Responsible Investment Report 2019

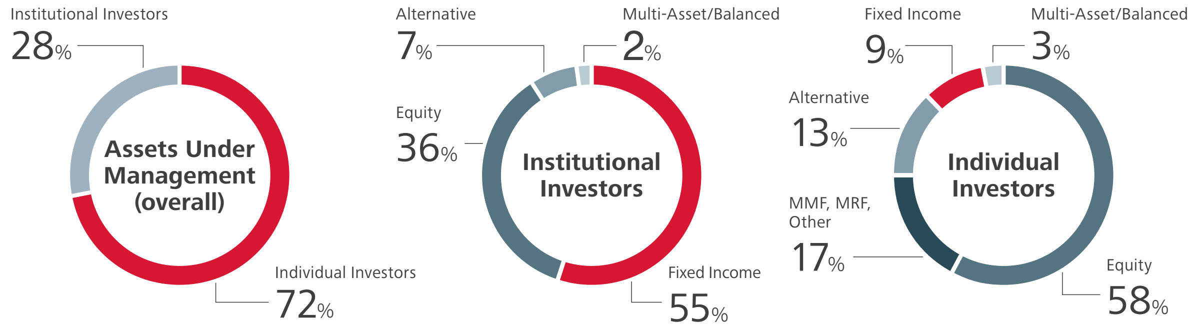
2019 60th Anniversary

Nomura Asset Management Co., Ltd.

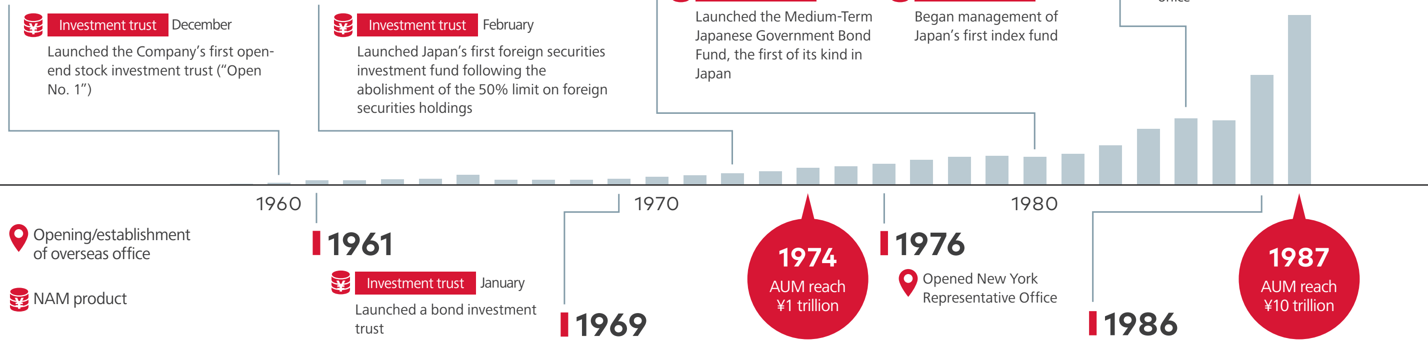
Nomura Asset Management

Nomura Asset Management celebrated its 60th anniversary on December 1, 2019. We meet the asset management needs of a diverse range of clients, from individual investors to institutional clients such as large pension funds and corporations. Based on our philosophy of "It's all about the client" our offices in Tokyo, New York, London, Singapore, Kuala Lumpur, Hong Kong and elsewhere collaborate to meet the expectations of our clients around the world.

Ratio of AUM by Asset Class



Assets under management



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

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

1980
Investment trust January
Launched the Medium-Term Japanese Government Bond Fund, the first of its kind in Japan
Investment trust August
Began management of Japan's first index fund

1984
Established London branch office

Opening/establishment of overseas office
NAM product

1961
Investment trust January
Launched a bond investment trust

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

1974
AUM reach ¥1 trillion

1976
Opened New York Representative Office

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

1987
AUM reach ¥10 trillion

NAM's History

1959
December 1 Established Nomura Securities Investment Trust Co., Ltd.
April 1 Began business operations

1967
April Established the Securities Investment Management Department in Nomura Research Institute (NRI).

1969
January Established the Securities Investment Management Department in Nomura Securities

1981
December 1 Established Nomura Investment Management Co., Ltd. merging functions of the Securities Investment Management Department in Nomura Securities and the Securities Investment Management Department in Nomura Research Institute (NRI).

NAM's Strengths by the Numbers

(As of December 2019)

Establishment 60th anniversary in December 2019
1959

Assets under management (Asset Management Division)
¥55.6trillion

Employees in head office/branch offices
13branch offices
1,472employees

1988
Established Singapore branch office
Established Hong Kong branch office

1992
Investment trust May
Launched MMF

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

1996
Established Sydney branch office

1998
Investment trust April
Launched MRF

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

2004
Opened Dubai branch office

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

2006
Established Malaysia branch office

2006 AUM reach ¥20 trillion

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

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

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

2011
Opened Shanghai representative office

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

2014
Opened Taiwan office through a joint venture

2014 AUM reach ¥30 trillion

2015
Formed business partnership with American Century Investments (ACI)

2016 AUM reach ¥40 trillion

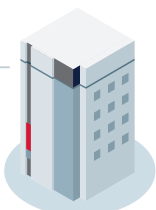
2018
ETF May
Launched and Listed the Japan Empowering Women ETF

Investment trust October
Launched the ACI Advanced Medical Impact Fund

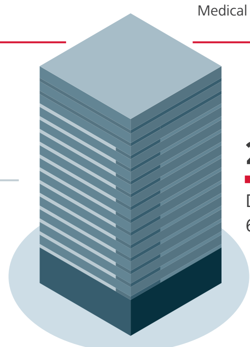
2019
Investment trust November
Announced Japan's first fund merger

2019 AUM reach ¥50 trillion

1990 2000 2010 2019



1997
Established Nomura Asset Management Co., Ltd. merging functions of Nomura Securities Investment Trust Co., Ltd. and Nomura Investment Management Co., Ltd.



2019
December
60th anniversary

World's 5th largest ETF AUM
Domestic market share
45.0%

Market share in the ¥113 trillion domestic publicly-offered investment trust market
27.6% No. 1

Average years of experience among employees involved in investment and research-related operations (in Mar. 2019)
12.8 years

Nomura Asset Management

Responsible Investment Strengths

Long-term commitment to responsible investment

The first strength is our long history of engaging in responsible investment. The roots of the current Responsible Investment Committee lie in the Proxy Voting Committee established in 2001. Subsequently, the ESG Committee was established in 2011. The ESG Committee became the Responsible Investment Committee as part of a reorganization and an integration from 2014 to 2015. Based on many discussions over the years, and always remaining conscious of our mandate from clients, we have fostered a culture that is supportive of responsible investment, respects diverse opinions from a large number of professionals, and values lively discussion.

History of Responsible Investment

2001	Proxy Voting Committee established
2004	Management of SRI Index Fund commenced Management of governance fund commenced
2010	UK Stewardship Code adopted
2011	ESG Committee (now the Responsible Investment Committee) established United Nations-supported Principles for Responsible Investment (UN PRI) signed
2014	Japanese version of the Stewardship Code adopted ESG Committee reorganized into Responsible Investment Committee Proxy Voting Committee reorganized into Stewardship Committee
2015	Responsible Investment Group and ESG specialists established Stewardship Committee integrated into Responsible Investment Committee
2016	Responsible Investment Department established Conflict of Interest Management Policy formulated and Responsible Investment Council established Stewardship Codes in Singapore, Hong Kong and Taiwan adopted UK Office acquired Tier1 evaluation from UK FRC*
2017	Proxy voting results disclosed individually Malaysian Stewardship Code adopted
2018	Self-evaluation disclosed
2019	Support for TCFD. Strengthening our company-wide efforts to tackle climate change. Formulated our ESG Statement

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

Building a strong responsible investment platform

The second strength is our robust responsible investment platform. Our systems, processes and organization have undergone continuous reform to reflect and respond to the changing needs of investors and wider society. One example is the Responsible Investment Council, which was established in 2016 as an oversight body of the Responsible Investment Committee. Independent outside directors make up the majority of the Council, thus enhancing the management of conflicts of interest. Having the Council monitor Committee discussions in real time is an unprecedented initiative in the industry.

Organizational Structure for Responsible Investment

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

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

Emphasis on responsible investment discussion and debate

The fourth strength is the emphasis we place on exhaustive discussions. In 2019, the most heated debates in the Responsible Investment Committee were those concerning M&A as well as director election proposals made by shareholders. On many occasions, there were splits in opinion, or the Secretariat's plans were overturned. The members of the Responsible Investment Council were also present at Committee meetings and actively participated in discussions without limiting themselves to monitoring conflict of interest.
We believe that such rigorous monitoring structure and interactive discussions bring productive results, and consider this to be one of our key strengths.

Responsible Investment Committee Meetings
January – December 2019

Responsible Investment Committee	Responsible Investment Council
18 times	**4** times
Regular 4 times / Ad hoc 14 times	Regular 4 times / Ad hoc 0 times

CEO Message

Junko Nakagawa

President & CEO
Nomura Asset Management Co., Ltd.

We create economic and social value through the asset management business

As a responsible institutional investor

As a responsible institutional investor, Nomura Asset Management aims to realize a sustainable and prosperous society by helping clients to build wealth. Today, as symbolized by the SDGs, rather than simply pursuing economic value through their business activities, investors can encourage companies to generate social value by solving problems that exist among various stakeholders through their business activities. In addition to helping clients build wealth through the asset management business, we support the creation of social value by the companies held in our portfolios by realizing a virtuous cycle of investment (investment chain) through engagement and other efforts. We believe that by doing so we can promote sustainable economic growth and a prosperous society, which will ultimately lead to more affluent lives for our clients. In March 2019, we formulated our ESG Statement in which we identified important ESG issues for us. Based on our ESG statement, we will continue our business with an emphasis on these ESG issues and fulfill our responsibility as an asset manager, while reflecting them in our stewardship activities, investment, and research.

Initiatives on climate change

In 2019, the world witnessed first-hand the risks that climate change can bring. Disasters included the loss of forests due to massive wildfires, a heatwave across Europe, severe drought in Africa, as well as the unprecedented damage in Japan caused by increasingly fierce typhoons. In our ESG Statement, we have identified climate change as an especially serious issue, and we have been bolstering our efforts to combat climate change. The issue of climate change cannot be solved overnight, but we recognize that ongoing initiatives are needed, as this issue could have a tremendous longer term impact on corporate value. In March 2019, we pledged our support for the Task Force on Climate-related Financial Disclosure (TCFD). While advancing such organizational initiatives, we have also begun monitoring the greenhouse gas emissions and other data for the portfolios we manage. We will pursue initiatives to address climate change by applying the results of our monitoring in engagement with portfolio companies and in all of our investment activities.

Contribution to the advancement of society through asset management

The essence of the asset management business lies in fulfilling social responsibilities through the provision of high-quality products that offer excellent performance and through services that meet clients' expectations. From this perspective, in addition to responsible investment, we continue our efforts to help clients understand the importance of building wealth sustainably by expanding our lineup of ESG investment products and supporting financial education. Since sustainable growth has become a global goal, it is essential for us to offer products and services that would support wealth creation for our clients. Our corporate principles are "Maximizing Value," "Advanced Expertise," and "Confidence and Responsibility." Based on these corporate principles, we will continue to advance our responsible investing efforts in order to enhance corporate value of our portfolio companies and realize a sustainable society.

Corporate Principles

Maximizing Value
Advanced Expertise
Confidence and Responsibility

Corporate Slogan

Expertise to Exceed

Using our expertise and foresight to stay ahead of change,
we pursue exceptional performance and
create cutting-edge solutions to exceed all expectations.

ESG Statement

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

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

E Environment

Climate Change

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

E Environment

Natural Resources

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

S Social

Social Responsibility

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

G Governance

Governance

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

SDGs Sustainable Development Goals

SDGs

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

Related ESG Issues | **Related Initiatives to which Nomura Asset Management is a signatory**

E Environment — Climate Change

- Decarbonization
- Mitigation/Adaptation
- Innovation

CDP

Signature Timing	June 2015 N

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.

The Task Force on Climate-related Financial Disclosures TCFD

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 Action100+

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.

E Environment — Natural Resources

- Water/forests
- Biodiversity
- Livestock/breeding

Farm Animal Investment Risk and Return FAIRR

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.

Sustainable Blue Economy Finance Principles SBEFP

Signature Timing	July 2019

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

S Social — Social Responsibility

- Human rights
- Diversity
- Access to healthcare

Access to Medicine Foundation Access to Medicine Index

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.

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.

G Governance — Governance

- Independent officers
- Executive compensation
- Successor planning

The International Corporate Governance Network ICGN

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.

The Asian Corporate Governance Association ACGA

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.

Japan Stewardship Initiative JSI

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.

SDGs Sustainable Development Goals — SDGs

SUSTAINABLE DEVELOPMENT GOALS

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

Other Related Initiatives that Nomura Asset Management has Joined

The United Nations Global Compact
UNGC

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.

Principles for Responsible Investment
PRI

Signature Timing	March 2011

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.

21世紀金融行動原則

The financial principles toward the formation of a sustainable society
(Principles for Financial Action for the 21st Century)

Signature Timing	January 2012

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.

The United Nations Environment Programme – Finance Initiative
UNEP FI

Signature Timing	January 2019 Ⓝ

UNEP FI is a partnership established between the United Nations Environment Program (UNEP) and financial institutions worldwide. Since its establishment in 1992, UNEP FI has been cooperating with financial institutions and regulatory authorities to promote a shift to a financial system that integrates economic development with ESG considerations.

Ⓝ Signed as Nomura Group

Nomura Asset Management's Role in ESG Issues

Role as an institutional investor

Impact on economic cycle as institutional investor

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

Nomura Asset Management

Solving ESG issues
Creating social impact

Role as an operating company

Directly impact society as an operating company

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

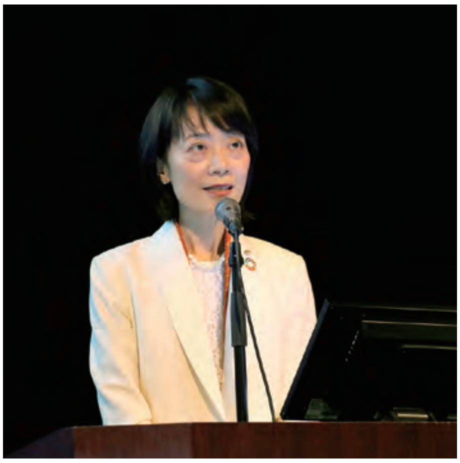
TCFD

Advancing ESG integration by analyzing and evaluating climate-related risks and opportunities
Encouraging companies to incorporate climate change measures into their management strategies through constructive dialogue with portfolio companies

Climate change is one of the most important ESG issues in the management strategies of portfolio companies. Through our TCFD initiatives, we will contribute to the realization of a decarbonized society by enhancing the management of climate-related risks and opportunities and by having portfolio companies include climate change measures in their management strategies through engagement.

We recognize that decarbonizing society is an issue that needs to be addressed over the long term, and that accomplishing this will be a major challenge. However, we feel that nothing will change when it comes to dealing with climate change unless specific actions are taken by investors, who play an important role in providing funds and engaging in dialogue with portfolio companies.
While continuing constructive and amicable dialogue with portfolio companies, we will cooperate to work on climate change issues and contribute to the realization of a decarbonized society.

President & CEO
Nomura Asset Management Co., Ltd.
Junko Nakagawa



Keynote address at the Forum on Decarbonizing Management
(November 19, 2019) co-hosted by
Ministry of the Environment Government of Japan and CDP

Nomura Asset Management's TCFD Initiatives

In response to a request from the G20, the TCFD (Task Force on Climate-related Financial Disclosures) was established in December 2015 by the FSB (Financial Stability Board) to provide information on climate-related risks (transition and physical risks) and opportunities, and to consider measures financial institutions can take.

Following the 2008 global financial crisis, and reflecting on the harm caused by short-term focus for investments, momentum grew for an emphasis on risk management for medium- to long-term investment. Meanwhile, extreme weather around the world has caused enormous damage to companies, and has also had a significant impact on the balance sheets of financial institutions, including property and casualty insurance companies. Given these circumstances, in order to keep the financial system stable, it has become important for companies that financial institutions invest in and lend funds to, to disclose their climate-related financial information under a unified framework. This led to the establishment of the TCFD.

In June 2017, the TCFD submitted the TCFD Recommendations (final report) to the FSB, and made the report public. Subsequently, the TCFD has issued two Status Reports (September 2018, June 2019).

We support the TCFD, as in addition to recognizing climate change as one of the most important ESG issues in our ESG Statement, we understand the importance of climate-related financial disclosures by portfolio companies. We have also been a member of the TCFD Consortium since its establishment in May 2019. Utilizing the Green Investment Guidance formulated by the Consortium in October 2019, through engagement we actively encourage portfolio companies to support the TCFD, disclose climate-related financial information, and integrate climate-related risks and opportunities into their business strategies. Through these initiatives, we are helping to stabilize the financial system with respect to climate change, improve the transparency of capital markets, as well as advance investment with respect to climate-related risks and opportunities.

In this section, we disclose our climate-related governance, strategy, metrics and targets, as well as risk management based on the TCFD Recommendations, and discuss the results of our climate-related analysis in our portfolios.

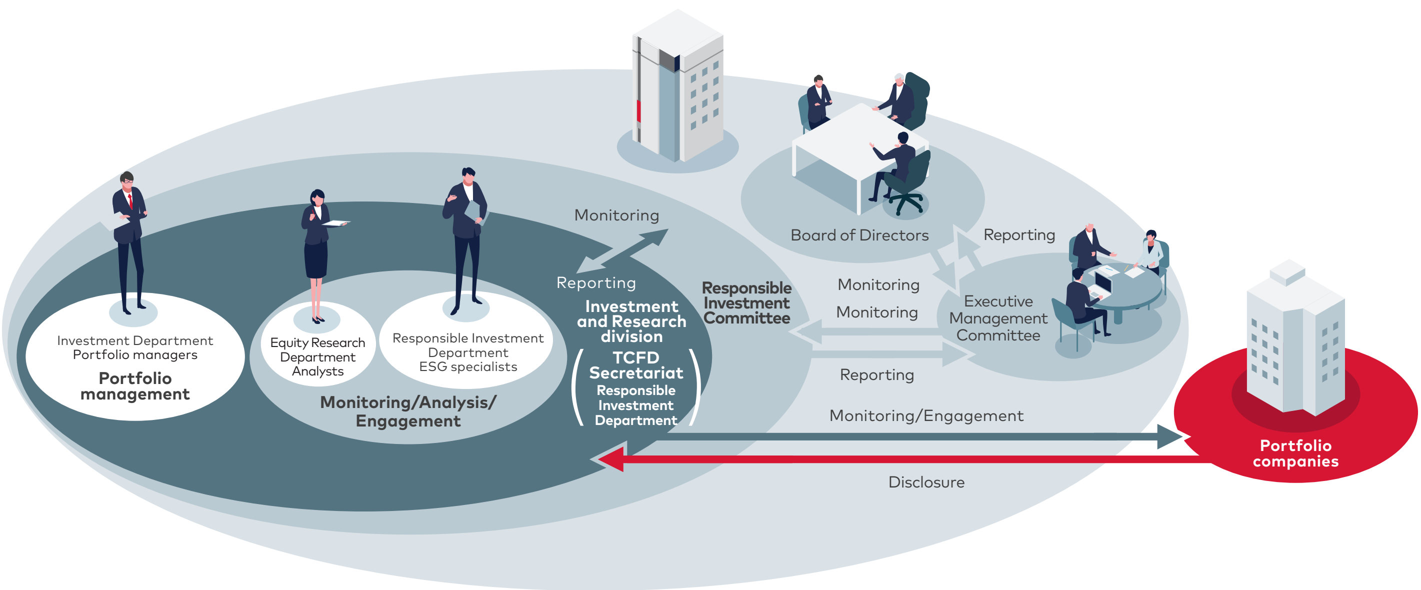
GIG GREEN INVESTMENT GUIDANCE

Nomura Asset Management is a member of GIG Supporters.

Governance

Our Board of Directors and Executive Management Committee both recognize that climate-related risks and opportunities have important impacts on our business as well as medium- to long-term management targets, and have therefore created an appropriate governance system along with carrying out monitoring.
Although Nomura Asset Management is an asset management company under the Nomura Group, based on our Conflict of Interest Management Policy, the decision-making in the Investment and Research division is separated from management decision-making bodies such as the Board of Directors and the Executive Management Committee. In addition to preventing non-public information related to investment and research from being communicated to management in advance, we are working to address climate issues in investment and research in a manner that ensures the independence of decision-making for investment and research.
Under this system, the Responsible Investment Department, which is responsible for responsible investment as a whole, acts as the TCFD Secretariat for monitoring climate-related risks and opportunities, and handles all administrative work.
The ESG specialists in the Responsible Investment Department work with the portfolio managers and the equity analysts to manage portfolios by monitoring GHG (greenhouse gas) emissions and ESG scores of portfolio companies, analyze scenarios, and assess transition risks, and also work to understand the climate-related risks and opportunities of portfolio companies. Analytical data such as GHG emissions, ESG scores, and scenario analyses compiled by the Secretariat are shared with investment managers and analysts, and used for company analysis, engagement, and investment decision-making, in addition to being regularly reported to the Responsible Investment Committee comprised of officers from the Investment and Research division.
Based on these reports, the Responsible Investment Committee members, including the executive in charge of the Investment and Research division, the CIOs (chief investment officers) of each asset class, SIOs (senior investment officers), the head of the Equity Research Department, and others, ascertain the climate-related risks and opportunities of investment portfolios and portfolio companies, assess the impact on our business and portfolios, and discuss measures to be taken. Following this, the chair of the Responsible Investment Committee reports the matters reported to the Executive Management Committee, which allows senior management to monitor climate-related risks and opportunities, and determine the appropriate allocation of management resources and make other relevant decisions.
The details are ultimately reported to the Board of Directors via the Executive Management Committee. Through this process, important information about portfolios' climate-related risks and opportunities is shared with a wide range of decision-makers, from management to personnel responsible for investment and research, and is appropriately monitored by the Board of Directors and the Executive Management Committee.

Nomura Asset Management's Governance for TCFD



Strategy

The climate-related risks and opportunities which we have recognized are shown in the table below.
Climate-related risks and opportunities impact corporate value as they affect companies' financial statements, including the balance sheet, income statement and cash flow statement. At Nomura Asset Management, ESG specialists work with portfolio managers and analysts to analyze the impact of climate-related risks and opportunities on a company's business, management strategy, and financial projections, and then incorporate these analyses into our investment strategies, ESG scores, stock price ratings, and other metrics. Analysis results based on corporate GHG emissions and ESG scores are utilized in engagement after making comparisons with benchmarks and other metrics, and are used to improve the corporate value of portfolio companies. If no signs of improvement based on engagement are seen in a company, we consider reflecting this in our investment decision-making.
All of our investment products are subject to climate-related monitoring. We conduct scenario analyses on the impact of climate-related risks and opportunities on our portfolios using information provided by external data vendors, and use the results of analyses in our investment strategies, portfolio management, and engagement. One possible way to build a portfolio that is consistent with the 1.5°C and 2°C targets set out in the Paris Agreement is to adjust the weighting of certain holdings against the benchmark or divest of certain holdings. However, this only a technical and superficial action, and will not lead to effective climate change measures including climate change mitigation and adaptation efforts. We recognize that as an asset manager we play an important role in encouraging companies to promote climate change countermeasures through engagement by continuing to hold shares of companies that have relatively high GHG emissions, and we will continue to actively contribute to climate change countermeasures through these types of activities.

Climate-Related Risks and Opportunities

Risks and Opportunities		Description	Short-term	Medium-term	Long-term	Impact on finances	NAM	Portfolio companies
Transition risks	Policies/laws	Introduction of carbon pricing (carbon tax, emissions trading) or regulations/penalties on products/services	↔	↔	↔	Expenditures ↑ Income ↓	●	●
	Technology	Expenditures and/or technological risks in order to replace existing products/services due to competitors developing low-carbon products/services, fossil fuel-related facilities, etc. becoming stranded assets, and to transition to low-carbon technologies (including losses on investments in new low-carbon technologies)		↔	↔	Expenditures (including impairment losses) ↑ Income ↓	●	●
	Consumer activity/ preferences	Changes in consumer activity/preferences due to heightened awareness of climate change and the decarbonization of society	↔	↔	↔	Revenues ↓ Income ↓	●	●
	Raw materials Expenditures	Soaring raw materials expenditures due to climate change		↔	↔	Expenditures ↑ Income ↓	●	●
	Reputation	Reputation risk due to climate change, such as worsening view of the overall industry (to which a company belongs)	↔	↔	↔	Revenues ↓ Income ↓	●	●
Physical risks	Acute	Acute risks due to intensification of abnormal weather events, including typhoons and flooding	↔	↔		Revenues ↓ Expenditures (including impairment losses) ↑ Income ↓	●	●
	Chronic	Chronic risks due to changing rainfall patterns, larger volatility in weather patterns, higher temperatures, and sea level rise			↔	Revenues ↓ Expenditures (including impairment losses) ↑ Income ↓	●	●
Opportunities	Renewable energy	Solar, wind, geothermal, biomass	↔	↔	↔	Revenues ↑ Income ↑		●
	Energy conservation	Energy-saving products, EMS (energy management systems), cogeneration	↔	↔	↔	Revenues ↑ Expenditures ↓ Income ↑		●
	Hydrogen	Production, transport, storage technologies for (CO_2-free) hydrogen, hydrogen electric power generation, fuel cells		↔	↔	Revenues ↑ Income ↑		●
	Low-carbon mobility	Electric automobiles, fuel cell vehicles	↔	↔	↔	Revenues ↑ Expenditures ↓ Income ↑		●
	Real estate	ZEB/ZEH (zero-energy buildings / zero- energy houses), smart cities	↔	↔	↔	Revenues ↑ Expenditures ↓ Income ↑		●
	Disaster prevention/ mitigation	Resilient products/services to prevent/mitigate disasters	↔	↔	↔	Revenues ↑ Income ↑		●
	Medicines/functional foods	Medicines/functional foods to address infectious diseases and rising temperatures	↔	↔	↔	Revenues ↑ Income ↑		●
	Meat substitutes/lab-grown meats	Meat substitutes (plant-derived), lab-grown meats	↔	↔	↔	Revenues ↑ Income ↑		●
	CCUS	CCU (Methanation, artificial photosynthesis, etc.), CCS			↔	Revenues ↑ Income ↑		●
	Financial products	Climate change-related financial products	↔	↔	↔	Revenues ↑ Income ↑	●	

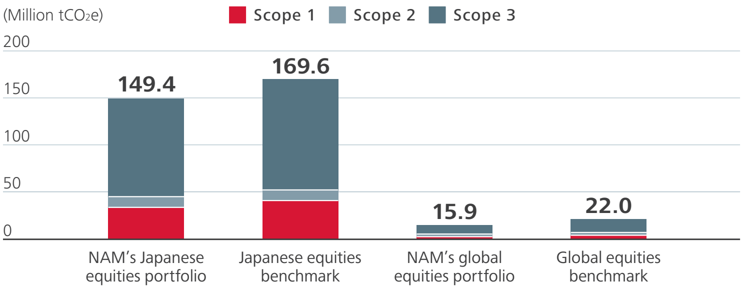
Metrics and Targets

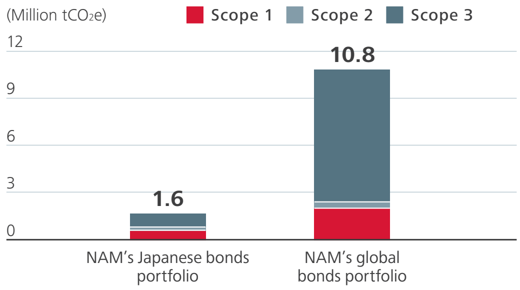
In order to evaluate climate-related risks and opportunities in accordance with our own strategy and risk management process, we are measuring the following four metrics recommended by the TCFD for each of our portfolios.

1	**Total carbon emissions**	Total GHG emissions related to portfolio
2	**Carbon footprint**	Total carbon emissions divided by the portfolio's market value
3	**Carbon intensity**	Total carbon emissions divided by net revenues of portfolio companies allocated to the portfolio
4	**Weighted average carbon intensity**	The weighted average (based on weight in the portfolio) of emissions per unit of revenues of each company in the portfolio

We also construct our own ESG scores, which are used by portfolio managers in the Investment Department for corporate analysis and investment decisions. Furthermore, we consider carbon pricing effective when analyzing the above four metrics and ESG scores, while referring to the levels announced by the portfolio companies and the levels consistent with the 1.5°C and 2°C targets.
On Pages 16-19, we analyzed climate-related risks and opportunities for four portfolios we manage:
Japanese equities, global equities, Japanese bonds, and global bonds. For our analysis, we use data and analysis methods provided by Institutional Shareholder Services (ISS).
For equities benchmarks,we used TOPIX for Japanese equities and MSCI ACWI ex-Japan for global equities. Bonds only include corporate bonds, and do not include government bonds or other public bonds.
The analysis revealed that the total carbon emissions of our Japanese equities portfolio and global equities portfolio were less than the total carbon emissions portfolios of the same monetary amount and comprised of the same stocks and weightings as the benchmarks. The ratio of total carbon emissions accounted for by each industry is characterized by a high ratio from Materials and Utilities, as well as a relatively high ratio from Energy and Industrials. The same trend is seen in the industry ratios for weighted average carbon intensity.
Going forward, as goals in managing climate-related risks and opportunities, we will work to create climate change-related funds and reduce GHG emissions in our portfolios. In addition, we have joined major initiatives related to climate change, such as the PRI, TCFD, and CA100+, and through engagement we will continue to encourage portfolio companies' efforts towards a decarbonized society and their participation in climate change-related initiatives.
In addition to the above, as its responsibility as a globally-operating corporate group, Nomura Group is committed to solving climate change issues through its businesses and reducing the environmental impact of its business activities. In December 2018, Nomura Group formulated medium- and long-term CO_2 emissions reduction targets for the entire Group on a global basis. The global targets include reducing CO_2 emissions (total) 32% by FY2030 (medium-term) and 65% by FY2050 (long-term) compared to FY2012 emissions.

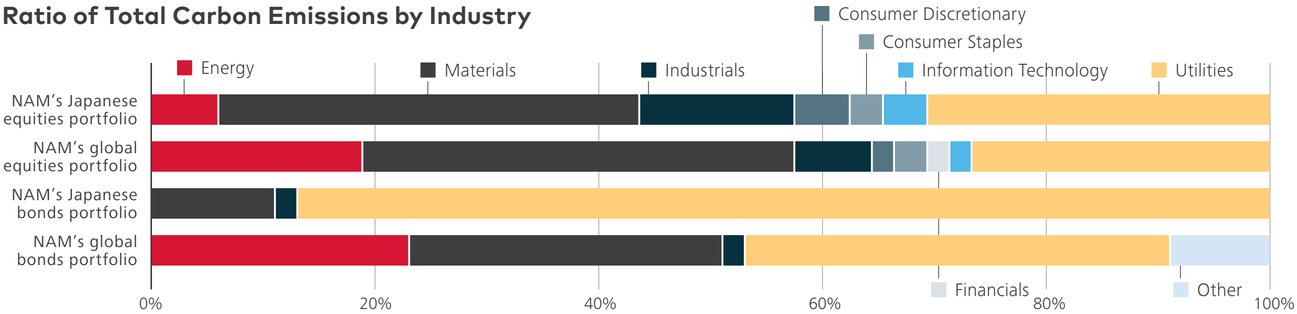
Total Carbon Emissions





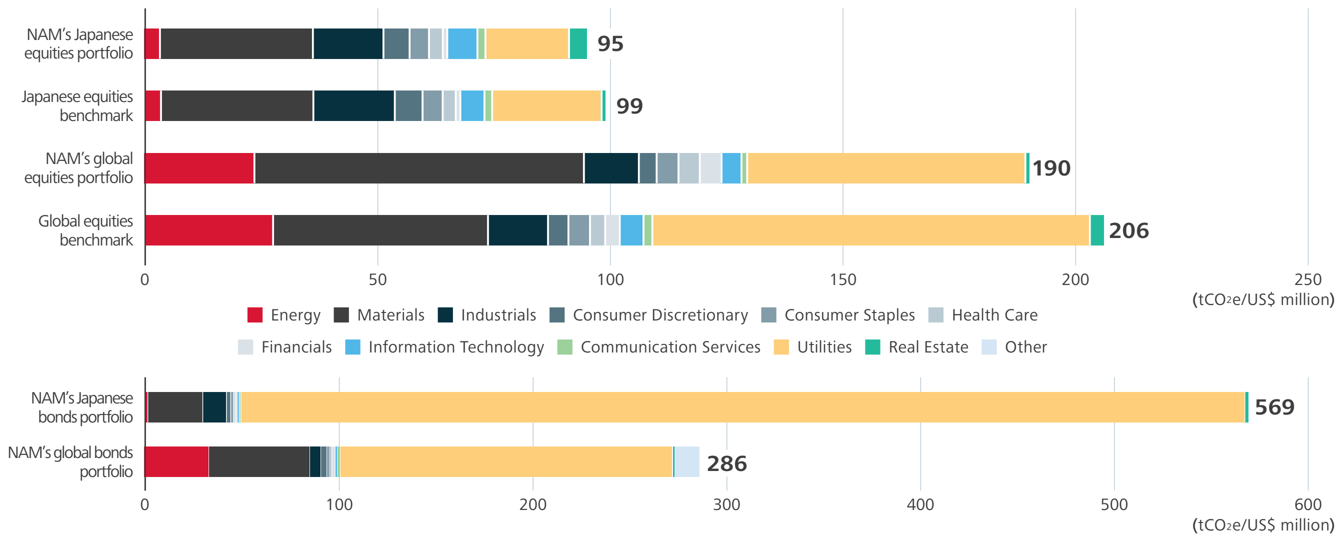
*For equities, total carbon emissions have been calculated using the company's ownership stake versus total market capitalization. For bonds, total carbon emissions have been calculated using adjusted enterprise value (total market capitalization + total debt).
*"Global" means the world excluding Japan; the same shall apply in this TCFD section.

Ratio of Total Carbon Emissions by Industry



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

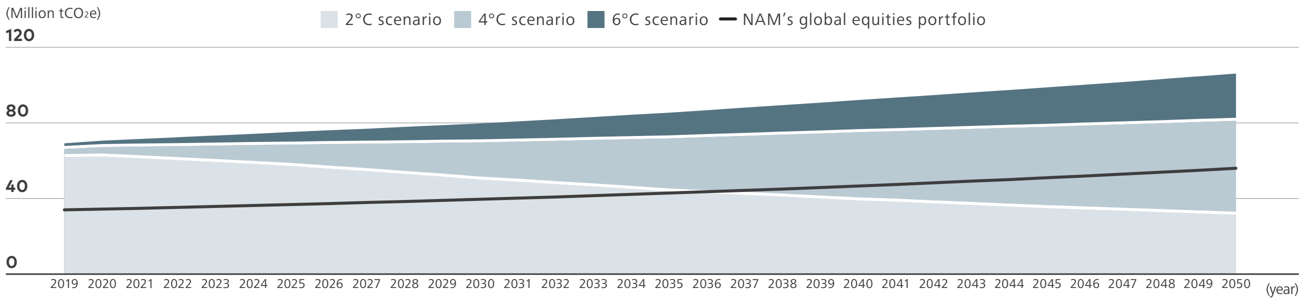
Weighted Average Carbon Intensity and Ratio by Industry



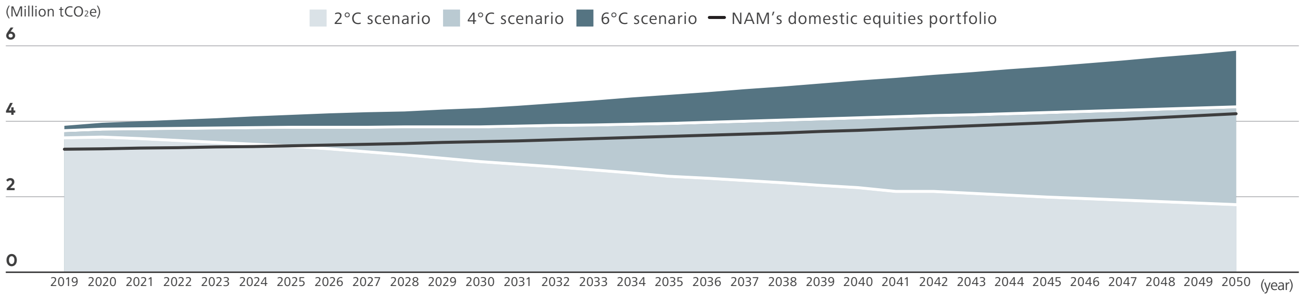
Scenario analysis

We compared the total carbon emissions of our Japanese and global equities portfolios (only Scope 1 in this scenario analysis) with the 2°C, 4°C, and 6°C scenarios agreed to in the Paris Agreement. These three scenarios are set out in an IEA (International Energy Agency) report.
The scenario analyses confirmed that global equities portfolio is likely to reach the total carbon emissions permitted in the 2°C scenario earlier than our Japanese equities portfolio. This is because our global equities portfolio includes shares in the energy, materials, and utilities sectors in emerging and developing countries, where GHG emissions are increasing in tandem with economic growth. Our analysis also hints at the importance of calling on measures to address climate change across the market, as our investment portfolios include many passive investments.

NAM's Japanese equities portfolio



NAM's global equities portfolio

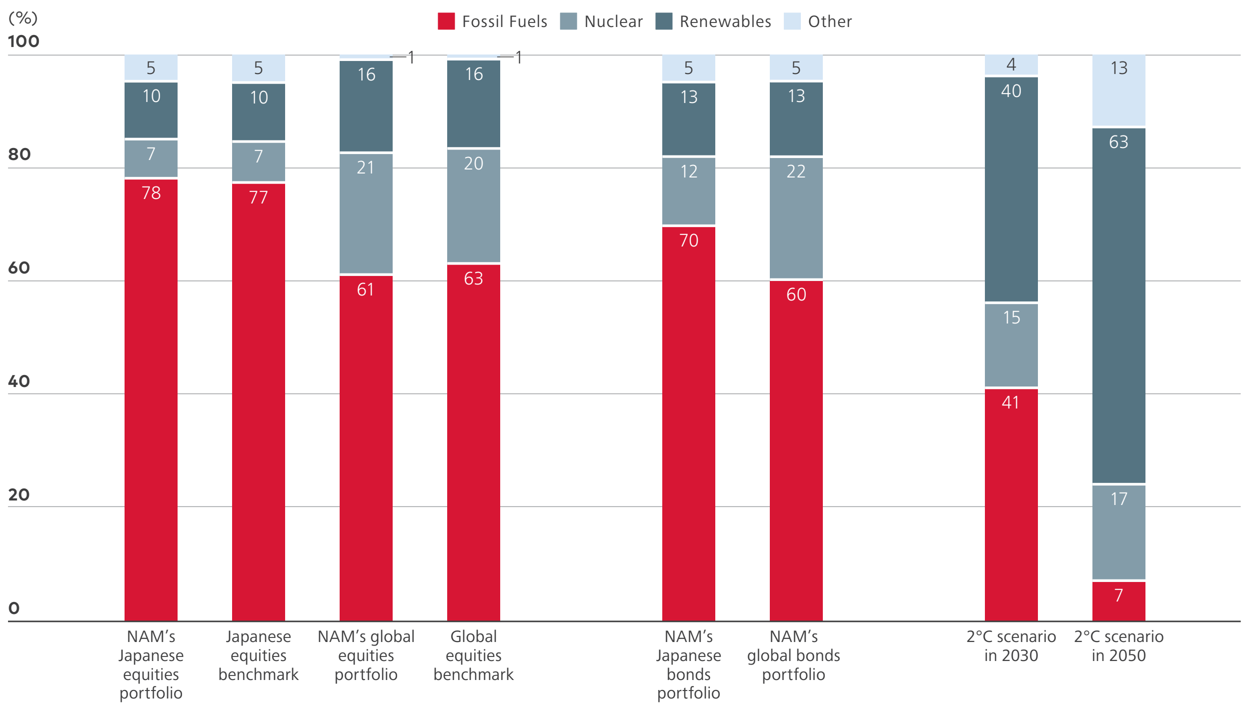


Risk Management

We classify climate-related risks into transition risks and physical risks. A company's climate-related transition risks are heavily dependent on the company's GHG emissions. Based on the TCFD Recommendations, we measure four portfolio metrics (refer to "Metrics and Targets") and compare them with the benchmarks and industry peers.
In addition, we feel it is important to analyze GHG emissions throughout the life cycle of a company's products and services, and use emissions and avoided emissions throughout the global supply chain disclosed by companies on a complementary basis. Meanwhile, for companies' climate-related physical risks, we use information provided by external data vendors. With respect to climate-related transition risks and physical risks, we refer to the information disclosed by companies as well as information provided by external data vendors. If such information is insufficient, during engagement activities we directly ask companies about the status of their efforts to address climate-related risks. In 2019, we carried out 117 ESG engagements in Japan focusing on environment-related risks and opportunities.
In managing climate-related risks, the Responsible Investment Department (Secretariat) works with the portfolio managers and equity analysts to regularly measure GHG emissions and monitor ESG scores. The results of these analyses are reported by the Responsible Investment Department to the Responsible Investment Committee, and then to the Board of Directors via the Executive Management Committee. If we determine that climate-related risks will have a significant impact on our business, business strategy, or financial projections, we will encourage improvement through our corporate engagement activities. At present, the Investment and Research division is taking the lead role in identifying, evaluating and managing climate-related risks, but we are considering integrating this process into our comprehensive risk management at the overall company level.

Transition Risk Analysis – Energy Generation Mix (Portfolio, Benchmark, 2°C Scenarios)

The graph below compares our portfolios, the benchmarks, and power mix based on the power generation volume in the 2°C scenario. The 2°C scenario, based on IEA forecasts, shows the energy generation mix that is likely to limit the temperature increase in 2030 and 2050 to less than 2°C above pre-Industrial Revolution levels.
While the energy generation mix of both our domestic equities and global equities portfolios are almost the same as the benchmarks, the ratio of fossil fuels is higher in comparison to the energy generation mix in 2030 and 2050 under the 2°C scenario.
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.



Physical Risk Analysis

ISS analyzes the physical risks of industries and regions from long-term and catastrophic perspectives. We use the results of analyses performed by ISS to understand the physical risks (acute and chronic) in our portfolios for each industry and region, and refer to this information when considering allocations for industries and regions. The results of analyses of physicals risk for each industry and region in our portfolios are as follows. These results show the industries and regions with relatively high physical risk.

Industrial Analysis of Physical Risk (Acute)

*The % in the table are the total weights of each GICS sector in each NAM portfolio

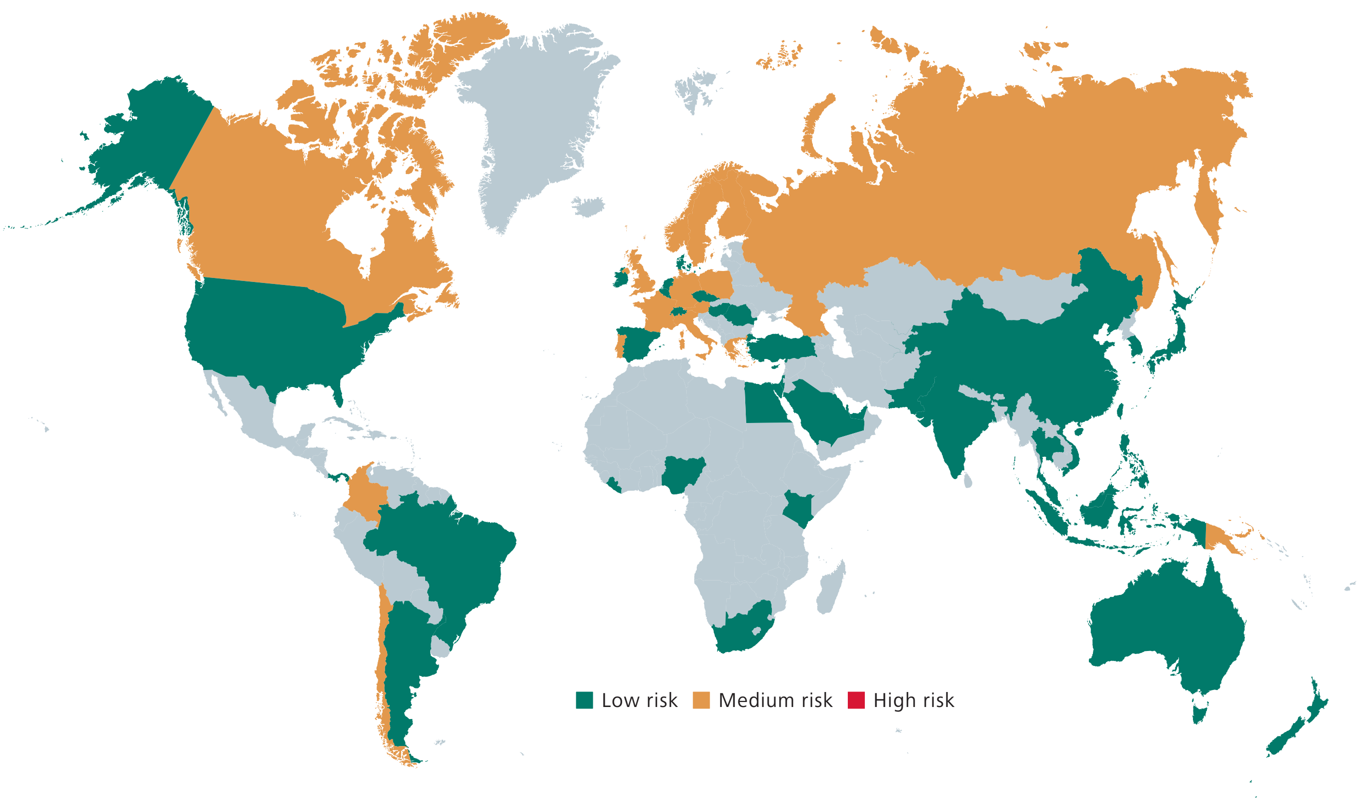
	Energy	Materials	Industrials	Consumer Discretionary	Consumer Staples	Health Care	Financials	Information Technology	Communication Services	Utilities	Real Estate	Other
NAM's Japanese equities portfolio	1%	6%	21%	18%	8%	9%	8%	13%	8%	1%	5%	0%
NAM's global equities portfolio	4%	3%	9%	8%	8%	19%	20%	16%	6%	4%	2%	0%
NAM's Japanese bonds portfolio	0%	4%	13%	10%	2%	0%	36%	2%	2%	27%	4%	0%
NAM's global bonds portfolio	6%	4%	4%	6%	2%	3%	39%	2%	7%	4%	1%	22%

Industrial Analysis of Physical Risk (Chronic)

	Energy	Materials	Industrials	Consumer Discretionary	Consumer Staples	Health Care	Financials	Information Technology	Communication Services	Utilities	Real Estate	Other
NAM's Japanese equities portfolio	1%	6%	21%	18%	8%	9%	8%	13%	8%	1%	5%	0%
NAM's global equities portfolio	4%	3%	9%	8%	8%	19%	20%	16%	6%	4%	2%	0%
NAM's Japanese bonds portfolio	0%	4%	13%	10%	2%	0%	36%	2%	2%	27%	4%	0%
NAM's global bonds portfolio	6%	4%	4%	6%	2%	3%	39%	2%	7%	4%	1%	22%

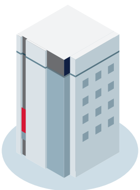
Low risk Medium risk High risk

Regional Analysis of Physical Risk (NAM's domestic equities and foreign equities portfolios)



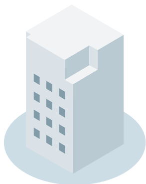
Our Future Initiatives to Address Climate Change

In these analyses, we can gain a detailed and comprehensive understanding of climate-related risks and opportunities in our portfolios by utilizing both the framework recommended by the TCFD as well as data and analysis methods provided by ISS. In particular, although the total carbon emissions and the weighted average carbon intensities of our domestic and global equities portfolios are lower than those of the benchmarks, the scenario analysis shows the timing of when the total carbon emissions of each portfolio will reach the level allowed under the 2°C scenario. The analyses of transition and physical risks also enable us to identify the industries and regions in which we should pay attention to the fossil fuel exposure and physical risks of our portfolios.
Going forward, through engagement with portfolio companies, we will pursue the following initiatives in order to reduce climate-related risk in our portfolios and promote investment in climate-related opportunities.



Nomura Asset Management

- Actively participate in climate change countermeasures through climate-related initiatives we have joined such as PRI, TCFD, and CA100+, cooperating with other investors and sharing best practices
- Further raise the level of TCFD disclosure and ESG integration related to climate change
- Develop climate change-related financial products
- Develop financial analysis/valuation techniques utilizing carbon pricing



Portfolio Companies

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

Column

Monitoring of GHG Emissions in Individual Funds

In "Nomura Asset Management's TCFD Initiatives," we analyzed and evaluated climate-related risks and opportunities for all of our portfolios, but we also monitor the GHG emissions of individual funds using the following four metrics recommended by TCFD.
The results of monitoring are shared with each investment officer. In addition, these results are regularly reported to the Executive Management Committee and the Board of Directors through our Responsible Investment Committee.
If GHG emissions are high compared to the benchmarks, we check the contributions from the fund's constituent stocks or bonds, ensure awareness of climate-related risks and opportunities during engagement with portfolio companies, and discuss their efforts to reduce GHG emissions.

Total Carbon Emissions

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

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

Carbon Footprint

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

$$\frac{\text{total carbon emissions}}{\text{market capitalization of portfolio}}$$

Carbon Intensity

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

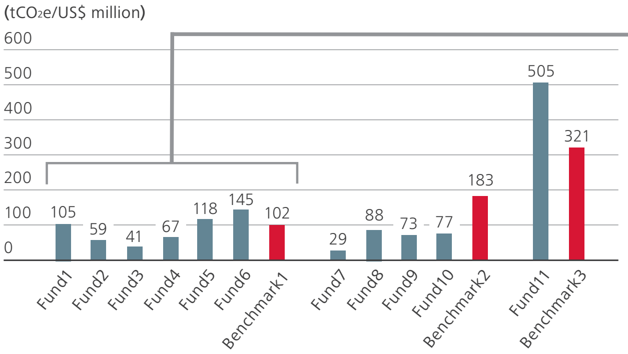
$$\frac{\text{Total carbon emissions}}{\sum_{n}^{i}\left(\frac{\text{current value of investment } i}{\text{issuer's market capitalization } i} \times \text{the revenues of portfolio companies } i\right)}$$

Weighted Average Carbon Intensity

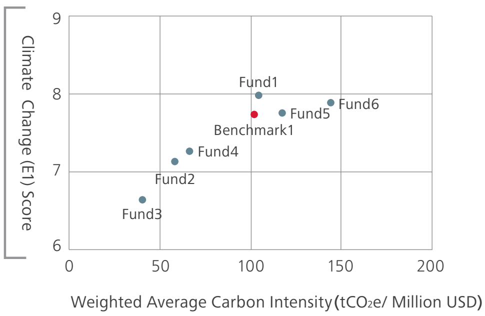
- Portfolio's exposure to carbon-intensive companies and metric recommended by TCFD
- Unit: tCO_2e/US$ million (revenues)

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

Weighted Average Carbon Intensity



Weighted Average Carbon Intensity and NAM's Own Climate Change (E1) Score

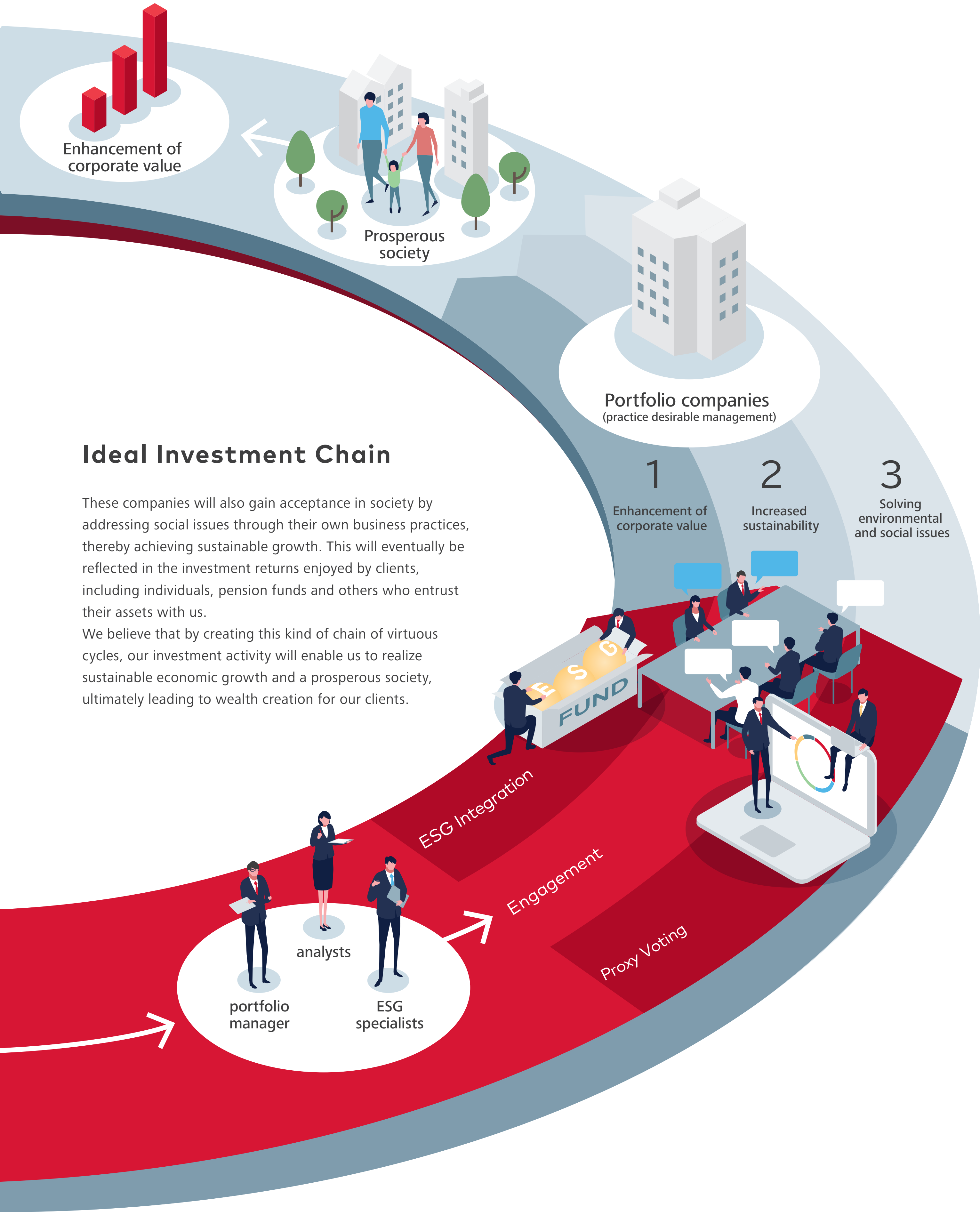


Nomura Asset Management's

As a responsible institutional investor, Nomura Asset Management aims to create a prosperous society by helping clients build wealth. To this end, we must strive to provide better products and services by improving the quality of our investment products in a way that encourages portfolio companies in which we invest to achieve sustainable growth. At the same time, portfolio companies in which we invest are being called on to operate sustainable businesses by efficiently utilizing the funds they have raised. The business activities of these portfolio companies can generate economic value for a large number of stakeholders, including employees, business partners and shareholders.

Ideal Investment Chain

These companies will also gain acceptance in society by addressing social issues through their own business practices, thereby achieving sustainable growth. This will eventually be reflected in the investment returns enjoyed by clients, including individuals, pension funds and others who entrust their assets with us.
We believe that by creating this kind of chain of virtuous cycles, our investment activity will enable us to realize sustainable economic growth and a prosperous society, ultimately leading to wealth creation for our clients.



1 Engagement

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

We select target companies from among our portfolio companies through regular screening, and carry out engagement based on an ESG perspective as well as other important themes. Our corporate analysts and ESG specialists, each possessing a high level of expertise, work together to carry out engagement.
We strive on a daily basis to deepen mutual understanding with portfolio companies and make the outcomes of our dialogue more constructive.

Our Basic View on Engagement

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 is an overview of our engagement 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 four basic stances on engagement. 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.

4 basic stances

1

Engage in dialogue with
a cordial and constructive attitude

2

Work to understand non-financial
information, including companies’
efforts to address ESG issues, and the
strategies and philosophies behind them

3

Listen to the views of portfolio
companies on the efficient use of capital,
and communicate our thoughts

4

When a serious scandal or accident
has occurred, promote sound
management by hearing the causes
and measures to prevent recurrence

Our View on Desirable Management

We emphasize five factors in increasing corporate value (see figure below). Our basic policy for responsible investment in investment management defines four points as desirable management by portfolio companies, and these four points cover the five elements supporting corporate value as shown in the figure below. We believe that putting these into practice will enhance corporate value and allow for sustainable growth.

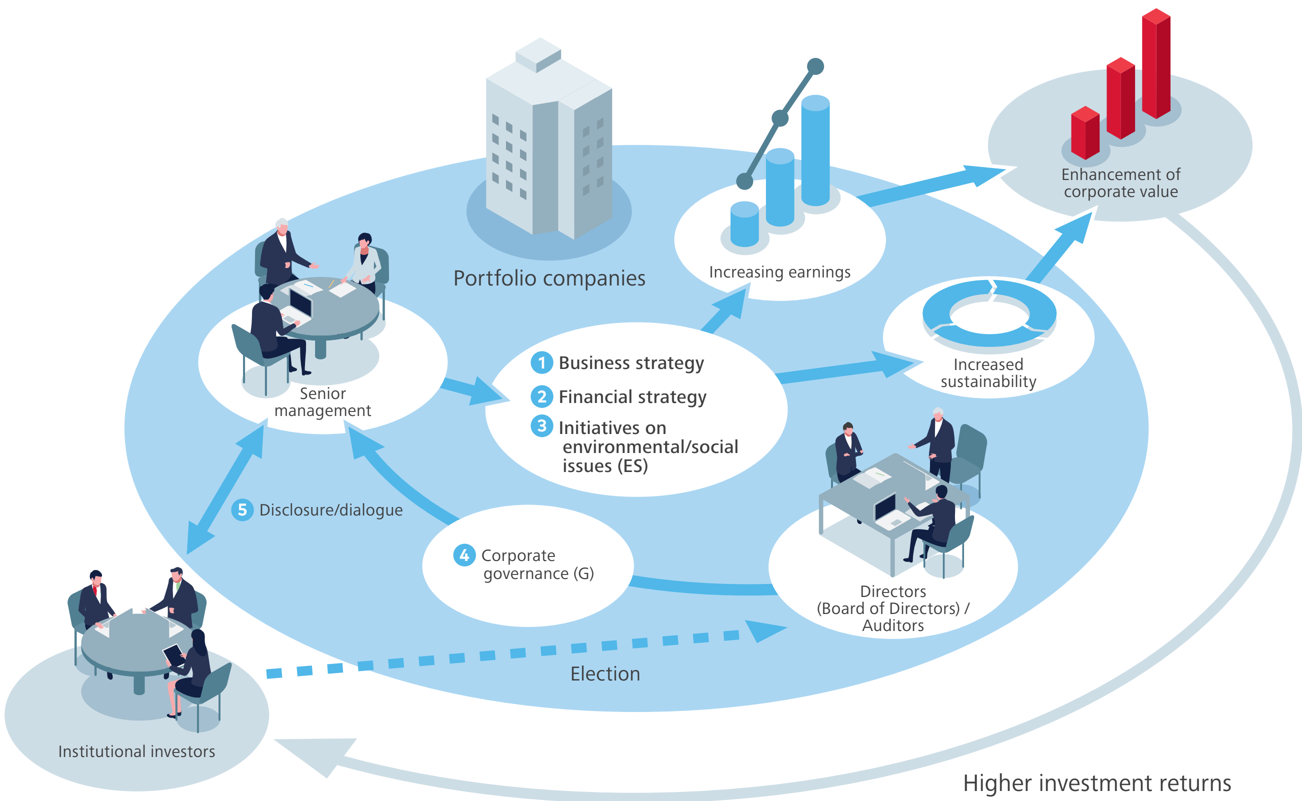
1 Appropriate initiatives for social responsibility
(= 3 Initiatives on environmental and social issues (ES))

2 Value creation through efficient utilization of capital
(= 1 Business strategy, 2 Financial strategy)

3 Adequate functioning of corporate governance
(= 4 Corporate governance (G))

4 Appropriate information disclosure and dialogue with investors
(= 5 Disclosure/dialogue)

The key to engagement is consistency in 1 – 5. We must avoid having companies fall into a situation of "governance for the sake of governance" and superficial initiatives on environmental and social issues. Of particular importance are the direction and consistency with issues of 1 and 2, business and financial strategies. For example, in the case of 4 corporate governance (G), we first share business and financial issues with portfolio companies and then discuss what is needed to oversee the management teams trying to solve these issues. See Page 29 for specific examples.
The same applies to 3 environmental and social issues (ES). First, we share with portfolio companies the issues that will have a significant impact on the sustainable growth of business over the medium to long term (materiality). Materiality varies depending on the nature of a company's business, but typical examples include the issue of climate change in the heavy manufacturing industry and the way employees work in the service sector. After that, we engage in deep discussions with the company about the materiality issues we have shared. Specifically, these discussions cover what goals management is setting, what initiatives are being taken at worksites, and how the board of directors is involved. Just taking measures inside the company does not inform investors and other stakeholders outside the company, so we may also encourage appropriate disclosure.



Engagement Process

With respect to Japanese equities, the approximately 2,400 Japanese companies whose shares we hold (as of the end of December 2019) are targets for engagement. Through screening based on our ownership ratios and other factors, we have selected key target companies that require further examination on top of regular dialogue. There are more than 300 key target companies, and they account for more than 75% of the market capitalization of all companies listed on the First Section of the Tokyo Stock Exchange, and make up more than 80% of the total amount of our investments in Japanese equities. Among these companies, we carry out dialogue after establishing an order of priority based on the ESG issues and key topics. Portfolio companies are also increasingly reaching out to us to initiate dialogue.
In order to manage our engagement progress, we implement "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.
Our engagement is based on one-on-one direct dialogue with companies. Almost half of the meetings are with members of senior management (directors and executive officers), and depending on the issue we then engage in deeper dialogue with employees in specialized departments. We decide the main topics based on the opinions of the analysts and ESG specialists in charge, but during dialogue we usually discuss multiple topics rather than just one key topic.

Meetings with analysts and senior management

Total number of contacts with portfolio companies

Japanese companies, January – December 2019

Approximately 5,600

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

Over 2,100

Number of dialogues with executives and above

Over 900

Engagement meetings

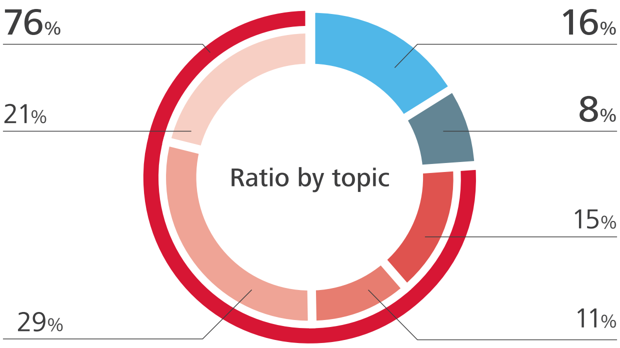
Total number of engagement topics (total number of companies)

2019

793 topics (399 companies)

2018

656 topics (345 companies)

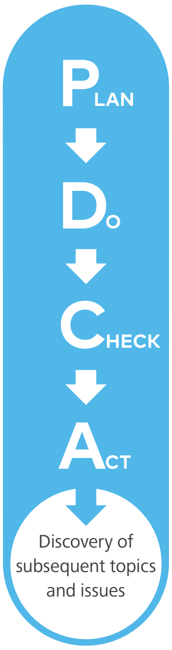


	Ratio	Number of topics	Previous year
Business strategy	16%	128	116
Financial strategy	8%	63	51
ESG-related meetings	76%	602	489
Environmental	15%	117	101
Social	11%	87	96
Governance	29%	231	143
Proxy voting-related	21%	167	149
Total		**793**	**656**

Engagement and Milestone Management

Engagement topics are divided into five categories: 1 Business strategy, 2 Financial strategy, 3 Environmental and social issues (ES), 4 Corporate governance (G), and 5 Disclosure/dialogue. We discuss each topic with companies, share our recognition of the issues, and communicate our opinions as a shareholder. If we receive an explanation from the company concerning our opinion and our views are in alignment, we discuss the company's efforts up to that point, and then conclude engagement on that topic. Otherwise, we move on to the next step.
In engagement, companies and investors state their respective opinions, but often times the two sides are unable to reach an agreement. Continuing to state your opinion is important, but that alone is not enough to figure out the status of progress. Therefore, we keep track of progress by setting specific goals and managing the milestones to achieve them. Milestones are divided into five stages, with three-year time periods set for each. By setting clear goals and timelines, we can ensure that PDCA cycles function effectively. During actual engagement meetings, there are many different topics to focus on, and the following section describes two typical patterns.

Management of PDCA Progress



Recognition of topics and issues
Selection of target companies

Engagement
ESG evaluation

Milestone management
(Keep records/
progress evaluation)

Performance review
Policy review

Examples of Milestone Management*1 (see P30)

		Company A	Company B	Company C	Company D
1	Communicate issues to portfolio company	■	■	■	■
2	Company shares a recognition of the issues	■	■	■	■
3	Company formulates countermeasures	■	■	■	
4	Company implements countermeasures	■	■		
5	Conclusion	■	■		
	Number of meetings	3	3	2	1
	Period*2	19 months	21 months	10 months	First meeting

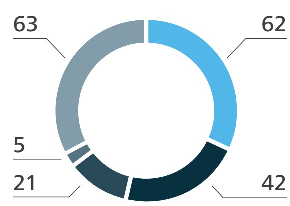
1: Communicate issues; 2: Share recognition; 3: Formulate countermeasures; 4) Implement countermeasures; 5) Conclusion
2: Three years as a target

Status of Milestone Management

In 2019, there were a total of 399 engagement cases. Currently, we are managing milestones for a total of 193 companies. Of these, 63 companies are already at "Step 5: Conclusion." With respect to the topics we set as goals, corporate governance (G) was the most common, followed by initiatives for environment and social issues (ES) and dialogue/disclosure, in that order. For business strategy and financial strategy, most engagement cases followed Pattern 2. Therefore, there were many discussions, but relatively few cases in which goals were established.

Milestone Status (number of companies)

Communicate issues to portfolio company
Company shares a recognition of the issues
Company formulates countermeasures
Company implements countermeasures
Conclusion



	Business strategy	Financial strategy	Initiatives on environmental and social issues (ES)	Corporate governance (G)	Disclosure/dialogue
Cases discussed	77	62	44	137	79
Cases with goals set	0	2	40	115	36

Pattern 1 (Hold discussions and manage milestones for individual topics)

For example, this is a pattern of discussing 4 corporate governance, and setting goals and managing milestones for 4 corporate governance. In many cases, the issues are relatively basic, such as the lack of outside directors possessing management experience, or a company not having committees related to nomination and/or compensation. Even in such cases, we keep the company's situation in mind, including its 1 business strategy and 2 financial strategy, and set goals for particularly important matters (Ex: Company B, Page 30). Individual topics are wide-ranging, and in many cases, 2 financial strategy is discussed together with 1 business strategy, and 5 disclosures/dialogue is discussed together with any of the others from 1 – 4.

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

↓

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

↓

Set goals for topics discussed ▶ Progress to milestone management

Pattern 2 (Discuss 1 2 business and financial strategy, milestone management for 3 – 5)

When it comes to 1 business strategy and 2 financial strategy, which are directly linked to corporate value, discussions often fail to result in an agreement between us and companies. It would be great if companies understood and accepted our views, but it is difficult to continue engagement if there are differences in opinion and clear goals cannot be established, which limits expectations for enhancing corporate value over the medium to long term and achieving sustainable growth.

Given this, we establish topics for which goals are relatively easy to set, including 3 and 4 ESG as well as 5 disclosure and dialogue, and encourage companies to implement countermeasures on their own (Ex: Company A, Page 29).

1 Business strategy 2 Financial strategy

↓

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

↓

Worried about commitment | Worried about sustainability | Insufficient explanation

↓

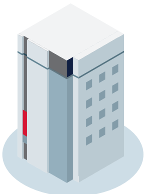
Set goals for topics discussed ▶ Progress to milestone management

↓

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

Examples of Engagement

Here, we introduce some examples of engagement. Company A is an example that corresponds to the typical Pattern 2 discussed on the previous page. The goal of enhancing stock compensation was related to corporate governance, but Company A's response went beyond that.



Nomura Asset Management

Interviewee

Analysts,ESG specialists

Company A [Wholesale Trade]

Interviewee

Representative Director and Senior Corporate Managing Director, others

Root issue awareness

When we discussed the company's financial strategy, we sensed that senior management lacked awareness of the company's stock price, and that this was keeping the stock price from increasing.

Company A:

- Prioritizing growth investment and reducing interest-bearing debt over shareholder returns in order to lower financial leverage.

Nomura Asset Management:

- It is important how profits and cash flows are distributed, while maintaining a balance between stakeholders.
- Past investments have not been so good. Do you really need to rush to reduce interest-bearing debt?

Company A:

- We want to continue to invest proactively.

Nomura Asset Management:

- The stock market values your company less than other companies in the industry. Industry peers upwardly revised operating cash flows, but you left your dividend outlook unchanged, causing your stock price to fall significantly.

Company A:

- Dividends and share buybacks are completely different. Our strategy is to pay a stable dividend, but our earnings rapidly recovered, leading to decline in the dividend payout ratio.
- We will use share buybacks to correct our leverage. We currently do not have enough equity.

Nomura Asset Management:

- While senior management is keenly aware of operating performance, it is not focused on returning profits to shareholders. How about increasing stock compensation in order to make senior management more focused on this?

Towards milestone management (right page)

Company A:

- We had not thought of that, so we will consider it.
- We have introduced equity compensation-type stock options, and we feel that the current level of stock compensation is high.

Nomura Asset Management:

- New types of stock compensation have been developed, so please consider them.
- You are enthusiastic about increasing earnings, but conservative when it comes to shareholder returns.
- We understand that you have introduced equity compensation-type stock options, but we want you to reform compensation in a way that raises incentives with respect to shareholder returns.

Company A:

- We are currently discussing executive compensation.

- Announced a share buyback program.

- Introduced stock compensation following the general shareholders' meeting.
- In conjunction with the above, announced a revision to executive compensation. The variable portion was increased, and bonuses linked to operating performance were changed to reflect the nature of the business. In addition, price conditions were placed on stock compensation.

Future Plan

Continually convey our views as a shareholder, and monitor the company's stance towards shareholders and its stock price.

Examples of Engagement (Milestone Management)

Company A
Wholesale Trade

Business strategies
Financial strategies
G
ES
Disclosure/dialogue

Issue

Revision of executive compensation

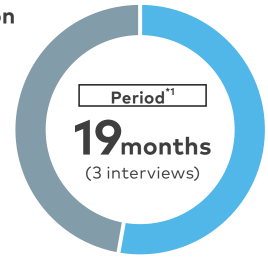
The company needed a compensation system highly committed to the stock price in order to make senior management more focused on shareholders and the stock price.

Goal

Enhancement of stock compensation

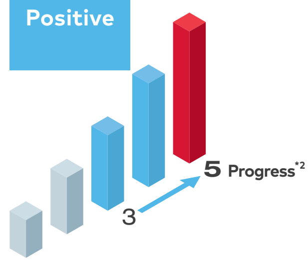
Interviewee

Representative Director and Senior Corporate Managing Director, others



Completion
June 2019

Response
Positive



Company B
Food

Business strategies
Financial strategies
G
ES
Disclosure/dialogue

Issue

Board member composition

Due to past scandals, the make-up of outside directors has become biased towards protecting the company. The company needs to change this make-up to reflect the switch in its business stage.

Goal

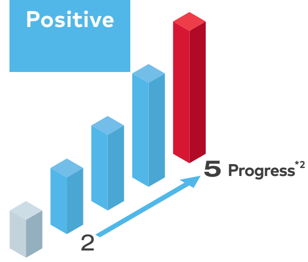
Outside directors with management experience

Interviewee

Representative Director and President, others

Completion
June 2019

Response
Positive



Company C
Chemicals

Business strategies
Financial strategies
G
ES
Disclosure/dialogue

Issue

Enhance disclosure of non-financial information (especially ES)

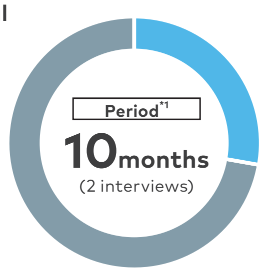
Both existing and growth businesses use palm oil as a raw material, but the company has a passive stance towards procuring certified palm oil. Need to deal with this issue and provide ample information disclosure.

Goal

Disclosure of information about palm oil procurement

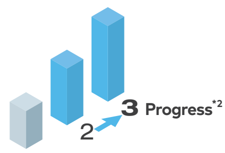
Interviewee

Director and Executive Vice President, others



Most recent interview
November 2019

Response
Positive



Company D
Electronics

Business strategies
Financial strategies
G
ES
Disclosure/dialogue

Issue

Enhance disclosure of non-financial information (especially ES)

The company is proactively working on ESG, but its only long-term target relates to CO_2 reduction. The company needs to have long-term targets for a wider range of ESG issues, including promoting the active participation of women.

Goal

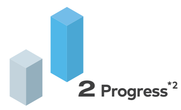
Formulation and publication of long-term targets other than CO_2

Interviewee

Director and Executive Vice President, others

Most recent interview
October 2019

Response
Neutral



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

Global Equity Engagement

In addition to Japanese equities, we continue to strengthen our engagement for global equities as well. We are a signatory of stewardship codes in six countries and territories (Japan, UK, Singapore, Hong Kong, Malaysia, Taiwan), and the investment teams in each of these offices engage based on global cooperation.
There are many common global ESG issues for companies, and strengthening the system for collaborating with overseas investment teams is essential not only for overseas companies but also for engagement with Japanese companies.
On the other hand, companies' efforts to address ESG issues at the working level differ depending on the laws, customs, and circumstances in each country and each industry. In addition, unlike Japanese equities, global equities are characterized by a large number of target countries and companies, and there are large physical obstacles such as geographical issues. We are leveraging the expertise of each investment team around the globe, as well as utilizing outside resources, to create a more efficient system.
Our overseas offices are also actively engaging companies. In 2019, the total number of engagements was 127. Of these, 62 were related to environmental issues such as climate change and natural capital, 39 concerned social responsibility, while 26 related to governance.
The investment managers and analysts in each office decide the engagement topics and engage with the companies. In addition, we also carry out engagement related to certain topics together with other asset management companies, utilizing a collaborative engagement platform provided by PRI and other tools.
In 2019, there was an increase in engagements in Asia. In Asia, an increasing number of companies are actively advancing ESG initiatives, and the environment for engaging with portfolio companies on ESG issues has improved dramatically.
In addition, a growing number of investment managers recognize the need for integration incorporating ESG factors into investment strategies. Our engagement partner overseas is Sustainalytics (see next page).
From among the stocks we own, we either outsource engagement to or collaboratively engage with Sustainalytics, depending on the importance of the company that is dealing with an ESG issue.
In 2019, we engaged more than 250 companies. Although there was some overlap, combined with our overseas offices, we engaged approximately 300 companies.

Engagements by Overseas Offices and/or Sustainalytics

	2019/1Q	2019/2Q	2019/3Q	2019/4Q
Engagements by overseas offices	28	28	33	38
Breakdown by topic				
Environment	9	14	18	21
Social	8	9	10	12
Governance	11	5	5	5
Breakdown by region				
Europe	14	5	2	7
North America	13	2	7	8
Asia	1	21	24	23
Engagements by Sustainalytics*	48 of which, industrialized countries:33	75 of which, industrialized countries:40	63 of which, industrialized countries:46	71 of which, industrialized countries:26

*Covers stocks in MSCI ACWI ex Japan

Joint Engagement by Topic with Sustainalytics (formerly GES)

Nomura Asset Management's overseas offices also engage portfolio companies. However, due to the broad scope of coverage for global equities, geographical and human constraints arise when it comes to actual engagement.
To address these challenges, in April 2017, we selected GES (currently integrated into Sustainalytics' engagement division) as a global equities engagement partner.
Following the integration, Sustainalytics' engagement services have become even more functionally advanced, and we are leveraging the partnership to promote engagement activities overseas.
In addition, we have introduced a system whereby we work with Sustainalytics to narrow the scope of engagement to particular topics, set specific time frames, and engage in a focused manner.
There is also an aspect of impact investing, in which we focus engagement activities on specific topics and work to solve issues related to those topics from a global perspective, which have an impact on society.
Currently, in addition to the initial topic of corporate governance, we are promoting engagement related to emerging markets, climate change, plastic recycling based economy, and sustainable seafood.

Topic Engagement related to emerging markets

Engagement policy

- Emerging market companies have high ESG-related risks, so through engagement we encourage companies to build strategies to handle critical risks and opportunities
- Compliance with countries' regulations and international standards
- Evaluation of business risks and opportunities (management and oversight of products/services, etc.)
- Transparency and disclosure through reports (annual report, etc.)

Target companies

Covers companies with the highest ESG risks in each industry at individual business sites, based on an understanding of ESG risks.
We also comply with the OECD's Responsible business conduct for institutional investors.

Topic Engagement related to climate change

Engagement policy

- Increase transparency consistent with key initiatives such as the CDP and TCFD
- Establish carbon emissions targets based on a scientific approach
- Capital investment plans consistent with the 2°C scenario
- Action transparency for carrying out industry body guidelines with certainty
- Product development process to accelerate the creation of a low-carbon society

Target companies

Select up to a maximum of 20 target companies based on the following criteria

- Among industry leading companies, those companies that are behind in terms of CO_2 reductions, both in industrialized and emerging countries
- Companies with large market capitalizations and large carbon footprints

Topic Engagement related to plastic recycling-based economy

Engagement policy

- Encourage companies to improve both economically and in quality by recycling plastic
- Encourage companies to shift their strategic focus to redesign and innovation
- Make plastic products more reusable

Target companies

Select 21 automobile-related, electronics-related, consumer goods/packaging-related companies as target companies

Topic Engagement related to sustainable seafood

Engagement policy

- Secure an approach for companies to evaluate and manage seafood sustainability risk
- Be sustainable environmentally as well
- This is very relevant to Goals 12 and 14 of the SDGs, and encourage efforts by corresponding companies

Target companies

Select six companies as target companies (global companies that procure wild and farmed seafood on their own as well as from third parties, and are also in the top 10 in global sales by seafood companies)

Examples of global equity engagement

Company in Taiwan's capital goods sector

Teleconference in November 2019

ESG issue

Based on ocean garbage (microplastics) and the problem of waste being moved from industrialized countries to some developing countries, there is a need to reduce virgin plastic.

Company initiatives

Marketing and developing sports shoes and sportswear made from recycled plastic.

Company's understanding

Working to develop textiles using recycled plastic in order to be more eco-friendly and to respond to requests from its customers, which are global apparel companies and food companies.

Proposals

In addition to increasing the usage rate of recycled PET bottles, called for the company to develop recycling technologies for other synthetic fibers that are technically difficult to recycle, and to disclose information on its progress.

Company in Thailand's food sector

Teleconference in August 2019

ESG issue

Need more ethical and sustainable seafood procurement and processing by promoting biodiversity conservation and environmental protection in the fishearies sector, as well as through improvements in the working environment for fishermen.

Company initiatives

In response to demands from consumers, who have become increasingly conscious of global marine environmental issues and human rights issues for workers, the company agreed with a global environmental NGO (Greenpeace) on an action plan to pursue sustainable seafood processing and manufacturing based on the company's sustainability strategy. Also, the company is introducing a monitoring system to deter over-fishing and bycatch, and to prevent illegal labor practices and human rights violations, and the company will contribute to the improvement of the overall supply chain in the fisheries industry.

Company's understanding

Advancing measures to protect both the environment and human rights, in line with the comprehensive sustainability strategy formulated in 2016.

Proposals

Asked for detailed evaluations and disclosure about the progress on efforts under the action plan and the sustainability strategy. Also asked the company to disclose information about the food certification system and to formulate a response, after addressing the litigation related to the food certification system and identifying the actual problems.

Company in Hong Kong's financial sector

Visited in July 2019

ESG issue

How can the company improve its high employee turnover rate, especially for insurance sales staff, and how can it ensure sales activities that are compliant with rules, such as working within permitted sales areas?

Company initiatives

Plans to maintain a high level of employee motivation by granting company stock, an award system, and direct hiring by field staff, etc. Will establish a code of conduct for employees and insurance agents to clarify what they should comply with.

Company's understanding

Does not view the turnover rate as being especially high compared to the industry average, but aims to improve it. Has not seen any non-compliant sales acts, but will strengthen compliance.

Proposals

Proposed the disclosure of additional benefits given to employees and the disclosure of changes in employee satisfaction ascertained through internal questionnaires.
Proposed that the company disclose the number of violations of the code of conduct and the details of the accompanying penalties, thereby making it easier for people on the outside to understand the degree of improvement and the thoroughness of the company's measures.

Company in China's capital goods sector

Visited in October 2019

ESG issue

The company needs to identify materiality and strengthen ESG efforts. This includes setting targets for environmental issues and building a system to prevent corruption within the company.

Company initiatives

Working to increase the percentage of women on the board of directors. Has also launched a sustainability promotion committee and has started making regular reports related to sustainability.

Company's understanding

Waiting for the Hong Kong Stock Exchange's ESG reporting guidelines to be released. After they are released, plans to work on ESG initiatives in accordance with the guidelines.

Proposals

Asked for the board of directors to understand the importance of ESG indicators, and for the company to properly communicate about internal ESG initiatives to outside parties.

Cooperation with Initiatives

Report published every two years

Access to Medicine Foundation
Access to Medicine Index

In 2019, Nomura Asset Management became a signatory of the Access to Medicine Index (ATMI), which is published every other year by the Access to Medicine Foundation (ATMF). The ATMF is an independent nonprofit research foundation funded by the UK government (UK AID), the Dutch Ministry of Foreign Affairs, the Dutch Ministry of Health, Welfare and Sport, and the Bill & Melinda Gates Foundation.
The ATMF has partnered with the pharmaceutical industry for over a decade, with a primary goal of improving access to healthcare for billions of people in low- and middle-income countries who do not benefit from modern healthcare progress. The ATMI ranks the level of support and achievements by 20 of the world's largest pharmaceutical companies with respect to global access to medicine.
Currently, 95 asset management firms with more than US$13 trillion in total assets under management support the ATMI by using it to invest or as a tool to manage their investments.
As a signatory of the ATMI, Nomura Asset Management is committed to taking advantage of our position as a responsible institutional investor to improve the activities of pharmaceutical companies and expand their social influence. In particular, we are engaging global pharmaceutical companies to encourage them to assume responsibility and allow access to currently available drugs in low- and middle-income countries, and further expand such access.

Access to Medicine Index 2018 Rankings

Ranking	Company name	ATM Index score
1	GlaxoSmithKline plc	4.01
2	Novartis AG	3.21
3	Johnson & Johnson	3.05
4	Merck KGaA	2.90
5	Takeda Pharmaceutical Co. Ltd.	2.75
6	Novo Nordisk A/S	2.68
7	Sanofi	2.49
8	Eisai Co. Ltd.	2.48
9	AstraZeneca plc	2.48
10	Roche Holding AG	2.38
11	Pfizer Inc.	2.34
12	Merck & Co., Inc.	2.32
13	Gilead Sciences Inc.	2.29
14	Boehringer Ingelheim GmbH	2.11
15	Bristol-Myers Squibb Co.	2.03
16	Bayer AG	1.88
17	AbbVie Inc.	1.88
18	Daiichi Sankyo Co. Ltd.	1.77
19	Astellas Pharma Inc.	1.46
20	Eli Lilly & Co.	1.27

(source) Access to Medicine Index 2018

Message

UK office
Lead portfolio manager and analyst

Alex Rowe

Taking on the role of co-Lead investor collaborator with GlaxoSmithKline on behalf of ATMI and its signatories, Nomura Asset Management is engaging in an ongoing dialogue with the company to push for even better access outcomes.
ATMF's investor led company engagement program is aimed at bringing the investor stakeholder more directly into the access discussions with pharmaceutical companies to throw added weight behind the coordinated push for greater commitment to global access to medicine.
In December 2019, as the lead portfolio manager of the Global Sustainable Equities Fund (see page 55), I served as chair of collaborative engagement call with GlaxoSmithKline alongside with 13 other global asset managers.
The group had a highly engaging back and forth discussion with GlaxoSmithKline, focusing on a variety of issues, including different access strategies required for nations at different stages of economic development.
Through this collaborative engagement the importance to the investor community of corporate responsibility with regards to access is being reinforced and supporting ATM's vital work in improving global outcomes.
We are currently discussing the results of engagement by ATM and investors, and advancing the engagement program to the next stage. We will continue to work with GlaxoSmithKline and other investors to reinforce the importance of access to the investment community.

(As of December 2019)

Fixed Income Engagement

Nomura Asset Management also engages with issuers in our corporate bond investments as part of the investment process. We believe that integrating ESG elements into the corporate bond investment process leads to stronger risk management and contributes to more stable returns, and we feel that engagement is one of the important ways of accomplishing this.

In recent years, corporate sustainability has become a key topic in corporate bond investing, based on the fact that many issuers issue corporate bonds on a regular basis as a part of their financing plans, and given the fact that issue periods are lengthening amid the low interest rate environment. Whether critically important ESG issues can be dealt with or not is directly related to the performance and capital costs of issuing companies, and has a major impact on a company's credit risk. We believe that calling on management teams of our portfolio companies to increase sustainability through engagement is an important effort in corporate bond investment.

Currently, engagement in our fixed income investment operations focuses on conveying our awareness of issues related to ESG factors to corporate bond issuers, and encouraging them to take sustainability into consideration. Based on our own quantitative evaluation model and qualitative research, our credit analysts first determine ESG issues that are important to the creditworthiness of individual issuers, and then share their views with companies through interviews, as well as discuss the enhancement of disclosure and ways to make improvements regarding issues.

If continuous engagement yields signs of improvement in ESG issues that impact creditworthiness, we will proactively invest in the company. On the other hand, if we do not receive a satisfactory answer, and determine that the issues are not being dealt with appropriately, we will either decide to not invest in the company's corporate bonds or to reduce their weight in the portfolio.

Corporate bonds, which are a means for companies to raise funds, are often issued with various maturities and on the premise of refinancing, so ESG engagement by credit analysts can have a significant impact on issuers' financing strategies. In recent years, ESG-specific financing, including green bonds, has become popular. We believe that even bond investors who do not have voting rights can contribute to the enhancement of corporate value by impacting the decision-making of corporate leaders. We also think that fixed income investors want to support corporate transformation by broadening their efforts with respect to responsible investment.

Primary engagement topics

E Environment	S Social	G Governance
Greenhouse gas emissions	Product safety	Corporate philosophy/ethics
Water resources management	Community support	Board of directors functions
Waste disposal	Labor practices	Compliance

Example of Engagement by a Credit Analyst

Company in Japan's telecommunications services sector

Teleconference in November 2019

ESG issue

High employee turnover rate and sales activities with an emphasis on compliance

Company's understanding

Recognizes that the corporate culture which emphasizes setting excessively high sales targets and focusing solely on performance has increased risk due to the changes in the environment surrounding the company and society's changing values.

Company initiatives

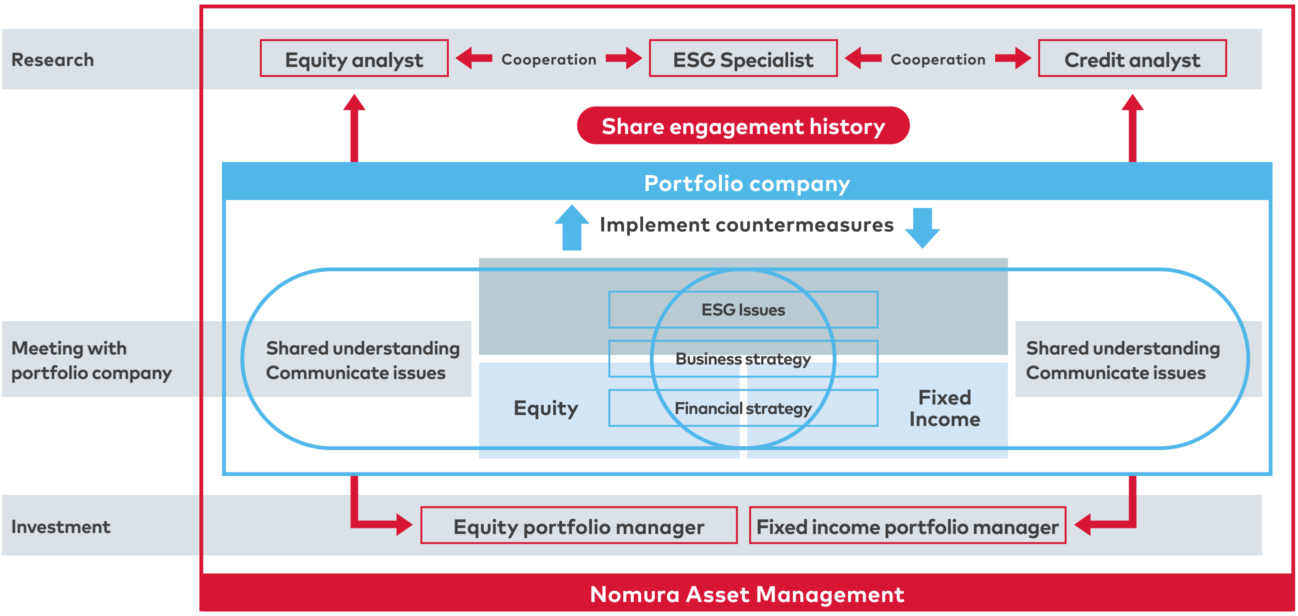
We have revised restrictions on overtime and how targets are set, and enhanced compliance training, and as a result the corporate culture and employees' work style have greatly changed. The turnover rate has also improved in conjunction with these measures.

Proposals

We told the company that corporate bond investors are demanding excess spread from the viewpoint of ESG, and proposed that the company provide more information about ESG, including this issue.

Engagement Collaboration between Equities Investment and Fixed Income Investment

We are also bolstering collaboration with the equities investment division which started engaging with portfolio companies before the fixed income investment division. In the relationship with portfolio companies, it is normally said that bonds and stocks involve different perspectives and have conflicting interests. However, bonds and stocks are the same when it comes to assessing corporate risk from the perspective of sustainability, and both equity investment and fixed income investment aim for an increase in corporate value.
Based on this idea, both our fixed income and equities investment divisions share information on issuers' ESG issues and about engagement, and credit analysts join analysts and ESG specialists in engagement targeting portfolio companies, and collaborate in other ways as well.



Collaborative Engagement by Credit Analyst and ESG Specialist

Company that owns a power generation business unit

Dialogue in December 2018

ESG issue

The company has a business unit comprising coal-fired power generation facilities, and one issue is its effort to address climate change with the backdrop of global decarbonization. Another issue is disclosure related to its efforts to address climate change.

Company's understanding

Must continue its thermal power generation business in accordance with the government's basic energy supply plan, as it must stably supply energy.

Company initiatives

Continuing efforts to maintain stable operations with the aim of offering a stable supply of electric power. Proactively carrying out measures in order to reduce its environmental footprint in the region. Also, in order to address climate change, the company recognizes the need to look into retrofitting current facilities, etc.

Proposals

Communicated the need for the company to pay attention to operating funds and market financing going forward, given financial institutions' changing views on coal-fired thermal power. Also conveyed the need to be able to provide TCFD-compliant climate-related disclosure.

Company that owns thermal power generation facilities

Dialogue in December 2019

ESG issue

While the company has many power generation facilities that use renewable energy such as hydropower, a considerable percentage of its facilities are thermal power plants. An issue is its efforts to reduce CO_2 as well as related disclosure.

Company's understanding

Advancing discussions regarding how to position thermal power generation as a response to climate change. Also focusing on power generation based on renewable energy such as hydropower and wind power.

Company initiatives

Enhancing disclosure of climate-related information and working on TCFD scenario analysis, and making progress so as to be able to announce these in the next integrated report. Aiming to operate power generation facilities in line with the decarbonization trend by advancing demonstration tests of coal-fired power generation using new technologies, and promoting efforts to both provide a stable supply of power and achieve decarbonization.

Proposals

Conveyed that it is important to proactively report on substantial efforts toward renewable energy not only in reports, but also at investor meetings. Also communicated that we wish to continue the discussion about addressing the rapid changes in the funding environment from financial institutions and the market, as well as about risks associated with the company's funding strategy.

2 Proxy Voting

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

We conduct proxy voting with respect to various kind of proposals made at the shareholders' meetings of the portfolio companies in which we invest, including the election of directors.
In accordance with the proxy voting guidelines, we have adopted a disciplined voting process, and for proposals requiring qualitative judgment, we engage in thorough discussions that will lead to improvements in corporate value and promote highly-effective corporate governance.
At the same time, we have established the Responsible Investment Council, and have built a system to manage conflicts of interest in real time.

Concept of Proxy Voting

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. To ensure that proxy voting will not be carried out as a "governance for the sake of governance," we have decided to limit the participation on proxy voting to the minimum level that is absolutely required, and in more involved cases we exert an influence through engagement based on the portfolio company's situation.
On the other hand, we make rigorous judgments regarding a company's responsibility on business results through proxy voting, and we may object to a company's proposals if the management performance is poor or if there is misconduct.

Basic Corporate Governance Structure

Shareholders' meeting

↓ Election

Directors (Board of Directors) / Auditors

↓ Oversight
(nomination, compensation, audit)

Senior management

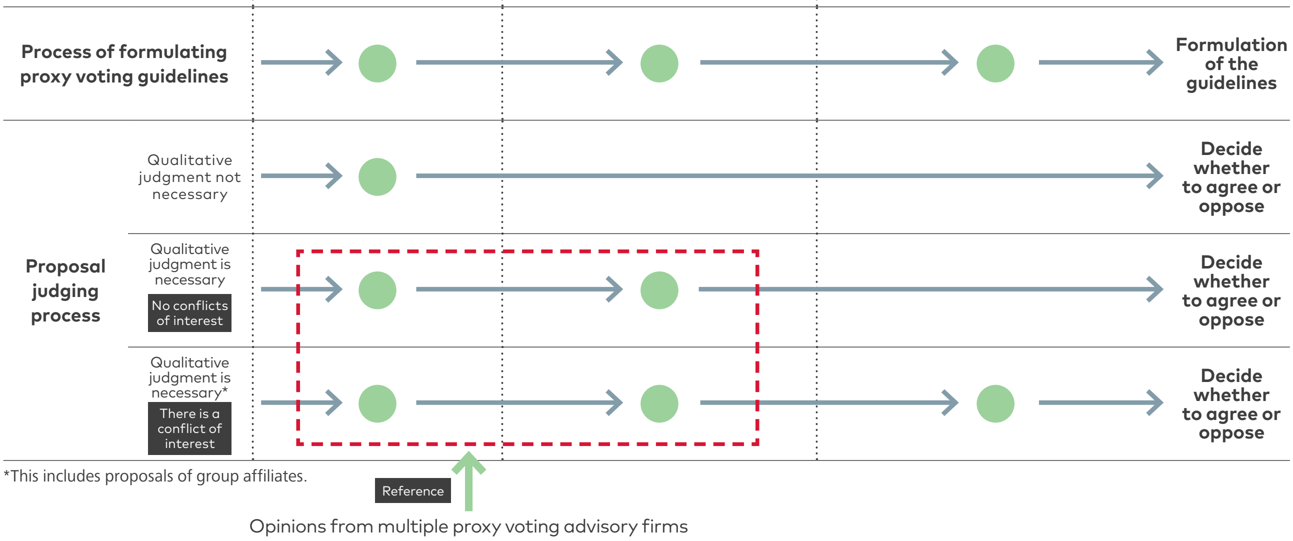
Proxy Voting Process

The proxy voting process is as shown in the figure below. In addition to the Responsible Investment Committee, which is the highest decision-making body, the Responsible Investment Council has been established to prevent conflicts of interest. Please refer to Page 41 about the conflict of interest. We will begin by explaining the process for formulating the proxy voting guidelines. The Responsible Investment Committee engages in deliberations based on a draft prepared by the secretariat, it revises the draft as needed, and then makes a final decision. The Responsible Investment Council then meets after the Responsible Investment Committee to examine possible conflicts of interest. The members of the Responsible Investment Council attend Responsible Investment Committee meetings and monitor any conflicts of interest from the deliberation and decision stages. One unique feature our policy is that rather than reviewing decisions after they are made, the process of monitoring and reviewing conflicts of interest is integral to the decision-making process. Next, the process of forming a judgment on these proposals can be broadly divided into three patterns. The secretariat decides on proposals that can be judged according to the proxy voting guidelines (do not require qualitative judgment), but other proposals (that do require qualitative judgment) are discussed and decided on at a Responsible Investment Committee meeting. In addition, for proposals that involve conflicts of interest, similar to when formulating the proxy voting guidelines, a Responsible Investment Council meeting is held and the conflicts of interest are monitored and reviewed while referencing the opinions of multiple proxy voting advisory firms. The Responsible Investment Committee and the Responsible Investment Council hold regular meetings four times a year, while extraordinary meetings may also be held as required. In 2019, the Committee held 18 meetings and the Council held four meetings.

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

Refer to Page 3~4 for more information about the Responsible Investment Committee

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



*This includes proposals of group affiliates.

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.

Proxy Voting Guidelines Structure

Proxy Voting Standards and their summaries	In the following cases, we will oppose a company's proposal
Rigorously judge corporate actions and responsibility to deliver business results Judgment made and the responsibility taken to deliver business results by the management and the board of directors will be scrutinized and rigorously judged.	■M&A or other corporate action does not protect the interests of minority shareholders ■An act that could cause significant damage to shareholder value (misconduct, etc.) is discovered ■Return on equity (ROE) is stagnant
Composition of (Board of) Directors A certain number of outside directors is necessary to supervise the management team. Particularly in a company where there is a controlling shareholder (such as a listed subsidiary), there are concerns about a conflict of interest with the controlling shareholder, therefore a higher level of supervision is required.	■The number of outside directors falls short of the minimum level (refer to Page 41 for details)
Independence of outside directors A certain level of independence is required for outside directors in order to supervise senior management. In order to prioritize effectiveness,we ensure that the standards for independence are not too stringent.	■Notification as an independent executive is not confirmed ■An outside director has worked for or has otherwise been part of a company that is a major shareholder
Effectiveness of outside directors Outside directors must effectively supervise senior management.	■The attendance rate for board of directors' meetings is less than 75% ■It is obvious that the outside director did not fulfill the expected tasks such as the appointment and dismissal of senior management and the supervision of conflicts of interest between the company and the management team or controlling shareholders
Appropriate compensation governance Because the process for determining executive compensation must be transparent, there must be appropriate supervision (compensation governance).	■In a company where the outside directors fall short of a majority and an independent compensation committee has not been established, a proposal for executive compensation or executive retirement benefits above a certain level is submitted
Appropriate incentives Although stock compensation is important as a management incentive, it can be counterproductive if not properly designed.	■The stock compensation is designed so as to encourage the management team to be short-term oriented ■The persons to whom the stock compensation is given are not appropriate ■The stock compensation could lead to excessive dilution
Effective utilization of financial assets It is essential that financial assets are utilized effectively to enhance corporate value.	■Financial assets are not utilized effectively, and shareholder returns (dividends and share buybacks) are not appropriate

* http://www.nomura-am.co.jp/corporate/service/responsibility_investment/pdf/vote_policy.pdf

Summary of Revisions to Proxy Voting Standards (November 2019)

Corporate governance reforms are changing and have become increasingly focused on effectiveness, rather than just making changes "on paper." Japanese companies are being asked to strengthen supervisory functions, including nomination and compensation, as well as managing conflicts of interest between senior management and major shareholders. In the November 2018 revisions, we added new items related to roles expected of compensation committees and outside directors (such as the election and dismissal of senior management members and oversight of conflicts of interest). Revisions this time around also emphasize strengthening of the supervisory function. The main changes are discussed below.

1. In order to strengthen the supervisory function, we raised the minimum requirement for the number of outside directors.

Organizational design		Before revision	After revision
Company with corporate auditors	There is no controlling shareholder	2	2.However, 3 if there are more than 12 directors.
	There is a controlling shareholder (listed subsidiary, etc.)	Average ROE in past three fiscal periods is at least 8%: 2 Average ROE in past three fiscal periods is less than 8%: 1/3	1/3
Company with Audit & Supervisory Committee, Company with Nominating Committee, etc.		2	1/3

2. If a minimum baseline level of compensation governance (a majority of the directors are outside directors, or there is an independent compensation committee) is in place and there is proper oversight, the upper limit for dilution is 10%. (Prior to the revision it was 5% regardless of the current status of compensation governance.)

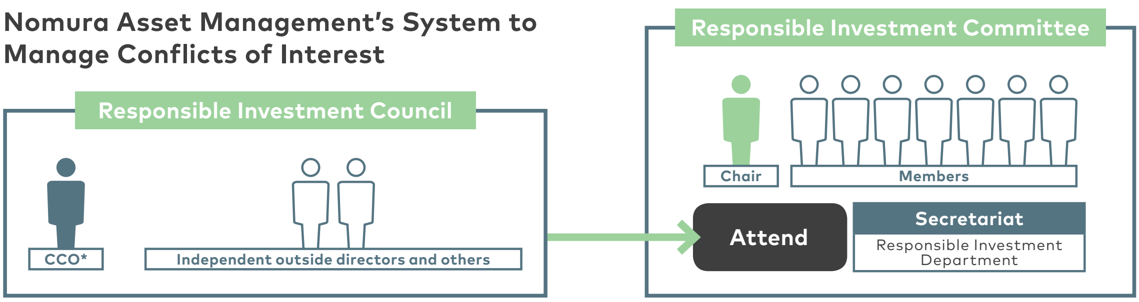
3. Reflecting the increase and diversification of shareholder proposals requesting director elections, we made changes so that these proposals can be judged alongside company proposals (before the revision, we opposed shareholder proposals if the person presented for the company proposal was appropriate).

4. As factors for judging corporate restructuring and capital policies, based on the fact that the possibility for conflicts of interest with minority shareholders have increased and the initiatives to protect the interests of minority shareholders have become more important, these will be clearly included in the Standards.

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 that comprises only the Chief Conflict Officer and persons in independent positions with respect to our company, including independent outside directors. This committee 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 opinion if there is a problem from the standpoint of conflicts of interest. This allows the Responsible Investment Council to appropriately monitor conflicts of interest related to stewardship activities, and prevent problems in advance.

Nomura Asset Management's System to Manage Conflicts of Interest



*Chief Conflict Officer

Proxy Voting for Japanese Companies from January to December 2019

The results of our proxy voting with respect to Japanese companies from January to December 2019 are as follows. Unless otherwise noted, the ratio of votes against company proposals and the underlying reasons are shown (for shareholders' proposals, the ratio of votes in favor and the reasons are shown).

Election and dismissal of directors

The independence of candidates for outside director could not be confirmed, poor business performance, misconduct, etc.

Number of proposals: 18,438

5%

Election and dismissal of auditors

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

Number of proposals: 2,963

16%

Election and dismissal of accounting auditor

The candidate was an auditing firm that had recently been subject to disciplinary action by the authorities

Number of proposals: 58

2%

Executive compensation

Outside directors and auditors were included among the people who would receive stock compensation, and the lock-up period was less than three years

Number of proposals: 856

29%

Payment of retirement benefits to retiring executives

Outside directors and auditors were included in the scope of persons who would receive payment, etc.

Number of proposals: 191

84%

Appropriation of surplus

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

Number of proposals: 1,593

5%

Organizational restructuring-related

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

Number of proposals: 44

5%

Introduction, update and abolition of takeover defense measures

All proposals related to introduction or update of takeover defense measures (voted for one proposal for abolition)

Number of proposals: 78

99%

Proposals on other capital policies

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

Number of proposals: 65

3%

Proposals on articles of incorporation

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

Number of proposals: 590

3%

Total Company proposals

See above

Number of proposals: 24,878*

8% (Ratio of votes against)

*Includes two "other proposals" not included above.

Total Shareholders' proposals

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

Number of proposals: 157

17% (Ratio of votes for)

Reference

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

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

Examples of Qualitative Judgments on Proposals

In recent years, corporate governance of listed subsidiaries has been attracting attention. This is because the parent company has the right to control the business by controlling the majority of the voting rights (controlling rights), which causes concerns about possible conflicts of interest with other shareholders (minority shareholders). In our Proxy Voting Standards, we demand that listed subsidiaries should have a board structure whereby one-third of members are outside directors. This is a relatively stringent provision.

So, how are listed subsidiaries created? There are two typical ways: (1) listing a subsidiary on the stock market, or acquiring more than half of the shares of a listed company and turning it into a subsidiary; and (2) through a third-party allotment of shares or a share exchange. In (1), a shareholders' meeting is not held, but in (2) it is normal for a shareholders' meeting to be held and for a proposal to be put on the agenda. Here, we explain what kind of judgments we made in Case (2).

Overview of Proposals

Here, we introduce one proposal we voted in favor of (Case 1) and one proposal we opposed (Case 2). The company formats were different, but in both cases Company S is a listed subsidiary of Company P, and the proposals were on the agenda of Company S's shareholders' meeting. The details are shown in the figure on the page to the right.

Proposal Judgment Process

We first referred to the proxy voting guidelines. The standard*1 below was applied to both proposals, but the proposals were discussed at the Responsible Investment Committee because qualitative judgments were required. Because neither case created a conflict of interest for Nomura Asset Management, the Responsible Investment Council did not hold a meeting.

Company reorganization and capital policy
(merger, acquisition, business transfer, acquisition of business, company split, capital increase, etc.)

We vote for a proposal on a company reorganization or a capital policy if it is deemed appropriate, and we otherwise vote against it after comprehensively taking into consideration its content, the economic terms (including a premium), the impact on shareholder value, the grounds for management judgments and rationality and the disclosure status, etc. If general shareholders receive consideration such as shares and money for the company reorganization or the capital policy, we emphasize the appropriateness of the consideration when deciding whether to agree with or oppose the proposal.

*1 The standard was revised in November 2019 in light of both of these cases (refer to Page X)
The above is the standard prior to revision.

Outcome of Judgements on the Proposal

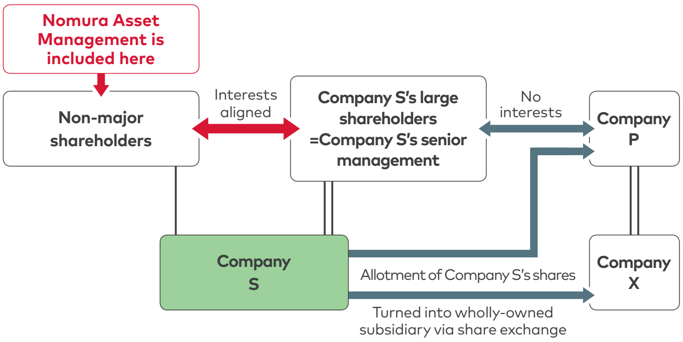
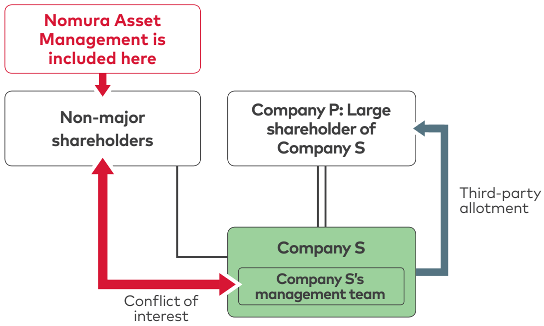
In such cases, the appropriateness of the premium*2 for control is an important issue.

In both cases, the premium was effectively zero, and an independent committee did not take actions such as verifying the appropriateness of the premium utilizing the opinions and information from outside experts, so careful consideration was required.

The deciding factor was whether or not there was a conflict of interest between Company S's management and non-major shareholders. In Case 1, management and the non-major shareholders had the same interests, and we respected and agreed with the company's opinion. In Case 2, there was concern that management may have a conflict of interest, and we opposed the proposal as we could not respect the company's opinion given the fact that there was no verification by an independent specialist or committee.

*2 If Company P acquires a majority of Company S's shares through a tender offer, it is normal for the company to pay a price that is higher than the share price immediately preceding the tender offer. This is considered compensation for attaining the controlling rights, and the excess amount is called the "premium." In the case of a share exchange or third-party allotment, there are differences from the case of a tender offer of new shares, but the appropriateness of the premium remains an important issue.

Qualitative Judgment Cases (Company S's shareholders' meeting)

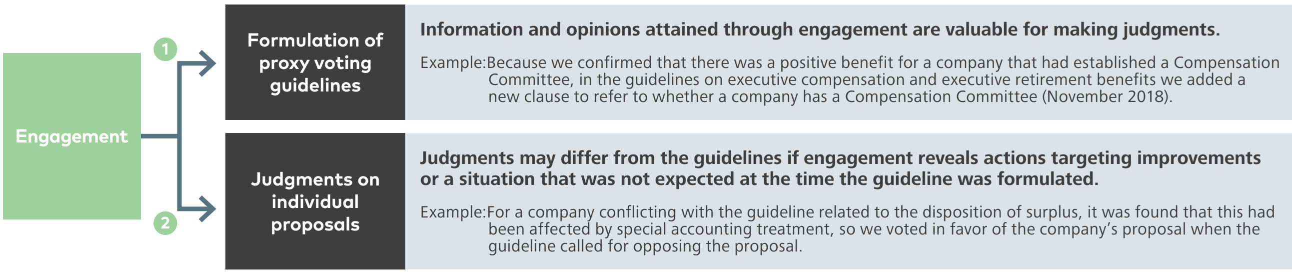
	Case 1: Supported	Case 2: Opposed
		
Format	Company X was a wholly-owned subsidiary of Company P. By exchanging Company X's shares held by Company P with Company S's shares, Company P acquired more than one-half of Company S's shares, thereby becoming its parent company.	Shares were issued to Company P through a third-party allotment. Company P acquired more than one-half of Company S's shares, thereby becoming its parent company.
Business judgment	We judged it to be rational, as business synergy was recognized.	We judged it to be rational, as business synergy was recognized.
Issue price / Exchange ratio	The exchange ratio is within Company X's share price calculation range (premium is effectively zero).	The issue price is roughly the same level as the share price prior to the announcement
Verification by independent committee	Outside expert calculated Company X's share price. However, an independent committee was not established.	Created an independent committee. However, there was no calculation of share price by an independent outside expert. It went no further than a regulatory check.
Conflict of Interest	Because Company S's management team members are also shareholders, there was little concern about a conflict of interest.	Because Company P is a major shareholder of Company S, there was significant concern about a conflict of interest.

Proxy Voting FAQ

Q Can engagement have an impact on proxy voting?

A Through engagement, we ascertain the status of the company and its opinions regarding proxy voting, and these impact the formulation of the proxy voting guidelines (“guidelines”) and the decisions on individual proposals. Please refer to the figure below for details.

Relationship between engagement and proxy voting

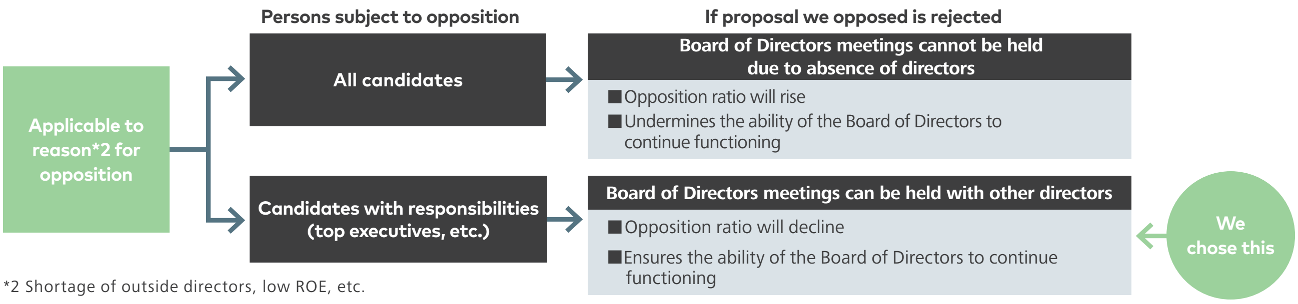


Q It seems that you vote against company proposals a small percentage of the time. Can you comment on that?

A As discussed on Page 38, we have positioned proxy voting as a part of our engagement program.In proxy voting, we execute what we consider to be the "minimum line” that is considered necessary at the given time. This may limit the increase in the ratio of voting against. Another factor affecting this is the fact that, because we take the continuity of the board of directors into consideration, for director election proposals that we oppose, we limit our opposition to candidates possessing responsibility in individual matters (see figure below). While our opposition ratio to director election proposals was 5% (2019), of these proposals, we opposed the appointment of one or more candidates for 30% of companies. We do not feel this percentage is particularly low.

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

Guideline for Director Election Proposals



*2 Shortage of outside directors, low ROE, etc.

Q What about proxy voting with respect to group affiliates?

A As with other portfolio companies, we make decisions about whether to support or oppose proposals for group affiliates based on our guidelines. As a proposal with a conflict of interest, the Responsible Investment Committee will discuss the proposal referencing the opinions of multiple proxy voting advisory firms. Members of the Responsible Investment Council attend the Responsible Investment Committee meeting and participate in the deliberations. Also, following the conclusion of the Responsible Investment Committee meeting, the Responsible Investment Council holds a meeting where it closely examines the issue from the perspective of conflict of interest. Please refer to Page 39 for details on the proxy voting process and Page 41 for details on our system for managing conflicts of interest.

Q Do you have a message for portfolio companies?

A In carrying out proxy voting, we refer to documents related to shareholders’ meetings, including the notice of convocation, independent officer registrations, and corporate governance reports. Recently, documents related to shareholders’ meetings have become more informative, and this has allowed us to judge these proposals more easily. We want portfolio companies to continue providing clear and easy to understand information disclosures. We still believe that engagement with portfolio companies, including explanations of proposals, is valuable, and we are active with engagement throughout the year, with the exception of late-May through mid-June when proxy voting reaches its peak. We would like for portfolio companies to check the proxy voting representative’s schedule (see Page 46) and contact them.

Column 1 Current Situation with Corporate Governance Reform -shifting the focus from matters of formality to effectiveness-

Following corporate governance reforms, boards of directors of Japanese companies have been changing. A few years ago, the main topic of discussion related to matters of formality, such as whether or not to appoint outside directors, but these days the issue is shifting more towards effectiveness. So, how should we view the effectiveness of corporate governance? As the basic structure on Page 38 shows, oversight of senior management is a requirement of good corporate governance, so the critical factors are the effectiveness of nomination, compensation and auditing. Focusing our attention on nominations and compensation, points 1 – 3 on the right summarize the matters in question.
What is the current situation for Japanese companies? It appears that some companies are doing 1 – 3 all at a high level, while others are still struggling with making changes "on paper." Overall, it seems that many management teams are increasingly recognizing the importance of 1 – 3, and are getting started from where they can. Through proxy voting and engagement, we will continue calling on companies to put 1 – 3 into practice.

1 Appropriate members

Board of Directors, Nomination Committee, and Compensation Committee should be comprised of appropriate members. In order to fulfill 3, this will center on outside directors satisfying requirements such as independence from senior management, corporate management experience, and diversity.

2 Management strategies and plans

Conduct thorough deliberations on the management strategies and plans presented by senior management. These management strategies and plans are the yardsticks for evaluating senior management.

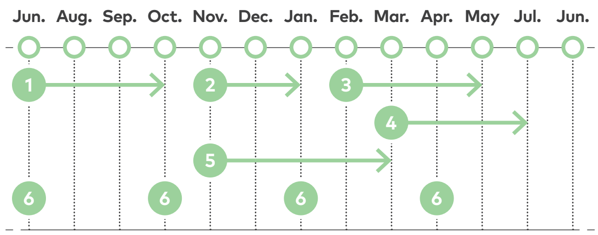
3 Nomination/Compensation

Evaluate senior management and decide on the need for replacement (nomination) and determine compensation. This is based on the formulation of a successor plan consistent with 2 and the design of the compensation system.
It is important to feed the evaluation results back into 2.

Column 2 Annual Schedule of a Proxy Voting Representative

June, followed by March and May, are the months in which the largest numbers of Japanese companies hold their general shareholders' meetings. We exercise our voting rights for more than 1,900 portfolio companies in these three months. Below, I discuss the approximate annual schedule for proxy voting, focusing on this period with a high concentration of shareholders' meetings.

Proxy Voting Annual schedule



1 Revisions to Proxy Voting Guidelines

July – October

As soon as the busy season for shareholders' meetings ends, we start reviewing our Proxy Voting Guidelines. Taking into consideration the actual conditions of Japanese companies, which we have learned through engagement and proxy voting, we make revisions to reflect changes in laws and regulations, such as revisions to the Corporate Governance Code.

2 Engagement to inform companies about the revisions to our Proxy Voting Guidelines

November – January

We conduct engagement mainly with the portfolio companies that we think will be significantly impacted by the revisions to our Proxy Voting Guidelines. We communicate our views and encourage them to strengthen their corporate governance. In addition to individual meetings with portfolio companies, we also explain our views at seminars.

3 Engagement in anticipation of the general shareholders' meeting.

February – May

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

4 Period when most general shareholders' meetings are held

March – June,

This is a period when we need to accurately judge a large number of proposals. We exercise voting rights for roughly 100 companies per day during the peak period in June, so it also happens to be the period when we most want companies to provide information disclosures that are clear and easy to understand.

5 Engagement to strengthen corporate governance

All year, particularly November – March

We explain our proxy voting philosophy and let portfolio companies explain to us how they are working to strengthen their corporate governance, and we then talk with them about their efforts. Typically, the discussions will be about what efforts they should make to enhance corporate value over the medium to long term, and what kind of corporate governance they should have as a mechanism for supervising those efforts given their particular business and financial situation.

6 Disclosure of proxy voting results

January/April/July/October

After the end of each quarter, we disclose the results of our proxy voting, and the reasons behind our voting activities, on our corporate website.

3 ESG Integration

We aim to enhance investment added value by incorporating ESG elements into the investment process

Nomura Asset Management conducts its own ESG evaluation of portfolio owned companies listed in Japan, developed countries including Europe and the US, as well as Asia and emerging countries, and uses these assessments to make investment decisions.
We aim to improve the total added value of our investments by conducting effective ESG evaluations for both equity investment and fixed income investment, and by integrating those evaluations into our investment activity.

Basic Philosophy on ESG Integration

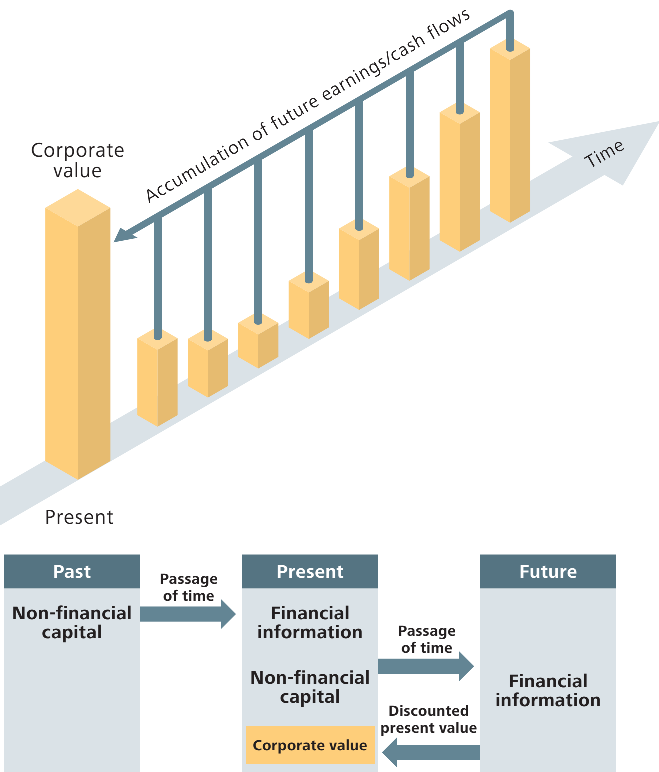
Integrating ESG elements into the investment process is critical for both equity investing and fixed income investing. Effectively incorporating evaluations of ESG and other non-financial information into the investment process to supplement the analysis of a company's fundamentals (financial information used to evaluate a company) is essential for enhancing the quality of our investments, as it not only reduces downside risk but also improves returns.
We incorporate our own ESG evaluations into the investment process for both equity investing and fixed income investing. Evaluation is not limited to Japanese companies, as we have expanded the scope to companies in developed countries in Europe and the US, as well as to companies in Asia and emerging countries. In addition to global themes such as climate change and human rights, we extract and assess specific material ESG considerations for individual industries and companies and utilize information from multiple external sources to create our proprietary ESG ratings. These ratings are made available to all portfolio managers for incorporation into the investment decision-making process.
Our integration efforts center on equity investing and fixed income investing, but each has distinct characteristics. When determining equity ESG scores, we focus our evaluations not only on potential risks but also on opportunities to generate future earnings. Although each equity strategy employs a unique investment philosophy and process, this common ESG evaluation platform is shared by all strategies.
Meanwhile, in our fixed income ESG model, we select and model ESG factors important for credit investment based on a variety of research. Qualitative evaluations by credit analysts are added to the model-based integration, in order to improve the portfolio's risk-adjusted return, as well as sustainable performance.

Equity Integration

Philosophy on ESG Integration

Incorporating ESG elements into the investment process, known as integration, is critical.
We believe effectively incorporating 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) allows us to enhance our total added value.
We take this view based on our belief that financial performance and ESG efforts (non-financial information) are closely related and influence one another.
Corporate value is essentially the discounted present value of future free cash flows. The business assets that generate corporate value include not only fixed assets such as production facilities, but also various types of capital (non-financial information) such as human capital, natural capital, and social capital that do not appear in financial statements. We recognize the need to analyze and make investment decisions based on how these various types of capital, or non-financial information, will affect future business operations and the sustainability of a company's growth in order to increase the added value of our investments.
In order to continue to improve the precision of our process, we regularly upgrade our proprietary ESG scoring (refer to Page 51).
In addition, by utilizing the ESG score as the common language between sector analysts, ESG specialists, and investment managers to use when discussing companies allows us to integrate ESG evaluations into the investment process more effectively.

Investors' Basic Philosophy on Corporate Value



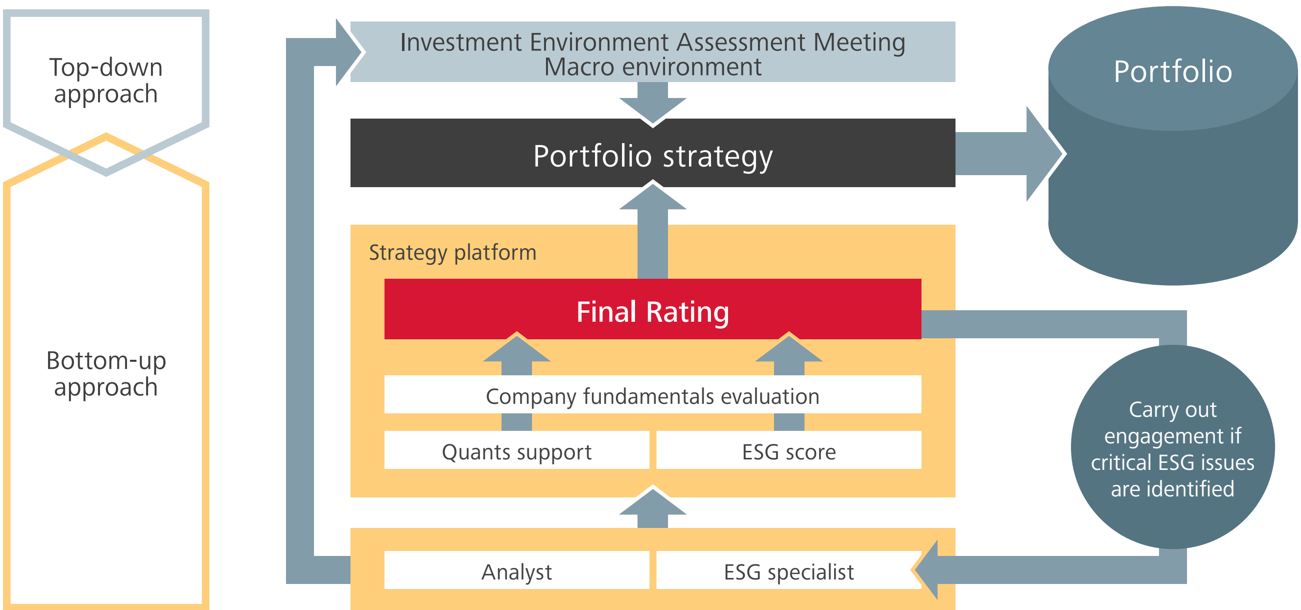
"Continuity between financial and non-financial" and the "Impact on long-term profits/cash flow generation" are of the upmost importance.

ESG Integration Process

ESG evaluations are incorporated into many of our investment strategies. Each investment process constructs its portfolio by selecting securities based on both quantitative and qualitative evaluations.
In addition to metrics on whether a stock is underpriced or overpriced, quantitative analysis includes predictions of future profit growth rates, return on equity, cash flows, financial soundness and more based on fundamental analysis performed by analysts.
Qualitative evaluation includes analysis directly linked to forecasts of future financial condition, such as industry growth, technological developments, competitive environment, and supply chain structure, as well as analysis related to non-financial information including the impact of the business on the environment and society, the risk management system for natural disasters, efforts to improve the work environment, the composition of the board of directors, capital policy, and other factors to assess the sustainability of a given company's growth prospects.
This is what we refer to as ESG evaluation. We believe that ESG indicators are extremely effective as metrics for evaluating this sustainability.
Each investment process will refer to the proprietary ESG score produced by our analysts and ESG specialists to assess sustainability and assign a final investment rating (investment decision). Our ESG score combines environment, social, governance criteria with SDGs, and it makes it possible to evaluate risk factors and investment opportunities in our strategy platform (refer to figure below).
In addition, if we determine that furhter ESG research on the target company is necessary based on the discussions in each part of the investment process, we may ask an ESG specialist in the Responsible Investment Department to conduct additional research, which is then added to the evaluation when a final investment rating is assigned.
The portfolio for each investment strategy is built by selecting names from the investment universe assigned a final rating of "Buy."

Moreover, we have established a standard ESG evaluation process globally. In addition to global themes such as climate change and human rights, we extract and assess specific material ESG considerations for individual industries and companies and utilize information from multiple external sources to create our proprietary ESG ratings. These ratings are made available to all portfolio managers for incorporation into the investment decision-making process.
For example, at our Singapore Office, country specialists (CS) are assigned to cover each country in this diverse region, and the main source of added value is the bottom-up research conducted by meeting with companies and management (approximately 2,550 meetings in 2019).
Investing ratings are assigned to individual stocks based on the fundamentals research carried out by CSs as well as the ESG evaluation. The actual portfolio is constructed based on these ratings.
When we engage with individual companies that are included in a portfolio, we do so in partnership with the analysts and ESG specialists.

Equity Investment Process



ESG Scores

At Nomura Asset Management, our analysts and ESG specialists collaborate to independently compute ESG scores, which assess each company's ESG abilities. Corporate value is usually expressed as the discounted present value of future cash flows generated. We believe that ESG and other non-financial information are important factors that influence future cash flows. ESG research and analysis, as well as scoring, are extremely important elements in measuring corporate value, and we believe these will generate added value for our investments.

Our ESG score is broadly divided into four categories: environment (E), social (S), governance (G), and SDGs (Sustainable Development Goals). There are currently more than 80 items in the evaluation, with a good balance between risk and opportunity.

In terms "environment," we view the evaluation of a company's efforts related to climate change to be the most important issue. We assess whether companies are managing transition risks and physical risks related to climate change, and incorporating appropriate responses to these risks in their business strategies. Initiatives in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) is an example of something we evaluate. Based on integrated reports and other publicly-available materials, we analyze and evaluate the level of disclosure pertaining to governance, strategy, indicators and goals, and risk management related to the TCFD, as well as companies' efforts with respect to scenario analyses. Rather than actions that are mere formalities, we are looking for substantive efforts including a strong commitment from management.Other environmental assessment items include biodiversity, such as water resources and the prevention of marine pollution.

"Social" is broadly divided into internal and external risks, and measures to address each. The former includes human rights and human capital development, while the latter includes issues related to the quality of products and services, as well as supply chain management. For Japanese companies in particular, we feel there is still a large gap between companies when it comes to the level of supply chain management at overseas business sites.

In "Governance," there are multiple items evaluated to make sure that companies have put appropriate systems in place, such as board constituents, outside director independence, and whether nomination and compensation committees have been established.However, qualitative research by our analyst team is what we expect to drive positive results. This is because assessing top management, successor planning and having open dialogue with investors are areas of strengths our analysts have cultivated over many years of

Weight	Main category	Weight	Sub-category	Example of items evaluated
30%	 E Environment	15%	Addressing climate change	• Disclosure of information on greenhouse gas emissions • Participation in initiatives related to climate change • Risks related to climate change • Initiatives on TCFD (Task Force on Climate-related Financial Disclosures)
		10%	Addressing natural capital	• Disclosure of information on water consumption and waste • Risks related to biodiversity and water resources
		5%	Addressing other environmental issues	
30%	 S Social	10%	Addressing human rights and labor	• Certification of occupational health and safety • Disclosure of information related to labor • Risks related to human rights and labor issues
		10%	Addressing human capital	• Efforts to effectively use human capital
		10%	Addressing other social issues	• Information disclosure, efforts, and risks regarding a wide range of social issues other than human rights, labor, and human capital
30%	 G Governance	10%	Evaluation of senior management	• Long-term industry vision, existence of effective action plan • Effectiveness of nomination and compensation process • Consideration of minority shareholders
		10%	Evaluation of board of directors	
		10%	Other governance evaluations	
10%	 SDGs Sustainable Development Goals	10%	Potential to contribute to the 17 goals	• Business opportunities related to the 17 goals of the SDGs

researching companies.
One feature of our ESG scoring is that we make it a point to evaluate SDGs separately from ESG. We evaluate whether a company considers solutions to SDG issues as business opportunities and whether they incorporate SDG solutions appropriately into its management strategy.
In doing so, rather than simply looking at whether or not a company has businesses that allow it to contribute to the achievement of each goal, we forecast future sales mixes and conduct extensive research into whether or not a company has the human and technological resources necessary to differentiate itself from its peers.

Acquiring ESG Score Information

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

Utilizing ESG score information in engagement

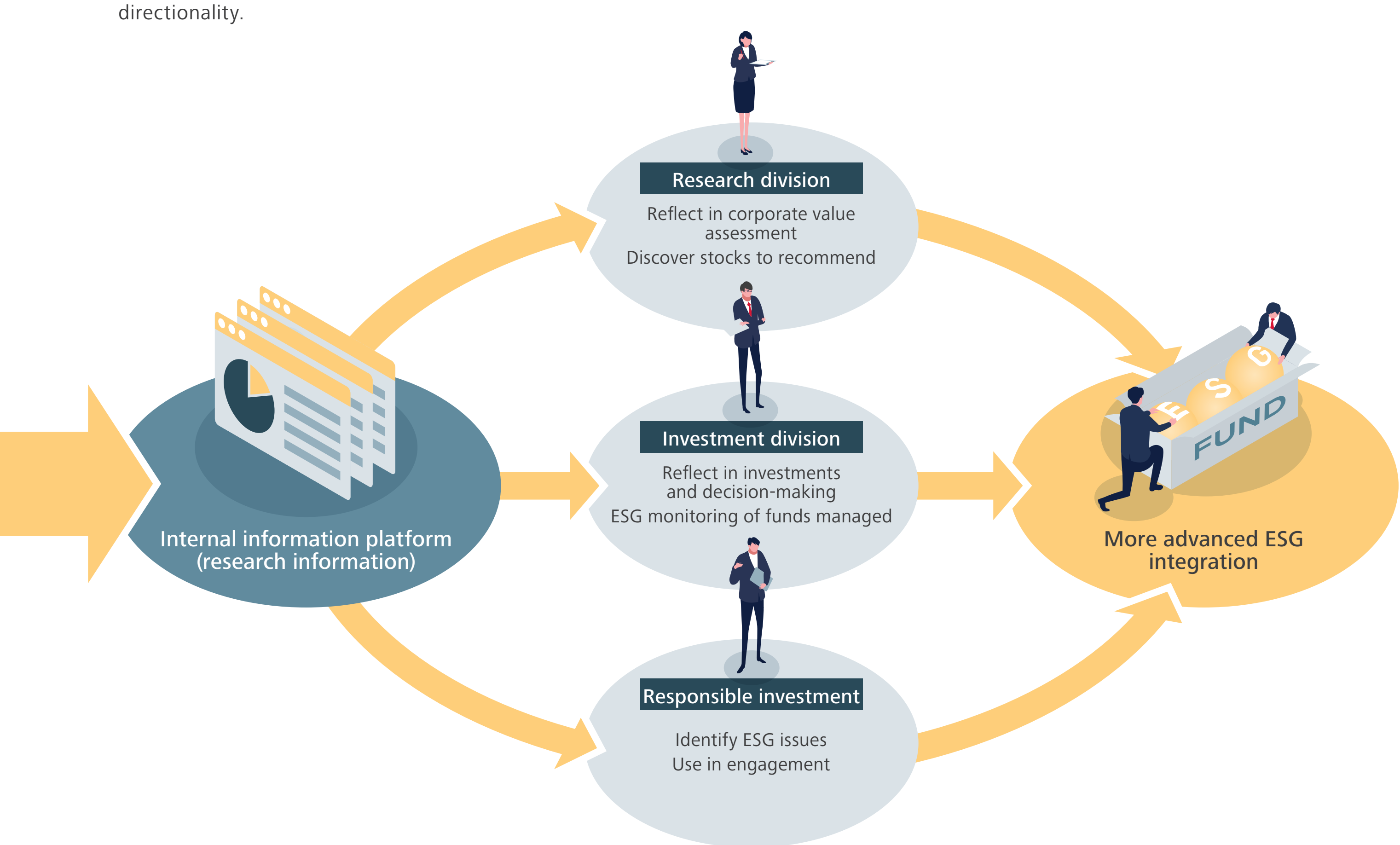
ESG scores are determined not only based on disclosed data but also using information on future risks and opportunities and other such information obtained through dialogue.
By using this ESG score, we can compare the strengths and weaknesses of portfolio companies' ESG efforts, and use the scores for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

Utilizing ESG scores in Investment Committees

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

Utilization of ESG scores in portfolio construction and monitoring

When building and reviewing portfolios from a bottom-up approach, managers can constantly keep track of ESG scores for individual companies. These are mainly used to make comparisons with industry peers and to see how a company's score has hanged. Meanwhile, from a top-down perspective, the overall portfolio's ESG score is periodically compared to the benchmark to avoid unintentional ESG risk bias.
Also, investment managers can use the evaluation items comprising the ESG scores of individual companies as stand-alone data. For example, they can adjust the weights of particular items, or select to use the scores of specific items, to reflect the specific characteristics of the fund they manage.



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 for portfolio companies, which will ultimately be returned to asset owners and other stakeholders.

In carrying out impact investing, we exhaustively 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 KPIs and targets that generate impact, as well as proactively support business activities aimed at achieving them.

A 2014 report issued by the G8 Social Impact Investment Task Force, established under the UK's presidency of the G8, notes, "This requires a paradigm shift in capital market thinking, from two-dimensions to three. By bringing a third dimension, impact, to the 20th century capital market dimensions of risk and return, impact investing has the potential to transform our ability to build a better society for all."

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 improvements for the environment and society.

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

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

Our Impact Investment Process

	Environment		Society			
Setting Definable Impact Goals in line with NAM's ESG statement	Climate change	Natural capital	Healthcare problems		The basic rights that should be guaranteed to people	
Impact goal defined	**Mitigate Climate Change:** Keep global warming to below 2°C	**Mitigate Natural Capital Depletion**	**Mitigate the Obesity Epidemic**	**Eliminate Communicable Disease**	**Global Access to Basic Financial Services**	**Global Access to Clean Drinking Water**
Monitorable indicators	Global Renewable Energy Output Atmospheric CO_2 Levels Global Carbon Emissions per Capita	Material Consumption per Capita Global Annual Tree Cover Loss	Obesity related Death Rate (CV, cancer, diabetes or chronic respiratory)	Deaths due to HIV, TB and Malaria	Percentage of Low Income Population with Access to Banking	Percentage of Global Population with Access to Safe Drinking Water
Identifying the investment areas	Renewable plant developers Technology manufacturers Electric vehicle OEMs Construction and management of efficient building	Achieve the sustainable management and efficient use of raw materials	Pharmaceutical business Healthcare value chain including MedTech Companies		FinTech payment businesses Lenders to lower socio economic	Providing water and sewage businesses
Link with SDGs topics						
Individual companies' KPI						
Engagement with portfolio companies	Portfolio companies					

Nomura Asset Management's approach to Impact Investing

Portfolio construction/ Investment process

Nomura Asset Management's ESG Statement aims to communicate the future direction of ESG-related activities and our recognition of environmental and social issues to stakeholders, and also aims to realize a sustainable environment and society.
Our ESG Statement is the starting point for our approach to impact investing. The statement identifies issues such as climate change, natural capital, and social responsibility as key topics.
For these issues, we set impact goals that are discussed internally. Urgent issues facing the world including climate change, natural capital depletion, access to healthcare, and social responsibility (for example, financial services and access to clean drinking water) are some examples of the specific issues discussed.
Next, we establish indicators to measure the degree of improvement for each impact goal that has been set. These indicators are either at the national or global level. For example, for the impact goal "Improvement of medical problems in developing countries, "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).
Furthermore, to improve these indicators, we specify further segmented areas of investment linked to these indicators. We then invest in companies in this investment area.

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.
Companies included in the portfolio are linked with the segmented investment areas and the 17 goals of the SDGs, and more detailed impact investment topics and individual KPI are established. By measuring these KPI, we are able to carry out fine-tuned monitoring of corporate activities that contribute to achieving the impact goals.
For example, with respect to climate change, using greenhouse gas emissions reductions and investment in R&D to tackle climate change as KPI enables more detailed monitoring of individual companies' actions aimed at solving the problem.
Conducting detailed and continuous monitoring of the established KPI allows us to not only appraise each company's impact, but also measure the impact of the portfolio overall and the extent of improvement against the original impact goal.
Moreover, we are encouraging companies' efforts to solve issues by engaging with portfolio companies based on what is learned from the monitoring.
By repeating this process for all of our investment strategies, we aim to generate impacts that solve social issues while also pursuing economic returns.

Nomura Global Sustainable Equity Fund (Global Sustainable Equity : GSE)

Nomura Asset Management's UK Office manages the Nomura Global Sustainable Equity Fund based on the concept of impact investment. This fund not only encourages companies to tackle the key challenges facing the world today, but also impacts a variety of stakeholders by encouraging them to address the sustainability of their business. The key is establishing impact goals and being able to measure their impact.
In the basic process, identifying the investment areas linked to KPIs is key for finding companies to actually invest in. Specifically, by identifying areas of investment related to the impact goal of "Improving healthcare problems in developing countries," we select companies engaged in businesses related to pharmaceuticals or businesses related to the value chain in healthcare as investment targets.
By establishing monitorable indicators related to this impact goal, we can measure the degree of improvement in each country or region (developed or emerging, etc.), and at the global level. Please refer to Page 54 for details.

In addition to monitoring KPI for individual companies, we support the actions of portfolio companies to achieve our impact goals through engagement.
For example, our impact goal of "Eliminate Communicable Disease" is related to Goal 3 of the SDGs, "Health and well-being for all." Specifically, it relates to Target 3.3 which states, "By 2030, end the epidemics of AIDS, tuberculosis, malaria and neglected tropical diseases and combat hepatitis, water-borne diseases and other communicable diseases."
Our UK-based fund management team participates in an initiative sponsored by the Access to Medicine Foundation aimed at improving access to health care for billions of people who would not benefit from modern healthcare advances in low and middle income countries, and works to solve the problem through collaborative engagement with major global pharmaceutical manufacturers (Refer to "Collaboration with Initiatives" on Page 34).
In addition to KPI monitoring, the investment team engages with companies in a variety of ways, which allows the team

Role of Portfolio Companies in Achieving Impact Goals and Examples of Monitoring

Portfolio company	Impact goal	Main impact(s)	SDGs target(s)	Individual company's KPI	Engagement goals
Gilead	Eliminate Communicable Disease	• Decline in overall global HIV mortality rate	3 GOOD HEALTH AND WELL-BEING	• Number of patients receiving HIV treatment in middle and low income countries • R&D investment (versus sales)	• Evaluation using Access to Medicine Index • Improvement in access to medicine using ATM
Johnson Controls	Mitigate Climate Change	• HVAC technology and building management systems, which are the world's top-class emission reduction technologies • Curb emissions from buildings, which account for 30% of the world's end energy consumption	7 AFFORDABLE AND CLEAN ENERGY 11 SUSTAINABLE CITIES AND COMMUNITIES	• Contribution to CO_2 emission reductions by HVAC technology (metric tons)	• Expansion of data disclosure in order to support contributions to CO_2 emissions reductions by HVAC technology

Impact Investment Process of GSE

	Environment		Society			
Progression towards our Goal and KPIs	Mitigate Climate Change	Natural capital	Healthcare problems		The basic rights that should be guaranteed to people	
Establishing impact goals						
Monitorable indicators						
Identifying the investment areas						
The identification of SDGs topics	SDG7.2 SDG7.3	SDG12.2	SDG3.3	SDG3.4	SDG1.4	SDG1.4 SDG6.2
Individual companies' KPI	MWh generated	Tonnes of material recycled	Access metrics		The number of customers	Litres of safe water produced using filtration technology
	MW sold		R&D spend		Customers, USD of payments	
	Tons carbon saved	Single use plastics removed from operations	Evaluation of Healthcare value chain		Customers, USD of loans	People reached through clean water access programme
	Equipment/research investment scale					
Engagement with portfolio companies	Portfolio companies					

Nomura Asset Management's Impact Investing

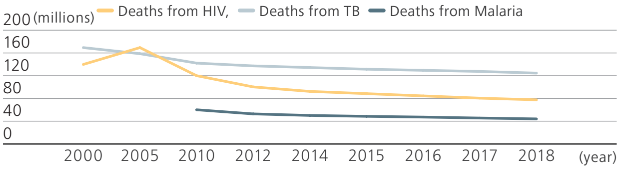
Portfolio construction/ Investment process

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

to encourage companies to take actions that will contribute to progress on the impact goals it has established.
A variety of impacts can be measured from the KPI linked to the actual portfolio.
For example, in terms of mitigating climate change, the fund invests in a broad range of companies that are supporting the reduction of global CO_2 emissions to a much greater extent than a typical global equity fund. Meanwhile, in "Eliminate Communicable Disease," 18 million low and middle income HIV sufferers receive HIV treatment as a result of the Access strategies of our portfolio companies. Across the companies held within the portfolio more than two million vaccines are also supplied daily.
We believe that by helping companies towards the achievement of impact goals in this way, it will be possible to solve many of the challenges facing society together with multiple other stakeholders. In other words, we will be able to contribute to achieving the impact goals.

Monitoring KPI related to Impact Goals Examples from Portfolio Companies

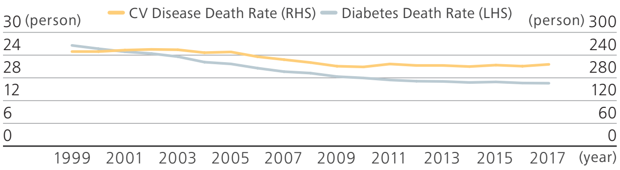
Global Deaths from Communicable Disease



Progression towards our Goal and KPIs
The number of deaths from tuberculosis has been declining but is still high, and there is a pressing need for innovative preventive measures using vaccines.

Examples of our investments
- The world's leading HIV treatment pharmaceutical company
- Largest vaccine manufacturer globally with leading Access strategies

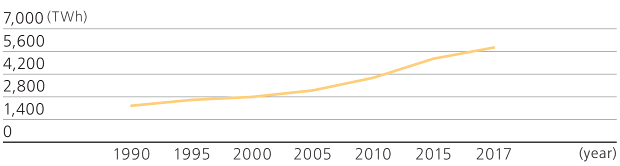
US Obesity Related Death Rates (CDC Data,Deaths per 100,000)



Progression towards our Goal and KPIs
The number of deaths from cardiovascular disease had been moving downward and plateaued, but it is trending higher once again due to increased obesity rates. The diabetic mortality rate is also no longer in decline , despite significant medical treatment progress, due to increasedobesity rates.

Examples of our investments
- Leading diabetes treatment manufacturer
- Medical equipment applications across diabetes and cardiovascular disease
- MedTech company with large cardiovascular and diabetes businesses

Global Renewable Energy Generation Annual Output (World Bank)

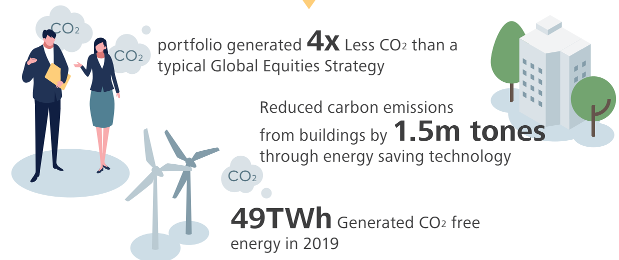


Progression towards our Goal and KPIs
With the expected expansion of renewable energy investment in the 2020s, the amount of power generated is expected to increase significantly. Investment into the area continues to grow even now.

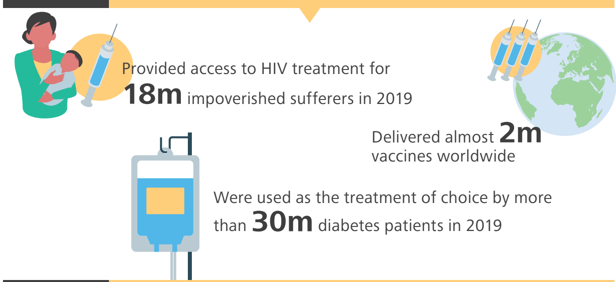
Examples of our investments
- Network investments facilitate the renewables transition
- World's largest onshore wind energy generator
- Efficient HVAC and control systems reduce building emissions

Global Sustainable Equity Fund – Impact Goal Measurement

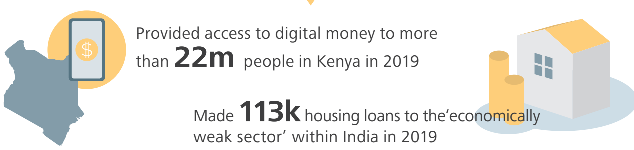
Environment — **Mitigate Climate Change**



Society — **Access to Healthcare**



Society — **Financial Inclusion**



Social Value Creation Fund (Social Value Creation : SVC)

In Japan, we manage the Nomura Social Value Creation Fund based on the concept of ESG investment. Centered on the philosophy of "investing in companies that can grow sustainably over the long term by contributing to solving social issues through their core businesses," this fund was managed as a pilot fund beginning in 2015, and we currently provide it to our clients as a regular fund. However, when management of the fund began, the movement to explicitly tackle ESG issues was still somewhat weak in Japan. Looking globally, the Sustainable Development Goals (SDGs) were adopted at the UN Summit held in September 2015, and launched with 17 goals.

When we were considering the investment concept for the fund, we began to anticipate that the competitive environment could change significantly as social demands on companies, such as solutions to ESG issues, gained traction. This is because after the 2008 financial crisis, various stakeholders began to recognize the need for "sustainability" in the environment and society. Because ESG issues involve many topics to be addressed over the medium to long term, it means that a company capable of offering solutions to these issues is a "company that can grow sustainably by contributing to solutions for social issues through its core business." We came to the conclusion that investing in companies on the premise of long-term ownership would allow us to make investments that both seek excess returns and solve ESG issues.

If this fund's investment concept is shown in a table with two axes, with social value on the horizontal axis and profit growth (= investment return) on the vertical axis, the aim is to invest in companies in the upper-right quadrant, which are companies that are strong in both of the dimensions (see figure on right). This is the basis for investment in "social value creation companies." In fact, such social value-creating companies are highly compatible with the UN SDGs. The social issues for this fund include medical issues associated with the aging of society, environmental issues associated with climate change, improvement of living environments in emerging countries, and efforts to solve social issues using technology. If this is mapped with the 17 goals in the SDGs, it covers all of the social issues. In addition to evaluating companies' fundamentals, utilizing our own ESG scores allows us to stringently select social value-creating companies capable of achieving the goals of the SDGs.

As discussed on Page 54, impact investing involves adding a three-dimensional evaluation of impact creation by solving social issues to a two-dimensional evaluation of risk and return, as considered in conventional funds. After going through the process of evaluating social value creation companies and adding them to the fund, we are able to measure the fund's impact. In fact, processes including the approach and evaluation method for impact goals, the identification of SDGs topics related to impact goals, and the setting and monitoring of KPIs for portfolio companies, are handled in coordination with Alex Rowe, who manages an impact fund in the UK office.

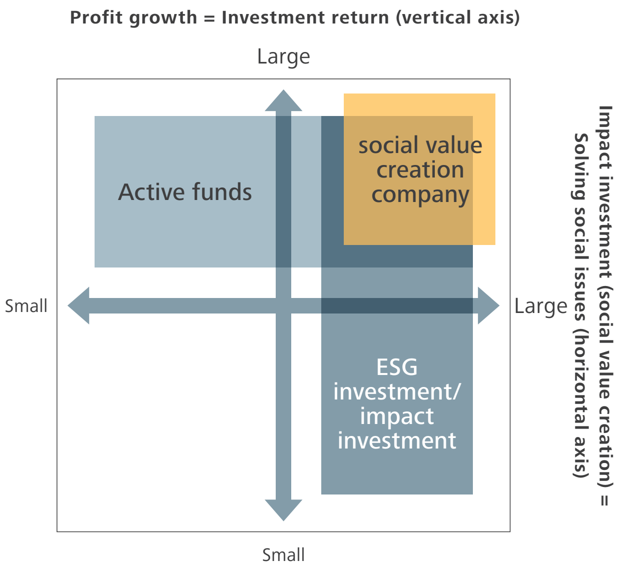
SVC's Impact Investment Process

	Environment		Society			
Progression towards our Goal and KPIs	Climate change	Natural capital	Healthcare problems		The basic rights that should be guaranteed to people	
Establishing impact goals						
Monitorable indicators						
Identifying the investment areas						
The identification of SDGs topics	SDG7.2 SDG7.3 SDG13.2 SDG13.3	SDG12.2 SDG12.6	SDG3.4 SDG3.5	SDG3.3 SDG3.8	SDG1.4 SDG9.1 SDG9.3	SDG6.1 SDG6.3 SDG6.4
Individual companies' KPI	MWh generated MW sold, R&D investment Tons carbon saved Equipment/research investment scale	Number of projects to make forestry efficiency more widespread	Number of access R&D investment Healthcare value chain		The number of customers, USD of payments Loan amount denominated in USD	Number of drink sterilization/ disinfectant provided
Engagement with portfolio companies	Portfolio companies					

Nomura Asset Management's Impact Investing

Portfolio construction/ Investment process

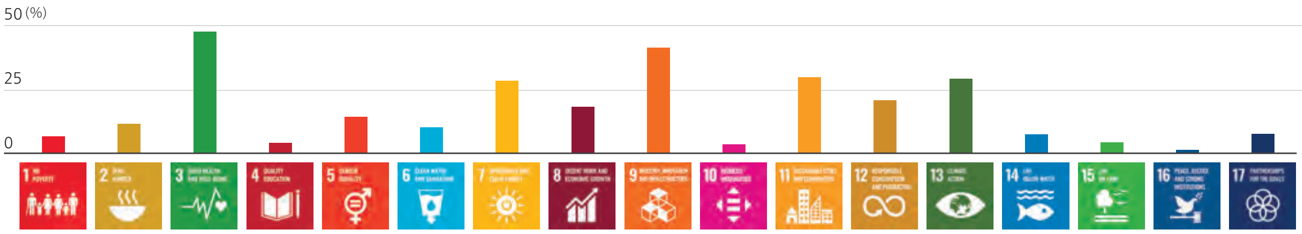
Concept of "social value creation company" investment



Social Value Creation Fund
Senior Portfolio manager
Jun Takahashi

Relationship Between Social Issues and SDGs

Portfolio weight in each SDGs goal



*Categorized based on SDGs scoring by NAM.Some weight overlapping exists (as of December 31, 2019)

Column Portfolio Company Introduction

Daikin Industries is one portfolio company that we believe contributes to impact. The company is a manufacturer of air conditioners that has a large global market share, and we have been investing in the company as a key stock ever since the fund was established. Air conditioners are an indispensable product for "health and well-being," which is the theme of Goal 3 of the SDGs. However, on the other hand, not only do air conditioners use massive amounts of electricity, but depending on the refrigerant used, the greenhouse effect is larger than that of other GHGs. Utilizing its superior inverter technology and refrigerant technology, Daikin Industries provides air conditioners with excellent energy-saving performance and low global warming effects. The company aims to achieve its business goals and to contribute to solving the social issue of increasing avoided GHG emissions by widening the use of its products.

In other words, the company can measure GHG not actually emitted as a result of the spread of its products. This type of goal is in line with the fund's impact goals, and can be continuously monitored as a KPI for an individual company. In fact, as an achievement for fiscal 2018, the company achieved 67 million tons-CO_2 of avoided GHG emissions, while simultaneously continuing to significantly grow its earnings, thereby contributing to the fund's investment performance.

In this way, we can measure impact by calculating the individual KPIs of portfolio companies. In turn, we can measure total impact of the entire portfolio by adding up the impacts of portfolio companies. Going forward, we will continue to manage the fund by adding the perspective of creating impact through the solving of social issues to the two dimensions of risk and return.

Innovation Lab

Nomura Asset Management established the Innovation Lab Department in October 2017 with the aim of enhancing our asset management operations. In April 2019, the Quantitative Research group was integrated into the Innovation Lab Department, followed by the Data Engineering group, which was integrated in October 2019. Currently, the Innovation Lab Department has two main missions: (1) Enhance our asset management through R&D using quantitative analysis and advanced technology; and (2) Promote digitalization in each asset management process.

The Innovation Lab Department manages several projects focused on a variety of R&D topics. These projects are wide in scope, ranging from basic research to direct applications for fund management, and are carried out in multiple formats, including partnering with universities and venture companies, internal collaboration with Nomura Asset Management's Investment Department, as well as individually. For example, we are implementing a wide range of applications for AI, including improving investment performance, marketing and operational processes. In addition, we are upgrading our information and analysis platforms using cutting-edge technologies so as to be able to efficiently utilize the vast amount of data generated in our daily asset management operations, and boost our investment capabilities by promoting knowledge sharing between investment and research personnel.

We are working to expand our knowledge and expertise in the field of ESG through multiple efforts, including working with ESG specialists in the Responsible Investment Department to develop screening methods for companies that are targets for engagement, building an ESG analysis database, and presenting our analyses and papers at the Japanese Association of Value- Creating ERM. Our contribution to furthering ESG investment includes the launch of an investment vehicle focused on the "S" of ESG, based on the paper entitled "Employee Satisfaction and Firm Performance" which won the FY2017 Securities Analysts Journal Prize.

Message

currently a research fellow in the Innovation Lab Department

Toru Yamada

currently a portfolio manager in the Investment Department (Quant Solutions Team)

Taketo Usui

associate professor of Finance at the University of Rhode Island.

Shingo Goto

The Securities Analysts Journal Prize in FY2017 was awarded to "Employee Satisfaction and Firm Performance" (November 2017 issue) authored by Nomura Asset Management's Toru Yamada (currently a research fellow in the Innovation Lab Department), Taketo Usui (currently a portfolio manager in the Investment Department (Quant Solutions Team)), and Shingo Goto (associate professor of Finance at the University of Rhode Island.)

The Securities Analysts Journal Prize was awarded to the paper or note (from among a total of 51) published between the April 2017 issue and March 2018 issue that the Editorial Committee judged for (1) originality, (2) logic development, and (3) business applicability. The winning paper or note was selected following three rounds of judging. The following was given as the reason for this paper being selected: "This paper is receiving attention for finding the benefits of ESG investment and work style reform, which have become social issues." (excerpt from the reasons for selection of FY2017 Securities Analysts Journal Prize)

Upon receiving the award, the authors provided the following comment, and expressed their determination to continue their research with the aim of contributing to investment going forward.

"This research paper examines the relationship between a company's employee-friendliness and their financial and stock performance using employee satisfaction rankings and employee motivation rankings published by Nikkei Inc. We believe our discovery of a positive correlation through our focused study on company attitude toward employees was well-received by the committee.

So why does employee-friendliness bring about strong corporate performance? There are various hypotheses for this, one of which is that the source of a company's competitiveness is shifting from physical assets such as factories and production facilities to intellectual assets such as R&D capabilities, brand strength, and IT systems. The competitiveness generated by intellectual assets, including human resources investment, is difficult to see from outside of a company and is undervalued by the market, and can thus be expected to lead to high future returns. At the same time, it may not be a coincidence that the movement to transform working environments and productivity in Japan based on the keyword "work style reform" is occurring at a rapid pace. In this way, employee-friendliness is an interesting topic that connects the changes in the capital markets and the changes in the labor market.

ESG is a relatively new topic in the long history of finance research. Motivated by this award, we will continue to advance our research, and study better investment principles that allow investors, companies, and employees to co-exist in the truest sense."

Nomura Japan Employee Satisfaction Fund

Below are concepts for funds based on the research paper "Employee Satisfaction and Firm Performance."

In order to bring our ESG (environment, social, and governance) investment philosophy into practice, it is important that incentives exist for both companies and investors that support the formation of a sustainable society. In other words, investing in companies that excel in the social issues, as symbolized by employee-friendliness, still requires underlying economic benefits.

In conjunction with long-term economic structural changes, the source of corporate competitiveness and added value is shifting from tangible assets such as traditional factories and production equipment to intangible assets such as brand strategies, product ideas, and the utilization of IT systems. Companies that offer excellent working environments that allow employees to be highly-productive are likely to create high added value over the long term. That being said, while allocation of management resources to employees is an important investment that leads to future returns, investors tend to undervalue such allocation of resources, seeing this as a negative for short-term profits.

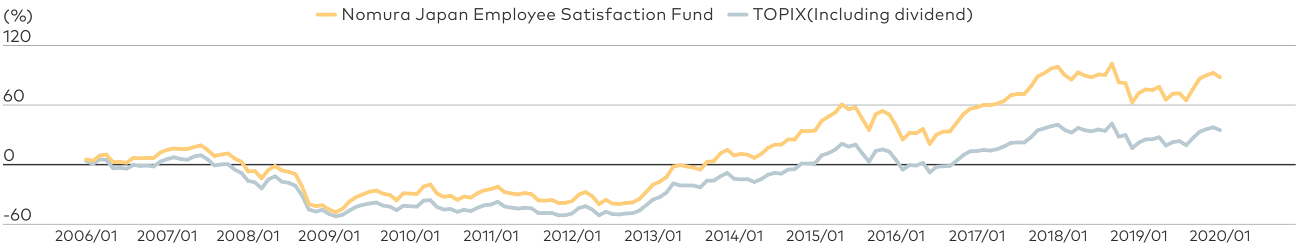
As a result, investing in employee-friendly companies equates to investing in companies with the potential to create high added value at reasonable prices, which can be expected to lead to high future returns.

This investment concept, which simultaneously seeks to provide investors with high expected returns, address the changing sources of corporate competitiveness, and create a sustainable society in Japan by investing in employee-friendly companies is an excellent form of ESG investment.

Management structure of Nomura Japan Employee Satisfaction Fund

Investment Department Quant Solutions Team	Innovation Lab Quants analysts
Creating Management guidelines Portfolio building Risk management Management report	Operating model development/ improvement/ maintenance support

Performance Track Record



- Product returns through March 2019 are simulated figures for this model (including dividends, after deducting estimated trading costs, before deducting management fees) Data from April 2019 onward are actual results of a domestic private placement investment trust (before deducting management fees).
- The above graph indicates past performance, including simulations, and does not predict or imply future performance.
- Index: Prepared by Nomura Asset Management, based on Bloomberg data

Investment Process

Our portfolio of employee-friendly companies is built based on the investment process below. We build a highly-transparent and highly-reproducible investment portfolio through a quantitative investment process based on the results of empirical research.

1 Screening [screening by employee-friendliness]

- Taking the liquidity of the portfolio into consideration, the screen is applied to approximately 1,000 Japanese companies with the highest market capitalization.

Non-financial indicators		Financial indicators	
Ratio of women managers	(+)	R&D expenses / Total assets	(+)
Days of paid leave taken	(+)	Tangible fixed asset ratio	(-)
⋮		⋮	

2 Model portfolio [weighting by employee-friendliness]

- Weighting is determined based on market capitalization, employee-friendliness scores, and quality scores of individual companies.

Market capitalization	Employee-friendliness score	Quality score
Ensure liquidity by having portfolio weighting proportional to market capitalization	Weighting increases the higher the employee-friendliness score	Adjust the weightings of stocks that are excessively overpriced or have poor financial quality

3 Portfolio construction [manage portfolio based on employee-friendliness]

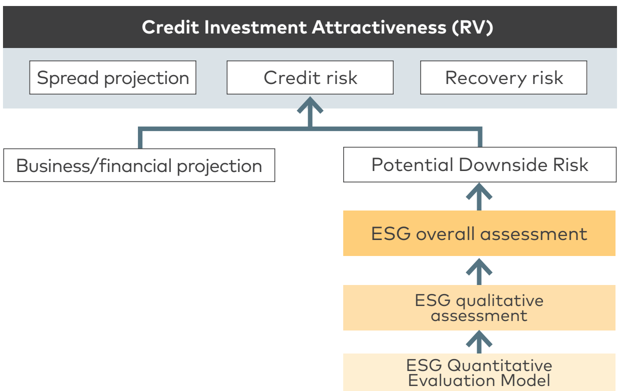
- Build investment portfolio (using the most appropriate method), taking T.E. versus the reference portfolio and trading costs into consideration.

ESG Integration in Fixed Income Investment

Senior Managing Director
CIO(Fixed Income)
Takahiro Homma

In fixed income investment, we promote ESG integration in credit strategies that take the credit risk of the issuer as the primary source of returns. We strive to improve the risk-adjusted return of our portfolios by reducing downside risk, while committing to the sustainable and stable growth of the overall market by improving ESG issues.

ESG Integration in Fixed Income Investment



Relationship between conventional fundamentals assessment and ESG

The traditional fundamentals assessment and ESG assessment have a complementary relationship. Environmental, social, and governance factors are increasingly impacting the creditworthiness of issuers, and taking ESG factors into account enables a more comprehensive understanding of risk. In addition, ESG factors take into account longer-term sustainability and downside risks compared to traditional fundamentals, which can enchance the creditworthiness assessment from a timeline perspective as well.

Features of Nomura Asset Management's ESG Integration in Fixed Income Investment

ESG integration in fixed income investment at NAM has the three following features. First, we research the impact of ESG factors on investment results, confirm that they improve the long-term risk-adjusted portfolio returns, and then incorporate them into the investment decision process.
Second, we calculate our own ESG scores for effectiveness and transparency using our own proprietary quantitative method. Specifically, we focus on the potential downside risks that are important for credit investment, and select and aggregate various ESG-related data.
Finally, portfolio managers and analysts with expertise in market trends and issuer analysis directly lead the ESG integration process for each strategy. It is of upmost importance for each investment team to understand the importance of ESG assessment and to promote ESG integration responsibly in accordance with individual strategies and market characteristics.

Providing ESG Fixed Income Investment Solutions

So far we have launched investment funds emphasizing ESG factors each for European corporate bond, U.S. corporate bond, and emerging market bond strategies. Our strength is the ability to provide fixed income ESG solutions that meet client needs through benchmarked active, buy-and-hold constant-maturity, and income-gain focused investment strategies, as well as investments focused on themes such as climate change etc.

Fixed Income ESG Quantitative Evaluation Model

At NAM we have built a quantitative ESG evaluation framework focused on the mitigation of downside risk – a particularly important element for credit investment strategies. This quantitative evaluation model is used globally by portfolio managers and analysts in our corporate bond and sovereign bond credit investment teams for research and analysis, security selection, portfolio monitoring, and engagement with companies.

Generating quantitative scores for global corporate bonds

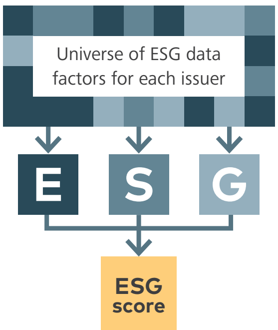
To calculate quantitative scores for global corporate bonds, we select data from the issuer's own public disclosures and ESG-related data from third party providers, with an emphasis on factors material to credit investment that can be obtained continuously, along with other considerations. In addition, based on our belief that the relative importance of E, S, and G factors differs by industry sector, we determine E, S, and G weights for each industry based on our own assessment of materiality (industry materiality matrix).
Similarly, we calculate quantitative scores for global sovereign bonds and apply these to investment strategies that take emerging market sovereign credit risk as the primary source of returns.

Features of our Quantitative ESG Evaluation Model

Our Fixed Income Quantitative ESG Evaluation Model has the following three features. First, we select and aggregate only ESG-related data that we determine to be appropriate based on our research and understanding. This ensures a systematic and highly-transparent calculation process, and allows us to perform detailed analysis of underlying factors that cause scores to change. Secondly, the model only considers ESG factors that can be universally relevant for sovereign and corporate credit risk. As a result, all portfolio managers and analysts are able to use the model to promote ESG integration, regardless of target investment market or strategy they employ.
Finally, we select ESG factors focused on downside risk, as this is a particularly important factor in credit investment. We continually monitor and upgrade our models to give portfolio managers and analysts important insights from a systematic ESG perspective. We believe that proper ESG quantitative evaluation and integration can improve fixed income risk-adjusted returns by mitigating downside risk. We are also confident that through market price signals and capital allocation, we can send a clear message to countries and companies that sustainability issues are a key aspect for investment valuations.

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

ESG Qualitative Evaluation Process for Global Corporate Bonds



Select from ESG-related data, emphasizing factors material to fixed income credit investment

Classify selected data, and generate scores for E, S, and G

Calculate ESG scores by industry specific E, S, and G weightings, based on our own assessment of credit materiality

ESG Integration Practices

Yen Fixed Income

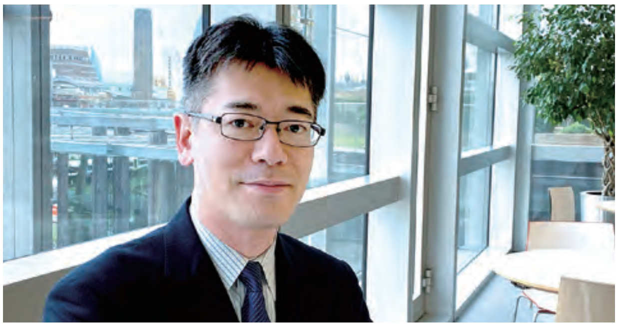
Senior Portfolio Manager
Norio Kishimoto

We invest in issuers that are creditworthy in every sense of the word

In order to limit potential downside risk in Yen Fixed Income investment, we incorporate ESG perspectives in two stages of the investment process: the evaluation of individual corporate fundamentals and issuer selection. We do this because even companies with high credit ratings (creditworthiness) can see their bond prices drop significantly due to the emergence of ESG risks including inadequate governance or environmentally-harmful acts. Credit analysts identify ESG issues that are important for an individual company, and evaluate ESG taking into account that company's efforts to address the issues along with our own credit ESG score for the company. We believe that adding this process allows us to invest in issuers that are truly "creditworthy".
Specific examples include the case of a company whose business activities center on materials and processing. This company's yield was extremely attractive relative to its creditworthiness (rating), but the team lowered its investment evaluation of the company based on the view that governance by senior management required careful monitoring due to ongoing problems including poor product quality. In the case of another company, it became clear that governance by the board of directors was deficient. Although a new process to monitor governance was established following the company's general shareholders' meeting, we determined that it was necessary to pay close attention to the execution and oversight by the board of directors in the near term. Therefore, it was determined that a cautious approach should be taken towards investing in the company.
Introducing risk assessment of portfolio companies from an ESG perspective into the process has enabled more precise assessment of potential downside risk, and allowed us to deepen discussion of the timing of investments.

Investment Products	Yen Fixed Income

Yen Fixed Income active investment
Yen Credit Strategy



Global Fixed Income

UK Office Senior Investment Officer
Head of Fixed Income (UK)
Yuji Maeda

ESG is Indispensable in Corporate Credit assessment

Our London office invests in global corporate bonds. Assessing an issuer's sustainability is an indispensable part of evaluating creditworthiness in global corporate bond investment. In particular, environment (E) and social (S) issues have a growing impact on creditworthiness, and we must take ESG factors into consideration to gain a more comprehensive understanding of an issuer's credit risk. We believe that we can reduce downside risk to the issuer's creditworthiness by letting corporate bond issuers know when we are concerned about ESG issues and by encouraging them to consider sustainability when we meet or speak with them.
In one specific case, we avoided investing in a home appliance manufacturer. While the investment was appealing in terms of creditworthiness based on financial analysis and credit spread, a pattern of frequent recalls led our credit analysts to view product safety as a problem. Although we contacted the company directly regarding product safety and measures being taken to address these issues, we did not receive a satisfactory response, and therefore determined the risks from the social perspective to be high. This ultimately led to our decision to forgo investment in the company, and invest instead in other corporate bonds with comparable creditworthiness and credit spreads.
In January 2019, we launched a euro-denominated corporate bond fund that selects bonds based on ESG-integrated assessment, and a similar U.S. dollar-denominated bond fund in January 2020. For existing funds, we are also working to improve risk-adjusted returns and contribute to the sustainable growth of society by integrating ESG assessments into the investment processes.

Investment Products	Global Fixed Income

Global Fixed Income (Aggregate) Strategy
Euro Investment Grade Corporate ESG Strategy
US Investment Grade Corporate ESG Strategy

Asia Fixed Income

Singapore Office
Senior Portfolio Manager
Simon Tan

Focusing on governance factors

The Singapore office invests primarily in Asian corporate bonds. In the Asian bond market, investment strategies that take ESG into account are not as widely used as in developed markets. However, we believe that the concept of ESG and Asian bond investment are highly compatible. Most bond issuers in Asia that go bankrupt or see a large decline in creditworthiness have some sort of governance problem. Based on this experience, we incorporate ESG factor analysis into our investment process, focusing on governance-related issues such as shareholder composition, the quality of the management team, the status of transactions with related parties, and whether the company has been beset by scandals.

One specific example is a resource company in Southeast Asia. The company owns a large coal mine, but had defaulted in the past. For an extended period of time up until the company defaulted, we had closely monitored the company's corporate governance risk as the company's funding was stalled due to a rift with major shareholders over the issue of possible financial fraud. Subsequently, after restructuring its debt (converting debt into equity and extending bond maturities), the company returned to the U.S. dollar bond market with a new bond issuance. However, we continued to pass on investing in the company's bonds, based on its prior default as well as our doubts about the group's investment strategy.

The Asian bond market is still growing rapidly, with first-time bond issuers and very young companies coming into the market one after another. While there are plenty of opportunities to discover new attractive investments, it is important to first examine whether or not these young companies have adequate governance that will enable sustainable growth before making investment decisions. We believe that properly eliminating governance risk leads to strong investment performance.

Investment Products	Asia Fixed Income

Asia Investment Grade Strategy
Asia High Yield Strategy

Emerging Market Fixed Income

Senior Portfolio Manager
Norihito Taniuchi

The Importance of ESG Evaluation in Emerging Market Fixed Income

In emerging market fixed income, we use ESG factors to evaluate emerging market sovereign issuers to make investment decisions. When analyzing the creditworthiness of emerging market countries, evaluation from a wide perspective, including political risk, the robustness of the social structure, and long-term environmental efforts, is critical to enhancing long-term investment performance. Governance (G) factors are particularly important when assessing sovereign credit risk.

This is because factors that greatly affect both creditworthiness and market valuation, such as fiscal management and willingness to repay debt, are largely based on the quality of governmental bodies, and focusing on governance indicator levels and changes allows us to better identify a country's potential risks.

Here is an example of an evaluation of a certain Asian sovereign issuer. The country has been given an investment-grade rating by a major rating agency based on the fact that it has relatively good economic fundamentals among emerging countries. On the other hand, the country has loosely interpreted the "rule of the law" by taking supra-legal measures against criminals, and corruption in the country is among the worst in Asia. We believe that the country's credit rating does not adequately reflect these downside risks from an ESG perspective, and we therefore assess investment in this country very cautiously.

In January 2020, we began managing an emerging market fixed income investment strategy with a focus on ESG factors. We believe we will be able to enhance investment efficiency over the long term by combining traditional fundamental analysis and ESG analysis.

Investment Products	Emerging Market Fixed Income

ESG Emerging Sovereign Strategy

Results of Self-Evaluation of 2019 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 2019 (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 revised on May 29, 2017.

1 Self-Evaluation Methodology

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

Reference **Questionnaire Overview**

Target	The following people responded according to the questions. Responsible Investment Committee members – 8 Responsible Investment Committee Secretariat members – 5 Responsible Investment Council members – 3	**Questionnaire timing**	December 2019
		Period covered	January-December 2019
		Response format	Signed (not anonymous) Multiple choice (4 choices) Write comments freely

2 Results of self-assessment (overall)

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

- The Responsible Investment Committee should continue to strive for efficient and effective management in order to be able to engage in deeper discussions on matters of higher importance.
- Increase opportunities to share information and exchange opinions about engagement activities within the Responsible Investment Committee and the Investment and Research Division, and further enhance the PDCA cycle.*
- Continue working to secure and train appropriate personnel in the Investment Research Division in order to further enhance the sustainability of stewardship activities.

*The PDCA cycle is a method for improving operations by repeating a cycle of Plan, Do, Check, and Act.

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

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

3 Future Actions

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

Review of 2019

In 2019, we promoted a wide range of initiatives, but the main activities were addressing climate change and carrying out impact investing. Since establishing the Responsible Investment Department, we have worked to create a framework for steadily implementing responsible investment, including putting in place a stronger system for managing conflicts of interest, building a more sophisticated proxy voting process, expanding ESG research resources, and building a global engagement system. The necessary framework is now generally in place. From 2019, we focused on activities leading to more concrete results.

With respect to addressing climate change, we identified climate-related risks and opportunities in our investment portfolios, and applied analysis of these risks and opportunities to engage with portfolio companies and to manage our portfolios. We also worked to raise the quality of our investment management so as to be resilient to climate issues and to lead to more added value. In implementing impact investment, in addition to the conventional risk/return concept, we incorporated the third pillar of "social impact" into the process, and we developed new, more sustainable investment techniques that also contribute to the advancement of society. As a part of this, we also incorporated the so-called "outside-in" method, in which we apply the concepts of global social issues to portfolio companies and their business activities.

In our 2019 PRI assessment, we showed improvement in the fixed income domain. During 2019 we also participated more in various initiatives and worked to strengthen Company-wide ESG initiatives.

2020 and Beyond

2020 will be a year in which discussions on various ESG issues will progress for both Japan and the world as a whole. Climate change remains a major global issue, and the various social problems that are occurring at the present time show once again the magnitude of the impact that ESG issues have on sustainable corporate growth. Against this backdrop, new activity to address ESG issues are expected to accelerate in the world of investment. In collaboration with various initiatives, NAM intends to support global efforts and contribute to the resolution of ESG issues in Japan at the same time. Meanwhile, climate issues and impact investment will continue to be important cornerstones of our efforts. The issue of climate change is something that requires long-term initiatives, but is also an urgent issue for which measures must be put into motion immediately. We plan to make our information infrastructure and analysis methods related to the climate change problem more advanced, and improve the sustainability of our investment operations. Now that we are in 2020, there are 10-years until 2030, the year targeted by the SDGs. We will take advantage of the opportunities that exist among social issues and pursue added value in investment in the new area of balancing economic and social returns.

2020 also marks the fifth year since the Responsible Investment Department was established. We will continue to strive to ensure that our responsible investment initiatives, including battling climate change, generate results and have a positive impact on society.

Head of the Responsible Investment Department

Toshiyuki Imamura

PRI assessment results

		FY2018-2019	PRI Median evaluation
Strategy and governance		A+	A
Status of integration into responsible investment for listed stocks		A	B
Active ownership for listed stocks		A+	B
	Engagement	A+	
	Proxy voting	A	
Bond investment (government bonds, etc.)		A	B
Bond investment (corporate bonds, etc.)		A	B

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