# 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

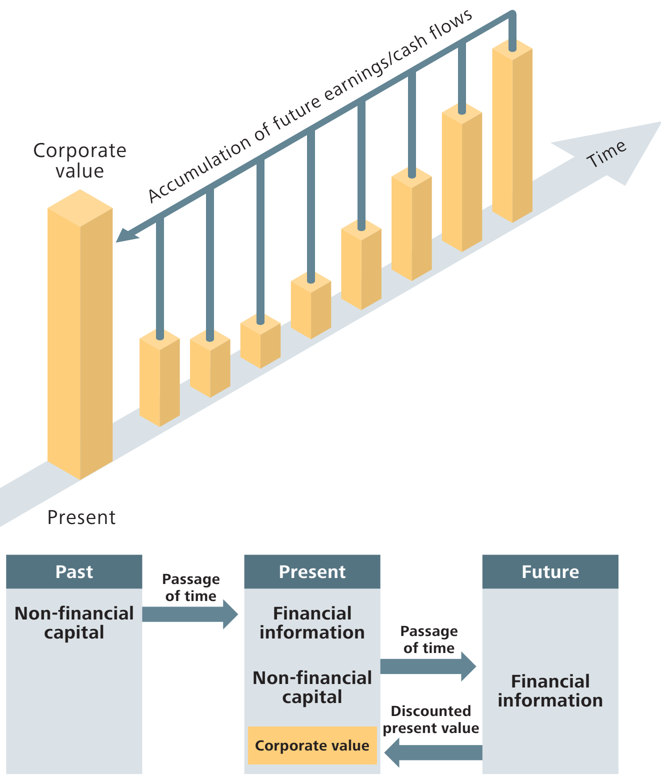
Integrating ESG elements into the investment process is critical for both equity investing and fixed income investing. Effectively incorporating evaluations of ESG and other non-financial information into the investment process to supplement the analysis of a company's fundamentals (financial information 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



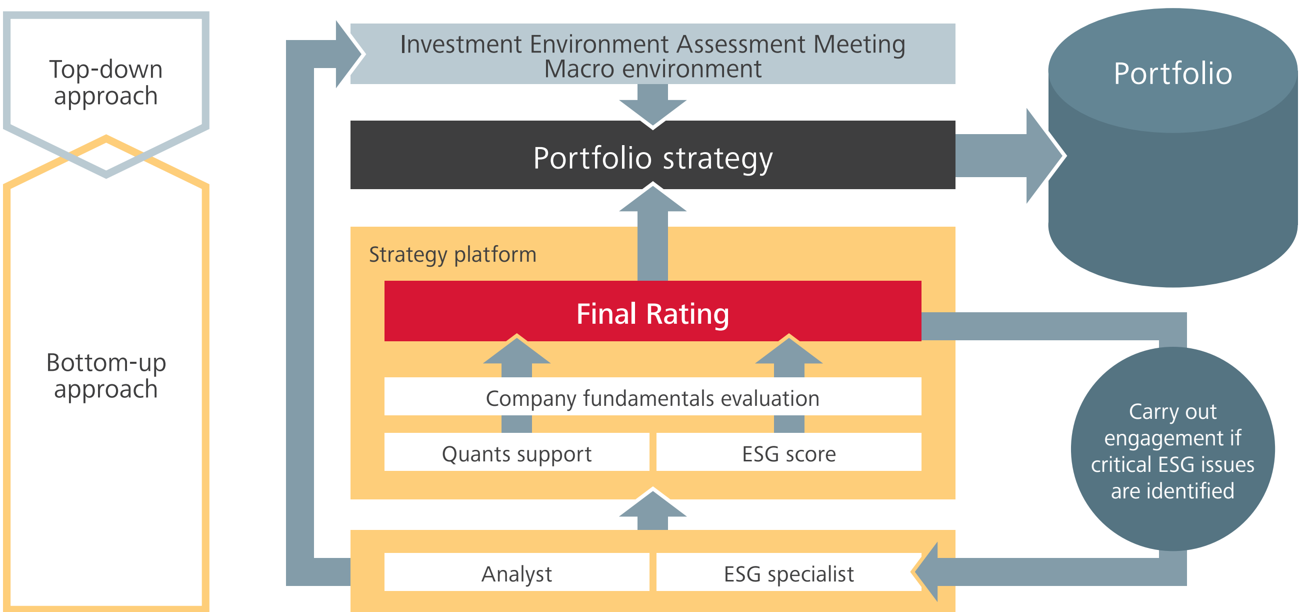

**"Continuity between financial and non-financial" and the "Impact on long-term profits/cash flow generation" are of the upmost importance.**

## 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<br>• Participation in initiatives related to climate change<br>• Risks related to climate change<br>• Initiatives on TCFD (Task Force on Climate-related Financial Disclosures) |
| | | 10% | Addressing natural capital | • Disclosure of information on water consumption and waste<br>• 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<br>• Disclosure of information related to labor<br>• 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<br>• Effectiveness of nomination and compensation process<br>• 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**

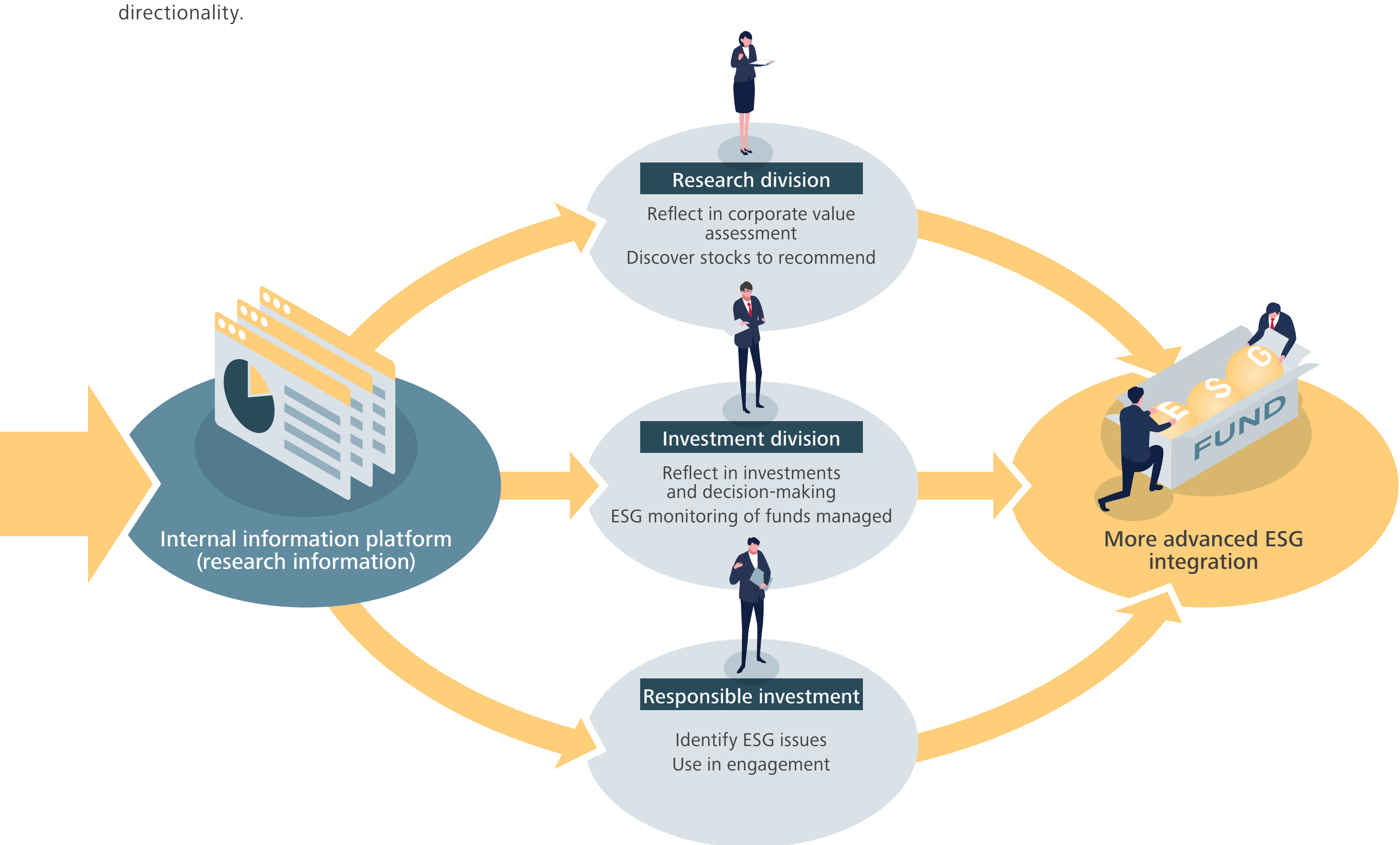
ESG scores are determined not only based on disclosed data but also using information on future risks and opportunities and other such information obtained through dialogue.
By using this ESG score, we can compare the strengths and weaknesses of portfolio companies' ESG efforts, and use the scores for 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<br>Atmospheric $CO_2$ Levels Global Carbon Emissions per Capita | Material Consumption per Capita<br>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<br>Technology manufacturers<br>Electric vehicle OEMs<br>Construction and management of efficient building | Achieve the sustainable management and efficient use of raw materials | Pharmaceutical business<br>Healthcare value chain including MedTech Companies | | FinTech payment businesses<br>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<br>• R&D investment (versus sales) | • Evaluation using Access to Medicine Index<br>• 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<br>• 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

Nomura Asset Management's Impact Investing

| | 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 | | | | | |

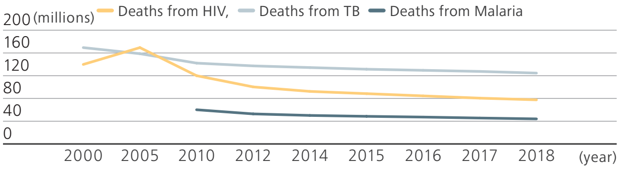
Portfolio construction/ Investment process

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.

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

## Monitoring KPI related to Impact Goals Examples from Portfolio Companies

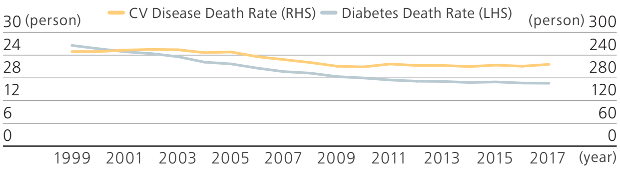
### Global Deaths from Communicable Disease




**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

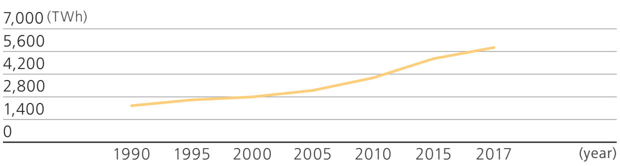
### US Obesity Related Death Rates (CDC Data,Deaths per 100,000)




**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.

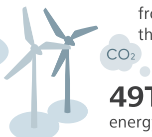
**Examples of our investments**
- Network investments facilitate the renewables transition
- World's largest onshore wind energy generator
- Efficient HVAC and control systems reduce building emissions

## Global Sustainable Equity Fund – Impact Goal Measurement

Environment
### Mitigate Climate Change


portfolio generated **4x** Less $CO_2$ than a typical Global Equities Strategy

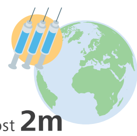
Reduced carbon emissions from buildings by **1.5m tones** through energy saving technology




**49TWh** Generated $CO_2$ free energy in 2019

Society
### Access to Healthcare

Provided access to HIV treatment for **18m** impoverished sufferers in 2019



Delivered almost **2m** vaccines worldwide

Were used as the treatment of choice by more than **30m** diabetes patients in 2019

Society
### Financial Inclusion

Provided access to digital money to more than **22m** people in Kenya in 2019

Made **113k** housing loans to the'economically weak sector' within India in 2019

# 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.

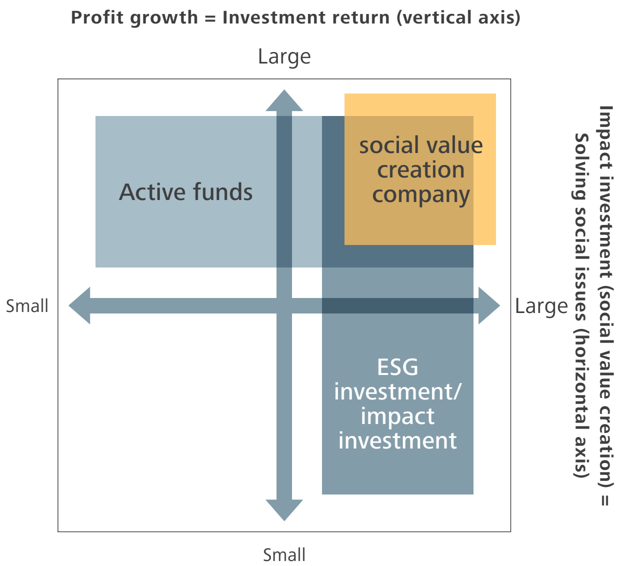
### SVC's Impact Investment Process

| | 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

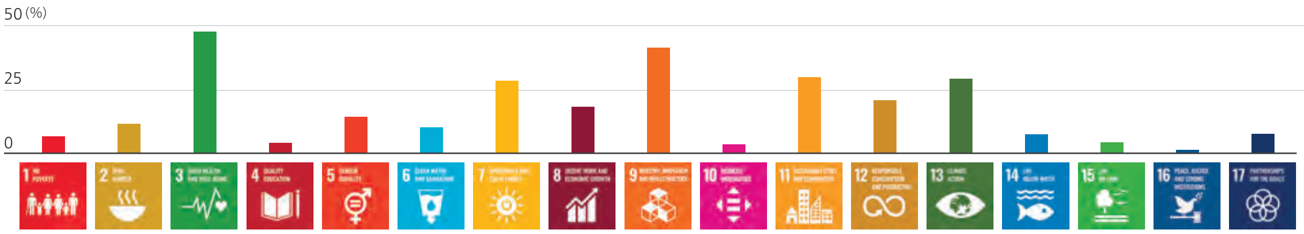
### Concept of "social value creation company" investment




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

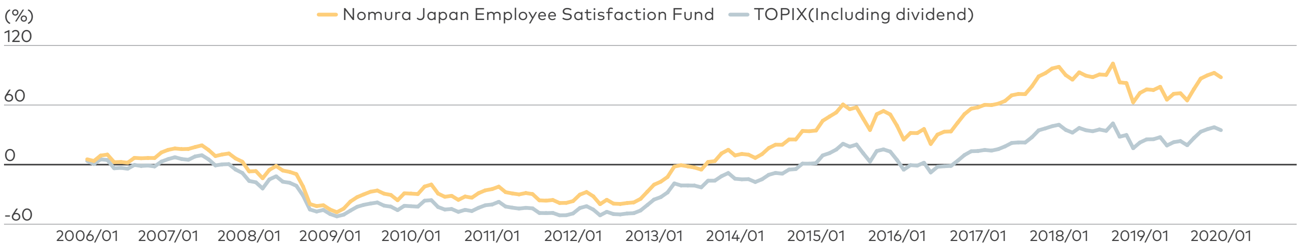
### Below are concepts for funds based on the research paper "Employee Satisfaction and Firm Performance."

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<br>Quant Solutions Team | Innovation Lab<br>Quants analysts |
|---|---|
| Creating Management guidelines<br>Portfolio building<br>Risk management<br>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 | |
|---|---|
| Ratio of women managers | (+) |
| Days of paid leave taken | (+) |
| ⋮ | |

| Financial indicators | |
|---|---|
| R&D expenses / Total assets | (+) |
| 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.


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]

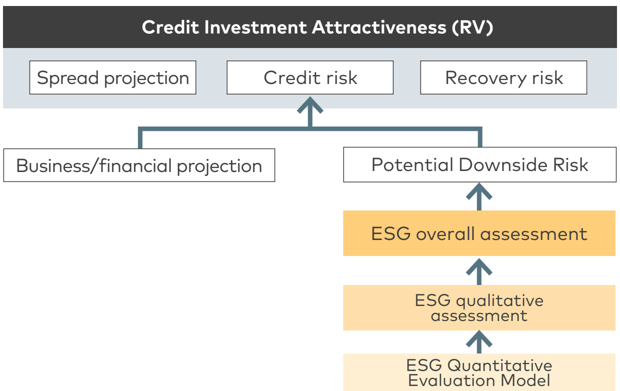
Build investment portfolio (using the most appropriate method), taking T.E. versus the reference portfolio and trading costs into consideration.

# 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.

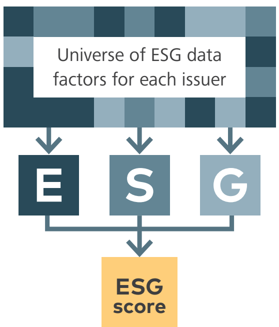
### Features of our Quantitative ESG Evaluation Model

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

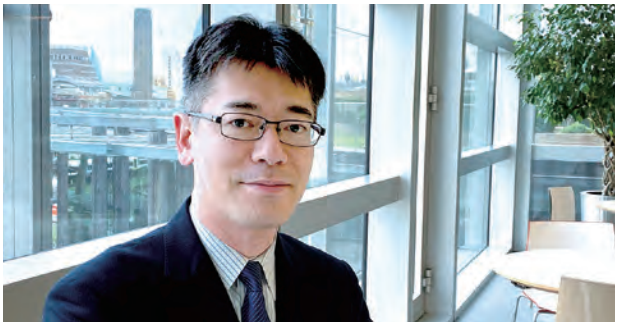
In order to limit potential downside risk in Yen Fixed Income investment, we incorporate ESG perspectives in two stages of the investment process: the evaluation of individual corporate fundamentals and issuer selection. We do this because even companies with high credit ratings (creditworthiness) can 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**