# Responsible Investment
## Report 2021

# We create economic and social value through the asset management business

## This is the philosophy of Nomura Asset Management

## ABOUT NOMURA ASSET MANAGEMENT



## ENGAGEMENT



**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.

onsible
estment
Report 2021

# PROXY VOTING



# ESG INTEGRATION

# Nomura Asset

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.

## NAM's Strengths by the Numbers

(As of December 2021)

**Established**

**1959**

**Assets under management (Asset Management Division)**

**¥68.5 trillion**

**Employees in head office/ branch offices**

**1,406 employees**

**World's 6th largest ETF AUM Domestic market share [*1]**

**43.5%**

**Market share in the domestic publicly-offered investment trust market [*2]**

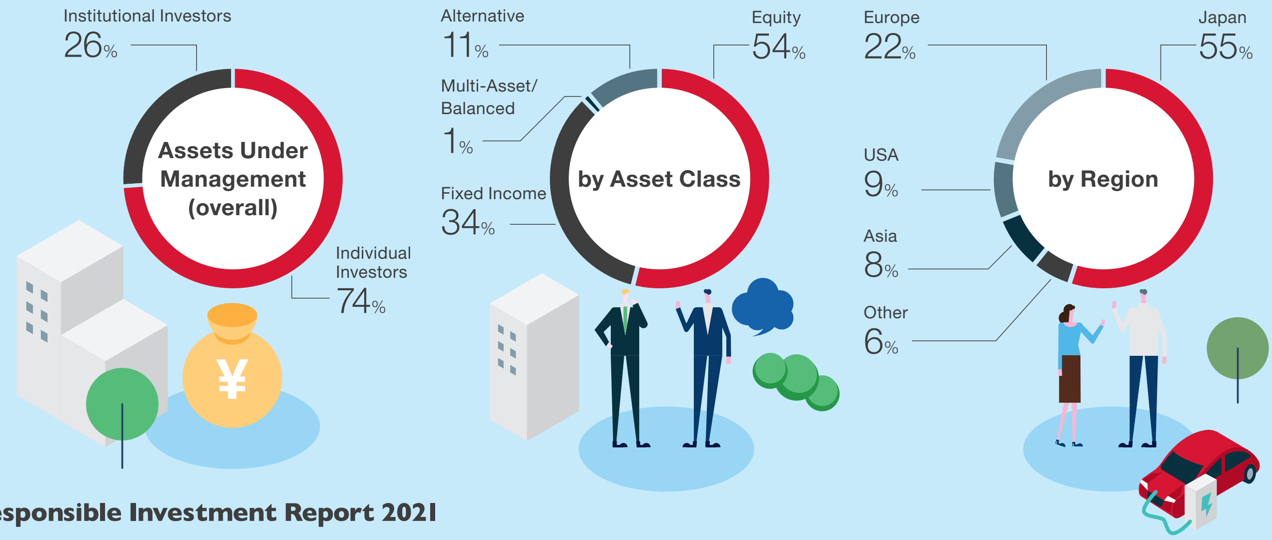
**26.8% No. 1**

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

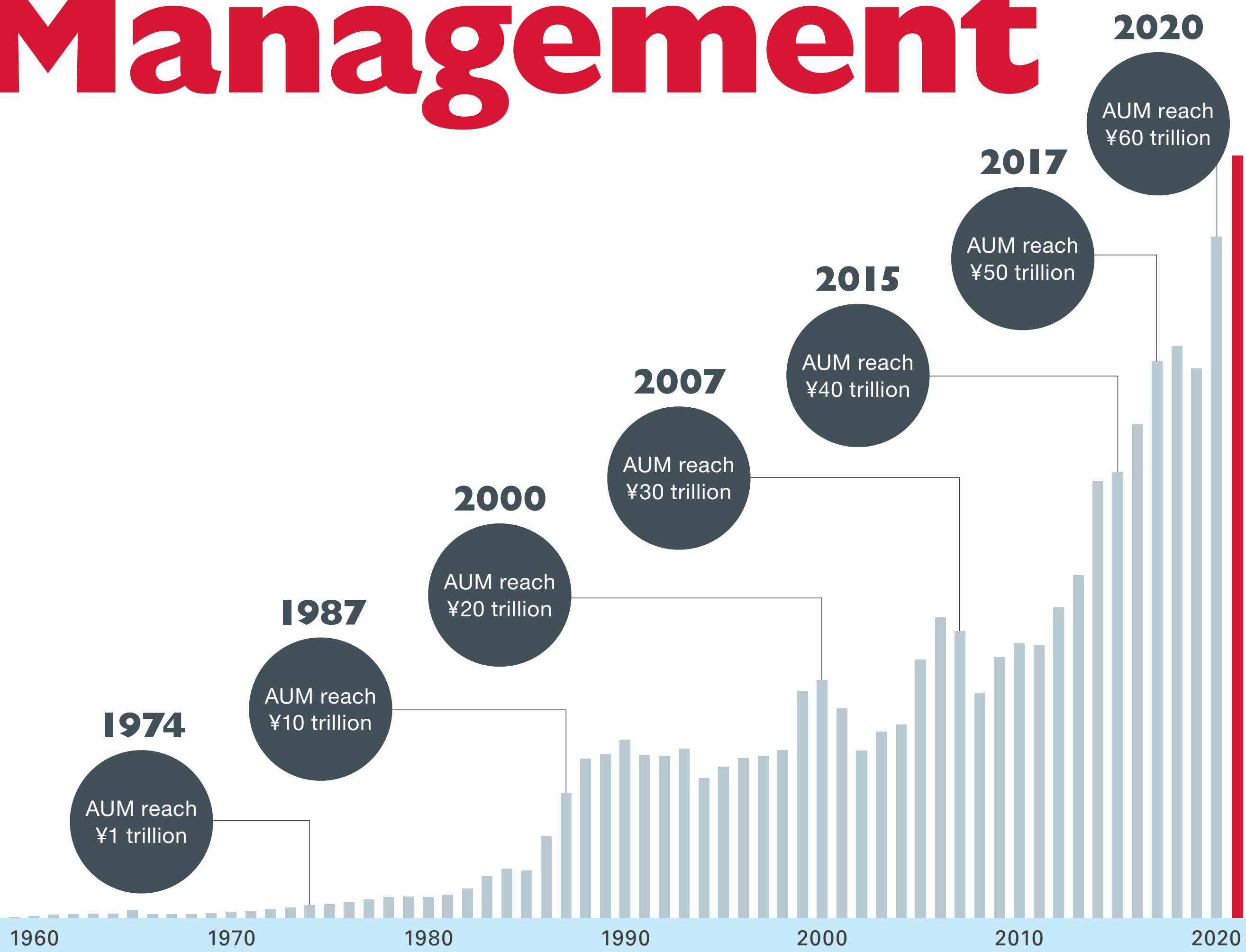
**13.1 [*3]**

*1 Prepared by Nomura Asset Management based on NRI Fundmark/DL data.
*2 Prepared by Nomura Asset Management based on The Investment Trusts association, Japan data.
*3 Calculated by an investment and research manager at Nomura Asset Management.

## Ratio of AUM by Asset Class



# Management




## 1960~1970s

**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)

**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

## 1990s

**May 1992** Investment trust
Launched MMF

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

**1996**
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

## 2020s

**October 2020** Investment Trust
Created a donation scheme to support regional revitalization through ESG funds in collaboration with regional financial institutions

**August 2021** Investment Trust
Launched an investment trust that invests in Japanese companies contributing to decarbonization

Opening/establishment of overseas office
NAM product

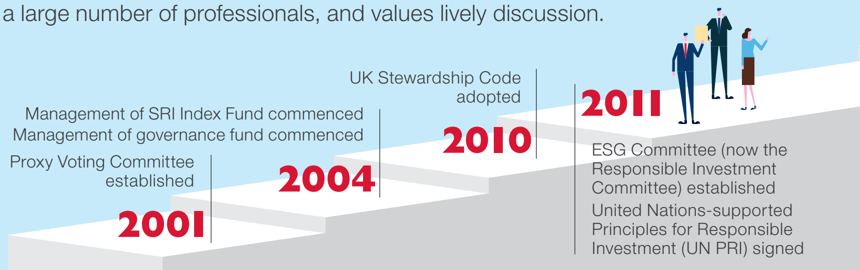
Nomura Asset Management

# 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.




2

## Systematic and Continuous ESG-related Initiatives

The second strength is our systematic and continuous effort for ESG-related issues anticipating the needs and changes of the times. Examples of our efforts include the establishment of the Responsible Investment Committee as the highest decision-making body for responsible investment and the Responsible Investment Council which supervises the Committee, the establishment of policies including the ESG Statement, engagement and proxy voting in order to realize desirable management, as well as providing information to stakeholders through disclosure materials such as the Responsible Investment Report and the TCFD Report.

3

## Global Approach and Diversity

The third strength is our global and highly-diverse investment and research framework. Based on our global platform for responsible investment, we have built an ESG investment and research framework made up of portfolio managers, corporate analysts and country specialists who manage ESG products in our overseas offices. A large number of portfolio managers, corporate analysts, credit 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

## Inclusive Discussions based on a Strong Organizational Platform

The fourth strength is our emphasis on having "exhaustive discussions" that incorporate diverse opinions under a strong organizational platform. The Responsible Investment Council was established as a body to oversee discussions by the Responsible Investment Committee in real time. It manages conflicts of interest with highly-independent outside directors and outside experts accounting for a majority of its members. In addition, the Responsible Investment Committee comprises members possessing abundant investment and research experience. The Committee held a total of 15 meetings in 2021. During discussions by the Committee about agenda proposals and ESG themes, matters can often be complicated. Members of the Responsible Investment Council also sit in on Committee meetings and actively participate in discussions without limiting themselves to only monitoring conflicts of interest.

## History of Responsible Investment

**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

**2021**
- Established NAM's materiality
- Joined Net Zero Asset Managers initiative (NZAM)
- Revised ESG Statement

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

## Organizational Structure for Responsible Investment

Responsible Investment Council → (Oversight, verification, advice, etc.) → Responsible Investment Committee

Responsible Investment Committee → (Forming policies, oversight of initiatives, etc.) → Investment and research division

Investment and research division → (Reports on activities, define issues, etc.) → Responsible Investment Committee

Responsible Investment Council

Responsible Investment Committee
Secretariat: Responsible Investment Department

Investment and research division

## Main activities

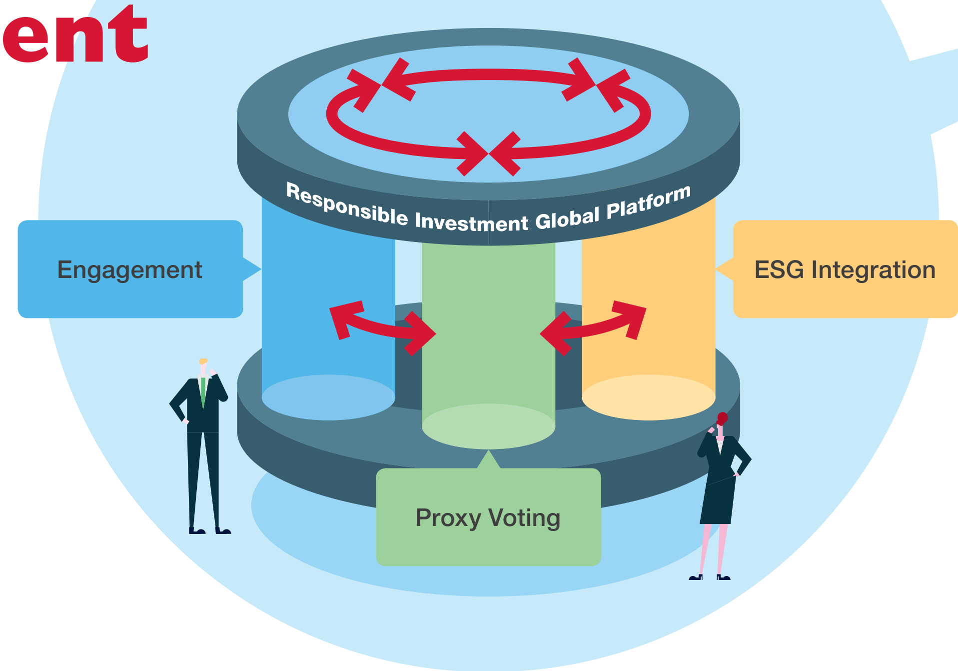
- **Dialogue with portfolio companies** (engagement)
- **Proxy Voting**
- **Integration into investment decisions** (ESG integration)
- **Collaborative/ public activities**


## Responsible Investment Committee Meetings January – December 2020

**Responsible Investment Committee**
**15** times
Regular 4times Ad hoc 11times

**Responsible Investment Council**
**4** times
Regular 4times

# Nomura Asset Management Global Platform and Coordination on Responsible Investment




## 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 Pages 15-18).

### 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 63).

### 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 Pages 41). 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. 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 55-60).

### 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 25-31), 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 72-74,83-84,88).


Europe
USA
Japan
Asia
Responsible Investment Global Platform
Engagement
Proxy Voting
ESG Integration
ESG Statement
Basic policy for engagement
Cooperation with initiatives
Proxy voting guidelines
Unified exercise of voting rights
Integration
Sharing ESG scores
ESG Analytical Tools

# Striving to be an asset management firm that makes the world a better place.

In 2021, people were forced to live within many constraints due to outbreaks of new COVID-19 variants. However, despite this environment, the widespread use of teleworking and progress in digital transformation (DX) have led to a new way of living in the midst of the COVID-19 pandemic.

While some people are enjoying prosperous lifestyles brought about by technological innovations centered on digitalization as well as advances in medical technology, other people are suffering from poverty and the deterioration of living conditions due to climate change. Indeed, there are a growing number of issues that must be resolved on a global scale. Perhaps this time living during the COVID-19 pandemic has been an opportunity to refocus our attention on the problems our world faces. There are many societal issues requiring solutions, namely those represented by ESG (Environment, Society, Governance) and the United Nations Sustainable Development Goals (SDGs).

As a responsible investor, through the asset management business we proactively contribute to achieving the goal of solving social issues raised in the SDGs, such as the global issue of climate change, as well as health and human rights issues that are closely intertwined with our everyday lives. Nomura Asset Management has identified key issues (materiality) and we have established four goals aimed at solving social issues. These four goals include strengthening the investment chain, realizing a healthy global environment, corporate value improvement through governance, and the realization of a society in which human rights are respected. The core idea underlying these four goals is the investment chain (virtuous cycle of investment). Through the investment chain, we aim to utilize our role as an asset management firm to realize a sustainable and prosperous society by linking investors and companies through investment.  Companies that generate economic benefits are well-positioned to contribute to the realization of a sustainable and prosperous society. This is the core of our investment chain philosophy.

Engagement, which is dialogue between an asset management company and its portfolio companies, is essential in order to realize this kind of society. By deepening this engagement, we will support companies' growth and improvement in corporate value through the implementation of "desirable management," while assisting company efforts with respect to ESG and the SDGs. In the fall of 2021 we established the Engagement Department to promote this effort. The Engagement Department is a hub that centrally manages engagement, proxy voting, and investment, thereby bolstering effective dialogue with companies, which will ultimately contribute to improved investment performance. Through these efforts, we realize both social value and economic value as a responsible investor. In generating social value, it is important that we clarify how we will advance ESG initiatives.

We revised our ESG Statement at the end of 2021. We identified climate change, natural capital, human rights, diversity and inclusion, and value creation to realize well-being within society as high priority ESG issues, and have committed to enhancing our efforts in these areas. To tackle climate change, we are advancing efforts aimed at realizing a decarbonized society. In August 2021, we joined The Net Zero Asset Managers initiative (NZAM), which has the goal of net zero greenhouse gas emissions by 2050. Specifically, through engagement we will urge companies to switch from fossil fuels to renewable energy. In addition, we will seek to manage and reduce greenhouse gas emissions within corporate supply chains, work to firmly entrench decarbonization within corporate activities, while at the same time monitoring greenhouse gas emissions. Based on these efforts, we believe that we can carry out actionable engagement with the aim of achieving net zero greenhouse gas emissions. In fact, we are providing products reflecting this approach and incorporating this philosophy into our investment process.

With respect to diversity and inclusion, it goes without saying that Nomura Asset Management will create and provide added value through our diverse human resources and work styles, and I hope that through engagement our portfolio companies will also understand and promote diversity and inclusion. In a


prosperous society, diversity and inclusion should be present in both principle and practice. We believe that building such a society requires companies to generate both economic and social value by taking action on diversity and inclusion.

Furthermore, we are advancing the Kokorozashi Project targeting regional revitalization in Japan, which is a part of "strengthening the investment chain" in our materiality. In this project, we have financial institutions in each region of Japan selling a target ESG fund to customers. Depending on the amount of the fund sold, we donate a portion of the trust fee we receive to SDG-related projects carried out by local government-affiliated organizations. We are doing this by utilizing the corporate version of the hometown tax payment system.

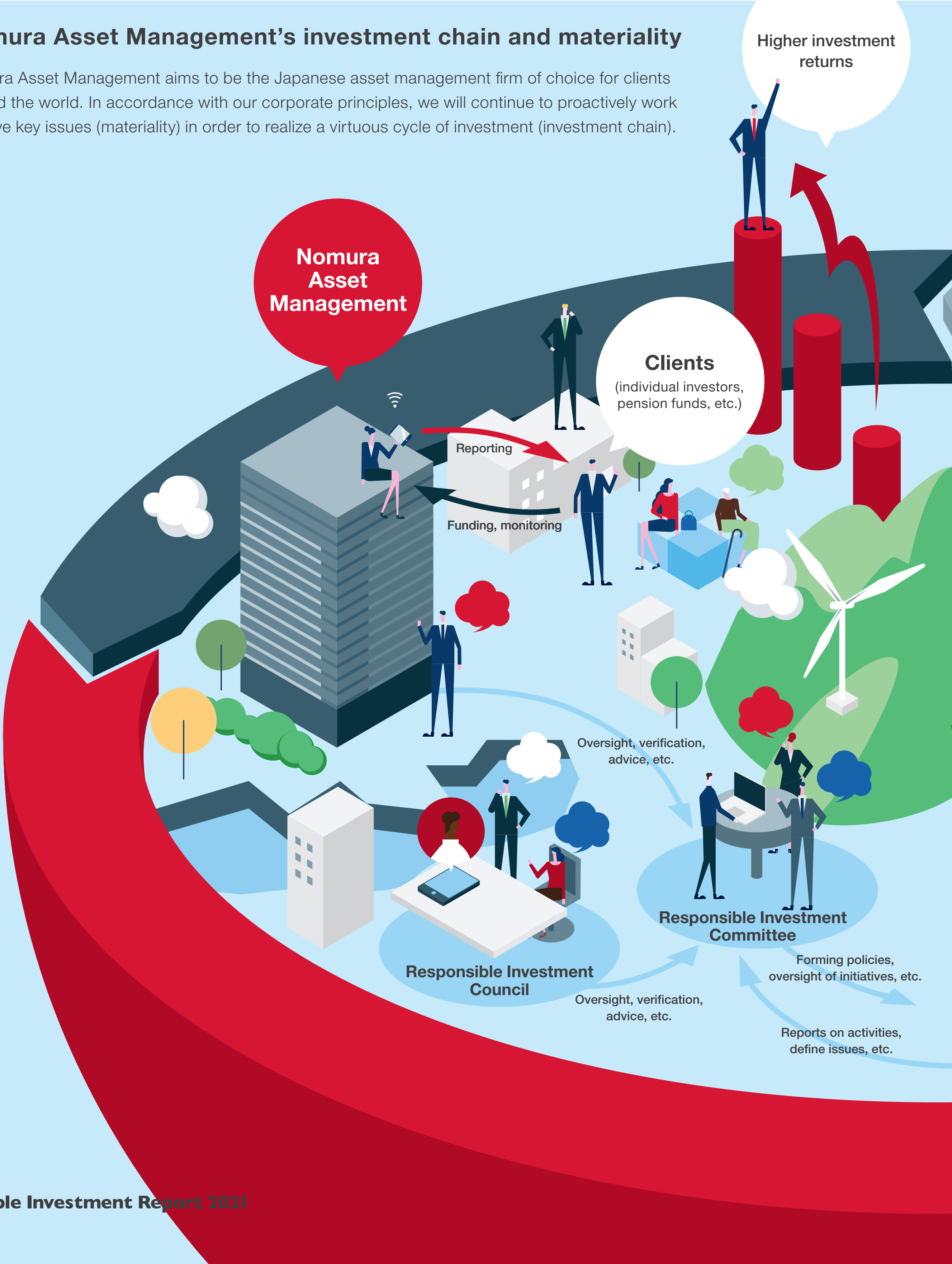
Our aim is to work with regional financial institutions to grow momentum for regional revitalization by solving social issues through asset management. The essence of the asset management business is providing products that satisfy customers' needs and delivering the highest level of performance and service. Through this business, I truly believe that it is our duty as a responsible investor to create not only economic value but also social value. As an asset management firm striving to make the world a better place , Nomura Asset Management will continue working to realize a sustainable and prosperous society through the virtuous cycle of investment.

* Diversity & Inclusion: A state in which people with diverse values can be accepted regardless of gender, nationality, race, age, etc.
* Well-being: A state in which all people seek happiness and lead a healthy life.

# INVESTMENT MATERIALITY

## Nomura Asset Management's investment chain and 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).



# CHAIN &

## FOUR GOALS

1. Strengthening the Investment Chain
2. Realizing a Healthy Global Environment
3. Realization of a Society in which Human Rights are Respected
4. Corporate Value Improvement through Governance

Please refer to MATERIALITY for details P.13

# MATERIALITY

Left | Deputy Head of Corporate Unit
Senior Managing Director
**Riyo Azechi**

Right | Head of Sustainability Development Dept.
**Mizue Oshima**

## Nomura Asset Management's sustainability initiatives

On April 1, 2022, Nomura Asset Management established the Sustainability Development Department with the aim of further promoting business operations with an emphasis on sustainability as an asset manager as well as to strengthen communication both internally and externally. We officially announced our materiality in our Responsible Investment Report 2020, and we are advancing internal discussions aimed at solving our materiality and are working towards setting and announcing KPI. Going forward, we will continue to strive to realize a sustainable and prosperous society by helping our clients build assets as a responsible institutional investor and accelerating our efforts to resolve our materiality as a company.

| | Important issue |
|---|---|
| 1 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 |
| 2 Realizing a Healthy Global Environment | Achieving a decarbonized society |
| | Preservation of Natural Capital |
| 3 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 |
| 4 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 |

As an institutional investor

As an operating company

| Goal | Key initiatives |
|---|---|
| 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<br>■ Development and provision of products and services for customers at various life stages |
| 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<br>■ Proactive promotion of ESG engagement based on ESG perspectives and important topics |
| 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<br>■ Development of investment methods utilizing AI, alternative data, and other means |
| 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 |
| 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<br>■ Holding ESG forums with regional financial institutions to discuss regional revitalization and consider ESG |
| 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<br>■ 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 |
| 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 |
| 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<br>■ Establishment and management of Japan Empowering Women Select Index ETF |
| | ■ Introduction of job-grade personnel system<br>■ Development and appointment of diverse professional human resources<br>■ Support for balancing work and raising children |
| 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<br>■ Realization of decent work through engagement with portfolio companies |
| | ■ Correction of long working hours<br>■ Strengthen communication with management to promote flexible work styles and increase employee engagement (willingness to contribute to the company) |
| 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<br>■ Joint engagement with initiatives aiming to improve access to healthcare |
| | ■ Education targeting improvements in health literacy<br>■ Understanding employees' health status and conduct mental health checks<br>■ Implementation of measures to prevent communicable diseases |
| 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<br>■ Disciplined proxy voting in accordance with the proxy voting guidelines |
| | ■ Adoption of a monitoring model as a Company with Audit & Supervisory Committee<br>■ Appointments of independent outside directors possessing expertise in specialized fields<br>■ Creation of various committees |
| 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<br>■ Monitoring of market risk, credit risk, operational risk, etc., by various committees<br>■ Enhancement of the conduct risk management system<br>■ Construction of a robust crisis management system |
| | ■ Creation of the Fund Management Council and the Responsible Investment Council, and appointment of independent outside experts as members of both councils<br>■ Ensure independence of decision-making and personnel in investing and research |

# ESG STATEMENT

In December 2021, we revised our ESG Statement, recognizing that nearly two years have passed since the ESG Statement was formulated and that the global economy and the circumstances surrounding ESG are changing faster than expected, requiring us to deepen its content. However, there has been no change to the objective of the ESG Statement, which is to communicate to stakeholders the course of action of our ESG-related activities and how we will address environmental and social risks, and also 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. We feel that an important factor for sustainable corporate value improvement is for a company to appropriately manage risks related to ESG issues, view solutions to ESG issues as new business opportunities, and appropriately reflect them in management strategies. We also think that doing this is indispensable for increasing investment returns. As a responsible investor, we encourage our portfolio companies to practice what we view as desirable management, and we ourselves will also operate with a focus on ESG.

## High Priority ESG issues

While the importance of each ESG issue differs depending on the specific characteristics of the business in question, we identify the following as common ESG issues that are particularly important across many businesses.

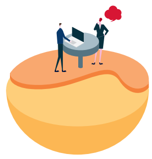

Climate Change


Natural Capital


Human Rights


Diversity and Inclusion

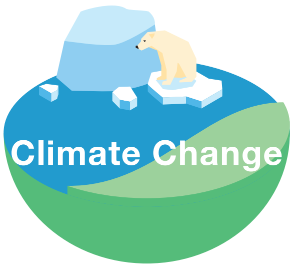

Value Creation to Realize Well-Being Within Society


Corporate governance

# High Priority ESG issues

*See page 94 for other initiatives in which Nomura Asset Management participates.

## Environment




The Paris Agreement, which was concluded in 2015, stipulates that efforts shall be made to limit the increase in the global average temperature to 1.5˚C since before the Industrial Revolution based on scientific evidence. To achieve this goal, it is necessary to reach net zero global greenhouse gas emissions by 2050. We believe that companies must address climate change issues from the perspective of both risk management and the pursuit of business opportunities in order to achieve sustainable improvement of corporate value.

### CDP

**Signature Timing:**June 2015 Ⓝ **Signature Timing:**November 2021

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.

### TCFD (Farm Animal Investment Risk and Return)

**Signature Timing:**March 2019

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.

### Climate Action 100+

**Signature Timing:**December 2019

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.

### NZAM (Net Zero Asset Managers initiative)

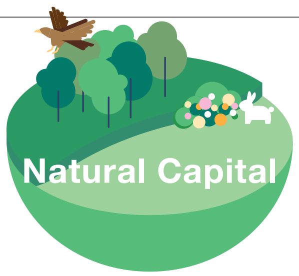
**Signature Timing:**August 2021

A global initiative established in December 2020 comprising asset managers which aim for net-zero emissions of greenhouse gases (GHGs) from portfolio companies by 2050, in line with the goals of the Paris Agreement.

### PCAF (Partnership for Carbon Accounting Financials)

**Signature Timing:**August 2021

An international initiative established in the Netherlands in 2015 to create a standard method for measuring and disclosing greenhouse gas emissions. The PCAF Japan Coalition was established in November 2021, and Nomura Asset Management has been a member since its establishment.




Companies benefit from biodiversity through the utilization of forests, water sources, and other natural capital in their business activities. We believe that companies must exercise proper risk management in relation to activities that could negatively impact natural capital and biodiversity, as well as pursue business opportunities that solve social issues, such as the preservation of natural capital and biodiversity.

### FAIRR (Farm Animal Investment Risk and Return)

**Signature Timing:**June 2019

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.

Ⓝ Signed as Nomura Group

# ESG Social


Corporate business activities involve a large number of people including employees and local residents, which is even broader when the supply chain is considered. Companies are expected to exercise proper risk management to ensure that their activities do not infringe upon human rights. We believe that companies must exercise human rights due diligence and other forms of proper human rights risk management in order to achieve sustainable improvement of corporate value.

**UNGC** (The United Nations Global Compact) **Signature Timing:**June 2015

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.

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We believe that companies must build a workforce made up of people with diverse values without regard to factors such as gender, nationality, race, or age to create a corporate culture that embraces diversity and inclusion. Furthermore, companies must ensure that their employees are able to engage in rewarding work at their respective workplaces to contribute to business activities at their full potential, with no risk of discrimination in relation to their work or advancement.

**30% Club Japan** (Investor Group) **Signature Timing:**December 2019

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.

**Women in ETFs** **Signature Timing:**April 2022

"Women in ETFs" advocates for the goal of bringing together people from the ETF industry around the world to actively promote equality, diversity and inclusiveness. Its mission is to develop and sponsor human resources, recognize women's achievements in the ETF industry, and advance and grow the ETF community.

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Well-being refers to a state in which all people can seek happiness and live healthy lives. Well-being in society is realized by solving social issues in a variety of fields. Specific examples include health and safety, education and intelligence, and regional revitalization. In our view, the development and provision of products and services that contribute to addressing these social issues represent important business opportunities for companies, and could lead to sustainable improvement of corporate value.

**Access to Medicine Index**(Access to Medicine Foundation) **Signature Timing:**July 2019

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.

**Access to Nutrition Initiative** **Signature Timing:**May 2021

Founded in 2013 by Dutch businesswoman Inge Kauer. Using proprietary analytical tools, the Initiative evaluates the level of response by the food and beverage industry to the two global nutritional issues of overnutrition and undernutrition, and urges the food and beverage industry to improve the dietary habits of adults and children around the world.

# ESGovernance


Corporate governance is a structure for transparent, fair, timely and decisive decision-making by companies. From this perspective, the board of directors is responsible for the supervision of management, while nominations, compensation, and audits are the means to ensure the board fulfills its role. We believe that companies must strengthen corporate governance so that their management can properly manage various risks including the ESG issues mentioned above, while pursuing business opportunities to achieve sustainable improvement of corporate value.

**ICGN** (The International Corporate Governance Network) **Signature Timing:**December 2018

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

**ACGA** (The Asian Corporate Governance Association) **Signature Timing:**December 2018

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.

**JSI** (Japan Stewardship Initiative) **Signature Timing:**November 2019

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.

## Our Activities

### Stewardship Activities

Through our activities, including proxy voting and constructive dialogue (engagement), we encourage the management of portfolio companies to manage risks and pursue business opportunities that are associated with ESG issues and also to disclose information in accordance with relevant global initiatives.

### Business Opportunities

We place particular focus on the realization of well-being within society when viewing business opportunities associated with ESG issues. We encourage portfolio companies to properly incorporate the realization of well-being within society into their management strategies and to quantify outcomes and disclose them along with the relevant targets.

### Investment Decisions

We assess our portfolio companies' initiatives to address ESG issues based on our own standards from the perspectives of both risks and opportunities and incorporate the results in our investment decisions. If we assess a company's initiatives as insufficient, or if we determine that the issues cannot be solved through engagement, it may result in divestment or exclusion from our investment universe.

### Monitoring

We conduct monitoring based on global initiatives, including the Task Force on Climate-related Financial Disclosures (TCFD), in order to ascertain the status of ESG issues in our investment portfolio.

### Our Business Activities

We recognize that business activities that take into account social value creation are important elements for realizing a sustainable and prosperous society. We strive to contribute to asset formation by offering investment products and services that help to address ESG issues and through efforts to expand the investment base through measures such as financial education.

### Initiatives

We participate in international initiatives and actively embrace accepted standards and norms. Through these initiatives, we conduct engagement jointly with other institutional investors and share best practices by actively cooperating with a wide range of stakeholders.

## Governance and Disclosure to Promote ESG

At Nomura Asset Management, important decisions on management execution including this Statement are made by the Executive Management Committee, which consists of senior executives, to whom the proper authority has been delegated by the board of directors. We have established the Investment Policy Committee and the Responsible Investment Committee as the highest decision-making bodies in investment decisions and responsible investment to address ESG issues within a proactive framework. We have also established the Conflict of Interest Management Policy as well as a Responsible Investment Council and a Fund Business Operation Council, which have oversight for our responsible investment activities and products to ensure their appropriateness and validity.

# BASIC POLICY FOR RESPONSIBLE INVESTMENT

On December 30, 2021, Nomura Asset Management revised the “Basic Policy on Responsible Investment in Management” at the Responsible Investment Committee. The policy defines the concept and specific approaches to responsible investment, and includes details regarding the “appropriate management practices” expected of investee companies and the engagement and voting rights to achieve this.

http://www.nomura-am.co.jp/special/esg/responsibility_investment/basicpolicy.html

## BASIC POLICY FOR RESPONSIBLE INVESTMENT
## Concrete Actions

1 | Understanding Investee Companies

2 | Approach to Investee Companies

3 | Reflection in investment decisions

4 | Control Conflicts of Interests

5 | Collaboration and Outside Activities

6 | Information Disclosure and Accountability

7 | Organization and Actions

In order for investee companies to enhance corporate value and achieve sustainable growth, stipulate the

**“Ideal Form of Business Management of Investee Companies” ***

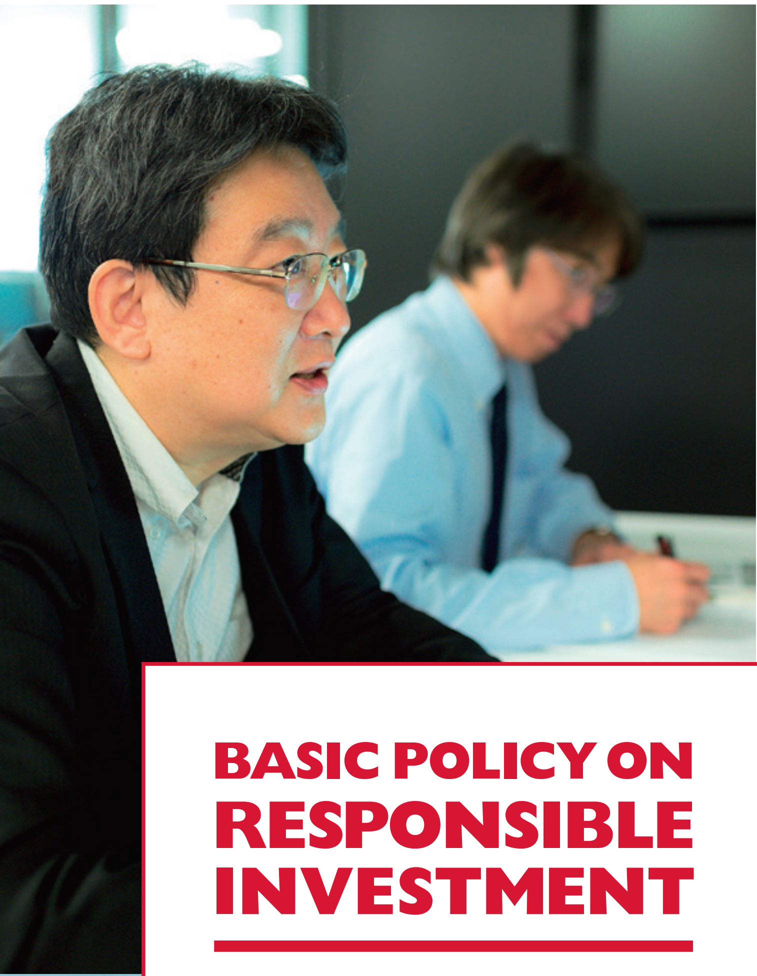
and encourage investee companies to realize it.

Stipulate **“Basic Principles of Engagement”** and **“Global Proxy Voting Policy”** and give encouragement to investee companies from a fair and consistent posture.

Reflect the status of engagement in proxy voting.

Basic Principles of Engagement/ Global Proxy Voting Policy
https://global.nomura-am.co.jp/responsibility-investment/pdf/basic_policy.pdf

*Ideal Form of Business Management of Investee Companies P.21



# BASIC POLICY ON RESPONSIBLE INVESTMENT

## Ideal Form of Business Management

### of Investee Companies

## 1 Proper Efforts on Environmental and Social Issues

We believe that making proper efforts on global environmental and social issues from the perspectives of risk management and the pursuit of business opportunities will lead to increase in corporate value and sustainable growth. We also see such efforts as a prerequisite for a company to be accepted as a member of the society. Examples of issues that we consider are particularly important and efforts on them that investee companies need to make are as follows:

**1 Identification of key issues** (materiality):

- Identification of key issues by the management,
- responses to and disclosure of risks that are identified as key issues (e.g., data security, product liability, etc., as well as those listed in 2 through 6),
- disclosure of business opportunities that are identified as key issues;

**2 Climate change:**

- Verification of business portfolio and promotion of technological innovation to respond to the climate change issue,
- information disclosure based on the final report published by the Task Force on Climate-related Financial Disclosures (TCFD),
- which is consistent with the Paris Agreement, setting of a net zero target for medium- to long-term greenhouse gas (GHG) emissions
- approval of or commitment to science based targets (SBTs)
- measurement of GHG emissions and absorption including Scope 3 under the international standards for the accounting and reporting of GHG emissions
- and introduction of internal carbon pricing;

**3 Natural capital:**

- Development of measures and goals for prevention of deforestation
- marine pollution, or air pollution, sustainable use of water resources, timber,
- or marine products, reduction of waste, and promotion of recycling;

**4 Human rights:**

- Development of a policy on human rights at investee companies that is consistent with international norms,
- human rights due diligence or audits including supply chain
- orrective action and relief mechanism
- and disclosure of due diligence results;

**5 Diversity and inclusion:**

- Setting a medium- to long-term target for the percentage of women among board members,
- senior executives, or managers, a personnel system to prevent employees from leaving employment due to a life event
- non-discriminatory development of human resources
- and creation of a corporate culture that embraces diversity and inclusion;

**6 Value creation to realize a well-being society:**

- A management plan that incorporates the perspective of the resolution of social issues (including research and development and market strategies),
- measurement and disclosure of progress toward the resolution of social issues; and

**7 Cooperation with stakeholders, such as participation in initiatives that are related to the issues listed above.**

## 2 Value Creation through Capital Efficiency

NAM believes that in order for investee companies to enhance corporate value and achieve sustainable growth, it is necessary for investees to create value that exceeds the cost of capital over the medium to long term by utilizing capital efficiently under proper risk management and constructing a business portfolio that has a high growth potential and is efficient. To this end, we consider that the following efforts are particularly important:

1. To formulate a growth strategy and an investment plan to create value that exceeds the cost of capital and to conduct proper progress management;
2. To verify the business portfolio against the growth strategy and replace businesses in the portfolio as necessary;
3. To sell assets that do not contribute to the creation of value that exceeds the cost of capital and, in particular, to reduce cross-shareholdings;
4. To implement group governance to enable the optimal allocation of management resources, etc.; If there is a listed company within the group, to regularly verify the reasonableness of maintaining a listed company within the group; to properly manage the conflict of interest with general shareholders; and to support the listed company's efforts to strengthen corporate governance;
5. To properly manage the risks associated with businesses, etc.;
6. To implement a capital structure and shareholder returns that reflect 1 through 5 above;
7. To properly disclose information about 1 through 6 above.

## 3 Adequate Performance of Corporate Governance Function

We believe that it is necessary for a company to have sufficiently functioning corporate governance as a prerequisite for value creation through the efficient utilization of capital and proper efforts on environmental and social issues. We postulate the appropriate corporate governance to realize this as follows:

1. The board consists of an adequate number of qualified and diverse members who have the ability and experience for supervising the execution of management on behalf of shareholders and functions effectively. If there is a concern about the conflict of interest with minority shareholders due to, for example, the existence of a controlling shareholder, the level of supervision, including the management of the conflict of interest with the controlling shareholder, is particularly high.
2. The audit committee, audit and supervisory committee or the board of auditors consists of qualified members who are capable of auditing directors' operations on behalf of shareholders and functions effectively.
3. Committees relating to nomination and compensation have been established, each of which consists of qualified and independent members and adequately fulfills the necessary roles and responsibilities in 4 and 5 below.
4. Standards and processes to determine whether the replacement of senior executives is required have been established, and a succession plan in case of such replacement has been formulated.
5. Compensation of senior executives is appropriate as their incentive and commitment for value creation through the efficient utilization of capital and proper efforts on environmental and social issues.
6. Executive compensation is appropriate in terms of management incentive and commitment aimed at enhancing corporate value.
7. Corporate governance systems are in place to ensure sufficient internal control in terms of compliance and internal auditing.
8. The company has not introduced anti-takeover measures. In our view, anti-takeover measures limit the rights of shareholders to buy and sell shares freely and unnecessary for listed companies unless there is a risk of significant impairment of corporate value and common interest of shareholders.

## 4 Adequate information disclosure and a dialogue with investors

NAM believes that companies need to uphold their accountability through timely and proper public disclosure of the matters stated in 1 through 3. above in order for us to precisely grasp the state of investee companies and that they also need to engage in dialogues actively with investors to properly reflect investors' opinions in their business management.

If the companies are found to have engaged in any activity that is materially harmful to corporate value, we will request sufficient disclosure and explanations on investigations of cause, clarification of where responsibility lies, and the formulation and dissemination of effective recurrence countermeasures.


## 2021: A Year of Real Progress toward Nomura Asset Management's 2050 Net Zero Goal

During 2021, Nomura Asset Management undertook two major initiatives related to climate-related risks and opportunities, and we began making steady progress towards achieving net-zero greenhouse gas (GHG) emissions by 2050 for both our own company's operations and our investments. One set of actions we took was joining world-leading initiatives such as the Net Zero Asset Managers initiative (NZAM) and the Partnership for Carbon Accounting Financials (PCAF), which are essential to achieving net-zero by 2050. The other effort we undertook was setting our own 2050 Net Zero Goal and 2030 Interim Target for GHG emissions.

## Joining Initiatives Critical to Achieving Net Zero by 2050

In August 2021, we joined NZAM, a global initiative led by asset managers aiming to achieve net-zero GHG emissions from their investment portfolios by 2050, in line with the goals of the Paris Agreement. We support the Paris Agreement's shared long-term goal of addressing climate change, and decided to join NZAM to demonstrate a commitment to achieving the Paris Agreement's goals. As a responsible institutional investor, we will comply with the commitments required of NZAM member institutions, including cooperation with clients (asset owners) as well as setting and reviewing interim targets, and we will work with NZAM with the aim of achieving net zero by 2050.

Also in August 2021, we joined PCAF, a global initiative by financial institutions to measure and disclose GHG emissions financed by their loans and investments. Under PCAF, financial institutions around the world are working together to develop methodologies for measuring and disclosing GHG emissions in their loan and investment portfolios. As a part of our ESG integration effort to integrate the analyses and assessments of our portfolio companies' climate-related risks and opportunities, in recent years we have been assessing the GHG emissions of our entire equities and corporate bond portfolios based on the Task Force on Climate-related Financial Disclosures (TCFD) Recommendations, and disclosing the details in our Responsible Investment Reports. In addition, we measure the GHG emissions of individual funds and refer to the data for various purposes, such as when making investment decisions. The assessment of financed emissions remains challenging, particularly for asset classes other than equities and corporate bonds. Going forward, we will collaborate with PCAF to overcome these challenges.

Furthermore, PCAF launched a PCAF Japan coalition in November 2021, and we joined this coalition as a founding member. With support from the PCAF global office, under the PCAF Japan coalition member institutions and the financial sector will share experiences, knowledge and challenges with one another, as well as advance cooperation, aiming to promote efforts to have a wider range of Japanese financial institutions measure and disclose GHG emissions in their loan and investment portfolios. We have identified the realization of a healthy global environment as a key issue (materiality). As such, we are working to support a decarbonized society through the investment chain by engaging in dialogue with the management at portfolio companies to promote efforts to tackle climate change. We believe that our decisions to join NZAM and PCAF are consistent with these efforts.

## Establishing the 2050 Net Zero Goal and 2030 Interim Target

As part of their commitment, signatories to NZAM are expected to set an interim target for the proportion of assets under management that, as of 2030, are managed in line with the attainment of net-zero GHG emissions by 2050. Given this expectation, in October 2021, we set a 2050 Net Zero Goal and 2030 Interim Target for GHG emissions from our investment portfolios. We support the initiatives aimed at achieving a decarbonized society, and aim to achieve net-zero GHG emissions from our investment portfolios by 2050. We have also set a 2030 interim target of 55% of our portfolio assets to be managed in alignment with the achievement of net-zero emissions by 2050. Despite having only joined NZAM in August 2021, in just the two months to October 2021, we announced our 2050 Net Zero Goal and the 2030 Interim Target for GHG emissions. These quick actions were based our sense of urgency to show our firm commitment as a responsible institutional investor to achieving net zero by 2050 ahead of Glasgow COP26 held from October 31, 2021.

We are engaged in a number of strategic initiatives to achieve net-zero GHG emissions by 2050, including measuring the level of GHG emissions as well as GHG absorption in our investment portfolio, strengthening stewardship activities and collaboration with stakeholders, and developing financial products. To this end, we have set our "2030 Interim Targets" for the equity and corporate bond investment portfolios that we currently measure and disclose the GHG emissions. In setting the ambitious target of 55% by 2030, we have employed an incremental approach to weighting individual companies in our portfolio in consideration of SBT commitments and approvals, scenario analyses, Institutional Shareholder Services' (ISS's) temperature scores, as well as policy goals of various countries. In order to achieve our 2030 Interim Target, we are also performing ongoing examinations of portfolio companies' management commitments to achieving net zero and their specific targets.

### Our Initiatives toward Achieving the 2050 Net Zero Goal and 2030 Interim Target

| Initiative | Details |
|---|---|
| **Measurement of GHG Emissions in Investment Portfolios** | In addition to Scope 1 and Scope 2 GHG emissions, we measure Scope 3 emissions to the extent possible, which are highly material in the context of portfolio companies. Estimates by ESG rating agencies are used in cases where a portfolio company does not disclose GHG emissions. Portfolio emission measurements are conducted in accordance with the standards published by the PCAF, which we joined in August 2021. |
| **Measurement of GHG Absorption in Investment Portfolios** | Measurements of GHG absorption in our investment portfolios include direct removal of emissions left over after reduction measures, such as through afforestation and Carbon dioxide Capture, Utilization and Storage (CCUS), as well as carbon offsetting, avoided emissions, REDD+*, and other measures. |
| **Financial Product Development** | We are developing financial products that contribute to the realization of a decarbonized society in accordance with the 2050 Net Zero Goal and 2030 Interim Target. |
| **Partnership with Asset Owners** | We share our 2050 Net Zero Goal, 2030 Interim Target, and results of portfolio climate risk/opportunity analyses with asset owners in order to coordinate efforts toward realizing net zero emissions by 2050 or sooner. |
| **Strengthening Stewardship Activities and Collaboration with Stakeholders** | We are enhancing our stewardship strategies including engagement and proxy voting that are consistent with our 2050 Net Zero Goal and 2030 Interim Target. Additionally, we are strengthening collaboration with stakeholders and offering government policy proposals in support of these efforts. |
| **Highly-Transparent Disclosure** | We are working to increase the transparency of our disclosure, including regular disclosure of portfolio climate-related risk/opportunities analyses and progress toward our 2050 Net Zero Goal and 2030 Interim Target within our Responsible Investment Report. |

* Climate change initiative aimed at reducing emissions and increasing absorption by addressing deforestation in developing countries.

## Disclosure Based on the TCFD Recommendations

### Governance

- We 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 established an appropriate governance. The data compiled by the Responsible Investment Department, which acts as the TCFD Secretariat, including carbon indicators, scenario analyses, ESG scores and other climate-related risks and opportunities, are ultimately reported to the Board of Directors via the Executive Management Committee. The Board of Directors is then able to appropriately monitor our climate-related risks and opportunities.
- The analytical data related to climate-related risks and opportunities compiled by the TCFD Secretariat are shared with portfolio managers and analysts. These data are then utilized in company analysis, 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, where they are used to evaluate a portfolio's climate-related risks and opportunities. For example, at the Responsible Investment Committee meeting in March, the analytical data from the portfolio at end of the previous year are reported, and in July the important themes for climate change-related engagement are decided. Additionally, the chair of the Responsible Investment Committee reports the evaluation results to the Executive Management Committee, which allows members of senior management to utilize these reported details to make management decisions.

### Strategy

- 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 recycling, as well as disaster prevention and mitigation. In addition, in line with our long-term strategy aiming to realize a decarbonized society, we are focusing on transition finance to support companies that are working to reduce GHG emissions. In principle, we do not divest from (and thereby lose the chance for engagement with) portfolio companies with high levels of GHG emissions. Instead, by continuing to hold on to such companies, we use engagement as a means to encourage these portfolio companies to take measures to combat climate change.
- We carefully analyze the impacts that climate-related risks and opportunities do and will have on our businesses, strategies, financial plans, and portfolios. For example, in addition to ISS's analysis method, we perform financial analysis and transition risk analysis using carbon pricing in our ESG scores.
- Please refer to Page 28 for information on the scenario analysis we performed for our four-asset integrated portfolios.

## Analysis of Carbon Metrics in Investment Portfolios

We analyze climate-related risks and opportunities for the four company-wide portfolios we manage: Japanese equities; global equities; Japanese bonds and global bonds. We perform analyses in accordance with assessment and disclosure methods including those set forth in The Global GHG Accounting and Reporting Standard for the Financial Industry published by the PCAF which we are a member of, as well as data and analysis methods from ISS. For equities benchmarks, we used TOPIX for Japanese equities and MSCI ACWI ex-Japan for global equities. For domestic bonds, we used NOMURA-BPI (overall) (only corporate bonds), while for global bonds we used the Bloomberg Barclays Global Aggregate Index (only corporate bonds). Bonds only included corporate bonds, and did not include government or other public bonds.

The analysis revealed that the total carbon emissions (Scope 1 and Scope 2) of our Japanese equities portfolio and Japanese bonds portfolio are less than the total carbon emissions of portfolios of the same

### Total Carbon Emissions

- Absolute GHG emissions associated with a portfolio
- Unit: $tCO_2e$($CO_2$ equivalent)
- GHG emissions from portfolio companies are Scope 1,2 and 3

$$\text{Total Carbon Emissions} = \sum_{n}^{i}\left(\frac{\text{current value of investment }_i}{\text{Portfolio companies' EVIC }_i} \times \text{issuer's Scope 1 and Scope 2 GHG emissions }_i\right)$$

### Carbon Footprint

- Total carbon emissions for a portfolio normalized by the market value of the portfolio
- Unit: $tCO_2e$/US$ million (investment amount)
- Portfolio companies' GHG emissions in total carbon emissions are Scope 1 and 2

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

### Carbon Intensity

- Volume of carbon emissions per million dollars of revenue (carbon efficiency of aportfolio)
- Unit: $tCO_2e$/US$ million (revenues)
- Portfolio companies' GHG emissions in total carbon emissions are Scope 1 and 2

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

### Weighted Average Carbon Intensity

- Portfolio's exposure to carbon-intensive companies and metric recommended byTCFD
- Unit: $tCO_2e$/US$ million (revenues)
- Portfolio companies' GHG emissions are Scope 1 and 2

$$\text{Weighted Average Carbon Intensity} = \sum_{n}^{i}\left(\frac{\text{current value ofinvestment }_i}{\text{market capitalization of portfolio}} \times \frac{\text{issuer's GHG emissions}}{\text{the revenues of portfolio companies }_i}\right)$$

## Risk Management

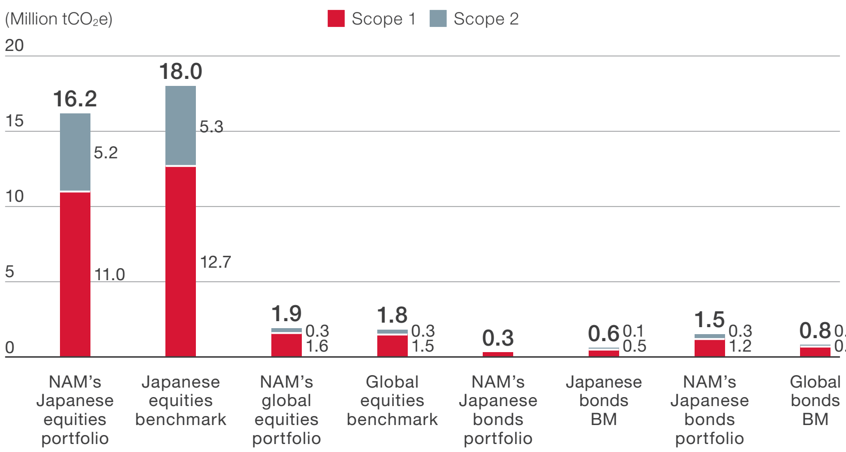
- When it comes to a portfolio company's climate-related risks, instead of looking only at carbon metrics for the company alone, we believe it is important to discern and analyze carbon metrics throughout the entire life cycle of a company's products and services as well as throughout the supply chain. Furthermore, we refer to GHG absorption in our analysis of climate-related risks.
- 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.
- Such risk management analysis outcomes are integrated into the comprehensive risk management process. As such, they 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 carbon metrics recommended by the TCFD (total carbon emissions, carbon footprint, carbon intensity, and weighted average carbon intensity) and perform scenario analyses as well as transition risk analysis and physical risk analysis for each portfolio.
- To analyze total carbon emissions, we use Scope 1 and Scope 2 emissions disclosed by companies (if a company does not provide disclosure, we use ISS's estimates) as well as ISS estimates for Scope 3 emissions. Meanwhile, for carbon footprint, carbon intensity and weighted average carbon intensity, we use only Scope 1 and Scope 2 emissions.
- We have established a 2050 Net Zero Goal as well as a 2030 Interim Target. Under the 2050 Net Zero Goal, we will work to achieve net-zero GHG emissions both from our own business operations as well as for assets under management (our investment portfolio). Under the 2030 Interim Target, we will work to ensure that, by 2030, 55% of our investment portfolio assets are being managed in alignment with achieving net-zero emissions by 2050. We will verify and report on our track record with regard to these targets in accordance with the methodology recognized and endorsed by NZAM.

monetary amount and comprising the same stocks and weightings as the benchmarks, while the opposite is true for our global equities portfolio and global bonds portfolio. For global equities and global bonds, total carbon emissions exceeded that of the benchmark. We believe this is due to the fact that the weightings of high-emitting companies such as Energy, Materials and Utilities in emerging countries including India and China 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 Energy, Materials and Utilities, as well as relatively high ratios from Industrials depending on the asset class, and 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 decarbonized society.

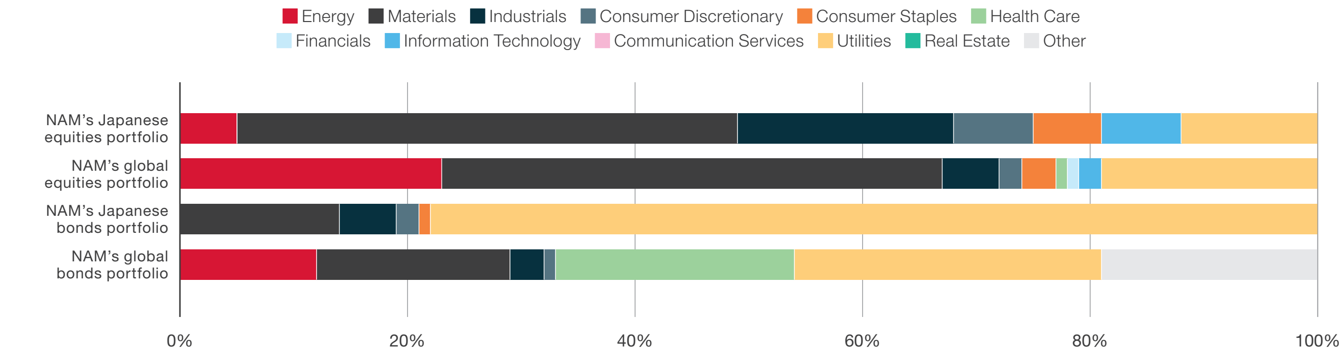
### Total Carbon Emissions




| | | NAM's portfolio | BM | % of BM |
|---|---|---|---|---|
| Scope 3 (Million $tCO_2e$) | Japanese equities | 228.0 | 200.6 | 114% |
| | Global equities | 9.7 | 11.3 | 85% |
| | Japanese bonds | 1.2 | 1.8 | 68% |
| | Global bonds | 4.3 | 4.4 | 97% |
| Total of Scope 1, 2, and 3 (Million $tCO_2e$) | Japanese equities | 244.2 | 218.6 | 112% |
| | Global equities | 11.6 | 13.2 | 88% |
| | Japanese bonds | 1.5 | 2.4 | 65% |
| | Global bonds | 5.8 | 5.2 | 111% |

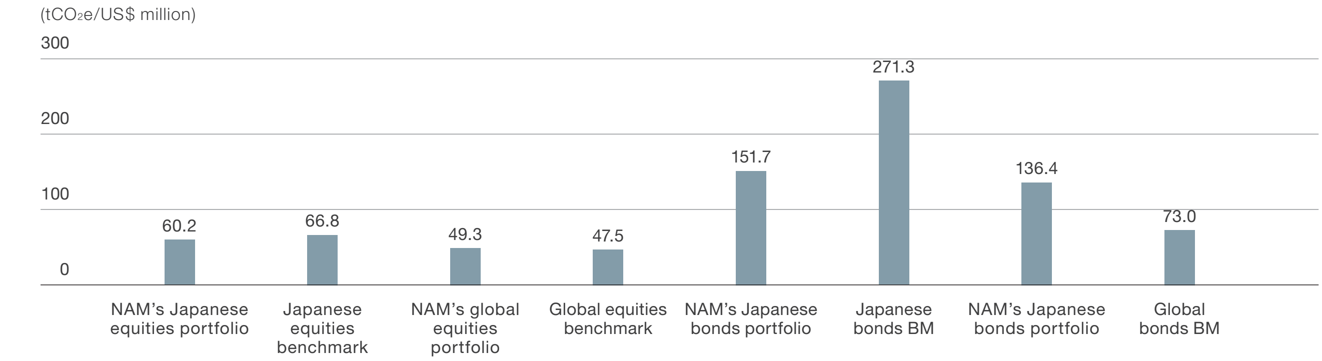
*EVIC is Enterprise Value Including Cash, and refers to corporate value including cash.
EVIC = Market capitalization of shares (ordinary shares, class shares such as preferred shares) + debt (book value) + non-controlling shareholders' interests (book value).

### Ratio of Total Carbon Emissions by Industry

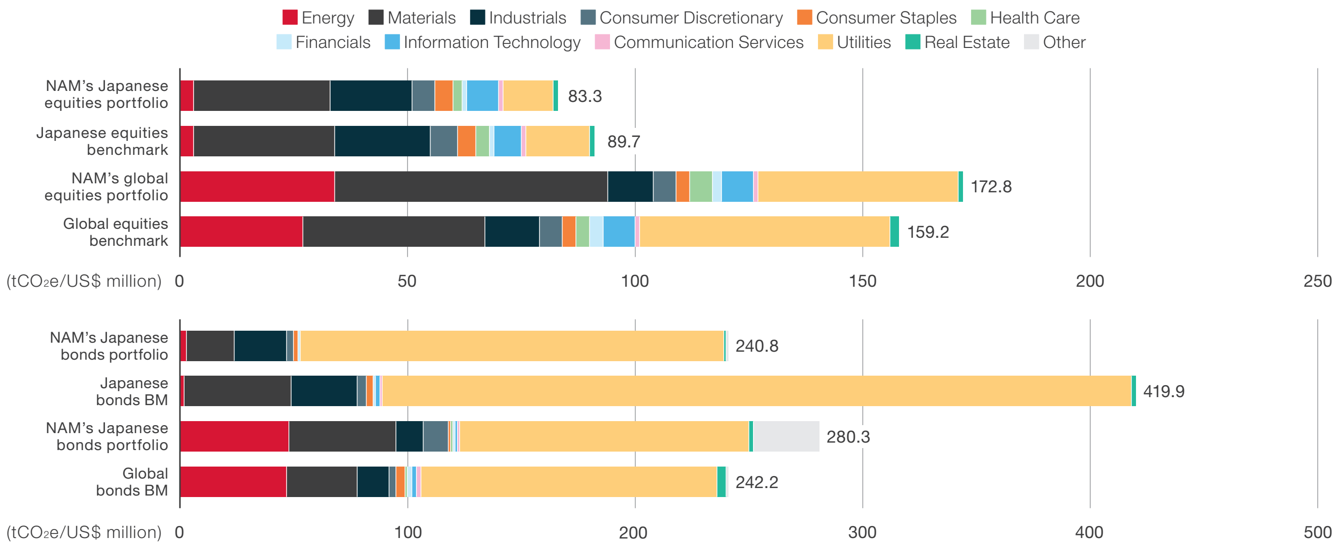



*Industries whose composition ratio of the Global Industry Classification Standard (GICS) is less than 1% are not included in industry classifications.

### Carbon Footprint




### 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 utilities companies, only Scope 3 emissions for fossil fuel-producing companies, and both Scope 1 and Scope 2 emissions for all other companies.

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 2040. This is evidence of the improvement in the investment portfolio since the end of 2020, when we found that the portfolio was 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 global 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 continuing to call for measures to address climate change across the market, as our investment portfolios include many passive investments, mainly in Japanese equities.

**1 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.

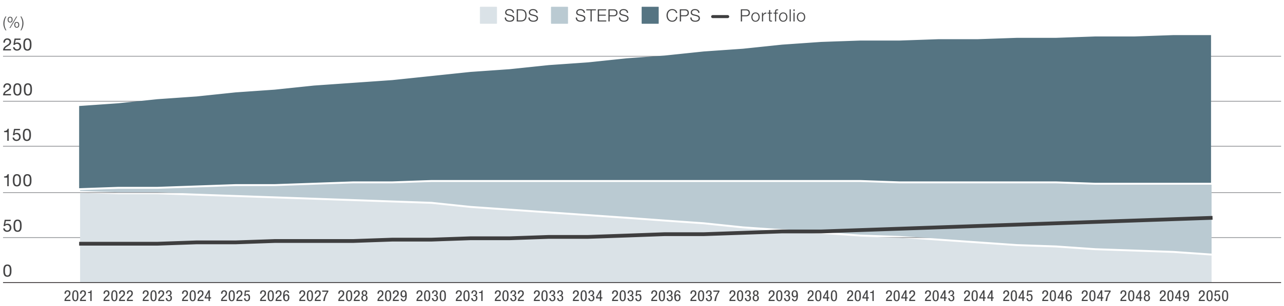
**2 Stated Policies Scenario (STEPS)**

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.

**3 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.

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

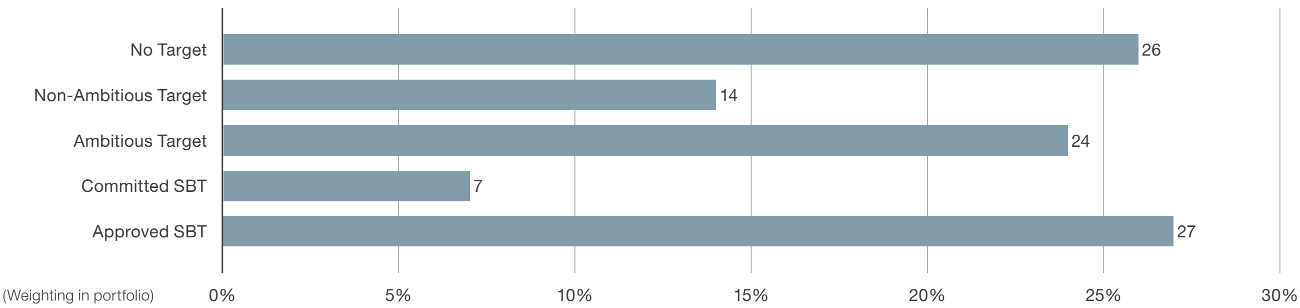



*On the graph's y-axis, the 2020 carbon budget for SDS is set at 100%.

## Status of GHG Reductions by Portfolio Companies

As one of the methodologies for checking the progress made on the 2050 Net Zero Goal and the 2030 Interim Target for portfolio assets, NZAM, of which we are a signatory, has given examples of the Science Based Targets initiative for Financial Institutions (also referred to as "SBTi for FI"). Under the SBTi for FI, financial institutions will monitor the ratio of portfolio companies that have attained SBT approval ratio as well as the temperature scores developed by the CDP and the WWF. We are utilizing ISS's analytical tools to monitor GHG reduction targets of portfolio companies in the investment portfolio (including SBT approval). SBT commitments and acquisition of SBT approval by portfolio companies shows that they have set GHG reduction targets based on scientific grounds, and this is objective proof of our investment portfolio's move to decarbonize and an important stepping stone towards realizing a decarbonized society. Therefore, through engagement and other means, we will encourage portfolio companies to proactively commit to SBTs and obtain approval.

**Status of Portfolio Companies' GHG Reduction Targets in Four-Asset Integrated Portfolio**



## Transition Risk Analysis

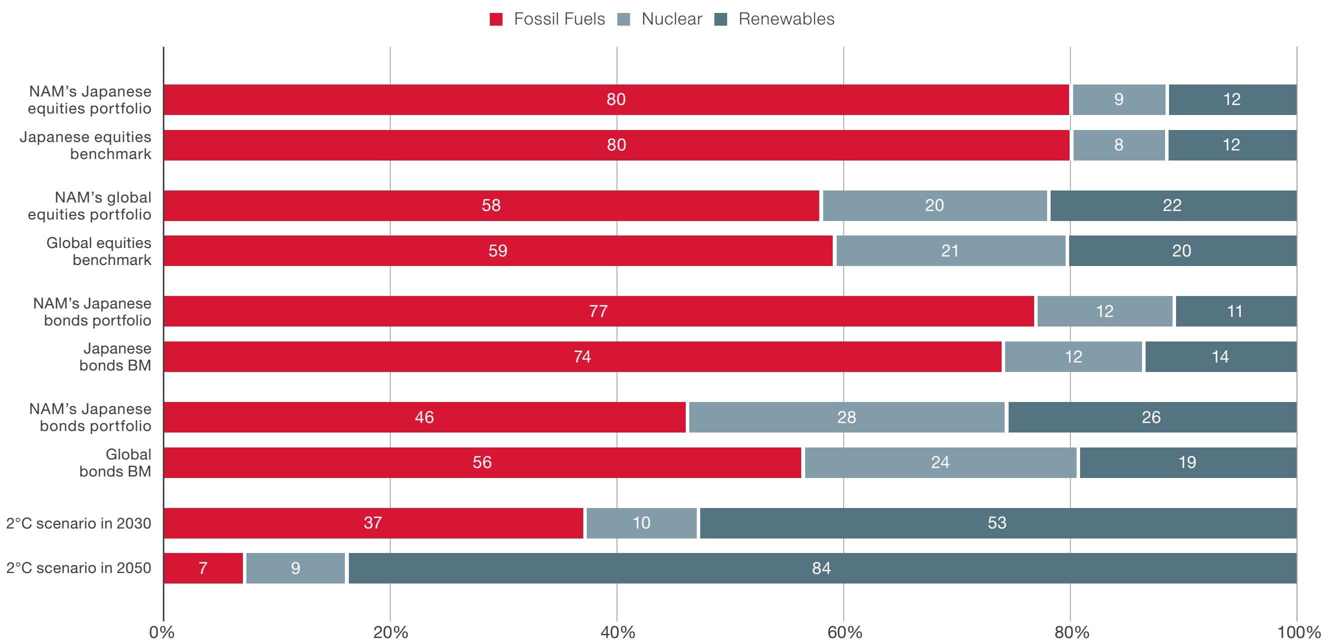
It is important to analyze climate-related transition risk in detail due to the fact that this risk is highly dependent on GHG emissions which have a relatively high correlation with both stock price performance and corporate value. We feel it is key to analyze GHG emissions throughout the entire life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

## 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 Japanese equities and global equities portfolios are almost the same as the benchmarks. Meanwhile, the ratio of fossil fuel power generation in our Japanese bonds portfolio is slightly higher than the benchmark, while the ratio of fossil fuel power generation in our global bonds portfolio is lower than the benchmark. Also, the fossil fuel power generation exposure in all asset classes are higher compared 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.



# Climate-related Risk and Opportunity Evaluation in our ESG Score

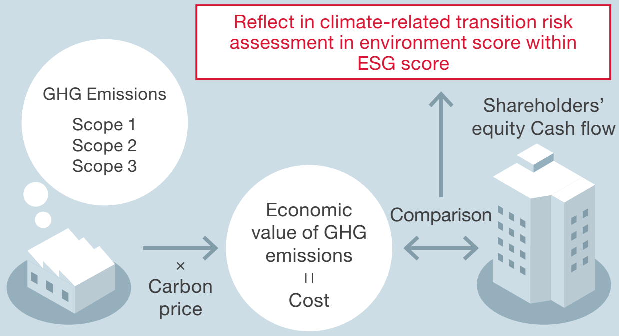
In the climate-related portion of our environment score within our ESG score for Japanese equities, we use carbon pricing to analyze transition risk, and assess climate-related risk using GHG absorption. Previously, transition risk assessments were generally performed based on the amount of GHG emissions, but using carbon pricing as well as GHG absorption allows for transition risk assessments that better reflect the true situations at companies.

COLUMN

## 01 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 climaterelated 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.




COLUMN

## 02 Inclusion of GHG absorption in Assessments of GHG Emissions and Transition Risk

From 2022, we will be including GHG absorption in the climate-related portion of the environmental score in our ESG score. This change was based on the growing number of companies that are actively working on and disclosing GHG absorption, and the calls by companies for investors to incorporate assessments of GHG absorption in their evaluations.

Specifically, in the environment score, we are deducting GHG absorption disclosed by a company from its GHG emissions in both: 1) our assessments of whether the company discloses its GHG emissions and the change in emissions over time; and 2) our financial impact analysis using carbon pricing. In our ESG score, in our definition of GHG absorption, we include: 1) the amount of GHG directly removed from the atmosphere, including by forests and CCUS; 2) avoided emissions which contribute to a reduction in emissions, such as through a company's technology, products, or initiatives; and 3) offset emissions via carbon offsets. We collect data on a company's GHG absorption from its disclosed reports and other information, and store the data in our own database.

Net-zero GHG emissions to mitigate climate change refers to the GHG emissions minus the amount of GHG absorption equaling zero. Consequently, it is necessary for a company to utilize the amount of GHG absorption to account for the emissions that remain after a company has done all it can to reduce its emissions. Due to the fact that a company's actions to avoid and remove GHG emissions reduce its net GHG emissions and thereby can lower its climate-related risk, we feel that reflecting GHG absorption in a company's ESG score is consistent from the standpoint of assessing corporate value. GHG absorption deducted from a company's GHG emissions can be up to maximum of 20% of ISS's GHG emissions data (total of Scope 1, Scope 2 and Scope 3).

Data on such GHG absorption can be used as an impact metric in climate-related opportunity analyses as well as in impact investing.

Given the fact that avoided emissions and carbon offsets are included in our definition of GHG absorption, we are not using the GHG absorption data in our 2050 Net Zero Goal or our 2030 Interim Target.

**Nomura Asset Management ESG Score Environmental Score E2: Climate Change**

- Evaluation of whether a company discloses GHG emissions, as well as the change in emissions over time
- Analysis of transition risk using carbon pricing (Multiply GHG emissions by the price of carbon to determine cost)

**GHG Emissions** − **GHG absorption** → **GHG absorption**

GHG Emissions: Before change of our ESG scores' methodology, only evaluated GHG emissions

GHG absorption: **Newly deduct GHG absorption**

| | |
|---|---|
| Removal | The amount of GHG directly absorbed, fixed and isolated from the atmosphere through forests, CCUS, etc. |
| Avoided emissions | The amount contributed to GHG emission reductions as a result of technologies, products, and initiatives, including energy-saving products and renewable energy, etc. |
| Emission offsets | The amount of a company's GHG emissions that it offsets using credits created via GHG removals and avoided emissions as discussed above |

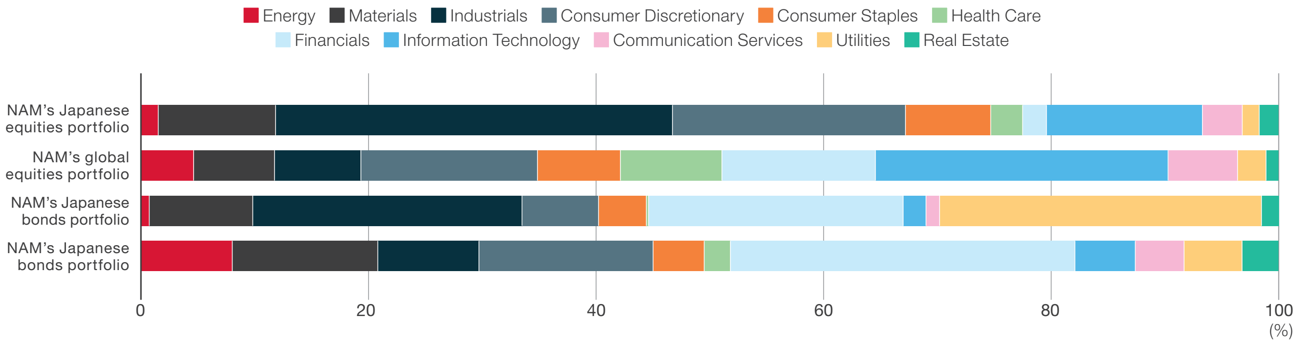
## Physical Risk Analysis

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 Sector and Region

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

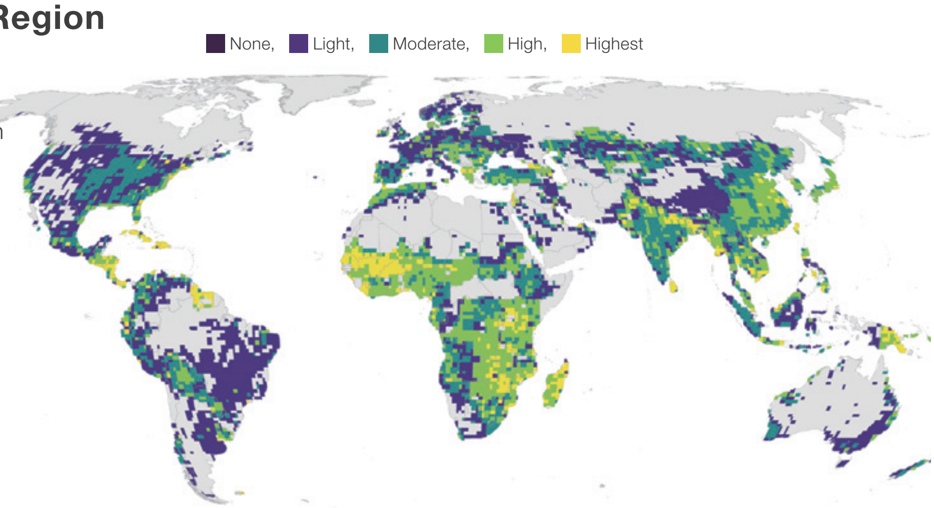



### Portfolio Value at Risk (% change)

| NAM's Japanese equities portfolio | NAM's global equities portfolio | NAM's Japanese bonds portfolio | NAM's Japanese bonds portfolio |
|---|---|---|---|
| 2.1% | 0.9% | 1.8% | 0.6% |

## The Physical Risk By Region

The map to the right shows the physical risk by region for our four-asset integrated portfolio. 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.



## Climate Change-Related Engagement with Portfolio Companies

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

### Nomura Asset Management

- Active involvement in climate change countermeasures, cooperation with other investors and stakeholders, and sharing of best practices through climate-related initiatives we have joined, such as PRI, TCFD, Climate Action 100+, NZAM and PCAF
- Enhance climate change-related ESG integration, including climate-related risk/opportunity analysis for the investment portfolio
- Develop financial analysis/corporate valuation methods using carbon pricing and GHG absorption
- Develop climate change-related financial products that contribute to realizing a decarbonized society consistent with our 2050 Net Zero Goal and 2030 Interim Target
- Enhance the transparency of our efforts towards climate change through TCFD disclosure in our Responsible Investment Report

### Portfolio Companies

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

Please refer to Page 47 for actual examples of climate change-related engagement.

## Cooperation with Climate Change Initiatives

In March 2019, we pledged our support for the TCFD, and 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. We have also 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 to 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. The TCFD Consortium released the amended Green Investment Guidance 2.0 in October 2021. 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, while we also joined NZAM and PCAF in August 2021.

In June 2015, Nomura Holdings, representing all of Nomura Group, became a signatory of the CDP. With this, Nomura Asset Management became one of the CDP's signatories, but in November 2021 we became a signatory on a standalone basis. We are responsible for the responses to questions for the asset manager on Nomura Holdings' CDP questionnaire. Nomura Holdings was selected as a member of the CDP's "Climate Change A List" in both FY2020 and FY2021, recognizing Nomura Holdings as a globally excellent company with respect to initiatives to combat climate change and for its disclosure of related data.

# DECARBONIZATION JAPAN

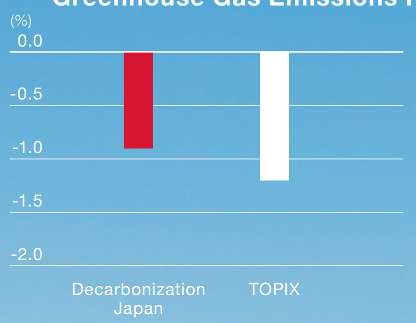
## CONTRIBUTING TO A CARBON-FREE SOCIETY BY JAPANESE COMPANIES

**In addition to increasing the level of sophistication of our investing with respect to climate change-related risks and opportunities via TCFD initiatives, through engagement we aim to contribute to the realization of a decarbonized society by having portfolio companies incorporate climate change countermeasures into their management strategies.**

At the Leaders Summit on Climate held by the United States in April 2021, key countries and territories set a goal of achieving net zero greenhouse gas emissions, and thereby a decarbonized society, by 2050. Countries and territories will advance efforts to decarbonize as a growth strategy over the medium to long term, but in order to realize a decarbonized society, it is necessary not only to expand clean energy and utilize hydrogen/electric technologies, but also to improve technological capabilities for energy savings and energy efficiency. In August 2021, we joined the Net Zero Asset Managers initiative (NZAM) and announced our goal of reducing GHG emissions of assets under management to net zero by 2050.

Many companies in Japan possess advanced technologies, even compared to other leading companies in the world. Especially from the viewpoint of energy-saving and reducing power consumption, Japanese companies' technologies are playing a central role in advancing global decarbonization efforts. Based on the desire to not simply participate in NZAM but also to actually solve social issues through investment, NAM established the "Decarbonization Japan" investment trust which invests only in Japanese equities that will contribute to decarbonization. By backing these companies, we believe we can actively support the realization of a decarbonized society both in Japan and around the world.

### Greenhouse Gas Emissions Reduction Rate (Weighted Average)




The amount of greenhouse gas emissions reduction is the annual reduction rate found by comparing the latest emissions results with ISS ESG's 2050 emission forecast required to achieve the 1.5°C effort target consistent with the Paris Agreement scenario.

This fund has two distinctive features.

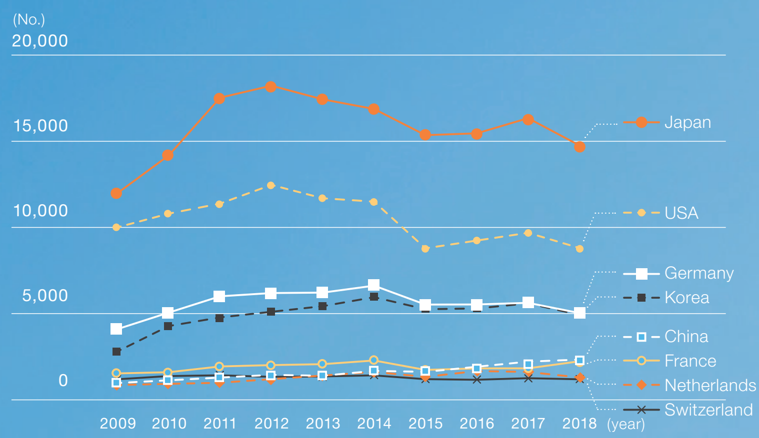
The first is that it invests in companies that will contribute to the realization of a decarbonized society. The fund invests not only in companies that engage in decarbonization-related businesses, but also in companies that directly contribute to decarbonization through their own business activities, such as declaring a goal of carbon neutrality.

The second distinctive feature is that Nomura Asset Management, which manages the fund, has established the rate of reduction of GHG emissions by portfolio companies as a key performance indicator (KPI), and monitors the companies held in the fund via measurements and other means. Specifically, we monitor the efforts of portfolio companies toward decarbonization through climate change engagement conducted by our corporate analysts, ESG specialists, and the Engagement Department, and make use of the findings. In addition to GHG emissions, going forward we will comprehensively understand how companies are contributing to decarbonization by also incorporating avoided/removed GHG emissions as KPI. By setting and monitoring such KPI, we will be able to measure the impact generated by the fund, which will also allow us to manage the fund in line with our impact investment strategy.

The fund narrows down the list of candidate companies for investment to those companies that are expected to contribute to a decarbonized society, taking into consideration whether or not a company has businesses that contribute to the realization of a decarbonized society as well as other ESG activities. Specifically, we evaluate a company's earnings outlook with respect to matters related to items regarding decarbonization in the SDGs (for roughly the next 10 years) as well as a company's business mix, technologies, know-how, personnel and other allocation of management resources based on our proprietary ESG score. Furthermore, we make a qualitative assessment of a company's environmental efforts (such as whether it has made a carbon neutrality declaration), including an evaluation of the pace of improvements it is making. In addition, we conduct ongoing engagement with portfolio companies, and both share our understanding of their efforts aiming for a decarbonized society and conduct engagement to support such efforts. We believe that investment through this fund allows us to provide both social value and economic value.

### Number of Patent Applications for $CO_2$ Emissions Reduction-Related Technologies in Key Countries

Period: 2009-2018, annual




Source : Prepared by Nomura Asset Management using data from Astamuse

### Patent Competitiveness Rankings by Country/Territory

| | Energy-related sectors | | | Transportation/manufacturing-related sectors | | | | | Home/office-related sectors | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Offshore wind power | Fuel/ammonia | Hydrogen | Automobiles/ Storage batteries | Semiconductors/ information communications | Ocean vessels | Food/ agriculture, forestry, and fisheries | Carbon recycling | Housing/ buildings Next-gen solar | Lifestyle |
| No.1 | China | USA | **Japan** | **Japan** | **Japan** | Korea | **Japan** | China | China | China |
| No.2 | **Japan** | China | China | China | USA | China | USA | USA | **Japan** | USA |
| No.3 | USA | **Japan** | USA | USA | China | **Japan** | Korea | **Japan** | USA | **Japan** |
| No.4 | Germany | Germany | Korea | Korea | Korea | USA | China | Korea | Korea | France |
| No.5 | Korea | United Kingdom | Germany | Germany | Taiwan | Germany | France | France | Germany | Germany |

*Comparison of sum total of patent assets in 2010-2019 in each field and country.
Total patent assets is an indicator calculated based on factors including the number of patents cited/viewed, patent exclusivity (number of claims for invalidation trials, etc.), the number of years remaining on a patent, and other factors.
Source : Prepared by Nomura Asset Management using data from Astamuse

# HUMAN RIGHTS

## Nomura Asset Management's Initiatives on Human Rights

Human rights issues have become an important element in investment activity. For companies, countries, as well as various types of projects, goods and services are delivered to users and end consumers after procurement, production and transport of materials. As this value chain crosses national borders and intersects with differing regulations and practices, there is a risk of human rights issues that cannot be seen from the surface. Once a human rights issue arises, it leads to a loss of trust from the community, the company's employees, business partners, and its customers. This is because reputation risk, such as the deterioration of a company's image in society, increases, and the company may have to pay a large cost (cost and time to restore its reputation) to resolve the human rights issue. In addition, if the problem remains unresolved over a long period of time, the adverse impact on the company's corporate value itself will grow. Our mission is to protect the assets our clients entrust with us from risks related to human rights issues by raising awareness of such human rights issues among our portfolio companies and having them proactively advance relevant initiatives.

We carefully assess human rights risks for our portfolio stocks and use human rights risk assessments in our engagement and in ESG integration to fulfill our role as a responsible investor engaging in broad investment activity on a global basis.

## Nomura Asset Management's Human Rights Risk 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. We research the efforts of companies in our investment universe regarding human rights, including if they have formulated a human rights policy and the status of compliance with that policy, as well as research any actual misconduct related to human rights if it exists and the level of damage resulting from such misconduct. We also research whether companies have formulated programs to address human rights at the voluntary disclosure level, the status of operation of such programs, and the results of human rights monitoring.

Our research centers on items related to human rights respect and compliance set forth in international norms related to human rights, such as the OECD Guidelines for Multinational Enterprises and the Ruggie Principles which were approved by the U.N. Commission on Human Rights. In addition, we also regularly research companies that have been flagged for involvement in human rights issues based on the outcomes of investigations by human rights NGOs or by international organizations. This research centers on sectors with complicated supply chains and sectors that produce products with historically large human rights risks in the production area or the area where raw materials are procured. This group of sectors includes the food/daily goods/retail, ICT, automobile, apparel, and mining sectors, as well as trading companies that handle these high-risk products.

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

## Human Rights Risk Management at the Portfolio Level

ESG investment managers examine human rights risks (the survey items mentioned in the section about 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 carry out engagement if we hold a company judged as having high human rights risk in our investment universe. The corporate analyst responsible for that stock, ESG specialists, and ESG engagement managers hold discussions with the company about risk factors (such as an inadequate management system or insufficient disclosure of information), and discuss an action plan to make improvements. For companies that are considered high risk in terms of human rights but are continuing to work on solving problems, we 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 transactions, where 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. We also think this will result in more positive evaluations of the products and services the company offers as well as an increase in business opportunities. We believe that by repeating this human rights management at the portfolio level, we can gain a deep understanding of social risk carried by companies in our investment universe and reflect this in our investment decisions on companies. We feel that this will also advance our ESG integration related to human rights risk.

### 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

## Human Rights Due Diligence

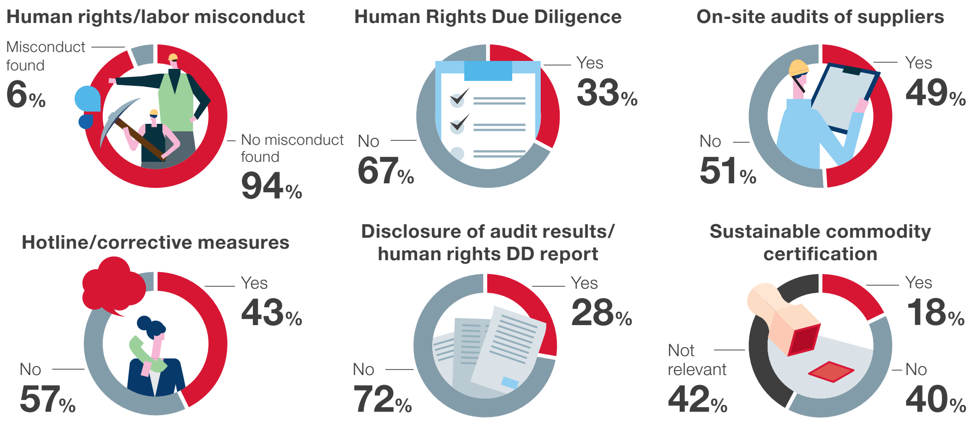
Our ESG specialists and ESG investment managers determine potential human rights risk levels for companies in our investment universe based on corporate disclosures, NGO reports and media information. The main matters evaluated are: 1) Whether there are any human rights violations or misconduct towards the supply chain or company employees; 2) Whether human rights due diligence is being performed; 3) Whether on-site audits of suppliers are being conducted; 4) Whether there are corrective measures and a contact for whistleblowing in place; 5) Whether there is disclosure of human rights audit results; and 6) Whether there is procurement of raw materials and commodities certified from the perspective of sustainability, including human rights. If we cannot confirm in the disclosure that adequate human rights management is being implemented, or if a scandal is discovered, the company will be subject to monitoring, and we will demand improvements through periodic engagement.

In human rights due diligence in 2021, we covered large-cap stocks in sectors with a high level of human rights risk. We did not find any major human rights violations or misconduct for the Japanese companies we covered. We also found that roughly half of the companies had a track record of performing on-site audits of suppliers. However, only about 30% of the stocks in our human rights due diligence universe disclose information about the outcomes of these audits and carry out comprehensive human rights due diligence, so this is an area where the efforts of Japanese companies must be improved. In addition, only 18% of the companies that have a track record of procuring commodities (such as palm oil and coffee beans) using certification systems meeting sustainability requirements, including compliance with human rights, and we found that this is also an area where efforts by Japanese companies are lagging. As an asset manager aiming to eliminate human rights violations, we will actively carry out engagement in order to have portfolio companies build human rights management systems in fields where efforts have been slow.

## Human Rights Due Diligence Results

Stocks subject to disclosure checks
**Sectors with high risk of human rights issues (MSCI Japan)**

| |
|---|
| Foods/Daily goods/Retail |
| ICT |
| Automobiles |
| Apparel |
| Mining |
| Trading companies |




*DD:Due Diligence

## Engagement Case Study

**Human rights risk issue**

Need to make efforts to improve the rights and the health and safety of workers, as well as the living conditions for immigrant laborers

**Status of milestone management**

Engagement period
8 months
(2 interviews)

**Nomura Asset Management / Sustainalytics**

- Need to disclose policies concerning workers' rights, and both monitor and report on the status of compliance with the principles for workers' rights
- U.S. Customs and Border Protection (CBP) announced a suspension of imports to the U.S. based on information that the company's products are manufactured using forced labor. What is the schedule for review by CBP?

**Malaysian healthcare equipment/ goods company**

- Has publicly disclosed policies on human rights and ethical activity as well as policy on internal whistleblowing. Since 2020, in order to investigate labor issues, an appointed independent consultant has been auditing labor practices and monitoring the progress on improvements on a quarterly basis.
- In 2019, introduced a zero cost hiring policy (no hiring commissions paid by workers to agents). Also confirmed a major improvement in the forced labor index items of the International Labor Organization (ILO). Planning to complete corrective measures for forced labor indicators, such as agents holding workers' ID cards, deception about salary information, and workers' living environment. A review by CBP is expected after the verification work by an independent consultant is completed.

# Human Rights Engagement

Having direct dialogue with portfolio companies about human rights issues and urging them to make improvements for such problems is one of our responsibilities as an asset management firm. Human rights is an important engagement theme for both the Japanese and overseas companies we invest in. Risks related to human rights issues can be managed to some extent by establishing a management system.

However, industries and companies with complex supply chains and operations in areas with political instability and unstable human rights policies can pose unforeseen risks to businesses. In recent years, there have been cases both among Western companies and Japanese companies of being suspected of involvement in production activities in areas where there are suspicions of child labor or forced labor in the development of a global business or supply chain development, as well as companies deciding to withdraw from a business due to influence from a heavy-handed government regime. Even for human rights issues occurring in these various regions, we strive to engage from a neutral standpoint, obtain all relevant information, and reflect the findings in our investment decisions. Especially in the case of human rights issues where it is difficult to grasp accurate information and make judgments due to different claims by all of the involved stakeholders, we encourage the company we are engaging with to improve relationships based on dialogue with stakeholders and to provide information to investors on a continual basis.

## Examples of Engagement (Milestone Management)

### Japanese retail company

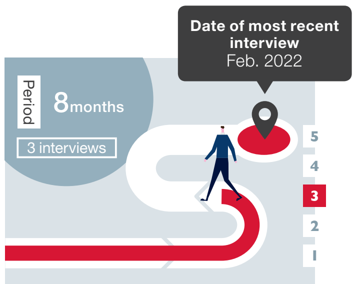
| ESG issues | Human rights risk management system |
|---|---|
| Engagement overview | Building a human rights management system for the supply chain for the company's own brand products and implementing human rights due diligence. |
| Company response | Disclosure of a policy for taking human rights into consideration in the supply chain, and disclosure of the implementation status of a program in the company's factories to consider human rights. Commitment to disclosure of information about the status of human rights consideration at suppliers |
| Goal | Disclosure of information on supply chain human rights countermeasures and implementation of human rights due diligence |

### Milestone management status


### Japanese retail company

| ESG issues | Human rights risk management system |
|---|---|
| Engagement overview | Disclosure of information on measures to reduce the risk of raw material (cotton) procurement from regions that are developing into international human rights problem areas |
| Company response | Planning for a company team to perform on-site human rights audits up to the upstream part of the supply chain. Committed to conducting audits up to cotton growers and disclosing information on progress and results of audits in a timely manner |
| Goal | Disclosure on human rights audit program further upstream of the raw material procurement process |

### Milestone management status

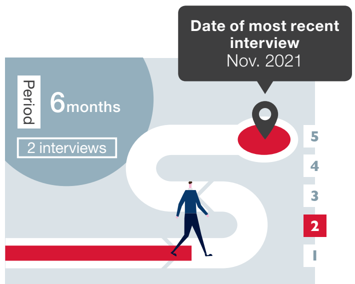



## Example of Global Equity Engagement (Milestone Management)

### Hong Kong capital goods company

| ESG issues | Human capital/human rights risk management system |
|---|---|
| Engagement overview | Need human capital/human rights risk management including the supply chain. Disclosure of detailed information about subcontractors |
| Company response | Engaged in human resource development, employee training, and health/safety management. Planning to establish a sustainability initiative covering all suppliers in 2023. Planning to disclose detailed information about subcontractors in 2022 |
| Goal | Establish human capital and human rights risk management system, including the supply chain |

### Milestone management status




**Progress status** 1 Communicate the issue(s) 2 Share a recognition of the issues 3 Formulate countermeasures 4 Implement countermeasures 5 Conclusion

What is the status of the Workers Representative Committee and the role of the Hostel Management Committee?

**Asked the company to continue to carry out employee health/safety training and education and training about the grievance mechanism, and to release data on accidents and data on grievance mechanism**

Compliance with all ILO forced labor indicators was verified, and CBP lifted the import ban in September 2021.

Representatives from each factory and for each nationality and gender elected to the Workers Representative Committee. Engagement sessions with independent directors are held quarterly to strengthen cooperation. The Hostel Management Committee is responsible for ensuring that employee housing facilities are in compliance.

**To further strengthen social contribution activities, set goals such as acquiring ISO45001 certification by FY2024, improvement of its performance on internal and external social compliance audits, and linking compensation with safety and health KPI.**


## Initiatives and Partnerships to Protect Natural Capital and Biodiversity

The Kunming Declaration, announced at the 15th Conference of the Parties to the Convention on Biological Diversity (COP 15) held in October 2021, states that unprecedented crises, such as biodiversity loss and marine pollution, are threatening both the planet and society. At the second part of this same meeting scheduled to be held again in Kunming in 2022, the parties are expected to adopt new targets for biodiversity protection.  At the 2021 U.N. Climate Change Conference (COP 26) held in Glasgow in October-November 2021, in addition to accelerating measures to address climate change, the parties announced critical pledges of ending deforestation by protecting and restoring forests, and reducing emissions of methane (which has a greenhouse effect 20 times stronger than $CO_2$) by 30% compared to 2020 levels by 2030.

Healthy biodiversity is essential for the development of society. Nomura Asset Management recognizes the importance of issues related to natural capital in our ESG Statement, and is participating in global initiatives as both an institutional investor and a company. We are also advancing efforts aimed at protecting natural capital in collaboration with other asset management institutions. In terms of global initiatives, we leverage our collaboration with Farm Animal Investment Risk and Return (FAIRR) to engage with food-related companies, and we engage with palm oil companies and the companies in their supply chains through an initiative to end deforestation (refer to Page 57). We encourage companies to take action to protect and restore biodiversity, and we share insights and best practices for engagement targeting biodiversity protection.

In our collaborative engagement with Sustainalytics, we carry out engagement on many individual topics related to biodiversity. We are encouraging food-related companies to transition to a sustainable global food system, including the management of natural capital such as land and water, and the reduction of food waste. In addition, for clean technology companies related to electric vehicles and solar or wind power generation facilities, we continue to support the promotion of a circular economy through the procurement of sustainable raw materials (including by suppliers), increasing the rate of recycling, and keeping waste out of landfills. Furthermore, we carry out engagement with respect to water management and monitor water resource risk management for multi-industry companies operating in Brazil's Tietê River Basin and in South Africa's Vaal River Basin. By doing so, we are encouraging the formulation of business strategies targeting risk reduction.

**Natural capital risk management for stocks**
**(on an individual stock basis)**

- Water resources
- Waste volume
- Disclosure regarding forest/soil resource protection
- Disclosure regarding river and marine resource protection
- Disclosure concerning pollution (forest/soil, river, marine, air) prevention

**Engagement**

- Formulate biodiversity risk management policy
- Introduce biodiversity monitoring
- Establishment and disclosure of measurement standards
- Actions towards improvement

**Integration into investment**

- Buy
- Sell
- Continuous hold

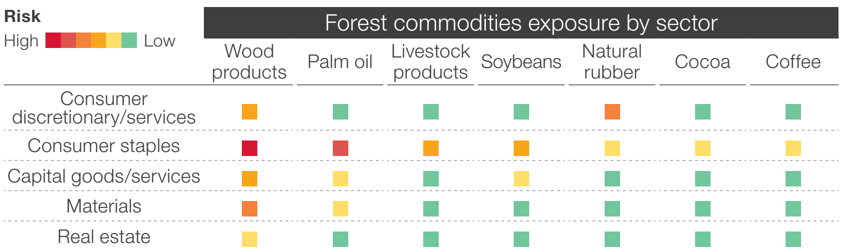
## Nomura Asset Management's Biodiversity Monitoring and Risk Management Process

The loss of biodiversity not only affects the environment, it also has a tremendous negative impact on the economy and people's health. In order for companies to raise their level of sustainability, they must protect biodiversity and work on sustainable use, including understanding their level of dependence on nature for business continuity and the impact of their company's operations and the supply chain on nature. If biodiversity-related issues become apparent not only in a portfolio company, but in that company's supply chain, there can be a significant impact on corporate value through, for example, higher raw material procurement costs, or reputational risks, such as deterioration of corporate image. In this way, a company that can manage biodiversity risk and link the protection of the environment and natural capital to its business strategy will see an improvement in the public's opinion of its products and services, resulting in a higher likelihood of increased long-term term corporate value.

To help companies increase their long-term corporate value, we continuously monitor a wide range of biodiversity risks for the stocks in our investment universe, and we aim to reduce biodiversity risk at the investment portfolio level. In collaboration with each other, ESG specialists and corporate analysts utilize information disclosed by companies, media reports, external databases, and other sources of information to regularly research natural capital-related information and waste-related information on stocks in our investment universe. Issues covered by this researched include water resources, waste volume, disclosures related to the protection of forest and soil resources, disclosures related to the protection of river and marine resources, and relation to high-biodiversity-risk commodities. We check whether or not companies are undertaking initiatives towards sustainable production and procurement, especially companies where sales are highly dependent on commodities which have a large impact on biodiversity, such as companies in the consumer staples, consumer discretionary, and materials sectors. For example, we look at the status of procurement of commodities that have been certified by third parties, including the Roundtable on Sustainable Palm Oil (RSPO) and the Forest Stewardship Council (FSC).

Based on such monitoring data, portfolio managers, ESG specialists, corporate analysts, and ESG investment managers work together to engage with portfolio companies with the objective of managing biodiversity risk. Through periodic dialogue, we encourage companies to recognize biodiversity risks, take proactive measures, and disclose information, and we then monitor progress on these efforts. Through this type of dialogue, we assess both biodiversity risks and opportunities, and ultimately incorporate these into our investment decisions.

### Examples of Biodiversity Risk Monitoring




*Aggregation of companies in MSCI Japan with high sales exposure for each commodity.
Risk in each GICS sector shown.
Source: Prepared by Nomura Asset Management based on CDP data and other ESG data

### Example of Engagement

**Biodiversity risk issues**

Deforestation in the supply chain

**Status of milestone management**

Engagement period

**First interview**

(One interview)

**Nomura Asset Management**

- We want you to describe your monitoring systems and tools to guarantee that the soft commodity supply chain is not associated with deforestation.
- What are the criteria for selecting new suppliers? If these criteria are appropriate, you will be able to address some of the deforestation issues.
- How do you respond if there is a deforestation warning or if deforestation is found in the palm oil supply chain?

**Swiss food company**

- We use satellite image data, supply chain mapping and other tools to monitor that our supply chain is not involved in deforestation.
- All new suppliers must agree to provide information, dialogue and audits related to the operating permit area
- We immediately start the verification process, and if deforestation is confirmed, the supplier will be immediately suspended. After that, they will correct the problem, and if they are able to prove that no more deforestation will occur we can revive the relationship with the supplier.
- As of 2020, we have assessed that 90% of our purchases of the primary soft commodities that carry deforestation risk do not involve deforestation.

**Please provide a status update on your verification process, etc. for deforestation in the supply chain confirmed by satellite image data.**

**There is increasing need for enhanced supply chain transparency, streamlining of monitoring and reporting systems and cooperation among stakeholders.**

# ENGAGEMENT

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

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

## 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.

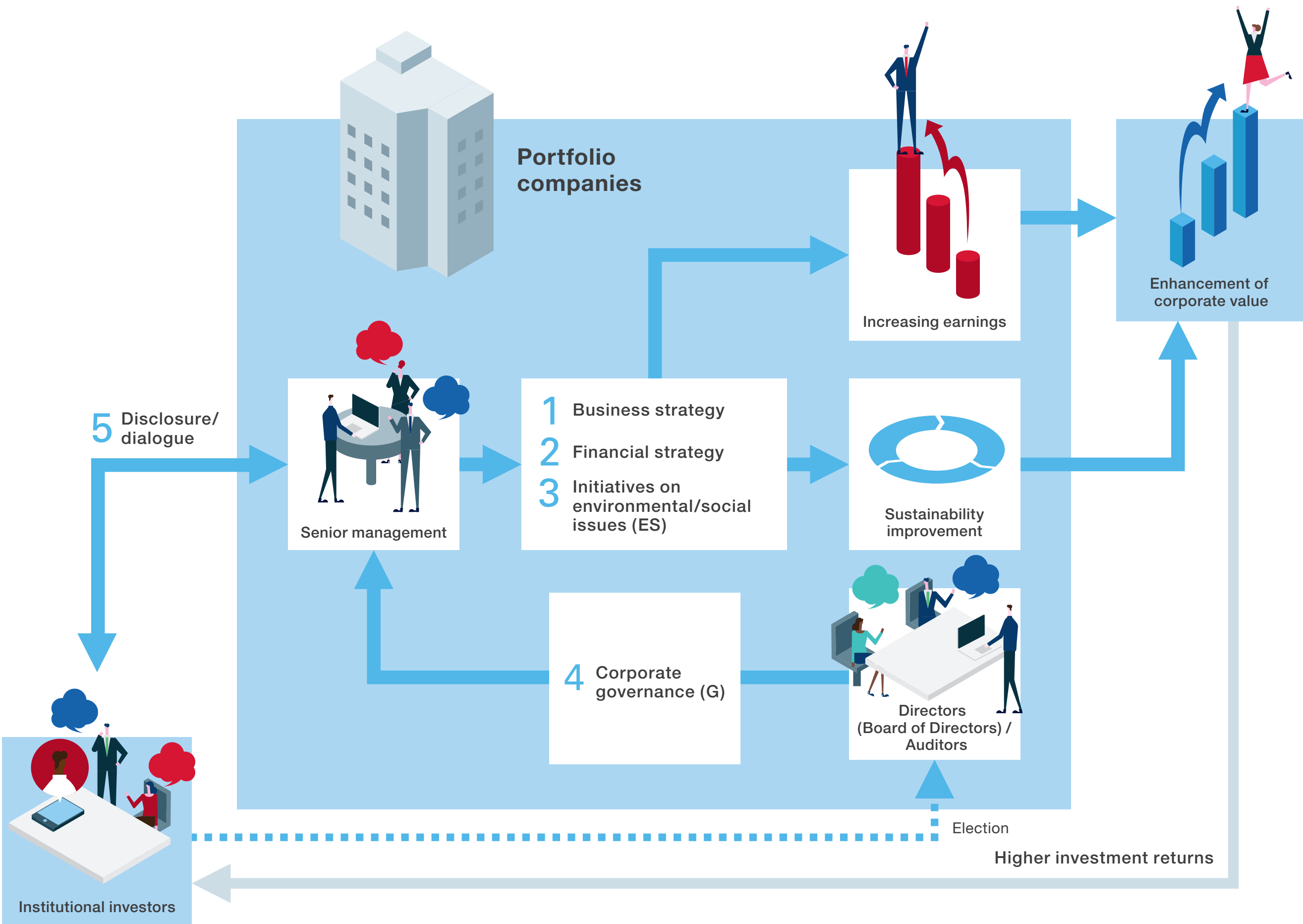
We believe that engagement, or constructive dialogue with portfolio companies, starts with a thorough understanding of the target company and its business environment as well as its future. We also view engagement as one of the most powerful means to fulfill our stewardship responsibility.

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 (lower part of the previous page).

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.

## 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, 2021) are all targets for engagement.

## Total number of contacts with portfolio companies

Approximately **6,500**

**Japanese companies, January – December 2021**

Of these, number of 1-on-1 dialogues at company

Approximately **2,400**

Of these, number of dialogues with executives and above

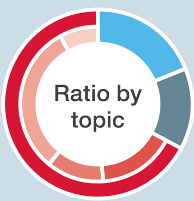
Approximately **1,000**

## Engagement meetings

**Total number of engagement topics (total number of companies)**

**1,690** topics (765 companies)

**2021**

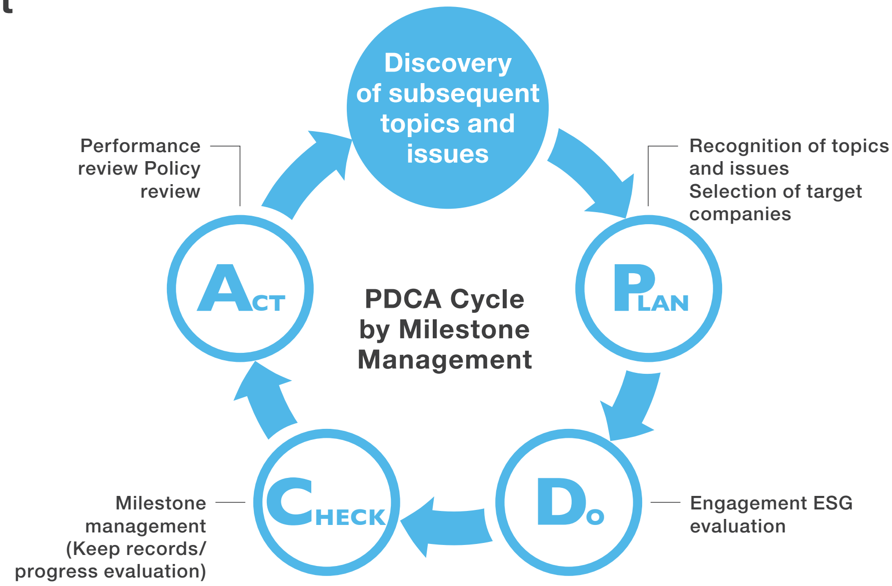



| | Ratio | Number of topics |
|---|---|---|
| Business strategy | 19% | 315 |
| Financial strategy | 14% | 232 |
| ESG-related meetings | 68% | 1,143 |
| Environmental | 16% | 271 |
| Social | 12% | 201 |
| Governance | 32% | 535 |
| Proxy voting-related | 8% | 136 |
| Total | | 1,690 |

## Milestone Management

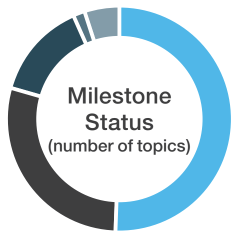
In order to manage our progress on engagement, we carry out “milestone management,” setting the period for individual engagement topics at three years. By managing PDCA (Plan, Do, Check, Action) progress using a fixed timeline, we can efficiently formulate a dialogue schedule for subsequent phases and 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).




### Status of Milestone Management
**(as of December 31, 2021)**

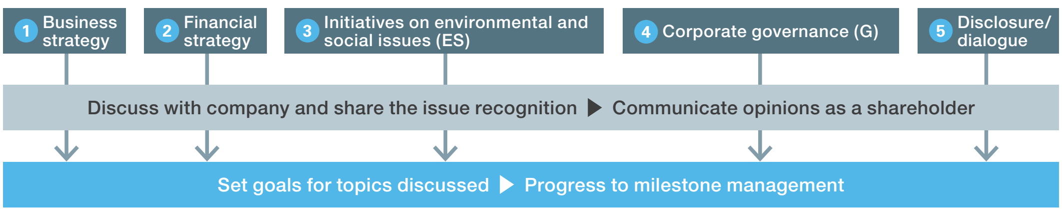
In 2021, we carried out engagement across 1,690 topics. Currently, we are managing milestones for a total of 270 topics (106 companies). Of these, 13 topics are already at “Step 5: Conclusion.” (refer to Pages 45-49).




| | |
|---|---|
| Communicate issues to portfolio company | 137 |
| Company shares a recognition of the issues | 78 |
| Company formulates countermeasures | 37 |
| Company implements countermeasures | 5 |
| Conclusion | 13 |

### Pattern 1

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




### Pattern 2

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

# Engagement on Priority Topics

We carried out engagement in line with the nine key themes established by the Responsible Investment Committee. Here, we introduce some examples of engagement in 2021 in line with NAM's unique milestone management.


Financial

## Rational Explanation of Financial Strategy

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

### Examples of engagement

**Company A**

Food

**Interviewee**

Representative Director and President, others

**Goal**

Accountability related to Long-term Vision

**Nomura Asset Management**

- You made a large investment, but your accountability towards your vision is insufficient. This is leading to a stagnating share price.
- Your explanation has improved, but the relationship between the business domain and customers' needs is unclear.
- We determined that accountability improved significantly.

**Company A**

- We invested capital in a partner for new business. We will enhance our explanation about the business domain in our integrated report.
- We changed our integrated report to make it a story that starts with addressing health-related social issues. We are aiming for a repositioning.

**Company B**

Construction Industry

**Interviewee**

Senior Managing Executive Officer and CFO, others

**Goal**

Accountability for the direction of the (shareholder) return policy

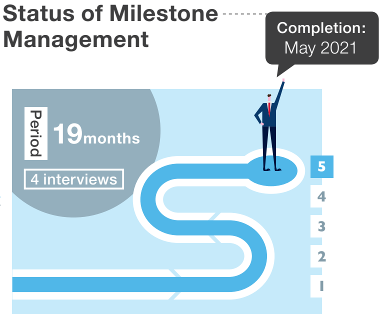
**Nomura Asset Management**

- Given the asset turnover rate, financial ratio, and revenue outlook, equity capital seems excessive.
- We appreciate your efforts to strengthen risk management. If you can control risk, you should be able to reduce your equity capital.
- The explanation is not sufficient. Please indicate the outlook for the inflow and outflow of funds during the period covered by the medium-term management plan.

**Company B**

- We anticipate an increase in orders, so it is not excessive.
- We will consider it in the next medium-term management plan. (Announced medium-term plan)
- We acknowledge that the current explanation is abstract. We want to improve it.

### Status of Milestone Management





* The period is the number of months from start of interviews until December 2021

Governance

# Strengthen Commitment to Capital Efficiency

**Demand commitment to capital efficiency through executive compensation**

## Examples of engagement

### Company C

**Food**

**Interviewee**
Director and Senior Managing Executive Officer, others

**Goal**
Executive compensation with capital efficiency indicators as KPIs

**Nomura Asset Management**
- You have used cash flow on investments to reduce interest-bearing debt, but the latter has come to an end. You are now moving to a stage where investment results and the efficient use of funds are expected.
- Linking executive compensation to sales and operating income, does not fit the current stage.

**Company C**
- You are right. Capital efficiency has also come to be emphasized in business management.
- We are studying this for the next medium-term management plan. We also want to reflect ESG.
- Adopted ROE and ESG initiatives as KPIs for executive compensation.

## Status of Milestone Management


### Company D

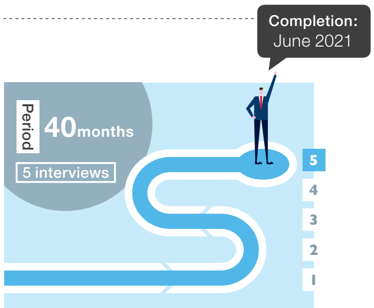
**Textiles**

**Interviewee**
Director and Senior Managing Executive Officer, others

**Goal**
Introduction of executive compensation based on business issues

**Nomura Asset Management**
- Due to the complexity of the business structure, it is important to manage capital efficiency. How about including it in the KPIs for executive compensation?
- To show management's commitment, we want it to be reflected in executive compensation.

**Company D**
- We are also listening to the opinions of outside directors. The current compensation structure may not reflect the characteristics of the business.
- Disclosure of the cost of capital expected by management. Aiming for capital efficiency that exceeds this.
- Adopted ROIC as a KPI for executive compensation.




Governance

# Reduction of Cross-Shareholdings

**Ask for a reduction in line with the Corporate Governance Code.**

## Examples of engagement

### Company E

**Construction Industry**

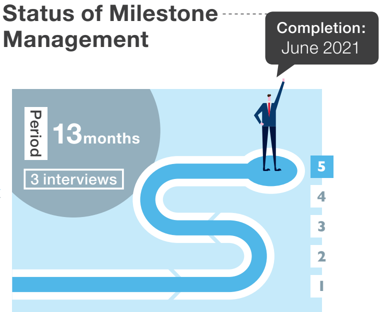
**Interviewee**
Senior Managing Executive Officer and Director, others

**Goal**
Disclosure of significance of cross-shareholdings as well as reduction targets

**Nomura Asset Management**
- We want you to disclose the significance of cross-shareholdings and reduction targets. There are outside directors who have experience with reducing cross-shareholdings, so why not get some advice from them?
- Your disclosure of the reduction of cross-shareholdings and the purpose of holding them is insufficient, and the holdings are still increasing.

**Company E**
- The outside director you mentioned advised us that the cross-shareholdings constitute a management risk.
- We plan to reduce the holdings while allocating the proceeds to business investments.
- We announced the target reduction amount and the timing in the medium-term management plan.

## Status of Milestone Management




### Company F

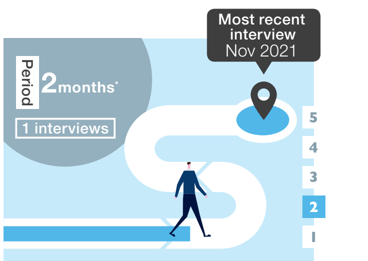
**Warehouse/ Transport Industry**

**Interviewee**
Managing Executive Officer and Director, others

**Goal**
Executive compensation linked to capital efficiency

**Nomura Asset Management**
- You are slow to reduce cross-shareholdings and this is leading to a decline in ROE.
- Your KPI for executive compensation is recurring profit. This does not incentivize the effective use of capital (including cross-shareholdings). We think it would be more appropriate to link compensation to a capital efficiency indicator like ROE.

**Company F**
- We are discussing this internally. Our initial target was 5%, but we then started to think that this was the absolute minimum.
- The Compensation Committee is currently discussing this. We will provide feedback.



Environmental

# 4 Becoming a TCFD (climate change) signatory, subsequent actions

**Disclose data in accordance with the TCFD regarding climate change impacts and countermeasures**

## Examples of engagement

### Company G

**Rubber Products**

**Interviewee**
Sustainability Dept. Head, others

**Goal**
Support for TCFD Recommendations

**Nomura Asset Management**
- Your specific business characteristics make the risks of climate change significant. Please consider supporting the TCFD Recommendations.
- This is an important issue in terms of competition.
- It's great that you agreed to this. However, the scenario analysis is not in line with TCFD. (Asked for scenario analysis in line with the Recommendations, and started new milestone management)

**Company G**
- We started to set targets for total greenhouse gas (GHG) emissions.
- We recognize the importance of this, but we have not reached an internal consensus regarding preparing the related data.
- We agreed with the TCFD, and provided disclosure in line with the Recommendations.

## Status of Milestone Management


### Company H

**Chemicals**

**Interviewee**
Representative Director and President, others

**Goal**
Setting and disclosing total reduction targets or reduction contribution amounts for GHG emissions

**Nomura Asset Management**
- Your GHG emissions reduction target is only on an intensity basis (per unit of sales). Is it possible for you to set and disclose a reduction target for total emissions?
- The total amount is the focus of attention for achieving the goals of the Paris Agreement. Considering your business characteristics, can you also disclose the amount of contribution to reductions?

**Company H**
- We are actively working to reduce emissions, but it is inevitable that total emissions will increase as sales (=production) increases.
- We understand what is being asked of us. However, our corporate culture is such that we do not set goals that we cannot achieve with certainty, so we need to study this internally.


Business

# 5 Business Strategy amid New Circumstances

**Business strategy and supply chain management in the age of COVID-19. Reconsider materiality (level of importance)**

## Examples of engagement

### Company I

**Electrical Equipment**

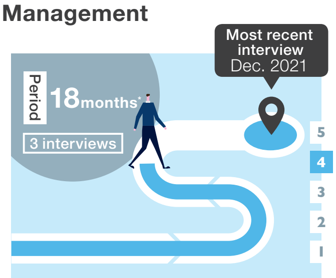
**Interviewee**
Representative Director and President, others

**Goal**
Establishing a structure to shift to being a service-based company

**Nomura Asset Management**
- Regarding the sales platform in particular, you need to switch from the conventional system of selling goods to a system of providing services and solutions. Shouldn't you consider strengthening your training program, devising creative sales methods, incentivizing sales personnel, and utilizing external resources (if necessary)?
- We want to check on the progress going forward on a regular basis.

**Company I**
- We are aiming to shift from being a manufacturer to being a service company amid major changes in demand and the industry structure due to the COVID-19 pandemic.
- We are making progress on skill-shifting in Japan, but things are still centered on sales overseas. We recognize that we need to revise the organization and acquire external resources.

## Status of Milestone Management




### Company J

**Service Industry**

**Interviewee**
Representative Director and President, others

**Goal**
Quantifying contributions to solving social issues and setting/disclosing targets

**Nomura Asset Management**
- Our business characteristics are such that you can contribute to solving social issues in the age of COVID-19. Can you quantify your contributions and show your targets?
- Your M&A and new business track records are good. If these lead to contributions to social issues, it is possible for you to show reproducibility and attract funds for impact investment.

**Company J**
- We view non-financial business as the driver, or the foundation, of our business. It has a natural strength, but we were not able to put it into words.
- Set and disclosed goals for solving social issues in line with the business.


* The period is the number of months from start of interviews until December 2021

Social

# Human Resources amid New Circumstances

**Work style reform amid the age of COVID-19. Consideration of human rights and workers**

## Examples of engagement

### Company K

**Machinery**

**Interviewee**
Director, Representative Executive Officer and Vice President

**Goal**
Formulation of human rights policy and performing human rights due diligence

**Nomura Asset Management**
- You have made progress on environmental initiatives, but there is room for improvement on social issues, especially with respect to human rights risks.
- You are expected to manage human rights risks at your customers. Inadequate efforts can affect business. You need to formulate a policy and conduct due diligence.

**Company K**
- We manage the supply chain, but we have just started managing human rights.

## Status of Milestone Management


### Company L

**Retail**

**Interviewee**
Director, others

**Goal**
Implementation and disclosure of human rights due diligence

**Nomura Asset Management**
- Our integrated reports are heavily focused on business opportunities. Disclosure related to risks is insufficient.
- We see that disclosure has improved, but disclosure of human rights risks is insufficient. Given the nature of your business, these are risk factors that receive a lot of attention.
- We are expecting improvements. We would like you to conduct human rights due diligence and disclose the results.

**Company L**
- We reviewed our materiality and expanded the content/descriptions about risk.
- We recognize this as an issue. We have created a supplier management system.


Social

# Diversity

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

## Examples of engagement

### Company M

**Electrical Equipment**

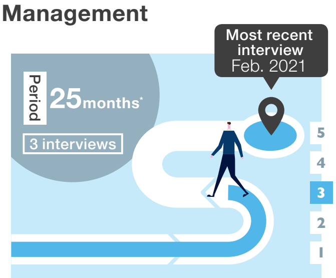
**Interviewee**
Representative Director and President, others

**Goal**
Setting targets for promoting the active participation of women

**Nomura Asset Management**
- You have not announced any targets for social issues such as promoting the active participation of women.
- The number of years of continuous service for women is close to that of men. The issue might be increasing the number of women who aim to rise into managerial positions.

**Company M**
- Instructed the department in charge to link it with SDGs and quantify it.
- In addition to creating the Diversity Promotion Department and appointing a woman as the department head, we are also working to target talented women and on developing them along with their superiors.

## Status of Milestone Management




### Company N

**Electronics**

**Interviewee**
Representative Director and President, others

**Goal**
Formulating and publicly disclosing medium- to long-term targets for social issues such as women managers

**Nomura Asset Management**
- You have not set targets for environmental or social issues other than climate change. In particular, promoting the active participation of women is an issue, is it not?
- To show management's long-term commitment, please disclose some medium- to long-term targets.

**Company N**
- We recognize that both the hiring stage and retention after joining the company are issues.
- The rate of returning to work after childbirth is high and no M-shape phenomenon has occurred. We are strategically working on this, both from the organizational design side and the talent management side.
- Disclosed targets for the ratio of women in managerial positions.


Governance

# Redefine the Board of Directors

**Enhance effectiveness. Support the full-fledged transition to a monitoring board.**

## Examples of engagement

### Company O

**Transport equipment**

**Interviewee**
Senior Managing Executive Officer and Director, others

**Goal**
Establishment of Nomination and Compensation Committee

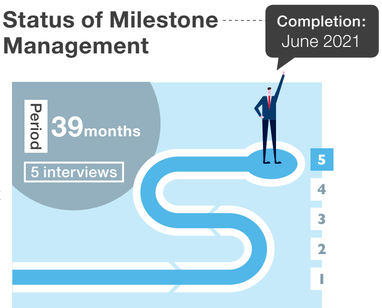
- Supervisory functions centered on nominations and compensation are important, but you don't have a nomination or compensation committee.
- You need to have a forum for outside directors to have discussions focused on nominations and compensation.

**Nomura Asset Management**

**Company O**

- The company president provides explanations to the Audit and Supervisory Committee, and the Committee gives its opinions to the board of directors.
- The current process is working, but we are aware of what institutional investors want us to do. We are continuing discussions within the company.
- Transitioned to a "company with committees" structure, and established both a Nominating Committee and a Compensation Committee.

### Status of Milestone Management




### Company P

**Retail**

**Interviewee**
Director and Senior Managing Executive Officer, Outside Director, others

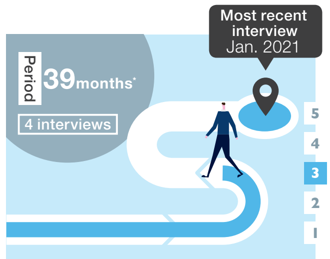
**Goal**
Increasing the number of outside directors with management experience, or establishing Nomination and Compensation Committees

- The function of supervising management (such as supervising nominations and compensation) is weak. There are no outside directors with management experience.
- Your efforts to strengthen governance are late/slow. We would like to meet with outside director(s).
- We want outside directors to supervise the senior management team through nominations and compensation. If there are not enough people, please bring in people with management experience.

**Nomura Asset Management**

**Company P**

- It is difficult because we are an owner-operator company, but we have reduced the number of internal directors in order to separate execution.
- (Comment by outside director) I was appointed with the expectation that I would provide advice to senior management. There are few outside directors, so even if the company were to establish nomination/compensation committees, they wouldn't function well.





Disclosure/dialogue

# Risk Management

**Reconsideration of materiality (important management issues). Disclosure of risk information based on materiality.**

## Examples of engagement

### Company Q

**Pharmaceuticals**

**Interviewee**
Representative Director and President, others

**Goal**
Integrated report that summarizes risks and opportunities

- The linkage between business and ESG is unclear in the integrated report.
- It is important to classify key issues in terms of risks as well as opportunities.
- Confirmation that risks and opportunities have been classified.

**Nomura Asset Management**

**Company Q**

- We believe that ESG can lead to business opportunities. We are aware that the relevance of ESG issues is weak because we discussed them after we formulated the medium-term management plan.
- Reviewed key issues in conjunction with the formulation of the new medium-term management plan. The Integrated Report was also renewed.

### Status of Milestone Management


### Company R

**Retail**

**Interviewee**
Director and Managing Executive Officer, others

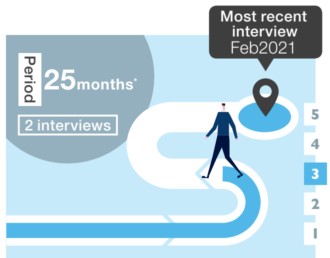
**Goal**
Classification and disclosure of risk factors

- You have had a series of scandals, and risks have become apparent. The risks disclosed in the integrated report are not given levels of priority, and their relevance to the business is unclear.
- The way you organize your risks is still inadequate.

**Nomura Asset Management**

**Company R**

- We understand that we need to attach relative weightings to each risk factor. We are closely examining them.
- (Renewed the Integrated Report)
- We have provided feedback about what you pointed out. We are strengthening the group's risk management system, and this is being discussed by the board of directors, but we are aware that it is not sufficient, including our disclosure.




* The period is the number of months from start of interviews until December 2021

# Review of Priority Topics

We believe that a mutual understanding of ESG issues and the promotion of proper initiatives are indispensable elements for increasing corporate value and achieving sustainable growth. Through engagement activities, we continually urge portfolio companies' senior management to manage risks, and pursue business opportunities, related to ESG issues. We will also continue to actively communicate the importance of information disclosure in accordance with global initiatives.
Based on this approach, we have newly set 10 priority themes for engagement, with the approval of the Responsible Investment Committee (July 2021).


**Financial**

### Rational explanation of financial strategy

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


**Business**

### Integrate Business Strategy and Sustainability

Accountability for business strategy that integrates sustainability. This includes targets for sales of products that contribute to sustainability, etc.


**Governance**

### Redefine the Board of Directors

Improving effectiveness. Encourage a full-fledged transition to monitoring boards.
(Discuss together with the revision of proxy voting standards)


**Governance**

### Strengthen commitment to capital efficiency

Demand commitment to capital efficiency through executive compensation


**Governance**

### Reduction of cross-shareholdings

Ask for a reduction in line with the Corporate Governance Code


**Environmental**

### Climate Change

Companies are expected to set GHG reduction targets aiming for net-zero, attain SBT certification, disclose Scope 3 emissions and amount of GHG absorption, etc.


**Environmental**

### Natural Capital

Work to preserve biodiversity, water resources, etc.


**Social**

### Diversity

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


**Social**

### Human Rights Risks

Ask companies to formulate human rights policies and perform human rights due diligence as demanded by the public both in Japan and overseas.


**ESG,Disclosure/dialogue**

### Disclosure of Materiality and Risk Information

Reconsideration of materiality
(important management issues)
Disclosure of risk data based on materiality

# Engagement Department

## Enhancing ESG Engagement

Senior Managing Director
Chief Investment Officer (Equities)
**Yuichi Murao**

Nomura Asset Management created the Engagement Department in November 2021. This department was established in order to enhance the understanding of the business environment surrounding portfolio companies and deepen constructive and “purposeful dialogue” (engagement) that contributes to sustainable growth, as well as to further reflect the outcomes of engagement in investment decisions and proxy voting.

For asset managers like us, engagement with portfolio companies is absolutely essential in order to understand a company’s business situation and its ability to create value over the medium to long term. It is also now widely understood that management under appropriate governance systems can contribute to a company’s sustainable growth. In order to create an investment chain (virtuous cycle of investment), asset management companies are expected to link ultimate beneficiaries with portfolio companies and support companies that can contribute to a prosperous society. I believe that engagement is an important means for achieving that.

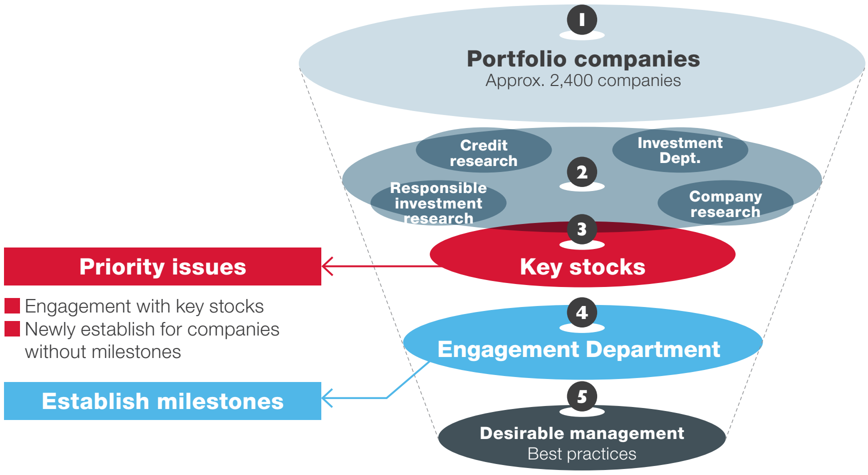
Introduced in 2014 and 2015, the Stewardship Code and the Corporate Governance Code demand that asset managers engage in constructive dialogue based on a deep understanding of portfolio companies, and that companies actively and aggressively address ESG (Environment, Society, and Governance) issues. We have been diligently advancing similar initiatives for many years. However, as the economy and market environment change, so do the ideals of investors and portfolio companies. When the demands of different stakeholders are not uniform, we must determine what options are the best for fiduciaries and society. In order to fulfill our responsibility to the best of our abilities, I want for the Engagement Department to further enhance engagement, which is constructive and purposeful dialogue with portfolio companies.

The Engagement Department will act as a locus of collaboration between our ESG specialists (horizontal axis) who are well-versed in ESG issues for which initiatives at global standards are required, our corporate analysts (vertical axis) who conduct sector research and analyze and make recommendations for portfolio companies, and our credit analysts (vertical axis) who have expertise in bond issuance which is a major means that companies use to raise funds. I believe this concentration of expertise will further deepen our understanding of portfolio companies. (Refer to our engagement system on Page 52).

Through dialogue with portfolio companies based on such an understanding, we are able to communicate the “desirable management” that we expect of them, and let them know what actions we want them to take. This will likely help improve corporate value as companies tackle and solve ESG issues. I feel that our efforts have become more effective based on the collaborative engagement activities that we have been carrying out for nearly half a year now. By reflecting the results of engagement in investment decisions and proxy voting, not only will we see an improvement in corporate value, but as a responsible investor that invests in a variety of assets including stocks and bonds, Nomura Asset Management will aim to contribute to sustainable economic growth and the realization of a prosperous society by enhancing our stewardship activities.

## Overview of Companies with which We Engage

Nomura Asset Management holds constructive dialogue (engagement) centered on approximately 300 companies, taking importance into consideration based on the value of our holdings in a company and our ownership ratio, combining both our actively-managed funds and our passive funds. The companies that we engage with, including those that the Investment Department asks us to engage with and portfolio companies that wish to have dialogue with us, have a combined market capitalization of just under 80% of the total market capitalization of the Tokyo Stock Exchange. In FY2021, we carried out engagement with almost all of the target companies. We also set milestones (see Page 44) for target companies and told portfolio companies what we see as their key issues. The Engagement Department, which was established in the fall of 2021, is working to develop even closer cooperation with corporate analysts, ESG specialists, credit analysts, and equities and bond portfolio managers, and to make engagement themes more advanced along with managing progress. We are also supporting the improvement of the corporate value of portfolio companies towards what we consider "desirable management," as well as focusing on spreading awareness of the best practices which serve as good examples.



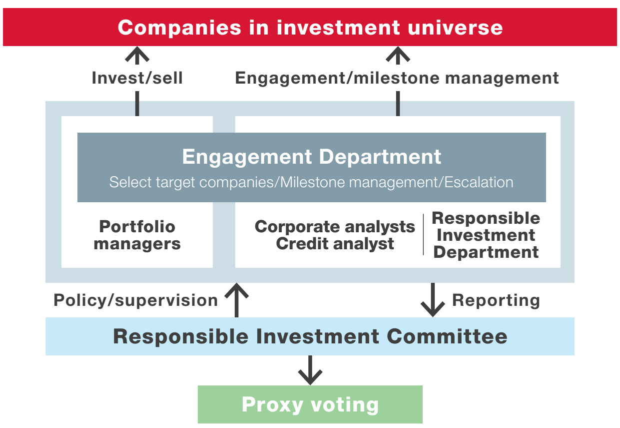

## Relationship Between Engagement, Proxy Voting and Investment Decisions

In our engagement program, the Engagement Department manages milestones, and the details of that are reflected in investment decisions via portfolio managers and in proxy voting via the Responsible Investment Department. We also believe that this contributes to the virtuous cycle of the investment chain.

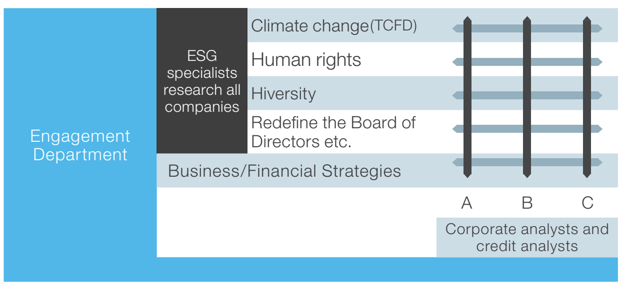
If we have communicated to a company through engagement that its efforts towards desirable management are inadequate and we have urged them to take action, yet still the company has not taken adequate action for a considerable period of time and no improvements are expected, the Investment Policy Committee may decide on a company-wide course of action such as divestment. In addition, the Responsible Investment Committee may reflect this in proxy voting, such as opposing director appointment proposals, as necessary.

We are also strengthening the collaborative relationship between corporate analysts, credit analysts and ESG specialists. Analysts not only encourage portfolio companies to transform themselves on an individual industry and company basis, but also conduct ESG research and carry out engagement. In addition, ESG specialists who have abundant and global knowledge about ESG themes support efforts to improve corporate value by digging deeper into ESG initiatives at portfolio companies for each theme. By having analysts and ESG specialists, who together possess a deep understanding of companies' financial situations as well as their ESG initiatives, work together, we believe that we can boost synergies, and that this more advanced level of engagement will lead to improvements in corporate value.

### Engagement, proxy voting, and investment decisions




### Engagement System




Corporate analysts and credit analysts research and hold dialogue with individual companies about their business/financial strategies and ESG, and ESG specialists dig deep on key ESG themes across all companies. The Engagement Department monitors to make sure that there are no contradictions or gaps in our stance, and continually communicates with all parties involved.

# Global Equity Engagement

## 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 encompass a large number of target countries and companies, we are leveraging the expertise of our investment teams around the globe, as well as utilizing outside resources, to optimize our engagement activities.

In 2021 our overseas offices conducted engagement on a total of 628 topics (the total number of engagements was 213). We divide engagement topics into a total of six topics: business strategy, financial strategy, environment, social, corporate governance and disclosure/dialogue. 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 56). 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 57-60).

## Example of Engagement by Overseas Office

In 2021, the UK office began a project to engage with companies that have not yet had their GHG emission reductions targets approved by the Science Based Targets Initiative (SBTi) or committed to doing so. Such targets align a company's objectives for the pathway of their emissions with what is required to meet the Paris Agreement – limiting global warming to well below 2°C, preferably to 1.5°C, compared to pre-industrial levels. The initial stage of the project was focused on analysing portfolio companies' GHG emission reduction targets and determining, which companies either have not had targets approved by the SBTi or committed to working towards doing so. The next stage involved engaging with all those companies to understand their reasons for not having such targets, what the challenges they were facing and whether they were considering/ working towards SBTi validated science-based targets. The SBTi validation of GHG emission reduction targets is considered the gold standard within the investment community and provides investors with an opportunity for a more direct comparison between peers and across sectors. Nomura Asset Management announced its own commitment to the Net Zero Asset Managers initiative in Nov 2021 (participated in Aug 2021) and core to the impact we believe we can have as a firm will be engaging with companies and using our influence to push them towards committing and then in due course having their targets being validated by the Science Based Targets Initiative.

### Engagements with Global Equities

**Total number of engagement topics by overseas offices**

**628** topics (213 engagements)

2021

**Engagements by Sustainalytics*(2021)**

**319**

2021

*Target universe: MSCI ACWI ex Japan


| | Ratio | Number of topics |
|---|---|---|
| Business strategy | 9% | 55 |
| Financial strategy | 3% | 18 |
| Environmental | 26% | 161 |
| Social | 24% | 149 |
| Governance | 18% | 111 |
| Disclosure/dialogue | 21% | 134 |
| Total number of topics | | 628 |


| | Ratio | Number of topics |
|---|---|---|
| Europe | 14% | 86 |
| North America | 11% | 68 |
| Asia and Emerging | 75% | 474 |
| Total number of topics | | 628 |

# 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

**PLAN** — Recognition of topics and issues Selection of target companies

**DO** — Engagement ESG evaluation

**CHECK** — Milestone management (Keep records/ progress evaluation)

**ACT** — Performance review Policy review

Discovery of subsequent topics and issues

### Examples of Milestone Management* (Refer to Page 55)

| Nomura Asset Management's Global Equity Engagement | | 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 | Period |
|---|---|---|---|---|---|---|---|---|
| Engagement by Nomura Asset Management offices | US Electric Utilities company | ■ | ■ | ■ | ■ | | 2 | 3 months |
| Collaborative engagement by Nomura Asset Management and Sustainalytics | Hong Kong insurance company | ■ | ■ | ■ | ■ | | 2 | 13 months |
| Engagement outsourced to Sustainalytics | Germany Automobiles | ■ | ■ | ■ | ■ | ■ | 2 | 30 months |

* 1: Communicate issues; 2: Share recognition; 3: Formulate countermeasures; 4) Implement countermeasures; 5) Conclusion

COLUMN

## Introduction of members supporting engagement activities overseas

Diana and Daniela based in the London office undertake the mammoth task of collating, checking and maintaining the central records of quarterly engagement data submitted by the various global equity teams. This data forms part of the quarterly Responsible Investment reports which are published on the NAMUK website and is also available on the interactive database on the NAMUK website which was launched in 2021.


# Global Equity Engagement

## Examples of Global Equity Engagement (Milestone Management)

### Swiss food company

| | |
|---|---|
| **ESG issues** | Protection of natural capital, elimination of deforestation in the supply chain |
| **Engagement overview** | Monitoring system and traceability in the supply chain, initiatives to prevent deforestation |
| **Company response** | Using satellite image data and supply chain mapping, etc., to monitor that the supply chain is not involved in deforestation<br>As of 2020, assessed that 90% of the purchases of key soft commodities that carry the risk of deforestation do not involve deforestation |
| **Goals** | Respond to instances of deforestation occurring in the supply chain, and curb future deforestation |
| **Milestone progress** |  |



### South Korean auto components company

| | |
|---|---|
| **ESG issues** | Diversification of directors and ensuring director independence, protection of minority shareholders' interests |
| **Engagement overview** | Policy and process for selecting directors, initiatives aimed at ensuring diversity and independence in the board of directors<br>Bolster communication with shareholders, Shareholder return policy |
| **Company response** | Appointed independent directors elected by shareholders, and strengthened engagement with shareholders<br>Appointed an independent woman director in 2021<br>Promoted the hiring of women on a company-wide basis |
| **Goals** | Ensure diversity and independence of board of directors<br>Bolster governance aimed at protecting minority shareholders' interests |
| **Milestone progress** |  |

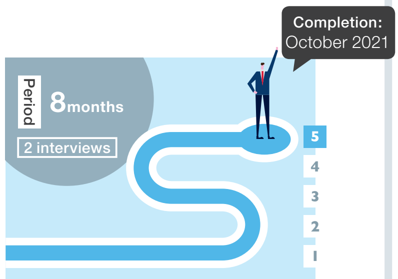


### Hong Kong insurance company

| | |
|---|---|
| **ESG issues** | Establishment and enhanced disclosure of KPI related to ESG risks, improvement of the director nomination process and bolstering of gender diversity |
| **Engagement overview** | Improve gender diversity in the Board of Directors<br>Enhance disclosure of ESG risk-related KPI |
| **Company response** | Appointed an independent woman director in 2021<br>Plans to disclose KPI related to ESG risks and integrate into the compensation scheme |
| **Goals** | Diversity in the board of directors, disclosure of KPI related to ESG risks |
| **Milestone progress** |  |



### Australian material company

| | |
|---|---|
| **ESG issues** | Climate change risk management system, ensure safety of tailings storage facilities |
| **Engagement overview** | Analysis of climate change scenarios and disclosure related to plans for reducing Scope 3 emissions<br>Strengthen risk management aimed at preventing accidents at tailings storage facilities |
| **Company response** | Formulated climate transition action plan and announced commitments, including Scope 3<br>Tied executive compensation to climate change indicators.<br>Strengthened risk management of tailings storage facilities as well as community engagement |
| **Goals** | Disclosure of GHG emissions reduction plan (including Scope 3)<br>Ensure safety of tailings storage facilities |
| **Milestone progress** |  |



**Milestone status (progress)** 1 Communicate issues 2 Share recognition 3 Formulate countermeasures 4 Implement countermeasures 5 Conclusion

* The period is the number of months from the start of interviews to December 2021.

## 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. 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 localized water and responsible cleantech from a global perspective.

E S G

### Global Standards Engagement

| Engagement Policy | Target companies |
|---|---|
| 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

| Engagement Policy | Target companies |
|---|---|
| Encourages companies with financiallymaterial 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 |

### Thematic Engagement

E

### Engagement related to Feeding the future

| Engagement Policy | Target companies |
|---|---|
| Efforts to help the food industry transition to a sustainable world food system, including managing natural capital such as land and water, reducing food waste, and responding to changing consumer trends. | Agriculture, agrochemicals, packaging food, food retail companies |

E S

### Engagement related to Localized water

| Engagement Policy | Target companies |
|---|---|
| To enhance water security for all and reduce risks to businesses, promote a better understanding of water issues and encourage the development of regional goals. | Companies with operations in the Tietê and Vaal river basins and are highly dependent on the local water situation |

E S

### Engagement related to Responsible cleantech

| Engagement Policy | Target companies |
|---|---|
| Encourage an appropriate response to environmental and social risks in their operations and supply chain, and a product life cycle approach to promote more sustainable production of cleantech solutions. | Solar power generation equipment, wind power generation equipment, battery-powered electric vehicles |

S

### Engagement related to Child Labour In Cocoa

| Engagement Policy | Target companies |
|---|---|
| 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 | Cocoa and chocolate companies, companies in related supply chains |

S

### Engagement related to Modern slavery

| Engagement Policy | Target companies |
|---|---|
| Encourage companies to adopt a multi-dimensional strategy that encompasses structural root causes, rigorous monitoring, and a continuous improvement approach to address the key risks of modern slavery. | Companies in apparel and construction industries |

G

### Engagement related to Tomorrow's Board

| Engagement Policy | Target companies |
|---|---|
| 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

| Engagement Policy | Target companies |
|---|---|
| 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 |

# Cooperation with Initiatives

## Commitment to no-deforestation together with other financial institutions

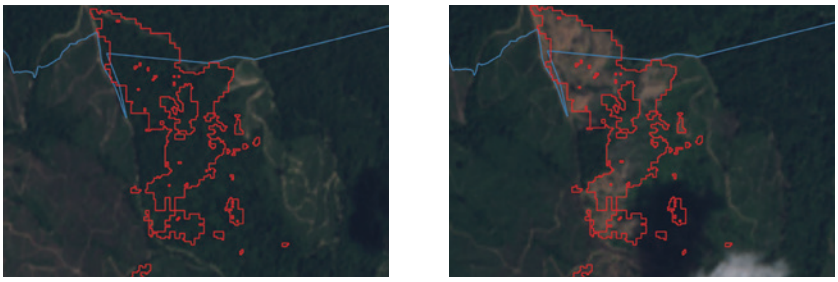
2021 marked the first full year of continuous collaboration with investee companies towards achieving zero deforestation. Throughout this period we have seen the engagement activity and the number of productive discussions picking up significantly, with the addition of new companies and investors to the project.

In phase two of this initiative the investor group, with the help of our satellite monitoring partner – Satelligence – expanded the reach of the project to cover palm oil plantations and mills in Indonesia. The conversations we are having with companies has also started to include other key soft commodities depending on the relevance of those for different companies. As part of that expansion, a further 21 companies were identified to engage with on the topic of achieving zero deforestation. From the list of companies added, 3 belong to Group A, which are companies that at present show a lack of traceability efforts and/ or do not disclose their supplier lists and 18 in Group B, which are companies that provide disclosures of existing supply chains already, however have been connected to cases of deforestation in the recent year based on satellite imagery and artificial intelligence data.

Nomura Asset Management (NAM) committed to take the lead on two of those supplementary companies. The first engagement we led took place at the end of 3Q21 and resulted in a constructive conversation with a European Consumer Staples company. All flagged deforestation cases are currently being investigated on the ground by an NGO the company is partnering with and the investor group is awaiting an update in due course. The second engagement NAM is co-leading with another asset manager has been scheduled for early 1Q22.

We are proud to announce that in June 2021, ACTIAM, the organiser of this collaborative engagement was recognised by the Environmental Finance Sustainable Investment Awards for ESG engagement of the year.

Looking ahead, the investor group is planning to further expand the list of companies, as well as carrying out follow ups on some of the initial conversations we had with participating companies. In addition, part of the investors involved in this engagement project towards no deforestation, including NAM, are currently exploring opportunities to use other innovative technologies in our collaboration with investee companies to address the growing importance of biodiversity loss.



Satellite image example of deforestation:
Red boundaries is the deforested area.
Left is Image before deforestation activity begun. Right is Image after deforestation activity begun.


Report published every two years

## 2 Commitment to access to medicine

The level of vaccination rates in poorer nations has been extremely slow relative to richer nations, and the actions of certain companies with regards to the roles they have played in supporting access has been disappointing. We believe that prioritising access to vaccines over near-term profits is not only the right thing to do, but the most sustainable long-term approach for these businesses. This will help lower the risk that new variants develop, prolonging the pandemic, and also lowers the risk that vaccine developers face a change in societal perspective with regards to their role in tackling the pandemic. We strongly believe the investment management industry has a huge opportunity to have a more a positive impact, and see it of utmost important that we do what we can in continuing to engage with companies, our network and Access to Medicine to support a more equitable approach and have invested considerable time into this over the year.

In the first quarter of the year Nomura Asset Management co-signed an Access to Medicine statement supporting a fair and equitable response to the Coronavirus pandemic. The spread of new COVID strains has made it even more urgent to launch rapid vaccination programmes covering as many people as possible, including in low- and middle-income countries, and the statement represented further commitment from Nomura Asset Management to continue to work with Access to Medicine to achieve more equitable outcomes. As co-leads of the Access to Medicine investor collaboration with one of the leading vaccine manufacturers globally, we also engaged with the company directly to discuss vaccine efforts and strategies for ensuring access.

In the second quarter we again worked with Access to Medicine and our Responsible Investor peers to engage with pharmaceutical companies directly involved in the Coronavirus pandemic response. Following on from the statement supporting a fair and equitable response to the Coronavirus pandemic that was signed in 1Q21, individual company specific letters were drafted and distributed that addressed the specific roles we expect the companies to play. In total we engaged with 8 companies. Over the quarter the WHO publically called for the price of one of our investee company's treatments – used to treat black fungus – to be lowered in India for patients suffering from Coronavirus. We engaged with the company to both better understand its licensing agreements in India and the levers it can pull to support access, reiterating our expectations to take a responsible approach to tackling the fallout from the pandemic.

In the third quarter we engaged extensively with one of the pharmaceutical companies that we believe to have been the most responsible with regards to its COVID vaccine, which had at that date been priced at cost in developed markets and will be produced on a not for profit basis in lower income countries indefinitely. The company has also performed far better than peers with regards to supporting access to its vaccine in lower income countries. We engaged with the company to better understand both limitations on supporting even greater access and internal perceptions with regards to expectations of their investors. We strongly reiterated to the company that we believe its approach to not making a profit on vaccines and supporting access is the right thing to do and increases our view of the long term sustainability of the busines

In the fourth quarter we worked with peers and Access to Medicine to develop a further open letter to vaccine manufacturers (to be published in early 2022) supporting the WHO's policy on vaccine supply (see below). We recommend that vaccine access goals should be incorporated into management compensation and aligned with these goals.

**WHO (World Health Organization) targets for vaccine supply**

A

Prioritise and fulfil COVAX and AVAT contracts as a matter of urgency

B

Provide full transparency on the overall monthly production of COVID-19 vaccines and clear monthly schedules for supplies to COVAX, AVAT, and lower income countries.

C

Actively engage and work with countries that have high coverage and that have contracted high volumes of vaccines to allow for the prioritisation of COVAX and AVAT contracts

D

Commit to share know-how more rapidly, facilitate technology transfer, and provide transparent non-exclusive voluntary licenses.

# Cooperation with Initiatives


Report published every two years

## 3 Access to Nutrition Initiative

In May 2021, Nomura Asset Management became the first Japanese asset management firm to sign the Investor Expectations on Nutrition, Diets and Health developed by Access to Nutrition Initiative (ATNI).

About one in 10 people in the world are exposed to severe food insecurity, while at the same time, one in three people are overweight or obese. The "double burden of malnutrition" comprising undernutrition that hinders growth and overnutrition that causes lifestyle-related diseases is an issue the entire world is facing. Malnutrition is a serious problem that not only affects human life and health, but also has a major impact on the economy and society, including a decline in productivity and an increase in medical expenses. Although Goal 2 and Goal 3 of the SDGs aim to eliminate all forms of malnutrition and ensure healthy lives for all by 2030, progress towards achieving nutrition-related goals has been slow. Further cooperation in the nutrition domain is needed.

ATNI is an independent non-profit organization, and performs globally-consistent analyses of initiatives related to improving accessibility to highly-nutritious foods and beverages in the food and beverage industry.

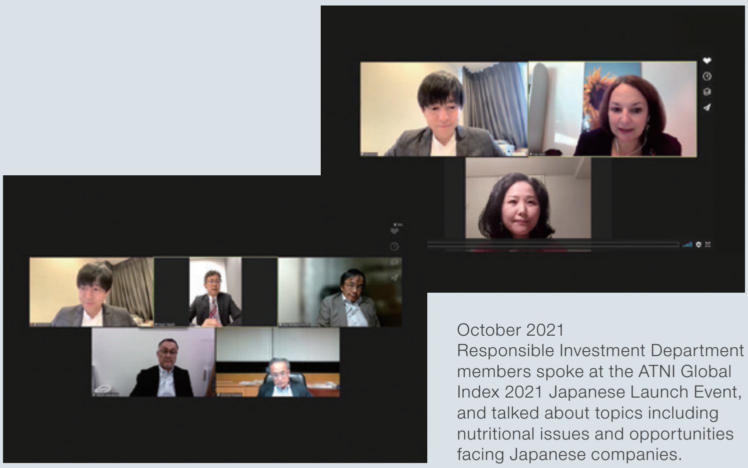
Financial institutions are expected to play a growing role in the effort to solve nutritional issues, and the total assets of asset management firms that support the ATNI Investor Pledge are rapidly increasing. As of December 2021, 76 asset managers with total investment assets of US$16.6 trillion utilize ATNI's index reports to jointly engage with food and beverage companies to urge them to enhance their governance, strategy and disclosure with respect to nutrition, with the aim of solving malnutrition, obesity and chronic disease problems related to diets, as well as utilize such information in making investment decisions. Nomura Asset Management decided to serve as co-chair for engagement with one Japanese food company. At the first meeting held in the third quarter of 2021, constructive discussions about company's nutrition strategy took place.

Food companies and their supply chains are not only involved with nutritional issues, but also environmental issues such as biodiversity as well as human rights issues. By working with international initiatives such as ATNI and FAIRR, and engaging with food companies and companies in their supply chain on a wide range of social and environmental issues, we aim to realize a society with a healthy longevity and a sustainable food system, as well as to support the sustainable improvement in value of our portfolio companies.

**October 2021**

### Sponsored and took the stage at the ATNI Global Index 2021 Japanese Launch Event

Prior to the Tokyo Nutrition Summit held in December 2021, Nomura Asset Management sponsored the ATNI Global Index 2021 Japanese Launch Event in October 2021 with ATNI and Neural. At the event, together with the other participants comprising Japanese companies, institutional investors supporting the Investor Pledge, government officials and others, we considered the results of the Global Index 2021 study, and discussed topics including the issues and opportunities facing companies in the effort to advance healthy dietary lifestyles, and about the making the international nutritional standards consistent with Japan's specific circumstances.



October 2021
Responsible Investment Department members spoke at the ATNI Global Index 2021 Japanese Launch Event, and talked about topics including nutritional issues and opportunities facing Japanese companies.

## The Investor Expectations on Nutrition, Diets and Health developed by Access to Nutrition Initiative (ATNI)

**The ATNI Investor Expectations encourages corporate actions in the following fields.**

| | |
|---|---|
| **Governance** | Introduce management systems that ensure the delivery of a comprehensive nutrition strategy. For example, assigning responsibility to the CEO and at the senior management level, and link remuneration to the delivery of the strategy, etc. |
| **Strategy** | Define healthy products in accordance with the nutrient profiling system (NPS), set comprehensive nutritional strategies including SMART (Specific, Measurable, Achievable, Relevant, and Time-bound) targets that improve affordability and accessibility. |
| **Lobbying** | Adopt the five principles of responsible lobbying activities (legitimacy, transparency, consistency, accountability and opportunity), declare that lobbying activities will be limited to promoting the health and diet of citizens |
| **Transparency** | Formally disclose nutritional strategy and targets, data on revenues from healthy products and other related information |

## Access to Nutrition Initiative Global Index 2021 Rankings

| Ranking | Company name | ATNI Index score |
|---|---|---|
| 1 | Nestlé | 6.7 |
| 2 | Unilever | 6.3 |
| 3 | FrieslandCampina | 5.9 |
| 4 | Danone | 5.8 |
| 5 | Arla | 5.1 |
| 6 | Mars | 4.8 |
| 7 | PepsiCo | 4.5 |
| 8 | Kellogg | 4.3 |
| 9 | Grupo Bimbo | 4.2 |
| 9 | Mondelēz | 4.2 |
| 11 | The Coca-Cola Company | 3.4 |
| 12 | General Mills, Inc. | 3.1 |
| 12 | Meiji | 3.1 |
| 14 | Ajinomoto | 3.0 |
| 14 | Campbell Soup Company | 3.0 |
| 16 | Ferrero | 2.9 |
| 17 | ConAgra Brands | 2.3 |
| 18 | BRF | 1.7 |
| 19 | Keurig Dr Pepper | 1.5 |
| 19 | The Kraft Heinz Company | 1.5 |
| 21 | Suntory | 1.1 |
| 21 | Yili | 1.1 |
| 23 | Lactalis | 0.9 |
| 23 | Mengniu | 0.9 |
| 25 | Tingyi | 0.7 |

Source : Access to Nutrition Initiative Global Index 2021

November 2021

### Took the stage at Tokyo Nutrition for Growth Summit official side event sponsored by ATNI

At an official side event at the Tokyo Nutrition for Growth Summit held in November 2021, we participated in a panel discussion with other institutional investors and discussed the contribution to nutritional issues expected of institutional investors.

November 2021 A portfolio manager from the U.K. office took center stage at an official side event of the Tokyo Nutrition for Growth Summit, and engaged in a discussion with other institutional investors about the contributions to nutritional issues expected of institutional investors.

December 2021

### Investor Pledge presented through ATNI at the Tokyo Nutrition Summit 2021 hosted by the Japanese government.

At the Nutrition for Growth Summit 2021, in light of the fact that the "double burden of malnutrition" which includes undernutrition that hinders growth and overnutrition that causes lifestyle-related diseases is a problem in both developing and developed countries, along with the fact that an increasing number of people are suffering from malnutrition due to the COVID-19 pandemic, leaders from national governments and international organizations held discussions, shared their thoughts of the direction of future actions, and announced stronger commitments. The Summit's concluding statement summarized the Tokyo Compact on Global Nutrition for Growth, and highlighted a way forward with respect to the five thematic areas to end malnutrition by 2030: health, food, resilience, accountability and financing. Nomura Asset Management, along with other institutional investors, has signed the Tokyo Nutrition for Growth Summit Investor Pledge and announced that it will utilize ATNI's Investor Expectations to tackle nutrition issues as a responsible investor.


# PROXY VOTING

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

**Characteristics of the Proxy Voting Process**

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

Refer to Page 5~6 for more information about the Responsible Investment Committee

# Proxy Voting Process

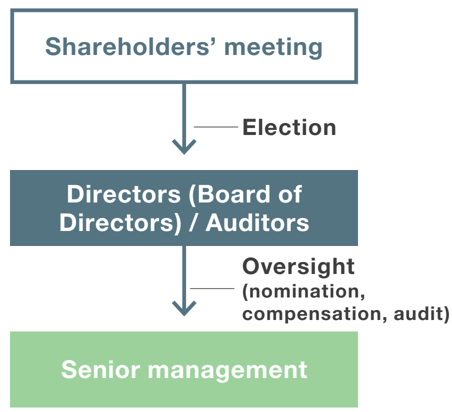
In proxy voting, we focus on the corporate governance of portfolio companies. The basic structure of corporate governance is that directors and auditors are elected at a shareholders' meeting, and directors (the board of directors) and auditors supervise senior management through nominations, compensation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

The four points noted in the lower part of the previous page are the unique aspects of our proxy voting process.

### Basic Corporate Governance Structure

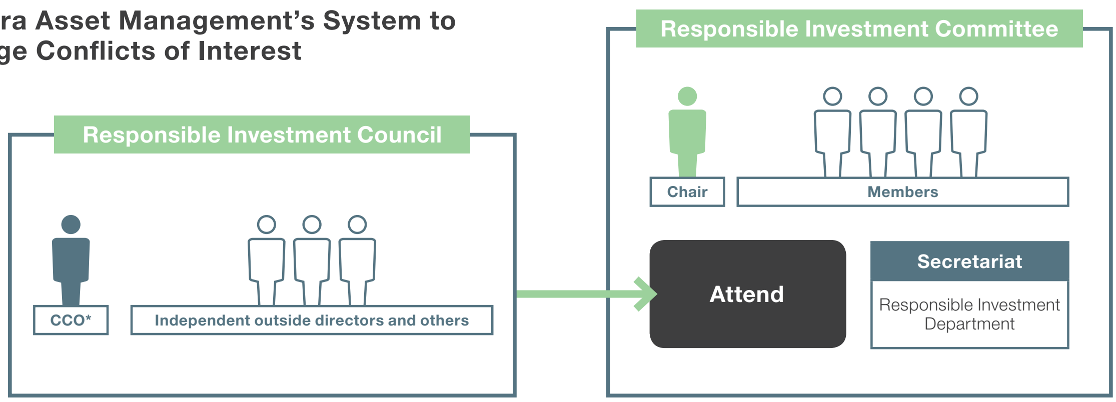



# System to Manage Conflicts of Interest

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

# 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).

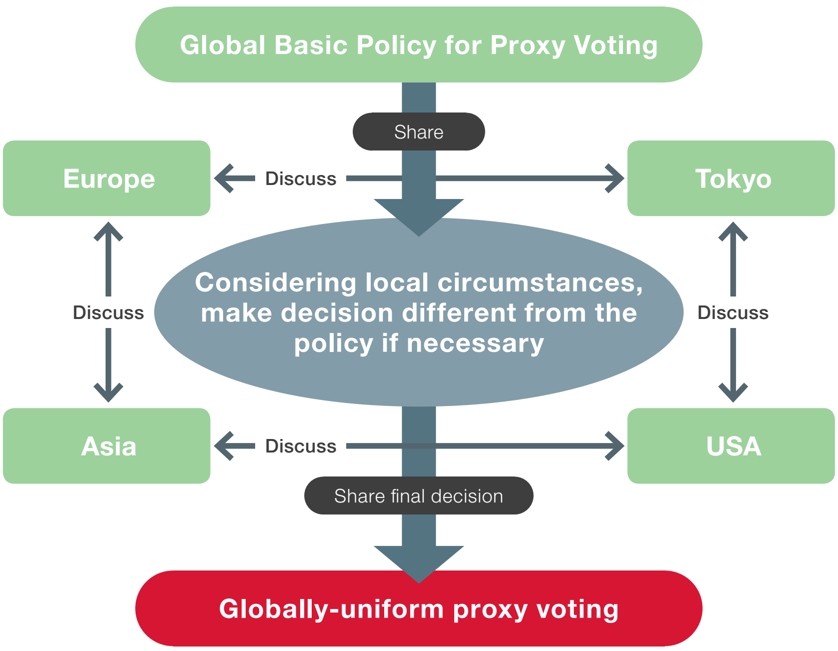
| | Members (as of December 2021) | Role | Process of formulating proxy voting guidelines | Proposal judging process: Qualitative judgment not necessary | Proposal judging process: Qualitative judgment is necessary (No conflicts of interest) | Proposal judging process: Qualitative judgment is necessary* (There is a conflict of interest) |
|---|---|---|---|---|---|---|
| Secretariat | Responsible Investment Department | Preparation of proposals | ● | ● | ● | ● |
| Responsible Investment Committee | Five people involved in decision-making for investment and research (The Responsible Investment Council members participate in Responsible Investment Committee meetings) | Holds deliberations and makes decisions based on the secretariat's proposals Makes revisions to the secretariat's proposals as required | ● | | ● | ● |
| Responsible Investment Council | One (1) Chief Conflict Officer Outside directors: 2 Outside experts: 1 | 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 | ● | | | ● |
| | | | **Formulation of the guidelines** | **Decide whether to agree or oppose** | **Decide whether to agree or oppose** | **Decide whether to agree or oppose** |

*This includes proposals of group affiliates.

Reference
Opinions from multiple proxy voting advisory firms

# Proxy Voting Process for Global Equities

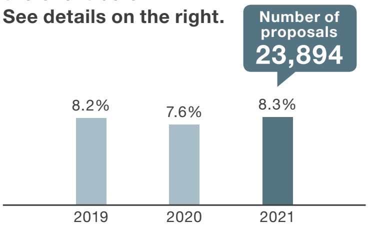
For proxy voting (excluding Japanese equities), we generally decide to vote for or against a proposal in accordance with our Global Basic Policy on Proxy Voting.  However, if the investment managers and analysts possessing a deep understanding of local conditions determine it to be necessary, we may, 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.



# Changes in Results of Exercise of Voting Rights for Japanese companies (Calendar year)

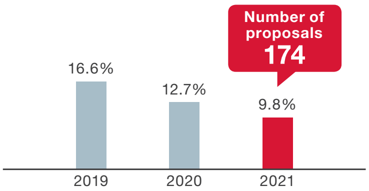
**Total Company proposals**

**The ratio of votes against is shown in the chart below.**
**See details on the right.**



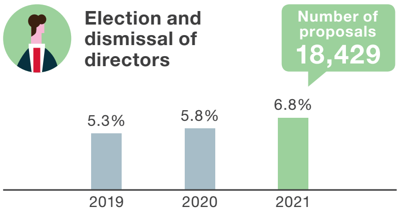

**Total Shareholders' proposals**

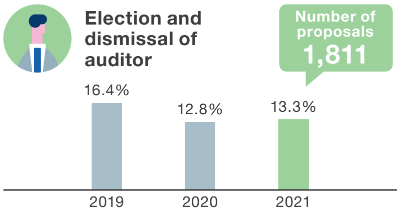
**The ratio of votes for is shown in the chart below.**




## Proposals on company organizational structure
**(Ratio of votes against, same as below)**

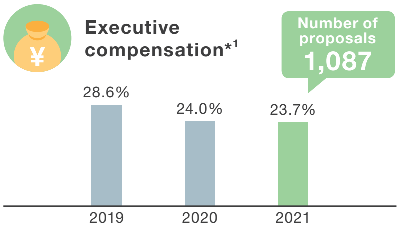
Our ratio of votes against proposals increased in 2021. The main reason for this was our votes against outside directors and auditors with long tenures from November 2021 onward.

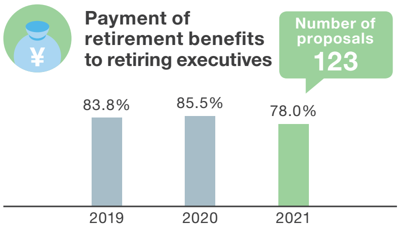



## Proposals on executive compensation

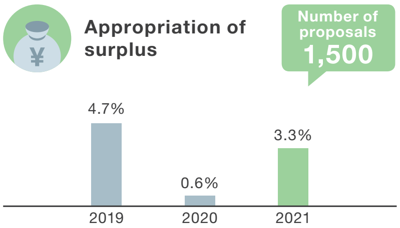
The ratio of votes against decreased in 2021. The main reason for this is the progress in the development of compensation governance.

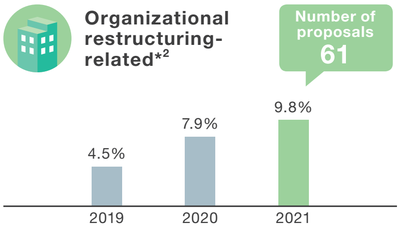


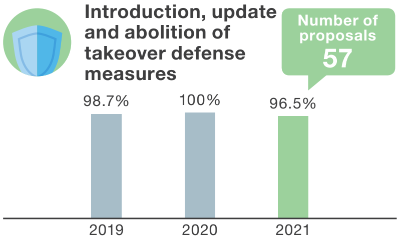



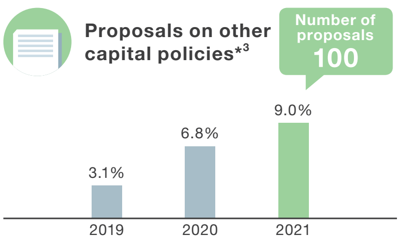

## Proposals on capital policies
**(excluding proposals on articles of incorporation)**

The application of the criteria to the appropriation of surplus was suspended from June 2020 to May 2021 (see pages 65-66), which led to a decrease in the ratio of opposition in 2020 and 2021. In addition, in 2021, there were many proposals related to reorganization and other capital policies. Please see also the examples of reasons for approval and disapproval on page 68.

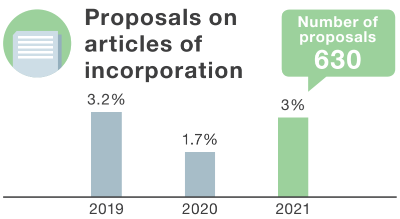



## Proposals on articles of incorporation




* In addition to the above, in 2021 we voted on 91 proposals related to the election and dismissal of accounting auditors, and five other proposals. We voted against 0% and 40% of these proposals, respectively.

*1 Revisions of executive compensation amounts, issuance of stock options, introduction/revision of performance-linked compensation plans, executive bonuses, etc.

*2 Mergers, business transfers/assumptions, share exchanges, stock transfers, company splits, etc.

*3 Share buybacks, reduction in statutory reserves, capital increases via third-party allotment, capital reductions, share mergers, issuance of class shares, etc.

Reference

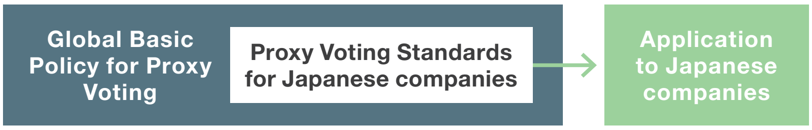
### Results of Proxy Voting for Global Companies January-December 2021

| | Company proposals | Shareholders' proposals | Total |
|---|---|---|---|
| Votes for | 20,358 | 403 | **20,761** |
| Votes against | 2,587 | 167 | **2,754** |
| Total | 22,945 | 570 | **23,515** |
| Ratio of votes against | 11.3% | 29.3% | **11.7%** |

# 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. Since June 2020, the application of some standards had been suspended due to the impacts of the COVID-19 pandemic, but we resumed the application of standards from January 2022. The situation surrounding COVID-19 remains unclear, and is having a considerable impact on the business performance of portfolio companies. For companies and industries for which the impact of COVID-19 is particularly large and the application of business performance standards is not considered appropriate, we conduct deliberations on an individual basis and made decisions flexibly.

### Proxy Voting Guidelines Structure




# Overview of Proxy Voting Standards Revisions (November 2021)

The highlights of this revision include the addition of a new item to reflect the outcomes of engagement in proxy voting, and the setting of different standards for return on equity (ROE) depending on whether a company's board falls into the category of a monitoring board or not. With the former, we are aiming to realize desirable management as presented on Page 21-22. Regarding the latter, before the revision, even if ROE was stagnating, if management improvement efforts were being made (judged by the trends for ordinary profit and net income), we did not use the ROE as a reason to vote against proposals. However, following the revision, we will limit this to cases in which the company's board falls into the category of a monitoring board.

| Proxy voting standards and overview |
| --- |
| **Reflect engagement status** |
| **Stringent judgment on corporate actions and responsibility for outcomes** |
| **Composition of (Board of) Directors** |
| **Independence of outside directors** |
| **Effectiveness of outside directors** |
| **Appropriate compensation governance** |
| **Appropriate incentives** |
| **Effective utilization of financial assets** |

| Proxy voting standards and overview |
| --- |
| **Added new items to reflect engagement outcomes in proxy voting** |
| **Change to business performance standards** |
| **Raised the minimum level for the number of outside directors** |
| **For proposals on disposition of surplus, changed the definition of net financial assets*** |
| **For proposals to change articles of incorporation, added classifications that we will vote in favor of** |

| | In the following cases, we will oppose a company's proposal |
|---|---|
| We will reflect the outcome of engagement aimed at realizing desirable management (Refer to Page 21-22) | ■ If a portfolio company has not made adequate efforts and improvements are not expected despite the fact that during engagement we pointed out that efforts to realize desirable management were insufficient and urged action, and if we determine that this is hindering the improvement of corporate value and sustainable growth, or is likely to hinder them over the medium to long term |
| Judgment made and the responsibility taken to deliver business results by the management and the board of directors will be scrutinized and rigorously judged. | ■ If minority shareholders' interests are not protected in M&A, etc.<br>■ If actions that significantly damage shareholder value (misconduct, etc.) are found<br>■ If ROE is slumping. In the case of a monitoring board, if ROE is stagnating and there is no effort being made to improve management |
| 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 "Overview of proxy voting standards revisions" below for the minimum level |
| In order to supervise senior management, outside directors are required to have a certain degree of independence. In order to prioritize effectiveness, we ensure that the standards for independence are not too stringent. | ■ If the tenure of office is 12 years or more<br>■ When the notification as an independent director is not confirmed<br>■ If the director has been employed by a company in which the company is a major shareholder |
| Outside directors are required to effectively supervise management. | ■ Attendance at board meetings is less than 75%<br>■ When it is clear that they have not fulfilled their expected roles, such as the selection and dismissal of senior management or the supervision of conflicts of interest between the company and its management, controlling shareholders, etc |
| Because the process for determining executive compensation must be transparent, there must be appropriate supervision (compensation governance). | ■ If there is a proposal concerning executive officer compensation or executive officer retirement bonuses above a certain level (for a company that does not have compensation governance in place) |
| 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<br>■ The persons to whom the stock compensation is given are not appropriate<br>■ The stock compensation could lead to excessive dilution |
| 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 |

| Before revision | After revision |
|---|---|
| — | **We will vote against director election proposals in the following cases**<br>• Despite the fact that during engagement we pointed out that efforts towards realizing desirable management are inadequate and urged action,<br>• If the portfolio company is not making adequate efforts and improvements are not expected,<br>• And, this is determined to be hindering the enhancement of corporate value and sustainable growth, or that it is likely to hinder them over the medium to long term |
| We will vote against director election proposals in the following case<br>• ROE has been below the lower of either 5% or the median value in the industry for three consecutive fiscal years,<br>• And, the company has not made an effort to improve management | **We will vote against director election proposals in the following cases**<br>**(If board falls under the category of a monitoring board)**<br>• ROE has been below the lower of either 5% or the 25th percentile in the industry for three consecutive fiscal years,<br>• And, the company has not been making an effort to improve management<br>**(If board does not fall under the category of a monitoring board)**<br>• If ROE has been below the lower of either 5% or the 25th percentile in the industry for three consecutive fiscal years |
| • For a company which has a board of corporate auditors and which does not have controlling shareholders: Two or 20%, whichever is greater<br>• For other companies: Two or 1/3, whichever is greater | • For a company which does not have a controlling shareholder: Two or 1/3, whichever is greater<br>• For a company with a controlling shareholder: A majority |
| Net financial assets = cash and deposits + long- and short-term held securities – interest bearing debt | Net financial assets = cash and deposits + long- and short-term held securities/deposits paid – interest bearing debt |
| — | **We will vote in favor of the following proposals for changes to articles of incorporation, both from the company and from shareholders. Also, with respect to shareholder proposals, we will vote against proposals if there are items that apply to the articles of incorporation**<br>• Proposals related to the formulation and disclosure of basic policy regarding ESG issues<br>• For companies with listed subsidiaries, proposals related to initiatives in order to ensure the effectiveness of the listed subsidiaries' governance system<br>• Proposals which make it possible to hold a virtual-only general meeting |

*We will vote against dividend disposition proposals if the ratio of the net financial assets to total assets/sales exceeds 30%, and the shareholder equity ratio, ROE, and shareholder return ratio satisfy certain requirements.

# Supporting an effective 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.

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.

### Management board

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

### Advisory board

| Main roles and responsibilities | Member composition |
|---|---|
| Management decisionmaking, 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**

### In order to support effective transitions

The effectiveness of the supervisory function is what is important, and through proxy voting and engagement we urge companies to increase effectiveness. So as not to end up encouraging merely perfunctory transitions, our proxy voting standards include the following.

- Show the requirements for determining whether or not a board falls under the category of a monitoring board
- If the board does fall under the category of a monitoring board, we will ease the requirements for voting in favor of company proposals related to business performance standards and some standards related to executive compensation.
- We will not oppose company proposals on the reasoning that the company's board does not fall under the category of a monitoring board.
- Even if the board does not fall under the category of a monitoring board, we will ease the requirements for voting in favor of company proposals related to executive compensation for companies establishing compensation governance as an initiative aimed at transitioning to a monitoring board.

## Monitoring board requirements

If a board satisfies all eight of the requirements listed on the right, we determine it to be a monitoring board. We view these requirements as the bare minimum for being 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

# Disclosure of proxy voting results
# (Reasons for voting for or against proposals)

Since the October – December 2019 quarter, we have been disclosing the reasons that we voted for or against all proposals, and we have been providing detailed explanations of the reasons for those proposals we feel require special explanation. This is an effort to further increase visibility with respect to appropriate proxy voting.

Here, we introduce some specific examples of disclosure with respect to proposals we feel require special explanation.

## Proposals we made voting decisions on that differ from our proxy voting standards

We sometimes make decisions that differ from our proxy voting standards based on engagement with a company.

| GSM type | Proposer | Proposal classification | Voting result | Reason for proxy voting result |
|---|---|---|---|---|
| Ordinary GSM | Company | Executive compensation | Voted for | Although it did not satisfy our standards regarding the period of stock compensation, we voted in favor of the proposal based on the fact that it would meet our standards for payments to senior management and we confirmed the need to make payments to employees. |
| Ordinary GSM | Company | Introduction/change/ abolishment of takeover defense plan | Voted for | We voted in favor of the takeover defense plan, determining that it is possible that the acquirer did not properly disclose information about the purpose of holding a large number of shares in the process of making a large-scale purchase. |

## Proposals we determined to require special accountability

There were a variety of proposals, but there were a large number of proposals related to M&A and capital policy.

| GSM type | Proposer | Proposal classification | Voting result | Reason for proxy voting result* |
|---|---|---|---|---|
| Ordinary GSM | Company | Organizational restructuring-related | Voted against | Proposal related to a share transfer. We voted against the proposal, judging there to be a large conflict of interest with minority shareholders and deciding that the company had not fulfilled its accountability with respect to the fact that the financial terms were unfavorable. |
| Special GSM | Company | Proposal related to other capital policy | Voted for | Proposal about the issuance of class shares via third party allotment. The funds would be used to secure working capital and repay interest-bearing debt, and it was unclear whether this would contribute to improving corporate value. In addition, control rights would be affected if these shares were converted to common stock. Despite this, there were concerns about inadequate efforts to protect the interests of minority shareholders, but we voted in favor of the proposal considering the current situation in which business performance is sluggish due to the impacts of the COVID-19 pandemic. |
| Special GSM | Company | Proposal related to other capital policy | Voted for | Proposal concerning the issuance of preferred shares via third-party allotment. There were concerns about conflicts of interest and efforts to protect the interests of minority shareholders, but we voted in favor of the proposal based on the reasonableness of the management decision. |
| Special GSM | Company | Proposal related to other capital policy | Voted against | Proposal related to a share exchange and third-party allotment. If this proposal went through, the company would become a listed subsidiary of a major shareholder, so there were concerns about a conflict of interest with minority shareholders, and we judged that the efforts to protect the interests of minority shareholders were insufficient, and that the company had not fulfilled accountability for the financial terms of the deal. Therefore, and we voted against the proposal in accordance with our standards. |
| Special GSM | Company | Introduction/update/ abolishment of takeover defense plan | Voted against | Proposal related to the gratis allotment of stock acquisition rights in accordance with a takeover defense plan. This takeover defense plan would restrict the shareholders' right to freely buy and sell shares, and the Board of Directors did not provide a sufficient reason to justify the move, so we opposed it in accordance with our standards. |

*We have omitted the sections that refer to individual company names.

## Proposals involving the possibility of a conflict of interest

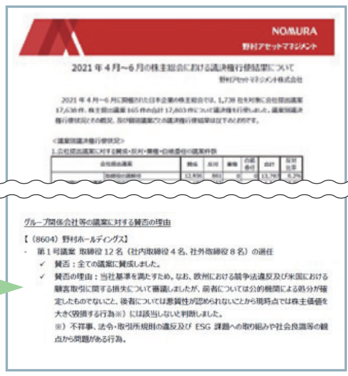
Here, we present our proxy voting results on proposals by Nomura Holdings, our parent company. Proposals by Nomura Holdings and other Group affiliates are not shown in a table, but are written about in detail in the opening text.

### Reasons for voting results on Group companies' proposals

(8604) Nomura Holdings

- Proposal No. 1: Appointment of 12 directors (four inside directors, eight outside directors)
  - ✓ Result: We voted for all proposals.
  - ✓ Reason for voting result: Our standards were satisfied.
    We held thorough discussions about violating the antitrust law in Europe and losses related to client transactions in the U.S., but due to the fact that the punishments from the government institutions for the former had not been finalized, and there was no finding of maliciousness for the latter, we decided that at the current point in time these are not acts* that significantly damage shareholder value.

*Acts that are problematic due to being misconduct, violations of laws, regulations or trading exchange rules, or problematic from the standpoint of ESG efforts or being a good social citizen.


NOMURA
野村アセットマネジメント
2021年4月~6月の株主総会における議決権行使結果について
野村アセットマネジメント株式会社

グループ関係会社等の議案に対する賛否の理由
【(8604) 野村ホールディングス】
- 第1号議案 取締役12名(社内取締役4名、社外取締役8名)の選任
  - ✓ 賛否:全ての議案に賛成しました。
  - ✓ 賛否の理由:当社基準を満たすため。なお、欧州における競争法違反及び米国における顧客取引に関する損失について審議しましたが、前者については公的機関による処分が確定したものでないこと、後者については悪質性が認められないことから現時点では株主価値を大きく毀損する行為※)には該当しないと判断しました。
    ※)不祥事、法令・取引所規則の違反及びESG課題への取り組みや社会良識等の観点から問題がある行為。

# Proxy Voting FAQ

## Q Can engagement have an impact on proxy voting?

**A** We carry out engagement and proxy voting so that portfolio companies implement desirable management (including efforts on ESG issues)*, and to encourage them to improve corporate value and realize sustainable growth. We reflect the opinions of portfolio companies and information about portfolio companies obtained through engagement in our revisions of our proxy voting standards. Additionally, we take the information we attain through engagement into consideration to make highly-effective decisions when actually carrying out proxy voting.

In addition, following this most recent revision, we may vote against a director election proposal if, despite our indicating through engagement to a portfolio company that its efforts to realize desirable management are inadequate and our urging the portfolio company to take corresponding action over the medium to long term, the portfolio company has not taken adequate steps and improvement is not expected.

### Relationship between engagement and proxy voting

Engagement

| Reflect efforts towards realizing desirable management | Formulation of proxy voting standards | Decisions that differ from our proxy voting standards |
|---|---|---|
| **We may vote against director election proposals if efforts to realize desirable management (including initiatives targeting ESG issues)* are inadequate.** | **Information and opinions obtained through engagement are valuable for formulating proxy voting standards.** | **Our decisions may differ from the proxy voting standards if we can identify actions targeting improvement, or in cases of circumstances we did not anticipate at the time the proxy voting standards were formulated.** |
| | Example: Through engagement, we found that some Japanese companies are making progress on enhancing the function of supervising senior management both in form and substance. Based on this, we decided that the time had come to introduce voting standards that would support the transition to a monitoring board. | Example: For stock compensation that did not satisfy our standards, we voted in favor of a proposal due to the fact that, through engagement, we found that the payment to senior management did satisfy our standards, and although it did not satisfy our standards, we confirmed the need for the payment to employees. |

*1 Refer to Page 21-22 for information about desirable management

COLUMN

### 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

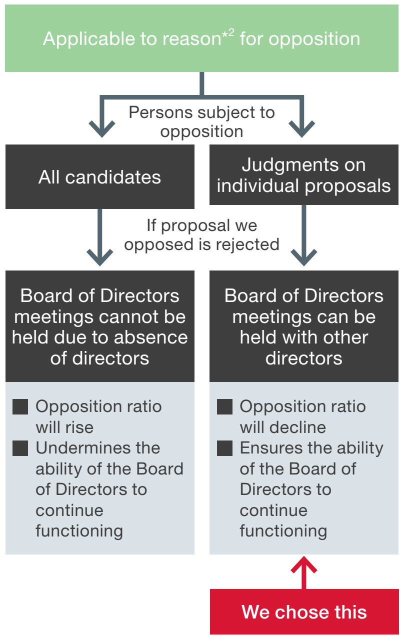
As the busy season approaches, we ramp up engagement with an eye towards shareholders' meetings. This is the time when companies are finalizing the proposals they will make at shareholders' meetings (the proposals have already been finalized in some cases), so portfolio companies tend to be most interested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

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

**A** Proposals concerning the election of directors are the most common type of proposal, and therefore have a large impact on our opposition ratio. Taking the continuity of the board of directors into consideration*1, 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 on the right). We opposed 6% of director appointment proposals (April – June 2021), but we opposed one or more candidates in the director appointment proposals for 33% of companies (same period), so we do not view our opposition percentage as being particularly low.

Meanwhile, there are few proposals concerning executive compensation and capital policy, and therefore their overall impact is small, but our opposition ratio to these types of proposals seems to be relatively high. The effectiveness of corporate governance comes into question particularly for proposals related to M&A and financing, so we carefully discuss these issues, including the impact that a rejection of the proposal would have, and we vote against the proposal if we decide that it will not contribute to the interests of minority shareholders. 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.

### Guideline for Director Election Proposals

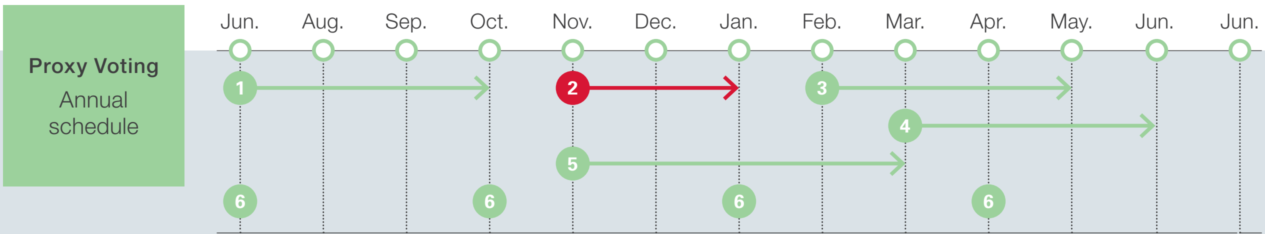



*1 Under the Companies Act, a minimum of three directors is necessary in order to hold a Board of Directors meeting.

*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.




### 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

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.

### 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 INTEGRATION

| Features of Integration | | | |
|---|---|---|---|
| Equity Investment | 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 its investment philosophy and process in a different way, a common ESG evaluation platform is shared by all strategies. | Fixed Income Investment | 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 integration, qualitative evaluations by credit analysts are also considered within the investment process to improve the portfolio's risk-adjusted return and sustainability. |

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 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.

# Equity Integration

## Equity Integration Approach

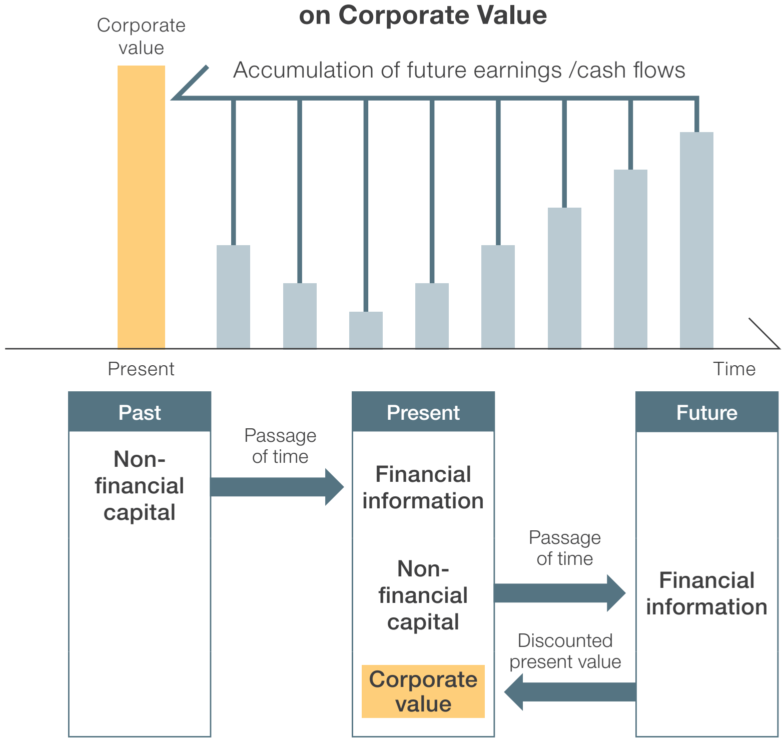
Corporate value is essentially the discounted present value of future free cash flows. The business assets that generate future free cash flow include not only fixed assets such as production facilities, but also various types of intangible assets (capital) not found in financial statements, including 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 "growth evaluation", the business impact of climate change, 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.

"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.

**Investors' Basic Philosophy on Corporate Value**

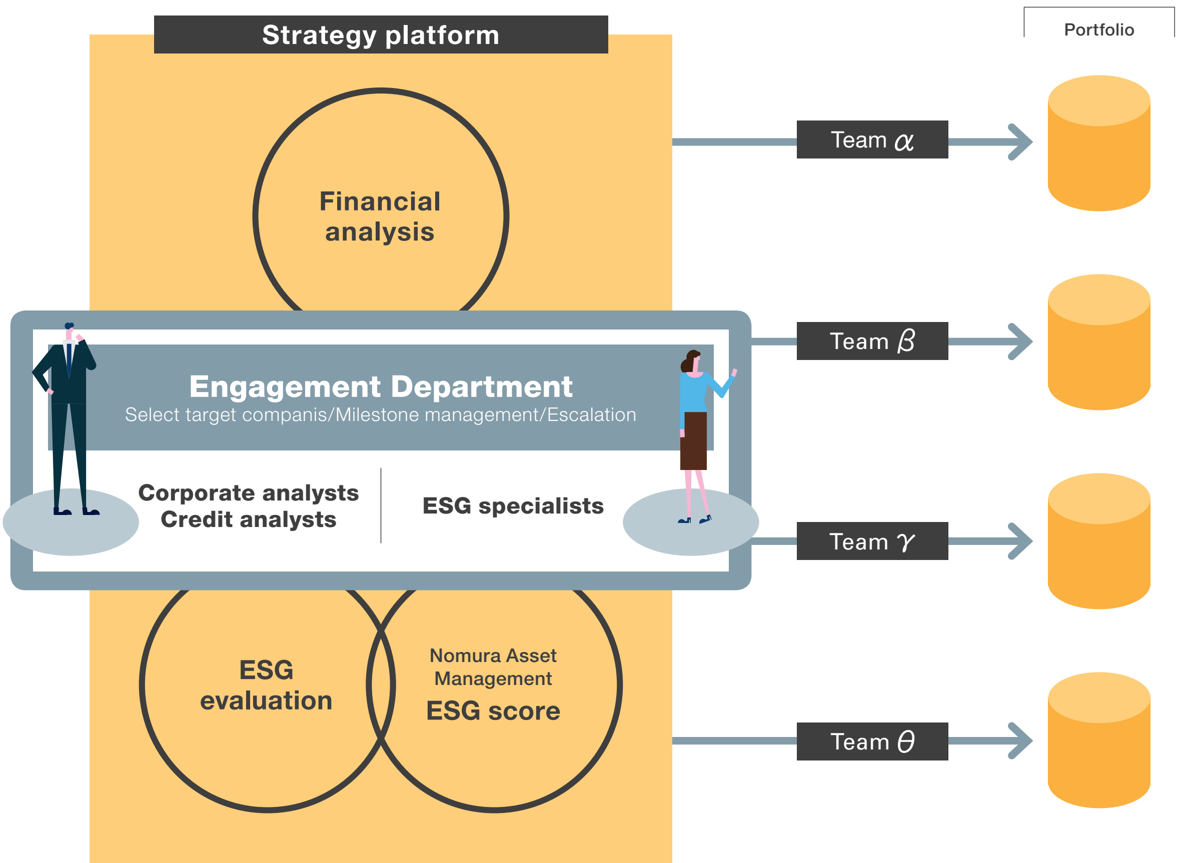



**"Continuity between financial and non-financial" and the "Impact on long-term profits/cash flow generation" are of the upmost importance.**

## Equity Investment Process

An in-house proprietary ESG score, which is jointly produced by corporate analysts and ESG specialists, is utilized for ESG integration into our equity investments. The ESG score includes environmental, social, governance, and SDG-related considerations, and is a quantified representation of our analysis and evaluation of risks, opportunities, and other factors. 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). While individual stocks in the portfolio are bought and sold according to their investment ratings, the same score serves as a common language for discussion among corporate analysts, ESG specialists, and portfolio managers, allowing for more effective ESG integration into operations. If additional ESG research is deemed necessary, the Engagement Department takes the lead in conducting the necessary engagement activities in collaboration with corporate analysts and ESG specialists.

Our ESG evaluation framework is also applied to our global equities investment. In addition to global themes such as climate change and human rights, we 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 (2387 meetings in 2021). 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.



# Efforts to Advance ESG Integration

Issues such as climate change, human rights problems, and diversity have already become common issues that need to be addressed globally and over the long term, and they also have a major impact on our portfolio management. Our investment teams manage portfolios based on a stock selection process that takes various ESG factors into consideration (qualitative and quantitative decisions about ESG). When assessing a company as an investment target, managers of actively-managed portfolios must consistently ask “Is this a company that controls ESG risks and opportunities and can continue to grow in five or 10 years?” and manage the portfolio by examining portfolio companies from a long-term perspective.

In our investment process, in addition to ESG specialists, ESG investment managers and investment teams including portfolio managers are partially responsible for ESG assessments. When selecting, buying or selling a stock, the portfolio manager checks ESG information through a database that centrally manages a variety of ESG data in-house prior to making an investment decision. In addition, each investment manager controls the ESG risks and opportunities in the portfolio based on the ESG integration policy of the fund for which they are responsible. For example, the carbon footprint of a portfolio is a very important indicator for asset owners aiming for net zero. When selecting a stock, we check the carbon footprint of the company in question and always strive to keep the carbon footprint of the portfolio lower than the benchmark. In fact, there have been cases where we have chosen to invest in a different company in the same industry with the same investment grade, if that other company is actively working towards net zero.

Meanwhile, coordination with engagement activities is also an important element of ESG integration. The reaction of top management during engagement meetings and the status of milestone achievements are also important signals for managers evaluating “opportunities.” Therefore, many of our investment managers attend meetings with top executives, where they discuss ESG issues.

By accumulating more experience and case studies of gathering information to make proper decisions on ESG-related risks and opportunities, performing ESG evaluations of individual companies, managing portfolios, and carrying out engagement, we are able to select strong companies that can continuously grow amid the rapid changes in society for our customers.

### Portfolio Manager’s ESG Viewpoint

| | |
|---|---|
| Business risks and opportunities | Current and future segment mix<br>Assessment of M&A strategy |
| Geographic risks and opportunities | Status of production and sales in regions with enhanced regulations<br>Changes in the supply chain structure |
| Growth of environmental/social solutions businesses | Profitability of environmental/social solutions businesses<br>Current customer and market development strategy<br>Growth targets<br>Assessment of R&D |
| ESG track record | Environmental performance ($CO_2$ emissions, stranded asset exposure, eco-friendly procurement ratio, etc.)<br>Social performance (employee turnover rate, diversity, safety indicators, actions on human rights, etc.)<br>Governance (governance structure, compensation, misconduct/scandals, etc.) |

Chief Senior Portfolio Manager
**Masaaki Tezuka**

# ESG Scores for Japanese Equities

At Nomura Asset Management, our analysts and ESG specialists collaborate to compute proprietary ESG scores which represent Japanese companies' true ESG abilities. ESG and other non-financial information are extremely important in predicting corporate value based on future cash flows. Researching, analyzing, and then scoring a portfolio company's non-financial information makes it possible to measure corporate value while taking ESG into account, and we believe doing so leads to higher added value of our investments.

## ESG Score Content

The following is an overview of ESG scoring. The assessment comprises four items each with a weighting of 25%. These four items are Environment, Social, Governance, and SDGs. There are a total of approximately 100 evaluation items, with a good balance between risks and opportunities. In terms of opportunities, we evaluate items including management's vision and commitment with respect to ESG issues (ability to explain, plan, and execute initiatives, as well as past achievements), along with the future growth potential of companies that contribute to the achievement of SDGs, as well as the management resources that contribute to this. Meanwhile, for risks, our evaluations 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.

For "Environment," we look at whether a company is managing transition risks and physical risks related to climate change and incorporating such risks into its business strategy. We also look at whether the company's management has expressed a commitment to the environment. With respect to matters such as the TCFD, we analyze and evaluate based on a company's integrated report and materials posted on its website. With respect to evaluating natural capital and other environmental assessments, we evaluate items such as those related to 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 human rights initiatives. For Japanese companies in particular, we emphasize the evaluation of supply chain management at business sites both in Japan and overseas.

In "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 corporate analysts, who have been studying and analyzing companies extensively for many years, are reflected in our evaluations.

In "SDGs", we 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.

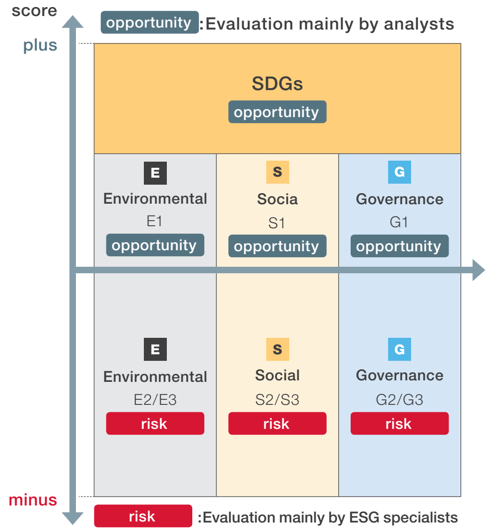
To determine ESG scores, corporate analysts who have frequent contact with companies and know the companies they cover inside and out collaborate with ESG specialists who analyze ESG from a cross-industry perspective. They work together, identifying items where one or the other possess particular expertise.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

# ESG Scoring Revision

With respect to Japanese equities, portfolio companies' ESG-related disclosure has improved and companies' ESG initiatives have become more advanced. As a result, we regularly revise our scoring for Japanese equities to allow us to always conduct appropriate evaluations. Following on from 2021, we have made some minor revisions in 2022. Making revisions periodically allows company evaluations through ESG scores to be even more effective. Please refer to Page 30 for details.

## New ESG Scoring Framework

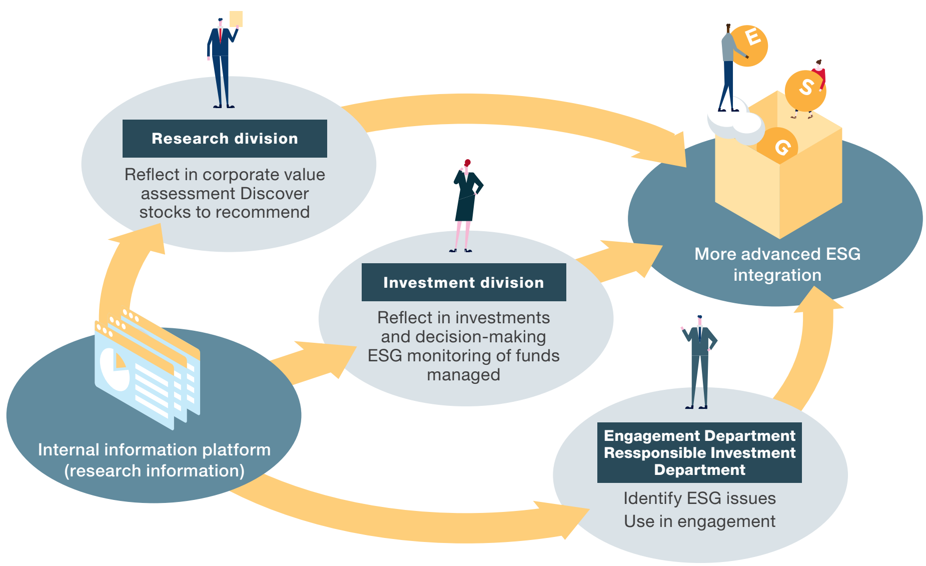
| Main category | Sub-category | | Sub-items |
|---|---|---|---|
| E Environmental 25% of total | E1:Environmental strategy, senior management's initiatives | opportunity | Evaluate individual sub-items in line with the theme of the larger grouping Reflect importance (materiality) in score, taking industry characteristics into account for each company. |
| | E2:climate change | risk | |
| | E3:Natural capital, other environmental issues | risk | |
| S Social 25% of total | S1:Social strategy, senior management's initiatives | opportunity | |
| | S2:Working environment, human capital | risk | |
| | S3:Human rights, other social issues | risk | |
| G Governance 25% of total | G1:Top management (evaluation of senior management) | opportunity | |
| | G2:Evaluation of board of directors | risk | |
| | G3:Other governance items | risk | |
| SDGs 25% of total | | opportunity | |




Note: Sub-items are individually evaluated in accordance with sub-category themes.
Importance (materiality) is reflected in scores, taking into account the specific characteristics of the industry for each company.

# Utilizing ESG Scores

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.




| | |
|---|---|
| **Utilizing ESG score data 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 in engagement such as discussing future course of action. |
| **Utilizing ESG score data in investment activity** | ESG scores are posted on an internal research-sharing system. The materials used by investment committees and others to evaluate investment value for individual companies contain usual financial indicators as well as ESG scores and ESG comments by the analysts in charge. These scores are actively utilized in making investment decisions. |
| **Utilizing ESG scores in portfolio construction and monitoring** | When building and reviewing portfolios, we check scores for individual companies, use them to make comparisons with industry peers and see how a company's score has changed, as well as to check the ESG quality of the portfolio. Investment managers can also use the items comprising the ESG scores of individual companies as a standalone data. Additionally, by regularly comparing the portfolio's overall ESG score to the benchmark, they can use ESG scores to check ESG risk bias and other factors. |

# IMPACT INVESTING

## What is impact investing?

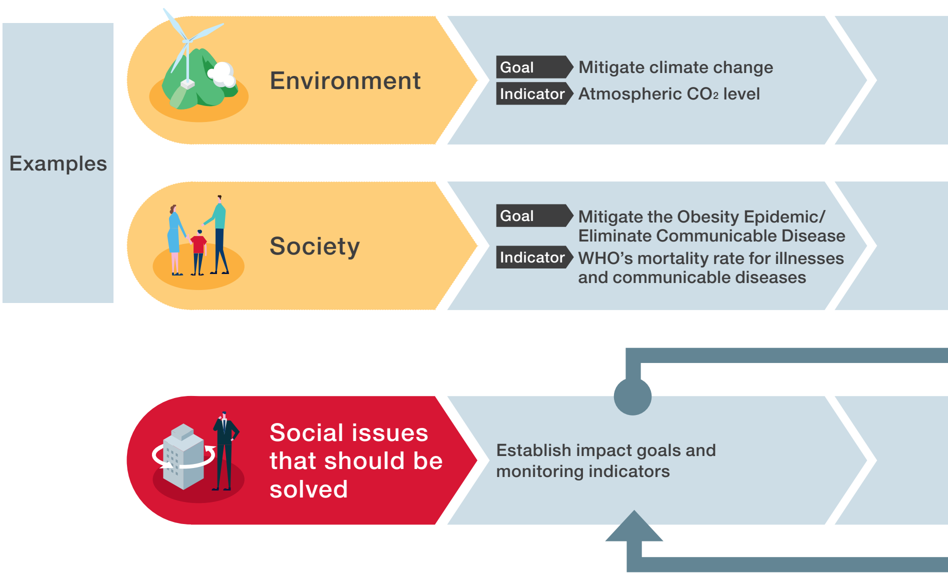
At Nomura Asset Management, we believe that impact investing is not limited to simply having an impact on the environment or society, and we feel it is important for the impact to generate earnings and cash flows, which will ultimately be returned to asset owners and other stakeholders. In carrying out 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

## 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 (human rights, diversity and inclusion, value creation to realize well-being within society) 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,"



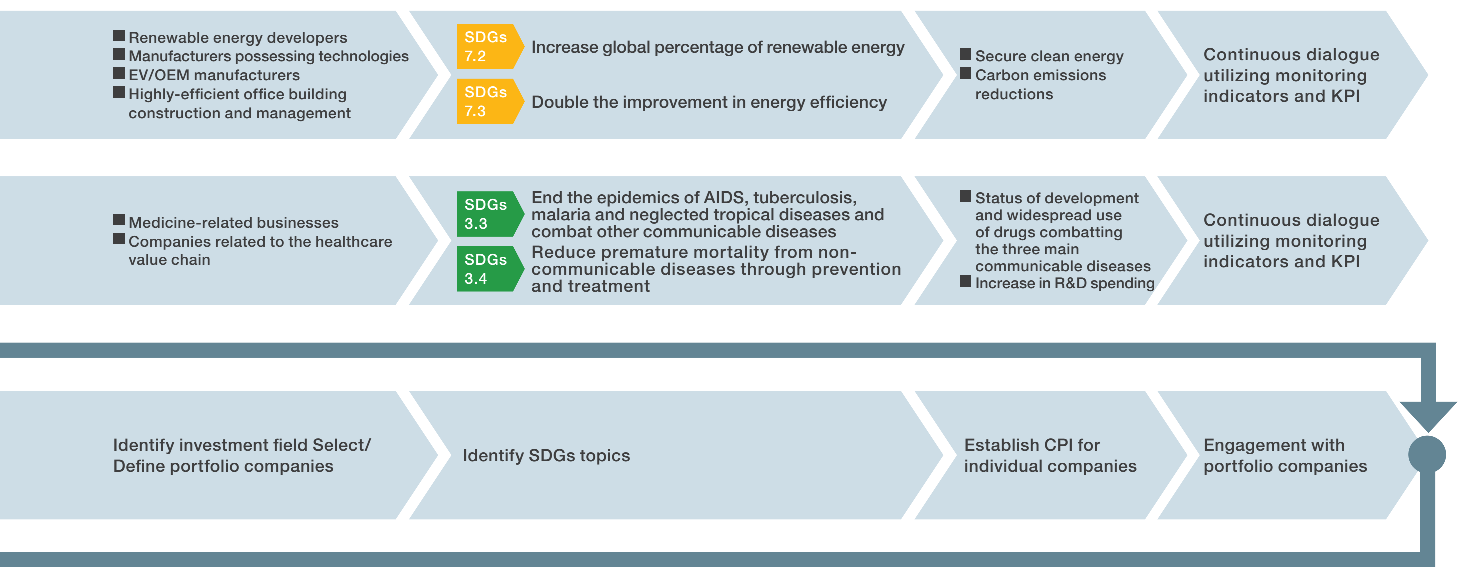
United Nations in 2015, the SDGs set forth 17 goals and 169 targets. The SDGs indicate the enormous needs of the global market and effective risk management methods that lead to returns on investments in portfolio companies, and are viewed as useful indicators for measuring the impacts on the environment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


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 CPI (Company Performance Indicator) are then set. Carrying out detailed and continuous monitoring of the established CPI 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, we will be able to continue to generate impacts that solve social issues while also pursuing economic returns.

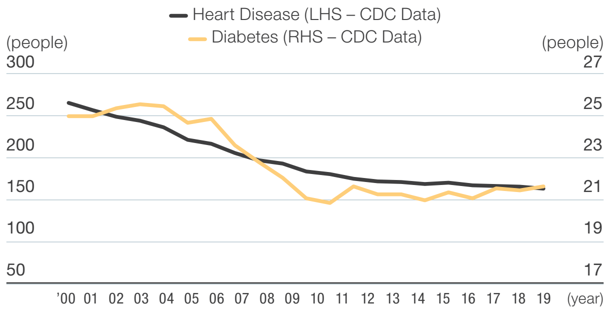
Our impact investment fund is constructed based on the so-called "outside-in" concept, in which social issues are applied to portfolio companies, and is shared within our domestic and overseas impact investment strategies.



# GSE

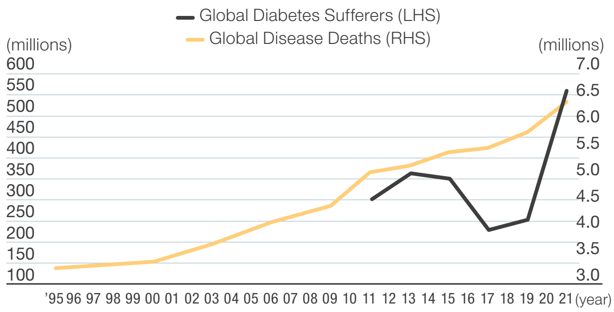
## Global Sustainable Equity Strategy

US Obesity Related Death Rates(Deaths per 100,000)




Source: Prepared by Nomura Asset Management using CDC(Centers for Disease Control and Prevention)

Global Number of People with Diabetes and Annual Deaths




Source: Prepared by Nomura Asset Management using IDF(International Diabetes Federation)

Nomura Global Sustainable Equity Strategy(GSE)
Lead portfolio manager

**Alex Rowe**

Nomura Asset Management's UK Office manages the Equity Strategy 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 CPI of individual companies linked to the actual portfolio.

In addition to monitoring CPI for individual companies, through engagement we support the actions of portfolio companies to achieve our impact goals. In engagement to achieve impact, in addition to dialogue with portfolio companies, we support the achievement of better outcomes by enabling coordination between portfolio companies that want to incorporate the leading ESG-related outcomes of other companies into their own ESG initiatives. In this way, we promote corporate action toward the achievement of the impact goals we have established by engaging with portfolio companies in a variety of ways through CPI monitoring by investment managers.

Furthermore, we announce and share with stakeholders the outcomes of this strategy in our Impact Report. We believe that we will be able to reach our impact goals by working with multiple stakeholders to solve and share the many challenges facing society.

## Engaging for Impact

We are at the heart of an ecosystem in which there are multiple avenues to support better outcomes be that through collaboration with our responsible investment peers, supporting intercompany collaboration or working together with NGOs and the media, how we behave as professionals or supporting the next generation of impact investors. Engaging for impact is one very important avenue through which we can support better outcomes and over the year we undertook 41 engagements with portfolio companies.


| Topic | % | Count |
|---|---|---|
| Mitigate Climate Change | 49% | 20 |
| Eliminate Communicable Disease | 12% | 5 |
| Global Access to Clean Drinking Water | 5% | 2 |
| Mitigate Natural Capital Depletion | 5% | 2 |
| Global Access to Basic Financial Services | 3% | 1 |
| Mitigate the Obesity Epidemic | 2% | 1 |
| Other Sustainability | 24% | 10 |
| **Total** | | **41** |

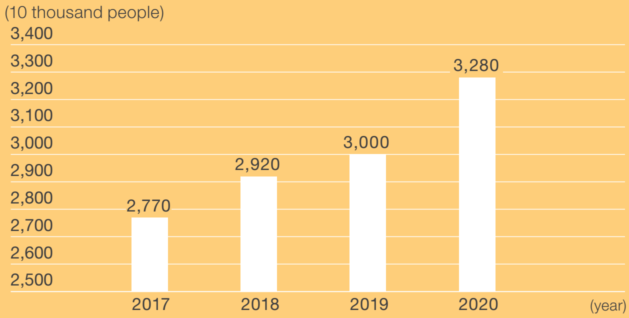
**Global Sustainable Equity Fund Impact Report 2020**
Nomura Global Sustainable Equity Strategy

https://www.nomura-am.co.jp/special/esg/library/impact-report.html

## GSE individual company's CPI

| | |
|---|---|
| Investment Perspective | Can expect an improvement in quality of life by providing diabetes treatment |
| Alignment with SDGs (SDGs 3) | Good Health and Well-being |
| Individual company's CPI | Number of patients that received the company's treatment for diabetes |
| Impact | 32.8mm(2020) |

■Number of patients that received treatment for diabetes
Period : 2017-2020




## The Global Sustainable Equity Fund Investee Company Impact

The Global Sustainable Equity strategy's portfolio companies have achieved the following environmental and social impacts through their business activities (FY2020).

**Environment**

**Mitigate Climate Change**

Energy generation output by wind power generation equipment
Supplied **56TWh** of renewable energy

**Mitigate Natural Capital Depletion**

Reduced the use of **157,000 tons** of raw material consumption

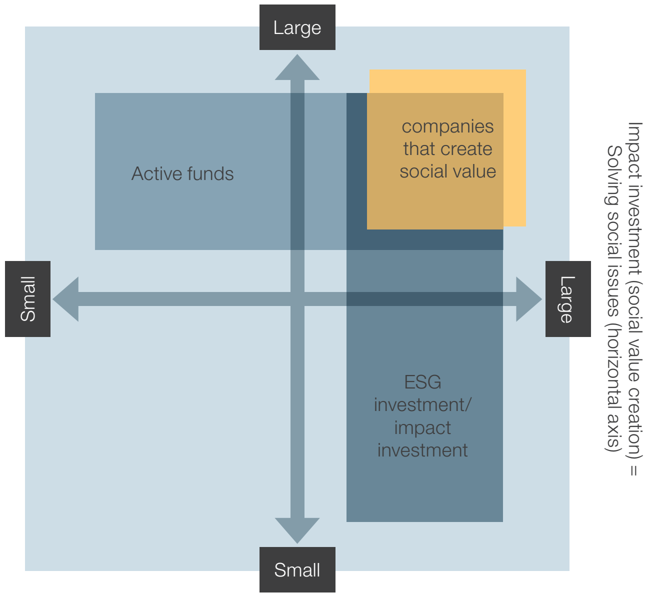
**Society**

**Eliminate Communicable Disease/ Mitigate the Obesity Epidemic**

Provided obesity-related treatment to **32.8 million** patients in 2020

**Social infrastructure maintenance and productivity enhancement**

Provided **7billion** liters of clean water through filter-related products in 2020




# JSEG

**Japan Sustainable Equity Growth Strategy**

Right — Portfolio Manager **Shintaro Harada**

Middle — Main Portfolio Manager **Jun Takahashi**

Left — Portfolio Manager **Kodai Sasaki**

We began managing this strategy in 2016 based on the philosophy of companies addressing social issues through their core businesses. In the 2010s, a wide range of stakeholders started to become aware of the need for sustainability with respect to the environment and society. Also, the outbreak of the COVID-19 pandemic from the start of 2020 brought about a significant change in our way of thinking. Specifically, it made us think even more intensely about of how we can address the wide-ranging issues we face.

As a part of this, "impact investing" is attracting attention as an investment method for addressing the environmental and social problems that we face. This is an investment method that, in asset management products, in addition to earning the usual investment returns, seeks to address issues in society through the long-term holding of shares of companies engaged in business activities with an eye towards addressing social issues. One illustrative example is the 17 SDGs (Sustainable Development Goals) that the United Nations aims to achieve, in which companies and other stakeholders address social issues through business activities. This strategy shares the same philosophy.

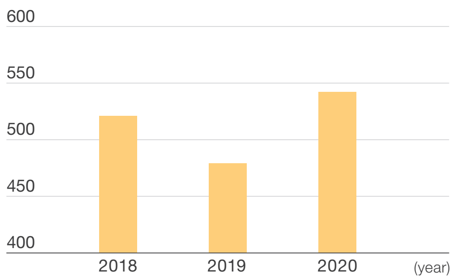
Because ESG issues involve many topics to be addressed over the medium to long term, we believe that investing in companies on the premise of long-term ownership will allow us to make investments that seek both excess returns and aim to address ESG issues. Utilizing our own ESG cores, this strategy invests in companies that, in addition to passing our fundamentals evaluation, we view as being able to create social value to contribute to achieving the SDGs. On top of the two dimensions of risk and return used in conventional equity investment, we are able to add a third dimension of impact creation (addressing social issues) to our evaluation process.

Furthermore, we believe that sharing portfolio companies' outcomes and broad and cumulative impacts is an essential process expected by investors looking for us to address social issues. Going forward, we want to help build a prosperous society by addressing social issues through impact investing.

## JSEG individual company's CPI

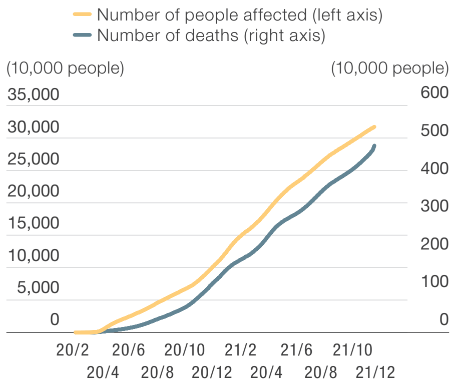
| | |
|---|---|
| Investment Perspective | Development of drugs for the three main communicable diseases (tuberculosis, HIV, malaria) and contribution to widespread access to drugs that combat HIV in developing countries |
| Alignment with SDGs SDGs3.3 | End the epidemics of AIDS, tuberculosis, malaria and neglected tropical diseases, and combat hepatitis, waterborne infectious diseases and other communicable diseases. |
| Individual company's CPI | Status of development and widespread use of drugs to treat the three main communicable diseases, increase in R&D investment |
| Impact | R&D investment amount: ¥54.2 billion (18.2% of FY2020 sales) |

R&D Expenses Period: FY2018-FY2020

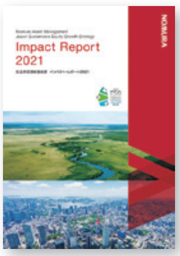



Source: Prepared by Nomura Asset Management from company reports

Global number of people affected as well as deaths from COVID-19
Period: January 2020 – December 2021




Source: Prepared by Nomura Asset Management from Our World in Data




**JSEG Impact Report 2021**

Nomura Asset Management Japan Sustainable Equity Growth Strategy

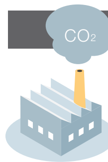
https://www.nomura-am.co.jp/special/esg/library/impact-report.html

## Impact from JSEG Portfolio Companies

JSE portfolio companies have achieved the following environmental and social impacts through their business activities (FY2020)

### Environment

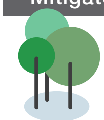
**Mitigate Climate Change**



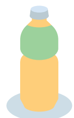

Contributed to the reduction of **81.09 million tons** of $CO_2$ by selling products with strong environmental performance

Sold approximately **83,000** EV traction motors, which strongly curb greenhouse gas emissions

**Mitigate Natural Capital Depletion**



In order to prevent deforestation, procured **269,000m³** of ecosystem-friendly certified lumber



Reduced plastic packaging, etc. by **122,000tons** 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 **30 million** tablets of antifilarial medicine for neglected tropical diseases to **12 million** people

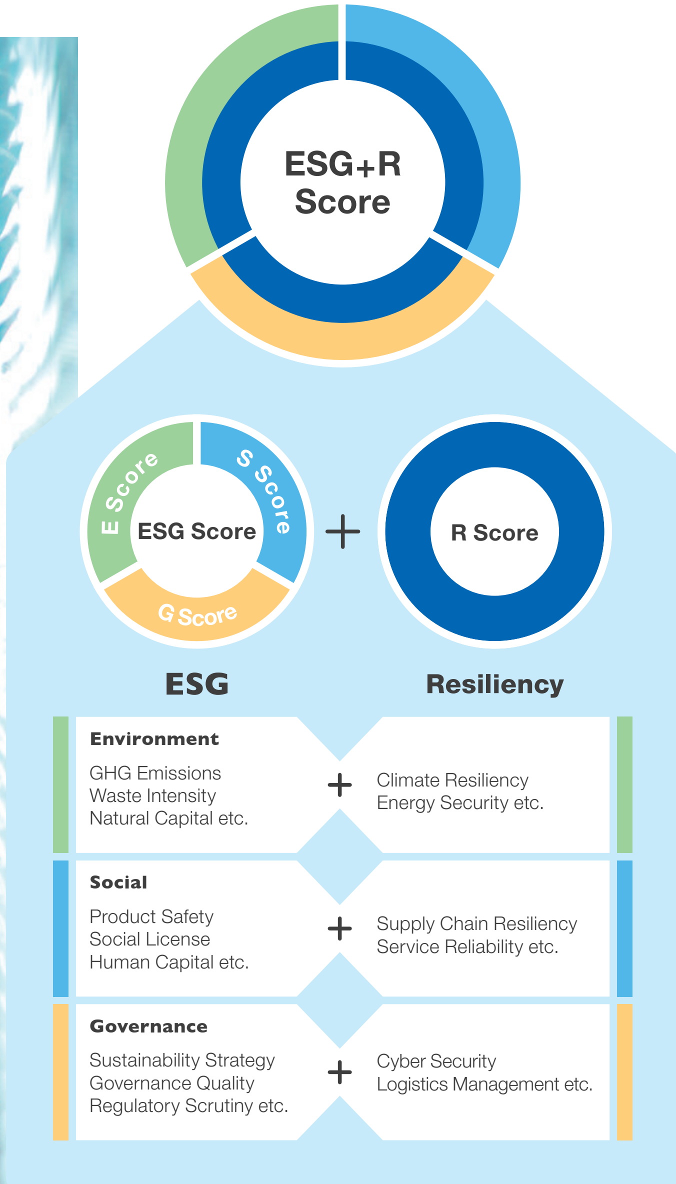
Invested **¥323.4 billion** in R&D costs to promote development of new drugs

**Improving Living Standards**

Used disinfectant to provide drinking water for **1.1 million** people

**Maintaining Social Infrastructure and Improving Productivity**

Provided intermediary services to **405** small- and medium- sized enterprises facing business succession problems due to the aging of executives and other issues, thereby helping to avoid **¥376.7 billion** in economic losses.




Investment Department, Fixed Income Group
Head of Sustainable Investment, Fixed Income
Jason Mortimer

# Development of ESG Integration in Fixed Income Investment

## Identifying new and emerging Sustainability issues for ESG integration

From the start of our Fixed Income sustainable investment journey, Nomura Asset Management has been committed to using ESG data and analysis to improve risk-adjusted-returns for our investors. Our Fixed Income ESG integration approach is guided by two considerations that are most appropriate for Fixed Income investors: 1) Avoid downside risk, and 2) Incorporate price-material ESG data exclusively. We believe that focusing on the material ESG factors most likely to influence investment returns in an objective and systematic way is key to consistently and accurately pricing the full spectrum of non-financial risks increasingly present in fixed income markets.

To remain on the cutting edge, and capture potential investment-alpha opportunities, we incorporate new and emerging sustainability issues in our ESG research and investment integration with a forward-looking bias. By identifying and focusing on these potential ESG risks, we can better position our portfolios to avoid these risks when they materialize.

## Lessons from the pandemic: Bond Investors should consider both Sustainability and Resiliency

Our Fixed Income ESG research and integration approach evolved in response to the COVID pandemic from the early stages of 2020. For example, we observed directly how the pandemic revealed critical weaknesses in global supply chains, and these types of risks were not captured from previous assessments. Further broadening our perspective, we identified supply chain security, energy security, cyber security, and logistics bottlenecks as increasingly impactful ESG issues for investors to consider under the umbrella of what we call “Resilient Investment”.

## Upgrading NAM’s proprietary Fixed Income ESG Process to incorporate new data and sources of risk

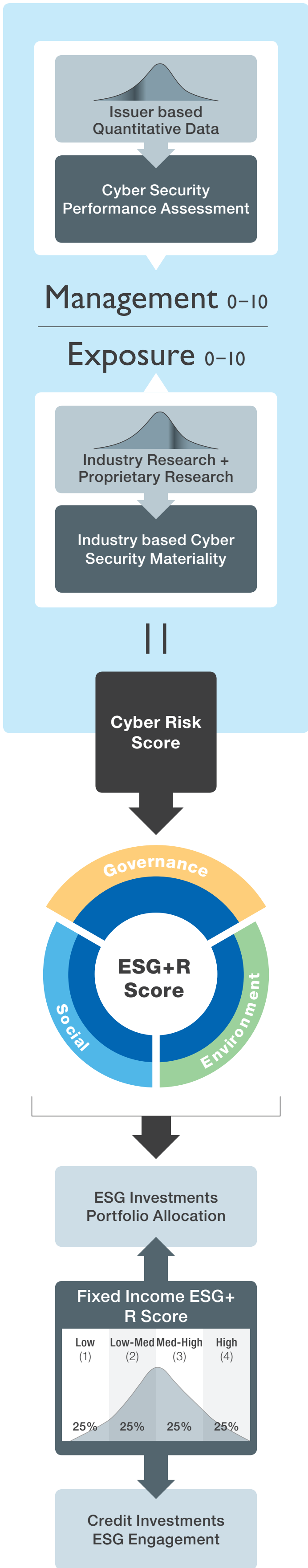
We believe “Resiliency” of investments is an increasingly important topic for investors to consider as a compliment to Sustainability. NAM credit ESG scores is built upon our own unique database of ESG factors and industry-specific factor weights, which can be flexibly upgraded by incorporating new and meaningful data sources. Recently, NAM has integrated “Resiliency” performance factors such as Climate Resiliency and Energy Security, Supply Chain Resiliency, Cybersecurity Performance and Logistics Quality in our ESG assessment of corporate and Sovereign debt issuers as well. In our view, a more comprehensive view of the non-financial drivers of corporate and sovereign risk can contribute to better risk-adjusted returns.

## NAM’s approach to integrating corporate cybersecurity risk in the credit investment process

As one example, Cybersecurity is an increasingly material risk to both corporate operations and national critical functions such as power generation and healthcare, where system security is only as strong as the weakest link. For example, we now incorporate a quantitative measure of corporate Cybersecurity performance into NAM’s Credit ESG scoring model for nearly every Japanese and major global company.

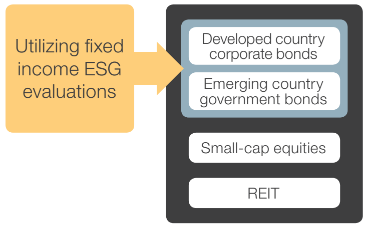
We combine these cyber risk ratings with NAM’s proprietary framework for industry-specific cyber-risk materiality. This “Materiality-adjusted Cybersecurity Performance Score” directly integrates into the NAM Credit ESG model’s assessment of Governance risk. This way, we can incorporate cybersecurity performance into the overall ESG credit analysis that systematically influences capital allocation decisions across NAM’s global corporate credit investment strategies.

We also seek to use these Cybersecurity performance insights in our fixed income investor engagement. With a comprehensive analysis of specific cyber weakness and comparative performance, we can provide actionable feedback to companies for better addressing their corporate cybersecurity risks. We believe that when companies know that investors are systematically integrating cybersecurity into the investment process, and are given transparency into what they can do to improve, then they will be incentivized to invest to reduce cyber risks to their business and society at large.



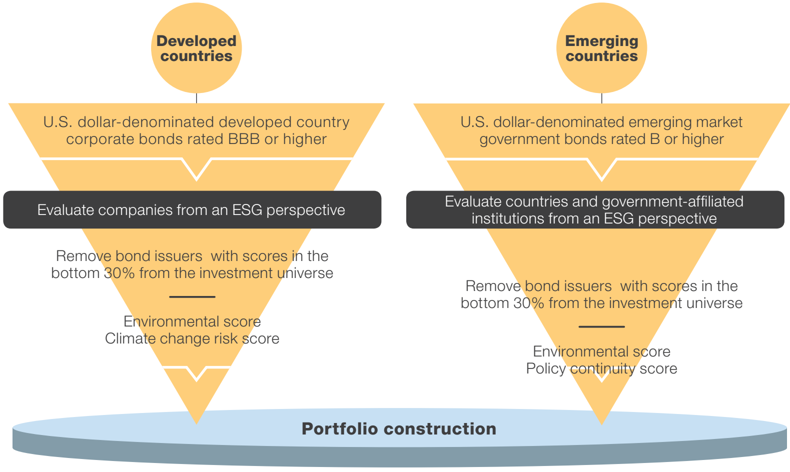
# Global ESG Balance Fund

Taking ESG into consideration, the Global ESG Balance Fund engages in diversified investment in three assets: fixed income, equities, and REITs. As distinctive examples of NAM's ESG bond products , the Global ESG Balance Fund includes the USD ESG Developed Countries Corporate Bond Mother Fund and the USD ESG Emerging Government Bond Mother Fund. These funds were developed in 2020 as investment strategies that invest in bonds issued by companies and emerging countries that are tackling environmental issues.




## Investment Process

We have incorporated into the investment process a mechanism by which we score the environmental efforts of companies and countries, and exclude issuers with low scores (negative screening). We select bonds to invest in by considering qualitative evaluation and fundamental analysis by credit analysts, as well as ESG evaluation, creditworthiness and yield, among other factors.




## US Dollar-Denominated ESG Developed Country Corporate Bonds

ESG evaluation is an increasingly important element in global corporate bond investment from the perspective of controlling downside risk. We reduce downside risk by integrating the ESG evaluation calculated using our proprietary quantitative model into our traditional investment process using the relative value evaluation based on the fundamental analysis of the issuer.

We are also leveraging our proprietary development strengths to develop a variety of investment methods. Because the evaluation model uses various ESG-related elements, we are able to carry out investment focusing on various factors, such as environment.

The USD ESG Developed Countries Corporate Bond Mother Fund, which is included in the Global ESG Balance Fund, places an emphasis on efforts to address environmental issues such as greenhouse gas emissions reductions and water resources conservation, and has reflected this emphasis in the investment process. We aim to reduce downside risk by integrating this into our traditional investment process, and by investing in corporate bonds of companies that take environmental problems into consideration, we strive to support these companies' businesses and contribute to solving environmental problems.

In 2021, COP26 (the 26th Conference of the Parties to the United Nations Framework Convention on Climate Change) was held in Glasgow, Scotland, and the world's attention was focused on climate change. The Paris Agreement adopted in 2015 calls for keeping the global temperature rise this century well below 2°C above pre-industrial levels and pursuing efforts to limit this rise to 1.5°C. It is said that society needs to achieve net zero (effectively zero $CO_2$ emissions) by 2050 in order to achieve this target of limiting warming to 1.5°C.

**Example of Using ESG Evaluation in Developed Country Corporate Bonds**

### NextEra Energy

NextEra Energy is headquartered in Florida, USA, and is one of the largest power companies in the United States. In terms of environment, NextEra Energy engages in the power generation business using renewable energy such as wind power and solar power generation, and is one of the leading companies in this industry. According to NextEra Energy's 2021 ESG report, the company's goal is to double its electricity generation by 2025 while reducing its $CO_2$ emissions by 67% compared to 2005. Through its investment in renewable energy, in 2020 the company had already reduced its $CO_2$ emissions by 57% compared to 2005, and is steadily making progress toward achieving its target. As efforts to reduce $CO_2$ emissions to curb climate change attract attention worldwide, we will evaluate the value of businesses that respond to these social demands from the perspective of ESG, and we believe that doing so will enable us to curb the downside risk in corporate bond investing.

Portfolio Manager
**Yuka Fudeno**

Senior Portfolio Manager
**Sohei Koizumi**

Portfolio Manager
**Nanako Iwasaki**

## U.S. Dollar-Denominated ESG Emerging Market Government Bonds

For our emerging market debt strategies, we invest in U.S. dollar denominated bonds issued by EM governments and state-owned enterprises.

When analyzing emerging markets, evaluating them from a broad perspective, such as their long-term environmental efforts and their political risks, leads to better identification of a country's potential risks and to reducing downside risks particular to investment in emerging markets, which is extremely important in improving long-term investment performance.

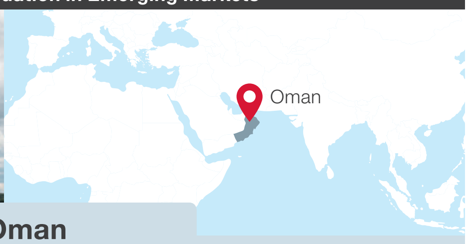
ESG evaluation is an absolutely essential element in understanding downside risk of an issuing country's creditworthiness, which is the crux of emerging market fixed income investing.

Traditional fundamental analysis and ESG evaluation complement one another, and we believe that integrating ESG evaluation into the traditional investment process reinforces our evaluation of an issuing country's creditworthiness.

For example, countries working to mitigate climate change will be viewed positively by investors, and can enjoy the benefits of being able to keep financing costs down over the medium to long term, while countries that are not making adequate efforts might suffer economic losses in the future, including running the risk of being subject to carbon taxes.

Taking ESG factors into consideration allows us to reflect issuing countries' potential risks into our creditworthiness evaluations.

**Example of Using ESG Evaluation in Emerging Markets**




### Oman

Oman is a country located on the Arabian Peninsula. Oil and gas-related businesses account for a large portion of its national revenue. Although Oman's economy is highly dependent on crude oil, in terms of ESG, the country is seen as the "Switzerland of the Middle East," and we value the fact that it pursues neutral diplomacy in the Middle East. We also appreciate that Oman is working to realize economic growth taking environmental changes into consideration, including the government's effort to reform the economy so that it is not dependent on crude oil and its goal of being ranked in the Top 20 (out of 180 countries, 110th as of 2020) in the environmental performance index (EPI) by country. In the second half of 2021, a leading credit ratings agency announced an upgrade to Oman's rating outlook, pointing to the country's structural reforms, alongside the improvement in Oman's finances due to the rise in crude oil prices.

**Emerging market bond weightings**

| | Country/territory | % of net assets |
|---|---|---|
| 1 | Mexico | 9.00% |
| 2 | Indonesia | 8.90% |
| 3 | China | 7.80% |
| 4 | United Arab Emirates | 6.80% |
| 5 | Chile | 6.50% |
| 6 | Brazil | 6.40% |
| 7 | Qatar | 6.30% |
| 8 | Columbia | 5.90% |
| 9 | **Oman** | **5.60%** |
| 10 | Peru | 5.60% |

Note: Weights as of January 2022.

COLUMN

## Creation of a Scheme to Donate to Regional Revitalization Efforts

**– Supporting hometowns through investment trusts -**

As a part of efforts to support regional revitalization, Nomura Asset Management has partnered with regional financial institutions to create a donation scheme utilizing the Corporate Hometown Tax system (a tax system that supports regional revitalization), and made donations in many prefectures throughout Japan.

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 can contribute to regional revitalization efforts. We have branded this project the "Kokorozashi" Project. In FY2021, we planned to donate money to a total of 47 projects in 33 prefectures.


**FY2020 donations**

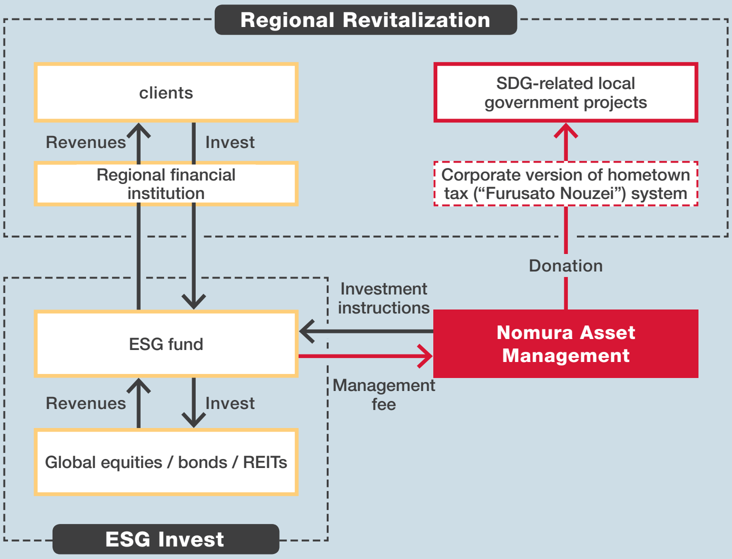
**Total of 27 projects/ 19 prefectures**

▼

**FY2021 planned donations**

**Total of 47 projects / 33 prefectures**

**Outline of donation scheme targeting regional revitalization**



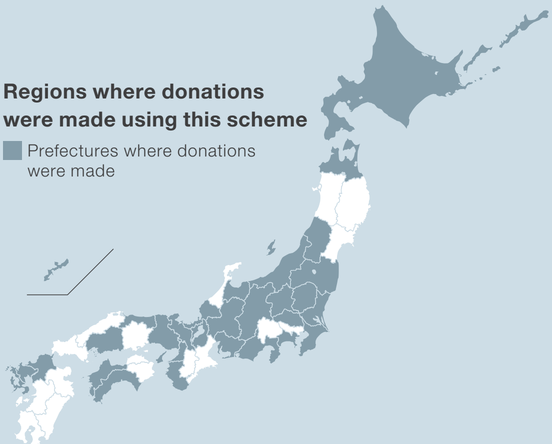


"Kokorozashi" Project web page

Presentation ceremony (Tochigi Prefecture)

**Regions where donations were made using this scheme**

Prefectures where donations were made




Certificate of appreciation (Ibaraki Prefecture)


Certificate of appreciation (Kyoto Prefecture)

## Distinctive Characteristics of Fixed Income Engagement

In Japanese credit investment, we proactively carry out dialogue (engagement) with companies in our investment portfolios in order to both maximize the investment returns for assets we manage as well as to fulfill our stewardship responsibility as a responsible investor.

In addition to meetings with issuers when they issue corporate bonds and at other times, we also attend engagement sessions between companies and our equities investment teams. Collaborating with the equities investment teams not only results in more opportunities to engage with the issuer's management team, but also allows us to communicate to the company what we view as the desirable approach, both from the equity investment side as well as the fixed income investment side. As a result, our engagement has become more effective.

It is generally believed that, in the relationship with companies, fixed income investment managers and equity investment managers have different perspectives and conflicting interests. However, at Nomura Asset Management the goal to improve medium- to long-term corporate value is shared by both sides. As such, there are hardly any instances of disagreement between the equity investment teams and the fixed income investment teams. In addition, the idea of improving corporate value, that both investment divisions share, is close to the perspective of corporate management, so it leads to constructive dialogue with companies.

## Strengthening Engagement in Japanese Fixed Income Investing

We established the Engagement Department in November 2021 in order to further raise the level of our stewardship activities (Refer to P51-52). In addition to Japanese equities portfolio managers, corporate analysts, and ESG specialists, fixed income portfolio managers and credit analysts also participate in the Engagement Department's initiatives.

The Engagement Department, with respect to companies in the Japanese fixed income investment's portfolio, holds discussions and set goals that will lead to addressing ESG issues and increasing corporate value over the long term adding the perspective of fixed income investment. On top of that, credit analysts engage with issuers and also carry out joint engagement with corporate analysts and ESG specialists as needed. The progress on engagement is shared internally, and investment decisions are reflected in decision-making, thereby making effective engagement in fixed income investing possible.

Right | Senior Credit Analyst
**Toshihiko Suzuki**

Left | Credit Analyst
**Ayaka Tamura**

# Fixed Income Engagement

### Example of Engagement

**Ex.01** Example of dialogue regarding the issuance of ESG-labeled bonds

We regularly held discussions related to bond issuances and other matters with managers of a company's finance department, and had been talking to them about issuing ESG labeled bonds (bonds that specify the purpose of the funds raised). Subsequently, our corporate analysts and credit analysts gained an opportunity to jointly engage with the issuer's senior executives. At the meeting, our credit analysts told the company's senior executives that issuing ESG labeled bonds is one means to communicate to the market that you are tackling climate change, and also that it would lead to an improvement in the evaluation of the company's ESG-related initiatives as well as an increase in its corporate value. This view was something we had discussed repeatedly with our corporate analysts. Subsequently, the company issued ESG labeled bonds to fund its investment in renewable energy as part of its transition plan towards being carbon-neutral by 2050. We believe this is an effective example of how corporate analysts and credit analysts collaborate to engage with the senior management of portfolio companies following internal discussions.

**Ex.02** Example of Dialogue about Setting Appropriate Financial Targets

The company has a stable business model, as well as extremely high financial improvement targets that it set hoping to please ratings agencies and fixed income investors. A company setting goals for improving financial metrics is usually desirable from a credit investment perspective, but this company seemed to be considering a risky new investment to increase profitability in order to both improve financial metrics required by credit investors as well as shareholder returns sought by equity investors. During engagement, we specifically told the company what we discussed with our corporate analysts, that from the standpoint of long-term improvement in corporate value, it is important to set targets including both equity investors and fixed income investors in discussions about appropriate financial metrics levels that are commensurate with business risk, rather than focusing on improving financial metrics alone. The manager of the company was surprised that a credit analyst wanted the company to pursue long-term corporate value enhancement rather than short-term financial improvement, and replied that they would tell senior management that they had received this type of opinion from an investor.

## I would like Nomura Asset Management to pursue corporate governance appropriate for an asset management company

I have been a member of the Responsible Investment Council since its establishment, during which time I have also attended Responsible Investment Committee meetings. Recently, there has been an increase in proposals related to corporate restructurings and acquisitions. Both deal structures and interests among involved parties have become increasingly complex, but Responsible Investment Committee members give their opinions and hold serious discussions on each proposed matter. Even for matters involving conflicts of interest, the Responsible Investment Committee stringently applies the proxy voting standards when making decisions, under the supervision of the Responsible Investment Council.

I am also an outside director and chair of the Audit and Supervisory Committee, so I would also like to talk about company-wide efforts. Since 2021, the Board of Directors has narrowed its agenda items to important management issues, and this has made meetings more efficient and led to lively discussions. The Audit and Supervisory Committee regularly submits the findings of audit activities to the Board of Directors, and in 2021 the executive side began providing written countermeasures to deal with issues identified in the findings. I expect that Nomura Asset Management will continue to pursue corporate governance suitable for an asset management firm that engages with its portfolio companies regarding their business activities.

In addition, Nomura Asset Management has set achieving diversity and inclusion as a key issue, and is instituting various measures to achieve its target ratio of women employees in managerial positions. Incorporating diverse opinions into the company's management is important, so I hope that the company achieves this goal.

| | |
|---|---|
| **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) |

### Akiko Kimura
Outside director

Appointed in 2016

# Messages from the Responsible Investment Council

| | |
|---|---|
| **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) |

### Yumiko Miwa
Outside Expert

Appointed in 2020

The Responsible Investment Council is tasked with managing conflicts of interest by verifying overall stewardship activities. Like other members, I attend every Responsible Investment Committee meeting regardless of whether or not a conflict of interest is being discussed. In 2021, the Responsible Investment Committee held discussions on amending the Basic Policy for Responsible Investment, and the Responsible Investment Council members, including myself, proactively stated our opinions and were satisfied with the outcome. I think that both the Responsible Investment Committee and the Responsible Investment Council functioned very effectively throughout the year.

As an academic, I study trends among institutional investors both in Japan and overseas, and I find that ESG is becoming increasingly important both in terms of investment decisions and dialogue. The Corporate Governance Code was revised in June 2021, and the revised version includes specific language about enhancing the functions of the Board of Directors, promoting diversity in managerial positions, and addressing issues surrounding sustainability. In November 2020, Nomura Asset Management introduced proxy voting standards that promote the concept of a monitoring board. These standards were developed in anticipation of the revision of the Corporate Governance Code, and I am encouraged to see such forward-looking action. At COP 26 held in November 2021, significant progress was made on corporate disclosure of ESG-related information. Nomura Asset Management is actively pursuing ESG initiatives as a responsible investor, including participating in collaborative engagement with international organizations.

I would like to see Nomura Asset Management become an ESG leader in the asset management industry.

## I would like Nomura Asset Management to be a leader in the domestic and international asset management industry in the field of ESG

# Nomura Asset Management has a sincere and detailed approach to discussions. I look forward to their ambitious initiatives.

I became an outside director and a member of the Responsible Investment Council in June 2021. At the first Responsible Investment Committee meeting I attended, the committee reviewed recent engagement activities and discussed key topics. Over the subsequent six months, agenda items included revisions of the proxy voting standards, decisions on individual proposals, and revisions of Basic Policy for Responsible Investment. I have been in the investment industry and also worked in equities investment for many years. In light of my experience over the years, I feel that the Responsible Investment Committee has a serious approach and holds detailed discussions. The Responsible Investment Council's main responsibility is to monitor conflicts of interest. I believe this to be synonymous with monitoring whether or not the Responsible Investment Committee is following through with its earnest approach.

ESG, which is gaining increasing attention, is an important topic not only for the Responsible Investment Committee, but also for Nomura Asset Management as a whole. After another revision of the Corporate Governance Code and the changes to the Tokyo Stock Exchange's market segments, I think ESG has become firmly established as an issue that companies need to address. In October, Nomura Asset Management established a 2050 Net Zero goal, and then revised its ESG Statement in December. To me, these actions show the willingness not just of the Investment and Research Division (which includes the Responsible Investment Committee), but also among senior management, to actively engage in ESG. As a member of the Responsible Investment Council, I look forward to observing and supporting Nomura Asset Management's ambitious efforts.


## Ryoji Maeda

Outside director

Appointed in 2021

| | |
|---|---|
| **April 1977** | Joined Sumitomo Life Insurance Company |
| **April 2002** | Executive Officer, CIO of Investment Headquarters, Sumitomo Life Investment Co.,Ltd. |
| **December 2002** | Operating officer, Sumitomo Mitsui Asset Management Co., Ltd. |
| **June 2007** | President and CEO, (Chairman of the company from April 2014) , Sumitomo Mitsui Asset Management Co., Ltd. |
| **April 2018** | Permanent Audit & Supervisory Board Member, Allianz Global Investors Japan Co., Ltd. |
| **June 2021** | Outside Director, Nomura Asset Management Co., Ltd. |

## 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 62).

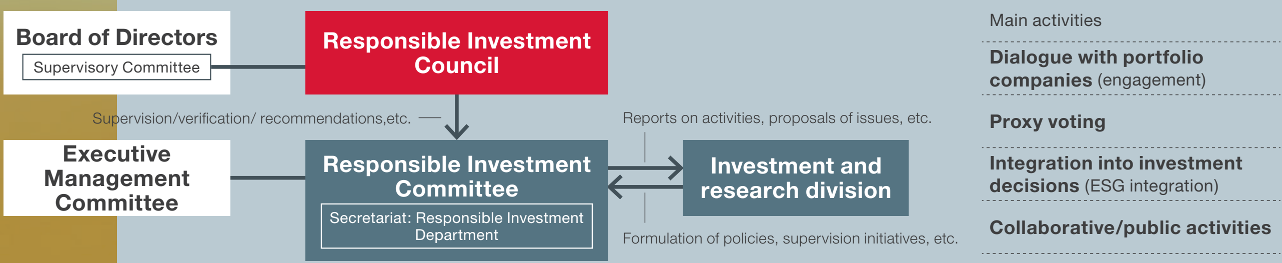
## Meetings held

Since its establishment in September 2016, the Responsible Investment Council has met a total of 38 times through December 31, 2021. The Responsible Investment Committee is attended by the members of the Responsible Investment Council, who promptly provide their opinions.

## 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.

## Organizational Structure for Responsible Investment



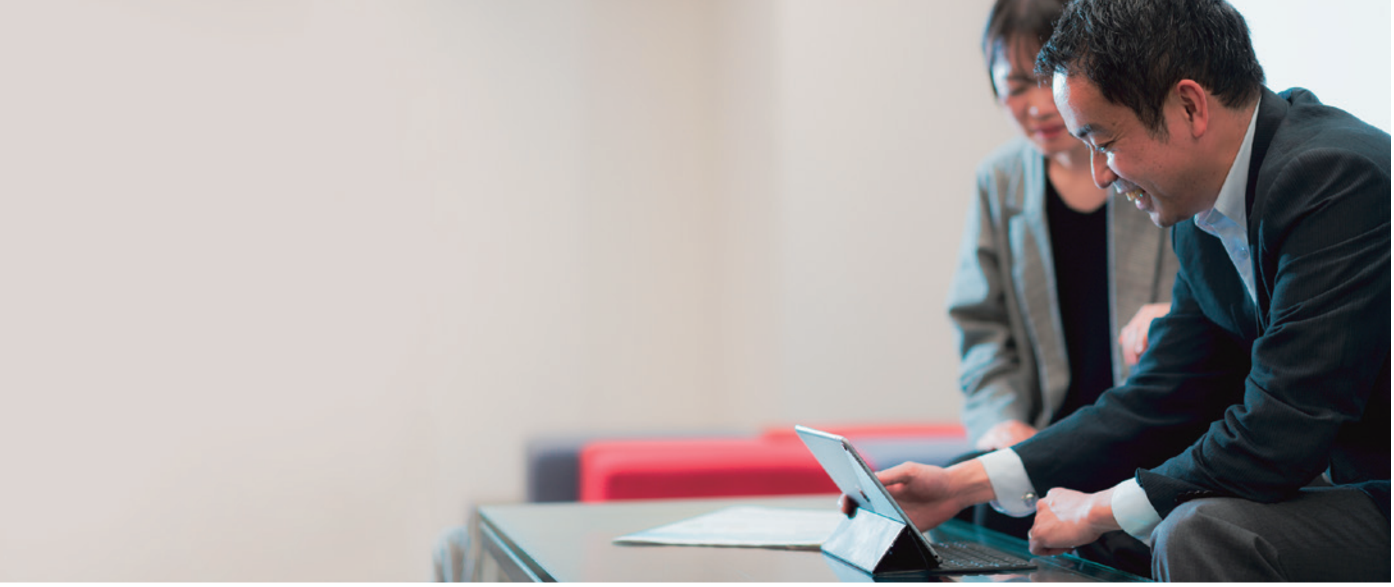
# Results of Self-Evaluation of 2021 Stewardship Activities

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 2021 (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 rerevision on March 24, 2020.

## 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.

| Questionnaire Overview | | |
|---|---|---|
| Target | The following people responded according to the questions.<br>Responsible Investment Committee*1 members– 5<br>Responsible Investment Committee Secretariat members – 8<br>Responsible Investment Council*2 members – 4 | |
| Questionnaire timing | December 2021 | |
| Period covered | January-December 2021 | |
| Response format | Signed (not anonymous)<br>Multiple choice (4 choices)<br>Write comments freely | |
| Questionnaire | Total of 14 questions: Addressing each of the principles of Japan's Stewardship Code | |
| | Principle 1<br>(Formulate and publicly disclose policy): | 2 questions |
| | Principle 2<br>(Manage conflicts of interest): | 3 questions |
| | Principle 3<br>(Monitor portfolio companies): | 1 questions |
| | Principle 4<br>(Engagement): | 3 questions |
| | Principle 5<br>(Proxy voting): | 3 questions |
| | Principle 6<br>(Report to clients and beneficiaries): | 1 questions |
| | Principle 7<br>(Skills for engagement activities): | 1 questions |



## 2 Results of self-assessment (overall)

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 our response to the points identified in the previous year as areas to be strengthened.

- Deepen discussion in the Responsible Investment Committee about a new stewardship activities policy in order to respond to diversifying ESG*3 issues and heightened expectations.
- Based on the above discussions, deepen the awareness of issues among members of the Investment and Research Division, allocate appropriate resources, and further strengthen stewardship activities.
- Strive for even more accessible and easy-to-understand disclosure in order to promote an understanding of our stewardship activities among various stakeholders.

Among our stewardship activities in 2021, the following were brought up as particularly effective initiatives.

- We once again held discussions regarding our policy related to stewardship activities, and revised our Basic Policy for Responsible Investment on December 30, 2021.
- The Responsible Investment Committee was able to hold effective and efficient discussions about various topics, including the basic responsible investment policy.
- Senior management took aggressive actions, including bolstering the personnel involved in stewardship activities and setting a net zero target for greenhouse gas emissions by assets under management.
- We established the Engagement Department on November 1 with the aim of further enhancing stewardship activities.
- We shared information, particularly among analysts and ESG specialists, and were able to strengthen coordination in the Investment and Research Division.

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

- Consider a strategy to increase the diversity of the Responsible Investment Committee in order to incorporate diverse opinions into discussions.
- Increase the awareness and level of understanding of the Basic Policy for Responsible Investment, which was revised in December 2021, within the Investment and Research Division, which is responsible for stewardship activities.
- Establish an implementation system for stewardship activities, centering on the Engagement Department created in November 2021.

*1 Comprises members from the investment and research functions
*2 Comprises one Chief Conflict Officer, two independent outside directors and one outside expert
*3 "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.

## 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.

# Nomura Asset Management's ESG Communication Activities

Nomura Asset Management is also focusing on delivering information about ESG. NAM employees give presentations and participate as panelists at seminars to help people gain a better understanding of ESG. We communicate our knowledge about ESG to various stakeholders.

### Examples of Initiatives Ex. 01 — Collaboration with initiatives, domestic and foreign public institutions, etc.

- The Japan Association of Finance for Sustainable Development (JAFSUS) (the board of director)
- Japan Stewardship Initiative (JSI) Steering Committee member
- Member of the Industry Advisory Panel (IAP) and Working Group on the ASEAN Taxonomy established by the ASEAN regulatory authority
- The Global Steering Group for Impact Investment (GSG) Japan National Advisory Board, Chair of IMM Working Group
- Chair, Constructive Dialogue Promotion Working Group, Committee on Financial and Capital Markets, Japan Business Federation (Keidanren)
- Committee member, "Impact Investing Roundtable" co-hosted by GSG and FSA

### Examples of Initiatives Ex. 02 — Internal Seminars in NAM

- In-house study session on the revision of our own ESG score
- Internal seminars about ESG (total of seven seminars held online – topics included our engagement policy, key themes, and proxy voting)
- Seminar about advancing the way ESG data vendors are utilized (for investment professionals in Japan and overseas)
- Internal lecture by expert about human rights (Australian university professor specializing in human rights)
- Held internal talk session (online) by NAM outside director on the topic of "Why we now have hopes for active participation by women"

**Main External Activities in 2021**

| | |
|---|---|
| Jan. | ■ Gave presentation about Nomura Asset Management's proxy voting at Listed Company Board Member's Governance Forum |
| Feb. | ■ Gave presentation about Nomura Asset Management's proxy voting at meeting sponsored by ICJ<br>■ Participated in panel discussion about "Utilizing TCFD disclosure Towards Carbon Neutrality" at TCFD Consortium |
| Mar. | ■ Gave presentation and participated in panel discussion at the online seminar entitled "Changes in Environmental Management and Response Expected of Companies" organized by the Ministry of the Environment<br>■ Gave presentation about Nomura Asset Management's proxy voting standards at Japan Corporate Governance Research Institute<br>■ Participated in panel discussion about ESG corporate bonds at Euromoney conference |
| Apr. | ■ Gave presentation about Japanese companies' corporate governance at Japan Federation of Bar Associations' public lecture<br>■ Gave presentation about Nomura Asset Management's ESG approach at EM Investors Alliance |
| May. | ■ Participated in panel discussion entitled "Special Symposium – Sustainable Society under a Green Recovery" at the Nikkei SDGs Forum<br>■ Gave report on "ESG-related Dialogue, Engagement Experience and Issues" at Trust Companies Association of Japan's ESG Study Group<br>■ Participated in panel discussion entitled "Financing a Green and Inclusive Recovery" during an Asian Impact webinar held by the Asian Development Bank |
| Jun. | ■ Gave presentation about "Responsible credit investment" during Fitch webinar event<br>■ Participated in panel discussion regarding the "Asia's changing role in the global economy" at the Global Borrowers Forum sponsored by Euromoney |
| Jul. | ■ Participated in panel discussion "Corporate Disclosure related to Climate Change" at the CFA Society Japan's 5th webinar lecture<br>■ Gave presentation about ESG disclosure at outside workshop<br>■ Participated in panel discussion about "Creating Sustainable and Responsible Investment Portfolios" at the Green Social Sustainable Bonds Series 4 by the Asian Development Bank |
| Aug. | ■ Gave presentation about "Promoting Social bonds for impact investments in Asia" seminar held by the Asian Development Bank<br>■ Participated in panel discussion about "Impact bonds" at the Euromoney Global Capital Japan Top Credits roundtable |
| Sep. | ■ Gave presentation "ESG in Bond Investment: The Role of Fixed Income in Building a Sustainable and Resilient Society and Economy" at a CIO Conference webinar sponsored by a ESG data vendor<br>■ Nomura Asset Management's CEO presented about NAM's ESG initiatives at the Nikkei SDGs Forum<br>■ Participated in panel discussion about impact bonds at seminar sponsored by the Asian Development Bank<br>■ Panelist in Access to Medicine Initiative (ATMI) AMR (antimicrobial resistance) panel discussion<br>■ Participated in panel discussion about diversity at CFA Society Japan's annual event<br>■ Gave presentation about impact bonds at the Impact Investing Forum<br>■ Participated in panel discussion sponsored by Euromoney about "Transition bonds, green bonds and sustainability bonds: How best to unlock capital for climate" |
| Oct. | ■ Introduced NAM's initiatives at the Access to Nutrition Initiative's (ATNI) ATNI Global Index 2021 - Japanese Launch Event<br>■ Participated in panel discussion about NAM's ESG investing and ATNI's expectations of Japanese companies |
| Nov. | ■ Participated in panel discussion entitled "Gender Diversity as a Key Driver for Company Growth and Roles of Investors" at the Global Pension Symposium<br>■ Gave presentation about Nomura Asset Management's Fixed Income ESG (emerging markets) at EM Investors Alliance Members<br>■ Participated in panel discussion about proxy voting at the Osaka Kabukon<br>■ Participated in panel discussion "Health and Productivity Management: From the Perspective of ESG Investors" at the 4th Well Aging Society Summit Asia-Japan (sponsored by METI and the Nikkei Shimbun)<br>■ Gave presentation about NAM's ESG initiatives at Women in ETFs event<br>■ Participated in panel discussion at a sustainable bond workshop sponsored by the Asian Development Bank and the Securities and Exchange Regulator of Cambodia |
| Dec. | ■ Participated in panel discussion on "Disclosure of Climate-related Risk based on TCFD – Transition and Opportunities and Asset Management for Decarbonization" co-sponsored by Responsible Investor and FTSE Russell<br>■ Gave presentation about Nomura Asset Management's proxy voting at seminar sponsored by a trust bank |

## NAM's Asset Management Research Center

In December 2020, we established the Asset Management Research Center as a dedicated department specializing in responding to the increasingly sophisticated asset management needs of investors. The Center's role is to communicate information based on our asset management-related insights and know-how in an easy-to-understand manner. We are working to solve social issues by providing a wide range of outlooks and solutions with an eye to the future. The "ESG Project" is one of the Center's main projects.

### Main Projects

- 100-Year Lifespan Project
- Goal-Based Project
- "Tsumitate" Project – Gradual Investment
- Investment Education Project
- ESG Project
- Digital Project
- Capital Markets Research Project

### ESG Project

With growing interest in ESG investment, asset management firms like us are receiving an increasing number of inquiries about ESG investment, as well as requests to speak at seminars and hold workshops, among other things. Many people think that "ESG investment is good for the world," but in many cases they do not have much detailed knowledge about it. In order for all people to be able to utilize ESG investment, it is important to use easy-to-understand language to carefully explain the concept of ESG investment, the efforts and aims of asset management companies, and other aspects of ESG investment to those people who are not familiar with investing. To that end, we have developed our own training program that allows people to learn about ESG investment, and we are providing it mainly to financial institutions. The content of the program is structured to allow people to efficiently acquire basic knowledge related to ESG investment. Content includes ESG investment information gained through our initiatives thus far, as well as answers to questions and feedback that we have received at seminars. We are working to make ESG investment more widespread in Japan and to support the realization of a sustainable society from the finance side.

**Specific examples of the training program**

**The basics of ESG investing**
Definitions, history, assets under management, etc.

**The importance of ESG investing**
Key environmental, social, and governance issues, etc.

**ESG investing in action**
Asset management firm's initiatives, etc.

**ESG investment returns**
Academic and empirical analyses of returns, etc.

**ESG investing keywords**
SDGs, regional revitalization, etc.

## Review of 2021

The world took further steps towards decarbonization in 2021. Financial institutions around the world accelerated the movement to unite around a range of initiatives with the aim of realizing net zero emissions by 2050. A new roadmap in this effort was announced at COP26 held in November 2021. However, it is clear that achieving the net zero target by 2050 will be impossible simply by continuing to deal with the situation as it has been. In addition to corporate efforts, there are expectations for investors to play a role in tackling this difficult problem.

At Nomura Asset Management, we have ramped up our efforts to help realize global decarbonization efforts by 2050. In August 2021, we joined the Net Zero Asset Managers initiative, while in October 2021 we set and announced a 2030 interim target for our 2050 net zero goal. To this end, we began enhancing the visibility of both the status of decarbonization efforts among portfolio companies on a company-wide level and the consistency of our investment portfolio with the Paris Agreement. We also began formulating an action plan (including engagement with portfolio companies) targeting net zero greenhouse gas emissions on an individual investment portfolio basis.

Additionally, ahead of Tokyo Stock Exchange's restructuring of market segments in April 2022, we have introduced measures to further support corporate governance reform among Japanese companies. We continued encouraging Japanese companies to shift their boards of directors to monitoring boards, and revised our proxy voting standards to incorporate the outcomes of engagement in our voting activity. Also, in November 2021 we newly established the Engagement Department. This department is expanding the scope of engagement to include bonds and other assets, enhancing the integration of engagement outcomes into our investment activity, and strengthening our engagement platform looking ahead to 2022 and beyond.

Head of the Responsible Investment Department
**Toshiyuki Imamura**

## 2022 and Beyond

The world is now in a race for financing to realize a sustainable society. The amount of ESG investment has increased dramatically in the last few years, and countries are focusing on tightening ESG regulations and attracting investment money that truly contributes to sustainable growth. Meanwhile, the primary mission of asset management firms is to fulfill their fiduciary duty. This will come down to tackling head-on and realizing the expectations of end beneficiaries. Environmental and social issues are solved over very long periods of time. On the other hand, when it comes to individual investment strategies, there is demand for prompt results in relation to decarbonization and other ESG issues. The values demanded of asset managers have become increasingly diverse, and over the past few years the domains in which asset managers are expected to play a role have expanded dramatically. Only those asset managers who are able to adapt to such environmental changes will be able to survive.

Over the last few years, we have significantly improved our ability to address climate change. We have made progress developing climate-related data and analytical methods, and we have enhanced our ability to engage with portfolio companies. In addition, last year we started monitoring related to human rights for portfolio companies, and we have also strengthened our response to human rights issues. Biodiversity remains a difficult challenge, but one we think will be overcome with time. We will continue to encourage our portfolio companies to make improvements on ESG issues, build strong value chains, and thereby improve their competitiveness.

Our ultimate aim is to continue discovering portfolio companies that have a high impact on society and building upon our achievements that lead to the resolution of social issues around the world. Going forward, we will continue working to ensure that our responsible investment initiatives yield results with social impact.

| 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 |

*The publication of the PRI evaluation for 2020-2021 has been delayed. The plan is to announce it around September 2022.

**Nomura Asset Management Stewardship Code Signing Status**

| | |
|---|---|
| UK* | Dec. 2010 |
| JAPAN | May 2014 |
| HONG KONG | Sep. 2016 |
| SINGAPORE | Sep. 2016 |
| TAIWAN | Dec. 2016 |
| MALAYSIA | Apr. 2017 |

*In March 2022, Nomura Asset Management UK was approved by the Financial Reporting Council (FRC) as a signatory to the UK Stewardship Code 2020.

### Other Related Initiatives that Nomura Asset Management has Joined

**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.

**Signature Timing** January 2012
**The financial principles toward the formation of a sustainable society**
**(2Principles 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.

**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.

Expertise to Exceed

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