Basic Policy For RESPONSIBLE INVESTMENT

BASIC POLICY FOR RESPONSIBLE INVESTMENT

On November 1, 2022, the Responsible Investment Committee revised items related to “1. Proper Efforts on Environmental and Social Issues” and “3. Adequate Performance of Corporate Governance Function” within the “Basic Policy for Responsible Investment.”The basic policy for responsible investment defines our 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.

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

BASIC POLICY FOR RESPONSIBLE INVESTMENT Concrete 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.21~22

Basic Policy For 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 particularly important and efforts that portfolio companies need to make are shown on the right.

1 Basic Policy

- Establishment of a basic policy regarding the company's efforts on ESG issues
- establishment of a system to promote and oversee those efforts

2 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 3 through 7),
- disclosure of business opportunities that are identified as key issues;

3 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 Scope3 under the international standards for the accounting and reporting of ghg emissions
- and introduction of internal carbon pricing;

4 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;

5 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,
- corrective action and relief mechanism
- and disclosure of due diligence results;

6 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, creation of a corporate culture that embraces diversity and inclusion,
- strategy to bring out the best of human resources with diverse values

7 Well-being:

- A management plan (including R&D and marketing strategies) that turns the resolution of social issues, such as health and safety, education and intelligence, and regional revitalization, into business opportunities
- measurement and disclosure of progress toward the resolution of social issues,and
- personnel systems and employee engagement to realize well-being in the company

8 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; and
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 believe that the appropriate corporate governance format to realize this is as shown on the right.

1. The board consists of an adequate number of qualified and diverse members who have the ability and experience to supervise the execution of management and any conflict of interest with the management, controlling shareholder, or any other parties on behalf of shareholders and functions effectively.
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. The board makes appropriate judgment in the best interest of minority shareholders on any transaction involving a conflict of interest or fight for control of the company.
   In our view, as anti-takeover measures limit the rights of shareholders to buy and sell shares freely, they are unnecessary unless there is a risk that such a transaction or fight will significantly impair corporate value and the common interest of shareholders.
7. Corporate governance systems are in place to ensure sufficient internal control in terms of compliance and internal auditing.
8. Comply with laws and regulations, and properly respond to the Corporate Governance Code

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.

Corporate Governance

Towards Realizing a Monitoring Board

About Corporate Governance

"Corporate governance" means a structure for transparent, fair, timely and decisive decision-making by companies, with due attention to the needs and perspectives of shareholders and also customers, employees and local communities.

(From Japan's Corporate Governance Code)

The Corporate Governance (CG) Code defined CG as above and was launched in June 2015. At the time, many companies struggled to secure two independent outside directors, but today the majority of companies have more than one-third independent outside directors, and it is not uncommon for companies to have a majority of independent outside directors. In addition, more than 80% of companies did not have nomination and compensation committees, but today more than 80% of companies do. Since the CG Code defines CG as a "mechanism for decision-making", the bolstering of these systems is an outcome of the CG Code. If the system (mechanism) is a formal requirement, the requirement for effectiveness is "transparency, fairness, promptness, and decisiveness." For decision-making to be transparent, it is necessary to clarify who is responsible for decision-making. Specifically, it is a requirement that the management (especially chairperson and president), who are the decision makers, fulfill their accountability at the board of directors meetings and take responsibility for outcomes. In addition, in order to be fair, it is a requirement that decision-making contribute to improvement in corporate value. If these requirements are met and authority is appropriately delegated to the management team (centered on chairperson and president), swift and decisive decision-making will be possible.

As shown in the figure below, such decision-making can be organized along a PDCA cycle. While it is important for the management team to have the PDCA cycle function autonomously, especially at the "Check" stage, independent outside directors play a central role, adding an element of heteronomous management supervision, which contributes to transparency and fairness. Traditionally, in Japan, a management board that emphasizes "Do" has been the mainstream, but we believe they should shift to being a monitoring board with "Check" as the main role. The CG Code stipulates that the roles and responsibilities of independent outside directors include "Monitoring of the management through important decision-making at the board including the appointment and dismissal of the senior management," so these can be said to be in alignment. Concerning a monitoring board, the delegation of authority tends to attract attention, but it should be understood as a mechanism that makes the PDCA function as a series of processes centered on "Check."

P Plan

Senior management is accountable at the board of directors meetings for management strategy and other matters, and discussions take place so that the content contributes to the enhancement of corporate value. (→transparency, fairness)

D Do

Delegate authority to senior management for decision-making aligned with the management strategy, etc. The board of directors ascertains the situation based on reports received from senior management, and discusses the need for "Act." (→timely, decisive)

C Check

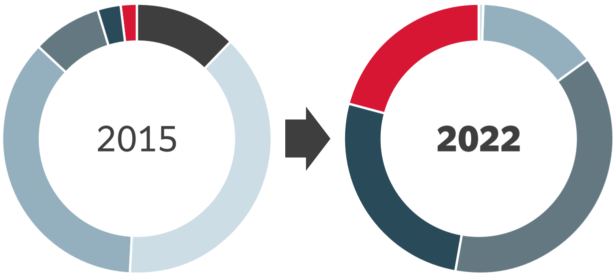
Evaluate the outcomes of decision-making, and reflect in the nominations of senior management (= whether to keep in office or replace) and compensation (→transparency, fairness)

A Act

Provide feedback to senior management on the evaluation results and revise the management strategy, etc. (→timely, decisive)

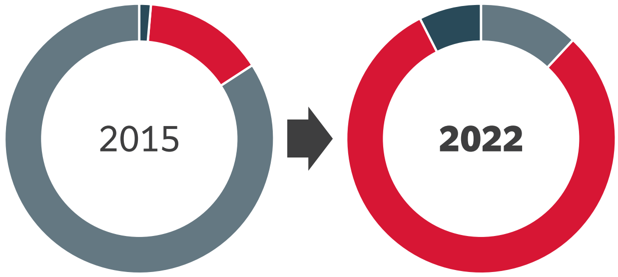
Japanese companies' boards of directors have undergone changes since the enactment of the CG Code

Number of independent outside directors



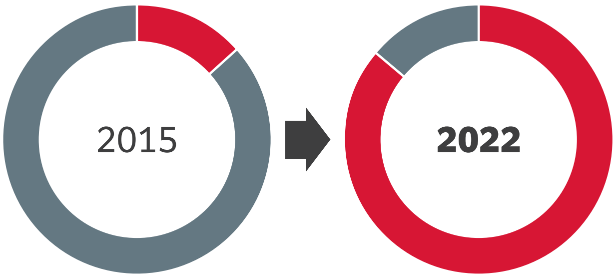
	0	1	2	3	4	5+people
2015	12.3%	38.6%	36.3%	8.2%	2.8%	1.8%
2022	0.1%	0.7%	14.4%	37.8%	26.3%	20.7%

Ratio of independent outside directors



	Majority	One-third	Other
2015	1.5%	14.6%	83.9%
2022	12.1%	80.4%	7.5%

Status of Nomination and Compensation Committees



	Either has been established	Neither have been established
2015	13.4%	86.3%
2022	86.6%	13.7%

(Source) Prepared by Nomura Asset Management based on data from the Japan Association of Corporate Directors.
(Note) Covers companies listed on the Tokyo Stock Exchange First Section or the Tokyo Stock Exchange Prime Market.

Nomura Asset Management supports the transition to a monitoring board

Management board

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

Advisory board

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

Monitoring board

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

We expect companies to transit to this

Nomura Asset Management's initiatives

Proxy Voting

Boards of directors structures have been getting stronger, but not strong enough to be considered a monitoring board.
Through proxy voting standards, we support a transition to a monitoring board.

Handling of proxy voting standards

If a board satisfies all the below requirements, we determine it to be a monitoring board (we consider approximately 120 constituent companies in the TOPIX index to have a monitoring board)

Monitoring board requirements *1

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	The ratio of women directors is at least 10%
5	The company has not introduced a takeover defense plan
6	The company does not hold strategic shareholdings in excess (for financial institutions: less than 25% of net assets; for non-financial companies: 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

*1 We view the above requirements as the bare minimum for being a monitoring board.

If we determine the company to have a monitoring board

We will respect the board of directors' supervisory function.

- We will ease standards related to executive compensation (becomes easier to vote in favor of proposals).
  Payment of compensation increases/bonuses when business performance is struggling
  Stock compensation to outside directors, etc. not linked to business performance
- We will ease business performance standards*2 related to director appointments (same as above).

If not determined to be a monitoring board

- We will not oppose on the reasoning that the company's board does not fall under the category of a monitoring board.
- We will ease standards for executiver remuneration and retirement bonus for directors and auditors, if efforts to bring the structure closer to a monitoring board (establishment of remuneration governance, etc.) are observed.

*2 Standard to vote in opposition of re-appointment of chairperson and president, etc. who have been in the position for the most recent three or more consecutive fiscal years, if return on equity (ROE) has been in question and efforts for management improvement have not been demonstrated.

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.**
- **If outside directors failed to fully fulfill their expected roles, we will vote against the re-election of outside directors**

Nomura Asset Management's initiatives

Engagement

What is important for a monitoring board is the supervision of management, especially chairperson and president, who are the top management, but there are some cases where it is not functioning in the desired manner. We are working to have companies realize a desirable monitoring board.

Desirable monitoring board and undesirable monitoring board

Desirable

Independent outside director → Supervision (nomination/compensation) → Chairperson and President → Management decision-making — Management's PDCA cycle functions

- Debate with management team about management strategy, etc. (management team is accountable)
- Evaluate management team based on management strategy, etc., and reflect in nominations and compensation. Also, provide feedback on evaluation details to management team.
  Nomination: Establish standards and process for periodically determining the necessity for replacing members of senior management, formulate a successor plan to prepare for such replacements.
  Compensation: Management team incentives/commitments aimed at enhancing corporate value
- Provide advice to management team as needed during the supervision process.

Undesirable 1 = Advisory board

Independent outside director → Advice / Supervision does not function → Chairperson, CEO, executive officer → Management decision-making — Biased advice

Undesirable 2 = Cannot break away from a management board

Independent outside director + Chairperson+ President → Management decision-making

Independent outside director + Chairperson+ President → Supervision → Executive officer, department head → Management decision-making

Independent outside directors participate in decision-making
→ Supervision of chairperson and president does not function

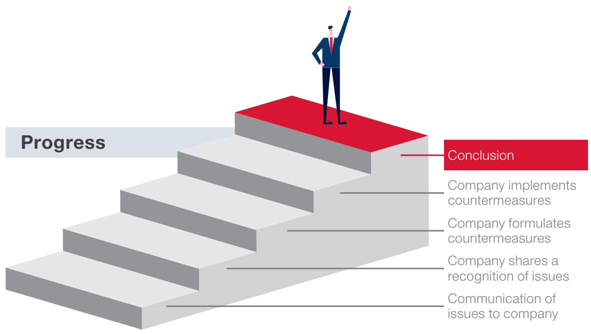
Examples of engagement aimed at establishing a monitoring board

Redefining the board of directors

Retail sector

Period 56months

12 24 36



Conclusion / June 2022 / 6 meetings
Interviewees / Representative Director and CEO, outside directors, others

NAM's Concerns	Goal
Even though business performance has been struggling, there are few outside directors and there are no members with corporate management experience. There is no nomination or compensation committee. Strengthening corporate governance is an urgent task.	The company increased the number of outside directors with management experience.