ESG INTEGR

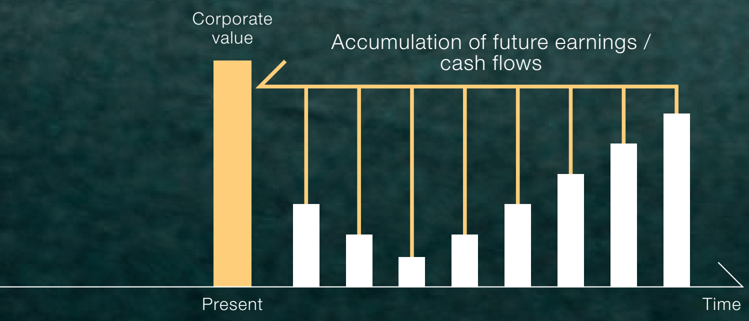
Integrating ESG factors into the investment process is critical, as we believe financial performance and ESG efforts (non-financial information) are closely related and influence one another. At Nomura Asset Management, we utilize proprietary ESG evaluations of portfolio companies when making investment 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.

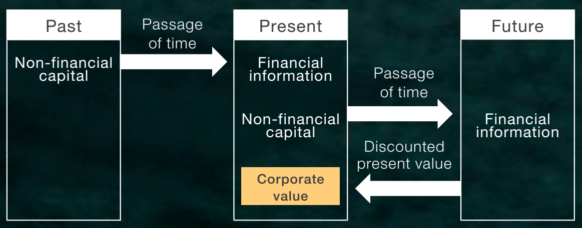
ESG assessment is not limited to Japanese companies, as the scope also includes companies in developed countries in Europe and the Americas, as well as companies in Asia and emerging countries. In addition to global themes such as climate change and human rights, we extract and assess specific material 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.

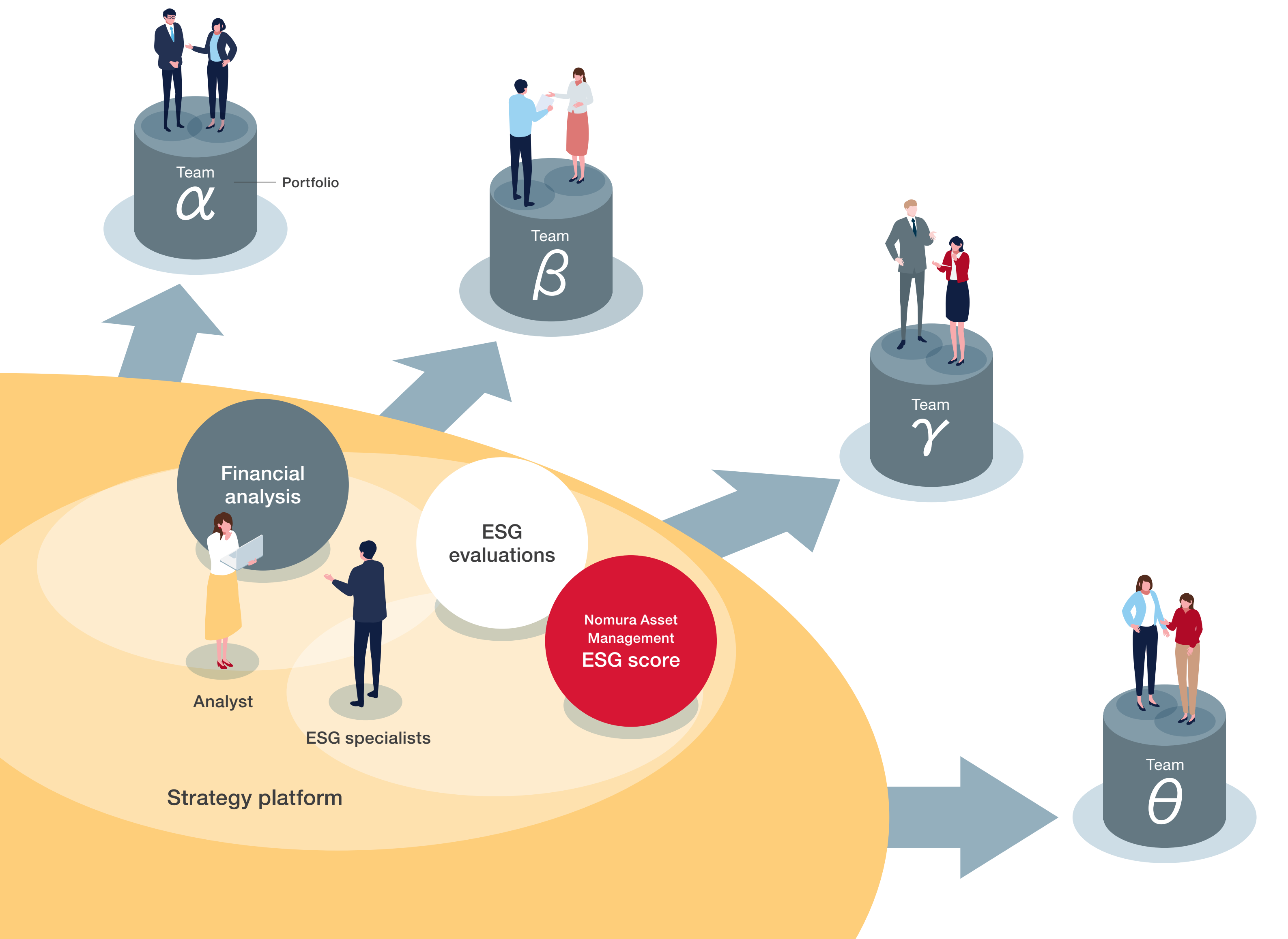
For the "growth evaluation", the impact of climate change on business, supply chain resilience, intellectual property, R&D capabilities and organizational strength, quality of human resources and diversity are among the sources of competitiveness that help differentiate a company from its peers. These 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 manager
	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	
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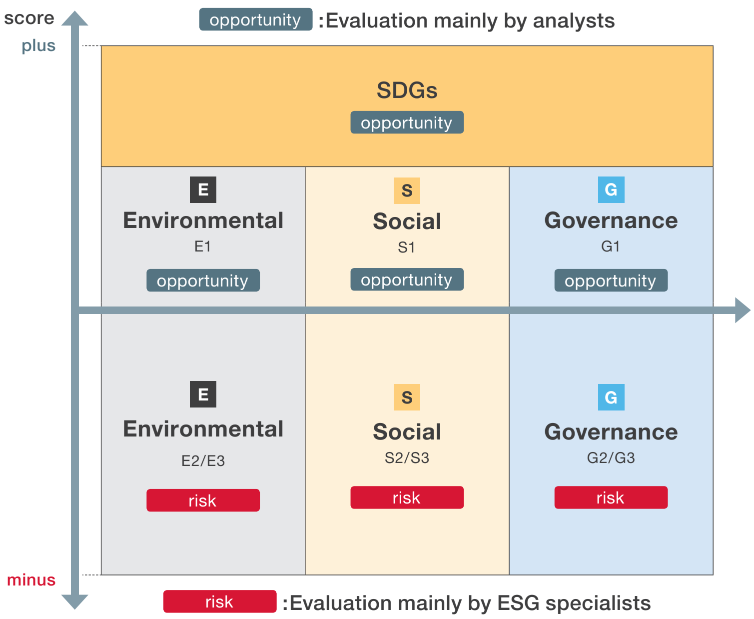
ment)	opportunity	
	risk	
	risk	
	opportunity	



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.

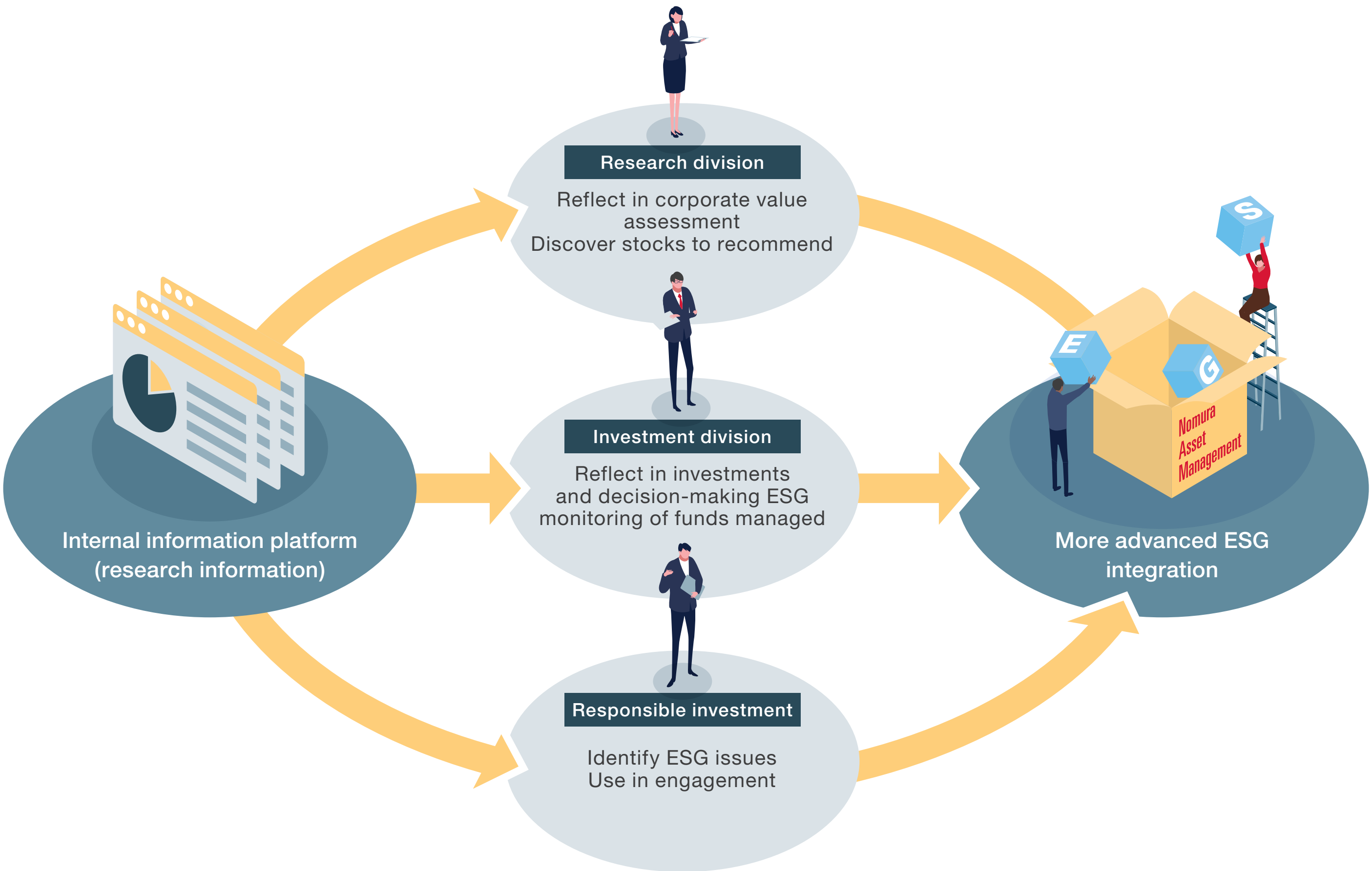
Utilizing ESG scores in Investment Committees

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

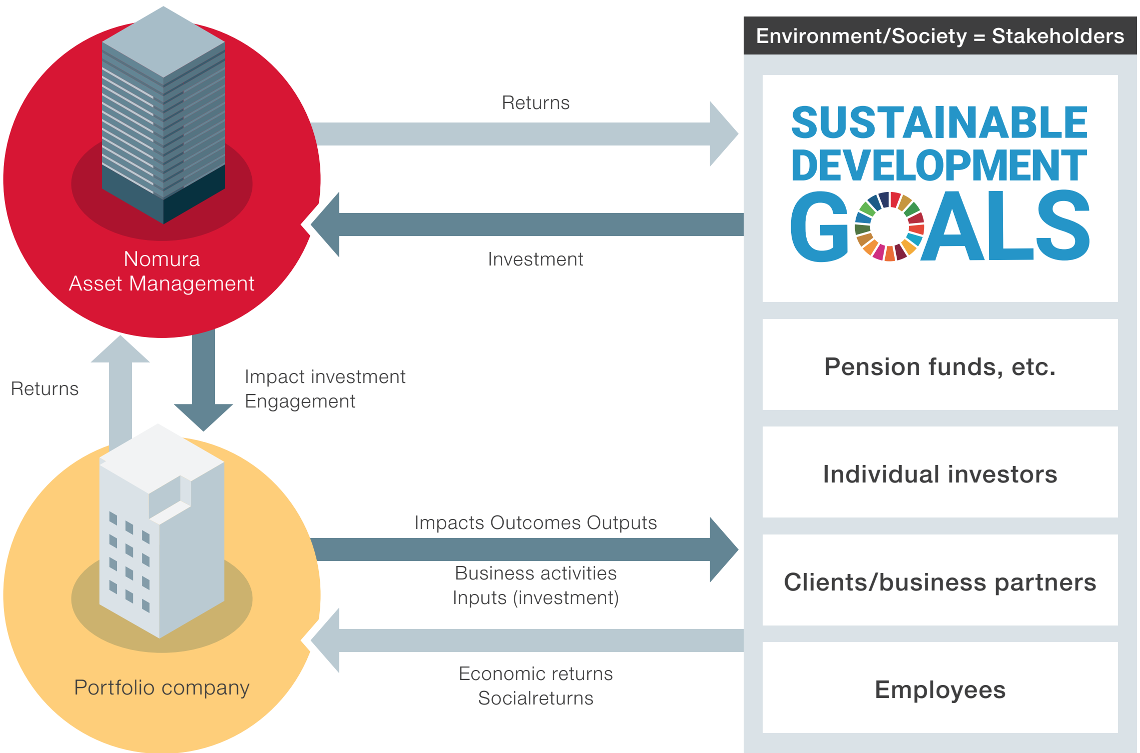
What is impact investing?

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	
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

GSE

Global Sustainable Equity

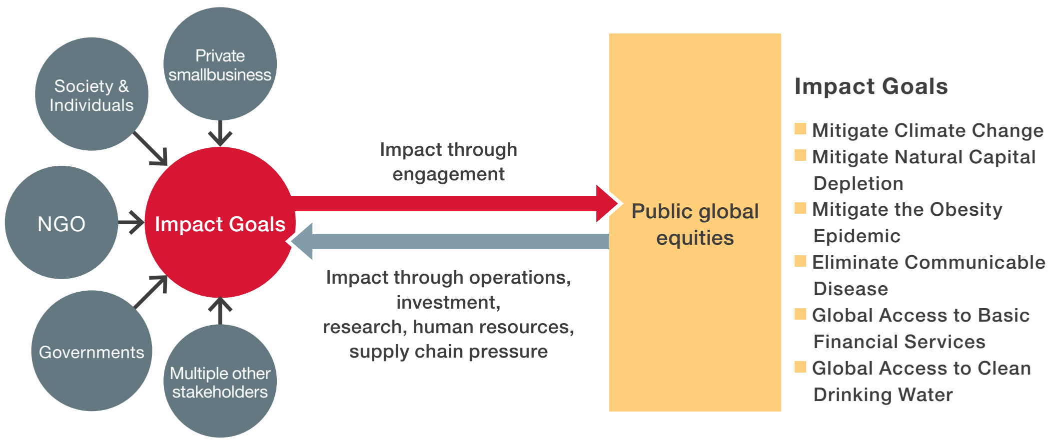
Nomura Global Sustainable Equity Strategy

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).

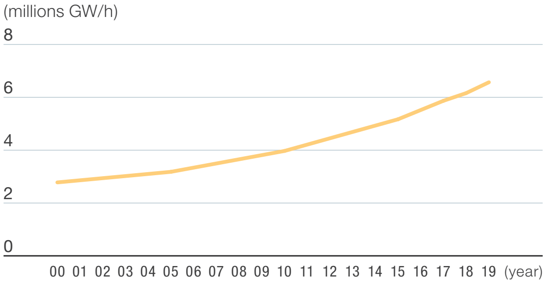
In addition to KPI monitoring, the investment team engages with companies in a variety of ways, which allows the team to encourage companies to take actions that will contribute to progress on the impact goals it has established, as well as solve many of the challenges facing society together with multiple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

The GSE's Impact Goals



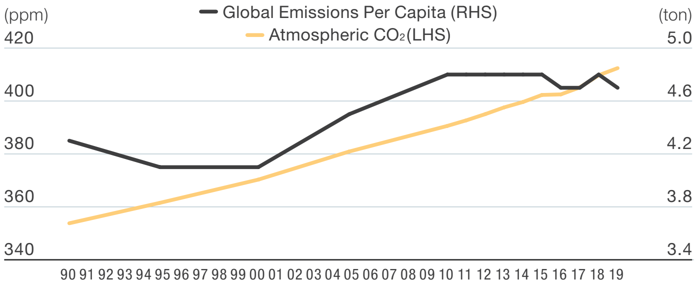
KPI of GSE

■ 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

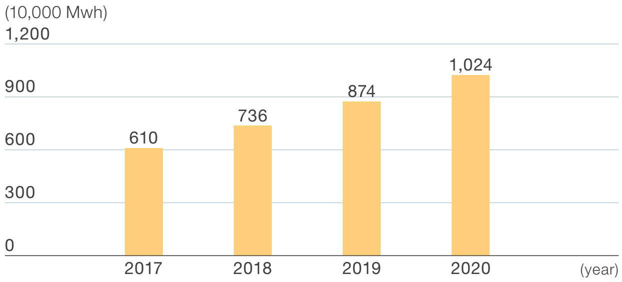
Alignment with SDGs

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

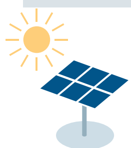


Impact of the Global Sustainable Equity (GSE) Strategy's Portfolio Companies

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



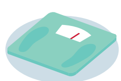
Supplied **10.5 GW** of renewable energy

Mitigate Natural Capital Depletion

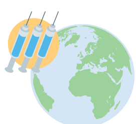
Collected **50,000 tons** of clothing in the apparel industry for recycling and reuse

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

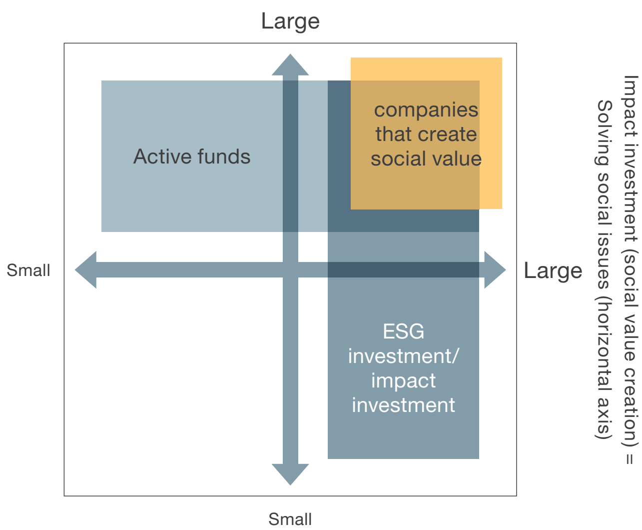
Japan Sustainable Equity Strategy

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

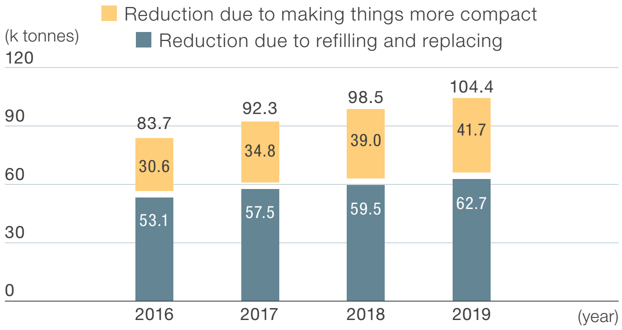
Develop and sell eco-friendly products, and reduce the use of virgin materials by using recycled materials in production

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

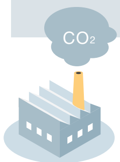
Promotion of health Improve healthcare quality Improve employment rate Address declining birthrate/education	Address environment/ transportation Increase energy efficiency	IoT Improve productivity Increase efficiency of urban infrastructure	Provide inexpensive services Increase standard of living Improve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

Impact from JSE Portfolio Companies

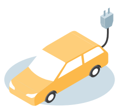
JSE portfolio companies have achieved the following environmental and social impacts through their business activities (FY2019)

Environment

Mitigate Climate Change

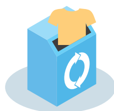


Contributed to the reduction of **74.58 million tons** of CO_2 by selling products with strong environmental performance (equivalent to approximately 2.6 million Tokyo Domes)

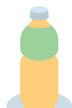


Sold **approximately 47,000 EV traction motors**, which strongly curb greenhouse gas emissions

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.

ESG Integration Process

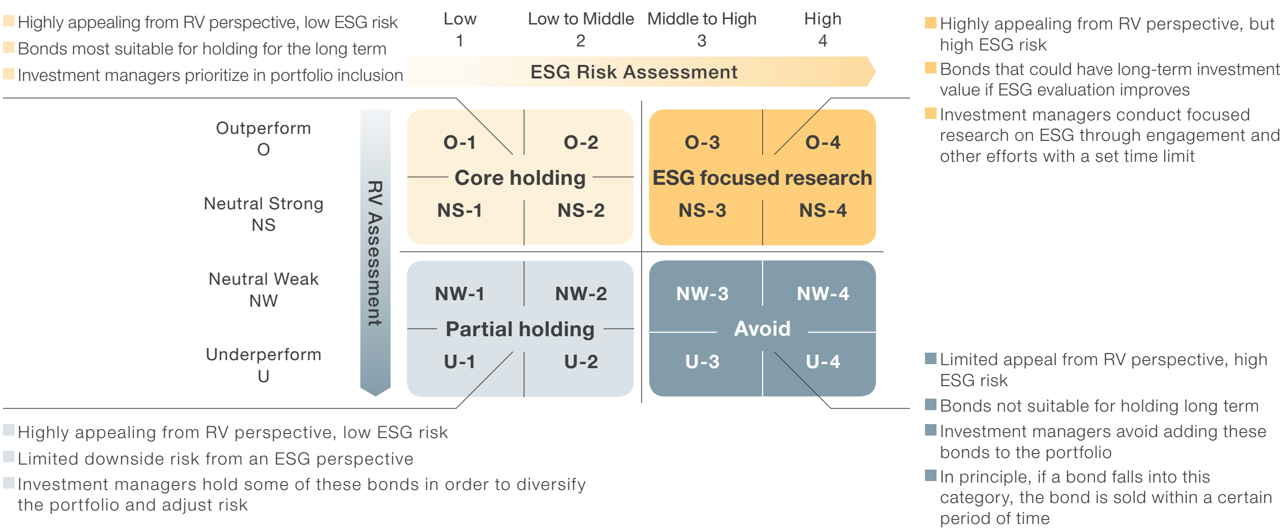
ESG evaluation is an essential part of considering the downside risk for an issuer's creditworthiness, which is the cornerstone of global fixed income investment. Believing that traditional fundamentals assessments and ESG evaluations complement one another, we feel that integrating ESG evaluation into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



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.

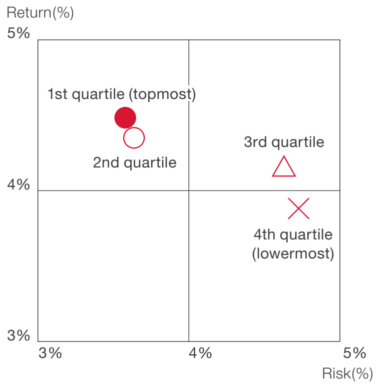
In response to these issues, at Nomura Asset Management we have developed a proprietary fixed income ESG quantitative evaluation model. In developing the model, particular focus was placed on ensuring a systematic and highly-transparent process as well as an emphasis on potential downside risk, which 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

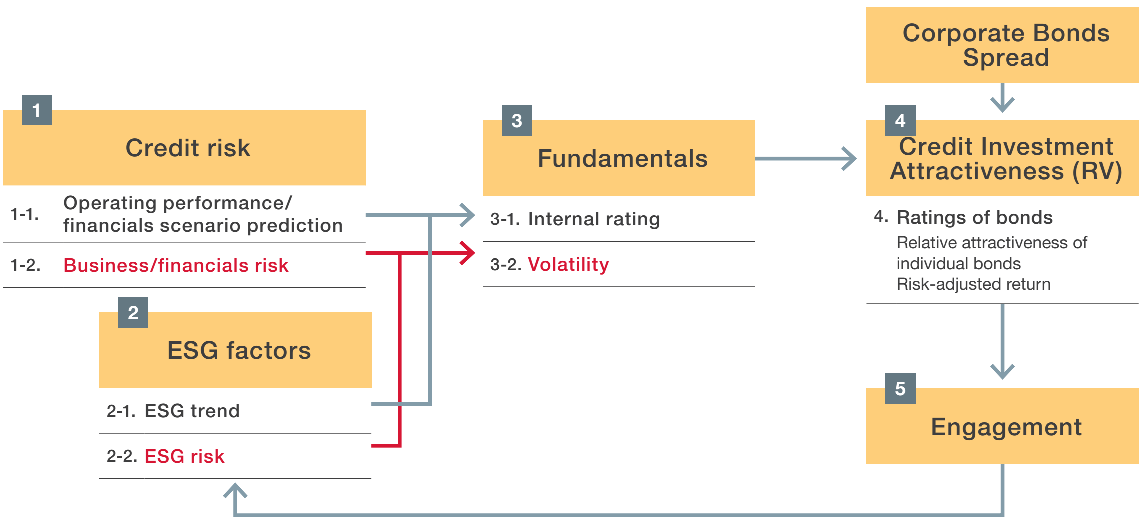
The most distinguishing feature of the ESG integration process in Japanese credit investment is that ESG is clearly integrated into the fundamentals assessments for individual companies provided by credit analysts. Incorporating ESG into fundamentals assessments not only allows ESG factors to be concretely 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.

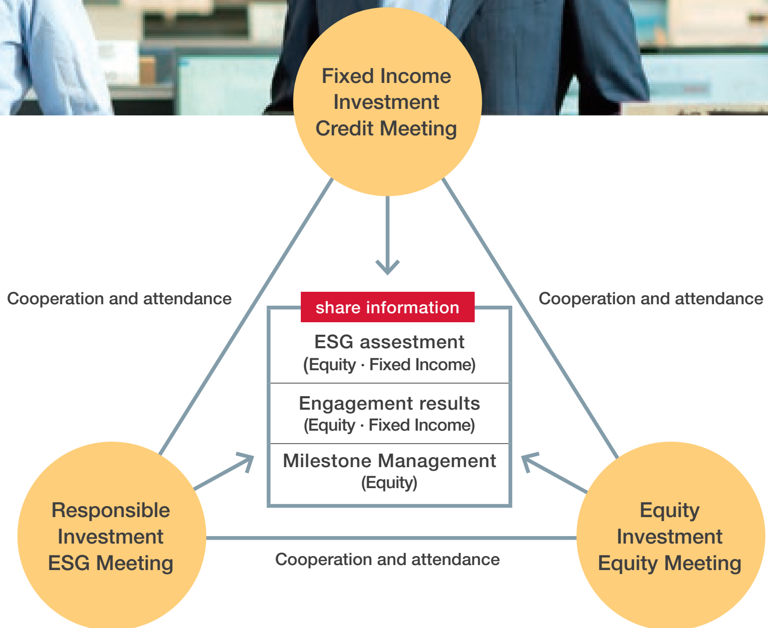
Specifically, credit analysts' evaluations of individual companies' efforts to tackle ESG issues (qualitative evaluations) are added to the ESG scores calculated using our proprietary fixed income ESG evaluation model (quantitative evaluations), and ESG ratings are then assigned to all of the bonds we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

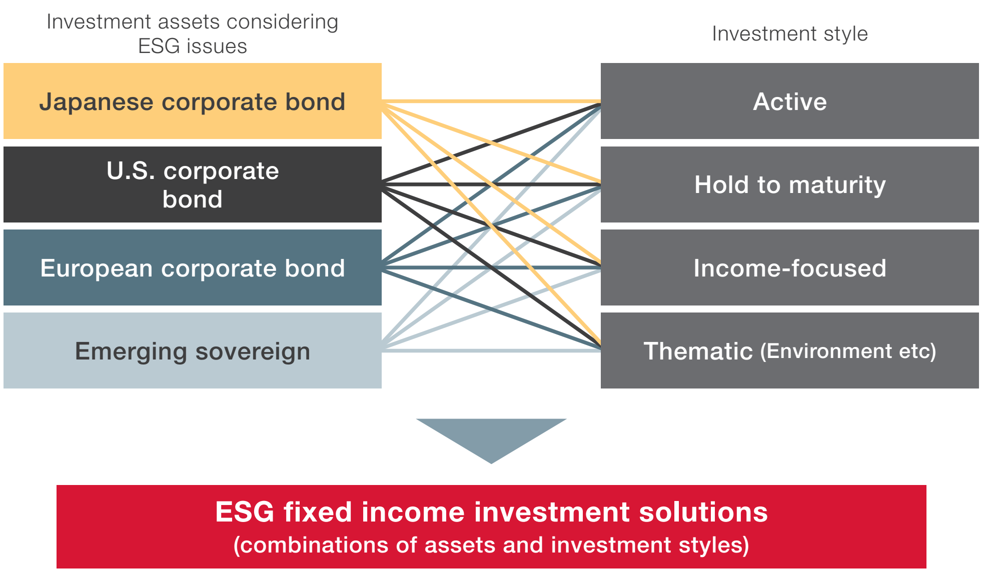
Senior Portfolio Manager
Shuhei Fujiki

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