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.

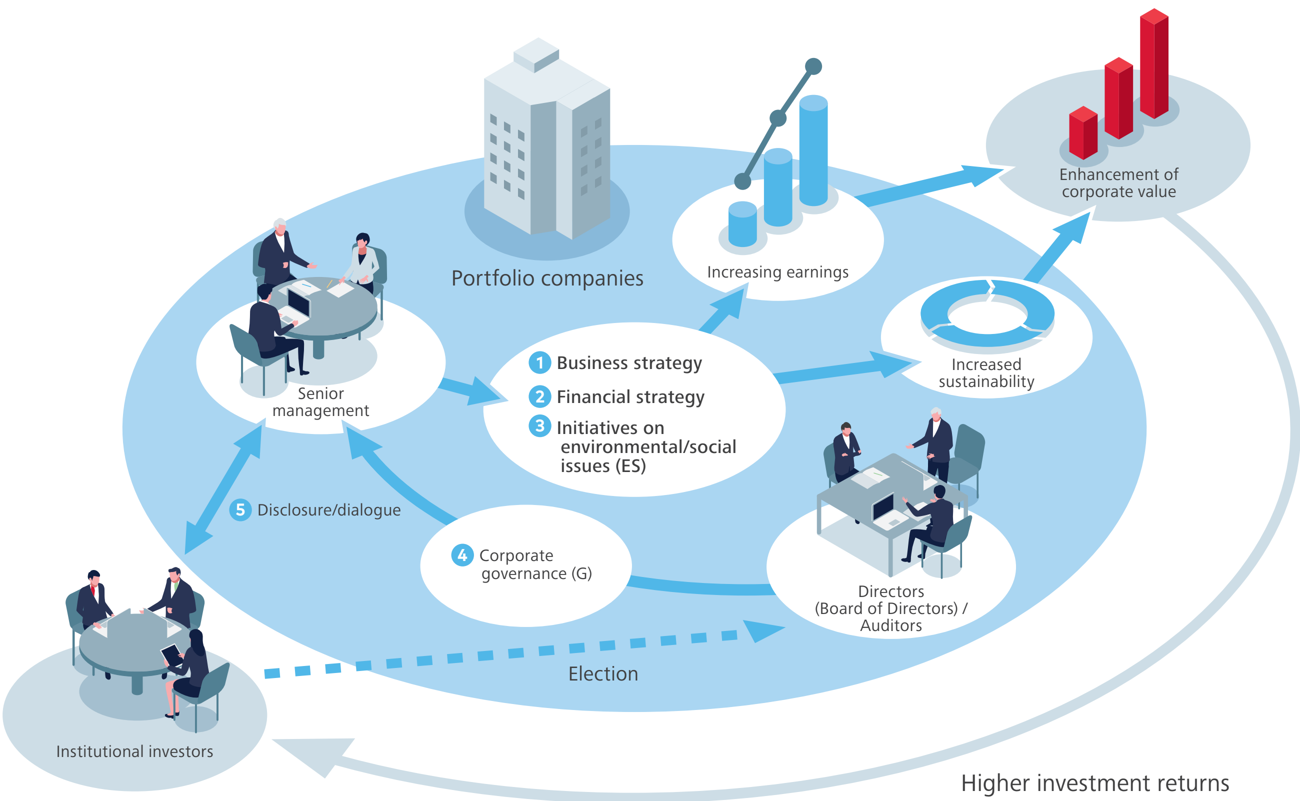
1 Appropriate initiatives for social responsibility
(= 3 Initiatives on environmental and social issues (ES))

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

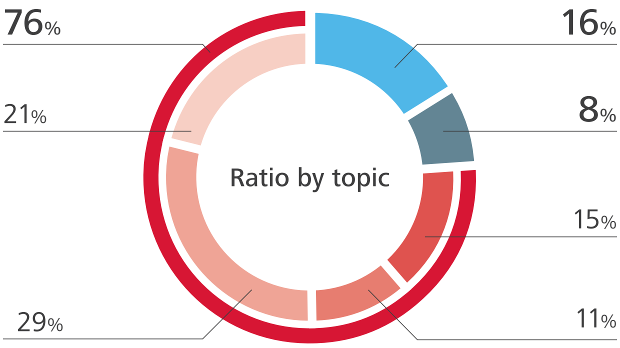
Total number of engagement topics (total number of companies)

2019

793 topics (399 companies)

2018

656 topics (345 companies)

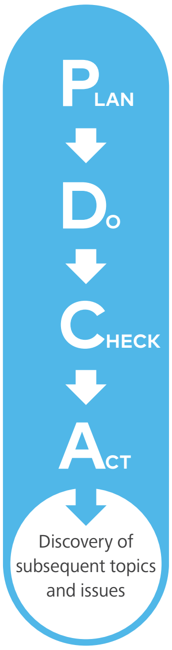


	Ratio	Number of topics	Previous year
Business strategy	16%	128	116
Financial strategy	8%	63	51
ESG-related meetings	76%	602	489
Environmental	15%	117	101
Social	11%	87	96
Governance	29%	231	143
Proxy voting-related	21%	167	149
Total		**793**	**656**

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)

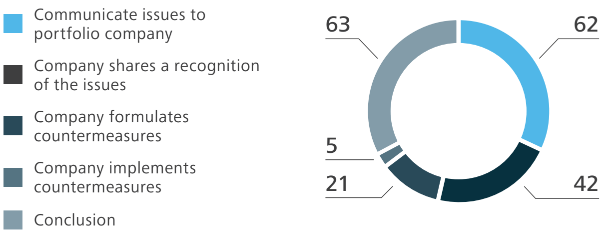
		Company A	Company B	Company C	Company D
1	Communicate issues to portfolio company	■	■	■	■
2	Company shares a recognition of the issues	■	■	■	■
3	Company formulates countermeasures	■	■	■	
4	Company implements countermeasures	■	■		
5	Conclusion	■	■		
	Number of meetings	3	3	2	1
	Period*2	19 months	21 months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



	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

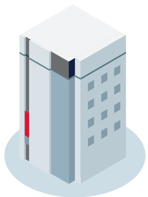
Worried about commitment | Worried about sustainability | Insufficient explanation

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.

- Prioritizing growth investment and reducing interest-bearing debt over shareholder returns in order to lower financial leverage.
- 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?
- We want to continue to invest proactively.
- 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.
- 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.
- 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)

- 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.
- 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.
- 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

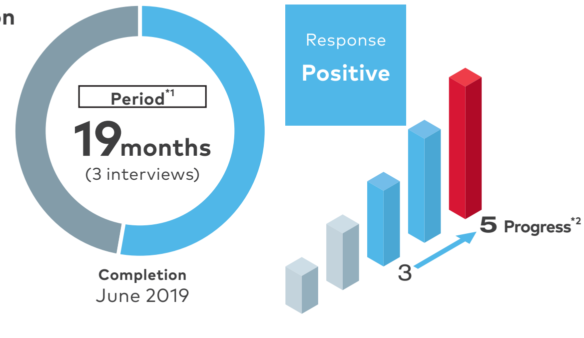
The company needed a compensation system highly committed to the stock price in order to make senior management more focused on shareholders and the stock price.

Goal

Enhancement of stock compensation

Interviewee

Representative Director and Senior Corporate Managing Director, others



Company B

Food

Business strategies
Financial strategies
G
ES
Disclosure/dialogue

Issue

Board member composition

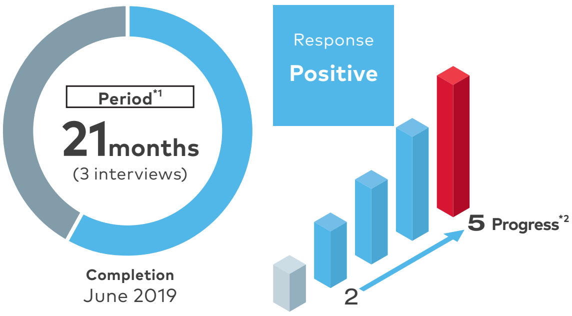
Due to past scandals, the make-up of outside directors has become biased towards protecting the company. The company needs to change this make-up to reflect the switch in its business stage.

Goal

Outside directors with management experience

Interviewee

Representative Director and President, others



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

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

*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	75	63	71
	of which, industrialized countries:33	of which, industrialized countries:40	of which, industrialized countries:46	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

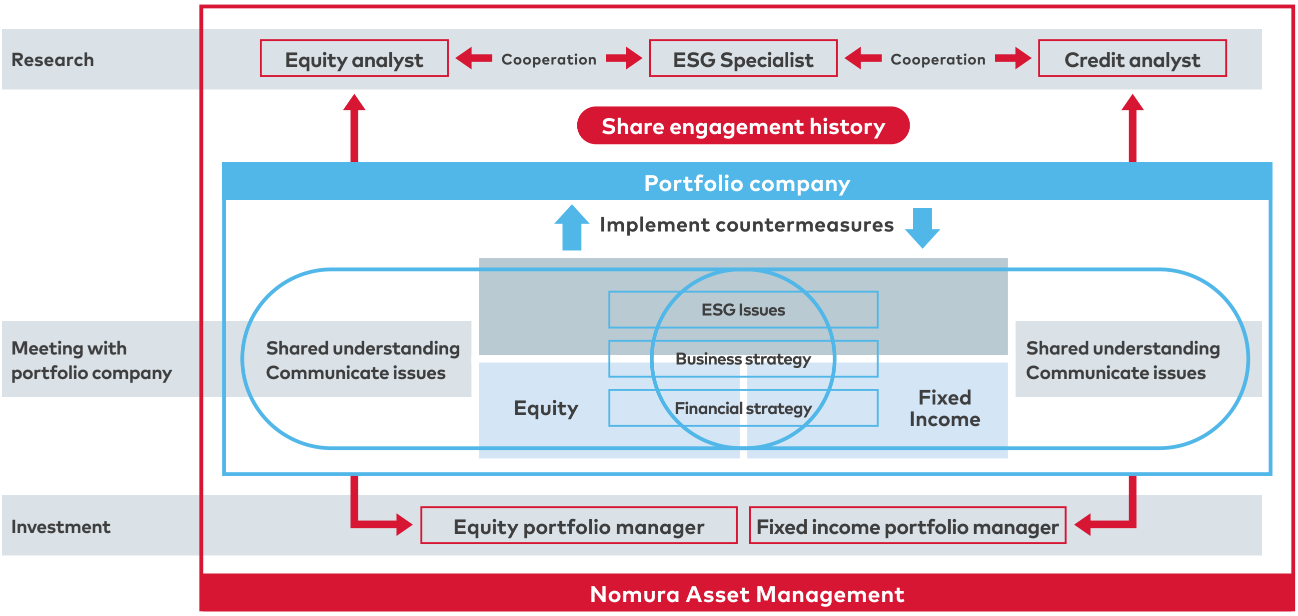
We have revised restrictions on overtime and how targets are set, and enhanced compliance training, and as a result the corporate culture and employees' work style have greatly changed. The turnover rate has also improved in conjunction with these measures.

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.