

# 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 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.



## 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 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)

**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.

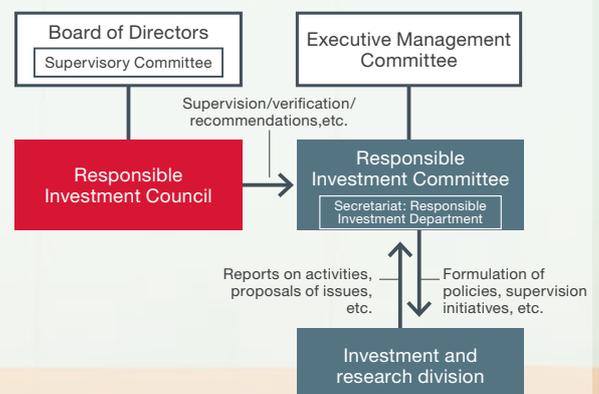
#### Member composition

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<sup>\*3</sup> 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			
<b>Target</b>	The following people responded according to the questions. Responsible Investment Committee* <sup>1</sup> members – 6 Responsible Investment Committee Secretariat members – 6 Responsible Investment Council* <sup>2</sup> members – 4	<b>Questionnaire</b>	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
<b>Questionnaire timing</b>	December 2020		
<b>Period covered</b>	January-December 2020		
<b>Response format</b>	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\*<sup>4</sup> to a monitoring board\*<sup>4</sup>.
- 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\*<sup>5</sup> 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+	—
SSA	A+	B
Bond investment		
Corporate (Non-Financial)	A+	B
Corporate (Financial)	A+	B

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