact goal. For example, for the impact goal "Eliminate Communicable Disease," we can evaluate the global progress by monitoring indicators such as mortality rates for HIV, tuberculosis, malaria, and other illnesses published by World Health Organization (WHO). Additionally, we specify further segmented areas of investment linked to these indicators, and then select companies to invest in in that area. Companies included in the investment universe are linked with the 17 goals of the SDGs, and more detailed KPI are then set. Carrying out detailed and continuous monitoring of the established KPI allows us to not only appraise each company's impact, but also measure the extent of the improvement of the overall portfolio and the impact itself.

Moreover, we are encouraging companies' efforts to solve issues by engaging with portfolio companies based on what we learn from monitoring. By repeating this process for all of our impact investment strategies, we will be able to continue to generate impacts that solve social issues while also pursuing economic returns.

Our impact investment fund is constructed based on the so-called "outside-in" concept, in which social issues are applied to portfolio companies, and is shared within our domestic and overseas impact investment strategies.

	Examples: Environment	Examples: Society
Social issues that should be solved	Environment	Society
Establish impact goals and monitoring indicators	Goal: Mitigate climate change Indicator: Atmospheric CO_2 level	Goal: Mitigate the Obesity Epidemic/ Eliminate Communicable Disease Indicator: WHO's mortality rate for illnesses and communicable diseases
Identify investment field Select/Define portfolio companies	Renewable energy developers Manufacturers possessing technologies EV/OEM manufacturers Highly-efficient office building construction and management	Medicine-related businesses Companies related to the healthcare value chain
Identify SDGs topics	SDGs 7.2 Increase global percentage of renewable energy SDGs 7.3 Double the improvement in energy efficiency	SDGs 3.3 End the epidemics of AIDS, tuberculosis, malaria and neglected tropical diseases and combat other communicable diseases SDGs 3.4 Reduce premature mortality from non-communicable diseases through prevention and treatment
Establish KPI for individual companies	Secure clean energy Carbon emissions reductions	Status of development and widespread use of drugs combatting the three main communicable diseases Increase in R&D spending
Engagement with portfolio companies	Continuous dialogue utilizing monitoring indicators and KPI	Continuous dialogue utilizing monitoring indicators and KPI

Global Sustainable Equity Fund(GSE)
Lead portfolio manager
Alex Rowe

GSE
Global Sustainable Equity
Nomura Global Sustainable Equity Strategy

Nomura Asset Management's UK Office manages the Nomura Global Sustainable Equity Fund based on the concept of impact investing. This fund not only encourages companies to tackle the key challenges facing the world today, but also imparts social impact on a variety stakeholders by encouraging them to address the sustainability of their businesses. The key is establishing impact goals and measuring their impact. By establishing monitorable indicators related to the impact goals, we can measure the degree of improvement in each country or region (developed or emerging), and at the global level. Also, we measure a variety of social impacts from the KPI of individual companies linked to the actual portfolio (Refer to "Impact by the GSE Strategy's Portfolio Companies" on the following page).

In addition to monitoring KPI for individual companies, through engagement we support the actions of portfolio companies to achieve our impact goals. For example, our impact goal of "Eliminate Communicable Disease" is related to Goal 3 of the SDGs "Good Health and Wellbeing", and our UK-based fund management team participates in an initiative sponsored by the Access to Medicine Foundation aimed at improving access to healthcare for billions of people who would not benefit from modern healthcare advances in low and middle income countries. Also i 2020, the team worked to solve the problem through collaborative engagement with major global pharmaceutical manufacturers (Refer to "Collaboration with Initiatives" on Pages 47-48).

In addition to KPI monitoring, the investment team engages with companies in a variety of ways, which allows the team to encourage companies to take actions that will contribute to progress on the impact goals it has established, as well as solve many of the challenges facing society together with multiple other stakeholders. In other words, we will be able to contribute to achieving the impact goals.

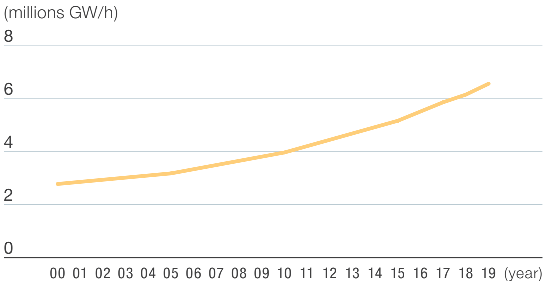
The GSE's Impact Goals

Impact Goals

- Mitigate Climate Change
- Mitigate Natural Capital Depletion
- Mitigate the Obesity Epidemic
- Eliminate Communicable Disease
- Global Access to Basic Financial Services
- Global Access to Clean Drinking Water

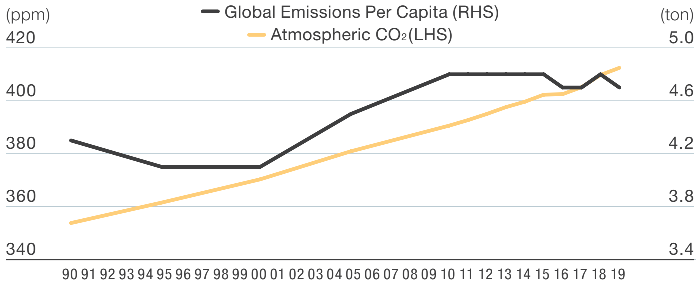
KPI of GSE

■ Global Renewable Energy Generation Annual Output
Period: 2000 – 2019



Source: Prepared by Nomura Asset Management using IEA (International Energy Agency) data

■ Atmospheric CO2 Levels and Emissions per Capita
Period: 1990 – 2019



Source: NOAA Global Carbon Atlas

GSE individual company's KPI

Investment Perspective

The increased use of renewable energy and commitment to offsetting past carbon emissions is not a core goal of the company's business, but we feel that it is very influential

Alignment with SDGs

SDGs 7.2 Increase global percentage of renewable energy

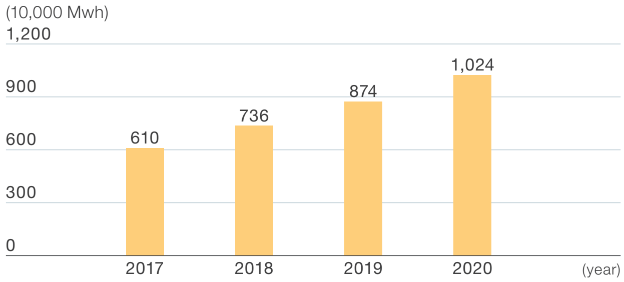
Individual company's KPI

Increase the use of renewable energy

Impact

Approximately 10,240,000 MWh

■ Renewable energy usage
Period: 2017 – 2020

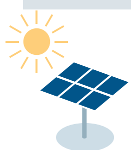


Impact of the Global Sustainable Equity (GSE) Strategy's Portfolio Companies

The Global Sustainable Equity strategy's portfolio companies have achieved the following environmental and social impacts through their business activities (FY2019).

Environment

Mitigate Climate Change



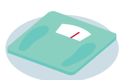
Supplied **10.5 GW** of renewable energy

Mitigate Natural Capital Depletion

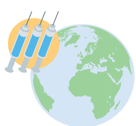
Collected **50,000 tons** of clothing in the apparel industry for recycling and reuse

Society

Eliminate Communicable Disease/Mitigate the Obesity Epidemic



Provided obesity-related treatment to **30 million** patients in 2019



Provided vaccines to **2 million people** per day in 2019

Social infrastructure maintenance and productivity enhancement

Provided **8 billion liters** of clean water through filter-related products in 2019

Provided health and hygiene programs to **1.24 billion people**

From the left hand side

Portfolio Manager
Shintaro Harada

Main Portfolio Manager
Jun Takahashi

Portfolio Manager
Kodai Sasaki

JSE
Japan Sustainable Equity Strategy

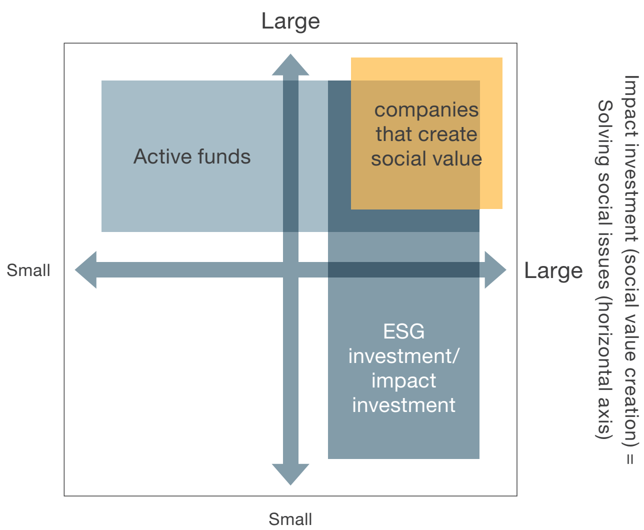
Japan Sustainable Equity Strategy

We manage the JSE (Japan Sustainable Equity) Strategy, which invests in Japanese equities based on the concept of ESG investment, and our investments are aligned with the philosophy of "investing in companies that can grow sustainably over the long term by contributing to solving social issues through their core businesses." The idea for the concept of this fund emerged after the 2008 financial crisis, as various stakeholders began to recognize the need for "sustainability" with respect to the environment and society. The increase in societal pressure on companies to solve ESG issues has significantly altered the competitive environment, and we recognized that a company offering solutions to problems is in fact a "company that can grow sustainably by contributing to solutions for social issues through its core business."

In addition, because ESG issues involve many topics to be addressed over the medium to long term, we came to the conclusion that investing in companies on the premise of long-term ownership would allow us to make investments that seek both excess returns and aim to solve ESG issues, and this is the basic philosophy behind our management of the Strategy. If this Strategy's investment concept is shown in a table with two axes, with social value on the horizontal axis and profit growth (= investment return) on the vertical axis, the aim is to invest in companies in the upper-right quadrant, which are companies that are strong in both of the dimensions (see figure on right). This is the basis for investment in "companies that create social value".

These social value-creation companies are highly compatible with the United Nations' SDGs. The social issues for this fund include healthcare issues associated with the aging of society, environmental issues accompanying climate change, improvement of living environments in emerging countries, and efforts to solve social issues using technology. In addition to evaluating companies' fundamentals, utilizing our own ESG scores allows us to diligently select companies that create social value capable of achieving the goals of the SDGs. Impact investing involves adding a three-dimensional evaluation of impact creation through solving social issues to a two-dimensional evaluation of risk and return, as considered in conventional strategies. In the JSE Strategy, we evaluate companies that create social value and measure the fund's impact.

Concept of "Japan Sustainable Equity Strategy" investment



Individual Company KPI in JSE

Investment Perspective

Proactive efforts to reduce the environmental burden by providing eco-friendly products and reducing the usage of virgin raw materials through recycling are rated highly

Alignment with SDGs

SDGs 12.2 Achieve sustainable management and efficient use of natural resources

Individual company's KPI

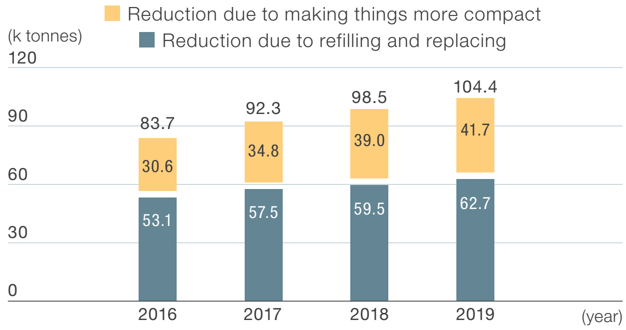
Develop and sell eco-friendly products, and reduce the use of virgin materials by using recycled materials in production

Impact

104,000-ton reduction in plastic

■ Plastic Reduction

Period: 2016 – 2019 (period since the start of investment)



Source: Prepared by Nomura Asset Management using the company's report

Relationship Between Social Issues and SDGs

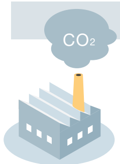
Promotion of health Improve healthcare quality Improve employment rate Address declining birthrate/education	Address environment/ transportation Increase energy efficiency	IoT Improve productivity Increase efficiency of urban infrastructure	Provide inexpensive services Increase standard of living Improve sanitation environment	Safe and secure society Regional revitalization

Impact from JSE Portfolio Companies

JSE portfolio companies have achieved the following environmental and social impacts through their business activities (FY2019)

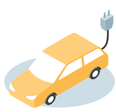
Environment

Mitigate Climate Change



Contributed to the reduction of **74.58 million tons** of CO_2 by selling products with strong environmental performance

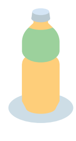
(equivalent to approximately 2.6 million Tokyo Domes)



Sold **approximately 47,000 EV traction motors**, which strongly curb greenhouse gas emissions

Mitigate Natural Capital Depletion

Collected **6.28 million items of clothing** no longer needed, then reused and recycled them



Reduced plastic packaging, etc. by **104,000 tons** by reusing plastic bottles, switching away from using plastic bottles, increasing the concentration of, and using film containers for, detergents and other products.

Society

Eliminate Communicable Disease

Provided **330 million** tablets of antifilarial medicine for neglected tropical diseases to **130 million people**

Maintaining Social Infrastructure and Improving Productivity

Provided intermediary services to **403** small- and medium- sized enterprises facing business succession problems due to the aging of executives and other issues, thereby helping to avoid **¥327.2 billion** in economic losses.

Global Investment Grade Corporate Bond Strategy

(From the left side of the picture)
Senior Portfolio Manager
Genta Yasui

Portfolio Manager
Shono Yamamoto

Senior Portfolio Manager
Kento Okabe

Credit Analyst
Philipp Koerge

ESG Integration Process

ESG evaluation is an essential part of considering the downside risk for an issuer's creditworthiness, which is the cornerstone of global fixed income investment. Believing that traditional fundamentals assessments and ESG evaluations complement one another, we feel that integrating ESG evaluation into the traditional investment process reinforces our assessments of issuers' creditworthiness, and therefore we integrated ESG evaluations into our investment process.

We felt that the most important aspect of integration would be achieving a highly-transparent and highly reproducible portfolio-construction process.This resulted in our assigning matrix-based integrated ratings, with our relative value ("RV") assessment based on an analysis of an issuer's fundamentals on the y-axis and ESG risk on the x-axis.

In the past, we measured the appeal of an investment using only a four-grade evaluation based on the RV assessment, but we then added a four-grade ESG risk assessment calculated using a proprietary quantitative model to the x-axis, thereby allowing us to assign an integrated rating with 16 grades based on a 4x4 matrix. The 16-grade matrix is broadly classified into four categories: core holding, partial holding, ESG focused research, and avoid.

Issuers with high RV assessments and low ESG risk are the issuers whose bonds are most suitable for holding long term, and they are thus prioritized in the portfolio as core holdings. Conversely, we avoid holding bonds of issuers with low RV assessments and high ESG risk. The bonds of issuers with attractive RV assessments but also a high level of ESG risk are bonds that could have long-term investment value if the ESG assessment improves. We can hold these bonds, on the condition that we conduct focused research on ESG issues through engagement and other efforts for a fixed period of time.

As described above, we believe that by clearly integrating ESG risks into the global fixed income investment process, we can reduce the downside risk for issuers' creditworthiness and improve a portfolio's risk-adjusted return.

- Highly appealing from RV perspective, low ESG risk
- Bonds most suitable for holding for the long term
- Investment managers prioritize in portfolio inclusion

- Highly appealing from RV perspective, but high ESG risk
- Bonds that could have long-term investment value if ESG evaluation improves
- Investment managers conduct focused research on ESG through engagement and other efforts with a set time limit

ESG Risk Assessment

RV Assessment	Low 1	Low to Middle 2	Middle to High 3	High 4
Outperform O	O-1	O-2	O-3	O-4
	Core holding		ESG focused research	
Neutral Strong NS	NS-1	NS-2	NS-3	NS-4
Neutral Weak NW	NW-1	NW-2	NW-3	NW-4
	Partial holding		Avoid	
Underperform U	U-1	U-2	U-3	U-4

- Highly appealing from RV perspective, low ESG risk
- Limited downside risk from an ESG perspective
- Investment managers hold some of these bonds in order to diversify the portfolio and adjust risk

- Limited appeal from RV perspective, high ESG risk
- Bonds not suitable for holding long term
- Investment managers avoid adding these bonds to the portfolio
- In principle, if a bond falls into this category, the bond is sold within a certain period of time

Topic

Fixed Income ESG Quantitative Evaluation Model and Performance Review

Investment methods taking social responsibility and sustainability into consideration have been making progress since the 2000s mainly in the equity market, and Europe has been the leader in this field. In recent years, awareness and interest in ESG investing has grown rapidly in Japan as well, mainly among institutional investors, triggered by stronger commitments to ESG investing by major public pension funds.

Meanwhile, many people are skeptical about the economic benefits of accounting for ESG factors in fixed income investing, and some people even claim that doing so has a negative impact. In addition, some ESG investment methods have a "one-size-fits-all" approach, and we feel these methods can be difficult for Japanese investors to uniformly accept.

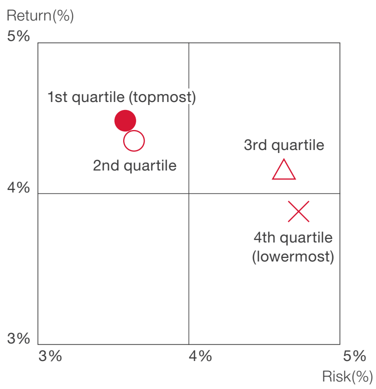
In response to these issues, at Nomura Asset Management we have developed a proprietary fixed income ESG quantitative evaluation model. In developing the model, particular focus was placed on ensuring a systematic and highly-transparent process as well as an emphasis on potential downside risk, which is important for credit investment. We have been utilizing this model in investment decision-making since the end of 2018.

To see how ESG risks indicated by the fixed income ESG quantitative evaluation model impact risk-adjusted returns in the corporate bond market, as well as whether it is economically rational to integrate such risks into the actual investment process, we backtested under certain assumptions.

The backtesting revealed that in the corporate bond markets in the US and Europe, the group of bonds with high (low) bond ESG integrated scores tended to have high (low) risk-adjusted returns over the long term. This suggests that using an appropriate approach to build a portfolio that considers ESG factors makes it possible to achieve superior long-term corporate bond investment returns.

*The details of the aforementioned testing were noted in a special column in the Fall 2020 issue of Nomura Sustainability Quarterly published by The Nomura Institute of Capital Markets Research.

Relationship Between ESG Scores and Corporate Bond Risk/Return



Source. ICE BofA, Nomura AM calculations
Period Apr 2004 - Apr 2020
Back-test based on ESG Score as of Mar 2020

Japan Credit Strategy

(From the left side of the picture)
Senior Portfolio Manager
Tatsuya Ujita
Senior Portfolio Manager
Norio Kishimoto
Senior Credit Analyst
Shuichi Goto
Portfolio Manager
Kazuki Hanzawa

ESG Integration Process

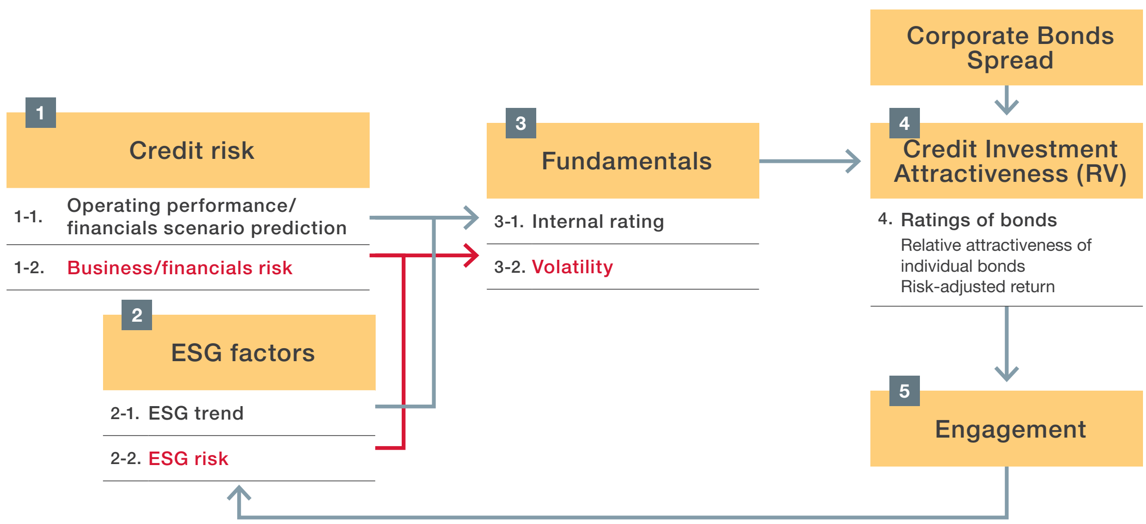
The most distinguishing feature of the ESG integration process in Japanese credit investment is that ESG is clearly integrated into the fundamentals assessments for individual companies provided by credit analysts. Incorporating ESG into fundamentals assessments not only allows ESG factors to be concretely reflected in investment behavior, but also allows for ESG investment to be executed as a series of investment processes, from fundamentals analysis to portfolio construction and then engagement with issuers.

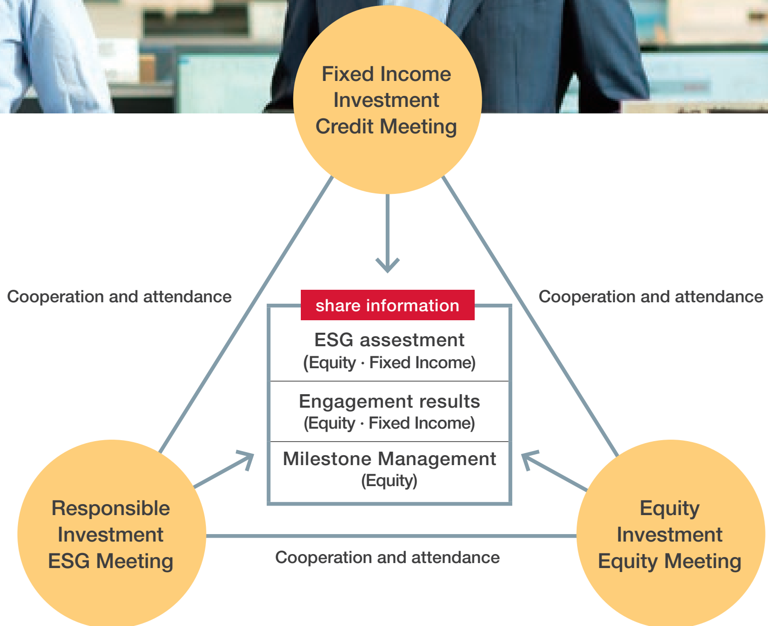
Specifically, credit analysts' evaluations of individual companies' efforts to tackle ESG issues (qualitative evaluations) are added to the ESG scores calculated using our proprietary fixed income ESG evaluation model (quantitative evaluations), and ESG ratings are then assigned to all of the bonds we cover.

Given that there are large disparities in the level of ESG data disclosure by companies, along with the fact that ESG evaluation methods have not been firmly established among investors, we feel that the optimal process is one that combines a quantitative approach and a qualitative approach, and thus offers a balance of objectiveness and subjectiveness.

In this type of investing, we had traditionally emphasized resilience to changes in the external environment in selecting issues under a bottom-up strategy, with the goal of finding bonds capable of weathering market storms. As such, in the fundamentals assessments of individual bonds, we had been rating bonds from the perspective of credit risk. The newly introduced ESG integration process considers both the traditional ratings and ESG ratings to determine the assessment of potential downside risk involved in the fundamentals of individual companies.

ESG risks are serious risks in corporate bond investment because they have significant impacts when they materialize. However, because they materialize over long periods of time and the probability of occurrence is low, they can be overlooked if the analysis only focuses on credit risk. By analyzing ESG issues and clearly incorporating this analysis into fundamentals assessments, we are able to invest in bonds that are "creditworthy in the truest sense," which in turn greatly contributes to reducing a portfolio's downside risk.





Enagement

In Japanese credit investment, we engage with issuers as part of the investment process. Encouraging issuers to address ESG issues can improve a portfolio's medium- to long-term risk/return profile, which both leads to good investment returns for beneficiaries and is also part of our responsible investing behavior as an institutional investor.

In recent years, many issuers have been issuing corporate bonds on a continual basis as a part of their financing plans, and issuance periods are lengthening amid the low interest rate environment. Given this, we believe that proactively engaging with issuers as a fixed income investor allows us to encourage them to address ESG issues.

For engagement, we target all companies we invest in and all companies we are considering investing in. However, in order for our engagement efforts to be effective, we select important target companies based on their corporate bond issuance volume, our ESG evaluations, and level of investment appeal, and then engage with those companies on an ongoing basis.

When engaging with a company, we share what we view as ESG issues with them and listen to their explanations about the issues. If we see the company as working to address the ESG issues and we feel that improvement is likely going forward, we raise the ESG evaluation of the company using a bottom-up approach. As a result, the downside risk evaluation in the fundamentals assessment will then be adjusted, the bond will become more attractive as an investment option (higher RV), and this will in turn lead to our increasing the weighting in the portfolio. Conversely, if we determine that the ESG issues have not been properly addressed, we will take a cautious view of the potential downside risk, which may result in a decision to forgo investment or lower the bond's weighting.

In Japanese credit investment, we engage with issuers in collaboration with the equity investment teams. There is no difference between fixed income and equities when it comes to the long-term matter of issuer sustainability, and as an institutional investor we believe it is important to have a single opinion when engaging with issuers.

We share information related to issuers' ESG issues, ESG evaluations and progress on engagement with NAM's equity investment teams. Also, when engaging with a company for which an ESG issue has come into view, company analysts, ESG specialists as well as credit analysts participate in the discussions.

Environmental Leaders Bond Strategy
(Green Income Fund)

(From the left side of the picture)
Senior Portfolio Manager
Sohei Koizumi

Product Manager
Mai Sato

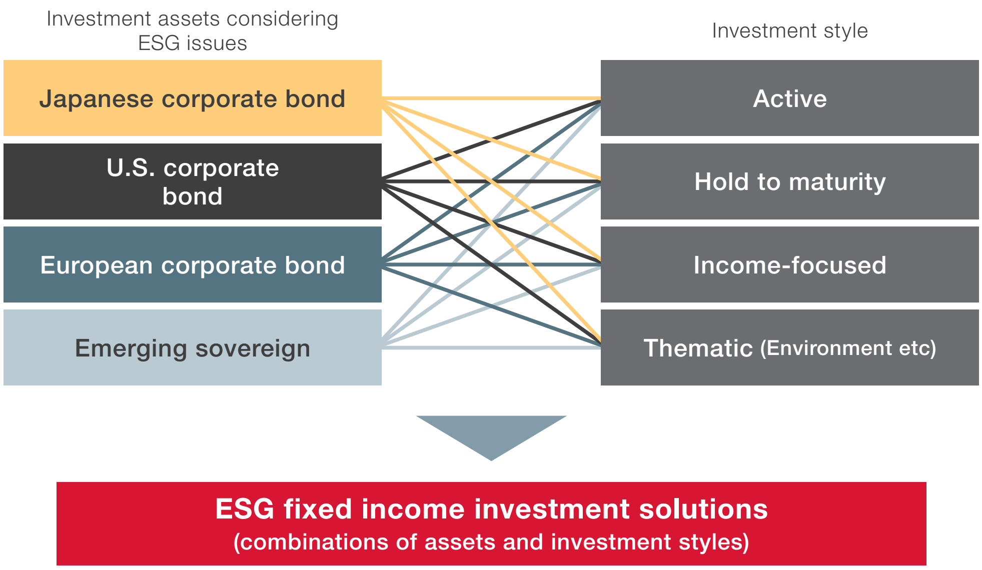
Senior Portfolio Manager
Shuhei Fujiki

In NAM's credit investment, based on a universe of assets taking ESG into consideration, we provide a wide range of ESG fixed income investment solutions that meet our clients' ESG needs. We do this by combining different investment styles, including active investment targeting specific benchmarks, investment assuming assets are held to maturity, investment maintaining the remaining life of bonds at a set length, investment with an emphasis on income level, and investment with a focus on a particular ESG topic, such as the environment.

One example of our ESG fixed income investment solutions is our Green Income Strategy. This was developed in 2020 as a strategy for investing in bonds issued by companies or emerging countries working to solve environmental problems.

When selecting bonds, we exclude low-ranking bonds based on our own quantitative scoring of efforts to solve environmental problems by the companies and countries in our coverage universe (negative screening). In addition to financial analysis and fundamentals analysis, we invest in bonds issued by companies and countries that are highly evaluated in our ESG analysis (ESG integration).

By screening investment targets based on their efforts to address environmental problems that are important to global sustainability, we aim to achieve sustainable returns while contributing to the improvement of environmental issues. One of our strengths is our ability to develop such distinctive investment strategies. This strategy is also incorporated into our Global ESG Balanced Fund.



Topic Creation of a Scheme to Donate to Regional Revitalization Efforts – Supporting hometowns through investment trusts –

As a part of our effort to help revitalize regional areas in Japan, Nomura Asset Management has partnered with regional financial institutions to create a donation scheme utilizing the corporate version of the hometown tax ("Furusato Nozei") system.

We are proactively engaging in ESG-related activities in order to create a sustainable society and solve social issues, based on the "Drive Sustainability" concept that is a point of focus for the entire Nomura Group.

Nomura Asset Management considers regional revitalization to be an important ESG issue. Currently, regional areas across Japan are working with the national government to develop their own independent initiatives for a sustainable society leveraging their unique characteristics and to solve issues facing Japan, such as the rapid decline in population and the super-aging of society.

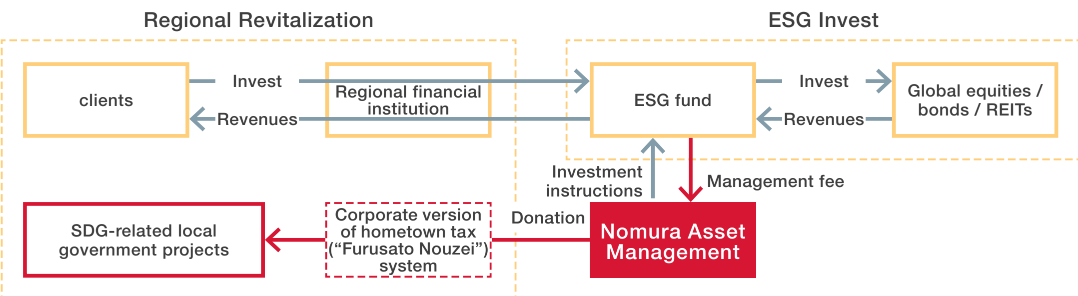
As a part of this movement, regional financial institutions are leveraging their expertise and networks to contribute to regional revitalization efforts.

Under the donation scheme, we will contribute a portion of the revenues from our ESG investment products to SDG-related local government projects throughout Japan.

We will make donations once a year, based on the amount of sales of selected funds at each regional financial institution.

The selected funds are the ESG funds that we, in collaboration with regional financial institutions, have determined to make regional revitalization efforts possible.

Outline of donation scheme targeting regional revitalization



Messages from the Responsible Investment Council

I would like Nomura Asset Management to continue to contribute to the enhancement of corporate governance

Outside director **Akiko Kimura**

The Responsible Investment Council was established in 2016, the year after the Corporate Governance Code was adopted, and at a time when many listed companies were struggling to secure two outside directors. The Corporate Governance Code is slated to be revised again in the spring of 2021, but the point at issue is not only the number of outside directors, but also improving the quality of outside directors, establishing nomination and compensation committees, and otherwise making the board of directors more effective. Things are indeed very different now.

In November 2020, through revisions of the proxy voting guidelines, Nomura Asset Management made clear its stance of supporting the transition from a “management board” to a “monitoring board.” As the effectiveness of boards of directors is being questioned, these revisions indicate that the role expected of the board of directors is to supervise management, and these revisions were aligned with the new revisions to the Corporate Governance Code and also a represented a forward-thinking approach in Japan. Members of the Responsible Investment Council attended Responsible Investment Committee meetings and participated in discussions, but it took a lot of time and thorough discussions to go from the concept of the monitoring board to actually establishing the numerical standards in the proxy voting guidelines. I think that the level of discussion was high, even from my viewpoint as an attorney.

Five and a half years since the introduction of the Corporate Governance Code, there is still room for improvement in Japanese companies’ corporate governance. I would like Nomura Asset Management to maintain its spirit of innovation in this field and continue to contribute to the improvement of corporate governance.

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)

(Biographies as of December 2020)

Please continue to lead the asset management industry and aim even higher

Outside director **Rikio Nagahama**

Back when I worked in asset management, there were pollution problems such as those involving exhaust gases, but environmental measures were not discussed in a systematic way as important topics in evaluating companies like they are today. Today, carbon taxes and carbon pricing are being discussed in earnest, and climate change has become a real risk for companies, while also presenting a great business opportunity for companies with excellent environmental technology. There are many other ESG issues that companies need to address, such as biodiversity, human rights, supply chain management and diversity, and each of these can either present a risk or an opportunity depending on the company’s efforts.

Such trends are also a big challenge for investors. Nomura Asset Management keeps track of the status and efforts of portfolio companies through ESG scores, monitors greenhouse gas emissions of the entire portfolio, and reports are regularly made to the Responsible Investment Committee. I also listen to these reports and participate in discussions, and it is clear to me that the investment and research teams are aiming higher through repeated trial and error.

ESG initiatives are not simply demanded by customers, but they also contribute to the sustainable growth of both the company and society. Through its investment activities, I would like to see Nomura Asset Management continue to be a leader in the asset management industry and aim even higher in order to contribute to the sustainable growth of society and companies.

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)

I look forward to Nomura Asset Management's efforts as a leading institutional investor in Japan.

Outside Expert **Yumiko Miwa** Newly appointed

I became a member of the Responsible Investment Council in May 2020. When I attended the Responsible Investment Committee meeting, I was a little surprised that Mr. Nagahama and Mr. Kimura were participating in the discussions with committee members, but it all made sense when I was told that exhaustive discussions prevent conflicts of interest.

I study the trends for domestic and global institutional investors as an academic, and in recent years the level of demand for ESG has been increasing. In Europe, the EU taxonomy and Sustainable Finance Disclosure Regulation (SFDR) have been introduced, institutional investors who have gotten off to a slow start in ESG initiatives are having a difficult time receiving funds from clients. I believe that the transformation of the traditional economic system is behind these developments. Traditional economic models were developed in an era when natural resources were abundant and there was no need to consider the impact of carbon emissions. While mass production and mass consumption were the goals under this competitive economic system, social problems such as long working hours, low wages and child labor, as well as environmental issues like deforestation, water resources, and greenhouse gases have been overlooked. I believe that social regulations related to ESG represent a call for a change in behavior aiming towards sustainable development and economic development as a reaction to the problems inherent in the conventional economic system.

The Responsible Investment Committee recently received and discussed a report about responding to such trends. There is much to be done, and I have high hopes for what Nomura Asset Management will do as one of Japan's leading institutional investors.

April 1996	Full-time Assistant, School of Commerce, Meiji University (Assistant Professor from April 2000)
April 2002	Member, Fund Management Committee, Pension Fund Association for Local Government Officials
October 2005	Professor, School of Commerce, Meiji University (current)
April 2006	Visiting Professor, School of Business, University of Michigan
April 2020	Member, Fund Management Committee, National Federation of Mutual Aid Associations for Municipal Personnel (current)
June 2020	Outside Director, Eisai Co., Ltd. (current)

About the Responsible Investment Council

The Responsible Investment Council verifies the appropriateness and validity of stewardship activities, including the formulation of proxy voting guidelines, proxy voting decisions, the formulation of engagement policies and engagement activities, thereby aiming to prevent adverse impacts on clients' interests due to conflicts of interest or other issues.

Meetings held

Since its establishment in September 2016, the Responsible Investment Council has met a total of 34 times through December 31, 2020. The Responsible Investment Committee is attended by the members of the Responsible Investment Council, who promptly provide their opinions.

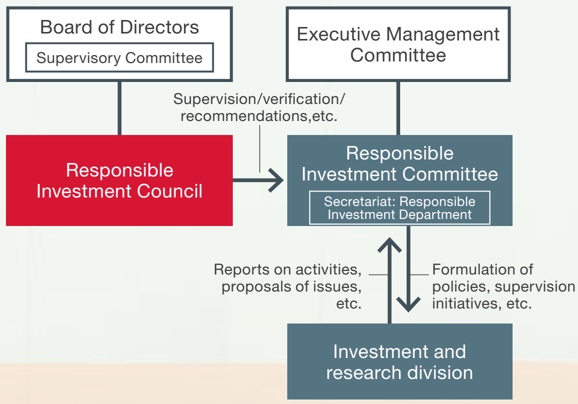
Member composition

The Responsible Investment Council comprises only the Chief Conflict Officer and persons in independent positions in Nomura Asset Management, including independent outside directors. Currently, the Responsible Investment Council has four members: one Chief Conflict Officer; two independent outside directors; and one outside expert.

Positioning

The Responsible Investment Council is positioned under the Audit and Supervisory Committee. As necessary, the Responsible Investment Council recommends improvements to the Executive Management Committee and/ or the Responsible Investment Committee, and reports such recommendations to the Board of Directors and the Audit and Supervisory Committee (Refer to "System to Manage Conflicts of Interest" on Page 52).

Organizational Structure for Responsible Investment



Main activities	
Dialogue with portfolio companies (engagement)	Proxy voting
Integration into investment decisions (ESG integration)	Collaborative/public activities

Results of Self-Evaluation of 2020 Stewardship Activities

We actively engaged in stewardship activities in order to encourage portfolio companies to increase their corporate value and promote sustainable growth, and to increase medium- to long-term investment returns for clients and beneficiaries. To further enhance our activities, we performed a self-evaluation of our stewardship activities in 2020 (January to December), the results of which are in this section. This self-evaluation corresponds to the self-evaluation required by Guideline 7-4 of the Japan Stewardship Code re-revision on March 24, 2020.

1 Self-Evaluation Methodology

We distributed a questionnaire mainly to members of the Responsible Investment Committee, the highest decision-making body for our stewardship activities, and held discussions based on the results of the questionnaire. Members of the Responsible Investment Council, which monitors the Responsible Investment Committee, particularly with regards to matters related to conflicts of interest, also participated in the questionnaire and in subsequent discussions.

2 Results of self-assessment

More than 90% of respondents indicated that stewardship activities in our company were appropriate. The Responsible Investment Committee held discussions based on the results of the questionnaire and comments received, and the final assessment was we were generally able to carry out appropriate stewardship activities, including the our response to the following three points identified in the previous year as areas to be strengthened.

- Continue the efficient and effective management of the Responsible Investment Committee and strengthen the PDCA cycle*3 for engagement activities as continuous initiatives.
- Make proxy voting more effective, including links to engagement.
- Continue working to appropriately allocate and bolster resources to address the expansion of domains and rising target levels for stewardship activities such as the Task Force on Climate-related Financial Information Disclosures (TCFD).

3 Future Actions

The Responsible Investment Committee will continue to discuss the points that need to be enhanced as identified through this self-evaluation, and work to further bolster our stewardship activities.

Questionnaire Overview			
Target	The following people responded according to the questions. Responsible Investment Committee*1 members – 6 Responsible Investment Committee Secretariat members – 6 Responsible Investment Council*2 members – 4	Questionnaire	Total of 14 questions: Addressing each of the principles of Japan's Stewardship Code Principle 1 (Formulate and publicly disclose policy): 2 questions Principle 2 (Manage conflicts of interest): 3 questions Principle 3 (Monitor portfolio companies): 1 question Principle 4 (Engagement): 3 questions Principle 5 (Proxy voting): 3 questions Principle 6 (Report to clients and beneficiaries): 1 question Principle 7 (Skills for engagement activities): 1 question
Questionnaire timing	December 2020		
Period covered	January-December 2020		
Response format	Signed (not anonymous) Multiple choice (4 choices) Write comments freely		

Among our stewardship activities in 2020, the following were brought up as particularly effective initiatives.

- In addition to increasing the efficiency of managing the proceedings of Responsible Investment Committee meetings, we were able to hold exhaustive discussions about agenda items that were very important and for which there was a split in opinion.
- In addition to increasing the number of members of the Responsible Investment Council which is responsible for monitoring, we added a proxy voting advisory firm, thereby bolstering the system to manage conflicts of interest.
- We further promoted a shared awareness and understanding of issues among analysts and ESG specialists, which allowed us to make engagement more effective.
- In order to indicate the directionality of corporate governance through proxy voting, we introduced proxy voting guidelines supporting the transition from a management board*4 to a monitoring board*4.
- We enhanced information disclosure and reporting to clients. This included disclosing the detailed reasons for voting in favor of or against proposals related to group-affiliated companies, and by reporting to clients about climate change-related matters.

On the other hand, the following were identified as points to be improved in order to further enhance the effectiveness of our stewardship activities.

- Deepen discussions in the Responsible Investment Committee about the strategy for new stewardship activities in order to address diversifying ESG*5 issues and rising demands from the marketplace.
- Based on the above discussions, work to deepen the awareness of issues in the Investment and Research Division, allocate appropriate resources, and further strengthen stewardship activities.
- In order to promote understanding about our stewardship activities among a wide range of stakeholders, strive to provide information disclosure that is even easier to understand.

*1 Comprises members from the investment and research functions
*2 Comprises one Chief Conflict Officer, two independent outside directors and one outside expert
*3 The PDCA cycle is a method for improving operations by repeating a cycle of Plan, Do, Check and Act.
*4 A management board is a board of directors whose main role and responsibility is to make decisions about a company's business, while a monitoring board is a board of directors whose main role and responsibility is to supervise a company's senior management.
*5 "ESG" stands for Environment, Social, and (Corporate) Governance. Nomura Asset Management emphasizes ESG issues as issues that companies should address from the perspectives of social responsibility and sustainability.

Review of 2020

The year 2020 was a turbulent one for both Japan and the rest of the world. Due to the COVID-19 pandemic, a wide range of activities came to a standstill and new ESG issues arose. Under such circumstances, as an asset management firm, it was a year in which we were very conscious of pressing ahead with ESG initiatives without letting up, in order to encourage our portfolio companies to create sustainable value as well as to improve our investment returns.

First, we revised our ESG scoring framework for Japanese equities in order to make our ESG integration more advanced. In the process, in order to bolster our response to climate change, which is one of our top priorities, we adopted a carbon pricing method and converted the greenhouse gas emissions of portfolio companies into monetary amounts, thereby allowing us to more objectively judge the relationship between emissions and corporate value.

In addition, to further support corporate governance reform in Japanese companies, we incorporated the concept of the monitoring board into our proxy voting guidelines. We established eight requirements, and relaxed the guidelines for voting against company proposals for companies that satisfy all of these requirements. It is our hope that this will encourage many Japanese companies to transition to a monitoring board-type board of directors.

Partially due to the COVID-19 pandemic, the level of interest in impact investing remained high, both in Japan and overseas.

Based on this, we are being strongly urged to address both climate change as well as social issues, especially human rights problems. The year 2020 was another year that we pushed forward with new initiatives in order to meet the demands of the ever-evolving ESG investment domain and satisfy the high expectations placed on us by our clients.

2021 and Beyond

Despite the COVID-19 pandemic, addressing ESG issues remains an important factor for a company's sustainable growth, and progress on ESG initiatives by various entities is expected in 2021 and beyond. At Nomura Asset Management, we will also support and promote various activities aimed at solving ESG issues.

In terms of investment and research initiatives, climate change will continue to be the most important issue. We will strengthen our investment process by making portfolio companies' efforts to decarbonize visible across all of our investment portfolios. At the same time, we will also bolster our efforts with respect to human rights issues. In October 2020, the Japanese government announced a national action plan on human rights, but the issue of human rights is now one of the two major ESG topics alongside climate change. We will continue to encourage our portfolio companies to bolster their ability to address human rights issues, which will in turn build a strong value chain and enhance their competitive advantage.

With respect to impact investing, we will pursue even more added value in our investments in the new domain of achieving both economic and social returns. We will continue to discover portfolio companies that have a particularly high level of impact, and we will aim to amass outcomes that lead to the resolution of social issues in Japan and overseas.

Finally, we want to fulfill our responsibilities as a company towards solving important ESG issues related to the investment chain. We will continue to do our utmost to ensure that our commitment to responsible investment produces results with a "social impact."

Head of the Responsible Investment Department
Toshiyuki Imamura

PRI assessment results

		FY2019-2020	PRI Median evaluation
Strategy and governance		A+	A
Status of integration into responsible investment for listed stocks		A+	A
	Active ownership	A+	B
	Engagement	A+	—
	Proxy voting	A+	—
Bond investment	SSA	A+	B
	Corporate (Non-Financial)	A+	B
	Corporate (Financial)	A+	B

Responsible Investment Report 2020

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